June 2008
IMF Country Report No. 08/173

Republic of Congo: Staff-Monitored Program

This paper on the staff-monitored program for 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 information available at the time it was completed on March 28, 2008. 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.

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International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

REPUBLIC OF CONGO

Staff-Monitored Program

Prepared by the African Department
(In consultation with other departments)

Approved by Sharmini Coorey and Anthony Boote

March 28, 2008

- A staff team visited Brazzaville during February 12-20, 2008 to discuss an economic and financial framework that could be supported under a Staff Monitored Program (SMP). The staff met with President Sassou N'Guesso, Prime Minister Mvouba, Senior Planning Minister Moussa, Minister of Finance Issoïbeka, BEAC National Director Dzon, other senior officials, representatives of the donor community, civil society, and the media. The staff team consisted of Messrs. York (head) and Bessaha, and Ms. Karpowicz (all AFR), Mr. Eschenbach (PDR), Mr. Martin (FAD), and Mr. Moussa (resident representative). Mr. Kudiwu (OED) and staff from the World Bank also participated.

- The authorities have consented to the publication of this staff report, the Letter of Intent, and the Memorandum of Economic and Financial Policies on the Fund's website. The Congo's relations with the Fund and the World Bank, and statistical issues are detailed in an informational annex accompanying this staff report.

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EXECUTIVE SUMMARY

Recent Developments and Program Performance

Overall economic activity declined in 2007, reflecting a temporary fall in oil production caused by an accident at an important oil platform (Nkossa). However, robust growth continued in the non-oil sector driven by domestic demand, and inflation moderated. Despite the decline in oil exports, the external position improved as a result of a debt restructuring agreement with London Club creditors.

In June 2007, Fund management approved a staff monitored program (SMP) for the Congo covering April-September 2007. Policy implementation under this SMP was not satisfactory and a track record of performance that could have supported a move back to the Poverty Reduction and Growth Facility was not established. Macroeconomic and structural policy implementation was unsatisfactory largely because the program was poorly monitored, ownership was weak, and pressures to spend intensified as world oil prices continued to rise.

To foster stronger program ownership and increase the likelihood of success, the authorities established a new organizational structure to manage relations with the Fund and to monitor the program. The new structure has resulted in a greater degree of cooperation than in the past; data provision and information was timely and extensive, and the quality and level of participation in the discussions were at a high level.

Economic Policies for 2008 Under the Staff Monitored Program

Satisfactory performance under the new SMP, which covers the period January 1 through June 30, 2008, could pave the way for a new PRGF arrangement and eventual debt relief under the enhanced HIPC Initiative. The program aims to move Congo toward fiscal and external sustainability. The economic and financial framework includes :

- Fiscal consolidation, to rollback previous slippages and to restore the credibility of the budget as the key fiscal instrument; and
- Structural reform to enhance public financial management, governance, transparency, and the management of natural resources.

The program faces two main risks. The first stems from concerns surrounding ownership and the authorities' willingness to implement key structural measures. The second concerns weaknesses in public financial management and control that have led to persistent fiscal slippages in the past.

I. BACKGROUND

1. **Social and political stability has improved in the Republic of Congo (Congo) during the past several years, but the security situation is still fragile.** The cessation of hostilities and armed conflict ended in early 2003, although there are some difficulties with the leader of a rebel group, who has been invited to join the government (in October 2007). So far, this overture has been rebuffed, with potentially adverse economic consequences as this group operates in the important economic corridor between Pointe Noire and Brazzaville.

2. **The 2007 legislative elections marked the beginning of an electoral agenda that will run through 2009.** President Sassou N'Guesso's party and its coalition partners won 125 out of 137 seats in the legislative elections. Municipal elections will take place this June, followed by the presidential election next year.

3. **Congo reached the decision point under the enhanced HIPC Initiative in March 2006.** [1] The floating completion point triggers—which will require determined effort to observe—include the preparation of a Poverty Reduction Strategy (PRS) and its implementation for at least one year, the maintenance of macroeconomic stability as evidenced by satisfactory performance under a PRGF arrangement, measures to enhance public financial and resource management, structural reform in telecommunications and the forestry sectors, and improving key indicators in health and education.

4. **The authorities' Fund-supported program went off-track in late 2006 as a result of unsatisfactory macroeconomic and structural policy implementation, largely because of poor monitoring, weak ownership, and political pressures to spend aggressively as world oil prices continued to rise.** [2] The authorities believe program conditionality under the PRGF was ambitious and could have been better aimed at supporting their policy objectives.

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[1] At end-2004, Congo's public- and publicly-guaranteed external debt was estimated at US$ 9.2 billion in nominal terms, or US$ 9.0 billion in net present value (NPV) terms (equivalent to 661 percent of fiscal revenue and 252 percent of exports at end-2004). HIPC debt relief at the completion point would amount to US$ 1,679 million in end-2004 NPV terms (about US$ 2,906 million in nominal terms), with a common reduction factor of 32.4 percent for all creditors. IMF assistance would total US$ 8.08 million in NPV terms (equivalent to about SDR 5.64 million).

[2] Congo's three-year PRGF arrangement was approved by the Executive Board in December 2004 (with access of SDR 54.99 million, equivalent to 65 percent of quota) and two reviews have been completed. The PRGF arrangement expires in June 2008.

5. **In June 2007, Fund management approved an SMP for Congo covering April–September 2007.** This SMP was designed to safeguard economic stability, improve the fiscal stance, enhance public financial management, and accelerate action on the structural reform agenda, especially the triggers for the enhanced HIPC Initiative completion point. Policy implementation under this SMP was, however, not satisfactory and a track record of satisfactory performance that could support resuming the program supported under a PRGF arrangement was not established (see Box 1).

6. **In the attached Letter of Intent (LOI) and accompanying Memorandum of Economic and Financial Policies (MEFP), the Congolese authorities request that the staff monitor their economic program over the period January 1 through June 30, 2008**. The authorities have stressed the importance they place on stabilizing the economy and pursuing structural reform with a view to achieving sustainable growth, reducing poverty, diversifying the economy, and benefiting from enhanced HIPC Initiative debt relief. As a sign of their renewed commitment to reengagement with the Fund, the authorities recently established a new organizational structure to better monitor and implement their economic and financial program. A policy committee headed by the President of the Republic is now in managing Congo's relations with the Fund (and World Bank), and it is supported by a technical committee headed by a special advisor to the President. The new structure has resulted in a greater degree of cooperation; data provision was timely and more extensive, and the quality and level of participation in the discussions were at a high level.

Box 1. Performance Under the 2007 Staff Monitored Program

In June 2007, Fund management approved an SMP covering the period April-September 2007. Performance under this SMP was not satisfactory.

At the end-June 2007 test date, the quantitative criteria for the primary fiscal balance was missed by more than 6.6 percent of non-oil GDP and at end-September by more than 11.3 percent of non-oil GDP. The end-September 2007 floor on the repayment of external arrears was also missed. Several structural measures to strengthen governance and transparency ─all related to program conditionality─ were not implemented, including transmitting to the anticorruption observatory the audit report on the awarding of the Marine XI oil field concession, adoption of a decree that all new oil concession contracts be awarded through a transparent and competitive international bidding process, and publishing the audits of oil costs for 2004 and 2005. The authorities also did not implement structural measures to strengthen public financial management, including: publishing all bids for government procurement contracts; preventing recourse to emergency payments procedures, except in emergency situations (as stated in the organic budget law); and centralizing information on all public revenues and execution of all public payments by the Treasury. In addition, they did not provide timely and regular data to the staff, which complicated monitoring. The authorities eventually requested an extension to the SMP, but could not meet the associated prior actions.

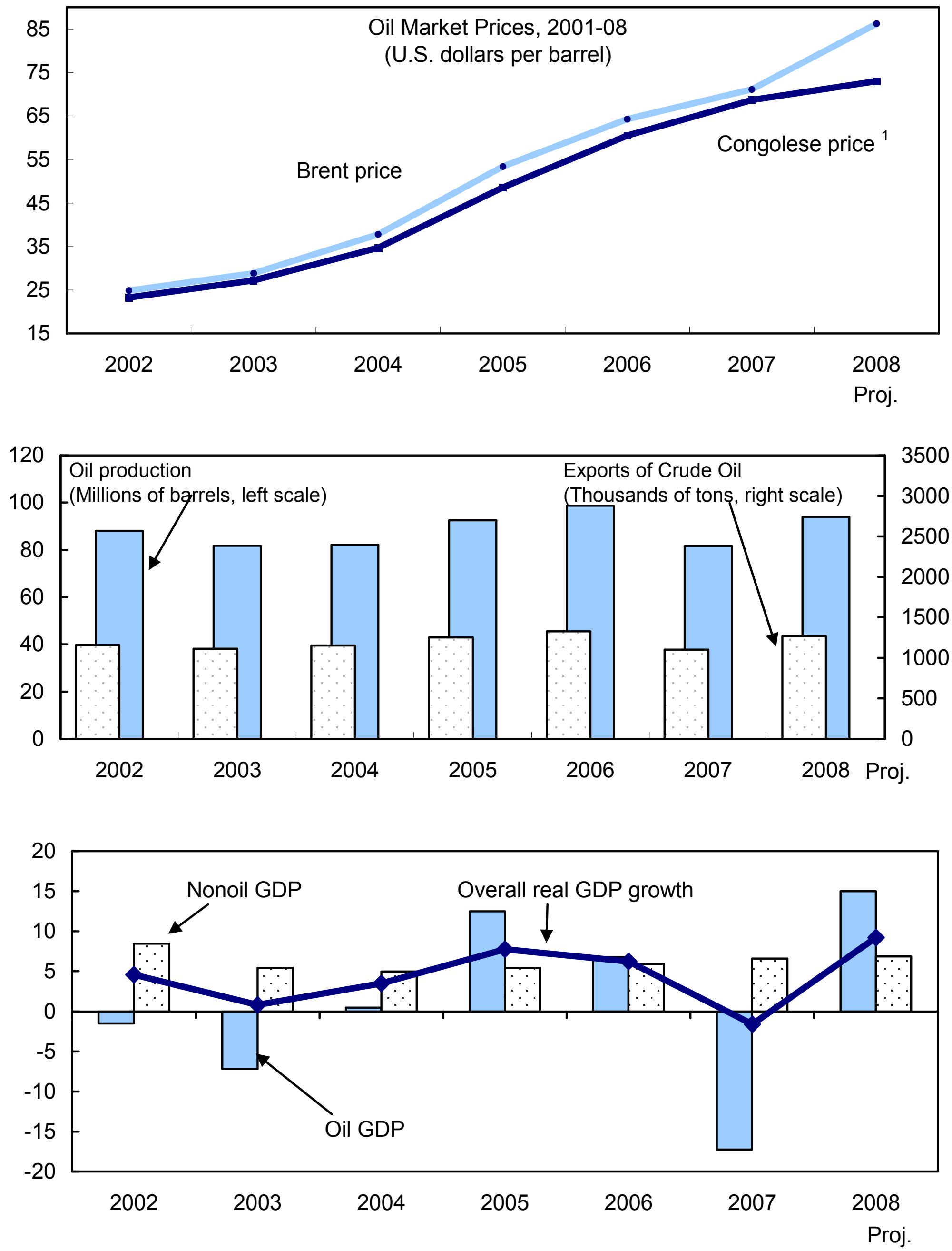
II. Recent Developments

7. **Overall economic activity declined in 2007, reflecting a temporary fall in oil production caused by an accident at an important oil platform (Nkossa).** However, robust growth continued in the non-oil sector (6.6 percent during last year) driven by household consumption fueled by the clearance of some wage and pension arrears, industrial production, and public investment (Figure 1). As transportation bottlenecks that contributed to higher inflation in 2006 were eliminated, average consumer price inflation moderated in 2007 (2.6 percent); and this was reflected in a decline in food as well as non-food prices (Figure 2). The average real effective exchange rate is on a clear upward trend, appreciating by 7 percent over the past two years (Figure 3).

8. **The external current account moved into deficit in 2007 (equivalent to about 19½ percent of GDP), for the first time in many years.** This was due to the fall in oil output, the increase in equipment imports to repair the oil platform, and services imports associated with investment in the oil sector. The current account deficit was partly financed by higher foreign direct investment in the oil, telecommunications and mining sectors. At the same time, the November 2007 debt restructuring agreement with London Club (commercial) creditors contributed to a significant decline in external payments arrears.[3] Bilateral negotiations under a Paris Club rescheduling are nearly completed, with discussions continuing with the two remaining creditors. Gross official reserves have increased to the equivalent of 9.1 months of imports at end-2007, compared with 1.4 months at end-2004.

[3]Fund support was instrumental in bringing about London Club debt relief, which involves the swap of US$ 2.1 billion in outstanding commercial debt and arrears for US$ 0.5 billion in new Eurobonds maturing in 2029, implying relief of over US $1.6 billion. The agreement is broadly consistent with the enhanced HIPC Initiative and represents more than half of the total debt relief (in nominal terms) envisaged at the completion point.

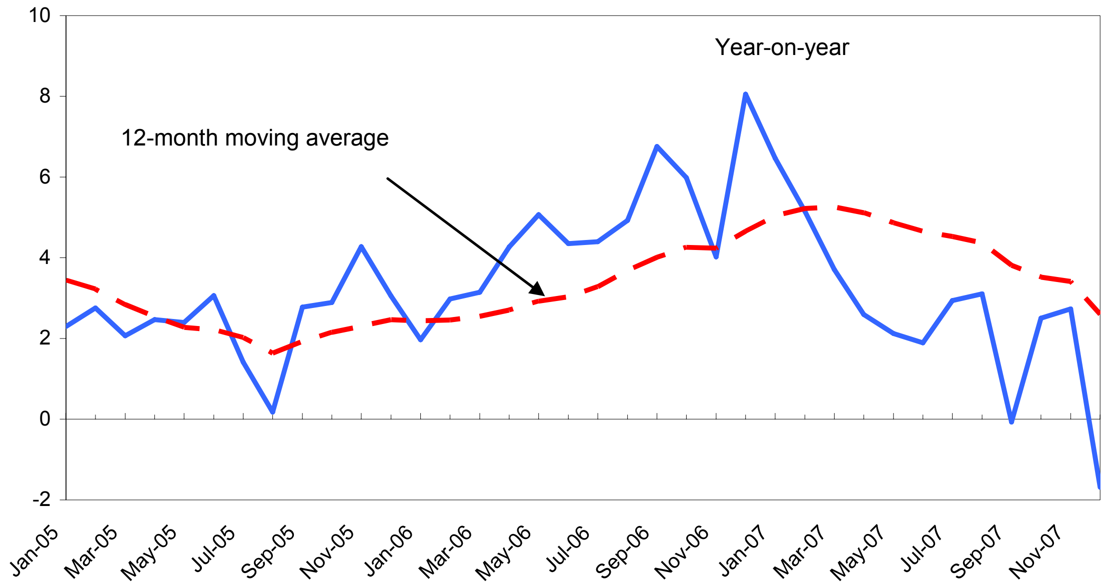
Figure 1. Republic of Congo: Oil Prices, Exports, and Real GDP Growth, 2002-08

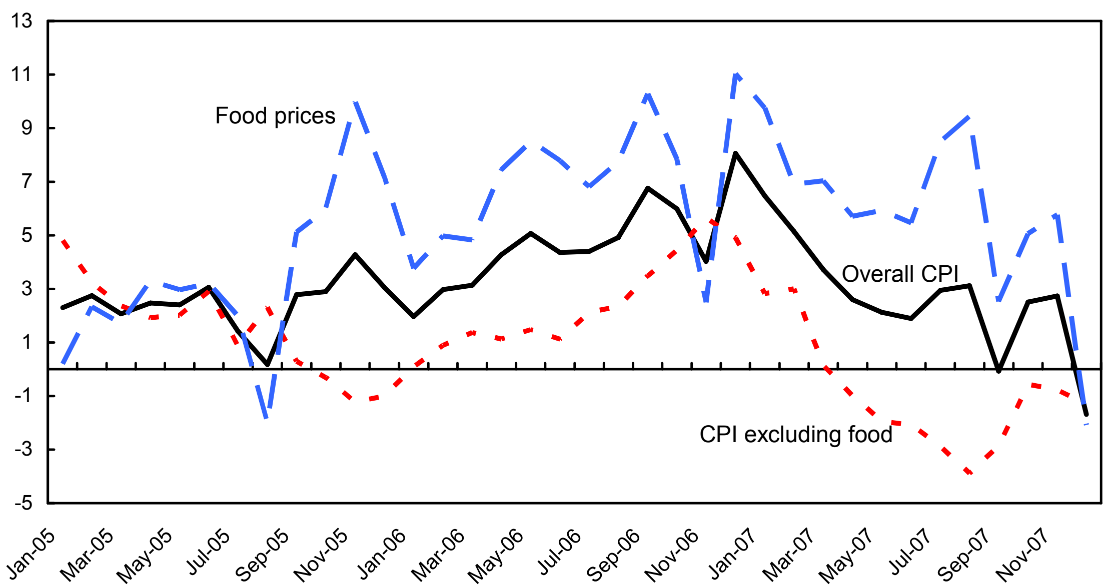


Sources: Congolese authorities and Fund staff estimates and projections.

[1] Oil price projections include a $10 discount as prudence factor (consistent with the authorities 2008 budget).

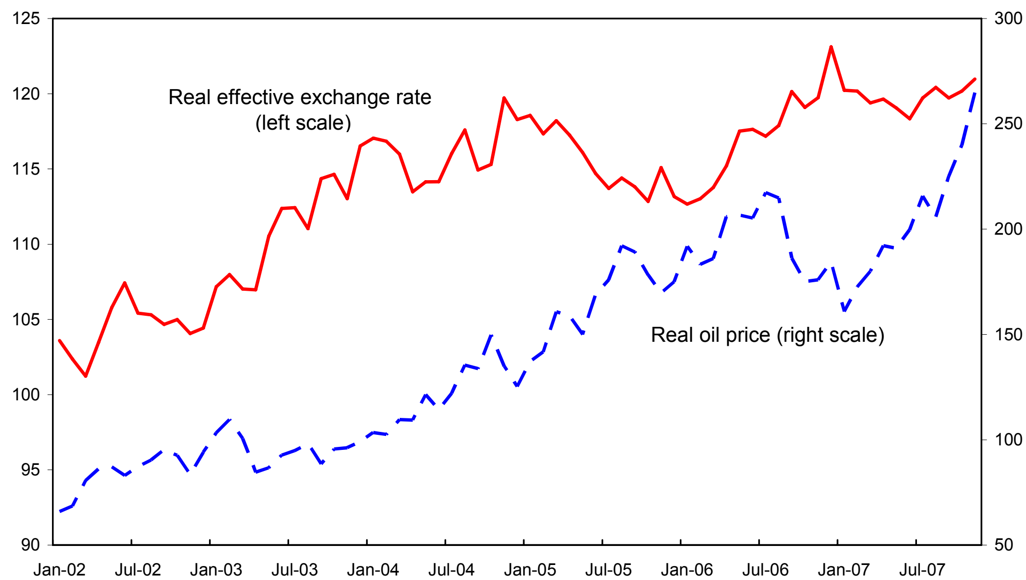
Figure 2. Republic of Congo: Inflation Developments, Jan. 2005-Dec. 2007
(Percent change)





Source: Congolese authorities, and Fund staff estimates.

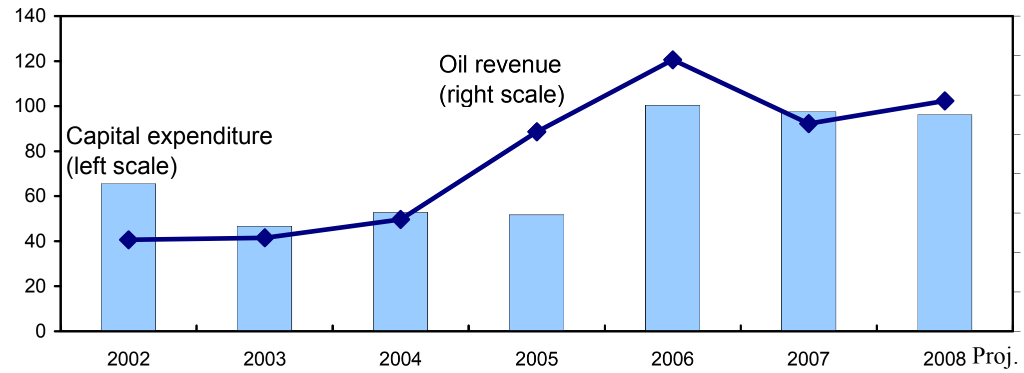
Figure 3. Republic of Congo: Real Effective Exchange Rate and Real Oil Price, 2002-07
(Index, 2000=100)

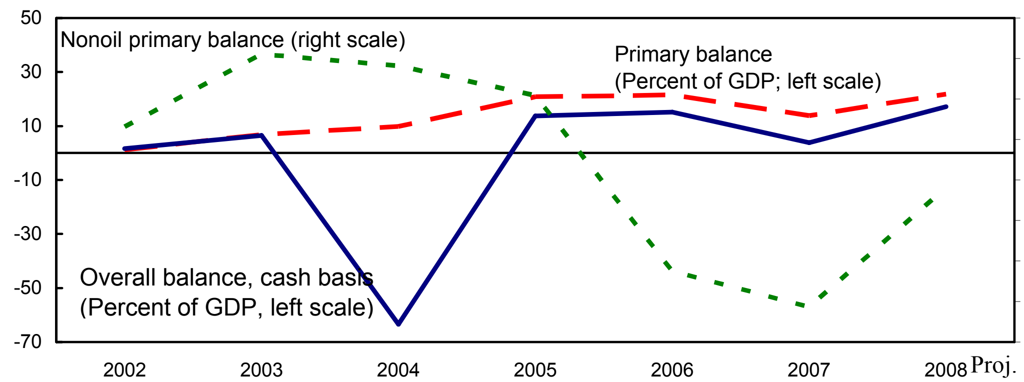


Sources: IMF, Information Notice System; and WEO.

9. **The fiscal stance weakened in 2007, because of an overshoot in expenditure mainly due to weak control (Figure 4)**. The overshoot was associated with higher-than-expected outlays for legislative elections (about 0.7 percent of non oil GDP as voting had to be redone in some constituencies), unforeseen legal fees related to disputed external liabilities (about 3.0 percent of non-oil GDP), and larger subsidies to the oil sector (about 4.3 percent of non-oil GDP). In addition, domestically-financed capital spending exceeded the budget by about 2 percent of non oil GDP. Overall, these developments, together with lower-than-projected oil revenue because of the oil platform accident, resulted in a marked decline in the basic primary surplus to about 13.9 percent of GDP in 2007, compared with 21½ percent a year earlier. In terms of non-oil GDP, the primary non-oil deficit widened in 2007 to 55.7 percent, compared with 51.3 percent in 2006 and an initial target under the April-September 2007 SMP of 42 percent.

Figure 4. Republic of Congo: Fiscal Developments, 2002-08
(Percent of nonoil GDP, unless otherwise indicated)





Source: Congolese authorities; and Fund staff estimates.

10. **The 2008 budget passed by parliament in early February 2008 is broadly consistent with earlier understandings reached with Fund staff (see below).** The budget targets a reduction in the non-oil primary deficit─the fiscal anchor of the authorities' program─of about 12½ percentage points of non-oil GDP, to about 43 percent of non-oil GDP in 2008. This sharp adjustment would come essentially from a reduction in spending, including for subsidies to the oil sector.

11. **Monetary policy, conducted at a regional level (through BEAC), continued to support the fixed exchange rate regime and low inflation.** Credit to the private sector rose by 8 percent in 2007 while excess reserves declined at end-year following a peak in June, reflecting a more active sterilization policy. The growth of broad money slowed sharply to 7.4 percent, reflecting the decline in overall economic activity.

12. **Notwithstanding some increase in nonperforming loans, the health of the financial sector remained satisfactory in 2007.** According to the regional supervisory agency (COBAC), three out of the four banks were rated in "good" condition (and all four

are complying with prudential requirements). The Congolese authorities are pursuing their policy of opening the financial sector to greater competition; and a new bank specializing in home mortgages was created in November 2007 with capital of CFAF 5 billion, while a new commercial bank was recently licensed. Work on the central credit bureau is well advanced and transparency on the cost of credit to borrowers has increased with the publication of the banks' interest rate schedules.

13. **The momentum of reform picked up recently and progress was made in the structural area.** The Republic of Congo re-entered the Kimberly process for diamond certification and has been accepted as a candidate country under the Extractive Industries Transparency Initiative (EITI).[4] All but one of the structural benchmarks under the previous SMP have now been implemented. In particular, the anticorruption observatory was staffed and received the audit report on the award of the Marine XI oil concession; the audits of oil cost for 2004 and 2005 were finalized and posted on the government website; the government submitted to parliament a draft law on conflict of interest and asset disclosure of public officials; and it adopted a decree to ensure that new oil concessions are awarded through a competitive bidding process. The government completed diagnostic studies on how to improve the financial and operating performance of CORAF and the commercialization of oil by the state-owned enterprise, SNPC. Finally, the government increased domestic petroleum product prices in early January by about 14 percent (in effective terms), in line with what was needed to reduce annualized petroleum-related subsidies by about CFAF 30 billion. To help offset the adverse impact of these price increases, the government included compensatory measures amounting to CFAF 20 billion in the 2008 budget. The across-the-board increase in petroleum-product prices and the accompanying compensatory measures differed from those recommended in a recent Poverty and Social Impact Analysis undertaken by FAD, and could have been better targeted.[5]

III. Staff Monitored Program

14. **The authorities acknowledged that strong ownership and close monitoring of their program are critical for successful implementation and could pave the way towards a PRGF arrangement, and eventual debt relief under the enhanced HIPC Initiative.** In this regard, they also stressed that the new SMP could support their policy objectives and target outcomes, while taking into account the country's limited capacity to undertake complex reforms quickly.

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[4] The two national EITI committees (consultative and executive) established in October 2007 are now active.

[5] Fund staff (and other development partners) will continue to work with the authorities to improve the effectiveness of compensatory measures, which are critical to maintaining social stability.

15. **The authorities' Poverty Reduction Strategy (which is expected to be finalized shortly), provides the foundations for the SMP, and the subsequent policy framework under a prospective PRGF arrangement.** Over the medium term, the PRS seeks to: diversify the economy to reduce Congo's dependence on its finite oil resources; enhance governance and transparency over the use of public resources; build human and physical capital to raise potential output growth; and consolidate macroeconomic stability. At the same time, economic policies are aimed at achieving: (i) overall real GDP growth of about 9 - 10 percent per year (Table 1), with low inflation (in line with the CEMAC convergence criterion; (ii) gradual but continued fiscal consolidation to ensure the nation's oil wealth is preserved; and (iii) external sustainability, through prudent debt management and debt relief.

A. Economic Policies for 2008

16. **The economic outlook for 2008 appears benign, with real GDP growth projected to accelerate to about 9 percent as oil production increases.** With continued strong activity in construction and transportation, non-oil growth could reach 7 percent. A moderate pass-through of the recent increase in petroleum-product prices could nudge inflation higher, but it is expected to remain about 3 percent on average this year. The pickup in oil production should help move the external current account into surplus, leading to a further accumulation of international reserves. To achieve these objectives, the fiscal stance will be tightened appropriately. On structural policies, the focus will continue to be on enhancing public financial and resource management, and improving the financial and operating performance of the oil sector.

Fiscal Policy

17. **The fiscal stance has been significantly tightened in 2008, in recognition of the need to roll back previous slippages and to restore the credibility of the budget as the main fiscal instrument.** Indeed, the fiscal framework for 2008 under the SMP provides for a slightly greater adjustment than envisaged in the budget, reflecting the authorities' intention to reduce domestically-financed capital expenditures for 2008 by the amount of the overrun recorded last year (CFAF 27 billion or about 2 percent of non oil GDP), and a slightly more ambitious target for non oil revenue (MEFP ¶14).[6] The authorities are targeting a reduction in the non-oil primary deficit of about 15 percentage points of non-oil

[6] Capital spending is front loaded in 2008, to allow for completion of some projects which would be costly to delay (sanitation, water supply, and sewage), and the authorities' preference to accelerate infrastructure investment in Brazzaville.

GDP, to about 41 percent of non-oil GDP (Table 2), which is consistent with the adjustment needed to move toward long-term fiscal sustainability.[7]

18. **While the 2008 budget accommodates higher poverty-related expenditures and slightly higher wages and salaries (as a share of non-oil GDP) primary spending is curtailed, declining by 15 percent of non-oil GDP.** This is to be achieved by lower subsidies to the petroleum sector owing to the recent increase in petroleum product prices and further increases as necessary to ensure the budgeted ceiling is respected (structural benchmark)[8], an expected decline in litigation fees, and stabilization in nominal terms of domestically-financed capital investment. In the latter case, the authorities argued for higher capital outlays based on their extensive infrastructure needs, but agreed to pursue moderation to ensure that such spending is efficient and effective, taking account of the PRS priorities and absorptive capacity. In this regard, the government is undertaking an audit of a sample of such spending (structural benchmark), and, in consultation with the World Bank and other development partners, intends to establish an action plan to improve public investment management (structural benchmark) before increasing this spending further. To help protect the fiscal stance, the budget includes a CFAF 20 billion contingency reserve (about 1.3 percent of non-oil GDP).

19. **Total revenue is expected to increase only slightly above the level in 2007, so protecting the revenue target is an important priority.** The 2008 budget did not introduce any new taxes. The authorities agreed with the staff that non-oil revenue mobilization remained key to ensuring fiscal sustainability, in light of volatile and unpredictable oil prices. These revenues are projected to be maintained at about 20 percent of non oil GDP. The government will safeguard the revenue position by refraining from introducing new tax and customs exemptions, centralizing all public revenue, and continuing efforts to reform tax and customs administration through computerization and implementation of recent recommendations from audits in these areas, and by addressing fraud and tax evasion (MEFP ¶13). The government will also undertake the regular and quarterly certification of oil receipts, which will help ensure accountability and transparency (structural benchmark).

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[7] In the 2007 Article IV consultation (IMF Country Report No. 07/205), the sustainable non oil primary deficit was estimated at about 13 percent of non oil GDP, which is considerably below the current level. The program focuses on the non-oil primary balance as the key fiscal anchor to help avoid pro-cyclical fiscal policy and because the volatility and unpredictability of oil revenue makes the total GDP (the denominator) highly variable.

[8] The need for, and size of, domestic fuel price adjustments will largely be determined on the basis of CORAF's financial position throughout the year.

20. **The credibility of fiscal policy rests largely on the government's ability to maintain expenditure discipline and control.** The staff urged the government to accelerate efforts to strengthen public financial management, and, in this context, the government intends to: adopt the presidential decree establishing the new functional budget classification; continue to apply a monthly monitoring system to ensure that cash advance and exceptional payment procedures are used only in emergency cases, as stipulated in the organic budget law (continuous structural benchmark); improve control of the expenditure chain from commitment to payment; establish a new procurement code; and put in place an adequate management and control framework for the use of HIPC interim assistance resources. In addition, the government will strengthen control over public spending, through training and seminars targeting budget managers in line ministries, and issue a Ministerial order which will prohibit payment orders beyond the budgeted amount across all ministries, departments, and government agencies (MEFP ¶15).

Monetary and Financial Sector Policies

21. **Monetary policy is conducted at the regional level through the BEAC, which aims to maintain low inflation and accumulate foreign reserves in the context of a fixed exchange rate regime.** The program for 2008 projects broad money growth of about 10 percent, consistent with the expected expansion in the non-oil sector. Credit to the economy is expected to expand at a faster pace, owing to reforms in the financial sector and emerging opportunities for private sector development (in telecommunications, services, and trade and commerce).

22. **The authorities are taking steps to enhance the efficacy of monetary and financial sector policies.** In this regard, they intend to centralize government deposits into a Single Treasury Account, which is considered a key mechanism to improve monetary policy coordination while contributing to increased transparency (MEFP ¶17). On liquidity management, and, in coordination with the regional monetary authorities, action will be taken to gradually eliminate (by 2009) the outstanding stock of central bank statutory advances, which would be replaced by treasury bills. In the same vein, efforts to prepare the ground for a central credit bureau are well advanced and are expected to be completed by mid-year.

23. **The authorities attach high priority to the deepening of the financial sector, as an important element in supporting the diversification of the economy (MEFP ¶18).** A medium-term action plan for the development of the financial sector (prepared in consultation with Fund staff) should be completed shortly. Among other things, this action plan aims at expanding private sector credit and lowering its cost, while also improving supervision and regulation. Recommendations from the recently completed audit of the two pension funds should provide a basis for putting these funds on a sound financial footing.

In the area of AML/CFT, a National Financial Investigation Unit will be established by end-March 2008.

Oil Sector Reform

24. **The government recognize the importance of an efficient and well governed oil sector, to ensure the country receives the maximum benefit from this exhaustible resource (MEFP ¶21 and ¶22)**. The state is heavily participating in this sector, through wholly-owned enterprises involved in oil refining (CORAF) and commercialization (SNPC). Consequently, improving the financial and operating performance of these enterprises is critical to extracting further economic rents from the country's oil resources. A recent diagnostic study of the economic viability of CORAF (undertaken by an international consultant) shows it to be highly inefficient, compared with other refineries around the world (with operating costs several times higher than the international norm). As a first step toward deeper reform in the oil sector, by end-March 2008 the government will adopt a comprehensive action plan for reforming CORAF (structural benchmark), taking account of the recommendations of the diagnostic study including, allowing CORAF to become an independent cost and profit entity, establishing its own analytical accounting system, and pricing oil products in line with export/import price parities. As for SNPC, a diagnostic of its marketing operations shows institutional and procedural deficiencies that have led to substantially lower oil revenue over the recent past, and raises serious governance concerns. Based on the study's recommendations, the government will adopt by end-March 2008 an action plan for SNPC aimed at addressing these deficiencies in the commercialization of Congolese oil (structural benchmark), and to bring them in line with best international practice. As part of their efforts to enhance transparency, the authorities will continue with the practice of conducting and publishing audits of oil costs in the years ahead.

External Sector and Debt Management

25. **Restored production capacities in the oil sector, lower imports as repairs to the Nkossa platform are completed, and favorable world prices are likely to move the current account back into a surplus in 2008**. Continued inflows of foreign direct investment (in mining and telecommunications) will further strengthen the external position, leading to a significant accumulation of foreign reserves to US$ 1.7 billion (equivalent to 19 months of imports) in 2008.

26. **The authorities are continuing their efforts to normalize relations with external creditors**. Following the recent agreement with the London Club, they are seeking comparable treatment from other suppliers, including non–London Club commercial and litigating creditors. Also, the authorities are actively pursuing discussions with the two remaining Paris Club creditors, with a view to concluding bilateral agreements as soon as possible.

27. **The staff welcomed the authorities' intention to formulate a new external debt management strategy and their commitment to seek external financing only on concessional terms.** This strategy will be designed (in collaboration with its CEMAC partners and supported by the World Bank) to strengthen debt management procedures and criteria, as well as institutional capacity to contract and monitor debt by public sector entities, with a view to minimizing the risk of default. To diversify the sources of financing, the authorities will introduce a domestic debt issuance policy, in line with regional CEMAC guidelines. While debt management will remain the responsibility of the Ministry of Finance, the new National Debt Committee will provide support in implementing the new strategy. An important feature of the strategy is to enhance monitoring and reporting, including on the government external web site and through the publication of an annual debt report.

B. Risks to the Program

28. **There are two main risks to the program.** The first concerns ownership and the authorities' willingness to implement key measures to enhance governance, transparency, and to improve the operations and efficiency of the important oil sector. In the past, vested interests have proved to be a formidable obstacle to reform. The recent establishment of a new structure to monitor and implement the economic and financial program should help foster ownership and increase the likelihood of success, but political will is also needed. Second, weaknesses in public financial management and control could make the government's fiscal objectives difficult to achieve. These weaknesses may be vulnerable to the impending municipal and presidential elections, which could test the government's resolve to resist spending pressures.

C. Program Monitoring

29. **The staff monitored program will cover the period January 1 through June 30, 2008 and will be monitored through quarterly quantitative indicators and structural benchmarks for end-March and end-June (Tables 1 and 2 of the authorities' MEFP)**. The quantitative targets include a floor on the non oil primary balance, which is a key indicator for gauging fiscal sustainability in oil-exporting countries. The program's structural benchmarks are aimed at reinforcing good governance, transparency, and the effective use of Congo's natural resources (see Text Table 1). The first staff assessment of the SMP is expected to take place in May, based on end-March 2008 quantitative indicators and structural benchmarks. The second staff assessment would be based on end-June 2008 quantitative indicators and structural benchmarks and could take place in late-July/early-August 2008.

Text Table 1. Structural Benchmarks Under the 2008 Staff Monitored Program

Measures	Timing	Macro rationale
Oil sector reform		
The government will adopt a comprehensive action plan with a timetable to address institutional and procedural deficiencies in the commercialization of Congolese oil, to bring them in line with best international practice.	March 31, 2008	This measure will maximize oil revenue accruing to the state thereby reinforcing long-term fiscal sustainability.
The government will adopt a comprehensive action plan with a timetable for reforming CORAF, taking on board the recommendations of the diagnostic study of its operations by an international consultant.	March 31, 2008	This will help improve the financial and operating performance of the oil refinery, which will reduce costs and eliminate the need for budget subsidies, and raise profitability (and returns to the government).
Quarterly adjustment in petroleum entry distribution and/or retail prices to ensure that oil subsidies for 2008 remain within budget limits (CFAF 35 billion for the full year). The prices adjustments should not pass-through any decline in world oil prices.	Four weeks after the end of each quarter	This measure is intended to protect the budget fiscal slippages caused by higher world oil prices.
Public financial management and tax and customs administration reform		
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 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).	June 30, 2008	The study will help identify procedural deficiencies, increase transparency of government expenditures and assist in building a comprehensive database of investment projects. It will also provide a basis for an action plan to improve public investment management.
Adoption of a three-year action plan to strengthen public investment management, with assistance from the French Cooperation agency, World Bank, and other development partners.	June 30, 2008	Better management of the investment budget will ensure that government resources are used effectively.
Also, the SMP includes several continuous structural benchmarks aimed at enhancing domestic revenue mobilization, transparency and governance, and control of public expenditures (see Table 1 of the MEFP).	Continuous	These measures will help safeguard the budget, while ensuring accountability and transparency over the use of public resources.

IV. STAFF APPRAISAL

30. **The prospects for increasing oil production and continued strong growth in the non oil sector provide an unprecedented opportunity to reduce poverty in Congo, and to make progress toward meeting the Millennium Development Goals.** Strong actions and political will are critical to translate the authorities' intentions into outcomes. Recent momentum in implementing structural reform and the high level involvement in the authorities' economic and financial program bode well for stronger program ownership, increasing the likelihood of success. However, challenges remain.

31. **Better public financial management and control are needed to overcome persistent fiscal slippages, and to resist spending pressures in an election environment and with high world oil prices.** The government's intention to rollback previous spending overruns, raise (politically and socially sensitive) petroleum product prices, and show moderation in the public investment program are a welcome sign. The government has considerable resources and it should use them—and development partners' assistance—to support capacity building in this area.

32. **If executed as envisaged, the 2008 budget can help Congo move toward fiscal sustainability, while addressing pressing social sector and infrastructure needs.** The budget envelope is wide enough to accommodate higher poverty-related spending, including the recruitment of personnel in health and education, and improve the economic infrastructure, especially the transportation network and public utilities.

33. **Better governance, transparency and more effective management of natural resources are also critical to the success of the program.** Congo's reintegration in the Kimberley process and the re-application to the EITI are welcome steps in this direction, but deeper reform of the state-owned enterprises in the oil sector are needed in the period ahead.

34. **The authorities are rightly focusing on policies to diversify the economy, to ensure that the standard of living can be maintained when oil production declines.** The intention to enhance the stability and development of the financial sector is welcome, given the mounting evidence of a clear link between financial development and growth.

35. **The staff monitored program provides an opportunity for the authorities to establish a track record of improved governance and policy implementation.** Satisfactory performance under this program could pave the way for a PRGF arrangement and eventual debt relief under the enhanced HIPC Initiative, which is a key policy objective.

Table 1. Republic of Congo: Selected Economic and Financial Indicators, 2006–10

	2006	2007	2008	2009	2010
		Prel. Est.	Prog.	Proj.	
	(Annual percentage change)				
Production and prices					
GDP at constant prices	6.2	-1.6	9.2	10.6	10.2
Oil	6.8	-17.2	15.0	18.1	16.0
Nonoil	5.9	6.6	6.9	7.3	7.5
GDP at current prices	25.9	-9.4	17.7	14.3	14.0
GDP deflator	18.5	-7.9	7.8	3.4	3.4
Consumer prices (period average)	4.7	2.6	3.0	3.5	3.0
Consumer prices (end of period)	8.1	-1.7	4.0	3.0	3.0
External sector					
Exports, f.o.b. (CFA francs)	26.7	-12.0	19.4	13.5	13.7
Imports, f.o.b. (CFA francs)	52.1	20.6	-15.2	6.0	9.1
Export volume	7.8	-18.6	9.2	20.5	16.5
Import volume	40.0	23.8	-4.6	0.7	-29.1
	(Percent of beginning-of-period broad money)				
Money and credit					
Net domestic assets	-79.8	-5.2	-88.2	...	...
Domestic credit	-82.5	-3.0	-88.2	...	...
Central government	-84.2	-3.7	-90.9	...	...
Credit to the economy	1.9	1.1	2.8	...	...
Broad money	47.9	7.4	10.3	...	...
Velocity of broad money (Nonoil)	1.9	1.9	1.9	...	...
	(Percent of GDP)				
Investment and saving					
Gross national saving	10.2	-14.7	13.0	23.9	23.9
Gross investment	22.9	26.2	23.6	23.6	22.2
Central government finances					
Revenue and grants	44.4	43.1	44.2	44.5	43.1
Oil revenue	37.9	35.1	36.4	36.7	35.4
Nonoil revenue and grants	6.6	8.0	7.8	7.8	7.7
Total expenditure	27.4	32.0	24.6	21.9	19.9
Current	18.4	21.4	14.8	12.3	10.9
Capital (and net lending)	9.0	10.6	9.8	9.6	9.0
Overall balance (deficit -, commitment basis)[1]	17.1	11.1	19.6	22.6	23.2
Primary balance (deficit -)[2]	21.5	13.9	21.8	25.0	25.4
Nonoil primary balance (percent of Nonoil GDP; - = deficit)	-51.3	-55.7	-41.0	-33.9	-29.8
Current account balance[3]	1.6	-19.5	0.9	13.0	21.4
External public debt (end of period)	81.5	71.1	58.3	49.8	42.8
	(Percent of exports of goods and services)				
External public debt service (before debt relief)	13.7	10.9	5.0	4.3	3.7
External public debt	99.1	88.5	70.8	61.5	53.2
	(Percent of total government revenue excluding grants)				
External public debt service (before debt relief)	25.3	20.6	9.5	7.9	6.9
External public debt	183.9	166.6	133.8	113.4	100.5
	(Billions of CFA francs, unless otherwise indicated)				
Gross official foreign reserves	920.4	983.1	1,686.6	2,761.3	4,066.0
(Months of imports, f.o.b.)	10.5	9.3	18.9	29.2	39.4
(Percent of GDP)	22.8	26.8	39.1	56.0	72.3
Nominal GDP	4,042.6	3,664.4	4,313.3	4,931.1	5,621.7
World oil price (U.S. dollars per barrel)	64.3	71.1	86.3	84.3	83.5
Oil production (millions of barrels)	98.7	81.7	93.9	110.9	128.7
Nominal effective exchange rate (end of period, percent change)[4]	-0.4	5.1	...	...	...
Real effective exchange rate (end of period, percent change)[4]	1.6	3.1	...	...	...

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

[1] Including grants.

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

[3] Including public transfers.

[4] Latest available information is November 2007.

Table 2. Republic of Congo: Central Government Operations, 2006–08

	2006	2007		2008			
	Est.	SMP [1]	Prel. Est.	Mar.	Jun.	Sep.	Dec.
	(Billions of CFA francs)						
Revenue and grants	1,796	1,330	1,579	423	878	1,384	1,908
Revenue	1,791	1,305	1,564	415	863	1,362	1,879
Oil revenue	1,531	1,038	1,284	339	709	1,131	1,571
Nonoil revenue	261	267	280	77	154	231	308
Grants	5	25	15	7	15	22	29
Expenditure and net lending	1,106	991	1,171	309	599	828	1,061
of which primary expenditure	916	860	1,055	275	541	738	937
Current expenditure	742	591	784	166	324	479	639
Wages	135	141	142	42	83	125	167
Other current expenditure	402	353	518	98	196	284	375
Material and supplies	85	130	135	39	78	117	156
Common charges	96	39	81	8	15	23	30
Budgetary reserves	0	0	0	5	10	15	20
Transfers	220	184	302	47	93	130	170
Refined petroleum products	18	15	26	...	...	...	13
National refinery (CORAF)	67	55	115	...	...	...	35
Other transfers	136	114	161	...	...	...	122
Local authorities	27	22	23	6	12	17	23
Interest	179	75	101	21	33	53	74
Domestic	29	9	17	2	4	5	7
External	150	66	84	19	29	47	67
Capital expenditure	360	400	388	143	275	349	422
Domestically financed	353	344	372	130	250	311	372
Externally financed	7	56	16	13	25	38	50
Net lending	5	0	0	0	0	0	0
Basic primary balance [2]	871	445	509	140	322	624	942
Of which: Basic non-oil primary balance	-651	-593	-775	-199	-387	-507	-629
Balance, commitment basis							
Excluding grants	685	314	393	107	264	534	818
Including grants	690	339	408	114	279	556	847
Of which: Non oil balance	-831	-699	-876	-224	-430	-575	-724
Change in arrears	-76	-101	-270	-22	-53	-74	-104
External	12	-6	-180	0	0	0	0
Domestic	-88	-95	-90	-22	-53	-74	-104
Balance, cash basis	614	238	138	92	226	481	743
Financing	-614	-238	-138	-92	-226	-481	-743
Foreign (net)	-165	-143	-105	-9	-44	-53	-90
Drawings	2	31	1	...	...	...	21
Amortization due	-302	-253	-238	...	...	...	-111
Rescheduling obtained (arrears)	60	52	85	...	...	...	0
Debt cancellation (arrears)	75	26	48	...	...	...	0
Exceptional assistance	0	0	0	...	...	...	0
Domestic (net)	-449	-95	-34	-83	-182	-428	-652
Banking system (net)	-407	-93	-23	-83	-181	-426	-649
Nonbank financing	-42	-2	-11	0	-2	-2	-3
Financing gap (- = surplus)	0	0	0	0	0	0	0

Table 2. Republic of Congo: Central Government Operations, 2006-08 (concluded)

	2006	2007		2008			
	Est.	SMP	Prel. Est.	Mar.	Jun.	Sep.	Dec.
				(Percent of GDP)			
Revenue and grants	44.4	39.0	43.1	9.8	20.3	32.1	44.2
Revenue	44.3	38.2	42.7	9.6	20.0	31.6	43.6
Oil revenue	37.9	30.4	35.1	7.8	16.4	26.2	36.4
Non oil revenue	6.4	7.8	7.6	1.8	3.6	5.4	7.1
Total expenditure	27.4	29.0	32.0	7.2	13.9	19.2	24.6
Primary expenditure	22.8	25.2	28.8	6.4	12.5	17.1	21.7
Current	13.9	15.1	18.6	3.4	6.7	9.9	13.1
Wages	3.3	4.1	3.9	1.0	1.9	2.9	3.9
Other	10.6	11.0	14.8	2.4	4.8	7.0	9.2
Capital and net lending	8.8	10.1	10.2	3.0	5.8	7.2	8.6
Interest	4.4	2.2	2.8	0.5	0.8	1.2	1.7
Foreign-financed capital expenditure	0.2	1.6	0.4	0.3	0.6	0.9	1.2
Overall balance, commitment basis [3]	17.1	9.9	11.1	2.6	6.5	12.9	19.6
Primary balance	21.5	13.0	13.9	3.2	7.5	14.5	21.8
Of which: Non oil primary balance	-16.1	-17.4	-21.2	-4.6	-9.0	-11.7	-14.6
				(Percent of nonoil GDP)			
Non oil revenue	20.5	18.9	20.1	5.0	10.0	15.0	20.1
Wages	10.6	10.0	10.2	2.7	5.4	8.1	10.9
Primary expenditure	72.5	61.0	75.8	17.9	35.2	48.0	61.0
Non oil primary balance [4]	-51.3	-42.0	-55.7	-12.9	-25.2	-33.0	-41.0
Memorandum items:							
GDP at current market prices	4,043	3,413	3,664	4313	4313	4313	4,313
Non oil GDP at market prices	1,269	1,412	1,392	1535	1535	1535	1,535
Pro poor spending	200	229	297	101	198	262	328

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

[1] IMF Country Report No. 07/242, July 2007

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

[3] Including grants.

[4] Excluding investment income.

Table 3. Republic of Congo: Monetary Survey, 2006-08

(Billions of CFA francs, unless otherwise indicated)

	2006	2007 Prel. Est.	2008 Prog.
Monetary survey			
Net foreign assets	1023.5	1107.6	1811.1
Central bank	882.3	942.4	1645.8
Deposit money banks	141.2	165.3	165.3
Net domestic assets	-358.6	-393.4	-1023.2
Net domestic credit	-361.4	-381.6	-1011.5
Net credit to the public sector	-455.2	-482.5	-1132.5
Net credit to the Government	-456.1	-480.9	-1130.3
Central bank	-446.7	-465.8	-1115.1
Claims	149.1	170.5	113.5
Staturory advances	131.4	153.9	96.8
Use of IMF credit	17.7	16.6	16.7
Consolidated credit	0.0	0.0	0.0
Deposits	595.8	636.3	1228.7
Deposit money banks	-9.4	-15.1	-15.1
Claims on public agencies, net	1.0	-1.6	-2.3
Credit to the private sector	93.7	100.9	121.1
Other items, net	2.9	-11.7	-11.7
Broad money	665.0	714.3	787.8
Currency outside banks	271.2	239.2	237.4
Demand deposits	310.8	384.1	450.0
Time deposits	82.9	91.0	100.4
	(Changes in percent of beginning-of-period broad money)		
Net foreign assets	127.7	12.7	98.5
Net domestic assets	-79.8	-5.2	-88.2
Net domestic credit	-82.5	-3.0	-88.2
Net credit to the government	-84.2	-3.7	-90.9
Credit to the private sector	1.9	1.1	2.8
	(Annual percent changes, unless otherwise indicated)		
Broad money	47.9	7.4	10.3
Reserve money	36.5	-11.8	-0.7
Memorandum items:			
	(Percent)		
Velocity			
Nonoil GDP/Average M2	1.9	2.0	2.0
Nonoil GDP/End period M2	1.9	1.9	1.9
Total GDP growth	25.9	-9.4	17.7
Nonoil GDP growth	10.2	9.7	10.3
Credit to the private sector/Nonoil GDP	7.4	7.2	7.9

Source: BEAC; and Fund staff estimates and projections.

Table 4. Republic of Congo: Medium Term Balance of Payments, 2006–10
(Billions of CFA francs, unless otherwise indicated)

	2006	2007	2008	2009	2010
	Est.	Prel. Est.	Prog.	Projections	
Current account	65	-713	41	640	1,201
Trade balance	2,125	1,529	2,261	2,647	3,064
Exports, f.o.b.	3,172	2,791	3,332	3,783	4,303
Oil sector	2,976	2,576	2,962	3,467	3,983
Non oil sector	196	215	370	316	320
Imports, f.o.b.	-1,047	-1,263	-1,071	-1,136	-1,239
Oil sector	-338	-465	-333	-337	-387
Government	-220	-249	-200	-224	-238
Non oil private sector	-489	-549	-538	-575	-614
Balance of services	-1,129	-1,429	-1,200	-1,040	-769
Income	-916	-794	-1,000	-952	-1,079
Labor income	-31	-34	-44	-50	-58
Investment income	-885	-761	-956	-902	-1,021
Current transfers (net)	-13	-18	-20	-15	-15
Capital account	6	16	30	32	33
Official grants	5	15	29	30	32
Other	1	1	1	1	1
Financial account	-66	189	627	399	67
Direct investment (net)	522	743	899	760	788
Of which: oil sector	426	434	426	401	487
Portfolio investment	-1	-1	-1	-1	-1
Other investment	-587	-553	-272	-360	-721
Medium and long term	-477	-390	-271	-262	-282
Public sector	-300	-237	-91	-60	-49
Drawings	2	1	21	55	60
Project	2	1	21	55	60
Program	0	0	0	0	0
Amortization	-302	-238	-112	-115	-109
Private sector	-177	-153	-180	-202	-233
Oil	-167	-145	-166	-195	-223
Non oil	-10	-8	-14	-7	-10
Short term	-110	-164	-1	-98	-439
Errors and omissions	-350	-243	-6	-4	-5
Overall balance of payments	6	-508	698	1,071	1,301
Financing	-356	265	-703	-1,075	-1,306
Reserve financing	-522	-60	-703	-1,075	-1,306
IMF (net)	4	0	0	0	-1
Purchases / Disbursments	6	0	0	0	0
Repurchases / Repayments	-2	0	0	0	-1
Other reserves	-526	-60	-703	-1,075	-1,305
Exceptional financing[1]	166	325	0	0	0
Net change in arrears	28	-1,578	0	0	0
Debt cancellation	78	923	0	0	0
Debt rescheduling	61	981	0	0	0
Financing gap (- = surplus)	0	0	0	0	0
	(Annual percentage change, unless otherwise indicated)				
Memorandum items:					
Current account balance [2]	1.6	-19.5	0.9	13.0	21.4
Export volume	7.8	-18.6	9.2	20.5	16.5
Import volume	40.0	23.8	-4.6	0.7	9.8
Export price	17.5	8.1	9.3	-5.8	-2.3
Import price	8.6	-2.6	-6.0	-0.4	-0.7
Terms of trade	0.8	...	...	...	...

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 Millenium Development Goals Database, April 2007; 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.

APPENDIX I

Brazzaville, March 27, 2008

The Minister of Economy,
Finance, and Budget

to:

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, D.C. 20431
USA

Dear Mr. Strauss-Kahn:

The government of the Republic of Congo (Congo) pursued a Staff Monitored Program (SMP) during April-September 2007, with the intent of establishing a track record of performance that would support a subsequent move to a Poverty Reduction and Growth Facility (PRGF) arrangement. While we made some progress under the SMP, we also had fiscal slippages and did not implement some key structural measures in a timely manner, which prevented the successful completion of this program.

The fiscal slippages were associated mainly with unanticipated costs of the legislative elections last year, higher subsidies to the petroleum sector due to high world oil prices, and higher than budgeted domestically-financed investment. On structural policies, delays in implementation reflected low capacity and the need to enhance program monitoring. In this regard, we established a new reporting and monitoring structure, which will foster strong program ownership and our relations with the IMF. A policy committee headed by the President of the Republic will manage Congo's program and relations with the IMF, and it will be supported by a technical monitoring committee headed by a special advisor to the President of the Republic. The resident representatives of the IMF and the World Bank have been invited to serve as advisors to the technical committee. The technical committee has been heavily engaged with Fund staff, and we believe the flow of information and dialogue has already been improved.

We are determined to make a break from the past, and to establish a satisfactory record of macroeconomic and structural policy implementation. In this regard, we request a new Staff Monitored Program covering the period January 1 through June 30, 2008. The policies and objectives of this SMP are detailed in the attached Memorandum of Economic and Financial Policies (MEFP). This SMP is designed to facilitate the move to a PRGF arrangement, by demonstrating the government's resolve to pursue fiscal consolidation, enhance governance and transparency, and reassure Congo's external creditors that we are committed to macroeconomic stabilization and structural reform.

We believe that the policies and measures set forth in the MEFP are adequate to achieve the objectives of the program, but we will take any further action that may become appropriate for this purpose. During the implementation of the SMP, we will consult with IMF staff on the adoption of measures that may become appropriate for that purpose, at the initiative of the government, or whenever the IMF staff requests such a consultation.

The government intends to make the contents of this letter, the attached MEFP, and the staff report accompanying this request available to the public, and it authorizes the IMF to post them (after Fund management approval and transmission to the Executive Board) on its external website.

Sincerely yours,

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

Attachment: Memorandum of Economic and Financial Policies

APPENDIX I
ATTACHMENT I

Memorandum of Economic and Financial Policies

January 1 Through June 30, 2008

I. BACKGROUND

1. Under Congo's Poverty Reduction and Growth Facility (PRGF) arrangement approved by the Fund's Executive Board in December 2004, the government implemented a number of reforms aimed at stabilizing the macroeconomic situation, enhancing transparency, governance, and public financial management. Together with favorable external developments and internal peace and social stability, the successful implementation of the PRGF arrangement during 2004-06 allowed Congo to achieve a number of important objectives:

- Overall real GDP growth was relatively strong during this period, averaging about 6 percent and this included an expansion of the non oil sector of a slightly lower magnitude. Inflation averaged about 3 percent per year, broadly in line with the CEMAC convergence criterion.

- The external position strengthened markedly, reflecting increasing oil production and favorable world oil prices. At the end of 2006, our foreign reserves increased to the equivalent of 10½ months of imports (about US$ 1.8 billion) from only 1.4 months at end-2004.

- The decision point under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative was reached in March 2006, and we benefited from a debt rescheduling from the Paris Club, and interim relief under the enhanced HIPC Initiative from some multilateral and bilateral creditors.

2. Regrettably, we could not conclude the third review under the PRGF arrangement in 2006 because of fiscal slippages and delays in structural reform.. To signal our intention to resume support under the PRGF we requested a Staff Monitored Program (SMP) covering the period April through September 2007, but persistent fiscal slippages, weaknesses in institutional and administrative capacity, as well as unforeseen factors, compromised the implementation of the program.

3. We recognize that weak program ownership has played an important role in unsuccessful policy implementation. For this reason, we have established a new reporting

and monitoring structure, which we believe will result in strong performance under this new SMP, and later under a PRGF arrangement. A policy committee headed by the President of the Republic will manage Congo's programs and relations with the Fund and World Bank, and it will be supported by a technical monitoring committee, headed by a special advisor to the President of the Republic. The resident representatives of the IMF and the World Bank have been invited to serve as advisors to the technical committee. For the Fund's part, we are encouraged by the efforts to streamline conditionality and ensure its macro relevance. We believe that, together, these developments will improve the likelihood of program success, which is critical to Congo's key objectives of enhancing growth, reducing poverty, and achieving external sustainability through debt relief under the enhanced HIPC Initiative.

II. Recent Developments

4. Overall economic activity declined in 2007 because of a temporary fall in oil production caused by an accident on the Nkossa oil platform. However, the non oil economy continued to expand at a healthy pace (about 6½ percent), and above the growth rate experienced during the past several years. Food prices fell as a result of improvements in the transportation network, leading to a decline in annual inflation in 2007. The current account moved into deficit last year, reflecting the decline in oil production and imported equipment to repair the oil platform. The external position, however, was helped by an agreement with London Club creditors, which led to debt relief amounting to US$ 1.6 billion. This agreement is consistent with the enhanced HIPC Initiative and accounts for more than half of the total relief envisaged at the completion point.

5. Monetary conditions were appropriate for Congo during 2007. Broad money slowed from its strong increases in previous years, which reflected the build up of government deposits with commercial banks. The financial sector remained sound according to the regional banking supervisor (COBAC). A new bank specializing in home mortgages was recently created and a new commercial bank has just been licensed.

6. The fiscal stance weakened in 2007 because of an overshoot in expenditure. The overshoot was associated mainly with unanticipated costs of the legislative elections last year (some re-voting took place because of irregularities in some constituencies), higher subsidies to the petroleum product sector due to high world oil prices, and higher than budgeted domestically-financed investment. In the latter case, we had intended to limit this investment to CFAF 344 billion, but it proved difficult to reverse the over execution of this spending which took place in the third quarter of the year. Overall, these developments, together with a decline in oil revenue (related to the temporary decline in oil production), resulted in a sharp fall in the basic primary surplus to about 13.9 percent of GDP in 2007, from 21.5 percent a year earlier.

7. While there were delays in implementing structural reform under the previous SMP, important progress has been made more recently. We completed several audits that were undertaken to help increase the transparency of oil costs and revenue. We took actions to enhance governance through the creation of an anti-corruption observatory, sending them the audit report on the award of Marine XI concession. We presented a draft law to parliament on conflict of interest and asset disclosure of public officials, and adopted a decree to ensure that all new oil concessions will be awarded through a competitive bidding process. We re-entered the Kimberly process for diamond certification and re-applied to the Extractive Industries Transparency Initiative (EITI). We completed diagnostic studies on how to improve the financial and operating performance of the national oil refinery and the oil-marketing company (SNPC). As agreed with Fund staff, the government raised petroleum product prices earlier this year, to help reduce subsidies to the petroleum product sector, which had been a major source of fiscal slippage last year. Finally, we have adopted a public finance reform program with the support of the Fund, World Bank, European Union, and other donors.

III. Medium-Term Objectives and Policy Framework

8. The Poverty Reduction Strategy (PRS), which is expected to be finalized shortly, provides the foundations for the government's medium-term policy framework. This framework is based on the need to: (i) diversify the economy to reduce our dependence on oil, which we recognize fully as an exhaustible resource; (ii) enhance public financial management and the management of our natural resources (including oil, forests, and minerals); (iii) build human capital, by improving the allocation of resources in the social sector (health and education); (iv) continue to improve governance and transparency, which would bolster Congo's attractiveness for domestic and foreign investment; (v) rebuild the country's economic infrastructure, especially the transportation network; (vi) and consolidate macroeconomic stability. We believe that we have the financial resources necessary to achieve these broad objectives, but we also require technical assistance to increase institutional and administrative capacity. Here, strong donor coordination could help buttress our own efforts.

9. In the event, economic policies over the medium term will be aimed at:

- Overall real GDP growth of 9-10 percent through 2010 and continued robust activity in the non oil economy. This would yield good progress toward reaching the income Millennium Development Goal.

- Inflation of about 3 percent per year, which is in line with the CEMAC convergence criterion, which would help preserve Congo's international competitiveness under the fixed exchange rate regime.

- Gradual but continued fiscal consolidation to ensure that the nation's oil wealth is preserved over the long term, and to improve the contribution of the non oil sector to national wealth. By doing so, this will help prevent a decline in living standards when oil production declines. In this regard, we will target a progressive decline in the non-oil primary deficit over the medium term. Achieving this objective will require tight control over current and capital spending, which will be supported by concerted effort to enhance public financial management.

- External sustainability, through prudent debt management and benefiting from HIPC debt relief.

IV. Economic Policies for 2008 Under the SMP

10. The economic outlook for 2008 appears favorable, with continuing high world oil prices, an increase in oil production, and a buoyant non oil sector driven by strong domestic demand. Overall real GDP growth is projected to be about 9 percent, with low inflation. Oil receipts are expected to boost official reserves to a record 19 months of imports (39 percent of GDP), which further strengthens our external position and provides a buffer against exogenous shocks. To achieve these objectives, the fiscal stance will be tightened and the regional central bank will contain the growth of broad money. Structural policies will focus on improving public financial management and the financial and operating performance of key state-owned enterprises in the oil sector, and complete the reform agenda from last year.

A. Fiscal Policy

11. The key fiscal objective is to reestablish the credibility and integrity of the budget as the government's main fiscal instrument. This implies keeping within the budgeted envelope for all categories of expenditure, including capital, eliminating the recourse to emergency and cash advance payment procedures, and ensure the timely receipt of oil revenue in conformity with the organic budget law.

12. Parliament has endorsed the 2008 budget, which is broadly in line with understandings reached with Fund staff. The program targets a domestic basic primary surplus of about 22 percent of GDP, which is a dramatic improvement over last year. This is equivalent to a reduction in the non oil primary deficit of about 15 percentage points of non oil GDP, to about 41 percent of non oil GDP.

13. The improvement in the primary surplus reflects a rolling back of previous fiscal slippages, as total revenue remains broadly the same as last year (at about 20 percent of non-oil GDP). We have not introduced new taxes in the budget, but we will protect the revenue target through a number of ongoing measures. These include: the regular and

timely transfer of (certified) oil receipts to the budget; the centralization of all public revenue; tax and customs administration reform through computerization and implementation of recent recommendations from audits in these areas; fight against fraud and tax evasion; and the progressive reduction of, and, no granting of new tax and customs exemptions (except those in international conventions, structural benchmark).

14. On primary spending, the 2008 budget envelope has been reduced by about 15 percentage points of non-oil GDP to about 61 percent of non-oil GDP. We will achieve the reduction in annual spending mainly through an expected decline in litigation fees related to our external liabilities, lower subsidies to the petroleum product sector because of the increase in petroleum prices, and through a stabilization of domestically-financed capital spending. Despite our strong desire for increasing capital spending─given our pressing infrastructure needs─the level of capital spending will be reduced by CFAF 28 billion compared to the budget, in order to take into account the acceleration of some disbursements in the latter part of last year, capacity considerations, and the need to assess the effectiveness of our investment program before ratcheting it up further. An audit of a sample of such spending associated with 2006 and current transfers, will be completed by end-June 2008 (structural benchmark), and, together with World Bank assistance with developing an action plan by end-June 2008 to improve public investment management (including aligning it with the PRS) (structural benchmark), we could anticipate expanding our capital budget in the medium term. Oil subsidies have weighed heavily on the budget in the past and to alleviate this burden, we will, if necessary, undertake quarterly adjustments in petroleum entry distribution and/or retail prices to stay within the budgeted ceiling (structural benchmark). The need for, and size of, domestic fuel price adjustments will largely be determined on the basis of CORAF's financial position through the year. The 2008 budget provides for an increase in pro-poor spending and a CFAF 20 billion (about 1.3 percent of non-oil GDP) contingency reserve, which we have set aside to help avoid further fiscal slippages.

15. We have established an action plan aimed at improving public financial management (with assistance from the Fund, World Bank, and other donors), which is a prerequisite for expanding the budget envelope further. As part of this action plan, we intend: to adopt the presidential decree establishing the new functional budget classification system (by-end March 2008), and use it for implementation monitoring; continue to apply a monthly monitoring system to ensure that cash advance and exceptional payment procedures are not used, in line with the organic budget law (structural benchmark); improve the expenditure chain from commitment to execution; make progress in establishing a new procurement code; and establish an adequate management and control framework, for the use of HIPC resources. Once these requirements are met, the government intends to use these HIPC resources in line with understandings reached earlier with our development partners. Also, to strengthen control over public spending, the

Ministry of Finance and Budget will provide training and hold seminars to build capacity of budget managers in line ministries, and immediately issue a Ministerial order which will prohibit payment orders beyond the budgeted amounts across all ministries, departments, and agencies.

16. In the same vein, we will continue to pursue the implementation of measures aimed at improving the governance, transparency, and the management of natural resources. These measures include: the quarterly certification of oil revenue by an internationally recognized audit firm (structural benchmark); the audit of oil costs for productions sharing agreements; and awarding of new oil concession contracts through a competitive bidding process. Also, we will make a determined effort to implement the requirements of the EITI.

B. Monetary and Financial Sector Policies

17. Monetary and exchange rate policy is conducted at the regional level by the Bank of Central African States (BEAC) and Congo is a member of the CEMAC region whose common exchange rate is fixed to the euro. During the next year or so, the BEAC will continue to focus on achieving low inflation and reserve accumulation in support of the exchange rate peg. At the national level, to enhance liquidity management and separate monetary from fiscal policy, we will (i) make efforts to repay accumulated statutory advances (amounting to CFAF 154 billion), given the high cost of holding these advances (interest rates are above 5 percent) and the government's significant cash position and BEAC deposits, and (ii) progressively move towards a single Treasury account at the central bank, as recommended by the report on the regional Financial Sector Stability Assessment completed in 2006.

18. We have recently completed (with Fund and World Bank assistance) an action plan for the development of the financial sector. With our CEMAC partners, we envisage taking a number of actions in the near term that should help expand private sector credit, including the liberalization of lending and deposit rates, and to finalize the corporate financial statement registry, the central credit bureau, and the payment risk management system. These reforms should increase information available to borrowers and investors as well as decrease the cost of borrowing for smaller enterprises. The audit of the two pension Funds; the National Social Security *(Caisse nationale de sécurité sociale)* and the Government Employee Pension *(Caisse de retraite des fonctionnaires)* were completed recently. These audits include recommendations to place these Funds on a sound financial footing, while 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 establish by end-March 2008 the National Financial Investigation Unit (*Agence Nationale d'Investigation Financière,* ANIF), in compliance with CEMAC regulations. Other measures that we intend to implement at the national level over the

medium term include actions aimed at improving the business environment and legal and accounting frameworks.

C. External Debt Management

19. The government is in the process of formulating a new external debt management strategy, although there is no intention of seeking foreign loans on non-concessional terms. Rather, this strategy is being designed to help strengthen debt management procedures and criteria, as well as institutional capacity to contract and monitor the debt by public sector entities, and minimize the risk of default. To diversify the sources of financing, the new strategy will introduce a domestic debt issuance policy, in line with the regional CEMAC guidelines. While debt management will remain the responsibility of the Ministry of Finance, a new National Debt Committee will provide support to the new debt strategy. We will continue centralizing debt data at the debt management unit (Caisse Congolaise d'Amortissement), including collateralized debt, and publishing the related data and projections on the government external site during the first half of this year. Also, we will ensure consistency of our data, reconcile them regularly with the balance of payments and budget, and publish an annual national debt report.

20. The government will step up efforts to normalize relations with external creditors. Following the recent agreement with the London Club, we are seeking comparable treatment from suppliers, non–London Club commercial creditors, and litigating creditors. The government will also seek to sign bilateral agreements with the remaining Paris Club creditors as soon as possible.

V. Reform of State-Owned Enterprises

21. Improving the operating and financial performance of the national oil refinery (CORAF) and more effective commercialization of government oil (through SNPC) are important aspects of the governance agenda. Over the medium term, the government intends to develop a comprehensive strategy aimed at improving sector performance through upgrading SNPC's accounting framework, monitoring closely the technical and economic aspects of the operations of private oil companies, developing a sector data base, and evaluating all possible institutional, contractual, and regulatory reforms that could ensure that Congo is obtaining the maximum benefit—while respecting its legal obligations and the sanctity of private property rights—from its oil resources. To undertake some of this work, the government intends to prepare terms of reference (by mid-year) and obtain adequate sector expertise, including from the World Bank.

22. By end-March 2008, the government will adopt a comprehensive action plan with a timetable for reforming CORAF (structural benchmark), taking on board the

recommendations of the diagnostic study of its operations by an international auditor completed earlier. Among other things, this plan should include measures: to address priorities for rehabilitation investment and the operational improvements suggested by the auditor; allow CORAF to become an independent cost and profit entity, establishing its own analytical accounting system, and able to purchase the adequate crude oil and to independently export surplus products, and to move out of the refinery accounts the petroleum products remaining subsidies by establishing a pricing system with export-import price parities. For the SNPC, the government will adopt a comprehensive action plan with a timetable by end-March 2008 (structural benchmark) to address institutional and procedural deficiencies in the commercialization of Congolese oil, to bring them in line with best international practice. As part of their efforts to enhance transparency, the authorities will continue with the practice of conducting and publishing audits of oil costs in the years ahead.

VI. Program Monitoring Under the SMP

23. The SMP will be monitored through staff assessments based on quantitative targets and structural benchmarks for end-March and end-June 2008, as set out Tables 1 and 2, respectively. Detailed definitions and reporting requirements for all quantitative indicators and structural benchmarks are contained in the accompanying Technical Memorandum of Understanding (TMU, Annex II). The authorities will make available to Fund staff all core data, appropriately reconciled, and on a regular and timely basis, as specified in the TMU.

24. The first staff assessment of the SMP is expected to take place in May 2008, with the second review in August, if the relevant data and information is made available.

Table 1. Republic of Congo: Proposed Quantitative Indicative Targets, Jan 1 - Jun 30, 2008
(Billions of CFA francs, unless otherewise indicated; cumulative from January) [1]

	End-Mar. 08	End-Jun. 08	End-Sep. 08	End-Dec. 08
	Target	Target	Indicative Target	Indicative Target
Quantitative targets				
Nonoil primary fiscal balance (floor)	-198.5	-387.1	-506.8	-629.2
New medium or long-term nonconcessional external debt (including leasing) contracted or guaranteed by the government (ceiling) [2, 3]	0.0	0.0	0.0	0.0
New external debt (including leasing) with an original maturity of less than one year (ceiling)	0.0	0.0	0.0	0.0
New oil-collateralized external debt contracted by or on behalf of the central government (ceiling) [3]	0.0	0.0	0.0	0.0
New nonconcessional external debt contracted by SNPC (ceiling) [3]	0.0	0.0	0.0	0.0
New external arrears on nonreschedulable debt [3]	0.0	0.0	0.0	0.0
New domestic arrears [3]	0.0	0.0	0.0	0.0
Memorandum items				
Oil revenue (in billions of CFA francs)	338.5	709.1	1130.9	1571.1
Non-oil revenue	77.0	153.9	230.9	307.8

[1] Quantitative indicative targets are defined in the attached technical memorandum of understanding.
[2] Excluding rescheduling arrangements and disbursements from the IMF; the minimum grant element is set to 50 percent.
[3] Continuous.

Table 2. Structural Benchmarks Under the SMP, January 1–June 30, 2008

Measures	Date
The government will adopt a comprehensive action plan with a timetable to address institutional and procedural deficiencies in the commercialization of Congolese oil, to bring them in line with best international practice.	March 31, 2008
The government will adopt a comprehensive action plan with a timetable for reforming CORAF, taking on board the recommendations of the diagnostic study of its operations by an international consultant.	March 31, 2008
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 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).	June 30, 2008
Adoption of a three-year action plan to strengthen public investment management, with assistance from the French Cooperation agency, World Bank, and other development partners.	June 30, 2008
Quarterly adjustment in petroleum entry distribution and/or retail prices to ensure that oil subsidies for 2008 remain within budget limits (CFAF 35 billion for the full year). The price adjustments should not pass-through any decline in world oil prices.	Four weeks after the end of each quarter
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
Publication of all invitations to bid and the bids themselves for government procurement contracts above CFAF200 million on the government's website (www.mefb-cg.org).	Continuous
No granting of new tax and customs exemptions (except those under international conventions).	Continuous
Centralization of all public revenues and execution of all public payments by the Treasury.	Continuous
No recourse to emergency payment and cash advance procedures, except in situations stated in the organic budget law.	Continuous

APPENDIX I
ATTACHMENT II

REPUBLIC OF CONGO

Technical Memorandum of Understanding

January 1 Through June 30, 2008

1. This technical memorandum of understanding (TMU) sets out the modalities for tracking the staff monitored program (SMP) of the government of the Republic of Congo for the period January 1-June 30, 2008.

I. QUANTITATIVE CRITERIA AND INDICATORS

2. **The quantitative indicators are**:

a. a floor on the basic primary non-oil fiscal balance, cumulative starting from January 1, 2008 for the SMP;

b. no accumulation of new medium or long term nonconcessional external public or publicly guaranteed debt (including leasing) (a continuous quantitative indicator);

c. no accumulation of new external public or publicly guaranteed debt (including leasing) with an initial maturity of less than one year (a continuous quantitative indicator);

d. a ceiling on the accumulation of new oil-collateralized external debt contracted by or on behalf of the central government (a continuous quantitative indicator);

e. a ceiling on new nonconcessional external debt contracted by the SNPC (with or without government guarantee), starting from January 1, 2008 (a continuous quantitative indicator), unless otherwise indicated in paragraph 12;

f. no accumulation of new external payment arrears with respect to the service on non-reschedulable external debt (see paragraph 12 below for the definition), starting from January 1, 2008 for the indicators of the first half of 2008 (a continuous quantitative indicator); and

g. no accumulation of new domestic payment arrears, starting from January 1, 2008 (a continuous quantitative indicator).

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. Non-Oil 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 and road funds) and the government debt management agency (Caisse Congolaise d'Amortissement, CCA).

5. **The government's non-oil basic primary fiscal balance** is equal to total non-oil revenue excluding grants, minus total expenditure (including net credit), less interest on debt and less foreign-financed public capital expenditure. It is calculated from the budget execution outturn reported every month in the TOFE prepared by the Ministry in charge of finance.

6. **The government's total revenue is reported in the TOFE on a cash basis**. It includes all revenue collected by the Treasury (including tax and customs receipts, oil revenues, service revenues, and forestry revenues), whether they result from past, current, or future liabilities. Revenues also include those recorded on a gross basis, in the special accounts.

7. **Expenditures are reported on a payment order basis**. They include current expenditures, domestically-financed capital expenditures, foreign financed capital expenditure as well as net lending. Current expenditures include expenditures on wages, goods and services, common charges, interests on debt (domestic and foreign), transfers and subsidies and other current expenditures.

C. Foreign Debt and Arrears

8. **The definition of government used for the various foreign debt indicators** includes government, as defined in paragraph 3, public institutions of an administrative nature, public institutions of a scientific and/or technical nature, public institutions of a professional nature, public institutions of an industrial and/or commercial nature, and local governments, with the sole exception of the national oil company (SNPC)—see paragraph 12 below.

9. 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,[9] 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 landlord 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 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.

10. The quantitative indicative target related 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

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

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.

11. For foreign 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.

12. The ceiling on any new nonconcessional foreign debt with a maturity of more than one year incurred or guaranteed by the SNPC, with or without government guarantee, will be observed continuously. The SNPC may borrow only to finance investments related to its core activities (research, exploration, production, refining and distribution of oil, construction of their 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 oil field partners or to loans with maturities of less than one year.

13. 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 moratorium 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 non-reschedulable debt (that is, debt to Paris Club creditors contracted after the cutoff date and debt to multilateral creditors). Non-accumulation of external payment arrears is an indicator to be continuously observed.

D. Oil-Collateralized Foreign Debt

14. Oil-collateralized external debt is external debt which is contracted by giving an interest in oil. Pre-financing is defined as an oil-collateralized loan which is repaid by the sale of the oil in a different calendar year. New pre-financing 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. The government undertakes not to contract any new oil-collateralized debt.

III. Structural Measures

15. Structural measures are listed in Table 2 attached to the Memorandum of Economic and Financial Policies regarding the staff-monitored program:

Structural measures under the SMP

- The government will adopt by March 31, 2008 a comprehensive action plan with a timetable to address institutional and procedural deficiencies in the commercialization of Congolese oil, to bring them in line with best international practice.

- The government will adopt by March 31, 2008 a comprehensive action plan with a timetable for reforming CORAF, taking on board the recommendations of the diagnostic study of its operations by an international consultant.

- Completion by June 30, 2008 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 IMF and World Bank staff. Publication of the audit report on the website of the Ministry of Finance (www.mefb cg.org).

- Adoption by June 30, 2008 of a three-year action plan to strengthen public investment management, with assistance from the French Cooperation agency, World Bank, and other development partners.

- Quarterly adjustment (within four weeks from the end of the quarter) in petroleum entry distribution and/or retail prices to ensure that oil subsidies for 2008 remain within budget limits (CFAF 35 billion for the full year). The price adjustments should not pass-through any decline in world oil prices.

- Quarterly certification, on a continuous basis, of oil revenue by an internationally recognized audit firm—with on quarter lag—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).

- Publication of all invitations to bid and the bids themselves for government procurement contracts above CFAF200 million on the government website (www.mefb-cg.org)

- No granting, on a continuous basis and as of the date of promulgation of the 2008 budget law, of new tax and customs exemptions (except those under international conventions).

- Centralization of all public revenues and execution of all public payments at the Treasury.

- No recourse, on a continuous basis and as of the date of promulgation of the 2008 budget law, to emergency payment and cash advance procedures, except in national situations stated in the organic budget law.

IV. Information for Program Monitoring

16. 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

17. Regarding the oil sector, the government will submit the following information to IMF staff within four weeks after the end of the month:

- 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 field, 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.

B. Government Finance

18. 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, (iii) the breakdown of tax and nontax revenue, and central government expenditure, particularly transfers and common charges; and (iv) a report on the amounts of and rationales for emergency payment and cash advance procedures. The provisional TOFE and its annexes will be reported monthly within four weeks from the end of the month, whereas the final TOFE and its annexes will be reported within six weeks from 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, including the border impact prices, taxes, transit costs, economic adjustments, ex-refinery prices (for CORAF and imports), entry distribution prices, margins and fees, transport costs and losses, financing expenses, and insurance ; (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 incurred by the budget. These data will be reported within four weeks from the end of the month.

- The Treasury balance to monitor expenditures. It will include 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 from the end of the quarter.

- Complete monthly data on non-bank domestic financing of the budget (net bank credit to, and net non-bank credit to the government). These data will be reported monthly within four weeks from 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 reintegration; social protection, and agriculture). The quarterly tables will be submitted within four weeks of the end of the quarter.

- A monthly table of prepayments, which will also indicate the nature of the expenditures (current transfers, investment, etc.) and the justification for the need to use the prepayment option.

- Quarterly financial reports from the main state enterprises, including SNPC, SNE, SNDE, SOTELCO within four weeks of the end of the quarter.

- A provisional income statement of CORAF for 2008 showing the financing requirement from the government. A provisional income statement will be sent to the IMF within four weeks from the end of each quarter.

C. Monetary Sector

19. 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 commercial banks survey;
- the integrated monetary survey;
- the table of lending and deposit rates; and
- the usual banking supervision indicators for banks and non-bank financial institutions, where necessary.

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

D. Balance of Payments

21. 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; and
- foreign trade statistics (volume and price) prepared by the national statistics agency within three months of the end of the reporting month.

E. Debt

22. 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 non-project), including new borrowing and any external debt relief granted by foreign creditors (CCA tables).

F. Real Sector

23. 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;

- 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 Data

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

- 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 Sharmini Coorey and Anthony Boote

March 28, 2008

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Annexes

Annex I—Republic of Congo: Relations with the Fund
(As of January 31, 2008)

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	84.03	99.33
Reserve tranche position	0.58	0.68

III. SDR Department:

	SDR Million	Percent Allocation
Net cumulative allocation	9.72	100.00
Holdings	0.17	1.72

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		
	2008	2009	2010	2011	2012
Principal	0.00	0.00	1.57	3.14	4.72
Charges/interest	0.43	0.42	0.41	0.40	0.41
Total	0.43	0.42	1.98	3.54	5.10

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) [10]	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 [11]	--

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).

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[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.

[11] 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 2007 consultation discussions took place in Brazzaville in October 2006. The staff report (www.imf.org) was considered by the Executive Board on April 25, 2007.

XI. FSAP Participation : N/A.

XII. Technical Assistance :

Subject	Department	Staff Member	Date
Poverty and Social Impact Analysis	FAD	Mr. Gillingham, Ms. Lacoche	November 2007
Budget functional classification	AFRITAC C	MMrs Lokpe and Nguenang	July 2007
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	Nov. 1995–Apr. 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 February 29, 2008)

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

I.

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—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.[12] 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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[12] 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 non-financial 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 March [...] , 2008

	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]	Dec-07	Feb-08	M	M	M
Reserve/Base Money	Dec-07	Feb-08	M	M	M
Broad Money	Dec-07	Feb-08	M	M	M
Central Bank Balance Sheet	Dec-07	Feb-08	M	M	M
Consolidated Balance Sheet of the Banking System	Dec-07	Feb-08	M	M	M
Interest Rates[2]	Dec-07	Feb-08	M	M	M
Consumer Price Index	Dec-07	Feb-08	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	Dec-07	Feb-08	M	Q	Q
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Dec-07	Feb-08	Q	Q	Q
External Current Account Balance	Dec-07	Feb-08	A	A	A
Exports and Imports of Goods and Services	Dec-07	Feb-08	A	A	A
GDP/GNP	2007	Feb-08	A	A	A
Gross External Debt	Dec-07	Feb-08	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 non-bank 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).