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# Democratic Republic of the Congo: 2003 Article IV Consultation, First Review Under the Poverty Reduction and Growth Facility, and Request for Waiver of Performance Criteria—Staff Report; Staff Statement; Public Information Notice and Press Release on the Executive Board Discussion; and Statement by the Executive Director for the Democratic Republic of the Congo

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of a combined discussion of the 2003 Article IV consultation with the Democratic Republic of the Congo, first review under the Poverty Reduction and Growth Facility, and request for waiver of performance criteria, the following documents have been released and are included in this package:

- the staff report for the combined 2003 Article IV consultation, first review under the Poverty Reduction and Growth Facility, and request for waiver of performance criteria, prepared by a staff team of the IMF, following discussions that ended on **November 12, 2002,** with the officials of the Democratic Republic of the Congo on economic developments and policies. **Based on information available at the time of these discussions, the staff report was completed on February 4, 2003.** The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- a staff statement of **March 24, 2003** updating information on recent economic developments.
- a Public Information Notice (PIN) and Press Release, **summarizing the views of the Executive Board as expressed during its March 24, 2003 discussion** of the staff report on issues related to the Article IV consultation and the IMF arrangement, respectively.
- a statement by the authorities of the Democratic Republic of the Congo.

The document(s) listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of the Democratic Republic of the Congo*
Memorandum of Economic and Financial Policies by the Democratic Republic of the Congo*
Technical Memorandum of Understanding*
Selected Issues Paper and Statistical Appendix

*May also be included in the Staff Report

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

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

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INTERNATIONAL MONETARY FUND

DEMOCRATIC REPUBLIC OF THE CONGO

# Staff Report for the 2003 Article IV Consultation, First Review Under the Poverty Reduction and Growth Facility, and Request for Waiver of Performance Criteria

Prepared by the African Department

(In consultation with the Fiscal Affairs, Legal, Monetary and Exchange Affairs, Policy Development and Review, Statistics, and Treasurer's Departments)

Approved by Amor Tahari and Shigeo Kashiwagi

February 4, 2003

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## Executive Summary


- Following successful implementation of a staff-monitored program (SMP), the Executive Board approved on June 12, 2002 a PRGF arrangement in support of the three-year government economic program (PEG). In September 2002, Paris Club creditors granted exceptional debt relief beyond traditional Naples terms. The enhanced HIPC Initiative decision point document is tentatively scheduled to be discussed by the Executive Board in March 2003, once the debt sustainability analysis (DSA) has been finalized.

**Recent political and security developments**

- Remarkable progress has been made in consolidating the peace process. Most foreign countries have completed their troop withdrawal. The inter-Congolese dialogue in Pretoria in December 2002 resulted in the signing of an agreement on power sharing in an all-inclusive transition government, which is to assume office soon. Free and transparent elections will be held after two years.

**Recent economic developments**

- Through September 2002, overall performance under the PRGF-supported program was broadly satisfactory, with good progress in the structural area. The annualized rate of inflation for the first nine months of 2002 reached 11 percent, down from 135 percent in 2001, and economic growth is expected to be positive for the first time in 13 years. One out of nine quantitative performance criteria for end-September was not met and two of the three structural performance criteria were missed, but were observed subsequently with short delays. The two structural performance benchmarks for end-September were met.

- In October–November 2002, there was a noticeable acceleration of inflation as well as a depreciation of the exchange rate, following an unanticipated increase in budgetary expenditure. A package of measures was implemented to address the situation and inflation subsided in December. It is estimated that the overall program targets for 2002 were achieved.

**Article IV discussions and program for 2003**

- **Main lessons from the past are:** (1) the window of opportunity for achieving peace and stability tends to be relatively short in a post-conflict case such as the Democratic Republic of the Congo (DRC); (2) full ownership of the program at the highest level is essential; (3) a clear road map of well-sequenced measures and identification of technical assistance needs based on an early diagnosis of the situation is key; (4) contingent on successful implementation, the duration of a comprehensive and bold SMP should not be too long; and (5) timely and well-balanced international aid is essential to alleviate the social hardship of adjustment.

- **Main challenges for the future are, inter alia,** to, (1) consolidate macroeconomic stability with continued deepening of far-reaching structural reforms consistent with the I-PRSP, in particular, (2) promote governance and improve the business climate; and (3) ensure that the reunification of the country does not jeopardize the results achieved so far.

- In 2003, economic growth is expected to accelerate to 5 percent, and the end-of-period rate of inflation to continue to decelerate to 6 percent. Fiscal policy will aim at continuing consolidation while reorienting the composition of the budget toward pro-poor spending. Monetary policy will continue to aim at price stability in the context of a floating exchange rate, which has so far been appropriate for the country's circumstances. The central bank will continue to implement strictly its detailed action plan to address lapses in accounting, internal audit procedures, and control and supervision of the banking system. The authorities intend to accept the obligations of Article VIII, Sections 2(*a*), 3, and 4; and deepen their structural reform agenda, including strengthening good governance.

**Issues stressed in the staff appraisal**

- The staff urges the authorities and all parties involved to respect the terms of the peace agreement signed on December 17, 2002 in Pretoria.

- Successful reunification will require well-coordinated efforts to simultaneously tackle political, economic, and security issues.

- Timely implementation of measures to increase transparency in the expenditure process, including a new expenditure classification system and the rationalization of the expenditure chain to improve the tracking of poverty-related expenditure, remains critically important.

- The staff encourages the authorities to persevere in their bold steps to improve governance and intensify the fight against corruption, money laundering, and the financing of terrorism.

- The staff encourages the authorities to continue their efforts to complete a full high-quality PRSP.

- A number of risks remain: (1) outbursts of violence and a security vacuum could degenerate into the resumption of widespread conflict; (2) coordination and implementation of the program could weaken as the government changes; and (3) further delays in external assistance could intensify adjustment fatigue.

- Based on the overall progress achieved so far, the staff recommends completion of the first review under the PRGF arrangement.

## I. Introduction

1. Discussions for the 2003 Article IV consultation and the first review under the three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) were held in Kinshasa during October 29–November 12, 2002.[1] In the attached letter of intent dated February 4, 2003, signed by his Excellency President Joseph Kabila, and memorandum on economic and financial policies (MEFP) (Appendix I), which also includes the technical memorandum of understanding, the authorities review progress made so far under the 2002 program and outline the policies to be implemented in 2003. The letter also requests waivers for the nonobservance of one out of nine quantitative performance criteria for end-September 2002, i.e. the ceiling on net domestic assets of the BCC, which was missed by a small margin, as well as two of the three structural performance criteria, namely those on the placement into receivership of a commercial bank, the BCCE (to be implemented at end-January 2003), and the publication of a Code of Ethics and Good Conduct for the public service (observed in November 2002) (Appendix I, Attachment I, Tables 5 and 6). Table 1 summarizes the Fund position during the program period, and Table 2 indicates the phasing of remaining purchases. A debt sustainability analysis (DSA) is being finalized, and the Executive Board's discussion of the enhanced HIPC Initiative decision point document is scheduled to take place in March 2003.

2. At the conclusion of the 2001 Article IV consultation with the Democratic Republic of the Congo (DRC) (EBM/01/73, 07/13/01), the first such consultation since 1996, Directors commended the authorities for having embarked, since late May 2001, on a bold and front-loaded staff-monitored program (SMP). In approving the DRC's request for a three-year arrangement under the PRGF, on June 12, 2002 (EBS/02/76 Sup.1, 5/29/02), and in considering the interim poverty reduction strategy paper (I-PRSP) (EBD/02/81, 5/28/02), the joint staff assessment of the I-PRSP (EBD/02/82, 5/28/02), and the preliminary HIPC document (EBS/02/88, 5/24/02), Directors welcomed the clearance of the DRC's arrears to the Fund and the World Bank, and commended the authorities' efforts to restore normal relations with the international community after a long interruption. Directors considered the

[1] The mission met with President Kabila; the Ministers of Finance and the Budget; Planning and Reconstruction; Mining and Hydrocarbons; Energy; Health; Justice; Social Affairs; Civil Service; Labor; and Education; the Governor of the Central Bank of the Congo (BCC); other senior officials; and representatives of civil society, including the Archbishop of Kinshasa, NGOs, the private employers' organization, trade unions, the media, and the international community. The mission presented its findings to the Interministerial Committee for Program Monitoring. The staff team consisted of Messrs. Clément (Head), Gons, Akitoby (all AFR), Calcoen (FAD), and House (EP-PDR), Ms. Lê (Research Officer), and Mrs. Ng Choy Hing (Administrative Assistant) (both AFR). Mr. Guetat, Advisor to the Executive Director for the Democratic Republic of the Congo (DRC), took part in the policy discussions. The mission was assisted by Mr. Kouwenaar, the Fund's Senior Resident Representative in Kinshasa. Mr. Horton of the World Bank participated in the mission.

PRGF-supported program an important step toward reconstruction and the revival of economic growth, which would reduce widespread poverty in the country. Most Directors agreed that with continued strong performance under the PRGF-supported program, a decision point under the enhanced HIPC Initiative could be envisaged at the time of the completion of the first review under the PRGF arrangement, expected in early 2003, and that the completion point could be reached in early 2006.

3. On September 13, 2002, Paris Club creditors agreed to provide an exceptionally comprehensive (flow) rescheduling of Paris Club debt on Naples terms, with the expectation of comparable treatment for the DRC's debt outstanding to non-Paris Club bilateral and commercial creditors.

4. **Summaries of the DRC's relations with the Fund and the World Bank Group are presented in Appendices II and III, respectively.** The Fund and World Bank staffs have been cooperating closely in assisting the DRC. On April 25, 2002, the World Bank's Executive Board considered a multicountry demobilization and reintegration program (MDRP) for the Great Lakes region, in support of which World Bank lending could contribute US$150 million, with another US$350 million likely to be made available by bilateral donors. On June 13, 2002, the World Bank's Executive Board approved an Economic Recovery Credit of US$450 million. Subsequently, on August 6, 2002, the World Bank's Executive Board approved IDA's Emergency Multisector Rehabilitation and Reconstruction Project (EMRRP) in the amount of US$454 million over two years. Cofinancing of about US$1 billion has already been confirmed. Additional IDA resources may become available. A World Bank fact-finding mission in the provinces to be reunified took place, with Fund and UN participation, during January–February 2003.

5. **The Fund and World Bank staffs have maintained close contacts with the African Development Bank (AfDB) Group and other multilateral creditors.** On June 26, 2002, the Board of Directors of the AfDB Group approved the clearance of the DRC's arrears with the AfDB through a partial payment/partial consolidation approach. Concerning the other multilaterals, they have all agreed that the existing arrears, totaling US$200 million as of end-2001, will be consolidated, with zero net transfers in the first year of the consolidation period.

6. **The Fund and the World Bank have also closely coordinated their activities relating to the DRC with other members of the international community.** Staff of both institutions participated in meetings of the Working Group of the Planning and Management Task Force on the DRC, which functions under the auspices of the Department of Peace Keeping Operations of the United Nations (UN), to discuss political, military, and economic developments. In addition, four donor information and consultation meetings (CGMs) have been held since 2001. During the most recent meeting in Paris in December 2002, donors confirmed pledges to the DRC of more than US$2.5 billion over the coming three years in support of the EMRRP, the budget, the demobilization and reintegration of combatants, HIV/AIDs-related programs, and capacity building. They also agreed, in principle, on the establishment of a multilateral donor trust fund to ensure timely debt service payments to

IDA, the AfDB Group and the International Fund for Agricultural Development (IFAD). Also in Paris, on December 6, 2002, a DRC business forum (attended by more than 150 private-sector investors) and a meeting on the PRSP process with about 80 NGOs took place.

7. **The government intends to formally accept the obligations of Article VIII, Sections 2 (*a*), 3, and 4 of the Fund's Articles of Agreement before completion of the first review under the PRGF arrangement.** (See the forthcoming Board paper on this acceptance, which includes a timetable for the elimination of the remaining restrictions.)[2]

8. **A Fund on-site safeguards assessment was conducted at the BCC during October 7–18, 2002** (Appendix IV). The assessment benefited from the finalization of an external audit of the BCC by a reputable international firm. The assessment reviewed the preliminary conclusions of an earlier off-site assessment, using documentation provided by the BCC. The on-site safeguards assessment concluded that significant vulnerabilities exist, especially in the BCC's external audit mechanism, its financial reporting framework, and its internal control systems, thereby exposing the Fund to potential misuse of its resources and the risk of misreporting. The measures recommended to strengthen the safeguards framework have been included in a detailed action plan, which the BCC has started to implement (para. 36 and Table 3 of the MEFP).

9. During the discussions in October–November for the 2003 Article IV consultation and first review under the PRGF arrangement, the staff discussed with the authorities recent political and security developments (Section II), key economic issues, developments under the SMP and the program supported by the PRGF, as well as measures needed to keep the program on track for the remainder of 2002 (Section III). On the basis of this review, and mindful of the particular circumstances of the post-conflict situation faced by the DRC, lessons from the past and challenges for future reconstruction and development were surveyed, not only with the authorities, but also with a broad spectrum of civil-society representatives (Section IV.A). Building on these discussions, the medium-term growth and balance of payments prospects were updated and a preliminary macroeconomic framework was designed (Section IV.B), as well as policies for 2003 (Section IV.C), which will be finalized during the mission scheduled for May 2003 to conduct the second review under the PRGF arrangement. Social, structural, and sectoral reforms were also discussed (Section IV.D). The monitoring of the PRGF arrangement is presented in Section V and the staff appraisal in Section VI. The circulation of this report to the Executive Board awaited the verification by an international audit firm of the end-December 2001 and end-September 2002 monetary survey and related performance criteria.

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[2] Appendix II, Section 7 contains a description of seven exchange restrictions as of end-December 2002. Meanwhile, the authorities have eliminated, effective February 14, 2003, the two exchange restrictions described in items (2) and (3) and the two multiple currency practices described in items (a) and (b) of Appendix II, Section 7. The staff recommends Fund approval of the remaining restrictions, except for the one arising from the bilateral payments agreement with Zimbabwe, which cannot be approved because it is discriminatory toward other Fund members.

## II. Recent Political and Security Developments

10. **Remarkable progress has been made in consolidating the peace process culminating in the agreement signed in Pretoria on December 17, 2002.** In line with the Lusaka accords of 1999, peace agreements were signed with Rwanda (end-July 2002) and Uganda (early September 2002), and these countries have all but completed the withdrawal of their troops. On the government side, Angola is also completing the withdrawal of its troops, while Namibia and Zimbabwe have already done so. On November 11, 2002, Presidents Kabila and Kagame agreed to extend the period envisaged in the original peace agreement by three months to allow for the disarming and repatriation of ex-Rwandan Hutu soldiers. Meanwhile, Phase III of the United Nations Observation Mission (MONUC) to the DRC continues and the regional demobilization and reintegration program is gradually being put in place, with the help of the United Nations (UN) and the World Bank. On December 5, 2002, the UN Security Council passed Resolution 1445, raising the number of authorized peacekeeping troops assigned to MONUC from 5,500 to 8,700 (some 5,000 MONUC troops were stationed in the DRC as of end-2002). This will help fill the security vacuum that has emerged from the withdrawal of foreign troops, particularly in the eastern region, with tragic humanitarian consequences. The authorities noted that they had tried to remedy the situation by increasing security-related expenditure beyond what had been envisaged in the program.

11. **Given the progress made with the peace process, there has been a renewed sense of optimism, both domestically and in the international community.** Intense consultations have ensued with representatives of civil society, the unarmed political opposition, and all rebel movements, including the Mouvement de Libération du Congo (MLC), supported by Uganda and the Rassemblement Congolais pour la Démocratie (RCD-Goma), supported by Rwanda. The inter-Congolese dialogue in Pretoria, hosted by South Africa's President Thabo Mbeki and under the auspices of the UN Secretary-General's Special Envoy, Moustapha Niasse, resulted in the Pretoria agreement on power sharing in an all-inclusive transition government, which is to assume office shortly, to be followed by free and transparent elections after two years. A new constitution is expected to be finalized in the next few months.

12. **The recently released UN report on the illegal exploitation of natural resources in the DRC revealed intensive illegal activity in both rebel- and government-controlled areas.** Following up on the report, President Kabila suspended three cabinet members and three senior officials (including the director of the public diamond mining company) who were named in the report. A cabinet shuffle took place on November 17, 2002; the international community welcomed President Kabila's quick response to the UN report.

## III. Recent Economic Developments and Performance Under the 2002 Program

13. The last Article IV consultation discussions (EBS/01/94, 6/22/01) focused on the most urgent economic challenges that the government of the DRC faced while starting the

peace process. The first task was to stop hyperinflation and restore macroeconomic stability through a decisive tightening of fiscal and monetary policies. Second, a range of critical structural and sectoral policy reforms were needed to stimulate private sector activity, and support economic recovery. Third, a concerted effort to improve governance was essential, both to promote efficient management of public resources and boost private sector confidence. **In addressing these challenges, the DRC has made remarkable progress over the last two years, not only in the peace process, but also in stabilizing the macroeconomic situation and in initiating conditions for sustainable economic growth, first through the SMP, and subsequently through the PEG supported by an arrangement under the Fund's PRGF.**

### A. Performance Under the Staff-Monitored Program

14. **The implementation of bold measures under the SMP (covering June 2001–March 2002) marked a turnaround in the conduct of economic policy that has produced significant results**, especially by breaking the vicious circle of hyperinflation and currency depreciation (Figure 1). The macroeconomic situation stabilized following the implementation of bold measures. Important progress was made in strengthening public finances via a return to normal budgetary procedures, including the centralization of revenue and expenditure, and a reduction in the use of extrabudgetary channels. A monthly treasury cash-flow plan was strictly implemented.

15. **Far-reaching structural measures were put in place, resulting in the removal of major economic distortions**, notably via the unification of multiple exchange rates and the liberalization of prices; the latter including the introduction of a transparent and automatic mechanism for the pricing of petroleum products. **There was also a profound change in the judicial and regulatory environment**. This change is illustrated by the adoption of new legislation on the exchange and payments system; a new banking law; new statutes for the central bank that enshrine its independence in the conduct of monetary policy; new investment, mining, and labor codes; a new forestry law; the abolition of the export monopoly and the implementation of certification of origin for diamonds; and the replacement of exceptional military courts for business and economic affairs by civil courts.

### B. Performance Under the PRGF-Supported Program

16. **Through end-September 2002, overall performance under the program was broadly satisfactory, with good progress in structural areas.** However, in October and November, inflation accelerated and there was a noticeable depreciation of the Congo franc, mainly on account of the financing of unforeseen security- and sovereignty-related expenditures and the larger-than-expected financial losses of the BCC. It is estimated that, for the first time in 13 years, economic growth has resumed in 2002. Growth occurred in all

sectors, except for manufacturing.[3] The annualized rate of inflation for the first nine months of 2002 reached 11 percent against the 13 percent programmed. The floor on net foreign assets of the BCC was exceeded, helped by higher-than-expected budgetary aid disbursements.

17. **Overall fiscal performance was broadly in line with program objectives at end-September 2002.** The domestic primary balance at end-September showed a surplus of 1.2 percent of GDP instead of the 0.7 percent programmed, and the consolidated overall balance (including larger-than-expected central bank losses) on a cash basis showed a surplus of 0.1 percent of GDP instead of the programmed deficit of 0.3 percent. Total revenue (excluding grants) at end-September exceeded the target by 10 percent, partly reflecting higher-than-expected—and partially exceptional—petroleum receipts. Total expenditure remained lower than envisaged, as a sharp increase in sovereignty- and security-related expenditures was more than offset by a shortfall in domestic- and foreign-financed investments and social expenditure. However, domestic arrears on utilities payments, estimated at 0.5 percent of GDP at end-September, accumulated. At the same time, the public utility companies continued to accumulate tax payments arrears. Taking into account the larger-than-expected budgetary aid disbursements by the World Bank, net bank credit to government and net foreign assets of the BCC at end-September were substantially lower and higher, respectively, than programmed .

18. **Progress achieved so far by the Ministry of Finance in revenue mobilization and centralization, as well as in expenditure management, has been encouraging** (Appendix V). However, expenditure financed by the central bank without prior authorization by the Ministry of Finance continued, accounting for 10 percent of total outlays at end-September 2002. The authorities explained that the security vacuum left by the withdrawal of foreign troops, as well as higher-than expected expenditure on participation in the peace process, necessitated security- and sovereignty-related expenditure overruns that were augmented by compensation payments related to last year's abolition of the diamond export monopoly. The mission noted that these outlays were made in violation of the April 2002 presidential decree that forbids the financing of budgetary expenditure without the prior approval of the Ministry of Finance; these outlays also hampered the monitoring of the monthly cash flow plan execution and reduced overall budget transparency.

[3] International investors have started to respond to the change in the business environment, as reflected in: (i) the US$94 million investment in a new cellular phone service by a South African company (Vodacom), (ii) the ongoing negotiations between a South African utility company (Eskom) and the DRC's authorities in preparation of a large investment in the energy sector, and (iii) the launch of a three-year program to increase offshore oil production by an American-led consortium (Chevron-Texaco). A number of exploratory visits by delegations of private entrepreneurs have also taken place.

19. **Thus, while overall fiscal performance remains on track, the anticipated shift in the composition of expenditure toward pro-poor spending has not yet materialized.** Social expenditure accounted only for 7 percent of government primary expenditure at end-September, instead of the targeted 15 percent (for the whole year), while the combined share of defense, security, and institutional spending (mainly the presidency) amounted to 50 percent of the total.

20. **In light of the acceleration of expenditure in October/November, the authorities reached understandings with the staff that immediate corrective measures were necessary to keep the program on track** through the rest of 2002 (para.10 of the MEFP). On the fiscal side, these measures include (i) the freezing of nonessential expenditure, (ii) the elimination of identified "ghost" workers, and (iii) an increase in the prices of petroleum products by 18 percent (consistent with the agreed pricing mechanism) in two steps, the first of which was implemented in early November and the second is foreseen for early 2003. On the monetary side, the BCC has committed itself to (i) no longer finance government expenditure that has not been authorized in advance by the Ministry of Finance (a new continuous performance criterion), (ii) cease the buying of national and foreign currencies at a premium against bank money (also a new continuous performance criterion), and (iii) mop up liquidity through the issuance of central bank short-term paper at positive real interest rates, starting in late December 2002. The implementation of these measures, notably the freeze on expenditure, the halt on the financing of extrabudgetary expenditure by the BCC, and the end to Congo franc and foreign currency purchases at a premium against bank money, resulted in a stabilization of the exchange rate and a sharp deceleration in inflation in the first three weeks of December 2002. Consequently, **the program's broad targets for 2002, including the fiscal targets, are estimated to have been met, except for the inflation rate**, which is estimated to have reached 18 percent at end-2002 instead of the 13 percent programmed, still sharply down from 511 percent in 2000 and 135 percent in 2001 (Tables 3 and 4B).

21. **Given the significant slowdown in inflation observed in the course of 2002, the monetary authorities further reduced the central bank's refinance rate** and the monthly rate on certificates of deposit. **Based on the adjusted monetary survey[4] for September 2002, broad money grew by 19 percent, compared with the 26 percent projected under the program** (Table 5). Net domestic credit declined by 29 percent of the beginning-of-period money stock, against an originally programmed decline of 2 percent, on account of much lower net credit to the government, which shrank by 29 percent of the beginning-of-period money stock, instead of the programmed 8 percent decline. Both credit to the private sector and credit to the parastatals decreased slightly, compared with small programmed

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[4] The monetary survey has been adjusted to take account of recommendations to correct accounting lapses revealed by the financial audit of the BCC by an international firm. The latter has verified the revised end-2001 and end-September 2002 monetary surveys. From now on, the BCC will follow transparent accounting procedures.

increases. After several years of decline, net foreign assets of the banking system are estimated to have increased in 2002, albeit more slowly than programmed. **For 2002 as a whole, broad money is estimated to have increased by 22 percent, compared with the 35 percent projected in the program.** Net credit to the government is estimated to have fallen by 18 percent of the beginning-of-period money stock, compared with the 6 percent decline in the program.

22. **Despite the progress made in macroeconomic stabilization since June 2001, financial intermediation has not resumed (Box 2), due to continued low public confidence in the banking system. The latter reflects the recent experience with hyperinflation and the nonfungibility so far between the components of base money.**[5] As a result, the economy remains highly dollarized. With the implementation of a restrictive monetary policy, money velocity has continued to increase as expected. With the return of confidence in the financial system, the velocity of money is projected to gradually decrease.

23. **In light of the low level of financial intermediation, the BCC has little room to maneuver.** Its financial operating account is structurally in deficit since its revenue sources are low, whereas its current expenditure, including the relatively high cost of printing banknotes, is high. The BCC's financial situation in 2002 deteriorated more than envisaged under the program, mainly owing to the cost to the BCC of its discount market operations.[6] At end-September 2002, the BCC's net financial loss amounted to about 0.5 percent of GDP, compared with 0.2 percent in the program. The estimate for end-December 2002 is about 0.6 percent of GDP, compared with 0.2 percent in the program. To avoid monetary financing of the BCC's deficit, the BCC's projected net financial loss will continue to be consolidated with the government budget, based on the implementation of a strict monthly cash-flow plan, designed with the help of Fund technical assistance.

24. **The external audit of the BCC was finalized (a performance criterion for end-September 2002), and a committee was created to clean up the BCC's balance sheet with the help of a Fund technical resident expert.** In addition, four BCC department heads were suspended and replaced. With the implementation of a detailed action plan for the BCC (which benefited from the recommendations of Fund technical assistance missions), the lapses in (i) accounting procedures, (ii) the management of international reserves, (iii) internal audit and control procedures, and (iv) the supervision of the banking system are expected to be addressed swiftly (MEFP, para. 36). Until the expiration of the three-year arrangement under the PRGF, the observance of the biannual performance criteria on net

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[5] The nonfungibility of base money is discussed in the section on "Challenges in Developing Financial Intermediation in the DRC" in the forthcoming Selected Issues Paper.

[6] These operations involved purchases of foreign currency and CGF banknotes at a premium (averaging about 30 percent in 2002) against payment in bank money. These interventions were halted in late October 2002.

domestic assets of the BCC, net foreign assets of the BCC, net bank credit to the government, BCC credit to nonfinancial public enterprises, and BCC credit to the nonfinancial private sector will be audited by an international firm. End-year financial accounts of the BCC will also be audited. The BCC has opened a separate account with the Bank for International Settlements (BIS) to deposit the proceeds of IMF drawings (a prior action for the first review under the PRGF arrangement), and any use of these deposits will be subject to ex ante controls.

25. **The external current account balance**, including grants and after debt relief, turned from a deficit in 2001 to a small surplus in 2002, mainly owing to a 14 percent increase in export volumes, mostly reflecting an upturn in diamond exports. These changes counterbalanced rising capital goods imports, with substantial private investment in the mobile telephone sector. The capital account is also estimated to have shifted from a large deficit in 2001 to a surplus in 2002 on account of a sharp increase in official net disbursements and in direct investment (Table 6). As a result, the overall balance of payments deficit (before clearance of arrears) is estimated to have significantly narrowed.

26. **The foreign exchange market has functioned satisfactorily since the liberalization of the exchange regulations in February 2001 and the unification of the foreign exchange market in May 2001.** Since then, the spread between the formal and informal markets has, on average, been below 2 percent. The BCC rarely intervenes in the market and when it does, it limits its intervention to relatively small amounts.

27. **Following the introduction of the floating exchange rate regime on May 26, 2001, the nominal exchange rate fluctuated broadly between June and September 2001, and then stabilized, with month-to-month fluctuations between October 2001 and September 2002 averaging 3.5 percent.** The consumer price-based real effective exchange rate was relatively stable through September 2002 (Figure 2). Official reserves are estimated to have increased in 2002 to US$86 million, or 4.2 weeks of 2002 nonaid-related imports of goods and services, after having declined to US$22 million in 2001, equivalent to 1.4 weeks of 2001 nonaid-related imports. **The competitiveness of the DRC's economy appears to be improving** reflecting the government's comprehensive reform program, which includes the new investment code, the abolition of the monopoly on diamond exports, transportation improvements, especially the renovation of the road linking Kinshasa to the seaport at Matadi, and the rapid expansion in mobile telephone service. In 2002, the government imposed temporary restrictive quantitative measures to deal with the perceived dumping on the local market of imported printed fabric.[7] Nevertheless, **with an overall IMF trade restrictiveness index of 3 (with 10 being the most restrictive), the DRC's trade regime has been among the more liberal of those in the Southern African Development Community (SADC).**

[7] These are the only recorded restrictions on external goods trade with the DRC.

28. **As detailed in Box 3, Paris Club creditors reached an agreement with the DRC authorities in September 2002 on an exceptionally comprehensive rescheduling of Paris Club debt**. At that time, the Paris Club Secretariat presented estimates of the DRC's debt (including arrears) to the Paris Club at end-June 2002 that were approximately US$1 billion higher than the stocks previously estimated by the DRC authorities, mainly owing to higher arrears on pre-cutoff-date non-ODA debt. As shown in Table 7 and Figure 3, total external debt outstanding at end-2001 is now estimated at US$13.9 billion, rather than the US$12.9 billion noted in the PRGF-supported program (EBS/02/76 Sup.1, 05/29/02). The DRC's debt data will be revised further in 2003 upon completion of the debt sustainability analysis for the enhanced HIPC Initiative decision point.

29. **Regarding structural and sectoral reforms, the presidential decree creating the Steering Committee on the Reform of Public Enterprises (COPIREP) was promulgated on October 30, 2002**. The drafting of sectoral reform strategies for enterprises in the telecommunications, energy, and transportation sectors has started, and the operational and functional audits of public enterprises began in November 2002 for completion by February 2003. The consultants for the audit of the domestic cross debts between public enterprises and the government (including the latter's arrears on utilities payments) were selected in December 2002, and initial results are anticipated by end-March 2003.

30. **The new mining code** was published on July 11, 2002, following its approval by parliament. Implementing decrees have been drafted establishing the mining cadastre and the mining rights validation commission, which are expected to be published soon. In the **forestry sector**, since March 2002 the government has revoked forestry concessions covering 25 million hectares because of noncompliance with contractual obligations. In addition, a moratorium was placed on the issue of new concessions until bidding procedures described in the new forestry code, published on August 29, 2002, have been introduced.

31. **The government continued to stress the promotion of good governance and measures to combat corruption.** To this end, the Commission for Action Against Corruption, Fraud, Contraband, and the Counterfeiting of Money and Trademarks was created in August 2002, and a similar commission was set up by civil society to act as an independent watchdog. An anticorruption strategy and anticorruption action plan were adopted in November 2002. Audits of the tax and customs administrations, as well as some public enterprises, were finalized and published in the local press, leading to the replacement of a number of high-ranking public officials. The government has decided to liquidate the Fransabank (Banque Congolaise) and its exchange bureau, following the detection of fraudulent transactions. All externally financed public projects are now subject to a transparent bidding process through the Central Coordination Office (BCECO). Government budget execution for 2001 and 2002 and the yearly financial accounts of the BCC will be audited by the General Accounting Office (Cour des Comptes) and an international firm, respectively. Finally, the Code of Ethics and Good Conduct, applying to all public servants, was published by presidential decree on November 23, 2002 (a structural performance criterion for end-September 2002).

## IV. Report on the Discussions and the Program for 2003

### A. Key Lessons and Challenges

32. **In the context of the Article IV discussions,** the staff has looked backward, with the authorities as well as representatives of civil society, to assess the positive aspects of, and the difficulties encountered in, the DRC's implementation of its remarkable turnaround in economic and financial policies under very difficult circumstances. From this analysis, lessons have been drawn for the future that take into account the authorities' poverty reduction and growth strategy, as formulated in the I-PRSP, as well as the challenges of reunification and reconstruction. Due regard has been given to the sequencing and targeting of policies, the strengthening of administrative capacity, and the timing and effectiveness of international support.

**Key lessons from the past**

33. **In conflict cases, it is generally recognized that the window of opportunity for the return to peace and stability tends to be relatively small.** The authorities noted that in the case of the DRC, the early involvement of the Fund and the World Bank had been key in catalyzing support for the reformers inside the country and the goodwill of the rest of the international community. The quick response of the Bretton Woods institutions to the inaugural speech of President Joseph Kabila in early 2001 (which laid the basis for strengthening the peace process, the inter-Congolese dialogue, and a turnaround in economic policy), has avoided, in their view, a possible fall back into a full-fledged war and social chaos.

34. **The staff agreed that full ownership at the highest level of the new strategy had ensured steady implementation of adjustment and structural reform measures,** which had produced rapid results. Reform was also facilitated by the creation of the interministerial committee in charge of monitoring and coordinating the program's implementation.

35. **An early assessment of the macroeconomic situation and the major structural bottlenecks facing the economy, with the help of the Fund and the World Bank, was essential to the formulation of a coherent strategy and policy mix in early 2001.** The authorities stressed that early and continuous technical assistance from the Bretton Woods institutions in the budgetary, monetary, exchange rate, and structural areas had been of paramount importance in drawing up a clear road map of immediate, short-term, and medium-term measures that had taken into account the limited administrative capacity and the specific circumstances of the country, notably the fact that half of the DRC had still been occupied by foreign forces. The early posting of four Fund technical resident experts and the opening of a resident representative office were key factors in the timely buttressing of administrative capacity.

36. **The DRC's experience shows that well-targeted and well-sequenced technical assistance is as important in post-conflict settings as timely financial assistance from the international community.** The authorities noted that the Fund's comprehensive assessment

mission in early-2001 had led to the timely formulation of a Fund-monitored interim program, even though most of the country had at the time still been classified as Phase IV under the UN security system. This program resulted in the removal of major economic distortions, which broke the vicious spiral of hyperinflation and currency depreciation.[8] Given the DRC's heavy debt-service obligations, limited tax collection capacity, and the absence of nonhumanitarian financial aid, the SMP realistically allowed for an accumulation of external payments arrears, pending the normalization of relations with the DRC's creditors.

37. **Another important lesson is that, contingent on successful implementation, the duration of an SMP in a country emerging from conflict should not be excessively long.** The end of an SMP should coincide with the launching of a PRGF-supported program in order to maintain the momentum of reform and to mobilize quickly external financial assistance in the form of budgetary project aid and nonproject aid and debt relief. This view was especially endorsed by local NGOs and representatives of civil society, who stressed that **quick-disbursing aid assistance could alleviate social hardship while generating "peace dividends."**

38. **The authorities and representatives of civil society stressed that in a country emerging from war such as the DRC, it was crucial that assistance comprised the right mix of humanitarian aid, project aid, budget support, and technical assistance. A judicious mix of external assistance notably increases the chances that a program will succeed and strengthens the social fabric.** It was recognized that humanitarian aid delivered through NGOs and religious organizations was particularly important in alleviating the suffering of the most vulnerable segments of the population, particularly in isolated areas where security and the delivery of public goods and services had collapsed. However, the absence of nonhumanitarian aid during the implementation of the SMP created adjustment fatigue and could have led to unrest if the SMP had been prolonged. The staff agreed that foreign aid should be disbursed to a progressively larger extent through official channels; that is, through the central bank and the government budget. This would increase the effectiveness of budgetary and monetary policies. The staff also agreed that nonproject budgetary aid is now needed to sustain the comprehensive reform program. At present, among development partners only the Fund and the World Bank are providing financial support directly to the government and the central bank. The representatives of civil society stressed the importance of closely monitoring the use of public resources, including external aid, so as to ensure the transparency and effectiveness of spending.

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[8] It is interesting to note that during the inter-Congolese dialogue in Sun City in South Africa last year, which was attended by more than 350 representatives of civil society and all major rebel groups and political parties, there was unanimous support for the economic agenda of the government as embodied in its I-PRSP.

**Challenges for the future**

39. **The authorities noted that the strategies described in their I-PRSP and endorsed by the international community remained valid** with their three overlapping phases: stabilization, reconstruction, and development. Within this framework, the DRC is now gradually moving from the stabilization phase to the reconstruction phase.

40. **The government's principal challenges remain the consolidation of macroeconomic stability while continuing with the far-reaching structural reforms identified in the 2001 Article IV consultation (EBS/01/94), the request for a PRGF arrangement (EBS/02/76), and summarized in Section IV.D.** In light of the lessons drawn from the recent past, ownership of the program remains crucially important given the expected relatively large and heterogeneous government of national unity. In addition, the imminent reunification and related reforms will continue to demand effective interministerial coordination and well-sequenced technical assistance. Finally, timely and well-balanced external assistance will remain key to the smooth implementation of the program.

41. **The government is also aware that further structural steps are needed to improve the business climate and support growth**, notably by cutting red tape, facilitating arbitration and legal settlements, and improving the tax regime. The government is taking steps to join the African Trade Insurance Agency so that short-term (up to three years) transactions can be insured against political risk. The country is also planning to become a member of the Multilateral Investment Guarantee Agency (MIGA). The government will need the continuous support of the international community to improve its legal and judicial systems, and to publish the implementing decrees of all the codes that have been enacted. The supervision and control of the banking system will also need to be strengthened to effectively fight money laundering and the financing of terrorism. **After decades of corruption, when the government acted more like a predator than a supporter of private sector activity, the authorities are now determined to develop a culture of good governance, accountability, and respect for the rule of law**. These measures, together with the withdrawal of foreign troops, should contribute to arresting the plundering and illegal exploitation of the DRC's natural resources.

42. **The Congolese authorities should also ensure that reunification does not jeopardize macroeconomic stability and their reform agenda**. This will require coordinated efforts to tackle concurrent political, security, and economic issues. Foreign assistance will need to be distributed to the entire country, not only to Kinshasa and its surroundings; it will also have to be scaled, sequenced, and timed in an appropriate fashion. Externally-financed projects will need to continue to be monitored by the BCECO until the DRC's administrative capacity is adequate. The Congolese authorities, as well as donors at the recent CGM, have called on the Bretton Woods institutions to assist them in assessing the economic situation in all provinces, but particularly in former rebel-controlled areas, and to extend capacity-building efforts to the entire country. **The fiscal aspects of reunification will have to be carefully monitored on both the receipt and the expenditure sides**. The staff agrees that a supplementary budget will be necessary in 2003, when reunification will

effectively take place. The staff also agrees with the government position that budgetary expenditure in provinces outside government control should be strictly limited. In this regard, it is important that the countrywide public service census will be completed, with Belgian and United Nations Development Program (UNDP) assistance, in the first quarter of 2003.

43. **Reunification will be strengthened by the timely implementation of the UN- and World Bank-supported regional demobilization and reintegration program.**[9] A fully accountable professional army and police force need to be created.

### B. Medium-Term Growth and Balance of Payments Prospects

44. **While the authorities continue to be guided by the broad objectives included in their letter of intent (LOI) of April 13, 2002, they have updated the medium-term macroeconomic framework for 2003–05, taking into account the estimated impact of the September 2002 Paris Club agreement, new information on international aid, and the revised terms of trade projections from the World Economic Outlook.**

45. The updated macroeconomic objectives and policies include, inter alia, (i) an average real GDP growth rate of about 6 percent over the period 2003–05, implying an annual average increase in per capita GDP of 3 percent; (ii) a reduction in the annual inflation rate to 5 percent by 2005; and (iii) a gradual increase in gross international reserves to about 10½ weeks of nonaid-related imports of goods and services (see Tables 3 and 6). The projected growth patterns are similar to those observed in other post-conflict countries and are predicated on three main factors: (i) the continued removal of major economic distortions and a profound change in the regulatory environment, which will boost total factor productivity; (ii) a substantial increase in investment, driven by international aid and largely consisting of infrastructure renovation, which will help relieve major supply bottlenecks; and (iii) the reunification of the country and the restructuring of the mining sector, which will have strong positive impacts on real exports (an increase of about 12 percent annually during 2003–05) (Box 4). Domestic savings will grow as a result of a gradual increase in both government and nongovernment domestic savings. However, despite their growth over the next five years, macroeconomic aggregates (exports, imports, investment, saving, real GDP, etc.) will remain well below prewar levels. The sensitivity of these projections to export fluctuations is discussed in Box 5, which assesses the impact of export growth rates that are 3 percentage points lower in 2003 and 4 percentage points lower in 2004 and 2005 than currently projected in the program.

46. **The external current account deficit**, including grants, but before debt relief, is expected to widen to 5.0 percent of GDP in 2003, and to 7.8 percent of GDP in 2005. Similar to developments in other post-conflict countries, investment goods imports, driven by the

[9] Reunification aspects are discussed in the forthcoming Selected Issues Paper.

return of external assistance and reconstruction, are expected to lead this trend. The program is, in principle, financed through end-2005.

47. Natural resource exports remain one of the major growth engines in the DRC economy, contributing between one-third and one-half of the country's projected annual GDP growth. As noted in Box 5, annual real GDP growth rates would be 0.5–0.8 percentage point lower from 2003 to 2005, and gross official reserves would remain flat instead of increasing, if exports grow more slowly than currently projected. The program would still be financed, but at the cost of drawing down international reserves.

48. **Following the September 2002 Paris Club agreement, and in anticipation of reaching a decision point under the enhanced HIPC Initiative in early 2003, the Congolese authorities have signed or initialed bilateral debt relief and restructuring agreements with 14 governments**, accounting for approximately 40 percent of the DRC's outstanding stock of debt at end-2001. Similarly, agreements have been concluded with multilateral creditors that cover approximately 20 percent of the DRC's end-2001 stock of debt. In sum, about 60 percent of the DRC's outstanding debt has been treated. The Congolese authorities are moving swiftly to conclude agreements with their remaining multilateral and Paris Club creditors; they will also pursue agreements with their non-Paris Club creditors on terms comparable to those provided in the 2002 Paris Club agreement.

49. **Exchange rate policy is expected to remain unchanged, as the staff and authorities concurred that the DRC's floating exchange rate system remains appropriate**. The authorities are committed to limiting their foreign exchange market interventions to smoothing short-term exchange rate fluctuations. As noted in the MEFP (para. 16), the government is committed to eliminating the remaining exchange restrictions identified by an IMF technical assistance mission in October 2002, in order to comply with Article VIII, Sections 2 (*a*), 3, and 4 of the IMF's Articles of Agreement before completion of the first review under the PRGF arrangement.

50. **With respect to trade policy**, there are at present five import tariff bands (i.e., 0, 5, 15, 20, and 30 percent) and two sets of surcharges, with multiple exemptions for both the tariffs and surcharges. The authorities, with the Fund's technical assistance, intend to undertake—in the course of 2003—a comprehensive tariff reform that will simplify and reduce import tariffs, remove exemptions, and reduce external protection in a revenue-neutral fashion (MEFP, para. 31), consistent with the DRC's obligations deriving from its membership in the Common Market for Eastern and Southern Africa (COMESA). In consultation with the World Trade Organization, the Congolese authorities intend to seek an appropriate alternative to the temporary quantitative restrictions they have placed on printed fabric imports (MEFP, para. 16).

## C. Macroeconomic Framework for 2003

51. **The consolidation of macroeconomic stability and the pursuit of a deepened reform agenda remain the authorities' principal goals.** As the new, all-inclusive,

transition government is likely to include 4 vice-presidents and about 35 ministers and 25 vice-ministers representing most political forces, strong interministerial coordination will be needed.

52. **Consistent with the revised macroeconomic framework**, economic growth should benefit from the sharp increase in foreign-financed investment in the context of the World Bank's EMRRP and the introduction of sectoral strategies. **The program for 2003 aims at** (i) an acceleration of economic growth to 5 percent; (ii) a sharp increase in investment to about 16 percent of GDP as a result of the resumption of foreign-financed investment; (iii) an increase in national saving to almost 15 percent of GDP, resulting from a rise in government savings and net transfers from abroad (including debt relief); (iv) a decline in the average annual inflation rate to 13 percent, consistent with an end-period rate of 6 percent as originally programmed; and (v) a shift in the external current account (including grants and after debt relief) from a small surplus to a deficit of about 1 percent of GDP, in line with the resumption of foreign-financed investment (see Table 3). Gross official reserves are targeted to increase to about 7½ weeks of nonaid-related imports of goods and nonfactor services.

**Fiscal policy**

53. **The authorities agreed with the staff that fiscal policy for 2003 should be aimed at continuing fiscal consolidation while reorienting the composition of the budget toward pro-poor spending.** Total receipts (excluding grants) are expected to reach 8.3 percent of GDP in 2003, and total expenditure, driven by foreign-financed investment and the resumption of interest payments on external debt, will increase sharply to 16.8 percent (Table 4B). The domestic primary surplus, on a cash basis, would increase to 2.1 percent of GDP, while the overall consolidated deficit, on a cash basis and after debt relief, should widen to 2.0 percent of GDP. Given the expected net foreign financing, net credit to government will be zero. These aggregates include provisional estimates of the impact of reunification of the country and of the recent Paris Club agreement, as well as the resources freed up by the enhanced HIPC Initiative. **The authorities intend to present a supplementary budget to parliament in the course of 2003 to take fully into account the impact of reunification**, the enhanced HIPC Initiative, the ongoing census of the civil service, tariff reform, and implementation of the regional demobilization and reintegration program.

54. **To achieve the revenue target**, the authorities will continue to implement administrative reforms aimed at improving revenue collection and alleviating administrative burdens on taxpayers. These include the start-up in February 2003 of the Large Taxpayers' Unit and the customs administration's modernization program. In the meantime, progress achieved so far in strengthening the administrative capacity of the revenue-collecting agencies allows for the introduction of policy reforms aimed at eliminating distortions and providing a sound basis for economic development. **In 2003, the authorities will implement the first steps of the tariff reform, consistent with their commitments under their membership in COMESA.** Designed with technical assistance from the Fund, this reform will be accompanied by compensatory measures in indirect taxation in order to be at least

revenue neutral. The next steps in the simplification and rationalization of the tax system should include the following: (i) measures to simplify taxes and duties on enterprises on the basis of recommendations expected in March 2003 from the World Bank; and (ii) the replacement of the turnover tax with a value-added tax (VAT), possibly in 2004, pending further improvement in administrative capacity.

55. To limit expenditure to the targeted ratio of 16.8 percent of GDP while reorienting spending toward pro-poor uses, **the 2003 budget incorporates strict limits on current expenditure**:

- The wage bill is targeted to increase by 35 percent (to 2.5 percent of GDP), including the cost of the retirement allowances for public servants above retirement age[10] and of wages for the 144,000 public servants in occupied territories that are to be paid once they have been certified and reunification becomes effective. Public service salaries will increase by 21 percent in 2003, and military and police salaries by 6 percent; at the same time, there should be a net reduction in the number of public servants by at least 40,000 (through the elimination of identified ghost workers and nonreplacement of some of the retirees). Following the public service census in the first quarter of 2003, a central personnel database will be set up and regularly updated.

- Other current expenditure on goods and services, especially for sovereignty- and security-related expenditure, should decrease with the consolidation of peace, except for utilities payments, for which appropriations have been increased to more realistic levels. Once the audit of utilities expenditures and of domestic cross arrears has been finalized, with the assistance of the World Bank, a realistic schedule for the elimination of certified net domestic arrears will be defined, as well as an action plan designed to improve control over these expenditures and avoid a further accumulation of arrears.

- Driven by a sharp increase in foreign project aid, capital expenditure is expected to increase by more than 5 percentage points of GDP.

56. **The share of social and infrastructure expenditure is expected to increase substantially in 2003.** Details of the composition of expenditure and of the definition of poverty-related expenditure are being worked out with the help of the World Bank in light of the recommendations of its public expenditure review (PER). **An agreement on the detailed 2003 budget will be a condition for the conclusion of the second review of the program.**

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[10] The total number of public servants over retirement age is estimated at 60,000. Effective retirement is subject to payment of exceptional allowances. The 2003 budget will take into account the retirement of 35,000 public servants, with an estimated cost of CGF 6 billion, for which financing is being solicited from the World Bank.

57. **To ensure transparency in the expenditure process, improve the tracking of poverty-related expenditure, strengthen the monitoring and control of spending, and prevent the accumulation of arrears**, the authorities will implement a number of measures designed with Fund technical assistance and in accordance with the Assessment and Action Plan undertaken by the World Bank in the context of its PER (Appendix III). These measures include the following: (i) the implementation of a new budget classification system in the 2003 budget; (ii) the rationalization and reinstatement by end-March 2003 of the full expenditure chain applicable to all types of expenditure, including commitment, liquidation, payment orders, and payment (a structural performance criterion for end March 2003); (iii) the implementation of a computerized exchange of information between the treasury and the central bank; (iv) the production of monthly budget execution reports at each stage of the budget process; (v) the auditing of the 2001 budget execution before March 2003 and of the 2002 budget execution before end-December 2003; and (vi) the reform of the procurement process. The authorities also envisage reform of the government's accounting rules and procedures. In addition, a special account will be opened at the BCC, at least for the first year of HIPC Initiative assistance, to record HIPC Inititiative resources. A summary of key fiscal issues and measures is contained in Box 6.

**Monetary and financial sector issues**

58. **The BCC will continue to pursue a monetary policy aimed at stabilizing prices in the context of its floating exchange rate regime.** There will be no net credit to the government from the BCC, in accordance with its new statutes.

59. **The BCC undertakes to strengthen the operational framework of its monetary programming, as recommended by Fund technical assistance missions**. With the repayment of its remaining certificates of deposit, the BCC has started to put in place indirect monetary policy instruments in coordination with Fund staff. In this context, the BCC has begun to issue its own short-term treasury bills at positive real interest rates[11]. The BCC will also consider short-term swaps (one to two weeks) of foreign currency for domestic currency. These swaps would be used at the discretion of the BCC for the supply of reserves to banks on a temporary basis.

60. **In the context of overall banking sector reform** and with a view to reviving financial intermediation and increasing the effectiveness of monetary policy, the authorities have decided to take the following measures with World Bank assistance: (i) the updating, by end-March 2003, of the already completed audits of four commercial banks; (ii) the conclusion, by end-March 2003, of audits of the three commercial banks that have not yet been audited; and (iii) the drafting and introduction, by end-June 2003, of an appropriate recovery plan for those banks that are considered viable.

[11] In December 2002, short-term treasury bills were issued for the first time at an annualized rate of 22 percent, while the BCC refinancing rate was raised to 24 percent.

### D. Social, Structural, and Sectoral Policies, and Other Issues

61. The social, structural, and sectoral reforms are being implemented with the help of the World Bank, and in close collaboration with Fund staff and the support of other international partners.

**Social policies**

62. **Since its adoption in June 2002, the I-PRSP has been translated into four national languages in order to increase its accessibility.** In October 2002, the Ministry of Planning and Reconstruction completed a living conditions survey, covering some 10,000 urban and rural households with the support of the United Nations Children's Fund (UNICEF). A National Survey on Poverty—focusing on geographical districts as units of analysis—is under preparation, which will facilitate the measurement of poverty against specific physical criteria (e.g., the distance from schools, health centers, and wells). This survey will be essential for the drafting of the full PRSP (to be completed in early 2005), in particular the poverty profile, the priority areas for action and reform, and the quantification of the required poverty-alleviating programs and projects.

**Structural and sectoral reforms**

63. **In the public enterprises sector, COPIREP will become fully operational** by April 2003. The external auditor of the state petroleum corporation (COHYDRO) has been instructed to submit his report by end-February 2003, and the audit reports for the other public enterprises are expected to be completed at the same time. **A new legal framework is being prepared, governing the operations of public enterprises and the various forms of private sector participation in them.** The aim is to start preparing reform strategies for the main enterprises by April 2003. A survey and certification of cross debts between public enterprises and the government, as well as of government domestic debt owed to resident creditors, particularly private sector enterprises, is being prepared with World Bank assistance, and initial results are expected by end-March 2003.

64. **Preparatory work for the restructuring of the state mining company (GECAMINES)** is ongoing, particularly the program for the voluntary separation of about 11,000 staff, which is to be financed with support from the World Bank. Both GECAMINES's management and employees have agreed to the voluntary separation plan, which should become operational by April 1, 2003. In the preparation of an overall restructuring strategy for GECAMINES, a preliminary audit is expected to be completed by end-February 2003; this audit will permit a strategy to be drawn up in March 2003.

65. By end-February 2003, the **Ministry of the Environment and Forestry** and the Ministry of Finance will set up a joint database to ensure efficient collection of the area tax. Concessions will be revoked in cases of nonpayment of the tax by end-December 2003. In addition, by end-February 2003, the two ministries will finalize the terms of reference for a study on forestry taxation. Finally, by end-March 2003, the Ministry of the Environment and Forestry will adopt the forestry code's main implementing regulations on (i) the procedures

for awarding concessions; (ii) logging rules; (iii) verification and collection of fines; (iv) community forests; (v) the creation of the forestry cadastre; and (vi) the operating procedures of the National Forestry Fund.

66. **Regarding the promotion of private sector activity, the new labor code** will enter into force only after publication of its implementing decrees, which should be drafted within 12 months, in consultation with the World Bank and the International Labor Organization (ILO)[12]. A review of the taxation of enterprises will be completed by end-March 2003; an action plan and an implementation schedule, both based on the review's findings, will be adopted with a view to simplifying corporate taxation. A **one-stop shop (*guichet unique*) for investors** will be set up by end-April 2003 with World Bank assistance. **In addition, the government undertakes to eliminate as soon as possible all quasi-taxation** that has no legal basis; a presidential decree will be published to this effect. Moreover, no form of contribution, tax, duty, or levy (national or regional) shall be created without the approval of the Minister of Finance. Finally, the government undertakes to limit the number of agencies involved in audits of taxpayers, and in particular of private enterprises, and to increase the transparency of its tax audit procedures.

67. Regarding governance and the fight against corruption, it is expected that **the implementing regulations of the recently published public service Code of Ethics and Good Conduct** will be finalized by end-March 2003. A draft law against corruption, money laundering, and transnational organized crime will be submitted to parliament before end-March 2003. The same procedure will be adopted for the Citizen's Handbook (a collection of citizens' rights and obligations). The reform of the public procurement system will be launched by end-March 2003, with World Bank support; the emphasis will be on strengthening the bidding committees.

68. **In the regulatory area,** the authorities plan to prepare and adopt a new **water code** (by end-June 2003) and a new **energy code** (by end-December 2003). An in-depth study of electricity rates should be completed by end-June 2003, and its findings will be used to streamline these charges. At the same time, a project is under preparation, with World Bank assistance, to increase the export capacity of the National Electricity Corporation (SNEL), especially to South Africa.

**Statistical issues, administrative capacity building, and technical assistance**

69. External technical assistance covers a broad spectrum of efforts to buttress administrative capacity and central government institutions (Box 7). The quality and

[12] The new labor code has been drafted with, inter alia, the participation of the private sector and labor union representatives. It represents a major step forward in creating a more transparent and coherent legal framework, in particular regarding the settlement of labor disputes.

timeliness of macroeconomic statistics, especially in the monetary and government finance areas, are steadily improving (Appendix VI). The execution of the monthly treasury cash-flow plan is now available with only two weeks delay, while the monetary survey has been fully adjusted to correct for accounting lapses. Monthly and weekly treasury plans are being prepared by the joint BCC and Ministry of Finance treasury committee. Balance of payments data are likely to improve further with reunification and the reforms of the customs administration planned for 2003. While further improvements are needed, the minimum conditions to implement and monitor a PRGF-supported program are in place. The authorities are following up on the recommendations of the June 2001 STA mission so as to improve consumer price and national accounts statistics, with further technical assistance as needed.

## V. PRGF Arrangement Monitoring

70. The two interministerial committees—the first responsible for the three-year economic program and chaired by the Minister of Finance, and the second responsible for the poverty reduction strategy—will continue to monitor closely the implementation of the PEG and the poverty reduction strategy. Monitoring will be made easier by the planned enhancements to information sharing between the BCC and the Ministry of Finance.

71. The following prior actions for the completion of the first review under the PRGF arrangement have been, or will soon be, implemented: (a) an audit by an international firm, by end-December 2002, of five performance criteria (net foreign assets of the BCC, net domestic assets of the BCC, net bank credit to the government, BCC credit to nonfinancial public enterprises, and BCC credit to the nonfinancial private sector) at end-September 2002; (b) an 18 percent increase in petroleum product prices, in accordance with the automatic mechanism for fixing these prices; and (c) the opening of a separate account at the BIS to deposit the proceeds of IMF drawings; any use of these deposits will be subject to ex ante controls. The adoption by parliament of the 2003 budget, in conformity with the aggregates agreed with Fund staff, is a condition for the second review of the program.

72. Program execution in 2003 will continue to be monitored through biannual reviews and performance criteria, with quarterly performance benchmarks. Performance criteria for mid-September 2003 will be defined during the second review of the program. As shown in Table 5 and para. 49 of the MEFP, the program contains three continuous quantitative performance criteria: (i) the BCC will not finance any expenditure of the government without the prior approval of the Minister of Finance; (ii) the BCC will not purchase any Congo franc banknotes or foreign exchange in the market at a premium against bank money; and (iii) the government will not accumulate payment arrears on external debt service. In addition, the government intends to maintain a balance of SDR 8 million in its account with the Fund to ensure timely payment of its obligations to the Fund (see para. 49 of the MEFP). Finally, the BCC will strictly implement its detailed action plan (para. 36 of the MEFP).

## VI. Staff Appraisal

73. **Over the past two years, the DRC has been gradually emerging from political instability, civil strife, and outright war, the effects of which have been compounded by years of economic mismanagement and corruption.** It will take years for society and the economy to completely recover, but the remarkable progress made since 2001 bodes well for the future. With the completion of the withdrawal of foreign troops, 2003 should bring peace and reunification to the country.

74. Lasting peace can be achieved only if power-sharing formulas agreed among the parties participating in the inter-Congolese dialogue are effectively implemented. **The staff urges the authorities and all parties involved to respect the terms of the peace agreement signed on December 17, 2002 in Pretoria.** This agreement provides for the formation of an all-inclusive transitional Government of National Unity, a new constitution, and free and transparent elections after two years. **Without lasting peace, sustainable economic development is impossible.**

75. **The staff commends the authorities for their steadfast implementation of wide-ranging macroeconomic, structural, and sectoral reforms**—first, under the SMP, and, since April 2002, under the PRGF-supported Government Economic Program (PEG). The turnaround in economic and financial policies has already yielded significant results.

76. **The staff commends the authorities for achieving the program's overall fiscal targets through September 2002, which not only shows their commitment to the program but also the return to a normal budgetary process.** However, it notes with concern that the security vacuum created by the recent withdrawal of foreign troops and the continuation of the inter-Congolese dialogue have led to unforeseen sovereignty- and security-related outlays in the last few months. This development, together with a shortfall in project financing, has resulted in the nonobservance of the programmed composition of expenditure, with lower-than-expected social and infrastructure-related outlays. However, the staff commends the authorities for boldly addressing the slippages of the last few months through a package of fiscal and monetary measures to ensure that the 2002 program targets are met.

77. **Contrary to the program, the BCC has continued the practice of financing government expenditure without prior authorization by the Ministry of Finance.** The staff urges the authorities to strictly abide by the April 2002 presidential decree prohibiting the financing of all budgetary expenditure that has not received the prior approval of the Ministry of Finance. The staff also encourages the BCC to strictly implement its monthly cash-flow plan.

78. **The medium-term approach included in the DRC's I-PRSP, with its three phases (stabilization, reconstruction, and development) remains valid.** The main challenge ahead is to ensure that the reunification of the country further consolidates

macroeconomic stability, and that the measures to strengthen the administrative capacity of the central government are also extended coherently to all provinces.

79. **Successful reunification will require coordinated efforts to tackle simultaneously political, economic, and security issues.** Foreign assistance will need to be well-sequenced, properly coordinated, and provided in an appropriate mix; the timely implementation of the regional demobilization and reintegration program will also be critically important. The creation of a fully accountable professional army and police force remains a particular challenge.

80. **The staff agrees that fiscal policy for 2003 should be aimed at continued consolidation while increasing the "pro-poor" bent of the budget**. In this context, the staff encourages the authorities to strictly implement their monthly treasury cash-flow plan.

81. **To achieve the 2003 fiscal revenue target, the authorities should continue to implement their planned administrative reforms, including the creation of a Large Taxpayers' Unit and the modernization of customs administration.** The staff encourages the authorities to implement the first steps of the tariff reform in a broadly revenue-neutral way that is consistent with their regional commitments.

82. **Timely implementation of measures to increase transparency in the expenditure process, including a new expenditure classification system and the rationalization of the expenditure chain to improve the tracking of poverty-related expenditure, remains critically important.** The authorities are also encouraged to improve the monitoring of utility outlays. The staff agrees with the authorities that the fiscal impact of the reunification in 2003 will need to be analyzed carefully, so as to avoid jeopardizing macroeconomic stability. In this regard, the staff welcomes the intention of the authorities to assess the situation in the provinces concerned before preparing a supplementary budget in 2003.

83. **The staff endorses the BCC's commitment to price stability in the context of the existing floating exchange rate system.** The BCC should continue to develop indirect monetary policy instruments to control domestic liquidity. The staff welcomes the BCC's determination to carry out strictly its detailed action plan to correct institutional and operational lapses detected by the external audit, in particular in accounting procedures, the management of international reserves, internal audit procedures, and the control and supervision of the banking system.

84. **Similarly, a sound banking system is a prerequisite for the revival of financial intermediation and effective monetary policy**; hence, the staff supports the restructuring of the banking system.

85. **The staff welcomes the deepening of structural and sectoral reforms, which have already led to a marked improvement in the business climate.** The large body of recently enacted legislation will need to be put in effect through implementing decrees, particularly in the areas of governance, mining, forestry, and energy.

86. **The staff encourages the authorities to persevere in their bold steps to improve governance and intensify the fight against corruption, money laundering, and the financing of terrorism.** After decades of corruption and mismanagement, it will be particularly challenging to create a culture of accountability and respect for the rule of law.

87. **The staff encourages the authorities to continue their efforts to complete a full, high-quality PRSP,** and to further broaden it by supporting participatory processes. The staff welcomes the preparation of a National Survey on Poverty.

88. The staff welcomes the authorities' intention to eliminate the remaining restrictions on external transactions and to accept **in early 2003 the obligations under Article VIII, Sections 2 (*a*), 3, and 4 of** the Fund's Articles of Agreement.

89. **A number of risks remain for program implementation**. Initially isolated outbursts of violence could degenerate into the resumption of widespread conflict. Further delays in external assistance could intensify adjustment fatigue and lead to social unrest. The forthcoming all-inclusive transitional government is likely to include representatives of a number of political forces and, therefore, particular attention will need to be paid to an effective coordination of government actions to avoid slippages under the economic program.

90. **The staff recommends completion of the first review under the PRGF arrangement on the basis of the authorities' strong efforts to implement the program through end-September 2002.** The staff supports the authorities' request for waivers for the nonobservance of one quantitative and two structural performance criteria for end-September.

91. **The staff welcomes the intention of the authorities to make public the staff report, the letter of intent, and the MEFP**. It is proposed that the next Article IV consultation with the DRC be held in accordance with the provisions of the decision on consultation cycles approved on July 15, 2002.

## Box 1. Structural Conditionality

**Structural and sectoral reform under the PRGF-supported program**

In the area of structural and sectoral reform, the government is implementing, with World Bank support, a wide-ranging set of reforms, aimed at deepening and broadening the progress initiated under the SMP. The reforms cover public enterprises, the financial sector, mining, forestry, agriculture, the rehabilitation of infrastructure, the promotion of good governance, the fight against corruption, and capacity building.

**Statatus of structural conditionality for the first review under the PRGF**

structural performance criteria and benchmarks under the first year of the PRGF arrangement presented in Appendix I, Attachment I, Table 6. Regarding end-September structural ormance criteria and benchmarks, the financial audit of the BCC has been completed, and its mmendations have been incorporated in an action plan, drawn up with Fund assistance, to itutionally and operationally strengthen the BCC. The list of banks to be liquidated, privatized, estructured has been drawn up, and the process to liquidate the Nouvelle Banque de Kinshasa K) and the Banque de Crédit Agricole (BCA) was initiated. Concerning the liquidation of the d bank, the Banque Congolaise du Commerce Extérieur (BCCE), the authorities have decided tart the process of liquidating it in its present structure by end-January 2003. The Code of ics and Good Conduct, which applies without exception to the entire civil service, was lished with a delay of a little over one month to allow for reaching a broad consensus. The two ctural benchmarks for end-September, namely, the preparation of an overall strategy and an on plan for combating corruption and the formulation of a strategy for restructuring the public ing company (GECAMINES), have been met.

The end-December 2002 benchmark on drawing up an action plan that takes into account the recommendations of the BCC external audit has already been met, while the financial audit of the petroleum corporation (COHYDRO) is ongoing.

**Status of World Bank lending benchmarks or triggers**

The mining sector is supported by a specific tranche of US$25 million under the Economic Recovery Credit that will finance the voluntary departure program of about 11,000 GECAMINES workers. Assuming continued satisfactory overall implementation of the government's economic reform program, the mining tranche will be released when (i) a commission for the validation of mining titles and an autonomous mining registry have been created by presidential decree; (ii) a permanent committee in charge of restructuring GECAMINES and managing the voluntary departures program has been established by presidential decree; and (iii) a voluntary separation plan for GECAMINES workers has been prepared. The forestry sector is supported by a specific tranche of US$15 million, to be released, assuming satisfactory overall implementation of the economic program, upon submission to parliament of a draft forestry code. The forestry code was promulgated on August 29, 2002, and a tranche release memorandum is under preparation. (See Appendix III for more details.)

## Box 2. Banking Sector Issues

### Overview

**The financial sector of the Democratic Republic of the Congo consists of 14 banks and 5 financial institutions.** In addition, there are a large number of savings and loan cooperatives (183 credit unions have been identified) and 27 microfinance institutions. Of the 14 banks, only 11 are active. At end-September 2002, the balance-sheet total of the banks amounted to CGF 91 billion (4.7 percent of GDP). The role of the banking system in the economy is still very limited as financial intermediation is virtually nonexistent. Its activities are confined to foreign exchange transactions with importers and exporters, transfers abroad, and the safekeeping of banknotes for economic operators in the formal sector. At end-September 2002, bank deposits in local currency represented about 0.7 percent of GDP, while bank credit to the economy as a whole represented about 0.6 percent of GDP.

### Financial situation

**While activity in the banking system started to stabilize in 2002, the banks' overall financial position is still precarious, as most banks do not comply with the prudential norms in place.** As of September 30, 2002, **only three banks met the capital adequacy requirements.** Insufficient equity capital is largely responsible for the nonobservance of this ratio. The proportion of revenue derived from banking activity is particularly low and is far from sufficient to cover operating costs. Thus, the **operating ratio is less than 100 percent for only two institutions.** Until September 2002, the profitability of the banking system was inflated by securities transactions involving the purchase of certificates of deposit bearing an attractive rate of return.

### Legal framework

**In 2002, three pieces of legislation pertaining to the banking sector were adopted:** Law No. 003/2002 of February 2, 2002 on the activity and control of credit institutions (the banking law) replaced the Ordinance Law of January 14, 1972. It establishes the framework for authorizing credit institutions to operate, and for liquidating, regulating, and disciplining them. In addition to this general law, a specific law on credit unions spells out the conditions under which they may operate and be regulated. The Bank Restructuring Law of October 30, 2002 extends through January 2004 the exceptional legal framework for the restructuring of the Congolese banking system.

### Bank supervision

**The banking law assigns to the BCC all responsibilities for banking supervision:** licensing and delicensing powers, definition and enforcement of prudential norms, rules of good conduct, assessment of the soundness of institutions' financial situations and penalties for noncompliance. In the BCC, the prudential supervision task has mainly been entrusted to the Directorate of Supervision of Financial Intermediaries (SIF), which is responsible for off-site and on-site inspections.

**Bank supervision in the DRC has taken place in a very difficult environment.** Years of war and neglect have resulted in limited reliability of banks' balance sheets, in particular regarding the value of assets. Moreover, the reliability of data provided by financial institutions to the SIF may be affected by inaccuracies and weaknesses in their accounting framework. **In this context, most prudential ratios have been deprived of their meaning, and most banks do not comply with them.** Overall, the strengthening of on-site supervision is needed, and the modernization of accounting rules, which has been delayed due to lack of financing, ought to be completed as soon as possible.

### Bank restructuring

In 2001, the government started to implement, with the help of the Fund and the World Bank, a comprehensive reform aimed at consolidating and restructuring the banking sector. Six institutions deemed nonviable have been placed in liquidation, while others are being audited.

## Box 3. External Debt and the Paris Club Rescheduling

**Debt estimates**

The DRC's total outstanding debt at end-2001 is estimated at about US$13.9 billion (about 247 percent of 2002 GDP), with about US$10.9 billion of this stock accounted for by arrears. Approximately 24 percent of this debt is owed to multilateral creditors, 71 percent to Paris Club creditors, 3 percent to non-Paris Club bilateral creditors, and 2 percent is commercial and short-term debt (Figure 3).

**Paris Club**

Paris Club creditors reached agreement with the Congolese authorities in September 2002 on an exceptionally comprehensive rescheduling of Paris Club debt on Naples terms. Paris Club debt at end-June 2002 was estimated at US$10.3 billion, of which US$9 billion was in arrears. While formally a flow rescheduling, the agreement covers the bulk (US$9.9 billion) of the Paris Club debt, owing to the inclusion of arrears that have accumulated since the last Paris Club agreement in 1989.

The participating creditors were the governments of Austria, Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Norway, Spain, Switzerland, Sweden, the United Kingdom, and the United States. Although not a member of the Paris Club, the agreement was also signed by Brazil, which is a significant creditor of the DRC. The main creditors are the United States, France, Belgium, Germany, and Italy, which together account for about 65 percent of total Paris Club debt.

The key terms of the agreement are as follows:

- Pre-cutoff-date debt (arrears as of end-June 2002 and current maturities falling due during the PRGF arrangement period through June 2005) is rescheduled on Naples terms, and all moratorium interest is capitalized (payable over eight years with a four-year grace period).

- Arrears as of end-June 2002 on post-cutoff-date debt and on short-term debt are deferred nonconcessionally over seven years (no grace period) with a graduated repayment profile.

- Post-cutoff-date maturities due in the second half of 2002 are deferred over three years (no grace period).

The agreement provides for assistance substantially larger than had been projected when the PRGF-supported program was presented to the Board in June 2002 (EBS/02/76, 5/29/02), mainly because the repayment period for post-cutoff-date arrears, short-term debt, and capitalization of moratorium interest was more prolonged than anticipated. It is estimated that these terms provide the program with about US$300 million in additional financing beyond the amount envisaged before enhanced HIPC Initiative assistance (or about 5 percent of 2002 GDP).

**Enhanced HIPC Initiative**

DRC is eligible for consideration for assistance under the enhanced HIPC Initiative since it is both IDA- and PRGF-eligible. As explained in the DRC's enhanced HIPC Initiative preliminary document (EBS/02/88, 5/24/02), it is anticipated that the DRC will qualify for enhanced HIPC Initiative assistance at a possible decision point in early 2003 on the grounds that the ratio of its net present value (NPV) of debt to the three-year (1999–2001) historical average of exports of goods and nonfactor services exceeds 150 percent.

Creditors have agreed to provide a topping up at the enhanced HIPC Initiative decision point, but there is little scope for additional relief during the consolidation period, given the exceptional terms of the September 2002 Paris Club agreement and the very small size of the amounts falling due on pre-cutoff-date debt. The provision of interim assistance through a rescheduling on Cologne (flow) terms is expected to provide a reduction in debt service of about US$35 million in 2003 before rising to US$73 million in 2005.

## Box 4. Sources of Growth

In the context of the Article IV consultation discussions, the staff has conducted a study on the sources of growth in the DRC that is the subject of a forthcoming selected issues paper. The main finding is that inappropriate economic policies (through their effects on total factor productivity and investment) badly hurt economic growth in the DRC during 1960–2000. Looking forward, the study concludes that the right policies are being put in place to lay the foundation for reconstruction and improved economic performance.

**Growth accounting exercise.** A growth accounting exercise was used to decompose growth in output per worker between changes in physical capital per worker and total factor productivity (TFP). The main results are summarized as follows:

- **At the macro level**: annual output per worker posted a negative average annual growth rate of 3.3 percent during 1960–2000. Negative TFP growth contributed to 60 percent of this decline, while the decline in physical capital per worker accounted for 40 percent.

- **At the sectoral level:** in the agricultural sector, which experienced zero average annual TFP growth during 1960-2000, negative physical capital growth explained the negative growth of output per worker of 1.7 percent over this period. In the transport sector, TFP declines accounted for 92 percent of the negative 6 percent growth of output per worker during 1960-2000. The mining sector recorded some TFP growth gains, but mining output per worker fell by an average of 4.1 percent per year owing to the rapid decline in physical capital per worker.

**Sectoral contributions to real GDP.** An analysis of sectoral contributions to economy-wide growth indicates that the mining and transport sectors account for the negative average annual real GDP growth rate of 0.3 percent during 1960–2000.

**Policy determinants of growth.** An econometric analysis of the policy determinants of growth reveals that high inflation rates and large budgetary deficits had a substantial negative impact on economic growth during 1960–2000. Political turmoil, conflicts, and war also exacerbated this poor performance.

**Medium-term growth prospects**

**Sound macroeconomic policies** and **far-reaching structural reforms** are already having a positive effect on growth through improved resource allocation. DRC's growth prospects are also enhanced by its untapped potential in the mining, agriculture, forestry, and energy sectors. Copper production to date has declined to about 5 percent of its 1985 peak of more than 500,000 metric tons; cobalt production has fallen by 70 percent from pre-conflict levels; zinc production has virtually ceased, compared with a capacity of 200,000 metric tons; gold production has practically ceased, compared with a capacity of 6 metric tons; tin production has ceased; and manganese production is nil, compared with a capacity of 360,000 metric tons.

In light of the far-reaching structural and sectoral reforms being enacted and envisaged under the Government Economic Program (PEG), as well as the sharp rise in foreign-financed projects, **an average growth rate of 6 percent is projected over the next three years, 2003–05**, which is in line with that of other post-conflict countries.

## Box 5. Sensitivity to Lower Export Growth

| | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|
| Base case | | | | |
| Real GDP (percentage change) | 3.0 | 5.0 | 6.0 | 7.0 |
| Exports of goods (in U.S. dollars; percentage change) | 14.8 | 6.3 | 20.7 | 22.3 |
| Current account balance, including grants, before debt relief (percent of GDP) | -3.2 | -5.0 | -8.6 | -7.8 |
| Gross official reserves (weeks of nonaid-related imports) | 4.2 | 7.7 | 9.1 | 10.6 |
| Debt service after debt relief (percent of goods and nonfactor services exports) | 3.5 | 13.2 | 18.4 | 17.1 |
| Debt service after debt relief (percent of government revenue) | 8.3 | 22.5 | 29.5 | 27.4 |
| Debt service after debt relief (percent of government revenue, excluding grants) | 8.6 | 32.5 | 43.9 | 39.6 |
| Alternative scenario | | | | |
| Real GDP (percentage change) | 3.0 | 4.5 | 5.3 | 6.2 |
| Exports of goods (in U.S. dollars; percentage change) | 14.8 | 3.3 | 16.7 | 18.3 |
| Current account balance, including grants, before debt relief (percent of GDP) | -3.2 | -5.4 | -9.6 | -9.4 |
| Gross official reserves (weeks of nonaid-related imports) | 4.2 | 7.0 | 7.1 | 6.5 |
| Debt service after debt relief (percent of goods and nonfactor services exports) | 3.5 | 13.5 | 19.5 | 18.7 |
| Debt service after debt relief (percent of government revenue) | 8.3 | 22.5 | 29.6 | 27.6 |
| Debt service after debt relief (percent of government revenue, excluding grants) | 8.6 | 32.5 | 44.1 | 39.9 |

Sources: Congolese authorities; and staff estimates and projections.

The DRC has abundant reserves of natural resources. With reunification and foreign-financed investment, natural resource exports could contribute about one-third of economic growth in the medium term.

**Assumptions**

The base case presented in the table above reports data from the medium-term framework supported by the DRC's arrangement under the PRGF (EBS/02/76 Sup 1, 5/29/02). The alternative scenario reflects the impact of lower export growth over the medium term than in the base case, with an assumption that external assistance and investment remain unchanged. Growth in merchandise export receipts is 3 percentage points lower than projected in the base case in 2003, and 4 percentage points lower in both 2004 and 2005. Consequently, merchandise exports are approximately 9 percent lower than projected in the base case at end-2005.

**Impact of lower export growth in the alternative scenario**

**Real GDP.** Real GDP growth is expected to be 0.5–0.8 percentage points lower than in the base case each year from 2003 to 2005, inclusive. By end-2005, government revenues will also be lower by about 1 percent than in the base case, and nominal GDP will be 2 percent lower.

**Current account.** Lower export growth is projected to have little impact on imports as investment-related goods and services will continue to be required for reconstruction. About 45 percent of investment-related good and services imports are expected to be financed by grants and loans, which will not be affected by lower export growth. Investment-income outflows may, however, be smaller than in the base case, owing to lower export receipts. Overall, lower export growth may deepen the expected deterioration of the current account (including grants, before debt relief) by as much as 1.6 percentage points by 2005.

**Gross official reserves.** Lower export growth is expected to be reflected principally in a slower accumulation of net foreign assets. In the alternative scenario, gross official reserves, expressed in weeks of nonaid-related imports, remain flat from 2002 to 2005, rather than steadily increasing as shown in the base case.

**Debt service.** As the absolute values of disbursements and debt service are expected to remain unaffected by changes in export growth, the ratios of debt service to both goods and nonfactor services exports, and fiscal revenues marginally increase with lower export growth.

## Box 6. Key Issues and Measures in the Fiscal Area

**Revenue collection improved sharply in 2001 and 2002, but, even at the projected level of 8.3 percent of GDP in 2003, it remains one of the lowest among sub-Saharan African countries, despite the multiplicity and high levels of customs tariffs and tax rates.** Revenue collection by the three main agencies—Office des Douanes et Accises (OFIDA) for customs; Direction Générale des Contributions (DGC) for direct and indirect taxes; and Direction Générale des Recettes Administratives, Judiciaires et Domaniales (DGRAD), mainly for nontax revenues—while improving, is still hampered by numerous exemptions and special arrangements, and by insufficient equipment, poor motivation, and fraud.

Against this background, **the reform program for the collecting agencies at first focused on taking short-term measures to strengthen administrative capacity before introducing any policy reforms.** These measures include the modernization of the revenue collection agencies through improvements in data collection, management information systems, internal management, and basic equipment; the reinvolvment of revenue-collecting agencies in key sectors, such as petroleum distribution; stricter control of exemptions and special regimes; and the creation of a Large Taxpayers' Unit, which is expected in February 2003.

In **the second stage of the reform strategy, the DRC is to engage in a simplification and rationalization of its customs tariffs and tax system, while pursuing administrative reforms** aimed both at improving revenue collection and alleviating the administrative burden on taxpayers:

Tax policy reforms will include a tariff reform consistent with the country's commitments under regional agreements, accompanying domestic measures to compensate for any revenue loss, and simplification measures in taxes and duties applicable to companies; and

Revenue administration reforms will include the restructuring of the main collecting agencies, the streamlining of their collection and audit procedures, and the computerization of their information systems. These measures should also pave the way for the introduction of a value-added tax (VAT) in 2004.

**Significant progress was made in 2001 and 2002 in improving overall fiscal management, thus contributing to the realization of the macroeconomic objectives of the program:**

**Revenues were centralized, and off-budget expenditure reduced.** Revenues from petroleum production and most public enterprises are now centralized in the treasury's account at the BCC, and, starting in 2003, oil consumption taxes and GECAMINES's contributions to the treasury as well. Entities receiving earmarked revenue and "special budgets" will be streamlined in the 2003 budget. A presidential decree requires prior authorization by the Ministry of Finance before any expenditure is paid by the BCC; however, this decree is not yet fully respected; and

- **A basic public expenditure function was rebuilt,** through approval by parliament of the 2002 budget, the implementation of a commitment plan revised quarterly in accordance with the treasury cash-flow plan, the production by the treasury of execution reports reconciled with the central bank on a regular basis, and the modernization of the equipment of the departments.

**Further progress is needed to return to a normal budget execution process.** This requires the following measures, some of which are already in progress:

- implementation of a new budget classification system and of a rationalized budget expenditure chain, including the rebuilding of a complete commitment stage and reinforcement of the key administrative departments involved in the execution process;
- implementation of a computerized exchange of information between the treasury and the central bank, and production of monthly budget execution reports at the different stages of the process;
- adoption of an action plan to control utility expenditures and improve their management;
- reform of the procurement regulation, the legal framework of the budget, and government accounting rules and procedures; and
- review and reinforcement of the fiscal management capacity at the provincial level (this will be the subject for the next public expenditure review of the World Bank, scheduled for the second half of 2003)

## Box 7. Technical Assistance

Administrative capacity in most ministries and institutions has been weak. The reinstatement of regular administrative processes has been impaired by both a lack of experience and an absence of basic equipment. A strongly staffed resident technical assistance program, coupled with a substantial amount of external assistance, is key to addressing administrative shortcomings in the short run and strengthening significantly the country's institutional capacity.

**In the fiscal area, and in addition to several short-term missions, in January 2002 three IMF resident experts were posted for an initial six-month assignment. In July 2002, their assignment was renewed for another six-month period. The objectives of the technical assistance (TA) are as follows:**

- For customs administration, the objective is to help sustain the modernization effort (monitoring capacity, one-stop window, and computerization).
- For tax administration, the reform program has focused on establishing a Large Taxpayers' Unit to secure revenue from the largest taxpayers and introduce modern procedures and methods (introduction of a taxpayer identification number and development of an integrated information technology system).
- In public expenditure management (PEM), the main objectives are to reinstate regular administrative budget execution processes, and to enhance the Ministry of Finance's monitoring and reporting capacity, with a view to improving expenditure tracking.
- In parallel, the Fund is providing assistance on public finance and real sector statistics.

To support these efforts and provide guidance for the next steps of the reform process, the DRC also benefited from a PEM follow-up mission in September 2002 and a TA mission on revenue administration in December 2002. The latter followed a tax policy TA mission that helped the authorities to design a tariff reform, as well as indirect domestic tax reforms, to offset any possible revenue loss, to be implemented in the course of 2003.

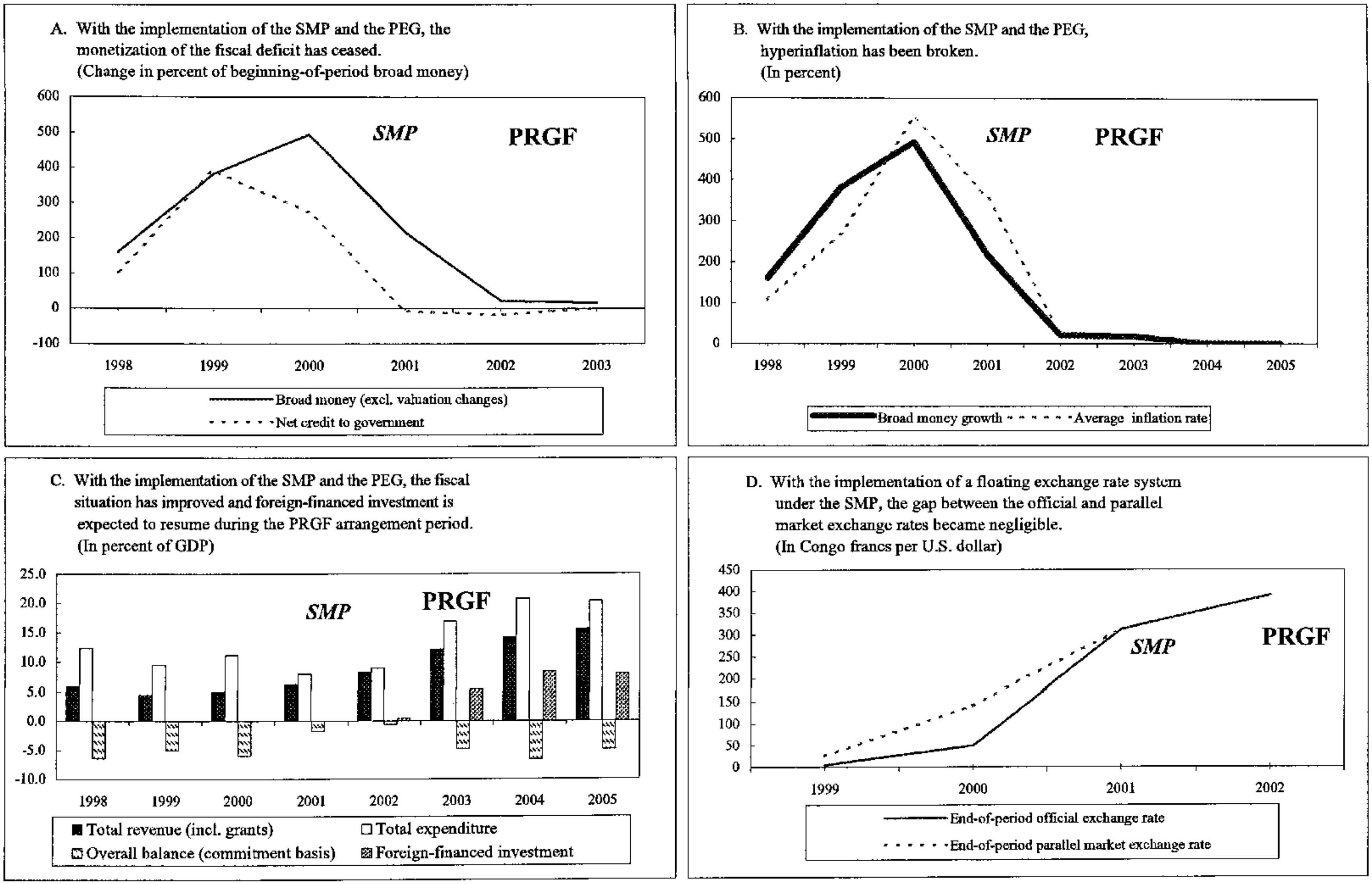
**In the monetary and exchange areas,** a multisector Fund mission in February–March 2001 helped put in place a road map for TA concerning monetary and exchange rate policy and central bank management. The road map has been implemented as follows:

- TA for the introduction of a floating exchange rate system in May 2001;
- TA in the drafting of key legislation—the statutes of the central bank, the banking law, and exchange regulations;
- posting of a resident Fund advisor, in early 2002, to help strengthen monetary and exchange rate policy, and bank supervision; and
- in October 2001, a Fund multitopic mission recommended reforms in the areas of financial intermediation, monetary management, foreign exchange markets and operations, and central bank audit and organization (several follow-up missions, including another Fund multitopic mission, took place in 2002 to review progress made in implementing these reforms).

**Additional assistance is being provided by other donors.** The World Bank is providing TA, notably in the areas of public enterprise reform, the restructuring of the banking system, governance, the fight against corruption, procurement reform, and the I-PRSP (the latter together with the UNDP). A public expenditure review (PER) for 2002 has been completed, and the 2003 public expenditure review (PER) will focus on fiscal management at the provincial level and fiscal decentralization. The European Union (EU) continues to provide TA for the reform of the judiciary, and the International Labor Organization assisted in drafting the new labor code. Belgium, together with the UNDP, is providing TA for civil service reform.

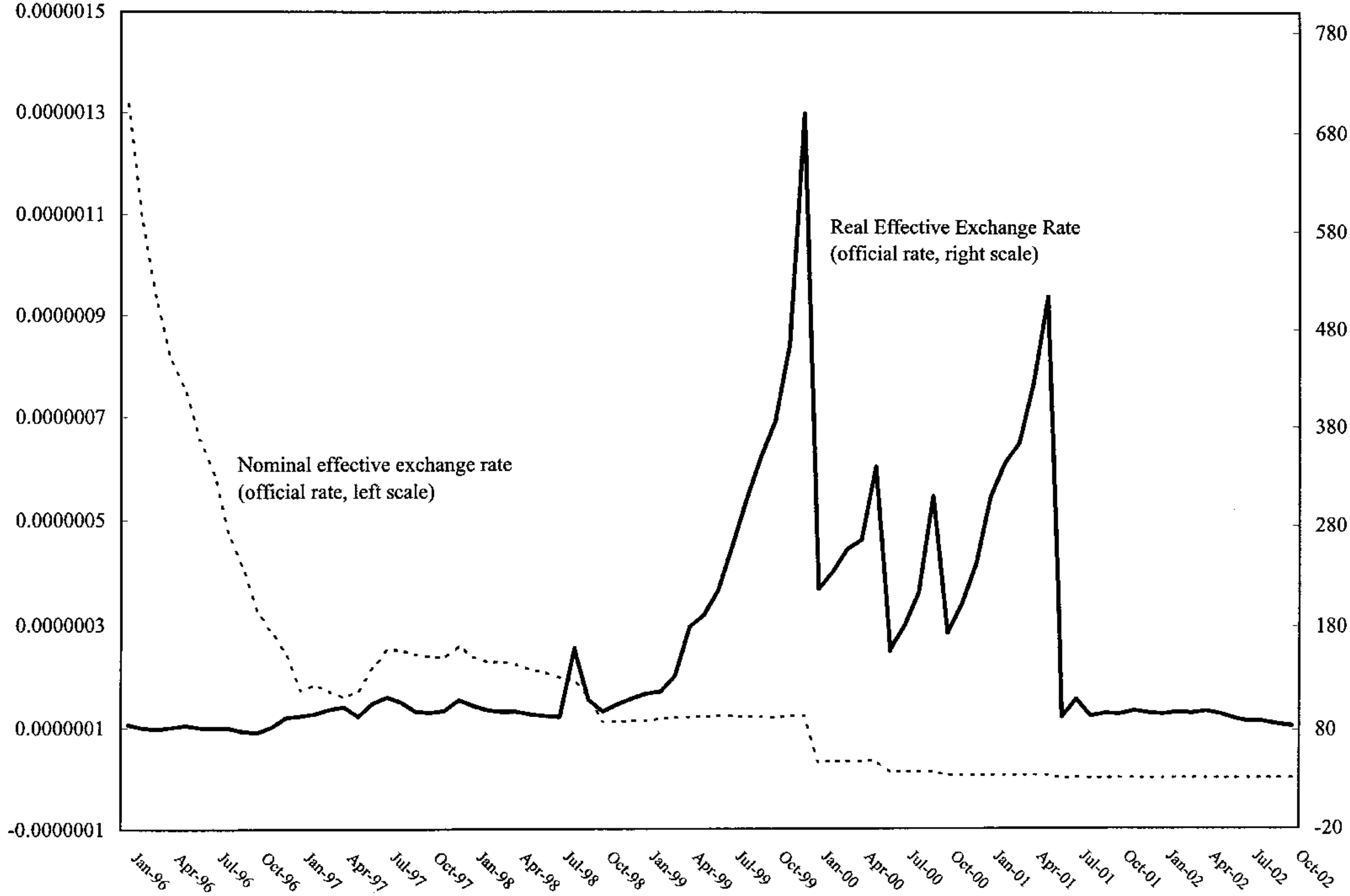
**Coordination of technical assistance.** To ensure well-coordinated and well-sequenced TA from the international community and to avoid duplication, a TA coordinating committee has been created with the help of the World Bank (see Appendix III).

Figure 1. Democratic Republic of the Congo: Selected Fiscal and Monetary Indicators 1/



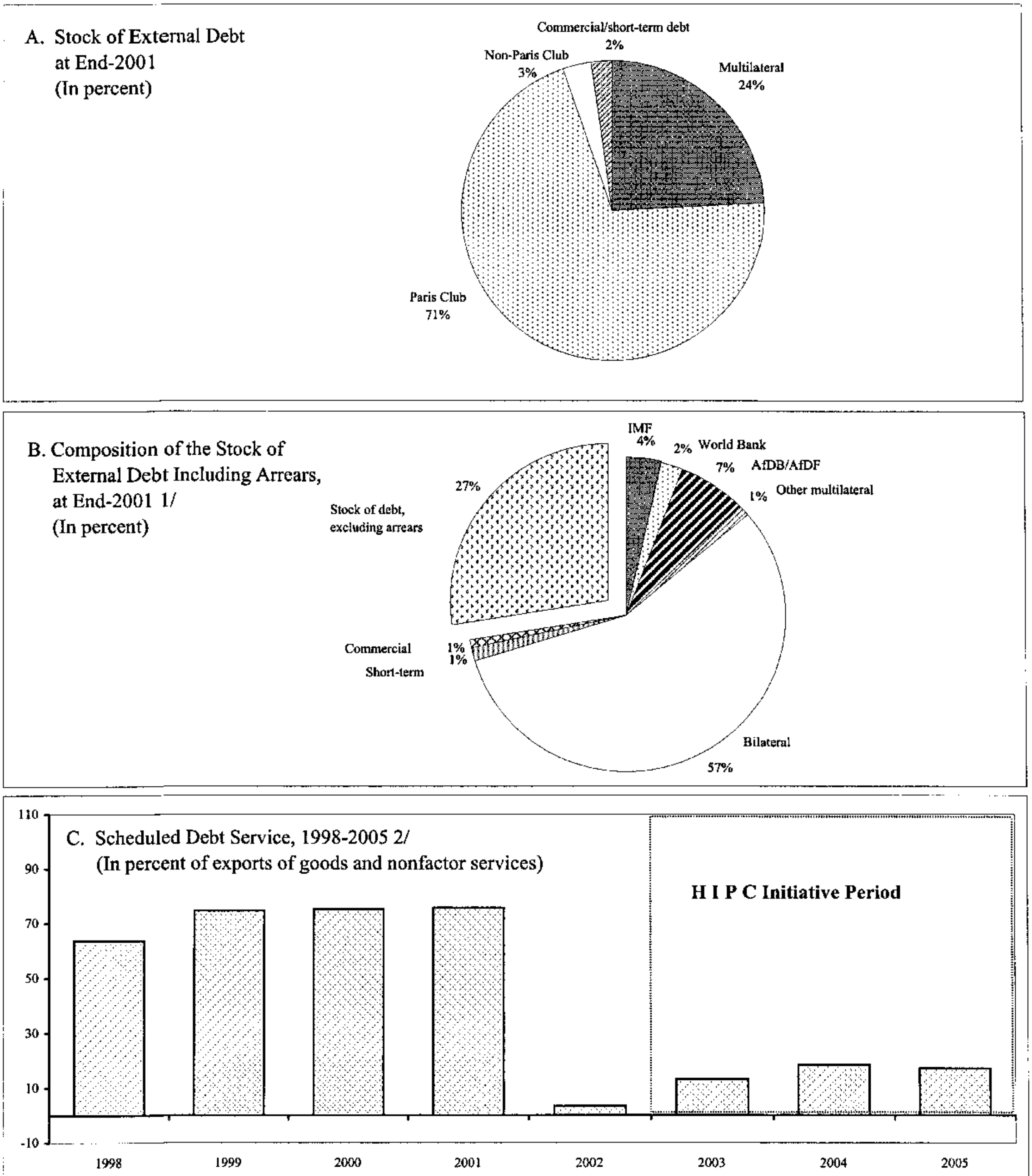

Sources: Congolese authorities; and staff estimates and projections.
1/ The Staff-monitored program (SMP) (June 2001-March 2002). The Government Economic Program (PEG) is supported by an arrangement under the Poverty Reduction and Growth Facility (PRGF) (April 2002-July 2005).

Figure 2. Democratic Republic of the Congo: Exchange Rate Indices, January 1996-October 2002
(Index: 1990=100; U.S. dollar per Congo Franc)




Sources: IMF, Information Notice System (INS).

Figure 3. Democratic Republic of the Congo: External Debt at End-2001




Sources: Congolese authorities; and staff estimates and projections.

1/ The stock of debt excluding arrears represents only 27% of the total stock of external debt. The remaining 73% consists of arrears.

2/ Includes debt relief on interest from the rescheduling of debt on Naples flow terms, the capitalization of moratorium interest, and the consolidation of interest on arrears in 2002, plus HIPC Initiative-related resources. Reflects preliminary estimates of the impact of the September 2002 Paris Club rescheduling.

Table 1. Democratic Republic of the Congo: Fund Position During the Period of the PRGF Arrangement, 2002–05

| | 2002 | | 2003 | | 2004 | | 2005 | |
|---|---|---|---|---|---|---|---|---|
| | Jan.–Jun. | Jul.–Dec. | Jan.–Jun. | Jul.–Dec. | Jan.–Jun. | Jul.–Dec. | Jan.–Jun. | Jul.–Dec. |
| | (In millions of SDRs) | | | | | | | |
| Disbursements | | | | | | | | |
| Poverty Reduction and Growth Facility (PRGF) | 420.0 | 0.0 | 26.7 | 26.7 | 26.7 | 26.7 | 26.7 | 26.7 |
| Repurchases/repayments | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Ordinary resources | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| PRGF | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Arrears clearance (on 6/12/02) | 403.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Charges and interest | 0.0 | 1.9 | 1.9 | 1.9 | 1.9 | 1.9 | 1.9 | 1.9 |
| Ordinary resources | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| PRGF | 0.0 | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 |
| SDR charges | 0.0 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 |
| Total Fund credit outstanding (end of period) | 420.0 | 420.0 | 446.7 | 473.3 | 500.0 | 526.6 | 553.3 | 580.0 |
| Ordinary resources | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Structural Adjustment Facility (SAF) arrangements | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Charges/interest | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| PRGF | 420.0 | 420.0 | 446.7 | 473.3 | 500.0 | 526.6 | 553.3 | 580.0 |
| | (In percent of quota, unless otherwise specified) | | | | | | | |
| Total Fund credit outstanding (end of period) | 78.8 | 78.8 | 83.8 | 88.8 | 93.8 | 98.8 | 103.8 | 108.8 |
| PRGF disbursements | 78.8 | 0.0 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 |
| Repurchases/repayments | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Charges and interest | 0.0 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 |
| Debt service (in percent of exports of goods and nonfactor services) 1/ | | 0.2 | | 0.2 | | 0.2 | | 0.1 |

Sources: International Monetary Fund, Treasurer's Department; and staff projections.

1/ Before possible enhanced HIPC Initiative assistance.

Table 2. Democratic Republic of the Congo: Proposed Schedule of Disbursements Under the PRGF Arrangement, 2002–05

| Amount | Availability Date | Conditions Necessary for Disbursement 1/ |
|---|---|---|
| SDR 420 million | June 12, 2002 | Drawn on June 12, 2002, following Executive Board approval of the three-year Poverty Reduction and Growth Facility (PRGF) arrangement. |
| SDR 26.7 million | February 19, 2003 | Observance of the performance criteria for September 30, 2002 and completion of the first review under the PRGF arrangement. |
| SDR 26.7 million | July 15, 2003 | Observance of the performance criteria for March 31, 2003 and completion of the second review under the PRGF arrangement. |
| SDR 26.7 million | January 15, 2004 | Observance of the performance criteria for September 30, 2003 and completion of the third review under the PRGF arrangement. |
| SDR 26.7 million | July 15, 2004 | Observance of the performance criteria for March 31, 2004 and completion of the fourth review under the PRGF arrangement. |
| SDR 26.7 million | January 15, 2005 | Observance of the performance criteria for September 30, 2004 and completion of the fifth review under the PRGF arrangement. |
| SDR 26.7 million | May 30, 2005 | Observance of the performance criteria for March 31, 2005 and completion of the sixth review under the PRGF arrangement. |

Source: International Monetary Fund.

1/ Other than the generally applicable conditions under the Poverty Reduction and Growth Facility (PRGF) arrangement.

Table 3. Democratic Republic of the Congo: Selected Economic and Financial Indicators, 2000–05

| | 2000 | 2001 | 2002 | | 2003 | | 2004 | | 2005 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Est. | Est. | EBS/02/76 | Prel. Est. | EBS/02/76 | Prog. | EBS/02/76 | Proj. | EBS/02/76 | Proj. |
| | (Annual percentage change) | | | | | | | | | |
| Output and prices | | | | | | | | | | |
| Real GDP | -7 | -2 | 3 | 3 | 5 | 5 | 6 | 6 | 7 | 7 |
| GDP deflator | 516 | 403 | 23 | 27 | 9 | 14 | 6 | 7 | 6 | 6 |
| Consumer prices, annual average | 550 | 357 | 25 | 26 | 9 | 13 | 6 | 6 | 5 | 5 |
| Consumer prices, end of period | 511 | 135 | 13 | 18 | 6 | 6 | 6 | 6 | 5 | 5 |
| External sector | | | | | | | | | | |
| Exports, f.o.b. (in U.S. dollar terms) | -8 | -1 | 8 | 15 | 11 | 6 | 18 | 21 | 23 | 22 |
| Imports, f.o.b. (in U.S. dollar terms) | 49 | 19 | 36 | 33 | 42 | 29 | 24 | 23 | 8 | 11 |
| Export volume | -4 | -5 | 8 | 14 | 11 | 10 | 13 | 16 | 12 | 11 |
| Import volume | 51 | 24 | 37 | 31 | 40 | 26 | 22 | 22 | 6 | 9 |
| Terms of trade | -3 | 9 | 3 | 0 | 8 | -6 | 4 | 3 | 4 | 9 |
| Nominal effective exchange rate 1/ | -83 | -84 | ... | -71 | ... | ... | ... | ... | ... | ... |
| Real effective exchange rate 1/ | -18 | -6 | ... | -58 | ... | ... | ... | ... | ... | ... |
| | (Annual change in percent of beginning-of-period broad money, unless otherwise indicated) | | | | | | | | | |
| Money and credit | | | | | | | | | | |
| Broad money | 493 | 217 | 35 | 22 | .... | 17 | .... | .... | .... | .... |
| Net foreign assets | -710 | -695 | 36 | 2 | .... | 9 | .... | .... | .... | .... |
| Net domestic credit | 343 | 31 | 2 | -17 | .... | 8 | .... | .... | .... | .... |
| Net credit to the government | 272 | -7 | -6 | -18 | .... | 0 | .... | .... | .... | .... |
| Credit to the private sector | 61 | 37 | 7 | 0 | .... | 8 | .... | .... | .... | .... |
| Credit to the parastatals | 10 | 0 | 1 | 0 | .... | 0 | .... | .... | .... | .... |
| Central bank refinance rate (level in percent) 2/ | 120 | 140 | ... | 24 | .... | .... | .... | .... | .... | .... |
| | (In percent of GDP) | | | | | | | | | |
| Central government finances | | | | | | | | | | |
| Revenue (excluding grants) | 5.1 | 6.2 | 7.3 | 7.9 | 8.4 | 8.3 | 9.6 | 9.5 | 11.1 | 10.8 |
| Grants (excluding humanitarian aid) | 0.0 | 0.0 | 1.2 | 0.3 | 4.7 | 3.7 | 6.4 | 4.6 | 5.2 | 4.8 |
| Expenditure 3/ | 11.1 | 7.9 | 11.0 | 8.9 | 18.1 | 16.8 | 21.1 | 20.7 | 18.2 | 20.3 |
| Domestic primary cash balance 4/ | -3.9 | 0.6 | 0.9 | 1.4 | 2.4 | 2.1 | 3.8 | 3.5 | 5.4 | 4.8 |
| Overall balance (commitment basis) | -6.0 | -1.6 | -2.5 | -0.6 | -5.0 | -4.8 | -5.1 | -6.6 | -2.0 | -4.8 |
| Overall consolidated cash balance 5/ | -4.1 | 0.5 | -0.4 | -0.1 | -1.7 | -2.0 | -2.3 | -4.0 | -1.0 | -2.4 |
| Investment and saving | | | | | | | | | | |
| Gross national savings | -1.2 | 0.5 | 11.0 | 9.2 | 15.9 | 14.6 | 16.9 | 15.2 | 16.1 | 16.3 |
| Government | -5.6 | -1.5 | 2.8 | 1.3 | 6.9 | 4.8 | 8.7 | 5.8 | 7.8 | 7.3 |
| Nongovernment | 4.4 | 2.1 | 8.3 | 7.9 | 9.1 | 9.8 | 8.2 | 9.4 | 8.3 | 9.0 |
| Gross domestic savings | 4.4 | 3.2 | 6.8 | 3.7 | 8.2 | 5.2 | 9.9 | 7.6 | 11.7 | 10.0 |
| Government | -3.6 | -0.2 | 1.9 | 1.1 | 2.7 | 2.5 | 4.1 | 3.9 | 5.7 | 5.2 |
| Nongovernment | 8.1 | 3.5 | 4.9 | 2.7 | 5.4 | 2.7 | 5.8 | 3.7 | 6.0 | 4.8 |
| Investment | 3.5 | 5.2 | 9.9 | 9.1 | 16.5 | 15.7 | 19.9 | 19.9 | 18.8 | 20.3 |
| Government 6/ | 0.5 | 0.1 | 2.9 | 1.1 | 8.5 | 6.2 | 10.9 | 9.4 | 8.8 | 9.3 |
| Nongovernment 7/ | 3.0 | 5.1 | 7.0 | 8.0 | 8.0 | 9.5 | 9.0 | 10.5 | 10.0 | 11.0 |
| | (In millions of U.S. dollars, unless otherwise indicated) | | | | | | | | | |
| Balance of payments | | | | | | | | | | |
| Exports of goods and nonfactor services | 963 | 961 | 1,101 | 1,109 | 1,226 | 1,178 | 1,431 | 1,407 | 1,741 | 1,698 |
| Imports of goods and nonfactor services | 920 | 1,067 | 1,286 | 1,405 | 1,769 | 1,781 | 2,158 | 2,170 | 2,322 | 2,404 |
| External current account, incl. grants, before debt relief (in percent of GDP) | -4.6 | -4.7 | -3.7 | -3.2 | -4.7 | -5.0 | -7.7 | -8.6 | -7.3 | -7.8 |
| External current account, excl. grants, before debt relief (in percent of GDP) | -9.5 | -10.2 | -9.1 | -9.7 | -12.2 | -14.2 | -14.9 | -17.2 | -11.6 | -15.5 |
| External current account, incl. grants, after debt relief (in percent of GDP) 8/ | -4.6 | -4.7 | 1.1 | 0.1 | -0.5 | -1.1 | -3.0 | -4.7 | -2.6 | -4.0 |
| Gross official reserves (end of period) | 51 | 22 | 111 | 86 | 216 | 178 | 260 | 254 | 321 | 341 |
| Gross official reserves (weeks of imports) | 3.8 | 1.4 | 6.2 | 4.2 | 10.0 | 7.7 | 9.3 | 9.1 | 9.6 | 10.6 |

Table 3. Democratic Republic of the Congo: Selected Economic and Financial Indicators, 2000–05 (concluded)

| | 2000 | 2001 | 2002 | | 2003 | | 2004 | | 2005 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Est. | Est. | EBS/02/76 | Prel. Est. | EBS/02/76 | Prog. | EBS/02/76 | Proj. | EBS/02/76 | Proj. |
| External public debt | | | | | | | | | | |
| Total, including IMF 9/ | 12,609 | 13,880 | 8,890 | 9,890 | 9,159 | 10,159 | 9,415 | 10,415 | 9,430 | 10,430 |
| Net present value (NPV) of debt 10/ | 11,888 | 13,110 | ... | ... | ... | ... | ... | ... | ... | ... |
| Scheduled debt service | | | | | | | | | | |
| (including interest on arrears) 8/ | 724 | 728 | 56 | 38 | 178 | 155 | 319 | 259 | 357 | 291 |
| In percent of exports of goods | | | | | | | | | | |
| and nonfactor services | 75 | 76 | 5 | 3 | 15 | 13 | 22 | 18 | 21 | 17 |
| In percent of government revenue | 331 | 218 | 50 | 8 | 21 | 22 | 27 | 29 | 27 | 27 |
| Exchange rate | | | | | | | | | | |
| Units of local currency per U.S. dollar | | | | | | | | | | |
| (end of period) 11/ | 50 | 312 | ... | 382 | ... | ... | ... | ... | ... | ... |
| Nominal GDP (in billions of Congo francs) | 297 | 1,464 | 1,976 | 1,911 | 2,270 | 2,281 | 2,556 | 2,579 | 2,893 | 2,935 |

Sources: Congolese authorities; and staff estimates and projections.

1/ Change in annual average. Minus sign indicates depreciation. For 2002, as of October.

2/ For 2002, as of December.

3/ Including interest due on external debt (before rescheduling) and, from 2003 onward, expenditure financed by resources released under the enhanced HIPC Initiative.

4/ Revenue (excluding grants) minus expenditure (excluding interest on debt and foreign-financed expenditure).

5/ Cash balance after interest rescheduling (including enhanced HIPC Initiative). Before 2002, excludes central bank operations.

6/ From 2003 onward, includes investment financed by resources released under the enhanced HIPC Initiative.

7/ From 2003 onward, includes capital projects financed through nongovernmental organizations.

8/ After possible debt relief from bilateral creditors and enhanced HIPC Initiative related assistance. Reflects staff estimates of the impact of the September 2002 Paris Club agreement.

9/ End-of-period debt stock, including arrears and before enhanced HIPC Initiative related assistance.

10/ The net present value of external public debt is about 94 percent of the nominal value, reflecting the significant stock of arrears.

11/ For 2002, as of December 30.

Table 4A. Democratic Republic of the Congo: Summary of Central Government Financial Operations, 2000–05

| | 2000 | 2001 | 2002 | | 2003 | | 2004 | | 2005 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Est. | Est. | EBS 02/76 | Prel. Est. | EBS 02/76 | Prog. | EBS 02/76 | Proj. | EBS 02/76 | Proj. |
| | (In millions of Congo francs, unless otherwise indicated) | | | | | | | | | |
| Total revenue and grants | 15,091 | 91,276 | 167,624 | 157,127 | 297,064 | 274,906 | 409,418 | 364,684 | 469,174 | 455,387 |
| Total revenue | 15,091 | 91,276 | 143,946 | 151,083 | 189,901 | 190,394 | 246,191 | 244,917 | 319,914 | 315,836 |
| Customs and excises (OFIDA) | 4,948 | 31,368 | 58,066 | 55,970 | 84,241 | 76,433 | 105,702 | 97,051 | 124,239 | 116,391 |
| Direct and indirect taxes (DGC) | 3,917 | 21,560 | 41,729 | 40,762 | 49,710 | 54,062 | 65,984 | 71,946 | 99,591 | 104,930 |
| Petroleum (royalties and taxes) | 1,091 | 4,475 | 22,576 | 29,093 | 32,125 | 38,150 | 35,160 | 41,250 | 38,284 | 45,195 |
| Off-budget revenue | 3,835 | 24,826 | 0 | 11,527 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other | 1,300 | 9,046 | 21,574 | 13,730 | 23,825 | 21,749 | 39,344 | 34,670 | 57,799 | 49,320 |
| Total grants | 0 | 0 | 23,678 | 6,043 | 107,163 | 84,512 | 163,227 | 119,767 | 149,260 | 139,551 |
| *Of which:* HIPC debt relief 1/ | ... | ... | ... | ... | 15,838 | 11,783 | 45,268 | 22,305 | 103,356 | 30,302 |
| Total expenditure | 32,988 | 115,147 | 217,954 | 169,438 | 411,538 | 383,663 | 539,944 | 535,151 | 527,486 | 596,812 |
| Current expenditure | 27,803 | 96,040 | 152,732 | 135,930 | 213,139 | 241,627 | 254,289 | 292,179 | 272,204 | 323,970 |
| Wages | 7,312 | 23,540 | 42,868 | 42,426 | 59,343 | 57,351 | 66,135 | 62,620 | 75,750 | 67,988 |
| Interest due 2/ | 6,173 | 19,532 | 60,460 | 31,267 | 94,189 | 109,043 | 121,280 | 149,430 | 120,412 | 161,618 |
| Transfers and subsidies | 2,260 | 4,984 | 9,544 | 6,747 | 11,585 | 18,855 | 13,800 | 11,527 | 16,617 | 17,502 |
| Other current expenditure | 12,058 | 47,983 | 39,859 | 55,490 | 48,022 | 56,379 | 53,074 | 68,601 | 59,425 | 76,862 |
| *Of which:* centralized payments 3/ | 1,663 | 13,692 | 8,206 | 15,557 | 10,778 | 17,700 | 12,356 | 23,866 | 13,728 | 27,119 |
| Off-budget expenditure | 3,835 | 17,404 | 0 | 11,527 | 0 | 0 | 0 | 0 | 0 | 0 |
| Capital expenditure | 1,062 | 1,694 | 42,061 | 9,985 | 176,310 | 130,218 | 233,705 | 220,108 | 150,032 | 242,264 |
| Foreign-financed | 0 | 0 | 33,787 | 7,943 | 168,288 | 123,218 | 225,683 | 213,008 | 142,010 | 233,064 |
| Domestic-financed | 1,062 | 1,694 | 8,274 | 2,041 | 8,022 | 7,000 | 8,022 | 7,100 | 8,022 | 9,200 |
| Other operations | 0 | 203 | 200 | 159 | 0 | 0 | 0 | 0 | 0 | 0 |
| Guarantee and Contingency Fund | 0 | 0 | 1,000 | 0 | 6,251 | 35 | 6,682 | 558 | 1,893 | 276 |
| Net lending | 287 | -194 | 5,744 | 7,986 | 0 | 0 | 0 | 0 | 0 | 0 |
| Unallocated poverty-related expenditure 4/ | 0 | 0 | 16,218 | 3,850 | 0 | 0 | 0 | 0 | 0 | 0 |
| HIPC-related expenditure | ... | ... | ... | ... | 15,838 | 11,783 | 45,268 | 22,305 | 103,356 | 30,302 |
| Overall balance (commitment basis) | -17,897 | -23,871 | -50,331 | -12,311 | -114,474 | -108,758 | -130,526 | -170,466 | -58,312 | -141,425 |
| Domestic primary balance (commitment basis) 5/ | -11,723 | -4,339 | 20,238 | 20,856 | 56,678 | 50,774 | 98,478 | 94,510 | 158,206 | 144,007 |
| Change in arrears 6/ | 5,715 | 31,787 | -1,970 | 5,329 | -2,000 | -4,000 | -2,000 | -4,000 | -2,000 | -4,000 |
| Overall balance (cash basis) | -12,181 | 7,916 | -52,301 | -6,982 | -116,474 | -112,758 | -132,526 | -174,466 | -60,312 | -145,425 |
| Domestic primary balance (cash basis) 5/ | -11,723 | 8,461 | 18,268 | 26,185 | 54,678 | 46,774 | 96,478 | 90,510 | 156,206 | 140,007 |
| Central bank operational result 7/ | ... | ... | -3,713 | -11,564 | -947 | -8,500 | 0 | -7,500 | 0 | -6,000 |
| Overall consolidated balance (cash basis) | ... | ... | -56,014 | -18,546 | -117,421 | -121,258 | -132,526 | -181,966 | -60,312 | -151,425 |
| Total financing | 11,774 | -5,376 | 56,014 | 19,840 | 117,421 | 121,258 | 132,526 | 181,966 | 60,312 | 151,425 |
| Domestic financing | 11,774 | 1,577 | -7,450 | -19,919 | 0 | 0 | 1,000 | 5,000 | 3,000 | 0 |
| Banks | 11,774 | -1,488 | -4,000 | -12,310 | 0 | 0 | 0 | 0 | 0 | 0 |
| Nonbank (certificates of deposit) | 0 | 3,065 | -3,450 | -7,609 | 0 | 0 | 1,000 | 5,000 | 3,000 | 0 |
| Foreign financing | 0 | -6,953 | 63,463 | 39,759 | 117,421 | 121,257 | 131,526 | 176,967 | 57,312 | 151,425 |
| Nonresident banks | 0 | -6,953 | 6,953 | 7,097 | 0 | 0 | 0 | 0 | 0 | 0 |
| Amortization due before debt relief | -23,375 | -87,351 | -99,713 | -70,645 | -121,653 | -116,938 | -146,964 | -121,126 | -156,934 | -138,380 |
| Change in arrears 8/ | 23,375 | 87,351 | -3,243,226 | -3,722,346 | 0 | 0 | 0 | 0 | 0 | 0 |
| Additional financing | 0 | 0 | 20,001 | 26,564 | 102,978 | 86,376 | 168,031 | 157,049 | 166,580 | 145,290 |
| Financing gap before debt relief | 0 | 0 | -3,379,449 | -3,797,796 | -136,096 | -151,820 | -110,459 | -141,044 | -47,666 | -144,515 |
| Arrears consolidation 8/ | ... | ... | 1,975,613 | 2,267,469 | ... | ... | ... | ... | ... | ... |
| Arrears cancellation 8/ | ... | ... | 1,267,613 | 1,454,877 | ... | ... | ... | ... | ... | ... |
| Debt relief 9/ | 0 | 0 | 136,222 | 76,743 | 136,096 | 151,820 | 110,459 | 141,044 | 47,666 | 144,514 |
| Financing gap after debt relief | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Discrepancy 10/ | -407 | 2,540 | 0 | 1,293 | 0 | 0 | 0 | 0 | 0 | 0 |

Table 4A. Democratic Republic of the Congo: Summary of Central Government Financial Operations, 2000–05 (concluded)

| | 2000 | 2001 | 2002 | | 2003 | | 2004 | | 2005 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Est. | Est. | EBS 02/76 | Prel. Est. | EBS 02/76 | Prog. | EBS 02/76 | Proj. | EBS 02/76 | Proj. |
| Memorandum items: | (In percent of GDP, unless otherwise indicated) | | | | | | | | | |
| GDP (in billions of Congo francs) | 297 | 1,464 | 1,976 | 1,911 | 2,270 | 2,281 | 2,556 | 2,579 | 2,893 | 2,935 |
| Revenue | 5.1 | 6.2 | 7.3 | 7.9 | 8.4 | 8.3 | 9.6 | 9.5 | 11.1 | 10.8 |
| Wages | 2.5 | 1.6 | 2.2 | 2.2 | 2.6 | 2.5 | 2.6 | 2.4 | 2.6 | 2.3 |
| Current primary expenditure (cash basis) | 7.3 | 4.4 | 4.8 | 5.2 | 5.3 | 6.0 | 5.3 | 5.7 | 5.3 | 5.7 |
| Investment spending 11/ | 0.4 | 0.1 | 2.9 | 0.7 | 8.5 | 6.2 | 10.9 | 9.4 | 8.8 | 9.3 |
| Overall balance (commitment basis) | -6.0 | -1.6 | -2.5 | -0.6 | -5.0 | -4.8 | -5.1 | -6.6 | -2.0 | -4.8 |
| Domestic primary cash balance 5/ | -3.9 | 0.6 | 0.9 | 1.4 | 2.4 | 2.1 | 3.8 | 3.5 | 5.4 | 4.8 |
| Domestic primary cash balance, excl. contingency 4/ | -3.9 | 0.6 | 1.7 | 1.6 | 2.4 | 2.1 | 3.8 | 3.5 | 5.4 | 4.8 |
| Overall consolidated cash balance 12/ | -4.1 | 0.5 | -0.4 | -0.1 | -1.7 | -2.0 | -2.3 | -4.0 | -1.0 | -2.4 |

Sources: Congolese authorities; and staff estimates and projections.

1/ HIPC debt relief corresponds to the additional amount of debt relief stemming from the HIPC operation after arrears treatment and Naples flow operation.
2/ Scheduled interest, excluding interest on arrears before 2002; interest due before Naples from 2002 onward.
3/ In 2001 and 2002, includes a preliminary estimate for accumulation of arrears on utilities (CGF 12 billion). Utilities payments and arrears to be surveyed in 2003.
4/ Contingent expenditure that was to be mobilized in 2002 only if the debt rescheduling assumptions materialized.
5/ The domestic primary balance is defined as revenue (excluding grants) less expenditure (excluding interest on debt and foreign-financed expenditure).
6/ Internal and external arrears. External arrears accruing in the first months of 2002 before debt-relief operations are not shown as they are consolidated during the same year.
7/ In 2001 central bank operational net losses amounted to CGF 15.7 billion (1 percent of GDP).
8/ In 2002, arrears include interest and principal.
9/ Debt relief includes rescheduling on interest and principal on Naples flow terms, and consolidation of moratorium interest.
10/ Discrepancy between monetary and fiscal data.
11/ Including the total amount of contingent poverty related expenditure and HIPC expenditure.
12/ Cash balance after interest rescheduling (including HIPC). Before 2002, excludes central bank operations.

Table 4B. Democratic Republic of the Congo: Summary of Central Government Financial Operations, 2000–05

(In percent of GDP, unless otherwise specified)

| | 2000 | 2001 | 2002 | | 2003 | | 2004 | | 2005 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Est. | Est. | EBS 02/76 | Prel. Est. | EBS 02/76 | Prog. | EBS 02/76 | Proj. | EBS 02/76 | Proj. |
| Total revenue and grants | 5.1 | 6.2 | 8.5 | 8.2 | 13.1 | 12.1 | 16.0 | 14.1 | 16.2 | 15.5 |
| Total revenue | 5.1 | 6.2 | 7.3 | 7.9 | 8.4 | 8.3 | 9.6 | 9.5 | 11.1 | 10.8 |
| Customs and excises (OFIDA) | 1.7 | 2.1 | 2.9 | 2.9 | 3.7 | 3.4 | 4.1 | 3.8 | 4.3 | 4.0 |
| Direct and indirect taxes (DGC) | 1.3 | 1.5 | 2.1 | 2.1 | 2.2 | 2.4 | 2.6 | 2.8 | 3.4 | 3.6 |
| Petroleum (royalties and taxes) | 0.4 | 0.3 | 1.1 | 1.5 | 1.4 | 1.7 | 1.4 | 1.6 | 1.3 | 1.5 |
| Off-budget revenue | 1.3 | 1.7 | 0.0 | 0.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other | 0.4 | 0.6 | 1.1 | 0.7 | 1.0 | 1.0 | 1.5 | 1.3 | 2.0 | 1.7 |
| Total grants | 0.0 | 0.0 | 1.2 | 0.3 | 4.7 | 3.7 | 6.4 | 4.6 | 5.2 | 4.8 |
| *Of which:* HIPC debt relief 1/ | ... | ... | ... | ... | 0.7 | 0.5 | 1.8 | 0.9 | 3.6 | 1.0 |
| Total expenditure | 11.1 | 7.9 | 11.0 | 8.9 | 18.1 | 16.8 | 21.1 | 20.7 | 18.2 | 20.3 |
| Current expenditure | 9.4 | 6.6 | 7.7 | 7.1 | 9.4 | 10.6 | 9.9 | 11.3 | 9.4 | 11.0 |
| Wages | 2.5 | 1.6 | 2.2 | 2.2 | 2.6 | 2.5 | 2.6 | 2.4 | 2.6 | 2.3 |
| Interest due 2/ | 2.1 | 1.3 | 3.1 | 1.6 | 4.1 | 4.8 | 4.7 | 5.8 | 4.2 | 5.5 |
| Transfers and subsidies | 0.8 | 0.3 | 0.5 | 0.4 | 0.5 | 0.8 | 0.5 | 0.4 | 0.6 | 0.6 |
| Other current expenditure | 4.1 | 3.3 | 2.0 | 2.9 | 2.1 | 2.5 | 2.1 | 2.7 | 2.1 | 2.6 |
| *Of which:* centralized payments 3/ | 0.6 | 0.9 | 0.4 | 0.8 | 0.5 | 0.8 | 0.5 | 0.9 | 0.5 | 0.9 |
| Off-budget expenditure | 1.3 | 1.2 | 0.0 | 0.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Capital expenditure | 0.4 | 0.1 | 2.1 | 0.5 | 7.8 | 5.7 | 9.1 | 8.5 | 5.2 | 8.3 |
| Foreign-financed | 0.0 | 0.0 | 1.7 | 0.4 | 7.4 | 5.4 | 8.8 | 8.3 | 4.9 | 7.9 |
| Domestic-financed | 0.4 | 0.1 | 0.4 | 0.1 | 0.4 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| Other operations | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Guarantee and Contingency Fund | 0.0 | 0.0 | 0.1 | 0.0 | 0.3 | 0.0 | 0.3 | 0.0 | 0.1 | 0.0 |
| Net lending | 0.1 | 0.0 | 0.3 | 0.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Unallocated poverty-related expenditure 4/ | 0.0 | 0.0 | 0.8 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| HIPC-related expenditure | ... | ... | ... | ... | 0.7 | 0.5 | 1.8 | 0.9 | 3.6 | 1.0 |
| Overall balance (commitment basis) | -6.0 | -1.6 | -2.5 | -0.6 | -5.0 | -4.8 | -5.1 | -6.6 | -2.0 | -4.8 |
| Domestic primary balance (commitment basis) 5/ | -3.9 | -0.3 | 1.0 | 1.1 | 2.5 | 2.2 | 3.9 | 3.7 | 5.5 | 4.9 |
| Change in arrears 6/ | 1.9 | 2.2 | -0.1 | 0.3 | -0.1 | -0.2 | -0.1 | -0.2 | -0.1 | -0.1 |
| Overall balance | -4.1 | 0.5 | -2.6 | -0.4 | -5.1 | -4.9 | -5.2 | -6.8 | -2.1 | -5.0 |
| Domestic primary balance (cash basis) 5/ | -3.9 | 0.6 | 0.9 | 1.4 | 2.4 | 2.1 | 3.8 | 3.5 | 5.4 | 4.8 |
| Central bank operational result 7/ | ... | ... | -0.2 | -0.6 | 0.0 | -0.4 | 0.0 | -0.3 | 0.0 | -0.2 |
| Overall consolidated balance | ... | ... | -2.8 | -1.0 | -5.2 | -5.3 | -5.2 | -7.1 | -2.1 | -5.2 |
| Total financing | 4.0 | -0.4 | 2.8 | 1.0 | 5.2 | 5.3 | 5.2 | 7.1 | 2.1 | 5.2 |
| Domestic financing | 4.0 | 0.1 | -0.4 | -1.0 | 0.0 | 0.0 | 0.0 | 0.2 | 0.1 | 0.0 |
| Banks | 4.0 | -0.1 | -0.2 | -0.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Nonbanks (certificates of deposit) | 0.0 | 0.2 | -0.2 | -0.4 | 0.0 | 0.0 | 0.0 | 0.2 | 0.1 | 0.0 |
| Foreign financing | 0.0 | -0.5 | 3.2 | 2.1 | 5.2 | 5.3 | 5.1 | 6.9 | 2.0 | 5.2 |
| Nonresident banks | 0.0 | -0.5 | 0.4 | 0.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Amortization due before debt relief | -7.9 | -6.0 | -5.0 | -3.7 | -5.4 | -5.1 | -5.7 | -4.7 | -5.4 | -4.7 |
| Variation of arrears 8/ | 7.9 | 6.0 | -164.1 | -194.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Additional financing | 0.0 | 0.0 | 1.0 | 1.4 | 4.5 | 3.8 | 6.6 | 6.1 | 5.8 | 5.0 |
| Financing gap before debt relief | 0.0 | 0.0 | -171.0 | -198.7 | -6.0 | -6.7 | -4.3 | -5.5 | -1.6 | -4.9 |
| Arrears consolidation 8/ | 0.0 | 0.0 | 100.0 | 118.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Arrears cancellation 8/ | 0.0 | 0.0 | 64.1 | 76.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Debt relief 9/ | 0.0 | 0.0 | 6.9 | 4.0 | 6.0 | 6.7 | 4.3 | 5.5 | 1.6 | 4.9 |
| Financing gap after debt relief | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Discrepancy 10/ | -0.1 | 0.2 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

Table 4B. Democratic Republic of the Congo: Summary of Central Government Financial Operations, 2000–05 (concluded)

(In percent of GDP, unless otherwise specified)

| | 2000 | 2001 | 2002 | | 2003 | | 2004 | | 2005 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Est. | Est. | EBS 02/76 | Prel. Est. | EBS 02/76 | Prog. | EBS 02/76 | Proj. | EBS 02/76 | Proj. |
| Memorandum items: | | | | | | | | | | |
| GDP (in billions of Congo francs) | 297 | 1,464 | 1,976 | 1,911 | 2,270 | 2,281 | 2,556 | 2,579 | 2,893 | 2,935 |
| Current primary expenditure (cash basis) | 7.3 | 4.4 | 4.8 | 5.2 | 5.3 | 6.0 | 5.3 | 5.7 | 5.3 | 5.7 |
| Domestic primary cash balance, excl. contingency 4/ | -3.9 | 0.6 | 1.7 | 1.6 | 2.4 | 2.1 | 3.8 | 3.5 | 5.4 | 4.8 |
| Overall consolidated cash balance 11/ | -4.1 | 0.5 | -0.4 | -0.1 | -1.7 | -2.0 | -2.3 | -4.0 | -1.0 | -2.4 |

Sources: Congolese authorities; and staff estimates and projections.

1/ HIPC debt relief corresponds to the additional amount of debt relief stemming from the HIPC operation after arrears treatment and Naples flow operation.

2/ Scheduled interest, excluding interest on arrears before 2002; interest due before Naples from 2002 onward.

3/ In 2001 and 2002, includes a preliminary estimate for accumulation of arrears on utilities (CGF 12 billion). Utilities payments and arrears to be surveyed in 2003.

4/ Contingent expenditure that was to be mobilized in 2002 only if the debt rescheduling assumptions materialized.

5/ The domestic primary balance is defined as revenue (excluding grants) less expenditure (excluding interest on debt and foreign-financed expenditure).

6/ Internal and external arrears. External arrears accruing in the first months of 2002 before the debt-relief operations are not shown as they are consolidated during the same year.

7/ In 2001 central bank operational net losses amounted to CGF 15.7 billion (1 percent of GDP).

8/ In 2002, arrears include interest and principal.

9/ Debt relief includes rescheduling on interest and principal on Naples flow terms, and consolidation of moratorium interest.

10/ Discrepancy between monetary and fiscal data.

11/ Cash balance after interest rescheduling (including HIPC). Before 2002, excludes central bank operations.

Table 5. Democratic Republic of the Congo: Monetary Survey, 2000–03

| | 2000 1/ | 2001 2/ | | September 2002 2/ | | 2002 2/ | | 2003 2/ |
|---|---|---|---|---|---|---|---|---|
| | | EBS/02/76 | Act. | EBS /02/76 | Act. | EBS/02/76 | Prel. Est. | Prog. |
| | (In millions of Congo francs) | | | | | | | |
| Net foreign assets | -28,522 | -175,333 | -181,368 | -155,051 | -172,975 | -151,155 | -179,996 | -172,229 |
| Net domestic credit | 16,678 | 24,556 | 23,426 | 23,219 | 3,094 | 25,637 | 11,365 | 18,388 |
| Net credit to government | 13,730 | 11,198 | 12,242 | 6,050 | -7,680 | 7,198 | -69 | -69 |
| Credit to the private sector | 2,539 | 10,892 | 10,789 | 14,215 | 10,468 | 15,323 | 11,128 | 18,007 |
| Credit to the parastatals | 409 | 2,466 | 395 | 2,953 | 306 | 3,116 | 306 | 450 |
| Broad money (M2) | 22,004 | 67,202 | 69,686 | 84,841 | 82,945 | 90,721 | 84,696 | 99,094 |
| Narrow money (M1) | 18,557 | 40,144 | 42,627 | 49,766 | 56,705 | 52,974 | 61,456 | 72,578 |
| Currency in circulation | 15,963 | 30,368 | 31,873 | 34,858 | 43,578 | 36,355 | 50,078 | 58,078 |
| Demand deposits | 2,594 | 9,776 | 10,754 | 14,908 | 13,127 | 16,619 | 11,378 | 14500 |
| Quasi money | 3,447 | 27,059 | 27,059 | 35,075 | 26,240 | 37,747 | 23,240 | 26,516 |
| Time deposits in domestic currency | 0 | 25 | 25 | 32 | 63 | 35 | 63 | 70 |
| Foreign currency deposits | 3,446 | 27,034 | 27,034 | 35,042 | 26,177 | 37,712 | 23,177 | 26,446 |
| Import deposits | 1,554 | 7,914 | 6,347 | 9,220 | 4,416 | 9,655 | 3,916 | 4,308 |
| Other items, net (including valuation change) | -35,402 | -225,894 | -233,974 | -225,894 | -257,243 | -225,894 | -257,243 | -257,243 |
| *Of which:* valuation change | -27,928 | -169,959 | 0 | -169,959 | 194,352 | -169,959 | 194,352 | 194,352 |
| | (Annual change in percent) | | | | | | | |
| Net foreign assets | -1,211 | -515 | -536 | 12 | 5 | 14 | 1 | 4 |
| Net domestic credit | 321 | 47 | 40 | -5 | -87 | 4 | -51 | 62 |
| Net credit to government | 278 | -18 | -11 | -46 | -163 | -36 | -101 | 0 |
| Credit to the private sector | 795 | 329 | 325 | 31 | -3 | 41 | 3 | 62 |
| Credit to the parastatals | 715 | 503 | -3 | 20 | -23 | 26 | -23 | 47 |
| Broad money (M2) | 493 | 205 | 217 | 26 | 19 | 35 | 22 | 17 |
| Narrow money (M1) | 436 | 116 | 130 | 24 | 33 | 32 | 44 | 18 |
| Currency in circulation | 442 | 90 | 100 | 15 | 37 | 20 | 57 | 16 |
| Demand deposits | 401 | 277 | 314 | 53 | 22 | 70 | 6 | 27 |
| Quasi money | 1,291 | 685 | 685 | 30 | -3 | 40 | -14 | 14 |
| Time deposits in domestic currency | -80 | 6,867 | 6,867 | 30 | 153 | 40 | 153 | 11 |
| Foreign currency deposits | 1,301 | 684 | 684 | 30 | -3 | 40 | -14 | 14 |
| Import deposits | 658 | 409 | 308 | 17 | -30 | 22 | -38 | 10 |
| Other items, net | -1,564 | -538 | -561 | 0 | -10 | 0 | -10 | 0 |
| | (Annual change in percent of beginning-of-period broad money, unless otherwise indicated) | | | | | | | |
| Net foreign assets | -710 | -667 | -695 | 30 | 12 | 36 | 2 | 9 |
| Net domestic credit | 343 | 36 | 31 | -2 | -29 | 2 | -17 | 8 |
| Net credit to government | 272 | -12 | -7 | -8 | -29 | -6 | -18 | 0 |
| Credit to the private sector | 61 | 38 | 37 | 5 | 0 | 7 | 0 | 8 |
| Credit to the parastatals | 10 | 9 | 0 | 1 | 0 | 1 | 0 | 0 |
| Broad money (M2) | 493 | 205 | 217 | 26 | 19 | 35 | 22 | 17 |
| Narrow money (M1) | 407 | 98 | 109 | 14 | 20 | 19 | 27 | 13 |
| Currency in circulation | 351 | 65 | 72 | 7 | 17 | 9 | 26 | 9 |
| Demand deposits | 56 | 33 | 37 | 8 | 3 | 10 | 1 | 4 |
| Quasi money | 86 | 107 | 107 | 12 | -1 | 16 | -5 | 4 |
| Time deposits in domestic currency | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Foreign currency deposits | 86 | 107 | 107 | 12 | -1 | 16 | -6 | 4 |
| Import deposits | 36 | 29 | 22 | 2 | -3 | 3 | -3 | 0 |
| Other items, net | -897 | -866 | -902 | 0 | -33 | 0 | -33 | 0 |
| Memorandum items: | | | | | | | | |
| Velocity (GDP/ broad money) | 14 | 23 | 21 | ... | ... | 22 | 23 | 23 |
| Net foreign assets (in millions of U.S. dollars) | -570 | -559 | -582 | -494 | -552 | -482 | -574 | -549 |
| *Of which:* central bank | -606 | -600 | -623 | -577 | -595 | -573 | -605 | -580 |

Sources: Congolese authorities; and staff estimates and projections.

Note: The end-2001 and end-September 2002 monetary surveys have been audited by an international firm.

1/ At end-2000 exchange rate (US$1 = CGF 50).

2/ At end-2001 exchange rate (US$1 = CGF 313.6).

Table 6. Democratic Republic of the Congo: Balance of Payments Summary, 2000–05

| | 2000 | 2001 | 2002 | | 2003 | | 2004 | | 2005 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Est. | Est. | EBS/ 02/76 | Prelim. Est. | EBS/ 02/76 | Prog. | EBS/ 02/76 | Proj. | EBS/ 02/76 | Proj. |
| | (In millions of U.S. dollars, unless otherwise indicated) | | | | | | | | | |
| Current account | -198 | -250 | -222 | -181 | -308 | -285 | -562 | -537 | -600 | -535 |
| Merchandise trade | 212 | 74 | 59 | -58 | -223 | -310 | -351 | -408 | -177 | -308 |
| Exports, f.o.b. | 892 | 880 | 1,013 | 1,011 | 1,128 | 1,075 | 1,326 | 1,297 | 1,632 | 1,585 |
| Imports, f.o.b. | -680 | -807 | -955 | -1,069 | -1,351 | -1,384 | -1,678 | -1,705 | -1,808 | -1,893 |
| *Of which:* aid-related imports 1/ | -140 | -194 | -245 | -243 | -493 | -433 | -553 | -543 | -447 | -559 |
| Services | -169 | -179 | -244 | -239 | -320 | -293 | -375 | -355 | -404 | -397 |
| Receipts | 71 | 81 | 87 | 98 | 98 | 104 | 105 | 110 | 109 | 113 |
| *Of which:* MONUC 2/ | 2 | 8 | 17 | 15 | 21 | 20 | 20 | 19 | 13 | 13 |
| Expenditure | -240 | -260 | -331 | -336 | -418 | -397 | -480 | -466 | -513 | -510 |
| *Of which:* aid-related imports 1/ | -69 | -88 | -104 | -109 | -153 | -145 | -151 | -167 | -137 | -172 |
| Income | -388 | -412 | -315 | -203 | -272 | -277 | -378 | -410 | -400 | -471 |
| Receipts | 17 | 20 | 20 | 21 | 21 | 23 | 21 | 23 | 20 | 21 |
| *Of which:* MONUC 2/ | 1 | 3 | 4 | 5 | 5 | 6 | 5 | 5 | 3 | 4 |
| Expenditure | -405 | -432 | -335 | -224 | -294 | -300 | -399 | -433 | -420 | -492 |
| *Of which:* interest payments 3/ | -385 | -410 | -311 | -198 | -267 | -274 | -346 | -363 | -342 | -378 |
| *Of which:* IMF charges | -17 | -16 | -3 | -1 | -3 | -3 | -3 | -3 | -4 | -4 |
| interest on arrears | -283 | -319 | -144 | -142 | 0 | 0 | 0 | 0 | 0 | 0 |
| Current unrequited transfers | 146 | 268 | 278 | 318 | 506 | 594 | 543 | 637 | 381 | 640 |
| *Of which:* official Aid | 210 | 295 | 321 | 361 | 491 | 529 | 523 | 530 | 357 | 524 |
| Capital account | -388 | -315 | 73 | 143 | -18 | -102 | 162 | 172 | 223 | 208 |
| Official capital | -339 | -308 | 99 | 196 | -19 | -72 | 65 | 97 | 44 | 31 |
| Gross disbursements 4/ | 0 | 10 | 402 | 404 | 331 | 222 | 484 | 388 | 489 | 353 |
| *Of which:* net new financing | 0 | 10 | 70 | 83 | 331 | 222 | 484 | 388 | 489 | 353 |
| Amortization 5/ | -339 | -318 | -302 | -207 | -351 | -293 | -419 | -292 | -445 | -322 |
| Private capital (net) | -50 | -7 | -26 | -54 | 1 | -30 | 97 | 75 | 179 | 177 |
| *Of which:* foreign direct investment | 74 | 82 | 112 | 118 | 129 | 123 | 206 | 193 | 271 | 258 |
| Balance before errors and omissions | -587 | -565 | -148 | -39 | -327 | -387 | -400 | -365 | -377 | -327 |
| Errors and omissions | -242 | -144 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Overall balance | -829 | -709 | -148 | -39 | -327 | -387 | -400 | -365 | -377 | -327 |
| Financing | 829 | 709 | -9,656 | -10,430 | -113 | -25 | -46 | -30 | -53 | -82 |
| Net change in non-Fund arrears 6/ | 742 | 698 | -9,579 | -10,422 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net banking sector reserves (increase, - ) | 87 | 11 | -77 | -8 | -113 | -25 | -46 | -30 | -53 | -82 |
| *Of which:* net Fund credit 7/ | 17 | 16 | 19 | 19 | 67 | 67 | 68 | 68 | 68 | 68 |
| Financing gap before exceptional assistance | 0 | 0 | -9,804 | -10,469 | -440 | -412 | -446 | -396 | -430 | -409 |
| Exceptional assistance | 0 | 0 | 9,804 | 10,469 | 440 | 412 | 446 | 396 | 430 | 409 |
| Items related to arrears clearance | 0 | 0 | 9,391 | 10,244 | 0 | 0 | 0 | 0 | 0 | 0 |
| Consolidation/cancellation of end-2001 arrears (excl. IMF) 6/ | 0 | 0 | 9,579 | 10,422 | 0 | 0 | 0 | 0 | 0 | 0 |
| *Of which:* African Development Bank arrears clearance grant | 0 | 0 | 128 | 128 | 0 | 0 | 0 | 0 | 0 | 0 |
| Consolidation of interest on arrears accumulated in 2002 | 0 | 0 | 144 | 142 | 0 | 0 | 0 | 0 | 0 | 0 |
| Repayment of World Bank bridge loan 4/ | 0 | 0 | -331 | -321 | 0 | 0 | 0 | 0 | 0 | 0 |
| Assistance on debt service | 0 | 0 | 413 | 225 | 440 | 412 | 446 | 396 | 430 | 409 |
| Relief from reschedulings/Naples flow 8/ | 0 | 0 | 319 | 225 | 199 | 238 | 129 | 191 | 60 | 181 |
| Relief on current maturities | 0 | 0 | 201 | 123 | 199 | 238 | 129 | 191 | 60 | 181 |
| Relief on non-Fund arrears on current maturities accumulated in 2002 | 0 | 0 | 117 | 102 | 0 | 0 | 0 | 0 | 0 | 0 |
| Capitalization of moratorium interest 9/ | 0 | 0 | 95 | 0 | 194 | 142 | 186 | 149 | 75 | 155 |
| Possible HIPC-related resources 10/ | 0 | 0 | 0 | 0 | 47 | 31 | 131 | 56 | 295 | 73 |

Table 6. Democratic Republic of the Congo: Balance of Payments Summary, 2000–05 (concluded)

| | 2000 | 2001 | 2002 | | 2003 | | 2004 | | 2005 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Est. | Est. | EBS/ 02/76 | Prelim. Est. | EBS/ 02/76 | Prog. | EBS/ 02/76 | Proj. | EBS/ 02/76 | Proj. |
| | (In percent of GDP, unless otherwise indicated) | | | | | | | | | |
| Memorandum items: | | | | | | | | | | |
| Debt service, after debt relief | | | | | | | | | | |
| (in percent of goods and nonfactor services exports) 11/ | 75.2 | 75.7 | 5.1 | 3.5 | 14.5 | 13.2 | 22.3 | 18.4 | 20.5 | 17.1 |
| Current account balance, incl. grants, before debt relief | -4.6 | -4.7 | -3.7 | -3.2 | -4.7 | -5.0 | -7.7 | -8.6 | -7.3 | -7.8 |
| Current account balance, excl. grants, before debt relief | -9.5 | -10.2 | -9.1 | -9.7 | -12.2 | -14.2 | -14.9 | -17.2 | -11.6 | -15.5 |
| Debt relief on interest, HIPC-related resources, and | | | | | | | | | | |
| penalty-interest consolidation, (in millions of U.S. dollars) 11/ | ... | ... | 287 | 189 | 274 | 222 | 344 | 245 | 385 | 264 |
| Current account balance, incl. grants, after debt relief 11/ | -4.6 | -4.7 | 1.1 | 0.1 | -0.5 | -1.1 | -3.0 | -4.7 | -2.6 | -4.0 |
| Current account balance, excl. grants, after debt relief 11/ | -9.5 | -10.2 | -4.3 | -6.3 | -8.0 | -10.4 | -10.2 | -13.2 | -7.0 | -11.6 |
| Gross official reserves (in millions of U.S. dollars) | 51 | 22 | 111 | 86 | 216 | 178 | 260 | 254 | 321 | 341 |
| In weeks of nonaid-related imports | 3.8 | 1.4 | 6.2 | 4.2 | 10.0 | 7.7 | 9.3 | 9.1 | 9.6 | 10.6 |
| Possible HIPC assistance 12/ | ... | ... | ... | ... | 337 | 337 | 289 | 289 | 268 | 268 |

Sources: Congolese authorities; and staff estimates and projections.

1/ An average of about 80 percent of official grant and loan assistance is assumed to be spent on imports of goods and services, including freight and insurance. Direct imports by the UN peacekeeping forces, MONUC, are not included because they do not pass through normal customs channels.

2/ Expenditures of MONUC are included on a net basis and include estimates for local purchases of goods and services, salaries of local employees, and expenditures by expatriate MONUC staff in the DRC.

3/ Includes interest on current maturities plus projected interest on arrears up to end-May 2002. Thereafter, includes interest on current maturities plus moratorium interest on rescheduled debt.

4/ Includes a $331 million disbursement by the World Bank to repay the bridge loan incurred for the clearance of arrears in June 2002.

5/ Includes amortization on current maturities up to 2001, exclusive of the IMF. Thereafter, also includes principal on rescheduled debt.

6/ For 2002, the reduction in arrears for all creditors is equal to the amount of arrears outstanding as of end-2001, exclusive of arrears to the IMF.

7/ Includes the accumulation of arrears to the IMF prior to 2002. In 2002, net Fund credit is net of the reduction in arrears and the successor PRGF arrangement.

8/ Includes debt relief from bilateral and multilateral creditors, other than the IMF, including debt relief on the accumulation of arrears on current maturities in 2002. Reflects preliminary estimates of the impact of the September 2002 Paris Club rescheduling, which provided Naples flow terms, exceptional treatment of post-cutoff-date arrears and capitalization of moratorium interest. Similar treatment is assumed for other non-Paris Club bilateral and commercial creditors.

9/ Preliminary estimates of the additional assistance that Paris Club and other bilateral and commercial creditors provide through the capitalization of moratorium interest.

10/ Additional debt relief resources expected from 2003 onward related to the enhanced HIPC Initiative.

11/ From 2002 onward, includes debt relief on interest from the rescheduling of debt on Naples flow terms, the capitalization of moratorium interest, and the consolidation of interest on arrears, plus possible HIPC-related resources from 2003. Reflects preliminary estimates of the impact of the September 2002 Paris Club rescheduling.

12/ Total debt service reduction under the enhanced HIPC Initiative at the preliminary decision point. Enhanced HIPC Initiative related assistance will be revised upon completion of an updated debt sustainability analysis (DSA) for the HIPC Initiative decision point.

Table 7. Democratic Republic of the Congo: Nominal and Net Present Value of, and Arrears on External Debt Outstanding by Creditor Group, End-December 2001 1/

| | Nominal Debt Stock | | Net Present Value of Debt | | Arrears | |
|---|---|---|---|---|---|---|
| | Millions of U.S. dollars | Percent of total | Millions of U.S. dollars | Percent of total | Millions of U.S. dollars | Percent of total |
| Total | 13,879.6 | 100.0 | 13,110.2 | 100.0 | 10,925.2 | 100.0 |
| Multilateral | 3,362.5 | 24.2 | 2,790.8 | 21.3 | 1,806.2 | 16.5 |
| World Bank Group | 1,359.7 | 9.8 | 880.5 | 6.7 | 317.6 | 2.9 |
| IBRD 2/ | 128.0 | 0.9 | 128.0 | 1.0 | 128.0 | 1.2 |
| IDA | 1,231.7 | 8.9 | 752.5 | 5.7 | 189.6 | 1.7 |
| AfDB Group 2/ | 1,186.3 | 8.5 | 1,141.4 | 8.7 | 785.9 | 7.2 |
| AfDB 2/ | 1,000.7 | 7.2 | 1,014.1 | 7.7 | 743.1 | 6.8 |
| AfDF 2/ | 185.6 | 1.3 | 127.2 | 1.0 | 42.8 | 0.4 |
| IMF | 502.9 | 3.6 | 502.9 | 3.8 | 502.9 | 4.6 |
| EIB 2/ | 20.9 | 0.2 | 20.9 | 0.2 | 20.9 | 0.2 |
| European Union (EU) | 168.1 | 1.2 | 135.5 | 1.0 | 79.6 | 0.7 |
| EU, administered by IDA | 11.4 | 0.1 | 7.4 | 0.1 | 2.3 | 0.0 |
| IFC | 29.2 | 0.2 | 29.2 | 0.2 | 29.2 | 0.3 |
| IFAD 2/ | 25.8 | 0.2 | 14.7 | 0.1 | 9.5 | 0.1 |
| BADEA 2/ | 21.5 | 0.2 | 21.5 | 0.2 | 21.5 | 0.2 |
| BDEGL 2/ | 5.7 | 0.0 | 5.7 | 0.0 | 5.7 | 0.1 |
| BEAC 2/ | 30.4 | 0.2 | 30.4 | 0.2 | 30.4 | 0.3 |
| OPEC Fund 2/ | 0.7 | 0.0 | 0.7 | 0.0 | 0.7 | 0.0 |
| Bilateral and commercial | 10,380.4 | 74.8 | 10,182.6 | 77.7 | 8,982.3 | 82.2 |
| Paris Club | 9,779.6 | 70.5 | 9,589.3 | 73.1 | 8,486.4 | 77.7 |
| Post-cutoff date | 1,059.4 | 7.6 | 983.2 | 7.5 | 764.7 | 7.0 |
| Official Development Assistance | 704.6 | 5.1 | 632.1 | 4.8 | 421.4 | 3.9 |
| Non-Official Development Assistance | 354.8 | 2.6 | 351.1 | 2.7 | 343.3 | 3.1 |
| Pre-cutoff date | 8,720.1 | 62.8 | 8,606.0 | 65.6 | 7,721.6 | 70.7 |
| Official Development Assistance | 1,858.5 | 13.4 | 1,717.7 | 13.1 | 1,371.3 | 12.6 |
| Non-Official Development Assistance | 6,861.6 | 49.4 | 6,888.3 | 52.5 | 6,350.3 | 58.1 |
| Other official bilateral | 435.0 | 3.1 | 428.4 | 3.3 | 346.8 | 3.2 |
| Post-cutoff date | 153.8 | 1.1 | 151.7 | 1.2 | 115.2 | 1.1 |
| Official Development Assistance | 29.0 | 0.2 | 25.0 | 0.2 | 9.3 | 0.1 |
| Non-Official Development Assistance | 124.9 | 0.9 | 126.7 | 1.0 | 105.8 | 1.0 |
| Pre-cutoff date | 281.2 | 2.0 | 276.7 | 2.1 | 231.6 | 2.1 |
| Official Development Assistance | 40.6 | 0.3 | 40.6 | 0.3 | 40.6 | 0.4 |
| Non-Official Development Assistance | 240.6 | 1.7 | 236.2 | 1.8 | 191.1 | 1.7 |
| Commercial | 165.8 | 1.2 | 165.0 | 1.3 | 149.1 | 1.4 |
| Post-cutoff date | 83.1 | 0.6 | 82.8 | 0.6 | 77.6 | 0.7 |
| Pre-cutoff date | 82.7 | 0.6 | 82.2 | 0.6 | 71.5 | 0.7 |
| Short-term bilateral and commercial debt | 136.8 | 1.0 | 136.8 | 1.0 | 136.8 | 1.3 |
| Post-cutoff date | 64.7 | 0.5 | 64.7 | 0.5 | 64.7 | 0.6 |
| Pre-cutoff date | 72.1 | 0.5 | 72.1 | 0.5 | 72.1 | 0.7 |

Sources: Congolese authorities; and staff estimates.

1/ Reflects the results of the preliminary debt sustainability analysis (DSA) completed for the preliminary HIPC Initiative document (EBS/02/88, 5/29/02) and estimated revisions stemming from the September 2002 Paris Club agreement. These data will be further revised upon completion of the DSA for the enhanced HIPC Initiative decision point.

2/ AfDB Group = African Development Bank Group; AfDB = African Development Bank; AfDF = African Development Fund; EIB = European Investment Bank; IFAD = International Fund for Agricultural Development; BADEA = Arab Bank for Economic Development in Africa; BDEGL = Development Bank of the Great Lakes States; BEAC = Bank of Central African States; OPEC Fund = Organization of Petroleum Exporting Countries Fund.

Table 8. Democratic Republic of the Congo: Debt Service on External Debt, 2001–05 1/

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

| | 2001 Est. | 2002 Prelim. Est. | 2003 Prog. | 2004 Proj. | 2005 Proj. |
|---|---|---|---|---|---|
| Before normalization of relations 2/ | | | | | |
| Debt service due | 727.8 | 588.8 | 625.5 | 578.3 | 573.3 |
| Interest | 410.2 | 391.3 | 417.3 | 415.2 | 414.6 |
| IMF | 15.6 | 10.9 | 10.8 | 10.8 | 10.8 |
| World Bank | 13.0 | 12.8 | 12.8 | 12.7 | 12.7 |
| African Development Bank Group | 40.4 | 36.8 | 36.9 | 36.9 | 37.0 |
| Other multilaterals | 4.9 | 4.3 | 4.3 | 4.2 | 4.2 |
| Bilaterals | 333.2 | 326.6 | 352.6 | 350.5 | 349.8 |
| Short term | 3.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Principal | 317.7 | 197.5 | 208.2 | 163.0 | 158.7 |
| IMF | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| World Bank | 23.6 | 20.3 | 22.5 | 23.7 | 25.5 |
| African Development Bank Group | 31.8 | 22.6 | 22.5 | 20.2 | 16.6 |
| Other multilaterals | 5.4 | 4.4 | 4.4 | 4.4 | 4.6 |
| Bilaterals | 256.9 | 150.2 | 158.8 | 114.7 | 112.0 |
| Short term | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| After normalization and new financing, but before debt relief 3/ | | | | | |
| Debt service due | ... | 263.6 | 567.3 | 654.5 | 699.9 |
| Interest | ... | 56.2 | 274.0 | 362.6 | 377.8 |
| IMF | ... | 1.4 | 3.0 | 3.3 | 3.6 |
| World Bank | ... | 9.6 | 11.7 | 13.5 | 15.0 |
| African Development Bank Group | ... | 10.1 | 8.6 | 91.8 | 90.5 |
| Other multilaterals | ... | 2.0 | 2.5 | 4.7 | 4.6 |
| Bilaterals | ... | 33.2 | 248.2 | 249.3 | 264.0 |
| Short term | ... | 0.0 | 0.0 | 0.0 | 0.0 |
| Principal | ... | 207.3 | 293.3 | 291.9 | 322.2 |
| IMF | ... | 0.0 | 0.0 | 0.0 | 0.0 |
| World Bank | ... | 27.0 | 22.5 | 23.7 | 25.5 |
| African Development Bank Group | ... | 25.8 | 25.7 | 24.2 | 27.3 |
| Other multilaterals | ... | 4.4 | 7.6 | 30.5 | 32.9 |
| Bilaterals | ... | 150.2 | 237.5 | 213.5 | 236.5 |
| Short term | ... | 0.0 | 0.0 | 0.0 | 0.0 |
| After normalization, new financing and debt relief (including HIPC) 4/ | | | | | |
| Debt service due | ... | 38.3 | 155.1 | 258.8 | 290.9 |
| Interest | ... | 9.4 | 72.8 | 157.8 | 161.9 |
| IMF | ... | 1.4 | 1.1 | 1.3 | 1.6 |
| World Bank | ... | 5.7 | 4.7 | 6.0 | 7.7 |
| African Development Bank Group | ... | 1.2 | 1.3 | 86.0 | 86.0 |
| Other multilaterals | ... | 0.9 | 1.2 | 3.3 | 3.3 |
| Bilaterals | ... | 0.3 | 64.6 | 61.3 | 63.2 |
| Short term | ... | 0.0 | 0.0 | 0.0 | 0.0 |
| Principal | ... | 28.9 | 82.2 | 101.0 | 129.0 |
| IMF | ... | 0.0 | 0.0 | 0.0 | 0.0 |
| World Bank | ... | 16.8 | 1.9 | 0.0 | 0.0 |
| African Development Bank Group | ... | 3.2 | 3.2 | 4.0 | 10.7 |
| Other multilaterals | ... | 0.2 | 5.1 | 8.5 | 10.6 |
| Bilaterals | ... | 8.7 | 72.1 | 88.5 | 107.7 |
| Short term | ... | 0.0 | 0.0 | 0.0 | 0.0 |
| Memorandum items: | | | | | |
| Debt service due, before normalization of relations 2/ | | | | | |
| In percent of goods and nonfactor services exports | 75.7 | 53.1 | 53.1 | 41.1 | 33.8 |
| In percent of government revenue (including grants) | 217.7 | 127.7 | 90.7 | 65.8 | 54.1 |
| Debt service due, after normalization and new financing, before debt relief 3/ | | | | | |
| In percent of goods and nonfactor services exports | ... | 23.8 | 48.1 | 46.5 | 41.2 |
| In percent of government revenue (including grants) | ... | 2.8 | 82.3 | 74.5 | 66.0 |
| Debt service due, after normalization, new financing, and debt relief 4/ | | | | | |
| In percent of goods and nonfactor services exports | ... | 3.5 | 13.2 | 18.4 | 17.1 |
| In percent of government revenue (including grants) | ... | 8.3 | 22.5 | 29.5 | 27.4 |

Sources: Congolese authorities; and staff estimates and projections.

1/ Reflects the results of the preliminary debt sustainability analysis (DSA) completed for the preliminary HIPC Initiative document (EBS/02/88, 5/29/02), as well as estimates and projections of the impact of the September 2002 Paris Club agreement. These data will be further revised upon completion of the DSA for the enhanced HIPC Initiative decision point.

2/ Equal to debt service on current maturities plus penalty interest on arrears.

3/ Equal to debt service on current maturities, reschedulings, and new financing.

4/ Equal to debt service on current maturities, reschedulings, and new financing, less estimated debt relief anticipated from 2003 under the enhanced HIPC Initiative.

Table 9. Democratic Republic of the Congo: Financing Requirements, 2002–05

(In millions of U.S. dollars)

| | 2002 Prel. Est. | 2003 Proj. | 2004 Proj. | 2005 Proj. |
|---|---|---|---|---|
| Financing gap before normalization 1/ | -830 | -1,229 | -1,381 | -1,354 |
| Humanitarian assistance and World Bank post-conflict recovery grants | 180 | 146 | 127 | 114 |
| UN and bilateral humanitarian assistance | 178 | 143 | 122 | 109 |
| World Bank: ERC fast-disbursing project grants | 2 | 2 | 5 | 5 |
| Financing gap after humanitarian assistance and project financing | -650 | -1,084 | -1,255 | -1,240 |
| Clearance of arrears | 142 | 0 | 0 | 0 |
| Clearance of end-2001 arrears 2/ | 0 | 0 | 0 | 0 |
| Reduction in arrears outstanding at end-2001 | -10,925 | 0 | 0 | 0 |
| IMF 3/ | -503 | 0 | 0 | 0 |
| Other creditors | -10,422 | 0 | 0 | 0 |
| World Bank 3/ | -318 | 0 | 0 | 0 |
| African Development Bank Group | -786 | 0 | 0 | 0 |
| Other creditors | -9,319 | 0 | 0 | 0 |
| Consolidation and cancellation of arrears outstanding at end-2001 | 10,925 | 0 | 0 | 0 |
| IMF 3/ | 503 | 0 | 0 | 0 |
| Other creditors | 10,422 | 0 | 0 | 0 |
| World Bank 3/ | 318 | 0 | 0 | 0 |
| African Development Bank Group | 786 | 0 | 0 | 0 |
| Other creditors | 9,319 | 0 | 0 | 0 |
| Cancellation of penalty interest on arrears in 2002 4/ | 142 | 0 | 0 | 0 |
| Financing gap after arrears clearance | -508 | -1,084 | -1,255 | -1,240 |
| Assistance on debt service | 225 | 412 | 396 | 409 |
| Debt relief from reschedulings/Naples flow 5/ | 225 | 238 | 191 | 181 |
| Relief on current maturities 4/ | 123 | 238 | 191 | 181 |
| Relief on non-Fund arrears on current maturities accumulated in 2002 | 102 | 0 | 0 | 0 |
| Capitalization of moratorium interest 6/ | 0 | 142 | 149 | 155 |
| HIPC-related resources 7/ | 0 | 31 | 56 | 73 |
| Financing gap after assistance on debt service | -283 | -672 | -859 | -831 |
| Project grant and loan assistance 8/ | 192 | 515 | 692 | 713 |
| World Bank: ERC grants | 16 | 28 | 5 | 0 |
| World Bank: EMRRP grants | 0 | 13 | 15 | 15 |
| World Bank: EMRRP credits | 5 | 53 | 160 | 180 |
| World Bank: Trust Fund grants | 3 | 3 | 0 | 0 |
| World Bank: other project credits | 0 | 5 | 10 | 15 |
| Multilateral demobilization and reintegration program | 0 | 30 | 50 | 60 |
| UN: project grants | 32 | 29 | 26 | 26 |
| AfDB: EMRRP grants | 3 | 1 | 0 | 0 |
| AfDB: other project grants and loans | 1 | 20 | 28 | 12 |
| EU: EMRRP grants | 0 | 14 | 33 | 47 |
| EU: other project grants | 81 | 94 | 37 | 2 |
| Bilateral donors: EMRRP grants and loans | 2 | 176 | 267 | 284 |
| Bilateral donors: other project grants and loans | 48 | 51 | 60 | 73 |

Table 9. Democratic Republic of the Congo: Financing Requirements, 2002–05 (concluded)

(In millions of U.S. dollars)

| | 2002<br>Prel. Est. | 2003<br>Proj. | 2004<br>Proj. | 2005<br>Proj. |
|---|---|---|---|---|
| Financing gap after project financing | -91 | -157 | -167 | -118 |
| New budget and balance of payments loan assistance | 91 | 157 | 168 | 118 |
| IMF: PRGF | 19 | 67 | 68 | 68 |
| World Bank: ERC credits | 72 | 90 | 100 | 50 |
| Financing gap after new loan (nonproject) financing | 0 | 0 | 0 | 0 |
| Memorandum items: | | | | |
| Projected stock of arrears at arrears clearance 9/ | 11,168 | | | |
| IMF | 508 | | | |
| World Bank | 321 | | | |
| African Development Bank Group | 810 | | | |
| Other multilaterals | 211 | | | |
| Bilateral | 9,181 | | | |
| Short-term | 138 | | | |
| *Of which:* arrears outstanding as of end-2001 | 10,925 | | | |
| IMF | 503 | | | |
| World Bank | 318 | | | |
| Other creditors | 10,105 | | | |

Sources: Congolese authorities; and staff estimates and projections.

1/ Financing gap, excluding grants and new disbursements, and including penalty interest on arrears for the period January-May 2002.

2/ The reduction in arrears for 2002 on a calendar-year basis is equal to the sum of arrears as of end-2001.

3/ The IMF and World Bank cleared arrears through a bridge loan equal to the amount of arrears outstanding at the time of clearance in 2002. The total arrears cleared include accumulation of arrears on current maturities and penalty interest on arrears in 2002.

4/ The projected accumulation of arrears on current maturities and penalty interest on arrears in 2002 are both already included in the current account and consequently in the initial financing gap.

5/ Includes debt relief from bilateral and multilateral creditors, other than the IMF. Includes preliminary estimates of the impact of the September 2002 Paris Club agreement, assuming comparable treatment by other bilateral and commercial creditors; these estimates will be revised upon completion of the debt sustainability analysis (DSA) for the enhanced HIPC Initiative decision point.

6/ Reflects preliminary estimates of the capitalization of moratorium interest under the September 2002 Paris Club agreement, assuming comparable treatment by other bilateral and commercial creditors; these estimates will be revised upon completion of the debt sustainability analysis (DSA) for the enhanced HIPC Initiative decision point.

7/ Includes additional debt relief anticipated from 2003 onward related to the enhanced HIPC Initiative.

8/ By implementing agency. Includes currently unidentified bilateral co-financing for the EMRRP.

9/ Arrears at end-2001 plus penalty interest on arrears and accumulation of arrears on current maturities in 2002. This projection will be revised upon completion of the debt sustainability analysis (DSA) for the enhanced HIPC Initiative decision point.

Table 10. Democratic Republic of the Congo (DRC) and Sub-Saharan Africa: Selected Poverty and Living Standard Indicators

(In percent, unless otherwise indicated)

| | DRC Latest Single Year | Sub-Saharan Africa (1994–2000) |
|---|---|---|
| Population, midyear (millions, 2001) | 54 | 659 |
| Population growth rate | 2.7 | 2.6 |
| GDP per capita in U.S. dollars (2001) | 111.3 | 470 |
| Infant mortality (per thousand, 1998) | 128 | 91 |
| Child mortality (per thousand, 1998) | 207 | 162 |
| Maternal mortality rate (per 100,000/live births) | 1,837 | ... |
| HIV/AIDS prevelance (2001) | 4.9 | 8.0 |
| HIV/AIDS prevelance for women in conflict areas | 8.0 | ... |
| Literacy rate (2001) | | |
| Male | 83.0 | 69.0 |
| Female | 54.0 | 53.0 |
| Gross school enrollment rates (1998) | | |
| Male | 49.7 | 85.0 |
| Female | 44.0 | 71.0 |
| Impact of conflict | | |
| Child soldiers (thousands) | 10.0–15.0 | |
| Displaced persons (millions) | 2.0–3.0 | |
| Deaths from deprivation (millions) | 3.0 | |

Sources: DRC authorities and UNICEF.

Translated from French

Kinshasa, February 4, 2003

Mr. Horst Köhler
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. Köhler:

1. On June 12, 2002, the IMF Executive Board approved a three-year arrangement for the Democratic Republic of the Congo (DRC) under the Poverty Reduction and Growth Facility (PRGF). This arrangement was designed to support the Government Economic Program (PEG) for the period April 1, 2002 - July 31, 2005. In accordance with this arrangement, the government of the DRC carried out, together with an IMF mission, the first program review covering the period April 1, 2002 to September 30, 2002. This review examined program execution during this period, as well as the outlook for, and the economic and financial measures to be implemented during, the remainder of 2002. The review also covered the prospects for 2003, and, specifically, the preparation of the 2003 budget and its main aggregates. The government of the DRC remains determined to implement the policies and measures described in the interim poverty reduction strategy paper (I-PRSP) and the memorandum attached to this letter, which supplements its letter of April 13, 2002.

2. We are pleased to note the generally satisfactory execution of the PEG during the first six months of its implementation, but we are aware that further efforts continue to be needed in several areas, in particular with regard to better control of public spending, as well as to the implementation of transparent accounting standards at the Central Bank of the Congo (BCC), the fight against corruption, and the promotion of good governance. Furthermore, we will strenghten the far-reaching structural and sectoral reforms that are in progress to create an outward-oriented environment conducive to sustainable economic growth and the promotion of poverty reduction throughout the country.

3. During the first nine months of this year, annualized inflation fell to 11 percent, compared with 135 percent in 2001. After 13 years of decline, economic growth is rebounding. Despite these encouraging results, we recognize the urgent need to further stabilize our macroeconomic environment, and to avoid any fiscal or monetary slippage that could jeopardize the results of the efforts and sacrifices made by the Congolese people over the last 18 months in extremely difficult circumstances—first, under the enhanced interim program, which ended at end-March 2002, and currently under the PEG. We are pleased to note that our efforts to strengthen the peace process are leading to lasting peace and the formation of an all-inclusive national government. The year 2003 will, therefore, be the year in which peace returns and our country is reunified, which, in turn, will pose new challenges to the government. We propose a "pro-poor" budget for 2003, with an increase in social and

infrastructure spending to address the concerns of the people. We are determined to prepare free and transparent elections after a two-year transition period, while vigorously pursuing our efforts toward economic and financial rehabilitation and adjustment.

4. The review of the quantitative performance criteria at end-September 2002 shows that one out of the nine criteria of the program was not observed, namely the ceiling on net domestic assets of the central bank. With regard to the three structural performance criteria, the BCC audit has been carried out, the list of public commercial banks to be liquidated, privatized, or restructured has been drawn up, and the process of putting the Nouvelle Banque de Kinshasa (NBK) and the Banque de Crédit Agricole (BCA) into liquidation has started. The government has decided to consider the case of Banque Congolaise du Commerce Extérieur (BCCE) in more detail without calling into question the principle of putting it into liquidation in its present form, and a decision will be made by end-January 2003. The Code of Ethics and Good Conduct, which is to apply without exception to the entire civil service, was published a little over a month late as it was necessary to reach a broad consensus on it. The two structural benchmarks at end-September 2002 were met, namely the preparation of an overall strategy and an action plan for combating corruption, and the completion of the formulation of a strategy for restructuring the mining company (GECAMINES). In spite of these good results, we are aware that additional efforts are required to improve expenditure management and control so as to increase the share of social and investment expenditure. In addition, there has been an accumulation of payments arrears on utility outlays. Finally, the net financial position of the central bank has continued to deteriorate. We have implemented additional measures to correct these slippages. Taking into account the corrective measures that are described in the attached memorandum, the government solicits waivers from the IMF Executive Board for the nonobservance of the one quantitative and two structural performance criteria mentioned above.

5. We would like to express our gratitude to the entire international community, and the Fund in particular, for the support and show of confidence in our country demonstrated by the normalization of our relations, specifically with multilateral creditors and bilateral creditors of the Paris Club. We hope that the government's determination and its firm resolution to rigorously implement our wide-ranging program, supported by the PRGF, will enable our country to benefit from additional debt relief under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative in the first quarter of 2003. We also hope that the external financing of the priority investment projects and programs in the social sectors and infrastructure, defined in cooperation with World Bank staff, will be disbursed without further delay. Indeed, resumption of growth and poverty reduction could be seriously jeopardized unless these investment projects and programs are implemented in a timely manner.

6. The government will submit all the information requested by the Fund on the progress in implementing its financial and economic policies, and the attainment of its program targets, as described in the attached memorandum of economic and financial policies (MEFP) and the technical memorandum of understanding (TMU). As in the past, the government authorizes the publication of this letter, the MEFP attached to this letter, and the

associated IMF staff report. In addition, the DRC will undertake with the IMF the second six-monthly review of its economic program supported by the PRGF, which should be completed by the Fund by July 15, 2003, at the latest.

7. The government of the DRC considers that the policies and measures set out in the attached memorandum are adequate to achieve its program objectives. The government is prepared to take any further measures that may be necessary to this end. Moreover, the government pledges to consult the IMF, whether on its own initiative or upon your request, on the adoption of any measures that may prove necessary.

8. I would like to take this opportunity to let you know that the Fund's assistance over nearly two years has been a key factor in consolidating the peace process in my country and in the Great Lakes region.

Sincerely yours,

/s/

His Excellency
The President of the Democratic Republic of the Congo
Joseph Kabila

Translated from French

**Democratic Republic of the Congo**
**Memorandum on Economic and Financial Policies for 2002–03**

Kinshasa, February 3, 2003

## I. Introduction

1. The Democratic Republic of the Congo (DRC) is going through a critical period in its history, both politically and economically. On the political side, peace agreements were signed with Rwanda in July and Uganda in September, and these countries have all but completed the withdrawal of their troops from the DRC. The same is true for Angola, while Namibia and Zimbabwe have completely withdrawn their troops. Within the framework of the inter-Congolese dialogue, an agreement was signed in Pretoria (South Africa) on December 17, 2002 that paves the way for the formation of a transition government of national unity, expected to be appointed soon. Work is near completion on a new constitution, and free, transparent elections are to be held after a two-year transition period. Meanwhile, the third phase of the operations of the United Nations Organization Mission in the Democratic Republic of the Congo (MONUC) continues, and the multicountry program for the demobilization and reintegration of combatants (MDRP) will be gradually put into place, mainly with help from the World Bank and the United Nations (UN). All parties to the inter-Congolese dialogue held in Sun City, South Africa supported the government's economic and poverty reduction strategies.

2. On the economic side, the implementation of our Fund staff-monitored enhanced interim program during the period June 2001–March 2002 marked a genuine turning point in the conduct of our country's economic and financial policies. Remarkable results have been achieved, especially in eliminating hyperinflation and stabilizing the exchange rate following the introduction of a floating exchange rate regime in May 2001. We have been able to stabilize the macroeconomic situation by introducing wide-ranging measures. Considerable progress was made in the area of fiscal consolidation, in particular through the gradual centralization of budgetary resources and a return to regular budgetary procedures. However, much remains to be done in this area.

3. Important structural measures have been implemented, resulting in the elimination of serious distortions (in particular, the elimination of multiple exchange rates) and the liberalization of the prices of goods, including petroleum product imports, as well as the establishment of a mechanism for the automatic and transparent adjustment of the prices of these imports. These measures also included the adoption of new exchange regulations, a new banking law, a new charter for the Central Bank of the Congo (BCC) enshrining its independence in the conduct of monetary policy, a new investment code, the abolition of the monopoly on diamond exports and the introduction of certificates of origin, and the

replacement of special military courts for economic and financial affairs with commercial courts. Based on these results, it has been possible to lay the groundwork for the introduction of the Government Economic Program (PEG), supported by an arrangement under the IMF's Poverty Reduction and Growth Facility (PRGF).

## II. PEG Implementation During the Period April–September 2002, and Outlook and Policies for the rest of 2002

4. We are pleased to note that implementation of the program was generally satisfactory during the period April–September 2002, with a notable deepening of ongoing structural and sectoral reforms, and we feel that the overall objectives for end-2002 can, by and large, be met. We are, however, aware that additional efforts are necessary, in particular to increase revenue mobilization, improve the control and composition of government expenditure, and establish transparent accounting standards for the banking system, including the BCC. In particular, the BCC has started implementing an action plan, defined with technical assistance from the IMF, to ensure more efficient and transparent management. Additional measures, which have been defined with the help of an international auditing firm, were incorporated in the plan in December 2002.

5. Estimates drawn up on the basis of still partial information show a resumption of economic growth, such that we expect to achieve the program target of 3 percent in 2002, after 13 years of negative growth. All sectors should record an increase, except for manufacturing. Agriculture is expected to achieve a positive growth rate, and the transportation and communication sectors should experience strong growth as a result of the rehabilitation of the national road linking the main seaport of Matadi with Kinshasa. Mobile telephony has expanded enormously, and cement production is rising steadily. Annualized inflation in the first nine months of the year was 11 percent, below the programmed rate of about 13 percent for 2002, plunging from 511 percent in 2000 and 135 percent in 2001. The slowdown of inflation has affected all components of the consumer price index, in particular foodstuffs. However, in light of the acceleration of inflation in October and November 2002, including a rise in the prices of petroleum products, the year-end rate of inflation can be expected to reach about 18 percent (Table 1). In addition, the exchange rate depreciated by 27 percent through end-November 2002. We are pleased to note that hyperinflation has been broken, and that economic growth has resumed. This encourages us to redouble our efforts to consolidate and improve these results. The acceleration of inflation and the depreciation of the Congo franc (CGF) could well indicate slippages in government expenditure (including that of the BCC) financed by money creation. As described below, we have taken steps to correct these slippages.

6. On the **fiscal side**, the government met its overall objectives at end-September 2002 and expects to meet them for the year as a whole. Total government revenue (excluding grants) far surpassed expectations, exceeding the programmed objective by 10 percent at end-September, partly owing to petroleum revenue, a portion of which was received in advance. The increase in petroleum revenue could have been even higher if the retail prices

for petroleum products had been raised according to the automatic adjustment mechanism for fixing such prices, as envisaged in the program. However, for a transitional period, the government has decided to lower the share of quasi taxation of petroleum in the price structure. Total expenditure (excluding the net financial position of the BCC) was much lower than programmed. As a result, the domestic primary balance (cash basis) shows a surplus representing 1.2 percent of annual GDP, compared with the 0.7 percent programmed for end-September 2002. Similarly, the overall balance (nonconsolidated) on a cash basis shows a surplus equal to 0.6 percent of annual GDP, compared with a programmed deficit of 0.1 percent. These results can be attributed to the introduction of the programmed measures to mobilize and centralize revenue and gradually achieve expenditure control, as well as the execution of a monthly cash-flow plan. However, it must be noted that, despite the presidential decree of April 12, 2002 prohibiting expenditure financed directly by the BCC without the prior authorization of the Ministry of Finance, and contrary to the program, such expenditure has continued. This expenditure, which is regularized ex post and is partially linked to the peace process, security expenditure, and the payment of compensation related to the abolition of the monopoly on diamond exports previously held by a foreign company, continued between April and September 2002 and reached nearly 10 percent of total expenditure at end-September 2002 (0.5 percent of GDP). Moreover, arrears have accumulated on the payment of utility outlays (water, electricity, and telephone). Finally, by end-September 2002, the BCC's net financial position had worsened more than expected, representing 0.5 percent of annual GDP, compared with the expected 0.2 percent. Despite these slippages, the consolidated overall balance (cash basis) recorded a surplus equal to 0.1 percent of annual GDP, instead of a deficit of 0.3 percent. Given that net disbursements of budgetary assistance (excluding projects) from the World Bank were larger than expected and despite a higher net redemption of certificates of deposit, net credit to the government was much lower than programmed.

7. During our country's transition to lasting peace, we have had to commit to extraordinary spending, in particular to ensure territorial security. Accordingly, although the overall objectives were achieved at end-September 2002, the planned expenditure composition was not. For instance, social expenditure and infrastructure expenditure each represented only 7 percent of primary expenditure at end-September 2002, whereas the objectives for the entire year were 15 percent and 12 percent, respectively. By contrast, defense-, security-, and sovereignty-related expenditure (including that related to the peace process) represented 50 percent of primary expenditure at end-September, compared with 23.5 percent programmed for the year. The wage bill was as programmed, but, contrary to the program, the elimination of the fictitious workers identified in the internal audit carried out in 2001 did not take place, and there was a substantial increase in wages of the police and the military. Externally financed investment fell well below expectations, amounting to 0.2 percent of GDP compared with the 1 percent programmed at end-September 2002, owing to disbursement delays (grants and loans). Finally, contingent social expenditure tied to net external financing also was not made.

8. As programmed, cash-flow management improved, with technical assistance from the IMF, through the gradual centralization of revenue and expenditure under the control of the

Treasury. In this regard, (a) all receipts are deposited in the Treasury's account at the BCC, (b) the bank accounts into which public enterprises' contributions to the Treasury were deposited have been closed; (c) revenue collected from direct and quasi-taxation of petroleum (except the portion that is being offset against the consumption of petroleum products by the Defense Administration and the Office of the President) is deposited directly into the Treasury's account at the BCC; (d) all revenue from mining taxation (except for GECAMINES), including goodwill payments (*versements de 'pas de porte'*), are deposited into a subaccount of the Treasury's account at the BCC; and (e) a presidential decree was published in April 2002, announcing that extrabudgetary expenditure was no longer permitted and that all expenditure, without exception, must be approved by the Ministry of Finance. However, as stated above, this decree has not been fully observed. Compliance with the monthly cash-flow plan has been facilitated by the regular updating of an expenditure commitment plan defining the budget envelopes allocated to the ministries.

9. On the revenue side, and with technical assistance from the IMF, the following actions are being taken, at times with some delay compared with the program because of our still-limited administrative capability: (a) the Large Enterprises Directorate within the General Directorate of Taxes (DGC) will be operational in February 2003; (b) the introduction of a single DGC/General Customs Office (OFIDA) identification number for large enterprises will become effective in February 2003, to be gradually extended in 2003 to include all taxpayers; (c) the reform of the procedures for controlling and monitoring disputes between taxpayers and the DGC has been prepared and will be introduced in February 2003; (d) the management information system set up to monitor OFIDA activity is now in operation; (e) the automated system for customs data (ASYCUDA) is being implemented, and a "one-stop shop" will be created by March 2003 in the main port of Matadi; (f) permanent verification of direct and quasi-taxation of petroleum products has been established to ensure the systematic tracking of physical quantities actually imported; (g) strict control of exemptions and special arrangements (transits and emergency removal from bond) is gradually being implemented; (h) a plan to simplify and reduce the number of taxes falling under the authority of the General Directorate of Administrative and State Revenue (DGRAD) has been drawn up and will be implemented during 2003; (i) the new system for collecting duties and taxes without revenue stamps has been established, and the administrative procedures for taxpayers are being simplified; and (j) the internal management of the revenue-collection agencies has been consolidated through a clear delineation of the responsibilities of their new managers. Finally, as part of the ongoing modernization of the tax system, preparatory steps will be taken in 2003 for the introduction of the value-added tax (VAT) in 2004.

10. Based on developments through end-September, and given the preliminary results achieved in October, we feel that the overall fiscal objectives for 2002 can be met. However, we have decided to freeze until year's-end all operating expenditure (including mission costs), except for minimal allocations for operations. In addition, apart from the measures to mobilize revenue and improve expenditure control described above, the government has decided to implement the following measures: (a) a petroleum price increase of 18 percent (11 percentage points of which were realized on November 9, 2002) resulting from the

application of the automatic price adjustment mechanism, which will allow for an increase in quasi-taxation to the desired level in early 2003; (b) elimination as soon as possible—after verification—of the 21,000 fictitious workers on the payroll; (c) an immediate halt to all extrabudgetary expenditure, including extrabudgetary expenditure financed by the BCC; (d) elimination of the offsetting of quasi taxation on petroleum products for the Defense Administration and the Office of the President as of January 2003; and, similarly, the taxes payable by GECAMINES will henceforth be directly deposited into the Treasury's general account at the BCC; and (e) better management of the BCC, including its mission costs. On an annual basis, these measures are expected to improve revenue by 0.6 percent of GDP and reduce expenditure by 0.3 percent. With these measures, the domestic primary balance (cash basis) should show a surplus of 1.4 percent of GDP at end-December 2002, compared with 0.9 percent in the program, and the overall consolidated balance (cash basis) should show near balance instead of the programmed deficit of 0.4 percent of GDP (Table 2).

**Monetary policy**

11. In the area of monetary policy, the BCC has lowered its refinancing rate to take account of the significant slowdown in inflation. The refinancing rate thus dropped from 39 percent to 12 percent in May, while the monthly interest rate on certificates of deposit fell from 3 percent to 0.7 percent at the same time. The outstanding amount of these certificates dropped considerably to about CGF 1.7 billion at end-September 2002, compared with CGF 7.7 billion at end-December 2001. Based on the monetary survey, adjusted to take into account the recommendations of the financial audit of the BCC by an international firm, broad money grew by 19 percent, compared with 26 percent in the program, while the share of bank deposits (denominated in domestic and foreign currency) declined steadily as a result of continued low confidence in the banking system. Net credit to the government, compared with the beginning-of-period money stock, shrank by 29 percent, instead of 8 percent as programmed. Net credit to the private sector and to public enterprises declined slightly, compared with an increase of 6 percent in the program, while the net foreign assets of the BCC increased by more than expected.

12. For the whole of 2002, money supply is expected to increase by 22 percent, compared with 35 percent in the program. Net credit to the government should fall by 18 percent, compared with 6 percent in the program. The quantitative benchmarks for end-December 2002 were revised to take account of recent developments and now constitute a more appropriate basis for monetary programming in 2003.

13. The government is aware that an effective financial sector must have an appropriate legal, institutional, regulatory, and operational framework, as well as sound financial institutions operating in a stable macroeconomic framework. On the institutional level, the financial audit of the BCC by an international firm and an internal management audit by BCC staff have been completed, and efforts are under way to correct the shortcomings highlighted by these audits. In particular, an Accounts Reconciliation Committee (CAC) has been formed at the BCC to follow up on the recommendations made by the external auditors and by IMF technical assistance missions, and the operations of the Internal Audit

Department have also been strengthened. The CAC is made up of senior staff from several BCC directorates, and its work has led, in particular, to the clarification of "other items, net" in the BCC balance sheet, which used to be a source of uncertainty about the nature of the central bank's operations. An audit charter defining the audit function, its objectives, its powers, and its operational methods has already been drafted. The Internal Audit Department is expected to amend the BCC multiyear audit plan to take account of the various recommendations made by IMF staff and the international audit firm. To correct the serious lapses in the BCC's accounting, internal control, and reporting systems, terms of reference have been drawn up by an international audit firm for an overall reform of these systems, with the aim of adopting the international standards that apply to these areas. In the short term, the BCC intends to continue working, with technical assistance from the IMF, to strengthen these accounting and internal control procedures, and to continue improving the quality of the financial reporting necessary for monitoring the program.

14. On the operational side, several IMF missions have provided technical assistance to the BCC in the areas of monetary policy and foreign exchange operations (including the management of international reserves). In a context where bank money plays almost no role, the BCC has focused on managing the supply of banknotes so as to achieve the objective of monetary stability. Also, a joint committee (BCC and Ministry of Finance) has been formed to improve the management of the government's financial flows and facilitate coordination between the BCC and the Ministry of Finance. The BCC is aware, however, that a return to monetary policy focusing on base money will require fungibility between banknotes and the deposit money on its books. Concerning the exchange and payments system, the new arrangements adopted in early 2001 to liberalize financial transactions with the rest of the world and the holding of foreign currency have led to an increase in foreign currency transactions. Exchange bureaus have been licensed, and the exchange market is functioning satisfactorily; in particular, the difference between exchange rates in the formal and informal markets has on average been less than 2 percent. However, shortcomings have been found in the BCC's management of its foreign exchange holdings. In addition to receiving technical assistance from IMF staff, the BCC has started collaborating with the Bank of Central African States (BEAC), in order to benefit from the latter's recent experience in the reform of this function.

**Balance of payments and external debt**

15. On the external side, in light of developments through end-September 2002, including the external debt consolidation agreement with the Paris Club and an update of external assistance, the current account (including grants, before debt relief) is expected to show a deficit representing 3.2 percent of GDP for 2002, lower than the programmed 3.7 percent. The overall balance of payments is expected to show a deficit of US$39 million. Total external debt is estimated at US$13.9 billion at end-December 2001, and external debt service after the Paris Club rescheduling is estimated at 3.5 percent of exports of goods and nonfactor services. A comprehensive debt sustainability analysis is being finalized on the basis of the completed reconciliation of the DRC's external debt statistics with Paris Club

and multilateral creditors. The government has set itself a January 2003 deadline for concluding bilateral agreements with these creditors and with other multilateral creditors.

16. In the area of international trade, the government has had to take temporary restrictive quantitative measures to deal with the dumping of certain textile products (printed fabric). It plans to raise the matter with the World Trade Organization. In addition, the government received recommendations from the IMF technical assistance mission on acceptance of the obligations under Article VIII, Sections 2 (*a*), 3, and 4 of the IMF's Articles of Agreement. The government will take the measures necessary to eliminate the restrictions that were identified so as to observe the above-mentioned Article VIII obligations before the completion of the first review under the PRGF arrangement.

**Structural and sectoral reforms**

17. The government is implementing a set of wide-ranging structural reforms, with a view to creating an environment conducive to private sector activity and economic recovery. With assistance from the World Bank, the scope of the reforms encompasses public enterprises, the financial sector, mining, and the rehabilitation of key infrastructure (transportation, water and electricity, the sanitation system, urban and rural development, and the environment), the social sectors (education, health, social security, and community development), agriculture, forestry, and institutional capacity building.

18. **Mining sector**. The **new mining code** was published on July 11, 2002, following its approval by parliament. At the same time, the drafting of **mining regulations** progressed swiftly, and a workshop was held in December 2002 with representatives of national and international operators, with a view to finalizing the regulations. Similarly, decrees have been drafted, establishing (a) the mining cadastre, and (b) the mining rights validation commission, and the aim is to publish these documents by end-March 2003. Preparatory work is ongoing for the restructuring of GECAMINES and, in particular, the program for the voluntary separation of about 11,000 staff, the cost of which will be financed with support from the World Bank. GECAMINES's management and employee representatives have agreed to the voluntary separation program. The audits necessary for drafting the overall strategy for the restructuring of GECAMINES began in November 2002, after delays in selecting consultants. An environmental mining audit began in September 2002, and a first report was received at end-October.

19. **Forestry sector**. Since March 2002, the government has reviewed forestry concessions and revoked 143 of them, covering a total of 25 million hectares, for noncompliance with contractual obligations. In April, a moratorium was placed on issuing new concessions until the introduction of new award procedures described in the new forestry code. This code was published on August 29, 2002. The main implementing regulations are being prepared.

20. In addition, in April 2002 the Ministry of Environment and the Ministry of Finance signed a Joint Order increasing the area tax (*taxe de superficie*) from its current annual level

per hectare of US$0.0014 to US$0.50 with effect from January 1, 2003. This measure is aimed at (a) encouraging operators who obtained concessions outside the official bidding process with neither the ability nor the intention to use them to return the concessions to the government; and (b) reallocating these concessions by means of the bidding procedures described in the code. This will result in a more effective use of forest resources and an increase in forestry revenue payable to the central and local governments. The Joint Order was cleared by the Office of the President and entered into force on January 1, 2003. This reform is supported by the World Bank.

21. **Public enterprise sector**. The presidential decree creating the Steering Committee on the Reform of Public Enterprises (COPIREP) was published on October 30, 2002. The process of selecting personnel for the executive secretariat through national bidding procedures has already started. The sectoral groups responsible for drafting reform strategies for enterprises in the telecommunications and transportation sectors have begun their work and have, in some cases, handed in their reports. The operational and functional audits of public enterprises began in November 2002. The consultants for the audit of the domestic cross debts between the public enterprises and the government were selected in December 2002.

22. **Governance and anticorruption action**. The government continues to stress the promotion of good governance and anticorruption measures. To this end, the Commission for Action Against Corruption, Fraud, Contraband, and the Counterfeiting of Money and Trademarks was created in August 2002. The Ministry of Planning and Reconstruction and the Ministry of Finance organized workshops and seminars in September 2002, including two with the support of the World Bank Institute. The result was an anticorruption strategy and an anticorruption action plan, which were adopted by the Interministerial Committee for the Implementation of a Poverty Reduction Strategy and the Council of Ministers in November. Moreover, the Code of Ethics and Good Conduct for Public Employees was published in November 2002. In addition, certain high-level directors in the government and financial institutions were replaced following the financial audits carried out in the context of the government's reform program.

23. **Poverty reduction strategy**. Since its adoption in June 2002, the government has had the interim poverty reduction strategy paper (I-PRSP) translated into four national languages, so as to ensure the broadest possible access to it. A National Survey on Poverty has been under preparation since June 2002, using a methodology based on the collection of data through discussions in "target groups" drawn from a sample of villages and urban areas. A test of the methodology and of the questionnaire began in early November and will be completed by end-February 2003. In a country such as the DRC, which is emerging from war, this methodology is more suitable and, above all, quicker than a survey on the living conditions of households. A survey of this type will facilitate the measurement of poverty against specific physical criteria (e.g. distance from schools, health centers, and wells).

## III. Policies and Measures for 2003

24. To consolidate macroeconomic stability and promote sustainable growth, the government will continue to apply a monetary policy aimed primarily at price stability and a prudent fiscal policy with a "pro-poor" budget and an appropriate expenditure structure. Structural and sectoral reforms will be deepened, with special emphasis on the effective introduction of good governance and action against corruption and money laundering. Economic growth would be boosted by rehabilitation and reconstruction investment within the framework of the World Bank's Emergency Multisector Rehabilitation and Reconstruction Program (EMRRP), and by the introduction of sectoral strategies with World Bank assistance.

25. In keeping with the medium-term macroeconomic framework, which was revised to take account of the estimates of the impact of the country's reunification, external debt service following the Paris Club agreement in September 2002, and expected external assistance, we have adopted the following preliminary objectives for 2003: (a) a growth rate of 5 percent, (b) an annual average inflation rate of 13 percent, and (c) an external current account deficit (including grants, before debt relief) of 5.0 percent of GDP, linked to a strong recovery of investment financed by international assistance. These objectives will be finalized during the second review of our program by Fund staff. We plan to take stock, with the help of the international community and especially the World Bank, of the situation in the provinces that are to revert to government control, to get a better idea of the actual situation and better prepare for reunification.

26. **Fiscal consolidation** will continue to be a pillar of the government's economic and financial policies in 2003. The 2003 budget will be approved by parliament in early 2003 and will include the broad aggregates on which we have reached understandings with Fund staff. The 2003 budget will be the subject of the second PEG review with Fund staff. We are considering submission of a supplementary budget to parliament in 2003, to take full account of the impact of reunification, the civil service staffing census, the implementation of the regional demobilization and reintegration program and its effect on the staffing cuts expected from our national army, the cost of restructuring public enterprises, the establishment of a timetable for the gradual settlement of the cross arrears on domestic payments that will be certified with World Bank support, and the updating of the external debt sustainability analysis. The expenditure allocations for occupied provinces earmarked in the 2003 Budget Law (in particular, wages) will not be released until they are verified after the country's effective reunification. We will ensure that the supplementary budget is in accordance with the objectives of our program and that it is discussed with Fund staff before it is debated by the Council of Ministers.

27. The domestic primary balance (cash basis) will show a surplus of 2.1 percent of GDP in 2003, and consolidated government operations, including the net balance of the BCC's operations, which will not exceed CGF 8.5 billion or 0.4 percent of GDP, should show an overall consolidated deficit (cash basis, before debt rescheduling) of 5.3 percent of GDP. Total revenue (excluding grants) is expected to reach 8.3 percent of GDP, and total

expenditure (on a commitment basis) 16.8 percent of GDP, as a result of the resumption of largely externally financed investment, and external debt servicing. To achieve this, we will take additional measures to cut nonpriority expenditure and mobilize revenue.

28. On the expenditure side, extrabudgetary spending will be eliminated. In particular, the BCC will no longer finance expenditure of the government that is not authorized in advance by the Ministry of Finance (a continuous performance criterion under the program). The overall wage bill increase will not exceed 35 percent (including the costs of reunification and a voluntary retirement program), while the wage bill increase for the army and police will be limited to 8 percent, as part of the continued effort to achieve parity with civil service wages. In addition, the civil service staffing census, expected to start—unfortunately with some delay—in February 2003 with support from Belgium and the United Nations Development Program (UNDP), will help eliminate all identified fictitious workers. A study on overall civil service reform is also under way, having started in two pilot ministries (the Ministry of Civil Service and the Ministry of Finance). In addition, coordination between the Ministries of Civil Service and Finance will be improved through regular meetings of the committee created to improve payroll monitoring and the effective establishment of a central database, which will be updated regularly. Finally, some of the employees (about 35,000 persons) who have already passed retirement age will be placed on retirement for which financing is being solicited from the World Bank.

29. Utility outlays will be audited within the framework of the reform of public enterprises and the analysis of domestic debt, with World Bank assistance. On that basis, the budget allocation will be adjusted in the supplementary budget, and an action plan will be formulated by end-March 2003 to improve control of these expenditures. The introduction of a new expenditure classification at end-December 2002, to be followed by the introduction of new expenditure recording procedures in March 2003, with technical assistance from the IMF, should help in tracking these expenditures. Thus, expenditure traceability and tracking will be strengthened.

30. The share of social and infrastructure expenditure will increase considerably and will reflect the recommendations of the public expenditure review (PER) that was carried out with the World Bank. Operations related to the HIPC Initiative, for which the preliminary amount identified totals CGF12 billion (0.5 percent of GDP), could be budgeted in the first quarter of 2003. The resources released by the Initiative will be deposited in a special account maintained at the BCC and will be used to finance poverty reduction expenditure, in accordance with I-PRSP guidelines. Generally speaking, the 2003 budget should clearly identify all poverty reduction expenditure, regardless of how it is financed. Tracking the execution of this expenditure will be facilitated by the introduction of the above-mentioned new classification. In light of the transparency requirements under the HIPC Initiative, the introduction of the new expenditure recording procedures should facilitate their detailed monitoring. To that end, an advisory committee to monitor pro-poor expenditure will be formed by end-March 2003. The technical ministries concerned will monitor the execution of social and infrastructure expenditure, while World Bank staff will assist in ensuring coordination with sectoral policies. This monitoring will be enhanced by half-yearly progress

reports and audits that will be centralized in the Ministry of Planning and Reconstruction and the Ministry of Finance, with the help of the Central Coordination Office (BCECO) and World Bank staff. Finally, it is expected that the 2001 budget will be audited by the General Accounting Office (Cour des Comptes) before March 2003, and the 2002 budget before end-December 2003. Measures will be taken to strengthen the General Inspectorate of Finance.

31. On the revenue side, mobilization efforts will continue, based on IMF recommendations and with IMF technical assistance, in particular with the actual establishment and strengthening of the Large Enterprises Directorate (DGE) and implementation of the plan to modernize the customs administration (OFIDA), which should become operational by March 2003. A tariff reform will be put into place in 2003, with steps taken to ensure that its impact on revenue is at least neutral.

32. **Monetary policy**. The government will pursue a monetary policy aimed at price stability in the context of a floating exchange rate regime. To this end, broad money is expected to increase by 17 percent (or slightly less than the nominal GDP growth rate). Since the BCC will make no further advances to the government (in observance of the BCC charter), net banking system credit to the government will not increase. Credit to the private sector and to public enterprises is expected to grow by 8 percent and 0.2 percent in terms of beginning-of-period money stock, respectively. It is anticipated that the net foreign assets of the BCC will increase.

33. To facilitate restoration of a normally functioning payments system, the BCC will include in its monetary programming liquidity injections to liquefy the banks' free reserves. Moreover, there will be strict adherence to the government's and the BCC's monthly cash-flow plans within the monetary programming framework. In this regard, the BCC reaffirms its commitment to observe the presidential decree of April 2002 and thus to no longer finance expenditure not first authorized by the Ministry of Finance. In October 2002, the BCC ceased purchasing in the market Congo franc banknotes and foreign exchange at a premium against payment in bank money, and it undertakes not to engage in such operations in the future (a continuous performance criterion). Moreover, tax payments can be made in either currency or bank money from January 1, 2003.

34. The BCC undertakes to strengthen the operational framework of its monetary programming as recommended by IMF technical assistance missions. With the final repayment of the remaining certificates of deposit, the BCC plans to quickly put in place new monetary policy instruments, in coordination with Fund staff. To control liquidity, the BCC intends to regularly issue its own paper (with a maturity of one to four weeks) or engage in short-term (one or two weeks) swaps of foreign currency against Congo francs. Thus, in mid-December 2002, the BCC issued short-term paper (*Billets de Trésorerie*) with the objective of mopping up the liquidity created by the reimbursement of certificates of deposit. The BCC will ensure that its refinancing rate remains positive in real terms. The BCC is strengthening its financial management and lowering its operating costs. Accordingly, the BCC will strictly execute its cash-flow plan with the aim of narrowing its net financial deficit. Moreover, the BCC will ensure that export proceeds are repatriated within 30 days from the date of

shipment of goods, as required by the new exchange regulations. Lastly, to improve fiscal transparency, the BCC and the Ministry of Finance will prepare a list of government bank accounts in the banking system (including those that cover special budgets (*budgets pour ordre*) that are to be eliminated or transferred to the Treasury's general account.

35. The economic situation in recent years has forced the BCC to carry out its duties in a climate of uncertainty and resource shortages. This has adversely affected its functioning, as evidenced by lapses in its organization and accounting procedures. With the promulgation of the new law enshrining the independence of the central bank, the monetary authority, with IMF technical assistance, has defined an action plan aimed at correcting these weaknesses and thus restoring the BCC's credibility with local and external partners. This broad-based action plan constitutes the basis for fundamental reform at the BCC. Finally, the BCC Board will be appointed by end-January 2003.

36. Certainly, the BCC has little room to maneuver, in sofar as (a) its operating account is structurally in deficit, (b) the resources needed to hire and maintain qualified staff, to print banknotes and to acquire equipment are large, and (c) the reunification of the provinces will imply a further increase in needed resources. The areas in which it is most urgent that capacity be restored are the departments responsible for foreign exchange operations and external relations, accounting, banking supervision, the prevention of money laundering, cash management, and monetary policy instruments. Table 3 summarizes the action plan that the BCC intends to carry out in the coming months.

37. To ensure effective implementation of the action plan, a steering committee (with the participation of the IMF's resident expert) was created in November 2002.

**Structural and sectoral measures**

38. **Banking sector**. Within the framework of the overall banking sector reform, the government, with World Bank assistance, decided to take the following four measures. First, it will update, by end-March 2003, the already completed audits of four banks, namely, Banque Commerciale du Congo (BCDC), Union des Banques Congolaises (UBC), Banque Internationale de Crédit (BIC), and Stanbic Bank. Second, the government will prepare, by end-March 2003, audits of the three commercial banks that have not yet been audited, namely, Banque de Commerce et de Développement (BCD), Citibank, and Banque Internationale pour l'Afrique au Congo (BIAC). Third, it will close credit institutions deemed to be bankrupt and beyond recovery—this concerns Nouvelle Banque de Kinshasa (NBK) and Banque de Crédit Agricole (BCA), which were placed in liquidation in late September 2002, and Fransabank (Banque Congolaise), whose banking license was revoked in mid-November. The Banque Congolaise du Commerce Extérieur (BCCE), which was also declared bankrupt and excluded from participation in the clearinghouse, will be placed in liquidation in its present form and structure by end-January 2003. Finally, the government will draft and introduce, by end-June 2003, an appropriate recovery plan for the banks that are considered viable on the basis of the audits.

39. **Mining sector**. In the regulatory area, the government plans in 2003 to pursue and deepen structural and sectoral reforms with the help of the international community, and the World Bank in particular. The new mining regulations are expected to be published by end-February 2003. Voluntary separations at GECAMINES could start on April 1, 2003. To that end, the following measures will be implemented by end-February 2003: (a) formulation and implementation of the procedures for carrying out the voluntary separations program, and (b) establishment of the GECAMINES restructuring committee, which will initially be responsible for overseeing the implementation of the voluntary separations program. The corresponding regulations, and in particular the decree creating the above-mentioned committee, will be promulgated by end-February 2003. As regards the preparation of the overall strategy for restructuring GECAMINES, we expect the preliminary audit to be completed by end-February 2003, so that the strategy can be drawn up and finalized in March 2003.

40. **Forestry sector**. By end-January 2003, the Ministry of the Environment will publish a decree presenting the official list of existing concessions recognized as valid (about 117) by the government and those that have been revoked. This list will serve as a basis for the establishment of the forestry cadastre mentioned in the forestry code and for collection of the area tax (*taxe de superficie*), which was increased as of January 1, 2003. By end-February 2003, the Ministry of the Environment and the Ministry of Finance will set up a database and joint management information system to ensure efficient collection of the area tax. Concessions will be revoked in cases of nonpayment of the area tax by end-December 2003. In addition, by end-February 2003, the two ministries will have finalized the terms of reference for the general study on forestry taxation. Finally, by end-March 2003, the Ministry of the Environment will adopt, after taking account of the remarks made by the parties involved and by the World Bank, the main implementing regulations for the forestry code relating to (a) the procedures for awarding concessions, (b) logging rules, (c) verification procedures and the collection of fines, (d) community forests, (e) the creation of the forestry cadastre, and (f) the operating procedures of the National Forestry Fund.

41. In 2003, the government plans to prepare and adopt a new **water code** (by end-June) and a new **energy code** (by end-December). An in-depth study of the electricity rates should be completed by end-June, so that the structure of the electricity rates can be streamlined in both local and export markets. The government also intends to undertake rehabilitation investments in 2003, in the context of the emergency program financed by the World Bank (EMRRP). At the same time, a project is under preparation, with World Bank assistance, to increase the export capacity of the National Electricity Corporation (SNEL), especially to South Africa.

42. **In the public enterprise sector**, COPIREP will become fully operational by April 2003. This will necessitate, in particular, the appointment of a Secretary-General and the completion of the selection of national experts by end-March 2003. The auditor of the petroleum corporation (COHYDRO) has been instructed to submit his report by end-February 2003, and the auditors of the other public enterprises by that date as well. The sectoral study groups will have completed their work by end-March 2003, especially in the

transportation, energy, and telecommunications sectors. In addition, a new legal framework is being prepared, governing the operations of public enterprises and the various forms of private sector participation in the public enterprises. The aim is to start preparing reform strategies for all public enterprises by April 2003, in particular for the Compagnie des Hydrocarbures (COHYDRO), the Société Nationale de l'Electricité (SNEL), the Société Nationale des Chemins de Fer du Congo (SNCC), the Office Congolais des Postes des Télécommunications (OCPT), the Lignes Aériennes Congolaises (LAC), and the Régie des Voies Aériennes (RVA).

43. **With respect to domestic debt**, the reform of public enterprises includes a survey and certification of cross debts between public enterprises and the government, and of government domestic debt to resident creditors, particularly private-sector enterprises. This task consists of two parts: validation of the work already done by OGEDEP for the debt up to December 31, 1997, and validation of the debt up to December 31, 2001. The studies should start soon, and initial results are expected by end-March 2003.

44. **Concerning the private sector**, a **new labor code** was adopted by parliament and published in October 2002, but will enter into force only after publication of the implementing decrees, which should be drafted within 12 months, in consultation with World Bank and International Labor Organization (ILO) staff. A review of the taxation of enterprises will be completed by end-March 2003, and on that basis an action plan, including an implementation schedule, will be adopted. A one-stop shop for investors will be set up by end-April 2003 with World Bank assistance. In addition, the government undertakes to eliminate as soon as possible all quasi-taxation that has no legal basis; a presidential decree will be published to this effect. Moreover, no form of contribution, tax, duty, or levy (national or regional) can be created without the approval of the Minister of Finance. Last, the government undertakes to limit the number of agencies involved in audits of taxpayers, in particular of companies, and to increase the transparency of its tax audit procedures.

45. Regarding the recently published **Code of Ethics and Good Conduct**, it is expected that its implementing regulations will be finalized by end-March 2003. A draft law against corruption, money laundering, and transnational organized crime (action against the financing of terrorism) will be submitted to parliament and published by end-March 2003. The same procedure will be adopted with respect to the Citizen's Handbook (a collection of citizens' rights and obligations). The reform of the public procurement system will be launched by end-March 2003, with World Bank support; the emphasis will be on strengthening the bidding committees.

46. **A National Poverty-Monitoring Unit** will be set up in February 2003 to track and evaluate the poverty indicators compared with the objectives set out in the I-PRSP. The government, assisted by the international community, plans to launch the National Survey on Poverty as of March 2003, with the aim of completing data collection by end-June 2003 and data analysis by end-October 2003. This survey will be essential for the drafting of the full PRSP, in particular the poverty profile, the priority areas for action and reform, and the quantification of the pertinent programs and projects.

## IV. Program Monitoring, Prior Actions, and Performance Criteria and Benchmarks

47. The two interministerial committees—the first responsible for monitoring the three-year program supported by the Bretton Woods institutions and chaired by the Minister of Finance, and the second responsible for drawing up the poverty reduction strategy—will continue to monitor closely the implementation of the PEG and the poverty reduction strategy. In addition, information sharing between the BCC and the Ministry of Finance will be improved, and a computer link for data transmission will soon be established between the two institutions to facilitate daily monitoring of the government and BCC cash flow plans.

48. To ensure that the program succeeds fully, the government has already implemented, or will soon implement, the following prior actions: (a) an audit by an international firm, by end-December 2002, of the five performance criteria (net foreign assets of the BCC, net domestic assets of the BCC, net bank credit to the government, BCC credit to non-financial public enterprises, and BCC credit to the non-financial private sector) as of end-September 2002; (b) an 18 percent increase in petroleum product prices, in accordance with the automatic mechanism for fixing these prices; and (c) the opening of a separate account at the Bank for International Settlement (BIS) to deposit the proceeds of IMF drawings; any use of these deposits will be subject to ex ante controls. The adoption by parliament of the 2003 budget, in conformity with the aggregates discussed with Fund staff, is a condition for the completion of the second review of the program.

49. Program execution in 2003 will continue to be monitored with the help of half-yearly reviews, half-yearly performance criteria (March 2003), and quarterly performance benchmarks (June, September, and December 2003). As shown in Table 5, this involves (a) a floor on the net foreign assets of the BCC; (b) a ceiling on the net domestic assets of the BCC; (c) a ceiling on net bank credit to the government; (d) a ceiling on BCC credit to nonfinancial public enterprises; (e) a ceiling on BCC credit to the nonfinancial private sector; (f) a ceiling on new nonconcessional external debt (with a grant element of less than 35 percent) contracted or guaranteed by the government, with maturities of more than one year (excluding the IMF); (g) a ceiling on new nonconcessional external debt with an initial maturity of less than one year, contracted or guaranteed by the government, excluding normal import credits; and (h) no accumulation of arrears on wages (including all forms of compensation) in the civil service (civilian and military) and the BCC. The program contains three continuous performance criteria: (a) the BCC will not finance any government expenditure that has not been authorized in advance by the Ministry of Finance; (b) the BCC will not purchase in the market Congo franc banknotes and foreign currencies at a premium against bank money; and (c) the government will not accumulate external arrears on debt service for which a rescheduling agreement has been concluded with its creditors, or on any new borrowing. In addition, the government intends to maintain SDR8 million in its accounts with the IMF to ensure the regular payment of its obligations to the Fund.

50. The program also includes a structural performance criterion for end-March 2003, namely, the establishment of new public expenditure procedures. Structural performance

criteria for end-September and structural benchmarks for 2003 will be defined during the second review of the program.

Table 1. Democratic Republic of the Congo: Selected Economic and Financial Indicators, 2000–05

| | 2000 | 2001 | 2002 | | 2003 | | 2004 | | 2005 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Est. | Est. | EBS/02/76 | Prel. Est. | EBS/02/76 | Prog. | EBS/02/76 | Proj. | EBS/02/76 | Proj. |
| | | | | | (Annual percentage change) | | | | | |
| Output and prices | | | | | | | | | | |
| Real GDP | -7 | -2 | 3 | 3 | 5 | 5 | 6 | 6 | 7 | 7 |
| GDP deflator | 516 | 403 | 23 | 27 | 9 | 14 | 6 | 7 | 6 | 6 |
| Consumer prices, annual average | 550 | 357 | 25 | 26 | 9 | 13 | 6 | 6 | 5 | 5 |
| Consumer prices, end of period | 511 | 135 | 13 | 18 | 6 | 6 | 6 | 6 | 5 | 5 |
| External sector | | | | | | | | | | |
| Exports, f.o.b. (in U.S. dollar terms) | -8 | -1 | 8 | 15 | 11 | 6 | 18 | 21 | 23 | 22 |
| Imports, f.o.b. (in U.S. dollar terms) | 49 | 19 | 36 | 33 | 42 | 29 | 24 | 23 | 8 | 11 |
| Export volume | -4 | -5 | 8 | 14 | 11 | 10 | 13 | 16 | 12 | 11 |
| Import volume | 51 | 24 | 37 | 31 | 40 | 26 | 22 | 22 | 6 | 9 |
| Terms of trade | -3 | 9 | 3 | 0 | 8 | -6 | 4 | 3 | 4 | 9 |
| Nominal effective exchange rate 1/ | -83 | -84 | ... | -71 | ... | ... | ... | ... | ... | ... |
| Real effective exchange rate 1/ | -18 | -6 | ... | -58 | ... | ... | ... | ... | ... | ... |
| | | | | | (Annual change in percent of beginning-of-period broad money, unless otherwise indicated) | | | | | |
| Money and credit | | | | | | | | | | |
| Broad money | 493 | 217 | 35 | 22 | .... | 17 | .... | .... | .... | .... |
| Net foreign assets | -710 | -695 | 36 | 2 | .... | 9 | .... | .... | .... | .... |
| Net domestic credit | 343 | 31 | 2 | -17 | .... | 8 | .... | .... | .... | .... |
| Net credit to the government | 272 | -7 | -6 | -18 | .... | 0 | .... | .... | .... | .... |
| Credit to the private sector | 61 | 37 | 7 | 0 | .... | 8 | .... | .... | .... | .... |
| Credit to the parastatals | 10 | 0 | 1 | 0 | .... | 0 | .... | .... | .... | .... |
| Central bank refinance rate (level in percent) 2/ | 120 | 140 | ... | 24 | .... | .... | .... | .... | .... | .... |
| | | | | | (In percent of GDP) | | | | | |
| Central government finances | | | | | | | | | | |
| Revenue (excluding grants) | 5.1 | 6.2 | 7.3 | 7.9 | 8.4 | 8.3 | 9.6 | 9.5 | 11.1 | 10.8 |
| Grants (excluding humanitarian aid) | 0.0 | 0.0 | 1.2 | 0.3 | 4.7 | 3.7 | 6.4 | 4.6 | 5.2 | 4.8 |
| Expenditure 3/ | 11.1 | 7.9 | 11.0 | 8.9 | 18.1 | 16.8 | 21.1 | 20.7 | 18.2 | 20.3 |
| Domestic primary cash balance 4/ | -3.9 | 0.6 | 0.9 | 1.4 | 2.4 | 2.1 | 3.8 | 3.5 | 5.4 | 4.8 |
| Overall balance (commitment basis) | -6.0 | -1.6 | -2.5 | -0.6 | -5.0 | -4.8 | -5.1 | -6.6 | -2.0 | -4.8 |
| Overall consolidated cash balance 5/ | -4.1 | 0.5 | -0.4 | -0.1 | -1.7 | -2.0 | -2.3 | -4.0 | -1.0 | -2.4 |
| Investment and saving | | | | | | | | | | |
| Gross national savings | -1.2 | 0.5 | 11.0 | 9.2 | 15.9 | 14.6 | 16.9 | 15.2 | 16.1 | 16.3 |
| Government | -5.6 | -1.5 | 2.8 | 1.3 | 6.9 | 4.8 | 8.7 | 5.8 | 7.8 | 7.3 |
| Nongovernment | 4.4 | 2.1 | 8.3 | 7.9 | 9.1 | 9.8 | 8.2 | 9.4 | 8.3 | 9.0 |
| Gross domestic savings | 4.4 | 3.2 | 6.8 | 3.7 | 8.2 | 5.2 | 9.9 | 7.6 | 11.7 | 10.0 |
| Government | -3.6 | -0.2 | 1.9 | 1.1 | 2.7 | 2.5 | 4.1 | 3.9 | 5.7 | 5.2 |
| Nongovernment | 8.1 | 3.5 | 4.9 | 2.7 | 5.4 | 2.7 | 5.8 | 3.7 | 6.0 | 4.8 |
| Investment | 3.5 | 5.2 | 9.9 | 9.1 | 16.5 | 15.7 | 19.9 | 19.9 | 18.8 | 20.3 |
| Government 6/ | 0.5 | 0.1 | 2.9 | 1.1 | 8.5 | 6.2 | 10.9 | 9.4 | 8.8 | 9.3 |
| Nongovernment 7/ | 3.0 | 5.1 | 7.0 | 8.0 | 8.0 | 9.5 | 9.0 | 10.5 | 10.0 | 11.0 |
| | | | | | (In millions of U.S. dollars, unless otherwise indicated) | | | | | |
| Balance of payments | | | | | | | | | | |
| Exports of goods and nonfactor services | 963 | 961 | 1,101 | 1,109 | 1,226 | 1,178 | 1,431 | 1,407 | 1,741 | 1,698 |
| Imports of goods and nonfactor services | 920 | 1,067 | 1,286 | 1,405 | 1,769 | 1,781 | 2,158 | 2,170 | 2,322 | 2,404 |
| External current account, incl. grants, before debt relief (in percent of GDP) | -4.6 | -4.7 | -3.7 | -3.2 | -4.7 | -5.0 | -7.7 | -8.6 | -7.3 | -7.8 |
| External current account, excl. grants, before debt relief (in percent of GDP) | -9.5 | -10.2 | -9.1 | -9.7 | -12.2 | -14.2 | -14.9 | -17.2 | -11.6 | -15.5 |
| External current account, incl. grants, after debt relief (in percent of GDP) 8/ | -4.6 | -4.7 | 1.1 | 0.1 | -0.5 | -1.1 | -3.0 | -4.7 | -2.6 | -4.0 |
| Gross official reserves (end of period) | 51 | 22 | 111 | 86 | 216 | 178 | 260 | 254 | 321 | 341 |
| Gross official reserves (weeks of imports) | 3.8 | 1.4 | 6.2 | 4.2 | 10.0 | 7.7 | 9.3 | 9.1 | 9.6 | 10.6 |

Table 1. Democratic Republic of the Congo: Selected Economic and Financial Indicators, 2000–05 (concluded)

| | 2000 | 2001 | 2002 | | 2003 | | 2004 | | 2005 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Est. | Est. | EBS/02/76 | Prel. Est. | EBS/02/76 | Prog. | EBS/02/76 | Proj. | EBS/02/76 | Proj. |
| External public debt | | | | | | | | | | |
| Total, including IMF 9/ | 12,609 | 13,880 | 8,890 | 9,890 | 9,159 | 10,159 | 9,415 | 10,415 | 9,430 | 10,430 |
| Net present value (NPV) of debt 10/ | 11,888 | 13,110 | ... | ... | ... | ... | ... | ... | ... | ... |
| Scheduled debt service (including interest on arrears) 8/ | 724 | 728 | 56 | 38 | 178 | 155 | 319 | 259 | 357 | 291 |
| In percent of exports of goods and nonfactor services | 75 | 76 | 5 | 3 | 15 | 13 | 22 | 18 | 21 | 17 |
| In percent of government revenue | 331 | 218 | 50 | 8 | 21 | 22 | 27 | 29 | 27 | 27 |
| Exchange rate | | | | | | | | | | |
| Units of local currency per U.S. dollar (end of period) 11/ | 50 | 312 | ... | 382 | ... | ... | ... | ... | ... | ... |
| Nominal GDP (in billions of Congo francs) | 297 | 1,464 | 1,976 | 1,911 | 2,270 | 2,281 | 2,556 | 2,579 | 2,893 | 2,935 |

Sources: Congolese authorities; and staff estimates and projections.

1/ Change in annual average. Minus sign indicates depreciation. For 2002, as of October.
2/ For 2002, as of December.
3/ Including interest due on external debt (before rescheduling) and, from 2003 onward, expenditure financed by resources released under the enhanced HIPC Initiative.
4/ Revenue (excluding grants) minus expenditure (excluding interest on debt and foreign-financed expenditure).
5/ Cash balance after interest rescheduling (including enhanced HIPC Initiative). Before 2002, excludes central bank operations.
6/ From 2003 onward, includes investment financed by resources released under the enhanced HIPC Initiative.
7/ From 2003 onward, includes capital projects financed through nongovernmental organizations.
8/ After possible debt relief from bilateral creditors and enhanced HIPC Initiative related assistance. Reflects staff estimates of the impact of the September 2002 Paris Clul agreement.
9/ End-of-period debt stock, including arrears and before enhanced HIPC Initiative related assistance.
10/ The net present value of external public debt is about 94 percent of the nominal value, reflecting the significant stock of arrears.
11/ For 2002, as of December 30.

## Table 2A. Democratic Republic of the Congo: Monthly Treasury Cash-Flow Plan, 2002

(In millions of Congo francs)

| | Jan.–Sep. | | | Oct.–Dec. | | | Total 2002 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Prog. | Prel. Est. | Diff. | Prog. | Proj. | Diff. | Prog. | In percent of GDP | Proj. | In percent of GDP | Diff. |
| Total revenue and grants | 115,350 | 116,397 | 1,047 | 52,274 | 40,729 | -11,544 | 167,624 | 8.5 | 157,127 | 8.2 | -10497.1 |
| Total revenue | 101,820 | 112,427 | 10,608 | 42,126 | 38,656 | -3,470 | 143,946 | 7.3 | 151,083 | 7.9 | 7137.8 |
| Customs and excises (OFIDA) | 41,501 | 39,170 | -2,331 | 16,565 | 16,800 | 235 | 58,066 | 2.9 | 55,970 | 2.9 | -2095.8 |
| Direct and indirect taxes (DGC) | 29,281 | 29,162 | -119 | 12,448 | 11,600 | -848 | 41,729 | 2.1 | 40,762 | 2.1 | -966.7 |
| DGRAD | 8,606 | 9,353 | 747 | 3,710 | 2,650 | -1,060 | 12,316 | 0.6 | 12,003 | 0.6 | -312.3 |
| GECAMINES | 489 | 0 | -489 | 685 | 0 | -685 | 1,174 | 0.1 | 0 | 0.0 | -1173.5 |
| MIBA | 2,178 | 873 | -1,305 | 2,089 | 0 | -2,089 | 4,267 | 0.2 | 873 | 0.0 | -3394.1 |
| Petroleum | 17,578 | 24,439 | 6,862 | 4,998 | 4,654 | -344 | 22,576 | 1.1 | 29,093 | 1.5 | 6517.4 |
| Production | 10,344 | 19,749 | 9,404 | 2,890 | 3,154 | 264 | 13,234 | 0.7 | 22,903 | 1.2 | 9668.3 |
| Distribution | 7,234 | 4,691 | -2,543 | 2,108 | 1,500 | -608 | 9,342 | 0.5 | 6,191 | 0.3 | -3150.9 |
| Other | 2,186 | 722 | -1,464 | 1,632 | 132 | -1,500 | 3,818 | 0.2 | 854 | 0.0 | -2964.0 |
| Off-budget revenue 1/ | 0 | 8,707 | 8,707 | 0 | 2,820 | 2,820 | 0 | 0.0 | 11,527 | 0.6 | 11526.9 |
| Total grants | 13,530 | 3,970 | -9,560 | 10,148 | 2,073 | -8,074 | 23,678 | 1.2 | 6,043 | 0.3 | -17634.9 |
| Total expenditure 2/ | 120,349 | 115,096 | -5,253 | 56,035 | 44,599 | -11,436 | 176,384 | 8.9 | 159,695 | 8.4 | -16688.9 |
| Current expenditure | 74,367 | 76,570 | 2,203 | 31,111 | 30,275 | -836 | 105,478 | 5.3 | 106,845 | 5.6 | 1367.4 |
| Wages | 31,194 | 27,579 | -3,615 | 11,675 | 13,727 | 2,052 | 42,868 | 2.2 | 41,306 | 2.2 | -1562.6 |
| Interest payments | 9,080 | 11,965 | 2,885 | 4,126 | 3,337 | -789 | 13,206 | 0.7 | 15,302 | 0.8 | 2095.7 |
| External debt (interest payment after debt relief) | 3,972 | 713 | -3,258 | 2,979 | 2,010 | -968 | 6,950 | 0.4 | 2,723 | 0.1 | -4226.9 |
| Domestic debt (interest payment) | 5,109 | 11,252 | 6,143 | 1,147 | 1,326 | 179 | 6,256 | 0.3 | 12,579 | 0.7 | 6322.6 |
| Other current expenditure | 27,698 | 32,086 | 4,388 | 12,161 | 11,404 | -757 | 39,859 | 2.0 | 43,490 | 2.3 | 3631.1 |
| Institutions | 5,941 | 11,653 | 5,712 | 2,638 | 3,495 | 856 | 8,579 | 0.4 | 15,147 | 0.8 | 6568.1 |
| Ministries | 9,612 | 14,327 | 4,715 | 5,239 | 5,125 | -114 | 14,851 | 0.8 | 19,452 | 1.0 | 4601.0 |
| Centralized payments (utilities) | 5,913 | 2,507 | -3,406 | 2,293 | 1,050 | -1,243 | 8,206 | 0.4 | 3,557 | 0.2 | -4649.2 |
| Provinces | 2,596 | 3,344 | 748 | 1,870 | 1,614 | -256 | 4,466 | 0.2 | 4,958 | 0.3 | 492.3 |
| Other | 3,636 | 255 | -3,381 | 121 | 121 | 0 | 3,757 | 0.2 | 376 | 0.0 | -3381.1 |
| Transfers and subsidies | 6,396 | 4,940 | -1,455 | 3,148 | 1,807 | -1,341 | 9,544 | 0.5 | 6,747 | 0.4 | -2796.8 |
| MIBA and GECAMINES | 0 | 150 | 150 | 0 | 0 | 0 | 0 | 0.0 | 150 | 0.0 | 150.0 |
| Transfers to public agencies and budgets annexes | 2,127 | 438 | -1,689 | 1,195 | 0 | -1,195 | 3,323 | 0.2 | 438 | 0.0 | -2884.5 |
| Retrocessions to revenue collecting agencies | 4,268 | 4,352 | 84 | 1,953 | 1,807 | -146 | 6,221 | 0.3 | 6,159 | 0.3 | -62.3 |
| Off-budget expenditure 1/ | 0 | 8,707 | 8,707 | 0 | 2,820 | 2,820 | 0 | 0.0 | 11,527 | 0.6 | 11526.9 |
| Capital expenditure | 23,968 | 5,220 | -18,748 | 18,093 | 4,765 | -13,328 | 42,061 | 2.1 | 9,985 | 0.5 | -32076.1 |
| Foreign-financed Investment | 19,307 | 3,970 | -15,337 | 14,480 | 3,973 | -10,507 | 33,787 | 1.7 | 7,943 | 0.0 | -25843.5 |
| Congolese-financed Investment | 4,101 | 1,113 | -2,987 | 3,173 | 746 | -2,427 | 7,274 | 0.4 | 1,859 | 0.1 | -5414.5 |
| Emergency program | 561 | 137 | -424 | 439 | 45 | -394 | 1,000 | 0.1 | 182 | 0.0 | -818.1 |
| Net lending 3/ | 6,644 | 7,986 | 1,343 | -900 | 0 | 900 | 5,744 | 0.3 | 7,986 | 0.4 | 2242.4 |
| Other operations | 136 | 82 | -54 | 64 | 64 | 0 | 200 | 0.0 | 146 | 0.0 | -54.0 |
| Contingency-unallocated social expenditure 4/ | 9,396 | 70 | -9,326 | 6,822 | 3,780 | -3,042 | 16,218 | 0.8 | 3,850 | 0.2 | -12368.0 |
| Reserve fund | 760 | 0 | -760 | 240 | 0 | -240 | 1,000 | 0.1 | 0 | 0.0 | -1000.0 |

Table 2A. Democratic Republic of the Congo: Monthly Treasury Cash-Flow Plan, 2002 (concluded)

(In millions of Congo francs)

| | Jan.–Sep. | | | Oct.–Dec. | | | Total 2002 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Prog. | Prel. Est. | Diff. | Prog. | Proj. | Diff. | Prog. | In percent of GDP | Proj. | In percent of GDP | Diff. |
| Repayment of domestic arrears 5/ | 1,970 | 2,854 | 884 | 0 | 0 | 0 | 1,970 | 0.1 | 2,854 | 0.1 | 884 |
| Wage arrears 5/ | 1,970 | 1,920 | -50 | 0 | 0 | 0 | 1,970 | 0.1 | 1,920 | 0.1 | -50 |
| Non wage arrears | 0 | 933 | 933 | 0 | 0 | 0 | 0 | 0.0 | 933 | 0.0 | 933 |
| BCC treasury deficit | 3,107 | 9,288 | 6,181 | 606 | 2,276 | 1,670 | 3,713 | 0.2 | 11,564 | 0.6 | 7,851 |
| IDI Diamond expenditure | 0 | 4,318 | 4,318 | 0 | 620 | 620 | 0 | 0.0 | 4,938 | 0.3 | 4,938 |
| Consolidated primary surplus (cash basis) | 4,081 | 13,267 | 9,185 | 365 | -533 | -898 | 4,446 | 0.2 | 12,734 | 0.7 | 8,287 |
| Monthly balance (cash basis) | -1,892 | 14,908 | 16,799 | -3,155 | -974 | 2,181 | -5,047 | -0.3 | 13,933 | 0.7 | 18,981 |
| Consolidated balance (cash basis) | -4,999 | 1,301 | 6,300 | -3,761 | -3,870 | -109 | -8,760 | -0.4 | -2,568 | -0.1 | 6,192 |
| Cumulated balance (cash basis) | -4,999 | 1,301 | 6,300 | -8,760 | -2,568 | 6,192 | -8,760 | -0.4 | -2,568 | -0.1 | 6,192 |
| Total financing | 4,999 | -1,301 | -6,300 | 3,761 | 3,870 | 109 | 8,760 | 0.4 | 2,568 | 0.1 | -6,191 |
| Nonbank (certificates of deposit, net) | -2,096 | -5,909 | -3,813 | -1,354 | -1,700 | -346 | -3,450 | -0.2 | -7,609 | -0.4 | -4,159 |
| BCC and other banking system 6/ | -5,147 | -19,949 | -14,802 | 1,147 | 7,639 | 6,492 | -4,000 | -0.2 | -12,310 | -0.6 | -8,310 |
| Foreign financing | 12,243 | 26,893 | 14,650 | 3,967 | -2,069 | -6,036 | 16,210 | 0.8 | 24,824 | 1.3 | 8,614 |
| Nonresident banks 3/ | 6,953 | 7,097 | 144 | 0 | 0 | 0 | 6,953 | 0.4 | 7,097 | 0.4 | 144 |
| Amortization (net payment) 7/ | -6,140 | -4,867 | 1,272 | -4,605 | -3,969 | 636 | -10,745 | -0.5 | -8,836 | -0.5 | 1,908 |
| Additional financing | 11,429 | 24,664 | 13,234 | 8,572 | 1,900 | -6,672 | 20,001 | 1.0 | 26,564 | 1.4 | 6,562 |
| *Of which:* project loans | 5,776 | 0 | -5,776 | 4,332 | 1,900 | -2,432 | 10,109 | 0.5 | 1,900 | 0.1 | -8,209 |
| *Of which:* budget loans | 5,653 | 24,664 | 19,011 | 4,240 | 0 | -4,240 | 9,893 | 0.5 | 24,664 | 1.3 | 14,771 |
| Discrepancy | 0 | -2,336 | -2,336 | 0 | 0 | 0 | 0 | 0 | -2,336 | -0.1 | -2,336 |

Sources: Congolese authorities; and staff estimates and projections.

1/ Off-budget revenue and expenditure include offsetting operations between the government and the petroleum distribution sector, and offsetting operations with GECAMINES. (State mining company).

2/ Including domestic arrears and Central bank of the Congo (BCC) operations. A surplus of the BCC appears as a minus.

3/ Net lending are advances to the state petroleum company (COHYDRO) financed mainly by drawing on the government account at the Rand Merchant Bank (nonresident Bank) where petroleum production revenue was deposited in 2001.

4/ Contingent expenditure that was to be mobilized only if the debt-rescheduling assumptions materialized (CGF 13.8 billion) and COHYDRO reimbursed the government (CGF 2.4 billion, beginning in May).

5/ Including reimbursment of wage arrears accumulated from October 2001 to Freburay 2002.

6/ Net banking system credit to the government plus treasury balance at the central bank.

7/ Including US$8.2 million payment in settlement of the Red Mountain case in June 2002.

Table 2B. Democratic Republic of the Congo: Monthly Treasury Cash-Flow Plan, 2003

(In millions of Congo francs)

| | Jan.–Mar. | Apr.–Jun. | Jan.–Jun. | Jul.–Sep. | Oct.–Dec. | Jul.–Dec. | Total 2003 | |
|---|---|---|---|---|---|---|---|---|
| | Prog. | Prog. | Prog. | Prog. | Prog. | Prog. | Prog. | In percent of GDP |
| Total revenue and grants | 55,563 | 60,371 | 115,934 | 82,406 | 76,566 | 158,972 | 274,906 | 12.1 |
| Total revenue | 41,590 | 44,209 | 85,799 | 52,272 | 52,323 | 104,595 | 190,394 | 8.3 |
| Customs and excise (OFIDA) | 14,795 | 17,922 | 32,716 | 21,456 | 22,261 | 43,716 | 76,433 | 3.4 |
| Direct and indirect taxes (DGC) | 11,942 | 10,515 | 22,458 | 15,608 | 15,997 | 31,605 | 54,062 | 2.4 |
| DGRAD (including revenue from public enterprises) | 4,038 | 4,859 | 8,896 | 4,198 | 2,958 | 7,156 | 16,052 | 0.7 |
| GECAMINES | 327 | 327 | 654 | 327 | 327 | 654 | 1,308 | 0.1 |
| MIBA | 1,097 | 1,097 | 2,195 | 1,097 | 1,097 | 2,195 | 4,389 | 0.2 |
| Petroleum | 9,391 | 9,489 | 18,880 | 9,586 | 9,684 | 19,270 | 38,150 | 1.7 |
| Production | 4,923 | 4,974 | 9,898 | 5,026 | 5,077 | 10,102 | 20,000 | 0.9 |
| Distribution | 4,468 | 4,514 | 8,982 | 4,561 | 4,607 | 9,168 | 18,150 | 0.8 |
| Other | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.0 |
| Total grants | 13,973 | 16,162 | 30,135 | 30,135 | 24,243 | 54,378 | 84,512 | 3.7 |
| *Of which:* project grants | 8,081 | 16,162 | 24,243 | 24,243 | 24,243 | 48,486 | 72,729 | 3.2 |
| *Of which:* HIPC debt relief | 5,892 | 0 | 5,892 | 5,892 | 0 | 5,892 | 11,783 | 0.5 |
| Total expenditure 1/ | 60,295 | 70,832 | 131,127 | 100,103 | 89,400 | 189,504 | 320,631 | 14.1 |
| Current expenditure | 42,447 | 35,589 | 78,036 | 49,901 | 38,158 | 88,060 | 166,095 | 7.3 |
| Wages | 12,774 | 14,428 | 27,202 | 14,751 | 15,398 | 30,149 | 57,351 | 2.5 |
| Military and police | 4,395 | 4,482 | 8,878 | 4,527 | 4,617 | 9,144 | 18,021 | 0.8 |
| Civilians | 8,379 | 9,945 | 18,325 | 10,224 | 10,781 | 21,005 | 39,330 | 1.7 |
| Interest payments | 14,388 | 1,662 | 16,050 | 15,050 | 2,411 | 17,460 | 33,511 | 1.5 |
| External debt (interest payment after debt relief) | 14,144 | 1,419 | 15,563 | 14,806 | 2,167 | 16,973 | 32,536 | 1.4 |
| Domestic debt (interest payment) | 244 | 244 | 488 | 244 | 244 | 488 | 975 | 0.0 |
| Other current expenditure | 13,485 | 13,954 | 27,439 | 14,329 | 14,610 | 28,939 | 56,379 | 2.5 |
| Institutions | 2,375 | 2,375 | 4,750 | 2,375 | 2,375 | 4,750 | 9,500 | 0.4 |
| Ministries | 5,141 | 5,358 | 10,499 | 5,532 | 5,662 | 11,194 | 21,693 | 1.0 |
| Centralized payments (utilities) | 4,195 | 4,372 | 8,567 | 4,514 | 4,620 | 9,133 | 17,700 | 0.8 |
| Provinces | 1,537 | 1,602 | 3,139 | 1,654 | 1,693 | 3,347 | 6,485 | 0.3 |
| Other | 237 | 247 | 484 | 255 | 261 | 516 | 1,000 | 0.0 |
| Transfers and subsidies | 1,799 | 5,545 | 7,344 | 5,771 | 5,740 | 11,511 | 18,855 | 0.8 |
| MIBA and GECAMINES | 0 | 3,325 | 3,325 | 3,325 | 3,325 | 6,650 | 9,975 | 0.4 |
| Transfers to public agencies and budgets annexes | 250 | 250 | 500 | 250 | 250 | 500 | 1,000 | 0.0 |
| Retrocessions to revenue-collecting agencies | 1,549 | 1,970 | 3,519 | 2,196 | 2,165 | 4,361 | 7,880 | 0.3 |

Table 2B. Democratic Republic of the Congo: Monthly Treasury Cash-Flow Plan, 2003 (concluded)

(In millions of Congo francs)

| | Jan.–Mar. Prog. | Apr.–Jun. Prog. | Jan.–Jun. Prog. | Jul.–Sep. Prog. | Oct.–Dec. Prog. | Jul.–Dec. Prog. | Total 2003 Prog. | Total 2003 In percent of GDP |
|---|---|---|---|---|---|---|---|---|
| Capital expenditure | 14,741 | 29,182 | 43,923 | 43,123 | 43,173 | 86,295 | 130,218 | 5.7 |
| Foreign-financed investment | 13,691 | 27,382 | 41,073 | 41,073 | 41,073 | 82,145 | 123,218 | 5.4 |
| Congolese-financed investment | 1,050 | 1,800 | 2,850 | 2,050 | 2,100 | 4,150 | 7,000 | 0.3 |
| Net lending | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.0 |
| Other operations | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.0 |
| HIPC-related expenditure | 0 | 2,946 | 2,946 | 3,928 | 4,910 | 8,837 | 11,783 | 0.5 |
| Reserve | 15 | 1 | 17 | 16 | 2 | 18 | 35 | 0.0 |
| Repayment of arrears | 1,000 | 1,000 | 2,000 | 1,000 | 1,000 | 2,000 | 4,000 | 0.2 |
| BCC treasury deficit | 2,092 | 2,114 | 4,207 | 2,136 | 2,158 | 4,293 | 8,500 | 0.4 |
| Consolidated primary surplus (cash basis) | 9,655 | -8,799 | 857 | -2,647 | -10,424 | -13,071 | -12,215 | -0.5 |
| Monthly balance (cash basis) | -2,640 | -8,347 | -10,987 | -15,561 | -10,677 | -26,238 | -37,226 | -1.6 |
| Consolidated balance (cash basis) | -4,733 | -10,461 | -15,194 | -17,697 | -12,834 | -30,531 | -45,725 | -2.0 |
| Cumulated balance (cash basis) | -4,733 | -15,194 | -15,194 | -32,891 | -45,725 | -45,725 | -45,725 | -2.0 |
| Total financing | 4,733 | 10,461 | 15,194 | 17,697 | 12,834 | 30,531 | 45,725 | 2.0 |
| Nonbank (certificates of deposit, net) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.0 |
| BCC and other banking system 2/ | -634 | 2,229 | 1,595 | -702 | -894 | -1,596 | 0 | 0.0 |
| Foreign financing | 5,367 | 8,232 | 13,598 | 18,399 | 13,728 | 32,127 | 45,725 | 2.0 |
| Nonresident banks | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.0 |
| Amortization (net payment) | -15,962 | -2,988 | -18,950 | -18,598 | -3,102 | -21,700 | -40,651 | -1.8 |
| Additional financing | 21,329 | 11,220 | 32,549 | 36,998 | 16,830 | 53,827 | 86,376 | 3.8 |
| *Of which:* project loans | 5,610 | 11,220 | 16,830 | 16,830 | 16,830 | 33,659 | 50,489 | 2.2 |
| *Of which:* budget loans | 15,719 | 0 | 15,719 | 20,168 | 0 | 20,168 | 35,887 | 1.6 |
| Discrepancy | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.0 |

Sources: Congolese authortities; and staff estimates and projections.

1/ Including domestic arrears and Central Bank of the Congo (BCC) operations. A surplus of the BCC appears as a minus.

2/ Net banking system credit to the government plus treasury balance at the BCC.

Table 3. Democratic Republic of the Congo: Action Plan to Strengthen the Institutional Capacity of the Central Bank of the Congo

| Measures | Implementation Timetable |
|---|---|
| **Banking supervision** | |
| Clarify the responsibilities of the Central Bank of the Congo (BCC) staff involved in bank supervision and restructuring. | January 2003 |
| Proceed with an in-depth review of the nature and composition of prudential ratios, taking account of the situation of institutions, international standards in the field, and consistent with Southern African Development Community (SADC) regional initiatives. | Draft in 2003 for implementation after the balance sheets of the institutions subject to review are cleaned up |
| Define a specific framework for periodic statements to provide the information required for supervision, in consultation with the Congolese Banking Association. | March 2003 |
| Proceed with an inventory of cooperatives and other financial institutions that are currently not covered by banking supervision. | June 2003 |
| Formalize the process of programming on-site audits (statement of reasons and order of priority based on risk). | Field audit program for 2003 |
| Formalize the operational organization of desk audits and implement a standard framework for reporting on an ongoing basis. Strengthen on-site controls and conduct general purpose missions. | End-2003 |
| **The combating of money laundering and the financing of terrorism** | |
| Sensitize the Congolese Banking Association so that it can define rules for vigilance and good conduct applicable to its members. | During 2003 |
| **Accounting and internal audit** | |
| Establish methods of accounting and accounts reconciliation concerning IMF accounts. | January 2003 |
| Produce financial statements for the year ended December 31, 2002 in accordance with the International Accounting Standards (IAS) template. | March 2003 |
| Complete the audit of fiscal year (FY) 2002 and publish the audited accounts. | May and June 2003 |
| Appoint the BCC Board of Directors and statutory auditors. | January 2003 |

Table 3. Democratic Republic of the Congo: Action Plan to Strengthen the Institutional Capacity of the Central Bank of the Congo

| Measures | Implementation Timetable |
|---|---|
| Adoption by the Board of internal regulations to (i) establish an audit committee; (ii) adopt the IAS; and (iii) institutionalize audits in accordance with IAS subsequent to FY 2002. | March 2003 |
| Publish a legal instrument indicating the reliance of the statutory auditors on the audit report prepared by an internationally recognized independent firm, in addition to their core duties. | March 2003 |
| Adopt by presidential decree the BCC-cashier to the government convention. | January 2003 |
| Ensure that BCC produces a financial statement reflecting all adjustments resulting from the FY 2000 and FY 2001 audits, including the cleaning up of suspense accounts. | March 2003 |
| Systematically follow up and resolve any issues identified in the audit reports, including discrepancies with the treasury accounts or other account differences; eliminate any unsupported or uncollectible accounts; and dispose of all suspense accounts, including those under "other items" in the Integrated Monetary Survey. | December 2002 |
| Adjust and correct program data (stocks and flows) as of December 2001 and September 2002 for errors detected during the FY 2001 external audit and by the IAD. | December 2002 |
| Include the IAD in the review of program data by having it participate in the semiannual audits by an external audit firm and by reviewing the quarterly performance indicators under the program. The IAD should produce reports on these audits.<br>Monitor the accounts' cleanup and review balance-sheet provisions and adjustments in coordination with the committee created for that purpose. Produce a final report on these adjustments. | December 2002–January 2003 |
| Complete an internal audit of foreign exchange reserves management. | March 2003 |
| Have an external audit firm audit the BCC's net foreign assets and net domestic assets, net bank credit to government, BCC credit to nonfinancial public sector enterprises, and BCC credit to the nonfinancial private sector. | Within the required time frame for program review, including December 2002 |
| Draft manuals of control for domestic and foreign currency payments, explicitly establishing the division of labor among the units involved, describing payment authorization procedures, and envisaging regular | September 2003 |

Table 3. Democratic Republic of the Congo: Action Plan to Strengthen the Institutional Capacity of the Central Bank of the Congo

| Measures | Implementation Timetable |
|---|---|
| bank reconciliations with correspondents. | |
| Open a separate account at the Bank for International Settlements (BIS) for IMF disbursements; any use will be subject to specific ex ante controls. | December 2002 |
| Adopt procedures for monthly reconciliation of foreign assets and liabilities with the statements prepared by banking correspondents. | February 2003 |
| Reduce the number of domestic and foreign banking correspondents. | January 2003 |
| Ensure adoption by the Board of guidelines for foreign exchange reserves management. | April 2003 |
| Define the duties of the Audit Committee. | April 2003 |
| **Monetary and exchange operations** | |
| Establish monetary programming for flows of Congo franc banknotes and foreign currency. | January 2003 |
| Draft a Treasury Directorate reorganization plan. | April 2003 |
| Liquefy banks' free reserves and refund the balance of certificates of deposit. | January 2003 |
| Create a new deposit facility to back deposits with the commercial banks. | January 2003 |
| Senior management approval of the plan to restructure the Foreign Services Directorate (DSE) by dividing it into two subdirectorates: SDO (the operations subdirectorate) and SDA (the support services subdirectorate). | February 2003 |
| Prepare the preliminary drafts of the procedures manuals for the two DSE subdirectorates. | February 2003 |
| Senior management adoption of the DSE procedures manuals. Senior management approval of DSE accounting reform. | Mid-March 2003 |
| Install computer and telecommunications equipment in the DSE operations office; acquire ACCESS software; and recruit an ACCESS IT specialist. | March 2003 |
| Start up technical assistance for upgrading the DSE back office. | April 2003 |
| Finalize upgrades to reserves and exchange management operations by the DSE front office. | May 2003 |

Table 4. Democratic Republic of the Congo: Quarterly Quantitative Performance Criteria, 2002 1/

(In millions of Congo francs, unless otherwise indicated)

| | Stock | | Cumulative Changes 2/ | |
|---|---|---|---|---|
| | 2001 | | 2002 | |
| | End-December | End-December (Revised) | End- September Prog. | Act. |
| Floor on the net foreign assets of the BCC (In millions of U.S. dollars) 3/ 4/ | -600 | -623 | 0 | 28 |
| Ceiling on the net domestic assets of the BCC 3/ 4/ | 239,772 | 246,721 | -2,822 | -1,563 |
| Ceiling on the net bank credit to the government 4/ | 11,198 | 12,242 | -5,148 | -19,922 |
| Ceiling on BCC credit to nonfinancial public sector enterprises | 2,071 | 0 | 0 | 0 |
| Ceiling on BCC credit to nonfinancial private sector | 1,244 | 1,146 | 0 | 0 |
| Ceiling on the contracting or guaranteeing of new nonconcessional external debt with original maturity of more than one year by the government or the BCC 5/ | 0 | 0 | 0 | 0 |
| Ceiling on the contracting or guaranteeing of new nonconcessional external debt with original maturity of less than one year by the government or the BCC 6/ | 0 | 0 | 0 | 0 |
| Ceiling on wage arrears | 800 | 800 | -800 | -800 |
| Ceiling on new external debt arrears (in millions of U.S. dollars) (Continuous performance criterion) | 10,082 | 10,925 | | |
| Memorandum item: Base money | 36,914 | 38,348 | 3,023 | 11,530 |

Source: Congolese authorities.

Note: the observance of the first five performance criteria has been audited by an international firm.

1/ Quantitative performance criteria and benchmarks and the procedures for monitoring are defined in the technical memorandum of understanding attached to the letter of intent (EBS/02/76; 5/29/02).

2/ Cumulative changes are calculated from end-December 2001 onward.

3/ The stock of net foreign assets and net domestic assets of the BCC are valued at the program exchange rates (SDR1 = US$1.26537; and US$1 = CGF 313.6).

4/ Twenty-five percent of any revenue (excluding grants) in excess of program levels will be used to reduce the stock of certificates of deposit (CDs) issued before end-March 2002.

5/ This performance criterion applies not only to debt as defined in item No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt, adopted on August 24, 2000, but also to commitments contracted or guaranteed for which value has not been received. Excluded from this performance criterion are rescheduling arrangements and purchases from the Fund. For purposes of this performance criterion, the term "nonconcesssional" means that the debt has a grant element of less than 35 percent, calculated using currency-specific discount rates that are based on the OECD commercial interest reference rates (CIRRs).

6/ This performance criterion applies not only to debt as defined in item No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt, adopted on August 24, 2000, but also to commitments contracted or guaranteed for which value has not been received. Excluded from this performance criterion are rescheduling arrangements, purchases from the Fund, and normal import-related credits other than for petroleum imports. For purposes of this performance criterion, the term "nonconcessional" means that the debt has a grant element of less than 35 percent, calculated using currency-specific discount rates that are commercial interest reference rates (CIRRs).

Table 5. Democratic Republic of the Congo: Quarterly Quantitative Performance Criteria and Benchmarks, 2002–03 1/

(In millions of Congo francs, unless otherwise indicated)

| | Stock | Cumulative Changes 2/ | | | | |
|---|---|---|---|---|---|---|
| | End-September 2002 | End-December 2002 Performance Benchmarks (Revised) | End-March 2003 Performance Criteria | End-June 2003 Performance Benchmarks | End-September 2003 Performance Benchmarks | End-December 2003 Performance Benchmarks |
| Floor on the net foreign assets of the BCC (in millions of U.S. dollars) 3/ 4/ | -595 | -26 | -41 | -37 | -31 | -26 |
| Ceiling on the net domestic assets of the BCC 3/ 4/ | 245,158 | 7,503 | 6,911 | 9,183 | 8,524 | 7,673 |
| Ceiling on net bank credit to the government 4/ | -7,680 | 7,639 | 7,005 | 9,234 | 8,532 | 7,639 |
| Ceiling on BCC credit to nonfinancial public sector enterprises | 0 | 0 | 0 | 0 | 0 | 0 |
| Ceiling on BCC credit to nonfinancial private sector | 1,146 | 0 | 0 | 0 | 0 | 0 |
| Ceiling on the contracting or guaranteeing of new nonconcessional external debt with original maturity of more than one year by the government or the BCC 5/ | 0 | 0 | 0 | 0 | 0 | 0 |
| Ceiling on the contracting or guaranteeing of new nonconcessional external debt with original maturity of less than one year by the government or the BCC 6/ | 0 | 0 | 0 | 0 | 0 | 0 |
| Ceiling on wage arrears | 0 | 0 | 0 | 0 | 0 | 0 |
| No accumulation of external debt arrears (in millions of U.S. dollars) 7/ 8/ | 9,530 | 0 | 0 | 0 | 0 | 0 |
| The BCC will make no payment of expenditure of the government that has not been authorized in advance by the Minister of Finance 9/ | | | | | | |
| The BCC will make no purchase of Congo franc notes or foreign currency in the market at a discount rate against payment in deposit money 9/ | | | | | | |
| Memorandum item: | | | | | | |
| Base money | 49,878 | 4,442 | 6,377 | 8,313 | 10,249 | 12,185 |

Sources: Congolese authorities.

Note: Until the expiration of the three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) in June 2005, the observance of the first five performance criteria will be audited by an international firm.

1/ Quantitative performance criteria and benchmarks, as well as the procedures for their monitoring are defined in the attached technical memorandum of understanding (EBS/02/76; 5/6/02).

2/ Cumulative changes are calculated from end-September 2002 onward.

3/ The stock of net foreign assets and net domestic assets of the Central bank (BCC) are valued at the program exchange rates (SDR1 = US$1.26537; US$1 = CGF 313.6; and 1 Euro = CGF 357.62).

4/ Fifty percent of any surplus over the programmed amount of external budgetary assistance (excluding project assistance), net of debt service and including external debt service rescheduling, that has not been used to finance poverty reduction expenditure, public enterprise restructuring, and domestic debt repayment (including cross-arrears on payments that have been certified in cooperation with World Bank staff) will be used to reduce net banking system credit to the government, and the corresponding performance criterion will be lowered accordingly. The criteria on net foreign assets and net domestic assets will be raised and lowered, respectively, by the same amount. This adjustment does not apply to HIPC Initiative resources, which will be deposited in a special account at the BCC.

5/ This performance criterion applies not only to debt as defined in item No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt, adopted on August 24, 2000, but also to commitments contracted or guaranteed the debt has for which value has not been received. Excluded from this performance criterion are rescheduling arrangements and purchases from the Fund. For purposes of this performance criterion, the term "nonconcesssional"means that a grant element of less than 35 percent, calculated using currency-specific discount rates that are based on the OECD commercial interest reference rates (CIRRs).

6/ This performance criterion applies not only to debt as defined in item No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt, adopted on August 24, 2000, but also to commitments contracted or guaranteed for which value has not been received. Excluded from this performance criterion are rescheduling arrangements, purchases from the Fund, and normal import-related credits other than for petroleum imports. For purposes of this performance criterion, the term "nonconcessional" means that the debt has a grant element of less than 35 percent, calculated using currency-specific discount rates that are based on the OECD commercial interest reference rates (CIRRs).

7/ The stock at end-September includes arrears at end-2001 plus penalty interest on arrears and accumulation of arrears on current maturities in 2002.

8/ This is a continuous performance criterion.

9/ These are continuous performance criteria as of the completion of the first review of the PRGF arrangement.

Table 6. Democratic Republic of the Congo: Prior Actions, Structural Performance Criteria and Benchmarks, 2002 and 2003

| Measures | Timetable | Status |
|---|---|---|
| **A. Prior Actions** | | |
| Audit by an international firm of five performance criteria as of end-September 2002: net foreign assets of the BCC, net domestic assets of the BCC, net bank credit to the government, BCC credit to nonfinancial public enterprises, and BCC credit to the non-financial private sector. | End-December 2002 | Implemented |
| An 18 percent increase in petroleum product prices, in accordance with the automatic mechanism for fixing these prices. | Mid-February 2003 | Implemented |
| Opening of a separate account at the Bank for International Settlement (BIS) to deposit the proceeds of IMF drawings; any use of these deposits will be subject to ex ante controls. | | Implemented |
| **B. Structural Performance Criteria** | | |
| Completion of the financial audit of the Central Bank of the Congo (BCC). | By end-September 2002 | Implemented |
| Preparation of a list of banks to be liquidated, privatized, or restructured, and placement into receivership of the NBK, BCA, and BCCE. | By end-September 2002 | List drawn up; NBK and BCA in liquidation; Decision on BCCE by end-January 2003. |
| Publication of a Code of Ethics and Good Conduct applicable to the whole civil service, without exception. | By end-September 2002 | Implemented with brief delay |
| Establishment of new expenditure procedures, reinstating and rationalizing the full expenditure chain, including commitment, liquidation, payment order, and payment. | By end-March 2003 | |

Table 6. Democratic Republic of the Congo: Prior Actions, Structural Performance Criteria and Benchmarks, 2002 and 2003

| Measures | Timetable | Status |
|---|---|---|
| **C. Structural Performance Benchmarks** | | |
| Preparation of a global strategy and action plan for the fight against corruption. | By end-September 2002 | Implemented |
| Completion of the formulation of a strategy for the restructuring of the state mining company (GECAMINES). | By end-September 2002 | Implemented |
| Drafting of an action plan, taking into account the recommendations of the BCC financial audit. | By end-December 2002 | Implemented |
| Completion of the financial audit of the state oil company (COHYDRO). | By end-December 2002 | On-going |

DEMOCRATIC REPUBLIC OF THE CONGO

## Technical Memorandum of Understanding

Kinshasa, February 3, 2003

1. This memorandum covers the agreements on monitoring implementation of the program supported by the Poverty Reduction and Growth Facility (PRGF) of the International Monetary Fund (IMF). It establishes the information to be reported and the deadlines for its submission to the IMF staff for program monitoring. It defines the quantitative performance criteria and benchmarks, as well as the structural performance criteria and benchmarks presented in the memorandum on economic and financial policies (MEFP) of the government of the Democratic Republic of the Congo (DRC), which is attached to the letter of February 4, 2003 to the Managing Director of the International Monetary Fund.

### Monitoring Program Implementation

2. Implementation of the program covering the period April 1, 2002–July 31, 2005 will be monitored on the basis of the performance criteria and benchmarks described in paragraphs 49 and 50 and Tables 5 and 6 of the MEFP of February 3, 2003.

### Definition of Quantitative Performance Criteria and Indicators

3. The quantitative performance criteria and indicators described in Table 5 of the MEFP are as follows:

(a) floor on net foreign assets of the central bank (BCC);

(b) ceiling on net domestic assets of the BCC;

(c) ceiling on net bank credit to the government;

(d) ceiling on BCC credit to nonfinancial public sector enterprises;

(e) ceiling on BCC credit to the nonfinancial private sector;

(f) ceiling on new nonconcessional external debt contracted or guaranteed by the government or the BCC, with maturities of more than one year, except borrowing for debt rescheduling purposes, and IMF credit;

(g) ceiling on new nonconcessional external debt contracted or guaranteed by the government or the BCC, with maturities of less than one year, except borrowing for debt rescheduling purposes, IMF credit, and normal import credits (suppliers' credits) excluding petroleum imports;

(h) ceiling on wage arrears (including all forms of compensation) by the civil service (civilian and military) and the BCC;

(i) the BCC will make no payment of government expenditure that has not been authorized in advance by the Minister of Finance;

(j) the BCC will make no purchase of Congo franc banknotes or foreign currency in the market at a premium against payment in bank money; and

(k) the government will not accumulate payments arrears on external debt service for which a debt rescheduling agreement has been concluded with the government's creditors, or on any new borrowing.

**Definitions**

4. **Net foreign assets of the BCC** are defined as the difference between the BCC's gross foreign assets and all its external obligations, as shown in the Integrated Monetary Survey prepared by the BCC. The net foreign assets and all the foreign currency accounts of the BCC, as well as the Integrated Monetary Survey, will be valued at the following exchange rates: SDR 1 = US$1.26537; US$1 = CGF313.6; and 1 Euro=CGF357.62.

5. The net domestic assets of the BCC are equal to the sum of the following line items, as they appear in the BCC balance sheet:

- net claims on the government;
- claims on nonfinancial public enterprises;
- claims on the nonfinancial private sector;
- claims on banks, net of "Billets de Trésorerie" obtained by banks;
- claims on other banking and nonbank institutions; and
- "other items, net," defined as other assets minus other liabilities (including capital and valuation accounts, and "Billets de Trésorerie" obtained by the public).

6. **Net banking system credit to the government** is defined as the sum of net claims of the central bank and of deposit money banks on the government, as described in the Integrated Monetary Survey prepared by the BCC, plus the BCC's net cash deficit.

7. Fifty percent of any surplus over the programmed amount of external budgetary assistance (excluding project assistance), net of debt service, and including external debt service rescheduling that has not been used to finance poverty reduction expenditure, public enterprise restructuring, and domestic debt repayment (including cross-arrears on payments that have been certified in cooperation with World Bank staff) will be used to reduce net

banking system credit to the government, and the corresponding performance criterion will be lowered accordingly. The criteria on net foreign assets and net domestic assets will be raised and lowered, respectively, by the same amount. This adjustment does not apply to HIPC resources, which will be deposited in a special account at the BCC.

8. **BCC credit to nonfinancial public sector enterprises** is equal to BCC claims on nonfinancial public enterprises, as defined in the Integrated Monetary Survey prepared by the BCC.

9. **BCC credit to nonfinancial private sector enterprises** (excluding loans to BCC personnel) is equal to BCC claims on nonfinancial private enterprises, as defined in the Integrated Monetary Survey prepared by the BCC.

10. **Wage arrears** are defined as validated personnel expenses not paid for more than 30 days. Wages include all compensation paid to employees (civil staff, including the military, national police, members of Cabinet, and BCC staff), including bonuses and allowances. Under the program, these arrears will be assessed cumulatively and partly based on the balances of the accounts of the provincial delegated payment authorization officers (ODs) in the treasury's general account at the BCC.

11. The government will not accumulate any payments arrears on external debt, except on debt being rescheduled with creditors.

12. The definition of external debt can be found in Decision 6230-(79/140), para. 9, amended on August 24, 2000 (Annex I).

13. The grant element of borrowing will be calculated on the basis of currency-specific rates based on the OECD commercial interest reference rates (CIRR) on the disbursement date, as specified in Annex I. A loan is defined as concessional if, on the date of the initial disbursement, the ratio of the present value of the loan, calculated on the basis of the reference interest rate to its nominal value, is less than 65 percent (i.e., including a grant element of at least 35 percent).

14. **Base money** is defined as the sum of the following:

- currency in circulation (in and outside banks);
- deposits of banks with the BCC;
- deposits of public enterprises with the BCC;
- deposits of private enterprises and individuals with the BCC;
- deposits of other financial institutions, other than deposit money banks, with the BCC.

**Note: "Base money" excludes all "Billets de Trésorerie" issued by the BCC.**

15. The following concepts are used in the letter of intent and the MEFP:

(a) Budget: annual law authorizing the government's financial operations. Transfers to the provinces are included, but the provinces' own revenues are not covered. The social security system is not consolidated in the budget;

(b) Special budgets (*budgets pour ordre*): autonomous agencies and entities receiving earmarked revenues that, like their expenditure, are covered in the budget;

(c) Extrabudgetary accounts: accounts receiving government revenue not tracked by the Treasury Management and Payment Authorization Directorate. The consolidation of these accounts with those that are regularly monitored by the Treasury Management and Payment Authorization Directorate is necessary for a comprehensive view of budget execution; and

(d) Poverty-reduction expenditure: spending on health, education, food, housing, social and community development, and infrastructure (including agriculture-related infrastructure) and on retirees and voluntary separations. It includes both current and capital expenditure. Social spending is a subset of poverty reduction expenditure. It covers health, education, food, housing, and social and community development.

**Structural Performance Criteria and Benchmarks**

16. The structural performance criteria and benchmarks are described in para. 50 and Table 6 of the MEFP.

**Reporting**

17. The authorities will forward to the IMF's African Department, as soon as possible and preferably by e-mail or fax, the data and information needed to monitor program implementation. Following are the data or documents to be submitted:

**1. Exchange system**

(a) Volume of purchases and sales of foreign exchange on the interbank market, between commercial banks and their customers, and in exchange bureaus;

(b) Volume of purchases and sales (*interventions*) by the BCC on the interbank market;

(c) Average Congo franc/U.S. dollar reference exchange rate of the BCC (indicative rate);

(d) Average Congo franc/U.S. dollar exchange rate on the interbank market;

(e) Average Congo franc/U.S. dollar exchange rate offered by commercial banks to their customers; and

(f) Average Congo franc/U.S. dollar exchange rate used by exchange bureaus.

**Note: The above information is to be submitted with a time lag of one day.**

**2. Banking system**

(a) Integrated monetary survey, with a breakdown into domestic currency and foreign currency;

(b) Monetary survey of the BCC, with a breakdown into domestic currency and foreign currency;

(c) BCC operating account;

(d) Implementation of the BCC's cash flow plan;

(e) Statement of wage arrears owed to BCC staff;

(f) Monetary survey of deposit money banks, with a breakdown into domestic currency and foreign currency;

(g) Net banking system credit to the government;

(h) Net banking system credit to public sector enterprises;

(i) Structure of nominal and real interest rates of deposit money banks;

(j) Reserves (voluntary and required) of deposit money banks;

(k) Structure of BCC interest rates;

(l) Structure of BCC certificate of deposit (CD) rates; and

(m) Premium on Congo franc banknotes and foreign currency purchased in the market against bank money.

**Note: The above monthly information is to be submitted not later than three weeks after the end of each month.**

**3. Public sector**

(a) Implementation of treasury cash flow plan;

(b) Expenditure execution by type and by ministry/institution;

(c) Validated wage bill by category of payee, region (Kinshasa/provinces), and activity status (active/retired);

(d) Wage bill debited from the Treasury General Account by category of payee, region, and activity status;

(e) Paid wage bill by category of payee, region, and activity status;

(f) Paid employees, by category of payee, region, and activity status;

(g) Civil service pay scale (if changed);

(h) Issues, redemptions, and stocks of certificates of deposit (including maturity and interest charges), by category of creditor (commercial banks, public enterprises, and other);

(i) Public sector domestic debt, by category of creditor (commercial banks, private entities, etc): collect and report data related to domestic public debt as soon as they are available; and

(j) Payments arrears on utility outlays.

**Note: The above information is to be submitted not later than three weeks after the end of each month.**

Starting in April 2003, following implementation of the new expenditure procedures, the budgetary tracking statements mentioned in Annex II will also be forwarded.

**4. Real sector**

Report as soon as possible indicators on recent economic developments and other related data, such as the consumer price index once a week; exports of merchandise (in value and volume), crude oil, copper, cobalt and zinc, and industrial and artisanal diamonds; imports in value and volume, if possible by principal product and showing petroleum products separately; indicators of production of the manufacturing, mining, and services sectors, published in the BCC's monthly reports on economic activity. Monthly tax base (imports) prepared by OFIDA.

**5. External debt**

(a) Actual disbursements of external assistance, whether or not to finance projects, including those associated with new loans contracted (on a monthly basis, with a lag of three weeks);

(b) Composition of external debt-service obligations, by maturity (including after debt rescheduling by the Paris Club, other bilateral creditors, and multilateral creditors, commercial debt, and short-term debt), and the stock of external arrears, taking into account actual payments, with a breakdown by principal and interest, and classification by creditor (to be provided quarterly by the Public Debt Management Office (OGEDEP)); and

(c) Copy of the debt rescheduling agreements with the Paris Club, non-Paris Club bilateral creditors, commercial creditors, and multilateral creditors, as soon as such agreements have been concluded. Also, all individual loan information is required without delay, for the debt sustainability analysis in the context of the HIPC Initiative.

**Note: The above monthly information is to be provided not later than three weeks after the end of each month.**

## 6. Miscellaneous

A progress report on implementation of the structural reforms will be submitted to Fund staff each month. In addition, information on the legal and regulatory environment as it affects business (new decrees, circulars, and laws) and pricing policy, as well as the official gazette, will also be reported to Fund staff.

/s/

Jean-Claude Masangu Mulongo
Governor
Banque Centrale du Congo

/s/

Mbuyamu Matungulu Ilankir
Minister of Finance and the Budget

Kinshasa, February 3, 2003

**Definition of External Debt**

4. The definitions of "debt" and "concessional borrowing" for the purposes of this memorandum of understanding are as follows:

(a) As set out in Point 9 of the Guidelines on Performance Criteria with Respect to Foreign Borrowing adopted by the IMF's Executive Board on August 24, 2000, debt is understood to mean a current, that is, not contingent, liability created under a contractual agreement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services at some future points in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debt can take a number of forms, the primary ones being as follows: (i) loans, that is, advances of money to the obligor by the lender on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans, under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers' credits, that is, contracts where the supplier permits the obligor to defer payment until some time after the date on which the goods are delivered or services are provided; and (iii) leases, that is, arrangements under which property is provided that the lessee has the right to use for one or more specified period(s) of time, which are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of this guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the arrangement, excluding those payments that cover the operation, repair, or maintenance of the property. Under the definition of debt set out above, arrears, penalties, and judicially awarded damages arising from failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

(b) **A loan is considered concessional** if, on the date the contract is signed, the ratio of the present value of the loan, based on the reference interest rates to the nominal value of the loan is less than 65 percent (i.e., a grant element exceeding 35 percent). The reference interest rates used in this assessment are the commercial interest reference rates (CIRRs) established by the Organization for Economic Cooperation and Development (OECD). For debts with a maturity exceeding 15 years, the ten-year reference interest rate published by the OECD is used to calculate the grant element. For shorter maturities, the six-month market reference rate is used.

## Budget Tracking Statements

**Statement 1: Main budget tracking statement. Monthly, starting in April 2003.**

This statement describes expenditures according to the four phases of the expenditure chain (commitment, verification, payment order, payment) on the one hand, and by type of expenditure on the other hand, and cumulatively from the start of the fiscal year.

This statement should also have two intermediate columns for payment authorizations sent to the BCC and payment authorizations pending transmission to the BCC.

A specific column for automatic payments (*décaissements d'office*) will also be placed next to the column for payment orders.

The last column of the main budget tracking statement is the "Balances Outstanding" column, which is the difference between payment orders signed by the responsible payment authorizing officer and actual payments by the BCC (not the difference between payment authorizations sent to the BCC and actual payments by the BCC).

**Statement 2: Main budget tracking statement by administrative classification. Monthly, starting in April 2003.**

Based on the main statement, this document will present expenditures by administrative classification (2002 revised nomenclature rather than classification by type). Additionally, the statement will keep expenditures initiated by, and earmarked for, the Office of Ministers (Cabinets) separate from those initiated by, and earmarked for, the administrations.

**Statement 3: Main budget tracking statement by geographical distribution. Monthly, starting in July 2003.**

Based on the balances of the main statement, this document will present expenditures by type, distinguishing between expenditures in Kinshasa and those in the provinces.

Computer tools and training permitting, separate service codes will be assigned for Kinshasa and for each province; this will allow for tracking of distribution of expenditures among the eleven provinces.

**Statement 4: Main budget tracking statement, "Poverty Reduction Expenditures." Monthly, starting in September 2003.**

Based on Statement 2, expenditures will be presented by type, with one line indicating the share of expenditures identified as poverty reduction expenditures.

**Statement 5: Main budget tracking statement, "Major Government Functions." Monthly, starting in September 2003.**

Based on Statement 2, this document will present expenditure by major government functions (as defined in the 2002 revised nomenclature).

**Democratic Republic of the Congo: Relations with the Fund**
(As of December 31, 2002)

**I. Membership Status:** Joined: September 28, 1963 Article XIV

| **II. General Resources Account:** | **SDR Million** | **In Percent of Quota** |
|---|---|---|
| Quota | 533.00 | 100.00 |
| Fund holdings of currency | 533.00 | 100.00 |

| **III. SDR Department:** | **SDR Million** | **In Percent of Allocation** |
|---|---|---|
| Net cumulative allocation | 86.31 | 100.00 |
| Holdings | 6.12 | 7.09 |

| **IV. Outstanding Purchases and Loans:** | **SDR Million** | **In Percent of Quota** |
|---|---|---|
| Poverty Reduction and Growth Facility (PRGF) arrangement | 420.00 | 78.80 |

**V. Latest Financial Arrangements:**

| **Type** | **Approval Date** | **Expiration Date** | **Amount Approved (SDR Million)** | **Amount Drawn (SDR Million)** |
|---|---|---|---|---|
| PRGF | June 12, 2002 | June 11, 2005 | 580.00 | 420.00 |
| Stand-By | June 9, 1989 | June 8, 1990 | 116.40 | 75.00 |
| SAF | May 15, 1987 | May 14, 1990 | 203.70 | 145.50 |

**VI. Projected Payments to Fund**

(In SDR millions; based on existing use of resources and present holdings of SDRs):

| | **Forthcoming** | | | |
|---|---|---|---|---|
| | **2003** | **2004** | **2005** | **2006** |
| Principal | 0.00 | 0.00 | 0.00 | 0.00 |
| Charges/interest | 3.64 | 3.64 | 3.64 | 3.64 |
| **Total** | 3.64 | 3.64 | 3.64 | 3.64 |

**VII. Exchange Rate Arrangement:**

The Democratic Republic of the Congo's currency is the Congo franc, which, since May 26, 2001, has been freely floating. On December 30, 2002, the rate was US$1=CGF 382.14. From July 1, 1998 through May 25, 2001, a multiple exchange rate system was in effect, implying an official rate, the most recent being US$1=CGF 50, and a rate determined in the parallel market.

The DRC maintains measures that give rise to seven exchange restrictions, of which three are multiple currency practices (MCPs), subject to Fund approval under Article VIII of the Fund's Articles of Agreement. The exchange restrictions involve (1) the requirement of the presentation of a global tax clearance certificate *(attestation fiscale)* before being able to make external payments and transfers of foreign exchange for current transactions; (2) undue delays in BCC authorization of legally permitted contractual obligations for prepayments of imports; (3) a legal practice of officially suspending or interdicting the access of specific individuals or firms to banking system services (*mise à l'index*), including facilities for making external payments; and (4) an outstanding net debit position arising from the inoperative regional payments agreement (CEPGL). The multiple currency practices involve (a) minimum amounts mandated by the BCC for a series of fees and taxes imposed on foreign exchange transactions, which could result in cumulative margins above 2 percent for small transactions; (b) use of a reference rate by the BCC for some exchange rate transactions, without the existence of a formal mechanism preventing the spread between the reference rate and the market rate of the day exceeding 2 percent; and (c) a fixed exchange rate set on a quarterly basis applying to transactions through the bilateral payments agreement (BPA) with Zimbabwe. These restrictions will be eliminated according to the timetable that will be included in the forthcoming Board paper on the DRC's acceptance of Article VIII, Sections 2(*a*), 3, and 4 of the Fund's Articles of Agreement.

**VIII. Last Article IV Consultation:**

(a) Consultations with the Democratic Republic of the Congo are held in accordance with the provisions of the decision on consultation cycles approved on July 15, 2002.

(b) The last Article IV consultation was concluded by the Executive Board on July 13, 2001 (EBM/01/73, 13/07/01).

**IX. Safeguards Assessment**

An on-site Safeguards Assessment was conducted during October 7–18, 2002.

**X. Technical Assistance:**

| Subject | Department | Staff Member | Date |
|---|---|---|---|
| Monetary statistics | STA | Mr. Papadacci<br>Ms. Tanase | Jun. 29–Jul. 12, 2000 |
| Exchange rate system | MAE | Mr. Bussers | May 9–14, 2001<br>Jul. 1–7, 2001 |
| Capacity-building assistance to the central bank | MAE | Mr. Laurens<br>Mr. Sarr<br>Mr. Akitoby<br>Mr. Paul<br>Mr. Bussers | Oct. 12–26, 2001 |

| | | | |
|---|---|---|---|
| | | Mr. Tavernier | Feb. 1–14, 2002<br>Aug. 8–Sep. 20, 2002 |
| | | Mr. Paul | Feb. 1–7, 2002 |
| | | Mr. Beaumé | Jul. 15–25, 2002 |
| Monetary policy/ foreign exchange management, bank supervision and budget | MAE | Mr. Laurens<br>Mr. Sarr<br>Mr. Paul<br>Mr. Beaumé<br>Mr. Régnard<br>Mr. Tavernier | Oct. 29–Nov. 12, 2002 |
| Tax administration/ policy | FAD | Mr. Corfmat<br>Mr. Fossat | May 11–21, 2001 |
| Tax policy | FAD | Ms. Geourjon<br>Mr. Laporte<br>Mr. Schneider | Nov. 19–Dec. 3, 2002 |
| Expenditure management | FAD | Mr. Schiller<br>Mr. Fournel<br>Mr. Barrier | Aug. 4–18, 2001 |
| | | Mr. Bouley<br>Mr. Calcoen | Aug. 31–Sep., 2002 |
| Revenue administration | FAD | Mr. Benon<br>Mr. Jolibert<br>Mr. Montagnet-Rentier | Dec. 3–17, 2001 |
| Real sector and government finance statistics | STA | Mr. Marie<br>Mr. Gorter | Jun. 4–13, 2001 |
| Government finance statistics | STA | Mr. Maiga | Mar. 19–Apr. 13, 2002<br>Sep.4–25, 2002 |

**XI. Long-Term Resident Experts:**

| | | |
|---|---|---|
| Expenditure management | Mr. Catalan | Since January 2002 |
| Customs administration | Mr. Bremeersch | Since January 2002 |
| Tax administration | Mr. Schlotterbeck | Since January 2002 |
| Monetary policy and programming | Mr. d'Ambrières | Since April 2002 |

**XI. Resident Representative:** Mr. Gons was Acting Resident Representative from July 20 to September 20, 2002. Mr. Kouwenaar assumed his duties as Senior Resident Representative on September 21, 2002.

## Democratic Republic of the Congo
## Relations with the World Bank Group[1]

### Introduction

1. This appendix summarizes the strategy and activities of the World Bank Group (IDA, IFC, and MIGA) in the Democratic Republic of the Congo (DRC). It concludes with a description of areas of specific collaboration between the World Bank Group and the International Monetary Fund.

### The role of partnership in DRC's development strategy

2. DRC suffered from economic and financial mismanagement, conflict, and war over the last four decades, which led to a complete rupture with, and isolation from, the international financial community as of 1993. Civil unrest from 1997 onward has led to a humanitarian and economic catastrophe. However, progress over the last two years bodes well for the future. Joseph Kabila, in his first speech as President, announced three strategic objectives: peace, economic stabilization, and restoring economic cooperation with development partners. IDA and the IMF responded immediately: IDA with a Transitional Support Strategy (TSS) and the IMF with a staff-monitored program (SMP), with the understanding that continued progress toward peace and good performance could lead to substantial financial reengagement by multilateral and bilateral institutions. This strategy has been assiduously executed by the authorities.

3. The interim PRSP (I-PRSP) was endorsed by the IDA Board on June 11, 2002. Following clearance of arrears to the IMF, a three-year PRGF was approved by IMF Executive Directors on June 12, 2002, together with the HIPC preliminary document and the I-PRSP. IDA approved the Economic Recovery Credit on June 13, 2002, which became effective following arrears clearance on July 3, 2002. The Paris Club granted significant relief on bilateral debt in its September 2002 meeting.

### Bank Group strategy and operations (IDA, IFC, and MIGA)[2]

4. **Overall strategy.** On July 31, 2001 Executive Directors of IDA endorsed a **Transitional Support Strategy** (TSS) to map out Bank financial and nonfinancial support to the DRC for the next 12–24 months. Assuming continued progress toward peace and

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[1] This document was approved by the Africa Regional Loan Committee on December 18, 2002.

[2] The Bank reopened a Country Office in Kinshasa, and a Country Manager assumed his post in January 2002.

reconciliation in the DRC, the TSS envisaged an Early Emergency Recovery Project (EERP), an Economic Recovery Credit (ERC), an Emergency Multisector Rehabilitation and Reconstruction Project (EMRRP), all of which are already effective, and a project to support private investment and to implement mining reforms. Support is also being provided for demobilization and the provision of technical assistance. The TSS also foresees the undertaking of significant nonlending activities.

**Financial assistance**

5. **IDA** provides financial assistance through grants and credits. On July 31, 2001, Directors approved the US$50 million IDA grant for the DRC, the first of its kind, in support of the **Emergency Early Recovery Project (EERP)**. The EERP provided technical assistance to help implement the IMF's staff-monitored program, approved by the Fund's Board on July 13, 2001, prepare further economic reforms (US$21 million), a pilot community-driven development (CDD) initiative (US$3 million), work on the critical road between Kinshasa and Matadi (US$15 million), HIV/AIDS activities (US$8 million), and contingencies (US$3 million). Project implementation is rated satisfactory and the funds are almost entirely committed.

6. The Board approved the **Economic Recovery Credit** in the amount of US$450 million on June 13, 2002. Its objectives are to assist the Democratic Republic of the Congo in its economic and social recovery, in the context of the 2002–05 government economic program (PEG). Planned disbursements are as follows: (i) US$410 million at effectiveness (July 3, 2002) to assist the DRC with foreign exchange needs immediately following its reimbursement of the bridge loans (US$338 million) that had been used to clear arrears, the difference of US$72 million constituting direct budgetary support, of which US$30 million was allocated by the authorities to debt-service payments and US$42 million to high-impact high-visibility emergency programs and projects; (ii) US$15 million in support of forestry sector policy reforms, to be disbursed following the adoption of a new forestry code; and (iii) US$25 million to support a voluntary departure program for 11,000 employees in GECAMINES, the largest public sector mining company. The first tranche was released in early July 2002, and the remaining two tranches are expected to be released before June 2003, provided also that the economic reform program continues to be satisfactorily implemented.

7. The **Emergency Multisector Rehabilitation and Reconstruction Project (EMRRP)** was approved by IDA in August 2002 in the amount of US$454 million, including a grant of US$44 million, and became effective in November 2002. It will support the long-term process of reconstruction and economic rehabilitation by financing (i) **rehabilitation and reconstruction of critical infrastructure** (transport, water supply, electricity, and urban infrastructure); (ii) **in agriculture**, rehabilitation of rural roads and access tracks, establishment of an agricultural information system for farmers, strengthening of producer organizations and key public service providers, and development of a policy framework to improve the investment climate for agriculture and forestry; (iii) **in social sectors**, increases in the delivery of key social services (education, health, and social

protection); (iv) community development projects; (v) **development of sector strategies** for the medium and long term, and strengthening of human and institutional capacities; and (vi) **management, monitoring, and evaluation** of the implementation of the program and the IDA-supported project.

8. IDA began providing support for **demobilization** in the context of a US$2 million Development Grant Facility under the post-conflict fund. This is being executed by the International Labor Organization (ILO) and is being used to prepare a pilot program for demobilization of child soldiers. Further support for demobilization is being prepared in the context of the Multicountry Demobilization and Reintegration Program (MDRP), which was discussed by IDA Executive Directors on April 25, 2002. A multidonor trust fund supports the MDRP. This program will support demobilization and reintegration (DDR) activities in the countries of the Great Lakes region (Angola, Burundi, the Central African Republic, the Republic of Congo, the Democratic Republic of the Congo, Namibia, Rwanda, Uganda, and Zimbabwe. It is expected that the DRC will be the largest beneficiary. This is a five-year program jointly financed by IDA in the amount of US$150 million and by other donors in the amount of US$350 million, of which about US$190 million has already been committed. The strategy underlying the project is that demobilization and reintegration of ex-combatants is necessary to establish peace and restore security, which are, in turn preconditions for sustainable growth and poverty reduction. At the request of Rwanda and the DRC, the Bank facilitated, in mid-September 2002 in Nairobi, a workshop on the role of the MDRP in implementing demobilization and reintegration issues in the Pretoria Agreement. Senior specialists from both countries participated, as did the UN and South Africa. A follow-up meeting took place in Pretoria in December 2002.

9. **Post-Conflict and Institutional Development Fund (IDF) Grants. Post-conflict grants** are also supporting the reintegration into society of street children in Kinshasa, road and social infrastructure rehabilitation in the war-torn city of Kisangani, and the financing of a pilot national living conditions survey in preparation for the upcoming Poverty Reduction Strategy Paper (PRSP) exercise. Other post-conflict grants are also being considered for emergency rehabilitation in the east. In addition, IDA is providing support through its IDF grant facility. Such **IDF grants** have supported the drafting of a new mining code, and the elaboration of a mining cadastre and a transport policy framework. A new IDF grant to strengthen accounting standards is being prepared.

10. **Emergency Trust Fund.** Since October 2000, this fund has financed the Emergency Stabilization and Recovery Project in order to help the country assist conflict-affected communities via projects in the health, education, food security, water, and infrastructure rehabilitation sectors. In addition, the Emergency Trust Fund supports capacity-building efforts in the form of consultants, training, and seminars to help the government implement its economic reform agenda and distribute donor assistance. IDA is administering this fund on behalf of donors. After an initial contribution of US$5 million from Canada and Belgium, these donors have increased their contribution to the fund and, recently, the Netherlands added a new contribution, bringing the total to US$13 million. The European Union has recently pledged a contribution of EUR 10 million to the capacity building component.

11. **Looking forward,** support to the private sector development under the **existing** TSS will be provided through the **Private Sector Development and Competitiveness Project** currently under preparation in the amount of US$75 million. Board presentation is scheduled for September 2003. The project's development objective is to increase competitiveness in the mining, transport, energy, telecommunication, and financial sectors. To this end, it will focus on (i) improving the environment for private sector development (reforming the legal and judicial framework, reforming corporate taxation, and reducing transaction costs pertaining to investment and production); (ii) reforming public enterprises, with special emphasis on mining, energy, and transport; and (iii) creating a joint private/public sector institution or a forum for the discussion of issues related to competitiveness and the preparation of policy reforms and other actions needed to resolve the issues identified.

**Nonlending activities**

12. For several years prior to and during the TSS, IDA assistance also emphasized **nonlending activities and advisory services**, including through trust funds and grants, to improve the understanding of the socioeconomic context, rebuild the knowledge base to support policy dialogue and design effective poverty reduction strategies. Ongoing advisory services and economic and sector work initiated in fiscal year (FY) 02 include the public expenditure review, strengthening of public expenditure management and support to the PRSP process, especially the consultation and participatory diagnostic processes. For FY 03, planned activities include an update of the poverty profile, a debt sustainability analysis for the HIPC Initiative-supported program, to be undertaken in collaboration with the IMF, and a second public expenditure review, focusing on the issues of fiscal deconcentration/ decentralization.

**TSS update**

13. Finally, IDA expects to update the TSS at the beginning of FY 04. This will set forth the scope and configuration of future support. Areas to be covered could include (i) support for the economic and social reunification of the country; (ii) reform of the public sector in case of clearly identified and properly costed needs; and (iii) a broad range of social protection activities including the fight against HIV/AIDS.

**IFC**

14. There has been one new investment of US$7 million in Celtel, the local subsidiary of an international telecommunications company. However IFC has three jeopardy cases in the DRC, one of which, UTEXAFRICA, has been resolved, and two others remain on the book: SOTEXKI, a textile business in rebel-held Kisangani, in the northeast, and Grand Hotel de Kinshasa (former InterContinental).

**MIGA**

15. MIGA is not yet in a position to issue guarantees for projects in the Democratic Republic of the Congo because the country has not yet made full payment of its initial capital

subscription. However, the government has recently begun to correct this situation. Investors have expressed interest in MIGA's coverage for projects in the agribusiness, manufacturing, mining, power and telecommunications sectors.

**Bank-Fund collaboration in specific areas**

16. In addition to its direct assistance to the DRC, the Bank also supports policy reforms in close collaboration with the Fund in a number of areas: external debt, donor coordination, governance and public expenditure management, the financial sector, and the I-PRSP.

17. **External debt.** The Bank and the Fund staffs have worked closely together, as well as with the DRC authorities and other multilateral and bilateral donors, to find a solution to the debt burden, which is clearly unsustainable. The strategy involves three stages: (i) clearance of arrears to all multilateral financial institutions, starting with the IMF, the World Bank Group, and the African Development Bank (AfDB) Group; (ii) provision of relief on bilateral debt, including treatment of arrears by Paris Club members and other bilateral creditors; and (iii) the reaching of the decision point under the enhanced HIPC Initiative to secure further debt reduction to multilateral and bilateral creditors. The clearance of arrears to the IMF, the World Bank Group, and the AfDB became effective in the summer of 2002, and, in September 2002, the Paris Club granted an exceptionally comprehensive debt rescheduling beyond Naples terms. A preliminary debt sustainability analysis was prepared in the first half of 2002, in the context of the preparation of the HIPC Initiative preliminary document and is being updated as part of the ongoing preparation of the HIPC Initiative decision point document. Furthermore, the staffs of the two institutions expect to collaborate closely on (i) the establishment of a multilateral donor trust fund to ensure timely debt-service payments to a number of multilateral institutions (IDA, the AfDB Group, and the International Fund for Agricultural Development (IFAD)), following arrears clearance; and (ii) establishment of arrangements to provide relief on outstanding bank and nonbank commercial debt.

18. **Donor coordination.** The two institutions have been collaborating closely in the monitoring of public external aid flows to the DRC on an annual basis, whether or not they flow through the budget. The Bank takes the lead in discussions with individual donors, and the IMF integrates the resulting projections into the macroeconomic framework. This process permits both institutions a comprehensive understanding of the structure of both humanitarian and economic assistance to the DRC.

19. **Public finance.** The IMF is taking the lead on the **reform and modernization of revenue and expenditure management systems,** with IDA financing complementary technical assistance needs, particularly in the area of information systems and training. On the expenditure side, close collaboration between the two institutions is also ensuring that information systems are compatible. To complement the ongoing technical assistance in public finance management, IDA will finance assistance for the public sector accounting reform, expected to be operational by January 2005. Also, IDA will finance technical assistance for the procurement reform, including the production of a new procurement code,

the implementation of a system of procurement follow-up, and assistance in reorganizing the public entities in charge of the procurement process. At the same time, IDA is taking the lead in the preparation of **public expenditure reviews (PERs)**. In FY 02, the focus of the PER has been on the (i) overall structure of expenditures, within the overall budget envelope of the 2003 Finance Law; (ii) specific issues in the health, education, and transport sectors; and (iii) the evaluation of the DRC's ability to monitor execution of poverty-related expenditures. Collaboration was particularly close with respect to (i) poverty tracking; (ii) the guidance provided for the identification of the pro-poor expenditures for 2003; and (iii) preparation of the 2003 budget. On the **revenue** side, the IMF has taken the lead to date with respect to improving tax administration, with the Bank financing a certain amount of technical assistance in the area of training and the structure of corporate taxation. Looking forward, it is expected that collaboration will grow on the revenue side during the preparation of the proposed reforms of customs and indirect taxes, as well as of corporate taxation, given their significant impact on the **structure of incentives in general and effective protection** in particular, which are of vital importance for promoting an economically efficient and competitive private sector. This should also be the case during the reform of taxation in the mining and forestry sectors, where revenue sharing with local communities is likely to be of particular importance.

20. An IDA team is also collecting data on revenues and expenditures at the level of local government as an input into the preparation of the future deconcentration and decentralization of public finances and public service delivery.

21. **Public enterprise reform and private sector development.** IDA is assisting the government in (i) preparing and executing a major reform of the public enterprise sector, focusing on the diagnosis of the options in each case, within the context of overall sector reform strategies; and (ii) improving the legal, regulatory, judicial, and fiscal environment for private sector development. There is close collaboration with the IMF as regards the many public finance aspects of these reforms (for example, cross arrears, corporate tax regimes, etc).

22. **Financial sector**. The IMF takes the lead on issues pertaining to monetary policy and the reorganization of the central bank, although IDA has provided some assistance with respect to information systems and expects to provide more in the future. At the same time, IDA is taking the lead with respect to the restructuring of the commercial banks. In practice, there is close collaboration on both issues.

23. **Governance and anticorruption.** Both institutions have a strong interest in this area. IDA has provided assistance in preparing workshops and seminars on the formulation of an overall governance and anticorruption strategy, while the IMF has been taking the lead on issues of improving public finance management systems (see above). Both institutions have provided comments on the recently approved Code of Ethics and Good Conduct.

24. **Preparation of the I-PRSP and PRSP**. The government prepared an interim PRSP during the period September 2001–May 2002. Bank and IMF staff provided comments on the

documents and made suggestions as to how it might be improved. IDA has also assisted in preparing the National Poverty Survey in 2003, which is one of the key building blocks of the full PRSP; the authorities wish to finalize it no later than early 2005.

## Democratic Republic of Congo: Financial Relations with the World Bank Group—Statement of Loans and Credits

(As of November 30, 2002; in millions of U.S. dollars)

| | IBRD | IDA | IDA Grant | Total |
|---|---|---|---|---|
| Original principal | 330,000,000 | 2,226,294,621 | 94,000,000 | 2,650,294,621 |
| Cancellations | 28,484,478 | 259,852,030 | 0 | 288,336,508 |
| Disbursed | 301,515,521 | 1,592,750,993 | 17,870,514 | 1,912,137,028 |
| Undisbursed | 0 | 499,236,992 | 78,595,715 | 577,832,707 |
| Repaid | 247,045,474 | 155,486,183 | 0 | 402,531,657 |
| Due | 0 | 1,480,388,611 | 0 | 1,480,388,611 |
| Exchange adjustmen | 0 | 0 | 0 | 0 |
| Borrower's obligation[1] | 0 | 1,480,388,611 | 0 | 1,480,388,611 |
| Sold third party | 54,470,047 | 0 | 0 | 54,470,047 |
| Repaid third party | 54,470,047 | 0 | 0 | 54,470,047 |
| Due third party | 0 | 0 | 0 | 0 |

## Democratic Republic of the Congo: Safeguards Assessments
## Summary of Conclusions

**Summary**

An on-site safeguards assessment of the Central Bank of the Congo (BCC) confirmed critical weaknesses in the bank's external audit mechanism, financial reporting framework, and internal control systems, as well as lesser vulnerabilities in other safeguards areas. The safeguards assessment proposed recommendations in each of the five safeguards areas, as detailed below. The authorities have agreed to the proposed measures and they have been included in the overall Action Plan referred to in the Letter of Intent (Appendix I, Attachment I, Table 3) of the first program review of the PRGF arrangement.

**External audit mechanism:** An absence of annual audits of the BCC for several years contributed to serious deficiencies in the external audit mechanism and in the systems of control and the financial reporting framework. An annual audit is not a permanent feature at the BCC, there is no institutional oversight by an Audit Committee and financial statement and program data is neither accurate nor reliable. Annual audits were re-instituted when the PRGF program was approved in June 2002 and audits of FY 2000–02 are to be completed as structural performance criteria by an international firm. Ernst & Young, France has completed audits for FY 2000–01 and is in the process of auditing the 2002 accounts. Audit results concluded that (i) the financial statements do not present a true and fair view of the financial position of the BCC, (ii) the accounting and internal control systems have many serious deficiencies, (iii) an annual audit should be a permanent feature, (iv) special audits of key quantitative performance criteria are to be conducted periodically to provide assurance of their accuracy and reliability, and (v) an audit committee needs to be established to provide governance and institutional oversight.

**Legal structure and independence:** The legal framework has been significantly strengthened with the ratification of a new law on the establishment, organization, and operations of the BCC. Measures to provide the BCC with the appropriate operational independence are incorporated as part of this new law. Important requirements of the new law, however, such as the appointment of a bank board and statutory auditors, and the finalization of an agreement between the Ministry of Finance and the BCC on its role as cashier to the government, need to be implemented.

**Financial reporting:** Serious vulnerabilities exist within the financial reporting framework and the financial statements are not reliable. The BCC does not prepare financial statements in accordance with International Accounting Standards (IAS)—so far, the cash basis of accounting is used—and major difficulties are encountered at the most elementary levels. Material amounts of assets and liabilities represent unsupported accounts ("nonvalue accounts") or accounts that need to be reconciled or adjusted. The BCC is making a significant effort (with audit firm assistance) to restore the accounting and reporting capacity and to prepare meaningful financial statements as of December 31, 2002. Their efforts include (i) to start the implementation of IAS with the FY 2002 financial statements, (ii) to assist with the completion of the audit adjustments resulting from the FY 2001 audit, (iii) to implement their action plan for further improvements, (iv) and, based on the results of the audits, to adjust the program data established as quantitative performance criteria (NFA, NDA, and NCG) since they are derived from unreliable accounting and financial system data.

**Internal audit mechanism:** The Internal Audit Department (IAD) was created in June 2001 and is supported by an adequate charter. IAD is making major contributions to clean up the accounts and is beginning to (i) complete the review of the accounts and the adjustments to be made, (ii) review program data reported to the Fund and participate in the semiannual reviews to be conducted by the international audit firm, (iii) monitor these data on a quarterly basis, and (iv) complete audits of foreign reserves management and cash currency holdings. The establishment of an Audit Committee will ensure the department's access to the BCC Board.

**System of internal controls:** The operations of the BCC are presently not subject to adequate internal controls and there is a lack of high-level oversight of the quality of the internal control environment. Key weaknesses from a safeguards perspective are (i) unreliable foreign currency accounting, (ii) undependable accounting records and ledgers, (iii) a lack of reconciliation of accounting and program data to third-party records, and (iv) the absence of a formalized framework for reserves management. The BCC is beginning efforts to implement a basic system of internal controls consisting of (i) the execution of payments in accordance with written instructions and procedures, (ii) periodic internal reviews and audits, (iii) a monthly reconciliation of bank balances to accounting records, and (iv) the development of formal procedures manuals documenting control procedures for payments in domestic and foreign currency that are approved by management.

In view of the considerable control weaknesses, the BCC has established a separate account with the BIS to manage disbursements under the PRGF arrangement. Resources to be deposited in this account would only be used after proper approval by the Governor and verification by the Auditor General, and would be subject to strict ex ante internal controls and ex post audit verification. Sufficient balances should also continue to be maintained in the DRC's account in the SDR Department to settle forthcoming IMF obligations.

## Democratic Republic of the Congo: Implementation of Fiscal Measures, 2002–03

| Measures | Deadline | Status |
|---|---|---|
| **Revenue administration and tax policy** | | |
| Direction Générale des Contributions (DGC) | | |
| • Setting up of a large enterprises' unit (DGE). | Sep. 2002 | In progress. Expected for February 2003 |
| • Introduction of a taxpayer identification number, first for large enterprises and gradually for other taxpayers. | 2002 | Implementation expected in February 2003 for large enterprises and gradually in 2003 for others |
| • Reform of the procedures for control and monitoring of tax disputes. | End-2002 | In progress. Adoption expected in February 2003 |
| • Preparatory steps for the introduction of a value-added tax. | End-2002 | 2003 |
| Customs (OFIDA) | | |
| • Improvement of management information system. | March 2002 | Done |
| • Continuation of the installation of the Automated System for Customs Data (ASYCUDA) to promote "one-stop shop" facilities. | 2002 | In progress. One "one-stop-shop" facility expected in Matadi in March 2003 |
| • Resumption of the control of petroleum taxation through the implementation of systematic controls of the physical quantities actually imported. | April 2002 | Implemented in November 2002 |
| • Strict control of exemptions and special regimes. | 2002 | In progress |
| • Review of the product classification within the tariff schedule prior to the introduction of an overall tariff reform during 2003. | Before 2003 | Not yet done. Expected in March 2003 |
| Direction Générale des Recettes Administratives et Domaniales (DGRAD) | | |
| • Preparation of a plan to reduce the number of taxes under the responsibility of DGRAD. | 2002 | In progress. Implementation expected in 2003 |
| All collecting agencies | | |
| • Introduction of a new simplified system for collecting duties and taxes and elimination of revenue stamps. | April 2002 | Done. Complete liberalization of tax payments, effective January 1, 2003. |
| • Improvement of the internal management of the agencies, with managerial responsibilities clearly defined. | End-March 2002 | Done |
| **Financial management and expenditure management** | | |
| Centralization of revenue and elimination of off-budget expenditure | | |
| • Promulgation of presidential decree requiring elimination of all extrabudgetary expenditure and prior approval by the Minister of Finance for all expenditure. | Mid-April 2002 | Published in April. Not yet fully respected. |
| • Stipulation in new central bank statutes that the BCC will no longer finance budgetary expenditure without prior authorization by the Ministry of Finance. | April 2002 | Published in April. Not yet fully respected. |

**Democratic Republic of the Congo: Implementation of Fiscal Measures, 2002–03**

| Measures | Deadline | Status |
|---|---|---|
| • Centralization of all revenue in the treasury's account at the BCC. | 2002 | Done, except for GECAMINES and oil consumption taxation (expected in January 2003) |
| • Closing of commercial bank accounts where fiscal revenue from public enterprises is deposited. | 2002 | Done |
| • Centralization at the treasury's account at the BCC of revenue collected in the context of petroleum taxation and quasi-taxation. | 2002 | Done, except for the mechanism offsetting taxation of oil consumption |
| • All revenue from mining taxation, including from "goodwill" payments, deposited in a subaccount of the treasury's account at the BCC. | 2002 | Done (except tax revenues from GECAMINES) |
| Rehabilitation of the budget execution process | | |
| • Establishment of monthly budgetary allowance for each ministry. | March 2002 | Done (quarterly allowances) and revised every quarter |
| • Rehabilitation of the budgetary control function. | 2002 | In progress. Full implementation of a rationalized expenditure chain expected in March 2003 |
| • Coordination of expenditure commitments and authorizations through regular meetings of relevant departments. | 2002 | Not done (commitment phase not yet fully rebuilt). Expected in March 2003 |
| • Stricter monitoring of the monthly cash-flow plan and establishment of a match between it and cash on hand through a joint BCC/Ministry of Finance working group. | 2002 | Cash flow strictly monitored. Working group to be implemented before end-2002 |
| • Upgrading of equipment (treasury/budget). | 2002 | In progress |
| • Preparation of 2003 budget. | End-2002 | Done |
| Reporting | | |
| • Acceleration of the process to produce budget execution status reports (at various stages of the chain and by ministry and major expenditure function) and the accounts of both the government and the BCC, and creation of a computerized link between the two institutions. | 2002 | In progress. Computerized link expected at the beginning of 2003 |
| Enhancing of financial management and transparency | | |
| • Compilation of an exhaustive list of the government's bank accounts, by ministry and institution. | 2002 | Done |
| • Auditing of the entities that receive earmarked revenue (*budgets annexes*) and elimination of "special budgets." | End-Sep. 2002 | 2003 budget for *budgets annexes* and 2003 supplementary budget for "special budgets" |
| • Finalization of expenditure execution statements for 2001, to be submitted to the Audit Office. | End-2002 | Expected before March 2003 |
| • Audit of 2002 accounts. | End-2003 | |

## Democratic Republic of the Congo: Implementation of Fiscal Measures, 2002–03

| Measures | Deadline | Status |
|---|---|---|
| Civil service | | |
| • Implementation of a personnel database, regularly updated and linked to the payrolls. | End-2002 | Not done. Expected in 2003 |
| • Study on civil service staffing and structure. | End-2002 | Preliminary study on two pilot ministries realized with assistance from Belgian Cooperation. Census to begin in February 2003 |
| • Formulation of a civil service reform. | 2003 | Expected in 2003 |

## Democratic Republic of the Congo: Statistical Issues

Despite a difficult environment, the authorities have continued to produce an array of statistics, most of which are contained in the Annual Report of the Central Bank of Congo (BCC), which also issues a monthly Statistical Bulletin. Moreover, a comprehensive set of external debt statistics is compiled by the Office de Gestion de la Dette Publique (OGEDEP). Statistical issues related to specific sectoral areas are described below.

Following a fact-finding mission to Kinshasa in June 2001 in real sector and government finance statistics, STA provided technical assistance on government finance statistics in March–April and September 2002, which was augmented by capacity-building support from the World Bank.

The authorities have indicated their intention to participate in the IMF's General Data Dissemination System (GDDS), and are finalizing the GDDS metadata. Participation in the GDDS will provide a framework for statistical development and capacity building in macroeconomic statistics and sociodemographic (population, health, education, and poverty) indicators.

### National accounts

The aggregated national accounts are available in constant and current prices. They are produced by the Directorate of Research of the BCC and published on an annual basis. The methodology for preparing the national accounts conforms to the *System of National Accounts 1968* (SNA 1968) and is based on the balance sheets of enterprises and the results of surveys of public and semipublic enterprises and agencies. However, most of these surveys date back to the late 1980s. The activities of the traditional sector (including the informal sector) are also included, using extrapolation techniques based on industry-specific data. On average, the traditional sector accounts for more than 60 percent of GDP.

### Employment and unemployment

Annual data on employment in the central government are available from the Ministry of Economy, Finance, and the Budget, together with data on employment in the formal sector.

### Prices

Consumer price indices are calculated for Kinshasa by the BCC, the Institute of Economic and Social Research (IESR), and the Economics Section of the U.S. Embassy in Kinshasa. The IESR also calculates a monthly consumer price index for the Lumumbashi market. The household surveys on which these calculations are based date back to the late 1980s and need to be updated to take account of changes in household consumption patterns and demographic shifts.

**Government accounts**

The BCC produces aggregated monthly statistics on a cash basis based on its own accounting records of the government cash operations it executes. The treasury produces two sets of monthly statistics based on its own records: one relates to the transactions executed through the BCC, the other set attempts to consolidate operations through commercial bank accounts and off-budget operations. These statistics do not rely on an integrated double-entry public accounting system and provide insufficient details about the nature of expenditure owing to problems in the expenditure chain. However, the treasury has started to produce, on a quarterly basis, expenditure data reports broken down by ministry and institution.

The ongoing improvements in tax administration and expenditure control will have a positive impact on the quality and timeliness of fiscal statistics. In parallel with technical assistance in the public expenditure management area, STA has been providing technical assistance in government finance statistics on a peripatetic basis. The proposed format is common to francophone countries in the region and by and large uses an analytical framework similar to that of the 1986 GFS methodology. As a result of such assistance, there have been significant improvements in the overall quality of government finance statistics.

**Monetary accounts**

The Directorate of Research of the BCC regularly produces timely monetary statistics. Overall, the reliability of these statistics is now satisfactory. Nevertheless, problems remain concerning the sectorization of the accounts.

Since the last money and banking statistics mission in June 2000, only monthly data for interest rates (through December 2000) and annual data for monetary authorities (from 1994 through 2001) have been reported by the BCC for publication in *International Financial Statistics (IFS)*. A follow-up monetary and financial statistics mission previously planned during FY 2003 has been postponed to FY 2004. The mission will address the outstanding statistical issues and will provide assistance to the BCC in resuming the regular and timely reporting of monetary data to STA for publication.

**Balance of payments**

The balance of payments is prepared on an annual basis, based on information on exports and imports of large public and semipublic enterprises, the BCC's payments records, and a survey of residents' foreign operations. The data are adjusted significantly to take account of information on the informal sector and those on foreign aid flows provided by the World Bank and the local United Nations Development Program (UNDP) office, which collects these data from the European Union, embassies, and nongovernmental organizations.

Given the various data sources, the balance of payments is compiled partly on a cash basis and partly on a transactions basis. No balance of payments data are reported to STA for publication.

**External and domestic debt**

External and domestic debt statistics are compiled by OGEDEP and are of reasonable quality in spite of limited computer facilities. However, data on public-enterprise foreign debt and, in particular, on cross arrears in the public sector, are still of very poor quality. The World Bank is providing assistance in the compilation of cross arrears in the public sector and public sector arrears with the private sector.

**Public enterprise sector**

There is no centralized, comprehensive database on the operations of public enterprises. However, provided some information is made available to Fund missions by individual enterprises. Data are on an annual basis and become available with at least a six-month delay. As part of public enterprise reform, the World Bank is collecting data pertaining to the sector.

**Social indicators**

The most consistent data sets are those assembled for the UNDP human development, human poverty, and gender-related development indices, and for two multiple indicator cluster surveys from 1996 and 2001, completed in collaboration with the United Nations Children Fund (UNICEF). A national household living standards survey will be undertaken with the help of IDA and other institutions. In addition, in the context of the interim poverty reduction strategy paper (I-PRSP), the authorities, with assistance from the World Bank and the UNDP, have initiated work to construct a database for social indicators.

Democratic Republic of the Congo: Core Statistical Indicators
(As of December 31, 2002)

| | Exchange Rates | International Reserves | Reserve/ Base Money | Central Bank Balance Sheet | Broad Money | Interest Rates | Consumer Price index | Exports and Imports | Current Account Balance | Overall Govern-ment Balance | National Accounts | External Debt |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Date of latest observation | 12/27/02 | 11/30/02 | 10/31/02 | 11/30/02 | 10/31/02 | 12/5/02 | 12/6/02 | 2001 | 2001 | 7/31/02 | 2001 | Dec. 2001 |
| Date received | 12/28/02 | 12/27/02 | 12/16/02 | 12/16/02 | 12/16/02 | 12/8/02 | 12/26/02 | 10/28/02 | 4/15/02 | 11/24/02 | 4/25/02 | 3/25/02 |
| Frequency of data 1/ | D | M | M | M | M | M | M | A | A | M | A | A |
| Frequency of reporting 1/ | D | M | M | M | M | M | M | V | V | M | V | V |
| Source of data 2/ | N | A | A | A | A | A | A | A | A | A | A | A |
| Mode of reporting 3/ | E | E | E | E | E | C | C | V | V | E | V | V |
| Confidentiality 4/ | C | A | A | A | A | A | A | A | A | A | A | A |
| Frequency of publication 1/ | D | M | M | M | M | M | M | A | A | M | A | A |

1/ Frequency of data, reporting, and publication: D=daily, W=weekly, M=monthly, Q=quarterly, A=annually, or V= variable
2/ Source of data: A=direct reporting by central bank, Ministry of Finance, or other official agency, or N=official publication or press release.
3/ Mode of reporting: E=electronic data transfer, C=cable or facsimile, T=telephone, M=mail, V=staff visits, or O=other.
4/ Confidentiality: A=for use by staff only, B=for use by the staff and the Executive Board, or C=for unrestricted use.

**Democratic Republic of the Congo**
**Tentative Work Program**

| | Action | Timing |
|---|---|---|
| **A. IMF** | | |
| 1. | Board meeting to discuss enhanced HIPC decision point document | March 2003 |
| 2. | Mission to conduct the second review under the PRGF arrangement | May 2003 |
| 3. | Board meeting on the second review under the PRGF arrangement | July 2003 |
| 4. | Mission to conduct the third review under the PRGF arrangement | November 2003 |
| **B. World Bank** | | |
| 1. | Board meeting to discuss enhanced HIPC decision point document | March 2003 |
| 2. | Board meeting to discuss Southern African regional power market | June 2003 |
| 3. | Update of Transitional Support Strategy | September 2003 |
| 4. | Board meeting on Second Economic-Recovery Credit | September 2003 |
| 5. | HIV/AIDS Multisector Project | September 2003 |

## Public Information Notice

### Background

After years of war and civil strife, remarkable progress has been made in consolidating the peace process since 2001. Most countries have completed their troop withdrawal from the DRC and the inter-Congolese dialogue in Pretoria, South Africa, in December 2002 led to the signing of an agreement on power sharing in an inclusive transition government, which is expected to take office soon. Free elections are to be held in two years.

At the same time, the DRC has made significant progress in stabilizing the macroeconomic situation and initiating sustainable economic growth, first under the interim economic program (June 2001-March 2002) that was monitored by IMF staff, and then under the three-year Government Economic Program (PEG) that is supported by the Fund's Poverty Reduction and Growth Facility (PRGF), approved on June 12, 2002 (see Press Release 02/27). This marked a turnaround in economic policy that has already produced significant results, especially by breaking the vicious circle of hyperinflation and currency depreciation, and opening up the economy with the rest of the world. Important progress was made in strengthening public finances through a return to normal budgetary procedures, including the centralization of revenue and expenditure. A monthly treasury cash-flow plan was strictly implemented. New statutes of the central bank were adopted, enshrining its independence in the conduct of monetary policy. On September 22, 2002, Paris Club creditors granted exceptional debt relief beyond Naples terms.

Far-reaching structural measures were put in place, resulting in the removal of major economic distortions, notably through the unification of multiple exchange rates and the liberalization of prices. There was also a profound change in the judicial and regulatory environment so as to create an institutional framework propitious for private sector-led growth.

Overall economic performance under the PRGF was broadly satisfactory in 2002. Economic growth resumed for the first time in thirteen years. The annual rate of inflation fell sharply to about [15] percent from 135 percent in 2001 and 511percent in 2002. In public finances, fiscal revenue continued to increase, reaching 7.9 percent of GDP in 2002. Expenditure was contained at 8.9 percent of GDP. However, the projected shift to pro-poor spending did not materialize because of the unforeseen increase in security- and sovereignty-related expenditure arising mainly from the security vacuum associated with the withdrawal of foreign troops, and from a shortfall in foreign financed investment and social expenditure.The external current account balance, including grants and after debt relief, went from a deficit in 2001 into a small surplus in 2002, mainly as a result of an upturn in diamond exports following the abolition of the diamond export monopoly in 2001.

**The DRC's main challenges for the future** include (1) consolidating the recently achieved macroeconomic stability and deepening far-reaching structural reforms, consistent with the government's interim poverty reduction strategy paper (I-PRSP); (2) continuing to improve governance and the business climate; and (3) ensuring a smooth reunification of the country. These efforts will be critically dependent on an appropriate mix of timely foreign assistance.

In 2003, economic growth is expected to accelerate to 5 percent, and the end-of-period rate of inflation to fall to 6 percent. Fiscal policy will aim at continuing consolidation while reorienting the budget toward pro-poor spending. Monetary policy will continue to aim at price stability in the context of a floating exchange rate system, which has so far been appropriate for the country's circumstances. The authorities intend to accept the obligations of Article VIII, Sections 2(a), 3, and 4; and to deepen their structural reform agenda, including strengthening good governance.

## Democratic Republic of the Congo: Selected Economic and Financial Indicators, 1998–2002

| | 1998 | 1999 | 2000 Est. | 2001 Est. | 2002 Prel. Est. |
|---|---|---|---|---|---|
| | (Annual percentage change) | | | | |
| Domestic Economy | | | | | |
| Real GDP growth | -2 | -4 | -7 | -2 | 3 |
| End-of-period CPI inflation | 135 | 484 | 511 | 135 | 18 |
| Average CPI inflation | 107 | 270 | 550 | 357 | 26 |
| | (In percent of GDP, unless otherwise indicated) | | | | |
| Financial variables | | | | | |
| Total fiscal revenue (excluding grants) | 5.9 | 4.5 | 5.1 | 6.2 | 7.9 |
| Total expenditure 1/ | 12.3 | 9.5 | 11.1 | 7.9 | 8.9 |
| Overall balance (commitment basis) | -6.4 | -5.0 | -6.0 | -1.6 | -0.6 |
| Overall balance (cash basis) | -2.7 | -3.4 | -4.1 | 0.5 | -0.1 |
| Broad money (change in percent) | 160 | 382 | 493 | 217 | 22 |
| | (In millions of U.S. dollars, unless otherwise indicated) | | | | |
| External sector | | | | | |
| Exports of goods and nonfactor services | 1,285 | 1,021 | 963 | 961 | 1,109 |
| Imports of goods and nonfactor services | 1,340 | 758 | 920 | 1,067 | 1,405 |
| External current account (in percent of GDP) 2/ | -9.0 | -2.6 | -4.6 | -4.7 | 0.1 |
| Real effective exchange rate 3/ | 4 | 169 | -18 | -6 | -58 |

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

1/ Including interest due on external debt.
2/ Including grants, after debt relief.
3/ Change in annual average based on official rates. Minus sign indicates depreciation.

**Statement by the IMF Staff Representative**
**March 24, 2003**

1. Since the issuance of the staff report and the informal Board meeting of February 19, 2003 the staff has continued discussions with the authorities and has received the following information on political and macroeconomic developments, the implementation of structural measures, and information on the advances from oil companies. This information does not alter the thrust of the staff appraisal.

2. On March 6, 2003, there was further significant progress toward lasting peace. The parties to the inter-Congolese dialogue reached agreement in Pretoria, South Africa on (i) adoption of an interim constitution; (ii) a memorandum on the creation of a restructured and reintegrated army; and (iii) arrangements to ensure the safety of the members of the transitional institutions in Kinshasa. The inter-Congolese dialogue is expected to be concluded by end-March 2003 in Sun City, South Africa, and to be followed by the nomination of an all-inclusive government in the near future.

3. The end-period annual inflation rate, measured by the consumer price index, reached 15 percent at end-December 2002 compared with a revised program target of 18 percent and an original program target of 13 percent. The CPI increased by 3.5 percent through March 15, mainly reflecting the pass-through of the 8 percent increase in petroleum product prices of February 15, 2003. With the latter, the prior action of an 18 percent increase in petroleum product prices since November 2002 has been met. The Congo franc continues to be stable, and has fluctuated narrowly around US$1=CGF 415 since January 2003.

4. Based on preliminary data for end-2002, the overall fiscal position during the last quarter of 2002 was broadly in line with projections, with revenue slightly higher, and expenditure slightly lower than anticipated. However, the expected shift in the composition toward social and infrastructure-related expenditure has still not materialized, with a shortfall in foreign-financed investment and social expenditure and an increase in security- and sovereignty-related expenditure associated with the on-going inter-Congolese dialogue and the security vacuum that developed after the withdrawal of foreign troops. Net credit to the government may have exceeded the end-December 2002 benchmark because of higher than anticipated amortization of external debt.

5. On the monetary side, the net foreign assets benchmark at end-December 2002 has been met, while the benchmark on net domestic assets of the Central Bank of the Congo (BCC) is likely to have been slightly exceeded.

6. Regarding the exchange system, effective February 10, 2003 the DRC has accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Articles of Agreement. In this regard, the BCC issued revised exchange regulations and other relevant instructions on February 14, 2003.

7. With respect to other structural reforms, during February-March, the BCC implemented several key measures of its action plan to improve its management, operations and accounting system. In particular, there has been significant progress in cleaning up the BCC's accounts and in drawing up a road-map for a move to international accounting standards, taking into account the recommendations of the Fund's safeguards assessment mission. The bank restructuring commission (COREBAC) was made fully independent via its integration into the BCC's banking supervision department, which is being restructured. Furthermore, a pilot committee was instituted to (a) coordinate the implementation of the action plan; (b) propose a timetable to address existing weaknesses in the organizational structure of the BCC; and (c) coordinate technical and financial assistance from donors. In the governance area, the Government has adopted the draft organic law against corruption, money laundering and transnational crime, which is expected to be discussed in the next parliamentary session starting in April 2003. Meanwhile, the BCC has prepared draft regulations to combat money laundering, which will be refined with assistance from the Fund and discussed with financial institutions over the coming months. The Steering Committee on the Reform of Public Enterprises (COPIREP) was established and its members are currently being selected. On March 10, 2003, the authorities decided to liquidate the Banque Congolaise du Commerce Extérieur (BCCE) in its present form and structure (a structural performance criterion for end-September 2002). Finally, the implementing decrees of the new mining code and forestry law will be published by end-March 2003.

8. Regarding the issues raised during the informal Board meeting of February 19, 2003, the staff met with President Kabila in Brussels on February 22. Subsequently, the President sent a letter to management, dated February 24, 2003, in which he reaffirmed his personal commitment and that of the government to continue to implement the economic program supported by the PRGF. He further confirmed the authorities' commitment to implement the 2003 budget, as well as the measures aimed at strengthening revenue mobilization and expenditure management, as outlined in the letter of intent of February 4, 2003.

9. From the President's letter and subsequent contacts with the authorities, including a visit to headquarters by a delegation headed by the Minister of Economy, Mr. Futa, during March 10-12, the following information about the advances from oil companies has become available:

- Royalty collections from oil companies are governed by a special agreement ("*convention*", signed in 1969 and last amended in September 1999), which sets forth the modalities and dates of payment. Payments of royalties are made through provisional transfers at the end of each month, based on the oil exports of two months before. The balance of the royalty payments for the year is paid on March 31 of the following year, when the actual yearly royalty due is calculated. The agreement envisages the possibility of advancing the monthly provisional royalty payments (advances with interest), to help deal with temporary treasury cash-flow problems, stemming from a mismatch between fiscal receipts in cash and expenditures to be paid in cash. Each advance, and its conditions, is subject to a specific contract signed by the Minister of Energy and Mining and the Minister of Finance, in consultation with the Governor of the central bank. Like the royalties, the proceeds of the advances are deposited in a separate central bank account at a local commercial bank, with the counterpart in Congo francs credited to the Treasury general account at the central bank.

- Under the PRGF-supported program, advances with interest from oil companies have only been obtained in January and February 2003. They amounted to a total of US$9.5 million (0.16 percent of GDP), had maturities of a few days to 59 days, and, under current conditions, will be repaid by March 2003. The petroleum companies are registered under Congolese law; hence these advances should be considered as domestic borrowing and do not breach the performance criterion relating to short-term external borrowing on nonconcessional terms.

- Concerning the expenditure financed with these advances, as of end-February 2003 an amount of US$2.3 million had been used to pay wages, and an additional amount of US$1.3 million (0.02 percent of GDP) was used for military expenditure. The authorities stressed that these expenditures are incorporated in the budget and the treasury cash flow plan, and have been authorized by the former Minister of Finance, in compliance with the presidential decree of April 2002 that forbids the financing of expenditure without prior authorization of the Minister of Finance. An amount of US$0.3 million was used by the central bank to pay finance charges not related to the advances. Finally, the remaining amount of US$5.6 million was kept on deposit, and is to be used for expenditure related to the peace process (about US$1 million), aircraft repair (US$2 million), debt service payments to the African Development Bank (US$1.4 million), and military expenditure (US$1 million). The remainder (about US$0.2 million) will cover some finance charges of the BCC. The execution of the government expenditures will follow the normal budgetary procedure. As it is difficult for the staff to verify at this early stage in the year whether the expenditures financed with the advances are part of the 2003 budget, these expenditures, and their composition, will continue to be reviewed by the Fund Resident Representative and the upcoming mission for the second review under the PRGF arrangment.

10. It was agreed with the visiting delegation that the government will no longer have recourse to advances with interest from oil companies until the second review by the staff under the PRGF arrangement, which is scheduled for May 2003, when the authorities will reassess with the staff the terms and usefulness of the advances, and the best way to address temporary treasury cash-flow problems.

11. The 2003 budget, after adoption by Parliament, was promulgated on March 4, 2003. Its main aggregates (including the wage bill), are in line with the letter of intent of February 4, 2003. Together with the budget, a number of important indirect tax and tariff reform laws have been adopted, as envisaged under the program. The 2003 budget follows the new expenditure classification, developed with Fund technical assistance, to allow particularly for the tracking of poverty-related expenditure. Pending the adoption of the 2003 budget, January and February 2003 budget execution has been based on a monthly allocation of one-twelfth of the 2002 budget. Effective February 1, 2003, the authorities have eliminated the

offsetting of quasi taxation on petroleum products for the Defense Department and the Office of the President, while sovereignty outlays have been frozen. The price of petroleum products has been increased further by 10 percent in March, in conformity with the transparent and automatic oil pricing formula, reflecting the sharp increase in international oil prices. The Large Taxpayers' Unit will become operational shortly.

12. On external debt, the authorities have all but finalized the reconciliation of external debt data with the DRC's creditors and have initialed bilateral agreements with 12 of the 15 Paris Club creditors. However, at the tour d'horizon on the DRC on March 11, 2003, Paris Club creditors indicated that they could not provide financing assurances for the anticipated topping up of the September 2002 Paris Club rescheduling to Cologne terms in the absence of signed bilateral agreements, which are needed to satisfy particular national legal and budgetary procedures. At the time of the tour d'horizon, only one agreement (with France) had been signed. As soon as the necessary bilateral agreements have been signed, Paris Club creditors will consider topping up their September 2002 rescheduling to Cologne terms. A HIPC decision point document will be circulated to the Executive Board in due time.

INTERNATIONAL MONETARY FUND
*Public Information Notice*

EXTERNAL
RELATIONS
DEPARTMENT

Public Information Notice (PIN) No. 03/52
FOR IMMEDIATE RELEASE
April 16, 2003

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

# IMF Concludes 2003 Article IV Consultation with the Democratic Republic of the Congo

On March 24, 2003, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the Democratic Republic of the Congo (DRC).[1]

**Background**

After years of war and civil strife, remarkable progress has been made in consolidating the peace process since 2001. Most countries have completed their troop withdrawal from the DRC and the inter-Congolese dialogue in Pretoria, South Africa, has resulted in the signing of an agreement on power sharing in an inclusive transition government; the adoption of an interim-constitution; a memorandum on the creation of a restructured and integrated army, and arrangements to ensure the safety of the members of the transitional institutions in Kinshasa. The inter-Congolese dialogue is expected to be concluded by end-March 2003, to be followed by the nomination of an all-inclusive government in the near future. Free elections are to be held in two years.

At the same time, the DRC has made significant progress in stabilizing the macroeconomic situation and initiating sustainable economic growth, first under the interim economic program (June 2001-March 2002) that was monitored by IMF staff, and then under the three-year Government Economic Program (PEG) that is supported by the Fund's Poverty Reduction and

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

Growth Facility (PRGF), approved on June 12, 2002 (see Press Release No. 02/27). This marked a turnaround in economic policy that has already produced significant results, especially by breaking the vicious circle of hyperinflation and currency depreciation, and opening up the economy with the rest of the world. Important progress was made in strengthening public finances through a return to normal budgetary procedures, including the centralization of revenue and expenditure. A monthly treasury cash-flow plan was strictly implemented. New statutes of the central bank were adopted, enshrining its independence in the conduct of monetary policy. On September 22, 2002, Paris Club creditors granted exceptional debt relief beyond Naples terms.

Far-reaching structural measures were put in place, resulting in the removal of major economic distortions, notably through the unification of multiple exchange rates and the liberalization of prices. There was also a profound change in the judicial and regulatory environment so as to create an institutional framework propitious for private sector-led growth. In February 2003, the authorities accepted the obligations of Article VIII, Sections 2(a), 3, and 4.

Overall economic performance under the PRGF was broadly satisfactory in 2002. Economic growth resumed for the first time in thirteen years. The annual rate of inflation fell sharply to about 15 percent from 135 percent in 2001 and 511 percent in 2002. In public finances, fiscal revenue continued to increase, reaching 7.9 percent of GDP in 2002. Expenditure was contained at 8.9 percent of GDP. However, the projected shift to pro-poor spending did not materialize because of the unforeseen increase in security- and sovereignty-related expenditure arising mainly from the security vacuum associated with the withdrawal of foreign troops, and from a shortfall in foreign financed investment and social expenditure. The external current account balance, including grants and after debt relief, went from a deficit in 2001 into a small surplus in 2002, mainly as a result of an upturn in diamond exports following the abolition of the diamond export monopoly in 2001.

The DRC's main challenges for the future include (1) consolidating the recently achieved macroeconomic stability and deepening far-reaching structural reforms, consistent with the Government's interim poverty reduction strategy paper (I-PRSP); (2) continuing to improve governance and the business climate; and (3) ensuring a smooth reunification of the country. These efforts will be critically dependent on an appropriate mix of timely foreign assistance.

In 2003, economic growth is expected to accelerate to 5 percent, and the end-of-period rate of inflation to fall to 6 percent. Fiscal policy will aim at continuing consolidation while reorienting the budget toward pro-poor spending. Monetary policy will continue to aim at price stability in the context of a floating exchange rate system, which has so far been appropriate for the country's circumstances. The authorities intend to deepen their structural reform agenda, including strengthening good governance.

**Executive Board Assessment**

Directors commended the Democratic Republic of the Congo for the progress that has been made in consolidating the peace process. They looked forward to the planned conclusion of the inter-

Congolese discussions by early April 2003 on the formation of an all-inclusive transitional Government of National Unity, the adoption of a new constitution, and the holding of free, fair, and transparent elections after two years. Directors emphasized that lasting peace is a crucial condition for the economic reconstruction and development of the DRC, and that it should provide further impetus to the impressive turnaround in economic performance observed in the last two years.

Directors considered that the major challenges facing the DRC will be to achieve reunification with macroeconomic stability, while strengthening the administrative capacity of the central and provincial governments. They stressed that successful reunification will require simultaneous and coordinated efforts to tackle political, economic, and security issues; that foreign assistance will need to be well-sequenced, properly coordinated, and provided in an appropriate mix; and that the regional demobilization and reintegration program will need to be implemented in a timely manner.

Directors commended the authorities for their sustained implementation of wide-ranging economic reforms, noting that the turnaround in economic policies, including the removal of major distortions and trade restrictions, has already yielded significant results: in 2002 economic growth was positive for the first time in thirteen years, and the vicious circle of hyperinflation and currency depreciation has been broken. Directors stressed that continued implementation of sound economic policies and structural reforms, in addition to the consolidation of peace, will be critical for macroeconomic stabilization and for attracting the resources needed for economic reconstruction and development. They urged the international community to support the DRC's reform and reconstruction efforts with predictable financial and technical assistance.

Directors welcomed the 2003 budget's emphasis on continued fiscal consolidation. They emphasized that sovereignty and security-related expenditures should be closely monitored and their share reduced, in order to permit an increase in social and infrastructure-related spending. Noting the need to raise revenue collection from its current low level relative to GDP, Directors encouraged the authorities to quickly implement their plan to expand the tax base and enhance collection efficiency, especially through the creation of a Large Taxpayers Unit and the modernization of customs administration. They commended the passage of legislation on indirect tax and tariff reform, and recommended that the tariff reform required under the DRC's regional commitments be implemented in a broadly revenue-neutral way.

Directors stressed the importance of strengthening public expenditure management in the context of a medium-term expenditure framework. In this regard, they commended the authorities for taking action in the 2003 budget to increase transparency in the expenditure process, and to improve the tracking of poverty-related expenditures. They called for improved monitoring of utility outlays and urged the elimination of ghost workers from the public payroll. They agreed that the fiscal impact of the reunification will need to be monitored carefully to avoid jeopardizing macroeconomic stability.

Directors welcomed the abolition of central bank's lending to the government; but expressed concern that the central bank has continued to finance government expenditure that has not been authorized by the Ministry of Finance, in violation of the April 2002 presidential decree, and that domestic arrears have accumulated. They encouraged the authorities to push ahead quickly to implement the monthly treasury cash-flow plan.

Directors noted that the safeguards assessment of the central bank revealed serious risks of misuse of Fund resources and misreporting to the Fund. They welcomed the authorities' determination to quickly implement their action plan for correcting the institutional and operational lapses detected, particularly with regard to accounting procedures, the management of international reserves, internal audit procedures, and the control and supervision of the banking system. They encouraged the central bank to implement its monthly cash-flow plan as quickly as possible.

Directors welcomed the central bank's commitment to price stability in the context of the existing floating exchange rate system, and encouraged the central bank to continue to develop indirect monetary policy instruments to control domestic liquidity. Directors underscored that a sound banking system is a prerequisite for financial re-intermediation and effective monetary policy; and hence they strongly encouraged a timely restructuring of the banking system and efforts to strengthen banking supervision.

Directors welcomed the deepening of structural and sectoral reforms, which has led to a marked improvement in the business climate. They noted, however, that the large body of recently enacted legislation still needs to be put into effect through implementation decrees, particularly in the areas of governance, mining, forestry, and energy. Directors stressed the importance of persevering with bold reforms to improve governance and intensify the fight against corruption, money laundering, and the financing of terrorism. They believed that a key challenge will be to create a culture of accountability and respect for the rule of law, in order to combat corruption and mismanagement and to attract private investment.

Directors supported the three-phase approach of the DRC's Interim Poverty Reduction Strategy Paper—stabilization, reconstruction, and development. They saw the preparation of a high quality PRSP through a broad-based participatory process as a key element in consolidating the government's medium-term strategy for poverty reduction and growth. In this regard, they welcomed the plans for a National Survey on Poverty, and called for poverty assessments in future reviews. Directors encouraged the authorities to incorporate in the PRSP a strategy for enabling private sector growth.

Directors welcomed the authorities' acceptance of the obligations under Article VIII, Sections 2 (*a*), 3, and 4 of the Fund's Articles of Agreement, and encouraged them to eliminate the few remaining restrictions on external transactions.

Directors encouraged the authorities to take steps to secure early signature of bilateral agreements with Paris Club creditors, to pave the way for additional debt relief under the HIPC Initiative. A few Directors, however, also stressed the need to establish a convincing track record in monitoring and controlling public expenditure, in order to ensure an effective implementation of social programs, before a decision point under the HIPC Initiative should be considered.

Directors observed that the DRC's statistical systems remain weak, especially with regard to the national accounts. They encouraged the authorities to complete the remaining steps necessary for participation in the General Data Dissemination System, which would bolster their efforts to build statistical capacity and help secure technical assistance.

***Public Information Notices (PINs)*** are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board.

Democratic Republic of the Congo: Selected Economic and Financial Indicators, 1998–2002

| | 1998 | 1999 | 2000 Est. | 2001 Est. | 2002 Prel. Est. |
|---|---|---|---|---|---|
| | | | (Annual percentage change) | | |
| Domestic Economy | | | | | |
| Real GDP growth | -2 | -4 | -7 | -2 | 3 |
| End-of-period CPI inflation | 135 | 484 | 511 | 135 | 15 |
| Average CPI inflation | 107 | 270 | 550 | 357 | 25 |
| | | | (In percent of GDP, unless otherwise indicated) | | |
| Financial variables | | | | | |
| Total fiscal revenue (excluding grants) | 5.9 | 4.5 | 5.1 | 6.2 | 7.9 |
| Total expenditure 1/ | 12.3 | 9.5 | 11.1 | 7.9 | 8.9 |
| Overall balance (commitment basis) | -6.4 | -5.0 | -6.0 | -1.6 | -0.6 |
| Overall balance (cash basis) | -2.7 | -3.4 | -4.1 | 0.5 | -0.1 |
| Broad money (change in percent) | 160 | 382 | 493 | 217 | 22 |
| | | | (In millions of U.S. dollars, unless otherwise indicated) | | |
| External sector | | | | | |
| Exports of goods and nonfactor services | 1,285 | 1,021 | 963 | 961 | 1,109 |
| Imports of goods and nonfactor services | 1,340 | 758 | 920 | 1,067 | 1,405 |
| External current account (in percent of GDP) 2/ | -9.0 | -2.6 | -4.6 | -4.7 | 0.1 |
| Real effective exchange rate 3/ | 4 | 169 | -18 | -6 | -58 |

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

1/ Including interest due on external debt.
2/ Including grants, after debt relief.
3/ Change in annual average based on official rates. Minus sign indicates depreciation.

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FOR IMMEDIATE RELEASE
March 24, 2003

International Monetary Fund
Washington, D.C. 20431 USA

**IMF Completes First Review of the Democratic Republic of the Congo's PRGF Arrangement and Approves US$36 Million Disbursement**

The Executive Board of the International Monetary Fund (IMF) today completed the first review of the Democratic Republic of the Congo's performance under an economic program supported by a Poverty Reduction and Growth Facility (PRGF) arrangement. As a result, the Democratic Republic of the Congo (DRC) will be able to draw up to SDR 26.6 million (about US$36 million) immediately.

The Board also waived the DRC's nonobservance of performance criteria pertaining to the ceiling on net domestic assets of the Central Bank of the Congo (BCC), the preparation of a list of banks to be liquidated, privatized or restructured and the placement into receivership of three commercial banks, as well as the publication of a code of ethics and good conduct applicable to the whole civil service.

The DRC's three-year PRGF arrangement was approved in June 2002 (see Press Release No. 02/27) for SDR 580 million (about US$786 million). So far, the DRC has drawn SDR 420 million (about US$569 million) under the arrangement.

The PRGF is the IMF's concessional facility for low-income countries. It is intended that PRGF-supported programs are based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners and articulated in a Poverty Reduction Strategy Paper (PRSP). This is intended to ensure that PRGF-supported programs are consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty. PRGF loans carry an annual interest rate of 0.5 percent and are repayable over 10 years with a 5 ½-year grace period on principal payments.

After the Executive Board's discussion on the DRC, Anne Krueger, First Deputy Managing Director and Acting Chair, made the following statement:

"The DRC has made considerable progress in consolidating the peace process and the inter-Congolese dialogue. The interim peace agreement reached in early March in Pretoria, South Africa, and the final agreement expected to be reached by early April 2003, will provide further impetus to the impressive turnaround in the DRC's economic performance observed in the last two years. Lasting peace is a crucial condition for the economic reconstruction and development of the DRC.

"Based on strong ownership, the DRC's government has already implemented wide-ranging and bold macroeconomic and structural reforms. The turnaround in economic and financial policies has already yielded significant results. In 2002, economic growth was positive for the first time in 13 years, and the vicious circle of hyperinflation and currency depreciation has been broken.

"The major challenges facing the DRC will be to achieve re-unification with macroeconomic stability, to strengthen the capacity of the central and provincial governments, and to create a fully accountable professional army and police force. Sustained implementation of sound macroeconomic policies and structural reforms, in addition to peace, will be critical for economic stabilization and for attracting the resources needed for reconstruction and development. The international community will need to provide timely and predictable financial and technical assistance to the DRC to support its reform and reconstruction efforts.

"The government's policies in 2003 are appropriately geared toward consolidating the economic recovery and macroeconomic stability. The 2003 budget's emphasis on continued fiscal consolidation, while allowing an increase in social and infrastructure spending, is welcome. Particular emphasis is being placed on boosting revenue collections and strengthening public expenditure management.

"Monetary policy should continue to focus on price stability in the context of the existing floating exchange rate system. This will require strengthening of the central bank's capacity to control domestic liquidity and development of a sound and well-regulated financial system. Timely efforts to restructure the banking system and tighten banking supervision will be important. The central bank's determination to move quickly to strengthen its internal operations and to refrain from financing government operations is commendable.

"The deepening of the ongoing structural reforms will further improve the business climate and strengthen the basis for private initiative. The large body of recently enacted legislation will need to be put into effect through the necessary implementing decrees, particularly in the areas of governance, mining, forestry and energy. A key challenge will be to create a culture of accountability and respect for the rule of law. The authorities are encouraged to persevere in their bold steps to improve governance and intensify the fight against corruption, money laundering, and the financing of terrorism," Ms. Krueger stated.

**Statement by Damian Ondo Mañe, Executive Director for the Democratic Republic of Congo**
**February 19, 2003**

## I. Introduction

1. The Government that took office in the Democratic Republic of Congo in 2001, under the strong leadership of President Joseph Kabila, made remarkable progress, not only in the country's quest for a peaceful solution to the war, but also in stabilizing the macroeconomic situation and initiating conditions for sustainable economic growth. The enhanced SMP has produced significant results, particularly by breaking hyperinflation, eliminating the multiple exchange rates, restoring the conditions for macroeconomic stability and progressively creating an environment conducive to growth resumption. The PRGF program amplified these efforts. Furthermore, my authorities have shown their determination to develop a culture of good governance, accountability, and respect for the rule of law. In fact, following the release of the UN report on the illegal exploitation of natural resources in the DRC, President Kabila reacted promptly by suspending the implicated individuals. He has made it clear that the investigation will be allowed to continue in an independent and transparent manner and wrong doings will be dealt with to the full extent of the law.

2. On the political front, my authorities' efforts to strengthen the peace process are leading to a lasting peace in the Democratic Republic of Congo. The inter-Congolese dialogue in Pretoria resulted in an agreement that was signed by all parties. This agreement foresees a power-sharing structure for an all-inclusive transition government. This transitional government is, according to the Special envoy of the United Nations Secretary-General, expected to assume office between end-March and early April 2003. Work is also near completion on a new constitution, and DRC is gearing itself for a two-year transition period, which should prepare the country for its first free and transparent elections in more than forty years. The United Nations Observation Mission (MONUC) to the DRC continues to play a role in securing peace and the regional demobilization and reintegration program is being implemented with the help of the United Nations (U.N.) and the World Bank. Following the withdrawal of foreign troops and in order to fill the security vacuum, the U.N. raised the number of authorized peacekeeping troops assigned to MONUC from 5,500 to 8,700.

3. I should add that these major achievements were made possible thanks to an early involvement of the Fund and the World Bank that helped catalyze the support of the international community. This timely involvement was preceded by a multi-topic and comprehensive diagnosis mission that permitted a well-designed and well-sequenced approach. Early and continuous technical assistance from the Bretton Woods institutions particularly, in the budgetary, monetary, exchange rate, and structural areas was critical in drawing up a clear map of actions that took into account the limited administrative capacities and specific circumstances of the country, while under foreign forces occupation.

4. Notwithstanding the above achievements, the review of the quantitative performance criteria at end-September 2002 shows that one out of nine performance criteria, namely the ceiling on net domestic assets of the central bank (BCC), was missed by a small margin. Two of the three structural performance criteria, namely, the preparation of a list of banks to be liquidated, privatized or restructured and placement into receivership of the Banque Congolaise du Commerce Extérieur (BCCE), and the publication of a Code of Ethics and Good Conduct for the public service, was observed with a delay because it was necessary to forge a wider consensus. Thus, my Congolese authorities are requesting waivers for the nonobservance of one quantitative and two structural performance criteria.

5. My Congolese authorities reacted quickly to correct some slippages that occurred in October and November 2002, mainly due to unexpected expenditure to cover the security vacuum left by the withdrawal of foreign troops as well as difficulties encountered by the central bank. These actions signal a strong commitment to strictly adhere to the consolidated treasury plan that my authorities have adopted for the future. It is also reassuring to see that, all parties involved in the Pretoria accord have recognized the credibility of the economic program and have subsequently supported the government's poverty reduction strategies.

6. As Directors may recall, at the conclusion of DRC's last Board meeting in July of 2002, it was agreed that continued strong performance under the PRGF arrangement would result in a decision point being envisaged at the time of the first review of the program. A signal of recognition of the efforts made to date under difficult circumstances will contribute to the positive dynamic which is gradually taking root in the country. In light of the progress made in implementing their program under the PRGF that has set the basis for reducing poverty, and given the new challenges raised by the reunification, my Congolese authorities' efforts deserve a timely and predictable support from the international community.

**II. Recent Developments and Performance under the PRGF**

7. Under the PEG implementation during the period April-September 2002, overall performance under the program was satisfactory, with good progress in structural and sectoral reforms. And following 13 years of negative growth, economic activity is estimated to have recovered in 2002, which augurs well for a successful implementation of the strategy for poverty reduction. The annualized inflation in the first nine months of the year was 11 percent, dropping from 135 percent in 2001 and 511 percent in 2000. The annual inflation rate is estimated to have reached about 15 percent in 2002.

8. In the fiscal sector, the domestic primary balance (on cash basis) recorded a surplus and the overall balance (non-consolidated) on cash basis resulted also in a surplus, instead of a programmed deficit. Revenues stood above the program objectives, while expenditures remained below the expected levels. Cash-flow management improved through the gradual centralization of revenue under the control of the Treasury. On the expenditure side, my authorities froze all operating expenditure (including mission costs), except for minimal allocations for operations, until year-end 2002. My authorities are aware that further efforts are needed to strengthen the fiscal performance and they will do their utmost to increase the focus on pro-poor outlays.

9. In the monetary sector, the slowdown in inflation observed in 2002 helped the monetary authorities in further reducing the refinance rate of the Central Bank. My authorities are taking bold actions to enhance the conduct of the monetary policy. On the institutional side, positive developments occurred and they included the completion of the financial audit of the BCC by an international firm as well as an internal management audit by BCC staff; the formation, at the BCC, of an Accounts Reconciliation Committee (CAC) to follow up on the recommendations of external auditors and by IMF technical assistance missions; and the strengthening of the operations of the Internal Audit Department.

10. In the external sector, the external current account (including grants, and after debt relief) showed a small surplus in 2002, from a deficit in 2001, due mainly to an increase in export volumes. Official reserves have increase to 4.2 weeks of imports of goods and services after declining to 1.4 weeks in 2001. With regard to the exchange and payments system, the exchange market is performing in a satisfactorily manner, as evidenced by the small spread between the exchange rates in formal and informal markets, which remained, on average, below 2 percent.

11. On the structural area, my authorities have continued to implement an ambitious agenda, with assistance from the Fund and the World Bank, which would create an environment conducive to private sector activity and economic recovery. In the mining sector, a new mining code was published in July 2002. In addition, Preparatory work is under way concerning the restructuring of the country's main mining company (GECAMINES). Regarding the forestry sector, a new code was published. With regard to public enterprise sector, a Presidential decree created a steering committee on the reform of public enterprises (COPIREP).

**III. Medium Term Outlook and Program For 2003**

12. In maintaining the medium-term macroeconomic framework for reconstruction and development, my authorities are pursuing the following preliminary objectives for 2003: (i) a growth rate of 5 percent, (ii) an annual average inflation rate of 13 percent, and (iii) an external current account deficit (including grants, before debt relief) of 5.0 percent of GDP, linked to a strong resurgence of investment financed by international assistance.

13. With regard to growth, we appreciate the analysis of the sources of growth in the DRC carried out by staff, which has particularly identified critical factors that had negatively affected growth. We would encourage the staff to make good use of the outcome of the survey on poverty, when it becomes available, in the framework of steps taken through the full PRSP.

14. Fiscal consolidation will be the cornerstone of economic policy in 2003. My authorities have proposed a "pro-poor" budget for the year, with an increase in social and infrastructure spending designed to be conformed with the I-PRSP. They are considering a supplementary budget to take account of the impact of reunification, the civil service census, the implementation of the regional demobilization and reintegration program, and the HIPC

decision point. To achieve the fiscal target my Congolese authorities plan to take additional measures to cut non-priority spending and mobilize revenue. On the revenue side, mobilization efforts will continue based on IMF recommendations and with IMF technical assistance. On the expenditure side, extra-budgetary spending will be eliminated and the overall wage bill increase will not exceed 35 percent (including the preliminary identified costs of reunification at disposal and the voluntary retirement program). Moreover, the share of social and infrastructure expenditure will increase considerably and expenditure traceability and tracking will be strengthened.

15. On the Monetary and financial sector issues, my Congolese authorities will pursue a monetary policy aimed at price stabilization. In addition, the BCC will strictly adhere to the elimination of advances to the government. About financial intermediation and dollarization, my authorities are fully aware of the need to restore confidence in the national currency. They endorse the staff's analysis on the costs and risks related to a highly dollarized economy in a quest of reviving local currency intermediation. They are confident that a good implementation of reforms and their achievements on the macroeconomic and structural fronts will revive the public confidence in the domestic financial system. On the external front, my authorities intend to formally adopt the obligations of the Article VIII., sections 2 (a), and 4 of the Fund's Articles of Agreement. They will take the necessary measures to eliminate the remaining restrictions.

**Structural reforms**

16. My authorities are fully aware that further structural reforms are needed to create an environment conducive to private sector development activities. To this end, efforts are under way to improve the legal and judiciary systems, revive banking intermediation and implement the mining, labor energy and water codes.

17. Concerning the mining sector, my authorities plan to pursue and deepen structural and sectoral reforms with the help of the World Bank. The new mining regulations are expected to be published soon and the preparation of the overall strategy for restructuring GECAMINES will be finalized in March 2003. Regarding the forestry sector, the Ministry of the Environment will publish a decree presenting the official listing of existing concessions recognized as valid by the government soon and adopt the main implementing regulations for the forestry code.

18. In the public sector, COPIREP will be fully staffed and become operational by April 2003. The auditors of the petroleum corporation (COHYDRO) and other public enterprises have been instructed to submit their reports by end-February 2003. As regards the national utilities companies, my authorities plan to prepare and adopt new water and energy codes during the year 2003. Concerning the private sector, a new labor code has already been adopted and will enter into effect soon. A one-stop shop for investors will be set up by end-April 2003 with World Bank assistance.

19. As regards Governance issues, it is expected that implementation of the regulations recently published public service Code of Ethics and Good Conduct will be finalized by end-

March 2003. A draft law against corruption, money laundering, and transnational organized crime will be submitted to Parliament and be published, while the reform of the public procurement system will also be launched with World Bank support.
IV. Poverty-Related Issues and the HIPC Initiative

20. Since its implementation in June 2002, the government has had the I-PRSP translated into the four main national languages, to ensure the broadest possible access to it. The government plans to launch the national Survey on Poverty, in the coming weeks, using a methodology based on the collection of data through discussions in "target groups" drawn from a sample of villages and urban areas. A National Poverty Unit will be set soon to track and evaluate the poverty indicators and compare them with the objectives set out in the I-PRSP. This survey will be essential in drafting the full PRSP.

21. With regard to debt issue, we are thankful to Paris Club creditors for the agreement reached with my Congolese authorities on September 13, 2002, on a comprehensive rescheduling of DRC's debt. My authorities are also appreciative of the initiative taken by its partners in December 2002, to set up a Multi-donor Trust Fund to help the government service its multilateral debt and for their pledge to contribute to this Fund. I would like to encourage non-Paris Club bilateral and commercial creditors to provide comparable treatment for DRC's outstanding debt, since the issue of debt service calls for urgent assistance. Indeed, debt service in the DRC, even after benefiting from favorable conditions from the Paris Club, remains heavy. Thus, in light of their strong performance achieved under the PRGF program, my authorities believe that they have met the conditions for reaching the decision point under the enhanced HIPC Initiative before end-March 2003.

22. My Congolese authorities recognize the important role that NGOs and religious organizations have played, particularly in alleviating the suffering of the most vulnerable segments of the population in remote areas where security and the delivery of public goods and services became almost non-existent. Now that the situation in the country is improving, it is essential that foreign aid be disbursed largely through official channels, namely the central bank and the government budget. This will enhance the effectiveness of fiscal and monetary policy.

**V. Technical Assistance Issues**

23. Since the country embarked on a program with the Bretton Woods institutions, it has benefited from technical assistance in key areas of Fund's expertise. Additional assistance is being provided by other donors in areas of public enterprise reform, the restructuring of the banking system, governance, the fight against corruption, procurement reform, and the I-PRSP. Although significant progress was achieved in key sectors of the economy, the challenges ahead are still daunting and human resource and technical needs are likely to increase as the country reunifies. Thus, providing a continued assistance to the DRC will be critical for the success of the reunification process. A well-coordinated and well-sequenced technical assistance from the international community remains essential in order to avoid duplication. In this connection, a TA coordinating committee was created with the assistance of the World Bank.

**VI. Conclusion**

24. My Congolese authorities have made many efforts to set a peaceful environment and they are hopeful that with the help of the UN and the international community, a long standing peace will be restored in the country and create the conditions for growth resumption. My authorities place a particular importance to the restoration of a lasting peace, necessary to ensure the development of not only the Democratic Republic of Congo, but also the Great Lakes Region. With the recent progress made toward peace, a window of opportunity for a peaceful and successful reunification has widened. The challenges ahead remain daunting, but my Congolese authorities are committed to pursuing their efforts to reform, in order to maintain macroeconomic stability, create an environment conducive to the development of the private sector activities and improve the living standards of the Congolese people. To this end, they intend to strengthen the coordination of their PEG.

25. My authorities are thankful to the creditors' community, notably the Paris Club members' creditors for their exceptional debt rescheduling conditions and their contribution to the Multi-donor Trust Fund. They call upon other creditors to give them the same conditions. In light of progress achieved under the PRGF, given the debt service overhang in the budget and the revenue to GDP ratio among the lowest in Sub-Saharan Africa, it is critical for the DRC to reach the decision point in the first quarter of 2003. This will help my authorities to maintain the momentum of the reforms, and contribute to the positive dynamic that is gradually taking root in the country. Now, program budgetary aid is also needed by the DRC to sustain its comprehensive reform program.

26. Finally, I would like to thank Management and the staff for their continued efforts and support to the DRC. My authorities are cognizant and appreciative of the international community in helping DRC achieve lasting peace and economic recovery.