July 2005
IMF Country Report No. 05/229

Democratic Republic of the Congo: Poverty Reduction and Growth Facility—Request for an Extension—Staff Report; and Press Release on the Executive Board Consideration

In the context of a request for extension of the arrangement under the Poverty Reduction and Growth Facility, the following documents have been released and are included in this package:

- the staff report on the Poverty Reduction and Growth Facility—request for an extension, prepared by a staff team of the IMF. Based on information available at the time of these discussions, the staff report was completed on May 27, 2005. 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 Press Release summarizing the views of the Executive Board as expressed during its consideration of the staff report that completed the request.

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

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

Copies of this report are available to the public from

International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431
Telephone: (202) 623-7430 • Telefax: (202) 623-7201
E-mail: publications@imf.org • Internet: http://www.imf.org

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

DEMOCRATIC REPUBLIC OF THE CONGO

Poverty Reduction and Growth Facility—Request for an Extension

Prepared by African and Policy Development and Review Departments

Approved by David Nellor and Anthony Boote

May 27, 2005

1. In the attached letter dated May 27, 2005, the Congolese authorities are requesting an extension of the Poverty Reduction and Growth Facility (PRGF) arrangement to October 31, 2005. The arrangement in the amount of SDR 580 million (108 percent of quota) was approved on June 12, 2002 (IMF Country Report No. 02/145) and is to expire on June 11, 2005.

2. The extension will provide additional time for the completion of the fifth review under the PRGF. The review was delayed due to slippages in the second half of 2004 that had led to a depreciation of the Congo franc and high inflation. As a result, three quantitative performance criteria for end-September 2004 were not met. Also, the structural performance criterion concerning the selection of an international firm to conduct the external audit of the diamond company MIBA was met in April 2005, instead of September 2004, because expected external financing did not materialize.

3. In light of the slippages, the authorities have tightened economic policies. In particular, the central bank raised the discount rate from 20 percent to 65 percent in early March, while the authorities contained spending. The authorities have also taken measures to enhance expenditure control and transparency, including the computerization of government spending procedures. Preliminary indications are that base money registered no growth in the first quarter, while the fiscal objectives were met. The exchange rate also appears to have stabilized and inflation to have moderated since mid-April 2005.

4. As indicated in the attached letter, the authorities are determined to work closely with staff to ensure that the successful implementation of the PRGF arrangement during the first two years is maintained during this critical phase of the DRC's history. They are committed to reinforce the fragile macroeconomic stability recently regained by maintaining tight fiscal and monetary policies for the remainder of 2005, while improving the transparency of budget execution. In particular, the authorities agreed with staff to (1) improve the domestic fiscal balance by more than 1.5 percent of GDP—from a deficit of 0.6 percent of GDP in 2004 to a surplus of 1.1 percent in 2005—by improving tax administration; broadening the tax base; combating corruption; containing the wage bill by removing ghost workers from the payroll

on the basis of the census results in Kinshasa; and strictly observing spending appropriations; (2) contain base money growth by reducing net bank credit to government; (3) step up the fight against corruption by engaging in a public information campaign and strengthening customs controls; (4) enforce the implementation of the mining and forestry codes; and (5) proceed with the plans for public enterprise reform. The precise objectives of the program will be finalized in the coming weeks. In particular, staff will verify progress in implementing prior actions for the completion of the review, including those in the areas of expenditure management and the civil service reform.

5. The extension of the arrangement would permit staff to proceed with the internal review process and submit the staff report for the completion of the fifth review to the Executive Board, provided that macroeconomic stability is maintained. In the view of the staff, an extension of the program would also be needed to safeguard macroeconomic stability in the run-up to national and local elections, which are likely to start toward the end of the year.

6. The staff supports the authorities' request for an extension of the arrangement through October 31, 2005. The authorities' commitment to macroeconomic stability as outlined above and the progress made so far provide the basis for an extension of the arrangement. A further extension is likely to be requested when the fifth review will be concluded by the Executive Board in order to complete the sixth review probably by early 2006. Accordingly, the following decision is proposed for adoption by the Executive Board.

Kinshasa, May 27, 2005

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

Dear Mr. de Rato:

On June 12, 2002, the IMF's Executive Board approved a three-year arrangement for the Democratic Republic of the Congo under the Poverty Reduction and Growth Facility (PRGF). In view of the expiration of the PRGF on June 11, 2005, the government hereby requests that the PRGF arrangement be extended until October 31, 2005 to provide sufficient time to complete the fifth review under the PRGF.

The completion of the fifth review has been delayed primarily as a result of security tensions since the third quarter of 2004, which have led to additional government spending, a depreciation of the currency, and an increase in inflation. As a result, three quantitative performance criteria for end-September 2004—the target date for the completion of the fifth review—have not been met. The structural performance criterion concerning the selection of an international firm to audit the diamond mining company MIBA was selected in April 2005, instead of September 2004, because expected external financing did not materialize and the government had to have recourse to resources from the budget.

In response to these slippages, the government has put in place a set of measures aimed at restoring macroeconomic stability during 2005. In particular, the government is committed to improve the domestic fiscal balance by more than 1.5 percentage points of GDP in 2005, so as not to have recourse to domestic bank financing. To that end, it will strictly observe spending appropriations, contain the wage bill to the ceilings agreed with the Fund staff by implementing the results of the civil service census in Kinshasa in May 2005, and take any additional measures that may be judged necessary to achieve the fiscal targets. In addition, to improve transparency in public resource management, computerized spending procedures will be strictly adhered to and the central bank will execute payment orders from the treasury within 48 hours of their receipt. The government will also strengthen tax administration and it will stop granting tax exemptions or credits outside those allowed by the mining, forestry, and investment codes.

The government will intensify its efforts to accelerate the pace of structural reforms. In this regard, our priority will be to create the conditions for the holding of free and transparent elections in the months ahead. We are determined to proceed with the Demobilization, Disarmament, and Reintegration program and with the creation of a new army, as these are prerequisites for national reconciliation and the effective reunification of our country.

We are fully cognizant of the difficult decisions that lie ahead. We are committed to implement fully the program that we expect to finalize in the coming weeks with the Fund staff and that will be described in detail in the letter of intent and the memorandum of economic and financial policies for 2005.

We would like to take this opportunity to thank the Fund for its support and cooperation during the last few years and for its advice in meeting the policy challenges facing our country at this critical juncture in its history.

Sincerely yours,

/s/	/s/
André Philippe Futa M Tshitumbu Minister of Finance	Jean-Claude Masangu Mulongo Governor, Central Bank of the Congo

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

Press Release No. 05/152
FOR IMMEDIATE RELEASE
June 28, 2005

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Extends the Democratic Republic of the Congo's Three-Year PRGF Arrangement

On June 7, 2005 the Executive Board of the International Monetary Fund (IMF) extended the Poverty Reduction and Growth Facility (PRGF) arrangement for the Democratic Republic of the Congo until October 31, 2005 to provide additional time for the completion of the fifth review.

The Executive Board had approved on June 12, 2002, a three-year SDR 580 million (about US$848.6 million) arrangement under the PRGF for the Democratic Republic of the Congo (see Press Release No. 02/27).

The PRGF is the IMF's concessional facility for low-income countries. 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 the 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 5½-year grace period on principal payments.

Washington, D.C. 20431 • Telephone 202-623-7100 • Fax 202-623-6772 • www.imf.org