INTERNATIONAL MONETARY FUND

IMF Country Report No. 21/168

DEMOCRATIC REPUBLIC OF THE CONGO

July 2021

REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY; REVIEW OF PERFORMANCE UNDER THE STAFF MONITORED PROGRAM—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE DEMOCRATIC REPUBLIC OF THE CONGO

In the context of the Request for a Three-Year Arrangement Under the Extended Credit Facility; Review of Performance Under the Staff Monitored Program, 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 15, 2021, following discussions that ended on May 27, 2021, with the officials of the Democratic Republic of the 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 29, 2021.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Supplementary Information** of the Staff Report prepared by the IMF.
- A **Statement by the Executive Director** for the Democratic Republic of the Congo.

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.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org
Price: $18.00 per printed copy

International Monetary Fund
Washington, D.C.

IMF Executive Board Approves US$1.52 billion ECF Arrangement for the Democratic Republic of the Congo

FOR IMMEDIATE RELEASE

- *The COVID-19 pandemic continues to severely impact the Democratic Republic of the Congo (DRC), a fragile state with recurring health and security crises, high macroeconomic volatility, and weak institutions.*
- *The IMF Board approved a SDR1,066 million (about US$1.52 billion) ECF arrangement for DRC. Approval of the ECF arrangement enables the immediate disbursement of about US$216.9 million to reinforce international reserves.*
- *The three-year financing package will support an ambitious structural reform agenda aimed at promoting sustainable economic growth by stepping up domestic revenue mobilization, strengthening governance, and reinforcing monetary policy.*

Washington, DC – July 15, 2021: On July 15, 2021, the Executive Board of the International Monetary Fund (IMF) approved a 3-year arrangement under the Extended Credit Facility (ECF) for the Democratic Republic of the Congo (DRC) in an amount equivalent to SDR1,066 million (100 percent of quota or about US$1.52 billion). The ECF arrangement will support the authorities' medium-term reform program aimed at maintaining macroeconomic stability, increasing fiscal space, and promoting a sustainable and private sector-led economic growth.

Approval of the ECF arrangement enables immediate disbursement of about US$216.9 million to reinforce international reserves. This follows Fund emergency support to DRC under the Rapid Credit Facility (RCF) in December 2019, and April 2020 (for budget support), for a total of SDR533 million (50 percent of quota or US$731.7 million, see Press Releases No. 19/465 and 20/182).

Economic activity decelerated sharply in 2020 because of COVID-19. The brunt of the pandemic was particularly felt in the non-mining economy, leading to a contraction in non-extractive GDP of 1.3 percent in 2020. Weak revenues and increased spending pressures linked to the pandemic and the free education initiative led to a sizable fiscal deficit. Inflation spiked, fueled by a rapid exchange rate depreciation, and gross official foreign exchange reserves decreased to less than two weeks of imports. A recent tightening of policies and a strong performance of the mining sector is supporting ongoing macroeconomic stabilization, but the near-term economic outlook remains uncertain and dependent on the evolution of the pandemic as well as on a stable political environment.

The DRC government has articulated an ambitious, yet realistic structural reform agenda aimed at promoting robust and sustainable economic growth. The ECF arrangement will focus on three key areas: (i) stepping up domestic revenue mobilization to increase fiscal space for infrastructure and social spending; (ii) strengthening governance including natural resource management and transparency; and (iii) reinforcing the monetary policy framework and the central bank's independence. The ECF arrangement is expected to catalyze budget and project support from external partners.

At the conclusion of the Executive Board's discussion, Mr. Mitsuhiro Furusawa, Deputy Managing Director and Acting Chair, made the following statement:

"The Congolese economy has been severely impacted by the COVID-19 pandemic and is recovering, in part due to high mineral prices. The authorities have requested a new arrangement under the Extended Credit Facility (ECF) to address protracted balance of payment needs and support reforms aimed at maintaining macroeconomic stability, increasing fiscal space, ensuring debt sustainability, and promoting sustainable and private sector-led economic growth. The ECF arrangement is expected to catalyze financing from external partners.

"The authorities are committed to creating fiscal space to address infrastructure and social needs, while maintaining a moderate risk of debt distress. Measures aim to enhance domestic revenue mobilization, by ensuring a properly functioning VAT, rationalizing non-tax and parafiscal charges, streamlining tax expenditures, and modernizing revenue administration. Spending discipline would help to increase social spending and avoid reliance on central bank financing. Prioritizing concessional financing and relief under the Debt Service Suspension Initiative would support debt sustainability.

"Macroeconomic policies are appropriately aimed at maintaining low and stable inflation. Important measures include modernizing the monetary policy framework and strengthening the financial position, governance, and independence of the central bank. Measures are being taken to enhance the risk-based supervisory framework and the oversight of banks. The authorities' aim to boost foreign exchange reserves while allowing the exchange rate to act as a shock absorber.

"Strengthening governance, including natural resource management and transparency, remains crucial to support private sector-led growth. The authorities have made progress in publishing mining contracts and on COVID-19 related spending. Further efforts are needed to enhance the AML/CFT framework to meet global standards and measures to improve the resilience to climate change would be welcome."

INTERNATIONAL MONETARY FUND

DEMOCRATIC REPUBLIC OF THE CONGO

June 29, 2021

REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY; REVIEW OF PERFORMANCE UNDER THE STAFF MONITORED PROGRAM

EXECUTIVE SUMMARY

Context. The Democratic Republic of the Congo (DRC) is a fragile state and vulnerable to recurrent shocks. Relations with the Fund have been quite active since early 2019, with a Staff Monitored Program (SMP) coupled with a Rapid Credit Facility (RCF) disbursement in December 2019 and a second RCF disbursement in April 2020 to respond to the COVID-19 crisis. Economic activity decelerated sharply in 2020 because of the crisis and reserves decreased to less than two weeks of imports. President Tshisekedi requested a three-year Extended Credit Facility (ECF) arrangement to support his medium-term reform program.

Program objectives and modalities. Staff proposes a three year-arrangement under the ECF, with access equivalent to 100 percent of DRC's quota (SDR 1,066.0 million) and semi-annual reviews. The ECF arrangement will meet protracted balance of payment needs and support the authorities' medium-term reform program aimed at maintaining macroeconomic stability, including by strengthening international reserves, increasing fiscal space for infrastructure and social spending while maintaining a moderate risk of debt distress, and promoting a sustainable and private sector-led economic growth. It will also help catalyze budget support from external partners. Risk of debt distress remains moderate and capacity to repay to the Fund is adequate.

Program policies. The key priorities of the ECF arrangement are (i) stepping up domestic revenue mobilization; (ii) strengthening governance including natural resource management and transparency; and (iii) strengthening the monetary policy framework and the central bank's independence. Capacity development is crucial for program success.

Staff views. Staff supports the authorities' request for an ECF arrangement. The Letter of Intent and Memorandum of Economic and Financial Policies demonstrate program ownership and appropriate policies, as well as needed safeguards. Considering the highly uncertain environment that could reduce growth and external financing, the authorities have formulated contingency plans that protect priority social spending.

Approved By
Annalisa Fedelino (AFR) and Geremia Palomba (SPR)

Virtual discussions took place during May 6 to 27, 2021. The staff team comprised M. Villafuerte (head), C. Gicquel, H. Perez-Saiz, M. Pohl (all AFR), J. Andritzky (SPR), G. Leost (resident representative) and E. Gbadi (local economist). M. Vera-Martin (incoming mission chief) joined the mission. A. Andrianarivelo and M. Alle (both OEDAF) participated in the discussions. The mission met with President Felix Antoine Tshisekedi Tshilombo, Prime Minister Jean Michel Sama Lukonde, Minister of Finance Nicolas Kazadi, Minister of Mines Antoinette N'Samba Kalambayi, Minister of Budget Aimé Boji Sangara, Central Bank Governor Deogratias Mutombo Mwana Nyembo, civil society, the private sector, and the diplomatic community.

CONTENTS

TABLES

ANNEXES

APPENDIX

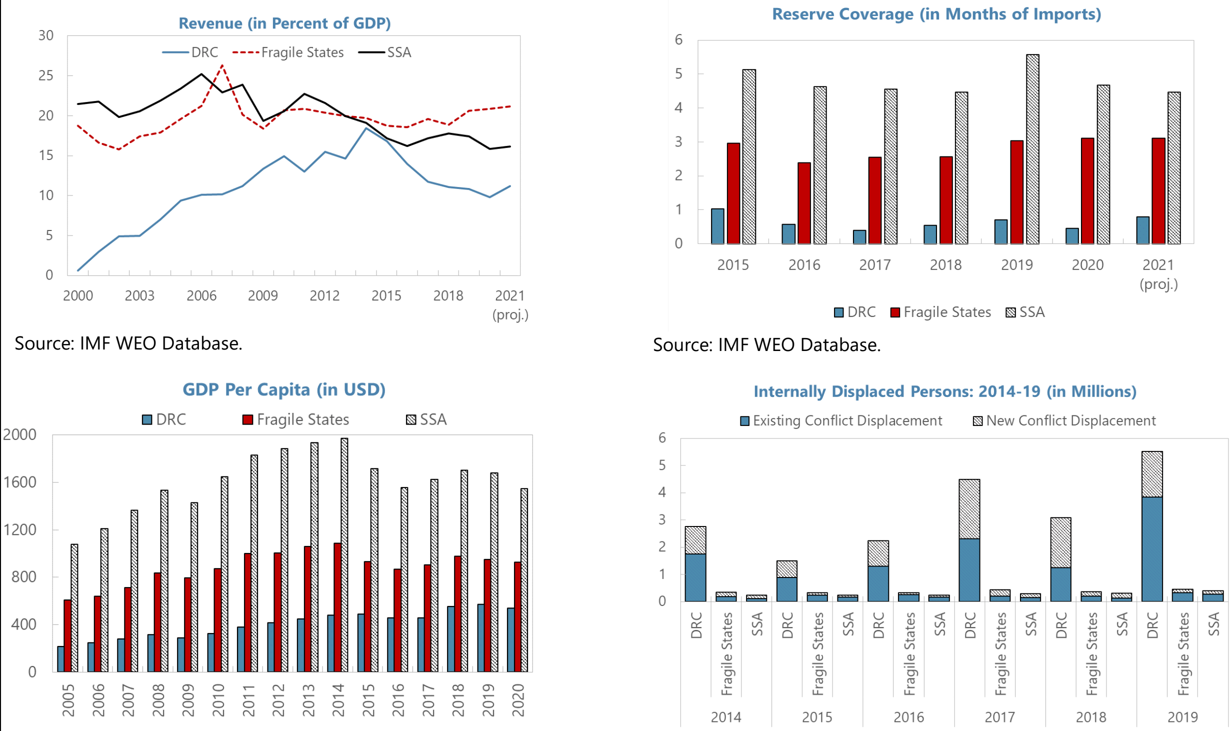
BACKGROUND AND RESPONSE TO COVID

1. **DRC is a fragile state with recurring health and security crises, high macroeconomic volatility, and weak institutions (Figure 1).** In addition to COVID-19, the country has experienced recurrent outbreaks of Ebola, cholera, and measles in the past years. Violence in the region has left millions of refugees and internally displaced people. Episodes of high exchange rate and inflation volatility occur frequently (including in 2020) in the context of very limited fiscal space, a highly dollarized financial system, and low central bank's international reserves. Physical and social infrastructure is weak and insufficient, and institutions remain unstable. The authorities have requested an Extended Credit Facility (ECF) arrangement to accompany their medium-term reform plans and address protracted balance of payments' needs, summarized in the Country Engagement Strategy (CES, Annex I).

2. **Following long overdue elections in December 2018 and a change of President in early 2019, active relations were reestablished between the government of the Democratic Republic of the Congo (DRC) and the IMF.** The first Article IV consultation since 2015 was concluded in August 2019, followed by the approval of a combined Rapid Credit Facility (RCF) disbursement and a Staff Monitored Program (SMP) in late 2019. The objectives of the SMP, which covered the period from November 2019 to May 2020, were to strengthen macroeconomic stability, reinforce international reserves, and advance key structural reforms to start tackling poor governance, a difficult business environment, and pervasive poverty. A safeguards assessment of the Central Bank of Congo (BCC) was conducted by the IMF staff in February 2020 and a recently published governance and anti-corruption assessment provides a comprehensive diagnostic of vulnerabilities in key economic areas and proposes needed reforms to address them (Annex II).

3. **The last year, including the SMP period, was marked by the COVID-19 pandemic and intensifying political challenges.** The COVID-19 pandemic has hit the country hard, causing 40,254 confirmed cases and 916 deaths as of late June 2021, and restrictive measures were set to help control its three waves (Annex III). To help address the COVID-19 crisis, an additional RCF disbursement, also equivalent to 25 percent of quota (this time in the form of budget support) was approved by the Board on April 22, 2020. On the political front, after a two-year governing coalition between the FCC (former President Kabila's alliance) and CACH (President Tshisekedi's alliance), President Tshisekedi declared its end and succeeded in changing Parliament's majority to a new alliance favorable to his reform agenda. Jean Michel Sama Lukonde (former Gécamines' general director and a close ally to the President) was appointed as new Prime Minister.

Figure 1. Democratic Republic of the Congo: Fragility-Selected Indicators



Source: IMF WEO Database.

Source: IMF WEO Database.

Source: IMF WEO Database.

Source: Internal Displacement Monitoring Centre (IDMC).

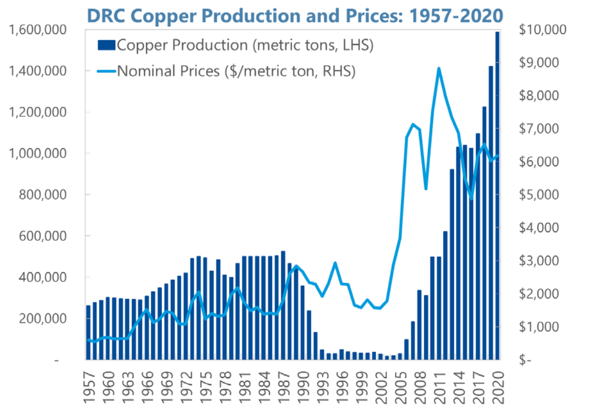
RECENT ECONOMIC DEVELOPMENTS

4. **Economic activity decelerated sharply in 2020 because of COVID-19, but the mining sector proved resilient and continues to grow rapidly.** Preliminary data suggests a positive GDP growth in 2020 (1.7 percent), essentially due to a stronger mining sector performance than previously envisaged (an estimated expansion of extractive GDP of 9.7 percent in the context of increasing global prices). The brunt of the pandemic was particularly felt in the services sector, leading to a contraction in non-extractive GDP of 1.3 percent, as various successive lockdowns and restrictions in 2020 affected key sectors such as services, retail, and manufacturing. By contrast, no major mine closed owing to the limited spread of COVID-19 to the mining regions. After a quick rebound, copper and cobalt prices have reached record levels, leading to higher production than originally forecasted. Kamoa-Kakula, the continent's largest copper mine project, has already started production ahead of schedule (see Box 1). Strong mining exports and lower imports of capital goods explain the improved current account balance in 2020 (-2.2 percent of GDP) despite the drop in remittances inflows.

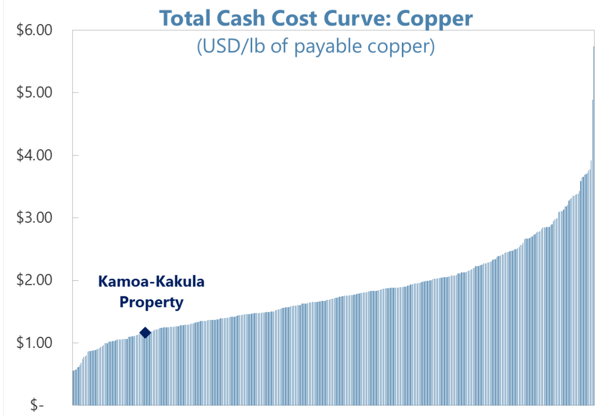
Box 1. The Kamoa-Kakula Project and the Copper Industry Boom in the DRC

The Kamoa-Kakula mine is the flagship project in the booming copper industry in the DRC. Projected to be developed in up to 5 phases, Kamoa-Kakula is expected to become the 2nd largest copper mine in the world, with a maximum capacity of 800 kilotonnes per year. Additionally, expected production costs place it among the most efficient copper mines in the world. Phase 1 production began ahead of schedule in May 2021.

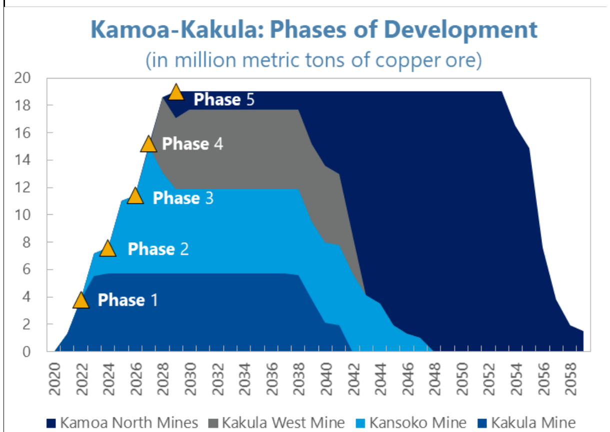
Initial capital costs for the Kamoa-Kakula project were estimated at US$1-1.2 billion. Phase 2 is officially underway and is expected to start production in 2022Q3, with more than US$1.1 billion capital expenditures planned for this second phase.



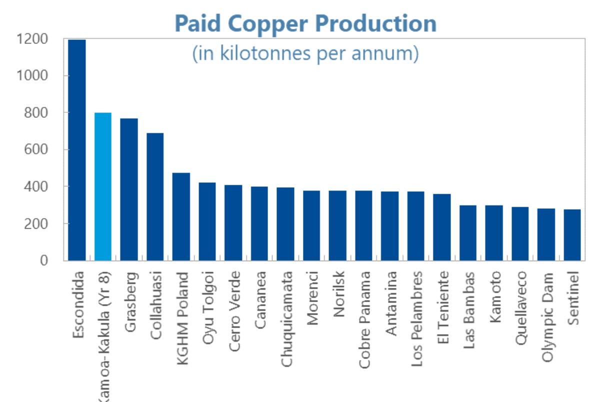
Sources: "The copper industry 1945-1975", USGS and IMF staff.



Source: S&P Global Market Intelligence



Source: Ivanhoe Mines



Sources: Ivanhoe Mines and Company Filings

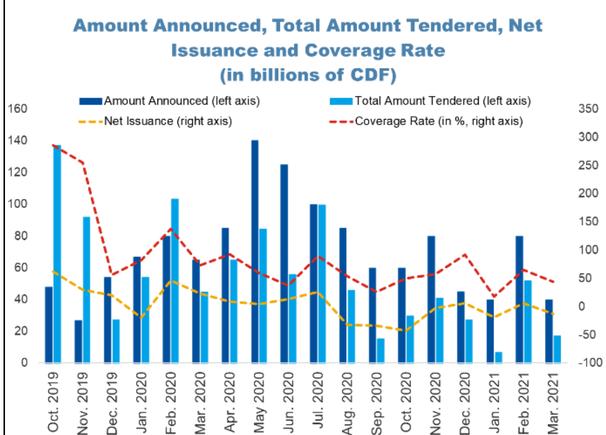
5. Weak revenues and increased spending pressures led to a sizable fiscal deficit in 2020 (Tables 2a and b). Tax revenues underperformed substantially due to delays in reform implementation, including restoration of normal functioning of the VAT and digitalization of processes, and particularly the impact of COVID-19's containment measures. On the expenditure side, the implementation of the free education initiative (Annex IV) led to a large increase in wage payments, which represented about two thirds of the current spending in 2020. Additional spending pressures linked to the pandemic further reduced the space for other expenditure items. As a result, the overall fiscal deficit reached 2.1 percent of GDP, compared to a previous estimate of 0.6 percent.

As grants did not materialize as originally forecasted and with a negative net placement of short-term Treasury bills (Figure 2), the fiscal deficit was financed by external loans and BCC advances (¶7).

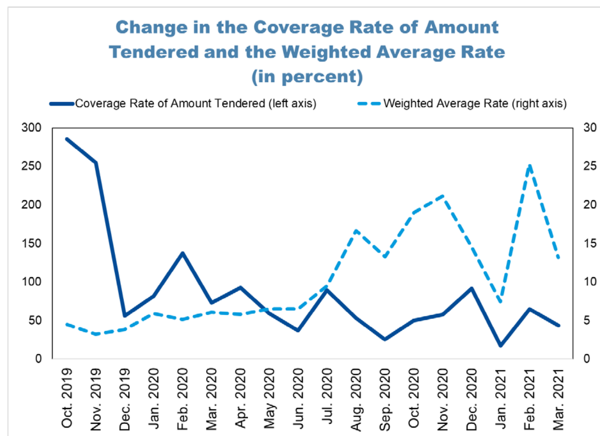
6. At the start of 2021, the budget recorded a surplus thanks to fiscal discipline and high commodity prices. Tight spending discipline in 2021Q1 and large corporate tax payments in April have helped to build buffers for budget execution for the remainder of the year. However, those buffers may be reduced due to emergency spending link to the Goma Volcano eruption in May. Treasury bills' net placements remained negative in the first part of 2021 due to the pandemic and limited supply of local currency.[1]

Figure 2. Democratic Republic of the Congo: Treasury Bills Issuance: October 2019-March 2021

After a couple of good months, T-bills issuance has not materialized as expected mainly due to the pandemic.



T-bills have not become more attractive despite the increase in interest rates.



Sources: Congolese authorities and IMF staff estimates.

7. Monetary deficit financing in early 2020 fed into a spike in exchange rate depreciation and inflation later contained through a tightening of policies. Faced with severe financing constraints, the government opted to recur to BCC advances of about 0.3 percent of GDP (equivalent to US$160 million) through end-April 2020. The associated monetary injection, coupled with negative supply shocks linked to confinement measures and an easing of monetary policy, led to an acceleration of inflation from 4.6 percent in 2019 to 15.7 percent year-on-year in August 2020, fueled by a rapid exchange rate depreciation (13.2 percent between April and August 2020). In May 2020, the BCC and the Ministry of Finance committed to a Treasury Plan to avoid new central bank advances through a stability pact. Such commitment has been respected although new guarantees of the BCC for central government loans have been provided since end-April 2020. Monetary policy was tightened as a result of the discontinuation of advances and the increase of the BCC policy rate in August 2020, although the rate has been recently reverted to pre-pandemic levels, in line with subdued inflation expectations. Annualized inflation has fallen to 4.8 percent in April 2021, while the

[1] Dollar-indexed T-bills should be attractive for investors as they hedge exchange rate depreciation risks while maintaining issuance in local currency.

exchange rate has depreciated by merely 0.9 percent since January. Official FX reserves decreased from US$730 million at end-2019 to about US$709 million at end-2020.

8. As the monetary policy was tightened, some banks recorded shortfalls in their required reserves' positions due to the existing reserve framework in the context of a highly dollarized financial system. The large increase in FX deposits due to repatriation requirements on booming mining exports and the high exchange rate depreciation, coupled with the scarcity of local currency, forced a few large banks to miss reserve requirements, which are set in local currency. A return to positive excess reserves is expected as the supply of local currency increases.

9. The BCC continues to strengthen the oversight and regulation of the financial system. The supervisory unit at the BCC (DSIF) has experienced substantial operational challenges during the pandemic to effectively fulfill its supervisory mandate. With the technical assistance of the Fund, the DSIF is revising its procedures and regulations to better support the banking sector and to be ready to proactively use its legal intervention powers for banks in financial distress if needed. A new macro-prudential committee led by the Ministry of Finance and the BCC has also been created with the goals of promoting coordination between supervisors and monitoring systemic risks.

SMP PERFORMANCE

10. Performance under the SMP was initially satisfactory, though later deteriorated due to the COVID pandemic and delays in the implementation of structural reforms. All quantitative indicative targets (ITs) for the December 2019 test date were met except the one concerning the contracting or guaranteeing of new non-concessional external debt. For the March and May 2020 test dates, about half of the ITs were met in a difficult context due to the pandemic. The ITs on net central bank credit to government and the domestic balance on cash basis were missed reflecting budget slippages financed through BCC advances (Text Table 1 and Table 7).[2] As for structural benchmarks (SBs), all were met except the one related to the restoration of VAT on imports by mining companies, which turned out to require a law modification by Parliament not foreseen at the time of the SMP discussions (Table 8). The authorities, in consultation with the private sector, decided to introduce a self-liquidating mechanism as conditions were not conducive for smoothly refunding VAT payments to miners.

[2] A new BCC guarantee was also given on April 30, 2020, which was not identified in the external auditor's validation report.

Text Table 1. Democratic Republic of the Congo: Fiscal Table end-2019 - 2020Q2: SMP Projections vs. Preliminary Outcome

	2019		2020			
	SMP proj.	Prel.	SMP Q1 proj.	Q1 Prel.	SMP Q2 proj.	Q2 Prel.
			(Billions of CDF)			
Revenue and grants	***9,108***	***9,000***	***2,838***	***1,821***	***2,996***	***1,829***
Revenue	**8,468**	**8,361**	**2,400**	**1,733**	**2,617**	**1,789**
Tax revenue	5,796	5,677	1,612	1,107	1,633	1,239
Non-tax revenue	2,112	2,123	788	603	984	494
Grants	**640**	**639**	**438**	**88**	**379**	**40**
Expenditure	***11,365***	***10,679***	***2,927***	**2,266**	**3,118**	**2,064**
Current expenditure	8,737	8,683	2,131	1,982	2,235	1,915
of which wages	3,561	3,575	985	1,112	1,056	1,079
Capital expenditure	**2,417**	**1,849**	**759**	**261**	**846**	**104**
Exceptional expenditure[1]	**212**	**147**	**38**	**22**	**38**	**46**
Overall fiscal balance (commitment basis)	***-2,257***	***-1,680***	***-89***	**-444**	**-122**	**-236**
Domestic fiscal balance (cash basis)	**-862**	**-518**	**56**	**-201**	**-190**	**-114**
Overall fiscal balance (cash basis)	***-1,866***	***-988***	***-89***	**-361**	**-122**	**-166**
Errors and omissions	***0***	***-122***	***0***	***4***	***0***	***-88***
Financing	***1,866***	***1,141***	***89***	**368**	**122**	**259**
Domestic financing (banking system)	1,075	1,086	50	300	83	-371
Foreign financing	791	56	39	68	39	630
Memorandum items:						
Overall fiscal balance (cash basis) in percent of GDP	-2.3	-1.2	-0.1	-0.4	-0.1	-0.2

Sources: Congolese authorities; and IMF staff estimates and projections.
[1] Mainly expenditure related to security and elections.

11. Corrective actions were put in place since the SMP expiration, with fully satisfactory implementation under difficult circumstances, which paves the way for an ECF arrangement:

- Publication of all new mining contracts since November 2019 and stepped-up publication of past contracts (see Figure 3). 146 contracts have been published out of a list of 162 contracts prepared by EITI-DRC and civil society organizations. Budgetary transfers to the national EITI committee were also regularized after the appointment of a new coordinator.

- Preparation of a decree (including Fund staff's comments) to strengthen public debt management and monitor all new debt contracts by mandating the Public Debt Directorate to evaluate all new debt contracts for consistency with program conditionality and to enforce debt reporting from SOEs.

- Identification of contingent spending and urgent revenue mobilization measures to safeguard the execution of the 2020 budget and avoid the recourse of BCC advances.

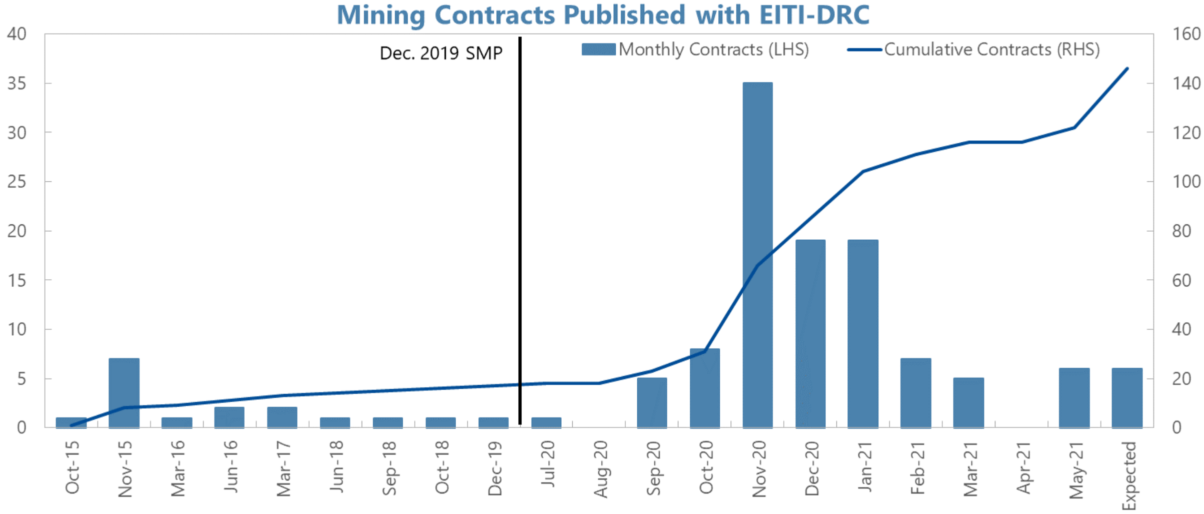
The SMP proved to be instrumental in terms of reestablishing effective working relations with the authorities, enhancing institutional capacity for program monitoring, and preparing the ground for an ambitious yet realistic structural reform agenda. Governance and safeguards assessments took place over the SMP period, providing comprehensive diagnostics of key economic challenges and laying the basis for needed progress in these areas.

Figure 3. Publication of Mining Contracts

In addition to transparency commitments made as part of EITI membership, a May 2011 decree provides the legal basis for the required publication of all mining, oil, and forestry contracts by the Government. The 2021 EITI-DRC condensed report for the 2018-2020H1 period provides information on recent developments in this area.

Between August and December 2020, a list of 162 contracts was jointly prepared by EITI-DRC and other NGOs, of which 146 have already been published, and 16 additional contracts are in the process of being obtained and/or verified from mining companies. The list is publicly available in the EITI-DRC website. Among the contracts published in 2021, at least 21 contracts were signed prior to 2012, according to the list provided by EITI.

Mining Contracts Published with EITI-DRC



Note: For 18 of the 146 published contracts, month of publication is unknown.

Source: EITI-DRC.

ECONOMIC OUTLOOK AND RISKS

12. The near-term economic outlook still remains uncertain and dependent on the evolution of the pandemic as well as on a stable political environment. Following the sharp deceleration in 2020, GDP growth is expected to slowly recover from 2021 onwards thanks to the boom in the mining sector—with Kamoa's production ahead of schedule (see Box 1) and the expansion of other mining projects—and the gradual resumption of public infrastructure and private investment projects. The fiscal stance will tighten somewhat in 2021 despite a significant pickup in externally financed projects. The external current account will continue to improve in 2021, propelled by high mining prices and export volumes, leading to an improvement in international reserves (which will nonetheless remain limited).

Text Table 2. Democratic Republic of the Congo: Medium-term Macroeconomic Framework

	2019	2020		2021	2022	2023	2024	2025	2026
	Prel.	SMP	Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Real GDP (percent change)	4.4	3.2	1.7	4.9	5.6	6.6	6.8	6.7	5.4
of which: extractive	1.0	-2.4	9.7	11.0	7.9	7.5	5.4	5.4	2.5
GDP deflator (percent change)	4.0	5.7	6.7	16.0	6.2	5.8	5.9	6.0	5.7
CPI inflation, average (percent)	4.7	5.0	11.4	9.4	6.4	6.6	6.9	6.9	6.3
CPI inflation, eop (percent)	4.6	5.0	15.8	6.0	6.3	6.7	7.0	6.8	5.6
Overall fiscal balance (% GDP), commitment basis	-2.0	-0.6	-2.1	-1.7	-1.2	-1.1	-1.2	-1.2	-1.6
External public debt (% GDP)	14.0	13.8	14.4	14.6	15.5	16.0	16.0	15.5	15.8
Current account deficit (% GDP), incl. transfers	-3.2	-4.3	-2.2	-2.1	-1.8	-1.5	-1.3	-1.0	-1.3
Gross international reserves (weeks of imports)	3.0	4.2	1.9	3.4	4.6	5.3	5.8	5.9	6.1

Sources: Congolese authorities and IMF staff estimates and projections.

13. The medium-term outlook hinges on the implementation of reforms aimed at ensuring macro stability and realizing DRC's high growth potential (Text Table 2). Average non-extractive GDP growth during the program period is expected to increase to 5.1 percent, compared to an average growth of 4.6 percent during 2014-19. Higher growth is based on enhanced macroeconomic policy management, the resumption of public and private investment, and an improved business environment as a result of the ambitious reform agenda. Improvements in the business environment will pave the way for increased private investment as well as financial deepening, particularly in domestic currency. The mining sector is expected to continue to thrive as the Kamoa-Kakula and other expansion plans are completed in a context of strong global demand and high prices. The ECF arrangement is expected to help stabilize inflation below the BCC medium-term objective of 7 percent while fostering economic growth by pursuing sound and credible public finances, increased fiscal space, and an effective monetary policy framework. Based on an updated DSA, DRC remains at a moderate risk of external and overall debt distress, with some space to absorb shocks. Most external debt thresholds are breached under the stress tests, highlighting the country's vulnerability to external shocks. Given limited buffers, prudent borrowing policies are essential by prioritizing concessional loans and strengthening debt management policies.

14. Risks are tilted downward as uncertainty remains elevated (Annex V). The economic outlook is predicated on the temporary nature of the pandemic and a gradual normalization of the global economic outlook. A more protracted pandemic would further deepen and delay the economic recovery. Domestically, key downside risks are related to the speed of the recovery, and political instability. At the same time, there are potentially upside risks from a quicker resumption of public and private investments, revamped relationships with the international community, and booming mining exports.

PROGRAM OBJECTIVES AND POLICIES

The ECF arrangement will meet protracted balance of payment needs and support the authorities' medium-term reform program aimed at (a) maintaining macroeconomic stability, including by strengthening international reserves; (b) increasing fiscal space for infrastructure and social spending while maintaining a moderate risk of debt distress; and (c) promoting a sustainable and private sector-led economic growth. To achieve these goals, the ECF arrangement will focus on three key areas:

(i) stepping up domestic revenue mobilization; (ii) strengthening governance including natural resource management and transparency; and (iii) strengthening the monetary policy framework and the central bank's independence. The ECF arrangement is expected to catalyze budget (and project) support from external partners.

A. Creating Fiscal Space While Preserving Debt Sustainability

15. Fiscal policy will be anchored on no central bank financing to the government and on maintaining a moderate risk of debt distress. To that end, containing the domestic balance and contracting mostly concessional borrowing will be necessary. Absent additional grants and financing, this would imply domestic fiscal deficits of up to 0.5 percent of GDP linked to the net issuance of Treasury bills in the domestic market (including the introduction of dollar-indexed T-bills in 2021Q2). The ECF arrangement is expected to catalyze budget (and project) support from external partners, particularly the World Bank and the AfDB. The authorities are also committed to favor concessional borrowing, reflecting DRC's weak debt carrying capacity and maintaining the moderate risk of debt distress under the DSA. If an adverse scenario materialized, the fiscal program will be revised by reducing lower-priority investments while protecting social spending.

16. In a welcome development from past practice, the approved 2021 budget was based on realistic revenue and financing assumptions. Parliament approved a 2021 Budget Law broadly in line with staff revenue projections, conservative financing assumptions (particularly domestic), and an ambitious shift from current to capital spending. This was a prerequisite for the ECF arrangement discussions, and a much-needed change relative to previous budgets.

17. The program will hinge on significant improvements in revenue mobilization. Over the last five years, DRC's central government revenue to GDP averaged 9.9 percent of GDP with mining revenues representing almost a third (versus an SSA average of 17.3 percent). As noted in the governance assessment, the revenue system is highly fragmented, including hundreds of central and provincial non-taxes and parafiscal charges which burden the private sector, overwhelm the tax administration, and foster corruption. In addition, the VAT is significantly underperforming. According to the DSA, weak revenue mobilization contributes to vulnerabilities in DRC's debt repayment capacity. The ECF arrangement will focus on four axes with the goal of increasing the revenue to GDP ratio by 3.5 percentage points by 2023, 2.1 percentage points above the 2019 level[3] (MEFP ¶22):

- ***Restoring VAT normal functioning***. VAT collections fell by half (from 4.4 percent of GDP) between 2015 and 2019. A self-liquidating VAT was introduced in March 2021 for imports from mining companies to restore the VAT collection chain and eliminate a large loophole stemming from their exemption. The associated legislation will be fine-tuned to ensure it applies to mining companies as a whole, in addition to other crucial reforms. The General Inspectorate of Finance

[3] The allocation of additional increases in domestic revenue mobilization will need to strike a balance between fulfilling large development needs and reconstituting Treasury deposits.

(IGF) will conduct an audit to evaluate the VAT arrears to mining companies by December 2021, which will help determine a repayment schedule.

- ***Rationalizing non-tax and parafiscal charges***. All legal provisions on non-tax revenues will be consolidated in a single document (SB, September 2021). The authorities will elaborate a plan to rationalize non-tax charges, which will be adopted by March 2022, with Fund technical assistance. The rationalization will be later extended to decentralized entities and provinces. Excises duties will be streamlined and their rates adjusted to compensate for revenue losses. Rationalization of parafiscal charges is expected by December 2022.

- ***Streamlining tax expenditures***. Tax expenditures are relatively significant (about 22 percent of central government revenue as of 2017) and preferential tax regimes and other related exemptions need to be reformed. The authorities are committed to continue to estimate and publish the size of tax expenditures on a yearly basis and to finalize a rationalization plan based on IMF CD recommendations by end-2021.

- ***Modernizing revenue administration***. The governance of the three main revenue administration agencies needs to be strengthened, taxpayer rights ascertained, and procedures digitalized and streamlined. Supported by donors, the authorities will continue to computerize the revenue chain through ongoing projects (such as ISYS-Régies, data warehouse or LOGIRAD). Customs administration will be reinforced with the implementation of ASYCUDA World at all custom offices, starting with additional 10 offices (SB, December 2021). Also, a decree will be adopted to strengthen the internal audit functions by revising the governance structure of the three tax administration agencies.

18. Spending discipline will also be critical to the program success. Expenditures need to be tightly controlled and their composition improved to create space for much needed social and public infrastructure spending (Annex IV). Domestically financed investment should increase from 0.3 percent of GDP in 2020 to over 2.5 percent of GDP in 2023. With the implementation of the free education initiative, wages increased from about one third of total revenue in 2018 to two thirds in 2020. The authorities committed to rationalize the wage bill, including in the education sector, and non-priority expenditure (MEFP ¶24). If there are delays in the economic recovery, they will also streamline the domestically financed investment. Additionally, the authorities will improve the fuel price structure and limit its associated subsidies and publish an independent audit of the stock of arrears, with a repayment plan included in the 2022 budget law. They also plan to gradually reform the civil servants' pension system to limit the need for government transfers and ensure its long-term sustainability.

19. Stronger public financial management (PFM) will support fiscal transparency and accountability (MEFP ¶27). On the basis of various diagnostics (including a recent PEFA exercise), PFM reforms will focus on (i) reinforcing budgetary credibility, including through improved inter-institutional coordination and macroeconomic budgetary resources forecasting; (ii) enhancing treasury management and consolidating all government accounts (including those related to special accounts and annexed budgets), to set up the single treasury account at the BCC; (iii) strengthening the public procurement system; (iv) reinforcing the expenditure chain and limiting the use of emergency procedures; (v) developing and publishing an annual fiscal risks statement; (vi) restoring the State's accounting function through the creation of the treasury and public accounting general directorate (DGTCP); and (vii) strengthening financial reporting and oversight (including for state-owned enterprises). Those reforms are in line with past CD recommendations and will be supported by IMF CD activities.

20. The authorities have also made significant progress on their COVID-related expenditure and transparency commitments (Box 2).

Box 2. Implementation of 2020 RCF Commitments to Track COVID-Related Expenditure

- US$52 million have been identified as COVID19-related spending. Detailed information has been provided, including spending by the Inter-ministerial Committee to Fight against COVID-19, contributions for GAVI's vaccination campaigns (US$16 million), and about US$10 million spent by the Ministry of Health. Other spending includes wages and payments undertaken under emergency spending procedures (some with no procurement process), and some regular spending redirected for COVID-19 purposes (mostly in security, sanitation, and transport sectors) for which information is not yet available due to limited capacity. In addition, the Ministry of Health published detailed information on spending by categories (https://sante.gouv.cd/wp-content/uploads/2021/04/COVID-19-FONDS-FMI-JUSTIFICATIVES.pdf), and by provinces, including their beneficiaries. Regarding specific COVID19-related spending committed and executed by external donors, the Ministry of Health published a note with details of this spending which amounts to more than US$200 million in commitments and US$116 million executed by end-April 2021

- The authorities have identified 35 COVID-19 related contracts over the US$12,000 limit through detailed process (see MEFP ¶28). By June, 23rd, 2021, the authorities have published 32 contracts, totaling US$6.8 million (https://sante.gouv.cd/publication-des-contrats-de-marches-publics-covid-19/?preview=true), including one contract above one million with the name of the supplier but not the one of its beneficial owner.

- To address capacity constraints, the authorities (i) requested technical assistance for the publication of beneficial ownership in public contracts with the objective of permanently lowering the current US$1 million threshold; and (ii) committed to limit the use of emergency procedures and agreed to produce reconciled quarterly reports on their use.

- The authorities reiterated their commitment (MEFP, ¶28) for an audit, by including a chapter on COVID-related spending in the annual report by the *Cour des Comptes* to be published after presentation to Parliament in September 2021. Monthly audits were prevented by the launch of a special audit by the IGF, as the IGF has seniority over the Ministry of Finance. IGF audits can be used to sustain judicial prosecution when irregularities are found, a fact that prevents their publication.

	COVID spending	
	in CF billion	in US$ million
Total	**95.8**	**51.7**
of which GAVI	30.1	16.3
Ministry of Health	18.6	10.1
of which new doctors	12.5	6.7
Provinces	2.9	1.6
Others	44.1	23.8
Publication	**12.6**	**6.8**
of which between US$12,000 and US$1,000,000	5.1	2.7
> US$1,000,000	7.5	4.1
Memo items		
Expenses validated (in percent of total)		57.6
Exchange rate (2020, average)	1851.5	

Source: Congolese authorities' data

B. Monetary and Financial Sector Policies

21. The monetary policy framework will be gradually modernized with the objective of maintaining low and stable inflation. While it is expected that monetary aggregate targets will continue to function as the main medium-term nominal anchor, the adoption of the new reserve requirement framework and the MoU signed between the BCC and the Ministry of Finance to regularize the outstanding credit of the government (SBs, December 2021) will contribute to modernize the monetary policy instruments and strengthen the BCC financial position (MEFP, ¶35). The full constitution of the BCC board in accordance with the 2018 BCC Law (prior action) is much needed to enhance the BCC independence and accelerate the implementation of the 2020 safeguards assessment recommendations. In addition to the discontinuation of advances, new guarantees from the BCC to the private sector will also be banned, and a plan will be implemented for the gradual elimination of existing operations.

22. The BCC is also determined to enhance the risk-based supervisory framework and the oversight of banks. The submission of the new Commercial Banking Law to Parliament by end-November 2021 that integrates IMF staff's comments (SB) represents the cornerstone upon which a modernized regulatory framework will be developed in the coming years. The Financial Sector Stability Review (FSSR) planned for end-2021 will provide a detailed diagnostic of the banking system and develop a strategy with CD priorities for the coming years (MEFP, ¶38).

23. The program will strengthen foreign exchange reserves. Staff assesses DRC's external position in 2020 as moderately weaker than the level implied by fundamentals and desirable policies (see Annex VI). Gross official FX reserves of the BCC are projected to reach US$1.3 billion by end-2021 or 3.4 weeks of imports, and about 6 weeks of imports by end-2024. The BCC is committed to strengthening reserves by following the recommendations of the safeguards assessment and of future Fund CD support. In addition to the ECF disbursements, the implementation of the new reserve requirement regulation and the transfer abroad of BCC FX deposits at local commercial banks will help to boost reserves. The repatriation requirement of 60 percent of export receipts constitutes a capital flow management measure (CFM) under the Fund's Institutional View on capital flows (IV). Tightened in 2018, the measure helped to mitigate acute balance of payments' pressures. In line with the IV, the repatriation requirement should be scaled back as adjustment progresses and balance of payments' pressures subside. Given the very low level of FX reserves and the importance of allowing the exchange rate to act as a shock absorber, the authorities are committed to minimizing the use of FX interventions (MEFP, ¶37).

C. Enhancing Governance and Fostering Inclusive Growth

24. The authorities intend to improve the business environment. The business environment is hampered by excessive regulation weighing heavily on costs and competitiveness. Key government priorities include streamlining the multiplicity of levies and implementing a fair and predictable tax system (¶15). The system for the resolution of commercial disputes, and the enforcement and protection of property rights will also be improved (MEFP, ¶33).

25. Important governance reforms will help the fight against corruption. The recently published governance assessment[4] highlighted key vulnerabilities (Annex II). The authorities' governance strategy includes the strengthening of the Anti-Corruption Prevention Agency operational since July 2020, in line with the United Nations Convention Against Corruption and international best practices. In recent months, high-level public officials, and businessmen have been arrested or sentenced to prison for embezzling public funds. The authorities also committed to endow the Court of Auditors and the IGF with sufficient independence, resources, and powers to carry their functions more effectively (MEFP, ¶29-30).

26. The AML/CFT framework needs improvements. Amendments to the AML/CFT Law to meet global standard recommendations, including the banning of anonymous bank accounts, will be submitted to parliament. The authorities will also submit to Parliament amendments to the asset declaration framework to strengthen the effectiveness of measures concerning politically exposed persons, in line with the Article 99 of the Constitution (MEFP, ¶32).

27. Mining sector transparency will continue to be strengthened. Transparency commitments made under the SMP delivered satisfactory results (see Figure 3). On top of continuously publishing all new contracts (continuous SB), all remaining past mining contracts are expected to be gradually published. To that effect, the government formally adopted the EITI roadmap on mining transparency in early June (prior action). In addition, complete and audited financial statements of mining SOEs need to be regularly published, starting with GECAMINES (SB, August 2021) (MEFP, ¶31).

28. The authorities are concerned about the impact of climate change, though a comprehensive climate change strategy is yet to be formalized. A major plank of this strategy will be an update of forest management and land use regulations, under the helm of the Central African Forest Initiative, which coordinates donors' actions in this domain. Fiscal revenues linked to the global carbon market could offer promising opportunities to the country, but deforestation is an important concern. Therefore, important progress in the electrification of the country must be achieved tapping into the country's vast renewable energy potential while protecting and enhancing the value of its enormous natural resources (MEFP, ¶34).

DATA ISSUES AND CAPACITY DEVELOPMENT

29. Data provision is broadly adequate for surveillance and program monitoring, with some shortcomings that need to be addressed, including with Fund CD support, notably on fiscal statistics, debt data coverage, and globally on the timeliness of the data submission.

[4] https://www.imf.org/en/Publications/CR/Issues/2021/05/25/Democratic-Republic-of-the-Congo-Technical-Assistance-Report-Governance-and-Anti-Corruption-50191.

30. Capacity development is crucial for the program success. A revised CD strategy was discussed with the authorities (Annex VII), taking stock of evolving needs in the crisis context. Priorities are fully aligned and integrated with program objectives, including strengthening reforms in tax policy and administration, PFM, monetary and financial sector oversight, and the anti-corruption legal framework.

PROGRAM MODALITIES, FINANCING ASSURANCES AND RISKS

31. The authorities request a three-year arrangement under the ECF to meet protracted balance of payment needs and support their medium-term reform program. Staff proposes access of SDR1,066 million, or 100 percent of quota, under the ECF arrangement to be disbursed evenly over the program period. DRC's balance of payments need arises from limited availability of foreign exchange—which hinges on volatile mineral exports—and DRC's curtailed access to external financing. The ECF arrangement will be used to increase the very low level of BCC FX reserves, and together with the CCRT and DSSI relief initiatives, would partially fill external financing gaps. Strong program performance will be key for the program's catalytic role to mobilize further other donors' support.

Text Table 3. Democratic Republic of the Congo: Financing Gap 2021-2024

	2021		2022		2023		2024	
	Million USD	Percent of GDP	Million USD	Percent of GDP	Million USD	Percent of GDP	Million USD	Percent of GDP
Current Account	-1,136	-2.1	-1,088	-1.8	-975	-1.5	-927	-1.3
Current and Capital Account excl. New Budget Grant Financing (A)	-1,100	-2.0	-1,434	-2.4	-1,353	-2.1	-1,289	-1.8
Financial Account excl. Change in Reserves and New Loan Financing (B)	-938	-1.7	-938	-1.6	-736	-1.1	-947	-1.4
Change in Gross Reserves (C)	635	1.2	578	1.0	475	0.7	381	0.5
Overall Financing Needs (D=A-B-C)	**-798**	**-1.5**	**-1,074**	**-1.8**	**-1,091**	**-1.7**	**-724**	**-1.0**
BOP Financing (=-D)	**798**	**1.5**	**1,074**	**1.8**	**1,091**	**1.7**	**724**	**1.0**
IMF Disbursements[1]	**441**	**0.8**	**444**	**0.7**	**446**	**0.7**	**224**	**0.3**
Other Exceptional Financing	**357**	**0.7**	**630**	**1.1**	**645**	**1.0**	**500**	**0.7**
Budget Loans	196	0.4	330	0.6	305	0.5	225	0.3
World Bank	153	0.3	330	0.6	230	0.4	150	0.2
AfDB	43	0.1	0	0.0	75	0.1	75	0.1
Others	0	0.0	0	0.0	0	0.0	0	0.0
Budget Grants	161	0.3	300	0.5	340	0.5	275	0.4
Memorandum Items:								
Gross reserves	1,344	...	1,922	...	2,397	...	2,779	...
in weeks of non-aid imports	3.4	...	4.6	...	5.3	...	5.8	...
External Debt Amortization Due	426	0.8	482	0.8	585	0.9	569	0.8
of which public sector	255	0.5	303	0.5	300	0.5	223	0.3

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

1/ The ECF assumes total access at 100 percent of quota, with 7 equally distributed disbursements.

32. Program monitoring and policy commitments. Program monitoring will be based on semi-annual reviews, with Quantitative Performance Criteria (QPCs) for the end of the second and fourth quarters, and Indicative Targets (ITs) for the end of the first and third quarters. QPCs will be on (i) net international reserves of the BCC; (ii) net credit of the BCC to the central government; (iii) net domestic assets of the BCC; (iv) domestic balance on a cash basis; (v) contracting or guaranteeing new non-concessional external debt by the central government; and (vi) external payment arrears. Monetary QPCs will be validated by an external auditor. Indicative targets are set on BCC deposits used as guarantees for central government loans, the accumulation of wage arrears, government revenues and social spending. Additionally, reform progress will be evaluated based on structural benchmarks. Staff has updated information on external arrears, including the known legacy arrears from the time of the HIPC initiative to bilateral official and private creditors, and ascertained the authorities' latest progress in this regard.

33. Financing assurances are in place for the first year of the program, with good prospects for the remainder of the program. Projected financing needs include assumptions for clearance of the current sock of external arrears of US$282 million over a 5-year period (see DSA). To secure the financing needed for their reform agenda, the authorities are closely engaged with key donors, including the World Bank and the AfDB. Disbursements of exceptional financing by other partners are expected to amount to US$357 million (Text Table 3), ensuring full financing of the first year of the program. For 2022 and later years, there are good prospects of additional support by these lenders to fill the financing gap, and funding is expected to be reinforced by the program's catalytic role. Over the total program period, exceptional financing from sources other than the IMF accounts for about 58 percent of the external financing gap.

34. The authorities have devised contingency measures in the face of substantial uncertainty. An adverse growth outlook could materialize due to a delayed recovery from the pandemic, lower than projected external financing, or a sudden drop in mining prices. This could negatively affect economic growth and tax revenues, creating a fiscal gap. In such an adverse scenario, the authorities are committed to reduce lower priority spending within goods and services and domestically financed capital expenditures, while preserving social spending. Conversely, higher mineral prices and the positive impact of government reforms would translate into a further increase in government revenues. In such a favorable scenario, the authorities will consider additional spending in priority areas—particularly domestically financed investment—while respecting the program objectives of fiscal and debt sustainability. This should also lead to a larger reserve accumulation at the BCC. The authorities agreed to discuss the use of the upcoming SDR allocation during the first ECF review (MEFP, ¶19).

35. DRC's capacity to repay the Fund is assessed as adequate but subject to considerable risks given the low level of FX reserves, state fragility, and high vulnerability to recurrent shocks. Fund credit outstanding is projected to remain close to 100 percent of gross international reserves throughout the program and total obligations to the Fund will peak in 2029 at 10.6 percent of gross international reserves (0.5 percent of GDP), both of which are around the top quartile of the historical distributions of PRGT-eligible countries. The associated debt servicing risks are mitigated by the country's moderate level of indebtedness and the availability of concessional financing. Increasing the level of FX reserves is a crucial objective of the ECF arrangement that should gradually crystalize over time through consolidation of macroeconomic stability and increased support from international partners. The proposed CD strategy will strengthen institutional capacity whereas domestic revenue mobilization will increase resilience against shocks.

36. Safeguards assessment. The constitution of the BCC Board in accordance with the 2018 BCC Law (prior action) is expected to accelerate the implementation of recommendations of the 2020 safeguards assessment. In addition to the prior action, some of the priority reforms include: developing compliance to help assure internal accountability and integrity; strengthening capacity and oversight of the Audit Committee; and adopting of IFRS. The BCC has committed to using a monitored account at the BIS for Fund disbursements and validating monetary QPCs as well as transactions on the BIS monitored account by the external auditors.

STAFF APPRAISAL

37. The DRC is a fragile state, with high vulnerability to shocks like the COVID-19. The DRC economy is characterized by low and fragmented government revenue, substantial development and infrastructure needs, very low FX reserves, a highly dollarized financial system, and weak institutional capacity. The pandemic has negatively affected the non-extractive economy and the collection of government revenue. The extension of advances to the government by the BCC, coupled with negative supply shocks and an easing of monetary policy, led to a rapid exchange rate depreciation and an acceleration of inflation that required a subsequent monetary policy tightening. By contrast, the mining sector is expected to continue to expand fueled by record high prices and investments in new projects.

38. Although performance under the SMP was mixed, implementation of corrective actions was strong, paving the way for an ECF arrangement. Macroeconomic policies were adjusted to maintain macroeconomic stability, including by discontinuing central bank advances and tightening monetary policy. Substantial progress was also achieved in the publication of mining contracts and through the approval of a 2021 budget based on realistic revenue and financing projections.

39. The DRC government has articulated an ambitious, yet realistic structural reform agenda aimed at promoting a robust and sustainable economic growth. The authorities' medium-term economic and reform program focuses on maintaining macroeconomic stability, increasing fiscal space for infrastructure and social spending, and promoting a sustainable and private sector-led economic growth. The authorities have requested an ECF arrangement to accompany specific efforts towards (i) stepping up domestic revenue mobilization; (ii) strengthening governance including natural resource management and transparency; and (iii) strengthening the monetary policy framework and the central bank's independence.

40. Decisive implementation of domestic revenue mobilization reforms is critical to increase fiscal space in the DRC. A comprehensive rationalization of tax exemptions, as well as of non-tax and parafiscal charges, is expected to facilitate revenue mobilization efforts. The authorities have also committed to the restoration of the normal functioning of the VAT and the audit of VAT arrears. Ongoing projects to further computerize the revenue chain and customs will also contribute to a stronger tax administration performance. The authorities acknowledge that some reforms, especially on non-tax revenue, will require strong political support to be successful.

41. Spending discipline and public financial management reforms are aimed at enhancing the quality and execution of government spending. Improved inter-institutional coordination will reinforce budget formulation and execution, and the government will persevere in its efforts to set up the single treasury account at the BCC, strengthen the public procurement system, and reinforce the expenditure chain and the State's accounting function. The composition of expenditures will be enhanced by limiting non-priority spending and improving budgeting of wage and pension outlays, while targeted and high-impact health-related spending will be specifically monitored under the ECF arrangement. The debt level remains at a moderate risk of debt distress and good faith negotiations are ongoing to solve external arrears.

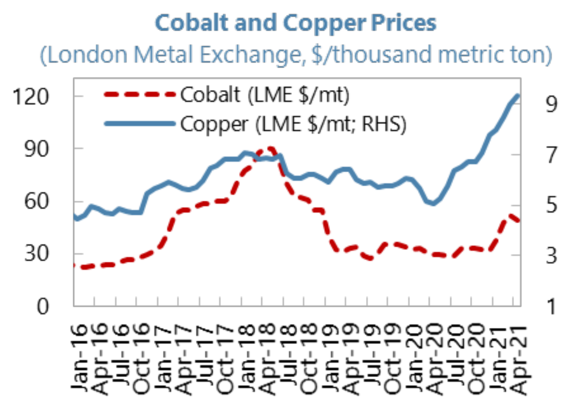
42. The DRC government will continue to enhance governance and the business environment. Following important progress in mining sector transparency, the authorities have formally adopted the EITI medium-term roadmap and are committed to the publication of all new and existing mining contracts. The authorities are also committed to reinforce key anti-corruption institutions and the legal AML/CFT framework to be aligned with international standards. Efforts to streamline the multiplicity of levies and to implement a fair and predictable tax collection system are a key plank towards an improved business environment.

43. The modernization of the monetary policy framework and the strengthening of banking supervision and regulation are also crucial objectives. The reforms proposed are aimed at improving the efficiency of the monetary framework in a context of high financial dollarization, including by reinforcing the BCC’s governance and independence and strengthening its financial position. ECF disbursements and additional measures will help boost FX reserves and its management will be enhanced through implementation of the safeguards assessment recommendations and Fund CD support. The authorities are committed to minimize the use of FX interventions and allow the exchange rate to act as a shock absorber. In addition, a new Commercial Banking Law should help the BCC acquire stronger supervision and intervention powers while fostering much-needed financial inclusion.

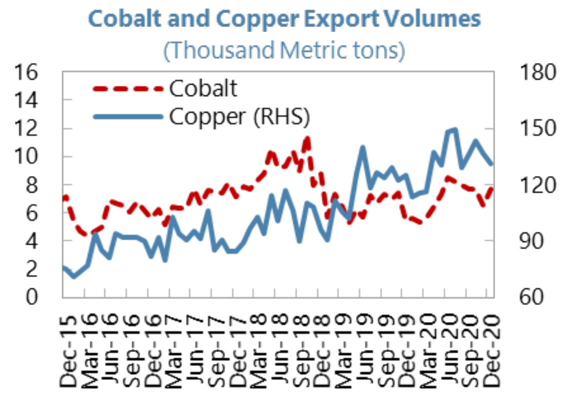
44. Based on the protracted balance of payment need and policy commitments, staff supports the authorities’ request for a three year-arrangement under the ECF, with access equivalent to 100 percent of DRC’s quota (SDR 1,066.0 million).

Figure 4. Democratic Republic of the Congo: External Indicators, 2015-21

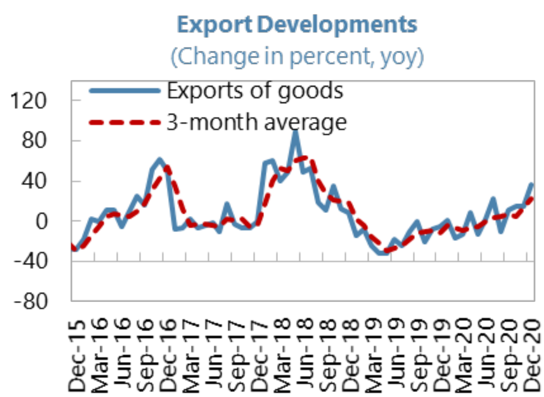
Copper and cobalt prices have recovered substantially after falling slightly in 2020…



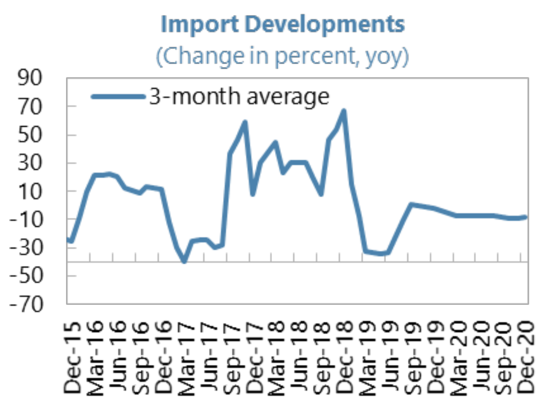
… and this has also been reflected in export volumes.



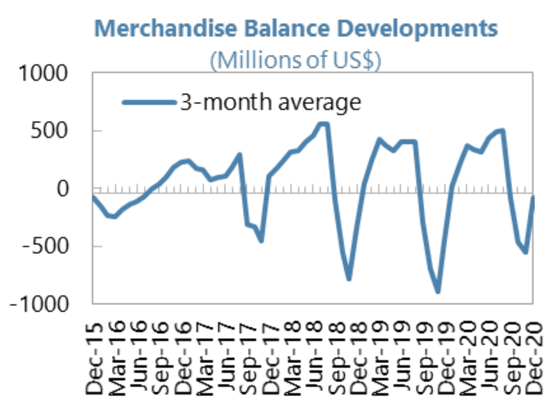
Exports of goods are steadily improving



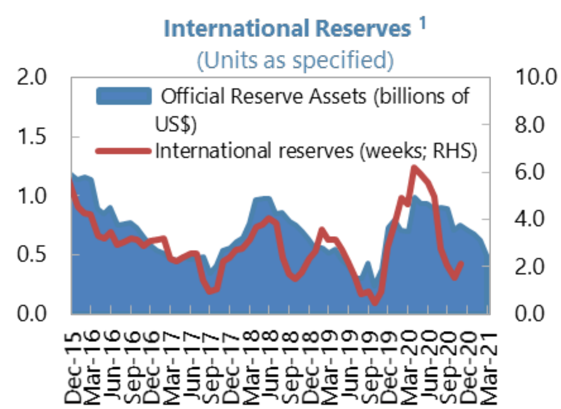
Imports plummeted in response to the economic contraction…



… resulting in an improvement in the trade balance



The level of international reserves improved following the RCF disbursements in December 2019 and April 2020



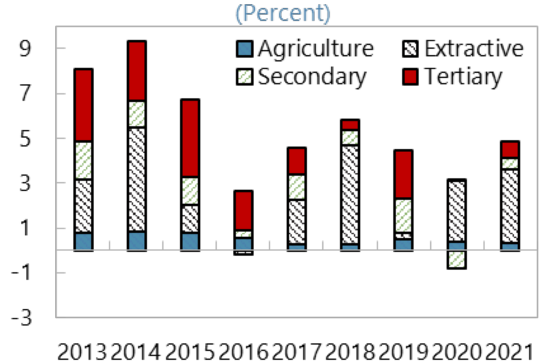
Sources: Congolese authorities and IMF staff calculations.

1/ Original data of exports and imports are in millions of USD.

Figure 5. Democratic Republic of the Congo: Real and Fiscal Indicators, 2013-21

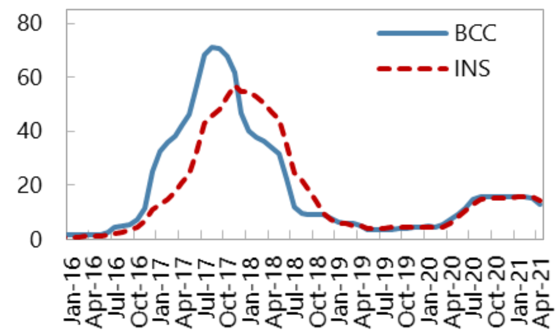
The economy decelerated sharply in 2020 due to the fall in non-mining GDP

Sectoral Contribution to Real GDP Growth
(Percent)



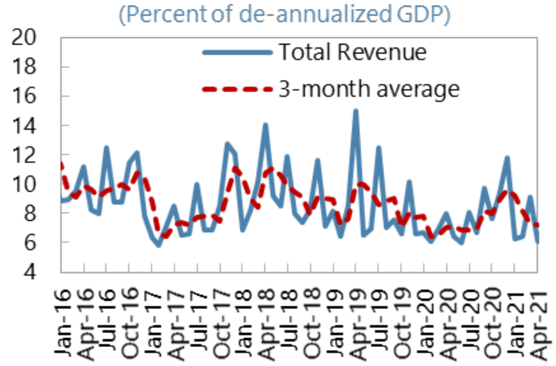
Inflation pressures have started to abate after a sharp jump in 2020

Inflation Rates
(y-o-y growth rates in percent)



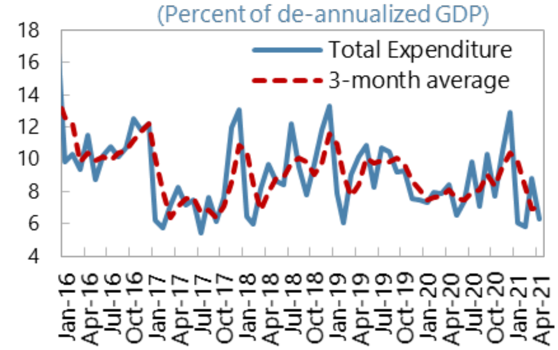
Fiscal revenues remain low due to a weaker economy

Total Revenue
(Percent of de-annualized GDP)



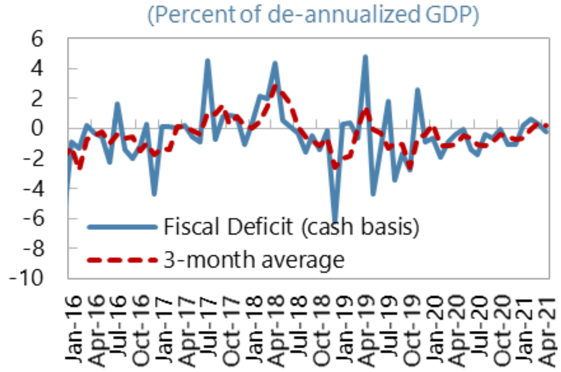
… forcing a deceleration in expenditures

Total Expenditure
(Percent of de-annualized GDP)



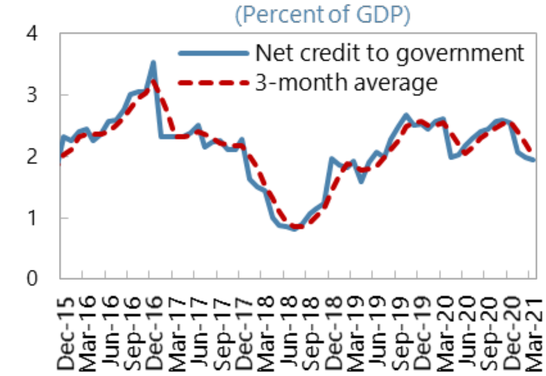
… and an increase in the fiscal deficit in 2020

Fiscal Deficit
(Percent of de-annualized GDP)



NCG improved following the RCF disbursement and the discontinuation of BCC advances since end-April 2020

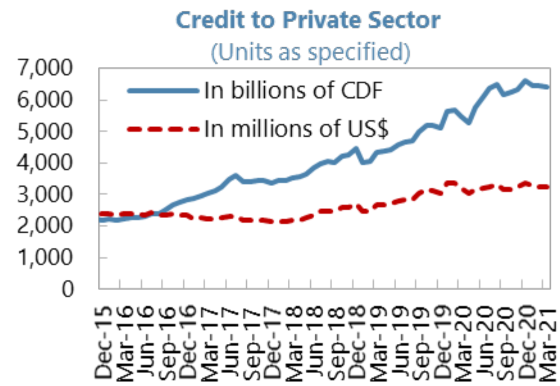
Net Credit to Government
(Percent of GDP)



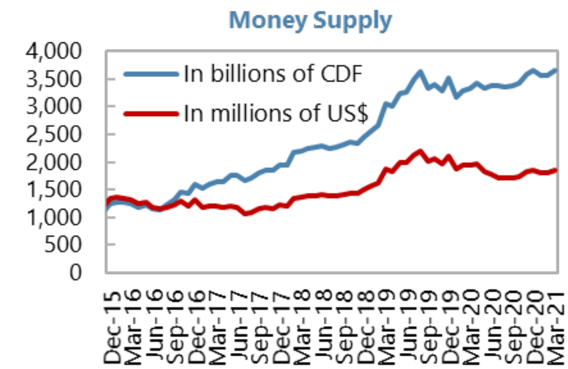
Sources: Congolese authorities and IMF staff calculations.

Figure 6. Democratic Republic of the Congo: Monetary and Financial Indicators, 2015-21

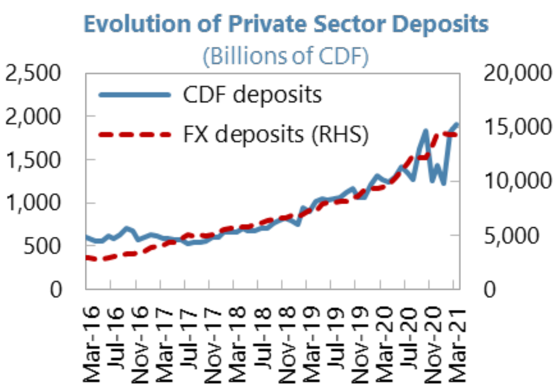
Credit to the private sector has risen in local currency, but that was mostly due to the exchange rate depreciation…



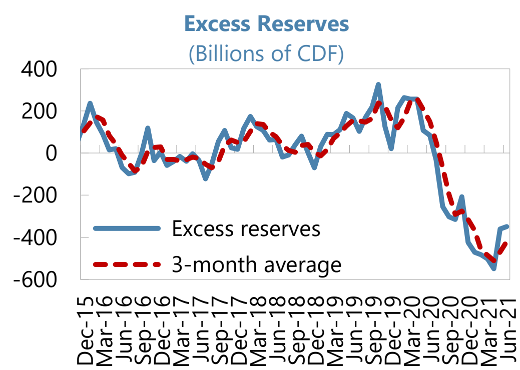
… a pattern that was also reflected in money supply.



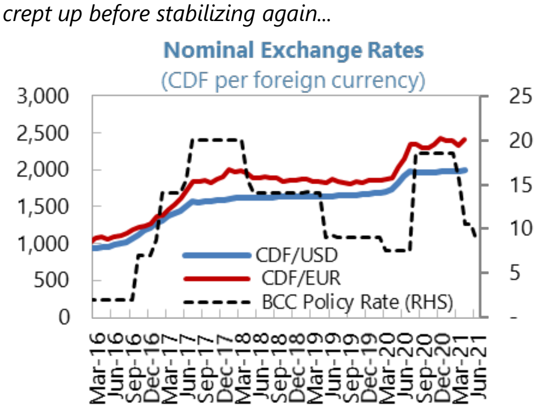
Deposits, in local currency and FX, have continued to increase…



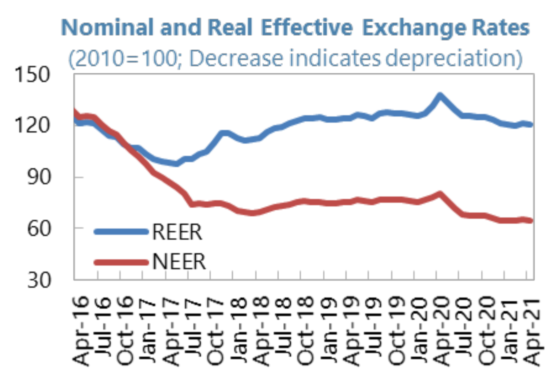
while excess reserves remain highly volatile and became temporarily negative in recent months due to the large increase in FX deposits and exchange rate depreciation.



After a long period of stability, the nominal exchange rates crept up before stabilizing again…



…but the real effective exchange rate has hardly changed for the last two years.



Sources: Congolese authorities; IMF STA INS database; and IMF staff calculations.

Table 1. Democratic Republic of the Congo: Selected Economic and Financial Indicators, 2019–2026

	2019	2020		2021	2022	2023	2024	2025	2026
	Prel.	SMP	Prel.	Projections					
	(Annual percentage change, unless otherwise indicated)								
GDP and prices									
Real GDP	4.4	3.2	1.7	4.9	5.6	6.6	6.8	6.7	5.4
Extractive GDP	1.0	-2.4	9.7	11.0	7.9	7.5	5.4	5.4	2.5
Non-Extractive GDP	5.8	5.4	-1.3	2.2	4.5	6.2	7.5	7.3	6.8
GDP deflator	4.0	5.7	6.7	16.0	6.2	5.8	5.9	6.0	5.7
Consumer prices, period average	4.7	5.0	11.4	9.4	6.4	6.6	6.9	6.9	6.3
Consumer prices, end of period	4.6	5.0	15.8	6.0	6.3	6.7	7.0	6.8	5.6
External sector									
Exports in U.S. dollars, f.o.b. value	-17.4	-5.4	4.6	46.7	7.8	7.0	5.4	6.0	3.3
Imports in U.S. dollars, f.o.b. value	-13.6	0.1	-8.3	54.1	7.2	7.2	6.5	7.0	3.6
Exports volume	-0.3	-5.4	13.9	10.8	9.1	9.8	8.3	8.9	4.1
Import volume	-13.0	-0.3	0.7	32.2	8.1	6.9	4.7	4.7	2.6
Terms of trade	-9.2	-1.2	1.9	19.1	0.6	-1.4	-2.3	-2.1	-1.0
	(Annual change in percent of beginning-of-period broad money)								
Money and credit									
Net foreign assets	16.2	6.2	36.4	18.7	13.7	13.3	12.8	13.6	14.3
Net domestic assets	18.5	0.5	8.3	5.3	3.5	3.8	4.6	3.6	2.6
Domestic credit	16.8	0.3	12.4	6.2	6.3	6.4	6.5	6.6	6.5
Of which: net credit to government	8.1	3.2	-0.1	0.6	0.5	0.6	0.6	0.6	0.6
credit to the private sector	6.7	-2.9	12.0	5.6	5.8	5.9	5.9	6.0	5.9
Broad money	34.7	6.6	44.6	24.1	17.3	17.1	17.4	17.3	16.9
	(Percent of GDP, unless otherwise indicated)								
Central government finance									
Revenue and grants	10.8	12.7	9.8	11.2	12.2	13.0	14.0	14.1	14.4
Revenue	10.1	11.3	8.7	10.2	11.4	12.2	13.4	13.8	14.3
Grants	0.8	1.4	1.0	1.0	0.8	0.8	0.6	0.3	0.2
Expenditures	12.9	13.3	11.9	12.9	13.4	14.2	15.2	15.3	16.1
Overall fiscal balance (commitment basis)	-2.0	-0.6	-2.1	-1.7	-1.2	-1.1	-1.2	-1.2	-1.6
Non-natural resource overall fiscal balance	-5.2	-2.7	-3.9	-3.2	-3.7	-3.8	-3.7	-3.4	-3.7
Investment and saving									
Gross national saving	8.5	9.2	9.3	10.6	12.3	13.1	13.8	14.0	14.4
Government	-3.9	-1.3	-2.9	-1.4	-0.1	0.5	1.5	2.6	3.0
Non-government	12.5	10.6	12.2	12.0	12.4	12.6	12.2	11.4	11.4
Investment	12.6	13.5	11.0	13.1	14.6	15.1	16.1	16.3	16.9
Government	2.2	3.0	2.1	3.3	3.8	4.4	5.4	5.8	6.6
Non-government	10.4	10.5	8.9	9.8	10.8	10.7	10.7	10.5	10.3
Balance of payments									
Exports of goods and services	26.5	23.5	28.6	37.3	37.2	36.7	35.7	34.9	33.6
Imports of goods and services	30.2	26.9	29.9	38.5	38.1	37.4	36.5	35.6	34.3
Current account balance, incl. transfers	-3.2	-4.3	-2.2	-2.1	-1.8	-1.5	-1.3	-1.0	-1.3
Current account balance, excl. transfers	-4.0	-5.6	-3.3	-3.5	-3.4	-3.0	-2.7	-2.0	-2.2
Overall balance	0.6	0.6	-0.7	0.0	0.0	0.0	0.0	0.0	0.0
Gross official reserves (millions of U.S. dollars)	730	1,078	709	1,344	1,922	2,397	2,779	2,916	3,151
Gross official reserves (weeks of imports)	3.0	4.2	1.9	3.4	4.6	5.3	5.8	5.9	6.1
	(Percent of GDP, unless otherwise indicated)								
External public debt									
Total stock, including IMF	14.0	13.8	14.4	14.6	15.5	16.0	16.0	15.5	15.8
PV of debt (percent of exports of goods and services)	0.1	5.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0
Scheduled debt service (millions of U.S. dollars)	490	632	403	562	634	754	743	729	680
Percent of exports of goods and services	3.7	5.1	2.9	2.7	2.9	3.2	3.0	2.8	2.5
Percent of government revenue	9.2	10.6	8.9	9.5	9.0	9.1	7.6	6.7	5.7
Exchange rate (CDF per U.S. dollars)									
Period average	1,648	...	1,852	...	...	...	...	...	...
End-of-period	1,673	...	1,972	...	...	...	...	...	...
Memorandum items:									
Nominal GDP (billions of CDF)	83,048	89,806	90,181	109,699	123,052	138,800	156,942	177,410	197,739
Nominal GDP (millions of U.S. dollars)	50,399	52,591	48,707	54,832	59,246	64,296	69,741	75,626	81,356

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

Table 2a. Democratic Republic of the Congo: Central Government Financial Operations, 2019–2024 1/

(Billions of CDF)

	2019	2020		2021					2022	2023	2024
	Prel.	SMP	year prel.	Q1 proj.	Q2 proj.	Q3 proj.	Q4 proj.	Proj.			
	(Billions of CDF, unless otherwise indicated)										
Revenue and grants	***9,000***	***11,409***	***8,820***	***2,446***	***3,526***	***3,223***	***3,091***	***12,286***	***14,999***	***18,101***	***21,966***
Revenue 2/	**8,361**	**10,189**	**7,889**	**2,338**	**3,380**	**2,761**	**2,674**	**11,154**	**14,000**	**16,962**	**21,053**
Tax revenue	5,677	7,028	5,634	1,550	2,580	2,040	1,945	8,115	10,514	13,122	16,735
Income tax	2,646	3,060	2,384	568	1,499	931	833	3,831	4,929	5,623	6,363
Individuals	847	1,810	1,123	379	362	373	383	1,497	1,844	2,088	2,361
Businesses	1679	1,087	876	136	1,093	507	409	2145	2837	3250	3676
Other unallocable taxes on income, profits, and capital gains	120	163	386	53	43	51	42	189	248	285	326
Taxes on goods and services	2,352	2,979	2,558	840	930	953	958	3,681	4,687	6,131	8,284
Value-added tax/Turnover tax	1,827	2,595	2,019	651	729	744	751	2,874	3,586	4,571	5,987
Excises	526	384	539	190	201	209	207	807	1,101	1,561	2,298
Taxes on international trade and transactions	678	989	692	142	150	156	155	603	898	1,367	2,087
Non-tax revenue	2,123	3,161	2,159	788	801	721	729	3,039	3,486	3,840	4,318
Revenue from natural resources and telecommunications	988	1,173	1,019	388	357	304	304	1,353	1,547	1,762	1,988
Mining royalties	406	277	586	144	177	188	209	718	823	923	1,030
Oil royalty and rent	174	257	105	40	40	40	40	160	169	183	204
Telecommunications	267	435	178	187	44	49	44	324	379	451	522
Dividents from state-owned enterprises	142	203	150	18	96	27	11	151	175	205	232
Fees from sectoral ministries	271	584	233	117	156	132	137	542	753	756	855
Special accounts and budgets	782	1,292	828	239	239	239	239	956	1,053	1,173	1,314
Grants	**639**	**1,220**	**931**	**108**	**146**	**461**	**417**	**1,132**	**999**	**1,139**	**913**
Project	639	921	799	50	50	454	254	809	377	406	294
Budget support	0	299	132	58	96	7	162	323	622	733	619
Expenditure	***10,679***	**11,915**	***10,693***	**2,298**	**3,857**	**3,917**	**4,040**	***14,112***	***16,503***	***19,694***	***23,806***
Current expenditure	8,683	9,057	8,690	2,066	3,088	2,544	2,678	10,376	11,614	13,373	15,226
Wages	3,575	4,392	4,758	1,258	1,182	1,182	1,499	5,120	5,796	6,705	7,581
Interest due	209	350	218	57	58	66	59	240	313	409	508
External	47	24	47	17	19	26	19	82	131	189	230
Domestic	162	327	171	40	40	40	40	159	182	220	278
Goods and services	1,657	1,783	1,471	342	892	676	436	2,346	2,632	2,969	3,357
Subsidies and other current transfers	3,242	2,532	2,243	409	956	620	684	2,669	2,873	3,291	3,780
Subsidies (incl. VAT reimbursements)	2,310	1,037	1,336	262	376	432	480	1,550	1,646	1,916	2,231
Transfers to other levels of national government	150	204	79	12	54	45	52	164	174	202	236
Special accounts and budgets	782	1,292	828	135	526	143	152	956	1,053	1,173	1,314
Capital expenditure	**1,849**	**2,707**	**1,906**	**227**	**714**	**1,348**	**1,324**	**3,612**	**4,736**	**6,158**	**8,407**
Foreign-financed	1,062	1,479	1,655	173	410	1,172	1,152	2,907	2,194	2,330	2,443
Domestically-financed	787	1,229	251	54	303	176	172	705	2,542	3,828	5,965
Exceptional expenditure 3/	**147**	**151**	**98**	**6**	**55**	**25**	**38**	**124**	**153**	**162**	**172**
Overall fiscal balance (commitment basis)	***-1,680***	**-506**	***-1,873***	**148**	**-331**	**-694**	**-949**	***-1,826***	***-1,505***	***-1,593***	***-1,840***
Base domestic fiscal balance	**-1,210**	**-224**	**-1,102**	**230**	**-48**	**43**	**-195**	**31**	**-179**	**-213**	**-80**
Change in domestic arrears (repayment = -)	692	0	450	93	-46	-46	-185	-185	-477	-477	-477
Domestic fiscal balance (cash basis)	**-518**	**-224**	**-652**	**323**	**-94**	**-4**	**-380**	**-155**	**-655**	**-689**	**-557**
Overall fiscal balance (cash basis)	***-988***	**-506**	***-1,424***	**241**	**-377**	**-741**	**-1,135**	***-2,012***	***-1,981***	***-2,069***	***-2,317***
Errors and omissions	***-122***	***0***	***86***	***-77***	***0***	***0***	***0***	***-77***	***0***	***0***	***0***
Financing	***1,141***	**506**	***1,372***	**-163**	**377**	**741**	**1,135**	***2,089***	***1,981***	***2,069***	***2,317***
Domestic financing (banking system)	1,086	350	190	-208	-30	131	216	108	108	134	164
Foreign financing	56	156	1,182	45	407	610	918	1,981	1,873	1,936	2,152
Budget loans	0	0	650	87	111	100	94	392	686	659	506
Project loans	423	557	856	123	360	717	898	2,098	1,817	1,924	2,148
Amortization of external debt	-367	-401	-324	-164	-64	-207	-74	-509	-630	-647	-502
Memorandum items:											
Gross domestic product (billions of CDF)	83,048	89,806	90,181	...	...	...	...	109,699	123,052	138,800	156,942
Gross domestic product (millions of U.S. dollars)	50,399	52,591	48,707	...	...	...	...	54,832	59,246	64,296	69,741
Mining revenues	3,054	...	2,375	...	...	...	...	3,561	4,317	5,009	5,657
Unpaid cumulative domestic financial obligations 4/	5841	4,649	5675	...	...	...	...	5490	5013	4536	4060

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

1/ Covers the budgetary central government.

2/ Revenue include compensations in 2019 and 2020.

3/ Mainly expenditure related to security and elections.

4/ Unpaid VAT credit reimbursements and other arrears (cumulative).

Table 2b. Democratic Republic of the Congo: Central Government Financial Operations, 2019–2024 [1/]

(Percent of GDP)

	2019	2020		2021					2022	2023	2024
	Prel.	SMP	year prel.	Q1 proj.	Q2 proj.	Q3 proj.	Q4 proj.	Proj.			
	(Percent of GDP, unless otherwise indicated)										
Revenue and grants	10.8	12.7	9.8	2.2	3.2	2.9	2.8	11.2	12.2	13.0	14.0
Revenue [2/]	10.1	11.3	8.7	2.1	3.1	2.5	2.4	10.2	11.4	12.2	13.4
Tax revenue	6.8	7.8	6.2	1.4	2.4	1.9	1.8	7.4	8.5	9.5	10.7
Income tax	3.2	3.4	2.6	0.5	1.4	0.8	0.8	3.5	4.0	4.1	4.1
Individuals	1.0	2.0	1.2	0.3	0.3	0.3	0.3	1.4	1.5	1.5	1.5
Businesses	2.0	1.2	1.0	0.1	1.0	0.5	0.4	2.0	2.3	2.3	2.3
Other unallocable taxes on income, profits, and capital gains	0.1	0.2	0.4	0.0	0.0	0.0	0.0	0.2	0.2	0.2	0.2
Taxes on goods and services	2.8	3.3	2.8	0.8	0.8	0.9	0.9	3.4	3.8	4.4	5.3
Value-added tax/Turnover tax	2.2	2.9	2.2	0.6	0.7	0.7	0.7	2.6	2.9	3.3	3.8
Excises	0.6	0.4	0.6	0.2	0.2	0.2	0.2	0.7	0.9	1.1	1.5
Taxes on international trade and transactions	0.8	1.1	0.8	0.1	0.1	0.1	0.1	0.5	0.7	1.0	1.3
Non-tax revenue	2.6	3.5	2.4	0.7	0.7	0.7	0.7	2.8	2.8	2.8	2.8
Revenue from natural resources and telecommunications	1.2	1.3	1.1	0.4	0.3	0.3	0.3	1.2	1.3	1.3	1.3
Mining royalties	0.5	0.3	0.7	0.1	0.2	0.2	0.2	0.7	0.7	0.7	0.7
Oil royalty and rent	0.2	0.3	0.1	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1
Telecommunications	0.3	0.5	0.2	0.2	0.0	0.0	0.0	0.3	0.3	0.3	0.3
Dividents from state-owned enterprises	0.2	0.2	0.2	0.0	0.1	0.0	0.0	0.1	0.1	0.1	0.1
Fees from sectoral ministries	0.3	0.6	0.3	0.1	0.1	0.1	0.1	0.5	0.6	0.5	0.5
Special accounts and budgets	0.9	1.4	0.9	0.2	0.2	0.2	0.2	0.9	0.9	0.8	0.8
Grants	0.8	1.4	1.0	0.1	0.1	0.4	0.4	1.0	0.8	0.8	0.6
Project	0.8	1.0	0.9	0.0	0.0	0.4	0.2	0.7	0.3	0.3	0.2
Budget support	0.0	0.3	0.1	0.1	0.1	0.0	0.1	0.3	0.5	0.5	0.4
Expenditure	12.9	13.3	11.9	2.1	3.5	3.6	3.7	12.9	13.4	14.2	15.2
Current expenditure	10.5	10.1	9.6	1.9	2.8	2.3	2.4	9.5	9.4	9.6	9.7
Wages	4.3	4.9	5.3	1.1	1.1	1.1	1.4	4.7	4.7	4.8	4.8
Interest due	0.3	0.4	0.2	0.1	0.1	0.1	0.1	0.2	0.3	0.3	0.3
External	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1
Domestic	0.2	0.4	0.2	0.0	0.0	0.0	0.0	0.1	0.1	0.2	0.2
Goods and services	2.0	2.0	1.6	0.3	0.8	0.6	0.4	2.1	2.1	2.1	2.1
Subsidies and other current transfers	3.9	2.8	2.5	0.4	0.9	0.6	0.6	2.4	2.3	2.4	2.4
Subsidies (incl. VAT reimbursements)	2.8	1.2	1.5	0.2	0.3	0.4	0.4	1.4	1.3	1.4	1.4
Transfers to other levels of national government	0.2	0.2	0.1	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.2
Special accounts and budgets	0.9	1.4	0.9	0.1	0.5	0.1	0.1	0.9	0.9	0.8	0.8
Capital expenditure	2.2	3.0	2.1	0.2	0.7	1.2	1.2	3.3	3.8	4.4	5.4
Foreign-financed	1.3	1.6	1.8	0.2	0.4	1.1	1.1	2.6	1.8	1.7	1.6
Domestically-financed	0.9	1.4	0.3	0.0	0.3	0.2	0.2	0.6	2.1	2.8	3.8
Exceptional expenditure [3/]	0.2	0.2	0.1	0.0	0.1	0.0	0.0	0.1	0.1	0.1	0.1
Overall fiscal balance (commitment basis)	-2.0	-0.6	-2.1	0.1	-0.3	-0.6	-0.9	-1.7	-1.2	-1.1	-1.2
Change in domestic arrears (repayment = -)	0.8	0.0	0.5	0.1	0.0	0.0	-0.2	-0.2	-0.4	-0.3	-0.3
Domestic fiscal balance (cash basis)	-0.6	-0.2	-0.7	0.3	-0.1	0.0	-0.3	-0.1	-0.5	-0.5	-0.4
Overall fiscal balance (cash basis)	-1.2	-0.6	-1.6	0.2	-0.3	-0.7	-1.0	-1.8	-1.6	-1.5	-1.5
Errors and omissions	-0.1	0.0	0.1	-0.1	0.0	0.0	0.0	-0.1	0.0	0.0	0.0
Financing	1.4	0.6	1.5	-0.1	0.3	0.7	1.0	1.9	1.6	1.5	1.5
Domestic financing	1.3	0.4	0.2	-0.2	0.0	0.1	0.2	0.1	0.1	0.1	0.1
Foreign financing	0.1	0.2	1.3	0.0	0.4	0.6	0.8	1.8	1.5	1.4	1.4
Budget loans	0.0	0.0	0.7	0.1	0.1	0.1	0.1	0.4	0.6	0.5	0.3
Project loans	0.5	0.6	0.9	0.1	0.3	0.7	0.8	1.9	1.5	1.4	1.4
Amortization of external debt	-0.4	-0.4	-0.4	-0.1	-0.1	-0.2	-0.1	-0.5	-0.5	-0.5	-0.3
Memorandum items:											
Gross domestic product (billions of CDF)	83,048	89,806	90,181	...	...	...	...	109,699	123,052	138,800	156,942
Gross domestic product (millions of U.S. dollars)	50,399	52,591	48,707	...	...	...	...	54,832	59,246	64,296	69,741
Mining revenues	3.7	...	2.6	...	...	...	...	3.2	3.5	3.6	3.6
Unpaid cumulative domestic financial obligations [4/]	7.0	5	6.3	...	...	...	...	5.0	4.1	3.3	2.6

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

1/ Covers the budgetary central government.

2/ Revenue include compensations in 2019 and 2020.

3/ Mainly expenditure related to security and elections.

4/ Unpaid VAT credit reimbursements and other arrears (cumulative).

Table 3. Democratic Republic of the Congo: Monetary Survey, 2019–2024

(Billions of CDF)

	2019	2020				2021				2022	2023	2024
	Prel.	Q1 prel.	Q2 prel.	Q3 prel.	Q4 prel.	Q1 prel.	Q2 proj.	Q3 proj.	Q4 proj.			
Central bank survey:												
Net foreign assets	**-156**	**-653**	**-232**	**-387**	**-823**	**-1,240**	**-565**	**-491**	**-406**	**-165**	**-129**	**207**
Claims on non-residents[1/]	1,751	1,246	1,858	1,822	1,448	1,031	2,120	2,223	2,795	4,125	5,339	6,439
Liabilities on non-residents	-1,907	-1,899	-2,090	-2,210	-2,272	-2,270	-2,686	-2,714	-3,201	-4,290	-5,468	-6,233
Net domestic assets	**3,683**	**3,986**	**3,612**	**3,761**	**4,478**	**4,894**	**4,802**	**4,926**	**5,026**	**5,555**	**6,410**	**7,122**
Net claims on the government	2,104	2,355	1,958	2,210	2,298	2,125	2,095	2,196	2,298	2,298	2,298	2,298
Claims on deposit money banks	1,006	908	1,276	1,266	1,406	1,691	1,708	1,708	1,715	1,715	1,664	1,581
Other items, net	546	691	326	244	726	1,019	941	963	961	1,487	2,390	3,180
Monetary base	**3,527**	**3,333**	**3,380**	**3,374**	**3,655**	**3,655**	**4,237**	**4,435**	**4,619**	**5,390**	**6,281**	**7,328**
Monetary survey:												
Net foreign assets	**4,976**	**4,789**	**6,655**	**8,623**	**9,670**	**9,627**	**11,369**	**12,193**	**13,165**	**16,347**	**19,969**	**24,044**
Central bank	-156	-653	-232	-387	-823	-1,240	-565	-491	-406	-165	-129	207
Commercial banks	5,132	5,442	6,887	9,010	10,494	10,867	11,934	12,683	13,572	16,512	20,099	23,837
Net domestic assets	**7,929**	**8,209**	**8,247**	**7,862**	**8,995**	**9,326**	**9,777**	**9,953**	**9,993**	**10,811**	**11,833**	**13,280**
Domestic credit	7,994	8,545	9,009	9,201	9,600	9,495	10,228	10,460	10,755	12,214	13,965	16,021
Net credit to government	2,173	2,369	1,975	2,122	2,159	2,285	1,873	2,003	2,267	2,389	2,538	2,722
Credit to the economy	5,822	6,004	6,786	6,831	7,442	6,998	8,144	8,245	8,488	9,825	11,427	13,298
Other items, net	-65	-336	-763	-1,339	-605	-169	-451	-507	-762	-1,403	-2,132	-2,740
Broad Money (M2)	**12,905**	**12,998**	**14,901**	**16,485**	**18,665**	**18,953**	**21,146**	**22,146**	**23,158**	**27,158**	**31,802**	**37,324**
Narrow Money (M1)	2,640	2,784	3,039	3,385	3,417	3,588	4,088	4,240	4,405	5,216	5,692	6,258
Currency in circulation	1,767	1,762	1,904	2,106	2,219	2,114	2,451	2,521	2,605	3,111	3,187	3,277
Demand deposits	874	1,022	1,135	1,279	1,197	1,474	1,637	1,718	1,799	2,105	2,505	2,981
Quasi money	10,265	10,214	11,862	13,100	15,249	15,364	17,059	17,906	18,753	21,941	26,110	31,066
Time deposits in domestic currency	286	315	341	424	288	503	559	587	614	719	855	1,018
Foreign currency deposits	9,979	9,899	11,521	12,676	14,960	14,861	16,500	17,319	18,139	21,223	25,255	30,048
(Annual percent change)												
Net foreign assets	45.2	18.4	67.9	87.6	94.3	101.0	70.8	41.4	36.1	24.2	22.2	20.4
Net domestic assets	28.8	25.6	11.5	12.6	13.4	13.6	18.6	26.6	11.1	8.2	9.5	12.2
Domestic credit	22.1	29.8	29.7	19.9	22.9	9.2	17.1	15.5	10.7	12.4	13.2	13.6
Net credit to government	55.7	53.1	14.9	0.2	-0.6	-3.6	-5.2	-5.6	5.0	5.4	6.3	7.3
Credit to the private sector	14.3	25.9	33.8	23.2	30.2	17.8	24.2	24.9	15.7	17.3	17.7	17.6
Other items, net	-71.4	-1,064.4	-256.4	67.8	825.5	-49.6	-40.9	-62.2	25.9	84.1	52.0	28.5
Broad Money (M2)	34.7	22.9	31.1	42.4	44.6	45.8	41.9	34.3	24.1	17.3	17.1	17.4
(Annual percentage change of beginning-of-period broad money)												
Net foreign assets	16.2	5.8	20.8	31.2	36.4	25.9	25.3	19.1	18.7	13.7	13.3	12.8
Net domestic assets	18.5	13.0	6.6	6.8	8.3	6.0	8.2	11.2	5.3	3.5	3.8	4.6
Domestic credit	16.8	15.8	16.3	11.0	12.4	5.1	6.5	6.7	6.2	6.3	6.4	6.5
Net credit to government	8.1	6.4	2.0	0.0	-0.1	-0.5	-0.5	-0.6	0.6	0.5	0.6	0.6
Credit to the private sector	6.7	8.8	12.0	9.0	12.0	5.3	8.0	8.3	5.6	5.8	5.9	5.9
Credit to parastatals	0.1	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.5	0.6	0.6
Other items, net	1.7	-2.9	-9.7	-4.2	-4.2	0.9	1.7	4.5	-0.8	-2.8	-2.7	-1.9
Broad money (M2)	34.7	18.7	27.4	38.0	44.6	31.9	33.5	30.3	24.1	17.3	17.1	17.4
Memorandum items:												
Nominal GDP (billions of CDF)	83,048	…	…	…	90,181	…	…	…	109,699	123,052	138,800	156,942
Velocity (GDP/broad money)	6.4	…	…	…	4.8	…	…	…	4.7	4.5	4.4	4.2
Foreign currency deposits (percent of M2)	77.3	…	…	…	80.1	…	…	…	78.3	78.1	79.4	80.5
Foreign currency deposits (percent of total deposits)	89.6	…	…	…	91.0	…	…	…	88.3	88.3	88.3	88.3
Net domestic assets of the BCC (billions of CDF)	3,683	…	…	…	4,478	…	…	…	5,026	5,555	6,410	7,122
Base money (billions of CDF)	3,527	…	…	…	3,655	…	…	…	4,619	5,390	6,281	7,328

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

1/ Includes reclassification of accounts to comply with reporting standards of IMF.

Table 4. Democratic Republic of the Congo: Balance of Payments, 2019–2024

	2019	2020	2021	2022	2023	2024
	Est.	Projections				
	(Millions of US dollars, unless otherwise indicated)					
Current Account Balance (excl. budget grants)	-1,620	-1,166	-1,297	-1,388	-1,314	-1,202
Goods balance	241	1,923	1,943	2,206	2,313	2,210
Exports of Goods	13,184	13,789	20,225	21,804	23,324	24,588
Imports of Goods	12,943	11,865	18,282	19,598	21,011	22,377
Services balance	-2,107	-2,548	-2,621	-2,706	-2,796	-2,779
Primary income	-1,253	-1,274	-1,586	-1,714	-1,860	-1,962
Secondary income (excl. budget support grants)	1,499	733	967	827	1,030	1,328
Capital Account Balance	406	626	197	-46	-39	-87
Net Lending(+)/Borrowing(-)	-1,215	-540	-1,100	-1,434	-1,353	-1,289
Financial Account Balance (excl. IMF and budget loans)	-1,581	404	-938	-938	-736	-947
Portfolio investment	46	40	53	53	53	53
Direct investment	-1,351	-1,498	-1,623	-1,647	-1,704	-1,761
Direct investment liabilities	1,354	1,498	1,623	1,647	1,704	1,761
Financial derivatives	0	0	0	0	0	0
Other investment	-276	1,863	632	656	915	761
Net Errors and Omissions	-298	342	0	0	0	0
Overall balance	68	-602	-162	-496	-616	-342
Financing	-68	602	162	496	616	342
IMF loans	368	0	441	444	446	224
Budget grants	0	71	161	300	340	275
Budget loans[1]	0	362	196	330	305	225
Reserve assets (increase = -)	-436	169	-635	-578	-475	-381
	(Percent of GDP, unless otherwise indicated)					
Current Account Balance (excl. budget grants)	-3.2	-2.4	-2.4	-2.3	-2.0	-1.7
Goods balance	0.5	3.9	3.5	3.7	3.6	3.2
Exports of Goods	26.2	28.3	36.9	36.8	36.3	35.3
Imports of Goods	25.7	24.4	33.3	33.1	32.7	32.1
Services balance	-4.2	-5.2	-4.8	-4.6	-4.3	-4.0
Primary income	-2.5	-2.6	-2.9	-2.9	-2.9	-2.8
Secondary income (excl. budget support grants)	3.0	1.5	1.8	1.4	1.6	1.9
Capital Account Balance	0.8	1.3	0.4	-0.1	-0.1	-0.1
Net Lending(+)/Borrowing(-)	-2.4	-1.1	-2.0	-2.4	-2.1	-1.8
Financial Account Balance (excl. IMF and budget loans)	-3.1	0.8	-1.7	-1.6	-1.1	-1.4
Portfolio investment	0.1	0.1	0.1	0.1	0.1	0.1
Direct investment	-2.7	-3.1	-3.0	-2.8	-2.7	-2.5
Direct investment liabilities	2.7	3.1	3.0	2.8	2.7	2.5
Financial derivatives	0.0	0.0	0.0	0.0	0.0	0.0
Other investment	-0.5	3.8	1.2	1.1	1.4	1.1
Net Errors and Omission	-0.6	0.7	0.0	0.0	0.0	0.0
Memorandum Items:						
Gross reserves	729.6	708.9	1,344.4	1,922.5	2,397.3	2,778.8
of which: Changes in net use of IMF financing	368.2	320.7	425.9	443.9	446.1	223.8
Gross reserves (in weeks of non-aid related imports)	3.0	1.9	3.4	4.6	5.3	5.8
Nominal GDP (Million US Dollars)	50,398.8	48,706.5	54,831.7	59,246.3	64,295.6	69,741.2

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

[1] Including 2020 IMF RCF loan for budget support.

Table 5. Democratic Republic of the Congo: Capacity to Repay the Fund

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Total obligations on existing and prospective credit 1/														
Total obligations (In millions of SDRs)	32.0	9.9	0.3	0.3	0.3	80.2	106.9	183.0	243.9	304.8	240.1	213.5	137.3	76.4
Principal	29.7	9.9	0.0	0.0	0.0	80.0	106.6	182.7	243.7	304.6	239.9	213.2	137.1	76.1
Charges and interest 2/	2.3	0.0	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Total obligations (In millions of U.S. dollars)	44.6	14.3	0.4	0.4	0.4	118.2	158.0	270.5	360.6	450.6	354.9	315.5	203.0	112.9
In percent of exports of goods and services	0.3	0.1	0.0	0.0	0.0	0.4	0.6	1.0	1.3	1.5	1.2	1.0	0.6	0.3
In percent of GDP	0.1	0.0	0.0	0.0	0.0	0.2	0.2	0.3	0.4	0.5	0.3	0.3	0.2	0.1
In percent of quota	3.0	0.9	0.0	0.0	0.0	7.5	10.0	17.2	22.9	28.6	22.5	20.0	12.9	7.2
In percent of gross international reserves	6.3	1.1	0.0	0.0	0.0	4.1	5.0	7.7	8.7	10.6	8.5	6.2	3.4	1.7
Fund credit outstanding (end-period)														
In millions of SDRs	542.9	837.6	1,142.2	1,446.8	1,599.1	1,519.1	1,412.5	1,229.8	986.1	681.5	441.7	228.5	91.4	15.3
In millions of U.S. dollars	780.8	1,215.8	1,669.0	2,122.3	2,353.1	2,241.9	2,090.8	1,820.3	1,459.7	1,008.8	653.8	338.2	135.3	22.6
In percent of exports of goods and services	5.6	5.9	7.6	9.0	9.5	8.5	7.6	6.5	5.1	3.4	2.1	1.1	0.4	0.1
In percent of GDP	1.6	2.2	2.8	3.3	3.4	3.0	2.6	2.1	1.6	1.0	0.6	0.3	0.1	0.0
In percent of quota	50.9	78.6	107.1	135.7	150.0	142.5	132.5	115.4	92.5	63.9	41.4	21.4	8.6	1.4
In percent of total external debt	11.8	15.5	18.5	21.0	21.5	19.4	16.5	13.3	10.0	6.5	4.0	2.0	0.7	0.1
In percent of gross international reserves	110.1	90.4	86.8	88.5	84.7	76.9	66.4	51.7	35.3	23.6	15.7	6.6	2.3	0.3
Memorandum items														
Exports of goods and services (in millions of U.S. dollars)	13,932	20,450	22,047	23,583	24,883	26,412	27,373	28,111	28,823	29,637	30,589	31,489	32,308	33,157
Quota (in millions of SDRs)	1,066	1,066	1,066	1,066	1,066	1,066	1,066	1,066	1,066	1,066	1,066	1,066	1,066	1,066
GDP (in millions of U.S. dollars)	48,707	54,832	59,246	64,296	69,741	75,626	81,356	87,065	93,112	99,704	106,833	114,511	122,762	131,587
Public sector external debt (end-period, in millions of U.S. dollars)	6,600	7,859	9,026	10,085	10,920	11,528	12,656	13,725	14,654	15,513	16,419	17,334	18,344	19,410
Gross international reserves (in millions of U.S. dollars)	709	1,344	1,922	2,397	2,779	2,916	3,151	3,520	4,140	4,269	4,174	5,112	5,968	6,635

Sources: IMF staff estimates and projections.

1/ Obligations to the Fund in 2020 reflect the relief grant under the CCRT.

2/ On May 24, 2019 the IMF Executive Board approved a modified interest rate setting mechanism which effectively sets interest rates to zero on ECF and SCF through June 2021 and possibly longer. The Board also decided to extend zero interest rate on ESF till end June 2021 while interest rate on RCF was set to zero in July 2015. Based on these decisions and current projections of SDR rate, the following interest rates are assumed beyond June 2021: 0/0/0/0 percent per annum for the ECF, SCF, RCF and ESF, respectively. The Executive Board will review the interest rates on concessional lending by end-June 2021 and every two years thereafter.

Table 6. Democratic Republic of the Congo: Financial Soundness Indicators

	2018	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Adequacy										
Regulatory capital to risk-weighted assets	13.7	13.9	13.8	13.9	14.1	14.5	14.7	13.5	14.0	13.6
Asset quality										
NPLs to gross loans	13.8	13.0	13.2	16.1	21.1	17.2	18.1	20.6	18.9	19.0
Earnings and profitability										
Return on assets (net income/total assets)	1.1	1.7	1.8	1.4	1.0	1.4	1.1	2.2	2.1	0.3
Interest margin to gross income	35.5	40.1	38.4	38.7	38.0	38.7	37.3	36.1	32.6	30.5
Liquidity										
Deposits/Loans	168.9	183.3	184.6	174.1	176.3	174.8	182.3	203.1	220.5	226.0
Sensitivity to market risk										
Foreign currency-denominated loans to total loans	90.0	92.7	91.8	91.5	91.7	89.5	87.9	87.9	89.0	88.9

Source: Central Bank of the Democratic Republic of the Congo (BCC).

Table 7. Democratic Republic of the Congo: Indicative Targets Under the SMP, 2019–May 2020

	2019				2020							
	SMP	Adjusted SMP	Prel.	Status	SMP	Adjusted SMP	March	Status	SMP	Adjusted SMP	May[1/]	Status
Floor on changes in net foreign assets of the BCC (US$ millions)[2/]	-146	-155	104	Met	116	132	-298	Not met	231	443	-43	Not met
Ceiling on accumulation of new central government loans guaranteed by the BCC (CF billions)	372	…	295	Met	0	…	0	Met	0	…	73	Not met
Ceiling on changes in net central bank credit to government (CF billions)	554	569	566	Met	0	-26	241	Not met	0	-350	-261	Not met
Ceiling on placement of Treasury bills and bonds by the central government (CF billions)	150	…	112	Met	80	…	48	Met	150	…	58	Met
millions)	150	…	301	Not met	86	…	153	Not met				
Accumulation of external arrears (US$ millions)	0	…	0	Met	0	…	0	Met				
Floor on domestic balance - cash basis (CF billions)	-862	…	-518	Met	56	…	-201	Not met				
Accumulation of wage arrears (US$ million)	0	…	0	Met	0	…	0	Met				
Memorandum items:												
Balance of payments support (US$ millions)	368		368		0		0		0		362	
Contracting of new concessional external debt (US$ millions)	317		517		154		0		256		138	
New disbursement of external budget and project loans, and grants (US$ millions)	613		644		338		126		541		396	
Scheduled external debt service payments (US$ millions)	131		140		64		48		106		75	

Sources: Congolese authorities and IMF staff estimates and projections

1/ Cumulative variables from January till May. Only the first four ITs will be monitored for the May test date.

2/ An incorrect exchange rate of CGF 2,839 per SDR was included in the Technical Memorandum of Understanding for the 2019 SMP. The corrected exchange rate of CGF 2,256 per SDR (as of September 30, 2019) has been used to validate the indicative targets.

Table 8. Democratic Republic of the Congo: Prior Action for the Rapid Credit Facility and Structural Benchmarks for the Staff-Monitored Program

Actions	Rationale	Date	Status
Prior Action			
Transfer USD160 million in FX deposits from BCC accounts at domestic commercial banks to BCC accounts in overseas banks which would be accounted for as reserves	Strengthen external position	December 5, 2019	Met
VAT: The Minister of Finance to make the DGI responsible for the payment of VAT refunds to mining companies (using a risk-based approach) through an escrow accounts receiving proceeds from the VAT collected by the DGDA from mining companies and a quota of overall VAT collected by the DGI	Increase revenue	January 2020	Met
Lift the suspension of VAT collection for mining companies at the customs.		March 2020	Not met
PIT: Enforce the inter-ministerial circular imposing personal income tax withholding on the totality of the compensation (including salaries, bonuses, and other forms of remuneration) of civil servants, other public employees and employees of political institutions.	Increase revenue	January 2020	Met
Publish a 2020 Treasury Plan on the Ministry of Finances' website, consistent with realistic receipts and financing previsions to serve as a guide for expenditure commitments	Rationalize expenditure	January 2020	Met
Publish the complete, audited 2018 financial statements of the BCC on the BCC's website	Strengthen BCC transparency	December 2019	Met

Sources: Congolese authorities and IMF staff

Table 9. Democratic Republic of the Congo: Proposed Reviews and Purchases Under the Three-Year Extended Credit Facility Arrangement

Avaibility Date	Action	Associated Disbursement			Share of Quota
On July 15, 2021	Approved three-year ECF arrangement	SDR	152.3	million	14.3
On or after September 15, 2021	Completed the first review based on end-June, 2021 performance criteria	SDR	152.3	million	14.3
On or after March 15, 2022	Completed the second review based on end-December, 2021 performance criteria	SDR	152.3	million	14.3
On or after September 15, 2022	Completed the third review based on end-June, 2022 performance criteria	SDR	152.3	million	14.3
On or after March 15, 2023	Completed the fourth review based on end-December, 2022 performance criteria	SDR	152.3	million	14.3
On or after September 15, 2023	Completed the fifth review based on end-June, 2023 performance criteria	SDR	152.3	million	14.3
On or after March 15, 2024	Completed the sixth and final review based on end-December, 2023 performance criteria	SDR	152.3	million	14.3
Total		SDR	1066.0	million	100.0

Source: International Monetary Fund.

Annex I. Summary of DRC Country Engagement Strategy[1]

A. Background and Context

- Despite its vast mineral resources and other riches, the Democratic Republic of Congo (DRC) fits almost all aspects of state fragility, with a history marked by protracted internal armed conflict and lack of security

- Six million Congolese are either internally displaced persons or refugees in neighboring countries and hundreds of armed groups are fighting across the country.

- DRC experiences high levels of corruption, state capture, and weak governance in most areas of the economy and the society.

- Poverty is widespread with 71 percent of the population in absolute poverty. Social indicators are among the worst in the world in the context of a high population growth rate.

- DRC is subject to repeated outbreaks of deadly diseases such as Ebola, measles, or cholera.

- Physical and social infrastructure is weak and insufficient. Few roads and airports have left large parts of the country inaccessible. Moreover, safety nets are very limited.

- DRC's political situation has been marked by instability, though there is currently some hope. Since independence in 1960, it took until 2019 for the first peaceful transfer of power. when President Tshisekedi took over from President Kabila. President Tshisekedi has shown a willingness to open the political system and to fight against corruption.

Lessons from the Staff Monitored Program

1. **Performance under the SMP was mixed due partly to the COVID pandemic and to weaknesses in policy management.** The program's quantitative indicative targets were only partially met, due to the impact of the COVID-19, but also as a result of policy slippages that took place before the pandemic. Revenue mobilization efforts continued to lag, while the other SBs were met. Unrealistic budgets have led to spending overruns and to a breakdown of the expenditure process and the use of emergency procedures.

2. **The authorities have committed to take corrective actions to redress problems encountered in the SMP's implementation**. Central bank advances have been discontinued after the signature of a MOU between the central bank and the ministry of finance. All new mining contracts since November 2019 have now been published and the budget allocations to the national

[1] The Management Implementation Plan that followed the 2018 IEO evaluation of Fund engagement in fragile and conflict-affected states envisaged that country teams would prepare "a succinct country engagement strategy that discusses country fragility, surveillance and CD priorities and, if applicable, the complementary role for Fund financial support as part of staff reports for Article IV and new programs."

committee of the EITI will be released following the takeover by a new coordinator. Public debt management and monitoring will be strengthened.

3. All in all, the SMP was a key step in many aspects. It was instrumental in reestablishing effective working relations with the authorities. The SMP helped enhance institutional capacity for program monitoring, improve cooperation between the MoF and the central bank, and prepare the ground for an ambitious yet realistic structural reform agenda. Governance and safeguards assessments also provided comprehensive diagnostics of key economic areas.

Some important lessons that were learned from the SMP for future Fund engagement are:

- Close and continued engagement by staff with various government institutions is essential.
- Broad involvement of the authorities in the design of targets and benchmarks is crucial to ensure that all relevant government parties are involved, and all processes known.
- In discussing program targets, finding the right balance between significant and realistic efforts in key areas will be essential in light of the complex political economy of the country.
- Technical assistance will be needed to strengthen the authorities' capacity in implementing policies and structural reforms.
- Further work needs to be done in data provision. Not having a Fund program since 2012 has weakened capacity and coordination among different institutions.

B. Strategy Going Forward

4. The DRC needs to devise a medium-term strategy aimed at:

- Achieving rapid, sustainable, and inclusive economic growth to help reduce poverty;
- Reducing large physical and social infrastructure gaps;
- Increasing government spending through improved domestic revenue mobilization;
- Ensuring debt sustainability;
- Re-affirming the central objective of price stability, enhance central bank independence and operations and strengthen the oversight and regulation of the financial system;
- Improving economic governance and reducing corruption.

5. The new President and his government support these key strategic objectives, but questions remain on the ability to deliver tangible reform proposals, including in governance.

Reengagement and Key Policies through an ECF Arrangement

6. The DRC faces protracted balance of payment problems and weak growth, justifying an ECF arrangement. The economy undergoes recurrent shocks and its public finances and external buffers are weak. Economic growth is insufficient given a relatively large population growth rate. In addition, the economy is subject to recurrent inflation and exchange rate depreciation bouts. The stock of external debt is relatively low, but risk of debt distress is moderate as result of low (and volatile) fiscal revenue and exports receipts. A medium-term Fund-supported program should help to achieve more durable macroeconomic stability and poverty reduction, including by catalyzing donor support. However, it will be challenging to put in place such a program given the fragmented nature of DRC politics, entrenched vested interests, and the electoral calendar. It is therefore important to carefully manage expectations and the pace of reforms.

Key policies under an ECF arrangement would be:

- **Strengthen the framework and technical capacity for macroeconomic and natural resource management.** The coordination between key institutions in charge of macroeconomic policymaking needs to be enhanced, the fiscal dominance that limits the independence of the BCC eliminated, and the oversight and control of SOEs strengthened. Concessional lending needs to be favored to ensure debt sustainability.

- **Step up domestic revenue mobilization** by streamlining and simplifying taxes, improving the operations of tax collection agencies, reducing redundancies, fighting against fraud and evasion at borders, and against corruption of tax and customs officials.

- **Enhance control and discipline over spending.** There is a need to approve realistic budgets, strictly implement public procurement law provisions, minimize the use of emergency procedures, strengthen cash and Treasury management, and reinforce budget reporting and audit functions. More technical assistance on PFM issues will be needed.

- **Boost the quality, inclusiveness, and growth-impact of government spending.** Public spending on infrastructure should be increased given substantial gaps. Health and education needs are vast and require sizable resources too. In addition, there is a need to provide a safety net for the poorest and for the fight against gender-based violence.

- **Maintain low and stable inflation through an effective monetary policy framework.** The BCC needs to modernize its policy instruments and tools to ensure price stability. Reinforcing central bank independence and strengthening its financial position are also essential to improve the conduct of monetary policy.

- **Strengthen the oversight and regulation of the financial sector.** The BCC needs to continue enhancing the risk-based supervisory framework and the oversight of banks. The current regulatory framework needs to be modernized and harmonized.

- **Improve the business environment and reduce the regulatory burden to unleash private sector investment.** It would be critical to reduce effective taxation and simplify and make predictable the interactions with public entities and the judiciary.

- **Step up the fight against corruption** through reforms and strengthening of the judiciary and law enforcement, transparency in the use of public resources, accountability for actions by policy makers and those in position of authority, and respect for the rule of law.

Pre-Requisites for an ECF Arrangement and Sequencing Reforms to Achieve Incremental Success

7. Some policy measures will need to be implemented before approving an ECF arrangement as early signals of commitment to reforms. Given many policy gaps and sizable capacity constraints, conditionality will have to be parsimonious and quite focused. One key measure will be the adoption of a realistic 2021 budget, consistent with maintaining macroeconomic stability and with the restoration of sound PFM practices. It is also critical to set up the BCC's Board and management in line with the 2018 BCC Law. Increased transparency in the mining sector is key given its role as a source of government revenue and export receipts.

8. Success should be expected to be incremental, with early wins hopefully creating a snowball effect. This strategy suggests that associated program conditionality should be limited at the beginning and gradually build-up over time given DRC's fragmented politics, relatively weak institutions, and widespread corruption. Incremental success will be critical in changing the mindset of the society and engendering trust. It would be crucial as well to reach out to various stakeholders and explain the rationale for and gains to expect from reforms, while also being candid about the sacrifices that reforms might entail. Civil society and international NGOs play a critical role in bringing forth issues and are very important partners for reforms. It is therefore crucial that both the authorities and staff maintain a dialogue in the context of a future ECF arrangement.

Stepping up Capacity Development and Coordination with other Partners

9. Capacity development (CD) is critical to the success of an ECF arrangement, as it will underpin needed institutional improvement. CD support from both HQ and AFRITAC Central has already been making a difference in DRC. But the governance and safeguard assessments have provided more comprehensive diagnoses of the issues and priorities. Given the depth of the shortcomings, the possibility of posting resident advisors in key areas should be considered. The final objective is to constitute a roster of highly trained and ethically conscious civil servants. Coordination with other donors and CD providers will be actively pursued.

10. As most partners share similar policy objectives as the Fund, staff will continue to closely collaborate and exchange information with them. This also provides a chance to strategize on how to best target CD and respond to the authorities' needs. Staff will continue to debrief the donor community on CD accomplishments to further the flow of information and cooperation.

Communication Strategy

11. **The Congolese public is very skeptical of the government, which puts a premium on communication.** Outreach takes a critical importance and it should target the vibrant civil society, faith-based organizations, academia, politicians, women organizations, and others. DRC has also been a magnet for large and powerful international media outlets. Communication around major events should be well-organized and coordinated for maximum effect and to deliver a coherent message. Given the depth and breadth of the issues the country faces and public skepticism, it is critical to be candid not to risk losing credibility.

Annex II. Main Recommendations of the Governance Report[1]

1. Four cross-cutting issues affect the effectiveness of the economic governance framework in the DRC: institutional complexity, normative complexity, data integrity and transparency, and checks and balances. The institutional complexity is due to a blurring of roles and responsibilities, for example in the way the government manages public enterprises through different ministries. Normative complexity derives from unclear legislative rules and regulations. Low levels of transparency are associated with low audit practices, which has an impact on the quality of financial data and disclosure practices.

2. On the fiscal side, significant vulnerabilities that may contribute to corruption exist in the areas of revenue administration agencies owing to largely manual processes. The exceptional complexity of the Congolese tax system creates incentives for corruption and abuse of power, harming the business environment. The scope of the General Treasury account remains narrow, while the remaining accounts are placed outside it without proper oversight. Standardized, public financial management procedures in areas like public procurement and budget execution are not followed, while the low quality and coverage of budgetary reports and financial statements undermines accountability and oversight mechanisms for state-owned enterprises are weak.

3. The BCC has not yet introduced necessary measures stemming from the 2018 law that were aimed at increasing its autonomy, governance, accountability, and financial transparency.

4. The judiciary faces many challenges in terms of resources, capacity and independence which undermine its ability to prosecute corruption effectively. The anti-corruption framework in the DRC is disjointed and lacks several key elements. Overall, the AML/CFT regime presents significant deficiencies and is not compliant with the 2012 FATF standards, as underscored by the mutual evaluation report by GABAC just recently completed.

5. The DRC institutional framework to combat corruption is subject to considerable shortcomings. Two key agencies are charged with the oversight of public finances but neither agency has a specific mandate to target or investigate corruption. Corruption is pervasive at all levels but there is a growing awareness of corruption by government officials. The absence of clear, effective oversight of the wealth/assets of public officials presents an opportunity to engage in corrupt behavior with impunity.

[1] Available at https://www.imf.org/en/Publications/CR/Issues/2021/05/25/Democratic-Republic-of-the-Congo-Technical-Assistance-Report-Governance-and-Anti-Corruption-50191

Topics	Recommendations (Priority in Bold)	Paragraph Reference
Public finance	• **Codify all central levies in a General Tax Code, including all non-tax revenue**.	**17**
	• **Adopt the decrees necessary to relaunch the work to assess the 2020 tax expenditure assessment for 2018.**	**17**
	• Rationalize non-tax revenues in order to reduce their number to the strict minimum by the end of 2023.	17
	• Rationalization of excise taxes.	17
	• Reform of the derogatory regimes (tax exemptions).	17
	• Launch a working group to oversee the development of provincial taxation and ETDs to develop an exhaustive code of levies from these governments.	17
	• Conduct a review of the special accounts, eliminate those that duplicate ministerial functions and entrust the collections of the remaining accounts to the tax agencies in place by the end of 2020.	17
	• Complete inventory of organizations with annexed budgets and supervise their revenue practices.	17
	• Eliminate the strategic partnership regime for value chains, as well as all conventions, approvals, agreements, letters or other that include tax exemptions, except in the codes currently in place.	
	• Conduct the census and unification of payroll and public service files.	19

Topics	Recommendations (Priority in Bold)	Paragraph Reference
Revenue collection	• **Implement the short-term measures proposed by the mission**[2] in terms of fiscal information publication, improvements of the appeals process, upgrading of reporting and payment procedures, and improvements of the resource management framework.	**19**
	• Develop a strategy to digitize the main procedures, modernize HR management, and strengthen internal control and monitoring.	
Public financial management	• **Extend the coverage of the TGA to all central government operations** by:	**19**
	– funneling central and local revenue, as well as any parafiscal tax collected by a third party into the TGA open at the central bank.	
	– securing critical liquidity on sequestered BCC sub-accounts reserved for these operations (i.e. VAT refunds, provisions for risks and precautionary cash to ensure the continuity of essential public services).	19
	– operating the extended TGA under the current conditions.	19
	• Carry out the accounting reform to professionalize treasury and accounting functions.	19
	• Restore normal expenditure procedures.	19
Extractive sector	• **Create a beneficial ownership registry**	
	• Ensure full consultation of any decree defining beneficial	
	• Ensure disclosure requirements on joint venture contracts and revenue projections	

[2] See Tables 3, 4, 5, and 7 of the Governance report.

Topics	Recommendations (Priority in Bold)	Paragraph Reference
SOEs	• **Assess rationale for state ownership.**	
	• **Introduce accountability triggers for SOE performance contracts.**	
	• Follow up on auditors qualified opinion.	
	• Develop a monitoring system for public policy obligations.	
	• Invigorate the functions of the State Auditor on budget allocation.	
	• Assess the need for additional magistrates to support the State Auditor mandate.	
	• Identify and raise the bar of corporate governance for the strategically important SOEs.	
	• Publication of financial statements of SOEs.	27
	• *Conseil Supérieur du Portefeuille* (CSP) to provide timely annual aggregate reporting for the SOE Portfolio.	
	• Comprehensive publication of mining, oil, and gas contracts, in particular of contracts involving transactions between state-owned entities and private companies or between the latter and the Congolese state directly.	27
	• Legally expand the perimeter of the Ministry of Portfolio oversight to include indirect state participations.	
Rule of Law	• **Establish a publicly accessible central repository of updated laws and regulations.** • **Create a digital property register to address the loss or falsification of property documents.** • Publish all court decisions. • Conduct proper investigations of and impose actual sanctions on magistrates/judges who abuse office for personal gain. • Publicize the fact of investigations and sanctions of magistrates / judges. • Strengthen the supervision of notaries to fully protect property owners.	

Topics	Recommendations (Priority in Bold)	Paragraph Reference
Anti-corruption framework	• **Engage in the first cycle of the UNCAC review mechanism**.	**25**
	• Criminalize acts of corruption in line with the United Nations Convention Against Corruption.	25
	• Establish and operationalize an independent anti-corruption agency	25
	• Eliminate presumed immunity for public officials by abolishing the immunity and the approval process needed to lift such immunity (National Assembly/Senate), to enable the Public Prosecutor to carry out its work.	
	• Enact a robust asset declaration law – in order to give effect to Article 99 of the DRC constitution.[3]	26
	• Confiscate proceeds of crime and assets of equivalent value, especially with the prosecution authorities in their investigations, focusing on the identification, location and tracing of existing asset values associated with an offence.	
Market regulation & business environment	• **Ensure full operationalization and sustainability of the guichet unique and for bureaus/antennas to become financially autonomous.**	
	• **Create a central registry of collaterals across all banking sector.**	
	• Create a Companies Registry database linked with business registration platform where companies will file annual accounts and the data maintained in a useable format.	
	• Implementing ASYCUDA World in the electronic single window involving all stakeholders.	17
Financial Sector Oversight	• Implement upgraded regulations on banks' governance, internal controls and risk management.	22
	• Continue to work on adoption of risk based supervisory processes and practices.	22
	• Address corrective action disclosure and powers	22
	• Continue working with AFC to improve implementation of licensing requirements.	22

[3] Further, the obligation to disclose assets should extend beyond the current very limited remit of Article 99, which covers only the President of the DRC and members of government. In cases of non-compliance, the country must enforce the sanctions that are envisaged by the constitution.

Topics	Recommendations (Priority in Bold)	Paragraph Reference
AML	• **Amend the AML/CFT Law and related regulations to ensure compliance with the FATF standard.**	**26**
	• **Implement a comprehensive asset declaration framework to strengthen the effectiveness of measures for politically exposed persons (PEP).**	**26**
	• Strengthen the CRF with the resources and independence to carry out its mission.	
	• Strengthen the supervision of financial institutions by further developing risk-based supervision, in particular on banks.	
	• Issue guidance on AML/CFT recommendations and encourage banks to file suspicious activity reports (including on money laundering typologies related to the extractive sector).	
	• Revise the legal framework applicable to legal persons and arrangements in line with the FATF standard.	26
	• Implement a mechanism to ensure that, at a minimum, competent authorities can obtain adequate, accurate and current beneficial ownership information on legal persons and arrangements, in a timely manner.	
	• Define a penal policy oriented at suppressing ML and its underlying predicate crimes, supported by parallel financial investigations, focusing on the main risks identified in the NRA.	
	• Develop a procedural manual for international cooperation in order to clarify processes priorities, timeframes and levels of confidentiality for MLA requests.	
	• Create within the office of the Public Prosecutor at the Court of Appeal, a dedicated unit for international cooperation to track and manage MLA requests, including those related to ML/TF.	
	• Sign bilateral agreements and formalize international cooperation with countries with which the DRC shares informal channels for information exchange, prioritizing those with heightened ML/TF risks.	

Annex III. COVID-19—Health Impact and Policy Response

1. The health impact of COVID has so far been limited to 40,254 confirmed cases and 916 deaths as of late June 2021, with a large majority of cases concentrated in the capital city of Kinshasa. During the first COVID wave in Spring 2020, a lockdown was imposed in Gombe, the business district of Kinshasa. Industrial mining sites located in the Katanga and Lualaba provinces were placed in severe lockdown throughout the pandemic, with workers banned from leaving the compound, but an agreement with mining companies was reached in July to lift the most stringent measures. As a result of a second COVID-19 wave, the government announced new restrictions in December 2020, such as the establishment of a curfew, the obligation of wearing a mask, or compulsory COVID testing for domestic and external travelers. In early June 2021, a third wave of COVID-19, with Kinshasa as its epicenter, was officially announced by the health authorities.

2. In early March 2021, a first shipment of 1.7 million doses of the COVID-19 vaccine arrived at Kinshasa. This was part of the first wave of supplies sent to the country by COVAX, the global initiative led by the WHO and other health partners that aims at equitable access to the COVID-19 vaccine. The goal of this first stage of the vaccination is to cover 20% of the population, including health workers, people aged over 55 or suffering from serious health conditions, although fear of side effects and mistrust of the population have delayed the launch of the vaccination campaign.

3. It must be noted that COVID is just one of DRC's current critical health issues. Since 2018, DRC has battled four Ebola outbreaks, of which the 2018 South Kivu outbreak was the most severe with 3,470 cases and 2,299 deaths, making it the world's second largest Ebola outbreak on record. Another outbreak started in Equateur in June 2020, a province already hit by an outbreak in 2018, and it was declared over in November 2020 thanks to the timely mobilization of vaccines and treatments. Importantly, the response to COVID has also interfered with the vaccination campaigns against measles, which has now spread to every province of the country and caused more deaths than the recent South Kivu Ebola outbreak.

4. A range of fiscal and monetary measures were adopted in response to COVID. A preparedness and response national plan, with a US$135 million budget (or 0.3 percent of GDP) was designed with support from development partners. Coordinated by Dr. Muyembe, who was in charge of the response to the 10th Ebola outbreak, the plan aimed at (i) strengthening early detection, surveillance, and enhancing technical and operational coordination within the government; (ii) improving the quality of medical care; and (iii) developing effective preventive communication.

5. The following fiscal measures were adopted: (i) a three-month VAT exemption on pharmaceutical products and basic goods; (ii) the suspension of tax audits for companies; (iii) a grace period for businesses on tax arrears; (iv) full tax deductibility of any donations made to the COVID relief fund; (v) the provision of water and electricity for a period of two months, free of charge; (vi) the prohibition to evict renters in case of nonpayment of financial obligations from

March to June 2020; and (vii) the suspension of VAT collection on the production and on the sales of basic goods.

6. The BCC took several measures in March 2020 to ease liquidity: (i) reducing the policy rate by 150 bps to 7.5 percent; (ii) eliminating mandatory reserve requirements on demand deposits in local currency; and (iii) creating a new collateralized long-term funding facility for commercial banks of up to 24 months to support the provision of new credit for the import and production of food and other basic goods. The BCC has also deferred the adoption of new minimum capital requirements, encouraged the restructuring of NPLs, and promoted the use of e-payments. In order to re-anchor inflation expectations and maintain a positive in real terms policy rate, in 2020 the BCC increased its policy rate to 18.5 percent, and also undertook a limited US$25 million foreign exchange intervention to help stem depreciation pressures.

Annex IV. Social Spending—Free Education Initiative and the Health Sector[1]

President Tshisekedi has highlighted enhancing social welfare as one of his Presidency's main priorities, especially through education with the free education initiative and health.

Education

1. **One of the flagship projects of President Tshisekedi was the introduction of free education (primary plus two years) in September 2019.** Prior to 2019, the education system required parents' monetary contributions to pay for teachers' salaries and school operational fees. The project aims at reducing the financial burden of public primary school fees on households and increase access for poor children. Indicative data from household phone surveys in three provinces (Kinshasa, Ituri, and North Kivu) suggest that the policy has had large impacts on enrollment rates at the primary and secondary levels. National projections based on these partial results indicate that primary enrollment was nearing 95 percent in 2020, up from 75 percent three years earlier.

2. **Close to 60,000 public primary school teachers have been identified and added to the government's payroll starting in November 2020.** These teachers were identified through a national census exercise and are currently working in recognized public primary schools and meeting the Ministry of Education's transparent qualification criteria. This represents a 13 percent increase in the total number of public primary school teachers, and future identification rounds are expected to add more qualified teachers in a transparent manner. In addition, also starting in November 2020, over 80,000 public secondary school teachers, pre-school teachers, and administrative staff were added to the payroll. Public spending in education reached 2.3 percent of GDP in 2020, a 51 percent increase when compared to spending over the previous seven years.

3. **Through the Emergency Equity and Systems Strengthening in Education Project (US$700 million over 3 years) approved in June 2020,** the World Bank is assisting the initiative in 10 of the 16 provinces, or about 54 percent of the children. Additional donors, including the French Development Agency (AFD) and the Global Partnership for Education (GPE) have also recently supported the incorporation of a limited number of unpaid teachers into the payroll. Several partners are currently preparing plans for new support to the primary education sector in DRC, including the United States Agency for International Development (USAID), the United Kingdom Foreign & Commonwealth Office (FCDO), and AFD.

Health

4. **The health sector in the DRC suffers from several ailments.** First, per capita health expenditure is low at US$20 per person of which only US$3 is covered by the government according to the 2018 National Health Accounts (NHA) published in 2020. Additionally, there is a low budget

[1] Source: The World Bank.

allocation to health (10 percent in 2019, Ministry of Health's Budget) and half of it is subsidized by donors channeling resources through the Ministry of Finance. Household expenditure is the main driver of health expenditures, representing 45 percent of total health expenditures or US$9 per capita. Finally, DRC is highly depending on external funding, 35 percent of total health expenditures pertained to donor funding according to 2018 NHA. Cognizant of these challenges, the Ministry of Health developed a national health strategy in 2018, the National Plan of Sanitary Development (NPSD) 2019-22, which sets out the main priorities to reach Universal Health Coverage (UHC), also one of the cornerstones of President Tshisekedi's reform areas. Yet the NPSD encounters a funding gap that COVID-19 pandemic has exacerbated. In addition, the pandemic has compounded difficulties in reaching people: in Kinshasa, the number of patients visiting health facilities dropped by more than half between March and July 2020 due to the COVID-19.

5. One of the key priorities of the NPSD is the provision of a package of maternal and child health services (including vaccination) as well as interventions preventing and treating communicable diseases (TB, HIV/AIDS, Malaria). The government has started covering those expenditures on vaccines and HIV/AIDS, TB, and Malaria through donors' counterparties but also through domestic budget for reproductive, maternal, neonatal, child and adolescent health (RMNCAH).

6. Drawing from NPSD' key priorities, the social spending indicative target was developed in close collaboration with the donors involved in the health sector. It should ensure that essential health services remain protected and effectively prioritized in the Ministry of Health budget. It should also support the monitoring of use of existing spending for essential health services on a regular basis. The target was designed as a floor of spending around three basic health programs:

- RMNCAH and primary health care, excluding wages
- Disbursement of GAVI-supported vaccine co-financing and traditional vaccines procurement
- Disbursement of TB/ Malaria/HIV/AIDS co-financing.

Annex V. Risk Assessment Matrix[1]

Source of Risks	Likelihood/ Time Horizon	Expected Impact on Economy	Policy Response
Potential Domestic Risks			
Loosening of the fiscal stance	Medium	**High** Macroeconomic stability may be undermined if the government resorts to monetary financing.	- Prepare realistic budgets, aligning spending with available revenue and identified external financing sources. - Ensure prudent external borrowing.
Widespread social discontent and political instability	Medium	**High** Policymaking would be undermined, and economic uncertainty would increase.	- Maintain expenditure restraint and avoid monetary financing of government operations.
Escalation of Ebola epidemic	Medium	**Medium** A new epidemic has started and is not under control yet.	- Prepare contingency planning. - Obtain external technical and financial support and mobilize domestic resources to fight the epidemic.
Ongoing armed conflicts escalate	Low	**Low (for the whole country)** Economic activity would be hurt though mostly in specific areas not well integrated with the rest of the country.	- Make room for a budgetary contingency for such an emergency.
Potential External Risks – Conjunctural shocks			
Unexpected shift in the COVID-19 pandemic	High	**High** The death toll would increase, and confinement measures would continue to hurt the domestic economic along with weak global demand.	- Maintain fiscal discipline including expenditure prioritization to create space for budgetary contingency. - Continue mobilizing the international community to provide support. - Allow the flexible exchange rate to act as a shock absorber
Intensified geopolitical tensions and security risks	Medium	**Medium** Demand for exports, especially from China, would fall, hurting the domestic economy.	- Accumulate international reserve buffers. Diversify the structure of the economy and export sources. - Increase participation in regional trade area agreements (EAC and AfCFTA).

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenario highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

Annex VI. External Sector Assessment

Overall Assessment: *Based on staff's judgement, the external position of the DRC is assessed to be moderately weaker than the level implied by fundamentals and desirable policies. While the EBA-lite models point to a stronger position, this result is driven by a downward revision of the norm on the back of the improved growth outlook driven by the 2021 commodity price boom and increased mining output.*

Potential Policy Responses: *Reserve accumulation is underpinned by the proposed ECF arrangement, given the protracted balance of payments needs. Fiscal and structural reforms are projected to help raise sustainable growth, improve the business and institutional environments and contribute to unshackling investment, both domestically- and externally-financed, as well as concessional lending and grants. These sources of financing would reduce the pressure on FX reserves and support external sustainability.*

Foreign Assets and Liabilities: Position and Trajectory

Background. The latest data available on the net international investment position (NIIP) pertains to 2018. The structure of the DRC's NIIP is fairly simple. The vast majority of assets are deposits of commercial banks with non-resident counterparts, while liabilities are mostly in the form of direct investment, notably in the mining sector. The existing CFM that requires the repatriation of miners' profits (see section on Capital and Financial Account) is partly responsible for the large external deposits, since miners' FX deposits in the domestic banking sector end up deposited abroad by banks, given the reduced availability of domestic assets. Gross debt liabilities are relatively small reflecting the DRC's lack of debt carrying capacity (see DSA) but also the government's past intermittent access to financing.

Assessment. The net debtor position reflects protracted balance of payment needs. Yet, the structure of assets and liabilities is favorable, with external assets in the form of deposits and liabilities mostly in the form of FDI.

2018 (% GDP)	NIIP: -47.2	Gross Assets: 15.4	Debt Assets: 2.7	Gross Liab.: 62.6	Debt Liab.: 11.5

Current Account

Background. Copper and cobalt account for 85 percent of total goods' exports. About 1/3 of goods imports are tied to mining activities directly, more if accounting for indirect links. The goods' trade balance was in surplus in 2020 but the services trade deficit more than compensated it, leading to an overall trade deficit. Income flows are broadly balanced: public grants and remittances offset private and public primary flows.

Assessment. For the EBA-light model, the 2020 projected current account balance of -2.2 percent of GDP is adjusted with the usual cyclical and natural disasters/conflict factors and a new adjustor due to COVID-19 of a fairly small size (0.2 percent of GDP). Recent upward revisions to growth, supported by the expansion in mining production and upward revisions to commodity prices in 2021, explain the model's lower estimated CA norm for 2020 of -5.1 percent of GDP, which would imply a CA gap of 3.1 percent of GDP.

Democratic Republic of the Congo: Model Estimates for 2020 (in percent of GDP)

	CA model	REER model
CA-Actual	**-4.0**	
Cyclical contributions (from model) (-)	-1.2	
COVID-19 adjustor (+) 1/	0.2	
Additional temporary/statistical factors (+)	0.0	
Natural disasters and conflicts (-)	0.8	
Adjusted CA	**-3.4**	
CA Norm (from model) 2/	**-3.1**	
Adjustments to the norm (+)	0.0	
Adjusted CA Norm	**-3.1**	
CA Gap	**-0.3**	**0.6**
o/w Relative policy gap	2.5	
Elasticity	-0.25	
REER Gap (in percent)	**1.1**	**-2.4**

1/ Additional cyclical adjustment to account for the temporary impact of the pandemic on oil trade balances (0.09 percent of GDP) and on remittances (0.09 percent of GDP).
2/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate

Background. The real effective exchange rate appreciated by 2 percent in 2020 while the nominal effective exchange rate (NEER) depreciated by 5.6 percent (average of period). These are slightly above the average changes of the last 5 years (1.3 and -9.2 percent, respectively).

Assessment. The REER gap is assessed to be consistent with the staff CA gap and the estimated elasticity. According to the EBA-lite REER model, the real effective exchange rate is slightly undervalued (see table on the right). In general, the REER model results are less reliable for countries with a short sample or that have experienced large structural changes that are not well captured by the regression. Nevertheless, macro and structural policies should help address policy gaps.

DRC: REER Model in 2020

Ln(REER) Actual	4.85
Ln(REER) Fitted	4.86
Ln(REER) Norm	4.87
Residual	-0.01
REER Gap	**-2.4%**

Capital and Financial Accounts: Flows and Policy Measures
Background. Without much access to international financial markets, the DRC's capital and financial accounts are dominated by public sector flows (capital and other investment account), mining-related flows (FDI) and by commercial banks' activities (foreign deposits backed by domestic FX deposits).
Assessment. Besides risks to exports from volatile commodity markets, sharp changes in the availability of project grants (capital account) or public sector loans (financial account) are the key risks. These risks are not expected to materialize as long as the ECF arrangement is on track. There is upside potential for new flows to materialize. The repatriation requirement of 60 percent of export receipts is a capital flow management measure (CFM) under the Fund's Institutional View on capital flows (IV). In line with the IV, the repatriation requirement should be scaled back as adjustment progresses and balance of payments' pressures subside.
FX Intervention and Reserves Level
Background. Reserves have been persistently below 5 weeks of import coverage since 2015 and are at 1.8 weeks of 2021 imports at end-2020. In 2019 and early 2020, advances to the government were the key drains on the BCC reserves. Such advances have stopped since the RCF disbursement of April 2020 and there is now a strong commitment to discontinue those practices. The BCC conducted net FX sales over 2020 of around US$33mln through market auctions, aimed at injecting liquidity in times of market disfunction.
Assessment. Reserves are currently low and reflect protracted balance of payments needs. Boosting reserve coverage is the key objective of the ECF arrangement.

Annex VII. Capacity Development Strategy

CD Strategy

1. **The Fund's CD strategy for the Democratic Republic of the Congo over the medium term focuses on:** (i) reinforcing revenue mobilization and public financial management, in particular, budget preparation and execution capacity; (ii) enhancing central bank monetary operations, data reporting, audit and control; (iii) improving debt data collection, especially on SOEs; (iv) strengthening banking supervision and regulation capacities; (v) improving anticorruption institution and laws; and (vi) improving collection and publication of national accounts and fiscal data.

Key Overall CD Priorities Going Forward

Priorities	Objectives
Public financial management	Improve budget preparation and execution; reform public accounting, treasury management, and audit processes; conduct a PIMA.
Tax policy and administration	Simplify and rationalize taxes; estimate and rationalize tax expenditures; strengthen revenue administration.
Monetary policy framework and operations, and central bank governance	Optimize FX operations and FX reserves management and improve the BCC financial reporting, audit, and control processes as identified in the 2020 Safeguards Assessment; strengthen the effectiveness of the monetary policy framework.
Debt data collection and management	Improve debt data collection, with emphasis on SOEs and domestic arrears; formulate and implement an MTDS; establish an effective government securities infrastructure.
Financial supervision and regulation	Improve banking supervision and regulation capacity; strengthen banking regulations and prudential norms.
Anticorruption	Revision of the current anticorruption legal framework following recommendations of the 2020 Governance Assessment; establishment of a new anticorruption agency.
Strengthen macroeconomic and fiscal statistics	Improve compilation of national accounts and update data to recent years; improve compilation of fiscal data.

Main Risks and Mitigation

2. **Political instability and weak institutional governance are the main risks by complicating the actual delivery of technical assistance (TA) and by undermining the ownership of associated reforms.** Commitment and capacity to implement TA recommendations will need to be regularly monitored. Sustained engagement with the new authorities will be required

to agree on TA plans and key objectives and to increase the potential return of the Fund's CD activities.

Authorities' Views

3. The authorities agreed on the identified focus areas for CD support from the Fund. Notably, they are seeking assistance in:

- Developing guidance notes on issues related to budget processes and fiscal data compilation.
- Organizing a seminar for members of parliament and senators on budget credibility and PFM.
- Reinforcing banking supervision.
- Strengthening central bank reporting and control processes, monetary policy implementation & instruments.

Appendix I. Letter of Intent

Kinshasa, DRC
June 28, 2021

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Madam Managing Director:

1. Our economy has been severely affected by the COVID-19 pandemic, with GDP estimated to have grown by only 1.7 percent in 2020 despite the expansion of the extractive sector by almost 10 percent. The associated public revenue shortfall led to central bank advances to the government and a sharp increase in inflation in parallel with a quick depreciation of the Congolese franc. In this context, a Stability Pact signed between the central bank and the government's economic team, together with the disbursement under the Rapid Credit Facility in April 2020, critically helped stabilize the economic and financial conditions, although substantial financing needs remain over the medium-term to alleviate the social consequences of the crisis and bolster the economic recovery.

2. To help close external financing needs and support our medium-term policy and reform agendas, the Government of the Democratic Republic of the Congo (DRC) hereby requests financing under the Extended Credit Facility in the amount of SDR 1,066 million, corresponding to 100 percent of quota, over a three-year period. We are confident that the IMF involvement will play a catalytic role in securing additional financing from development partners, which we will continue to actively seek over the program's period.

3. The attached Memorandum of Economic and Financial Policies (MEFP) outlines the policy measures and structural reforms envisaged to support the post-COVID-19 recovery and resume progress towards raising and sustaining inclusive growth. The government's program was presented by the Prime Minister to the National Assembly on April 26, 2021, drawing from the vision of the President of the Republic that have been developed in the National Strategic Development Plan for 2019-2023. Our medium-term program aims at building fiscal space for much-needed spending in the health and education sectors and for public investment in infrastructure through substantial increases in revenues and improved composition of expenditures. In addition, it will pursue a significant strengthening of budget transparency, economic governance, as well as stepping up the fight against corruption so as to strengthen social cohesion and improve the business climate. Our program also aims at further enhancing the monetary policy framework and financial supervision to foster credit and deepen financial inclusion.

4. As detailed in the MEFP, we have made significant progress towards improving the transparency and traceability of public resources directed to the fight against the COVID-19

pandemic, in line with our commitments laid out in the Letter of Intent attached to the April 2020 disbursement under the Rapid Credit Facility.

5. In addition, having requested the temporary debt service suspension from our official bilateral creditors, in line with the Debt Service Suspension Initiative (DSSI) supported by the G-20 and Paris Club, we are committed to adhere to its requirements: we will use freed resources under the DSSI for COVID-19 health spending and mitigating measures to provide economic relief from the crisis and we will closely monitor and report on the use of the COVID-19 resources.

6. The first disbursement under the requested Extended Credit Facility (ECF) arrangement will help fill the projected balance of payment financing gap and increase international reserves of the central bank (*Banque Centrale du Congo*, BCC) from their current low level.

7. We do not intend to introduce measures or policies that would exacerbate the current balance of payments difficulties. We do not intend to impose new or intensify existing restrictions on the making of payments and transfers for current international transactions, import restrictions for balance of payments purposes, or multiple currency practices, or to enter into bilateral payments agreements which are inconsistent with Article VIII of the IMF's Articles of Agreement. Furthermore, in line with the IMF safeguards policy, the BCC commits to complying with recommendations of the 2020 safeguards assessment.

8. We believe that the measures and policies set forth in the attached MEFP are appropriate and sufficient to achieve the objectives of the program. However, we stand ready to take any further measures that may be necessary to meet these objectives. We will consult with the IMF prior to adopting any revisions to the policies set forth in the MEFP, in accordance with the IMF's policies on such consultations. We will also provide Fund staff with all data and information needed to assess the policies and measures contained in the Technical Memorandum of Understanding (TMU).

9. The authorities of the DRC agree to the publication of this Letter of Intent (LOI) and the attached MEFP and TMU, as well as the IMF staff report related to the request for an arrangement under the ECF and the Debt Sustainability Analysis, after approval by the Executive Board of the IMF.

Sincerely yours,

/s/
Jean-Michel Sama Lukonde
Prime Minister

/s/
Nicolas KAZADI
Minister of Finance

/s/
Deogratias MUTOMBO MWANA NYEMBO
Governor of the BCC

/s/
Aimé BOJI SANGARA
State Minister,
Minister of Budget

Attachments:

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

Attachment I. Memorandum of Economic and Financial Policies

This Memorandum of Economic and Financial Policies (MEFP) reviews recent economic developments and lays out the medium-term economic objectives and policy framework of the government of the Democratic Republic of the Congo (DRC), for which we are seeking support under a three-year Extended Credit Facility (ECF) arrangement. This MEFP describes the government's macroeconomic and structural reform policies to enhance macroeconomic stability, create fiscal space, improve governance, and strengthen financial sector stability and development, consistent with the objectives of the government to increase sustainable economic growth, raise living standards, and improve social conditions.

INTRODUCTION

1. **The DRC remains extremely fragile, after suffering decades of recurrent humanitarian and political crises.** Our country is still recovering from a series of conflicts that broke out in the 1990s and caused, directly or indirectly, more than 5 million deaths. We are still facing acts of violence in some regions, and our country hosts more than half a million refugees and five million internally displaced people (IDPs), the largest IDP population in Africa. Outbreaks of deadly diseases frequently kill scores of people. Economic dislocation and disruptions, also fueled by political instability, have led to a drop in real per capita income from above US$1,100 in 1990 to about US$500 today, exacerbating extreme poverty, with more than two thirds of the population living in extreme poverty on less than US$1.90 a day. In a context of extreme fragility, our exceptional natural resources, including huge reserves of minerals and at least 80 million hectares of arable land of which less than 10 percent are used remain under-exploited.

2. **Faced with these challenges, we are determined to deliver positive change, better living conditions, and a promising future to our population, and we have actively reengaged with the IMF and other international partners.** After his inauguration in January 2019, following the first peaceful transfer of power in our history, President Felix Tshisekedi re-engaged with the international community to seek support for his development vision. After completing the first Article IV consultation since 2015 in August 2019, our request for a disbursement under the Rapid Credit Facility (RCF) was approved in late 2019 together with a Staff Monitored Program (SMP), supporting our efforts to strengthen macroeconomic stability and key structural reforms to start improving governance and fighting against pervasive poverty. The objective was also to pave the way towards a program supported by an Extended Credit Facility (ECF) arrangement. In April 2020, another RCF disbursement was approved to address the COVID-19 pandemic.

3. **An ECF arrangement will support our efforts to respond to the economic impact of the pandemic, advance the reform momentum to raise and sustain growth in line with the government priorities, and catalyze donor financing.** In the short-term, the ECF arrangement will help support our efforts to mitigate the impacts of the pandemic and lay the foundation for a sustained recovery through a credible macroeconomic framework. Building on reforms launched

since 2019, the new government confirmed by the parliament on April 26, 2021 is committed to accelerate the implementation of a strong structural reform agenda to sustain inclusive growth and address long-standing fragilities, maintain macroeconomic stability, create fiscal space for much-needed investment in physical and human capital, and reduce poverty. Program engagement with the IMF under the ECF arrangement will help address our balance of payments needs, catalyze much-needed external project and budget support, and attract foreign private investment.

RECENT DEVELOPMENTS

4. **The pandemic led to a sharp deceleration of non-mining economic activity while the mining sector managed to expand substantially.** We estimate output to have grown by about 1.7 percent in 2020 compared to an anticipated growth of more than 3 percent before the pandemic. The impact of a lockdown in the first quarter of 2020 affected the non-mining sector (estimated to have contracted by about 1.3 percent in the entire year), but the extractive sector was resilient and expanded by 9.7 percent, with no major or prolonged closing of mines owing to the limited spread of COVID-19 to the mining regions.

5. **The government has taken mitigation measures, coordinated through a multi-sectoral response plan, and adjusted policies to address the economic and social impact of the pandemic.** On March 21, 2020, the President declared the state of health emergency (which ended in July 21), complemented by regulatory measures such as temporary border closures, quarantines and systematic testing of travelers, restrictions on public events, and temporary lockdowns, notably in Gombe, the business district of Kinshasa. With support from our development partners, we prepared an emergency multi-sectoral response plan, with a US$135 million budget (0.3 percent of GDP). Specific measures included (i) targeted spending to strengthen detection, surveillance, and improve the quality of medical care; (ii) various fiscal measures, including targeted tax relief measures, and deadline extensions for certain declarations and payments; and (iii) support by the Banque Centrale du Congo (BCC) to the financial sector through measures to ease liquidity issues.

6. **The impact of the pandemic on both revenue and spending led to a higher fiscal deficit than expected under the SMP projections.** Tax revenue was negatively affected by the containment measures that complicated revenue administration and from delays in tax reform implementation, including the restoration of normal functioning of the VAT and the digitalization of revenue collection processes. On the spending side, beyond the impact on the wage bill linked to the implementation of the free education initiative, additional pressures came from the need to address the pandemic. In total, the overall fiscal deficit of the central government reached 2.1 percent of GDP in 2020 versus a 0.6 percent deficit anticipated at the time of the SMP's approval.

7. **After some slippages in the first half of 2020, we were able to contain jumps in exchange rate depreciation and inflation through a tightening of policies.** Partly due to the pandemic, the BCC provided advances to the government equivalent to about 0.3 percent of GDP through April 2020. This contributed to an acceleration of inflation, which peaked at 15.7 percent year-on-year in August 2020, and a rapid exchange rate depreciation. Following the RCF budget

support disbursement in April 2020 (see ¶2), the BCC, the Ministry of Finance and the Ministry of Budget signed a stability pact, which was decisive to tighten spending execution and discontinue central bank advances. In addition, the monetary policy was substantially tightened. As a result, inflation slowed down sharply, and exchange rate pressures eased in the second half of 2020.

8. The prompt RCF disbursement in April 2020 was instrumental in closing short-term fiscal and balance of payment gaps, preserving stability in the face of the pandemic. Early support from the IMF with an RCF disbursement amounting to US$363 million (0.7 percent of GDP) approved in April 2020, directed to the budget, was crucial to finance essential and urgent spending. This support allowed the government to partly compensate the fall in government revenue, while spending was strictly controlled in line with the Treasury's cash-flow situation. Immediate balance of payment needs were also closed, and the fall in BCC international reserves was contained from US$730 million at end-2019 to US$709 million at end-2020, equivalent to less than 2 weeks of imports.

MACROECONOMIC PROGRAM AND TARGETS

A. Performance under the Staff Monitored Program

9. Despite difficult circumstances, we believe that performance under the SMP was broadly satisfactory once associated corrective actions implemented after its expiration are taken into account. We met all the indicative targets (ITs) for the end-December 2019 test date, with the exception of the ceiling on the contracting or guaranteeing of new non-concessional external debt due to the financing of an important development project for N'Djili International Airport. In the context of the economic impact of the pandemic, we missed several ITs for the March and May 2020 test dates, including the floor on the fiscal domestic balance (in cash basis), and the ceiling on net financing from the BCC to the government. However, we were able to implement all structural benchmarks (SBs) with the exception of the restoration of VAT on imports by mining companies, given legislative constraints, including the calendar of the parliamentary session. An achievement worth highlighting under the SMP is the publication of all new mining contracts since late 2019 with a total of 146 contracts published out of a list of 162, including all the critical ones highlighted by the civil society. Moreover, we have implemented strong corrective actions, including the signing of an inter-ministerial decree to strengthen public debt management and to monitor all new debt contracts, and the signing of a stability pact between the BCC and the Ministry of Finance ruling out BCC advances to finance the fiscal deficit.

10. Two crucial assessments undertaken during the period covered by the SMP and active technical assistance have paved the way for program engagement under an ECF arrangement. The governance and the safeguards assessments that took place in December 2019 and February 2020, respectively, show the extent of the reforms needed and provide clear recommendations for their prioritization and articulation with a view to a timetable for implementation. In addition, the extensive technical assistance we received has strengthened our institutional capacity to implement a program supported by the IMF.

B. Program Objectives and Outlook

11. The government is committed to maintaining macroeconomic stability and placing the DRC on a path of sustainable and inclusive growth building on improved physical and human capital, and strong governance, as laid out in the government's program. The government's program was presented by the Prime Minister to the National Assembly on April 26, 2021, followed by the new government inauguration. This program builds on the vision of the President of the Republic that have been further developed in the National Strategic Development Plan for 2019-2023 unveiled in December 2019. This plan is organized around five main pillars: (i) the development of human capital and social inclusion, supported by strengthened social policies and spending, with strong focus on education, health, and housing; (ii) the strengthening of governance and the consolidation of peace; (iii) the consolidation and diversification of economic growth, with the strengthening of sectors with high growth potential (mining, hydrocarbons, metallurgy) and those with strong job creation potential (forestry, agriculture, agro-industry); (iv) the reconstruction and modernization of much needed infrastructures in transport, energy and telecommunication; and (v) the environmental protection, making use of our natural resources in a sustainable manner, respecting environmental standards, and improving resilience to climate change.

12. The priorities under the ECF arrangement are aligned with the government's reform agenda. Our immediate priority is to support the economic recovery. We will also focus on urgent and well-targeted structural reforms to promote inclusive growth, reduce poverty, and address long-term fragilities. Our key objectives to be supported by the ECF arrangement are to:

1. Step up domestic revenue mobilization to increase fiscal space for the financing of much needed investment and social spending.

2. Strengthen governance, including natural resource management and transparency and the anti-corruption framework.

3. Strengthen monetary policy and financial stability, including by improving the central bank's independence.

13. The 2021 budget law was based on credible revenue and financing assumptions. In contrast to the 2020 Finance Law, which ended up being overly optimistic and complicated budget execution, the 2021 budget law approved in December 2020 was based on more realistic revenue assumptions and conservative domestic financing assumptions, given the recent relaunch of the domestic government securities market.

14. In line with the program baseline scenario, we expect economic growth to rebound in 2021 and continue to accelerate in the medium-term as external demand recovers and our reforms start to bear fruits. We forecast GDP growth to rebound to 4.9 percent in 2021 fueled by strong mining production and a partial recovery of the non-mining sector. In the medium-term, we expect an acceleration of GDP growth to near 6 percent. The DRC will rely on higher production of the mining sector—with several major projects such as the Kamoa project at an advanced stage—

and on the development of several promising sectors, such as agriculture and agro-industry, energy, transportation, and telecommunications. To achieve our objectives for strong and sustainable growth, we must make substantial progress in improving physical and human capital, which requires significant increases in investment. We will rely on improved tax and non-tax revenues and better quality of spending to foster public investment, and improvements in the business environment to mobilize private investment. We expect exports to continue recovering from the crisis, and imports to rise as capital spending is expected to increase, with the current account deficit (including transfers) stabilizing at around 1.3 percent of GDP in the medium term, allowing for a gradual increase in international reserves.

C. Program Policies and Risks to the Outlook

15. Our fiscal policy will be anchored on limiting the overall fiscal deficit to levels consistent with no direct financing from the central bank and medium-term fiscal sustainability. This implies an overall fiscal deficit (cash basis) of about 1 percent of GDP per year over the medium-term, which will be the fiscal anchor of the program as a Quantitative Performance Criterion (QPC). We are committed to refrain from any central bank financing of the budget (direct or indirect through the provision of guarantees), which will be ensured through both a QPC with a zero ceiling on changes in net central bank credit to the government and a QPC with a ceiling on the BCC's net domestic assets (see Table 1 for details). We will also provide detailed information on payments related to existing secured loans, on the terms of such loans and on related guarantees.

16. The ECF arrangement will help increase BCC foreign exchange reserves. Our policies supported by the ECF arrangement are expected to improve DRC's macroeconomic conditions and gradually add some buffers to the very low level of BCC foreign exchange reserves (about two weeks of imports' coverage). In fact, the stabilization of our external accounts and of our budgetary situation (which should allow the accumulation of some government deposits at the BCC over the medium-term), the adoption of a new reserve requirement framework for foreign currency deposits, and more active support from the international community over time, are expected to help increase gradually the level of official international reserves to more than 5 weeks of imports by the end of the program. This crucial program objective will be monitored through a QPC with floors on the changes in net international reserves.

17. External financing will continue to rely mostly on grants and concessional loans to preserve debt sustainability. At about 14 percent of GDP, our stock of external public debt is low, but the risk of debt distress remains moderate due to low fiscal revenue and volatile export receipts. We will continue to follow a prudent debt management strategy aimed at maintaining the current risk of debt distress rating and debt sustainability. With this objective, newly contracted public debt will favor loans offered on concessional terms. That said, some long-term non- and semi-concessional borrowing can be considered in limited circumstances to support critical expenditure needs (e.g., for high-yield investment projects). To reconcile our investment needs and related external financing with the need to preserve debt sustainability, we commit to maintain a ceiling on the contracting or guaranteeing of new non-concessional external debt by the central government, set as a QPC (see Table 1 and TMU for details). We will keep on strengthening the collection and reporting of debt-related data from SOEs. We commit to avoid any external arrears (QPC).

18. In parallel with the preparation of the initial budget law for 2022, the government will prepare a 2021 revised budget law. While the spending envelope will be refined to be aligned with the new government's priorities, the revised budget law will continue to be based on credible revenue projections and on updated financing assumptions.

19. We take note of the announcement of a potential SDR allocation, which could materialize by end August 2021. Regarding the use of this allocation, notably the possibility to redirect part of it to the budget in addition to the strengthening of the international reserves at the BCC, we are aware of the impact of such a decision on the program's macro-framework and quantitative objectives. Therefore, we will discuss the use of the upcoming SDR allocation during the first ECF review.

20. Considering the uncertainties in the global economic environment and on budget support prospects, we discussed an adverse scenario with IMF staff and potential contingency plans. An adverse growth outlook with delayed growth recovery could materialize due to delayed recovery from the pandemic and difficulties to eradicate the disease, requiring more containment efforts, or a sudden drop in mining prices. This could impact DRC's growth in 2021, through weaker external demand and lower externally-financed public investment. The impact on tax revenue would create, in the absence of policy actions, an additional fiscal gap. While we expect that keeping the IMF-supported program on track will help catalyze budget support, lower than projected external financing represents an additional risk. If such an adverse scenario materializes, our response would rely on some budgetary savings, by reducing lower priority spending while preserving social spending and priority domestically-financed investment.

21. Conversely, a more favorable scenario could materialize if higher prices for minerals and the result of the first reforms translate into an increase in government revenues above the assumptions of the baseline of the program. We believe that the first reforms that the government will launch, and economic developments that could be more favorable than anticipated (in particular with the possibility of higher mining production than in the macroeconomic framework of the program baseline) could translate into higher than expected budget revenues. In this scenario, while respecting the objectives of the program, particularly in terms of public deficit, we could consider additional spending in priority areas.

STRUCTURAL REFORMS

D. Fiscal Reforms

Mobilizing Domestic Revenue

22. We have ambitious medium-term revenue mobilization objectives supported by a strategy covering both revenue administrations and tax policies. Our objective is to gradually increase the revenue-to-GDP ratio, in line with peers in sub-Saharan Africa and with our tax potential. While there is a significant potential to increase fiscal and non-fiscal revenues in the DRC, we are aware that it might take time given the need to change incentives, strengthen revenue administration and its transparency, and, relatedly, build trust. An intermediate objective would be to increase the tax revenue to GDP ratio by 3.5 percentage points towards 12.2 percent of GDP by 2023, which will be monitored by an indicative target (Table 1). Revenue mobilization will build on the following reforms:

- *We will take necessary steps to restore the proper functioning of the VAT*. Based on recent TA recommendations, we set up a self-liquidating VAT system for imports from mining companies starting end-March 2021 to restore the VAT collection chain and eliminate a large loophole stemming from their exemption. We will also revise the related decree instruction to make it consistent with existing legislation and international best practices, and for the decree to apply to mining companies as a whole, not to specific products. The General Inspectorate of Finance (IGF) will be responsible for carrying out an audit limited to the certification of VAT arrears to mining companies, to be finalized by December 2021, to determine the VAT arrears to mining companies. On this basis, a repayment schedule will be adopted. The Ministry of Finance will give instruction for this audit by August 2021. VAT liability criteria will be reviewed within the structural reform of the DGI (tax directorate). Also, more efficient rules for transferring files between tax departments will be implemented. Controls will be strengthened and better targeted through dynamic risk analysis.

- *We will modernize our revenue administration*. To this effect, the governance of the three main revenue administrations will be strengthened and taxpayer rights ascertained. Ongoing projects to computerize the revenue chain supported by the Agence Francaise de Developpement and the European Union will continue, and we commit to finance recurring costs and to encourage the users to work actively with the new softwares (ISYS-Régies, data warehouse, LOGIRAD). The ASYCUDA World system will be implemented in the electronic single window at all custom offices, starting with 10 offices by end-2021. This would bring the total of offices with ASYCUDA World to 77 out of a total of 117 offices representing more than 95% of the country's customs revenue in 2020. The implementation of the excise duty traceability system (STDA) is also expected to start to yield results in 2022. We also intend to strengthen the performance of the tax administrations with a more equitable distribution of revenue administration bonuses and by developing performance contracts, while strengthening our system for evaluating individual performance. In addition, a decree revising the framework and organic structures of the three tax administrations will be adopted with a view to strengthening the internal audit function and establishing the accounting network of financial administrations.

- *We will streamline tax expenditures.* We estimated tax exemptions at about 22 percent of central government revenue in 2017. To enhance transparency of those exemptions and help create political support for their rationalization, we will continue to estimate and publish their costs on a yearly basis and we will publish by end-2021 the report on tax expenditures for 2019 and 2020. A rationalization plan based on existing FAD TA recommendations will be finalized by end 2021. Preferential tax regimes should be reformed, as well as all conventions, approvals, agreements, letters or other that include tax exemptions, except in the codes currently in place. The high de facto threshold for daily import for personal use needs to be reformed to prevent import fractioning and duty avoidance.

- *We will continue to rationalize non-tax charges.* We will bring together all the legal provisions on non-tax revenue included in the sectoral laws in a single document by September 2021. We are committed to significantly rationalizing non-tax charges based on a prior assessment to be carried out by the end of December 2021. The plan to rationalize these charges will be adopted by the Government by March 2022. To this end, we will seek technical assistance from the IMF. We will extend the rationalization to ETDs and provinces later. Excise duties will also be rationalized by refocusing them on products generally subject to excise duties and by slightly adjusting the rate on these products in order to compensate for the loss of revenue.

- *We will rationalize parafiscal charges.* As a first step, we will carry out an inventory of all parafiscal deductions from special accounts and budgets by June 2022 with a view to rationalizing them from December 2022.

Reducing Fiscal Risks and Improving the Quality of Spending

23. We will start publishing a yearly statement on fiscal risks and introduce a fiscal risk management function. With technical assistance from the IMF, we are developing a detailed statement with information on (i) macroeconomic risks; (ii) risks associated with public debt; (iii) risks associated with public sector entities other than the State; (iv) risks related to the financial sector; (v) institutional risks; and (vi) long-term risks, notably related to climate change. As a first step, we will publish it as an annex to the Medium-Term Budget Framework (CBMT) for 2022-2024, and we plan to annex it to the initial finance laws in the future. We plan to set up a formal mechanism for defining and sharing the main macroeconomic assumptions so that all administrations have a common and central reference for upside and downside risks. The necessary coordination for the management of fiscal risks will be ensured by a dedicated committee. Also, the organizational modalities of the fiscal risk management function will be regulated by a decree on fiscal governance that will be adopted by the Government.

24. We are committed to limiting non-priority spending. This is crucial to increase fiscal space, as sustainable and inclusive growth requires increased priority spending, especially on infrastructure, education, healthcare, and targeted social assistance. We will streamline the wage bill (by consolidating wage payment systems, reviewing bonuses and eliminating ghost workers). We will improve the fuel price structure in consultation with the oil industry by the end of August 2021. In addition, an independent firm will be recruited by December 2021 to audit the charges of the oil commercial and logistics companies. We commit to publish the certification report of the stock of arrears to be paid to commercial companies and to include in the 2022 budget the planned repayments. We will also regularize the payments made in 2021 by including them in the 2021 revised budget law. We will also gradually reform the civil servants' pension system to control the need for government transfers and ensure its long-term sustainability. We commit to limit the use of emergency procedures (IT) and restore the proper use of the expenditure chain.

25. We will ensure higher spending in priority social areas, a key priority of the government. Given the importance of this commitment, and for monitoring purposes under the ECF arrangement, an IT with a floor on social spending has been defined for key targeted projects. Our social priorities include:

- On the education sector, pursuing the development of the ongoing free education by continuing the regularization of teachers and strengthening infrastructure.

- On the health sector, ensuring health spending in three critical areas (IT): (i) child and mother prevention; (ii) traditional vaccination, and (iii) HIV, malaria and TB prevention. To this end, we commit to ensuring our share of funding on a regular basis, as we did in 2020 with the payment of US$16 million to the GAVI and of US$17 million in 2021.

- On needed progress in terms of peace and stability with the gradual withdrawal of MONUSCO, we are committed to a structured dialogue with the United Nations through a joint working group in order to establish a transition plan and allocate the appropriate resources in the areas of departure of the Mission in order to consolidate the authority of the State, to implement the Disarmament, Demobilization and Community Reintegration (DDRC) strategy, pursue the reform of the FARDC and the PNC, in particular ensuring the good management of the workforce, continue to improve the protection of civilians and the fight against impunity, respond to humanitarian needs, resolve the root sources of conflicts and foster inclusive development.

26. The planned scaling-up of public investment will come with better prioritization and execution. Our ambitious public investment objectives will be further clarified, including the prioritization of projects considering implementation and absorptive capacity constraints. We will undertake with IMF TA a Public Investment Management Assessment (PIMA) to strengthen our investment procedures - planning, allocation of resources and project implementation, monitoring and transparent reporting - and ensure the best use of our funds.

Improving Public Financial Management (PFM)

27. Efforts are ongoing to revitalize the PFM reform agenda and address weaknesses. Based on the recent assessment of the performance of public finance management (according to the PEFA methodology), and with support from technical assistance from the IMF and other partners, an updated public finance reform strategic plan will be adopted by the Government by the end of 2021. We will focus our reform agenda on:

- Reinforcing budgetary credibility, including through improved inter-institutional coordination, formulation of the macroeconomic framework, and forecast of budgetary resources.
- Enhancing treasury management through a stronger institutional framework and enhanced treasury plans; and an inventory and consolidation of government accounts (including those related to special accounts and annexed budgets), in order to set up the general treasury account at the BCC.
- Reinforcing the expenditure chain and limiting the use of emergency procedures. To help enforce the expenditure chain (which was weakened by the emergency nature of COVID-related spending), we will produce quarterly reports on derogatory procedures detailing the nature and amount of each procedure. These quarterly reports will be reconciled with the treasury plan and the BCC debit notices. We will start with the third quarter of 2021, to be published by end-2021.
- Strengthening financial reporting and oversight (including for state-owned enterprises).
- Strengthen public debt management. An inter-ministerial decree has been signed on December 5, 2020, mandating the Public Debt Directorate to evaluate and monitor all new debt contracts, including their consistency with program conditionality and to enforce debt reporting from SOEs.
- Strengthen the public procurement system by favoring calls for open tenders.
- Restore the State's accounting function through the creation of the DGTCP.

28. We are taking the necessary steps to fulfill our commitments regarding the proper use of resources, including from the April 2020 RCF disbursement, for COVID-19 related spending. As committed, we published budget execution figures contained in the treasury plan with specific information on COVID-19 spending. We also started to publish online COVID-19 related procurement contracts that exceeded US$12,000: to this end, the government initiated 15 itinerant missions in the provinces to collect all available information on COVID-19 spending. Based on the information collected, we already published 32 contracts totaling US$6.7 million by June 23, 2021 out of a total of 35 contracts identified. The three remaining contracts will be published in coming days. Despite difficulties related to the treatment of information which are not under digital format, we will continue this effort and we strongly reiterated our commitment to publish all the contracts in our possession. Even if most of the spending at the level of the decentralized entities, including the health centers which have benefited from transfers, has not been the subject of contracts (for instance, payment of indemnities for medical workers), we will still insist to receive any supply contract of which we have not yet been informed, and we will publish them. Regarding the commitment to disclose the beneficial ownership information of contracted companies for contracts exceeding USD 1 million, we have requested IMF technical assistance to improve transparency and align with best practices in this area while taking into account the specificities of our country. Based on the TA recommendations and in consultation with Fund staff, we would adopt, by end-September 2021, amendments to the procurement regulatory framework to require (i) bidders to submit beneficial ownership information and (ii) the publication of such beneficial ownership information by the procurement agency on an easily accessible website for all awarded contracts above USD 12,000. Finally, in addition to an audit by the *Inspection Générale des Finances*, a specific audit of COVID-19 related expenditures is ongoing as part of the annual control by the Audit Court, which we commit to publish soon after its presentation to the Parliament in September 2021.

E. Governance, Fight against Corruption, and Business Environment

29. Improved governance and the fight against corruption are central in our strategy. Better governance is a cross-cutting theme connecting all areas of the country's sustainable development objectives: strengthening public security and political stability, peace and security, rule of law, human rights, the fight against of corruption, and the efficiency of administration and institutions. Based on the comprehensive governance assessment that took place in December 2019, we will prepare a governance strategy plan to be undertaken by a special committee formed to that effect by the prime minister.

30. Our strategy includes the strengthening of the Anti-Corruption Prevention Agency (APLC), in line with international standards. The APLC, operational since July 2020, will be strengthened in line with the United Nations Convention Against Corruption (UNCAC) and international best practices. In addition, we also commit to commence the first cycle of the UNCAC review mechanism and to criminalize acts of corruption in line with this Convention. We are also committed to ensuring the independence of the Audit Court and the Finance Inspectorate General and to devote sufficient resources for the efficiency of their work.

31. We will continue our efforts for transparency in the mining sector. We will continue to publish all new contracts (continuous structural benchmark). We are also committed to strengthen EITI implementation: we appointed a new coordinator of the national EITI committee through a transparent process, we have regularized budgetary transfers to the national EITI committee, and a progress report on 2018, 2019 and first semester 2020 has been formally adopted and published on the EITI DRC website (https://drive.google.com/file/d/1UA-2n-HVRBB1NEhj9YZOaTjCzZnp-OOB/view). The executive committee also validated on March 16, 2021 a three-year work plan for 2021-23 that was formally adopted by government on June 4th (prior action). In addition, we are auditing the financial statements of mining SOEs and we will publish them.

32. We are committed to improving the AML/CFT framework and its implementation. By end-October 2021, we will submit amendments to the AML/CFT Law and related regulations to meet global standard recommendations, including the banning of anonymous bank accounts, enacting stronger customer due diligence measures with wire transfers, and establishing basic correspondent banking customer due diligence requirements. In addition, by end-October 2021, and in line with the Article 99 of the Constitution, we will submit to the Parliament amendments to the asset declaration framework to strengthen the effectiveness of politically exposed persons (PEP) measures.

33. We will continue our efforts to promote a favorable business climate, which is essential to boost private investment. We recognize that the business environment is hampered by excessive regulation weighing heavily on costs and competitiveness. Our key priorities include streamlining the multiplicity of levies and implementing a fair and predictable tax collection system. We also intend to improve the functioning of the judiciary system, the system for the resolution of commercial disputes, and the enforcement and protection of property and contractual rights.

34. Preserving the environment is also part of our strategy. The Democratic Republic of the Congo has the second largest tropical massif in the world, after the Amazon, spread over 155 million hectares of forests. This vast carbon sink is a major asset in the fight against climate change. In addition to forests, the country has large expanses of peatlands as well as strategic minerals necessary for ecological transition. To develop these resources, the Government intends to mobilize specific funding, public, private, and from multilateral or bilateral institutions. A National Climate Fund will be set up to channel these resources and allocate them to projects that preserve the environment.

F. Monetary, Financial and External Sector Policies

35. The monetary policy's framework will be gradually modernized with the objective of maintaining low and stable inflation. While we expect that monetary aggregate targets will continue to be used as the main nominal anchor for the medium-term, new monetary instruments and tools will be adopted to modernize the BCC's monetary policy framework and ensure price stability. The adoption of a regulation on the new reserve requirement framework in the same currency of deposits and the signature of a MoU between the BCC and the Ministry of Finance to regularize the outstanding credit of the BCC to the government, both to be adopted by December 2021 (structural benchmarks), are fundamental building blocks over which the BCC will modernize the monetary policy framework. We will also continue, in accordance with the Stability Pact, to ban any direct advance by the BCC to finance the public deficit. In addition, the granting of new guarantees from the BCC to the private sector (in the form of documentary credits, CREDOCs, any other guarantee or advance of that type) will also be banned, and we will put in place a plan for the gradual elimination of existing operations, taking into account potential budgetary room for maneuver, in order to restore the BCC's international reserves. This information will be officially brought to the attention of commercial banks. We are also planning to develop a FPAS (Forecasting and Policy Analysis Systems) quantitative model that will take into account the very particular features of the DRC economy and will serve to guide monetary policy decisions going forward. We will continue relying on the Fund's technical assistance for this modernization process.

36. We are committed to implement the recommendations of the 2020 safeguards assessment. With the set-up of the new BCC Board, in accordance with the 2018 BCC Law (prior action), we expect an acceleration of the implementation of the key recommendations that will decisively reinforce the governance of the BCC. It includes the development of a compliance function to help assure internal accountability and integrity; the strengthening of capacity and oversight of the Audit Committee; and the adoption of plan towards the adoption and implementation of IFRS accounting framework. We are also committed to reinforcing our ex-ante controls and reporting practices by using a monitored account at the BIS for Fund disbursements, validating the QPCs as well as transactions on the BIS-monitored account at test dates by the external auditors, and providing monthly statements of the BIS account to the IMF. Finally, we will reinforce the financial autonomy of the BCC by restructuring the government debt with the BCC and implementing the recapitalization plans already approved by the parliament.

37. We will continue our efforts to strengthen substantially our weak external position. The level of gross official FX reserves of the BCC is expected to reach about US$1.3 billion by end 2021 or close to 3.5 weeks of imports, and about 6 weeks of imports by end 2024. We are committed to strengthening the management of international reserves of the BCC by following the recommendations of the safeguards assessment and also with the future technical assistance of the Fund. In addition to the ECF disbursements, the implementation of the new reserve requirement regulation and the transfer abroad of available FX deposits in local commercial banks will help to boost FX reserves at the BCC. Given the very low level of FX reserves and the importance of allowing the exchange rate to act as a shock absorber, we will minimize the use of FX interventions so we can continue building an adequate level of international reserves.

38. Strengthening the oversight and regulation of the financial sector remains a priority. The BCC is determined to enhance the risk-based supervisory framework and the oversight of banks. As long as the effects of the pandemic last, and with the technical assistance of Fund, we will apply best practices of appropriate supervision and regulatory measures used in exceptional times, and adopt all required measures and available enforcement powers to recapitalize vulnerable banks. In the event there are bank failures as a result of the current crisis, we will firmly apply the best resolution options to failed banks, which will be discussed with the Fund. We also plan to submit the new Commercial Banking Law to the Parliament that includes IMF staff's comments by end-November 2021 (structural benchmark), as it represents the cornerstone upon which a modernized regulatory framework will be developed in the coming years. We also requested a Financial Sector Stability Review (FSSR), which is planned for 2021 and will be crucial to provide a detailed diagnostic of the banking sector and develop a strategy with key TA priorities for the coming years.

39. We are strengthening financial inclusion, notably through innovative fintech products and services, and micro-finance. Despite progress in recent years, financial inclusion remains low, with at least two-thirds of the adult population with no access to financial services. Credit to the private sector is below 10 percent of GDP, reflecting both supply and demand factors, such as lack of credit culture, asymmetric information, low competition, underdeveloped financial market infrastructures, weak consumer protection and creditors rights. Our strategy includes supporting the development of mobile money and other fintech services, which is playing an increasingly important role in financial inclusion in the DRC, particularly important in remote rural areas, which goes hand in hand with improving access of the population to information and communication technologies. We are also working on restructuring and strengthening microfinance institutions (MFIs), which have a great potential to support financial inclusion, and reducing the vulnerability of banks to cyber risks and information technology failures. In addition, we are promoting financial education to build trust in financial products and services, especially in local currency.

OTHER ISSUES AND PROGRAM MONITORING

40. We highly value the technical assistance received from the Fund, complemented with the one from other partners. TA provision has already been instrumental in providing in-depth diagnoses essential to start the implementation of our reform plans. We hope that this effort will continue in the coming years to address new needs and challenges arising from the implementation of the economic reform agenda supported by the ECF arrangement.

41. While data provision is broadly adequate for surveillance and program monitoring, we remain committed to allocating sufficient human, financial, and material resources to the production of statistics. The government will continue to support the National Institute of Statistics and other government branches in fulfilling its missions, and we count on continued technical and financial assistance from our partners. Our priorities include improving debt data collection, especially on SOE; enhancing the quality and frequency of data reporting by the BCC; and strengthening the accuracy of indictors for the real sector, the balance of payments, as well as fiscal variables.

42. The program will be evaluated based on quantitative performance criteria and structural benchmarks (Tables 1 and 2) and semi-annual reviews. Definitions of key concepts and indicators, as well as reporting requirements, are set out in the accompanying TMU. The first and second reviews are scheduled to be completed on or after September 15, 2021 and March 15, 2022 respectively, based on test dates for periodic performance criteria of end-June 2021 and end-December 2021, respectively. Under the direction of the Minister of Finance, the Budget Minister and the Governor of the BCC, the monitoring of the program will be done by a technical troika chaired by the Finance Ministry and comprising the Budget Ministry and the BCC. Monetary QPCs and transactions on the BIS-monitored account at test dates will be validated by the external auditors of the BCC. The CTR will be in charge of secretariat and reporting that will be shared with IMF staff.

Table 1a. Democratic Republic of the Congo: Quantitative Performance Criteria and Indicative Targets Under the ECF arrangement, June 2021–June 2022

	2021			2022	
	End-June QPC	End-Sep. IT	End-Dec. QPC	End-March IT	End-June IT
Quantitative Performance Criteria					
Floor on changes in net international reserves of the BCC (US$ millions)	122	159	200	31	81
Ceiling on changes in net central bank credit to central government (CF billions)	-203	-101	0	0	0
Ceiling on changes in net domestic assets of the BCC (CF billions)	324	447	547	159	291
Ceiling on accumulation of new external payment arrears (US$ millions) 1/	0	0	0	0	0
Floor on domestic fiscal balance - cash basis (CF billions)	152	148	-232	582	-256
Ceiling on the contracting or guaranteeing of new non-concessional external debt by the public sector (US$ millions)	300	300	300	0	500
Indicative Targets					
Ceiling on the change in deposits of the BCC used as guarantee/collateral for central government loans (US$ millions)	135	112	112	0	-84
Floor on government revenues (CF billions)	5,241	7,763	10,198	3,006	6,714
Floor on social spending (CF billions) 2/	28.7	18.3	11.3	20.2	18.2
Accumulation of wage arrears (US$ million)	0	0	0	0	0
Memorandum items:					
Adjustors					
Balance of payments support, cumulative (US$ millions)	176	229	357	158	315
Privatization proceeds (US$ millions)	0	0	0	0	0
Scheduled external debt service payments, cumulative (US$ millions)	132	249	295	92	183
Statutory reserve requirement for foreign deposits (CF billions)	1,755	1,835	1,915	2,117	2,320
Others					
Contracting of new concessional external debt (US$ millions)	0	250	0	405	300
New disbursement of external budget and project loans, and grants (US$ millions)	57	243	333	68	68

Sources: Congolese authorities and IMF staff estimates and projections

1/ continous

2/ calculated in flow: for Q2 2021 IT, spending from beginning 2021 to end-June 2021. The rest of ITs are calculated as cumulative flows between the test date and the beginning of each calendar year.

Table 1b. Democratic Republic of the Congo: Continuous Targets

- Not to impose or intensify restrictions on the making of payments and transfers for current international transactions
- Not to introduce or modify multiple currency practices
- Not to conclude bilateral payments agreements that are inconsistent with Article VIII
- Not to impose or intensify import restrictions for balance of payments reasons

Table 2. Democratic Republic of the Congo: Prior Actions and Structural Benchmarks Under the ECF Arrangement–First and Second Reviews

Actions	Rationale	Date
Prior Actions		
BCC Board fully constituted in accordance with the requirements of the 2018 Central Bank Law	Improve governance of the central bank according to safeguards assessment recommendations	
Adopt the EITI roadmap on mining transparency (validated by the Council of Ministers)	Improve transparency in the mining sector	Met on June 4, 2021
First Review		
Publish the full 2020 financial statements of Gecamines, including auditor's comments	Improve transparency in the mining sector	End-August 2021
Consolidate all legal documents on non-tax revenues in a single document	Rationalize non-tax revenues	End-September 2021
Submit to Parliament the draft of the new Commercial Banking Law that integrates IMF's staff comments	Enhance banking supervision	End-November 2021
Second Review		
Adopt the new reserve requirement regulation of the BCC on new FX deposits	Enhance the stability of the banking system	End-December 2021
Sign an MoU between the BCC and the ministry of finance to regularize the oustanding credit of the BCC to the government	Provide the BCC with space for monetary policy implementation	End-December 2021
Fully implement ASYCUDA World in the electronic single-window at 10 additonal custom offices	Improve customs administration	End-December 2021
Propose a detailed plan to rationalize non-tax revenues to the government	Rationalize taxes and non-taxes	End-March 2022
Continuous		
Publish all new mining contracts	Improve transparency in the mining sector	

Sources: Congolese authorities and IMF staff

Attachment II. Technical Memorandum of Understanding

1. This **Technical Memorandum of Understanding** (TMU) contains definitions and adjuster mechanisms that clarify the measurement of quantitative performance criteria and indicative targets in Tables 1 and 2, which are attached to the Memorandum of Economic and Financial Policies. Unless otherwise indicated, all performance criteria and indicative targets will be evaluated in terms of cumulative flows since the beginning of each calendar year.

DEFINITIONS

2. For purposes of this TMU, **external** and **domestic** shall be defined on a residency basis.

3. **Institutional coverage**: The **central government** comprises all units of government that exercise authority over the entire economic territory. However, unless otherwise indicated for the purposes of this memorandum, the central government does not include nonprofit organizations controlled and financed by the central government. The **banking system** comprises the Central Bank of the Congo (BCC) as well as existing or newly licensed commercial banks.

4. The **program exchange rates** for the purposes of this TMU are as follows (BCC indicative rates as of December 31, 2020):

- Variables denominated in U.S. dollars will be converted to Congolese Francs by using the program exchange rate of CGF 1971.8046 per U.S. dollar.

- Variables denominated in SDRs will be valued at the program exchange rate of CGF 2852.0774 per SDR.

- Variables denominated in Euro will be valued at the program exchange rate of CGF 2421.1594 per Euro.

- In addition, variables denominated in currencies other than the U.S. dollar, SDR or Euro will first be converted to U.S. dollars at the December 31, 2020, US$/currency official exchange rate (obtained from the IMF rates database), then converted to Congolese Francs by using the program exchange rate CGF/US$.

5. **Quantitative Performance Criteria** (QPCs) included in the program, as defined below, refer to the net international reserves of the BCC, net central bank credit to the government, net domestic assets of the BCC, external payments arrears, new non-concessional external debt owed or guaranteed by the central government and/or the central bank, including EADs, and the domestic balance (cash basis). Performance criteria are set for end-June 2021 and end-December 2021 while indicative targets are set for end-September 2021, and end-March 2022.

6. In addition to the specific QPCs listed in paragraph 5, as for any Fund arrangement, **continuous QPCs** also include the non-introduction of exchange restrictions and multiple currency practices. Specifically, continuous conditionality covers (i) non-imposition or intensification of restrictions on the making of payments and transfers for current international transactions; (ii) non-introduction or modification of multiple currency practices; (iii) non-conclusion of bilateral payments agreements that are inconsistent with Article VIII; and (iv) non-imposition or intensification of import restrictions for balance of payments reasons. These continuous QPCs, given their non-quantitative nature, are not listed in the QPC table annexed to the MEFP.

QUANTATIVE PERFORMANCE CRITERIA AND ADJUSTORS

Floors on changes in Net International Reserves of the BCC

7. Definition: **Net international reserves (NIR)** are defined as the difference between the BCC gross foreign reserves and its total foreign liabilities. **Gross foreign reserves** are defined broadly consistent with the Sixth Edition of the Balance of Payments Manual and International Investment Position Manual (BPM6) and are defined as the sum of the following items: (i) monetary gold holdings of the BCC kept abroad; (ii) SDR holdings kept abroad; (iii) receipts in foreign currency and (v) convertible claims on nonresidents, such as foreign deposits and foreign securities. The following items are excluded from the definition of gross foreign reserves: any other claims on residents in foreign exchange, nonconvertible currency holdings, and foreign reserves that are encumbered or pledged in one form or another, including but not limited to reserve assets used as collateral or security for foreign third-party liabilities, and swap transactions. **Total foreign liabilities** are all BCC foreign exchange liabilities to nonresidents, including the IMF and SDR allocations of the BCC.

8. The following **adjustments** will be made to the NIR floors:

- **Balance of payments support (BPS)**: NIR floors will be adjusted upward by an amount equivalent to 50 percent of total BPS in excess of the programmed levels. There will be no downward adjustments to the NIR floors for any shortfall in BPS.

- **External debt service payment**: NIR floors will be adjusted (i) upward by an amount equivalent to under payment of external debt service relative to programmed amounts; and (ii) downward by an amount equivalent to the excess of external debt service payments relative to programmed amounts.

- **Privatization proceeds** in convertible currencies (PPCC): NIR floors will be adjusted upward by 50 percent of total PPCC in excess of the programmed levels. There will be no downward adjustment for any shortfall in these proceeds.

9. Definition: **BPS** is defined as all disbursed foreign grants and loans to the central government, excluding those tied to projects.

10. Definition: **External debt service payments** for the central government are defined as interest and principal due to foreign creditors (excluding the IMF).

Ceilings on changes in Net Domestic Assets of the BCC

11. Definition: **The net domestic assets** (NDA) of the BCC are defined as narrow base money (see definition ¶2 below) minus net international reserves (see definition ¶7) minus external assets excluded in NIR. Based on this definition, the NDA of the BCC include: (i) net credit to the central government (see ¶12 below); (ii) credit to the private sector; (iii) credit to public enterprises; (iv) credit to commercial banks; (v) other claims on the rest of the economy (on other financial institutions, and other non-financial institutions); and (vi) other net assets.

12. Definition: **Narrow base money** is defined as the sum of (i) currency in circulation; (ii) cash holdings by banks; (iii) bank deposits held with the BCC; (iv) nonbank private sector deposits held with the BCC; and (v) public enterprises deposits held with the BCC.

The following adjustments will be made to the NDA ceilings:

- **BPS:** NDA ceilings will be adjusted downward by an amount equivalent to 50 percent of total BPS in excess of the programmed level. There will be no upward adjustment to the NDA ceilings for any shortfall in BPS.
- **External debt service payment:** NDA ceilings will be adjusted (i) downward by an amount equivalent to under payment of debt service relative to programmed amounts; and (ii) upward by an amount equivalent to the excess of external debt service payments relative to programmed amounts.
- **Statutory reserve requirements for foreign currency deposits:** NDA ceilings will be adjusted upwards (downwards) by the increase (decrease) in the statutory reserve requirements for foreign currency deposits relative to program projections (memorandum item).
- **Privatization proceeds:** NDA ceilings will be adjusted downward by 50 percent of the total amount of privatization proceeds (including PPCC) in excess of the programmed level. There will be no upward adjustment to the NDA ceilings for any shortfall in these proceeds**.**

Ceiling on changes in Net Central Bank Credit to the Central Government

13. Definition: **Net central bank credit** to the central government (NCG) is defined as the difference between gross BCC claims on the central government minus central government deposits at the BCC. For purposes of program monitoring, central government deposits related to externally financed projects are excluded from NCG.

The following items are excluded from this definition: Perpetual government securities that cover past operating loses, unsecuritized operating losses from 2011 and later years, unpaid interest payments for securities linked to operating losses of the BCC, and foreign currency translation losses. All foreign currency denominated flows to the budget will be converted to domestic currency by using the market exchange rate prevailing at the time of the disbursement.

14. The following adjustments will be made to the NCG ceilings:

- **BPS:** NCG ceilings will be adjusted downward by an amount equivalent to 50 percent of total BPS in excess of the programmed level. There will be no upward adjustment to the NCG ceilings for any shortfall in BPS.
- **External debt service payment:** NCG ceilings will be adjusted (i) downward by an amount equivalent to under payment of debt service relative to programmed amounts; and (ii) upward by an amount equivalent to the excess of external debt service payments relative to programmed amounts.
- **Privatization proceeds**: the NCG ceilings will be adjusted downward by an amount equivalent to 50 percent of total privatization proceeds (including PPCC) in excess of the programmed levels. There will be no upward adjustment for any shortfall in these proceeds.

Floor on the Domestic Fiscal Balance

15. Definition: The **domestic fiscal balance** (cash basis) is defined as (domestic revenue) minus (domestically financed expenditure). **Domestic revenue** is defined as (total revenue and grants) minus (grants). **Domestically financed expenditure** is defined as (total expenditure) minus (externally financed investments (loans and grants)) minus (foreign interest payments) plus (the net accumulation of domestic arrears).

The following adjustments will apply to the floor on the domestic fiscal balance:

Privatization proceeds: The floors on the domestic fiscal balance will be adjusted: (i) upward by an amount equivalent to the full shortfall of privatization relative to programmed levels; (ii) downward by 50 percent of the total amount of privatization proceeds in excess of the programmed levels.

Ceiling on the Accumulation of External Payment Arrears

16. Definition: **External payment arrears** are defined as external debt service obligations (principal and interest) of the central government that were not paid on the contractual due date. The ceiling on new external payment arrears applies **continuously** throughout the period covered by the Extended Credit Facility (ECF) arrangement. It does not apply to external payment arrears in process of renegotiation or to cases in which the creditor has agreed to the suspension of payments pending the outcome of negotiations. For the purposes of this continuous PC, which is monitored continuously, the government will immediately report to the IMF staff any new external arrears it accumulates.

Ceilings on Non-concessional External Debt Contracted or Guaranteed by the Public Sector

17. Definition: The public sector comprises the central government, local governments, the central bank (BCC), state-owned enterprises,[1] decentralized territorial entities and public entities controlled and financed by the central government.

18. Definition: Debt is defined as set out in Executive Board Decision No. 6230 (79/140) Point 9, as revised on August 31, 2009 (Decision No. 14416-(09/91)). The external debt is defined as contracted when all parties signed the debt contract. For program purposes, external debt is measured on a gross basis using the residency criterion.

19. Definition: A debt is concessional if it includes 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.[2] The discount rates used for this purpose are the currency specific commercial interest reference rates (CIRRs), published by the Organization for Economic Cooperation Development (OECD). For debt with a maturity of at least 15 years, the ten-year-average CIRR will be used to calculate the PV of debt and, hence, its grant element. For debt with a maturity of less than 15 years, the six-month average CIRR will be used. To both the ten-year and six-month averages, the same margins for differing repayment periods as those used by the OECD need to be added (0.75 percent for repayment periods of less than 15 years, 1 percent for 15 to 19 years, 1.15 percent for 20 to 29 years, and 1.25 percent for 30 years or more).

20. Definition: The ceiling on non-concessional external debt applies to contracted or guaranteed external debt by the public sector (as defined above) for which the equivalent value has not been received. It excludes (i) the use of Fund resources; (ii) debts incurred to restructure, refinance, or prepay existing debts, to the extent that such debt is incurred on more favorable terms (including in particular a grant element higher than 35 percent) than the existing debt; (iii) concessional debts; and (iv) normal import credits having a maturity of up to one year.[3]

21. Definition: The guarantee of a debt arises from any explicit legal obligation of the public sector to service a debt in the event of nonpayment by the debtor (involving payments in cash or in kind), or from any implicit legal or contractual obligation of the public sector to finance partially or in full any shortfall incurred by the debtor.

[1] Only GECAMINES, SNEL, and MIBA are included in the QPC.

[2] The calculation of concessionality will take into account all aspects of the loan agreement, including maturity, grace period, payment schedule, upfront commissions, and management fees.

[3] A financing arrangement for imports is considered to be "normal" when the credit is self-liquidating.

INDICATIVE TARGETS

Ceiling on the variation of deposits used as Collateral/Guarantee by the BCC for the Central Government Loans.

22. Definition**: Deposits used as collateral/guarantee by the BCC for** central government loans cover central government loans guaranteed by the BCC, and is specifically understood to include central government liabilities secured by liens over BCC deposits in local or foreign currency.

Floor on revenues of the central government

23. **Definition**: Revenues of the central government are defined in line with the Government Finance Statistics Manual (GFSM 2001) but on a cash accounting basis, excluding grants. Revenue is an increase in net worth of the central government (including its units in the provinces and agencies) resulting from a transaction.

- Revenues of the central government include taxes and other compulsory transfers imposed by central government units, property income derived from the ownership of assets, sales of goods and services, social contributions (excluding pensions contributions received by the central government), interest, fines, penalties and forfeits and voluntary transfers received from nongovernment other than grants. The definition, for program monitoring, excludes grants and other noncompulsory contributions received from foreign governments and international organizations; such transfers between central government units would be eliminated in the consolidation of the fiscal reports and not recorded as revenue. Receipts from the sale of nonfinancial assets (e.g., privatization and signature bonuses from natural resource contracts), and transactions in financial assets and liabilities, such as borrowing but excepting interest payments, are also excluded from the definition of revenue. Transfer of profits from BCC to the Treasury is also excluded from the definition of revenue. The revenue of special accounts and budgets are also excluded

- Revenues should be recognized on a cash basis and flows should be recorded when cash is received. Exceptional advanced payments will be treated as if received on the normal due date.

Floor on Social Spending

24. Definition: The government expenditure monitored for the purpose of the IT on a **floor on social spending** will exclude wages and be defined as the sum of:

- Reproductive, Maternal, Neonatal, Child and Adolescent Health (RMNCAH) and primary health care spending

- Disbursement of Gavi-supported vaccine co-financing and traditional vaccines procurement

- Disbursement of TB/Malaria/HIV/AIDS co-financing

Text Table 1. Democratic Republic of the Congo: Indicative Target for Social Spending
(in Billion Congolese Francs)

	Jun-21	Sep-21	Dec-21	Mar-22
RMNCAH and primary health care	11.2	5.6	5.6	5.9
GAVI co-financing and traditional vaccines [1/]	8.3	8.1	1.0	9.5
Disbursement of TB/Malaria/HIV/AIDS co-financing	9.1	4.6	4.6	4.7
Total	**28.7**	**18.3**	**11.2**	**20.1**

1/ The World Bank is covering the financing of traditional vaccines in 2021.

Accumulation of Wage Arrears

25. Definition: Wage arrears are defined as approved personnel wages and salaries that have not been paid for 60 days. Wages and salaries include the total compensation paid to central government employees, including permanent benefits. These arrears will be valued on a cumulative basis from July 1, 2021.

26. Definition: Public employees are defined as civil, police, and military personnel either statutory civil servants or under contract of the central government.

DATA TO BE REPORTED FOR PROGRAM MONITORING PURPOSES

27. The authorities of the DRC will provide IMF staff with the data needed to monitor the program within the prescribed time limits, as indicated in the following table.

Table 1. Democratic Republic of the Congo: Overview of Data to be Transmitted by the Authorities

	Information	Responsible Institution	Frequency	Availability length	Frequency Submission
1	Foreign exchange market volumes: Commercial banks, BCC interventions, BCC auctions of FX, bureaux de change, parallel market (by currency)	BCC	Daily	1 day	Each Monday
2	Foreign exchange rates: Reference values, interbank market, bureaux de change, parallel market (by currency)	BCC	Daily	1 day	Each Monday
3	Monetary policy instruments and interventions: Bons BCC, swap facility, emergency lending windows, interbank market (rates and volumes, by bank)	BCC	Weekly	1 day	Each Monday
4	External reserves of the BCC (SMP definition), disaggregated by category and currency	BCC	Daily	1 day	Each Monday
5	Government deposits at the BCC and commercial banks: By type, entity, and category	BCC	Monthly	2 weeks	Each 15th of the month of the following month.
6	DAT deposits, guaranteed deposits, or any other type of contracted guarantees of the BCC for the benefit of the central government in local commercial banks (by bank and category, providing terms, by FX and local currency) For guarantees, detailed information on payments related to guaranteed loans, and conditions of those loans et related guarantees	BCC	Monthly	2 weeks	Each 15th of the month of the following month

Table 1. Democratic Republic of the Congo: Overview of Data to be Transmitted by the Authorities (continued)

	Information	Responsible Institution	Frequency	Availability length	Frequency Submission
7	Detailed monetary situation: BCC and other institutions with deposits	BCC	Monthly	2 weeks	Each 15th of the month of the following month
8	Detailed BCC balance sheet	BCC	Monthly	2 weeks	Each 15th of the month of the following month
9	Interest rates term structure of deposit institutions and of the BCC	BCC	Monthly	1 week (2 weeks for deposit institutions)	Each 15th of the month of the following month
10	Reserves (mandatory and voluntary) of deposit institutions	BCC	Weekly	1 day	Each Monday
11	Account statement (electronic downloadable data format) provided by the BIS for two-day deposit account in USD opened in the BCC books to record IMF-related disbursements ("BRI 2D FMI USD")	BCC	Monthly	2 weeks	Each 15th of the month of the following month
12	Execution of plan de Tresorerie (PTR)/budget in currencies and in local currency of the BCC	BCC	Weekly (Monthly for local currency)	1 week	Weekly (Monthly for local currency)
13	Detailed balance sheet information and prudential ratios/FSIs for each deposit institutions (and aggregated)	BCC	Monthly	2 weeks	Each 15th of the month of the following month
14	Consumer Price Index	INS	Weekly	One week	Weekly
15	Exports of basic products (value and volume); imports (value and volume)	BCC	Monthly	3 weeks	Each 21st of the month of the following month

Table 1. Democratic Republic of the Congo: Overview of Data to be Transmitted by the Authorities (continued)

	Information	Responsible Institution	Frequency	Availability length	Frequency Submission
16	Indicators of domestic production	INS	Monthly	3 weeks	Each 21st of the month of the following month
17	Capital and financial account operations of the balance of payment	BCC	Quarterly	3 weeks	The 21st of the month following the quarter
18	Amounts and identity of creditors of promissory notes guaranteed by the BCC	BCC	Monthly	3 weeks	Monthly
19	Principal external indicators	BCC	Daily	1 day	Daily
20	Evolution of the execution of the treasury plan (outcome vs. projections)	DTO	Weekly	1 day	Weekly
21	Issuance and amortization of Treasury bills and bonds: amounts, maturities, and interest rates	Comité des titres	Weekly	3 days	Weekly
22	External debt service (interests and principal) detailed by creditor	DGDP	Monthly	2 weeks	Monthly
23	Updated amounts of external arrears	DGDP	Monthly	3 weeks	Monthly
24	Execution of the plan of treasury flow of the government	DTO	Monthly	2 weeks	Monthly
25	Revenues from customs and excise taxes, including from the mining sector, broken down by category	DGDA	Monthly	4 weeks	Monthly
26	Revenues from direct and indirect taxes	DGI	Monthly	4 weeks	Monthly
27	Revenues coming from mining sector by nature	DGI	Monthly	8 weeks	Monthly

Table 1. Democratic Republic of the Congo: Overview of Data to be Transmitted by the Authorities (continued)					
	Information	**Responsible Institution**	**Frequency**	**Availability length**	**Frequency Submission**
28	Non fiscal revenues (excluding from provinces), including revenues from mining sector	DGRAD	Monthly	4 weeks	Monthly
29	Collection of receipts from natural resources	CTR	Quarterly	4 weeks	Quarterly
30	Situation of IBP (corporate tax) subscriptions	DGI	Annual	4 weeks	Annual
31	Projected spending commitment plan	DCB	Quarterly	2 weeks	Quarterly
32	État de suivi budgétaire (ESB)	DPSB	Monthly	2 weeks	Monthly
33	Emergency spending: amounts approved by the Committee on emergency spending and amounts paid and regularized by the BCC	Comité des Urgences	Quarterly	3 weeks	Quarterly
34	Privatization proceeds	DGRAD	In case of assets sale	3 weeks	In case of assets sale
35	Domestic debt of the central administration by category and by creditor: stock and debt service	DGDP	Quarterly	3 weeks	Quarterly
36	Stock of budget arrears	DCB	Annual	3 weeks	Annual
37	Stock of wage arrears, including details per category	Dir Paie	Monthly	60 days	Monthly
38	Contracting of any new external debt issued and/or guaranteed by the BCC in favor of any central or local administration	DGDP	In case of signature of loan contract	3 weeks	Monthly
39	Production and exports in mining sector, broken down by mine and by mineral	CTCPM	Monthly	2 weeks	Monthly

Table 1. Democratic Republic of the Congo: Overview of Data to be Transmitted by the Authorities (concluded)

	Information	Responsible Institution	Frequency	Availability length	Frequency Submission
40	Statistical brief for the weekly meeting with the Prime Minister	DEME/Plan	Weekly (Mardi)	3 days	Weekly
41	Updated GDP estimates and forecasts	CESCN	Quarterly	3 weeks	Quarterly
42	Principales productions (Tables du Condense statistique)	BCC	Monthly	3 weeks	Monthly
43	Estimate of the budgetary cost of the fuel prices' policy	Ministry of economy	Quarterly	3 weeks	Quarterly

INTERNATIONAL MONETARY FUND

DEMOCRATIC REPUBLIC OF THE CONGO

REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY; REVIEW OF PERFORMANCE UNDER THE STAFF MONITORED PROGRAM—DEBT SUSTAINABILITY ANALYSIS

June 29, 2021

Approved By
Annalisa Fedelino (IMF, AFR), Geremia Palomba (IMF, SPR), Marcello Estevão and Asad Alam (IDA)

Prepared by the staff of the International Monetary Fund (IMF) and the International Development Association (IDA)

Risk of external debt distress:	**Moderate**
Overall risk of debt distress	**Moderate**
Granularity in the risk rating	**Some space to absorb shocks**
Application of judgment	**No**

According to the updated Low-Income Country Debt Sustainability Framework (LIC DSF), the Democratic Republic of the Congo (DRC)'s debt-carrying capacity remains weak.[1] DRC remains at a moderate risk of external and overall debt distress, with some space to absorb shocks. Weak revenue mobilization is a main determinant for the DRC's moderate risk of debt distress despite a low stock of external debt. Most external debt thresholds are breached under the stress tests, highlighting the country's vulnerability to external shocks, in particular with regard to a shock to exports. Given limited buffers, prudent borrowing policies are essential by prioritizing concessional loans and strengthening debt management policies.

[1] DRC Composite Indicator (CI) score is 2.03, which corresponds to a weak debt-carrying capacity as confirmed by April 2021 WEO assumptions and 2019 Country Policy and Institutional Assessment (CPIA).

PUBLIC DEBT COVERAGE

1. Public and publicly-guaranteed (PPG) external and domestic debt covers debt contracted and guaranteed by the central government, the Central Bank of Congo (BCC), provinces, and part of state-owned enterprises (SOEs). The public debt department (Direction Générale de la Dette Publique, DGDP) under the Ministry of Finance publishes quarterly and annual reports on its website with information on domestic and external debt based on the residency criteria. The reports summarize the debt of the central government, debt of Sicomines (a joint venture between the Congolese government and Chinese investors) and Gécamines, guaranteed external debt of SOEs managed by the government, provinces (only the province of Maniema is missing, out of 26 provinces), and the BCC. Other public institutions are legally prevented from borrowing externally without approval, in addition to being unlikely to command market access without a government guarantee. However, the authorities do not receive any regular report from public institutions other than those named above. In light of this, the authorities are committed to improve quality of debt reporting, especially for SOEs.[2] Sicomines' infrastructure loans have a government guarantee which can only be called after 2050. Its debt is expected to be repaid by 2027 and is collateralized by Sicomines' earnings.[3] Sicomines also contracted a loan to finance the Busanga power plant to secure its electricity supply. Data on the debt of the private sector is scarce, and the private sector is believed not to be borrowing externally.

Text Table 1. Democratic Republic of the Congo: Coverage of Public and Publicly Guaranteed Debt and Parameters for Contingent Liability Shocks for the Tailored Stress Test

Definition of external/domestic debt	Residency-based
Is there a material difference between the two criteria?	No

Public debt coverage

	Subsectors of the public sector	Check box
1	Central government	X
2	State and local government	X
3	Other elements in the general government	
4	o/w: Social security fund	
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	X

Public debt coverage and the magnitude of the contingent liability tailored stress test

		Default	Used for the analysis	Reasons for deviations from the default settings
1	The country's coverage of public debt	The central, state, and local governments, central bank, government-guaranteed debt, non-guaranteed SOE debt		
2	Other elements of the general government not captured in 1.	0 percent of GDP	2	Some public institutions are not reporting to the DGDP.
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	0.5	Reflecting risks stemming from irregular data sharing with DGDP.
4	PPP	35 percent of PPP stock	0.00	
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5	
	Total (2+3+4+5) (in percent of GDP)		7.5	

Sources: Congolese authorities. IMF staff calculation.

[2] December 2020 inter-ministerial Order reinforced debt management, signed January 20, 2021.

[3] Box 1, Debt Sustainability Analysis, IMF Country Report No. 15/280.

BACKGROUND AND RECENT DEVELOPMENTS

2. **Despite vast natural resources, DRC is one of the poorest countries in the world, and it displays many aspects of fragility as it remains prone to health and humanitarian crises and violent conflicts.** The economy is highly dollarized, undiversified, and acutely vulnerable to commodity-price shocks and supply risks. The first ever peaceful presidential transition since independence took place in January 2019, with the incoming president forming an alliance with the outgoing president. This alliance has now been upended and a new parliament majority has just been formed, with the new government keen to continue the recent strong engagement with the international community.

3. **While some macroeconomic stability has been secured in recent years, the economy remains highly vulnerable to shocks.** After GDP growth of 4.4 percent in 2019, estimated growth decelerated to 1.7 percent in 2020. Growth is expected to recover to 4.9 percent in 2021 on the back of strong mining exports and the waning of the COVID-19 pandemic. Strict budgetary discipline led to overall fiscal surpluses in 2017–18, but deficits of 1.9 and 1.8 percent of GDP ensued in 2019 and 2020, respectively, partly financed by Central Bank advances which have been discontinued after April 2020. As a result, inflation and depreciation picked up in the first half of 2020 but have stabilized since. International reserves remain very low, at around 2 weeks of imports at end-2020, a critical vulnerability that needs to be tackled decisively.

4. **External arrears partly date from pre-HIPC Completion Point, with some Gecamines arrears adding to the stock.** External arrears amount to US$282 million. Four non-Paris Club creditors hold claims against the DRC and are in negotiation or under reconciliation process. The remaining are claims to commercial creditors. Amounts have been reconciled but there are cases under litigation. Commercial arrears have increased due to the addition of Gecamines' arrears, a large part of it consisting of a creditor under U.S. sanctions. A 5-year schedule for the repayment of external arrears has been assumed, starting in 2022.

Text Table 2. Democratic Republic of the Congo: External Arrears as of End-2020

	2020	
	Total	
	Nominal (US$ mln)	Percent of GDP
Total External Arrears	282	0.6
Bilateral creditors	48	0.1
Commercial creditors	234	0.5
Memo item:		
GDP	48,707	

Sources: Congolese authorities; IMF staff estimates.

5. In 2020, the public debt ratio increased by about 0.9 percentage points vis-à-vis 2019 to 22.0 percent of GDP. Compared to the projection at time of the previous Article IV consultation concluded in September 2019, this is an increase of 3.7 percentage points of GDP, reflecting both a higher primary deficit and worse debt dynamics in light of the pandemic. About half of the public external debt continues to be owed to official creditors. Domestic debt increased significantly in 2020 in nominal CF terms, almost entirely arrears, while the exchange rate depreciated sharply. External debt remained roughly unchanged, with about half of public external debt owed to official creditors (Text Table 3). 40 percent of total external debt is owed by Sicomines for mining and infrastructure projects and is assumed to be repaid with dividends over 10 and 15 years, respectively.

6. The overall domestic debt is composed of arrears and short-term T-bills. The majority of the domestic debt stock is composed of arrears, mainly composed of reconciled arrears and VAT arrears to exporters (see Text Table 4). Reconciled arrears have been audited and include financial debt, social debt, judiciary debt, suppliers, and rent and other services. There is also a significant stock of about US$3 billion of arrears to be audited, although according to the authorities only 20 percent of audited arrears became validated in the past. Net issuance of treasury bills was negative in 2020 with an outstanding stock equivalent to US$55 million at end-2020.

Text Table 3. Democratic Republic of the Congo: Total Public Debt Stock, 2020

	Nominal in millions of US $ Est.	Percent of GDP	Percent of Public Debt	Percent of External Debt
Total Public Debt	10,237	21.0	100	
Of which: arrears	3,885	8.0	38	
Total External Debt	6,579	13.5	64	100
Of which: SOE	3,101	6.4	30	47
Of which : arrears	282	0.6	3	4
Multilateral creditors	2,177	4.5	21	33
Bilateral creditors	1,228	2.5	12	19
Commercial creditors	3,174	6.5	31	48
Total Domestic Debt	3,658	7.5	36	
Of which : arrears	3,603			

Sources: Congolese authorities; IMF staff estimates.

Text Table 4. Democratic Republic of the Congo: Total Stock of Domestic Debt, 2020

	Nominal in US$ million	in percent of GDP	in total domestic debt
Stock of Treasury bills	55	0.1	1.5
Reconciled legacy arrears	1,889	3.9	51.6
Arrears from provinces	146	0.3	4.0
Arrears to oil companies	262	0.5	7.2
VAT arrears	1,306	2.7	35.7
Total	3,658	7.5	100.0

Sources: Congolese authorities and IMF calculations

BACKGROUND ON MACROECONOMIC FORECASTS

7. **The medium- and long-term projections underlying this DSA are underpinned by the macroeconomic framework of the ECF-supported arrangement.** GDP growth is expected to pick up in 2022-25 due to new mining projects which would lead to a substantial increase of exports and imports in the medium term. The fiscal policy stance is assumed to be roughly neutral in the projection period, constrained by the availability of financing. Ambitious public spending on education, and to a smaller extent on infrastructure, relies on the availability of additional external and domestic financing sources in the context of the catalytic role of the ECF-supported arrangement and domestic revenue mobilization efforts. The latter will hinge on the authorities' plans to restore the VAT normal functioning, rationalize non-tax and parafiscal charges, streamline tax expenditures, and modernize ad computerize revenue administration. Realism tools largely

suggest that staff forecasts are realistic, compared to empirical observations (Figure 4) and given the improved growth outlook.

Text Table 5. Democratic Republic of the Congo: Macroeconomic Forecast and Assumptions (comparison with last DSA)

	Real GDP Growth (percent change)		Revenue (excluding grants) growth 1/		Overall fiscal balance (percent of GDP)		Exports of goods and services growth		Imports of goods and services growth		Current account balance (percent of GDP)	
	Previous (SMP 2019)	Current	Previous (SMP 2019)	Current	Previous (SMP 2019)	Current	Previous (SMP 2019)	Current	Previous (SMP 2019)	Current	Previous (SMP 2019)	Current
2019	4.5	4.4	19.1	13.3	-2.7	-2.0	-18.7	-17.1	-19.5	-14.5	-3.8	-3.2
2020	3.2	1.7	20.2	-4.9	-0.6	-2.1	-5.4	4.5	-0.9	-4.2	-4.3	-2.2
2021	3.5	4.9	8.8	41.3	-1.0	-1.7	6.5	46.8	9.0	45.1	-3.7	-1.9
2022	4.5	5.6	12.8	24.5	-0.5	-1.2	9.2	7.8	6.8	6.7	-3.2	-1.8
2023	4.3	6.6	13.0	21.9	-0.6	-1.2	8.4	7.0	7.0	6.7	-2.8	-1.5
2024	4.6	6.8	11.8	24.2	-0.4	-1.1	7.9	5.5	7.7	5.8	-2.7	-1.3
2025	4.1	6.7	8.4	15.6	-0.4	-1.1	2.2	6.1	1.7	5.8	-2.5	-1.0
avg. 2026-40	4.6	5.0	9.3	13.4	-0.3	-0.8	3.1	2.9	2.6	3.5	-1.2	-2.3

Sources: Congolese authorities and IMF staff calculations and projections.
1/ Adjusted with Sicomines and Gecamines for debt service ratios.

Box 1. Macroeconomic Assumptions for 2020–39

Real GDP growth. Growth is expected to average about 4.9 percent over the medium term driven by sustained increases in mining production and a gradual recovery in investment.

Inflation. Inflation is projected to stabilize at 6 percent, in line with the BCC's target.

Primary balance. The primary fiscal balance is projected to average -0.2 percent of GDP after 2027, with greater revenue mobilization helping to tackle large spending needs. Capital expenditure is expected to rise over the projection period and to gradually shift towards domestic financing. Revenues are computed as central government revenues plus revenue from SOEs assumed to be equivalent to their debt service flows.

Current account balance. The current account balance has been relatively stable although it is significantly driven by developments in the mining sector. Mineral exports constitute a significant portion of exports and are projected to improve, on average, over the medium term while imports are projected to rise gradually on the back of increasing demand for capital goods and intermediates for infrastructure investment. Overall, the current account deficit averages -2.3 percent of GDP over the medium term.

Financing. External financing is projected to consist of a mix of exceptional financing, concessional and non-concessional loans from multilateral, bilateral and commercial lenders, and FDI. Part of the financing of public investment projects would also stem from foreign grants. Additional government financing needs are assumed to be covered by treasury bill issuance in the domestic market. The financing mix is projected to remain broadly unchanged over the projection period.

Gross official reserves. Gross official reserves are expected to gradually rise from 3.4 weeks of imports in 2021 to about 6 weeks of imports by 2026. The reserve buildup is crucially driven by stronger exports, financing under the program, and the phased implementation of reserve requirements in the currency of the underlying deposits.

8. The realism tool's outputs compare the DSA projections to cross-country experiences and to DRC's own historical experience (Figures 3 and 4).

a. **Debt drivers:** Given DRC's uneven access to external financing, external debt has declined in past years, in contrast to the general trend among LICs.

b. **Fiscal adjustment and growth.** The fiscal balance is contained by improved revenue mobilization while growth picks up. The resulting improvement of the primary balance is still within the normal historical range.

COUNTRY CLASSIFICATION

9. DRC's debt carrying capacity is classified as weak (Text Table 6). The classification of debt carrying capacity is guided by the composite indicator (CI) score which is determined by the World Bank's CPIA and other macroeconomic variables, including forward-looking elements. DRC's CI score is 2.03, roughly unchanged compared to previous vintages. DRC is a fragile state and highly vulnerable to external shocks.

Text Table 6. Democratic Republic of the Congo: Composite Indicator and Threshold Tables

Debt Carrying Capacity	Weak

Final	Classification based on current vintage	Classification based on the previous vintage (2015)	Classification based on the two previous vintages
Weak	Weak	Weak	Weak
	2.03	1.98	2.04

Applicable thresholds

APPLICABLE	
EXTERNAL debt burden thresholds	
PV of debt in % of	
Exports	140
GDP	30
Debt service in % of	
Exports	10
Revenue	14

APPLICABLE	
TOTAL public debt benchmark	
PV of total public debt in percent of GDP	35

Note: The current vintage refers to the 2021 April WEO vintage; The previous vintage refers to the 2020 October WEO vintage.

EXTERNAL DEBT SUSTAINABILITY

Baseline

10. External debt remains sustainable in the baseline scenario, but with vulnerabilities stemming from some structural weakness. Generally, all external debt is owed or guaranteed by the government. With improved access to external financing, external debt increases gradually after jumping to 17.2 percent of GDP in 2020, driven among other by Fund emergency assistance. The present value of external debt remains is estimated at 13.2 percent of GDP, significantly lower than the benchmark, and reflects the extent of concessional debt, which is projected to remain broadly unchanged.

Alternative Scenarios and Stress Tests

11. Several external debt ratios breach their thresholds under the most extreme shock scenario of lower nominal exports (Figure 1).[4] The mining sector—the main source of exports—is exposed to commodity price swings. However, imports are tightly linked to exports, possibly offsetting that shock.

12. There is only some space for additional borrowing without endangering DRC's risk rating (Figure 5). Low revenue mobilization remains a key challenge. Under the ECF-supported arrangement, revenues are projected to increase from 10 percent of GDP in 2019 to 13 percent in 2024, compared to an average of 20 percent of GDP in SSA.

13. Risks stem from export performance and DRC's ability to carry meaningful reforms. Export performance is the Achilles' heel of DRC's debt sustainability. A key risk is therefore the fluctuation in commodity prices. DRC should continue to build buffers by increasing international reserves, mobilizing revenue, and ensuring borrowed resources enhance inclusive growth. Borrowing should continue to rely on concessional sources.

PUBLIC DEBT SUSTAINABILITY

Baseline

14. Public debt is projected to remain moderate. Baseline debt burden indicators do not breach the respective thresholds, which is the key factor in risk rating. Public debt is projected to gradually decline to around 17 percent over the medium term. Public debt remains dominated by external debt. While treasury bill issuance has ceased, recognition of accumulated arrears to suppliers and VAT arrears to the private sector remains high. The realization of guarantees and other

[4] Nominal export growth (in USD) is set to its historical average minus one standard deviation, or to the baseline scenario's projection minus one standard deviation, whichever is lower in 2021–22, a shock that is likely unduly harsh to judge external financing needs as imports would very likely contract significantly under such a scenario. For the specification of other stress tests, see Table 8 in the 2018 Guidance Note.

possible contingent liabilities pose risks. The present value of debt relative to GDP remains below the benchmark and declines in the long term (Figure 2), albeit more gradual than previously.

Alternative Scenarios and Stress Tests

15. Stress tests confirm DRC's vulnerability to shocks to exports and from the contingent liabilities test. As for external debt, the most extreme shock for public debt consists of a sharp decline in exports (Figure 2). As result of such shock, the present value of the debt ratio peaks at slightly more than 40 percent, the applicable benchmark. For the debt service-to-revenue ratio, a combined contingent liabilities shock presents the most extreme shock, with debt service peaking at around 35 percent of revenue in the short term.

RISK RATING AND VULNERABILITIES

16. The external and overall risk of debt distress for the DRC remain moderate. Over the duration of the ECF-supported arrangement, public debt metrics remain broadly unchanged, as stronger projected economic and revenue growth is offset by somewhat higher borrowing. External debt increases gradually relative to GDP and exports, albeit from a low base. At 0.6 percent of GDP, external arrears are below 1 percent of GDP qualifying as a *de minimis* case, not encumbering the risk rating consideration. Domestic arrears are considerable and the authorities are enacting measures that lead to their reduction.

Text Table 7. Democratic Republic of the Congo: Risk Ratings

	External Debt Distress Rating	Overall Risk Rating
Mechanical overall debt distress rating	Moderate	Moderate
Final external debt distress rating	Moderate	Moderate
Judgement was applied	No	No

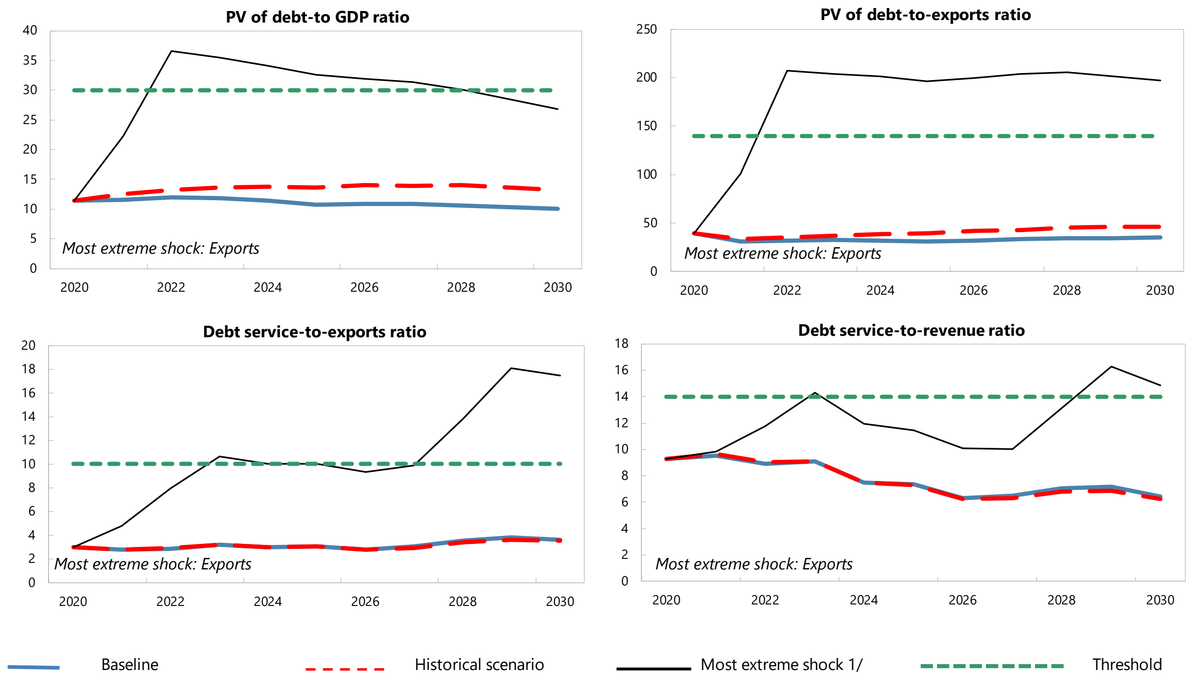
Sources: Country authorities; and staff estimates and projections.

17. Despite low total public debt levels, low debt repayment capacity remains one of the key vulnerabilities. Key vulnerabilities to DRC's risk ratings are export performance and fiscal revenue mobilization, as respective benchmarks are breached under shock scenarios. Despite gradually higher revenues projected under the ECF-supported arrangement, the debt service-to-revenue ratio suggests just some limited space for additional borrowing (Figure 5). This calls for prudent fiscal policies including constraining new borrowing, despite improved access to financing. Structural reforms, in particular in the area of domestic revenue mobilization, improvements to public financial management, and growth potential-enhancing public investment remain key to enlarging DRC's debt carrying capacity.

AUTHORITIES' VIEWS

18. The authorities broadly agreed with the overall assessment of the country's debt sustainability. Debt carrying capacity is expected to improve against the backdrop of the ECF-supported arrangement. The authorities are committed to further improve debt management, including improving the reporting of SOE and publicly guaranteed debt.

Figure 1. Democratic Republic of the Congo: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2020–2030



Customization of Default Settings	Size	Interactions
Tailored Stress		
Combined CL	Yes	
Natural disaster	n.a.	n.a.
Commodity price	No	No
Market financing	n.a.	n.a.

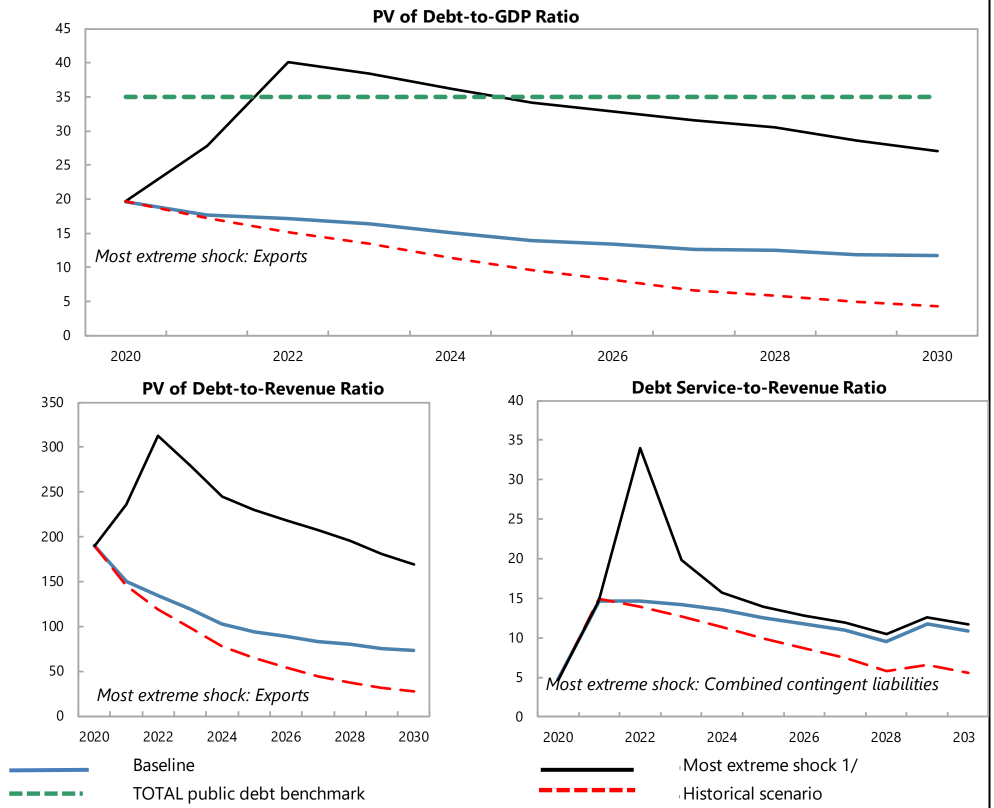
Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing assumptions on additional financing needs resulting from the 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	1.7%	1.7%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	30	30
Avg. grace period	6	6

* 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 2030. 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.

Figure 2. Democratic Republic of the Congo: Indicators of Public Debt under Alternative Scenarios, 2020–2030



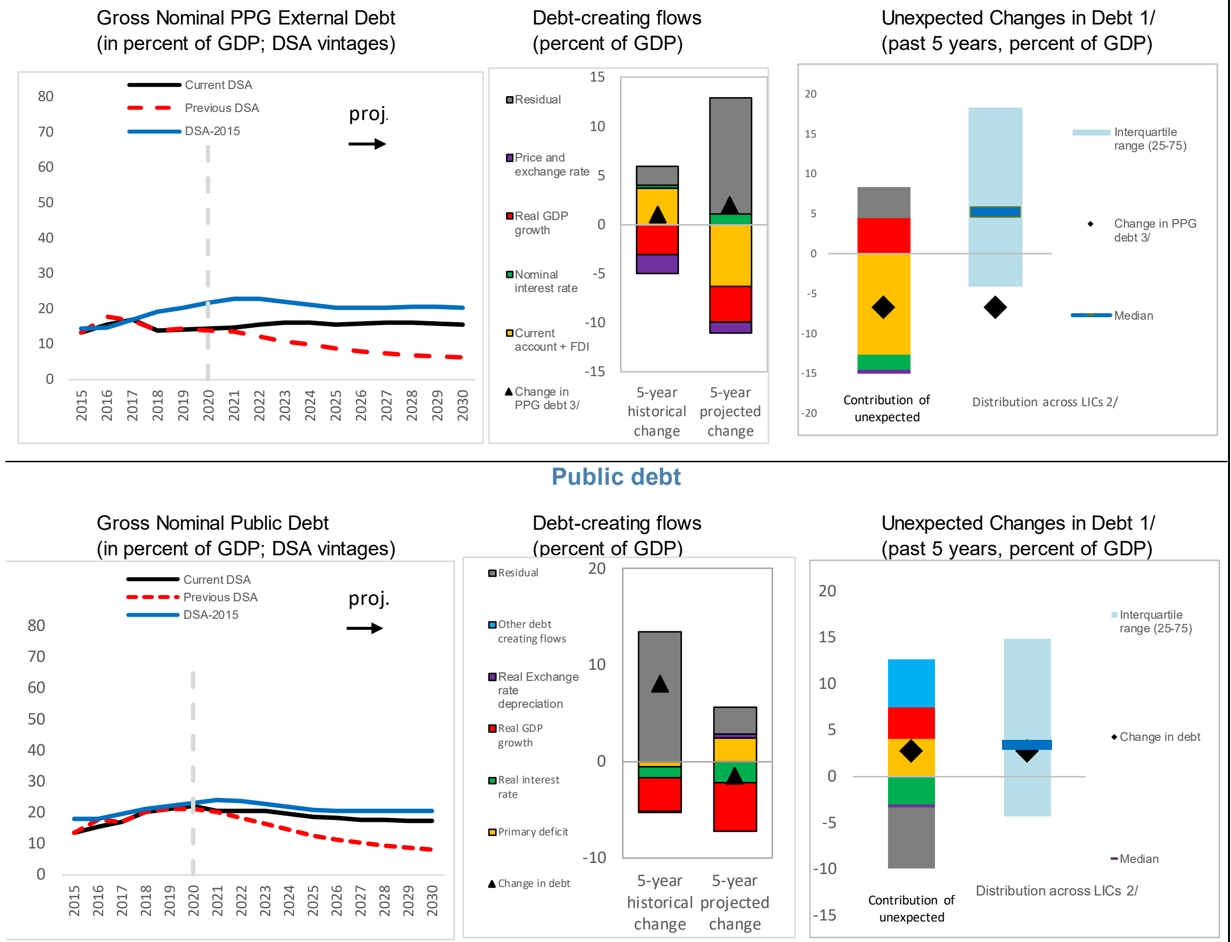
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	72%	72%
Domestic medium and long-term	0%	0%
Domestic short-term	28%	28%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.7%	1.7%
Avg. maturity (incl. grace period)	30	30
Avg. grace period	6	6
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	-1.7%	-1.7%

* 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 2030. 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.

Figure 3. Democratic Republic of the Congo: Drivers of Debt Dynamics – Baseline Scenario



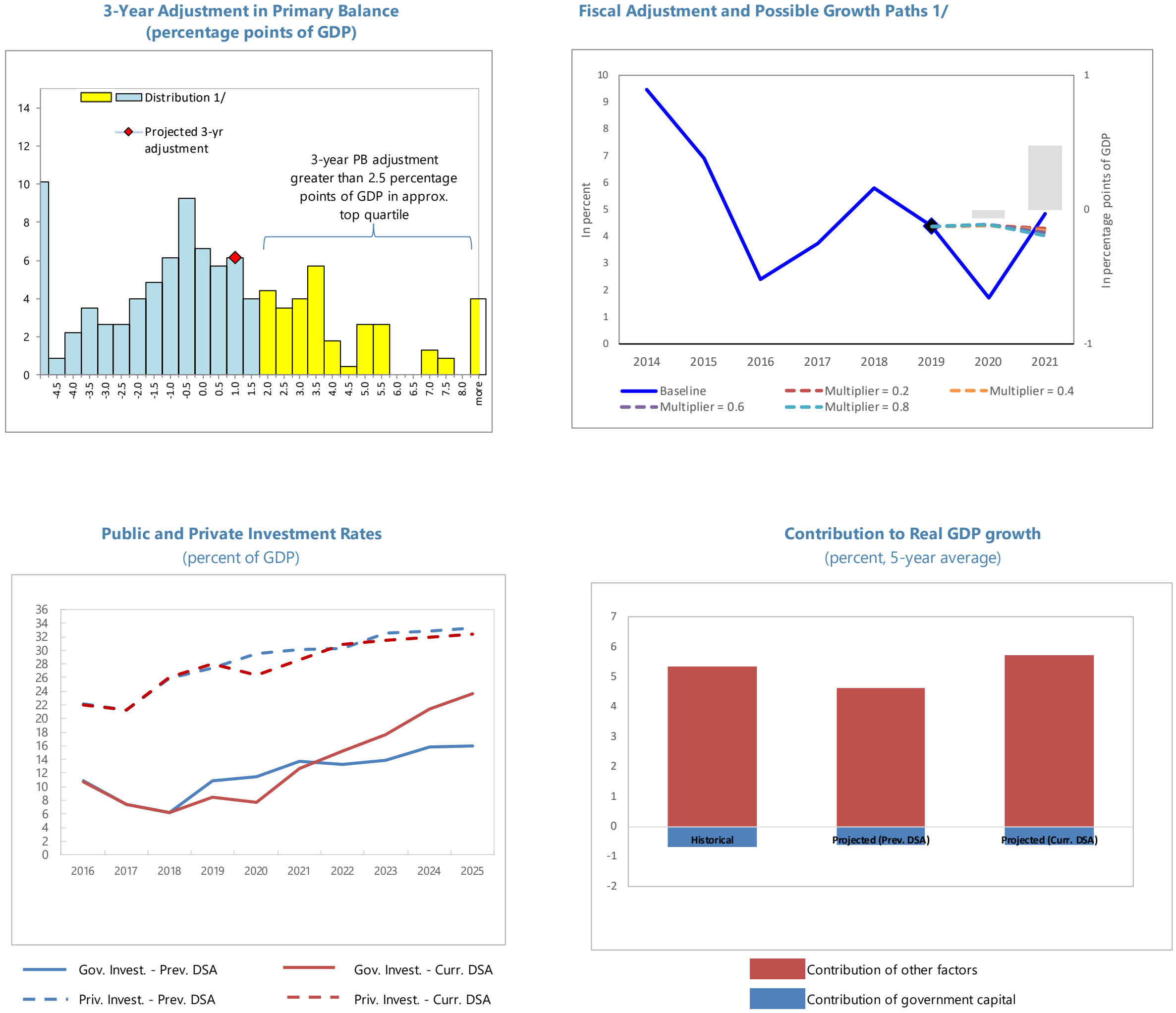
Sources: Country authorities; and staff estimates and projections.

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.

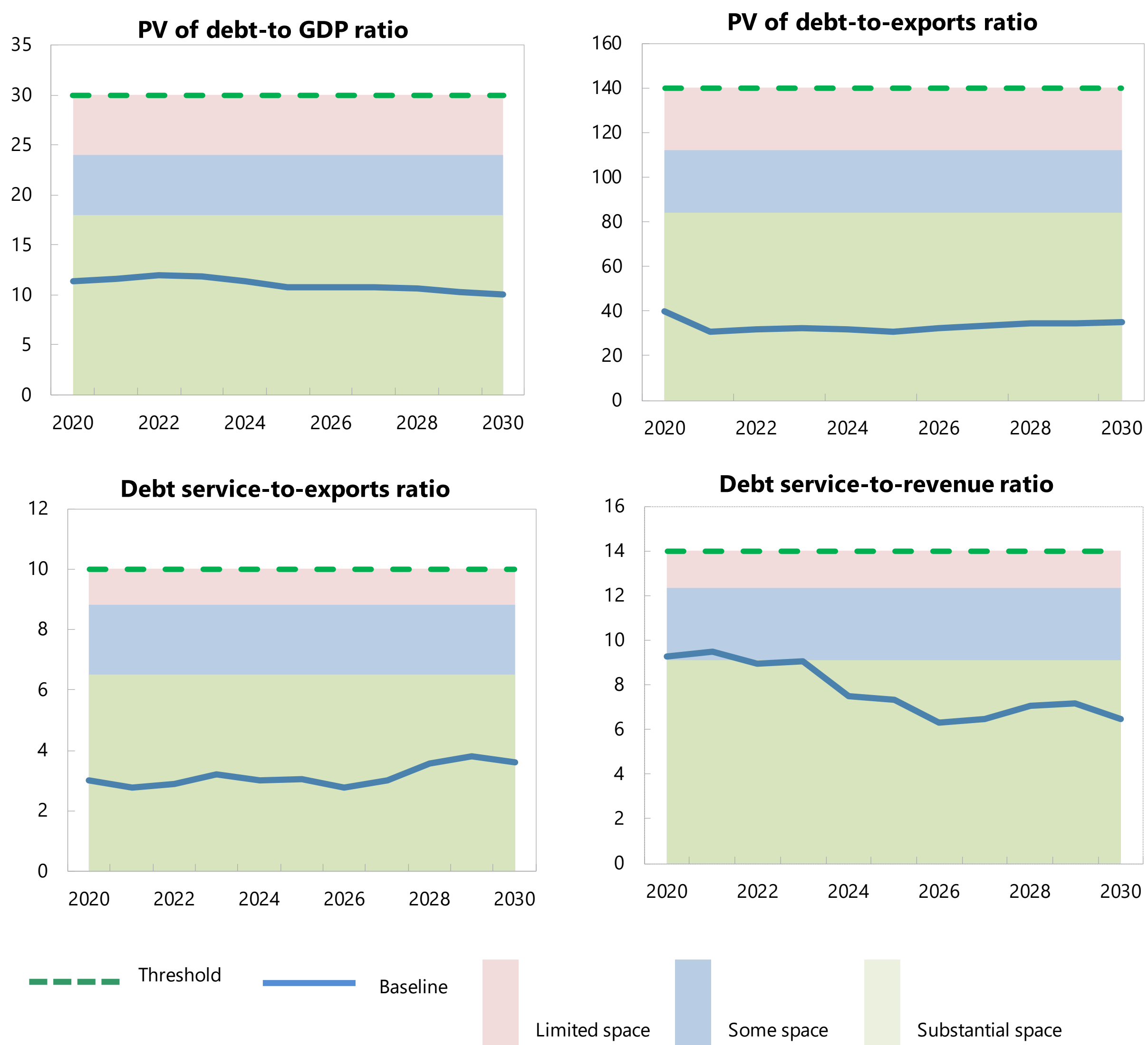
Figure 4. Democratic Republic of the Congo: Realism Tools[1]



Sources: Country authorities; and staff estimates and projections.

[1] Public and private investment rates are preliminary and based on national accounts information. Some discrepancies with fiscal accounts information are expected.

Figure 5. Democratic Republic of the Congo: Qualification of the Moderate Category 2020-2030[1]



Sources: Country authorities; and staff estimates and projections.

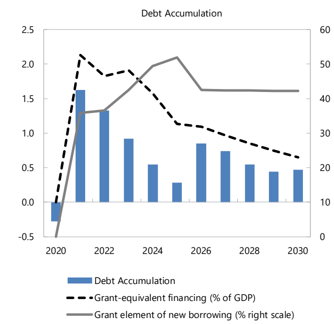
1/ For the PV debt/GDP and PV debt/exports thresholds, x is 20 percent and y is 40 percent. For debt service/Exports and debt service/revenue thresholds, x is 12 percent and y is 35 percent.

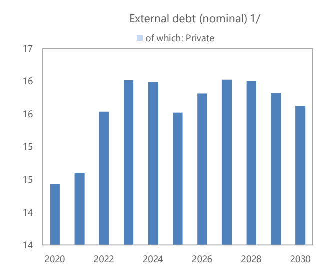
Table 1. Democratic Republic of the Congo: External Debt Sustainability Framework, Baseline Scenario, 2017–2030

(In percent of GDP, unless otherwise indicated)

	Actual			Projections											Average 8/	
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Historical	Projections
External debt (nominal) 1/	17.0	13.7	14.0	14.4	14.6	15.5	16.0	16.0	15.5	15.8	16.0	16.0	15.8	15.6	16.2	15.6
of which: public and publicly guaranteed (PPG)	17.0	13.7	14.0	14.4	14.6	15.5	16.0	16.0	15.5	15.8	16.0	16.0	15.8	15.6	16.2	15.6
Change in external debt	1.6	-3.4	0.4	0.4	0.2	0.9	0.5	0.0	-0.5	0.3	0.2	0.0	-0.2	-0.2		
Identified net debt-creating flows	0.0	-2.7	-0.3	-1.1	-1.7	-1.7	-2.1	-2.2	-2.4	-1.9	-1.4	-1.8	-1.4	-1.1	-2.6	-1.7
Non-interest current account deficit	3.2	3.5	3.1	2.1	1.6	1.6	1.3	1.1	0.8	1.1	1.6	1.2	1.7	2.1	5.1	1.5
Deficit in balance of goods and services	3.7	3.6	3.7	1.3	1.2	0.8	0.8	0.8	0.7	0.6	1.2	0.7	1.2	1.6	5.8	1.0
Exports	30.7	34.1	26.5	28.6	37.3	37.2	36.7	35.7	34.9	33.6	32.3	31.0	29.7	28.6		
Imports	34.4	37.7	30.2	29.9	38.5	38.1	37.4	36.5	35.6	34.3	33.5	31.7	30.9	30.2		
Net current transfers (negative = inflow)	-3.3	-3.7	-3.0	-1.7	-2.2	-1.9	-2.1	-2.3	-2.3	-2.2	-2.2	-2.1	-2.1	-2.1	-4.4	-2.1
of which: official	-1.8	-1.7	-0.8	-1.1	-1.6	-1.6	-1.5	-1.3	-0.9	-0.9	-0.9	-0.8	-0.8	-0.7		
Other current account flows (negative = net inflow)	2.8	3.6	2.4	2.5	2.6	2.6	2.6	2.6	2.4	2.7	2.6	2.6	2.6	2.6	3.6	2.6
Net FDI (negative = inflow)	-2.8	-3.0	-2.7	-3.1	-3.0	-2.8	-2.7	-2.5	-2.4	-2.4	-2.5	-2.5	-2.6	-2.8	-5.2	-2.6
Endogenous debt dynamics 2/	-0.5	-3.3	-0.8	-0.1	-0.4	-0.5	-0.7	-0.8	-0.8	-0.6	-0.5	-0.5	-0.5	-0.5		
Contribution from nominal interest rate	0.0	0.0	0.1	0.1	0.2	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.3		
Contribution from real GDP growth	-0.6	-0.8	-0.6	-0.3	-0.6	-0.8	-0.9	-1.0	-1.0	-0.8	-0.7	-0.7	-0.7	-0.7		
Contribution from price and exchange rate changes	0.0	-2.5	-0.3	...	...	...	...	...	...	...	...	...	...	...		
Residual 3/	1.7	-0.6	0.7	1.5	1.9	2.6	2.6	2.2	1.9	2.2	1.6	1.8	1.2	0.9	-4.2	1.8
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	0.0	0.0	0.0		
Sustainability indicators																
PV of PPG external debt-to-GDP ratio	...	...	11.3	11.4	11.5	11.9	11.8	11.4	10.8	10.8	10.8	10.6	10.3	10.1		
PV of PPG external debt-to-exports ratio	...	...	42.6	39.8	31.0	32.0	32.3	32.0	30.9	32.2	33.4	34.3	34.7	35.2		
PPG debt service-to-exports ratio	1.0	1.2	3.4	3.0	2.7	2.9	3.2	3.0	3.1	2.8	3.0	3.5	3.8	3.6		
PPG debt service-to-revenue ratio	3.2	4.1	8.4	9.3	9.5	8.9	9.1	7.5	7.3	6.3	6.5	7.1	7.1	6.5		
Gross external financing need (Million of U.S. dollars)	2388.5	3260.8	3364.2	2956.5	3085.2	3216.4	3263.1	3257.0	3214.8	3662.3	4371.1	4405.3	5316.4	6287.8		
Key macroeconomic assumptions																
Real GDP growth (in percent)	3.7	5.8	4.4	1.7	4.9	5.6	6.6	6.8	6.7	5.4	5.0	4.9	5.0	5.0	6.2	5.2
GDP deflator in US dollar terms (change in percent)	-0.1	17.3	2.4	-5.0	7.4	2.3	1.8	1.6	1.6	2.0	2.0	2.0	2.0	2.0	4.3	1.8
Effective interest rate (percent) 4/	0.3	0.3	0.8	0.8	1.9	1.9	1.9	1.7	1.5	1.4	1.5	1.6	1.6	1.7	0.4	1.6
Growth of exports of G&S (US dollar terms, in percent)	-3.0	38.0	-17.1	4.5	46.8	7.8	7.0	5.5	6.1	3.6	2.7	2.5	2.8	3.2	13.4	8.4
Growth of imports of G&S (US dollar terms, in percent)	-8.3	36.1	-14.5	-4.2	45.1	6.7	6.7	5.8	5.8	3.6	4.4	1.2	4.5	4.8	10.7	7.7
Grant element of new public sector borrowing (in percent)	...	...	...	61.8	35.8	36.5	42.5	49.3	51.9	42.5	42.4	42.3	42.3	42.2	...	44.5
Government revenues (excluding grants, in percent of GDP)	9.8	10.2	10.6	9.3	10.8	12.0	12.9	14.2	14.5	14.8	15.1	15.5	15.7	16.0	11.9	13.7
Aid flows (in Million of US dollars) 5/	761.3	537.6	994.3	502.6	1319.8	1241.3	1524.0	1551.6	1400.0	1500.0	1450.0	1400.0	1350.0	1300.0		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	...	2.1	1.8	1.9	1.6	1.1	1.1	1.0	0.9	0.7	0.6	...	1.3
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	...	51.9	50.8	56.5	60.7	58.8	47.3	45.8	44.2	42.6	40.8	...	49.9
Nominal GDP (Million of US dollars)	37,981	47,146	50,399	48,707	54,832	59,246	64,296	69,742	75,628	81,360	87,071	93,120	99,714	106,845		
Nominal dollar GDP growth	3.7	24.1	6.9	-3.4	12.6	8.1	8.5	8.5	8.4	7.6	7.0	6.9	7.1	7.2	10.8	7.1
Memorandum items:																
PV of external debt 7/	...	...	11.3	11.4	11.5	11.9	11.8	11.4	10.8	10.8	10.8	10.6	10.3	10.1		
In percent of exports	...	...	42.6	39.8	31.0	32.0	32.3	32.0	30.9	32.2	33.4	34.3	34.7	35.2		
Total external debt service-to-exports ratio	1.0	1.2	3.4	3.0	2.7	2.9	3.2	3.0	3.1	2.8	3.0	3.5	3.8	3.6		
PV of PPG external debt (in Million of US dollars)			5679.2	5539.2	6331.5	7060.9	7606.6	7959.7	8156.0	8801.3	9402.9	9878.1	10292.3	10757.4		
(PVt-PVt-1)/GDPt-1 (in percent)				-0.3	1.6	1.3	0.9	0.5	0.3	0.9	0.7	0.5	0.4	0.5		
Non-interest current account deficit that stabilizes debt ratio	1.6	6.9	2.8	1.7	1.5	0.6	0.8	1.1	1.3	0.8	1.4	1.2	1.8	2.3		

Definition of external/domestic debt	Residency-based
Is there a material difference between the two criteria?	No





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) + Ɛα (1+r)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, ρ = growth rate of GDP deflator in U.S. dollar terms, Ɛ=nominal appreciation of the local currency, and α= share of local currency-denominated external debt in total external debt.

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.

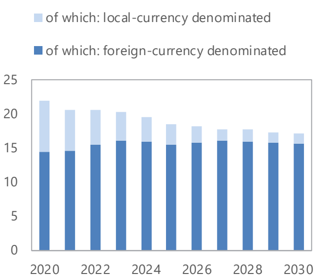
Table 2. Democratic Republic of the Congo: Public Sector Debt Sustainability Framework, Baseline Scenario, 2017–2030

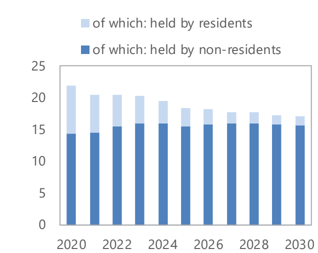
(In percent of GDP, unless otherwise indicated)

	Actual			Projections							Average 6/	
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030	Historical	Projections
Public sector debt 1/	17.0	20.2	21.1	22.0	20.6	20.5	20.4	19.5	18.5	17.1	17.5	19.0
of which: external debt	17.0	13.7	14.0	14.4	14.6	15.5	16.0	16.0	15.5	15.6	16.2	15.6
Change in public sector debt	1.6	3.2	0.9	0.9	-1.4	0.0	-0.2	-0.9	-1.0	-0.1		
Identified debt-creating flows	-3.4	-4.8	0.0	2.1	-2.4	-1.1	-1.4	-1.5	-1.5	-1.2	-3.6	-1.0
Primary deficit	-1.6	-0.6	1.2	1.3	0.8	0.3	0.1	-0.1	0.0	-0.3	-0.5	0.2
Revenue and grants	11.7	11.3	11.4	10.3	11.8	12.8	13.8	14.8	14.8	16.0	14.2	14.2
of which: grants	2.0	1.1	0.8	1.0	1.0	0.8	0.8	0.6	0.3	0.0		
Primary (noninterest) expenditure	10.1	10.7	12.6	11.6	12.6	13.1	13.8	14.7	14.8	15.7	13.7	14.4
Automatic debt dynamics	-1.8	-4.3	-1.2	0.8	-3.2	-1.4	-1.5	-1.5	-1.4	-0.9		
Contribution from interest rate/growth differential	-0.8	-1.3	-1.2	-0.8	-1.9	-1.4	-1.5	-1.5	-1.4	-1.0		
of which: contribution from average real interest rate	-0.2	-0.3	-0.4	-0.5	-0.9	-0.3	-0.2	-0.2	-0.2	-0.2		
of which: contribution from real GDP growth	-0.6	-0.9	-0.9	-0.4	-1.0	-1.1	-1.3	-1.3	-1.2	-0.8		
Contribution from real exchange rate depreciation	-1.0	-3.0	0.0	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	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		
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		
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		
Residual	5.0	8.0	0.8	0.4	-0.3	1.0	1.3	0.7	0.4	1.2	-2.4	0.6
Sustainability indicators												
PV of public debt-to-GDP ratio 2/	...	...	18.5	19.6	17.7	17.1	16.4	15.2	13.9	11.7		
PV of public debt-to-revenue and grants ratio	...	...	162.7	190.3	149.8	134.0	119.3	102.4	94.1	73.3		
Debt service-to-revenue and grants ratio 3/	2.6	3.7	-0.2	4.7	14.7	14.6	14.2	13.5	12.5	10.9		
Gross financing need 4/	-1.3	-0.1	1.2	1.8	2.6	2.2	2.0	1.9	1.8	1.5		
Key macroeconomic and fiscal assumptions												
Real GDP growth (in percent)	3.7	5.8	4.4	1.7	4.9	5.6	6.6	6.8	6.7	5.0	6.2	5.2
Average nominal interest rate on external debt (in percent)	0.4	0.3	0.8	0.8	2.1	1.9	1.9	1.7	1.5	1.8	0.5	1.6
Average real interest rate on domestic debt (in percent)	-29.8	-22.7	-3.8	-6.3	-13.4	-5.5	-5.0	-4.8	-4.9	-3.2	-9.5	-5.4
Real exchange rate depreciation (in percent, + indicates depreciation)	-6.7	-19.0	0.1	...	...	...	...	...	...	...	-2.5	...
Inflation rate (GDP deflator, in percent)	43.1	29.8	4.0	6.7	16.0	6.2	5.8	5.9	6.0	5.4	12.4	6.7
Growth of real primary spending (deflated by GDP deflator, in percent)	-26.2	12.1	22.8	-6.3	14.1	9.8	12.1	13.8	7.0	6.0	6.1	7.5
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-3.3	-3.8	0.4	0.4	2.2	0.4	0.2	0.8	1.0	-0.2	-2.2	0.6
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		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**No**

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central, state, and local governments, central bank, government-guaranteed debt, non-guaranteed SOE debt . Definition of external debt is Residency-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.

Table 3. Democratic Republic of the Congo: Sensitivity Analysis for Key Indicators of PPG External Debt, 2020–2030
(In percent)

	Projections 1/										
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
PV of debt-to GDP ratio											
Baseline	11	12	12	12	11	11	11	11	11	10	10
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	11	12	13	14	14	14	14	14	14	14	13
B. Bound Tests											
B1. Real GDP growth	11	12	13	13	12	12	12	12	11	11	11
B2. Primary balance	11	12	13	13	13	12	12	12	12	11	11
B3. Exports	11	22	**37**	**36**	**34**	**33**	**32**	**31**	**30**	28	27
B4. Other flows 3/	11	14	18	17	17	16	16	15	15	14	14
B5. Depreciation	11	14	14	14	14	13	13	13	13	12	12
B6. Combination of B1-B5	11	21	24	23	22	21	21	21	20	19	18
C. Tailored Tests											
C1. Combined contingent liabilities	11	16	17	17	16	15	15	15	15	14	14
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	11	16	19	19	19	18	18	17	17	16	15
C4. Market Financing	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
Threshold	30	30	30	30	30	30	30	30	30	30	30
PV of debt-to-exports ratio											
Baseline	40	31	32	32	32	31	32	33	34	35	35
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	40	33	35	37	38	39	42	43	45	46	46
B. Bound Tests											
B1. Real GDP growth	40	31	32	32	32	31	32	33	34	35	35
B2. Primary balance	40	32	35	36	36	35	36	37	38	39	39
B3. Exports	40	101	**207**	**204**	**201**	**196**	**200**	**204**	**205**	**201**	**197**
B4. Other flows 3/	40	39	47	47	46	45	46	48	48	48	48
B5. Depreciation	40	31	31	31	31	30	31	32	33	33	34
B6. Combination of B1-B5	40	82	60	97	96	93	95	98	98	97	96
C. Tailored Tests											
C1. Combined contingent liabilities	40	42	45	46	46	44	46	47	48	49	49
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	40	49	60	59	57	54	54	56	56	56	55
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	140	140	140	140	140	140	140	140	140	140	140
Debt service-to-exports ratio											
Baseline	3	3	3	3	3	3	3	3	4	4	4
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	3	3	3	3	3	3	3	3	3	4	4
B. Bound Tests											
B1. Real GDP growth	3	3	3	3	3	3	3	3	4	4	4
B2. Primary balance	3	3	3	3	3	3	3	3	4	4	4
B3. Exports	3	5	8	11	10	10	9	10	14	18	17
B4. Other flows 3/	3	3	3	4	3	3	3	3	4	5	5
B5. Depreciation	3	3	3	3	3	3	3	3	4	4	4
B6. Combination of B1-B5	3	4	6	6	6	6	6	6	9	9	9
C. Tailored Tests											
C1. Combined contingent liabilities	3	3	3	4	3	3	3	3	4	4	4
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	3	3	4	4	4	4	3	4	5	6	5
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	10	10	10	10	10	10	10	10	10	10	10
Debt service-to-revenue ratio											
Baseline	9	10	9	9	7	7	6	6	7	7	6
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	9	10	9	9	7	7	6	6	7	7	6
B. Bound Tests											
B1. Real GDP growth	9	10	10	10	8	8	7	7	8	8	7
B2. Primary balance	9	10	9	9	8	8	7	7	7	8	7
B3. Exports	9	10	12	**14**	12	11	10	10	13	**16**	**15**
B4. Other flows 3/	9	10	10	10	8	8	7	7	8	9	8
B5. Depreciation	9	12	11	11	9	9	8	8	9	9	8
B6. Combination of B1-B5	9	10	11	12	10	9	8	8	11	11	10
C. Tailored Tests											
C1. Combined contingent liabilities	9	10	10	10	8	8	7	7	8	8	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	9	11	11	12	10	9	8	8	9	10	9
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
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. Democratic Republic of the Congo: Sensitivity Analysis for Key Indicators of Public Debt, 2020–2030

	Projections 1/										
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
PV of Debt-to-GDP Ratio											
Baseline	20	18	17	16	15	14	13	13	12	12	12
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	20	17	15	13	11	10	8	7	6	5	4
B. Bound Tests											
B1. Real GDP growth	20	19	19	19	18	17	17	17	17	17	18
B2. Primary balance	20	19	19	18	17	15	15	14	14	13	13
B3. Exports	20	28	**40**	**38**	**36**	34	33	32	31	29	27
B4. Other flows 3/	20	21	23	22	20	19	18	17	17	16	16
B5. Depreciation	20	19	18	16	14	12	11	10	9	7	7
B6. Combination of B1-B5	20	18	17	16	15	13	13	12	12	11	11
C. Tailored Tests											
C1. Combined contingent liabilities	20	23	22	21	19	18	17	16	16	15	15
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	20	19	19	19	18	18	18	17	18	18	18
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
TOTAL public debt benchmark	35	35	35	35	35	35	35	35	35	35	35
PV of Debt-to-Revenue Ratio											
Baseline	190	150	134	119	102	94	89	83	80	76	73
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	190	146	119	98	78	65	54	44	38	31	27
B. Bound Tests											
B1. Real GDP growth	190	156	149	137	122	117	115	112	112	110	110
B2. Primary balance	190	158	147	130	112	103	98	91	88	83	80
B3. Exports	190	236	313	279	245	230	219	207	196	181	169
B4. Other flows 3/	190	174	179	159	138	128	121	114	109	102	97
B5. Depreciation	190	166	140	119	96	83	73	63	56	47	42
B6. Combination of B1-B5	190	152	137	116	99	91	86	80	77	73	70
C. Tailored Tests											
C1. Combined contingent liabilities	190	196	170	151	130	121	114	107	103	98	95
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	190	181	164	153	133	125	120	115	114	112	112
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Service-to-Revenue Ratio											
Baseline	5	15	15	14	14	13	12	11	10	12	11
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	5	15	14	13	11	10	9	7	6	7	6
B. Bound Tests											
B1. Real GDP growth	5	15	16	17	17	16	15	15	13	16	15
B2. Primary balance	5	15	17	17	15	13	12	11	10	12	12
B3. Exports	5	15	17	18	17	16	15	14	15	20	18
B4. Other flows 3/	5	15	15	15	14	13	13	12	11	14	13
B5. Depreciation	5	15	17	15	15	14	13	12	11	13	11
B6. Combination of B1-B5	5	14	14	14	13	12	12	11	9	12	11
C. Tailored Tests											
C1. Combined contingent liabilities	5	15	31	19	15	14	13	12	10	12	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	5	17	16	15	18	17	16	14	12	14	14
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

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.

INTERNATIONAL MONETARY FUND

DEMOCRATIC REPUBLIC OF THE CONGO

REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY; REVIEW OF PERFORMANCE UNDER THE STAFF MONITORED PROGRAM—INFORMATIONAL ANNEX

June 29, 2021

Prepared By

The African Department
(In collaboration with other departments)

CONTENTS

RELATIONS WITH THE IMF

As of May 31, 2021

Membership Status: Joined September 28, 1963; Article VIII

General Resources Account:	**SDR Million**	**Percent of Quota**
Quota	1,066.00	100.00
Fund holdings of currency	1,066.00	100.00
Reserve Tranche Position	0.00	0.00
SDR Department:	**SDR Million**	**Percent of Quota**
Net cumulative allocation	510.86	100.00
Holdings	26.73	5.23
Outstanding Purchases and Loans:	**SDR Million**	**Percent of Quota**
RCF Loans	533.00	50.00

Latest Financial Commitments:

Arrangements

Type	**Approval Date**	**Expiration Date**	**Amount Approved (SDR Million)**	**Amount Drawn (SDR Million)**
ECF[1]	Dec 11, 2009	Dec 10, 2012	346.45	197.97
ECF[1]	Jun 12, 2002	Mar 31, 2006	580.00	553.47
Stand-By	Jun 09, 1989	Jun 08, 1990	116.40	75.00

Outright Loans

Type	**Approval Date**	**Expiration Date**	**Amount Approved (SDR Million)**	**Amount Drawn (SDR Million)**
RCF[2]	Apr 22, 2020	Apr 24, 2020	266.50	266.50
RCF[2]	Dec 16, 2019	Dec 24, 2019	266.50	266.50

[1] Formerly Poverty Reduction and Growth Facility (PRGF)

[2] Undrawn outright disbursements (RFI and RCF) expire automatically 60 days following the date of commitment, i.e. Board approval date.

Overdue Obligations and Projected Payments to Fund:[3]
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2021	2022	2023	2024	2025
Principal					79.95
Charges/Interest	0.12	0.25	0.25	0.25	0.25
Total	0.12	0.25	0.25	0.25	80.20

Implementation of HIPC Initiative:

I.	Commitment of HIPC assistance	Enhanced Framework
	Decision point date	Jul 2003
	Assistance committed by all creditors (US$ Millions)[4]	7,252.00
	Of which: IMF assistance (US$ Millions)	391.60
	(SDR equivalent millions)	280.30
	Completion point date	Jul 2010
II.	Disbursement of IMF assistance (SDR Millions)	
	Assistance disbursed to the member	280.30
	Interim assistance	49.05
	Completion point balance	231.25
	Additional disbursement of interest income[5]	50.44
	Total disbursements	330.74

Implementation of MDRI Assistance:

I.	MDRI-eligible debt (SDR Million)[6]	248.08
	Financed by: MDRI Trust	0.00
	Remaining HIPC resources	248.08
II.	Debt Relief by Facility (SDR Million)	

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

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

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

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

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

Exchange Rate Arrangement:
The currency of the Democratic Republic of the Congo (DRC) is the Congo franc (CDF). The de jure exchange rate arrangement is floating, although the Fund classifies the de facto exchange rate arrangement as "stabilized." At end-April 2021, the rate was US$1=CF 1990.25. Effective February 10, 2003, the DRC accepted the obligations of Article VIII, Sections 2 (a) 3, and 4, of the Fund's Articles of Agreement. However, the DRC maintains one exchange rate restriction subject to Fund approval arising from an outstanding net debt position against other contracting members under the inoperative regional payments' agreement with the Economic Community of the Great Lakes Countries.

Last Article IV Consultation:
The last Article IV consultation was concluded by the Executive Board on August 26, 2019.

Safeguards Assessment:
An updated safeguards assessment of the *Banque Centrale du Congo* (BCC) was completed in May 2020. Previous safeguards assessments were conducted in 2003, 2008 and 2010. The BCC has maintained good external audit arrangements and improved its legal framework through amendments that were guided by technical assistance. However, the operational implementation of the amended law is delayed and the risks remain high for most of the other pillars of the safeguards framework. This is a reflection of significant weaknesses in the financial reporting and internal audit practices that are not aligned with international standards. In addition, governance arrangements present significant gaps that have led to a weak oversight function of the Board and expose the central bank to legal uncertainty and conflict of interests risks. Furthermore, the BCC should take steps to strengthen compliance with the new legal framework and address vulnerabilities in the control environment, particularly with respect to management of foreign reserves, banking and lending operations, and monetary data reporting.

Governance Assessment:
At the request of the DRC authorities, the Legal and Fiscal Affairs Departments of the IMF conducted an assessment of governance and corruption mission in Kinshasa from December 9 to 20, 2019. The recently published governance assessment found four cross-cutting issues that affect the effectiveness of the economic governance framework in the DRC: institutional complexity, normative complexity, data integrity and transparency, and checks and balances. The report provides key recommendations in the areas of fiscal governance, central bank governance and operations, financial sector oversight, rule of law, market regulation and business environment, anti-corruption, and AML/CFT.

Resident Representative: Mr. Gabriel Leost assumed his duties in February 2021.

RELATIONS WITH OTHER FINANCIAL INSTITUTIONS

A. World Bank

https://www.worldbank.org/en/country/drc/overview

World Bank Group Projects:
http://projects.worldbank.org/search?lang=en&searchTerm=&countrycode_exact=ZR

B. African Development Bank

https://www.afdb.org/en/countries/central-africa/democratic-republic-of-congo

INTERNATIONAL MONETARY FUND

DEMOCRATIC REPUBLIC OF THE CONGO

July 14, 2021

REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY; REVIEW OF PERFORMANCE UNDER THE STAFF MONITORED PROGRAM—SUPPLEMENTARY INFORMATION

Approved By
Annalisa Fedelino (AFR) and Geremia Palomba (SPR)

Prepared by the African Department, in consultation with other departments.

1. **This supplement provides an update on the completion of a prior action and new information that has become available since the staff report was issued to the Board.** It does not alter the thrust of the staff appraisal.

2. **Staff considers that the prior action on "BCC Board fully constituted in accordance with the requirements of the 2018 Central Bank Law" has been met based on the information provided and the vetting process performed by the authorities.** By presidential decrees (*ordonnances présidentielles*) dated June 30 and July 12, 2021, the Board of the BCC was completely renewed. In accordance with the 2018 BCC Law, the vacant position for the second vice-governor was also filled. All the new members of the Board comply with the BCC Law, particularly with regard to their credentials and incompatibilities with other professional activities. A new BCC governor, Malangu Kabedi-Mbuyi (former IMF staff), has also been appointed. She replaces Deogratias Mutombo, who held that position for eight years and will now become the head of the insurance sector regulation agency.

3. **The authorities have partially met their RCF commitments on COVID-19 spending.** They published all identified COVID-19-related contracts above US$12,000 in the Ministry of Health's website. Thirty-five contracts above US$12,000, were identified following missions to provinces and were published. They amounted to US$6.9 million, bringing validated expenses to 57.8 percent of the total COVID-19-related spending (i.e., including GAVI-related outlays for US$16.3 million and spending on new doctors for US$6.7 million).

However, the authorities have not yet implemented their commitment to publish beneficial ownership information of companies awarded contracts above US$1 million (one such case so far). Forthcoming technical assistance from the Fund will also aim to ensure that beneficial ownership information of contracting companies can be requested and published.

COVID Spending – RCF Commitments Summary
as of July 6, 2021

	COVID spending	
	in CF billion	in US$ million
Total	**95.8**	**51.7**
of which GAVI	30.1	16.3
Ministry of Health	18.6	10.1
of which new doctors	12.5	6.7
Provinces	2.9	1.6
Others	44.1	23.8
Publication	**12.8**	**6.9**
of which between US$12,000 and US$1,000,000	5.3	2.8
> US$1,000,000	7.5	4.1
Memo items		
Expenses validated (in percent of total)		57.8
Exchange rate (2020, average)	1851.5	

Source: Congolese authorities' data

Statement by Mr. Aivo Andrianarivelo,
Executive Director for the Democratic Republic of the Congo,
and Mr. Marcellin Koffi Alle, Senior Advisor to Executive Director

July 15, 2021

1. Our Congolese authorities would like to thank the Board, Management and Staff for the support since the Fund's re-engagement with the Democratic Republic of Congo (DRC) in 2019. Two disbursements under the Rapid Credit Facility (RCF) in late 2019 and in April 2020 were instrumental respectively in strengthening the country's external position and responding to the COVID-19 pandemic. Amid a challenging environment marked by the economic fallout from the pandemic, the authorities have moved ahead with important reforms under a Staff-Monitored Program (SMP) over the same period. Progress made in this context paved the way for the negotiations of a medium-term program expected to be supported by an Extended Credit Facility (ECF).

2. DRC's economy was hit hard by the COVID-19 crisis. The disruptions of global trade severely impacted world prices of copper and cobalt which make the bulk of the country's exports. The social and economic effects of the pandemic compounded the already fragile situation of protracted security issues and episodes of Ebola outbreaks. The authorities have managed to maintain a broadly stable macroeconomic environment with little external assistance. The agreement reached with staff on a medium-term reform package is an indication of the authorities' strong commitment to reforms and sound policymaking. Moreover, this step represents a milestone in the Congolese government's strategy to enhance macroeconomic stability and implement far-reaching structural reforms to build resilience and transform the economy. With the support of the Board, an ECF arrangement would provide the appropriate anchor for this medium-term agenda as well as the framework to garner much-needed donors' support.

RECENT DEVELOPMENTS, SMP PERFORMANCE AND OUTLOOK

3. Since March 2020 when DRC reported its first case of COVID-19 to date, the pandemic and its associated economic fallout have been at the center of the authorities' actions. Three waves of infections were recorded over this period, the last one being reported in early June 2021. The government's response has been a combination of containment measures to limit the spread of the virus and social and macroeconomic policies to dampen the impact of the pandemic. The capital city of Kinshasa as well as key mining sites in

provinces underwent lockdowns and other restrictive measures. The authorities implemented a national response plan which included fiscal measures to support firms and households and monetary measures to ease liquidity. A vaccination program topped the recent actions, with DRC benefiting 1.7 million doses of the COVID-19 vaccine from the COVAX initiative.

4. Owing to the authorities' swift policy response and positive developments in global mineral prices, the pandemic affected end-2020 macroeconomic figures less than anticipated. Real GDP growth is estimated to remain in positive territories, at 1.7 percent, driven by resilient mining activity - extractive GDP stood at 9.7 percent. Non-extractive GDP contracted by 1.3 percent, with the service sector being the hardest hit. Accommodative monetary policy and monetary injection contributed to push inflation from 4.6 percent in 2019 to 15.7 percent year-on-year in August 2020. Public finances suffered the downturn, as revenue fell sharply in the face of increased pandemic-related spending. The resulting overall fiscal deficit reached 2.1 percent of GDP, compared to a previous estimate of 0.6 percent. By contrast, the external position improved significantly; the current account deficit decreased to 2.2 percent of GDP, as a result of buoyant mining exports and lower imports of capital goods. International reserves increased by the same token.

5. Many indicators improved in the first half of 2021. Mining activity maintained its booming trend. Fiscal discipline paired with large corporate tax payments in April have helped improve the fiscal stance and build buffers. Inflation fell sharply to 4.8 percent y/y in April 2021, as a result of monetary policy tightening, while the exchange rate depreciated by merely 0.9 percent since January. In May, a Volcano eruption near the city of Goma prompted the authorities to support displaced populations through emergency spending.

6. Amid the difficult 2020 environment, the authorities achieved a satisfactory performance under the SMP agreed upon in late 2019 alongside the first RCF disbursement. Many important reforms were implemented, albeit some with delays due to the adverse pandemic conditions. All but one quantitative indicative targets (ITs) for the December 2019 test date were met. Despite the government's COVID support measures, about half of the ITs were met for the March and May 2020 test dates. Furthermore, the authorities fully implemented the corrective measures agreed on with staff, prior to the ECF negotiations. In this context, key achievements included: (i) publication of all new mining contracts since November 2019 and stepped-up publication of past contracts; (ii) issuance of a decree to strengthen public debt management and monitor all new debt contracts, including by SOEs; (iii) identification of contingent spending and urgent revenue mobilization measures to safeguard the execution of the 2020 budget and avoid the recourse to BCC advances.

7. The authorities share staff's analysis on the outlook and are cognizant of the balance of risks. On the downside, they are determined to stay alert with their domestic response to the pandemic while looking forward to the easing of the crisis at the global level. The resumption of trade channels which translates into the booming mining exports bodes well for these expectations. The authorities take positive note of the upside risks associated with a quicker resumption of public and private investments, revamped relationships with the international community, and continued increasing mining exports. They are hopeful that the ECF arrangement will contribute to the materialization of these upside risks.

PROGRAM OBJECTIVES AND POLICIES FOR THE MEDIUM TERM

8. Since assuming the presidency in early 2019, President Tshisekedi has tasked his government with negotiating a medium-term reform package supported by an ECF arrangement. The recent political developments resulted in a clear coalition committed to implementing the president's agenda. An ECF framework will help mobilize the donor community to support the domestic efforts in this regard. Key reform areas in the near to the medium term encompass improving the fiscal-monetary policy mix, stepping up revenue mobilization including from the mining sector, improving the overall governance and combating corruption, and enhancing the business climate for creating a private-sector led growth.

Improving the fiscal-monetary policy mix

9. The DRC authorities are cognizant that ensuring macroeconomic stability hinges on the improvement of the coordination of fiscal and monetary policies. The monetary financing of the budget deficit over years of little or no external assistance, has been a major issue which needs fix going forward. While looking forward to renewed donor support in the context of an IMF-supported program, the authorities are committed to implementing bold reforms to step up **domestic revenue mobilization**. With the goal of increasing the revenue-to-GDP ratio by 3.5 percentage points by 2023, they built a strategy around four pillars: (i) restoring normal functioning of VAT, by ending exemptions granted to mining companies; (ii) rationalizing non-tax and parafiscal charges, including streamlining excise duties; (iii) streamlining tax expenditures, with a rationalization plan based on IMF recommendations to be finalized by end-2021; and (iv) modernizing revenue administration by reforming the governance structure of the three tax administrations and scaling up computerization of the revenue chain.

10. **Spending discipline** is the pairing element of revenue mobilization in our authorities' strategy. They are committed to improving spending composition towards social and public infrastructure spending; with the goal of increasing domestically financed investment from 0.1 percent of GDP in 2020 to over 2.5 percent of GDP in 2023. In this vein, they will rationalize the wage bill, limit fuel-related subsidies, and gradually reform the civil servants' pension system to limit government transfers.

11. Other reforms in **public financial management** (PFM) will improve **fiscal transparency and accountability** to complete actions aimed at ensuring fiscal sustainability. Informed by recommendations from World Bank and IMF TA, reforms will focus inter alia, on consolidating all government accounts in a single treasury account, improving inter-institutional coordination to reinforce budgetary credibility, and strengthening financial reporting and oversight including for state-owned enterprises (SOEs). The **transparency of COVID-related spending** is a priority to the authorities, including the use of the April 2020 RCF resources. They have already published budget execution figures with specific information on COVID-19 spending. As well, as committed, they have published online, as of June 23, 32 out of the 35 COVID-related procurement contracts exceeding US$12,000.

Data collection will continue amid difficult access to remote provinces, and the authorities are committed to fully reporting on the use of COVID spending, including with IMF TA on some aspects. An audit report on the matter will also be submitted to Parliament in September 2021 and published thereafter.

12. The improvement of the fiscal stance combined with the authorities' prudent borrowing policy will contribute to ensure **debt sustainability** going forward. Priority will be given to concessional resources while continuously enhancing the debt management strategy, with the view to preserving the moderate risk of debt distress.

13. The conduct of **monetary policy** will benefit from the recent renewal of the management team of the central bank (*Banque Centrale du Congo* (BCC)). As well, monetary policy instruments will be modernized and strengthened with the new reserve requirement framework and BCC's financial position improved with the upcoming regularization of the outstanding credit of the government. Aided by the revamped management, frameworks and tools, the central bank's subsequent enhanced independence will help discontinue past practices of advances to the budget and guarantees to the private sector. It will rather focus on its mission of ensuring price stability and financial stability. Regarding the **financial sector**, the authorities are committed to enhancing the risk-based supervisory framework and the oversight of banks. The newly created macro-prudential committee led by the Ministry of Finance and the BCC is meant to promote coordination between supervisors and monitor systemic risks. A new Commercial Banking Law will also be submitted to Parliament by end-November 2021, followed by a Financial Sector Stability Review (FSSR) planned for end-2021. These steps will help modernize the regulatory framework and elaborate a strategy for financial sector development. In parallel, the authorities will continue their efforts to enhance **financial inclusion**, including by restructuring and strengthening microfinance institutions (MFIs) and supporting the development of mobile money and other fintech services.

14. The authorities will also endeavor in the period ahead to increase **international reserves** for enhancing **external stability**. Key steps in this regard include implementing the recommendations of the safeguards assessment, the discontinuation of monetary financing of the fiscal deficit, the implementation of the new reserve requirement regulation and the transfer abroad of BCC's FX deposits at local commercial banks. Foreign exchange reserves will also gain from the authorities' commitment to limit FX interventions to allow the **exchange rate** to act as a shock absorber.

Bolstering structural reforms

15. The implementation of comprehensive structural reforms ranks high on our authorities' agenda. They are fully mindful that such reforms will improve the functioning of many sectors and ultimately remove bottlenecks to growth. Beyond fiscal structural reforms, efforts will focus on improving the governance of the mining sector, and enhancing the business climate including by fighting corruption. On the **mining sector**, the regular publication of new mining contracts that started under the SMP will continue. The government is also exploring new initiatives to make the sector more profitable to the DRC

economy and supportive to inclusive growth. Regarding the **business climate**, the authorities intend to remove excessive regulation which weighs on the cost of doing business and on competitiveness. They will streamline levies, implement a fair and predictable tax system, improve the resolution of commercial disputes, and better enforce and protect property rights. Initiatives to deter **corruption** will be pursued and reinforced. In this regard, the commitment at the highest level of the administration has been translated into the reinforcement of the legal and institutional framework and into publicized trials of corruption cases. The authorities are confident that these comprehensive policies will contribute to boost **private investment** and support the **development of the private sector** away from the mining sector.

16. **Capacity development** is an important element to support the authorities' policymaking. Building capacity by leveraging IMF TA and assistance from donors will be paramount to successfully implement the set of reforms ranging from the fiscal area to key economic sectors. A new CD strategy has been discussed with staff and the authorities look forward to the delivery of such assistance from the IMF and donors in the ECF framework.

CONCLUSION

17. The DRC economy has come a long way. After suffering the consequences of a period of political stagnation, the new era which started with a change in leadership in 2019 was faced with the COVID-19 pandemic in early 2020. IMF emergency assistance has supported the authorities' response to the pandemic and progress under the SMP paved the way for negotiations of a medium-term reform package. The authorities are committed to maintaining their efforts to make change in the country's key economic sectors.

18. In view of the authorities' strong commitment to reforms and to the program objectives, we would appreciate Executive Directors' support to their request for a three-year arrangement under the Extended Credit Facility.