INTERNATIONAL MONETARY FUND

IMF Country Report No. 21/225

REPUBLIC OF CONGO

October 2021

2021 ARTICLE IV CONSULTATION —PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE REPUBLIC OF CONGO

In the context of the Request for an Extended Arrangement Under Staff Report for the 2021 Article IV Consultation, 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 September 24, 2021 following discussions that took place in Videoconference during July 14–21, 2021, and in Washington, D.C., with officials of the Republic of Congo on the Staff Report for the 2021 Article IV Consultation. Based on information available at the time of these discussions, the staff report was completed on September 13, 2021.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for the Republic of Congo.

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

Selected Issues

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

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PRESS RELEASE

PR21/277

IMF Executive Board Concludes 2021 Article IV Consultation with the Republic of Congo

FOR IMMEDIATE RELEASE

Washington, DC – September 28, 2021: The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with the Republic of Congo on Friday, September 24, 2021.

The COVID-19 pandemic and oil price shocks have taken a deep toll on the Congolese economy but there are signs of recovery. Positive non-oil economic growth is expected this year, buoyed by the easing of lockdowns, gradual vaccine rollout, social spending, domestic arrears repayments, and some expansion of agricultural and mining activities. The contraction of oil production has slowed as oil field access and investment normalize; and the value of oil revenues and exports are rising on the back of higher oil prices. Overall growth is projected to be around zero percent in 2021 with subdued inflation (2 percent) and a current account surplus (12 percent of GDP).

Fiscal policy continues to balance difficult trade-offs: the fight against the pandemic, essential support for a resilient economic recovery, and prudent debt management.

The non-oil primary deficit is expected to widen to 17 percent of non-oil GDP in 2021, driven by spending on social assistance, health care, education, and infrastructure. Grants from development partners are lower than last year but non-oil revenues are improving and reductions in transfers and subsidies to state-owned enterprises and cuts in goods and services spending are helping create fiscal space. The non-oil deficit is mainly financed by improved oil revenues.

Debt sustainability has been restored though significant debt vulnerabilities remain, with overall debt anticipated at 84 percent of GDP by end-2021. Substantial repayments of domestic arrears and external debt have been facilitated by restructuring of external commercial loans, improved debt management, fiscal discipline, and oil revenue windfalls. Immediate liquidity needs are also supported by the G20 Debt Service Suspension Initiative (DSSI). However, liquidity risks and vulnerabilities to negative oil price shocks are elevated. Pending clearance of external arrears and conclusion of remaining restructuring negotiations, debt is classified as being in "distress".

Over the medium and long terms, the main challenges will be exiting fragility while adapting to climate change and reduced oil revenues in response to the global transition to low-carbon economies. Non-oil economic growth is expected to gradually recover driven by economic diversification and resilience-building—which will benefit from continued governance and business environment reforms, increased social and infrastructure spending, and prudent debt management. The outlook is subject to high uncertainty amid risks of new waves of the pandemic, volatile oil revenue prospects, climate change shocks, and successful reform implementation. On the upside, investment in mining and oil and gas could rise with new field

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

discoveries and accelerated reform implementation could catalyze more concessional financing.

Executive Board Assessment[2]

"Executive Directors agreed with the thrust of the staff appraisal. They noted that the Republic of Congo has been hit hard by the COVID-19 pandemic and oil price shocks. The recovery is expected to take hold in 2022, while considerable uncertainty surrounds the outlook. Directors agreed that achieving the growth needed to exit fragility and sustain progress in poverty reduction will require strong efforts to address structural impediments, build climate resilience, and diversify the economy. Strengthened governance and transparency is critical to secure much-needed financing from the Fund and development partners in support of the authorities' adjustment efforts. In this context, Directors welcomed the authorities' intention to engage in discussions with the Fund on a possible Extended Credit Facility arrangement.

"Directors welcomed the authorities' fiscal prudence and debt restructuring efforts that have contributed to debt sustainability. They agreed that fiscal policy should continue to support the recovery in the near term, through increased spending on health and social assistance, as well as payment of domestic arrears. Noting that debt-related risks remain substantial, Directors stressed the importance of medium-term fiscal consolidation, enhanced debt management and transparency, and non-oil revenue mobilization. They recommended a comprehensive review of the fiscal regime of the oil sector, reduced transfers to state-owned enterprises (SOEs), and improved public investment efficiency. Directors highlighted that these measures would help to create space for much-needed social and infrastructure spending. Given financing constraints, they supported the authorities' plan to use the newly allocated SDRs for critical social programs.

"Directors welcomed ongoing efforts to reduce financial sector vulnerabilities, including through domestic arrears clearance. Nonetheless, the still high non-performing loans call for continued close monitoring of the banking sector.

"Directors urged further efforts to improve governance and transparency. They welcomed the progress toward adopting a new anti-corruption law and encouraged strong focus on implementing the anti-corruption architecture, supported by measures to improve SOE governance and enhance public financial management more broadly.

"Directors emphasized the importance of advancing structural reforms to support economic diversification and adaptation to climate change. They encouraged the authorities to continue improving the business environment, facilitating private sector investment, and fostering competitiveness."

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[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

Table 1. Republic of Congo: Selected Economic Indicators, 2019–26

	2019	2020		2021	2022	2023	2024	2025	2026
	Est.	CR 20/26[1]	Prel.			Proj.			
			(Annual percentage change unless otherwise indicated)						
Production and prices									
GDP at constant prices	-0.4	4.6	-8.2	-0.2	2.3	2.7	6.3	1.7	0.4
Oil	1.4	9.5	-8.5	-2.9	1.0	1.5	11.5	-2.4	-7.1
Non-oil	-1.7	2.5	-8.0	0.9	3.1	3.4	3.7	3.6	3.6
GDP at current prices	-1.1	3.4	-20.8	17.5	2.8	2.3	6.4	2.5	1.9
GDP deflator	-0.7	-1.1	-13.7	17.7	0.4	-0.4	0.1	0.8	1.5
Non-oil	2.2	1.8	1.8	2.0	2.8	3.0	3.0	3.0	3.0
Consumer prices (period average)	2.2	2.1	1.8	2.0	2.8	3.0	3.0	3.0	3.0
Consumer prices (end of period)	3.8	2.5	0.5	2.7	3.0	3.0	3.0	3.0	3.0
External sector									
Exports, f.o.b.	-4.9	2.0	-36.2	44.2	-0.9	-4.0	4.9	-5.2	-6.7
Imports, f.o.b.	-12.8	7.3	-25.3	14.7	7.9	5.1	6.9	0.3	-0.7
Export volume	0.3	8.9	-2.2	3.0	0.2	0.9	6.3	-0.3	-1.4
Import volume	-8.8	6.0	-19.8	-6.6	10.9	8.7	8.6	1.4	-0.2
Terms of trade (deterioration -)	-0.7	-7.5	-27.9	17.3	1.6	-1.7	0.3	-3.8	-4.8
Current account balance (percent of GDP)	0.4	5.1	-0.1	12.1	6.5	1.6	0.4	-1.7	-4.3
Net foreign assets	136.3	32.2	-8.0	11.0	10.6	30.5	14.4	15.2	21.2
External public debt (percent of GDP)	56.9	45.9	63.2	49.6	42.6	37.1	31.1	27.5	26.3
Monetary sector									
Broad money	7.9	1.5	18.0	32.7	17.0	16.3	11.5	11.5	11.1
Credit to the private sector	-6.2	2.1	3.5	0.8	10.9	12.5	11.8	11.4	10.8
				(Percent of GDP)					
Investment and saving									
Gross national saving	22.6	23.9	22.5	33.5	30.1	26.4	24.8	23.3	20.7
Gross investment	22.2	18.8	22.6	21.3	23.6	24.8	24.4	25.0	25.0
			(Percent of non-oil GDP, unless otherwise indicated)						
Central government finances									
Total revenue	44.2	44.9	31.1	36.2	39.5	37.0	37.0	34.7	32.3
Oil revenue	29.1	26.0	15.3	21.6	23.1	20.6	20.4	17.8	15.1
Nonoil revenue (including grants)	15.1	18.8	15.8	14.6	16.3	16.4	16.6	16.9	17.2
Total expenditure and net lending	36.4	33.0	32.8	33.8	34.4	33.7	32.5	32.6	31.3
Current	30.3	26.2	27.8	28.2	27.4	26.4	25.8	25.7	24.9
Capital (and net lending)	6.1	6.8	5.0	5.6	7.0	7.2	6.7	6.9	6.4
Overall balance (deficit -, payment order basis, percent of GDP)	4.7	7.3	-1.2	1.5	3.3	2.2	3.0	1.5	0.8
Non-oil primary balance (- = deficit)	-15.9	-12.1	-15.2	-17.0	-14.9	-14.5	-13.1	-13.0	-11.4
Basic primary fiscal balance (- = deficit)[2]	13.1	13.9	0.2	4.7	8.3	6.1	7.3	4.7	3.7
Reference fiscal balance (percent of GDP)[3]	-3.4	2.6	2.6	0.4	-0.8	-2.0	-0.3	-0.5	-0.3
Primary balance (percent of GDP)	7.9	8.6	0.1	2.9	5.3	4.1	4.9	3.3	2.7
Financing gap (in percent of GDP)[4]	0.0	5.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total public debt (percent of GDP)	81.7	80.4	101.0	84.2	74.3	69.0	61.3	58.1	57.3
			(Percent of total government revenue excluding grants)						
External public debt service	25.6	32.2	36.6	34.4	33.5	29.4	24.7	21.6	10.3
			(Billions of CFA francs, unless otherwise indicated)						
Nominal GDP	7,494	7,775	5,937	6,976	7,168	7,336	7,806	7,999	8,150
Nominal oil GDP	2,961	2,985	1,691	2,607	2,538	2,405	2,539	2,379	2,153
Nominal non-oil GDP	4,533	4,790	4,245	4,369	4,630	4,931	5,267	5,620	5,997
Nominal GDP in US$ (millions)	12,791	13,281	10,329	12,744	13,303	13,814	14,884	15,416	15,826
Congolese oil price (U.S. dollars per barrel)	62	58	39	65	64	61	58	57	55
Oil production (Millions of barrels)	123	140	112	109	110	112	125	122	113
Nominal Exchange rate (CFA/USD, period average)	586	...	...	...	...	...	...	...	...
REER (percentage change)	-0.1	...	...	...	...	...	...	...	...

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

[1] Staff Report for the 2019 Article IV Consultation (January 27, 2020; Country Report No. 20/26). For comparability, we used the rebased nominal GDP with the nominal growth projected at the time of the country report.

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

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

[4] Before exceptional financing due to external debt restructuring net of restructured contingent liabilities.

INTERNATIONAL MONETARY FUND

REPUBLIC OF CONGO

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION

September 13, 2021

KEY ISSUES

Context. The COVID-19 pandemic and oil price shocks have taken a deep toll on the Congolese economy, weighing on incomes and inequality. Debt sustainability challenges precluded Fund financial assistance during the pandemic, and the Extended Credit Facility (ECF) arrangement, approved in 2019, expired in April 2021 without having completed the first review. Recently, debt sustainability has been restored owing to the authorities' debt restructuring strategy and current and projected higher oil prices. However, the risk of debt distress remains high given liquidity risks and vulnerabilities to negative oil price shocks. The authorities are actively negotiating the resolution of pending external arrears. Until this process is concluded and the negotiations with two external creditors are finalized, debt is classified as being "in distress."

Outlook and Risks. Recent oil price increases, the vaccine rollout, social spending, and domestic arrears repayments are driving an improvement in real economic activity from -8.2 percent in 2020 to -0.2 and 2.3 percent in 2021 and 2022. However, medium-term economic growth needed to exit fragility is held back by challenges associated with governance and structural impediments, as well as climate change and reduced oil demand in response to the global transition to low-carbon economies. Key risks include volatility in oil prices and production, a worsening of the pandemic, and climate shocks.

Key Policy Recommendations. Economic diversification and adaptation to climate change will be central to achieving higher, more resilient, and inclusive growth. In this context, fiscal policy should continue prioritizing revenue mobilization, social and infrastructure spending, and domestic arrears payment. Absent additional development partner financing, the envisaged medium-term consolidation appropriately balances the difficult tradeoff between development spending needed to exit fragility and prudent debt management. Large fiscal and debt vulnerabilities should be addressed through reduced tax exemptions and transfers to state-owned enterprises and improved management of public investment and debt. Key governance reforms include rapidly adopting the new anti-corruption law and ensuring efficient and transparent public spending, including through a medium-term public financial management strategy and new information management software. Improving access to finance, competitiveness, and the reach and effectiveness of social spending will also be critical to building broad-based growth.

Approved By
Vitaliy Kramarenko (AFR) and Gavin Gray (SPR)

Discussions for the 2021 AIV Consultation were held virtually during July 14–21, 2021. The staff team comprised Ms. Mitra (head), Mr. Islam, Mr. Sulemane (all AFR), Mr. Chaudry (SPR), Ms. Liu (FAD), Mr. Swanepoel (LEG), Mr. Thomas (Resident Representative), Mr. Nsongui Tonadio (local economist), and Mr. Sarda (FAD long-term expert). Mr. Sidi Bouna (OED) joined in key discussions. Mr. Tsoungi (World Bank) joined the technical meetings. Ms. Akor provided research support and Ms. Adjahouinou assisted in preparing the staff report. The mission held discussions with the Hon. Mr. Andely Minister of Finance, the Hon. Mme. Babackas, Minister of the Economy and Planning, the Hon. Mme. Soudan-Nonault, the Minister for the Environment, and other senior officials. The mission also met representatives of the private sector, civil society, and development partners.

CONTENTS

ANNEXES

BACKGROUND AND RESPONSE TO COVID-19

1. The political environment is stable following President Sassou Nguesso's March 2021 victory and ahead of mid-2022 Parliamentary elections. The President was reelected with 88 percent of the vote and a new Cabinet was assigned in May—including Finance Minister Rigobert Roger Andely, who previously held the position during 2002–05. While there are no signs of social unrest or political instability, the public remains concerned over social inequity and weak governance.

2. The COVID-19 pandemic's health impact has so far been contained. As of July 22, 2021, 216,233 vaccines have been administered with 13,156 total cases and 177 deaths (Box 1). Lockdowns (beginning April 2020) with varying time intervals are being applied to curb the pandemic's spread.

- The government aims to vaccinate 60 percent of the population by mid-2022—costing $88 million (0.7 percent of GDP, Text Table 1). The 3 percent of people most exposed to the disease (e.g., health care and social workers, teachers, border professionals) are being vaccinated first; followed by the next 17 percent (e.g., students, retail and office personnel); and then another 40 percent.

- A national contingency plan is being implemented in collaboration with the WHO and other international partners. During 2020, 1.6 percent of GDP was spent on it (Text Table 2), including in-kind donations and development partner financing such as the pandemic-related urgent cash transfer program covering 340,000 vulnerable households[1]—each receiving CFAF 50,000 (two-thirds World Bank-financed, and the rest government-financed). In 2021, the

Text Table 1. Republic of Congo: COVID19- Vaccine Scenarios[1,2]

Priorities (% of Population)	3%	17%	40%	Total (60%)
Costs (USD million):				
Cost of vaccines	0	36	29	65
Operational Costs	8	8	8	23
Total Cost	**8**	**43**	**37**	**88**
o/w				
China--Sinopharm for first 3% of population (Grant)	…	…	…	0.0
Russia--Sputnik for next 17% of population (Cash payment)	…	…	…	35.6
African Union AVAT for part of 40% of remaining population (Loan)	…	…	…	6.9
World Bank for part of 40% of remaining population (Loan)	…	…	…	12

Source: Government of Republic of Congo, Plan National de Déploiement et de Vaccination COVID-19 au Congo, February 2021.
[1] Total represents 60 percent of the population.
[2] Operational costs include administration costs. In-country transportation costs are included in the cost of vaccines.

Text Table 2. Republic of Congo: COVID-19-Related Government Expenditures (2020–21)[1]

Areas of intervention	2020		2021	
	CFA bn	In pct of GDP	CFA bn	In pct of GDP
Cash Expenditures:				
Equipment	9.4	0.16	0.5	0.01
Lab & Diagnostics	1.9	0.03	0.3	0.00
Medical supplies	2.6	0.04	0.4	0.01
Plan & Coordination	2.9	0.05	0.8	0.01
Prevention measures	6.8	0.11	7.9	0.11
Case management	2.2	0.04	1.5	0.02
Salary Risk premium (Healthcare Staff)	2.2	0.04	1.1	0.02
General COVID-19 related surveillance activities	2.2	0.04		-
Water bills	0.7	0.01		-
Electricity bills	0.8	0.01		-
Social transfers	1.9	0.03	17.6	0.25
Sub-total	33.6	0.57	30.1	0.43
In-kind donations by type of funding institution:				
Covid-19 Fund[2]	58.8	1.0	10.0	0.1
National Fund (Fonds National de Solidarité) [2]	4.0	0.1	16.0	0.2
Sub-total	62.8	1.1	26.0	0.4
TOTAL	96.4	1.6	56.1	0.8

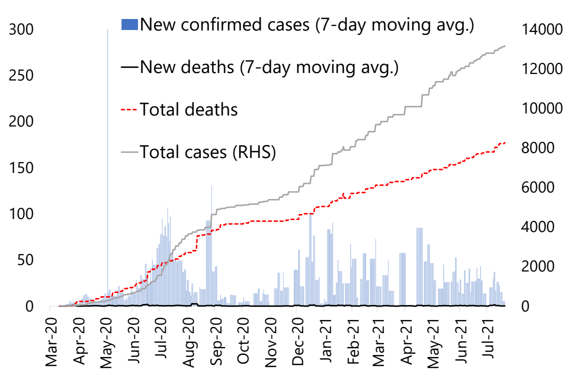
Sources: Congolese authorities; and IMF staff estimates.
[1] Estimated disbursements for 2020 and 2021 consistent with the 2021 revised budget.
[2] In-kind donations include provision of basic equipment and materials, cleaning products, food stuff, fuel, medical supplies, and COVID19 prevention materials.

[1] About 230,000 households have been paid under the scheme so far.

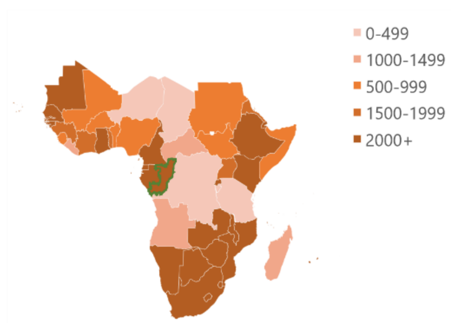
authorities budgeted another 1.1 percent of GDP—0.3 percent of GDP for vaccine deployment and 0.8 percent of GDP for health care equipment and supplies, and social transfers.

Box 1. COVID-19 Pandemic in the Republic of Congo[1]

The Republic of Congo has so far been broadly insulated from the third wave of the COVID-19 pandemic (Panel 1). New cases have declined since April 2021, not long after initiation of the vaccine deployment in March 2021. As of July 22, 2021, there were 13,156 confirmed cases, 177 deaths and 12,292 recoveries. Pe million people, the number of confirmed cases reached 2,323 (Panel II). However, the Delta variant poses serious risks of a new pandemic wave. In March 2020, the government policies in response to the pandemic were stricter than the world average; however, these policies have gradually become less strict (Panel III). All departments of the country have been affected by the pandemic with Brazzaville and Pointe-Noire having the highest confirmed cases of COVID-19 (Panel IV). A total of 216,233 COVID-19 vaccines have been administered, which includes 188,758 Sinopharm doses, 22,586 Sputnik V doses, 4,546 Sputnik Light doses and 343 Johnson and Johnson doses.

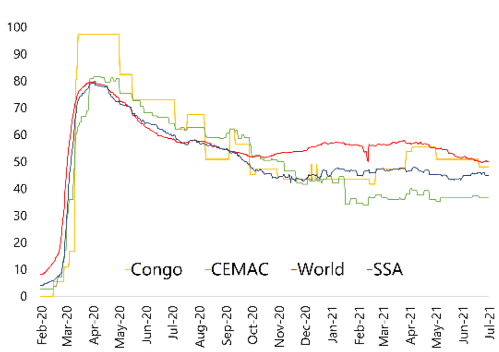


COVID-19 Cases per Million of Inhabitants



COVID-19 Government Response Stringency Index[2]

(100 = most stringent; 0 = least stringent)



COVID-19 Statistics by Department

	Confirmed Cases			Deaths	Recoveries
	Total	Male	Female	Cumulative	Cumulative
Bouenza	46	40	6	2	43
Brazzaville	8233	5147	3086	125	7662
Cuvette	54	42	12	0	54
Cuvette-Ouest	57	54	3	1	56
Kouilou	108	78	30	2	97
Lekoumou	16	14	2	0	16
Likouala	86	74	12	1	85
Niari	50	27	23	3	47
Plateaux	126	99	27	0	126
Pointe-Noire	4180	3194	986	43	3916
Pool	31	21	10	0	30
Sangha	169	133	36	0	160
Total	**13156**	**8923**	**4233**	**177**	**12292**

Sources: Congolese Authorities; WHO; John Hopkins Coronavirus Resource Center; Oxford COVID-19 Government Response Tracker

[1] Figures as of July 22, 2021.

[2] Government Response Stringency Index is a composite measure based on nine government response indicators, including school closures, workplace closures, stay-at-home requirements, and travel bans.

- To support businesses, the government deferred certain tax and duty payments, cut the corporate tax rate (from 30 to 28 percent), and reduced the turnover tax for small businesses (from 7 to 5 percent for turnover below CFAF 100 million). The BEAC also implemented monetary easing—including lowering the policy rate by 25 bps to 3.25 percent in March 2020, injecting liquidity to banks, and implementing temporary purchases of government securities.

3. Ensuring that recovery from the pandemic reduces Congo's fragility (Annex I) hinges on securing development partner financing to support deeper reforms and adjustment to global oil market transformations and adaptation to climate change. Recent years' intensified flooding coupled with new refugees from the Central African Republic are increasing food insecurity and poverty. Absent accelerated economic diversification, these pressures will be compounded by reduced global oil demand, following global transition to low-carbon economies. Addressing these challenges is complicated by weak fiscal and external positions and a lack of development partner financing. Without this financing to boost social and capital spending targeted at resilience-building and inclusiveness, medium-term real per capita GDP will steadily decline (far below its pre-pandemic level) and SDGs will be out of reach (Table 9).

4. The Extended Credit Facility (ECF) arrangement with the Fund expired on April 10, 2021. The first review for this three-year arrangement, approved by the Board in July 2019, was never concluded mainly due to debt sustainability challenges—notwithstanding benefits from the G-20 Debt Service Suspension Initiative (DSSI) in 2020 and progress in restructuring external debt contracts (Annex II). Nevertheless, structural reforms under the arrangement and past Article IV recommendations (Annex III) have been advancing.

RECENT ECONOMIC DEVELOPMENTS, OUTLOOK, AND RISKS

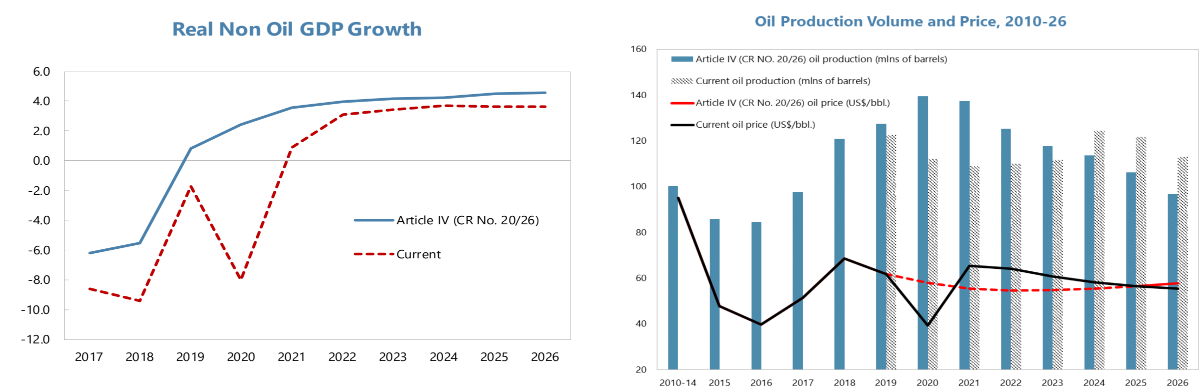
5. The pandemic, the ensuing oil price collapse, and reduced oil production had wide-ranging economic consequences in 2020 and 2021 (Figure 1). Real GDP growth fell to -8.2 percent in 2020 and, despite some improvement, is expected at -0.2 percent in 2021—reflecting developments in the oil and non-oil sectors.

- Oil production growth was -8.5 percent in 2020 and is projected at -2.9 percent in 2021. Key contributors during the first year of the pandemic were pandemic-related restrictions obstructing oil field access and temporary technical disruptions for one oil company (Text Figure 1). In 2021, although field access has largely normalized, insufficient investment during the pandemic is preventing the largest producers from fully restarting oil production. At the same time, these companies are in the process of negotiating with the government on new conventions related to tax concessions (¶12).

- Non-oil growth is gradually picking up and is projected to improve from -8.0 percent in 2020 to 0.9 percent in 2021. Drags on the non-oil economy from the pandemic's humanitarian and economic impact (including lockdowns hampering trade and services), spillovers from oil sector contraction, delayed domestic arrears payments to the private sector, and weak banks' balance sheets are gradually subsiding in 2021—although the weight of low incomes and lack of jobs persist. Easing of lockdowns, a gradual vaccine rollout, the lagged effects of pandemic-mitigating economic measures (including social spending, ¶12), substantial domestic arrears payments in 2020Q4, higher oil prices, agricultural and mining expansion, large companies substituting locally-sourced input in place of imported inputs, improved services activity, and post-election confidence are bolstering non-oil economic activity in 2021.

- Average headline inflation has been subdued at 1.8 percent in 2020 and anticipated at 2.0 percent in 2021. Food price increases during early stages of the pandemic were moderated with the drawdown of food stocks and adjustment of transport logistics relieving pandemic-related pressures. Non-food inflation has remained low, reflecting weak economic activity.

Text Figure 1. Republic of Congo: Forecast Revision Due to Shocks in 2020



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

6. External current account developments have been driven by oil exports. The current account balance fell to -0.1 percent of GDP in 2020 before bouncing back in 2021, projected at 12.1 percent of GDP in line with changes in oil exports. In 2020, the sharp drop in oil prices and production resulted in a 42 percent drop in oil exports (relative to 2019), which is followed by an anticipated increase of 52 percent in 2021. Sustained high oil prices in 2021 are more than offsetting the impact on exports from further contractions in oil production. Import contraction in 2020—resulting from reduced oil production and investment, the pandemic and its mitigating measures, and subdued economic activity—has been partially unwound in 2021.

7. Since the pandemic began, fiscal outcomes have been heavily impacted by changes in oil revenues, external financing for capital projects, and reforms in oil-related transfers.

- Sharp oil revenue declines weighed on the primary fiscal balance in 2020 while reduced foreign-financed capital spending improved the non-oil primary balance (Text Table 3). Oil revenues were halved relative to 2019. Non-oil revenues fell less, with the impact of non-oil economic contraction and lockdowns (affecting tax collection) partially mitigated by revenue-enhancing measures, such as the introduction of electronic payments and a broadening of the tax base (owing to on-going tax administration reforms).

- Unexpected pandemic-related spending (including increased social transfers), and increased domestically-financed capital spending were more than offset by lower foreign-financed capital spending (due to pandemic-related suspensions) and oil-related transfers[2] to the refinery and to the electric company, Centrale Electrique du Congo (CEC). Substantial domestic arrears were also repaid drawing on domestic financing—where the Club de Brazzaville (Box 2) was the main mechanism for domestic arrears repayments—in the absence of budget support from development partners.

Text Table 3. Fiscal Performance 2019–21H1
(Percent of non-oil GDP)

	2019 Est.	2020 Prel.	2020 H1 Est.	2021H1 Prel.
Total revenue and grants	44.2	31.1	15.2	15.3
Revenue	42.9	28.8	14.3	15.3
Oil revenue	29.1	15.3	7.8	8.8
Non-oil revenue	13.9	13.4	6.5	6.6
Grants	1.2	2.3	0.9	0.0
Expenditure and net lending	36.4	32.8	16.7	15.7
Current expenditure	30.3	27.8	14.3	14.0
Wages	7.7	8.3	4.0	3.8
Transfers	11.8	11.2	5.4	4.2
Interest	5.4	1.9	0.8	1.9
Other	5.4	6.5	4.1	4.1
Capital expenditure	6.1	5.0	2.4	1.7
Domestically-financed	2.1	2.8	1.4	1.6
Externally-financed	4.0	2.2	1.0	0.1
Non-oil primary balance	-15.9	-15.2	-8.4	-7.2
Primary balance	13.1	0.2	-0.7	1.5
Overall balance, cash basis	4.6	-1.0	-1.1	-0.3

Sources: Congolese authorities; and IMF staff estimates.

- During 2021H1 (relative to 2020H1), the primary balance was boosted by higher oil revenues and a higher non-oil primary balance. Non-oil revenues remained stable, supported by gradual increases in non-oil economic activity and revenue-enhancing measures adopted over the past two years. However, spending (net of interest payments) declined due to savings from continued reforms in oil-related transfers. The shortfall in grants was mirrored in reduced externally-financed capital spending.

Box 2. The Club de Brazzaville

The Club de Brazzaville is a banking pool (BGFI Bank, LCB, Eco Bank, BSCA), established in 2020, to support domestic arrears repayment—23 percent of GDP accumulated by the government over the past decade. The Club purchases domestic public debt held by the private sector in exchange for a nominal haircut of 15–30 percent except for social arrears (e.g. delayed pension payments) where no haircut is applied. The government repays the banking pool through an escrow account at 6.5 percent interest. At end-2020, CFAF 332 billion arrears (6 percent of GDP) had been repaid through the Club.

Key benefits include (i) reduced liquidity pressures for the government since repayments to the Club are spread over 8 years with a 2-year grace period; (ii) improved private sector liquidity facilitating repayment of overdue loans and NPL reduction; and (iii) eased social tensions.

8. **Banking sector vulnerabilities are gradually being reduced.** Non-performing loans (NPLs) declined from 23 to 19 percent between 2019 and 2020 (Table 6) owing to arrears payments outweighing the effects of economic contraction. Arrears payments and deposit growth improved banks' liquidity, enabling 4 percent private sector credit growth in 2020. In contrast, the capital adequacy ratio fell from 29 to 16 percent during 2020 reflecting increased risk-weighted assets and reduced bank capital due to higher provisioning. Two non-systemic banks were recapitalized, and

[2] Oil-related transfers are mainly payments to state-owned enterprises, such as CEC, for oil input purchases.

the Central African Banking Commission (COBAC) pulled the license of a small, undercapitalized bank in September 2020.

9. Economic recovery is expected to take hold from 2022 with 2.3 percent real GDP growth—though 2.8 percent average medium-term growth on current policies will barely keep up with population growth and is insufficient to reduce the poverty and inequality driving Congo's fragility.

- Oil production (averaging 1 percent growth during 2022-26) will peak at 125 million barrels in 2024; supported by modest new investments given reduced global oil demand (¶3).

- The non-oil economy (averaging 3.5 percent growth during 2022-26) will benefit from oil sector spillovers, gradual domestic arrears repayment, new mining and agricultural projects, and some adopted reforms aimed at economic diversification and adapting to climate change—all of which will outweigh the net effect of fiscal consolidation (¶13). That said, a commitment to enhance debt sustainability combined with financing constraints, especially for infrastructure projects critical to diversification and resilience-building along with substantial reductions in oil production after 2024, will weigh on Congo's long-term growth potential (with growth around 3.5 percent beyond 2027).

- The current account will gradually deteriorate, as medium-term imports increase with (i) oil production necessitating higher imports; (ii) post-pandemic recovery of private consumption and investment; and (iii) a modest resumption of public infrastructure investment—with a new focus on boosting adaptation to climate change. Non-oil exports are forecast to gradually improve with progress in economic diversification.

- Increased consumption and investment are anticipated to raise inflation to around 3 percent from 2022 onwards.

10. Risks are tilted to the downside.

- A possible spread of the COVID-19 Delta variant to Congo could set back the path to economic recovery. A slow vaccine rollout—which could be further delayed by hesitant populations and weaknesses in medical infrastructure—and uncertainties over vaccine resistance to the variant are raising the chances of a third pandemic wave. This wave would likely entail another round of strict lockdowns and increased health and social assistance spending (which would be largely offset by reduced capital and non-essential goods and services spending in line with the previous lockdown).
- Oil revenue prospects depend on oil prices—where global oil market volatility is amplified by the pandemic and transition to a low-carbon global economy (Annex III)—production risks, and the government's success in phasing out historical tax concessions to oil producers (¶8). The sensitivity of debt sustainability to oil prices will decline in line with reductions in outstanding external debt (¶11).

- Non-oil growth will depend on oil sector developments, domestic arrears payment, successful reform implementation, quelling of the pandemic, and continued socio-political stability—where fragilities linked to poverty and inequality could lead to unrest. These factors could also impact the authorities' ability to implement fiscal policies. In the meantime, adverse weather conditions could weigh on agricultural production raising food insecurity and inflationary pressures.

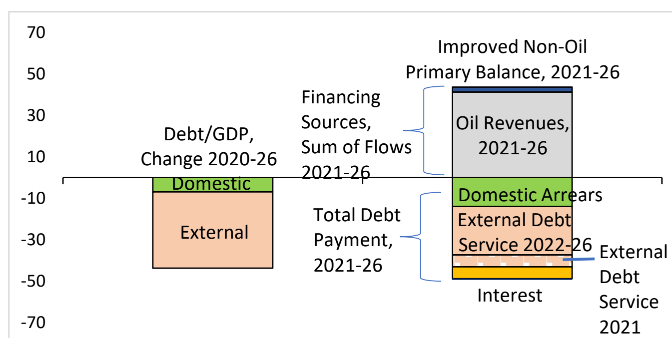
- On the upside, higher metal prices could boost mining investments, there may be new low-cost oil and gas field discoveries, and accelerated reform implementation could boost investor and development partner confidence— potentially unlocking external private and official concessional financing.

POLICY DISCUSSIONS

Discussions focused on ensuring a recovery with higher, more resilient, and inclusive growth that will reduce fragilities. Fiscal policy is centered around reducing debt, with oil windfalls used to repay external debt and, along with fiscal consolidation, repay domestic arrears. Social and domestically-financed capital spending will be safeguarded but, absent additional financing, the coverage and quality of spending on resilience-building and poverty reduction—essential to addressing fragility—will not be possible. Accelerated governance and structural reforms supporting economic diversification and adaptation to climate change will be the main vehicles for reducing fragilities.

A. Fiscal Policy and Debt Sustainability

Text Figure 2. Republic of Congo: Debt Flows and Financing, 2021–26



Sources: Congolese authorities' data and IMF staff projections.

11. Debt restructuring agreements (Annex II and DSA) and the projected increase in oil revenues (2021–26) have restored debt sustainability. Overall public debt-to-GDP is projected to decline from 101 percent of GDP to 57 percent during 2020–26, driven by rapid repayments of external debt and domestic arrears (Text Figure 2). For example, one-fifth of external debt will be repaid in 2021 because repayments to the largest external commercial creditor is tied to oil prices. The extension of the G-20 DSSI through 2021, the targeted medium-term improvement in the non-oil primary deficit, and contracting of concessional debt are helping to reduce liquidity pressures resulting from rapid debt repayments. Nevertheless, the sustainability of both external and domestic debt are highly vulnerable to a number of risks, especially negative oil price shocks. These risks will be partially buffered by a gradual increase of government deposits at the BEAC over the medium term and the availability of financing from the Congolese financial markets, and access to the CEMAC regional financial markets. The authorities are actively negotiating the resolution of pending external arrears (Annex II). Until this process is concluded and interrupted negotiations with two external creditors are officially concluded, debt is classified as being "in debt distress".

12. Staff projects a slightly wider non-oil primary deficit than in the 2021 revised budget, adopted by Parliament on August 9. The revised budget prioritizes spending on social assistance, healthcare, education, infrastructure, and domestic arrears payments. This spending is supported by fiscal gains from improved non-oil revenues, reduced transfers and subsidies to inefficient SOEs (from implementation of reforms adopted in 2019, ¶14) and cuts in goods and services spending. Nevertheless, given substantially lower grants than in 2020, the targeted non-oil primary deficit of 15.8 percent of non-oil GDP is 0.6 percentage points larger than last year. While staff shares the authorities' revenue projections and agrees with the budgeted spending priorities, staff strongly recommended increasing budgeted goods and services and transfer spending to avoid accumulating new domestic arrears—bringing the projected 2021 non-oil primary deficit to 17.0 percent of non-oil GDP. Other key elements of the discussion include:

- *Staff and the authorities agreed on the need for firm application of tax policies and revenue administration reforms adopted over the past two years to reduce risks of revenue shortfalls.*

  - Non-oil revenues are not only buoyed by non-oil growth, but are improving due to tax administration reforms (including e-tax declaration and payment), higher excises, introduction of import duties and a single payroll tax in the petroleum sector, a gradual phasing-out of CIT exemptions for violating investment conventions, and increased taxes on certain non-petroleum exports. These factors are more than offsetting reduced revenues from raising the floor on the small business VAT, harmonizing the special corporate tax rate, reducing corporate and global flat tax rates, other tax incentives, and pandemic-related deferral of tax payments (¶2,7).

  - Oil revenues could be substantially improved if the authorities are successful in their on-going negotiations with oil producers on new conventions for tax concessions, where the authorities are seeking to phase out traditional tax exemptions, including raising import duties and electronic transfer and turnover taxes.

- *Staff supported budgeted enhancements in health and education spending.* Health spending prioritizes direct pandemic-related needs (Text Table 2), vaccine distribution, and broader needs, such as building hospitals and administering treatments for malaria and other diseases; and increased education spending is largely for hiring new teachers.

- *Staff welcomed the authorities' emphasis on social assistance, including full continuation of the Lisungi program along with increased government financing for it (Annex V).* Social assistance continues to be anchored around the Single Social Register (SSR), which has greatly improved targeting; initial testing of the mobile payment systems shows promise; and remaining pandemic-related urgent cash transfers (¶2) are being paid during 2021H2. Repayment of social sector arrears has also been prioritized.

- *Staff supported the authorities plans for use of the 2021 SDR allocation, which will support critical social spending*. Absent an IMF arrangement and budget support from development partners, financing conditions are very tight and the authorities have chosen to use part of the 2009 SDR allocation to finance the 2021 budget; the 2021 SDR allocation will finance the 2022 budget.

13. The authorities' medium-term fiscal strategy prioritizes debt sustainability, domestic arrears repayments—critical for economic and political confidence—and safeguarding social and domestically-financed capital spending. A 4-5 percent of non-oil GDP (1-1½ percent of GDP) improvement in the non-oil primary balance during 2021-26 (based on adopted measures and their lagged effects) supports this strategy. Part of these fiscal gains will finance domestic arrears repayments both under the remaining Club de Brazzaville coverage and the authorities' new scheme—still under development, the scheme will likely offer creditors a menu of repayment options ranging from a large upfront haircut and immediate cash payment to a small haircut and cash payment over several years. Absent resumption of budget support from development partners and given the high public debt burden, the feasible increase in development spending under this strategy will fall far short of what is needed for Congo to substantially reduce poverty and exit fragility. Against this backdrop, staff advised the authorities to preserve fiscal space for critical development spending by unwinding pandemic measures faster than currently planned, slowing domestic arrears repayments if revenues fall short, and diligently continuing the following policies, initiated over the past 3 years:

- *Revenue mobilization*. Excise increases in line with CEMAC guidelines; strengthened tax arrears' collection through an assessment and recovery plan; application of the on-going enterprise census to support tax base broadening; and gradual phasing-out of CIT exemptions for violating investment conventions.

- *Reducing non-priority current spending*. Transfer and subsidy reforms (e.g., CEC and the state-owned crude oil refinery "Congolaise de Rafinage" (CORAF)) along with transparency of SOE operations; and reducing average civil service compensation by hiring younger staff and selective replacement of retired staff.

14. Staff advocated for reducing vulnerabilities—especially to volatile oil revenues—and creating space for increased spending on social assistance, education, health, and infrastructure critical for reducing Congo's fragility through economic diversification and resilience-building. Key suggestions include:

- Reducing numerous VAT exemptions and eliminating the reduced VAT rate for imports related to agreed investment conventions to reduce VAT abuse. Improving implementation of VAT on refined petroleum products—expanding the VAT base beyond only services associated with these products.

- A comprehensive review of the fiscal regime of the oil sector seeking to further raise the government's oil-related revenues and improve governance of oil revenues.

- Further reducing transfers and subsidies:
    - Improving the electricity billing process and coverage to reflect actual electricity consumption with a view to recovering production costs; and eventually implementing the 2005 price-based regulatory framework for fuel prices (including a smoothing mechanism to moderate short-term price changes, IMF Country Report No. 20/27). In the cases of both fuel and electricity pricing reforms, it will be important to mitigate the impact on vulnerable groups through targeted social assistance.
    - Enforcing full payment by CORAF for the oil it purchases from the government and full payment of dividends by large SOEs such as the Société Nationale des Pétroles du Congo (SNPC).
- Rationalizing the wage bill.
- An expanded analysis of the financial status of decentralized government units (établissements publiques) and public enterprises to better understand the extent of fiscal risks.
- Finalizing the new strategy for clearance of domestic arrears (¶13) upon conclusion of audits for 2017–18 in 2021Q4; timely implementation of 2019–20 audits; and avoiding new domestic arrears—where the authorities current measures of frequent monitoring of cash management plans by the Cabinet and ceilings on quarterly commitments that are tied to budget financing and execution would be significantly augmented by the PFM measures elaborated in ¶17.
- Improving public investment management, where better planning and efficient implementation is needed, especially given large infrastructure spending needs (section C). The recently initiated survey on the efficiency of past investment projects, supported by the World Bank, is a start. The authorities indicated that when prioritizing projects, their impact in improving SDGs will play an important role.
- Working with development partners towards resuming budget financing and increasing concessional project financing.
- Settling non-DSSI[3] external bilateral and commercial arrears, except those currently under litigation. External official arrears were US$222 million at end-2020 (Table 8), of which US$84 million are expected to be rescheduled under the DSSI (pending finalization of agreements with Turkey, India, and Brazil).[4] A plan is being developed to resolve US$101 million of pre-HIPC arrears. Measures to prevent reoccurrence of external arrears were discussed (e.g. a dedicated sub-account within the treasury single account (TSA) at BEAC).

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[3] Arrears rescheduled under the DSSI do not have to be cleared.

[4] All Paris Club members are expected to include eligible arrears in the perimeter of the DSSI as rescheduling.

15. Staff stressed that prudent debt management will be crucial to enhancing debt sustainability. Progress in adopting a comprehensive medium-term debt management strategy, with technical support from development partners, will reduce financing costs while maintaining debt-related risks at acceptable levels and supporting development of the domestic government securities market. Staff stressed establishing a single database—built off the existing Caisse Congolaise d'Amortissement (CCA) database (covering all central government debt)—that is regularly updated and extends to government guaranteed debt and all debt of public enterprises, public institutions and local governments (including non-government guaranteed debt). Reliability and transparency of public debt information would be enhanced with improved recording, quarterly data publication, and better coordination and information sharing across relevant agencies, as recommended by IMF TA.

B. Advancing Governance

16. The authorities have continued to make progress in improving governance, transparency, and anti-corruption legislation. A new anti-corruption law that aims to bring Congo's domestic legal regime into greater alignment with its obligations under the United Nations Convention Against Corruption (UNCAC), with the Financial Action Task Force (FATF) Standard, and with other regional treaties—and the organic law for the Court of Auditors and Budgetary Discipline (CABD)—which will regulate the existing CABD's organization, functioning, and powers to help fulfill its independent external auditing function—are expected to be adopted by Parliament in October. These reforms will complement other recent reforms, including adoption of implementing decrees of the laws establishing the Commissions on Anti-Corruption[5] and Transparency, the operationalization of both Commissions and the Transparency Law, and steps to enhance CABD's resources and capacity. Public financial management (PFM) reforms have also advanced in terms of closing central government accounts in commercial banks and recent completion of audits of oil production costs and of CEC. Congo has also made significant progress under the Extractive Industries Transparency Initiative (EITI) and recently published the 2018 report, with publication of the reports for 2019 and 2020 in the coming months.

17. Building on recent progress, staff and the authorities concurred that further efforts should be prioritized in several areas, including PFM, and that the focus should now shift to implementation:

- *Addressing bottlenecks in PFM reforms.* Transitioning to a more sophisticated financial management information system (SIGFIP) will be critical to improving the transparency of public expenditure commitments and better control of public oil and non-oil revenues. Despite initial delays related to management and technical challenges, the rollout of a new financial management information system (SIGFIP) is still targeted for FY 2022, with supporting FAD TA in August and September. Staff stressed the importance of adopting a new organizational chart for

[5] The new independent anti-corruption commission replaces two previous anti-corruption institutions. During a previous Fund-supported program, the authorities established an anti-corruption commission, as well as a body drawn from civil society to oversee the anti-corruption commission.

the Ministry of Finance (MOF) and improving the architecture of the Treasury Single Account (TSA) at BEAC, including through improved cash management, ensuring automatic transfer of sales revenue from oil exports to the TSA, and continuing closure of central government accounts in commercial banks. Looking ahead, a new medium-term strategy for PFM reforms, with a comprehensive 3-year rolling action plan will provide a roadmap for further reforms; and developing a legal and regulatory framework for public private partnerships (PPPs) that is consistent with international best practice is necessary for the success of PPPs.

- *Publication of key PFM reports.* Staff also noted the importance of regularizing the recent audit of oil production costs, publishing the audit report of CEC and the reports of the Inspection General of Finance (IGF), and the National Accounts Commission (CNC) by end-2021.

- *Applying transparency in public procurement, use of public funds and financial flows of pandemic-related resources and support.* Despite not having received emergency financial support from the Fund, the authorities are committed to transparency of pandemic-related spending and are undertaking an audit of this spending between March 15 and December 31, 2020. Staff strongly encouraged the authorities to post this audit on-line along with procurement contracts (including names and nationalities of beneficial owners of awarded legal persons) and *ex-post* reports on the delivery of COVID-19 related procurement.

- *Operationalizing recent reforms.* Staff commended reforms undertaken to date, which have focused on putting in place a legal framework and necessary structures. Going forward, for tangible progress to be realized, it will be important for structures to be fully operationalized and legal frameworks properly and consistently implemented. Additional financing (including from development partners given significant domestic budgetary constraints) will be critical for the Commissions on Transparency and Anti-Corruption to carry out their mandates. Additionally, longstanding and fundamental deficiencies in the asset declaration law should be addressed.

C. Economic Diversification and Adapting to Climate Change

18. Economic diversification away from oil and adaptation to climate change are fundamental to achieving a green recovery with higher, more inclusive, and resilient economic growth—all of which is also necessary to escape fragility. The authorities agreed with staff on the urgency to advance these objectives given the new global oil landscape and intensification of climate shocks (¶3 and Selected Issues Paper). The new growth strategy being developed for 2022–26 is centered around economic diversification and inclusion (especially job creation) while being aligned with Congo's climate resilience strategy. Reducing dependence on rain-fed agriculture, becoming a regional land and water transit hub, and expanding agro-processing, tourism, and the digital economy are the focus of both strategies. Staff encouraged prioritizing necessary measures (which often overlap across the two strategies) and developing specific metrics for monitoring implementation progress —stressing financing and capacity constraints will preclude advancing all agendas simultaneously. Key measures will include:

- Improving infrastructure across the country for transport, irrigation, flood protection, water and sanitation, and telecommunications. This will support resilience to climate shocks for farmers and small businesses while facilitating productivity growth in Congo's areas of strategic advantage (agriculture, food processing, forestry and wood products, and ICT)[6] and other manufacturing and services (e.g., tourism, financial services)—all of which will also create new jobs.

- Increasing use of solar, wind, or geothermal energy for rural electrification. These more affordable and accessible sources of electricity for poorer households will also contribute to global greenhouse gas mitigation efforts (as the non-oil economy expands). Other mitigation policies—such as a phasing-out of energy subsidies (¶15) and eventually introducing a carbon tax—can be pursued over time and in conjunction with measures to mitigate the impact on the limited number of poorer households who would be affected.

- Raising external competitiveness (Annex VI) by removing trade barriers and improving contract enforcement, insolvency procedures, and investor protection—in addition to better infrastructure and access to finance. Improving governance and transparency (section B) will also be a critical component of enhancing competitiveness, as well as the business environment.

- Improving access to finance, which is crucial to reducing informality, boosting investment in the non-oil sector (especially for SMEs), and helping households build resilience to climate shocks. Initiatives by BEAC and COBAC to enhance financial inclusion in the region have yielded a diagnostic study which emphasizes improving the regulatory framework with more protection for consumers of financial products and services, further expanding digital financial services (e.g. mobile money, mobile banking), and developing IT systems (e.g., for payment and monitoring credit risk).

- Increasing the financing and the effectiveness of social spending (Annex V). A healthier and more educated population will be more resilient to shocks and more productive, which will support non-oil industry growth. Continued expansion of targeted social assistance (which still has low coverage, ¶12 and 13) would help households cope with climate shocks, increase food security, and invest in more resilient housing and business infrastructure. Staff advised the authorities to study the distributional aspects and multiplier effects of the current programs.

FUND RELATIONS

19. Statistical issues. Data provision is broadly adequate for surveillance but there are shortcomings in national accounts, monetary, fiscal, external sector statistics, debt management, and high-frequency data. Staff encouraged the authorities to implement Fund technical assistance advice and to seek technical assistance in areas where Congo lacks the capacity to provide certain

[6] World Bank, "Republic of Congo Systematic country Diagnostic", 2018

data. A new annual GDP series applying a new methodology (Annex VII) and a rebased CPI are being published by the National Statistics Institute.

20. Capacity development activities, driven by the authorities' policy objectives, include tax policy and administration, PFM reforms, debt management; statistics in the real and external sectors; and governance reforms to strengthen the anti-corruption framework and its operationalization (Annex VIII). Congo is a medium-intensity user of Fund TA with a mixed implementation record.

21. Safeguards Assessment. The BEAC has implemented priority recommendations from the 2017 safeguards assessment. In particular, the alignment of the BEAC's secondary legal instruments with its Charter was concluded, and the BEAC has issued the FY 2019 and 2020 audited financial statements in compliance with IFRS. Work is underway to undergo an external quality review of internal audit which is the last remaining recommendation from that assessment. Under the IMF safeguards policy and in line with the four-year cycle for safeguards assessments of regional central banks, an updated safeguards assessment of the BEAC is expected to be conducted in due course.

22. Capacity to repay. Congo's outstanding debt to the Fund as of June 30, 2021 is SDR 32.64 million (20 percent of quota); and debt service to the IMF in percent of exports will peak at 0.14 percent in 2029.

23. Regional matters. Congo is doing its part to assist in the implementation of regional foreign exchange regulations, including ensuring that all public entities (including the national oil company) repatriate and surrender their foreign exchange receipts.

STAFF APPRAISAL

24. The pandemic, transformation of global oil markets, and climate change are aggravating fragilities in Congo. Oil dependence rendered the economy highly vulnerable to the drop in global oil prices last year while investment in oil production is less than pre-pandemic expectations partly due to the global transition to low-carbon economies. Poverty, food insecurity, and unemployment are on the rise notwithstanding this year's improvement in economic activity supported by higher oil prices, the relaxation of pandemic-related restrictions, the vaccine rollout, social spending, and domestic arrears repayments. Strides in medium-term economic growth are held back by high sensitivities to climate change given heavy reliance on rain-fed agriculture and by weak governance and structural challenges.

25. Exiting fragility hinges on securing development partner financing to support deeper reforms and adjustment to global oil market transformations and adaptation to climate change. The authorities' new economic strategy is centered around inclusion (especially job creation and poverty reduction) and economic diversification away from oil while being aligned with Congo's climate resilience strategy. Critical social and infrastructure spending underlying this strategy are gradually being stepped up—benefitting from revenue mobilization efforts—but are constrained by limited domestic financing and debt sustainability considerations. Consequently, accelerated governance and structural reforms supporting economic diversification and adaptation to climate change will be the main vehicles for reducing fragility.

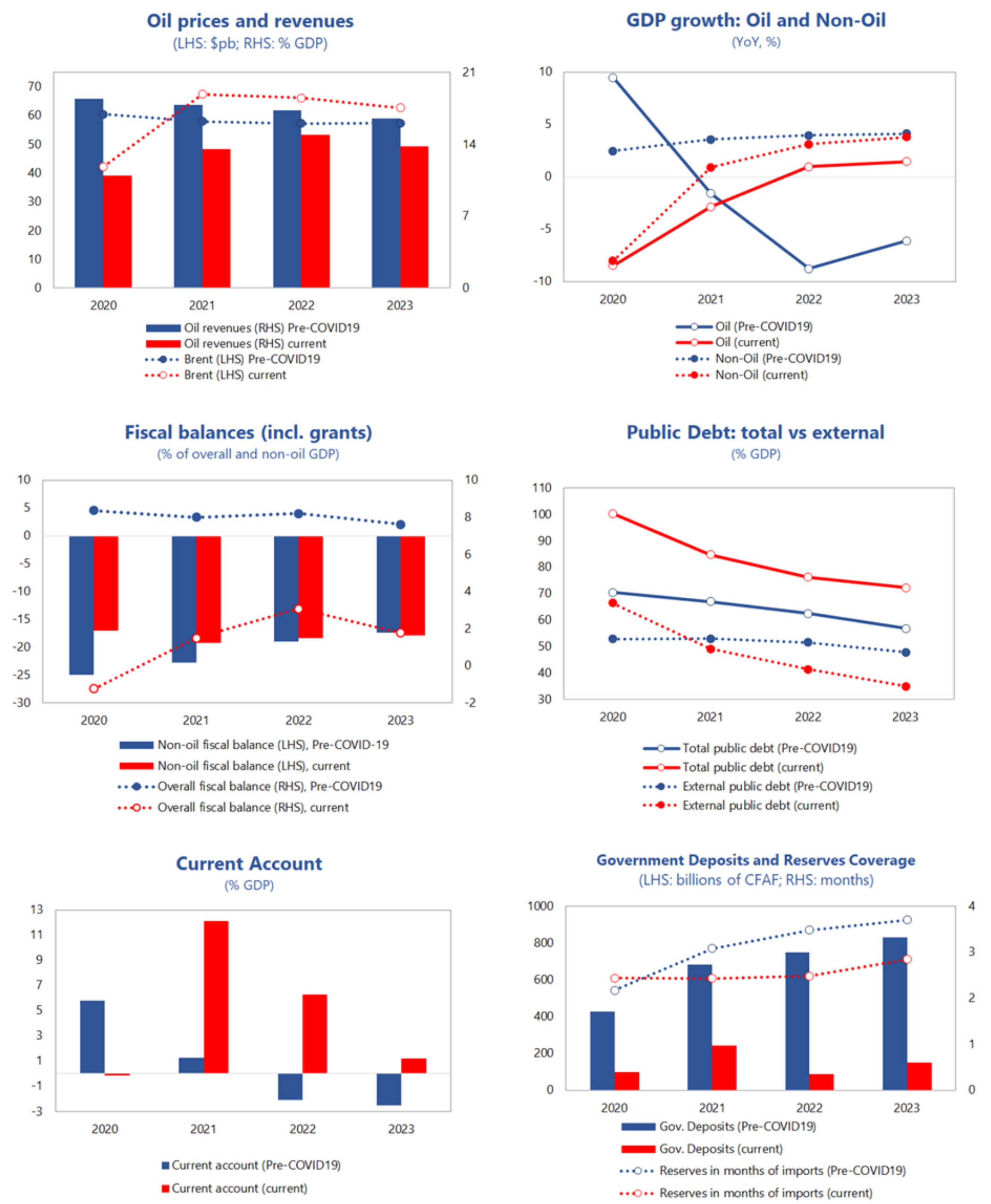
26. Staff welcomes the authorities' commitment to strengthening governance and broader structural reforms. Recent operationalization of the Commissions on Anti-Corruption and Transparency are commendable and should be complemented by sufficient financing (including from development partners) for carrying out their mandates. The authorities are encouraged to quickly submit to Parliament the CABD law and the new anti-corruption Law. The authorities reiterated their firm commitment to an effective and transparent use of public funds and funds received from development partners and resources freed by the DSSI. PFM reforms, including a clear medium-term strategy, the reorganization of the Ministry of Finance, and the installation of a new information management software, should help promote more transparent and efficient use of resources—including improved governance of oil revenues. These reforms, combined with improved access to finance, greater competitiveness, a broader reach and effectiveness of social spending (including through Lisungi) and key infrastructure in irrigation, sanitation, and electrification will be fundamental to advancing the authorities' growth strategy.

27. Safeguarding recently restored debt sustainability by reducing vulnerabilities should be given priority. The current and projected medium-term increase in oil revenues and the restructuring of several debt agreements—where repayments to the largest external commercial creditor are tied to oil prices—have allowed for rapid repayment of external debt and domestic arrears (critical for economic and political confidence). However, the authorities are strongly encouraged to address large vulnerabilities driven by economic fragility and volatile oil revenues by reducing VAT exemptions, further reviewing the fiscal regime of the oil sector, reducing transfers and subsidies (especially to oil-related SOEs), and improving management of public investment and debt—including repayment of arrears and measures to avoid accumulation of new arrears. Together, these measures could also create fiscal space for enhanced social and infrastructure spending.

28. Against this backdrop, staff supports a widening of the 2021 non-oil primary deficit followed by its medium-term improvement. The budget's prioritization of social spending, infrastructure, and domestic arrears payments is necessary to promote recovery from the pandemic. In this vein, staff strongly recommends increasing related goods and services spending to avoid accumulation of new domestic arrears. The envisaged medium-term consolidation appropriately balances the difficult tradeoff between development spending needed to exit fragility and prudent debt management.

29. It is recommended that the next Article IV consultation takes place on the standard 12-month cycle.

Figure 1. Republic of Congo: Comparison of Indicators Pre- and Post- Pandemic, 2019–23



Sources: Congolese authorities and IMF staff calculations.

Table 1. Republic of Congo: Selected Economic and Financial Indicator, 2019–26

	2019	2020		2021	2022	2023	2024	2025	2026
	Est.	CR 20/26 [1]	Prel.			Proj.			
		(Annual percentage change unless otherwise indicated)							
Production and prices									
GDP at constant prices	-0.4	4.6	-8.2	-0.2	2.3	2.7	6.3	1.7	0.4
Oil	1.4	9.5	-8.5	-2.9	1.0	1.5	11.5	-2.4	-7.1
Non-oil	-1.7	2.5	-8.0	0.9	3.1	3.4	3.7	3.6	3.6
GDP at current prices	-1.1	3.4	-20.8	17.5	2.8	2.3	6.4	2.5	1.9
GDP deflator	-0.7	-1.1	-13.7	17.7	0.4	-0.4	0.1	0.8	1.5
Non-oil	2.2	1.8	1.8	2.0	2.8	3.0	3.0	3.0	3.0
Consumer prices (period average)	2.2	2.1	1.8	2.0	2.8	3.0	3.0	3.0	3.0
Consumer prices (end of period)	3.8	2.5	0.5	2.7	3.0	3.0	3.0	3.0	3.0
External sector									
Exports, f.o.b.	-4.9	2.0	-36.2	44.2	-0.9	-4.0	4.9	-5.2	-6.7
Imports, f.o.b.	-12.8	7.3	-25.3	14.7	7.9	5.1	6.9	0.3	-0.7
Export volume	0.3	8.9	-2.2	3.0	0.2	0.9	6.3	-0.3	-1.4
Import volume	-8.8	6.0	-19.8	-6.6	10.9	8.7	8.6	1.4	-0.2
Terms of trade (deterioration -)	-0.7	-7.5	-27.9	17.3	1.6	-1.7	0.3	-3.8	-4.8
Current account balance (percent of GDP)	0.4	5.1	-0.1	12.1	6.5	1.6	0.4	-1.7	-4.3
Net foreign assets	136.3	32.2	-8.0	11.0	10.6	30.5	14.4	15.2	21.2
External public debt (percent of GDP)	56.9	45.9	63.2	49.6	42.6	37.1	31.1	27.5	26.3
Monetary sector									
Broad money	7.9	1.5	18.0	32.7	17.0	16.3	11.5	11.5	11.1
Credit to the private sector	-6.2	2.1	3.5	0.8	10.9	12.5	11.8	11.4	10.8
				(Percent of GDP)					
Investment and saving									
Gross national saving	22.6	23.9	22.5	33.5	30.1	26.4	24.8	23.3	20.7
Gross investment	22.2	18.8	22.6	21.3	23.6	24.8	24.4	25.0	25.0
		(Percent of non-oil GDP, unless otherwise indicated)							
Central government finances									
Total revenue	44.2	44.9	31.1	36.2	39.5	37.0	37.0	34.7	32.3
Oil revenue	29.1	26.0	15.3	21.6	23.1	20.6	20.4	17.8	15.1
Nonoil revenue (including grants)	15.1	18.8	15.8	14.6	16.3	16.4	16.6	16.9	17.2
Total expenditure and net lending	36.4	33.0	32.8	33.8	34.4	33.7	32.5	32.6	31.3
Current	30.3	26.2	27.8	28.2	27.4	26.4	25.8	25.7	24.9
Capital (and net lending)	6.1	6.8	5.0	5.6	7.0	7.2	6.7	6.9	6.4
Overall balance (deficit -, payment order basis, percent of GDP)	4.7	7.3	-1.2	1.5	3.3	2.2	3.0	1.5	0.8
Non-oil primary balance (- = deficit)	-15.9	-12.1	-15.2	-17.0	-14.9	-14.5	-13.1	-13.0	-11.4
Basic primary fiscal balance (- = deficit)[2]	13.1	13.9	0.2	4.7	8.3	6.1	7.3	4.7	3.7
Reference fiscal balance (percent of GDP)[3]	-3.4	2.6	2.6	0.4	-0.8	-2.0	-0.3	-0.5	-0.3
Primary balance (percent of GDP)	7.9	8.6	0.1	2.9	5.3	4.1	4.9	3.3	2.7
Financing gap (in percent of GDP)[4]	0.0	5.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total public debt (percent of GDP)	81.7	80.4	101.0	84.2	74.3	69.0	61.3	58.1	57.3
		(Percent of total government revenue excluding grants)							
External public debt service	25.6	32.2	36.6	34.4	33.5	29.4	24.7	21.6	10.3
		(Billions of CFA francs, unless otherwise indicated)							
Nominal GDP	7,494	7,775	5,937	6,976	7,168	7,336	7,806	7,999	8,150
Nominal oil GDP	2,961	2,985	1,691	2,607	2,538	2,405	2,539	2,379	2,153
Nominal non-oil GDP	4,533	4,790	4,245	4,369	4,630	4,931	5,267	5,620	5,997
Nominal GDP in US$ (millions)	12,791	13,281	10,329	12,744	13,303	13,814	14,884	15,416	15,826
Congolese oil price (U.S. dollars per barrel)	62	58	39	65	64	61	58	57	55
Oil production (Millions of barrels)	123	140	112	109	110	112	125	122	113
Nominal Exchange rate (CFA/USD, period average)	586	...	....	...	...	...	...	...	...
REER (percentage change)	-0.1	...	....	...	...	...	...	...	...

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

[1] Staff Report for the 2019 Article IV Consultation (January 27, 2020; Country Report No. 20/26). For comparability, we used the rebased nominal GDP with the nominal growth projected at the time of the country repo

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

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

[4] Before exceptional financing due to external debt restructuring net of restructured contingent liabilities.

Table 2a. Republic of Congo: Central Government Operations, 2019–26

(Billions of CFA francs)

	2019	2020	2020	2021	2021	2022	2023	2024	2025	2026
	Est.	CR 20/26 [1]	Prel.	Rev. Budget			Proj.			
					(CFAF billion)					
Total Revenue and Grants	2,003	2,149	1,320	1,582	1,581	1,827	1,824	1,947	1,950	1,937
Revenue	1,946	2,121	1,221	1,567	1,566	1,790	1,782	1,903	1,896	1,879
Oil revenue	1,317	1,246	651	950	945	1,071	1,017	1,073	998	908
of which: repayment of oil-prepurchased debt	310	366	82	...	85	77	89	76	95	*74*
Non-oil revenue	629	875	570	617	621	719	765	830	897	971
Direct taxes	261	354	200	202	211	267	288	314	341	371
Taxes on goods and services	241	363	255	268	269	303	319	339	359	380
Customs Receipts	103	132	103	110	106	112	119	137	155	175
Non-tax revenue	24	27	12	36	35	37	39	40	42	44
Grants	57	28	100	15	15	37	42	44	54	58
Expenditure and Net Lending	1,650	1,581	1,393	1,451	1,477	1,590	1,661	1,710	1,834	1,876
Current expenditure	1,374	1,257	1,179	1,179	1,232	1,267	1,304	1,356	1,447	1,494
Wages	349	393	352	370	370	379	398	425	454	484
Other primary current expenditure	750	763	688	637	717	713	739	756	814	818
Goods and services	177	193	157	143	174	185	193	191	217	227
Transfers	537	522	473	432	483	466	482	500	529	522
Social Transfers (Lisungi, COVID-19 and others)	3	60	80	86	86	91	97	103	110	118
Traditional transfers	216	339	274	...	275	285	283	307	308	315
Oil-related transfers	310	123	82	...	85	77	89	76	95	74
Common charges	36	48	58	62	60	62	64	66	68	70
Annex budgets and special Accounts[2]	32	0	60	42	46	29	29	29	29	29
Interest	243	101	80	130	99	146	137	146	150	162
Domestic	24	18	35	...	33	60	69	92	109	131
External	219	82	45	...	67	87	68	53	41	31
of which: COVID-19 Moratorium Loan (interest)	...	...	0	...	1	2	1	1	0	0
of which: on oil-prepurchased debt	97	31	2	...	22	46	31	20	9	0
Capital expenditure	277	325	214	272	244	323	357	353	387	382
Domestically financed	97	195	119	147	131	155	160	175	191	203
Externally financed	180	130	95	124	113	168	197	179	196	179
Non-oil primary balance[3]	-722	-578	-644	-689	-741	-688	-717	-690	-732	-685
Primary balance	595	668	7	261	204	382	300	383	266	223
Overall balance, payment order basis										
Excluding grants	296	539	-172	116	90	199	121	194	62	3
Including grants	352	567	-73	131	105	236	163	237	116	61
Adjustment to cash basis	-144	0	29	0	0	0	0	0	0	0
Overall balance, cash basis	209	567	-44	131	105	236	163	237	116	61
Financing	-209	-1,018	44	-131	-105	-236	-163	-237	-116	-61
Foreign (net)	-129	-486	48	-241	-251	-382	-301	-282	-226	-43
Drawings	275	114	76	109	126	131	155	135	142	120
COVID-19 Moratorium Loan	...	...	84	...	96	0	0	0	0	0
Amortization (paid)	-280	-601	-402	-351	-473	-513	-456	-417	-368	-163
of which: COVID-19 Moratorium Loan (principal and interest)	...	...	0	...	0	25	47	47	23	23
of which: on oil-prepurchased debt	-55	-309	-18	...	-115	-271	-247	-226	-201	0
Other foreign financing	-124	0	82	...	0	0	0	0	0	0
Domestic (net)	-80	-532	-5	110	146	146	138	45	110	-19
Banking system (net)	-87	-297	318	427	288	299	254	85	169	105
Central bank	-123	-277	113	33	-145	99	-118	-83	-105	-190
Commercial banks	37	-20	206	394	432	200	373	168	275	295
Nonbank financing	7	-234	-323	-317	-142	-153	-116	-40	-59	-124
Of which: net purchase of government securities	...	...	0	...	-25	-42	-4	102	78	-21
Of which: Repayment of domestic arrears	-178	-243	-203	-128	-165	-160	-160	-142	-137	-103
Of which: Debt service to ENI	0	0	0	0	0	0	0	0	0	1
Of which: Tax arrears recovery	...	...	...	...	48	48	48	0	0	0
Memorandum items:										
Stock of domestic arrears[4]	1,035	488	1,358	...	1,107	863	619	409	204	61
Stock of government deposits	213	429	98	...	243	88	150	176	223	355
CEMAC Reference fiscal balance[5]	-254	203	152	...	28	-58	-143	-27	-39	-23
GDP at current market prices	7,494	7,775	5,937	6,976	6,976	7,168	7,336	7,806	7,999	8,150
Non-oil GDP at market prices	4,533	4,790	4,245	4,369	4,369	4,630	4,931	5,267	5,620	5,997

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

[1] Staff Report for the 2019 Article IV Consultation (January 27, 2020; Country Report No. 20/26). For comparability, we used the rebased nominal GDP with the nominal growth projected at the time of the country report.

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

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

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

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

Table 2b. Republic of Congo: Central Government Operations, 2019–26

(Percent of non-oil GDP)

	2019	2020		2021	2021	2022	2023	2024	2025	2026
	Est.	CR 20/26 [1]	Prel.	Rev. Budget	Projection					
Total Revenue and Grants	44.2	44.9	31.1	36.2	36.2	39.5	37.0	37.0	34.7	32.3
Revenue	42.9	44.3	28.8	35.9	35.9	38.7	36.1	36.1	33.7	31.3
Oil revenue	29.1	26.0	15.3	21.7	21.6	23.1	20.6	20.4	17.8	15.1
of which: repayment of oil-prepurchased debt	6.8	7.6	1.9	...	2.0	1.7	1.8	1.4	1.7	1.2
Non-oil revenue	13.9	18.3	13.4	14.1	14.2	15.5	15.5	15.8	16.0	16.2
Direct taxes	5.8	7.4	4.7	4.6	4.8	5.8	5.8	6.0	6.1	6.2
Taxes on goods and services	5.3	7.6	6.0	6.1	6.2	6.5	6.5	6.4	6.4	6.3
Customs receipts	2.3	2.8	2.4	2.5	2.4	2.4	2.4	2.6	2.8	2.9
Non-tax revenue	0.5	0.6	0.3	0.8	0.8	0.8	0.8	0.8	0.7	0.7
Grants	1.2	0.6	2.3	0.3	0.3	0.8	0.9	0.8	1.0	1.0
Expenditure and Net Lending	36.4	33.0	32.8	33.2	33.8	34.4	33.7	32.5	32.6	31.3
Current expenditure	30.3	26.2	27.8	27.0	28.2	27.4	26.4	25.8	25.7	24.9
Wages	7.7	8.2	8.3	8.5	8.5	8.2	8.1	8.1	8.1	8.1
Other primary current expenditure	16.5	15.9	16.2	14.6	16.4	15.4	15.0	14.4	14.5	13.6
Goods and services	3.9	4.0	3.7	3.3	4.0	4.0	3.9	3.6	3.9	3.8
Transfers	11.8	10.9	11.2	9.9	11.0	10.1	9.8	9.5	9.4	8.7
Social Transfers (Lisungi, COVID-19 and others)	0.1	1.3	1.9	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Traditional transfers	4.8	7.1	6.4	...	6.3	6.2	5.7	5.8	5.5	5.2
Oil-related transfers	6.8	2.6	1.9	...	2.0	1.7	1.8	1.4	1.7	1.2
Common charges	0.8	1.0	1.4	1.4	1.4	1.3	1.3	1.2	1.2	1.2
Annex budgets and special Accounts[2]	0.7	0.0	1.4	1.0	1.1	0.6	0.6	0.6	0.5	0.5
Interest	5.4	2.1	1.9	3.0	2.3	3.2	2.8	2.8	2.7	2.7
Domestic	0.5	0.4	0.8	...	0.7	1.3	1.4	1.7	1.9	2.2
External	4.8	1.7	1.1	...	1.5	1.9	1.4	1.0	0.7	0.5
of which: COVID-19 Moratorium Loan (interest)	0.0	...	0.0	...	0.0	0.0	0.0	0.0	0.0	0.0
of which: on oil-prepurchased debt	2.1	0.6	0.0	...	0.5	1.0	0.6	0.4	0.2	0.0
Capital expenditure	6.1	6.8	5.0	6.2	5.6	7.0	7.2	6.7	6.9	6.4
Domestically financed	2.1	4.1	2.8	3.4	3.0	3.3	3.3	3.3	3.4	3.4
Externally financed	4.0	2.7	2.2	2.8	2.6	3.6	4.0	3.4	3.5	3.0
Non-oil primary balance[3]	-15.9	-12.1	-15.2	-15.8	-17.0	-14.9	-14.5	-13.1	-13.0	-11.4
Primary balance	13.1	13.9	0.2	6.0	4.7	8.3	6.1	7.3	4.7	3.7
Overall balance, payment order basis										
Excluding grants	6.5	11.3	-4.1	2.7	2.0	4.3	2.5	3.7	1.1	0.1
Including grants	7.8	11.8	-1.7	3.0	2.4	5.1	3.3	4.5	2.1	1.0
Adjustment to cash basis	-3.2	0.0	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance, cash basis	4.6	11.8	-1.0	3.0	2.4	5.1	3.3	4.5	2.1	1.0
Financing	-4.6	-21.3	1.0	-3.0	-2.4	-5.1	-3.3	-4.5	-2.1	-1.0
Foreign (net)	-2.8	-10.2	1.1	-5.5	-5.7	-8.2	-6.1	-5.4	-4.0	-0.7
Drawings	6.1	2.4	1.8	2.5	2.9	2.8	3.1	2.6	2.5	2.0
COVID-19 Moratorium Loan	0.0	...	2.0	...	2.2	0.0	0.0	0.0	0.0	0.0
Amortization (paid)	-6.2	-12.5	-9.5	-8.0	-10.8	-11.1	-9.3	-7.9	-6.6	-2.7
of which: COVID-19 Moratorium Loan (principal and interest)	0.0	...	0.0	...	0.0	0.5	1.0	0.9	0.4	0.4
of which: on oil-prepurchased debt	-1.2	-6.5	-0.4	...	-2.6	-5.8	-5.0	-4.3	-3.6	0.0
Other foreign financing	-2.7	0.0	1.9	...	0.0	0.0	0.0	0.0	0.0	0.0
Domestic (net)	-1.8	-11.1	-0.1	2.5	3.3	3.1	2.8	0.9	2.0	-0.3
Banking system (net)	-1.9	-6.2	7.5	9.8	6.6	6.5	5.2	1.6	3.0	1.7
Central bank	-2.7	-5.8	2.7	0.8	-3.3	2.1	-2.4	-1.6	-1.9	-3.2
Commercial banks	0.8	-0.4	4.8	9.0	9.9	4.3	7.6	3.2	4.9	4.9
Nonbank financing	0.1	-4.9	-7.6	-7.2	-3.2	-3.3	-2.4	-0.8	-1.1	-2.1
Of which: net purchase of government securities	0.0	...	0.0	...	-0.6	-0.9	-0.1	1.9	1.4	-0.3
Of which: Repayment of domestic arrears	-3.9	-5.1	-4.8	-2.9	-3.8	-3.5	-3.2	-2.7	-2.4	-1.7
Of which: Debt service to ENI	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which: Tax arrears recovery	0.0	...	0.0	...	1.1	1.0	1.0	0.0	0.0	0.0
Memorandum items:										
Stock of domestic arrears[4]	22.8	10.2	32.0	...	25.3	18.6	12.6	7.8	3.6	1.0
Stock of government deposits	4.7	9.0	2.3	...	5.6	1.9	3.0	3.3	4.0	5.9
CEMAC Reference fiscal balance[5]	-5.6	4.2	3.6	...	0.6	-1.2	-2.9	-0.5	-0.7	-0.4
GDP at current market prices (CFAF billion)	7,494	7,775	5,937	6,976	6,976	7,168	7,336	7,806	7,999	8,150
Non-oil GDP at market prices (CFAF billion)	4,533	4,790	4,245	4,369	4,369	4,630	4,931	5,267	5,620	5,997

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

[1] Staff Report for the 2019 Article IV Consultation (January 27, 2020; Country Report No. 20/26). For comparability, we used the rebased nominal GDP with the nominal growth projected at the time of the country report.

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

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

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

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

Table 2c. Republic of Congo: Central Government Operations, 2019–26

(Percent of GDP)

	2019		2020		2021	2021	2022	2023	2024	2025	2026
	CR 19/244	Est.	CR 20/26 [1]	Prel.	Rev. Budget			Proj.			
Total Revenue and Grants	31.4	26.7	27.6	22.2	22.7	22.7	25.5	24.9	24.9	24.4	23.8
Revenue	30.9	26.0	27.3	20.6	22.5	22.5	25.0	24.3	24.4	23.7	23.0
Oil revenue	19.2	17.6	16.0	11.0	13.6	13.5	14.9	13.9	13.7	12.5	11.1
Non-oil revenue	11.7	8.4	11.3	9.6	8.8	8.9	10.0	10.4	10.6	11.2	11.9
Direct taxes	5.0	3.5	4.6	3.4	2.9	3.0	3.7	3.9	4.0	4.3	4.6
Taxes on goods and services	4.8	3.2	4.7	4.3	3.8	3.9	4.2	4.4	4.3	4.5	4.7
Customs Receipts	1.7	1.4	1.7	1.7	1.6	1.5	1.6	1.6	1.8	1.9	2.1
Non-tax revenue	0.3	0.3	0.3	0.2	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Grants	0.4	0.8	0.4	1.7	0.2	0.2	0.5	0.6	0.6	0.7	0.7
Expenditure and Net Lending	23.8	22.0	20.3	23.5	20.8	21.2	22.2	22.6	21.9	22.9	23.0
Current expenditure	19.4	18.3	16.2	19.9	16.9	17.7	17.7	17.8	17.4	18.1	18.3
Wages	5.7	4.7	5.0	5.9	5.3	5.3	5.3	5.4	5.4	5.7	5.9
Other primary current expenditure	11.4	10.0	9.8	11.6	9.1	10.3	9.9	10.1	9.7	10.2	10.0
Goods and services	2.9	2.4	2.5	2.6	2.1	2.5	2.6	2.6	2.5	2.7	2.8
Transfers	8.0	7.2	6.7	8.0	6.2	6.9	6.5	6.6	6.4	6.6	6.4
Social Transfers (Lisungi, COVID-19 and others)	0.8	0.0	0.8	1.3	1.2	1.2	1.3	1.3	1.3	1.4	1.4
Traditional transfers	5.4	2.9	4.4	4.6	…	3.9	4.0	3.9	3.9	3.9	3.9
Oil-related transfers	1.8	4.1	1.6	1.4	…	1.2	1.1	1.2	1.0	1.2	0.9
Common charges	0.6	0.5	0.6	1.0	0.9	0.9	0.9	0.9	0.8	0.8	0.9
Annex budgets and special Accounts[2]	0.4	0.4	0.0	1.0	0.6	0.7	0.4	0.4	0.4	0.4	0.4
Interest	1.8	3.2	1.3	1.3	1.9	1.4	2.0	1.9	1.9	1.9	2.0
Domestic	0.3	0.3	0.2	0.6	…	0.5	0.8	0.9	1.2	1.4	1.6
External	1.5	2.9	1.1	0.8	…	1.0	1.2	0.9	0.7	0.5	0.4
of which: COVID-19 Moratorium Loan (interest)	2.5	0.0	…	0.0	…	0.0	0.0	0.0	0.0	0.0	0.0
of which: on oil-prepurchased debt	0.8	1.3	0.4	0.0	…	0.3	0.6	0.4	0.3	0.1	0.0
Capital expenditure	4.5	3.7	4.2	3.6	3.9	3.5	4.5	4.9	4.5	4.8	4.7
Domestically financed	2.3	1.3	2.5	2.0	2.1	1.9	2.2	2.2	2.2	2.4	2.5
Externally financed	2.2	2.4	1.7	1.6	1.8	1.6	2.3	2.7	2.3	2.5	2.2
Non-oil primary balance[3]	-9.9	-9.6	-7.4	-10.9	-9.9	-10.6	-9.6	-9.8	-8.8	-9.2	-8.4
Primary balance	9.3	7.9	8.6	0.1	3.7	2.9	5.3	4.1	4.9	3.3	2.7
Overall balance, payment order basis											
Excluding grants	7.1	3.9	6.9	-2.9	1.7	1.3	2.8	1.6	2.5	0.8	0.0
Including grants	7.5	4.7	7.3	-1.2	1.9	1.5	3.3	2.2	3.0	1.5	0.8
Adjustment to cash basis	0.0	-1.9	0.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance, cash basis	7.5	2.8	7.3	-0.7	1.9	1.5	3.3	2.2	3.0	1.5	0.8
Financing	-13.1	-2.8	-13.1	0.7	-1.9	-1.5	-3.3	-2.2	-3.0	-1.5	-0.8
Foreign (net)	-8.2	-1.7	-6.3	0.8	-3.5	-3.6	-5.3	-4.1	-3.6	-2.8	-0.5
Drawings	1.9	3.7	1.5	1.3	1.6	1.8	1.8	2.1	1.7	1.8	1.5
COVID-19 Moratorium Loan	1.0	0.0	…	1.4	…	1.4	0.0	0.0	0.0	0.0	0.0
Amortization (paid)	-10.1	-3.7	-7.7	-6.8	-5.0	-6.8	-7.2	-6.2	-5.3	-4.6	-2.0
of which: COVID-19 Moratorium Loan (principal and interest)	-9.1	0.0	…	0.0	…	0.0	0.3	0.6	0.6	0.3	0.3
of which: on oil-prepurchased debt	-4.6	-0.7	-4.0	-0.3	…	-1.6	-3.8	-3.4	-2.9	-2.5	0.0
Other foreign financing	0.0	-1.7	0.0	1.4	…	0.0	0.0	0.0	0.0	0.0	0.0
Domestic (net)	-4.8	-1.1	-6.8	-0.1	1.6	2.1	2.0	1.9	0.6	1.4	-0.2
Banking system (net)	-2.2	-1.2	-3.8	5.4	6.1	4.1	4.2	3.5	1.1	2.1	1.3
Central bank	-2.3	-1.6	-3.6	1.9	0.5	-2.1	1.4	-1.6	-1.1	-1.3	-2.3
Commercial banks	0.1	0.5	-0.3	3.5	5.6	6.2	2.8	5.1	2.1	3.4	3.6
Nonbank financing	-2.6	0.1	-3.0	-5.4	-4.5	-2.0	-2.1	-1.6	-0.5	-0.7	-1.5
Of which: net purchase of government securities	…	0.0	…	0.0	…	-0.4	-0.6	-0.1	1.3	1.0	-0.3
Of which: Repayment of domestic arrears	-2.7	-2.4	-3.1	-3.4	-1.8	-2.4	-2.2	-2.2	-1.8	-1.7	-1.3
Of which: Debt service to ENI	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which: Tax arrears recovery	…	0.0	…	0.0	…	0.7	0.7	0.7	0.0	0.0	0.0
Memorandum items:											
Stock of domestic arrears[4]	12.4	13.8	6.3	22.9	…	15.9	12.0	8.4	5.2	2.6	0.7
Stock of government deposits	3.3	2.8	5.5	1.6	…	3.5	1.2	2.0	2.3	2.8	4.4
Stock of government deposits (China strategic partnership)	…	4.5	…	3.9	…	3.3	3.2	3.2	3.0	2.9	2.8
CEMAC Reference fiscal balance[5]		-3.4	2.6	2.6	…	0.4	-0.8	-2.0	-0.3	-0.5	-0.3
GDP at current market prices	6,528.9	7,494	7,775.2	5,937	6,976	6,976	7,168	7,336	7,806	7,999	8,150
Non-oil GDP at market prices	2,602.8	4,533	4,790.3	4,245	4,369	4,369	4,630	4,931	5,267	5,620	5,997

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

[1] Staff Report for the 2019 Article IV Consultation (January 27, 2020; Country Report No. 20/26). For comparability, we used the rebased nominal GDP with the nominal growth projected at the time of the country repo

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

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

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

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

Table 3a. Republic of Congo: Quarterly Central Government Operations, Flows, 2020–22

(Billions of CFA francs)

	2020					2021					2022				
	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual
	Prel.	Prel.	Prel.	Prel.	Prel.	Prel.	Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	374	272	355	319	1,320	287	383	422	490	1,581	476	405	484	462	1,827
Revenue	371	237	298	315	1,221	287	383	420	477	1,566	466	401	480	442	1,790
Oil revenue	205	125	150	171	651	148	235	265	298	945	262	227	300	282	1,071
of which: repayment of oil-prepurchased debt	21	21	21	21	82	21	21	21	21	85	19	19	19	19	77
Non-oil revenue	165	112	148	144	570	139	148	156	179	621	204	175	180	160	719
Direct taxes	61	39	52	48	200	44	52	54	62	211	68	68	68	63	267
Taxes on goods and services	77	50	66	62	255	59	68	68	74	269	99	81	77	47	303
Customs Receipts	24	21	28	30	103	26	24	29	26	106	28	21	31	31	112
Non-tax revenue	3	2	3	4	12	9	4	4	17	35	8	4	4	19	37
Grants	4	36	57	3	100	0	0	1	13	15	10	3	4	20	37
Expenditure and net lending	343	365	325	361	1,393	351	334	380	412	1,477	409	395	462	325	1,590
Current expenditure	300	307	259	313	1,179	320	293	302	317	1,232	338	292	336	301	1,267
Wages	84	85	87	96	352	82	85	99	104	370	94	102	101	83	379
Other primary current expenditure	198	207	149	193	748	186	178	193	206	763	169	172	219	181	742
Goods and services	60	43	22	31	157	52	67	31	24	174	53	57	48	26	185
Transfers	123	108	107	136	473	99	83	146	154	483	103	98	150	115	466
Social transfers (Lisungi, COVID-19 and other)	…	…	…		80	…	…	21	64	86	23	23	23	23	91
Traditional Transfers	103	95	74	106	299	75	63	101	36	275	58	53	104	70	285
Transfers paid with crude oil barrels	17	10	28	27	82	24	21	21	20	85	19	19	19	19	77
Local Government	*4*	*2*	4	3	12	*0*	*0*	3	9	12	3	3	3	3	12
Common charges	12	28	9	9	58	20	20	10	11	60	11	15	17	19	62
Annex budgets and special Accounts[1]	2	29	12	17	60	15	8	6	17	46	2	2	4	21	29
Interest	18	15	22	24	80	52	30	11	7	99	75	18	16	37	146
Domestic	2	8	7	18	35	12	15	4	1	33	13	7	7	32	60
External	16	7	15	6	45	40	14	7	6	67	62	11	9	5	87
Capital expenditure	43	58	66	47	214	31	41	78	95	244	71	102	126	24	323
Domestically financed	27	30	33	29	119	27	41	43	19	131	39	47	51	17	155
Externally financed	16	27	34	18	95	4	0	34	76	113	31	56	75	6	168
Non-oil primary balance[2]	-156	-202	-97	-189	-644	-160	-156	-212	-213	-741	-120	-198	-262	-107	-688
Basic primary balance	62	-86	29	-3	2	-8	78	85	147	302	163	81	109	161	514
Basic non-oil primary balance[3]	-144	-211	-121	-174	-649	-156	-156	-180	-150	-643	-99	-146	-191	-121	-557
— excluding oil-related transfers[4]	-127	-200	-92	-147	-566	-133	-135	-158	-131	-557	-80	-127	-172	-102	-480
Primary balance	50	-78	52	-18	7	-12	78	52	85	204	142	28	38	175	382
Overall balance, payment order basis															
Excluding grants	28	-128	-27	-45	-172	-64	49	40	65	90	56	7	18	118	199
Including grants	32	-93	30	-42	-73	-64	49	42	78	105	67	10	22	138	236
Change in arrears	14	2	11	2	29	1	1	0	0	0	0	0	0	0	0
External[5]	14	2	11	2	29	1	1			0					0
Domestic[6]					0					0					0
Overall balance, cash basis	46	-91	41	-40	-44	-64	50	42	78	105	67	10	22	138	236
Financing	-138	45	-230	43	44	-44	43	-369	266	-105	-196	-175	-215	350	-236
Foreign (net)	-93	-7	-202	321	48	-11	-8	-194	-38	-251	-182	-142	-213	155	-382
Drawings	12	15	33	15	76	78	43	48	75	126	19	32	50	30	131
Project loans	12	15	33	15	76	4	0	48	75	126	19	32	50	30	131
COVID-19 Moratorium Loan	0	0	0	84	84	0	0	0	96	96					0
Budgetary loans															
Non-resident public securities						75	43								
Collateralized loans					0					0					0
Amortization NET (PAID) on principal, external	-146	-22	-235	-29	-402	-90	-50	-242	-90	-473	-202	-174	-263	125	-513
of which: on oil-prepurchased debt				-18	-18			-29	-86	-115	-68	-68	-68	-68	-271
Arrears cancellation					0										
Rescheduling				210	210										
Other foreign financing	41	0		41	82	0	0	0	0	0					0
Deposits in China	41	0		41	82	0	0		0	0					0
Domestic (net)	-45	52	-28	-278	-5	-33	50	-175	304	146	-13	-33	-2	195	146
Banking	61	44	-32	245	318	40	13	-140	375	288	25	5	36	233	299
Central Bank (net)	64	13	-20	55	113	0	44	-120	-68	-145	-10	-15	-7	131	99
of which: Change in government deposits (- = an increase)	60	-4	-14	74	115	0	0	-30	-148	-178	9	9	9	9	36
Commercial banks (net)	-3	31	-12	190	206	40	-31	-20	443	432	35	20	43	102	200
Nonbank financing	-106	8	4	-523	-323	-72	37	-35	-71	-142	-38	-38	-38	-38	-153
Of which: Repayment of domestic arrears	-25	-13	-7	-158	-203	-17	-11	-33	-104	-165	-40	-40	-40	-40	-160
Of which: Carry over payments from 2018					0				0	0					0
Float	-37	44	63	-190	-120	-55	31		24	0					0
Errors and omissions (- = overfinancing)	92	45	189	-326	0	108	-93	328	-343	0	129	165	194	-487	0
Financing gap (- = surplus)	92	45	189	-326	0	108	-93	328	-343	0	129	165	194	-487	0
Exceptional financing from debt restructuring[7]	92	45	189	-326	0	108	-93	328	-343	0	129	165	194	-487	0

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

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

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

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

[4] Basic non-oil primary balance minus oil-related transfers.

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

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

[7] Net of restructured contingent liabilities.

Table 3b. Republic of Congo: Quarterly Central Government Operations, Flows, 2020–22

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

	2020				2021				2022			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	Prel.	Prel.	Prel.	Prel.	Prel.	Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	374	647	1,002	1,320	287	669	1091	1581	476	881	1364	1827
Revenue	371	607	906	1,221	287	669	1090	1566	466	867	1347	1790
Oil revenue	205	330	480	651	148	383	647	945	262	489	789	1071
of which: repayment of oil-prepurchased debt	21	41	62	82	21	43	64	85	19	39	58	77
Non-oil revenue	165	277	426	570	139	287	442	621	204	378	559	719
Direct taxes	61	100	152	200	44	96	149	211	68	137	205	267
Taxes on goods and services	77	127	193	255	59	127	195	269	99	179	256	303
Customs Receipts	24	45	73	103	26	51	80	106	28	50	81	112
Non-tax revenue	3	5	8	12	9	13	18	35	8	13	17	37
Grants	4	39	96	100	0	0	2	15	10	14	17	37
Expenditure and net lending	343	708	1,033	1,393	351	685	1065	1477	409	804	1266	1590
Current expenditure	300	607	866	1,179	320	613	915	1232	338	631	966	1267
Wages	84	169	256	352	82	167	266	370	94	196	296	379
Other primary current expenditure	198	405	555	748	186	364	557	763	169	342	561	742
Goods and services	60	104	126	157	52	119	150	174	53	111	159	185
Transfers	123	231	337	473	99	182	329	483	103	201	351	466
Social transfers (Lisungi, COVID-19 and other)	...	0	0	0	...	0	21	86	23	45	68	91
Traditional Transfers	103	198	272	379	75	138	239	275	58	111	215	285
Transfers paid with crude oil barrels	17	27	55	82	24	44	66	85	19	39	58	77
Common charges	12	40	49	58	20	40	50	60	11	26	43	62
Annex budgets and special Accounts[1]	2	31	43	60	15	22	29	46	2	4	8	29
Interest	18	33	55	80	52	82	93	99	75	93	109	146
Domestic	2	10	17	35	12	28	32	33	13	20	28	60
External	16	23	38	45	40	54	61	67	62	73	81	87
Capital expenditure	43	100	167	214	31	72	150	244	71	173	300	323
Domestically financed	27	57	90	119	27	68	112	131	39	86	138	155
Externally financed	16	43	77	95	4	4	38	113	31	87	162	168
Non-oil primary balance[2]	-156	-358	-455	-644	-160	-316	-528	-741	-120	-319	-581	-688
Basic primary balance	62	-24	5	2	-8	70	155	302	163	243	352	514
Basic non-oil primary balance[3]	-144	-354	-475	-649	-156	-312	-492	-643	-99	-245	-436	-557
— excluding oil-related transfers[4]	-127	-327	-420	-566	-133	-268	-426	-557	-80	-207	-378	-480
Primary balance	50	-28	25	7	-12	67	119	204	142	170	208	382
Overall balance, payment order basis	0	0	0	0	0	0	0	0	0	0	0	0
Excluding grants	28	-100	-127	-172	-64	-16	25	90	56	63	81	199
Including grants	32	-61	-31	-73	-64	-16	26	105	67	77	98	236
Change in arrears	14	16	27	29	1	2	2	2	0	0	0	0
External[5]	14	16	27	29	1	2	2	2	0	0	0	0
Domestic[6]	0	0	0	0	0	0	0	0	0	0	0	0
Overall balance, cash basis	46	-45	-4	-44	-64	-14	28	107	67	77	98	236
Financing	-138	-93	-322	-280	-44	-1	-371	-105	-196	-371	-586	-236
Foreign (net)	-93	-100	-302	19	-11	-19	-213	-251	-182	-324	-537	-382
Drawings	12	28	61	76	78	121	169	244	19	51	101	131
Project loans	12	28	61	76	4	4	52	126	19	51	101	131
COVID-19 Moratorium Loan		0	0	84	0	0	0	96	0	0	0	0
Budgetary loans	0	0	0	0	0	0	0	0	0	0	0	0
Non-resident public securities					75	117	117					
Collateralized loans	0	0	0	0	0	0	0	0	0	0	0	0
Amortization NET (PAID) on principal, external	-146	-168	-404	-432	-90	-140	-382	-473	-202	-375	-638	-513
Arrears cancellation	0	0	0	0	0	0	0	0	0	0	0	0
Rescheduling				210	0	0	0					
Other foreign financing	41	41	41	82	0	0	0	0	0	0	0	0
Domestic (net)	-45	7	-20	-298	-33	18	-158	146	-13	-47	-49	146
Banking	61	105	74	318	40	53	-87	288	25	30	66	299
Central Bank (net)	64	77	58	113	0	44	-76	-145	-10	-25	-32	99
of which: Change in government deposits (- = an increase)	60	56		74	0	0	-30	-178	9	18	27	36
Commercial banks (net)	-3	28	16	206	40	9	-11	432	35	55	98	200
Nonbank financing	-106	-98	-94	-617	-72	-35	-70	-142	-38	-77	-115	-153
Of which: Repayment of domestic arrears	-25	-38	-45	-203	-17	-28	-61	-165	-40	-80	-120	-160
Financing gap (- = surplus)	92	138	326	0	108	15	343	0	129	294	487	0
Exceptional financing from debt restructuring[7]	92	138	326	0	108	15	343	0	129	294	487	0

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

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

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

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

[4] Basic non-oil primary balance minus oil-related transfers.

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

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

[7] Net of restructured contingent liabilities.

Table 4. Republic of Congo: Medium-Term Balance of Payments, 2019–26
(Billions of CFA francs)

	2019	2020		2021	2022	2023	2024	2025	2026
	Est.	CR 20/26 [1]	Prel.			Proj.			
Current account	31	393	-8	846	463	119	32	-135	-351
of which non-oil	-1,222	-877	-1,276	-900	-1,195	-1,297	-1,387	-1,480	-1,548
Trade balance	2,720	2,820	1,498	2,643	2,454	2,170	2,234	1,992	1,723
Exports, f.o.b.	4,905	5,203	3,131	4,515	4,473	4,293	4,502	4,269	3,984
Oil sector	4,163	4,402	2,399	3,644	3,589	3,404	3,595	3,338	3,025
Non-oil sector	743	801	732	872	884	889	908	931	959
Imports, f.o.b.	-2,186	-2,383	-1,633	-1,872	-2,020	-2,123	-2,269	-2,276	-2,261
Oil sector	-985	-1,022	-627	-918	-957	-980	-1,071	-991	-913
Government	-240	-260	-269	-196	-259	-286	-283	-309	-306
Non-oil private sector	-961	-1,101	-737	-759	-804	-857	-915	-976	-1,042
Balance of services	-1,651	-1,511	-996	-1,103	-1,207	-1,285	-1,377	-1,393	-1,394
Oil sector	-1,331	-1,247	-331	-479	-508	-532	-586	-542	-502
Nonoil sector	-320	-264	-665	-624	-698	-753	-791	-850	-892
Income	-841	-658	-580	-684	-793	-779	-837	-756	-704
Labor income	-30	-30	9	2	2	3	2	3	5
Investment income	-811	-628	-589	-686	-795	-782	-839	-759	-708
Current transfers (net)	-197	-258	70	-10	9	13	12	20	24
Capital account	22	22	22	22	15	15	44	54	58
Official grants	28	28	28	28	15	15	44	54	58
Debt cancellation	0	0	0	0	0	0	0	0	0
Non-financial non-produced assets	-6	-6	-6	-6	0	0	0	0	0
Financial account	347	-630	-219	-915	-426	31	27	202	487
Direct investment (net)	266	273	157	295	332	380	366	347	334
Portfolio investment	-1	-1	-1	-1	-1	-1	-1	-1	-1
Other investment	82	-902	-375	-1,210	-757	-348	-338	-144	154
Medium and long term	-216	-506	-365	-211	-399	-280	-241	-185	-17
Public sector	-5	-486	-327	-346	-382	-301	-282	-226	-43
Drawings	275	114	76	126	131	155	135	142	120
Project	123	114	76	126	131	155	135	142	120
Program	152	0	0	0	0	0	0	0	0
Other (collateralized)	0	0	0	0	0	0	0	0	0
Amortization[2]	-277	-601	-345	-403	-513	-456	-417	-368	-163
Net change in arrears	-2	0	-57	-70	0	0	0	0	
SDR Allocation	0	0	0	121	0	0	0	0	0
Private sector	-211	-19	-39	14	-17	21	41	41	26
Oil	-224	-33	-45	26	25	26	28	26	24
Non-oil	13	14	7	-12	-43	-5	13	15	2
Short term	298	-397	-10	-999	-358	-68	-97	41	171
Errors and omissions	0	0	0	0	0	0	0	0	0
Overall balance of payments	400	-214	-204	-48	52	165	102	120	194
Financing	-400	-235	204	-73	-52	-165	-102	-120	-194
Reserve financing (- = increase)	-276	-235	39	-168	-52	-165	-102	-120	-194
Government deposits abroad	-124	0	82	0	0	0	0	0	0
Exceptional financing [3]	0	0	84	96	0	0	0	0	0

Sources: Bank of Central African States (BEAC) and IMF staff estimates and projections.

[1] Staff Report for the 2019 Article IV Consultation (January 27, 2020; Country Report No. 20/26).

[2] Includes stock debt relief of the HIPC completion point [and the repayment of the G20 loan moratorium].

[3] Includes flow debt relief from Paris Club and London Club, G20 loan moratorium, and payments to litigating creditors.

Table 5. Republic of Congo: Monetary Survey, 2019–26
(Billions of CFA francs, unless otherwise specified)

	2019	2020					2021				2022	2023	2024	2025	2026
		IMF CR 20/26 [1]	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4					
	Est.		Prel.	Prel.	Prel.	Prel.	Proj.	Proj.	Proj.	Proj.	Proj.				
Net foreign assets	531	631	605	620	569	559	478	513	587	626	699	845	1,053	1,184	1,390
Central bank	478	537	505	573	513	440	348	424	480	488	540	705	807	930	1,127
Deposit money banks	53	94	100	47	56	119	131	90	106	138	159	140	246	254	263
Net domestic assets	1,298	1,362	1,262	1,302	1,386	1,606	1,685	1,597	1,696	2,239	2,653	3,054	3,295	3,664	3,995
Net domestic credit	1,633	1,532	1,664	1,673	1,666	1,999	2,092	1,597	1,696	2,239	2,653	3,054	3,295	3,664	3,995
Net credit to the public sector	551	385	623	645	614	875	958	954	890	1,157	1,456	1,710	1,795	1,964	2,069
Net credit to the Government	548	384	609	635	608	873	937	933	869	1,154	1,453	1,708	1,792	1,962	2,067
Central bank	387	274	451	446	432	506	530	471	427	355	454	336	253	148	-42
Claims	600	704	601	599	598	598	605	605	605	597	540	483	426	366	306
Use of IMF Credit	28	131	27	27	26	26	26	26	26	25	25	25	25	23	20
Deposits	213	-429	-153	-157	-171	-98	-83	-120	-150	-243	-88	-150	-176	-223	-355
Deposit money banks	161	100	158	189	177	367	407	196	153	799	999	1,372	1,539	1,814	2,109
Claims on public agencies, net	4	1	14	10	5	3	21	21	21	3	3	3	3	3	3
Credit to the economy[2]	1,082	1,147	1,041	1,028	1,052	1,124	1,134	642	806	1,082	1,197	1,344	1,500	1,700	1,926
Credit to the Private Sector	997	1,069	962	933	975	1,032	1,059	541	725	1,041	1,154	1,298	1,450	1,616	1,791
Other items, net	-335	-170	-402	-371	-279	-394	-407	--	--	--	--	--	--	--	--
Broad money	1,830	1,993	1,864	1,918	1,951	2,159	2,156	2,110	2,283	2,865	3,352	3,899	4,348	4,848	5,385
Currency outside banks	511	523	512	506	525	569	542	564	587	755	883	1,027	1,145	1,277	1,419
Demand deposits	975	1,144	1,005	1,055	1,047	1,069	1,098	1,058	1,049	1,382	1,660	1,931	2,154	2,401	2,667
Time deposits	343	326	348	356	379	521	516	454	613	728	809	941	1,049	1,169	1,299
(Changes in percent of beginning-of-period broad money)															
Broad money	7.9	1.5	1.9	4.8	6.6	18.0	-0.1	-2.3	5.8	32.7	17.0	16.3	11.5	11.5	11.1
Net foreign assets	16.5	6.6	4.0	4.8	2.1	1.5	-3.7	-2.1	1.3	3.1	2.5	4.4	5.3	3.0	4.2
Net domestic assets	-8.6	-5.1	-2.0	0.2	4.8	16.8	3.7	-0.4	4.2	29.3	14.5	12.0	6.2	8.5	6.8
Net domestic credit	-8.2	-8.5	1.7	2.2	1.8	20.0	4.3	-18.7	-14.0	11.1	14.5	12.0	6.2	8.5	6.8
Net credit to the public sector	-5.0	-9.7	3.9	5.1	3.4	17.7	3.8	3.6	0.7	13.0	10.4	7.6	2.2	3.9	2.2
Credit to the economy[2]	-3.2	1.3	-2.2	-2.9	-1.6	2.3	0.5	-22.3	-14.7	-1.9	4.0	4.4	4.0	5.1	5.8
Credit to the Private Sector	-3.9	1.1	-1.9	-3.5	-1.2	1.9	1.2	-22.8	-14.3	0.4	3.9	4.3	3.9	4.2	4.5
Other items, net	-0.4	3.4	-3.7	-2.0	3.0	-3.2	-0.6	18.2	18.2	18.2	--	--	--	--	--
(Annual percent changes, unless otherwise indicated)															
Broad money	7.9	1.5	16.0	10.7	6.9	18.0	15.6	10.0	17.0	32.7	17.0	16.3	11.5	11.5	11.1
Reserve money	16.8	-4.7	24.5	24.7	16.1	16.5	4.9	-8.7	-7.0	44.2	13.5	12.8	6.1	14.2	20.0
Credit to the economy[2]	-4.7	2.2	-5.2	-4.6	3.0	3.9	8.9	-37.5	-23.4	-3.7	10.7	12.2	11.6	13.4	28.4
Credit to the Private Sector	-6.2	2.1	-6.3	-7.4	2.3	3.5	10.0	-41.7	-25.4	0.8	10.9	12.5	11.8	11.4	10.8
Velocity (Non-oil GDP/average M2)	2.6	1.4	...	...	...	2.1	...	...	...	1.5	1.4	1.3	1.2	1.2	1.1
(Percent)															
Total nominal GDP growth	...	3.4	...	...	...	-20.8	...	...	...	17.5	2.8	2.3	6.4	2.5	1.9
Non-oil GDP growth	...	4.3	...	...	...	-6.3	...	...	...	2.9	6.0	6.5	6.8	6.7	6.7
Credit to the economy/Non-oil GDP	...	23.9	...	...	...	26.5	...	...	...	24.8	25.9	27.3	28.5	30.3	32.1
Memorandum Items:															
Gross imputed official reserves (CFA billion)	617	754	643	706	655	643	508	584	641	812	864	1029	1130	1251	1445
In months of imports	2.7	2.2	...	...	...	2.4	...	...	...	2.9	2.9	3.2	3.5	3.9	4.4
Central bank liablities to non-residents	138.5	217.5	137.5	132.4	142.3	203.1	160.4	160.4	160.4	323.4	323.4	323.4	323.4	320.9	318.4

Sources: BEAC; and IMF staff estimates and projections.

[1] Staff Report for the 2019 Article IV Consultation (January 27, 2020; Country Report No. 20/26).

[2] Private sector and public enterprises.

Table 6. Republic of Congo: Financial Soundness Indicators for the Banking Sector, 2015–20

(Percent, unless otherwise indicated)

	2015	2016	2017	2018	2019	2020 [1]	
						June	December
Capital							
Regulatory capital to risk-weighted assets[2, 3]	19.5	19.1	22.8	24.9	28.8	22.3	16.1
Asset quality							
Non-performing loans less provisions to capital	4.6	7.9	33.0	39.4	49.4	...	...
Non-performing loans (gross) to total loans (gross)	3.6	4.8	13.3	18.2	23.1	27.4	19.0
Earnings and profitability							
Return on equity	20.4	28.0	9.9	16.7	5.3	...	1.0
Return on assets[4]	2.3	4.0	1.7	3.0	0.9	...	0.1
Liquidity							
Ratio of liquid assets to short-term liabilities	116.1	104.4	146.6	176.0	150.8	184.8	174.0
Total deposits to total (noninterbank) loans	125.5	102.8	90.5	89.1	101.5	112.5	136.0
Credit							
Gross loan (banks' book) - bn FCFA	1,424	1,460	1,401	1,308	1,166	1,253	1,357.8
Gross loan - annualized growth rate	19.8	2.5	-4.1	-6.6	-10.8	1.1	16.4

Source: FSI database.

[1] Preliminary data.

[2] Current year profits are excluded from the definition of regulatory capital, following

[3] The risk-weighted assets are estimated using the following risk weights: 0% - cash

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

Table 7. Republic of Congo: Public Debt Stock, 2019–20

	2019			2020		
	CFAF billion	USD million	percent of GDP	CFAF billion	USD million	percent of GDP
Total public debt	**6122**	**10372**	**81.7**	**5999**	**11129**	**101.0**
External debt	**4265**	**7226**	**56.9**	**3750**	**6957**	**63.2**
Of which: arrears	736	1248	9.8	784	1455	13.2
Multilateral and other creditors	425	720	5.7	456	846	7.7
IMF	27.7	47	0.4	25.6	48	0.4
IDA/IBRD	142	240	1.9	165	306	2.8
AfDB	210	356	2.8	220	409	3.7
IFAD	14	23	0.2	14	26	0.2
Others	32	54	0.4	31	58	0.5
Official bilateral	1892	3206	25.3	1582	2936	26.7
Paris Club	244	414	3.3	239	443	4.0
Brazil	31	52	0.4	25	47	0.4
Belgium	92	156	1.2	86	160	1.5
France	96	163	1.3	105	195	1.8
Russia	18	31	0.2	17	31	0.3
Switzerland	7	12	0.1	5	10	0.1
Non-Paris Club	1648	2792	22.0	1344	2493	22.6
China	1402	2375	18.7	1118	2075	18.8
India	61	103	0.8	55	103	0.9
Kuwait	32	55	0.4	30	55	0.5
Turkey	48	81	0.6	43	81	0.7
Pre-HIPC arrears (not restructured)	106	179	1.4	97	180	1.6
Private Creditors	1948	3300	26.0	1711	3175	28.8
Chinese companies	311	527	4.2	237	440	4.0
London Club (eurobond)	174	295	2.3	144	268	2.4
Oil-prepurchased debt	1116	1890	14.9	1029	1908	17.3
Afreximbank	116	197	1.6	73	135	1.2
Suppliers	230	390	3.1	228	423	3.8
Domestic debt	**1857**	**3146**	**24.8**	**2249**	**4173**	**37.9**
BEAC advances	572	970	7.6	572	1061	9.6
Domestic bond	250	423	3.3	319	591	5.4
Arrears reported by CCA	1035	1754	13.8	1358	2520	22.9
Commercial	650	1102	8.7	955	1773	16.1
Social and pensions	385	652	5.1	403	748	6.8

Sources: Congolese authorities and IMF staff estimates.

Table 8. Republic of Congo: External Arrears, 2016–20
(Year-end; billions of CFAF, unless otherwise indicated)

	End-2016 stock	New arrears in 2017	End-2017 stock	New arrears in 2018	End-2018 stock	New arrears in 2019	End-2019 stock			New arrears in 2020	End-2020 stock			End- 2020 (Excl. unrestructured pre-HIPC arrears)		
	CFAF billion	CFAF billion	CFAF billion	CFAF billion	CFAF billion	CFAF billion	CFAF billion	USD million	percent of GDP	CFAF billion	CFAF billion	USD million	percent of GDP	CFAF billion	USD million	percent of GDP
Total	**436.0**	**17.0**	**453.0**	**793.1**	**1246**	**-510**	**736**	**1248**	**9.8**	**48**	**784**	**1455**	**13.2**	**730**	**1354**	**12.3**
Multilateral and other creditors	4.8	-0.6	4.2	2.6	6.8	2.0	8.8	15.0	0.1	-8.8	0.0	0.0	0.0	0.0	0.0	0.0
IMF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
World Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IFAD	0.0	0.2	0.2	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
AfDB	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	4.8	-0.8	4.0	2.8	6.8	2.0	8.8	15.0	0.1	-8.8	0.0	0.0	0.0	0.0	0.0	0.0
										0.0						
Bilateral	109.0	23.2	132.2	13.4	145.7	36.8	182.4	309.1	2.4	-62.6	119.8	222.2	2.0	65.3	121.1	1.1
Paris Club	11.5	19.1	30.6	29.7	60.3	39.6	99.9	169.2	1.3	-58.8	41.1	76.2	0.7	41.1	76.2	0.7
Brazil	8.4	7.2	15.6	8.4	24.0	6.7	30.7	52.0	0.4	-5.5	25.2	46.7	0.4	25.2	46.7	0.4
Belgium	0.0	1.0	1.0	1.4	2.4	12.7	15.1	25.5	0.2	-4.6	10.5	19.4	0.2	10.5	19.4	0.2
France	3.0	4.0	7.1	20.0	27.1	20.2	47.3	80.1	0.6	-47.3	0.0	0.0	0.0	0.0	0.0	0.0
Switzerland	0.0	6.8	6.8	0.0	6.8	0.0	6.8	11.5	0.1	-1.4	5.4	10.1	0.1	5.4	10.1	0.1
Russia	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-Paris Club	97.5	4.1	101.6	-16.3	85.3	-2.8	82.6	139.9	1.1	-3.9	78.7	146.0	1.3	24.2	44.9	0.4
United Arab Emirates /1	12.9	-0.8	12.0	0.6	12.7	0.6	13.3	22.5	0.2	-0.9	12.3	22.9	0.2	0.0	0.0	0.0
Angola 1/	34.5	5.7	40.2	1.2	41.5	1.3	42.7	72.4	0.6	-3.7	39.0	72.4	0.7	0.0	0.0	0.0
China	0.0	0.0	0.0	7.4	7.4	-7.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
India	0.8	1.7	2.4	3.8	6.2	4.6	10.8	18.4	0.1	0.6	11.4	21.2	0.2	11.4	21.2	0.2
Kuwait	0.1	0.1	0.2	0.2	0.4	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Saudi Arabia 1/	46.2	-2.6	43.6	-42.9	0.7	-0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Turkey	0.0	0.0	0.0	6.0	6.0	6.5	12.6	21.3	0.2	0.2	12.8	23.7	0.2	12.8	23.7	0.2
Postal debt 1/	3.1	0.0	3.1	0.0	3.1	0.0	3.1	5.3	0.0	0.0	3.1	5.8	0.1	0.0	0.0	0.0
Private Creditors	322.1	-5.6	316.5	777.1	1093.6	-548.4	545	924	7.3	119	665	1233.1	11.2	665	1233.1	11.2
CMEC and Chinese companies 2/	36.2	28.0	64.2	-63.8	0.4	7.3	8	13	0.1	-8	0	0.0	0.0	0	0.0	0.0
Eurobond (London Club)	0.0	0.0	0.0	0.0	0.0	0.0	0	0	0.0	0	0	0.0	0.0	0	0.0	0.0
Afreximbank	0.0	0.0	0.0	0.2	0.2	11.4	12	20	0.2	-12	0	0.0	0.0	0	0.0	0.0
Oil traders	0.0	22.4	22.4	838.9	861.4	-566.0	295	500	3.9	141	436	809.7	7.4	436	809.7	7.4
Suppliers 2/	285.9	-56.0	229.9	1.7	231.6	-1.2	230	390	3.1	-2	228	423.5	3.8	228.2	423.5	3.8

Source: Congolese authorities and IMF staff estimates.

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

[2] Includes disputed debts (pre-HIPC claims).

Table 9. Republic of Congo: Sustainable Development Goals (SDGs)

Goal	Indicator	2020
SDG1	*No poverty*	
	Poverty headcount ratio at $1.90 a day (in percent)	67.0
	Poverty headcount ratio at $3.20 a day (in percent)	85.8
SDG2	*Zero hunger*	
	Prevalence of undernourishment (in percent of population)[1]	40.3
SDG3	*Good health and wellbeing*	
	Maternal mortality rate (per 100,000 live births)[1]	378.0
	Life expectancy at birth (years)[2]	64.3
SDG4	*Quality education*	
	Primary completion rate, total (percent of relevant age group)[3]	71.6
	Literacy rate, adult total (percent of people ages 15 and above)[4]	80.3
SDG5	*Gender equality*	
	Proportion of seats held by women in national parliaments (in percent)	11.3
SDG6	*Clean water and sanitation*[1]	
	Population using at least basic drinking water services (in percent)	73.2
	Population using at least basic sanitation services (in percent)	20.2
SDG7	*Affordable and clean energy*[1]	
	Population with access to electricity (in percent)	66.2
SDG8	*Decent work and economic growth*	
	GDP per capita growth (annual in percent)[5]	-6.0
	Adults with an account at a bank or other financial institution or with a mobile-money-service provider (% of population aged 15 or over)[1]	26.1
SDG9	*Industry, innovation, and infrastructure*	
	Manufacturing, value added (in percent of GDP)[5]	8.6
	Population using the internet (in percent)[1]	8.7
	Mobile broadband subscriptions (per 100 population)[1]	6.0
SDG10	*Reduced inequalities*	
	Gini coefficient adjusted for top income[6]	52.0
SDG11	*Sustainable cities and communities*[5]	
	Urban population (in percent of total)	67.4
	Satisfaction with public transport	53.2
SDG12	*Responsible consumption and production*[2]	
	CO_2 emissions from liquid fuel consumption (kt)	2321.2
	CO_2 emissions from gaseous fuel consumption (kt)	487.7
SDG13	*Climate action*[1]	
	Energy-related CO_2 emissions (tCO_2/capita)	0.5
SDG14	*Life below water*[5]	
	Ocean Health Index: Clean Waters score (worst 0 – 100 best)	49.1
SDG 15	*Life on land*	
	Permanent deforestation (% of forest area, 5-year average)[4]	0.1
	Red List Index of species survival (worst 0 – 1 best)[5]	1.0
SDG16	*Peace, justice, and strong institutions*	
	Corruption Perception Index (worst 0–100 best)[5]	19.0
	Press Freedom Index (best 0–100 worst)[5]	36.0
	Children involved in child labor (% of population aged 5 to 14)[2]	23.3
SDG17	*Partnerships for the goals*[7]	
	Government spending on health and education (% of GDP)	6.1

Sources: Sustainable Development Goals Index and Dashboards, World Bank Development Indicators

[1]As of 2017
[2]As of 2016
[3]As of 2012
[4]As of 2018
[5]As of 2019
[6]As of 2011
[7]As of 2015

Annex I. Drivers of Congo's Fragility

1. A fragile state (FS) can be defined in many ways. These countries are often characterized by (i) significant institutional and policy implementation weaknesses; (ii) a fractious political context; (iii) severe domestic resource constraints; and (iv) vulnerability to shocks (IMF 2012). Against this backdrop, the IMF currently defines FS as countries having either weak institutional capacity as measured by the World Bank's Country Policy and Institutional Assessment (CPIA) score—with an average of 3.2 or lower—and/or having recently experienced conflict (signaled by presence of a peace-keeping or peace-building operation in the most recent three-year period)[1](IMF, 2015).

2. The Republic of Congo is considered a FS by the IMF due to challenges in economic and public sector management, structural policies, and social inclusion and equity. It's average CPIA score has been around 2.7 since 2017, well-below the 3.2 threshold,[2] reflecting:

- *Highly vulnerable economic structure and poor social indicators.* The Congolese economy is extremely dependent on oil, and thus highly vulnerable to global oil price fluctuations. Poverty is pervasive, with 67 percent living below the poverty line, one of the highest unemployment rates in SSA, 60 percent of the population lacking access to electricity, and limited social safety nets (Annex V).

- *Sensitivity to climate shocks.* Heavy reliance on rain-fed agriculture increases Congo's humanitarian, social, and macroeconomic vulnerabilities to rising temperatures and extreme weather shocks. Recent years' intensified flooding coupled with new refugees from the Central African Republic are plunging greater proportions of the population into food insecurity and poverty.

- *Weak governance.* Governance indicators exhibit significant weaknesses—particularly with regard to the management of revenue and expenditure and the transparency and accountability in these core functions—and persistent corruption vulnerabilities.

- *Political and security risks.* Congo has been relatively conflict-free in recent years. There is currently no UN peacekeeping operation in the country. The 2017 ceasefire agreement between the government and the former civil war "Ninja" militia remains intact. Meanwhile, the 2021 presidential elections were completed peacefully. However, the lack of social inclusion and equity could generate bouts of instability. The likelihood of security risks spillover from Congo's neighbors (Central African Republic, Democratic Republic of Congo) are also rising.

[1] This approach is similar to that used by the World Bank and the African Development Bank, differing only in using a three-year average of the CPIA instead of the most recent outturn.

[2] The assessment indicates that the four sub-components, economic management, structural policies, policies for social inclusion and equity and public sector management, hover around 2.7–2.8.

Annex II. Outcome of Strategy to Restore External Debt Sustainability

1. The authorities' strategy to restore external debt sustainability, where external debt comprises around two thirds of overall public debt, has yielded tangible results. Since its initiation in 2019, this strategy has resulted in restructuring of external debt contracts and clearance of more than $3 billion (20 percent of GDP) in external arrears. The strategy has been complemented by suspension of debt service under the G20 Debt Service Suspension Initiative (DSSI). Key developments include:

- Restructuring of bilateral debt with China, covering about one fifth of overall public debt. This agreement, concluded in 2019, resulted in a resolution of arrears and substantial upfront debt service with highly concessional debt service from 2022.

- Restructuring of debt with two out of the three largest external creditor, together covering one tenth of overall public debt. These agreements included a resolution of arrears accumulated to these companies, nominal haircuts on the stock of outstanding debt, maturity extensions, interest rate reductions, and debt service to one of the oil traders is now tied to oil prices.

- Payment of US$64 million in arrears to multilateral and official bilateral creditors in January 2020.

- Rescheduling of US$198 million in arrears with bilateral creditors under the 2020 DSSI and of US$179 million under the 2021 DSSI (including Brazil and Turkey with whom negotiations are on-going). Arrears accumulated to India in 2021H1 are expected to be cleared as DSSI negotiations conclude.

2. Negotiations on debt restructuring with two other external commercial creditors are on-going. An agreement in principle (AIP) was reached in early 2021 with one private creditor, holding about one twentieth of overall public debt. However, the AIP has not yet been approved by the creditor's underlying lenders. Until the situation is resolved, the Republic of Congo is accruing arrears for debt service to the private creditor. Discussions on the restructuring of the debt owed to the other private creditor, which is around 1 percent of overall public debt, are at a standstill. The level of interest in continuing these discussions may be influenced by the fact that under 30 percent of the original loan amount (just under $100 million) will be outstanding by end-2021. No arrears have been accumulated on this debt.

3. The authorities are discussing payment plans with Switzerland and Belgium on official debt service that came due just after the DSSI cut-off date. Upon completion of the process of reconciling the stock of official arrears with Switzerland ($10 million at end-2020), the authorities plan to repay these arrears in 2021. The authorities are actively discussing a payment plan for the arrears related to the commercial debts to Belgian banks on which an official guarantee was called after the DSSI cut-off date ($19 million at end-2020).

4. The remaining external arrears are owed to suppliers. The authorities contest $402 million of arrears to suppliers, of which US$387 million are part of a broader litigation case and US$15 million are pre-HIPC arrears for which the authorities had requested HIPC treatment.

Annex III. Authorities' Implementation of 2020 Policy Recommendations

2020 Article IV Recommendations		Authorities' Implementation
Strengthening medium-term fiscal framework	• Pursue fiscal consolidation efforts and conclude the debt restructuring process for external commercial debt to restore fiscal sustainability. • Curb tax exemptions, implement tax administration reforms, and collect tax arrears to support domestic revenue mobilization efforts. • Ensure that adequate resources are allocated to critical social programs in favor of vulnerable groups. • Strengthen the PFM system and ensure that the annual budget cycle is closed on time.	**Partially implemented.** The authorities have taken several steps to strengthen their medium-term fiscal framework including: • Measures to improve resources through tax administration reforms (introduction of the e-tax declaration and payment), higher excises, the introduction of import duties, and increased taxes on certain non-petroleum exports • The gradual phasing out of CIT exemptions for companies violating investment conventions. • Continued reduction of key non-priority current spending (oil transfers) and increased social transfers (up +1.3 percent in 2020). • Progress on external debt restructuring with the conclusion of debt restructuring agreements with China in 2019 and two commercial creditors in 2020-2021; and advanced discussions with two other commercial creditors. • The implementation of key PFM reforms especially the audit of oil production costs, the closing of central government accounts in commercial banks, and the transition to a more sophisticated version of the Financial Management Information system to support more transparent application of public expenditure commitments and gain better control of public revenues.

	2020 Article IV Recommendations	Authorities' Implementation
Fostering governance and tackling corruption	• Continue to implement measures to improve governance and tackle corruption, including through the adoption of operational decrees for the Commissions on Anti-Corruption and Transparency.	**Implemented.** The authorities made significant progress on this front, with: • The recent establishment of the Commissions on Anti-Corruption and Transparency. • Drafting a new anti-corruption law—further changes need to be made to the current draft to maximize the implementation of Congo's obligations under the UNCAC, of relevant aspects of the FATF Standard, and of pertinent parts of other regional treaties; the amendments are expected to be discussed in Parliament in the Fall. • Actions to improve transparency in extractive industries. The 2018 report of the Extractive Industries Transparency Initiative (EITI) was released at end-December 2020, and the authorities committed to release the 2019 and 2020 reports by end-2021.
Diversification and inclusive growth	• Speed up reforms to improve market regulation and the business environment to support the diversification strategy. • Adopt a strategy to clear domestic arrears to support financial stability and non-oil growth.	**Partially implemented.** Mains measures relate to: • The improvement of corporate taxation with the harmonization of the special corporate tax rate, and the reduction of corporate and global flat tax rates. • Domestic arrears repayment. A portion of it has been repaid in 2020. The "Club de Brazzaville" raised financing of CFAF 332 billion from a consortium of banks that allowed the government to further pay domestic private sector arrears (net of a 15-30 percent haircut) and social arrears (no haircut). • Improved statistics that allow better decision making. Considerable improvements have been made to the quality of statistics with the release of a new GDP series which better reflects the characteristics of the economy; and significant progress on quarterly national accounts, which are planned to be released from December 2021 onwards.

Annex IV. Risk Assessment Matrix[1]

Risks	Likelihood	Impact if Realized	Policy Response
		Global risks	
Uncontrolled Covid-19 local outbreaks and subpar/volatile growth in affected countries. Outbreaks in slow-to-vaccinate countries force new lockdowns. For many Emerging Markets and Low-Income Countries, policy response to cushion the economic impact is constrained by lack of policy space, with some market access countries facing additional financial tightening as a reassessment of growth prospects triggers capital outflows, depreciations, and debt defaults.	**High**	**High** A prolonged outbreak would have a particularly large adverse impact in Congo. The limitations to the health system could result in a large loss of life due to the pandemic. The economy would be hit hard by increased disruptions in both the oil and non-oil sectors.	Improve public health measures, (including vaccine dissemination, testing capacity), follow WHO guidelines, and strengthen regional cross-border pandemic response. Strengthen government fiscal social and health response to the pandemic. Prioritize infrastructure projects with large fiscal multipliers and value-for-money.
Rising commodity prices amid bouts of volatility. Commodity prices increase by more than expected against a weaker U.S. dollar, post-pandemic pent-up demand and supply disruptions, and for some materials, accelerated plans	**Medium**	**High** Given Congo's dependency on oil revenue and export proceeds, higher than expected commodity prices are an upside risk that could support the fiscal strategy and the external sector, and efforts to	Take the opportunity of higher oil prices: (i) to spare financial resources and implement structural measures to diversify the economy, enhance competitiveness, and deepen regional integration; (ii) and

[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 current baseline. Structural risks are those that are likely to remain salient over a longer horizon

Risks	Likelihood	Impact if Realized	Policy Response
for renewable energy adoption. Uncertainty surrounding each of these factors leads to bouts of volatility, especially in oil prices.		diversify the economy. Oil supply disruptions in Congo are a downside risk to watch though as they would negatively affect macroeconomic outcomes	implement the reform agenda to reduce vulnerabilities in Congo and increase the capacity of the economy to attract investment.
Intensified geopolitical tensions and security risks. Geopolitical tensions in selected countries/regions cause economic/political disruption, disorderly migration, higher volatility in commodity prices (if supply is disrupted), and lower confidence, with spillovers to other countries.	**High**	**Medium** Restrictions on the movement of food and basic goods across countries may cause shortages and price increases in Congo. Limited financing inflows may delay investment projects.	Step up efforts to improve the quality of public spending and priorities, as well improve investment planning and resource management. Stocks/inventories management and improve distribution mechanism.
		Country-specific risks	
Widespread social discontent and political instability. Social tensions erupt as the pandemic and inadequate policy response cause economic hardship (including unemployment, higher incidence of poverty, and shortages and higher prices of essentials) and exacerbate preexisting socioeconomic inequities. Growing political polarization and instability weaken policymaking and confidence.	**Medium/ High**	**Medium/ High** Protracted fiscal adjustments. Political uncertainty affects market confidence, private investment, and financing flows, delays economic and policy reforms, and weakens institutions.	Enhance targeted social policies and strengthen social safety nets. Maintain fiscal discipline. Improve governance, transparency and accountability and reduce corruption. Involve CSOs and other stakeholders in policy decisions.
Weak fiscal management. Fiscal policy without effective control of non-	**Medium**	**Medium** Insufficient prioritization of government spending,	Improve coordination between government ministries to ensure that

Risks	Likelihood	Impact if Realized	Policy Response
priority spending and lack of revenue mobilization and other fiscal reforms. Fiscal shocks from SOEs.		inconsistent arrears repayment, and an increase in public debt resulting in risks to macroeconomic stability and risks of higher social and political instability and crowding out private credit. Pressure on foreign reserves.	spending is properly prioritized. Implement TA recommendations on PFM, strengthening cash management and budget execution. Identify additional fiscal measures to create fiscal space for crisis support. Implement SOE and governance reforms.
Higher frequency and severity of natural disasters related to climate change. They cause severe damage to the economy disrupting infrastructure, livelihoods and food production. A sequence of severe events in large economies reduces global GDP and prompts a recalculation of risk and growth prospects. Disasters hitting key infrastructure or disrupting trade raise commodity price levels and volatility.	**Medium**	**Medium/ High** Lower domestic production in the agricultural sector, and implications to food security and incomes.	Strengthen food security and rural development programs Promote investment in climate resilient infrastructure and address infrastructure gaps and income disparities among regions, while establishing appropriate social safety nets.

Annex V. Social Spending

Against a backdrop of various financing constraints, it will be important to improve the effectiveness and value for money of social assistance, health care, and education. This will be key to raising human development, earnings potential, and ultimately sustainably reducing poverty and inequality and a more inclusive growth—which have been driving Congo's fragility.

Context

1. While average poverty declined in Congo between 2005 to 2015, inequality and the urban-rural divide remain high as does unemployment[1].

- Congo has a relatively high poverty headcount and Gini coefficient compared to the median of sub-Saharan Africa (SSA) and Low-Income Developing Countries (LIDCs). The average poverty headcount (proportion of the population living below the poverty line) declined from 55 percent in 2005 to 38 percent in 2011 and is estimated to have remained at that level in 2015 (Figure 1). Since then, the poverty headcount has likely risen—estimated at 67 percent in 2020 by the latest WB SDG report—given persistent output declines, which have been exacerbated by the COVID-19 pandemic.

- Among countries with comparable GDP per capita, Congo was at the higher end of income inequality, with a Gini coefficient of 0.49 in 2011; and the income share of the top 10 percent corresponding to 37.9 percent and that of the bottom 20 percent to 4.2 percent (Figure 1, IMF FAD EAT).

- Congo's unemployment rate in 2019 was high compared to regional and income comparators (Figure 2). Informal employment is likely high and around the levels of the comparators, with 75 to 80 percent of non-agricultural employment.

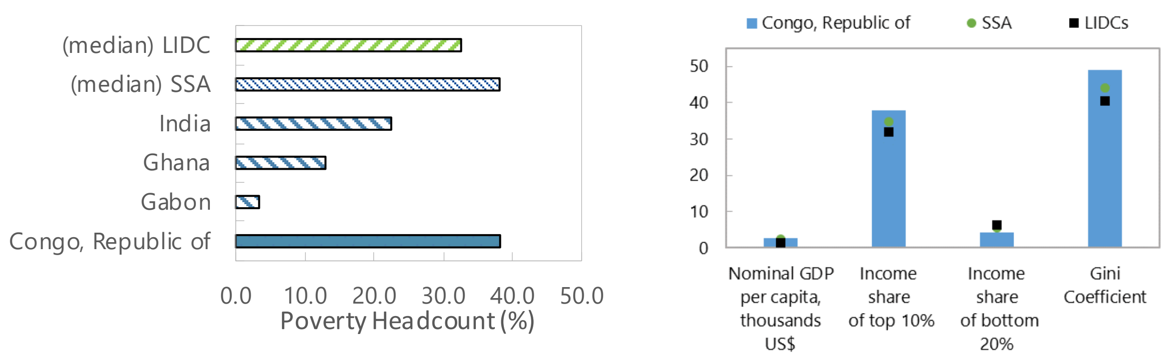
- Unemployment is particularly severe among youth**.** Counting in those discouraged from looking for a job, the unemployment rate affects 32.7 percent of those aged 15 to 29. The corresponding figures for those aged 30–49 and 50–64 are respectively 15.6 percent and 8.3 percent. The share of youth that are not in education, employment or training is estimated at 27.7 percent. This share is higher for females than males (31 percent vs 15 percent). Among the 25 to 30 years old, at which point most people are out of school, 22.3 percent of young men versus 37.3 percent of young women have not entered the labor force yet (World Bank, 2018[2]).

[1] The annex relies on two FAD assessment tools (SPL-AT and EAT). In general, macroeconomic and fiscal data are up to 2019. Note also that the last Household Survey for Congo was done in 2011, and different institutions have made estimates based on it.

[2] World Bank (2018). Systematic Country Diagnostic.

2. **At the same time, the social protection system in Congo has very low coverage and is underfunded (Figure 3).** Only 0.9 percent of the Congolese population benefits from social protection compared to 22.3 percent in SSA (IMF FD SPL-AT). The Ministry of Social Affairs budget averages 0.3-0.5 percent of GDP compared to a median of 1.2 and 0.96 percent of GDP in SSA and LIDCs. Moreover, social spending has been traditionally fragmented with many small programs lacking an effective, harmonized, and systematic approach targeting the poorest and most vulnerable households. Looking at conditional cash transfers (part of targeted social assistance, see below), only 20 percent goes to the poorest 20 percent of households (Figure 4). Meanwhile, the efficiency and quality of health and education spending could be greatly improved (Figure 5).

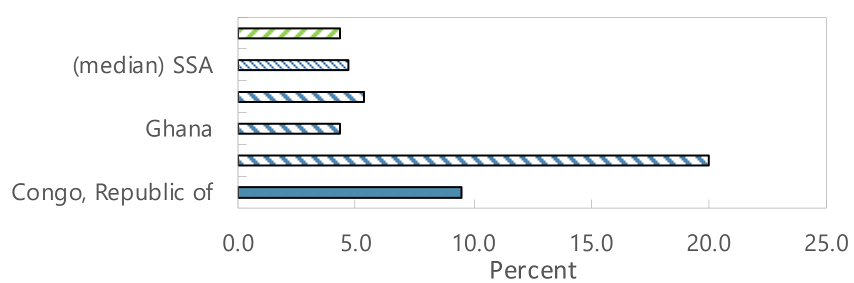
Figure 1. Poverty Headcount and Income Distribution Indicators



Sources: IMF FAD SPL-AT and IMF FAD EAT.

Figure 2. Unemployment and Informality

Unemployment, total (share of total labor force) (modeled ILO estimate): 2019



Source: IMF FAD SPL-AT.

Figure 2. Unemployment and Informality (concluded)

Unemployment, informality, and poverty

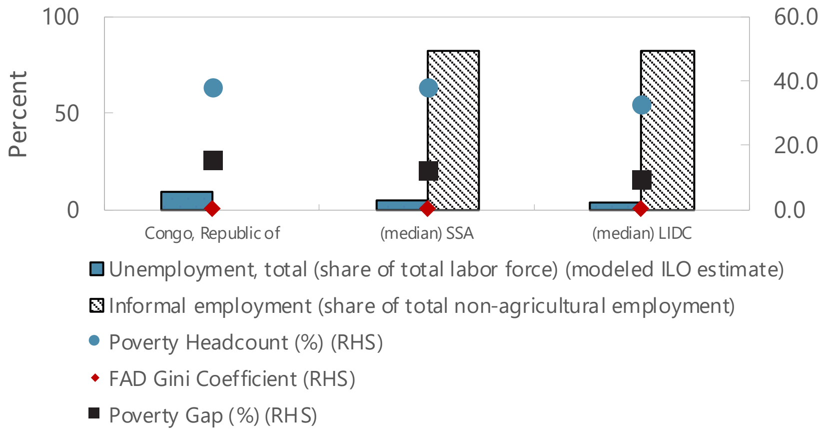
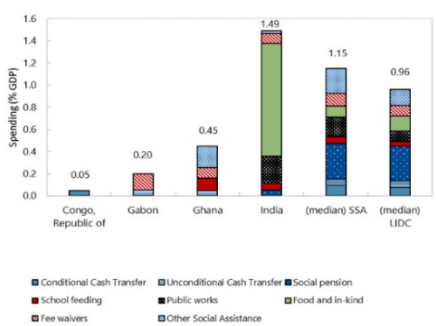


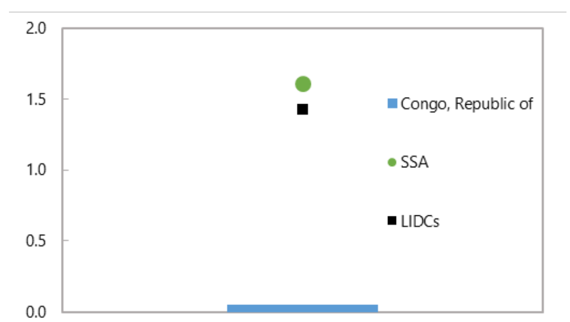
Figure 3. Total Social Assistance Spending

Annual Spending (percent of GDP) by composition in most recent available year



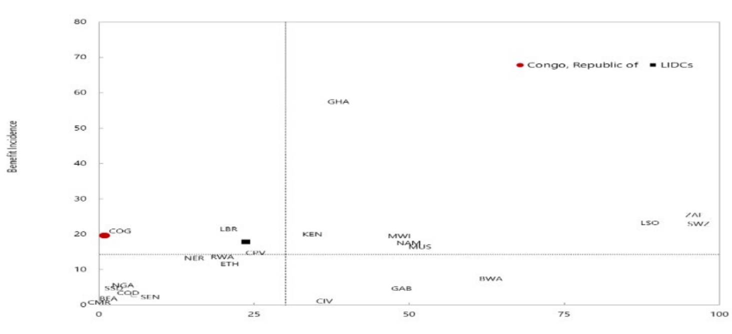
Source: IMF FAD SPL-AT.

Social Assistance Spending (percentage of GDP)



Source: IMF FAD EAT.

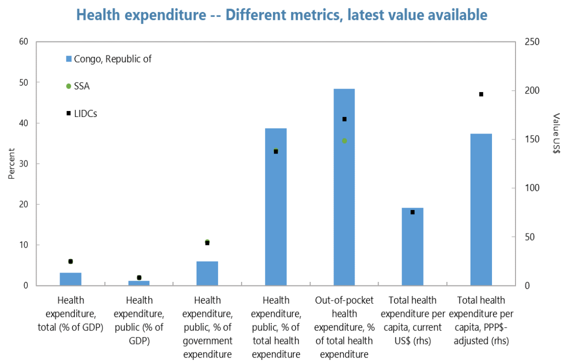
Figure 4. Social Assistance Coverage and Benefit Share of Poorest 20 percent (Percent)



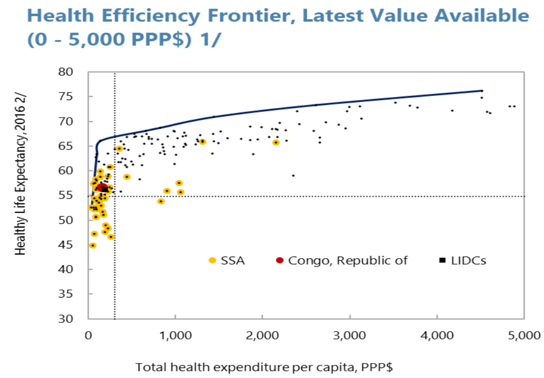
Source: IMF FAD EAT

Figure 5. Health and Education Expenditure and Comparators

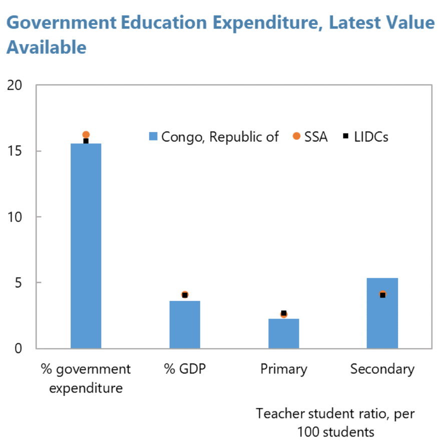
Health spending is below those of comparators.



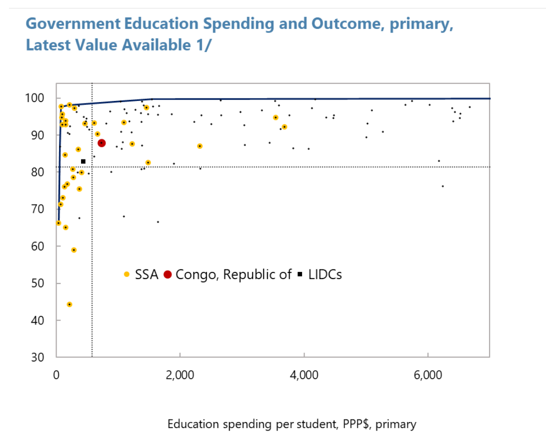
Scope to improve in the health efficiency frontier



Although education spending is at comparators levels, there is room for improvement in primary education…



…especially in net enrolment for primary education, which is still a challenge.



Source: IMF FAD EAT

Improving the Effectiveness of Social Spending

3. Implementing the recently redesigned social assistance program (Lisungi) will be important.

- In 2015, with support from the World Bank, the French development agency (AFD), the WFP, and the FAO, the government redesigned the social assistance program to be more targeted. This program, called the Lisungi program was developed by the World Bank and AFD. It offers cash transfers to vulnerable households. Project activities include: (i) a unique social registry which provides single access to all social programs; (ii) direct conditional cash transfers aiming to stimulate health and education outcomes (CCT); (iii) cash transfers and guidance for micro-projects with income-generating activities (IGA); and (iv) education and health services. During the pandemic, the World Bank has helped the government develop an Emergency Covid-19 Response project (ECRP) that provides emergency cash transfers (ECT) support to vulnerable households (mostly urban) that have been hit hard by the crisis. To date, more than 230,000 households have been receiving ECTs, well above the 200,000 originally planned.

- The authorities have been actively expanding the social registry and are considering further expanding the emergency cash transfer program. However, their enthusiasm for the health, education, micro-project aspects of the program has dampened.

4. Outside the Lisungi program, the design and prioritization of all other social spending should be reviewed.

- An important initial step will be a stock-taking of existing social programs—applying a broad definition of social spending, spanning health and education to employment, gender, and poverty-reducing infrastructure. After that, the effectiveness of these programs in reducing poverty and income inequality should be assessed—which will require detailed data on the distribution of income/expenditure by groups. Social spending should then be prioritized accordingly while eliminating or streamlining ineffective programs; and redesigning the programs to improve efficiency, quality, and coverage (including targeting). Prioritization of social spending would also help improve its budget allocations and execution, where health and education budgets are typically under-executed (Figure 6).

- Intentional distinctions between cyclical social spending (e.g., unemployment benefits or emergency COVID-19 cash transfers) and structural social spending should be made. This can be guided by specific target outcomes. For example, active labor market programs such as vocational training, will contribute to increased skills, potential income generation, and improved living standards. Similarly, social insurance and labor market programs can support the informal sector, which tends to be more vulnerable in terms of job security and income.

- Improving governance and Public Financial Management systems will also help channeling resources more efficiently to the sectors most effective, improving the targeting and will also reduce wasteful spending.

Conclusions

5. Improving the effectiveness of social assistance, health, and education will help sustainably reduce prevalent poverty and high-income inequality, particularly in rural areas. This will require expanding currently low coverage and poor targeting of social assistance—though targeting has recently improved—to ensure the lowest income groups benefit from it and are protected from shocks and any adverse consequences of structural reforms. Concurrently, the quality and coverage of health and education programs should be enhanced, including tailoring their design to the specific needs of the lowest income groups. More broadly, a stock-taking of the effectiveness of current social programs in other areas (as currently defined in the budget, such as gender, employment) in reducing poverty and income inequality is needed; followed by prioritizing the most effective spending and streamlining less effective programs.

6. The authorities indicated that they consider the allocation of social spending as a critical aspect for reducing poverty and inequality. They concurred that not having updated household surveys, employment data and data bases on social spending and protection is a challenge towards the efficient allocation of resources for this type of activities and programs. They also stressed the need to boost youth employability and prioritize programs based on their effectiveness in raising inclusive growth and reducing poverty.

Figure 6. Government Financing of Social Spending

In CFAF billion	2019	2020	2021
Social Spending:	415	543	477
Health	144	246	191
Education	247	260	253
Social Protection	24	37	33
Min Social Affairs	24	37	33
ow Lisungi	4	19	18
Social Spending (ECF classification)	306	380	361

% of GDP	2019	2020	2021
Social Spending:	5.6	9.1	6.8
Health	1.9	4.1	2.7
Education	3.3	4.4	3.6
Social Protection	0.3	0.6	0.5
Min Social Affairs	0.3	0.6	0.5
ow Lisungi	0.0	0.3	0.3
Social Spending (ECF classification)	4.1	6.4	5.2

Sources: Congolese authorities and IMF staff estimates. Based on budget laws.

Annex VI. External Sector Assessment

The overall assessment of the external position of the Republic of Congo in 2020 was weaker than warranted by fundamentals and desirable policy settings. The quantitative assessment of the exchange rate using the Fund's EBA-lite methodology, as well as alternative approaches tailored to exporters of non-renewable resources show a range of estimates of valuation of Congo's REER, spanning from an undervaluation of 30 percent to an overvaluation of 58 percent. The permanent income hypothesis approach is also included but not used for the assessment as, for developing economies like Congo, it underestimates investment needs through the current account channel. Considering the wide range of estimates from the various methodologies and that Congo is an oil producer (with little economic diversification), staff gives the largest weight to the qualitative external sustainability assessment.

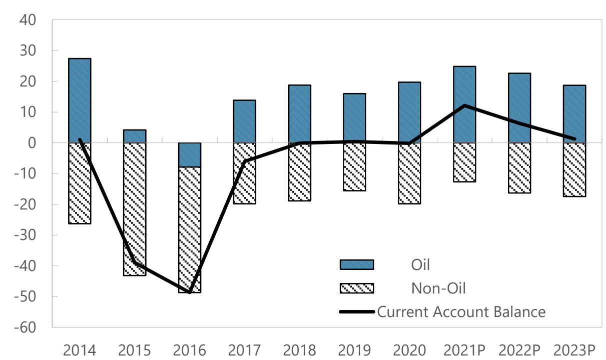
A. Background

1. The external current account was balanced in 2020 owing to favorable oil sector developments and import compression associated with weaker growth and fiscal adjustment.[1]

- This improvement is driven by two factors. First, the current account balance remained marginally in surplus in 2019 thanks to sustained oil production and the rise in oil prices since the 2016 troughs. Second, in 2020, while the prices were unfavorable, the import compression of consumption goods and services due to the COVID-19 pandemic helped maintain a balanced current account. Given the recent increase in oil prices the oil-sector trade balance in 2021 is projected to increase.

Figure 1. Decomposition of the Current Account, 2010–21

(Percent of GDP)



Sources: Congolese authorities; and IMF staff calculations.

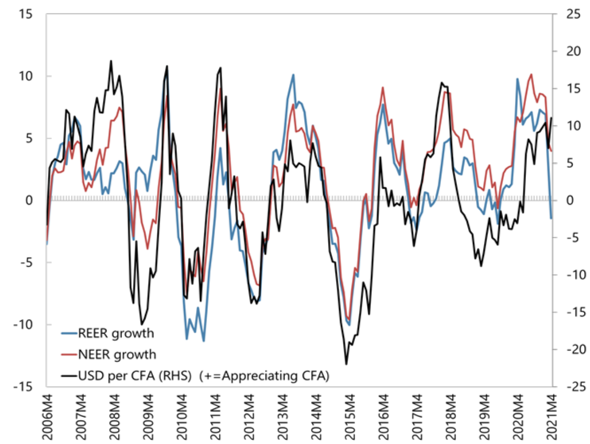
- The oil-sector current account is projected to remain in surplus over the medium term, with oil production peaking at 125 million barrels in 2024. However, the ramp-up in production will have a limited impact on the overall current account in the long run as oil fields mature. The current account surplus reaches its peak in 2021 driven by favorable oil prices but deteriorates afterwards due to increased imports related to investment in economic diversification and building resilience to climate change, as well as reduced oil production from 2025 onwards—projected to decline by an average of 14 percent per year between 2025 and 2039, absent new discoveries.

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

2. Exchange rate indices appreciated slightly in 2020. As of April 2021, the nominal effective exchange rate (NEER) increased 4 percent relative to its April 2020 level, while the real effective exchange rate (REER) depreciated by 1½ percent. The NEER changes reflect movements of the euro (to which the CFA franc is pegged) against global currencies. Changes in the REER were driven by lower inflation in Congo compared to its trading partners.

Figure 2. Exchange Rates

(Y/Y growth)



Sources: Congolese authorities; and IMF staff calculations.

B. Exchange Rate Assessment

3. The revised EBA-lite current account approach would suggest that Congo's REER was undervalued in 2020. The revised EBA-lite current account model, using the default levels for desirable policy settings except for the cyclically-adjusted overall fiscal balance,[2] shows an exchange rate undervaluation of 29.7 percent. The estimate is higher than the 10 percent undervaluation obtained in the 2019 Article IV, mainly due to Congo maintaining a balanced current account despite the fall in oil prices in 2020 and the impact of the pandemic. The undervaluation is driven by an adjusted current account balance of 10.2 percent of GDP, 12.8 percentage points higher than the current account balance consistent with that of other countries facing a similar global economic environment. The current account gap is 12.8 percent, of which only 1.6 percent is explained by policy gaps. The large residual also underscores the external sector constraints due to the debt challenges Congo is facing, debt rescheduling due to the DSSI and other efforts, and the

Summary Table. Republic of Congo: 2020 EBA-lite Model Results

	CA model	REER model
CA-Actual	**-0.1**	
Cyclical contributions (from model) (-)	0.6	
COVID-19 adjustor (+) 1/	11.8	
Additional temporary/statistical factors (+)	0.0	
Natural disasters and conflicts (-)	0.8	
Adjusted CA	**10.2**	
CA Norm (from model) 2/	**-2.6**	
Adjustments to the norm (+)	0.0	
Adjusted CA Norm	**-2.6**	
CA Gap	**12.8**	**-4.1**
o/w Relative policy gap	1.6	
Elasticity	-0.43	
REER Gap (in percent)	**-29.7**	**9.5**

1/ Additional cyclical adjustment to account for the temporary impact of the pandemic on oil trade balances (14.4 percent of GDP) and on tourism (0 percent of GDP).

2/ Cyclically adjusted, including multilateral consistency adjustments.

Source: IMF staff calculations.

[2] The optimal medium-term fiscal stance for the cyclically adjusted fiscal balance is set to the value observed in 2019 (2 percent of GDP) to account for the need to maintain public debt on a sustainable path. The cyclically adjusted fiscal deficit for 2020, being an extraordinary year, was not considered. The other policy settings are for public health expenditures at 2.8 percent of GDP, the capital control index which is set at the average degree of openness in all countries (0.47), and the ratio of private sector credit to GDP set at the current level (17.1 percent of GDP) which in turn implies a desirable credit growth of 1.2 percent to keep up with inflation and GDP growth.

balanced current account despite the fall in prices. The change underscores the fact that the current account regression approaches are subject to swings in assessments even without substantial economic changes, especially when applied to commodity exporters such as Congo.

4. In contrast, the revised index REER EBA-lite approach points to an overvaluation of the REER. Based on the index REER EBA-lite assessment, the norm REER is 4.6 in 2020, compared with its actual level of 4.69 (all expressed in logs), therefore implying that Congo's REER is overvalued by about 9.5 percent, which is slightly more favorable than the last assessment.

Summary Table. Republic of Congo: 2020 EBA-lite IREER Model Results

Ln(REER) Actual	4.69
Ln(REER) Fitted	4.58
Ln(REER) Norm	4.592
Residual	0.10
REER Gap	9.5%
Policy Gap	0%
Natural Disasters and Conflicts	-1.0%

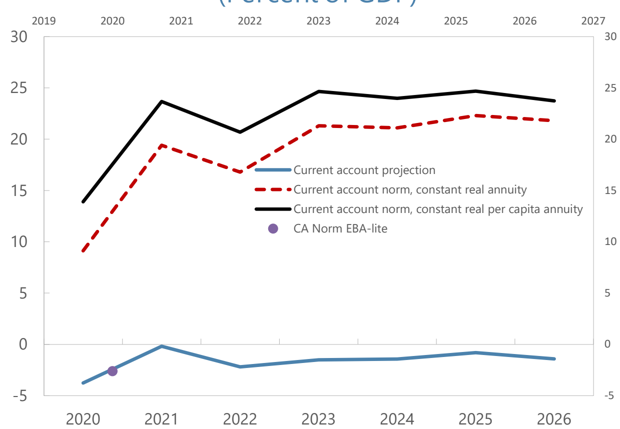
5. Since Congo is an oil exporter, staff have also analyzed the consumption allocation rules associated with the Bems and de Carvalho Filho approach (2009). This approach measures the annuity that can be derived from natural resource wealth, and the related consumption/savings associated with it. The temporary nature of non-renewable resource revenues would call for more savings and hence a higher current account norm, especially if the natural resource production is on a declining trend, as in Congo's case. At the same time, in anticipation of the expected increase in oil production capacity, a larger current account deficit would be consistent with optimal consumption smoothing behavior or with investment dynamics of a credit-constrained government.

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

- Under these assumptions, the implied current account norm hovers around 22 percent of GDP over the medium term with the constant real annuity rule to maintain wealth consistent with PIH, suggesting a 58 percent overvaluation.[3]

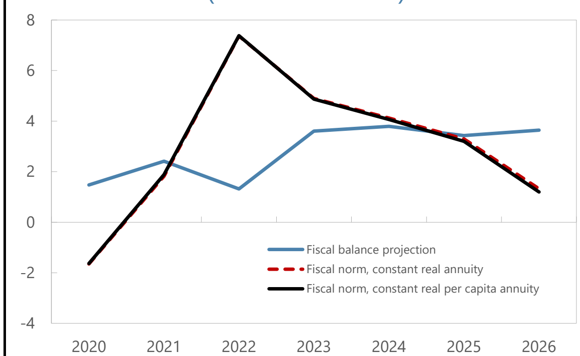
- The large current account norm translates into a larger current account gap, which is driven by the fact that proven oil reserves will be exhausted in about 25 years, and the country has not accumulated enough assets so far. The current fiscal surplus is close to the fiscal savings norm and converges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

Figure 3. Current Account Norms
(Percent of GDP)



Sources: Congolese authorities; and IMF staff estimates.

Figure 4. Fiscal Norms
(Percent of GDP)



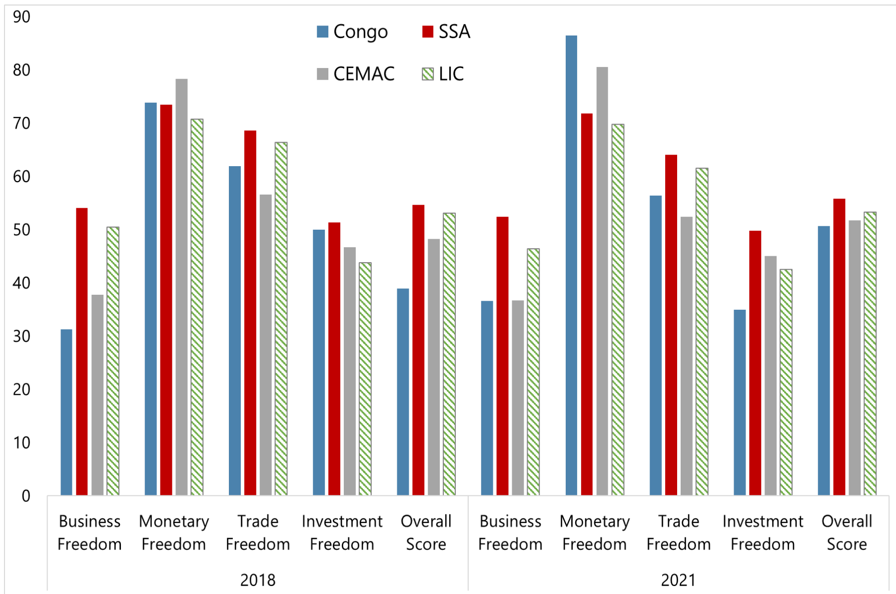
Sources: Congolese authorities; and IMF staff estimates.

7. Considering the wide range of estimates from the above quantitative assessments, a qualitative external sustainability assessment was also applied. Although there are no data on the NFA position of Congo to assess external sustainability, several indicators point to weaknesses in Congo's NFA. Public and publicly guaranteed external debt is sustainable but in debt distress with significant vulnerabilities going forward. The imputed reserves are also relatively low. These considerations should be given the highest weight in the external sector assessment.

8. Policy adjustment is needed to improve competitiveness and create sustainable fiscal space to support investment in economic diversification. This can be achieved if the authorities adjust their non-oil primary current balance. In addition, there is a need to enhance structural competitiveness through improvements in the business environment. Congo's relative performance on various sub-indices in the Heritage Foundation's Economic Freedom Index did not change since the last assessment and is slightly below the average for other CEMAC, SSA and LIC countries. The steady implementation of structural reforms—including those under the ECF—is essential to create an enabling environment for private sector development and economic diversification.

[3] The norm does not account for the effects of public capital accumulation that could be financed from oil revenues.

Figure 5. Economic Freedom Index



Source: Heritage Foundation Economic Freedom Index 2021 and IMF Staff calculations.

References

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

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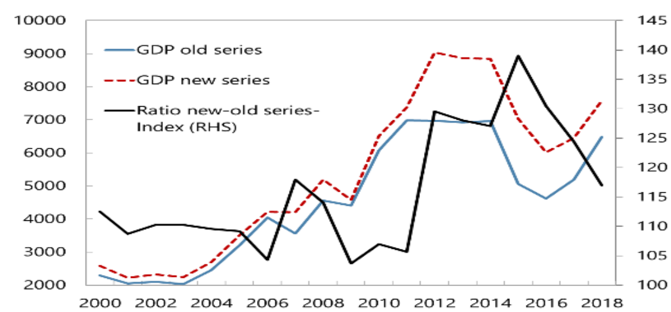
Annex VII. New Series of GDP

1. **The National Statistics Institute (INS) has published new series of national accounts after updating the methodology of compilation and based on new source estimates, with technical assistance support from AFRITAC Central (AFC).** The Congolese authorities implemented the main recommendations from the *System of National Accounts 1993* (SNA), as the previous series were compiled using the *1968 SNA*, and updated the base year from 1990 to 2005. The updated volume series were compiled using the annual chain linking method and are available for the period 1990–2018. The quality of the estimates benefited from the use of administrative data, such as VAT and oil production data. The country team incorporated the new GDP series in its surveillance work in early 2020.

Text Figure 1. Republic of Congo: Old and New GDP Series

(Billions of CFAF)



Source: Congolese authorities.

2. **The revised national accounts estimates have resulted in a significant change in the level of nominal GDP and real growth rates, with nominal GDP up by an average of 16 percent over 2000–18 (Text Figure 1).** The average masks considerable annual fluctuations in the difference between the old and new series, in nominal terms, from a minimum of 4 to a maximum of 39 percent. The average difference for the most recent period (2014–18) is 27 percent. The new series also shows higher fluctuations in real GDP growth rates and a lower oil sector share. The oil sector now represents 42 percent of nominal GDP, compared to 59 percent in the old series. The higher share of non-oil GDP in the new series is a result of better disaggregation and coverage of the institutional sectors, the access to more official data from different sources, including from the VAT database and the fiscal statistics. Also, it reflects the changes in the economy since the previous base year used for the national accounts. IMF TA in this area was key to improving statistical capacity.

Text Table 1. Republic of Congo: Key Indicators

	2000	2005	2010	2015	2018
Old NA					
	Annual percentage change				
Real GDP Growth	7.6	7.8	8.7	2.6	1.6
	Percent of GDP				
Tax Revenues	26.4	38.6	41.1	31.8	29.1
Non-oil Revenues (% NOGDP)	17.3	19.1	25.5	29.6	23.4
Overall Fiscal Balance, cash	-9.5	12.8	12.9	-23.0	7.7
Non-oil Primary Balance (% NOGDP)			-52.5	-62.0	-28.1
Current Account Balance	19.7	6.6	7.3	-54.2	7.2
Total Public Debt	163.2	108.3	46.5	103.1	90.3
	2000	2005	2010	2015	2018
New NA					
	Annual percentage change				
Real GDP Growth	11.8	9.2	9.9	-3.6	-4.8
	Percent of GDP				
Tax Revenues	23.4	35.4	38.5	22.9	24.8
Non-oil Revenues (% NOGDP)	10.9	13.0	14.9	16.0	13.2
Overall Fiscal Balance, cash	-8.5	11.8	12.1	-16.5	6.6
Non-oil Primary Balance (% NOGDP)			-30.6	-33.5	-15.8
Current Account Balance	17.5	6.1	6.9	-39.0	6.2
Total Public Debt	145.0	99.1	43.5	74.2	77.1

Source: Congolese authorities

3. **The INS is in the process of enhancing the compilation of the national accounts and is considering future GDP rebasing**. The INS is improving its collection of administrative data (such as VAT, GFS, and BOP) toward improving the quality of the estimates. The IMF continues to support the INS in this endeavor (through the measurement of natural resources activities, related intermediate consumption and prices) and has encouraged more frequent benchmark survey data (the last household budget survey was in 2011). The government is planning to implement the recommendations of the IMF's Enhanced General Data Dissemination System (e-GDDS) by publishing essential data through the National Summary Data Page (NSDP) to make statistics more accessible to the public.

Annex VIII. Capacity Development Strategy

A. Context

1. **Congo is a medium intensity user of Fund technical assistance (TA).** The main capacity development areas have focused on (i) tax policy and administration, (ii) PFM, including accounting and investment management, cash management, government finance statistics, and debt management; (iii) national accounts, and external sector, and (iv) the anti-corruption framework, which is connected to the AML/CFT regime and to other reform areas that are relevant to governance and transparency. The intensity of TA activities reflects the need to strengthen economic institutions, improve transparency and help develop capacity for economic management and reduce fragility. For FY20, Congo received 15 missions (10 from AFRITAC Center (AFC), and 5 from HQ, of which 1 from FAD and 4 from STA. For FY21, Congo received 24 missions (13 from AFC, and 11 from HQ (9 from FAD, and 2 from STA). Overall, the track record of implementing recommendations is mixed.

B. CD Strategy and Priorities

2. **Capacity development activities will focus on helping the authorities achieve reform objectives and support improvements in public sector service delivery.** The main areas of focus include tax policy and administration to assist the authorities in their efforts to increase non-oil revenues; PFM reforms with emphasis on efficiency and transparency in the preparation of fiscal tables (TOFE) and the production of consistent Treasury accounts (*Balance des Comptes du Trésor*); real and external sectors, with a focus on the national accounts, production of high-frequency data, and BoP statistics; and governance reforms to strengthen the anti-corruption framework and its operationalization.

Priorities	Objectives	Challenges
Tax Policy and Revenue Administration	Focus should be to assist the authorities in their efforts to increase non-oil revenues. Areas of particular importance include the review of tax exemptions, and the strategy to recover a large stock of tax arrears.	Mixed track record of previous TA recommendations in this area.
PFM	Address the serious problem of efficiency and transparency in the preparation of fiscal tables (TOFE) and the production of consistent Treasury accounts (*balance des comptes du Trésor*). Avoid	Coordination issues among the public administration for timely production of fiscal data and dissemination in regular periods.

Priorities	Objectives	Challenges
	extrabudgetary spending, enforce spending controls, and produce final Treasury accounts shortly after the end of the fiscal year. Developing strategy and timetable to reduce oil, water and electricity subsidies while protecting the most vulnerable segments of society.	
Strengthen Statistics Compilation and Dissemination	Improving data coverage, timeliness, and methodology of national accounts data, prices and high-frequency data, and access to relevant sources. Produce timely annual BoP data, start producing quarterly BoP statistics and the IIP data.	Need to improve the skills of Statistics Office staff and facilities.
Debt Management	Strengthen debt management capacity, including by formulating a medium-term debt management strategy, linking it more closely with actual borrowing decisions, enhancing the capacity of the debt unit, and strengthening all units and the national unit responsible for debt management.	Congo is in debt distress and this requires urgent actions towards addressing this issue.
Governance and Anti-corruption	Reduce financial sector vulnerabilities and ensure plans that the resolution of banks under stress follow best international practice. Support the authorities' efforts to improve governance and fight corruption, and strengthen the anti-corruption framework, where a number of laws and decrees have been recently approved but they now need to be adopted, amended, and/or operationalized.	Political will to advance these reforms quickly.

C. Engagement Strategy

Engagement with the Authorities

3. Absorption, implementation capacity, and insufficient ownership remain the major risks and challenges in Congo. In this context, the recent history of "slow" implementation of previous TA recommendations will require to be very focused on activities with high domestic buy-in and traction, therefore paying close attention to the political economy of reforms and the support of reform-minded officials. The resumption of engagement with the authorities under a Fund-supported program will help mitigate these risks and challenges. Further, it is important to think about the ways to help improve the absorption capacity. Examples could be: i) presenting the results of TA missions to a larger audience of technical staff directly involved and organizing workshops to increase traction and ownership (hands-on component of TA); ii) prioritizing TA recommendations (relatively short and focused list of recommendations), would facilitate absorption and their implementation (regular follow up by the authorities); iii) the authorities would have to improve the management of local staff—avoiding high turnovers and low staffing levels—in order to foster continuity and help mitigate capacity and absorption constraints.

4. Finally, the volume and timing of TA has to be planned and calibrated carefully in line with the authorities' requests and to allow their strong support.

Coordination within the Fund

5. The Congo team/AFR will continue with the close work relationships with the CD Departments on priority definitions, timing and scope of TA/CD activities.

Engagement with Outside Partners

6. The IMF staff will enhance the collaboration with other international partners in the provision of TA. Conducting more outreach will help to mitigate risks. Outreach activities conducted by the IMF Resident Representative will continue to facilitate the coordination and consultation among the government, Fund staff, and other stakeholders. Some international partners (WB, AfDB, UN, and French Development Agency) are already involved in the provision of TA in PFM, on improving revenues and transparency of public finances, work on poverty analysis and cash transfers. The IMF Resident Representative in coordination with IMF TA missions would organize wrap-up meetings or periodic meetings with other international partners, to brief them on the planned and the outcome of the missions and enhance the coordination of their activities with the authorities.

D. Priorities by Department

FAD

Priorities

Topics	Ratings	Objectives
Public Financial Management	1	Strengthen budget formulation and implementation, including the medium–term budget framework, cash management, and commitment controls. Improve financial reporting (TOFE and Treasury Accounts): improve reporting fiscal transparency by enhancing the comprehensiveness of budget execution reports, reducing the lag in publication, improving the Budget Guidelines document, and providing estimates of fiscal risks exposure Review expenditure chain to improve spending efficiency. Developing strategy and timetable to reduce oil, water and electricity subsidies while protecting the most vulnerable segments of society
Tax Policy	2	Broaden the non-oil revenue base with a view to reducing reliance on volatile oil revenues and supporting fiscal consolidation. Streamline custom procedures to support diversification of exports.
Revenue Administration	3	Develop and implement a medium-term revenue strategy to increase the non-oil tax revenues as a percentage of non-oil GDP. Enhance revenue mobilization and governance in a business-friendly way and strengthen compliance management and adopting risk-based procedures.

MCM

Priorities

Topics	**Ratings**	**Objectives**
Debt Management	1	Strengthen debt management capacity, including by formulating and implementing a medium-term debt management strategy that limits risks. Enhance the integration between the MTDS and the annual borrowing plan. Delineate responsibilities for debt management and strengthen capacity of the debt unit in the Ministry of Finance
Financial Crisis Management	2	Conduct targeted on-site examinations to ensure implementation of banks' NPLs reduction strategies Reduce financial sector vulnerabilities and ensure plans that the resolution of banks under stress follow best international practice

STA

Priorities

Topics	Ratings	Objectives
Real Sector Statistics	1	Improve the quality and reporting of national accounts data, including the informal sector. Reconcile national account and BOP and fiscal data.
External Sector Statistics	2	Produce timely annual BoP data, start producing quarterly BoP statistics and the IIP data
Government Finance Statistics	3	Improve the quality and reporting of fiscal and debt data

LEG

Priorities

Topics	Ratings	Objectives
Governance and Anti-corruption		Support the authorities' efforts to improve governance and fight corruption by helping to address deficiencies in the statutory framework upon request of the authorities

INTERNATIONAL MONETARY FUND

REPUBLIC OF CONGO

September 13, 2021

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

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

Approved By
Vitaly Kramarenko and Gavin Gray (IMF) and Marcello Estevão and Abebe Adugna (IDA)

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

The overall and external debt[1] of the Republic of Congo are classified as "sustainable" but debt is currently considered "in distress" pending finalization of debt restructuring agreements with two private sector creditors and clearance of arrears. The debt restructuring under discussion with one of these two private creditors is on a small portion of the original debt and no new external arrears have been accumulated since early 2021[2]. An agreement in principle (AIP) was reached in early 2021 with the other of these two private creditors but it has not yet been approved by the creditor's underlying lenders. Half of the bilateral debt with China has also been restructured under DSSI.

Higher oil prices, restructured debt, fiscal discipline, and improved debt management—including restricting new external financing to concessional terms—have resulted in all external liquidity and solvency indicators falling below the thresholds by 2026, and largely

[1] The external debt is defined on a currency basis.

[2] A request for DSSI extension on debt service owed in 2021H1 to India is still pending finalization of a Memorandum of Understanding (MoU). The associated arrears are expected to be cleared with the signing of the MoU. De minimus arrears to Kuwait, resulting from a technical error, will be resolved by end-2021.

motivate the change in sustainability assessment to "sustainable".[3] Oil price assumptions (including higher medium-term oil prices) and projections of growth in the non-oil economy, coupled with increased debt service (tied to high oil prices), are expected to reduce the public debt-to-GDP ratio and support no new accumulation of domestic arrears. Nevertheless, there are major external and overall debt-related risks, as signaled by the PV of public debt to GDP indicator exceeding its benchmark for the full horizon and the external debt-service-to revenue breaching its threshold through 2025. Even though the PV of public debt breaches its benchmark extensively, it is assessed as sustainable given that the liquidity risks are mitigated by i) the steady and significant declines in the relevant ratios going forward, ii) availability of financing from Congolese financial markets, and iii) access to the CEMAC regional financial markets. Immediate liquidity needs are also supported by the DSSI. The debt sustainability assessment is highly vulnerable to negative oil price shocks. Going forward, the authorities are encouraged to continue pursuing fiscal consolidation, enact policies for diversification to reduce risks and prepare for reduced long-term oil production and demand, finalize the pending restructuring agreements, clear arrears, and continue enhancing debt management.

[3] The composite index (CI), estimated at 2.28 and based on the April 2021 World Economic Outlook (WEO) update and 2019 World Bank CPIA data, indicate a weak debt carrying capacity for Congo.

PUBLIC DEBT COVERAGE

1. **The coverage of public debt in this DSA is limited to central government debt, but includes oil-backed debt contracted by the national oil company (SNPC), the largest state-owned enterprise.** State and local governments in Congo are not allowed to borrow and depend on local taxes and transfers from the central government. Debt from oil-backed pre-financing arrangements contracted with oil traders through SNPC and guaranteed by the central government is included in the analysis and is the main source of non-central government debt. However, the debt of other state-owned enterprises (SOEs) and non-guaranteed debt of SNPC is not included in this analysis because of limited information on their debt and fiscal performance.[4] Staff will continue efforts to compile information on SOEs to improve the scope of the DSA, in line with guidelines under the revised LIC-DSF. Supported by the FY 2021 performance and policy actions (PPA) under the World Bank's Sustainable Development Finance Policy (SDFP), the authorities are making on-going efforts to address the limited coverage on SOE debt and financial performance. Efforts are also underway to centralize SOE debt information in a single debt database managed by the Congolese debt office and to include this information in annual debt reports. Technical assistance from the Fund and the World Bank is available to support these efforts.

2. **Contingent liabilities are elevated and pose a risk.** The contingent liability stress test is customized to account for vulnerabilities associated with legally disputed claims of domestic arrears, non-guaranteed SOE debt, and litigated debt (Text Table 1). Non-guaranteed SOE debt is estimated at 9 percent of GDP, and under the stress test, it is assumed that half of this amount could end up on the central government balance sheet, while the rest can be paid through the liquidation of SOE assets. In addition, Congo's total PPP capital stock is estimated at 4.6 percent of GDP, with 35 percent of this stock assumed to end up on the government balance sheet under the stress test. Debt vulnerabilities are also affected by claims of domestic arrears that were rejected by an audit but are being legally contested (about 7 percent of GDP), newly rejected domestic arrears claim under the current audit (about 12 percent of GDP) that could be legally contested, and an external arrears claim of 2.7 percent of GDP which is currently being litigated (and not included in the debt stock).[5] The contingent liability test is also calibrated to account for these potential risks to the public sector balance sheet. At the same time, the experience of previous audits and preliminary progress reported on the ongoing audit of domestic arrears suggest a strong possibility that the stock of domestic arrears incurred during 2017–18 could be revised down substantially after the conclusion of the audit.

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

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

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

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

		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 plus social security, central bank, government-guaranteed debt		
2	Other elements of the general government not captured in 1.	0 percent of GDP	27.6	Litigated debt; contested domestic debt under audit; rejected domestic arrears
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	4.5	SOE's debt not guaranteed by the government
4	PPP	35 percent of PPP stock	1.60	
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)		38.7	

BACKGROUND

A. Evolution and Composition of Public Debt

3. **Public debt in the Republic of Congo reached 101 percent of GDP at end-2020, from 82 percent of GDP at end-2019.** The increase in the debt-to-GDP ratio primarily reflects the decline in nominal GDP due to recession in the non-oil sector and the decline in oil prices. Lower than forecast project loan disbursements (with infrastructure and development projects cancelled or delayed due to the pandemic) and delays in budget support limited new external financing; however, the rescheduling of debt service under the DSSI and the issuance of new domestic debt helped alleviate financing pressures.

- External debt increased from 57 percent of GDP at end-2019 to 63 percent of GDP at end-2020. A large share of external debt is owed to China and Chinese companies (23 percent of GDP) and oil traders (17 percent of GDP, see Table 2). The contracting of new external debt was restricted to be on concessional terms.

- The authorities have made progress in clearing external arrears. During 2019, the authorities continued accruing arrears to commercial and bilateral creditors, but in January 2020, the authorities paid US$69 million in arrears to multilateral and official bilateral creditors. An additional US$146 million in arrears with bilateral creditors was rescheduled under the 2020 DSSI, and an additional US$175 million, including US$132 million under DSSI from China, is rescheduled in 2021. The authorities continue efforts to resolve remaining bilateral arrears (including US$148 million of pre-HIPC arrears).[6] Moreover, $26 million in arrears to Chinese infrastructure companies were repaid in Q4 2020, and another $231 million (as of end-2020) in

[6] Table 2 reflects external arrears as of end-December 2020. The authorities have requested that arrears to Belgium, Brazil, and Switzerland, as well as India, be rescheduled on DSSI terms but are waiting for responses from these creditors.

external commercial arrears were rescheduled as part of restructuring agreements reached with two external commercial creditors. Arrears of $536 million to one private creditor remain unresolved. The authorities contest $402 million of arrears to suppliers, of which US$387 million are part of a broader litigation case and US$15 million are pre-HIPC arrears for which the authorities had requested HIPC treatment; the authorities' plan to resolve remaining external arrears to commercial suppliers (US$5 million) during the course of 2021.

- Domestic public debt increased from 25 percent of GDP at end-2019 to 38 percent of GDP at end-2020. The bulk of domestic debt at end-2019 involved arrears currently being audited (8.7 percent of GDP), statutory advances from the regional central bank (9.6 percent of GDP), and pension arrears and unpaid social benefits (6.5 percent of GDP).[7] The authorities secured financing from a pool of Congolese banks ("Club de Brazzaville") to cover the repayment of CFAF 332 billion (5.1 percent of GDP) of domestic arrears by end-2020.[8] Government debt to commercial banks has increased to 6 percent of GDP given new bond issuance in 2019 and Q1–Q3 2020.

4. This debt sustainability analysis incorporates the impact of two restructuring agreements concluded with external private commercial creditors (oil traders). The restructuring agreement with one of these two creditors (a large oil trader) was signed in 2021Q1—this agreement includes a nominal haircut, a maturity extension, and an interest rate reduction. The restructuring agreement with the other of these two creditors (a smaller oil trader) was signed in April 2020—this agreement included a substantial nominal haircut on the stock of outstanding debt, a maturity extension, and resolution of US$61 million in external arrears. The DSA does not incorporate the agreement in principle (AIP) that was reached in early 2021 with another large oil trader but has not yet been approved by its underlying lenders; instead, the DSA includes the original agreement (which was set to expire at end-2020) and repayment of arrears during 2022–25 (where the arrears were accumulated during 2020–21 in connection with debt restructuring negotiations). The DSA does not incorporate the terms of the formal December 2020 restructuring proposal made by the authorities to another external commercial creditor (that is not an oil trader) as they are still waiting for a formal response; instead, the DSA includes the original agreement.

[7] The 2019 stock includes 8.7 percent of GDP of partially audited and not yet audited arrears recognized by the authorities. However, it excludes other gross claims related to public works (6.4 percent of GDP) rejected by the authorities after internal review. These two stocks are subject to a new audit funded by the AfDB.

[8] The "Club de Brazzaville" financing is in the form of domestic government securities to be repaid over 8 years with a 2-year grace period and 6.5 percent interest rate.

Table 1. Republic of Congo: Gross Public Debt by Creditor, 2019–20

	2019			2020		
	CFAF billion	USD million	percent of GDP	CFAF billion	USD million	percent of GDP
Total public debt	**6122**	**10372**	**81.7**	**5999**	**11129**	**101.0**
External debt	**4265**	**7226**	**56.9**	**3750**	**6957**	**63.2**
Of which: arrears	736	1248	9.8	784	1455	13.2
Multilateral and other creditors	425	720	5.7	456	846	7.7
IMF	27.7	47	0.4	25.6	48	0.4
IDA/IBRD	142	240	1.9	165	306	2.8
AfDB	210	356	2.8	220	409	3.7
IFAD	14	23	0.2	14	26	0.2
Others	32	54	0.4	31	58	0.5
Official bilateral	1892	3206	25.3	1582	2936	26.7
Paris Club	244	414	3.3	239	443	4.0
Brazil	31	52	0.4	25	47	0.4
Belgium	92	156	1.2	86	160	1.5
France	96	163	1.3	105	195	1.8
Russia	18	31	0.2	17	31	0.3
Switzerland	7	12	0.1	5	10	0.1
Non-Paris Club	1648	2792	22.0	1344	2493	22.6
China	1402	2375	18.7	1118	2075	18.8
India	61	103	0.8	55	103	0.9
Kuwait	32	55	0.4	30	55	0.5
Turkey	48	81	0.6	43	81	0.7
Pre-HIPC arrears (not restructured)	106	179	1.4	97	180	1.6
Private Creditors	1948	3300	26.0	1711	3175	28.8
Chinese companies	311	527	4.2	237	440	4.0
London Club (eurobond)	174	295	2.3	144	268	2.4
Oil-prepurchased debt	1116	1890	14.9	1029	1908	17.3
Afreximbank	116	197	1.6	73	135	1.2
Suppliers	230	390	3.1	228	423	3.8
Domestic debt	**1857**	**3146**	**24.8**	**2249**	**4173**	**37.9**
BEAC advances	572	970	7.6	572	1061	9.6
Domestic bond	250	423	3.3	319	591	5.4
Arrears reported by CCA	1035	1754	13.8	1358	2520	22.9
Commercial	650	1102	8.7	955	1773	16.1
Social and pensions	385	652	5.1	403	748	6.8

Sources: Congolese authorities and IMF staff estimates.

Table 2. Republic of Congo: External Arrears Situation

	End-2016 stock	New arrears in 2017	End-2017 stock	New arrears in 2018	End-2018 stock	New arrears in 2019	End-2019 stock			New arrears in 2020	End-2020 stock			End- 2020 (Excl. unrestructured pre-HIPC arrears)		
	CFAF billion	CFAF billion	CFAF billion	CFAF billion	CFAF billion	CFAF billion	CFAF billion	USD million	percent of GDP	CFAF billion	CFAF billion	USD million	percent of GDP	CFAF billion	USD million	percent of GDP
Total	**436.0**	**17.0**	**453.0**	**793.1**	**1246**	**-510**	**736**	**1248**	**9.8**	**48**	**784**	**1455**	**13.2**	**730**	**1354**	**12.3**
Multilateral and other creditors	4.8	-0.6	4.2	2.6	6.8	2.0	8.8	15.0	0.1	-8.8	0.0	0.0	0.0	0.0	0.0	0.0
IMF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
World Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IFAD	0.0	0.2	0.2	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
AfDB	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	4.8	-0.8	4.0	2.8	6.8	2.0	8.8	15.0	0.1	-8.8	0.0	0.0	0.0	0.0	0.0	0.0
										0.0						
Bilateral	109.0	23.2	132.2	13.4	145.7	36.8	182.4	309.1	2.4	-62.6	119.8	222.2	2.0	65.3	121.1	1.1
Paris Club	11.5	19.1	30.6	29.7	60.3	39.6	99.9	169.2	1.3	-58.8	41.1	76.2	0.7	41.1	76.2	0.7
Brazil	8.4	7.2	15.6	8.4	24.0	6.7	30.7	52.0	0.4	-5.5	25.2	46.7	0.4	25.2	46.7	0.4
Belgium	0.0	1.0	1.0	1.4	2.4	12.7	15.1	25.5	0.2	-4.6	10.5	19.4	0.2	10.5	19.4	0.2
France	3.0	4.0	7.1	20.0	27.1	20.2	47.3	80.1	0.6	-47.3	0.0	0.0	0.0	0.0	0.0	0.0
Switzerland	0.0	6.8	6.8	0.0	6.8	0.0	6.8	11.5	0.1	-1.4	5.4	10.1	0.1	5.4	10.1	0.1
Russia	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-Paris Club	97.5	4.1	101.6	-16.3	85.3	-2.8	82.6	139.9	1.1	-3.9	78.7	146.0	1.3	24.2	44.9	0.4
United Arab Emirates /1	12.9	-0.8	12.0	0.6	12.7	0.6	13.3	22.5	0.2	-0.9	12.3	22.9	0.2	0.0	0.0	0.0
Angola 1/	34.5	5.7	40.2	1.2	41.5	1.3	42.7	72.4	0.6	-3.7	39.0	72.4	0.7	0.0	0.0	0.0
China	0.0	0.0	0.0	7.4	7.4	-7.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
India	0.8	1.7	2.4	3.8	6.2	4.6	10.8	18.4	0.1	0.6	11.4	21.2	0.2	11.4	21.2	0.2
Kuwait	0.1	0.1	0.2	0.2	0.4	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Saudi Arabia 1/	46.2	-2.6	43.6	-42.9	0.7	-0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Turkey	0.0	0.0	0.0	6.0	6.0	6.5	12.6	21.3	0.2	0.2	12.8	23.7	0.2	12.8	23.7	0.2
Postal debt 1/	3.1	0.0	3.1	0.0	3.1	0.0	3.1	5.3	0.0	0.0	3.1	5.8	0.1	0.0	0.0	0.0
Private Creditors	322.1	-5.6	316.5	777.1	1093.6	-548.4	545	924	7.3	119	665	1233.1	11.2	665	1233.1	11.2
CMEC and Chinese companies 2/	36.2	28.0	64.2	-63.8	0.4	7.3	8	13	0.1	-8	0	0.0	0.0	0	0.0	0.0
Eurobond (London Club)	0.0	0.0	0.0	0.0	0.0	0.0	0	0	0.0	0	0	0.0	0.0	0	0.0	0.0
Afreximbank	0.0	0.0	0.0	0.2	0.2	11.4	12	20	0.2	-12	0	0.0	0.0	0	0.0	0.0
Oil traders	0.0	22.4	22.4	838.9	861.4	-566.0	295	500	3.9	141	436	809.7	7.4	436	809.7	7.4
Suppliers 2/	285.9	-56.0	229.9	1.7	231.6	-1.2	230	390	3.1	-2	228	423.5	3.8	228.2	423.5	3.8

Sources: Congolese authorities and IMF staff estimates.

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

[2] Includes disputed debts (pre-HIPC claims)

5. **This debt sustainability analysis also incorporates the impact of the G20 Debt Service Suspension Initiative (DSSI).** Under the DSSI, the authorities obtained relief of US$146 million of debt service due to bilateral creditors between May and December 2020 (equivalent to 1½ percent of GDP), that was rescheduled under NPV-neutral terms. Under the extension of the DSSI to end-December 2021, an additional US$175 million of debt service is eligible for rescheduling, including $132 million already rescheduled by China. The authorities have committed to devoting the resources freed by this initiative to increase spending in order to mitigate the health, economic, and social impact of the COVID-19 pandemic. The DSA includes the rescheduling—according to published terms—of all eligible debt, with the exception of debt under the Strategic Partnership loans from China, which the creditors have not agreed to reschedule and for which the authorities have continued making repayments.

6. **Weaknesses in public debt management and reporting remain**. While the authorities published the terms of the 2019 debt restructuring agreement with China, operationalization of the agreement implied lower short-term liquidity relief than initially assessed. Moreover, the authorities continued accumulating excess deposits in the escrow account in China during 2020. In addition, the emergence of a contested claim has increased the stock of contingent liabilities; this claim has been included in the ongoing audit of domestic arrears. Technical assistance in the areas of debt management and reporting is already underway in various areas of debt management and debt reporting in the context of the Multipronged Approach to Debt Management.

B. Macroeconomic Outlook

7. **Box 1 summarizes the main assumptions for key macroeconomic variables in the scenario underpinning the DSA:**

- Growth in 2020 was substantially lower than forecast in the 2019 Article IV, given the effects of the pandemic on oil production and the non-oil sector. As the recovery takes hold, growth is expected to peak at 6.3 percent of GDP in 2024, primarily on the back of increased oil production. Over the long-term growth will average 1.5 percent driven by declining oil production as oil reserves deplete.

- The government is implementing a vaccination program, expecting to cover 60 percent of the population by mid-2022.

- A substantially weaker fiscal position emerged in 2020 compared to the 2019 Article IV, given pandemic-related spending needs and the effect of the recession on revenues. After the pandemic subsides, the authorities are assumed to continue implementing fiscal adjustment to restore long-term fiscal sustainability and support building of regional international reserves.

- Projected external disbursements reflect project loans only. Balance of payments (BOP) and budget support is not expected (Text Table 2). In 2020, disbursements were lower than previously anticipated because of delays in both budget support and project financing, the latter related to the pandemic. The decline in disbursements beyond 2026 is in line with the authorities' commitment to pursue prudent external borrowing.

- The DSA assumes that Congo continues to obtain the bulk of new external financing on concessional terms in the medium term; the grant element increases progressively and averages 43 percent over 2027–29.[9] After 2029, new disbursements are assumed to become less concessional, bringing the grant element to about 27 percent over 2030–40.

[9] China has historically provided the bulk of Congo's external financing on fairly concessional terms. The increase in grant element after the end of planned budget support disbursements from multilateral partners reflects an assumption that China would remain the main creditor in the long term.

Text Table 2. Republic of Congo: Projected Loan Disbursements

All figures in US $ Millions

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Total External Bilateral nad Multilateral	**231**	**243**	**292**	**258**	**274**	**234**	**262**	**277**	**251**	**245**	**245**
Project Financing	**231**	**243**	**292**	**258**	**274**	**234**	**262**	**277**	**251**	**245**	**245**
Of which:											
Multilateral and other creditors	122	102	137	151	166	125	154	168	142	136	136
IMF	0	0	0	0	0	0	0	0	0	0	0
IDA	82	63	83	97	112	89	103	117	106	100	100
IBRD	40	32	46	46	46	29	43	43	29	29	29
AfDB	0	0	0	0	0	0	0	0	0	0	0
Others	0	7	8	8	8	8	8	8	8	8	8
Official bilateral	109	141	155	107	108	109	109	109	109	109	109
Paris Club	50	37	50	0	0	0	0	0	0	0	0
France	50	37	50	0	0	0	0	0	0	0	0
Non-Paris Club	59	104	105	107	108	109	109	109	109	109	109
China	59	104	105	107	108	109	109	109	109	109	109
General Budget Financing	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Multilateral and other creditors	0	0	0	0	0	0	0	0	0	0	0
Official bilateral	0	0	0	0	0	0	0	0	0	0	0

Sources: IMF and WB staff calculations and projections.

Box 1. Main Macroeconomic Assumptions

- **Non-oil sector:** Non-oil real GDP is projected to grow only slightly by 0.9 percent in 2021, due to the continued impact of the pandemic. In 2022, assuming the pandemic subsides, the non-oil sector is projected to begin recovering. Non-oil growth gradually improves to 3.6 percent by 2026 (averaging 3.1 percent during 2021–26), as investment recovers, the implementation of structural reforms bears fruit, and the economy diversifies. Beyond 2026, non-oil growth is projected to average 3.6 percent, somewhat lower than the historical average of 5.3 percent over 2008–17. Near-term downside risks are elevated given uncertainties related to the pandemic, low vaccination rates,[1] and oil prices and production, but medium-term risks are balanced, as governance reforms and the implementation of efforts to diversify and build resilience to climate change are expected to support development of the non-oil sector. GDP is expected to contract for a brief period in 2028 and 2029 due to reduced oil production and rebound thereafter when non-oil growth due to diversification efforts start to dominate the sharp decline in oil production.
- **Vaccination:** The government aims to vaccinate 60 percent of the population by mid-2022—costing $88 million (0.7 percent of GDP, 2021 Article IV Staff Report, Text Table 1). The World Bank and the African Union are combining to finance the EVAX scheme, covering one million people, with $12 million in WB financing. China and Russia are covering 1.1 million people.
- **Oil production and prices:** In the second and third quarters of 2020, oil production was subdued due to the negative impact of the pandemic on oil demand. Accordingly, oil production declined to 112 million barrels in 2020 (from 140 million barrels projected in the 2019 Article IV). Production is projected to peak at 125 million barrels by 2024 while remaining roughly at the 2020 levels in 2021,[2] 2022 and 2023, with new fields coming online, and then to steadily decline to about 11 million barrels in 2041, barring new oil discoveries. The high volatility in international oil prices and production

Box 1. Main Macroeconomic Assumptions (concluded)

uncertainties are substantial near-term risks; however, the contribution of oil to overall GDP, as well as exports and revenue, is expected to decline in the next 20 years, reducing long-term risks related to oil price volatility.

- **Inflation:** Overall inflation is expected to remain moderate, at 2.7 percent (y/y) at end-2021; inflation is expected to gradually increase to 3 percent by 2023 and remain close to 3 percent over the long term, consistent with the CEMAC's convergence criteria of a 3 percent ceiling.
- **Current account balance:** A current account surplus of 12.1 percent of GDP is anticipated for 2021, up from a balanced current account (-0.1 percent of GDP) in 2020. The surplus is primarily linked to the rebound in global oil prices in 2021. The current account is projected to remain in surplus over 2021–24 given high oil prices, and slow recovery in the non-oil sector. The current account deficit is projected to reach an average of 16 percent of GDP over 2028–41, reflecting a long-term decline in oil production. Continued investment efforts as part of the diversification strategy keep imports elevated, only partly offset by the increased exports. Economic diversification continues to support the projected GDP growth.
- **Primary balance:** Given increased pandemic-related spending needs and oil and non-oil sector revenue losses, the primary surplus is estimated to have declined from 8 percent of GDP in 2019 to 0.1 percent of GDP in 2020. Absent any external financing, an adjustment to the non-oil primary balance of about 4 percent of non-oil GDP is assumed over 2021–26, which would help re-build fiscal and external buffers.
- **Domestic arrears payments:** The authorities' medium-term fiscal strategy prioritizes domestic arrears repayments—critical for economic and political confidence—while safeguarding social and domestically-financed capital spending and reflecting commitments to enhance debt sustainability. A 4 percent of non-oil GDP (1 percent of GDP) improvement in the non-oil primary balance during 2021–26 (based on adopted measures—outlined in the 2021 Article IV Staff Report—and their lagged effects) supports this strategy. Part of these fiscal gains will finance domestic arrears repayments both under the remaining Club de Brazzaville coverage and the authorities' new scheme (which is still under development). Absent resumption of budget support from development partners or an improvement in regional financing conditions, the feasible increase in development spending under this strategy will fall far short of what is needed for Congo to substantially reduce poverty and exit fragility. Against this backdrop, preserving fiscal space for critical development spending by unwinding pandemic measures faster than currently planned, slowing domestic arrears repayments if revenues fall short, and diligently pursuing the revenue and expenditure reforms initiated over the past 3 years will be critical.

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[1] As of August 9, 2021, only 1.6 percent of the Congolese population has been vaccinated (https://africacdc.org/covid-19-vaccination/)

[2] The slow 0.9 percent growth in the non-oil sector and a moderate decline in oil production in 2021 will translate into a slight overall GDP contraction of 0.2 percent in 2021.

8. **Realism tools flag risks around the forecast, but there are mitigating factors.** The fiscal adjustment-growth realism tool suggests that the projected growth path could be lower but staff assesses the projected growth and the fiscal path to be realistic and with a low fiscal multiplier since it is essentially driven by developments in the oil sector. Improvements in the primary surplus (owing to sustained consolidation efforts) is the main driver in reducing debt, with real GDP growth also

contributing marginally (Figure 3). The realism tools show a history of large unexplained increases for external and public debt.

Text Table 3. Republic of Congo: Comparison of Assumptions Between Current and Previous DSA

	2021	2022	2023	2029	2037
New Loan Disbursements (billions FCFA)					
Current DSA	98	118	127	125	117
2019 Article IV DSA	507	385	168	122	151
Grant Element of New External Borrowing (in percentage points)					
Current DSA	35.8	36.6	36.8	38.9	30.1
2019 Article IV DSA	30.1	32.1	36.4	41.3	25.4
Primary balance (percent of GDP)					
Current DSA	2.9	5.2	4.0	2.4	1.1
2019 Article IV DSA	9.9	9.4	9.4	5.3	2.7
Real GDP growth (percent)					
Current DSA	-0.2	2.3	2.7	-0.8	2.9
2019 Article IV DSA	4.6	1.9	0.0	2.5	3.4
Current Account Balance (percent of the GDP)					
Current DSA	12.1	6.5	1.6	-8.9	-18.7
2019 Article IV DSA	5.8	1.2	-2.1	-7.9	-15.7
Oil prices (US dollars per barrel)					
Current DSA	66.2	64.7	61.0	58.7	68.8
2019 Article IV DSA	57.9	55.3	54.6	60.4	70.8

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

C. Country Classification and Determination of Stress Test Scenarios

9. The composite index (CI) is assessed at 2.28 and is based on the April 2021 World Economic Outlook (WEO) and 2019 World Bank CPIA data, indicating a weak debt carrying capacity for Congo. The methodology relies on computing a composite indicator (CI) based on information from the CPIA score, external conditions as captured by world economic growth, and country-specific factors, including import coverage of reserves. The Republic of Congo's low CI score indicates a weak debt carrying capacity, reflecting mainly a low CPIA score and a low level of foreign reserves (Text Table 4). The CI score is similar to that in the previous DSA based on the October 2019 WEO data, and the debt carrying capacity is unchanged compared to the previous (2019 Article IV) DSA.

Text Table 4. Republic of Congo: Composite Indicator (CI) Score

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	2.750	1.06	46%
Real growth rate (in percent)	2.719	-1.290	-0.04	-2%
Import coverage of reserves (in percent)	4.052	28.998	1.18	52%
Import coverage of reserves^2 (in percent)	-3.990	8.409	-0.34	-15%
Remittances (in percent)	2.022	0.000	0.00	0%
World economic growth (in percent)	13.520	3.078	0.42	18%
CI Score			2.28	100%
CI rating			Weak	

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintages
Weak	Weak 2.28	Weak 2.22	Weak 2.47

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

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

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

10. The DSA considers commodity price and market financing shocks. Since oil exports represent more than 80 percent of Congo's exports, the commodity price tailored stress test is triggered. Similarly, as a holder of a Eurobond (issued in the context HIPC debt restructuring), the market financing module is also activated.

DEBT SUSTAINABILITY ANALYSIS

A. External Debt Sustainability Analysis

11. Under the baseline, the breaches of the present value (PV) of debt-to-GDP and both the external debt service indicators vis-à-vis Congo's indicative thresholds are contained within 5 years (Figure 1). Under the current terms on the already restructured debt, all threshold breaches will be eliminated by 2026 under baseline scenarios. The PV of external debt to GDP is 62 percent at end-2020 and is projected to decline but remain above the indicative threshold of 30 percent only until 2023. The debt service-to-revenues ratio, at 34 percent in 2020, is above the indicative threshold of 14 percent; this ratio is projected to decline to 15¾ percent in 2025 and to 10 percent in 2026 (well below the 14 percent threshold), when most of the external commercial debt will have been repaid. In addition, the debt service-to-exports ratio is currently above its indicative threshold of 10 percent but is projected to decline below 10 percent by 2025 and remain below the threshold in subsequent years. The PV of debt-to-exports ratio is below its indicative threshold and projected to decline to an average of 44 percent over 2026-31. Text Table 5 highlights the changes between the current DSA and the 2019 Article IV DSA, which illustrates that the economic crisis triggered by the pandemic has contributed to a substantial worsening of the debt burden and liquidity ratios over the medium term, offsetting some of the positive effects of the debt restructuring agreements achieved and expected to be achieved in the near future (as included in the baseline).[10]

12. All indicators of external public debt breach their indicative thresholds in stress test scenarios (Figure 1). Standard shock scenarios examine the implications of various shocks to the debt and debt-service paths based on the historical volatility of the country's economic indicators, resulting in sharp increases in the debt burden and liquidity indicators in all cases. The exports shock stress test is the most extreme for most indicators, reflecting the Republic of Congo's high dependence on oil exports. A decline in exports to a level equivalent to one standard deviation below their historical average in the second and third years of the projection period would cause the PV of debt-to-exports ratio to rise and remain elevated over the medium term, while the PV of debt-to-GDP would peak at 89 percent. For the debt service-to–revenue ratio, a combined shock has the largest impact. The commodity price shock, triggered due to Congo's reliance on oil exports, also leads to prolonged breaches of liquidity indicators and the PV of debt to GDP. The market financing risk module indicates a moderate risk of heightened liquidity pressures. However, because of no

[10] External commercial arrears are now included in full in 2020 amortization needs, while previously they were distributed gradually over a 5-year period; this has resulted in substantially higher debt-service ratios in 2020 than previously projected in the 2019 Article IV DSA.

plans to access international markets, a heightened market stress event would not have a substantial impact on debt burden indicators (Figure 5).[11]

13. Reflecting unresolved external arrears, and ongoing restructuring negotiations, the Republic of Congo is classified to be "in debt distress". Pending confirmation of the implementation of the DSSI for all eligible debt, nearly all post-HIPC bilateral official arrears have been cleared by end-2020. The clearance of remaining external arrears—primarily with suppliers—and finalization of debt restructuring agreements with two private sector creditors would be required to end the ongoing episode of debt distress.

Text Table 5. Republic of Congo: Comparison of PPG Gross External Debt Indicators, Baseline Scenario

	2021	2022	2023	2026	2031
			PV of Debt-to-GDP Ratio		
Current DSA	45.2	38.0	32.2	20.7	18.0
2019 Article IV DSA	47.2	46.0	44.3	33.0	21.2
			PV of Debt-to-Exports Ratio		
Current DSA	67.0	58.5	52.8	40.7	56.0
2019 Article IV DSA	58.7	59.3	59.7	56.4	56.4
			Debt Service-to-Exports Ratio		
Current DSA	11.5	12.9	11.7	4.6	4.4
2019 Article IV DSA	12.6	9.6	8.7	6.1	4.9
			Debt Service-to-Revenue Ratio		
Current DSA	34.4	33.5	29.5	10.3	6.7
2019 Article IV DSA	32.3	23.1	19.1	9.5	4.6

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

B. Public Debt Sustainability Analysis

14. An analysis of the Republic of Congo's overall public debt highlights heightened overall debt vulnerabilities (Figure 2). The projected evolution of debt burden indicators suggests heightened vulnerabilities arising from public debt. Under the baseline scenario, the present value of public and publicly guaranteed debt-to-GDP (including domestic arrears and direct financing from

[11] Based on the GFN being above its benchmark. There are no EMBIG data available for the Republic of Congo.

BEAC) remains significantly above the 35 percent benchmark level associated with heightened vulnerabilities for countries with a weak debt carrying capacity until 2031 and then remains slightly above the threshold for the full horizon. Even though the PV of public debt breaches its benchmark for the full horizon, it is assessed as sustainable given that liquidity risks are mitigated by i) its downward path on going forward, ii) availability of financing from Congolese financial markets, and iii) access to the CEMAC regional financial markets. Immediate liquidity needs are also supported by the DSSI. This assessment of debt vulnerabilities is further supported by stress-tests; the exports shock stress test is the most extreme for public debt burden indicators, highlighting downside risk related to the oil sector.

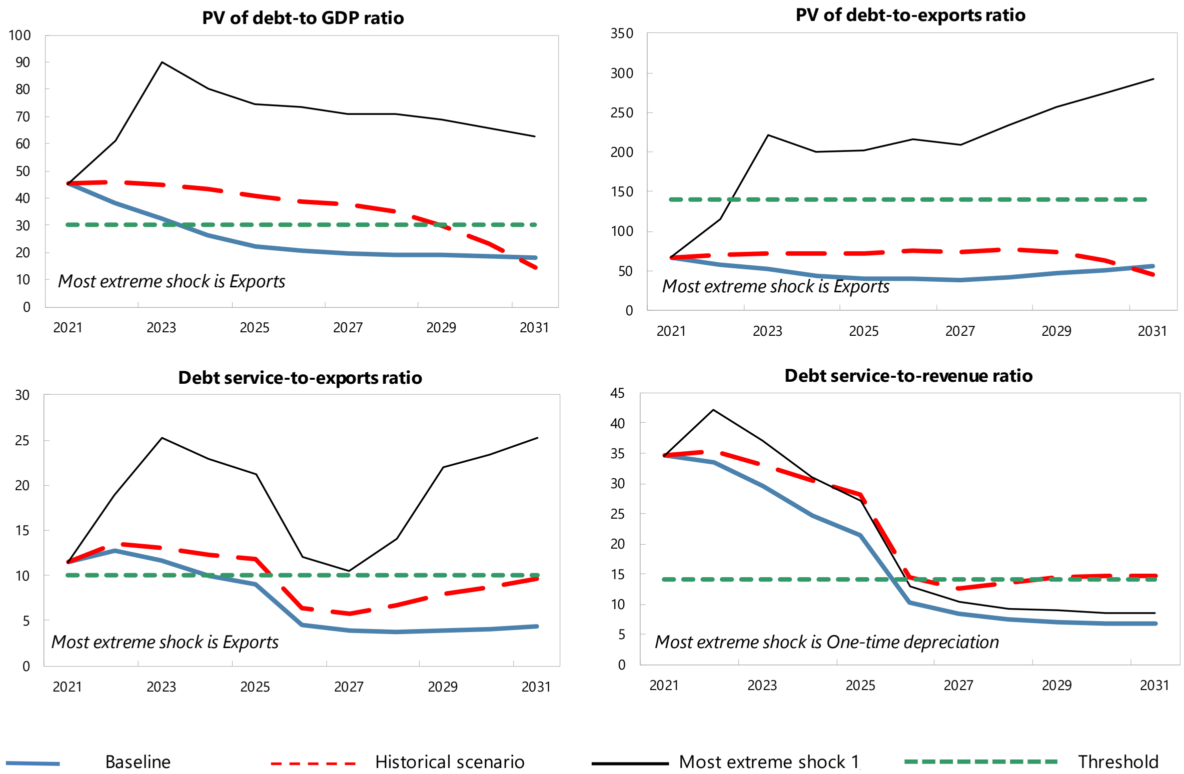
RISK RATING AND VULNERABILITIES

15. The overall and external debt of the Republic of Congo are assessed to be sustainable but debt is currently in distress. The assessment of debt distress is a result of the ongoing debt restructuring negotiations with two commercial creditors and outstanding arrears. Owing to higher oil prices and the downward trend in all the debt and solvency indicators, the breach in the debt service-to-revenue indicator is contained by 2026 and the breach in the present value of external debt-to-GDP indicator is below the threshold by 2023. These, combined with no new accumulation of domestic and external arrears, result in the overall and external debt being sustainable.

16. Risks of overall and external debt distress remain high given liquidity risks and vulnerability to negative oil price shocks. Liquidity risks, associated with an elevated public debt-to-GDP ratio (exceeding the threshold through 2040) and a large external debt service-to-revenue ratio (the indicator exceeds the threshold through 2025), are mitigated by the steady and significant declines in these ratios going forward, the DSSI, the availability of financing from Congolese financial markets, and enhanced access to the CEMAC regional financial. Going forward, the authorities are encouraged to continue pursuing fiscal consolidation, enact policies for diversification to reduce risks and prepare for reduced long-term oil production and demand, finalize the pending restructuring agreements, clear arrears, and enhance debt management.

17. The authorities concurred with staff's assessment that Congo is in debt distress, and that debt is sustainable owing to favorable oil prices and the authorities' reform efforts. They expressed their commitment to maintain prudent fiscal and debt management policies and to continue pursuing their strategy to restructure Congo's public debt in order to enhance debt sustainability. The authorities also indicated that macroeconomic assumptions underpinning the DSA analysis, including projections for oil production, should remain appropriately cautious while information on new oil discoveries is still being analyzed. The authorities agreed that while there are downside risks to the growth outlook, the Congolese economy has the potential to benefit from the development of new sectors, and from increased social spending and diversification efforts to cope with challenges facing oil sector in the context of climate change.

Figure 1. Republic of Congo: Indicators of Public and Publicly Guaranteed External Debt Under Alternatives Scenarios, 2021–31



Customization of Default Settings	Size	Interactions
Tailored Tests		
Combined CLs	Yes	
Natural Disasters	No	No
Commodity Prices [2/]	No	No
Market Financing	No	No

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

Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	1.3%	1.3%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	25	25
Avg. grace period	5	5

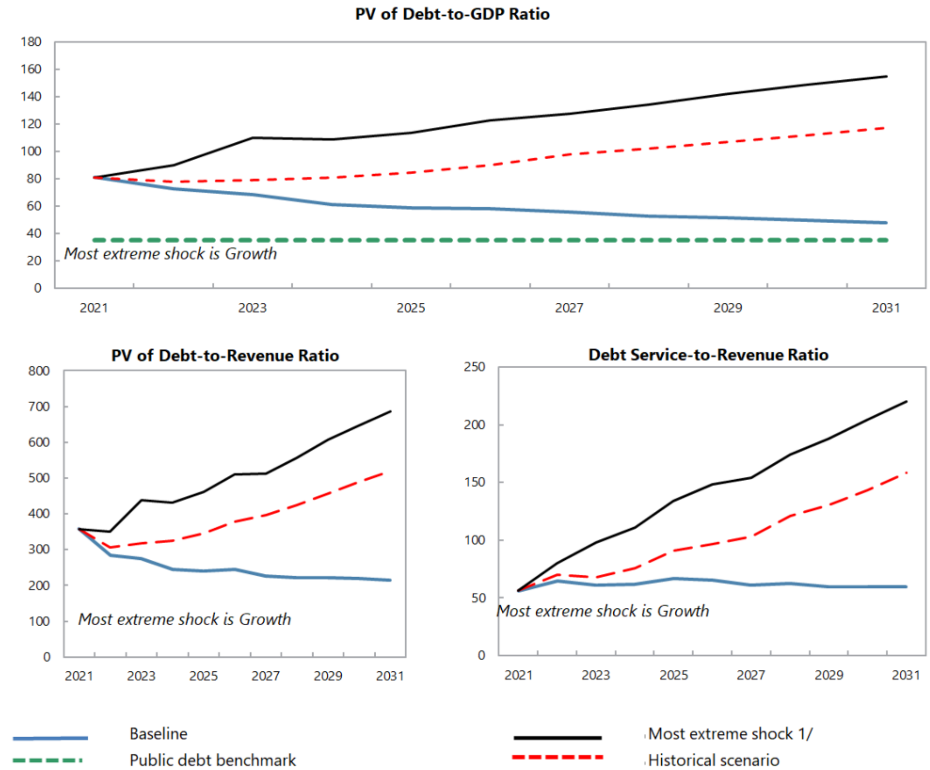
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2031. Stress tests with one-off breaches are also presented (if any), while these one-off breaches are deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Figure 2. Republic of Congo: Indicators of Public Debt Under Alternative Scenarios, 2021–31



Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	13%	13%
Domestic medium and long-term	80%	80%
Domestic short-term	7%	7%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.3%	1.3%
Avg. maturity (incl. grace period)	25	25
Avg. grace period	5	5
Domestic MLT debt		
Avg. real interest rate on new borrowing	3.4%	3.4%
Avg. maturity (incl. grace period)	4	4
Avg. grace period	0	0
Domestic short-term debt		
Avg. real interest rate	3.4%	3.4%

* 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.

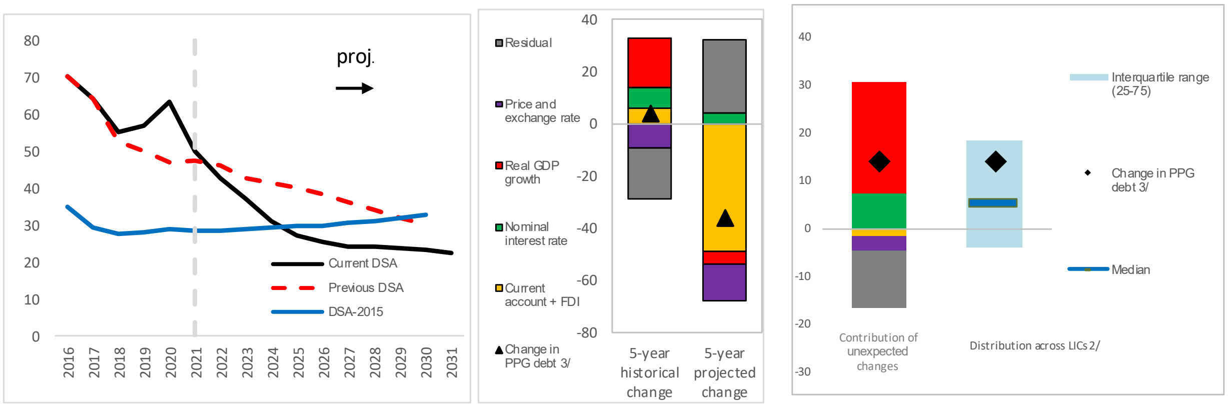
Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2031. 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. Republic of Congo: Drivers of Debt Dynamics—Baseline Scenario

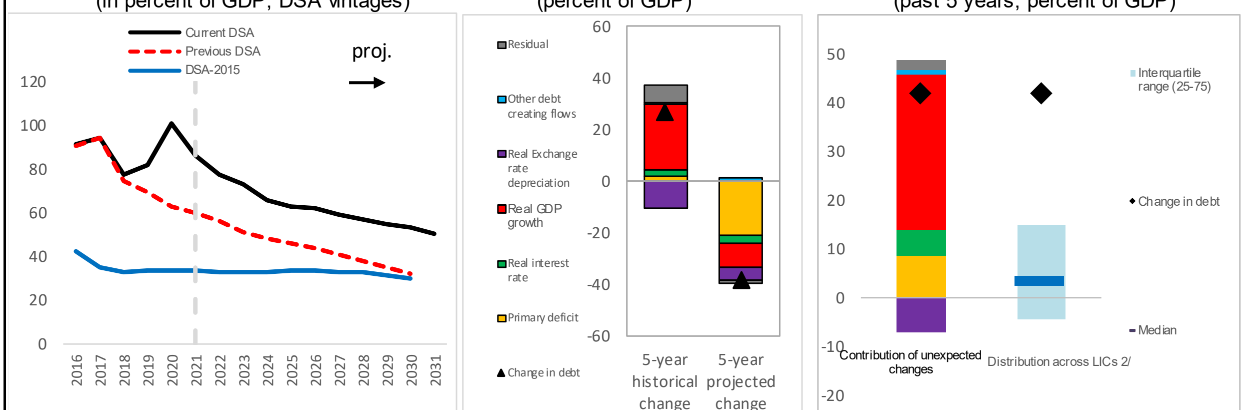
External Debt

Gross Nominal PPG External Debt (in percent of GDP; DSA vintages) | Debt-creating flows (percent of GDP) | Unexpected Changes in Debt 1/ (past 5 years, percent of GDP)



Public Debt

Gross Nominal Public Debt (in percent of GDP; DSA vintages) | Debt-creating flows (percent of GDP) | Unexpected Changes in Debt 1/ (past 5 years, percent of GDP)



Sources: Congolese authorities and IMF staff projections.

1/ Difference between anticipated and actual contributions on debt ratios.

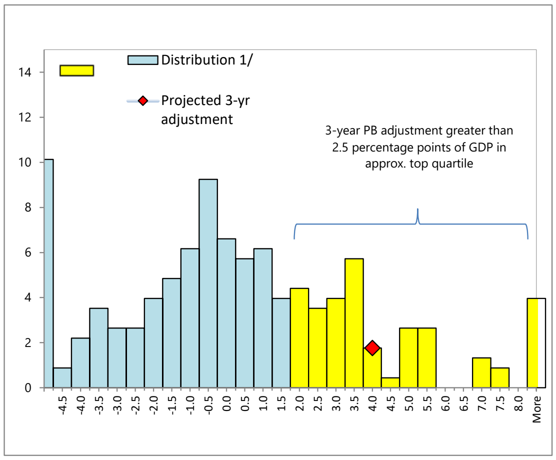
2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

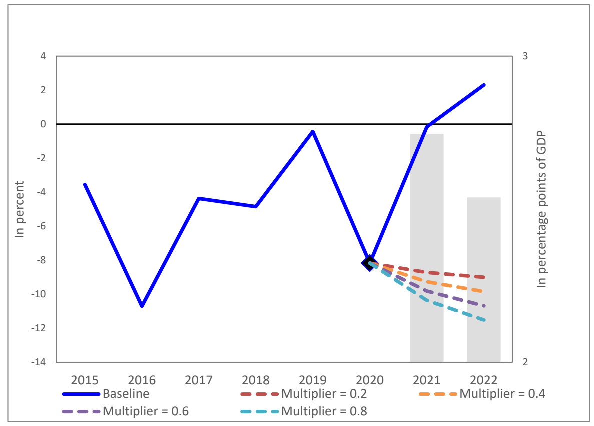
Figure 4. Republic of Congo: Realism Tools

3-Year Adjustment in Primary Balance 1/

(Percentage points of GDP)

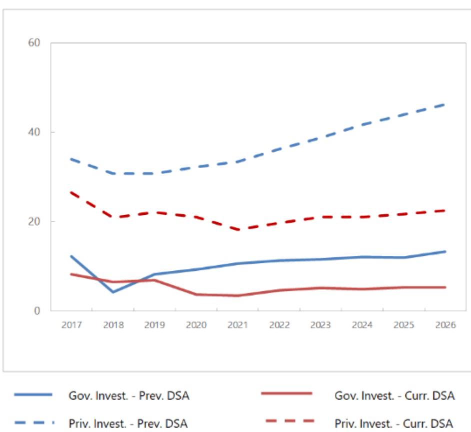


Fiscal Adjustment and Possible Growth Path 2/



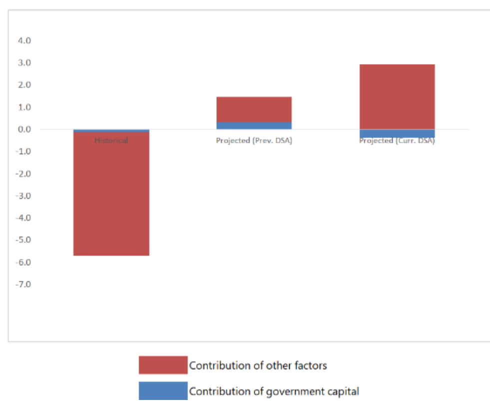
Public and Private Investment Rates 3/

(Percent of GDP)



Contribution to Real GDP growth

(Percent, 5-year average)



Sources: Congolese authorities and IMF staff estimates.

1/ Data covers Fund-supported programs for LICS (excluding emergency financing) approved since 1990. The size of 3-year adjustment for program inception is found on the horizontal axis, the percent of sample is found on the vertical axis.

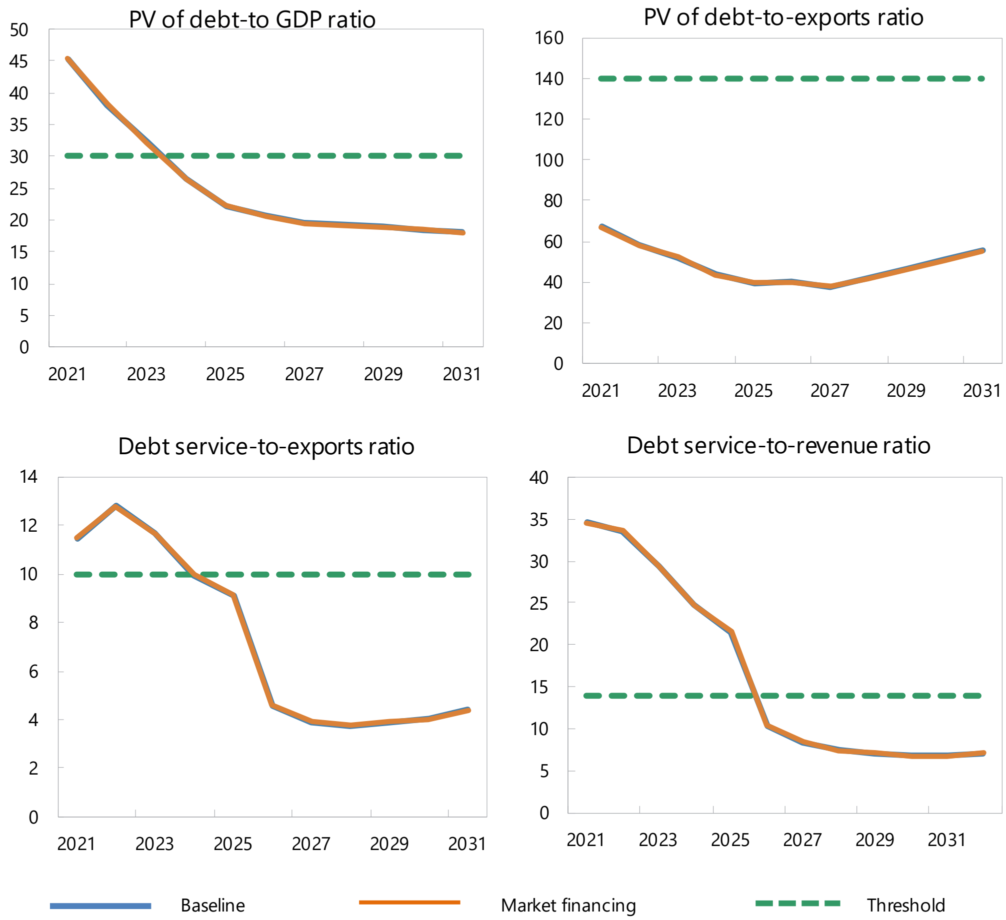
2/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

3/ The changes in investment reflect a change in the methodology for computing the price index used to convert norminal investment to investment at constant prices; this does not reflect a change in actual investment rates.

Figure 5. Republic of Congo: Market-Financing Risk Indicators

	GFN 1/	EMBI 2/
Benchmarks	14	570
Values	11	n.a.
Breach of benchmark	No	n.a.
Potential heightened liquidity needs	Moderate	

1/ Maximum gross financing needs (GFN) over 3-year baseline projection horizon.
2/ EMBI spreads correspond to the latest available data.



Source: Data Stream, https://www.federalreserve.gov/releases/h15/.

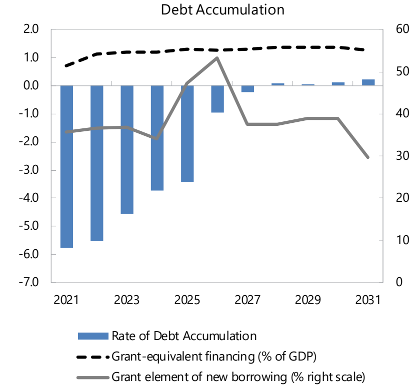
Note: there are no EMBIG data available for the Republic of Congo. The bond, due to mature in 2029, was trading at a discount of 20 percent over par with an interest yield of 7.6 percent as on August 11, 2021, with an interest spread of 655 bps

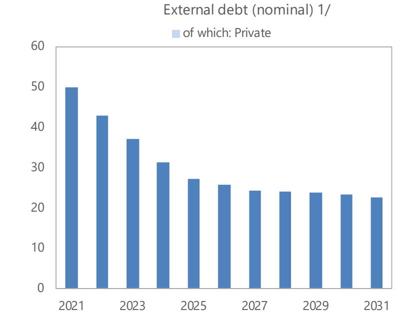
Table 3. Republic of Congo: External Debt Sustainability Framework, Baseline Scenario, 2018–41

(Percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2031	2041	Historical	Projections
External debt (nominal) 1/	55.0	56.9	63.2	49.9	42.8	37.1	31.3	27.2	25.7	22.5	12.5	46.4	30.2
of which: public and publicly guaranteed (PPG)	55.0	56.9	63.2	49.9	42.8	37.1	31.3	27.2	25.7	22.5	12.5	46.4	30.2
Change in external debt	-9.4	1.9	6.3	-13.3	-7.1	-5.7	-5.8	-4.1	-1.5	-0.7	-1.0		
Identified net debt-creating flows	-14.4	-0.3	11.0	-16.4	-12.7	-8.5	-8.0	-3.9	-0.6	8.6	20.4	-1.0	-2.7
Non-interest current account deficit	-1.5	-3.3	-0.6	-13.2	-8.2	-3.2	-1.8	0.5	3.3	11.7	22.7	4.5	1.4
Deficit in balance of goods and services	-13.3	-14.3	-8.4	-22.2	-17.9	-12.7	-11.7	-8.2	-4.7	6.7	21.6	-1.9	-6.5
Exports	71.1	68.4	54.9	67.5	65.6	61.7	60.9	56.5	51.8	32.6	11.1		
Imports	57.8	54.1	46.5	45.4	47.7	49.0	49.3	48.3	47.1	39.4	32.6		
Net current transfers (negative = inflow)	3.2	2.6	-1.2	0.1	-0.1	-0.2	-0.2	-0.3	-0.3	-0.4	-0.4	1.3	-0.2
of which: official	0.0	-0.7	-1.7	-0.2	-0.5	-0.6	-0.6	-0.7	-0.7	-0.9	-0.8		
Other current account flows (negative = net inflow)	8.7	8.3	9.0	8.8	9.9	9.7	10.1	9.0	8.3	5.4	1.5	5.1	8.1
Net FDI (negative = inflow)	-2.5	-3.5	-2.7	-4.2	-4.6	-5.2	-4.7	-4.4	-4.1	-3.2	-2.0	-8.5	-4.1
Endogenous debt dynamics 2/	-10.4	6.6	14.3	1.1	0.1	-0.2	-1.5	0.0	0.3	0.1	-0.2		
Contribution from nominal interest rate	1.6	2.9	0.8	1.0	1.2	0.9	0.7	0.5	0.4	0.3	0.2		
Contribution from real GDP growth	2.5	0.3	5.8	0.1	-1.1	-1.1	-2.2	-0.5	-0.1	-0.2	-0.4		
Contribution from price and exchange rate changes	-14.5	3.4	7.8	...	...	...	...	...	...	...	...		
Residual 3/	5.0	2.2	-4.8	3.1	5.6	2.9	2.1	-0.2	-0.9	-9.3	-21.4	5.5	-1.0
of which: exceptional financing	0.0	0.0	-1.4	1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	61.4	45.3	38.1	32.3	26.4	22.2	20.7	18.0	10.4		
PV of PPG external debt-to-exports ratio	...	...	111.7	67.1	58.2	52.3	43.4	39.3	40.0	55.2	93.7		
PPG debt service-to-exports ratio	8.6	9.7	12.0	11.5	12.8	11.6	9.9	9.1	4.6	4.4	9.6		
PPG debt service-to-revenue ratio	24.6	25.5	31.9	34.5	33.6	29.5	24.7	21.5	10.2	6.7	5.4		
Gross external financing need (Million of U.S. dollars)	286.2	-32.6	340.3	-1353.3	-578.6	-160.6	-66.1	188.5	238.9	1831.5	6765.4		
Key macroeconomic assumptions													
Real GDP growth (in percent)	-4.8	-0.4	-8.2	-0.2	2.3	2.7	6.3	1.6	0.4	0.8	3.4	-1.4	1.3
GDP deflator in US dollar terms (change in percent)	29.1	-5.9	-12.1	22.9	1.9	1.3	1.6	2.0	2.2	2.9	3.0	0.5	4.2
Effective interest rate (percent) 4/	3.1	5.0	1.1	1.9	2.4	2.2	2.0	1.8	1.4	1.2	1.5	1.8	1.6
Growth of exports of G&S (US dollar terms, in percent)	48.9	-9.9	-35.2	50.9	1.3	-2.1	6.7	-3.9	-5.9	-7.0	-15.1	-0.1	1.6
Growth of imports of G&S (US dollar terms, in percent)	30.3	-12.3	-30.7	19.7	9.6	7.0	8.7	1.6	0.1	-0.7	6.0	-2.1	4.0
Grant element of new public sector borrowing (in percent)	...	...	...	35.8	36.6	36.8	34.2	47.2	53.2	29.6	30.1	...	38.7
Government revenues (excluding grants, in percent of GDP)	24.8	26.0	20.6	22.4	25.0	24.4	24.5	23.8	23.2	21.4	19.6	30.0	23.3
Aid flows (in Million of US dollars) 5/	190.1	250.8	475.4	167.5	234.8	266.0	285.5	322.0	309.1	259.8	360.0		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	0.7	1.1	1.2	1.2	1.3	1.3	1.2	1.1	...	1.2
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	44.4	51.8	52.5	49.0	64.7	72.1	58.0	67.5	...	57.5
Nominal GDP (Million of US dollars)	13,649	12,791	10,329	12,676	13,218	13,758	14,856	15,400	15,804	18,422	31,154		
Nominal dollar GDP growth	22.9	-6.3	-19.2	22.7	4.3	4.1	8.0	3.7	2.6	3.7	6.5	-0.8	5.5
Memorandum items:													
PV of external debt 7/	...	...	61.4	45.3	38.1	32.3	26.4	22.2	20.7	18.0	10.4		
In percent of exports	...	...	111.7	67.1	58.2	52.3	43.4	39.3	40.0	55.2	93.7		
Total external debt service-to-exports ratio	8.6	9.7	12.0	11.5	12.8	11.6	9.9	9.1	4.6	4.4	9.6		
PV of PPG external debt (in Million of US dollars)			6337.2	5740.4	5041.8	4437.2	3925.3	3420.1	3272.4	3320.5	3233.9		
(PVt-PVt-1)/GDPt-1 (in percent)				-5.8	-5.5	-4.6	-3.7	-3.4	-1.0	0.2	-0.1		
Non-interest current account deficit that stabilizes debt ratio	7.9	-5.3	-6.9	0.1	-1.1	2.5	4.1	4.6	4.8	12.4	23.6		

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





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

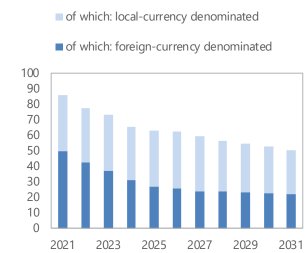
Table 4. Republic of Congo: Public Sector Debt Sustainability Framework, Baseline Scenario, 2018–41

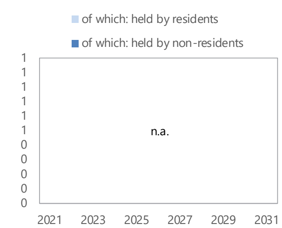
(Percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2031	2041	Historical	Projections
Public sector debt 1/	77.1	81.7	101.0	86.1	77.3	73.1	65.6	62.9	62.3	50.7	37.1	66.0	63.8
of which: external debt	55.0	56.9	63.2	49.9	42.8	37.1	31.3	27.2	25.7	22.5	12.5	46.4	30.2
Change in public sector debt	-17.1	4.6	19.4	-14.9	-8.9	-4.2	-7.5	-2.8	-0.5	-2.2	-1.5		
Identified debt-creating flows	-17.4	-2.5	15.9	-13.7	-7.0	-4.8	-8.1	-3.5	-2.3	-2.2	-4.4	4.1	-4.9
Primary deficit	-7.6	-7.9	-0.1	-2.9	-5.4	-4.2	-5.1	-3.5	-2.9	-2.1	-3.5	0.9	-3.5
Revenue and grants	24.9	26.7	22.2	22.6	25.5	24.9	25.0	24.5	23.9	22.2	20.4	30.5	23.9
of which: grants	0.1	0.8	1.7	0.2	0.5	0.6	0.6	0.7	0.7	0.9	0.8		
Primary (noninterest) expenditure	17.3	18.8	22.1	19.8	20.1	20.7	20.0	21.0	21.0	20.1	16.9	31.4	20.4
Automatic debt dynamics	-9.8	5.5	16.5	-12.3	-1.6	-0.6	-3.1	0.0	0.6	-0.1	-0.8		
Contribution from interest rate/growth differential	-0.5	2.6	12.1	-6.0	-1.6	-1.1	-3.4	-0.1	0.7	0.1	-0.7		
of which: contribution from average real interest rate	-5.3	2.3	4.8	-6.1	0.4	0.9	0.9	0.9	0.9	0.5	0.6		
of which: contribution from real GDP growth	4.8	0.3	7.3	0.2	-1.9	-2.0	-4.3	-1.1	-0.2	-0.4	-1.3		
Contribution from real exchange rate depreciation	-9.3	2.8	4.4	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.0	0.0	-0.5	1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.6	0.1
Privatization receipts (negative)	0.0	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	0.0		
Debt relief (HIPC and other)	0.0	0.0	-0.5	1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	0.3	7.0	3.5	-7.4	-1.9	1.2	0.9	0.9	1.7	-0.2	2.7	1.7	-0.3
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	95.4	81.7	72.4	68.1	60.7	57.9	57.3	46.1	34.9		
PV of public debt-to-revenue and grants ratio	...	...	429.0	360.8	283.8	273.2	242.5	236.5	240.2	207.4	170.8		
Debt service-to-revenue and grants ratio 3/	30.4	27.4	65.1	56.5	65.0	61.3	61.2	66.2	64.4	57.3	47.9		
Gross financing need 4/	0.0	-0.6	13.9	7.9	10.5	10.4	10.3	12.7	12.5	10.6	6.3		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	-4.8	-0.4	-8.2	-0.2	2.3	2.7	6.3	1.6	0.4	0.8	3.4	-1.4	1.3
Average nominal interest rate on external debt (in percent)	2.9	5.2	1.1	1.8	2.4	2.2	2.0	1.8	1.4	1.2	1.5	1.9	1.6
Average real interest rate on domestic debt (in percent)	-18.0	2.1	18.1	-13.6	1.5	2.9	3.1	3.1	3.0	2.2	2.6	1.0	1.0
Real exchange rate depreciation (in percent, + indicates depreciation)	-13.7	5.0	7.1	...	...	...	...	...	...	...	...	3.1	...
Inflation rate (GDP deflator, in percent)	23.4	-0.7	-13.7	17.5	0.8	-0.1	0.4	0.9	1.5	2.9	3.0	1.4	3.2
Growth of real primary spending (deflated by GDP deflator, in percent)	-38.0	7.9	8.2	-10.7	4.0	5.7	2.6	6.7	0.3	-1.1	2.0	1.9	0.5
Primary deficit that stabilizes the debt-to-GDP ratio 5/	9.5	-12.5	-19.5	12.0	3.5	0.0	2.4	-0.7	-2.4	0.1	-2.0	-7.5	1.0
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

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

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central, state, and local governments plus social security, central bank, government-guaranteed debt. Definition of external debt is Currency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

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

4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Table 5. Republic of Congo: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2021–31

(Percent)

	Projections 1/										
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
PV of debt-to GDP ratio											
Baseline	**45**	**38**	**32**	26	22	21	19	19	19	18	18
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	**45**	**45**	**44**	**42**	**39**	**36**	**35**	**32**	26	19	10
B. Bound Tests											
B1. Real GDP growth	**45**	**45**	**45**	**37**	**31**	29	27	27	27	26	25
B2. Primary balance	**45**	**40**	**38**	**33**	30	29	29	30	**30**	**31**	**31**
B3. Exports	**45**	**61**	**89**	**79**	**74**	**72**	**70**	**70**	**68**	**65**	**62**
B4. Other flows 3/	**45**	**48**	**52**	**45**	**41**	**40**	**38**	**38**	**37**	**35**	**34**
B5. Depreciation	**45**	**48**	**40**	**33**	28	26	24	24	24	23	23
B6. Combination of B1-B5	**45**	**58**	**65**	**57**	**51**	**50**	**48**	**47**	**46**	**44**	**42**
C. Tailored Tests											
C1. Combined contingent liabilities	**45**	**42**	**37**	**32**	29	29	28	30	**30**	**31**	**32**
C2. Natural disaster	**45**	**40**	**34**	29	25	24	23	23	23	23	23
C3. Commodity price	**45**	**43**	**41**	**36**	**32**	**31**	30	30	29	28	27
C4. Market Financing	**45**	**38**	**32**	26	22	21	19	19	19	18	18
Threshold	30	30	30	30	30	30	30	30	30	30	30
PV of debt-to-exports ratio											
Baseline	67	58	53	44	40	41	38	43	47	52	56
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	67	70	72	70	70	72	69	71	66	53	32
B. Bound Tests											
B1. Real GDP growth	67	58	53	44	40	41	38	43	47	52	56
B2. Primary balance	67	61	62	55	53	58	57	66	76	85	95
B3. Exports	67	114	**219**	**199**	**200**	**214**	**208**	**233**	**255**	**272**	**288**
B4. Other flows 3/	67	73	85	75	74	78	76	84	92	99	106
B5. Depreciation	67	58	53	44	40	41	38	42	47	51	56
B6. Combination of B1-B5	67	91	81	98	96	101	98	108	119	128	136
C. Tailored Tests											
C1. Combined contingent liabilities	67	64	60	53	52	57	56	65	76	87	99
C2. Natural disaster	67	62	57	49	46	48	46	52	60	67	74
C3. Commodity price	67	71	73	64	61	63	60	67	74	79	84
C4. Market Financing	67	58	53	44	40	41	38	42	47	51	56
Threshold	140	140	140	140	140	140	140	140	140	140	140
Debt service-to-exports ratio											
Baseline	**11**	**13**	**12**	**10**	9	5	4	4	4	4	4
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	**11**	**14**	**13**	**12**	**12**	6	6	7	8	8	9
B. Bound Tests											
B1. Real GDP growth	**11**	**13**	**12**	**10**	9	5	4	4	4	4	4
B2. Primary balance	**11**	**13**	**12**	**11**	**10**	5	5	5	5	6	7
B3. Exports	**11**	**19**	**25**	**23**	**21**	**12**	**10**	**14**	**22**	**23**	**25**
B4. Other flows 3/	**11**	**13**	**12**	**11**	10	5	5	6	8	8	9
B5. Depreciation	**11**	**13**	**12**	**10**	9	5	4	4	4	4	4
B6. Combination of B1-B5	**11**	**15**	**17**	**15**	**14**	7	6	8	**10**	**11**	**12**
C. Tailored Tests											
C1. Combined contingent liabilities	**11**	**13**	**12**	**10**	9	5	4	4	4	5	5
C2. Natural disaster	**11**	**13**	**12**	**10**	10	5	4	4	4	4	5
C3. Commodity price	**11**	**14**	**13**	**11**	**11**	5	5	5	6	6	7
C4. Market Financing	**11**	**13**	**12**	**10**	9	5	4	4	4	4	4
Threshold	10	10	10	10	10	10	10	10	10	10	10
Debt service-to-revenue ratio											
Baseline	**34**	**34**	**29**	**25**	**22**	**10**	**8**	7	7	7	7
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	**34**	**35**	**33**	**30**	**28**	**14**	12	13	14	14	14
B. Bound Tests											
B1. Real GDP growth	**34**	**40**	**41**	**35**	**30**	**14**	12	10	10	9	9
B2. Primary balance	**34**	**34**	**30**	**26**	**23**	12	10	9	10	10	10
B3. Exports	**34**	**40**	**42**	**38**	**33**	**18**	**15**	**18**	**26**	**25**	**25**
B4. Other flows 3/	**34**	**34**	**30**	**26**	**23**	12	10	12	**14**	14	14
B5. Depreciation	**34**	**42**	**37**	**31**	**27**	13	11	9	9	8	8
B6. Combination of B1-B5	**34**	**39**	**40**	**35**	**31**	**15**	13	**16**	**18**	**17**	**17**
C. Tailored Tests											
C1. Combined contingent liabilities	**34**	**34**	**30**	**25**	**22**	11	9	8	8	8	8
C2. Natural disaster	**34**	**34**	**30**	**25**	**22**	10	9	8	7	7	7
C3. Commodity price	**34**	**37**	**34**	**29**	**25**	12	10	10	11	10	10
C4. Market Financing	**34**	**34**	**29**	**25**	**22**	10	8	7	7	7	7
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 6. Republic of Congo: Sensitivity Analysis for Key Indicators of Public Debt, 2021–31

(Percent)

					Projections 1/						
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
					PV of Debt-to-GDP Ratio						
Baseline	**81**	**73**	**69**	**61**	**59**	**58**	**56**	**53**	**51**	**50**	**48**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	**81**	**78**	**79**	**81**	**85**	**90**	**98**	**102**	**107**	**112**	**117**
B. Bound Tests											
B1. Real GDP growth	**81**	**90**	**110**	**109**	**114**	**123**	**128**	**134**	**142**	**149**	**155**
B2. Primary balance	**81**	**89**	**102**	**95**	**93**	**93**	**90**	**89**	**88**	**87**	**85**
B3. Exports	**81**	**86**	**101**	**93**	**90**	**90**	**87**	**85**	**82**	**78**	**75**
B4. Other flows 3/	**81**	**82**	**88**	**80**	**77**	**77**	**74**	**72**	**70**	**67**	**64**
B5. Depreciation	**81**	**83**	**77**	**67**	**63**	**60**	**56**	**52**	**49**	**46**	**43**
B6. Combination of B1-B5	**81**	**81**	**91**	**86**	**87**	**90**	**90**	**92**	**94**	**95**	**96**
C. Tailored Tests											
C1. Combined contingent liabilities	**81**	**109**	**105**	**96**	**93**	**93**	**90**	**88**	**88**	**86**	**85**
C2. Natural disaster	**81**	**83**	**79**	**72**	**69**	**70**	**67**	**65**	**64**	**63**	**61**
C3. Commodity price	**81**	**77**	**81**	**84**	**91**	**101**	**106**	**113**	**121**	**127**	**133**
C4. Market Financing	**81**	**73**	**69**	**61**	**59**	**58**	**56**	**53**	**51**	**50**	**48**
Public debt benchmark	35	35	35	35	35	35	35	35	35	35	35
					PV of Debt-to-Revenue Ratio						
Baseline	359	286	276	246	240	245	226	223	223	220	215
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	359	305	317	325	346	378	396	425	458	488	521
B. Bound Tests											
B1. Real GDP growth	359	351	438	432	462	510	514	557	607	648	686
B2. Primary balance	359	348	411	379	380	392	367	373	381	383	383
B3. Exports	359	336	406	371	369	379	355	356	354	347	337
B4. Other flows 3/	359	323	354	321	318	325	303	302	301	295	287
B5. Depreciation	359	326	309	270	257	254	228	218	212	203	194
B6. Combination of B1-B5	359	318	364	344	354	378	366	383	405	420	433
C. Tailored Tests											
C1. Combined contingent liabilities	359	429	421	384	382	392	367	372	380	382	382
C2. Natural disaster	359	327	319	288	285	293	273	274	278	278	277
C3. Commodity price	359	327	355	365	399	443	441	474	521	563	601
C4. Market Financing	359	286	276	246	240	245	226	223	223	220	215
					Debt Service-to-Revenue Ratio						
Baseline	56	65	61	62	67	66	61	63	60	60	60
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	56	70	68	76	91	97	103	121	131	144	158
B. Bound Tests											
B1. Real GDP growth	56	80	98	111	134	148	154	174	188	204	220
B2. Primary balance	56	68	89	112	124	132	122	121	122	124	124
B3. Exports	56	65	62	64	70	68	63	69	71	71	71
B4. Other flows 3/	56	65	62	63	69	67	62	67	67	66	66
B5. Depreciation	56	70	73	73	79	73	67	66	62	60	59
B6. Combination of B1-B5	56	70	75	81	93	96	96	106	109	115	120
C. Tailored Tests											
C1. Combined contingent liabilities	56	68	112	112	129	139	117	121	121	121	119
C2. Natural disaster	56	68	78	80	89	91	82	85	84	84	84
C3. Commodity price	56	75	73	82	102	114	122	140	155	171	187
C4. Market Financing	56	65	61	62	67	66	61	63	60	60	60

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

REPUBLIC OF CONGO

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION — INFORMATIONAL ANNEX

September 10, 2021

Prepared By	The African Department (in Consultation with other Departments)

CONTENTS

FUND RELATIONS

A. Financial Relations

(As of June, 30, 2021)

Membership Status: Joined: July 10, 1963; Article VIII

General Resources Account	**SDR Million**	**Percent Quota**
Quota	162.00	100.00
Fund holdings of currency (Exchange Rate)	142.05	87.68
Reserve Tranche Position	19.97	12.33
SDR Department	**SDR Million**	**Percent Allocation**
Net cumulative allocation	79.69	100.00
Holdings	50.72	63.65
Outstanding Purchases and Loans	**SDR Million**	**Percent Quota**
ECF Arrangements	32.64	20.15

Latest Financial Arrangements

Type	**Date of Arrangement**	**Expiration Date**	**Amount Approved** (SDR Million)	**Amount Drawn** (SDR Million)
ECF [1]	Jul 11, 2019	Apr 10, 2021	324.00	32.40
ECF [1]	Dec 08, 2008	Aug 04, 2011	8.46	8.46
ECF [1]	Dec 06, 2004	Jun 05, 2008	54.99	23.58

Projected Payments to Fund[1]

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

			Forthcoming		
	2021	**2022**	**2023**	**2024**	**2025**
Principal	0.24				6.48
Changes/Interest	0.01	0.02	0.02	0.02	0.02
Total	**0.25**	**0.02**	**0.02**	**0.02**	**6.50**

[1] Formerly PRGF

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

Implementation of HIPC Initiative

Commitment of HIPC assistance	**Enhanced Framework**
Decision point date	Mar 2006
Assistance committed by all creditors (US$ Million)[1]	1,574.60
Of which: IMF assistance (US$ million)	7.73
(SDR equivalent in millions)	5.40
Completion point date	Jan 2010
Disbursement of IMF assistance (SDR Million)	
Assistance disbursed to the member	5.40
Interim assistance	0.90
Completion point balance	4.49
Additional disbursement of interest income[2]	0.86
Total disbursements	6.26

Note:

Decision point: point at which the IMF and the World Bank determine whether a country qualifies for assistance under the HIPC Initiative and decide on the amount of assistance to be committed.

Interim assistance: amount disbursed to a country during the period between decision and completion points, up to 20 percent annually and 60 percent in total of the assistance committed at the decision point (or 25 percent and 75 percent, respectively, in exceptional circumstances).

Completion point: point at which a country receives the remaining balance of its assistance committed at the decision point, together with an additional disbursement of interest income as defined in footnote 2 above. The timing of the completion point is linked to the implementation of pre-agreed key structural reforms (i.e., floating completion point).

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[1] Assistances 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 amounts cannot be added.

[2] 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.

Implementation of Multilateral Debt Relief Initiative (MDRI)

MDRI-eligible debt (SDR Million)[1]	7.86
Financed by: MDRI Trust	4.79
Remaining HIPC resources	3.07
Debt Relief by Facility (SDR Million)	

Eligible Debt

Delivery Date	**GRA**	**PRGT**	**Total**
January 2010	N/A	7.86	7.86

[1] 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.

Implementation of Catastrophe Containment and Relief (CCR): Not Applicable

As of February 4, 2015, the Post-Catastrophe Debt Relief Trust has been transformed to the Catastrophe Containment and Relief (CCR) Trust.

Safeguards Assessment:

The Bank of the Central African States (BEAC) is the regional central bank of CEMAC. Under the IMF safeguards policy and in line with the four-year cycle for safeguards assessments of regional central banks, a full safeguards assessment was completed in 2017 and an update assessment is expected to be conducted in due course. The 2017 assessment noted the positive steps taken by the BEAC to strengthen governance provisions and enhance financial reporting transparency. In particular, the BEAC has since implemented the priority recommendations from the assessment: the regional central bank's secondary legal instruments were aligned with its amended Charter, and the FY 2019 and 2020 audited financial statements have been issued in compliance with IFRS. Both recommendations mark the conclusion of a multi-year governance-focused reform with support from the Fund. Staff maintains close engagement with the BEAC as it continues to implement a final recommendation to undergo an external quality assessment of its internal audit function.

B. Nonfinancial Relations

Exchange Arrangements:

The de jure and de facto exchange rate arrangement of the Central African Economic and Monetary Community (CEMAC) is a conventional peg. The Republic of Congo participates in the CEMAC and has no separate legal tender. Congo has accepted the obligations of Article VIII, Sections 2, 3 and 4 and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions and multiple currency practices. The regional currency is the CFA franc, which is pegged to the Euro at a fixed rate of CFAF 655.95 =Euro 1.

Article IV Consultations:

Consultations with Congo are now on a 12-month cycle, based on the Board decision on Article IV consultation cycles. The last Article IV consultation discussions were held in Brazzaville on October 24–November 6, 2019. The consultation was concluded by the Executive Board on January 17, 2020 when the staff report (Country Report No. 20/26 at www.imf.org) was discussed.

Technical Assistance

Technical Assistance Received in Fiscal Year 2021				
Dept/Provider	**Topic**	**Mission Purpose**	**Start**	**End**
Fiscal Affairs				
AFC	Customs Administration	AFC: Customs Administration [WFH]	5/17/2020	5/22/2020
AFC	Public Financial Management	AFC: Continued development of the macroeconomic framework model [WFH]	5/25/2020	6/7/2020
AFC	Public Financial Management	AFC: REMOTE TA — Continued development of the macroeconomic framework	5/25/2020	6/5/2020
AFC	Public Financial Management	AFC: (Virtual TA): "Macro fiscal Review Fiscal Risk annual report »	8/31/2020	9/4/2020
FAD	Public Financial Management	Installation mission [Remote]	6/17/2020	6/19/2020
FAD	Public Financial Management	Upgrading the organizational chart of the MoF [Remote — 20FA073]	8/2/2020	8/17/2020
AFC	Public Financial Management	AFC: WFH — FAD Support on reorganizing ministry of Finance and Budget	8/3/2020	8/17/2020
AFC	Public Financial Management	AFC: (Virtual TA): Budget: « Review fiscal risk annual report »	8/31/2020	9/4/2020
FAD	Public Financial Management	Support the implementation of institutional and technical	11/30/2020	12/11/2020
FAD	Public Financial Management	Internal control	3/3/2021	3/14/2021
FAD	Public Financial Management	Internal control	3/3/2021	3/14/2021
AFC	Public Financial Management	AFC: (Virtual peer to peer) Budget: Immersion visit	3/15/2021	3/29/2021
AFC	Public Financial Management	AFC: (Virtual peer to peer) Budget: Immersion visit	3/15/2021	3/29/2021
AFC	Tax Administration	AFC: Tax Administration [WFH]	6/8/2020	6/15/2020
FAD	Tax Administration	Tax administration	7/5/2020	7/18/2020
AFC	Tax Administration	AFC: Tax Administration [WFH]	7/6/2020	7/17/2020
AFC	Tax Administration	AFC: Tax Administration [WFH]	8/3/2020	8/14/2020

Technical Assistance Received in Fiscal Year 2021 (concluded)				
Dept/Provider	**Topic**	**Mission Purpose**	**Start**	**End**
FAD	Tax Administration	Joint mission with M2	8/3/2020	8/14/2020
FAD	Tax Policy	Review tax exemptions [remote]	6/8/2020	7/12/2020
FAD	Tax Policy	Role and structure of the Tax Policy Unit [remote]	8/3/2020	8/14/2020
Statistics				
STA	National Accounts Statistics	(Remote TA) National Accounts (D4D)	7/20/2020	7/24/2020
AFC	National Accounts Statistics	(Remote TA) AFC: National Accounts	9/21/2020	10/2/2020
AFC	Government Finance Statistics	(Remote TA) AFC: Government Finance Statistics	2/15/2021	2/19/2021
STA	External Debt Statistics	Debt Sustainability and Debt Statistics (FSSF)	4/26/2021	4/30/2021

RELATIONS WITH THE WORLD BANK

The IMF and the World Bank teams maintain an ongoing exchange of views on relevant macroeconomic and structural issues in the Republic of Congo. Cooperation during the last year has included discussions related to the macroeconomic situation in Republic of Congo; institutional reforms for public financial management; scaling up of social safety nets; reinforcing human capital and capacity in statistics, improving quality in urban development and infrastructure sector and updates on the status of World Bank country programs. These World Bank country programs are aimed at improving competitiveness and development outcomes especially in the area of human capital, and include a conditional cash transfer program and measures to improve productivity including in the rural area through investment in the digital economy and in in roads, programs to develop seeds and the training of farmers. A full DSA was jointly prepared by IMF and International Development Association staff for the Article IV in January 2020.

Republic of Congo: IMF and WB Joint Action Plan
(As of June 23, 2021)

Title	Products	Expected Delivery
WB work program in the next 12 months	**Analytical Work**	
	Informing gender-smart social protection	January 2022
	Public Expenditure and Financial Accountability	June 2022
	Supporting Female Economic Empowerment, Youth Inclusion and Social Protection Delivery Systems	June 2022
	Health Financing Support for Universal Health Coverage	December 2022
	Public Expenditure Review 2021	December 2021
	Gender Skills Development	November 2021
	Country Economic Memorandum	June 2022
	Congo Ninth Economic Update	June 2022
	Lending	
	Statistics Capacity Building Project US$29.28 million	Ongoing
	Urban Development and Poor Neighborhood Upgrading Project US$80 million	Ongoing
	Education Sector Support Project US$30 million	Ongoing
	Support to Enterprise Development and Competitiveness Project US$25 million	Ongoing
	LISUNGI Social Safety Nets Project US$34 million	Ongoing
	Commercial Agriculture Project US$100 million	Ongoing

Republic of Congo: IMF and WB Joint Action Plan (concluded) (As of June 23, 2021)		
Title	**Products**	**Expected Delivery**
WB work program in the next 12 months	**Analytical Work**	
	Skills Development for Employability Project US$25 million	Ongoing
	Integrated Public Sector Reform Project US$40 million	Ongoing
	COVID-19 Emergency Response Project US$23.31 million	Ongoing
	LISUNGI Emergency COVID-19 Response Project US$50 million	Ongoing
	Forest and Economic Diversification Project US$16.51 million	Ongoing
	Emissions Reductions Program in Sangha and Likouala US$41.8 million	Ongoing
	Northern Congo Agroforestry Project US$15.58	September 2021
	Kobikisa Health System Strengthening Project US$50 million	Ongoing
	Digital Acceleration Project US$100 million	February 2022
	Human Capital and Inclusion Project US$100 million	December 2021

RELATIONS WITH THE AFRICAN DEVELOPMENT BANK

The IMF and the African Development Bank teams maintain an ongoing exchange of views on relevant macroeconomic and structural issues in the Republic of Congo. Cooperation during the last year has included discussions related to the macroeconomic situation in Republic of Congo; preparation of the Republic of Congo [list of major activities related to AfDB role in Congo and the budget support and project financing instruments]; reinforcing capacity in statistics, improving quality in urban development and infrastructure sector and updates on the status of the AfDB country programs. These AfDB country programs are aimed at [describe the focus and main goals of the existing and future projects and budget support mechanisms].

Republic of Congo: IMF and AfDB Joint Action Plan
(As of June 23, 2021)

Title	Products	Expected Delivery
AfDB work program in the next 12 months	**Analytical Work**	
	Studies of the impacts of the Covid-19 pandemic on the Congolese economy: the case of the oil-mining sector and employment	May 2021
	Implementation of the Agriculture Transformation Agenda in Congo	June 2021
	Lending	
	PRODIVAC-Cofinancing of the Strategic Climate Fund of US$8 million, of which US$2 million from Grant.	June 2021
	Rural electrification project US$14.45 million	Ongoing
	Human skills and resources development project US$10.55 million	Ongoing
	Project to support investment climate and forest governance US$22.90 million	Ongoing
	Integrated Agricultural Value Chain Development Project US$88.14 million	Ongoing
	Economic and financial reform support program US$225.18 million	Ongoing
	Project to support the capacity building of the Ministry of Planning, Regional Integration and Statistics, Grant US$1.14 million	Ongoing
	Ndende-Dolisie Road and Transport Facilitation Project US$44.05 million	Ongoing
	Ketta-Djoum road construction project phase 2 — Congo US$147.10 million	Ongoing
	Project Central Africa Backbone (CAB) — component related to Congo US$62.67 million	Ongoing
	Project for the improvement of road access to the road-rail bridge over the Congo river, Grant 2.82 million	Ongoing

STATISTICAL ISSUES

(As of August 4, 2021)

I. Assessment of Data Adequacy for Surveillance
General: Data provision is broadly adequate for surveillance, but there are some key data shortcomings in national accounts, monetary, fiscal, and external sector statistics due to capacity constraints.
National Accounts: The National Statistics Institute (NSI) of the Ministry of Planning compiles annual national accounts series using the expenditure and production approaches, both in current values and in chain-linked volume terms. The NSI compiled national accounts estimates for 2005–19 (base year 2005) as it implemented the methodologies of the *System of National Accounts (1993)*. The authorities are working to improve the GDP estimates in collaboration with AFRITAC Central, including through the use of value added tax data, and to establish a compilation system for quarterly national accounts through the development of monthly and quarterly indicators of economic activity.
Price Statistics: The NSI compiles a monthly national consumer price index (CPI) utilizing a harmonized methodology employed by all Central African Economic and Monetary Community (CEMAC) member countries. The Republic of Congo's CPI is based on weights derived from a household expenditure survey conducted in 2011. The weights are out of date and are no longer representative of current expenditure patterns. An updated index reference period was introduced in January 2019 (2018=100), but the weighting structure was not updated.
Government Finance Statistics (GFS): Work continues to advance on the adoption of the CEMAC TOFE Directive based on *Government Finance Statistics Manuals (GFSM) 2001/2014*. Further Capacity Development (CD) activities have usefully focused on expanding GFS coverage, and annual data now include extra-budgetary units and local governments, although social security funds are still excluded. CD activities are also focused on improving the timeliness and resolving the inconsistencies between the outstanding stock of debt, future debt service payments, and debt-related flow data in the fiscal accounts among other areas. The reconciliation of fiscal and monetary statistics is still pending.
Monetary and Financial Statistics (MFS): Shortcomings for surveillance include the fact that depository corporation survey does not include data from deposit-taking microfinance institutions, a growing sector in the country. As the Other Financial Corporations (OFC) sector holds around 15 percent of total financial system assets in the CEMAC region, it is important to begin compilation of MFS for the insurance sector, which is the largest subsector of the OFCs. Collaboration between BEAC and the regional supervisory entity for insurance corporations (CIMA) is key for the expansion of MFS coverage to include insurance corporations. Congo's Financial Access Survey (FAS) data is outdated (last reported in 2017).

Financial sector surveillance: Republic of Congo provides all core and eight encouraged financial soundness indicators (FSIs) for deposit-takers and two encouraged FSIs for real estate markets on a monthly basis (except for the core and encouraged FSIs on earnings and profitability, which are reported semi-annually) for dissemination on the IMF's FSI website.
External Sector Statistics: A JSA-AFR project enabled the compilation of balance of payments (BOP) statistics submitted to STA through 2016, the first ever production of international investment position (IIP) data, and completion of quarterly BOP data for 2017 and 2018 which will support surveillance work. However, technical issues have delayed the publication of the results. BOP statistics reflect relatively good transactions coverage, but financial instruments breakdown should be improved for reconciliation with monetary and external debt statistics.

II. Data Standards and Quality	
The Republic of Congo, which has been a participant in the IMF's General Data Dissemination System (GDDS) since November 5, 2003.[2] Metadata, with assistance of a 2019 IMF multisector mission, is posted on the Dissemination Standards Bulletin Board (http://dsbb.imf.org) but is not regularly updated.	No data ROSC has been conducted.

[2] The authorities are planning to implement the e-GDDS (Country Report [xx], Annex 7)

Republic of Congo: Table of Common Indicators Required for Surveillance
(As of July 22, 2021)

	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]
Exchange Rates	Current	Current	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	March 2021	June 2021	M	M	M
Reserve/Base Money	March 2021	June 2021	M	M	M
Broad Money	March 2021	June 2021	M	M	M
Central Bank Balance Sheet	March 2021	June 2021	M	M	M
Consolidated Balance Sheet of the Banking System	March 2021	June 2021	M	M	M
Interest Rates[2]	August 2019	October 2019	M	M	M
Consumer Price Index	May 2021	July 2021	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] — General Government[4]	N/A	N/A	N/A	N/A	N/A
Revenue, Expenditure, Balance and Composition of Financing[3]— Central Government	June 2021	July 2021	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	March 2021	July 2021	Q	Q	Q
External Current Account Balance	December 2019	July 2021	A	A	A
Exports and Imports of Goods and Services	December 2019	July 2021	A	A	A
GDP/GNP	2019	January 2021	A	A	A
Gross External Debt	March 2021	July 2021	Q	Q	Q
International Investment Position[6]	N/A	N/A	N A	NA	NA

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

[2] Both market-based and officially determined, including discounts rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic non-bank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments. Data not provided by the authorities due to technical capacity constraints.

[5] Including currency and maturity composition.

[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents. Data not provided by the authorities due to technical capacity constraints.

[7] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA).

Statement by Mr. Aivo Andrianarivelo, Executive Director for the Republic of Congo; Mr. Regis N'Sonde, Alternate Executive Director; and Mr. Mohamed Sidi Bouna, Senior Advisor to the Executive Director

September 24, 2021

I. Introduction and Overview

On behalf of our Congolese authorities, we would like to thank staff for the constructive discussions held in the context of the 2021 Article IV consultation and for the valuable policy advice and recommendations.

The impact of the global pandemic on the Republic of Congo has been severe. Congo has entered the crisis with limited fiscal space and elevated debt levels, which have considerably hampered the authorities' ability to mitigate the effects of the pandemic. Moreover, Covid-19 reached the country at a time when international oil prices were declining rapidly, which has caused significant casualties in relation to the country's population and sharply reduced revenues from exports of crude oil, further compounding the damaging effects of the pandemic on the people and the economy. Real GDP is estimated to have contracted significantly in 2020 by global standards in this pandemic.

The Congolese economy is steadily recovering from the severe crisis caused by the pandemic while debt sustainability has improved owing to debt repayments and restructuring as well as the rebound in oil prices. The launch of a vaccination campaign in March 2021 has helped contain the initial increase in the numbers of infections and fatalities from the disease. Fiscal support has been provided to the vulnerable and to businesses with neither budget support from the international community nor emergency assistance from the IMF. Nonetheless, key macroeconomic indicators point to a slow but steady improvement in overall economic conditions, particularly regarding the fiscal and external positions. Strong adjustment measures undertaken by the authorities, along with higher oil prices have contributed to the recent favorable developments. The SDR allocation has provided much-needed resources that will be used to help support the recovery efforts and alleviate the impact of the crisis on the country.

The authorities reiterate their strong determination to pursue sound policies to restore the country's macroeconomic stability while contributing to the economic recovery and external stability of the CEMAC region. Fiscal discipline and far-reaching governance reforms underway will be pursued. To further reduce the external debt burden, the authorities are continuing to actively seek favorable agreements with the country's creditors, notably with oil traders for the restructuring of Congo's commercial debt.

Support from the international financial community is critically needed to assist the authorities' efforts to address the considerable challenges that lie ahead, including strengthening policy frameworks, tackling vulnerabilities, and curbing poverty which have been exacerbated by the pandemic and the ensuing economic shock. As the authorities pursue their economic adjustment, they intend to maintain a close engagement with the Fund whose advice they consider as instrumental in their efforts to ensure fiscal and debt sustainability, strengthen governance, and foster stronger, sustainable, and more inclusive growth. The support of the international community is also crucial to help diversify the economy away from oil, as the effects of climate change on the country are increasingly pronounced. The authorities very much appreciate the valuable insights included in the Selected Issues Paper on "Climate Change Adaptation and Transition Issues in a Low-Income Oil Exporting Country."

II. Debt Sustainability Analysis and the Need for a Successor Arrangement

The Republic of Congo is one of the few requesting members that have not received any emergency financial assistance from the IMF during the pandemic. The Fund's assessment that the country's debt was unsustainable prevented it from providing financial support to Congo since the inception of the pandemic. While the authorities have continued to actively negotiate in good faith with creditors to restructure the country's debt, the reluctance of commercial creditors to provide meaningful debt relief has hampered their efforts to achieve external debt levels deemed sustainable. This has also led to the expiration of the last Extended Credit Facility (ECF) arrangement in April 2021, prior to the completion of its first review.

The authorities welcome the findings of the updated debt sustainability analysis (DSA) which indicate that Congo's debt sustainability has been restored, and they will pursue efforts to preserve it going forward. This is partly due to the progress achieved by the authorities in restructuring part of their external debt, as well as the effects of higher projected oil prices. The restoration of Congo's debt sustainability makes it possible again to engage in deep adjustment and reforms that could be supported by the Fund. Indeed, meeting the challenges aforementioned will require external financing which in turn calls for the catalytic role of the IMF, as other international institutions and donors have been reluctant to provide financial assistance without a Fund-supported program. Therefore, the authorities intend to resume soon discussions with Fund staff on a possible new ECF arrangement. Notwithstanding the improved debt sustainability, the authorities are aware that the overall debt situation remains fragile, as oil prices are volatile. To hedge against the adverse impact of potential oil price reversal, they agree with staff's recommendation to spare financial resources stemming from higher oil prices, pursue economic diversification, strengthen competitiveness, and increase the country's capacity to attract investment. The authorities also take note that the country remains in debt distress given the presence of external arrears for which they continue to seek repayment agreements with the countries involved.

III. Recent Economic Developments, Outlook, and Risks

The Congolese economy is gradually recovering from the deep recession of last year. In 2020, oil exports had declined significantly following to the abrupt drop in oil prices and production while economic activity in the non-oil sector had contracted sharply due to the necessary lockdown measures put in place to contain the spread of the virus, as well as negative spillovers from the oil sector. However, with progress in the efforts to contain the deterioration of the country's overall health situation, economic activity has slowly resumed. Real GDP growth is projected to improve to -0.2 percent in 2021 from -8.2 percent in 2020 while non-oil GDP growth is expected to reach 0.9 percent in 2021 from -8 percent last year. Inflation is forecast to remain moderate and relatively stable at 2 percent in 2021. Despite tighter expenditures control, the non-oil primary deficit should widen slightly to 17 percent of non-oil GDP in 2021 from 15.2 percent in 2020. The current account balance is projected to improve in 2021 driven by high oil exports and should reach a surplus of 12.1 percent after a deficit of 0.1 percent in 2020.

The medium-term economic outlook is projected to improve, supported by high oil prices, increased oil production, and a strengthening of economic activity in the non-oil sector. In particular, the progress achieved in the clearance of large amounts of domestic arrears is contributing to reinvigorating economic activity in the non-oil sector and strengthening the financial system.

The authorities broadly share the staff's assessment on the risks to the outlook and the related policy response. Particularly, the risks stemming from the Delta variant, oil price volatility, and the impact of climate change on agriculture and food security are carefully monitored given their high impact in case they came to materialize. While the authorities believe that the policies and reforms they are undertaking and their efforts to accumulate larger buffers at the regional central bank will help mitigate the identified risks, the support of the international community remains crucial to enhance Congo's resilience to potential adverse shocks.

IV. Macroeconomic Policies and Structural Reforms Looking Ahead

The authorities will build on their satisfactory track record in policy and reform implementation to further macroeconomic adjustment and push forward a transformative agenda toward broad-based, resilient, and inclusive growth. The implementation of prudent policies and sound reforms of recent years in challenging circumstances, notably in the areas of fiscal reforms, tax measures and governance should be encouraged. The new government formed last May has clearly stated its commitment to advance a transformative strategy that warrants support.

IV.1. Fiscal Policy

The authorities have undertaken significant fiscal adjustment over the past few years, as they continued to adapt to lower and volatile oil prices. Fiscal rebalancing took place through tighter control of current expenditures, including a reduction in the subsidies to CORAF and CEC —the oil refinery and the electricity company, respectively— a drastic cut in the externally financed capital spending, and, more recently, measures to increase non-oil revenues.

The authorities intend to continue fiscal consolidation with the objective of achieving more sustainable fiscal and debt positions over the medium-term. They are cognizant that this will require reaching a more substantive agreement with the country's commercial creditors to bring down overall external debt. In addition, they recognize that further efforts are needed to expand the fiscal space to allow for an increase in social spending —including to respond to the effects of the crisis—the pursuit of the domestic arrears' repayment strategy, and a resumption of infrastructure spending which declined significantly in recent years. Accordingly, the authorities share the staff's view that, in the period ahead, a slightly wider non-oil primary deficit than initially planned will be necessary to support the recovery efforts, notably by accommodating the indispensable domestic arrear repayments and the necessary investments in health, education and well-advanced productive infrastructure projects.

It is important that the donor community step up its assistance to the authorities' adjustment efforts. Resuming budget support and project financing is particularly critical, including to preserve social and infrastructure spending and pursue the clearance of arrears, given Congo's extremely tight fiscal position at the present.

IV.2. Financial Sector Policy

The economic recovery underway and the ongoing repayment of domestic arrears are helping reduce the vulnerabilities of the banking sector. The swift measures taken by BEAC to ease monetary policy early in the pandemic have helped provide much-needed liquidity to Congolese financial system. However, while the liquidity of financial institutions as whole has continued to improve, the solvency ratio declined partly due to the need to increase provisioning. In addition, although non-performing loans (NPLs) have started to decline recently, they remain relatively elevated and continue to weigh on banks' balance sheets, thereby constraining the important role that banks could play in supporting the recovery. As elevated NPLs are largely the result of the accumulation of domestic arrears towards the private sector, the continued clearance of these arrears will significantly contribute to strengthening the banking sector.

IV.3. Structural Reforms

Bolstering governance and diversifying the economy away from oil is a key priority of the authorities' reform agenda. They plan to continue to make progress in these important areas with the objective of attracting more diverse private investments and enhancing the resilience of the economy. Significant reforms have been achieved in the domains of governance and transparency over the past few years, starting at the institutional and framework levels. The authorities will continue to reinforce the anti-corruption framework and promote transparency in the management of the oil sector. A new anti-corruption law which aims at better aligning the country's legal framework in this area with international best practices should be adopted by Parliament next month. The authorities look forward to the IMF's technical assistance to further improve public financial management (PFM), including to ensure that all outstanding payments from previous years' budgets are adequately addressed, and set up appropriate safeguards in this area, in line with best practices.

The authorities are determined to accelerate the diversification of the economy by promoting key sectors which have significant growth and employment potential, based on the country's comparative advantage. Their efforts are mainly geared towards the development of more productive agricultural and forestry activities. To this end, they will invest in enabling infrastructure, notably transportation, and expanding power generation and distribution, including with a view to enhancing resilience to climate change while promoting transparency. This will also help ameliorate the business environment, attract private investment, and foster jobs creation.

V. Conclusion

The Congolese authorities have made important progress in stabilizing the economy, improving debt dynamics, and strengthening the country's growth prospects despite the significant impact of the pandemic and the absence of external support. As the economy continues to recover from the crisis, the authorities recognize that more needs to be done to achieve higher, sustained, and more inclusive growth. To achieve these objectives, they intend to maintain a close engagement with the Fund and call on the international community to support their reform agenda.