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Republic of Congo: 2003 Article IV Consultation and a New Staff-Monitored Program—Staff report; Staff Supplement; and Public Information Notice on the Executive Board Discussion

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2003 Article IV consultation with the Republic of Congo and a new staff-monitored program, the following document has been released and is included in this package:

- the staff report for the 2003 Article IV consultation and a new staff-monitored program, prepared by a staff team of the IMF, following discussions that ended on **April 11, 2003,** with the officials of the Republic of Congo on economic developments and policies. **Based on information available at the time of these discussions, the staff report was completed on June 2, 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 supplement of **June 10, 2003** updating information on recent economic developments.

- a Public Information Notice (PIN), **summarizing the views of the Executive Board as expressed during its June 13, 2003 discussion** of the staff report on issues related to the Article IV consultation.

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

Statistical Appendix

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

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INTERNATIONAL MONETARY FUND

REPUBLIC OF CONGO

Staff Report for the 2003 Article IV Consultation and a New Staff-Monitored Program

Prepared by the Staff Representatives for the 2003 Article IV Consultation with the Republic of Congo

Approved by Menachem Katz and Shigeo Kashiwagi

June 2, 2003

- The discussions for the 2003 Article IV consultation were initiated in Brazzaville during February 27–March 13, 2003 and completed at headquarters during April 10–11, 2003. In the attached letter of intent (Appendix I), dated April 11, 2003, the authorities review implementation of the 2002 staff-monitored program and outline the policies to be implemented through end-June 2003.
- The team comprised Messrs. Toé (head), Cuc, Atsou-Dzini (all AFR), Doe (FAD), and Op de Beke (PDR), Ms. Denis, and Ms. Estevez (both AFR). Mr. Donovan (Deputy Director, AFR) also participated in some of the policy discussions.
- The mission met with President Sassou Nguesso; the presidents of the national assembly and the senate; key ministers in charge of the economy, including Mr. Andely, Minister of Economy, Finance, and Budget; the Acting National Director of the Bank of Central African States (BEAC); other senior officials; and representatives of civil society and the donor community.
- At the conclusion of the last Article IV consultation on February 6, 2002, Executive Directors commended the authorities for the progress toward lasting peace and in rebuilding the country's infrastructure, but noted that policy performance in 2001 had been disappointing. They emphasized that consideration of an arrangement under the PRGF would depend critically upon sustained progress in the implementation of the authorities' economic program and improvements in the transparency and accountability in the oil sector.
- The authorities have consented to the Fund's publication of the staff report.
- The Republic of Congo is on the standard 12-month consultation cycle and, together with other members of the CEMAC, has accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Fund's Articles of Agreement.

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EXECUTIVE SUMMARY

Background

- **Performance under Fund-supported programs and recent staff-monitored programs (SMPs) was disappointing.** The Congo received in November 2000 Fund support under the post-conflict emergency assistance policy for its postwar reconstruction program. Performance under two successive SMPs through 2002 was not sufficiently strong to lay the basis for a comprehensive program that could be supported financially by the Fund under its Poverty Reduction and Growth Facility (PRGF). However, following the appointment of a new government in August 2002, performance under the last SMP improved during the fourth quarter of 2002 and was close to expectations.

- **Major progress has been made in consolidating security and peace, and in establishing democratic institutions.** The four-year transition period was completed in mid-2002 with the installation of the institutions stipulated by the constitution and the subsequent appointment of a new government empowered to implement the President's economic program.

- **Recent developments on the security front are cause for guarded optimism that the serious disruptions to economic activity will end.** On March 17, 2003 the government and representatives of the remaining rebel group signed a new peace accord, recommitting both parties to the 1999 cease-fire agreement. Accordingly, rebels started surrendering their arms and are to be integrated into the regular security forces.

- **Economic activity in 2002 was buoyant, fueled by favorable developments in world oil markets, strong public investment, and expansion in forestry output.** Despite disruptions to the railway link between the port city of Pointe-Noire and Brazzaville, the non-oil sector exhibited strong growth (6.7 percent) in 2002, following gains of 17 percent and 12 percent, respectively, in 2000 and 2001. There was, however, an increase in inflation to 3.3 percent in 2002 from 0.8 percent in 2001.

- **The public finances deteriorated in 2002, reflecting a combination of expenditure overruns and a drop in non-oil revenue collection.** The drop in non-oil revenue was more pronounced at customs, owing to large-scale fraud and widespread use of ad hoc exemptions. As a result, most targets under the 2002 SMP were missed. Many of the structural indicators were missed by the due date, with 7 of the 14 indicators met by year's end.

Article IV consultation issues

- **Main lessons from the past.** The Congo's poor policy performance was due to (i) pressures stemming from postwar reconstruction and peace consolidation, (ii) the legacy of years of centrally planned economic management and episodes of civil war and political unrest, and (iii) lack of ownership and insufficient effort by the authorities to marshal broad support for the adjustment programs.

- **Key challenges for the future are to** (i) consolidate the government's fiscal position in the short term and achieve long-term fiscal sustainability in the face of stagnating and possibly declining oil production; (ii) improve transparency and accountability in oil sector transactions, and ensure good governance in the use of public resources; (iii) promote non-oil sector activity and improve the business climate; and (iv) tackle poverty, with a view to meeting the Millennium Development Goals (MDGs).

Issues stressed in the staff appraisal

- The staff **welcomes the improvement in the security situation** following the process of the signing of the March 2003 peace accord and urges the authorities to consolidate the process of national reconciliation, so as to create a sound environment for economic activity.
- While **encouraged by the fact that economic growth is becoming more broadly based**, the staff notes that the high rates of growth can be sustained only if the authorities accelerate implementation of their structural reform agenda and focus on removing impediments to private sector expansion.
- The authorities **did not seize the opportunity provided by favorable oil price market conditions to accelerate fiscal consolidation and normalize fully relations with external creditors**. The staff calls for full normalization of relations with official creditors and urges the authorities to refrain from contracting any further oil-collateralized borrowing.
- The staff **welcomes the tightening of the fiscal policy stance embodied in the 2003 budget** and encourages the authorities to steadfastly implement the underlying measures. The authorities are urged to adhere strictly to budgetary procedures and maintain prudent fiscal policy to ensure long-term fiscal sustainability.
- **The staff urges greater transparency and accountability in the transactions of the oil sector, in particular the transactions of the national oil company (SNPC).** The authorities need to move expeditiously to strengthen their oversight of the SNPC.
- Successful implementation of the authorities' program during 2003 would demonstrate the authorities' determination and capacity to tackle the difficult challenges facing the Congo, and provide a basis for initiation of discussions on a more comprehensive program that could be supported by the PRGF.
- The Congo's statistical base is weak and limits the effectiveness of Fund surveillance. The staff urges the authorities to address the deficiencies with the help of technical assistance from the Fund and other partners.

I. INTRODUCTION

1. Following the 1999 cease-fire agreement, the Republic of Congo (hereafter "the Congo") received Fund support in November 2000 under the post-conflict emergency assistance policy aimed at rebuilding the country's basic infrastructure and initiating a series of economic and structural reforms. The authorities saw their post-conflict program as a precursor to an economic program that could be supported by the Fund under the Poverty Reduction and Growth Facility (PRGF) and ultimately pave the way for debt relief under the enhanced Initiative for Heavily Indebted Poor Countries (HIPC Initiative). However, performance under the program, and subsequently under two successive staff-monitored programs (SMPs) through end-2002, was disappointing, as the authorities focused their attention primarily on consolidating peace and ushering in democratic institutions.

2. The World Bank has been supporting the Congo's postwar economic program under a Transitional Support Strategy, initially with a Post-Conflict Economic Rehabilitation Credit and an Emergency Demobilization and Reintegration Project. In April 2002, a credit for rehabilitating infrastructure and improving living conditions in urban areas was approved. A Governance and Transparency Capacity Building Project, approved in July 2002, will help fund the financial audit of the national oil company (Société nationale des pétroles du Congo—SNPC) and, at a subsequent stage, the review of operations in the entire oil sector. The World Bank has also initiated a public expenditure management review, which will assist the authorities in the design and implementation of budget reform. Appendix III summarizes the Congo's relations with the World Bank Group.

II. POLITICAL AND SECURITY DEVELOPMENTS

3. **The four-year transition period came to a close in August 2002 with the appointment of a new government following a constitutional referendum and presidential, legislative, local, and senatorial elections, all held during January-June 2002**. President Sassou Nguesso won the March 2002 presidential election by a landslide, and his party secured a majority in the national assembly and senate (see para. 2 of the letter of intent (Appendix I)).

4. **Recent developments on the security front are cause for guarded optimism that the disruptions to economic activity will end**. On March 17, 2003, the government and representatives of the rebel group signed an accord recommitting both sides to the 1999 cease-fire agreement that ended the 1998–99 civil strife. Under the new accord, militiamen started surrendering their arms and are to be integrated into the regular security forces. There are reports that the vital rail service between Pointe Noire and Brazzaville is gradually returning to normal. Plans for rebuilding the road connection between the two cities can now be considered.

III. Recent Economic Developments and Performance Under the 2002 SMP

5. **The completion of the turbulent four-year transition period, culminating with the installation of democratic institutions and the consolidation of political power by the President's party, now offers the Congo an opportunity to focus on economic management.** The rapid pace of postwar reconstruction has provided an encouraging backdrop to the government's efforts to strengthen the economy and restore macroeconomic stability. Yet, the present administration inherits a difficult legacy. Decades of central planning, episodes of civil conflict, and disruptions to the normal functioning of the private and public sectors have weakened the country's institutions and undermined the rule of law, leaving governance problems and a lingering mistrust of the market economy.

A. Recent Economic Developments

6. The Congo's economic performance in 2002 benefited from high international oil prices and continued domestic political stabilization. Sporadic rebel attacks on the railway link between Pointe-Noire and Brazzaville caused supply disruptions in the capital and hindered agricultural production. Nonetheless, non-oil real GDP, buoyed by public sector investment and expansion in forestry production, grew strongly in 2002 (by 6.7 percent) for the third year in a row following significant gains in 2000 and 2001 (of about 17 percent and 12 percent, respectively) (Table 1 and Figure 1). However, as new production was insufficient to fully offset declines in aging fields, oil output fell by 1.5 percent, pulling down slightly overall GDP growth—estimated at 3½ percent, virtually the same as in 2001.

7. **Average annual consumer price inflation rose from 0.8 percent in 2001 to 3.3 percent in 2002, with prices of transportation and food items fluctuating widely following the supply disruptions**. Largely as a result of the euro's appreciation vis-à-vis the U.S. dollar and domestic inflation exceeding inflation in partner countries (1.4 percent), the real effective exchange rate (REER) appreciated by 3.5 percent during 2002 (Figure 2). While this has partially eroded the competitiveness gains brought about by the 1994 devaluation, the REER remains about 19 percent below its 1993 level.

8. **Public finances deteriorated sharply in 2002,** owing to a combination of expenditure overruns and an unexpected drop in non-oil revenue (Table 2).[1] Notwithstanding buoyant government oil revenue, bolstered by high international prices and bonus and excess oil payments,[2] the overall budget deficit widened from about 1 percent of GDP in 2001 to

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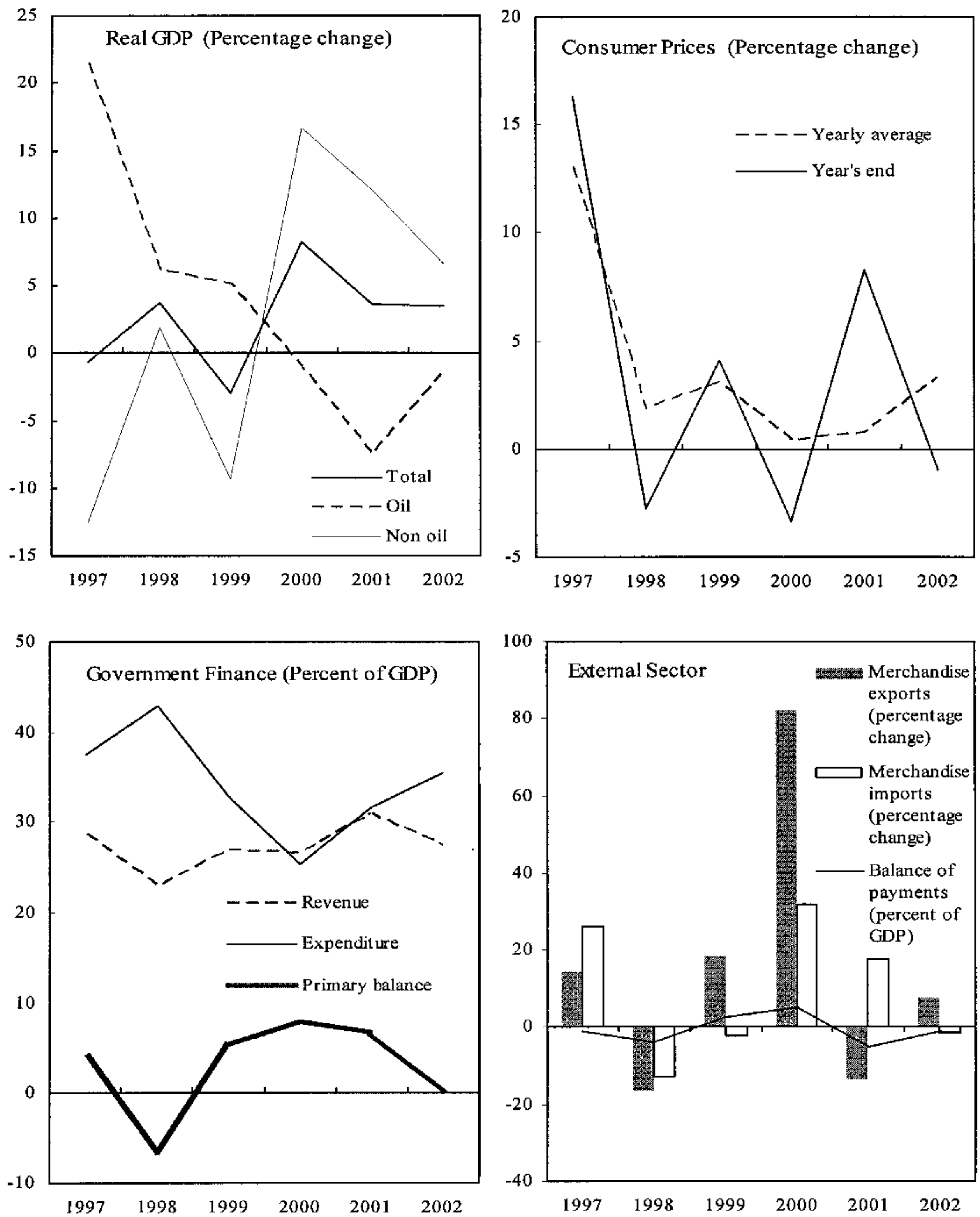
[1] The ratio of non-oil revenue to non-oil GDP fell from 22.3 percent in 2001 to 17.9 percent in 2002.

[2] Excess oil payments emerge when actual production costs for a field are lower than the maximum costs for which companies can be reimbursed, according to production-sharing agreements. These payments are shared by the government and oil companies according to a fixed formula.

Figure 1. Republic of Congo: Main Economic Trends, 1997–2002



Sources: Congolese authorities; and staff estimates.

over 8 percent in 2002, while the primary surplus narrowed from 6.6 percent of GDP to 0.1 percent over the same period. Non-oil revenue suffered from poor collection, mainly by customs, as evidenced by rampant fraud and widespread use of ad hoc exemptions, and from economic disruptions. Primary expenditure rose by 2 percentage points to 26 percent of GDP in 2002, driven by spending associated with the general elections, unplanned security-related outlays, and ineffective expenditure control. Large fees associated with oil-collateralized borrowings also contributed to the deterioration of the fiscal position.

9. **The fiscal accounts for the period 1999–2002 may have to be revised to fully capture oil revenues**. Estimates of oil companies' fiscal obligations, based on the parameters of the individual production-sharing agreements and the oil revenues reported as received by the treasury, show a discrepancy of CFAF 21 billion (US$30 million, or 1 percent of GDP) for 2002. Staff estimates for (January–December) 1999–2001 that use the same methodology yield cumulative discrepancies of CFAF 174 billion (US$248 million). The government has set up a task force to clarify these discrepancies. The audit of the SNPC's accounts for 1999–2001, currently under way, should also be helpful in this regard.[3]

10. **With the fiscal balance deteriorating and the servicing of oil-collateralized debt claiming about one-third of total government revenue, external payments arrears on other debt obligations, including to multilateral creditors, continued to accumulate.** Besides collateralized debt, the Congo honored only its obligations to the World Bank and the Fund. Although some payments were made to reduce external payments arrears toward the end of 2002, the stock of external debt arrears by year's end had reached CFAF 2,394 billion (US$3.8 billion, or 114 percent of GDP)[4]. Facing tight liquidity constraints, in particular during the first nine months of 2002, the Congo drew US$300 million (CFAF 214 billion) under new oil-collateralized loans.

11. **The evolution of monetary and credit aggregates in 2002 reflected the government's large financing needs, restructuring of the banking sector, and foreign exchange inflows.** Broad money demand grew by 13 percent over 12 months at end-2002, as public confidence grew in response to progress in commercial bank restructuring, and the need to reconstitute real balances following the sharp contraction registered in 2001 (Table 3). This was particularly pronounced for commercial bank deposits, which increased

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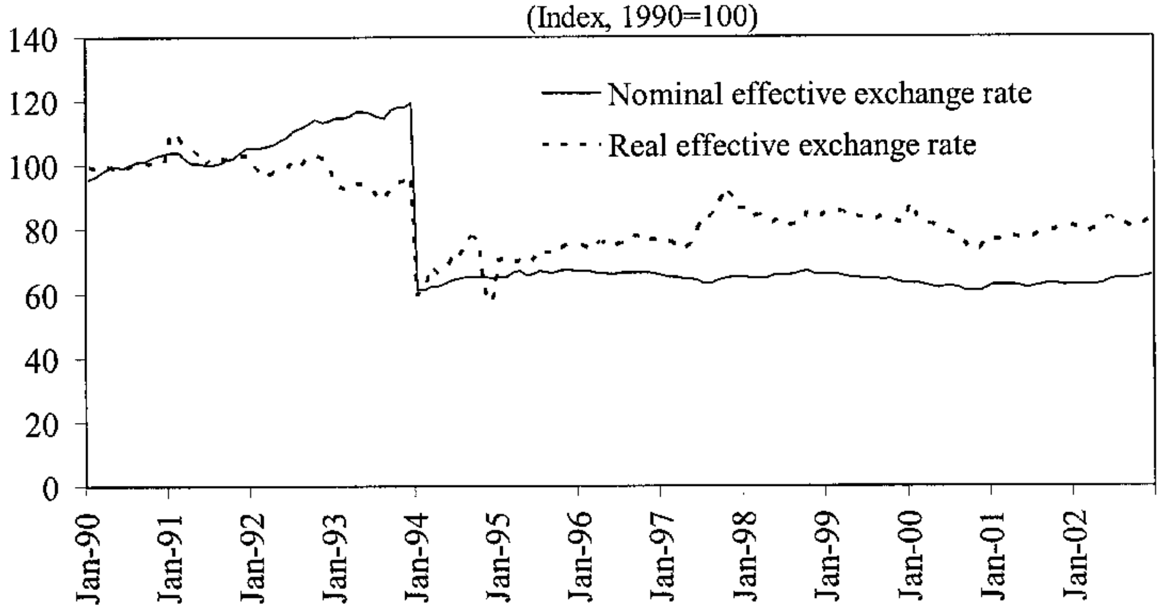
[3] These discrepancies have no implication for the 2003 SMP targets. Projected oil revenue is based on fiscal parameters of production-sharing contracts, which are known, and assumed oil prices and production.

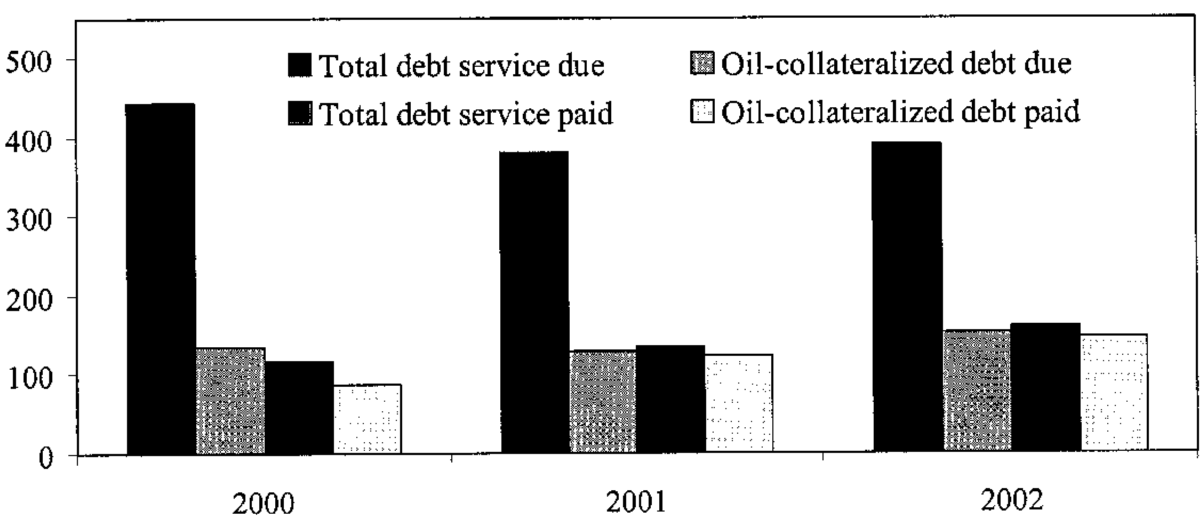
[4] Of this amount, CFAF 115 billion (US$184 million) was owed to multilateral creditors with the bulk (CFAF 85 billion, or US$135 million) owed to the African Development Bank.

Figure 2. Republic of Congo: Effective Exchange Rates, 1990–2002
(Index, 1990=100)



Sources: Congolese authorities; and IMF, Information Notice System.

Figure 3. Republic of Congo—External Debt-Service Payment Profile, 2000–02 (In billions of CFA francs)



Source: Caisse Congolaise d' Amortissement (CCA).

by 41 percent in 2002. In April 2002, the Banque Internationale du Congo (BIDC) was acquired by Crédit Lyonnais.[5] The related transfer of the BIDC's nonperforming loans, which totaled CFAF 37 billion, to the Caisse Congolaise d'Amortissement (CCA) caused a sharp drop in net credit to the economy in 2001–02 (Figure 4).[6] Net credit to the government increased by 9 percent of beginning-of-period money stock in 2002, fully exhausting the margin available under the ceiling on the statutory advances of the Bank of Central African States (BEAC).

12. **The external position is estimated to have improved substantially in 2002.** Reflecting strong oil and non-oil export revenue growth, the current account surplus is estimated to have reached 2 percent of GDP (a swing from a deficit of 3.4 percent of GDP in 2001) (Table 4). The drawing under oil-collateralized loans led to an improvement in the financial account, while the overall balance of payments deficit narrowed to 1.2 percent of GDP (from 5.1 percent in 2001). However, these estimates remain uncertain in light of statistical data weaknesses, related especially to oil sector operations, and may be subject to revision.[7]

B. Performance Under the 2002 SMP

13. **Performance in 2002 as a whole under the SMP was disappointing, with most targets missed** (Table 8). However, there was a significant turnaround in the fourth quarter of the year in line with the understandings reached with the authorities in November 2002.[8] For the year as a whole, non-oil revenue fell 1.5 percent of GDP short of target, and current expenditure exceeded the program target by 8.4 percent of GDP, with overruns in virtually all categories, except wages. Capital expenditure was contained within the target, owing to a significant shortfall in foreign-financed investment and a deceleration of project execution

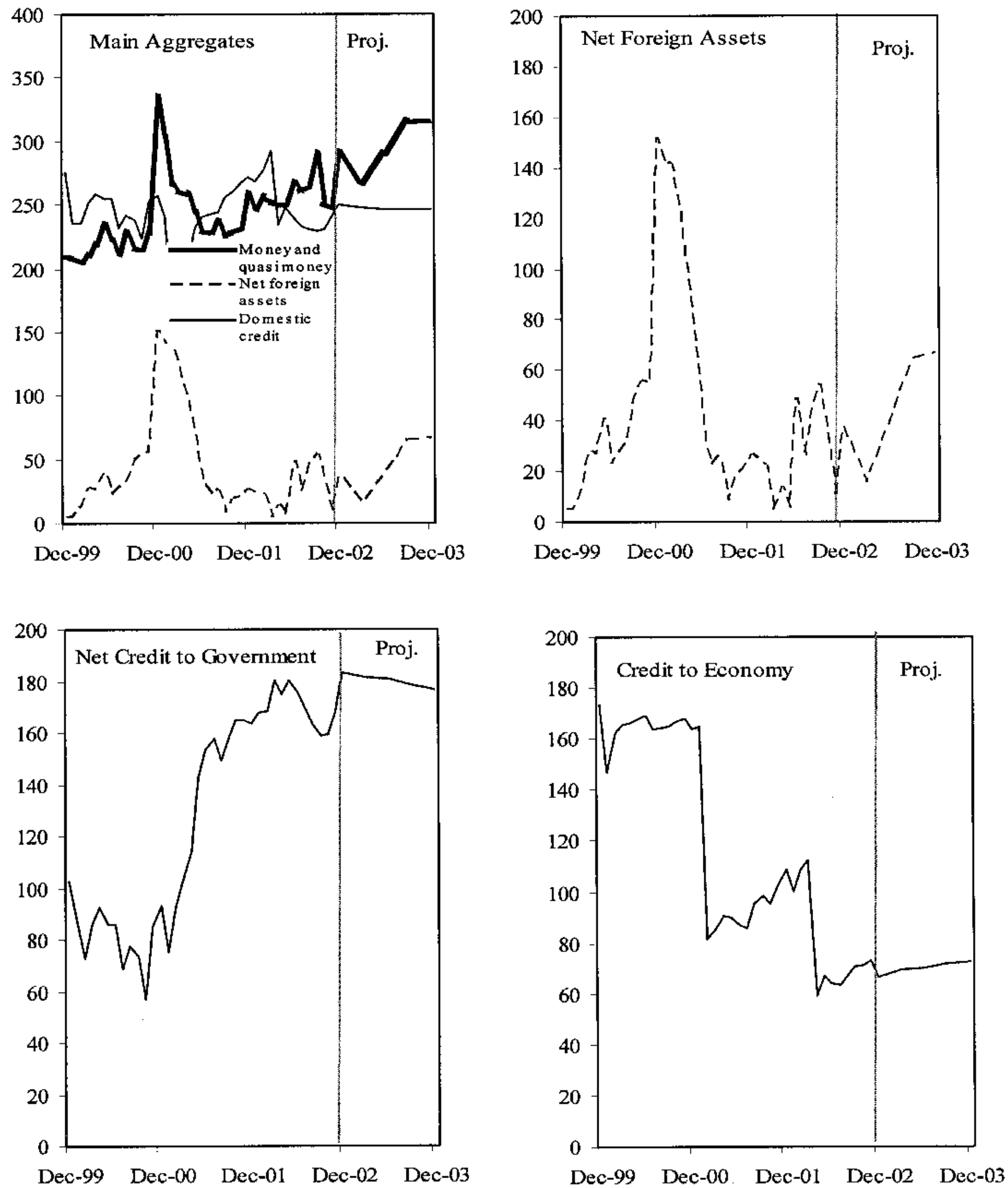
[5] Commercial bank restructuring should be completed in June 2003 with the privatization of the remaining commercial bank, the Crédit pour l'Agriculture et l'Industrie et le Commerce (CAIC).

[6] The commercial banks' portfolio improved markedly as a result of the restructuring; nonperforming loans fell from 65 percent of total loans outstanding in 2000 to 1.4 percent in 2002.

[7] The situation is expected to improve with the routine preparation of the SNPC's financial accounts. Divergences in import data between those reported by customs and those reported in the IMF's Direction of Trade Statistics, are also being investigated.

[8] At that time, the government, in response to the deteriorating fiscal situation, committed itself to significantly slowing spending during the remainder of 2002 and called off an impending oil-collateralized borrowing operation.

Figure 4. Republic of Congo: Monetary Developments, December 1999–December 2003
(In billions of CFA francs)



Source: Bank of Central African States (BEAC).

following the freeze introduced in the fourth quarter.[9] Apart from the negative impact of the unforeseen security-related outlays to fight the rebels, repair the rails, and replace the rolling stock damaged in the attacks, the expenditure overruns largely reflected weaknesses in expenditure control and management and program monitoring, as well as the heavy cost of new oil-collateralized borrowings and related hedging transactions undertaken in late 2001 and in 2002.

14. **Progress in implementing structural reforms was mixed** (Table 9). Only two structural indicators out of 14 were met by the expected date. The financial audit of the SNPC was launched in March 2003, eight months later than envisaged. The plan for restructuring the remaining commercial bank (Crédit pour l'Agriculture et l'Industrie et le Commerce–CAIC), was also delayed, and the privatization is now expected to be completed by end-June 2003. The public enterprise privatization program has been beset by organizational problems and made little headway in 2002. The petroleum products distribution network was privatized in August 2002, but the investment program to repair and upgrade storage facilities and retail outlets awaits clarification of land titles and indemnity payments to employees. Similarly, a management contract for the water utility (SNDE), awarded in mid-2002, must await the completion of the due diligence process to determine the cost of rehabilitating the delivery network before it can be implemented.

15. **Increased fiscal effort in the fourth quarter of 2002 produced results that were close to those expected under the program** (Figure 5). The government began to address squarely the weaknesses in budget execution that had characterized much of 2002: it froze new expenditure commitments as of mid-November 2002; reviewed all tax exemptions;[10] and stepped up tax compliance enforcement.

IV. Medium-Term Outlook and Vulnerabilities

16. In order to inform the discussions and provide a setting for an overview of the medium-term macroeconomic framework, the staff prepared two alternatives to the baseline scenario (pessimistic and optimistic assumptions regarding oil prices) that demonstrated the vulnerability of the economy to developments in the oil market. The results, which the authorities found useful and a realistic basis for policy discussion, are presented in Table 6.

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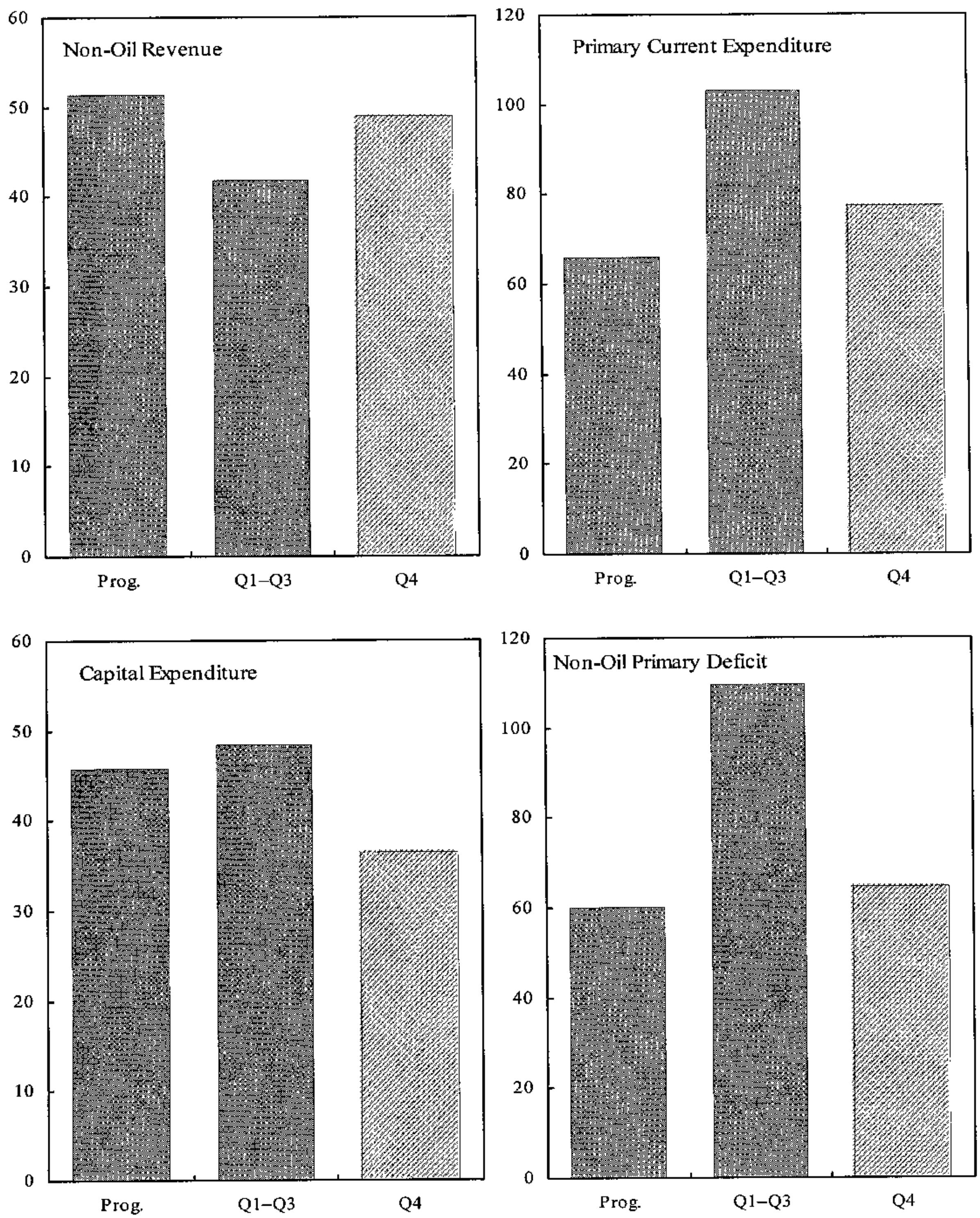
[9] Nevertheless, domestically financed investment exceeded the programmed level by 1.8 percent of GDP.

[10] Starting in 2003, exemptions granted to forestry companies have been tightened; petroleum subcontractors have become subject to presumptive tax assessment; and commissions of vendors of the lottery COGELO have become subject to tax.

Figure 5. Republic of Congo: Fiscal Performance, 2002
(Quarterly, in billions of CFA francs)



Sources: Congolese authorities; and staff calculations.

17. **The baseline macroeconomic scenario for 2003–08 is based on the authorities' 2003 budget but uses the March 2003 World Economic Outlook (WEO) assumptions.**[11] The WEO average international oil price declines from US$31 per barrel in 2003 to US$25 in 2004, US$22 in 2005, and US$21 thereafter. Non-oil growth is expected to average 5–6 percent annually, within a range consistent with labor force growth of 3 percent and an investment-GDP ratio of 20–25 percent. Inflation is projected to average 2 percent annually, as domestic demand is held in check by the fiscal retrenchment and the decline in import prices in 2003 following the strengthening of the euro against the U.S. dollar. The projected inflation rate thus remains in line with the WEO world inflation outlook and implies a broadly stable real exchange rate from 2004 onward.

18. **The baseline scenario assumes that the government stays the course and maintains fiscal discipline after the strong adjustment undertaken in 2003**. With Moho and Bilondo, the new fields coming onstream in late 2005, fiscal oil revenue will recover by 2006 to its 2002 level of close to CFAF 400 billion (19 percent of current GDP). Primary expenditure is projected to grow at an average annual rate of 2.4 percent in real terms between 2003 and 2008, about half the rate of non-oil GDP growth, while non-oil fiscal revenue will be maintained at slightly above 20 percent of non-oil GDP. While reducing the overall non-oil fiscal deficit considerably, the baseline scenario would still leave it above a level corresponding to permanent fiscal oil income, which would be consistent with long-term fiscal sustainability (Figure 6).[12]

19. **Nevertheless, financing requirements will remain large**, reflecting heavy scheduled external debt-service obligations (48 percent of government revenue in 2003, declining to 35 percent in 2006), as well as the projected phaseout of the central bank financing of budget deficits in Central African Economic and Monetary Community (CEMAC) countries. As a result, financing gaps from 2004 onward are projected to range from 2 percent to 6 percent of GDP annually, even after taking into consideration, for illustrative purposes, debt relief for reschedulable debt obligations falling due in 2004–06.[13]

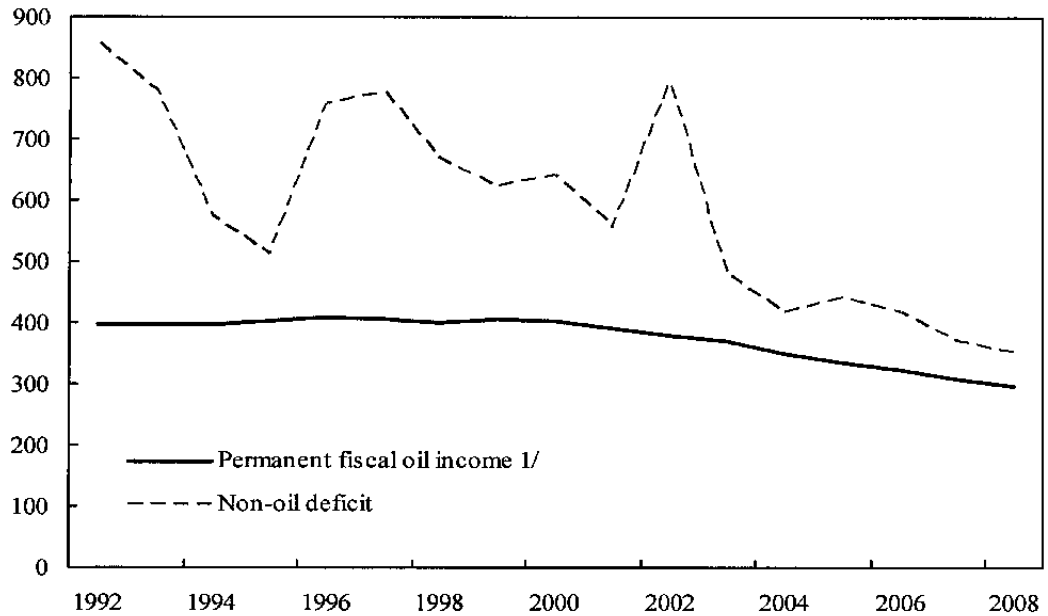
20. **The pessimistic scenario assumes a steady drop in oil prices, coupled with a delay in the development of new fields beyond the projection horizon**. For 2003, this

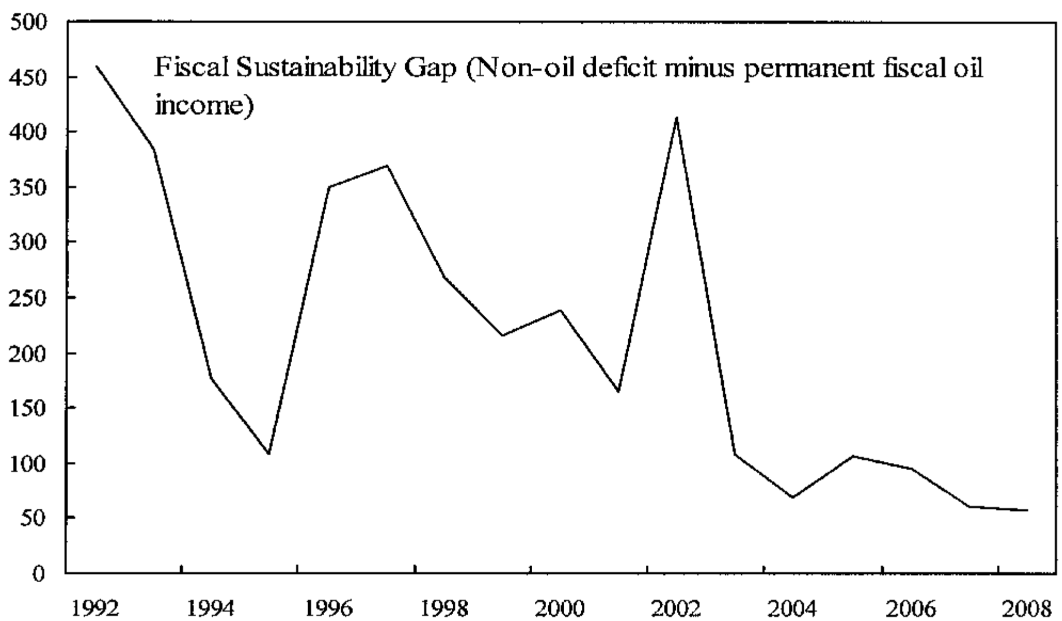
[11] The major difference concerns the oil price in 2003: the authorities' budget is based on an international oil price of US$22 per barrel, whereas the WEO price is US$31 per barrel.

[12] Permanent fiscal oil income is defined as a constant stream of income that would be generated in perpetuity from the oil wealth remaining in a given year. It is the amount that could be used to finance non-oil fiscal deficits on a sustained basis.

[13] Successful implementation of policies under the SMP leading to a PRGF-supported program could provide a basis for mobilizing additional external support that could help close the indicated financing gaps.

Figure 6. Republic of Congo: Long-Term Fiscal Sustainability, 1992–2008
(In millions of constant 2001 U.S. dollars)





Sources: Congolese authorities; and Fund staff calculations.

1/ A constant stream of income that would be generated in perpetuity from the oil wealth remaining in a given year. It is the amount that could be used to finance non-oil fiscal deficits on a sustained basis.

scenario corresponds to the authorities' budget assumptions. The limited scope for fiscal adjustment over and above what is envisaged under the 2003 budget underscores the need for additional debt relief and increased external financing. The **optimistic scenario,** meanwhile, assumes that the current baseline price of US$26.50 per barrel for 2003 will remain constant in real terms throughout the projection period. Under an unchanged policy stance, the financing gap indicated for 2003–05 would turn into a small financing surplus by 2006.

V. Report on the Discussions

21. Against this background, the discussions focused on (i) reasons for the disappointing performance under past Fund-supported programs and SMPs; (ii) the prospects and main challenges facing the Congo in 2003 and over the medium term, with emphasis on long-term fiscal sustainability in the face of stagnating and possibly declining oil production; and (iii) the country's long-term development challenges, namely, the promotion of non-oil sector activity and poverty reduction.

22. **There was a convergence of views on the major issues discussed.** Given the difficult legacy of the lax policies of recent years, the progressively deteriorating fiscal position, and the recurring slippages under the consecutive SMPs since 2000, the authorities indicated that fiscal consolidation was their key near-term objective. The staff concurred that immediate steps were needed to shore up public finances and underscored the importance of creating the necessary conditions for achieving medium-term macroeconomic stability and improving prospects for growth of the non-oil economy. These actions will include revitalizing the structural reform agenda, reforming and streamlining the public sector, and developing greater pro-business acumen in government interactions with the private sector.

A. Key Lessons and Main Challenges

23. The staff held discussions with a broad spectrum of civil society, including representatives of labor unions, employers' associations, nongovernmental organizations (NGOs), the church, and the bankers' association. The discussions revealed broad public support for the government's efforts to put public finances on a sound footing and improve governance and transparency in the use of public resources. Still, the staff was reminded on several occasions that breaking entrenched habits would present a difficult challenge for the new government and that progress might not come as quickly as desired.

Key lessons

24. **Pressures from sociopolitical imperatives**. The authorities recognized that the objectives set under their post-conflict program had been only partially met, as sociopolitical priorities during the postwar transition period had taken precedence over considerations of fiscal prudence.

25. **The legacy of the past has played a role in the Congo's poor performance**. Decades of centrally planned economic management, episodes of civil conflict, and

disruptions to the normal functioning of the private and public sectors have weakened the country's institutions and undermined the rule of law, leaving a legacy of governance problems.

26. **Lack of broader program ownership**. Stakeholders indicated that they had not been involved in the discussions leading to the adoption by the government of the programs supported by the Bretton Woods institutions. In contrast, the government used the 2003 budget debate effectively to generate support for its policies of revenue centralization and budget discipline. The staff recommended that the authorities build on this success by introducing more informative budget documentation along the lines of the recommendations in the fiscal transparency code. More generally, the staff encouraged the authorities to systematically involve civil society in their policy debate and indicated that the PRSP process should provide a good opportunity to ensure the broadest participation possible. The staff welcomed the recent submission to parliament, at the government's initiative, of proposed production-sharing contracts for new oil fields. Although the decision by parliament represents a temporary setback for the development of the new oil reserves,[14] it attests to the keen interest in oil sector policy matters in the Congo and serves as a reminder of the importance of close consultation and information sharing with all stakeholders.

27. **The success of future programs will also hinge on the authorities' ability to demonstrate an equitable burden sharing of the necessary sacrifices**. A common theme that emerged from the discussions with representatives of civil society was that, despite the adverse impact of the 1994 devaluation of the CFA franc and the demand-constraining measures introduced thereafter, the population was prepared to endure the hardship of adjustment if the related measures were clearly explained and all segments of society shouldered their share of the burden.[15] The need to have an adequate social safety net in place to protect the most vulnerable groups was also emphasized. Finally, stakeholders were of the view that, in order to sustain the reform momentum and public support for its strategy, the government would need to demonstrate some benefits of that strategy in the near term.

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[14] Parliament's unanimous instruction to the government to renegotiate the production-sharing contracts proposed for the new oil fields, Moho and Bilondo, could delay their coming onstream beyond the original expected date of end-2005.

[15] Labor unions indicated that they had agreed to refrain from any protest action, in order to enable the government to devote available resources to the reconstruction program following the 1999 cease-fire agreement. This position was taken against the background of the public service wage freeze in effect since the 1994 devaluation of the CFA franc.

Challenges for the future

28. **In addition to the immediate task of ensuring near-term fiscal consolidation, all parties agreed that the key medium-term issues that needed to be addressed were the following**:

- long-term fiscal sustainability in the face of stagnating and possibly declining oil production, and avoidance of procyclical public spending;
- transparency and accountability in oil sector transactions and improvement in governance;
- promotion of non-oil sector activity; and
- sustained efforts at poverty reduction.

B. Fiscal Policy

29. **With oil price fluctuations exerting an important influence on the flow of income in the Congo's economy, it is imperative to strengthen the fiscal framework, with a view to turning fiscal policy into a stabilizing factor**. This was not the case in the past, as public spending was closely correlated with oil export revenues and tended to reinforce, and possibly trigger, movements in private spending. The staff emphasized that any progress in safeguarding macroeconomic stability and creating conditions for broad-based economic growth and poverty alleviation would require a clean break with the stop-and-go policymaking of the past decade.

30. **Fiscal policy remains a cornerstone of the government's efforts to restore macroeconomic stability**. The ambitious fiscal adjustment proposed in the 2003 budget should provide the authorities with much-needed room to maneuver and liberate them from daunting day-to-day cash management problems, shifting their focus toward better budget planning and implementation within a medium-term framework.[16]

31. While the short-term effect of government measures will be crucial for attainment of the 2003 budget objectives, it is equally important to consider their longer-term sustainability. In this regard, the adverse reaction by forestry companies to the proposed overhaul of the forestry tax regime could jeopardize attainment of the medium-term revenue objectives.[17] The staff argued that the authorities also needed to consider ways of drawing the large informal sector into the mainstream, such as through initially low tax rates so as to

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[16] For discussion of the 2003 budget, see Section VI, and the letter of intent (Appendix I).

[17] The authorities indicated that, even after the tax increase, the forestry taxation rate in the Congo would remain well below the CEMAC average.

enhance compliance and create a culture of paying taxes. Finally, the government's timely payment of its own bills and preparation of a specific plan to clear arrears to suppliers would send an important signal about its commitment for change.

32. **Public expenditure should be planned for a multiyear period and guided by prudent medium-term assumptions about international oil prices**. Greater prominence should be accorded to the non-oil fiscal balance, which excludes the effect of volatile oil revenue, both as a policy target and indicator of fiscal performance. Multiyear spending plans could be usefully complemented by some form of a price-based policy rule under which temporary excess oil revenue would be placed in a stabilization fund. The 2003 budget assumption of an oil price of US$22 per barrel (North Sea Brent) corresponds to a long-term historical average (Figure 7) and, given the recent high level of international oil prices, imparts a welcome pro-saving bias to the authorities' budget. Going forward, systematic adoption of appropriately conservative price assumptions would ensure that a pro-saving bias is maintained. This would help promote longer-term fiscal sustainability and the buildup in precautionary reserves needed to make a price-based policy rule operational.

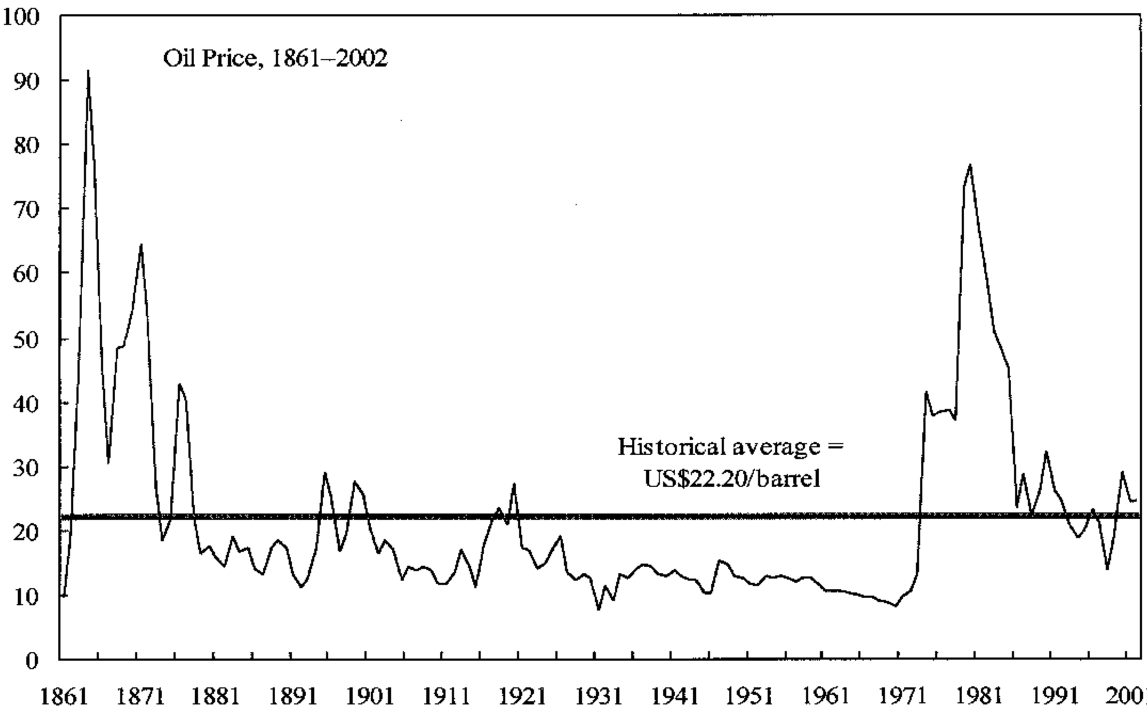
33. **The authorities were receptive to the possibility of exploring, over time, a price-based policy rule along with a stabilization fund**. Such a policy rule would need to be supported by adequate safeguards to ensure that any budget savings realized under it would not heighten spending pressures. In contrast, the staff and the authorities agreed that an **oil savings fund,** designed to promote generational equity in the use of oil revenues, would not fit well in the Congo's circumstances—large external debt and existing institutional weaknesses—at present. Furthermore, practical difficulties and pitfalls in setting up and administering oil funds and the negative experience of such funds in some other developing countries would also tend to weaken arguments for using an oil fund as an instrument to achieve greater intergenerational equity. Rather, at least in the near term, any realized savings should be used to accelerate repayment of the high-cost debt and reduce the stock of external and domestic arrears.

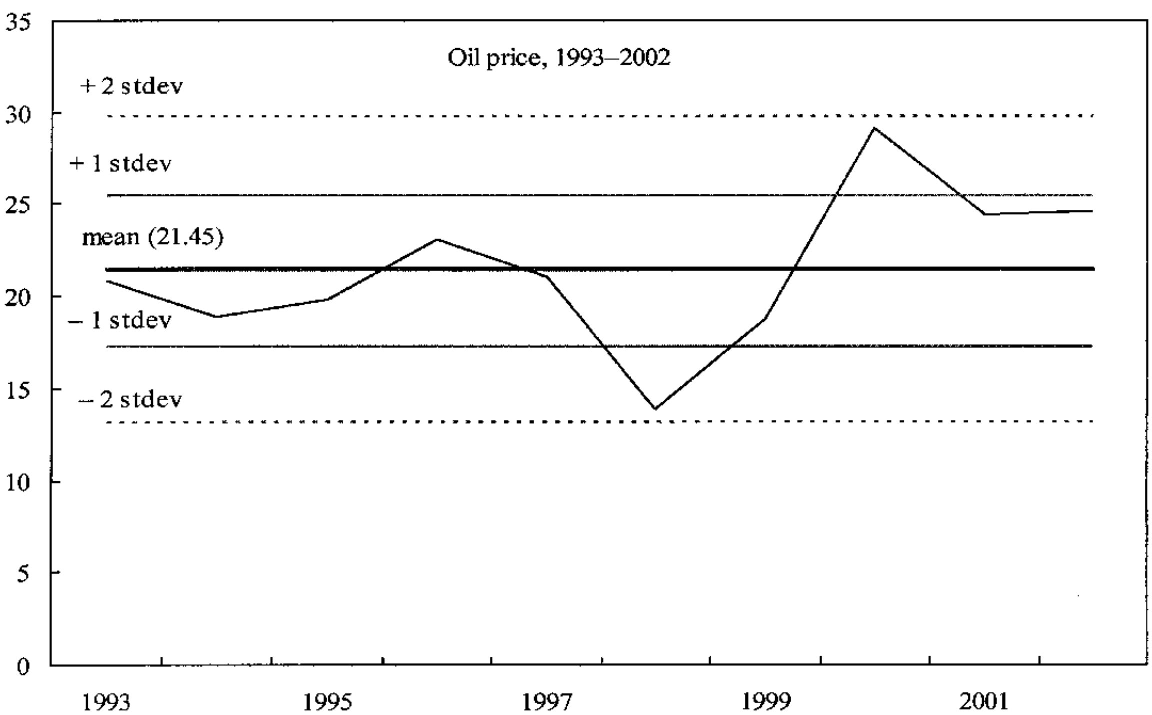
C. Transparency in the Transactions of the Oil Sector

34. **Ensuring an effective, transparent stewardship of oil resources that would bring benefits to society as a whole represents an important challenge that the country is beginning to address** (Box 1). Government, parliament, and civil society appear to be finding common ground in advancing the agenda for reform and greater transparency. The oil sector, despite an uncertain production outlook, will likely remain the key contributor of revenue to the state treasury. Therefore, the focus on full mobilization of oil revenue needs to remain an essential part of the government's efforts to strengthen its fiscal position. The system of oil revenue monitoring—up to the point of the marketing of the state's share of oil by the SNPC and transfer of the proceeds to the treasury—needs to be strengthened.

35. **The government also needs to explore ways of turning the SNPC into a net contributor to the budget.** None of the SNPC's after-tax income (US$43 million in 2001)

Figure 7. International Oil Price Evolution
(Constant 2001 U.S. dollars per barrel)





Source: BP, *Statistical Review of World Energy;* and staff calculations.

Box 1. Transparency in the Oil Sector

Transparency is needed for the following reasons:

- It is an essential first step toward more effective management of oil revenues and their use in the interests of society as a whole—a task made urgent by the disparity between the Congo's human development indicators (see Figure 8) and the size of pure economic rent generated in oil production.
- Adherence to high standards of transparency and accountability, by demonstrating good governance, should help foster societal consensus at home and earn the Congo greater credibility abroad—essential for attracting foreign investors and donors' assistance.
- The oil fiscal regime under which the government collects its revenue in kind—largely through the national oil company (the SNPC)—is prone to misuse of oil resources. For example, the direct utilization of oil fiscal revenues for a predetermined purpose undermines the principle of centralized cash management.
- The SNPC has taken on multiple roles as oil tax collector, marketer of the government's share of oil, contractor of loans on the government's behalf, and disburser of funds for some public investment projects.

Transparency could be achieved through:

- well-designed reporting and accounting systems (from the delivery of oil to the point of the transfer of the proceeds of the sales) that ensure that all revenues due (the government's share of profit oil, taxes, and other payments) are received by the treasury;
- timely, comprehensive, and accurate financial reporting by all parties—the government, private operators, and the SNPC;
- the conducting of regular external audits of the SNPC's consolidated financial statements by an internationally recognized auditing firm;
- completion of annual financial audits of the private companies, as stipulated under the production-sharing agreements—to be carried out by government or an appointed auditor;
- completion of an in-depth evaluation of the effectiveness of the June 2001 Convention (being carried out by the Ministry of Finance); and
- publication by oil companies of all payments made to the government each year under the Publish What You Pay (PWYP) campaign.

Steps taken to date to improve transparency include the following:

- the phasing out of the earmarking of oil revenue and the centralization of all resources in the state budget, and submission of all expenditure, including capital to budget procedures (structural indicator in the 2002 SMP);
- the launching of the external audit of the SNPC's 1999–2000 accounts and 2001 consolidated accounts (structural indicator in the 2002 and 2003 SMPs); and
- preparation of the World Bank-financed review of operations in the entire oil sector.

has been transferred to the budget. The increases in the SNPC's stake in oil ventures and its expansion into non-oil sector activities, financed largely from retained earnings, deprive the treasury of potentially significant sources of revenue.[18] One way to ensure a steady flow of at least part of the SNPC's profits would be by formalizing a dividend policy.

36. **The staff urged that the timely production of consolidated financial statements—following international accounting principles and subject to external audits—become standard practice for the SNPC.** The SNPC's 2001 consolidated financial statements and their external audit—currently under way—are an important step forward in establishing normal governance for the state's participation in the oil sector. The 2002 consolidated statements are to be produced by the June 2003 legal deadline. The staff suggested that these statements should be the basis for strengthening the SNPC's accounting practices and evaluating its role in the economy against the backdrop of the government's public investment, privatization, and poverty reduction strategies. While other state-owned enterprises are being privatized, the SNPC is expanding, with major investments not only in upstream but also in downstream oil operations, and even outside the oil sector—a trend that seems to run counter to the SNPC's stated mandate. The authorities explained that they used the SNPC to underwrite economic ventures in situations where domestic participation was desirable but other potential domestic private investors were not sufficiently strong. They would use their upcoming in-depth evaluation of the experience with the June 2001 Convention between the government and the SNPC as an opportunity to reflect on the range of the company's operations.

37. **The staff concluded that a rigorous, routine verification of oil sector revenues was urgently needed.** Given that most of the government's receipts are in kind, this process must not only compare volumes received with contractual and tax obligations, but also cover the subsequent marketing of the oil and the transfer of the funds to the treasury. The authorities agreed, stating that all necessary information was available and that the institutional capacity could be readily developed.[19] The mission proposed that the envisaged evaluation of the convention be used to examine the SNPC's marketing strategy to ensure that it was being done in the government's best interest.

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[18] In some cases, the cost to the treasury is more direct. For example, in 2002, US$69 million in fiscal oil revenue that could have gone to the treasury was used for accelerated amortization of the SNPC's share of capital costs in the N'Kossa field. More generally, the SNPC's participation in oil ventures—secured on the basis of carried interest, which exempts the company from the obligation to share the initial investment costs with the other partners—has to be accommodated by a smaller fiscal take by the treasury in order to leave the operator's expected return on investment unaffected.

[19] A small unit, led by an oil industry expert, has been set up to monitor all aspects of fiscal oil revenue.

38. **Transparency in the SNPC's transactions has improved but remains problematic.** The authorities provided details on the volume and terms of the oil-collateralized debt transactions, the absence of which the staff identified during the 2001 Article IV consultation discussions as a major impediment to its attempts to evaluate oil sector developments. The government's public affirmation in the context of the 2003 budget not to contract any new such debt will serve to strengthen its commitment.

39. **The review of operations in the entire oil sector should also help improve transparency**. The planned review, to be carried out with the assistance of the World Bank by end-2003, has been accepted by all parties involved and will help enhance the effectiveness of the government's oversight of the sector. The staff discussed with oil company representatives and government officials international initiatives for improving oil revenue transparency, in particular the Publish What You Pay (PWYP) campaign. Company representatives raised concerns about confidentiality clauses in their contracts that prevented disclosure.

D. Governance

40. **The staff agreed with the authorities on the importance of combating fraud and corruption.** The authorities' anticorruption program—still in its early stages—will stress prevention as much as sanctions. It will include a public relations campaign and a participatory process for designing an anticorruption law, in addition to targeted enforcement actions. The staff recommended that any new legislation be properly aligned with the anticorruption conventions under preparation in the United Nations and the African Union. It welcomed the fact that the Republic of Congo was one of the first ten countries to sign, in March 2003, onto the African Peer Review Mechanism of the New Partnership for Africa's Development (NEPAD), which aimed to strengthen political and economic governance through voluntary self-assessments.

E. Monetary and Financial Sector Issues

41. **Monetary and credit policies are conducted by the BEAC in the regional context of the CEMAC.**[20] The central objective is to ensure the stability of the common currency. In principle, the peg to the euro leaves no scope for an independent monetary policy. Nevertheless, the existence of administrative frictions means that capital mobility is not perfect, and, as a result, administered and market rates of the CEMAC zone do not track closely euro-area rates.

42. **In 2002, the main challenge for monetary policy in the CEMAC zone was the excess liquidity in the banking system**. The BEAC addressed the problem by gradually

[20] For discussion of regional monetary policy issues, see Central African Economic and Monetary Community—Recent Developments and Regional Policy Issues (SM/02/168, June 3, 2002).

raising reserve requirements to 6.0 percent and 4.0 percent for demand and term deposits, respectively, by end-December 2002, from 2.5 percent and 1.5 percent in December 2001.[21] However, the effectiveness of monetary policy continues to be constrained by the lack of an active interbank market and by the nature of the monetary programming exercise, which is done on a country-by-country basis. The planned elimination of the BEAC's monetary financing of government deficits, to be accompanied by the establishment of a regional government securities market, should help improve the effectiveness of monetary policy. The phaseout will start on January 1, 2004 and is scheduled to take ten years. In that context, the staff, in its discussions with BEAC and Ministry of Finance officials, emphasized fiscal policy credibility and a well-designed government securities issuance program as prerequisites for a receptive market.

43. **Despite the near completion of the restructuring and privatization of commercial banks, their financial health remains fragile and financial intermediation shallow.** The authorities are poised to complete the restructuring and privatization of commercial banks by June 2003.[22] Yet data from the regional banking supervision agency (COBAC) indicate that only one out of the four commercial banks in operation at end-December 2002 met all prudential ratios fully. Also, insurance companies and the two social security institutions face acute financial difficulties, entailing serious contingent liabilities to the public finances.

44. **The Congo's economy remains largely cash-based despite the progress of the past two years in restoring confidence.**[23] Commercial banks service only a small segment of the market—mainly branches of foreign-owned oil and logging companies that need to make transfers or receive payments from abroad—leaving a large number of customers without access to banking services. Broader access to commercial banking services would facilitate the development of a large number of small- and medium-sized enterprises. For this to happen, weaknesses in the legal and judicial system—an ineffective bankruptcy law and the lack of a functional land title system—that undermine the ability of creditors to enforce their rights vis-à-vis debtors must be forcefully addressed. Microfinance institutions (the Mutuelles congolaises d'épargne et de crédit—MUCODECs) have so far offered a viable option for some small businesses, but their development is constrained by internal problems (Box 2).

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[21] The demand deposit and term deposit rates were further raised to 7.75 percent and 5.75 percent, respectively, in March 2003.

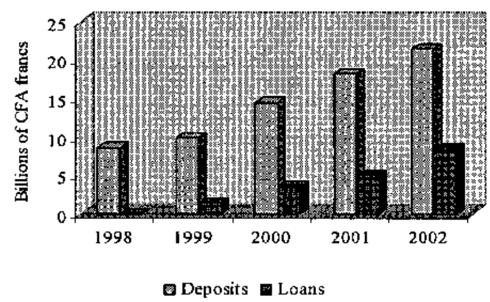
[22] The World Bank has been providing technical assistance on commercial bank restructuring and continues to provide advice on strengthening the financial sector.

[23] In 2002, the banking system was able to withstand the withdrawal of deposits of an estimated CFAF 20 billion associated for cash investments in a pyramid-type scheme (7.8 percent of beginning-of-period money stock).

Box 2. Overview of Microfinance Institutions in the Republic of Congo

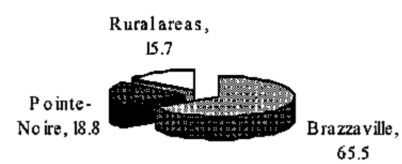
Microfinance institutions grew strongly during the 90s. The Mutuelles Congolaises d'Epargne et de Crédit (MUCODEC) enjoyed a remarkable development while most traditional banks faced recurrent difficulties and had to be restructured. The MUCODEC weathered the financial crisis and the prevailing sociopolitical turmoil. Their resources were safeguarded when the monetary authorities permitted, on a temporary basis, the MUCODEC to deposit their resources directly with the central bank. Financial and technical assistance provided by the French Cooperation and the group Crédit Mutuel (CICM) also played an important role in the MUCODEC's financial stability.

Figure 1. Deposits and Loans, 1998-2002



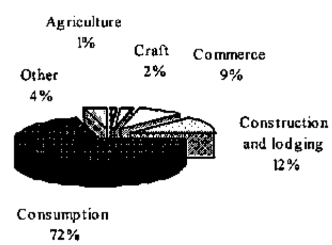
Deposits with the MUCODEC more than doubled, rising to CFAF 22 billion at end-2002 from CFAF 9 billion in 1998 (Figure 1). However, lending was not commensurate with the increase in deposits, as the MUCODEC adopted a cautious lending policy stance and shielded their operations from political interference. The bulk of their lending operations and activities were concentrated in urban areas (84 percent of the outstanding loans were extended to members in Brazzaville and Pointe-Noire) (Figure 2).

Figure 2. Geographic Distribution of Loans in 2002 (in percent)



Credits extended by the MUCODEC financed consumption. The short-term nature of the MUCODEC's resources was a major impediment to their ability to extend medium-and long-term credits. Thus, 72 percent of the volume of credits distributed at end-2002 was for consumption purposes. By meeting the consumption needs of its members, the MUCODEC contributed to the fight against poverty. (Figure 3).

Figure 3. Distribution of Loans by Sector in 2002 (in percent)



The microfinance institutions could contribute further to the deepening of financial intermediation in the Congo. The ratio of MUCODEC deposits to broad money increased from 4.4 percent in 2000 to 7.4 percent in 2002, as the MUCODEC brought financial services to segments of the population that do not have access to traditional banks. The recovery rate of credit is very high, with nonperforming loans virtually nonexistent, in sharp contrast to the banking system. Backed by a combination of a prudent lending policy and a set of guarantees securing loans, the loan recovery rate at the MUCODEC was 70 percent on average during 2000-02, despite the prevailing socioeconomic context. In contrast, nonperforming loans of commercial banks reached 65 percent in 2000 before the banking restructuring program began.

Much remains to be done to enhance microfinance institutions' contribution to financial deepening and the fight against poverty. Under the Central African Economic Monetary Community (CEMAC) harmonized regulations adopted in 2002, the regional banking supervision agency (COBAC) exercises the external control of the sector. However, to achieve better results, the MUCODEC would need to: (i) strengthen their internal control; (ii) upgrade their information system; and (iii) enhance the capacity of their personnel, as currently only 4 percent of the personnel meet qualification requirements. With the return of the population to the areas recently affected by fighting, the MUCODEC could further extend their reach by promoting income-generating activities.

45. **A regional anti-money-laundering agency (Groupe d'action contre le blanchiment d'argent en Afrique centrale—GABAC) has been set up by CEMAC.** GABAC's mandate is to develop and coordinate measures to be implemented by member countries to combat money laundering and the use of proceeds from criminal activities, and to protect the financial sector from the impact of these activities. Appropriate domestic regulations still need to be introduced to ensure full compliance with international agreements.

F. Sectoral Policies and Other Issues

Sectoral policies and poverty alleviation

46. **Although well endowed with natural resources, including significant petroleum reserves and abundant forestry resources, the Congo has not succeeded in converting this potential advantage into a measurable advancement in terms of human development.** In fact, over the past decade, the Congo fell behind other developing countries in per capita GDP growth performance (Figure 8). The Congo also underperformed vis-à-vis its peers in terms of human development and poverty became widespread.[24]

47. **Poverty reduction should be placed high on the agenda.** The staff urged the authorities to give greater prominence to social sectors in their economic strategy. The authorities recognized that little attention had been given to social outlays, and that poverty had become widespread in a period marked by armed civil strife, and the destruction of education and health infrastructures. They made a commitment to take steps to restructure the composition of expenditure toward the priority sectors (education, health, and basic infrastructures), starting with the 2004 budget.

48. **An interim poverty reduction strategy paper (I-PRSP), which will be the framework for the authorities' poverty reduction efforts, is under preparation.** The draft I-PRSP has benefited from the United Nations Development Program (UNDP) and World Bank assistance and will be finalized in the coming months. The staff underscored the paramount importance of following a participatory approach in the development of the strategy, with a view to fostering ownership and ensuring successful implementation. It would be essential to link the poverty reduction strategy with the macroeconomic objectives and to develop a statistical database of social indicators to facilitate diagnosis and program design and monitoring.

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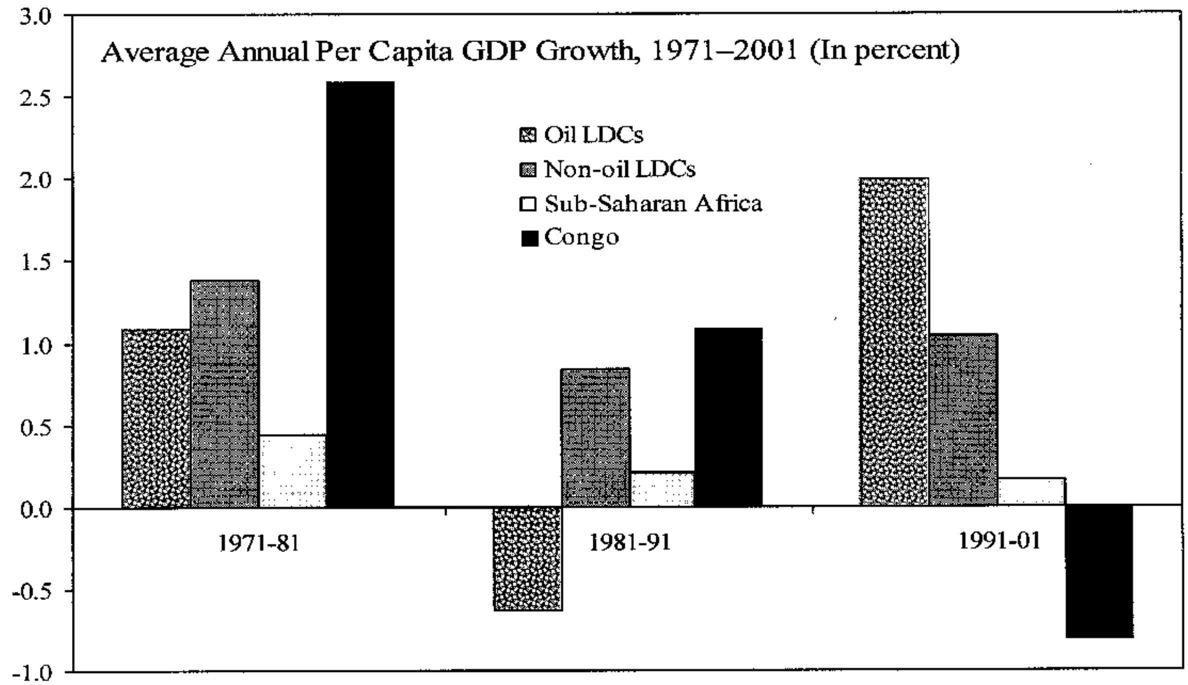
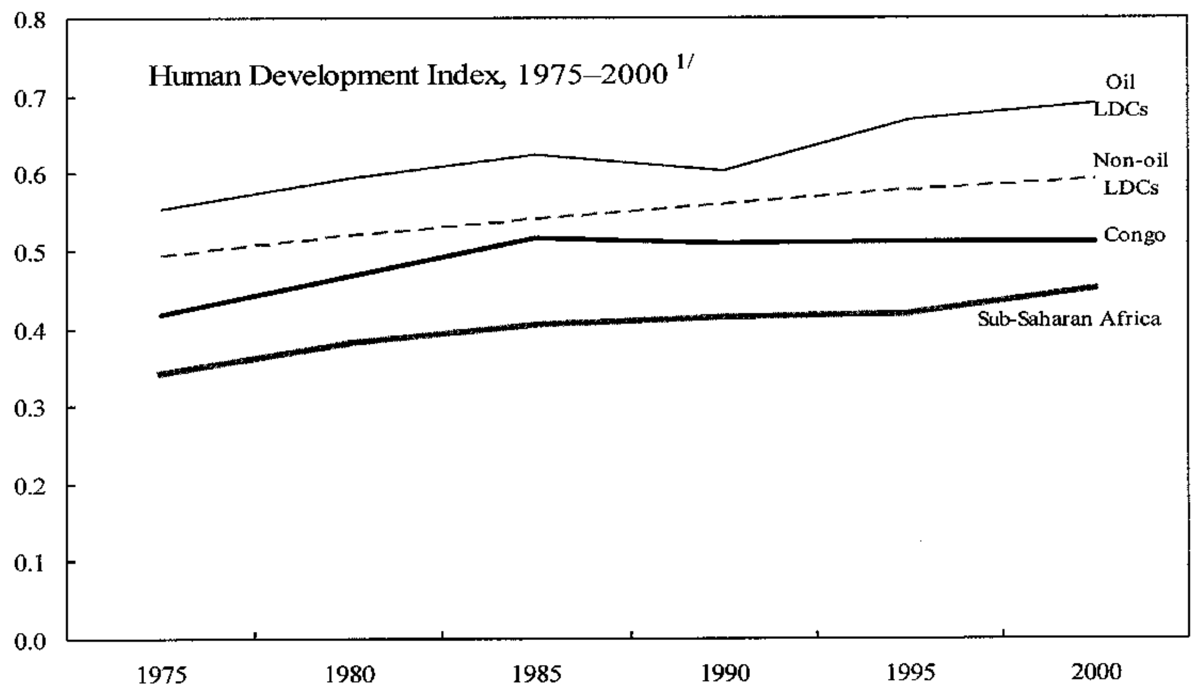
[24] According to the United Nations Development Program, 70 percent of the population lives below the poverty line; unemployment and underemployment affect 50 percent of active population; and only 30 percent of the population has access to adequate medical care. The Food and Agriculture Organization (FAO) estimates that as much as 32 percent of the population is starving.

Figure 8. Republic of Congo: Growth and Human Development Index





Sources: IMF *International Financial Statistics;* and United Nations Development Program.

1/ Includes only countries for which data are available for all periods.

Structural reforms and sources of growth

49. **With future oil prospects uncertain, the authorities recognized the growing urgency of creating favorable conditions for investment and growth outside the oil sector.** Forestry is an important prospective source of growth over the medium term (Box 3). The staff noted that the main short-term risk to further expansion of the industry had been the logging companies' adverse reaction to the government's efforts to revise the forestry taxation system; in that connection, the authorities needed to strengthen their partnership with the private sector so as to create a constructive business environment.

50. **The authorities are focusing their efforts on the development of basic infrastructure and improving public services.** At the regional level, this includes promoting an environment conducive to private sector development through the promulgation of the CEMAC's investment charter, supplemented at the national level by sectoral codes. They also envisage reviving the Congo's role as a regional transportation hub for maritime, river, and road traffic and with air transport links. The rehabilitation of the supporting infrastructure—in particular, reliable provision of water, electricity, and telecommunications—is critical to further economic development.[25] In this context, the staff recommended that the authorities speedily implement their privatization program, and urged them to give greater consideration to potential investors' capacity and readiness to undertake the investment necessary to rehabilitate decrepit facilities and restore them to full operation. The staff noted the potential for non-oil sector GDP expansion (see Box 4), emphasizing the need to streamline government rules and procedures and eliminate those that unduly burdened private sector operations.

G. External Sector

51. **The Congo's balance of payments remains heavily dependent on oil and is vulnerable to developments in the international oil market.** Despite a steady rise in exports of timber and wood product exports and the emergence of nontraditional products (mainly sugar), oil remains the dominant export, accounting for close to 90 percent of total export receipts in 2002. In view of the gradual erosion of the competitiveness gains and the need for greater diversification of the productive base (see para. 7), the staff recommended that additional analytical indicators of competitiveness (unit labor cost, productivity, etc.) be developed and monitored. The authorities indicated that this would be undertaken in the context of a revamping of the country's statistical apparatus.

52. **The trade and payments system is largely free of restrictions.** The Fund index of trade restrictiveness is estimated at 3 (on the standard 1–10 scale, with 1 being the least

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[25] Large public investment projects include an airport in the northern region of the country and a hydroelectric dam, which will be built with China's assistance and concessional financial support.

Box 3. Forestry Sector Policy Issues

Forests are Congo's second most important natural resource after oil, covering 20 million hectares, of which 14 million are readily exploitable. This stock of forestry resources places the Congo in a more favorable position than neighboring countries Cameroon and Gabon. Hence, forestry offers important opportunities for economic diversification as the security situation improves, especially in the southwest.

Forestry output has been growing rapidly, reaching 1.1 million cubic meters in 2002 from 0.6 million cubic meters in 2000. This rapid growth is expected to continue, with total production projected at 2.5 million cubic meters by 2005. Also, man-grown forestry output, mainly eucalyptus, has been expanding rapidly. Employment in the forestry sector in 2002 stood at 4,100, roughly double that of 2000, and another 50 percent increase is anticipated by 2005.

The government has targeted forestry as a sector that can help raise the level of non-oil tax revenue. Following a study, carried out under the auspices of the World Bank, that showed forestry taxation in the Congo to be lower than in neighboring countries, the government decided as of 2003 to increase overall taxation by raising a number of rates and the f.o.b. values to which they are applied. At the same time, measures were taken to reinforce the principle of centralization of all revenues in the budget. Assuming unchanged production, the measures are expected to raise annual forestry tax revenue from around CFAF 6 billion in 2002 to CFAF 16 billion in 2003.

This projection is consistent with industry estimates of a tripling of the tax bill for a typical enterprise. The industry criticized both the extent and speed of the tax increase, arguing that transportation costs in the Congo were high because of the security situation, and that their operations generated valuable employment in underdeveloped regions.

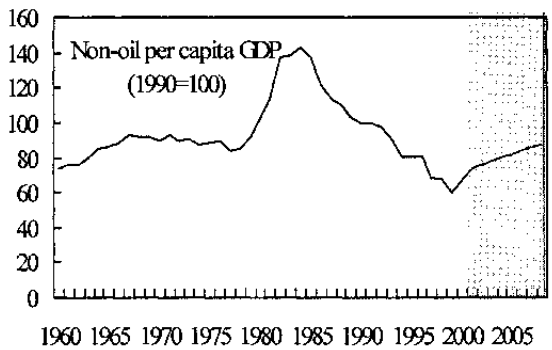
The increase in forestry taxation is a source of controversy. The authorities defended their decision, arguing that the rates were still below those in neighboring countries. Furthermore, companies had the option of taking advantage of the lower tax rates applicable to higher-value-added wood products.

restrictive), with a simple average tariff rate of 16 percent. Within the CEMAC, the Congo is committed to regional integration, including trade liberalization and tax harmonization. The differential value-added tax (VAT) treatment of selected products of basic consumption—exempt status for domestic production and 8 percent rate for imports—has been discontinued, with the rate set at 8 percent for both categories. While the payments system is relatively liberal, economic operators complained about the recent reduction in the threshold for transfers (to CFAF 100 million, or US$150,000) requiring authorization from the BEAC head office—a procedure that may take up to two weeks.[26]

[26] Before submitting his request to a commercial bank, an operator must first have it cleared by the Ministry of Finance. The authorities have committed themselves to eliminating this preliminary step in order to conform to the CEMAC harmonized foreign exchange arrangements.

Box 4. Non-Oil GDP Evolution and Prospects

The central salient feature of the Congo's economy has been the dominant role of oil—in terms of export earnings, fiscal receipts and contribution to GDP growth. On the surface, it would thus appear that the Congo has been afflicted by the Dutch disease. Between 1971 and 2001, oil GDP per capita grew at an average annual rate of 7.2 percent, while non-oil GDP per capita declined at a rate of 0.9 percent (see figure). The negative trend in the evolution in non-oil GDP has been particularly pronounced since the mid-1980s—between 1986 and 2001, it shrank at an average annual rate of 3.5 percent (in per capita terms). Yet the standard model of the Dutch disease—describing the reallocation of factors of production within the economy in response to better profitability in the oil sector—provides only a partial explanation. In the Congo, the oil sector acts like an enclave that uses predominantly foreign labor and capital and interacts with domestic factor markets in a limited way. Therefore, the ability of the non-oil sector to mobilize the resources necessary for its expansion should not be negatively affected by the size of the oil sector. Furthermore, the ascendancy of the oil sector has not been accompanied by a reallocation of resources within the non-oil sector (from tradables to nontradables), as suggested by the Dutch disease model.



Hence, the underlying cause of the sluggish performance of the non-oil sector is likely due to additional factors. In particular, the oil sector's growth, with associated rents accruing to the government, has spurred the emergence of an overgrown public sector. This, combined with weak spending controls and institutional degradation caused by episodes of civil war in the 1990s, has promoted the development of a welfare state that distributes oil rents in inefficient, and often nontransparent, ways, and that has created disincentives to employment in the private sector. Creating conditions for private sector growth will require streamlining the role of the state in the Congo—the process initiated already by the privatization of large public enterprises—realigning the size of the public sector, including that of the civil service, more closely with the redefined functions, and regaining firm control over fiscal spending.

A successful implementation of the structural reforms, coupled with an increased ability to attract foreign direct investment, underpins the average annual growth of 5–6 percent between 2003 and 2008 projected in the baseline scenario. This outlook is consistent with a simple growth accounting analysis that suggests that a likely range for non-oil sector capacity growth is between 3 and 7 percent annually. Under these assumptions, by 2008, non-oil GDP per capita should recover to the pre-oil-boom level reached in the mid-1970s.

53. **The Congo does not face any significant restriction on access to trading partners' markets for its main export products.** Participation in the U.S. African Growth and Opportunity Act (AGOA) and the preferential treatment afforded to the Congo in the European Union (EU) market should provide the necessary impetus for the development of nontraditional exports.

Statistical issues and technical assistance

54. **The Congo's statistical base remains weak and hinders a comprehensive exercise of Fund surveillance.**[27] The Fund continued to provide technical assistance in 2002 in the form of a resident expert in statistics and a multisector statistics mission in April–May 2002. The staff urged the authorities to implement the recommendations of Fund technical assistance missions and effectively use the services of the resident expert in statistics. The authorities reported that faster progress was being constrained by a lack of resources. They expressed hope that the World Bank Trust Fund assistance, as well as possible help from other institutions, would help advance the needed reforms.

55. **Technical assistance needs.** In response to recommendations of a previous technical assistance mission, the authorities requested technical assistance to establish the budget classification system along economic and functional lines. This action would facilitate budget preparation and monitoring, and would become crucial as the Congo embarks on its poverty reduction strategy.

VI. ECONOMIC PROGRAM FOR 2003 [28]

56. **The authorities explained that the point of departure for the formulation of their economic strategy was the unfinished reform agenda and the pressing need to restore fiscal discipline**. They stressed that their efforts, initiated in late 2002, to put public finances on a sound footing needed to be buttressed by increased engagement from the international community to ensure faster progress. The authorities have requested staff to monitor their economic program for the period January through June 2003 in the expectation that this SMP will establish a track record to move toward a PRGF arrangement.

57. **The program for 2003 envisages an ambitious fiscal adjustment, underpinned by non-oil revenue mobilization and a compression of current and capital expenditures**. It aims at creating conditions for more effective fiscal management over the medium term. Improving transparency in the oil sector, promoting non-oil sector activity, and normalizing relations with external creditors are the other key objectives of the government's program. In

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[27] See Appendix V for details.

[28] See also the authorities' letter of intent (Appendix I).

parallel, the government has been elaborating its poverty reduction strategy, which should become an integral part of its medium-term economic strategy.

58. **The macroeconomic objectives for 2003 are as follows**: (i) real GDP growth of 2 percent; (ii) an inflation rate of 2 percent; and (iii) a primary fiscal surplus of 9.3 percent of GDP. These objectives are consistent with the low-oil-price scenario outlined in the previous section. The relatively robust targeted non-oil GDP growth of 6.4 percent envisaged in 2003 represents a modest decline from the 6.7 percent achieved in 2002. Given the expected attenuating effect of the retrenchment in public spending, its achievement is predicated on a continued favorable outlook for exports and investment in the forestry sector, and on an improvement in private sector confidence.

A. Fiscal Policy [29]

59. **The 2003 budget is conceived as an austerity budget, designed to arrest the deterioration in the fiscal position and the drift in fiscal management by imposing fiscal discipline in spending and mobilizing non-oil revenue.** It targets a primary budget surplus of 9.3 percent of GDP.[30] The reversal of the expansionary stance is particularly striking in terms of the non-oil primary deficit, which is to be reduced from 40.6 percent to 23.2 percent of non-oil GDP, with expenditure compression representing roughly four-fifths of the total adjustment. The authorities' 2003 budget is based on the assumption of US$22 per barrel for North Sea Brent, which implies, absent additional financing or debt relief, a financing gap of CFAF 32 billion. The gap would be filled at an oil price of US$24 per barrel, with excess revenue earmarked for reduction of external arrears.[31]

60. **The government's ability to contain actual spending within the intended levels will depend on its success in enforcing a strict adherence to budgetary procedures.**

B. Money and Credit

61. The Congo's fiscal policy stance is consistent with the regional monetary policy objective of adequate coverage of the BEAC's sight liabilities by foreign exchange reserves. Money demand growth of 8.6 percent in 2003 is broadly in line with nominal non-oil GDP growth (7.4 percent), implying a slight reduction in income velocity (from 3.5 percent to 3.4 percent), which, in turn, reflects a gradual return of confidence to the private sector and the rebuilding of money balances in the economy. Net credit to the government is projected

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[29] See Box 5 and Table 7.

[30] Defined as revenue minus current expenditure net of interest charges minus domestically financed capital expenditure.

[31] For comparison, the April 2003 WEO price assumption is US$26.50.

Box 5. 2003 Budget—Revenue and Expenditure Measures

In major respects, the fiscal adjustment envisaged for 2003 represents a reversal of the significant weakening of fiscal discipline in 2002, marked by a loss of expenditure control and weak non-oil revenue collection.

Non-oil revenue mobilization is expected to contribute additional revenue of 2.5 percent of non-oil GDP in 2003 relative to 2002. This would bring non-oil revenue to 20.5 percent of non-oil GDP, still below its 2001 level of 22.3 percent. It relies on strengthening compliance, tightening exemptions through a review of special tax and customs agreements, and increasing the effectiveness of tax and customs administration achieved through computerization. Customs revenue is projected to increase by 52 percent relative to 2002 (27 percent relative to 2001).

Domestic taxes (including on petroleum products) are projected to increase by close to 12 percent. Two-thirds of the increase corresponds to the expansion of non-oil GDP, and the balance to the additional fiscal effort. The increase in the forestry royalty, from 4 percent to 8.5 percent, should bring the Congo's regime closer in line with the average rate of 17 percent for CEMAC countries and double the amount currently collected (CFAF 2 billion in 2002). Creation of a regional VAT office in Pointe-Noire, the centralization of tax administration for large enterprises in a special unit, and greater computerization are expected to produce additional gains in terms of tax yield and overall efficiency.

The compression of current expenditures—15 percent of non-oil GDP—is underpinned by strengthened procedures in budget execution. Reduction in interest and financing charges on external debt accounts for about half of the indicated compression. All revenue is being centralized in the treasury, in a break with the past practice of instructing oil companies to pay some service providers directly from the government's share of oil revenue. Furthermore, disbursements can be made only if the expenditure has been appropriated and budgetary procedures have been followed. This should permit payments made to be reduced considerably without prior formal verification of expenditures (*paiements par anticipation*), which accounted for 80 percent of all expenditures undertaken in 2002. A system of monthly expenditure ceilings by ministry was introduced in January 2003. The government will also undertake an audit of unpaid commitments from 2000 to 2002. The results of the audit will be transmitted to the Fund by June 30, 2003. The government will make greater use of targeted value-for-money audits to ensure performance from its suppliers and adherence to budgetary procedures.

Current primary expenditure will be reduced by 3.7 percent of GDP. Nevertheless, this will still leave it about 3.4 percent above its 2001 level, in absolute terms. The wage bill will remain essentially constant at CFAF 120 billion. In the medium term, the government expects to contain the overall wage bill at this level by financing wage increases through reductions in the number of public service employees. **Domestically financed capital expenditure** will decrease by 36.5 percent compared with 2002, as new projects are kept to a minimum. With the inclusion of foreign-financed projects, most notable of which is the Imboulou Dam, the decline in public capital spending will be kept to 12.8 percent (1.0 percent of GDP).

to decline by CFAF 9.8 billion (3.4 percent of beginning-of-period money stock) with repayments to the Fund and a reduction in indebtedness vis-à-vis the BEAC and commercial banks. The expansion of credit to the economy (projected in line with non-oil GDP growth) should leave room for an accumulation of foreign exchange reserves of CFAF 29 billion (US$48 million).

C. External Debt

62. **A satisfactory resolution of its debt problem is one of the government's priority objectives.** At end-2002, total external debt amounted to US$6.4 billion (193 percent of GDP), with arrears accounting for 60 percent of the total (Table 5). The government's ultimate objective—reduction of the debt burden toward a sustainable level in the context of the enhanced HIPC Initiative—cannot be achieved without a normalization of relations with external creditors. To demonstrate its good will, the government has undertaken to mobilize all savings realized under its 2003 program in order to remain current on its nonreschedulable debt obligations of CFAF 199 billion (one-third of the projected tax revenue), and, to the extent allowed by higher-than-projected oil prices, make payments to reduce the large stock of outstanding arrears (see Box 6).

63. **The government will follow a prudent policy regarding external borrowing,** eschewing all forms of nonconcessional borrowing (with a grant element of less than 50 percent). In particular, it will not contract any loans that would be collateralized on deliveries of crude oil, a policy to which it has scrupulously adhered to since October 2002. The 2003 budget envisages CFAF 37 billion in external project financing, all on concessional terms.

Box 6. External Debt Arrears, End-2002

(In billions of CFA francs)

Creditor	Amount
Total 1/	2,394.4
Multilateral	114.6
Of which: AfDB	85.0
Paris Club	1,210.1
Of which: pre-cutoff date	948.0
Other bilateral	124.2
Banks	809.1
Collateralized debt 2/	37.5
Other	99.0

1/ Of which: nonreschedulable 414.1
2/ Disputed amounts.

D. Risks

64. Attainment of program objectives is realistic but not without risks. Declining oil prices and a weakening U.S. dollar represent two adverse factors in the external economic environment, although the relatively conservative oil price assumption should guard against disappointment on the oil revenue side. There is a risk that transitional problems will slow the mobilization of non-oil revenue, particularly if the disagreement with forestry companies takes time to resolve and if the stricter enforcement of customs regulations meets resistance from operators. The programmed reduction in fiscal spending relies on a strict adherence to budgetary procedures, which will in turn require a strong commitment from all ministries and their cooperation with the Ministry of Finance, as well as broad societal support.

65. Preliminary information suggests that fiscal performance at end-March was on track and that implementation of structural measures is advancing according to schedule. Staff will report on these developments in a supplement to be issued closer to the Board date.

VII. Staff Appraisal

66. **The completion of the turbulent four-year transition period, culminating with the installation of democratic institutions and the consolidation of political power by the President's party, now offers the Congo the opportunity to focus on economic management**. The challenges abound. Decades of central planning, episodes of civil conflict, and disruptions to the normal functioning of the private and public sectors have weakened the country's institutions and undermined the rule of law, leaving a legacy of governance problems and a lingering mistrust of the market economy. After four years of postwar reconstruction, the Congo needs to decisively address deep-rooted problems that have hindered economic development and deprived the population of a better standard of living. The consensus on the near-term priorities is clear: restore order in public finance management; improve transparency and accountability in the management of the Congo's share of oil resources; revitalize the structural reform agenda, including via a plan to resolve the domestic arrears problem; and normalize relations with external creditors.

67. **On the positive side, economic growth in the non-oil sector in 2002 continued to be strong, albeit at a declining rate**. For the third year in a row, the non-oil sector picked up the slack from the drop in oil output, contributing to a modest increase in real GDP per capita. Nevertheless, the Congo's below-potential economic performance calls for implementation of well-coordinated macroeconomic and structural policies to remove the impediments to growth. In this connection, the authorities are appropriately gearing their efforts toward improving the legal framework and attracting private investment.

68. The Congo benefits from the regional monetary and exchange arrangement, which continues to provide policy credibility and contributes to greater overall macroeconomic stability.

69. **The major deterioration in the public finances in 2002 is worrisome.** While unplanned security-related outlays to counter rebel attacks were a contributing factor, spending pressures in the run-up to the general elections and the lack of an effective expenditure control mechanism played a major role.

70. **The reversal envisaged in fiscal performance for 2003 is a step in the right direction.** The staff welcomes the timely tightening of the fiscal policy stance embodied in the 2003 budget and encourages the authorities to ensure steadfast implementation of the underlying measures. In particular, it is essential that fiscal discipline be enforced and budgetary procedures strictly respected. The centralization of all government revenue and expenditure, as well as the discontinuation of the oil companies' direct payments to service providers from the government's share of oil revenue, is critical. The authorities' efforts to mobilize non-oil revenue should be focused on fraud at customs and tax evasion, and include an overhaul of the exemptions system, so as to ensure the legal basis of exemptions and limit their misuse.

71. **Improving transparency and accountability in the transactions of the national oil company remains an important challenge.** Despite the recent steps taken to improve the flow of information between the SNPC and the Ministry of Finance and to initiate the external audit of the SNPC's consolidated accounts, more remains to be done to achieve full transparency and accountability. As a priority, the government needs to set up an effective monitoring system for its share of oil production, including how it is marketed by the SNPC. In this regard, the creation of a monitoring unit in the Ministry of Finance is welcome.

72. **Despite the progress made in bank restructuring, the financial health of the banking system remains fragile.** Efforts to strengthen the financial sector should be continued and broadened to include the insurance sector and social security institutions, which pose a contingent liability to public finances. The structural impediments to commercial bank lending to the private sector need to be addressed, in order to provide some impetus to investment and growth. Microfinance institutions have shown resilience in the face of the adverse domestic environment, demonstrating potential benefits in fostering growth and helping in the fight against poverty through their outreach to underprivileged and rural areas and their relative success at a time when traditional banking institutions have struggled. The challenge now is to develop an appropriate legal and regulatory framework that would support their sound development and ensure that the microenterprises are adequately supervised.

73. **Social indicators in the Congo are well below those of other oil-producing developing countries, and poverty has become pervasive.** The juxtaposition of the dismal social indicators and the Congo's rich endowment of natural resources is indicative of governance problems and inequity in income distribution. It is, therefore, encouraging that the government has recognized the deleterious impact of poor governance on growth and development and has committed itself to address the issue in earnest. The authorities' plans

need to be rapidly fleshed out, so as to allow them to submit expeditiously an anticorruption bill to parliament.

74. **Normalizing relations with external creditors will be essential to mobilize donor support in the context of a Fund-supported program.** The authorities' commitments under the SMP to remain current on debt service due to multilateral institutions and on nonreschedulable debt to Paris Club creditors are a necessary first step. They should take advantage of any oil revenue windfall to make payments toward nonreschedulable arrears in the context of a comprehensive approach to solving the problem of the large stock of payments arrears. Given the heavy cost of oil-collateralized borrowings and their potential disruptive impact on relations with official creditors, the authorities are urged to refrain from contracting such borrowings.

75. **The program for 2003 appropriately addresses the most pressing issues facing the Congo and should help create the conditions for adoption of a more comprehensive medium-term program.** The staff welcomes the fiscal policy stance underpinning the economic program for 2003 and the measures that will be taken to address transparency and accountability issues in the transactions of the national oil company. Successful implementation of measures under the SMP would demonstrate the authorities' resolve and capacity to tackle the difficult challenges facing the Congo, and provide a basis for discussions on a PRGF-supported program.

76. **Timely provision of reliable economic and financial data is essential for effective macroeconomic management and Fund surveillance.** The staff urges the authorities to devote more resources to further strengthen the statistical base, in order to fully implement the recommendations of Fund technical assistance missions.

77. It is recommended that the **next Article IV consultation** with the Congo be held on the **standard 12-month cycle**.

Table 1. Republic of Congo: Selected Economic and Financial Indicators, 2001–08

	2001	2002 Est.	2003 Projections	2004	2005	2006	2007	2008
	(Annual percentage change)							
Production and prices								
GDP at constant prices	3.6	3.5	2.0	7.0	3.0	8.4	3.4	3.6
Oil	-7.5	-1.5	-5.5	10.0	-0.8	14.6	0.0	0.0
Non-oil	12.1	6.7	6.4	5.5	5.1	5.3	5.4	5.5
GDP at current prices	-10.9	2.8	13.6	-3.4	-3.1	9.0	4.5	4.5
GDP deflator	-13.9	-0.7	11.4	-9.8	-6.0	0.5	1.1	0.9
Consumer prices								
Yearly average	0.8	3.3	2.0	2.0	2.0	2.0	2.0	2.0
End of period	8.3	-0.9	2.0	2.0	2.0	2.0	2.0	2.0
External sector								
Exports, f.o.b. (CFA francs)	-13.6	7.6	-1.0	-6.1	-8.7	10.4	3.1	2.1
Imports, f.o.b. (CFA francs)	17.8	-1.5	2.3	4.4	4.2	6.4	6.2	6.0
Export volume	8.9	5.8	4.8	10.0	2.1	11.6	2.6	2.8
Import volume	17.0	-0.7	13.7	3.6	2.8	5.1	4.7	4.4
Terms of trade (deterioration -)	-13.6	3.7	5.8	-15.3	-11.8	-2.3	-0.9	-2.1
Nominal effective exchange rate	1.0	2.1	...	...	...	...	...	...
Real effective exchange rate	-0.4	3.5	...	...	...	...	...	...
Central government finances								
Total revenue	3.4	-8.9	31.6	-12.3	-5.8	8.3	3.3	3.2
Oil revenue	-8.0	-7.7	31.3	-20.7	-13.0	9.5	0.3	0.0
Non-oil revenue	44.7	-11.7	23.2	8.1	7.3	7.5	7.9	7.8
Total expenditure	10.7	15.3	-24.0	-0.9	5.3	3.6	2.5	4.6
Current	3.9	27.8	-27.6	-0.2	6.5	3.0	1.2	4.0
Capital	28.8	-11.5	-12.8	-2.5	2.2	5.2	6.1	6.3
	(In percent of beginning-of-period broad money, unless otherwise indicated)							
Money and credit								
Net domestic assets	14.5	8.8	-1.2	-4.6	-4.2	-2.5	-0.9	-0.4
Domestic credit	3.0	-6.7	-1.2	-5.1	-4.2	-2.5	-0.9	-0.4
Central government	21.0	9.0	-3.4	-7.4	-6.5	-4.9	-3.4	-2.9
Credit to the economy	-16.4	-16.5	2.1	2.3	2.3	2.4	2.4	2.5
Broad money	-22.8	13.1	8.6	8.1	7.7	7.9	8.0	8.1
Velocity of broad money (non-oil)	3.0	3.5	3.4	3.4	3.4	3.4	3.4	3.4
	(In percent of GDP)							
Investment and saving 1/								
Gross national saving	23.3	25.5	26.3	25.9	22.6	24.8	26.3	26.7
Government	8.4	0.3	14.8	11.2	8.6	9.5	9.8	9.5
Other	14.8	25.2	11.5	14.7	14.0	15.3	16.5	17.2
Gross investment	26.4	23.3	21.3	24.6	26.5	24.9	24.5	24.2
Government	10.1	8.7	6.6	6.7	7.1	6.8	6.9	7.0
Other	16.4	14.7	14.7	17.9	19.4	18.1	17.6	17.2
Central government finances								
Total revenue	30.9	27.4	31.7	28.8	28.0	27.8	27.5	27.2
Total expenditure	31.6	35.5	23.7	24.3	26.5	25.2	24.7	24.7
Overall balance (deficit -, commitment)								
Including grants	-0.7	-8.1	8.0	4.5	1.5	2.7	2.8	2.5
Excluding grants	-0.9	-8.3	7.1	3.7	0.8	2.1	2.2	1.9
Primary balance (deficit-)	6.6	0.1	11.7	7.7	5.5	6.3	5.8	5.3
Of which: non-oil primary balance	-14.5	-18.8	-10.2	-10.2	-10.6	-9.9	-9.7	-9.6
Domestic primary balance (deficit-) 2/	6.8	1.2	14.1	9.7	7.4	7.9	7.4	6.8

Table 1. Republic of Congo: Selected Economic and Financial Indicators, 2001–08

	2001	2002	2003	2004	2005	2006	2007	2008
		Est.		Projections				
				(In percent of GDP)				
Current account	-3.4	2.0	4.8	1.1	-4.1	-0.3	1.6	2.3
Including public transfers	-3.2	2.2	5.0	1.3	-3.9	-0.1	1.8	2.5
Overall balance of payments	-5.1	-1.2	1.2	0.0	-1.8	-0.6	-4.4	-4.8
External public debt (end of period)	196.3	192.7	161.9	98.9	98.4	85.7	80.3	75.4
Net transfer of resources	-6.2	3.2	-11.8	-9.0	-8.2	-7.5	-4.5	-4.1
Of which: financing gap	0.0	0.0	0.0	1.8	3.7	2.1	5.8	6.2
				(In percent of exports of goods and services)				
External public debt service								
Before debt relief	23.6	22.6	20.5	16.7	16.0	14.1	17.9	18.2
After debt relief 3/	23.1	21.9	20.5	9.2	8.2	7.4	17.9	18.2
External public debt	249.6	234.8	225.5	141.3	148.4	127.7	121.3	116.5
				(In percent of total government revenue, excluding grants)				
External public debt service								
Before debt relief	60.4	68.0	47.7	41.6	38.8	34.8	44.1	44.3
After debt relief 3/	59.2	66.2	47.7	22.9	19.9	18.3	44.1	44.3
External public debt	638.4	708.3	524.7	353.0	360.5	314.8	298.2	283.3
				(In billions of CFA francs, unless otherwise indicated)				
Gross official foreign reserves	53.6	22.2	46.4	80.4	114.9	149.9	185.5	222.0
In months of imports, c.i.f.	1.3	0.5	1.1	1.8	2.5	3.1	3.6	4.1
Nominal GDP	2,043	2,101	2,387	2,306	2,233	2,433	2,544.0	2,658.9
Exchange rate: CFA francs per U.S. dollar (average)	733.0	697.0	...	...	...	...	...	...
World oil price (U.S. dollars per barrel)	24.3	25.0	31.0	25.0	22.0	21.0	21.0	21.0
Oil production (in millions of barrels)	89.6	88.0	82.0	90.2	89.4	102.5	102.5	102.5

Sources: Congolese authorities; and staff estimates and projections.

1/ Saving and investment data are highly preliminary. Balance of payments estimates are being revised extensively, with the help of Fund technical assistance.

2/ Authorities' definition; equals revenue minus noninterest current expenditure minus domestically financed capital expenditure.

3/ After taking account, for illustrative purposes, of the impact of debt relief on Naples terms for eligible arrears and current maturities during 2004–06.

Table 2. Republic of Congo: Central Government Operations, 2001–08

	2001	2002 Est.	2003	2004	2005 Projections	2006	2007	2008
					(In billions of CFA francs)			
Revenue and grants	631.8	575.4	757.2	664.1	625.6	677.5	699.8	722.5
Revenue	628.1	571.7	736.5	646.1	609.6	662.5	684.8	707.5
Oil revenue	430.8	397.5	521.7	413.9	360.3	394.5	395.7	395.7
Non-oil revenue	197.3	174.2	214.8	232.2	249.3	268.0	289.1	311.8
Domestic taxes	126.9	125.3	151.5	163.8	176.5	190.4	205.6	222.3
Customs receipts	43.3	36.1	55.0	59.5	63.2	67.2	72.3	77.4
Domestic petroleum taxes	15.6	10.0	0.0	0.0	0.0	0.0	0.0	0.0
Nontax revenue	11.5	2.8	8.3	8.9	9.6	10.4	11.2	12.1
Grants	3.7	3.7	20.7	18.0	16.0	15.0	15.0	15.0
Expenditure and net lending	645.9	746.4	566.7	561.2	591.0	612.1	627.7	656.7
Current expenditure	440.6	563.1	407.5	406.6	433.0	445.9	451.4	469.4
Wage bill	118.1	120.4	120.0	122.4	124.8	127.3	129.9	132.5
Other current expenditure	159.8	256.7	162.2	173.2	184.2	196.2	209.2	223.3
Material and supplies	32.1	78.4	50.0	54.1	58.2	62.8	67.9	73.4
Common charges	55.0	73.4	42.8	45.4	48.0	50.9	53.9	57.2
Transfers	72.7	104.9	69.4	73.7	77.9	82.5	87.5	92.8
Local authorities	10.7	9.3	16.0	17.3	18.6	20.1	21.7	23.5
Interest	152.0	176.7	109.3	93.8	105.4	102.3	90.6	90.1
Domestic	7.7	14.4	13.4	12.6	11.3	9.9	8.3	7.4
External	144.3	162.3	95.8	81.2	94.1	92.4	82.3	82.7
Capital expenditure	205.4	181.7	158.5	154.6	157.9	166.2	176.3	187.3
Domestically financed	200.4	158.1	100.4	108.6	116.9	126.2	136.3	147.3
Externally financed	5.0	23.6	58.1	46.0	41.0	40.0	40.0	40.0
Net lending	0.0	1.6	0.6	0.0	0.0	0.0	0.0	0.0
Primary balance	134.2	2.0	279.1	178.7	123.9	152.6	147.7	140.9
Of which: non-oil primary balance	-296.7	-395.5	-242.6	-235.2	-236.4	-241.9	-248.0	-254.8
Balance, commitment basis								
Excluding grants	-17.8	-174.6	169.8	84.9	18.6	50.4	57.1	50.8
Including grants	-14.1	-171.0	190.6	102.9	34.6	65.4	72.1	65.8
Of which: non-oil balance	-444.9	-568.5	-331.2	-311.0	-325.7	-329.1	-323.6	-329.9
Change in arrears	52.5	183.7	32.1	-2,214.6	-87.2	-87.2	0.0	0.0
External	104.5	210.8	32.1	-2,214.6	-87.2	-87.2	0.0	0.0
Domestic	-52.0	-27.2	0.0	0.0	0.0	0.0	0.0	0.0
Balance, cash basis	38.4	12.7	222.7	-2,111.7	-52.6	-21.8	72.1	65.8
Financing	-38.4	-12.7	-222.7	-177.9	-144.9	-139.2	-219.9	-230.0
Foreign (net)	-85.0	-15.0	-212.8	-152.9	-110.8	-109.4	-194.6	-205.8
Drawings	73.4	234.1	37.4	28.0	25.0	25.0	25.0	25.0
Project financing	1.3	20.0	37.4	28.0	25.0	25.0	25.0	25.0
Nonproject financing	28.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Collateralized borrowing	44.1	214.1	0.0	0.0	0.0	0.0	0.0	0.0
Amortization due	-233.6	-259.7	-250.2	-180.9	-135.8	-134.4	-219.6	-230.8
Rescheduling obtained	11.6	4.3	...	...	...	...	...	...
Debt cancellation	63.6	6.4	...	...	...	...	...	...

Table 2. Republic of Congo: Central Government Operations, 2001–08

	2001	2002 Est.	2003	2004	2005	2006	2007	2008
			Projections					
			(In billions of CFA francs)					
Domestic (net)	46.6	2.3	-9.9	-25.0	-34.1	-29.8	-25.2	-24.2
Banking system (net)	75.1	19.8	-9.8	-23.6	-22.2	-17.9	-13.4	-12.3
Nonbank financing	-28.4	-17.5	-0.1	-1.4	-11.9	-11.9	-11.9	-11.9
Sale of assets	3.0	7.5	4.4	0.0	0.0	0.0	0.0	0.0
Cost of financial sector reforms	-20.9	-3.8	0.0	0.0	0.0	0.0	0.0	0.0
Cost of structural reforms	-1.2	-7.6	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional oil receipts	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic debt and other	-9.3	-13.6	-4.5	-1.4	-11.9	-11.9	-11.9	-11.9
Financing gap	0.0	0.0	0.0	2,289.6	197.5	161.1	147.8	164.2
Pledges	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Possible debt relief 1/	...	...	0.0	2,248.4	115.3	109.2	0.0	0.0
Residual financing gap	0.0	0.0	0.0	41.2	82.2	51.9	147.8	164.2
			(In percent of GDP)					
Revenue and grants	30.9	27.4	31.7	28.8	28.0	27.8	27.5	27.2
Revenue	30.7	27.2	30.9	28.0	27.3	27.2	26.9	26.6
Oil revenue	21.1	18.9	21.9	18.0	16.1	16.2	15.6	14.9
Non-oil revenue	9.7	8.3	9.0	10.1	11.2	11.0	11.4	11.7
Total expenditure	31.6	35.5	23.7	24.3	26.5	25.2	24.7	24.7
Of which : Primary expenditure	23.9	26.0	16.7	18.3	19.9	19.3	19.5	19.8
Current	21.6	26.8	17.1	17.6	19.4	18.3	17.7	17.7
Wage bill	5.8	5.7	5.0	5.3	5.6	5.2	5.1	5.0
Interest	7.4	8.4	4.6	4.1	4.7	4.2	3.6	3.4
Other	8.3	12.7	7.5	8.3	9.1	8.9	9.1	9.3
Capital	10.1	8.7	6.6	6.7	7.1	6.8	6.9	7.0
Overall balance, commitment basis								
Excluding grants	-0.9	-8.3	7.1	3.7	0.8	2.1	2.2	1.9
Including grants	-0.7	-8.1	8.0	4.5	1.5	2.7	2.8	2.5
Primary balance	6.6	0.1	11.7	7.7	5.5	6.3	5.8	5.3
Of which: non-oil primary balance	-14.5	-18.8	-10.2	-10.2	-10.6	-9.9	-9.7	-9.6
Residual financing gap	0.0	0.0	0.0	1.8	3.7	2.1	5.8	6.2
			(In percent of non-oil GDP)					
Non-oil revenue	22.3	17.9	20.5	20.5	20.5	20.4	20.4	20.3
Wage bill	13.3	12.4	11.5	10.8	10.3	9.7	9.2	8.6
Non-oil primary balance	-33.5	-40.6	-23.2	-20.8	-19.4	-18.4	-17.5	-16.6
Memorandum items:			(In billions of CFA francs)					
GDP at current market prices	2,043.4	2,100.9	2,387.2	2,305.5	2,233.0	2,433.3	2,544.0	2,658.9
Non-oil GDP at market prices	884.8	974.5	1,045.6	1,130.6	1,218.0	1,314.2	1,419.2	1,534.1
External debt payments (excluding IMF)	198.2	200.5	313.9	228.3	201.7	204.8	301.9	313.5

Sources: Ministry of Economy, Finance, and the Budget; and staff estimates and projections.

1/ Projections for 2004–06 assume debt relief on Naples terms for eligible arrears and current maturities.

Table 3. Republic of Congo: Monetary Survey, 2001–03

	2001	2002				2003			
		Mar.	June	Sep.	Dec.	Mar.	June	Sep.	Dec.
						SMP		Projections	
	(In billions of CFA francs)								
Net foreign assets	26.9	23.8	49.5	54.5	38.0	16.0	38.6	64.7	66.8
Central bank	23.9	18.2	29.1	44.7	-0.9	-22.9	-0.3	25.8	27.9
Deposit money banks	3.0	5.6	20.5	9.8	38.9	38.9	38.9	38.9	38.9
Net domestic assets	231.1	222.3	217.1	236.0	253.7	251.3	251.0	250.9	250.1
Net domestic credit	267.2	268.3	239.6	229.6	249.8	247.4	247.1	247.0	246.1
Net credit to the public sector	158.2	167.8	175.8	158.9	183.3	178.0	177.2	175.2	173.6
Net credit to the government	163.5	172.8	178.0	171.7	186.8	181.4	180.6	178.6	177.0
Central bank	160.3	162.4	170.3	171.1	174.0	177.1	176.3	174.3	172.7
Deposit money banks	3.2	10.3	7.7	0.6	12.8	4.3	4.3	4.3	4.3
Claims on public agencies, net	-5.3	-5.0	-2.2	-12.9	-3.4	-3.4	-3.4	-3.4	-3.4
Credit to the economy	109.0	100.5	63.8	70.7	66.4	69.4	69.9	71.8	72.6
Other items, net	-36.1	-46.0	-22.5	6.4	3.9	3.9	3.9	3.9	3.9
Broad money	258.0	246.1	266.6	290.5	291.7	267.3	289.6	315.6	316.8
Currency outside banks	142.9	126.0	137.1	127.0	129.0	148.0	148.3	138.0	136.3
Demand deposits	95.2	103.8	114.8	140.7	142.2	98.6	122.2	152.8	159.4
Time deposits	19.9	16.2	14.7	22.8	20.5	20.6	19.1	24.8	21.2
	(Changes in percent of beginning-of-year broad money)								
Net foreign assets	-37.3	-1.2	8.8	10.7	4.3	-7.6	0.2	9.1	9.9
Net domestic assets	14.5	-3.4	-5.4	1.9	8.8	-0.8	-0.9	-1.0	-1.2
Net domestic credit	3.0	0.4	-10.7	-14.6	-6.7	-0.8	-0.9	-1.0	-1.2
Net credit to the government	21.0	3.6	5.6	3.2	9.0	-1.8	-2.1	-2.8	-3.4
Credit to the economy	-16.4	-3.3	-17.5	-14.8	-16.5	1.0	1.2	1.9	2.1
Broad money	-22.8	-4.6	3.3	12.6	13.1	-8.4	-0.7	8.2	8.6
Memorandum items:									
Velocity									
Total GDP/average M2	6.9	...	...	...	7.6	...	...	...	7.8
Non-oil GDP/average M2	3.0	...	...	...	3.5	...	...	...	3.4
Non-oil GDP/end-period M2	3.4	...	...	...	3.3	...	...	...	3.3
Total GDP growth (in percent)	-10.9	...	...	...	2.8	...	...	...	13.6
Non-oil GDP growth (in percent)	12.0	...	...	...	10.1	...	...	...	7.3
Credit to the economy/non-oil GDP (in percent)	12.3	...	...	...	6.8	...	...	...	6.9

Sources: Bank of Central African States; and staff calculations.

Table 4. Republic of Congo: Balance of Payments, 2001–08

(In billions of CFA francs)

	2001	2002	2003	2004	2005	2006	2007	2008
		Est.	Projections					
Current account	-64.6	46.1	120.0	30.6	-86.4	-2.3	44.7	66.4
Balance of goods and services	544.2	614.1	591.2	475.4	329.1	437.7	473.6	494.0
Trade balance	1,007.1	1,128.1	1,099.9	980.1	826.6	934.2	944.9	941.1
Exports, f.o.b.	1,506.6	1,620.3	1,603.4	1,505.9	1,374.4	1,517.0	1,563.6	1,596.9
Oil sector	1,341.4	1,426.9	1,353.5	1,220.2	1,054.5	1,158.5	1,162.1	1,161.2
Non-oil sector	165.2	193.5	249.9	285.7	319.9	358.5	401.5	435.7
Imports, f.o.b.	-499.5	-492.2	-503.5	-525.8	-547.8	-582.8	-618.7	-655.8
Oil sector	-179.3	-70.1	-76.4	-76.4	-77.7	-83.7	-83.6	-83.6
Government	-123.2	-108.4	-93.6	-92.2	-94.2	-99.1	-105.1	-111.7
Non-oil private sector	-197.0	-313.7	-333.5	-357.2	-375.9	-400.0	-429.9	-460.4
Balance of services	-462.9	-514.1	-508.8	-504.7	-497.4	-496.5	-471.3	-447.1
Oil sector	-358.8	-352.4	-328.2	-361.0	-342.1	-321.0	-303.8	-271.1
Non-oil sector	-104.1	-161.7	-180.6	-143.7	-155.4	-175.5	-167.5	-175.9
Income	-611.2	-570.7	-475.0	-450.3	-419.2	-443.9	-433.1	-432.0
Labor income	-19.3	-21.7	-19.1	-21.3	-21.1	-24.2	-24.2	-24.2
Investment income	-592.0	-549.0	-455.9	-429.0	-398.0	-419.7	-408.9	-407.8
Of which: interest on public debt	-145.1	-162.8	-96.3	-81.6	-94.3	-92.6	-82.3	-82.7
Current transfers (net)	2.4	2.7	3.8	5.6	3.6	3.9	4.2	4.3
Private	-1.8	-1.7	-0.5	0.2	-1.0	-0.7	-0.5	-0.5
Public	4.2	4.4	4.3	5.3	4.6	4.7	4.7	4.8
Of which : technical assistance	2.6	2.2	2.0	1.7	2.1	2.0	2.0	2.0
Capital account	69.2	10.7	21.6	19.1	17.2	16.0	17.0	18.1
Official grants	3.7	3.7	20.7	18.0	16.0	15.0	15.0	15.0
Other (including actual debt cancellation)	65.5	7.1	0.9	1.1	1.2	1.0	2.0	3.1
Financial account	-107.2	20.7	-112.8	-2,298.9	-87.3	-136.3	-173.9	-212.2
Direct investment (net)	160.0	156.6	185.5	164.4	144.2	158.7	160.4	161.4
Of which: oil sector	152.1	147.8	176.1	154.2	133.2	146.9	147.6	147.6
Portfolio investment	-5.3	-5.9	-5.5	-4.1	-5.2	-5.2	-5.0	-4.9
Other investment	-262.0	-130.0	-292.9	-2,459.1	-226.3	-289.9	-329.4	-368.8
Medium and long term	-206.6	107.2	-255.5	-2,425.8	-233.8	-246.8	-245.3	-256.3
Public sector	-44.1	189.5	-180.6	-2,367.5	-198.0	-196.6	-194.6	-205.8
Drawings	73.4	234.1	37.4	28.0	25.0	25.0	25.0	25.0
Project	1.3	20.0	37.4	28.0	25.0	25.0	25.0	25.0
Program	28.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	44.1	214.1	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-233.6	-259.7	-250.2	-180.9	-135.8	-134.4	-219.6	-230.8
Net change in arrears	104.5	210.8	32.2	-2,214.6	-87.2	-87.2	0.0	0.0
Debt rescheduling	11.6	4.3	...	...	...	...	...	...
Private sector	-162.4	-82.3	-74.9	-58.2	-35.8	-50.2	-50.6	-50.5
Oil sector	-158.4	-77.1	-70.3	-55.0	-34.4	-47.6	-48.0	-47.9
Non-oil sector	-4.0	-5.2	-4.6	-3.2	-1.4	-2.6	-2.6	-2.6

Table 4. Republic of Congo: Balance of Payments, 2001–08

(In billions of CFA francs)

	2001	2002 Est.	2003	2004	2005 Projections	2006	2007	2008
Short term	-55.4	-237.3	-37.3	-33.4	7.5	-43.1	-84.1	-112.5
Of which: commercial banks	20.4	-35.8	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions 1/	-1.8	-102.3	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance of payments	-104.4	-24.8	28.8	-2,249.1	-156.6	-122.7	-112.2	-127.8
Financing	104.4	24.8	-28.8	-40.5	-40.9	-38.4	-35.6	-36.4
Reserve financing	104.4	24.8	-28.8	-40.5	-40.9	-38.4	-35.6	-36.4
IMF (net)	-0.9	-6.0	-4.5	-6.5	-6.5	-3.4	0.0	0.0
Purchases	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repurchases	-0.9	-6.0	-4.5	-6.5	-6.5	-3.4	0.0	0.0
Other reserves	105.3	30.8	-24.3	-34.0	-34.5	-35.0	-35.6	-36.4
Financing gap	0.0	0.0	0.0	2,289.6	197.5	161.1	147.8	164.2
Debt relief	...	...	...	2,248.4	115.3	109.2	0.0	0.0
Residual financing gap 2/	0.0	0.0	0.0	41.2	82.2	51.9	147.8	164.2

Sources: Bank of Central African States; and staff estimates and projections.

1/ The large figure for 2002 reflects the highly preliminary nature of the estimates.

2/ After taking into account, for illustrative purposes,the effects of debt relief on Naples terms for eligible arrears and current maturities in 2004–06.

Table 5. Republic of Congo: External Debt Outstanding and Scheduled Debt Service, 2001–08

	2001	2002 Est.	2003	2004	2005	2006	2007	2008
			Projections					
	(In billions of CFA francs)							
Total medium- and long-term debt outstanding	4,010.3	4,049.4	3,864.3	2,281.0	2,197.2	2,085.4	2,042.1	2,004.1
Of which: arrears	2,282.6	2,394.2	2,426.5	...	...	...	...	...
Total medium- and long-term debt outstanding, excluding IMF	3,981.5	4,028.6	3,848.0	2,271.2	2,193.8	2,085.4	2,042.1	2,004.1
Multilateral	376.6	411.2	388.7	330.7	276.4	222.3	208.5	197.3
Paris Club creditors	2,231.1	2,233.8	2,155.9	1,342.9	1,274.1	1,190.4	1,281.7	1,286.4
Other official creditors	152.6	146.5	183.9	123.5	145.5	164.4	176.5	186.2
Commercial banks	852.0	809.1	809.1	269.7	269.7	269.7	242.7	242.7
Collateralized debt	247.5	302.1	183.4	129.1	114.4	101.6	89.1	76.6
Other private creditors	121.6	126.0	127.1	75.2	113.7	137.0	362.5	440.5
IMF credit outstanding	28.8	20.8	16.3	9.8	3.4	0.0	0.0	0.0
Debt service due (incl. IMF)	379.6	389.1	351.0	269.0	236.6	230.4	301.9	313.5
Principal	234.5	265.7	254.7	187.4	142.3	137.8	219.6	230.8
Interest	145.1	123.3	96.3	81.6	94.3	92.6	82.3	82.7
Multilateral	42.7	44.5	37.3	34.4	29.7	26.0	22.7	19.6
Of which: IMF	1.7	6.6	5.0	6.9	6.7	3.6	0.0	0.0
Bilateral	192.2	177.5	173.3	164.3	155.7	146.7	141.3	134.6
Paris Club pre-cutoff-date debt	161.0	151.1	144.3	136.5	131.2	125.2	123.5	118.2
Paris Club post-cutoff-date debt	25.4	22.1	24.8	23.6	20.0	16.9	15.8	14.8
Non-Paris Club creditors	5.9	4.2	4.2	4.2	4.5	4.5	2.0	1.6
Commercial banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Collateralized debt	129.3	151.4	134.6	63.7	21.4	18.3	12.6	12.5
Suppliers' credits	15.5	15.7	5.8	5.0	4.7	4.5	4.4	4.3
Debt service on new borrowing	0.0	0.0	0.0	1.5	25.1	34.9	121.0	142.6
Debt service on financing gap	0.0	0.0	0.0	0.0	1.7	4.9	11.1	25.1
Debt rescheduling 1/	11.6	4.3	0.0	749.5	38.4	36.4	0.0	0.0
Debt service	3.3	4.3	0.0	40.3	38.4	36.4	0.0	0.0
Principal	2.0	1.8	0.0	28.8	29.1	29.0	0.0	0.0
Interest	1.4	2.4	0.0	11.5	9.3	7.4	0.0	0.0
Arrears	8.3	0.0	0.0	709.1	0.0	0.0	0.0	0.0
Debt cancellation 1/	63.6	6.4	0.0	1,498.9	76.9	72.8	0.0	0.0
Debt service	4.7	6.4	0.0	80.7	76.9	72.8	0.0	0.0
Principal	4.7	1.7	0.0	57.7	58.2	58.1	0.0	0.0
Interest	0.0	4.6	0.0	23.0	18.7	14.7	0.0	0.0
Arrears	58.9	0.0	0.0	1,418.3	0.0	0.0	0.0	0.0

Table 5. Republic of Congo: External Debt Outstanding and Scheduled Debt Service, 2001–08

	2001	2002 Est.	2003	2004	2005	2006	2007	2008
			Projections					
	(In billions of CFA francs)							
Debt service due after debt relief	371.6	378.4	351.0	148.0	121.2	121.2	301.9	313.5
Principal	227.8	262.2	254.7	100.9	55.0	50.7	219.6	230.8
Interest	143.8	116.2	96.3	47.1	66.3	70.4	82.3	82.7
Memorandum items:	(In percent)							
External public debt/GDP								
Including IMF	196.3	192.7	161.9	98.9	98.4	85.7	80.3	75.4
Excluding IMF	194.8	191.8	161.2	98.5	98.2	85.7	80.3	75.4
External public debt/ exports of goods and services								
Including IMF	249.6	234.8	225.5	141.3	148.4	127.7	121.3	116.5
Excluding IMF	247.8	233.6	224.6	140.7	148.1	127.7	121.3	116.5
Debt service/exports of goods and services								
Before relief	23.6	22.6	20.5	16.7	16.0	14.1	17.9	18.2
Principal	14.6	15.4	14.9	11.6	9.6	8.4	13.0	13.4
Interest	9.0	7.2	5.6	5.1	6.4	5.7	4.9	4.8
After relief	23.1	21.9	20.5	9.2	8.2	7.4	17.9	18.2
Principal	14.2	15.2	14.9	6.2	3.7	3.1	13.0	13.4
Interest	8.9	6.7	5.6	2.9	4.5	4.3	4.9	4.8
Debt service payments/ government receipts								
Before relief	60.4	68.0	47.7	41.6	38.8	34.8	44.1	44.3
After relief	59.2	66.2	47.7	22.9	19.9	18.3	44.1	44.3
Debt service payments/ non-oil GDP								
Before relief	42.9	39.9	33.6	23.8	19.4	17.5	21.3	20.4
After relief	42.0	38.8	33.6	13.1	10.0	9.2	21.3	20.4

Sources: Caisse Congolaise d'Amortissement; and staff estimates and projections.

1/ After taking into account, for illustrative purposes, the effects of debt relief on Naples terms for eligible arrears and current maturities in 2004-06.

Table 6. Republic of Congo: Medium-Term Scenarios, 2002–08
(In units indicated)

	2002 Est.	2003	2004	2005	2006	2007	2008
		Projections					
Baseline scenario							
World crude oil price (U.S. dollars per barrel)	24.97	31.00	25.00	22.00	21.00	21.00	21.00
Oil exports, f.o.b. (billions of CFA francs)	1,427	1,354	1,220	1,054	1,159	1,162	1,161
Non-oil exports, f.o.b. (billions of CFA francs)	193	250	286	320	358	401	436
Current account, (excluding grants, in percent of GDP)	2.0	4.8	1.1	-4.1	-0.3	1.6	2.3
Overall fiscal balance, excluding grants (commitment basis, billions of CFA francs)	-175	170	85	19	50	57	51
Overall fiscal balance, excluding grants (commitment basis, in percent of GDP (deficit-))	-8.3	7.1	3.7	0.8	2.1	2.2	1.9
Financing gap (billions of CFA francs) 1/	0	0	41	82	52	148	164
Financing gap (in percent of GDP)	0.0	0.0	1.8	3.7	2.1	5.8	6.2
Pessimistic scenario: oil price lower by US$2 per barrel per year 2/							
World crude oil price (U.S. dollars per barrel)	...	22.00	20.00	18.00	16.00	14.00	12.00
Oil exports, f.o.b. (billions of CFA francs)	...	932	959	827	724	628	527
Current account (excluding grants, in percent of GDP)	...	-10.0	-8.5	-15.4	-18.3	-19.9	-22.7
Overall fiscal balance, excluding grants (commitment basis, billions of CFA francs)	...	23	3	-60	-100	-136	-184
Overall fiscal balance, excluding grants (commitment basis, in percent of GDP (deficit-))	...	1.2	0.2	-3.0	-5.0	-6.7	-9.0
Financing gap (billions of CFA francs)	...	32	163	197	241	354	424
Financing gap (in percent of GDP)	...	1.6	7.9	9.8	12.0	17.5	20.8
Deviation from the baseline scenario (in percent of GDP)	...	1.6	6.1	6.1	9.9	11.7	14.6
Optimistic scenario: oil price constant in real terms 3/							
World crude oil price (U.S. dollars per barrel)	...	26.50	26.95	27.49	28.04	28.60	29.17
Oil exports, f.o.b. (billions of CFA francs)	...	1,143	1,322	1,338	1,575	1,611	1,643
Current account (excluding grants, in percent of GDP)	...	-0.4	3.8	4.9	11.1	13.2	14.4
Overall fiscal balance (commitment basis, billions of CFA francs)	...	51	117	106	182	201	214
Overall fiscal balance (commitment basis, in percent of GDP (deficit-))	...	2.4	4.9	4.2	6.4	6.8	6.8
Financing gap (billions of CFA francs) (surplus -)	...	3	49	31	-44	3	-4
Financing gap (in percent of GDP)	...	0.2	2.0	1.2	-1.6	0.1	-0.1
Deviation from the baseline scenario (in percent of GDP)	...	0.2	0.3	-2.5	-3.7	-5.7	-6.3

Sources: Congolese authorities; and staff estimates and projections.

1/ Projections are based on World Economic Outlook (WEO) assumptions of March 11, 2003.

2/ Projections based on the authorities' oil price assumption for 2003 and assuming a US$2 drop per barrel in oil price from 2004 onward and a 15 percent decline in production.

3/ Projections based on WEO oil price (April 19, 2003), and assuming that oil price is constant in real terms from 2004 onward and oil production remains as in the baseline scenario.

Table 7. Republic of Congo: Central Government Operations, 2001–03

(In billions of CFA francs)

	2001	2002								2003				
		March	March	Cumulative						Cumulative				WEO
				June		Sep.		Dec.		Mar.	Jun.	Sep.	Dec. 1/	Oil Price
	Est.	Proj.	Est.	Prog.	Est.	Prog.	Est.	Prog.	Est.	Program		Indicative		
Revenue and grants	631.8	132.6	124.3	292.7	274.4	437.4	430.8	585.3	575.4	136.5	285.1	447.2	610.5	757.2
Revenue	628.1	132.2	124.2	279.3	274.4	417.3	429.5	558.5	571.7	135.5	281.9	437.8	589.8	736.5
Oil revenue	430.8	90.3	81.3	176.5	190.5	263.2	304.2	353.0	397.5	93.8	187.5	281.3	375.0	521.7
Non-oil revenue	197.3	41.9	43.0	102.8	83.9	154.1	125.3	205.5	174.2	41.7	94.4	156.5	214.8	214.8
Grants	3.7	0.4	0.0	13.4	0.0	20.1	1.3	26.8	3.7	1.0	3.2	9.4	20.7	20.7
Expenditure and net lending	645.9	181.6	157.7	286.0	383.0	429.3	620.9	569.2	746.4	133.1	270.2	416.2	566.7	566.7
Current expenditure	440.6	136.9	116.8	194.6	271.9	292.2	474.0	386.4	563.1	104.1	205.1	305.5	407.6	407.6
Wage bill	118.1	30.0	29.6	59.0	59.7	88.5	90.0	118.0	120.4	30.0	60.0	90.0	120.0	120.0
Other current expenditure	159.8	70.0	52.8	66.2	129.3	99.3	209.9	132.3	256.7	40.6	81.1	121.7	162.2	162.2
Local authorities	10.7	3.1	0.0	6.3	0.0	9.5	9.3	12.6	9.3	4.0	8.0	12.0	16.0	16.0
Interest	152.0	33.8	34.3	63.1	82.8	95.0	164.8	123.5	176.7	29.5	56.0	81.8	109.3	109.3
Capital expenditure	205.4	44.7	40.9	91.4	111.1	137.1	145.4	182.8	181.7	29.0	64.9	110.3	158.5	158.5
Domestically financed	200.4	43.8	40.5	59.7	109.8	89.6	142.2	119.4	158.1	27.0	52.1	77.4	100.4	100.4
Externally financed	5.0	0.9	0.4	31.7	1.3	47.5	3.2	63.3	23.6	2.0	12.8	32.9	58.1	58.1
Primary balance (excluding foreign-financed investment)	-24.4	130.5	-23.4	-154.0	-7.3	176.1	-25.9	15.4	25.7	33.9	80.5	136.3	190.6	337.3
Primary balance	134.2	-15.6	0.9	56.4	-25.8	83.0	-26.6	112.8	2.0	31.9	67.7	103.4	132.4	279.1
Of which: non-oil primary balance	-296.7	-105.9	-80.4	-120.1	-216.3	-180.2	-330.8	-240.2	-395.5	-61.9	-119.8	-177.9	-242.6	-242.6
Balance, commitment basis														
Excluding grants	-17.8	-49.4	-33.4	-6.7	-108.6	-12.0	-191.4	-10.7	-174.6	2.4	11.7	21.6	23.1	169.8
Including grants	-14.1	-49.0	-33.4	6.7	-108.6	8.1	-190.1	16.1	-171.0	3.4	14.9	31.0	43.8	190.5
Of which: non-oil balance	-444.9	-139.3	-114.7	-169.9	-299.1	-255.1	-494.3	-337.0	-568.5	-90.4	-172.6	-250.3	-331.2	-331.2
Change in arrears	52.5	35.3	48.7	86.4	124.5	-108.2	145.6	-71.0	183.7	28.3	75.0	101.4	147.2	32.2
External	104.5	34.9	48.7	80.0	116.4	96.8	155.1	131.6	212.1	28.3	75.1	101.4	147.2	32.2
Domestic	-52.0	0.5	0.0	6.4	8.1	-204.9	-9.5	-202.6	-28.5	0.0	0.0	0.0	0.0	0.0
Balance, cash basis	38.4	-13.6	15.3	93.1	15.9	-100.1	-44.5	-54.9	12.7	31.7	90.0	132.4	191.0	222.7
Financing	-38.4	-56.2	-15.3	-93.1	-15.9	100.0	44.5	54.9	-12.7	-38.3	-146.0	-164.7	-222.7	-222.7
Foreign (net)	-85.0	-46.1	-29.1	-90.9	-16.3	-106.2	51.4	-149.9	-15.0	-31.3	-138.3	-154.8	-212.8	-212.8
Drawings	73.4	0.5	15.2	18.3	119.6	27.4	207.0	36.6	234.1	1.0	9.6	23.5	37.4	37.4
Project financing	1.3	0.5	0.4	18.3	1.3	27.4	1.8	36.6	20.0	1.0	9.6	23.5	37.4	37.4
Nonproject financing	28.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Collateralized borrowing	44.1	0.0	14.8	0.0	118.3	0.0	205.2	0.0	214.1	0.0	0.0	0.0	0.0	0.0
Amortization due	-233.6	-46.6	-44.6	-109.1	-138.6	-133.7	-185.3	-186.5	-259.7	-32.3	-147.9	-178.3	-250.2	-250.2
Rescheduling	11.6	0.0	0.0	0.0	0.9	0.0	10.5	0.0	4.3	0.0	0.0	0.0	0.0	0.0
Debt cancellation 2/	63.6	0.0	0.3	0.0	1.8	0.0	19.1	0.0	6.4	0.0	0.0	0.0	0.0	0.0
Domestic (net)	46.6	-10.1	13.8	-2.2	0.4	206.3	-6.9	204.8	2.3	-6.9	-7.7	-9.9	-9.9	-9.9
Banking system (net)	75.1	-7.4	16.0	-4.2	10.8	-6.4	8.2	-8.5	19.8	-5.4	-6.1	-8.2	-9.8	-9.8
Nonbank financing	-28.4	-2.7	-2.2	2.0	-10.4	212.7	-15.1	213.4	-17.5	-1.5	-1.6	-1.7	-0.1	-0.1
Sale of assets	3.0	1.7	0.0	5.4	0.0	8.1	6.8	10.8	7.5					
Cost of financial sector reform	-20.9	-1.2	-0.8	0.0	-1.1	0.0	-3.7	0.0	-3.8					
Bond issues	0.0	0.0	0.0	0.0	0.0	104.7	0.0	104.7	0.0					
Cost of structural reforms	-1.2	-1.8	0.0	0.0	0.0	0.0	-7.2	0.0	-7.6					
Exceptional oil receipts	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0					
Domestic debt and other	-9.3	-1.4	-1.4	-3.4	-9.3	99.9	-11.0	97.9	-13.6					
Of which: amortization	-9.3	-1.4	-1.4	-3.4	-3.3	-4.8	-5.0	-6.8	-7.2					
other	0.0	0.0	0.0	0.0	-6.0	104.7	-6.0	104.7	-6.4					
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	6.6	56.1	32.3	31.7	0.0
Pledges	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Possible debt relief								0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual financing gap 3/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	6.6	56.1	32.3	31.7	0.0
Memorandum items:														
GDP	2,043.4			...	...	...	...	...	2,100.9	0.0	0.0	0.0	2,047.2	2,387.2
Oil	1,158.6			...	...	...	...	...	1,126.4	0.0	0.0	0.0	1,001.6	1,341.6
Non-oil	884.8			...	...	...	...	...	974.5	0.0	0.0	0.0	1,045.6	1,045.6
External debt payments (excluding IMF) 4/	198.2	42.7	25.7	85.7	97.1	121.8	158.3	164.4	199.2	31.0	123.7	151.5	198.9	313.8
Of which: collateralized debt	126.5	26.9	25.0	53.4	...	60.1	148.8	75.1	186.4	17.6	90.4	106.5	134.6	134.6

Sources: Congolese authorities; and staff estimates and projections.

1/ Based on the authorities' 2003 budget.

2/ Amounts of debt service cancellation in 2001 refer to the relief granted by bilateral creditors following the 1994 CFA franc devaluation.

3/ With the oil price above US$24 per barrel, the financing gap in 2003 will be filled.

4/ Assumes payment of only nonreschedulable debt service.

Table 8. Republic of Congo: Quantitative Indicators, 2001–02 1/

(In billions of CFA francs, unless otherwise indicated; cumulative from the beginning of calendar year)

	2001	2002							
	Dec.	Mar.	Jun.	Sep.			Dec.		
		Est.	Est.	Prog.	Adj. Prog.	Est.	Prog.	Adj. Prog.	Est.
Net claims of the banking system on the central government (ceiling) 2/	135	158	151	133	79	137	132	43	163
New medium- and long-term nonconcessional external debt (including leasing) contracted or guaranteed by the government (ceiling) 3/ 4/	83	15	118	0	0	205	0	0	217
New nonconcessional debt (including leasing) with an original maturity of less than one year (ceiling) 4/ 5/	22	0	0	0	0	0	0	0	0
Stock of external arrears 6/	2,336	2,358	2,323	2,433	2,198	2,360	2,467	2,240	2,394
Net reduction in domestic arrears (floor; –=increase)	14	1	5	205	205	3	203	203	10
Primary fiscal balance (floor) 7/	134	21	-26	83	83	-27	113	113	26
Central government wage bill (ceiling)	118	30	60	89	89	90	118	118	120
Memorandum items:									
Oil revenue	431	96	191	263		304	353		398
Debt relief	75	0	3	0		30	0		11
Nonproject external financing	41	15	118	0		205	0		217
External debt arrears change	159	49	116	97		155	132		212
External debt arrears payment	...	2	4	17		4	29		6
Petroleum price—Brent (U.S. dollars per barrel)	24	21	23	21		24	21		25
Exchange rate (CFA francs per U.S. dollar)	733	749	714	751		667	751		697
Petroleum price Brent (thousands of CFA francs per barrel, cumulative average)	18	16	17	16		16	16		17

Sources: Congolese authorities; and staff estimates.

1/ Data for 2002 are preliminary.

2/ Excluding IMF credit. The indicator has been adjusted downward for higher-than-projected relief on scheduled debt-service payments.

3/ Excluding rescheduling arrangements and disbursements from the Fund, but including debt with maturities of more than one year.

4/ Concessional debt is defined as debt with a grant element of at least 50 percent calculated on the basis of currency-specific discount rates, based on the OECD commercial interest reference rates (CIRRs).

5/ On a contracting or guaranteed basis. Excluding debt related to normal import transactions.

6/ The target has been adjusted downward to reflect higher-than-expected nonproject financing and debt relief, and upward for lower-than-expected nonproject financing and debt relief.

7/ Defined as revenue excluding grants, minus noninterest current expenditures, domestically financed capital expenditure, and net lending, on a commitment basis. It has been adjusted upward for higher-than-expected oil revenue, calculated as a ratio of projected oil revenue times actual oil price divided by projected oil price (in CFA francs).

Table 9. Republic of Congo: Status of Implementation of Structural Indicators Under the SMP, as of End-February 2003

Measure	Schedule	Status
Submission by the national oil company (SNPC) of monthly reports to the government, in accordance with the Convention of June 29, 2001	Starting in April 2002	Implemented with delay; SNPC started submitting monthly reports to the government in October 2002.
Settlement of debt service on nonreschedulable debt and payment toward external arrears	Starting in May 2002	Not implemented. Accumulation of arrears on nonreschedulable debt. No arrears were accumulated on obligations to the Fund, the World Bank and the BDEAC and the government has undertaken to reduce its arrears vis-à-vis the AfDB in the last quarter of 2002.
Issuance of a decree creating a single import declaration form	May 15, 2002	Implemented. The form, which has been utilized in Pointe-Noire since May 30, was introduced in Brazzaville in the last quarter of 2002.
Selection of an international firm to conduct an independent, external audit of the consolidated financial accounts of the SNPC for 2000 and 2001 (see Table 8).	Early June 2002	Implemented with delay; request for non-objection from the World Bank delayed several times. Contract for the audit signed with KPMG in March 2003; audit to begin effectively at end-March 2003.
Preparation of fiscal tables consolidating the central government and the SNPC for 2000 and 2001	June 2002	Not implemented.
Start of the external financial audit of the SNPC	July 2002	Delayed; audit started in January 2003, with the selection of the audit firm.
Adjustment of petroleum product prices consistent with the memorandum of understanding and lifting of the suspensive conditions	September 2002	Partially implemented; international oil market conditions not reflected in conformity with the law on petroleum products pricing.
Offering of new tender for the privatization of the CAIC (commercial bank)	September 2002	Delayed discussions on the process of restructuring the CAIC to be completed in the coming months. Non-objection from the regional bank supervision agency, COBAC, issued in January 2003 and the authorities will engage in February a third round of negotiations with the "Banque Marocaine du Commerce Extérieur". Privatization to be completed in June 2003.
Submission of the SNPC audit report	October 2002	Delayed.
Implementation of a system to generate expenditure data on a functional and commitment basis	December 2002	Not implemented.
Completion of report evaluating the effectiveness of the Convention between the government and the SNPC	December 2002	In-depth evaluation to be undertaken on the basis of the outline communicated to the authorities.
Phasing out of practice of settling budget expenditures through the direct transfer of government revenue by oil companies	Continuously	Implemented. No new contract since March 2002 and contracts expiring in 2003 not to be renewed.
Halting of the contracting of any form of oil-collateralized debt (new or refinanced)	Continuously	Not implemented; though no new loans have been contracted since November 2002, the authorities contracted US$300 million during the year.
Monthly provision to the IMF staff of all information necessary for the monitoring of the program, consistent with the technical memorandum of November 2000	Continuously	Partially implemented. Progress in communicating information to the Fund.

MINISTRY OF ECONOMY, FINANCE, AND BUDGET

REPUBLIC OF CONGO

OFFICE OF THE MINISTER

Brazzaville, April 11, 2003

No. _________/MEFB-CAB

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

Dear Mr. Köhler:

1. In November 2000, the Republic of Congo received financial support from the IMF under the post-conflict emergency assistance policy. In 2001, the Congolese government adopted an economic program for monitoring by IMF staff that was later revised and extended to end-2002. The staff-monitored programs (SMPs) were expected to pave the way for a three-year program that could be supported by IMF resources under the Poverty Reduction and Growth Facility (PRGF). However, performance under these programs was characterized by major slippages in the financial and structural areas, due mainly to the deterioration in fiscal discipline, accelerated implementation of the national reconstruction program of the country devastated by armed conflict, the organization of democratic elections, and the need to ensure the country's security.

2. During the first half of 2002, the Congo organized five successive national consultations (including a constitutional referendum in January, and presidential, legislative, local, and senatorial elections between March and June). The transition period has therefore ended and all the democratic institutions stipulated by the Constitution have been put in place. This return to peace and a normal democratic life has been welcomed by the international community and provides a good opportunity for the new government appointed on August 18, 2002 to implement the economic component of its comprehensive program entitled *Nouvelle Espérance* (New Hope), which covers the next seven years. The main objectives of the economic component are promotion of good governance, restoration of financial soundness, reconstruction of infrastructure, sustainable growth, and poverty reduction in line with the Millennium Development Goals. The new government will spare no effort to capitalize on this national democratic renewal in order to carry out its entire program with the support of donors and especially the Bretton Woods institutions.

3. In the financial area, based on the end-September 2002 results, the review conducted by Fund staff in October–November 2002 of the implementation of actions agreed in the May 3, 2002 letter of intent concluded that overall performance fell short by a wide margin. Major fiscal slippages were reported for both current and investment expenditure. Although there has been an acceleration of the public investment program, off-budget and advance payments

practices, the organization of elections, and the lack of strict controls are at the root of these slippages. It is important to emphasize that the Congo has received practically no foreign financial assistance since 2001. As a result, pressure on domestic resources has been correspondingly stronger.

4. Regarding structural reforms, only two of the fourteen agreed indicators were observed by the expected target date. In particular, the main measure, pertaining to the audit of the 2001 consolidated accounts of the Société nationale des pétroles du Congo (SNPC), was not implemented because the contract with the international firm had not been signed and, more important, because the SNPC's 2001 consolidated accounts had not been finalized.

5. In light of this poor performance and the need to restore macroeconomic stability, the new government, with the support of the IMF mission in October–November 2002, identified adjustment measures to be applied during the remainder of 2002. Moreover, the government and the mission agreed on priority structural measures for implementation. Consequently, in the last quarter of 2002, fiscal performance, while still short of expectation, improved markedly and a more favorable trend emerged. In the structural area, five of the 12 indicators that had not been met by end-September were met by end-December 2002.

6. Fully aware of the need to normalize its relations with external creditors, the Congo has resumed current external debt service and has made partial payments on debt arrears to some multilateral donors (African Development Bank (AfDB), Arab Bank for Economic Development in Africa (BADEA), Central African States Development Bank (BDEAC), and the International Fund for Agricultural Development (IFAD)), despite its still fragile financial situation. Furthermore, there has been no recourse to oil-collateralized borrowing since October 2002.

7. These fiscal and structural measures, initiated in 2002 and strengthened under the 2003 Budget Law, were to constitute the framework for a new SMP in 2003. In order to consolidate these positive results and restore the country's credibility, particularly from the financial standpoint, the government's 2003 economic program, underpinned by the austerity budget approved by Parliament in January 2003, aims at (i) improving the health of public finances, (ii) strengthening transparency in petroleum sector transactions, (iii) freeing up the resources needed to reduce poverty, and (iv) normalizing relations with creditors and reducing government indebtedness to the banking system. The macroeconomic objectives are (i) real economic growth of 2.0 percent, despite a marked decline in petroleum production, (ii) a rate of inflation of 2 percent, and (iii) a primary budget surplus of 9.3 percent of GDP. The government has agreed with IMF staff on a series of quantitative indicators and structural benchmarks for monitoring progress in the context of the SMP covering the period January–June 2003 (Tables 1 and 2).

8. The focus of the government's priority actions in 2003 is on (i) mobilizing non-oil tax revenue, (ii) strictly adhering to budgetary procedures and controlling expenditures, and (iii) improving governance and transparency in the oil sector. The government is aware that

observance of the indicators under the program is a prerequisite for initiating negotiations for a three-year program supported by the PRGF. Budgetary forecasts are based on a petroleum price of US$22 per barrel of Brent, or US$20 per barrel for Congolese crude oil. An oil price above this level will be used to fill the indicated financing gap and help the government in its efforts to normalize relations with external creditors through accelerated arrears payments and pay down the domestic social debt (pension and salary arrears).

9. Because of the downward trend in petroleum output, which will only be turned around in 2005, the mobilization of non-oil tax revenue assumes particular urgency. In this regard, the government intends to apply rigorously the new measures regarding forestry taxation (increase in the rate of the forestry royalty from 4 to 8.5 percent against an average of 17 percent in the Central African Economic and Monetary Community (CAEMC) area), the customs computer processing fee (1 percent of the import value), the renegotiation of special tax and customs agreements in order to reduce exemptions, and the computerization of revenue-collecting agencies. Moreover, the government will take the measures needed to significantly reduce exemptions for temporary imports. Treasury collection services will be revitalized and special emphasis will be placed on combating fraud through a reorganization of the profession of customs agents and the effective enforcement of disciplinary sanctions against those committing fraud. In addition, the government has taken steps to strengthen controls on government financial management and, in this connection, arrangements have been made to centralize all revenue in the Treasury.

10. Regarding expenditure, the government has taken steps to ensure strict adherence to budgetary procedures. To contain current expenditure, a system of monthly expenditure ceilings by ministry was introduced in January 2003. The computerization program also covers expenditure (civil service/payroll/pensions, investment, and expenditure chain). Computerization of the first module of the expenditure chain (civil service/payroll/pensions) will be launched by May 2003 and completed by end-2003. Investment spending will be kept below the ceiling thanks to close collaboration between the Commission des marchés de l'État (Government Procurement Commission) and the Délégation des Grands Travaux (Majors Works Unit) and full compliance with the principles of transparency and budgetary procedures. More specifically, budgetary allocations for investment expenditure financed from domestic resources will not be exceeded. Given the destabilizing effect on government finances of off-budget investment, commitments entered into in 2000–02 and not yet paid are being audited and the final results will be transmitted to the IMF by June 30, 2003. More generally, the government will carry out targeted value-for-money audits to ensure the efficacy and legality of government expenditures.

11. The government recognizes that sustained progress in good governance in the oil sector is needed to ensure public support for the reforms. The transfer in full to the Treasury of oil revenues and their allocation to financing budgetary priorities established by the government and voted by Parliament contributes to the establishment of transparency in the management of government resources. Completion and publication of the audit of the SNPC's 1999–2000 accounts and 2001 consolidated accounts by an independent,

internationally recognized firm reflect the government's strong commitment to good governance. Furthermore, all the necessary arrangements will be made to produce and submit the company's 2002 consolidated accounts for examination by a firm of auditors. At the same time, the government is committed to carrying out an in-depth evaluation of the agreement signed by the government and the SNPC and to tighten, if needed, its control of this company by refocusing the SNPC's activities on the upstream petroleum operations. The review of operations in this sector will also be conducted by end-March 2004 through a comprehensive audit to improve the transparency of other petroleum companies, thereby covering the entire petroleum sector. More generally, the government will devote efforts to publishing, on a regular basis, information on the government's financial operations.

12. Recognizing the damaging effects of corruption and fraud on growth and development and in an effort to combat corruption, the government will submit to Parliament in November 2003 an anticorruption bill that will be drafted through a nationwide participatory process. By end-September at the latest, it will publish a decree regulating procurement contracts prepared with assistance from the World Bank, and make all procurement contracts without exception subject to this decree.

13. One of the government's priorities is to normalize its relations with all creditors. Consequently, taking advantage of the high oil prices and notwithstanding the liquidity constraints in the Treasury, the Congo has made payments both for current debt service and to reduce arrears. Creditors' reactions have been positive, as evidenced by the resumption by the AfDB of its institutional support project and the expected visit by a BADEA delegation in Brazzaville to discuss new financing. The government's intention is to pursue and intensify this policy by broadening it to include Paris Club and Brazzaville Club creditors. In the case of the latter, a supplementary audit of domestic debt for 2000, 2001, and 2002 will be carried out and completed by September 30, 2003. To reduce the burden of debt commitment, the Congolese authorities will abide by the time lines for reimbursement provided in the budget and will refrain from collateralized borrowing.

14. The government intends to reinvigorate its structural reform program, in particular the privatization of public enterprises, to create a favorable environment for private sector development. In this context, by April 30, 2003 at the latest, the obligation to request transfer authorization from the Ministry of Finance for payments abroad will be eliminated in conformity with the CAEMC's harmonized regulations on foreign exchange. While seeking to implement this framework, the government will continue to make best use of the advice of all its partners in these areas, particularly the World Bank. In the context of the SMP, the government intends to conclude the privatization of the remaining commercial bank—CAIC—by June 30, 2003 at the latest, thereby completing the restructuring of the banking sector.

15. In light of the weak social indicators, the government will make every effort to reduce poverty. To this end, the government will endeavor to reallocate budgetary expenditure to priority social sectors in the context of the 2004–06 three-year investment program. The

government will engage in participatory consultations to finalize the interim poverty reduction strategy paper (I-PRSP) by end-September 2003.

16. The government undertakes to communicate monthly to the Fund staff any information and documentation required for regular monitoring of the program (see attached list).

17. The government wishes to emphasize that the Congo is a post-conflict country. It nonetheless considers compliance with the commitments entered into in this letter of intent to be binding and essential to paving the way for negotiation of a program under the PRGF, in order to accelerate the country's reconstruction on sound foundations and effectively reduce poverty.

/s/

Rigobert Roger Andely
Minister of Economy, Finance, and Budget

Table 1. Republic of Congo: Quantitative Indicators, 2002–03 1/

(In billions of CFA francs; cumulative from the beginning of calendar year)

	2002	2003			
	Dec.	Mar.	Jun.	Sep.	Dec.
	Prel.	Program		Indicative	
Net claims of the banking system on the central government (ceiling) 2/	163	159	159	159	157
New medium- and long-term nonconcessional external debt (including leasing) contracted or guaranteed by the government (ceiling) 3/ 4/	217	0	0	0	0
New nonconcessional debt (including leasing) with an original maturity of less than one year (ceiling) 4/ 5/	0	0	0	0	0
Stock of external arrears 6/	2,394	2,423	2,469	2,496	2,542
Net reduction in domestic arrears (floor; – =increase)	10	0	0	0	0
Primary fiscal balance (floor) 7/	26	34	81	136	191
Central government wage bill (ceiling)	120	30	60	90	120
Memorandum items:					
Oil revenue	398	94	188	281	375
Debt relief	11	0	0	0	0
Nonproject external financing	217	0	0	0	0
External debt arrears change (cumulative)	212	28	75	101	147
External debt arrears payment	6	0	0	0	0
Petroleum price Brent (US$/barrel), cumulative average	25	22	22	22	22
Exchange rate (CFAF/US$)	697	670	670	670	670
Petroleum price Brent (thousand CFAF/barrel), cumulative average	17	15	15	15	15

1/ Data for 2002 are preliminary.

2/ Excluding IMF credit. The indicator will be adjusted downward for the higher-than-projected relief on scheduled debt service payments.

3/ Excluding rescheduling arrangements and disbursements from the Fund, but including debt with maturities of more than one year.

4/ Concessional debt is defined as debt with a grant element of at least 50 percent calculated on the basis of currency-specific discount rates, based on the OECD commercial interest reference rates (CIRRs).

5/ On a contracting or guaranteed basis. Excluding debt related to normal import transactions.

6/ The target will be adjusted downward to reflect higher-than-expected nonproject financing and debt relief, and upward for lower-than-expected nonproject financing and debt relief.

7/ Defined as revenue excluding grants, minus noninterest current expenditures, domestically financed capital expenditure, and net lending, on a commitment basis. It will be adjusted upward for higher-than-expected oil revenue, calculated as a ratio of projected oil revenue times actual oil price divided by projected oil price (in CFA francs).

Table 2. Republic of Congo: Structural Indicators for January–June 2003

Measure	Schedule
Payment of all debt service due to multilateral creditors and of debt service due on nonreschedulable debt to Paris Club creditors.	Continuously
Submission by the external auditors to the Government of the draft report (as stipulated in contract) on the national oil company (SNPC)'s 1999–2000 accounts and its 2001 consolidated accounts.	June 2003
Submission by the SNPC to the Government of its 2002 consolidated financial statements as required by law.	June 2003
Completion of the privatization of the CAIC (commercial bank)	June 2003
Report on an in-depth evaluation of the effectiveness of the June 2001 Convention between the government and the SNPC (following the outline provided by IMF staff).	May 2003
Audit of the off-budget capital expenditures during 2000-2002.	June 2003
Centralization of all government revenues in, and execution of all payments through the treasury account.	Continuously
No settlement of budget expenditures through the direct transfer of government revenue by oil companies.	Continuously
No contracting of any form of oil-collateralized debt (new or refinanced).	Continuously
Monthly provision to the IMF staff of all information necessary for the monitoring of the program.	Continuously

Information to be Communicated to the IMF

For the purpose of program monitoring, the authorities will provide the Fund staff within four weeks after the end of the month, a report on program implementation. In addition, the Ministry of Finance will transmit to the African Department, preferably by e-mail, or by fax, required data for this purpose. This report will contain, but will not be limited to, the following information:

- The monetary survey, the central bank and commercial banks accounts (monthly);
- The net credit of the banking system to the government (monthly);
- The government financial operations (TOFE) (monthly);
- Details on the State's share of oil production by field and by type of fiscal obligation (royalties, profit-oil) (monthly);
- Oil price, price ceiling, cost-stop, cost-oil per field (monthly);
- Oil revenue with its derivations (monthly);
- Excess-oil and any bonus payment received (monthly);
- Tax and non-tax revenue, including their breakdown (monthly);
- The central government public expenditure (monthly);
- Scheduled domestic and external debt service due and payment made, including their breakdown between interest and principal, and by creditor (monthly);
- New external public debt contracted or guaranteed by the government, with all the details on their terms (currency, interest rate, maturity and grace period) (monthly);
- Drawings on external non-project financial assistance, including on new borrowings, debt reduction, if any, from external creditors (monthly);
- Quantitative indicators and any other data necessary to assess the overall macroeconomic situation, such as consumer price index, imports and exports data (volume and value) for the main categories, oil and wood exports (volume and value) (monthly), activity in the forestry sector, wood processing industry, and monthly report prepared (or to be prepared) by the Ministry of Finance;
- Status of implementation of the structural measures shown in Table 2 (monthly).

Republic of Congo: Relations with the Fund
(As of April 30, 2003)

I. Membership Status: Joined: 07/10/1963; Article VIII

II. General Resources Account

	SDR Million	%Quota
Quota	84.60	100.0
Fund holdings of currency	95.56	112.95
Reserve tranche position	0.54	0.63

III. SDR Department

	SDR Million	%Allocation
Net cumulative allocation	9.72	100.0
Holdings	0.16	1.69

IV. Outstanding Purchases and Loans

	SDR Million	%Quota
ESAF arrangements	9.73	11.50
Credit tranche	11.48	13.57

V. Latest Financial Arrangements

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ESAF arrangements	06/28/1996	06/27/1999	69.48	13.90
Stand-by arrangement	05/27/1994	05/26/1995	23.16	12.50
Stand-by arrangement	08/27/1990	05/26/1992	27.98	4.00

VI. Projected Obligations to Fund: (SDR million; based on existing use of resources and present holdings of SDRs)

	Overdue	Forthcoming				
	02/28/2003	2003	2004	2005	2006	2007
Principal	0.0	2.29	8.07	8.07	2.78	
Charges/interest	0.0	0.37	0.40	0.27	0.17	0.17
Total	0.0	2.66	8.47	8.33	2.95	0.17

VII. Implementation of HIPC Initiative

The Republic of Congo is likely to be eligible to debt relief under the HIPC Initiative, once it establishes a track record under a PRGF-supported program. The timing of a possible PRGF arrangement will depend on performance under the staff-monitored program covering the period January–June, 2003.

VIII. Safeguards Assessments

A Stage One safeguards assessment of the Bank of the Central African States (BEAC) was completed on March 29, 2001. The assessment concluded that high risks may exist in the financial reporting framework and internal audit mechanism and a Stage Two (on-site) assessment was completed on July 25, 2001. In a letter dated July 11, 2001, the BEAC committed to implementing most of the recommendations contained in the report.

IX. Exchange Rate Arrangement

The Congo's currency is the CFA franc, which is pegged to the euro at a fixed rate of CFAF 655.957 = euro 1. On March 31, 2003, the rate of the CFA franc was CFAF 827.12 per SDR. The Congo does not impose any restrictions on the making of payments and transfers for current international transactions.

X. Article IV Consultations

Consultations with the Congo are on the standard 12-month cycle. The 2001 consultation discussions were held in Brazzaville in October 2001. The staff report (SM/02/6; 01/04/02) was considered by the Executive Board on February 6, 2002.

XI. FSAP Participation

N/A.

XII. Technical Assistance

Subject	Department	Staff Member	Date
Resident expert on statistics	STA	Mr. Sin	Since October 2001
Balance of payments	STA	Mr. Fiévet	June 2001
Budget, tax, and customs	FAD	Messrs. Bouley, Moussa, Brik, and Mrs. Tricoire	April–May 2001
Resident tax expert	FAD	Mr. Laurent	1995–97
Tax administration	FAD	Mr. Grandcolas	November 1995–April 1996

Subject	Department	Staff Member	Date
Tax administration	FAD	Mr. Grandcolas and Mr. Castro	November 1994
Budget, expenditure classification			Request under consideration

XIII. Resident Representative

A senior resident representative took up his assignment in September 1995, but was recalled to headquarters shortly after the outbreak of the civil strife in June 1997. While vacant, the position has remained open.

Republic of Congo: Relations with the World Bank Group

(As of April 30, 2003)

The World Bank reengaged in Congo in early 2001 within the context of a Transitional Support Strategy (TSS) aimed at (i) supporting the Government in facing the challenges of consolidating civil peace; (ii) laying and solidifying the foundation for the democratization of political life; (iii) rehabilitating social and economic infrastructure; and (iv) improving economic management, including increased transparency and good governance in the oil sector.

On August 8, 2001, the Republic of Congo cleared all its overdue service payments to IBRD and IDA. All IBRD loans and IDA credits to, or guaranteed by, the Republic of Congo have been restored to accrual status and the country's eligibility for disbursements under existing loans, credits, project preparation facility advances and for new operations, was reinstated. Bank assistance to the Congo resumed and the field mission reopened. As a result, and in line with the TSS, the Bank has been supporting the Congo with a variety of operations including (i) a Post-conflict Economic Rehabilitation Credit for SDR 30 million[32] (in July 2001) to support implementation of key structural reforms, help to better manage fiscal resources, and assist in improving governance and transparency in the oil sector; (ii) an Emergency Demobilization and Reintegration Credit for SDR 4 million (also in July 2001) to facilitate the reintegration of about 10,000 ex-combatants into civil life; (iii) an Infrastructure Rehabilitation and Improvement in Living Conditions Credit for SDR 32.2 million (in April 2002) to rehabilitate key infrastructure (including portions of the key railroad link, roads and health facilities) and help mitigate unemployment through a variety of labor-intensive micro-projects; and (iv) a Governance and Transparency Capacity Building Credit for SDR 5.6 million (in February 2002) to accompany reforms supported by the Post Conflict Economic Rehabilitation Credit.

Future Bank operations include an Emergency Reconstruction and Community Support Credit to assist communities living in smaller municipalities and rural areas, which is scheduled to be submitted to the Board before the end of this fiscal year. A second Economic Rehabilitation Credit to sustain and deepen economic reforms initiated under the first one, as well as an HIV/AIDS project to be financed by grants, are scheduled to be approved in FY 2004. Under nonlending services, the Bank is preparing a Public Expenditure Management Review to help improve fiscal management, and is assisting the Congo with the preparation of an interim poverty strategy to be finalized by end-August 2003.

[32] Fully disbursed.

Financial Relations with the World Bank Group

The attached table summarizes the World Bank's lending operations. As of April 30, 2003, the World Bank has approved 33 credits amounting to US$ 490.3 million, of which US$418.2 million was disbursed; and US$52 million remained available[33].

Currently, the IFC has no outstanding investments in the Congo.

Active Portfolio in the Republic of Congo—IDA Credits
(As of end-April 2003)

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

Project Name	Approval Fiscal Year	Closing Date	Net Commitment	Undisbursed	Disbursed in Current Fiscal Year
1) Emergency Demobilization, Disarmament and Reintegration	2002	Feb 2005	5.5	3.2	0.2
2) Emergency Infrastructure Rehabilitation and Improvement in Living Conditions Project	2002	Jan. 2007	44.4	42.0	2.4
3) Governance and Transparency Capacity Building Project	2002	Dec. 2007	7.7	6.8	0.8

[33] US$20.1 million was cancelled.

Banque des Etats de l'Afrique Centrale: Safeguards Assessment

Introduction

The Bank of the Central African States (BEAC) is the common central bank of the Central African States, which includes the Republic of Congo. A Stage Two (on site) safeguards assessment of the BEAC was completed in July 2001 and proposed specific remedies to alleviate vulnerabilities that were identified by staff. The authorities have committed to implement most of the proposed remedies, as described in the following sections.

Safeguards areas and main remedies

The external audit mechanism: The auditing function and the quality control procedures of the external auditor are adequate. The safeguards assessment proposed that: (i) the external auditor refer explicitly to the international standards of auditing (ISA) in its opinion, (ii) the external auditor become more cognizant of the accounting rules applicable to the recording of Fund's balances; and (iii) the BEAC should include the audit opinion in the annual publication of the financial statements. The management of the BEAC has agreed to implement these actions for the FY 2002 accounts.

Legal structure and independence: The legislation governing BEAC is adequate.

Financial reporting: The monthly statements of the bank's financial position are not published in any form and the December 31, 2000 audited financial statements were not published in a timely manner. The staff recommended that the BEAC: (i) enhance the readability and the credibility of the published annual accounts by including detailed explanatory notes on the accounting methods followed, and if these methods referred explicitly to a generally accepted accounting framework; (ii) adopt International Accounting Standards; and (iii) change the accounting of some of its operations with the Fund, especially with regard to the revaluation of the IMF accounts. The management of the BEAC has agreed to implement these recommendations by FY 2002.

Internal audit mechanism: The quality of the personnel, the rigorous methods followed for the audit of branches, the training program in place, and the risk assessment methods in place are satisfactory. However, certain weaknesses remain and staff recommended that the BEAC: (i) establish a charter for the Internal Audit Department (IAD); (ii) expand the audit scope and coverage of IAD to include activities at headquarters; (iii) prepare an annual rolling multi-year audit program describing risk assessment, activities scheduled, staffing and financial resources required, and (iv) increase the number of qualified staff.

In its response to the Stage Two report, the management of the BEAC has specifically agreed to expand the scope and coverage of the audit department, and increase the number of qualified staff. A charter for the audit department will also be prepared, with the assistance of

Fund staff, which will provide the BEAC with the relevant documentation. A gradual implementation of these recommendations should be completed by end 2002. The management of the BEAC did not specifically cover in its answer to the report the recommendation related to the risk-based rolling multi-year audit program.

The system of internal controls: On the whole, the risks are relatively well captured, although uncertainties exist because of insufficient a posteriori controls exercised on some activities at headquarters. The bank has a codified system of rules, selects its personnel carefully, maintains segregation of duties in the branches, and has recently increased resources for control purposes. Nevertheless, the staff recommended that BEAC: (i) strengthen the coordination among the audit bodies; (ii) examine in depth the segregation of duties at headquarters; and (iii) put in place a more systematic follow-up of all recommendations made by the external auditor to allow the Governor and the Board of Directors to better exercise their oversight responsibilities.

In its response to the Stage Two report, the management of the BEAC has agreed to establish an audit committee by 2002. Regarding the proposed segregation of duties, management noted that an internal assessment was under way, but that for budgetary reasons a formal audit cannot be undertaken before end-2002.

Regarding late payments of Fund obligations, which was an issue for all of the BEAC's member countries at some time in the last three years, the staff concluded that, while the BEAC's own payment procedures and related management controls in this area are functioning adequately, procedures should be modified with respect to BEAC's relations with member countries. The staff recommended that the BEAC should repay the Fund directly using its own resources for those countries with borrowing capacity with the central bank; for countries facing fiscal difficulties, staff recommended that they at least maintain sufficient borrowing capacity with the BEAC to repay IMF obligations falling due within the next year. In its answer to the Stage Two Report, the management of the BEAC did not follow the mission's recommendation that the BEAC should repay the Fund directly. The management also commented that apart from direct statutory advances to Treasuries, the BEAC could not grant loans to member countries.

Republic of Congo: Statistical Issues

1. The Republic of Congo's statistical infrastructure is being slowly rebuilt after the civil strife of 1997 and December 1998–October 1999, during which severe damage on administrative infrastructure was inflicted and many records were lost. The current coverage of the Congo's statistics is described below. Social statistics are virtually nonexistent. Since October 2001, a resident statistical expert has been assisting the authorities with the macroeconomic accounts.

2. A multisector statistical mission that visited Brazzaville in May 2002 prepared a diagnostic of the statistical system. The mission's general conclusion was that the Congo's macroeconomic statistics are weak and suffer from the absence of a national statistical program, and shortages of financial, physical, and human resources. It recommended measures for improvement, which are being followed up by the statistical advisor.

3. The Congo participated in the GDDS workshop for CEMAC countries given a year ago at the BEAC in Yaoundé, but the finalized metadata have not yet been provided to STA.

National accounts

4. The quality of national accounts data is weak. The compiled data include excessively large estimates and show internal inconsistencies, mainly caused by the absence of recent statistical sources. Estimates for the informal sector are based on information that dates back as far as 1978. Historically, data on oil sector transactions have been weak, reflecting a lack of transparency on the part of the oil companies operating in the country and the government agencies dealing with them. The authorities provide Fund missions with a breakdown of GDP on an output, income, and expenditure basis, both in nominal and real terms. These data are prepared by the Directorate General of Statistics (DGS) of the Ministry of Finance. During the 2000 Article IV consultation, the DGS provided national accounts data for 1996–99 that were largely estimated and contained internal inconsistencies. Consistency was lacking also with balance of payments data.

Employment and unemployment

5. Annual data on employment in the central government are available from the Ministry of Finance, but they are not consistent with data from the civil service roster of the Ministry of the Civil Service. As part of the structural reforms undertaken in the context of the post-conflict program, the government completed an audit of public service employees and established a new civil service payroll roster. Data on employment in the private sector are not available.

Prices

6. Movements in the prices of items consumed by households are recorded in the capital city of Brazzaville (weight reference period of 1977) and the second-largest city of Pointe Noire (price reference period of 1996 and weights of 1989). The outdated weights no longer reflect current household consumption patterns. Data are compiled on a monthly basis. The authorities intend to compile a CPI that is harmonized with other CEMAC countries.

Government accounts

7. There is no comprehensive and systematic compilation of **government finance statistics** (GFS). The *Tableau des Opérations Financières de l'Etat* (TOFE) is based on several disparate sources rather than on a comprehensive set of accounting statements and excludes most extrabudgetary operations. Financing data are currently obtained from money and banking data instead of the government accounts. As a result, the intersectoral consistency between government and money and banking statistics cannot be ascertained, and an important element for assessing the accuracy of these data is missing.

8. At the time of the May 2002 multisector mission, the *Balances de comptes du Trésor*, a basic and essential treasury source document, as well as some other sources, were not made available to the producers of the TOFE.[34] The mission recommended that systematic procedures be established for the compilation of government finance statistics, based, to the extent possible, on a unified set of accounting and administrative records.

9. TOFE compilers have also no access to relevant financial statements of the Société Nationale des Pétroles Congolais (SNPC), which carries out several operations on behalf of the government (notably in the oil sector).

10. In 2002, the Congo did not report GFS to STA for publication in the *GFS Yearbook* because of a lack of financing. Also, the Congo does not report subannual GFS data for publication in *IFS*. The compilation of GFS statistics to be reported to the Fund should be carried out in close cooperation with the compilers of the TOFE.

11. Progress is underway to address these shortcomings. In February/March 2003, a FAD follow-up mission found that most of the recommendations of the 2001 FAD mission on expenditure management, in particular with regard to the centralization of all government revenue and execution of public expenditure through the budget are being implemented or are underway and steps have been taken to computerize the expenditure chain. The authorities

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[34] This compilation is not undertaken on the basis of treasury accounting records either, to which the compilers themselves do not have access despite repetitive requests. The mission did examine the Excel worksheet used for the compilation of the TOFE and made recommendations for improvements. It could not, however, establish the links between that worksheet and the primary data sources.

have requested the Fund TA on expenditure classification with view to generate expenditure on economic and functional basis.

Monetary accounts

12. Monthly data on monetary statistics for the Congo, as well as for the other members of the Central African Economic and Monetary Community (CEMAC), are regularly reported to the Fund in electronic form by the regional central bank (BEAC). Accuracy of monetary data is affected by large cross-border movements of currency among CEMAC member countries.

13. The monetary and financial statistics mission that visited the BEAC headquarters (May 2001) provided technical assistance in addressing the main shortcomings pertaining to the compilation procedures and timeliness of monetary statistics. The mission discussed an action plan for the implementation of the *Monetary and Financial Statistics Manual (MFSM)* and for the introduction of an area-wide page in *IFS* for the CEMAC. Following the 2001 mission, a regional workshop on monetary and financial statistics was organized by the BEAC in Libreville (Gabon) in May 2002 to support the implementation of the *MFSM* in the CEMAC countries. The new page for CEMAC was published in the January 2003 issue of *IFS*.

14. The May 2002 multisector statistics mission found that the institutional coverage of government and of the nonfinancial public sector are outdated and need to be revised. Congo's monetary statistics are disseminated by the BEAC. However, revised data are not regularly disseminated, due to a lack of a clear revision policy, both at the national and regional level.

External and domestic debt

15. The Caisse Congolaise d'Amortissement (CCA) produces comprehensive data on the outstanding stock of external public debt, including arrears and its composition, together with detailed projections on debt service due. These data are provided to Fund missions. However, the debt-stock data cannot be reconciled with flow data in the balance of payments. The CCA also produces domestic debt data.

Balance of payments and trade statistics

16. The BEAC is responsible for the collection and the dissemination of balance of payments data in the Republic of Congo. The balance of payments statistics are prepared on an annual basis while the compilation system has been specifically designed to produce quarterly data. Through 1994, balance of payments data were compiled in the framework of the *Balance of Payments Manual, Fourth Edition*. The BEAC provides annual data on exports of goods and services and on capital flows other than public debt. Since 1995, data are being prepared using the *Balance of Payments Manual, Fifth Edition*. In March 2003, balance of payments data for 1995 through 2001 were reported to the Fund for publication in

International Financial Statistics. In May 2002, the technical assistance mission found the compilation system and procedures for balance of payments statistics to be conceptually sound but flawed in their application due to staff mobility, an absence of documented sources and methods, understaffing, and lack of training. This situation has resulted in significant delays in the production of balance of payments statistics and, in general, poor monitoring of the quality of the input data provided by the statistical respondents. Furthermore, the opacity surrounding certain transactions in the oil sector introduces an important element of imprecision. In particular, the BEAC is recording some financial transactions of the oil sector from stocks variations valued in CFA francs vis-à-vis nonresidents between the beginning and the end of the exercise. In addition, net investment flows are overestimated by significant unrecorded disinvestment operations that are part of the tax regime arrangements obtained by oil-drilling nonresident companies. The Fund's resident expert on statistics, who took up his assignment at end-October 2001, has been assisting the authorities in developing an appropriate methodology for compiling balance of payments statistics.

Public enterprise sector

17. There is no centralized, comprehensive database on the operations of public enterprises. However, some information has been made available to Fund missions by individual enterprises. Data are on an annual basis and become available with at least six months' delay.

Republic of Congo: Core Statistical Indicators

(As of May 16, 2003)

	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	04/03	12/02	02/03	02/03/	02/03	03/03	01/03	2002	2002	12/02	2002	12/02
Date received	05/03	12/02	05/03	05/03	05/03	03/03	04/03	2002	2002	12/02	04/03	12/02
Frequency of data 1/	D	M	M	M	M	0 2/	M	A	A	Q	A	M
Frequency of reporting 1/.	D	M	M	M	M	O 2/	M	V	V	Q	V	V
Source of data 3/	N	A	A	A	A	A	A	A	A	A	A	A
Mode of reporting 4/	O 5/	E	E	E	E	C	C	V	V	C	V	V
Confidentiality 6/	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	Q	A	A

1/ Frequency of data, reporting, and publication: D=daily, W=weekly, M=Monthly, Q=quarterly, or A=annually.

2/ Information communicated to staff as adjustments in interest rates occur.

3/ Source of data: A=direct reporting by Central Bank, Ministry of Finance, or other official agency, or N=official publication or press release.

4/ Mode of reporting: E=electronic data transfer, C=cable or facsimile, T=telephone, M=-mail, V=staff visits, or O=other.

5/ As reported in the daily morning press (euro exchange rate).

6/ Confidentiality: A=for use by staff only, B=for use by the staff and the Executive Board, or C=for unrestricted use.

Republic of Congo: Income and Social Indicators

Population 1/	3.1 million
Growth rate of population 1/	2.7 percent per year
GNI per capita 2/	US$640
Life expectancy 1/	51.5 years
Fertility rate 1/	5.9 births per woman
Infant mortality rate 1/	81 per 1,000 live births
Under five mortality rate 1/	108 per 1,000
Prevalence of HIV (female percent ages 15–24) 1/	7.8 percent
Access to improved water source 1/	51.0 percent of population
Access to improved sanitation (percent of urban population) 3/	14.0 percent
Population per physician 4/	5,185 persons
Population per nurse 4/	1,946 persons
Population per hospital bed 4/	467 persons
Immunization 1/	
Child immunization, measles (percent of under 12 months) 1/	35.0 percent
Illiteracy rate (age 15+) 1/	18.2 percent
Illiteracy female (age 15+) 1/	24.1 percent
Primary completion rate, total (percent of age group) 3/	44.1 percent
Primary completion rate, female (percent of age group) 3/	59.7 percent
Technology and infrastructure 1/	
Fixed lines and mobile telephones 1/	55.3 per 1,000 people
Personal computers 1/	3.9 per 1,000 people
Internet users 1/	1,000
Newspaper circulation 3/	8 per 1,000

Source: World Bank.

1/ Estimates for 2001.
2/ GNI per capita for 2001, *World Bank Atlas* method (current U.S. dollars), 1999.
3/ Estimates for 2000.
4/ Estimated on the basis of data for 1995, 1996, and 1999 provided by the Ministry of Health.

INTERNATIONAL MONETARY FUND

REPUBLIC OF CONGO

Staff Report for the 2003 Article IV Consultation
Supplementary Information

Prepared by the Staff Representatives for the 2003 Article IV Consultation with the Republic of the Congo

Approved by the African, Legal, and Policy Development and Review Departments

June 10, 2003

1. Since the staff report was circulated to the Executive Board on June 2, 2003, the following information has become available. It does not change the thrust of the staff appraisal.

2. **Preliminary information indicates satisfactory performance** during January-March 2003 under the staff monitored program (SMP). All quantitative targets have been exceeded (Table 1). The outcome reflects the government's continued strong effort to restore fiscal discipline and extends the positive developments observed in the fourth quarter of 2002. Between the third quarter of 2002 and end-March 2003, the non-oil primary deficit—an indicator of fiscal effort which excludes volatile fiscal oil revenue and related expenditure—was cut in half (see Figure 1). The strong fiscal performance allowed the government to reduce domestic and external payment arrears, as well as its indebtedness to the banking system.

3. **Progress in structural reform implementation has also been encouraging** (Table 2). The financial audit of the national oil company, Société Nationale des Pétroles du Congo (SNPC), was launched in March 2003. A preliminary report is expected in mid-June 2003 and the final report in mid-July. The restructuring plan of the remaining commercial bank (*Crédit pour l'Agriculture, l'Industrie et le Commerce*–CAIC) is expected to be completed on schedule. The authorities provided the staff on June 6, 2003, with a draft of the evaluation of the 2001 Convention between the SNPC and the Government, due under the SMP by end-May. There were delays in payments on current debt obligations vis-à-vis the African Development Bank (AfDB) in January and March; payments were, however, fully up to date by May 12. In addition, the Congo reduced its stock of nonreschedulable arrears by CFAF 6 billion during the first quarter of 2003.

Figure 1. Republic of Congo—Non-Oil Primary Deficit, Quarterly, 2001–03

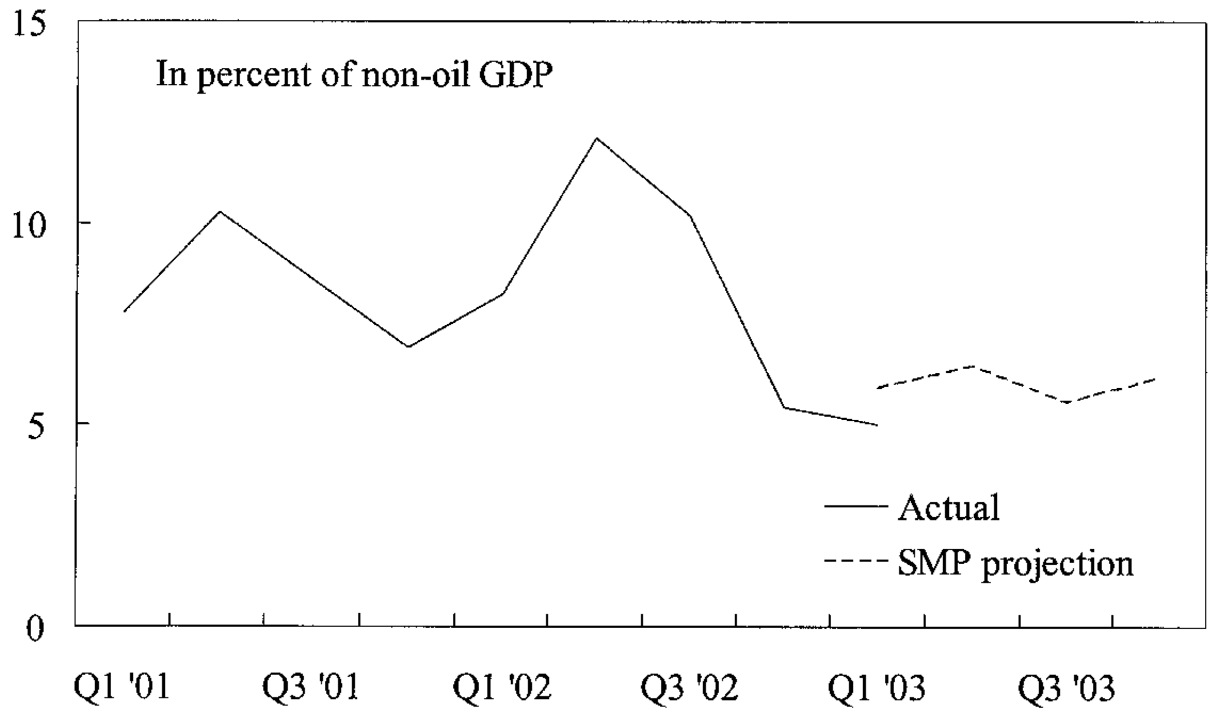

Table 1. Republic of Congo: Quantitative Indicators, 2002–03 1/

(In billions of CFA francs; cumulative from the beginning of calendar year)

	2002	2003						
	Dec.	Mar.				Jun.	Sep.	Dec.
	Prel.	Prog.	Adj. prog.	Est.	Met	Prog.	Indicative	
Net claims of the banking system on the central government (ceiling) 2/	163	159	159	127	Yes	159	159	157
New medium- and long-term nonconcessional external debt (including leasing) contracted or guaranteed by the government (ceiling) 3/ 4/	217	0	0	0	Yes	0	0	0
New nonconcessional debt (including leasing) with an original maturity of less than one year (ceiling) 4/ 5/	0	0	0	0	Yes	0	0	0
Stock of external arrears 6/	2,394	2,423	2,423	2,398	Yes	2,469	2,496	2,542
Net reduction in domestic arrears (floor; – =increase)	10	0	0	8	Yes	0	0	0
Primary fiscal balance (floor) 7/	26	34	62	80	Yes	81	136	191
Central government wage bill (ceiling)	120	30	30	30	Yes	60	90	120
Memorandum items:								
Oil revenue	398	94	122	146		188	281	375
Debt relief	11	0	...	0		0	0	0
Nonproject external financing	217	0	...	0		0	0	0
External debt arrears payment	6	0	...	6		0	0	0
Petroleum price Brent (US$/barrel), cumulative average	25	22	...	31		22	22	22
Exchange rate (CFAF/US$)	697	670	...	611		670	670	670
Petroleum price Brent (thousand CFAF/barrel), cumulative average	17	15	...	19		15	15	15

1/ Data for 2002 are preliminary.

2/ Excluding IMF credit. The indicator will be adjusted downward for higher-than-projected relief on scheduled debt service payments.

3/ Excluding rescheduling arrangements and disbursements from the Fund, but including debt with maturities of more than one year.

4/ Concessional debt is defined as debt with a grant element of at least 50 percent, calculated on the basis of currency-specific discount rates based on the OECD commercial interest reference rates (CIRRs).

5/ On a contracting or guaranteed basis. Excluding debt related to normal import transactions.

6/ The target will be adjusted downward to reflect higher-than-expected nonproject financing and debt relief, and upward for lower-than expected nonproject financing and debt relief.

7/ Defined as revenue excluding grants, minus noninterest current expenditures, domestically financed capital expenditure, and net lending, on a commitment basis. It will be adjusted upward for higher-than-expected oil revenue, calculated as a ratio of projected oil revenue times actual oil price divided by projected oil price (in CFA francs).

Table 2. Republic of Congo: Structural Indicators for January–June 2003

Measure	Schedule	Status
Payment of all debt service due to multilateral creditors and of debt service due on nonreschedulable debt to Paris Club creditors.	Continuously	Delays in payments to AfDB occurred in January and March; payments were brought fully up to date by mid-May
Submission by the external auditors to the Government of the draft report (as stipulated in contract) on the national oil company (SNPC)'s 1999–2000 accounts and its 2001 consolidated accounts.	June 2003	
Submission by the SNPC to the Government of its 2002 consolidated financial statements as required by law.	June 2003	
Completion of the privatization of the CAIC (commercial bank)	June 2003	
Report on an in-depth evaluation of the effectiveness of the June 2001 Convention between the government and the SNPC (following the outline provided by IMF staff).	May 2003	Pending, draft completed on June 6, 2003
Audit of the off-budget capital expenditures during 2000–02.	June 2003	
Centralization of all government revenues in, and execution of all payments through the treasury account.	Continuously	Yes
No settlement of budget expenditures through the direct transfer of government revenue by oil companies.	Continuously	Yes
No contracting of any form of oil-collateralized debt (new or refinanced).	Continuously	Yes
Monthly provision to the IMF staff of all information necessary for the monitoring of the program.	Continuously	Yes, with some delays

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 03/81
FOR IMMEDIATE RELEASE
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International Monetary Fund
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IMF Concludes 2003 Article IV Consultation with the Republic of Congo

On June 13, 2003, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the Republic of Congo.[1]

Background

The four-year transition period was brought to completion in 2002, following a series of elections— presidential, legislative, and local — that saw overwhelming victories by President Sassou Nguesso's party. Subsequently, a new government was appointed in August 2002 to implement the President's economic program—*Nouvelle espérance*— covering the period 2003–10. This program mainly focuses on reconstruction, restoration of financial soundness, promotion of good governance and transparency, sustainable growth, and poverty reduction. Recent developments also point to progress on the security front, with the signing of a new peace accord recommitting the government and the rebel groups to the 1999 cease-fire agreement.

Over the last three years, the Congolese economy resumed growth, helped by favorable oil market conditions and domestic political stabilization. Non-oil real GDP growth, fueled by public sector investment and an expansion in the forestry sector, was an estimated 6.7 percent, down from 16.6 percent in 2000 and 12.1 percent 2001. Overall real GDP growth, while strong at 3.5 percent, was nevertheless moderated by declines in oil output. Consumer price inflation, maintained at 3.3 percent for 2002, was quite volatile, with prices of transportation and food

[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.

items fluctuating widely as a result of supply disruptions from the rebels' attacks on the train service between Pointe-Noire and Brazzaville. While there seem to be some progress on the economic front, social indicators point to widespread poverty.

Fiscal performance deteriorated markedly in 2002, despite strong oil revenue inflows. The overall deficit widened from 1 percent of GDP to 8 percent, mainly financed through government domestic bank borrowing and collateralized loans, and the accumulation of external payments arrears. Thanks to expenditure-reducing measures implemented during the last quarter of 2002, the fiscal primary balance was in surplus, albeit a modest 0.1 percent of GDP—against 6.6 percent of GDP in 2001. Non-oil revenue fell short of the target, as a result of administrative weaknesses at the customs. Primary expenditure exceeded budget allocations by a wide margin, reflecting domestic spending pressures, unplanned security-related outlays, and a lack of effective expenditure control. However, a freeze on new project spending in the fourth quarter helped contain capital expenditure within the budget allocation.

Monetary and credit aggregates reflected the government financial needs, the banking sector restructuring operations, and developments in the external sector. Money demand grew by 13 percent on a 12-month basis, partly in response to growing public confidence, and credit to the economy resumed growth following a precipitous drop, owing to the banking sector restructuring operations. A new law entrusted the regional banking supervision agency (COBAC) with the control of microfinance institutions in 2002. The strategy consists of strengthening the financial soundness of the microfinance firms, which have experienced rapid development over the past ten years. Anti-money-laundering legislation is being prepared under the aegis of the Central African Economic and Monetary Community (CEMAC), with the setup of a regional institution—Groupe d'action contre le blanchiment d'argent en Afrique centrale (GABAC).

The external current account of the balance of payments was estimated to have improved markedly in 2002, reflecting strong international oil prices and non-oil sector export growth.

Progress in implementing structural reforms was uneven. Public enterprise reforms were delayed because of logistical problems and inadequate preparation. The financial audit of the national oil company (SNPC) was finally launched in March, eight months later than planned.

Executive Board Assessment

Executive Directors commended the Republic of Congo for its progress in consolidating security and peace and establishing democratic institutions. The completion of the postwar political transition—culminating with the series of elections in 2002 and the inauguration of the new government—and the signing of a peace accord in March 2003 now provide the Congo with an opportunity to focus its full attention on sound economic management. Directors underlined that the continued strong economic expansion provides a favorable environment to undertake much-needed reforms to put the economy on a broad-based sustainable growth path, while reducing widespread poverty. The main challenges will be to: consolidate the government's fiscal position; improve transparency in oil sector transactions; ensure good governance and accountability in the use of public resources; create favorable conditions for private sector development and improve the overall business climate; and, in collaboration with external creditors, find a resolution to its large debt and arrears problem. Directors emphasized that strong ownership of the reform program will be critical to its success.

Directors noted that performance for 2002 as a whole was disappointing, despite favorable oil price market conditions. They expressed concern about the deterioration of the fiscal position caused by shortfalls in non-oil revenue collection, particularly in customs, and expenditure overruns due mainly to weak expenditure control, and they regretted the increase in external arrears and delays in the implementation of structural reforms. Directors pointed out that the heavy collateralized borrowing undertaken in 2002 breached the authorities' commitment under the previous staff-monitored program (SMP).

Against this background, Directors welcomed the new government's focus to put fiscal policy on a sound footing by restoring discipline in revenue collection and improving public expenditure management. They were encouraged by the fiscal results in the fourth quarter of 2002 and the first quarter of 2003.

Beyond the near term, Directors emphasized the need to stabilize fiscal policy and adopt a more comprehensive medium-term framework. They urged the authorities to widen the tax base by strengthening tax administration, reducing exemptions, increasing non-oil tax revenue, and drawing the large informal sector into the mainstream. In this context, Directors supported the authorities' decision to raise the tax rate on forest products, but emphasized the importance of balancing the objectives of achieving higher fiscal revenues, ensuring that businesses can operate in a predictable environment, and promoting sustainable forestry sector management. On the expenditure side, Directors encouraged the authorities to exercise firm control, including through the unified treasury system, while refocusing spending toward priority social sectors and reviewing the public sector wage bill. In this regard, Directors welcomed the public expenditure review, being carried out with the technical help of the World Bank, which should help better align public spending with priorities identified in the authorities' interim Poverty Reduction Strategy Paper and enhance its efficiency. Directors generally stressed that, based on a prudent fiscal approach, relations with creditors should be normalized and the high external debt level be addressed. In this context, concern was expressed that some creditors had resorted to litigation. Directors endorsed the strategy to use temporary oil excess revenue to pay down arrears and to stabilize other public spending, while refraining from new oil-collateralized and non-concessional loans.

Directors urged the authorities to improve transparency and accountability in the oil sector transactions and to move expeditiously to strengthen their oil revenue tracking and monitoring system to ensure that all revenues due were received by the budget, while reconciling the discrepancies indicated by the data. They recommended that the government undertake a comprehensive, in-depth evaluation of the role of the national oil company (SNPC) and its relations with the government, with the objective of strengthening the oversight of the SNPC and narrowing the scope of its activities to the upstream oil sector. Directors welcomed the audit of the financial accounts of the SNPC and expressed hope that the audit's findings would serve as a basis for reform and improvements in the SNPC's accounting and financial reporting practices.

Directors encouraged the authorities to press ahead with their structural reform agenda. They emphasized the importance of creating an environment favorable to private sector business and investment activity, as well as diversifying the economy. In this context, they stressed the need to strengthen governance and the rule of law, and noted the authorities' intentions under their anticorruption program. Directors recommended addressing issues of property rights, including a land title system. They also welcomed the country's participation in the New Partnership for Africa's Development peer review mechanism. They urged the authorities to redouble their efforts at restructuring the large public enterprises, particularly those expected to provide essential services. Directors encouraged the authorities to continue efforts to strengthen the financial sector, and welcomed the prospect of the restructuring of the remaining commercial bank, noting that its completion should contribute to a healthier banking system. For the commercial banks to play a more effective role in economic development, it was essential to address structural impediments to commercial bank lending to the private sector, in particular the weaknesses in the legal framework. The development of microfinance institutions can, in particular, help poorer segments of the population. The authorities were urged to adopt Anti-Money Laundering/Combating the Financing of Terrorism laws in cooperation with regional partners.

Directors noted that the fight against poverty was the key objective of the authorities' economic program. They welcomed progress in the preparation of the I-PRSP, and encouraged the authorities to solicit broad public participation. Directors considered that the Congo will need effective international support—both financial and technical—in order to accelerate its progress toward the achievement of the Millennium Development Goals. Directors expressed the hope that strong policy performance under the SMP would help to lay the foundation for discussions on a medium-term program that can be supported by the Fund, as well as subsequent debt relief by the international community.

Directors noted with concern that the Congo's statistical base is weak and constrains the effectiveness of economic policymaking and Fund surveillance. They urged the authorities to develop a plan to improve the quality of economic and social data and make full use of technical assistance from the Fund and other partners.

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. The Staff Report for the 2003 Article IV Consultation with the Republic of Congo is also available.

Republic of Congo: Selected Economic Indicators

	2000	2001	2002
	(Annual changes in percent)		
Domestic economy			
GDP at constant prices	8.2	3.6	3.5
GDP deflator	46.1	-13.9	-0.7
Consumer prices (annual average)	0.4	0.8	3.3
	(In percent of GDP)		
Gross fixed investment	21.0	26.4	23.3
Gross national saving	29.0	23.3	25.5
	(In billions of CFA francs)[1]		
External sector			
Exports, f.o.b.	1,743.8	1,506.6	1,620.3
Imports, f.o.b.	424.1	499.5	492.2
Current account balance (including public transfers)	182.0	-64.6	46.1
External debt service after relief (in percent of exports of goods and nonfactor services)	23.6	23.1	21.9
External public debt (in percent of GDP)	163.2	196.3	192.7
Real effective exchange rate[2]	-5.9	-0.4	3.5
	(In percent of GDP)		
Financial variables			
Central government revenue	26.7	30.9	27.4
Total expenditure	25.5	31.6	35.5
Primary balance	7.8	6.6	0.1
Overall balance (deficit-, commitment)	1.2	-0.7	-8.1
Change in broad money (in percent)	58.5	-22.8	13.1
Grants	0.3	0.2	0.2

Sources: Congolese authorities; and IMF staff estimates

[1]Unless otherwise indicated.

[2]End of period; percent change.