INTERNATIONAL MONETARY FUND

IMF Country Report No. 19/244

# REPUBLIC OF CONGO

July 2019

## STAFF REPORT—PRESS RELEASE; STAFF REPORT; DEBT SUSTAINABILITY ANALYSIS, AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE REPUBLIC OF CONGO

In the context of the staff report, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on July 11, 2019, following discussions that ended on May 8, 2019, with the officials of the Republic of Congo on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on June 28, 2019.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Statement by the Executive Director** for the Republic of Congo.

The documents listed below have been or will be separately released.

- Letter of Intent sent to the IMF by the authorities of the Republic of Congo*
- Memorandum of Economic and Financial Policies by the authorities of the Republic of Congo*
- Technical Memorandum of Understanding*

*Also included in Staff Report

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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Press Release No. 19/274
FOR IMMEDIATE RELEASE
July 11, 2019

International Monetary Fund
Washington, D.C. 20431 USA

**IMF Executive Board Approves US$448.6 Million Arrangement Under the Extended Credit Facility (ECF) for the Republic of Congo**

- Executive Board decision allows an immediate disbursement of SDR32.4 million (about US$44.9 million) to the Republic of Congo.
- The Republic of Congo's ECF program supports the authorities' efforts to restore fiscal sustainability and rebuild regional reserves while improving governance and protecting vulnerable groups.
- The Congolese authorities have stepped up efforts in 2018 and 2019 to address the economic crisis and the associated governance challenges.

On July 11, 2019, the Executive Board of the International Monetary Fund (IMF) approved a three-year arrangement under its Extended Credit Facility (ECF) with the Republic of Congo for SDR324 million (about US$448.6 million, or 200 percent of the Republic of Congo's quota in the Fund) to support the country's economic and financial reform program.

The ECF-supported program aims to help the Republic of Congo restore macroeconomic stability, including debt sustainability, and lay the foundations for higher and more inclusive growth. It also seeks to improve governance to achieve greater efficiency and transparency in the management of public resources, especially in the oil sector. The Fund-supported program will contribute positively to the regional strategy and stability efforts of the Central African Economic and Monetary Union (CEMAC).

The IMF Executive Board decision enables an immediate disbursement of SDR32.40 million, about US$44.9 million. Disbursements of the remaining amount will be phased in over the duration of the program, subject to semi-annual reviews of the Fund-supported program by the Executive Board.

Following the Executive Board discussion on the Republic of Congo, Mr. Mitsuhiro Furusawa, Deputy Managing Director and Acting Chair, stated:

“The Republic of Congo was hit hard by the oil price shock and delayed fiscal adjustment, amidst governance challenges and unsustainable debt. The shock eroded fiscal and external buffers and triggered a deep recession. To address these challenges, the Fund-supported program focuses on (i) fiscal consolidation and debt restructuring; (ii) strengthening human capital, including through measures that protect vulnerable groups; and (iii) structural reforms, with a strong focus on governance, to promote economic diversification and achieve more inclusive growth.

“The authorities have started to implement an ambitious program of fiscal consolidation and structural reforms. Domestic revenue mobilization will be a key pillar of the strategy; the authorities should continue to implement the measures included in their 2019 budget, with a focus on broadening the tax base and strengthening compliance, while protecting social spending for education, health, and vulnerable groups, including women’s programs. It will also be critical to increase the transparency of public finances, improve public investment efficiency, and eliminate off-budget spending.

“The recent agreement to restructure the Republic of Congo’s bilateral debt should be accompanied by continued good faith efforts to restructure commercial debt to continue to ensure the country’s debt sustainability.

“The authorities have implemented an ambitious package of reforms to improve governance. Additional reforms will be needed to strengthen the rule of law and the AML/CFT framework and operationalize the newly created anti-corruption commission.

“The Republic of Congo’s medium-term outlook is subject to risks stemming from oil price volatility, possibly uneven policy implementation and weaker security conditions. However, the authorities have already taken decisive steps to improve their fiscal position and have demonstrated a recent track record of implementation of structural reforms. Program risks should be manageable provided the authorities continue to pursue prudent policies.

“The program is supported by union-level efforts to maintain an appropriate monetary policy stance, build-up regional reserves, and promote financial sector stability.”

**Annex**

**Recent Economic Developments**

The Republic of Congo has been suffering one of its worst economic crises in recent years. The crisis was triggered by the sharp decline in oil prices since 2014 and delays in the implementation of an effective policy response. It has resulted in an economic recession, large fiscal and current account deficits, unsustainable debt, an accumulation of a large stock of domestic arrears and an erosion in confidence associated with weak governance.

In this context, the authorities took decisive policy action in 2018 and 2019. They approved prudent budgets for 2018 and 2019, initiated the execution of a rigorous fiscal consolidation

program, and implemented an ambitious structural reform agenda with a strong focus on improvements in governance. They also stepped-up efforts to finalize an agreement to restructure the Republic of Congo's bilateral debt with China, which represents a decisive step to restore debt sustainability.

**Program Summary**

The ECF-supported program for the Republic of Congo aims at restoring fiscal sustainability through strong fiscal consolidation and debt restructuring efforts; improving governance (including PFM) to promote a more efficient use of public resources and protecting vulnerable groups from the burden of adjustment. The program also aims to support regional stabilization efforts.

It is expected that Fund support would help catalyze international assistance, including through debt restructuring.

The fiscal objectives of the program will be achieved through fiscal consolidation, strong revenue mobilization measures, and reallocation of resources toward investment and social spending. Debt restructuring efforts also play a key role to restore debt sustainability. In this regard, the conclusion of a debt restructuring agreement with China must be accompanied by further restructuring of external commercial debt, in line with the authorities' debt restructuring strategy. The program envisages clearance of external arrears to official creditors by the first review of the ECF-arrangement. It also plans the repayment of domestic arrears during the program period to support growth and preserve financial sector stability.

While the initial response to the crisis was slow and raised issues of weak governance and lack of transparency, recent reform efforts are heading in the right direction. Over the last year alone, the authorities have implemented a large package of reforms to improve governance and transparency.

Program implementation remains subject to significant risks, including volatility in oil prices, and possible difficulties to sustain reform efforts over time. However, these risks are mitigated by strong political commitment to the program, at the highest political level, as demonstrated by all the reforms the authorities have implemented prior to the program approval.

**Background**

The Republic of Congo, which became member of the IMF on July 10, 1963, has an IMF quota of SDR162 million.

For additional information on the IMF and the Republic of Congo, see:

https://www.imf.org/en/Countries/COG

## Republic of Congo: Selected Economic and Financial Indicators, 2016–23

| | 2016 | 2017 | 2018 Prel. | 2019 Proj. | 2020 Proj. | 2021 Proj. | 2022 Proj. | 2023 Proj. |
|---|---|---|---|---|---|---|---|---|
| | (Annual percentage change unless otherwise specified) | | | | | | | |
| Production and prices | | | | | | | | |
| GDP at constant prices | -2.8 | -1.8 | 1.6 | 5.4 | 1.6 | 1.9 | 0.1 | 1.3 |
| Oil | -1.5 | 15.3 | 23.9 | 15.8 | -0.3 | -1.6 | -8.8 | -6.1 |
| Non-oil | -3.2 | -6.2 | -5.5 | 1.0 | 2.5 | 3.6 | 4.0 | 4.1 |
| GDP at current prices | -8.7 | 12.4 | 24.8 | 0.8 | 0.8 | 0.5 | -2.7 | 0.3 |
| GDP deflator | -6.1 | 14.4 | 22.9 | -4.3 | -0.8 | -1.4 | -2.8 | -1.0 |
| Consumer prices (period average) | 3.2 | 0.4 | 1.2 | 1.5 | 1.8 | 2.6 | 2.8 | 3.0 |
| Consumer prices (end of period) | 0.0 | 1.8 | 0.9 | 2.0 | 2.5 | 2.7 | 3.0 | 3.0 |
| External sector | | | | | | | | |
| Exports, f.o.b. | -6.7 | 38.2 | 44.6 | 0.7 | -1.8 | -2.5 | -7.2 | -2.6 |
| Imports, f.o.b. | 11.2 | -43.2 | 5.0 | 2.2 | 3.1 | 3.8 | 1.1 | 0.3 |
| Export volume | -14.5 | 29.1 | 28.4 | 14.6 | -1.0 | -1.9 | -9.7 | -7.4 |
| Import volume | 0.1 | -37.6 | 5.9 | 5.6 | 1.2 | 2.5 | 0.6 | -0.5 |
| Terms of trade (deterioration - ) | -5.5 | 9.6 | 13.4 | -8.9 | -2.7 | -2.0 | 2.4 | 4.4 |
| Current account balance (percent of GDP) | -63.5 | -5.9 | 6.7 | 5.6 | 5.1 | 1.6 | -1.4 | -1.9 |
| Net foreign assets | -69.1 | -54.2 | 12.3 | 57.5 | 69.1 | 41.0 | 9.1 | 7.4 |
| External public debt (percent of GDP) | 91.4 | 80.0 | 61.3 | 58.1 | 56.6 | 55.5 | 54.2 | 52 |
| Monetary sector | | | | | | | | |
| Broad money | -15.4 | -10.4 | -4.0 | 7.5 | 9.4 | 12.2 | 3.4 | 2.7 |
| Credit to the private sector | 7.1 | -5.4 | -2.7 | 2.6 | 4.8 | 6.8 | 7.5 | 7.8 |
| Credit to private sector (percent of non-oil GDP) | 42.6 | 45.0 | 44.6 | 44.8 | 45.0 | 45.2 | 45.4 | 45.5 |
| | (Percent of GDP) | | | | | | | |
| Investment and saving | | | | | | | | |
| Gross national saving | -7.0 | 23.9 | 23.8 | 26.4 | 27.7 | 26.1 | 25.7 | 27.2 |
| Public | 9.8 | 1.6 | 9.2 | 12.7 | 13.7 | 14.2 | 15.0 | 14.7 |
| Private | -16.8 | 22.3 | 14.6 | 13.7 | 14.0 | 11.9 | 10.7 | 12.5 |
| Gross investment | 56.5 | 29.8 | 17.1 | 20.9 | 22.6 | 24.5 | 27.1 | 29.1 |
| Public | 15.5 | 7.9 | 2.2 | 4.5 | 5.4 | 6.0 | 6.5 | 6.8 |
| Private | 41.0 | 21.9 | 14.9 | 16.4 | 17.2 | 18.5 | 20.3 | 22.1 |
| | (Percent of non-oil GDP, unless otherwise indicated) | | | | | | | |
| Central government finances | | | | | | | | |
| Total revenue | 54.1 | 53.6 | 74.2 | 78.7 | 77.7 | 74.8 | 71.2 | 67.5 |
| Oil revenue | 24.1 | 25.2 | 50.6 | 48.3 | 43.8 | 40.7 | 35.9 | 32.0 |
| Nonoil revenue (including grants) | 28.6 | 28.4 | 23.6 | 30.4 | 33.9 | 34.1 | 35.3 | 35.5 |
| Total expenditure and net lending | 85.9 | 67.8 | 57.4 | 59.8 | 59.2 | 57.4 | 54.8 | 53.3 |
| Current | 46.8 | 48.4 | 51.9 | 48.5 | 46.1 | 43.7 | 41.2 | 40.1 |
| Capital (and net lending) | 30.2 | 15.2 | 5.5 | 11.3 | 13.1 | 13.7 | 13.5 | 13.2 |
| Off-budget | 8.9 | 4.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Overall balance (deficit -, payment order basis, percent of GDP) | -20.1 | -7.4 | 6.6 | 7.5 | 7.6 | 7.6 | 7.9 | 7.3 |
| Non-oil primary balance (- = deficit) | -51.7 | -35.3 | -28.1 | -24.8 | -21.6 | -20.1 | -16.9 | -15.9 |
| Basic primary fiscal balance (- = deficit)[1] | -18.3 | -1.9 | 24.8 | 23.4 | 22.2 | 20.6 | 19.0 | 16.1 |
| Reference fiscal balance (percent of GDP)[2] | -1.5 | -0.7 | -4.7 | -0.8 | 2.6 | 4.9 | 5.7 | 5.2 |
| Primary balance (percent of GDP) | -17.4 | -5.2 | 8.9 | 9.3 | 9.2 | 9.0 | 9.1 | 8.3 |
| Financing gap (CFAF billion)[3] | 0.0 | 0.0 | 0.0 | 362 | 411 | 245 | 66 | -35 |
| Total public debt (percent of GDP) | 118.6 | 117.5 | 87.8 | 81.7 | 76.6 | 71.6 | 66.8 | 60.7 |
| External public debt service | 23.4 | 24.0 | 24.6 | 37.6 | 32.0 | 22.8 | 18.9 | 12.5 |
| External public debt | 275.5 | 293.4 | 210.9 | 187.6 | 178.9 | 172.0 | 160.8 | 151.0 |
| | (Billions of CFA francs, unless otherwise indicated) | | | | | | | |
| Nominal GDP | 4,616 | 5,189 | 6,476 | 6,529 | 6,578 | 6,611 | 6,432 | 6,449 |
| Nominal oil GDP | 1,708 | 2,493 | 3,932 | 3,926 | 3,863 | 3,723 | 3,343 | 3,133 |
| Nominal non-oil GDP | 2,908 | 2,695 | 2,544 | 2,603 | 2,715 | 2,888 | 3,089 | 3,316 |
| Nominal GDP in US$ (millions) | 7,787 | 8,932 | 11,664 | 11,382 | 11,592 | 11,715 | 11,472 | 11,532 |
| World oil price (U.S. dollars per barrel) | 43 | 53 | 68 | 59 | 59 | 58 | 58 | 58 |
| Oil production (Millions of barrels) | 85 | 98 | 121 | 140 | 140 | 137 | 125 | 118 |
| Nominal Exchange rate (CFA/USD, period average) | 592.8 | 580.9 | 555.2 | … | … | … | … | … |
| REER (percentage change) | 4.1 | 0.5 | 1.2 | … | … | … | … | … |

Sources: Congolese authorities; and IMF staff estimates and projections.
[1] Revenue excluding grants minus total expenditures (excluding interest payments and foreign-financed public investment).
[2] Overall balance minus 20 percent of oil revenues and minus 80 percent of the oil revenue in excess of the average observed during the three previous years.
[3] Before IMF-ECF financing, other expected financing and exceptional financing due to external debt restructuring net of restructured contingent liabilities.

INTERNATIONAL MONETARY FUND

# REPUBLIC OF CONGO

## REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY

June 28, 2019

## KEY ISSUES

**Context.** The Republic of Congo was hit hard by the oil price shock and delayed fiscal adjustment, amidst governance challenges and unsustainable debt. While program negotiations were long and complex, the authorities made decisive progress in 2018 and early 2019 with decisive fiscal consolidation, and the implementation of a large package of structural reforms, including two rounds of prior actions to improve governance and transparency. In addition, financing assurances have been secured.

**Program pillars.** The program for the Republic of Congo rests on three pillars: (i) fiscal consolidation and debt restructuring; (ii) strengthening human capital, including to mitigate the impact of the adjustment on the poor; and (iii) governance and supply side structural reforms to promote economic diversification and resilience. The program will be supported by union-level efforts to maintain an appropriate monetary policy stance, build up regional reserves, and promote financial sector stability.

**Key policy recommendations.**

- Restore fiscal sustainability and provide program financing assurances through strong fiscal consolidation and debt restructuring efforts.
- Implement bold revenue measures to reduce the need for painful spending cuts and create fiscal space for social spending to protect vulnerable groups.
- Improve the efficiency of public finances, through better PFM processes, the elimination of off-budget spending, and rationalization of the wage bill.
- Support the implementation of regional policy assurances, including through better enforcement of the new foreign exchange regulations.
- Promote the productivity of factor inputs by increasing investments in human capital.
- Implement bold governance and anti-corruption reforms to generate a more transparent economic system, restore confidence and promote economic diversification.

Approved By
**Zeine Zeidane (AFR) and Martin Sommer (SPR)**

Discussions were held in Brazzaville during February–March 2017, May–June 2017, December 2017, April and November 2018, and May 2019. The staff teams comprised A. Segura-Ubiergo (head after August 2018), A. Wane (head before August 2018), A. Thomas (Resident Representative), A. Baldini, H. Selim, L. Charry, F. Nsengiyumva, G. Jenkinson, C. Tsangarides, P. Egoume Bossogo, M. Gado (all AFR); K. Hellwig, M. Kaffo (all SPR); S. Pompe (lead for the governance work), J. Swanepoel, Y. Soto (all LEG); C. Verdugo-Yepes (FAD) and J. Tchicaya-Gondhet de Trebaud and Nsongui Tonadio (local office). The missions met with President Denis Sassou N'Guesso, Prime Minister Clément Mouamba, Finance Minister Calixte Nganongo, and other high government officials, and worked closely with the President of the Technical Committee, Lucien Ebata, who took the lead in program negotiations. Staff of the African Development Bank and the World Bank attended most of the missions' meetings. Ms. M. Perinet and Messrs. A. Rodriguez and J. N. Rosas provided research support, and Ms. F. Adjahouinou provided administrative assistance for the preparation of this report.

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# Glossary

| | |
|---|---|
| AFC | AFRITAC Centre |
| ANIF | Financial Intelligence Unit |
| BEAC | Regional Central Bank (Banque des Etats de l'Afrique Centrale) |
| CCA | Caisse Congolaise de l'Amortissement (debt unit) |
| CEMAC | Communauté Economique et Monétaire de l'Afrique Centrale |
| COBAC | Commission Bancaire de l'Afrique Centrale |
| CORAF | Oil refinery |
| DSA | Debt Sustainability Analysis |
| CEMAC | Central African Economic and Monetary Community |
| CIT | Corporate Income tax |
| HIPC | Heavily Indebted Poor Countries |
| MEFP | Memorandum of Economic and Financial Policies |
| NPDC | National Committee of Public Debt |
| PEFA | Public Information and Financial Accountability |
| PETS | Public Expenditure Tracking Survey |
| PEMFAR | Public Expenditure Management and Financial Accountability Review |
| PFM | Public Financial Management |
| PIH | Permanent Income Hypothesis |
| PIT | Personal Income Tax |
| PND | National Development Plan |
| PSTAT | Statistical Capacity Building Project |
| SNPC | Société Nationale des Pétroles du Congo (national oil company) |

# BACKGROUND: ANATOMY OF THE CRISIS

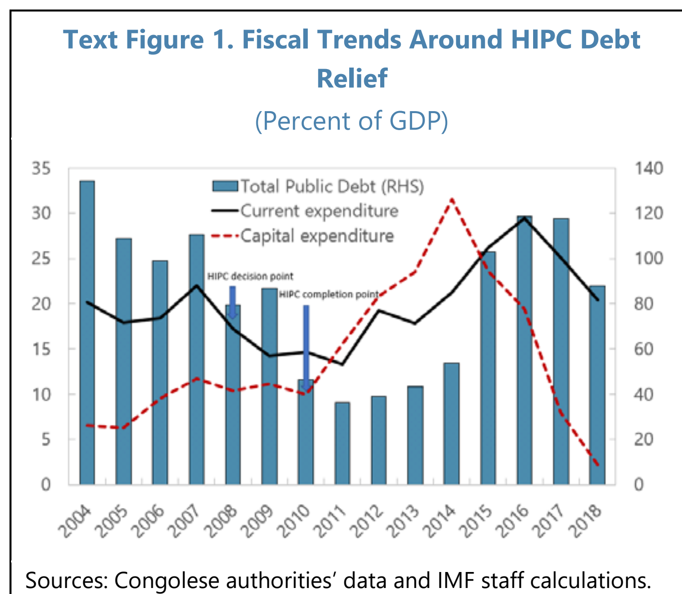
**1. The Republic of Congo has been suffering a profound economic crisis triggered by the sharp decline in oil prices since mid-2014**. The crisis has been one of the worst in the country's history, with deep output losses, large fiscal and current account deficits, and an erosion in confidence associated with weak governance, and an explosion in public debt. The situation improved substantially in 2018 and early 2019, as the authorities pursued an ambitious fiscal consolidation program, stepped up efforts to obtain financing assurances (including debt relief), and pushed ahead with a bold program of structural reforms with a particular focus on governance and transparency issues. This section analyzes the context prior to the crisis, the anatomy of the crisis over the 2014–17 period, and the policies that initiated the turnaround in 2018 and the first half of 2019.[1]

### From the HIPC Decision Point to the Start of the Crisis (2006–14)

**2. HIPC debt relief and high international oil prices helped Congo accelerate growth and poverty reduction.** After reaching the HIPC Completion Point in 2010, Congo ramped-up spending on public infrastructure and consumption financed by oil revenue windfalls and a rapid re-accumulation of debt. During the four years to 2014, current expenditure increased to 21 percent of GDP, while capital expenditure tripled to 31 percent of GDP (Text Figure 1). Most projects were financed in the context of the strategic partnership with China,[2] and nontransparent oil-backed arrangements with oil traders and oil producers. The strategy helped reduce poverty from 52 percent in 2004 to 31 percent in 2015. This was largely driven by high GDP growth, which averaged 5 percent over the period — with non-oil growth averaging 6½ percent. But inequality measured by the Gini index increased to 0.46 and vulnerability to poverty remained high at 70 percent.

**Text Figure 1. Fiscal Trends Around HIPC Debt Relief**

(Percent of GDP)




Sources: Congolese authorities' data and IMF staff calculations.

[1] This report provides a full update to the July 2018 Staff report that could not be considered by the IMF Board due to lack of sufficient financing assurances.

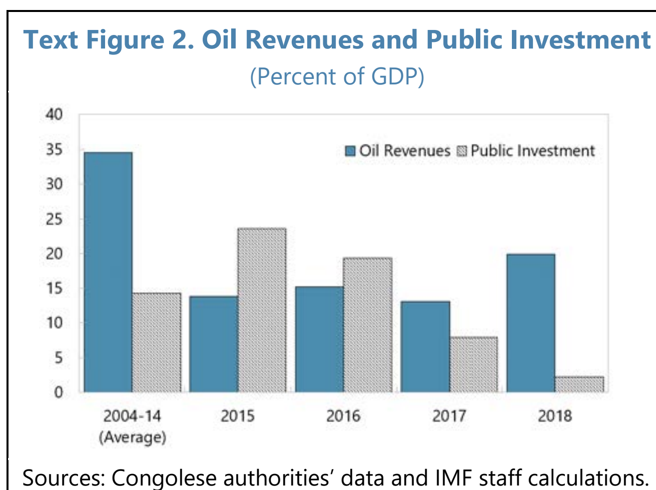
[2] Through the 2006 strategic partnership, China provided financing for infrastructure projects with the repayment secured through an escrow account in China where 15 percent of oil exports to China are deposited. The balances in excess of the amount needed to secure these debt payments were repatriated to BEAC in 2018.

## The Impact and Aftermath of the Oil Price Shock (2014–17)

3. **The decline in oil prices since 2014 sharply deteriorated Congo's outlook.** Average oil prices declined from over $100 from early 2011 to mid-2014 to below $40 by mid-2016. This led to a collapse in oil exports and a sharp decline in the external current account, with a deficit that exceeded 40 percent of GDP by early 2016. As a result, oil revenues, which had averaged 35 percent of GDP during 2004–14, declined to about 15 percent of GDP after the shock (2015–17) and only started to recover in 2018 with rising oil production and prices. The negative evolution of oil revenues was exacerbated by revisions in contractual arrangements in production sharing agreements that reduced the share of oil that accrued to the government (Box 1). The authorities started to adjust their ambitious program to build infrastructure, and public investment declined from about 24 percent of GDP in 2015 to 8 percent of GDP by 2017 (Text Figure 2), and collapsed further to 2¼ percent in 2018. The reduction in public investment was one of the main transmission channels of the crisis on growth in the short term (Annex III).

**Text Figure 2. Oil Revenues and Public Investment**

(Percent of GDP)

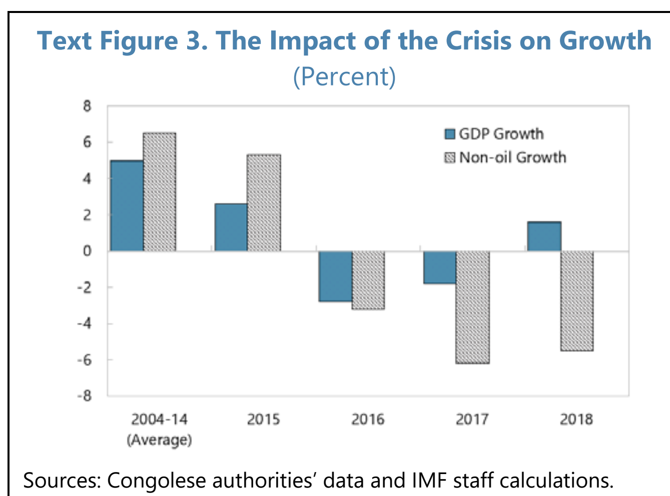



Sources: Congolese authorities' data and IMF staff calculations.

4. **The oil price shock produced a large decline in growth**. Growth started to decelerate in 2015, and turned sharply negative in 2016–17, with particularly large decelerations in non-oil growth, driven by severe contractions in spending on infrastructure (Text Figure 3). Business confidence was eroded, the government started to accumulate large arrears with the private sector and Congo's gross imputed reserves at the regional central bank (BEAC) fell by over 90 percent, from CFAF 2,601 billion in 2014 to CFAF 202 billion in 2018.

**Text Figure 3. The Impact of the Crisis on Growth**

(Percent)




Sources: Congolese authorities' data and IMF staff calculations.

5. **Budget rigidities, including from governance weaknesses, delayed the policy response.** With presidential and legislative elections looming amidst mounting security challenges, the authorities ratcheted up spending[3] to more than 60 percent of GDP in 2014, including on infrastructure and wages. Governance weaknesses were reflected in (i) discounts on the sale price of

---

[3] Large infrastructure spending was linked to "accelerated municipalization", the preparation of the 11th All Africa Games in Brazzaville in 2015, and the "Water for All" project.

government oil, (ii) nontransparent oil-for-infrastructure barter arrangements and oil pre-purchase loans from oil traders, and (iii) large off-budget spending in a context of weak anti-money laundering[4] and anti-corruption legal frameworks. This type of borrowing contributed to unsustainable fiscal and debt policies.

## Box 1. Production Sharing Agreements and Oil Revenues

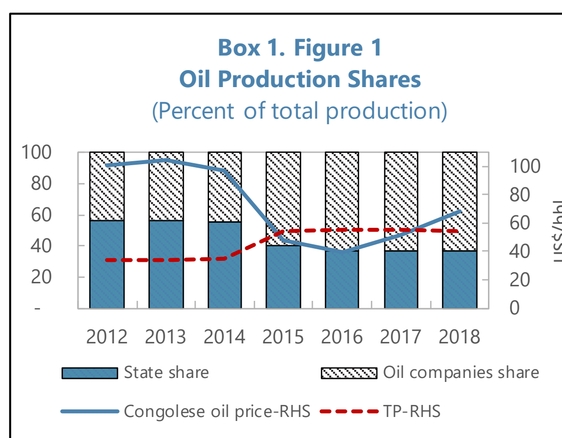
Government oil revenue collapsed from 35 percent of GDP in 2014 to 13½ percent of GDP in 2015. This reflects the impact of the fall in oil prices on the value of the government share in oil production, which was exacerbated by the reduction in the government's share in production from the introduction in 2015 of more generous fiscal terms (Table 1).

**Box 1. Table 1. Republic of Congo: Oil Production Sharing Terms**

| | Old Fiscal Terms | New Fiscal Terms |
|---|---|---|
| **Government shares (% of total production unless otherwise stated)** | | |
| Royalties | 12% | 15% |
| Cost Stop | 50% | 50% |
| Threshold Price (US$/bbl) | 34 | 55 |
| Excess oil | 50% | 50% |
| Profit oil | 60% | 50% |
| Super profit oil | 70% | 66% |
| **Oil companies' share (% of total production unless otherwise stated)** | | |
| Cost oil (U$/bbl) | 45 | 45 |
| Excess oil | 50% | 50% |
| Profit oil | 40% | 50% |
| Super profit oil | 30% | 34% |

The new fiscal terms increased the ceilings for costs recovered by oil companies (cost stop), and lowered the government's shares in (i) excess oil (the difference between actual costs and cost stop), (ii) profit oil (production after royalties and cost oil) and (iii) super profit oil (which arise when international oil prices fall below a threshold price (TP) pre-set for each oil field. However, the fall in oil prices below the new TP exacerbated this fall by eliminating significant amounts of oil production that the state used to obtain when oil prices were above the TP.

**Box 1. Figure 1**
**Oil Production Shares**
(Percent of total production)




The new fiscal terms, which affected around 60 percent of production by 2017, were meant to incentivize new investments and offset the higher costs for companies operating maturing and deep-water fields. As a result, the state's share of total oil production declined from 55 percent in 2014 to around 37 percent in 2018, which contributed to the fall in oil fiscal receipts (Figure 1).

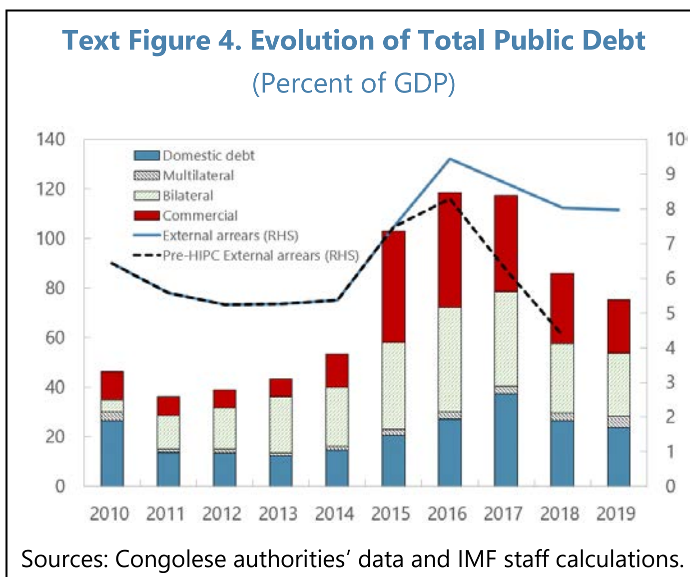
If oil prices had remained above the new TP (at around US$/bbl 95), the application of the new terms would have reduced the government share to 50 percent instead of 55 percent in 2015. If the government had retained the old fiscal terms, the oil price decline alone (below the old TP of US$/bbl 55) would have reduced the government share to 45 percent in 2015 (Annex V). The authorities indicated that the discount in the sale of Congolese oil reflects marketing challenges including delays in shipments from the terminal operated by a foreign company. However, they noted that part of it reflects governance issues in the management of the oil sector, including a lack of transparency in the Société Nationale des Pétroles du Congo (SNPC) sales.

[4] The 2014 FSAP and the 2015 AML/CFT Mutual Evaluation carried out by GABAC, the Financial Action Task Force (FATF) regional institution for Central Africa identified serious deficiencies, including the lack of an ML/TF national risk assessment (NRA), weak implementation of AML/CFT preventive measures in the financial and non-financial sectors, and the lack of an operational Financial Intelligence Unit (FIU).

**6. The deterioration in the fiscal position, combined with the decline in GDP, led to an explosion in public debt.** Total debt (including domestic arrears) almost tripled from less than 40 percent of GDP in 2011 to about 118 percent in 2017–18 (Text Figure 4). The increase was driven by (i) the expansion in commercial debt, largely associated with opaque arrangements with oil traders, (ii) increases in bilateral debt (mostly with China) to finance the ambitious public investment program, and (iii) a large increase in the stock of domestic arrears, which reached 16 percent of GDP in 2017, as result of the collapse in oil revenues and delays in the implementation of the fiscal consolidation program.

**Text Figure 4. Evolution of Total Public Debt**

(Percent of GDP)



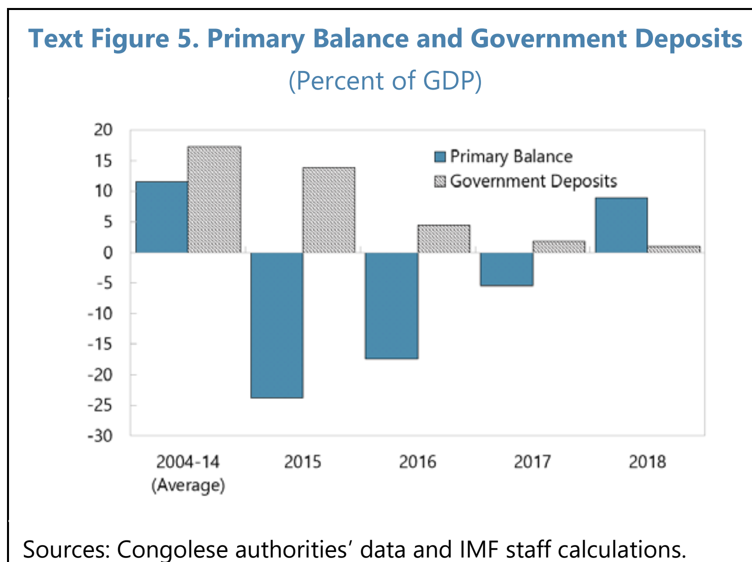

Sources: Congolese authorities' data and IMF staff calculations.

## Signs of Stabilization and Reform Efforts in 2018 and Early 2019

**7. Against the backdrop of a rapidly deteriorating situation, the authorities stepped up efforts to address the crisis and governance challenges in 2018**. They set up a technical committee to conduct program negotiations with Fund staff under the supervision of a political committee,[5] and the National Assembly approved in late 2017 a prudent budget for 2018. The new governance structure of the SNPC, enacted in late 2017, appointed a new leadership structure with an enhanced accountability framework (Annex V). The authorities also completed a Fiscal Safeguards Review in August 2018 with IMF technical assistance. Following a recommendation by the Task Force on Money Laundering in Central Africa, Congo's financial intelligence unit (ANIF) organized a workshop to familiarize

**Text Figure 5. Primary Balance and Government Deposits**

(Percent of GDP)




Sources: Congolese authorities' data and IMF staff calculations.

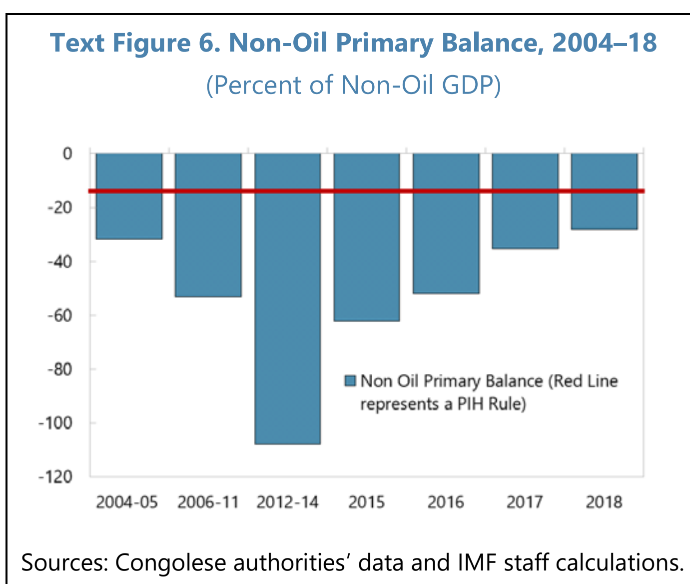
[5] The political committee is composed of the Prime Minister (chair), the state minister of economy, and the minister of finance. The technical committee, chaired by a special advisor to the president, includes also the prime minister's chief of staff and an advisor to the finance minister.

Congolese officials with the World Bank's methodology for assessing money laundering and terrorist financing risks.

8. **Overall growth turned positive in 2018, and the fiscal position improved markedly.** The primary deficit adjusted from 24 percent of GDP in 2015 to 5½ percent in 2017, and it turned into a surplus of almost 9 percent of GDP in 2018 (Text Figure 5). While this result is explained in part by rising oil production and prices, which led to a recovery in oil revenues, it also reflects efforts to contain spending. The non-oil primary deficit, which provides a more direct measure of the authorities' fiscal effort, also improved from 35.3 percent of non-oil GDP in 2017 to 28.1 percent in 2018, and it has now reached the lowest level since 2004 (Text Figure 6). Thanks to these fiscal efforts, and higher nominal GDP associated with rising oil production and prices, total public debt declined by 30 percentage points, from 118 to 88 percent of GDP.

**Text Figure 6. Non-Oil Primary Balance, 2004–18**

(Percent of Non-Oil GDP)

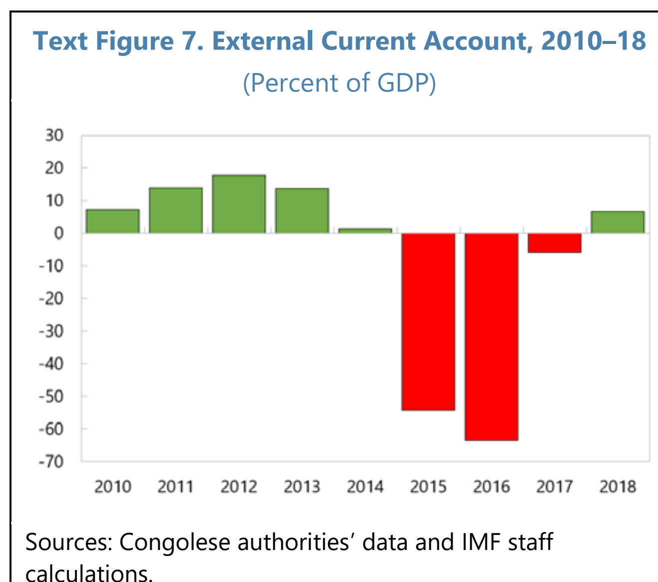



Sources: Congolese authorities' data and IMF staff calculations.

9. **The external position also improved substantially, with the external current account registering the first surplus since 2014**. Both oil prices and production increased by about 25 percent between 2017 and 2018. As a result, exports grew by 45 percent, while import growth remained modest (about 5 percent) given relatively weak economic activity in the non-oil sector (Text Figure 7). Net foreign assets at the central bank increased by over 10 percent, and gross imputed reserves stabilized from the record lows of 2017, but remain at very modest levels, covering less than one month of imports. Overall, the external position of the Republic of Congo remains weaker than implied by fundamentals and policy adjustment is therefore needed. The quantitative assessment of the exchange rate using the Fund's EBA-lite methodology, as well as alternative approaches tailored to exporters of non-renewable resources suggests the exchange rate is overvalued by 15–20 percent (See Annex II).

**Text Figure 7. External Current Account, 2010–18**

(Percent of GDP)



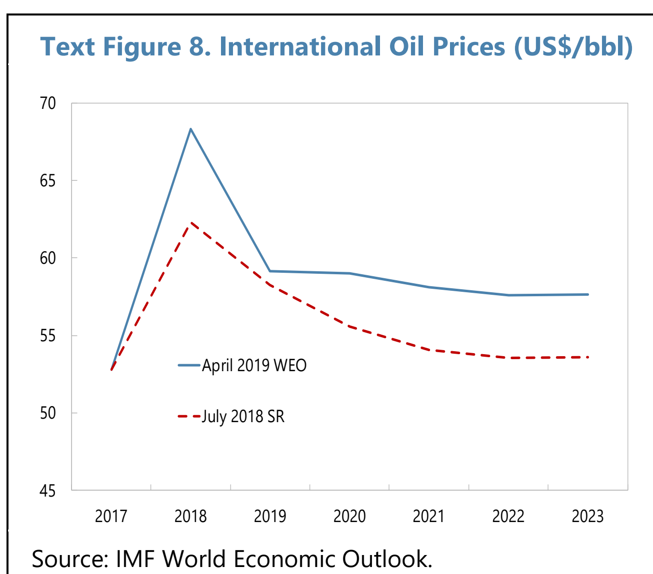

Sources: Congolese authorities' data and IMF staff calculations.

**10. Banking sector vulnerabilities have increased but the sector remains solvent.** Bank liquidity deteriorated, with broad money growth declining from 13 percent in 2014 to -12 percent in 2015–17. By end-2018, commercial bank deposits had cumulatively declined by more than CFAF 700 billion since 2014 (around a third). As a result, the deposit-to-loan ratio declined from over 170 percent in 2014 to 90 percent in 2018. NPLs rose from 4 percent of gross credit in 2014 to 10 percent in 2015–17 and further to 23 percent in 2018 (Figure 1e). These developments, together with BEAC's tightening of monetary policy, contributed to slowing down private sector credit growth from 26 percent in 2014 to almost 4 percent in 2015–17, followed by a contraction by almost 3 percent in 2018. Nevertheless, the banking sector's overall solvency ratio (25 percent in 2018) remains far above the regulatory minimum requirement (7.5 percent), thanks to capital increases by large banks (Annex IV). Two non-systemic banks are in distress. The banking commission, Commission Bancaire de l'Afrique Centrale (COBAC), requested in September 2018 that the authorities withdraw the license of one of these undercapitalized banks.

# SHORT AND MEDIUM-TERM OUTLOOK

**11. Economic conditions remain difficult but are projected to improve in 2019.** Overall growth in 2019 is expected to reach 5.4 percent, supported by an expansion in oil production (Box 2) and to a lesser extent by a recovery in non-oil growth, which is projected to reach 1 percent. This projected pick-up hinges on a recovery in public investment in 2019, which is a key driver of non-oil growth. Moreover, confidence effects are likely to result from the approval of the Fund-supported program and the partial repayment of domestic arrears. The medium-term framework is based on the oil price assumptions from the April 2019 World Economic Outlook (WEO), with average oil prices about US$/bbl 3½ higher than the assumptions used in July 2018 (Text Figure 8).

**Text Figure 8. International Oil Prices (US$/bbl)**




Source: IMF World Economic Outlook.

**12. The fiscal and external positions, which strengthened substantially in 2018, are projected to improve further in 2019.** Assuming a steadfast implementation of program commitments, the overall fiscal balance is expected to register a surplus of 7½ percent of GDP, while the non-oil primary deficit will adjust further to 24.8 percent of non-oil GDP in 2019. This will help rebuild government buffers, with deposits at the central bank expected to increase from CFAF 64 billion in 2018 to CFAF 213 billion in 2019. At the same time, the current account balance is projected to remain in surplus in 2019 (5.6 percent of GDP). The positive fiscal and external positions will help increase Congo's imputed net foreign assets at the central bank to CFAF 319bn, thereby contributing to the build-up of reserves at the regional level.

### Box 2. Prospects in the Oil Sector

The Republic of Congo's proven oil reserves are estimated at 1.6 billion barrels and production is expected to peak in 2019. Production was around 121 million barrels in 2018—an increase of about 20 percent compared with 2017. This helped Congo reach the third largest output level in sub-Saharan Africa after Nigeria and Angola. There are currently around 40 oil fields in operation, most of which are offshore. The projected increase in production will boost output levels to 140 million barrels in both 2019 and 2020. It results from a new offshore field (Moho Nord, the largest in Congo's history)—expected to reach a peak level of 37 million barrels in 2019. Production from this new field, combined with Congo's first deep-water field (Moho-Bilondo), accounted for 45 percent of total oil production in 2018. Additional capacity is expected to come from the the Banga Kayo and the Nene-Banga fields which will account for 20 percent of production.

Staff have updated oil production forecasts with information received by the authorities, recent reports by sector experts, and consultations with oil companies accounting for about 75 percent of production. These discussions suggest that there is still some potential for further upward revisions in production forecasts. Production levels in 2019Q1 suggest that the revised production estimates are attainable.

As a result, near-term production prospects have improved. Over the 2020–23 period, production capacity is expected to come from the major oil fields which will contribute around 181,000 barrels/day on average, and account for 50 percent of production.
The government has also announced the second phase of the exploration licensing rounds, offering up to 18 blocks for tender, including five in shallow water, five in deep and ultradeep water, and eight onshore fields. Tendering is underway with results planned for announcement by July 2019. Absent new developments, and as fields mature, oil production is projected to decline in 2023 by 16 percent from peak levels.

**13. The medium-term outlook projects a gradual recovery in economic activity, the preservation of fiscal discipline, and an improvement in the external position.** In particular, non-oil growth is projected to gradually recover and reach about 4 percent in 2022–23 (Text Table 1). Strong primary surpluses of about 9 percent, on average, over the program period will help place public debt on a strong downward path, with total public debt declining to about 60 percent by 2023. At the same time, the non-oil primary deficit will decline to about 16 percent of non-oil GDP and help rebuild buffers to smooth out possible volatility in oil prices, and save a share of oil revenues to address possible exhaustibility issues (Box 3).

**Text Table 1. Republic of Congo: Program Scenario, 2016–23**

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|---|
| | | | Est. | | | Projections | | |
| | *(annual percentage change unless otherwise indicated)* | | | | | | | |
| **Production and prices** | | | | | | | | |
| Non-oil real GDP | -3.2 | -6.2 | -5.5 | 1.0 | 2.5 | 3.6 | 4.0 | 4.1 |
| Consumer prices (period average) | 3.2 | 0.4 | 1.2 | 1.5 | 1.8 | 2.6 | 2.8 | 3.0 |
| **External sector** | | | | | | | | |
| Current account balance (percent of GDP) | -63.5 | -5.9 | 6.7 | 5.6 | 5.1 | 1.6 | -1.4 | -1.9 |
| Net foreign assets (percent of GDP) | 10.0 | 4.1 | 3.9 | 5.4 | 8.6 | 11.9 | 13.4 | 14.4 |
| External public debt (percent of GDP) | 91.4 | 80.0 | 61.3 | 58.1 | 56.6 | 55.5 | 54.2 | 51.5 |
| **Fiscal aggregates** | *(percent of non-oil GDP, unless otherwise indicated)* | | | | | | | |
| Nonoil revenue (inc. grants and investment income) | 30.1 | 28.5 | 23.7 | 30.5 | 34.1 | 34.3 | 35.5 | 35.6 |
| Total expenditure | 85.9 | 67.8 | 57.4 | 59.8 | 59.2 | 57.4 | 54.8 | 53.3 |
| *Of which*: Capital expenditure | 30.7 | 15.2 | 5.5 | 11.3 | 13.1 | 13.7 | 13.5 | 13.2 |
| Overall balance, cash basis | -26.4 | -12.7 | 16.2 | 18.9 | 18.5 | 17.5 | 16.5 | 14.2 |
| Primary balance (percent of GDP) | -17.4 | -5.2 | 8.9 | 9.3 | 9.2 | 9.0 | 9.1 | 8.3 |
| Non-oil primary balance (- = deficit) | -51.7 | -35.3 | -28.1 | -24.8 | -21.6 | -20.1 | -16.9 | -15.9 |
| Financing gap (CFAF billion) | 0 | 0 | 0 | 362 | 411 | 245 | 66 | -35 |
| Stock of government deposits at the BEAC (CFAF billion) | 205 | 93 | 64 | 213 | 437 | 661 | 686 | 721 |
| **Memorandum item:** | | | | | | | | |
| Total public debt (percent of GDP) | 118.6 | 117.5 | 87.8 | 81.7 | 76.6 | 71.6 | 66.8 | 60.7 |
| Oil production (Millions of barrels) | 85 | 98 | 121 | 140 | 140 | 137 | 125 | 118 |

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

**14. Risks to the outlook stem from the volatility in oil prices, possibly uneven policy implementation, and potentially weaker security conditions.**

- Lower oil prices would put pressure on fiscal and external balances, while a weaker Euro would increase the debt burden and widen the current account deficit given difficulties to expand non-oil exports due to supply side constraints. This could affect negatively Congo's capacity to repay the Fund. The debt restructuring with commercial creditors should be robust to commodity sector price volatility and assure that Congo achieves a moderate risk of external debt distress by 2023. To this end, staff recommended, and the authorities agreed, that any debt restructuring agreement with oil traders should consider contingency mechanisms in case oil prices fall below reference levels (MEFP¶33).

- Domestic downside risks stem from difficulties to sustain political support for the reform program, including the government capacity to sustain large fiscal surpluses over time or pursue the implementation of reforms to improve governance. Possible delays in clearing domestic arrears is another risk, which would hurt the private sector and damage financial sector stability. A resurgence of conflict in the Pool area would also have a negative impact on the business environment.

- These risks are mitigated by the willingness expressed by the highest political authorities to Fund-supported program objectives, prospects of higher oil production levels, and the authorities' prudent fiscal policies—as demonstrated in 2018 and early 2019—which would gradually rebuild buffers, including government deposits, and help smooth out unexpected shocks. The authorities have also implemented a large package of structural reforms, including decisive measures to improve governance prior to the program approval.

# ECF-SUPPORTED PROGRAM OBJECTIVES

**15. Discussions toward a possible Fund-supported program (July 2019–July 2022) focused on the importance of restoring fiscal sustainability, protecting vulnerable groups and improving governance**. In particular, the Fund-supported program centers around (i) fiscal consolidation and debt restructuring to restore debt sustainability, while ensuring adequate resources to mitigate the burden of adjustment on vulnerable groups, and (ii) structural reforms to improve governance and ensure a more efficient use of public resources (including measures to boost human capital), and promote financial stability. The program is backed by the authorities' strong commitment to restore high, sustainable and inclusive growth (LOI ¶2), and by policies to restore medium-term fiscal sustainability (MEFP ¶19).

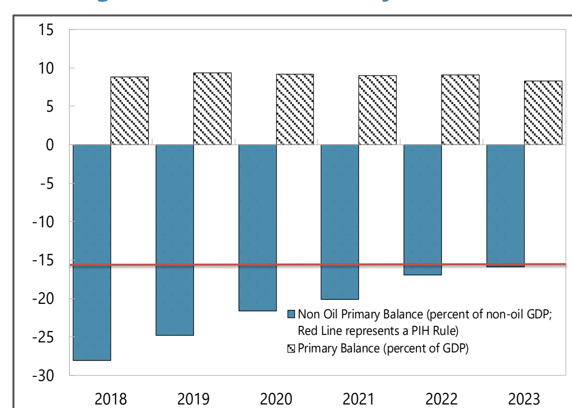
**16. The ECF-supported arrangement for the Republic of Congo will also contribute decisively to the regional stability efforts of the CEMAC region.** In particular, it will be the fifth country in the monetary union with a Fund-supported program in line with the December 2016 strategy agreed by CEMAC Heads of State. As the largest oil producer in the region, the Republic of Congo is also expected to play a substantial role in the accumulation of net foreign assets (NFA) at the BEAC – contributing about ¼ of the expected accumulation for the region over 2019–22. To achieve this objective, it will be necessary to maintain fiscal discipline, and rigorously enforce initiatives by regional institutions, including sharing of contracts with the BEAC (structural benchmark for end-September 2019) to identify exemptions to foreign repatriation requirements, repatriation of public sector deposits abroad, and modification of escrow accounts offshore to bring them under the control of BEAC.

## A. Restoring Fiscal Sustainability

### Fiscal Consolidation Strategy

**17. Restoring fiscal sustainability requires the maintenance of high primary surpluses and a gradual adjustment in the non-oil primary balance**. Despite the recovery in non-oil growth over the medium term, overall GDP growth will average about 2 percent over 2019–23 given substantial declines in oil production after 2021. As a result, placing public debt on a strong downward path requires large primary surpluses. At the same time, there is a need to consider the exhaustibility of natural resources and build substantial fiscal buffers to deal with oil price volatility. The medium-term fiscal anchor is provided by an estimate of the primary balance required to bring the debt sustainability indicators below the thresholds needed to

**Text Figure 9. Non-Oil Primary Balance, 2018–23**




Sources: Congolese authorities' data and IMF staff calculations.

achieve a moderate level of debt distress by 2022–23 (DSA supplement). This objective also helps place public debt on a strong downward path toward 60 percent of GDP by 2023, and the associated non-oil primary balance is broadly consistent with a PIH (see Box 3)[6]. The proposed fiscal strategy would also help rebuild buffers and bring gross imputed reserves to 3–4 months of imports by the end of the program, thereby providing critical support to the regional CEMAC strategy.

### Box 3. The Fiscal Anchor for the Republic of Congo as a Resource Rich Country

**A Permanent Income Hypothesis (PIH) rule is a conservative fiscal anchor**. It assumes that a substantial share of oil revenues needs to be saved to build up a stock of non-resource financial assets. The return on these assets generates a stream of resources to help sustain real government spending in the future once extraction has ended. In line with IMF (2012)[1], in the case of Congo, the non-oil primary balance (NOPB), in percent of non-oil GDP, is the appropriate fiscal indicator given that the resource horizon is short (i.e. less than 20 years) and exhaustibility considerations are an important concern. Anchoring fiscal policy on this indicator also helps delink fiscal policy from the volatility of oil prices. The fiscal target can be set in a variety of ways. In the traditional PIH approach, the NOPB is set at a level that is consistent both with accumulated and expected financial wealth, basically treating resource wealth in the ground as "virtual" financial wealth, computing the present value given the resource horizon, and assuming an implicit rate of return. This implies a calculation of the resources in the ground and the oil revenues that will accrue to the government in the future.

**The PIH Rule may be necessary when the resource horizon is short, and there are high levels of debt and a poor track record of public investment management.** Deviations from the PIH rule can be appropriate when the country has large development needs and investments in infrastructure and human capital may yield higher value for money than the rate of return from the accumulation of financial assets. In such case, wealth on the ground is transformed into other forms of capital (i.e. infrastructure, health and education) that can help the economy diversify, increase competitiveness and boost non-oil growth. In the case of Congo, the massive increase in public investment has not been associated with adequate investment planning, execution and evaluation, or with transparent procurement practices. Once the Republic of Congo has (i) restored debt sustainability, (ii) rebuilt adequate buffers to smooth out oil price volatility, and (iii) improved the transparency and efficiency of its public investment management system, there would be scope to revisit the fiscal anchor taking into account the country's large development needs.

[1] See "Macroeconomic Policy Frameworks for Resource Rich Developing Countries". 2012. *International Monetary Fund*. https://www.imf.org/en/Publications/Policy-Papers/Issues/2016/12/31/Macroeconomic-Policy-Frameworks-for-Resource-Rich-Developing-Countries-PP4698

[6] The calculation is based on the following assumptions: (i) existing reserves of about 1.9bn barrels (with expected new discoveries of about 0.3bn), (ii) a medium-term oil price of about $60, (iii) about 45 percent of revenues accruing to the government; (iv) a time horizon of about 15 years; and (v) both a discount factor and rate of return on financial assets of about 5 percent.

**18. Fiscal consolidation relies on strong domestic revenue mobilization and efforts to contain current expenditures**. Non-oil revenues are projected to increase by about 11 percent of non-oil GDP over the program period (Text Table 2). This will help offset most of the projected decline in oil revenues associated with the downward trend in oil production over 2021–22. Current spending will be reduced by about 10¾ percent of non-oil GDP, with the bulk of the adjustment based on reductions in transfers to the oil sector. At the same time, public investment is expected to recover from the low levels observed in 2018. The authorities also intend to adopt a privatization strategy to create fiscal space (structural benchmark by end-September 2019 and MEFP ¶22).

**Text Table 2. Republic of Congo: Composition of Fiscal Adjustment, 2018 and 2022**
(Percent of non-oil GDP)

| | 2018 Prel. | 2022 Proj. | Diff. |
|---|---|---|---|
| Total revenue and grants | 74.2 | 71.2 | -3.0 |
| Revenue | 74.0 | 70.1 | -3.9 |
| Oil revenue | 50.6 | 35.9 | -14.7 |
| Non-oil revenue | 23.4 | 34.2 | 10.9 |
| Grants | 0.2 | 1.1 | 0.9 |
| Expenditure and net lending | 57.4 | 54.8 | -2.7 |
| Current expenditure | 51.9 | 41.2 | -10.7 |
| Capital expenditure | 5.5 | 13.5 | 8.0 |
| Non-oil primary balance | -28.1 | -16.9 | 11.1 |
| Overall balance, cash basis | 16.2 | 16.5 | 0.2 |

Source: Congolese authorities' data and IMF staff projections

**19. The medium-term fiscal program will require, as a first step, the rigorous implementation of the authorities 2019 Budget (MEFP ¶28–30).** It projects a substantially stronger non-oil primary balance but is based on excessively optimistic assumptions regarding non-oil revenues (Text Table 3). Staff suggested prudence with respect to non-oil revenue projections based on a detailed analysis of measures. The authorities have also taken steps to cap the level of transfers and subsidies, by reducing by CFAF 100bn the transfers allocated to the oil sector, especially the oil refinery (CORAF)[7]. There are good prospects to achieve this objective given fiscal trends observed in 2019Q1. As a result, staff suggested an increase in pro-poor social transfers of about CFAF 50bn given the need to mitigate further the impact of fiscal consolidation on the poor (MEFP ¶31) (see below).[8]

**Text Table 3. Republic of Congo: Approved Budget and IMF Projections, 2019**

| | 2019 Budget | | 2019 IMF Projection | |
|---|---|---|---|---|
| | CFA billion | non-oil GDP (percent of) | CFA billion | non-oil GDP (percent of) |
| Non-oil Revenues | 887 | 34.1 | 763 | 29.3 |
| Grants | 28 | 1.1 | 28 | 1.1 |
| Primary Spending | 1443 | 55.4 | 1438 | 55.2 |
| o/w: Wages | 374 | 14.4 | 374 | 14.4 |
| Goods and Services | 188 | 7.2 | 188 | 7.2 |
| Transfers and Subsidies | 471 | 18.1 | 520 | 20.0 |
| Capital Spending | 293 | 11.3 | 293 | 11.3 |
| Non-Oil Primary Balance | -528 | -20.3 | -647 | -24.8 |

Source: Congolese authorities' data and IMF staff projections

[7] The oil refinery CORAF had received large levels of in-kind transfers (e.g. in crude oil) in 2017–18. These resources were used by the refinery for investment projects to increase their capacity. The completion of the investment projects, together with a performance plan to improve its operational efficiency, and the gradual adjustment of fuel prices will reduce the need for transfers to CORAF. These changes have affected the projected level of the basic non-oil primary balance, which excludes oil-related transfers, and is the operational target under the program.

[8] Transfers and subsidies include many categories of spending including transfers to the oil sector to support the government participation, transfers to semi-autonomous government entities, fuel and energy subsidies, and social transfers. Overall transfer levels rise with rising oil production and when the government does not adjust energy prices.

**20. Decisive efforts to boost non-oil revenues will be key.** Staff and the authorities agreed that a floor will be set on non-oil revenue (TMU ¶15). Policy discussions focused on specific measures that can help increase non-oil revenues by 5.9 percent of non-oil GDP in 2019 (MEFP ¶29) (Text Table 4). Increased revenue mobilization originates from three types of measures: (i) the strict implementation of new fiscal measures incorporated in the 2019 Budget, including the elimination of the reduced VAT rate for imports, reductions in the VAT threshold, and new provisions on excises, including on beverages and tobacco; (ii) administrative measures to strengthen tax compliance and collection of tax arrears, with a focus on compliance with existing conventions, the investment code, and taxation of refined oil imports; and (iii) other legislative measures, including telecommunication taxes of 10 percent on television subscriptions and a one-percent fee on e-transactions. Improvements in non-oil revenue mobilization would also reflect a gradual increase in fuel taxes after the government adopts a revised fuel price structure with higher taxes and automatic indexation mechanisms (structural benchmark for end-October 2019). The authorities' new pricing strategy will be guided by a study on the current fuel pricing mechanism completed with assistance from the AfDB (MEFP ¶29)**.** Should there be delays in the effective implementation (or actual tax collection results) of the revenue mobilization measures,[9] the authorities would likely need to adjust public investment, which is projected to expand by about 5¾ percent of non-oil GDP.

**Text Table 4. Republic of Congo: Estimated Yield of the 2019 Budget Revenue Measures**

| | CFA bn | Percent of Non-Oil GDP | Percent of Total |
|---|---|---|---|
| **I. Strict implementation of current regulations and System Adjustment** | **99.0** | **3.8** | **64.2** |
| I.1 Elimination of the reduced rate of VAT and reduction of the threshold for VAT liability (from 100 to 60 million FCFA) | 82.1 | 3.2 | 53.3 |
| I.2 Implementation of provisions on excise duties and the tax on beverages and tobacco | 7.7 | 0.3 | 5.0 |
| I.3 Implementation of the 2 percent rate of the TSS (Tax Special Societe) | 9.2 | 0.4 | 6.0 |
| **II. Strengthening tax and customs functions** | **53.4** | **2.1** | **34.6** |
| II.1 Strenghtening tax compliance | 16.2 | 0.6 | 10.5 |
| II.2 Tax Arrears collection (at least 60 percent) | 19.2 | 0.7 | 12.5 |
| II.3 Enforce audit rules and strenghten customs evaluation control | 18.0 | 0.7 | 11.7 |
| **III. Legislative measures** | **1.8** | **0.1** | **1.2** |
| III.1 Establishment of the TV fees | 0.6 | 0.0 | 0.4 |
| III.2 Establishment of a 1 percent fee on electronic transactions | 1.2 | 0.0 | 0.8 |
| **Total estimated impact** | **154.2** | **5.9** | **100.0** |

Sources: IMF staff estimation based on the discussion with Congolese authorities.

**21. Fiscal consolidation should also take into account the burden of adjustment on vulnerable groups (MEFP ¶31)**[10]. The budget envisages CFA 306 billion (4.7 percent of GDP) in

[9] Some of the tax measures have been identified in recent TA reports and the authorities have agreed with their implementation.

[10] The expansion of the cash transfer project has so far reached 10,000 families, below an initial target of 32,000 that has not yet been reached due to budget constraints. Together with the World Bank staff identified the additional efforts needed and proposed an expansion of social spending of about 0.8 percent of GDP.

social spending, including measures to mitigate the impact of the adjustment on vulnerable groups. CFA 50 billion associated with savings on oil transfers will be transferred to social spending and distributed between the Lisungi cash transfer system and other priority social programs, in health, education, and programs for women. Over the next 4 years, the Lisungi project will invest CFA 199 billion to expand coverage to 192,065 households, with a first effort to expand the program in 2019 (structural benchmark for end-December 2019). The authorities will also prioritize the early repayment of social sector arrears (especially pensions).

**22. The strategy also envisages plans to clear a large stock of domestic arrears.** At end-2018, the estimated stock was 986 billion CFAF (15 percent of 2018 GDP)[1]. This included (i) social arrears (pension contributions) of about CFAF 223bn, and (ii) arrears to government suppliers of about CFAF 528bn that had been accumulated over the 2014–16 period (Text Table 5). After an independent audit from Ernst and Young finalized in April 2019, about 3/4 of this stock was rejected due to irregularities, leaving a stock of audited commercial arrears from the 2014–16 period equivalent of CFAF 138bn. However, the authorities accumulated new arrears over the 2017–18 period, increasing the stock of arrears by an additional CFAF 626bn, of which CFAF 506bn to government suppliers and CFA 120 bn to public administration entities (floating checks unpaid for more than 90 days). This amount will now be subject to a new audit (structural benchmark for end-October 2019). The adoption of a credible plan to prioritize the repayment of social arrears (especially pensions) and resolve domestic arrears to government suppliers will be essential to protect basic income, support growth and preserve financial sector stability (Annex IV). This has become one of the most urgent economic priorities in the short term. The government strategy is to clear social arrears over 3 years, starting in 2019, and the rest of the arrears over five to seven years (MEFP ¶33).

**Text Table 5. Republic of Congo: Stock and Amortization of Domestic Arrears**

(Billions of CFA francs, unless otherwise indicated)

| | 2018 | | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|---|---|---|
| | stock | Percent of GDP | amortization flows | | | | | | |
| Audited arrears | 361 | 5.6 | 102 | 102 | 102 | 28 | 28 | 0 | 0 |
| Commercial | 138 | 2.1 | 28 | 28 | 28 | 28 | 28 | 0 | 0 |
| Social and pensions | 223 | 3.4 | 74 | 74 | 74 | 0 | 0 | 0 | 0 |
| Unaudited arrears | 626 | 9.7 | 74 | 107 | 128 | 144 | 138 | 18 | 17 |
| Government contractors/Suppliers | 506 | 7.8 | 57 | 90 | 110 | 126 | 121 | 1 | 0 |
| Budgetary float[2] | 120 | 1.9 | 17 | 17 | 17 | 17 | 17 | 17 | 17 |
| Annual repayment flows | … | … | 176 | 209 | 229 | 171 | 166 | 18 | 17 |
| Total stock of arrears | 986 | 15.2 | 810 | 601 | 372 | 201 | 35 | 17 | 0 |
| Memorandum item: | | | | | | | | | |
| Rejected claims[3] | 415 | 6.4 | | | | | | | |

Sources: Congolese authorities' data and IMF staff projections.

[1] Most of these arrears are associated with unpaid goods and services associated with the Ministry of Infrastructure and Public Work.

[2] Unpaid claims associated with payment orders not yet settled less than 90 days may have elapsed from the issuance of the payment order.

[3] Claim associated with infrastructure projects rejected by the authorities after an administrative review, due to errors of non-delivery of goods and services.

**23. These domestic arrears reflect delays in fiscal consolidation prior to 2018, severe cash constraints, and weak PFM practices**. While the result of the recent audit of domestic arrears suggest that a substantial part of the new arrears may be rejected due to accounting errors or irregularities, the authorities should also strengthen PFM controls to ensure that government ministries (especially the ministry of infrastructure) do not sign procurement contracts before the resources to honor the commitments have been properly secured. For example, the authorities have recently rejected, after an administrative review, gross claims related to public works for CFA 415bn or 6.4 percent of 2018 GDP. Rejecting payments for services that were not provided is appropriate, but the PFM and accounting system should have prevented the appearance of these claims in the first place.

### Debt Restructuring

**24. Public debt, including domestic arrears remains high.** Despite its considerable decline compared with 2017, total public debt is estimated at 87¾ percent of GDP in 2018, with external debt representing 61¾ percent of GDP (Table 7). A large share of external debt is owed to China (21.4 percent of GDP) and oil traders (16.4 percent of GDP). External payment arrears increased from CFAF 453 billion (US$817 million) at end-2017 to CFAF 520 billion (US$908 million) at end-2018 (Table 8), though this increase reflects the accumulation of arrears with oil traders as part of the government's debt restructuring strategy. Although total official arrears remain unchanged in 2018 compared with the previous year, post-HIPC official bilateral arrears increased from CFAF 33 billion (about $60 million) to about CFAF 75bn ($130 million).[11]

**25. The debt restructuring agreement concluded with China in April 2019 needs to be assessed together with a previous and much more limited debt reprofiling operation from February 2018.** The terms of the April 2019 debt restructuring agreement with China include: payment of 1/3 of the stock of debt over three years, and rescheduling of the remainder 67 percent through a 15-year extension of the repayment period and an average interest rate of about 1.7 percent (MEFP ¶33). Taken together, the two agreements play an important role in making progress toward restoring debt sustainability because they (i) reduce debt service during the program period by about $370 million, and hence provide critical program financing assurances; (ii) cut debt service immediately after the program (2023–28) by about half; and (iii) ensure a low and predictable stream of debt service payments (below 0.5 percent of GDP per year) for 15 years (2029–45).

**26. Despite the incorporation of these debt restructuring agreements into the baseline and the sizable fiscal adjustment described above, Congo's debt remains in distress and further efforts are needed to restore debt sustainability (DSA supplement).** The financing gap during the program period (2019–22) is estimated at about CFAF 1084 billion (about $1.9 billion) after the

[11] Pre-HIPC arrears with Saudi Arabia were restructured in 2018 according to HIPC terms. The authorities also informed staff that an agreement on pre-HIPC arrears with Russia had been reached. The remaining pre-HIPC arrears with Angola and the United Arab Emirates can be deemed away given the existence of a representative Paris Club debt restructuring agreement, and the fact that the authorities are engaged in best efforts to resolve them. The authorities have not accumulated post-HIPC arrears with these two countries.

fiscal adjustment and the incorporation of the recent debt restructuring agreement with China. This is a reduction of about 2/5 compared with the assumptions of the preliminary July 2018 Staff Report and reflects Congo's improved repayment capacity given higher oil production and prices. However, even after assuming concessional program loans to cover the gap, total public debt would remain above key thresholds throughout the program period (DSA supplement).

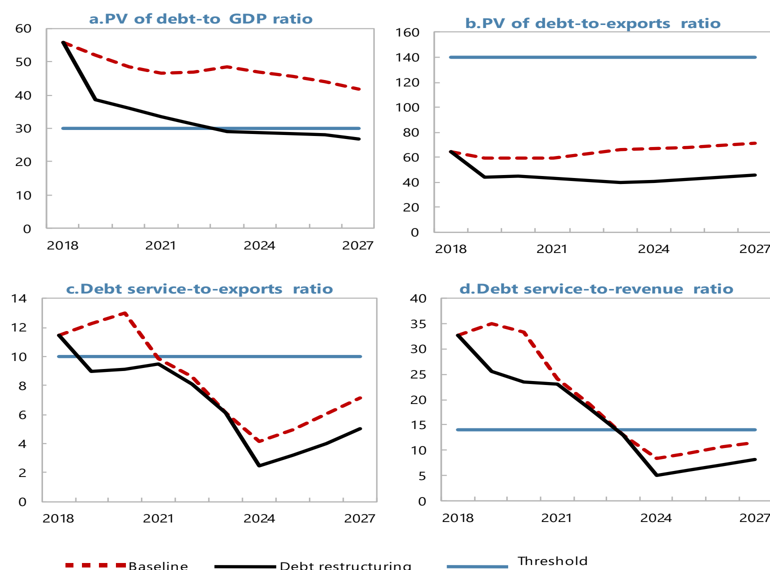
**27. As a result, the authorities are pursuing their efforts to restructure external commercial and domestic debt to achieve a moderate level of debt distress by 2023.** Operationally this will entail bringing all DSA indicators below their respective thresholds by 2023 (Text Figure 10). To achieve this objective, the authorities announced their intention to restructure their debt in April 2018 and have appointed legal and financial advisors. Despite the restructuring agreement with China, further debt restructuring involving external commercial and domestic debt will still be necessary to implement the authorities' strategy and restore debt sustainability. The authorities are committed to completing the restructuring of external commercial debt and domestic debt by the time of the first program review (MEFP ¶33). Their strategy is based on the following:

- External commercial creditors would receive a nominal haircut.
- Domestic debt (including domestic arrears but excluding BEAC advances, the regional bond and Treasury bills) would also take a nominal haircut, and be gradually repaid over the medium term. The domestic debt restructuring strategy depends on the operationalization of the results of the audit of domestic debt, which will define outstanding claims subject to the application of a discount factor due to their extrabudgetary nature or irregularities in PFM practices.
- Other official external creditors do not participate in the debt restructuring and would have their post-HIPC external arrears cleared before the first program review.

**28. Domestic debt would be subject to a restructuring process, with some exceptions.** In particular, the authorities have finalized an initial audit of domestic debt and adopted an arrears' repayment plan consistent with the program parameters. They plan to restructure domestic debt to restore overall debt sustainability in line with the government's financial capacity. The financing contribution from domestic creditors will be determined once the new audit of domestic debt is completed. Staff and authorities concurred that domestic restructuring should safeguard financial sector stability and vulnerable groups (Annex IV). Contingent liabilities threaten debt sustainability and are addressed upfront in the strategy.[12] Accordingly, the projections for government deposits include a buffer to pay debt service on these claims in the event these contingencies materialize.

[12] These contingent liabilities refer to liabilities stemming from Commisimpex debt and the stock of rejected domestic arrears.

**Text Figure 10. Republic of Congo: Indicators of Public and Publicly Guaranteed External Debt under a Potential Restructuring Scenario, 2018–27**




Sources: Congolese authorities; and IMF staff estimates and projections.
Note: The baseline scenario incorporates the debt restructuring deal with China.

**29. The restructuring of external commercial and domestic debt is crucial to regain medium-term debt sustainability and contribute to program financing.** The financing gap for the 2019–22 period amounts to CFA 1,084 (about $2bn; Text Table 6). Exceptional financing from debt restructuring is expected to cover about 42 percent of this gap. The restructuring strategy above would also succeed in bringing the present value (PV) of total public debt below 35 percent by 2025.

**Text Table 6. Republic of Congo: Program Financing, 2019–22**
(Billions of CFA francs)

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2019-22 |
|---|---|---|---|---|---|---|
| Financing gap | 362 | 411 | 245 | 66 | -35 | 1,084 |
| New external financing | 270 | 229 | 229 | 52 | 0 | 780 |
| World Bank | 57 | 57 | 56 | 0 | 0 | 171 |
| African Development Bank | 131 | 66 | 66 | 0 | 0 | 262 |
| France | 30 | 30 | 30 | 0 | 0 | 89 |
| IMF | 52 | 78 | 78 | 52 | 0 | 259 |
| Exceptional financing from debt restructuring | 132 | 220 | 52 | 50 | -1 | 454 |
| External creditors | 96 | 177 | 7 | 16 | -34 | 295 |
| Domestic creditors | 36 | 42 | 46 | 34 | 33 | 158 |
| Restructured contingent liabilities | -39 | -38 | -37 | -35 | -34 | -149 |
| Residual financing gap (- = overfinancing) | 0 | 0 | 0 | 0 | 0 | 0 |

Sources: Congolese authorities' data and IMF staff projections.

Note: 1 Measures the impact of the possible realization of contingent liabilities.

**30. Recent IMF TA recommendations to strengthen debt management should be implemented swiftly.** Efforts should focus on (i) bolstering the coordination role of the National Public Debt Committee (NPDC), including issuance of an opinion on any new debt project based on a DSA; (ii) improving compliance with CEMAC debt management guidelines, for example by annexing the debt management strategy to the finance law, and by ratifying loan agreements by the NPDC; and (iii) increasing training for the debt unit staff, including on debt sustainability analysis.

The March 2018 AFC TA mission helped the authorities update the legal texts establishing the NPDC and develop a draft manual of procedures. This manual was adopted by the National Public Debt Committee in May 2019 and specifies the obligation of all stakeholders to transmit all relevant information on debt to the Debt Unit (*Caisse Congolaise de l'Amortissement*). It also limits the ability of any entity to take on new debt outside of this framework. Once these reinforcements to central government debt management are finalized, staff will urge the authorities to aim for the timely publication of consolidated government debt statistics, including assets and liabilities of all state-owned enterprises, to improve the control of fiscal risks and program monitoring (MEFP ¶34). The program also establishes a zero limit on guaranteeing debt with future natural resource deliveries (including oil), prohibits pre-financing and oil-for-infrastructure barter arrangements, and limits borrowing to concessional loans.

## B. Structural Reforms

### Improving Governance and Transparency

**31. Strengthening economic governance and anti-corruption in Congo is a necessary precondition to achieve more inclusive growth (MEFP ¶38–45).** With assistance from Fund staff, the authorities prepared and published in June 2018 a diagnostic report on governance and corruption (prior action).[13] The report assesses governance and corruption vulnerabilities in line with the 2018 Board paper, in Rule of Law, PFM systems, Financial Sector Oversight, Market Regulation and Business Climate, AML/CFT and the Anti-Corruption Framework, and proposes an action plan with concrete and tailored measures. Staff will assist the authorities in monitoring this plan, including through the measures listed in Box 4 and other measures to strengthen financial sector oversight, improve the business climate, and enhance transparency.

**32. Despite some implementation delays, the authorities have taken a large number of measures to improve governance and transparency (Box 4)**. These measures include the submission to Parliament of reports on (i) SNPC's pre-financing arrangements, (ii) large investment projects implemented during 2014–17, and (iii) special oil-backed contracts with oil operators. The reports reveal weaknesses in the public investment management framework and in oil sector governance, including insufficient oversight of SNPC, opaque trading transactions with oil traders, and problematic oil-for-infrastructure barter arrangements with oil companies carried out on behalf of the state (Annex V). These operations have resulted in an inefficient use of public resources. Staff will also continue to engage the authorities on additional reforms to strengthen SOEs' governance, including measures to improve oversight and accountability over SNPC (Box 4) (MEFP ¶24). At the time of the first review, consideration will be given to the introduction of an explicit borrowing framework for SOEs (or at a minimum for SNPC), with limits both around the type and level of future borrowing. Staff will also urge the authorities to undertake a Fiscal Transparency Evaluation (FTE) with Fund assistance.

[13] The report applied the framework of the Fund Policy Paper *Review of 1997 Guidance Note on Governance — A proposed Framework for Enhanced Fund Engagement* (2018)

### Box 4. Recent Governance Reforms in the Republic of Congo

The Congolese authorities have recognized the need to radically improve governance and combat corruption. To this end, supported from the highest levels, they have embarked on a policy of "rupture" seeking to break with old shortcomings in this area. To address directly some of the key governance failures in the past, three of the prior actions for the program involved reporting to Parliament on key areas where governance failures had been observed, namely management of oil revenues, infrastructure spending and extrabudgetary contracting of debt. In 2017, the authorities requested Fund staff to assist them in conducting a diagnostic assessment of governance and corruption weaknesses. The diagnostic report was published in June 2018 and assesses the current state of governance and corruption vulnerabilities in line with the Fund's 2018 Enhanced Governance Framework, and sets out the authorities' proposed response to these findings, including timebound reform measures.

The authorities have taken key steps to improve governance in the oil sector. These steps include replacing senior management, the enactment of a law which requires annual external audit of the accounts of SNPC, placing SNPC under the tutelage of the Ministry of Hydrocarbons with a written contract setting out the functions SNPC performs for the state and the resumption of publication of reports prepared by KPMG reconciling oil revenues.

A cross-cutting weakness identified was a broad lack of transparency including in relation to government operations and fiscal information. While a 2017 law provides for extensive access to information and requires the government to publish critical information, this law had not been made operational. In May 2019, the authorities passed a law to establish the committee necessary to conduct oversight over the implementation of the transparency law. This committee of 11 members includes 6 members drawn from CSOs, specialized professions and the press. The passage of an implementing decree to operationalize this committee, and thereby the underlying transparency law, is proposed as a structural benchmark for end-September 2019.

On the formal anti-corruption infrastructure, in February 2019 the authorities enacted a law which creates a new, independent anti-corruption commission with investigative powers. Once the necessary implementing decree is adopted (proposed end-September 2019 structural benchmark), the new anti-corruption commission will have a broad mandate to formulate and coordinate implementation of an anti-corruption strategy for Congo and to investigate corruption. The prosecution service will be obliged to act on information provided to it by the anti-corruption agency. The authorities have also committed to the amendment of their existing anti-corruption law to ensure full compliance with the UNCAC (proposed end-March 2020 structural benchmark).

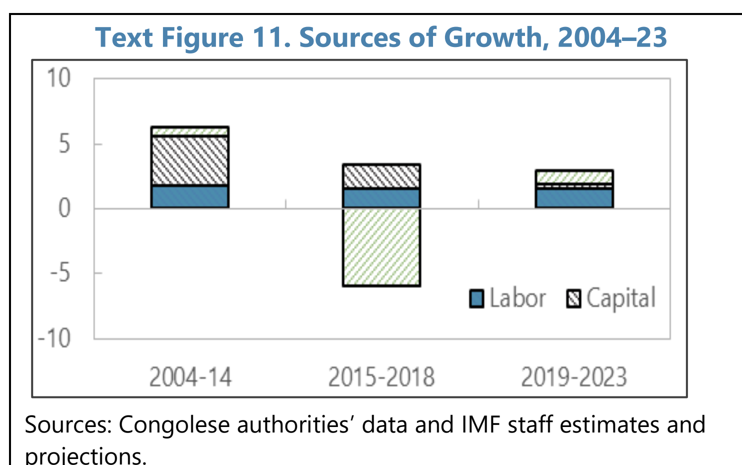
A constitutional requirement for senior government officials to disclose their assets has for a number of years not been operationalized. To remedy this, in February 2019 the authorities enacted a law requiring such disclosures. While there remains significant room for improvement in respect of the provisions of this law, the operationalization of this constitutional requirement represents progress. The authorities are committed to work with staff in the future to address the shortcomings identified in the asset disclosure law, which should provide a powerful complement to the authorities' broader anti-corruption efforts. The law could be improved to expand the scope of information to be provided (e.g. including intangible assets), the purchase date and value of assets, assets that are beneficially owned, assets that are owned independently by the declarant's immediate family, or the value and sources of the declarant's income.

**33. The authorities will take measures to strengthen the PFM system and revamp the public investment framework.**[14] In this regard, they plan to (i) conduct a Public Expenditure Tracking Survey (PETS) of 2014–18 projects, in consultation with the World Bank, to identify losses in investment processes, (ii) conduct a Public Investment Management Assessment (PIMA) to strengthen the public investment management framework, (iii) develop a pipeline of projects ranked by priority based on adequate feasibility studies and cost-benefit analysis (with assistance from the African Development Bank), and (iv) end the practice of supplier-lender procurement by dissociating the negotiation and signing of loan agreements from the awarding of contracts to ensure a more competitive tendering process. At the time of the first review, staff will urge the authorities to strengthen external controls by adopting a law on the organization and functions of the supreme audit institution of Congo (*Cour des Comptes et Discipline Budgétaire*, CCDB) as well as its implementing regulations.[15]

## Promoting Diversification and More Inclusive Growth

**34. Medium-term program discussions focused on policies to return growth to potential and shift its driving force from factor accumulation to factor productivity**. For the past three decades, non-oil growth was driven by the accumulation of capital stock and labor (Annex III). Capital in the non-oil sector accounted for almost half of total growth in 2004–14, sustained by record-high public investment (Text Figure 11). The stock of almost tripled, but negative TFP growth held back non-oil growth. Sustaining growth while restoring debt sustainability will require boosting productivity, including through far-reaching governance reforms (Annex V). This shift to productivity-led growth is consistent with policies advocated in the economic and financial program of the CEMAC zone (PREF-CEMAC) and the draft PND 2018–22. The main objective is to restore non-oil growth back to its potential rate by boosting human capital and productivity through diversifying the economy with priority given to agriculture, tourism, and industry (MEFP ¶50–51). Business-friendly reforms should focus on areas where Congo fares poorly (Text Figure 12) (MEFP ¶13).

**Text Figure 11. Sources of Growth, 2004–23**




Sources: Congolese authorities' data and IMF staff estimates and projections.

[14] Additional medium-term PFM measures are outlined in recommendations from the 2014 Public Expenditure and Financial Accountability (PEFA), 2015 Public Expenditure Management and Financial Accountability Review (PEMFAR), IMF TA reports, the authorities' medium-term governance strategy in the RGC (2018), and annex V.

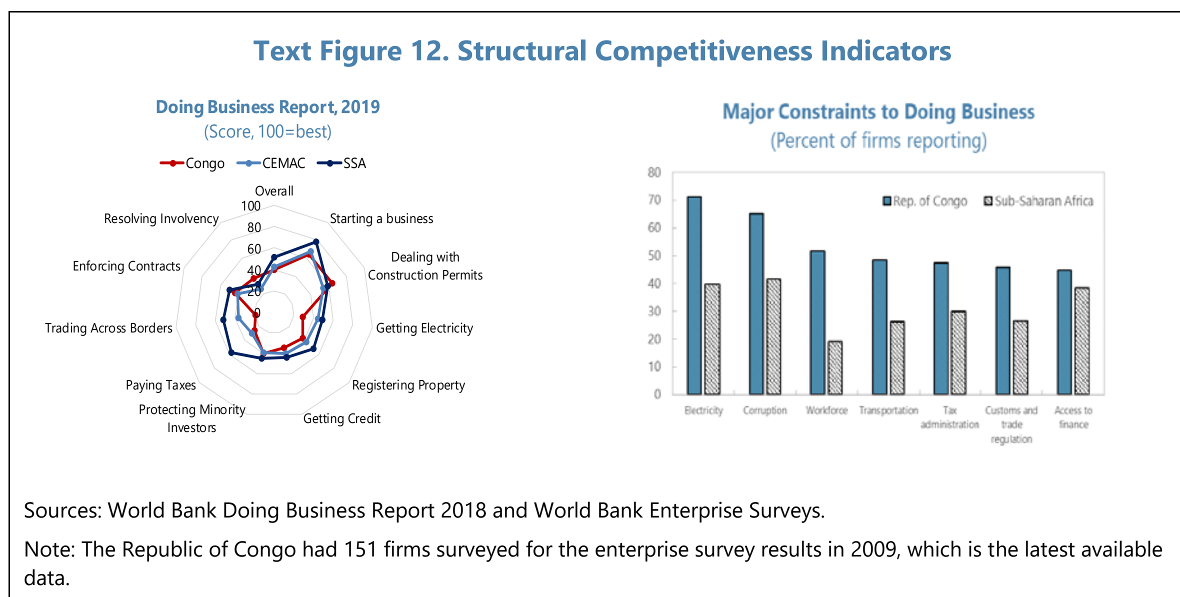
[15] The authorities plan to request TA from FAD on the Expenditure Assessment Tool to link spending and outcomes.

**35. The Fund-supported program emphasizes educational quality and medical care, a more effective social safety net, and stronger participation by women** (MEFP ¶31). In particular,

- Policies in the education sector will aim to provide universal basic education and amend curricula to better match the demand for skills from the private sector. The focus on pre-tertiary education is sound and consistent with Congo's level of development and the needs of its private sector.
- In the health sector, the authorities plan to finalize the construction of 14 district hospitals, and introduce performance-based financing to expand access to health services and increase government accountability. Staff advised prioritizing efficiency-enhancing measures and to gradually resume infrastructure building as capable medical personnel are identified to operate the facilities.
- Other social policies aim to improve use of health and education services for children, the elderly, and the poorest households. Staff also supports the government's intention to expand the social safety net for poor households and the allocation of budgetary resources to support women (i.e. training centers, combating gender-based violence, etc.).

**36. The government's National Development Plan (PND) also places the agricultural and energy sectors at the center of the economic diversification strategy**. In the agricultural sector, the government aims to modernize family farming and promote agribusiness, including by facilitating market access of small producers' organizations (MEFP ¶51). In the energy sector, the government intends to improve the sector's operational and commercial performance through reforming public service provision and the regulatory framework (MEFP ¶52). With respect to the business environment in other sectors, the authorities have already started simplifying procedures and reducing informal payments to start a business, pay taxes, trade across borders, register property and obtain building permits. They also intend to reduce and regularize parafiscal taxes, establish a single servicing point for property transactions and strengthen public records, including through computerization.

**37. The authorities are also taking steps to reduce gender gaps.** In particular, the 2019 budget envisages (i) the construction of rehabilitation centers for women and girls who have been victims of violence, (ii) economic empowerment of women through support for women's savings banks (including the promotion of income-generating activities for child mothers), and (iii) implementation of active gender policies, with an emphasis on combatting gender-based violence and support for HIV/AIDS prevention (MEFP ¶31).




**Text Figure 12. Structural Competitiveness Indicators**

Sources: World Bank Doing Business Report 2018 and World Bank Enterprise Surveys.

Note: The Republic of Congo had 151 firms surveyed for the enterprise survey results in 2009, which is the latest available data.

## Strengthening the Financial Sector

**38. Addressing weak banks and the high non-performing loans (NPLs) is essential to maintain financial sector stability**. The banking system remains solvent overall, despite liquidity tensions and rising NPLs (Annex IV). The overall solvency ratio is above the regulatory minimum, thanks to capital increases by large banks to stem the impact of the crisis on their balance sheet. The authorities will adopt a strategy for the orderly restructuring or resolution of the weakest banks, in consultation with COBAC (MEFP ¶35). Absent investors' interest for the insolvent bank, it will be liquidated without injection of public resources.[16] Insured depositors will be protected via the deposit insurance scheme (FOGADAC). A timely resolution—by end-September 2019—is important to support enhanced regional supervision and governance. Staff also supports the authorities' plan to reduce NPLs by facilitating the clearance of domestic arrears after their restructuring, and a sound implementation of the proposed Fund-supported program to prevent new arrears.

**39. The development of the financial sector will support economic diversification and inclusiveness.** Staff encouraged the authorities to develop a financial sector development strategy, in close collaboration with the regional authorities, and seek support from their external partners for its implementation. In the meantime, the authorities should accelerate the implementation of credit and collateral registries, strengthen the capacity of the legal and judicial systems to address financial litigation, and further encourage the development of microfinance and mobile banking. This will help reduce the currently large collateral requirements and own capital contributions to obtain a loan.

[16] Annex IV estimates that recapitalization needs of insolvent banks in the case of large haircuts on government claims on the private sector could reach 1.6 percent of GDP.

### Improving Data and Statistics

**40. Persistent efforts to enhance transparency are necessary to strengthen policy making, foster efficiency and improve accountability.** Systematic data publication will make the government more accountable and improve public officials' incentives to comply with existing laws and regulations. Staff stressed that anchoring the credibility of the authorities' governance strategy requires regularly informing the public on the management of oil resources, oil-backed debts, and public investment during the previous oil price boom (Box 4 and ¶43).

**41. The government is working to improve the quality, timeliness, and publication of macroeconomic statistics.** A critical need in this regard is the establishment of a government website with reliable public access (MEFP ¶40). The authorities have already published new data series to monitor economic activity and increase transparency.[17] Staff urged the adoption and implementation of the emergency plan for the improvement of statistical systems. This plan involves reforms to improve data collection capabilities and ensure regular publication of sound statistics. It requires strengthening the mandate of the National Institute of Statistics and that of other statistics agencies. The government is receiving technical and financial support from the World Bank through the Statistical Capacity Building Project (PSTAT). It has also sought assistance from the IMF's Statistics Department to carry out a comprehensive review of the statistical system that could inform an action plan to correct the identified weaknesses.

## PROGRAM MODALITIES, SAFEGUARDS AND RISKS

**42. The authorities have requested a 36-month arrangement under the Extended Credit Facility (ECF), with access set at SDR 324 million (200 percent of quota).** The level of access is justified by the size and protracted nature of the BOP need, the strength of the proposed program, and Congo's capacity to repay the Fund.

- The oil price shock contributed to a large and protracted balance of payments need of US$1.91 billion over 2019–22. Despite the projected increase in oil production, revenues would remain relatively weak by historical levels, and further fiscal adjustment would be undesirable given weak economic activity and the need to protect basic social programs.
- The authorities have delivered and are committed to continuing with a strong, frontloaded fiscal adjustment, and bold structural reforms. Quantitative conditionality is described in Table 11, and Appendix 1, Table 1 and the TMU. Structural conditionality is in Tables 12 and 13.
- Congo's capacity to repay the Fund is adequate. It has implemented eight Fund-supported programs, and its track record of repaying the Fund is good, with SDR 2.42 million outstanding as of end-May 2019. Congo's debt service to the IMF as a share of its export of

[17] These include: the monthly inflation rate and quarterly projections for government finance statistics, as well as quarterly outturns on the domestic and external debt stock and debt service.

goods and services will peak in 2026 at 4.9 percent before declining to 0.1 percent in 2031 (Table 10).

**43. Fund support would help catalyze international assistance, including through the debt restructuring and close the program financing gap**. Access under the proposed ECF arrangement will cover 24 percent of the projected external financing gap over 2019–22, and about one-third of new external financing. Another 48 percent of the financing gap would be filled by other multilateral and bilateral partners (the World Bank, the African Development Bank, and France). The remainder of the financing gap (28 percent) will be covered by debt restructuring (Annex I). For the first year of the program, firm commitments of full program financing are in place. Good prospects for full program financing exist for the remainder of the program period. Coordination between the Fund and other multilateral partners would help ensure complementarity, and avoid policy overlaps. As Congo has external arrears to its official and commercial creditors, a financing assurances review will need to be completed at each review of the ECF-arrangement.

**44. The authorities have implemented all prior actions, in two rounds.** In the first round (before July 2018), the government (i) adopted on December 27, 2017 a 2018 budget in line with the program, (ii) published on June 19, 2018 a diagnostic study on governance and corruption issues, prepared with assistance from IMF staff, and (iii) on June 18, 2018 submitted to Parliament a draft amendment to the law establishing the SNPC to make obligatory the publication of its audited financial statements and that of its subsidiaries. In the second round (before end-May 2019), the authorities submitted three distinct reports to Parliament on SNPC's pre-financing agreements with oil traders, large infrastructure projects between 2014–17, and special agreements with oil operators to finance infrastructure through in-kind payments. They also published oil reconciliation reports audited by KPMG.

**45. Program implementation risks are significant, though manageable.** The authorities' implementation capacity is good, as demonstrated by the recent track record of fiscal consolidation and the implementation of structural reforms. It will also be supported by a medium-term capacity building strategy developed jointly with staff.

- The most serious implementation risk is faltering commitment to much-needed governance reforms. In addition, the government may find it difficult to maintain high fiscal surpluses over time. These risks are mitigated by Congo's historical capacity to maintain high primary surpluses, and the backloaded access profile.
- In addition, the fact that a large share of the fiscal adjustment and structural reforms has already been implemented during the pre-program period, mitigates risks associated with potential weariness in the implementation of the program. Staff and the authorities discussed contingent measures such as additional expenditure consolidation on goods and services and nonsocial transfers to address possible revenue shortfalls.
- The program includes adjustors to ensure achievement of program objectives in case of deviations in oil or privatization receipts, and net external assistance (TMU ¶25–26). Delays in

delivering the debt relief committed under the restructuring and more generally slippages in the conduct of the debt restructuring are additional risks to the program. Discussions covered also measures to address possible domestic debt surprises (Box 5).

**46. A credible process is in progress to complete Congo's debt restructuring and help restore debt sustainability.** The conclusion of a debt restructuring agreement with China,[18] combined with the authorities' plans to restructure external commercial debt will bring debt service within program parameters. In respect of external commercial debt, the authorities are assisted by their legal and financial advisors and continue to implement their debt restructuring strategy publicly announced in April 2018. In particular, they have shared information with their external commercial creditors and held several rounds of "good faith" negotiations with their creditors, primarily the oil traders. A restructuring of the external commercial debt in line with program parameters should restore Congo's debt sustainability.

**47. Congo has external arrears to official and commercial creditors, which it intends to resolve, including in the context of the debt restructuring**. External official and commercial arrears amounted to about US$0.9 billion as of end-May 2019, of which US$494 million pre-date the HIPC Completion point[19], which Congo is making best efforts to resolve. The remainder (about US$414 million) arose due to the fiscal difficulties associated with the 2014 fall in oil prices. In particular,

- *The authorities have credible plans to clear the US$13.3 million arrears to multilateral and plurilateral institutions over the program period.*[20] In addition, the authorities are resolving post-HIPC official arrears to Paris Club bilateral creditors (US$129.6 million), and other official bilateral creditors (US$31.2 million). Creditors have provided consent for the provision of Fund financing notwithstanding these official arrears, which the authorities intend to resolve before the first review.[21]

- *In line with the Fund's Lending-into-Arrears Policy, staff has ascertained that the Republic of Congo is making good faith efforts to reach a collaborative agreement with its commercial creditors.* Arrears to commercial creditors amount to US$240.4 million and the authorities have sent letters and shared relevant information regarding their financial difficulties. They have also provided creditors with an opportunity to give inputs on their strategy to clear commercial arrears. As prompt Fund financial support is considered essential for the successful implementation of the Congo's program and Congo is pursuing appropriate

[18] The debt restructuring agreement concluded with China was ratified by the Congolese parliament in May 2019.

[19] The authorities continue to pursue best efforts to restructure these arrears, as demonstrated by the conclusion of recent agreements with Saudi Arabia and Russia.

[20] These include the Arab Bank for Economic Development in Africa, the European Economic Commission, the European Development Fund, the European Investment Bank, the Development Bank of Central African States, and the Organization of the Petroleum Exporting Countries.

[21] These creditors are Brazil, Belgium, France, Switzerland, Russia, India, Turkey, and Saudi Arabia. India, Turkey and Saudi Arabia provided consent through their Executive Directors. Paris Club members expressed that they would provide consent to the provision of Fund financing notwithstanding arrears at the Paris Club meeting of June 17th, and staff has contacted individual members through their Executive Directors to confirm.

policies, the Fund may provide financing to Congo notwithstanding its external arrears to commercial creditors.

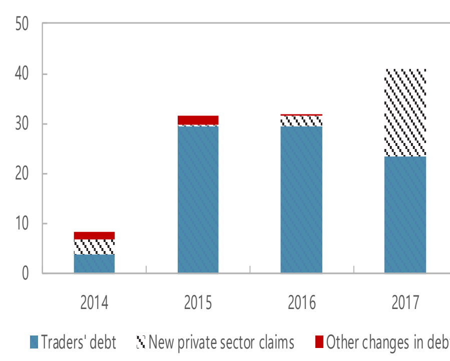
**48. The BEAC and COBAC have pursued the implementation of their policy commitments and the BEAC has provided an updated policy assurance on end-December 2019 NFAs in support of CEMAC countries' Fund-supported programs**. With regard to existing policy assurances, the BEAC submitted new foreign exchange regulations to the UMAC ministerial committee and operationalized the new monetary policy framework by end-2018. In addition, the end-2018 regional policy assurance on NFAs was exceeded. In its updated letter of policy support, the BEAC presented a revised projection for the end-December 2019 NFAs, and also reiterated its commitment to implement an adequately tight monetary policy to achieve the NFA projections, while member states will implement adjustment policies in the context of IMF-supported programs. The NFA assurances provided by the BEAC are critical for the success of the Republic of Congo's program and will help bolster the region's external sustainability.

**49. In addition, the BEAC continues to implement the remaining recommendations of the 2017 safeguards assessment**. BEAC's full transition to IFRS for FY 2019 is progressing broadly as planned, and efforts are being stepped up to accelerate the revisions to the secondary legal instruments for alignment with the BEAC Charter. The adoption of the revised secondary legislations was extended beyond the initial timeline (June 2018) to allow for further consultation with stakeholders, including IMF staff.

## Box 5. Addressing Debt Surprises

**There were significant changes in debt information and fiscal accounts during program negotiations**. The changes in debt resulted from the disclosure by the authorities in June 2017 of (i) US$2.3 billion of an outstanding stock of oil-backed pre-financing arrangements; (ii) new domestic private sector claims of US$3.2 billion, of which US$1.4 billion were later rejected by the authorities; and (iii) about US$½ billion equivalent in annual withholdings of government oil every year—not reported in government finance statistics until April 2018—to pay oil companies for infrastructure they built and other transactions. All the changes in oil-related debt stocks result from work to reconcile the valuation of the government's share in oil from the production sharing agreements with the oil revenue collected by the treasury. In addition to the changes in debt stock and related underreporting of government oil revenue to service the debt, the oil reconciliation exercise identified additional revenue (about US$250 million every year) previously not reported in fiscal data, along with the matching uses, which include transfers to the oil refinery for investment or to keep fuel prices low,

**Box 5 Figure 1. Debt Surprises**
(Cumulative, percent of GDP)

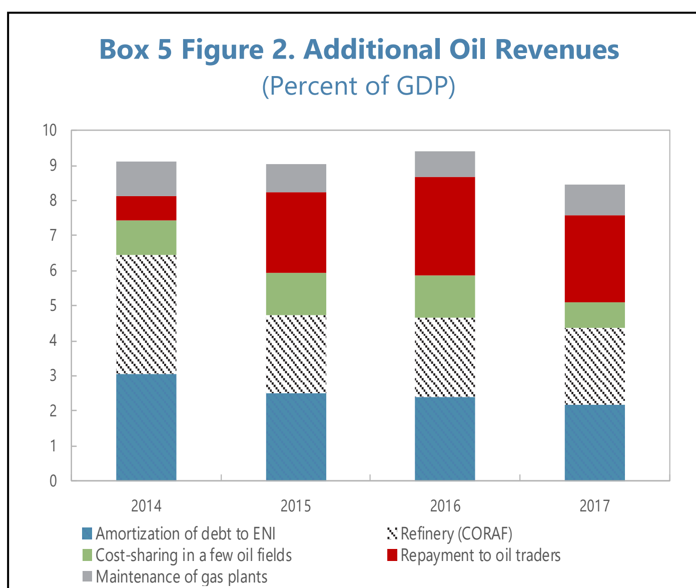


**Box 5. Addressing Debt Surprises** (concluded)

and payments of the government's share in the operating costs of five oil fields where it participates. The authorities felt these transactions should not be in fiscal accounts as they are not cash operations, and because the loans from traders were contracted by SNPC and not directly the government. Weak PFM practices and the absence of a centralized debt management framework had also led to deficiencies in the reporting of contracted debt by government administrations.

**The authorities are pursuing a stocktaking exercise to properly identify domestic claims**. First, they cooperated with Fund staff to complete an oil reconciliation exercise. In addition, they completed an audit of domestic arrears accumulated over 2014–16, and they agreed to complete by October 2019 another audit for arrears accumulated in 2017–18. They have also completed an inventory of special agreements with oil companies giving them rights on government oil, and included all special agreements in the scope of the debt restructuring. Finally, to improve debt reporting, the government adopted in May 2019 a manual on debt procedures which specifies the obligation of all stakeholders to transmit all relevant debt information to the Debt Unit (CCA).

**Box 5 Figure 2. Additional Oil Revenues**
(Percent of GDP)




**The authorities also agreed to refrain from contracting new pre-financing agreements and oil-for-infrastructure barter arrangements**. They will also formulate proposals for domestic debt restructuring once the government approves a final timetable for the repayment of domestic debt, based on the results of the new audit of domestic arrears. The authorities also agreed to increase fiscal consolidation efforts in case new debt surprises or contingent liabilities were to materialize.

# STAFF APPRAISAL

**50. Over the last year, the authorities have taken decisive steps to improve governance and place public finances on a sustainable path**. While the initial response to the crisis was slow and raised issues of weak governance and transparency, recent reform efforts suggest that there is political will to break with the past. The turnaround in public finances in 2018 was particularly

impressive, and public debt declined by 30 percent of GDP, though this also includes the effect of relatively favorable developments in oil production and prices.

**51. The economic recovery in the short term will depend on the steady implementation of the program**. The authorities are to be commended for their efforts to address a number of complex issues, including the approval and execution of a prudent budget for 2019, the pursuit of a large number of structural reforms, and the recent conclusion of a debt restructuring agreement with China. Pursuing fiscal consolidation, including through decisive efforts to boost non-oil revenues will be key to protect development spending (i.e. public investment and critical social programs). The authorities should also ensure that vulnerable groups are adequately protected from the adjustment through the effective execution of the higher social spending levels defined with support from IMF and World Bank staff. Special attention should also be paid to active policies designed to reduce gender gaps, including through the protection of expenditures for the construction of rehabilitation centers for victims of violence, the focus on income-generating activities for young mothers, and support for HIV/AIDS prevention.

**52. Staff welcome recent reforms to improve governance and transparency but further action will be needed.** The number of reforms that has been recently implemented is impressive. However, these efforts have only partially changed years of weak economic management and a poor historical record on governance and transparency. The authorities should ensure that recent laws, including on asset declarations and the anti-corruption commission, are operationalized quickly, while also ensuring that these laws are in line with the applicable international standards and best practices. This will ensure that reforms are not restricted to legal texts but are also implemented effectively and produce lasting change. Communication with the public and civil society will be particularly important to increase confidence and ensure adequate legitimacy for the reforms. After Parliament has a chance to examine them, the reports on large infrastructure projects, pre-financing agreements concluded by SNPC and special agreements to finance infrastructure with in-kind payments should be published.

**53. Amidst weak private sector confidence, the government faces the difficult challenge of reigniting growth while keeping spending under check**. Addressing that challenge will require determined policy action and a clear communication strategy to ensure broad support for the authorities' reform efforts. The economic challenge is complex, and risks are elevated given volatile oil prices, and the fact that growth will need to be reignited without a countercyclical stimulus to boost demand. As a result, the authorities should focus on enhancing productivity, including by improving access to health services and boosting investments in vocational training. They should also engage with the private sector and communicate their plan to resolve domestic arrears and improve the business environment. This can help boost confidence and preserve financial stability.

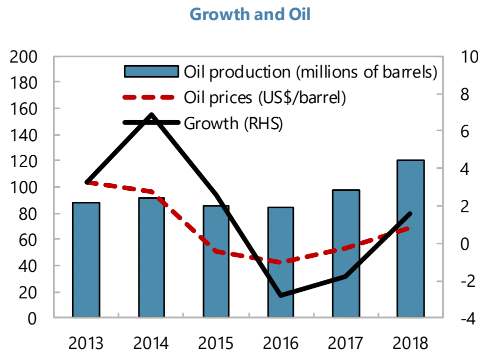
**54. Despite its recent decline, debt remains unsustainable and further progress on the restructuring of commercial debt will be needed.** The authorities need to pursue good faith efforts to restructure their commercial debt, especially with oil traders, considering Congo's financial capacity and the program objectives. This debt is costly and should be restructured before the first review. In the run up to the signature of a debt restructuring agreement, the government has

indicated that it would deposit resources in an escrow account and keep them available to repay creditors on demand after the restructuring. With assistance from its debt advisors, the government should develop a strategy to resolve all residual uncertainties on its debt in the context of the overall debt restructuring. The authorities should refrain from contracting new non-concessional loans before the sustainability of public finances has been unequivocally restored. In addition, there is an urgent need to strengthen public debt and asset management (DSA supplement; ¶14 and ¶16).

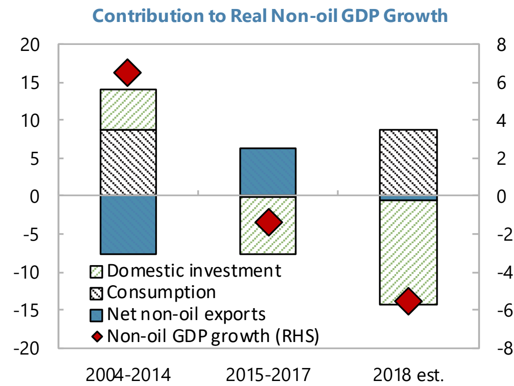
**55. Based on the strength of the program and the adequate implementation of the regional policy assurances, staff supports the authorities' request for assistance under the ECF in the amount of 200 percent of quota**. The ECF arrangement will allow Congo to strike an appropriate balance between adjustment and financing. Congo is a fragile state and there remain considerable risks of political instability during the program if governance reforms do not translate into higher support from the population. In addition, the country remains vulnerable to new declines in international oil prices, which would reduce government revenue and complicate the restoration of debt sustainability. It is critical that the authorities follow through on their commitment to improve governance in order to mitigate these risks. Staff proposes that completion of the first review under the ECF review be conditional on the implementation of critical policy assurances at the union level, as established in the June 2019 union-wide background paper.

## Figure 1. Republic of Congo: Recent Economic Developments

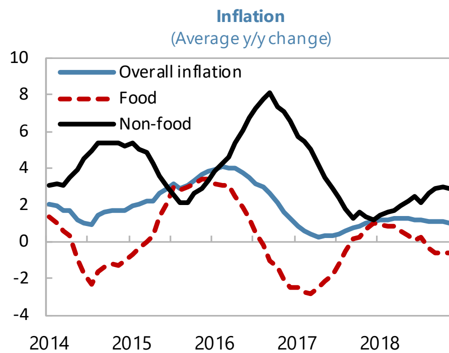
*a. Overall growth is improving thanks to higher oil production and prices…*



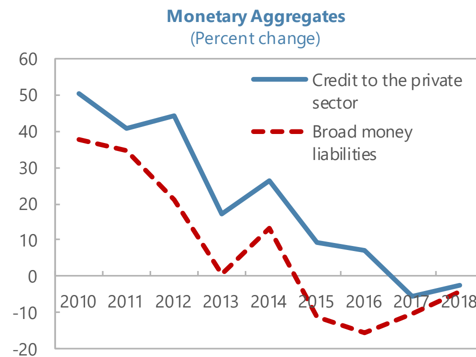

*b. But the non-oil economy is still in recession…*



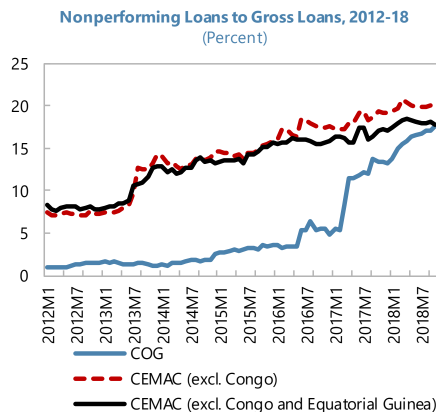

*c. And inflation remains subdued.*



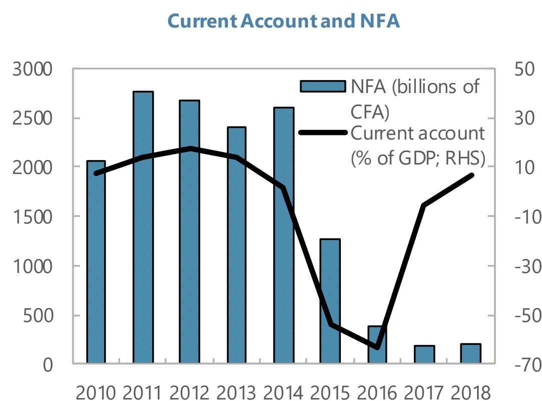

*d. In a context of tight monetary conditions and private sector credit contraction…*




*e. Banking sector vulnerabilities are increasing with NPLs rising since 2016…*



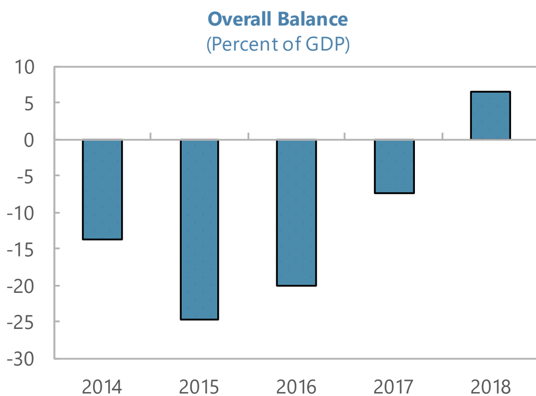

*f. And NFAs are declining despite an improving current account balance.*



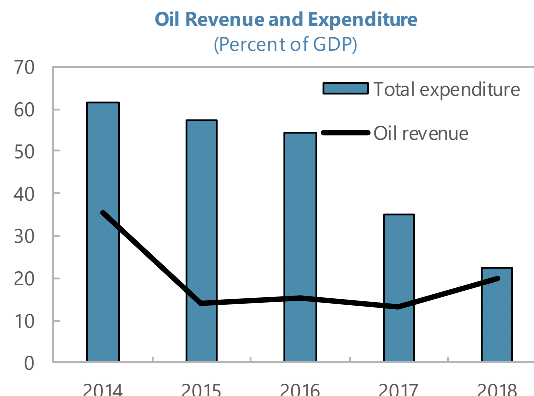

Sources: Congolese authorities, BEAC, and IMF staff calculations.

## Figure 1. Republic of Congo: Recent Economic Developments (concluded)

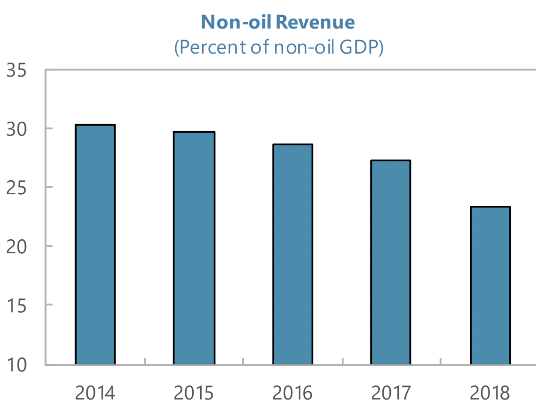
*a. The overall fiscal balance has recently improved, achieving a large overall fiscal surplus…*



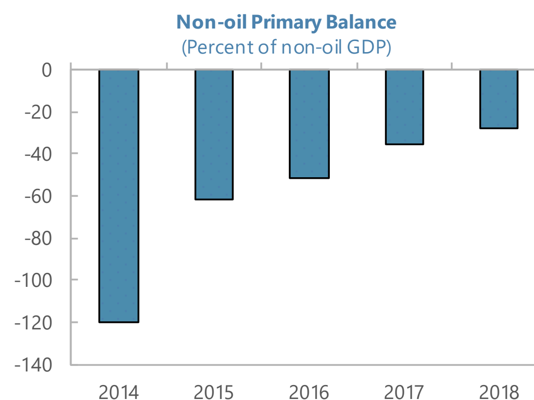

*b. Thanks to reductions in spending levels and recent increases in oil revenues.*



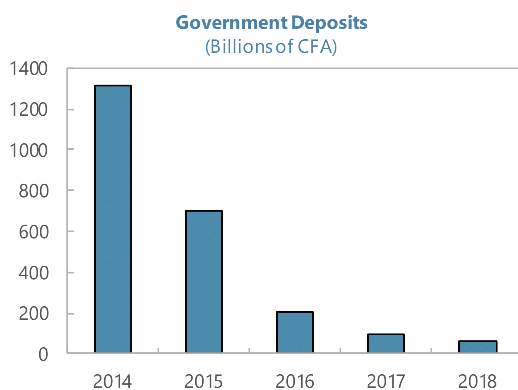

*c. Non-oil revenues have declined substantially…*



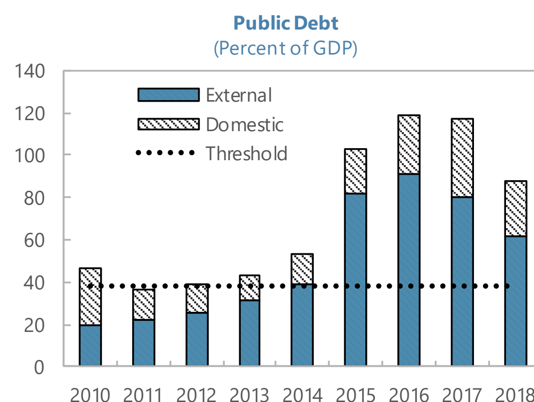

*d. But the non-oil primary balance has improved thanks to efforts to contain spending*




*e. Government deposits have declined to low levels…*




*f. And public debt remains unsustainable, despite a large decline in 2018.*




Sources: Congolese authorities, BEAC, and IMF staff calculations.

## Table 1. Republic of Congo: Selected Economic and Financial Indicators, 2016–23

| | 2016 | 2017 | 2018 | | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|---|---|
| | | | Prel. July 2018 SR | Prel. | Proj. | Proj. | Proj. | Proj. | Proj. |
| | (Annual percentage change unless otherwise indicated) | | | | | | | | |
| **Production and prices** | | | | | | | | | |
| GDP at constant prices | -2.8 | -1.8 | 2.0 | 1.6 | 5.4 | 1.6 | 1.9 | 0.1 | 1.3 |
| Oil | -1.5 | 15.3 | 24.8 | 23.9 | 15.8 | -0.3 | -1.6 | -8.8 | -6.1 |
| Non-oil | -3.2 | -6.2 | -5.4 | -5.5 | 1.0 | 2.5 | 3.6 | 4.0 | 4.1 |
| GDP at current prices | -8.7 | 12.4 | 13.7 | 24.8 | 0.8 | 0.8 | 0.5 | -2.7 | 0.3 |
| GDP deflator | -6.1 | 14.4 | 11.5 | 22.9 | -4.3 | -0.8 | -1.4 | -2.8 | -1.0 |
| Consumer prices (period average) | 3.2 | 0.4 | 1.6 | 1.2 | 1.5 | 1.8 | 2.6 | 2.8 | 3.0 |
| Consumer prices (end of period) | 0.0 | 1.8 | 1.7 | 0.9 | 2.0 | 2.5 | 2.7 | 3.0 | 3.0 |
| **External sector** | | | | | | | | | |
| Exports, f.o.b. | -6.7 | 38.2 | 29.7 | 44.6 | 0.7 | -1.8 | -2.5 | -7.2 | -2.6 |
| Imports, f.o.b. | 11.2 | -43.2 | -3.7 | 5.0 | 2.2 | 3.1 | 3.8 | 1.1 | 0.3 |
| Export volume | -14.5 | 29.1 | 22.0 | 28.4 | 14.6 | -1.0 | -1.9 | -9.7 | -7.4 |
| Import volume | 0.1 | -37.6 | -1.3 | 5.9 | 5.6 | 1.2 | 2.5 | 0.6 | -0.5 |
| Terms of trade (deterioration - ) | -5.5 | 9.6 | 8.8 | 13.4 | -8.9 | -2.7 | -2.0 | 2.4 | 4.4 |
| Current account balance (percent of GDP) | -63.5 | -5.9 | 4.2 | 6.7 | 5.6 | 5.1 | 1.6 | -1.4 | -1.9 |
| Net foreign assets | -69.1 | -54.2 | 166.3 | 12.3 | 57.5 | 69.1 | 41.0 | 9.1 | 7.4 |
| External public debt (percent of GDP) | 91.4 | 80.0 | 72.9 | 61.3 | 58.1 | 56.6 | 55.5 | 54.2 | 52 |
| **Monetary sector** | | | | | | | | | |
| Broad money | -15.4 | -10.4 | 13.0 | -4.0 | 7.5 | 9.4 | 12.2 | 3.4 | 2.7 |
| Credit to the private sector | 7.1 | -5.4 | -1.1 | -2.7 | 2.6 | 4.8 | 6.8 | 7.5 | 7.8 |
| Credit to private sector (percent of non-oil GDP) | 42.6 | 45.0 | 46.9 | 44.6 | 44.8 | 45.0 | 45.2 | 45.4 | 45.5 |
| | (Percent of GDP) | | | | | | | | |
| **Investment and saving** | | | | | | | | | |
| Gross national saving | -7.0 | 23.9 | 23.3 | 23.8 | 26.4 | 27.7 | 26.1 | 25.7 | 27.2 |
| Public | 9.8 | 1.6 | 12.6 | 9.2 | 12.7 | 13.7 | 14.2 | 15.0 | 14.7 |
| Private | -16.8 | 22.3 | 10.6 | 14.6 | 13.7 | 14.0 | 11.9 | 10.7 | 12.5 |
| Gross investment | 56.5 | 29.8 | 19.0 | 17.1 | 20.9 | 22.6 | 24.5 | 27.1 | 29.1 |
| Public | 15.5 | 7.9 | 4.6 | 2.2 | 4.5 | 5.4 | 6.0 | 6.5 | 6.8 |
| Private | 41.0 | 21.9 | 14.5 | 14.9 | 16.4 | 17.2 | 18.5 | 20.3 | 22.1 |
| | (Percent of non-oil GDP, unless otherwise indicated) | | | | | | | | |
| **Central government finances** | | | | | | | | | |
| Total revenue | 54.1 | 53.6 | 79.1 | 74.2 | 78.7 | 77.7 | 74.8 | 71.2 | 67.5 |
| Oil revenue | 24.1 | 25.2 | 47.4 | 50.6 | 48.3 | 43.8 | 40.7 | 35.9 | 32.0 |
| Nonoil revenue (including grants) | 28.6 | 28.4 | 31.7 | 23.6 | 30.4 | 33.9 | 34.1 | 35.3 | 35.5 |
| Total expenditure and net lending | 85.9 | 67.8 | 62.9 | 57.4 | 59.8 | 59.2 | 57.4 | 54.8 | 53.3 |
| Current | 46.8 | 48.4 | 52.5 | 51.9 | 48.5 | 46.1 | 43.7 | 41.2 | 40.1 |
| Capital (and net lending) | 30.2 | 15.2 | 10.4 | 5.5 | 11.3 | 13.1 | 13.7 | 13.5 | 13.2 |
| Off-budget | 8.9 | 4.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Overall balance (deficit -, payment order basis, percent of GDP) | -20.1 | -7.4 | 7.1 | 6.6 | 7.5 | 7.6 | 7.6 | 7.9 | 7.3 |
| Non-oil primary balance (- = deficit) | -51.7 | -35.3 | -26.0 | -28.1 | -24.8 | -21.6 | -20.1 | -16.9 | -15.9 |
| Basic primary fiscal balance (- = deficit)[1] | -18.3 | -1.9 | 25.5 | 24.8 | 23.4 | 22.2 | 20.6 | 19.0 | 16.1 |
| Reference fiscal balance (percent of GDP)[2] | -1.5 | -0.7 | -2.5 | -4.7 | -0.8 | 2.6 | 4.9 | 5.7 | 5.2 |
| Primary balance (percent of GDP) | -17.4 | -5.2 | 9.5 | 8.9 | 9.3 | 9.2 | 9.0 | 9.1 | 8.3 |
| Financing gap (CFAF billion)[3] | 0.0 | 0.0 | 512.0 | 0.0 | 362 | 411 | 245 | 66 | -35 |
| Total public debt (percent of GDP) | 118.6 | 117.5 | 102.1 | 87.8 | 81.7 | 76.6 | 71.6 | 66.8 | 60.7 |
| External public debt service | 23.4 | 24.0 | … | 24.6 | 37.6 | 32.0 | 22.8 | 18.9 | 12.5 |
| | (Billions of CFA francs, unless otherwise indicated) | | | | | | | | |
| Nominal GDP | 4,616 | 5,189 | 5,760.0 | 6,476 | 6,529 | 6,578 | 6,611 | 6,432 | 6,449 |
| Nominal oil GDP | 1,708 | 2,493 | 3,215.6 | 3,932 | 3,926 | 3,863 | 3,723 | 3,343 | 3,133 |
| Nominal non-oil GDP | 2,908 | 2,695 | 2,544 | 2,544 | 2,603 | 2,715 | 2,888 | 3,089 | 3,316 |
| Nominal GDP in US$ (millions) | 7,787 | 8,932 | 10,886.2 | 11,664 | 11,382 | 11,592 | 11,715 | 11,472 | 11,532 |
| World oil price (U.S. dollars per barrel) | 43 | 53 | 62 | 68 | 59 | 59 | 58 | 58 | 58 |
| Oil production (Millions of barrels) | 85 | 98 | 122 | 121 | 140 | 140 | 137 | 125 | 118 |
| Nominal Exchange rate (CFA/USD, period average) | 592.8 | 580.9 | … | 555.2 | … | … | … | … | |
| REER (percentage change) | 4.1 | 0.5 | … | 1.2 | … | … | … | … | … |

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

[1] Revenue excluding grants minus total expenditures (excluding interest payments and foreign-financed public investment).

[2] Overall balance minus 20 percent of oil revenues and minus 80 percent of the oil revenue in excess of the average observed during the three previous years.

[3] Before IMF-ECF financing, other expected financing and exceptional financing due to external debt restructuring net of restructured contingent liabilities.

## Table 2A. Republic of Congo: Central Government Operations, 2016–23

(Billions of CFA francs)

| | 2016 | 2017 | 2018 | | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|---|---|
| | | Est. | Prel. July 2018 SR | Prel. | Proj. | Proj. | Proj. | Proj. | Proj. |
| | | | | CFAF Billion | | | | | |
| Total revenue and grants | 1,572 | 1,445 | 2,012 | 1,888 | 2,048 | 2,111 | 2,160 | 2,200 | 2,237 |
| Revenue | 1,531 | 1,415 | 1,982 | 1,882 | 2,020 | 2,083 | 2,133 | 2,166 | 2,201 |
| Oil revenue | 700 | 679 | 1,206 | 1,288 | 1,257 | 1,190 | 1,176 | 1,109 | 1,060 |
| *of which: repayment of oil-prepurchased debt* | *129* | *126* | *338* | *227* | *354* | *349* | *342* | *337* | *336* |
| Non-oil revenue | 832 | 736 | 776 | 594 | 763 | 893 | 957 | 1,057 | 1,141 |
| Direct taxes | 355 | 321 | 331 | 253 | 325 | 367 | 407 | 448 | 481 |
| Taxes on goods and services | 327 | 296 | 306 | 233 | 312 | 365 | 378 | 417 | 448 |
| Customs Receipts | 126 | 108 | 123 | 95 | 109 | 135 | 143 | 164 | 183 |
| Non-tax revenue | 24 | 11 | 16 | 14 | 18 | 27 | 28 | 28 | 29 |
| Grants | 40 | 30 | 30 | 6 | 28 | 28 | 28 | 34 | 36 |
| Expenditure and net lending | 2,499 | 1,828 | 1,601 | 1,461 | 1,556 | 1,608 | 1,656 | 1,692 | 1,767 |
| Current expenditure | 1,360 | 1,303 | 1,336 | 1,320 | 1,263 | 1,251 | 1,261 | 1,273 | 1,331 |
| Wages | 380 | 391 | 366 | 363 | 374 | 392 | 402 | 415 | 445 |
| Other primary current expenditure | 834 | 784 | 784 | 788 | 745 | 759 | 767 | 781 | 822 |
| Goods and services | 248 | 219 | 178 | 173 | 188 | 193 | 199 | 207 | 219 |
| Transfers | 509 | 488 | 570 | 575 | 520 | 518 | 520 | 526 | 551 |
| Social Transfers (Lisungi and others) | … | … | … | … | 50 | 60 | 71 | 70 | 75 |
| Traditional transfers | 315 | 295 | 293 | 251 | 352 | 335 | 324 | 328 | 345 |
| Oil-related transfers | 194 | 193 | 277 | 324 | 118 | 123 | 125 | 128 | 131 |
| Common charges | 77 | 76.4 | 36 | 40 | 37 | 48 | 48 | 48 | 52 |
| Interest | 123 | 111 | 134 | 147 | 119 | 100 | 91 | 78 | 64 |
| Domestic | 13 | 29 | 25 | 24 | 21 | 18 | 15 | 12 | 11 |
| External | 110 | 83 | 109 | 123 | 97 | 82 | 76 | 66 | 53 |
| *of which: on oil-prepurchased debt* | *89* | *72* | *66* | *83* | *50* | *30* | *20* | *11* | 2 |
| Annex budgets and special Accounts[1] | 23 | 17 | 53 | 22 | 26 | 0 | 0 | 0 | 0 |
| Capital expenditure | 894 | 410 | 264 | 141 | 293 | 357 | 396 | 418 | 436 |
| Domestically financed | 581 | 161 | 131 | 92 | 150 | 164 | 216 | 251 | 272 |
| Externally financed | 312 | 249 | 133 | 62 | 143 | 142 | 142 | 133 | 138 |
| Net lending | -15 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Non-oil primary balance[2] | -1,505 | -951 | -661 | -714 | -647 | -587 | -581 | -523 | -526 |
| Basic non-oil primary balance[3] | -1,233 | -732 | -557 | -658 | -531 | -473 | -466 | -424 | -424 |
| — excluding oil-related transfers[4] | -1,038 | -538 | -280 | -334 | -413 | -350 | -341 | -296 | -293 |
| Reference fiscal balance[5] | -71 | -34 | … | -307 | -54 | 173 | 324 | 365 | 337 |
| Primary balance | -805 | -272 | 545 | 574 | 610 | 603 | 595 | 586 | 534 |
| Overall balance, payment order basis | | | | | | | | | |
| Excluding grants | -968 | -413 | 382 | 421 | 464 | 475 | 476 | 474 | 434 |
| Including grants | -927 | -383 | 412 | 427 | 491 | 503 | 504 | 508 | 470 |
| Change in arrears | 160 | 40 | -4 | -15 | 0 | 0 | 0 | 0 | 0 |
| External[6] | 58 | 17 | 0 | 67 | 0 | 0 | 0 | 0 | 0 |
| Domestic[7] | 102 | 23 | 0 | -82 | 0 | 0 | 0 | 0 | 0 |
| Overall balance, cash basis | -767 | -344 | 407 | 412 | 491 | 503 | 504 | 508 | 470 |
| Financing | 767 | 344 | -919 | -412 | -853 | -914 | -749 | -575 | -436 |
| Foreign (net) | 236 | 260 | -291 | -210 | -538 | -469 | -295 | -244 | -118 |
| Drawings | 435 | 424 | 103 | 44 | 122 | 114 | 115 | 99 | 102 |
| Amortization due | -246 | -257 | -491 | -339 | -660 | -583 | -410 | -343 | -220 |
| *of which: on oil-prepurchased debt* | *-40* | *-62* | -272 | *-144* | *-303* | *-300* | -115 | -123 | *-64* |
| Debt cancellation | 0 | *57* | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other foreign financing | 47 | 35 | 96 | 86 | 0 | 0 | 0 | 0 | *0* |
| *of which: deposits in China* | 47 | 35 | 96 | 86 | 0 | 0 | 0 | 0 | *0* |
| Domestic (net) | 531 | 84 | -628 | -203 | -315 | -445 | -453 | -331 | *-318* |
| Banking system (net) | 658 | 102 | -304 | 34 | -145 | -244 | -244 | -159 | *-152* |
| Central bank | 494 | 111 | -255 | 27 | -150 | -224 | -224 | -82 | -95 |
| Commercial banks | 164 | -9 | -49 | 8 | 5 | -20 | -20 | -20 | 0 |
| Nonbank financing | -126 | -18 | -324 | -237 | -170 | -200 | -209 | -171 | -166 |
| *Of which: Repayment of domestic arrears* | … | … | … | … | -176 | -209 | -229 | -171 | -166 |
| *Of which: Debt service to ENI* | -111 | -109 | -157 | -74 | 0 | 0 | 0 | 0 | 0 |
| Financing gap (- = surplus) | 0 | 0 | 512 | 0 | 362 | 411 | 245 | 66 | -35 |
| Expected financing (excluding IMF) | 0 | 0 | 214 | 0 | 218 | 152 | 152 | 0 | 0 |
| IMF-ECF | 0 | 0 | 25 | 0 | 52 | 78 | 78 | 52 | 0 |
| Exceptional financing from debt restructuring[9] | 0 | 0 | 273 | 0 | 92 | 182 | 16 | 15 | -35 |
| Memorandum items: | | | | | | | | | |
| Stock of domestic arrears[8] | … | 982 | … | 986 | 810 | 601 | 372 | 201 | 35 |
| Stock of government deposits | 205 | 93 | 346 | 64 | 213 | 437 | 661 | 686 | 721 |
| GDP at current market prices | 4,616 | 5,189 | 5,760 | 6,476 | 6,529 | 6,578 | 6,611 | 6,432 | 6,449 |
| Non-oil GDP at market prices | 2,908 | 2,695 | 2,544 | 2,544 | 2,603 | 2,715 | 2,888 | 3,089 | 3,316 |

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

Note: SR refers to projections in the July 2018 draft staff report.

[1] Includes net spending (i.e. spending minus revenues) associated with decentralized government entities.

[2] Revenue and grants excluding oil revenues minus total primary expenditures (excluding interest payments).

[3] Non oil revenue excluding grants minus total expenditures excluding interest payments and foreign-financed investment.

[4] Basic non-oil primary balance minus oil revenue and oil-related transfers. This is a Performance Criterion/Indicative Target.

[5] CEMAC definition: overall balance minus 20 percent of oil revenues and minus 80 percent of the oil revenue in excess of the average observed during the three previous years.

[6] Post-HIPC external arrears accumulated since 2016 are consolidated in outstanding debt. The projected repayments are included in amortization of external debt.

[7] Projected repayments of domestic arrears are included in domestic financing.

[8] Includes estimates of domestic arrears audited by the the Caisse Congolaise d'Amortisation (CCA) and reported but not yet audited arrears.

[9] Net of restructured contingent liabilities.

## Table 2B. Republic of Congo: Central Government Operations, 2016–23

(Percent of non-oil GDP)

| | 2016 | 2017 | 2018 | | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|---|---|
| | | | Prel. July 2018 SR | Proj. | Proj. | | Projections | | |
| Total revenue and grants | 54.1 | 53.6 | 79.1 | 74.2 | 78.7 | 77.7 | 74.8 | 71.2 | 67.5 |
| Revenue | 52.7 | 52.5 | 77.9 | 74.0 | 77.6 | 76.7 | 73.9 | 70.1 | 66.4 |
| Oil revenue | 24.1 | 25.2 | 47.4 | 50.6 | 48.3 | 43.8 | 40.7 | 35.9 | 32.0 |
| *of which: repayment of oil-prepurchased debt* | *4.4* | *4.7* | *13.3* | *8.9* | *13.6* | *12.9* | *11.8* | *10.9* | *10.1* |
| Non-oil revenue | 28.6 | 27.3 | 30.5 | 23.4 | 29.3 | 32.9 | 33.1 | 34.2 | 34.4 |
| Direct taxes | 12.2 | 11.9 | 13.0 | 9.9 | 12.5 | 13.5 | 14.1 | 14.5 | 14.5 |
| Taxes on goods and services | 11.3 | 11.0 | 12.0 | 9.2 | 12.0 | 13.4 | 13.1 | 13.5 | 13.5 |
| Customs receipts | 4.3 | 4.0 | 4.8 | 3.7 | 4.2 | 5.0 | 5.0 | 5.3 | 5.5 |
| Non-tax revenue | 0.8 | 0.4 | 0.6 | 0.5 | 0.7 | 1.0 | 1.0 | 0.9 | 0.9 |
| of which: Interest on financial assets | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.2 | 0.2 | 0.2 | 0.1 |
| Grants | 1.4 | 1.1 | 1.2 | 0.2 | 1.1 | 1.0 | 1.0 | 1.1 | 1.1 |
| Expenditure and net lending | 85.9 | 67.8 | 62.9 | 57.4 | 59.8 | 59.2 | 57.4 | 54.8 | 53.3 |
| Current expenditure | 46.8 | 48.4 | 52.5 | 51.9 | 48.5 | 46.1 | 43.7 | 41.2 | 40.1 |
| Wages | 13.1 | 14.5 | 14.4 | 14.3 | 14.4 | 14.4 | 13.9 | 13.4 | 13.4 |
| Other primary current expenditure | 28.7 | 29.1 | 30.8 | 31.0 | 28.6 | 28.0 | 26.6 | 25.3 | 24.8 |
| Goods and services | 8.5 | 8.1 | 7.0 | 6.8 | 7.2 | 7.1 | 6.9 | 6.7 | 6.6 |
| Transfers | 17.5 | 18.1 | 22.4 | 22.6 | 20.0 | 19.1 | 18.0 | 17.0 | 16.6 |
| Social Transfers (Lisungi and others) | ... | ... | ... | ... | 1.9 | 2.2 | 2.5 | 2.3 | 2.3 |
| Traditional transfers | 10.8 | 10.9 | 11.5 | 9.9 | 13.5 | 12.3 | 11.2 | 10.6 | 10.4 |
| Oil-related transfers | 6.7 | 7.2 | 10.9 | 12.7 | 4.5 | 4.5 | 4.3 | 4.1 | 4.0 |
| Common charges | 2.6 | 2.8 | 1.4 | 1.6 | 1.4 | 1.8 | 1.7 | 1.6 | 1.6 |
| Interest | 4.2 | 4.1 | 5.2 | 5.8 | 4.6 | 3.7 | 3.2 | 2.5 | 1.9 |
| Domestic | 0.4 | 1.1 | 1.0 | 0.9 | 0.8 | 0.7 | 0.5 | 0.4 | 0.3 |
| External | 3.8 | 3.1 | 4.3 | 4.8 | 3.7 | 3.0 | 2.6 | 2.1 | 1.6 |
| *of which: on oil-prepurchased debt* | 3.1 | 2.7 | 2.6 | 3.3 | 1.9 | 1.1 | 0.7 | 0.3 | 0.0 |
| Annex budgets and special Accounts[1] | 0.8 | 0.6 | 2.1 | 0.9 | 1.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Capital expenditure | 30.7 | 15.2 | 10.4 | 5.5 | 11.3 | 13.1 | 13.7 | 13.5 | 13.2 |
| Domestically financed | 20.0 | 6.0 | 5.1 | 3.6 | 5.8 | 6.0 | 7.5 | 8.1 | 8.2 |
| Externally financed | 10.7 | 9.2 | 5.2 | 2.4 | 5.5 | 5.2 | 4.9 | 4.3 | 4.2 |
| Off-budget expenditure | 8.9 | 4.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net lending | -0.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Non-oil primary balance[2] | -51.7 | -35.3 | -26.0 | -28.1 | -24.8 | -21.6 | -20.1 | -16.9 | -15.9 |
| Basic primary fiscal balance | -18.3 | -1.9 | 25.5 | 24.8 | 23.4 | 22.2 | 20.6 | 19.0 | 16.1 |
| Basic non-oil primary balance[3] | -42.4 | -27.1 | -21.9 | -25.9 | -20.4 | -17.4 | -16.1 | -13.7 | -12.8 |
| — excluding oil-related transfers[4] | -35.7 | -20.0 | -20.9 | -13.1 | -15.9 | -12.9 | -11.8 | -9.6 | -8.8 |
| Reference fiscal balance[5] | -2.4 | -1.3 | -5.6 | -12.1 | -2.1 | 6.4 | 11.2 | 11.8 | 10.2 |
| Primary balance | -27.7 | -10.1 | 21.4 | 22.6 | 23.4 | 22.2 | 20.6 | 19.0 | 16.1 |
| Overall balance, payment order basis | | | | | | | | | |
| Excluding grants | -33.3 | -15.3 | 15.0 | 16.6 | 17.8 | 17.5 | 16.5 | 15.4 | 13.1 |
| Including grants | -31.9 | -14.2 | 16.2 | 16.8 | 18.9 | 18.5 | 17.5 | 16.5 | 14.2 |
| Change in arrears | 5.5 | 1.5 | -0.2 | -0.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| External[6] | 2.0 | 0.6 | 0.0 | 2.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Domestic[7] | 3.5 | 0.8 | 0.0 | -3.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Overall balance, cash basis | -26.4 | -12.7 | 16.0 | 16.2 | 18.9 | 18.5 | 17.5 | 16.5 | 14.2 |
| Financing | 26.4 | 12.7 | -36.1 | -16.2 | -32.8 | -33.7 | -25.9 | -18.6 | -13.1 |
| Foreign (net) | 8.1 | 9.6 | -11.4 | -8.2 | -20.7 | -17.3 | -10.2 | -7.9 | -3.5 |
| Drawings | 15.0 | 15.7 | 4.1 | 1.7 | 4.7 | 4.2 | 4.0 | 3.2 | 3.1 |
| Amortization due | -8.5 | -9.5 | -19.3 | -13.3 | -25.4 | -21.5 | -14.2 | -11.1 | -6.6 |
| of which: on oil-prepurchasd debt | -1.4 | -2.3 | -10.7 | -5.7 | -11.6 | -11.0 | -4.0 | -4.0 | -1.9 |
| Debt cancellation | 0.0 | 2.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other foreign financing | 1.6 | 1.3 | 3.8 | 3.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Deposits in China | 1.6 | 1.3 | 3.8 | 3.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Domestic (net) | 18.3 | 3.1 | -24.7 | -8.0 | -12.1 | -16.4 | -15.7 | -10.7 | -9.6 |
| Banking system (net) | 22.6 | 3.8 | -11.9 | 1.3 | -5.6 | -9.0 | -8.5 | -5.2 | -4.6 |
| Central bank | 17.0 | 4.1 | -10.0 | 1.0 | -5.8 | -8.3 | -7.8 | -2.7 | -2.9 |
| Commercial banks | 5.6 | -0.3 | -1.9 | 0.3 | 0.2 | -0.7 | -0.7 | -0.6 | 0.0 |
| Nonbank financing | -4.3 | -0.7 | -12.7 | -9.3 | -6.5 | -7.4 | -7.3 | -5.5 | -5.0 |
| *Of which: Repayment of domestic arrears* | 0.0 | 0.0 | ... | ... | -6.8 | -7.7 | -7.9 | -5.5 | -5.0 |
| *Of which: Debt service to ENI* | -3.8 | -4.1 | -6.2 | -2.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Financing gap (- = surplus) | 0.0 | 0.0 | 20.1 | 0.0 | 13.9 | 15.1 | 8.5 | 2.1 | -1.0 |
| Expected financing (excluding IMF) | ... | ... | 8.4 | 0.0 | 8.4 | 5.6 | 5.2 | 0.0 | 0.0 |
| IMF-ECF | ... | ... | 1.0 | 0.0 | 2.0 | 2.9 | 2.7 | 1.7 | 0.0 |
| Exceptional financing from debt restructuring[9] | ... | ... | 10.7 | 0.0 | 3.5 | 6.7 | 0.5 | 0.5 | -1.0 |
| Memorandum items: | | | | | | | | | |
| Stock of domestic arrears[8] | ... | 36.4 | ... | 38.8 | 31.1 | 22.1 | 12.9 | 6.5 | 1.0 |
| Stock of government deposits | 7.0 | 3.4 | 13.6 | 2.5 | 8.2 | 16.1 | 22.9 | 22.2 | 21.7 |
| Non-oil GDP at market prices (CFAF billion) | 2,908 | 2,695 | 2,544 | 2,544 | 2,603 | 2,715 | 2,888 | 3,089 | 3,316 |

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

Note: SR refers to projections in the July 2018 draft staff report.

[1] Includes net spending (i.e. spending minus revenues) associated with decentralized government entities.

[2] Revenue and grants excluding oil revenues minus total primary expenditures (excluding interest payments).

[3] Non oil revenue excluding grants minus total expenditures excluding interest payments and foreign-financed investment.

[4] Basic non-oil primary balance minus oil revenue and oil-related transfers. This is a Performance Criterion/Indicative Target.

[5] CEMAC definition: overall balance minus 20 percent of oil revenues and minus 80 percent of the oil revenue in excess of the average observed during the three previous years.

[6] Post-HIPC external arrears accumulated since 2016 are consolidated in outstanding debt. The projected repayments are included in amortization of external debt.

[7] Projected repayments of domestic arrears are included in domestic financing.

[8] Includes estimates of domestic arrears audited by the the Caisse Congolaise d'Amortisation (CCA) and reported but not yet audited arrears.

[9] Net of restructured contingent liabilities.

## Table 2C. Republic of Congo: Central Government Operations, 2016–23

(Percent of GDP)

| | 2016 | 2017 | 2018 | | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|---|---|
| | | | Prel. July 2018 SR | Proj. | Proj. | | Projections | | |
| Total revenue and grants | 34.1 | 27.9 | 34.9 | 29.2 | 31.4 | 32.1 | 32.7 | 34.2 | 34.7 |
| Revenue | 33.2 | 27.3 | 34.4 | 29.1 | 30.9 | 31.7 | 32.3 | 33.7 | 34.1 |
| Oil revenue | 15.2 | 13.1 | 20.9 | 19.9 | 19.2 | 18.1 | 17.8 | 17.2 | 16.4 |
| *of which: repayment of oil-prepurchased debt* | *2.8* | *2.4* | *5.9* | *3.5* | *5.4* | *5.3* | *5.2* | *5.2* | *5.2* |
| Non-oil revenue | 18.0 | 14.2 | 13.5 | 9.2 | 11.7 | 13.6 | 14.5 | 16.4 | 17.7 |
| Direct taxes | 7.7 | 6.2 | 5.8 | 3.9 | 5.0 | 5.6 | 6.2 | 7.0 | 7.5 |
| Taxes on goods and services | 7.1 | 5.7 | 5.3 | 3.6 | 4.8 | 5.5 | 5.7 | 6.5 | 6.9 |
| Customs Receipts | 2.7 | 2.1 | 2.1 | 1.5 | 1.7 | 2.1 | 2.2 | 2.6 | 2.8 |
| Non-tax revenue | 0.5 | 0.2 | 0.3 | 0.2 | 0.3 | 0.4 | 0.4 | 0.4 | 0.5 |
| Grants | 0.9 | 0.6 | 0.5 | 0.1 | 0.4 | 0.4 | 0.4 | 0.5 | 0.6 |
| Expenditure and net lending | 54.1 | 35.2 | 27.8 | 22.6 | 23.8 | 24.4 | 25.1 | 26.3 | 27.4 |
| Current expenditure | 29.5 | 25.1 | 23.2 | 20.4 | 19.4 | 19.0 | 19.1 | 19.8 | 20.6 |
| Wages | 8.2 | 7.5 | 6.4 | 5.6 | 5.7 | 6.0 | 6.1 | 6.4 | 6.9 |
| Other primary current expenditure | 18.1 | 15.1 | 13.6 | 12.2 | 11.4 | 11.5 | 11.6 | 12.1 | 12.7 |
| Goods and services | 5.4 | 4.2 | 3.1 | 2.7 | 2.9 | 2.9 | 3.0 | 3.2 | 3.4 |
| Transfers | 11.0 | 9.4 | 9.9 | 8.9 | 8.0 | 7.9 | 7.9 | 8.2 | 8.6 |
| Social Transfers (Lisungi and others) | ... | .... | ... | .... | 0.8 | 0.9 | 1.1 | 1.1 | 1.2 |
| Traditional transfers | 6.8 | 5.7 | 5.1 | 3.9 | 5.4 | 5.1 | 4.9 | 5.1 | 5.4 |
| Oil-related transfers | 4.2 | 3.7 | 4.8 | 5.0 | 1.8 | 1.9 | 1.9 | 2.0 | 2.0 |
| Common charges | 1.7 | 1.5 | 0.6 | 0.6 | 0.6 | 0.7 | 0.7 | 0.8 | 0.8 |
| Interest | 2.7 | 2.1 | 2.3 | 2.3 | 1.8 | 1.5 | 1.4 | 1.2 | 1.0 |
| Domestic | 0.3 | 0.6 | 0.4 | 0.4 | 0.3 | 0.3 | 0.2 | 0.2 | 0.2 |
| External | 2.4 | 1.6 | 1.9 | 1.9 | 1.5 | 1.2 | 1.1 | 1.0 | 0.8 |
| *of which: on oil-prepurchased debt* | 1.9 | 1.4 | 1.1 | 1.3 | 0.8 | 0.5 | 0.3 | 0.2 | 0.0 |
| Annex budgets and special Accounts[1] | 0.5 | 0.3 | 0.9 | 0.3 | 0.4 | 0.0 | 0.0 | 0.0 | 0.0 |
| Capital expenditure | 19.4 | 7.9 | 4.6 | 2.2 | 4.5 | 5.4 | 6.0 | 6.5 | 6.8 |
| Domestically financed | 12.6 | 3.1 | 2.3 | 1.4 | 2.3 | 2.5 | 3.3 | 3.9 | 4.2 |
| Externally financed | 6.8 | 4.8 | 2.3 | 1.0 | 2.2 | 2.2 | 2.2 | 2.1 | 2.1 |
| Net lending | -0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Non-oil primary balance[2] | -32.6 | -18.3 | -11.5 | -11.0 | -9.9 | -8.9 | -8.8 | -8.1 | -8.2 |
| Basic non-oil primary balance[3] | -26.7 | -14.1 | -9.7 | -10.2 | -8.1 | -7.2 | -7.0 | -6.6 | -6.6 |
| — excluding oil-related transfers[4] | -22.5 | -10.4 | -4.9 | -5.2 | -6.3 | -5.3 | -5.2 | -4.6 | -4.5 |
| Reference fiscal balance[5] | -1.5 | -0.7 | 0.0 | -4.7 | -0.8 | 2.6 | 4.9 | 5.7 | 5.2 |
| Primary balance | -17.4 | -5.2 | 9.5 | 8.9 | 9.3 | 9.2 | 9.0 | 9.1 | 8.3 |
| Overall balance, payment order basis | | | | | | | | | |
| Excluding grants | -21.0 | -8.0 | 6.6 | 6.5 | 7.1 | 7.2 | 7.2 | 7.4 | 6.7 |
| Including grants | -20.1 | -7.4 | 7.1 | 6.6 | 7.5 | 7.6 | 7.6 | 7.9 | 7.3 |
| Change in arrears | 3.5 | 0.8 | -0.1 | -0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| External[6] | 1.3 | 0.3 | 0.0 | 1.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Domestic[7] | 2.2 | 0.4 | 0.0 | -1.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Overall balance, cash basis | -16.6 | -6.6 | 7.1 | 6.4 | 7.5 | 7.6 | 7.6 | 7.9 | 7.3 |
| Financing | 16.6 | 6.6 | -16.0 | -6.4 | -13.1 | -13.9 | -11.3 | -8.9 | -6.8 |
| Foreign (net) | 5.1 | 5.0 | -5.1 | -3.2 | -8.2 | -7.1 | -4.5 | -3.8 | -1.8 |
| Drawings | 9.4 | 8.2 | 1.8 | 0.7 | 1.9 | 1.7 | 1.7 | 1.5 | 1.6 |
| Amortization due | -5.3 | -4.9 | -8.5 | -5.2 | -10.1 | -8.9 | -6.2 | -5.3 | -3.4 |
| *of which: on oil-prepurchased debt* | -0.9 | -1.2 | -4.7 | -2.2 | -4.6 | -4.6 | -1.7 | -1.9 | -1.0 |
| Debt cancellation | 0.0 | 1.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other foreign financing | 1.0 | 0.7 | 1.7 | 1.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| *of which: deposits in China* | 1.0 | 0.7 | 1.7 | 1.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Domestic (net) | 11.5 | 1.6 | -10.9 | -3.1 | -4.8 | -6.8 | -6.9 | -5.1 | -4.9 |
| Banking system (net) | 14.2 | 2.0 | -5.3 | 0.5 | -2.2 | -3.7 | -3.7 | -2.5 | -2.4 |
| Central bank | 10.7 | 2.1 | -4.4 | 0.4 | -2.3 | -3.4 | -3.4 | -1.3 | -1.5 |
| Commercial banks | 3.5 | -0.2 | -0.8 | 0.1 | 0.1 | -0.3 | -0.3 | -0.3 | 0.0 |
| Nonbank financing | -2.7 | -0.4 | -5.6 | -3.7 | -2.6 | -3.0 | -3.2 | -2.7 | -2.6 |
| *Of which: Repayment of domestic arrears* | ... | ... | ... | ... | -2.7 | -3.2 | -3.5 | -2.7 | -2.6 |
| *Of which: Debt service to ENI* | -2.4 | -2.1 | -2.7 | -1.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Financing gap (- = surplus) | 0.0 | 0.0 | 8.9 | 0.0 | 5.5 | 6.2 | 3.7 | 1.0 | -0.5 |
| Expected financing (excluding IMF) | 0.0 | 0.0 | 3.7 | 0.0 | 3.3 | 2.3 | 2.3 | 0.0 | 0.0 |
| IMF-ECF | 0.0 | 0.0 | 0.4 | 0.0 | 0.8 | 1.2 | 1.2 | 0.8 | 0.0 |
| Exceptional financing from debt restructuring[9] | 0.0 | 0.0 | 4.7 | 0.0 | 1.4 | 2.8 | 0.2 | 0.2 | -0.5 |
| Memorandum items: | | | | | | | | | |
| Stock of domestic arrears[8] | ... | 18.9 | ... | 15.2 | 12.4 | 9.1 | 5.6 | 3.1 | 0.5 |
| Stock of government deposits | 4.4 | 1.8 | 6.0 | 1.0 | 3.3 | 6.6 | 10.0 | 10.7 | 11.2 |
| GDP at current market prices | 4,616 | 5,189 | 5,760.0 | 6,476 | 6,529 | 6,578 | 6,611 | 6,432 | 6,449 |
| Non-oil GDP at market prices | 2,908 | 2,695 | 2,544.4 | 2,544 | 2,603 | 2,715 | 2,888 | 3,089 | 3,316 |

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

Note: SR refers to projections in the July 2018 draft staff report.

[1] Includes net spending (i.e. spending minus revenues) associated with decentralized government entities.

[2] Revenue and grants excluding oil revenues minus total primary expenditures (excluding interest payments).

[3] Non oil revenue excluding grants minus total expenditures excluding interest payments and foreign-financed investment.

[4] Basic non-oil primary balance minus oil revenue and oil-related transfers. This is a Performance Criterion/Indicative Target.

[5] CEMAC definition: overall balance minus 20 percent of oil revenues and minus 80 percent of the oil revenue in excess of the average observed during the three previous years.

[6] Post-HIPC external arrears accumulated since 2016 are consolidated in outstanding debt. The projected repayments are included in amortization of external debt.

[7] Projected repayments of domestic arrears are included in domestic financing.

[8] Includes estimates of domestic arrears audited by the the Caisse Congolaise d'Amortisation (CCA) and reported but not yet audited arrears.

[9] Net of restructured contingent liabilities.

## Table 3A. Republic of Congo: Quarterly Central Government Operations, Flows, 2018–20

(Billions of CFA francs)

| | 2018 | 2019 | | | | | | 2020 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Q1 | Q1 | Q2 | Q3 | Q4 | Annual | Q1 | Q2 | Q3 | Q4 | Annual |
| | Act. | Proj. | Prel. | Proj. | Proj. | Proj. | Proj. | Projections | | | | |
| Total revenue and grants | 1,888 | 438 | 466 | 437 | 551 | 593 | 2,048 | 481 | 448 | 565 | 616 | 2,111 |
| Revenue | 1,882 | 433 | 466 | 432 | 546 | 576 | 2,020 | 481 | 443 | 560 | 599 | 2,083 |
| Oil revenue | 1,288 | 277 | 290 | 279 | 352 | 336 | 1,257 | 274 | 264 | 333 | 318 | 1,190 |
| *of which: repayment of oil-prepurchased debt* | 398 | 88 | 88 | 88 | 88 | 88 | 354 | 87 | 87 | 87 | 87 | 349 |
| Non-oil revenue | 594 | 156 | 176 | 153 | 194 | 240 | 763 | 207 | 179 | 226 | 281 | 893 |
| Direct taxes | 253 | 68 | 75 | 67 | 82 | 100 | 325 | 85 | 75 | 93 | 113 | 367 |
| Taxes on goods and services | 233 | 64 | 70 | 64 | 79 | 99 | 312 | 81 | 75 | 93 | 116 | 365 |
| Customs Receipts | 95 | 18 | 26 | 20 | 30 | 33 | 109 | 32 | 24 | 37 | 41 | 135 |
| Non-tax revenue | 14 | 6 | 6 | 3 | 2 | 7 | 18 | 8 | 4 | 3 | 11 | 27 |
| Grants | 5.9 | 5 | 0 | 5 | 5 | 17 | 28 | 0 | 5 | 5 | 17 | 28 |
| Expenditure and net lending | 1,461 | 307 | 280 | 361 | 416 | 500 | 1,556 | 294 | 376 | 441 | 497 | 1,608 |
| Current expenditure | 1,320 | 272 | 255 | 272 | 286 | 450 | 1,263 | 258 | 276 | 290 | 427 | 1,251 |
| Wages | 363 | 93 | 87 | 94 | 93 | 101 | 374 | 91 | 98 | 97 | 106 | 392 |
| Other primary current expenditure | 810 | 153 | 142 | 147 | 168 | 312 | 771 | 146 | 151 | 172 | 290 | 759 |
| Goods and services | 173 | 44 | 51 | 55 | 46 | 35 | 188 | 52 | 56 | 47 | 36 | 193 |
| Transfers | 575 | 100 | 80 | 80 | 106 | 255 | 520 | 79 | 80 | 105 | 254 | 518 |
| Social transfers (Lisungi and other) | ... | 0 | 0 | 5 | 5 | 40 | 50 | ... | ... | ... | ... | ... |
| Traditional Transfers | 234 | 33 | 43.9 | 40 | 79 | 189 | 352 | 49 | 49 | 74 | 223 | 396 |
| Transfers paid with crude oil barrels | 341 | 67 | 35 | 35 | 22 | 27 | 118 | 31 | 31 | 31 | 31 | 123 |
| Common charges | 40 | 9 | 7 | 9 | 10 | 11 | 37 | 10 | 12 | 13 | 14 | 48 |
| Annex budgets and special Accounts[1] | 22 | 0 | 5 | 3 | 6 | 11 | 26 | 5 | 3 | 6 | -14 | 0 |
| Interest | 147 | 25 | 26 | 31 | 25 | 37 | 119 | 22 | 26 | 21 | 31 | 100 |
| Domestic | 24 | 3 | 5 | 3 | 3 | 10 | 21 | 5 | 2 | 2 | 9 | 18 |
| External | 123 | 23 | 21 | 28 | 22 | 27 | 97 | 17 | 24 | 18 | 22 | 82 |
| Capital expenditure | 141 | 35 | 25 | 89 | 130 | 50 | 293 | 35 | 101 | 151 | 70 | 357 |
| Domestically financed | 92 | 4 | 25 | 29 | 50 | 46 | 150 | 35 | 42 | 71 | 66 | 215 |
| Externally financed | 50 | 32 | 0 | 59 | 80 | 4 | 143 | 0 | 59 | 79 | 4 | 142 |
| Non-oil primary balance[2] | -714 | -121 | -77 | -171 | -192 | -206 | -647 | -65 | -166 | -188 | -167 | -587 |
| Basic non-oil primary balance[3] | -670 | -94 | -77 | -117 | -117 | -220 | -531 | -65 | -112 | -114 | -181 | -473 |
| — excluding oil-related transfers[4] | -329 | -27 | -43 | -82 | -95 | -193 | -413 | -34 | -82 | -84 | -150 | -350 |
| Primary balance | 574 | 156 | *212* | *108* | *160* | *130* | *610* | *209* | *98* | *145* | *151* | *603* |
| Overall balance, payment order basis | | | | | | | | | | | | |
| Excluding grants | 421 | 126 | 186 | 71 | 130 | 76 | 464 | 187 | 67 | 119 | 102 | 475 |
| Including grants | 427 | 131 | 186 | 76 | 136 | 93 | 491 | 187 | 72 | 124 | 120 | 503 |
| Change in arrears | -15 | 0 | 138 | 0 | 0 | -26 | 112 | 0 | 0 | 0 | 0 | 0 |
| External[5] | 67 | 0 | 112 | 0 | 0 | 0 | 112 | 0 | 0 | 0 | 0 | 0 |
| Domestic[6] | -82 | 0 | 26.2 | 0 | 0 | -26 | 26 | 0 | 0 | 0 | 0 | 0 |
| Overall balance, cash basis | 412 | 131 | 324 | 76 | 136 | 67 | 603 | 187 | 72 | 124 | 120 | 503 |
| Financing | -412 | -131 | -329 | -76 | -182 | -267 | -853 | -359 | -164 | -278 | -112 | -914 |
| Foreign (net) | -210 | -131 | -267 | -90 | -97 | -84 | -538 | -158 | -108 | -83 | -120 | -469 |
| Drawings | 44 | 20 | 0 | 30 | 47 | 45 | 122 | 0 | 28 | 44 | 42 | 114 |
| Project loans | 44 | 20 | 0 | 30 | 47 | 45 | 122 | 0 | 28 | 44 | 42 | 114 |
| Collateralized loans | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Amortization due | -339 | -151 | -171 | -120 | -144 | -226 | -660 | -158 | -136 | -127 | -162 | -583 |
| *of which: on oil-prepurchased debt* | -144 | -76 | ... | -76 | -76 | -151 | -303 | -75 | -75 | -75 | -75 | -300 |
| Arrears cancellation | | 0 | | | | | | | | | | |
| Other external financing | 86 | 0 | -96 | 0 | 0 | 96 | 0 | 0 | 0 | 0 | 0 | 0 |
| Deposits in China | 86 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Domestic (net) | -203 | 0 | -62 | 14 | -85 | -182 | -315 | -201 | -56 | -195 | 7 | -445 |
| Banking | 34 | 0 | 36 | 14 | -51 | -144 | -145 | | | | | |
| Central Bank (net) | 27 | 0 | 0 | 14 | -51 | -113 | -150 | -86 | -14 | -138 | 13 | -224 |
| Commercial banks (net) | 8 | 0 | 0 | 0 | 0 | 5 | 5 | 0 | 0 | 0 | -20 | -20 |
| Nonbank financing | -237 | 0 | -98 | 0 | -34 | -39 | -170 | -115 | -42 | -57 | 14 | -200 |
| *Of which: Repayment of domestic arrears* | 0 | 0 | 0 | 0 | -35 | -141 | -176 | -42 | -42 | -42 | -84 | -209 |
| *Of which: Debt service to ENI* | -74 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Errors and omissions | | ... | 5 | ... | ... | ... | 5 | | | | | |
| Financing gap (- = surplus) | 0 | 0 | 0 | 0 | 46 | 317 | 362 | 172 | 92 | 154 | -7 | 411 |
| Expected financing (excluding IMF) | 0 | 0 | 0 | 0 | 0 | 219 | 219 | 55 | 0 | 94 | 0 | 149 |
| World bank | 0 | 0 | 0 | 0 | 0 | 56 | 56 | 55 | 0 | 0 | 0 | 55 |
| African Development Bank | 0 | 0 | 0 | 0 | 0 | 133 | 133 | 0 | 0 | 65 | 0 | 65 |
| France | 0 | 0 | 0 | 0 | 0 | 30 | 30 | 0 | 0 | 29 | 0 | 29 |
| IMF-ECF | 0 | 0 | 0 | 0 | 26 | 26 | 52 | 38 | 0 | 38 | 0 | 76 |
| Exceptional financing from debt restructuring[7] | 0 | 0 | 0 | 0 | 20 | 72 | 92 | 79 | 92 | 22 | -7 | 186 |

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

[1] Includes net spending (i.e. spending minus revenues) associated with decentralized government entities and net of social security contributions.

[2] Revenue and grants excluding oil revenues minus total primary expenditures (excluding interest payments).

[3] Non oil revenue excluding grants minus total expenditures excluding interest payments and foreign-financed investment.

[4] Basic non-oil primary balance minus oil revenue and oil-related transfers. This is a Performance Criterion/Indicative Target.

[5] Post-HIPC external arrears accumulated since 2016 are consolidated in outstanding debt. The projected repayments are included in amortization of external debt.

[6] Projected repayments of domestic arrears are included in domestic financing.

[7] Net of restructured contingent liabilities.

## Table 3B. Republic of Congo: Quarterly Central Government Operations, 2018–20

(Billions of CFA francs, cumulative from the beginning of the fiscal year)

| | 2018 | 2019 | | | | | 2020 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Q1 | Q2 | Q3 | Q4 | Annual | Q1 | Q2 | Q3 | Q4 | Annual |
| | Prel. | Prel. | Proj. | | | | Proj. | | | | |
| Total revenue and grants | 1,888 | 466 | 903 | 1,455 | 2,048 | 2,048 | 481 | 929 | 1,494 | 2,111 | 2,111 |
| Revenue | 1,882 | 466 | 898 | 1,444 | 2,020 | 2,020 | 481 | 924 | 1,484 | 2,083 | 2,083 |
| Oil revenue | 1,288 | 290 | 568 | 920 | 1,257 | 1,257 | 274 | 538 | 871 | 1,190 | 1,190 |
| *of which: repayment of oil-prepurchased debt* | 398 | 88 | 177 | 265 | 354 | 354 | 87 | 175 | 262 | 349 | 349 |
| Non-oil revenue | 594 | 176 | 330 | 524 | 763 | 763 | 207 | 386 | 612 | 893 | 893 |
| Direct taxes | 253 | 75 | 142 | 224 | 325 | 325 | 85 | 160 | 254 | 367 | 367 |
| Taxes on goods and services | 233 | 70 | 134 | 213 | 312 | 312 | 81 | 156 | 249 | 365 | 365 |
| Customs Receipts | 95 | 26 | 46 | 76 | 109 | 109 | 32 | 57 | 94 | 135 | 135 |
| Non-tax revenue | 14 | 6 | 8 | 11 | 18 | 18 | 8 | 13 | 16 | 27 | 27 |
| of which: Interest on financial assets | 3 | 1 | 1 | 2 | 4 | 4 | 1 | 2 | 2 | 5 | 5 |
| Grants | 6 | 0 | 5 | 11 | 28 | 28 | 0 | 5 | 11 | 28 | 28 |
| Expenditure and net lending | 1,461 | 280 | 641 | 1,056 | 1,556 | 1,556 | 294 | 670 | 1,111 | 1,608 | 1,608 |
| Current expenditure | 1,320 | 255 | 527 | 813 | 1,263 | 1,263 | 258 | 534 | 824 | 1,251 | 1,251 |
| Wages | 363 | 87 | 180 | 273 | 374 | 374 | 91 | 189 | 286 | 392 | 392 |
| Other primary current expenditure | 788 | 142 | 290 | 458 | 771 | 771 | 146 | 297 | 469 | 759 | 759 |
| Goods and services | 173 | 51 | 106 | 152 | 188 | 188 | 52 | 109 | 156 | 193 | 193 |
| Transfers | 575 | 80 | 160 | 265 | 520 | 520 | 79 | 159 | 264 | 518 | 518 |
| Social transfers (Lisungi and other) | | 0 | 5 | 10 | 50 | 50 | … | … | … | … | … |
| Traditional Transfers | | 44 | 84 | 163 | 352 | 352 | 49 | 98 | 172 | 396 | 396 |
| Transfers paid with crude oil barrels | | 35 | 70 | 91 | 118 | 118 | 31 | 61 | 92 | 123 | 123 |
| Common charges | 40 | 7 | 16 | 26 | 37 | 37 | 10 | 21 | 34 | 48 | 48 |
| Annex budgets and special Accounts[1] | 22 | 5 | 8 | 14 | 26 | 26 | 5 | 8 | 14 | 0 | 0 |
| Interest | 147 | 26 | 57 | 82 | 119 | 119 | 22 | 48 | 69 | 100 | 100 |
| Domestic | 24 | 5 | 8 | 11 | 21 | 21 | 5 | 7 | 9 | 18 | 18 |
| External | 123 | 21 | 49 | 71 | 97 | 97 | 17 | 41 | 59 | 82 | 82 |
| Capital expenditure | 141 | 25 | 113 | 243 | 293 | 293 | 35 | 136 | 287 | 357 | 357 |
| Domestically financed | 92 | 25 | 54 | 104 | 150 | 150 | 35 | 78 | 149 | 215 | 215 |
| Externally financed | 50 | 0 | 59 | 139 | 143 | 143 | 0 | 59 | 138 | 142 | 142 |
| Off-budget expenditure | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net lending | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Non-oil primary balance[2] | -714 | -77 | -249 | -440 | -647 | -647 | -65 | -231 | -419 | -587 | -587 |
| Basic primary balance | 618 | 212 | 374 | 609 | 725 | 725 | 209 | 361 | 580 | 717 | 717 |
| Basic non-oil primary balance[3] | *-670* | -77 | -194 | -311 | -531 | -531 | -65 | -177 | -292 | -473 | -473 |
| — excluding oil-related transfers[4] | *-329* | *-43* | *-125* | *-220* | *-413* | *-413* | *-34* | *-116* | *-200* | *-350* | *-350* |
| Primary balance | 574 | 212 | 320 | 480 | 610 | 610 | 209 | 307 | 452 | 603 | 603 |
| Overall balance, payment order basis | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Excluding grants | 421 | 186 | 258 | 388 | 464 | 464 | 187 | 254 | 373 | 475 | 475 |
| Including grants | 427 | 186 | 263 | 399 | 491 | 491 | 187 | 259 | 383 | 503 | 503 |
| Change in arrears | -15 | 138 | 138 | 138 | 112 | 112 | 0 | 0 | 0 | 0 | 0 |
| External[5] | 67 | 112 | 112 | 112 | 112 | 112 | 0 | 0 | 0 | 0 | 0 |
| Domestic[6] | -82 | 26 | 26 | 26 | 0 | 26 | 0 | 0 | 0 | 0 | 0 |
| Overall balance, cash basis | 412 | 324 | 401 | 537 | 603 | 603 | 187 | 259 | 383 | 503 | 503 |
| Financing | -412 | -329 | -405 | -587 | -853 | -853 | -359 | -523 | -801 | -914 | -914 |
| Foreign (net) | -210 | -267 | -357 | -454 | -538 | -538 | -158 | -266 | -349 | -469 | -469 |
| Drawings | 44 | 0 | 30 | 77 | 122 | 122 | 0 | 28 | 72 | 114 | 114 |
| Amortization due | -339 | -171 | -291 | -434 | -660 | -660 | -158 | -294 | -421 | -583 | -583 |
| *of which: on oil-prepurchased debt* | -144 | … | -76 | -151 | -303 | -303 | -75 | -150 | -225 | -300 | -300 |
| Arrears cancellation | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other | 86 | -96 | -96 | -96 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Deposits in China | 86 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Domestic (net) | -203 | -62 | -48 | -133 | -315 | -315 | -201 | -257 | -452 | -445 | -445 |
| Central Bank (net) | 27 | 0 | 14 | -37 | -150 | -150 | -86 | -100 | -238 | -224 | -224 |
| Commercial banks (net) | 8 | 0 | 0 | 0 | 5 | 5 | 0 | 0 | 0 | -20 | -20 |
| Nonbank financing | -237 | -98 | -98 | -132 | -170 | -170 | -115 | -157 | -214 | -200 | -200 |
| *Of which: Repayment of domestic arrears* | 0 | 0 | 0 | -35 | -176 | -176 | -42 | -84 | -125 | -209 | -209 |
| *Of which: Debt service to ENI* | -74 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Financing gap (- = surplus) | 0 | 0 | 0 | 45 | 362 | 362 | 172 | 264 | 418 | 411 | 411 |
| Expected financing (excluding IMF) | 0 | 0 | 0 | 0 | 219 | 219 | 55 | 55 | 149 | 149 | 149 |
| World bank | 0 | 0 | 0 | 0 | 56 | 56 | 55 | 55 | 55 | 55 | 55 |
| African Development Bank | 0 | 0 | 0 | 0 | 133 | 133 | 0 | 0 | 0 | 65 | 65 |
| France | 0 | 0 | 0 | 0 | 30 | 30 | 0 | 0 | 0 | 29 | 29 |
| IMF-ECF | 0 | 0 | 0 | 26 | 52 | 52 | 38 | 38 | 76 | 76 | 76 |
| Exceptional financing from debt restructuring[7] | 0 | 0 | 0 | 19 | 92 | 92 | 79 | 171 | 193 | 186 | 186 |

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

[1] Includes net spending (i.e. spending minus revenues) associated with decentralized government entities.

[2] Revenue and grants excluding oil revenues minus total primary expenditures (excluding interest payments).

[3] Non oil revenue excluding grants minus total expenditures excluding interest payments and foreign-financed investment.

[4] Basic non-oil primary balance minus oil revenue and oil-related transfers. This is a Performance Criterion/Indicative Target.

[5] Post-HIPC external arrears accumulated since 2016 are consolidated in outstanding debt. The projected repayments are included in amortization of external debt.

[6] Projected repayments of domestic arrears are included in domestic financing.

## Table 4. Republic of Congo: Medium-Term Balance of Payments, 2016–23

(Billions of CFA francs)

| | 2016 | 2017 | 2018 | | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|---|---|
| | | Est. | Prel. July 2018 SR | Proj. | Proj. | Proj. | Proj. | Proj. | Proj. |
| Current account | -2,931 | -307 | 243 | 433 | 363 | 337 | 109 | -88 | -120 |
| *of which non-oil* | -2,089 | -1,008 | -1,192 | -938 | -896 | -951 | -1,040 | -1,023 | -972 |
| Trade balance | -1,225 | 1,407 | 2,439 | 2,890 | 2,875 | 2,711 | 2,494 | 2,107 | 1,979 |
| Exports, f.o.b. | 2,583 | 3,569 | 4,061 | 5,160 | 5,197 | 5,105 | 4,979 | 4,618 | 4,498 |
| Oil sector | 1,847 | 2,852 | 3,635 | 4,439 | 4,447 | 4,350 | 4,201 | 3,803 | 3,580 |
| Non-oil sector | 736 | 717 | 426 | 721 | 749 | 755 | 778 | 815 | 917 |
| Imports, f.o.b. | -3,807 | -2,162 | -1,622 | -2,270 | -2,321 | -2,394 | -2,485 | -2,512 | -2,519 |
| Oil sector | -1,237 | -656 | -643 | -961 | -1,021 | -1,005 | -1,026 | -989 | -933 |
| Government | -947 | -390 | -158 | -254 | -234 | -285 | -317 | -335 | -349 |
| Non-oil private sector | -1,624 | -1,117 | -821 | -1,056 | -1,067 | -1,103 | -1,143 | -1,188 | -1,237 |
| Balance of services | -1,171 | -1,050 | -1,524 | -1,451 | -1,545 | -1,472 | -1,461 | -1,369 | -1,309 |
| Oil sector | -867 | -816 | -1,012 | -1,193 | -1,271 | -1,208 | -1,187 | -1,090 | -1,028 |
| Nonoil sector | -304 | -233 | -512 | -259 | -274 | -264 | -274 | -279 | -281 |
| Income | -232 | -404 | -635 | -749 | -722 | -654 | -666 | -565 | -520 |
| Labor income | -31 | -8 | -23 | -34 | -32 | -30 | -28 | -21 | -17 |
| Investment income | -200 | -396 | -612 | -715 | -689 | -623 | -638 | -544 | -503 |
| Current transfers (net) | -304 | -261 | -36 | -256 | -246 | -249 | -258 | -261 | -270 |
| Capital account | 34 | 80 | 30 | 4 | 22 | 22 | 22 | 15 | 15 |
| Official grants | 40 | 30 | 30 | 10 | 28 | 28 | 28 | 15 | 15 |
| Debt cancellation | 0 | 57 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Non-financial non-produced assets | -6 | -6 | 0 | -6 | -6 | -6 | -6 | 0 | 0 |
| Financial account | 1,968 | -22 | -557 | -501 | -580 | -473 | -78 | 128 | 201 |
| Direct investment (net) | 1,738 | 194 | 1,154 | 190 | 266 | 273 | 272 | 300 | 315 |
| Portfolio investment | -20 | -1 | -19 | -1 | -1 | -1 | -1 | -1 | -1 |
| Other investment | 251 | -216 | -1,692 | -690 | -845 | -745 | -349 | -172 | -114 |
| Medium and long term | 520 | 54 | -449 | -518 | -744 | -488 | -192 | -205 | -88 |
| Public sector | 320 | 185 | -387 | -229 | -538 | -469 | -295 | -244 | -118 |
| Drawings | 508 | 424 | 103 | 44 | 122 | 114 | 115 | 99 | 102 |
| Project | 345 | 219 | 103 | 59 | 122 | 114 | 115 | 99 | 102 |
| Program | 0 | 205 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other (collateralized) | 163 | 0 | 0 | -15 | 0 | 0 | 0 | 0 | 0 |
| Amortization[1] | -246 | -257 | -491 | -339 | -660 | -583 | -410 | -343 | -220 |
| Net change in arrears | 58 | 17 | 0 | 67 | 0 | 0 | 0 | | |
| Private sector | 200 | -130 | -62 | -289 | -206 | -18 | 104 | 39 | 30 |
| Oil | 380 | -142 | -113 | -290 | -219 | -32 | 27 | 24 | 23 |
| Non-oil | -180 | 12 | 51 | 1 | 13 | 14 | 77 | 15 | 7 |
| Short term | -269 | -270 | -1,243 | -172 | -100 | -258 | -157 | 33 | -26 |
| Errors and omissions | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Overall balance of payments | -927 | -249 | -284 | -64 | -194 | -114 | 54 | 55 | 96 |
| Financing | 927 | 249 | -229 | 64 | -168 | -298 | -299 | -121 | -64 |
| Reserve financing | 880 | 213 | -325 | -22 | -168 | -298 | -299 | -121 | -64 |
| Government deposits abroad | 47 | 35 | 96 | 86 | 0 | 0 | 0 | 0 | 0 |
| Exceptional financing [2] | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Financing gap (- = surplus) | 0 | 0 | 512 | 0 | 362 | 411 | 245 | 66 | -35 |
| Expected financing (excluding IMF) | | | 214 | 0 | 218 | 152 | 152 | 0 | 0 |
| IMF-ECF | | | 25 | 0 | 52 | 78 | 78 | 52 | 0 |
| Exceptional financing from debt restructuring[3] | | | 273 | 0 | 92 | 182 | 16 | 15 | -35 |

Sources: BEAC and IMF staff estimates and projections.

[1] Includes stock debt relief of the HIPC completion point.

[2] Includes flow debt relief from Paris Club and London Club, and payments to litigating creditors.

[3] Net of restructured contingent liabilities.

## Table 5. Republic of Congo: Monetary Survey, 2016–23

| | 2016 | 2017 | 2018 | | 2019 | | | | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Prel. July 2018 SR | Prel. | Q1 | Q2 | Q3 | Q4 | Projections | | | |
| | (Billions of CFA francs) | | | | | | | | | | | |
| Net foreign assets | 461 | 212 | 490 | 252 | 181 | 198 | 244 | 351 | 568 | 789 | 863 | 928 |
| Central bank | 393 | 180 | 480 | 202 | 181 | 189 | 229 | 319 | 539 | 760 | 829 | 890 |
| Deposit money banks | 68 | 32 | 10 | 49 | -0 | 10 | 15 | 32 | 29 | 30 | 35 | 37 |
| Net domestic assets | 1,510 | 1,554 | 1,506 | 1,443 | 1,425 | 1,367 | 1,403 | 1,472 | 1,427 | 1,449 | 1,450 | 1,449 |
| Net domestic credit | 1,744 | 1,807 | 1,511 | 1,772 | 1,724 | 1,603 | 1,586 | 1,708 | 1,597 | 1,514 | 1,560 | 1,574 |
| Net credit to the public sector | 506 | 596 | 316 | 636 | 625 | 613 | 557 | 543 | 376 | 210 | 159 | 64 |
| Net credit to the Government | 498 | 600 | 321 | 634 | 630 | 618 | 562 | 542 | 375 | 208 | 158 | 63 |
| Central bank | 373 | 484 | 253 | 510 | 507 | 495 | 439 | 412 | 265 | 119 | 89 | -6 |
| Claims | 578 | 577 | 600 | 575 | 574 | 574 | 600 | 626 | 702 | 780 | 774 | 714 |
| Deposits | -205 | -93 | -346 | -64 | -68 | -79 | -161 | -213 | -437 | -661 | -686 | -721 |
| Deposit money banks | 125 | 116 | 68 | 124 | 123 | 117 | 81 | 126 | 100 | 101 | 103 | 103 |
| Claims on public agencies, net | 7 | -4 | -4 | 1 | -5 | -5 | -5 | 1 | 1 | 1 | 1 | 95 |
| Credit to the economy 1/ | 1,239 | 1,212 | 1,194 | 1,136 | 1,099 | 990 | 1,029 | 1,165 | 1,221 | 1,304 | 1,401 | 1,510 |
| Other items, net | -234 | -253 | -253 | -328 | -298 | -237 | -183 | -236 | -170 | -65 | -110 | -125 |
| Broad money | 1,972 | 1,767 | 1,997 | 1,695 | 1,607 | 1,565 | 1,647 | 1,823 | 1,995 | 2,239 | 2,314 | 2,377 |
| Currency outside banks | 511 | 470 | 531 | 445 | 408 | 404 | 421 | 478 | 523 | 587 | 607 | 623 |
| Demand deposits | 1,109 | 987 | 1,116 | 973 | 894 | 865 | 872 | 1,046 | 1,145 | 1,285 | 1,328 | 1,364 |
| Time deposits | 352 | 309 | 349 | 278 | 304 | 296 | 320 | 298 | 327 | 366 | 379 | 389 |
| | (Changes in percent of beginning-of-period broad money) | | | | | | | | | | | |
| Broad money | -15.4 | -10 | 13.0 | -4.0 | -5.2 | -7.7 | -2.9 | 7.5 | 9.4 | 12.2 | 3.4 | 2.7 |
| Net foreign assets | -46.5 | -12.6 | 15.7 | 2.2 | -4.2 | -3.2 | -0.5 | 5.8 | 11.9 | 11.1 | 3.3 | 2.8 |
| Net domestic assets | 31.2 | 2.2 | -2.7 | -6.3 | -1.1 | -4.5 | -2.4 | 1.7 | -2.5 | 1.1 | 0.1 | -0.1 |
| Net domestic credit | 32.0 | 3.2 | -16.8 | -2.0 | -2.8 | -9.9 | -10.9 | -3.7 | -6.1 | -4.2 | 2.1 | 0.6 |
| Net credit to the public sector | 27.8 | 4.6 | -15.8 | 2.3 | -0.6 | -1.3 | -4.6 | -5.5 | -9.1 | -8.3 | -2.3 | -4.1 |
| Credit to the economy 1/ | 4.2 | -1.4 | -1.0 | -4.3 | -2.2 | -8.6 | -6.3 | 1.8 | 3.0 | 4.2 | 4.3 | 4.7 |
| Other items, net | -0.9 | -1.0 | -- | (4.3) | 1.8 | 5.4 | 8.6 | 5.4 | 3.6 | 5.3 | (2.0) | (0.6) |
| | (Annual percent changes, unless otherwise indicated) | | | | | | | | | | | |
| Reserve money | -33.2 | -10.4 | 9.9 | 2.4 | ... | ... | ... | 2.5 | 10.0 | 9.3 | 12.2 | 5.2 |
| Credit to the economy 1/ | 8.7 | -2.2 | -1.4 | -6.3 | ... | ... | ... | 2.6 | 4.8 | 6.8 | 7.4 | 7.8 |
| Velocity (Non-oil GDP/End period M2) | 1.5 | 1.5 | 1.5 | 1.5 | ... | ... | ... | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 |
| | (Percent) | | | | | | | | | | | |
| Total nominal GDP growth | -8.7 | 12.4 | 13.7 | 24.8 | ... | ... | ... | 0.8 | 0.8 | 0.5 | -2.7 | 0.3 |
| Non-oil GDP growth | -5.3 | -7.3 | -4.6 | -5.6 | ... | ... | ... | 2.3 | 4.3 | 6.4 | 7.0 | 7.3 |
| Credit to the economy/Non-oil GDP | 42.6 | 45.0 | 46.9 | 44.6 | ... | ... | ... | 44.8 | 45.0 | 45.2 | 45.4 | 45.5 |
| Memorandum Items: | | | | | | | | | | | | |
| Gross imputed official reserves (CFA billion) | 519 | 277 | 600 | 291 | 274 | 281 | 347 | 458 | 755 | 1053 | 1174 | 1233 |
| In months of imports | 1.8 | 0.84 | 2.1 | 0.9 | ... | ... | ... | 1.3 | 2.2 | 3.1 | 3.5 | 3.7 |
| Central bank liablities to non-residents | 126.1 | 96.4 | 120.0 | 88.7 | 92.9 | 92.7 | 118.2 | 139.6 | 216.4 | 293.6 | 345.4 | 342.8 |

Sources: BEAC; and IMF staff estimates and projections.

[1] Private sector and public enterprises.

## Table 6. Republic of Congo: Gross Financing Needs, 2016–23

(Billions of U.S. dollars)

| | 2016 | 2017 | 2018 | | 2019 | 2020 | 2021 | 2022 | 2023 | 2019-22 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Est. | Prel. July 2018 SR | Proj. | Proj. | | | | | |
| **Financing needs** | 7.96 | 5.43 | 7.27 | 7.36 | 7.84 | 7.66 | 7.52 | 7.09 | 6.51 | 30.11 |
| External current account deficit excl. grants and oil exports | 7.55 | 4.99 | 6.34 | 6.75 | 6.69 | 6.63 | 6.80 | 6.47 | 6.12 | 26.59 |
| Amortization on external debt | 0.42 | 0.44 | 0.93 | 0.61 | 1.15 | 1.03 | 0.73 | 0.61 | 0.39 | 3.52 |
| | | | | | | | | | | |
| **Financing** | 6.51 | 5.06 | 6.91 | 7.40 | 7.50 | 7.46 | 7.62 | 7.18 | 6.68 | 29.77 |
| Oil exports | 3.12 | 4.91 | 6.87 | 8.00 | 7.75 | 7.67 | 7.45 | 6.78 | 6.39 | 29.65 |
| Current transfers | -0.51 | -0.45 | -0.07 | -0.46 | -0.43 | -0.44 | -0.46 | -0.47 | -0.48 | -1.79 |
| Capital transfers | 0.06 | 0.14 | 0.06 | 0.01 | 0.04 | 0.04 | 0.04 | 0.03 | 0.03 | 0.14 |
| Foreign Direct and portfolio Investment | 2.93 | 0.33 | 2.14 | 0.34 | 0.46 | 0.48 | 0.48 | 0.53 | 0.56 | 1.96 |
| External borrowing (drawings) | 0.86 | 0.73 | 0.20 | 0.08 | 0.21 | 0.20 | 0.20 | 0.18 | 0.18 | 0.79 |
| Short-term flows | -0.45 | -0.46 | -2.35 | -0.31 | -0.17 | -0.45 | -0.28 | 0.06 | -0.05 | -0.85 |
| Other flows[1] | 0.52 | -0.13 | 0.06 | -0.25 | -0.36 | -0.03 | 0.18 | 0.07 | 0.05 | -0.14 |
| | | | | | | | | | | |
| **Change in net official reserves (accumulation = –)** | 1.48 | 0.367 | -0.61 | -0.040 | -0.29 | -0.52 | -0.53 | -0.22 | -0.11 | -1.56 |
| | | | | | | | | | | |
| **Financing Gap** | 0.0 | 0.0 | 1.0 | 0.00 | 0.63 | 0.73 | 0.43 | 0.12 | -0.06 | 1.91 |
| | | | | | | | | | | |
| **Targeted level of gross imputed official reserves** | | | | | | | | | | |
| in billion of US$ | 0.88 | 0.48 | 1.13 | 0.52 | 0.80 | 1.33 | 1.87 | 2.09 | 2.21 | |
| in months of imports | 1.8 | 0.8 | 2.1 | 0.9 | 1.3 | 2.2 | 3.1 | 3.5 | 3.7 | |

Sources: BEAC; and IMF staff estimates and projections.

[1] This item includes: (i) net change in arrears; (ii) private sector external borrowing; (iii) change in government deposit abroad; and (iv) exceptional financing received.

## Table 7. Republic of Congo: Financial Soundness Indicators for the Banking Sector, 2015–18

(Percent, unless otherwise indicated)

| | 2015 | 2016 | 2017 | 2018 October |
|---|---|---|---|---|
| Capital | | | | |
| Regulatory capital to risk-weighted assets[1, 2] | 19.5 | 19.1 | 22.8 | 27.6 |
| Asset quality | | | | |
| Non-performing loans less provisions to regulatory capital | 4.6 | 7.9 | 33.0 | 39.2 |
| Non-performing loans (gross) to total loans (gross) | 3.6 | 4.8 | 13.3 | 17.6 |
| Earnings and profitability | | | | |
| Return on equity | 20.4 | 28.0 | 9.9 | - |
| Return on assets[3] | 2.3 | 4.0 | 1.7 | - |
| Liquidity | | | | |
| Ratio of liquid assets to short-term liabilities | 116.1 | 104.4 | 146.6 | 167.4 |
| Total deposits to total (noninterbank) loans | 125.5 | 102.8 | 90.5 | 90.9 |
| Credit | | | | |
| Gross loan (banks' book) - bn FCFA | 1424.1 | 1459.8 | 1400.6 | 1315.1 |
| Gross loan - annualized growth rate | 19.8 | 2.5 | -4.1 | -9.5 |

Source: FSI database

[1] Current year profits are excluded from the definition of regulatory capital, following the Basel I capital accord guidelines. General provisions are included in Tier 2 capital up to an amount equal to 1.25% of risk-weighted assets. Regulatory capital is the sum of Tier 1 capital, and the minimum of Tier 1 and Tier 2 capital.

[2] The risk-weighted assets are estimated using the following risk weights: 0% - cash reserves in domestic and foreign currency and claims on the central bank; 100% - all other assets.

[3] The ratio of after-tax profits to the average of beginning and end-period total assets.

## Table 8. Republic of Congo: Public Debt Stock

| | 2015 | | | 2016 | | | 2017 | | | 2018 | | | May 2019 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | CFAF billion | USD million | percent of GDP | CFAF billion | USD million | percent of GDP | CFAF billion | USD million | percent of GDP | CFAF billion | USD million | percent of GDP | CFAF billion | USD million | percent of GDP |
| **Total public debt** | **5205** | **8631** | **102.9** | **5473** | **8796** | **118.6** | **6096** | **11000** | **117.5** | **5689** | **9871** | **87.8** | **5580** | **9486** | **85.5** |
| **External debt** | **4154** | **6888** | **82.1** | **4219** | **6782** | **91.4** | **4152** | **7492** | **80.0** | **3970** | **6889** | **61.3** | **3861** | **6564** | **59.1** |
| *of which: arrears* | *378* | *627* | *7.5* | *436* | *701* | *9.4* | *453* | *817* | *8.7* | *520* | *902* | *8.0* | *535* | *909* | *8.2* |
| Multilateral and other creditors | 115 | 190 | 2.3 | 140 | 225 | 3.0 | 154 | 278 | 3.0 | 207 | 360 | 3.2 | 209 | 355 | 3.2 |
| IMF | 7 | 12 | 0.1 | 5 | 8 | 0.1 | 4 | 6 | 0.1 | 2.4 | 4 | 0.0 | 2.1 | 3 | 0.0 |
| IDA/IBRD | 66 | 109 | 1.3 | 76 | 121 | 1.6 | 76 | 137 | 1.5 | 109 | 189 | 1.7 | 110 | 187 | 1.7 |
| AfDB | 13 | 22 | 0.3 | 9 | 14 | 0.2 | 29 | 52 | 0.6 | 49 | 84 | 0.7 | 49 | 83 | 0.7 |
| IFAD | 11 | 18 | 0.2 | 11 | 17 | 0.2 | 13 | 23 | 0.2 | 12 | 21 | 0.2 | 12 | 21 | 0.2 |
| Others | 17 | 29 | 0.6 | 39 | 63 | 1.1 | 33 | 59 | 0.6 | 35 | 61 | 0.5 | 36 | 61 | 0.5 |
| Official bilateral | 1768 | 2932 | 35.0 | 1941 | 3120 | 42.1 | 1973 | 3559 | 38.0 | 1816 | 3152 | 28.0 | 1797 | 3055 | 27.5 |
| Paris Club | 111 | 185 | 2.2 | 132 | 213 | 2.9 | 247 | 445 | 4.8 | 196 | 340 | 3.0 | 197 | 336 | 3.0 |
| Brazil | 32 | 53 | 0.6 | 34 | 55 | 0.7 | 29 | 52 | 0.6 | 30 | 52 | 0.5 | 31 | 52 | 0.5 |
| Belgium | 0 | 0 | 0.0 | 35 | 56 | 0.8 | 85 | 154 | 1.6 | 78 | 135 | 1.2 | 78 | 132 | 1.2 |
| France | 79 | 132 | 1.6 | 63 | 101 | 1.4 | 52 | 94 | 1.0 | 64 | 110 | 1.0 | 64 | 109 | 1.0 |
| Russia | | | | | | | 74 | 133 | 1.4 | 18 | 31 | 0.3 | 18 | 31 | 0.3 |
| Switzerland | | | | | | | 7 | 12 | 0.1 | 7 | 12 | 0.1 | 7 | 12 | 0.1 |
| Non-Paris Club | 1657 | 2747 | 32.8 | 1809 | 2907 | 39.2 | 1726 | 3114 | 33.3 | 1620 | 2812 | 25.0 | 1599 | 2719 | 24.5 |
| China | 1497 | 2483 | 29.6 | 1526 | 2452 | 33.1 | 1434 | 2588 | 27.6 | 1387 | 2408 | 21.4 | 1360 | 2312 | 20.8 |
| India | 31 | 52 | 0.6 | 37 | 59 | 0.8 | 47 | 84 | 0.9 | 53 | 92 | 0.8 | 55 | 93 | 0.8 |
| Kuwait | 33 | 55 | 0.7 | 34 | 54 | 0.7 | 30 | 55 | 0.6 | 32 | 55 | 0.5 | 32 | 55 | 0.5 |
| Turkey | 0 | 0 | 0.0 | 116 | 186 | 2.5 | 116 | 209 | 2.2 | 45 | 79 | 0.7 | 46 | 79 | 0.7 |
| Pre-HIPC arrears (not restructured) | 95 | 158 | 1.9 | 97 | 155 | 2.1 | 99 | 179 | 1.9 | 103 | 179 | 1.6 | 106 | 180 | 1.6 |
| Private Creditors | 2271 | 3765 | 44.9 | 2138 | 3437 | 46.3 | 2026 | 3655 | 39.0 | 1946 | 3377 | 30.1 | 1856 | 3154 | 28.4 |
| Oil-prepurchased debt | 1484 | 2461 | 29.4 | 1361 | 2187 | 29.5 | 1190 | 2148 | 22.9 | 1061 | 1841 | 16.4 | 965 | 1641 | 14.8 |
| Glencore | 530 | 879 | 10.5 | 514 | 827 | 11.1 | 447 | 806 | 8.6 | 385 | 668 | 5.9 | 366 | 623 | 5.6 |
| Trafigura | 804 | 1332 | 15.9 | 691 | 1110 | 15.0 | 605 | 1092 | 11.7 | 533 | 925 | 8.2 | 482 | 819 | 7.4 |
| Orion | 151 | 250 | 3.0 | 156 | 250 | 3.4 | 139 | 250 | 2.7 | 143 | 248 | 2.2 | 117 | 199 | 1.8 |
| Afreximbank | 0 | 0 | 0.0 | 0 | 0 | 0.0 | 194 | 350 | 3.7 | 164 | 284 | 2.5 | 156 | 265 | 2.4 |
| Suppliers | 293 | 486 | 5.8 | 291 | 467 | 6.3 | 231 | 417 | 4.5 | 232 | 402 | 3.6 | 231 | 392 | 3.5 |
| **Domestic debt** | **1051** | **1744** | **20.8** | **1253** | **2015** | **27.2** | **1944** | **3508** | **37.5** | **1719** | **2983** | **26.5** | **1719** | **2922** | **26.3** |
| BEAC advances | 572 | 949 | 11.3 | 572 | 920 | 12.4 | 572 | 1033 | 11.0 | 572 | 993 | 8.8 | 572 | 973 | 8.8 |
| Domestic bond | | | | 184 | 295 | 4.0 | 198 | 358 | 3.8 | 160 | 278 | 2.5 | 160 | 272 | 2.5 |
| BSCA | | | | 12 | 19 | 0.3 | 0 | 0 | 0.0 | 0 | 0 | 0.0 | 0 | 0 | 0.0 |
| ARC | | | | 8 | 13 | 0.2 | 8 | 15 | 0.2 | 0 | 0 | 0.0 | 0 | 0 | 0.0 |
| SGEC CONGO | | | | 109 | 176 | 2.4 | 109 | 198 | 2.1 | 0 | 0 | 0.0 | 0 | 0 | 0.0 |
| ENI | 294 | 487 | 5.8 | 183 | 294 | 4.0 | 74 | 133 | 1.4 | 0 | 0 | 0.0 | 0 | 0 | 0.0 |
| Audited arrears in CCA | 185 | 307 | 3.7 | 185 | 298 | 4.0 | 235 | 424 | 4.5 | 361 | 626 | 5.6 | 361 | 613 | 5.5 |
| Unaudited arrears | | | | | | | 747 | 1349 | 14.4 | 626 | 1086 | 9.7 | 626 | 1064 | 9.6 |
| ***Memorandum items:*** | | | | | | | | | | | | | | | |
| Additional debt claimed by commisimpex | | | | 486 | 782 | 10.5 | 486 | 878 | 9.4 | 486 | 844 | 7.5 | 486 | 827 | 7.5 |
| Rejected claims[1] | | | | | | 34.1 | 826 | 1490 | 15.9 | 415 | 720 | 6.4 | 415 | 705 | 6.4 |

Sources: Congolese authorities; and IMF staff estimates

[1] Claims associated with infrastructure projects rejected by the authorities after an administrative review.

## Table 9. Republic of Congo: External Arrears

(Year end, billions of CFAF, unless otherwise indicated)

| | 2015 | | | | 2016 | | | | 2017 | | | | 2018 | | | | May 2019 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Principal | Interest | CFAF Billion | Percent of GDP | principal | interest | CFAF Billion | Percent of GDP | Principal | Interest | CFAF Billion | Percent of GDP | Principal | Interest | CFAF Billion | Percent of GDP | Principal | Interest | CFAF Billion | Percent of GDP |
| **Total** | **159.9** | **218.1** | **377.9** | **7.5** | **215.6** | **220.4** | **436.0** | **9.4** | **227.4** | **225.6** | **453.0** | **8.7** | **324.9** | **195.0** | **519.9** | **8.0** | **337.9** | **196.7** | **534.6** | **8.3** |
| Multilateral and other creditor | 0.0 | 0.0 | 0.0 | 0.0 | 4.6 | 0.2 | 4.8 | 0.1 | 3.8 | 0.4 | 4.2 | 0.1 | 5.9 | 0.9 | 6.8 | 0.1 | 6.7 | 1.1 | 7.8 | 0.1 |
| IMF | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| World Bank | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| IFAD | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| AfDB | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Others | 0.0 | 0.0 | 0.0 | 0.0 | 4.6 | 0.2 | 4.8 | 0.1 | 3.7 | 0.3 | 4.0 | 0.1 | 5.9 | 0.9 | 6.8 | 0.1 | 6.7 | 1.1 | 7.8 | 0.1 |
| Bilateral | 45.3 | 50.2 | 95.5 | 1.9 | 57.2 | 51.8 | 109.0 | 2.4 | 76.2 | 56.0 | 132.2 | 2.5 | 89.8 | 42.1 | 131.9 | 2.0 | 108.7 | 44.7 | 153.3 | 2.3 |
| Paris Club | 0.0 | 0.0 | 0.0 | 0.0 | 10.7 | 0.8 | 11.5 | 0.2 | 28.5 | 2.1 | 30.6 | 0.6 | 56.6 | 3.7 | 60.3 | 0.9 | 72.3 | 4.0 | 76.3 | 1.2 |
| Brazil | 0.0 | 0.0 | 0.0 | 0.0 | 7.9 | 0.6 | 8.4 | 0.2 | 14.8 | 0.9 | 15.6 | 0.3 | 22.9 | 1.1 | 24.0 | 0.4 | 27.5 | 1.2 | 28.6 | 0.4 |
| Belgium | 0.0 | 0.0 | 0.0 | 0.0 | | | 0.0 | 0.0 | 0.0 | 1.0 | 1.0 | 0.0 | 0.0 | 2.4 | 2.4 | 0.0 | 0.0 | 2.8 | 2.8 | 0.0 |
| France | 0.0 | 0.0 | 0.0 | 0.0 | 2.8 | 0.2 | 3.0 | 0.1 | 6.9 | 0.2 | 7.1 | 0.1 | 26.9 | 0.2 | 27.1 | 0.4 | 37.1 | 0.0 | 37.1 | 0.6 |
| Switzerland | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 6.8 | 0.0 | 6.8 | 0.1 | 6.8 | 0.0 | 6.8 | 0.1 | 6.8 | 0.0 | 6.8 | 0.1 |
| Russia | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.9 | 0.0 | 0.9 | 0.0 |
| Non-Paris Club | 45.3 | 50.2 | 95.5 | 1.9 | 46.5 | 51.0 | 97.5 | 2.1 | 47.7 | 53.9 | 101.6 | 2.0 | 33.2 | 38.4 | 71.6 | 1.1 | 36.4 | 40.7 | 77.1 | 1.2 |
| United Arab Emirates[1] | 4.5 | 7.1 | 11.6 | 0.2 | 5.8 | 7.1 | 12.9 | 0.3 | 5.3 | 6.8 | 12.0 | 0.2 | 5.5 | 7.2 | 12.7 | 0.2 | 5.6 | 7.4 | 13.0 | 0.2 |
| Angola[1] | 13.7 | 20.8 | 34.5 | 0.7 | 13.7 | 20.8 | 34.5 | 0.7 | 16.0 | 24.3 | 40.2 | 0.8 | 16.4 | 25.1 | 41.5 | 0.6 | 16.8 | 25.7 | 42.6 | 0.7 |
| China | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 1.0 | 0.0 | 1.0 | 0.0 | 1.2 | 0.0 | 1.3 | 0.0 |
| India | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.8 | 0.8 | 0.0 | 1.3 | 1.2 | 2.4 | 0.0 | 3.9 | 2.4 | 6.2 | 0.1 | 4.0 | 2.8 | 6.8 | 0.1 |
| Kuwait | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 | 0.0 | 0.0 | 0.2 | 0.2 | 0.0 | 0.0 | 0.4 | 0.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Saudi Arabia | 23.9 | 22.3 | 46.2 | 0.9 | 23.9 | 22.3 | 46.2 | 1.0 | 22.1 | 21.5 | 43.6 | 0.8 | 0.0 | 0.7 | 0.7 | 0.0 | 0.0 | 1.1 | 1.1 | 0.0 |
| Turkey | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 3.4 | 2.7 | 6.0 | 0.1 | 5.6 | 3.6 | 9.2 | 0.1 |
| Postal debt[1] | 3.1 | 0.0 | 3.1 | 0.1 | 3.1 | 0.0 | 3.1 | 0.1 | 3.1 | 0.0 | 3.1 | 0.1 | 3.1 | 0.0 | 3.1 | 0.0 | 3.1 | 0.0 | 3.1 | 0.0 |
| Private creditors | 114.6 | 167.9 | 282.5 | 5.6 | 153.7 | 168.4 | 322.1 | 7.0 | 147.4 | 169.2 | 316.5 | 6.1 | 229.2 | 152.0 | 381.2 | 5.9 | 222.5 | 151.0 | 373.5 | 5.7 |
| CMEC[2] | 0.0 | 0.0 | 0.0 | 0.0 | 35.8 | 0.4 | 36.2 | 0.8 | 63.5 | 0.7 | 64.2 | 1.2 | 0.0 | 0.4 | 0.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Eurobond (London Club) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Afreximbank | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.2 | 0.0 | 0.2 | 0.0 | 7.4 | 2.7 | 10.0 | 0.2 |
| Oil traders | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 22.4 | 22.4 | 0.4 | 143.5 | 5.5 | 148.9 | 2.3 | 125.1 | 1.4 | 126.4 | 1.9 |
| Suppliers[3] | 114.6 | 167.9 | 282.5 | 5.6 | 117.9 | 168.0 | 285.9 | 6.2 | 83.8 | 146.1 | 229.9 | 4.4 | 85.5 | 146.1 | 231.6 | 3.6 | 84.5 | 146.1 | 230.6 | 3.5 |

Source: Congolese authorities; and IMF staff estimates

[1]End-2015 stocks are unrestructured pre-HIPC arrears.

[2]China Machinery Engineering Corporation, previously classified as official bilateral debt.

[3] Includes disputed debts (pre-HIPC claims). The decline in 2017 reflects the cancellation of arrears owed to two private creditors due to court arbitrations.

## Table 10. Republic of Congo: Proposed Schedule of Disbursements and Timing of Reviews Under ECF Arrangement, 2019–22

| Date of Availability | Conditions Necessary for Disbursement | Amount (SDR million) | Percent of Quota |
|---|---|---|---|
| | | ECF | ECF |
| Board approval | Executive Board Approval of Three-year arrangement under the ECF | 32.4 | 20.0 |
| December 15, 2019 | Observance of performance criteria for June 30, 2019 and completion of first review. | 32.4 | 20.0 |
| June 15, 2020 | Observance of performance criteria for December 31, 2019 and completion of second review. | 48.6 | 30.0 |
| December 15, 2020 | Observance of performance criteria for June 30, 2020 and completion of third review. | 48.6 | 30.0 |
| June 15, 2021 | Observance of performance criteria for December 31, 2020 and completion of fourth review. | 48.6 | 30.0 |
| December 15, 2021 | Observance of performance criteria for June 30, 2021 and completion of fifth review. | 48.6 | 30.0 |
| June 15, 2022 | Observance of performance criteria for December 31, 2021 and completion of sixth review. | 64.8 | 40.0 |
| | Total | 324.0 | 200.0 |
| *Memorandum item:* | | | |
| Republic of Congo's quota | | 162.0 | |

## Table 11. Republic of Congo: Indicators of Capacity to Repay the Fund, April 2019–March 2031

(Millions of SDRs, unless otherwise stated)

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **IMF obligations based on existing credit** | | | | | | | | | | | | | |
| Principal | 0.85 | 0.97 | 0.60 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Charges and interest | 0.16 | 0.32 | 0.32 | 0.32 | 0.32 | 0.32 | 0.32 | 0.32 | 0.32 | 0.32 | 0.32 | 0.32 | 0.32 |
| **IMF obligations based on prospective credit** | | | | | | | | | | | | | |
| Principal | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 17.8 | 37.3 | 58.3 | 64.8 | 64.8 | 47.0 | 27.5 |
| Charges and interest | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| **Total obligations based on existing and prospective credit** | | | | | | | | | | | | | |
| SDR millions | 0.85 | 0.97 | 0.60 | 0.00 | 0.00 | 0.00 | 17.82 | 37.26 | 58.32 | 64.80 | 64.80 | 46.98 | 27.54 |
| CFAF billions | 0.68 | 0.77 | 0.48 | 0.00 | 0.00 | 0.00 | 14.26 | 29.82 | 46.67 | 51.85 | 51.85 | 37.59 | 22.04 |
| Percent of exports of goods and services | 0.01 | 0.01 | 0.01 | 0.00 | 0.00 | 0.00 | 0.31 | 0.68 | 1.13 | 1.29 | 1.35 | 1.01 | 0.60 |
| Percent of debt service[1] | 0.09 | 0.12 | 0.10 | 0.00 | 0.00 | 0.00 | 8.14 | 15.05 | 20.89 | 24.68 | 24.17 | 17.86 | 10.24 |
| Percent of GDP | 0.01 | 0.01 | 0.01 | 0.00 | 0.00 | 0.00 | 0.21 | 0.43 | 0.67 | 0.72 | 0.70 | 0.49 | 0.27 |
| Percent of tax revenue | 0.09 | 0.09 | 0.05 | 0.00 | 0.00 | 0.00 | 1.08 | 2.08 | 2.98 | 3.04 | 2.79 | 1.85 | 1.00 |
| Percent of quota | 0.52 | 0.60 | 0.37 | 0.00 | 0.00 | 0.00 | 11.00 | 23.00 | 36.00 | 40.00 | 40.00 | 29.00 | 17.00 |
| **Outstanding IMF credit based on existing and prospective drawings** | | | | | | | | | | | | | |
| SDR millions | 66.4 | 162.6 | 259.2 | 324.0 | 324.0 | 324.0 | 306.2 | 268.9 | 210.6 | 145.8 | 81.0 | 34.0 | 6.5 |
| CFAF billions | 53.2 | 129.9 | 207.1 | 258.9 | 259.7 | 259.3 | 245.0 | 215.2 | 168.5 | 116.7 | 64.8 | 27.2 | 5.2 |
| Percent of exports of goods and services | 1.0 | 2.4 | 4.0 | 5.3 | 5.5 | 5.5 | 5.4 | 4.9 | 4.1 | 2.9 | 1.7 | 0.7 | 0.1 |
| Percent of debt service[1] | 7.0 | 19.5 | 42.6 | 63.3 | 95.3 | 162.1 | 139.9 | 108.6 | 75.4 | 55.5 | 30.2 | 12.9 | 2.4 |
| Percent of GDP | 0.8 | 2.0 | 3.1 | 4.0 | 4.0 | 3.9 | 3.6 | 3.1 | 2.4 | 1.6 | 0.9 | 0.4 | 0.1 |
| Percent of tax revenue | 7.1 | 15.0 | 22.3 | 25.2 | 23.4 | 21.5 | 18.6 | 15.0 | 10.8 | 6.8 | 3.5 | 1.3 | 0.2 |
| Percent of quota | 41.0 | 100.4 | 160.0 | 200.0 | 200.0 | 200.0 | 189.0 | 166.0 | 130.0 | 90.0 | 50.0 | 21.0 | 4.0 |
| *Memorandum items:* | | | | | | | | | | | | | |
| Exports of goods and services (CFAF billions) | 5,421 | 5,343 | 5,208 | 4,841 | 4,719 | 4,697 | 4,565 | 4,362 | 4,141 | 4,016 | 3,845 | 3,712 | 3,701 |
| External Debt service (CFAF billions)[1] | 758 | 665 | 486 | 409 | 273 | 160 | 175 | 198 | 223 | 210 | 215 | 211 | 215 |
| Nominal GDP (CFAF billions) | 6,529 | 6,578 | 6,611 | 6,432 | 6,449 | 6,646 | 6,776 | 6,863 | 6,991 | 7,207 | 7,409 | 7,674 | 8,063 |
| Tax revenue (CFAF billions) | 746 | 867 | 929 | 1,029 | 1,111 | 1,208 | 1,316 | 1,435 | 1,565 | 1,706 | 1,860 | 2,027 | 2,203 |
| Quota (SDR millions) | 162.0 | 162.0 | 162.0 | 162.0 | 162.0 | 162.0 | 162.0 | 162.0 | 162.0 | 162.0 | 162.0 | 162.0 | 162.0 |

Sources: IMF staff estimates and projections.

[1]Total external debt service includes IMF repurchases and repayments.

## Table 12. Republic of Congo: Quantitative Performance Criteria (PC) and Indicative Targets (IT)

(Billions of CFA francs, cumulative from the beginning of the year, except where otherwise indicated)[1]

| | Type of criteria | End-Jun.2019 | End-Sept 2019 | End-Dec 2019 | End-Mar 2020 | End-Jun. 2020 |
|---|---|---|---|---|---|---|
| | | PC/IT | IT | PC/IT | IT | IT |
| Floor on basic non-oil primary budget balance[2] | PC | -125 | -220 | -413 | -34 | -116 |
| Ceiling on net domestic financing to the central government | PC | -48 | -133 | -315 | -201 | -257 |
| Ceiling on the accumulation of new external payment arrears on public and publicly guaranteed external debt[3] | PC | 0 | 0 | 0 | 0 | 0 |
| Ceiling on contracting or guaranteeing of new non-concessional external debt by the central government (US$ million)[3,4,5] | PC | 0 | 0 | 0 | 0 | 0 |
| Ceiling on new external debt contracted by or on behalf of the central government and guaranteed with future natural resource (including oil) deliveries[3,4,5] | PC | 0 | 0 | 0 | 0 | 0 |
| Floor on non-oil revenues | IT | 330 | 524 | 763 | 207 | 386 |
| Floor for poverty-reducing social spending (includes arrears) | IT | 162 | 302 | 380 | 68 | 136 |
| Limit on disbursements of external loans for investment projects | IT | 30 | 77 | 122 | 0 | 28 |
| Ceiling on new concessional external debt contracted or guaranteed by the central government [4,6] | IT | 42 | 88 | 114 | 31 | 62 |
| **Memo items: :** | | | | | | |
| Repayment of domestic arrears | | 0 | 35 | 176 | 42 | 84 |
| Receipts from fuel taxes | | 1 | 3 | 4 | 2 | 4 |
| Oil revenue[7] | | 391 | 655 | 903 | 187 | 363 |
| Receipts from privatization | | 0 | 0 | 8.7 | 5.5 | 5.5 |
| Expected external budgetary assistance, net[8] | | 0 | 45 | 362 | 172 | 264 |
| - Budgetary loans and grants, including IMF loan | | 0 | 26 | 270 | 93 | 93 |
| - Relief from debt restructuring | | 0 | 19 | 92 | 79 | 171 |
| - Change in non-Program external arrears | | 0 | 0 | 0 | 0 | 0 |
| - Payments for current external debt service due after debt relief | | 178 | 267 | 356 | 58 | 117 |

[1] Quantitative Performance Criteria and Indicative Targets are defined in the TMU.
[2] Defined as non-oil domestic revenue minus total expenditures excluding interest payments, transfers paid with crude oil, and foreign-financed investment.
[3] These ceilings are set to zero and to be respected continuously.
[4] Excluding all sources of budgetary support identified in the program.
[5] Excluding all types of financing mentioned in paragragh 10 of the TMU.
[6] On a contractual basis in accordance with the IMF's debt limits policy: htt://www.imf.org/external/np/pp/eng/2014/111414.pdf.
[7] Excluding oil barter transactions for the payment of transfers.
[8] As defined in paragraphs 19 and 23 of the TMU.

| Table 13. Republic of Congo: Status of Initial List of Structural Reforms | | | | |
|---|---|---|---|---|
| **Measures** | **Original target Date** | **Revised target date** | **Macroeconomic Rationale** | **Status** |
| **Prior Actions (before July 2018)** | | | | |
| Adoption by the government of a 2018 budget in line with the program parameters. | Done on Dec. 27, 2017 | | Restore the sustainability of public finances | **Implemented** |
| Publish a government-approved diagnostic study on governance and corruption issues, conducted with the assistance from IMF staff. | Done on June 19, 2018 | | Improve the business climate and safeguard public resources | **Implemented** |
| Submit to the Parliament amendments to the law establishing the SNPC to make obligatory the annual publication of its audited financial statements and that of its subsidiaries. | Done on June 18, 2018 | | Improve transparency | **Implemented** |
| **Previous Structural Measures Implemented**[1] | | | | |
| Publish the oil production-sharing contracts prevailing at end-2017, as well as the SNPC's audited financial statements for 2012–17. | End-September 2018 | End-November 2018 | Improve transparency and safeguard public resources | **Implemented** |
| Publish monthly on the websites of the ministry of finance and statistics institute economic monitoring tables agreed with Fund staff. | Continuous, from end-September 2018 | Continuous, from end-December 2018 | Improve the transparency of the government's financial operations | **Implemented** |
| Complete a fiscal safeguards review, with assistance from IMF staff. | End-October 2018 | End-August 2018 | Improve PFM | **Implemented** |

[1] These reforms were part of the list of initial commitments the authorities had made in July 2018 and had been initially envisaged for implementation as structural benchmarks.

## Table 13. Republic of Congo: Status of Initial List of Structural Reforms (Continued)

**Previous Structural Measures Implemented (Continued)**

| **Measures** | **Original target Date** | **Revised target date** | **Macroeconomic Rationale** | **Status** |
|---|---|---|---|---|
| Enact an anti-corruption law providing for the establishment of an Independent Anti-Corruption Commission with investigative powers. | End-December 2018 | February 2019 | Reduce corruption | **Implemented** |
| Enact a law establishing the Commission on Transparency envisaged by Article 59 of the Transparency Law with at least one-third of the members of the Commission from civil society. | End-December 2018 | February 2019 | Improve transparency and governance | **Implemented** |
| Adopt a law implementing the constitutional obligation to declare assets in accordance with best practices. | End-December 2018 | February 2019 | Improve transparency and reduce corruption | **Implemented**[2] |
| Complete the audit of domestic debt, and adopt a schedule of repayment of domestic debt consistent with program financing assurances.[3] | End-September 2018 | April 2019 | Reduce uncertainty and support the private sector | **Implemented** |
| Adopt the draft manual on debt procedures by the National Public Debt Committee, including the obligation for all parties to transmit data on disbursements to the debt unit (CCA). | End-September 2018 | April 2019 | Improve debt management | **Implemented** |

[2] This law has been passed by Parliament but not yet implemented. Amendments may be necessary to bring it into line with applicable international standards and best practices.

[3] The schedule of repayment will be adopted after the completion of the second audit (see Table 14).

**Table 13: Republic of Congo: Status of Initial List of Structural Reforms** (Concluded)

| | | | | |
|---|---|---|---|---|
| Submit to Parliament a report on the pre-financing contracts concluded by the SNPC and ongoing at the end of 2017 | | **Prior Action** | Improve transparency and reduce corruption | **Implemented** |
| Submission to the Parliament of a report on all the projects implemented by the Ministry of Public Works between 2014 and 2017. | | **Prior Action** | Improve transparency; protect public resources | **Implemented** |
| Submit to Parliament a report on all ongoing "special agreements" between the government and companies that built infrastructure financed by in-kind payments. | | **Prior Action** | Improve transparency and reduce corruption | **Implemented** |
| Publish on the government website KPMG oil reconciliation reports and a table with all mining, forestry, and oil concessions holders. | | **Prior Action** | Improve transparency; protect public resources | **Implemented** |

| Table 14: Republic of Congo: Proposed Structural Benchmarks[1] | | |
|---|---|---|
| **Measures** | **Target date** | **Macroeconomic Rationale** |
| Complete the new audit of domestic debt that includes the budget exercises of 2017 and 2018 and all arrears of the General Direction of Public Works. | October 2019 | Reduce uncertainty and support the private sector |
| Adopt a privatization strategy to support program financing assurances. | End-September 2019 | Create fiscal space |
| Approve a revised domestic fuel price structure with higher taxes and an automatic adjustment mechanism to deliver the projected additional revenue from fuel taxes. | End-October 2019 | Increase government revenues |
| Scale up the Lisungi cash transfer as described in paragraph 31 of the MEFP. | End-December 2019 | Improve human capital |
| Adopt the implementing decrees of the Law establishing the anti-corruption commission | End-September 2019 | Reduce corruption |
| Adopt the implementing decrees of the Law establishing the Transparency Commission | End-September 2019 | Improve transparency and governance |
| In consultation with Fund staff, submission to Parliament an amendment to the existing anti-corruption law to ensure full compliance with the UNCAC, including in respect to the domestic criminalization of all actions set in Chapter III of the United Nations Convention against Corruption (UNCAC), | End-March 2020 | Improve transparency and governance and protect public resources |
| Certification by the Ministry of Finance have transmitted to the BEAC all laws, contracts or agreements granting exemptions from foreign exchange regulations to oil operators | End-September 2019 | Support the CEMAC regional strategy |

[1] Some of these benchmarks were part of the initial list of structural reform plans from the authorities. The authorities were not able to implement them in the absence of an IMF-supported program.

# Annex I. Restructuring Debt to Achieve Sustainability

*This note describes the role of debt restructuring in restoring the sustainability of public finances in the Republic of Congo. The analysis describes debt restructuring parameters that would be consistent with the objective of restoring medium-term sustainability. This is achieved by bringing all debt indicators below their respective policy dependent thresholds by 2023.*

**1. Despite the recent debt restructuring agreement with China, the debt sustainability analysis (DSA supplement) shows that the Republic of Congo is still in debt distress.** Under the baseline scenario, the PV of external debt-to-GDP ratio remains well above its threshold between 2019 and 2030 (see Table 1).[1] The debt service-to-revenue ratio also breaches its threshold by a large margin until 2022.

**Table 1. Republic of Congo: Breached Liquidity and Solvency Ratios**

| | Policy dependent thresholds | 2019 | 2020 | 2021 | 2022 | 2023 | 2024-39 |
|---|---|---|---|---|---|---|---|
| **NPV of external debt to GDP** | 30 | 52 | 48 | 46 | 44 | 42 | 28 |
| **External debt service to exports** | 10 | 14 | 12 | 9 | 8 | 6 | 6 |
| **External debt service to revenue** | 14 | 37 | 32 | 23 | 19 | 12 | 7 |
| **NPV of total debt to GDP 1/** | 35 | 74 | 67 | 61 | 56 | 51 | 29 |

Source: IMF staff calculations.

1/ Excluding disputed debt.

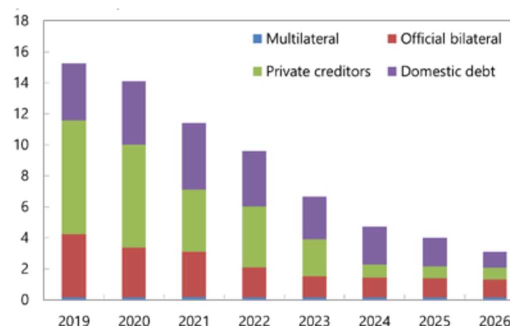
**2. The debt service on existing debt will absorb a considerable part of the country's resources over the next few years.** The debt service will average $1.5 billion (about 12.5 percent of GDP) between 2019 and 2022, with a large part directed toward debt service to oil traders. This concentration of payments will compromise Congo's development program. Without debt restructuring, especially of private external debt, Congo is likely to keep accumulating arrears.

[1] See Debt Sustainability Analysis (supplement to staff report) for more details.

3. **The authorities have developed a strategy to restore debt sustainability and to provide program financing assurances**. The strategy is guided by (i) the need to resolve the DSA breaches over the medium term and put external debt indicators below their indicative thresholds, and (ii) ensure that financing needs associated with external and domestic debt service obligations can be met in a sustainable manner. In this regard, the authorities have publicly announced their intention to seek a restructuring of debt. The strategy focuses on commercial creditors and excludes bilateral official creditors, multilateral organizations, the existing Eurobond and other restructured pre-HIPC claims. The government believes that official creditors have already provided enough support, either in the context of the HIPC debt relief initiative, or the more recent agreement with China. They also wish to preserve international market access, which requires leaving the Eurobond outside of the restructuring scope.

**Figure 1. Debt Service on Existing Debt**

(Percent of GDP)

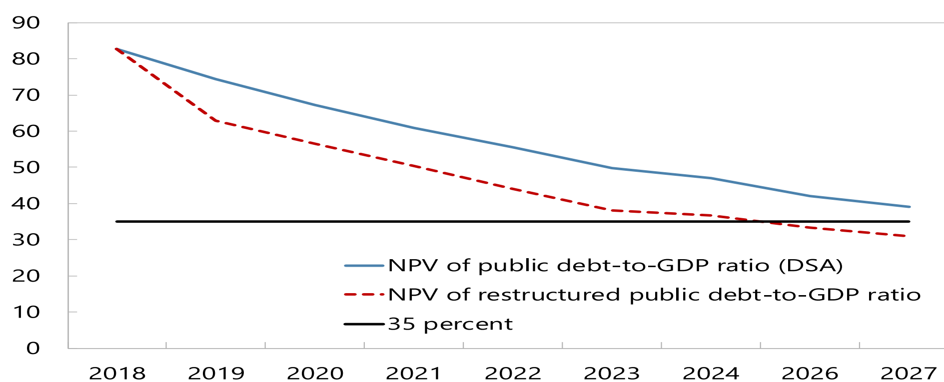



Sources: Congolese authorities' data; and IMF staff estimates.

4. **Staff calculations based on the authorities' plans suggest that reaching a moderate risk of debt distress by 2023 requires a substantial reduction in the nominal stock of external commercial debt.** Figure 1 shows the impact of the authorities proposed debt restructuring scenario. Under this scenario, debt dynamics bring the PV of external debt below 30 percent of GDP by 2023, resolving also breaches on all other external debt indicators. A comparison of cash flow derived from this scenario and the baseline is shown in Figure 2.

5. **For domestic debt, any restructuring will need to consider the direct or indirect impacts on the domestic economy, in particular the banking sector.** The eligible domestic debt for the restructuring will therefore exclude BEAC advances and domestic bonds. The authorities will initiate another audit of domestic arrears accumulated over 2017–18 and adopt a repayment plan consistent with the program financing assurances (structural benchmark for end-September 2019). They plan to restructure the eligible domestic debt, but the general terms could be more favorable than those applied to eligible external debt, given the adverse impact of domestic debt restructuring on growth and financial sector stability (Annex IV). This strategy also succeeds in bringing the PV of total public debt below 35 percent of GDP by 2025.

**Figure 2. Public Debt Dynamics Before and After Debt Restructuring**




Sources: Congolese authorities' data and IMF staff estimates.

**6. Contingent liabilities and oil revenue volatility threaten debt sustainability and are addressed upfront (Tables 2.a, 2.b and Box 1).**[2] They consist of additional claims under litigation (US$844 million), and domestic private contractors' claims (US$720 million) rejected by the authorities after internal review. To address the risks from these claims, staff assume that (i) the authorities settle some of the litigated debt, and (ii) the audit of domestic debt validates 10 percent of the claims rejected by the authorities. The projections for government deposits include a buffer to repay debt service on these amounts in the event the risk materializes. Oil revenue volatility will be managed through state-contingent clauses (Box 1). Table 2b. shows the amounts the authorities should set aside for the claims included in the perimeter of the restructuring while they are pursuing debt restructuring negotiations to reassure these creditors.

[2] The authorities continue to represent a dispute with respect to Commisimpex's claims. Disputed claims are not taken into account for program purposes, but the DSA includes a scenario with contingent liabilities.

**Box 1. Managing Oil Revenue Volatility in the Restructuring Strategy**

State-contingent clauses can help manage the uncertainty around oil prices and production. To limit the risk on the achievement of the program objective, the debt restructuring could be built around prudent scenarios of international oil prices and domestic oil production. The authorities and creditors could agree at the time of the finalization of the restructuring offer that the actual debt relief provided at each period would use actual oil prices and production. The debt restructuring proposal will need to include specific mechanisms linking the actual debt relief provided by creditors to realized government oil revenues. The state variable will therefore be the share of oil revenue that accrue to the government as derived from product sharing agreements and valued at international oil prices (adjusted to account for the specific quality of Congo's oil). Data integrity and manipulation risks are likely to be less acute, as oil production can be independently verified by third parties (private oil companies operating in the sector and/or independent audits) and international oil prices are difficult to manipulate. These contingent clauses could include both upside and downside features (Grenada, 2015) to explicitly allow for a downside protection for the Republic of Congo. Ideally, they could also capture the key features of "linker" and "floater" type instruments described in the State-Contingent Debt Instruments for Sovereigns (SCDIS) note prepared by staff for the G20 in 2017. More specifically, assuming the old claims are replaced by new loans with repayment of both interest and principal during the repayment period (in contrast to bonds with coupon only payments), these clauses would seek to stabilize the debt-to-GDP ratio (feature of "linker" type instruments) while allowing for adjustments to the debt service (feature of "floater" type) according to changes in the state variable. Taken together, these features would help reassure that all solvency and liquidity indicators will fall below their respective thresholds by the end or shortly after the end of the program irrespective of the performance in the oil sector. However, as it might prove difficult to operationalize the first feature in cases where exchanged offers entail new loans with both interest and principal payments over the repayment period,[1] the second feature which is easier to operationalize is probably the best way to approach this issue. The authorities are open to this idea and their debt advisors are working out the details of these mechanisms.

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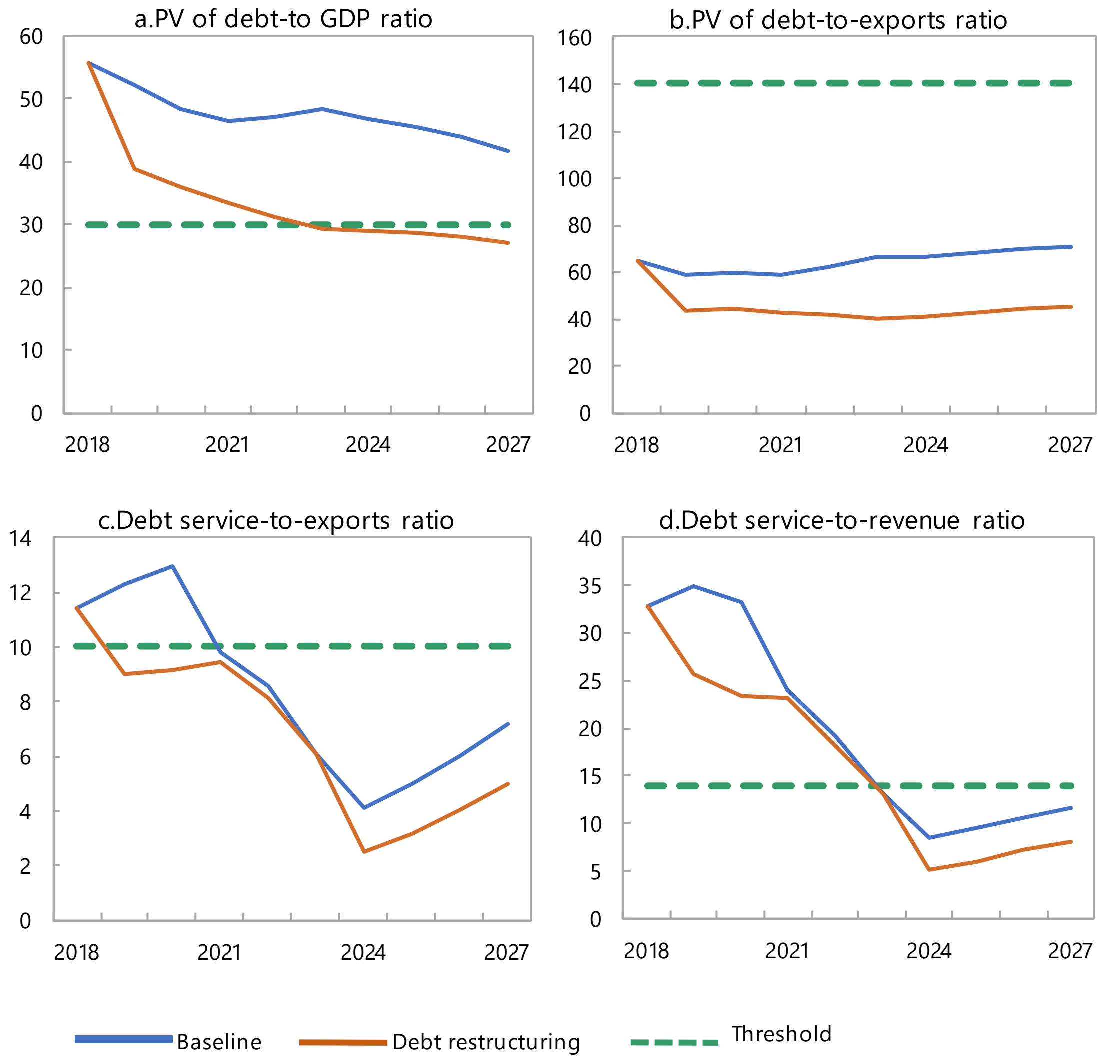
[1] It would imply revising every contractual period the debt stock and the principal and interest repayments schedule according to government oil revenue realizations, i.e., a continuous revision of the haircut after the restructuring deal is signed.

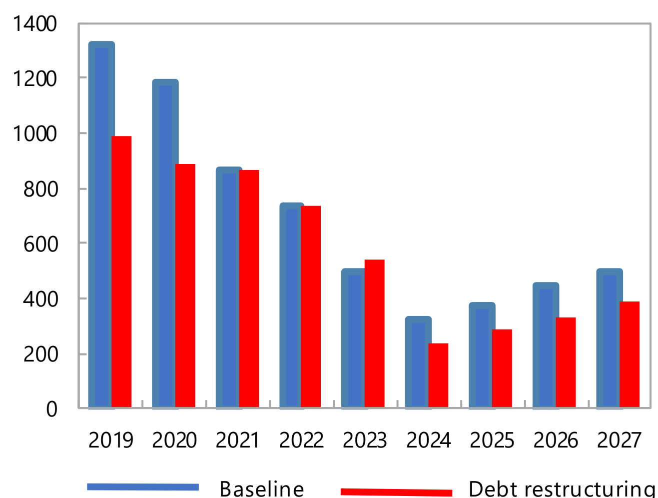
**Figure 3. Indicators of Public and Publicly Guaranteed External Debt under Restructuring Scenarios, 2019–27**




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

**Figure 4. External Debt Service Under the Baseline vs. Debt Restructuring Scenario, 2019–27**

(Millions of U.S. dollars)




Sources: Congolese authorities' data and IMF staff estimates.

**Table 2a. Republic of Congo: Preliminary Parameters for Debt Restructuring, 2018–22**

(Billions of CFA francs)

| | 2019 | 2020 | 2021 | 2022 | *Total* ***2019-22*** |
|---|---|---|---|---|---|
| Financing gap | 362 | 411 | 245 | 66 | 1,084 |
| New external financing | 270 | 229 | 229 | 52 | 780 |
| World Bank | 57 | 57 | 56 | 0 | 171 |
| African Development Bank | 131 | 66 | 66 | 0 | 262 |
| France | 30 | 30 | 30 | 0 | 89 |
| IMF | 52 | 78 | 78 | 52 | 259 |
| Exceptional financing from debt restructuring | 132 | 220 | 52 | 50 | 454 |
| External creditors | 96 | 177 | 7 | 16 | 295 |
| Domestic creditors | 36 | 42 | 46 | 34 | 158 |
| Restructured contingent liabilities | -39 | -38 | -37 | -35 | -149 |
| Residual financing gap (- = overfinancing) | 0 | 0 | 0 | 0 | 0 |

Sources: Congolese authorities' data and IMF staff estimates.

**Table 2b. Republic of Congo: Amounts to be Deposited in an Escrow Account**

(Billions of CFA francs)

| | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|
| **Total** | **539** | **440** | **454** | **385** |
| External creditors | 356 | 233 | 234 | 213 |
| Domestic creditors | 143 | 169 | 184 | 137 |
| Restructured contingent liabilities | 39 | 38 | 37 | 35 |

Sources: Congolese authorities' data and IMF staff estimates.

# Annex II. External Stability Assessment

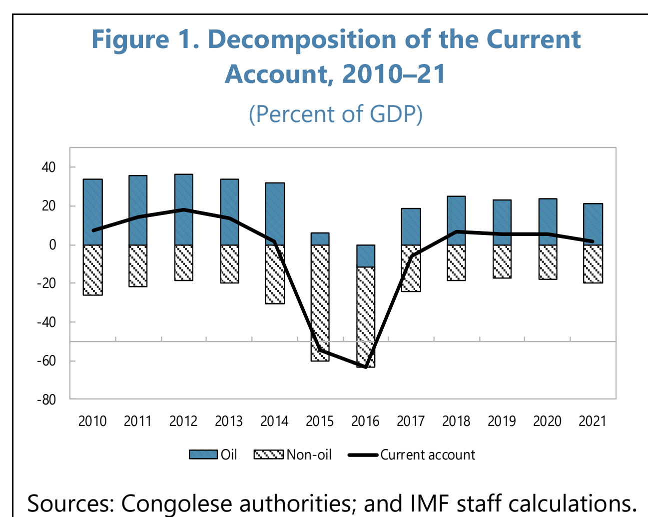
*The external position of the Republic of Congo is weaker than implied by fundamentals and desirable policy settings. The quantitative assessment of the exchange rate using the Fund's EBA-lite methodology, as well as alternative approaches tailored to exporters of non-renewable resources show a range of estimates that go from an undervaluation of that the overvaluation of Congo's REER ranges between 21 percent to an overvaluation of 33 percent. Taking into account the various methodologies and the specificities of the Congolese case as an oil producer, staff assesses the exchange rate to be overvalued by 15–20 percent.*

## A. Background

**1. The external current account is improving thanks to favorable developments in the oil sector and import compression associated with weaker growth and fiscal adjustment.**[1]

- This improvement is driven by two factors. First, the oil-sector trade balance continued to improve in 2018 thanks to the ramp-up in oil production resulting from a new offshore field (Moho Nord, the largest in Congo's history) and the rise in oil prices since the 2016 troughs. Second, the non-oil-sector trade deficit narrowed substantially, reflecting import compression associated with the large drop in public investment. As a result, the current account moved from an average deficit of 50 percent of GDP over 2015–16 to a surplus of 6.7 percent in 2018.

**Figure 1. Decomposition of the Current Account, 2010–21**
(Percent of GDP)




Sources: Congolese authorities; and IMF staff calculations.

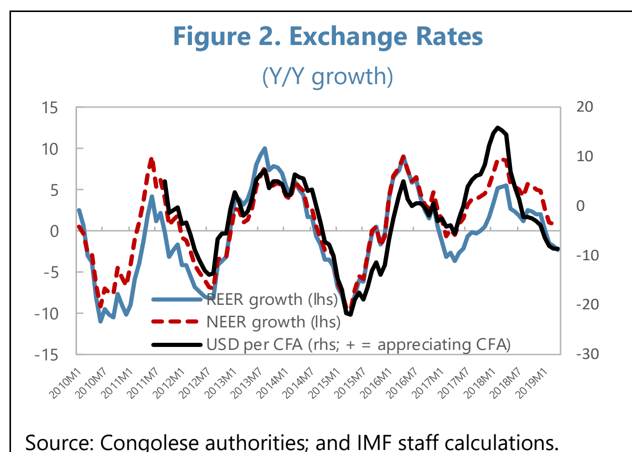
- The oil-sector current account is projected to remain in surplus over the medium term, with oil production reaching a peak of 140 million barrels in both 2019 and 2020. However, the ramp-up in production will have a limited impact on the overall current account in the long run as oil fields mature. In particular, the deterioration in the current account after 2020 is driven by lower oil production, which is projected to decline by an average of 5 percent between 2020 and 2039 absent new discoveries.

[1] Estimates are preliminary as balance of payment estimates are reported with considerable lags and subject to relatively large revisions.

- **Exchange rates are little changed from a year ago.** As of April 2019, the nominal effective exchange rate depreciated about ¾ percent below its level the previous year, while the real effective exchange rate decreased about 2 percent (y/y). The mild nominal depreciation mainly reflects the nominal depreciation of the euro (to which the CFA franc is pegged) against the U.S. dollar. Since the REER depreciated more than the nominal effective exchange rate, this suggests inflation was accelerating on average faster in Congo's trading parteners than in Congo.

**Figure 2. Exchange Rates**

(Y/Y growth)




Source: Congolese authorities; and IMF staff calculations.

## B. Exchange Rate Assessment

**2. The revised EBA-lite current approach would suggest that Congo's real effective exchange rate was undervalued in 2018.** The revised EBA-lite current account model, using the default levels for desirable policy settings except for the cyclically adjusted overall fiscal balance and reserve accumulation,[2] shows an exchange rate undervaluation of around 21 percent. This estimate contrast significantly with the 15 percent overvaluation obtained in the last assessment in July 2018. This result underscores the fact that current account regression approaches are subject to large swings in assessments, often yielding very different results for consecutive years when applied to commodity exporters such as the republic of Congo.

**Summary Table. Republic of Congo: 2018 EBA-lite CA Model Results**

| | |
|---|---|
| **CA-Actual** | 6.7% |
| Cyclical Contributions (from model) | 0.7% |
| **Cyclically adjusted CA** | 6.0% |
| **CA-Norm** | -3.5% |
| **Cyclically adjusted CA Norm** | -4.2% |
| **Multilaterally Consistent Cyclically adjusted CA Norm** | -3.6% |
| **CA-Gap** | 9.6% |
| of/which Policy gap | -0.34% |
| Elasticity | -0.47 |
| **REER Gap** | -21% |
| CA-Fitted | -2.9% |
| Residual | 0.10 |
| Natural Disasters and Conflicts | 0.9% |

Source: IMF staff calculations.

[2] The optimal medium-term fiscal stance for the cyclically adjusted fiscal balance is set to the value observed in 2018 (1.9 percent of GDP) to account for the need of maintaining public debt on a sustainable path. Since foreign assets are well below the adequate levels, the desired change in reserves is set at 13.7 percent of GDP, the projected increase under the program's scenario. The other policy settings are for public health expenditures at 3.4 percent of GDP, the capital control index which is set at the average degree of openness in developing countries (0.15), and the ratio of private sector credit to GDP set at the SSA average (45.5 percent of GDP) which in turn implies a desirable credit growth of 5 percent.

**3. In contrast, the revised index REER EBA-lite approach points to an overvaluation of the REER.** Based on the index REER EBA-lite assessment, the norm REER is 4.46 in 2018, compared with its actual level of 4.62 (all expressed in logs), therefore implying that Congo's REER is overvalued by about 15.5 percent, which is higher than the 9 percent obtained during the last assessment.

**Summary Table. Republic of Congo: 2018 EBA-lite IREER Model Results**

| | |
|---|---|
| **Ln(REER) Actual** | 4.62 |
| **Ln(REER) Fitted** | 4.45 |
| **Ln(REER) Norm** | 4.46 |
| **Residual** | 0.17 |
| **REER Gap** | 15.5% |
| **Policy Gap** | -1% |
| **Natural Disasters and Conflicts** | -0.2% |

**4. Since the static EBA-lite approach does not consider the exhaustibility of natural resources, staff have also analyzed the consumption allocation rules associated with the Bems and de Carvalho Filho approach (2009).** This approach measures the annuity that can be derived from natural resource wealth, and the related consumption/savings associated with it. The temporary nature of non-renewable resource revenues would call for more savings and hence a higher current account norm, especially if the natural resource production is on declining trend as in Congo's case. At the same time, in anticipation of the expected increase in oil production capacity, a larger current account deficit would be consistent with optimal consumption smoothing behavior or with investment dynamics of a credit-constrained government.

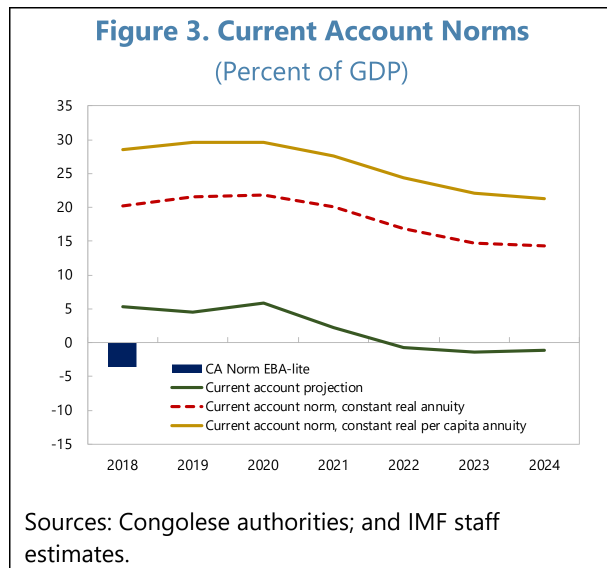
**5. The consumption allocation rules imply current account norms that are in surplus (i.e higher savings), and well above what is currently projected for the medium term.** We use a dynamic approach based on the following assumptions: (i) proven oil reserves (1.6 billion of barrels) plus a reasonable expectation of new discoveries; (ii) some demographic transition effect that reduces the current rate of population growth to 1.5 percent in the long run, and (iii) a broader interpretation of the return on oil wealth based not only on the rate of return on financial assets, but also on the potential impact of higher return on investments in human capital and infrastructure that could help diversify the economy and boost exports (staff assume a 9 percent return).

- Under these assumptions, the implied current account norm hovers around 16 percent of GDP over the medium term with the constant real annuity rule, suggesting a 33 percent overvaluation.

- The large current account norm translates into a larger current account gap, which is driven by the fact that proven oil reserves will be exhausted in about 25 years, and the country has not accumulated enough assets so far. The fiscal savings norm is also higher than current fiscal surpluses but converges to the desired level by 2023 as Congo accumulates financial assets and the non-oil primary balance converges to a PIH rule.

**Figure 3. Current Account Norms**

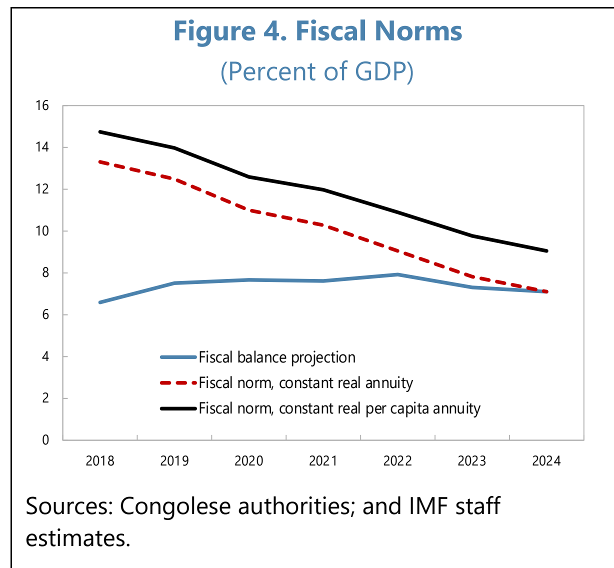
(Percent of GDP)




Sources: Congolese authorities; and IMF staff estimates.

**Figure 4. Fiscal Norms**

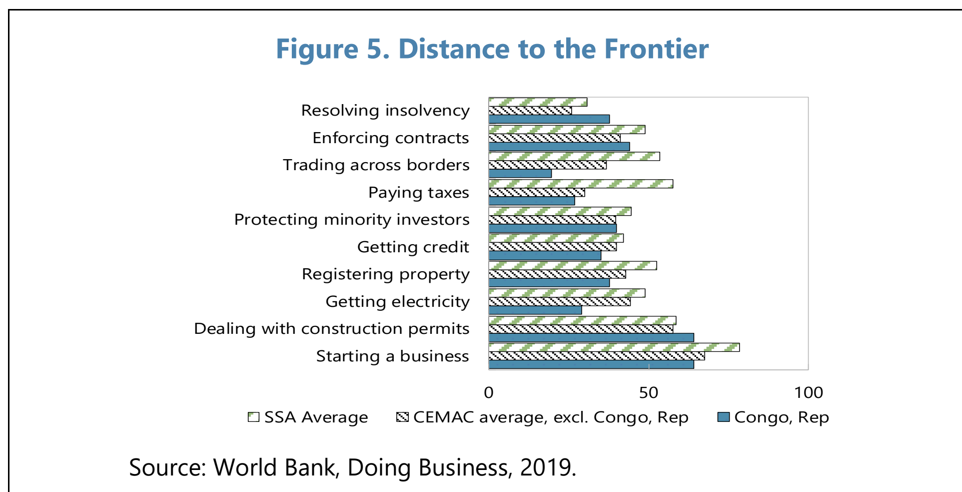
(Percent of GDP)




Sources: Congolese authorities; and IMF staff estimates.

6. **Policy adjustment is needed to close external gaps. This can be achieved if the authorities adjust their non-oil primary balance as projected under the program.** In addition, there is a need to enhance structural competitiveness through improvements in the business environment. Congo's results in the World Bank's Doing Business 2019 did not change substantially between 2018 and 2019, despite reforms that improved contract enforcement and property registration.[3] With these outcomes, Congo's performance on various sub-indices is slightly below the average for other CEMAC countries. Moreover, there is a substantial gap relative to the sub-Saharan Africa region, which has on average a stronger business climate assessment. As a result, the steady implementation of structural reforms—including those under the proposed ECF—is essential to create an enabling environment for private sector development and economic diversification.

**Figure 5. Distance to the Frontier**




Source: World Bank, Doing Business, 2019.

[3] The Republic of Congo made (i) enforcing contracts easier by adopting a law that regulates all aspects of mediation as an alternative dispute resolution mechanism and (ii) property registration easier by reducing the property transfer fee.

# References

Bems, R. and I. Carvalho, 2009, "Exchange Rate Assessments: Methodologies for Oil Exporting Countries," *IMF Working Paper* 09/281.

IMF, 2013, "The External Balance Assessment (EBA) Methodology," *IMF Working Paper* No. 13/272.

# Annex III. Fiscal Multipliers and Sources of Non-Oil Growth[1]

*This note estimates that that most of the contractionary effects of fiscal consolidation initiated since 2015 has already taken place. Non-oil GDP growth is expected to recover to 1 percent. Shifting the drivers of non-oil growth from factor accumulation to total factor productivity (TFP) could help offset some of the effects of the fiscal consolidation during the program period and improve potential growth. This could be achieved through structural reforms to enhance the efficiency of capital, and improve governance and the business climate.*

## Introduction

**1. Further fiscal consolidation is required to restore long-term sustainability.** Despite significant adjustment since 2015, further fiscal consolidation is needed to restore debt sustainability. This paper argues that most of the impact of fiscal consolidation on growth has already taken place.

**2. The growth response to fiscal adjustment operates through the size of fiscal multipliers**. The fiscal multiplier measures the impact of discretionary change in public spending and/or taxes on output. The size of multipliers depends on countries' initial conditions. Multipliers tend to be larger if there is less leakage through savings or imports, a limited role for automatic stabilizers during downswings, and under fixed exchange rate regimes (Batini et al., 2014). Empirical studies for low-income and SSA countries indicate that multipliers are smaller than in advanced economies (IMF, 2017).

**3. This paper estimates the impact of fiscal adjustment on non-oil growth in Congo and assesses Congo's sources of long-term growth.** Section II estimates a fiscal multiplier for Congo using the IMF Fiscal Affairs Department' Bucket Approach (Batini et al., 2014) and econometric analysis. Section III decomposes growth by sectors, demand side components and factors of production.

## Fiscal Multipliers in the Republic of Congo

**4. Fiscal policy is one of the channels through which oil price fluctuations affect non-oil output.** Oil booms were associated with higher public spending and vice versa (Figure 1a). Large oil windfalls brought public capital spending from 11 percent of non-oil GDP in the early 1990s to a peak of 77 percent in 2014, as part of a rehabilitation program to rebuild infrastructure destroyed by the 1990s civil conflict.[2] During this period, non-oil growth increased from less than 2 percent to more than 6 percent over the same period. The opposite trend can be seen when oil prices fell after mid-2014 and public investment declined by about 90 percent.

**5. Fiscal multipliers are constructed using statistical measures, the IMF bucket approach and econometric techniques.** There are currently no empirical estimates for a fiscal multiplier for

[1] This Annex was prepared by Hoda Selim and Abdoul Aziz Wane (AFR). The authors thanks Fabien Nsengiyumva (AFR) and Maximilien Kaffo (SPR) for their valuable comments, and Ashan Rodriguez for excellent research assistance.

[2] Congo's civil conflict started in the early 1990s. A ceasefire agreement was reached in 2003, but tensions and sporadic violence persisted until 2007.

the Republic of Congo. Two statistical measures are constructed to estimate the fiscal multipliers for Congo, namely the ratio of the change in real non-oil GDP growth to (i) the change in government primary expenditure in percent of non-oil GDP, and (ii) the change in non-oil primary balance to non-oil GDP. The average absolute value of these measures over 2004–18 is estimated at 0.2 but to have increased to 0.4 after 2014 (Table 1).

**Table 1: Republic of Congo: Statistical Measures of Fiscal Multipliers, 2004–17**

| Variable | 2004-2018 | 2004-2014 | 2015-2018 | Output gap>0 | Output gap<0 |
|---|---|---|---|---|---|
| | Fiscal multipliers measures (absolute measures) | | | | |
| Change in real non-oil GDP growth/(Change in government expenditure less interest/non-oil GDP) | 0.16 | 0.13 | 0.26 | 0.10 | 0.19 |
| Change in real non-oil GDP growth/(Change in non-oil primary balance/non-oil GDP) | 0.23 | 0.17 | 0.41 | 0.09 | 0.30 |
| | Fiscal multipliers from the Bucket Approach | | | | |
| | Low bucket range | | | Output gap>0 | Output gap<0 |
| Low end of the range | 0.10 | | | 0.09 | 0.15 |
| High end of the range | 0.30 | | | 0.26 | 0.45 |

**6. According to the IMF Fiscal Affairs Department's Bucket Approach, Congo's average fiscal multiplier range between 0.15 and 0.45.** This approach (IMF BA) estimates the fiscal multiplier range based on (i) a set of structural characteristics that influence the economy's response to fiscal shocks in "normal times" and (ii) a set of conjunctural/cyclical characteristics that make multipliers deviate from "normal" levels (Batini et al., 2014). Congo is assigned to the low bucket (0.1 to 0.3). [3] When the ends of the range are then scaled up or down to account for structural and cyclical factors, the multiplier is estimated between 0.15 and 0.45.

**7. The fiscal multiplier is higher during recessions.** The literature showed that multipliers vary over the economic cycle (Dell'Erba et al., 2014). During recessions, contractionary fiscal policy may have large and persistent effects on output and employment leading to a decline in potential output (DeLong and Summers, 2012). This effect arises from (i) lower labor force participation triggered by large increases in cyclical unemployment translate into higher structural unemployment and (ii) a decline in capital stock because of lower investments. Computed statistical measures in table 1 confirm this asymmetric impact of fiscal consolidation over the cycle. In fact, multiplier measure for recessions is estimated at 0.3 and for expansions at 0.10. The respective fiscal multipliers measures derived from the BA are higher ranging between (0.15–0.45) for downswings and (0.09–0.26) for upswings.

[3] Structural characteristics include trade openness, labor market rigidity, size of automatic stabilizers, exchange rate regime, debt levels and public expenditure management and revenue administration. Based on these characteristics, the bucket approach groups countries into three groups (or "buckets") that are likely to have similar multiplier values. The ends of the range are then scaled up or down depending on the conjectural characteristics which include the state of business cycle and the degree of monetary accommodation of fiscal shocks. This means that fiscal consolidations have a larger negative impact on growth when the output gap is negative and monetary policy is constrained.

**8. Empirical estimates show that Congo's multiplier range between 0.19 and 0.28.** To investigate the relationship between fiscal policy and non-oil growth in Congo, we provide empirical estimates using OLS and instrumental variables (table 2). We estimate the following equation:

$$g_t = \beta_0 + \beta_1 j g_{t-1} + \beta_1 F_t + \epsilon_t$$

where $g_t$ is non-oil output growth; $F_t$ is a measure of fiscal policy proxied by the change in the non-oil primary balance as a ratio of non-oil GDP. The OLS results suggest that fiscal multipliers are in the range (0.13, 0.20). We also re-estimate the relationship using instrumental variables to account for potential endogeneity between output changes and changes in fiscal policy. The size of the multiplier ranges between 0.19 and 0.28. These measures are close to figures empirically estimated for SSA. IMF (2017) estimates that fiscal consolidation, measured by an increase in the cyclically adjusted primary balance by 1 percentage point of GDP, leads to an output decrease by 0.3 percent on impact, and by 0.4 percent over a three-year horizon.

**9. Weak governance and corruption may explain partly the lower fiscal multiplier.** Corruption may undermine the effectiveness of fiscal policy and therefore the size of the fiscal multiplier. This occurs though artificial bloating of government spending and/or a misallocation of public resources including investment spending which is not allocated to the most efficient projects. The link between oil and corruption becomes clearer during resource booms which tend to divert resources towards less productive and/or rent-seeking activities such "white elephants" which are investment projects with a negative social surplus (Robinson and Torvik, 2005 and Collier and Goderis, 2007). In Congo, weak public investment management along with poor implementation capacity along suggest that selected projects are not the most productive which weaken the link between public investment and growth (Annex V).

**Table 2. Republic of Congo: Regression Results: Fiscal Multipliers, 2000–17**

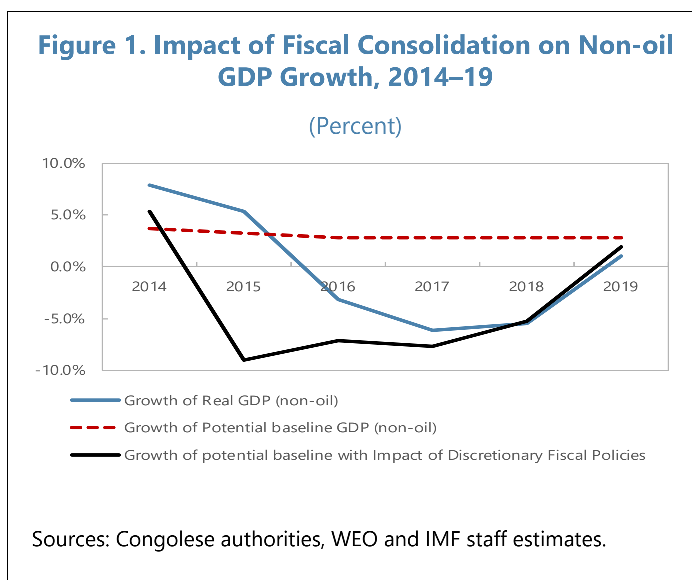
| | OLS (a) | | IV (b) | |
|---|---|---|---|---|
| **Variables** | (1) | (2) | (3) | (4) |
| Lagged non-oil growth | 0.191 | 0.320 | -0.374 | 0.006 |
| | (0.394) | (0.323) | (0.486) | (0.422) |
| Change in the non-oil primary balance/non-oil GDP | -0.130** | (-0.196)** | -0.143*** | -0.283** |
| | (0.068) | (0.109) | (0.069) | (0.125) |
| Lagged change in the non-oil primary balance/non-oil GDP | | 0.090 | | 0.192 |
| | | (0.088) | | (-0.129) |
| Constant | 0.003 | -0.001 | 0.066 | 0.046 |
| | (0.074) | (0.078) | (0.044) | (0.055) |
| Observations | 15 | 15 | 15 | 15 |
| R-squared | 0.235 | 0.288 | 0.288 | 0.198 |
| R-squared adjusted | 0.107 | 0.094 | 0.159 | -0.042 |
| J-statistic | | | 1.009 | 0.234 |
| Prob (J-statistic) | | | 0.604 | 0.628 |

a OLS estimation with standard errors in brackets. The dependent variable is non-oil growth.
b IV estimation with standard errors in brackets. The dependent variable is non-oil growth. Instruments used included lagged variables of non-oil growth and of oil growth and of the change in the non-oil primary balance.
* p<0.01 ** p<0.05 *** p<0.1
Reported standard errors are robust and were estimated using the Newey-West HAC method.

**10. Notwithstanding the effects of fiscal adjustment in 2019, non-oil growth is expected to experience a small rebound.** To estimate the output effects of Congo's fiscal adjustment, we select a fiscal multiplier of 0.32 for recessions and of 0.23 for expansions. To avoid double counting, the baseline GDP does not include the fiscal shocks' effects (including the lagged effects of past fiscal shocks). Starting in 2016, we keep non-oil potential output at a constant growth rate of 2.8 percent, which is lower than the average growth rate of 3.7 percent during 2013–15. Past fiscal shocks are assumed to be overlapping given the persistence of multiplier effects. This means that the projected GDP growth in the second year incorporates the first-year effect of the second-year fiscal shock, as well as the second-year effect of the first-year shock and so on. To estimate the fiscal shocks, we use the change in the cyclically adjusted non-oil primary balance. The latter is expected to adjust from 5 to 2 percent of non-oil GDP between 2018 and 2019. This fiscal consolidation, accompanied by a rebound in public investment, is estimated to lead to a recovery in non-oil growth by 1 percent for 2019 (Figure 1). Recent empirical work by Melina et al. (2019) show that growth gains from anti-corruption reforms could be substantial, ranging between 0.8 to 1.8 percent per year over the next 10 years.

**Figure 1. Impact of Fiscal Consolidation on Non-oil GDP Growth, 2014–19**

(Percent)



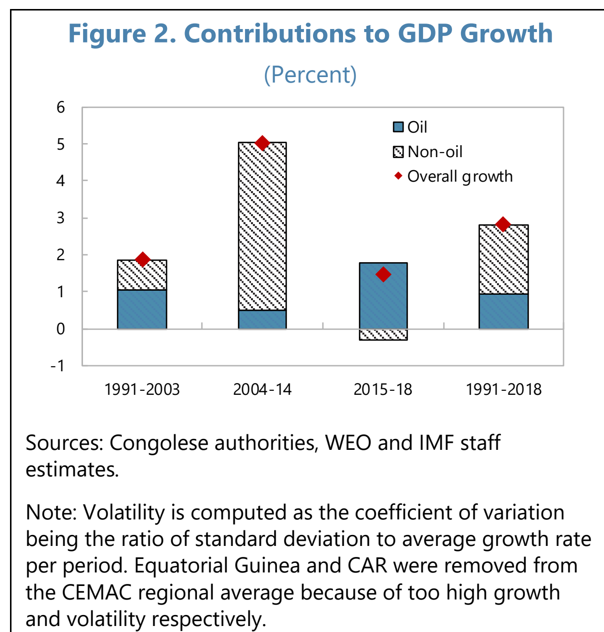

Sources: Congolese authorities, WEO and IMF staff estimates.

## Sources of Non-oil Growth in Congo

**11. The non-oil sector, which represents a sizable portion of Congo's economy, has been a main driver of overall growth.** Congo is the third largest oil producer in sub-Saharan Africa with an oil sector oil representing 40–60 percent of GDP over 1990–18. Reflecting volatile international oil prices, the contribution of the oil sector to overall growth has been volatile (Figure 2). Meanwhile, the non-oil economy grew by less than 3 percent per annum during 1991–18 and has been the main driver of overall growth. Volatility has subsided considerably since the 1990s conflict (Figure 3). Nevertheless, non-oil growth in Congo remains a bit below other CEMAC countries except CAR (Figure 2). Bhattacharya and Ghura (2006) do not find empirical evidence of direct spillover effects from oil prices to non-oil growth in Congo. They show that political instability, which may have been exacerbated by oil wealth, has had a negative effect on non-oil growth. The following section decomposes growth to identify the drivers of growth in Congo: by sector, aggregate demand components and finally by factors of production.

**Figure 2. Contributions to GDP Growth**

(Percent)

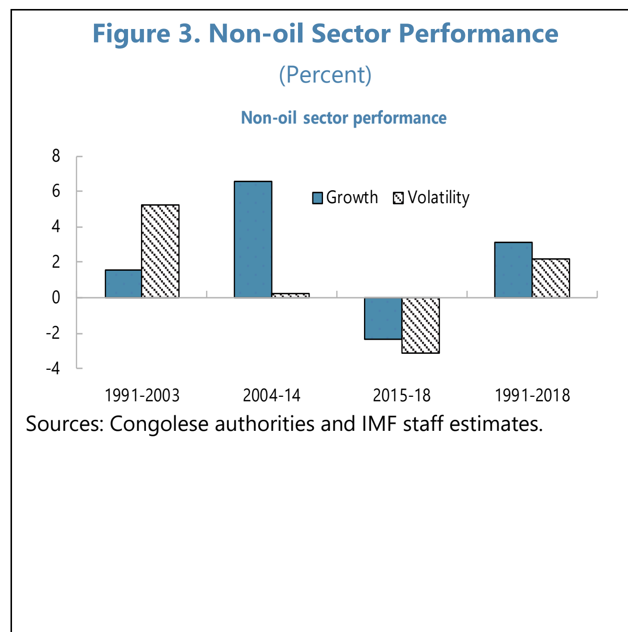



Sources: Congolese authorities, WEO and IMF staff estimates.

Note: Volatility is computed as the coefficient of variation being the ratio of standard deviation to average growth rate per period. Equatorial Guinea and CAR were removed from the CEMAC regional average because of too high growth and volatility respectively.

**Figure 3. Non-oil Sector Performance**

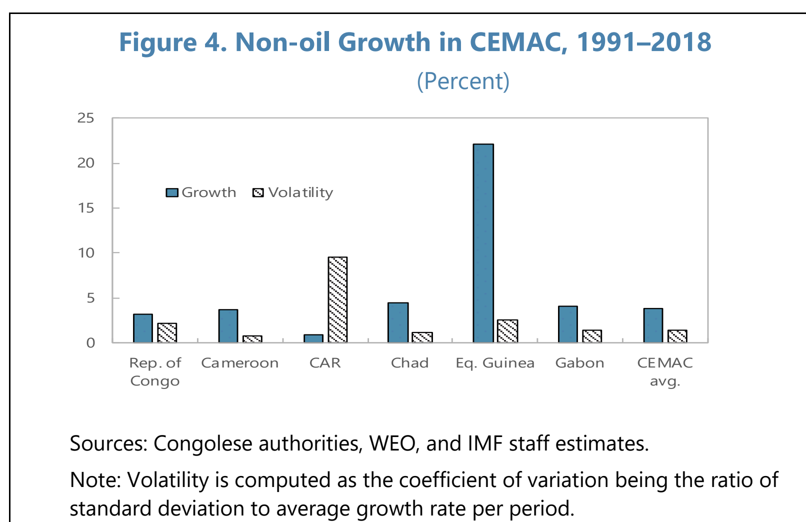
(Percent)




Sources: Congolese authorities and IMF staff estimates.

**Figure 4. Non-oil Growth in CEMAC, 1991–2018**

(Percent)



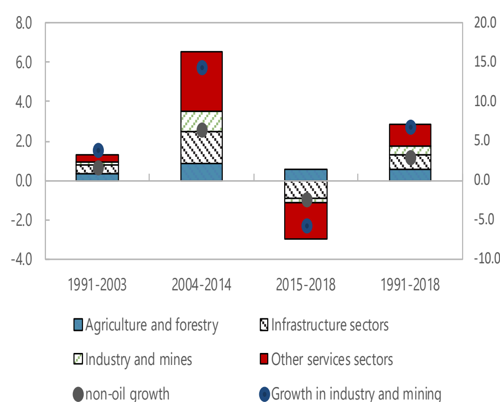

Sources: Congolese authorities, WEO, and IMF staff estimates.

Note: Volatility is computed as the coefficient of variation being the ratio of standard deviation to average growth rate per period.

## Growth Decomposition on the Supply Side

**12. Growth in infrastructure sectors had the largest contribution to non-oil growth.** Growth in three sectors, construction and public works, transport and communication as well as utilities, accounted together for a quarter of non-oil growth (Figure 5). Growth in the transport and communications sector alone accounted for a fifth of non-oil growth. As a result, the share of these sectors expanded from 17 in the early 1990s percent to 27 percent in 2015 (Figure 6). These sectors benefited from massive public infrastructure spending and have contracted significantly in tandem with spending cuts in 2015–18. The expansion of these sectors over time has been at the detriment of shrinking other services sectors, especially public administration.

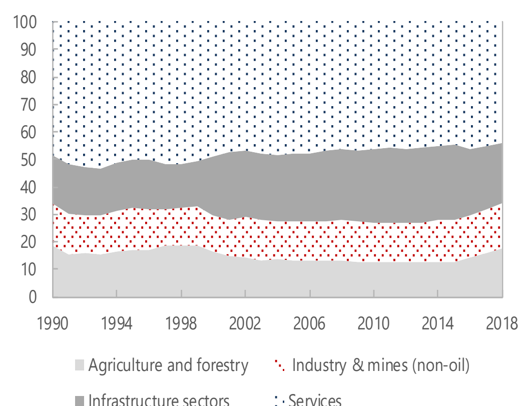
**Figure 5. Contributions to Real Non-oil Growth, 1991–2018**
(Percentage points)




Sources: Congolese authorities, WEO, and IMF staff estimates.

Note: Infrastructure sectors comprise construction and public works, transport and communication as well as utilities.

**Figure 6: Structure of Non-oil Value Added, 1990–2018**
(Percent of non-oil GDP)




Sources: Congolese authorities, WEO, and IMF staff estimates.

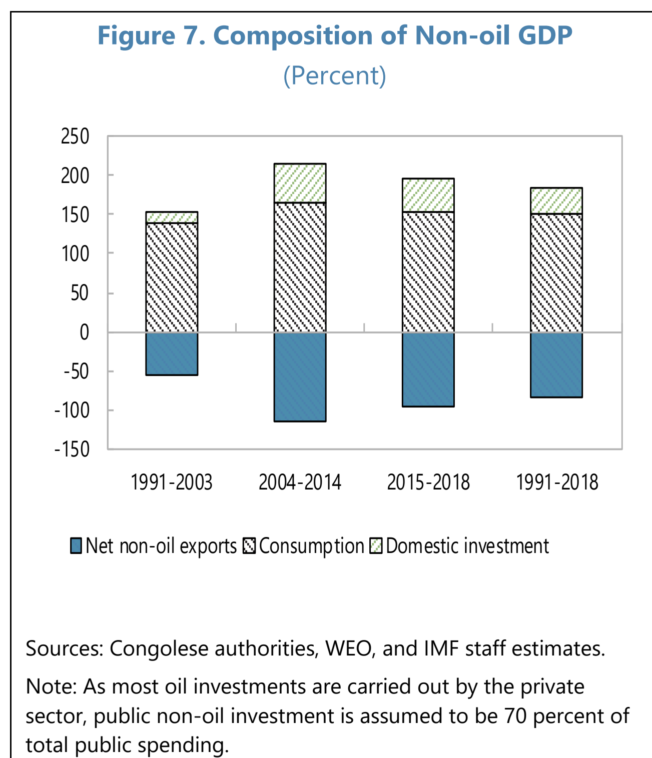
13. **Growth in industry and mines on average outperformed non-oil growth.** In addition to industry, this sector includes mineral resources such as deposits of copper, iron, phosphate potassium, iron, manganese, nickel-cobalt and gold. This sector grew by 3.7 percent per annum between but its contribution to growth turned negative since 2015.

14. **Despite abundant potential, agriculture and forestry have not been key growth drivers.** Agricultural land accounts for a third of total land area. In addition, Congo benefits from diverse activities (agriculture, livestock breeding and aquaculture). Yet, only 2 percent of the 10 million hectares of arable land has been exploited. Agriculture grew by only 3.7 percent per annum between 1990 and 2018 and accounted for only 12 percent of non-oil GDP. Congo is also one of the most "forest-rich" countries in Africa with forests accounting for 65 percent of land and covering over 22 million hectares. It is also one of the major producers of tropical hardwoods (about 1 million cubic meters of logs per year) as well as other timber and non-timber products. Despite these riches, forestry has declined over time from 4 to less than 2 percent of non-oil GDP between 1990 and 2017 and suffers from volatile growth.

### Decomposition on the Demand Side

15. **Non-oil growth is driven by domestic demand.** Consumption and investment were major drivers of non-oil growth between 1991–2018 (Figures 7 and 8). Non-oil investments rose to almost 50 percent of non-oil GDP in 2004–14, driven by public investments. Meanwhile, the negative contribution of net non-oil exports to growth has turned positive in 2015–18 reflecting compressed demand for imports.

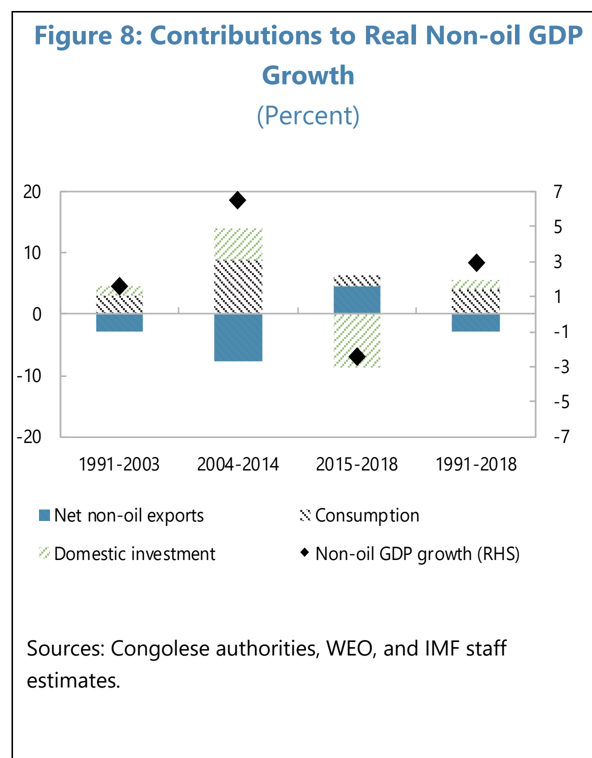
**Figure 7. Composition of Non-oil GDP**
(Percent)




Sources: Congolese authorities, WEO, and IMF staff estimates.

Note: As most oil investments are carried out by the private sector, public non-oil investment is assumed to be 70 percent of total public spending.

**Figure 8: Contributions to Real Non-oil GDP Growth**
(Percent)




Sources: Congolese authorities, WEO, and IMF staff estimates.

## Decomposition by Factors of Production

### *Methodology*

**16. This section uses growth accounting to decompose the sources of non-oil growth in Congo in 1991–2018.** This approach decomposes sources of growth into contributions from the different factors of production: capital stock, labor force and the total factor productivity (TFP). Previous worked using this approach in Congo concluded that factor accumulation is the main source of growth and that the contribution of TFP growth was limited (Bhattacharya and Ghura, 2004; World Bank (2011) and IMF, 2015a).

**17. The growth accounting framework assumes a standard constant-returns to scale Cobb-Douglas production function, and perfect competition** (Solow, 1957):

$$Y = AK^{\propto}L^{(1-\propto)}$$

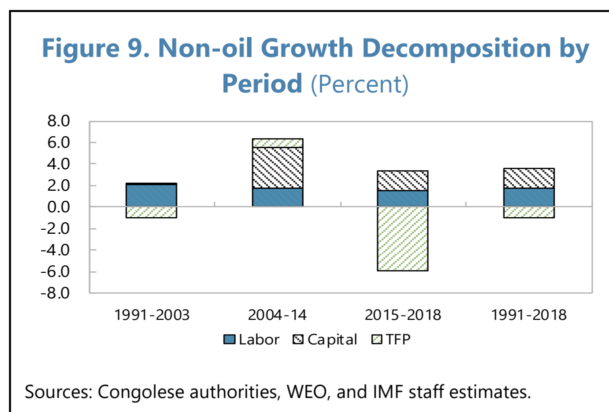
where Y is output, and K and L are respectively physical and human capital stocks, and $A$ is interpreted TFP. Output is measured by non-oil GDP at constant prices in local currency units. Human capital is proxied by labor force growth. We use the World Bank World Development Indicators (WDI) database for labor force and for fixed capital formation. The initial capital stock was estimated using the perpetual inventory method and assumes a constant depreciation rate of

6 percent and a capital-output ratio of 1.5 (as in Bhattacharya and Ghura, 2004).[4] The share of capital $\alpha$ of 0.4 is in line with the empirical finding by Senhadji (2000) for sub-Saharan Africa. TFP growth is derived as the residual growth left unaccounted for by increases in the standard factors of production.

**18. There are limitations to this exercise.** A key weakness relates to the interpretation of TFP which measures residual growth. It can capture gains in economic efficiency but also other factors including political disturbances and conflicts, institutional changes, changes in government policies, supply shocks and measurement errors. Other weaknesses are related to the poor quality of time series on non-oil national accounts in Congo. Given the paucity of data, the series were built using assumptions on the initial non-oil capital stock and evolution over time. To start, since the first oil field in Congo (Pointe Indienne) came on stream in 1973, we assume that the non-oil capital stock was the same as the full capital stock until 1972. Starting 1973 and until 1989, we assume that non-oil fixed capital formation would decline by 5 percent per annum to reach 20 percent of total investments in 1990 (figure derived from Congo's national accounts). Starting 1990, non-oil fixed capital formation is calculated as the sum of non-oil private and public investments. Non-oil public investment is assumed to account for 50 percent of total public investments. Hence, the results need to be viewed as indicative.

**19. Congo's development model over the last three decades, driven by factor accumulation, is not sustainable.** For the past 3 decades, non-oil growth was driven by the accumulation of factors, first labor and then capital (Figure 9). TFP played a limited role and its contribution was overall negative (-1 percent per year). Apart from the civil war in the 1990s when physical capital was destroyed, high infrastructure spending was the mainstay of growth in Congo. With close to 10 percent average growth over 2004–14, the capital stock in the non-oil sector almost tripled and accounted for more than half of overall non-oil growth, thanks to record public investment rates. The contribution of TFP to growth increased in 2004–14 to 0.8 percent. During 2015–18, the contribution of TFP to growth turned negative, possibly reflecting the impact of worsening governance indicators and low investment efficiency. This pattern of growth relying on ever higher investment rates is not sustainable in a low oil price environment, given the required increases in debt to finance investment.

**Figure 9. Non-oil Growth Decomposition by Period** (Percent)



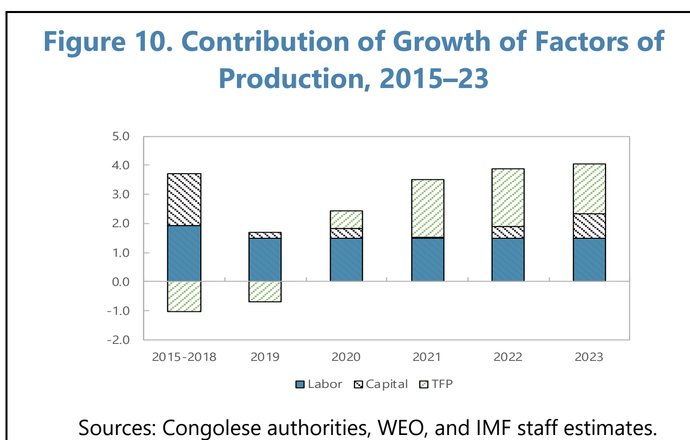

Sources: Congolese authorities, WEO, and IMF staff estimates.

[4] The public capital stock is calculated using the perpetual inventory equation, $K_t = (1-\delta_t)K_{t-1} + \left(1-\frac{\delta_t}{2}\right)I_{t-1}$, where $K_t$ is the stock of public capital at time t; $\delta_t$ is a time – varying depreciation rate; $I_{t-1}$ is public investment spending at time t-1.

## Potential for Higher TFP Growth

**20. With the right policies in place, TFP growth is expected to improve during the program period.** This forecast of TFP growth is based on our fiscal multiplier estimates and public investment rates that are in line with the program's fiscal adjustment. Human capital is estimated based on a labor force growth of 2.5 percent and no significant changes in social policies and outcomes. With these assumptions, the negative contribution of TFP growth would start improving in 2019 and recover to positive levels by 2020 (Figure 10). This performance will be facilitated by unleashing growth potential in critical sectors thanks to the program's structural reform focus on access to credit, good infrastructure, better governance, a skilled workforce, and an effective social safety net.

**Figure 10. Contribution of Growth of Factors of Production, 2015–23**




Sources: Congolese authorities, WEO, and IMF staff estimates.

**21. Reforms to achieve** this include (i) upgrading learning outcomes and the ability of the labor force to learn new skills through vocational training and improved insertion of women and youth; (ii) expanding access to quality maternal and child health care services; enhancing the efficiency of public investment; (iii) improving governance and reducing corruption; and (iv) addressing the debt overhang.[5]

[5] Empirical work suggests that large or unsustainable debt-to-GDP ratio (85–90 percent or more) may constrain growth (Chudik et al., 2015). For countries with large debt stocks like Congo, exiting a default spell through a restructuring can boost growth (Forni et al. (2016). Pre-emptive and cooperative restructurings leading to a faster resumption of access to financial markets are more conducive to recovery (Diaz-Cassou et al., 2008).

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# Annex IV. Sovereign-Bank Linkages, Domestic Debt Restructuring and Financial Stability in Congo[1]

*This note shows that the design of restructuring strategy of domestic debt should be tailored to mitigate its potential destabilizing effects on the financial sector. Indicative stress tests show that, to maintain the solvency of the banking sector, the restructuring should avoid large haircuts on sovereign debt held by financial institutions and on non-provisioned claims on banks' balance sheets. The tests also indicate that debt write-offs risk undermining depositors' confidence and triggering a liquidity crisis.*

## Context

1. **Congo must bring its domestic debt to affordable levels.** Congo's total debt estimated at 88 percent of GDP at end-2018 is unsustainable. In addition, persistent domestic and external arrears suggest that Congo is in debt distress (DSA supplement). The authorities have adopted a debt restructuring objective with a view to (i) bring external debt to levels required for a moderate risk rating by 2023, and (ii) ensure that financing needs, including from both external and domestic debt service can be met. Congo must thus bring its domestic debt to affordable levels.

2. **A restructuring of sovereign debt may harm bank stability if domestic banks hold large amounts of sovereign debt and/or if they are not sound.** If banks hold large amounts of sovereign debt (typically government securities) and other government-guaranteed debt on their balance sheets, a partial write-off of the restructured assets can lead to banking sector insolvency. Large losses may prompt recapitalization by central banks or even governments and in extreme cases trigger banking crises. If the restructuring undermines confidence in the banking sector, deposit runs may occur potentially leading to the interruption of interbank credit lines and triggering a liquidity crisis. Empirical work shows that sovereign debt crises often occur in association with currency crises or banking crises or both (Borensztein and Panizza, 2009). A domestic debt restructuring may also harm the solvency of the domestic financial system, if there are concerns for *ex-ante* financial soundness (Erce and Diaz-Cassou, 2010). Indirect sovereign-bank linkages can also arise if a restructuring of government arrears to private operators hamper their ability to service their bank loans, which would impair banks' balance sheets.

3. **There is evidence confirming that sovereign debt crisis can lead to output losses through bank insolvency.** Debt crisis episodes can lead to large output losses though it is the occurrence of 'twin' crises (debt and banking) that is strongly associated with output losses

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[1] This paper was drafted by Hoda Selim, Abdoul Aziz Wane (AFR), and Franck Dupont (MCM). The authors thank Fabien Nsengiyumva (AFR) and Maximilien Kaffo (SPR) for their valuable comments. The author also thanks Ashan Rodriguez for excellent research assistance.

rather than sovereign crisis *per se* (De Paoli et al., 2009). This occurs because during banking crisis, banks tend to curtail lending to creditworthy borrowers. In Russia, significant banks' exposure to domestic treasury bills and currency mismatches on their balance sheets resulted in insolvency and default of some banks on their external obligations. In Ecuador, the sovereign default followed a systemic banking crisis (accompanied by liquidation of five financial institutions), and the restructuring process led to a further dent in banks' capital. Previous country experience also shows that bank runs on weak banks can eventually trigger deposit withdrawals from the entire banking sector.

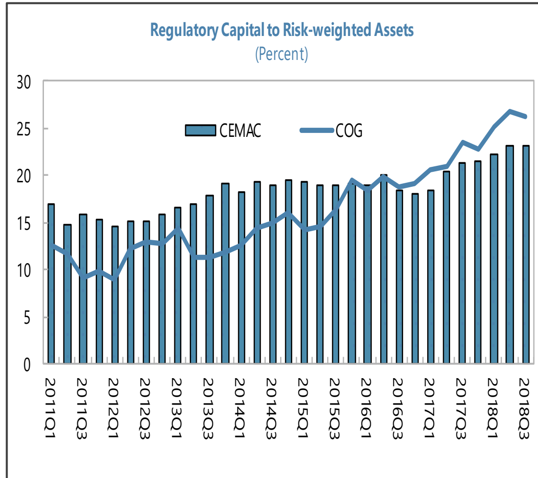
**4. The restructuring of Congo's domestic debt is taking place in a vulnerable but overall solvent banking sector.**[1] The oil price shock has been accompanied by signs of banking stress since 2014 which continue to exacerbate, most notably liquidity tensions and a rapid accumulation of NPLs though they remain below the CEMAC average (Figure 1). The BEAC's policy rate hikes since March 2017 and stricter control on bank refinancing further contributed to tight credit conditions. Nevertheless, the banking sector remains broadly solvent. The solvency ratio (total capital/ risk weighted assets) improved from 12–14 percent in 2014 to 25 percent in 2018 and thus remains above the regulatory minimum requirement of 7.5 percent in 2018. Up until 2016, improved solvency reflected an 80 percent capital increase in the largest Congolese bank, and by the creation of a new joint-venture bank. Afterwards, however, the improved ratio reflected a deterioration in the quality of banks' capital, which reduced their risk-weighted assets. In prudential terms, fewer than half of the institutions in the banking system are in compliance with all of the norms issued by the Central African Banking Commission (*Commission bancaire de l'Afrique centrale* — COBAC). In addition, four institutions are experiencing significant difficulties, in particular with regard to minimum capital requirements. Two of these institutions do not respect the solvency criterion. One small non-systemic bank (less than 4 percent of market share) is not solvent. Another non-systemic bank is in distress but complies with the solvency norms.

**5. This note describes macro-financial linkages in the Republic of Congo with the aim of informing the authorities' domestic debt restructuring strategy.** It examines the macro-financial links triggered by the oil price shock. It also explores the role of sovereign-bank links, including indirect ones, to understand how sovereign distress—including from a debt restructuring—could translate into bank distress. Finally, the note conducts stress tests to assess the impact of domestic debt restructuring scenarios on bank solvency and liquidity.

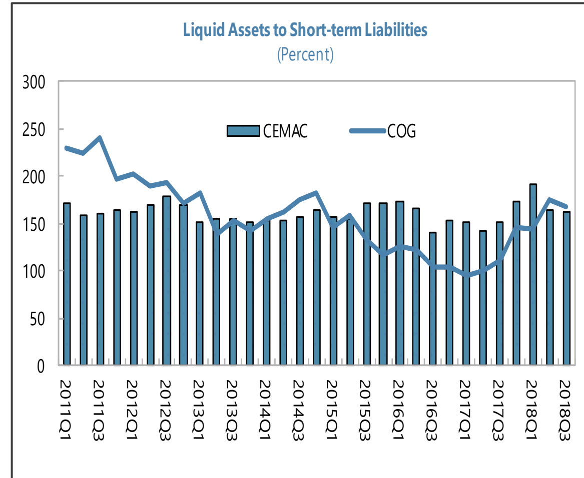
[1] There are 11 commercial banks in Congo, with assets amounting to CFAF 1928 billion (USD 3.47 billion or 30 percent of GDP) as of December 2018.

## Figure 1. Banking Soundness Indicators, 2011–18

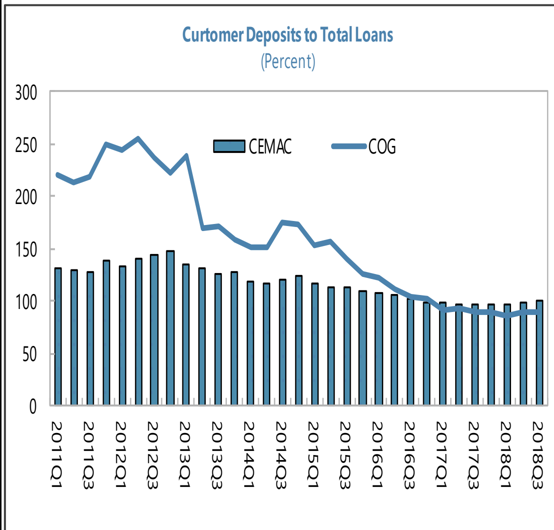
*a. Banks' solvency has been improving*



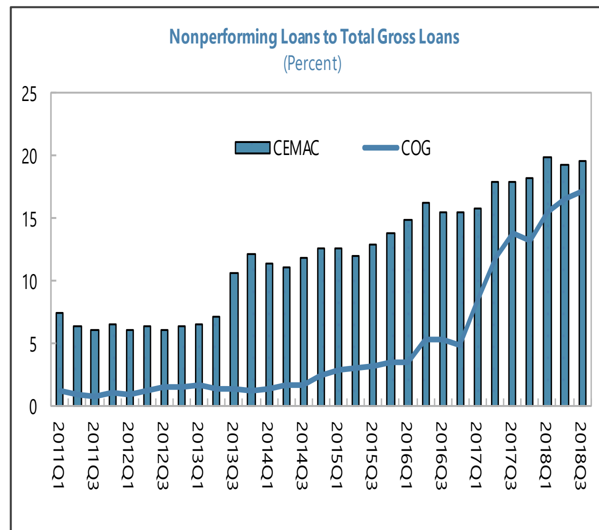

*b. Amid bank liquidity tensions*




*c. Falling desposits to loans ratios*




*d. And rising NPLs*




Source: Financial Soundness Indicators Database.

## Key Macro-Financial Linkages in Congo

**6. The direct spill-over of lower oil prices to Congo's banking sector has been limited.** The fall in international oil prices translated into a large terms-of-trade shock for Congo and a severe contraction of the non-oil economy Even though oil accounted for 49 percent of GDP between 2014 and 2018, credit extended to extractive industries accounted for only 5 percent of total credit and is thus not a major driver of credit growth (Figure 2a). This is because international oil companies tend to rely on external financing from their mother companies.

**7. Tight fiscal policy, associated government cash constraints and accumulation of large expenditure arrears contributed to lower bank liquidity and private sector credit** (Figure 4).

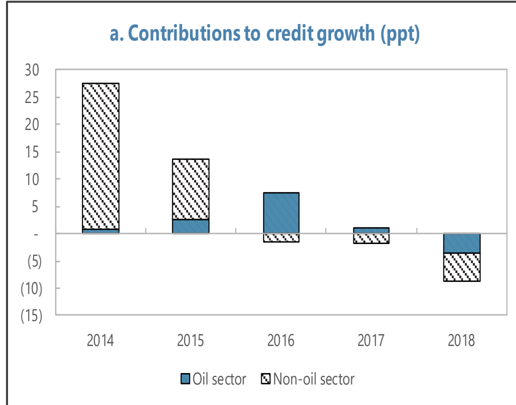
- **Lower oil prices reduced foreign assets** (Figure 2b). The decline in export proceeds and reserve buffers forced commercial banks to draw on their foreign assets which fell by two-thirds in 2014 but have stabilized since. Banks continue to report difficulties in obtaining foreign exchange. Private sector representatives reported significant delays in bank's provision of foreign exchange which impede firms' liquidity and activities.

- **Lower oil fiscal revenues and the associated cash constraints led to spending cuts which contributed to a deterioration in bank liquidity.** Despite public capital spending cuts (by more than 90 percent since 2014), government deposits at the regional central bank (BEAC) declined from close to CFAF 800 billion in September 2014 to CFAF 64 billion in end 2018 (Figures 2c and 2d). The lower injection of public money into the economy reduced commercial banks' deposits. By end 2018, banks' deposits had cumulatively declined by more than 700 billion CFAF (around a third) since end-2014, which is almost twice the loss in the CEMAC banking sector.

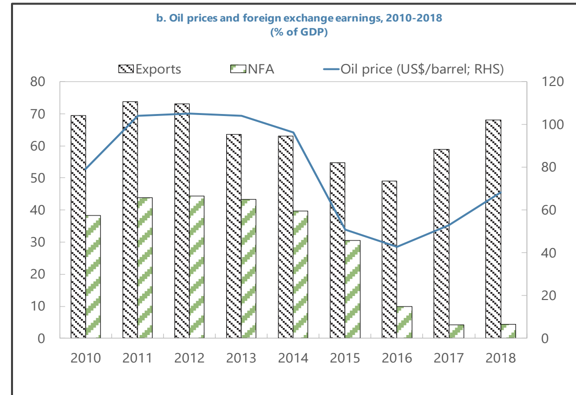
- **Bank liquidity shortages have suppressed credit.** Following the scaling down of public investments and the accumulation of arrears to private sector suppliers, credit to the private contracted, especially in non-oil and government dependent sectors (Figures 2e and 2f).

## Figure 2. Oil prices, Fiscal Policy and the Banking Sector

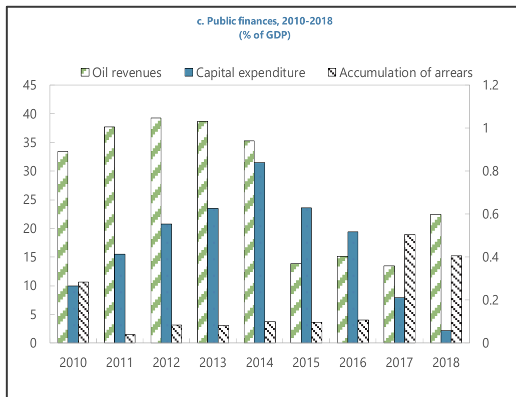
*a. The oil sector is not a major driver of credit growth…*



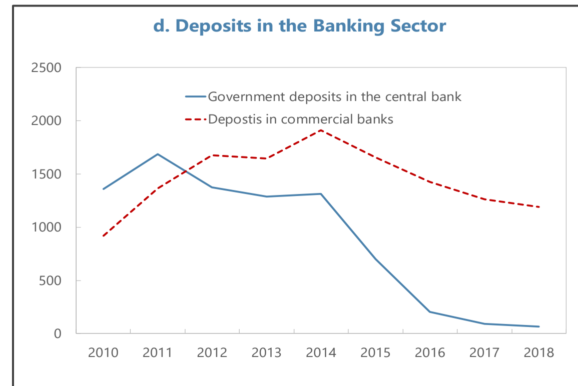

*b. Lower oil prices reduced NFA and exports …*



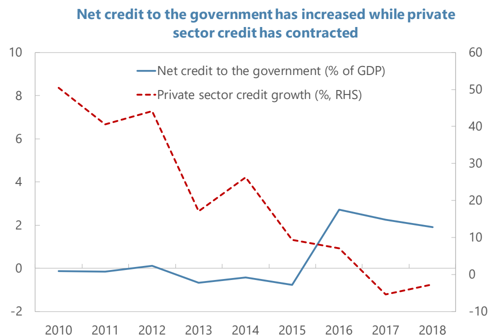

*c. Lower fiscal revenues led to public investment cuts and accumulation of arrears*



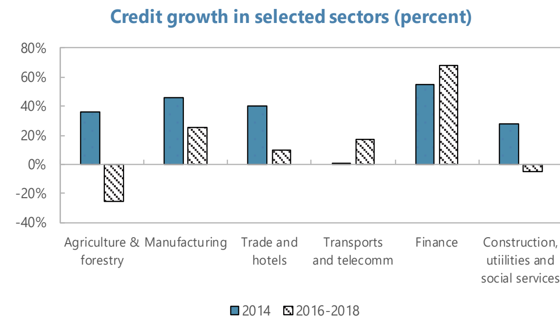

*d. As well as depletion of deposits in the banking sector*




*e. Rising government claims on banks was associated with contraction of private sector credit*

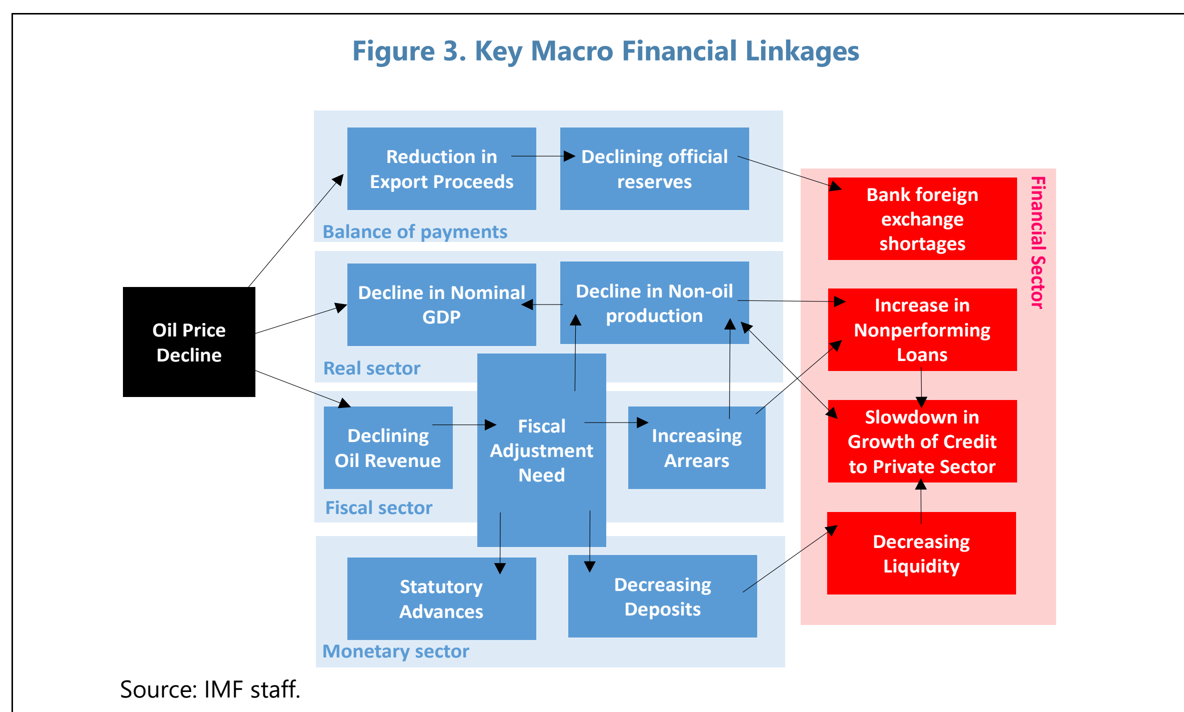



*f. Especially in non-oil and government-dependent sectors*




Sources: Congolese authorities, COBAC, and IMF staff calculations.

**Figure 3. Key Macro Financial Linkages**




Source: IMF staff.

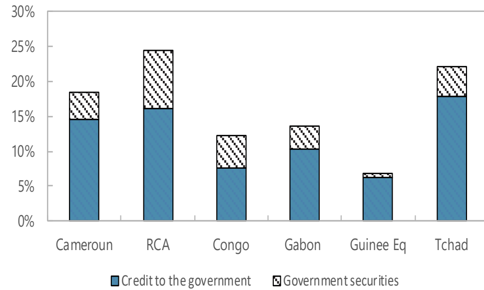
## Indirect Sovereign-Bank Linkages

**7. Congolese banks do not hold a significant amount of sovereign debt.** Sovereign debt held by banks, estimated at CFAF 237.6 billion at end of 2018, accounted for only12 percent of the banking sector assets (vs. 15 percent in average in CEMAC) (Figure 4a). These holdings include government securities in the form of Treasury bills and regional bonds estimated at CFAF 91.3 billion (4.7 percent of assets) though half of this amount relates to debt issued by other governments in the CEMAC zone. Moreover, net claims on government to banks account for than 3 percent of assets.

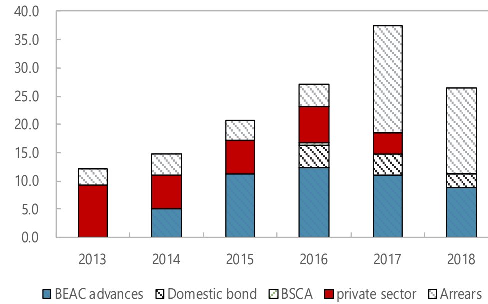
**8. Yet, indirect sovereign-bank linkages played a larger role**. The increase in domestic debt stock to 27 percent of GDP in 2018 was driven by a large accumulation of arrears estimated at CFAF 986 billion (15 percent of GDP) (Figure 4b). This stock of arrears includes social arrears (3.4 percent), audited commercial arrears accumulated over 2014–16, and unaudited arrears amounting to FCAF 626 billion, of which CFAF 506 billion to government suppliers (7.8 percent of GDP). The accumulation of government arrears to private contractors was associated with an increase banks' loans in arrears (including NPLs) from CFAF 33 billion in September 2014 to a record CFAF 287 billion at end-2018 (Figures 4c). This increase was driven by a nine-fold increase in banks' loans in arrears owed by the private sector (Figure 4d). The increase was highest in sectors where the private sector was awarded government contracts like utilities, transport and construction and public works) (Figure 4e).

## Figure 4. Sovereign-Bank Linkages, 2013–18

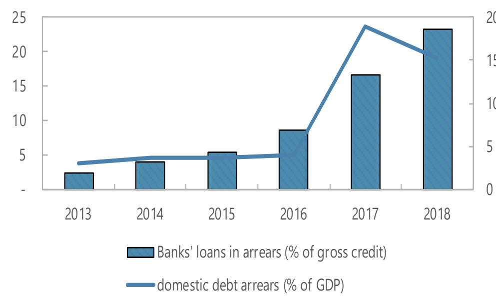
a. *The exposure of banks to sovereign debt is not excessive*



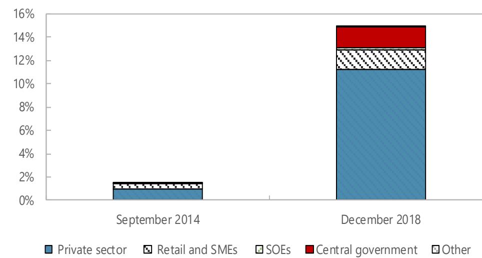

b. *But a large accumulation of arrears to government suppliers*



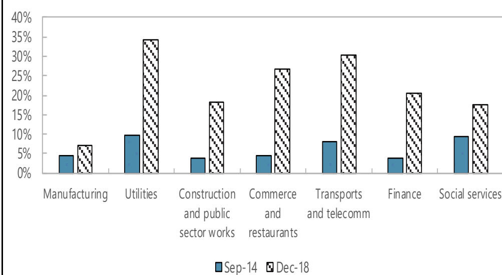

c. *Was associated with a rise in banks' loans in arrears*



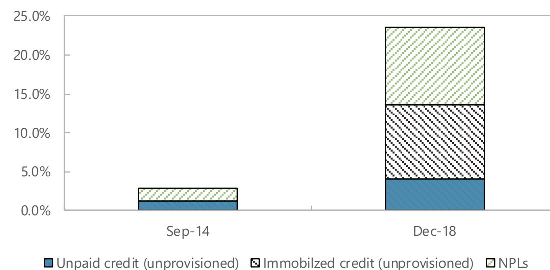

d. *Most loans in arrears are owed by the private sector*




e. *And in sectors where it was awarded government contracts*

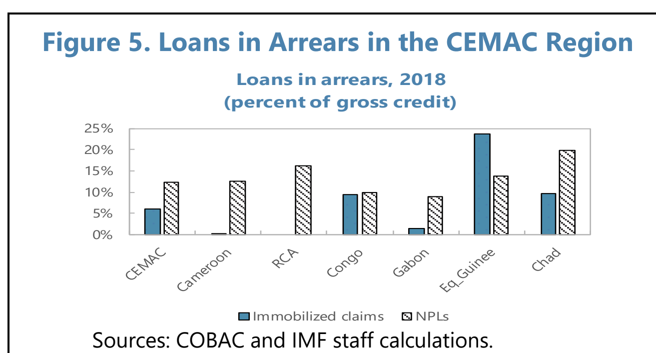



f. *Non-provisioned loans have soared*




Sources: Congolese authorities, COBAC, and IMF staff calculations.

**Figure 5. Loans in Arrears in the CEMAC Region**



Sources: COBAC and IMF staff calculations.

**9. Risks stem from provisioned private sector claims have increased considerably since 2014.** Banks' balance sheets carry a significant amount of loans in arrears which amount to 15 percent of the sector's assets. Around 75 percent of these loans in arrears is owed by the private sector and account for 11 percent of the sector's assets. Moreover, an amount of CFAF 165.6 billion of banks' loans in arrears (13.6 percent of gross credit) are non-provisioned for, up from 15 billion in September 2014 (1.4 percent of total credit) (Figure 5f). These loans—representing over half of the stock of banks' loans in arrears—are mainly comprised of immobilized[1] and unpaid claims,[2] which exploded since September 2014 (Figure 4e).[3] Congo's immobilized claims are higher than the CEMAC average though NPLs remain lower than the regional average (Figure 5). These poor-quality assets on bank's balance sheets reinforce indirect sovereign-banks links and undermine the soundness of the banking sector.

### Restructuring of Sovereign Domestic Debt and Bank Stability Risks

**10. Stress tests indicate that the preliminary parameters of the authorities' debt restructuring strategy is compatible with financial stability.** Under this strategy, the authorities intend to exclude sovereign debt held by domestic financial institutions, prioritize the repayment of social arrears and will refrain from accumulating new domestic arrears. The stress test is built under the following assumptions: (i) a 20 percent write-off on non-provisioned overdue loans, (iii) a 20 percent write-off on non-provisioned immobilized claims, and (iv) a 75 percent write-off on provisioned NPLs. The stress test is built under further assumptions that banks do not make profits and that the BEAC would increase its policy rate by 150 bps. In this case, the bank stress would reduce the solvency ratio from 24.9 percent to 19 percent, which is above the minimum requirement ratio of 9.5 percent in 2018 (Figure 6a).

**11. Stress tests indicate that a complete write-off on sovereign debt held by banks and a sizable write-off on government claims to the private sector can undermine banks' solvency.** A severe bank stress test assumes: (i) a 50 percent write-off on sovereign debt held by banks, (ii) a 75 percent write-off on existing non-provisioned overdue loans, (iii) a 75 percent write-off on non-provisioned immobilized claims resulting from the waiver of the State guarantee on those claims, and (iv) a complete write-off of NPLs. In addition, it is assumed that the government would continue to accumulate domestic debt arrears. In this case, the banking sector's solvency ratio would fall to 6 percent, which would be slightly above the regulatory

[1] Immobilized claims are defined as outstanding loans for more than 90 days owed by the government or guaranteed by the government.

[2] Unpaid claims are overdue loans for less than 90 days.

[3] Provisioning for such debt by *banks* is not compulsory (Article 18).

requirement of 9.5 percent (Figure 6b). The capital of seven banks—accounting for more than half of the sector's assets—would become insolvent. These banks would require a recapitalization of 1.6 percent GDP. The write-offs of immobilized claims and the continued accumulation of domestic arrears have the most detrimental effects on banking solvency. If 50 percent of recognized domestic arrears are repaid in one year, and if firms use 10 percent of this amount to reimburse overdue loans to banks, a third of the write-off-induced losses could be offset. The results of these stress tests are indicative and should be viewed as such.

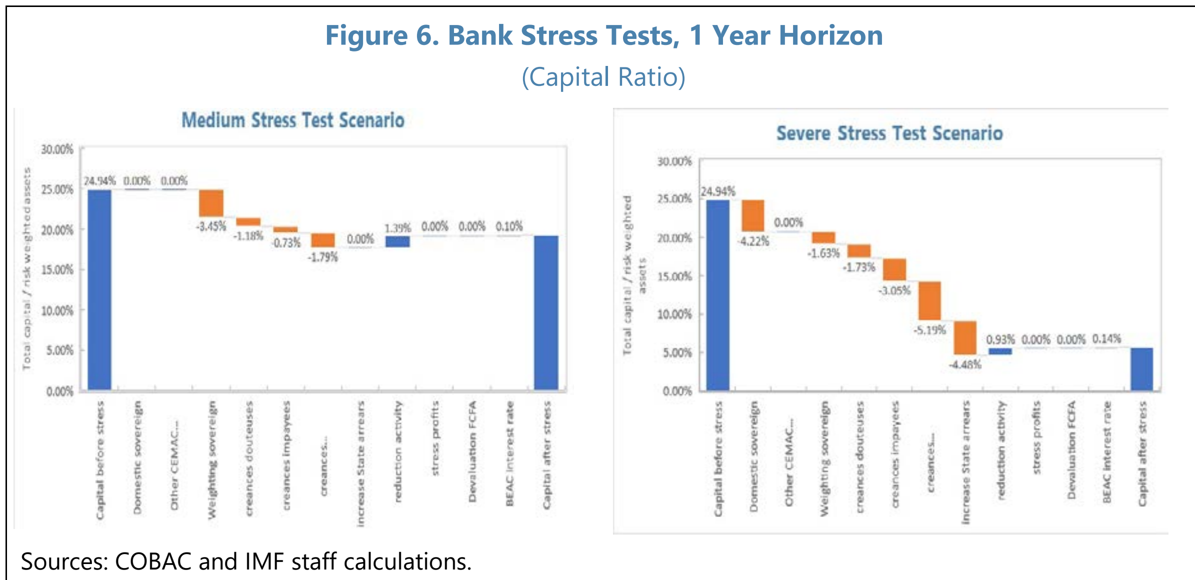



**Figure 6. Bank Stress Tests, 1 Year Horizon**

(Capital Ratio)

Sources: COBAC and IMF staff calculations.

**12. Nevertheless, the restructuring may trigger a liquidity crisis if it undermines depositors' confidence.** Against the backdrop of shallow liquidity, the debt write-offs on banks' balance sheets and the ensuing deterioration in the quality of the bank's asset portfolio can undermine depositors' confidence and trigger a liquidity crisis. Stress tests show that a fall in deposits by more than 30 percent would reduce liquidity (measured by the liquid assets to short term liabilities ratio) to below 100 percent). A fall in deposits by 40 percent would reduce this ratio to 58 percent.

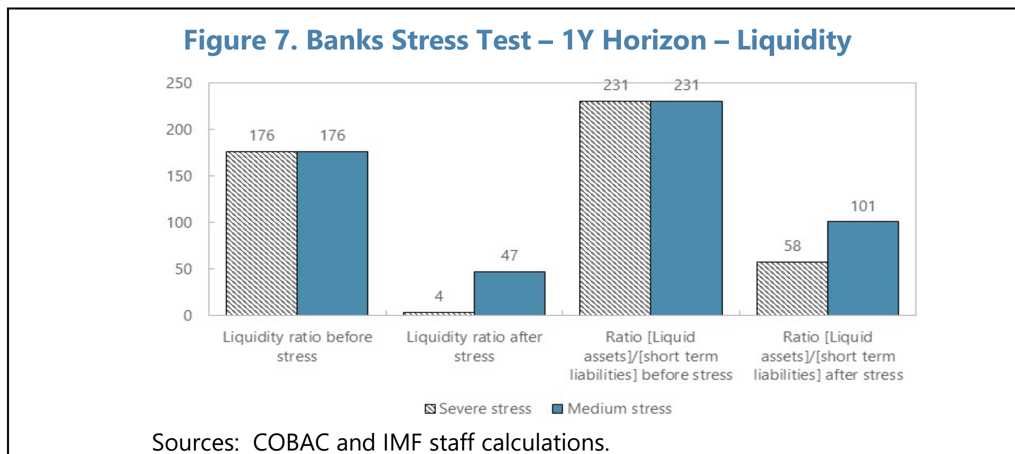



**Figure 7. Banks Stress Test – 1Y Horizon – Liquidity**

Sources: COBAC and IMF staff calculations.

### Policy Recommendations to Safeguard Financial Stability During Restructuring

**13. Financial stability considerations should be explicitly taken into account during the design of the restructuring strategy.** The experiences of Cyprus and Jamaica are two examples where careful and informed choices about debt preserved financial stability. Among the factors that helped safeguard banking stability: (i) financial stability considerations were explicitly taken into account in the design of reprofiling, (ii) bank holdings of sovereign debt were not large, (iii) capital and liquidity support mechanisms were present, including the creation of a financial sector stability fund, to limit the impact on the banking sector.

**14. Some categories of domestic debt can be excluded from the restructuring.** Notwithstanding the merits of a broad coverage of debt restructuring, the exclusion of sovereign debt held by financial institutions, including government securities, from the restructuring can safeguard financial stability. The exclusion of debt with very short original maturity, such as treasury bills (T-bills), can help maintain financial system liquidity (IMF, 2015).

**15. The restructuring strategy should safeguard domestic creditors from large haircuts.** There are several countries where domestic creditors were not part of the restructuring (Belize, Ecuador, Dominican Republic, Pakistan and Ukraine). If action is taken early enough and compatible with debt sustainability, debt reprofiling for a liquidity-constrained country would smooth repayments, or shift them to a period where capacity to pay is expected to be greater. It tends to have less disruptive effects on the banking sector if it improves the prospects of debt sustainability (IMF, 2014).

**16. Banks' immobilized claims should be adequately addressed in the arrears' restructuring strategy.** Once the authorities complete their stocktaking exercise of all outstanding claims and the audit finalized, they should devise a credible plan for clearing the outstanding stock with a public timetable. Criteria for prioritizing arrears' clearance should be transparent and adhered to. The clearance plan should ensure that the repayment of arrears enable firms to repay their overdue loans to creditor banks in order to limit further losses on banks' existing portfolio of overdue loans and strengthen banks' capital. The sound execution of the arrears' plan can help reassure markets that the debt write-offs are part of a well-controlled process that will guarantee the viability of banks.

**17. There is a need to ensure that BEAC is able to provide liquidity in the case of a liquidity crisis.** As a lender of last resort, the BEAC can provide lending against collateral to illiquid but solvent bank through the emergency lending facility. However, if banks use sovereign debt as collateral, increased sovereign risk induced by restructuring may reduce the eligibility of Congo's sovereign assets as acceptable collateral. Reduced banks' access to BEAC's financing would reduce the liquidity ratio of the entire system by 5–10 percent. A possible solution would be to introduce a temporary expansion of eligible collateral (IMF, 2014).

**18. Strengthen the implementation of new COBAC regulations including for banks in distress.** The regional banking supervisor, COBAC, has adopted an action plan to address rising

NPLs (including by clarifying and better enforcing the provisioning rules), strengthen the implementation of specific supervision rules (including the risk concentration and connected party lending rules), and resolve banks in difficulty. The national authorities should coordinate with COBAC regarding actions to enforce prudential norms and provisioning for NPLs. This will require improvements in financial monitoring through enhanced financial reporting and staff capacity in line with FSAP recommendations. Non-solvent banks, while non-systemic, should be quickly and orderly resolved. Delays in their resolution could increase the related fiscal costs if the government undertakes banks' rescue operations including recapitalization of insolvent banks, which will worsen debt sustainability. As CEMAC banks are holders of Congo's debt, an assessment of the impact of Congo's sovereign debt restructuring on CEMAC banks is warranted.

**19. A preemptive restructuring operation can limit the output costs.** There is evidence that a final debt restructuring, allowing the country to exit a default spell, may translate into faster recoveries (Forni et al., 2016 and Cassou et al., 2008). Moreover, compared to post-default crises, pre-emptive restructurings, which are concluded quickly and in cooperative terms, are more likely to be associated with lower haircuts, a shorter duration of debt renegotiation, quicker access to international capital markets, and significantly lower output losses (post-default cases see a protracted decline in GDP after crisis start while preemptive cases do not) (Asonuma and Trebesch, 2016).

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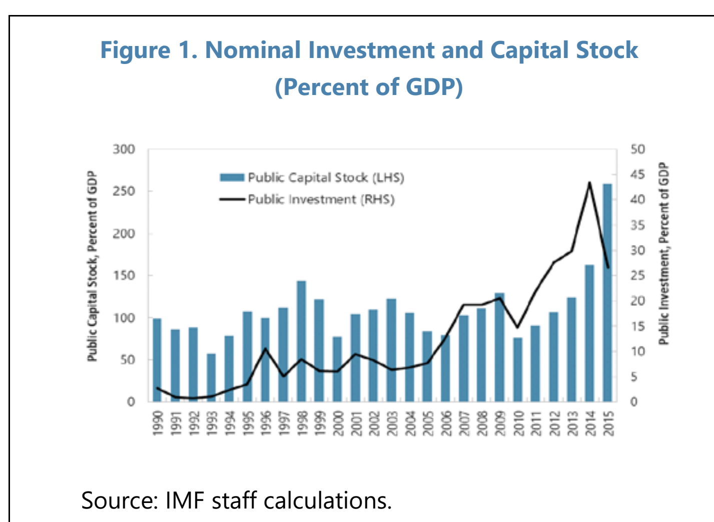
# Annex V. Macro-Fiscal Gains from Anti-Corruption Reforms[1]

*This note argues that revenue management and public investment in Congo are vulnerable to corruption as a result of limited transparency and accountability. These corruption vulnerabilities have potentially contributed to poor macro-fiscal outcomes. Depending on the magnitude of anti-corruption reforms adopted, the potential additional growth can range between 0.8 to 1.8 percent per year over the next 10 years, and debt can decline by 2.25 to 3 percent of GDP per year over the same period.*

## Introduction

**1. The Republic of Congo is the third largest oil producer in sub-Saharan Africa (SSA) but oil receipts have fallen drastically since 2015.** Oil production is estimated at an annual average of 86 million barrels between 1990 and 2018. Between 2007 and 2017, oil generated on average around 70 percent of fiscal revenues and accounted for 85 percent of merchandise exports. Between 1991 and 2015, it generated close to US$3 billion in annual rents, or $687 in rents per capita every year.[2] However, oil fiscal receipts in Congo collapsed from an average of 51 percent of the value of oil production in 2005–14 to less than 30 percent in 2015. The ratio of oil revenues to exports also deteriorated from 56 percent in 2014 to 24 percent in 2015–18, well below the average of SSA oil exporters which stand at around 45 percent. This decline in oil revenue has coincided with a change in in the legal framework governing oil production sharing.

**Figure 1. Nominal Investment and Capital Stock (Percent of GDP)**




Source: IMF staff calculations.

**2. Large windfalls financed a surge in public investment.** Total public investment in Congo amounted to FCFA 1797 million during 2014-2017 and over half of this amount was allocated to building roads and hospitals. Yet, the ratio of the stock of public capital to GDP has not kept pace with the rapid scaling-up of investment (figure 1). Moreover, this large investment spending was not

[1] This paper was drafted by Hoda Selim (AFR) and Concepcion Verdugo Yepes (FAD), with inputs from Giovanni Melina (RES) and Jonathan Swanepoel (LEG). An expanded version of this analysis has been recently published as a working paper. See Melina, G, Hoda Selim and Concha Verdugo-Yepes. 2019. "Macro-Fiscal Gains from Anti-Corruption Reforms in the Republic of Congo". *IMF Working Paper* 19/121.

[2] Rent is defined as the difference between the value of crude oil production at world prices and the total costs of production.

necessarily the most efficient as IMF estimates public infrastructure investment efficiency of in Congo at 0.35, well below the 1.00 threshold (IMF, 2015).

**3. Oil revenue management and public investment spending occurred in a context where corruption is perceived to be prevalent** as measured by a range of internationally recognized indicators relative to other countries in the SSA regions (figures 2a and 2b). Meanwhile, overall socio-economic performance has been dismal. GDP per capita growth remained below other SSA countries with lower or no resource wealth (Figure 2c). Other symptoms of weak performance include volatile growth, debt overhang and deep-rooted poverty (Figures 2d, 2e, and 2f). Despite some reduction in poverty observed between 2005 and 2011, cross-country comparisons suggest that the level of poverty in Congo is much higher than in comparable middle-income countries (World Bank, 2017a). Finally, with a Gini coefficient estimated at 0.465 in 2011, Congo remains among the most unequal societies in the world (World Bank, 2017a).

**4. Authorities and citizens recognize the need to fight corruption as a development priority.**[3] They prepared and published a Report on Governance and Corruption" (RGC) to inform their anti-corruption reform agenda[4] , where they acknowledged that their efforts to date have not been effective and the need for a new policy of "breaking with the past" (RGC, 2018). The report identifies governance and corruption vulnerabilities in the rule of law, PFM systems, financial sector oversight, market regulation and the business climate, AML/CFT, and the anti-corruption framework (Box 1). It also suggests policy measures to address these challenges, which constitute an important pillar of the proposed ECF program.

**5. This note explores the transmissions channels between vulnerabilities to corruption and macro-fiscal outcomes in Congo.** It focuses on these two sectors because they involve the management of massive flows of public funds, and the interaction between the public and private actors. With limited transparency and accountability in those sectors, collusive institutional arrangements between public and private actors could enable corrupt practices that undermine macro-fiscal outcomes. The note also uses the use of Debt, Investment, Growth and Natural Resources (DIGNAR) model to assesses macroeconomic gains from anti-corruption reform in Congo.

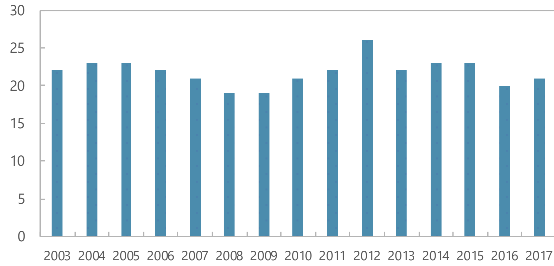
**6. The note is structured as follows.** Sections II and III explain corruption vulnerabilities in oil revenue management and public investment respectively. Using a DSGE model, Section IV simulates the potential impact of anti-corruption reforms on Congo's growth and public debt. The last section concludes and suggests possible reforms to reduce corruption risks.

[3] In an opinion survey carried out in Congo by the World Bank in 2015, close to half of the respondents identified that public sector governance/reform should be a key development priority for the country. Moreover, around a quarter perceived that implementing governance reforms would help reduce poverty (World Bank, 2016c).

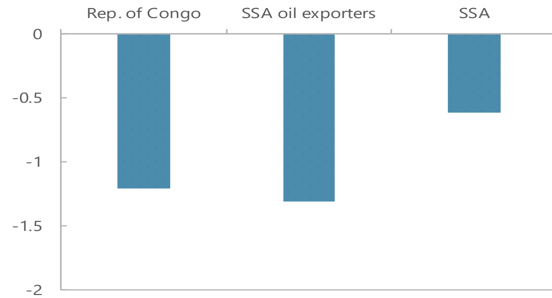
[4] The report applied the IMF framework (2018).

## Figure 2. Corruption Perception Indicators and Macro-Fiscal Outcomes

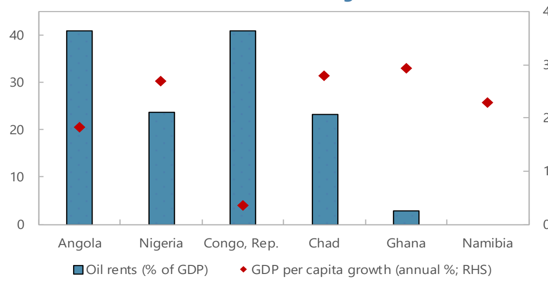
*a. Corruption perception scores have been persistently poor*



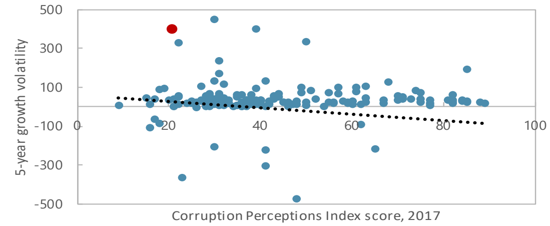

*b. And worse than in other SSA countries*



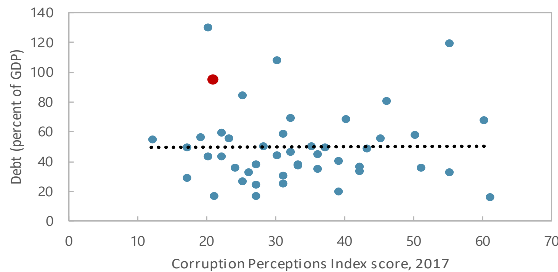

*c. Growth has been low*



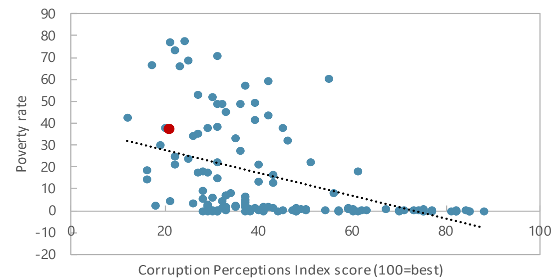

*d. And highly volatile*




*e. Debt stock is large*




*f. And poverty is high.*



### Box 1. Summary of Main Findings on the Report on Governance and Corruption (RGC)

**There are significant challenges in implementing and enforcing the rule of law.** Congo's governance system suffers from implementation deficit, reflected by a failure to enact implementing regulations, weak institutions, or by simple inaction. There is also a significant shortfall in transparency and public data reporting. Congo is one of the few countries where the central government does not have an official website. Finally, the enforcement of claims remains a significant challenge, with public trust in the legal system, notably the courts, being particularly weak.

**There is ample scope to strengthen governance in PFM and address corruption vulnerabilities.** On the revenue side, in relation to natural resources (especially oil), governance challenges result in a significant leakage of revenues before they reach the national budget. Weaknesses in procurement—e.g., lack of due diligence in contracting and sanctioning systems, as well as frequent opportunities for circumventing formal processes—result in significant losses. Excessive spending has been a major factor in the significant increase in the debt stock (from 20 percent of GDP in 2010 to 118 percent in 2017). Internal control systems are very weak. Both the internal and external audit agencies are insufficiently empowered to perform their functions effectively. Other structural weaknesses include poor control of the public-sector wage bill.

**Governance challenges also affect market regulation and the business climate**. The government recognizes the diverse challenges, including the hurdles and costs to start a business, the weakness of public registers of land and companies, and the many-layered tax services, and the potential for abuse of these services.

**Governance vulnerabilities are inadequately addressed through the Anti-Money Laundering (AML) framework, which is weak.** As a signatory to UNCAC, ROC has enacted laws intended to address AML weaknesses, but these have significant limitations. Also, agencies created to detect and investigate the laundering of the proceeds of corruption have not been properly staffed or trained, lack coordination, and do not have the necessary powers to carry out their legal mandates.

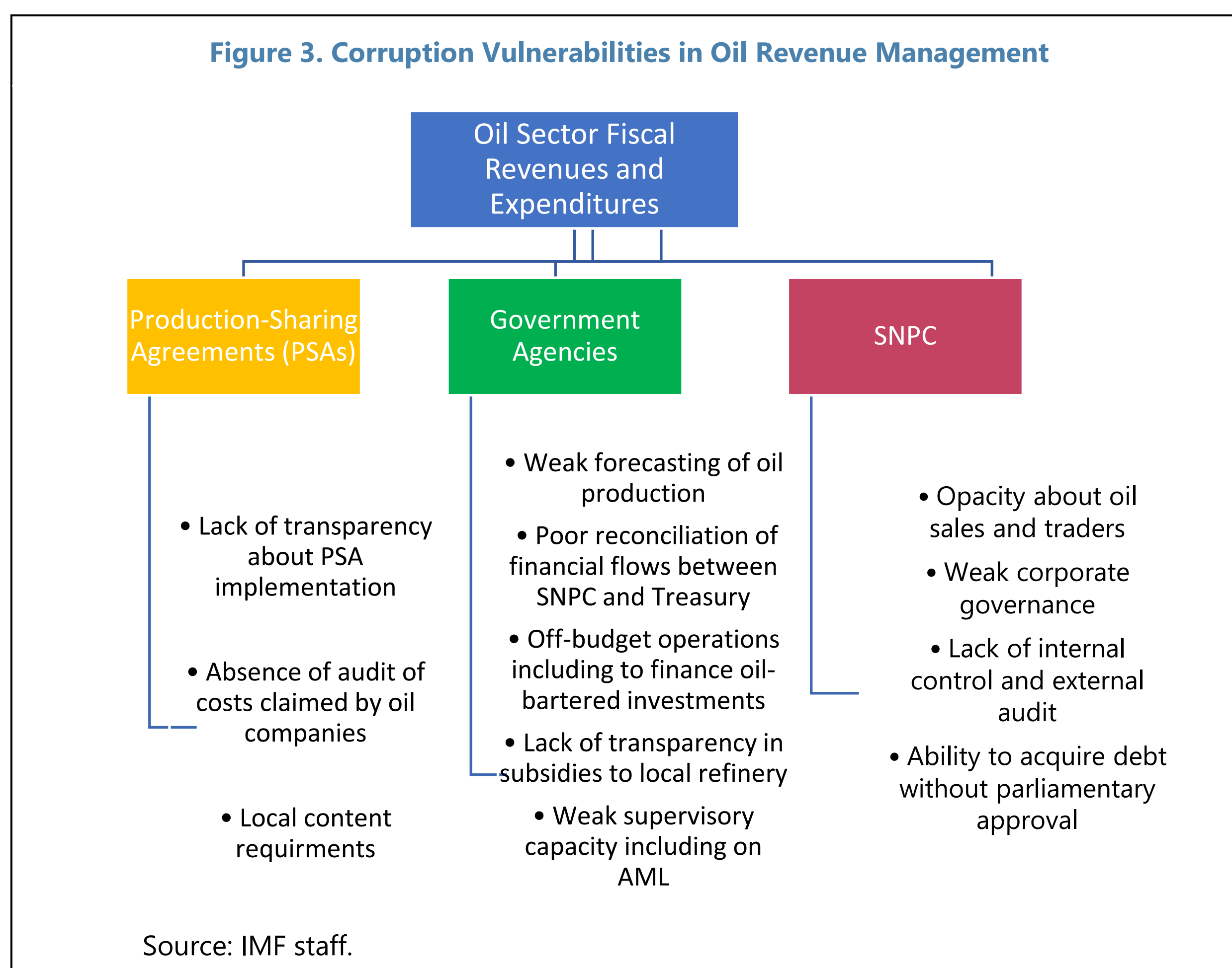
**The anti-corruption efforts need significant strengthening to address these governance vulnerabilities.** The current weaknesses lie principally in gaps in the statutory framework, and in the ineffectiveness of the institutions tasked to implement anti-corruption laws, both specially tasked institutions (such as the CNLCCF) and the regular enforcement agencies. The anti-corruption agencies are not independent and lack legal enforcement powers.

Source: RGC, 2018.

## Oil Revenue Management

**7. Large oil rents could create incentives to corruption** at various stages of the oil value chain including exploration, development, and production and trading. If left unaddressed, these vulnerabilities could result in the misappropriation of public sector funds. This section identifies three main sources of corruption risks in oil revenue management in Congo, namely,[5] (i) the Production Sharing Agreements (PSAs); (ii) inadequate budget reporting and misallocation of oil funds; and (iii) the national oil company, the Société Nationale des Pétroles du Congo (SNPC) (Figure 3).

**Figure 3. Corruption Vulnerabilities in Oil Revenue Management**




Source: IMF staff.

[5] Important players in the oil sector include the Ministry of Hydrocarbons, the Ministry of Finance, SNPC, international oil companies, and oil traders.

## Production Sharing Agreements

**8. Lack of transparency in the implementation of the PSAs creates opportunities for corrupt practices.** Production Sharing Agreements (PSAs) allow Congo to retain ownership of its oil resources but grant the rights of exploration and production within a specified area, and for a limited period, to a private oil company or consortium (the contractor). The contractor assumes all costs that are later recovered against a share of oil production. Production sharing terms between the oil companies and the government determine the oil share that each party will receive from total production and therefore how much revenue will flow to the Treasury. The 2016 Hydrocarbons Code (enacted by Parliament but still lacking implementing regulations) provides a more transparent basis for the awarding of licenses in the petroleum sector, as well as guidance on the main production-sharing fiscal terms—royalties, cost recovery, profit-sharing, and taxation. The Code also requires the Parliament to approve all PSAs and requires that they are published in the official gazette. Yet, a lack of transparency about some contractual terms (such as the amount of the signature bonus) may disguise illegal payments to public officials.

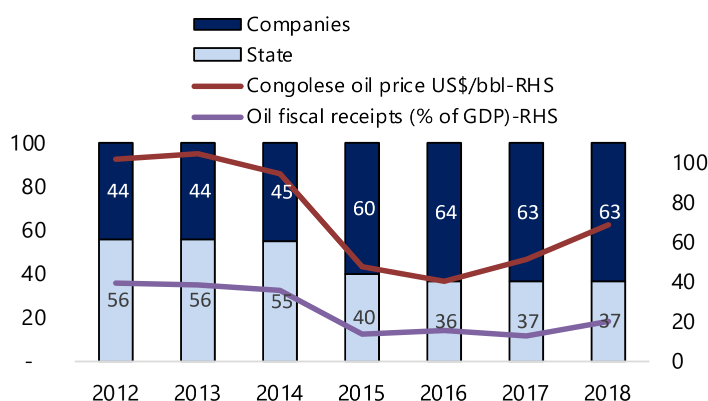
**9. The specific terms of the PSAs are negotiated on a case-by-case basis between the government and international oil companies.** These negotiations are complex and are recognized by the authorities to be open to abuse by the companies. The opacity of these negotiations may also create incentives for corruption. For example, the authorities offered more generous fiscal terms to oil companies in 2015 (Table 1). These revised terms—which have affected about half of oil production since 2015—increased the ceilings for costs recovered by the companies and lowered the government's share of profits. The new terms were meant to compensate oil companies for relatively higher costs in a low-oil price environment, and to attract interest in Congo's maturing oil fields and inaccessible deep-water fields where exploration and development operations are expensive. However, they have significantly reduced the government's share of oil production from 56 percent in 2012–14 to only 40 percent in 2015 and to around 37 percent in later years thus depriving the state of substantive fiscal revenue (Figure 4).

**Table 1. Republic of Congo: Old and New PSA Terms (% of Production)**

| | Old fiscal terms | New fiscal terms |
|---|---|---|
| **Government shares (% of total production unless otherwise stated)** | | |
| Royalties | 12% | 15% |
| Cost Stop | 50% | 50% |
| Threshold Price (US$/bbl) | 34 | 55 |
| Excess oil | 50% | 50% |
| Profit oil | 60% | 50% |
| Super profit oil | 70% | 66% |
| **Oil companies' share (% of total production unless otherwise stated)** | | |
| Cost oil (U$/bbl) | 45 | 45 |
| Excess oil | 50% | 50% |
| Profit oil | 40% | 50% |
| Super profit oil | 30% | 34% |

Sources: Congolese authorities' data and IMF staff estimates.

**Figure 4. Fiscal Receipts and Distribution of Oil Production, 2012–18**




Sources: Congolese authorities and IMF staff calculations.

Note: Oil production shares were estimated by staff based on PSA terms. Scenario B reflects a simulation based on oil fiscal terms.

**10. The introduction of local content requirements under the 2016 Hydrocarbons' Code is another potential source of corruption risks**. The Code requires that national companies (defined as companies based in Congo where more than 50 percent of shares are held by individuals with Congolese nationality) hold a 10 percent share in new joint ventures but subjects them to the same obligations as other contractors. Moreover, oil contractors must employ Congolese personnel and give preference to equipment and services of Congolese origin, if the price of this labor and equipment is no more than 10 percent higher than that of foreign equivalents. Moreover, at least 25 percent of the development and operational costs of oil fields must be sourced locally. If these requirements are not met, the companies are not allowed to recover any additional costs incurred. While such requirements can support diversification, they represent a significant risk of rent-seeking if not implemented under a transparent framework. The provisions could be a potential source of corruption if they are used to favor local companies with political connections, and/or to channel and conceal "kickback" schemes to public officials (World Bank, 2007).

### Misallocation of Oil Funds and Inadequate Budget Reporting

**11. Weaknesses in the forecasting of oil revenues make it difficult to account for all oil flows in the budget.** The General Directorate for Hydrocarbons, and the Natural Resources Office of the Cabinet of the Ministry of Finance work closely with the SNPC and selected international oil companies to validate projections of oil production. However, there is no clear methodology used for oil forecasting, and there are inconsistencies between the estimates of oil production and oil revenues produced by the oil companies at the end of the year and the data collected by the Ministry of Finance. In this context, the reconciliation between the value of production from oil sales based on PSAs terms with amounts received by the Treasury has been problematic. A reconciliation exercise done with assistance of IMF staff for the period 2014–17 helped identify substantial

amounts of off-budget oil revenue. These amounts relate primarily to oil-backed pre-financing arrangements contracted by SNPC with oil traders (US$2.5 billion), and special contracts with oil companies which were repaid with the equivalent of at least US$ 0.5 billion in annual withholdings of government oil. They were largely used to finance infrastructure projects including a power station (EITI, 2014). The oil reconciliation exercise also identified additional oil revenue (about US$250 million per year) that bypassed budget processes. These amounts were reportedly used to finance transfers to the oil refinery as well as payments of the government's share in the operating costs of the five oil fields in which it participates.

**12. The lack of enforcement of the repatriation and surrender of foreign exchange provisions associated with the Anti-Money Laundering (AML) framework is another concern.** According to CEMAC regulations, export proceeds received in foreign currencies must be repatriated by companies and surrendered to the regional central bank within one month of collection. The authorities have indicated that multinational companies tend to evade this requirement. Compared to peer countries, Congo shows below-average performance on a range of AML indicators and the trend in these indicators shows little to no improvement over time (RGC, 2018).

### The Role of the SNPC

**13. Accounting for oil revenue flows and related financial transfers between the government and the SNPC remains inadequate.** Created in 1998, SNPC has the dual mandate of managing its own share of production received through stakes in oil fields from joint-ventures with oil companies and managing the state's oil share on behalf of the government.[6] SNPC also remits the proceeds of oil sales—net of its fees—to the Treasury on a quarterly basis (EITI, 2015). Yet, the regulations governing the management of the state's oil resources are loosely implemented by the SNPC which may conceal corruption risks. EITI reported being able to reconcile the quarterly oil transfers between oil producers and SNPC based on PSAs. Yet, it has not been able to reconcile the quarterly transfers disclosed by SNPC with those received by the Treasury. In part, this may be explained by weak capacity but in larger part, they can be explained by corruption vulnerabilities as a result of weak corporate governance in SNPC.

**14. Corruption vulnerabilities in SNPC persist against a backdrop of lack of transparency about its oil trading operations.** Figure 5 describes these key corruption vulnerabilities. Politically Exposed Persons (PEPs) can influence decisions related to oil trading transactions conducted by the SNPC on behalf of the government including through pre-financing and oil-backed infrastructure agreements (Longchamp and Perrot, 2017).[7] In the absence of full transparency and sufficient

[6] SNPC has five subsidiaries (Sonarep, SFP, ILOGS, CORAF, CRS-Distribution) covering the entire oil industry value chain.

[7] According to the Financial Action Task Force, a PEP is an individual who is or has been entrusted with a prominent function. Many PEPs hold positions that can be abused for laundering illicit funds or other predicate offenses such as corruption or bribery.

oversight, proceeds of these transactions may have been channeled abroad to companies had obscure beneficial ownership or which could be related to a PEP or someone in his patronage network (Longchamp and Perrot, 2017).[8] These vulnerabilities persist against a backdrop of lack of transparency about SNPC's oil trading operations lack transparency. There is a severe lack of published timely and regular information on (i) regulations for competitive public tenders for the sale of oil, (ii) objective criteria for the selection of buyers or pre-qualification of local suppliers, (iii) a list oil buyers and/or traders, and (iv) the volume of oil sales and their pricing. The opacity of oil trading transactions also raises concerns about potential mispricing of these transactions, which may allow the buyers to resell oil to traders at an inflated margin. World Bank (2007) reports that financial audits uncovered that SNPC was selling the state's share of crude oil production at prices that were 5 to 6 percent below market.

**Public Investment**

**15. The rapid scaling-up of public investment has occurred in an environment with strong perceptions of corruption** (figure 5a). Opportunities for corruption can arise at various stages of the investment project cycle starting from initiation and planning, allocation of resources, to implementation and procurement (see Figure 6).[9] During the planning phases, corruption risks stem from two aspects. First, limited available information on the government's public investment plans including for its PPP strategy suggests that programming and budgeting processes for public investment are weak and not well-coordinated. Second, there are no clear guidelines (or an underlying regulatory framework for PPP) to guide the planning and management of projects, and no clear and objective criteria for project selection. As such, projects are not systematically subject to a rigorous technical, economic, and financial appraisal which may raise concern about their overall efficiency (RGC, 2018). During the period from 2014-2017, most investments projects on roads financed within the strategic partnership with China used a restricted call for tender. The lack of transparency during the project allocation phase provides opportunities for influence by PEPs who may financially benefit from the projects. Because of a lack of transparency and accountability in budget execution, discretionary extra-budgetary investment spending occurred. An example is the SNPC refinancing agreements with oil traders mentioned in section II, which amounted to US$ 2.5 billion. Also, specific agreements with oil companies to build infrastructure (e.g., The Electric Central project built by ENI) which did not go through a competitive tendering process, involved a cost to the state of US$ 568 million.

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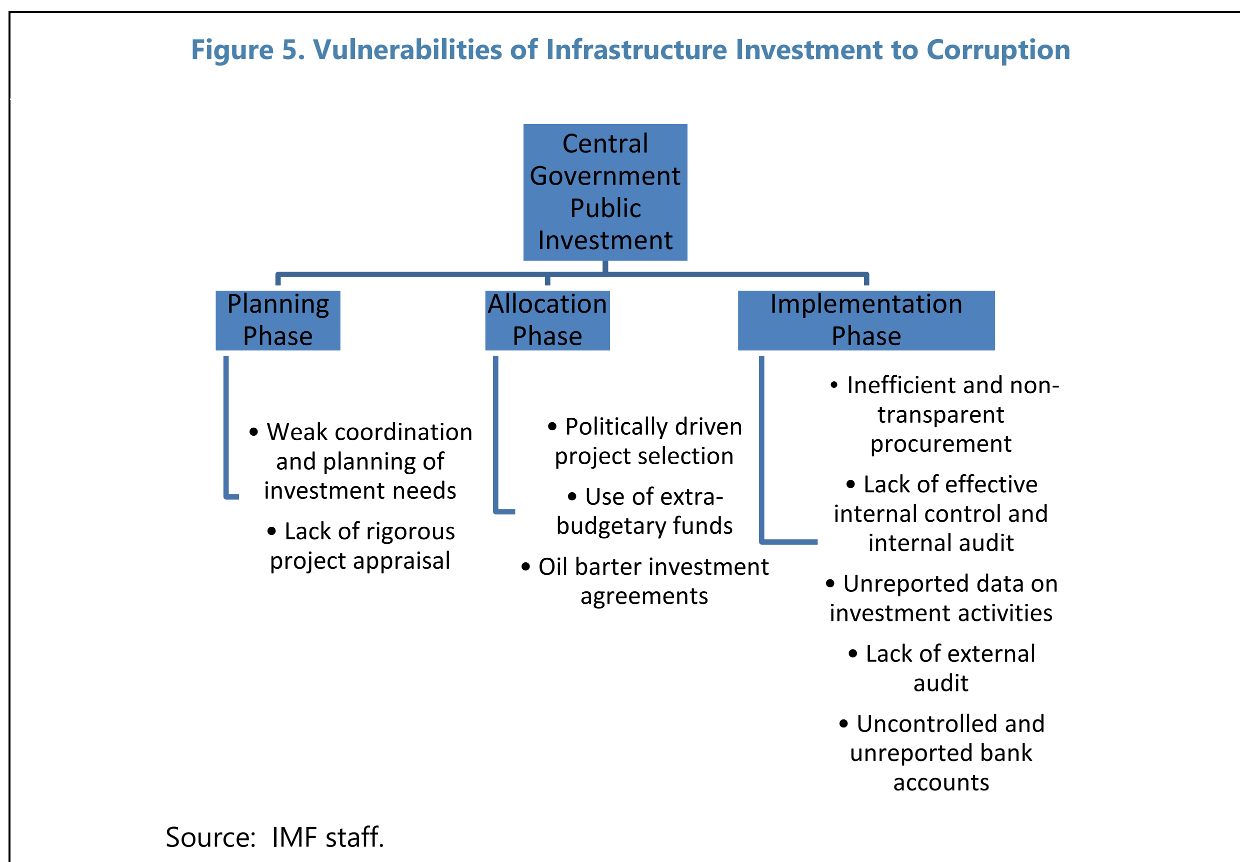
[8] See the case of cases Philia and Vitol in Longchamp and Perrot (2017).

[9] A diagnostic tool, the Public Investment Management Assessment (PIMA), has been developed by the IMF to assess the efficiency of public investment management during each phase of the investment cycle. PIMAs have now been carried out for more than 50 countries, not including the Congo. See IMF, 2015, and 2018b.

**Figure 5. Vulnerabilities of Infrastructure Investment to Corruption**




Source: IMF staff.

**16. Weak procurement processes and internal controls may create widespread opportunities for sub-optimal decision making and misuse of public funds.**[10] Notwithstanding progress with the introduction of the 2009 procurement law requiring that complaints be reviewed by an independent body, it is not known whether such reviews have been carried out or are rigorously enforced.[11] Projects are sometimes tendered in a competitive process, but the public does not have access to complete, reliable and timely procurement information. However, there is no available data on public tendering versus direct procurement. Other corruption risks include insufficient controls of the procurement process; the absence of mechanisms to impose sanctions when the regulations are breached; and weak capacity of civil servants responsible for conducting procurement transactions in line ministries. Only a limited number of procurement audits have been conducted in recent years, and these excluded high-value contracts. These weak PFM processes often mean that the selected projects are not the most productive or efficient and are carried out at

[10] This section is based on the discussions between IMF staff and the authorities in December 2017 and April 2018. Other sources of information include PEFA (2014), European Commission. 2013, IMF (2017b), EITI (2016, 2014), RGC (2018) and World Bank. 2015, 2016a, 2017b, 2017c, 2017d).

[11] This section draws from discussions with authorities and from the RGC.

excessive costs (RGC, 2018).[12] They may not necessarily have a significant impact such as improved access to electricity (figure 6b–6d).

**17. Public sector corruption is perceived to be a major obstacle to doing business.** Findings from the 2009 Investment Climate Assessment (ICA) survey for Congo also suggest that 65 percent of firms perceive corruption to be a major constraint to business (Figures 7a and b).[13] It generates costs when investors interact with various government administrations. Survey data indicate that informal payments or bribes are made by Congolese firms during tax inspections (Figure 7b). Close to 40 percent of firms have experienced at least one bribe request and were expected to give gifts to tax officials. This ratio increased to 82 percent for public officials. Also, investors face corruption when applying to obtain basic public services. Survey findings suggest that some firms were expected to make informal gifts or payments to apply for electricity or water connection, which may contribute to the high costs of doing business in Congo (Figure 7c and 7d).

## Dividends from Anti-Corruption Reforms

**18. A Debt, Investment, Growth and Natural Resources (DIGNAR) dynamic macroeconomic model is used to estimate the potential macroeconomic impact of governance reforms** on output, private investment, private consumption and debt. It incorporates anti-corruption reforms to address corruption vulnerabilities described in sections II and IIII through: (i) a reduction in bribery of public officials and other distortions (captured by an implicit tax similar to a bribe rate) which would boost private sector investment, (ii) an improvement in public investment processes which would raise public investment efficiency and translate into a larger capital stock[14] (iii) a more efficient government bureaucracy which would reduce tax evasion, widen the tax base and increase tax revenues, and finally, (iv) an improvement in oil sector governance that would correct mispricing of Congolese crude oil exports which would lead to higher oil fiscal revenues.

**19. Three different reform scenarios are calibrated.** The baseline scenario captures the effect of an ambitious but realistic reform package that would advance Congo within the distribution of SSA countries. The second scenario assumes a partial reversal of reforms as commitment may falter over time. Finally, a more conservative scenario is calibrated with less ambitious reforms.

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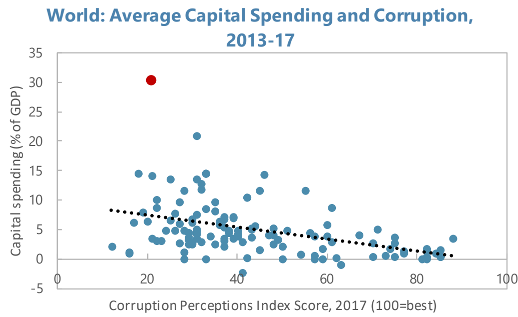
[12] Examples of investments deemed inefficient by CSOs and other stakeholders are the Kintélé National Stadium, the Imboulou Dam Project, and the Congo Power Station. For a discussion of inefficient investments in Congo, See World Bank (2015).

[13] In an opinion survey carried out in Congo by the World Bank in 2015, close to half of the respondents identified that public sector governance/reform should be a key development priority for the country. Around a quarter perceived that implementing governance reforms would help reduce poverty (World Bank, 2016b).

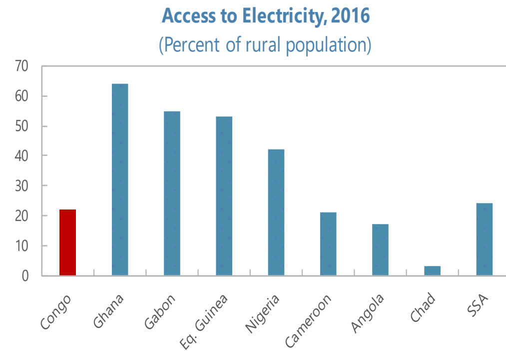
[14] More details on the technical aspects of the model and its calibration to Congo are provided in the working paper.

## Figure 6. Corruption Perception Indicators and Public Investment Delivery and Efficiency, 2010–17

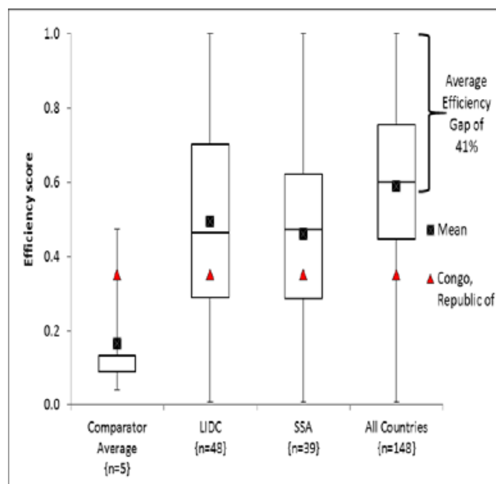
*a. Excessive capital spending amid poor corruption perceptions*



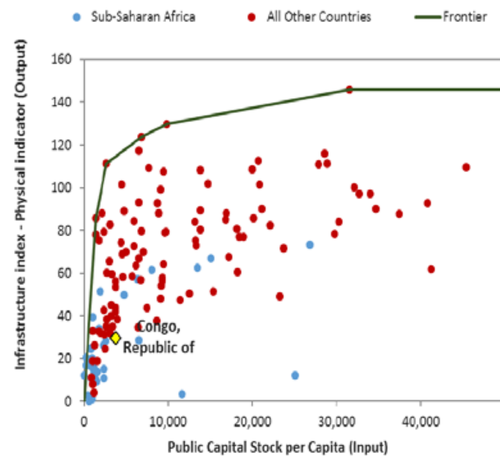

*b. Public investment has not improved access of electricity*




*c. Low efficiency of physical infrastructure*




*d. relative to more efficient frontiers*

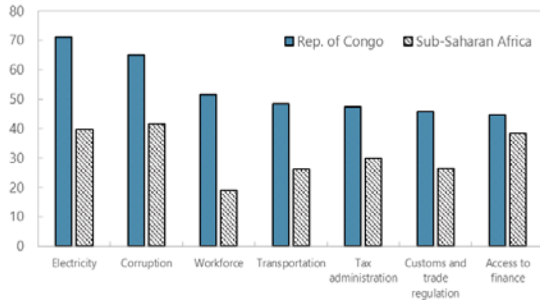



Sources: Transparency International, IMF (2015), and World Bank Development Indicators.

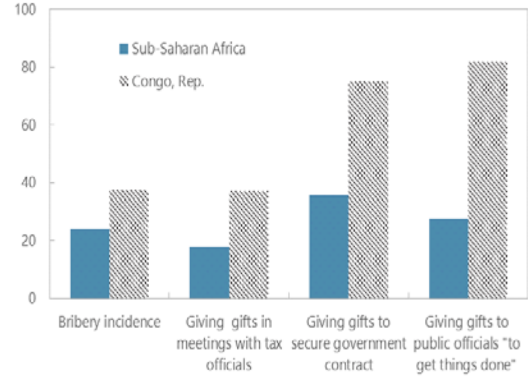
Note: TPI indicators reported in the figure 2a may be subject to uncertainty. The accuracy of these indices can be biased by experts' views (instead of facts on corruption). Non-IMF indicators provide qualitative information about corruption. They do not represent the IMF's assessment of the level of corruption in the Republic of Congo.The red dot in figure 2b refers to Congo.

## Figure 7. Perception of Corruption in the Public Sector and Doing Business

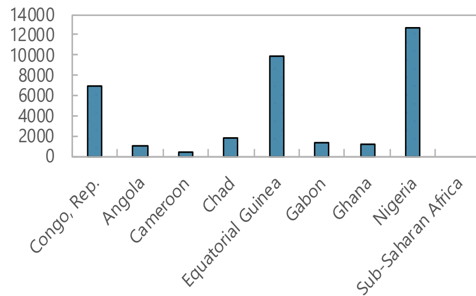
*a. Corruption is perceived to be a major obstacle to doing business*



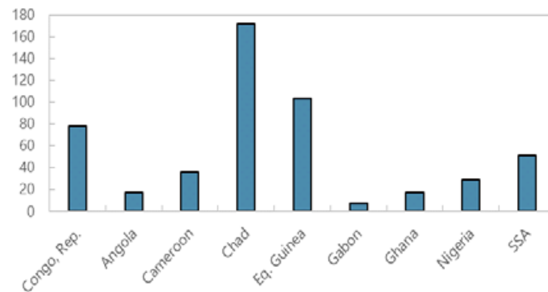

*b. Public sector corruption is reported to be high*




*c. The cost of getting electricity is inflated*




*d. and contributes to higher cost of business procedures.*




Sources: World Bank Enterprise and Investment Climate Assessment (ICA) survey results and World Bank Doing Business 2018.

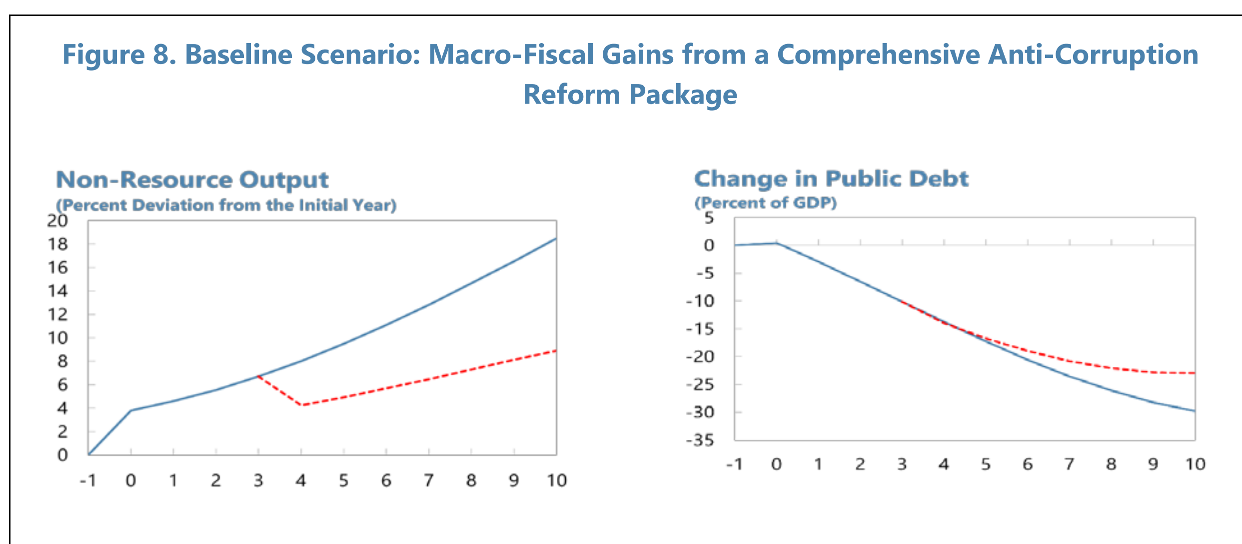
Note: The latest available Enterprise survey data are from 2009.

Use of these indicators should be considered carefully as they are derived from perception-based data.

**21. Under the baseline scenario, simulations show that anti-corruption reforms can generate additional growth of 1.8 percent per year on average for the next 10 years** (Figure 8). The reforms are calibrated such that: i) the reduction of bribes would boost private sector investment within ten years from 14 to 16 percent of GDP, advancing Congo by a decile in the distribution of SSA countries; ii) public investment efficiency would rise from 0.43 to 0.58, which is the median level of SSA countries[15]; iii) non-oil revenue would increase by 2 percentage points of GDP[16]; and iv) the mispricing of Congolese crude oil exports would be corrected resulting in an additional 7 percent of total oil revenues.[17] These reforms would also reduce public debt at a rate of about 3 percent of GDP per year. Moreover, 10 percent of the increase in growth and almost one third of the reduction in public debt is the outcome of improved oil sector governance.

**22. Growth dividends remain substantive even under less conservative scenarios.** Even under a partial reversal of reforms, anti-corruption reforms would increase in non-oil growth would be 0.8 percent per year and a decrease in public debt by 2.25 percent of GDP per year. If the governments adopt a less ambitious package of reforms, non-oil growth would still increase by about 1 per year and reduces public debt by 2 percent of GDP per year (Melina et al., 2019).[18]

**Figure 8. Baseline Scenario: Macro-Fiscal Gains from a Comprehensive Anti-Corruption Reform Package**



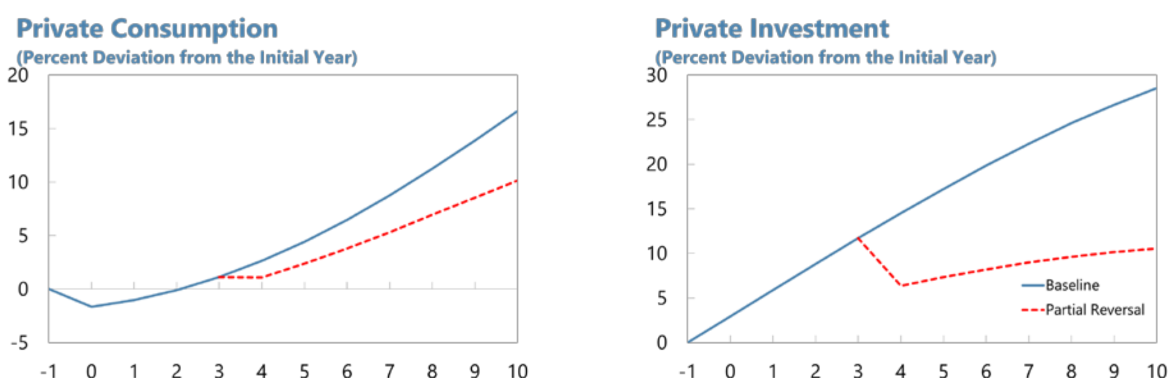

[15] Improvements in public investment efficiency captures the idea of "investing in investing" suggesting that it can be a powerful output enhancing channel. (Berg and others, 2015).

[16] FAD estimate for an efficiency index ranging between 0 (worst) and 1 (best). This is a somewhat conservative assumption as PFM reforms can improve revenue mobilization by a more significant margin.

[17] This indicative figure is derived from an oil reconciliation exercise undertaken by staff. If Congolese crude oil were sold at Brent prices, the government would be able to accrue an additional 14 percent of oil revenue. If around 7 percent of revenues are due to the lower quality of the Congolese crude, then the remaining 7 percent could capture revenues lost to corruption.

[18] The calibration details of both scenarios are available in the paper Melina et al. (2019).

**Figure 8. Baseline Scenario: Macro-Fiscal Gains from a Comprehensive Anti-Corruption Reform Package** (concluded)




Sources: DIGNAR model simulations and IMF staff calculations.

Notes: x-axis reflects years. Policy changes occur in year 0. Red line refers to a scenario when there is partial reversal of reforms in year 4.

## Conclusion

**23. The authorities have already undertaken concrete measures to signal their stricter stance towards the control of corruption.** They published a government-approved diagnostic study on governance which informed their own governance and anti-corruption strategy. To support this strategy, they adopted laws to establish an anti-corruption commission with investigative powers and introduced asset declaration requirements for senior political figures.

**24. They have identified several measures to improve public investment efficiency** including reforms in public accounting, budget execution, and internal and external controls. They have already committed to i) publish detailed information on the level and composition of public investment; ii) conduct an investment tracking survey to improve the efficiency of public investment; iii) strengthen external controls by adopting a law on the organization and functions of the supreme audit institution of Congo (*Cour des Comptes et Discipline Budgétaire*, CCDB) as well as its implementing regulations; and iv) restructure the internal audit system and establish a mechanism to coordinate the work of the internal and external audit institutions.

**25. The authorities have also taken several encouraging steps to improve oil sector governance and enhance the accountability of the SNPC.** The Council of Ministers issued a decree in 2017 which introduced revised statutes for the SNPC, clarifying accountability for functions

performed on behalf of the state.[19] Efforts were also taken to increase the transparency of information exchanged between the Ministry of Finance, the Ministry of Hydrocarbons, and the SNPC. And the government submitted to the Parliament in late 2018 draft amendments to the law requiring the SNPC and its subsidiaries to publish their audited financial statements. The company has already published online oil production sharing agreements and has agreed to publish oil-backed contracts that give other companies rights to the government's share of oil production. Moreover, the measures should be combined with a reform of the PSA terms and measures to reduce the risks of corruption in oil trading. The expiry of some PSAs over the next few years offers an opportunity for the authorities to renegotiate these contracts with better terms for the government.

**26. Additional reforms of the oil sector should be considered.** First, the state should audit the recovery costs claimed by oil companies. Second, to reduce the corruption risks related to oil trading, the SNPC should publish detailed information on oil volumes, prices, sales and buyers These measures should be complemented by an enhanced AML framework that deters and detects illicit transactions related to oil trading. In addition, subjecting all financial flows between the SNPC and the state general budget to independent audit and oversight would help increase the government's accountability for the use of oil revenue.

[19] Article 59 of the 2017 Statutes for SNPC.

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# Appendix I. Letter of Intent

Brazzaville, 25 June 2019

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, DC 20431
United States of America

Subject: Letter of Intent

Madam Managing Director,

The economies of CEMAC member countries were severely affected by the decline in international oil prices in 2014. The 2016 regional strategy helped avert an immediate crisis that resulted in a rapid decline in foreign exchange reserves of the regional central bank (BEAC). However, the regional economic situation remains difficult with sluggish growth and a weakened external position. For the Republic of Congo, this crisis is exacerbated by our debt; the associated debt service has significantly eroded our deposits with BEAC and the foreign exchange reserves of the region. In addition, security issues and weaknesses in our governance and anti-corruption framework have contributed to eroding our resilience to shocks. In this context, the contraction of economic activity in our country has intensified in 2017 and 2018. The crisis has reduced our buffers, slowed our development efforts and affected the financial sector. It has also sharply reduced our ability to meet the service of our public debt, which has become unsustainable.

The government has prepared an ambitious reform program, in line with the conclusions of the December 2016 CEMAC Heads of State Summit in Yaoundé. To support the effort to address its balance of payments needs and help rebuild regional foreign reserves, the government has adopted an economic recovery program in the context of the regional program of economic and financial reforms (PREF-CEMAC). This program aims to foster sustained, sustainable and inclusive growth while creating an open, transparent and equitable economic system. It is based on (i) a resolute fiscal adjustment to correct macroeconomic imbalances accompanied by a restructuring of the public debt to restore debt sustainability, (ii) a strategy to protect vulnerable populations from the impact of the crisis, (iii) bold reforms to strengthen governance and fiscal transparency — including in natural resource management and public investment — and statistical capacity, (iv) measures to safeguard the soundness of the financial sector, and (v) structural reforms to improve the business climate and diversify our economy.

The government requests the support of the IMF in the implementation of its economic recovery reform package. The attached Memorandum of Economic and Financial Policies (MEFP) outlines the objectives of the economic and financial program for which the Government seeks a three-year IMF-supported agreement for a total amount equivalent to 200 percent of the Republic of Congo's quota, equivalent to 324 million SDRs. IMF support should strengthen the financial credibility of the government and help strengthen our external position and public finances in a sustainable manner. Combined with our efforts to strengthen governance, this support will lead to a significant and lasting reduction of poverty and more resilient and stable growth. The Government believes that the policies set forth in the attached MEFP are adequate to achieve the objectives of its program, but it will take any further measures that may become appropriate for this purpose. The Government will consult with the Fund on the adoption of these measures, and in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such type of consultation.

The Government agrees to provide the IMF with information on the implementation of the agreed measures and the execution of the program, as provided for in the attached Memorandum of Technical Understanding. In addition, the Government authorizes the IMF to publish this letter and attachments, as well as the IMF staff report, following approval of the program by the IMF.

/s/

HEM Clément Mouamba
Prime Minister
Head of the Government of the Republic of Congo

/s/

Calixte Nganongo
Minister of Finance and Budget
Brazzaville, Republic of Congo

Attachments:
- Memorandum of Economic and Financial Policies
- Technical Memorandum of Understanding

# Attachment I. Memorandum of Economic and Financial Policies, 2019–22

## I. BACKGROUND

**1. The stabilization of the economic situation in the Central African Economic and Monetary Community (*Communauté économique et monétaire de l'Afrique centrale* — CEMAC) requires a commitment from all member countries.** CEMAC economies were seriously affected by the fall in oil prices. This crisis has manifested itself through a slowdown in growth, a decline in fiscal revenues, an erosion of foreign exchange reserves, and tight bank liquidity. After their meeting on December 23, 2016, in Yaoundé, the heads of state stressed the importance for all CEMAC countries to contribute to a regional adjustment with the support of the IMF. The Fund's Executive Board has already approved three-year arrangements for Cameroon, Chad, and Gabon in 2017 and has increased its support under the three-year Extended Credit Facility (ECF) for the Central African Republic. The Republic of Equatorial Guinea began implementing an IMF Staff Monitored Program (SMP) in 2018.

**2. In line with the other CEMAC countries, Congo is seeking assistance from the IMF to address its balance of payment needs, contribute to restoring the region's external stability, strengthening fiscal sustainability, and jump-starting its development agenda.** The measures that have been implemented so far have turned out to be insufficient to resolve its internal and external imbalances. The non-oil economy continues to contract, the banking sector is suffering from the effects of the recession, public debt remains unsustainable, and the government continues to accumulate arrears. The weaknesses in economic and financial governance have exacerbated the vulnerabilities of our economy and have reduced its resilience to exogenous shocks. To meet these challenges, the government is requesting IMF support for an economic and financial program under the ECF.

**3. This memorandum describes recent economic developments and the outlook for 2019 and the medium term.** It outlines the program's objectives and the policies and measures to achieve them.

## II. RECENT ECONOMIC DEVELOPMENTS

**4. The recession that hit our economy in 2016 worsened in 2017 but has stabilized in 2018.** GDP contracted by 2.8 percent in 2016 as a result of a decline in both the oil (-1.5 percent) and non-oil (-3.2 percent) sectors, following the steep drop in oil prices. Activity in the construction and public works sector fell by almost half following a reduction in public investment. Macroeconomic indicators in 2017 and 2018 point to a worsening of the recession, as seen by the acceleration of layoffs in the para-oil, construction and public works, hotels and brewery sectors, despite higher oil production resulting from the Moho North oil field coming on stream. The decline in domestic demand triggered a sharp deceleration in inflation to 1.28 percent (period average) in

2018 compared to 3.2 percent in 2016. These developments led to a steep drop in our imputed net foreign assets to CFAF 252 billion at end 2018, from CFAF 461 billion in 2016.

**5. The current account balance has improved following favorable trends in the oil sector, but net foreign assets remain at historically low levels.** Resulting from lower oil production and prices as well as larger imports for investment projects, the current account shifted from a surplus of 13.8 percent of GDP in 2013 to an average deficit of 38.8 percent of GDP between 2014 and 2016. The deficit then narrowed to 5.9 percent in GDP in 2017 before switching to a surplus of 6.7 percent of GDP in 2018 for the first time since 2014. The turnaround reflects higher oil production from new oil fields coming on stream and higher oil prices. Congo's imputed gross foreign reserves at the BEAC plummeted from more than USD 5 billion in 2014 (more than 7 months of imports) to around USD 505 million in 2018 (less than one month of imports). The current level of reserves is far short of the threshold of 4 to 5 months of imports recommended for oil-exporting countries operating under a fixed exchange rate regime. These deficits have heightened the external vulnerability of the CEMAC.

**6. Fiscal revenues have fallen sharply with the drop in oil prices and the recession.** Total revenues dropped from 48 percent of GDP in 2014 to 29 percent of GDP in 2018.

- Most of this loss resulted from oil revenues, for which the decline was greater than the decline in international oil prices. This can be explained by: (i) a weakening of the effect of the threshold price (TP) mechanism in the majority of existing oil production sharing agreements (PSA), (ii) the elimination of this effect on renewed licenses in 2014 and 2015, (iii) the renegotiation of PSAs that were due or close to expire, (which occurred when international prices were still high), involving an upward revision of the TP which was supposed to raise the state's share when prices exceeded it, (iv) the accelerated recovery of costs in newly discovered fields to oil companies representing a large share of oil production. Part of the decline in oil fiscal revenues is also due to governance weaknesses in the oil sector, which we have begun to address.

- Non-oil revenues have declined by around 6.7 percentage points of non-oil GDP during 2014–18 owing to the recession. In addition, tax exemptions provided under the investment code have placed a burden on budget revenues, with exceptional exemptions accounting for a total of CFAF 505.7 billion between 2015 and 2018.

**7. The slow action in restoring external imbalances reflects rigidities in the structure of our expenditures, due in part to pre-financed oil sales.**

- In order to finance the infrastructure deficit, the government launched an ambitious public investment program that brought the public investment ratio to 77.5 percent of non-oil GDP in 2014, before dropping to 5.5 percent of non-oil GDP in 2018. This program included the implementation of significant infrastructure projects, in particular for the 2015 African Games and accelerated municipal development of a number of departments. Other investments include the Pointe Noire — Brazzaville (510 km) and Brazzaville — Ouesso

(1,100 km) highways, the Kintélé international conference center, Denis Sassou N'Guesso University, the Water for All project, the industrial complex in Maloukou, and the Pointe Noire Electric Power Plant, among others. Some of these investments were financed by the government's share in future oil production through special agreements with local oil companies and pre-financing contracts with international oil traders. These agreements grant the partners the right to receive oil shipments from the government in amounts equivalent to the corresponding debt service.

- Current expenditure increased from 43 percent to 52 percent of non-oil GDP between 2015 and 2018 in order to honor agreements with social partners and to maintain an acceptable level of public services. A revision of the wage pay scale was the subject of an agreement between the social partners and the government in 2013. The index increased by 25 points in 2014, rising from 200 to 225; it reached 300 in 2017, an increase of 100 points, representing 50 percent of the index value in 2013. Accordingly, the ratio of the wage bill to non-oil GDP increased from 11.4 percent in 2014 to 14.3 percent in 2018. In addition, the government maintained its energy subsidy policy of providing crude oil to the State-owned Congolese Oil Refinery (*Congolaise de Raffinage* — CORAF) at no cost (averaging 6 percent of non-oil GDP between 2014 and 2018) and covering the operation of the Pointe Noire Electric Power Plant with contributions from the government's oil share. Other current primary expenditures, however, fell by 4 percentage points of non-oil GDP, including a decline resulting from cuts in expenditures on goods and services and common costs.

8. **Public debt has become unsustainable as a result of the accumulation of excessive budget deficits.** Since Congo reached the HIPC completion point, its public debt has quadrupled, from 20 percent of GDP in 2010 to 87.8 percent of GDP in 2018, well above the regional ceiling of 70 percent. External debt accounts for 61.3 percent of GDP and is comprised primarily of official loans from China (21.4 percent of GDP) and oil-backed loans contracted in 2014–15 (16.4 percent of GDP). Domestic debt also increased to 26.5 percent of GDP in 2018, with arrears to local suppliers and statutory advances from the BEAC accounting for the bulk of this debt. This public debt amount neither includes arrears claimed by the domestic private sector but rejected at the end of an internal audit performed by our services, nor debt through special contracts with oil companies. In order to reduce uncertainty with regard to domestic debt, we have conducted an audit of domestic debt for the period 2014-2016 by an internationally reputable firm. The audit report finalized in April 2019 focused on domestic arrears owed to the private sector. We have also conducted an inventory of special contracts with oil companies. The annual debt service is estimated at an average of US$1.4 billion between 2019 and 2022, with China and oil traders accounting for 47 percent of this amount.

9. **Monetary aggregates were affected by a tightening of bank liquidity and the contraction in economic activity.** Net foreign assets significantly declined with the drop in export proceeds. Similarly, government deposits with BEAC dropped from CFAF 1300 billon in 2014 (19 percent of GDP) to CFAF 64 billion in 2018 (1 percent to GDP). Deposits fell by 60 percent between 2014 and 2018, following the recession in the non-oil economy. Credit to the economy contracted owing to sluggish domestic demand. An increase in the government's reliance on

domestic bank financing also contributed to the decline in credit available for private businesses. In order to improve the financing of productive activities, the BEAC removed the ceilings for the banks' refinancing limits, which are now determined at the regional rather than at the national level as was previously the case.

**10. The state of the financial system has deteriorated as a result of the decline in economic activity and the government's cash constraints.** Non-performing loans increased to CFAF 287.1 billion at end 2018, up by 30.9 percent compared with 2017. They accounted for 23.1 percent of gross credits compared to 16.5 in 2017 and 4.8 percent in 2016. This deterioration is due to difficulties in recovering claims owed by contractors in the public sector reflecting longer repayment periods and sluggish activity in housing and para oil sectors. Furthermore, net foreign assets of the banking system saw a steep drop, falling from CFAF 2768 billion at end-2014 to CFAF 252 billion at end-2018 as a result of balance of payments deficits. In prudential terms, fewer than half of the institutions in the banking system are in compliance with all of the norms issued by the Central African Banking Commission (*Commission bancaire de l'Afrique centrale* — COBAC). In addition, four institutions are experiencing significant difficulties, in particular with regard to minimum capital requirements. Two of these institutions do not respect the solvency criterion (one of which is a publicly owned bank), and account for 4 percent of the market but do not pose a systemic risk.

**11. The government has made progress in improving public financial management and governance as well as curbing corruption.** Advances have been made in the implementation of the CEMAC harmonized public financial framework. The Transparency Law and the Organic Law related to the Budget Laws approved by the CEMAC have been passed and enacted. Decrees on the implementation regulations on the (i) State Budget Nomenclature, (ii) the Government Accounting System (GAS), (iii) the Table of Government Fiscal Operations, and (iv) the General Regulations on Public Accounts were adopted in the first quarter of 2018. The Treasury also repatriated before end-2018 its remaining deposits in China (CFA 51bn or 0.8 percent of GDP) but government deposits at the BEAC still declined to CFA 64bn (one percent of GDP). In April 2018 we completed a survey of civil servants which identified 61,868 active civil workers and 1500 contractual workers in the civil service. These figures do not include the senior politicians, magistrates, auditors and embassy employers. The survey also helped identify around 9000 ghost workers. In consultation with IMF staff, the government prepared and published a diagnostic report in June 2018 analyzing the economic impact of weak governance and corruption through: (i) the rule of law; (ii) public financial management; (iii) supervision of the financial sector; (iv) regulation of the markets and the business climate; (v) anti-money laundering; and (vi) anti-corruption framework. The diagnostic report also includes a medium-term strategy for addressing the identified challenges. In this context, the government has adopted the following measures:

- Parliamentary approval of amendments to the national oil company (SNPC) law requiring the annual publication of its audited financial statements.
- Online publication of oil production sharing agreements and the SNPC's audited financial statements 2012–16.

- Publication of new data series to monitor economic activity and increase transparency.[1]
- Completion of a fiscal safeguards assessment to improve public financial management.
- Parliamentary approval of three laws (i) establishing an anti-corruption commission with investigative powers, (ii) introducing an asset declaration requirement for senior political figures, and (iii) creating a commission on transparency in public finance management.

**12. In spite of this progress, significant challenges remain in governance and in fighting corruption.** National surveys and audits of key sectors of the economy show that systemic difficulties have been limiting Congo's growth potential. The lack of available information and statistics on public services is another sign of the governance and transparency challenges.

**13. In order to improve the business climate, the government, with the support of its technical and financial partners adopted a reform agenda in July 2016.** This reform aims at simplifying 30 procedures related to the business life cycle in areas in which the country has reported the worst results. These procedures involve starting a business, the payment of taxes and social security contributions, cross-border trade, and the issuing of property titles and construction permits. In this context, to simplify logistics in starting a business, the government (i) made optional the notarized authentication of the charter for Limited Liability Companies (LLC), in agreement with the revised uniform actions of the OHADA, and (ii) adopted a decree in April 2019 establishing and allowing e-signatures for all administrations engaged in starting a business. In order to ensure the proper completion of the various reforms, through Decree No. 2017–42 of March 28, 2017, the government established an Interministerial Committee on the Business Climate, which includes the technical and financial partners.

**14. Poverty has declined, but inequality has risen in recent years.** The strong growth seen in Congo before 2015 led to a reduction in the poverty rate from 51 percent in 2005 to 36 percent in 2015. Nevertheless, inequality has risen. The proportion of vulnerable members of the population went from 29 to 33 percent between 2005 and 2011 and the poverty rate outside of Brazzaville and Pointe Noire has surpassed 70 percent according to World Bank statistics.

**15. With the aim of reducing multidimensional poverty, the government launched a social safety nets program, (Lisungi).** Implemented with the World Bank, the aim of Lisungi is to establish the elements of a national social safety net program and to launch a pilot phase for the transfer of funds to improve access to health and education services for the poorest households. The program has reported satisfactory results, namely[2]: (i) the disbursement of quarterly cash transfers to 7,975 households and 1,361 elderly people; and (ii) an improvement in the number of visits to health centers, in school attendance, and in the productivity of the affected populations, thanks to monitoring of the beneficiaries' compliance with health and education benchmarks

[1] These include: the monthly inflation rate and quarterly projections for government finance statistics, as well as quarterly outturns on the domestic and external debt stock and debt service.

[2] Lisungi transfers were resumed in Q1-2018, thanks to financing from the World Bank and the French Agency for Development.

associated with the project. The total underlying budget lines for social spending were estimated at CFAF billion 277.9 (10.9 percent of non-oil GDP) in 2018, of which 35.8 billion for social safety nets. However, the expected public disbursement on safety nets did not take place because of the government's cash shortages.

## III. MEDIUM-TERM MACROECONOMIC OUTLOOK

**16. Projections under a non-program scenario suggest a sharp contraction in GDP in the coming years, in spite of positive trends in the oil sector up to 2020.** The collapse in growth would result from the drastic but unavoidable fiscal adjustment and the drying-up of net foreign assets that would complicate imports financing. In addition, the increase in public debt would lead to a loss in investor confidence, increase nonperforming loans in the banking sector, and result in the accumulation of arrears in priority social spending. The difficulty in implementing a countercyclical policy comes from limited fiscal space, which we are proposing to re-establish within the framework of our economic and financial program supported by the IMF.

**17. Projections under a program show a gradual return to growth in non-oil GDP.** Following a projected decline of 5.5 percent in 2018, growth in non-oil GDP is expected to gradually recover to potential of 4 percent over the medium term. The return of non-oil growth will be supported by the correction of macroeconomic imbalances, the return of confidence and the reimbursement of arrears to the private sector. Also, structural reforms described in our National Development Plan include measures to improve the business climate, diversify the non-oil sector, as well as strengthen governance, including transparency. Growth in the oil sector will benefit from an increase in production at the Moho North oil field and relative stability in the international price per barrel of oil at around US$60. With the easing of fiscal and monetary policy, inflation should rise but remain within the limits required for convergence of the economies in the region.

## IV. ECONOMIC AND FINANCIAL PROGRAM FOR 2019–22

**18. The Regional Economic and Financial Program for 2019–22 is in line with the regional objective of ensuring the stability of our monetary zone.** It aims to bring our contribution toward increasing the zone's net foreign assets, initially to three months of imports by 2021 and then, over the longer term, to higher levels that are consistent with the fixed exchange rate regime and economic structure of our countries. In accordance with the fifth pillar on international cooperation, Congo requests the implementation of a medium-term program supported by the ECF arrangement. This program will allow us to reduce our public debt burden, which threatens our development prospects. In order to achieve this, the program is organized around the following five pillars: (i) fiscal adjustment supported by public debt restructuring in order to make it sustainable and to allow for the protection of the vulnerable population, including women; (ii) safeguarding the stability of the financial sector; (iii) strengthening governance, including transparency; (iv) statistical capacity building; and (v) structural reforms aimed at improving the business climate, economic

diversification, and regional integration. This program is supported by the regional monetary policy and by our technical and financial partners.

## Fiscal Consolidation

**19. Our program to rebalance public finances is organized around three core elements.** ***The first*** is fiscal adjustment to align expenditures with realistic revenue and financing levels and to allow for an adjustment in the current balance that is compatible with external stability.
This adjustment will not, however, be sufficient to restore debt sustainability and should be backed up by a ***second core element*** that includes debt restructuring, which should also contribute to the necessary program financing assurances. ***The last element*** is the strengthening of public financial management and fiscal transparency embedded in our reform agenda and which, inter alia, will help fight corruption.

## Medium-term Fiscal Policy Objectives

**20. Our medium-term fiscal policy will be focused on reducing the non-oil primary deficit while strengthening support for the social sectors.** This anchor reflects our objective of contributing to the accumulation in regional reserves to three months of imports in 2021 and making our public debt sustainable. Our target is to reduce the non-oil primary deficit from 28 percent of non-oil GDP in 2018 to 17 percent of non-oil GDP in 2022. This will be driven by efforts to bring non-oil revenues up to 34.2 percent of non-oil GDP by 2022. Total expenditure needs to be reduced considerably, but would remain at an elevated level of 55 percent of non-oil GDP in 2022 to strengthen social protection, complete ongoing investment projects, and maintain the adequate functioning of government services. This effort, combined with an increase in oil revenues, the surrender of foreign exchange holdings abroad to the BEAC and financing from our partners, will enable us to replenish our deposits at the BEAC and to contribute to the strengthening of regional reserves.

**21. Our program for 2019-2022 has a financing gap of CFAF 1,084 billion.** This gap reflects the financing needs of the Government, after a considerable fiscal adjustment. It also reflects the need to increase our deposits with the BEAC, and enhance the resilience of our economy in the face of commodity price volatility and resource exhaustibility. Our financing gap provides room to repay arrears to the public social sector and to the private sector to stimulate non-oil growth Deposits accumulated during the program period will help cover the servicing of our contingent liabilities if necessary.

**22. Despite our adjustment efforts, the financing of our priority needs cannot be achieved without the support of our external and domestic financial partners.** For our part, before end-October 2019, we will adopt a privatization strategy to support the financing of the program (**structural benchmark**). This strategy includes the completion of a study by an internationally recognized firm with the support of the African Development Bank (AfDB), which identifies public enterprises and assets that can be sold or offered under concession arrangements. These assets may include the Maloukou industrial complex, the government’s stakes in two distressed commercial

banks, an insurance company, and the Brazzaville - Ouesso highway. The Ministry of Finance has already initiated discussions with foreign investors for the privatization of one of the two banks. We will be asking our external and domestic partners to cover the residual financing gap through new financing from the AfDB (CFAF 262 billion), the International Monetary Fund (CFAF 259 billion), the World Bank (CFAF 171 billion), and France (CFAF 89 billion). The debt restructuring should cover around CFAF 454 billion, or 42 percent of the funding requirements for the program.

**23. The government will implement measures to improve the government's share in oil resources and we will ask for support from our multilateral partners.** We will seek technical assistance from the IMF to bring the government's share in oil resources up to best-practices level. Based on this technical assistance, we will begin discussions with oil operators regarding a revision of PSAs that will provide the state with a more equitable share, regardless of price levels. We have launched a call for tenders to select firms to audit the costs claimed by oil operators. We have grouped 21 lots for existing permits of exploration and exploitation. The audits will cover 8 permits granted in 2015 but not audited; as well as for all lots in 2016 and 2017. By end-May 2019, only one lot has been audited and the remaining ones are expected to be scheduled shortly. Finally, by end-September 2019 we will initiate an audit of all special agreements with oil operators. The government has submitted to the Parliament in May 2019 a report on all existing special agreements between the government and companies that have built infrastructure facilities financed by in-kind payments (**prior action**). To establish an exhaustive inventory, we have asked all companies to register with the Ministry of Finance all special agreements with the government. All residual debt amounts within will be addressed in the context of public debt restructuring (¶33). The government also plans to resume discussions with oil sector operators regarding the tax on negative externalities adopted by the Parliament in 2011 and the cancellation of tax exemptions on imports granted to the sector (except for capital goods).

**24. We will also reduce subsidies and other fiscal and budgetary losses.** Transfers to the oil sector (CORAF and the Congo Electric Power Company (CEC) included in the State Budget would be capped at CFAF118 billion in 2019, representing a decrease of CFAF 206 billion relative to 2018. To reach this objective, the government has put in place the following measures: (i) a performance contract with CORAF based on efforts to reduce operating expenses and lower investments in 2019, and on payment by CORAF for the price of crude oil deliveries by the State into the Treasury Single Account (TSA). The contract also allows CORAF to sell petroleum products directly to distribution companies and for CORAF to directly recover its claims from these sales from those companies. The contract involves a quarterly review by the Ministries of Finance, trade and hydrocarbons of the main parameters of the pricing mechanisms of the final petroleum products, (ii) a reduction of crude State oil deliveries which will be replaced by larger deliveries from oil companies (iii) follow-up with CORAF to recover realized excesses beyond subsidies provided for in the budget law; (iv) conditioning the payment of the subsidies to the CEC to the receipt of quarterly spending to justify the subsidy, as well as the requirement of company income figures that include energy sector claims. Before end-December 2019, we will initiate an organizational, commercial, and financial audit of each of these companies in order to identify the reforms necessary to ensure their financial viability and to allow for the gradual elimination of public subsidies.

**25. The government will conduct a study on the investment code's exemptions** in order to withdraw the advantages from operators who did not complete the planned investments. We will also put an end to exceptional exemptions granted on a discretionary basis by the finance minister and extrabudgetary expenditures through new implementing regulations of the budget law. The Budget Law for 2019 incorporates all State budgetary spending including those backed by oil shipments. To this effect, the Law: (i) prohibits the payment of expenditures that have not gone through regular budgetary procedures; (ii) defines precisely the conditions for the settlement of payments through emergency procedures.

**26. Other reforms to improve public financial management and the control of fiscal risks will be implemented.** With the assistance of the World Bank, the government will launch a survey to follow up on investment projects initiated since 2014 in order to assess their effectiveness. We will also conduct a PIMA assessment to strengthen the public investment management framework. We will ensure the interconnection of the information management systems used by customs offices (SYDONIA) and tax authorities (SYSTAF) before end-June 2019. Following the model of the customs administrations, tax centers will be interconnected before end-June 2019 with the aim of allowing for the interconnection of SYDONIA and SYSTAF. The government will prepare a report on the state-owned enterprises no later than end-September 2019 with the aim of improving their management strategies. The government will work on: (i) expanding the scope of public finances in order to include social security funds and local administrations; and (ii) strengthening the collection and dissemination of data on publicly guaranteed debt and contingent liabilities with the aim of allowing a more complete analysis of the government's portfolio.

**27. Additional priority actions over the medium term include:** (i) the transition to a more sophisticated version of the financial management information system (SIGFIP) to support the implementation of reforms and the transparent application of appropriate restrictions on public spending commitments; (ii) the drafting, approval, and publication of budget review laws in a timely manner; and (iii) the establishment of conditions for optimal management of government jobs and salaries. The government will update its action plan to improve public financial management. This plan will be based on the results of the 2014 Public Expenditure and Financial Accountability Assessment (PEFA), the recommendations from the Public Expenditure Management and Financial Accountability Review (PEMFAR), as well as the results of various IMF technical assistance missions. Measures involving the implementation of CEMAC directives will also be incorporated.

**Fiscal Policy in 2019**

**28. On December 28, 2018, we approved a 2019 budget that is in line with the program parameters.** This budget supports the adjustment started in 2015 and envisages an improvement in the overall balance through maintaining the surpluses realized in 2018 (achieved for the first time since 2013). This overall balance, estimated at 7.5 percent of GDP, is based on a sustained fiscal effort and a large national oil production that generates high oil revenues amounting to 19 percent of GDP. The non-oil primary deficit would decline from 28 to 24.8 percent of non-oil GDP between 2018 and 2019 based on an ambitious increase in non-oil revenues and a contraction in current primary spending (while allowing an increase in investment spending by 5.7 points of non-oil GDP).

Spending in the social sectors will be boosted substantially and the budget maintains investment projects carried out under co-financing arrangements with donors.

**29. Non-oil revenues are expected to increase by about 6 percentage points of non-oil GDP, bringing them to 29 percent of non-oil GDP.** Increased revenue mobilization would originate from the following measures:

- New fiscal measures incorporated in the 2019 Budget Law of which: (i) the elimination of the reduced VAT rate for imports; (ii) the increase of the withholding tax to 10 percent and (iii) the institution of subscription and resubscription taxes of 10 percent on television, (iv) improved efficiency across administrations, (v) the institution of a 2 percent corporate tax rate applicable on the renewal of establishment conventions upon their expiry; (vi) institution of a fee of 1 percent on e-transactions (digital hub); and (vii) the reduction of the turnover tax threshold from CFAF 100 million to CFAF 60 million. Guided by the results of the study conducted with the AfDB, we will approve a revised price structure for petroleum products by end-October 2019, with higher taxes and an automatic indexation mechanism to achieve the additional revenue projections expected from petroleum products (**structural benchmark**).
- The rest of the increase in non-oil revenues would come from administrative measures to improve the outturn of fiscal controls such as: (i) the delegation of fiscal controls to the appropriate agencies (ii) improvement in the recovery rates; (iii) mobilization of revenues from the interconnection of different agencies; (iv) enhancement of internal controls and (v) faster treatment of litigated claims.
- The General Direction of Customs and Indirect Taxation envisages 11 measures to enhance revenues of which the most important ones are (i) ensuring the compliance of establishment conventions with the regional and national regulations (investment law) and (ii) effectively taxing refined oil imports by SNPC and SNAT.

**30. We will keep total current primary spending, at 44 percent of non-oil GDP.** The measures to achieve this include: (i) the prohibition of off-budget expenditures by requiring that all expenditures, including those executed under the special agreements, go through the normal expenditure process; (ii) the prioritization and reduction of capital expenditures, while at the same time enhancing their effectiveness. The government has approved a list of investment projects within the limits of the 2019 budget envelope and will limit the total amount of investment spending to 11.3 percent of non-oil GDP. Following negotiations with the social partners, the government will adopt an action plan to gradually reduce the wage bill as a percentage of non-oil GDP before end-September 2019. This strategy will include the following: (i) discontinuing the systematic replacement of persons who are retiring, except in the social sectors; (ii) blocking the financial effects of salary increments, the revision of administrative arrangements, and other promotions. To protect vulnerable populations from the effects of the fiscal adjustment, other current expenditures would be increased for immunizations and other medical care.

**31. The budget will allocate a larger proportion of funding for social spending in order to mitigate the impact of the adjustment on vulnerable populations.** In order to prevent the fiscal adjustment from causing a deterioration in social indicators, and with a view to strengthening our human capital as called for under the National Development Plan, the government has drawn up a list of social programs to be protected. The sectors concerned are: (i) health; (ii) social protection; (iii) basic education; (iv) the promotion of women; (v) electricity, water, and urban sanitation; (vi) agriculture, fishing, and stock farming; and (vii) infrastructure to improve access for isolated areas. The total amount under the related budget lines is CFAF 306 billion (11.8 percent of non-oil GDP) for 2019 (indicative target under the program), of which CFAF 32.3 billion is for the social safety nets. These expenditures will be programmed in the computer system of the General Directorate of the Budget in order to track their monthly execution.

- *In the **health sector***, priority will be given to vaccinations, the acquisition of anti-retroviral drugs to combat AIDS, the campaign against tuberculosis and malaria, performing Caesarian sections free of charge, providing essential generic medicines, laboratory testing, as well as the revitalization of health districts. The related expenditures are set at CFAF 126.8 billion.

- *In the area of **social protection***, appropriations in the amount of CFAF 32.3 billion are divided among: (i) charitable activities and social assistance; (ii) social and economic integration and reintegration of disabled persons and minorities; (iii) self-employment and training in small business through income-generating activities for unemployed young people; and (iv) coverage of the Lisungi cash transfer program being implemented with the World Bank. These transfers are conditional on greater use of education and health services. Appropriations under the 2019 budget totaling CFAF 18.3 billion will make it possible to expand the Lisungi project through the following actions (**structural benchmark for end-December 2019**): (i) resumption of payments for 4,000 households enrolled in the Single Social Register (SSR); and (ii) starting payments to at least 80 percent of the 41,000 households enrolled in the SSR. By end-2019, we will increase the number of households enrolled in the SSR to 200,000, while also increasing the amount of transfers per household. We will expand other aspects of the program as well (such as employability, school attendance, etc.). The anchoring of social programs and other social assistance structures to the SSR will become mandatory with a view to improving the targeting and impact of these programs. We are also planning a gradual increase to a much larger scale, with a financing of CFAF 199.3 billion to cover about 192,065 households, with targeting based on poverty incidence.

- *The **education envelope*** will focus on primary education and general, technical, and vocational secondary education, and on the proper functioning of schools, (in particular in remote areas). The allocated amount of CFAF 43.6 billion will make it possible to continue programs that provide free school supplies, textbooks, and teaching materials, school meals, and the acquisition of classroom desks. The government also intends to gradually make up the teacher shortage estimated at 22,605 teachers over the 2018–22 National Development Plan period.

- *E*xpenditures ***promoting women*** will support three major projects: (i) capacity building, with the construction of rehabilitation centers for women and girls who have been victims of violence, as well as the establishment of a women's shelter; (ii) economic empowerment of women through support for women's savings banks, in particular, and the promotion of income-generating activities for women and child mothers, introduced gradually in the 12 departments; (iii) increase in women's political power through the implementation of the gender policy, combating gender-based violence, support for HIV/AIDS prevention, and support for the promotion of women's leadership. Funding in the amount of CFAF 4.1 billion has been earmarked for these activities. We will approve a draft law requiring that all proposed amendments to draft budget laws be compatible with the aim of reducing inequality and promoting women.

- *Concerning the* ***electricity, water, and urban sanitation sector***, appropriations CFAF 62.5 billion are aimed primarily at: (i) the Water for All program and operations to supply drinking water; (ii) cleaning up and clearing drainage ditches, and the destruction of vector breeding grounds; and (iii) the construction of electric power facilities to facilitate the population's access to power;

- ***Agriculture, fishing, and stock farming*** are of crucial importance in the reduction of poverty. The government is working to reduce the risks for small producers and vulnerable populations. The 2019 budget provides for CFAF 17.5 billion to cover the following programs: (i) manioc, banana, and cacao; (ii) mentoring of market gardeners; (iii) the distribution of improved seeds; (iv) farm extension services and demonstration of farming techniques; and (v) promotion of the poultry sector;

- *In* ***support of reducing isolation and vulnerabilities***, *the 2019 budget* allocates CFAF 19.2 billion for: (i) the construction and rehabilitation of rural and farm roads through the Commercial Agriculture Development Program; (ii) the maintenance and dredging of rivers and installation of navigation markers; and (iii) activities involving community projects and revitalization of the social fabric of villages.

**32. The 2019 budget contains a financing gap of CFAF 362 billion, for which we have firm assurances of financing.** Annual disbursements for 2019, with new financing totaling CFAF 270 billion, were negotiated with: (i) the African Development Bank (CFAF 131 billion); (ii) the World Bank (CFAF 57 billion); (iii) the IMF (CFAF 52 billion); and France (CFAF 30 billion). We will ask our external and domestic partners to cover the residual financing gap of CFAF 92 billion within the framework of debt restructuring (¶22).

### Restructuring of public debt

**33. On April 18, 2018, we publicly announced our intention to carry out a restructuring of public debt.** This announcement is the first step in a comprehensive strategy that we approved to restructure our debt and make it sustainable. This strategy, which was developed with the support of our advisors, defines the scope of the restructuring, which covers almost 80 percent of our debt.

It excludes multilateral creditors that enjoy preferred creditor status, statutory advances from the BEAC as well as T-bills. It also excludes the sub-regional bond issue maturing in 2021 and claims already handled within the framework of the HIPC Initiative, including the Eurobond maturing in 2029. The strategy calls for a freeze on debt service payments during the negotiation period on those debts covered by the restructuring. A portion of the debt service corresponding to our ability to pay, however, will be deposited in an escrow account, which will be applied in its entirety against payment of the debt, as soon as agreements are reached with our creditors.

- We have submitted to our external creditors proposed restructuring agreements aimed at reducing the present value (PV) of our external debt to less than 30 percent of GDP in 2023. We have reached an agreement with China and we are pursuing good faith negotiations with commercial creditors. The government will aim at finalizing these negotiations before the first review of the proposed ECF-supported program. Consideration will also be given to further fiscal consolidation efforts, and the need to introduce a contingency mechanism to increase the amount of debt relief in case of lower oil prices. These agreements and/or financing assurances will make it possible to keep the debt-to-liquidity indicators below the thresholds of the debt sustainability analysis performed by our staff in collaboration with IMF staff, and to contribute to the financing of the program.

- Domestic debt will be restructured following the completion of a new audit to be conducted by an internationally recognized firm. The audit, to be finalized before October 2019, will cover all outstanding claims after 2016 including the budget exercises of 2017 and 2018 and all arrears of the General Direction of Public Works as well as all claims by the local private sector (**structural benchmark**).

- Before end-October 2019, we will approve a domestic debt restructuring strategy and a payment schedule that is in line with the financing assurances of the program (**structural benchmark**). We will inform our creditors of the repayment conditions. These conditions will take into account the effect of restructuring on economic activity and on the stability of the banking and social sectors. To this end, we will give priority to clearing social arrears.

- The government is also committed to not accumulating any new external arrears. In addition, all external official arrears will be cleared before the first review of the proposed ECF-supported program (December 2019).

- The special contracts with oil operators will also be subject to renegotiation within the context of the debt restructuring.

- We will continue our efforts to resolve disputed external debt obligations with the aim of eliminating all uncertainties regarding the level of our public debt.

**34. A prudent debt policy and debt management will support the debt restructuring efforts.** We will resort exclusively to concessional external loans for the duration of the program and we will seek refinancing in regional and national markets for previously-issued securities and for the coverage of very short-term liquidity needs. After the restructuring, the government may resort to

non-concessional financing on an exceptional basis exclusively for the refinancing of previous non-concessional loans that are significantly costlier and thereby facilitate the achievement of program objectives. To improve debt reporting, the National Public Debt Committee has already adopted a debt procedure manual in May 2019, including the obligation for all parties to transmit data on disbursements to the Congolese Debt Unit (Caisse Congolaise d'Amortissement — CCA). By October 2019, we will adopt a debt management strategy by October 2019. The CCA will also establish a single database that is regularly updated and includes guaranteed or unguaranteed domestic and external debt of public companies, public institutions, and local authorities. The reliability and transparency of information on public debt will be strengthened through: (i) improved recording and quarterly publication of data on the existing stock of public debt, as well as projections of changes in guaranteed or unguaranteed domestic and external debt of public companies, public institutions, and local authorities; and (ii) better coordination and sharing of information among the agencies concerned, as recommended in the IMF technical assistance report of September 2016. To increase the flexibility to manage oil revenues, the government will refrain from contracting new pre-financing agreements and oil-for-infrastructure barter arrangements and will limit borrowing to concessional loans. We also commit to further fiscal consolidation efforts in case new debt surprises or contingent liabilities were to materialize.

### Stability of the Financial System

**35. The government will strengthen the stability of the financial system in consultation with the COBAC.** With the aim of supporting a reduction in loans in arrears, we will publish the strategy for the repayment of domestic arrears in order to improve the visibility of economic operators and banks. By end-June 2019 we will adopt a plan for the resolution of a bank which has become insolvent, in consultation with the COBAC. This plan will include the liquidation of the bank at the lowest cost in the event we are not able to find strategic investors who are prepared to take over the bank and recapitalize it. The current shareholders will not be compensated at the expense of public funds. The liquidation of this bank or its recapitalization by strategic investors will be carried out without delay and should take effect by end-August 2019. With regard to the second distressed bank, the Ministry of Finance will work on the sale of the bank to private investors based on a restructuring and recapitalization plan that guarantees its viability and compliance with prudential ratios. We will ensure that insured depositors are protected via the deposit insurance scheme (FOGADAC).

**36. The tightening of regional monetary policy and the strict enforcement of the new foreign exchange regulation will help rebuild net external assets.** In line with the conclusions of the Tripartite Consultation (Douala, April 2019), we are committed to take the necessary measures to ensure: (i) the repatriation and surrender of foreign assets held in offshore accounts by all public companies including any company where the State is a shareholder (including any subsidiaries of such companies) before end-December 2019; (ii) a strict limit on new exemptions from the foreign exchange regulations, (iii) sharing with the BEAC all information on companies benefiting from such exemptions. To this effect, the Ministry of Finance will transmit to the BEAC before end September 2019 all laws, contracts or agreements with oil operators granting them new exemptions from

foreign exchange regulations **(structural benchmark).** We will ensure that these contracts/conventions are compatible with the national regulation. We will encourage oil operators to participate in consultations with BEAC and we will take more strict control of the customs' administration to ensure the domiciliation of all export proceeds with banks in the region.

**37. The underdevelopment of the anti-money laundering and combating the financing of terrorism (AML/CFT) framework calls for measures to bring it in line with the Financial Action Task Force (FATF) standard.** An assessment of compliance of the AML/CFT regime performed in 2015 by the Task Force on Money Laundering in Central Africa (*Groupe d'Action contre le Blanchiment d'Argent en Afrique Centrale* – GABAC) identified serious weaknesses. In view of a new assessment planned for 2020, we will make improvements in the legislative and institutional framework based on the recommendations of the 2015 report and the 2012 FATF standards. We will focus our efforts on improving the capacity to mitigate ML/TF risks, including those related to corruption. In this context, we will also encourage the COBAC to intensify the AML/CFT supervision of Congolese banks.

**Governance and Combating Corruption**

**38. The strengthening of governance and efforts to combat corruption is a key element of the government's policy to break with the past.** The government's diagnostic study on governance and corruption issues, published in 2018, is a pillar of our program supported by the ECF. We will focus our efforts on the six sectors that it covers (¶11). The success of these reforms will be facilitated by an improvement in the transparency of government operations. To this end, in May 2019 we will launch a government web portal and a website of the National Institute of Statistics (Institut National de Statistiques – INS) and mobilize funding for its operations. Our reform agenda will be complemented by conclusions from other studies, including: (i) an action plan for the performance of an audit of all public companies (before end-2019); and (ii) an assessment of fiscal transparency, also performed in collaboration with the IMF's Fiscal Affairs Department.

**39. The success of our governance reform agenda requires political ownership and transparency.** We will therefore carry out these ambitious reforms in an inclusive manner through a process of constructive consultation and direct collaboration with national and external partners. For this purpose, we have submitted to Parliament before end-May 2019, three reports related to: (i) pre-financing contracts concluded by the SNPC and in force as of end-2017 (**prior action**). This report clarifies the reasons for these contracts, the conditions under which they were concluded, and the use of the funds collected in this way, (ii) all the special contracts in force between the government and the companies that have built infrastructure facilities financed by in-kind payments (**prior action**); (iii) all the projects implemented by the Ministry of Public Works between 2014 and 2017 (**prior action**). We have also posted on the government website the KPMG reports on the reconciliation of oil flows and a table showing all of the holders of mining, forestry, and oil concessions (**prior action**).

**40. We will adopt additional measures to increase transparency in the management of natural resources and public spending.** Before end September 2019, we will adopt the

implementing decree of the Law related to the Transparency Committee envisaged in article 59 of the Transparency Law to ensure that at least one-third of the members are drawn from civil society. We will make all the following information on the management of natural resources and public spending available to civil society and before each ECF program review we will organize discussions with civil society organizations on the implementation of the ECF program, the conclusions from which will be published within 15 days.

- Starting in June 2019, the government will publish a quarterly reconciliation report of oil, forestry, and mining revenues on an accrual basis and revenues collected by the Treasury. These reports will be published 45 days after the end of the reporting period.
- By end-June 2019 the government will launch an audit of oil costs with the assistance of our development partners.
- Before end-August 2019 we will publish a list of procurement contracts executed by the Ministry of Public Works since 2014 and we will continue to publish all public procurement contracts in excess of 1 billion CFAF, as well as the conditions for the awarding of these contracts.
- Before end-July 2019 we will also publish assessment reports of the Extractive Industries Transparency Initiative (EITI) and reports of the Inspectorate General of Government (*Inspection générale d'Etat* — IGE), the Inspectorate General of Finance (*Inspection générale des finances* — IGF), and the National Audit Office (*Commissariat National aux Comptes* — CNC), as well as a list of businesses and public institutions that have not provided the necessary access to oversight bodies to perform audits, as well as those that are late in paying their financial obligations to the CNC.

**41. Our reforms in the area of public financial management aim at streamlining institutional arrangements,** increased automation of procedures, strengthening of oversight, and increased publication of performance data. By end-August 2019, we will launch a biometric survey of civilian government employees to complement the survey of April 2018 field survey.
The government will approve the survey report by end-2019 and will take corrective measures in accordance with the general civil service regulations. The final survey results will be harmonized with payroll records. The government will also perform targeted monthly inspections of civil service employees within ministries. By end-November 2019, we will design and implement a medium-term strategy for PFM reforms, with a three-year rolling action plan, in accordance with the CEMAC directives. Other reforms include the following measures:

- By end-December 2019, adoption of a Law on the allocation, organization and functioning of the Audit Court (*Cour des Comptes et de Discipline Budgétaire)* as well as its implementing regulations.
- By end-December 2019, adoption of the new organizational structure of the Ministry of Finance and Budget.

**42. We will adopt additional measures to regulate the State's financial flows.** Before end of July 2019, we will prepare a comprehensive list of all government accounts in the banking system and approve an action plan to close them for the transfer of their balances to the Treasury Single Account (TSA) at the BEAC. In compliance with SNPC's oil marketing mandate, we will take all necessary measures in order to ensure the automatic transfer of the sale proceeds of oil shipments into the TSA. Starting end September 2019, the free portion of the government's accounts in China will be automatically transferred to the TSA. Starting in end-September 2019, all public revenues will be included in public accounts when received and all financial transactions will be included in public accounting. We are also committed to correct vulnerabilities in government accounting through the production of reliable government accounting balances for 2017 (end-October 2019).

**43. The measures concerning the rule of law are aimed** at full implementation of the national legislation. They are based on widespread dissemination of information on judicial procedures and the performance of institutions responsible for implementation of the laws. For this purpose, starting in June 2019 we are planning to publish on the website: (i) for each court of law (or magistrates' court) the number of sitting judges, the size of the workforce, and the number of vacant positions; (ii) the number of cases involving corruption, AML/CFT, insolvency, foreclosures, and the property sector for 2015, 2016, and 2017; and (iii) all of the decisions of the Supreme Court and all of the decisions issued by all courts concerning corruption cases since 2018.

**44.** With regard to **combating corruption,** the government will take credible and visible measures to strengthen the anti-corruption legal infrastructure. By end-September 2019, we will adopt the implementing decrees of the Law establishing an Independent Anti-Corruption Commission with investigative powers (**structural benchmark**) and of the law on the implementation of the constitutional asset declaration requirement. The implementing decree of the anti-corruption commission law will explicitly guarantee the Commission's independence and investigative powers while specifying its responsibilities and reporting obligations. Meanwhile, we will work with IMF staff in order to identify and improve the current shortcomings of the Law on implementation of the constitutional asset declaration requirement to ensure its conformity with best practices. The application of the Law should include assets held directly or as a beneficial owner in Congo or abroad by politically exposed persons, including all citizens elected or nominated for a high public position, as defined by the CEMAC AML/CFT regulation of 2016. It will provide for deterrent penalties for noncompliance.

**45.** With regard to curbing corruption and improving **AML/CFT**, we intend to implement the following measures: (i) In consultation with Fund staff, submission to Parliament an amendment to the existing anti-corruption law to ensure full compliance with the UNCAC, including in respect to the domestic criminalization of all actions set in Chapter III of the United Nations Convention against Corruption (UNCAC), (**structural benchmark**), (ii) ensuring the inclusion of such crimes as predicate offenses to money laundering; (iii) support for banks' fulfillment of their obligations with respect to politically exposed persons through the publication of their asset declarations and the payment of all of their salaries to their accounts at Congolese banks by August 2019, and by encouraging intensification of the supervision of these obligations by the COBAC; (iv) capacity

building of the National Financial Investigation Agency (*Agence nationale d'investigation financière* – ANIF) based on an assessment of its needs, supported by technical assistance, which we expect to publish by January 2020; (iv) criminalization of corrupt actions in accordance with the provisions of the United Nations Convention against Corruption (UNCAC), and their designation as money laundering predicate offenses; (v) preparation of a study, in consultation with IMF staff, to ensure public access to adequate and accurate information on the beneficial ownership of legal entities in accordance with FATF Recommendation 24, by December 2019.

**46.** With regard to the **business climate**, we will simplify the licensing process, eliminate parafiscal charges, and improve the main public archives through computerization. Specifically, by end-December 2020, we will: (i) computerize and publish the company register; (ii) put into place a single window for the handling of property title documents pursuant to Law No. 34-2013 of December 30, 2013; and (iii) publish a complete inventory of parafiscal charges applied to businesses, both formal and informal. Other measures to improve the business climate are planned as part of programs supported by the AfDB and the World Bank and address important areas based on poor assessments in the World Bank's Doing Business reports. The government will: (i) create a national real estate registry; (ii) simplify the procedures and reduce the costs involved in starting a business; and (iii) reform administrative fees in order to facilitate monitoring of cross-border trade.

### Statistical Capacity Building

**47. The government intends to prioritize the oversight of public statistical databases.** To this end, the Ministry of Planning, Statistics, and Regional Integration has launched an emergency plan to improve the national statistics system. This plan entails institutional and organizational reforms to improve data collection capacities and to ensure the regular publication of high-quality and useful statistics for the development of public policies. These efforts require a reform of the National Institute of Statistics and a modification of its mandate, as well as that of other public agencies, in order to produce data according to a pre-approved model. In addition to technical assistance from the IMF Statistics Department, the government is receiving technical and financial support from the World Bank through the Statistical Capacity Building Project (PSTAT), for which additional funding in the amount of US$25 million was approved on April 5, 2018. The priorities are: (i) human resources training; (ii) administer a general population and housing census; (iii) conduct a survey of household living conditions; and (iv) conduct the demographic and health survey. Finally, the National Institute of Statistics will be provided with sufficient funding to allow for the development of its technical and operational capacities.

**48. Strengthening the statistical system requires the development and implementation of a comprehensive action plan.** In this connection, the government has requested technical assistance from the IMF Statistics Department in order to perform an overall review of the statistical system, including government finance statistics, the balance of payments, the monetary sector, and national accounts. An action plan will be developed on the basis of this assessment in order to correct the weaknesses that are identified.

### Other Structural Reforms

**49. Structural reforms continue to be a government priority for strong, sustainable, diversified, and inclusive growth.** These reforms will be based on the Economic and Financial Reform Program of the CEMAC Zone (PREF-CEMAC) and the 2018–22 National Development Plan. These reforms will be supported by efforts to strengthen governance and combat corruption.

### Diversification

**50. Diversification of the economy continues to be a major imperative in order to ensure the economy's resilience to exogenous shocks.** Our diversification strategy is supported by an action plan coordinated with the World Bank and the African Development Bank. Measures to diversify the economy and improve its competitiveness are focused on the diversification of assets (human capital and infrastructure) and improvement of the business climate. They are aimed at: (i) boosting agriculture and strengthening the value chain in the food and lumber industries (¶51); (ii) providing a stable and high-quality electricity supply and reducing processing time of requests to connect to the power grid (¶52–¶53); (iii) promoting high-quality education oriented toward our development needs (¶31); and (iv) facilitating the process of starting a business and accessing factors of production such as land, credit, etc (¶46). We plan to support this strategy through a health policy aimed at universal coverage, strengthening services for mothers and children, especially access to these services for vulnerable populations; these policies were started in the 2018 budget.

**51. The agriculture sector is a priority economic sector in our economic diversification strategy.** Within the context of the National Program for Agricultural Investment and Food and Nutritional Security (*Programme national d' investissement agricole, de sécurité alimentaire et nutritionnelle* — PNIASAN), the government is seeking to modernize family farming and to promote agro-industry by helping organizations of small producers to gain access to the market and/or to enter into arrangements with large-scale operators. The following specific actions are being implemented as part of the PNIASAN: (i) improve access to land (in particular in peri-urban areas); (ii) rehabilitate and maintain rural roads; (iii) develop plant and animal production and fish farming; (iv) improve producers' access to financing, in particular for small producers; and (v) improve the investment climate in order to attract investors. The government is also planning to continue the national programs for the production of manioc, bananas, and cacao.

### Strengthening of the Water and Electricity Sectors

**52. The government has started to improve the operational and commercial performance of the energy sector and reduce direct and indirect subsidies to operators in this sector.** In June 2017 the regulatory framework changed through the adoption of an implementation decree for the electricity code that liberalizes the sector. The law on the dissolution of the National Electricity Company (*Société Nationale d'Electricité* — SNE) was adopted in April 2018 followed by a government commitment to set up a shareholding company. A set of reforms for the electricity sector has been prepared with World Bank assistance including a new electricity code with the

following provisions: (i) opening up the sector to private sector competition and participation (independent electricity producers); (ii) privatizing the public services of segments of the sector (transport, distribution and marketing); and (iii) arranging new electricity rates in urban and rural areas. The government will be assisted by development partners and the private sector in its actions, particularly in:

- restoring the hydroelectric power plants of Moukoukoulou, Imboulou and Djoué;
- increasing electricity production capacity (preparation of the project of the hydropower plant of Sounda, hydropower development of the Louesse Valley, putting the Djeno power station into service), extending the Congo power station (CEC construction of a solar field for the electrification of the city of Impfondo);
- constructing the Makoua/Liouesso very high-voltage power line; and
- improving the transit capacity of the very high voltage line (THT) Pointe-Noire/Brazzaville
- Implementing the investment program financed by the World Bank and the French Development Agency (AFD) in the electricity sector.

**53. In 2018 the government launched a project to reform the public water utility sector.** The aim is to build a more efficient public water utility, based on a new approach to governance and a larger share of self-financing. The corresponding roadmap calls for the dissolution of the National Water Distribution Company (Société Nationale de Distribution d'Eau — SNDE), the creation of a state-owned company, and transferring the operating activities of the public water utility to a private partner recruited through an international public tender in the form of a leasing contract. The elimination of flat-rate billing and an increase in water rates are essential conditions for improving the utility's financing capacity. The reforms should also clarify the role and responsibilities of the Water Sector Regulatory Authority (Organe de régulation du secteur de l'eau — ORSE), as well as the methods for operating the public water utility in medium-sized towns and rural areas. With the support of development partners, the government will modernize the public water utility, maintain existing infrastructure, and expand the networks, in particular in Brazzaville.

### Program Financing

**54. Our program is fully financed over the medium term.** We have obtained firm funding commitments from our external partners to supplement the exceptional financing expected from debt restructuring. This exceptional financing is described and quantified in the restructuring strategy adopted by the government in April 2018. A key element of this strategy is the imposition of a moratorium on public debt service during the negotiation period with creditors of debts affected by the restructuring. Over the medium term, we will continue to work with our partners to confirm the funding levels that will totally cover the financing gap for the last two years of the program.

### Monitoring of the Program

**55. The program supports our 2018–22 National Development Plan approved by Law no. 32–2018 in October 1st, 2018.** The National Development Plan was drafted through a participatory process, including civil society, the private sector, and development partners. Inspired by the "March toward Development" vision, it takes into account the Sustainable Development Goals (SDGs) and those of Agenda 2063 for the development of Africa. Its macroeconomic and fiscal framework is consistent with the program supported by the IMF. The National Development Plan has three priority strategic pillars: (i) enhancing governance, (ii) reforming the education system and skills and vocational training; and (iii) diversifying the economy, with priority assigned to agriculture, tourism, and industrialization.

**56. The program is subject to semi-annual monitoring by the IMF Executive Board based on quantitative monitoring criteria and indicators and structural benchmarks as shown in the attached Tables 1, 2 and 3.** These criteria and indicators are defined in the attached Technical Memorandum of Understanding (TMU), which defines the quantitative performance criteria and requirements with regard to the reporting of data to IMF staff. The first semi-annual review will be based on the data and performance criteria as of June 2019 and should take place after December 15, 2019. The second semi-annual review will be based on the data and performance criteria as of end-December 2020 and should take place after June 15, 2020.

**57. We will strengthen internal monitoring mechanisms to ensure strong performance in the implementation of the program.** A Committee for Program Monitoring (Comité du Suivi du Programme, CSP) will be established by the government. The CSP will be charged with collecting information from entities responsible for the implementation of the program measures and will regularly evaluate performance in program implementation including through. reports to the government. In particular, the CSP will be responsible for taking stock of all special agreements and evaluating their impact on the program, performing a regular reconciliation of oil flows, tracing all government revenues to the Treasury's books, and tracking information related to extrabudgetary expenditures, and adopting countervailing measures if necessary. We will keep civil society continuously informed of our performance during program implementation. To this end, we have started to publish monthly tables with information on the monitoring of program implementation, developed in consultation with IMF staff on the websites of the Ministry of Finance and the INS (**continuous structural benchmark**). These include quarterly budget forecasts and outcomes, the monthly inflation rate, and the quarterly public debt position.

## Table 1. Republic of Congo: Quantitative Performance Criteria (PC) and Indicative Targets (IT)

(Billions of CFA francs; cumulative from the beginning of the year, except where otherwise indicated)[1]

| | Type of criteria | End-Jun.2019 PC/IT | End-Sept 2019 IT | End-Dec 2019 PC/IT | End-Mar 2020 IT | End-Jun. 2020 IT |
|---|---|---|---|---|---|---|
| Floor on basic non-oil primary budget balance[2] | PC | -125 | -220 | -413 | -34 | -116 |
| Ceiling on net domestic financing to the central government | PC | -48 | -133 | -315 | -201 | -257 |
| Ceiling on the accumulation of new external payment arrears on public and publicly guaranteed external debt[3] | PC | 0 | 0 | 0 | 0 | 0 |
| Ceiling on contracting or guaranteeing of new non-concessional external debt by the central government (US$ million)[3,4,5] | PC | 0 | 0 | 0 | 0 | 0 |
| Ceiling on new external debt contracted by or on behalf of the central government and guaranteed with future natural resource (including oil) deliveries[3,4,5] | PC | 0 | 0 | 0 | 0 | 0 |
| Floor on non-oil revenues | IT | 330 | 524 | 763 | 207 | 386 |
| Floor for poverty-reducing social spending (includes arrears) | IT | 162 | 302 | 380 | 68 | 136 |
| Limit on disbursements of external loans for investment projects | IT | 30 | 77 | 122 | 0 | 28 |
| Ceiling on new concessional external debt contracted or guaranteed by the central government[4,6] | IT | 42 | 88 | 114 | 31 | 62 |
| **Memo items: :** | | | | | | |
| Repayment of domestic arrears | | 0 | 35 | 176 | 42 | 84 |
| Receipts from fuel taxes | | 1 | 3 | 4 | 2 | 4 |
| Oil revenue[7] | | 391 | 655 | 903 | 187 | 363 |
| Receipts from privatization | | 0 | 0 | 8.7 | 5.5 | 5.5 |
| Expected external budgetary assistance, net[8] | | 0 | 45 | 362 | 172 | 264 |
| - Budgetary loans and grants, including IMF loan | | 0 | 26 | 270 | 93 | 93 |
| - Relief from debt restructuring | | 0 | 19 | 92 | 79 | 171 |
| - Change in non-Program external arrears | | 0 | 0 | 0 | 0 | 0 |
| - Payments for current external debt service due after debt relief | | 178 | 267 | 356 | 58 | 117 |

[1] Quantitative Performance Criteria and Indicative Targets are defined in the TMU.

[2] Defined as non-oil domestic revenue minus total expenditures excluding interest payments, transfers paid with crude oil, and foreign-financed investment.

[3] These ceilings are set to zero and to be respected continuously.

[4] Excluding all sources of budgetary support identified in the program.

[5] Excluding all types of financing mentioned in paragragh 10 of the TMU.

[6] On a contractual basis in accordance with the IMF's debt limits policy: htt://www.imf.org/external/np/pp/eng/2014/111414.pdf.

[7] Excluding oil barter transactions for the payment of transfers.

[8] As defined in paragraphs 19 and 23 of the TMU.

| Table 2. Republic of Congo: Status of Initial List of Structural Reforms | | | | |
|---|---|---|---|---|
| **Measures** | **Original target Date** | **Revised target date** | **Macroeconomic Rationale** | **Status** |
| **Prior Actions (before July 2018)** | | | | |
| Adoption by the government of a 2018 budget in line with the program parameters. | Done on December 27, 2017 | | Restore the sustainability of public finances | **Implemented** |
| Publish a government-approved diagnostic study on governance and corruption issues, conducted with the assistance from IMF staff. | Done on June 19, 2018 | | Improve the business climate and safeguard public resources | **Implemented** |
| Submit to the Parliament amendments to the law establishing the SNPC to make obligatory the annual publication of its audited financial statements and that of its subsidiaries. | Done on June 18, 2018 | | Improve transparency | **Implemented** |
| **Previous Structural Measures Implemented** [1] | | | | |
| Publish the oil production-sharing contracts prevailing at end-2017, as well as the SNPC's audited financial statements for 2012–17. | End-September 2018 | End-November 2018 | Improve transparency and safeguard public resources | **Implemented** |
| Publish monthly on the websites of the ministry of finance and statistics institute economic monitoring tables agreed with Fund staff. | Continuous, from end-September 2018 | Continuous, from end-December 2018 | Improve the transparency of the government's financial operations | **Implemented** |
| Complete a fiscal safeguards review, with assistance from IMF staff. | End-October 2018 | End-August 2018 | Improve PFM | **Implemented** |

[1] These reforms were part of the list of initial commitments the authorities had made in July 2018 and had been initially envisaged for implementation as structural benchmarks.

**Table 2. Republic of Congo: Status of Initial List of Structural Reforms** (Continued)

**Previous Structural Measures Implemented (Continued)**

| **Measures** | **Original target Date** | **Revised target date** | **Macroeconomic Rationale** | **Status** |
|---|---|---|---|---|
| Enact an anti-corruption law providing for the establishment of an Independent Anti-Corruption Commission with investigative powers. | End-December 2018 | February 2019 | Reduce corruption | **Implemented** |
| Enact a law establishing the Commission on Transparency envisaged by Article 59 of the Transparency Law with at least one-third of the members of the Commission from civil society. | End-December 2018 | February 2019 | Improve transparency and governance | **Implemented** |
| Adopt a law implementing the constitutional obligation to declare assets in accordance with best practices. | End-December 2018 | February 2019 | Improve transparency and reduce corruption | **Implemented**[2] |
| Complete the audit of domestic debt, and adopt a schedule of repayment of domestic debt consistent with program financing assurances.[3] | End-September 2018 | April 2019 | Reduce uncertainty and support the private sector | **Implemented** |
| Adopt the draft manual on debt procedures by the National Public Debt Committee, including the obligation for all parties to transmit data on disbursements to the debt unit (CCA). | End-September 2018 | April 2019 | Improve debt management | **Implemented** |

[2] This law has been passed by Parliament but not yet implemented. Amendments may be necessary to bring it into line with applicable international standards and best practices.

[3] The schedule of repayment will be adopted after the completion of the second audit (see Table 3).

**Table 2. Republic of Congo: Status of Initial List of Structural Reforms** (Concluded)

| | | | | |
|---|---|---|---|---|
| Submit to Parliament a report on the pre-financing contracts concluded by the SNPC and ongoing at the end of 2017 | | **Prior Action** | Improve transparency and reduce corruption | **Implemented** |
| Submission to the Parliament of a report on all the projects implemented by the Ministry of Public Works between 2014 and 2017. | | **Prior Action** | Improve transparency; protect public resources | **Implemented** |
| Submit to Parliament a report on all ongoing "special agreements" between the government and companies that built infrastructure financed by in-kind payments. | | **Prior Action** | Improve transparency and reduce corruption | **Implemented** |
| Publish on the government website KPMG oil reconciliation reports and a table with all mining, forestry, and oil concessions holders. | | **Prior Action** | Improve transparency; protect public resources | **Implemented** |

| Table 3. Republic of Congo: Proposed Structural Benchmarks | | |
|---|---|---|
| **Measures** | **Target date** | **Macroeconomic Rationale** |
| Complete the new audit of domestic debt that includes the budget exercises of 2017 and 2018 and all arrears of the General Direction of Public Works. | End-October 2019 | Reduce uncertainty and support the private sector |
| Adopt a privatization strategy to support program financing assurances. | End-September 2019 | Create fiscal space |
| Approve a revised domestic fuel price structure with higher taxes and an automatic adjustment mechanism to deliver the projected additional revenue from fuel taxes. | End-October 2019 | Increase government revenues |
| Scale up the Lisungi cash transfer as described in paragraph 31 of the MEFP. | End-December 2019 | Improve human capital |
| Adopt the implementing decrees of the Law establishing the anti-corruption commission | End-September 2019 | Reduce corruption |
| Adopt the implementing decrees of the Law establishing the Transparency Commission | End-September 2019 | Improve transparency and governance |
| In consultation with Fund staff, submission to Parliament an amendment to the existing anti-corruption law to ensure full compliance with the UNCAC, including in respect to the domestic criminalization of all actions set in Chapter III of the United Nations Convention against Corruption (UNCAC), | End-March 2020 | Improve transparency and governance and protect public resources |
| Certification by the Ministry of Finance have transmitted to the BEAC all laws, contracts or agreements granting exemptions from foreign exchange regulations to oil operators | End-September 2019 | Support the CEMAC regional strategy |

[1] Some of these benchmarks were part of the initial list of structural reform plans from the authorities. The authorities were not able to implement them in the absence of an IMF-supported program.

# Attachment II. Technical Memorandum of Understanding

## I. INTRODUCTION

1. This Technical Memorandum of Understanding (TMU) defines the quantitative performance criteria and indicative targets established by the Congo authorities and staff of the International Monetary Fund (IMF) for the monitoring of the program supported by the Extended Credit Facility (ECF). It also determines the type of data and information to be provided to the IMF for program monitoring purposes, and the periodicity and deadlines for the transmission of these data.

2. The quantitative performance criteria, indicative targets, and cutoff dates are provided in Table 1 of the Memorandum on Economic and Financial Policies (MEFP).

## II. KEY DEFINITIONS

3. **Government.** Unless otherwise indicated, the state or "government" is defined as the central government of the Republic of Congo, which includes all implementing bodies, institutions, and any units receiving special public funds, the powers of which are included in the definition of the central government under the *Government Finance Statistics Manual 2001 (GFSM 2001*; paragraphs 2.48–50). This definition does not include local units of government, the central bank, or any agencies or entities of the central government having autonomous legal status and whose operations are not reflected in the table of government financial operations (TOFE).

4. **Unless otherwise indicated**, public entities are defined in this Technical Memorandum of Understanding as companies in which the public sector owns majority stakes.

5. **Performance criteria (PC) and indicative targets (IT) are established in connection with program monitoring.** The performance criteria include:

(a) A floor on the basic non-oil primary balance;

(b) A ceiling on the central government net domestic financing;

(c) A ceiling on accumulation of new arrears on external debt contracted or guaranteed by the central government;

(d) A ceiling on new non-concessional external debt contracted or guaranteed by the central government;

(e) A ceiling on new external debt contracted by or on behalf of the central government and guaranteed with future natural resource (including oil) deliveries.

The indicative targets include:

(a) A floor on social and poverty reduction expenditure;

(b) A ceiling on disbursements of external loans for investment projects.

(c) A ceiling on new concessional external debt contracted or guaranteed by the central government.

(d) A floor on non-oil revenue

6. **Performance criteria, indicative targets, and adjusters are calculated** as the cumulative change from January 1, 2019 for the 2019 objectives, and from January 1, 2020 for the 2020 objectives (Table 1 of the MEFP).

**Performance Criteria**

7. The **basic non-oil primary balance,** excluding oil-related transfers, is calculated as the difference between government revenue, excluding oil revenue and grants, and total government expenditure excluding interest payments on domestic and external debt, oil-related transfers, and externally-financed capital expenditure. Government expenditure includes net loans and is defined on a payment order basis.

8. **Net domestic financing to government** is defined as the issue of any instruments denominated in CFA francs to domestic creditors or on the financial markets of the Economic Community of Central African States (CEMAC), borrowing from the Bank of Central African States (BEAC) (including support from the IMF), the Development Bank of the Central African States (BDEAC), and CEMAC member countries, or any other debt contracted arranged with these creditors.

**Net domestic financing** is broken down into net bank financing and net nonbank financing.

- *Net bank financing or domestic credit of the government with banks* is defined as the change in the government net position vis-à-vis the banking system (BEAC and commercial banks) including reimbursement of the IMF. Net bank financing to government is calculated using the data provided by the BEAC. These data should be reconciled monthly between the treasury and the BEAC.

- *Net government nonbank financing* includes: (i) the change in the outstanding balance of government securities (treasury bills and bonds) issued in CFA francs on the regional financial market not held by the Congo banking system; (ii) amortization of nonbank domestic public debt; and (iii) revenue from privatizations. The treasury calculates government net nonbank financing on a monthly basis.

9. **The government's external payment arrears** include all external debt service obligations (principal and interest) matured and unpaid deriving from loans arranged or guaranteed by the central government, penalties, and interest charges deriving from these loans not paid at maturity. For performance criteria requirements, external debt service obligations matured and unpaid after 30 days will be considered "program" arrears. The performance criterion applies to any debt corresponding to the criteria defined in paragraphs 20–22. Arrears not considered "arrears" for performance criteria, or "non-program" arrears, include: (i) arrears accumulated on external debt service obligations for which the authorities have publicly announced that they seek a debt restructuring and for which they have approached the creditors; and (ii) disputed external debt service obligations.

10. **For the purposes of the ceilings on the contracting or guaranteeing of new external debt (concessional and non-concessional), external debt is any debt contracted or guaranteed by the central government with non-residents**, with the following exceptions: (i) commercial debts in connection with import operations having maturities of less than one year; (ii) rescheduling arrangements; (iii) all sources of budgetary loans identified in the program; (iv) and treasury bills and bonds issued in CFA francs on the CEMAC regional market. External debt contracted or guaranteed by the government is considered to be concessional if, at the date on which it was contracted, it included a grant element of at least 35 percent, calculated as follows: the grant element of a debt is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt.[1] For debts with a grant element equal or below zero, the PV will be set equal to the nominal value of the debt. For program monitoring purposes, external debt is considered to be contracted or guaranteed when all of the conditions for it to enter into effect have been met, including approval of the arrangement by the government of the Republic of Congo (the Council of Ministers) or the legislative authorities, if required. Guaranteed debt refers to any explicit legal obligation incumbent on the government to reimburse that debt should the debtor default (whether the payments are in cash or in kind).

11. **Natural resources-related external debt is external debt which is contracted by or on behalf of the government and which gives a creditor any interest in natural resources (including oil), including a collateral interest**. Pre-financing is defined as natural resources-related debt which is repaid, in whole or in part, by the sale of natural resources in the future. Pre-financing does not include prepayment. A prepayment is defined as an advance payment by the purchaser in connection with a specifically-identified natural resource shipment. Prepayment operations must be repaid within six months, and in any case within the calendar year during which they were arranged. New pre-financing by or behalf of the government is strictly prohibited under the program. The refinancing and /or deferral of the existing stock of pre-financing debt and / or due

[1] The calculation of concessionality takes into account all aspects of the debt agreement, including maturity, grace period, payment schedule, upfront commissions, and management fees. The discount rate used for this purpose is the unified discount rate of 5 percent set forth in Executive Board Decision No. 15248-(13/97).

dates are permitted but should not give rise to an augmentation of the existing stock of natural resource-related debt.

### Indicative Targets

12. **Social and poverty reduction expenditure** is public expenditure in priority social sectors deemed to be conducive to poverty reduction. A detailed list of expenditure items is provided in Table 1 below. The quarterly indicative targets are provided in Table 1 of the MEFP. Should further expenditure cuts be required, priority social expenditure will be reduced proportionally less than other primary expenditure financed with domestic resources, so that its proportion of priority social expenditure in the revised budget will be greater than in the original budget.

13. **Disbursements of external loans in connection with investment projects** are an indicative target for the program, for which the ceilings are provided in Table 1 of the MEFP. This indicative target applies to new disbursements, including those in connection with liabilities arranged before the program approval date.

14. **New concessional external debts arranged or guaranteed by the government,** for which the amounts are provided in Table 1 of the MEFP, constitute an indicative program target. This indicative target applies to new external borrowing as defined in paragraph 10.

15. **Non-oil revenue** includes all government's (tax and nontax) revenue, with the exception of oil revenue as defined in paragraph 17 in the TMU. Value-added tax (VAT) is recorded net of VAT reimbursements.

### Memorandum Item Indicators

16. The **additional revenue deriving from the increase in taxation of oil products** is a memorandum item which is used as an indicator for the program. This indicator makes it possible to facilitate monitoring of implementation of a structural benchmark under the program on revision of the price structure of oil products with a view to increasing the level of taxes on oil products. The 2019 budget includes these additional revenue projections, which are presented in Table 1 of the MEFP.

17. **Oil revenue** is defined as the government’s net proceeds from the sale of oil, including the provision for diversified investments, royalties paid by oil companies, and the government’s share in produced crude oil. It excludes all forms of prepayment, pre-financing, and oil barter transactions under special agreements that give rights on government oil to oil companies. The oil revenue projections take account of the 45-day lag between the date of shipment and the date of receipt of the sale proceeds by the Treasury.

18. **Revenue from privatizations** is a memorandum item indicator. These figures are also reflected in Table 1 of the MEFP. This revenue from privatization is connected with a structural benchmark under the program on adoption of a privatization strategy to support financing guarantees for the program.

19. **Net external assistance,** as defined in paragraph 22 below, is a memorandum item indicator for the program. This budget assistance, which is also reflected in Table 1 of the MEFP, reflects the financing indications from the external partners of the Republic of Congo.

**External Debt**

20. The term "**debt**" corresponds to the definition in paragraph 8 (a) of the guidelines on public debt limits in programs supported by the Fund appended to Decision 15688-(14/107) of the Executive Board adopted on December 5, 2014, as well as liabilities undertaken or guaranteed for which the assets have not been received. Under these guidelines, "debt" will be understood to mean a direct, i.e., not contingent, liability created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract.

21. **Debts can take a number of forms**, the primary ones being as follows: (i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyer's credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and (iii) lease agreements, i.e., agreements under which property is provided which the lessee has the right to use for periods of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purposes of these guidelines, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement, excluding those payments that cover the operation, repair, or maintenance of the property.

22. Under the definition of debt set out above, any penalties or judicially awarded damages and interest costs arising from the failure to make payment under a contractual obligation that constitutes debt shall be considered a debt. **Failure to make payment on an obligation that is not considered debt** under this definition (e.g., payment on delivery) will not give rise to debt.

## III. ADJUSTORS

23. The quantitative objectives of the program are calculated based on the projected amounts of (1) net external assistance; (2) oil revenue; (3) revenue from privatization, and (4) oil-related transfers. For purposes of the program, ***net external assistance*** is defined as the difference between (a) cumulative budget support (grants and loans), the impact of debt relief granted by external creditors, and the net change in "non-program" arrears; and (b) cumulative payments for current external debt service due after debt relief, in connection with loans for which debt relief

arrangements have been executed. ***The net change in "non-program" arrears*** is the total of "non-program arrears" in connection with current debt service maturities less the total cash payments to clear these arrears.

24. The floor for the basic non-oil primary balance excluding oil-related transfers, and the ceiling for net government domestic financing will be adjusted should net external assistance, oil revenue, oil-related transfers and/or receipts from privatization differ from the projected amounts.

25. **Adjustments in connection with net external assistance, oil revenue, and oil-related transfers**:

- *When total net external assistance and oil revenue exceed program projections,* the floor for the basic non-oil primary fiscal balance will be adjusted downward by an amount equal to half of the surplus (so that half of the surplus can be used for additional expenditure). The ceiling for net domestic financing to government will be adjusted downward by half of the surplus. Any additional resources available for expenditure must be used in the social sectors, and the additional amount for net domestic financing will be used to strengthen government deposits at the BEAC (as opposed to repaying faster domestic debt).

- *When oil-related transfers exceed program projections by more than CFAF 30bn*, the floor for the basic non-oil primary balance excluding oil-related transfers will be adjusted upward by any amount in excess of the programmed oil-related transfers minus CFAF 30bn.

- *When total net external assistance and oil revenue is below program projections,* the floor for the basic non-oil primary fiscal balance will be adjusted upward by an amount equal to half of the shortfall (requiring a budget adjustment equivalent to half of the shortfall). The ceiling for net domestic financing to government will be adjusted upward by half of the shortfall. The expenditure cuts corresponding to half of the shortfall must be applied as a priority outside of the social sectors. At a minimum, the ratio of social expenditure to total expenditure should improve as a result of such expenditure cuts.

26. **Adjustments in connection with privatization proceeds.** When total receipts from privatization exceeds program projections, the floor on the basic non-oil fiscal balance will not be adjusted, while the ceiling for government domestic financing will be adjusted downward by an amount equivalent to the surplus. The government will save any additional resources from privatization by increasing its deposits at the BEAC. When the total receipts from privatization is below program projections, the floor on the basic non-oil fiscal balance will be adjusted upward by an amount equivalent to the shortfall, while the government domestic financing ceiling will remain unchanged.

## IV. PROGRAM MONITORING AND REPORTING REQUIREMENTS

27. The monitoring of performance criteria, indicative targets, and structural benchmarks will be the focus of a quarterly assessment report to be prepared by the authorities within a maximum of

45 days after the end of each quarter. The information on implementation and/or execution of structural benchmarks under the program will be reported to IMF staff within two weeks after their programmed implementation date. The status of implementation of other structural program measures will also be reported to IMF staff within the same time frame.

28. The government will report the information specified in Table 2 below according to the reporting periods indicated. More generally speaking, the authorities will provide IMF staff with all information required for effective follow-up on economic policy implementation.

29. The authorities undertake to consult IMF staff on any new external debt proposals. They will report to IMF staff on the signing of any new external debt arrangements and the conditions pertaining to such debt.

## Table 1. Republic of Congo: Social Spending in the 2019 Budget

(Billions of CFA francs)

| | Q1 | Q2 | Q3 | Q4 | 2019 |
|---|---|---|---|---|---|
| | Proj. | | | | |
| **Basic Health and Fight against Disease** | **26.9** | **40.4** | **40.4** | **19.1** | **126.8** |
| Acquisition and management program for essential | 2.0 | 4.6 | 4.6 | 2.2 | 13.4 |
| Program of free AIDS drugs; | 3.3 | 4.3 | 4.3 | 2.0 | 13.8 |
| Aids education and extension campaign | 0.1 | 0.2 | 0.2 | 0.1 | 0.5 |
| Malaria control program | 1.3 | 3.7 | 3.7 | 1.7 | 10.5 |
| Extended vaccination program | 3.2 | 4.5 | 4.5 | 2.1 | 14.3 |
| Program of free cesarean section | 0.6 | 1.2 | 1.2 | 0.5 | 3.4 |
| Tuberculosis control program | 0.1 | 0.2 | 0.2 | 0.1 | 0.5 |
| Program for the control of nontransferable diseases, namely trypanosomiasis, onchocerciasis, | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 |
| Revitalization of health districts through the purchase of medical and technical equipment | 12.5 | 17.2 | 17.2 | 8.1 | 55.1 |
| Construction and rehabilitation of general and basic hospitals and health centers in towns and rural centers; | 2.9 | 3.7 | 3.7 | 1.7 | 11.9 |
| Women and Teenager Health | 0.7 | 1.0 | 1.0 | 0.5 | 3.1 |
| **Basic Education** | **8.5** | **14.2** | **14.2** | **6.7** | **43.6** |
| Construction and rehabilitation of school buildings | 2.5 | 3.2 | 3.2 | 1.5 | 10.3 |
| Program of free school supplies, textbooks and tuition and teaching materials in primary, secondary general education, technical and vocational; | 4.3 | 8.1 | 8.1 | 3.8 | 24.2 |
| Program of school canteens; | 1.7 | 3.0 | 3.0 | 1.4 | 9.0 |
| **Infrastructures** | **4.6** | **5.9** | **5.9** | **2.8** | **19.2** |
| Construction and rehabilitation of rural and agricultural roads through the Rural Development and Rural Rehabilitation Program (PDARP); | 1.3 | 1.7 | 1.7 | 0.8 | 5.5 |
| River maintenance, dredging and tagging | 3.2 | 4.1 | 4.1 | 1.9 | 13.4 |
| Community projects and revitalization of the village fabric | 0.1 | 0.1 | 0.1 | 0.1 | 0.4 |
| **Electricity, water and sanitation** | **13.7** | **19.8** | **19.8** | **9.3** | **62.5** |
| "Water for all" program to continue the operation of drinking water supply in urban and rural centers; | 5.9 | 8.2 | 8.2 | 3.9 | 26.1 |
| Construction of electrical works for people's access to energy; | 5.4 | 6.9 | 6.9 | 3.3 | 22.4 |
| Sanitation of cities with corollary, the cleaning of the gutters and the destruction of the larval houses. | 2.4 | 4.7 | 4.7 | 2.2 | 13.9 |
| **Social protection and employment** | **5.5** | **10.9** | **10.9** | **5.1** | **32.3** |
| Charitable Actions and social aid | 0.1 | 0.1 | 0.1 | 0.1 | 0.4 |
| Integration and social and economic reintegration of the disabled and minorities | 0.1 | 0.1 | 0.1 | 0.0 | 0.3 |
| Care for vulnerable people and street children | 4.4 | 9.5 | 9.5 | 4.5 | 27.9 |
| Self-employment and training for small trades through income-generating activities for the benefit of young people in general and especially unemployed young people | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 |
| Implementation of universal health insurance | 0.9 | 1.1 | 1.1 | 0.5 | 3.6 |
| **Agriculture, fishing and livestock** | **4.2** | **5.4** | **5.4** | **2.5** | **17.5** |
| Market gardening program in urban and rural centers; | 1.6 | 2.0 | 2.0 | 1.0 | 6.6 |
| Improved seed distribution program; | 0.1 | 0.2 | 0.2 | 0.1 | 0.6 |
| Extension and demonstration program of agricultural techniques; | 0.4 | 0.5 | 0.5 | 0.2 | 1.5 |
| Breeding techniques demonstration program; | 2.1 | 2.7 | 2.7 | 1.2 | 8.7 |
| Bovine sharecropping program. | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 |
| **Promotion of women** | **0.7** | **1.4** | **1.4** | **0.6** | **4.1** |
| Gender issue; | 0.5 | 0.8 | 0.8 | 0.4 | 2.5 |
| Self-employment and training in small trades through income-generating activities for the benefit of women and young mothers. | 0.2 | 0.6 | 0.6 | 0.3 | 1.6 |
| **TOTAL SOCIAL BUDGETARY SPENDING IN LF2019** | **64.0** | **97.9** | **97.9** | **46.2** | **306.0** |

**Table 2. Republic of Congo: Data to be Reported for Program Monitoring**

| Sectors | Type of data | Frequency | Reporting period |
|---|---|---|---|
| Real sector | Consumer price indices | Monthly | End of month plus 45 days |
| | Cyclical indicators (Directorate-General of Economy Memorandum) | Quarterly | End of quarter plus 90 days |
| | Estimated national accounts | Annual | End of year plus 3 months |
| | | | |
| Government finance | Table of government financial operations (TOFE) | Monthly | End of month plus 45 days |
| | Estimated government tax revenue | Monthly | End of month plus 30 days |
| | Summary statistical statement of tax and customs exemptions | Monthly | End of month plus 30 days |
| | Pro-poor expenditure | Monthly | End of month plus 30 days |
| | Consolidated statement of treasury balances payable | Monthly | End of month plus 30 days |
| | Domestic arrears of the central government | Monthly | End of month plus 30 days |
| | Budget execution report | Quarterly | End of quarter plus 45 days |
| Domestic debt | Detailed statement of domestic debt | Monthly | End of month plus 45 days |
| | Details of any new domestic borrowing and guarantees | Monthly | End of month plus 45 days |
| | Detailed domestic debt service forecasts | Quarterly | End of quarter plus 45 days |
| | Statement of issuances and reimbursements of treasury bills and bonds | Monthly | End of month plus 45 days |
| | Table on holders of treasury bills and bonds, stating the amounts held at the end of each month by Congo banks, CEMAC banks, and the nonbank sector | Monthly | End of month plus 45 days |
| | Detailed financial statement of public enterprises and projected debt service | Quarterly | End of quarter plus 45 days |
| External debt | Detailed statement of external debt | Monthly | End of month plus 45 days |
| | Details of any new domestic borrowing and guarantees | Monthly | End of month plus 45 days |
| | Table of disbursements of new borrowing | Monthly | End of month plus 45 days |
| | Projected external debt service | Quarterly | End of quarter plus 45 days |
| | Detailed statement of external liabilities (whether or not guaranteed by the government) and external assets of public enterprises, and projected debt service | Quarterly | End of quarter plus 45 days |
| Balance of Payments | Provisional balance of payments | Annual | End of year plus 6 months |

INTERNATIONAL MONETARY FUND

# REPUBLIC OF CONGO

June 28, 2019

## REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY—DEBT SUSTAINABILITY ANALYSIS

| **Republic of Congo. Joint Bank-Fund Debt Sustainability Analysis** | |
|---|---|
| **Risk of external debt distress** | *In debt distress* |
| **Overall risk of debt distress** | *In debt distress* |
| **Granularity in the risk rating** | *Unsustainable* |
| **Application of judgement** | *No* |


Approved By
**Zeine Zeidane and Martin Sommer (IMF) and Marcello Estevão (World Bank)**


The Debt Sustainability Analysis (DSA) has been prepared jointly by IMF and World Bank staff, in consultation with the authorities, using the debt sustainability framework for low-income countries approved by the Boards of both institutions.


*Based on an assessment of external public debt indicators and given the continued buildup of external arrears, the Republic of Congo is classified as "in debt distress". Moreover, despite the recent restructuring agreement with China, public debt remains unsustainable with the net present value of external debt in percent of GDP and the external debt service-to-revenue ratios projected to remain above their indicative thresholds in the medium term*[1]*. The increase in debt in recent years reflects large fiscal deficits, a large terms-of-trade loss which caused nominal GDP to decline through deflation and a decline in real GDP growth. Domestic debt has also been rising due to the accumulation of domestic arrears and statutory advances from BEAC, deteriorating further overall public debt indicators. Given the accumulation of domestic and external arrears and the fact that the net present value of public debt to GDP remains above its benchmark over the medium term, the overall assessment, after incorporating the Chinese debt restructuring deal, confirms that the Republic of Congo is in debt distress. Going forward, restoring debt sustainability crucially hinges on the pursuit of fiscal consolidation and the restructuring of private commercial claims.*


[1] Congo's debt carrying capacity was rated weak according to the composite indicator (CI) based on the April 2019 WEO. As a result, the external debt burden thresholds for The Republic of Congo are (i) 30 percent for the PV of debt-to-GDP ratio; (ii) 140 percent for the PV of debt-to-exports ratio; (iii) 10 percent for the debt service-to-exports ratio, and (v) 14 percent for the debt service-to-revenue ratio.

# PUBLIC DEBT COVERAGE

**1. The coverage of public debt in this DSA is limited to central government, but includes oil-backed debt contracted by SNPC, the largest state-owned enterprise.** The stock of debt includes public and publicly guaranteed debt of the central government. Local governments in Congo are not allowed to borrow and depend on local taxes and transfers from the central government. Debt from state owned enterprises (SOEs) not guaranteed by the government is not included in this analysis[2] because of limited information on their fiscal performance. This is particularly relevant for the national oil company (SNPC)[3], which has suffered from a negative operating balance in recent years due to the slump in oil prices. The company does not meet international benchmarks for sound corporate governance, including an independent board, publication of comprehensive annual reports and annual independent audits. Staff will continue efforts to compile information on SNPC and other SOEs to improve the scope of the DSA in the next report, in line with guidelines under the revised LIC-DSF[4]. At the same time, the main source of non-central government debt, which was incurred by SNPC with oil traders has been incorporated in the analysis.

**2. The contingent liability stress test is customized to account for vulnerabilities associated with rejected domestic arrears, non-guaranteed SOEs debt and litigated debt** (Text Table 1). Non-guaranteed SOEs debt is estimated at 10 percent of GDP and we assume half of this amount could end-up on the central government balance sheet. Debt vulnerabilities are also affected by rejected domestic arrears (about 6.4 percent of GDP) and an additional 7.5 percent of GDP claim from a foreign construction company (Commisimpex), which is being litigated (and not included in the debt stock)[5]. The contingent liability test is also calibrated to account for these potential risks to the public sector balance sheet. At the same time, the experience of previous audits suggests that there is a possibility that the stock of domestic arrears could be revised down substantially after the new independent audit of arrears incurred during 2017–18. This is an upside risk that could mitigate considerably the impact of contingent liability shocks.

[2] There are 31 SOEs in Congo, with government ownership ranging from 50 to 100 percent.

[3] The cost of activities related to the distribution of refined products is not supported by SNPC, but rather by the government. SNPC simply acts on behalf of the government.

[4] See Annex III criteria in the LIC DSF guidance note on when SOEs can be excluded from the DSA.

[5] The authorities continue to represent a dispute with respect to this external claim. Disputed claims are not included in the baseline for program purposes, as they are included when calibrating the contingent liability stress test (Text Table 1).

**Text Table 1. Republic of Congo: Coverage of Public-Sector Debt and Design Stress Tests of Contingent Liability**

| | Subsectors of the public sector | Sub-sectors covered |
|---|---|---|
| 1 | Central government | X |
| 2 | State and local government | |
| 3 | Other elements in the general government | |
| 4 | o/w: Social security fund | X |
| 5 | o/w: Extra budgetary funds (EBFs) | |
| 6 | Guarantees (to other entities in the public and private sector, including to SOEs) | X |
| 7 | Central bank (borrowed on behalf of the government) | X |
| 8 | Non-guaranteed SOE debt | |

| | The country's coverage of public debt | The central government plus social security, central bank, government-guaranteed debt | | | |
|---|---|---|---|---|---|
| | | Default | | Used for the analysis | Reasons for deviations from the default settings |
| 2 | Other elements of the general government not captured in 1. | 0 | percent of GDP | 14.0 | Litigated debt (Commisimpex) and rejected domestic arrears |
| 3 | SoE's debt (guaranteed and not guaranteed by the government) 1/ | 2 | percent of GDP | 4.9 | SOE's debt not guarenteed by the government |
| 4 | PPP | 35 | percent of PPP stock | 1.6 | |
| 5 | Financial market (the default value of 5 percent of GDP is the minimum value) | 5 | percent of GDP | 5.0 | |
| | Total (2+3+4+5) (in percent of GDP) | | | 25.5 | |

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

# BACKGROUND

## A. Evolution and Composition of Public Debt

3. **Public debt in the Republic of Congo has increased significantly in recent years, though the trend was reversed in 2018.** The increase in debt reflects the rapid accumulation of new domestic and external debt to finance ambitious investment projects and raise public sector wages. The severe terms of trade loss from the decline in international oil prices and the behind-the-curve policy response to the shock, had exacerbated the adverse impact of the fiscal expansion on debt indicators.

- *Public external debt has increased markedly since Congo reached the HIPC Initiative Completion Point in January 2010.* Debt relief resulted in a decline in gross public external debt to just over 20 percent of GDP at end–2010, from about 55 percent of GDP in 2009 (See Press Release No. 10/20, January 28, 2010). Since then, however, public external debt tripled to around US$ 6.9 billion or 61.3 percent of GDP as of end-2018 (Text Table 2). A large share of external debt is owed to China (21.4 percent of GDP) and oil traders (16.4 percent of GDP), with repayment tied to oil shipments.

- *External payment arrears increased from CFAF 453 billion (US$817 million) at end-2017 to CFAF 520 billion (US$902 million) at end-2018 (Text Table 3) despite a decline in pre-HIPC arrears.* The cancellation of some private external debt following court arbitrations and the recent agreement with Saudi Arabia to restructure its pre-HIPC claims according to HIPC terms, have reduced pre-HIPC arrears from 324 billion (US$584 million) as of end-2017 to about CFAF 283 billion (US$497 million) at end-2018. The remaining pre-HIPC arrears are mainly accumulated against the United Arab Emirates (UAE), Angola and some external private suppliers. Arrears to UAE and Angola continue to be deemed away under the policy on arrears to official bilateral creditors, as the underlying Paris Club HIPC agreement is

adequately representative. Despite the rescheduling deal reached with China Machinery Engineering Corporation (CMEC) in February 2018, which helped to reduce post-HIPC external arrears by about US$115.8 million, post-HIPC arrears increased from US$234 million at end-2017 to US$411 million at end-2018, though this increase largely reflects new arrears against the oil traders.

- Domestic public debt[6] rose from 15 percent of GDP at end-2014 to 37.5 percent of GDP at end-2017 as statutory advances and domestic arrears have increased significantly (Text Table 2). Taking into account the results of the first phase of the audit of domestic arrears which covered CFAF 528 billion[7], the stock of domestic debt is estimated at 26.5 percent of GDP[8] at end-2018. The bulk of domestic debt involves arrears mostly due to contractors in the construction and transportation sectors (8.9 percent of GDP), statutory advances from the regional central bank (8.8 percent of GDP), and pension arrears and unpaid social benefits (3.4 percent of GDP) which started accumulating after the liquidation of public enterprises as severance packages were not paid according to the agreements. Government debt to commercial banks remains relatively small (2.5 percent of GDP) and comes from the issuance of bonds and Treasury bills since 2016.

4. **This debt sustainability analysis incorporates the impact of the April 2019 restructuring deal with China.** The agreement envisages the repayment of about 1/3 of the stock of debt over 2019–21, and a 15-year extension of the maturity of the remaining 2/3 of the debt, with an average interest rate of about 1¾ percent. This agreement combined with the February 2018 agreement provides a total debt relief of about $370 million over the program period (2019–22). In addition, it also secures substantial debt relief immediately after the program (2023–28), reducing annual debt service by half, and generating a low and predictable stream of payments over the 2029–45 period (below 0.5 percent of GDP per year). The authorities are pursuing "good faith" negotiations with the oil traders and are committed to completing the restructuring of external commercial debt and domestic debt by time of the first program review.

5. **There are weaknesses in public debt management and claims reporting, as recently highlighted by the disclosure in June 2017 of oil-backed loans contracted between 2014 and 2015**. According to the January 2018 IMF mission to support the activities of the National

[6] External debt is defined on a residency basis with the exception of BEAC advances and CFAF-denominated debt to non-residents in other CEMAC countries, which are considered domestic debt. Classifying this debt as external debt would mechanically worsen the dynamics of external debt indicators, but the risk from this debt is lower than foreign currency denominated debt owing to the lack of currency risk.

[7] The authorities initially disclosed in June 2017 a potential stock of CFAF 1573 billion of possible arrears, but they argued that only CFAF 528 billion should be the subject of an audit, given that the balance represented spending that had been committed ("engagé") but for which no services were received. The audit focused on arrears to government suppliers that had been accumulated over the 2014–16 period. Once the independent audit from Ernst and Young was completed, about 3/4 of this stock was rejected due to irregularities.

[8] This stock includes 9.7 percent of arrears not yet audited but recognized by the authorities. However, it excludes other gross claims related to public works (6.4 percent of GDP) rejected by the authorities after internal review. These two stocks will now be subject to a new audit to be funded by the AfDB.

Committee for Public Debt (NCPD), weaknesses in the current framework include (i) insufficiently transparent debt management (lack of debt strategy to guide debt mobilization), (ii) lack of a formal Treasury management framework, and; (iii) non-compliance with several CEMAC debt management guidelines (e.g. the debt management strategy is not annexed to the finance law, loan agreements are not ratified by the National Committee for Public Debt, etc.). It also found that the National Committee for Public Debt which was created in 2008 had never been operational. More recently, the committee has been reactivated by the authorities and has adopted a manual of debt procedures (structural benchmark) during its first meeting on May 28, 2019. The implementation of the recommendations of the manual will ensure a better coordination and monitoring of public debt management activities.

## Text Table 2. Republic of Congo: Gross Public Debt by Creditor, 2015–19

| | 2015 | | | 2016 | | | 2017 | | | 2018 | | | May 2019 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | CFAF billion | USD million | percent of GDP | CFAF billion | USD million | percent of GDP | CFAF billion | USD million | percent of GDP | CFAF billion | USD million | percent of GDP | CFAF billion | USD million | percent of GDP |
| **Total public debt** | **5205** | **8631** | **102.9** | **5473** | **8796** | **118.6** | **6096** | **11000** | **117.5** | **5689** | **9871** | **87.8** | **5580** | **9486** | **85.5** |
| **External debt** | **4154** | **6888** | **82.1** | **4219** | **6782** | **91.4** | **4152** | **7492** | **80.0** | **3970** | **6889** | **61.3** | **3861** | **6564** | **59.1** |
| *of which: arrears* | *378* | *627* | *7.5* | *436* | *701* | *9.4* | *453* | *817* | *8.7* | *520* | *902* | *8.0* | *535* | *909* | *8.2* |
| Multilateral and other creditors | 115 | 190 | 2.3 | 140 | 225 | 3.0 | 154 | 278 | 3.0 | 207 | 360 | 3.2 | 209 | 355 | 3.2 |
| Official bilateral | 1768 | 2932 | 35.0 | 1941 | 3120 | 42.1 | 1973 | 3559 | 38.0 | 1816 | 3152 | 28.0 | 1797 | 3055 | 27.5 |
| China | 1497 | 2483 | 29.6 | 1526 | 2452 | 33.1 | 1434 | 2588 | 27.6 | 1387 | 2408 | 21.4 | 1360 | 2312 | 20.8 |
| Private Creditors | 2271 | 3765 | 44.9 | 2138 | 3437 | 46.3 | 2026 | 3655 | 39.0 | 1946 | 3377 | 30.1 | 1856 | 3154 | 28.4 |
| Oil-prepurchased debt | 1484 | 2461 | 29.4 | 1361 | 2187 | 29.5 | 1190 | 2148 | 22.9 | 1061 | 1841 | 16.4 | 965 | 1641 | 14.8 |
| **Domestic debt** | **1051** | **1744** | **20.8** | **1253** | **2015** | **27.2** | **1944** | **3508** | **37.5** | **1719** | **2983** | **26.5** | **1719** | **2922** | **26.3** |
| BEAC advances | 572 | 949 | 11.3 | 572 | 920 | 12.4 | 572 | 1033 | 11.0 | 572 | 993 | 8.8 | 572 | 973 | 8.8 |
| Domestic bond | | | | 184 | 295 | 4.0 | 198 | 358 | 3.8 | 160 | 278 | 2.5 | 160 | 272 | 2.5 |
| BSCA | | | | 12 | 19 | 0.3 | 0 | 0 | 0.0 | 0 | 0 | 0.0 | 0 | 0 | 0.0 |
| ARC | | | | 8 | 13 | 0.2 | 8 | 15 | 0.2 | 0 | 0 | 0.0 | 0 | 0 | 0.0 |
| SGEC CONGO | | | | 109 | 176 | 2.4 | 109 | 198 | 2.1 | 0 | 0 | 0.0 | 0 | 0 | 0.0 |
| ENI | 294 | 487 | 5.8 | 183 | 294 | 4.0 | 74 | 133 | 1.4 | 0 | 0 | 0.0 | 0 | 0 | 0.0 |
| Audited arrears in CCA | 185 | 307 | 3.7 | 185 | 298 | 4.0 | 235 | 424 | 4.5 | 361 | 626 | 5.6 | 361 | 613 | 5.5 |
| Commercial | 12 | 20 | 0.2 | 12 | 20 | 0.3 | 12 | 22 | 0.2 | 138 | 239 | 2.1 | 138 | 234 | 2.1 |
| Social and pensions | 170 | 282 | 3.4 | 170 | 274 | 3.7 | 223 | 402 | 4.3 | 223 | 386 | 3.4 | 223 | 379 | 3.4 |
| Embassies | 3 | 4 | 0.1 | 3 | 4 | 0.1 | | | | | | | | | |
| Unaudited arrears | | | | | | | 747 | 1349 | 14.4 | 626 | 1086 | 9.7 | 626 | 1064 | 9.6 |
| ***Memorandum items:*** | | | | | | | | | | | | | | | |
| Additional debt claimed by commisimpex | | | | 486 | 782 | 10.5 | 486 | 878 | 9.4 | 486 | 844 | 7.5 | 486 | 827 | 7.5 |
| Rejected claims 1/ | | | | | | 34.1 | 826 | 1490 | 15.9 | 415 | 720 | 6.4 | 415 | 705 | 6.4 |

Sources: Congolese authorities; and IMF staff estimates

[1] Claims associated with infrastructure projects rejected by the authorities after an administrative review.

### Text Table 3. Republic of Congo: External Arrears Situation as of End-May 2019

| | End-2015 stock | New arrears in 2016 | End-2016 stock | New arrears in 2017 | End-2017 stock | New arrears in 2018 | End-2018 stock | May 2019 stock | | | May 2019 (Excl. unrestructured pre-HIPC arrears) | | | New arrears in 2019 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | CFAF Billion | CFAF Billion | CFAF Billion | CFAF Billion | CFAF Billion | CFAF Billion | CFAF Billion | CFAF Billion | USD Million | percent of GDP | CFAF Billion | USD Million | percent of GDP | CFAF Billion |
| **Total** | **377.9** | **58.0** | **436.0** | **17.0** | **453.0** | **66.9** | **520** | **534.6** | **908.9** | **8.2** | **243.8** | **414.5** | **3.7** | **14.7** |
| Multilateral and other creditors | 0.0 | 4.8 | 4.8 | -0.6 | 4.2 | 2.6 | 6.8 | 7.8 | 13.3 | 0.1 | 7.8 | 13.3 | 0.1 | 1.0 |
| IMF | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| World Bank | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| IFAD | 0.0 | 0.0 | 0.0 | 0.2 | 0.2 | -0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| AfDB | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Others | 0.0 | 4.8 | 4.8 | -0.8 | 4.0 | 2.8 | 6.8 | 7.8 | 13.3 | 0.1 | 7.8 | 13.3 | 0.1 | 1.0 |
| Bilateral | 95.5 | 13.5 | 109.0 | 23.2 | 132.2 | -0.3 | 131.9 | 153.3 | 260.7 | 2.3 | 94.6 | 160.8 | 1.4 | 21.4 |
| Paris Club | 0.0 | 11.5 | 11.5 | 19.1 | 30.6 | 29.7 | 60.3 | 76.3 | 129.6 | 1.2 | 76.3 | 129.6 | 1.2 | 16.0 |
| Brazil | 0.0 | 8.4 | 8.4 | 7.2 | 15.6 | 8.4 | 24.0 | 28.6 | 48.7 | 0.4 | 28.6 | 48.7 | 0.4 | 4.6 |
| Belgium | 0.0 | 0.0 | 0.0 | 1.0 | 1.0 | 1.4 | 2.4 | 2.8 | 4.8 | 0.0 | 2.8 | 4.8 | 0.0 | 0.4 |
| France | 0.0 | 3.0 | 3.0 | 4.0 | 7.1 | 20.0 | 27.1 | 37.1 | 63.0 | 0.6 | 37.1 | 63.0 | 0.6 | 10.0 |
| Swiss | 0.0 | 0.0 | 0.0 | 6.8 | 6.8 | 0.0 | 6.8 | 6.8 | 11.6 | 0.1 | 6.8 | 11.6 | 0.1 | 0.0 |
| Russia | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.9 | 1.6 | 0.0 | 0.9 | 1.6 | 0.0 | 0.9 |
| Non-Paris Club | 95.5 | 2.1 | 97.5 | 4.1 | 101.6 | -30.0 | 71.6 | 77.1 | 131.0 | 1.2 | 18.3 | 31.2 | 0.3 | 5.5 |
| United Arab Emirates /1 | 11.6 | 1.2 | 12.9 | -0.8 | 12.0 | 0.6 | 12.7 | 13.0 | 22.1 | 0.2 | 0.0 | 0.0 | 0.0 | 0.3 |
| Angola /1 | 34.5 | 0.0 | 34.5 | 5.7 | 40.2 | 1.2 | 41.5 | 42.6 | 72.4 | 0.7 | 0.0 | 0.0 | 0.0 | 1.1 |
| China | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 1.0 | 1.0 | 1.3 | 2.1 | 0.0 | 1.3 | 2.1 | 0.0 | 0.3 |
| India | 0.0 | 0.8 | 0.8 | 1.7 | 2.4 | 3.8 | 6.2 | 6.8 | 11.6 | 0.1 | 6.8 | 11.6 | 0.1 | 0.6 |
| Kuwait | 0.0 | 0.1 | 0.1 | 0.1 | 0.2 | 0.2 | 0.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -0.4 |
| Saudi Arabia 1/ | 46.2 | 0.0 | 46.2 | -2.6 | 43.6 | -42.9 | 0.7 | 1.1 | 1.8 | 0.0 | 1.1 | 1.8 | 0.0 | 0.4 |
| Turkey | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 6.0 | 6.0 | 9.2 | 15.6 | 0.1 | 9.2 | 15.6 | 0.1 | 3.2 |
| Postal debt 1/ | 3.1 | 0.0 | 3.1 | 0.0 | 3.1 | 0.0 | 3.1 | 3.1 | 5.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Private Creditors | 282.5 | 39.7 | 322.1 | -5.6 | 316.5 | 64.6 | 381.2 | 373.5 | 634.9 | 5.7 | 141.4 | 240.4 | 2.2 | -7.7 |
| CMEC 2/ | 0.0 | 36.2 | 36.2 | 28.0 | 64.2 | -63.8 | 0.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -0.4 |
| Eurobond (London Club) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Afreximbank | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.2 | 0.2 | 10.0 | 17.1 | 0.2 | 10.0 | 17.1 | 0.2 | 9.8 |
| Oil traders | 0.0 | 0.0 | 0.0 | 22.4 | 22.4 | 126.5 | 148.9 | 126.4 | 215.0 | 1.9 | 126.4 | 215.0 | 1.9 | -22.5 |
| Suppliers 3/ | 282.5 | 3.4 | 285.9 | -56.0 | 229.9 | 1.7 | 231.6 | 230.6 | 392.0 | 3.5 | 4.9 | 8.3 | 0.1 | -1.0 |

Sources: Congolese authorities and IMF staff estimates.

1/ End-2015 stocks are unrestructured pre-HIPC arrears.

2/ China Machinery Engineering Corporation, previously classified as official bilateral debt (against China).

3/ Includes disputed debts (pre-HIPC claims).

## B. Macroeconomic Outlook

6. **Box 1 summarizes the main assumptions for key macroeconomic variables in the scenario underpinning the Fund-supported program as well as the DSA.** The baseline scenario assumes that the authorities will continue implementing fiscal adjustment in the medium term to restore long-term fiscal sustainability and support the buildup of regional international reserves. Consistent with the 2019 budget, an adjustment to the non-oil primary fiscal balance of about 10 percent of non-oil GDP is assumed over 2019–23, which would help re-build fiscal and external buffers. Compared to the last published DSA in 2015, the baseline projects higher external disbursements in the medium term, reflecting program financing, but lower disbursements beyond the program period, in line with the authorities' commitment to pursue prudent external borrowing

(Text Table 4). The baseline scenario assumes that Congo continues to obtain external financing on concessional terms, but the degree of concessionality is smaller compared to the 2015 DSA in the first part of the projection period because a portion of program financing is semi-concessional. The grant element then increases progressively and averages at 43 percent over 2024–28 assuming the bulk of new financing is provided on concessional terms[9]. After 2028, we assume new disbursements become less concessional, bringing back the grant element to about 25 percent over 2028–39. The other financing assumptions are largely unchanged compared to previous DSAs.

**Text Table 4. Comparison of Assumptions Between the Current and the 2015 DSA**

(Percent of GDP, unless otherwise indicated)

| | 2019 | 2020 | 2021 | 2027 | 2035 |
|---|---|---|---|---|---|
| | | | **New Loan Disbursements (billions FCFA)** | | |
| 2019DSA | 484 | 525 | 360 | 118 | 147 |
| 2015DSA | 182 | 183 | 202 | 201 | 250 |
| | | | **Grant Element of New External Borrowing (in percentage points)** | | |
| 2019DSA | 30.3 | 28.9 | 33.0 | 41.4 | 25.4 |
| 2015DSA | 48.2 | 48.2 | 48.2 | 48.2 | 28.1 |
| | | | **Primary balance (percent of GDP)** | | |
| 2019DSA | 9.3 | 9.2 | 9.0 | 5.6 | 2.6 |
| 2015DSA | 1.7 | 1.0 | 2.4 | 1.0 | 1.9 |
| | | | **Real GDP growth (percent)** | | |
| 2019DSA | 5.4 | 1.6 | 1.9 | 1.9 | 3.4 |
| 2015DSA | -1.6 | 0.3 | 2.5 | 3.1 | 0.0 |
| | | | **Current Account Balance (percent of the GDP)** | | |
| 2019DSA | 5.6 | 5.1 | 1.6 | -5.4 | -14.9 |
| 2015DSA | -2.8 | -0.9 | -0.4 | 3.5 | 7.3 |
| | | | **Oil prices (US dollars per barrel)** | | |
| 2019DSA | 59.2 | 59.0 | 58.1 | 62.4 | 73.1 |
| 2015DSA | 71.0 | 71.5 | 72.9 | 82.1 | 96.2 |

Sources: Congolese authorities; IMF and WB staff calculations and projections.

**7. Realism tools point out some risks around the forecast.** The fiscal adjustment-growth realism tool suggests that the growth path could be optimistic given the projected consolidation. Staff assess the projected growth to be realistic since it is essentially driven by developments in the oil sector. The recovery projected over the coming years under the baseline also factors in the expected increase in confidence if Congo's program request is approved in 2019, and a stronger

[9] China has historically provided the bulk of Congo's external financing. This financing has also been highly concessional (48 percent grant element). The increase in grant element after the program period reflects our assumption that China would remain the main creditor.

policy framework associated with an improved fiscal position (through adjustment and debt restructuring) and the positive impact of the repayment of domestic arrears on the private sector.

**Box 1. Main Macroeconomic Assumptions**

- **Non-oil sector:** Non-oil growth is projected to gradually improve from -5.5 percent in 2018 to 4.1 percent in 2023 as the impact of fiscal adjustment dissipates, investment recovers and the implementation of structural reforms bears fruit. Beyond 2023, non-oil growth is projected to average 4.4 percent, which is similar to the historical average of 4.3 percent over 2008–17, with growth driven by agriculture, forestry, commerce and the transport/communication sectors.
- **Oil production and prices:** Annual oil production is projected to peak at about 140 million barrels in 2019–20 with the ramp-up in production from new offshore fields (Moho Nord and Banga Kayo). Based on official projections, production would steadily decline over 2020–38, to about 53 million barrels in 2039 in the absence of new oil discoveries. International oil prices remain significantly below their 2013 peak levels but are projected to gradually recover over the medium term from their current levels to about $79 per barrel by 2039.
- **Inflation:** Annual average inflation is expected to increase gradually from 1.2 percent in 2018 to 3 percent in 2024 and to remain close to 3 percent over the long term, consistent with the CEMAC's convergence criteria of a 3 percent ceiling.
- **Current account balance:** In line with assumed fiscal consolidation and increased oil-production, the current account is projected to remain in surplus over 2019–21, and to gradually turn back to an average deficit of about 1.5 percent over 2022–24 along with the decreasing oil production and the pick-up in imports associated with the recovery in the non-oil sector. The current account deficit is projected to reach an average deficit of 11 percent over 2025–39, reflecting the projected decline in oil production, which is only partially offset by growth in non-oil exports.
- **Primary balance:** The baseline assumes fiscal adjustment to address the current macroeconomic imbalances. The primary balance is projected to remain in surplus from 2019 onwards thanks to improvements in revenues and containment of spending.

## C. Country Classification and Determination of Stress Test Scenarios

**8. The newly-introduced composite index (CI) based on the April 2019 World Economic Outlook (WEO) data indicates weak debt carrying capacity for Congo.** In the previous DSA framework, which only considered the CPIA rating, also indicated a weak debt carrying capacity for Congo. The new methodology relies instead on a composite indicator (CI) combining the CPIA score, external conditions as captured by world economic growth and country-specific factors. The April

2019 data indicate weak debt carrying capacity, reflecting mainly a low CPIA and a low level of foreign reserves (Text Table 5).

**9. Congo should consider commodity price and market financing shocks.** Since oil exports represent more than 90 percent of Congo's exports, the commodity price tailored stress test is triggered. Similarly, as a holder of a Eurobond (issued in the context HIPC debt restructuring), the market financing module is also activated.

**Text Table 5. Republic of Congo: Composite Indicator Score**

| Components | Coefficients (A) | 10-year average values (B) | CI Score components (A*B) = (C) | Contribution of components |
|---|---|---|---|---|
| CPIA | 0.385 | 2.840 | 1.09 | 44% |
| Real growth rate (in percent) | 2.719 | 1.439 | 0.04 | 2% |
| Import coverage of reserves (in percent) | 4.052 | 32.207 | 1.31 | 52% |
| Import coverage of reserves^2 (in percent) | -3.990 | 10.373 | -0.41 | -17% |
| Remittances (in percent) | 2.022 | 0.000 | 0.00 | 0% |
| World economic growth (in percent) | 13.520 | 3.559 | 0.48 | 19% |
| CI Score | | | 2.51 | 100% |
| CI rating | | | Weak | |

Source: IMF staff calculations. The CI cutoff for medium debt carrying capacity is 2.69.

# DEBT SUSTAINABILITY ANALYSIS

## D. External Debt Sustainability Analysis

**10. Under the baseline, there are protracted breaches of the PV of debt-to-GDP ratio and the debt service-to-revenue ratio vis-à-vis Congo's indicative threshold** (Figure 1). Reflecting recent increases in public external debt and projected oil production and prices going forward, the present value of debt-to-GDP is projected to remain above the PV of debt-to-GDP threshold of 30 percent. Given lower oil revenues, the gross debt service-to-revenue ratio has also deteriorated markedly since the last assessment, with this indicator now also above the indicative threshold of 14 percent in the medium term. Relative to a DSA not incorporating the April 2019 restructuring deal with China, the deal reduced the debt service-to-revenue ratio to levels below its threshold one year earlier (in 2023 instead of 2024) and maintained it below the threshold with a reasonable margin after 2023. There are marginal breaches of the debt service-to-exports indicator over 2019-20. The evolution of the debt service-to-exports ratio has also improved following the restructuring deal. While these indicators would gradually decline provided fiscal adjustment is undertaken as projected, commercial debt restructuring will still be needed to bring debt to

sustainable levels by 2023, in line with the program. The market financing risk module also indicates a moderate risk of heightened liquidity pressures.

**11. All indicators of external public debt breach their indicative thresholds by substantial margins in stress test scenarios** (Figure 1). Standard bound tests examine the implications of various shocks to the debt and debt-service paths based on the historical volatility of the country's economic indicators. These result in sharp increases in the debt burden indicators in all cases. The exports shock stress test is the most extreme for all indicators, reflecting the Republic of Congo's high dependence on oil exports. A decline in exports to a level equivalent to one standard deviation below their historical average in the second and third years of the projection period would cause the present value (PV) of debt-to-exports ratio to rise above 310 percent at its peak. The decline in exports also results in a significant increase in the debt service-to-exports ratio beyond the threshold. Given the small size of the outstanding Eurobond (less than 3 percent of GDP), market-financing risks are low (Figure 5).

**12. Reflecting the build-up of considerable new external arrears, together with protracted breaches of thresholds for the PV of the debt-to-GDP and debt service-to-revenue ratios under the baseline, the Republic of Congo is classified "in debt distress".** This result is further supported by the breaches of thresholds of all other debt indicators in the stress scenarios. The re-classification is appropriate, since breaches occur in the very beginning of the projection horizon and remain over the medium term despite assumed strong fiscal adjustment going forward. Table 5 highlights the deterioration in the baseline scenario outcomes for the current DSA compared to the 2015 DSA.

### Text Table 6. Comparison of PPG Gross External Debt Indicators, Baseline Scenario

| | 2019 | 2020 | 2021 | 2027 | 2035 |
|---|---|---|---|---|---|
| | | | **PV of Debt-to-GDP Ratio** | | |
| 2019DSA | 51.6 | 48.4 | 46.2 | 36.2 | 22.7 |
| 2015DSA | 26.2 | 26.5 | 25.8 | 26.2 | 26.4 |
| | | | **PV of Debt-to-Exports Ratio** | | |
| 2019DSA | 62.2 | 59.6 | 58.7 | 61.0 | 60.4 |
| 2015DSA | 35.2 | 36.8 | 37.6 | 43.9 | 53.3 |
| | | | **Debt Service-to-Exports Ratio** | | |
| 2019DSA | 13.9 | 12.5 | 9.3 | 6.6 | 5.4 |
| 2015DSA | 4.8 | 4.4 | 4.6 | 3.0 | 3.8 |
| | | | **Debt Service-to-Revenue Ratio** | | |
| 2019DSA | 37.4 | 32.0 | 22.8 | 10.7 | 5.1 |
| 2015DSA | 9.3 | 8.5 | 8.7 | 5.0 | 6.3 |

### E. Public Debt Sustainability Analysis

**13. An analysis of the Republic of Congo's overall public debt highlights heightened overall debt vulnerabilities** (Figure 2). Under the baseline scenario, the present value of public and publicly guaranteed debt-to-GDP (including domestic arrears and direct financing from the BEAC) is significantly above the 35 percent benchmark level associated with heightened public debt vulnerabilities with a weak debt carrying capacity. The benchmark is breached from 2018 until 2030 under the baseline scenario. This assessment is further supported by stress-tests. The primary balance shock stress test is the most extreme for two indicators based on the present value of public debt, highlighting the need for strong fiscal adjustment over the medium term. Consistent with Congo's dependence on oil receipts, the most extreme shock for the debt service-to-revenue ratio is the newly introduced commodity price shock. Finally, the accumulation of new domestic arrears also indicates that the risk of debt distress has materialized.

## CONCLUSION

**14. The accumulation of arrears and the breach of the thresholds for external debt and debt service under the baseline and in all the stress tests lead to a classification of Congo's external debt as "in debt distress"**. The accumulation of domestic arrears also confirms the overall rating as being "in debt distress". This represents a rapid deterioration of debt sustainability, from its low risk classification in the 2014 DSA, and a moderate risk assessment in the 2015 DSA.
The protracted breaches of the present value of public debt-to-GDP ratios and the accumulation of domestic arrears also support an overall risk of debt distress rating. The deterioration reflects the continued impact of the oil shock which has been exacerbated by the absence of sufficient fiscal adjustment until 2017, as well as an excessive and non-transparent borrowing policy. It is important for the government to anchor macroeconomic policies by a stability oriented medium-term fiscal framework that targets substantial primary surpluses and a reduction in the non-oil primary fiscal deficit. In addition, a cautious policy for new borrowing to avoid a further deterioration of debt indicators is also needed. Finally, the authorities should not contract new non-concessional loans before the sustainability of public finances has been unequivocally restored, or while Congo's is still in debt distress or at high risk of debt distress.

**15. Over the medium term, improving competitiveness and promoting economic diversification are key to increase resilience to exogenous shocks.** Reflecting its high dependence on oil, the Republic of Congo's debt ratios appear to be most sensitive to swings in oil exports. Given the high concentration and vulnerability of the economy to downward movements in oil prices, broadening the economic base by enhancing the development of the non-oil sector would reduce the volatility of exports and would strengthen the debt service capacity of the Congolese economy. In this regard, efforts to improve the business climate with assistance from the World Bank should help strengthen competitiveness and boost growth. In the same vein, in addressing Congo's weak physical and human capital, priority should be given to making electricity supply more reliable

and competitive, enhancing the quality of transportation, and expanding vocational training to increase labor productivity.

**16. There is also an urgent need to strengthen public debt and asset management. Capacity development is needed to improve the efficiency of institutions that handle fiscal and debt policies.** The recent IMF public debt management technical report highlighted the need to: (i) strengthen the legal and institutional framework to cover the entire process of issuing and managing debt by the re-dynamization of the National Committee for Public Debt (NCPD) and clarification of its attributions; (ii) develop a medium-term debt management strategy and enhance transparency in debt management; (iii) introduce a formal framework for managing the government's cash flows; and (iv) strengthen the staff analytical capabilities with respect to managing the public debt. In addition, there is an urgent need to strengthen debt recording and monitoring capacity, better track all potential liabilities of the government, such as through the collection of data on major SOEs, contingent liabilities and publicly guaranteed debt which are currently not covered in the official debt statistics and the DSA. In line with the recommendations from MCM TA missions, the authorities should move forward with developing a debt management strategy, append it to the budget law, and strengthen the government's cash flow management.

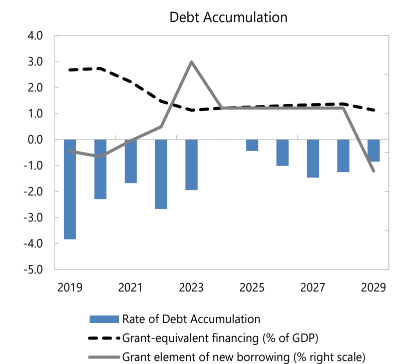
**17. The authorities concurred with staff’s assessment that Congo is in debt distress and its debt is unsustainable.** They acknowledged the importance of enhanced debt management and the need to monitor debt developments more closely. As a result, in addition to fiscal consolidation efforts, the authorities are pursuing their strategy to restructure Congo’s public debt, and implement technical assistance recommendations to improve debt management.

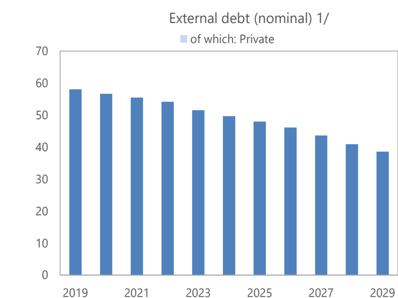
# Table 1. Republic of Congo: External Debt Sustainability Framework, Baseline Scenario, 2016–39

(Percent of GDP, unless otherwise indicated)

| | Actual | | | Projections | | | | | | | | Average 8/ | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2029 | 2039 | Historical | Projections |
| **External debt (nominal) 1/** | 91.4 | 80.0 | 61.3 | 58.1 | 56.6 | 55.5 | 54.2 | 51.5 | 49.7 | 38.6 | 20.2 | 50.8 | 49.3 |
| ***of which: public and publicly guaranteed (PPG)*** | 91.4 | 80.0 | 61.3 | 58.1 | 56.6 | 55.5 | 54.2 | 51.5 | 49.7 | 38.6 | 20.2 | 50.8 | 49.3 |
| | | | | | | | | | | | | | |
| Change in external debt | 9.3 | -11.4 | -18.7 | -3.2 | -1.4 | -1.2 | -1.3 | -2.6 | -1.9 | -2.3 | -1.4 | | |
| **Identified net debt-creating flows** | 34.0 | -9.5 | -28.4 | -13.0 | -10.2 | -6.8 | -3.3 | -3.7 | -3.9 | 5.0 | 10.0 | -5.4 | -3.5 |
| **Non-interest current account deficit** | 61.1 | 4.3 | -8.6 | -7.0 | -6.4 | -2.8 | 0.3 | 1.0 | 0.7 | 9.3 | 16.0 | 6.9 | 0.8 |
| Deficit in balance of goods and services | 51.9 | -6.9 | -22.2 | -20.4 | -18.8 | -15.6 | -11.5 | -10.4 | -10.6 | 0.2 | 9.4 | 0.0 | -10.3 |
| Exports | 59.1 | 73.3 | 83.3 | 83.0 | 81.2 | 78.8 | 75.3 | 73.2 | 70.7 | 51.9 | 30.9 | | |
| Imports | 110.9 | 66.4 | 61.1 | 62.7 | 62.4 | 63.2 | 63.8 | 62.8 | 60.1 | 52.1 | 40.3 | | |
| Net current transfers (negative = inflow) | 6.6 | 5.0 | 4.0 | 3.8 | 3.8 | 3.9 | 4.1 | 4.2 | 4.3 | 4.7 | 4.0 | 1.4 | 4.2 |
| *of which: official* | -0.2 | -0.5 | -0.1 | -0.4 | -0.4 | -0.4 | -0.5 | -0.5 | -0.5 | -0.7 | -0.8 | | |
| Other current account flows (negative = net inflow) | 2.6 | 6.2 | 9.7 | 9.6 | 8.7 | 8.9 | 7.8 | 7.2 | 7.1 | 4.5 | 2.6 | 5.5 | 6.9 |
| **Net FDI (negative = inflow)** | -37.6 | -3.7 | -2.9 | -4.1 | -4.2 | -4.1 | -4.7 | -4.9 | -4.3 | -3.8 | -5.6 | -12.5 | -4.1 |
| **Endogenous debt dynamics 2/** | 10.5 | -10.1 | -16.8 | -1.9 | 0.4 | 0.1 | 1.0 | 0.1 | -0.4 | -0.5 | -0.4 | | |
| Contribution from nominal interest rate | 2.4 | 1.6 | 1.9 | 1.4 | 1.2 | 1.1 | 1.0 | 0.8 | 0.7 | 0.5 | 0.3 | | |
| Contribution from real GDP growth | 2.6 | 1.4 | -1.0 | -3.4 | -0.9 | -1.1 | 0.0 | -0.7 | -1.1 | -0.9 | -0.7 | | |
| Contribution from price and exchange rate changes | 5.5 | -13.1 | -17.8 | ... | ... | ... | ... | ... | ... | ... | ... | | |
| **Residual 3/** | -24.7 | -1.8 | 9.6 | 9.7 | 8.8 | 5.7 | 2.0 | 1.1 | 2.1 | -7.4 | -11.4 | 4.6 | 1.4 |
| *of which: exceptional financing* | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | |
| | | | | | | | | | | | | | |
| **Sustainability indicators** | | | | | | | | | | | | | |
| **PV of PPG external debt-to-GDP ratio** | ... | ... | 54.2 | 51.6 | 48.4 | 46.2 | 44.5 | 42.3 | 41.0 | 32.1 | 17.9 | | |
| **PV of PPG external debt-to-exports ratio** | ... | ... | 65.0 | 62.2 | 59.6 | 58.7 | 59.1 | 57.8 | 58.0 | 61.9 | 57.9 | | |
| **PPG debt service-to-exports ratio** | 13.1 | 8.9 | 8.6 | 13.9 | 12.5 | 9.3 | 8.4 | 5.8 | 3.7 | 6.5 | 5.9 | | |
| **PPG debt service-to-revenue ratio** | 23.4 | 24.0 | 24.6 | 37.4 | 32.0 | 22.8 | 18.9 | 12.5 | 7.6 | 8.9 | 4.4 | | |
| Gross external financing need (Million of U.S. dollars) | 2433.1 | 637.2 | -508.3 | 57.3 | -46.1 | 52.0 | 234.0 | 47.5 | -105.8 | 1182.0 | 2728.5 | | |
| | | | | | | | | | | | | | |
| **Key macroeconomic assumptions** | | | | | | | | | | | | | |
| Real GDP growth (in percent) | -2.8 | -1.8 | 1.6 | 5.4 | 1.6 | 1.9 | 0.1 | 1.3 | 2.3 | 2.4 | 3.3 | 3.4 | 2.0 |
| GDP deflator in US dollar terms (change in percent) | -6.3 | 16.8 | 28.5 | -7.4 | 0.3 | -0.8 | -2.1 | -0.7 | 0.9 | 0.4 | 2.4 | 0.3 | -0.8 |
| Effective interest rate (percent) 4/ | 2.6 | 2.0 | 3.1 | 2.3 | 2.2 | 2.0 | 1.8 | 1.5 | 1.4 | 1.2 | 1.2 | 1.4 | 1.6 |
| Growth of exports of G&S (US dollar terms, in percent) | -9.5 | 42.3 | 48.5 | -2.7 | -0.4 | -2.0 | -6.5 | -2.3 | -0.3 | -4.3 | 0.7 | 6.4 | -3.1 |
| Growth of imports of G&S (US dollar terms, in percent) | -9.1 | -31.4 | 20.2 | 0.1 | 1.4 | 2.3 | -1.1 | -1.1 | -1.3 | 1.4 | 2.5 | 3.1 | -0.3 |
| Grant element of new public sector borrowing (in percent) | ... | ... | ... | 30.3 | 28.9 | 33.0 | 36.6 | 53.2 | 41.4 | 25.3 | 25.6 | ... | 37.7 |
| Government revenues (excluding grants, in percent of GDP) | 33.2 | 27.3 | 29.1 | 30.9 | 31.7 | 32.3 | 33.7 | 34.1 | 34.5 | 38.0 | 41.4 | 38.5 | 34.6 |
| Aid flows (in Million of US dollars) 5/ | 247.6 | 205.1 | 312.9 | 318.3 | 321.5 | 306.8 | 201.5 | 209.0 | 216.5 | 92.9 | 178.6 | | |
| Grant-equivalent financing (in percent of GDP) 6/ | ... | ... | ... | 2.7 | 2.7 | 2.2 | 1.5 | 1.1 | 1.2 | 1.1 | 1.1 | ... | 1.6 |
| Grant-equivalent financing (in percent of external financing) 6/ | ... | ... | ... | 34.1 | 32.5 | 37.8 | 47.4 | 69.6 | 55.9 | 47.1 | 54.0 | ... | 50.3 |
| Nominal GDP (Million of US dollars) | 7,787 | 8,932 | 11,664 | 11,382 | 11,592 | 11,715 | 11,472 | 11,532 | 11,902 | 13,269 | 22,292 | | |
| Nominal dollar GDP growth | -9.0 | 14.7 | 30.6 | -2.4 | 1.8 | 1.1 | -2.1 | 0.5 | 3.2 | 2.8 | 5.7 | 3.6 | 1.2 |
| | | | | | | | | | | | | | |
| **Memorandum items:** | | | | | | | | | | | | | |
| PV of external debt 7/ | ... | ... | 54.2 | 51.6 | 48.4 | 46.2 | 44.5 | 42.3 | 41.0 | 32.1 | 17.9 | | |
| In percent of exports | ... | ... | 65.0 | 62.2 | 59.6 | 58.7 | 59.1 | 57.8 | 58.0 | 61.9 | 57.9 | | |
| Total external debt service-to-exports ratio | 13.1 | 8.9 | 8.6 | 13.9 | 12.5 | 9.3 | 8.4 | 5.8 | 3.7 | 6.5 | 5.9 | | |
| PV of PPG external debt (in Million of US dollars) | | | 6321.1 | 5873.6 | 5612.8 | 5417.9 | 5105.1 | 4881.9 | 4882.4 | 4259.7 | 3984.9 | | |
| (PVt-PVt-1)/GDPt-1 (in percent) | | | | -3.8 | -2.3 | -1.7 | -2.7 | -1.9 | 0.0 | -0.9 | -0.2 | | |
| Non-interest current account deficit that stabilizes debt ratio | 51.9 | 15.7 | 10.1 | -3.7 | -5.0 | -1.6 | 1.7 | 3.7 | 2.6 | 11.6 | 17.4 | | |

| Definition of external/domestic debt | Currency-based |
|---|---|
| Is there a material difference between the two criteria? | Yes |




Sources: Country authorities; and staff estimates and projections.

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

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

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

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

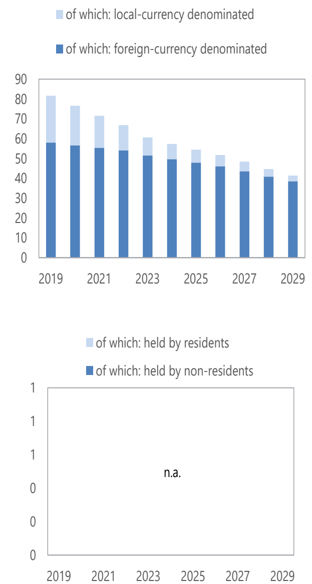
8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

## Table 2. Republic of Congo: Public Sector Debt Sustainability Framework, Baseline Scenario, 2016–39

| | Actual | | | Projections | | | | | | | | Average 6/ | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2029 | 2039 | Historical | Projections |
| **Public sector debt 1/** | 118.6 | 117.5 | 87.8 | 81.7 | 76.6 | 71.6 | 66.8 | 60.7 | 57.3 | 41.4 | 20.6 | 73.2 | 59.6 |
| **of which: external debt** | 91.4 | 80.0 | 61.3 | 58.1 | 56.6 | 55.5 | 54.2 | 51.5 | 49.7 | 38.6 | 20.2 | 50.8 | 49.3 |
| | | | | | | | | | | | | | |
| Change in public sector debt | 15.6 | -1.1 | -29.7 | -6.2 | -5.1 | -5.0 | -4.8 | -6.1 | -3.4 | -3.3 | -1.5 | | |
| **Identified debt-creating flows** | 34.3 | -13.9 | -27.3 | -9.1 | -8.8 | -8.6 | -6.1 | -7.6 | -8.9 | -5.0 | -2.7 | -0.5 | -7.2 |
| **Primary deficit** | 17.8 | 5.2 | -8.9 | -9.3 | -9.2 | -9.0 | -9.1 | -8.3 | -8.0 | -4.5 | -2.1 | 0.4 | -7.5 |
| Revenue and grants | 34.1 | 27.9 | 29.2 | 31.4 | 32.1 | 32.7 | 34.2 | 34.7 | 35.1 | 38.7 | 42.2 | 38.9 | 35.1 |
| *of which: grants* | 0.9 | 0.6 | 0.1 | 0.4 | 0.4 | 0.4 | 0.5 | 0.6 | 0.5 | 0.7 | 0.8 | | |
| Primary (noninterest) expenditure | 51.8 | 33.1 | 20.3 | 22.0 | 22.9 | 23.7 | 25.1 | 26.4 | 27.1 | 34.2 | 40.1 | 39.3 | 27.7 |
| **Automatic debt dynamics** | 15.5 | -19.9 | -18.5 | 0.4 | 0.5 | 0.7 | 3.0 | 0.7 | -0.9 | -0.5 | -0.6 | | |
| Contribution from interest rate/growth differential | 6.0 | -0.6 | -7.8 | -2.7 | -0.7 | -1.1 | 0.4 | -0.9 | -1.5 | -1.1 | -0.5 | | |
| *of which: contribution from average real interest rate* | 3.0 | -2.8 | -5.9 | 1.8 | 0.6 | 0.4 | 0.4 | 0.0 | -0.1 | -0.1 | 0.2 | | |
| *of which: contribution from real GDP growth* | 3.0 | 2.1 | -1.8 | -4.5 | -1.3 | -1.4 | 0.0 | -0.8 | -1.3 | -1.0 | -0.7 | | |
| Contribution from real exchange rate depreciation | 9.5 | -19.3 | -10.7 | ... | ... | ... | ... | ... | ... | ... | ... | | |
| **Other identified debt-creating flows** | 1.1 | 0.8 | 0.0 | -0.1 | -0.2 | -0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.9 | -0.1 |
| Privatization receipts (negative) | 1.1 | 0.8 | 0.0 | -0.1 | -0.2 | -0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | |
| Recognition of contingent liabilities (e.g., bank recapitalization) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | |
| Debt relief (HIPC and other) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | |
| Other debt creating or reducing flow (please specify) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | |
| **Residual** | -18.6 | 12.8 | -2.3 | 6.0 | 5.0 | 5.4 | 4.0 | 3.0 | 6.1 | 2.3 | 1.1 | 1.4 | 4.4 |
| | | | | | | | | | | | | | |
| **Sustainability indicators** | | | | | | | | | | | | | |
| **PV of public debt-to-GDP ratio 2/** | ... | ... | 82.8 | 74.9 | 68.2 | 62.2 | 57.1 | 51.4 | 48.6 | 34.8 | 18.2 | | |
| **PV of public debt-to-revenue and grants ratio** | ... | ... | 284.0 | 238.9 | 212.7 | 190.4 | 167.0 | 148.2 | 138.4 | 90.0 | 43.1 | | |
| **Debt service-to-revenue and grants ratio 3/** | 28.6 | 26.4 | 30.5 | 48.6 | 46.4 | 38.8 | 35.5 | 27.7 | 16.4 | 16.6 | 8.7 | | |
| Gross financing need 4/ | 28.5 | 13.4 | 0.0 | 5.8 | 5.5 | 3.4 | 3.0 | 1.3 | -2.2 | 1.9 | 1.6 | | |
| | | | | | | | | | | | | | |
| **Key macroeconomic and fiscal assumptions** | | | | | | | | | | | | | |
| Real GDP growth (in percent) | -2.8 | -1.8 | 1.6 | 5.4 | 1.6 | 1.9 | 0.1 | 1.3 | 2.3 | 2.4 | 3.3 | 3.4 | 2.0 |
| Average nominal interest rate on external debt (in percent) | 2.7 | 2.1 | 3.0 | 2.4 | 2.2 | 2.0 | 1.8 | 1.5 | 1.4 | 1.2 | 1.2 | 1.4 | 1.6 |
| Average real interest rate on domestic debt (in percent) | 7.7 | -10.6 | -17.6 | 5.8 | 2.1 | 2.8 | 4.4 | 3.0 | 1.7 | 6.7 | 81.9 | 2.0 | 3.9 |
| Real exchange rate depreciation (in percent, + indicates depreciation) | 11.0 | -20.7 | -13.5 | ... | ... | ... | ... | ... | ... | ... | ... | 5.2 | ... |
| Inflation rate (GDP deflator, in percent) | -6.1 | 14.4 | 22.9 | -4.3 | -0.8 | -1.4 | -2.8 | -1.0 | 0.8 | 0.4 | 2.4 | 1.6 | -0.8 |
| Growth of real primary spending (deflated by GDP deflator, in percent) | -10.9 | -37.3 | -37.7 | 14.3 | 5.7 | 5.3 | 6.0 | 6.6 | 5.0 | 6.3 | 4.2 | 5.4 | 7.0 |
| Primary deficit that stabilizes the debt-to-GDP ratio 5/ | 2.1 | 6.3 | 20.8 | -3.2 | -4.1 | -4.0 | -4.3 | -2.2 | -4.6 | -1.2 | -0.6 | 9.7 | -3.2 |
| PV 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 | 0.0 | 0.0 | 0.0 | | |

| Definition of external/domestic debt | Currency-based |
|---|---|
| Is there a material difference between the two criteria? | Yes |

Public sector debt 1/




Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central government plus social security, central bank, government-guaranteed debt. Definition of external debt is Currency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

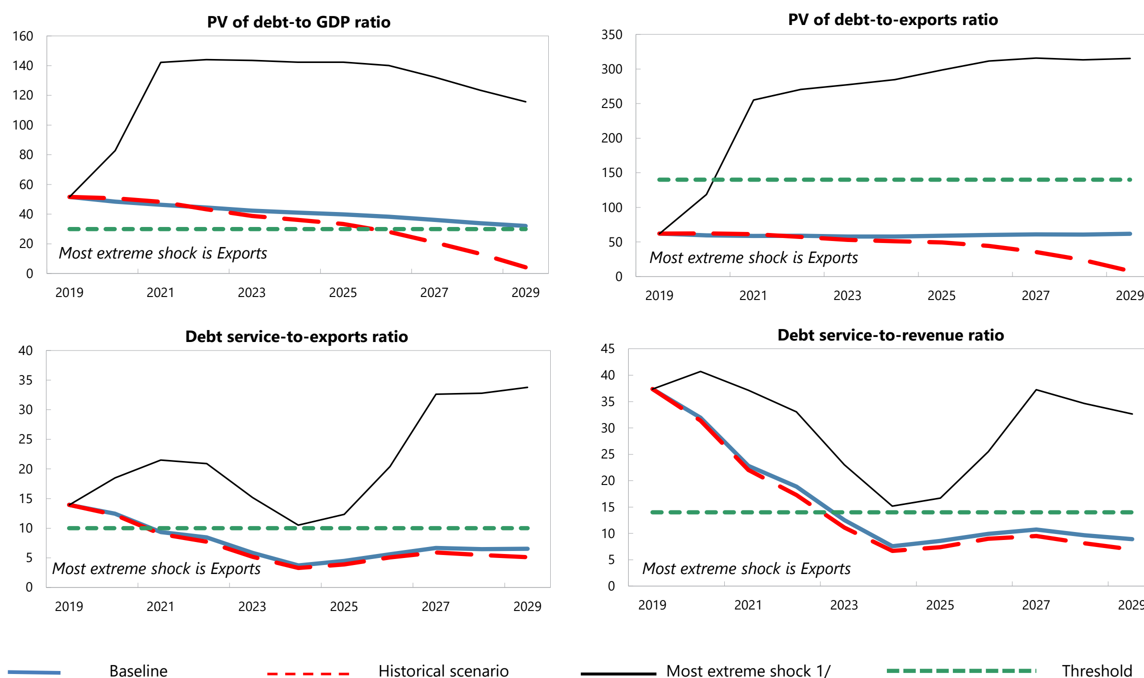
3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

4/ 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 and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

## Figure 1. Republic of Congo: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2019–29




| Customization of Default Settings | | |
|---|---|---|
| | Size | Interactions |
| **Tailored Tests** | | |
| Combined CLs | Yes | |
| Natural Disasters | n.a. | n.a. |
| Commodity Prices [2/] | No | No |
| Market Financing | No | No |

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

| Borrowing Assumptions for Stress Tests* | | |
|---|---|---|
| | Default | User defined |
| **Shares of marginal debt** | | |
| External PPG MLT debt | 100% | |
| **Terms of marginal debt** | | |
| Avg. nominal interest rate on new borrowing in USD | 1.0% | 1.0% |
| USD Discount rate | 5.0% | 5.0% |
| Avg. maturity (incl. grace period) | 21 | 21 |
| Avg. grace period | 5 | 5 |

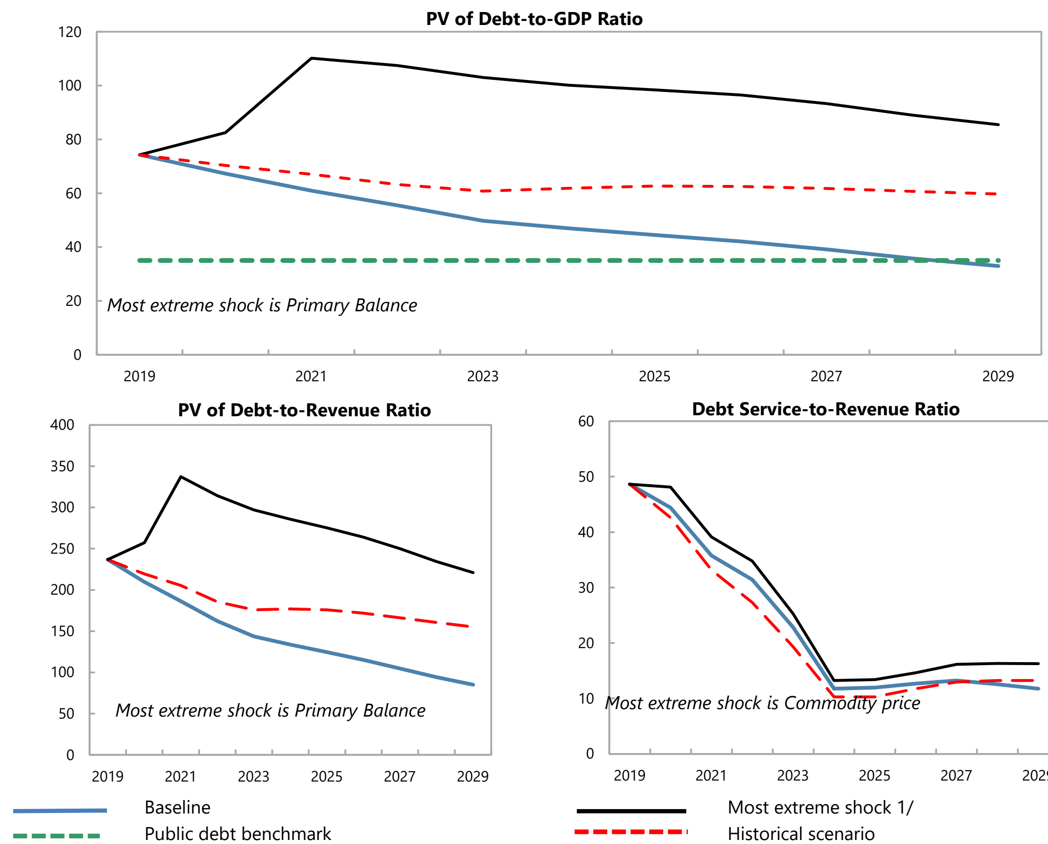
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2029. Stress tests with one-off breaches are also presented (if any), while these one-off breaches are deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

## Figure 2. Republic of Congo: Indicators of Public Debt Under Alternative Scenarios, 2019–28




| Borrowing Assumptions for Stress Tests* | Default | User defined |
|---|---|---|
| **Shares of marginal debt** | | |
| **External PPG medium and long-term** | 100% | 100% |
| **Domestic medium and long-term** | 0% | 0% |
| **Domestic short-term** | 1% | 0% |
| **Terms of marginal debt** | | |
| **External MLT debt** | | |
| **Avg. nominal interest rate on new borrowing in USD** | 1.0% | 1.0% |
| **Avg. maturity (incl. grace period)** | 21 | 21 |
| **Avg. grace period** | 5 | 5 |
| **Domestic MLT debt** | | |
| **Avg. real interest rate on new borrowing** | 0.0% | 0.0% |
| **Avg. maturity (incl. grace period)** | 1 | 1 |
| **Avg. grace period** | 0 | 0 |
| **Domestic short-term debt** | | |
| **Avg. real interest rate** | 0.8% | 0.8% |

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2029. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

## Table 3. Republic of Congo: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2019–29

(Percent)

| | Projections 1/ | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
| **PV of debt-to GDP ratio** | | | | | | | | | | | |
| **Baseline** | **52** | **48** | **46** | **45** | **42** | **41** | **40** | **38** | **36** | **34** | **32** |
| **A. Alternative Scenarios** | | | | | | | | | | | |
| A1. Key variables at their historical averages in 2019-2029 2/ | **52** | **51** | **48** | **43** | **39** | **36** | **33** | 28 | 21 | 13 | 4 |
| **B. Bound Tests** | | | | | | | | | | | |
| B1. Real GDP growth | **52** | **51** | **52** | **50** | **48** | **46** | **45** | **43** | **41** | **38** | **36** |
| B2. Primary balance | **52** | **64** | **96** | **96** | **96** | **94** | **94** | **93** | **90** | **87** | **85** |
| B3. Exports | **52** | **83** | **142** | **144** | **144** | **142** | **142** | **140** | **132** | **123** | **116** |
| B4. Other flows 3/ | **52** | **60** | **70** | **70** | **69** | **68** | **67** | **65** | **62** | **58** | **54** |
| B5. Depreciation | **52** | **61** | **59** | **57** | **54** | **52** | **51** | **49** | **46** | **43** | **41** |
| B6. Combination of B1-B5 | **52** | **73** | **79** | **79** | **77** | **76** | **75** | **73** | **69** | **64** | **61** |
| **C. Tailored Tests** | | | | | | | | | | | |
| C1. Combined contingent liabilities | **52** | **64** | **63** | **62** | **61** | **60** | **59** | **58** | **56** | **54** | **53** |
| C2. Natural disaster | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| C3. Commodity price | **52** | **52** | **55** | **54** | **53** | **53** | **52** | **51** | **49** | **46** | **43** |
| C4. Market Financing | **52** | **55** | **52** | **51** | **48** | **46** | **44** | **42** | **40** | **37** | **35** |
| **Threshold** | 30 | 30 | 30 | 30 | 30 | 30 | 30 | 30 | 30 | 30 | 30 |
| **PV of debt-to-exports ratio** | | | | | | | | | | | |
| **Baseline** | 62 | 60 | 59 | 59 | 58 | 58 | 59 | 60 | 61 | 61 | 62 |
| **A. Alternative Scenarios** | | | | | | | | | | | |
| A1. Key variables at their historical averages in 2019-2029 2/ | 62 | 62 | 61 | 57 | 53 | 51 | 49 | 44 | 35 | 24 | 8 |
| **B. Bound Tests** | | | | | | | | | | | |
| B1. Real GDP growth | 62 | 60 | 59 | 59 | 58 | 58 | 59 | 60 | 61 | 61 | 62 |
| B2. Primary balance | 62 | 78 | 121 | 128 | 131 | 133 | 139 | **146** | **153** | **156** | **163** |
| B3. Exports | 62 | 119 | **255** | **271** | **277** | **285** | **299** | **312** | **316** | **313** | **315** |
| B4. Other flows 3/ | 62 | 74 | 89 | 93 | 94 | 96 | 99 | 103 | 104 | 103 | 104 |
| B5. Depreciation | 62 | 60 | 59 | 60 | 58 | 59 | 60 | 61 | 62 | 61 | 63 |
| B6. Combination of B1-B5 | 62 | 91 | 83 | 123 | 124 | 127 | 131 | 135 | 137 | 136 | 138 |
| **C. Tailored Tests** | | | | | | | | | | | |
| C1. Combined contingent liabilities | 62 | 79 | 80 | 83 | 83 | 84 | 87 | 91 | 95 | 97 | 102 |
| C2. Natural disaster | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| C3. Commodity price | 62 | 68 | 73 | 75 | 75 | 76 | 79 | 81 | 83 | 83 | 84 |
| C4. Market Financing | 62 | 60 | 59 | 60 | 59 | 58 | 59 | 60 | 60 | 60 | 61 |
| **Threshold** | 140 | 140 | 140 | 140 | 140 | 140 | 140 | 140 | 140 | 140 | 140 |
| **Debt service-to-exports ratio** | | | | | | | | | | | |
| **Baseline** | 14 | 12 | 9 | 8 | 6 | 4 | 4 | 6 | 7 | 6 | 7 |
| **A. Alternative Scenarios** | | | | | | | | | | | |
| A1. Key variables at their historical averages in 2019-2029 2/ | 14 | 12 | 9 | 8 | 5 | 3 | 4 | 5 | 6 | 5 | 5 |
| **B. Bound Tests** | | | | | | | | | | | |
| B1. Real GDP growth | 14 | 12 | 9 | 8 | 6 | 4 | 4 | 6 | 7 | 6 | 7 |
| B2. Primary balance | 14 | 12 | 11 | 12 | 9 | 7 | 8 | 12 | 15 | 15 | 15 |
| B3. Exports | 14 | 18 | 21 | 21 | 15 | 11 | 12 | 20 | 33 | 33 | 34 |
| B4. Other flows 3/ | 14 | 12 | 10 | 9 | 6 | 4 | 5 | 8 | 11 | 11 | 11 |
| B5. Depreciation | 14 | 12 | 9 | 8 | 6 | 4 | 4 | 6 | 7 | 7 | 7 |
| B6. Combination of B1-B5 | 14 | 15 | 14 | 13 | 9 | 6 | 7 | 12 | 15 | 15 | 15 |
| **C. Tailored Tests** | | | | | | | | | | | |
| C1. Combined contingent liabilities | 14 | 12 | 10 | 9 | 6 | 4 | 5 | 6 | 7 | 7 | 7 |
| C2. Natural disaster | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| C3. Commodity price | 14 | 13 | 10 | 9 | 7 | 4 | 5 | 7 | 9 | 8 | 9 |
| C4. Market Financing | 14 | 12 | 9 | 9 | 6 | 6 | 7 | 6 | 7 | 6 | 6 |
| **Threshold** | 10 | 10 | 10 | 10 | 10 | 10 | 10 | 10 | 10 | 10 | 10 |
| **Debt service-to-revenue ratio** | | | | | | | | | | | |
| **Baseline** | **37** | **32** | **23** | **19** | 13 | 8 | 9 | 10 | 11 | 10 | 9 |
| **A. Alternative Scenarios** | | | | | | | | | | | |
| A1. Key variables at their historical averages in 2019-2029 2/ | **37** | **31** | **22** | **17** | 11 | 7 | 7 | 9 | 10 | 8 | 7 |
| **B. Bound Tests** | | | | | | | | | | | |
| B1. Real GDP growth | **37** | **34** | **26** | **21** | **14** | 9 | 10 | 11 | 12 | 11 | 10 |
| B2. Primary balance | **37** | **32** | **27** | **26** | **20** | **15** | **15** | **20** | **25** | **23** | **21** |
| B3. Exports | **37** | **41** | **37** | **33** | **23** | **15** | **17** | **25** | **37** | **35** | **33** |
| B4. Other flows 3/ | **37** | **32** | **23** | **20** | 14 | 9 | 10 | **14** | **18** | **16** | **15** |
| B5. Depreciation | **37** | **40** | **29** | **24** | **16** | 10 | 11 | 13 | 14 | 12 | 11 |
| B6. Combination of B1-B5 | **37** | **38** | **29** | **24** | **17** | 11 | 12 | **18** | **20** | **18** | **17** |
| **C. Tailored Tests** | | | | | | | | | | | |
| C1. Combined contingent liabilities | **37** | **32** | **24** | **20** | 13 | 8 | 9 | 11 | 11 | 10 | 10 |
| C2. Natural disaster | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| C3. Commodity price | **37** | **35** | **25** | **21** | **14** | 9 | 10 | 12 | 14 | 12 | 12 |
| C4. Market Financing | **37** | **32** | **23** | **19** | 13 | 12 | 13 | 10 | 11 | 9 | 8 |
| **Threshold** | 14 | 14 | 14 | 14 | 14 | 14 | 14 | 14 | 14 | 14 | 14 |

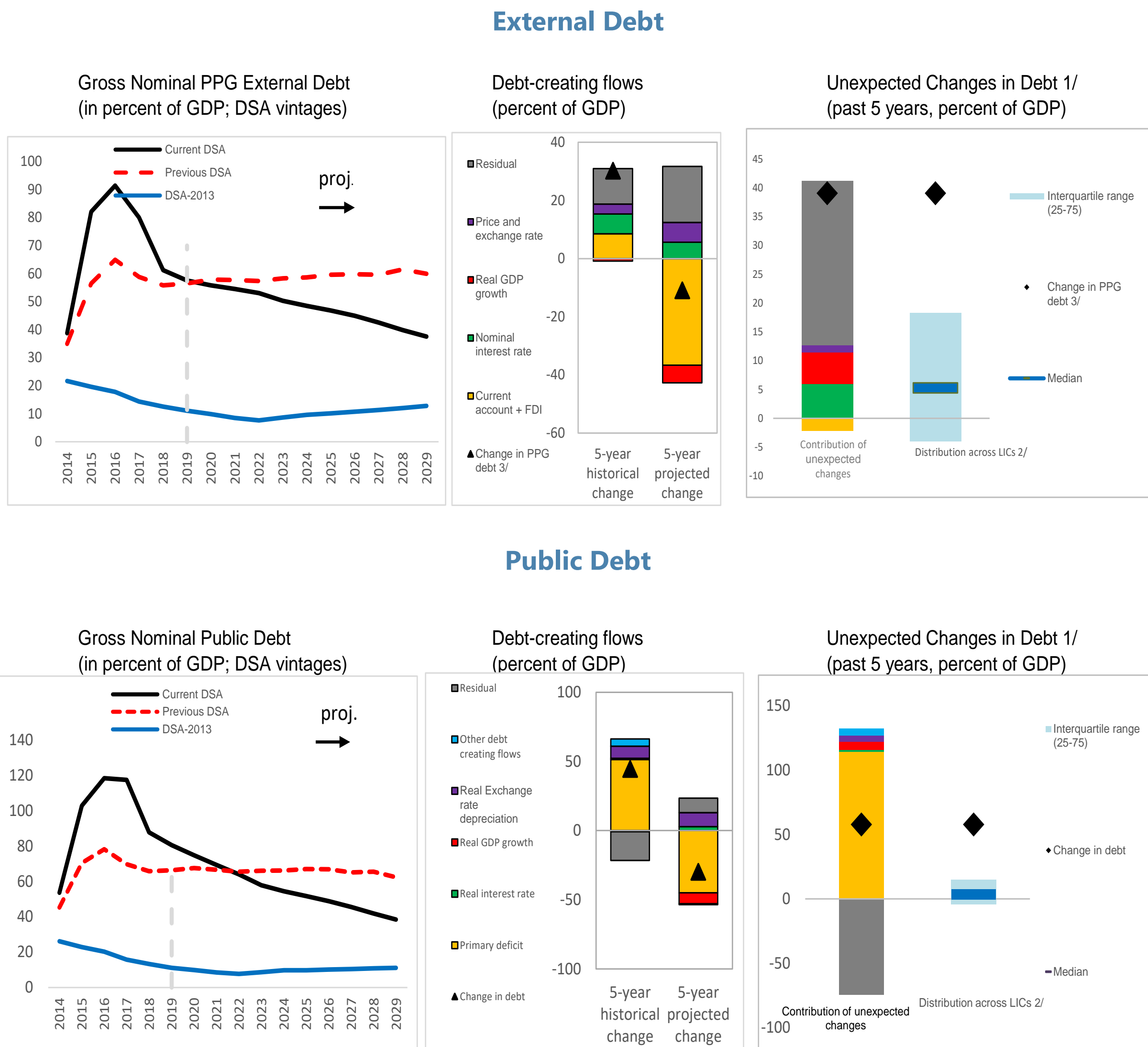
Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private transfers and FDI.

## Table 4. Republic of Congo: Sensitivity Analysis for Key Indicators of Public Debt, 2019–29

| | Projections 1/ | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
| | | | | | PV of Debt-to-GDP Ratio | | | | | | |
| **Baseline** | **74** | **67** | **61** | **56** | **50** | **47** | **45** | **42** | **39** | **36** | 33 |
| **A. Alternative Scenarios** | | | | | | | | | | | |
| A1. Key variables at their historical averages in 2019-2029 2/ | **74** | **70** | **67** | **63** | **61** | **62** | **63** | **63** | **62** | **61** | **60** |
| **B. Bound Tests** | | | | | | | | | | | |
| B1. Real GDP growth | **74** | **73** | **73** | **70** | **66** | **66** | **67** | **67** | **67** | **67** | **67** |
| B2. Primary balance | **74** | **82** | **110** | **107** | **103** | **100** | **98** | **97** | **93** | **89** | **85** |
| B3. Exports | **74** | **84** | **105** | **103** | **99** | **96** | **95** | **93** | **87** | **80** | **74** |
| B4. Other flows 3/ | **74** | **79** | **85** | **81** | **76** | **73** | **72** | **69** | **64** | **59** | **55** |
| B5. Depreciation | **74** | **80** | **71** | **64** | **57** | **53** | **48** | **44** | **39** | 34 | 29 |
| B6. Combination of B1-B5 | **74** | **76** | **82** | **79** | **75** | **73** | **72** | **71** | **69** | **67** | **65** |
| **C. Tailored Tests** | | | | | | | | | | | |
| C1. Combined contingent liabilities | **74** | **83** | **77** | **73** | **68** | **65** | **63** | **62** | **59** | **56** | **54** |
| C2. Natural disaster | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| C3. Commodity price | **74** | **70** | **68** | **67** | **65** | **66** | **67** | **67** | **67** | **67** | **67** |
| C4. Market Financing | **74** | **68** | **62** | **56** | **51** | **47** | **44** | **42** | **39** | **35** | 33 |
| **Public debt benchmark** | 35 | 35 | 35 | 35 | 35 | 35 | 35 | 35 | 35 | 35 | 35 |
| | | | | | PV of Debt-to-Revenue Ratio | | | | | | |
| **Baseline** | 237 | 210 | 186 | 162 | 144 | 134 | 124 | 115 | 105 | 94 | 85 |
| **A. Alternative Scenarios** | | | | | | | | | | | |
| A1. Key variables at their historical averages in 2019-2029 2/ | 237 | 219 | 205 | 185 | 176 | 177 | 176 | 172 | 166 | 161 | 155 |
| **B. Bound Tests** | | | | | | | | | | | |
| B1. Real GDP growth | 237 | 227 | 223 | 204 | 191 | 188 | 186 | 184 | 180 | 175 | 172 |
| B2. Primary balance | 237 | 257 | 337 | 314 | 297 | 286 | 275 | 264 | 250 | 234 | 221 |
| B3. Exports | 237 | 261 | 322 | 300 | 285 | 275 | 266 | 254 | 233 | 212 | 192 |
| B4. Other flows 3/ | 237 | 246 | 259 | 236 | 219 | 209 | 200 | 189 | 173 | 156 | 142 |
| B5. Depreciation | 237 | 250 | 218 | 188 | 165 | 150 | 136 | 121 | 105 | 89 | 75 |
| B6. Combination of B1-B5 | 237 | 237 | 252 | 232 | 216 | 208 | 201 | 194 | 185 | 175 | 167 |
| **C. Tailored Tests** | | | | | | | | | | | |
| C1. Combined contingent liabilities | 237 | 260 | 237 | 214 | 196 | 187 | 177 | 169 | 158 | 148 | 139 |
| C2. Natural disaster | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| C3. Commodity price | 237 | 235 | 222 | 208 | 197 | 193 | 189 | 184 | 180 | 175 | 172 |
| C4. Market Financing | 237 | 211 | 188 | 165 | 146 | 135 | 124 | 114 | 104 | 93 | 84 |
| | | | | | Debt Service-to-Revenue Ratio | | | | | | |
| **Baseline** | 49 | 44 | 36 | 31 | 23 | 12 | 12 | 13 | 13 | 13 | 12 |
| **A. Alternative Scenarios** | | | | | | | | | | | |
| A1. Key variables at their historical averages in 2019-2029 2/ | 49 | 43 | 33 | 27 | 19 | 10 | 10 | 12 | 13 | 13 | 13 |
| **B. Bound Tests** | | | | | | | | | | | |
| B1. Real GDP growth | 49 | 47 | 40 | 36 | 26 | 14 | 14 | 15 | 17 | 17 | 16 |
| B2. Primary balance | 49 | 44 | 39 | 39 | 30 | 19 | 19 | 23 | 27 | 26 | 25 |
| B3. Exports | 49 | 44 | 37 | 34 | 25 | 14 | 14 | 19 | 26 | 25 | 23 |
| B4. Other flows 3/ | 49 | 44 | 36 | 33 | 24 | 13 | 13 | 17 | 20 | 19 | 18 |
| B5. Depreciation | 49 | 47 | 42 | 36 | 26 | 14 | 14 | 15 | 16 | 15 | 14 |
| B6. Combination of B1-B5 | 49 | 43 | 39 | 36 | 27 | 16 | 16 | 17 | 17 | 16 | 15 |
| **C. Tailored Tests** | | | | | | | | | | | |
| C1. Combined contingent liabilities | 49 | 44 | 37 | 32 | 24 | 13 | 13 | 13 | 14 | 13 | 12 |
| C2. Natural disaster | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| C3. Commodity price | 49 | 48 | 39 | 35 | 25 | 13 | 13 | 15 | 16 | 16 | 16 |
| C4. Market Financing | 49 | 44 | 36 | 32 | 23 | 16 | 16 | 13 | 13 | 12 | 11 |

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the benchmark.
2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.
3/ Includes official and private transfers and FDI.

## Figure 3. Republic of Congo: Drivers of Debt Dynamics—Baseline Scenario




Sources: Congolese authorities and IMF staff projections.

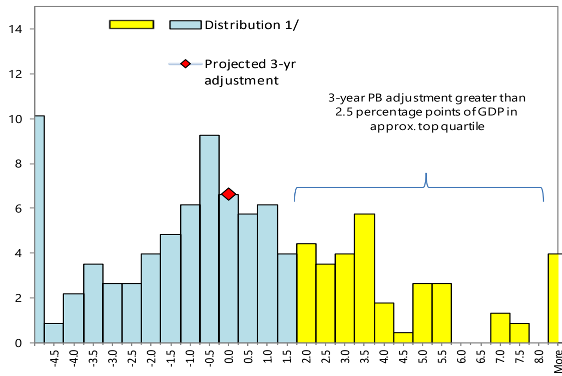
1/ Difference between anticipated and actual contributions on debt ratios.

2/ Distribution across LICs for which LIC DSAs were produced.

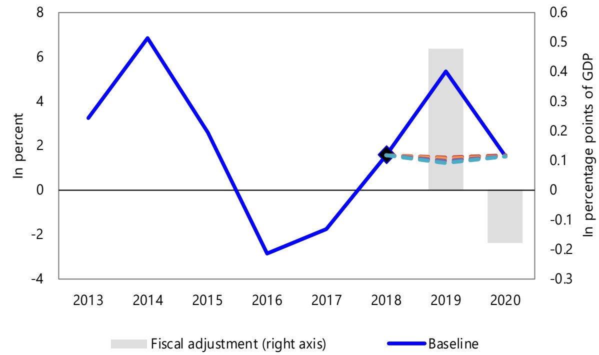
3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

## Figure 4. Republic of Congo: Realism Tools

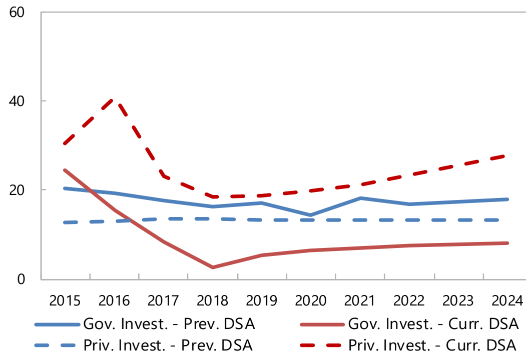
### 3-Year Adjustment in Primary Balance
(Percentage points of GDP)



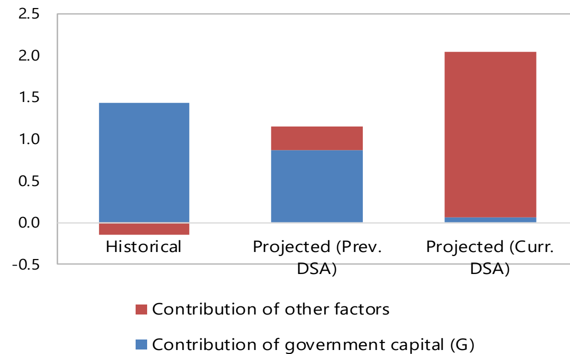

### Fiscal Adjustment and Possible Growth Path




### Public and Private Investment Rates
(Percent of GDP)




### Contribution to Real GDP growth
(Percent, 5-year average)



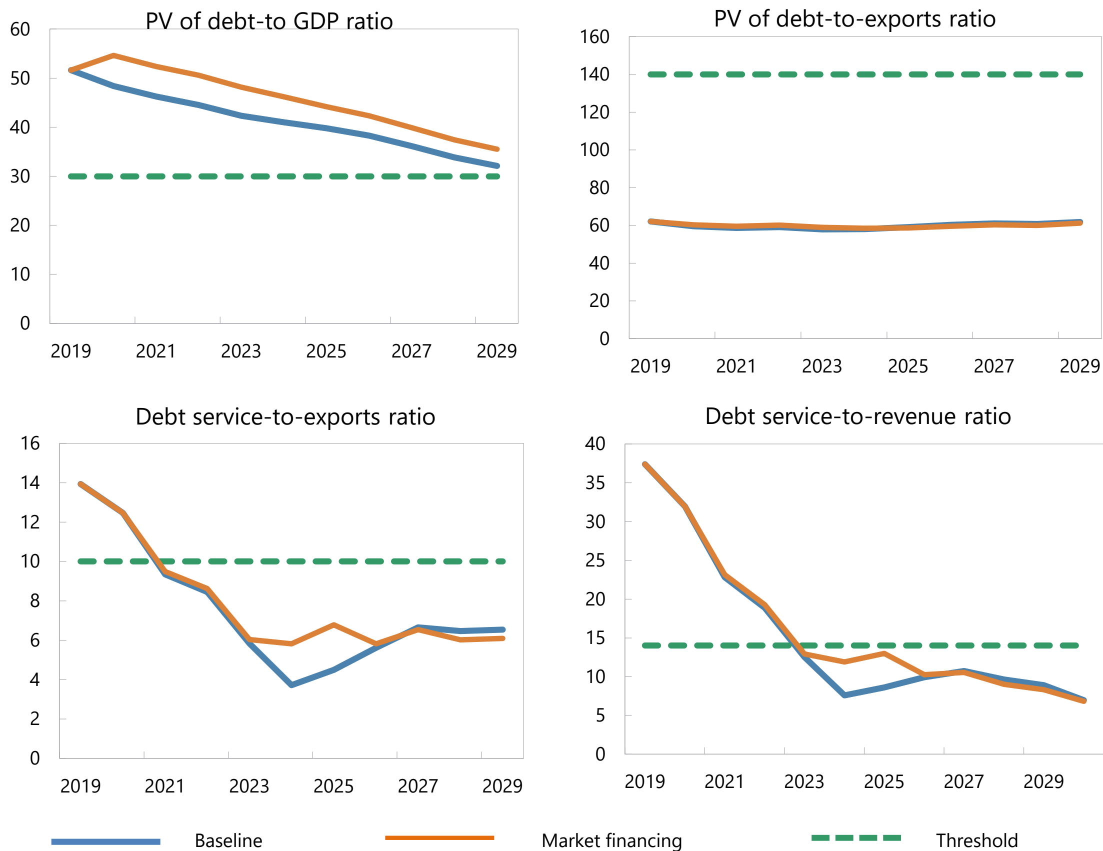

Sources: Congolese authorities and IMF staff estimates.

1/ Data cover Fund-supported programs for LICS (excluding emergency financing) approved since 1990. The size of 3-year adjustment for program inception is found on the horizontal axis, the percent of sample is found on the vertical axis.

## Figure 5. Republic of Congo: Market-Financing Risk Indicators

| | GFN 1/ | EMBI 2/ |
|---|---|---|
| Benchmarks | 14 | 570 |
| Values | 6 | 1250 |
| Breach of benchmark | No | Yes |
| Potential heightened liquidity needs | Moderate | |

1/ Maximum gross financing needs (GFN) over 3-year baseline projection horizon.
2/ EMBI spreads correspond to the latest available data.




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

**Statement by Mr. Mohamed-Lemine Raghani, Executive Director for the Republic of Congo and Mr. Mohamed Sidi Bouna, Senior Advisor to the Executive Director**

**July 11, 2019**

## Introduction

The Congolese authorities express their deep appreciation to staff for the candid and constructive policy discussions held during program negotiations in Brazzaville over the past two years and for their patient efforts to reach a favorable outcome. They are grateful to Management for its close and decisive engagement during this period leading up to the staff level agreement reached in May 2019 on a program that could be supported by the Extended Credit Facility (ECF). They also thank the Executive Board for its support throughout the years.

The sharp decline in international oil prices during 2014–16 led to a deep economic recession in Congo. As the downturn in the oil sector spread to the rest of the economy, real GDP contracted sharply, and fiscal revenues dropped significantly. In the meantime, public debt had risen rapidly to unsustainable levels which coupled with the oil price shock led to difficulties in servicing the debt and an accumulation of arrears. The recession has also affected the financial sector and dampened liquidity.

In response to the crisis, the authorities have put in place bold adjustment measures. They have introduced significant spending cuts, initiated discussions with their creditors to restructure Congo's external debt and launched reforms to address governance weaknesses. Although the situation started to stabilize in 2018, the authorities are cognizant that much remains to be done to put the economy back on a sound footing.

To help consolidate Congo's macroeconomic gains achieved so far and foster a higher and more sustainable growth, the authorities request the support of the IMF under an ECF arrangement. Their reform program which builds on the regional strategy to safeguard CEMAC's external stability, is centered around five key pillars, namely, fiscal adjustment to achieve debt sustainability, a strengthening of governance, the protection of vulnerable groups, the preservation of the soundness of the financial sector, and implementation of structural reforms to improve the business climate and diversify the economy. The program is supported by the regional monetary and financial sector policies through the implementation of policy assurances provided by the regional central bank, BEAC, and the supervisory body, COBAC.

The authorities are keenly aware that continued progress in enhancing governance, and transparency, including in the oil sector, is crucial to the success of their reforms going forward. All prior actions to the program approval have been implemented. Most of these actions seek to increase transparency of government operations and further improve governance. Accordingly, the authorities have submitted all the required reports to parliament, including on the national oil company's (SNPC) pre-financing contracts, the special contracts to build infrastructure against in-kind payments, and on the list of projects implemented by the Ministry of Public Works between 2014 and 2017.

## Recent Economic Developments and Outlook

The Congolese economy is steadily recovering from the 2016-17 recession. The policy adjustments that have been enacted to stabilize the economy have started to bear fruit. Growth has picked up in 2018, reaching 1.6 percent. The current account balance has improved significantly, turning positive in 2018. This improvement was helped by an increase in oil production and the recovery in international oil prices, as well as lower imports. Congo's imputed foreign exchange reserves at the BEAC have also stabilized although they remain low. The overall fiscal balance in 2018 is in surplus, resulting from an increase in both oil and non-oil revenues, as well as drastic spending reductions. Public investment which had reached 77.5 percent of non-oil GDP in 2014, was cut back significantly to 5.5 percent of non-oil GDP in 2018. Inflation, however, has further slowed at end-2018 due to a still relatively weak domestic demand.

The authorities have also made significant progress in their efforts to restructure the country's external debt and have reached an agreement with China. Congo's public debt which amounted to 118.6 percent of GDP in 2016 decreased to 87.8 percent of GDP in 2018, of which 61.3 percent is external and 26.5 percent is domestic.

Under the Fund-supported program, Congo's macroeconomic outlook is expected to improve over the medium-term. Growth in the oil sector will be driven by an increase in oil production, as well relatively stable international oil prices. In the non-oil sector, growth is projected to rise gradually up to 4 percent in 2022, supported by a continued implementation of reforms under the ECF-supported program to stabilize the economy, and also progress in restructuring the country's external and domestic debt, and improvement in business confidence. Structural reforms to improve the business climate and strengthen governance will also contribute to the overall improvement of Congo's economic outlook.

## Economic Policies Under the ECF-Supported Program

### Fiscal Policy and Debt Sustainability

The authorities' key fiscal objective is to significantly reduce the non-oil primary fiscal deficit (NOPD). To reach their target of 17 percent of non-oil GDP by 2022 for the NOPD (from 28 percent in 2018), the authorities have taken necessary steps to reduce spending and increase non-oil revenue. In doing so, they will also take measures to shield poor and vulnerable groups from the effects of the fiscal adjustment. The authorities will also increase social spending substantially throughout the program period.

On the revenue side, critical areas of reform include a review of tax exemptions and the introduction of a fuel pricing mechanism. The authorities will reassess exemptions included in the investment code. In the meantime, they have prohibited the granting of exemptions on a discretionary basis. As agreed under the program, they will also approve by end-October 2019, a revised price structure for petroleum products that includes higher taxes and an automatic indexation mechanism which will help raise fiscal revenues.

To contain fiscal expenditures, major reforms have been introduced to reduce subsidies and control the wage bill. On subsidies, the authorities will cap the transfers to the state-owned oil refinery CORAF, and subsidies will be subject to CORAF's efforts to reduce operating expenditures under a new performance contract. Similarly, subsidies to the electric power company, CEC, will, as well, be conditional on a quarterly assessment of its expenditures by the Ministry of Finance, justifying the level of subsidies. With regard to the wage bill, an action plan will be adopted to gradually reduce it, as a share of non-oil GDP. Under the plan, retiring public sector employees will no longer be systematically replaced by new hires, except in social sectors. The authorities also intend to limit capital spending through improved prioritization and enhanced effectiveness of public investment projects.

The recent agreement reached with China on the restructuring of Congo's external debt along with the authorities' renewed commitment to prudent debt borrowing will help bring public debt below the regional ceiling of 70 percent of GDP by 2022. The authorities will only seek external financing on concessional terms during the period of the program. In addition, as agreed under the program, they will approve by end-October 2019 a domestic debt restructuring strategy following the completion of the audit recently carried out by an international accounting firm. They will also pursue in good faith their negotiations with commercial creditors with the objective of finalizing an agreement before the first ECF review.

**Financial Sector**

The Congolese banking system has been adversely affected by the crisis although the overall solvency of the banking system remains sound. The authorities will also continue to world closely with COBAC to strengthen the stability of the financial system, including on the issue of compliance with the AML/CFT framework. While the banking system continues to feel the effects of the crisis, none of the Congolese banks that are in a difficulty pose a systemic risk. Regarding the two banks that are in a difficult situation, the authorities, in close collaboration with COBAC, will adopt a resolution plan for the bank that has become insolvent and will sell the second bank to private investors. With respect to the AML/CFT framework, the authorities will improve their legislative and institutional framework to address the weaknesses identified by the Task Force on Money Laundering in Central Africa, in 2015.

**Governance and Transparency**

With the assistance of the IMF, the authorities have prepared and published in June 2018, a diagnostic report that analyzes the impact of weak governance and corruption on the economy, particularly in the oil sector. To address the shortcomings identified in the report, Congo's parliament has approved amendments to SNPC law, requiring the state-owned oil company to publish its audited financial statements annually. The Parliament has also adopted a new law requiring that all oil production sharing agreements be made public. Also, an anti-corruption commission with investigative powers has been established, and the Parliament has made it mandatory for senior political officials to declare their assets. Besides, they will ensure that the Transparency Committee on the Management of Natural resources and Public Spending

envisaged under Congo's Transparency Law draws at least one-third of its members from civil society.

### Poverty Reduction

In their efforts to fight poverty, the authorities have identified a number of social sectors and programs that they intend to focus on and preserve moving forward. These include health, basic education, the promotion of women, and infrastructure to open up isolated areas. To improve social conditions of the poorest households, they have, with the help of the World Bank and the French Agency for Development, put in place a social safety net program that provides cash transfers to the neediest households, conditional on greater access to health and education services. The performance of the program is monitored against established benchmarks in health and education and has yielded positive results so far. The authorities will expand their cash transfer program in 2019 to add additional poor households and will also increase the amounts provided to households.

### Structural Reforms

Progress in the implementation of structural reforms to improve the business climate and diversify the economy will continue. The authorities have put in place a reform agenda to improve the business climate with the support of their development partners. They will focus on measures that address key weaknesses identified in the World Bank's doing business reports, including on creating a national real estate registry and on simplifying the procedures and reducing costs involved in starting a business, among other vital reforms. To ensure that progress is made in the identified reform areas, they have put in place an Interministerial Committee on Business Climate that comprises the country's development partners. To diversify the economy, the authorities have adopted an action plan with the assistance of the World Bank and the African Development Bank (AfDB). The focus will be on promoting the development of agriculture, as well as the food and lumber industries, while improving supply and access to electricity, particularly in remote areas. The authorities will also adopt by October 2019, as agreed under the program, a privatization strategy. A study is underway with the support of the AfDB to identify public enterprises and assets that can be sold.

### Conclusion

The Congolese authorities reiterate their firm commitment to the sound policies and reforms envisaged under the ECF-supported program and seek Executive Directors' approval of the arrangement to support their reform agenda. They also call on their partners to continue to support their efforts to promote the development of the country. Congo is grateful to the partners, both bilateral and multilateral, that have contributed to the financing of the program, including through debt restructuring. The continued support of the international community will be crucial for the success of the program.