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DEMOCRATIC REPUBLIC OF THE CONGO

January 2022

FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR OF THE DEMOCRATIC REPUBLIC OF THE CONGO

In the context of the Request for Disbursement under the Extended Credit Facility, 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 December 15, 2021 following discussions that ended on October 27, 2021 with the officials of the Democratic Republic of the Congo on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on December 2, 2021
- The **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Statement by the Executive Director** for the Democratic Republic of the Congo.

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

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Washington, D.C.

IMF Executive Board Completes First Review Under the Extended Credit Facility Arrangement and Approves US$212.3 Million Disbursement for the Democratic Republic of the Congo

FOR IMMEDIATE RELEASE

- Despite the COVID-19 pandemic, the rebound in economic activity is stronger than initially projected, supported by higher-than-envisaged mining production and the recovery in non-extractive growth.
- The conclusion of the first review under the ECF arrangement enables the immediate disbursement of US$212.3 million to reinforce international reserves, given downside risks to the domestic and global economy outlook and recovery.
- The ECF arrangement continues to support the authorities' medium-term reform program to foster macroeconomic stability and sustainable development by stepping up domestic revenue mobilization, strengthening governance, and reinforcing monetary policy.

Washington, DC – December 16, 2021: On December 15, 2021, the Executive Board of the International Monetary Fund (IMF) completed the first review of the arrangement under the Extended Credit Facility (ECF) for the Democratic Republic of the Congo (DRC). The completion of the review enables the immediate disbursement of SDR152.3 million (14.3 percent of quota or US$212.3 million) to help meet balance of payment needs. The DRC's 36-month ECF arrangement for SDR1,066 million (100 percent of quota, about US$1.52 billion) was approved by the Executive Board on July 15, 2021 to help meet financing needs associated with the COVID-19 pandemic (see Press Releases No. 21/217), following IMF emergency support to the DRC under the Rapid Credit Facility (RCF) in December 2019 and April 2020, for a total of SDR 533 million (50 percent of quota or US$731.7 million, see Press Releases No. 19/465 and 20/182).

Despite the persistence of the COVID-19 pandemic, the economy is recovering; growth for 2021-22 has been revised upward to 5.4 percent and 6.2 percent respectively, supported by higher-than-envisaged mining production and a rebound in non-extractive growth. Inflation has remained anchored at about 5 percent. Better-than-projected external developments, supported by high commodity prices, have allowed a significant increase in gross international reserves to US$3.3 billion in mid-October 2021 (from US$0.8 billion at end-2020). This reflects more proactive foreign exchange purchases by the central bank and the end-August general SDR allocation from the IMF. Higher fiscal revenues have provided space for additional spending, mostly on investment, without undermining the end-2021 fiscal deficit.

Following the Executive Board discussion, Ms. Kristalina Georgieva, Managing Director and Acting Chair, made the following statement:

"The Democratic Republic of Congo has had a promising start on the program supported by the Extended Credit Facility arrangement. Program performance is satisfactory and economic activity has improved in 2021 on the back of higher external demand and mining production, allowing for a higher-than-projected buildup in reserves. However, new COVID-19 containment measures were implemented since the summer and vaccination rates remain very low.

“Fiscal policy remains prudent. The 2022 budget is expected to support economic recovery, with half of the recent SDR allocation devoted to priority investment projects over the coming years. Strengthening public investment management will be crucial to enhance its efficiency.

“Creating fiscal space by improving domestic revenue mobilization is key to the success of the authorities’ reform agenda, notably to address infrastructure and social needs. Concessional financing should be prioritized, while continuing to avoid monetary financing from the Central Bank of Congo (BCC). Enhancing public financial management will be important to support spending efficiency and fiscal transparency and accountability.

“The BCC should continue strengthening its monetary policy framework and financial position, improve banking supervision and scale up efforts to strengthen safeguards. Reducing dollarization would help improve the policy transmission mechanism. Accumulating foreign exchange reserves should continue while allowing the exchange rate to act as a shock absorber. Continued efforts to promote financial inclusion are also needed.

“Implementation of structural reforms, including on governance, remains critical to support the recovery and promote sustainable and private sector-led growth. Advancing reforms on anticorruption, AML/CFT, and mining and natural resource transparency, remains crucial to improve the business climate. This reform agenda should continue to benefit from building capacity for policy formulation and effectiveness, including on fiscal policy, governance, and the monetary and financial sectors.”

DEMOCRATIC REPUBLIC OF THE CONGO

December 2, 2021

FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW

EXECUTIVE SUMMARY

Context. After a third wave over the summer, COVID-19 cases are declining but vaccination has stalled. Economic activity has improved on the back of strengthened external demand, allowing for a stronger-than-envisaged buildup in international reserves. Inflation and the exchange rate have stabilized. Near-term challenges arise from uncertainty related to the pandemic and the gradual global economic recovery supporting high commodity prices.

Program status. The three-year arrangement under the Extended Credit Facility, approved on July 15, 2021 with access equivalent to 100 percent of quota, is broadly on track. All end-June 2021 performance criteria were met, some with significant margins. Two out of the three structural benchmarks were also met. Completion of the review will make available the amount of SDR152.3 million, which will help meet balance-of-payment needs.

Program policies. The authorities agreed to maintain prudent macro policies and to persevere with reform efforts to mobilize revenues, strengthen the independence of the central bank, enhance governance, and promote higher and more inclusive growth. The 2022 budget, which appropriately envisages a slightly expansionary stance, foresees additional revenue mobilization and the partial use of the SDR allocation to raise public investment. In turn, the authorities are committed to strengthen public investment oversight and implement appropriate safeguards. The stance of monetary policy is adequate, and reforms are undertaken to enhance the monetary policy framework although high dollarization hinders its effectiveness. Structural reforms remain focused on governance, including anticorruption, AML/CFT and natural resource transparency. Scaling up reforms ahead of the Presidential elections in 2023 and capacity development remain crucial for program success.

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

Discussions took place virtually (October 4-13, 2021) and in Kinshasa (October 20-27, 2021) in a hybrid way. The staff team comprised M. Vera-Martin (head), C. Gicquel, H. Perez-Saiz, G. Nolin, S. Zerbo (all AFR), J. Andritzky (SPR), G. Leost (resident representative) and E. Gbadi (local economist). Messrs. A. Andrianarivelo, R. N'Sonde, T. Nguema Affane (all OEDAF) participated in the meetings. The mission met with Prime Minister Jean Michel Sama Lukonde, Minister of State, Minister of Budget Aimé Boji Sangara, Minister of Finance Nicolas Kazadi, Minister of Public Enterprises Adèle Kahinda Mayina, Central Bank Governor Malangu Kabedi Mbuyi, other senior officials, development partners, and private sector representatives. Ms. Pohl provided research assistance and Ms. Boyle helped with document preparation.

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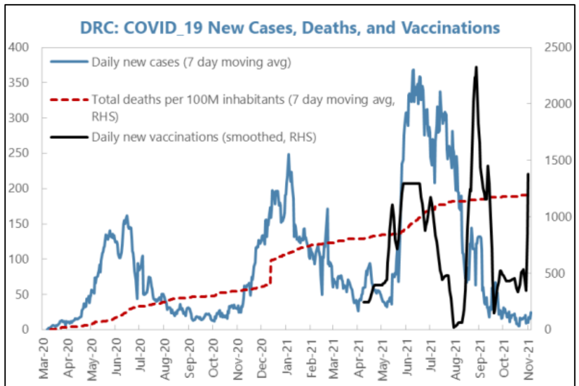
RECENT ECONOMIC DEVELOPMENTS

1. After a third wave over the summer, COVID-19 cases declined. Containment measures imposed in mid-June, including limiting public gatherings and a nighttime curfew, remain effective. Widespread skepticism has stalled the vaccination campaign (only 0.1 percent of the population is at least partially vaccinated), which picked up in September. Current obstacles for widespread vaccination in the country are deep mistrust and skepticism.[1] The country is also dealing with a new Ebola outbreak in North Kivu.



Source: Our World in Data, and IMF staff calculations.

2. Macroeconomic performance has been stronger than anticipated.

- Mining is driving the recovery in 2021. Growth in the extractive sector is projected to reach 11.4 percent propelled by higher-than-expected copper and cobalt prices.[2] The non-extractive sector continues recovering, mainly driven by telecom, energy, and other non-tradeable sectors. Containment measures have had a limited impact in retail and other sectors.

- The external position has strengthened (Text Table 1). The 2021H1 current account reached a surplus (estimated at 2.3 percent of GDP) as increased mining production and higher commodity prices drove the trade balance to 6.9 percent of GDP. The financial account strengthened due to sizable other investment inflows, including project financing. As of end-October, gross international reserves (GIR) reached $3.2 billion (7.4 weeks of imports) supported by the SDR allocation ($1.5 billion) and higher-than-expected central bank FX purchases.

Text Table 1. DRC: Preliminary External Sector Outturn, 2021H1

	CR 21/168	2021H1	CR 21/168	2021H1
	(in US millions)		*(in percent of GDP)*	
Current account balance	**-247**	**1,314**	**-0.5**	**2.3**
Trade balance	1,295	3,866	2.4	6.9
Exports	10,265	9,817	18.7	17.4
Imports	-8,971	-5,951	-16.4	-10.6
Service balance	-1,309	-1,702	-2.4	-3.0
Primary income	-793	-1,017	-1.4	-1.8
Secondary income	483	90	0.9	0.2
Capital account balance	**-46**	**8**	**-0.1**	**0.0**
Net lending (+)/ borrowing (-)	**-294**	**1,322**	**-0.5**	**2.3**
Financial account	**-294**	**831**	**-0.5**	**1.5**
FDI	-817	-685	-1.5	-1.2
Portfolio	40	23	0.1	0.0
Financial derivatives	0	0	0.0	0.0
Other investment	117	952	0.2	1.7
Reserve assets (increase= +)	367	541	0.7	1.0
Net errors and omissions	**0**	**-492**	**0.0**	**-0.9**

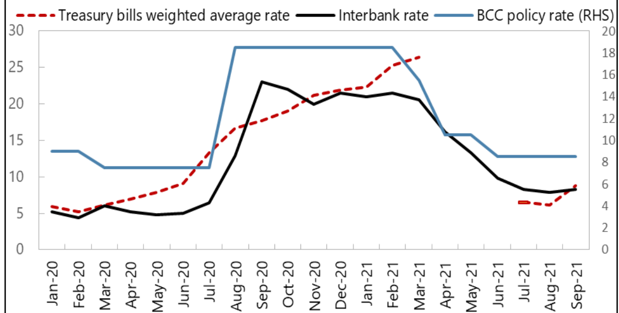
Sources: Banque Centrale du Congo, and IMF staff calculations.

[1] Financing of the deployment of the vaccine is primarily on grant or highly concessional terms. The goal of the first stage of the vaccination plan is to cover 20 percent of the population, including health workers, those above 55 years of age, and people suffering from serious health conditions.

[2] About 10 percent higher compared to previous projections.

- **The Central Bank of Congo (BCC) reduced policy rates as inflationary pressures eased and the nominal exchange rate stabilized**. On June 17, the BCC reduced the policy rate by 200 bps, to 8.5 percent. This policy rate decrease continued an easing cycle that began in early 2021 to unwind the sharp tightening implemented at the onset of the COVID-19 pandemic. CPI inflation reached 6.4 percent year-on-year in October. The exchange rate depreciated 0.8 percent in real effective terms and has been stable in nominal effective terms so far in 2021.

DRC: Interest Rates
(in percent)



Source: Congolese authorities
*No issuances recorded for Treasury Bills for April-May 2021.

- **The 2021H1 fiscal outturn was better-than-projected (Text Table 2).** The overall fiscal balance reached a surplus of 0.3 percent of GDP, against a projected deficit (0.1 percent of GDP), due to higher revenues and grants (0.4 percent of GDP) and lower spending (by 0.3 percent of GDP). Higher-than-projected spending in wages and exceptional expenditure has been more than offset by lower goods and services and subsidies.[3] The domestic fiscal surplus is estimated at CGF873 billion (0.8 percent of GDP). In turn, the BCC's net credit to the government (NGC) improved by CGF734 billion (0.7 percent of GDP).[4] After introducing dollar-indexed T-bonds in July, net placements reached CGF226 billion (0.2 percent of GDP) as of end-September.

Text Table 2. DRC: Fiscal Outturn, 2021H1

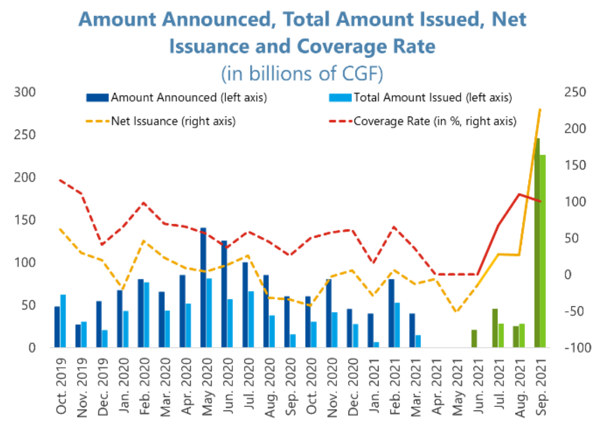
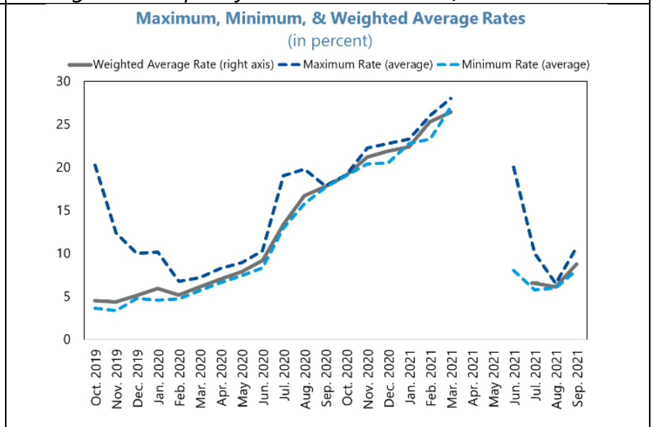
	2021			
	H1, CR No. 21/168	H1 prel.	Percent change	Difference (percent of GDP)
	(Billions of CGF)			
Revenue and grants	***5,972***	***6,448***	***8.0***	***0.4***
Revenue	5,719	6,014	5.2	0.3
Tax revenue	4,130	4,328	4.8	0.2
Non-tax revenue	1,589	1,686	6.1	0.1
Grants	254	434	71.2	0.2
Expenditure	**6,155**	**5,811**	**-5.6**	**-0.3**
Current expenditure	5,154	4,726	-8.3	-0.4
of which wages	2,440	2,615	7.2	0.2
Capital expenditure	940	965	2.6	0.0
Exceptional expenditure[1]	61	120	98.4	0.1
Change in domestic arrears (repayment = -)	46	-234	-604.3	-0.3
Domestic fiscal balance (cash basis)	**229**	**873**	**281.2**	**0.6**
Overall fiscal balance (cash basis)	**-136**	**404**	**-396.2**	**0.5**
Errors and omissions	*-77*	*-71*	*-7.9*	*0.0*
Financing	**214**	**-333**	**-255.8**	**-0.5**
Domestic financing (banking system)	-239	-870	264.4	-0.6
Foreign financing	452	537	18.6	0.1
Budget loans	198	*146*	-26.0	0.0
Project loans	483	*565*	16.9	0.1
Amortization of external debt	-228	*-174*	-23.7	0.0

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

[3] The higher wage bill includes grade adjustments in education, justice, and defense; recruitment of new finance inspectors; and wage regularization in the health sector.

[4] Central bank advances have been discontinued since the May 2020 Stability Pact and no new central bank guarantees have been issued in favor of the central government.

DRC: Treasury Bills Issuance: October 2019-September 2021

T-bill issuance is recovering…	*…while T-bill rates continue adjusting with recent changes in the policy rate and the use of indexed bonds.*
	
**Note: the change to smoothed lines and green colors denotes the shift in issuance from T-bills to dollar-indexed treasury bonds. Dark green refers to amount announced, and light green corresponds to amount issued (LHS axis).*	**Note: the shift in issuance from T-Bills to dollar-indexed treasury bonds starting in June 2021. No issuances recorded for April-May 2021.*

Sources: Congolese authorities and IMF staff estimates.

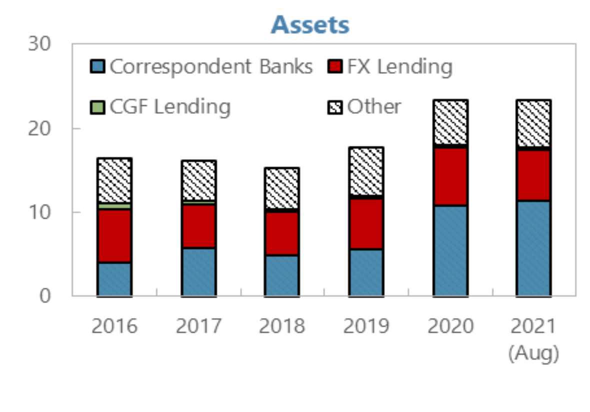
- **Banks' credit to the economy continues to stagnate**. The banking sector remains liquid, profitable, and well capitalized. Despite strong deposit growth (35 percent y-o-y in August 2021), credit to the private sector grew by only 4.7 percent, almost entirely in medium-term foreign currency loans. Non-performing loans stood at 8.8 percent of gross loans in August 2021 (from 9.2 percent in June), but may be underreported given the ongoing suspension on loan reclassification.[5] Corresponding bank relations remain limited, with one of the banks attracting about 70 percent of the U.S. dollar transactions.

- **Dollarization remains elevated.** As of end-August 2021, only 13 percent of deposits and 4 percent of bank loans were denominated in Congolese francs. Domestic loans accounted for just 27 percent of banks' assets, compared with 49 percent for deposits placed abroad at correspondents' banks.

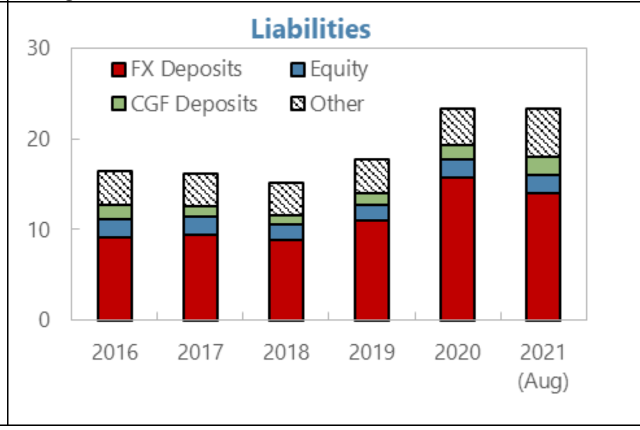
[5] On March 24, 2020, the BCC suspended regulations relative to credit institutions (see BCC Instruction no. 44, Suspension de l'application de certaines dispositions réglementaires) and lowered the reserve requirement on domestic currency deposits to zero. Both measures remain in place, but authorities plan to phase them out by the end of 2022 (MEFP ¶23).

DRC: Assets and Liabilities of the Banking Sector, 2016-21
(in percent of GDP)

Deposits at correspondent banks have eclipsed loans to the economy.



FX deposits remain far more common than deposits in Congolese francs.



Sources: Congolese authorities and IMF staff estimates.

PROGRAM PERFORMANCE

3. **Quantitative program conditionality has been met and two out of three structural benchmarks (SBs) have been reached (MEFP ¶5, Tables 1-2).** The authorities remain strongly committed to program objectives and targets.

- All quantitative performance criteria (QPCs) and indicative targets (ITs), except for the social spending IT, were observed, some by large margins. The domestic fiscal balance was well above the end-June 2021 QPC. All monetary QPCs including net international reserves (NIR) and NCG, validated by the external auditor, were met by wide margins. The social under-spending was due to coordination shortcomings in executing the program categories; the authorities remain committed to reach the end-year envelope.[6]

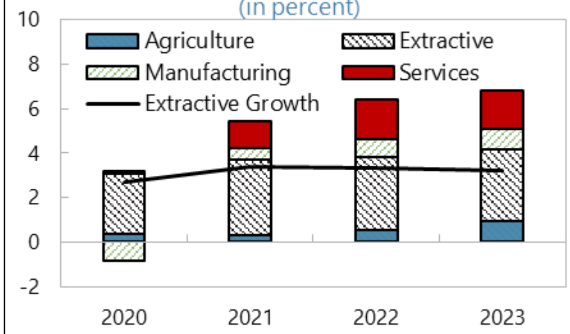
- Two out of the three SBs were reached. In early August, Gecamines published the 2020 audited financial reports, including external auditors' comments. All legislation on non-tax revenues were consolidated into one document by end-September. The draft Law of Commercial Banks is expected to be submitted to Parliament in December (end-November 2021 SB) as additional work was needed to complete the draft law. The authorities are making progress towards the SBs for the end-year.

[6] The two subcategories with under-spending were a) RMNCAH and primary health care; and b) disbursements of TB/Malaria/HIV/AIDS co financing.

OUTLOOK AND RISKS

4. **Growth in 2021-23 is expected to be stronger than envisaged at the program approval**. Growth in 2021 is now estimated at 5.4 percent, compared to a previous estimate of 4.9 percent, with headline inflation (eop) now projected at 5.2 percent. Growth in 2022 will be driven by a rebound in non-extractive activity to its pre-COVID level and the current expansion projects in the extractive sector that will increase production capacity. The ECF disbursements, the SDR allocation and improved current account dynamics will help build up reserves. The updated DSA shows that the DRC remains at moderate risk of external and overall debt distress, with some space to absorb shocks.

Contribution to Real GDP Growth
(in percent)



Sources: Congolese authorities and IMF staff estimates.

5. **The medium-term outlook remains positive and hinges on implementing ambitious structural reforms.** Medium-term growth has been revised up to incorporate recently announced projects in mining, which continues to thrive favored by high prices and strong global demand. The current account is projected to be balanced by 2026, with reserves at about eight weeks of imports. High dependence on mining sector makes the economy vulnerable to external shocks, mainly through price volatility. The authorities' reform agenda to address structural bottlenecks will help diversify the sources of growth, create jobs, and favor more inclusive and sustainable growth.

Text Table 3. DRC: Medium-Term Macroeconomic Framework

	2020		2021		2022		2023	2024	2025	2026
	CR No. 21/168	Prel.	CR No. 21/168	Proj.	CR No. 21/168	Proj.	Proj.	Proj.	Proj.	Proj.
Real GDP (percent change)	1.7	1.7	4.9	5.4	5.6	6.4	6.9	6.7	6.8	6.6
of which: extractive	9.7	9.7	11.0	11.3	7.9	10.4	9.9	7.6	6.9	6.3
GDP deflator (percent change)	6.7	6.7	16.0	16.7	6.2	4.8	6.0	5.8	5.1	5.2
CPI inflation, average (percent)	11.4	11.4	9.4	9.0	6.4	5.6	6.2	6.4	6.0	5.9
CPI inflation, eop (percent)	15.8	15.8	6.0	5.2	6.3	5.8	6.2	6.6	6.2	5.7
Overall fiscal balance (% GDP), commitment basis	-2.1	-1.1	-1.7	-1.8	-1.2	-1.9	-2.0	-1.4	-1.5	-1.7
External public debt (% GDP)	14.4	15.2	14.6	16.5	15.5	17.1	17.6	17.5	16.6	16.2
Current account deficit (% GDP), incl. transfers	-2.2	-2.2	-2.1	-0.5	-1.8	-0.5	-0.8	0.1	0.0	-0.1
Gross international reserves (weeks of imports)	1.9	2.1	3.4	6.8	4.6	7.8	8.5	8.7	8.5	8.5

Sources: Congolese authorities and IMF staff estimates and projections.

6. **Risks remain tilted downward given heightened uncertainty (Annex I)**. The economic outlook hinges on the temporary nature of the pandemic and a gradual global economic recovery that sustains the strong performance in the extractive sector. An unexpected shift in the COVID-19 pandemic could result in a negative terms-of-trade shock and weaken recovery prospects. Domestically, security continues dampening growth prospects, while political stability could be challenged ahead of the 2023 presidential election and delay reform efforts.[7] Upside risks could materialize from higher -than-projected mining activity or commodity prices that would strengthen

[7] The eastern provinces of North Kivu and Ituri have been under a state of siege since May 6, 2021.

fiscal and external positions. Downside risk could materialize from the current rising international inflation due to supply chain disruptions that poses a cost push inflation and would reduce minerals demand and foreign direct investment in the extractive sector. The net effect will depend on how strong the demand for climate transition minerals will be in the forthcoming years.

7. The authorities shared staff's views on the outlook and risks. They agreed that growth has proven resilient in 2021 and viewed prudent macro policies as crucial to provide confidence in the face of heightened uncertainty. The authorities noted that higher reserves and the buildup of government's deposits would provide some room to respond if downside risks materialize.

POLICY DISCUSSIONS

The authorities agreed to maintain prudent macro policies and to persevere with reform efforts to promote higher and more inclusive growth. The 2022 budget, which envisages a slightly expansionary stance with additional revenue mobilization and the partial use of the SDR allocation, provides room to raise domestically financed public investment. Monetary policy remains anchored on price and exchange rate stability and the buildup of external buffers, while reforms will strengthen the independence of the central bank. Advancing structural reforms remains focused on governance, including anticorruption, AML/CFT and natural resource transparency.

A. Building Space for Priority Spending

8. The 2021 fiscal outlook remains broadly in line with program projections, with higher revenues providing space for additional spending. The 2021 domestic fiscal deficit (program target) is estimated at CGF231 billion, consistent with program commitments. Compared to previous projections, fiscal revenues are expected to increase by 0.6 percent of GDP, although about ¾ of the overperformance is due to tax reassessments and penalty fees. In turn, spending is expected to increase by 0.9 percent of GDP, mostly due to higher-than-projected investment (0.7 percent of GDP) but also on higher wages and subsidies. The deficit will be financed externally, despite some improved T-bill issuances.[8] The authorities noted the challenges of mobilizing concessional borrowing, and request to revise up the end-December ceiling on non-concessional loans by $20 million to include a BADEA loan for infrastructure, originally considered concessional. By end-2021, the government is expected to build deposits due to the transfer of 50 percent of the SDR allocation for budgetary use planned in 2022-23. The authorities have committed to avoid increasing domestic arrears, by improving the budgeting of subsidies and improving the functioning of VAT (see below). Accounting for the net accumulation of domestic arrears related to the oil subsidy, VAT credits, and other suppliers increased domestic debt to 8.5 percent of GDP in September 2021. Regularizing the stock of domestic arrears is essential to improve business

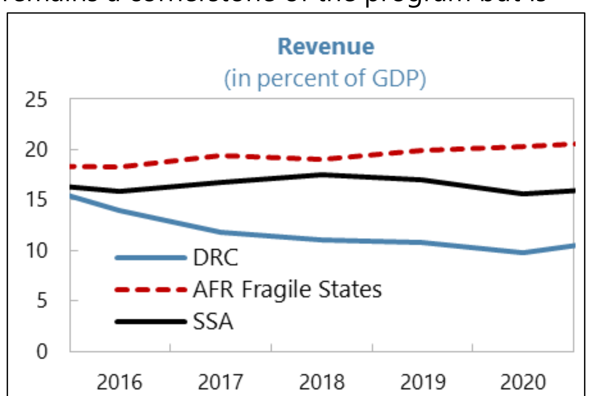
[8] Central bank advances have been discontinued since the May 2020 Stability Pact and no new BCC guarantees have been issued in favor of the central government.

confidence but represents a challenge that needs to be addressed gradually considering budget constraints.[9]

9. The 2022 budget, including the partial use of the SDR allocation, remains anchored on no central bank financing to the government and on maintaining a moderate risk of debt distress. The budget submitted in the National Assembly is broadly in line with staff's revenue projections and includes the use of $300 million of the SDR allocation (Box 1) for priority investment. The domestic budget deficit is projected at CGF580 billion by end-June and CGF1,100 billion (0.9 percent of GDP) by end-2022. Current spending is projected to increase in 2021 and beyond by 0.3 percent of GDP, due to permanent increases in salaries mainly in the education and health care sectors, and also subsidies, while investment will remain broadly constant as percent of GDP y-o-y, with increasingly domestically financed projects. The ceiling of $625 million in the QPC on new external debt (in PV terms) will allow for externally financed infrastructure projects while maintaining a moderate risk of debt distress (see DSA annex). The authorities remain committed to favoring concessional loans and avoid external arrears.

10. Social spending remains an important objective of the program. While the end-June 2021 social spending IT was missed, the authorities remain committed to meet the end-2021 social spending envelope under the IT. Additionally, the authorities are committed to increasing spending in social coverage, health and other areas outside the scope of the IT, and will discuss with IMF staff how to expand social spending tracking and coverage during the next review.

11. Additional revenue mobilization is needed to create fiscal space for priority spending. Raising fiscal revenues by 3.5 percentage points of GDP remains a cornerstone of the program but is expected to accelerate only in 2023 given some delays in tax policy and administration reforms implementation. After discounting for extraordinary revenues in 2021, revenues are projected to increase by 0.9 percent of GDP in 2022, mainly driven by corporate income taxes, VAT, and excises. Further efforts, mainly driven by improved administration and reduced tax exemptions, are expected to increase tax revenues in 2023. Despite substantial potential, revenue realization depends on continuous efforts to build an efficient tax administration and broaden the tax base, while considering tax policy measures. The reforms will focus on the following four pillars (MEFP ¶12):



Source: IMF WEO database

- **Restoring VAT functioning**. The self-liquidating VAT system for imports in the mining sector has been implemented and will be reinforced by adopting a revised VAT decree consistent with the existing legislation and international best practices (end-June 2022 SB). However, other VAT

[9] The IMF is providing technical assistance to assess comprehensively the stock of domestic arrears and provide an action plan for their resolution which will balance flexibility to adjust annual repayments to available fiscal space, adequate fairness to creditors, and allow for public scrutiny of arrears repayment.

credits are not being repaid, building on the stock of VAT arrears; thus, the revenue stream is somewhat overstated.[10] Additional reforms for a more efficient administration VAT claims in other sectors will be proposed with IMF technical assistance support. The VAT certification audit for mining companies is expected by early-2022 and its regularization would be discussed during the next ECF review.

- **Modernizing revenue administration**. Custom offices with ASYCUDA represent more than 95 percent of custom revenues. Despite initial delays in implementing the excise duty traceability system (STDA) the first phase is expected to be fully deployed in early 2022 (end-June 2022 SB).[11,12] LOGIRAD, enhancing non-tax revenues management, will be extended to other provinces after being installed in Kinshasa by end-2021.
- **Rationalizing non-tax and parafiscal charges**. With IMF technical assistance, the authorities will adopt a plan to rationalize non-tax charges (proposed end-June 2022 SB, originally end-March 2022 SB), and excise duties and parafiscal charges in 2023.
- **Streamlining tax expenditures**. The authorities have prepared the report on 2019-20 tax expenditures (to be published in the 2022 budget) and will adopt plans to rationalize, consistent with CD recommendations, these charges by end-June 2022.

12. Stronger public financial management (PFM) will support fiscal transparency and accountability. The first draft of the 2022 budget was submitted by mid-September, consistent with the budget process, for the first time. The government adopted the new PFM strategy on November 26th, prepared with IMF CD support, setting priorities including in budget programming, cash management and Treasury account, expenditure chain control, and procurement (Annex II, MEFP ¶18). A report on budget risks was included in the medium-term framework of the 2022 budget. Staff called for enhancing inter-institutional coordination on borrowing plans and SOEs oversight. The authorities noted that new legislation, including by adopting a new law on public debt, would strengthen debt transparency and coverage.

[10] The authorities highlighted capacity constraints in processing VAT credits. An FAD TA mission discussed the challenges with the authorities in November 2021.

[11] The first phase was initially planned to start in July 2021 for selected products but has been delayed due to resistance from the corporate sector.

[12] Phase 1 of STDA will cover drinks, tobacco, telecom and other products. Phase 2 is expected to be implemented about 6 months after phase 1 and will cover vehicles, oil products, plastics and others.

Box 1. Use of the 2021 General SDR Allocation

The SDR allocation will be used to help strengthen the reserve position and meet medium-term development needs. On August 23rd, 2021, DRC received a SDR allocation worth 1.02 billion SDR (about $1.45 billion), half of which (approximately $725 million) will be devoted to priority investment projects over the coming years. The BCC will strengthen international reserves with the other half of the SDR allocation. The conduct of monetary policy will be largely unaffected given that funds will be kept in foreign currency and projects will have high import content.

The authorities have confirmed that the transfer of SDRs from the BCC to the Ministry of Finance will be consistent with the domestic legal and institutional framework. By end-2021, the two institutions will sign a convention and a memorandum to transfer half of the assets and liabilities linked to the recent SDR allocation (¶8) and delineate the roles and responsibilities of each side. The Ministry of Finance will commit to cover interest payments stemming from the difference between the SDR liability and assets of its half. To safeguard the funds, the SDR assets will be placed in a segregated account at the BIS (via the BCC), except for a first tranche of $300 million deposited at domestic commercial banks.

The first tranche (21 percent of the SDR allocation, about 0.5 percent of GDP) will be spent on priority investment projects in 2022. The authorities have prepared a tentative list of 15 priority investment projects in 7 sectors. These projects will be administered by three institutions:
the Central Coordination Office (*Bureau Central de Coordination*, BCECO),
the Fragile States Financing Implementation Unit (*Cellule d'Exécution des Financements en Faveur des États Fragiles*, CFEF), and the United Nations Development Program (UNDP) (MEFP ¶10). The latter will implement the Emergency Community Development Program.

Democratic Republic of the Congo:
Priority Investment Projects

Sectors	Projects	Share of total (in percent)
Health	2	10
Education	2	13
Infrastructure	2	41
Agriculture	1	5
Rural Development	2	11
Hydro Projects	4	9
Transport	2	10

The authorities are committed to implement appropriate safeguards to support an efficient and transparent use of these funds. All tenders associated with these projects will respect the principles of transparency consistent with the Public Procurement Law. The BCECO will be strengthened, starting with a micro-assessment within the framework of the United Nations' Harmonized Approach to Cash Transfers (HACT) by end-2021, significant governance reforms, starting with the recruitment of external auditors for past and upcoming financial statements (end-March SB). In parallel, BCECO is strengthening its operational capacity to become eligible as a counterpart for the Global Green Fund and respond to the recommendations of the report by the *Inspection Générale des Finances* (IGF). The tendering of projects will follow the requirements of the public procurement law under the control of the Public Procurement Regulation Authority. More generally, the IMF and authorities will cooperate to increase the country's absorption capacity and improve public investment management.[1/]

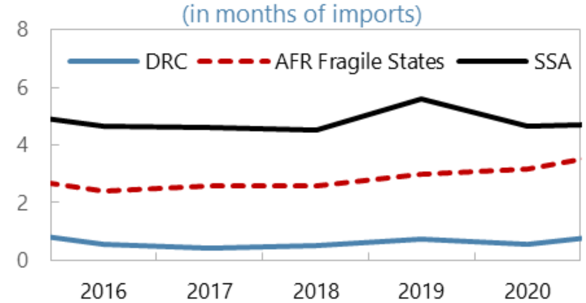
1/ The upcoming IMF PIMA mission in early 2022 will help strengthen the institutional framework of public investment management.

B. Strengthening Monetary Policy and Financial Stability

13. The BCC monetary policy stance is adequate given current price stability. The authorities agreed that the 7-percent inflation target remains the appropriate medium-term anchor for monetary policy, the implementation of which hinges on continuously refraining from central bank advances and guarantees for central government loans. The BCC argued that the recent period of exchange rate stability was a supporting price stability and has also allowed for a higher-than-envisaged increase in reserves given elevated FX liquidity. Past monetary financing has left the BCC undercapitalized, undermining its capacity to conduct monetary policy as it hinders its operational independence.

14. The BCC envisages a higher-than-projected reserve buildup in 2021 but called for a cautious approach in 2022 (MEFP ¶21). Higher FX intervention allowed the BCC to accumulate reserves above projections and suggest revising the end-December 2021 NIR QPC from $200 million to $1.6 billion to lock in the overperformance and include half of the SDR allocation. As for 2022, the BCC and staff agreed on a higher pace of reserve accumulation compared to the one at the program approval given low external buffers, while noting that risks of depreciation remain high due to fragile confidence and uncertainty. Hence, as for the end-June 2022 QPC, the BCC proposed $200 million, with an end-year accumulation of $300 million, while being open to revisit the targets if conditions allow.

Reserve Coverage
(in months of imports)



Source: IMF WEO database

15. The BCC is working toward strengthening the monetary policy framework (MEFP ¶20). In the short term, the BCC will regularize the stock of credit resulting from past lending to the government and enhance its reserve requirement framework, by partially fulfilling the reserve requirement in the same currency in which new deposits are denominated.[13] It will also undertake a comprehensive analysis of its recapitalization needs, to be validated by its Board (end-November 2022 SB) and work towards improving its policymaking process.[14] De-dollarizing the economy is key to enhance the effectiveness of monetary policy, which will require a prolonged period of macro stability.

16. The BCC Board is scaling up efforts to strengthen central bank's safeguards (MEFP ¶22). Consistent with the 2020 IMF safeguards assessment, the BCC Board reestablished the Audit Committee in November 2021, in line with leading practices for capacity and oversight; and will prepare to (i) adopt IFRS as the accounting framework and develop a roadmap for

[13] In the context of persistent macroeconomic fragility and high dollarization, the need of fulfilling the requirement for foreign currency deposits in local currency has failed to mobilize domestic currency deposits, while a burdensome reserve requirement crowds out lending in domestic currency.

[14] The Forecasting and Policy Analysis Systems (FPAS) technical assistance project will enhance BCC's monetary policymaking, notably by adapting and implementing a quarterly projection model tailored to the DRC.

implementation; (ii) strengthen governance and oversight of reserves management and disinvest domestic investments; and (iii) establish a compliance function. The government also plans to appoint new statutory auditors.

17. Efforts to improve banking supervision would help strengthen financial stability (MEFP ¶23). Staff supports the BCC plans to revert suspended regulations in the context of COVID-19 by end-2022; the impact is not expected to be significant in terms of credit quality and/or liquidity. With IMF support, the authorities are expected to submit to Parliament the new Commercial Banking Law in December (end-November 2021 SB). Once implemented, the law will notably clarify the nature of credit institutions; give the BCC new supervisory powers; and strengthen the framework for banking supervision and resolution. In addition, the FSSR planned in early 2022 will be instrumental in providing a banking sector diagnostic, which will help the BCC develop a well-targeted reform strategy by end-2022.

C. Improving Governance and Business Environment While Addressing Climate Change Risks

18. The authorities and staff agreed on the need to persevere with the implementation of structural reforms. Specific steps include:

- **Enhancing the anticorruption legal framework**. The new Anti-Corruption Prevention Agency (APLC) will continue being strengthened in line with the United Nations Convention Against Corruption (UNCAC) and international best practices. Additionally, the authorities plan to complete the first cycle of the Implementation Review Mechanism of the United Nations Convention Against Corruption. The *Cour des Comptes* and IGF will be endowed with additional resources to carry out their mission (MEFP ¶25-26).

- **Greater transparency in mining is cornerstone to promote good governance**. The government adopted a three-year workplan of the national EITI committee that will enhance transparency in mining and provide for adequate staff and budgetary resources (MEFP ¶27).[15] The authorities remain committed to reinforce transparency in Gecamines by publishing its 2021 audited reports by end-August 2022.

- **Strengthening the AML/CFT framework**. The Mutual Evaluation Report (MER) of GABAC highlighted the still ineffective AML/CFT framework and included priority recommendations to reinforce it.[16] The authorities are working on addressing GABAC's priority actions, including

[15] At least 12 new mining contracts have been published since March 2021. For further details on the three-year plan, please visit DRC ITIE website . Reforms are designed across five strategic axis: strengthening the accountability of public institutions to the population on extractive sector issues; strengthening the accountability of extractive companies on their social responsibilities; monitor the implementation of reforms in the extractive sector; integrate best practices of the EITI in the information systems of the State and extractive companies; and strengthen the institutional and technical capacity of the EITI-DRC National Committee.

[16] GABAC-MER-DRC-2021.

bringing the domestic legislation in line with international AML/CFT norms and standards, improving inter-agency collaboration and monitoring capacity; strengthen the capacity of the judiciary in the detection, investigation and suppression of AML/CFT activities. CENAREF, the national financial intelligence unit, has prepared an action plan for revising the AML framework and amending the AML/CFT Law, including a reinforced asset declaration framework, will be submitted to Parliament by end-2021. An application to join the Egmont Group will be submitted in 2022 (MEFP ¶28).

19. Excessive regulation and weak governance hamper the business environment. In coordination with other partners, the government remains committed to implement key reforms, including (i) rationalizing the tax system to make it fair and predictable; (ii) improving property rights and the resolution of commercial disputes; (iii) fostering private investment in agriculture, tourism or industry; and (iv) encouraging electronic payments and digitalization (MEFP ¶29).[17]

20. Strengthening transparency in public procurement and COVID-19 expenses would facilitate public accountability.[18] Transparency commitments under the Rapid Credit Facility arrangement have been largely met. Procurement contracts of COVID-19 related spending have been published at the Ministry of Health and an audit by the *Cour des Comptes* was presented to Parliament in November and will be published by end-2021 (MEFP ¶19).[19] To strengthen transparency, with IMF technical assistance, the authorities are working on amending the country procurement framework to facilitate the collection and publication of beneficial ownership for all public procurement contracts.

21. Adapting to climate change is part of DRC's priorities. Although its greenhouse gas emissions are among the lowest worldwide, the DRC is prone to intense rainfalls, coastal erosion, heat waves and seasonal droughts. The revised National Determined Contribution (NDC) focuses on mitigation measures in the energy, agriculture, forestry and waste (MEFP ¶30).[20]

PROGRAM MODALITIES AND FINANCING ASSURANCES

22. The authorities and staff reached an understanding to propose updated program conditionality as follows (MEFP, Tables 1-3):

[17] The Council of Ministers adopted a plan to strengthen the business climate prepared by the National Agency for Investment Promotion on July 2, 2021.

[18] All 36 procurement contracts identified above US$12,000 have been published at the Ministry of Health website and no additional contracts have been identified.

[19] In addition, the IGF undertook an audit of COVID-19 related expenditures and found several irregularities that have already been subject to legal proceedings.

[20] At the COP26 climate conference, President Tshisekedi announced DRC's determined contribution at the national level to achieve a 21 percent reduction in greenhouse gas emissions by 2030, launching a program aimed at planting one billion trees by 2023 and expanding the energy mix to include greener choices.

- **Modifications to QPCs:** The definition of the QPC on NIR is proposed to be revised to exclude the SDR allocation from the long-term FX liabilities, consistent with the approach in other countries. Starting in 2022, an adjustor on the domestic fiscal balance is proposed to increase (reduce) the ceiling on the domestic fiscal deficit if domestic arrears repayments is more (less) than projected. Another adjustor is proposed to reduce the domestic fiscal balance if public investment spending is below the projected level. Consistent with the Debt Limit Policy, the QPC on NCB will be replaced by the one in net present value of external borrowing from 2022 onwards. The ceiling is set in line with the authorities borrowing plan in line with the program's objective to maintain DRC's moderate risk of debt distress.

Text Table 4: DRC: Projected External Borrowing Program 2021-22

PPG external debt	Volume of new debt in 2021		PV of new debt in 2021 (program purposes)		Volume of new debt in 2022		PV of new debt in 2022 (program purposes)	
	USD million	Percent	USD million	Percent	USD million	Percent	USD million	Percent
By sources of debt financing	**2,608.0**	**100**	**1,629.2**	**100**	**1,252.2**	**100**	**738.6**	**100**
Concessional debt, of which	**768.0**	**29**	**311.7**	**19**	**893.5**	**71**	**469.6**	**64**
Multilateral debt	768.0	29	311.7	19	893.5	71	469.6	64
Bilateral debt	0.0	0	0.0	0	0.0	0	0.0	0
Other	0.0	0	0.0	0	0.0	0	0.0	0
Non-concessional debt, of which	**1,840.0**	**71**	**1,317.4**	**81**	**358.7**	**29**	**269.1**	**36**
Semi-concessional	1,840.0	71	1,317.4	81	358.7	29	269.1	36
Commercial terms	0.0	0	0.0	0	0.0	0	0.0	0
By Creditor Type	**2,608.0**	**100**	**1,629.2**	**100**	**1,252.2**	**100**	**738.6**	**100**
Multilateral	2,338.0	90	1,418.9	87	988.5	79	542.8	73
Bilateral - Paris Club	0.0	0	0.0	0	0.0	0	0.0	0
Bilateral - Non-Paris Club	270.0	10	210.3	13	263.7	21	195.9	27
Other	0.0	0	0.0	0	0.0	0	0.0	0
Uses of debt financing	**2,608.0**	**100**	**1,629.2**	**100**	**1,252.2**	**100**	**738.6**	**100**
Infrastructure	1,088.0	42	561.8	34	1,252.2	100	738.6	100
Social Spending	0.0	0	0.0	0	0.0	0	0.0	0
Budget Financing	0.0	0	0.0	0	0.0	0	0.0	0
Other	1,520.0	58	1,067.4	66	0.0	0	0.0	0

- **Changes to the end-December 2021 conditionality:** The end-December 2021 QPCs on NIR and NCB are proposed to be revised up to $1.6 billion and $320 million, respectively.[21]

- **New QPCs and ITs** are proposed for end-June 2022, with quarterly ITs by end-December 2022, in line with semiannual projections.

- **SBs.** The authorities request postponing the end-March 2022 SB on adopting a plan to rationalize non-tax charges to end-June 2022. Additionally, new SBs are proposed for (i) recruiting a company to conduct an external audit for BCECO for 2017-21 by end-March 2022; (ii) implementing the first phase of STDA by end-June 2022; (iii) signing a decree to confirm the self-liquidating VAT system in the legislation following best international practices as being

[21] The increase is due to a loan for critical road infrastructure in Kinshasa, originally considered concessional. This increase does not lead to materially higher debt risks and does not affect DRC's external debt rating.

applied to mining companies rather than specific products (end-June 2022); and (iv) validating (by the BCC Board) a comprehensive exercise on recapitalization needs (end-November 2022).

23. Consistent with IMF's policy on poverty reduction, the authorities have shared their Economic Development Document. The National Strategic Development Plan (for 2019-23), adopted by the Council of Ministers on December 27, 2019, is organized around five main pillars (see Annex III). Staff assess the strategy in line with the ECF arrangement.

24. Financing assurances are in place for the First Review. The program is fully financed for the next 12 months, with good prospects for adequate financing for the remainder of the arrangement, despite more conservative assumptions for exceptional financing in 2023-24. The 2022 balance of payments gap is $1 billion, of which $0.4 billion will be filled by IMF disbursements (Table 2). The debt level remains at a moderate risk of debt distress and the authorities are undertaking their best efforts to resolve external arrears to official creditors. Prompt Fund support is critical to the success of the authorities' adjustment program and the authorities are making good faith efforts to reach a collaborative agreement to resolve arrears to private creditors (DSA annex).

25. Capacity to repay the Fund remains adequate but subject to significant risks given state fragility, low reserves, and high exposure to recurrent shocks. Fund credit outstanding is projected to remain at about40-50 percent of GIR throughout the program, despite some improvement compared to previous estimates, mainly due to the SDR allocation (Table 5). Total obligations to the IMF will peak at 7.5 percent of GIR (0.4 percent of GDP) in 2029. A more rapid accumulation of external buffers would help build resilience against shocks.

STAFF APPRAISAL

26. DRC's economic performance has improved but the country remains highly vulnerable to shocks in the context of economic fragility. The economic recovery is gaining momentum, inflation declined and remains stable, and the external position has strengthened. Revenue overperformance provides room for additional capital spending. The banking sector remains liquid and well-capitalized. Despite these positive outcomes, the economy remains prone to external shocks, and characterized by low and fragmented government revenues, substantial development needs, recurrent outbreaks of epidemics, a highly dollarized financial system, and weak institutional capacity. The authorities need to remain vigilant and sustain reform efforts to address structural obstacles to growth.

27. Program performance has been satisfactory. Macroeconomic policies have supported economic stability, including by discontinuing central bank advances. All QPCs have been met, some by large margins, and two out of three structural benchmarks have been met. The authorities are scaling up efforts to meet their social spending under the IT by end-2021.

28. The 2022 budget appropriately supports to the economic recovery. The 2022 budget envisaged the use of part of the SDR allocation and a small widening of the deficit, allowing for an increase in domestically financed capital spending compared to 2021. Enhanced governance and safeguards should be put in place to support efficient project implementation. The authorities should also bolster efforts to contain current spending and the buildup of domestic arrears.

29. Decisive implementation of revenue mobilization reforms is critical to increase fiscal space for priority spending. Efforts to strengthen revenue administration should continue to focus on restoring the functioning of the VAT, especially to prevent the buildup of VAT refund claims; rationalizing non-tax revenues, parafiscal charges and exemptions; and building capacity in tax administration, including through digitalization of tax and custom services.

30. Spending discipline and PFM reforms are aimed at enhancing the quality and execution of government spending. Efforts to improve the budgetary processes and fiscal reporting, including by improving coverage and measurement of fiscal aggregates and risks and inter-institutional coordination, will help improve fiscal transparency and accountability. Efforts to establish the single treasury account, strengthen the public procurement system, and reinforce the expenditure chain and the State's accounting function will help improve budget execution. A stronger framework for managing public investment will help develop absorption capacity and improve efficiency on the use of public resources.

31. Monetary policy remains rightly focused on price stability, supported by efforts to modernize its framework and strengthen the transmission mechanism. The monetary policy stance is appropriate given stabilized inflation. Exchange rate stability, in the context of high commodity prices, would allow for reserve accumulation, and efforts should persevere given low external buffers. Efforts to strengthen the efficiency of the monetary framework, reinforcing the BCC's governance and independence, and recapitalization will enhance the margin of maneuver for monetary operations, which remain challenged by high financial dollarization.

32. Steps to strengthen the resilience of the banking sector are welcome. The new Commercial Banking Law would strengthen licensing requirements and banks' governance, while broadening the BCC's powers toward banking regulation, supervision and resolution, as well as enhancing customer protection. Fostering financial inclusion will be needed to support private sector-led growth.

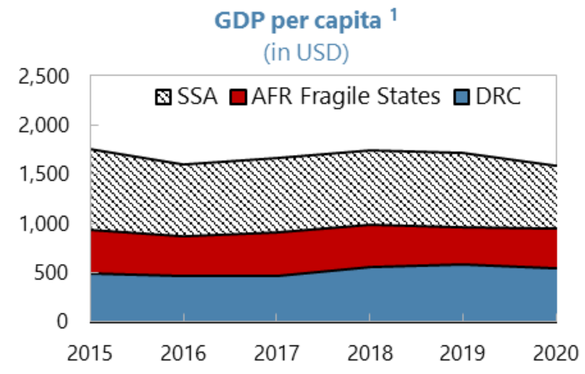
33. Enhancing governance and the business environment remains crucial for economic diversification and inclusive growth. Following important progress in mining sector transparency, the authorities have formally adopted the EITI medium-term roadmap and are committed to enhancing transparency in the mining sector. Efforts to enhance the AML/CFT framework and to bring it in line with best international standards, to streamline the multiplicity of levies and to implement a fair and predictable tax collection system are key towards an improved business environment needed to help attract investment

34. Continued efforts to advance structural reforms are key to achieving program objectives. The authorities' medium-term economic and reform program focuses on maintaining macroeconomic stability, increasing fiscal space for infrastructure and social spending, and promoting a sustainable and private sector-led economic growth. Shifting from design to implementation of the reform agenda will require building capacity, securing political support, and acting decisively.

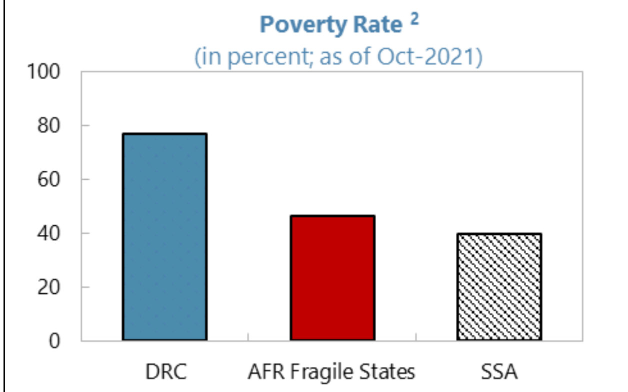
35. Staff support the authorities' requests for completing the First Review under the Extended Credit Facility modification of three QPCs, and the completion of the financing assurances review. A strong commitment to prudent macro policies and steps to scale up structural reforms, to be accompanied by enhanced capacity, provide confidence that the home-grown program will meet its objectives. Staff supports modifying the end-December NIR and NCB targets and the proposed modifications to the quantitative conditionality.

Figure 1. Democratic Republic of Congo: Fragility Indicators

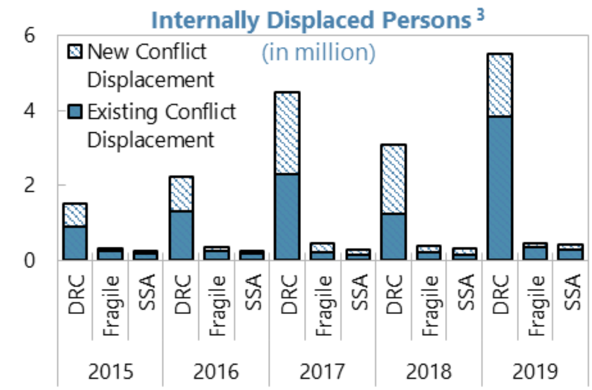
Per-capita GDP is much lower than peers…



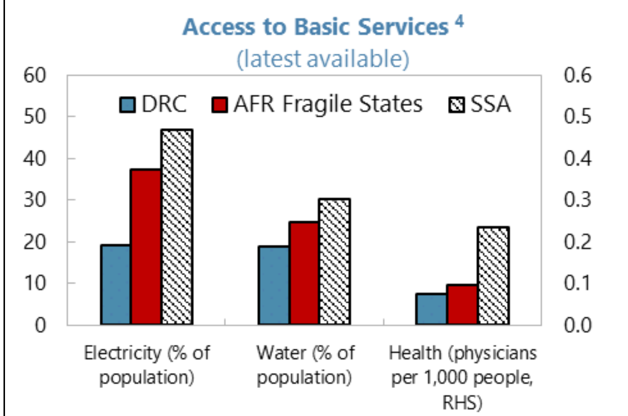
…and poverty rates stand out among African fragile states and SSA peers



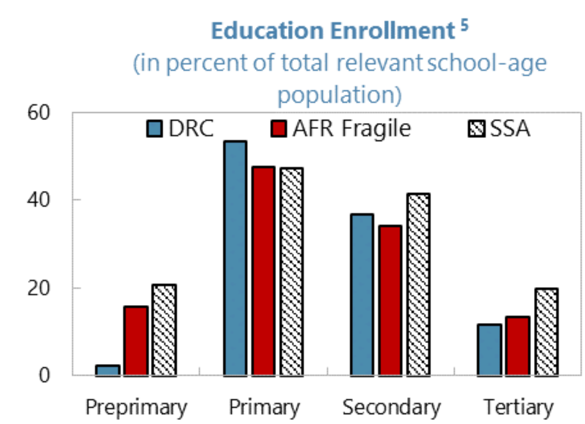
The population suffers from conflict displacement.



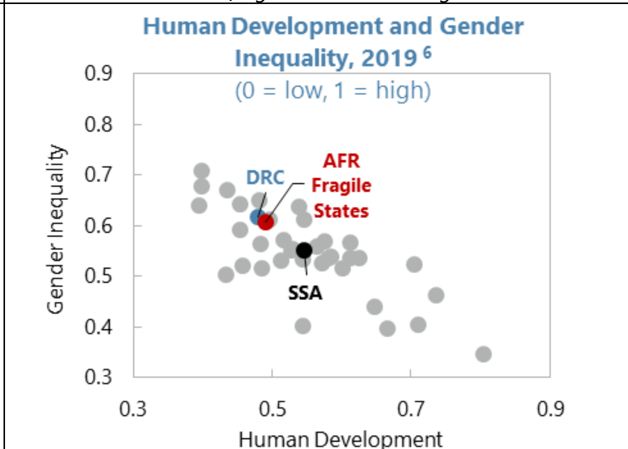
Access to basic services remains very low.



But education enrollment rates are comparable to peers.



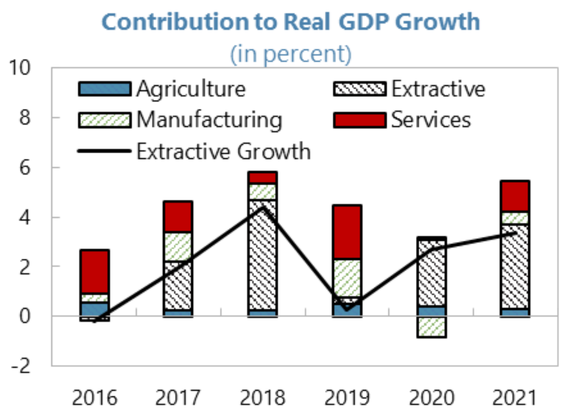
And gender equality and human capital are subpar for growth, but in line with other fragile states in the region.



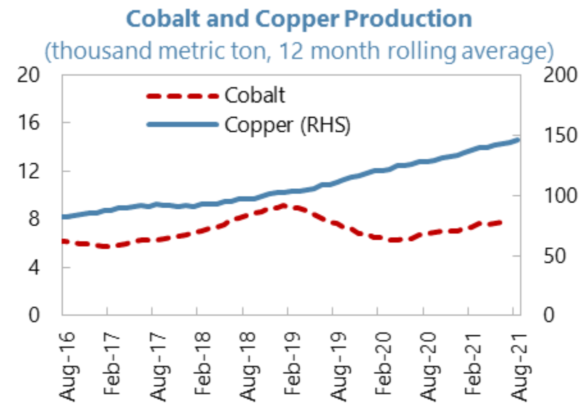
1/ IMF WEO Database; 2/ Haver Analytics; 3/Internal Displacement Monitoring Center (IDMC); 4/ World Bank Group; 5/ Ibrahim Index of African Governance; 6/ UNDP: Human Development Reports. Compared to other Sub-Saharan African countries. AFR Fragile States are Burundi, Central African Republic, Chad, Comoros, Republic of Congo, Côte d'Ivoire, DRC, Eritrea, Guinea, Guinea-Bissau, Liberia, Madagascar, Malawi, Mali, São Tomé and Príncipe, Sierra Leone, South Sudan, The Gambia, Togo, and Zimbabwe.

Figure 2. Democratic Republic of Congo: Real Sector Developments, 2016-21

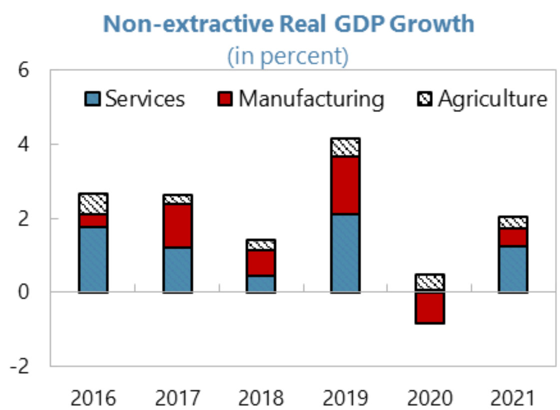
The extractive sector dominates growth dynamics…



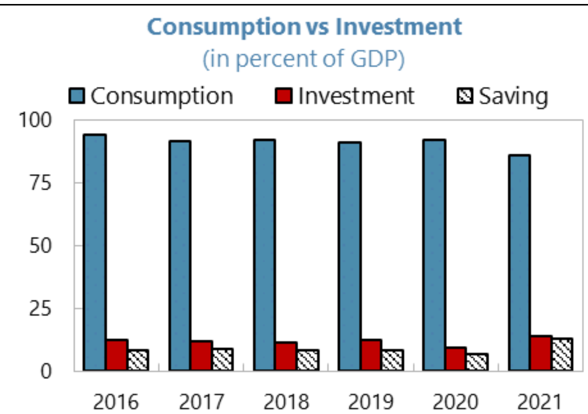
…with growth benefitting from increasing mining production.



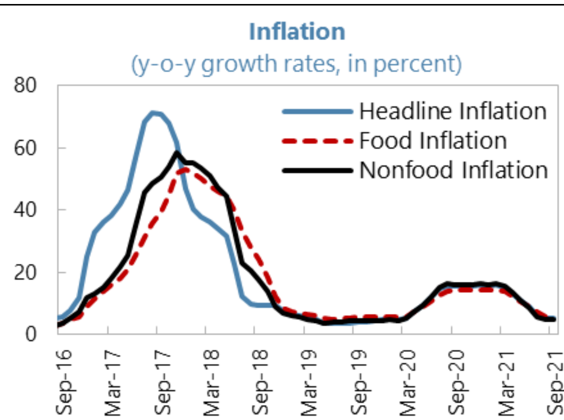
Services and manufacturing are driving non-extractive growth…



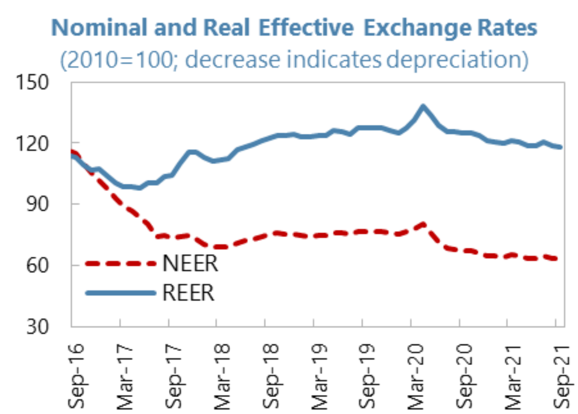
…but investment and savings remain very low.



Inflation has declined recently…



…and the exchange rate has remained stable.

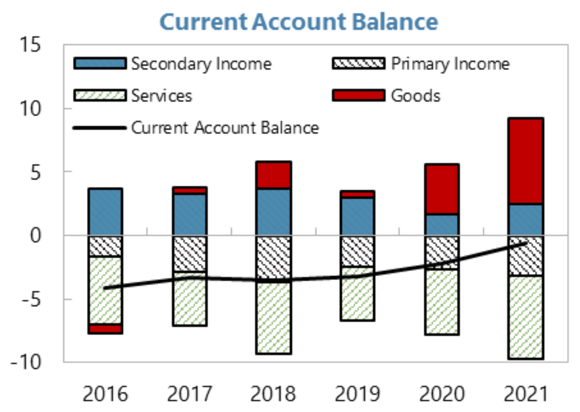


Sources: Congolese authorities; IMF STA INS database; and IMF staff estimates.

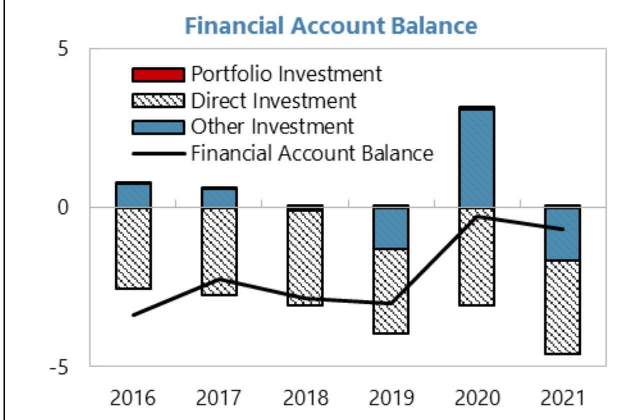
Figure 3. Democratic Republic of Congo: External Sector Developments, 2016-21

(in percent of GDP unless specified)

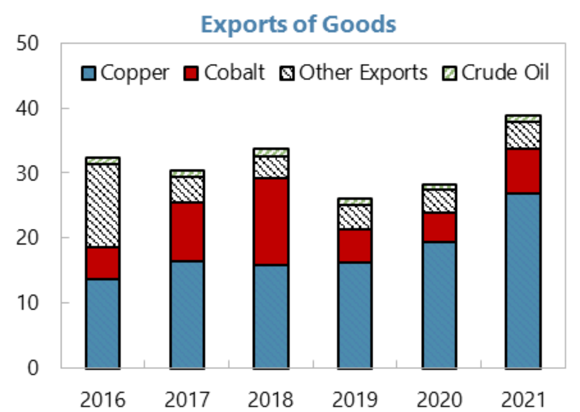
The current account deficit has narrowed supported by a trade surplus…



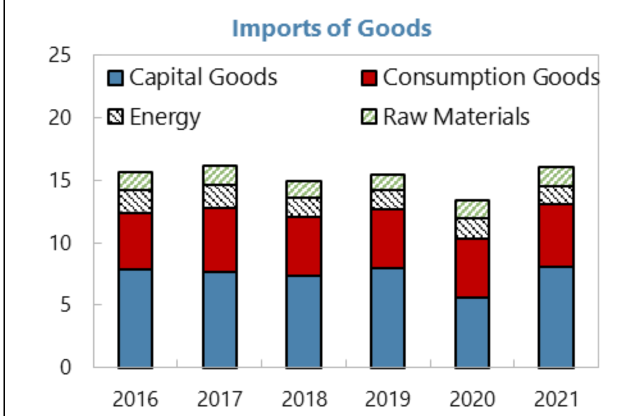
…and the financial account has benefitted from FDI and other flows.



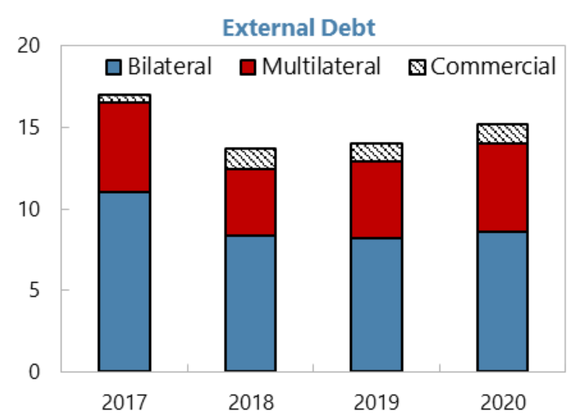
Exports are concentrated on mining products…



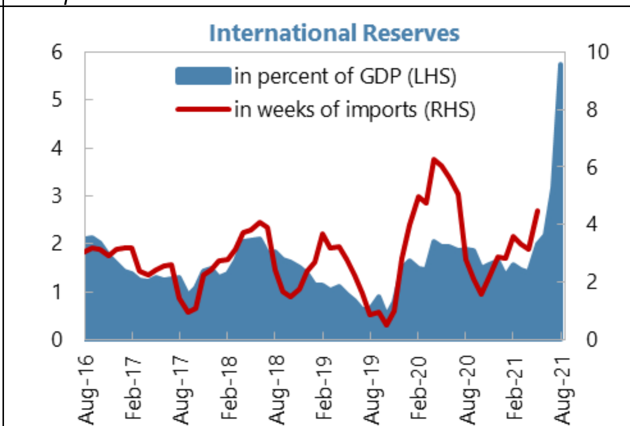
…while broad-based products constitute imports.



External debt remains subdued given limited financing…



…and reserves have recovered but remain below adequate levels.

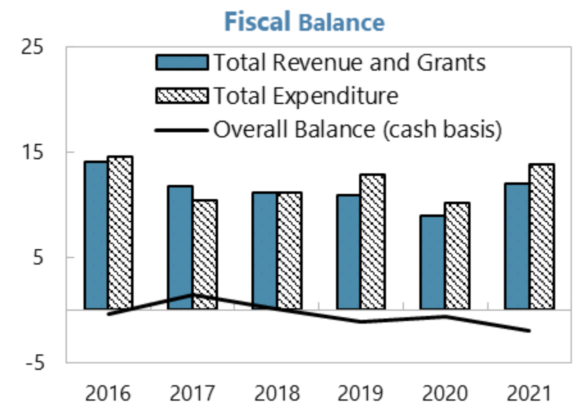


Sources: Congolese authorities and IMF staff estimates.

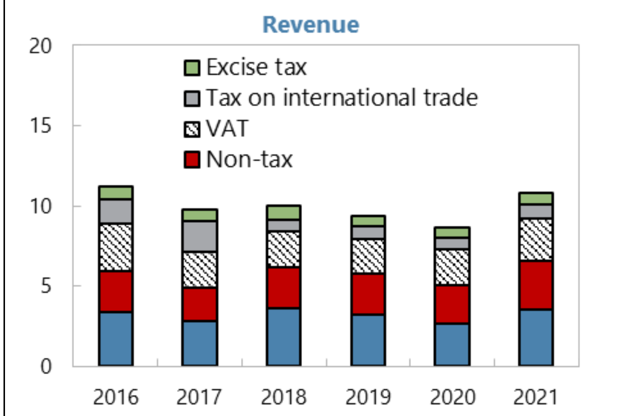
Figure 4. Democratic Republic of Congo: Fiscal Sector Developments, 2016-21

(in percent of GDP)

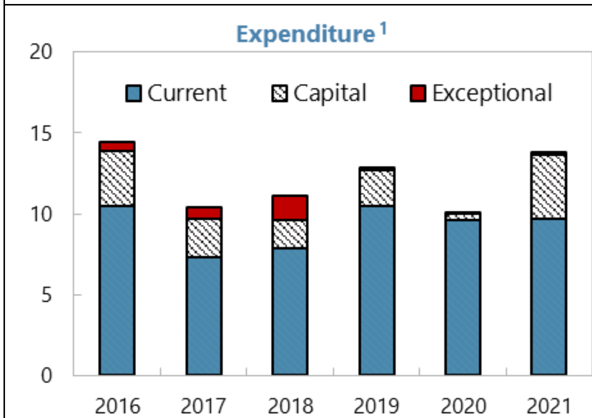
The fiscal deficit has deteriorated in the last years…



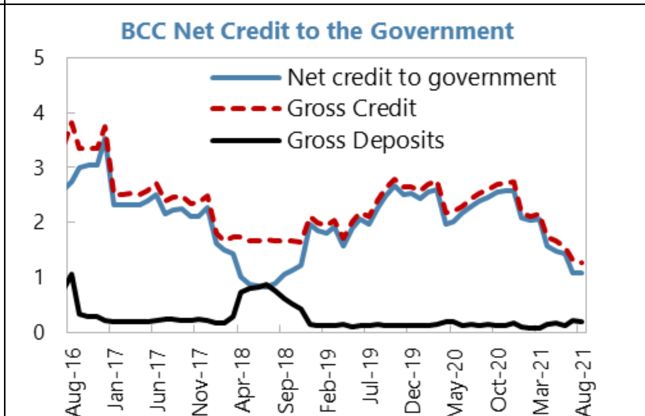
…as a result of relatively low revenues…



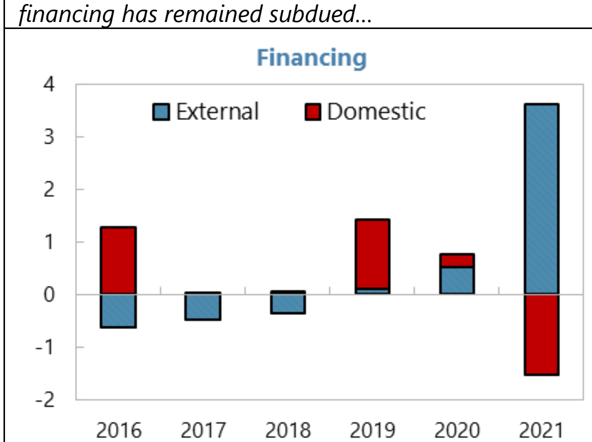
…and increasing current and capital expenditures.



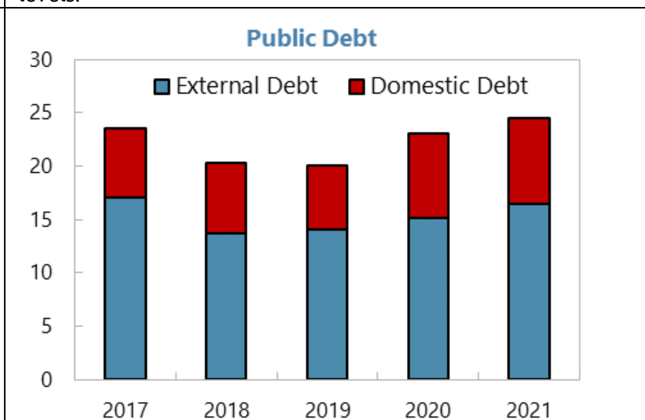
NCG improved following the good performance in 2021H1 and the discontinuation of BCC advances since end-April 2020.



External financing has increased while domestic financing has remained subdued…



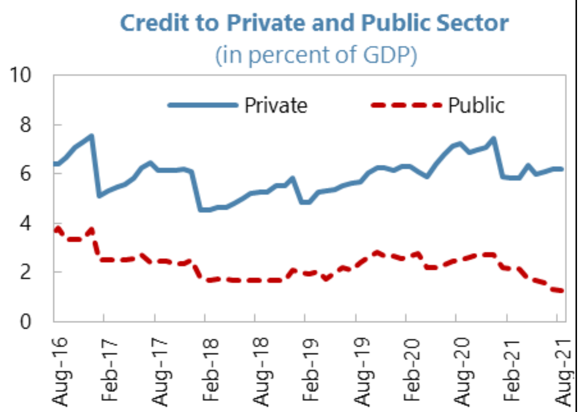
…and public debt has increased but remains at moderate levels.



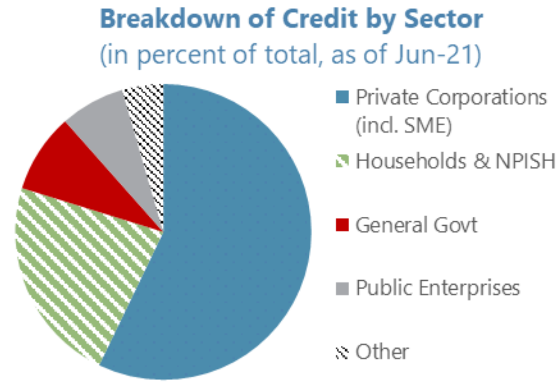
Sources: Congolese authorities and IMF staff estimates. 1/ Exceptional Expenditure includes security, elections, and other exceptional expenditures.

Figure 5. Democratic Republic of Congo: Monetary and Financial Sector Developments, 2016-21

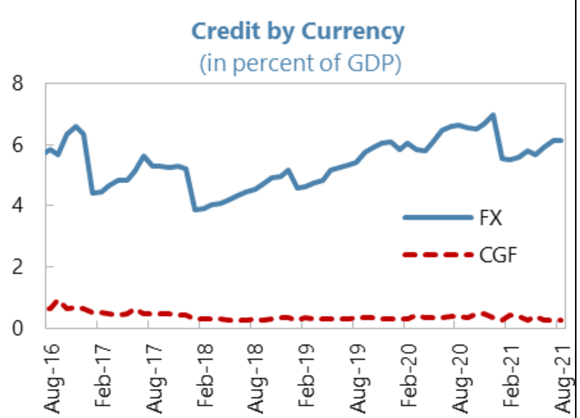
Credit remains very low and stagnant.



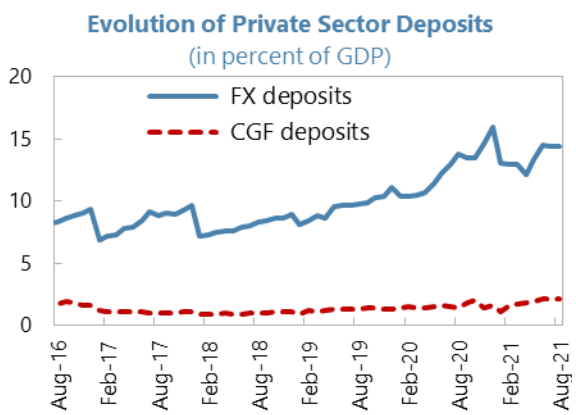
Private enterprises receive most of the loans.



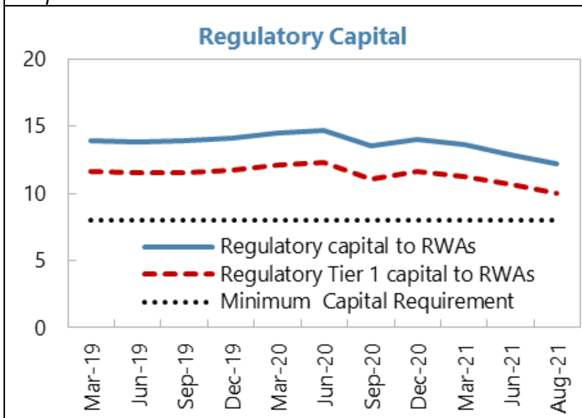
Credit in Congolese francs is scare.



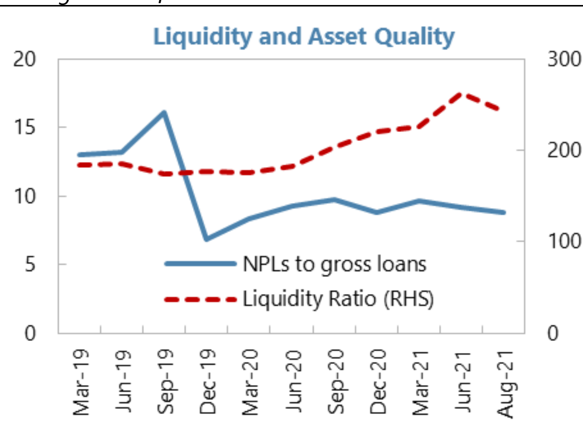
Bank deposits are almost entirely in foreign currency.



Capital ratios have declined but remain well above requirements.



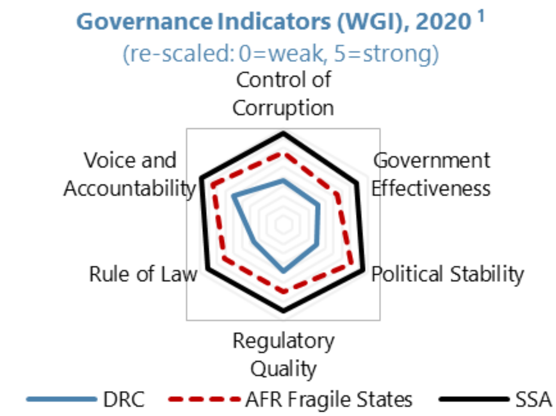
The ongoing suspension of credit quality rules has led to a stagnation of NPLs.



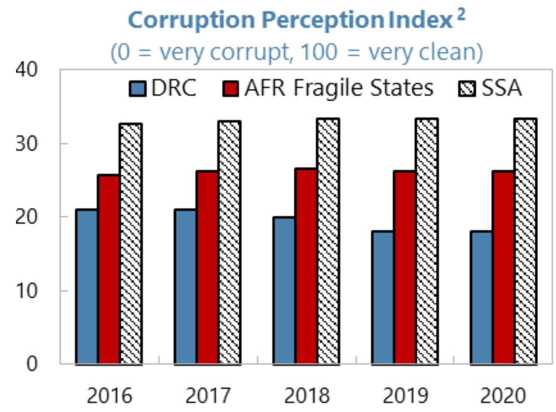
Sources: Congolese authorities and IMF staff estimates.

Figure 6. Democratic Republic of Congo: Governance Indicators

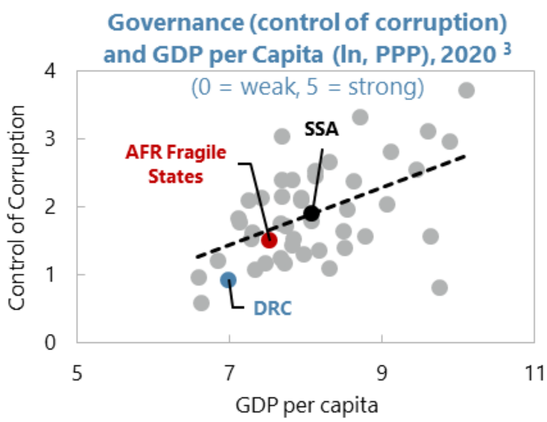
All governance indicators remain weaker than peers....



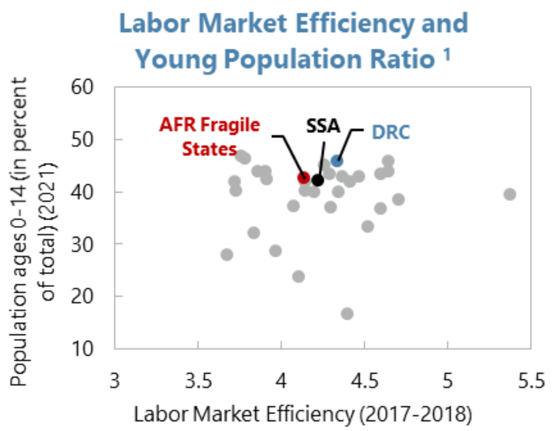
...while corruption index has deteriorated in past years...



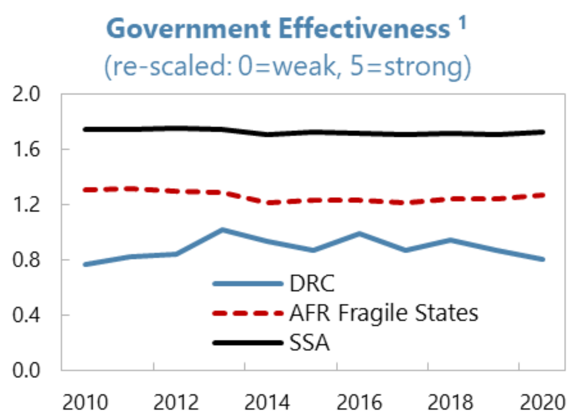
...and corruption control is below countries with similar income levels.



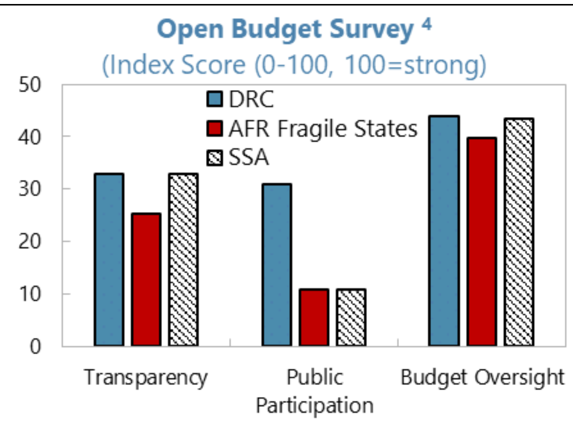
Labor market efficiency is slightly above peers.



Government effectiveness remains low and stable compared to other countries in the region...



...but budget transparency indicators are well above peers.



1/ World Bank Group; 2/ Transparency International; 3/ IMF WEO and World Bank Group; 4/ Open Budget Survey, IBP.

Table 1. Democratic Republic of the Congo: Selected Economic and Financial Indicators, 2020-26

	2020		2021		2022		2023	2024	2025	2026
	CR No. 21/168	Prel.	CR No. 21/168	Proj.	CR No. 21/168	Proj.	Proj.	Proj.	Proj.	Proj.
	(Annual percentage change, unless otherwise indicated)									
GDP and prices										
Real GDP	1.7	1.7	4.9	5.4	5.6	6.4	6.9	6.7	6.8	6.6
Extractive GDP	9.7	9.7	11.0	11.3	7.9	10.4	9.9	7.6	6.9	6.3
Non-Extractive GDP	-1.3	-1.3	2.2	2.9	4.5	4.5	5.4	6.2	6.7	6.8
GDP deflator	6.7	6.7	16.0	16.7	6.2	4.8	6.0	5.8	5.1	5.2
Consumer prices, period average	11.4	11.4	9.4	9.0	6.4	5.6	6.2	6.4	6.0	5.9
Consumer prices, end of period	15.8	15.8	6.0	5.2	6.3	5.8	6.2	6.6	6.2	5.7
External sector										
Exports in U.S. dollars, f.o.b. value	4.6	4.6	46.7	58.9	7.8	12.9	11.9	9.6	8.6	8.3
Imports in U.S. dollars, f.o.b. value	-8.3	-8.3	54.1	52.5	7.2	14.7	11.4	9.2	10.0	7.9
Exports volume	13.9	13.9	10.8	11.5	9.1	13.9	14.2	12.4	11.6	10.9
Import volume	0.7	1.1	32.2	27.8	8.1	11.0	12.4	8.7	9.2	7.2
Terms of trade	1.9	3.2	19.1	20.0	0.6	-1.7	0.7	-0.8	-1.5	-0.9
	(Annual change in percent of beginning-of-period broad money)									
Money and credit										
Net foreign assets	36.4	38.1	18.7	42.4	13.7	35.3	27.4	25.2	20.2	19.8
Net domestic assets	8.3	7.6	5.3	-19.7	3.5	-5.6	-10.4	-6.5	-1.9	-0.8
Domestic credit	12.4	13.2	6.2	-3.5	6.3	9.1	8.0	6.3	9.2	9.1
Of which: net credit to government	-0.1	0.0	0.6	-8.2	0.5	2.9	2.1	0.3	3.1	2.9
credit to the private sector	12.0	12.4	5.6	3.9	5.8	5.8	5.9	6.0	6.1	6.2
Broad money	44.6	45.7	24.1	22.6	17.3	29.7	17.0	18.7	18.3	19.0
	(Percent of GDP, unless otherwise indicated)									
Central government finance										
Revenue and grants	9.8	9.0	11.2	12.0	12.2	12.3	12.7	13.9	14.4	14.4
Revenue	8.7	8.7	10.2	10.8	11.4	11.2	12.2	13.4	14.1	14.1
Grants	1.0	0.2	1.0	1.2	0.8	1.2	0.5	0.5	0.3	0.2
Expenditures	11.9	10.1	12.9	13.8	13.4	14.2	14.7	15.2	15.8	16.1
Overall fiscal balance (commitment basis)	-2.1	-1.1	-1.7	-1.8	-1.2	-1.9	-2.0	-1.4	-1.5	-1.7
Non-natural resource overall fiscal balance	-3.9	-3.9	-3.2	-3.3	-3.7	-4.6	-4.6	-4.5	-5.2	-5.8
Investment and saving										
Gross national saving	9.3	6.7	10.6	13.2	12.3	14.2	14.2	15.9	16.5	16.5
Government	-2.9	-2.9	-1.4	-1.2	-0.1	-1.4	-0.3	1.1	2.3	2.4
Non-government	12.2	9.6	12.0	14.4	12.4	15.5	14.5	14.8	14.1	14.1
Investment	11.0	9.2	13.1	13.8	14.6	14.7	14.9	15.8	16.5	16.6
Government	2.1	0.3	3.3	4.0	3.8	3.9	4.2	5.1	6.0	6.3
Non-government	8.9	8.9	9.8	9.8	10.8	10.8	10.7	10.7	10.5	10.3
Balance of payments										
Exports of goods and services	28.6	28.6	37.3	39.3	37.2	40.8	41.6	41.9	41.8	41.7
Imports of goods and services	29.9	29.9	38.5	39.1	38.1	40.7	41.2	41.3	41.7	41.3
Current account balance, incl. transfers	-2.2	-2.2	-2.1	-0.5	-1.8	-0.5	-0.8	0.1	0.0	-0.1
Current account balance, excl. transfers	-3.3	-3.3	-3.5	-2.0	-3.4	-1.9	-1.7	-0.9	-0.8	-0.8
Overall balance	-0.7	-0.7	0.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Gross official reserves (millions of U.S. dollars)	709	803	1,344	2,953	1,922	3,860	4,606	5,282	5,538	5,590
Gross official reserves (weeks of imports)	1.9	2.1	3.4	6.8	4.6	7.8	8.5	8.7	8.5	8.5
	(Percent of GDP, unless otherwise indicated)									
External debt										
Total stock, including IMF	14.4	15.2	14.6	16.5	15.5	17.1	17.6	17.5	16.6	16.2
PV of debt (percent of exports of goods and services)	39.8	41.5	31.0	32.2	32.0	31.3	30.7	29.7	27.9	27.2
Scheduled debt service (millions of U.S. dollars)	403	400	562	485	634	652	754	742	730	689
Percent of exports of goods and services	3.0	2.9	2.7	2.9	2.9	3.0	2.7	2.4	2.4	2.1
Percent of government revenue	9.3	8.9	9.5	10.3	8.9	10.6	8.6	7.1	6.9	6.0
Exchange rate (CGF per U.S. dollars)										
Period average	1,852	1,852	…	…	…	…	…	…	…	…
End-of-period	1,972	1,972	…	…	…	…	…	…	…	…
Memorandum items:										
Nominal GDP (billions of CGF)	90,181	90,181	109,699	110,974	123,052	123,739	140,175	158,208	177,535	199,230

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

Table 2. Democratic Republic of the Congo: Balance of Payments, 2020-26

	2020	2021		2022		2023	2024	2025	2026
	Projections	CR No. 21/168	Proj.	CR No. 21/168	Proj.	Proj.	Proj.	Proj.	Proj.
	(Millions of US dollars, unless otherwise indicated)								
Current Account Balance	-1,095	-1,136	-308	-1,088	-319	-533	61	-22	-76
Current Account Balance (excl. budget grants) [A]	-1,194	-1,297	-526	-1,388	-588	-533	-11	-22	-76
Goods balance	1,923	1,943	3,810	2,206	3,984	4,563	5,101	5,186	5,741
Exports of goods	13,789	20,225	21,910	21,804	24,744	27,681	30,336	32,954	35,701
o/w extractive sector	13,597	19,999	21,682	21,538	24,476	27,368	29,970	32,528	35,201
Imports of goods	11,865	18,282	18,100	19,598	20,760	23,118	25,235	27,768	29,960
o/w capital goods	5,201	7,629	8,264	8,224	9,543	10,741	11,442	12,430	13,466
Services balance	-2,548	-2,621	-3,683	-2,706	-3,877	-4,315	-4,683	-5,125	-5,421
Primary income	-1,274	-1,586	-1,802	-1,714	-1,716	-2,018	-1,980	-1,997	-2,438
Secondary income (excl. budget support grants)	705	967	1,149	827	1,022	1,237	1,552	1,914	2,042
Budget grants	99	161	219	300	268	0	71	0	0
Capital Account Balance [B]	626	197	181	-46	237	95	67	14	-4
Net Lending(+)/Borrowing(-) [A+B]	-568	-1,100	-345	-1,434	-350	-438	56	-8	-79
Financial Account Balance (excl. IMF and budget loans) [C]	262	1,576	1,772	1,909	667	377	651	-127	-238
Portfolio investment	40	53	46	53	53	53	53	54	59
Direct investment	-1,498	-1,623	-1,638	-1,647	-1,798	-1,864	-1,924	-1,975	-1,974
Direct investment liabilities	1,498	1,623	1,638	1,647	1,798	1,864	1,924	1,975	1,974
Other investment (excl. IMF and budget support loans)	1,890	641	1,214	893	1,505	1,442	1,846	1,538	1,624
of which:									
Project loans	381	1,049	1,231	875	976	1,102	1,008	1,058	1,383
Change in reserves (+: increase)	-169	635	2,150	578	907	746	676	256	52
Net Errors and Omissions [D]	342	0	-258	0	0	0	0	0	0
Overall Balance [A+B-C+D]	-488		-2,376		-1,017	-815	-595	119	159
Overall Financing Needs	488		2,376		1,017	815	595	-119	-159
IMF financing	-17	441	434	444	440	444	224	-119	-159
Disbursements	0	441	434	444	440	444	224	0	0
Repayments	17	0	0	0	0	0	0	119	159
SDR allocation	0	0	1,467	0	0	0	0	0	0
Other exceptional financing	505	357	475	630	577	371	371	0	0
Budget support loans	406	196	256	330	309	371	300	0	0
World Bank	0	153	256	330	309				
AfDB	44	43	0	0	0				
Others	0	0	0	0	0				
Budget grants	99	161	219	300	268	0	71	0	0
Memorandum Items:									
Current account balance (in percent of GDP)	-2.2	-2.1	-0.5	-1.8	-0.5	-0.8	0.1	0.0	-0.1
Terms of trade (percent change)	3.2	20.0	20.0	-1.7	0.7	-1.5	-0.8	-1.5	-0.9
Financial account balance									
(excl. IMF, SDR allocation, and budget loans, in percent of GDP)	0.5	2.9	3.1	3.2	1.1	0.6	0.9	-0.2	-0.3
o/w direct investment liabilities	3.1	3.0	2.9	2.8	2.9	2.8	2.6	2.5	2.3
Gross reserves	802.8	1,344.4	2,952.7	1,922.5	3,859.6	4,606.1	5,282.0	5,537.7	5,589.8
in weeks of non-aid related imports	2.1	3.4	6.8	4.6	7.8	8.5	8.7	8.5	8.5

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

Table 3a. Democratic Republic of the Congo: Central Government Financial Operations, 2020-26 1/

(Billions of CGF)

	2020		2021		2022		2023	2024	2025	2026
	CR No. 21/168	Prel.	CR No. 21/168	Proj.	CR No. 21/168	Proj.	Proj.	Proj.	Proj.	Proj.
	(Billions of CGF, unless otherwise indicated)									
Revenue and grants	**8,820**	**8,073**	**12,286**	**13,316**	**14,999**	**15,277**	**17,757**	**21,914**	**25,482**	**28,655**
Revenue 2/	**7,889**	**7,889**	**11,154**	**11,951**	**14,000**	**13,826**	**17,086**	**21,146**	**25,004**	**28,162**
Tax revenue	5,634	5,634	8,115	8,594	10,514	10,371	13,264	16,826	20,263	22,867
Income tax	2,384	2,384	3,831	3,936	4,929	4,695	6,135	7,004	9,098	11,084
Individuals	1,123	1,123	1,497	1,525	1,844	1,667	1,815	2,049	2,299	2,838
Businesses	876	876	2,145	2,199	2,837	2,751	3,999	4,590	6,389	7,786
Taxes on goods and services	2,558	2,558	3,681	3,648	4,687	4,595	5,778	7,766	8,858	9,195
Value-added tax/Turnover tax	2,019	2,019	2,874	2,931	3,586	3,671	4,515	5,911	6,777	7,645
Excises	539	539	807	717	1,101	923	1,263	1,855	2,081	1,550
Taxes on international trade and transactions	692	692	603	1,010	898	1,081	1,351	2,056	2,307	2,588
Non-tax revenue	2,159	2,159	3,039	3,357	3,486	3,455	3,822	4,320	4,741	5,295
Revenue from natural resources and telecommunications	1,019	1,019	1,353	1,505	1,547	1,541	1,802	2,060	2,290	2,544
Mining royalties	586	586	718	899	823	1,029	1,053	1,204	1,329	1,465
Oil royalty and rent	105	105	160	211	169	243	263	295	332	373
Telecommunications	178	178	324	250	379	161	362	421	472	530
Dividents from state-owned enterprises	150	150	151	144	175	107	124	140	157	176
Fees from sectoral ministries	233	233	542	422	753	563	588	663	745	836
Special accounts and budgets	828	828	956	1,249	1,053	1,219	1,283	1,436	1,612	1,808
Grants	**931**	**183**	**1,132**	**1,365**	**999**	**1,451**	**670**	**768**	**478**	**492**
Project	799	0	809	934	377	909	670	614	478	492
Budget support	132	183	323	431	622	542	0	154	0	0
Expenditure	**10,693**	**9,096**	**14,112**	**15,322**	**16,503**	**17,625**	**20,540**	**24,069**	**28,077**	**32,115**
Current expenditure	8,690	8,690	10,376	10,772	11,614	12,429	13,925	15,803	17,314	19,365
Wages	4,758	4,758	5,120	5,277	5,796	6,176	6,975	7,873	8,835	9,914
Interest due	218	219	240	189	313	338	429	505	602	787
External	47	48	82	47	131	159	199	242	267	296
Domestic	171	171	159	142	182	178	230	262	335	491
Goods and services	1,471	1,471	2,346	2,385	2,632	2,659	3,012	3,400	3,816	4,277
Subsidies and other current transfers	2,243	2,243	2,669	2,922	2,873	3,256	3,509	4,026	4,062	4,386
Subsidies (incl. VAT reimbursements)	1,336	1,336	1,550	1,508	1,646	1,865	2,024	2,356	2,228	2,345
Transfers to other levels of national government	79	79	164	165	174	172	201	234	221	233
Special accounts and budgets	828	828	956	1,249	1,053	1,219	1,283	1,436	1,612	1,808
Capital expenditure	**1,906**	**308**	**3,612**	**4,387**	**4,736**	**4,792**	**5,952**	**8,093**	**10,627**	**12,596**
Foreign-financed	1,655	57	2,907	3,361	2,194	2,879	2,967	2,788	2,831	3,658
Domestically-financed	251	251	705	1,026	2,542	1,913	2,985	5,306	7,795	8,939
Exceptional expenditure 3/	**98**	**98**	**124**	**164**	**153**	**404**	**662**	**172**	**137**	**154**
Overall fiscal balance (commitment basis)	**-1,873**	**-1,024**	**-1,826**	**-2,006**	**-1,505**	**-2,348**	**-2,783**	**-2,154**	***-2,595***	***-3,460***
Base domestic fiscal balance	**-1,102**	**-1,102**	**31**	**36**	**-179**	**-760**	**-288**	**108**	**25**	**2**
Change in domestic arrears (repayment = -)	450	450	-185	-267	-477	-304	-309	-309	-481	-481
Domestic fiscal balance (cash basis)	**-652**	**-652**	**-155**	**-231**	**-655**	**-1,064**	**-596**	**-201**	**-456**	**-479**
Overall fiscal balance (cash basis)	**-1,424**	**-574**	**-2,012**	**-2,274**	**-1,981**	**-2,651**	**-3,092**	**-2,463**	***-3,076***	***-3,941***
Errors and omissions	***86***	***-72***	***-77***	***-44***	***0***	***0***	***0***	***0***	***0***	***0***
Financing	**1,372**	**680**	**2,089**	**2,317**	**1,981**	**2,651**	**3,092**	**2,463**	***3,076***	***3,941***
Domestic financing (banking system)	190	210	108	-1,689	108	677	628	101	1,277	1,445
Foreign financing	1,182	470	1,981	4,007	1,873	1,974	2,463	2,362	1,799	2,496
Budget loans (disbursements)	650	731	392	505	686	623	774	647	0	0
Project loans (disbursements)	856	57	2,098	2,427	1,817	1,970	2,297	2,174	2,353	3,165
Amortization of external debt	-324	-318	-509	-384	-630	-619	-607	-459	-554	-669
Other borrowing abroad 4/	0	0	0	1,458	0	0	0	0	0	0
Memorandum items:										
Gross domestic product (billions of CGF)	90,181	90,181	109,699	110,974	123,052	123,739	140,175	158,208	177,535	199,230
Mining revenues	2,375	2,375	3,561	3,647	4,317	4,945	6,199	7,183	9,324	11,590
Unpaid cumulative domestic financial obligations 5/	5,675	7,105	5,490	8,915	5,013	8,615	8,311	8,007	7,530	7,053

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

1/ Covers the budgetary central government.

2/ Revenue include compensations of 560 and 97 billions of CGF in 2019 and 2020, respectively.

3/ Mainly expenditure related to security and elections.

4/ Includes 50 percent of SDR allocation transferred to the MdF by end 2022.

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

Table 3b. Democratic Republic of the Congo: Central Government Financial Operations, 2020-26 1/

(Percent of GDP)

	2020		2021		2022		2023	2024	2025	2026
	CR No. 21/168	Prel.	CR No. 21/168	Proj.	CR No. 21/168	Proj.	Proj.	Proj.	Proj.	Proj.
	(Percent of GDP, unless otherwise indicated)									
Revenue and grants	***9.8***	***9.0***	***11.2***	***12.0***	***12.2***	***12.3***	***12.7***	***13.9***	***14.4***	***14.4***
Revenue 2/	**8.7**	**8.7**	**10.2**	**10.8**	**11.4**	**11.2**	**12.2**	**13.4**	**14.1**	**14.1**
Tax revenue	6.2	6.2	7.4	7.7	8.5	8.4	9.5	10.6	11.4	11.5
Income tax	2.6	2.6	3.5	3.5	4.0	3.8	4.4	4.4	5.1	5.6
Individuals	1.2	1.2	1.4	1.4	1.5	1.3	1.3	1.3	1.3	1.4
Businesses	1.0	1.0	2.0	2.0	2.3	2.2	2.9	2.9	3.6	3.9
Taxes on goods and services	2.8	2.8	3.4	3.3	3.8	3.7	4.1	4.9	5.0	4.6
Value-added tax/Turnover tax	2.2	2.2	2.6	2.6	2.9	3.0	3.2	3.7	3.8	3.8
Excises	0.6	0.6	0.7	0.6	0.9	0.7	0.9	1.2	1.2	0.8
Taxes on international trade and transactions	0.8	0.8	0.5	0.9	0.7	0.9	1.0	1.3	1.3	1.3
Non-tax revenue	2.4	2.4	2.8	3.0	2.8	2.8	2.7	2.7	2.7	2.7
Revenue from natural resources and telecommunications	1.1	1.1	1.2	1.4	1.3	1.2	1.3	1.3	1.3	1.3
Mining royalties	0.7	0.7	0.7	0.8	0.7	0.8	0.8	0.8	0.7	0.7
Oil royalty and rent	0.1	0.1	0.1	0.2	0.1	0.2	0.2	0.2	0.2	0.2
Telecommunications	0.2	0.2	0.3	0.2	0.3	0.1	0.3	0.3	0.3	0.3
Dividents from state-owned enterprises	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Fees from sectoral ministries	0.3	0.3	0.5	0.4	0.6	0.5	0.4	0.4	0.4	0.4
Special accounts and budgets	0.9	0.9	0.9	1.1	0.9	1.0	0.9	0.9	0.9	0.9
Grants	**1.0**	**0.2**	**1.0**	**1.2**	**0.8**	**1.2**	**0.5**	**0.5**	**0.3**	**0.2**
Project	0.9	0.0	0.7	0.8	0.3	0.7	0.5	0.4	0.3	0.2
Budget support	0.1	0.2	0.3	0.4	0.5	0.4	0.0	0.1	0.0	0.0
Expenditure	***11.9***	***10.1***	***12.9***	***13.8***	***13.4***	***14.2***	***14.7***	***15.2***	***15.8***	***16.1***
Current expenditure	**9.6**	**9.6**	**9.5**	**9.7**	**9.4**	**10.0**	**9.9**	**10.0**	**9.8**	**9.7**
Wages	5.3	5.3	4.7	4.8	4.7	5.0	5.0	5.0	5.0	5.0
Interest due	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.4
External	0.1	0.1	0.1	0.0	0.1	0.1	0.1	0.2	0.2	0.1
Domestic	0.2	0.2	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2
Goods and services	1.6	1.6	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Subsidies and other current transfers	2.5	2.5	2.4	2.6	2.3	2.6	2.5	2.5	2.3	2.2
Subsidies (incl. VAT reimbursements)	1.5	1.5	1.4	1.4	1.3	1.5	1.4	1.5	1.3	1.2
Special accounts and budgets	0.9	0.9	0.9	1.1	0.9	1.0	0.9	0.9	0.9	0.9
Capital expenditure	**2.1**	**0.3**	**3.3**	**4.0**	**3.8**	**3.9**	**4.2**	**5.1**	**6.0**	**6.3**
Foreign-financed	1.8	0.1	2.6	3.0	1.8	2.3	2.1	1.8	1.6	1.8
Domestically-financed	0.3	0.3	0.6	0.9	2.1	1.5	2.1	3.4	4.4	4.5
Exceptional expenditure 3/	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.3**	**0.5**	**0.1**	**0.1**	**0.1**
Overall fiscal balance (commitment basis)	***-2.1***	***-1.1***	***-1.7***	***-1.8***	***-1.2***	***-1.9***	***-2.0***	***-1.4***	***-1.5***	***-1.7***
Base domestic fiscal balance	**-1.2**	**-1.2**	**0.0**	**0.0**	**-0.1**	**-0.6**	**-0.2**	**0.1**	**0.0**	**0.0**
Change in domestic arrears (repayment = -)	0.5	0.5	-0.2	-0.2	-0.4	-0.2	-0.2	-0.2	-0.3	-0.2
Domestic fiscal balance (cash basis)	-0.7	-0.7	-0.1	-0.2	-0.5	-0.9	-0.4	-0.1	-0.3	-0.2
Overall fiscal balance (cash basis)	***-1.6***	***-0.6***	***-1.8***	***-2.0***	***-1.6***	***-2.1***	***-2.2***	***-1.6***	***-1.7***	***-2.0***
Errors and omissions	**0.1**	**-0.1**	-0.1	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Financing	***1.5***	***0.8***	***1.9***	***2.1***	***1.6***	***2.1***	***2.2***	***1.6***	***1.7***	***2.0***
Domestic financing	0.2	0.2	0.1	-1.5	0.1	0.5	0.4	0.1	0.7	0.7
Foreign financing	1.3	0.5	1.8	3.6	1.5	1.6	1.8	1.5	1.0	1.3
Budget loans (disbursements)	0.7	0.8	0.4	0.5	0.6	0.5	0.6	0.4	0.0	0.0
Project loans (disbursements)	0.9	0.1	1.9	2.2	1.5	1.6	1.6	1.4	1.3	1.6
Amortization of external debt	-0.4	-0.4	-0.5	-0.3	-0.5	-0.5	-0.4	-0.3	-0.3	-0.3
Other borrowing abroad 4/	0.0	0.0	0.0	1.3	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Gross domestic product (billions of CGF)	90,181	90,181	109,699	110,974	123,052	123,739	140,175	158,208	177,535	199,230
Mining revenues	2.6	2.6	3	3.3	3.5	4.0	4.4	4.5	5.3	5.8
Unpaid cumulative domestic financial obligations 5/	6.3	7.9	5.0	8.0	4.1	7.0	5.9	5.1	4.2	3.5

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

1/ Covers the budgetary central government.

2/ Revenue include compensations of 560 and 97 billions of CGF in 2019 and 2020, respectively.

3/ Mainly expenditure related to security and elections.

4/ Includes 50 percent of SDR allocation transferred to the MdF by end 2022.

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

Table 4. Democratic Republic of the Congo: Depository Corporations Survey, 2020-26

(Billions of CGF)

	2020		2021		2022		2023	2024	2025	2026
	CR No. 21/168	Prel.	CR No. 21/168	Proj.	CR No. 21/168	Proj.	Proj.	Proj.	Proj.	Proj.
					Central bank survey:					
Net foreign assets	**-823**	**-543**	**-406**	**2,488**	**-165**	**3,413**	**4,058**	**5,083**	**5,904**	**6,579**
Claims on non-residents[1/]	1,448	1,700	2,795	7,048	4,125	9,075	10,924	12,724	13,648	14,143
Liabilities on non-residents	-2,272	-2,243	-3,201	-4,560	-4,290	-5,662	-6,866	-7,641	-7,743	-7,564
Net domestic assets	**4,478**	**4,199**	**5,026**	**1,988**	**5,555**	**1,973**	**1,820**	**1,449**	**1,361**	**1,581**
Net claims on the government	2,298	2,318	2,298	1,298	2,298	1,293	2,181	2,177	2,173	2,168
Claims on deposit money banks	1,406	1,311	1,715	1,213	1,715	1,217	1,253	1,291	1,329	1,369
Other items, net	726	534	961	-559	1,487	-574	-1,654	-2,061	-2,185	-2,005
Monetary base	**3,655**	**3,655**	**4,619**	**4,476**	**5,390**	**5,386**	**5,877**	**6,532**	**7,266**	**8,159**
					Depository corporations survey:					
Net foreign assets	**9,670**	**9,969**	**13,165**	**17,944**	**16,347**	**26,075**	**34,265**	**43,069**	**51,458**	**61,165**
Central bank	-823	-543	-406	2,488	-165	3,413	4,058	5,083	5,904	6,579
Commercial banks	10,494	10,512	13,572	15,456	16,512	22,662	30,208	37,986	45,554	54,586
Net domestic assets	**8,995**	**8,829**	**9,993**	**5,125**	**10,811**	**3,827**	**710**	**-1,563**	**-2,353**	**-2,725**
Domestic credit	9,600	9,701	10,755	9,042	12,214	11,149	13,528	15,732	19,533	24,007
Net credit to government	2,159	2,178	2,267	637	2,389	1,314	1,942	2,043	3,319	4,764
Credit to the economy	7,442	7,523	8,488	8,405	9,825	9,832	11,586	13,689	16,214	19,242
Other items, net	-605	-872	-762	-3,917	-1,403	-7,319	-12,818	-17,295	-21,886	-26,732
Broad Money (M2)	**18,665**	**18,797**	**23,158**	**23,053**	**27,158**	**29,894**	**34,974**	**41,513**	**49,122**	**58,468**
Narrow Money (M1)	3,417	3,424	4,405	4,654	5,216	5,976	6,271	7,070	7,790	8,870
Currency in circulation	2,219	2,217	2,605	2,679	3,111	3,407	3,189	3,372	3,332	3,523
Demand deposits	1,197	1,207	1,799	1,976	2,105	2,568	3,082	3,699	4,438	5,326
Quasi money	15,249	15,373	18,753	18,399	21,941	23,919	28,703	34,443	41,332	0
Time deposits in domestic currency	288	291	614	636	719	827	992	1,191	1,429	1,715
Foreign currency deposits	14,960	15,082	18,139	17,763	21,223	23,092	27,710	33,252	39,902	47,883
					(Annual percent change)					
Net foreign assets	94.3	97.3	36.1	80.0	24.2	45.3	31.4	25.7	19.5	18.9
Net domestic assets	13.4	12.4	11.1	-42.0	8.2	-25.3	-81.5	-320.2	50.6	15.8
Domestic credit	22.9	24.1	10.7	-1.4	12.4	14.7	23.7	15.3	15.9	16.4
Net credit to government	-0.6	0.3	5.0	-70.8	5.4	106.3	47.8	5.2	62.5	43.5
Credit to the private sector	30.2	31.2	15.7	11.0	17.3	17.9	19.9	20.0	20.0	20.0
Other items, net	825.5	511.1	25.9	349.0	84.1	86.8	75.1	34.9	26.5	22.1
Broad Money (M2)	44.6	45.7	24.1	22.6	17.3	29.7	17.0	18.7	18.3	19.0
					(Annual percentage change of beginning-of-period broad money)					
Net foreign assets	36.4	38.1	18.7	42.4	13.7	35.3	27.4	25.2	20.2	19.8
Net domestic assets	8.3	7.6	5.3	-19.7	3.5	-5.6	-10.4	-6.5	-1.9	-0.8
Domestic credit	12.4	13.2	6.2	-3.5	6.3	9.1	8.0	6.3	9.2	9.1
Net credit to government	-0.1	0.0	0.6	-8.2	0.5	2.9	2.1	0.3	3.1	2.9
Credit to the private sector	12.0	12.4	5.6	3.9	5.8	5.8	5.9	6.0	6.1	6.2
Credit to parastatals	-0.1	-0.1	0.0	0.0	0.5	0.0	2.1	0.3	3.1	2.9
Other items, net	-4.2	-5.7	-0.8	-16.2	-2.8	-14.8	-18.4	-12.8	-11.1	-9.9
Broad money (M2)	44.6	45.7	24.1	22.6	17.3	29.7	17.0	18.7	18.3	19.0
Memorandum items:										
Nominal GDP (billions of CGF)	90,181	90,181	109,699	110,974	123,052	123,739	140,175	158,208	177,535	199,230
Velocity (GDP/broad money)	5	4.8	5	4.8	4.5	4.3	4.0	3.8	3.6	3.4
Foreign currency deposits (percent of M2)	80	80.2	78	77.1	78.1	77.2	79.2	80.1	81.2	81.9
Foreign currency deposits (percent of total deposits)	91	91.0	88	87.2	88.3	87.2	87.2	87.2	87.2	899.0
Net domestic assets of the BCC (billions of CGF)	4,478	4,199	5,026	1,988	5,555	1,973	1,820	1,449	1,361	1,581

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

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

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

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Total obligations on existing and prospective credit 1/														
Total obligations (In millions of SDRs)	32.0	9.9	0.3	0.3	0.3	80.2	106.9	183.0	243.9	304.9	240.1	213.5	137.3	76.4
Principal	29.7	9.9	0.0	0.0	0.0	80.0	106.6	182.8	243.7	304.6	239.9	213.2	137.1	76.1
Charges and interest 2/	2.3	0.0	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Total obligations (In millions of U.S. dollars)	44.6	14.2	0.4	0.4	0.4	118.9	159.3	272.8	363.6	454.4	357.9	318.2	204.7	113.9
In percent of exports of goods and services	0.3	0.1	0.0	0.0	0.0	0.4	0.4	0.7	1.0	1.2	0.9	0.8	0.5	0.3
In percent of GDP	0.1	0.0	0.0	0.0	0.0	0.1	0.2	0.3	0.4	0.4	0.3	0.3	0.2	0.1
In percent of quota	3.0	0.9	0.0	0.0	0.0	7.5	10.0	17.2	22.9	28.6	22.5	20.0	12.9	7.2
In percent of gross international reserves	5.6	0.5	0.0	0.0	0.0	2.1	2.8	4.7	6.2	7.8	5.5	4.7	3.0	1.6
Fund credit outstanding (end-period)														
In millions of SDRs	542.9	837.6	1,142.2	1,446.8	1,599.1	1,519.1	1,412.5	1,229.8	986.1	681.5	441.7	228.5	91.4	15.3
In millions of U.S. dollars	780.8	1,199.2	1,657.6	2,118.4	2,360.4	2,257.1	2,111.0	1,837.9	1,473.7	1,018.5	660.1	341.4	136.6	22.8
In percent of exports of goods and services	5.6	5.4	6.6	7.6	7.7	6.8	5.8	5.0	3.9	2.6	1.7	0.8	0.3	0.1
In percent of GDP	1.6	2.1	2.7	3.1	3.2	2.8	2.4	2.0	1.5	1.0	0.6	0.3	0.1	0.0
In percent of quota	50.9	78.6	107.1	135.7	150.0	142.5	132.5	115.4	92.5	63.9	41.4	21.4	8.6	1.4
In percent of total external debt	11.2	13.1	16.1	18.2	18.7	17.3	15.2	12.7	9.9	6.6	4.2	2.1	0.8	0.1
In percent of gross international reserves	97.3	40.6	42.9	46.0	44.7	40.8	37.8	31.4	25.0	17.4	10.2	5.0	2.0	0.3
Memorandum items														
Exports of goods and services (in millions of U.S. dollars)	13,932	22,154	25,019	27,989	30,700	33,382	36,272	36,947	37,675	38,604	39,689	40,711	42,061	45,156
Quota (in millions of SDRs)	1,066	1,066	1,066	1,066	1,066	1,066	1,066	1,066	1,066	1,066	1,066	1,066	1,066	1,066
GDP (in millions of U.S. dollars)	48,707	56,301	61,284	67,261	73,349	79,865	87,064	92,984	99,313	106,287	113,838	121,972	131,028	141,908
Public sector external debt (end-period, in millions of U.S. dollars)	6,945	9,180	10,324	11,668	12,644	13,074	13,868	14,495	14,953	15,321	15,721	16,127	16,684	17,303
Gross international reserves (in millions of U.S. dollars)	803	2,953	3,860	4,606	5,282	5,538	5,590	5,858	5,896	5,841	6,449	6,787	6,881	7,216

Sources: IMF staff estimates and projections.

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

2/ On July 22, 2021 the IMF Executive Board agreed that interest rates on all loans provided through the PRGT facilities will remain at zero until the next review of the interest rate structure, to occur by end-July 2023. Based on this decision and current projections of SDR rate, a zero interest is also assumed beyond July 2023 for all PRGT facilities.

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

	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Aug-21
Adequacy								
Regulatory capital to risk-weighted assets	14.1	14.5	14.7	13.5	14.0	13.6	12.9	12.2
Regulatory Tier 1 capital to risk-weighted assets	11.7	12.1	12.3	11.1	11.6	11.2	10.6	10.0
Asset quality								
NPLs to gross loans [1/]	21.1	17.2	18.1	20.6	8.8	9.6	9.2	8.8
NPLs net of provisions to capital	15.0	20.6	22.7	23.6	18.6	13.1	12.7	12.7
Earnings and profitability								
Return on assets (net income/total assets)	1.0	1.4	1.1	2.2	2.1	0.3	1.9	1.4
Return on net income (net income/equity)	4.9	8.3	5.9	16.4	3.1	5.4	15.9	10.8
Interest margin to gross income	38.0	38.7	37.3	36.1	32.6	30.5	28.7	29.1
Non-interest expenses to gross income	71.9	66.3	68.3	68.2	67.1	65.9	65.3	66.0
Liquidity								
Liquid assets/total deposits and short-term liabilities	76.0							
Deposits/Loans	176.3	174.8	182.3	203.1	220.5	226.0	262.2	242.6
Sensitivity to market risk								
Net open in foreign exchange position to capital	4.0	7.2	10.9	10.2	11.7	10.6	10.7	9.9
Foreign currency-denominated liabilities to total liabilities	88.0	86.6	87.9	88.2	90.1	86.3	86.1	86.1
Foreign currency-denominated loans to total loans	91.7	89.5	87.9	87.9	89.0	88.9	92.6	88.9

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

Table 7. Democratic Republic of the Congo: Reviews and Disbursements Under the Three-Year Extended Credit Facility Arrangement 1/

Avaibility Date	Action	Associated Disbursement	Share of Quota
On July 15, 2021	Approved three-year ECF arrangement	SDR 152.3 million	14.3
On or after September 15, 2021	Completed the first review based on end-June, 2021 performance criteria	SDR 152.3 million	14.3
On or after March 15, 2022	Completed the second review based on end-December, 2021 performance criteria	SDR 152.3 million	14.3
On or after September 15, 2022	Completed the third review based on end-June, 2022 performance criteria	SDR 152.3 million	14.3
On or after March 15, 2023	Completed the fourth review based on end-December, 2022 performance criteria	SDR 152.3 million	14.3
On or after September 15, 2023	Completed the fifth review based on end-June, 2023 performance criteria	SDR 152.3 million	14.3
On or after March 15, 2024	Completed the sixth and final review based on end-December, 2023 performance criteria	SDR 152.2 million	14.3
Total		SDR 1066.0 million	100.0

Source: International Monetary Fund.

1/ Total quota shares may not add up exactly to 100 percent due to rounding.

Annex I. Risk Assessment Matrix[1]

Source of Risks	Likelihood	Expected Impact on Economy	Policy Response
Potential External Risks – Conjunctural shocks			
Global resurgence of the Covid-19 pandemic. Local outbreaks lead to a global resurgence of the pandemic (possibly due to vaccine-resistant variants), which requires costly containment efforts and prompts persistent behavioral changes rendering many activities unviable.	Medium	**High** A global slowdown in economic activity will reduce demand for exports, especially from China, would fall, hurting the domestic economy. Insufficient policy support would likely increase poverty and inequality among vulnerable populations, especially those in informal sector	- Maintain prudent macro policies to sustain stability, seeking expenditure prioritization to create space for fiscal policy support. - Continue mobilizing support from the international community to provide support. - Allow the exchange rate to act as a shock absorber and use external buffers to prevent disorderly depreciation that could negatively impact financial stability. - Scale up the COVID19 vaccination campaign.
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 for renewable energy adoption. Uncertainty surrounding each of these factors leads to bouts of volatility.	Medium	**Low** Rising commodity prices and accelerated plans for renewable energy adoption will result in positive terms-of-trade shock for the DRC.	- Maintain prudent macro policies, channeling additional resources to address structural bottlenecks to growth. - Accumulate additional external and internal buffers that would facilitate sustainable policies amid bouts of volatility. - Prioritize use of additional revenues in non-recurrent spending to address most urgent development needs.

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

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** Higher volatility in commodity prices will challenge sustainable macro policies, and put pressure on the local currency, reserves, and fiscal revenues.	- Accumulate international reserve buffers. Diversify the structure of the economy and export sources. - Increase participation in regional trade area agreements (EAC and AFCFTA). - Align spending with available revenues and external financing.
DRC-Specific Risks			
Political instability and social discontent ahead of the Presidential elections.	**Medium**	**High** Policymaking and macro stability could be undermined, and economic uncertainty would increase, with a negative impact on confidence and growth. Social tensions could undermine the ability to advance with ambitious and much needed structural reforms. They could also threaten (limited) external financing flows from international financial institutions.	- Maintain prudent macro policies, sustain expenditure restraint, and avoid monetary financing of government operations. - Maintain commitment and ownership of reforms. - Identify external financing sources, while remaining prudent on sovereign indebtedness. - Strengthen the policy response and improve communication about economic policy - especially towards setting a medium-term reform agenda. - Strengthen social safety nets to protect the most vulnerable segments of the population.
Recurrent Ebola epidemics	**Medium**	**Low** High contagion risks in some of the most fragile areas of the country with severe effects on local communities.	- Prepare contingency planning, providing support to the most vulnerable segments of the population. - Obtain external capacity and financial support and mobilize domestic resources to fight the epidemic.
Escalated armed conflicts	**Low**	**Low (for the whole country)** Economic activity would be hurt though mostly in areas not well integrated with the rest of the country.	- Make room for a budgetary contingency for such an emergency. - Prevent escalation of armed conflict to mining regions and other nearby provinces.

Annex II. Strategic Plan for the Reform of Public Finance 2022-28

1. On November 26, 2021, the government adopted a new Strategic Plan for the Reform of Public Finance (SPRPF) for 2022-28. The previous plan (2010) was instrumental in helping modernize the related legislative and regulatory framework, and strengthen the transparency of budget management, among other important reforms. However, much remains to be done; the Public Expenditure and Financial Accountability (PEFA) assessment in 2019 noted an overall deterioration of the PFM indicators compared to the previous assessment (2012). The government recognized the need to redefine priorities through a new plan for the reform of public finances.

2. The goals of the new SPRPF are in line with the strategic objectives and priorities included in the PNSD. The goals of the new plan are to (i) provide the country with a credible, multi-year budgetary framework aligned with public policies; (ii) increase internal resources by optimizing revenue mobilization; (iii) improve the quality of public spending; (iv) align the accounting and cash management systems and the public finance statistics with best international practices; (v) guarantee the proper use of public funds and enable the control the risks associated with PFM; (vi) strengthen transparency in the budget and facilitate public oversight; and (vii) ensure the interconnection and integration of the various information systems in public finance.

3. The proposed measures are organized around eight axes and include key reforms envisaged under the ECF arrangement. The main axes are (i) budget preparation, execution, and control reforms; (ii) tax policy and administration; (iii) public expenditure management; (iv) public accounting and cash management; (v) control of public finances; (vi) management of provincial and local public finances; (vii) participatory governance in public finances; and (viii) digitalization of the PFM system. Some of the key reforms, also included in the ECF arrangement, are the rationalization of tax expenditures, strengthening budget credibility, and improving the public procurement system.

4. Implementing the new strategy relies on appropriate monitoring and support from partners. The SPRPF, prepared with IMF assistance, was presented to various partners in a technical workshop organized in mid-November. An operational plan is expected to be prepared by March 2022. The Prime Minister will chair a national steering committee to supervise the main PFM reforms both at central and provincial levels. It will include representatives of the Minister of Finance, Budget, and other relevant ministries, and will be coordinated by the *Comité d'Orientation de réforme des finances Publiques* (COREF). In addition, various provincial and local steering committees and technical working sub-committees will focus on decentralization and other specific areas of reform.

5. Substantial financial resources, political support and technical assistance will be needed to ensure adequate progress of PFM reforms. The PSRFP includes ambitious reforms, and its implementation requires significant financial resources and also training given the limited current capacity in the public administration. While the authorities need to scale up efforts, strong and broad political support for reforms will be needed, including at the highest level.

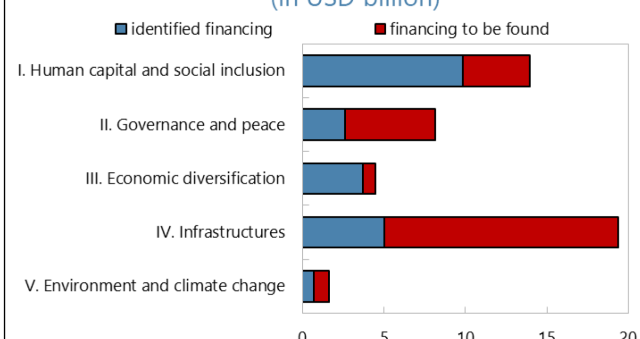
Annex III. The 2019-23 National Strategic Development Plan

1. **The EDD (PNSD for 2019-23) was adopted by the Council of Ministers on December 27, 2019.** It builds on the government's long-term economic and social programs, on the Millennium Development Goals, and the Agenda 2063 of the African Union, and benefitted from technical support from development partners, including the World Bank, the African Development Bank, and the UNDP. In a context of extreme fragility, exacerbated by decades of recurrent humanitarian and political crises, and with more than two thirds of the population living in poverty, much remains to be done to reduce poverty and foster inclusive growth, including in education, health, social protection, infrastructure, the business environment, and environment protection (e.g., land and forest management).

2. **To address these challenges, the EDD details strategic objectives organized around five main pillars:** (i) the development of human capital and social inclusion, supported by strengthened social policies and spending, with strong focus on education, health, and housing; (ii) the strengthening of governance and the consolidation of peace; (iii) the consolidation and diversification of economic growth, focusing on sectors with high growth potential (mining, hydrocarbons, metallurgy) and on those with strong job creation potential (forestry, agriculture, agro-industry); (iv) the reconstruction and modernization of much needed infrastructure in transport, energy and telecommunication; and (v) the environmental protection, making use of the country large natural resources in a sustainable manner, respecting environmental standards, and improving resilience to climate change.

3. **The strategies underlying the EDD are in line with the ECF arrangement,** which focuses on well-targeted structural reforms to promote inclusive growth, reduce poverty, and address long-term fragilities. In particular, the EDD recognizes that better governance will need a clearer separation between public and private affairs, and will involve improving the public administration, strengthening the budget process, increasing the efficiency of public spending and improving the business and investment environment. On the issue of economic growth and diversification, the EDD stresses the role of private and public investment and revenue mobilization in achieving higher economic growth. To achieve this, the EDD targets an increase in tax revenue through broadening the tax base, improving tax collection, and encouraging compliance. In addition, the EDD proposes to address risks stemming from climate change and improve social protection, including by improving the resilience of agriculture and other livelihoods to climatic adversity.

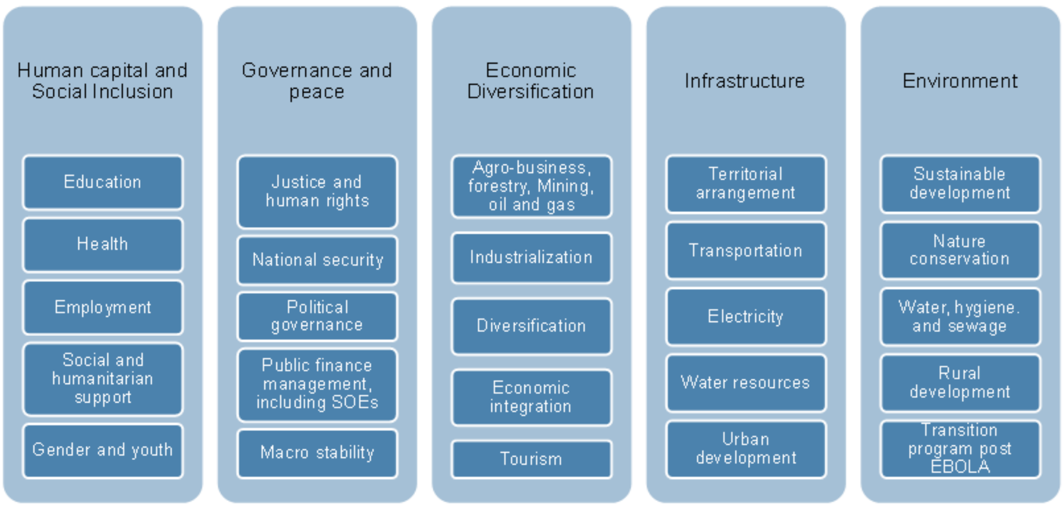
Costing of the EDD
(in USD billion)



Source: PNSD 2019-23.

4. **The costing of the measures for the EDD implementation was estimated at nearly $10 billion per year,** compared with a total state budget of some $6 billion in 2021. In this context, the DRC's technical and financial partners encouraged the authorities to rigorously select the highest priority projects, and to strengthen their effectiveness through better governance and increased transparency. Beyond promoting domestic revenue mobilization, the ECF-arrangement is expected to catalyze much needed external support from development partners and the private

DRC: Main Pillars of the National Strategic Development Plan



Sources: *Plan National Stratégique du Développement,* Congolese authorities.

Appendix I. Letter of Intent

Kinshasa, DRC
November 30, 2021

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

Dear Madame Managing Director:

1. **We remain committed to the policies set forth in our Letter of Intent and Memorandum of Economic and Financial Policies of June 28, 2021.** Our policy agenda builds on the vision of His Excellency Felix Antoine Tshisekedi Tshilombo, President of the Democratic Republic of Congo, developed in the 2019-23 National Strategic Development Plan, based on our medium-term reform program aimed at maintaining macroeconomic stability, increasing fiscal space (including through domestic revenue mobilization), and promoting sustainable and private sector-led growth, while promoting better governance and transparency.

2. **The economic rebound offers a window of opportunity to advance our reform program.** Growth in 2021 has been revised upwards to 5.4 percent supported by higher-than-envisaged mining production and a stronger rebound in non-extractive growth. As anticipated, inflation started to abate. The strong economic performance has allowed for the higher-than-envisaged buildup in external buffers and higher fiscal revenues. Amid a better economic performance, however, we acknowledge no time for complacency and remain fully committed to steadfast reform implementation.

3. **The general SDR allocation will help reinforce reserves and address development needs.** Gross reserves have increased significantly this year, because of a more proactive FX intervention policy, the ECF disbursement and the SDR allocation. Starting next year, consistently with our legal and institutional framework, part of the allocation will be used for budget financing to support the ongoing economic recovery, without delaying the reforms planned under the ECF arrangement.

4. **We have met almost all the conditionality under our IMF-supported program.** We met all end-June 2021 quantitative performance criteria (QPCs), the continuous QPC, and all but one of the indicative targets (ITs). The QPCs on the domestic balance and on net international reserve accumulation were both met with significant margins. Two out of the three structural benchmarks have also been fully implemented, with the pending one expected to have a minor delay.

5. **We do not intend to introduce measures or policies that would exacerbate the current balance of payments difficulties.** We do not intend to impose new or intensify existing restrictions on the making of payments and transfers for current international transactions, import restrictions

for balance of payments purposes, or multiple currency practices, or to enter into bilateral payments agreements which are inconsistent with Article VIII of the IMF's Articles of Agreement.

6. The attached MEFP, which updates and extends the previous one, will enable us to achieve the objectives of our economic program. We will monitor progress continuously in consultation with the IMF, and we stand ready to take any further measures that may be necessary to meet these objectives. In this context, to increase the necessary fiscal space and depending on the level of reserves reached, we will discuss with IMF staff the option of commuting part of future balance of payments support to budget support in 2022. We will consult with the IMF prior to adopting any revisions to the policies set forth in this Letter of Intent and MEFP, in accordance with the IMF's policies on such consultations. We will also provide Fund staff with all data and information needed to assess the policies and measures contained in the Technical Memorandum of Understanding (TMU).

7. Against this backdrop, we request the completion of the first review under the ECF-supported arrangement. We agree to publishing this Letter of Intent (LOI) and the attached MEFP and TMU, as well as the IMF staff report related to the first review under the ECF arrangement, after approval by the Executive Board of the IMF.

Sincerely yours,

/s/
Jean-Michel Sama Lukonde
Prime Minister

/s/	/s/	/s/
Nicolas KAZADI	Malangu KABEDI MBUYI	Aimé BOJI SANGARA
Minister of Finance	Governor of the BCC	Minister of State,
		Minister of Budget

Attachments:

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

Attachment I. Memorandum of Economic and Financial Policies

This Memorandum of Economic and Financial Policies (MEFP) updates the previous outlined in the ECF supported program approved by the IMF Executive Board on July 15, 2021. It describes recent economic developments, implementation of the ECF-supported program, the economic outlook and risks, and the government's macroeconomic and structural reform policies to enhance macroeconomic stability, create fiscal space, improve governance, and strengthen financial sector stability and development, consistent with the objectives of the government to increase sustainable economic growth, raise living standards, and improve social conditions.

A. Economic Developments and Outlook

1. Our economy has performed well this year, supported by prudent policies and a marked growth rebound. Supported by elevated global mining prices, exports grew 56.3 percent y-o-y in June 2021, improving our trade and current account balances, and boosting reserves. Gross official reserves increased from $0.8 billion in December 2020 to $3.3 billion as of August 31, 2021 supported by the BCC's proactive FX purchases $1.1 billion and the SDR allocation ($1.45 billion). Inflation y-o-y slowed down to 6.4 percent in October. This positive economic performance resulted in higher fiscal revenues, which together with fiscal prudence in 2021H1, led to a higher-than-projected domestic fiscal surplus and government's deposit accumulation.

2. The outlook remains favorable amid elevated global commodity prices. Growth in 2021 is now projected at 5.4 percent, compared to 4.9 percent at the time of the program approval supported by a strong rebound in mining production. Projected at 5.2 percent by end-2021, inflation is expected to be slightly lower than projected in July. The growth outlook for 2022 has been revised up to 6.4 percent, lifted by mining production. Fiscal policy is expected to support the economic recovery in 2022, as we utilize part of the SDR allocation for budget support which will fund investment projects. Beyond 2021, the mining sector is projected to continue supporting growth as new expansion projects are completed, while structural reforms would support long-term economic diversification and growth particularly in agriculture, rural development, energy, and transportation.

3. As a low-income and fragile country, the Democratic Republic of Congo faces significant downside risks. Domestic and external risks pose challenges for economic growth and stability. Pandemic-related uncertainty and security challenges could dampen growth prospects, while we expect to preserve political stability ahead of the 2023 presidential elections. Delays in structural reforms could hinder growth potential over the medium term. External risks arise from deteriorating terms-of-trade given the volatility of international mineral prices and the sensitivity to external donor funding declines. We stand ready to further adjust policies as necessary, and the IMF arrangement would provide an additional anchor to help us cope with negative shocks.

4. Upside risks to the outlook could also materialize. They stem from stronger domestic demand and/or a more supportive external outlook, as higher-than-projected mining prices could expand mining production and help build up external buffers and fiscal space. The growth impact of our increasing public investment and structural reforms to improve the business environment and governance could be larger than currently assumed if they enhance confidence and promote private investment. If upside risks materialize, we will remain committed to accumulate external buffers to build economic resilience and create fiscal space for additional priority spending.

B. Macroeconomic and Structural Policies

A. Fiscal Policy

5. In the first half of 2021, we met our domestic fiscal balance target by a wide margin, due to higher revenues and spending containment. The domestic fiscal balance reached a surplus of CGF 873 billion, compared to a target of CGF152 billion (*performance criterion (PC)*). The strong revenue performance was driven by corporate income tax, customs, and non-tax revenues, while higher exceptional and wage spending were more than offset by lower purchases of goods and services, and transfers. In turn, we built deposits and improved the government's net position at central bank. We refrained from building wage arrears (*indicative target (IT)*), but we did not meet the indicative target on social spending due to other spending at the Ministry of Health which led to an underperformance on the RMNCAH (Reproductive, Maternal, Neonatal, Child and Adolescent Health) and primary care spending.

6. We are committed to reach the 2021 domestic fiscal deficit as planned. Our domestic fiscal deficit is projected at CGF231 billion (0.2 percent of GDP), consistent with the program ceiling (CGF232 billion, *PC*). Higher fiscal revenues (0.6 percent of GDP) will allow for higher primary current spending (about 0.2 percent of GDP above the July projection), notably for wages (primarily in the education, health, and security sectors) and higher-than-expected subsidies. They will also allow for an increase in domestically funded public investment to 0.9 percent of GDP, 0.3 percent higher than the projection at program approval) without jeopardizing our program commitments. We have also increased externally-funded public investment projects (by 0.4 percent of GDP).

7. The 2022 budget envisages sustained revenue gains and higher financing, generating space for higher capital and social spending to support the economic recovery. Fiscal policy will remain anchored on no central bank financing to the government and maintaining a moderate risk of debt distress. Consistent with the Fund-supported program, the 2022 budget projects the domestic fiscal deficit at CGF 1,100 billion (0.9 percent of GDP) (end-December 2022 IT), accompanied by revenues at CGF 12,200 billion (end-December 2022 IT). With this, the domestic fiscal deficit would not be higher than CGF 580 billion (end-June 2022 QPC) and revenues of at least CGF 5,900 billion (end-June 2022 IT). The budget envisages the following elements:

- We will maintain our efforts to contain current primary spending, growing by 14.2percent in 2022). However, we expect health spending to increase above this rate, as we are still addressing the COVD19 pandemic.

- In the spirit of strengthening further our public finances, the 2022 budget envisages regularizing 2021 outstanding financial obligations to petroleum products distributors arising from subsidies to pump prices.

- The 2022 budget devotes 50 percent of the SDR allocation (around $725 billion) to public investment. We will start by using first tranche of $300 million, which could be revised after consulting with IMF staff.

- In consultation with the IMF, we stand ready to adopt contingency measures, if needed, to bring the domestic fiscal balance above the 2022 program floor. We are also committed to use any additional revenues, in consultation with the IMF, for priority social and/or infrastructure projects taking into consideration our absorption capacity.

8. Addressing our development needs must go hand in hand with debt sustainability. We have requested to raise the ceiling on non-concessional debt to $320 million at end-December 2021 in order to include the BADEA loan for the rehabilitation of 14 Kinshasa roads, which is not concessional unlike what was previously expected. The $359 million ceiling for 2022 includes an increase in externally-funded projects, which will address our extensive development needs while keeping the risk of indebtedness moderate. We are currently discussing additional loans amounting to $512 million. We remain committed to prioritizing concessional loans.

9. Using the SDR allocation for budget support will help us address our medium-term development needs. The Ministry of Finance will take ownership of 50 percent of the SDR allocation while respecting the domestic legal and institutional framework. To this end, a memorandum of understanding between the BCC and the Ministry of Finance will be signed by the end of 2021 to transfer of a maximum of half of the assets and liabilities linked to the recent general SDR allocation. To safeguard the funds for investment purposes, we will deposit these funds at the BIS, except for the first tranche of $300 million. We also commit to publish a consolidated annual report on the use of SDRs.

10. We will reinforce public investment management in order to ensure that the SDR allocation is used in an efficient and transparent manner.

- To this end, we will improve collaboration between the various entities in charge of public investment spending and streamline their functions. We will also make a broader commitment to improve our public investment program in coordination with the IMF.

- All tenders associated with these projects will respect the principles of transparency and will be consistent with the Public Procurement Law, without exception, avoiding over-the-counter contracts.

- We have identified three institutions to manage our investment projects:
  the Central Coordination Office (*Bureau Central de Coordination*, BCECO),

the Fragile States Financing Implementation Unit (*Cellule d'Exécution des Financements en Faveur des États Fragiles*, CFEF), and the United Nations Development Programme (UNDP).

a) BCECO is one of the central government's institutions in charge of project implementation, monitoring, and execution. We commit to strengthen BCECO's capacity and governance by rapidly implementing reforms to address its most urgent failures, responding to the recommendations in earlier evaluations (conducted by the Green Climate Fund, the General Inspectorate of Finance (IGF) and an internal audit). Further, a medium-term plan will be formulated by end-June 2022 to thoroughly reform the institution. To this end:

- By the end of 2021, we commit to undertake a micro-assessment of BCECO within the framework of the United Nations' Harmonized Approach to Cash Transfers (HACT), which will be conducted by an independent auditing firm. Taking into account the recommendations of the micro-assessment, we will put in place an action plan and submit a timetable for the resumption of BCECO's role in the priority projects funded by the SDR allocation.

- BCECO will renew its Management Committee, notably by appointing a new General Manager who will be recruited through a competitive process.

- BCECO will set up an Advisory Board to ensure the periodic review of BCECO's activities, ideally including the Government and the technical and financial partners.

- We will hire an external firm to conduct audits for the years 2017 through 2021 (**end-March 2022 SB**) and commit to conducting external audits of BCECO for the years 2022.

b) CFEF is a structure of the Ministry of Finance in charge of implementing donor projects, notably the AfDB and the World Bank. A micro-evaluation was conducted in July 2021 and the unit received a positive evaluation.

c) UNDP will implement the Emergency Community Development Programme (PUDC).

B. Fiscal Structural Reforms

Mobilizing domestic revenue

11. The first two quarters of 2021 showed sizable revenue mobilization. Compared to the same period in 2020, fiscal and non-fiscal revenues increased by 1.3 and 0.3 percent of GDP, respectively. Tax reassessments and mission controls mostly explained the good revenue performance (3/4 percent of the overperformance). In July 2021, the Minister of Finance signed more ambitious performance contracts with the General Directorate of Customs and Excise (DGDA), the General Directorate of Taxes (DGI) and the General Directorate of Administrative, Judicial, State and Participation Revenue (DGRAD).

12. Beyond 2021, we have ambitious medium-term revenue mobilization objectives supported by improved tax administration. We are ambitiously targeting 3.5 percentage points of GDP in additional revenues over the next three years, in line with our objective of converging to the average of our peers in sub-Saharan Africa. Revenue mobilization will build on the ongoing following reforms:

- *Enhancing tax compliance*. On September 11, 2021, we launched a six-month campaign on tax compliance encouraging citizens to request their tax identification number and comply with their tax obligations. The campaign includes a component on the responsible management of public funds, and the Ministry of Finance has set up a website (http://sige-drc.com/portail, "Financalerte"), where abuses can be denounced.

- *Restoring a proper functioning of the VAT.*

  - Starting end-March 2021 and based on TA recommendations, we established a self-liquidating VAT system for imports from mining companies to restore the VAT collection chain and to eliminate a loophole stemming from exemptions. We plan on signing a revised decree to make VAT collection consistent with existing legislation and international best practices, so that it applies to mining companies, not to specific products (**end-June 2022 SB**).

  - We are also committed to restore the VAT system to other sectors by adopting measures to be defined during the IMF's Fiscal Affairs Department technical assistance mission scheduled in November 2021.

  - Following with ECF-program commitments, the IGF has launched an audit to certify VAT credit arrears to mining companies. Available by early 2022, the audit will allow the government to adopt a repayment strategy by end-June 2022. In addition, efforts are underway to enhance information sharing between tax administrations, aiming at improving controls and risk-based risk analysis. We also commit to start paying current obligations of receivable VAT.

- *Modernizing revenue administration*. Supported by the Agence Française de Développement and the European Union, we will maintain ongoing projects to automate the revenue chain, commit to finance recurring costs and encourage the users to work actively with the new software and IT infrastructure (ISYS-Régies, data warehouse, LOGIRAD). Once the installation is finalized in Kinshasa by end-2021, deployment to other provinces will continue and a decree mandating the use of LOGIRAD will be signed by end-March 2022. As committed, we are finalizing the implementation of the ASYCUDA World system in 10 new offices (**end-December 2021 SB**), bringing total offices with ASYCUDA World to 75 out of a total of 107 offices (representing more than 95% of the country's customs revenue in 2020). These efforts must be accompanied by the much-needed modernization of customs facilities, including by providing crucial training, modernizing customs infrastructures, and strengthening IT systems.

- We will closely monitor the implementation of performance contracts signed between the Ministry of Finance and tax administration units for fiscal year 2021, both in terms of reassessed revenues and performance indicators, and will continue to conduct evaluations on a regular basis. New performance contracts will be signed for 2022 in line with program objectives. Further, a decree revising the framework and the organizational structure of each tax administration unit will be signed by end-June 2022. This new framework will reinforce the internal audit function and set up the accounting network of financial administrations.

- *Implementing the excise duty traceability system (STDA).* While there has been substantial progress in implementing the import segment of the system, several obstacles have delayed the implementation of the local segment. As the system is expected to raise significant revenues in the short term, we are committed to fully implement the first phase of the STDA (**end-June 2022 SB**).[1] Additionally, excise duties will also be rationalized by narrowing eligible products to those generally subject to excise duties and, if needed, by slightly adjusting the rate to prevent revenue losses from eliminating excises in certain products.

- *Streamlining tax expenditures.* The report on tax expenditures for 2019 and 2020 will be published as an Annex to the 2022 Loi des Finances, highlighting the loss of tax receipts by income bracket. In addition to continuing publishing annual tax expenditures, based on existing FAD TA recommendations, we plan to rationalize tax expenditures. Preferential tax regimes, and all conventions, approvals, agreements, letters or other documentation providing tax exemptions, except those envisaged in the administrative codes in effect, will be reformed and we will present a rationalization plan to the government by June 2022. The high de facto threshold for daily import for personal use needs to be reformed to prevent import fractioning and duty avoidance.

- *Rationalizing non-tax charges.* All legal provisions on non-tax revenues have been brought together in a single document (**end-September 2021 SB**), classifying legal provisions by economic sector to simplify their understanding by the taxpayers. Based on a classification by economic sector and on existing and upcoming technical assistance from the IMF, we will adopt a plan to rationalize these charges (**end-March 2022 SB**). Later, we will also extend the rationalization to ETDs and provinces.

- *Rationalizing parafiscal charges.* As a first step, we will carry out an inventory of all parafiscal deductions from special accounts and budgets (by end-March 2023) with a view to rationalizing them after December 2023.

Assessing fiscal risks and improving the quality of spending

13. We will not (i) accumulate any general government's external debt payment arrears outside those under negotiation (QPC); (ii) accumulate wage arrears of the central government (IT); and (iii)

[1] Phase 1 of STDA will cover drinks, tobacco, telecom and other products. Phase 2 is expected to be implemented about 6 months after phase 1 and will cover vehicles, oil products, plastics and others.

accumulate new central government loans guaranteed by the central bank (QPC). We are also committed to limit the use of central bank's deposits as guarantees/collateral for central government loans (IT).

14. We committed to publish a yearly statement on fiscal risks and introduce a fiscal risk management function. With technical assistance from the IMF, we developed a detailed statement with information on (i) macroeconomic risks; (ii) risks associated with public debt; (iii) risks associated with public entities other than the central Government; (iv) risks related to the financial sector; (v) institutional risks; and (vi) long-term risks, notably those related to climate change. As a first step, we published this statement as an annex to the Medium-Term Budget Framework (CBMT) for 2022-2024 on September 15, 2021, and we plan to annex it to the budget laws in the future. By end-March 2022, we plan to establish a mechanism for defining and sharing main macroeconomic assumptions so that all administrations have a common and central reference for upside and downside risks. A dedicated coordination committee tasked with the management of fiscal risks has been created, with representatives from the institutions responsible with the identification and monitoring of such risks, notably the Ministries of the Budget, of Finances and of the Plan, as well as the BCC. The organizational modalities of the fiscal risk management function will be set by a decree on budgetary governance that will be adopted by the Government by end-March 2022.

15. We are committed to limiting non-priority spending to increase fiscal space. Sustainable and inclusive growth requires increased priority spending, especially on infrastructure, education, healthcare, and targeted social assistance.

- In the short-term, we will continue our efforts to control the wage bill by freezing the wage and bonus scales, by entering a close dialogue with labor unions to contain wage pressures and by eliminating ghost public servant positions. In the medium-term, we are committed to rationalize the wage bill and to continue our efforts to promote retirement for employees above the retirement age (65 years or above), which will require reinforcing the new and recently deployed civil servants' contributory social security system.

- We will control the budgetary costs related to fuel pricing. To this end, the Minister of Economy signed on July 24, 2021 several decrees starting to increase fuel pricing in some regions. Also, an agreement was signed with several commercial banks for the issuance of a series of Treasury bills for the repayment of arrears to distributors that were certified at end-March 2021, which was disbursed in September. However, a significant gap between pump prices and reference prices ("*prix moyen frontière*") remains, generating additional budget liabilities towards distributors. An independent firm will be recruited by December 2021 to audit the charges of the oil commercial and logistics companies. Based on this audit, we plan to improve the oil price structure to limit subsidies (arrears to be paid to distributors) that we will pay regularly and include in the budget.

- In addition, we will design a domestic arrears clearance strategy in consultation with the IMF.

- We will keep on limiting the use of emergency spending procedures, which has already declined from 30 percent of spending in 2017 to11 percent in 2021.

16. We remain committed to higher spending in priority social areas.

- While we missed the end-June IT for social spending due to priority COVID-19-related spending, we will ensure that the full envelope for the year is rightly executed. To this end, besides the payment that was just executed on the OI, we will execute payments on the balance due to all the programs. Additionally, we will fulfill any outstanding financial obligations with our health partners before end-2021.

- Beyond this specific spending under the program IT, we are committed to increase social spending. We will discuss with IMF staff how to expand the monitoring of social spending and to broaden the IT coverage during the next review.

- Supporting the education sector remains an utmost priority for the government, with the implementation of the ongoing free education project by continuing the regularization of teachers and strengthening infrastructure.

- Our social priorities consider regional disparities, and the impact of the planned gradual withdrawal of MONUSCO. We are therefore committed to continue our dialogue with the United Nations to implement a smooth transition and allocate resources in departing areas. We aim to consolidate the authority of the State, implement
  the Disarmament, Demobilization and Community Reintegration (DDRC) strategy, and pursue the reform of the Congolese army and the national police. In particular, we will continue supporting a good management of the workforce, the protection of civilians, conflict resolution, the fight against impunity, while addressing humanitarian needs and fostering inclusive development.

- We also want to sustain social programs put in place in response to the COVID-19 pandemic. For instance, building on the economic transfers program against Poverty in Kinshasa (STEP KIN), a $50 million social assistance program implemented by the Social Fund of the DRC (FSRDC, under the Presidency of the Republic) with the support of the World Bank, we are expanding transfers to 250,000 beneficiaries in 50 poor neighborhoods in Kinshasa.

17. The planned scaling-up of public investment will come with better prioritization and execution. Our ambitious public investment objectives, including the use of part of the SDR allocation will be further clarified, including the prioritization of projects considering implementation and absorptive capacity constraints. Our priority is to ensure that the funds dedicated to public investment are used in the most efficient and transparent way. To that extent, we will undertake with IMF TA a Public Investment Management Assessment (PIMA) in 2022Q1 to strengthen our investment procedures—planning, allocation of resources and project implementation, institutional arrangements, execution, and transparent reporting—and support the best use of our funds. To address the slow implementation and low execution rates of externally financed projects, we will, we will sign a memorandum of understanding to set up a permanent framework to coordinate and monitor the use of external resources.

Improving Public Financial Management (PFM)

18. We are scaling up the PFM reform agenda. Based on the recent assessment of the performance of public finance management (according to the PEFA methodology), with support from the IMF's technical assistance, the Committee for Public Finance Reform (*Comité d'orientation de la réforme des finances publiques*, COREF) and other partners, as well as the participation of all key stakeholders, the government organized a workshop for the launch of the strategic plan on public finance reform on November 16 and 17, 2021. We adopted this strategy on November 26, 2021 and commit to adopt its operational workplan by end-March 2022.

The priorities of our reform agenda are:

- Reinforcing budgetary credibility, including through improved inter-institutional coordination, formulation of the macroeconomic framework, and forecast of budgetary resources. We will also enhance transparency in our budget formulation.

- Enhancing budget transparency by the regular publication of key budget documents and their participatory versions, following international best practices and standards.

- Enhancing treasury management through a stronger institutional framework and enhanced treasury plans. We will progressively consolidate all government accounts (including those related to special accounts and annexed budgets) in the general treasury account at the BCC; we will adopt a workplan to this effect by end-March 2022.

- Reinforcing the expenditure chain and limiting the use of emergency procedures. We have committed to produce quarterly reports on the execution of expenditures detailing the nature and the amount for each procedure by administration. These quarterly reports will be reconciled with the treasury plan and the BCC debit notices. The first report, based on information for the third quarter of 2021, is in preparation and will be published by end-2021.

- Strengthening financial reporting and oversight through the regular publication of state-owned enterprises' financial statements.

- Continue strengthening public debt management. An inter-ministerial decree was signed on December 5, 2020, mandating the Public Debt Directorate to evaluate and monitor all new debt contracts, including their consistency with program conditionality and to enforce debt reporting from SOEs. To this end, we will draft and adopt a new law on public debt, which will harmonize the legal framework for public debt management.

- Strengthening the public procurement system by favoring calls for open tenders. To this end, we will launch an integrated public procurement management system by end-June 2022, which will include the computerization of procurement procedures.

- Restoring the State's accounting function by signing a decree creating the General Directorate of the Treasury and Public Accounting (*Direction Générale du Trésor et de la Comptabilité publique*, DGTCP) by end-March 2022. A ministerial decree creating the national network of public accountants will be signed by end-August 2022.

19. We continue to fulfill our reporting commitments for COVID-19 related spending under the April 2020 RCF. The *Inspection Générale des Finances* (IGF) undertook an audit of COVID-19 related expenditures and observed irregularities have already been the subject of legal proceedings. In addition, as committed and part of its annual control of spending, the Audit Court (*Cour des Comptes*) prepared an assessment of COVID-19 spending to Parliament at end-November 2021 and this report will be published by the end of 2021. As of end-September 2021, 36 COVID-19 related procurement contracts exceeding $12,000 have been published online, and we are working on the commitment to disclose the beneficial ownership information of contracted companies for contracts exceeding $1 million. With TA support from the IMF, we plan on strengthening the procurement process for beneficiary ownership. Additionally, we are pursuing transparency efforts on COVID spending with provinces and some identified creditors

C. Monetary, Financial and External Sector Policies

20. The central bank is focused on modernizing the monetary policy framework to sustain price stability. While monetary aggregates will continue as nominal anchors over the medium-term, we will strengthen our monetary framework as follows:

- Adopting the new reserve requirement framework in the same currency of deposits, effective starting in 2022 for new FX deposits **(end-December 2021 SB)**, and regularizing the outstanding credit of the BCC to the government are fundamental building blocks to modernize the monetary policy framework. On the latter, we will sign an MoU between the BCC and the Ministry of Finance (**end-December 2021 SB)**, which will help strengthen the financial and operational autonomy of the BCC. The securities issued to regularize the government debt may support monetary policy operations.

- Refraining, in accordance with the Stability Pact, from any direct central bank advances to finance the public deficit. Net central credit to the central government (QPC) decreased by CGF 734 billion in the first half of 2021, which was more than expected.

- Limiting outstanding BCC deposits as guarantee/collateral for central government loans (indicative target) to $112 million by end-2021 and continue refraining from these in 2022. We informed commercial banks of this objective in September 2021. The gradual elimination of existing guarantees will help boost official reserves.

- Enhancing our forecasting and policy analysis model, with the support of a multi-year IMF TA program (FPAS), which will improve economic analysis and forecasting capabilities, streamline the decision-making process, and strengthen the monetary policy communication strategy at the BCC.

21. We have scaled up our efforts to strengthen external buffers. Positive external developments allowed us to accumulate more reserves than the end-June program floor, mainly through proactive central bank purchases. We plan to preserve those gains and we will incorporate the SDR allocation under net international reserves, consistent with other countries in the region, raising the end-December 2021 floor on changes in net international reserves of the BCC to $1,600 million (PC). Despite their significant buildup, reserves remain low given the DRC's vulnerability to terms-of-trade shocks. We therefore renew our commitment to continually build buffers throughout the program. To this end, we have proposed to increase the end-June 2022 floor on changes in net international reserves of the BCC to $200 million, aiming to reach a reserve level of 8.6 weeks of imports by the end of the program.

22. We are committed to strengthening safeguards and governance at the BCC. following the recommendations of the 2020 safeguards assessment. Following its constitution in July 2021, the new BCC Board (i) has established an Audit Committee in line with leading practices for capacity and oversight in November 2021; will (ii) adopt a plan to implement the IFRS accounting framework by end-March 2022; (iii) strengthen governance and oversight of reserves management; and (iv) establish a compliance function; and (v) conduct a comprehensive analysis of the BCC recapitalization needs (**end-November 2022 SB**). The government will also appoint new statutory auditors with a decree of the Prime Minister by end-2021. The BCC will also adopt its own procurement rules by end-June 2022.

23. Strengthening the oversight and regulation of the financial sector remains a priority. We will submit the new Commercial Banking Law to the Parliament in December 2021 (**end-November 2021 SB**), as additional technical assistance was needed to incorporate important elements in the draft law. This law represents the cornerstone for modernizing the financial sector regulatory framework in the coming years. We also plan on gradually phasing out the exceptional suspension of financial regulations implemented in the wake of the COVID-19 pandemic and fully restore rules on non-performing loans by end-2022. This would allow the BCC to evaluate the health of banks' balance sheets and assess the need for corrective measures in consultation with the IMF, including adopting measures and enforcement powers to recapitalize vulnerable banks. In the event of bank failures, we will firmly apply the best resolution options, which will be discussed with the Fund. The upcoming Financial Sector Stability Review (FSSR) planned for early 2022 will be crucial to provide a detailed diagnostic of the banking sector and develop a strategy of key reforms for the coming years. Following the organic law of the BCC, we will establish a Financial Stability committee by end-June 2022.

24. We commit to finalize our national financial inclusion strategy by end-2022, which will notably set the following objectives: (i) increase access to financial services and products; (ii) increase credit to households and SMEs; (iii) increase the use of mobile money and other fintech services; (iv) enhance financial education and consumer protection; (v) make financial infrastructure and institutions more robust and (vi) increase and better adapt insurance coverage for households and businesses. We are also working on (i) restructuring and strengthening microfinance institutions

(MFIs), which have a great potential to support financial inclusion; and (ii) reducing banks' vulnerability to cyber and IT risks.

D. Structural Reforms: Improving Governance and the Business Environment

25. Improved governance and the fight against corruption remains central in our strategy. Better governance is a cross-cutting theme connecting all areas of the country's sustainable development objectives: strengthening public security and political stability, peace and security, rule of law, human rights, the fight against of corruption, and the efficiency of administration and institutions. Our reforms will be based on the comprehensive governance assessment that took place in December 2019.

26. Our strategy includes the strengthening of the Anti-Corruption Prevention Agency (APLC), in line with international standards, and of control institutions. The APLC, operational since July 2020, will continue to be strengthened in line with the United Nations Convention Against Corruption (UNCAC) and international best practices. The Agency will publish its first annual report by end-March 2022. In addition, we also commit to commence the first cycle of the UNCAC review mechanism and to criminalize acts of corruption in line with this Convention. To this end, the estates general on the fight against corruption were held on October 19-23, 2021. We are also committed to ensuring the independence of the Audit Court and the Finance Inspectorate General (*Inspection Générale des Finances*, IGF) and to devote sufficient resources to allow them to fulfill their mandates: recruitment of new inspectors is underway at the IGF, to increase them from 60 to 145 by end 2021 and to 200 inspectors in 2022, while in July 2021 the Audit Court published its Strategic Plan for 2021-25.[2]

27. We will continue our efforts for transparency in the mining sector. We will continue to publish all new contracts (**continuous SB**). We are also committed to strengthen EITI implementation. The progress report on 2018, 2019 and first semester 2020 has been formally adopted and published on the EITI DRC website (https://www.itierdc.net/publications/rapports-itie-rdc-2000/rapport-itie-rdc-2018-1er-sem-2020/), and the executive committee validated on March 16, 2021 a three-year work plan for 2021-23 that was formally adopted by government on June 4th. We remain committed to allow timely the planned budgetary resources needed for the functioning of the EITI. We remain committed to enhance transparency by publishing the 2022 Gecamines' financial statements, including auditors' comments.

28. We are committed to improving the AML/CFT framework and its implementation. The Mutual Evaluation Report (MER) of GABAC highlighted the still ineffective AML/CFT framework with notable shortcomings in coordination, lack of a supervision policy based on a risk-based approach, and poor AML/CFT supervision of financial institutions. In this context, we are working on addressing the priority recommendations of the MER. To this end, the National Financial Intelligence Unit (CENAREF) has submitted its amendments to the AML/CFT Law

[2] For details, https://courdescomptes.cd/wp-content/uploads/2021/07/Plan-strategique-ISC-RDC-2021-2025.pdf

to the Government in October 2021; they will be submitted to parliament by end-December 2021. This draft law is in line with FATF international AML/CFT standards, including the banning of anonymous bank accounts, enacting stronger customer due diligence measures with wire transfers, and establishing basic correspondent banking customer due diligence requirements. In addition, this draft law incorporates amendments to the asset declaration framework for politically exposed persons (PEP), in compliance with Article 99 of the Constitution. Our candidacy to the Egmont Group will be submitted by end-June 2022.

29. We will continue our efforts to enhance the business climate, essential to boost private investment. Our key priorities include: (i) streamlining levies, notably through the establishment of a high authority for revenues and the implementation of a fair and predictable tax collection system; and (ii) improving the judiciary system for commercial dispute resolution, as well as the enforcement and protection of property and contractual rights. We are working closely with development partners to (i) improve the dialogue with professional organizations to define a business continuity plan to mitigate the economic difficulties caused by the Covid-19 pandemic; (ii) further stimulate investment, especially in the agricultural, technology and communication, tourism and industrial sectors; (iii) promote electronic payments by accelerating digitalization; (iv) provide targeted safety nets to the most vulnerable while promoting the formal economy; (v) work on the renewal of the country's industrial fabric (vi) cut red tape in economic and trade exchanges; and (vii) modernize cross-border trade, in particular for food and medical supplies.

30. Preserving the environment and adapting to climate change is a mounting priority. Although our greenhouse gas emissions are among the lowest worldwide, the DRC is prone to intense rainfalls, coastal erosion, heat waves and seasonal droughts. We published our Revised National Determined Contribution (NDC) ahead of the COP26, which focuses on mitigation measures in the energy, agriculture, forestry and other land use, and waste.
The Democratic Republic of the Congo has the second largest tropical forest in the world (over 155 million hectares), after the Amazon. This vast carbon sink is a major asset in the fight against climate change. In addition to forests, the country has large expanses of peatlands as well as strategic minerals necessary for ecological transition. To develop these resources, the Government intends to mobilize specific funding from public, private, and multilateral or bilateral institutions. A National Climate Fund will be set up to channel these resources and allocate them to projects that preserve the environment.

C. Other Issues and Program Monitoring

31. We highly value partners' support to enhance capacity, including from the IMF. TA provision has already been instrumental in providing in-depth diagnoses essential to start the implementation of our reform plans. This effort will continue in the coming years as we implement the economic reform agenda underpinned by the ECF-supported arrangement.

32. While data provision is broadly adequate for surveillance and program monitoring, we remain committed to improve our statistics. The government will continue to support the

National Institute of Statistics and other government branches in fulfilling its missions, and we count on continued technical and financial assistance from our partners. Our priorities include improving debt data collection, especially on SOEs, and debt management; enhancing the quality and frequency of data reporting by the BCC; and strengthening the accuracy of economic indicators. Starting in 2022, we will publish a revised GDP series following SNA1993, with 2005 as the base year. The rebasing of GDP to 2019 will be done as part of the work on the migration to SNA 2008 that will be launched in 2022.

33. The program will be evaluated based on quantitative performance criteria, indicative targets, and structural benchmarks (Tables 1 and 2) during semi-annual reviews. Definitions of key concepts and indicators, as well as reporting requirements, are set out in the accompanying technical memorandum of understanding. The second and third reviews are scheduled to be completed on or after March 15, 2022 and September 15, 2022 respectively, based on test dates for periodic performance criteria of end-December 2021 and end-June 2022, respectively. Under the direction of the Minister of Finance, the Minister of Budget and the Governor of the BCC, a technical troika chaired by the Finance Ministry and comprising the Budget Ministry and the BCC will monitor the program implementation. The CTR will ensure the coordination, the technical secretariat and the liaison with the IMF in the transmission of information to be shared with the Fund's staff in accordance with the TMU. The external auditors of the BCC will validate the monetary QPCs and transactions on the BIS-monitored account at test dates.

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

(cumulative from the beginning of the year unless specified)

	2021								2022						
	End-June				End-Sep.		End-Dec.		End-March		End-June		End-Sep.	End-Dec.
	QPC				IT		QPC		IT	IT	IT	QPC	IT	IT
	CR No. 21/168	Adj. CR 21/168	Outturn	Status	CR No. 21/168	Prel.	CR No. 21/168	Propos.	CR No. 21/168	Propos.	CR No. 21/168	Propos.	Propos.	Propos.
Quantitative Performance Criteria														
Floor on changes in net international reserves of the BCC (US$ millions)	122	157	532	Met	159	778	200	1,600	31	80	81	200	250	300
Ceiling on changes in net central bank credit to central government (CGF billions)	-203	-238	-717	Met	-101	-687	0		0	0	0	0	0	0
Ceiling on changes in net domestic assets of the BCC (CGF billions)	324	344	-423	Met	447	-1,813	547		159	700	291	400	150	50
Ceiling on accumulation of new external payment arrears (US$ millions) 1/	0		0	Met	0	0	0		0	0	0	0	0	0
Floor on cumulative domestic fiscal balance - cash basis (CGF billions)	152		873	Met	148	497	-232		582	-350	-256	-580	-750	-1,100
Ceiling on contracting or guaranteeing of new non-concessional external debt by the public sector (US$ millions)	300		300	Met	300	0	300	320	0		500			
Ceiling on the present value of contracting or guaranteeing of new external debt by the public sector (US$ millions) 2/										573		606	799	799
Indicative Targets														
Ceiling on the change in deposits of the BCC used as guarantee/collateral for central government loans (US$ millions)	135		66	Met	112	112	112		0	0	-84	-84	-150	-150
Floor on government revenues (CGF billions)	5,241		5,394	Met	7,763	8,502	10,198		3,006	2,300	6,714	5,900	9,450	12,200
Floor on social spending (CGF billions)	29		18	Not met	47	24	58		20	21	38	47	69	90
Accumulation of wage arrears (US$ millions)	0		0	Met	0	0	0		0	0	0	0	0	0
Memorandum items:														
Adjustors														
Balance of payments support (US$ millions)	176		131		229	303	357		158		315	344		577
Privatization proceeds (US$ millions)	0		0		0	0	0		0		0	0		0
Scheduled external debt service payments (US$ millions)	132		97		249	184	295		92		183	192		385
Statutory reserve requirement for foreign deposits (CGF billions)	1,755		1,810		1,835	1,977	1,915		2,117		2,320	1,866		1,848
Repayment of arrears (CGF billions)												266		304
Domestically-financed capital spending (CGF billions)												1,025		1,913
Others														
Ceiling on contracting or guaranteeing of new external debt by the public sector (US$ millions) 2/										1,019		1,064	1,312	1,312

Sources: Congolese authorities and IMF staff estimates and projections

1/ Continuous.

2/ Includes a buffer above the borrowing plan.

Table 1b. Democratic Republic of the Congo: Continuous Performance Criteria
• Not to impose or intensify restrictions on the making of payments and transfers for current international transactions • Not to introduce or modify multiple currency practices • Not to conclude bilateral payments agreements that are inconsistent with Article VIII • Not to impose or intensify import restrictions for balance of payments reasons

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

	Rationale	Date	Status
First Review			
Publish the full 2020 financial statements of Gecamines, including auditor's comments	Improve transparency in the mining sector	End-August 2021	Met
Consolidate all legal documents on non-tax revenues in a single document	Rationalize non-tax revenues	End-September 2021	Met
Submit to Parliament the draft of the new Commercial Banking Law that integrates IMF's staff comments	Enhance financial stability and banking supervision	End-November 2021	Not met 1/
Second Review			
Adopt the new reserve requirement regulation of the BCC on new FX deposits	Enhance financial stability and banking supervision	End-December 2021	
Sign an MoU between the BCC and the ministry of finance to regularize the oustanding credit of the BCC to the government	Provide the BCC with space for monetary policy implementation	End-December 2021	
Fully implement ASYCUDA World in the electronic single-window at 10 additonal custom offices	Improve customs administration	End-December 2021	
Recruit an independent auditor to perform an external audit of BCECO for the years 2017-21	Improving public investment efficiency	End-March 2022	
Continuous			
Publish all new mining contracts	Improve transparency in the mining sector		Met
Proposed Structural Benchmarks	**Rationale**	**Date**	**Status**
Third Review			
Revision of instruction decree to make the VAT self-liquiditing system for miners consistent with existing legislation and international best practices, so it applies to mining companies, not to specific products	Improve VAT administration	End-June 2022	
Adopt a plan to rationalize non-tax charges	Rationalize the tax system	End-June 2022	
Implementation of the first phrase of the excise duty traceability system (STDA)	Improve excise tax administration	End-June 2022	
Validate the analysis of the BCC's recapitalization needs by the BCC Board	Reinforce the solvency of the BCC	End-November 2022	
Continuous			
Publish all new mining contracts	Improve transparency in the mining sector		

1/ expected to be completed in December 2021.

Sources: Congolese authorities and IMF staff.

Attachment II. Technical Memorandum Of Understanding

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

Definitions

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

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

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

- Variables denominated in U.S. dollars will be converted to Congolese Francs by using the program exchange rate of CGF1971.8046 per U.S. dollar.
- Variables denominated in SDRs will be valued at the program exchange rate of CGF 2852.0774 per SDR.
- Variables denominated in Euro will be valued at the program exchange rate of CGF 2421.1594 per Euro.
- In addition, variables denominated in currencies other than the U.S. dollar, SDR or Euro will first be converted to U.S. dollars at the December 31, 2020, US$/currency official exchange rate (obtained from the IMF rates database), then converted to Congolese Francs by using the program exchange rate CGF/$.

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

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

Quantitative Performance Criteria and Adjustors

Floors on changes in Net International Reserves of the BCC

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

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

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

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

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

Ceilings on changes in Net Domestic Assets of the BCC

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

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

The following adjustments will be made to the NDA ceilings:

- **BPS:** NDA ceilings will be adjusted downward by an amount equivalent to 50 percent of total BPS in excess of the programmed level. There will be no upward adjustment to the NDA ceilings for any shortfall in BPS.

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

- **Statutory reserve requirements for foreign currency deposits:** NDA ceilings will be adjusted upwards (downwards) by the increase (decrease) in the statutory reserve requirements for foreign currency deposits relative to program projections (memorandum item).

- **Privatization proceeds:** NDA ceilings will be adjusted downward by 50 percent of the total amount of privatization proceeds (including PPCC) in excess of the programmed level. There will be no upward adjustment to the NDA ceilings for any shortfall in these proceeds**.**

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

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

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

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

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

Floor on the Domestic Fiscal Balance

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

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

Domestic arrears payments: Domestic budget balance floors will be adjusted downward (higher deficit) by the amount of domestic arrears repayments made above the programmed amount; symmetrically, they will be adjusted upward (lower deficit) by the amount of domestic arrears repayments made below the programmed amount.

Domestically-financed investment: Domestic budget balance floors will be adjusted upward (lower deficit) by the amount of domestically-financed investment made below than the programmed amount.

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

16. Definition: **Domestic arrears** are defined as obligations to domestic public suppliers that have not been settled by the date of their due date in accordance with contractual provisions with a delay of at least 60 days, including also VAT credits due but not reimbursed, and which have been certified and validated by the government.

Ceiling on the Accumulation of External Payment Arrears

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

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

18. Definition: The **public sector** comprises the central government, local governments, the BCC, state-owned enterprises,

19. [1] Decentralized territorial entities and public entities controlled and financed by the central government.

20. Definition: **Debt** is defined as set out in paragraph 8(a) of the Guidelines on Public Debt Conditionality in Fund Arrangements attached to Executive Board Decision No. 15688-(14/107), adopted December 5, 2014. The external debt is defined as contracted when all parties signed the debt contract. For program purposes, external debt is measured on a gross basis using the residency criterion.

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

22. Definition: **Concessionality**. For program purposes, a debt is concessional if it includes a grant element of at least 35 percent, calculated as the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt.[2] For debts with a grant element equal or below zero, the PV will be set equal to the nominal value of the debt. The discount rate used for this purpose is the unified discount rate of 5 percent set forth in Executive Board Decision No. 15248-(13/97).

23. Definition: **Variable interest rates.** For debts carrying a variable interest rate in the form of a benchmark interest rate plus a fixed spread, the PV of the debt is calculated using a program

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

[2] Taking account of all loan conditions, including projected disbursements, the maturity, grace period, payment schedule, front-end fees and management fees.

reference rate plus the fixed spread (in basis points) specified in the debt contract. The program reference rate for the six-month USD LIBOR is 1.81 percent and will remain fixed for the duration of the program. The spread of six-month Euro LIBOR over six-month USD LIBOR is -200 basis points. The spread of six-month JPY LIBOR over six-month USD LIBOR is -200 basis points. The spread of six-month GBP LIBOR over six-month USD LIBOR is -100 basis points. For interest rates on currencies other than Euro, JPY, and GBP, the spread over six-month USD LIBOR is -100 basis points. Where the variable rate is linked to a benchmark interest rate other than the six-month USD LIBOR, a spread reflecting the difference between the benchmark rate and the six-month USD LIBOR (rounded to the nearest 50 bps) will be added. Given the anticipated global transition away from LIBOR, this TMU can be updated to reflect the relevant benchmark replacements (U.S. Secured Overnight Financing Rate (SOFR); U.K. Sterling Overnight Index Average (SONIA); EURIBOR; and Tokyo Overnight Average Rate (TONAR)) prior to the complete phase out, once operationally feasible.

24. Definition: **Ceiling.** Until December 2021, a performance criterion applies to the nominal value of new non-concessional external debt (understood as debt by non-residents), contracted or guaranteed by the public sector with original maturities of one year or more. The ceiling applies to debt contracted or guaranteed for which value has not yet been received. It excludes (i) the use of Fund resources; (ii) debts incurred to restructure, refinance, or prepay existing debts, to the extent that such debt is incurred on more favorable terms (including in particular a grant element higher than 35 percent) than the existing debt; (iii) concessional debts; and (iv) normal import credits having a maturity of up to one year.[3]

Ceiling on contracting or guaranteeing of new external debt by the public sector

25. Definition: The **present value** (PV) of new external debt is calculated by discounting all projected disbursements and debt service payments (principal and interest) on the basis of a program discount rate of 5 percent and taking account of all loan conditions, including projected disbursements, the maturity, grace period, payment schedule, front-end fees and management fees. The PV is calculated using the IMF "Fund's concessionality calculator," which is based on the amount of the loan and the above parameters. In the case of loans for which the grant element is zero or less than zero, the PV is set at an amount equal to the face value.

26. Definition: **Ceiling.** From March 2022, a performance criterion applies to the PV of new external debt (understood as debt by non-residents) contracted or guaranteed by the public sector with original maturities of one year or more. The ceiling applies to debt contracted or guaranteed for which value has not yet been received. It excludes the use of Fund resources as well as normal import credits having a maturity of up to one year.

27. Definition: **Reporting Requirement.** The authorities will inform IMF staff of any planned external borrowing and the conditions on such borrowing before the loans are either contracted or

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

guaranteed by the government and will consult with staff on any potential debt management operation.

Indicative Targets

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

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

Floor on revenues of the central government

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

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

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

Floor on Social Spending

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

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

- Disbursement of Gavi-supported vaccine co-financing and traditional vaccines procurement
- Disbursement of TB/Malaria/HIV/AIDS co-financing

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

	Jun-21		Sep-21		Dec-21	Mar-22	Jun-22	Sep-22	Dec-22 [2/]
	CR No. 21/168	Prel.	CR No. 21/168	Prel.	CR No. 21/168	Prop.	Prop.	Prop.	Prop.
RMNCAH and primary health care	11.2	-	16.9	-	22.5	5.9	11.8	17.7	23.6
GAVI co-financing and traditional vaccines [1/]	8.3	18.6	16.3	18.6	17.4	10.7	25.9	36.7	47.7
TB/Malaria/HIV/AIDS co-financing	9.1	-	13.6	4.9	18.2	4.7	9.3	14.0	18.7
Total	**28.6**	**18.6**	**46.8**	**23.5**	**58.0**	**21.3**	**47.0**	**68.4**	**90.0**

1/ The World Bank is covering the financing of traditional vaccines in 2021-22.
2/ Dec-22 values are an approximation

Accumulation of Wage Arrears

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

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

Data To Be Reported For Program Monitoring Purposes

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

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

	Information	Responsible Institution	Frequency	Availability length	Frequency Submission
1	Foreign exchange market volumes: Commercial Banks, BCC interventions, BCC auctions of FX, bureaux de change, parallel market (by currency)	BCC	Daily	1 day	Each Monday
2	Foreign exchange rates: Reference values, interbank market, bureaux de change, parallel market (by currency)	BCC	Daily	1 day	Each Monday
3	Monetary policy instruments and interventions: Bons BCC, swap facility, emergency lending windows, interbank market (rates and volumes, by bank)	BCC	Weekly	1 day	Each Monday
4	External reserves of the BCC (SMP definition), disaggregated by category and currency	BCC	Daily	1 day	Each Monday
5	Government deposits at the BCC and commercial banks: By type, entity, and category	BCC	Monthly	2 weeks	Each 15th of the month of the following month.

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

	Information	Responsible Institution	Frequency	Availability length	Frequency Submission
6	DAT deposits, guaranteed deposits, or any other type of contracted guarantees of the BCC for the benefit of the central government in local commercial banks (by bank and category, providing terms, by FX and local currency) For guarantees, detailed information on payments related to guaranteed loans, and conditions of those loans et related guarantees	BCC	Monthly	2 weeks	Each 15th of the month of the following month
7	Detailed monetary situation: BCC and other institutions with deposits	BCC	Monthly	2 weeks	Each 15th of the month of the following month
8	Detailed BCC balance sheet	BCC	Monthly	2 weeks	Each 15th of the month of the following month
9	Interest rates term structure of deposit institutions and of the BCC	BCC	Monthly	1 week (2 weeks for deposit institutions)	Each 15th of the month of the following month
10	Reserves (mandatory and voluntary) of deposit institutions	BCC	Weekly	1 day	Each Monday
11	Account statement (electronic downloadable data format) provided by the BIS for two-day deposit account in USD opened in the BCC books to record IMF-related disbursements ("BRI 2D FMI USD")	BCC	Monthly	2 weeks	Each 15th of the month of the following month
12	Execution of plan de Tresorerie (PTR)/budget in currencies and in local currency of the BCC	BCC	Weekly (Monthly for local currency)	1 week	Weekly (Monthly for local currency)

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

	Information	Responsible Institution	Frequency	Availability length	Frequency Submission
13	Detailed balance sheet information and prudential ratios/FSIs for each deposit institutions (and aggregated)	BCC	Monthly	2 weeks	Each 15th of the month of the following month
14	Consumer Price Index	INS	Weekly	One week	Weekly
15	Exports of basic products (value and volume); imports (value and volume)	BCC	Monthly	3 weeks	Each 21st of the month of the following month
16	Indicators of domestic production	INS	Monthly	3 weeks	Each 21st of the month of the following month
17	Capital and financial account operations of the balance of payment	BCC	Quarterly	3 weeks	The 21st of the month following the quarter
18	Amounts and identity of creditors of promissory notes guaranteed by the BCC	BCC	Monthly	3 weeks	Monthly
19	Principal external indicators	BCC	Daily	1 day	Daily
20	Evolution of the execution of the treasury plan (outcome vs. projections)	DTO	Weekly	1 day	Weekly
21	Issuance and amortization of Treasury bills and bonds: amounts, maturities, and interest rates	Comité des titres	Weekly	3 days	Weekly
22	External debt service (interests and principal) detailed by creditor	DGDP	Monthly	2 weeks	Monthly
23	Updated amounts of external arrears	DGDP	Monthly	3 weeks	Monthly
24	Execution of the plan of treasury flow of the government	DTO	Monthly	2 weeks	Monthly

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

	Information	Responsible Institution	Frequency	Availability length	Frequency Submission
25	Revenues from customs and excise taxes, including from the mining sector, broken down by category	DGDA	Monthly	4 weeks	Monthly
26	Revenues from direct and indirect taxes	DGI	Monthly	4 weeks	Monthly
27	Revenues coming from mining sector by nature	DGI	Monthly	8 weeks	Monthly
28	Non fiscal revenues (excluding from provinces), including revenues from mining sector	DGRAD	Monthly	4 weeks	Monthly
29	Collection of receipts from natural resources	CTR	Quarterly	4 weeks	Quarterly
30	Situation of IBP (corporate tax) subscriptions	DGI	Annual	4 weeks	Annual
31	Projected spending commitment plan	DCB	Quarterly	2 weeks	Quarterly
32	État de suivi budgétaire (ESB)	DPSB	Monthly	2 weeks	Monthly
33	Emergency spending: amounts approved by the Committee on emergency spending and amounts paid and regularized by the BCC	Comité des Urgences	Quarterly	3 weeks	Quarterly
34	Privatization proceeds	DGRAD	In case of assets sale	3 weeks	In case of assets sale
35	Domestic debt of the central administration by category and by creditor: stock and debt service	DGDP	Quarterly	3 weeks	Quarterly
36	Stock of budget arrears	DCB	Annual	3 weeks	Annual
37	Stock of wage arrears, including details per category	Dir Paie	Monthly	60 days	Monthly

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

	Information	Responsible Institution	Frequency	Availability length	Frequency Submission
38	Contracting of any new external debt issued and/or guaranteed by the BCC in favor of any central or local administration	DGDP	In case of signature of loan contract	3 weeks	Monthly
39	Statistical brief for the weekly meeting with the Prime Minister	DEME/Plan	Weekly (Mardi)	3 days	Weekly
40	Updated GDP estimates and forecasts	CESCN	Quarterly	3 weeks	Quarterly
41	Principales productions (Tables du Condense statistique)	BCC	Monthly	3 weeks	Monthly
42	Estimate of the budgetary cost of the fuel prices' policy	Ministry of economy	Quarterly	3 weeks	Quarterly

DEMOCRATIC REPUBLIC OF THE CONGO

December 2, 2021

FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW, AND FINANCING ASSURANCES REVIEW—DEBT SUSTAINABILITY ANALYSIS

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

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

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

[1] DRC Composite Indicator (CI) score is 2.15, which corresponds to a weak debt-carrying capacity as confirmed by October 2021 WEO assumptions and 2020 Country Policy and Institutional Assessment (CPIA).

PUBLIC DEBT COVERAGE

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

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

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

Public debt coverage

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

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

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

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

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

BACKGROUND AND RECENT DEVELOPMENTS

2. **Despite vast natural resources, DRC is one of the poorest countries in the world, and it displays many aspects of fragility as it remains prone to health and humanitarian crises and violent conflicts.** The economy is highly dollarized, undiversified, and acutely vulnerable to commodity-price shocks and supply risks. The first ever peaceful presidential transition since independence took place in January 2019. The government is keen to strengthen engagement with the international community.

3. **While some macroeconomic stability has been secured in recent years, the economy remains highly vulnerable to shocks.** After decelerating GDP growth of 1.7 percent in 2020, growth is expected to rebound to 5.4 percent in 2021 supported by higher-than-envisaged mining production and a stronger performance in non-extractive growth. After a deficit of 1.1 percent of GDP in 2020, the deficit is expected to widen to 1.8 percent of GDP in 2022 and remain at that level in 2023, against the backdrop of large development needs. Spending will be partly financed by use of $724 million (1.2 percent of GDP) of the SDR allocation for budget financing in 2022-23 to support the ongoing economic recovery.[3] International reserves have recovered strongly from around 2 weeks of imports in early 2021 and are expected at about 7 weeks of imports by end-2021.

4. **External arrears partly date from pre-HIPC Completion Point, with some Gecamines arrears adding to the stock.** External arrears amount to $287 million.[4] Four non-Paris Club creditors hold claims against the DRC and are in negotiation or under reconciliation process. The authorities sent correspondence to Angola, and draft correspondence has been prepared for Rwanda and Namibia. The remaining external arrears are claims by commercial creditors. Amounts have been reconciled but there are cases under litigation. Commercial arrears have increased due to the addition of Gecamines' arrears. A large part of it consists of debt owed to a creditor under U.S. sanctions. Arrears associated to a loan to the Export Credit Guarantee

Text Table 2. DRC: External Arrears as of End-2020

	Total	
	Nominal (US$ mln)	Percent of GDP
Total External Arrears	287	0.6
Bilateral creditors	48	0.1
Commercial creditors	239	0.5
Memo item:		
GDP	48,707	

Sources: Congolese authorities; IMF staff estimates.

[3] The authorities will split the SDR allocation (about $1.45 billion) to build reserves and to finance investment projects in equal parts. To this end, the authorities noted that the transfer of half of he SDR allocation to the Ministry of Finance (MoF) is consistent with their domestic institutional framework and a memorandum of understanding would be signed where the MoF assumes its financial responsibilities regarding half of the SDR allocation.

[4] In accordance with the LIC DSF Guidance Note, the arrears do not trigger a determination of an in-debt-distress risk rating when they are *de minimus* cases where arrears are less than 1 percent of GDP. For more details see paragraph 15.

Department (ECGD) have been canceled. A 5-year repayment schedule of external arrears has been assumed, starting in 2022.

5. In 2021, the public debt ratio is expected to decrease by about 0.3 percentage points vis-à-vis 2020 to 22.8 percent of GDP. Compared to the projection at time of the request for an ECF-supported arrangement approved in July 2021, external public debt in 2021 is projected to increase by 1.2 percentage points, with about half of public external debt owed to official creditors. Domestic debt in 2021 relative to GDP remains unchanged, with the increase in nominal CF terms mostly reflecting domestic arrears and the recording of bank loans under the now phased-out CREDOCs ("Credit Documentaire"), a scheme which used central bank's deposits as guarantees for central government loans. A profile of the debt holders in line with the new requirements of the Debt Limits Policy is shown in Text Table 3.[5] Sicomines owns about 40 percent of external debt for mining and infrastructure projects, to be repaid with dividends over 10 and 15 years, respectively.

6. The overall domestic debt is composed of arrears and short-term T-bills. Most of the domestic debt stock consists of arrears, mainly composed of reconciled arrears and VAT arrears to exporters (Text Table 4). Reconciled arrears have been audited and include financial debt, social debt, judiciary debt, suppliers, and rent and other services. There is also a significant stock of about $3 billion of arrears to be audited, although according to the authorities only 20 percent of audited arrears became validated in the past. Net issuance of treasury bills, all denominated in local currency and U.S. dollar-indexed, was negative in 2020 with an outstanding stock equivalent to $55 million at end-2020; bank loans increased via the CREDOCS scheme, now phased out.

[5] The deferred debt service under the Debt Service Suspension Initiative (DSSI) is estimated at $309.2 million between May and December 2020 and $279.3 million between January and June 2021, respectively.

Text Table 3. Democratic Republic of the Congo: Decomposition of Public Debt and Debt Service by Creditor 2020-22[1]

	Debt Stock			Debt Service					
	2020			2020	2021	2022	2020	2021	2022
	(in M US$)	*(Percent total debt)*	*(Percent GDP)*	*(in M US$)*			*(Percent GDP)*		
Total	11,233.1	...	23.1	572.9	974.6	1,203.9	1.2	1.7	2.0
External	7,395.7	65.8	15.2	427.6	512.3	618.6	0.9	0.9	1.0
Multilateral creditors	2,429.8	21.6	5.0	87.1	142.9	165.6	0.2	0.3	0.3
IMF	27.3	0.2	0.1						
World Bank	1,501.8	13.4	3.1						
AfDB (incl. African Development Fund)	368.7	3.3	0.8						
Other Multilaterals	531.9	4.7	1.1						
o/w: European Investment Bank	74.5	0.7	0.2						
Arab Bank for Economic Development in Africa	36.8	0.3	0.1						
Bilateral creditors	3,826.0	34.1	7.9	260.9	318.3	377.6	0.5	0.6	0.6
Paris Club	61.2	0.5	0.1	11.6	10.1	18.5	0.0	0.0	0.0
o/w: France	61.0	0.5	0.1						
Brazil	0.2	0.0	0.0						
Non-Paris Club	3,764.8	33.5	7.7	46.8	41.3	92.1	0.1	0.1	0.2
o/w: Exim Bank of China	3,254.7	29.0	6.7						
Exim Bank India	164.2	1.5	0.3						
Bonds	-	-	-	-	-	-	-	-	-
Commercial creditors	1,139.9	10.1	2.3	68.9	23.7	75.8	0.1	0.0	0.1
o/w: FG Hemisphere	93.2	0.8	0.2						
Financial Investment Holding	45.2	0.4	0.1						
Other international creditors	-	-	-	-	-	-	-	-	-
Domestic	3,837.4	34.2	7.9	145.3	462.3	585.3	0.3	0.8	1.0
o/w: T-Bills	55.0	0.5	0.1	n/a	n/a	n/a	n/a	n/a	n/a
o/w: Loans	241.8	2.2	0.5	n/a	n/a	n/a	n/a	n/a	n/a
Memo items:									
Collateralized debt	2,641.4	23.5	5.4						
Contingent liabilities[2]	n/a	n/a	n/a						
o/w: Public guarantees	n/a	n/a	n/a						
o/w: Other explicit contingent liabilities	n/a	n/a	n/a						
Nominal GDP	48,707	...	...	48,707	56,301	61,284	...	...	...

1/ As reported by Country authorities according to their classification of creditors, including by official and commercial. Debt coverage is the same as the DSA, except for the government's guaranteed debt.
2/ Data could not be confirmed with the authorities during the mission.

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

	Domestic Debt		
	Nominal in $ million	in percent of GDP	in percent of total domestic debt
Stock of Treasury bills and bank loans	296.8	0.6	7.6
Reconciled legacy arrears	1,888.8	3.9	48.4
Arrears from provinces	145.8	0.3	3.7
Arrears to oil companies	262.4	0.5	6.7
VAT arrears	1,306.4	2.7	33.5
Total	3,900.1	8.0	100.0

Sources: Congolese authorities and IMF calculations.

BACKGROUND ON MACROECONOMIC FORECASTS

7. The medium- and long-term projections underlying this DSA are underpinned by the macroeconomic framework of the first review of the ECF-supported arrangement.

- GDP growth is expected to pick up further in 2023-26 due to new mining projects, high commodity prices, and strong global demand for DRC's export commodities. These developments, in addition to positive developments in the services sector, would lead to a substantial increase in exports and imports in the medium term and improve the trade balance in the medium to long term.

- The fiscal policy stance is assumed to be roughly neutral during the program period and be supported by stronger financing. Ambitious public spending on education and infrastructure relies on the availability of additional external and domestic financing sources in the context of the catalytic role of the ECF-supported arrangement and domestic revenue mobilization efforts.[6] The latter will hinge on the authorities' plans to restore the VAT normal functioning, rationalize non-tax and parafiscal charges, streamline tax expenditures, and modernize and computerize revenue administration.

- The financial account strengthened due to sizable other investment inflows, including project financing. This supported the build-up of reserves, which in part is driving the residual change of external debt in Table 1. Multilateral and bilateral loans remain the main sources of debt financing. Multilateral and bilateral borrowing is assumed to amount to contracted amounts of $2.6 billion and $1.3 billion in 2021 and 2022, respectively, and decline to annual flows of around $1.0 billion over the medium term. Financial terms of new lending are assumed to remain largely concessional, with an increase of lending at non-concessional terms over the medium term. In 2021, financing is supported by prospects to contract an additional non-concessional loan of $50 million from BADEA for Kinshasa road infrastructure in 2021, in addition to existing borrowing plans.

- The share of domestic sources in total financing remains low at about 7 percent in 2021 but is projected to increase as domestic markets deepen and concessional financing gradually decline over the long terms. Realism tools largely suggest that staff forecasts are realistic, compared to empirical observations (Figure 4) and given the improved growth outlook.

[6] The ECF arrangement focus on three key areas, (i) stepping up domestic revenue mobilization through restoring VAT normal functioning, rationalizing non-tax and parafiscal charges, streamlining tax expenditures, and modernizing revenue administration; (ii) strengthening governance including natural resource management and transparency; and (iii) strengthening the monetary policy framework and the central bank's independence. See CR 21/168 for details on key policies under the ECF-supported arrangement.

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

	Real GDP Growth (percent change)		Revenue (excluding grants) growth 1/		Overall fiscal balance (percent of GDP)		Exports of goods and services growth		Imports of goods and services growth		Current account balance (percent of GDP)	
	CR 21/168	Current	CR 21/168	Current	CR 21/168	Current	CR 21/168	Current	CR 21/168	Current	CR 21/168	Current
2020	1.7	1.7	-4.9	-4.9	-2.1	-1.1	4.5	4.5	-4.2	-4.2	-2.2	-2.2
2021	4.9	5.4	41.3	49.0	-1.7	-1.8	46.8	59.0	45.1	51.3	-1.9	-0.5
2022	5.6	6.4	24.5	15.9	-1.2	-1.9	7.8	12.9	6.7	13.1	-1.8	-0.5
2023	6.6	6.9	21.9	24.1	-1.2	-2.0	7.0	11.9	6.7	11.4	-1.5	-0.8
2024	6.8	6.7	24.2	23.4	-1.1	-1.4	5.5	9.7	5.8	9.2	-1.3	0.1
2025	6.7	6.8	15.6	17.0	-1.1	-1.5	6.1	8.7	5.8	10.0	-1.0	0.0
avg. 2026-40	5.0	5.0	13.4	13.4	-0.8	-1.2	2.9	2.9	3.5	3.6	-2.3	-1.2

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

Box 1. Macroeconomic Assumptions for 2021–41

Real GDP growth. Growth is expected to average at about 5 percent over the medium term driven by sustained increases in mining production, supportive commodity prices, and a gradual recovery in investment.

Inflation. Inflation is projected to stabilize at 6 percent, in line with the BCC's target of keeping inflation below 7 percent, given the contained monetary policy based on the control of the money supply.

Primary balance. The overall fiscal deficit is projected to average 0.9 percent of GDP after 2027, with greater revenue mobilization and additional external financing helping to tackle large spending needs. Capital expenditure is expected to rise over the projection period and to gradually shift towards domestic financing. Revenues are computed as central government revenues plus revenue from SOEs assumed to be equivalent to their debt service flows.

Current account balance. The current account balance has been relatively stable although it is significantly driven by developments in the mining sector. Mineral exports constitute a significant portion of exports and are projected to improve, on average, over the medium term given new mining projects and high global demand for commodities. Imports are projected to rise gradually on the back of increasing demand for capital goods and intermediates for infrastructure investment. Overall, the current account deficit averages 1.2 percent of GDP over the medium term.

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

Gross official reserves. Gross official reserves are expected to gradually rise from about 2 weeks of imports in early 2021 to about 9 weeks of imports by 2024. The reserve buildup is crucially driven by stronger exports, financing under the program, and the 2021 SDR allocation.

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

- **Debt drivers:** External debt has remained low, with recent improved access to external financing resulting in a somewhat higher debt level than at time of the previous DSA.

- **Fiscal adjustment and growth.** The fiscal balance is contained over the medium term by improved revenue mobilization while growth picks up. The resulting improvement of the primary balance is still within the normal historical range. Growth in 2021 reflects the recovery from the Covid-19 pandemic in 2021 rather than fiscal multiplier effects, hence there exists a large divergence between the baseline projection and the multiplier-implied projection (Figure 4, top right panel). Investment has been revised across the macro framework to resolve an inconsistency from the savings-investments balance.

COUNTRY CLASSIFICATION AND DETERMINATION OF SCENARIO STRESS TESTS

9. DRC's debt carrying capacity is classified as weak (Text Table 6). The classification of debt carrying capacity is guided by the composite indicator (CI) score which is determined by the World Bank's CPIA and other macroeconomic variables, including forward-looking elements. DRC's CI score is 2.15, roughly unchanged compared to previous vintages. DRC is a fragile state and highly vulnerable to external shocks.

10. The debt sustainability analysis relies on six standardized stress tests and a tailored commodity price shock stress test. The standardized stress tests use the default settings. While DRC does not qualify for the market financing shock stress test, the commodity price shock stress test is relevant and helps assess the sensitivity of projected debt burden indicators to unfavorable developments in commodity export prices.[7]

[7] Under the debt sustainability framework, countries with commodity exports accounting for at least 50 percent of total exports of goods and services over the previous three-year period are subject to the stress test. Commodities accounted for about 97 percent of DRC's exports of goods and services over the period 2018-20.

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

Debt Carrying Capacity	Weak

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintages
Weak	Weak 2.15	Weak 2.14	Weak 2.12

Applicable thresholds

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

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

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

EXTERNAL DEBT SUSTAINABILITY

Baseline

11. **External debt remains sustainable in the baseline scenario, but with vulnerabilities stemming from some structural weakness.** Generally, all external debt is owed or guaranteed by the government. With improved access to external financing, external debt is expected to increase to 16.5 percent of GDP in 2021, driven among other by Fund emergency assistance and the budgetary use of part of the SDR allocation. The present value of external debt is estimated at 12.7 percent of GDP, significantly lower than the benchmark, and reflects the extent of concessional debt, which is projected to remain broadly unchanged. Despite higher debt issuance, in part as result of the catalytic effect of the ECF-supported arrangement, and temporarily larger fiscal deficits, partly reflecting large investment needs financed by budget support facilitated by the SDR allocation, the medium-term trajectory of external and public debt, supported by the stronger macroeconomic outlook, does not give rise to debt sustainability concerns. The revision of the QPC on non-concessional borrowing from $300 to $320 million to accommodate an additional non-concessional loan from BADEA for Kinshasa road infrastructure in 2021 (in addition to a $270 million loan from EXIM India) does not substantially alter the assessment.

Alternative Scenarios and Stress Tests

12. Several external debt ratios breach their thresholds under the most extreme shock scenario of lower nominal exports (Figure 1).[8] The mining sector—the main source of exports—is exposed to commodity price swings. However, imports are tightly linked to exports, possibly offsetting that shock.

PUBLIC DEBT SUSTAINABILITY

Baseline

13. The overall risk of debt distress is projected to remain moderate. Baseline debt burden indicators do not breach the respective thresholds, which is the key factor in risk rating. Public debt is projected to be on a declining trajectory over the medium term. Public debt remains dominated by external debt. While treasury bill issuance remains low, recognition of accumulated arrears to suppliers and VAT arrears to the private sector remains high. The realization of guarantees and other possible contingent liabilities poses risks. The present value of debt relative to GDP remains below the benchmark and declines in the long term (Figure 2).

Alternative Scenarios and Stress Tests

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

RISK RATING AND VULNERABILITIES

15. The external and overall risk of debt distress for the DRC remain moderate (Text Table 7). Both external and overall public debt are at moderate risk of debt distress due to breaches of the thresholds under the stress tests. Over the duration of the ECF-supported arrangement, public debt metrics remain broadly unchanged, as stronger projected economic and revenue growth is offset by somewhat higher borrowing. External debt increases gradually relative to GDP and exports, albeit from a low base. At 0.6 percent of GDP, external arrears are below 1 percent of GDP qualifying as a *de minimis* case, not encumbering the risk rating consideration. Domestic arrears are considerable, and the authorities are enacting measures that lead to their reduction, in particular by restoring the VAT normal functioning.

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[8] Nominal export growth (in USD) is set to its historical average minus one standard deviation, or to the baseline scenario's projection minus one standard deviation, whichever is lower in 2022–23, a shock that is likely unduly harsh to judge external financing needs as imports would very likely contract significantly under such a scenario. For the specification of other stress tests, see Table 8 in the 2018 Guidance Note.

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

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

16. **There is only some space for additional borrowing without endangering DRC's risk rating (Figure 5).** Low revenue mobilization remains a key challenge. Under the ECF-supported arrangement, revenues are projected to increase from 10 percent of GDP in 2019 to close to 14 percent in 2024, compared to an average of 20 percent of GDP in SSA.

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

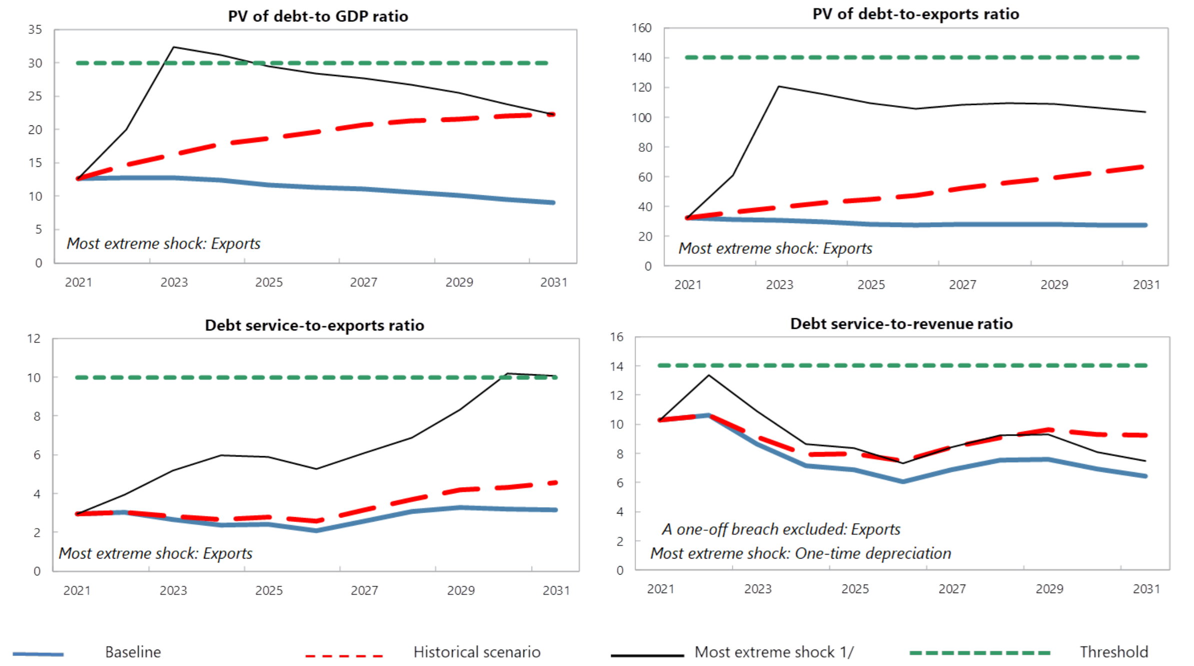
18. **Despite low total public debt levels, low debt repayment capacity remains one of the key vulnerabilities.** Key vulnerabilities to DRC's risk ratings are export performance, including from fluctuations in commodity prices, and fiscal revenue mobilization, as respective benchmarks are breached under shock scenarios. Despite gradually higher revenues projected under the ECF-supported arrangement[9], the debt service-to-revenue ratio suggests limited space for additional borrowing (Figure 5). This calls for prudent fiscal policies including constraining new borrowing. Structural reforms, in particular in revenue mobilization, public financial management, and growth potential-enhancing public investment remain key to DRC's debt carrying capacity.

AUTHORITIES' VIEWS

19. **The authorities broadly agreed with the overall assessment of the country's debt sustainability**. Debt carrying capacity is expected to improve against the backdrop of the ECF-supported arrangement. The authorities are committed to further improve debt management, including enhancing the reporting of SOE (with the inclusion of all SOE debt in public debt statistics by 2023) and publicly guaranteed debt. However, the authorities voiced concern over the use of an PV-based borrowing limit for reasons of limited capacity and ease of communication. To alleviate these concerns, a memo item on nominal borrowing was introduced in MEFP Table 1a.

[9] Under the ECF-supported arrangement, revenues are projected to increase from 10 percent of GDP in 2019 to close to 14 percent in 2024, compared to an average of 20 percent of GDP in SSA.

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



Customization of Default Settings	Size	Interactions
Tailored Stress		
Combined CL	Yes	
Natural disaster	n.a.	n.a.
Commodity price	Yes	Yes
Market financing	n.a.	n.a.

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

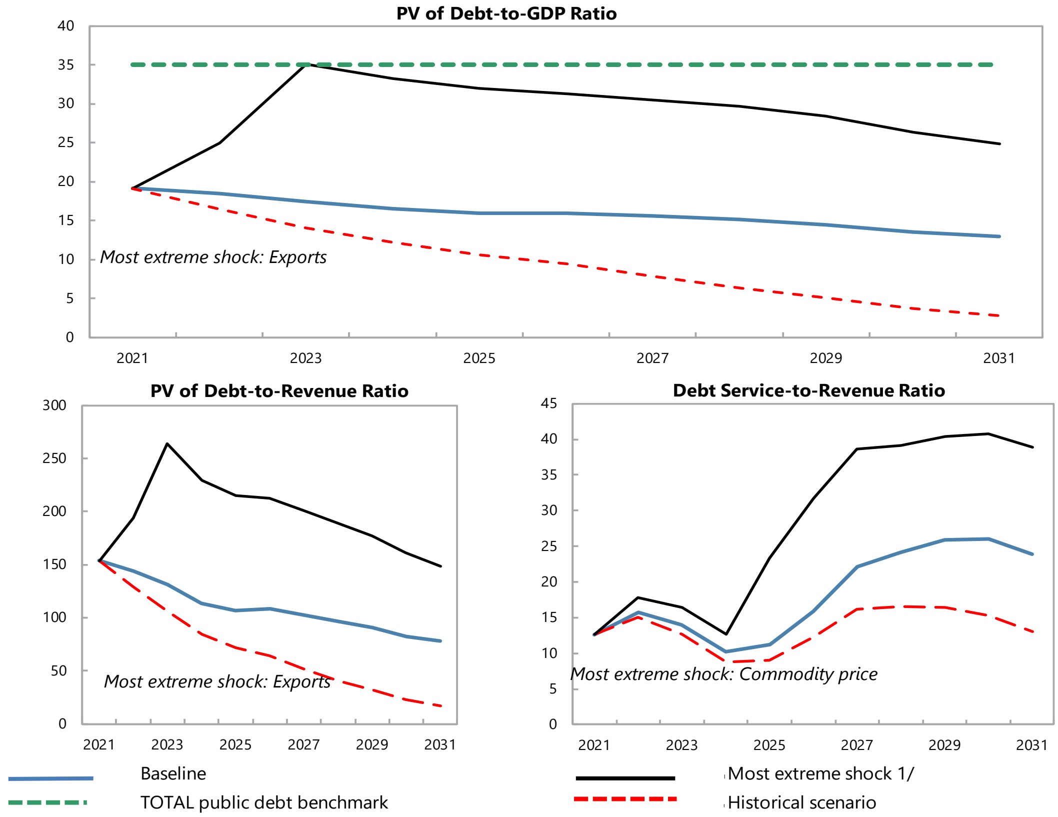
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	2.1%	2.1%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	29	29
Avg. grace period	6	6

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

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 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 2. Democratic Republic of the Congo: Indicators of Public Debt under Alternative Scenarios, 2021–31



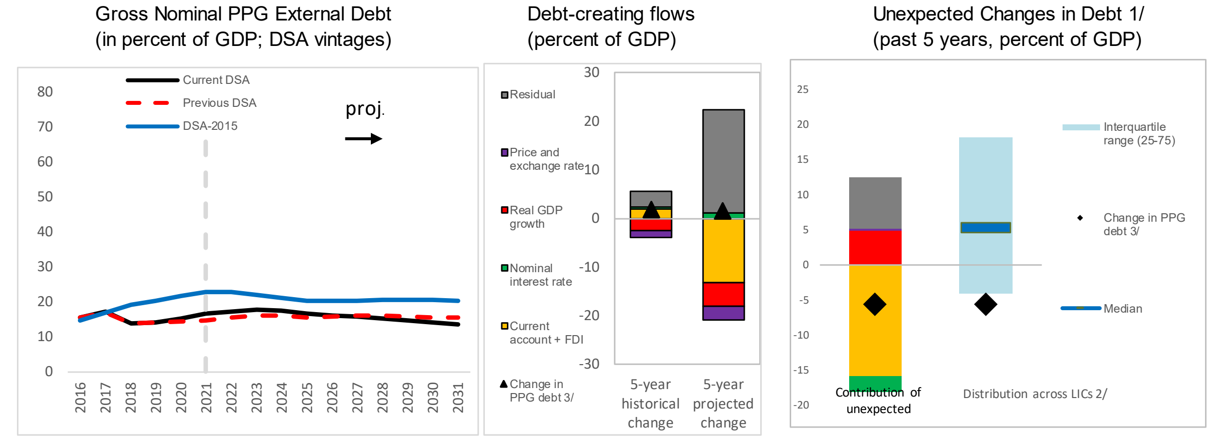
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	54%	54%
Domestic medium and long-term	0%	0%
Domestic short-term	45%	46%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	2.1%	2.1%
Avg. maturity (incl. grace period)	29	29
Avg. grace period	6	6
Domestic MLT debt		
Avg. real interest rate on new borrowing	4.3%	4.3%
Avg. maturity (incl. grace period)	3	3
Avg. grace period	2	2
Domestic short-term debt		
Avg. real interest rate	-6.3%	0.0%

* 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.

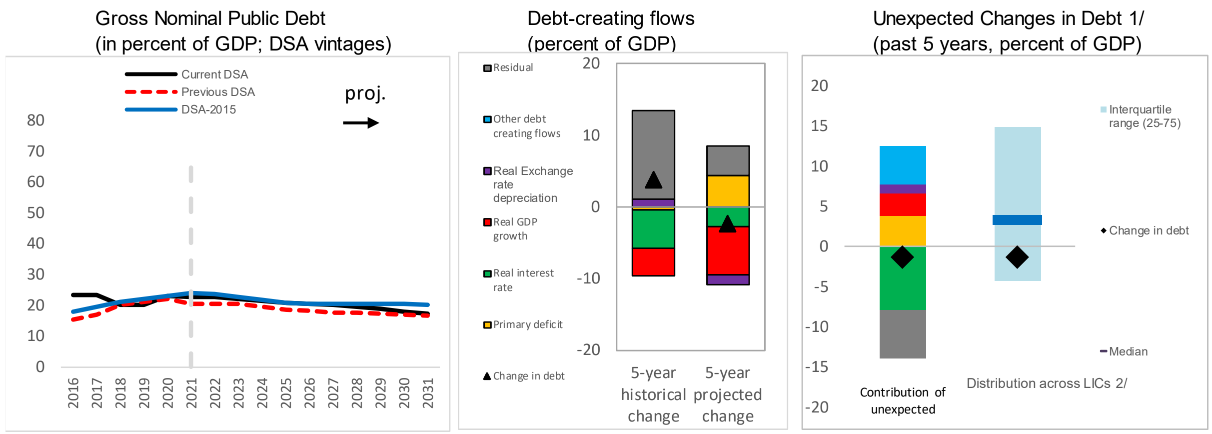
Sources: Country authorities; and staff estimates and projections.

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



Public debt



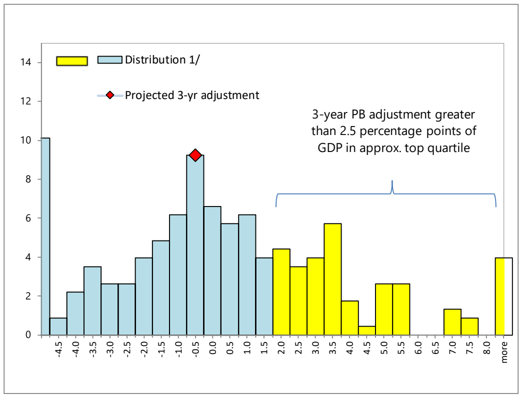
1/ Difference between anticipated and actual contributions on debt ratios.

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

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

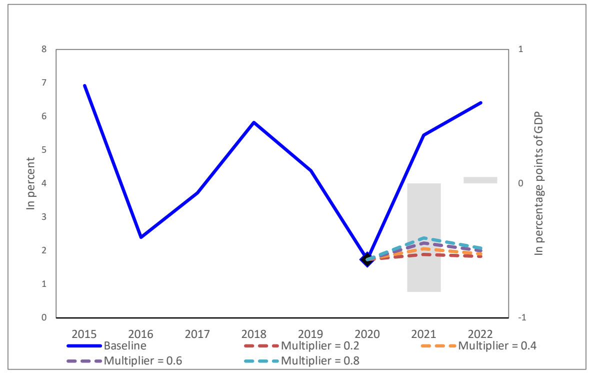
Figure 4. Democratic Republic of the Congo: Realism Tools[1]

3-Year Adjustment in Primary Balance
(Percentage points of GDP)



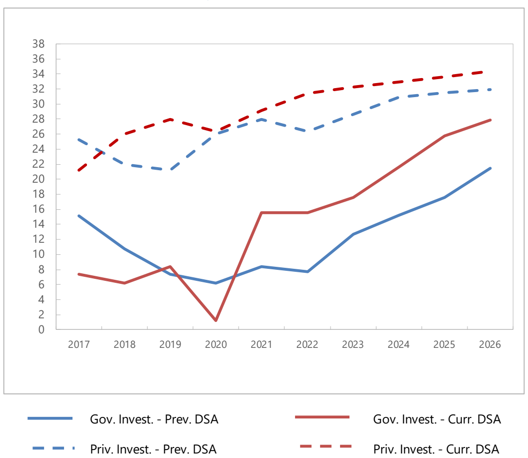
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/

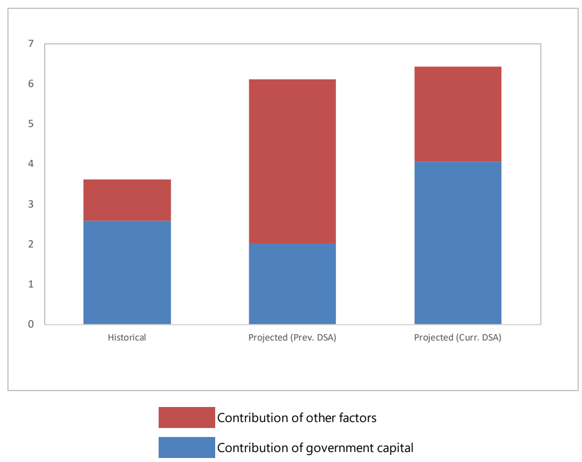


1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(percent of GDP)



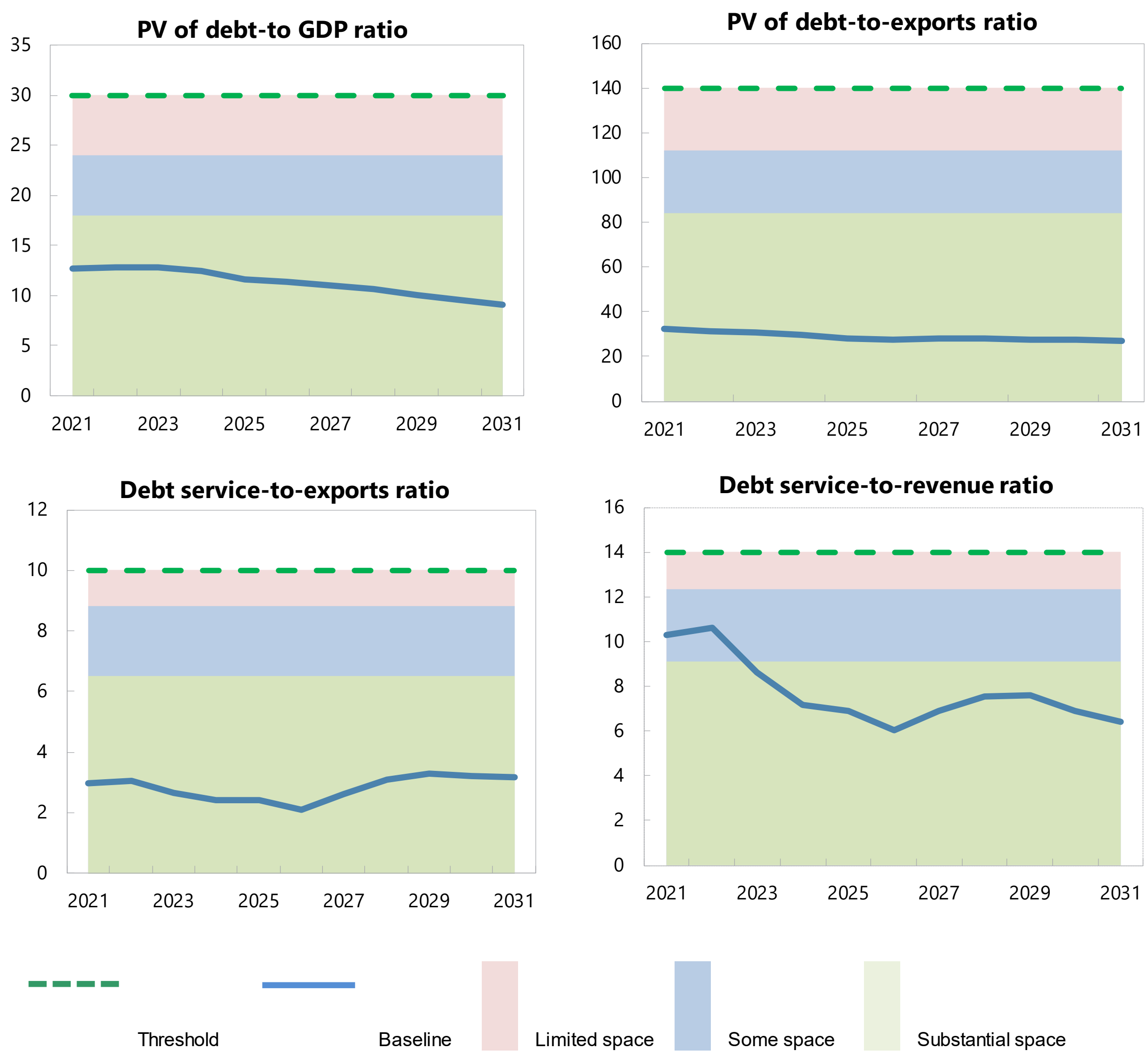
Contribution to Real GDP growth
(percent, 5-year average)



Sources: Country authorities; and staff estimates and projections.

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

Figure 5. Democratic Republic of the Congo: Qualification of the Moderate Category 2021-31[1]



Sources: Country authorities; and staff estimates and projections.

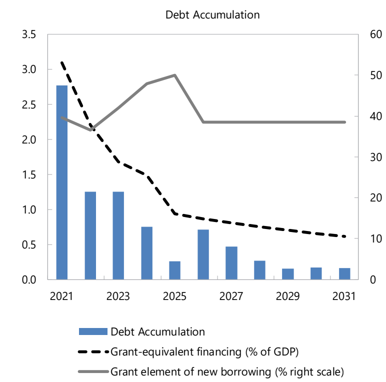
1/ For the PV debt/GDP and PV debt/exports thresholds, x is 20 percent and y is 40 percent. For debt service/Exports and debt service/revenue thresholds, x is 12 percent and y is 35 percent.

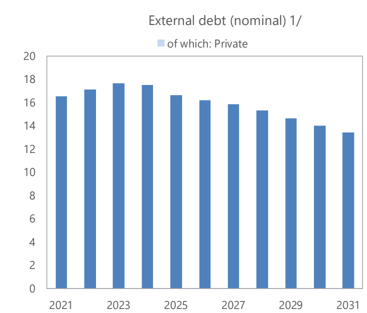
Table 1. Democratic Republic of the Congo: External Debt Sustainability Framework, Baseline Scenario, 2018-41

(in 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/	13.7	14.0	15.2	16.5	17.1	17.6	17.5	16.6	16.2	13.4	14.0	15.3	15.9
of which: public and publicly guaranteed (PPG)	13.7	14.0	15.2	16.5	17.1	17.6	17.5	16.6	16.2	13.4	14.0	15.3	15.9
Change in external debt	-3.4	0.4	1.1	1.3	0.6	0.5	-0.1	-0.9	-0.4	-0.6	-0.9		
Identified net debt-creating flows	-2.8	-0.3	-0.3	-3.1	-3.4	-3.1	-3.8	-3.5	-3.2	-2.6	-0.1	-1.2	-3.1
Non-interest current account deficit	3.5	3.1	2.1	0.3	0.2	0.5	-0.3	-0.2	-0.1	0.5	3.3	4.3	0.1
Deficit in balance of goods and services	3.6	3.7	1.3	-0.2	-0.2	-0.4	-0.6	-0.1	-0.4	0.3	2.7	5.1	-0.2
Exports	34.1	26.5	28.6	39.3	40.8	41.6	41.9	41.8	41.7	33.4	21.0		
Imports	37.7	30.2	29.9	39.1	40.7	41.2	41.3	41.7	41.3	33.7	23.7		
Net current transfers (negative = inflow)	-3.7	-3.0	-1.7	-2.4	-2.1	-1.8	-2.2	-2.4	-2.3	-2.2	-2.0	-4.1	-2.2
of which: official	-1.7	-0.8	-1.1	-1.4	-1.4	-0.9	-0.9	-0.8	-0.7	-0.6	-0.4		
Other current account flows (negative = net inflow)	3.6	2.4	2.5	3.0	2.5	2.8	2.5	2.3	2.6	2.4	2.5	3.4	2.5
Net FDI (negative = inflow)	-3.0	-2.7	-3.1	-2.9	-2.9	-2.8	-2.6	-2.5	-2.3	-2.8	-3.0	-4.3	-2.6
Endogenous debt dynamics 2/	-3.3	-0.8	0.6	-0.5	-0.7	-0.8	-0.8	-0.9	-0.8	-0.4	-0.4		
Contribution from nominal interest rate	0.0	0.1	0.1	0.2	0.3	0.2	0.2	0.2	0.2	0.3	0.2		
Contribution from real GDP growth	-0.8	-0.6	-0.3	-0.7	-1.0	-1.1	-1.1	-1.1	-1.0	-0.6	-0.6		
Contribution from price and exchange rate changes	-2.5	-0.3	0.7	...	...	...	...	...	...	...	...		
Residual 3/	-0.6	0.7	1.5	4.4	4.0	3.6	3.6	2.6	2.8	2.0	-0.7	0.4	2.9
of which: exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	11.9	12.7	12.8	12.8	12.4	11.6	11.3	9.1	6.2		
PV of PPG external debt-to-exports ratio	...	...	41.5	32.2	31.3	30.7	29.7	27.9	27.2	27.2	29.5		
PPG debt service-to-exports ratio	1.2	3.2	2.9	2.9	3.0	2.7	2.4	2.4	2.1	3.2	2.9		
PPG debt service-to-revenue ratio	4.2	7.9	8.9	10.3	10.6	8.6	7.1	6.9	6.0	6.4	2.9		
Gross external financing need (Million of U.S. dollars)	3261.4	3347.1	2941.0	2613.7	2803.4	2974.3	2423.4	2631.5	2644.3	5311.4	16651.4		
Key macroeconomic assumptions													
Real GDP growth (in percent)	5.8	4.4	1.7	5.4	6.4	6.9	6.7	6.8	6.6	4.8	4.3	5.7	5.7
GDP deflator in US dollar terms (change in percent)	17.3	2.4	-5.0	9.6	2.3	2.7	2.2	2.0	2.2	2.2	2.1	2.9	2.9
Effective interest rate (percent) 4/	0.3	0.7	0.8	1.8	1.9	1.6	1.5	1.3	1.3	1.9	1.5	0.5	1.6
Growth of exports of G&S (US dollar terms, in percent)	38.0	-17.1	4.5	59.0	12.9	11.9	9.7	8.7	8.7	2.6	-0.9	6.2	11.1
Growth of imports of G&S (US dollar terms, in percent)	36.1	-14.5	-4.2	51.3	13.1	11.4	9.2	10.0	7.9	4.2	2.3	4.5	10.6
Grant element of new public sector borrowing (in percent)	...	...	...	39.5	36.6	42.0	47.9	50.0	38.5	38.5	38.2	...	40.6
Government revenues (excluding grants, in percent of GDP)	10.2	10.6	9.3	11.3	11.7	12.8	14.0	14.6	14.5	16.5	20.9	11.6	14.3
Aid flows (in Million of US dollars) 5/	537.6	994.3	885.9	2204.4	1511.7	1541.4	1613.5	1198.4	1198.4	1198.4	1198.4		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	3.1	2.2	1.7	1.5	0.9	0.9	0.6	0.3	...	1.3
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	52.1	55.2	50.3	57.7	58.4	46.7	46.7	46.5	...	50.4
Nominal GDP (Million of US dollars)	47,146	50,399	48,707	56,301	61,284	67,261	73,349	79,865	87,064	121,972	243,033		
Nominal dollar GDP growth	24.1	6.9	-3.4	15.6	8.9	9.8	9.1	8.9	9.0	7.1	6.5	8.8	8.7
Memorandum items:													
PV of external debt 7/	...	...	11.9	12.7	12.8	12.8	12.4	11.6	11.3	9.1	6.2		
In percent of exports	...	...	41.5	32.2	31.3	30.7	29.7	27.9	27.2	27.2	29.5		
Total external debt service-to-exports ratio	1.2	3.2	2.9	2.9	3.0	2.7	2.4	2.4	2.1	3.2	2.9		
PV of PPG external debt (in Million of US dollars)			5786.0	7134.8	7838.0	8605.1	9109.4	9301.8	9868.4	11057.2	15028.2		
(PVt-PVt-1)/GDPt-1 (in percent)				2.8	1.2	1.3	0.7	0.3	0.7	0.2	0.1		
Non-interest current account deficit that stabilizes debt ratio	6.9	2.8	1.0	-1.0	-0.4	0.0	-0.2	0.7	0.3	1.1	4.1		

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





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

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

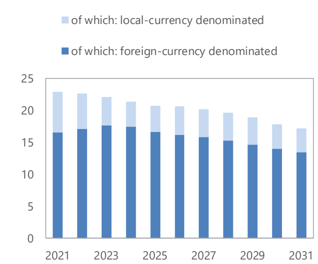
Table 2. Democratic Republic of the Congo: Public Sector Debt Sustainability Framework, Baseline Scenario, 2018–41

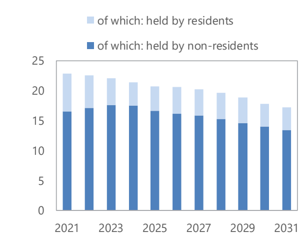
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2031	2041	Historical	Projections
Public sector debt 1/	20.3	20.1	23.1	22.8	22.6	22.1	21.4	20.7	20.7	17.2	19.1	22.0	20.4
of which: external debt	13.7	14.0	15.2	16.5	17.1	17.6	17.5	16.6	16.2	13.4	14.0	15.3	15.9
Change in public sector debt	-3.3	-0.2	3.0	-0.2	-0.2	-0.5	-0.7	-0.6	-0.1	-0.6	0.8		
Identified debt-creating flows	-6.6	0.0	1.2	-1.3	-0.7	-0.8	-1.3	-1.1	-0.6	-0.5	1.0	-2.6	-0.7
Primary deficit	-0.6	1.2	0.3	1.2	1.1	1.1	0.4	0.6	1.0	0.4	1.8	-0.5	0.8
Revenue and grants	11.3	11.4	9.5	12.5	12.9	13.3	14.5	14.9	14.7	16.7	21.0	13.6	14.8
of which: grants	1.1	0.8	0.2	1.2	1.2	0.5	0.5	0.3	0.2	0.2	0.1		
Primary (noninterest) expenditure	10.7	12.6	9.8	13.6	14.0	14.3	14.9	15.5	15.7	17.1	22.9	13.1	15.6
Automatic debt dynamics	-6.0	-1.2	0.8	-2.5	-1.8	-1.8	-1.7	-1.7	-1.6	-1.0	-0.8		
Contribution from interest rate/growth differential	-3.0	-1.2	-0.8	-2.5	-1.8	-1.8	-1.7	-1.7	-1.6	-1.0	-0.8		
of which: contribution from average real interest rate	-1.7	-0.4	-0.4	-1.3	-0.4	-0.4	-0.3	-0.3	-0.3	-0.2	0.0		
of which: contribution from real GDP growth	-1.3	-0.9	-0.3	-1.2	-1.4	-1.5	-1.4	-1.4	-1.3	-0.8	-0.8		
Contribution from real exchange rate depreciation	-3.0	0.0	1.6	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	3.3	-0.2	1.8	1.1	0.4	0.3	0.6	0.4	0.6	-0.1	-0.3	2.5	0.1
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	20.5	19.2	18.5	17.4	16.5	15.9	16.0	13.0	14.6		
PV of public debt-to-revenue and grants ratio	...	...	216.2	153.5	143.6	131.2	113.6	107.1	108.4	77.7	69.6		
Debt service-to-revenue and grants ratio 3/	3.8	7.4	10.4	12.6	15.8	14.0	10.3	11.2	15.8	23.9	19.5		
Gross financing need 4/	-0.1	2.1	1.3	2.7	3.1	2.9	1.9	2.3	3.3	4.4	5.9		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	5.8	4.4	1.7	5.4	6.4	6.9	6.7	6.8	6.6	4.8	4.3	5.7	5.7
Average nominal interest rate on external debt (in percent)	0.3	0.7	0.8	1.9	1.9	1.6	1.5	1.3	1.3	1.9	2.3	0.5	1.6
Average real interest rate on domestic debt (in percent)	-23.0	-3.8	-6.3	-14.3	-4.3	-5.1	-5.1	-4.3	-3.4	-1.4	-0.1	-8.7	-4.2
Real exchange rate depreciation (in percent, + indicates depreciation)	-19.0	0.1	11.8	...	...	...	...	...	...	...	...	0.2	...
Inflation rate (GDP deflator, in percent)	29.8	4.0	6.7	16.7	4.8	6.0	5.8	5.1	5.2	5.3	5.5	11.0	6.4
Growth of real primary spending (deflated by GDP deflator, in percent)	12.1	22.8	-20.6	46.1	9.0	9.7	10.8	10.9	8.4	6.6	7.7	3.4	11.6
Primary deficit that stabilizes the debt-to-GDP ratio 5/	2.7	1.4	-2.6	1.4	1.3	1.6	1.1	1.3	1.0	1.1	1.0	0.5	1.3
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	**Residency-based**
Is there a material difference between the two criteria?	**No**

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

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

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

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

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

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

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

Table 3. Democratic Republic of the Congo: Sensitivity Analysis for Key Indicators of PPG External Debt, 2021–31

(in percent)

	Projections 1/										
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
PV of debt-to GDP ratio											
Baseline	13	13	13	12	12	11	11	11	10	10	9
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	13	15	16	18	19	20	21	21	21	22	22
B. Bound Tests											
B1. Real GDP growth	13	13	14	14	13	13	12	12	11	11	10
B2. Primary balance	13	13	14	14	13	13	12	12	11	11	10
B3. Exports	13	20	**32**	**31**	29	28	28	27	25	24	22
B4. Other flows 3/	13	15	18	17	16	16	15	15	14	13	12
B5. Depreciation	13	16	14	14	13	13	12	12	11	11	10
B6. Combination of B1-B5	13	19	21	20	19	18	18	17	16	15	14
C. Tailored Tests											
C1. Combined contingent liabilities	13	16	17	16	16	15	15	14	14	13	13
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	13	17	22	21	20	19	19	18	17	16	15
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	30	30	30	30	30	30	30	30	30	30	30
PV of debt-to-exports ratio											
Baseline	32	31	31	30	28	27	28	28	28	27	27
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	32	36	39	42	45	47	52	56	59	63	67
B. Bound Tests											
B1. Real GDP growth	32	31	31	30	28	27	28	28	28	27	27
B2. Primary balance	32	32	33	33	31	30	31	31	31	31	31
B3. Exports	32	61	121	116	110	106	108	110	109	106	104
B4. Other flows 3/	32	37	42	41	38	37	38	39	38	37	37
B5. Depreciation	32	31	27	27	25	24	25	25	25	24	24
B6. Combination of B1-B5	32	52	44	58	55	53	54	55	54	53	52
C. Tailored Tests											
C1. Combined contingent liabilities	32	38	40	39	38	37	38	38	38	38	38
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	32	51	59	56	52	49	49	50	49	48	47
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	140	140	140	140	140	140	140	140	140	140	140
Debt service-to-exports ratio											
Baseline	3	3	3	2	2	2	3	3	3	3	3
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	3	3	3	3	3	3	3	4	4	4	5
B. Bound Tests											
B1. Real GDP growth	3	3	3	2	2	2	3	3	3	3	3
B2. Primary balance	3	3	3	2	2	2	3	3	3	3	3
B3. Exports	3	4	5	6	6	5	6	7	8	**10**	**10**
B4. Other flows 3/	3	3	3	3	3	2	3	3	4	4	4
B5. Depreciation	3	3	3	2	2	2	3	3	3	3	3
B6. Combination of B1-B5	3	4	4	4	4	3	4	5	6	6	6
C. Tailored Tests											
C1. Combined contingent liabilities	3	3	3	3	3	2	3	3	4	3	3
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	3	4	3	3	3	3	3	4	5	5	5
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	10	10	10	10	10	10	10	10	10	10	10
Debt service-to-revenue ratio											
Baseline	10	11	9	7	7	6	7	8	8	7	6
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	10	11	9	8	8	7	8	9	10	9	9
B. Bound Tests											
B1. Real GDP growth	10	11	10	8	8	7	8	8	8	8	7
B2. Primary balance	10	11	9	7	7	6	7	8	8	7	7
B3. Exports	10	11	11	11	11	10	10	11	12	**14**	13
B4. Other flows 3/	10	11	9	8	8	7	8	8	9	9	8
B5. Depreciation	10	13	11	9	8	7	8	9	9	8	7
B6. Combination of B1-B5	10	11	11	9	9	8	9	9	11	10	9
C. Tailored Tests											
C1. Combined contingent liabilities	10	11	9	8	8	7	8	8	8	8	7
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	10	12	11	10	9	8	9	9	10	10	10
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	14	14	14	14	14	14	14	14	14	14	14

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private transfers and FDI.

Table 4. Democratic Republic of the Congo: Sensitivity Analysis for Key Indicators of Public Debt, 2021–31

	Projections 1/										
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
PV of Debt-to-GDP Ratio											
Baseline	19	18	17	16	16	16	16	15	14	13	13
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	19	17	14	12	11	9	8	6	5	4	3
B. Bound Tests											
B1. Real GDP growth	19	20	21	21	21	23	23	24	24	24	24
B2. Primary balance	19	19	19	18	17	17	17	16	16	15	14
B3. Exports	19	25	**35**	33	32	31	30	30	28	26	25
B4. Other flows 3/	19	21	22	21	20	20	20	19	18	17	16
B5. Depreciation	19	21	18	16	15	14	13	12	10	9	7
B6. Combination of B1-B5	19	19	18	16	16	16	16	15	14	13	13
C. Tailored Tests											
C1. Combined contingent liabilities	19	25	23	21	20	20	20	19	18	17	17
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	19	20	21	23	24	26	27	27	27	27	28
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
TOTAL public debt benchmark	35	35	35	35	35	35	35	35	35	35	35
PV of Debt-to-Revenue Ratio											
Baseline	153	144	131	114	107	108	103	96	91	83	78
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	153	129	106	84	71	64	52	41	32	23	17
B. Bound Tests											
B1. Real GDP growth	153	154	158	145	144	153	152	151	150	146	146
B2. Primary balance	153	151	145	125	117	118	112	105	99	90	85
B3. Exports	153	194	264	229	215	212	201	189	177	161	149
B4. Other flows 3/	153	163	168	146	137	138	130	122	115	104	97
B5. Depreciation	153	161	137	113	100	96	85	74	64	52	44
B6. Combination of B1-B5	153	146	136	114	107	108	103	96	91	83	78
C. Tailored Tests											
C1. Combined contingent liabilities	153	192	171	146	137	137	129	122	115	105	99
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	153	174	178	174	176	185	180	173	171	167	165
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Service-to-Revenue Ratio											
Baseline	13	16	14	10	11	16	22	24	26	26	24
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	13	15	13	9	9	12	16	17	16	15	13
B. Bound Tests											
B1. Real GDP growth	13	16	18	17	19	26	34	36	39	39	37
B2. Primary balance	13	16	18	16	14	17	23	25	26	27	25
B3. Exports	13	16	15	14	14	19	25	27	30	32	30
B4. Other flows 3/	13	16	15	11	12	17	23	25	27	28	25
B5. Depreciation	13	16	16	10	12	16	22	24	26	25	23
B6. Combination of B1-B5	13	15	14	10	11	16	22	24	26	26	24
C. Tailored Tests											
C1. Combined contingent liabilities	13	16	39	21	16	19	24	26	27	27	25
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	13	18	16	13	23	32	39	39	40	41	39
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the benchmark.

2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

3/ Includes official and private transfers and FDI.

Statement by Mr. Aivo Andrianarivelo on Democratic Republic of The Congo, Mr. Regis N'Sonde, Alternate Executive Director and Mr. Thierry Paul Nguema-Affane, Senior Advisor to Executive Director

December 15, 2021

Our Congolese authorities thank IMF Executive Board, Management, and staff for the continued support to the Democratic Republic of the Congo (DRC). The emergency assistance provided by the Fund under the Rapid Credit Facility (RCF) in 2020 has helped the country cope with the economic and social fallout of the Covid-19 pandemic. This was followed by the first disbursement under Extended Credit Facility (ECF) approved in July 2021 and the SDR allocation in August, which have been instrumental in strengthening the country's external position while providing additional fiscal space for scaling up priority health, social and investment spending.

The Congolese authorities are grateful to the Managing Director for her visit to Kinshasa from December 7^{th} to 9^{th}, 2021. This was an opportunity for Management to see on the ground and discuss parts of the immense developmental challenges facing the country. They hope that Management will appreciate progress being made to strengthen macroeconomic stability and enhance policy frameworks for greater effectiveness while supporting the economic recovery and striving to improve living standards of the population. The authorities have also appreciated the candid and constructive discussions with staff on the first review of the ECF-supported program last October. They share the view that the staff report to the Executive Board provides an accurate account of those discussions.

Program implementation in the period under review has been strong, with almost all the conditionality met. Amid a protracted global health crisis, the Congolese authorities remain dedicated to achieving the objectives of their medium-term reform program aimed at maintaining macroeconomic stability, increasing fiscal space for priority spending notably through further efforts in domestic revenue mobilization, and promoting sustainable and private sector-led growth. In these endeavors, promoting better governance and transparency will remain at the center of their agenda, consistent with the country's 2019-23 National Strategic Development Plan.

Based on the authorities' strong performance under the program and their commitment to the program, we request Executive Directors' approval of the completion of the first review under the ECF, the authorities' request for modification of performance criteria, and the completion of financing assurances review.

I. RECENT DEVELOPMENTS

Economic activity has rebounded markedly in 2021. Growth is now expected to reach 5.4 percent –up from the 4.9 percent projected at the time of the ECF approval– supported by strong growth in mining production and a pick-up of the non-extractive activity following a decline last year. The revived economic activity, together with higher commodity prices and prudent policy management, contribute to improving fiscal and external balances, and increasing reserve accumulation.

Fiscal outcomes are exceeding expectations by very large margins thanks to remarkable efforts in revenue collection. Fiscal discipline is translating into strong revenue mobilization and contained expenditures. The larger-than-expected increase in wage bill was offset by cuts in other current spending. As a result, the domestic fiscal surplus at end-June 2021 (CGF 873 billion) turned out almost 6 times the level projected (CGF 152 billion). The stronger revenue collection has created a larger fiscal space that the authorities are using for higher priority spending in the health sector and public investment without jeopardizing the fiscal objectives of the program. Public debt is relatively low and sustainable, and risk of debt distress is moderate—with some space to absorb shocks—according to the latest debt sustainability analysis (DSA).

Prudent monetary policy and proactive exchange rate policy has supported price and exchange rate stability while contributing to build up reserves. Inflation in 2021 is slowing down faster than expected, standing at 6.4 percent y-o-y in October 2021, and is on course to beat initial end-year projection of 6.2 percent. The central bank (*Banque Centrale du Congo*, BCC) has adopted an accommodative stance through a reduction of its policy rate as inflationary pressures abate. At the same time, the BCC has pursued opportunistic foreign exchange purchases, which together with the first ECF disbursement and the SDR allocation, contributed to increase by fourfold the level of gross official reserves from US$ 0.8 billion (2 weeks of imports) to US$ 3.2 billion (7.4 weeks) over the first ten months of 2021. While credit to the economy grows relatively slowly, the banking sector remains healthy, with adequate prudential ratios, despite the impact of the pandemic.

The authorities are following through on their commitments to transparency in the mining sector and the use of the RCF resources. They are publishing all mining contracts as they are finalized. The full 2020 financial statements of Gecamines were made public recently. Regarding RCF resources, as of end-September 2021, 36 COVID-19 related spending procurement contracts exceeding US$ 12,000 have been published online. With Fund TA, the procurement process for beneficiary ownership is being strengthened. An audit of the COVID-19-related spending has been carried out and noted irregularities which are being addressed. The audit report has been submitted to the Parliament in November 2021 and should be published soon.

II. PERFORMANCE UNDER THE ECF-SUPPORTED PROGRAM

Program implementation in the period under review has been strong, with almost all the conditionality met. All quantitative performance criteria (QPCs), all but one indicative targets (ITs), and two out three structural benchmarks (SBs) were met. The IT on social spending was missed due to higher other health spending not covered by the IT. The authorities are striving to accelerate spending in social areas to offset underspending in the first half of 2021. The November 2021 structural benchmark on the submission of the draft Law of Commercial Banks could not be implemented on time due to longer time needed to complete the draft legislation. It is however expected to be completed by end-December 2021.

The authorities are requesting an augmentation of the ceiling of non-concessional borrowing in the face of difficulties to secure concessional resources. The higher ceiling will enable to secure additional financing for infrastructure while preserving debt sustainability. The authorities are determined to pursue prudent debt management to help reduce the risk of debt distress.

III. ECONOMIC OUTLOOK AND RISKS

The near-term prospects are positive but uncertainty and risks around this outlook are significant, prompting the authorities to remain vigilant. In 2022, growth is anticipated to increase, driven by strong mining expansion projects and higher public investment supported by part of the SDR allocation. Under the baseline scenario, the inflation will remain stable below the 7-percent target in 2022 and the external balances will improve, supported by sustained high commodity prices and continued external financing. However, the Democratic Republic of Congo is a fragile and highly mining-dependent country, and as such it is vulnerable to adverse global macroeconomic developments and high commodity price volatility. In addition, the country—as all countries—still faces uncertainty about the path of the pandemic. Domestic factors, notably persistent security problems in Eastern regions of the country, add to downside risks. The Congolese government pursue their strong actions, notably in the constitutionally guided *état d'urgence* (emergency state), to address this challenge.

The authorities are not ruling out the materialization of positive surprises like in 2021. Those include higher-than-projected mining production and prices, and stronger momentum in the execution of public investment and in structural reform implementation. In the event, they will use surpluses towards further accumulating external buffers to strengthen resilience against shocks and augmenting priority spending.

IV. POLICIES FOR 2022 AND BEYOND

Looking ahead, the Congolese authorities will pursue macroeconomic policies aimed at mobilizing revenue to sustain growth and improve the living standards of the population through higher domestically financed public investment and social spending as well as price and exchange rate stability. They will continue building up external buffers to hedge the economy against shocks. Structural reforms will focus on enhancing governance and fight against corruption, promoting a conducive business environment, and addressing the challenges brought about by climate change.

IV.1. Fiscal Policy and Reforms

The authorities will maintain fiscal discipline in 2022, building on the strong performance achieved in 2021. The 2022 budget envisages further expansion of the fiscal space through continued revenue mobilization and rationalization of expenditures while strengthening the response to the pandemic. The budget includes partial use of the SDR allocation ($300 million) to scale up public investment in priority sectors, notably health, education, hydroelectric energy, infrastructure, transport, and rural development. The planned scaling-up of public investment will come with better prioritization and execution. The key projects that will be financed with those resources are well-identified and will be managed within enhanced procurement and institutional safeguards that will help improve absorptive capacity and public investment efficiency (see next paragraph). A higher amount of SDR resources could be used if investment execution is better than programmed. Like in 2021, the authorities plan to use any revenue surplus towards addressing priority needs while preserving fiscal and debt sustainability. They stand ready to adopt contingency measures to keep the fiscal program on track if needed.

The improvement of the country's absorption capacity and efficiency in public investment is a top priority. In this regard, the authorities will undertake a thorough reform of the *Bureau Central de Coordination* (BCECO) –a government agency in charge of project implementation–, based on the recommendations of previous audits including from the *Inspection Générale des Finances* (IGF). Beside BCECO, the key projects identified for 2022 above will be administered by the *Cellule d'Exécution des Financements en Faveur des États Fragiles* (Fragile States Financing Implementation Unit, CFEF) and the United Nations Development Program (UNDP). The authorities will also undertake an IMF Public Investment Management Assessment (PIMA) in the first quarter of 2022 to strengthen investment procedures and support the best use of resources.

The medium-term fiscal objectives will be underpinned by fiscal reforms, leveraging Fund TA. The authorities are targeting additional revenues equivalent to 3.5 percentage points of GDP over the next three years. The envisaged fiscal reforms to support this objective aim at (i) enhancing tax compliance through a campaign encouraging citizens to request a tax identification number and comply with tax obligations; (ii) restoring a proper functioning of the VAT; (iii) modernizing revenue administration; and (iv) streamlining tax expenditures. Regarding public financial management, the reform agenda will be accelerated in the context of the strategic plan on public finance reform adopted in November 2021. The derived action plan focuses on strengthening interagency coordination, enhancing procurement, reinforcing cashflow management, improving public debt management, and increasing transparency. The remarkable gains achieved in public finance management and the fight against corruption, notably with the work of the IGF, will be consolidated and even augmented.

IV.2. Monetary and Financial Sector Policies

The BCC's action will focus on maintaining price stability, pursuing the modernization of the monetary policy framework, and strengthening the reserve position, while strengthening safeguards and governance at the central bank. Monetary policy will remain prudent and data dependent to keep inflation at a low level. The BCC will continue to refrain from providing monetary financing of the budget and guarantees for central government loans. An enhanced reserve requirement framework will contribute to reserve accumulation. Opportunistic interventions in the foreign exchange market will also continue to further shore up international reserves. The central bank will continue its implementation of the 2020 IMF safeguards recommendations following the reestablishment of the Audit Committee last month.

The supervisory and regulatory frameworks for the financial sector will be enhanced, with notably the Commercial Banking Law under finalization. A Financial Sector Stability Review is planned for early 2022, which will provide a detailed diagnostic of the banking sector and develop a strategy on key reforms for the coming years. The BCC will continue to monitor the impact of the COVID-19-related prudential easing measures on the health of the banking sector and stand ready to deploy its regulatory tools, including bank resolution, to address potential vulnerabilities that would emerge once those easing measures are withdrawn.

IV.3. Structural Reforms

The government will pursue the implementation of its ambitious agenda of structural reforms to improve governance, transparency, and the business environment. Governance and anticorruption reforms will be based on the comprehensive governance assessment that took place in 2019. Key reforms include strengthening the anticorruption agency and enhancing the implementation of the EITI principles in DRC. In the same vein, the authorities are committed to refining the AML/CFT framework and its implementation by addressing weaknesses identified in the Mutual Evaluation Report of GABAC, the task force on money laundering in Central Africa.

They will continue to improve the business environment and support private sector development by further cutting red tape, promoting digitalization, and ameliorating the judicial system.

The Democratic Republic of the Congo champions climate change adaptation and is taking strong actions in that regard. DRC is home to the second largest rainforest in the world, which contributes immensely to carbon absorption. Recently, in the context of the COP26, the country reached a 10-year, $500-million agreement with the United Kingdom under the Central Africa Forest Initiative to protect its forest and promote its sustainable management. Under this agreement, the authorities also intend to respond to the dual challenge of food security and climate change adaptation through sustainable agriculture, primarily in the savannahs.

V. CONCLUSION

Prudent policies and favorable external developments, including global economic recovery and higher commodity prices, have supported the rebound of the Congolese economy in 2021 and ameliorated its macroeconomic situation. Program implementation under the ECF has been strong in the period under review. Going forward, the authorities remain strongly committed to the objectives of the ECF-supported program as indicated in their LOI and MEFP, which lay out significant policy actions and reforms to consolidate the recent macroeconomic gains, sustain the recovery and meet the country's daunting social and development needs. Against this backdrop, they are requesting the completion of the first review under the ECF. Executive Directors' support to this request and related decisions will be appreciated.