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Republic of Congo: Review of Performance Under the Staff-Monitored Program and Request for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility—Staff Report; Staff Statement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for the Republic of Congo

In the context of the review of performance under the staff-monitored program and request for a three-year arrangement under the Poverty Reduction and Growth Facility with the Republic of Congo, the following document has been released and is included in this package:

- the staff report for the review of performance under the staff-monitored program and request for a three-year arrangement under the Poverty Reduction and Growth Facility, prepared by a staff team of the IMF, following discussions that ended on October 8, 2004, 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 November 19, 2004. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a staff statement of December 6, 2004 updating information on recent developments.

- a Press Release summarizing by the views of the Executive Board as expressed during its December 6, 2004 discussion of the staff report that completed the request and review.

- a statement by the Executive Director for the Republic of Congo

The documents listed below will be separately released.

Letter of Intent sent to the IMF by the authorities of the Republic of Congo*
Memorandum of Economic and Financial Policies by the authorities of the Republic of Congo*
Technical Memorandum of Understanding*

*May also be included in Staff Report

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

Review of Performance under the Staff-Monitored Program and Request for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility

Prepared by the African Department

(In consultation with the Finance, Fiscal Affairs, Legal, Monetary and Financial Systems, Policy Development and Review, and Statistics Departments)

Approved by Thomas Krueger and Anthony Boote

November 19, 2004

- Program discussions were held in Brazzaville during May 10-24 and August 9-23, 2004, and at headquarters during September 16-21 and October 4-8, 2004.

- The mission team consisted of Messrs. Ghura (Head), Karangwa, and Leite, Ms. John (Administrative Assistant in May), Ms. Sucharov (Senior Administrative Assistant in August) (all AFR), Mr. Op de Beke (PDR), and Mr. Moussa (FAD). Mr. Kudiwu, Advisor to the Executive Director for the Congo, participated in the discussions. The team worked closely with parallel missions from the World Bank and the African Development Bank (AfDB).

- The staff met with President Sassou-Nguesso; Mr. Andély, Minister of Economy, Finance, and Budget; Mr. Moussa, Minister of Planning; Mr. Dzon, National Director of the Bank of Central African States (BEAC); other senior officials; and representatives of civil society and the donor community.

- The Letter of Intent (LOI) and the accompanying Memorandum of Economic and Financial Policies (MEFP) (Appendix I, Attachments I and II) set out the authorities' economic program for October 1, 2004-September 30, 2007. The authorities are seeking financial support under a Poverty Reduction and Growth Facility (PRGF) arrangement in an amount equivalent to SDR 54.99 million (65 percent of quota).

- The Interim Poverty Reduction Strategy Paper (I-PRSP) prepared by the government, and the Joint Staff Advisory Note (JSAN) prepared by World Bank and Fund staffs are concurrently being sent to the Executive Board for consideration.

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EXECUTIVE SUMMARY

- **The Congo has made considerable progress in consolidating political stability and strengthening macroeconomic conditions since the end of its conflict**. As a consequence, economic growth has picked up in the non-oil sector, fiscal performance has improved, and inflation has abated.

- **Performance under the 2004 staff-monitored program (SMP) was good, following the weak implementation of the 2003 SMP**. In the first half of 2004, all budgetary and financial quantitative targets were met, and all structural measures were completed, although some experienced delays. Significant progress was made in enhancing oil sector transparency. Particularly noteworthy—and indeed exemplary for oil-producing countries in Africa—is the authorities' emphasis on internet publication of key oil sector information.

- **Poverty remains widespread**. The Congolese authorities have prepared an I-PRSP—through a gradually expanding participatory approach—to guide their fight against poverty, for which they are seeking financial support under a PRGF arrangement.

- **The central goals of the proposed program are to achieve noninflationary pro-poor economic growth and to normalize relations with external and domestic creditors**. Key fiscal policy objectives are to raise the share of resources targeted for pro-poor spending, in line with the priorities of the I-PRSP, and to use part of the additional oil resources to normalize relations with creditors. On the structural front, the focus will be on further enhancing transparency in oil sector operations and fully mobilizing the government's receipts from the sector, as well as improving public finance management.

- **The authorities' efforts have prepared the ground for financial support from bilateral donors and multilateral institutions**. The World Bank plans to present an Economic Recovery Credit of US$30 million to its Board before year's end; the AfDB has prepared an arrears settlement plan, which it intends to present to its Board before year's end; and a Paris Club rescheduling is expected on Naples terms following Board approval of a PRGF arrangement. In addition, donors have pledged budgetary support to help clear part of the arrears to the AfDB.

- **External indebtedness remains high**. While the Congo is eligible for debt relief under the enhanced HIPC Initiative, a minimum of six months of good performance under the PRGF and agreement on strong Completion Point triggers would be needed for consideration for the Decision Point under the Initiative.

- **The government's resolve to significantly enhance the framework for good governance, if sustained, bodes well for program implementation**. Nonetheless, the Congo's vulnerability to external shocks, lingering tensions with rebel forces, and still relatively narrow program ownership pose downside risks.

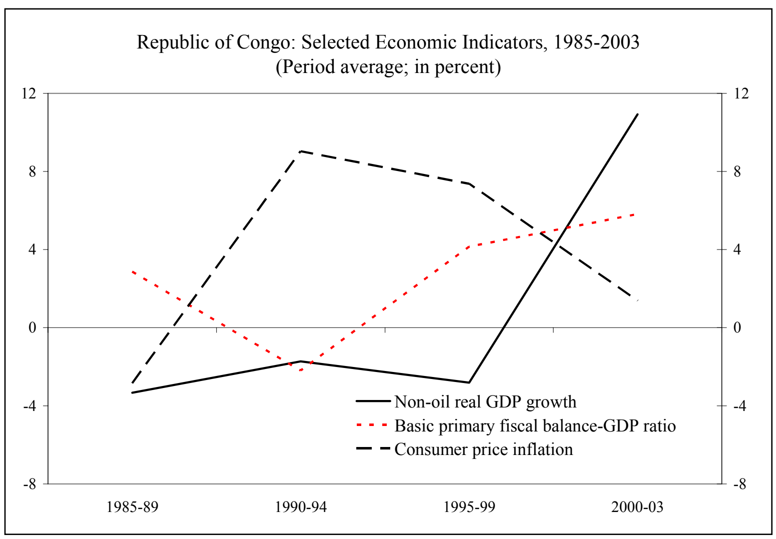
I. Background and Introduction[1]

1. **Progress in consolidating political stability and strengthening macroeconomic conditions in the post-conflict period was noted by Executive Directors** at the conclusion of the 2004 Article IV consultation in June 2004. Executive Directors were encouraged by the good performance in the first quarter of 2004 under the 2004 SMP, following the weak implementation of the 2003 SMP. They welcomed the steps taken to enhance transparency in the oil sector and emphasized the importance of deepening this effort to all oil-related transactions.

2. **The framework for sustained economic growth and poverty reduction over the medium term has strengthened considerably**:

- **Peace and security**. Security has improved since the end of the recurrent conflicts in the 1990s. The four-year political transition 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. In March 2003, the government and representatives of a hold-out rebel group signed a peace accord. Over the past year, the government launched a program to demobilize former combatants and made further progress in reestablishing democratic institutions. Nonetheless, the security situation remains fragile, as indicated by the recent surge in attacks by a rebel group which forced suspension of services on the vital Brazzaville-Pointe Noire rail line.

- **Macroeconomic stability**. The onset of peace in 2000 has fostered the conditions for macroeconomic stability and boosted the pace of economic activity in the non-oil sector (text chart on right-hand side; Table 1; Figures 1-5). Consumer price inflation has abated, helped by a more reliable supply of goods and a strengthening of the euro. Consequently, the loss in competitiveness



[1] For a comprehensive review of recent security and economic performance, see the published reports on the 2004 Article IV consultation (IMF Country Report Nos. 04/232 and 04/231, both July 2004).

experienced in the late 1990s has halted; the real exchange rate remains about 15 percent below its pre-1994 devaluation level (Figure 1).

- **Economic management**. Over the past year or so, the transition to a democratic state and the gradual return to peace have been accompanied by the strict implementation of the 2004 SMP, with a significant improvement in oil sector transparency and fiscal management (Section II). This contrasts with the country's experience during 2000-03, when emergency post-conflict assistance and three subsequent SMPs were not successful in laying the foundation for a PRGF-supported program.

3. **The conflicts of the 1990s exacerbated poverty and debt** (text table on right-hand side; Table 2). Key social and economic indicators have deteriorated or stagnated. Per capita real GDP in 2003 was about 70 percent of its level in 1984, resulting in increased poverty, especially in the 1990s. The Congolese authorities have prepared an I-PRSP to guide their fight against poverty, for which they request Fund support through a new arrangement under the PRGF.

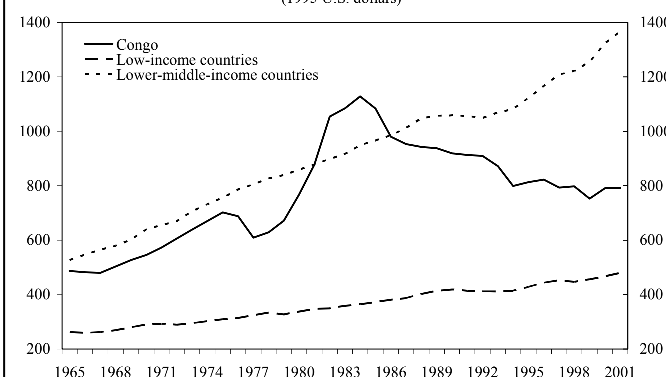
Republic of Congo: Selected Economic and Social Indicators, 1985-2003
(Period average; in units indicated)

	1985-89	1990-94	1995-99	2000-03
Per capita GDP (in 1995 US dollars)	979	883	796	791
External debt (in percent of GDP)	177	217	237	181
Adult illiteracy ratio 1/	38	30	23	19
Secondary school enrollment ratio	75	54	53	42
Immunization ratio 2/	70	67	33	31
Life expectancy at birth (in years)	51	51	51	51

Sources: Congolese authorities; and staff estimates and calculations.

1/ In percent of people age 15 and above.
2/ In percent of the number of children under 12 months for immunization against diphtheria, tetanus, and polio.

Republic of Congo and Comparator Regions: Per Capita GDP, 1965-2001
(1995 U.S. dollars)



4. **The staffs of the Fund, the World Bank, and the AfDB have been cooperating closely in helping the Congo move to a medium-term program**. The Bank prepared an Economic Recovery Credit (ERC) of US$30 million, to be presented to its Board in the last quarter of 2004; the ERC focuses on reforming the oil sector, strengthening the framework for sound public investment, and managing domestic debt. Appendices II and III summarize the Congo's relations with the Fund and the World Bank Group. The AfDB has prepared a plan for settling arrears which it intends to present to its Board in December 2004; a new medium-term program would focus on good governance and poverty reduction.

II. Performance Under the 2004 Staff Monitored Program

5. **The main objectives of the SMP were met** (see paras. 11-13 and Tables 1 and 2 of the MEFP). Program implementation benefited from efforts to broaden ownership—with the Parliament playing a key role—and stricter monitoring of oil sector operations. The external

environment was better than projected; the price of North Sea Brent averaged US$33.7 per barrel during January-June 2004 (compared with the program assumption of US$29.4 per barrel).

6. **All budgetary and financial quantitative targets were met**. In the first half of 2004, the primary fiscal balance adjusted for higher-than-expected oil revenue exceeded the target by 1 percentage point of annual GDP, reflecting higher non-oil revenue and better control of expenditure (text table on right-hand side; Table 3). Higher non-oil revenue resulted from stronger economic activity and improved tax administration. Reflecting the strong fiscal position, net credit from the banking system to the government fell. Domestic and external debt service due was paid on time, and no new payment arrears were accumulated to Paris Club creditors on post-cutoff-date debt or to multilateral institutions. In addition, the government contracted no new loans using oil as collateral.

Republic of Congo: Fiscal Performance, 2003-04
(In billions of CFA francs, unless otherwise indicated)

	2003	Jan.-June 2004			Jan.-Dec. 2004	
	Est.	SMP	SMP 1/	Est.	SMP	Proj.
Domestic revenue (excl. grants)	604	268	301	323	586	717
Oil	422	185	218	218	386	515
Non-oil	182	83	83	105	200	202
Primary expenditure	-465	-213	-213	-211	-460	-482
Current (excluding interest due)	-353	-154	-154	-152	-340	-359
Domestically financed investment	-112	-60	-60	-59	-120	-123
Basic primary fiscal balance	139	54	88	112	125	235
Debt service	-111	-83	-83	-87	-129	-138
Domestic	-23	-7	-7	-11	-15	-24
External	-88	-76	-76	-76	-114	-114
Financing	37	40	40	-14	11	31
Domestic	29	9	9	-43	11	10
External	8	31	31	28	0	21
Arrears payments	-65	-11	-11	-11	-38	-128
Domestic	-58	-11	-11	-11	-38	-41
External	-7	...	...	0	...	-87
Residual balance (+=surplus)	0	0	34	0	-30	0
Memorandum items:						
World oil price	29.0	29.4	33.7	33.7	28.7	36.1
Basic primary balance 2/	6.7	2.5	3.8	4.8	5.8	10.1
Non-oil revenue 3/	17.6	7.5	7.5	9.5	18.2	18.3

Sources: Congolese authorities; and Fund staff estimates and projections.
1/ Adjusted for higher-than-projected oil price.
2/ In percent of annual GDP.
3/ In percent of annual non-oil GDP.

7. **The structural measures of the SMP were completed, although some with delays**. Significant progress was made in enhancing oil sector transparency (see Box 1; and Table 2 of the MEFP). Particularly noteworthy—and, indeed, exemplary for oil-producing countries in Africa—is the authorities' emphasis on internet publication, including of the quarterly reports on oil revenue certification, the publication of large parts of the 1999-2001 and 2002 external independent audits of the national oil company (SNPC), the terms and conditions of the financial transactions carried out by the SNPC for the government, and all active production-sharing agreements. The government has also publicly announced its commitment to adhere to the Extractive Industry Transparency Initiative (EITI). Fiscal management improved in the following ways: (i) budget execution was in line with the program; (ii) non-oil revenues rose as tax and customs administrations strengthened; (iii) stricter expenditure controls, in particular on transfers, were implemented; (iv) spending through extra-budgetary channels was brought under control; and (vi) fiscal reporting was enhanced, including with the regular preparation of treasury-consolidated operations.

Box 1. Recent Reforms in the Oil Sector

The oil sector plays a central role in the economy, accounting for about 70 percent of government revenue and 50 percent of GDP. Reforms have focused on four tasks.

Improving budget management

- Cessation of new oil-collateralized borrowing since October 2002 (with the exception of advances on oil deliveries that are wound up during the year).
- Formalization, in December 2003, of relations between the state, the SNPC, and the national oil refinery (CORAF) to limit budgetary transfers to CORAF.
- Centralization of all oil revenues at the Treasury since 2003.
- Cessation of direct financing of public expenditures by oil companies since 2003.

Ensuring full mobilization of government oil revenue

- Creation in 2003 of the specialized Oil Monitoring Unit (OMU) in the Ministry of Finance to (i) project oil revenues based on fiscal parameters in Production Sharing Agreements (PSAs), (ii) compare projections with outcomes, and (iii) represent the Ministry's interests in oil-related transactions.
- Quarterly certification, for 2003 and the first half of 2004, by an external auditor of oil revenues, in collaboration with the OMU. The certification reconciles fiscal oil revenues due from the oil companies—two-thirds of oil is sold by the SNPC—with the receipts of the Treasury. The reports have highlighted the scope for improving revenue collection, in particular by strengthening the efficiency of SNPC's marketing of the government's oil and lowering the costs of the financial transactions it carries out on behalf of the government.
- Adoption in March 2004 by the government of a dividend policy for the SNPC, reserving at least 30 percent of the 2003 net profits to the Treasury and 20 percent in subsequent years.

Monitoring SNPC activities

- Completion by an audit firm of international reputation of the 1999-2001 and 2002 external accounts of the SNPC. These covered the SNPC's financial consolidated statements, internal controls, and fiscal agency functions (notably oil sales, oil-based financing, and sovereignty expenditures). In contrast with the 1999-2001 audit, the auditors reported good access to information for the 2002 audit.
- The government's adoption in March 2004 of a plan to implement the recommendations of the 1999-2001 audit of the SNPC with a view to improving the company's accounting, internal control, management information system, reporting and accountability.

Enhancing transparency

- Publication on official internet sites (www.congo-site.cg and www.mefb-cg.org) of (i) significant excerpts from the recent SNPC audits; (ii) the plan to reform the SNPC's operations; (iii) oil certification reports; (iv) PSAs; and (v) key oil-related data. The government and the SNPC organized seminars about the oil sector for parliamentarians in Brazzaville in November 2003 and for the public in Pointe Noire in May 2004. The government has also publicly announced its commitment to adhere to the Extractive Industry Transparency Initiative (EITI).

8. **The July 2003 settlement of past disputes between the Congo and an oil company was extensively discussed** (MEFP, paras. 8 and 47).[2] Documentation provided by the authorities allowed the staff's analysis to capture the financial impact of the deal in the macroeconomic framework. Assurances were also provided on governance concerns. The World Bank staff—on the basis of the documentation provided by the authorities, of the government's record to date in tackling transparency issues in the oil sector, and of its experience in dealing with similar issues in other countries—has concluded that the authorities should be commended for proactively seeking a resolution to these long-standing claims. Furthermore, the World Bank staff has indicated that (i) the steps taken to ensure the best possible outcome of the negotiations are in line with best practices, and (ii) the settlement will not jeopardize progress to date in enhancing transparency in the oil sector.

9. **As partial evidence of rising confidence in the domestic banking system, broad money increased in the first half of 2004** (text table on right-hand side). Nonetheless, because of large domestic and external debt payments, the central bank's foreign reserves position weakened, with the currency-cover ratio falling from about 16½ percent in December 2003 to about 12 percent in June 2004. To stem possible speculative capital outflows, the BEAC continued to require prior written approval from its headquarters for all transfers abroad from the Congo; the national BEAC authorities assured the staff that this requirement did not prevent legitimate current payments, or cause undue processing delays.

Republic of Congo: Monetary Developments, June 2003- June 2004
(Changes in percent of beginning-of-year broad money)

	2003		June 2004	
	June	Dec.	Proj.	Est.
Net foreign assets	5.4	-11.0	0.2	12.3
Central bank	-0.8	1.9	0.2	-2.3
Commercial banks	6.2	-12.9	0.0	14.6
Net domestic assets	-12.2	8.5	-5.2	-9.8
Of which:				
Net credit to govt.	-12.0	0.3	-6.1	-10.7
Credit to economy	1.1	5.2	0.9	4.1
Broad money	-6.8	-2.5	-4.9	2.5
Currency	-6.3	1.0	-3.5	-6.4
Deposits	-0.5	-3.5	-1.4	8.9

Sources: BEAC; and Fund staff calculations.

10. **The domestic banking system remains fragile despite the privatization of the last remaining publicly held bank**. Following past trends, at end-June 2004, three out of four banks with inadequate capital were classified as fragile while the fourth bank was categorized as critical. The regional supervisory agency (COBAC) is closely monitoring these banks to ensure that their capital base is restored to an appropriate level (see Section III.C).

III. Policy Discussions and the Proposed PRGF-Supported Program

11. **On the basis of the improved political situation, coupled with the renewed focus on macroeconomic management, the authorities have requested support for their three-year program** (from October 1, 2004 to September 30, 2007) with an arrangement under the PRGF. They stressed their resolve to continue to improve governance and fiscal

[2] See IMF Country Report No. 04/232; Box 4.

management, including by avoiding procyclical fiscal policy, and to implement a strategy to promote sustainable growth in the non-oil sector. With the end of the conflict, they recognize the urgency of reconstruction. The government's economic and social policy will be guided by the I-PRSP, with which the PRGF-supported program is aligned (see Box 2).

12. **The overarching objective of the government's medium-term program is to achieve noninflationary pro-poor economic growth** (text table on right-hand side; Table 1; Figures 2 and 6). Reflecting the improved oil sector prospects, the primary fiscal surplus is expected to increase significantly during the program period despite higher pro-poor spending. The available resources will be used to service nonreschedulable debt and pay down part of the Congo's domestic and external arrears. Inflation is projected to average about 2 percent annually, as domestic demand is held in check by prudent fiscal policy. Reflecting the improvements in oil sector prospects, the current account balance is also expected to improve even after accounting for higher import volumes (Table 5).

Key Macroeconomic Objectives Under the PRGF, 2000-07
(In units indicated)

	2000-03 Est.	2004 Proj	2005 Proj	2005-07 Proj
Real GDP growth (in percent)	4.5	4.0	9.2	6.0
Oil	-4.3	2.0	17.4	7.5
Non-oil	10.9	5.0	5.1	5.3
Consumer price inflation (in percent)	1.4	2.0	2.0	2.0
Primary fiscal balance 1/	5.8	10.1	13.2	9.8
Current account balance 1/ 2/	1.1	2.5	3.0	2.9
Memorandum items:				
Nonoil revenue 3/	18.7	18.3	18.6	18.9
World oil price (US dollars/barrel) 4/	26.7	36.1	33.3	31.7

Sources: Congolese authorities; and Fund staff estimates and projections.
1/ In percent of GDP.
2/ Including public transfers.
3/ In percent of non-oil GDP.
4/ For 2004, WEO price minus $2 per barrel, and for 2005-07 WEO price minus $4 per barrel.

Box 2. Focus on Poverty Reduction

The government's I-PRSP, communicated to the Congo's development partners in September 2004, represents a good effort to engage civil society in a policy dialogue and to define spending priorities in line with priority social needs.

The strategy to reduce poverty is built on five pillars: (i) consolidation of peace and good governance; (ii) consolidation of macroeconomic stability and promotion of key economic sectors; (iii) better access to basic social services and social protection; (iv) improvements in infrastructure; and (v) a solid strategy for fighting HIV/AIDS.

The key recommendations made by the staffs of the World Bank and the IMF for the preparation of the full PRSP are to:

- Widen participation, in particular by eliciting the contributions of all segments of civil society at each key step of the process.
- Carry out relevant surveys to strengthen the poverty-related database.
- Design cost-effective sectoral policies and strategies to promote pro-poor growth and job creation.
- Carry out a costing of the poverty reduction strategy in the context of a medium-term expenditure framework.

13. **Real GDP, propelled by an annual average non-oil real GDP growth of about 5 percent is projected to grow by 5½ percent a year during 2004-07.** Projections for non-oil real GDP growth assume a combined catch-up factor and total factor productivity growth of 1½ percent a year (Box 3). The authorities argued that the Congo has a much greater growth potential and that achieving the Millennium Development Goal (MDG) of halving the proportion of the population living below the poverty line would require a non-oil real GDP growth of about 7¾-8 percent a year during 2004-15. However, they agreed with the staff that prudence was called for in the projections that would form the basis for economic policy.

A. Fiscal Policy

14. **As a member of a monetary union, sound fiscal policy is the main domestic policy instrument to secure macroeconomic stability**. The authorities noted that a key challenge for fiscal policy—given that world oil prices are currently favorable—is to avoid the past pitfalls of procyclical spending and prevent inflationary pressures. They plan to achieve this goal by increasing the primary fiscal surplus—while also raising pro-poor spending—and improving the non-oil primary fiscal balance (text table above; Table 3).

Republic of Congo: Fiscal Profile, 2003-07

	2003 Est.	2004 Proj.	2005 Proj.	2006 Proj.	2007 Proj.
	(In percent of GDP)				
Domestic revenue (excluding grants)	29.1	31.0	34.0	30.4	28.8
Domestic primary expenditure 1/ 2/	22.4	20.8	20.9	21.4	21.5
Of which: poverty-related spending	4.0	4.7	5.9	7.3	8.4
Current primary expenditure	17.0	15.5	15.2	15.5	15.4
Domestically-financed investment 2/	5.4	5.3	5.7	5.9	6.1
Basic primary fiscal balance	6.7	10.1	13.2	9.0	7.3
Memorandum items:	(In percent of non-oil GDP)				
Non-oil revenue	17.6	18.3	18.6	18.9	19.1
Non-oil primary expenditure	41.6	42.6	43.4	42.2	40.8
Non-oil primary fiscal balance	-24.0	-24.3	-24.8	-23.3	-21.7

Sources: Congolese authorities; and IMF staff estimates and projections.
1/ Noninterest current expenditure plus domestically financed investment.
2/ Including net lending.

15. **The authorities stressed that a principal objective of expenditure policy is to devote more resources to the poor, in line with the priorities of the I-PRSP** (text table on right-hand side). They will achieve this by allocating part of the additional oil revenues to combat poverty, but also by streamlining outlays in the following areas:

Republic of Congo: Pro-Poor Spending, 2003-07
(In billions of CFA francs, unless otherwise indicated)

	2003 Est.	2004 Proj.	2005 Proj.	2006 Proj.	2007 Proj.
Total	83	110	149	185	219
Basic health care and HIV/AIDS	4	18	26	37	46
Basic education	34	41	54	63	71
Infrastructure and rural integration	6	30	26	34	44
Water and electricity	19	6	12	16	20
Disarmament, demobilization, and re-insertion	18	13	16	16	15
Social protection	2	1	3	4	5
Agriculture	0	0	10	14	18
Memorandum items					
Total pro-poor spending					
In percent of domestic revenue	14	15	17	24	29
In percent of primary expenditure	18	23	28	34	39
In percent of non-oil GDP	8	10	13	15	16
In percent of GDP	4	5	6	7	8

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

Box 3. Sources of Non-Oil GDP Growth, 1970–2007

A growth-accounting framework with the following production function is used to analyze the Congo's economic growth experience and prospects: $Y=AL^{0.6}K^{0.4}$, where Y is non-oil real GDP; A, typically known as the Solow residual, represents total factor productivity (TFP); L is the labor force, and K is physical capital in the non-oil sector. This exercise suffers from a number of weaknesses. In particular, the capital stock series has been constructed using simplifying assumptions (e.g., depreciation rate and beginning-of-period stock) and may contain significant errors, especially during the conflict period. The results are summarized below:

Republic of Congo: Sources of Non-Oil GDP Growth, 1970-2007
(In percentage change; unless otherwise indicated)

	1970-79	1980-89	1990-99	2000-03	1970-2003	2004-07 Proj.
Non-oil real GDP growth	3.6	5.8	-2.3	10.9	3.4	5.2
Factor accumulation 1/	3.6	3.5	1.9	2.6	3.0	3.7
Solow residual	0.0	2.3	-4.2	8.3	0.4	1.5

Sources: Congolese authorities; and Fund staff calculations.
1/ Accumulation of capital and labor, using 0.4 and 0.6 as factor shares, respectively.

- Factor accumulation explained the bulk of non-oil output growth during 1970–2003, with TFP playing a limited role.
- The devastating impact of the civil wars of the 1990s is evident in the sharp deceleration of factor accumulation and the negative Solow residual.
- The pickup in non-oil output since the war ended—accompanied by a significant catch-up in productivity—is impressive.
- The growth forecast for 2004-07 is predicated on greater factor accumulation, thanks to public investment and a larger Solow residual. The latter would result from (i) the secondary impact of increased investment in the oil sector, (ii) the continued productivity catch-up, albeit at a slower pace, and (iii) a pickup in overall productivity stemming from structural reforms and infrastructure investments.

- Transfers to the national oil refinery (CORAF) and the subsidization of retail petroleum products will be reduced as the petroleum pricing system is reformed. A performance contract, signed in December 2003, now governs the supply of crude oil to the CORAF and CORAF's payments (see Box 1).

- Payment obligations of HydroCongo, which were partially passed to the government when this company was absorbed by the SNPC, will decline as a result of the July 2003 settlement contract with an oil company. The contract fixes payments in dollars (instead of barrels of oil) and shifts more of the burden onto the SNPC.

16. **Even with the renewed focus on poverty reduction, the authorities were of the view that they could achieve only three of the MDG targets by 2015:** eradication of extreme hunger, 100 percent youth literacy, and promotion of gender equality (see Table 6). They favored even higher poverty-related spending to achieve other key MDGs, if additional resources were to become available from oil receipts and debt relief under the enhanced HIPC Initiative. With a view to strengthening implementation capacity, the authorities' poverty reduction program envisages recruitment in priority sectors within the constraints of the overall wage bill under the program.

17. **The authorities underscored their determination to track public spending better**. In this regard, they plan to (i) strengthen the framework for tracking expenditures from the commitment to the payment stage, and (ii) complete the introduction of a functional classification in the budget nomenclature, which started in 2003 with technical assistance from the Fund. The authorities also intend to improve their tracking of poverty-related spending. In addition, with assistance from the World Bank, the authorities plan to review the public procurement system and reform the relevant code and redundant associated practices.

18. **Another key objective of fiscal policy is to use part of any additional oil resources to normalize relations with external and domestic creditors** (text table on right-hand side):

- Additional resources would be used to clear some of the Congo's arrears to multilateral institutions and Paris Club creditors on post-cutoff-date debt, as well as to continue clearing domestic arrears on pensions and civil service salaries.

- In the first program year, the expected effort from the Congo is exceptional—about 80 percent of the primary fiscal surplus and other resources are to be used for external debt service and arrears payments (text table on right-hand side).

Republic of Congo: Sources and Uses of Additional Resources, 2004-07 1/
(Deviations from June 2004 baseline)

	2004 Proj.	2005 Proj.	2006 Proj.	2007 Proj.
	(In percentage points of GDP)			
Primary budget balance	4.3	8.8	4.9	3.2
Core debt service due	0.0	2.3	-1.0	-0.6
Identified financing	0.8	1.4	-0.3	-0.2
Domestic arrears payment	0.0	-1.3	-0.9	-0.9
External arrears payment	-3.8	-5.9	...	...
Baseline scenario's financing need	-1.4	-3.6	0.0	0.4
Residual balance (unallocated resources)	0.0	1.7	2.7	1.8

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

1/ A "+" sign denotes additional resources.

Republic of Congo: Effort Toward Normalizing External Creditor Relations, Oct. 2004-Sept. 2005
(In billions of CFA francs)

Resources	387
Primary fiscal surplus	312
Bank and nonbank financing	7
External financing	68
Uses	-387
Domestic	-78
Debt service	-20
Arrears payment	-58
External	-309
Debt service	-101
Arrears payment	-208

Sources: Congolese authorities, and Fund staff est.

19. **Domestic payment arrears will be settled transparently and equitably**. The authorities have committed to preparing a comprehensive plan to settle domestic arrears, and to publishing the related policy framework on the internet (para. 23 of the MEFP). To meet pressing social needs, the government signed a "social truce" with the labor unions under which the gradual clearance of arrears on wages and pensions, which began in 2004, will continue during the program period. The payment of arrears to small and medium-sized enterprises will also continue. In addition, the government will settle its domestic arrears on other categories of debt (notably, large commercial claims) after a comprehensive settlement plan is available.

20. **The medium-term scenario reflects the fiscal rule the government is adopting with the 2005 budget**, under which oil revenues (and, consequently, expenditures) are projected on the basis of conservative price projections (WEO price minus US$4 per barrel; Table 7). Overall, oil revenues are expected to reach about 25 percent of GDP in 2005 and, thereafter, to decline to about 19 percent by 2007. To avoid procyclical spending, the authorities will adjust the program targets to the extent that oil revenues deviate from programmed amounts. Specifically, the basic primary fiscal balance target will be raised if oil revenue is higher. Additional oil resources will be used to pay down more arrears on nonreschedulable external debt, and in consultation with the Fund staff, to further reduce domestic arrears and increase government savings in the banking system; the government can use the savings to raise poverty-related outlays and to clear arrears to external private creditors (see para. 24 of the TMU). Possible increases in poverty-related spending would be guided by the priorities set out in the I-PRSP[3] and take into account the sustainability of the fiscal profile.

21. **Non-oil revenues are projected to increase by an average of about 0.3 percentage points of non-oil GDP a year during 2004-07** (Table 3). A number of recent measures to widen the tax base and extend the reach of the central administration.[4] Administrative measures under the proposed program include more regular tax audits and tax certification; completion of the computerization of the link between Brazzaville and Pointe-Noire customs offices; completion of the issuance of the single taxpayer identification number; and limits on discretionary tax exemptions (see Section VI.B of the MEFP). The forestry revenue collection system will be evaluated with a view to improving its performance.

[3] These include basic health care and education; infrastructure and rural integration; water and electricity; disarmament, demobilization, and reinsertion; social protection; and agriculture.

[4] These include the systematic transfer of revenues to the Treasury, widening territorial coverage of tax and customs administrations, and strengthening management of the value-added tax.

B. External Outlook, Financing Needs, and External Debt

Republic of Congo: Elements of the Capacity to Pay External Debt, 2003-07
(In billions of CFA francs, unless otherwise indicated)

	2003 Est.	2004 Proj.	2005 Proj.	2006 Proj.	2007 Proj.
Primary fiscal balance	139	235	330	229	192
Core debt service due 1/	-111	-138	-123	-110	-96
Identified financing	37	31	32	-10	-10
Domestic	29	10	-15	-10	-10
External	8	21	47	...	...
Identified arrears payments	-65	-128	-197	-40	-40
Domestic	-58	-41	-50	-40	-40
External	-7	-87	-147	...	...
Residual balance (+ = surplus)	0	0	42	69	46
Reschedulable arrears on extl. debt	...	-2333	0	0	0
Reschedulable service due on extl. debt	...	-142	-137	-132	-111
Financing gap	...	-2475	-95	-63	-65
Memorandum items:					
Arrears on domestic debt	558	517	467	427	387
Potential windfall oil revenue 2/	0	10	144	131	128

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

1/ Due to (i) Paris Club creditors on post-cutoff-date debt, (ii) multilateral creditors, (iii) creditors of oil-collateralized loans, and (iv) domestic debt.

2/ Additional revenues if WEO price projections are realized.

22. **The medium-term balance of payments will be bolstered by improved oil sector prospects and prudent fiscal policy as described above**. Nonetheless, the Congo has a balance of payments need because it must still regularize its external debt obligations (text table on right-hand side; Tables 5, 8, and 9). The program assumes that the Congo pays the service due on its debt to multilateral creditors, on post-cutoff-date debt to Paris Club creditors, and on oil-collateralized loans.[5] In addition, during the first year of the program, the following assumptions are made about external arrears: (i) full clearance of the arrears to the AfDB, facilitated by that institution's proposed plan stipulating that the Congo pay one-third,[6] donors pay one-third,[7] and the AfDB write off one-third; (ii) full clearance of arrears owed to the European Union (EU) and the European Investment Bank, largely with EU grants and only a small national payment; (iii) payment, prior to Board presentation, of CFAF 18 billion of arrears accumulated in 2003 to Paris club creditors on post-cutoff-date debt; and (iv) payment of 41 percent of the end-2002 stock of arrears to Paris Club creditors on post-cutoff-date debt.

23. **Program financing, while difficult, is achievable**. For the first year of the program, covering the period October 1, 2004-September 30, 2005, financing is assured (see text table above and Table 6 of the MEFP). It reflects (i) CFAF 68 billion already committed by bilateral and multilateral donors; (ii) preliminary financing assurances provided by Paris Club creditors, together with assumed comparable treatment by other bilateral and commercial creditors; and (iii) some rollover of oil-collateralized debt. The cumulative financing gap for 2004-07 equals some CFAF 2,700 billion (or about 100 percent of 2007 GDP). The gap should be closed through a combination of (i) debt relief under the enhanced

[5] Creditors of oil-collateralized loans have a contract that entitles them to be paid directly from the sale of oil accruing to the Congo.

[6] The Congolese authorities paid their one-third share in September 2004.

[7] Bilateral and multilateral donors have made tangible expressions of financial support.

HIPC Initiative from multilateral and Paris Club creditors; (ii) comparable relief from other bilateral and commercial creditors; and (iii) new aid inflows from both bilateral and multilateral donors. The program prohibits the government from contracting new oil-collateralized debt and limits borrowing by the SNPC (see Table 4 of MEFP).

24. The Congo also has substantial **arrears to the London Club,** for which the authorities are seeking a mutually satisfactory solution in good faith. The program assumes that the arrears will remain, pending a resolution. One challenge facing the Congo is that a large portion of its external commercial claims is held by funds that are aggressively seeking to recover the original value of the debt through litigation. The Congolese authorities are approaching these funds to encourage them to operate within the framework of the London Club. The authorities plan to settle arrears to all private creditors in a way consistent with the HIPC Initiative and action expected by the Paris Club.

25. **Despite recent improvements in the Congo's macroeconomic situation, the country's external indebtedness remains high** (text table on right-hand side; Table 10). With a PRGF arrangement, the Congo could benefit from a substantial reduction in its external debt (including arrears) and debt-service obligations through possible comprehensive debt relief from its creditors. In preparing the preliminary document for the Congo's enhanced HIPC Initiative, the staffs of the Fund and the World Bank are updating the debt-sustainability analysis. A preliminary HIPC Initiative document is expected to be presented to the Executive Board by April 2005. The staff is of the view that a minimum of six months of good performance under the PRGF and agreement on strong Completion Point triggers are needed for the Congo to be considered for the Decision Point under the enhanced HIPC Initiative.

Congo: Net Present Value of External Debt, end-2003
(In units indicated)

	NPV of Debt	
	Million U.S. dollars	Percent of total
Total 1/	8,414	100
Multilateral	555	7
Official bilateral	4,982	59
Commercial	2,877	34
Memorandum items:		
Oil-collateralized debt	481	6
NPV of debt after traditional relief 2/	5,050	...
In percent of government revenue	435	...
In percent of exports	211	...

Sources: Congolese authorities; and Fund and Bank staff estimates and calculations.

1/ Excluding potential debt of the SNPC.

2/ Results of preliminary assessment under Naples terms.

C. Financial Sector Issues

26. **Broad money is expected to grow in line with nominal non-oil GDP over the program period** (Tables 1 and 4). Although net credit to the government is projected to increase in 2004 (by about 1 percent of non-oil GDP), an expansion of credit to the economy and a buildup of the central bank's net foreign assets are still possible. In 2005, the program envisages a decline in net credit to the government equivalent to about 1.3 percent of non-oil GDP, allowing ample room for private sector credit and central bank foreign assets to grow.

27. **The authorities recognize that they must take immediate, strong action to address the fragility of the banking system,** (see Section VI.C of the MEFP), and they are working in close collaboration with the COBAC to do so. For one bank in critical condition, they must strengthen its management and prepare before end-December 2004, a restructuring plan satisfactory to the COBAC and the World Bank. It is also critical that the bank's (i) management be reinforced immediately, (ii) ownership structure clarified, and (iii) financial restructuring plan be accompanied by operational restructuring measures that ensure medium-term viability. One option being envisaged by the COBAC is a temporary government takeover of the bank to protect depositors and allow an orderly restructuring. Before committing any public funds, the government will discuss with the Fund staff the overall budgetary implications of the restructuring plan.

28. **The government plans to reform the nonbank financial sector, with assistance from the World Bank and other donors**. This will entail the preparation of restructuring plans of the pension funds, as well as of the postal and savings institution, and the audit of the public insurance company. The authorities also recognize the need to promote the healthy development of microfinance institutions, and mutual microfinance firms (MUCODEC) will continue to benefit from their tax-exempt status.

D. Oil Sector and Other Structural Reforms

29. **The authorities emphasized that the overarching goals for oil sector reform during the period of the PRGF arrangement are to ensure that** (i) revenues are fully mobilized; (ii) the SNPC focuses on its core activities and undertakes its fiscal agency function effectively, and (iii) oil sector transparency is further enhanced to enable public participation in the effective monitoring of oil operations (see Section VI.A and Table 4 of the MEFP; and Box 4).

30. **To enhance non-oil GDP growth—which is strongly linked with poverty reduction—the government plans to implement measures to improve the business environment**. With assistance from their development partners, the authorities intend to enhance the overall governance framework and effectively combat corruption, as well as to improve the operation of the public utilities and the delivery of public services (see sections VI. D and VI.E of the MEFP; Boxes 4 and 5). Implementation of the program to restructure or privatize public enterprises will continue with World Bank assistance; the envisaged actions entail accelerating of reforms in the water, electricity, telecommunications, and rail transport sectors. Efforts to put the supply of water and electricity as well as the railroad from Pointe Noire to Brazzaville under private management have not succeeded and would be renewed with assistance from the World Bank. The strengthening of the governance framework will continue with assistance from the UNDP. The World Bank plans to help the government reform the legal and judicial framework for business. With a view to raising investor confidence, the government plans to make the customs and tax administrations more efficient, eliminate quasi taxation, and make the tax system more transparent.

Box 4. Structural Conditionality Under the Proposed PRGF Program

Structural measures for the first year of the proposed new arrangement are set with a view to ensuring that the macroeconomic and poverty reduction objectives of the program are achieved. Focus will be on (see Table 4 of the MEFP)

Oil sector reform

- maximizing the government's oil receipts (quarterly certification of oil revenues by audit firm and implementation of relevant recommendations; audit of costs for oil companies).
- monitoring of activities of SNPC and affiliates (external audit of SNPC and CORAF; preparation of SNPC cash flow table; action plan to refocus SNPC's activities).
- transparency of oil sector operations (publication oil revenue certification reports, SNPC audit reports, and information on hydrocarbon transactions).

Public finance management

- poverty alleviation and strengthening of public expenditure management (tracking of expenditures, in particular poverty-related outlays; preparation of plan for domestic arrears settlement).
- mobilization of non-oil revenue (certification of forestry revenue by audit firm).
- rationalizing of gasoline prices (automatic price adjustment mechanism).

Banking system

- preparation of restructuring plan for a bank in distress.

Other relevant structural measures not explicitly included in the first annual program are being dealt with as follows (see sections VI.C, VI.D, VI.E of the MEFP):

- The promotion of **good governance,** to which most donors are committed, is one of the main priorities of the I-PRSP (see Box 5). The World Bank is taking the lead in oil sector reform and public investment management. France and the Fund have provided technical assistance in treasury management and expenditure management, respectively. The UNDP is taking the lead in tackling corruption, and the AfDB plans to provide assistance to improve overall governance.
- The reform of the **nonbank financial sector** will be pursued with assistance from the World Bank and other donors.
- The reform of the **legal and judicial framework** for business will be carried out with World Bank assistance.
- The reform of the **energy, telecommunication, and transportation** sectors will be carried out with assistance from the World Bank.
- The reform of **statistical reporting** is being carried out with assistance from the Fund and the World Bank.

Box 5. Focus on Improving Governance

The legacy from past public management weaknesses and recurring civil conflicts is reflected in low governance ratings (see IMF Country Report No. 04/232, Box 6). The government is determined to tackle corruption and promote good governance:

- **Anticorruption**. The government has approved the National Anti-Corruption and Anti-Fraud Commission. Under the chairmanship of the President of the Republic, this commission will monitor the implementation of anticorruption policies, centralize all information necessary for the prevention and detection of corruption, oversee procurement policy, alert the appropriate authorities to cases of serious corruption, and assist government agencies or enterprises in tackling corruption. The members of this commission are yet to be nominated. In addition, with assistance from the UNDP, the government plans to finalize the preparation of an anticorruption law.

- **Oil sector governance**. Significant progress has been made in addressing the lack of transparency and poor governance in the oil sector (see Box 1). Improving transparency is a centerpiece of the PRGF-supported program (Box 4). The government is working in close collaboration with the U.K. Department for International Development on the Extractive Industry Transparency Initiative (EITI).

- **Kimberly process**. The government is working, closely with the Kimberly process on diamond certification issues (MEFP, para. 43). Actions already taken include suspension of licenses granted to diamond-purchasing bureaus, punishment of civil servants involved in issuing unauthorized Kimberly certificates, and strengthening of the bureau of mines administration. The government also plans to hold a meeting with neighboring diamond-producing countries in December in Brazzaville.

- **Public finance**. Last year the directors in the General Directorates of the Budget, Customs, and Tax were replaced. The reform of budget classification and expenditure tracking is ongoing. The government is preparing a plan for settling domestic arrears that will bring transparency and equity to the process.

- **Legal and judicial framework**. Reform in this area will be carried out with World Bank assistance.

E. Technical Assistance Needs

31. **The authorities emphasized the need for additional technical assistance from the international community in key areas**: public expenditure management, non-oil revenue mobilization, oil sector transparency, public debt management, and statistics (see Section VI.F of the MEFP). To facilitate poverty reduction, a number of surveys, including a household survey and a population census, will be conducted with assistance from the World Bank and UNDP.

IV. Program Risks

32. **While the recent progress provides a good basis for program implementation, important risks remain:**

- Expectations of "peace dividends" and high oil prices mean that spending pressures are mounting, especially from labor unions and public works contractors, to settle domestic arrears.
- Reforms have been pushed forcefully, but there remains a need to broaden political support.
- Security in the Pool region, surrounding Brazzaville, is still not complete, and will require a successful conclusion to the demobilization program.
- To garner broad domestic and international support, the authorities must widely disseminate comprehensive economic information, especially on oil-related activities, on a regular and timely basis. They have made ambitious commitments in this regard.
- In view of the Congo's high dependence on oil, a significant decline in oil prices could jeopardize the macroeconomic objectives set in the program.

V. Prior Actions, Program Monitoring, and Access

33. **To further strengthen the framework for oil sector transparency and enhance the likelihood of the program's success**, three prior actions are to be implemented by the time of the Executive Board discussion (see Table 4 of the MEFP). The program will be monitored on the basis of the quantitative performance criteria and indicators shown in Table 3 of the MEFP and of the structural criteria and benchmarks shown in Table 4 of the MEFP. The monitoring of the program will be done on the basis of six-monthly reviews, the first one to be completed by July 2005 (Table 11).

34. **The authorities are increasing their ability to implement their economic and poverty reduction program**. They have already reinforced the management structure of the tax and customs administration, set up the Oil Monitoring Unit (OMU), stepped up cooperation with the SNPC, and increased parliamentary scrutiny of the program's implementation. In the period ahead, the government plans to strengthen the technical

committee that monitors the program. In addition, the reform agenda calls for an increase in the technical staff of the OMU and the SNPC.

35. **It is proposed that total access over the period of the new PRGF arrangement be equivalent to SDR 54.99 million, or 65 percent of quota**. This amount is in line with the average for second-time PRGF users and takes into account the country's indebtedness to the Fund and its external financing requirements over the next few years (Table 12). Taking into account the projected scheduling of repayments and disbursements, the Congo's total Fund credit outstanding is expected to peak at 65 percent of quota in 2008. The country's medium-term prospects, bolstered by a strong adjustment program coupled with debt relief, would enable it to meet its obligations to the Fund.

VI. Staff Appraisal

36. **The government has made substantial progress in laying the foundation for stronger economic growth and faster poverty reduction**. Improvements in the political environment and an increased focus on economic management since late 2002 have already led to stronger economic growth, lower inflation, and good performance under the 2004 SMP. This outcome represents a major break from the past: from 2000 to 2003, despite post-conflict emergency assistance and three SMPs, the Congo was unable to establish an adequate track record for moving to a PRGF arrangement.

37. **The 2004 SMP produced good results**. All the program's quantitative budgetary and financial indicators were met. Major progress was made in improving oil sector transparency, with the widespread dissemination of information on the internet which is particularly noteworthy and examplary among countries in Africa. This included the publication of the external SNPC audit reports, revenue certification reports, and production sharing agreements. Important progress was also made in strengthening budget management.

38. **Notwithstanding some progress, further broadening of program ownership will be critical to secure durable success of the government's economic reform strategy**. The government has started to engage civil society in public policy choices. The I-PRSP process offered a nascent framework for a national dialogue on poverty reduction. Significant improvements in oil sector transparency, better-quality fiscal data, and the re-assertion of institutional control over financial management are fostering more meaningful policy discussions. At the same time, a more active Parliament and wider dissemination of key economic information herald the promise of increased accountability. Looking forward, the participatory approach needs to be strengthened in the context of the PRSP preparation, in particular through the contribution of all segments of civil society at each step of the process.

39. **The objectives of the government's three-year program are realistic and consistent with the priorities set out in the I-PRSP**. The authorities' program seeks to further strengthen governance, bolster macroeconomic stability and accelerate structural reforms. Such actions should create the basis for enhanced transparency of oil revenues, non-oil private sector development, employment creation, and poverty reduction. It would also

allow the Congo to establish a track record and be considered for debt relief under the enhanced HIPC Initiative.

40. **Fiscal consolidation is the centerpiece of the macroeconomic adjustment effort; the fiscal targets are demanding but essential for generating resources to spend on social programs and to normalize relations with domestic and external creditors**. The mobilization of oil and non-oil revenue should be monitored closely, and expenditures tracked and controlled carefully. The staff welcomes the government's decision to devote more resources to the poor, in line with the objectives of the I-PRSP.

41. **While the real effective exchange rate has been broadly stable in the post conflict period and remains well below its pre-1994 devaluation level, vigilance is required with a view to expanding the role of the non-oil sector.** The authorities are urged to work in concert with development partners to implement structural reforms necessary for private sector development, especially in the areas of public utilities and infrastructure.

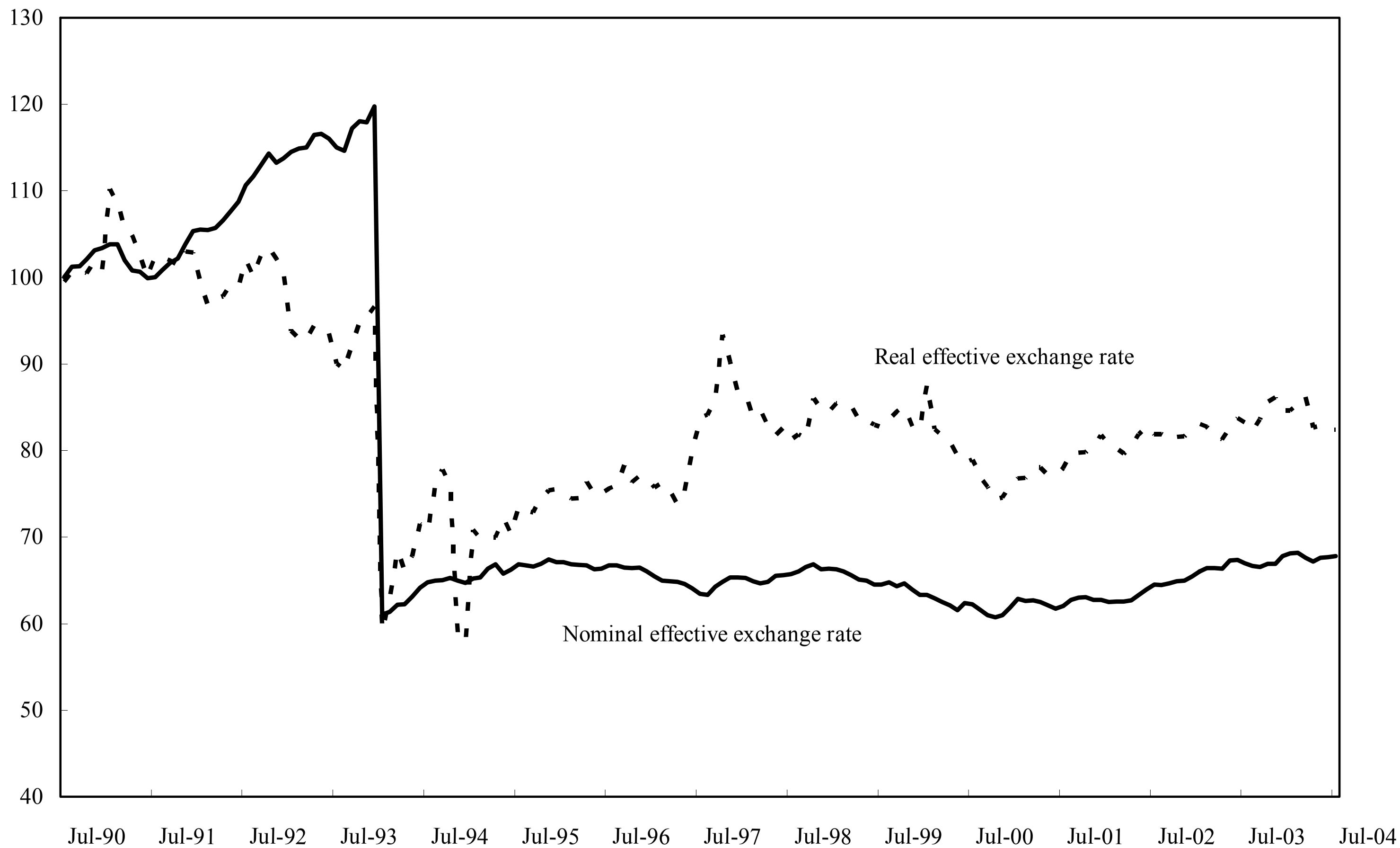
42. **The Congo's banking system remains fragile, posing a potential risk to the macroeconomic framework**. The authorities are urged to work in close collaboration with the regional surveillance body to address underlying weaknesses. In this regard, it is important that they prepare, as soon as possible, a restructuring plan for the one bank judged to be in critical condition. In addition, the authorities need to work closely with the World Bank to reform the nonbank financial sector, allowing it to play its role especially in rural development.

43. **The authorities are making commendable efforts to normalize relations with their external creditors**. For example, they made the critical decision to use a large part of the primary fiscal surplus to clear external arrears on nonreschedulable debt. The authorities will also continue to clear domestic arrears. They are right to place priority on accelerating the clearance of external arrears to the extent permitted by higher oil revenues and to use any remaining revenues to clear more domestic arrears, increase poverty-related spending, and strengthen the government position vis-à-vis the banking system.

44. **The government should pursue good governance, centralize economic and financial decision making, and strengthen domestic oversight institutions.** The government's program centers on further improving the transparency of oil sector operations. In addition, after a decade of recurrent breaches in standard budgetary procedures, the authorities have begun to reassert their control over oil sector transactions, debt management, revenue collection, and spending allocations. In addition, it will be crucial to effectively launch the operations of the recently established Cour des Comptes and National Anti-Corruption and Anti-Fraud Commission.

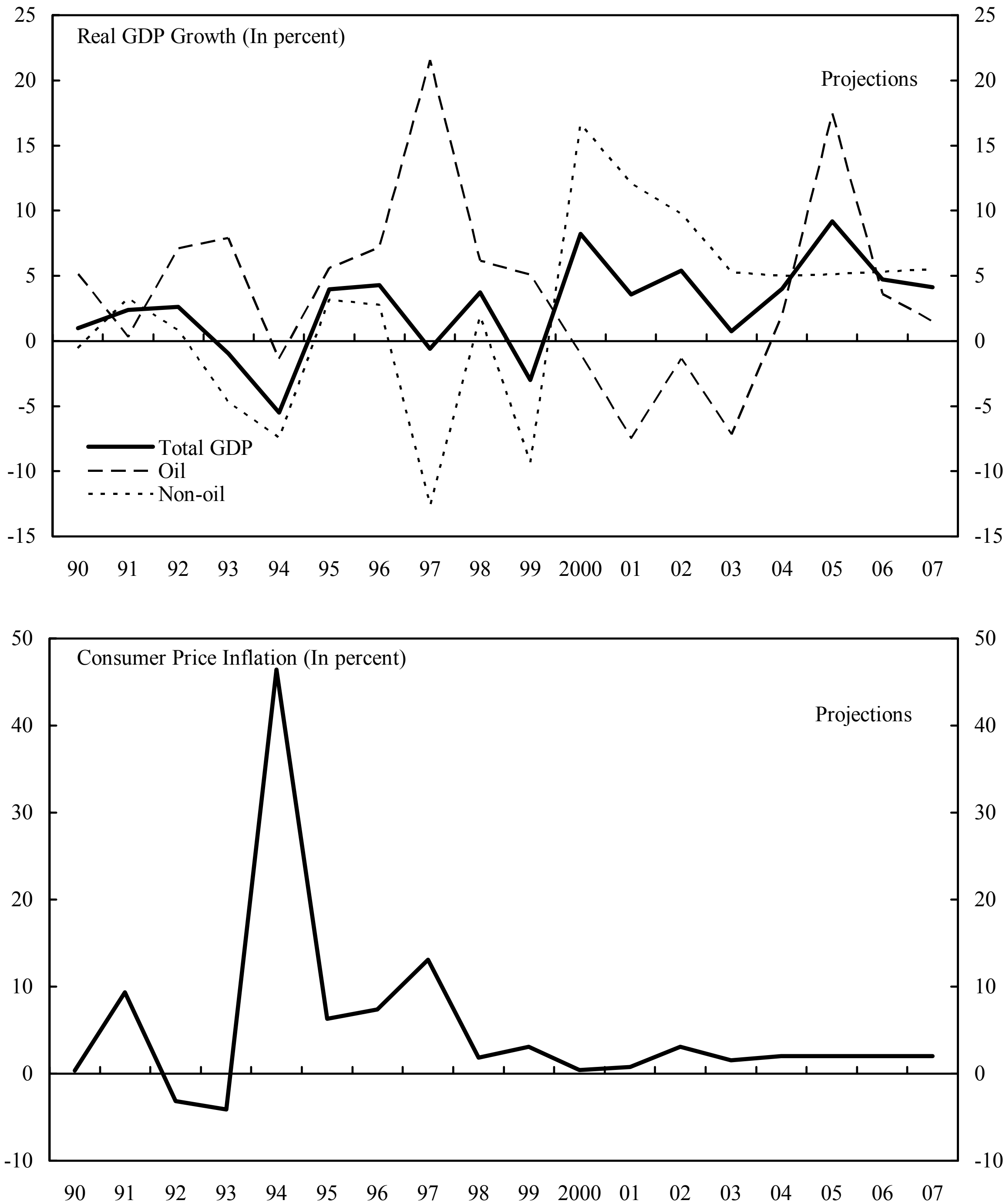
The staff recommends approval of the request for a new three-year arrangement under the PRGF. The risks to program implementation—for example, the Congo's vulnerability to external shocks, lingering tensions with rebel forces, and still relatively narrow program ownership—need to be carefully managed by the authorities. The success of the administration that took office in 2002 bodes well for program implementation.

Figure 1. Republic of Congo: Effective Exchange Rates, July 1990–July 2004
(Index, 1990 = 100)



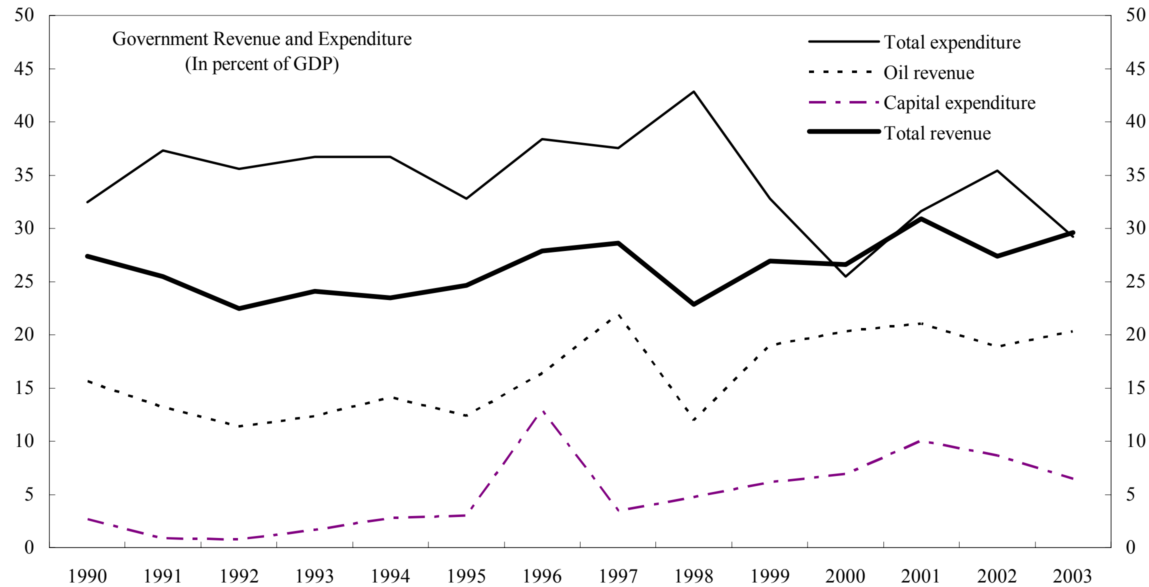
Source: IMF, Information Notice System.

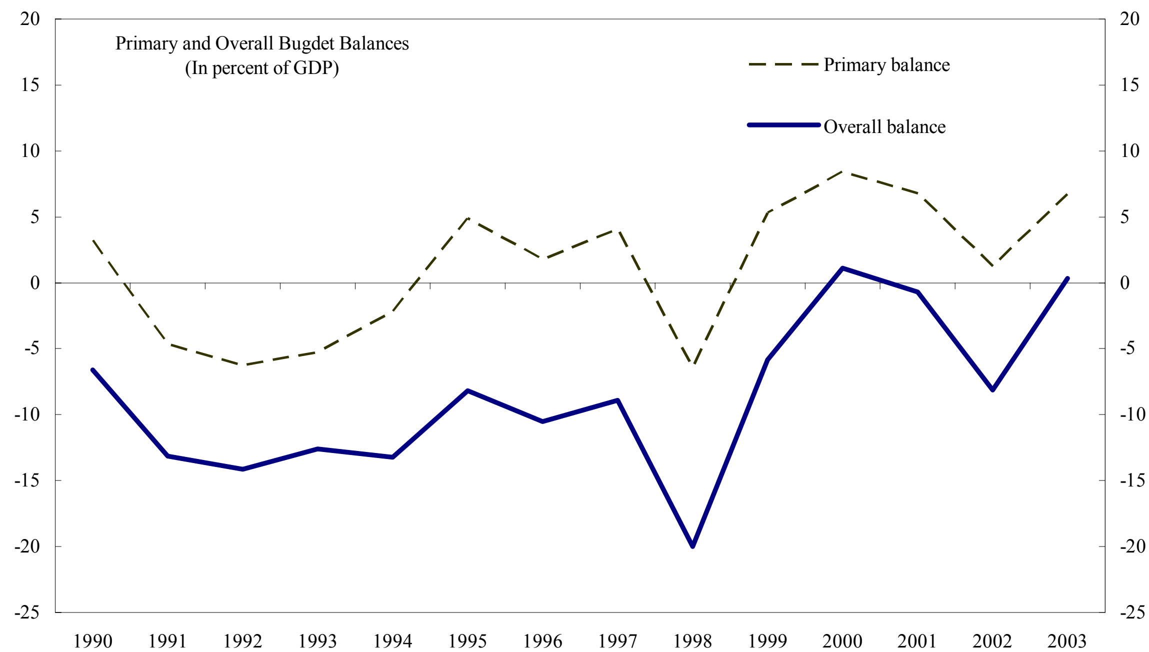
Figure 2. Republic of Congo: Output and Price Development, 1990-2007



Sources: Congolese authorities; and Fund staff estimates.

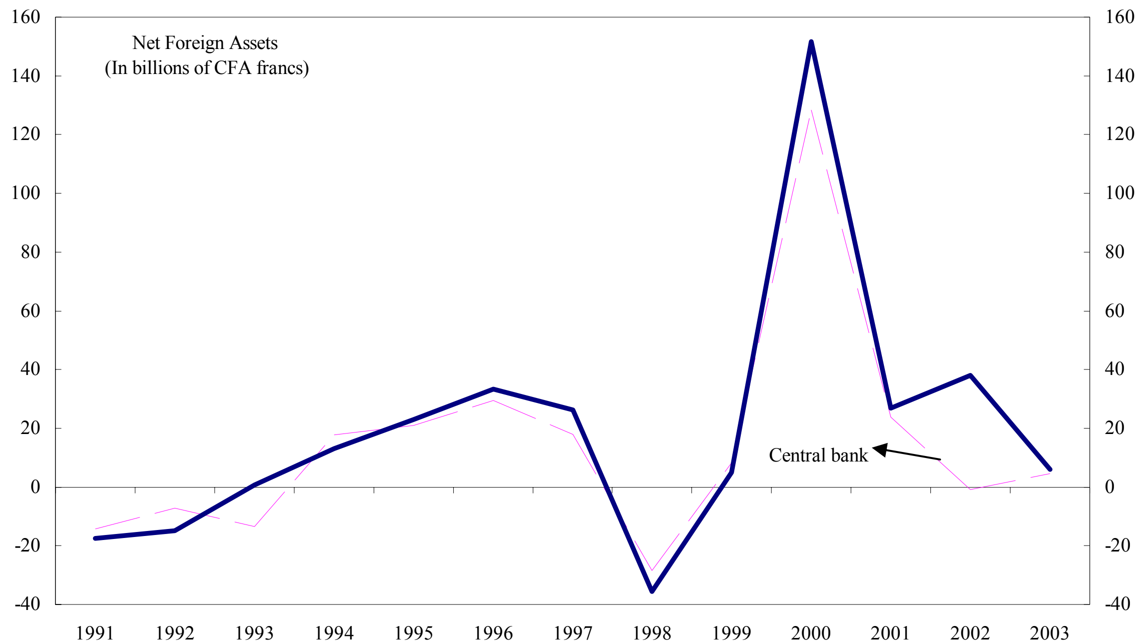
Figure 3. Republic of Congo: Fiscal Developments, 1990-2003

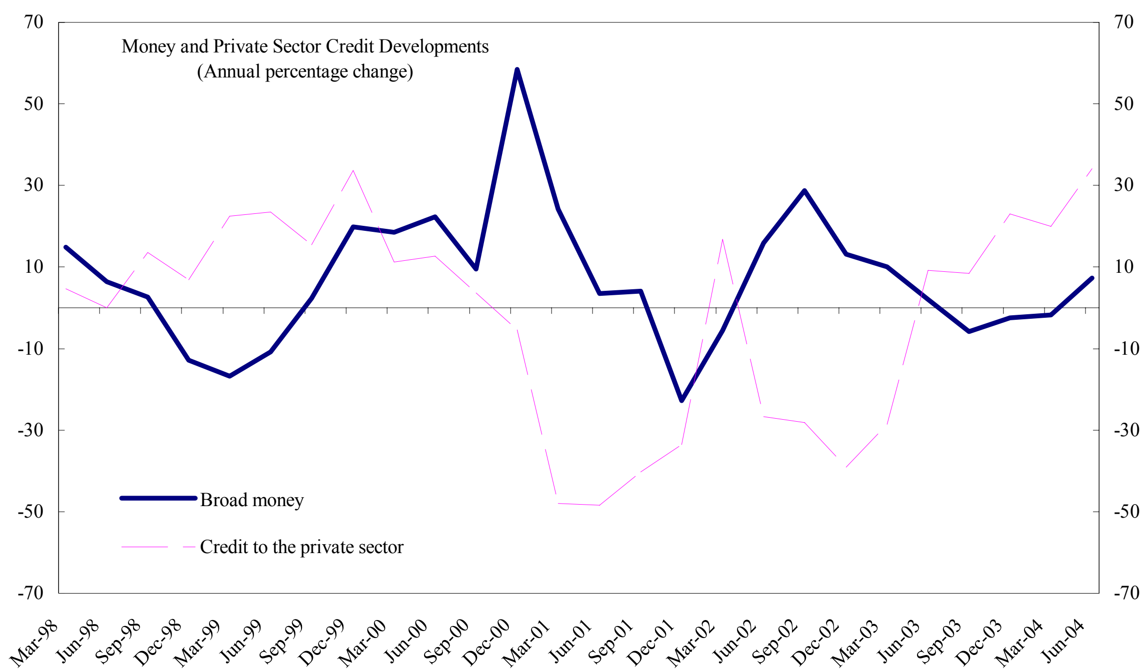




Sources: Congolese authorities; and Fund staff estimates.

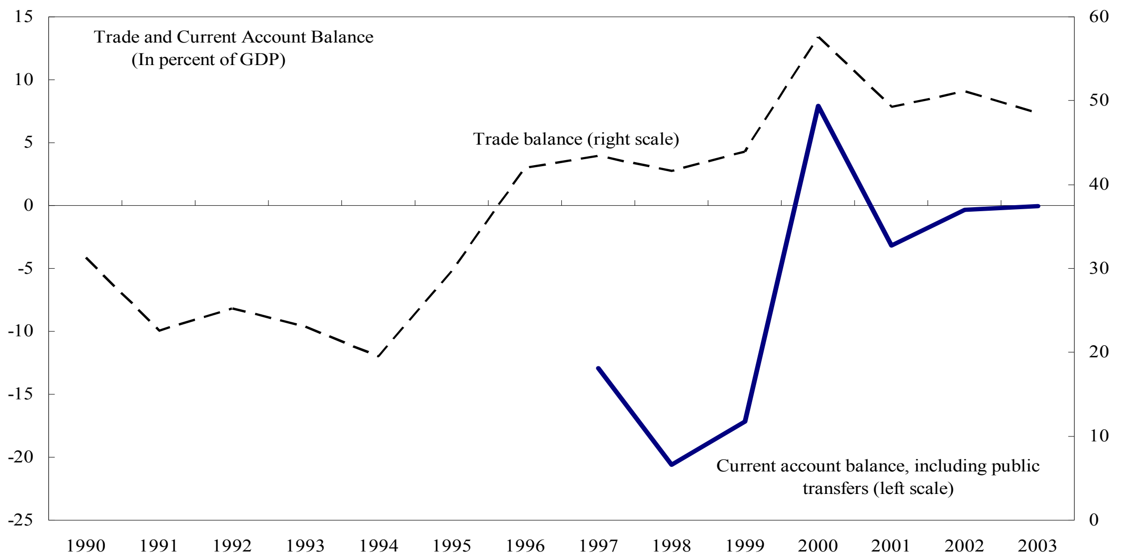
Figure 4. Republic of Congo: Monetary Developments, 1991-2004

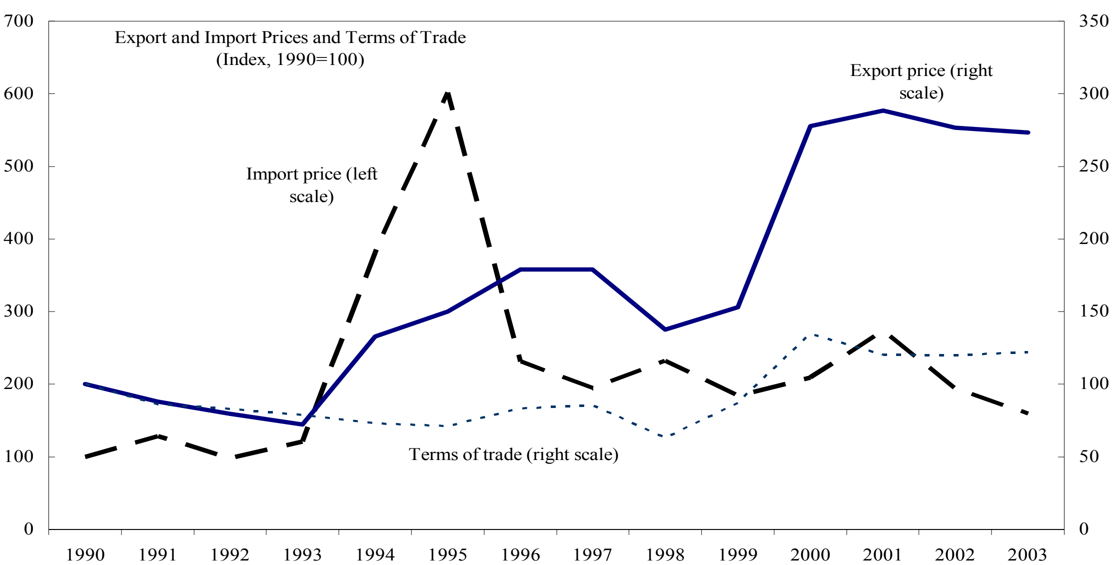




Sources: Congolese authorities; and Fund staff estimates.

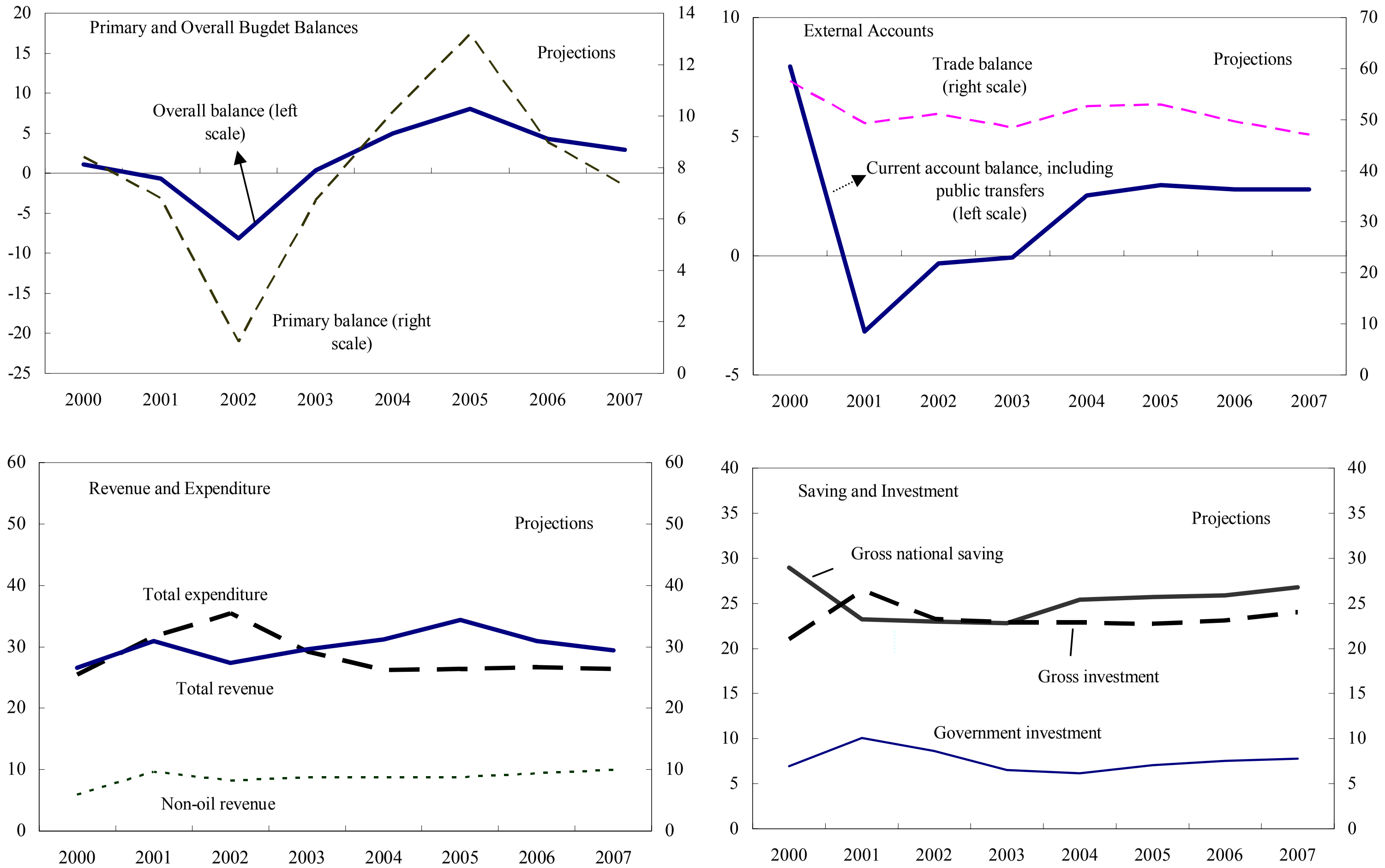
Figure 5. Republic of Congo: External Sector Development, 1990-2003





Sources: Congolese authorities; and Fund staff estimates.

Figure 6. Republic of Congo: Adjustment Profile, 2000-07
(In percent of GDP)



Sources: Congolese authorities; and Fund staff estimates.

Table 1. Republic of Congo: Selected Economic and Financial Indicators, 2000–07

	2000	2001	2002	2003	2004		2005	2006	2007
				Est.	SMP	Proj.	Projections		
	(Annual percentage change)								
Production and prices									
GDP at constant prices	8.2	3.6	5.4	0.8	3.6	4.0	9.2	4.7	4.1
Oil	-1.0	-7.5	-1.4	-7.2	3.2	2.0	17.4	3.6	1.5
Non-oil	16.6	12.1	9.7	5.3	3.8	5.0	5.1	5.3	5.5
GDP at current prices	58.2	-10.9	2.9	-1.5	5.2	11.8	8.1	1.7	3.2
GDP deflator	46.1	-13.9	-2.4	-2.2	1.5	7.5	-1.0	-2.9	-0.9
Consumer prices (period average)	0.4	0.8	3.1	1.5	2.0	2.0	2.0	2.0	2.0
External sector									
Exports, f.o.b. (CFA francs)	82.0	-13.6	4.0	-5.9	-1.4	20.2	9.0	-1.7	0.0
Imports, f.o.b. (CFA francs)	31.8	17.8	-1.5	-4.5	5.9	18.2	9.3	4.9	4.0
Export volume	7.2	8.9	5.8	-4.7	9.1	8.3	15.2	3.7	2.0
Import volume	17.3	17.0	-0.7	1.0	9.7	13.1	9.1	5.9	3.4
Terms of trade (deterioration -)	51.0	-13.6	3.7	2.0	-4.8	8.0	-4.5	-5.5	-3.2
Nominal effective exchange rate	-4.5	1.0	2.1	4.6	...	...	...	...	...
Real effective exchange rate	-5.9	-0.4	3.5	2.5	...	...	...	...	...
Central government finances									
Total revenue (including grants)	56.0	3.7	-8.9	6.6	-1.6	17.7	19.3	-8.6	-2.0
of which : oil revenue	69.1	-7.6	-7.7	6.1	-8.5	22.2	22.8	-15.7	-6.9
non-oil revenue	25.5	44.7	-11.7	4.4	9.9	11.1	8.5	9.1	8.7
Total expenditure	22.7	10.7	15.3	-18.7	21.6	0.3	8.7	2.8	2.3
Current	9.8	30.4	27.8	-16.4	18.9	-1.4	4.2	0.7	0.5
Capital	78.9	28.8	-11.5	-25.8	31.0	6.2	23.3	8.5	7.0
	(In percent of beginning-of-period broad money, unless otherwise indicated)								
Money and credit									
Net domestic assets	-11.1	14.5	8.8	8.5	5.8	2.7	-3.0	-1.0	-0.7
Domestic credit	-8.9	3.0	-6.8	5.2	5.8	7.0	-3.0	-1.0	-0.7
Central government	-6.6	21.0	9.0	0.4	4.0	4.0	-5.0	-3.1	-2.9
Credit to the economy	-4.5	-16.4	-16.5	5.3	1.8	1.9	2.0	2.1	2.2
Broad money	58.5	-22.8	13.1	-2.4	6.3	6.4	6.9	7.3	7.5
Velocity of broad money (non-oil)	2.9	3.0	3.6	3.6	3.6	3.6	3.6	3.6	3.6
	(In percent of GDP)								
Investment and saving									
Gross national saving	29.0	23.3	23.0	22.8	19.6	25.4	25.7	25.9	26.8
Gross investment	21.0	26.4	23.3	22.9	24.8	22.9	22.7	23.1	24.0
Of which : public (domestically financed)	6.3	9.8	7.6	5.4	5.6	5.6	5.7	5.9	6.1
Central government finances									
Revenue and grants	26.6	30.9	27.4	29.6	28.1	31.2	34.4	31.0	29.4
Total expenditure	25.5	31.6	35.4	29.2	28.7	26.2	26.4	26.7	26.4
Overall balance (deficit -, commitment) 1/	1.1	-0.7	-8.1	0.4	-0.6	5.0	8.1	4.3	3.0
Primary balance (deficit -) 2/	8.4	6.8	1.2	6.7	5.8	10.1	13.2	9.0	7.3
Of which: non-oil primary balance	-11.9	-14.3	-15.6	-12.0	-11.8	-11.6	-11.7	-11.6	-11.3
Current account balance 3/	7.9	-3.2	-0.3	-0.1	0.3	2.5	3.0	2.8	2.8
External public debt (end of period) 4/	163.2	196.3	180.5	215.0	181.3	...	...	...	...
	(In percent of exports of goods and services)								
External public debt service (before debt relief)	24.0	23.2	25.3	17.1	24.2	13.6	11.7	11.0	9.2
External public debt	203.3	245.1	223.7	277.0	243.8	...	...	...	...
	(In percent of total government revenue excluding grants)								
External public debt service (before debt relief)	73.4	60.4	75.0	45.4	66.0	36.7	28.8	29.4	25.3
External public debt	621.0	638.4	663.7	630.1	664.3	...	...	...	...
	(In billions of CFA francs, unless otherwise indicated)								
Gross official foreign reserves	158.6	53.6	22.2	20.5	18.7	24.2	39.8	64.4	93.0
In months of imports, c.i.f.	4.5	1.3	0.5	0.5	0.4	0.5	0.8	1.2	1.7
Nominal GDP	2,293	2,043	2,103	2,072	2,146	2,316	2,503	2,544	2,626
World oil price (in U.S. dollars per barrel) 5/	28.2	24.3	25.0	29.0	28.7	36.1	33.3	31.3	30.5
Oil production (in millions of barrels)	96.8	89.6	88.0	81.7	84.3	83.3	97.9	101.4	102.9
Potential windfall oil fiscal revenue 6/	0.0	0.0	0.0	0.0	0.0	9.8	144.3	131.4	127.5

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

1/ Including grants.
2/ Revenue minus noninterest current expenditure minus domestically financed capital expenditure and net lending.
3/ Including public transfers.
4/ For 2003, including estimated interests on arrears.
5/ From the second half of 2004 onward, world oil price forecasts incorporate a prudence factor. As a result, *WEO* price forecasts are reduced by US$2 per barrel for the second half of 2004 and by US$4 per barrel from 2005 onward.
6/ Additional revenue that would be generated by using *WEO* forecasts for world oil prices that is, without applying the price rule.

Table 2. Republic of Congo: Income and Social Indicators, 1970–2001

	Latest Single Year			Same Region/Income Group	
	1970–75	1980–85	1990–2002	Sub-Saharan Africa	Upper-middle income countries
Total population, midyear (in millions)	1.4	1.9	3.1	688.9	2,494.6
Growth rate (annual average, in percent)	2.7	2.8	2.9	2.4	1.9
Urban population (in percent of population)	35.0	49.3	66.6	33.1	30.6
Total fertility rate (births per woman)	6.3	6.3	6.3	5.1	3.5
GNI per capita (in U.S. dollars)	530.0	1,060.0	610.0	450.0	430.0
Consumer price index (1995=100)	...	60.6	136.0	...	...
Food price index (1995=100)	...	71.8	136.0	...	...
Public expenditure			(In percent of GDP)		
Health	...	...	1.4	2.5	1.1
Education	7.8	4.6	4.2	3.4	3.1
Gross school enrollment rates 1/			(In percent of age group)		
Primary	135.8	147.4	96.9	78	107
Secondary	47.6	75.4	41.9	25	64
Tertiary	2.6	6.3	5.0	3	14
Immunization rate			(In percent of children under 12 months)		
DPT	...	54	41	54	65
Measles	...	67	37	58	65
Life expectancy at birth			(In years)		
Total	48	51	52	46	59
Male	45	48	50	45	58
Female	51	54	54	47	60
Mortality					
Infant (per thousand live births)	94	86	81	103	79
Under 5 (per thousand live births)	143	118	108	174	121
Adult (15-59)					
Male (per 1,000 population)	514	408	475	519	310
Female (per 1,000 population)	395	298	406	461	259

Source: World Bank, *World Development Indicators*, 2003.

1/ Gross enrollment rate: break in series between 1997 and 1998 is due to change from ISCED76 to ISCED97; ratios exceeding 100 indicate discrepancies between the estimates of school-age population and reported enrollment data.

Table 3. Republic of Congo: Central Government Operations, 2002–07

	2002	2003	2004	2004	2005	2006	2007
		Est.	SMP	Proj.	Projections		
			(In billions of CFA francs)				
Revenue and grants	575.4	613.5	603.6	722.2	861.7	787.6	771.9
Revenue	571.7	603.6	585.6	717.2	851.7	772.6	756.2
Oil revenue	397.5	421.6	385.6	515.0	632.4	533.4	496.3
Non-oil revenue	174.2	182.0	200.0	202.2	219.3	239.2	259.9
Grants	3.7	9.9	18.0	5.0	10.0	15.0	15.8
Expenditure and net lending	746.4	606.1	616.0	607.1	660.1	678.5	694.4
Current expenditure	563.1	470.5	439.4	464.0	483.6	487.0	489.4
Wages	120.4	120.2	124.5	124.5	130.0	134.0	138.1
Other current expenditure	256.7	223.6	200.6	219.5	233.2	240.5	246.5
Material and supplies	78.4	50.0	51.8	55.8	61.6	70.2	74.4
Common charges	73.4	42.8	47.9	52.9	55.5	58.4	61.7
Transfers	104.9	130.8	100.9	110.8	116.2	111.9	110.4
Refined petroleum products	6.9	8.9	7.0	8.7	8.7	5.8	5.8
HydroCongo 1/	44.8	34.3	8.0	11.7	9.7	9.2	9.0
National refinery (CORAF)	…	16.0	8.0	8.8	8.8	4.6	0.0
Other transfers	53.2	71.6	77.9	81.6	89.0	92.3	95.6
Local authorities	9.3	8.9	15.2	15.2	17.0	19.1	20.0
Interest	176.7	117.8	99.1	104.8	103.3	93.3	84.8
Domestic	14.4	23.4	14.8	14.8	12.4	10.9	11.0
External	162.3	94.4	84.3	90.0	90.9	82.4	73.8
Of which : moratorium interest	0.0	0.0	0.0	3.6	18.6	20.0	20.9
Capital expenditure	181.7	134.8	176.6	143.1	176.5	191.5	205.0
Domestically financed	158.1	111.0	120.1	123.1	141.5	150.0	160.0
Externally financed	23.6	23.8	56.5	20.0	35.0	41.5	45.0
Net lending	1.6	0.8	0.0	0.0	0.0	0.0	0.0
Primary balance 2/	25.7	139.1	125.2	235.0	329.9	228.9	191.6
Of which: non-oil primary balance	-327.0	-248.2	-252.4	-268.4	-292.8	-295.3	-295.7
Balance, commitment basis							
Excluding grants	-174.6	-2.5	-30.4	110.2	191.6	94.1	61.8
Including grants	-171.0	7.4	-12.4	115.2	201.6	109.1	77.6
Of which: non-oil balance	-523.7	-379.9	-390.0	-388.2	-421.1	-415.1	-409.7
Change in arrears	205.8	124.8	-2435.1	-2446.5	-197.3	-40.0	-40.0
External	210.8	164.2	-2405.6	-2414.5	-147.3	0.0	0.0
Domestic	-5.0	-39.5	-29.5	-32.0	-50.0	-40.0	-40.0
Balance, cash basis	34.9	132.2	-2447.4	-2331.3	4.3	69.1	37.6
Financing	-34.9	-132.1	-134.4	-158.7	-99.0	-132.1	-102.4
Foreign (net)	-15.0	-146.1	-137.0	-151.1	-76.0	-115.7	-88.3
Drawings	234.1	21.6	38.5	15.0	25.0	26.5	29.2
Amortization due	-259.7	-169.3	-175.5	-166.1	-148.1	-142.2	-117.5
Rescheduling obtained	4.3	1.5	...	0.0	...	...	...
Domestic (net)	-19.9	14.0	2.6	-7.6	-22.9	-16.4	-14.1
Banking system (net)	23.2	1.0	11.4	11.4	-15.0	-10.0	-10.0
Nonbank financing	-43.1	13.0	-8.8	-19.0	-7.9	-6.4	-4.1
Financing gap	0.0	0.0	2581.9	2475.0	94.7	63.0	64.8

Table 3. Republic of Congo: Central Government Operations, 2002–07 (concluded)

	2002	2003	2004		2005	2006	2007
		Est.	SMP	Rev. proj.		Projections	
			(In percent of GDP)				
Revenue and grants	27.4	29.6	28.1	31.2	34.4	31.0	29.4
Revenue	27.2	29.1	27.3	31.0	34.0	30.4	28.8
Oil revenue	18.9	20.4	18.0	22.2	25.3	21.0	18.9
Non-oil revenue	8.3	8.8	9.3	8.7	8.8	9.4	9.9
Total expenditure	35.4	29.2	28.7	26.2	26.4	26.7	26.4
Primary expenditure	26.0	22.4	21.5	20.8	20.8	21.4	21.5
Current	18.4	17.0	15.9	15.5	15.2	15.5	15.4
Wages	5.7	5.8	5.8	5.4	5.2	5.3	5.3
Other	12.6	11.2	10.1	10.1	10.0	10.2	10.1
Capital and net lending	7.6	5.4	5.6	5.3	5.7	5.9	6.1
Interest	8.4	5.7	4.6	4.5	4.1	3.7	3.2
Foreign-financed capital expenditure	1.1	1.1	2.6	0.9	1.4	1.6	1.7
Overall balance, commitment basis 3/	-8.1	0.4	-0.6	5.0	8.1	4.3	3.0
Primary balance	1.2	6.7	5.8	10.1	13.2	9.0	7.3
Of which: non-oil primary balance	-15.6	-12.0	-11.7	-11.6	-11.7	-11.6	-11.3
			(In percent of non-oil GDP)				
Non-oil revenue	17.8	17.6	18.2	18.3	18.6	18.9	19.1
Wages	12.3	11.6	11.3	11.3	11.0	10.6	10.1
Non-oil primary balance	-33.5	-24.0	-22.9	-24.3	-24.8	-23.3	-21.7
			(In billions of CFA francs)				
Memorandum items:							
Potential windfall oil revenue 4/	0.0	0.0	0.0	9.8	144.3	131.4	127.5
GDP at current market prices	2103.0	2071.5	2145.6	2315.9	2502.7	2544.4	2626.5
Non-oil GDP at market prices	976.6	1035.4	1101.7	1103.3	1179.9	1265.7	1361.0
External debt service due 5/	200.6	87.7	113.6	114.1	102.3	92.3	80.3

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

1/ Excess oil revenue (which arises when operating costs of oil companies are lower than the limits stipulated in production sharing-agreements) is partly assigned automatically to cover an existing liability (HydroCongo).

2/ Revenue minus noninterest current expenditure minus domestically financed capital expenditure and net lending.

3/ Including grants.

4/ Following a price rule, oil revenue from the second half of 2004 onward is projected on the basis of an international price estimated to be lower than the latest *WEO* forecasts. The prudence discount factor is set at US$2 per barrel for the second half of 2004 and at US$4 per barrel from 2005 onward. Alternatively, using *WEO* price forecasts would generate windfall oil revenues.

5/ Debt service due to Paris Club creditors on post-cut-off-date debt, to multilaterals, and on oil-collateralized debt, as well as late payment interest from 2003 onward.

Table 4. Republic of Congo: Monetary Survey, 2001–05

	2001	2002	2003	2004						2005			
			Est.	Mar.		Jun.		Sep.	Dec.	Mar.	Jun.	Sep.	Dec.
				Prog.	Est.	Prog.	Est.	Proj.		Projections			
	(In billions of CFA francs)												
Net foreign assets	26.9	38.0	6.0	6.3	13.2	6.7	40.9	28.7	16.5	24.0	31.5	39.0	46.5
Central bank	23.9	-0.9	4.6	4.9	4.6	5.3	-2.0	4.7	11.4	16.9	22.4	27.9	33.4
Deposit money banks	3.0	38.9	1.4	1.4	8.5	1.4	42.9	24.0	5.1	7.1	9.1	11.1	13.1
Net domestic assets	231.1	253.7	278.6	287.5	252.9	263.9	250.8	284.5	286.4	287.2	288.0	288.6	277.4
Net domestic credit	267.2	249.7	265.0	274.0	245.4	250.3	249.4	283.1	285.0	285.8	286.6	287.2	276.0
Net credit to the public sector	158.2	183.3	183.3	190.9	159.2	166.0	156.0	192.9	197.9	197.2	196.4	195.6	182.9
Net credit to the government	163.5	186.8	187.8	195.5	164.2	170.5	157.4	194.2	199.2	198.5	197.7	196.9	184.2
Central bank	160.3	173.9	182.1	187.2	168.6	172.9	181.1	183.5	188.5	187.7	187.0	186.1	173.4
Deposit money banks	3.2	12.8	5.8	8.3	-4.5	-2.3	-23.7	10.8	10.8	12.6	13.1	14.8	10.8
Claims on public agencies, net	-5.3	-3.4	-4.5	-4.5	-4.9	-4.5	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3
Credit to the economy	109.0	66.4	81.7	83.0	86.1	84.3	93.4	90.3	87.1	88.6	90.1	91.6	93.1
Other items, net	-36.1	4.0	13.6	13.6	7.5	13.6	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Broad money	258.0	291.7	284.6	293.9	266.1	270.5	291.6	313.2	302.9	311.2	319.5	327.6	323.9
Currency outside banks	142.9	129.0	131.9	132.4	107.1	121.9	113.8	141.1	136.4	136.2	139.9	143.4	141.8
Demand deposits	95.2	142.2	103.2	112.2	106.5	103.3	122.0	119.7	115.7	124.9	128.2	131.5	130.0
Time deposits	19.9	20.5	49.4	49.2	52.4	45.3	55.8	52.4	50.7	50.1	51.4	52.7	52.1
	(Changes in percent of beginning-of-year broad money)												
Net foreign assets	-37.3	4.3	-11.0	0.1	2.5	0.2	12.3	8.0	3.7	2.5	5.0	7.4	9.9
Net domestic assets	14.5	8.8	8.5	3.1	-9.0	-5.2	-9.8	2.1	2.7	0.3	0.5	0.7	-3.0
Net domestic credit	3.0	-6.8	5.2	3.1	-6.9	-5.2	-5.5	6.4	7.0	0.3	0.5	0.7	-3.0
Net credit to the government	21.0	9.0	0.4	2.7	-8.3	-6.1	-10.7	2.2	4.0	-0.2	-0.5	-0.8	-5.0
Credit to the economy	-16.4	-16.5	5.3	0.5	1.5	0.9	4.1	3.0	1.9	0.5	1.0	1.5	2.0
Broad money	-22.8	13.1	-2.4	3.3	-6.5	-4.9	2.5	10.0	6.4	2.7	5.5	8.2	6.9
Memorandum items:													
Velocity													
Non-oil GDP/average M2	3.0	3.6	3.6	…	…	…	…	…	3.6	…	…	…	3.6
Non-oil GDP/end period M2	3.4	3.3	3.6	…	…	…	…	…	3.6	…	…	…	3.6
Total GDP growth	-10.9	2.9	-1.5	…	…	…	…	…	11.8	…	…	…	8.1
Non-oil GDP growth	12.0	10.4	6.0	…	…	…	…	…	6.6	…	…	…	6.9
Credit to the economy/non-oil GDP	12.3	6.8	7.9	…	…	…	…	…	7.9	…	…	…	7.9

Sources: BEAC; and Fund staff calculations.

Table 5. Republic of Congo: Balance of Payments, 2000–07

(In billions of CFA francs)

	2000	2001	2002	2003	2004	2005	2006	2007
				Est.		Projections		
Current account	182.0	-64.6	-6.9	-1.2	58.8	74.5	70.8	73.3
Trade balance	1,319.7	1,007.1	1,075.1	1,005.1	1,218.0	1,325.9	1,262.9	1,237.5
Exports, f.o.b.	1,743.8	1,506.6	1,567.3	1,475.2	1,773.6	1,933.3	1,900.1	1,899.9
Oil sector	1,633.2	1,341.4	1,373.8	1,225.3	1,478.2	1,626.1	1,572.4	1,539.2
Non-oil sector	110.6	165.2	193.5	249.9	295.4	307.2	327.7	360.7
Imports, f.o.b.	-424.1	-499.5	-492.2	-470.0	-555.6	-607.4	-637.3	-662.4
Oil sector	-70.3	-179.3	-70.1	-71.1	-100.0	-105.3	-108.3	-114.3
Government	-91.9	-123.2	-108.4	-81.2	-87.0	-108.4	-118.7	-128.2
Non-oil private sector	-262.0	-197.0	-313.7	-317.7	-368.6	-393.7	-410.3	-420.0
Balance of services	-478.5	-462.8	-514.0	-496.8	-599.5	-643.2	-625.4	-626.2
Income	-672.6	-611.3	-570.7	-513.3	-565.2	-611.7	-570.6	-542.1
Labor income	-16.6	-19.2	-21.7	-13.2	-19.5	-22.2	-22.1	-20.9
Investment income	-656.0	-592.0	-549.0	-500.1	-545.7	-589.6	-548.5	-521.2
Of which: interest on public debt	-149.2	-144.3	-162.3	-94.4	-90.4	-90.9	-82.4	-73.8
Current transfers (net)	13.4	2.3	2.7	3.8	5.6	3.6	3.9	4.2
Private	5.0	-1.9	-1.7	-0.6	0.2	-1.0	-0.8	-0.5
Public	8.4	4.2	4.4	4.3	5.3	4.6	4.7	4.7
Capital account	14.3	69.2	10.7	11.1	6.2	11.0	16.2	16.9
Official grants	6.8	3.7	3.7	9.9	5.0	10.0	15.0	15.8
Debt cancellation	6.5	63.6	6.4	0.1	0.0	0.0	0.0	0.0
Other	1.0	1.9	0.7	1.2	1.2	1.0	1.2	1.1
Financial account	-35.1	-107.2	75.6	9.1	-2,533.2	-158.2	-123.2	-126.4
Direct investment (net)	340.2	160.0	171.9	187.4	304.6	290.3	314.7	318.4
Of which: oil sector	286.9	152.1	147.8	150.9	251.2	240.4	260.6	261.5
Portfolio investment	0.2	-5.3	-5.9	-3.7	-4.9	-4.8	-4.5	-4.8
Other investment	-375.5	-262.0	-90.4	-174.6	-2,832.9	-443.7	-433.4	-440.1
Medium and long term	-116.4	-206.5	146.8	-61.1	-2,656.1	-222.0	-213.4	-183.4
Public sector	36.6	-44.1	229.0	20.5	-2,565.5	-122.9	-115.7	-88.3
Drawings	44.0	73.4	234.1	21.6	15.0	25.0	26.5	29.2
Project	8.0	1.3	20.0	13.9	15.0	25.0	26.5	29.2
Program	36.0	28.0	0.0	7.7	0.0	0.0	0.0	0.0
Amortization	-292.7	-233.6	-259.7	-174.5	-166.0	-147.9	-142.2	-117.5
Net change in arrears	282.6	104.5	250.3	172.0	-2,414.5	0.0	0.0	0.0
Debt rescheduling	2.8	11.6	4.3	1.4	0.0	0.0	0.0	0.0
Private sector	-153.0	-162.4	-82.1	-81.6	-90.7	-99.1	-97.8	-95.1
Oil	-132.7	-158.4	-77.0	-68.7	-82.9	-91.2	-88.2	-86.3
Non-oil sector	-20.3	-4.0	-5.1	-12.9	-7.8	-7.9	-9.6	-8.8
Short term	-259.2	-55.4	-237.3	-113.5	-176.7	-221.7	-220.0	-256.7
Errors and omissions	-41.1	-1.8	-104.2	-13.6	0.0	0.0	0.0	0.0
Overall balance of payments	120.1	-104.4	-24.8	5.5	-2,468.2	-72.6	-36.2	-36.2
Financing	-120.1	104.4	24.8	-5.5	-6.8	-22.0	-26.8	-28.6
Reserve financing	-120.1	104.4	24.8	-5.5	-6.8	-22.0	-26.8	-28.6
IMF (net)	9.9	-0.9	-6.0	-5.2	-6.3	-6.4	-2.2	0.0
Purchases	9.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repurchases	0.0	-0.9	-6.0	-5.2	-6.3	-6.4	-2.2	0.0
Other reserves	-130.0	105.3	30.8	-0.3	-0.5	-15.6	-24.6	-28.6
Financing gap	0.0	0.0	0.0	0.0	2,475.0	94.7	63.0	64.8

Sources: BEAC; and Fund staff estimates and projections.

Table 6. Republic of Congo: Millennium Development Goals, 1990–2015

	1990	1995	2001	2002	2015 Target
Goal 1. Eradicate extreme poverty and hunger					
Target 1: Halve, between 1990 and 2015, number of people earning less than US$ 1 a day.					
1. Population below US$1 a day (in percent)	...	...	...	...	
2. Poverty gap ratio at US$1 a day (in percent)	...	...	...	...	
3. Share of income or consumption held by poorest 20 percent (in percent)	...	...	...	...	
Target 2: Halve, between 1990 and 2015, the proportion of people suffering hunger					
4. Prevalence of child malnutrition (in percent of children under 5)	...	...	...	...	
5. Population below minimum level of dietary energy consumption (in percent)	37.0	42.0	30.0	...	[18.5]
Goal 2. Achieve universal primary education					
Target 3: Ensure that, by 2015, children will be able to complete a full course of primary schooling					
6. Net primary enrollment ratio (percent of relevant age group)	...	...	...	...	
7. Cohort reaching grade 5 (in percent)	62.3	55.1	...	...	
8. Youth literacy rate (in percent, ages 15-24)	92.5	95.6	97.6	97.8	[100.0]
Goal 3. Promote gender equality and empower women					
Target 4: Eliminate gender disparity in primary and secondary education preferably by 2005 and all levels of education by 2015					
9. Ratio of girls to boys in primary and secondary education (in percent)	82.7	84.4	87.2	...	
10. Ratio of young literate females to males (in percent, ages 15-24)	95.2	97.6	98.7	98.8	
11. Share of women employed in the nonagricultural sector (in percent)	...	...	...	...	
12. Proportion of seats held by women in the national parliament (in percent)	14.0	2.0	12.0	12.0	
Goal 4. Reduce child mortality					
Target 5: Reduce by two-thirds, between 1990 and 2015, the under 5 mortality rate					
13. Under 5 mortarlity rate (per 1,000)	110.0	108.0	108.0	108.0	[73.3]
14. Infant mortality rate (per 1,000 live births)	83.0	81.0	81.0	75.0	
15. Immunization against measles (percent of children under 12 months)	75.0	38.0	35.0	37.0	
Goal 5. Improve maternal death					
Target 6: Reduce by three-fourths, between 1990 and 2015, maternal mortality					
16. Maternal mortality ratio (modeled estimate, per 100,000 live births)	...	...	...	1,100.0	
17. Proportion of births attended by skilled health personnel (% of total)	...	...	...	...	
Goal 6. Combat HIV/AIDS, malaria, and other diseases					
Target 7: Halt by 2015, and begin to reverse, the spread of HIV/AIDS					
18. HIV prevalence among females (in percent, ages 15-24)	...	...	7.8	...	
19. Contraceptive prevalence rate (percent of women ages 15-49)	...	...	...	...	
20. Number of children orphaned by HIV/AIDS	...	...	78,000.0	...	
Target 8: Halt by 2015, and begin to reverse, the incidence of malaria and other major diseases					
21. Prevalence of death associated with malaria	...	...	...	...	
22. Share of population in malaria risk areas using effective prevention and treatment	...	...	...	...	
23. Incidence of tuberculosis (per 100,000 people)	...	...	338.2	...	
24. Tuberculosis cases detected under DOTS (in percent)	...	79.0	97.0	...	

Table 6. Republic of Congo: Millennium Development Goals, 1990–2015 (concluded)

	1990	1995	2001	2002	2015 Target
Goal 7. Ensure environmental sustainability					
Target 9: Integrate the principles of sustainable development into policies and programs. Reverse the loss of environmental resources.					
25. Forest area (percent of total land area)	65.1	...	64.6	...	
26. Nationality protected areas (percent of total land area)	...	4.5	4.5	5.0	
27. GDP per unit of energy use (PPP $ per kg oil equivalent)	1.7	2.7	3.3	...	
28. CO2 emissions (metric tons per capita)	0.9	0.7	0.8	...	
29. Proportion of population using solid fuels					
Target 10: Halve by 2015 proportion of people without access to safe drinking water					
30. Access to improved water source (percent of population)	...	...	51.0	...	
Target 11: Achieve by 2020 significant improvement for at least 100 million slum dwellers					
31. Access to improved sanitation (percent of population)	...	...	14.0	...	
32. Access to secure tenure (percent of population)	...	...	...	...	
Goal 8. Develop a Global Partnership for Development					
Target 16. Develop and implement strategies for productive work for youth					
45. Unemployment rate of population ages 15-24 (total)	...	...	...	...	
Target 17: Provide access to affordable essential drugs					
46. Population with access to affordable essential drugs (in percent)	...	...	...	...	
Target 18: Make available new technologies, especially information and communications					
47. Fixed line and mobile telephones (per 1,000 people)	...	8.6	55.3	...	
48. Personal computers (per 1,000 people)	...	...	3.9	...	

Sources: World Bank; and Fund staff estimates.

Note: Targets 12-15 and indicators 22-44 are excluded because they cannot be measured on a country-specific basis. These are related to official development assistance, market access, and the HIPC Initiative.

Table 7. Republic of Congo: Key Oil Sector Indicators, 2000-07

	2000	2001	2002	2003	2004	2005	2006	2007
				Est.	Proj.			
Price (in US$ per barrel, unless otherwise indicated)								
Brent								
International price 1/	28.4	24.3	24.9	28.8	37.1	37.3	35.3	34.5
Price rule 2/	...	...	...	28.8	36.1	33.3	31.3	30.5
Average Congolese blends	26.0	22.0	23.3	27.2	33.8	31.1	29.1	28.5
Discount for Congolese blends	2.4	2.3	1.7	1.6	2.3	2.1	2.1	2.0
Brent (in thousands of CFA francs per barrel)	18.5	16.1	16.2	16.8	19.3	18.1	16.9	16.5
Production (in millions of barrels)	96.8	89.6	88.0	81.7	86.3	101.2	105.0	105.3
Crude	92.4	85.4	84.0	78.4	83.3	97.9	101.4	102.9
Natural gas	4.4	4.2	4.0	3.3	3.0	3.3	3.6	2.4
Government revenue (in billions of CFA francs) 3/	468.1	430.8	395.7	407.3	521.3	635.4	537.4	501.3
Regular	466.2	430.1	391.9	399.4	515.0	632.4	533.4	496.3
Of which : marketed by SNPC 4/	164.8	270.5	193.6	266.0	405.2	509.8	...	...
Bonus	1.9	0.7	3.7	6.2	4.3	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	1.7	2.0	3.0	4.0	5.0
Percent of gross sales								
Government revenue, regular	36.0	33.2	30.3	31.4	33.1	36.9	32.2	30.6
Memorandum items:								
Gross sales (in billions of CFA francs)	1,295.3	1,295.3	1,295.3	1,295.3	1,555.2	1,713.1	1,658.3	1,622.6
Potential windfall revenue (in billions of CFA francs) 5/	...	...	...	...	9.8	144.3	131.4	127.5

Source: Congolese authorities; and Fund staff estimates and calculations.

1/ IMF, World Economic Outlook, September 2004.
2/ Base for projecting the price of Congolese blends and government revenues. From the second half of 2004 onward, world oil price forecasts incorporate a prudence factor. As a result, *WEO* price forecasts are reduced by US$2 per barrel for the second half of 2004 and by US$4 per barrel from 2005 onward.
3/ Oil revenues in the fiscal table include "Transfer to CORAF" and exclude "Dividends" and "Bonus" (included in non-oil revenue).
4/ Oil marketed by SNPC on behalf of the state.
5/ Additional revenue that would be generated by using *WEO* forecasts for world oil prices, that is, without applying the price rule.

Table 8. Republic of Congo: Elements of the Capacity to Pay External Debt, 2003-07
(In billions of CFA francs; unless otherwise indicated)

	2003	2004		2005	2006	2007
	Est.	SMP	Rev. Proj.	Projections		
Domestic revenue	603.6	585.6	717.2	851.7	772.6	756.2
Oil	421.6	385.6	515.0	632.4	533.4	496.3
Non-oil	182.0	200.0	202.2	219.3	239.2	259.9
Domestic primary expenditure 1/	-464.5	-460.4	-482.3	-521.7	-543.6	-564.5
Current	-352.7	-340.3	-359.2	-380.2	-393.6	-404.5
Capital	-111.8	-120.1	-123.1	-141.5	-150.0	-160.0
Basic primary fiscal balance	139.1	125.2	235.0	329.9	228.9	191.6
Core debt service	-111.1	-128.5	-137.5	-122.5	-109.6	-95.5
Domestic	-23.4	-14.8	-23.4	-20.2	-17.3	-15.1
External 2/	-87.7	-113.7	-114.1	-102.3	-92.3	-80.3
Of which : moratorium interest	0.0	0.0	3.6	18.6	20.0	20.9
Fiscal balance after core debt service	28.0	-3.3	97.4	207.4	119.3	96.2
Identified financing	36.5	11.4	30.8	32.1	-10.0	-10.0
Domestic	28.8	11.4	9.8	-15.0	-10.0	-10.0
External	7.7	...	21.0	47.1	...	...
Fiscal balance after identified financing	64.5	8.1	128.2	239.5	109.3	86.2
Identified arrears payments	-64.6	-38.3	-127.8	-197.3	-40.0	-40.0
Domestic 3/	-57.6	-38.3	-40.8	-50.0	-40.0	-40.0
External	-7.0	…	-87.0	-147.3	...	...
Residual fiscal balance (+, surplus)	0.0	-30.2	0.5	42.2	69.3	46.2
Arrears on external debt	…	…	-2333.0	0.0	0.0	0.0
Reschedulable debt service due on external debt	…	-146.1	-142.0	-136.8	-132.3	-111.0
Financing gap	…	-176.3	-2474.5	-94.6	-63.0	-64.8
Memorandum items:						
External payment arrears	2414.5	…	…	…	…	…
Multilateral creditors	102.5	…	52.3	0.0	0.0	0.0
Paris Club (post-cutoff date)	275.9	…	245.1	151.6	…	…
Paris Club (pre-cutoff date)	1039.0	…	…	…	…	…
Other bilateral creditors	125.2	…	…	…	…	…
Commercial banks and other private creditors	871.9	…	…	…	…	…
Domestic payment arrears	557.9	…	517.1	467.1	427.1	387.1
Reschedulable debt stock (excluding arrears)	798.3	…	…	…	…	…
Oil collateralized debt stock 4/	204.8	127.5	159.2	125.7	95.2	73.7
Debt service due on reschedulable debt	158.3	146.1	142.0	136.8	132.3	111.0
Oil price (in U.S. dollars per barrel)						
World Economic Outlook	29.0	28.7	37.3	37.3	35.3	34.5
Price rule 5/	29.0	28.7	36.1	33.3	31.3	30.5
Congolese crude	27.4	27.1	33.8	31.1	29.1	28.5
Oil production (in millions of barrels)	81.7	84.3	83.3	97.9	101.4	102.9
Potential windfall oil revenue 6/	0.0	0.0	9.8	144.3	131.4	127.5
Basic primary fiscal balance (in percent of GDP)	6.7	5.8	10.1	13.2	9.0	7.3
Basic non-oil primary fiscal balance (in percent of non-oil GDP)	-24.0	-22.9	-24.3	-24.8	-23.3	-21.7

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

1/ Excluding interest payments and foreign-financed investment.
2/ Debt service due on post-cutoff-date to Paris Club creditors, to multilateral creditors, and on oil-collateralized debt; excluding potential impact of Paris Club rescheduling. The figure for 2004 reflects a deferral on oil-collateralized debt service due of CFAF 56 billion from 2004 onward.
3/ Related to wages and pensions, as well as to small and medium enterprises.
4/ Excluding an amount of CFAF 44.7 billion at end-2003, which is under litigation with one creditor.
5/ From the second half of 2004 onward, world oil price forecasts, used to project revnues, incorporate a prudence factor. As a result, *WEO* price forecasts are reduced by US$2 per barrel for the second half of 2004 and by US$4 per barrel from 2005 onward.
6/ Additional revenue that would be generated by using *WEO* forecasts for world oil prices, that is, without applying the price rule.

Table 9. Republic of Congo: External Financing Requirements, 2000–07
(In billions of CFA Francs)

	2000	2001	2002	2003	2004	2005	2006	2007
				Est.	Projections			
Requirements	290.2	199.8	350.5	199.2	119.4	100.0	102.8	77.5
Current account excluding official transfers	-173.6	68.8	11.3	5.6	-53.4	-70.0	-66.2	-68.6
Debt amortization	292.7	233.6	259.7	174.5	166.0	147.9	142.2	117.5
IMF repurchases	0.0	0.9	6.0	5.2	6.3	6.4	2.2	0.0
Change in net foreign assets (increase, +) 1/	130.0	-105.3	-30.8	0.3	0.5	15.6	24.6	28.6
Errors and omissions	41.1	1.8	104.2	13.6	0.0	0.0	0.0	0.0
Resources	290.2	199.8	350.5	199.2	119.4	100.0	102.8	77.5
Official transfers	8.4	4.2	4.4	4.3	5.3	4.6	4.7	4.7
Official project grants	7.8	5.6	4.4	11.1	6.2	11.0	16.2	16.9
Long-term public loan disbursements	44.0	73.4	234.1	21.6	15.0	25.0	26.5	29.2
Program	36.0	28.0	0.0	7.7	0.0	0.0	0.0	0.0
Project	8.0	1.3	20.0	13.9	15.0	25.0	26.5	29.2
Oil-colateralized borrowing	0.0	44.1	214.1	0.0	0.0	0.0	0.0	0.0
Private capital (net)	-71.7	-63.1	-153.3	-11.3	32.2	-35.3	-7.5	-38.1
Debt relief	9.3	75.2	10.6	1.5	0.0	0.0	0.0	0.0
Use of IMF resources	9.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in arrears (increase, +)	282.6	104.5	250.3	172.0	-2414.5	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	2475.0	94.7	63.0	64.8
Memorandum item:								
Exchange rate: CFA francs per U.S. dollar (average)	712.0	733.0	697.0	580.1	...	...	...	...

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

1/ Excluding the change in the net position vis-à-vis the Fund.

Table 10. Republic of Congo: External debt, end-2003.

	Nominal Debt Stock Including Arrears		Arrears		NPV of Debt	
	Million U.S. dollars	Percent of total	Million U.S. dollars	Percent of total	Million U.S. dollars	Percent of total
Total 1/	8,573.1	100.0	5,980.4	100.0	8,413.5	100.0
Multilateral	663.9	7.7	191.6	3.2	554.8	6.6
AfDB Group	271.3	3.2	148.4	2.5	276.9	3.3
AfDB	259.2	3.0	147.3	2.5	268.6	3.2
AfDF	12.1	0.1	1.1	0.0	8.3	0.1
World Bank	239.5	2.8	0.0	0.0	143.6	1.7
IDA	236.3	2.8	0.0	0.0	140.5	1.7
IBRD	3.2	0.0	0.0	0.0	3.1	0.0
IMF	28.1	0.3	0.0	0.0	26.6	0.3
European Union	78.8	0.9	39.2	0.7	67.8	0.8
European Economic Commission	3.6	0.0	0.0	0.0	2.3	0.0
EIB	4.0	0.0	4.0	0.1	4.0	0.0
BADEA	22.3	0.3	0.0	0.0	17.4	0.2
OPEC Fund	12.0	0.1	0.0	0.0	12.0	0.1
Others	4.2	0.0	0.0	0.0	4.2	0.0
BDEAC	3.7	0.0	0.0	0.0	3.6	0.0
IFAD	0.4	0.0	0.0	0.0	0.4	0.0
Shelter Afrique	0.1	0.0	0.0	0.0	0.1	0.0
Bilateral	5,009.4	58.4	3,296.3	55.1	4,981.8	59.2
Paris Club	4,699.9	54.8	3,006.8	50.3	4,675.3	55.6
Post-cutoff date	825.7	9.6	622.2	10.4	816.6	9.7
ODA	489.8	5.7	301.0	5.0	481.1	5.7
Non-ODA	335.9	3.9	321.2	5.4	335.5	4.0
Pre-cutoff date	3,874.2	45.2	2,384.5	39.9	3,858.6	45.9
ODA	202.2	2.4	95.3	1.6	203.1	2.4
Non-ODA	3,672.0	42.8	2,289.2	38.3	3,655.5	43.4
Other official bilateral	309.5	3.6	289.5	4.8	306.5	3.6
Post-cutoff date	30.8	0.4	11.4	0.2	28.0	0.3
ODA	30.8	0.4	11.4	0.2	28.0	0.3
Non-ODA	0.0	0.0	0.0	0.0	0.0	0.0
Pre-cutoff date	278.7	3.3	278.1	4.7	278.6	3.3
ODA	175.0	2.0	174.5	2.9	175.0	2.1
Non-ODA	103.6	1.2	103.6	1.7	103.6	1.2
Commercial	2,899.8	33.8	2,492.6	41.7	2,877.0	34.2
Memorandum items:						
Publicly guaranteed	183.5	2.1	183.5	3.1	183.5	2.2
Oil-collateralized debt 2/	480.8	5.6	101.7	1.7	480.8	5.7
Debt under litigation 3/	765.5	8.9	765.5	12.8	765.5	9.1

Sources: Congolaise authorities; and Fund staff estimates.
1/ Excluding potential SNPC debt, which could amount to US$1,005 million in nominal terms at end-2003.
2/ Includes $86 million in debt under litigation.
3/ Excludes late interest.

Table 11. Republic of Congo: Proposed Schedule of Disbursements Under the PRGF Arrangement, 2004–07

Amount	Date	Conditions for disbursement 1/
SDR 7,860,000	December 2004	Executive Board approval of the three-year arrangement under the PRGF.
SDR 7,860,000	July 2005	Observance of the performance criteria for March 2005 and completion of the first review under the PRGF arrangement.
SDR 7,860,000	January 2006	Observance of the performance criteria for September 2005 and completion of the second review under the PRGF arrangement.
SDR 7,860,000	July 2006	Observance of the performance criteria for March 2006 and completion of the third review under the PRGF arrangement.
SDR 7,860,000	January 2007	Observance of the performance criteria for September 2006 and completion of the fourth review under the PRGF arrangement.
SDR 7,860,000	July 2007	Observance of the performance criteria for March 2007 and completion of the fifth review under the PRGF arrangement.
SDR 7,830,000	December 2007	Observance of the performance criteria for September 2007 and completion of the sixth review under the PRGF arrangement.

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

Table 12. Republic of Congo: Fund Position, 2004-17

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
	(In millions of SDR)													
Total net use of IMF resources	-0.5	-0.6	12.6	23.1	-0.5	-0.5	-2.0	-4.4	-7.5	-11.4	-11.3	-9.5	-7.1	-3.9
Purchases and loans (proposed PRGF arrangement)	7.9	7.9	15.7	23.5	…	…	…	…	…	…	…	…	…	…
Repayments	-8.4	-8.4	-3.1	-0.4	-0.5	-0.5	-2.0	-4.4	-7.5	-11.4	-11.3	-9.5	-7.1	-3.9
Principal	-8.1	-8.1	-2.8	0.0	0.0	0.0	-1.6	-3.9	-7.1	-11.0	-11.0	-9.4	-7.1	-3.9
Interests and charges	-0.3	-0.4	-0.3	-0.4	-0.5	-0.5	-0.5	-0.5	-0.4	-0.4	-0.3	-0.1	0.0	0.0
Transactions under tranche policies (net)	-5.5	-5.6	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	0.0	0.0	0.0
Poverty Reduction and Growth Facility (PRGF)	5.0	5.0	12.8	23.3	-0.3	-0.3	-1.8	-4.2	-7.3	-11.2	-11.1	-9.5	-7.1	-3.9
Disbursements (proposed PRGF arrangement)	7.9	7.9	15.7	23.5	…	…	…	…	…	…	…	…	…	…
Repayments	-2.9	-2.9	-2.9	-0.2	-0.3	-0.3	-1.8	-4.2	-7.3	-11.2	-11.1	-9.5	-7.1	-3.9
Principal	-2.8	-2.8	-2.8	0.0	0.0	0.0	-1.6	-3.9	-7.1	-11.0	-11.0	-9.4	-7.1	-3.9
Of which : proposed new PRGF arrangement	0.0	0.0	0.0	0.0	0.0	0.0	-1.6	-3.9	-7.1	-11.0	-11.0	-9.4	-7.1	-3.9
Interest	-0.1	-0.1	-0.1	-0.2	-0.3	-0.3	-0.3	-0.3	-0.2	-0.2	-0.1	-0.1	0.0	0.0
Of which : proposed new PRGF arrangement	0.0	-0.1	-0.1	-0.2	-0.3	-0.3	-0.3	-0.3	-0.2	-0.2	-0.1	-0.1	0.0	0.0
Total Fund credit outstanding, end of period	18.7	18.5	31.4	55.0	55.0	55.0	53.4	49.5	42.4	31.4	20.4	11.0	3.9	0.0
	(In percent of quota, unless otherwise indicated)													
Total Fund credit outstanding, end of period	22.1	21.9	37.1	65.0	65.0	65.0	63.1	58.5	50.1	37.1	24.1	13.0	4.6	0.0
PRGF disbursements	9.3	9.3	18.6	27.7	0.0	…	…	…	…	…	…	…	…	…
Repurchases/repayments	9.5	9.5	3.3	0.0	0.0	0.0	1.9	4.6	8.4	13.0	13.0	11.1	8.4	4.6
Charges and interest	0.3	0.5	0.4	0.5	0.6	0.6	0.6	0.5	0.5	0.4	0.4	0.1	0.0	0.0
Debt service (in percent of goods and nonfactor services)	0.3	0.3	0.1	0.0	0.0	0.0	0.1	0.1	0.3	0.4	0.4	0.3	0.2	0.1

Sources: IMF, Finance Department and staff projections.

Brazzaville, November 17, 2004

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Mr. de Rato:

1. On behalf of the government of the Republic of Congo, I am pleased to submit herewith the memorandum on economic and financial policies covering the three-year program beginning October 1, 2004, and ending September 30, 2007, for which the Republic of Congo requests an arrangement with the International Monetary Fund (IMF) under the Poverty Reduction and Growth Facility (PRGF). The objectives of this program and the measures envisaged to achieve them are described in the attached memorandum. The main pillars of this program are, (i) improved transparency and good governance in the oil sector, (ii) enhanced discipline in the area of fiscal management, and (iii) promotion of the private sector with a view to stimulating the sustained economic growth necessary for poverty reduction.

2. The Republic of Congo, a post-conflict country, is emerging from a decade of political instability marked by three civil wars in the 1990s. Since the end of the transition to and the establishment of democratic institutions in 2002, and as a result of the peace accords of 1999 and 2003, political stability has returned, and security has been restored. With peace has come renewed economic growth.

3. Following the restoration of democracy and peace in 2002, the government began implementing its "Nouvelle Espérance" (New Hope) economic and social recovery program. In this context, it adopted and carried out a staff-monitored program (SMP) in 2003. Despite setbacks in the implementation of this program, results were encouraging, particularly in the area of oil sector transparency. Continuing its efforts to strengthen the medium-term framework for poverty reduction and growth, the government adopted a new SMP covering the period January-June 2004. The successful implementation of this program led to greater transparency and good governance in the oil sector, as well as fiscal consolidation.

4. The government also adopted an interim poverty reduction strategy, which it forwarded on September 14, 2004, to its development partners, including the IMF and the World Bank. Because it was developed with the active participation of representatives of the various segments of the population, this strategy reflects the aspirations of most of the Congolese people.

5. The government wishes to thank the IMF and the World Bank for their support, which was instrumental in garnering assistance from the international community for the Congo's development efforts. The government would also like to thank the other development partners that have already granted new financing to the Congo. It also requests from its development partners debt relief, including special treatment of its post cut-off-date debt. Nonetheless, as the country's needs are still considerable, the government hopes that the Congo will be able to obtain debt relief under the enhanced HIPC Initiative with the shortest possible delay.

6. In support of the implementation of its program, the government requests a new three-year arrangement under the PRGF in an amount equivalent to SDR 54.99 million (or 65 percent of the quota) and, for the first year under this facility, an amount equivalent to SDR 15.72.

7. The government believes that the policies set forth in the attached Memorandum of Economic and Financial Policies (MEFP) are adequate to achieve the objectives of the program, but it will take any other measures that may become appropriate for this purpose. The government of the Republic of Congo will consult with the Fund on the adoption of these measures, and in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultation. Reviews will be conducted throughout the period of the arrangement to evaluate the macroeconomic and structural reform policies and implementation of the government's program and to reach new understandings, as necessary. The first review is expected to take place before end-July 2005 and the second review before end-January 2006.

8. The government is committed to disseminating its Memorandum of Economic and Financial Policies as well as the Technical Memorandum of Understanding and authorizes the IMF to publish its staff report, which will be examined by the Executive Board.

Sincerely yours,

/s/

Rigobert Roger Andély
Minister of Economy, Finance, and Budget

Attachments: - Memorandum on Economic and Financial Policies
- Technical Memorandum of Understanding

REPUBLIC OF CONGO

Memorandum on Economic and Financial Policies

I. Introduction

1. The Republic of Congo, a post-conflict country, is making major efforts to strengthen its medium-term economic and financial framework with a view to achieving sustained growth and taking steps toward lasting poverty reduction. The three civil wars that took place in the Congo during the 1990s destroyed much of the country's economic fabric and caused deterioration in the living conditions of its population. However, security was restored with the signing of peace accords with rebel groups in 1999 and 2003 and the establishment of democratic institutions in 2002 after a period of political transition. Since end-2002, the government has been focusing its efforts on the country's economic and social recovery within the framework of its "Nouvelle Espérance" (New Hope) program.

2. To strengthen the framework of macroeconomic management and accelerate the reforms necessary for economic recovery and poverty reduction, the government implemented a staff-monitored program (SMP) covering the period from January to June 2004. The successful implementation of the SMP led to understandings between the government and IMF staff on a program likely to be supported by the Poverty Reduction and Growth Facility (PRGF). This memorandum describes the objectives of that program and the policy measures envisaged for achieving them.

3. Poverty reduction is at the core of the government's development strategy, as indicated in the Interim Poverty Reduction Strategy Paper (I-PRSP). The objectives of the strategy are twofold, namely, to stimulate growth and to promote pro-poor development. The government intends to encourage growth that can generate employment and income for the maximum number of people. In addition to promoting sustainable growth of per capita income, the government will aim to improve living conditions, in particular by facilitating access to basic public services and developing the private sector. The participatory process adopted for the drafting of the I-PRSP enabled the government to involve a broad representation of the various segments of the population, including civil society, thus ensuring ownership of the poverty reduction strategy by the nation as a whole. The government is seeking the support of the international community to achieve success in its fight against poverty.

II. Peace, Democracy, and Improved Security

4. The Congo is emerging from a decade of political instability marked by three civil wars that have led to enormous human losses, the exodus of a portion of the population, and the destruction of entire villages, buildings, infrastructures, and units of production. These wars have exacerbated the shortcomings in public administration that were already evident, particularly in managing public finances and oil revenues. In the social sectors, many facilities and much equipment were destroyed or looted. With the erosion of much of the

socio-economic fabric of the country, the proportion of the population living below the poverty line has risen markedly.

5. In recent years, the political and security situation has stabilized. The transition that began with the end of the war in 1997 ended in August 2002 after presidential, legislative, and communal elections. With the objective of consolidating the peace process, the government and representatives of the remaining rebel groups signed a peace accord on March 17, 2003, in accordance with which demilitarization, demobilization, and reintegration operations are continuing with the support of the international community. The rate at which the country is being rebuilt and has established democratic institutions prescribed by the Constitution—with its own resources—inspires much hope.

III. ECONOMIC DEVELOPMENTS IN 2003

6. The advent of peace has stimulated economic activity in the non-oil sectors, particularly in agriculture, forestry, trade, and transportation. Non-oil GDP rebounded by 5.3 percent in 2003. Inflation, as measured by the consumer price index, slowed to 1.2 percent in 2003 compared to 3.1 percent in 2002, especially as a result of the resumption of food production and the steady inflow of consumer goods following the restoration of rail traffic between Pointe-Noire and Brazzaville. Credit to the economy grew in 2003, for the first time in three years, at a faster pace than that of non-oil GDP, reflecting confidence in the economic recovery.

7. Congo's fiscal position was better in 2003 than in 2002, although it improved less than had been expected. Indeed, the surplus in the primary fiscal balance rose from 1.2 percent of GDP in 2002 to 6.7 percent of GDP in 2003. The improvement in the fiscal balance in 2003 is attributable to tighter control of total expenditure and unexpectedly high oil revenues. Nevertheless, the execution of the 2003 budget was marred by, among other weaknesses: (i) lower-than-expected non-oil revenue receipts, (ii) higher-than-expected transfer and subsidy expenditures, (iii) unprogrammed payments of domestic arrears due to reconstruction investments, (iv) the sale of government oil through the national oil company (SNPC) at prices below reference prices, and (v) inefficient cash flow management.

8. Exceptional oil revenue of US$145 million was received in 2003 in settlement of a dispute with an oil company. This amount breaks down into: (i) a cash payment of US$35 million; (ii) a onetime increase in the government's oil revenue, equivalent to US$25 million; and (iii) a payment of US$80 million for the transfer by the government of 65 percent of the participation in the Likouala oilfield. With the approval of the Parliament, the Likouala oilfield was transferred to a private company operating under Congolese law, Likouala S.A., that had obtained a loan from a private foreign bank to pay the state an initial tranche of US$80 million in 2003. Based on the valuation of the residual oil reserves, the payment of a second tranche of up to US$80 million is planned for 2010.

9. The government began in 2003 to normalize relations with external creditors; indeed, it has paid on time its debt service obligations to all multilateral and Paris Club creditors

(except for two bilateral creditors) for debt incurred after the cut-off date, and settled arrears (of about US$12 million) owed to a number of multilateral creditors (whose claims on Congo are relatively small). Still, the Congo remains a heavily indebted country.

10. The implementation of structural reform measures under the 2003 staff-monitored program (SMP) was uneven. On the one hand, considerable progress was made in improving transparency in the oil sector following: (i) the completion of the audit of the 1999–2001 SNPC accounts; (ii) the completion of the certification of government oil revenues for the period January to September 2003 by an internationally recognized independent firm of auditors; (iii) the absence of further contracting of oil-collateralized debt; and (iv) the publication of oil sector data on the websites www.congo-site.cg and www.mefb-cg.org. On the fiscal side, noteworthy developments were (i) the centralization of a large portion of fiscal revenues and expenditures in the budget; and (ii) the appointment of new senior officials in the General Directorates of the Budget, Customs, and Taxes, as well as in the Office of the Inspector-General of Finance, to revamp the revenue administration agencies and strengthen control. On the other hand, privatization of the one remaining public bank was not completed, and a number of other measures planned for end-September 2003 to increase oil sector transparency were not achieved, including publication of production-sharing contracts, the 2003 SNPC budget, and the SNPC audit report for FY1999-01.

IV. Implementation of the Staff-monitored program in 2004

11. The 2004 SMP, which covered the period January–June, contained two pillars: increased transparency in fiscal management, especially in the oil sector; and improved fiscal discipline (Tables 1 and 2). The program was well implemented, and all quantitative and structural benchmarks were met.

12. Budget execution during the first half of 2004 was better than expected, and all quantitative indicators at end-June 2004 were observed (Table 1). Because of higher oil and non-oil revenues and better control of primary expenditures, the actual primary fiscal surplus was higher than the program target (adjusted to reflect the actual international oil price) by about CFAF 18 billion. In addition, the government's net credit position vis-à-vis the banking system improved considerably. Moreover, no guaranteed or nonconcessional debt was contracted, and the government met its debt service obligations on nonreschedulable external debt. Also, domestic arrears were settled within the limits of the ceiling set in the context of the program.

13. The implementation of structural measures during January–September 2004 was generally in keeping with the program (Table 2):

- Considerable progress was made in improving management and increasing transparency in the oil sector, including through: (i) continuation of quarterly certification of oil revenues by an independent international audit firm, an initiative started in 2003, (ii) adoption by the government of an action plan for the reform of the SNPC, and (iii) the publication of oil sector data on the internet. Regarding the dividend policy of the SNPC, the government instructed its representatives on the SNPC's Board of Directors to authorize a distribution whereby the state would receive at least 30 percent of the profits for FY2003 and 20 percent beginning in FY2004.

- On the fiscal side, the government observed all structural benchmarks. In particular, it centralized government revenue at the Treasury, despite failing to transfer a portion of the forestry revenue; decided not to contract loans backed by future oil revenues; and compiled consolidated monthly treasury balances.

V. Poverty Reduction Framework and Medium-term Strategy

14. The government is determined to place poverty reduction at the center of its development strategy. The principal objectives of this policy are described in the Interim Poverty Reduction Strategy Paper (I-PRSP). The improvement of the political climate in the Congo and of macroeconomic management augur well for growth and poverty reduction. The government is seeking assistance from the international community to support its three-year program covering the period from October 1, 2004, to September 30, 2007, which is likely to be supported with PRGF resources.

15. The government is aware of the numerous obstacles to the achievement of sustained economic growth. Those obstacles include heavy dependence on the oil sector, inadequate infrastructures, an onerous debt burden, high production costs, and a weak financial sector. In addition, the implementation of previous programs was generally unsatisfactory because of (i) the inertia inherited from the planned economy, which had long penalized the private sector; (ii) the civil wars of the 1990s that disrupted the economy and weakened institutions and the rule of law; (iii) poor economic management during the transition that followed the end of the war; (iv) an institutional, legal, and judicial framework not conducive to private sector development; and (v) insufficient ownership of the program of reforms by the authorities.

16. Since the 1990s, the Congo has opted for a market economy. The government is determined to make all necessary efforts to remove the constraints on private sector development, but requires the assistance of external partners.

17. A significant improvement in oil sector governance will be the key element of the new program that is likely to be supported by the PRGF. Over the next five years, the Congo must, among other challenges,

- consolidate peace and social stability by making greater use of the participatory process in the formulation and implementation of the economic reform and poverty reduction strategy;

- ensure long-term fiscal sustainability despite the uncertainties surrounding future oil revenues and control public spending in the event of oil price increases;

- strengthen public expenditure management and institutional capacity; and
- create conditions conducive to private sector development and poverty reduction.

A. Establishment of the Medium-term Macroeconomic Framework

18. The main objectives of the 2004–07 program are (i) an annual average growth rate of 5.5 percent, supported by non-oil GDP growth projected at an annual average rate of about 5.2 percent; (ii) an annual inflation rate of about 2 percent, based on sound fiscal policy and the pursuit of prudent monetary policy by the BEAC; and (iii) a current account surplus amounting to, on average, about 1.5 percent of GDP.

19. Projections of non-oil real GDP growth include an annual "catch-up factor" of about 0.5-1 percentage point. The government believes that infrastructure investment will be key to development in the agricultural sector and to reducing poverty, in particular, through improved market accessibility. The government recognizes that the growth rate projected for the next three years is below the estimate of about 8 percent deemed necessary to achieve the Millennium Development Goals. However, it believes the program growth rate is realistic and plans to carry out an in-depth study on the sources of growth, with a view to raising it further.

20. Prudent fiscal policy will be essential to ensure macroeconomic stability and promote economic growth, especially given record-high oil prices and expected hikes in production over the medium term. In this context, the fiscal policy adopted by the government involves attaining a primary surplus equivalent to 10.1 percent of GDP in 2004, 13.2 percent of GDP in 2005, and 8.2 percent of GDP, on average, during 2006–07, as a result of improved revenue mobilization and expenditure control.

21. Drawing on the lessons of the past, the government has decided to adopt a prudent fiscal stance with respect to future oil revenues, so as to avoid the adverse effects of the pro-cyclical expenditure driven by oil revenue receipts. Accordingly, starting with the 2005 Budget Law, the international oil price to be used in oil revenue forecasts will be the price forecast by IMF staff ("World Economic Outlook"—WEO) minus US$4 a barrel. In applying this fiscal rule, and assuming an average annual increase in production of 6.1 percent, oil revenues will amount to 21.9 percent of GDP on average during the period 2004-07.

22. The government will implement measures to strengthen mobilization of both oil and non-oil revenues. Oil revenues, for their part, will be augmented as a result of the strengthening of collection through quarterly certifications, audits of cost oil, and improvement of the commercial performance of the SNPC. Non-oil revenues, for their part, will be increased as a result of the strengthening of measures to combat fraud and tax evasion (through, among other steps, the computerization of the revenue departments), controlling and limiting discretionary tax exemptions, expanding the tax base, and improving tax administration. In light of the Congo's membership in the Central African Economic and

Monetary Community (CEMAC), however, the government has little room for changing tax rates or introducing new fees.

23. A prudent expenditure policy will be implemented with a view to freeing up resources that will help boost poverty reduction expenditures and the country's capacity to meet its external debt service obligations. To this end, the government intends to take the following actions:

- In the context of the settlement of a dispute with a private oil company, budgetary transfers to the SNPC related to the Nkossa oilfield will be reduced from CFAF 33 billion in 2003 to CFAF 11.7 billion in 2004 and will be stabilized at about CFAF 9.3 billion until 2007;

- Transfers to the national refinery, CORAF, will be gradually reduced until they are completely eliminated in 2007, following the signing in December 2003 of an agreement between the government and CORAF whereby the latter will pay for the delivery of crude oil by the government, and as a result of the expected effect of the measures envisaged for the reform of CORAF;

- Subsidies on oil products will be streamlined and gradually reduced through effective implementation of the mechanism for adjusting prices at the pump, although most underprivileged segments of the population will be protected (see below); and

- Domestic arrears will be cleared in an equitable, transparent way, based on the availability of funds and the priorities established in the budget. The government has identified three types of domestic debt, namely, commercial debt, social debt, and debt to public and private enterprises. Previous audits of the commercial arrears will be authenticated by an internationally recognized firm hired through a competitive bidding process. Arrears on the payment of social debt (wages, pensions, and compensation for former employees of liquidated enterprises), will be audited by the Office of the Inspector-General of Finance and the government debt management agency (Caisse congolaise d'amortissement, CCA). Based on the results of these audits and authentication processes, the government will adopt and disseminate, by September 30, 2005, a plan for the settlement of domestic arrears. Apart from the monthly payment of arrears related to salaries, pensions, and the compensation of former employees of liquidated enterprises, no other domestic arrears will be settled until after the arrears settlement plan takes effect.

24. In the next few years, the public investment program financed with domestic resources will have the following priority objectives to: (i) ensure a regular supply of electricity in the country (Imboulou dam, upgrading of the Mokoukoulou dam, Brazzaville thermal power plant, and construction and strengthening of the distribution network); (ii) improve public infrastructures and open up the hinterland (road networks and Ollombo airport); (iii) beef up basic social services; and (iv) strengthen the infrastructure in local communities (safe water, schools, dispensaries), in particular, within the framework of the

"accelerated municipalization" operation started in 2004. The management of the capital budget will be improved through better physical and financial monitoring of projects. In addition, through transparent and proper procedures for public procurement, the government will ensure that project costs are competitive. The World Bank has carried out an in-depth review of the investment management arrangements and plans to assist the government in improving its assessment of project profitability and its monitoring of the implementation of physical and financial projects.

25. Monetary policy will continue to be carried out within the regional framework of the Bank of Central African States (BEAC). The objectives of this policy are to ensure low inflation and keep the foreign exchange reserves of the zone at a comfortable level. The government of the Congo will contribute to the achievement of these objectives by implementing a fiscal policy aimed at increased public savings, with a view to improving its net credit position vis-à-vis the banking system and facilitating a noninflationary increase in credit to the economy.

26. Conscious of the risks of inflation stemming from the considerable inflow of financial resources, given that international oil prices are expected to be buoyant over the next few years, the government is committed to sterilizing these resources, in accordance with current CEMAC and BEAC rules. It will do this by (i) strengthening its net credit position vis-à-vis the central bank to allow the Congo to raise its foreign exchange coverage position and enable the BEAC to eliminate the measure requiring prior approval of payment transfers; (ii) formulating a public expenditure program that is noninflationary and avoids procyclicality, in line with the economy's absorptive capacity; and (iii) creating a mechanism for the cyclical regulation of oil revenues or of a savings fund for future generations.

27. As regards the external sector, an improvement in the current account is expected during the period 2004–07. For the external financing of the program, only grants and loans on concessional terms will be used. Successful implementation of the program will depend on a quick settlement of domestic and external arrears, the resumption of external assistance, and the promotion of a climate conducive to private sector development. The government will update its medium-term macroeconomic framework to take account of any external debt relief obtained under the enhanced HIPC Initiative. This revision will allow an increase in expenditures on poverty reduction, supplementing the government's own efforts.

B. Macroeconomic Framework for the First Year of the Program

28. The first year of the program for which the government is requesting an arrangement under the PRGF will cover the period from October 1, 2004 to September 30, 2005. The principal macroeconomic objectives are expected to be as follows: (i) an annual growth rate in non-oil real GDP of about 5 percent, (ii) an inflation rate of about 2 percent, (iii) a primary surplus representing about 10.1 percent of GDP in 2004 and 13.2 percent of GDP in 2005, and (iv) a current account surplus equivalent to 1.6 percent of GDP a year. Budgetary and monetary variables, as well as those related to indebtedness, will be subject to performance criteria and quantitative benchmarks (Table 3).

29. Discipline in fiscal management will be strengthened during 2004 and 2005, so that the necessary resources can be made available to implement of the poverty reduction strategy and relations with external creditors can return to normal. The expenditure structure will, as a result, be reoriented toward pro-poor projects. To this end, it is essential to achieve better mobilization of oil and non-oil revenues, as well as greater control of other spending.

30. Fiscal policy will aim, among other things, at generating additional domestic revenues. For 2004 and 2005, non-oil revenues are expected to reach CFAF 202.2 billion (18.3 percent of non-oil GDP) and CFAF 219.3 billion (18.6 percent of non-oil GDP), respectively. Oil revenues are expected to total CFAF 515 billion in 2004, assuming a production volume of 83.3 million barrels, an international price of US$37.30 a barrel, and an exchange rate of CFAF 532.8 to the U.S. dollar. For 2005, oil revenues are projected at CFAF 632.4 billion, based on a production volume of 97.9 million barrels, an international price of US$37.30 dollars a barrel, and an exchange rate of CFAF 543.5 to the U.S. dollar.

31. Expenditure policy will be geared toward poverty reduction. The government undertakes to increase the share of resources allocated to the priority sectors identified on the basis of the I-PRSP, namely, (i) basic health care and action to combat HIV-AIDS; (ii) basic education; (iii) basic infrastructure; (iv) water, energy, and urban sanitation; (v) disarmament and reintegration of former combatants; and (vi) agriculture. These sectors' share of spending in total primary expenditure will thus increase from 23 percent in 2003 to 39 percent in 2007.

32. To meet pressing social needs and promote social peace, the authorities have signed a "social truce" with the unions, whereby they will gradually pay wage and pension arrears starting in 2004. To this end, the government plans to transfer a sum equivalent to about 1 percent of GDP in 2004 to clear these social arrears. The government has also budgeted an amount equivalent to 0.9 percent of GDP in 2004 for the payment of commercial domestic arrears to small and medium-sized enterprises, with a view to stimulating economic activity. For 2005, an amount equivalent to 2 percent of GDP has been identified to finance the settlement of domestic arrears that have already been audited and certified.

33. A prudent fiscal policy will be followed in the context of the 2005 Budget Law. It is based on a conservative oil price assumption (price estimated in the IMF's WEO, minus US$4 a barrel). To ensure the successful application of this rule, the government will discuss it with Parliament and solicit its support. To this end, the government will continue its current policy of regularly presenting budget outturns to Parliament and publishing them on its website. As described in the Technical Memorandum of Understanding, the program includes an adjustment factor to take account of the deviations (generated by changes in quantities and prices) between actual and programmed oil revenues. In this context, the primary fiscal balance will be adjusted upward if oil revenues are higher than forecast. The use of any additional resources will be in accordance with the agreement laid out in the Technical Memorandum of Understanding.

34. The government hopes that the large financing gap for the first year of the program will be covered, in particular through the rescheduling of bilateral debt, exceptional treatment

of nonreschedulable arrears from multilateral and bilateral creditors, and budgetary assistance from Congo's major partners. As regards the external debt, the government intends to request relief from the Paris Club on favorable terms, and to obtain comparable relief from other bilateral and commercial creditors. Regarding the London Club, three meetings of the Coordinating Steering Committee have already been held, and the authorities will continue good-faith discussions with the creditors. Consistent with the HIPC Initiative, the government plans to settle arrears to all private creditors, including those with claims under litigation. The government is committed to paying its external financial obligations on a regular basis.

35. Broad money growth is expected to mirror that of nominal non-oil GDP during the period covered by the program. According to the projections, net credit to the government, excluding IMF resources, is expected to rise by 0.5 percent of GDP in 2004 before falling by 0.3 percent in 2005. Credit to the economy is expected to grow in line with nominal non-oil GDP, and the net foreign assets of the central bank are projected to increase.

VI. Structural Reforms

36. The program of structural reforms is aimed at ensuring robust growth and poverty reduction, promoting private sector development, improving transparency and governance in the oil sector, and increasing the effectiveness of the public sector.

A. Oil Sector

37. The government is convinced that transparency and better monitoring of oil sector operations are essential to the improvement of governance and fiscal management. Reforms in this sector include:

- Maximizing revenue collection. The government undertakes to (i) continue the quarterly certification, started in 2003, of oil revenues, by an internationally recognized audit firm with the collaboration of the Hydrocarbons Unit in the Ministry of Finance, and implement the nine administrative recommendations made by the auditor; (ii) adopt a strategy to enable the SNPC to maximize dividends, including closer monitoring of the SNPC budget by the regulatory authorities, and post the strategy on a website; and (iii) arrange for yearly independent audits of cost oil for all production-sharing contracts, based on international standards and carried out by internationally recognized audit firms. For FY 2002, the cost audits will be carried out by December 31, 2004 and for FY 2003 by March 31, 2005 at the latest;

- Surveillance of SNPC operations. The government plans to: (i) continue arranging for independent annual audits of the SNPC accounts by internationally recognized audit firms, and (ii) formulate and adopt a definitive strategy for restoring the focus of the SNPC on its core activities. In addition, the SNPC will prepare for the regulatory authorities, on a quarterly basis, cash flow projections for its consolidated activities;

- The government will continue to increase the amount of information made available to the public on websites (www.mefb-cg.org and www.congo-site.cg), including the publication of oil revenue certification reports, information on oil sector operations, external audit reports on the SNPC, and laws and regulations governing relations between the state and the SNPC; and

- The government will publish, at the end of each quarter, information on transactions in the hydrocarbons sector (oil and gas) that affect the interests of the Republic of Congo.

38. The government undertakes to carry out the reform of CORAF, the subsidies for which continue to be a drain on the government budget. For a clearer definition of the appropriate reform measures to be taken, a financial audit of CORAF operations in FY 2002 will be carried out in 2004. In addition, the government plans to conduct an economic and strategic assessment of CORAF by end-June 2005 with World Bank assistance and to draw up an action plan for reform of the company. The ceiling on budgetary subsidies to this company has now been set at CFAF 8.8 billion in the 2004 budget and CFAF 4.6 billion in the 2006 budget, before the elimination of such subsidies in 2007.

39. Finally, the subsidies on oil products will now be established objectively and managed efficiently. The aim is to eliminate the subsidies. To this end, the government will seek the assistance of the World Bank to assess the cost and efficiency of the current system of setting prices at the pump, including the subsidy granted, and will propose alternative mechanisms.

B. Government Finance

40. The government plans to pursue fiscal consolidation through improved expenditure control and a strengthening of the revenue departments:

- In the area of public expenditure, it will compile a table for tracking poverty reduction expenditure (by June 30, 2005), the aim over time being to prepare a functional classification of expenditures so as to, among other things, identify and track pro-poor spending. The government will also compile by end-March 2005 a table for monitoring the expenditure process (commitments, payment orders, and payments) for 2004, covering both operating and capital expenditures;

- The investment program will be reoriented to take better account of the objectives set in the Interim PRSP. With the assistance of the World Bank, the government will seek to ensure the quality and effectiveness of projects related to poverty reduction, making certain that the related expenditures have a genuine impact on the lives of the population groups involved. In addition, the government will, by end-June 2005, prepare a statement of physical and financial progress as at December 31, 2004 for the 50 largest public investment projects (in terms of budgetary costs);

- To increase expenditure transparency and efficiency, the government will seek assistance from the World Bank to assess, by end-June 2005, the existing public procurement system and prepare an action plan for amendment of the pertinent legislation;

- The following measures are planned with regard to non-oil revenues: (i) introduction of the Automated System for Customs Data (SYDONIA), including the establishment of a computer link between the customs offices in Pointe Noire and Brazzaville (by December 31, 2004); (ii) completion of the introduction of the Single Taxpayer Identification Number (TIN) for taxpayers (by January 31, 2005); (iii) centralization by the Large Enterprise Units of all the taxes payable by large enterprises (by March 31, 2005); (iv) audits of the 50 largest taxpayers for FY 2003 (by June 30, 2005); and (v) completion, by end-September 2005, of the certification of the 2004 forestry revenues by an internationally recognized audit firm.

C. Financial Sector

41. The still-limited capacity of the Congolese financial system is one of the obstacles to growth. The principal actions to be undertaken to ensure orderly reform of the financial sector as a whole are the following:

- Preparation by end-December 2004 of a restructuring plan for a bank in difficulty, to be approved by the COBAC and acceptable to the World Bank. The plan will include financial measures, as well as operational measures to ensure the bank's medium term viability. The government will take immediate measures to stem the accumulation of further losses, including measures prescribed by the COBAC to (i) strengthen the bank's management and reduce its overhead costs; (ii) start the collection of overdue claims; and (iii) clarify the ownership structure. Before committing any public funds beyond the settlement of its arrears to the bank—which totaled CFAF 2.5 billion at end-December, 2003—the government will discuss with Fund staff the overall budgetary implications of the restructuring plan, and the measures it will take to limit any government contribution and protect the public interest;

- Maintenance, during the program period, of the tax exemption for micro-credit mutual associations; and

- In the nonbank financial sector, with the assistance of the World Bank and other development partners, the government plans to: (i) carry out a financial audit and prepare a plan for privatization of the public insurance company, (ii) begin a general audit of the insurance sector with a view to its restructuring, (iii) formulate a plan for the restructuring of the two social security funds, and (iv) devise a restructuring plan for the Post Office (including its financial services).

D. Private Sector

42. The government is convinced that the private sector should play a decisive role in the economic development of the country, especially in light of the inherent institutional, technical, and financial limits on government action. With this in view, the authorities will work to remove the constraints on private initiative, in particular through the following actions:

- Reform of the legal and judicial framework for business, with the assistance of the World Bank, to provide better guarantees of, among other things, the property rights and the independence of the judiciary. Government efforts to combat corruption—that benefit from assistance from the United Nations Development Programme (UNDP)—will also help improve the legal framework for business;

- Streamlining and reduction of the tax burden on enterprises, with the establishment of one-stop tax windows in the form of Large Enterprise Units with broad responsibilities. The government will pay particular attention to reducing the quasi-taxation that currently penalizes businesses;

- Reform of the energy, telecommunications, and transportation sectors, with World Bank assistance, to reduce production costs for enterprises and facilitate the flow of persons, goods, and information; and

- Greater effort to improve the "government/taxpayer" environment and relations, in particular by promoting unrestricted public access to comprehensive tax and customs laws and regulations, updating them on the Internet, and disseminating the *Journal Officiel* (Official Gazette) on a regular basis, both on the Internet and in hard copy.

E. Other Measures for Good Governance

43. To reintegrate the Congo into the Kimberley Process, on September 29, 2004 the government has adopted an action plan based on the findings of the mission of experts on the Kimberley Process in the Congo (May 31–June 4, 2004). The plan was submitted to the Kimberley Process on October 7, 2004 and will be implemented in close cooperation with that institution. It contains the following principal measures:

- Suspension, until further notice, of all licenses granted to diamond purchasing bureaus and of all operations to certify rough diamonds intended for export and/or domestic marketing;

- Punishment of civil servants involved in unauthorized issuance of Kimberley Process certificates;

- Immediate release of the sum of CFAF 100 million earmarked for the administration of mines, for: (i) restructuring the administrative and legal framework governing the diamond business in the Congo, (ii) monitoring and regulating artisanal miners with a view to controlling the national production sources, and (iii) restructuring the Diamond Exchange so as to be able to track diamonds exported from the Congo;

- Organization in Brazzaville, by December 2004 of a meeting of experts from the diamond producing countries of the subregion (Democratic Republic of Congo, Angola, Central African Republic, and Republic of Congo) and external participants to: (i) decide together about the measures necessary for improved implementation of the Kimberley Process, (ii) harmonize the taxation imposed on diamond exporting activities, and (iii) combat diamond smuggling more effectively in the subregion; and

- Assessment by an international engineering firm of the Congo's potential for producing rough diamonds. As agreed with the Kimberley Process, that production potential will be the reference for evaluating the volume of certified diamond exports once the country re-integrates into the Process.

F. Statistical Data and Technical Assistance

44. The government undertakes to pursue its efforts aimed at improving the quality of the statistics necessary for properly monitoring implementation of the program of economic and financial reforms and the poverty reduction strategy. During the first year of the program, the following measures will be taken: (i) completion of the household consumption survey for the assessment of poverty (ECOM), (ii) conversion of the national accounts statistics using the 1993 United Nations methodology (SNA 93), and (iii) taking account, in the 2005 national budget, of the proposals for the first year of the Multiyear Plan for the Development of Statistics (PPDS).

45. In light of the lack of national institutional capacity, the government is seeking technical assistance from the international community. The government appreciates the technical assistance already provided by the international community, including by the IMF in the fields of government finance and statistics. In this regard, given the enormous progress already achieved and the magnitude of the work remaining to be done, the government wishes to continue receiving the assistance it is currently receiving from the IMF in the area of statistics. This will be used, in particular, for: (i) completing the legal and institutional reforms of the national statistics system, (ii) implementing the recommendations of the July 2004 seminar to bring into operation the PPDS, and (iii) facilitating the transition from the PPDS to the budget during the first year.

46. Given the scope of the fiscal reforms under way, the government needs long-term resident experts, especially in the areas of taxes, customs, and expenditure management. The other areas in which there are pressing needs include: (i) the formulation of a strategy for the settlement of domestic and external arrears, (ii) support for the program's Technical Monitoring Committee and the Hydrocarbons Unit in the Ministry of Finance, and (iii) the strengthening of control and inspection procedures and structures in the revenue departments.

VII. Prior Actions

47. The following measures are planned for implementation by the government prior to the consideration by the IMF's Executive Board of a new PRGF arrangement:

- Signing by the government of a three-year contract with an audit firm of international reputation to undertake the annual external audits of the SNPC for each of the years during 2003–05 (using the same terms of reference as for the 1999-2001 audit);

- Publication by the government of the 2002 external audit report of the SNPC on Internet sites (www.congo-site.cg and www.mefb-cg.org), in accordance with the procedures adopted for the 1999–2001 report.

- Publication on the Republic of Congo's internet sites (www.congo-site.cg and www.mefb-cg.org) and in local mass media of a government statement on the July 2003 settlement between the Republic of Congo and Total E&P Congo, providing details on the transactions related to the Likouala oil field concession and assurances that the Republic of Congo, its state oil company (SNPC), and Total E&P Congo are the only parties involved in those transactions, and that all related benefits and profits accrue only to them, and not to other parties.

VIII. Performance Criteria and Benchmarks

48. Program implementation will be monitored on the basis of the quantitative and structural performance criteria and benchmarks described in detail in Tables 3 and 4 and in the attached Technical Memorandum of Understanding.

Table 1. Republic of Congo: Quantitative Indicators Under the Staff-Monitored Program (January-June, 2004)
(In billions of CFA francs, unless otherwise indicated; cumulative from January)

	End-March			End-June		
	Prog.	Adjust. Prog.	Est.	Prog.	Adjust. Prog.	Est.
Main indicators						
Primary fiscal balance (floor) 1/ 2/	12.3	18.9	34.2	54.4	88.1	112.2
Ceiling on the change in net claims of the banking system on the central government (ceiling) 2/ 3/	7.7	7.7	-23.7	8.9	8.9	-30.6
New medium- and long-term nonconcessional external debt (including leasing) contracted or guaranteed by the government (ceiling) 4/ 5/ 6/	0.0	0.0	0.0	0.0	0.0	0.0
New external debt (including leasing) with an original maturity of less than one year (ceiling) 5/ 6/	0.0	0.0	0.0	0.0	0.0	0.0
New oil collateralized debt by the central government 6/	0.0	0.0	0.0	0.0	0.0	0.0
External arrears payment (floor) 2/	0.0	0.0	0.4	0.0	0.0	0.4
New external arrears on nonreschedulable debt 6/	0.0	0.0	0.0	0.0	0.0	0.0
Domestic arrears payment (ceiling) 7/	6.0	6.0	5.9	10.8	10.8	11.1
New domestic arrears 6/ 7/	0.0	0.0	0.0	0.0	0.0	0.0
Other indicators						
Non-oil revenue (floor)	38.2	38.2	47.3	82.9	82.9	104.8
Central government wage bill (ceiling)	30.5	30.5	29.9	61.8	61.8	60.0
Domestically-financed investment	34.7	34.7	26.9	59.5	59.5	58.8
Memorandum items						
Oil revenue (in billions of CFA francs)	87.4	94.0	85.5	184.6	218.3	218.4
Petroleum price Brent (US$/barrel), quarterly average	30.0	…	32.0	28.7	…	35.4
Exchange rate (CFAF/US$), quarterly average	516.5	…	521.8	515.1	…	534.1
Petroleum price Brent (thousand CFA francs/barrel), quarterly average	15.5	…	16.7	14.8	…	18.9
Oil production (millions barrels)	20.4	…	20.2	19.7	…	20.2
Of which: share of government's oil traded by SNPC	6.7	…	5.8	4.6	…	5.6

Sources: Congolese authorities; and staff estimates.

1/ See definition in paragraph 5 of the technical memorandum of understanding (TMU) for the 2004 SMP

2/ See paragraphs 20 and 21 of the TMU for the 2004 SMP for the definition on the adjustors (see reference above).
3/ Including IMF credit.
4/ Excluding rescheduling arrangements and disbursements from the IMF.
5/ See paragraph 13.b of the TMU for the 2004 SMP for definition of concessional debt (see reference above).
6/ Continuous performance indicator.
7/ See paragraphs 17 and 18 of the TMU for the 2004 SMP for the definition (see reference above).

Table 2. Republic of Congo: Structural Indicators Under the 2004 SMP

Measures	Schedule	Status
Certification by an external auditor of oil revenue for the fourth quarter of 2003; based on the work of the oil-monitoring unit, the external auditor will ascertain that all oil revenue legally due by oil companies (including the SNPC) was received by treasury. 1/	March 31, 2004	Done
Publication by the government on an Internet site of the external auditor's full report on oil revenue reconciliation for the first half of 2003.	March 31, 2004	Done 2/
Adoption by the government of an action plan for the implementation of all the recommendations of the audit of the SNPC, prepared with the assistance of the World Bank and IMF.	March 31, 2004	Done
Adoption by the government of a fully articulated and operational policy on the payment of dividends by the SNPC, prepared with the assistance of the World Bank and IMF; policy to be published on an Internet site.	March 31, 2004	Done
Publication by the government, on an Internet site, of the August 1, 2003 summary of the report on the 1999–2001 audit of the SNPC prepared by the auditing firm, as well as (i) the 108 recommendations of the audit report, (ii) the action plan for the implementation of the recommendations from the SNPC audit (see above); (iii) Chapter 4 of the audit report, and (iv) the comments of the SNPC.	March 31, 2004	Done
Preparation by the government of the consolidated fiscal treasury balance for January 2004.	March 31, 2004	Done
Publication by the government, on an Internet site, of the production sharing agreements (PSAs) already published in the Official Gazette, a list of the PSAs that were not published, and an explanation of how these PSAs relate to the various production fields.	April 15, 2004	Done on August 15 3/
Publication by the government on an Internet site of a complete list of the financial transactions carried out by the SNPC on behalf of the government in 2002 and 2003 (including the dates of transactions, amounts, interest rates and commissions, and terms and conditions).	April 30, 2004	Done on October 15
Preparation by the government of a preliminary strategy aimed at ensuring that the SNPC's activities are restricted to the oil sector.	June 30, 2004	Done 4/

Table 2. Republic of Congo: Structural Indicators Under the 2004 SMP

Measures	Schedule	Status
Completion of the privatization of the CAIC (commercial bank) and effective operation of the new private bank (La Congolaise de Banque).	June 30, 2004	Done
Completion, by an international external auditing firm, of the 2002 external audit of the SNPC (according to the same terms of reference as the previous audit and with no qualifications related to access to information). 5/	July 31, 2004	Done on September 15
Signing by the government of a contract with an international auditing firm to perform the external financial audit of the 2002 operations of the national oil refinery (CORAF).	August 31, 2004	Done
Signing by the government of a three-year contract with an international firm to perform the annual external audits of the SNPC for 2003–05 (using the same terms of reference as for the previous audit). 6/	August 31, 2004	Prior action for the PRGF
Quarterly certification, by an external auditor, of oil revenue in 2004, using the same terms of reference as for the 2003 certifications. Reports to be published on an Internet site on a timely basis.	With a one- quarter lag	Done for the first half of 2004
Centralization of all government revenues in, and execution of all payments through, the treasury.	Continuous	Done 7/
No settlement of public expenditures through the direct transfer of government revenue by oil companies.	Continuous	Done

1/ Using the same terms of reference as for the certifications in previous quarters of 2003.
2/ In addition, the reports for the third and fourth quarters were published.
3/ Published on the official internet websites (www.congo-site.cg and www.mefb-cg.org).
4/ The strategy will be completed with a description of the existing situation and a diagnosis of the problem.
5/ The publication of the 2002 external audit will be done under the same modalities as for the 1999-2001 audit.
6/ Financial audits of the consolidated accounts, review of financial flows, review of implementation of the fiscal agency role, and review of internal control.
7/ With the exception of a portion of forestry fiscal receipts that was withheld by the Water and Forestry Services.

Table 3. Republic of Congo: Quantitative Criteria and Indicators for the first year of the program
(In billions of CFA francs, unless otherewise indicated; cumulative from January)

	End-Jun. 04 Est.	End-Sep. 04 Proj.	End-Dec. 04 Benchmark	End-Mar. 05 Perf. Crit.	End-Jun. 05 Benchmark	End-Sep. 05 Perf. Crit.
Quantitative criteria						
Primary fiscal balance (floor) 1/ 2/	112.2	153.2	235.0	98.8	163.6	230.4
Change in net claims of the banking system on the government (ceiling) 2/ 3/	-27.7	12.7	17.7	1.8	2.3	4.0
New medium or long-term nonconcessional external debt (including leasing) contracted or guaranteed by the government (ceiling) 4/ 5/ 6/	0.0	0.0	0.0	0.0	0.0	0.0
New external debt (including leasing) with an original maturity of less than one year (ceiling) 5/ 6/	0.0	0.0	0.0	0.0	0.0	0.0
New oil-collateralized external debt contracted by or on behalf of the central government (ceiling) 6/	0.0	0.0	0.0	0.0	0.0	0.0
New nonconcessional external debt contacted by SNPC (ceiling) 6/	0.0	0.0	5.0	13.5	13.5	13.5
External arrears payment (floor) 2/ 7/	…	26.2	60.7	60.2	108.5	119.6
New external arrears on nonreschedulable debt 6/	0.0	0.0	0.0	0.0	0.0	0.0
Domestic arrears payment (ceiling) 8/ 9/	11.1	17.8	40.8	8.0	17.8	34.8
New domestic arrears 6/ 8/	0.0	0.0	0.0	0.0	0.0	0.0
Quantitaive indicators						
Non-oil revenue	104.8	139.2	202.2	45.3	101.1	155.7
Domestically-financed investment (ceiling)	58.8	96.8	123.1	39.1	82.2	115.3
Memorandum items						
Oil revenue (in billions of CFA francs)	218.4	369.5	515.0	183.1	338.5	486.1
Petroleum price Brent (US$/barrel), quarterly average	35.4	39.0	38.3	34.5	33.5	32.8
Exchange rate (CFAF/US$), quarterly average	546.4	531.4	531.6	544.4	543.7	543.1
Petroleum price Brent (thousand CFAF/barrel), quarterly average	19.3	20.7	20.3	18.8	18.2	17.8
Oil production (millions of barrels)	20.2	20.8	22.1	23.8	24.1	24.7

1/ See paragraph 6 of the technical memorandum of understanding (TMU) for the definition.
2/ See paras. 23-25 of the TMU on the adjustors.
3/ Excluding IMF credit.
4/ Excluding rescheduling arrangements and disbursements from the IMF.
5/ See para. 13.b of the TMU for the definition of concessional debt.
6/ Continuous performance criterion; see para. 17 of the TMU for the definition of nonreschedulable debt.
7/ Excluding cancellation of arrears to the European Union, cancellation of part of arrears by the African Development Bank, and clearance of arrears of Congolese embassies abroad.
8/ See para. 21 of the TMU for the definition.
9/ See para. 26 of the TMU for the adjustor.

Table 4. Republic of Congo – Prior Actions and Structural Performance Criteria and Benchmarks for the First Program Year

Measures	Date
1. Prior actions	
Signing by the government of a three-year contract with an audit firm of international reputation to undertake the annual external audits of the SNPC for each of the years during 2003–05 (using the same terms of reference as for the 1999-2001 audit).	
Publication by the government of the 2002 external audit report of the SNPC on Internet sites (www.congo-site.cg and www.mefb-cg.org).[1]	
Publication on the Republic of Congo's internet sites (www.congo-site.cg and www.mefb-cg.org) and in local mass media of a government statement on the July 2003 settlement between the Republic of Congo and Total E&P Congo, providing details on the transactions related to the Likouala oil field concession and assurances that the Republic of Congo, its state oil company (SNPC), and Total E&P Congo are the only parties involved in those transactions, and that all related benefits and profits accrue only to them, and not to other parties.	
2. Structural performance criteria	
Completion, by an audit firm of international reputation and in accordance with international standards on auditing, of the 2002 external financial audit of CORAF, and submission of the report to the government.	December 31, 2004
Completion, by audit firms of international reputation and in accordance with international standards, of audits of oil costs for 2003, for all production-sharing contracts as defined in these contracts, and submission of the reports to the government.	March 31, 2005
Preparation by the government and submission to the IMF of a table with data tracking the expenditure circuit (commitment, payment order, and cash payment) in 2004.	March 31, 2005
Preparation by the government and submission to the IMF of a table tracking poverty-reducing spending in 2004.	June 30, 2005
Adoption by the government of an action plan (including a timetable) for the introduction of an automatic price adjustment mechanism for refined petroleum products.	September 30, 2005
Certification of forestry revenues in 2004 by an audit firm of international reputation, and submission of the report to the government.	September 30, 2005

Table 4. Republic of Congo – Prior Actions and Structural Performance Criteria and Benchmarks for the First Program Year (concluded)

Measures	Dates
3. Structural benchmarks	
Adoption, by the board of directors of a bank in difficulty, of a restructuring plan approved by the Central African Banking Commission (COBAC) and the government.[2]	December 31, 2004
Implementation by the Hydrocarbons Unit of the Ministry responsible for Finance of the nine recommendations made by the international audit firm in the context of the certification of oil revenues in 2003, and increase in the staffing of this unit from three to six qualified officials.	March 31, 2005
Completion, by an audit firm of international reputation and in accordance with international standards on auditing, of the external audit of the SNPC for 2003, and submission of the report to the government.	March 31, 2005
Preparation by the SNPC of a statement of sources and uses of funds for the consolidated activities of the SNPC group for 2004, and quarterly tables for 2005.	June 30, 2005
Adoption by the government of a definitive strategy to refocus the activities of the SNPC on its core activities in the oil sector along with the related implementation timetable.	September 30, 2005
Adoption by the government of a comprehensive plan for the settlement of domestic arrears; posting of the related policy on an Internet site.	September 30, 2005
Quarterly publication on the Internet of the recipients of domestic debt payments.	With one-month lag
Quarterly certification of oil revenue by an audit firm of international reputation using the same terms of reference as for the 2003 certification; certification reports to be published on Internet sites.	With one-month lag
Publication on Internet sites of a detailed statement of all hydrocarbons transactions (oil and gas).	With one-month lag
Centralization of all public revenues and execution of all public payments by the Treasury.	Continuous

[1] Publication of the following: (i) Summary (Chapter 1); (ii) Review of Financial Flows (Chapter 2); (iii) Review of Execution of the Management Contract (Chapter 5); and (iv) Recommendations made by the audit firm, KPMG (Chapter 7).

[2] Failing this, COBAC and the government will automatically take interim measures and impose a restructuring plan by December 31, 2004.

Table 5. Republic of Congo: Government Budgetary Operations, 2003-04
(In billions of CFA francs; cumulative from January)

	2003	2004			
	Est.	End-March		End-June	
		Prog.	Est.	Prog.	Est.
Total domestic revenue	603.6	125.6	132.8	267.5	323.2
Oil revenue	421.6	87.4	85.5	184.6	218.4
Non-oil revenue	182.0	38.2	47.3	82.9	104.8
Primary expenditures	-464.5	-113.3	-98.6	-213.1	-211.0
Current 1/	-352.7	-78.6	-71.7	-153.6	-152.2
Capital expenditure 2/	-111.8	-34.7	-26.9	-59.5	-58.8
Primary budget balance	139.1	12.3	34.2	54.4	112.2
Debt service due 3/	-111.1	-39.2	-42.2	-83.2	-86.7
Domestic	-23.4	-3.7	-4.4	-7.4	-11.1
External non-reschedulable debt service	-87.7	-35.5	-37.8	-75.8	-75.6
Multilaterals	-30.5	-9.3	-9.8	-13.1	-13.8
Paris Club, post cut-off date	-10.0	-0.5	-0.5	-11.7	-11.6
Collateralized debt	-47.2	-25.7	-27.6	-51.0	-50.3
Balance after debt service	28.0	-26.9	-8.0	-28.8	25.5
Identified financing	36.5	38.4	14.3	39.6	-13.9
Domestic (net)	28.8	7.7	-12.5	8.9	-42.3
Banking system (net)	1.0	7.7	-23.7	8.9	-30.6
Nonbank financing	27.8	0.0	11.2	0.0	-11.7
Of which: Exceptional oil receipts 4/	59.2	…	…	…	…
Statistical float 5/	-3.3	0.0	9.9	0.0	-7.9
External financing	7.7	30.7	26.8	30.7	28.4
Non-project loans	7.7	…	…	…	…
Advance payment on oil shipment	…	30.7	26.8	30.7	27.7
Other	0.0	…	…	…	0.7
Residual gap before arrears payment (+ = surplus)	64.5	11.5	6.3	10.8	11.5
Arrears payments	-64.6	-6.0	-6.3	-10.8	-11.5
Domestic	-57.6	-6.0	-5.9	-10.8	-11.1
External	-7.0	…	-0.4	…	-0.4
Residual gap	0.0	5.5	0.0	0.0	0.0

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

1/ Excluding interest payment.

2/ Excluding domestically-financed investment.

3/ Nonreschedulable debt only.

4/ Receipts from a legal settlement with a private oil company.

5/ Including errors and omissions.

Table 6. Republic of Congo: Elements of Government Budgetary Operations, 2003-05
(In billions of CFA francs; cumulative from January)

	2004			2005			
	End-Jun.	End-Sep.	End-Dec.	End-Mar.	End-Jun.	End-Sep.	End-Dec.
	Est.	Proj.	Prog	Prog.	Prog.	Prog.	Proj.
Total domestic revenue	323.2	508.7	717.2	228.4	439.6	641.8	851.7
Oil revenue	218.4	369.5	515.0	183.1	338.5	486.1	632.4
Non-oil revenue	104.8	139.2	202.2	45.3	101.1	155.7	219.3
Primary expenditures	-211.0	-355.5	-482.3	-129.6	-276.1	-411.4	-521.7
Current 1/	-152.2	-258.7	-359.2	-90.5	-193.9	-296.1	-380.2
Capital expenditure 2/	-58.8	-96.8	-123.1	-39.1	-82.2	-115.3	-141.5
Primary budget balance	112.2	153.2	235.0	98.8	163.6	230.4	329.9
Debt service due 3/	-86.7	-109.4	-137.5	-30.6	-55.2	-93.0	-122.5
Domestic	-11.1	-17.7	-23.4	-5.4	-10.9	-14.7	-20.2
External non-reschedulable debt service	-75.6	-91.7	-114.1	-25.2	-44.3	-78.4	-102.3
Multilaterals	-13.8	-23.6	-25.4	-8.9	-9.9	-18.8	-20.2
Paris Club, post cut-off date	-11.6	-12.0	-23.4	-0.3	-10.9	-11.2	-18.5
Collateralized debt	-50.3	-56.2	-61.8	-11.3	-14.2	-34.4	-45.1
Moratorium interest on consolidated debt	…	…	-3.6	-4.6	-9.3	-13.9	-18.6
Balance after debt service	25.5	43.8	97.4	68.2	108.4	137.4	207.4
Identified financing	-13.9	25.5	30.8	1.6	45.6	44.8	32.1
Domestic (net)	-42.3	4.8	9.8	1.6	-1.5	-2.3	-15.0
Banking system (net)	-30.6	6.4	11.4	-0.7	-1.5	-2.3	-15.0
Nonbank financing	-11.7	-1.6	-1.6	2.3	0.0	0.0	0.0
External financing	28.4	20.7	21.0	0.0	47.1	47.1	47.1
Non-project loans	0.0	…	…	…	…	…	…
Advance oil payment	27.7	20.0	0.0	0.0	0.0	0.0	0.0
Cancellation and rescheduling of debt	0.7	0.7	21.0	…	26.2	26.2	26.2
Exceptional bilateral assistance	0.0	…	…	…	20.9	20.9	20.9
Residual gap before arrears payment (+ = surplus)	11.5	69.3	128.2	69.7	154.0	182.1	239.5
Arrears payments	-11.5	-44.4	-128.2	-69.7	-154.0	-182.1	-197.3
Domestic	-11.1	-17.8	-40.8	-8.0	-17.8	-34.8	-50.0
External	-0.4	-26.6	-87.4	-61.7	-136.2	-147.3	-147.3
African Development Bank	…	-26.2	-26.2	…	-52.3	-52.3	-52.3
European Union/EIB	…	…	-24.0	…	…	…	…
Paris Club, post cut-off, 2003	0.0	…	-18.0	…	…	…	…
Paris Club, post cut-off , end-2002	0.0	…	-12.8	-60.2	-82.4	-93.5	-93.5
Other	-0.4	-0.4	-6.4	-1.5	-1.5	-1.5	-1.5
Residual gap (+ = surplus)	0.0	25.0	0.0	0.0	0.0	0.0	42.2
Memorandum items							
Potential oil windfall 4/	…	2.1	9.8	37.7	70.2	107.0	144.3
Possible budgetary assistance	…	…	…	9.2	9.2	9.2	16.0
Stock of arrears at end-2002, post-cutoff-date debt	257.9	257.9	245.1	184.9	162.7	151.6	151.6

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

1/ Excluding interest payment.
2/ Excluding externally-financed investment.
3/ Nonreschedulable debt only.
4/ Additional revenue that would be generated by using WEO forecasts for world oil prices, that is, without applying the price rule.

REPUBLIC OF CONGO

Technical Memorandum of Understanding

1. This technical memorandum of understanding (hereinafter the "TMU") sets out the modalities for monitoring the program covering the period from October 1, 2004 through September 30, 2005 of the government of the Republic of Congo.

I. Quantitative Performance Criteria

2. The quantitative performance criteria are:

   a. a floor on the primary fiscal balance, cumulative starting from January 1 of each year,

   b. a ceiling on the change in the net claims of the banking system on the government (excluding net IMF credit), cumulative starting from January 1 of each calendar year,

   c. no new medium- or long-term nonconcessional external debt (including leasing) contracted or guaranteed by the government, starting from October 1, 2004 (a continuous criterion),

   d. no new external debt (including leasing) with an initial maturity of less than one year incurred or guaranteed by the government, starting from October 1, 2004 (a continuous criterion),

   e. no new oil-collateralized external debt by or on behalf of the central government, starting from October 1, 2004 (a continuous criterion),

   f. a ceiling on new nonconcessional external debt contracted by the SNPC, starting from October 1, 2004 (a continuous criterion),

   g. minimum external arrears payment, starting from October 1, 2004,

   h. no new external payment arrears on nonreschedulable debt (see para. 17 below for the definition), starting from October 1, 2004 (a continuous criterion),

   i. a ceiling on domestic arrears payments, starting from October 1, 2004; and

   j. no new domestic payment arrears, starting from October 1, 2004 (a continuous criterion).

3. The quantitative indicators are:

a. a floor for non-oil revenues (cumulative amounts, starting from January 1 of each year), and

b. a ceiling on domestically-financed investment (cumulative, starting from January 1 of each year).

II. Definitions and Computation

A. Government

4. Unless otherwise indicated, “government” is defined as the central government of the Republic of Congo and does not include local governments, the central bank, or any public entity with autonomous legal personality not covered by the government’s consolidated financial operations table (tableau des opération financières de l’Etat—TOFE).

B. Basic Primary Fiscal Balance

5. The scope of the government’s fiscal operations table (TOFE) includes the general budget and the special accounts of the Treasury (including the forestry and road funds) and the government debt management agency (Caisse Congolaise d’Amortissement, CCA).

6. The government’s basic primary fiscal balance is equal to total revenue excluding grants, minus total expenditure (including net credit) excluding interest payments and capital expenditure financed with external resources. It is measured on the basis of the budget execution reported every month in the TOFE prepared by the Ministry of Finance. At end-June 2004, the basic primary fiscal balance was estimated at CFAF 112.2 billion, resulting from total revenue (excluding grants) of CFAF 323.2 billion and total expenditures (excluding interest on the debt and capital expenditure financed with external resources) of CFAF 211 billion.

7. The government’s total revenue is measured on a cash basis. It includes all revenue (tax revenue and nontax revenue, including all forms of oil revenue whether the result of past, current or future obligations) collected by the Treasury. Total revenue also includes gross revenue in the special accounts. Oil revenue excludes all forms of prepayment and prefinancing (see definitions in paragraphs 18-19 below).

8. Starting in the second half of 2004, projected oil revenues are estimated using the authorities’ forecasting model, which takes specific account of the schedule of oil pick-ups. Considering the exogenous risks posed by changes in the number of shipments (including the effect of the minimum volume required to make up a shipment), the quarterly revenue projections for 2004-05 are based on the following shipment schedule:

Table 1. Government Oil Shipments, 2004-05

(Number of shipments)

Product/Blend	2004		2005			
	Q3	Q4	Q1	Q2	Q3	Q4
Djéno	6	4	7	5	6	6
Nkossa	1	3	2	3	2	2
Yombo	1	0	1	1	0	1
Butane	1	3	3	2	2	1
Propane	1	0	1	0	1	0

The tax revenue projections take account of the usual one-month lag between the date of shipment and the date of receipt of the sale proceeds by the Treasury. Consequently, the shipments projected for the third and fourth quarters of 2004 are those scheduled to take place between June and August 2004 and between September and November 2004, respectively. To ensure effective monitoring of oil revenues, the authorities will provide to IMF staff, in addition to other data, a detailed monthly table of actual shipments within 30 days of the end of the month in which the shipment was made. At a minimum, this table will contain, for each shipment, information on the type of product, the date of loading, the recipient, and the selling price.

9. Expenditure is measured on a payments order basis. It includes current expenditure, domestically financed capital expenditure, externally financed capital expenditure, and net lending. Current expenditure is defined as total expenditure minus capital expenditure minus net lending. Current expenditure is broken down into personnel expenditure, expenditure on goods and services, interest on the debt (domestic and external), transfers and subsidies, and other current expenditure.

C. Change in the Net Claims of the Banking System on the Central Government

10. The net government position vis-à-vis the banking system (excluding net IMF credit) is defined as the government's claims on domestic banking institutions minus the government's debts to domestic banking institutions. The claims of the government include the cash balances of the Treasury held in the banking system, government deposits at the Bank of Central African States (BEAC), government deposits at commercial banks, and government deposits at the Caisse Nationale d'Épargne (CNE) and the Centre des Chèques Postaux (CCP). Government debts to the banking system include BEAC lending (including statutory advances and consolidated advances), lending to the government by commercial

banks (including government securities held by the commercial banks), and CNE/CCP deposits held by the government.

11. The end-of-period stock of net bank claims on the government, excluding the counterpart of the use of Fund resources, is valued in accordance with the accounting framework currently used by the BEAC. On December 31, 2003, these claims amounted to CFAF 167 billion.

D. Debt and External Arrears

12. The definition of government used for the various external debt performance criteria includes government, as defined in paragraph 4, public institutions of an administrative nature (Etablissements Publics Administratifs), public institutions of a scientific and/or technical nature, public institutions of a professional nature, public institutions of an industrial and/or commercial nature (Entreprises Publiques d'Intérêt Commercial), and local governments, with the sole exception of the national oil company (SNPC)—see paragraph 16 below.

13. For the purposes of this memorandum, "debt" and "concessional loans" are defined as follows:

a. As specified in the guidelines adopted by the Executive Board of the IMF,[8] debt will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows: (i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property.

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[8] See Executive Board Decision No. 6230-(79/140) as amended by Decisions Nos. 11096-(95/100) and 12274-(00/85).

The debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement, excluding those payments that cover the operation, repair, or maintenance of the property. Under the definition of debt set out above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

b. Loan concessionality is assessed on the basis of the commercial interest reference rates (CIRRs) established by the OECD. A loan is said to be on concessional terms if, on the date of conclusion of the contract, the ratio of the net present value of the loan, calculated on the basis of the reference interest rates, to its nominal value is less than 50 percent (i.e., a grant element of at least 50 percent). For debts with a maturity exceeding 15 years, the ten-year reference interest rate published by the OECD is used to calculate the grant element. For shorter maturities, the six-month market reference rate is used.

14. The quantitative performance criteria with respect to external debt apply not only to debt as defined in the above-mentioned guidelines, but also to commitments incurred or guaranteed for which no value has yet been received or on which only partial drawings have been made. However, this does not apply to financing from the IMF or to Treasury bills and bonds issued by the Congolese Treasury in CFA francs on the CEMAC regional market.

15. For external debt with an initial maturity of less than one year, normal short-term import and export credit are excluded from the scope of the indicator, including the prepayments defined in paragraph 18 below.

16. The ceiling on any new nonconcessional external debt with a maturity of more than one year incurred or guaranteed by the SNPC, with or without government backing, will be monitored continuously. The SNPC may borrow only to finance investments related to its core activities which consist of research, exploration, production, refining, and distribution of oil; construction of a Brazzaville headquarters; and creation and strengthening of its database. In addition, these investments must be included in the investment program approved by the government. The ceiling on debt does not apply to changes in loan accounts with oilfield partners or to loans of less than one year for operating purposes.

17. The accumulation by the government of external payment arrears is the difference between (a) the gross amount of external debt service payments due (principal and interest, including penalty and/or late interest, as appropriate) and (b) the amount actually paid during the period under consideration. Under the program, the government commits itself to not accumulate external payment arrears on non-reschedulable debt (that is post-cutoff-date debt to Paris Club creditors and debt owed to multilateral creditors). Nonaccumulation of external payment arrears is a criterion to be continuously observed.

E. Oil-Collateralized External Debt

18. Oil-collateralized external debt is external debt which is contracted by giving an interest in oil. Prefinancing is defined as an oil-collateralized loan which is repaid by the sale of the oil in a different calendar year. New prefinancing by or on behalf of the government is strictly prohibited under the program. The refinancing and/or deferral of the existing stock and/or due dates are permitted but should not give rise to the augmentation of the existing stock of oil-collateralized debt.

19. A prepayment is defined as an advance payment by the purchaser of oil on a specific oil shipment. Prepayment-related operations must be repaid within 6 months but in any case within the calendar year in which they were contracted.

20. The government's commitment not to contract new oil-collateralized debt will be monitored using the list of oil-collateralized debt as of June 30, 2004 shown in Annex I.

F. Arrears and Domestic Debt

21. Domestic payment arrears of the government are equivalent to the difference over the relevant period between the amount of payments authorized and the actual payments made (within 90 days). A net reduction in arrears is reflected in the TOFE as a negative amount, and a net accumulation as a positive sum. Payments made by the government cover payments by the Treasury and the CCA, including through clearing operations.

22. The amount of outstanding domestic payment arrears, usually referred to as the "float" in the budget execution tables, particularly the TOFE, will be capped at CFAF 18 billion at the end of each quarter, with the obligation of clearing the float at the end of the year.

III. Adjustments

23. The criterion on the basic primary fiscal balance (para. 2.a) will be adjusted upward if oil revenues are higher than projected. Oil revenues will be adjusted in two stages: the first adjustment will take account of the change in the number of shipments, while the second will reflect the change in international oil prices. First, expected oil revenues from the sale of government oil by the SNPC, estimated on the basis of the shipment schedule, will be adjusted by the ratio of the actual number of shipments to the projected number. The adjustment will be calculated separately for each component of government oil revenues generated by shipments sold by the SNPC, for each type of Congolese oil product, namely, the three crude oil blends (Djéno, Nkossa, and Yombo), as well as butane and propane. Second, expected oil revenue adjusted by quantity will be multiplied by the ratio of the international price to the expected price. In accordance with the fiscal rule on oil prices, government oil revenues will be projected on the basis of the oil price estimates in the IMF's *WEO* less a 'markdown' factor (US$2/barrel for the period August-December 2004 and US$4/barrel beginning in 2005); the price resulting from this calculation will be known as the "estimated adjusted international price." Consequently, the adjustment of revenues based

on price will consist of multiplying total government revenues by the ratio of the international price received to the estimated adjusted international price, calculated in CFA francs. Both adjustments will be made quarterly.

24. During the first year of the program (October 1, 2004 to September 30, 2005), if the primary budget surplus exceeds the quantitative program indicator (2a) and/or if additional nonearmarked budgetary support,[9] over and above the programmed amount, becomes available, the government intends to use one-third of these extra resources to further reduce external payment arrears on government debt not eligible for rescheduling. This will be implemented four weeks after the end of the quarter, in consultation with Fund staff. Any remaining additional resources will be deposited in the banking system, and their use will be discussed with IMF staff in the context of program execution reviews. Priority in the use of the additional resources will be given to:

- reduction of the government's priority domestic arrears (wages, benefits of former workers of liquidated enterprises, pensions, and small and medium-sized enterprises) as detailed in a list of creditors;
- reduction of the audited commercial domestic arrears once the settlement plan for domestic arrears has been prepared and adopted by the government with assistance from the World Bank;
- reduction of the net claims of the banking system on the government (excluding the counterpart of the use of Fund resources); and/or
- a larger increase in poverty reduction expenditures.

25. The ceiling on the change in the banking system's net claims on the government will be adjusted if external budgetary support exceeds or falls short of program projections. The ceiling will be adjusted downward by the amount of budgetary support received in excess of the programmed amount. Conversely, the ceiling will be adjusted upward by the amount of the shortfall in budgetary support programmed for the period. This adjustment cannot exceed CFAF 5 billion, calculated on a cumulative basis, during the first year of the program.

26. The ceiling on domestic arrears payment will be increased up to CFAF 23 billion and 40 billion in the second and third quarters of 2005, respectively, if the additional resources amounting to CFAF 5.2 billion expected in the context of the settlement of the Congo's arrears to the African Development Bank are mobilized.

[9] Budgetary support is defined as the amount of nonproject grants and loans (excluding IMF resources).

IV. Structural Measures

27. The structural measures are listed in Table 4 of the Memorandum on Economic and Financial Policies.

28. The external financial audit of the 2002 accounts of the Congolaise de raffinerie (CORAF) will be performed in accordance with international audit standards, by an audit firm selected through an international bidding process. The terms of reference and specifications for this audit were prepared in cooperation with the World Bank. The final audit report will be submitted to the Ministry of Finance no later than December 31, 2004.

29. External audits of cost oil, as defined in production-sharing contracts (PSCs), reported by oil companies will be carried out in accordance with international audit standards by firms of international reputation. For 2003, the audits will cover all PSCs, namely: for the operator Total E&P Congo, the PSCs of Haute Mer, Mer Très Profonde Sud, PEX, and PNGF; for the operator Likouala S.A., the Likouala and Likouala-Est concessions; for the operator CongoRep, the Émeraude concession; for the operator ENI Congo, the PSCs of Marine VI, Marine VII, Marine X, Madingo, and Mer Très Profond Nord; and for the operator Zetah M & P Congo, the PSCs of Kouilou and Kouakouala.

30. The table used to monitor the expenditure process will list the amount of commitments, payment orders, and payments, for both operating and capital expenditures.

31. Pending finalization of the functional classification of government expenditures, the government will prepare and submit to the IMF a quarterly table for monitoring poverty reduction expenditures, based on the pro-poor sectors selected for the first year of the program and in the context of the I-PRSP (basic health care and education; infrastructure and rural integration; water and electricity; disarmament, demobilization and reinsertion; social protection, and agriculture). The quarterly tables will be submitted before the end of the subsequent quarter.

32. The study on the cost and efficiency of the current system of setting the prices of oil products at the pump will analyze the modalities of establishing a mechanism for automatic price adjustments, depending on world prices, and will propose a more efficient system of subsidies for the most underprivileged segments of the population, which are expected to be the most affected by these adjustments.

33. The certification of forestry revenues for the calendar year 2004 will include cross analyses of statistical data as well as of the work of each forestry enterprise or subset of enterprises, covering at least 80 percent of national production. This certification will be carried out by a firm of international reputation selected through a competitive bidding process in accordance with international standards. The tasks entail (i) a general assessment of the quality of the tax returns of forestry companies; (ii) reconciliation of forest wood production, volumes hauled, volumes exported by water and by land (via the port of Douala in Cameroon), data on exports of wood and other forest products, and government revenue in the form of taxes on felling, land area, and clearing, special permits, taxes on accessory

products, export duties and taxes; (iii) reconciliation of export data (product, volume, and value) provided by the enterprises concerned and the data recorded at the Cameroon border and in the port of Douala; and (iv) verification of the collection of each tax and duty mentioned in (ii) above, and assessment of the actual rates of collection vis-à-vis the theoretical values; verification of the receipt of these taxes and duties by government agencies and their transfer to the Treasury and to the account of the Fond Forestier (forestry fund).

34. Centralization of government revenue and execution of all government payments by the Treasury. All government revenue must be transferred to the Treasury or, in the case of earmarked revenue (intended for various funds and other agencies), transferred to the special earmarked accounts of the Treasury, in accordance with fiscal procedures. By the same token, all government payments must be made through the Treasury. This provision, in addition to facilitating budget execution and control, is key to the preparation of the government accounts and the budget review laws.

35. The statement on hydrocarbons transactions (oil and gas) carried out in a given quarter will be published the following quarter. This statement will include, but not be limited to, a summary of:

- all contractual agreements binding on the government, whether directly or indirectly through one of its agents (including the SNPC);
- all research and operating permits issued and all payments received in connection with such permits;
- the results of all settled disputes, including those resulting from audits of the costs of production-sharing contracts;
- all financing and every guarantee, collateralized or otherwise, linked to the production of hydrocarbons, granted either by the government or by one of its agents (including the SNPC); and
- the terms and conditions of each sale of hydrocarbons carried out for the government.

36. The quarterly certification of oil revenues by an external auditor, based on the terms of reference used for the certification of 2003 revenues (dated September 5, 2003), will include, among other things: (i) verification of the tax returns of the oil companies, (including compliance with the terms of PSCs), (ii) reconciliation of the commercial transactions of the SNPC and the quantity of oil due to the government in settlement of the oil companies' tax liabilities (the SNPC included), and (iii) verification that the corresponding revenue has been transferred to the Treasury. The certification report will be available 16 weeks after the end of the quarter in question and will be published on the website.

37. The nine recommendations of the external auditor for strengthening oil revenue collection based on the certification of FY 2003 oil revenues are the following:[10] (i) preparation of procedures manual; (ii) formal reviews of the issues raised by the declarations by the operators; (iii) inspection of tax letters (*lettres de fiscalité*); (iv) monitoring of current accounts between the government and the SNPC; (v) procedures to be followed when Ministry of Finance authorizes prepayments; (vi) monitoring of documentation required of operators on the Republic's oil income; (vii) uniform presentation of the financial declarations ("notes de calcul") required of the SNPC; (viii) synthesized report on all obligatory documentation by the operators submitted to the Republic; and (ix) development of a table permitting the monitoring of the financial declarations ("notes de calculs") submitted by the SNPC.

38. The tables on sources and uses of funds, to be prepared by the SNPC, will follow France's General Chart of Accounts (PCG, Article 532-9 s.) and cover the consolidated operations of the entire SNPC Group. The subsidiaries of the Group in July 2004 include: Congolaise de raffinerie (CORAF) (oil refinery); Financière et investissements du Congo (FININCO SA) (financial and investment services); SNPC Services (holding company, with, among others, Congolaise des Services Aériens (COSAIR) (airline) and Usine de Fabrications de Lubrifiants, Produits Agricoles et Chimiques (UFALU) (manufacturer of lubricants, agricultural products, and chemicals); Société congolaise de production électrique (SCPE) (electricity company); Société nationale de recherche et d'exploration pétrolière (SONAREP) (oil research and exploration); Congolaise de Trading (COTRADE); and SNPC Raffinage et Distribution (refining and distribution).

39. The final strategy for refocusing the SNPC on its core activities will include an assessment of the current status of SNPC activities compared to its charter. Based on this assessment, the government will propose an action plan for the withdrawal of the SNPC from activities not included in its charter.

40. The policy on the settlement of domestic arrears will include: (i) a clear definition of payment arrears, (ii) validation by the Office of the Inspector-General of Finance and the CCA of the end-2003 stock of arrears on social debts (wages, pensions, and the rights of workers in liquidated enterprises), (iii) the closing of retirement fund accounts and Treasury deposit accounts, (iv) the establishment of payment methods and schedules, (v) a system to ensure the integrity of ex post settlement of arrears, and (vi) the preparation by September 2005 of a preliminary table of cross debts at end-2003 (government, social security, public enterprises, and private sector). These cross debts will be audited by an independent firm to be recruited by end-December 2005, at the latest. While waiting for the results of the validation, no arrears will be paid to public enterprises. The audits of commercial debt at

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[10] The above measures are spelled out in the letter of recommendations sent by the audit firm KPMG to the Minster of Finance in conjunction with the certification of FY 2003 oil revenues.

end-2002 will be validated by an internationally recognized firm recruited on a competitive basis. This policy will be published on the website. Domestic arrears settlement operations based on the arrears clearance plan prepared in cooperation with the World Bank will be channeled through a local bank. The arrears will be numbered by creditor and settled on the basis of those numbers, following publication on the website of the schedule and procedures for the settlement of domestic arrears.

41. The external audits of the SNPC will be based on the terms of reference and specifications used for the 1999-2001 audit. Accordingly, the tasks will be to audit the consolidated financial statements of the parent company and its subsidiaries and to review financial flows, the execution of the management contract, and internal control. For FY 2003, FY 2004, and FY 2005, the auditors will submit their final reports for each fiscal year within two months after the SNPC produces its consolidated accounts. To that end, the government will ensure that the SNPC meets the following deadlines for the production of its accounts: (i) for FY 2003, by end-December 2004; (ii) for FY 2004, by end-November 2005; and (iii) for FY 2005, by end-October 2006. The audit reports will be published on the website.

V. Information for Program Monitoring

A. Oil Sector

42. The government will submit the following information to the staff of the International Monetary Fund:

- monthly data on oil production by oil field, production costs, volume exported, export prices, and the operations of the Société nationale des pétroles du Congo (SNPC);
- the breakdown of the share of crude oil that accrues to the government, by oil well, distinguishing the type of taxation to which this share relates (royalties, profit oil, etc.);
- any change in the tax parameters; and
- a breakdown of tax prices.

43. Oil prepayments (see paragraph 18 above) are recorded in the TOFE accounts as follows:

- At the time the prepayment is cashed, the amounts received are recorded as debt; the amounts corresponding to commissions paid out are recorded as current expenditure.
- The prepayment is repaid with the proceeds of the sale of oil; at the time of the repayment transaction, the revenue derived from the sale of oil is recorded as final oil revenue accruing to the Treasury, and the amount of the repayment is posted as negative financing (repayment).

B. Government Finance

44. The government will submit the following information to the staff of the International Monetary Fund:

- A table on government fiscal operations (TOFE) and its annexes. The annexed tables include the breakdown of oil revenue in value terms with the corresponding notes on computation, excess oil trends and any bonus payments, the breakdown of tax and nontax revenue, and the breakdown of central government expenditure, particularly transfers and common expenses. The provisional TOFE and its annexes will be reported monthly within four weeks of the end of the month, whereas the final TOFE and its annexes will be reported within six weeks of the end of each month;

- Monthly data on the prices and taxation of petroleum products. These data will include: (i) the price structure in effect during the month; (ii) the details of computation of the price structure, (f.o.b. Mediterranean price) at retail prices; (iii) amounts released for sale; and (iv) a breakdown of the tax revenue from oil products—customs duties and value-added tax—and direct/indirect subsidies supported by the budget. These data will be reported within four weeks of the end of the month;

- Data on implementation of the public investment program, including the breakdown of financing sources. If the data on the execution of investments financed with foreign grants and loans are not available on schedule, a linear estimate of execution in comparison with annual forecasts will be used. These data will be reported on a quarterly basis within four weeks of the end of the quarter; and

- Complete monthly data on nonbank domestic financing of the budget (net bank credit to, and net nonbank funding of, the government). These data will be reported monthly within four weeks of the end of the month.

C. Monetary Sector

45. The government will submit on a monthly basis, within four weeks of the end of the month, the following preliminary information:

- data on net bank credit to the government;

- the consolidated balance sheet of the monetary institutions, the central bank survey, and the survey of commercial banks;

- the integrated monetary survey;

- lending and deposit rates; and

- the usual banking supervision indicators for banks and nonbank financial institutions, where necessary.

The final data on the integrated monetary survey will be provided within six weeks of the end of the month.

D. Balance of Payments

46. The government will submit the following to the staff of the International Monetary Fund:

- any revised balance of payments data (including services, private transfers, official transfers, and capital transactions) as soon as the data are revised;
- foreign trade statistics (volume and price) prepared by the national statistics agency/BEAC, within three months of the end of the reporting month; and
- the preliminary annual balance of payments data, within nine months of the end of the reference year.

E. Debt

47. The government will submit the following to the staff of the IMF within four weeks of the end of the month:

- data on the stock, accumulation, and payment of domestic arrears;
- data on the stock, accumulation, and payment of external payment arrears;
- a breakdown of estimated domestic and external public debt service, service due, and actual payments, including breakdowns of principal and interest and by creditor;
- the list and amounts of new external debt incurred or guaranteed by the government, with detailed information on the terms and conditions (currency, interest rate, grace period, and maturity) stated in the original agreement; and
- actual disbursements of foreign financial assistance (project and nonproject), including new borrowing and any external debt relief granted by foreign creditors (CCA tables).

F. Real Sector

48. The government will submit the following to the staff of the IMF:

- monthly itemized consumer price indices, within four weeks of the end of the month;
- provisional national accounts, within nine months of the end of the year;
- any revision of the national accounts; and

- any other indicators and statistical data used to track overall economic developments, including information on activity in the forestry sector and wood-processing industry, as well as the short-term economic bulletins prepared monthly.

G. Structural Reforms and Other Information

49. The government will submit the following information:

- any study or official report on the economy of the Republic of Congo, within two weeks of its publication; and

- any decision, order, law, decree, ordinance, or circular having economic or financial implications, within two weeks from the time it is published, or, at the latest, from its entry into force.

Stock of Oil-Collateralized Debt at end-June 2004[11]

Description	Total stock (millions of CFA francs)
TEP Congo	74,914
ChevronTexaco (Etat1)	8,078
Central a Gaz (AGIP)	1,899
RMB-VITOL	30,453
BNP/BPPB	29,195
ChevronTexaco (Etat2)	12,924
Total collateralized debt	157,464

[11] Excluding arrears under litigation to one creditor.

Republic of Congo: Relations with the Fund
(As of September 30, 2004)

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

II. General Resources Account:

	SDR Million	%Quota
Quota	84.60	100.00
Fund holdings of currency	90.69	107.20
Reserve tranche position	0.54	0.63

III. SDR Department:

	SDR Million	%Allocation
Net cumulative allocation	9.72	100.0
Holdings	0.20	2.10

IV. Outstanding Purchases and Loans:

	SDR Million	%Quota
ESAF arrangements	6.61	7.81
Credit tranche	5.56	6.57

V. Latest Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	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):

			Forthcoming		
	2004	2005	2006	2007	2008
Principal	1.32	8.07	2.78		
Charges/interest	0.11	0.31	0.20	0.19	0.19
Total	1.44	8.38	2.98	0.19	0.19

VII. Implementation of HIPC Initiative:

The Republic of Congo is likely to reach HIPC Initiative decision point during 2005, once it establishes a track record under a PRGF-supported program.

VIII. Safeguards Assessments:

The Bank of the Central African States (BEAC) is the regional central bank of Central African States, of which Republic of Congo is a member. A safeguard assessment of the BEAC completed on August 30, 2004 found that BEAC has implemented a number of measures to strengthen its safeguards framework since the 2001 safeguards assessment, but further progress needs to be made in key areas.

The main recommendations of the assessment, applicable to the BEAC as an institution, include: (i) preparation of financial statements in full accordance with an internationally recognized accounting framework, initially the ECB guidelines; (ii) publication of its full financial statements, together with the auditor's report, starting with the 2003 financial statements; (iii) formulation of Board-approved formal guidelines under which the BEAC Governor is authorized to make exceptional advances to BEAC member countries; (iv) annual review by BEAC internal audit department of the process of program data reporting of member countries to the IMF; (v) implementation of a risk-based audit approach, and finalization of a charter, for the internal audit function; and (vi) systematic follow-up of all recommendations pertaining to the BEAC's system of internal controls to be coordinated by its internal audit department, with regular reporting to the Audit Committee and the BEAC Governor.

Other priority recommendations of the assessment, but of a country specific nature, were: (i) the BEAC should clarify with its member countries that hold foreign reserves outside the BEAC the statutory basis and circumstances for doing so, to avoid an apparent conflict with the BEAC statutes and to ensure full transparency of reporting of reserves by the member country; (ii) the BEAC and its member states are encouraged to establish a mechanism to prevent IMF overdues and facilitate timely payments through advance acquisitions of SDRs and an authorization to debit an SDR account of the member; and (iii) the BEAC should cooperate with its members to reconcile and confirm the Treasury balances to ensure that the balances reported by the BEAC in respect of credit to government as reflected in the accounts of the Treasuries are in agreement with the BEAC.

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 November 16, 2004, the rate of the CFA franc was CFAF 764.115 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 2004 consultation discussions started in Brazzaville in February 2004 and concluded in Washington in March 2004. The staff report (IMF Country Report No.04/232 of July 2004) was considered by the Executive Board on June 10, 2004.

XI. FSAP Participation:

N/A.

XII. Technical Assistance:

Subject	Department	Staff Member	Date
Modernization of tax and customs administrations	FAD	Gilles Montagnat-Rentier, Eric Lesprit and Ahmed Boilil	February 2004
Follow-up mission	FAD	Mr. Lepage	November 2003
Budget functional classification	FAD	Messrs. Bouley, Hélice, and Lepage	October 2003
Multisector statistics	STA	Messrs. Marie, Maiga, and Mmes. Fisher, Matei, Razin, and Balvani	May 2002
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
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 the Congo
Relations with the World Bank Group[12]

Introduction

1. This annex first underscores the importance that the Government of the Republic of Congo (ROC) attaches to effective partnership with external creditors, donors and foreign investors. It then summarizes the strategy and activities of the World Bank Group (IDA, IFC, and MIGA) in ROC. It concludes with a description of areas of specific collaboration between the World Bank Group and the International Monetary Fund.

Partnership in the Republic of Congo's Development Strategy

2. Three successive rounds of civil war (1993, 1997, and 1998/99), compounded by the legacy of three decades of poor economic management under a centrally planned economy, has taken a heavy toll on the Republic of Congo. As a result, Congo was cut off from international financial assistance throughout much of the 1990s. Throughout this period, conflict and poverty fueled each other – and Congo has become an illustration of the "conflict trap", such that each successive round of conflict resulted in economic decline and heightened social tensions leading to an increased chance of renewed fighting.

3. Arrears to the World Bank and IMF were cleared in August 2001, paving the way for a resumption of lending activities. In 2001, IDA and the IMF responded: (i) IDA with a Transitional Support Strategy (TSS) outlining a lending program for the following 12-24 months, and again in 2003 with a TSS Update for the following 24 months; (ii) the IMF with a series of Staff-Monitored Programs, with the intention of moving towards a three-year PRGF program. In September 2004 at the Donor Meetings in Paris, donors pledged US$443 million in financial assistance to Congo over the next few years.

4. The government's development strategy, as formulated in its I-PRSP, which was transmitted to the Bank and the Fund on October 5, 2004, has five broad goals: (i) consolidating peace and good governance; (ii) sustaining macroeconomic stability and tapping more fully the potential growth of key sectors; (iii) improving access to social services; (iv) rehabilitating and expanding infrastructure; and (v) intensifying the fight against HIV/AIDS. A joint staff advisory note (JSAN) on the I-PRSP has been finalized by the staffs of the Bank and the Fund.

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1. Questions should be addressed to Brendan Horton (x35587), Slaheddine Khenissi (x84727), or Danielle Dukowicz (x81632) at the World Bank.

Bank Group Strategy and Operations (IDA, IFC and MIGA)[13]

5. **Overall strategy.** On July 1, 2001 the Bank reengaged in Congo within the context of a Transitional Support Strategy (TSS) with a variety of operations for the following 12-24 months, including a Post-Conflict Economic Rehabilitation Credit, an Infrastructure Rehabilitation Credit, an Emergency Demobilization and Reintegration Credit, a Governance and Transparency Capacity Building Credit, and an Emergency Recovery and Community Support Project (as described hereunder.)

Financial Assistance Under TSS

6. The Board approved a Post-Conflict **Economic Rehabilitation Credit (PERC)** in the amount of SDR 30 million (US$37.6 million) on July 31, 2001. The Credit was disbursed in August 2001 and aimed to support the implementation of key structural reforms, enhanced management of fiscal resources, and improved governance and transparency in the oil sector. The project has been satisfactorily implemented and was closed on June 30, 2004.

7. The **Infrastructure Rehabilitation and Improvement of Living Conditions Project** was approved by IDA on May 2, 2002 in the amount of SDR 32.2 million (US$40 million), and became effective in December 2002. It supports the long-term process of reconstruction and rehabilitation of critical infrastructure, in particular, railways, urban, interurban and rural roads, and drainage.

8. IDA began providing support for demobilization via an **Emergency Demobilization and Reintegration Project** in the amount of SDR 4.0 million (US$5 million) which was approved on July 31, 2001. The project aims to contribute to the ongoing efforts to consolidate peace in Congo, and to offer reintegration options to ex-combatants who have joined the ranks of the unemployed after the signing of the Cease-fire agreement.

9. The **Transparency and Governance Credit** was approved on Feb. 7, 2002 in the amount of SDR 5.6 million (US$7 million). The project was designed to address key issues of efficiency, transparency and governance in oil and financial management operations, as well as in the privatization of public enterprises. Overall coordination is ensured by an Inter-Ministerial Reform Implementation Committee, and an inter-agency technical committee. Project implementation is on track and its development objectives are being met. The Credit is set to close on December 31, 2007.

10. The **Emergency Recovery Community Support Project** was approved on June 24, 2003 in the amount of SDR 20.3 million (US$ 41 million) to provide early support to Congo in its decentralization and community recovery process. The Project's principal objective is to support the recovery of communities living in smaller municipalities and rural areas (all areas out

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13 The Bank re-opened a Country Office in Brazzaville, and a Country Manager assumed his post in May 2001.

of the two cities of Brazzaville and Pointe Noire). The Credit became operational in September 16, 2003. Part of the project is grant financed (up to $US13 million).

11. **The program of financial assistance was complemented by several grants**, in particular under the Post-Conflict Fund (PCF). This included: (i) a US$915,000 PCF grant to help prepare the 2001 TSS (approved in 1998, implemented by the French Development Agency and the European Union); (ii) a US$1,000,000 PCF grant to support community action for reintegration and recovery of youth and women (approved in 2001, implemented by the UN Development Program); (iii) a US$708,000 grant from the Japanese Social Development Fund to support a Community Action for Reintegration and Recovery project; and (iv) a US$300,000 grant from the Statistical Capacity Trust Fund for Poverty Reduction Strategy Papers (approved in 2003) to strengthen institutional capacity to monitor poverty indicators. The PCF grants proved critical in re-engaging in Congo, by providing the necessary resources for strategic work and by allowing for early, targeted support to war-affected groups.

TSS Update

12. A TSS update was discussed by the Board on August 8, 2003. The new TSS aims to support the Government's efforts to lift the country out of the conflict trap by outlining a new program of continued Bank support, building on achievements made over the past two years towards peace, political reconciliation and economic recovery. The TSS intends to consolidate and deepen these reforms, within the context of the PRSP process, with a view to moving to a formal CAS as soon as conditions allow.

13. The TSS envisages a lending program which includes an Economic Recovery Credit, a HIV/AIDS project, an Education project, and a Multi-sector infrastructure and trade facilitation project (as described hereunder.) For future years is envisaged a second Economic Recovery Credit, an Agriculture and Rural Roads Rehabilitation project, a Private Sector Development project, and a Demobilization and Reintegration Project.

Financial Assistance Under TSS Update

14. An **Economic Recovery Credit** in the amount of US$30 million equivalent is scheduled to be presented to the Board in the second quarter of FY-05. The Credit would focus on transparency in the oil sector, improved management of domestic debt and more efficient public investment. The Credit would cover an 18 month period and would be disbursed in two tranches. The first tranche would be released upon effectiveness and the second tranche when the following triggers have been satisfied: (i) the action plan of the national oil company (SNPC) to improve transparency in the oil sector has been satisfactorily implemented; (ii) an agreement has been reached between the government and its domestic commercial creditors on a common discount factor to be applied to the outstanding stock of debt, as certified by independent auditors; and (iii) the government has adopted and implemented an action plan for reforming and improving the management of its self-financed public investment program (PIP), and submitted a draft PIP for FY06-07 to IDA for its review.

15. The goal of the **HIV/AIDS and Health Project** is to mitigate the negative impact of the HIV/AIDS epidemic on the socio-economic development of the Republic of Congo. It was approved in the amount of US$19 million equivalent was approved on April 20, 2004. Its development objectives are to support the Government actions to slow the spread of HIV-AIDS, and to strengthen assistance and care for people infected or affected by HIV-AIDS. To reach these objectives, the project: (i) supports civil society and community initiatives for HIV-AIDS prevention and care; (ii) expands access to treatment of opportunistic infections; (iii) provides care and support for people living with HIV-AIDS; (iv) provides care for orphans and other highly vulnerable children; and (v) aims to reduce transmission of the disease among high risk groups. The project will close in 2009.

16. A **Support to Basic Education** project for US$20 million was approved by the Board on September 23, 2004. It aims at assisting Congo in the mitigation of the current crisis of the education sector, and at establishing the grounds for a solid development of a medium and long-term sector program. The proposed project has the following four components: (i) capacity-building of the Ministry of Education; (ii) rehabilitation of school infrastructure, damaged during the war, and/or deteriorated due to lack of maintenance; (iii) improving quality of education through teacher training, better textbooks/teaching guides and guaranteeing access to key textbooks for all students; and (iv) support out-of-school youth and vulnerable populations by providing them with training, literacy and numeracy programs. The project is expected to close in 2008.

17. The Bank is also currently preparing a **Multi-sector Infrastructure and Trade Facilitation Project** (FY05; US$23 million) to address priority infrastructure needs in urban water and electricity. The project will finance rehabilitation of key physical infrastructure, and introduce private sector management of the water utility via a management contract, and private sector handling of billing and collection in the electricity utility. Private sector participation, together with appropriate tariffs will help improve management of the sectors, and help place them on a stronger financial footing.

Non-lending activities

18. In parallel, the Bank has initiated a Public Expenditure Review (PER), a study on natural resources management, and a labor market analysis. These efforts are expected to help tackle some of the key transparency and effectiveness issues the country is facing with regard to economic management.

19. In the context of the HIPC initiative, a Debt Sustainability Analysis (DSA) is currently under preparation. Other non-lending services planned for FY05-FY06 include (i) an Agricultural Policy Note, (ii) a Forestry Survey, (iii) a Legal and Judicial Assessment, and (iv) a Combined Country Procurement/Country Financial Accountability Assessment.

IFC

20. IFC has no current investments in Congo. Participation in a previous oilfield development was swapped for equity in the sponsor, a South African company. Prior forestry investments have been liquidated. New support may be available for financial sector restructuring, SME development, infrastructure rebuilding, and development of the oil sector and mining.

MIGA

21. Congo has contributed to the General Capital Increase in March 2003. MIGA has no exposure in the Republic of Congo, and there is no active application. However, investors have expressed interest in the power and telecommunications sector.

Bank-Fund Collaboration in Specific Areas

22. The IMF and World Bank staff maintain a close collaborative relationship in supporting policies to help the Congo consolidate civil peace and recover from a decade of recurring conflicts, sustain macro-economic stability, improve governance, reverse a marked decline in social indicators, and promote sustainable development. Exchange of information and discussion on progress in the implementation of the reform program take place on a regular basis between the Bank and the Fund. Joint missions are carried out to review progress.

Areas where the World Bank leads and there is no direct IMF involvement:

- health and education sectors, for which two projects are under preparation;
- state disengagement from productive sectors through privatization/restructuring of public utilities enterprises and commercial banks; and
- transparency in the use of public funds, notably through the reform of public procurement and the institution of the Office of Auditor General (*Cour des Comptes).*

Areas where the World Bank leads and its analysis serves as input to the IMF:

- review of selected issues in the oil sector, including the recently completed audit of the national oil company (SNPC) and the follow up action plan;
- management and taxation of, and governance in the forestry sector;
- social policies;
- assistance in PRSP preparation;
- banking and more generally financial sector;
- public expenditure management review; and
- economic evaluation of large-scale public investment projects.

Areas of shared responsibility:

- governance in the oil sector;

- efficient use of public resources;
- oil revenue mobilization;
- governance and fiscal impact of large investment projects;
- preparatory work on HIPC issues; and
- statistics and measurement issues.

Areas where the IMF takes the lead and its analysis serves as an input to the World Bank:

- competitiveness/exchange rate issues;
- tax policy and administration; and
- customs/tariffs/trade policy.

Areas where the IMF takes the lead and there is no direct World Bank involvement:

- fiscal policy;
- monetary policy;
- external payments regime;
- non-oil revenue mobilization; and
- macroeconomic statistics issues.

Republic of Congo: Financial Relations with the World Bank Group—
Statement of Loans and Credits
(As of September 30, 2004; in U.S. dollars)

	IBRD	IDA	IDA Grant	Total
Original Principal	216,700,000	301,694,647	52,000,000	570,394,647
Cancellations	18,331,631	7,518,387	0	25,850,018
Disbursed	198,368,369	261,065,973	3,730,314	463,164,656
Un-disbursed	0	43,571,176	49,265,968	92,837,144
Repaid	198,368,369	23,706,570	0	222,074,939
Due	0	251,053,835	0	251,053,835
Exchange Adjustment	0	0	0	0
Borrower's Obligation	0	251,053,835	0	251,053,835
Sold third Party	0	0	0	0
Repaid third Party	0	0	0	0
Due third Party	0	0	0	0

Republic of Congo: Core Statistical Indicators
(As of October 27, 2004)

	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	11/17/04	09/04	09/04	06/04	09/04	09/04	08/04	2003	2003	09/04	2003	8/04
Date received	11/17/04	11/04	11/04	08/04	11/04	10/04	10/04	2/04	2/04	11/04	2/04	10/04
Frequency of data 1/	D	M	M	M	M	O 2/	M	A	A	Q	A	M
Frequency of reporting 1/	D	M	M	M	M	O 2/	M	A	A	Q	A	M
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	O
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.

Statement by the IMF Staff Representative
December 6, 2004

1. This statement contains information on developments in the Republic of Congo since the circulation of the staff report for the request for a new three-year arrangement under the Poverty Reduction and Growth Facility. The information does not alter the thrust of the staff appraisal.

2. The three prior actions related to oil sector transparency were implemented:

- The government published the 2002 external audit report of the national oil company (SNPC) on Internet sites (www.congo-site.cg and www.mefb-cg.org).[1]

- The government signed a three-year contract with an audit firm of international reputation to undertake the annual external audits of the SNPC for each of the years during 2003-05 (using the same terms of reference as for the 1999-2001 audit).

- A press statement was published on the Republic of Congo's internet sites (www.congo-site.cg and www.mefb-cg.org) and in local mass media on the July 2003 settlement between the Republic of Congo and Total E&P Congo. It provides details on the transactions related to the Likouala oil field concession and assurances that the Republic of Congo, the SNPC, and Total E&P Congo are the only parties involved in those transactions, and that all related benefits and profits accrue only to them, and not to other parties.

3. The authorities have paid the CFAF 18 billion of arrears accumulated in 2003 on post-cutoff-date debt to Paris Club creditors.

4. Preliminary data suggest that budget execution during the first three quarters of 2004 was broadly in line with the targets set out by the authorities. The primary fiscal surplus—adjusted for higher-than-projected oil prices and lower-than-expected shipments—was in line with the target. Also, non-oil revenue collection was higher than projected reflecting enhanced tax and customs administrations, and expenditure execution was kept under control. Owing to the favorable budgetary situation, net credit to the government from the banking system was below the projected level. In addition, nonreschedulable external debt was serviced on a timely basis, and domestic arrears payments were in line with projections.

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[1] In line with the authorities' commitment, the following chapters were published: (i) Summary (Chapter 1); (ii) Review of Financial Flows (Chapter 2); (iii) Review of Execution of the Management Contract (Chapter 5); and (iv) Recommendations made by the audit firm (Chapter 7).

5. With a view to strengthening the framework for program monitoring, the authorities put in place on November 15, 2004, a 10-member interministerial technical committee. In addition, the government has appointed the staff of the Audit Office.

6. In the governance area, following the Congo's expulsion from the Kimberley Process for certification of conflict diamonds, the government organized in mid November a regional conference on the diamond trade that focused on the problem of diamond smuggling. To prevent the improper issuance of Kimberley Process certificates, the government is strengthening its administration along the lines of the recommendations made by the June 2004 Kimberley Process review mission. In addition, the Congo will organize an independent assessment of its diamond production potential which will serve as reference for future rough diamond exports by the Congo.

7. On the security front, the authorities have reported that vital rail services between Pointe Noire and Brazzaville—which were suspended in October following armed attacks by a rebel group—have resumed.

Press Release No. 04/262
FOR IMMEDIATE RELEASE
December 7, 2004

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves US$84.4 Million PRGF Arrangement for the Republic of Congo

The Executive Board of the International Monetary Fund (IMF) on December 6, 2004 approved a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) for the Republic of Congo in an amount equivalent to SDR 54.99 million (about US$84.4 million) to support the government's economic program into 2007. The first disbursement will amount to SDR 7.86 million (about US$12.1 million).

Following the Executive Board's discussion of the Republic of Congo's IMF-supported economic program, Takatoshi Kato, Deputy Managing Director and Acting Chair, stated:

"The Congolese authorities are to be commended for strengthening the policy framework for sustained economic growth and poverty reduction. Considerable progress has been made in consolidating political stability and improving macroeconomic conditions since the end of civil strife in 1999. As a consequence, growth of the non-oil economy has picked up, fiscal performance has improved, and inflation has abated.

"Transparency regarding oil sector operations has greatly improved in the Republic of Congo. Key oil sector information, including reports by independent and internationally-reputable audit companies on the operations of the state oil company and on oil revenue collection, is being published on the internet. This could serve as a model for other oil-producing countries.
In addition, the Republic of Congo now participates in the Extractive Industry Transparency Initiative.

"Notwithstanding this progress, the Republic of Congo faces many challenges in the period ahead, including reducing poverty, indebtedness, and the economy's vulnerability to shocks. The authorities have formulated a three-year economic program to meet these challenges and help the Republic of Congo to advance toward the Millennium Development Goals. The program places priority on increasing the share of pro-poor spending in total spending—in line with the priorities laid out in the Interim Poverty Reduction Strategy Paper. Oil revenues in excess of budget projections will be used to accelerate the payment of non-reschedulable arrears to external creditors and to further normalize relations with domestic creditors.

"Structural reforms to be pursued include further expanding oil sector transparency, strengthening efforts to mobilize oil and non-oil revenue, and improving public finance management. The business climate and the overall governance framework will be enhanced to attract private investment. Actions to be taken in this regard include the effective launching of the Accounting Office and the National Anti-Corruption and Anti-Fraud Commission.

“The Republic of Congo could qualify for assistance under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative if it establishes a solid track record of policy implementation in the program supported by the PRGF arrangement,” Mr. Kato said.

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

ANNEX

Background

The Republic of Congo has made considerable progress since the end of its conflict. The three civil wars that took place in the Republic of Congo during the 1990s destroyed much of the country's economic fabric and caused a deterioration in living conditions. With the signing of peace accords in 1999 and 2003, economic growth has picked up in the non-oil sector, fiscal performance has improved, and inflation has abated. Elections at all levels of government between January and June 2002 have contributed to political stability, and the security situation has improved.

Performance in the 2004 IMF Staff Monitored Program (SMP) that preceded the start of today's PRGF was good. In the first half of 2004, all budgetary and financial targets were met, and all structural measures were completed, although some with delays. In addition, the authorities have taken steps to enhance the transparency of the oil sector, including publishing key oil sector information via the Internet. These advances stand in contrast to the weak implementation of the 2003 SMP.

Despite this progress, poverty remains widespread, and key social and economic indicators reflect the damage inflicted by years of conflict: per capita real GDP in 2003 was about 70 percent of its level in 1984. To address the situation, the authorities have prepared an Interim Poverty Reduction Strategy Paper (I-PRSP), which will guide them in their fight against poverty. The objectives of the strategy are twofold: to stimulate growth and to promote pro-poor development. The PRGF approved today is aligned with the I-PRSP and will support the government in its fight against poverty.

Program Summary

The central goals of the Republic of Congo's economic program are to further strengthen good governance, achieve non-inflationary pro-poor economic growth, and to normalize relations with external and domestic creditors.

Key objectives of the 2004–2007 program are an annual average growth rate of 5.5 percent, supported by non-oil GDP growth projected at an annual average rate of about 5.2 percent; an annual inflation rate of about 2 percent, based on sound fiscal policy and the pursuit of prudent monetary policy by the Bank of Central African States (BEAC); and a current account surplus amounting to, on average, about 1.5 percent of GDP.

Key fiscal objectives are to raise the share of resources targeted for pro-poor spending, in line with the priorities of the I-PRSP, and use part of additional oil resources to normalize relations with external and domestic creditors. A prudent fiscal policy will be followed, with expenditure geared toward poverty reduction. Resources will be allocated on the basis of the I-PRSP, with increased spending on health care and action to combat HIV/AIDS; basic education; basic infrastructure; water, energy, and urban sanitation; disarmament and reintegration of former combatants; and agriculture.

On the structural front, the focus will be on further enhancing transparency in oil sector operations and maximizing revenue collection from this sector; improving government expenditure control and strengthening the revenue department; and bolstering the financial sector, whose still limited capacity is one of the obstacles to growth.

External indebtedness is high, and the Republic of Congo plans to use additional oil resources to contribute to the clearance of arrears to multilateral institutions and Paris Club creditors. It also will use these resources to address domestic arrears on pensions and civil service salaries.

The Republic of Congo joined the IMF on July 10, 1963. Its quota is SDR 84.60 million (about $129.9 million), and its outstanding use of IMF resources totals SDR 10.85 million (about US$16.7 million).

Republic of Congo: Selected Economic and Financial Indicators, 1997–06

	1997-99	2000	2001	2002	2003		2004-06
					Budget	Est.	Proj. 1/
	(Annual percentage change)						
Real GDP	0.0	8.2	3.6	5.4	2.0	0.8	6.0
Of which: non-oil	-6.7	16.6	12.1	9.7	6.4	5.3	5.1
Consumer prices (average)	6.0	0.4	0.8	3.1	2.0	1.5	2.0
	(In percent of GDP)						
Primary budget balance	1.0	8.4	6.8	1.2	9.3	6.7	10.8
Total revenue (excluding grants)	25.9	26.3	30.7	27.2	28.0	29.1	30.6
Of which: non-oil	8.2	5.9	9.7	8.3	10.2	8.8	9.2
Total primary expenditures 2/	24.4	17.9	23.9	26.0	19.0	22.4	21.2
External current account (incl. current official transfers)	-16.9	7.9	-3.2	-0.3	-3.3	-0.1	2.8

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

1/ Annual average for the period.

2/ Excluding interest obligations and foreign-financed investment.

**Statement by Damian Ondo Mañe, Executive Director for the Republic of Congo
December 6, 2004**

Background and recent developments

I would like to express the appreciation of my Congolese authorities to the staff for the support and valuable advice provided to them during the program discussions in Brazzaville and at headquarters. My authorities are also grateful to other development partners for their support, which has been instrumental in gathering assistance from the international community for the Congo's development efforts.

The Republic of Congo has experienced continuous decline in per capita income for about 15 years through the late 1990s. This downward trend coincided with an acceleration of rural-urban migration in the 1980s, and three civil conflicts in the 1990s. In particular, these conflicts have had a severe negative impact on the economy and social development, as they led to the destruction of physical capital, displaced thousands of individuals, exacerbated poverty, worsened the debt profile, and weakened institutions.

The authorities are determined to make all necessary efforts to address the prevailing constraints to achieve high and sustainable growth. Indeed, the Congo has much potential, in terms of natural resources, but efforts to develop them have been severely constrained. The Congolese economy is dominated by the oil sector, which accounts for about 50 percent of GDP, 70 percent of government revenues and 80 percent of exports. The non-oil sector includes forestry, traditional agriculture, and services. The exploitation of Congo's forests, which cover about half of the country, accounts for less than 5 percent of GDP, but constitutes almost two-thirds of non-oil exports. Like other countries in the region, Congo is also a producer of diamonds. To help promote mobilize this potential, my authorities are concerned by the need to sustain the practice of macroeconomic stability, which is a key element for the development of the Congo.

Following the completion of a four-year transition period at end-August 2002, including the installation of democratic institutions, and the signing of peace agreements with rebel groups in 1999 and 2003, political stability has returned and security has been restored, contributing to the pick up of economic activity in the non-oil sector and the deceleration of inflation. With the completion of the democratization process and peace in 2002, the government began to implement a policy agenda known as New Hope (*Nouvelle Espérance*) under the leadership of HE President Denis SASSOU NGUESSO. In that context, the authorities adopted and implemented a staff-monitored program (SMP) in 2003.

Under the 2003 SMP, my authorities have made progress in improving transparency and governance in the oil sector and fiscal areas. In the oil sector, important achievements include the completion of the audit of the national oil company, SNPC, for 1999-2001; the completion of the certification of government oil revenues for the period January to September 2003 by an internationally-recognized, independent firm of auditors; the discontinuation of further contracting oil-collateralized debt; and the publication of oil sector data on the websites www.congo-site.cg and www.mefb-cg.org. On the fiscal front, positive developments were related to the centralization of a large portion of fiscal revenues and expenditures in the budget, and in a broader strategy to revamp the revenue administration agencies and strengthen control. Also noteworthy is the fact that the government began in 2003 to normalize relations with external creditors, by servicing on time the debt obligations due to all multilateral and Paris Club creditors for the debt incurred after the cut-off date and by settling arrears owed to a number of multilateral creditors. Nonetheless, overall effects fell short of the goals and objectives they had set for 2003.

To strengthen the medium-term framework of macroeconomic management and accelerate the reforms necessary for economic recovery and poverty reduction, the authorities adopted and implemented a new SMP, covering the period of January-June 2004. This program contained two pillars, namely increasing transparency in fiscal management, especially in the oil sector, and improving fiscal discipline. The successful implementation of this program has helped the authorities to make further progress in transparency and good governance in the oil sector, as well as in fiscal consolidation. Key achievements have been in the following areas:

- *On budget execution and quantitative indicators*: reflecting higher non-oil revenues and better control of primary expenditures, the primary fiscal balance adjusted for higher-than expected oil revenue has exceeded the target. The budget execution was in line with the program. In particular, tax and customs administrations have been strengthened and have contributed to the increase in non-oil revenues; stricter expenditure controls, in particular on transfers, were implemented; and fiscal reporting was enhanced. Moreover, the government's net credit position vis-à-vis the banking system has improved. In addition, the authorities have not contracted any guaranteed or nonconcessional debt, and they have met their debt service obligations on nonreschedulable external debt. Also notable is the fact that domestic arrears were settled within the limits of the ceiling set out in the program.

- *On structural measures*: as noted above, the authorities have made considerable progress in improving transparency in the oil sector, including through the continuation of quarterly certification of oil revenues by an independent international audit firm, and the adoption by the authorities of an action plan to reform the SNPC. Particularly noteworthy and also exemplary for oil-producing countries in Africa, is the authorities' emphasis on the internet publication of key information. The Congo has formally joined the Extractive Industry Transparency Initiative (EITI) on June 10, 2004 and is fully committed to complying with this Initiative's principles and made public announcement to this effect in October. Given the EITI's participatory nature, the government has encouraged oil companies operating in the Congo to become fully involved in its implementation. The press release by the Government on the 2003 settlement of disputes with a private oil company Likouala agreement is a clear sign of the commitment of my authorities to the transparency process in the oil sector.

Since our last Board discussion in June 2004, the authorities have taken further actions including the preparation by the government of a preliminary strategy aimed at ensuring that the SNPC's activities are restricted to the oil sector; the completion of the privatization of the commercial bank CAIC, and the effective functioning of the new private bank, *la Congolaise de Banque*; the completion by an international auditing firm of the 2002 external audit of the SNPC (according to the same reference terms as the previous audit and with no qualifications related to the access to information); the signing by the government of a contract with an international auditing firm to perform the external financial audit of the 2002 operations of the national oil refinery, CORAF; the quarterly certification, by an external auditor, of oil revenue in 2004; and the centralization of all government revenues in, and execution of all payments through the treasury.

For the year 2004 as a whole, improvement in the political environment, combined with higher-than-projected oil prices, augur well for stronger economic growth and lower inflation. Although the real effective exchange rate has been broadly stable in the post-conflict period and remains well below its pre-1994 devaluation level, my authorities will continue to be vigilant to preserve the economy's competitiveness. Moreover, given the currently favorable world oil prices, the authorities will do their utmost efforts to avoid the past pitfalls of procyclical spending and curtail inflationary pressures. They recognize that progress achieved in improving transparency in the oil sector and public finances has revealed important weaknesses. This is why they are determined to make all necessary efforts to remove the constraints facing the economy, and request the assistance of external partners to meet these daunting tasks.

My Congolese authorities recognize the importance of establishing peace and security in the country, in order to lay the foundations for broad-based economic growth, required to reduce poverty. This will allow them to continue to repair the remaining damage from the successive conflicts, and consolidate the positive achievements made so far. My authorities have demonstrated resolve to break away from the past economic management practices and established a strong track record on program implementation. In acknowledging the support already received, the Congolese authorities recognize that without strong financial and technical support from the international community, the reform efforts currently underway cannot be sustained. In this context, my authorities are hopeful that in recognition of their efforts to improve macroeconomic management and governance, the Republic of Congo will be granted access to IMF financing under the PRGF, and benefit from assistance under the Heavily Indebted Poor Countries (HIPC) Initiative as soon as possible. The latter should help bring the country's heavy debt burden to sustainable levels and increase pro-poor outlays. To help them achieve their objectives, both technical and financial assistance from the international community will be of critical importance.

Medium-Term Macroeconomic Framework

My authorities are cognizant that strengthening the macroeconomic framework is a key condition for poverty reduction. The consolidation of macroeconomic stability is an important element of their Interim Poverty Reduction Strategy. The authorities' main medium-term macroeconomic objectives are: (a) an expansion of output with the real GDP growth reaching an average of 5.5 percent; (b) the achievement of an annual inflation rate around 2 percent, and (c) the strengthening of the external position. In this regard, actions aimed at creating an investment-friendly environment, increasing transparency and good governance, implementing sound fiscal policy and pursuing prudent monetary policy are envisaged.

In the fiscal area, the authorities are committed to adopting a prudent fiscal stance with respect to future oil revenues, so as to avoid the adverse effects of pro cyclical expenditures driven by oil revenue receipts. They will implement measures to strengthen both oil and non-oil revenues. Performance of oil revenues are expected to improve as a result of the strengthening of revenue collection through quarterly certifications, audits of cost oil, and improvement of the commercial performance of the SNPC. On non-oil revenues, improvement is expected from measures aimed at combating fraud and tax evasion, controlling and limiting discretionary tax exemptions, expanding the tax base and improving tax administration. My Congolese authorities are also committed to implementing a prudent expenditure policy with the view to freeing up resources to help boost pro-poor expenditures and the country's capacity to meet its debt service obligations. Among key actions envisaged are: a gradual reduction of transfers to the national refinery, CORAF, until they are completely eliminated in 2007; the streamlining of subsidies on oil products; an equitable, transparent clearance of domestic arrears, based on the availability of funds and the priorities established in the budget.

Efforts to address the constraints to Congo's development will be steadfastly pursued, in the context of the Public Investment Program. This will include projects aimed at ensuring a regular supply of electricity in the country (Imboulou dam, upgrading of the Moukoukoulou dam, Brazzaville thermal power plant, and construction and strengthening of the distribution network); improving public infrastructures, opening up hinterland, and strengthening utilities and infrastructure in local communities (safe water, schools, dispensaries).

Monetary policy will continue to be carried out within the regional framework of the CEMAC to ensure low inflation and keep the foreign exchange reserves at a comfortable level. Cognizant of the risks of inflation stemming from the inflow of financial resources, given that international oil prices are expected to be buoyant over the next few years, the authorities stand ready to take corrective actions, in accordance with current CEMAC and BEAC rules.

Regarding the Millennium Development Goals (MDGs), the authorities' immediate objectives are based on the eradication of extreme hunger, the attainment of 100 percent youth literacy, and the promotion of gender equality. However, should additional resources become available from oil receipts and debt relief under the enhanced HIPC Initiative, the authorities stand ready to make efforts towards achieving other key MDGs. In order to strengthen implementation capacity, the authorities' poverty reduction strategy envisages recruitment in priority sectors within the constraints of the overall wage bill under the program and improving transparency.

First-Year Program under the PRGF

The objectives for the first year of the program, covering the period from October 1, 2004 to September 30, 2005, are the following: an annual growth rate in non-oil real GDP of about 5 percent; an inflation rate of about 2 percent; a primary surplus representing about 10.1 percent of GDP in 2004 and 13.2 percent of GDP in 2005; and a current account surplus equivalent to 1.6 percent of GDP a year.

In the fiscal area, a prudent policy will be pursued in the context of the 2005 Budget Law. The expenditure structure will be reoriented toward pro-poor projects. In this context, the authorities undertake to increase the share of resources allocated to the priority sectors, as identified on the basis of the I-PRSP, namely basic health care and action to combat HIV/AIDS; basic education; basic infrastructure; water, energy, and urban sanitation; disarmament and reintegration of former combatants; and agriculture. In so doing, the authorities are determined to enhance the mobilization of oil and non-oil revenues, and ensure a better control of other spending. The forestry revenue collection system will be evaluated with a view to improving its performance.

To meet the pressing needs and promote social peace, my Congolese authorities have signed a "social truce" with the labor unions, so that they can gradually pay wage and pension arrears starting in 2004. To this end, they plan to transfer a sum equivalent to about 1 percent of GDP in 2004 to clear these social arrears. They have also budgeted an amount equivalent to 0.9 percent of GDP in 2004 for payment of commercial domestic arrears to small and medium-sized enterprises, with the view to stimulating business-based economic growth. For 2005, an amount equivalent to 2 percent of GDP has been identified to finance the settlement of domestic arrears that have already been audited and certified.

Monetary policy will remain consistent with the objectives of CEMAC arrangement and that of maintaining adequate level of reserves, while containing inflation. The expansion of credit to the economy is projected to meet the increasing needs of the private sector.

With regard to the financial sector, the authorities of the Republic of Congo recognize the need to address the fragility of the banking system, and they are working in close collaboration with the regional banking commission, COBAC, in this direction. Measures to be considered are related to the preparation by end-December 2004 of a restructuring plan for a bank in difficulty. The plan will include financial, as well as operational measures, aimed at ensuring the bank's medium-term viability. The authorities will continue to consult the Fund and World Bank staffs on this issue. They are also committed to reforming the nonbank financial sector, which will involve pension funds, the postal and savings institutions, as well as microfinance institutions.

Regarding the external debt situation, the country's indebtedness remains heavy. For the first part of the program, the Republic of Congo is expected to use about 80 percent of the primary fiscal surplus and other resources to meet its financial obligations, and to normalize relations with creditors. My Congolese authorities are hopeful that the Congo will receive exceptional treatment on non reschedulable arrears and will benefit soon from the HIPC Initiative. In the meantime, they will continue to make every effort to remain current on debt obligations and, to the extent allowed by higher-than-projected oil prices, to make payments to reduce the large stock of outstanding arrears on non reschedulable debt.

Structural reforms and Governance Issues

The program of structural reforms is aimed at ensuring robust growth and poverty reduction, promoting private sector development, improving transparency and governance in the oil sector, and increasing the effectiveness of the public sector.

In the oil sector, strong efforts toward further transparency and better monitoring of operations will be pursued. The government is working in close collaboration with the U.K. Department for International Development on the implementation of the EITI principles. In order to maximize revenue collection, actions envisaged are: (a) the pursuit of a quarterly certification of oil revenue, by an internationally-recognized audit firm, with the collaboration of the Hydrocarbons Unit in the Ministry of Finance, and implementation of the nine administrative recommendations made by the auditor; (b) the adoption of a strategy to enable the SNPC to maximize dividends; and (c) the arrangement for yearly independent audits of cost oil for all production-sharing contracts, based on international standards and carried out by internationally-recognized audit firms. Actions are also envisaged with regard to the surveillance of SNPC operations and the publication of information to the public on websites. For 2005, the authorities are also planning to conduct an economic and strategic assessment of CORAF.

Determined to break away from the legacy of past weak public management, my authorities have taken important steps to strengthen transparency since 2003. A National Anti-Corruption and Anti-Fraud Commission was recently approved by the authorities. Under the chairmanship of the President of the Republic, this commission will monitor the implementation of anticorruption policies and centralize all information necessary, in order to assist government agencies or enterprises in tackling corruption. The preparation of a final anti-corruption law is ongoing.

To generate sustained growth in non-oil sectors, the authorities plan to implement measures to improve the business environment. In particular, they intend to enhance the overall governance framework and effectively combat corruption, as well as to improve the operation of the public utilities and delivery of public services. In order to raise investor confidence, the government plans to make the customs and tax administrations more efficient, eliminate quasi taxation, and make the tax system more transparent. It is also their intention to pursue efforts to place under private management the supply of water and electricity, as well as the railroad between the largest cities, Pointe Noire and Brazzaville.

Following the country's exclusion from the Kimberley Process last July, due to the non observance of international standards in the diamond business, the authorities have been working closely with the Kimberley Process on diamond certification issues. Actions already taken include the suspension of licenses granted to diamond-purchasing bureaus, the punishment of civil servants involved in issuance of unauthorized Kimberley certificates, and the strengthening of the bureau of mines administration. A regional meeting of Mining Ministers was organized in Brazzaville on November 16, 2004, in which Ministers agreed to set up a committee to oversee the trade of diamonds and other gems in the region.

With regard to the legal, forestry and judicial frameworks, reforms in these areas will be carried out with World Bank assistance.

Poverty alleviation strategy

It is important to stress that since mid-1980s, the Congo has experienced difficult economic problems which, compounded with social and political unrest that culminated with the tragic events of the 1990s, have harshly hurt the Congo's people. This has resulted in very high unemployment, increasing poverty, reduced life expectancy at birth, deteriorating healthcare and education, as well as food insecurity. To address these problems, and provide the people with equal opportunity for access to jobs and improvement in their standards of living, the authorities are committed to making poverty reduction their top priority.

The government and its national and international partners have opted for a participatory approach in preparing and implementing the Poverty Reduction Strategy. The Interim Poverty Reduction Strategy Paper (I-PRSP) was prepared under the supervision of a National Ministerial Committee for Poverty Reduction (*Comité National de Réduction de la Pauvreté,* CNLP) jointly chaired by the Ministers of Planning and Finance. In addition, the formulation of the I-PRSP was decentralized at the departmental and local levels through the creation of departmental and local Poverty Reduction Committees. Further broadening of the participatory process is being considered.

The approach laid out in the I-PRSP is an integral part of the authorities' medium-term economic strategy. The strategy is built on the following five pillars: (a) consolidation of peace; (b) consolidation of macroeconomic stability and promotion of key economic sectors; (c) improving access to basic social services and social protection; (d) developing infrastructure; and (e) reinforcing the fight against HIV/AIDS.

With regard to the profile and the characteristics of poverty, my authorities recognize the limited quality of statistical data used to fully appreciate the extent of poverty in Congo. However, they are determined to improve the diagnostic study through supplementary studies and surveys that would be conducted within the scope of the final PRSP. The ongoing Congolese Households Expenditure Survey (ECOM), of which the Core Welfare Indicators (CWIQ) results are expected in 2005 and the Demographic and Health Survey currently under preparation, would make it possible to establish a reliable outline of the poverty.

With regard to strategic areas and priority actions, my authorities are committed to consolidating peace and promoting good governance. Peace and security are essential, since the Republic of Congo, a post-conflict country, is emerging from a decade of political instability marked by three civil wars. The I-PRSP considers that good governance, notably in the oil and forestry sectors, is a key condition of civil peace, economic growth and poverty reduction. The decentralization is viewed as an effective way to improve the efficiency of government intervention and citizen participation. On public finances, the I-PRSP highlights the need to rationalize public resources through increased revenue, expenditure control, and the strengthening of public expenditure management.

My Congolese authorities are aware of the risks and constraints surrounding the implementation of the I-PRSP. In that regard, to further deepen ownership, they are committed to strengthening the participatory process; to consolidate the fiscal process, they are determined to maintaining peace and security and preserving the gains achieved in terms of national reconciliation; in regard to oil prices volatility, my authorities would ensure that fiscal stance is not induced by cyclical booms and busts of oil prices. With respect to the ability to reach agreement with the international financial community on debt issues, my authorities are committed to pursuing efforts they have initiated with creditors in the Paris Club and in the London Club that would lead to the international community support for debt relief.

The PRSP being an ongoing process, my authorities will address the weaknesses identified, and continue to fine tune their policies. Lessons learned from past experiences will be used to improve the process, and efforts will continue to create conditions for broad-based economic growth and poverty alleviation. They also hope that transparency in the process will increase the success of the PRS.

Conclusion

My Congolese authorities have made significant efforts to re-establish peace and political stability since the country emerged from a conflict situation. Remarkable progress has been made in a wide number of areas, as described above. This progress has contributed to a good track record of policy and reform implementation established under the 2004 SMP. The authorities have prepared an interim poverty reduction strategy paper, and are requesting a three-year adjustment program, under PRGF, which would help strengthen growth prospects, improve resource allocation in the economy, and consolidate progress made under the SMP. My Congolese authorities are committed to continuing working closely with their partners to achieve the goals of sustained growth and poverty alleviation. The results achieved up to now under the 2004 SMP are encouraging and reflect the authorities' firm determination to restore financial discipline. However, these results are still fragile, and strong support from the international community remains critical for the consolidation of the progress achieved. In this context, my authorities are hopeful that their efforts will be well recognized and will help to pave the way for Fund support under the PRGF, which in turn will be the basis for the creation of a solid foundation for economic development and poverty reduction.