 November 17, 2009

IMF Country Report No. 09/317

Democratic Republic of the Congo: Request for the Rapid-Access Component of the Exogenous Shocks Facility and Report on the 2008 Staff Monitored Program

The following documents have been released and are included in this package:

- The staff report, prepared by a staff team of the IMF, following discussions that ended on March 11, 2009, with the officials of the Democratic Republic of the Congo on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on March 4, 2009. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- A staff statement.
- A Press Release.
- A statement by the Executive Director for the Democratic Republic of the Congo.

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

Letter of Intent sent to the IMF by the authorities of the Democratic Republic of the Congo*

*Also included in Staff Report

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

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INTERNATIONAL MONETARY FUND

DEMOCRATIC REPUBLIC OF THE CONGO

Request for the Rapid-Access Component of the Exogenous Shocks Facility and Report on the 2008 Staff-Monitored Program

Prepared by the African Department

(In consultation with other departments)

Approved by Mark Plant and Anthony Boote

March 4, 2009

Context: Steep declines in commodity export prices on account of the global financial crisis contributed to a sharp drop in gross official reserves and a slowdown in economic growth. The escalating conflict in the eastern provinces aggravated the economic situation. Adjustment to the severe terms of trade shock could threaten economic stability, intensify the slowdown, and increase social tensions at a time when the Democratic Republic of Congo (DRC) is facing both reconstruction and political reconciliation challenges.

Request for support from the Exogenous Shocks Facility (ESF): The DRC authorities are requesting a disbursement from the Rapid-Access Component of the ESF (SDR 133.25 million, 25 percent of quota) to help the economy adjust to the exogenous shock and cushion its impact. The full amount would become available upon Board approval.

Discussions: Discussions were held in Kinshasa December 10–20, 2008. The mission met with Prime Minister Muzito, Minister of Finance Matenda, Minister of Budget Lokola, Central Bank Governor Masangu, other senior officials, and representatives of the parliament and donor community. The mission team comprised Messrs. Ames (head), Ben Ltaifa, Farah (all AFR), and Karam (FAD) and collaborated closely with local representatives of the World Bank and other donors agencies.

IMF relations: Since 2006 staff has been monitoring program implementation through a series of staff-monitored programs (SMPs). The Board concluded the 2007 Article IV Consultation with the DRC in September 2007. The last PRGF arrangement (SDR 580 million; 109 percent of quota) was almost fully drawn (SDR 553.47 million) before it expired in March 2006 without completion of the sixth review because of policy slippages. The DRC reached the decision point for the enhanced Heavily Indebted Poor Countries (HIPC) Initiative in July 2003. Reaching the completion point would require a successful first review of a new PRGF arrangement, one-year satisfactory implementation of the Poverty Reduction Strategy, and observance of the agreed triggers. At the completion point, the DRC will receive over US$7 billion (in present value terms) in debt relief under the HIPC initiative and the Multilateral Debt Relief Initiative.

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Executive Summary

- The global financial crisis and the economic slowdown have resulted in a sharp decline in world commodity prices. This, along with an escalation in the conflict in the eastern provinces, significantly reduced gross official reserves and placed severe pressure on the exchange rate.

- The escalating conflict complicated economic management. Higher security spending resulted in a large increase in government borrowing from the Central Bank of the Congo (BCC). In response, the BCC tightened monetary policy to dampen the impact of the fiscal expansion.

- Performance on the 2008 staff-monitored program (SMP) was mixed, complicated by the effects of the exogenous shock. Although weaknesses remain, the authorities strengthened public financial management, particularly with regard to urgent government expenditure. They also made progress in addressing staff concerns about the debt sustainability implications of the Sino-Congolese mining and infrastructure cooperation agreement.

- The adverse effects of the global financial crisis on the DRC economy are expected to intensify. The sudden and severe drop in the country's terms of trade and in foreign direct investment (particularly in the mining sector) are placing pressures on already low gross official reserves, weakening the fiscal position, slowing economic growth, and increasing unemployment.

- The authorities are committed to implementing appropriate adjustment policies. Fiscal policy will concentrate on avoiding borrowing from the banking system and refocusing government expenditure on mitigating the impact of the shock on the poor. Monetary policy will remain proactive while rebuilding gross official reserves in the context of a flexible exchange rate regime. Nevertheless, increased donor assistance will be needed to help safeguard the economy from the effects of the shock.

- The authorities are requesting a disbursement from the Rapid-Access Component of the Exogenous Shocks Facility (RAC-ESF) to help rebuild scarce international reserves and catalyze additional donor assistance. Proposed access is 25 percent of quota (SDR 133.25 million).

- Staff supports the authorities' request, given (i) the sudden and adverse nature of the impact of the shock on the country's balance of payments and (ii) the authorities' appropriate policy response. The authorities now need to vigorously implement their policy commitments and be prepared with further measures should government revenues or donor assistance fall short.

I. Introduction

1. **The economic recovery of this fragile post-conflict country is being threatened by an abrupt deterioration in the DRC's terms of trade following the global financial crisis**. Over the past several years, the return of peace to most of the country and the transition to a democratically elected government helped lay the foundation for economic growth, led in part by robust mining activity. Despite periodic policy slippages, inflation was kept at moderate levels and gross foreign reserves increased, though from very low levels. However, the rapid deterioration in world commodity prices and the escalation of the conflict in the eastern provinces resulted in a deterioration of the fiscal and external accounts, particularly a dramatic reduction in gross official reserves. Because of the sudden and significant terms of trade shock, the authorities are requesting a disbursement from the RAC-ESF in an amount up to 25 percent of quota (SDR 133.25 million, about US$200 million).

II. Recent developments

2. **World commodity prices collapsed in the fourth quarter of 2008**. Prices of copper, cobalt, and diamonds, which together represent four-fifths of total DRC merchandise exports, fell roughly by one-half, one-third, and one-fourth, respectively. For the year, the impact of these price reductions on the country's terms of trade was largely offset by the more robust performance in the first half. However, the terms of trade are projected to deteriorate by about 23 percent in 2009 (Table 1 and Figure 1).

3. **Escalation of the conflict in the eastern provinces has aggravated the socioeconomic problems facing the country**. Rebel forces launched a major offensive in September 2008 that triggered a humanitarian crisis and displaced over 250,000 people. The UN recently brokered a ceasefire, and the authorities and Rwanda are collaborating to rid the region of rebel forces and integrate them into the national army, with support from international partners. The situation, however, remains fragile.

4. **Together, these two developments have complicated economic management**. The underlying fiscal balance[1] was in surplus through the third quarter of 2008, with robust revenue performance offsetting higher security outlays. However, it shifted to a deficit in the fourth quarter as the continued high security outlays more than offset the modest revenue overruns relative to the program targets (Tables 2 and 3), resulting in a surplus of about 1 percent of GDP for the year as whole—1 percentage point lower than projected. Net credit to government by the BCC increased by 1.8 percent of GDP at year-end relative to projections (Tables 4 and 5). The higher security-related spending combined with a decline in export receipts resulted in a substantial reduction in gross official reserves, which reached a

[1] The underlying fiscal balance is defined as revenue minus expenditure excluding interest on foreign debt, foreign-financed capital expenditure, and exceptional expenditure.

five-year low of US$83 million (less than a week of import cover) by the end of 2008. In response, the BCC raised its indicative interest rate in three steps from 28 percent to 65 percent, increased the reserve requirement ratio from 5 percent to 7 percent, and mopped up excess liquidity by selling central bank bills (BTRs).[2]

5. **The exchange rate came under pressure.** The dwindling of gross official reserves, along with market expectations of a tightened foreign exchange supply, resulted in the Congolese franc depreciating by 10 percent against the U.S. dollar at the turn of the year. The franc has since stabilized in response to the actions of the BCC.

6. **Inflation moderated as economic growth slowed**. Real GDP growth is estimated at about 8 percent in 2008, relative to the previously projected 10 percent. Unemployment is reported to have increased sharply in the mining sector as firms reduced their activities and shed labor.[3] While inflation eased late in 2008 as world food and fuel prices fell, it rose substantially in December as the franc depreciated and ended the year at 28 percent (year-on-year), which was 4 percentage points above the authorities' objective.

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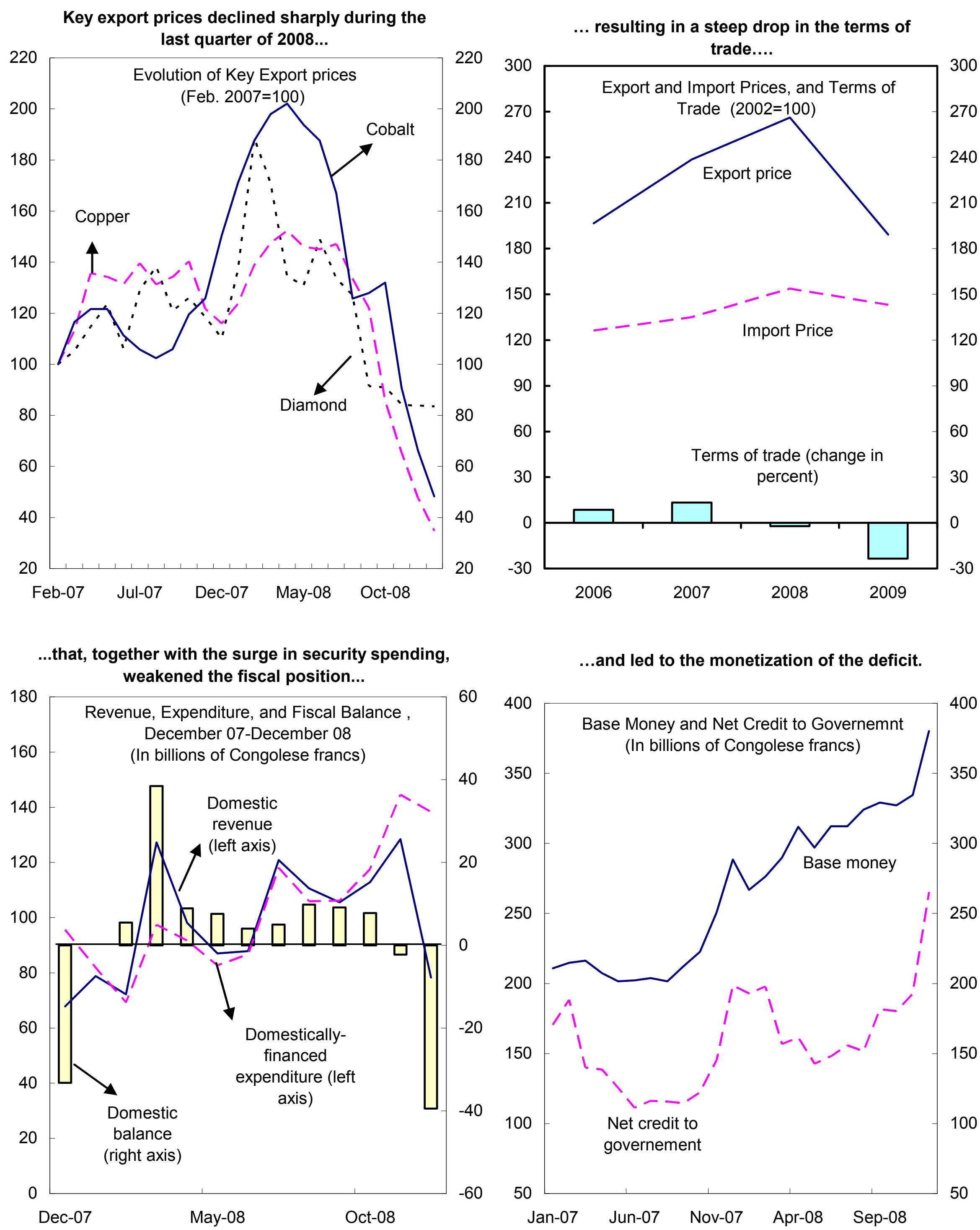
[2] The BCC lowered the reserve ratio back to 5 percent in late January.

[3] Although there are no reliable unemployment statistics, it is estimated that up to 200,000 mining-related jobs were lost after half the country's small copper and cobalt smeltering firms closed.

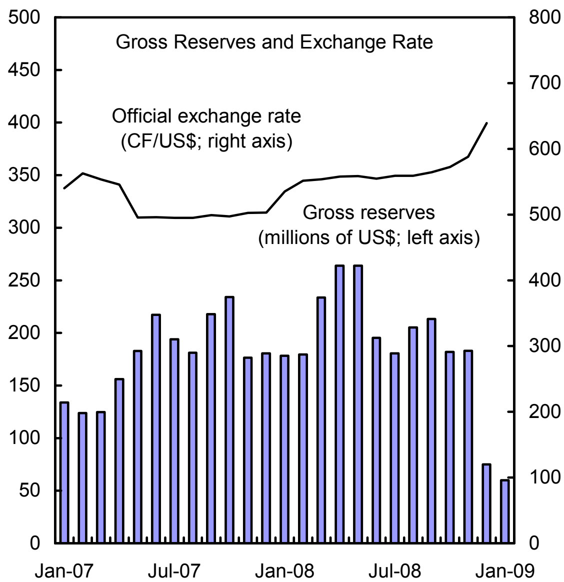
Figure 1. Democratic Republic of the Congo: Recent Macroeconomic Developments



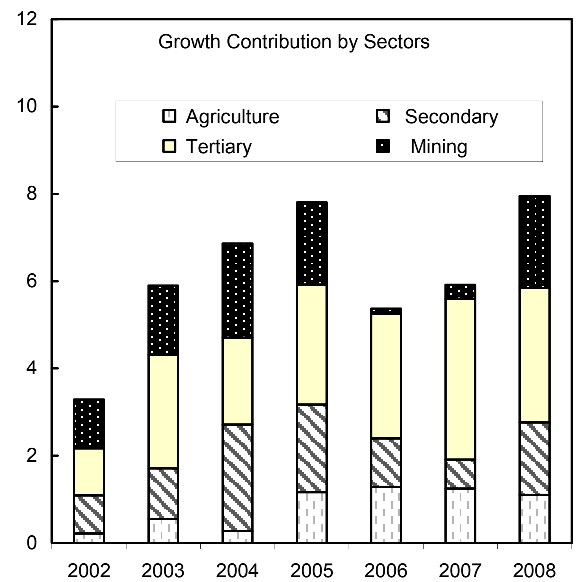
Sources: Congolese authorities; and IMF staff estimates and projections.

Figure 1. Democratic Republic of the Congo: Recent Macroeconomic Developments (concluded)

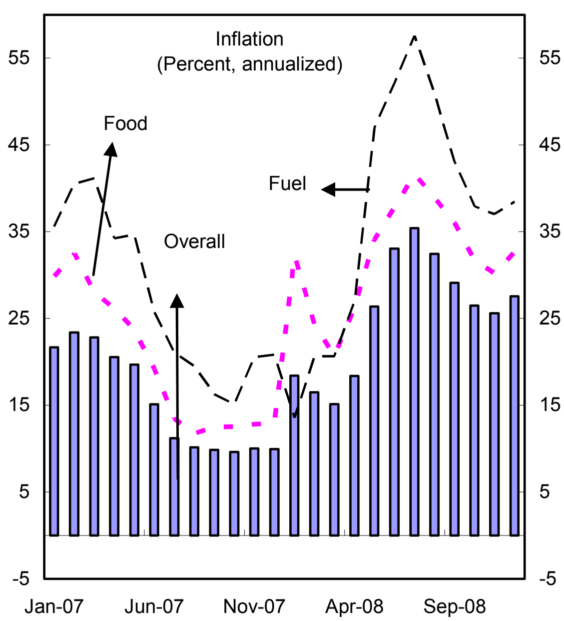
The deterioration in the terms of trade and the escalation of the conflict led to a sharp drop in foreign reserves, and put pressure on the exchange rate.



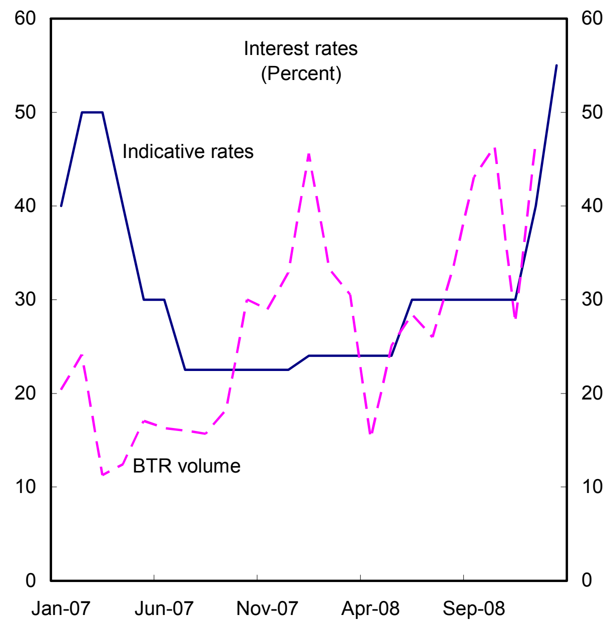
Although growth remained strong...



... inflation picked up in December 2008, after slowing earlier because of the easing of food and fuel prices.



In response the central bank tightened monetary policy.



Sources: Congolese authorities; and IMF staff estimates.

III. PERFORMANCE UNDER THE 2008 SMP

7. **Performance under the 2008 SMP was mixed, and was complicated by the impact of the global financial crisis and the escalation of the conflict in the eastern provinces**. All but one of the quantitative benchmarks for end-September and end-December were missed (Appendix, Table 1).[4] The third-quarter deviations were marginal but widened thereafter. The plunge in export prices during the fourth quarter contributed to the shortfall in net foreign assets of the BCC relative to the target. The surge in security and humanitarian expenditure associated with the conflict accounted for about half of the deviation from the program targets for net credit to government, net domestic assets, and net foreign assets. However, spending overruns related to revenue administration reforms, agriculture investment, wage increases for education and health sector employees, and continued weaknesses in public financial management (PFM) accounted for the remainder. The continuous zero ceiling on unauthorized BCC payments on government expenditure was observed from November 1 onward.[5] The continuous zero ceiling on nonconcessional debt of over one year was breached when the authorities contracted a US$72 million nonconcessional loan to finance the DRC's share of a regional fiber-optic telecommunication project. Two of the six structural benchmarks were observed, three are expected to be completed shortly, and one that requires more time will be a prior action for a future PRGF arrangement (Appendix, Table 2).

8. **The authorities have made progress in addressing staff concerns about the debt-sustainability implications of the Sino-Congolese mining and infrastructure cooperation agreement**. The authorities and their Chinese partners have reportedly agreed to remove from the deal the second-phase infrastructure projects (US$3 billion). Discussions continue about the scope for eliminating government guarantees for the mining project (US$3.2 billion) and increasing the concessionality of the financing of the remaining infrastructure projects (US$3 billion).

IV. THE 2009 TERMS OF TRADE SHOCK AND THE POLICY RESPONSE

9. **The impact of the financial crisis on the balance of payments is both sudden and significant**. Export receipts in 2009 are now projected to decline relative to 2008 by about US$3 billion (27 percent of GDP) largely because of the steep declines in world commodity prices (Text Table). As a result, the trade balance is now projected to shift from a surplus of about 1 percent of GDP in 2008 to a deficit of about 15 percent in 2009, even after taking into consideration the expected import compression arising from lower foreign direct

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[4] The quantitative benchmarks for end-September and end-December were revised in June in the context of the authorities' letter of intent requesting an extension of the 2008 SMP through year end. Table 4 shows both the original benchmarks and the revised ones.

[5] The authorities have taken major steps to address weaknesses in PFM, especially those related to urgent government expenditures—the source of the cases of misreporting.

investment (FDI), the reduction of import prices, and the depreciation of the real exchange rate. The sharp drop in the country's terms of trade will be aggravated by the substantial decline (60 percent) in mining sector FDI. The external current account deficit is therefore expected to widen by some 10 percentage points to 23 percent of GDP despite the projected decline in the services account deficit induced by lower merchandise trade (Table 6). In these circumstances, there is considerable risk that the already low gross official reserves will be exhausted despite projected net capital and financial account flows.[6] Without the shock, staff estimates that the government would have received some US$250–300 million in foreign exchange receipts as its share of oil export revenues and proceeds from mining taxation. These, along with central bank purchases of foreign exchange (mainly from mining companies), could have augmented the gross official reserve position.[7]

10. **The economic impact of the shock is significant**. Economic growth is projected to slow to 4½ percent in 2009, unemployment in mining-dependent regions is expected to continue to rise, but inflation is forecast to be about 12 percent by end-year, partly because world food and fuel prices are falling.

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[6] Substantial "other private" outflows (7 percent of GDP) in 2008—reflecting weak balance of payments statistics—complicate comparisons between 2008 and 2009. In particular, the balance of payments impact of lower FDI and the required adjustment in imports after the shock are understated.

[7] This figure is calculated by applying the ratio of BCC/government foreign exchange receipts to total mining and petroleum exports in 2006–08 (9–10 percent) to the projected loss of export receipts because of the drop in world prices.

Democratic Republic of the Congo: Estimate of the Impact of the Global Financial Crisis on the Trade balance, 2008-09

	2008	2009	
	Est.	Terms of trade and volume impact	Projections with revised import/export volumes and prices
	(A)	(B)	C=A+B
Trade balance	125.1	-1,868.4	-1,743.3
percent of GDP	1.1	-16.8	-15.7
Exports	6,835.8	-3,202.8	3,633.1
Imports	-6,710.7	-1,334.3	-5,376.4
Terms of trade effect [1]			…
Trade balance (U.S. dollars)	…	**-1,889.3**	…
percent of GDP	…	-17.0	…
Exports (U.S. dollars)	…	-2,805.6	…
Copper	…	-1,115.8	…
Cobalt	…	-1,040.8	…
Oil	…	-377.3	…
Diamonds	…	-98.8	…
Other	…	-172.8	…
Imports (U.S. dollars)	…	-916.3	…
Oil		-462.4	…
Other imports	…	-453.9	…
Volume effect [2]			
Trade balance (U.S. dollars)	…	**20.9**	…
percent of GDP	…	0.2	…
Exports (U.S. dollars)	…	-397.1	…
Imports (U.S. dollars)	…	-418.0	…
Memorandum items			
Copper price (US$/ton)	6,963	…	3,500
Cobalt price (US$/ton)	59,415	…	29,863
Oil price (US$/barrel)	95	…	49
GDP (US$ million)	11,845	…	11,130

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

[1] This is calculated by applying export and import volumes of 2008 to the change in import and export prices between 2008 and 2009.

[2] Applies the prices of 2009 to the change of volumes between 2009 and 2008, including adjustments in imports induced by lower export receipts.

11. **Although the scope for short-term policy adjustment is limited, the authorities are committed to implementing prudent policies and have requested staff to monitor their implementation**. The constitutionally-mandated fiscal decentralization policy, the carryover impact of the 2008 salary increases, continued high security spending, and the need for well-targeted spending to offset the socioeconomic impact of the shock limits fiscal space in the near term. Nevertheless, the authorities are committed to prudent macroeconomic policies that will also facilitate their request for emergency donor assistance to fill financing gaps. They requested staff to continue monitoring their economic program through June 2008 on the basis of agreed quarterly benchmarks as part of their effort to establish a track record of good policy implementation that could pave the way for a new three-year PRGF arrangement. In particular, the authorities will (Appendix, Table 3):

- **Maintain prudent fiscal policy**. The authorities' program targets zero government borrowing from the banking sector in order to minimize pressure on the exchange rate and on domestic prices. The underlying fiscal balance is therefore targeted at a surplus equivalent to 0.2 percent of GDP. Taking into account the full-year impact of the policy measures adopted in mid-2008 (0.6 percent of GDP) and the reversal of the reduction of the *prix fiscal* for petroleum products (0.5 percent of GDP), domestic revenue is projected at about 18 percent of GDP.[8] With strengthened PFM, domestically financed spending is also targeted at about 18 percent of GDP.

- **Redirect spending to support labor-intensive activities with high domestic content**. Transfers (excluding wages) would increase from 3.4 percent of GDP in 2008 to 5.6 percent, in line with the decentralization policy, and almost half will be allocated to labor-intensive investment projects.[9] Although spending on goods and services is budgeted to decline by about 15 percent in nominal terms, the program provides for a healthy expansion in nonmilitary spending, given the large security-related spending overruns in 2008. The wage bill is capped at 7 percent of GDP, with a nominal increase due to the carryover effect of salary increases for education and health employees in late 2008 and the cost of harmonizing the salary structures of the central government civil servants in Kinshasa and the provinces.[10] The program also provides for a budgetary reserve for unanticipated events, such as natural disasters and security-related activities.

- **Maintain a proactive monetary policy stance consistent with the inflation and gross official reserves objectives and a flexible exchange rate regime**. The BCC will monitor closely the impact of fiscal policy on liquidity and adjust base money accordingly in line with the monetary program targets. It will primarily auction BTRs to mop up the substantial liquidity injection caused by central government operations. Interest rate policy will aim primarily at bringing down the BCC indicative rate to pre-December 2008 levels as fiscal conditions tighten in the first half of 2009. The BCC will maintain a flexible exchange rate regime while achieving its gross reserve target. It may also auction foreign exchange if necessary to sterilize partially the liquidity injection associated with donor-financed government spending.[11] However, it will not resist movements in the exchange rate arising from changes in economic fundamentals, such as a deterioration in the country's terms of trade, with a view to facilitating adjustment to the shock.

[8] Excluding the signature bonus envisaged in the Sino-Congolese cooperation agreement.

[9] The central government will continue to manage the salary payments of civil servants in the provinces, but the portion of transfers related to goods and services will be fully managed by the provinces. Transfers related to investment will be co-managed by the central government and provinces.

[10] The World Bank is providing technical assistance on decentralization, especially reforms of the salary structure to rationalize and improve civil service efficiency.

[11] The BCC has stopped bilateral foreign exchange transactions with banks since 2007.

12. **The authorities' policy responses are appropriate, but staff urged them to vigorously implement their policy commitments and be prepared to take further steps if necessary.** In particular, they need to:

- Operate the budget strictly on a cash basis while reinforcing expenditure commitment controls to avoid accumulating domestic arrears. Spending also needs to be prioritized, kept in check in the first quarter of the year, and eased only after emergency foreign assistance flows materialize.

- Limit transfers to the provinces (especially for investment) in line with institutional capacity constraints.

- Be prepared to adopt additional measures if donor assistance or government revenues fall short, such as slowing implementation of the decentralization policy, delaying the adoption of the uniform salary structure for civil servants, and further revising the *prix fiscal* for petroleum products.

- Refrain from using one-off revenues, including the Sino-Congolese cooperation agreement signature bonus, to finance recurrent spending. Moreover, the authorities should abstain from using the signature bonus proceeds if disbursed until the agreement has been renegotiated.

- Improve the BCC's liquidity forecasting ability through, among other things, better coordination with the Treasury and assessment of money market conditions, with a view to mopping up any excess liquidity to achieve the monetary targets.

- Refrain from introducing or intensifying exchange and trade restrictions and limiting BCC foreign exchange market interventions, to the extent possible, to smoothing short-term volatility.

V. External Financing Needs and risks

13. **The exogenous shock is likely to give rise to large fiscal and balance of payments financing gaps in 2009**. Staff project an overall balance of payments financing gap of US$590 million consisting of a fiscal gap of US$320 million (including debt service due to Paris Club creditors[12]) and a build-up in gross official reserves to US$270 million. The World Bank is providing emergency budget support of US$100 million from its Fast Track Facility and the European Commission is considering providing the equivalent of about Euro 40–60 million in balance of payments and/or budget support. This, together with RAC-ESF access of 25 percent of quota (SDR 133.25 or US$200 million), would result in a

[12] Paris Club creditors have acquiesced to Fund financing under the RAC-ESF in the face of arrears to official bilateral creditors and the likely accumulation of further arrears.

residual financing gap of about US$240 million (including US$125 million debt service due to Paris Club creditors). Increased donor support, including in the context of a possible new three-year PRGF arrangement, could close the residual financing gap.

14. **There are significant risks**. Demand for and prices of DRC exports could be significantly lower than projected. The conflict in the east could continue despite recent peace efforts. Moreover, expected foreign emergency assistance could fall short. This would widen macroeconomic imbalances, trigger exchange rate depreciation, cause an inflation spiral, weaken economic activity, and exacerbate unemployment.

VI. Capacity to Repay the Fund

15. **The DRC is still in debt distress**. Based on the latest debt sustainability analysis,[13] external debt-stock burden indicators would fall below their thresholds only after full delivery of debt relief from the enhanced HIPC Initiative and MDRI. Prudent debt management (including by relying on grants and concessional debt) will be necessary to keep these indicators below the thresholds. The current terms of the Sino-Congolese cooperation agreement would result in a further deterioration of DRC debt indicators, complicating movement toward a new PRGF arrangement and the HIPC completion point. However, the authorities have committed in their letter of intent not to contract or guarantee new debt that would undermine debt sustainability.

16. **The DRC's capacity to repay the Fund is satisfactory, assuming debt relief** (Table 7). There are significant risks that, absent higher external balance of payments support and debt relief under the HIPC Initiative and the MDRI, the DRC would be in a difficult position to meet its obligations to the Fund. Assuming such external financing and debt relief, repayment obligations to the Fund would peak at 2.0 percent of exports in 2009 and average about 0.3 percent of exports in 2010–19.

17. **The authorities have requested that the 2008 safeguards assessment be updated**. The Fund's ESF-RAC policy requires a commitment from the authorities to undergo a safeguards assessment, and such an assessment would normally need to be completed before the member could obtain approval of any disbursement under the RAC for a second shock within a five-year period.

VII. Staff Appraisal

18. **The sudden and sharp drop in world commodity prices and escalating conflict in the eastern provinces have led to a marked deterioration in economic conditions,** including weakening the fiscal situation, placing severe pressure on scarce official reserves and the exchange rate, and increasing unemployment. Although performance on the 2008

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[13] IMF Country Report No. 07/327.

SMP was mixed, the deviations were in large part due to the impact of the global financial crisis and conflict in the east. Policy responses—tightening monetary and fiscal policies—in December 2008 and January have been instrumental in reducing macroeconomic pressures.

19. **The adverse effects of the global financial crisis are deepening**. The sudden and severe terms of trade shock and reduced FDI will intensify pressure on the balance of payments while gross official reserves are scarce. They will also weaken economic growth and employment.

20. **The authorities' policy package in response to the exogenous shock has been appropriate**. They are eliminating government recourse to bank financing and reallocating spending to mitigate the impact of the shock on domestic demand. The authorities will keep monetary policy tight while maintaining the flexible exchange regime given the low level of reserves. They are also committed to prudent debt management and not to introducing or intensifying exchange and trade restrictions. However, additional external budget and balance of payments support will still be needed to facilitate adjustment to the shock while minimizing the social impact.

21. **Staff supports the authorities' request for the RAC-ESF** because the sudden and significant shock severely undermined the balance of payment position. RAC-ESF support will help close the remaining financing gap and ensure that the DRC has a minimum acceptable level of gross official reserves to cushion against further shocks.

22. **The macroeconomic outlook is subject to significant risks, especially a further decline in export prices and renewed conflict**. However, increased donor financial support and the authorities' commitment to adopt additional corrective measures, if needed, would help mitigate these risks, as will the continuing effort of the international community to promote peaceful resolution of the conflict in the eastern provinces.

23. **For their part, the authorities must vigorously implement their policy commitments**. In particular, strict adherence to a cash budget, advancing PFM reforms, and keeping monetary policy tight are critical. They should also avoid using one-off revenues to finance recurrent spending. The authorities should also be prepared to take additional measures should risks to the balance of payments materialize.

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

	2006	2007	2008		2009	2010
		Est.	Rev SMP	Est.	Projections	
	(Annual percent change; unless otherwise indicated)					
GDP and prices						
Real GDP	5.6	6.3	10.0	8.2	4.4	6.4
GDP deflator	13.6	17.9	17.4	19.7	11.5	15.4
Consumer prices, period average	13.2	16.7	17.5	18.0	16.4	11.8
Consumer prices, end-of-period	18.2	10.0	23.5	27.6	12.0	11.5
External sector						
Exports, f.o.b. (U.S.$ terms)	41.5	109.6	35.1	11.3	-46.8	13.7
Imports, f.o.b. (U.S.$ terms)	16.9	81.8	29.7	27.6	-19.9	14.4
Export volume	28.3	72.7	23.1	-0.2	-25.3	5.8
Import volume	15.0	69.9	15.2	12.1	-13.9	11.4
Terms of trade	8.5	13.4	-2.6	-2.1	-23.5	4.6
Nominal effective exchange rate [1]	1.3	-15.5	…	-11.0	…	…
Real effective exchange rate [1]	11.6	2.6	…	0.8	…	…
	(Annual change in percent of beginning-of-period broad money; unless otherwise indicated)					
Money and credit						
Broad money	60.4	49.5	30.2	54.9	16.4	…
Net foreign assets	-11.5	30.8	14.9	-5.5	-9.3	…
Net domestic assets	72.6	20.2	16.4	64.6	26.7	…
Of which:						
Net credit to government	17.8	10.3	-7.9	10.4	0.0	…
Credit to the private sector (annual percent change)	78.4	73.6	73.0	144.8	26.2	…
	(Percent of GDP, unless otherwise Indicated)					
Central government finance						
Total government revenue	12.9	14.8	16.3	18.1	17.9	18.4
Grants	8.0	3.5	4.5	3.6	7.5	7.4
Total government expenditure [2]	21.5	18.8	19.2	22.2	29.0	35.0
Underlying fiscal balance (cash basis)	0.5	0.8	1.9	0.8	0.2	-0.5
Overall fiscal balance (payment order basis, incl. grants)	-0.7	-0.6	1.6	-0.4	-3.6	-9.2
Overall fiscal balance (cash basis, incl. grants) [3]	-0.8	-1.2	1.0	-1.2	-4.2	-9.3
Investment and saving						
Gross national saving	11.2	16.7	15.2	10.5	2.8	8.1
Government	-0.4	-1.1	2.7	-0.5	-1.2	-1.3
Nongovernment	11.6	17.8	12.5	11.0	4.1	9.4
Investment	13.3	18.2	20.4	22.8	26.7	35.9
Government [4]	3.3	2.3	3.4	3.6	9.6	17.7
Nongovernment	10.0	15.9	17.0	19.2	17.1	18.1
Balance of payments						
Exports of goods and services	37.8	65.4	49.2	62.1	37.9	39.5
Imports of goods and services	42.6	68.8	53.4	74.8	65.4	68.7
Current account balance, incl. transfers	-2.1	-1.5	-5.2	-12.3	-23.9	-27.8
Current account balance, excl. transfers	-9.9	-8.9	-7.7	-21.0	-32.5	-34.6
Gross official reserves (end-of-period, U.S.$ millions of U.S. dollars)	154.5	180.6	200.0	83.0	270.0	416.0
Gross official reserves (weeks of nonaid-related imports of goods and services)	1.5	1.5	1.1	0.9	2.6	3.2
	(Millions of U.S. dollars; unless otherwise indicated)					
External public debt						
Total stock, including IMF [5]	10,813	10,524	10,353	10,353	10,172	2,685
Net present value (NPV) of debt [6]	7,831	7,986	7,856	7,856	7,719	1,758
NPV (percent of exports of goods and services) [6]	339.4	195.2	166.0	136.9	27.6	32.3
Scheduled debt service	251.6	370.5	291.4	291.4	257.3	154.5
Percent of exports of goods and services	7.6	5.7	4.6	4.0	6.1	3.3
Percent of government revenue	13.7	20.3	11.0	11.3	9.1	5.0
Exchange rate (CF/US$)						
Period average	468.3	516.0	…	563.2	…	…
End-of-period	503.4	503.0	…	639.3	…	…
Memorandum item:						
Nominal GDP (billions of CF/US$)	4,114	5,153	6,942	6,671	7,764	9,528

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

[1] Change in annual average. Minus sign indicates depreciation.
[2] Includes interest due before debt relief and expenditure financed by HIPC resources.
[3] Cash balance after debt relief on interest payments.
[4] Includes investment financed by resources released under the enhanced HIPC Initiative.
[5] End-of-period debt stock excludes most of London Club debt (some US$1.0 billion in 2007), which is expected to be bought back with deep discount with grants from IDA, but includes accumulated arrears and reflects the arrears clearance arrangements concluded at the HIPC decision point.
[6] Estimates and projections based on end-2007 DSA and after HIPC Initiative interim relief assistance under Cologne terms. Includes assistance beyond the terms of the enhanced HIPC 'Initiative granted by some Paris Club creditors. Exports are on a three-year backward moving average; projections assume DRC reaches the HIPC completion point in early 2010.

Table 2. Democratic Republic of the Congo: Central Government Financial Operations, 2007–10

	2007	2008		2009	2010
	Est.	Rev. SMP	Est.	Projections	
	(Billions of Congo francs; unless otherwise indicated)				
Total revenue and grants	939.7	1,441.2	1,450.9	1,971.1	2,455.4
Total revenue	761.0	1,131.3	1,207.9	1,391.3	1,750.5
Customs and excise	278.1	404.7	423.8	547.1	669.4
Direct and indirect taxes	259.9	401.4	433.5	543.2	719.8
Petroleum (royalties and taxes)	159.3	208.7	232.7	147.5	160.2
Other	63.8	116.6	117.9	153.5	201.2
Total grants	178.7	309.9	243.0	579.8	704.9
Budget grants	0.0	0.0	0.0	0.0	0.0
Project grants	32.5	152.6	80.5	319.6	450.7
HIPC Initiative assistance [1]	146.2	157.3	162.5	260.2	254.1
Total expenditure	968.7	1,330.3	1,480.4	2,252.3	3,330.2
Current expenditure	802.6	1,033.0	1,166.7	1,268.5	1530.9
Wages	301.0	440.7	452.0	540.9	421.4
Memo.: Wage bill provinces	...	0.0	0.0	200.3	234.3
Total wage bill	...	...	...	540.9	655.7
Interest due	186.2	176.3	205.4	237.5	245.6
Of which: on external debt	157.5	146.2	171.7	219.8	227.9
Transfers and subsidies	111.7	222.7	226.9	234.2	505.2
Subsidies	6.2	8.9	15.7	11.8	14.7
Subordinated budgetary instutions	9.3	12.1	9.2	19.0	24.0
Organismes Auxiliaires	1.0	2.8	2.1	11.8	9.1
Services ex-BPO	9.5	9.3	7.0	7.2	14.9
Transfers to provinces	49.7	141.8	125.0	124.8	366.0
Transfers to collection agencies	46.6	53.4	74.8	69.9	89.6
Scholarships	...	6.4	2.1	8.8	10.9
Other transfers	...	0.0	0.0	0.0	0.0
Goods and services	203.7	193.3	282.4	255.9	358.7
Institutions	45.2	59.0	80.5	71.6	92.3
Ministries	144.2	101.8	168.7	137.7	196.1
Centralized payments	14.0	28.6	33.3	41.1	63.0
Capital expenditure	121.1	234.8	239.3	747.9	1,689.9
Foreign-financed	76.9	167.4	132.3	483.7	1,201.8
Domestic-financed	44.2	67.4	107.0	264.1	488.0
Exceptional expenditure [2]	45.0	62.5	74.4	218.7	109.4
Foreign-financed	0.0	27.4	0.0	173.5	86.8
Domestic-financed	45.0	35.2	74.4	45.2	22.6
Budget Reserve	0.0	0.0	0.0	17.2	0.0
Overall fiscal balance (payment order basis)	-29.1	110.9	-29.5	-281.2	-874.8
Underlying fiscal balance (payment order basis) [3]	71.6	177.2	105.9	61.3	-40.6
Change in arrears (increase = +)	-11.3	-14.6	-15.6	-13.8	0.0
Float (increase = +)	0.0	0.0	0.0	0.0	0.0
Central bank operational result	-19.9	-29.1	-35.8	-30.0	-10.0
Overall fiscal balance (cash basis, before interest rescheduling)	-60.2	67.3	-81.0	-325.1	-884.8
Underlying fiscal balance (cash basis) [3]	40.5	133.5	54.4	17.4	-50.6
Total financing	60.2	-67.3	81.0	325.1	884.8
Domestic financing	48.8	-64.8	53.0	0.0	-38.1
Banking system	44.1	-50.8	67.0	0.0	-38.1
Nonbank	4.6	-14.0	-14.0	0.0	0.0
Domestic debt relief	0.0	0.0	0.0	0.0	0.0
Mobile phone licences	...	0.0	0.0	0.0	...
Foreign financing	37.5	-2.5	9.8	103.3	680.6
Amortization due before debt relief	-293.9	-220.7	-225.1	-380.1	-193.4
Budget loans	0.0	0.0	0.0	0.0	0.0
Project loans	60.9	73.6	51.8	354.4	820.5
Debt relief	209.1	48.2	83.4	128.9	53.5
Accumulation of external arrears	61.4	96.5	99.7	0.0	0.0
Residual financing gap/errors and omissions	-26.1	0.0	18.2	221.8	242.3
Memorandum items:					
GDP (billions of CF)	5,153.2	6,671.0	6,671.0	7,764.0	9,528.3
Underlying fiscal balance (cash basis; excl. oil revenues) [3]	-118.8	-75.2	-178.3	-130.1	-210.8
Total wage bill	301.0	440.7	452.0	540.9	655.7
Central government wage bill	301.0	440.7	452.0	340.6	421.4
Provincial government wage bill	...	...	0.0	200.3	234.3
Total goods and services	253.4	335.1	407.4	380.6	490.5
Central government goods and services	203.7	193.3	282.4	255.9	358.7
Provincial governments' non-wage expenditure [4]	49.7	141.8	125.0	124.8	131.8

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

[1] Reflects revised calculation of HIPC Initiative assistance from 2002-based Debt Sustainability Analysis (DSA).

[2] Exceptional expenditure includes spending for the Demobilization, Disarmament, and Reintegration (DDR) program, cost of the elections, payments for retirement allowances, repayments of domestic arrears, and payments for bank restructuring.

[3] Underlying fiscal balance is defined as revenue minus expenditure and excluding interest on foreign debt, foreign-financed capital expenditure, all exceptional spending, and repayment of domestic arrears.

[4] These are residual (non-earmarked) amounts after subtracting the wage bill of transferred public services from total transfers to provinces.

Table 3. Democratic Republic of the Congo: Central Government Financial Operations, 2007–10

(Percent of GDP)

	2007	2008		2009	2010
	Est.	Rev. SMP	Est.	Projections	
	(Percent of GDP; unless otherwise indicated)				
Total revenue and grants	18.2	21.6	21.7	25.4	25.8
Total revenue	14.8	17.0	18.1	17.9	18.4
Customs and excise	5.4	6.1	6.4	7.0	7.0
Direct and indirect taxes	5.0	6.0	6.5	7.0	7.6
Other	1.2	1.7	1.8	2.0	2.1
Of which: Signature bonus for joint venture with China	...	0.0	0.0	0.0	...
Total grants	3.5	4.6	3.6	7.5	7.4
Budget grants	0.0	0.0	0.0	0.0	0.0
Project grants	0.6	2.3	1.2	4.1	4.7
HIPC Initiative assistance [1]	2.8	2.4	2.4	3.4	2.7
Total expenditure	18.8	19.9	22.2	29.0	35.0
Current expenditure	15.6	15.5	17.5	16.3	16.1
Wages	5.8	6.6	6.8	7.0	4.4
Memo.: Wage bill transferred to provinces	...	...	...	...	2.5
Total wage bill	...	6.6	6.8	7.0	6.9
Interest due	3.6	2.6	3.1	3.1	2.6
Of which: On external debt	3.1	2.2	2.6	2.8	2.4
Transfers and subsidies	2.2	3.3	3.4	3.0	5.3
Of which: Subsidies	0.1	0.1	0.2	0.2	0.2
Subordinated budgetary instutions	0.2	0.2	0.1	0.2	0.3
Transfers to provinces	1.0	2.1	1.9	1.6	3.8
Transfers to collection agencies	0.9	0.8	1.1	0.9	0.9
Goods and servicees	4.0	2.9	4.2	3.3	3.8
Of which : Institutions	0.9	0.9	1.2	0.9	1.0
Ministries	2.8	1.5	2.5	1.8	2.1
Centralized payments	0.3	0.4	0.5	0.5	0.7
Capital expenditure	2.3	3.5	3.6	9.6	17.7
Foreign-financed	1.5	2.5	2.0	6.2	12.6
Domestic-financed	0.9	1.0	1.6	3.4	5.1
Exceptional expenditure [2]	0.9	0.9	1.1	2.8	1.1
Foreign-financed	0.0	0.4	0.0	2.2	0.9
Domestic-financed	0.9	0.5	1.1	0.6	0.2
Overall fiscal balance (payment order basis)	-0.6	1.7	-0.4	-3.6	-9.2
Underlying fiscal balance (payment order basis)[3]	1.4	2.7	1.6	0.8	-0.4
Change in arrears (increase = +)	-0.2	-0.2	-0.2	-0.2	0.0
Float (increase = +)	0.0	0.0	0.0	0.0	0.0
Central bank operational result	-0.4	-0.4	-0.5	-0.4	-0.1
Overall fiscal balance (cash basis, before interest rescheduling)	-1.2	1.0	-1.2	-4.2	-9.3
Underlying fiscal balance (cash basis)[3]	0.8	2.0	0.8	0.2	-0.5
Total financing	1.2	-1.0	1.2	4.2	9.3
Domestic financing	0.9	-1.0	0.8	0.0	-0.4
Banking system	0.9	-0.8	1.0	0.0	-0.4
Nonbank	0.1	-0.2	-0.2	0.0	0.0
Domestic debt relief	0.0	0.0	0.0	0.0	0.0
Mobile phone licences	...	0.0	0.0	0.0	...
Foreign financing	0.7	0.0	0.1	1.3	7.1
Amortization due before debt relief	-5.7	-3.3	-3.4	-4.9	-2.0
Budget loans	0.0	0.0	0.0	0.0	0.0
Project loans	1.2	1.1	0.8	4.6	8.6
Debt relief	4.1	0.7	1.2	1.7	0.6
Accumulation of external arrears	1.2	1.4	1.5	0.0	0.0
Residual financing gap	-0.5	0.0	0.3	2.9	2.5
Memorandum items:					
GDP (billions of CF)	5,153	6,671	6,671	7,764	9,528
Underlying fiscal balance (cash basis; excl. oil revenues)[3]	-2.3	-1.1	-2.7	-1.7	-2.2
Total wage bill	5.8	6.6	6.8	7.0	6.9
Central government wage bill	5.8	6.6	6.8	4.4	4.4
Provincial government wage bill	...	...	...	2.6	2.5
Total goods and services	4.9	5.0	6.1	4.9	5.1
Central government goods and services	4.0	2.9	4.2	3.3	3.8
Provincial governments' non-wage expenditure [4]	1.0	2.1	1.9	1.6	1.4

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

[1] Reflects revised calculation of HIPC Initiative assistance from 2002-based Debt Sustainability Analysis (DSA).

[2] Exceptional expenditure includes spending for the Demobilization, Disarmament, and Reintegration (DDR) program, cost of the elections, payments for retirement allowances, repayments of domestic arrears, and payment for bank restructuring.

[3] Underlying fiscal balance is defined as revenue minus expenditure and excluding interest on foreign debt, foreign-financed capital expenditure, all exceptional spending, and repayment of domestic arrears.

[4] These are residual (non-earmarked) amounts after subtracting the wage bill of transferred public services from total transfers to provinces.

Table 4a. Democratic Republic of the Congo: Monetary Survey, 2006–09
(At program exchange rates)

	2006	2007	2008						2009
	Dec [1]	Dec Prel. [2]	June SMP	June Prel. [2]	Sept Rev SMP	Sept Prel. [2]	Dec Rev SMP	Dec Prel. [2]	Dec Proj
	(In billions of Congo francs)								
Net foreign assets	-319.3	-172.6	-155.1	-87.5	-88.0	-98.1	-84.8	-169.5	-216.0
Net domestic assets	759.4	831.4	862.6	881.5	886.7	940.7	905.8	1,068.1	1,174.1
Domestic credit	246.6	373.4	389.5	411.7	428.6	501.7	446.0	652.5	698.4
Net credit to government	132.1	176.2	169.7	118.5	128.0	145.9	125.3	243.2	243.2
Credit to the private sector	112.4	195.2	218.0	290.7	298.4	352.9	318.9	406.8	453.5
Credit to parastatals	2.2	1.9	1.8	2.6	2.2	2.8	1.7	2.5	1.7
Other items, net (including valuation change)	512.7	458.1	473.1	469.8	458.1	439.0	459.8	415.6	475.7
Broad money (M2)	428.6	641.2	687.6	773.4	776.1	819.5	798.4	863.6	921.8
Narrow money (M1)	212.7	300.3	324.7	304.4	297.4	324.4	306.8	387.5	454.4
Currency in circulation	181.9	233.3	243.0	257.3	242.7	259.8	255.8	299.0	345.7
Demand deposits	30.8	67.0	81.7	47.1	54.7	64.6	51.0	88.5	108.8
Quasi money	215.9	341.0	363.0	469.0	478.7	495.2	491.6	476.1	467.3
Time deposits in domestic currency	0.4	2.5	2.8	1.4	1.7	1.9	2.0	1.7	1.8
Foreign currency deposits	215.5	338.5	360.2	467.6	477.0	493.3	489.6	474.4	465.6
Import deposits	11.4	17.6	19.9	20.6	22.6	23.1	22.6	35.1	36.4
	(Year-on-year change in percent)								
Net foreign assets	10.7	46.0	45.0	69.0	68.0	58.8	50.8	1.8	-27.4
Net domestic assets	15.5	9.5	14.7	17.2	10.8	29.6	8.9	28.5	9.9
Domestic credit	57.8	51.4	65.2	74.6	65.0	104.3	19.4	74.8	7.0
Net credit to government	56.2	33.4	101.2	40.5	43.6	63.7	-28.9	38.0	0.0
Credit to the private sector	57.8	73.7	45.1	93.5	78.1	129.7	63.4	108.4	11.5
Credit to parastatals	319.2	-11.7	45.5	105.3	-30.0	0.4	-11.1	28.4	-30.7
Other items, net (including valuation change)	2.2	-10.7	-8.4	-9.0	-15.2	-8.6	0.4	-9.3	14.5
Broad money (M2)	48.5	49.6	49.4	68.1	51.3	71.7	24.5	34.7	6.7
Narrow money (M1)	53.1	41.2	58.7	48.8	43.0	56.0	2.2	29.0	17.3
Currency in circulation	51.7	28.2	40.7	49.0	41.4	51.5	9.7	28.2	15.6
Demand deposits	62.5	117.6	156.1	47.6	50.5	77.6	-23.9	32.0	22.9
Quasi money	44.2	57.9	42.0	83.5	57.0	83.8	44.2	39.6	-1.8
Time deposits in domestic currency	12.4	483.0	512.1	212.1	240.2	278.4	-20.9	-33.7	7.0
Foreign currency deposits	44.3	57.1	41.2	83.3	56.7	83.5	44.7	40.2	-1.9
Import deposits	-0.3	54.1	96.0	103.4	82.5	111.6	28.2	99.2	3.7
	(Annual change in percent of beginning-of-period broad money)								
Net foreign assets	13.3	34.2	2.7	13.3	13.2	11.6	13.7	0.5	-5.4
Net domestic assets	35.2	16.8	4.9	7.8	8.6	17.0	11.6	36.9	12.3
Domestic credit	31.3	29.6	2.5	6.0	8.6	20.0	11.3	43.5	5.3
Net credit to government	16.5	10.3	-1.0	-9.0	-7.5	-4.7	-7.9	10.4	0.0
Credit to the private sector	14.3	19.3	3.5	14.9	16.1	24.6	19.3	33.0	5.4
Credit to parastatals	0.6	-0.1	0.0	0.1	0.0	0.1	0.0	0.1	-0.1
Other items, net (including valuation change)	3.9	-12.7	2.3	1.8	0.0	-3.0	0.3	-6.6	7.0
Broad money (M2)	48.5	49.6	7.2	20.6	21.0	27.8	24.5	34.7	6.7
Narrow money (M1)	25.6	20.4	3.8	0.6	-0.4	3.8	1.0	13.6	7.8
Currency in circulation	21.5	12.0	1.5	3.7	1.5	4.1	3.5	10.2	5.4
Demand deposits	4.1	8.4	2.3	-3.1	-1.9	-0.4	-2.5	3.3	2.3
Quasi money	23.0	29.2	3.4	20.0	21.5	24.0	23.5	21.1	-1.0
Time deposits in domestic currency	0.0	0.5	0.0	-0.2	-0.1	-0.1	-0.1	-0.1	0.0
Foreign currency deposits	22.9	28.7	3.4	20.1	21.6	24.1	23.6	21.2	-1.0
Import deposits	0.0	1.4	0.4	0.5	0.8	0.9	0.8	2.7	0.2
Memorandum items:									
Nominal GDP (in billions of Congo francs)	4,114.0	5,153.2	...	...	...	...	6,671.0	6,671.0	7,764.0
Velocity (GDP/broad money)	9.6	8.0	...	...	...	...	8.4	7.7	8.4
Foreign currency deposits (in percent of M2)	50.3	52.8	52.4	60.5	61.5	60.2	61.3	54.9	50.5
Foreign currency deposits (in percent of total deposi	87.3	83.0	81.0	90.6	89.4	88.1	90.2	84.0	80.8

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

[1] At end-2004 program exchange rate, US$1 = CF 444.09.
[2] At end-2007 program exchange rate, US$1 = CF 502.99

Table 4b. Democratic Republic of the Congo: Monetary Survey, 2006–09
(At current exchange rates)

	2006	2007	2008						2009
	Dec.	Dec	Jun SMP	Jun Prel	Sep Rev SMP	Sep Prel	Dec Rev SMP	Dec Prel	Dec Proj
	(Billions of Congo francs)								
Net foreign assets	-304.7	-172.6	-145.7	-111.9	-94.8	-126.0	-76.3	-207.9	-300.6
Net domestic assets	744.9	831.4	868.1	963.4	937.1	1029.3	935.0	1245.6	1511.0
Domestic credit	246.7	373.4	396.0	435.6	447.7	530.7	463.1	724.3	848.2
Net credit to government	132.1	176.2	169.7	118.5	128.0	145.9	125.3	243.2	243.2
Credit to the private sector	112.5	195.2	224.4	314.2	317.3	381.7	336.0	478.0	603.3
Credit to parastatals	2.2	1.9	1.8	2.9	2.3	3.1	1.7	3.1	1.7
Other items, net (including valuation change)	498.2	458.1	472.1	527.8	489.4	498.6	471.9	521.4	662.9
Broad money (M2)	428.8	641.2	701.7	828.4	817.8	877.5	834.4	993.1	1155.8
Narrow money (M1)	212.7	300.3	324.7	304.4	297.4	324.4	306.8	387.5	454.4
Currency in circulation	181.9	233.3	243.0	257.3	242.7	259.8	255.8	299.0	345.7
Demand deposits	30.8	67.0	81.7	47.1	54.7	64.6	51.0	88.5	108.8
Quasi money	216.1	341.0	377.0	524.0	520.4	553.1	527.6	605.6	701.4
Time deposits in domestic currency	0.4	2.5	2.8	1.4	1.7	1.9	2.0	1.7	1.8
Foreign currency deposits	215.7	338.5	374.2	522.6	518.7	551.3	525.6	604.0	699.6
Import deposits	11.4	17.6	20.7	23.1	24.5	25.8	24.2	44.6	54.6
	(Year-on-year change in percent)								
Net foreign assets	-11.3	43.4	44.4	57.3	64.5	52.9	55.8	-20.5	-44.6
Net domestic assets	35.2	11.6	19.3	32.4	19.0	30.7	12.5	49.8	21.3
Domestic credit	66.7	51.3	69.4	86.3	73.6	105.8	24.0	94.0	17.1
Net credit to government	56.2	33.4	101.2	40.5	43.6	63.7	-28.9	38.0	0.0
Credit to the private sector	78.4	73.6	51.5	112.1	91.5	130.4	72.1	144.8	26.2
Credit to parastatals	389.2	-11.8	48.3	133.8	-24.7	0.7	-11.1	63.4	-45.6
Other items, net (including valuation change)	23.6	-8.1	-4.4	6.9	-7.6	-5.9	3.0	13.8	27.1
Broad money (M2)	60.4	49.5	54.1	81.9	60.9	72.7	30.1	54.9	16.4
Narrow money (M1)	53.1	41.2	58.7	48.8	43.0	55.9	2.2	29.0	17.3
Currency in circulation	51.7	28.2	40.7	49.0	41.4	51.3	9.7	28.2	15.6
Demand deposits	62.5	117.6	156.1	47.6	50.5	77.6	-23.9	32.0	22.9
Quasi money	68.3	57.8	50.3	108.9	73.3	84.3	54.7	77.6	15.8
Time deposits in domestic currency	12.4	483.0	512.1	212.1	240.2	278.4	-20.9	-33.7	7.0
Foreign currency deposits	68.5	56.9	49.5	108.7	73.1	83.9	55.3	78.4	15.8
Import deposits	16.4	54.0	108.0	131.7	101.7	112.1	37.6	153.6	22.4
	(Annual change in percent of beginning-of-period broad money)								
Net foreign assets	-11.5	30.8	4.2	9.5	12.1	7.3	15.0	-5.5	-9.3
Net domestic assets	72.6	20.2	5.7	20.6	16.5	30.9	16.1	64.6	26.7
Domestic credit	36.9	29.5	3.5	9.7	11.6	24.5	14.0	54.7	12.5
Net credit to government	17.8	10.3	-1.0	-9.0	-7.5	-4.7	-7.9	10.4	0.0
Credit to the private sector	18.5	19.3	4.6	18.6	19.0	29.1	22.0	44.1	12.6
Credit to parastatals	0.6	-0.1	0.0	0.1	0.1	0.2	0.0	0.2	-0.1
Other items, net (including valuation change)	35.6	-9.4	2.2	10.9	4.9	6.3	2.2	9.9	14.2
Broad money (M2)	60.4	49.5	9.4	29.2	27.5	36.8	30.1	54.9	16.4
Narrow money (M1)	27.6	20.4	3.8	0.6	-0.4	3.8	1.0	13.6	6.7
Currency in circulation	23.2	12.0	1.5	3.7	1.5	4.1	3.5	10.2	4.7
Demand deposits	4.4	8.4	2.3	-3.1	-1.9	-0.4	-2.5	3.3	2.0
Quasi money	32.8	29.1	5.6	28.5	28.0	33.1	29.1	41.3	9.6
Time deposits in domestic currency	0.0	0.5	0.0	-0.2	-0.1	-0.1	-0.1	-0.1	0.0
Foreign currency deposits	32.8	28.6	5.6	28.7	28.1	33.2	29.2	41.4	9.6
Import deposits	0.6	1.4	0.5	0.9	1.1	1.3	1.0	4.2	1.0
Memorandum items:									
Nominal GDP (billions of CF)	4,114	5,153	...	...	...	...	6,671	6,671	7,764.0
Velocity (GDP/broad money)	9.6	8.0	...	...	...	...	8.0	6.7	6.7
Foreign currency deposits (percent of M2)	50.3	52.8	53.3	63.1	63.4	62.8	63.0	60.8	60.5
Foreign currency deposits (percent of total deposits	87.4	83.0	81.6	91.5	90.2	89.2	90.8	87.0	86.4

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

Table 5. Democratic Republic of the Congo: Accounts of the Central Bank of the Congo, 2006–09
(At program exchange rates)

	2006	2007	2008						2009
	Dec [1]	Dec Prel. [2]	June SMP	June Prel. [2]	Sept Rev SMP	Sept Prel. [2]	Dec Rev SMP	Dec Prel. [2]	Dec Proj
					(In billions of Congo francs)				
Net foreign assets	-448.1	-333.3	-326.0	-287.9	-280.5	-280.6	-255.6	-309.1	-275.3
(in millions of US dollars)	-890.9	-662.6	-648.1	-572.4	-557.6	-557.9	-508.2	-614.5	-547.4
Gross offical reserves (in millions of US dollars)	154.5	180.6	127.2	195.1	210.2	213.1	200.0	83.2	270.2
Net domestic assets	659.4	621.7	628.6	599.5	589.3	609.3	581.5	688.1	700.9
Domestic credit	178.8	206.6	196.3	171.1	166.5	203.3	157.3	292.2	290.4
Net credit to government	163.1	198.7	192.3	147.3	152.7	181.9	147.8	265.2	265.2
Credit to the private sector	0.9	3.5	2.5	4.9	4.2	5.2	2.5	5.2	5.2
Credit to parastatals	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Claims on deposit money banks	14.8	4.4	1.5	18.9	9.6	16.2	7.0	21.8	20.0
Other items, net (including valuation change)	480.6	415.1	432.4	428.5	422.8	406.0	424.1	395.9	410.5
Base money	211.3	288.5	302.6	311.7	308.8	328.7	325.9	379.0	425.6
Narrow base money	204.1	283.6	297.2	306.8	303.0	324.6	319.2	374.8	422.1
Currency in circulation	185.3	243.8	252.7	269.3	259.1	283.6	274.3	314.9	359.9
In bank vaults	3.4	10.5	9.8	12.0	16.4	23.9	18.5	15.9	14.3
Outside banks	181.9	233.3	243.0	257.3	242.7	259.8	255.8	299.0	345.7
Deposits of deposit money banks	18.4	38.7	43.4	35.8	42.8	39.4	43.8	59.1	61.3
Private sector deposits	0.1	0.6	0.6	0.7	0.5	0.4	0.6	0.1	0.1
Parastatal deposits	0.2	0.4	0.4	1.0	0.6	1.2	0.4	0.7	0.7
Foreign currency deposits	4.4	1.9	2.0	1.8	2.1	1.8	2.4	1.9	1.6
Import deposits	2.8	2.96	3.4	3.0	3.7	2.3	4.3	2.3	1.9
					(Year-on-year change in percent)				
Net foreign assets	1.6	25.6	21.5	30.7	31.7	21.6	23.3	7.2	10.9
Net domestic assets	10.8	-5.7	1.7	-3.0	-5.5	6.9	-6.5	10.7	1.9
Domestic credit	45.1	15.5	50.7	31.4	27.9	56.2	-23.9	41.4	-0.6
Net credit to government	58.0	21.8	72.9	32.5	33.2	58.6	-25.6	33.4	0.0
Credit to the private sector	19,310.8	279.1	-54.6	-11.1	-38.2	-22.3	-28.5	49.4	0.0
Credit to parastatals	224.4	-48.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Claims on deposit money banks	-26.0	-70.2	-88.9	39.8	10.0	85.0	59.0	394.8	-8.2
Other items, net (including valuation change)	1.8	-13.6	-11.3	-12.2	-14.3	-7.7	2.2	-4.6	3.7
Base money	51.3	36.5	49.5	54.0	45.3	55.1	13.0	31.4	12.3
Narrow base money	57.9	38.9	50.0	54.9	45.5	56.0	12.6	32.2	12.6
Currency in circulation	49.7	31.5	42.5	51.8	42.9	56.6	12.5	29.2	14.3
In bank vaults	-10.6	205.4	105.8	152.1	70.0	147.1	75.8	51.3	-10.5
Outside banks	51.7	28.2	40.7	49.0	41.4	51.5	9.7	28.2	15.6
Deposits of deposit money banks	250.0	110.4	122.9	83.9	71.6	58.2	13.0	52.6	3.8
Private sector deposits	49.3	426.3	-19.8	-3.9	-65.1	-75.7	0.0	-76.7	0.0
Parastatal deposits	131.7	101.8	-14.6	100.6	21.5	130.3	0.0	65.0	0.0
Foreign currency deposits	-32.6	-56.0	12.5	2.2	15.3	15.3	25.6	-3.7	-15.3
Import deposits	-28.2	5.1	37.6	20.5	51.5	4.9	44.0	-23.9	-15.3
					(Annual change in percent of beginning-of-period base money)				
Net foreign assets	5.3	54.4	2.5	15.7	18.3	18.3	26.9	8.4	8.9
Net domestic assets	45.9	-17.8	2.4	-7.7	-11.2	-4.3	-14.0	23.0	3.4
Domestic credit	39.8	13.2	-3.6	-12.3	-13.9	-1.2	-17.1	29.7	-0.5
Net credit to government	42.8	16.8	-2.2	-17.8	-16.0	-5.8	-17.6	23.0	0.0
Credit to the private sector	0.7	1.2	-0.3	0.5	0.2	0.6	-0.3	0.6	0.0
Credit to parastatals	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Claims on deposit money banks	-3.7	-4.9	-1.0	5.0	1.8	4.1	0.9	6.0	-0.5
Other items, net (including valuation change)	6.2	-31.0	6.0	4.6	2.7	-3.1	3.1	-6.7	3.9
Base money	51.3	36.5	4.9	8.0	7.1	14.0	13.0	31.4	12.3
Narrow base money	53.6	37.6	4.7	8.1	6.8	14.2	12.3	31.6	12.5
Currency in circulation	44.1	27.7	3.1	8.8	5.3	13.8	10.6	24.7	11.9
In bank vaults	-0.3	3.4	-0.3	0.5	2.0	4.6	2.8	1.9	-0.4
Outside banks	44.3	24.3	3.4	8.3	3.3	9.2	7.8	22.8	12.3
Bank deposits	9.4	9.6	1.6	-1.0	1.4	0.2	1.8	7.1	0.6
Private sector deposits	0.0	0.2	0.0	0.0	0.0	-0.1	0.0	-0.2	0.0
Parastatal deposits	0.1	0.1	0.0	0.2	0.1	0.3	0.0	0.1	0.0
Foreign currency deposits	-1.5	-1.2	0.0	0.0	0.0	0.0	0.2	0.0	-0.1
Import deposits	-0.8	0.1	0.2	0.0	0.3	-0.2	0.5	-0.2	-0.1

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

[1] At end-2004 program exchange rate, US$1 = CF 444.09.
[2] At end-2007 program exchange rate, US$1 = CF 502.99

Table 6. Democratic Republic of the Congo: Balance of Payments Summary, 2006–10

	2006	2007	2008	2009	2010
		Est.	Est.	Projections	
	(Millions of dollars; unless otherwise indicated)				
Current account	-183	-153	-1,461	-2,658	-3,349
Merchandise trade	39	886	125	-1,743	-2,023
Exports, f.o.b.	2,931	6,143	6,836	3,633	4,130
Of which: mining products	2,013	5,108	5,497	3,009	3,414
Imports, f.o.b.	-2,892	-5,257	-6,711	-5,376	-6,153
Of which: aid-related imports	-666	-739	-1,109	-1,237	-1,474
Services	-461	-1,225	-1,624	-1,316	-1,493
Receipts	390	392	522	589	621
Expenditure	-851	-1,618	-2,146	-1,904	-2,114
Of which: aid-related imports	-236	-230	-209	-494	-445
Income	-470	-635	-1,196	-693	-736
Receipts	18	26	27	27	28
Expenditure	-487	-661	-1,223	-721	-764
Of which: interest payments [1]	-354	-280	-312	-319	-298
Current transfers	708	821	1,234	1,094	903
Of which: official aid	686	740	1,022	959	811
Capital and financial account	143	37	838	1,365	2,451
Capital account [2]	82	16	160	372	390
Official	151	92	240	458	482
Private	-70	-75	-80	-86	-92
Financial account	61	20	678	993	2,062
Official capital	-357	-115	-315	-32	792
Gross disbursements	114	294	102	513	1,037
Scheduled amortization [3]	-471	-409	-417	-545	-244
Private capital (net)	419	136	993	1,025	1,269
Of which: Foreign direct investment	263	374	1,713	619	773
Other Private non-banking sector (net) [4]	155	-238	-720	405	496
Balance before errors and omissions	-40	-116	-623	-1,293	-898
Errors and omissions	-449	-190	0	0	0
Overall balance	-489	-307	-623	-1,293	-898
Financing	28	-143	159	74	-105
Net change in non-Fund arrears [5]	58	119	177	0	0
Net banking sector reserves (increase = -)	-30	-262	-18	74	-105
Central bank	32	-199	-60	-85	-307
Of which: net Fund credit	0	-62	-137	-149	-162
Commercial banks	-61	-63	42	160	203
Financing need before exceptional assistance	-461	-450	-464	-1,218	-1,002
Exceptional financing	461	450	464	626	548
Consolidation of arrears	0	0	0	0	0
Debt relief	461	450	464	626	548
Of which: HIPC	461	450	464	626	172
Residual financing need (overfinancing = +)	0	0	0	-592	-454
	(Percent of GDP, unless otherwise indicated)				
Memorandum items:					
Debt service, after debt relief (percentage of exports of goods and services) [4]	8.1	5.7	10.8	6.1	3.3
Current account balance, incl. grants, before debt relief	-2.1	-1.5	-12.3	-23.9	-27.8
Current account balance, excl. official transfers, before debt relief	-9.9	-8.9	-21.0	-32.5	-34.6
Current account balance, incl. grants, after debt relief	1.6	2.4	-8.8	-19.6	-24.6
Current account balance, excl. grants, after debt relief	-6.2	-5.0	-17.4	-28.3	-31.3
Gross official reserves (in millions of U.S. dollars)	154.5	180.6	83.0	270.0	416.0
Weeks of non-aid-related imports of goods and services	1.5	1.5	0.9	2.6	3.2

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

[1] Including interest due to the IMF.
[2] Excluding repayments to the IMF.
[3] Adjusted from IMF Country Report No. 06/259, to reflect a shift to the 5th balance of payment manual. Current transfers and the current account balance have been adjusted accordingly.
[4] Including unrecorded transactions. The latter may be substantial given the weak state of statistics.
[5] Including US$58 million of arrears in 2006, on non reschedulable Paris Club debt service.

Table 7. Democratic Republic of the Congo: Indicators of Capacity to Repay the Fund, 2008-19

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Fund obligations based on existing credit												
(In millions of SDRs)	88.9	100.0	107.5	112.3	69.7	24.9	14.1	6.0	0.7	0.7	0.7	0.7
Principal	87.0	97.3	105.4	110.7	68.7	24.0	13.4	5.3	0.0	0.0	0.0	0.0
Charges and interest	1.9	2.7	2.1	1.6	1.0	0.8	0.7	0.7	0.7	0.7	0.7	0.7
Fund obligations based on prospective credit [1]												
(In millions of SDRs)	0.0	0.6	0.7	0.7	0.7	0.7	14.0	27.2	27.0	26.9	26.8	13.3
Principal	0.0	0.0	0.0	0.0	0.0	0.0	13.3	26.7	26.7	26.7	26.7	13.3
Charges and interest	0.0	0.6	0.7	0.7	0.7	0.7	0.6	0.5	0.4	0.3	0.1	0.0
Total obligations on existing and prospective credit [1]												
(In millions of SDRs)	88.9	100.6	108.2	112.9	70.4	25.5	28.1	33.2	27.7	27.6	27.5	14.0
(In millions of U.S. dollars)	140.5	154.2	166.4	173.8	108.3	39.3	43.2	51.1	42.6	42.4	42.2	21.6
In percent of exports of goods and NFS	1.9	3.6	3.5	3.1	1.7	0.5	0.5	0.5	0.4	0.4	0.3	0.2
In percent of GDP	1.2	1.4	1.4	1.3	0.7	0.2	0.2	0.3	0.2	0.2	0.2	0.1
In percent of quota	16.7	18.9	20.3	21.2	13.2	4.8	5.3	6.2	5.2	5.2	5.2	2.6
In percent of total external debt service [2]	16.2	15.2	23.9	24.0	17.4	6.8	7.6	9.8	2.2	2.2	2.5	3.7
In percent of gross international reserves	169.3	57.1	40.0	35.6	17.0	4.7	4.4	4.8	3.8	3.6	3.3	1.6
Total obligations on existing and prospective credit [1 3]												
(In millions of SDRs)	88.9	56.3	9.8	6.8	6.8	6.8	20.0	33.2	27.7	27.6	27.5	14.0
(In millions of U.S. dollars)	140.5	86.3	15.1	10.5	10.4	10.4	30.8	51.1	42.7	42.4	42.2	21.6
In percent of exports of goods and NFS	1.9	2.0	0.3	0.2	0.2	0.1	0.3	0.5	0.4	0.4	0.3	0.2
In percent of GDP	1.2	0.8	0.1	0.1	0.1	0.1	0.2	0.3	0.2	0.2	0.2	0.1
In percent of quota	16.7	10.6	1.8	1.3	1.3	1.3	3.8	6.2	5.2	5.2	5.2	2.6
In percent of total external debt service [2]	16.2	22.4	10.2	5.1	5.3	5.3	15.6	36.5	34.4	39.0	27.3	14.3
In percent of gross international reserves	169.3	32.0	3.6	2.1	1.6	1.2	3.1	4.9	3.8	3.6	3.3	1.6
Fund credit outstanding (end-period)												
In millions of SDRs	547.7	460.7	355.4	244.7	176.0	151.9	125.3	93.3	66.6	40.0	13.3	0.0
In millions of U.S. dollars	866.0	706.4	546.7	376.4	270.7	233.8	192.7	143.5	102.5	61.5	20.5	0.0
In percent of exports of goods and NFS	11.7	16.6	11.4	6.8	4.3	3.0	2.1	1.4	0.9	0.5	0.2	0.0
In percent of GDP	7.3	6.3	4.5	2.9	1.9	1.4	1.1	0.8	0.5	0.3	0.1	0.0
In percent of quota	102.8	86.4	66.7	45.9	33.0	28.5	23.5	17.5	12.5	7.5	2.5	0.0
In percent of total external debt	8.4	6.8	5.0	3.2	2.2	1.9	1.5	1.1	0.9	0.7	0.3	0.0
In percent of gross international reserves	1,043.6	261.6	131.4	77.1	42.5	28.0	19.5	13.6	9.2	5.2	1.6	0.0
	(in millions of U.S. dollars, unless otherwise indicated)											
Memorandum items												
Exports of goods and services (in millions of U.S. dollars)	7,385	4,249	4,779	5,551	6,294	7,763	9,032	10,113	11,252	11,818	12,760	13,642
Quota (in millions of SDRs)	533	533	533	533	533	533	533	533	533	533	533	533
GDP (in millions of U.S. dollars)	11,845	11,130	12,037	13,197	14,486	16,151	17,508	18,768	20,080	21,194	22,373	23,684
Total external debt service (in millions of U.S. dollars)	865	1,012	696	725	624	574	571	522	1,908	1,936	1,701	589
Gross international reserves (in millions of U.S. dollars)	83	270	416	488	638	834	988	1,053	1,118	1,188	1,262	1,323

Sources: IMF staff estimates and projections

[1] Assumes a disbursement of 25 percent of quota under the rapid access component of the ESF in March 2009.
[2] Including IMF repurchases and repayments in total debt service due before debt relief.
[3] Assumes hypothetical achievement of the completion point under the enhanced HIPC and debt relief under the MDRI by the first quarter of 2010.

APPENDIX I
TRANSLATED FROM FRENCH

DEMOCRATIC REPUBLIC OF THE CONGO
LETTER OF INTENT

Kinshasa, February 27, 2009

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington DC

Dear Mr. Managing Director:

Prudent macroeconomic policies and progress in national reconciliation—after a decade-long conflict—have contributed to significant progress in reining in inflation, the rebuilding of the country's official gross reserves, and the economic recovery recorded in recent years. Inflation averaged 12.6 percent between 2003 and 2007. Over the same period, the level of reserves averaged US$200 million, while economic growth exceeded 6 percent.

However, the Congolese economy was recently confronted by two exogenous shocks—namely, a steep fall in prices of export commodities (in particular, copper, cobalt, and oil) arising from the global financial crisis and a resurgence of the conflicts in the eastern provinces of the country beginning in third quarter 2008. In fact, the decline in export commodity prices resulted in a sharp reduction in foreign exchange–denominated revenues. Conflicts in the eastern provinces resulted in an increase in security spending in an effort to maintain public order and protect the affected populations. The combined effect of these two shocks contributed to a rapid reduction in gross official reserves to a five-year low (US$83 million—i.e., less than a week of import cover). At end-January 2009, they had declined further to US$56 million, thus placing severe pressure on the exchange rate.

The impact of sharp declines in commodity prices on the real economy caused a large number of mining operators to scale down production or cease activity; job losses are estimated at about 200,000. Economic growth in 2008 thus turned out at about 8 percent—i.e., 2 percentage points below projections. Annualized inflation fell from 33 percent in June 2008 to 28 percent by the end of the year, due to the decline in world food and oil prices.

Despite the difficulties described above, the government endeavored to maintain prudent fiscal policies in the context of its staff-monitored program (SMP) in 2008. Deviations from program targets at end-September were largely due to unanticipated and unavoidable higher government spending on security and humanitarian-related activities in the eastern provinces. These deviations widened by end-2008 as government revenues slowed in a context of expanding security, humanitarian, and social spending, resulting in rapid depreciation of the exchange rate and an increase in domestic prices. To address this situation, the government tightened fiscal policy. At the same time, in order to mop up excess liquidity, the Central Bank raised its indicative interest rate and the reserve requirement. The indicative rate was changed on three occasions, moving from 28 percent to 65 percent between late December 2008 and early January 2009, while the reserve requirement increased from 5 percent to 7 percent.[1] The increase in the indicative interest rate was designed in particular to boost sales of central bank bills (billets de trésorerie) through auctions. Lastly, the Central Bank sold USD 10 million in the foreign exchange market.

On the structural reform front, the government regrets the delays in executing the envisaged reforms due to institutional constraints connected with the formation of the new government and pressures to deal with the escalation of the conflicts in the eastern provinces. However, the government is committed to implementing the reforms.

The effects of the global financial crisis on the Congolese economy are expected to intensify in 2009. A severe deterioration of the terms of trade (about 23 percent) and reduced foreign direct investment could further affect balance of payments sustainability in 2009. In fact, export receipts are projected to decline by 45 percent, while imports should adjust to offset part of the loss of foreign exchange, given the lower FDI-related imports and world prices. However, the external current deficit is expected to widen. Given minimal gross official reserves and the country's priority spending needs, without donor support the risk of macroeconomic instability will be heightened. Worsening unemployment, especially in the mining zones, also carries the risk of insecurity and instability at a critical time when the government is endeavoring to bolster national cohesion.

The government is committed to pursuing prudent fiscal and monetary policies to help address the effects of the exogenous shocks. However, in the near term the government's policy options to adjust them fully are limited. Fiscal policy adjustment is in part constrained by the constitution-mandated fiscal decentralization (inclusive participation by decentralized entities in national recovery efforts) that requires the transfer of 40 percent of national revenue to the provinces. The scope for reducing other discretionary spending is also limited by the need for fiscal policy to help mitigate the impact of the decline in domestic demand. Nevertheless, the government's 2009 economic program aims to:

[1] The BCC lowered the reserve ratio back to 5 percent in late January 2009.

- Keep the deficit at a sustainable level and target zero net credit to the government—a reduction of 1 percent of GDP relative to 2008. Attainment of this objective will require heightened revenue efforts, strict adherence to a cash budget, improved control over spending, and alignment of the budgetary commitment and treasury plans. Continued progress in reinforcing tax and customs administration, the full-year effect of tax policy measures adopted in mid-2008, and the reversal of the reduction of the prix fiscal should allow us to achieve our revenue target (18 percent of GDP). The government will limit domestically financed spending to 17.6 percent of GDP (a marginal 0.6 percent of GDP increase relative to 2008). To achieve this objective, better public financial management is planned, especially through the implementation of new urgent spending and procurement procedures.

- Implement the constitutionally mandated decentralization policy. The government's program envisages the transfer of both resources equivalent to 40 percent of domestic revenue (6.9 percent of GDP) and of expenditure responsibilities for health, education, and rural sector development. However, the central government will continue to manage the wage bill of provincial civil servants, and transfers related to investment programs will be aligned with the institutional management capacities of provinces.

- Improve expenditure composition. The investment program of both central government and provinces is targeted to reach 3.4 percent of GDP, up from about 2 percent in 2008, and will be focused on projects with high multiplier effects to help mitigate the impact of the financial crisis on domestic demand. Spending on goods and services is programmed at CDF 256 billion (3.3 percent of GDP), compared with CDF 282 billion in 2008, which includes a healthy increase in nonmilitary spending after the large security-related spending overruns in 2008. The overall wage bill (including allocations to provinces) will be capped at CDF 541 billion (7 percent of GDP), up from CDF 452 billion in 2008, reflecting principally the full-year impact of the salary increase for health and education employees in mid-2008 and the new policy to harmonize the salaries of civil servants in Kinshasa with those in the provinces.

- Adopt additional corrective measures if expected external budget support or domestic revenues fall below expectations. These will involve delaying the harmonization of civil servant salaries, slowing the phasing of the decentralization program, and reducing low-priority spending.

- Maintain a prudent monetary policy and a flexible exchange rate regime. Monetary policy envisages reserve money growth of 12 percent (at constant exchange rate), consistent with the inflation target of 12 percent. The central bank will primarily use the sale of central bank bills to mop up excess liquidity and will gradually ease its indicative rate back to pre-December 2008 levels. To avoid pressure on the exchange rate, the BCC will sell foreign exchange to the private sector to offset liquidity injections caused by government expenditures financed through the expected increase in donor financial assistance and achieve its gross official reserve target.

The government is pursuing a twofold objective: first, to mobilize financing resources to develop the DRC's growth potential through the establishment of a core infrastructure platform, and second, to benefit from debt relief under the HIPC Initiative. The government is committed to refraining from contracting or guaranteeing new debt that would jeopardize debt sustainability and relief. The government has agreed with its Chinese partners to delay the second phase infrastructure projects (equivalent to USD 3 billion). The government is also studying with its partners the possibility of increasing the level of concessionality of the financing for the first phase infrastructure projects (USD 3 billion). At all events, the government is committed to working in close conjunction with all its partners to ensure that this agreement is consistent with debt sustainability. The government believes that prudent debt management, structural reforms, and infrastructure development will help to raise productivity and render the Congolese economy more resilient to future shocks.

In recognition of the challenges that the government faces, its development partners are scaling up their emergency assistance to the DRC. The World Bank has confirmed emergency assistance in the amount of USD 100.0 million while the emergency credit from the European Commission is under consideration. Bilateral partners are also considering additional support. Continued good macroeconomic performance and resolution of the problem of misreporting should also pave the way for concluding discussions on a new three-year PRGF arrangement, which would unlock further donor support from the African Development Fund among others.

Nevertheless, the Congolese government will urgently need additional financial support to build up its gross foreign reserves and to enhance the Congolese economy's ability to respond to future shocks. The government is thus requesting that the IMF allow the DRC to receive a disbursement equivalent to 25 percent of the DRC's quota from the Rapid-Access Component of the Exogenous Shocks Facility. The government remains committed to consulting closely with IMF staff on policy advice, especially through monitoring of the implementation of its economic program over the next few months (Tables 1 and 2). The government wishes to commit to undergoing a safeguards assessment update. The government also has no intention of introducing or intensifying exchange and international trade restrictions.

Sincerely yours,

_______/s/_______
Adolphe Muzito
Prime Minister

Table 1. Democratic Republic of the Congo: Quarterly Quantitative Benchmarks, 2007–08 [1]

(Millions of Congo francs; unless otherwise indicated)

	2007		2008												
	Stock Dec.		Sept.[2]						Stock Sep.	Dec.[2]					
	SMP	Rev Stock	Orig. Bench.	Rev. Bench.	Adj. Bench.	Act.	Difference	Observation Prel.	SMP	Orig. Bench.	Rev. Bench.	Adj. Bench.	Act.	Difference	Observation Prel.
a. Floor on net foreign assets of the BCC (U.S.$ millions)	-661	-663	-59	103	121	105	-17	Not Observed	-558	137	153	169	48	-121	Not Observed
b. Ceiling on net domestic assets of the BCC	619,738	621,728	56,693	-30,627	-39,593	-12,393	27,200	Not Observed	589,293	-5,359	-38,451	-44,756	66,354	111,111	Not Observed
c. Ceiling on net bank credit to government	182,343	187,773	39,490	-44,526	-53,492	-33,486	20,006	Not Observed	143,247	-28,296	-47,191	-53,497	65,411	118,908	Not Observed
d. Ceiling on the contracting or guaranteeing of new nonconcessional external debt with original maturity of less than one year by the government, including the EADs or the BCC	…	…	0	0		…	…		0	0	0		…	…	
e. Ceiling on the contracting or guaranteeing of new nonconcessional external debt with original maturity of more than one year by the government, and loans contracted by the EADs or the BCC (US.$ millions)	…	…	0	0		72		Not observed	0	0	0		72		Not observed
f. BCC payments of government expenditure (including urgent in nature) without authorization according to proper budgetary procedures by the ministries of finance and budget	…	…	0	0		…		Not observed	0	0	0		…		Not observed
Memorandum items:															
Narrow base money	283,009	283,557	25,216	19,840	19,840	41,088	21,248		303,032	61,013	35,969	35,969	91,288	55,318	
Project deposits	10,031	11,561	0	3,690	3,690	-3,220	-6,910		15,251	0	3,690	3,690	-1,564	-5,254	

Source: Congolese authorities; and IMF staff estimates.

[1] The program exchange rate is CF 502.99 per U.S. dollar. For definition and adjustors see the Technical Memorandum of Understanding of the 2007 SMP (IMF Country Report No. 07/328).

[2] The September and December quantitative benchmarks were revised in June 2008.

Table 2. Democratic Republic of the Congo:
Structural Benchmarks for the Second Half of 2008

Measure	Deadline	Status
1. Submission to Parliament of a draft budget for FY 2009 that is consistent with the macroeconomic objectives and based on a package of legislative and administrative measures that are quantifiable and achievable at the start of the year and with a full-year impact in 2009.	End-October 2008	**Not observed**. The draft Budget was submitted to Parliament in December and was not consistent with macroeconomic stability. The authorities subsequently agreed with staff on a revised fiscal framework consistent with their macroeconomic objectives.
2. Finalization of the audit of domestic arrears accumulated as of end-December 2007, and government adoption of a plan for eliminating them over time.	End-December 2008	**Not observed**. The audit was completed in February 2009. The action plan is expected to be adopted by March 31, 2009
3. Collection of all income from the mining sector by a new unit specializing in mining taxation with the Large Taxpayers Department.	End-December 2008	**Not observed**: The unit is expected to be operational by March 31, 2009
4. Operational implementation of the National Financial Intelligence Unit (CENAREF) in the context of anti-money laundering efforts.	End-December 2008	**Not observed**: The unit is expected to be operational by March 31, 2009
5. Introduction of auctions of 28-days central bank bills (BTRs).	End-September 2008	**Observed**
6. Adoption by Cabinet of the regulations required to transfer the customs activities of the OCC to OFIDA.	End-December 2008	**Not observed**: expected to be completed by May 31, 2009

Table 3. Democratic Republic of the Congo: Quarterly Quantitative Benchmarks, 2008–09 [1]

(Millions of Congo francs; unless otherwise indicated)

	2008	2009				2009
	Stock Dec.	March	Juin	Sept.	Dec.	Stock Dec.
	Prel	Proj.	Bench.	Bench.	Bench.	Proj.
a. Floor on net foreign assets of the BCC (U.S.$ millions)	-615	34	88	60	67	-547
b. Ceiling on net domestic assets of the BCC	688,082	-16,454	-35,203	-13,718	12,814	700,896
c. Ceiling on net bank credit to government	253,185	-19,658	-41,610	-23,329	0	253,185
d. Ceiling on the contracting or guaranteeing of new nonconcessional external debt with original maturity of less than one year by the government, including the EADs or the BCC	…	0	0	0	0	0
e. Ceiling on the contracting or guaranteeing of new nonconcessional external debt with original maturity of more than one year by the government, and loans contracted by the EADs or the BCC	…	0	0	0	0	0
f. BCC payments of government expenditure (including urgent in nature) without authorization according to proper budgetary procedures by the ministries of finance and budget	…	0	0	0	0	0
Memorandum items:						
Narrow base money	374,845	800	9,194	17,183	47,232	422,077
Project deposits	9,997	0	0	0	0	9,997

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

[1] The program exchange rate is CF 502.99 per U.S. dollar. For definition of adjustors see the Technical Memorandum of Understanding of the 2007 SMP (IMF Country Report No. 07/328).

Statement by the IMF Staff Representative
March 11, 2009

1. This supplement provides information obtained after the finalization of the staff report. It does not alter the thrust of the staff appraisal.

2. On February 26, 2009, the World Bank approved a US$100 million Emergency Project to Mitigate the Impact of the Financial Crisis (EPMIFC) to address some of the near-term impacts of the global slowdown and sustain economic activities until the government's policy responses can take effect and medium-term donor support can be fully identified.

3. On March 5, 2009, the external auditor of the Central Bank of the Congo provided a written update on the regularization of outstanding payments on urgent government expenditure without electronic payment orders (*ordres de paiement informatisés*—OPIs) at end-February 2009 confirming the following:

- The provisions of the new interministerial decree regarding the regularization of payments without OPIs have been observed;

- All payments without OPIs lodged in the General Treasury Account (GTA) or its sub-account between March 1 and December 31, 2008, that had not been regularized by end February 2009, were regularized through a blanket adjustment on the basis of a letter of the Minister of Finance; and

- All payments without OPIs lodged in the-sub account of the GTA in January 2009, that had not been regularized by end February 2009, were also regularized through a blanket adjustment on the basis of the above-mentioned letter of the Minister of Finance.

Statement by Mr. Rutayisire, Executive Director
for the Democratic Republic of the Congo
March 11, 2009

I would like to thank Management and staff for their continued support to the efforts of my DRC authorities in preserving macroeconomic stability and creating conditions conducive to stronger economic growth. I would also like to express my authorities' appreciation of the quality of the dialogue and collaboration with the Fund.

The Democratic Republic of the Congo has come a long way from a period of civil conflicts and political instability. The process of reconciliation and peace embarked upon since 2001 resulted in encouraging economic results supported by the international community, notably the IMF. The overall satisfactory implementation of the 2002–06 PRGF arrangement testify of the authorities' commitment and capacity to pursue sound macroeconomic policies and structural reforms aimed at maintaining macro stability and paving the way for strong growth and poverty reduction. The last review under PRGF was not completed because of slippages in the run-up of the first open and democratic elections in 2006, which were largely supported by the international community.

The repeated conflicts in the Eastern provinces of the country have severely constrained efforts to strengthen administrative and institutional capacities, as important resources have been allocated to cope with the security and humanitarian problems arising from the conflicts. The case of noncomplying disbursements before the Board today mostly owes to these weak capacities and the turnover in the leadership of the ministry of finance during the 2002-early 2007 period. My DRC authorities have made—and continue to make—significant progress to correct these weaknesses, notably in public financial management and urgent government spending, and meet the requirements for a waiver of nonobservance of the performance criteria that led to the noncomplying disbursements.

MISREPORTING AND REQUEST FOR WAIVERS

In response to the Managing Director's request of the views of the DRC authorities on the potential inaccuracy of information, my authorities addressed all the MD's concerns, including providing technical details notably on unauthorized expenditure between March 1 and July 22, 2005, which were recorded in the central bank's (BCC) books as either "NCG" or "other items net"; and the nonreporting of amounts lodged in the suspense accounts of BCC, attributable to their recording under "other items net" (OIN) pending their regularization for transfer to the "Net Government Position" (NGP). In this letter, the authorities reaffirmed their good faith and concern for transparency, free access to data, and collaboration.

Moreover, in the report of the special audit of suspense accounts requested by the authorities to an international firm and covering the period of January 2002 to December 2007 ("The June 2008 special audit"), it is certified that progress was achieved in public finance management reforms, notably in terms of no new transactions being recorded in the suspense accounts and discontinuation of practices that gave rise to the creation of suspense accounts. The remaining deficiencies found in the audit report, and which the DRC authorities had committed in September 2008 to tackle, have since been addressed, all in accordance with the recommendations of the special audit and those of the January 2008 safeguard assessment report:

> All payments on government urgent expenditure, including those without computerized payments orders, are lodged, until their regularization, in a sub-account of the General Treasury Account (GTA) rather than in the BCC suspense accounts. It is worth noting that since November 1, 2008, all payments on government urgent expenditure have been made only on the basis of prior written authorization of the Minister of Finance;
>
> The outstanding balances of government transactions lodged in the central bank's suspense accounts between January 2002 and February 2008 have been regularized on the basis of a one-off operation in late December 2008 that transferred the balances to the government's General Treasury Account;
>
> New written procedures for monitoring of payments, bookkeeping, and regularization of urgent expenditure payments have been adopted through an interministerial decree in late December 2008, and are being strictly complied with. This decree provides a clear and more transparent definition of "urgent government expenditure."

In addition, concerning the regularization of payments without computerized payment orders, the authorities have begun to observe the new procedures, within the new statutory deadline of 30 days (as opposed to the previous 72 hours), which provides more reasonable time for regularization given the institutional capacity constraints. This process of regularization is being done with greater accountability as one individual carries its responsibility, and enhanced oversight on the part of the Prime Minister and the Ministers of Finance and Budget.

On the basis of the authorities' remedial measures which have been effective in, achieving the objectives of the program, establishing a good track record of following proper budgetary procedures, and considering that the deviations from the performance criteria which resulted from the inaccurate information were minor, my authorities would appreciate the Executive Board's favorable consideration of the Managing Director's recommendation of waivers on the nonobservance of these performance criteria.

REQUEST FOR ASSISTANCE UNDER THE EXOGENOUS SHOCKS FACILITY

The current difficult external environment, reflected in DRC's free fall of export commodity prices, combined with the shock stemming from the security problems and humanitarian disasters in the Eastern regions of the country have put unprecedented pressure on DRC's gross international reserves. The impact of the global financial crisis on the Congolese economy is expected to worsen in 2009, through the channels of trade (terms of trade and volumes), FDI and remittances. Based on the aggravated BoP position as a result of these pressures, my authorities are requesting Fund assistance under the Rapid Access Component (RAC) of the Exogenous Shocks Facility (ESF).

The recent effects of the global financial crisis have added significant pressures on government revenues and the BoP position. The world prices of copper, cobalt and diamonds—the most important export commodities of DRC—fell sharply. Already, a large number of mining operators have scaled down production or ceased activity, and more than 200,000 jobs have been lost to date. Economic growth in 2008 had to be revised down by 2 percentage points, to reach 8 percent. At the same time, pressures mounted on the international gross reserves, which level fell in January 2009 to an amount equivalent to less than 2 days of non-aid import coverage. Exchange rate also depreciated abruptly in late December 2008 and January 2009. The effects of the global financial crisis on the Congolese economy are expected to intensify in 2009, notably with an even more severe deterioration of the terms of trade and reduced FDI. Reduction of remittances would also add to the BoP pressures. Therefore, DRC urgently needs financial support from the Fund and the rest of the international community, notably to build up gross foreign reserves and enhance the Congolese economy's ability to respond to future shocks. My authorities request Fund assistance under the RAC-ESF.

On their part, to address the situation, the government has tightened fiscal policy, while the Central Bank raised its indicative interest rate and the reserve requirement to mop up excess liquidity. The government is committed to pursuing prudent fiscal and monetary policies in 2009 to help address the shocks, notably through efforts to heighten revenues, adhere to a cash-based budget, and improve expenditure composition and control over spending, with the view to keeping the deficit at a sustainable level and targeting zero net credit to the government. The central government will also implement the constitutionally-mandated decentralization policy in a prudent manner in 2009 by continuing to manage the wage bill of provincial civil servants and aligning transfers related to investment programs to provinces with the latter's institutional management capacities. My DRC authorities stand ready to take additional corrective budgetary measures if external budget support or domestic revenues fall short of expectations. As for monetary policy, the BCC will maintain a proactive stance consistent with containing inflation and reaching acceptable level of gross official reserves in the context of a flexible exchange rate.

CONCLUSION

The DRC authorities have made progress to remedy credibly and effectively the PFM problems that gave rise to the noncomplying disbursements under the last PRGF arrangement and the disbursements of HIPC interim assistance based on inaccurate information. It is their strong view and ours that they have met the requirement for a waiver of the nonobservance of PCs. The prompt involvement of the Fund in DRC has been instrumental to its successes in preserving macroeconomic stability and making progress toward stronger growth in 2002–06.

As hope is reemerging in DRC, with renewed efforts towards reconciliation and peace in a context of good regional cooperation, it is critical that the Fund allow financial room for DRC to pursue its policies towards macro stability and to resume its development efforts, particularly at a time of a very challenging global environment. The current and anticipated effects of the global financial crisis warrant the DRC authorities' request for Fund assistance under the ESF. In achieving their development objectives, my DRC authorities continue to value their cooperation with the Fund. I would greatly appreciate the Executive Board's support of the Managing Director's recommendations on the misreporting case, its approval of the DRC authorities' request for assistance under RAC-ESF and, more broadly, the continued financial and technical support of the Fund to DRC.