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Republic of Congo: Staff-Monitored Program

This paper on the staff-monitored program for the Republic of Congo was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with the member country. It is based on the information available at the time it was completed on June 27, 2007. The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of the Republic of Congo or the Executive Board of the IMF.

A statement by the Executive Director for the Republic of Congo is also included.

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INTERNATIONAL MONETARY FUND

REPUBLIC OF CONGO

Staff-Monitored Program

Prepared by the African Department

(In consultation with other departments)

Approved by Thomas Krueger and Anthony Boote

June 22, 2007

- The three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) with the Republic of Congo ("Congo") was approved by the Executive Board on December 6, 2004. The first and second PRGF reviews were completed in August 2005 and July 2006, respectively. However, substantial fiscal slippages and delays in structural reforms in 2006 precluded the completion of the third review under the PRGF arrangement.

- The last Article IV consultation was concluded on April 25, 2007. At that time, Directors encouraged the authorities to reach understanding with staff on a staff-monitored program (SMP) that could bring the PRGF arrangement back on track.

- Discussions on an SMP with the Republic of Congo were held in Brazzaville (October 12–25, 2006, and April 30–May 9, 2007) and in Washington, D.C. (February 26–March 2, 2007, and April 16–19, 2007). The mission team comprised at different stages Messrs. Mongardini (head), Bessaha, Karangwa, and Shen, Mmes. Karpowicz, and Lu (all AFR), Ms. Oliva (PDR), Mr. Carcillo (FAD), and Mr. Moussa (resident representative). Messrs. Rutayisire and Kudiwu (OED) attended the policy discussions.

- The mission met with President Sassou–Nguesso, Prime Minister Mvouba, Senior Planning Minister Moussa, Minister of Finance Issoïbeka, Central Bank National Director Dzon, and other senior officials; representatives of the donor community; civil society; and the press.

- In the attached letter of intent (LOI), the authorities have indicated that they intend to implement an SMP for April–September 2007 to establish a solid track record before resuming discussions on a PRGF arrangement.

Contents

Executive Summary

- **The PRGF–supported program went off-track in 2006**. Large expenditure overruns (estimated at 21 percent of non-oil GDP) and structural conditionality delays, including in the areas of governance and transparency, precluded the completion of the third PRGF review.

- **The authorities have reached understandings with staff on an SMP for April-September 2007.** The SMP aims at making progress toward fiscal sustainability, enhancing public financial management, and improving governance and transparency. A solid track record of policy implementation in the context of the SMP would pave the way for discussions on a PRGF arrangement to resume by end-2007.

- **The SMP centers on the 2007 budget recently approved by parliament**. The budget, which is based on appropriately conservative revenue projections and moderate growth in public expenditures, strikes a balance between maintaining macroeconomic stability and making room for urgent infrastructure spending.

- **Notwithstanding some recent progress, implementation of the governance agenda is delayed.** The authorities and civil society recently pledged to work together to make resource management more transparent. The draft law to establish an anticorruption observatory was passed by parliament in June 2007.

- **The government is finalizing the draft of its first full Poverty Reduction Strategy Paper (PRSP)**. Fund and World Bank staffs provided comments on a first draft of the PRSP. The PRSP is expected to be finalized by end-2007.

- **Fiscal slippages pose the greatest risk to the program.** Political pressures to spend more are growing in view of the legislative elections in 2007, municipal elections in 2008, and presidential elections in 2009. Other risks include implementation capacity constraints, data gaps, lack of political consensus on governance and transparency reforms, and exogenous shocks related to oil prices and regional security. A recent accident at a large oil platform may also significantly reduce oil output in 2007. Further seizures by litigating creditors could also occur.

I. INTRODUCTION

1. **In the attached letter of intent, the authorities request an SMP for the period April–September 2007.** The key goals of the SMP are to safeguard macroeconomic stability, set fiscal policy on a path toward fiscal sustainability, and accelerate implementation of the structural reform agenda—including the triggers for the completion point under the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative—to enable Congo to benefit from debt relief and external support to finance the government's poverty reduction strategy.

2. **The SMP will coincide with the first phase of a long electoral cycle that will span the next three years**. After two rounds of legislative elections, scheduled for June and July 2007, municipal and presidential elections will follow in 2008 and 2009, respectively. With support from the donor community, the authorities are moving ahead with peace consolidation and reconciliation with former militia.

II. ECONOMIC DEVELOPMENTS IN 2006 AND EARLY 2007

3. **The assessment of macroeconomic performance in 2006 remains broadly unchanged since the last staff report**.[1] Real GDP is estimated to have grown by 6.1 percent, reflecting higher output in the oil sector as well as buoyant activity in manufacturing and construction (Figure 1). Inflation increased significantly in 2006 as a result of the expansionary fiscal policy and transportation bottlenecks (Figure 2). Congo's large inflation differential vis-à-vis its trading partners led the real effective exchange rate to appreciate significantly (Figure 3). Large expenditure slippages pushed the non-oil primary fiscal deficit to about 52.6 percent of revised non-oil GDP, against a program target of 32 percent (Figure 4).[2] Growth of credit to the private sector, although higher than in the past two years, remained sluggish, reflecting banks' reluctance to take risk in a business environment characterized by insufficient creditor information, inadequate accounting standards, lack of collateral, and a weak judicial system. At the same time, strong oil exports contributed to the current account surplus (about 13 percent of GDP).

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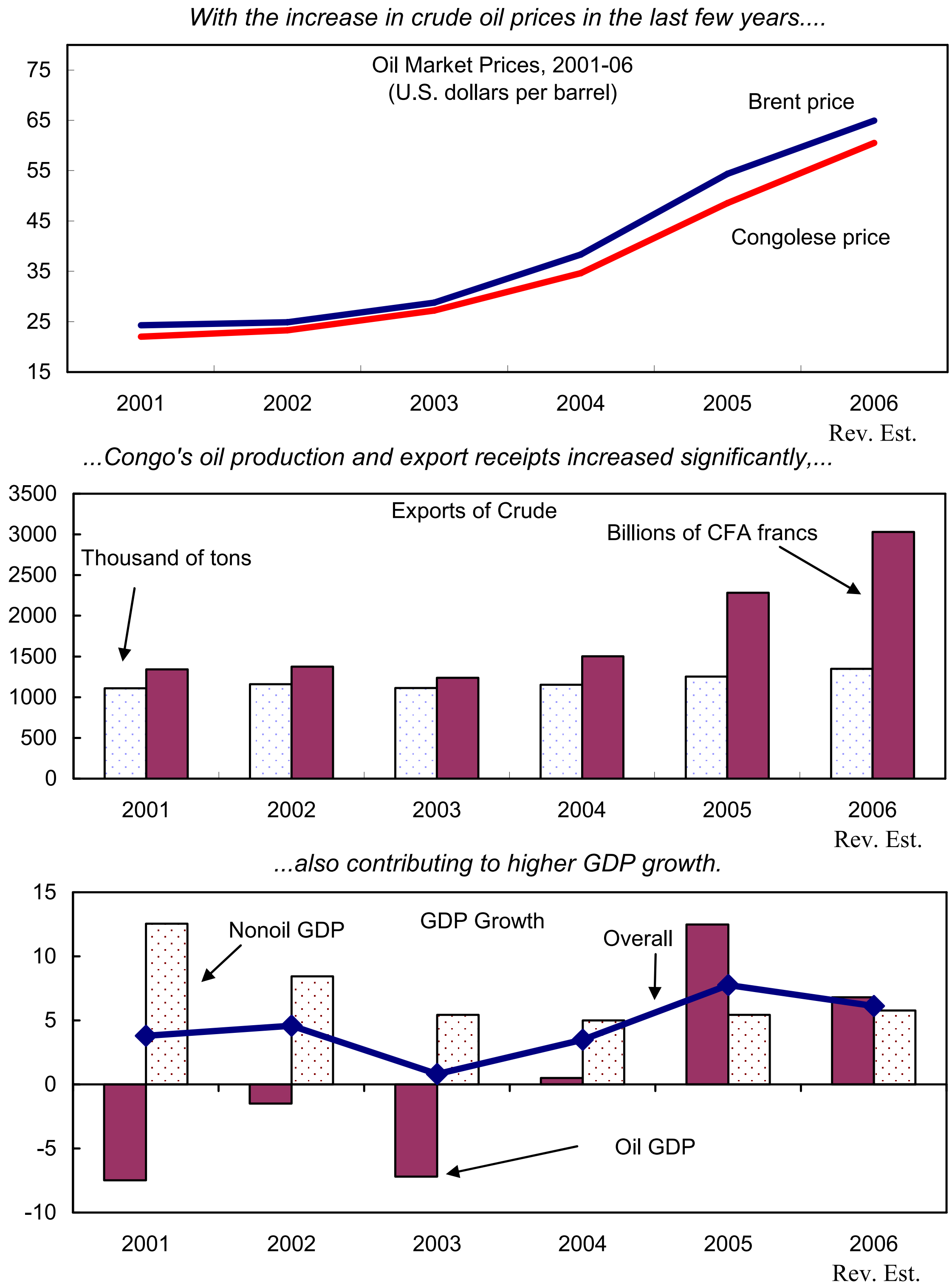
[1] IMF Country Report No. 07/205.

[2] The nonprimary fiscal deficit was estimated at 44 percent at the time of the 2007 Article IV consultation. Since then, new data from the authorities show that primary current expenditure and domestically-financed capital expenditure exceeded earlier estimates by 2.3 and 1.4 percent of non-oil GDP, respectively, and non-oil GDP growth was slightly slower (5.8 percent from 6.3 percent).

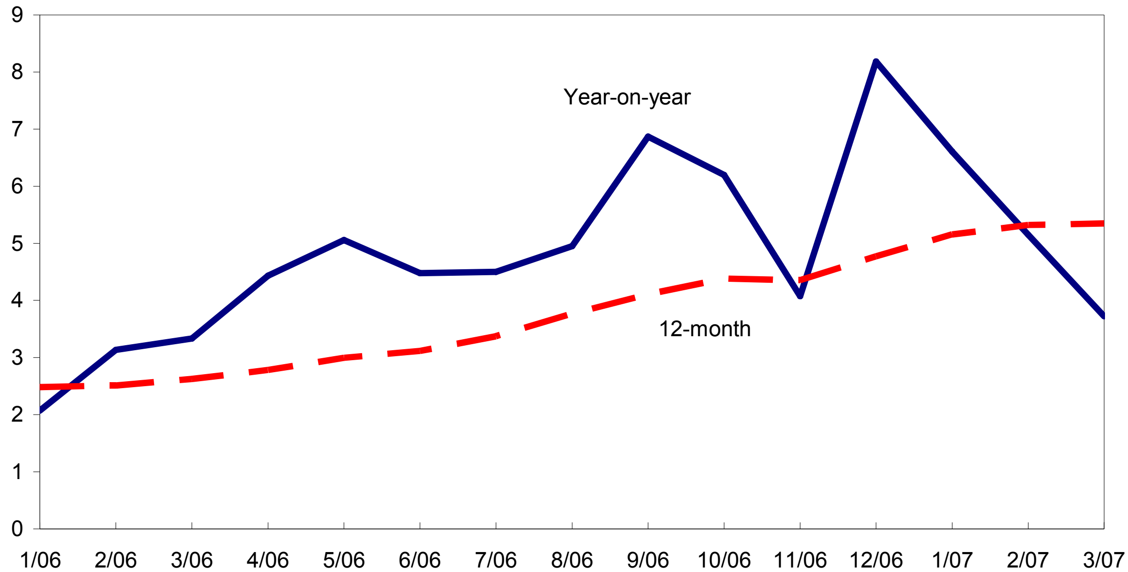
Figure 1. Republic of Congo: Oil Prices, Exports, and Real GDP Growth, 2001-06



Sources: Congolese authorities and Fund staff estimates and projections.

Figure 2. Republic of Congo: Inflation Developments, Jan 2006-Mar 2007
(Percent change in Consumer Price Index)

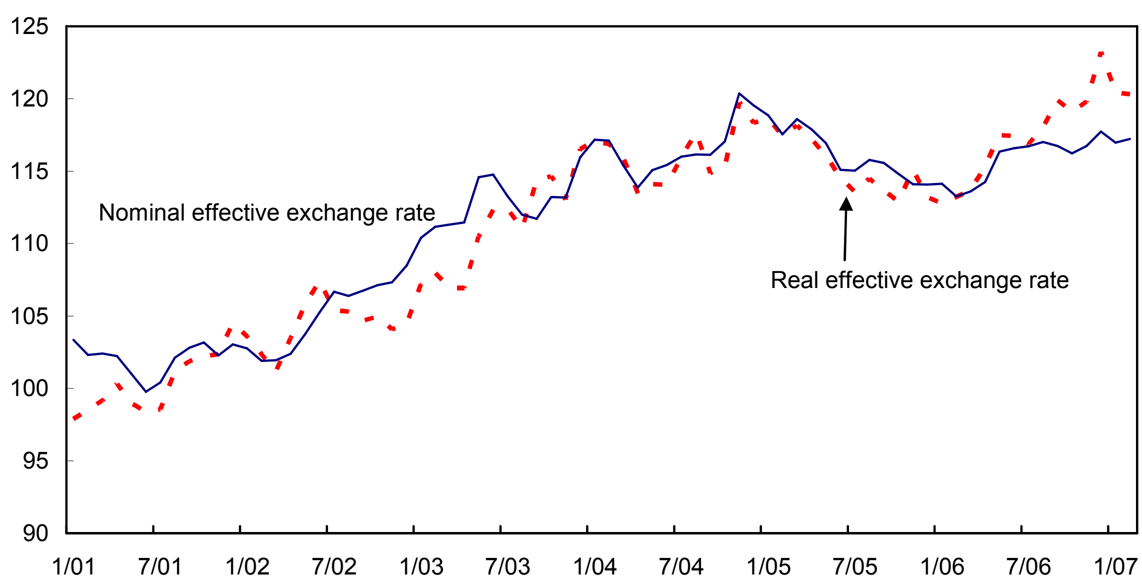
Inflation increased in 2006, fueled by expansionary fiscal policy and transportation disruptions, but has since moderated.



Source: Congolese authorities; and Fund staff estimates.

Figure 3. Republic of Congo: Nominal and Real Effective Exchange Rate, 2001-07

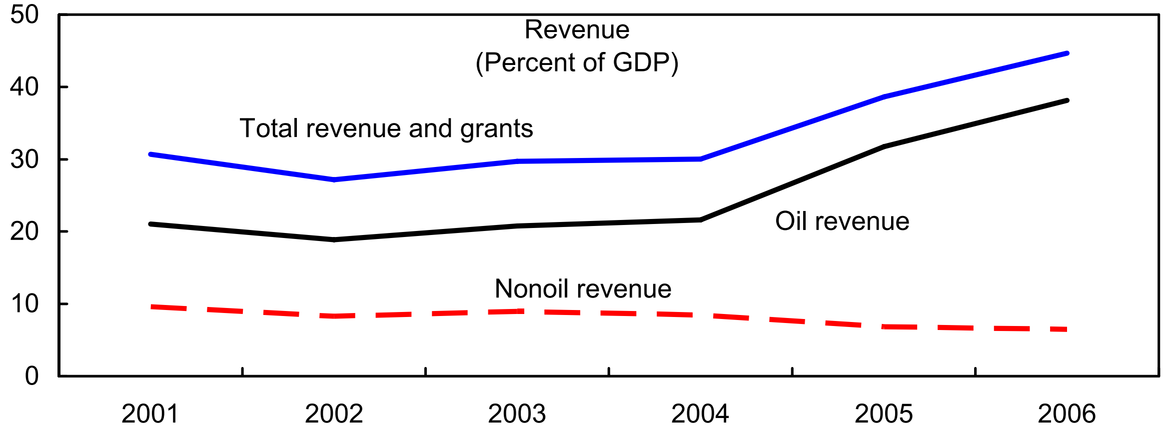
The real effective exchange rate appreciated significantly in 2006, reflecting mainly the inflationary differential with partner countries.



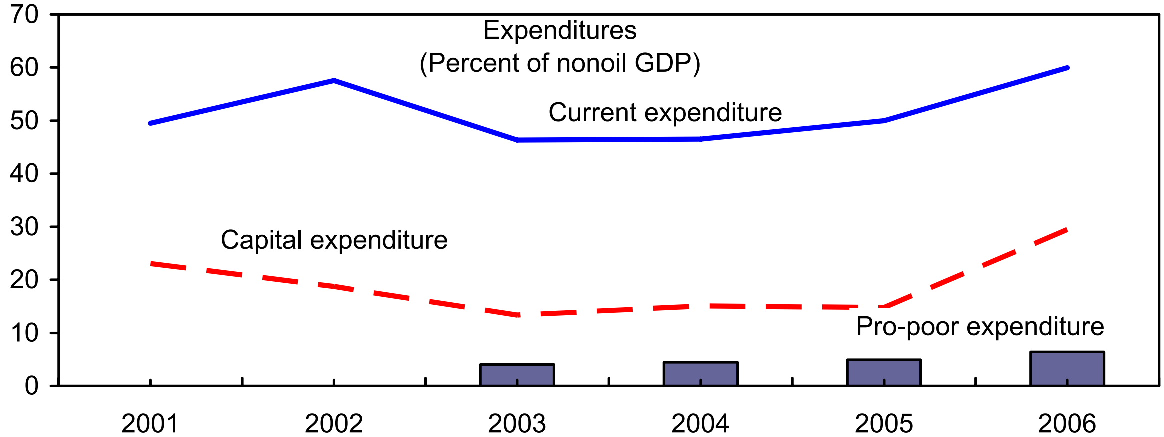
Sources: INS Database.

Figure 4. Republic of Congo: Fiscal Developments, 2001-06

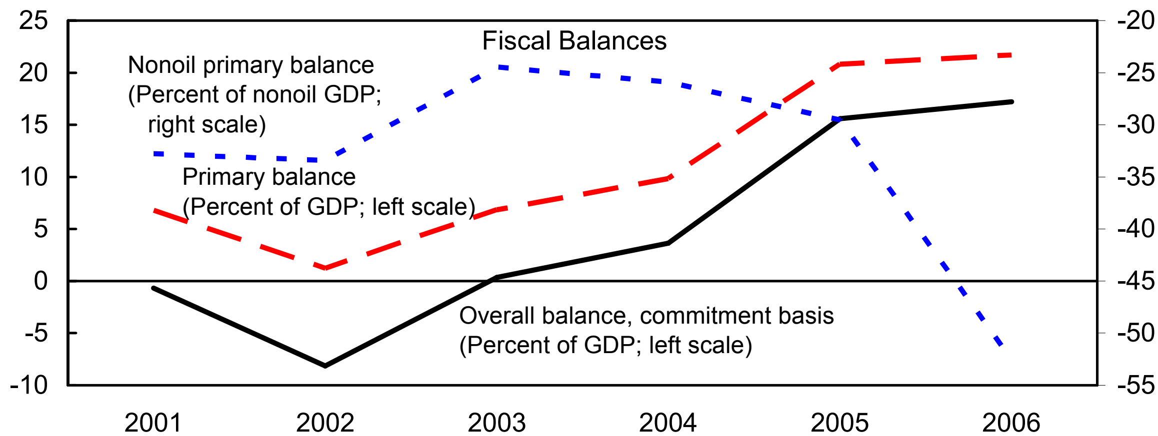
The large increases in oil revenue in 2005-06...



...have led to a substantial pro-cyclical spending...



...and to a marked deterioration in the nonoil primary balance.



Source: Congolese authorities; and Fund staff estimates.

4. **Preliminary indications are that economic activity, as expected, slowed in the first quarter of 2007**. The slowdown mainly reflected lower oil production, attributable to some maturing oil fields. At the same time, inflation moderated in the first three months of 2007, reflecting lower food and construction materials prices. On the fiscal front, preliminary data for the first quarter indicate that performance was in line with program targets (Text Table). However, an accident in early May 2007 on a major oil platform is likely to disrupt oil production and result in lower-than-budgeted oil revenue in the second half of the year.[3]

Text Table. Republic of Congo: Government Expenditure, 2005-07
(Billions of CFAF)

	2005	2006		2007 Mar.	
		Prog.	Rev. Est.	Ind. Targ. (cumulative)	Prel. Est.
Total revenue	1240	1367	1791	360	363
Oil revenue	1020	1128	1531	289	301
Nonoil revenue	220	240	261	65	62
Primary expenditure	571	677	916	245	224
Current primary expenditure	417	461	563	140	129
Domestic capital expenditure	154	216	353	106	95

Sources: Congolese authorities; and Fund staff estimates.

5. **Credit expansion accelerated in the first quarter**. Credit to the economy expanded by 15 percent in response to strong demand from the private non-oil sector. The regional supervisory agency rated all banks in Congo in good health at end-2006, following the privatization of the one troubled bank in October 2006.

6. **The authorities made some progress on structural reforms**. The quarterly certification reports of oil revenue for 2006 by an internationally recognized audit firm were published on the government's website (Text Table). The reports show an unexplained discrepancy between marketed oil and oil revenue in the government fiscal tables of CFAF 103 billion (8.2 percent of non-oil GDP), which may partly reflect delays in transferring oil receipts to the Treasury. These delays explained CFAF 26 billion of the 2005 discrepancy. The discrepancy in 2006 will be subject to an audited reconciliation report due in late June 2007. The authorities have launched a diagnostic study of the economic viability of the oil refinery CORAF, and the financial audits of the national electricity, water, and railway companies.

[3] The authorities have indicated that total annual output could be significantly reduced. They are however not yet in a position to revise oil projections, given the uncertainty surrounding the timing of repairs.

Text Table. Republic of Congo: Oil Production and Marketing, 2005-06
(Billions of CFAF, unless otherwise indicated)

	2005		2006	
	Millions of barrels	CFAF	Millions of barrels	CFAF
Government oil production[1] (1=2-3)	43.3	1,140.1	50.2	1,606.8
Total oil production[1] (2)	92.5	2,370.4	98.7	3,124.9
Share to private operators and SNPC[1] (3)	49.2	1,230.3	48.6	1,518.9
Change in domestic oil stocks[1] (4)	1.5	26.0	-1.9	-49.8
Marketed[1,2] (5=1+4)	41.8	1,114.1	52.1	1,656.6
Marketed by the SNPC (6)	35.3	951.9	44.9	1,428.8
Marketed by Private Operators (7)	6.4	162.2	7.2	227.6
Shipment seized [3] (8)	...	19.7	...	0.0
Valuation, cash and volume discrepancies [4] (9)	...	21.9	...	23.0
Accrual vs. cash adjustment [5] (10)	...	26.0	...	...
Residual discrepancy (11)	...	28.9	...	103.1
Bonus payments (12)	...	2.1	...	22.7
Fiscal Oil Receipts (13=5-8-9-10-11+12)	...	1,019.8	...	1,530.5

Source: Congolese authorities; auditors' reports; and Fund staff estimates.

[1] Values independently auditied or certified.
[2] The auditors' quarterly certification reports verify the price paid for the oil, but they do not actually audit the marketing process of the SNPC.
[3] Deduction made for the proceeds oif an oil shipment seized by a litigating creditor following a court order in May 2005.
[4] The "valuation discrepancy" is the difference between the internbational reference prices and rates and prices realized by the SNPC. The "cash discrepancy" reflects errors in the SNPC's accounting of government's oil stocks.
[5] Arrears and discrepancies between cash and accrual accounting differences. For 2006, this information is not yet available.

7. **Notwithstanding some recent progress, implementation of the governance agenda is delayed.** The law to establish the anticorruption observatory—a key measure under the triggers for the HIPC completion point and an end-September 2006 structural benchmark under the PRGF arrangement—was passed by parliament in early June 2007. The observatory is expected to be staffed shortly through a presidential decree.

III. Policy Discussions on the SMP

8. **The staff-monitored program will address the fiscal slippages of 2006 and make progress on structural reforms.** Against initial understandings reached in October 2006, the authorities requested additional spending in 2007 to address urgent infrastructure needs and a dilution of structural reform measures. The budget, which resulted from extensive consultations with staff and was passed by parliament in May 2007, strikes a balance between maintaining macroeconomic stability and allowing for urgent infrastructure

spending, including for rehabilitating the railway line, the electricity and water networks, and the capital's water sanitation system. The budget will also significantly offset the fiscal slippages in 2006 (Figure 5). In the structural area, staff and the authorities agreed that there is need to step up reforms to improve public financial management, enhance governance and transparency, better manage oil and natural resources revenue, and create an environment that would support stronger private sector activity and foreign direct investment.

A. Medium-Term Prospects

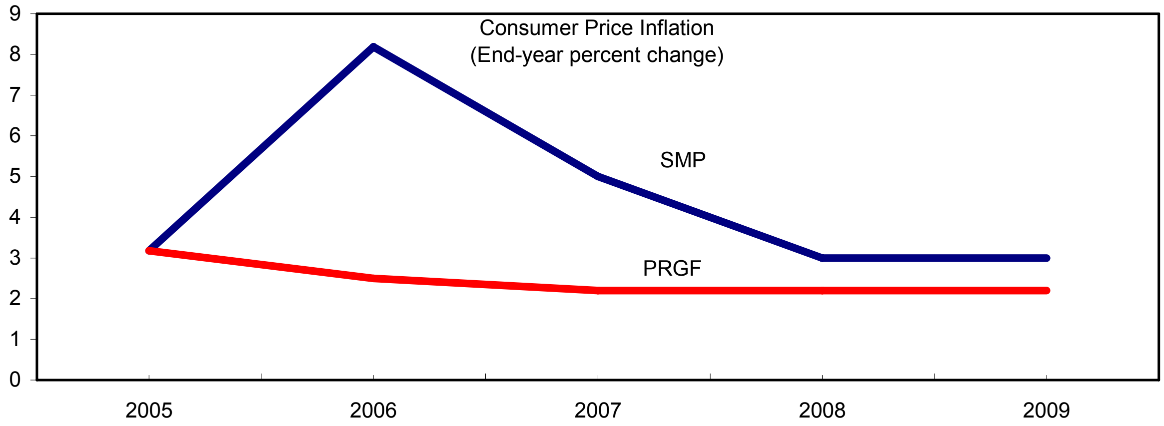
9. **The updated medium-term outlook is consistent with the strategy for sustainable growth outlined in the staff report for the 2007 Article IV consultation.** While discussions on the overall strategy continue, its fiscal component, supported by structural reforms, will be the main anchor for the medium-term outlook. Accordingly, the authorities agreed on an adjustment path that targets a gradual reduction in the non-oil primary deficit and takes into account the country's limited oil resources, substantial infrastructure needs, and absorptive and administrative capacity constraints.

10. **The required fiscal adjustment is predicated on both higher non-oil revenue and limited growth in primary expenditures.** The ratio of non-oil revenue to non-oil GDP is projected to increase steadily, reaching 22 percent of GDP by 2009. Spending pressure will be contained by the government's efforts to limit the overall growth of primary spending, including a reduction in petroleum product subsidies. At the same time, spending on priority sectors, including through the use of interim debt relief, is expected to rise significantly over the medium term. Accordingly, the non-oil primary deficit would gradually fall to 33 percent of non-oil GDP by 2009, a path consistent with long-run fiscal sustainability.

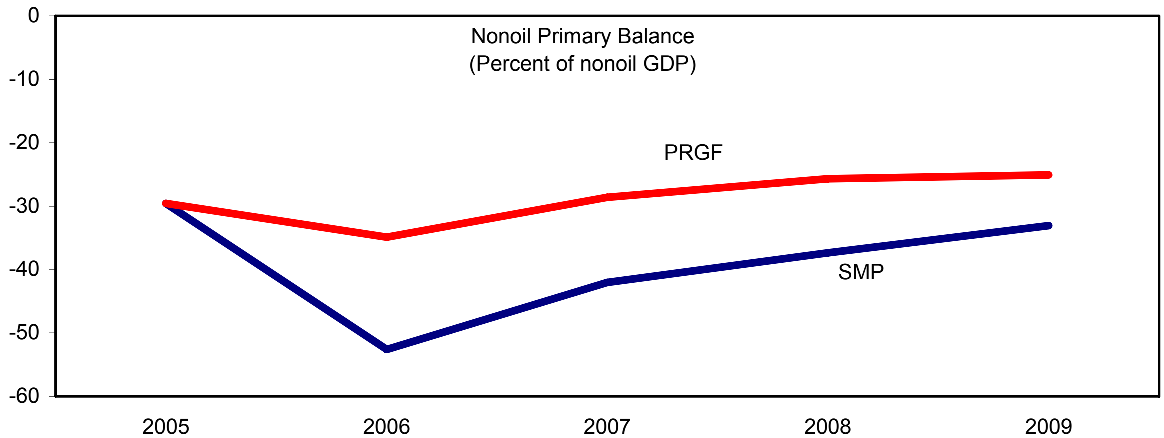
11. **Congo's medium-term economic prospects depend on a set of conditions.** These include (i) the oil production profile over the next few years (new fields possibly coming on stream and old fields being phased out); (ii) regional stability; (iii) cautious fiscal policies; (iv) an acceleration of structural reforms to promote private sector development; and (v) the provision of debt relief. Under these assumptions, the medium-term macroeconomic framework envisages annual real GDP growth of about 5 percent and average inflation of 3 percent by 2009, in line with the objectives of the regional monetary policy of the Communauté Economique et Monétaire de l'Afrique Centrale.

Figure 5. Republic of Congo: Deviations from the PRGF, 2005-09

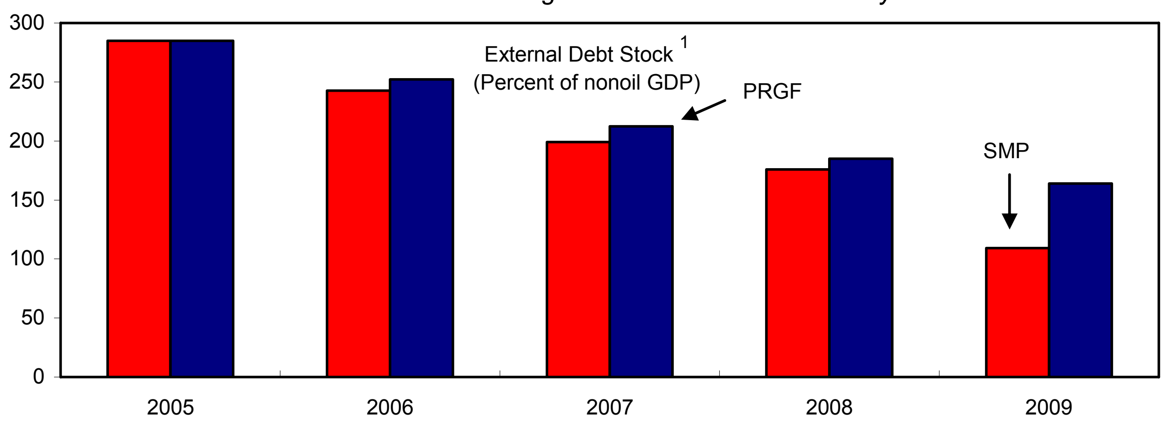
The SMP aims to restore macroeconomic stability...



...through a prudent fiscal policy...



...aimed at maintaining fiscal and debt sustainability.



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

[1] The projected debt stock under the SMP in 2009 is considerably smaller than under the PRGF reflecting assumptions on the full HIPC and MDRI debt relief.

B. Macroeconomic Framework for 2007

12. **The macroeconomic framework underlying the SMP is based on achieving real GDP growth of 3.7 percent and an average inflation rate of 7 percent**.[4] Oil GDP is projected to shrink 1.6 percent on account of a temporary decline in oil production as several oil fields reach maturity. Strong growth in the non-oil sector, reflecting still robust activity in construction and services, would more than offset the decline. The non-oil primary fiscal deficit is expected to narrow by about 10 percentage points, to 42 percent of non-oil GDP, mainly on account of lower primary current expenditure. The external current account surplus is projected to decline, reflecting lower oil exports. As a result, the balance of payments is expected to record a modest surplus, which would further strengthen the gross reserves position to about 15 months of import cover. Staff drew the authorities' attention to the recent appreciation of the real effective exchange rate and argued that this trend, if continued, could slow non-oil economic activity and jeopardize fiscal and debt sustainability.

C. Fiscal Policy

13. **The 2007 budget is predicated on safeguarding macroeconomic stability while meeting key social and infrastructure needs**. The budget targets a significant adjustment in the non-oil primary deficit by rationalizing expenditures. In particular, the budget envisages (i) a tight control of the wage bill; (ii) a significant reduction in common charges; and (iii) a major cut in subsidies to the petroleum sector. Capital outlays are budgeted to increase further, as the authorities scale up spending for social and infrastructure projects. Moreover, repayment of domestic debt and arrears will continue, including through one extra payment of wage and pension arrears.

14. **The 2007 budget includes the following measures to support the achievement of the fiscal targets** (Memorandum on Economic and Financial Policies (MEFP), ¶s 11-17):

- Oil revenue will be enhanced through regular transfers to the budget, continued quarterly certification of oil receipts, and transparent and competitive bidding for future oil concessions once the recommendations of the audit on the awarding of the Marine XI oil concession are implemented.

- To strengthen tax administration, the single taxpayer identification number will be extended to all transactions with the government and the recommendations of the ongoing audits of customs administration and forestry revenue for 2005 and 2006 will be implemented.

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[4] These projections do not take into account the temporary shortfall in oil production associated with the recent incident on a major oil platform. The impact of the accident will be discussed with the authorities at the time of the first staff assessment under the SMP.

- To reduce petroleum product subsidies, jet fuel prices will be increased 15 percent by September 2007 and indexed to international market prices from September 2007 on (Text Table).[5]

- Expenditure management will be improved, including by (i) limiting the recourse to the exceptional payment procedures to spending related to national emergencies, as specified in the organic budget law; and (ii) publishing on the government's website all bids (accepted and rejected) for public contracts exceeding CFAF 200 million.

Text Table. Refined Petroleum Product Subsidies
(Percent of non-oil GDP)[1]

Petroleum Product	2005[2]	2006[2]	2007[3]
Gasoline	0.1	-0.2	-0.5
Gasoil/Diesel	2.8	2.4	1.6
Jetoil	0.9	1.2	0.8
Kerosene	0.3	0.3	0.2
Total	4.1	3.8	2.0

Source: Congolese authorities; and Fund staff estimates.

[1] Negative sign reflects positive taxation.

[2] Estimates are based on the average levels of domestic and international prices.

[3] Domestic jet oil price is assumed to rise to CFAF 460 for international companies and CFAF 335 for domestic companies, by September 2007; world prices are assumed in line with WEO projections for Brent crude, assuming constant ratios of pretroleum product prices to brent prices compared to 2006; consumption volumes are assumed to grow in line with real non-oil GDP.

15. **The authorities remain committed to improving public financial management.** With the help of Bank and Fund staffs and other donors, they are finalizing a comprehensive action plan to improve the legal and regulatory framework; budget, treasury, and public investment management; and procurement. In 2007, priority will be given to undertaking the audit of a representative sample of current transfers and public investment expenditure executed in 2006. In addition, the authorities will use the new budget classification system—put together with Fund technical assistance—to plan and execute the 2008 budget.[6] The new nomenclature will be instrumental in helping codify and track poverty-related spending

[5] Government transfers to the oil refinery CORAF include technical losses unrelated to petroleum product subsidies. These losses are the subject of the ongoing audit of the operational viability of the refinery.

[6] The new budget classification is consistent with the "2001 Manual of Government Finance Statistics" and is being implemented on an experimental basis to track the execution of the 2007 budget.

identified by the authorities and put together a computerized PFM system. Finally, procurement procedures are being reformed in line with international best practices.

16. **The main challenge to budget execution will come from the strict observance of the budgetary allocations approved by parliament and compliance with the expenditure control mechanisms.** The authorities agreed that it is important to adhere to the budgetary allocations. They also indicated that they may consider introducing a supplementary budget to further increase capital spending in the second half of 2007 to meet urgent investment needs (MEFP, ¶17). It was agreed that additional spending would be conditional upon satisfactory conclusion of the first assessment of the staff-monitored program, a decline in inflation, satisfactory implementation of the measures to improve the quality of spending agreed under the program, the adoption of a simplified medium-term expenditure framework (MTEF), and a positive assessment by Bank and Fund staff of the additional investment spending. Another related challenge could emerge from higher subsidies to petroleum product prices, depending on developments in international crude oil prices. Overall, the authorities agreed to compress transfers to non-priority sectors in order to ensure that the overall fiscal targets under the program would be observed.

D. Monetary Policy and Financial Sector Reforms

17. **Conducted by the regional Banque des Etats d'Afrique Centrale (BEAC), monetary policy aims at maintaining price stability and strengthening the external position**. The monetary program for 2007 envisages a 19 percent reduction in net credit to the government; that target leaves room for credit to the private sector to grow significantly. In addition, the expected reduction in domestic arrears will free up financing resources for the private sector.

18. **Based on earlier work by Fund staff, the authorities are designing a strategy to develop the financial sector**. The audit of two pension funds and an assessment of the legal framework governing the financial sector are slotted for 2007. In addition, the BEAC plans to establish a financial intelligence unit in Congo by September 2007 to combat anti–money laundering and the financing of terrorism. A draft decree related to the organization, operation, and funding of this unit is expected to be submitted to the government in June 2007.

E. Governance and Transparency

19. **Governance reforms are key to achieving higher sustainable growth.** The government program for 2007 emphasizes the need to accelerate implementation of the triggers for the HIPC completion point and make headway in other structural areas. On governance, the authorities recognized the need to move swiftly to establish the anticorruption observatory and submit a draft law to parliament to regulate conflicts of interest in the public sector (an end-December 2006 structural benchmark under the PRGF

arrangement). The diagnostic study on the commercialization of Congolese oil is expected to be completed in September 2007, and the authorities will adopt the associated action plan by end-2007. Finally, building on recent discussions with civil society, the authorities plan to establish the national committees for the Extractive Industries Transparency Initiative by September 2007.

F. External Debt Management

20. **Maintaining Congo's debt sustainability in the medium term requires significant fiscal adjustment and strict limits on new borrowing.** Under these conditions, staff again recommended that the authorities resort to concessional borrowing only to finance investment projects expected to yield high returns, should domestic resource prove to be insufficient. Staff also called upon the authorities to respect the concessionality threshold under the PRGF arrangement. The authorities plan to complete discussions with two remaining Paris Club bilateral creditors and finalize an agreement with the London Club by end-2007. The staff reiterated its call to continue discussions with all other creditors, including litigating creditors, on terms comparable with the Enhanced HIPC Initiative. The authorities agreed to enhance transparency by publishing quarterly data and projections of external debt on the government's website. Further, all debt management will be centralized at the national debt agency.

G. Poverty Reduction

21. **The authorities have well advanced in the preparation of their first full PRSP**. A first draft has been completed, with the help of the donor community, and Fund and World Bank staff. The government is now actively working to revise the draft, which identified the high-priority sectors for poverty reduction. A macroeconomic framework that reflects medium-term expenditure priorities, detailed sectoral strategies, and the costing, monitoring, and evaluation of the strategy's implementation still needs to be worked out. This phase of the work is seen as critical to produce a PRSP that is fully consistent with the authorities' medium-term fiscal strategy and its draft medium-term expenditure framework. The authorities are determined to finalize the PRSP by end-December 2007. It was agreed that interim debt relief under the HIPC Initiative, currently being deposited in a government account at the central bank, will be used to finance additional pro-poor spending, once (i) a firm of international reputation completes the audit of the account for 2006; and (ii) an ex-post monitoring committee is established.[7] The Fund has not yet provided interim HIPC assistance as financing assurances from external creditors are still not in place and the PRGF arrangement remains off-track.

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[7] This committee's responsibility will be limited to monitoring only HIPC-financed expenditure.

H. Technical Assistance

22. **In support of program objectives and the triggers for the HIPC completion point, Congo will continue to benefit from significant technical assistance (TA)**. The authorities need TA in the areas of public financial management (PFM), national accounts, and balance of payments. On PFM, in coordination with Fund staff and the French Cooperation Agency, IDA has launched two studies, one aimed at rationalizing and strengthening public expenditure management (PEM) procedures and another focusing on integrating and completing the computerization of PEM. FAD is planning to review expenditure management processes, building upon adequate progress in implementing the new functional budget classification, once it is assessed by AFRITAC fiscal experts. Fund staff is also ready to provide the authorities with a poverty and social impact of the petroleum product price increases envisaged for end-2007.

I. Data Provision

23. **Given recent data gaps, the authorities and staff agreed on the need for regular and timely transmission of data and information to establish a productive policy dialogue and monitor the implementation of the SMP.** In particular, the authorities underscored their commitment to provide all the required information, as specified in the technical memorandum of understanding. Completion of each staff assessment under the SMP will be conditional upon a satisfactory flow of information.

J. Program Monitoring and Risks to the Program

24. **The SMP will be monitored based on a set of agreed quarterly quantitative targets and structural benchmarks** (MEFP, Tables 3 and 4). Staff assessment missions will evaluate performance at end-June 2007 and end-September 2007. The authorities have implemented two prior actions for Management approval of the SMP: (i) promulgation of a budget law consistent with the fiscal program targets; and (ii) the launching of bids to select an independent consulting firm of international reputation to conduct the technical and financial audit of a sample of transfers and public investment spending in 2006.

25. **While the economic outlook is favorable, there are significant downside risks to the SMP's implementation**. Fiscal slippages pose the greatest risk. In particular, in view of the legislative elections, political pressures to increase spending in 2007 are already growing. In addition, the absence of linkages between the budget and the sectoral strategies and the appropriation of large public funds to projects lacking details could compromise the quality of investment spending. Other risks include implementation capacity constraints, continued data gaps, lack of political consensus on governance and transparency reforms, and exogenous shocks related to regional security. Further seizures by litigating creditors could also occur.

IV. Staff Appraisal

26. **The authorities' intention to return to prudent macroeconomic policies in 2007 in the context of an SMP and to implement their structural reform agenda is welcome.** The SMP should help the authorities consolidate macroeconomic stabilization, implement important reforms in public financial management, and manage natural resources more transparently. At the same time, the authorities are encouraged to formulate a strategy to develop the financial sector and institute trade reforms. Successful implementation of the SMP should allow discussions on a PRGF arrangement to resume by end-2007.

27. **Prudent fiscal policies and fiscal reforms remain critical to maintaining macroeconomic stability, achieving higher growth, and making progress toward the Millennium Development Goals**. In this context, the 2007 budget—with its focus on raising non-oil revenue, shifting more resources to social sectors and infrastructure spending, containing nonpriority spending, and enhancing the quality of capital outlays—strikes the appropriate balance between maintaining macroeconomic stability and making room for urgent infrastructure spending. The authorities should now strictly adhere to the appropriations approved by parliament.

28. **Fiscal management must be improved to achieve the objectives under the program.** Future budgets should be anchored on measures to raise non-oil revenues and eliminate petroleum product subsidies, while placing the public debt-to-GDP ratio on a downward path. A more comprehensive reform of tax and customs policies seeking to improve tax and customs administration, broaden the tax base, and enhance the quality of taxpayer services should reduce rigidities in the trade regime and raise the revenue-to-GDP ratio over the medium term. The effectiveness of public policy will hinge on improvements in public financial management, fiscal transparency, and natural resource management.

29. **Financial sector reforms have been initiated in recent months, but much remains to be done**. Improvements in the legal framework would set the stage for ensuring adequate supervision of pension funds. Further steps to improve financial intermediation would contribute to economic growth and poverty alleviation. These measures should be articulated in a fully fledged financial sector strategy over the next few months.

30. **Governance reform is critical to growth and poverty reduction**. In this regard, the recent passage of the law to establish the anticorruption observatory is a welcome step. To illustrate their commitment to address governance concerns, the authorities should quickly establish the observatory and present legislation to regulate conflicts of interest in public service. Further institutional reforms in the awarding of oil concessions and the marketing of government oil would go a long way in strengthening transparency in natural resource management.

31. **The authorities should move forward with regularizing their relations with creditors**. It is essential to finalize the bilateral agreements with the two remaining Paris Club creditors and to conclude negotiations swiftly with London Club creditors on an agreement consistent with the enhanced HIPC Initiative. The latter would provide the framework for discussions with other commercial creditors, including litigating creditors.

32. **Implementation of the SMP faces considerable risk.** The electoral agenda, in particular, could heighten spending pressures, resulting in the kinds of slippages seen in 2006. Political consensus on key governance reforms could also prove difficult to sustain.

Table 1. Republic of Congo: Selected Economic and Financial Indicators, 2004–12[1]

	2004	2005	2006		2007	2008	2009	2010	2011	2012
			Prog.	Rev. Est.	Prog.	Projections				
					(Annual percentage change)					
Production and prices										
GDP at constant prices	3.5	7.8	7.4	6.1	3.7	7.3	5.4	2.8	5.3	3.5
Oil	0.5	12.5	9.7	6.8	-1.6	8.9	3.1	-5.0	2.3	-3.7
Nonoil	5.0	5.4	6.3	5.8	6.5	6.5	6.5	6.5	6.5	6.5
GDP at current prices	20.9	30.7	8.3	24.9	-14.9	15.4	5.2	0.6	4.7	1.9
GDP deflator [2]	16.8	21.3	0.8	17.7	-18.0	7.5	-0.1	-2.1	-0.5	-1.6
Consumer prices (period average)	3.6	2.5	2.5	4.8	7.0	5.0	3.0	3.0	3.0	3.0
Consumer prices (end of period)	1.1	3.2	2.5	8.2	5.0	3.0	3.0	3.0	3.0	3.0
External sector										
Exports, f.o.b. (CFA francs)	18.7	42.9	10.0	29.9	-24.6	16.0	3.3	-4.1	2.0	-3.4
Imports, f.o.b. (CFA francs)	21.8	16.0	16.0	28.5	-1.1	11.6	4.0	22.3	2.7	7.9
Export volume	8.4	12.5	9.3	6.9	-2.0	8.6	3.3	-4.1	2.7	-2.3
Import volume	16.5	3.7	7.8	17.1	1.2	10.9	5.3	-8.5	3.6	8.9
Terms of trade (deterioration -)	11.0	21.5	9.0	7.5	-21.1	6.2	-0.9	-5.3	-1.8	-2.3
Nominal effective exchange rate (end of period)	1.8	-0.6	...	3.2	...	...	...	...	...	...
Real effective exchange rate (end of period)	1.1	-0.4	...	8.4	...	...	...	...	...	...
Central government finances										
Total revenue (including grants)	21.6	67.0	12.7	44.2	-25.9	22.0	9.7	-8.3	5.6	0.8
of which: oil revenue	25.8	92.3	10.6	50.1	-32.2	21.7	8.8	-15.3	3.2	-5.5
Non oil revenue	14.1	6.0	8.9	18.4	2.5	24.8	13.1	15.9	12.0	16.1
Total expenditure	8.3	13.6	6.6	48.4	-10.4	3.2	1.7	2.8	4.9	3.9
Current	5.3	16.1	-12.2	29.0	-20.3	-6.5	-2.6	-0.3	3.3	-2.5
Capital (including net lending)	18.5	5.9	70.4	114.1	9.8	17.7	6.6	6.2	6.5	10.0
					(Percent of beginning-of-period broad money)					
Money and credit[3]										
Net domestic assets	-1.6	-82.6	-79.1	-91.2	-12.5	-60.6	-73.6	-57.8	-55.4	-52.2
Domestic credit	3.3	-68.3	-79.1	-95.3	-12.5	-60.6	-73.6	-57.8	-55.4	-52.2
Central government	1.9	-70.3	-80.6	-97.0	-14.7	-62.4	-75.2	-59.4	-57.0	-53.9
Credit to the economy	1.3	0.4	1.5	1.9	2.1	1.8	1.5	1.5	1.5	1.5
Broad money	17.4	37.2	9.1	37.7	14.1	11.9	9.8	9.8	9.8	9.8
Velocity of broad money (Nonoil)	3.2	2.5	2.7	2.0	2.0	2.0	2.0	2.0	2.0	2.0
					(Percent of GDP)					
Investment and saving										
Gross national saving	24.5	32.8	38.7	35.8	33.4	34.1	37.0	28.9	28.9	26.5
Gross investment	22.5	21.6	24.7	23.0	28.6	27.3	28.8	30.6	29.9	31.3
Central government finances										
Revenue and grants	30.4	38.8	41.2	44.8	39.0	41.2	42.9	39.1	39.4	39.0
Total expenditure	26.7	23.2	23.3	27.6	29.0	26.0	25.1	25.7	25.7	26.2
Overall balance (deficit -, commitment basis)[4]	3.6	15.6	17.9	17.2	9.9	15.2	17.8	13.5	13.7	12.8
Primary balance (deficit -)[5]	9.8	20.8	20.1	21.7	13.0	17.8	20.2	15.9	16.3	14.8
Nonoil primary balance (percent of Nonoil GDP; - = deficit)	-25.9	-29.6	-32.1	-52.6	-42.0	-37.3	-33.1	-29.4	-26.6	-24.5
Current account balance[6]	2.0	11.2	14.0	12.8	4.9	6.8	8.2	-1.7	-1.0	-4.7
External public debt (end of period)	198.7	103.2	...	74.9	82.3	70.5	45.7	45.3	43.0	42.9
					(Percent of exports of goods and services)					
External public debt service (before debt relief)	14.4	11.8	6.9	12.9	10.9	5.6	5.2	3.1	3.8	1.6
External public debt	252.2	120.8	103.4	85.8	105.1	89.8	59.2	61.2	59.4	62.2
					(Percent of total government revenue excluding grants)					
External public debt service (before debt relief)	37.8	25.8	15.1	25.2	22.3	10.9	9.6	6.0	7.1	3.0
External public debt	661.2	264.5	228.1	167.7	215.3	174.0	108.2	118.0	110.9	111.9
					(Billions of CFA francs, unless otherwise indicated)					
Gross official foreign reserves	59.9	410.1	794.9	920.4	1,064.8	1,611.7	2,271.0	2,853.3	3,466.2	4,107.3
In months of imports, f.o.b.	1.3	7.5	12.2	13.1	15.3	20.8	28.2	29.0	34.3	37.6
In percent of GDP	2.4	12.8	23.3	22.9	31.2	40.9	54.8	68.4	79.4	92.3
Nominal GDP	2,455.8	3,210.7	3,411.5	4,010.7	3,413.3	3,938.0	4,144.6	4,169.7	4,366.6	4,447.8
World oil price (U.S. dollars per barrel)[7]	38.2	54.4	51.3	65.0	50.8	54.8	54.5	54.3	53.8	53.3
Oil production (millions of barrels)	82.1	92.6	101.5	98.7	97.1	105.7	109.0	103.6	106.0	102.1
Potential windfall oil fiscal revenue [8]	0.0	92.6	346.4	0.0	342.6	376.4	300.7	364.2	240.7	231.9

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

[1] In view of the structural shift in GDP starting in 2005 stemming from significantly higher oil prices, some of the ratios to GDP may not be comparable to past levels.

[2] Projections for the GDP deflator are based on terms of trade projections, which include a prudence factor, with oil price projections reduced by US$10/barrel relative to WEO price forecasts.

[3] The large decline in net domestic assets for the projection period implies a significant buildup of assets in the oil revenue stabilization account.

[4] Including grants.

[5] Revenue (excluding grants) minus noninterest current expenditure minus domestically-financed capital expenditure and net lending.

[6] Including public transfers.

[7] From 2076 onward, oil revenue forecasts incorporate a prudence factor, with oil price projections reduced by US$10/barrel relative to WEO price forecasts.

[8] Additional revenue that would be generated by using WEO forecasts for world oil prices, that is, without applying the prudence factor.

Table 2. Republic of Congo: Central Government Operations, 2004–12

	2004	2005	2006		2007	2008	2009	2010	2011	2012
			Prog.	Rev. Est.	Prog.	Projections				
	(Billions of CFA francs)									
Revenue and grants	746	1,246	1,404	1,796	1,330	1,623	1,779	1,631	1,722	1,736
Revenue	738	1,240	1,367	1,791	1,305	1,596	1,752	1,602	1,692	1,704
Oil revenue	530	1,020	1,128	1,531	1,038	1,263	1,375	1,165	1,202	1,136
Nonoil revenue	208	220	240	261	267	333	377	437	489	568
Grants	8	6	37	5	25	26	28	29	30	32
Expenditure and net lending	656	745	795	1,106	991	1,023	1,040	1,070	1,122	1,166
Current expenditure	496	575	505	742	591	553	539	537	555	541
Wages	123	130	134	135	141	153	160	165	170	175
Other current expenditure	230	270	307	402	353	310	298	290	297	309
Material and supplies	55	62	73	85	130	138	147	154	162	170
Common charges	52	66	70	96	39	30	25	20	15	15
Transfers	123	142	164	220	184	142	126	116	120	124
Refined petroleum products	9	14	17	18	15	13	14	14	15	15
HydroCongo[1]	12	11	9	9	0	0	0	0	0	0
National refinery (CORAF)	0	31	40	67	55	35	15	0	0	0
Other transfers	102	86	98	126	114	93	97	101	105	109
Local authorities	15	17	20	27	22	23	24	30	30	31
Interest	128	158	44	179	75	67	57	53	58	26
Domestic	17	30	18	29	9	8	8	7	7	7
External [2]	111	128	27	150	66	59	49	46	51	19
Capital expenditure	161	170	286	360	400	471	502	533	568	625
Domestically financed	128	154	216	353	344	409	433	457	483	531
Externally financed	32	16	70	7	56	62	68	76	84	94
Net lending	0	0	4	5	0	0	0	0	0	0
Primary balance [3]	242	669	687	871	445	702	837	661	711	659
Of which: Non oil primary balance	-276	-340	-432	-651	-593	-590	-574	-561	-558	-563
Balance, commitment basis										
Excluding grants	82	494	573	685	314	573	711	532	569	539
Including grants	89	500	610	690	339	599	739	561	600	571
Of which: Non oil balance	-428	-509	-509	-831	-699	-664	-636	-604	-602	-566
Change in arrears	-1,646	-57	-93	-76	-101	-71	-56	-33	-33	-30
External	-1,613	10	-6	12	-6	-6	0	0	0	0
Domestic	-33	-67	-87	-88	-95	-65	-56	-33	-33	-30
Balance, cash basis	-1,556	443	517	614	238	528	683	528	567	541
Financing	1,556	-443	-517	-614	-238	-528	-683	-528	-567	-541
Foreign (net)	1,584	-162	-148	-165	-143	-79	-77	-3	-12	35
Drawings	24	24	33	2	31	35	41	47	54	62
Amortization due	-165	-307	-181	-302	-253	-114	-118	-49	-66	-27
Rescheduling obtained (arrears)	916	48	0	60	52	…	…	…	…	…
Debt cancellation (arrears)	809	47	…	75	26	…	…	…	…	…
Exceptional assistance	…	27	…	0	…	…	…	…	…	…
Domestic (net)	-28	-281	-369	-449	-95	-450	-606	-526	-554	-575
Banking system (net)	1	-250	-363	-407	-93	-449	-606	-526	-554	-575
Nonbank financing	-29	-31	-7	-42	-2	0	0	0	0	0
Financing gap (- = surplus)	0	0	0	0	0	0	0	0	0	0

Table 2. Republic of Congo: Central Government Operations, 2004–12 (concluded)

	2004	2005	2006		2007	2008	2009	2010	2011	2012
			Prog.	Rev. Est.	Prog.	Projections				
	(Percent of GDP)									
Revenue and grants	30.4	38.8	41.2	44.8	39.0	41.2	42.9	39.1	39.4	39.0
Revenue	30.0	38.6	40.1	44.7	38.2	40.5	42.3	38.4	38.7	38.3
Oil revenue	21.6	31.8	33.1	38.2	30.4	32.1	33.2	27.9	27.5	25.5
Non oil revenue	8.5	6.9	7.0	6.5	7.8	8.5	9.1	10.5	11.2	12.8
Total expenditure	26.7	23.2	23.2	27.5	29.0	26.0	25.1	25.7	25.7	26.2
Primary expenditure	20.2	17.8	20.0	23.0	25.2	22.7	22.1	22.6	22.4	23.5
of which : pro-poor spending	4.2	4.8	6.1	5.2	6.7	6.7	…	…	…	…
Current	15.0	13.0	13.5	14.0	15.1	12.3	11.6	11.6	11.4	11.6
Wages	5.0	4.0	3.9	3.4	4.1	3.9	3.9	3.9	3.9	3.9
Other	10.0	8.9	9.6	10.7	11.0	8.4	7.8	7.7	7.5	7.7
Capital and net lending	5.2	4.8	6.4	8.9	10.1	10.4	10.5	11.0	11.1	11.9
Interest	5.2	4.9	1.3	4.5	2.2	1.7	1.4	1.3	1.3	0.6
Foreign-financed capital expenditure	1.3	0.5	2.1	0.2	1.6	1.6	1.6	1.8	1.9	2.1
Overall balance, commitment basis [4]	3.6	15.6	17.9	17.2	9.9	15.2	17.8	13.5	13.7	12.8
Primary balance	9.8	20.8	20.1	21.7	13.0	17.8	20.2	15.9	16.3	14.8
Of which: Non oil primary balance	-11.2	-10.6	-12.7	-16.2	-17.4	-15.0	-13.9	-13.4	-12.8	-12.7
	(Percent of nonoil GDP)									
Non oil revenue	19.5	19.1	17.8	21.1	18.9	21.1	21.7	22.9	23.4	24.7
Wages	11.5	11.3	10.0	10.9	10.0	9.7	9.2	8.6	8.1	7.6
Primary expenditure	46.5	49.6	50.5	74.4	61.0	56.6	52.7	49.4	46.8	45.5
Non oil primary balance [5]	-25.9	-29.6	-32.1	-52.6	-42.0	-37.3	-33.1	-29.4	-26.6	-24.5
	(Billions of CFA francs)									
Memorandum items:										
Potential windfall oil revenue [6]	0	0	346	0	343	376	301	364	241	232
GDP at current market prices	2456	3211	3411	4011	3413	3938	4145	4170	4367	4448
Non oil GDP at market prices	1066	1151	1347	1237	1412	1580	1735	1905	2093	2298
Pro poor spending	103	155	209	209	229	262	…	…	…	…

Sources: Congolese authorities; 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] For 2006 the number includes interest arrears under the latest Paris Club rescheduling and higher interest payments on oil collaterailized loans.

[3] Revenue (excluding grants) minus noninterest current expenditure minus domestically financed capital expenditure and net lending.

[4] Including grants.

[5] Excluding investment income.

[6] From 2006 onward, oil revenue forecasts incorporate a prudence factor, with oil price projections reduced by US$10/barrel relative to WEO price forecasts.

Table 3. Republic of Congo: Monetary Survey, 2004-07

(Billions of CFA francs, unless otherwise indicated)

	2004	2005	2006	2007 Program			
				Mar	Jun	Sep	Dec
Monetary survey							
Net foreign assets	32.6	432.7	1023.5	1028.3	1082.6	1137.0	1191.3
Central bank	18.0	359.8	882.3	856.4	921.0	985.6	1050.1
Deposit money banks	14.6	72.9	141.2	171.8	161.6	151.4	141.2
Net domestic assets	301.4	25.5	-392.4	-325.3	-374.0	-422.6	-471.3
Net domestic credit	269.3	41.2	-395.3	-326.9	-376.0	-425.1	-474.2
Net credit to the public sector	185.5	-43.9	-489.0	-434.3	-483.2	-532.2	-581.1
Net credit to the Government	189.2	-45.6	-490.0	-430.7	-481.3	-531.9	-582.5
Central bank	177.4	-8.9	-480.5	-411.3	-465.2	-519.1	-573.1
Claims	194.8	187.6	149.1	157.7	143.8	129.9	116.0
Staturory advances	161.2	155.3	131.4	140.2	131.1	122.0	113.0
Use of IMF credit	14.0	14.7	17.7	17.5	12.7	7.9	3.1
Consolidated credit	19.7	17.7	0.0	0.0	0.0	0.0	0.0
Deposits	17.5	196.5	629.6	569.0	609.1	649.1	689.1
Deposit money banks	11.8	-36.7	-9.4	-19.4	-16.1	-12.7	-9.4
Claims on public agencies, net	-3.7	1.7	1.0	-3.6	-2.0	-0.3	1.4
Credit to the private sector	83.8	85.1	93.7	107.4	107.3	107.1	106.9
Other items, net	32.1	-15.7	2.9	1.6	2.0	2.5	2.9
Broad money	334.1	458.2	631.1	703.0	708.7	714.4	720.0
Currency outside banks	155.9	207.2	237.4	247.7	246.4	245.1	243.7
Demand deposits	122.7	188.9	310.8	374.1	376.6	379.2	381.7
Time deposits	55.4	62.0	82.9	81.2	85.7	90.1	94.6
(Changes in percent of beginning-of-period broad money)							
Net foreign assets	16.1	87.3	93.6	0.5	5.8	11.1	23.3
Net domestic assets	-1.3	-60.2	-66.2	-17.1	-4.7	7.7	-11.0
Net domestic credit	2.8	-49.8	-69.2	-17.3	-4.9	7.5	-11.0
Net credit to the government	1.6	-51.2	-70.4	-11.2	-1.2	8.8	-12.8
Credit to the private sector	1.1	0.3	1.4	14.6	14.4	14.3	1.8
Memorandum items:							
Velocity							
Non-oil GDP/Average M2	3.6	2.7	1.9	...	...	...	2.0
Non-oil GDP/End period M2	3.2	2.5	2.0	...	...	...	2.0
Total GDP growth	20.9	30.7	24.9	...	...	...	-14.9
Non-oil GDP growth	5.1	8.0	7.5	...	...	...	14.1
Credit to the private sectro/Non-oil GDP	7.9	7.4	7.6	...	...	...	7.6

Source: BEAC; and Fund staff estimates and projections.

Table 4. Republic of Congo: Balance of Payments, 2004–12
(Billions of CFA francs, unless otherwise indicated)

	2004	2005	2006		2007	2008	2009	2010	2011	2012
	Est.	Est.	Prog.	Rev. Est.	Prog.	Projections				
Current account	49	361	477	515	166	269	339	-71	-46	-210
Trade balance	1,226	1,905	2,059	2,484	1,675	1,981	2,040	1,702	1,727	1,531
Exports, f.o.b.	1,792	2,561	2,839	3,326.4	2,509	2,911	3,007	2,885	2,941	2,842
Oil sector	1,502	2,282	2,501	3,030	2,191	2,569	2,637	2,479	2,503	2,368
Non oil sector	290	280	337	296	318	342	370	405	438	474
Imports, f.o.b.	-566	-656	-780	-842.8	-834	-930	-967	-1,182	-1,214	-1,310
Oil sector	-98	-124	-107	-123	-89	-93	-86	-89	-89	-92
Government	-99	-118	-218	-276	-297	-351	-370	-389	-411	-448
Non oil private sector	-368	-414	-454	-444	-448	-486	-511	-705	-715	-770
Balance of services	-600	-746	-720	-826	-662	-700	-688	-814	-825	-888
Income	-578	-798	-865	-1,143	-847	-1,011	-1,012	-959	-947	-853
Labor income	-19	-33	-35	-43	-30	-36	-37	-35	-35	-33
Investment income	-559	-765	-830	-1,099	-816	-975	-974	-924	-912	-820
Current transfers (net)	0	-1	4	-1	-1	-1	-1	-1	-1	-1
Capital account	9	7	38	6	26	27	29	30	32	33
Official grants	8	6	37	5	25	26	28	29	30	32
Other	1	1	1	1	1	1	1	1	1	1
Financial account	-131	-130	-119	-127	-105	220	291	624	629	822
Direct investment (net)	295	379	410	466	375	401	331	341	354	383
Of which: oil sector	243	339	366	426	327	347	273	276	283	304
Portfolio investment	-5	-5	-4	-4	-5	-5	-5	-5	-5	-5
Other investment	-421	-505	-524	-589	-476	-177	-35	289	280	444
Medium and long term	-232	-471	-302	-469	-325	-238	-234	-151	-162	-107
Public sector	-141	-336	-151	-290	-194	-85	-77	-3	-12	35
Drawings	24	24	33	2	31	35	41	47	54	62
Project	24	10	33	2	31	35	41	47	54	62
Program	0	14	0	0	0	0	0	0	0	0
Amortization	-165	-360	-178	-292	-224	-120	-118	-49	-66	-27
Private sector	-91	-135	-150	-180	-131	-153	-157	-148	-149	-142
Oil	-84	-128	-140	-170	-123	-144	-148	-139	-140	-133
Non oil	-7	-7	-10	-10	-8	-9	-9	-9	-9	-9
Short term	-189	-33	-222	-119	-151	61	199	439	442	551
Errors and omissions	0	0	0	0	0	0	0	0	0	0
Overall balance of payments	-73	237	397	394	87	516	659	584	615	645
Financing	73	-237	-397	-394	-87	-516	-659	-584	-615	-645
Reserve financing	-41	-342	-397	-522	-159	-510	-659	-584	-615	-645
IMF (net)	0	0	-2	4	0	23	0	-1	-2	-3
Purchases / Disbursments	6	6	0	6	0	23	0	0	0	0
Repurchases / Repayments	-6	-6	-2	-2	0	0	0	-1	-2	-3
Other reserves	-41	-342	-395	-526	-159	-534	-659	-582	-613	-641
Exceptional financing[1]	113	105	-6	129	72	-6	0	0	0	0
Net change in arrears	-1,613	10	-6	-6	-6	-6	0	0	0	0
Debt cancellation	809	47	0	75	26	0	0	0	0	0
Debt rescheduling	917	48	0	60	52	0	0	0	0	0
Financing gap (- = surplus)	0	0	0	0	0	0	0	0	0	0
	(Annual percentage change, unless otherwise indicated)									
Memorandum items:										
Current account balance[2]	2.0	11.2	14.0	12.8	4.9	6.8	8.2	-1.7	-1.0	-4.7
Export volume	8.4	12.5	9.3	6.9	-2.0	8.6	3.3	-4.1	2.7	-2.3
Import volume	16.5	3.7	7.8	17.1	1.2	10.9	5.3	-8.5	3.6	8.9
Export price	16.1	35.9	17.3	17.9	-8.2	5.6	-0.6	-0.8	-1.3	-1.4
Import price	4.6	11.8	7.6	9.7	-2.3	0.6	-1.2	-0.9	-0.3	-0.2
Terms of trade	11.0	21.5	9.0	7.5	-6.0	4.9	0.6	0.2	-1.1	-1.2

Sources: BEAC; and Fund staff estimates and projections.

[1] Includes debt relief from Paris Club.

[2] Percent of GDP.

Table 5. Republic of Congo: Millennium Development Goals, 1990–2015

	1990	1995	2000	2005	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 from hunger.					
4. Prevalence of child malnutrition (in percent of children under 5)	...	...	13.0	...	...
5. Population below minimum level of dietary energy consumption (in percent)	54.0	59.0	...	33.0	[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)	79.0	...	...	44.0	...
7. Cohort reaching grade 5 (in percent)	60.0	...	66.0	...	...
8. Youth literacy rate (in percent, ages 15-24)	93.0	...	...	...	[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)	83.0	...	83.0	89.0	...
10. Ratio of young literate females to males (in percent, ages 15-24)	95.0	...	...	...	...
11. Share of women employed in the nonagricultural sector (in percent)	26.1	...	...	...	...
12. Proportion of seats held by women in the national parliament (in percent)	14.0	2.0	12.0	9.0	...
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	81.0	...
15. Immunization against measles (percent of children under 12 months)	75.0	38.0	34.0	56.0	...
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)	...	...	510.0	...	...
17. Proportion of births attended by skilled health personnel (% of total)	...	...	...	86.0	...
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)	...	...	...	3.7	...
19. Contraceptive prevalence rate (percent of women ages 15-49)	...	...	...	44.0	...
20. Number of children orphaned by HIV/AIDS	...	...	...	...	...
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)	137.0	240.0	328.0	367.0	...
24. Tuberculosis cases detected under DOTS (in percent)	...	67.0	87.0	57.0	...

Table 5. Republic of Congo: Millennium Development Goals, 1990–2015 (concluded)

	1990	1995	2000	2005	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)	67.0	...	66.0	66.0	...
26. Nationally protected areas (percent of total land area)	...	...	...	18.0	...
27. GDP per unit of energy use (PPP $ per kg oil equivalent)	2.3	4.5	3.9	3.3	...
28. CO2 emissions (metric tons per capita)	0.5	0.5	0.3	0.4	...
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)	...	...	...	58.0	...
Target 11: Achieve by 2020 significant improvement for at least 100 million slum dwellers.					
31. Access to improved sanitation (percent of population)	...	...	...	27.0	...
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)	6.0	7.0	27.0	102.0	...
48. Personal computers (per 1,000 people)	35.3	13.1	1.6	2.4	...

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 6. Republic of Congo: Key Oil Sector Indicators, 2004-09

	2005	2006		2007	2008	2009
		Prog.	Rev. Est.	Prog.	Projections	
Price (US$ per barrel, unless otherwise indicated)						
Brent						
International price [1]	54.4	61.3	65.0	60.8	64.8	64.5
Price rule [2]	54.4	51.3	65.0	50.8	54.8	57.5
Average Congolese blends	48.6	46.1	60.5	46.5	51.0	54.1
Exchange rate (CFA Francs/US$)	528.1	549.2	532.5			
Brent (thousands of CFA francs per barrel)	28.7	28.1	34.6	25.3	27.2	28.4
Production (millions of barrels)	92.6	101.5	98.7	97.1	105.7	109.0
Crude	89.8	98.6	95.7	94.2	103.2	106.8
Natural gas	2.8	3.0	3.0	2.9	2.6	2.2
Government revenue (billions of CFA francs) [3]	1,022	1,132	1,553	1,043	1,268	1,380
Regular	1,018	1,128	1,530	1,038	1,263	1,375
Of which: marketed by SNPC [4]	...	...	...	...	...	...
Bonus	2.1	0.0	22.7	0.0	0.0	0.0
Dividends	2.2	4.0	0.0	5.0	5.0	5.0
Percent of gross sales						
Government revenue	42.8	43.8	48.2	46.1	47.1	47.1
Memorandum items:						
Gross sales (billions of CFA francs)	2,376.0	2,572.5	3,178.2	2,253.0	2,679.3	2,919.7
Potential windfall revenue (billions of CFA francs) [5]	0.0	346.4	0.0	342.6	376.4	300.7

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

[1] IMF, WEO, January 2007.

[2] Base for projecting the price of Congolese blends and government revenues. From 2006 onward, oil revenue forecasts incorporate a prudence factor, with oil price projections reduced by US$10/barrel relative to WEO price forecasts.

[3] Oil revenues in the fiscal table include "Transfers to CORAF" and "Bonuses", and exclude "Dividends" (included in nonoil 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 pruden factor.

Table 7. Republic of Congo: Elements of Government Financial Operations, 2005-12
(Billions of CFA francs, unless otherwise indicated)

	2005	2006	2007	2008	2009	2010	2011	2012
		Rev. Est.	Prog.	Projections				
Domestic revenue	1240	1791	1305	1596	1752	1602	1692	1704
Oil	1020	1531	1038	1263	1375	1165	1202	1136
Non oil	220	261	267	333	377	437	489	568
Domestic primary expenditure [1]	-571	-921	-861	-894	-915	-941	-980	-1046
Current	-417	-563	-516	-486	-481	-484	-497	-515
Capital	-154	-357	-344	-409	-433	-457	-483	-531
Basic primary fiscal balance	669	871	445	702	837	661	711	659
Debt service	-430	-416	-358	-252	-231	-135	-157	-83
Current debt service	-373	-341	-257	-182	-175	-103	-124	-53
Domestic	-41	-36	-11	-8	-8	-7	-7	-7
External	-331	-305	-246	-173	-167	-95	-117	-46
Of which: post-cutoff-date arrears [2]	-149	-112	-82	0	0	0	0	0
Arrears payments	-57	-76	-101	-71	-56	-33	-33	-30
Domestic [3]	-67	-88	-95	-65	-56	-33	-33	-30
External	10	12	-6	-6	0	0	0	0
Fiscal balance after debt service (+ = surplus)	239	454	87	449	606	526	554	575
Identified financing	-239	-454	-87	-449	-606	-526	-554	-575
Domestic	-270	-442	-93	-449	-606	-526	-554	-575
External	31	-12	6	...	...	...	...	...
Budgetary cash balance (+ = surplus)	0	0	0	0	0	0	0	0

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

[1] Excluding interest payments and foreign-financed investment.
[2] Payments due on consolidated arrears related to post-cutoff-date debt to Paris Club creditors.
[3] Including payment of arrears to the pension funds which in Table 2 are part of net domestic financing.

Table 8. Republic of Congo: External Financing Requirements, 2004–12
(Billions of CFA Francs)

	2004	2005	2006	2007	2008	2009	2010	2011	2012
			Rev. Est.	Prog.	Projection				
Requirements	163	348	864	414	690	814	668	717	705
Current account excluding official transfers	-49	-361	43	30	36	37	35	35	33
Debt amortization	165	360	292	224	120	118	49	66	27
Change in net foreign assets (increase, +) [1]	41	342	526	159	534	659	582	613	641
Errors and omissions	0	0	0	0	0	0	0	0	0
Resources	163	348	306	218	385	437	704	727	883
Official transfers	0	0	0	0	0	0	0	0	0
Official project grants	9	7	6	26	27	29	30	32	33
Long-term public loan disbursements	24	24	2	31	35	41	47	54	62
Program	0	14	0	0	0	0	0	0	0
Project	24	10	2	31	35	41	47	54	62
Oil-colllateralized borrowing	0	0	0	0	0	0	0	0	0
Private capital (net)	10	206	162	88	304	368	627	642	787
Debt relief	1,726	95	135	78	0	0	0	0	0
Use of IMF resources	6	6	6	0	23	0	0	0	0
Change in arrears (increase, +)	-1,613	10	-6	-6	-6	0	0	0	0
Financing gap	0	0	0	0	0	0	0	0	0
Memorandum item:									
Exchange rate: CFA francs per U.S. dollar (average)	528	527	522	...	...	...	...	...	...

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

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

Table 9. Republic of Congo: External Debt, 2004-06

	Nominal Debt Stock Including Arrears, end-2004		Nominal Debt Stock Including Arrears, end-2005		Nominal Debt Stock Including Arrears, end-2006		Total Arrears, end-2006	
	US$ million	Percent of total	US$ million	Percent of total	US$ million	Percent of total	US$ million	Percent of total
Total	9,248	100	6,322	100	6,319	100	3,082	100
Multilateral	523	6	460	7	465	7	0	0
African Development Bank	138	1	78	1	70	1	0	0
African Development Fund	12	0	20	0	22	0	0	0
BADEA	21	0	17	0	7	0	0	0
European Union	40	0	31	0	31	0	0	0
IDA	270	3	276	4	305	5	0	0
IMF	29	0	26	0	25	0	0	0
OPEC Fund	13	0	11	0	5	0	0	0
Bilateral and commercial	8,725	94	5,861	93	5,854	93	3,082	100
Paris Club	5,048	55	2,903	46	2,620	41	0	0
Post-cutoff date	960	10	455	7	24	0	0	0
Pre-cutoff date	4,088	44	2,447	39	2,596	41	0	0
Other official bilateral	289	3	313	5	347	5	340	11
Algeria	20	0	20	0	22	0	22	1
Angola	60	1	73	1	81	1	81	3
Bulgaria	2	0	1	0	1	0	1	0
China	47	1	29	0	32	1	24	1
Cuba	1	0	1	0	0	0	1	0
Saudi Arabia	64	1	57	1	63	1	63	2
Kuwait	49	1	58	1	64	1	64	2
Libya	28	0	28	0	31	0	31	1
Romania	1	0	1	0	1	0	1	0
United Arab Emirates	17	0	46	1	51	1	51	2
Commercial	3,388	37	2,645	42	2,887	46	2,743	89
of which : London Club	2,177	24	1,924	30	2,143	34	2,143	70

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

APPENDIX I

No. ____/MEFB/CAB

Brazzaville, June 22, 2007

The Minister of Economy, Finance, and Budget

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

Dear Mr. de Rato:

1. In October 2004, the Republic of Congo launched a three-year program supported by the International Monetary Fund (IMF) under the Poverty Reduction and Growth Facility (PRGF). The consolidation of peace and national reconciliation, together with improvements in fiscal management under the PRGF arrangement, stimulated economic growth, including in the non-oil sector. The progress made helped Congo devise a general medium-term poverty reduction strategy. At the same time, despite some delays, we are continuing to implement the Heavily Indebted Poor Countries (HIPC) Completion Point triggers.

2. The government acknowledges the obstacles that have prevented the completion of the third review under the three-year PRGF-supported program. In particular, these include (i) the nonobservance of the quantitative performance criteria for the primary fiscal balance at end-June and end-December 2006; and (ii) the nonobservance of one structural performance criterion and most structural benchmarks in 2006.

3. Nevertheless, the government is determined to bring the PRGF-supported program back on track. Under these circumstances, we request the support of IMF management to implement a staff-monitored program (SMP) for the period spanning April 1 to September 30, 2007. The success of the SMP should create the conditions for the resumption of discussions on the PRGF.

4. The passage of a prudent 2007 budget attests to the government's commitment to ensure the success of the SMP. This budget is based on moderate growth of both current and capital expenditures to ensure macroeconomic stability. The 2007 budget will be complemented by structural measures to (i) contain the wage bill; (ii) reduce current transfers; (iii) strengthen public financial management; and (iii) improve the quality of spending. Moreover, the government is committed to following international best practices in

the use of natural resources and to advancing governance reforms. The recent accident on a large oil platform highlights the vulnerability of the program to sharp swings in oil production. In this respect, we are requesting that the adjuster on oil revenue will apply to shortfalls as well as to excesses of oil shipments.

5. Poverty alleviation remains the key focus of our economic policies. Consequently, poverty reduction has been given priority in the 2007 budget. Along the same lines, the Poverty Reduction Strategy Paper (PRSP), which will soon be completed, will link sectoral strategies to the achievement of the Millennium Development Goals (MDGs), and ensure consistency with annual budgets, starting with the 2008 budget.

6. While the government is convinced that the policies set forth in the attached Memorandum on Economic and Financial Policies (MEFP) are adequate to achieve the objectives of the SMP, it stands ready to take any other measures deemed necessary. In this regard, the authorities will consult with Fund staff on the adoption of new measures, and in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultations. We will also take the required steps to ensure that all data and information necessary for monitoring performance under the SMP will be provided to Fund staff on a timely and comprehensive basis, in accordance with the terms of the Technical Memorandum of Understanding (TMU) attached to the MEFP. The first staff assessment of the SMP is expected to be completed by end-October 2007, based on end-June 2007 performance. The second staff assessment is expected to be completed by end-January 2008, based on end-September 2007 performance.

7. We are committed to broadly disseminating the MEFP, as well as the attached TMU, and we authorize the IMF to publish its staff report once it has been sent to the Executive Board.

Sincerely yours,

/s/
Pacifique Issoïbeka
Minister of Economy, Finance, and Budget

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

APPENDIX I
ATTACHMENT I

Memorandum on Economic and Financial Policies

Brazzaville, June 22, 2007

I. Introduction

1. This Memorandum on Economic and Financial Policies (MEFP) describes the government's economic program over the period April 1–September 30, 2007. The program aims at establishing a strong track record of macroeconomic and structural policy implementation to correct the slippages, delays, and weaknesses observed in 2006 that led to the noncompletion of the third review under the PRGF arrangement. The success of the staff-monitored program (SMP) program will create the conditions for the resumption of discussions on the PRGF.

2. We remain committed to our economic policy objectives of higher sustainable growth, poverty reduction, and the achievement of the Millennium Development Goals (MDGs), as outlined in the MEFP prepared for the second review under the PRGF arrangement.

II. Recent Structural and Macroeconomic Performance

3. Macroeconomic performance in 2006 was positive overall. Provisional estimates point to a real GDP growth rate of 6.1 percent in 2006, driven by the oil sector and specifically, the combined effect of high oil prices and a strong pickup in production. The non-oil sector also contributed to growth, particularly from the industrial sectors (6.9 percent growth in manufacturing activities, electricity, water, construction, and public works) and the tertiary sector (transportation and communications). Economic growth was accompanied by inflationary pressures, however, as illustrated by the average consumer price index, which averaged 8.2 percent (year-on-year) in the two main cities of Brazzaville and Pointe-Noire at end-December 2006. These price increases are largely due to an expansionary fiscal policy and transportation bottlenecks, and were particularly noticeable for food products, construction, and transportation. Broad money grew by 38 percent in 2006, due to the failure to sterilize a portion of gross foreign assets, which recorded strong growth as a result of high oil prices. The real effective exchange rate appreciated by 8.4 percent in 2006. Strong oil exports have pushed the external current account surplus higher than expected.

4. We faced difficulties in implementing the PRGF-supported program in 2006. At end-December 2006, expenditure overruns, including current and capital expenditure, amounted to CFAF 181 billion, or 4.5 percent of GDP. As a result, despite good performance

on the revenue side, the government failed to meet the performance criterion for the primary fiscal balance (Table 1). The slippages in expenditure are attributable to several factors, including (i) high international oil prices, which resulted in higher transfers to the national oil refinery, CORAF; (ii) the security situation in the Democratic Republic of Congo; and (iii) the obligations stemming from Congo's international activities (presidency of the African Union and a seat on the UN Security Council). Moreover, planned investment spending was based on very optimistic assumptions of external financing. When these assumptions did not prove accurate, the government had to use its own resources to compensate for the shortfall. Consequently, the government was unable to meet its objectives for the primary fiscal balance. We are committed to restoring fiscal discipline and strengthening expenditure control.

5. On the structural reform front, the government has made some progress, despite a few delays (Table 2). The certification report by the national audit office (*Cour des Comptes*) on conflict of interest in oil management has been submitted to the government and was published on the website of the Ministry of Economy, Finance, and Budget (www.mefb-cg.org) at end-September 2006, as originally planned. The implementation of most structural initiatives was delayed in 2006. An internationally recognized audit firm completed the certification of quarterly oil revenues for 2006, and the reports were published on the website of the Ministry of Economy, Finance, and Budget (www.mefb-cg.org). The diagnostic study of the national oil company (*Société Nationale des Pétroles du Congo* – SNPC) oil marketing strategy required several changes, particularly to incorporate comments from the IMF and World Bank staffs. Its completion (a performance criterion under the original PRGF-supported program) is now expected by end-September 2007.

III. Key Macroeconomic and Poverty-Reduction Objectives for 2007 and the Medium Term

6. One of the pillars of our macroeconomic strategy is anchoring fiscal policy onto a medium-term fiscal framework that accounts for the country's nonrenewable oil resources. This strategy targets a gradual fiscal adjustment in order to reach a sustainable non-oil deficit by 2020. The government is aware that any delayed adjustment in the next few years or lower realized oil prices will imply a larger adjustment. Accordingly, the government will regularly update oil reserves and production schedules to estimate the "permanent revenue" from oil and ensure the fiscal sustainability of forthcoming budgets.

7. Economic prospects are broadly favorable in 2007. Real GDP is projected to grow by about 3.7 percent. The 6.5 percent increase in non-oil GDP should offset a modest decline in oil production, from 98.8 million barrels in 2006 to 97.0 million barrels in 2007, due to the slumping production of maturing oil fields. Assuming an international price of US$61 per barrel of Brent crude oil, and an exchange rate of CFAF 498 = US$1, oil revenue is projected to reach CFAF 1,038 billion in 2007. These projections will be updated at the time of the first staff assessment, based on an analysis of the impact on oil production of the recent

accident to a major oil platform, which is currently underway. Inflation is projected to average 7 percent in 2007, reflecting the continued effect of accelerating prices in the second half of 2006. With oil prices remaining high, the external current account balance (including public transfers) is projected to record a surplus of about 5 percent of GDP.

8. As stated in the MEFP for the second PRGF review[1] and consistent with our medium-term fiscal strategy, we are committed to a prudent approach to using the oil proceeds deposited in the revenue stabilization account at the central bank. Resources in the oil account may be used solely for budget purposes. The government will first consult with IMF staff before implementing additional expenditures not already envisaged in the current budget law. Any such expenditure will be authorized through a regular budget law or, in the event of an unforeseen expenditure need during the year, through a supplementary budget law. In addition, the proceeds in the stabilization account can be used to prepay expensive debt—specifically oil-collaterized loans and liabilities due to the BEAC—with a view to reducing the average cost of the debt; the net savings from these debt management operations would free up additional resources that can be used for poverty reduction over time. At the end of each year, the stabilization account will be audited by the national audit office with a lag of no more than three months from the end of the year, and the audit report will be published on the government's website. The audit will be completed by end-September 2007.

9. In accordance with the agreement reached on the decision point under the HIPC Initiative, we have deposited the resources generated by interim debt relief into a special account at the central bank. These resources will be exclusively allocated to poverty reduction, health, and education. All expenditure will be approved through regular or supplementary budget laws and reported to IMF staff in the program reviews. The authorities did not use this account in 2006. An internationally recognized firm will audit this account by end-September 2007, and the resulting audit report will be published on the government's website. This report and all other relevant information will also be subject to an ex post review by a committee comprising government officials, members of parliament, civil society, and donors, which will make recommendations to the government.

IV. THE ECONOMIC POLICY AGENDA FOR THE REST OF 2007

10. Our economic policy agenda for the rest of 2007 aims at maintaining a stable macroeconomic environment in support of robust growth and poverty reduction. In addition to the recent passage of a prudent budget law for 2007, we will take additional steps to improve the quality of public spending. We will continue to improve controls and transparency in the budget, as well as in the oil and forestry sectors. We will also further

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[1] See IMF Country Paper No. 06/262, published on the IMF website at http://www.imf.org/external/pubs/cat/longres.cfm?sk=19451.0.

liberalize domestic prices and halt the granting of new discretionary tax and customs exemptions. Finally, we will continue implementing the HIPC completion point triggers, and the measures envisaged for 2007 in the related action plan.

A. Fiscal Policy

11. The major fiscal policy objectives for 2007 are to (i) reverse the fiscal slippages of 2006 and execute a budget for 2007 that is consistent with the medium-term fiscal strategy; (ii) ensure that poverty-reducing spending is aligned with the priorities specified in the PRSP; (iii) enhance the framework for mobilizing oil and non-oil revenues; and (iv) improve the quality and management of public spending.

12. We have adopted a 2007 budget that strives to maintain macroeconomic stability while meeting the country's most pressing needs. The budget targets a non-oil fiscal deficit of CFAF 593 billion (42 percent of projected non-oil GDP), as a result of further non-oil revenue mobilization efforts and a moderate increase in primary expenditure. Domestically financed current and capital outlays are expected to reach CFAF 991 billion in 2007. Capital spending has been capped at CFAF 400 billion, of which CFA 344 billion should be financed by domestic resources and CFAF 56 billion by external resources. Common charges will be limited to CFAF 39 billion to increase budget transparency. Later in 2007, we will adopt a simplified medium-term expenditure framework for 2008–10 to rationalize our investment decisions over the medium term.

13. The government will take the following measures to mobilize more oil and non-oil revenues:

- On oil revenues, we will continue our efforts to ensure that all private oil companies meet their tax obligations in a timely manner. Additional measures for oil revenue mobilization will include:

    - ➢ Continuation of the quarterly certification of oil revenues by an internationally recognized audit firm, and with no restrictions on access to information. Certification reports will be published on the website of the Ministry of Economy, Finance, and Budget (www.mefb-cg.org).

    - ➢ Completion by end-June 2007, by an internationally recognized audit firm and in accordance with international standards, of an independent audit of oil costs for 2004 and 2005, for all production-sharing contracts as defined in these contracts, and submission of the reports to the government. The audit report will be published on the website of the Ministry of Economy, Finance, and Budget (www.mefb-cg.org).

- ➢ Commissioning of a rigorous reconciliation report from an internationally recognized audit firm on the amount of oil revenue deposited in government bank accounts, as reported in the quarterly certification reports, and the total oil revenues reported in the government financial operations tables for 2006, with no restrictions on access to information. This report will be submitted to the government and published on the website of the Ministry of Economy and Finance (www.mefb-cg.org) by September 30, 2007.

- On non-oil revenues, we will focus on measures to strengthen tax and customs administration, including computerization, and to fight fraud and tax evasion; and we will no longer grant any new discretionary tax or customs exemptions. In particular, the 2007 budget will use a single taxpayer identification number for all transactions with the government.

14. We are investigating the economic impact of an accident on one of our major oil platforms in early May 2007. The findings of this investigation will be made available to Fund staff in order to assess the macroeconomic implications of this incident and its effect on the program at the time of the first assessment of the SMP. We will also discuss with Fund staff possible corrective policy measures, if needed, at that time. As a first step, we have requested a downward adjuster for oil shipments under the program to take into account shortfalls in oil output relative to programmed levels.

15. We are committed to further cutting transfers to CORAF by capping them at CFAF 55 billion in 2007. In order to provide this higher level of subsidies, we will rationalize expenditure. At the same time, we will take several measures and consider additional ones to increase refined petroleum prices and improve the economic viability of CORAF:

- By end-September 2007, we will increase the price of jet fuel sold to foreign airlines from CFAF 400 to CFAF 460 per liter, and to domestic airlines from CFAF 290 to CFAF 335 per liter.

- We will simultaneously index the prices of these two categories of jet fuel to international prices through an automatic price adjustment mechanism.

- On June 30, 2007, an independent internationally recognized firm will complete a diagnostic study of the economic viability of CORAF and submit its report to the government. Measures will be taken to implement the audit recommendations.

- By December 31, 2007, we will significantly increase the prices of other refined petroleum products to allow a further reduction in subsidies to CORAF. The amount of this reduction will be determined in discussions on the 2008 budget.

16. We are determined to strengthen public expenditure management and improve the transparency in the procurement process so as to ensure the highest return on pubic spending.

- First, we have included a provision in the budget strictly limiting the use of advance payment procedures to emergency situations only, as specified in the organic budget law. This has been reinforced through a circular of the Ministry of Finance.

- Second, in order to increase transparency, all invitations to bid and the bids themselves (both accepted and rejected) for government procurement contracts above CFAF 200 million will be published on the government's website (www.mefb-cg.cg) as of the date of promulgation of the budget (May 11, 2007).

- Third, we will arrange for a technical and financial audit to be carried out on a representative sample of capital expenditure and current transfers in 2006, based on the terms of reference satisfactory to Fund and World Bank staff. In this regard, we have already issued an invitation to bid to recruit an internationally recognized audit firm.

- Finally, we will continue to centralize all public revenues and execute all public payments in the Treasury.

17. We envisage additional urgent investment needs in the second half of 2007 that could be part of a supplementary budget. We recognize, however, that any additional spending will be conditional on satisfactory conclusion of the first staff assessment of the SMP in September 2007. Furthermore, we agree that the additional spending will be conditional on a slowdown in inflation, satisfactory implementation of the measures to improve the quality of spending agreed under the program, the adoption of a simplified medium-term expenditure framework, and a positive assessment by the IMF and Bank staffs of the additional investment spending. We also understand that the additional capital spending will be predicated on revenue performance in general and oil revenue in particular, especially in light of the recent accident on the oil platform.

B. Governance and Transparency

18. The government believes that continued improvements in governance and transparency are essential for Congo to reach higher sustainable growth. In this regard, we established an anticorruption observatory in June 2007. We will move swiftly to provide the necessary staffing and financial resources to enable this new institution to start operations. In addition, we will submit a draft law to parliament in December 2007. Among other things, this bill defines conflict-of-interest and financial disclosure rules for public officials, and stipulates that (i) senior public officials (including in the government, civil service, and public enterprises) must disclose their wealth and sources of income at the time they assume

their duties and annually thereafter; and (ii) the annual disclosure statements are to be reviewed by the national audit office and forwarded to the national anticorruption observatory, which will publish a summary report on its findings within six months of the end of the calendar year.

19. In the oil sector, with the help of an independent internationally recognized audit firm, we will complete a diagnostic study of the SNPC strategy for marketing government oil. The diagnostic study will be published on the website of the Ministry of Economy, Finance, and Budget (www.mefb-cg.org).

20. We will adopt additional measures to improve governance in the granting of natural resource development rights, using the findings of the audit report on the awarding of the Marine XI oil field concession in 2005, which was published on the website of the Ministry of Economy, Finance, and Budget in October 2006. In particular, we will:

- clarify the role of the SNPC as a holder and/or negotiator of development rights on behalf of the government;

- adopt a decree by September 2007 under which all new oil concession contracts will awarded through a transparent and competitive international bidding process. These rules will be published the website of the Ministry of Economy, Finance, and Budget (www.mefb-cg.org); and

- send the audit report to the anticorruption observatory by October 2007.

21. We are committed to abiding by the principles of the Extractive Industries Transparency Initiative (EITI) and will establish the executive and consultative committees by June 2007. We expect to publish the first EITI report by end-2007.

C. Monetary and Financial Sector Issues

22. Monetary policy will continue to be conducted regionally by the BEAC. The key objectives, namely to ensure low inflation and maintain the CEMAC region's foreign exchange reserves at a comfortable level, have not changed. We reiterate our commitment to depositing surplus government revenues in the stabilization account at the BEAC.

23. We are committed to developing the financial sector. We will audit two pension funds: the National Social Security Fund *(Caisse nationale de sécurité sociale)* and the Government Employee Pension Fund *(Caisse de retraite des fonctionnaires)*, and study the feasibility of structurally rebalancing these funds and updating the regulatory and supervisory framework. In the area of Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT), we will continue our efforts to expedite the establishment of the National Financial Intelligence Unit (*Agence National d'Investigation Financière* - ANIF), in compliance with Regulation 01/03 CEMAC/CM of April 4, 2003, by end-September 2007.

The draft decree specifying the organization, function, and financing of the ANIF will be submitted to the Office of the President of the Republic by end-June 2007. This unit will be set up once the President of the Republic has signed the decree.

D. External Debt Management

24. We are continuing our efforts to normalize relations with external creditors. We have reached a tentative agreement with the London Club creditors on debt relief consistent with the Enhanced Heavily Indebted Poor Countries Initiative. We will then seek comparable treatment from suppliers, non–London Club commercial creditors, and litigating creditors. We will also seek to sign bilateral agreements with the last two remaining Paris Club creditors as soon as possible. We understand that the activation of the new phase of the Paris Club agreement hinges upon satisfactory implementation of the PRGF.

25. We are fully aware that new external borrowing could endanger medium-term debt sustainability and compromise Congo's efforts to secure debt relief. Accordingly, we will refrain from new nonconcessional borrowing. In this vein, we will also ensure that all framework agreements conform to this principle. As part of our efforts to improve our external debt management policy, by September 2007, we will also publish quarterly external debt data and projections on a government website; and centralize all information on debt, including collateralized debt, in the government's debt agency (CCA).

E. Trade Policy Reforms

26. We are committed to furthering reforms of our trade regime. The recent liberalization of cement imports and prices is a first step in our plan to eliminate a bottleneck for construction activity across the country. We also intend to liberalize commodity and energy prices in support of greater private-sector activity over the medium term. We will also spearhead trade reforms in the context of the CEMAC, adopt a transparent trade regime, minimize bureaucratic procedures for exports and imports, and gradually phase out exemptions. Lastly, we will engage in coordinated efforts with other CEMAC partners to seek a lower common external tariff.

27. Recognizing the crucial role of information in this endeavor, we will continue to increase the amount of information available to the public on the websites, including the publication, by September 30, 2007, of (i) the full list of tariff lines subject to para-tariff measures, import licenses, quotas, monopolies, price controls, tax concessions, and prohibitions, as well as those subject to special exemptions and excise taxes;[2] (ii) all applicable laws and regulations relating to tariff, VAT, and para-tariff exemptions; and

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[2] The list indicates the rates applicable to each product line.

(iii) all applicable laws and regulations relating to pre-export inspections and related exemptions.

F. Action Plan to Implement the Triggers for the HIPC Completion Point

28. We recognize that implementation of the triggers to reach the HIPC completion point needs to be accelerated. In this regard, we will follow the action plan discussed with IDA and IMF staff in August 2006. The focus of our efforts in 2007 will be on:

- Completion of audit reports by the national audit office (*Cour des Comptes*) and a firm of international reputation on activity in 2006 in the special treasury account that channels interim debt relief; and publication of both audits on the website of the Ministry of Economy, Finance, and Budget (www.mefb-cg.org).

- Completion of a study to model oil reserves and oil revenues by October 2007.

- Monitoring, on an experimental basis, of the 2007 budget using the new functional classification system that is consistent with the IMF's 2001 *Government Finance Statistics Manual* and includes a sub classification of poverty-related expenditures.

- Adoption of the following measures to ensure that the SNPC more effectively fulfills its role as a government agency, including:

    - adoption of an action plan by December 2007, based on the diagnostic study completed in September 2007, to bring the SNPC's marketing of government oil up to international standards;

    - an annual audit, by an independent internationally recognized firm, of SNPC's consolidated account for 2005 by June 30, 2007, without any restrictions on access to information;

    - submission to the anticorruption observatory of the SNPC's annual audit reports and other studies to ensure that its internal controls and accounting systems are in line with best international practices by December 2007;

    - full verification and publication by the national audit office of statements made by the members of the SNPC Board of Directors and those having a management mandate within the SNPC and its subsidiaries, at the time they assume their duties and annually thereafter, of their holdings and/or interests in companies having business relations with the SNPC or its subsidiaries by June 30, 2007; and

- semiannual reviews by the anticorruption observatory of the divestiture by members of the SNPC Board of Directors and those having a management mandate within the SNPC of their holdings and/or interests in the SNPC. The certification reports will be published on the website of the Ministry of Economy, Finance, and Budget (www.mefb-cg.org).

- Completion, by end-2007, of a diagnostic study on governance and corruption by an independent internationally recognized firm and assisted by the anticorruption committee, based on the terms of reference prepared in consultation with the IDA and IMF staffs.

- Adoption of the following measures to strengthen governance and transparency in the forestry sector:

    - certify forestry-sector receipts for 2005 and 2006;

    - finalize the report on the diagnostic study of the forestry sector by September 2007;

    - submit the report to IDA staff for consultation by October 2007; and

    - submit the report to the anticorruption observatory for consultation.

V. Program Monitoring and Data Provision

29. To strengthen the macroeconomic framework of the program, the government has committed to adopting a strategy involving a number of measures to be taken before approval of the SMP by IMF management (Table 4).

30. Program execution will be monitored using the quantitative and structural criteria and benchmarks specified in Tables 3 and 4 and described in the attached TMU. To enable the government to properly implement its poverty reduction program, quantitative targets and indicators have been defined for end-June, end-September, and end-December 2007. Structural targets were also defined for the remainder of 2007. Definitions and other details on these targets are provided in the TMU.

31. We will continue to provide information to IMF staff on a timely basis, as specified in the TMU, through the IMF resident representative office in Brazzaville. We will also provide any additional information that may be required to assess macroeconomic developments and program performance.

Table 1. Republic of Congo: Quantitative Criteria and Indicators , March 2006 - December 2006 [1]
(Billions of CFA francs, unless otherewise indicated; cumulative from January)

	End Mar 2006			End Jun 2006			End Sep 2006			End Dec 2006		
	Proj.	Adjusted Prog.	Est.	Target	Adjusted target	Est.	Target	Adjusted target	Est.	Target	Adjusted target	Est.
Quantitative criteria												
Primary fiscal balance (floor)	174.7	238.9	167.7	262.3	455.3	348.6	442.5	793.3	675.2	686.8	1031.4	870.5
Change in net claims of the banking system on the government (ceiling) [2]	-79.6	-79.6	-49.8	-86.5	-86.5	-153.1	-191	-191	-372.8	-362.5	-362.5	-404.3
New medium or long-term nonconcessional external debt (including leasing) contracted or guaranteed by the government (ceiling) [3]	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) [4]	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) [4]	0	0	0	0	0	0	0	0	0	0	0	0
New nonconcessional external debt contracted by SNPC (ceiling) [4]	0	0	0	0	0	0	0	0	0	0	0	0
External arrears payment (floor) [5]	28.3	28.3	28.3	56.3	56.3	56.3	84.2	84.2	84.2	112.4	112.4	113.7
New external arrears on nonreschedulable debt [4]	0	0	0	0	0	0	0	0	0	0	0	0
Domestic arrears payment (ceiling)	21.8	21.8	16.2	43.5	43.5	31.3	65.3	65.3	50.0	87.0	87.0	-87.5
New domestic arrears	0	0	0	0	0	0	0	0	0	0	0	0
Quantitative indicators	0	0	0	0	0	0	0	0	0	0	0	0
Non-oil revenue	59.9	59.9	62.8	119.8	119.8	122.8	179.7	179.7	185.3	239.6	239.6	260.5
Domestically-financed investment (ceiling)	43.2	43.2	106.2	150	150	207	196	196	300.7	216	216	352.9
Memorandum items												
Oil revenue (in billions of CFA francs)	276.5	340.7	332.2	548.9	741.9	732.1	834.0	1184.8	1228.3	1127.8	1472.3	1530.5
Petroleum price (Brent,US$/barrel), quarterly average	61	…	59.6	60	…	69	61.5	…	69.5	62.5	…	59.0
Exchange rate (CFAF/US$), quarterly average	547.8	…	547.4	549.7	…	516.8	549.7	…	549.7	549.4	…	515.3
Petroleum price Brent (thousand CFAF/barrel), quarterly average	33.4	…	32.6	33.0	…	35.7	33.8	…	38.2	34.3	…	30.4

[1] Quantitative criteria and adjustors are defined in the attached technical memorandum of understanding.
[2] Excluding IMF credit.
[3] Excluding rescheduling arrangements and disbursements from the IMF.
[4] Continuous performance criterion.
[5] Payments of consolidated post-cutoff date arrears to the Paris Club.

Table 2. Republic of Congo: Structural Performance Criteria and Benchmarks through December 2006

Measures	Date	Status
1. Structural performance criteria		
Completion of a certification report by the national auditing office (*Cour des Comptes)* that public officials (both in the government and at public enterprises) are not personally benefiting from government oil sales by the SNPC or its subsidiaries, and submission of the report to the government; publication of the report on the Internet site of the Ministry of Economy, Finance, and Budget (www.mefb-cg.org).	September 30, 2006	Met
Completion, by an independent firm of international reputation, of a diagnostic study of the SNPC's marketing strategy of government oil; submission of the report to the government.	December 31, 2006	Not Met
2. Structural benchmarks		
Publication on the Internet site of the Ministry of Economy, Finance, and Budget (www.mefb-cg.org) of the audit report of the awarding of the Marine XI oil field concession in 2005.	September 30, 2006	Not met, implemented with delay
Adoption of a timetable for the elimination of all implicit subsidies for refined petroleum products within one year.	September 30, 2006	Not met
Establishment—i.e., adoption of the terms of reference and staffing—of an anticorruption committee, whose terms of reference and composition will be satisfactory to IDA and IMF staffs.	September 30, 2006	Not met
Completion, by an independent firm of international reputation, of a diagnostic study of the economic viability of CORAF, and submission of the report to the government, based on terms of reference satisfactory to IMF staff.	October 31, 2006	Not met
Completion, by audit firms of international reputation and in accordance with international standards, of audits of oil costs for 2004 and 2005, for all production-sharing contracts (as defined in these contracts), and submission of the reports to the government. Publication of the audits on the Internet site of the Ministry of Economy, Finance, and Budget (www.mefb-cg.org).	December 31, 2006	Not met

Table 2. Republic of Congo: Structural Performance Criteria
and Benchmarks through end-December 2006 (concluded)

Measures	Date	Status
Submission to Parliament of a draft "Anticorruption Law," that includes, among other things, conflict-of-interest and financial disclosure rules for public officials. The financial disclosure rules would stipulate that (i) senior public officials (including in the government, civil service, and public enterprises) must disclose their wealth and origins of their incomes when acceding to the post and on an annual basis; and (ii) the annual disclosure statements are to be declared to the national auditing office (*Cour des Comptes*) and certified by the national anticorruption committee. The anticorruption committee should publish a summary report on its findings within six months of the end of the calendar year.	December 31, 2006	Not met
Centralization of all public revenues and execution of all public payments by the Treasury.	Continuous	Met
Quarterly certification of oil revenue by an audit firm of international reputation, using the same terms of reference as for the 2003 certification and without qualification on access to information; certification reports to be published on the Internet site of the Ministry of Economy, Finance, and Budget (www.mefb-cg.org).	Continuous, with one-quarter lag	Met

Table 3. Republic of Congo: Tentative Quantitative Indicative Targets, March - December 2007
(Billions of CFA francs, unless otherewise indicated; cumulative from January) [1]

	End-Mar. 07 Est.	End-Jun. 07 Target	End-Sep. 07 Target	End-Dec. 07 Indicator
Quantitative indicative targets				
Primary fiscal balance (floor)	138.8	241.7	442.0	444.8
Change in net claims of the banking system on the government (ceiling) [2]	44.0	-70.1	-198.1	-92.5
New medium or long-term nonconcessional external debt (including leasing) contracted or guaranteed by the government (ceiling) [3]	0.0	0.0	0.0	0.0
New external debt (including leasing) with an original maturity of less than one year (ceiling)[4]	0.0	0.0	0.0	0.0
New oil-collateralized external debt contracted by or on behalf of the central government (ceiling)[4]	0.0	0.0	0.0	0.0
New nonconcessional external debt contracted by SNPC (ceiling)[4]	0.0	0.0	0.0	0.0
External arrears payment (floor) [5]	27.6	54.8	81.9	81.9
New external arrears on nonreschedulable debt[4]	0.0	0.0	0.0	0.0
Domestic arrears payment (ceiling)	22.3	47.5	71.3	95.0
New domestic arrears	0.0	0.0	0.0	0.0
Non-oil revenue	62.2	133.4	200.7	267.1
Domestically-financed investment (ceiling)	95.3	223.7	344.2	444.2
Memorandum items				
Oil revenue (in billions of CFA francs)	301.0	580.6	864.4	1038.2
Petroleum price (*WEO* ,US$/barrel), quarterly average	57.8	60.5	62.5	63.5
Exchange rate (CFAF/US$), quarterly average	500.6	498.9	499.1	498.1
Petroleum price Brent (thousand CFAF/barrel), quarterly average	28.9	23.1	24.1	24.6

[1] Quantitative indicative targets and adjustors are defined in the attached technical memorandum of understanding.
[2] Excluding IMF credit.
[3] Excluding rescheduling arrangements and disbursements from the IMF.
[4] Continuous performance criteria.
[5] Payments of consolidated post-cutoff date arrears to the Paris Club.

Table 4. Republic of Congo: Structural Targets under the SMP, 2007

Measures	Date
1. Structural targets to be met before approval of staff-monitored program by IMF management	
Adoption of a 2007 budget law that is in line with the budget programming discussed with Fund staff.	Done
Issuance of invitations to bid for an internationally recognized firm to perform a technical and financial audit of a representative sample of capital expenditures and current transfers from January 1 to December 31, 2006, based on terms of reference satisfactory to the IMF and World Bank staff.	Done
2. Structural targets	
Completion, by an independent internationally recognized audit firm and in accordance with international standards, of audits of oil costs for 2004 and 2005, for all production-sharing contracts (as defined in these contracts), and submission of the reports to the government. Publication of the audits on the website of the Ministry of Economy, Finance, and Budget (www.mefb-cg.org).	June 30, 2007
Completion, by an independent internationally recognized firm, of a diagnostic study on the economic viability of CORAF, and submission of the report to the government, based on terms of reference satisfactory to IMF staff. Publication of the audits on the website of the Ministry of Economy, Finance, and Budget (www.mefb-cg.org).	June 30, 2007
Transmission by the government of the audit report on the awarding of the Marine XI oil field concession to the anticorruption observatory for any actions it wishes to take on the report, if needed.	September 30, 2007
Establishment—i.e., passing of the law and staffing—of an anticorruption observatory, whose terms of reference and composition are satisfactory to World Bank and IMF staffs.	September 30, 2007
Adoption of a decree under which all new oil concession contracts will be awarded through a transparent and competitive international bidding process.	September 30, 2007
Adoption by the government of a decree that: (i) increases the price of jet fuel sold to foreign airlines to CFAF 460 per liter; (ii) raises the price of jet fuel sold to domestic airlines to CFAF 335 per liter; (iii) indexes these two categories of jet fuel to changes in the international prices through an automatic price adjustment mechanism.	September 30, 2007

Table 4. Republic of Congo: Structural Targets under the SMP, 2007 (Continued)

Measures	Date
Completion, by an independent internationally recognized firm, of a diagnostic study of the SNPC's strategy for marketing government oil; submission of the report to the government.	September 30, 2007
Completion of a technical and financial audit, by an independent, internationally recognized firm, of current transfers and a representative sample of capital expenditures executed during the period from January 1, 2006 to December 31, 2006, based on terms of reference satisfactory to the IMF and World Bank staff. Publication of the audit report on the website of the Ministry of Economy, Finance, and Budget (www.mefb-cg.org).	December 31, 2007
Submission to Parliament of a draft law which, among other things, defines conflict-of-interest and financial disclosure rules for public officials. The financial disclosure rules would ensure that: (i) senior public officials (including in the government, civil service, and public enterprises) disclose their wealth and their sources of income at the time they assume their duties and annually thereafter; (ii) the annual disclosure statements are to be submitted to the national audit office and reviewed by the national anticorruption observatory, which should publish a summary report on its findings within six months of the end of the calendar year.	December 31, 2007
Adoption by the government of a decree increasing the prices of domestic refined petroleum products to significantly reduce subsidies to CORAF. The amount of this reduction will be determined in discussions on the 2008 budget.	December 31, 2007
Publication of all invitations to bid and the bids themselves (both accepted and rejected) for government procurement contracts above CFAF 200 million on the government's website (www.mefb-cg.org).	Continuous, starting on the date of promulgation of the 2007 budget
No recourse to emergency payment procedures, except in emergency situations as stated in the organic budget law.	Continuous, starting on the date of promulgation of the 2007 budget
No granting of new discretionary tax and customs exemptions.	Continuous, starting September 1, 2007
Centralization of all public revenues and execution of all public payments by the Treasury.	Continuous

Table 4. Republic of Congo: Structural Targets under the SMP, 2007 (Concluded)

Measures	Date
Quarterly certification of oil revenue by an internationally recognized audit firm, using the same specifications as for the 2003 certification and with no restrictions on access to information; certification reports to be published on the website of the Ministry of Economy, Finance, and Budget (www.mefb-cg.org).	Continuous, with a one-quarter lag
Provision to IMF staff of all data required to monitor the implementation of the authorities' program, as specified in the technical memorandum of understanding.	Continuous

APPENDIX I
ATTACHMENT II

REPUBLIC OF CONGO

Technical Memorandum of Understanding

Brazzaville, June 22, 2007

1. This technical memorandum of understanding (hereinafter the "TMU") sets out the modalities for tracking the staff-monitored program of the government of the Republic of Congo for the period April 1-September 30, 2007.

I. Quantitative Benchmarks and Indicators

2. The quantitative indicative targets are:

a. a floor on the primary fiscal balance, cumulative starting from January 1, 2007;

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, 2007;

c. no accumulation of new medium- or long-term nonconcessional external debt (including leasing) contracted or guaranteed by the government (a continuous indicative target);

d. no accumulation of new external debt (including leasing) with an initial maturity of less than one year incurred or guaranteed by the government (a continuous indicative target);

e. no accumulation of new oil-collateralized external debt contracted by or on behalf of the government (a continuous indicative target);

f. a ceiling on new nonconcessional external debt contracted by the SNPC with or without government guarantee, starting from January 1, 2007 (a continuous indicative target), unless otherwise indicated, reiterated in paragraph 17;

g. minimum external arrears payment, starting from January 1, 2007;

h. no accumulation of new external payment arrears with respect to the service on nonreschedulable external debt (see paragraph 18 below for the definition), starting from January 1, 2007 (a continuous indicative target);

i. a ceiling on domestic arrears payments, starting from January 1, 2007; and

j. no accumulation of new domestic payment arrears, starting from January 1, 2007 (a continuous indicative target);

k. a floor for non-oil revenues (cumulative amounts, starting from January 1, 2007); and

l. a ceiling on domestically-financed public investment (cumulative, starting from January 1, 2007).

II. Definitions and Computation

A. Government

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

B. Basic Primary Fiscal Balance

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

5. The government's basic primary fiscal balance is equal to total revenue excluding grants, minus total expenditure (including net credit), net of debt interest payments and of externally financed public capital expenditure. It is calculated from the budget execution outturn reported every month in the TOFE prepared by the Ministry of Finance. At end-December 2006, the basic primary fiscal balance was estimated at CFAF 870.5 billion, resulting from total revenue (excluding grants) of CFAF 1,791 billion and total expenditures (excluding interest on the debt and capital expenditure financed with external resources) of CFAF 921 billion.

6. The government's total revenue is reported in the TOFE on a cash basis. It includes all revenue collected by the Treasury (mainly tax and customs receipts, oil revenues, service revenues, and forestry revenues), whether they result from past, current, or future obligations. Receipts also include those recorded on a gross basis, in the special accounts. Oil revenues exclude all forms of prepayment and prefinancing (see definitions in paragraphs 19-20 below).

7. Starting January 1, 2007, 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 2007 are based on the following shipment schedule:

Table 1. Republic of Congo:Government Oil Shipments, 2007
(Number of shipments)[1/]

Product/Blend	2007 Q1	Q2	Q3	Q4
Djéno	5	4	5	5
Nkossa	6	5	6	5
Yombo	1	0	0	1
Butane	2	3	3	3
Propane	1	0	1	0
Total SNPC deductions	15	12	15	14
SNPC fees	0	0	1	1
SNPC marketing on behalf of the government	15	12	14	13

1/ with a one-month lag.

8. The oil 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. To ensure effective monitoring of oil revenues, the authorities will provide to IMF staff, in addition to other information, 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 (in United States dollars).

9. Expenditure is recorded 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, common expenses, interest charges on the debt (domestic and external), transfers and subsidies, and other current expenditures.

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 as well as government deposits with the Bank of Central African States (BEAC), the commercial banks, the national savings

bank (CNE), and the postal checking center (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 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. At December 31, 2006, these claims totaled CFAF 472 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 17 below.

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

- As specified in the guidelines adopted by the Executive Board of the IMF,[1] 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. The debt is the present value (at the inception of the lease) of all lease payments

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

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.

- 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 indicative target 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 20 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 guarantee, will be noted continuously. The SNPC may borrow only to finance investments related to its core activities (research, exploration, production, refining and distribution of oil, construction of a Brazzaville headquarters, creation and strengthening of its database, etc.). In addition, these investments must be included in the SNPC's investment budget approved by its board of directors. The ceiling on debt does not apply to changes in loan accounts with oilfield partners or to loans with maturities of less than one year.

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

E. Oil-Collateralized External Debt and Oil Prepayments

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 an 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 undertakes not to contract any new oil-collateralized debt over and above the stock of CFAF 41.7 billion recorded at end-December 2006.

F. Payment 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 settlement payments made by the Treasury and the CCA, including through clearing operations.

22. The amount outstanding, usually referred to as the "float" in the budget execution tables, particularly the TOFE, will be capped at CFAF 5 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 (paragraph 2.a) will be adjusted upward if oil revenues are higher than projected and downward if the number of oil shipments is lower than projected in Table 1 above. 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 marketing of government oil by the SNPC, estimated on the basis of the shipment schedule, will be adjusted upward or downward 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.

- Secondly, expected oil revenue adjusted by quantity will be multiplied by the ratio of the international price to the projection price. In accordance with the prudential rule on oil prices, government oil revenues will be projected on the basis of the oil price estimates in the IMF's *World Economic Outlook* (*WEO*) less a "prudence factor" (US$10/barrel); 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.

24. The two adjustments mentioned above will be made on a quarterly basis.

25. The ceiling on the change in the banking system's net claims on the government will be adjusted in the event that 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 difference between the amount of budgetary support disbursed and the amount of budgetary support programmed for the period. This adjustment cannot exceed CFAF 5 billion, calculated on a cumulative basis, during the period of the staff-monitored program.

IV. Structural Measures

26. The structural measures to be taken are listed in Table 4 attached to the Memorandum on Economic and Financial Policies regarding the staff-monitored program:

- External audits of oil costs for FY 2004 and FY 2005, as defined in the production-sharing contracts (PSCs), will be carried out by firms of international reputation. Audit reports will be handed over to the government and published on the website of the ministry responsible for finance (www.mefb-cg.org) by June 30, 2007;

- The government will, by September 30, 2007, transmit to the anti-corruption observatory the audit report on the award of the Marine XI concession, for any action that agency may wish to take;

- The diagnostic study on the economic viability of the Congolaise de raffinerie (CORAF), to be carried out by a firm of international reputation, will be completed and transmitted to the government by June 30, 2007. The terms of reference for this study will be reviewed by IMF and World Bank staff;

- Establishment—i.e., passing of the law and staffing—of an anti-corruption observatory by September 30, 2007, whose terms of reference and composition are satisfactory to World Bank and IMF staffs.

- The government will adopt, by September 30, 2007, a decree that any new oil concessions is to be awarded on the basis of transparent, competitive international bidding procedures. The pertinent rules will be published on the finance ministry website;

- The government will adopt, by September 30, 2007, a decree whereby: (i) the price per liter of kerosene (jet fuel) sold to foreign airlines is increased to CFAF 460; (ii) the price per liter of kerosene (jet fuel) sold to domestic airlines is raised to CFAF 335; and (iii) the pricing of jet fuel is linked to changes in international prices, based on an automatic price adjustment mechanism;

- The diagnostic study on the strategy adopted by the SNPC for marketing public oil will be completed by an independent audit firm of international reputation and transmitted to the government by September 30, 2007;

- The audit carried out by an independent audit firm of international reputation on current transfers and a representative sample of capital expenditure executed between January 1, 2006 and December 31, 2006 on the basis of terms of reference satisfactory to the IMF and World Bank staff will be completed and published on the finance ministry website, (www.mefb-cog.org) by December 31, 2007;

- A draft law will be submitted to Parliament by December 31, 2007, setting forth, among other things, rules to be observed by senior government officials in conflict of interests cases, as well as the rules on the disclosure of assets. These rules must require that: (i) the senior officials concerned (of the government, civil service, and public enterprises) disclose their assets and the sources of their income upon taking up their functions and then annually throughout their assignments; and (ii) annual declarations of assets be forwarded for information to the national anti-corruption agency, which must publish a summary of these findings within six months of the end of each calendar year;

- The government will adopt a decree raising the domestic prices of other refined oil products, so as to reduce subsidies to CORAF considerably. The amount of this reduction will be determined during discussions on the 2008 budget;

- All calls for bids and bids received (accepted and rejected) under public procurement procedures for amounts equivalent to or over CFAF 200 million will be published, for an indeterminate period from the date the 2007 Budget Law is promulgated, on the finance ministry website (www.mefb-cog.org);

- The early payment procedure will be reserved permanently, from the date the 2007 Budget Law is promulgated, exclusively for cases of national emergency, in accordance with the Organic Law on Government Finance;

- Discretionary granting of tax and customs exemptions will cease permanently from the date the 2007 Budget Law is promulgated;

- All public revenues and the execution of public payments will be centralized at the Treasury permanently;

- It will become permanent practice for oil revenues to be certified quarterly by an audit firm of international reputation, based on the terms of reference used for certification of the 2003 revenue. Certification reports will be published on the official finance ministry website (www.mefb-cog.org);

- All data required to monitor the implementation of the authorities' program, as specified in the technical memorandum of understanding, will be provided to IMF staff..

V. Information for Program Monitoring

27. The government will submit the following information to the staff of the International Monetary Fund through its Resident Representative, and within the time period specified below.

A. Oil Sector

28. Regarding the oil sector, the government will submit the following information to IMF staff:

- the monthly data on oil production by oil field, production costs, volume exported, export prices, and the operations of the national oil company (SNPC);

- the breakdown concerning the share of crude oil that accrues to the government, by oil well, distinguishing the type of resource to which this share relates (royalties, profit oil, etc.);

- any change in the tax parameters; and

- a breakdown of oil prices.

29. Oil prepayments (see paragraph 20 above) are recorded in the TOFE accounts as follows:

- At the time the prepayment is cashed, the amounts received are recorded as debt (below-the-line drawings), and the amounts corresponding to commissions paid out are recorded under the interest heading in current expenditure.

- The prepayment is repaid following the sale of oil; at the time of the repayment transaction, the revenue 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

30. Regarding government finance, the government will submit the following information to IMF staff:

- A table on government fiscal operations (TOFE) and its annexes. The annexed tables include (i) the breakdown of oil revenue in value terms with the corresponding notes on computation, (ii) excess oil trends and any bonus payments, and (iii) the breakdown of tax and nontax revenue, and 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.

- The table used to monitor the expenditure process will list the amount of commitments, payment orders, and payments, for both current and capital expenditure. It will be produced on a quarterly basis, and submitted to Fund staff no later than four weeks after the end of each quarter.

- Data on implementation of the public investment program, including the breakdown relating to 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.

- 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.

- The table used to monitor the expenditure process will list the amount of commitments, payment orders, and payments, for both operating and capital expenditures. It will be produced on a quarterly basis, and submitted to Fund staff no later than four weeks after the end of the quarter.

- A quarterly table for monitoring poverty reduction expenditures, based on the pro-poor sectors defined in the interim poverty reduction and strategy paper (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 within four weeks of the end of the quarter.

C. Monetary Sector

31. 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;

- the table of lending and deposit rates; and

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

32. The final data for the integrated monetary survey will be transmitted within six weeks of the end of the month.

D. Balance of Payments

33. The government will submit the following information to IMF staff:

- any revised balance of payments data (including services, private transfers, official transfers, and transactions for the capital and financial account) 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

34. 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, including 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

35. 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

36. The government will submit the following information:

- a monthly detailed table concerning the implementation of structural measures under the program;
- 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 for the program, within two weeks from the time it is published, or, at the latest, from its entry into force.

INTERNATIONAL MONETARY FUND

REPUBLIC OF CONGO

Staff–Monitored Program—Informational Annex

Prepared by the Staff Representatives for the Request for a Staff Monitored Program

Approved by Thomas Krueger and Anthony Boote

June 22, 2007

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Annexes

Annex I—Republic of Congo: Relations with the Fund
(As of April 30, 2007)

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

II. General Resources Account:

	SDR Million	Percent Quota
Quota	84.60	100.00
Fund holdings of currency	84.05	99.35
Reserve tranche position	0.56	0.66

III. SDR Department:

	SDR Million	Percent Allocation
Net cumulative allocation	9.72	100.00
Holdings	0.12	1.28

IV. Outstanding Purchases and Loans:

	SDR Million	Percent Quota
PRGF arrangements	23.58	27.87

V. Latest Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	12/06/2004	06/05/2008	54.99	23.58
PRGF	06/28/1996	06/27/1999	69.48	13.90
Stand-by arrangement	05/27/1994	05/26/1995	23.16	12.50

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

	Forthcoming				
	2007	2008	2009	2010	2011
Principal	0.00	0.00	0.00	1.57	3.14
Charges/interest	0.42	0.52	0.52	0.52	0.51
Total	0.42	0.52	0.52	2.09	3.65

VII. Implementation of HIPC Initiative:

The Republic of Congo reached the decision point under the enhanced HIPC Initiative in March 2006.

I. Commitment of HIPC assistance	Enhanced Framework
Decision point date	March 2006
Assistance committed	
by all creditors (US$ million) [11]	1,679.00
Of which: IMF assistance (US$ million)	8.08
(SDR equivalent in millions)	5.64
Completion point date	Floating
II. Disbursement of IMF assistance (SDR million)	
Assistance disbursed to the member	--
Interim assistance	--
Completion point balance	--
Additional disbursement of interest income [12]	--

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 (see IMF Country Report No. 06/262; June 30, 2006).

[1] Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts can not be added.

[12] Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

IX. Exchange Rate Arrangement:

Congo's currency is the CFA franc, which is pegged to the Euro at a fixed rate of CFAF 655.957 = Euro 1. On December 31, 2006, the rate of the CFA franc was CFAF 749.30 per SDR. Congo does not impose any restrictions on the making of payments and transfers for current international transactions.

X. Article IV Consultations:

Consultations with Congo are on a 24-month cycle, based on the Board decision on consultation cycles in program countries. The 2004 consultation discussions started in Brazzaville in February 2004 and concluded in Washington in March 2004. The staff report (www.imf.org) was considered by the Executive Board on June 10, 2004.

XI. FSAP Participation :

N/A.

XII. Technical Assistance :

Subject	Department	Staff Member	Date
Public expenditure management	FAD	Mr. Bouley	August 2006
Resident advisor on real sector	STA	Mr. Gbossa	Since November 2005
Modernization of tax and customs administrations	FAD	Messrs. Montagnat-Rentier, Lesprit and Boilil	February 2004
Follow-up mission	FAD	Mr. Lepage	November 2003
Budget functional classification	FAD	Messrs. Bouley, Helis, 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	Messrs. Grandcolas and Castro	November 1994

XIII. Resident Representative:

The resident representative, Mr. Yaya Moussa, took up his assignment in September 2005.

Annex II—Republic of Congo: Relations with the World Bank Group (As of June 1, 2007)

A. Partnership in the Republic of Congo's development strategy

1. After four successive conflicts 1993, 1997, 1998/99 and 2001/03, civil peace has been gradually restored since the ceasefire was signed in 2000 and a peace agreement with the last active rebel group in March 2003. Since the ceasefire and adoption of the new Constitution in 2002, the country has been largely at peace, to the great benefit of the Congolese people. Congo has now completed a five-year transition period, including ratification of the presidency of Denis Sassou-Nguesso, and election of a parliament and a senate, in 2002. The international community re-engaged in Congo in 2001 following the clearance of arrears to the Bank and the Fund. The PRGF arrangement approved by the IMF Board in December 2004 paved the way for financing from more donors including the AfDB, and the debt rescheduling by the Paris Club. More recently the HIPC Decision point approval in March 2006 has led to the strengthening of dialogue as well as the international community engagement in Congo. The HIPC floating completion point triggers focus on the following issues: (i) the preparation of a full PRSP, (ii) the maintenance of macroeconomic stability, (iii) the alignment of public spending with priorities identified in the PRSP, (iv) the strengthening of public finance management, (v) the improvement of governance in the natural resource management, (vi) improved regulation in the telecom sector, (vii) improved services in education, health and the prevention of HIV/AIDS; and (viii) the transparent management of external debt.

2. The main external development partners in Congo include: the European Union, the African Development Bank (AfDB), the French Agency for Development (AFD), the UNDP, the World Bank and the IMF. The main areas of intervention are on governance, urban, transport, health, education, environment, and public finance. The AFD and the AfDB issued their assistance strategies in 2005 for 2005-07 while the World Bank is preparing an Interim Strategy Note for the next FY08-09.

B. World Bank Group (IDA, IFC and MIGA) assistance strategy

3. In 2001, the Bank reengaged in Congo in the context of a Transitional Support Strategy (TSS). The first TSS (Report 21328-COB) for the Republic of Congo, to guide operation for the period 2000-2002, was endorsed by the Board on January 16, 2001. It focused on the consolidation of the peace process and the physical reconstruction of the country. The second TSS for FY03-05, endorsed by the Board in September 2003 (Report 26566-COB), aimed at helping Congo to break out of the conflict trap. It was anchored on four interrelated pillars: (i) creating jobs through economic growth and diversification, (ii) repositioning the public sector and enhancing its capacity, (iii) mitigating short- and medium-term risks to the social environment, and (iv) providing resources to support socio-economic development and stability through enhanced external assistance and debt relief. The Bank provided financial support and policy advice in these areas through lending and non-lending instruments.

4. As of June 1, 2007, The World Bank portfolio in the Republic of Congo consisted of 4 IDA operations with a total commitment of US$ [87] million, out of which US$ [58] were disbursed. Table 1 below shows the status of the Bank's portfolio in Congo. Operations have focused on: (i) supporting the implementation of reforms aimed at transparency and efficiency of public resource management (Transparency and Governance Capacity Building Project); (ii) supporting socio-economic infrastructure rehabilitation and rural development (Emergency Infrastructure Rehabilitation and Living Conditions Improvement, Emergency Recovery and community Support, and the Basic Education Support); and (iii) supporting national policies and programs in the area of HIV-AIDS (HIV-AIDS and Health Project). Two projects were closed recently, the Economic Recovery Credit at end December 2006 and the Emergency Infrastructure Rehabilitation and Living Conditions Improvement at end January 2007. A supplemental to the Transparency and Governance Capacity Building Project was approved in May 2007 (US$15 million; grant). One project is currently under preparation, the Agriculture and Rural Roads Rehabilitation Project (US$20 million).

Table 1. Republic of Congo: Status of World Bank Portfolio (all IDA)

(Millions of US$, unless otherwise specified)

Operation	Board Approval	Effective	Closing	Amount	Disbursed
Basic Education Support	09/23/2004	03/25/2005	12/31/2008	20.0	9.1
MAP/HIV-AIDS and Health	04/20/2004	10/28/2004	06/30/2009	19.0	11.0
Emergency Recovery & Community Support	06/24/2003	09/16/2003	12/31/2007	41.0	32.7
Transparency and Governance	02/07/2002	02/28/2003	12/31/2007	7.0	4.8
Total				87.0	57.6

5. The lending program is complemented by a number of grants, including a US$ 17 million Multi-country Demobilization and Reintegration Program grant that became effective in August 2006.

6. The analytical work program carried out under the TSS FY03-05 consisted of a Public Expenditure Review (PER), a Debt Sustainability Analysis (DSA), a combined Country Procurement Assessment Report (CPAR) and Country Financial Accountability Assessment (CFAR), an Education sector review, and an Agriculture Policy Note.

Interim Strategy Note

7. An update of the Bank's assistance strategy in the form of an Interim Strategy Note (ISN), is currently under preparation. The proposed ISN covers the period FY08-09 and includes

an IDA grant envelope of SDR62 million (or US$80 million equivalent). It is expected to be presented to the Board in August 2007. This would be followed by a full Country Assistance Strategy (CAS), once the full PRSP is in place. On the basis of large broad consultations carried out on in the country as well as during the HIPC Decision Point discussions, the proposed ISN focus on the following two pillars:

- ***Scaling up the governance focus, especially with regard to oil sector governance, public financial management***, with an emphasis on budgeting and public investment management, and reducing corruption. This ISN is strategically timed to support the HIPC floating completion point triggers, which will serve as interim benchmarks for the governance reform. This scaled-up reform effort will continue to complement other ongoing donor initiatives, such as the Bank-supported Extractive Industry Transparency Initiative.

- Creating the foundation for equitable growth, through improved implementation of poverty alleviation programs, with special ***emphasis on health, underserved communities in urban areas; and the rural sector*** to foster economic diversification and address poverty issues.

IFC

8. IFC has no current investments in Congo, but is closely following developments in railway line privatization process. In addition, it is also exploring opportunities in the financial sector restructuring, SME development, infrastructure rebuilding, and development of the oil sector and mining.

MIGA

9. 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.

C. Bank-Fund collaboration in specific areas

10. The IMF and World Bank staffs maintain a close collaborative relationship in supporting policies to help the Congo strengthen civil peace, sustain macro-economic stability, improve governance, consolidate the social recovery, and promote sustainable development. Exchange of information and discussion on progress in the implementation of the reform program under the PRGF Program and the HIPC initiative take place on a regular basis between the Bank and the Fund. Joint missions will be carried out to review progress.

C.1. Areas in which the Bank leads

- Social sector reforms;
- Rural development;
- Privatization and regulatory reform and private sector development;

- and infrastructure sector;
- Transparency in the use of public funds, notably through the reform of public procurement and public investment management; and
- Corruption issues and analysis

C.2. Areas where the Bank and the Fund share the lead

- Assistance to PRSP preparation;
- Debt sustainability;
- Governance issues;
- Governance in natural resource management in particular the oil sector and forestry sector;
- Public Finance management;
- Financial sector;
- Statistics and measurement issues.

C.3. Areas in which the Fund leads

- Macroeconomic stability;
- Fiscal policy including tax policy and administration; customs/tariffs policy, and non-oil revenue mobilization;
- Monetary policy;
- Competitiveness/exchange rate/trade policy issues;
- External payments regime;

Annex III—Republic of Congo: Statistical Issues

Data provision to the Fund is generally adequate for surveillance purposes, despite weaknesses in national accounts and balance of payments statistics. The statistical infrastructure is being slowly rebuilt after the civil strife of 1997 and December 1998–October 1999, during which administrative infrastructure suffered severe damage and many records were lost. Since October 2001, a STA resident statistical expert has been assisting the authorities with the macroeconomic statistics.

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

The Republic of Congo has participated in the General Data Dissemination System (GDDS) since November 5, 2003; however, the metadata posted on the Fund's Dissemination Standards Bulletin Board (DSBB) has not been updated or certified since 2003.

Real sector statistics

National accounts data are weak, with inconsistencies, both internally and with the balance of payments. Estimates for the informal sector are based on information that dates back to 1978. The Directorate General of Statistics (DGS) of the Ministry of Finance provides Fund missions with a breakdown of GDP by expenditures and sectors, both in nominal and real terms. Historically, data on oil sector transactions have been weak, raising questions about transparency in the inter-play of the oil companies operating in the country and the government agencies dealing with them.

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

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

Government finance statistics

Compilation of **government finance statistics** (GFS) is neither comprehensive nor systematic. The *Tableau des Opérations Financières de l'État* (TOFE) is based on several disparate sources rather than a comprehensive set of accounting statements. Financing data are currently obtained from monetary statistics instead of the government accounts. As a result, the consistency between government finance and monetary and financial statistics cannot be ascertained.

At the time of the May 2002 multisector mission, the *Balance des comptes du Trésor*, a basic and essential treasury source document, as well as other sources, were not made available to the producers of the TOFE.[13] The mission recommended that systematic procedures be established for the compilation of government finance statistics, based, to the extent possible, on a unified set of accounting and administrative records.

TOFE compilers do not have access to relevant financial statements of the Société Nationale des Pétroles Congolais (SNPC), which carries out several operations on behalf of the government (notably in the oil sector).

In 2003, the Congo reported GFS data to STA for publication in the *GFS Yearbook* using the *GFSM 2001* template but, no data has been reported since and no fiscal data has been reported for publication in *IFS* since 2001. The compilation of GFS statistics to be reported to the Fund should be carried out in close cooperation with the compilers of the TOFE.

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

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

There is no centralized, comprehensive database on the operations of public enterprises. However, some information has been made available to Fund missions by individual enterprises.

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[13] This compilation is not undertaken on the basis of treasury accounting records, to which the compilers themselves do not have access. The mission examined the Excel worksheet used for the compilation of the TOFE and made recommendations for improvements, although it could not establish the links between that worksheet and the primary data sources.

Monetary and financial statistics

Monthly data on monetary statistics for the Congo, as well as for the other members of the Central African Economic and Monetary Community (CEMAC), are regularly reported to the Fund in electronic form by the regional central bank (BEAC). Accuracy of monetary data may be hampered by large cross-border movements of currency among CEMAC member countries. However, the Congo is moderately affected by such movements: 5.7 percent of banknotes issued in the Congo by the BEAC national directorate circulate in Cameroon and about one percent in Gabon, while currency in circulation in the Congo includes about 2.6 percent of banknotes from Cameroon and about 3.4 percent from Gabon.

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

The May 2002 multisector mission found that the institutional coverage of government and of nonfinancial public sector in monetary statistics are outdated and need to be revised.

External sector statistics

As in other CEMAC countries, the national agency of the BEAC is responsible for the collection and the dissemination of balance of payments data. The balance of payments statistics are prepared on an annual basis while the compilation system has been specifically designed to produce quarterly data. Through 1994, balance of payments data were compiled in the framework of the *Balance of Payments Manual, Fourth Edition*. The BEAC provides annual data on exports of goods and services and on capital flows other than public debt. Since 1995, data are being prepared using the *Balance of Payments Manual*, *Fifth Edition*. In 2006, balance of payments data for 1995 through 2005 were reported to the Fund for publication in *International Financial Statistics*.

In May 2002, the technical assistance mission found the compilation system and procedures to be conceptually sound but flawed in their application due to the absence of documented sources and methods, understaffing, and insufficient training. This situation has resulted in significant delays in the production of balance of payments statistics and, in general, poor monitoring of the quality of the input data provided by the statistical respondents. Furthermore, the opacity surrounding certain transactions in the oil sector introduces an important element of imprecision. In addition, net investment flows are overestimated by significant unrecorded disinvestment operations that are part of the tax regime arrangements obtained by oil-drilling nonresident companies.

In February 2007, an expert reporting to the IMF's Statistics Department outlined a number of recommendations aimed at improving institutional arrangements for balance of payments statistics compilation.

REPUBLIC OF CONGO: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE
As of May 24, 2007

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of publication[6]
Exchange Rates	Current	Current	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Mar-07	May-07	M	M	M
Reserve/Base Money	Mar-07	May-07	M	M	M
Broad Money	Mar-07	May-07	M	M	M
Central Bank Balance Sheet	Mar-07	May-07	M	M	M
Consolidated Balance Sheet of the Banking System	Mar-07	May-07	M	M	M
Interest Rates[2]	Jan-06	Feb-06	M	M	M
Consumer Price Index	Feb-07	May-07	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	N/A	N/A	N/A	N/A	N/A
Revenue, Expenditure, Balance and Composition of Financing[3] – Central Government	Feb-07	May-07	M	Q	Q
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Dec-06	May-07	Q	Q	Q
External Current Account Balance	Dec-06	May-07	A	A	A
Exports and Imports of Goods and Services	Dec-06	May-07	A	A	A
GDP/GNP	2006	Apr-07	A	A	A
Gross External Debt	Dec-06	Apr-07	Q	Q	Q

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA).

Statement by Laurean W. Rutayisire Executive Director for the Republic of Congo
Staff-Monitored Program

On behalf of my Congolese authorities, I would like to thank Management and staff for their continued support to the Republic of Congo towards achieving sustained growth and poverty reduction.

Despite steady good performance over the last few years, debt overhang has remained a major obstacle to the authorities' poverty reduction efforts. This is besides having to deal with the country's post conflict aftermath. In 2006, owing to having to deal with this difficult situation, notably the cost of carrying out democratic elections to complete the political transition, having to meet exceptional social and economic infrastructure demands following years of destructive conflict, and owing to cost of containing spillovers from political instability which has affected Central Africa Region, the authorities had heavy slippages in PRGF Program implementation.

My authorities are committed to successfully implementing the SMP recently concluded with Fund staff, in order to correct those slippages and look forward to a quick resumption of the PRGF Program.

Particularly, in order to avert risks of future fiscal slippages, my authorities are taking steps to strengthen oil revenue mobilization, mainly through continuous quarterly certification of oil revenues and the reconciliation of oil revenues accounts. With regard to non-oil revenues, focus is on measures to strengthen tax and customs administration, to combat fraud and tax evasion, to extend the use of taxpayer identification number for all transactions with the government and to limit discretionary tax and customs exemptions. The authorities also intend to complement the 2007 budget with stronger structural measures to strengthen public expenditure management and, improve transparency in the procurement process, as well as in the quality of spending and governance. Preliminary data indicates that performance for the first quarter was in line with the program targets. Nonetheless, following an incident that occurred in early May 2007 on a major oil platform, my authorities have requested a downward adjuster for oil shipments under the program so as to take into account possible shortfalls in oil output relative to program levels.

In the case of the risks of delays in the implementation of structural reforms, I would like to reassure Executive Directors about my authorities' determined actions. My authorities have, in particular, recently taken a number of concrete steps to implement reforms, notably in the domain of governance. They have published the audit report on the awarding of the Marine XI oil field concession and intend to use its findings to take additional measures to improve governance in the granting of natural resource development rights. Furthermore, my authorities have liberalized the price and import of cement in February 2007. The certification report by the national audit office (Cour de Comptes) on conflict of interest in oil management has recently been submitted to the government and was published on the website of the Ministry of Economy, Finance and Budget. The Republic of Congo has also fulfilled the performance criteria on centralization of all public revenue and execution of all public payments by Treasury and disclosure of internal and external debt. These measures, associated with the authorities' commitment to follow public procurement procedures, based on international tender bids, are testimony of Congo's adherence to sound public finances management that can assure adequate implementation of public expenditure and tracking of pro-poor spending. Finally, the law establishing the anticorruption observatory, a key measure under triggers for the HIPC completion point, was passed by parliament in early June 2007. This observatory is expected to be staffed shortly through a presidential decree. In the oil sector, the authorities intend to complete a diagnostic study of the SNPC strategy for marketing government oil and to adopt a decree on the adjustment of petroleum product prices before the end of 2007. On external debt management, the authorities will continue efforts to normalize relations with external creditors.

Regarding Poverty Reduction Strategy and Implementation of Triggers for HIPC Completion Point, my authorities are, with the help of donors, taking steps to finalize the PRSP by end-December 2007, with the view of accelerating the implementation of the HIPC triggers for the completion point, and linking sectoral strategies to the achievement of the Millennium Development Goals (MDGs).

In conclusion, Congo is a post-conflict country facing daunting development challenges. In order to overcome these challenges, my Congolese authorities are committed to continuing working closely with the Fund and the broader international donor community. Slippages in program implementation attributed to unavoidable cost of democratization and post conflict aftermath. My authorities continue to count on the donor community's flexible treatment when dealing with these issues. In line with the flexibility that Executive Directors have demonstrated in similar cases, my authorities look forward to a quick resumption of the PRGF Program. They also expect that the international financial community will continue to support the Republic of Congo's development efforts at this critical juncture.