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Republic of Congo: 2008 Article IV Consultation, Requests for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Interim Assistance Under the Enhanced Initiative for Heavily Indebted Poor Countries, and Financing Assurances Review—Staff Report; Staff Statement and Supplement; Public Information Notice and Press Release on the Executive Board Discussion; and Statement by the Executive Director for the Republic of Congo

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of a combined discussion of the 2008 Article IV consultation, requests for a three-year arrangement under the Poverty Reduction and Growth Facility and interim assistance under the Enhanced Initiative for Heavily Indebted Poor Countries, and financing assurances review, the following documents have been released and are included in this package:

- The staff report for the combined 2008 Article IV consultation, Requests for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Interim Assistance Under the Enhanced Initiative for Heavily Indebted Poor Countries, and Financing Assurances Review, prepared by a staff team of the IMF, following discussions that ended on August 27, 2008, with the officials of the Republic of Congo on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on November 21, 2008. 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 supplement on the joint IMF/World Bank debt sustainability analysis.

- A staff statement of December 8, 2008, updating information on recent developments.

- A Public Information Notice (PIN) and Press Release, summarizing the views of the Executive Board as expressed during its December 8, 2008, discussion of the staff report on issues related to the Article IV consultation and the IMF arrangement, respectively.

- A statement by the Executive Director for the Republic of Congo.

The documents listed below have been or will be separately released.

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

REPUBLIC OF CONGO

Staff Report for the 2008 Article IV Consultation, Requests for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Interim Assistance Under the Enhanced Initiative for Heavily Indebted Poor Countries, and Financing Assurances Review

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

Approved by Sharmini Coorey and David Marston

November 21, 2008

- Discussions for the 2008 Article IV consultation, the second and final staff assessment of the Staff-Monitored Program, and negotiations for a Poverty Reduction and Growth Facility (PRGF) arrangement were held in Brazzaville May 21-30 and August 21-27, 2008. The mission met with Prime Minister Mvouba; Mr. Moussa, Senior Minister and Minister of Planning; Mr. Issoïbeka, Minister of Finance; Mr. Dzon, National Director of BEAC; other senior officials, representatives from the National Assembly and the donor community, NGOs, and the private sector. The missions comprised Mr. York (head), Mr. Bessaha, Ms. Karpowicz (all AFR), Mr. Martin (FAD), and Mr. Maseda (BLS). Mr. Moussa, the Fund's resident representative in Brazzaville assisted both missions. Mr. Kudiwu (OED) participated in May and Mr. Alle (OED) in August.
- The 2008 Article IV discussions focused on several medium-term challenges facing Congo: the need to (i) reverse the decline in competitiveness; (ii) broaden economic activity beyond the oil sector, and (iii) consolidate the fiscal stance as oil production declines. The 2007 Article IV discussions were concluded on April 25, 2007.
- Satisfactory policy implementation in a six-month SMP has paved the way for the authorities' request for a three-year PRGF arrangement covering 2008-11. Proposed access is SDR 8.46 million (10 percent of quota). The authorities regard a Fund-supported program as being important for helping them achieve macroeconomic stability and external sustainability, particularly through debt relief under the enhanced HIPC Initiative.
- The Republic of Congo is a member of the Central African Economic and Monetary Community (CEMAC) and its regional central bank, BEAC. The common currency, the CFA franc, is pegged to the euro at CFAF 656. With its CEMAC partners, Congo has accepted the obligations of Article VIII, Sections 2(a), 3, and 4 of the Fund's Articles of Agreement.
- The authorities consent to the publication of this report and the Letter of Intent and Memorandum of Economic and Financial Policies supporting their request for a new arrangement.

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EXECUTIVE SUMMARY

Recent Economic Developments and Program Performance

- Economic indicators in the first semester of 2008 were encouraging. Growth has been strong, as oil production resumed and activity in telecommunications, construction, and transport remained buoyant. Inflation rose 5.7 percent (y-o-y) through June 2008, reflecting higher energy and food prices, but expectations are for some moderation in the period ahead.
- The external sector has strengthened considerably recently, as a result of debt restructuring and the impact of relatively high world oil prices and strong oil production.
- Performance under a Staff Monitored Program was broadly satisfactory through end-June 2008 and the fiscal targets were comfortably met.
- Progress was made on structural reform; but some measures proved difficult to implement without further technical assistance. Earlier this year, the authorities were also reluctant to adjust fuel prices to maintain the budgeted level of subsidies, in an environment of high fuel and food prices and social unrest; however, a price adjustment that will reduce subsidies significantly was taken in early October.

Medium-Term Challenges

- To enhance external viability, the authorities recognize the need to improve competitiveness, raise output growth through diversification, and consolidate the fiscal position.
- In this regard, the authorities are making a concerted effort to improve the business climate, liberalize trade, deepen financial intermediation, continue reform of public enterprises, improve governance and transparency, and put in place development strategies in key sectors.

Poverty Reduction and Growth Facility Arrangement

- The authorities are requesting a three-year PRGF arrangement (covering 2008-11) to support strong growth, low and stable inflation, fiscal and external sustainability, and structural reform in priority areas. The proposed arrangement is in line with the authorities' Poverty Reduction Strategy, which was completed earlier this year.
- There are two main risks to the program, stemming from a potential for ownership to weaken and senatorial and presidential elections next year, which will create pressures to spend and could cause a lapse in fiscal discipline.
- Given the strength of the authorities' medium-term economic and financial program and the prior action that was already implemented (fuel price adjustment), the staff supports their request for a three-year arrangement in an amount equivalent to SDR 8.46 million (10 percent of quota), interim-HIPC assistance, and completion of the financing assurances review.

I. Introduction

1. **Beginning in 2003, building upon renewed peace and political stability, the Congolese authorities turned their attention to improving economic management.** A comprehensive reform program supported by an arrangement under the Poverty Reduction and Growth Facility (PRGF) in 2004 was to be anchored on fiscal consolidation, notably strict control of current non-priority spending, and ambitious structural reforms to boost non-oil growth. However, program implementation was uneven; with only two program reviews being completed through 2006. Chief among the factors that may have contributed to this performance were (l) the government's inability to resist spending pressures as world oil prices rose and weak ownership; and (2) weaknesses in institutional and administrative capacity─especially in public financial management and in the oil sector. A Staff-Monitored Program (SMP) was introduced in 2007 in an effort to establish a satisfactory track record of performance.

2. **Macroeconomic and structural policies have been more actively implemented recently because program ownership was solidified.** Recognizing past failures, late in 2007 the authorities established a new reporting and monitoring structure to guide economic policies and relations with the Bretton Woods Institutions. A policy committee, headed by the President of the Republic, now oversees the economic program. It is supported by a technical committee headed by a special advisor to the President. This new structure is proving effective; during the first half of this year, the authorities satisfactorily completed a six-month SMP that has paved the way for a request for a new PRGF arrangement.

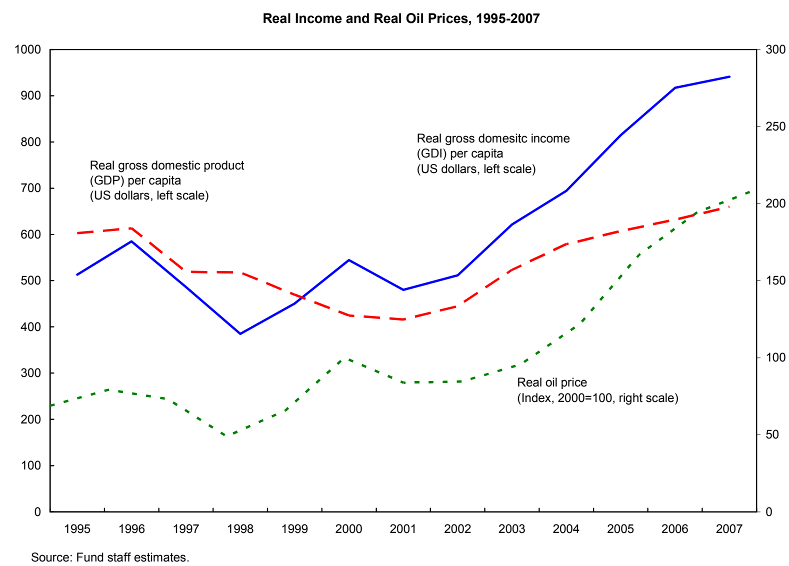
3. **The political environment is stable but there are lingering social tensions**. High world oil prices for the past year or so have heightened the public's expectations and sense of urgency for improving public service delivery, the economic infrastructure, and public sector wages and salaries. The rapid increase in food and fuel prices earlier this year also created tensions, leading to a temporary reversal in some policies. Senatorial and presidential elections are slated for 2009.

4. **The authorities have been receptive to the Fund's policy advice in the context of both programs and surveillance.** In line with this advice, the authorities have been making efforts to achieve macroeconomic stability, improve the conditions for private sector development, including through reforms to public financial management, and strengthening governance and transparency over the use of public resources. However, capacity constraints and weaknesses in ownership have adversely affected the smooth implementation of the authorities' economic reform efforts.

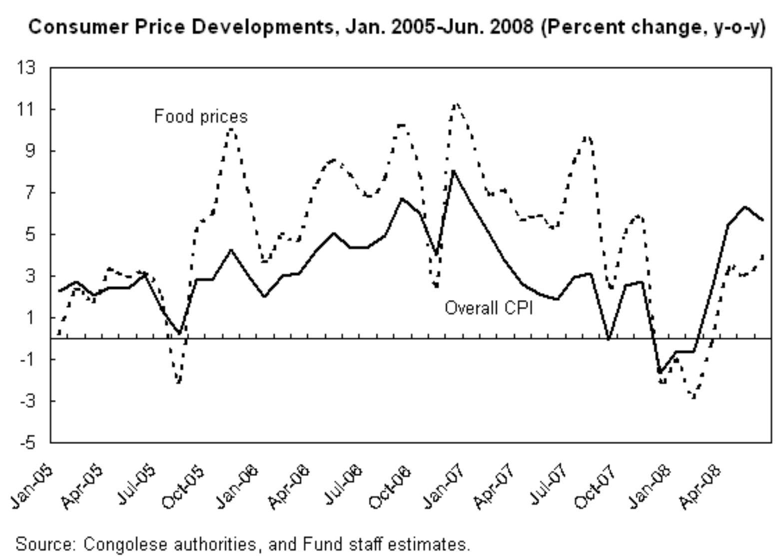
II. Recent Economic Developments and Prospects

5. **Recent economic indicators point to continuing strong growth, higher inflation, and a significant improvement in the external sector.**

- **Economic growth has been robust in 2008, reflecting a resumption of oil production after an oil-platform accident and solid non-oil activity, driven by the telecommunications, construction, and transport sectors.** Real GDP growth is projected to be about 7.6 percent this year, which should contribute to the trend increase in real gross domestic income (per capita) that has occurred during the past few years as real world oil prices rose (Table 1).

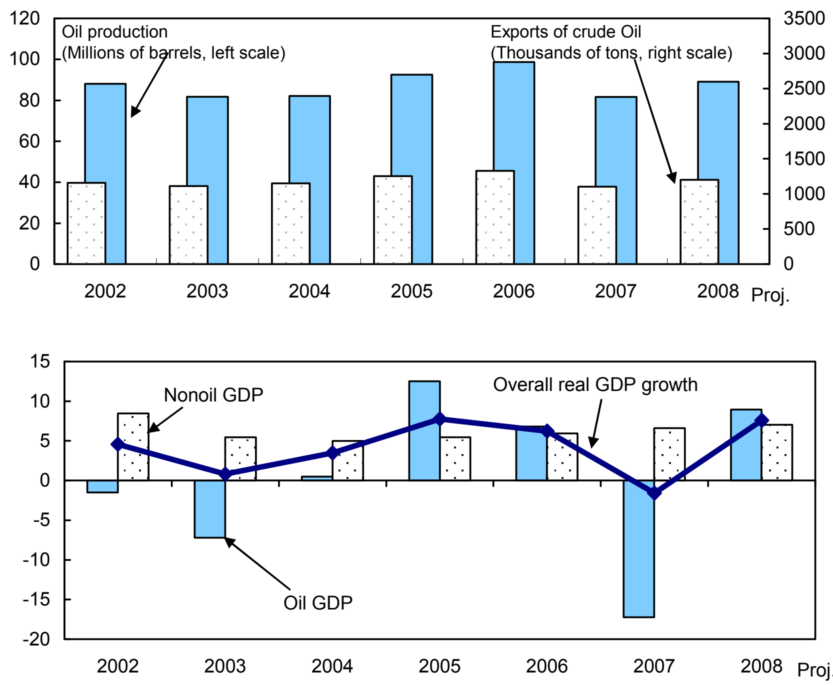


- **Higher food and energy costs have pushed up inflation, which rose to 5.7 percent in the twelve months through June 2008.** Moreover, non-food prices rose by 6.7 percent during the same period. Recent data point to a further small rise in prices, before moderating in the period ahead.



- **Driven by high oil exports, the current account is projected to swing from a deficit of 26 percent of GDP last year to a surplus of 0.6 percent of GDP in 2008 (Table 2).** Non-oil exports, which have increased only modestly in recent years, account for less than 6 percent of GDP, reflecting Congo's narrow export base. Foreign direct investment (FDI) continues to expand in the oil sector, partly as a result of investments in newly discovered fields, and could reach more than 23 percent of GDP this year. The real effective exchange rate has appreciated sharply since 2007, mainly reflecting Congo's higher rate of inflation relative to its trading partners.

Oil Production, Prices, and Exports, and Real GDP Growth, 2002-08



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

- **Congo's external public debt has declined sharply in the past several years, partly as a result of Paris Club debt rescheduling and debt relief from London Club creditors under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative.** Recently, arrears with some Paris Club creditors have accumulated (see Box 1 below), but these are being addressed in the discussions to reschedule Congo's external debt.[1] The authorities are continuing their negotiations with litigating creditors, with a view to reaching a settlement that is—to the extent possible—fair to all creditors. Under the June 2006 framework agreement with China, the authorities are also discussing new concessional loans amounting to about US$ 1 billion to finance infrastructure projects over the medium term. The financial terms under

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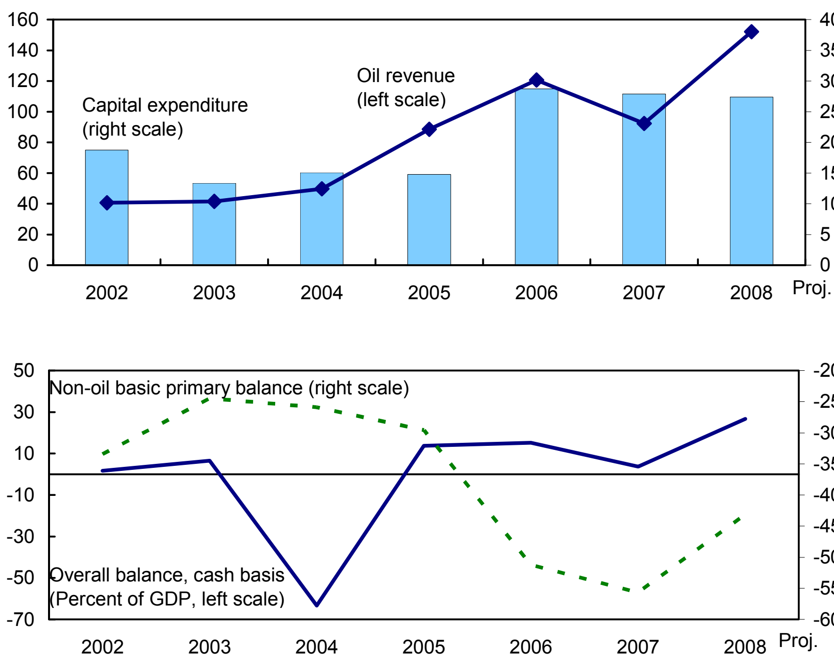
[1] Under the 2004 rescheduling, Congo has concluded bilateral agreements with all but one of the Paris Club creditors.

negotiation for all these loans involve 20-year maturity, 5-year grace period, an interest rate of 0.25 percent, and biannual repayments (with an estimated grant element of about 52.7 percent).

6. **Implementation of economic policies improved recently, after a period of fiscal slippages and delays with structural reform.**

- **Although the basic non-oil primary deficit dipped to 55.7 percent of non-oil GDP in 2007, on present policies it should improve significantly this year.** Through June 2008, the authorities' fiscal targets, in line with the objectives of the SMP, were comfortably achieved (Box 1 and Tables 3a and 3b). The shift in the fiscal stance is attributable to better control and monitoring of expenditures, especially for public investment, and unexpectedly high non-oil revenue from a pick-up in corporate income tax revenue from oil company subcontractors. The quarterly certification of oil receipts has helped ensure the satisfactory repatriation of oil revenue, although there continue to be delays, which the authorities attribute to technical difficulties and problems in dealing with litigating creditors. A supplementary budget—in line with the program's objectives—was adopted recently to account for the higher-than-projected oil revenue, some tariff and tax reductions to help mitigate the recent increase in food and energy costs, and additional pro-poor (generic drugs) and capital spending, financed through interim HIPC assistance.

Fiscal Developments, 2002-08
(Percent of non-oil GDP, unless otherwise indicated)



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

Box 1. Performance on the 2008 SMP

Earlier this year, Fund management approved an SMP for Congo covering the six-month period January-June 2008. The SMP was designed to support the authorities' efforts to stabilize the economy, consolidate the fiscal stance and reverse previous expenditure slippages, and to continue structural reform in such areas as public financial management, public enterprises (mainly in the oil sector), and governance and transparency.

Performance on the SMP was broadly satisfactory. At the end of June 2008, the indicative target for the non-oil basic primary deficit was met comfortably, demonstrating the government's ability to control and monitor public spending, although healthy non-oil tax collections certainly provided room to maneuver (Table 4). All of the other quantitative targets were observed, but external arrears to some Paris Club creditors accumulated (CFAF 10.1 billion, about US$ 23.8 million). The authorities have been servicing their external debt on the basis of the 2004 Paris Club rescheduling agreement which provided for lower payments and was predicated on being on track with the Fund program. When the program went off track, some creditors reverted to the original debt service schedule, resulting in some arrears accumulation. Paris Club creditors have provided financing assurances for the program, including with regard to the regularization of the arrears situation.

Progress was made on structural reform during the SMP (Table 5), but several structural benchmarks proved difficult to implement without further technical assistance (adoption of a comprehensive action plan with a timetable to address institutional and procedural deficiencies in the commercialization of Congolese oil, and a three-year action plan to strengthen public investment management). Also, the authorities were reluctant to adjust petroleum product prices to adhere to the budgeted level of subsidies, in an environment of high fuel and food prices earlier this year; and they did not provide timely information on petroleum product prices. The program's other structural benchmarks were observed, including adoption of a plan and timetable for reforming the state-owned oil refinery (CORAF); completion of a technical and financial audit of current transfers and a representative sample of capital expenditures executed in 2006; quarterly certification of oil revenue by an international audit firm (KPMG); and publication on the internet of all invitations to bid and the bids themselves for government procurement contracts above CFAF 200 million.

- **Monetary developments have been heavily influenced by external developments.** Broad money growth was 16 percent through mid-year, net foreign assets rose to US$3.5 billion, and credit to the economy has expanded (Table 6). In an effort to better manage liquidity, the government repaid a large proportion of its statutory advances from BEAC, and stepped up its effort to coordinate treasury operations more effectively with the regional central bank. The banking system remained solid: all four commercial banks are in compliance with the prudential ratios, except the one related to risk concentration (in which banks lend mainly to a few big enterprises operating in only a few sectors, notably telecommunications, construction, and public sector subcontractors, Table 7). Nonperforming loans have increased slightly but so has provisioning. Commercial banks have seen a rise in domestic deposits as non-oil activity continues to be robust.

- **The pace of structural reform picked up during the past several months of the SMP (Box 1); there was progress on a number of important fronts, including**

with the floating completion point triggers for the enhanced HIPC Initiative.[2] To enhance public financial management (PFM), the authorities adopted and began implementing a PFM action plan (drafted with assistance from Congo's development partners); produced a draft plan for managing public investment; became a candidate country to join the Extractive Industries Transparency Initiative (EITI) in February 2008 and initiated work on the first EITI report, which is expected to be completed by the end of this year; and consolidated all the government's accounts with the BEAC. In the oil sector, the authorities adopted and began to apply a reform program for the state-owned refinery (CORAF); prepared an initial draft of actions to bring the commercialization of Congolese oil up to international standards; and continued to certify oil receipts on a quarterly basis to ensure transparency and accountability.

III. Enhancing External Viability

7. **The authorities recognize that, as a member of CEMAC, Congo can enhance the external viability of the currency union through policies to improve competitiveness, raise output growth through diversification, and consolidate the fiscal position.** In a number of important ways Congo is lagging behind its CEMAC partners, even though it has the financial resources from oil wealth to finance development needs to meet the Millennium Development Goals (MDGs). With this in mind, the 2008 Article IV discussions focussed on several medium-term challenges:

- How best to diversify the economy and to broaden economic activity beyond the oil sector; and
- How to achieve long-term fiscal sustainability to ensure that Congo's oil wealth is preserved for future generations.

A. International Competitiveness in the Non-Oil Sector

8. **After two decades of relatively poor performance, Congo's exports have picked up (in nominal terms) over the past several years.** The expansion was twice as fast as the average of its CEMAC partners, and four times faster than the average for sub-Saharan Africa as a whole. However, export volume growth was still tepid, especially in the non-oil sector where export growth slowed in real terms from about 5 percent in the 1990s to about 2 percent in this decade. The share of non-oil exports in total exports plunged to about 7 percent in 2007 from nearly 20 percent in 2003.

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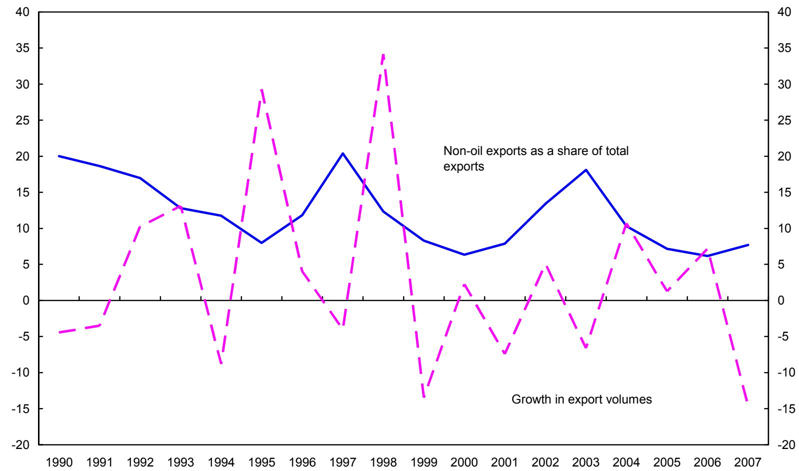
[2] Details on implementation of the HIPC triggers are outlined in the *Second Annual Report on Progress Toward Meeting the Floating Completion Point Triggers Under the Enhanced Heavily Indebted Poor Countries Initiative*.

9. **Several factors have probably contributed to Congo's problems with non-oil exports, among them real effective exchange rate appreciation, institutional constraints, and inadequate infrastructure.**

Export growth and shares, 1990-2007
(Percent)

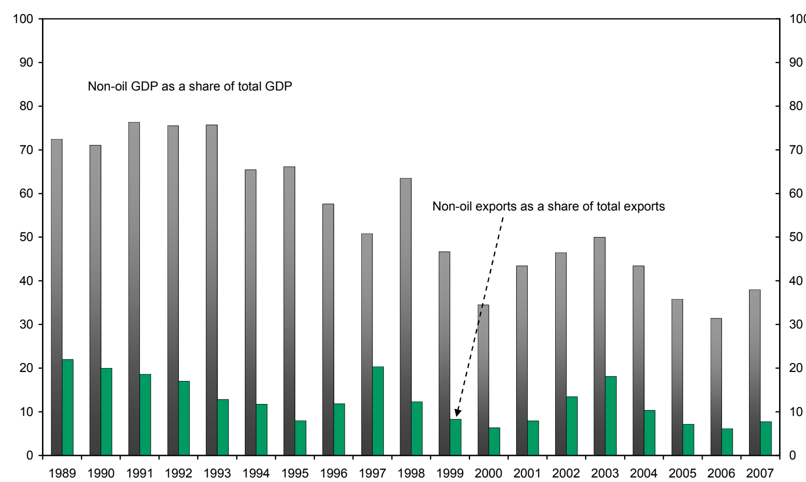


Source: Congolese authorities; and Fund staff estimates.

- The prominence of the oil sector and more recently high world oil prices, have diverted productive resources from traditional exports (including timber), toward extraction and oil-related activities. In this transformation, the non-oil sector lost its weight in total exports and in value added.

- Appreciation of the real effective exchange rate since 2003 has contributed to the erosion of Congo's competitiveness (Box 2).

Non-oil GDP and Non-oil Exports as a share of Total GDP and Total Exports, 1989-2007
(Percent)



Source: Congolese authorities; and Fund staff estimates.

- Congo's institutions are not strong; many elements that could facilitate FDI and private sector development are inadequate. In particular, until quite recently the effort to enhance transparency and governance of natural resources has been at best tentative—a significant constraint in a country with abundant resources but little development.[3] The financial sector is underdeveloped; the legal framework needs firming up, and the business climate could be improved substantially. The World Bank's 2008 Doing

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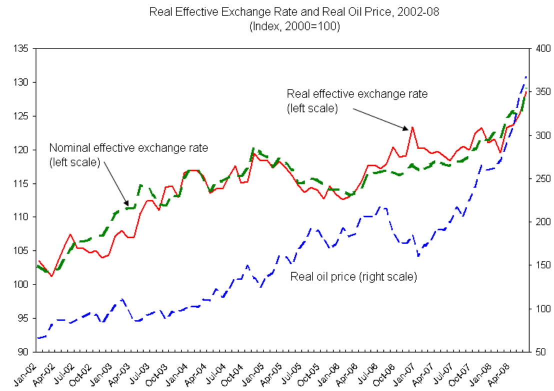
[3] Transparency International places Congo 142 out of 163 countries on its transparency and governance scale.

Business survey ranks Congo near the bottom (178 out of 181 economies) in terms of ease of doing business. Procedures to start and to close an activity, hire and fire, get credit or pay taxes are so costly and cumbersome as to deter entrepreneurship.

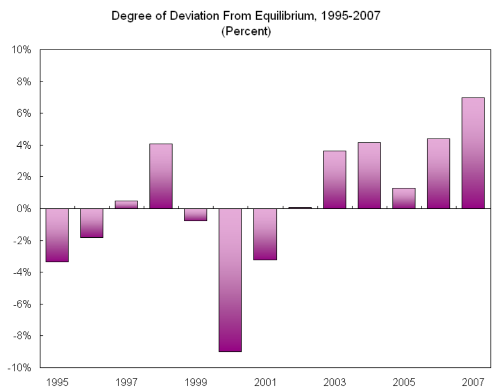
- The inadequacy of the economic infrastructure also holds back the non-oil export sector. The World Bank indicators show limited access to technology for Congo. Internet costs are high (as in the other CEMAC countries) compared with sub-Saharan Africa as a whole. Only 5 percent of roads are paved (compared with 15 percent for the region). And rail transportation between the two main cities, Brazzaville and Pointe Noire, suffers from frequent disruptions.

10. **During the discussions, the authorities and the staff agreed that enhancing Congo's competitiveness in the non-oil sector must therefore be a priority**. A primary objective is to implement a broad-based economic program to diversify the economy, achieve fiscal sustainability, and qualify for debt relief to free more resources for pro-poor and pro-growth expenditures. Such a program could boost employment prospects and reduce income disparities between the oil and non-oil sectors; in the latter, poverty is most prevalent.

Box 2. Real Effective Exchange Rate Assessment



Congo's nominal effective exchange rate appreciated by about 6.2 percent in the period from end-December 2007 through June 2008, primarily on account of the appreciation of the euro to which the CFAF franc is pegged. Over the same period, the real effective exchange rate (REER) was 6.7 percent higher, reflecting higher inflation relative to Congo's trading partners.



Recent analysis at the regional level suggests that the CFA franc was in line with fundamentals at the end of 2007. Estimates for Congo, however, suggests that its REER was moderately above the long-run equilibrium value in 2007. One estimate of the equilibrium REER, based on such fundamental variables as government consumption, relative productivity, terms of trade, openness, and money supply, suggests an overvaluation of about 7 percent in 2007, with the overvaluation for 2003-07 driven by relatively high government consumption. This estimate, should, however, be treated with caution since it is not robust to the specification of alternative variables and variations in the estimation period. An alternative estimate using panel data for oil exporters suggested that Congo's REER was overvalued by about 14 percent. The envisaged fiscal consolidation would help reduce the overvaluation over time (details can be found in the accompanying Selected Issues paper).

B. Diversification of the Non-oil Economy

11. **The authorities are well attuned to the need to accelerate private-sector-led growth to alleviate poverty as specified in their Poverty Reduction Strategy (PRS).**[4] But since the base of economic activity outside the oil sector is narrow and dominated by subsistence agriculture, diversification is critical. The authorities are moving on a broad front, but recognize that policies tailored to a few specific activities or sectors are also needed.

- **Business climate**: To create more favorable conditions for private sector development, the authorities are moving to improve the business environment and reduce the cost of doing business. They are simplifying administrative procedures; working to enable application of OHADA business laws, which are common to

[4] The Poverty Reduction Strategy paper was submitted to the Executive Board in August 2008, along with the Joint Staff Advisory Note on the PRS.

Francophone African countries; creating a "one-stop" window for establishing a business; and making a determined effort to enhance governance and combat corruption.

- **Trade liberalization:** As a small open economy Congo would benefit from closer integration with the regional and global economy; presently, trade and investment linkages are concentrated in the oil sector. Integration is to be achieved through CEMAC trade reforms, including reduction of the maximum common external tariff (from 30 to 20 percent) and tariff rates, trade facilitation, and harmonization of rules of origin. Domestically the authorities are working to bring the customs code into line with international standards, fully implement the ASYCUDA system to facilitate customs clearance, and remove nuisance taxes and surcharges that inhibit trade.

- **Financial intermediation:** Financial intermediation is relatively low in Congo compared with its neighbors. For example, the ratio of private sector credit to GDP is a mere 2.1 percent (sub-Saharan African average: 17.4 percent), and the share of the population with a formal bank account is less than 3 percent (CEMAC average: 26.8 percent). The loan/deposit ratio is about 22 percent in Congo, compared with 80 percent for WAEMU countries, and 48 percent for the CEMAC. The authorities are thus giving high priority in the early stages of the reform program to deepening intermediation. A financial sector strategy, drafted with Fund staff assistance, is to be adopted and implemented over the medium term, supported by the proposed PRGF arrangement (see below). Expanding public access to banking services, lowering the cost of credit, better information on the cost of credit and credit history are priorities for action.

Selected Financial Sector Indicators, 2006

	Number of comm. banks[1]	M2/GDP (percent)	Bank assets/GDP (percent) [1]	Private sector credit/GDP (percent)	Central government credit/GDP (percent)	Population with a formal bank account (percent) [1]
Republic of Congo	**4**	**14.6**	**8.9**	**2.1**	**-6.5**	**2.7**
Averages for:						
Sub-Saharan African countries	30	33.6	67.4	17.4	3.8	26.8
Middle income	30	50.4	96.0	28.7	3.5	41.2
Low income	30	24.9	38.3	11.8	4.0	7.6
Oil-exporting countries	53	14.9	33.6	6.3	-4.8	7.1
Oil-importing countries	23	38.3	77.5	20.1	5.8	33.9
CFA countries	9	19.9	16.1	10.8	-1.8	3.9
Non-CFA countries	34	41.8	72.5	21.2	6.9	29.2

Sources: International Financial Statistics, and Sub-Saharan Africa Regional Outlook, May 2006.
[1] Data refer to 2004.

- **Public enterprises**. Though few in number, Congo's parastatals tend to have a disproportionately large influence on economic performance and business conditions because of the narrow economic base. Consequently, raising their financial and operating performance is crucial to achieving Congo's development goals. The authorities are making a concerted effort to rationalize the operations of enterprises in the oil sector, but more could be done to address deficiencies in other public enterprises, especially those in transportation (CFCO, the railway company), ports, and utilities (electricity, water, and sanitation).

- **Key sectors.** While the authorities believe a broad-based approach is necessary to support diversification, they also feel targeted interventions are necessary to jump-start activity in key sectors, particularly agriculture, manufacturing, mining, and forestry. The focus on the oil sector in the past several decades has slowed development in other areas, where the economic infrastructure and human and physical capital have deteriorated. For example, coffee and cocoa were historically important cash crops, but at present production is negligible; timber is the primary export after oil, but its output growth is relatively stagnant. The government is now directing its efforts, with the help of development partners, to reviving agriculture through investment and technological transfer (in cooperation with the governments of China, Israel, and South Africa, among others); encouraging exploration and development and FDI in minerals; and laying the foundations for manufacturing, including by rehabilitating the war-ravaged and dilapidated infrastructure (energy, roads, telecommunications) and improving the skills of the labor force.

C. Fiscal Sustainability

12. **The authorities agreed on the need to achieve long-term fiscal sustainability to ensure that future generations benefit from Congo's current oil wealth.** Staff elaborated various models and fiscal rules of thumb used by oil-exporting countries to guide fiscal policies. One such model is based on the permanent-income hypothesis (PIH), which protects future generations by ensuring that all economic agents are treated equally over time, allowing only the permanent (annual) income from oil wealth to be spent each year.[5] The authorities were attracted by the benefits of using the model and the discipline it provided; and although they recognized the caveats that such models entail, their medium-term fiscal strategy for the proposed PRGF arrangement is guided by it.

13. **Consistent with the PIH model, the authorities intend to target for the long-term an annual reduction in the basic non-oil primary deficit—the program's nominal fiscal anchor—of 3-4 percent over the next several years**. This would move the fiscal stance

[5] Concerning the management of unspent reserves, the staff encouraged the authorities to discuss with the regional monetary authority ways to diversify and increase the rate of return on their portfolio.

toward sustainability, which the staff estimates would occur when the basic non-oil primary deficit is in the range of 3-5 percent of non-oil GDP.[6]

14. **The authorities expressed concern, however, that the pace of fiscal adjustment may not allow for the flexibility needed to address immediate needs, especially for investment in infrastructure.** While sympathetic to this concern and the authorities' desire to front-load public investment in an effort to meet the MDGs, staff urged them to pursue the indicated fiscal path, since the current fiscal position is a long way from sustainability and capacity constraints limit the efficient investment of public resources. Staff also indicated that there would be room to accommodate a scaling–up of investment if concerted efforts were made to (i) re-orient spending by reducing or eliminating poorly targeted spending, such as for fuel subsidies; (ii) rationalize low-priority programs and spending initiatives; (iii) improve public financial management; and (iv) mobilize more domestic resources. As a share of non-oil GDP, non-oil revenue is relatively large at about 21 percent, but it has been stagnant in recent years and could be increased by strengthening tax and customs administration by, e.g., use of a single taxpayer identification number, computerization, and fully implementing the ASYCUDA system; reducing tax exemptions; and more aggressive collection of tax arrears to combat fraud and evasion. A broadening of economic activity would also help boost non-oil tax collections.

15. **As additional fiscal space emerges, making it possible to scale up domestically-financed capital spending even further, the authorities must address the current administrative and institutional constraints.** The government is pressing ahead with its efforts to complete by year-end, with technical assistance from development partners, a three-year action plan to manage public investment, which should help provide a strategic focus both in geographic and sectoral terms. This plan will take into account the findings of the recent technical and financial audit of a sample of 2006 capital expenditures and transfers, as well as input from upcoming work by the World Bank on infrastructure priorities and a public expenditure review.[7] The authorities are working actively with World Bank staff to put in place modern procurement procedures and train staff accordingly.

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[6] The PIH model is underpinned by assumptions that affect estimates of the long-term non-oil primary deficit. These assumptions include the projected oil resources, which in the case of Congo is assumed to be about 1.6 billion barrels (proven); international oil prices; the growth of non-oil GDP; and the real rate of return on government (financial) assets, which is assumed to increase to 3½ percent over the medium term.

[7] The financial and technical audit of capital expenditures and transfers highlighted a number of problems that could be addressed by the timely and comprehensive implementation of the PFM action plan, including weaknesses in budget preparation, excessive centralization of the budget commitment process, lack of reliable expenditure control procedures, weak procurement policies, and the absence of a medium-term public investment program.

D. External Debt Sustainability

16. **The authorities concurred with the findings of the joint IMF and World Bank debt sustainability analysis and the view that Congo is at a high risk of debt distress**. Owing mainly to debt relief from London Club creditors in November 2007, Congo's net debt ratios have improved significantly and are projected to decline further over the long term, reflecting strong oil revenue and projected fiscal consolidation. However, the country is still vulnerable to movements in world oil prices, so a prudent fiscal stance will be essential to achieving debt sustainability (details can be found in the supplement accompanying this staff report).

E. Capacity Building

17. **The authorities stressed the need to build institutional and administrative capacity so that their economic program can be implemented smoothly.** Staff and authorities took stock of the technical assistance being provided by the Fund (much of it through the central AFRITAC), World Bank, and other donors to identify overlaps, gaps, and areas where effective use could be made of Congo's own resources to accelerate progress. It was agreed that additional assistance is needed to successfully implement the ambitious PFM reform, particularly drafting a medium-term expenditure framework, a public procurement code in line with international best practice, and a comprehensive investment management program. Also, assistance in reforming the oil sector is urgently required given the sector's importance and conditionality for the enhanced HIPC Initiative.

18. **Provision of data to the Fund is broadly adequate for surveillance purposes, with timeliness and regularity of basic macroeconomic data being priorities.** Recently, efforts have been made to strengthen national accounts, balance of payments, and fiscal data, with the help of Fund technical assistance.

IV. The Medium-term Economic Program

19. **The authorities' PRGF arrangement is designed to support balanced growth, low and stable inflation, and fiscal and external sustainability.** The medium-term macroeconomic framework (2008-11) is consistent with the PRS and aims to achieve:

- Annual real GDP growth in the non-oil sector of about 8 percent, which the authorities believe is the minimum necessary to reduce poverty durably and to make meaningful progress toward the income and other MDGs.[8]

[8] A discussion of recent poverty trends can be found in the authorities' PRS paper.

- Low and stable inflation of about 3 percent a year, in line with the CEMAC convergence criteria, which will help preserve Congo's competitiveness given the fixed exchange rate regime.

- An improvement in the external position with the current account moving into surplus this year, with the surplus rising into the medium term. This will make it possible to further build up net foreign assets and provide more than adequate savings to finance development. The external position will be strengthened further when Congo reaches the HIPC completion point.

20. **Medium-term policies to achieve these macroeconomic objectives include:**

- Gradual but continued fiscal consolidation to ensure steady progress toward long-term sustainability, recognizing the finite horizon for oil production—which could be as soon as 2028 without further exploration and development—and the need for intergenerational equity. The authorities agreed that an annual decline in the basic non-oil primary deficit of 3-4 percent of non-oil GDP would be adequate to balance the short-term desire to scale up public investment to address urgent needs (rebuild infrastructure, improve physical and human capital, and support key sectors) and put the fiscal stance on a credible path to preserve oil wealth. The reduction in the basic non-oil primary fiscal deficit from a projected 43.2 percent of non-oil GDP this year to 33½ percent in 2011 is projected to come from cuts in non-priority spending, essentially through the elimination of fuel subsidies and restraint on wages and goods and services, and domestic revenue mobilization.

- The regional central bank's focus on keeping inflation low and allowing foreign reserves accumulation, to help support the region's fixed exchange rate regime.

- Further opening of the economy through trade liberalization.

- Structural reform in areas critical to the success of the program (see Box 3): timely and full implementation of the authorities' action plan to strengthen public financial management and enhance tax and customs administration; improvement in the financial and operating performance of state-owned enterprises, notably in the oil sector, given implications for the budget and governance generally; and adoption and implementation of the financial sector strategy.

Box 3. Structural Conditionality for the Proposed PRGF Arrangement

Structural conditionality for the proposed PRGF arrangement is focused on areas that are critical for achieving the program's macroeconomic objectives. Consequently, it covers PFM, reform of the oil sector, and financial stability and deepening intermediation.

- **Public financial management**: To support the authorities' efforts to tighten control over budget execution and monitoring, and to achieve consistency with the PRS, the program gives priority to enhancing PFM. Reforms in this area are important to strengthen governance and transparency in the use of public resources. Program conditionality will support a new economic, functional, and administrative classification for the budget; development of a medium-term expenditure framework; and better public investment management, which is critical given the magnitude of these expenditures.
- **Oil sector:** Performance of the sector is critical to the macroeconomic outlook. To safeguard oil revenue and ensure that state-owned enterprises in the sector are financially sound and efficient, the program will support the government's efforts to repatriate oil revenue in a timely manner and certify those receipts every quarter; adopt a comprehensive plan with a timetable to address procedural deficiencies in the commercialization of Congolese oil; and finalize a strategic study of the sector. The program will also support the authorities' efforts to establish a new petroleum-product pricing regime that would help eliminate subsidies and depoliticize pricing decisions.
- **Financial sector:** The authorities recognize that financial stability and deeper intermediation are needed to support private sector development and broaden economic activity beyond the oil industry. Accordingly, the program will support adoption by the government of a financial sector strategy drawn up in consultation with Fund staff and Congo's development partners. Implementation of the strategy could be supported through conditionality on key elements.

A. Economic Policies for 2008-09

21. **In the first year (2008-09), the program targets real GDP growth of 8½ percent in the non-oil sector and a moderation of inflation to 3 percent by year-end.** The pickup in non-oil activity is largely attributed to strong public investment, a further broadening of growth, and spillovers from high oil production and projected investment in this sector. The near-term policies to support these targets are outlined below.

Fiscal policies

22. **For the rest of 2008 the fiscal stance will remain consistent with targets established earlier this year in the SMP, including a reduction of the basic non-oil primary deficit to 43.2 percent of non-oil GDP.** This target can be achieved by strong non-oil tax collections, firm control of public spending, and a projected decline in fuel subsidies by about 1.6 percent of non-oil GDP, as a result of the across-the-board increase in fuel prices by an average of 13 percent at the beginning of October (this increase was a prior action for Executive Board consideration of the authorities' request for a new PRGF arrangement).

23. **For 2009 the program envisages a decline in the basic non-oil primary deficit to 40.2 percent of non-oil GDP, based primarily on nominal cuts in non-priority spending, including a further decline in fuel subsidies.** Pro-poor and domestically-financed capital spending would rise as a share of non-oil GDP, consistent with the authorities' PRS. Non-oil tax revenue would increase only slightly as a share of non-oil GDP (to about 21.1 percent) because improvements in tax and customs administration would be mostly offset by the full-year impact of recent tax and tariff reductions aimed at mitigating the adverse impact of food and fuel price inflation through most of 2008.[9] To execute and monitor the budget better, the authorities intend to undertake a number of PFM measures, such as preparing and submitting to parliament, next year's budget consistent with the targets under the proposed PRGF arrangement and using economic, functional, and administrative classifications, and to finalize and adopt a three-year action plan to improve public investment management (both structural performance criteria for December 2008). They will also prepare a medium-term expenditure framework (structural performance criterion for June 2009). To ensure the transparency and accountability of oil revenue, they will continue with quarterly certification of it by a reputable international auditor and lodge the proceeds in the Treasury within 45 days of oil sales (both continuous structural performance criteria).

Monetary and financial sector policies

24. **BEAC projects broad money growth for Congo of about 13 percent for 2009, consistent with the projected expansion of nominal growth in the non-oil sector.** Credit to the private sector should continue to increase strongly as private sector development speeds up and financial intermediation deepens. To facilitate implementation of monetary policy, the authorities intend to continue to reduce the stock of statutory advances, with a view to repaying them fully by the end of 2008, and to work closely with its CEMAC partners to develop the regional securities market.

25. **To initiate reforms, the government will adopt by the end of this year the financial sector strategy established in collaboration with Fund staff.** It is expected that this strategy will contribute to expand credit to the private sector, strengthen the legal framework, improve information on the cost of credit and credit history, diversify financial instruments, and ensure that the country's pension system is placed on a sound footing.

External sector policies

26. **The authorities have reaffirmed their commitment to finance development mainly through their own resources and to seek foreign financing only on highly**

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[9] Details on the authorities' policy response to food and fuel price inflation can be found in the *Staff Report for the First Assessment Under the Staff Monitored Program* (Country Report No. 08/173).

concessional terms (with a minimum grant element of not less than 50 percent). They also intend to accelerate efforts to regularize relations with all creditors, including non-London Club and litigating creditors. In the coming year a priority will be to complete implementation of a new debt management strategy in line with CEMAC regional guidelines. Over the next year, the government will continue to urge its CEMAC partners to liberalize regional trade by reducing the maximum external tariff; removing remaining exemptions, surcharges and export taxes; harmonizing the rules of origin; and otherwise facilitating trade.

Structural policies

27. **As well as continuing to strengthen PFM and initiate financial sector reform, the authorities intend to accelerate progress in rationalizing the oil sector.** The focus in the first year of the program will be to establish a new fuel pricing mechanism (structural performance criterion for March 2009), which would help phase out fuel subsidies by moving prices toward import parity and depoliticize pricing decisions; continue to implement the action plan to improve the operations and financial performance of CORAF; adopt a plan (with the assistance of Congo's development partners) to address institutional and procedural deficiencies in the commercialization of Congolese oil (structural performance criterion for March 2009); and prepare a strategic study on how the oil sector can make the greatest contribution to economic development.

B. Program Financing and Capacity to Repay the Fund

28. **Congo has not achieved debt sustainability, although because of rising oil production and exports it has the capacity to service external debt, including that owed the Fund (Table 8).** External public debt service (before debt relief) has recently declined significantly as a result of debt rescheduling with Paris and London Club creditors on favorable terms. The authorities are making a good faith effort to reach a collaborative agreement with other commercial and litigating creditors, on terms comparable to those of the London Club. Debt service is projected to decline to about 4.2 percent of exports in 2009 and to 1.9 percent over the medium term. Consequently, proposed access for the PRGF arrangement is low, amounting to SDR 8.46 million (10 percent of quota), to be disbursed in seven equal tranches (Table 9).

29. **At the end of September 2008 the Congo's credit outstanding to the Fund was SDR 23.58 million (27.87 percent of quota).** No principal payments are due to the Fund in 2008-09. With the proposed PRGF arrangement Congo's obligations will peak in 2014 at SDR 5.4 million, representing about 0.1 percent of exports.

30. **Financing assurances have now been received from external creditors, accounting for 80 percent of the total HIPC assistance.** Consequently, the authorities are now eligible to receive interim HIPC assistance from the Fund. This assistance would amount to SDR 77,000 and would be used to cover 98 percent of PRGF interest payments

falling due during a twelve-month period following Executive Board approval of the proposed PRGF arrangement.

31. **HIPC debt release would improve external debt indicators and facilitate the achievement of external sustainability**. Satisfactory progress on the PRGF arrangement is required, as is satisfactory implementation of the other floating completion point triggers for the enhanced HIPC Initiative, to secure debt relief.

C. Program Risks

32. **The authorities have expressed their firm commitment to the program and to enhancing governance and transparency over the use of public resources.** Nonetheless, there are risks on two fronts:

- Performance on previous programs was uneven mainly because of the lack of ownership, perhaps stemming from the narrow constituency for reform. The new political and technical apparatus that has been established should help to ensure broad-based support across ministries, departments, and agencies, but the potential for ownership to weaken cannot be ruled out.

- The presidential and senatorial elections looming next year will create spending pressures that could cause a lapse of fiscal discipline and could slow reform in politically sensitive areas (oil in particular).

V. Staff Appraisal

33. **Growth in the non-oil sector has been relatively buoyant in recent years, but it is narrowly based and not high enough to reduce poverty significantly.** Economic reform across the board, including fiscal consolidation, is needed to confront this challenge over the medium term if Congo is to make progress toward the MDGs.

34. **Recent developments should encourage the authorities to stay the course of economic reform.** Relatively high world oil prices, increased oil production, and relative political and social stability should give Congo momentum for accelerating growth and reducing poverty in the next few years. The satisfactory policy implementation during the SMP in the first half of 2008 is encouraging.

35. **To support reform momentum, the authorities must make concerted efforts to improve the business environment, reduce the cost of doing business, raise the quality of government services, and make more effective use of public resources.** This would lay a solid foundation for diversification of the economy and enhance the competitiveness of the non-oil sector, both of which are critical to promoting employment and reducing disparities in the distribution of income.

36. **The real effective exchange rate has appreciated recently, driven mainly by relatively high inflation compared with Congo's trading partners.** This has affected the performance of non-oil exports, but factors like weak institutions and inadequate infrastructure probably have had more effect. Staff's assessment is that Congo's envisaged fiscal consolidation will be important in reducing the overvaluation of the real effective exchange rate over time.

37. **The authorities' medium-term economic and financial program should provide a strong basis for moving forward.** Fiscal consolidation to achieve long-term sustainability would ensure inter-generational equity by preserving the country's oil wealth; it would encourage policy makers to prioritize spending programs and decisions, which in turn would enhance the quality of public spending. Timely and comprehensive implementation of the new PFM action plan would promote smooth execution and careful monitoring of the budget. To help widen the spending envelope, the authorities must make concerted efforts to mobilize more domestic non-oil revenue.

38. **The structural reform agenda is well designed to support broadening of the economic base, bolster Congo's competitiveness, growth prospects, as well as fiscal sustainability:**

- Simplification of business regulations and the application of OHADA business laws would improve the business climate.
- Trade liberalization on a wide front would enlarge Congo's potential market.
- Better financial intermediation would ensure that national savings are available for private sector development.
- Improved performance of state-owned enterprises would generate economic activity and remove a burden on the budget.
- Targeted interventions in key sectors could lead to further FDI.

39. **More transparent and better governance, particularly in the oil sector, would help achieve program objectives and improve Congo's prospects for broad-based growth and poverty reduction.** The authorities should again make special efforts to enhance the monitoring and reporting of oil resources, and address fraud and combat corruption over the use of public resources.

40. **Despite the recent improvements in the external sector, Congo is still at a high risk of debt distress.** Consequently, prudent debt management and debt relief is essential to achieve external sustainability. In this context, the authorities' intention to pursue fiscal consolidation and foreign borrowing only on highly concessional terms is welcome.

41. **Although challenging, the obstacles to growth and poverty reduction in the Congo are not insurmountable, but risks remain.** Weaknesses in ownership have led to uneven policy implementation in the past, and pressures to spend—especially with elections

looming—could prove difficult to resist in the period ahead. Nonetheless, recent performance provides encouraging signs of the authorities' commitment to widen the domestic constituency for reform, and to follow through on their program commitments.

42. Taking into consideration the strength of the authorities' program and the balance of risks, staff supports their request for a three-year PRGF arrangement in an amount equivalent to SDR 8.460 million, a first disbursement in an amount equivalent to SDR 1.209 million, and interim-HIPC assistance in an amount of SDR 77,000. Also, the staff supports completion of the financing assurances review.

43. Consistent with the practice for program countries, it is proposed that the next Article IV consultation with the Republic of Congo be held in accordance with the decision on consultation cycles approved on July 15, 2002.

Table 1. Republic of Congo: Selected Economic and Financial Indicators, 2006–11

	2006	2007	2008	2009	2010	2011
		Est.	Projection			
	(Annual percentage change)					
Production and prices						
GDP at constant prices	6.2	-1.6	7.6	12.7	12.3	1.3
Oil	6.8	-17.2	9.0	23.1	21.6	-10.2
Non-oil	5.9	6.6	7.0	8.5	8.0	7.4
GDP at current prices	25.9	-9.4	35.2	-5.1	27.1	0.1
GDP deflator	18.5	-7.9	25.6	-15.8	13.2	-1.2
Consumer prices (period average)	4.7	2.6	4.5	4.2	3.0	3.0
Consumer prices (end of period)	8.1	-1.7	6.0	3.0	3.0	3.0
External sector						
Exports, f.o.b. (CFA francs)	26.7	-13.3	34.7	0.9	35.2	-4.0
Imports, f.o.b. (CFA francs)	52.1	20.8	1.5	12.1	17.5	6.3
Export volume	7.8	-18.8	8.7	33.3	21.3	-9.8
Import volume	40.0	20.0	-10.1	12.5	13.8	4.1
Terms of trade (deterioration -)	0.8	0.6	13.7	-22.2	5.7	-2.4
Nominal effective exchange rate (end of period)	-0.4	5.1	...	...	...	...
Real effective exchange rate (end of period)	1.6	3.1	...	...	...	...
Money and credit	(Percent of beginning-of-period broad money)					
Net domestic assets	-80.3	-5.4	-139.7	-72.9	...	...
Domestic credit	-82.6	-3.2	-139.7	-72.9	...	...
Central government	-84.4	-3.9	-149.5	-78.8	...	...
Credit to the economy	1.9	1.1	9.9	6.0	...	...
Broad money	47.9	7.4	20.0	13.3	...	...
Velocity of broad money (Non-oil)	1.9	1.9	1.8	1.8	...	...
	(Percent of GDP)					
Investment and saving						
Gross national saving	24.5	0.1	10.6	28.9	35.0	33.7
Public	27.1	22.8	35.5	31.8	36.9	38.4
Private	-2.5	-22.7	-24.9	-2.9	-1.9	-4.7
Gross investment	22.9	26.2	20.8	27.7	24.1	25.0
Public	9.0	10.6	8.6	12.9	11.5	12.4
Private	13.9	15.6	12.1	14.8	12.6	12.6
Current account balance[3]	1.6	-26.1	0.6	1.2	10.9	8.7
External public debt (end of period)	81.5	72.9	51.9	54.7	43.3	44.6
	(Percent of non-oil GDP)					
Central government finances						
Revenue and grants	141.5	113.5	155.5	121.1	142.4	132.6
Oil revenue	120.6	92.3	133.2	97.0	116.4	103.9
Nonoil revenue and grants	20.9	21.2	22.3	24.1	26.0	28.7
Total expenditure	87.2	84.2	72.4	73.3	69.1	65.5
Current	58.5	56.3	45.1	39.1	34.4	31.5
Capital (and net lending)	28.7	27.9	27.4	34.2	34.7	34.0
Overall balance (deficit -, commitment basis)[1]	54.3	29.3	83.1	47.8	73.3	67.1
Primary balance (deficit -)[2]	68.6	36.6	90.1	56.9	79.5	70.5
Nonoil primary balance (- = deficit)	-51.3	-55.7	-43.2	-40.2	-36.9	-33.5
	(Percent of exports of goods and services)					
External public debt service (before debt relief)	13.7	10.7	4.5	4.2	3.0	1.9
External public debt	99.1	88.8	64.8	63.1	46.6	49.7
	(Percent of total government revenue excluding grants)					
External public debt service (before debt relief)	25.3	20.6	7.4	8.1	6.0	3.6
External public debt	183.9	170.8	106.8	121.2	93.3	93.5
	(Billions of CFA francs, unless otherwise indicated)					
Gross official foreign reserves	920.4	983.1	2,078.3	2,801.6	4,231.9	5,755.5
(Months of imports, f.o.b.)	10.6	9.3	19.4	23.4	30.1	38.5
(Percent of GDP)	22.8	26.8	42.0	59.6	70.8	96.2
Nominal GDP	4,042.6	3,664.4	4,952.7	4,701.8	5,976.5	5,984.1
World oil price (U.S. dollars per barrel)	64.3	71.1	99.8	68.0	75.0	79.3
Oil production (Millions of barrels)	98.7	81.7	89.0	109.6	133.2	119.6
Nominal effective exchange rate (end of period, percent change)	-0.4	5.1	...	...	...	...
Real effective exchange rate (end of period, percent change)	1.6	3.1	...	...	...	...

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

[1] Including grants.

[2] Primary revenue (excluding grants) minus non-interest current expenditure minus domestically financed capital expenditure and net lending.

[3] Including public transfers.

Table 2. Republic of Congo: Medium Term Balance of Payments, 2006–12
(Billions of CFA francs, unless otherwise indicated)

	2006	2007 Est.	2008 Projection	2009 Projection	2010 Projection	2011 Projection	2012 Projection
Current account	65	-958	28	56	650	521	630
Trade balance	2,125	1,486	2,420	2,299	3,363	3,056	2,726
Exports, f.o.b.	3,172	2,749	3,703	3,737	5,052	4,850	4,551
Oil sector	2,976	2,500	3,433	3,415	4,705	4,471	4,139
Non-oil sector	196	250	270	322	348	380	413
Imports, f.o.b.	-1,047	-1,264	-1,283	-1,438	-1,689	-1,795	-1,826
Oil sector	-338	-459	-399	-396	-507	-470	-397
Government	-220	-229	-265	-374	-437	-484	-515
Non-oil private sector	-489	-576	-618	-668	-744	-841	-913
Balance of services	-1,129	-1,590	-1,380	-1,422	-1,674	-1,622	-1,348
Income	-916	-835	-991	-820	-1,052	-934	-769
Labor income	-31	-33	-51	-50	-68	-64	-59
Investment income	-885	-802	-940	-770	-984	-869	-709
Current transfers (net)	-13	-19	-22	-1	13	20	21
Capital account	6	16	20	22	37	45	47
Official grants	5	15	20	22	37	45	47
Other	1	1	0	0	0	0	0
Financial account	-66	540	996	645	743	959	804
Direct investment (net)	522	1,007	1,174	1,054	1,126	1,065	1,030
Of which: oil sector	426	906	965	855	906	821	760
Portfolio investment	-1	-1	-1	0	0	0	0
Other investment	-587	-466	-178	-409	-383	-106	-226
Medium and long term	-477	-387	-220	-220	-216	-203	-196
Public sector	-300	-237	-118	-42	24	26	16
Drawings	2	1	10	114	123	128	132
Project	2	1	10	114	123	128	132
Program	0	0	0	0	0	0	0
Amortization	-302	-238	-128	-156	-99	-102	-115
Private sector	-177	-149	-102	-178	-240	-229	-213
Oil	-167	-140	-93	-167	-230	-219	-203
Non-oil	-10	-9	-9	-10	-9	-10	-10
Short term	-110	-79	42	-190	-167	97	-29
Errors and omissions	-350	136	50	0	0	0	0
Overall balance of payments	6	-266	1,093	722	1,431	1,525	1,481
Financing	-356	266	-1,093	-722	-1,430	-1,524	-1,481
Reserve financing	-522	-61	-1,093	-722	-1,430	-1,524	-1,481
IMF (net) [1]	4	0	1	2	1	-1	-3
Purchases / Disbursments	6	0	1	2	2	2	0
Repurchases / Repayments	-2	0	0	0	-1	-2	-3
Other reserves	-526	-61	-1,094	-723	-1,430	-1,524	-1,478
Exceptional financing[2]	166	327	0	0	0	0	0
Net change in arrears	28	-1,578	0	0	0	0	0
Debt cancellation	78	925	0	0	0	0	0
Debt rescheduling	61	981	0	0	0	0	0
Financing gap (- = surplus)	0	0	0	0	0	0	0
	(Annual percentage change, unless otherwise indicated)						
Memorandum items:							
Current account balance [3]	1.6	-26.1	0.6	1.2	10.9	8.7	10.6
Export volume	7.8	-18.8	8.7	33.3	21.3	-9.8	-9.6
Import volume	40.0	20.0	-10.1	12.5	13.8	4.1	0.4
Export price	17.5	6.7	23.9	-24.3	11.5	6.4	3.8
Import price	8.6	0.7	12.9	-0.4	3.2	2.1	1.4
Terms of trade	0.8	0.6	13.7	-22.2	5.7	-2.4	1.5

Sources: BEAC; and Fund staff estimates and projections.

[1] Includes assumed disbursements under the new PRGF.
[2] Includes debt relief from Paris Club and London Club.
[3] Percent of GDP; including public transfers.

Table 3a. Republic of Congo: Central Government Operations, 2006–11

	2006	2007	2008				2009	2010	2011
		Est.	Mar	Jun	Sep	Dec			
					Proj.	Prog.		Projection	
	(Billions of CFA francs)								
Revenue and grants	1,796	1,579	428	1,121	1,957	2,427	2,142	2,808	2,897
Primary Revenue	1,791	1,564	428	1,115	1,942	2,407	2,089	2,715	2,742
Oil revenue	1,531	1,284	343	931	1,691	2,079	1,716	2,296	2,271
Non-oil revenue	261	280	86	184	251	328	373	419	471
Investment income	... .	...	...	...	...	...	32	56	111
Grants	5	15	0	6	15	20	22	37	45
Expenditure and net lending	1,106	1,171	302	595	858	1,130	1,296	1,363	1,430
of which primary expenditure	916	1,055	281	555	791	1,026	1,102	1,147	1,202
Current expenditure	742	784	175	342	522	703	692	678	688
Wages	135	142	39	83	125	167	180	194	210
Other current expenditure	402	518	109	214	327	439	428	401	396
Material and supplies	85	135	38	78	126	170	181	197	212
Common charges	96	81	11	15	23	30	20	20	20
Budgetary reserves	0	0	0	0	5	15	14	20	20
Transfers	220	302	60	121	174	225	213	165	143
Refined petroleum products	18	26	7	9	20	25	20	10	0
National refinery (CORAF)	67	115	19	35	60	75	45	20	0
Other transfers	136	161	33	77	94	125	148	135	143
Local authorities	27	23	6	12	17	23	25	26	27
Interest	179	101	21	33	53	74	59	56	56
Domestic	29	17	2	4	5	7	0	1	0
External	150	84	19	29	47	67	59	56	55
Capital expenditure	360	388	127	252	336	427	604	685	743
Domestically financed	353	372	127	246	321	397	469	525	570
o.w. HIPC financed	... .	... ..	...	...	10	25	19	0	0
Externally financed	7	16	0	6	15	30	135	160	173
Net lending	5	0	0	0	0	0	0	0	0
Basic primary balance [1]	871	509	148	560	1,162	1,406	1,006	1,568	1,540
Of which: Basic non-oil primary balance	-651	-775	-195	-371	-530	-673	-710	-727	-731
Balance, commitment basis									
Excluding grants	685	393	127	520	1,084	1,277	824	1,409	1,422
Including grants	690	408	127	526	1,099	1,297	846	1,446	1,467
Of which: Non-oil balance	-831	-876	-216	-405	-592	-782	-870	-850	-804
Change in arrears	-76	-270	-37	-80	-95	-139	-125	-68	-26
External	12	-180	-23	-21	-21	-35	0	0	0
Domestic	-88	-90	-14	-59	-74	-104	-125	-68	-26
Balance, cash basis	614	138	90	447	1,004	1,158	721	1,377	1,441
Financing	-614	-138	-90	-447	-1,004	-1,158	-721	-1,377	-1,441
Foreign (net)	-165	-105	-5	-59	-71	-101	-42	24	26
Drawings	2	1	0	0	0	10	114	123	128
Amortization due	-302	-238	-13	-59	-71	-111	-156	-99	-102
Rescheduling obtained (arrears)	60	85	8	0	0	0	0	0	0
Debt cancellation (arrears)	75	48	0	0	0	0	0	0	0
Exceptional assistance	0	0	0	0	0	0	0	0	0
Domestic (net)	-449	-34	-85	-388	-933	-1,056	-679	-1,401	-1,467
Banking system (net)	-407	-23	-48	-347	-918	-1,068	-676	-1,397	-1,466
Nonbank financing	-42	-11	-37	-41	-15	12	-3	-4	-1
Financing gap (- = surplus)	0	0	0	0	0	0	0	0	0
Memorandum items:									
GDP at current market prices	4,043	3,664	4953	4953	4953	4,953	4702	5977	5984
Non-oil GDP at market prices	1,269	1,392	1561	1561	1561	1,561	1769	1972	2185
Pro poor spending	200	297	101	120	224	328	389	427	473

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

[1] Primary revenue (excluding investment income and grants) minus noninterest current expenditure minus domestically financed capital expenditure (excluding HIPC-finance capital expenditure) and net lending.

Table 3b. Republic of Congo: Central Government Operations, 2006–11

	2006	2007	2008				2009	2010	2011
		Est.	Mar	Jun	Sep	Dec	Projection		
	(Percent of non-oil GDP)								
Revenue and grants	141.5	113.5	27.4	71.8	125.4	155.5	121.1	142.4	132.6
Primary Revenue	141.1	112.4	27.4	71.4	124.4	154.2	118.1	137.7	125.5
Oil revenue	120.6	92.3	22.0	59.6	108.4	133.2	97.0	116.4	103.9
Non-oil revenue	20.5	20.1	5.5	11.8	16.1	21.0	21.1	21.2	21.6
Investment income	...	...	...	...	...	...	1.8	2.9	5.1
Grants	0.4	1.1	0.0	0.4	1.0	1.3	1.2	1.9	2.1
Expenditure and net lending	87.2	84.2	19.3	38.1	55.0	72.4	73.3	69.1	65.5
of which primary expenditure	72.2	75.8	18.0	35.6	50.7	65.8	62.3	58.1	55.0
Current expenditure	58.5	56.3	11.2	21.9	33.5	45.1	39.1	34.4	31.5
Wages	10.6	10.2	2.5	5.3	8.0	10.7	10.2	9.9	9.6
Other current expenditure	31.7	37.2	7.0	13.7	21.0	28.2	24.2	20.4	18.1
Material and supplies	6.7	9.7	2.4	5.0	8.1	10.9	10.2	10.0	9.7
Common charges	7.6	5.8	0.7	1.0	1.4	1.9	1.1	1.0	0.9
Budgetary reserves	0.0	0.0	0.0	0.0	0.3	1.0	0.8	1.0	0.9
Transfers	17.4	21.7	3.8	7.8	11.1	14.4	12.1	8.4	6.6
Refined petroleum products	1.4	1.9	0.5	0.6	1.3	1.6	1.1	0.5	0.0
National refinery (CORAF)	5.3	8.3	1.2	2.3	3.8	4.8	2.5	1.0	0.0
Other transfers	10.7	11.6	2.1	5.0	6.0	8.0	8.4	6.8	6.6
Local authorities	2.1	1.7	0.4	0.8	1.1	1.5	1.4	1.3	1.2
Interest	14.1	7.2	1.3	2.1	3.4	4.7	3.3	2.8	2.5
Domestic	2.3	1.2	0.1	0.2	0.4	0.5	0.0	0.0	0.0
External	11.8	6.0	1.2	1.9	3.0	4.3	3.3	2.8	2.5
Capital expenditure	28.4	27.9	8.1	16.2	21.5	27.4	34.2	34.7	34.0
Domestically financed	27.8	26.7	8.1	15.8	20.6	25.4	26.5	26.6	26.1
o.w. HIPC financed	0.0	0.0	0.0	0.0	0.6	1.6	1.1	0.0	0.0
Externally financed	0.5	1.1	0.0	0.4	1.0	1.9	7.7	8.1	7.9
Net lending	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Basic primary balance [1]	68.6	36.6	9.5	35.8	74.4	90.1	56.9	79.5	70.5
Of which: Basic non-oil primary balance	-51.3	-55.7	-12.5	-23.8	-33.9	-43.2	-40.2	-36.9	-33.5
Balance, commitment basis									
Excluding grants	54.0	28.2	8.1	33.3	69.4	81.8	46.6	71.4	65.1
Including grants	54.3	29.3	8.1	33.7	70.4	83.1	47.8	73.3	67.1
Of which: Non-oil balance	-65.5	-63.0	-13.8	-25.9	-38.0	-50.1	-49.2	-43.1	-36.8
Change in arrears	-5.9	-19.4	-2.4	-5.1	-6.1	-8.9	-7.1	-3.5	-1.2
External	0.9	-13.0	-1.5	-1.3	-1.3	-2.2	0.0	0.0	0.0
Domestic	-6.9	-6.4	-0.9	-3.8	-4.8	-6.7	-7.1	-3.5	-1.2
Balance, cash basis	48.4	9.9	5.8	28.6	64.3	74.2	40.7	69.8	66.0
Financing	-48.4	-9.9	-5.8	-28.6	-64.3	-74.2	-40.7	-69.8	-66.0
Foreign (net)	-13.0	-7.5	-0.3	-3.8	-4.6	-6.5	-2.4	1.2	1.2
Drawings	0.1	0.0	0.0	0.0	0.0	0.6	6.4	6.2	5.8
Amortization due	-23.8	-17.1	-0.9	-3.8	-4.6	-7.1	-8.8	-5.0	-4.7
Rescheduling obtained (arrears)	4.7	6.1	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Debt cancellation (arrears)	5.9	3.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional assistance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic (net)	-35.4	-2.4	-5.4	-24.9	-59.8	-67.7	-38.4	-71.1	-67.2
Banking system (net)	-32.1	-1.6	-3.1	-22.2	-58.8	-68.4	-38.2	-70.8	-67.1
Nonbank financing	-3.3	-0.8	-2.3	-2.6	-1.0	0.8	-0.2	-0.2	-0.1
Financing gap (- = surplus)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

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

[1] Primary revenue (excluding investment income and grants) minus noninterest current expenditure minus domestically financed capital expenditure (excluding HIPC-financed capital expenditure) and net lending.

Table 4. Republic of Congo: Quantitative Indicative Targets, Jan 1 - June 30, 2008
(Billions of CFA francs, unless otherewise indicated; cumulative from January)

	End-Mar. 08		End-Jun. 08	
	Benchmark	Actual	Benchmark	Actual
Quantitative targets				
Nonoil primary fiscal balance (floor)	-198.5	-194.8	-398.6	-371.2
New medium or long-term nonconcessional external debt (including leasing) contracted or guaranteed by the government (ceiling) [1, 2]	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) [2]	0.0	0.0	0.0	0.0
New nonconcessional external debt contracted by SNPC (ceiling) [2]	0.0	0.0	0.0	0.0
New external arrears on nonreschedulable debt [2]	0.0	0.0	0.0	10.1
New domestic arrears [2]	0.0	0.0	0.0	0.0
Memorandum items				
Oil revenue (in billions of CFA francs)	338.5	342.7	1,081.1	930.7
Non-oil revenue	77.0	85.7	153.9	184.0

[1] Excluding rescheduling arrangements and disbursements from the IMF; the minimum grant element is set to 50 percent.
[2] Continuous.

Table 5. Republic of Congo: Structural Benchmarks Under the SMP, January 1–June 30, 2008

Measures	Date	Status of Implementation
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	Not observed
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	Observed
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	Observed
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	Not observed
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	Not observed
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	Observed
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	Observed
No granting of new tax and customs exemptions (except those under international conventions).	Continuous	Observed
Centralization of all public revenues and execution of all public payments by the Treasury.	Continuous	Observed
No recourse to emergency payment and cash advance procedures, except in situations stated in the organic budget law.	Continuous	Observed
Provision to Fund staff information and projections concerning (i) the price structure of domestic petroleum products and (ii) the income statement and cash flow of CORAF.	Monthly, with a one-month lag	Not observed

Table 6. Republic of Congo: Monetary Survey, 2006–09

(Billions of CFA francs, unless otherwise indicated)

	2006	2007	2008	2009
		Est.	Projection	
Monetary survey				
Net foreign assets	1042.6	1128.0	2269.0	3008.5
Central bank	901.4	962.7	2056.1	2777.7
Deposit money banks	141.2	165.3	212.9	230.9
Net domestic assets	-377.6	-413.7	-1411.8	-2037.1
Net domestic credit	-355.6	-377.1	-1375.2	-2000.5
Net credit to the public sector	-449.4	-478.0	-1546.7	-2223.4
Net credit to the Government	-450.3	-476.4	-1544.4	-2220.1
Central bank	-446.7	-465.8	-1533.8	-2209.5
Claims	149.1	170.5	18.4	20.2
Staturory advances	131.4	153.9	0.0	0.0
Use of IMF credit	17.7	16.6	18.4	20.2
Deposits	595.8	636.3	1552.3	2229.7
Deposit money banks	-3.6	-10.6	-10.6	-10.6
Claims on public agencies, net	1.0	-1.6	-2.3	-3.3
Credit to the economy	93.7	100.9	171.5	223.0
Other items, net	-22.0	-36.6	-36.6	-36.6
Broad money	665.0	714.3	857.1	971.5
Currency outside banks	271.2	239.2	314.8	321.1
Demand deposits	310.8	384.1	433.1	526.6
Time deposits	82.9	91.0	109.2	123.8
	(Changes in percent of beginning-of-period broad money)			
Net foreign assets	128.2	12.8	159.7	86.3
Net domestic assets	-80.3	-5.4	-139.7	-72.9
Net domestic credit	-82.6	-3.2	-139.7	-72.9
Net credit to the government	-84.4	-3.9	-149.5	-78.8
Credit to the private sector	1.9	1.1	9.9	6.0
	(Annual percent changes, unless otherwise indicated)			
Broad money	47.9	7.4	20.0	13.3
Reserve money	36.5	-11.8	31.6	2.0
Memorandum items:				
Velocity				
Non-oil GDP/Average M2	1.9	2.0	1.9	2.0
Non-oil GDP/End period M2	1.9	1.9	1.8	1.8
	(Percent)			
Total GDP growth	25.9	-9.4	35.2	-5.1
Non-oil GDP growth	10.2	9.7	12.1	13.3
Credit to the private sector/Non-oil GDP	7.4	7.2	11.0	12.6

Source: BEAC; and Fund staff estimates and projections.

Table 7. Banking Sector Financial Soundness Indicators, 2004–07
(Percent, at year's end, unless otherwise indicated)

	2004	2005	2006	2007
Capital Adequacy				
Regulatory capital to risk-weighted assets	4	12	14	16
Percentage of banks greater or equal to 10 percent	25	75	100	75
Percentage of banks below 10 and above 6 percent	25	25	0	25
Percentage of banks below 6 percent minimum	50	0	0	0
Capital (net worth) to assets	3	4	4	4
Asset quality				
Nonperforming loans	7	3	2	3
Provision as percent of past-due loans	28	84	67	81
Earnings and profitability				
Net profit (before tax)/net income	8	23	42	...
Return on assets	1	3	3	...
Return on equity	13	33	76	...
Expense/income	71	58	73	...
Interest rate spread (deposit money banks)				
Lending rate minus demand deposit rates	9	11	12	...
Liquidity				
Liquid assets/total assets	39	64	61	72
Liquid assets/short term liabilities	164	273	294	338
Loan/deposits	57	34	27	26
Liquid assets/total deposits	42	68	71	85
Excess reserves/Broad money	16	18	11	16

Source: COBAC and Fund staff estimates.

Table 8. Republic of Congo: Indicators of Capacity to Repay the Fund, 2006-15 [1]

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
						Projections				
Fund obligations based on existing credit										
(Millions of SDRs)										
Principal	2.8	0.0	0.0	0.0	1.6	3.1	4.7	4.7	4.7	3.1
Charges and interest	0.4	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.3	0.3
Fund obligations based on existing and prospective credit										
(Millions of SDRs)										
Principal	2.8	0.0	0.0	0.0	1.6	3.1	4.7	4.7	5.1	4.0
Charges and interest	0.4	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.3
Total obligations based on existing and prospective credit										
Millions of SDRs	3.2	0.5	0.4	0.4	2.0	3.6	5.1	5.1	5.4	4.3
Billions of CFAF	2.5	0.4	0.3	0.3	1.4	2.4	3.5	3.5	3.7	2.9
Percent of government revenue	0.1	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Percent of exports of goods and services	0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1
Percent of debt service [2]	1.4	0.4	0.4	0.5	2.4	4.4	5.6	5.6	6.0	4.8
Percent of GDP	0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.0
Percent of quota	3.8	0.6	0.5	0.5	2.4	4.2	6.1	6.0	6.4	5.1
Outstanding Fund credit [2]										
Millions of SDRs	23.6	23.6	24.8	27.2	28.1	27.3	22.6	17.9	12.8	8.8
Billions of CFAF	18.1	17.3	17.1	18.6	19.2	18.6	15.4	12.2	8.7	6.0
Percent of government revenue	1.0	1.1	0.7	0.9	0.7	0.7	0.5	0.4	0.3	0.2
Percent of exports of goods and services	0.5	0.6	0.4	0.5	0.3	0.3	0.3	0.3	0.2	0.1
Percent of debt service [2]	10.1	17.1	23.0	31.6	34.2	33.6	24.7	19.6	14.1	9.8
Percent of GDP	0.4	0.5	0.3	0.4	0.3	0.3	0.3	0.2	0.1	0.1
Percent of quota	27.9	27.9	29.3	32.2	33.2	32.3	26.7	21.1	15.1	10.4
Net use of Fund credit (millions of SDRs)	5.1	0.0	1.2	2.4	0.8	-0.7	-4.7	-4.7	-5.1	-4.0
Disbursements	7.9	0.0	1.2	2.4	2.4	2.4	0.0	0.0	0.0	0.0
Repayments and Repurchases	2.8	0.0	0.0	0.0	1.6	3.1	4.7	4.7	5.1	4.0
Memorandum items:										
Nominal GDP (Billions of CFAF)	4,043	3,664	4,953	4,702	5,977	5,984	5,945	5,788	5,822	5,895
Exports of goods and services (Billions of CFAF)	3,402	3,007	3,967	4,076	5,552	5,368	5,085	4,646	4,464	4,331
Government revenue (Billions of CFAF)	1,791	1,564	2,407	2,121	2,771	2,852	2,838	2,832	2,856	2,858
Debt service (Billions of CFAF) [2]	179	101	74	59	56	56	62	62	62	61
CFAF/SDR (period average)	769	733	688	684	683	682	681	679	678	678

Sources: IMF staff estimates and projections.

[1] Assumes a new PRGF arrangement of SDR 8.46 million (10 percent of quota).

[2] Total debt service includes IMF repurchases and repayments.

Table 9: Republic of Congo: Proposed Access and Phasing Under
the Proposed 3-Year PRGF Arrangement (2008-11) [1]

Timing	Disbursement		Conditions
	Amount in SDRs	Percent of quota	
December 2008	1,208,570	1.43	Approval of the arrangement
April 2009	1,208,570	1.43	Completion of the first review (end-December 2008 test date)
October 2009	1,208,570	1.43	Completion of the second review (end-June 2009 test date)
April 2010	1,208,570	1.43	Completion of the third review (end-December 2009 test date)
October 2010	1,208,570	1.43	Completion of the fourth review (end-June 2010 test date)
April 2011	1,208,570	1.43	Completion of the fifth review (end-December 2010 test date)
June 2011	1,208,580	1.43	Completion of the sixth (final) review (end-March 2011 test date)[2]
Total	8,460,000	10.00	

[1]The Republic of Congo's quota is SDR 84.6 million.
[2]A test date of end-March 2011 is set to allow the final disbursement to take place before the end of the arrangement period.

Table 10. Republic of Congo: Millennium Development Goals, 1990–2015

	1990	1995	2000	2005	2007	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	...	11.8	...
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	54.0	...
7. Cohort reaching grade 5 (in percent)	60.0	...	66.0	...	73.0	...
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	90.0	...
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	7.0	...
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	126.0	[73.3]
14. Infant mortality rate (per 1,000 live births)	83.0	81.0	81.0	81.0	79.0	...
15. Immunization against measles (percent of children under 12 months)	75.0	38.0	34.0	56.0	66.0	...
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	...	740.0	...
17. Proportion of births attended by skilled health personnel (% of total)	...	...	...	86.0	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	2.3	...
19. Contraceptive prevalence rate (percent of women ages 15-49)	...	...	...	44.0	36.0	...
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	403.0	...
24. Tuberculosis cases detected under DOTS (in percent)	...	67.0	87.0	57.0	51.0	...

Table 10. Republic of Congo: Millennium Development Goals, 1990–2015 (concluded)

	1990	1995	2000	2005	2007	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	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	71.0	...
Target 11: Achieve by 2020 significant improvement for at least 100 million slum dwellers.						
31. Access to improved sanitation (percent of population)	...	...	...	27.0	20.0	...
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 100 people)	…	…	2.9	…	35.8	...
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—LETTER OF INTENT

Brazzaville, November 19, 2008

The Minister of Economy,
Finance and Budget

To:

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

Dear Mr. Managing Director:

The Republic of Congo is pursuing a medium-term economic and financial program aimed at accelerating growth, alleviating poverty, and achieving external debt sustainability, in particular, through debt relief under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative.

In support of this program, the government of the Republic of Congo hereby requests a three-year arrangement covering the period 2008-11 under the Poverty Reduction and Growth Facility (PRGF), with access equivalent to SDR 8.46 million (10 percent of quota). A disbursement equivalent to SDR 1.21 million would be available upon Executive Board approval of this arrangement. Also, we are requesting interim-HIPC assistance from the Fund, which Congo is eligible to receive having reached the decision point in March 2006, and since financing assurances from external creditors accounting for 80 percent of the total HIPC assistance have now been received. This assistance, in the amount of SDR 77,000, will be used to cover 98 percent of PRGF interest payments falling due during a twelve-month period from the time the Executive Board approves our proposed program.

In support of our request for a new arrangement, we observed the prior action on raising fuel prices, which we undertook on October 1, 2008. Disbursements during the first year of the program will be linked to program reviews based on biannual quantitative performance criteria for end-December 2008 and end-June 2009 (Table 1). Also, our structural reform efforts will be supported by the performance criteria and benchmarks outlined in Table 2 of the MEFP.

We believe that the policies and measures set forth in the attached MEFP are adequate to achieve the objectives of the program. During the implementation of the arrangement, we will consult with Fund staff on the adoption of any measures that may be appropriate and on any revisions to the policies contained in the MEFP, at the initiative of the government or whenever the Fund staff requests such a consultation.

The government intends to make the contents of this letter and those of the attached MEFP, as well as the staff report accompanying its request for a three-year PRGF arrangement, available to the public and authorizes the Fund to arrange for them to be posted on the Fund’s website, subsequent to Executive Board approval of its request.

We can assure you, Mr. Managing Director that the government of the Republic of Congo is determined to fully implement the program supported by the PRGF arrangement, and to move to the completion point under the enhanced HIPC Initiative as soon as possible.

Sincerely yours,

/s/

Pacifique Issoïbeka
Minister of Economy, Finance, and Budget

Attachment: Memorandum of Economic and Financial Policies, 2008-11

Appendix I—Attachment I

Memorandum of Economic and Financial Policies, 2008–11

Brazzaville, November 19, 2008

I. Introduction

1. During the first semester of this year, we implemented a Staff-Monitored Program (SMP), as a means of demonstrating our commitment and capacity to pursue an economic and financial program that could be supported by financial resources from the Fund. This SMP has led to an improvement in public finances, strengthened governance and transparency over the use of public resources, and supported progress toward implementing the floating completion point triggers under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative.

2. Under the proposed PRGF arrangement, we intend to continue to implement the medium-term economic and financial strategy that was outlined in the SMP. This medium-term strategy, which is aligned with the government's Poverty Reduction Strategy (PRS) that was adopted in May 2008, aims at supporting continued robust growth in the non-oil sector, low inflation, and gradual fiscal consolidation to preserve the nation's oil wealth, enhanced public financial management, financial sector development, and reforms in the oil sector.

II. Recent Economic Developments

3. Macroeconomic performance has been generally strong during the past several years, although overall economic growth has been affected by disruptions in oil production. Per capita income has increased and we have made progress toward achieving the Millennium Development Goals; however, higher output and employment will be needed in the period ahead to reduce poverty durably.

- An accident at the Nkossa oil platform led to a decline in overall real GDP last year, but we expect growth to reach 7.6 percent this year. Economic activity in the non-oil sector continues to be strong, which is being supported by the recovery in oil production, and growth in the telecommunication, construction, and transport sectors.

- Inflation has picked up recently, mainly reflecting high food and energy prices. In the twelve months through June 2008, consumer prices rose by 5.7 percent and the expectation is for a further small rise in prices through the rest of this year, before moderating in 2009.

- Supported by favorable world oil prices, debt rescheduling under the Paris Club and debt relief from most London Club creditors in the context of the enhanced HIPC Initiative, our external position has strengthened considerably. We project a current account surplus of about 0.6 percent of GDP in 2008, compared with a deficit of nearly 26 percent of GDP last year, and the outstanding stock of external public debt should decline to about 52 percent of GDP, compared with 81½ percent two years earlier. Regrettably, we have accumulated external arrears with some Paris Club creditors (about CFAF 10 billion). This has arisen because we have been servicing our external debt according to the 2004 rescheduling, which was not fully implemented as our previous PRGF arrangement went off track. We are in contact with these creditors and will address these arrears ahead of our request for a new PRGF arrangement. We are continuing to negotiate with litigating creditors with the intention of reaching a settlement soon, and we are cognizant of the need for comparability of treatment with other creditors. Also, in the context of the June 2006 framework agreement, we are discussing with the Chinese authorities the prospects for concessional financing (grant element of 52.7 percent, according to Fund staff estimates), amounting to about US$ 1 billion to accelerate infrastructure investment.

- Relatively high world oil prices, together with expenditure discipline and strong non-oil tax collections, has led to an improvement in the fiscal position. Fiscal developments through June 2008 suggest that we are on track to achieve the targeted reduction in the non-oil basic primary balance, bringing it to about 43 percent of non-oil GDP this year.

4. Recently, we have made progress in structural reform, particularly in the areas of public financial management and addressing problems in the oil sector. With the help of our development partners, we adopted and began implementing a public financial management action plan, in February 2008 we became a candidate country to the Extractive Industries Transparency Initiative (EITI) and we are working toward completing the first EITI report before the end of this year, and we completed the requirements to disburse interim HIPC assistance resources. We have nearly completed the necessary measures to better control and manage public investment, including an audit of past investments, the creation of an inter-ministerial committee and an advisory body (with membership of Fund and World Bank staff) to provide guidance and project appraisal, and we prepared a draft three-year action plan, which should be finalized by the end of this year. In the oil sector, we have begun to implement an action plan to improve the operating and financial performance of the state-owned oil refinery, CORAF, prepared a draft strategy to address institutional and procedural deficiencies in the commercialization of Congolese oil by SNPC, and continued to certify oil revenue, to safeguard our oil resources.

III. Medium-Term Objectives and Policy Framework

5. The PRS provides the foundation for the government's medium-term policy framework. The PRS seeks to diversify the economy and reduce our dependency on oil, enhance governance and transparency in the use of public resources, build human and physical capital to raise potential output growth, and consolidate macroeconomic stability.

6. To support these objectives, economic policies over the medium term will be set to:

- Achieve more robust growth in the non-oil sector—about 8 percent per year—to lift per capita income and generate employment, especially in rural areas, where poverty is high. In this regard, rebuilding the country's infrastructure is critical and we place high priority on investment projects in transportation (railway, roads, and ports), energy and water, agriculture, and the social sector (schools, hospitals).

- Maintain low and stable inflation of about 3 percent per year, in line with the CEMAC convergence criterion, which should help preserve Congo's international competitiveness under the fixed exchange rate regime.

- Consolidate the fiscal position to preserve the nation's oil wealth. In this context, the fiscal adjustment will be kept consistent with long-term fiscal sustainability, based on an annual decline in the non-oil basic primary deficit of about 3-4 percent of non-oil GDP per year. To reduce this deficit from the projected 43.2 percent of non-oil GDP in 2008 to 33½ percent in 2011, we will continue to maintain tight control of spending, while ensuring sufficient resources to support growth-enhancing and poverty reducing social policies and much needed infrastructure investment; further improve public financial management; continue to enhance tax and customs administration.

- Secure external sustainability through prudent debt management, including pursuing grant financing and limiting borrowing to only highly concessional loans, and achieving HIPC debt relief.

- Regularize relations with domestic creditors by continuing to implement the plan to clear domestic arrears, which will enhance the credibility of fiscal policy.

- Ensure that our finite oil resources contribute fully to the development of our economy. In this regard, we intend to develop a sector strategy (with the assistance of our development partners) and rationalize the operations of the state-owned enterprises in this area.

- Develop the financial sector, since financial deepening and more efficient intermediation are needed for the private sector to flourish.

IV. The Program for 2008-09

7. The short-term economic outlook continues to appear favorable, with relatively high world oil prices, the full resumption of oil production from the Nkossa field, and the start of production in the new Moho Bilondo field. The recovery of oil production will help generate economic activity in the non-oil sector, and, combined with increased public investment and strong domestic demand, should help to lift overall real GDP growth to 7.6 percent this year and to nearly 13 percent in 2009. Although inflation is likely to remain relatively high this year, at about 4½ percent on average, it should moderate somewhat in 2009 as the impact of recent high food and energy costs dissipate. To support our broad macroeconomic objectives, the fiscal stance will remain firm and the regional monetary authority will target the growth of the money aggregates in line with the expansion of non-oil GDP. Structural policies will aim at continuing to strengthen public financial management, enhance governance and transparency over the use of public resources, and financial and oil sector reforms. At the same time, we intend to make a concerted effort to implement the triggers under the enhanced HIPC Initiative.

A. Fiscal Policy

8. Fiscal policy will continue to be an important instrument for implementing the economic policy framework defined in the PRS, and in preserving the country's oil wealth. It will be supported by the implementation of the public financial management action plan as well as of the action plan to improve public investment management (see below). In this regard, we have maintained the broad fiscal targets established under the Staff-Monitored Program for 2008, including a reduction in the non-oil basic primary balance to about 43.2 percent of non-oil GDP, from 55¾ percent last year. In response to the rise in food and energy prices earlier this year and to take account of higher-than-initially projected oil and non-oil revenue, we have adopted a supplementary budget for this year─consistent with achieving the envisaged fiscal consolidation─which includes a temporary reduction of value-added taxes and tariffs on some food stuffs and other staples consumed predominately by the poor, and additional spending on agriculture, transportation, and generic drugs. The supplementary budget also includes CFAF 25 billion (about 1.6 percent of non-oil GDP) in capital spending financed from interim HIPC assistance resources. These resources can be utilized now that the conditions for their use have been fully met. Also, from now on, the budget will bear the full cost of oil subsidies (estimated at CFAF 75 billion this year).

9. For 2009, the budget will target a further reduction of the non-oil basic primary balance to about 40¼ percent of non-oil GDP. This adjustment would be achieved through a modest (nominal) cut in expenditures and higher non-oil revenue. On the spending side, we envisage lower outlays on goods and services, and fuel subsidies owing to the envisaged increase in prices (see below), while allowing for an increase in pro-poor spending (in health and education), and higher domestically-financed public investment (including through the

use of interim HIPC assistance resources). Domestically-financed investment is projected to rise from 25.4 percent of non-oil GDP in 2008 to 26½ percent next year, reflecting the urgent need to rehabilitate the economic infrastructure and the putting in place of the necessary measures to ensure effective use of these resources. We expect to finalize and adopt the three-year public investment management action plan being prepared with assistance from our development partners, by end-December of this year (structural performance criterion).

10. On the revenue side, we anticipate higher oil production but lower world oil prices, which will lead to a decline in oil revenue to about 97 percent of non-oil GDP in 2009 (from 133 percent of non-oil GDP this year) At the same time, ongoing tax and custom administration reform should more than offset the full-year impact of the recent tax and tariff reductions to alleviate the adverse impact of higher food prices, resulting in a slight increase in the non-oil revenue ratio to about 21.1 percent of non-oil GDP next year. To support the monitoring of oil revenue, the program will include a continuous structural performance criterion requiring the repatriation of the proceeds by the Treasury of oil shipments commercialized by private oil companies and SNPC, within 45 days of their lifting (according to the actual schedule of quantities and prices). Also, we will continue to certify oil revenue on a quarterly basis through a reputable international auditor and post the results of these audits and reply to any questions the auditor raises, on the government's website (continuous structural performance criterion).

11. An important policy measure to free up budgetary resources for high priority programs is our intention to adopt by end-March 2009 a new petroleum-product pricing regime that will ensure fuel price subsidies are phased out by mid-2011 (structural performance criterion). This new regime will ensure that prices are adjusted at regular intervals, and will be free from political intervention. To prepare the public for this change in policy, we adjusted fuel prices across-the-board on October 1, 2008 by an average of 13 percent (a prior action for Executive Board consideration of our request for a new three-year PRGF arrangement). These price increases should lead to a decline in subsidies to no more than CFAF 75 billion this year (about 4.8 percent of non-oil GDP). The full-year impact of these price increases should bring subsidies down to CFAF 45 billion, or 2.5 percent of non-oil GDP next year.

B. Public Financial Management and Revenue Mobilization

12. We will continue our efforts to strengthen public financial management (PFM) through the implementation of the recently adopted PFM action plan. This action plan involves reforms to procedures, monitoring, reporting, training, and computerization. Several important aspects of the plan include: improvements in expenditure control through the consolidation of government's bank accounts into a single Treasury account with the central bank; the preparation and submission to parliament a 2009 budget consistent with the targets under the proposed PRGF arrangement, using economic, functional and administrative

classifications (structural performance criterion); the preparation of a medium-term expenditure framework in consultation with development partners (structural performance criterion); the simplification of the expenditure chain; and a unified payroll file for the civil service. To maintain tight control over spending, the government will continue to prohibit the recourse to emergency payment and cash advance procedures, except in situations called for in the organic budget law. With assistance from the World Bank, we are reforming the procurement code and will continue to publish on the government's website all invitations to bid and the bids themselves for contracts above CFAF 200 million. And as noted above, we are also making a concerted effort to strengthen public investment management.

13. To increase non-oil revenue, the government is pursuing a number of measures to improve tax and customs administration. These measures involve better monitoring through the use of a single-taxpayer identification number, computerization, the use of the ASYCUDA software for customs, extending the tax services to the regions, and reducing tax exemptions and refraining from new exemptions (except where permitted under international treaties).

C. Monetary and Financial Sector Policies

14. Monetary policy is conducted at the regional level by BEAC, in a manner consistent with the fixed exchange rate regime, and keeping inflation low. Net foreign assets are expected to increase significantly, primarily due to high oil production, and broad money is expected to expand by about 13 percent next year, in line with the nominal growth of the non-oil sector. To facilitate the implementation of monetary policy, the government has steadily reduced the amount of statutory advances from the central bank, and should repay them in full by year's end. In the period ahead, it will work with the central bank and its CEMAC partners to develop the regional securities market, in an effort to improve the efficacy of monetary policy.

15. We are also committed to strengthen the financial sector and deepen financial intermediation. In this context, by the end of this year, we will adopt the financial sector strategy established in collaboration with Fund staff, and that has benefited from input from regional institutions (COBAC, BEAC, CIMA and CIPRES). This strategy aims to: (i) create conditions for an expansion of private sector credit; (ii) strengthen the legal framework; (iii) improve the information on the cost of credit and default; (iv) diversify the financial instruments; (v) reform the pension funds based on the results of recent audits; and (vi) implement the recommendations of the audit of the insurance sector and of ARC. In this context, we intend to finalize the corporate financial statement registry and the central credit bureau by early next year.

16. Earlier, we undertook to reform the payment system and put in place the electronic transfer of balances between banks. We will strengthen the supervisory mechanisms of the microfinance institutions in cooperation with COBAC. Finally, the accounting framework

and the software that will allow the supervision of microfinance institutions by the COBAC are expected to be in place during 2009.

D. External Sector Policies

17. The program places important emphasis on trade liberalization as a means to improve Congo's international competitiveness, increase market size, and integrate it further in the regional and global market. In this context, the government will continue to encourage its CEMAC partners to reduce the maximum tariff rate under the common external tariff (to 20 percent), remove the remaining exemptions, surcharges and export taxes, harmonize rules of origin, and enhance trade facilitation.

18. The government will hold to the position that development should be financed mainly with its own resources, and it will seek grants and assistance only on highly concessional terms (with a minimum grant element of 50 percent). It will continue to use its best efforts to obtain comparable treatment from suppliers, non-London Club creditors, and litigating creditors. Likewise, we will seek to complete negotiations with the last remaining Paris Club creditor as soon as possible. Finally, we will continue to enhance our debt management capacity and will implement a new strategy, in line with CEMAC guidelines.

E. Oil Sector Reform

19. The government places high priority to ensuring the oil sector makes a positive long-term contribution to Congo's economic development. In this regard, we will undertake a strategic study of the sector─assisted by our development partners─which we expect to finalize in mid-2009. Among other things, this study will make a critical assessment of the institutions and enterprises operating in the sector.

20. Notwithstanding this study, the government will continue to take efforts to improve the operating and financial performance of the national oil refinery (CORAF) and improve the returns from the commercialization of government oil (through SNPC); these remain important aspects of the governance agenda. In the coming months, the government will implement the action plan adopted earlier this year to reform CORAF; as for the commercialization of Congolese oil, the government will refine the draft strategy presented to development partners earlier this year, with a view to putting in place a comprehensive action plan with a timetable to address institutional and procedural deficiencies in this activity, to bring them in line with best international practice by end-March 2009 (structural performance criterion). International best practice would imply prices, marketing mechanisms, and fees that are comparable to those in other small oil-producing countries.

F. Program Monitoring for 2008-09

21. The first year of the program will be monitored through reviews based on biannual quantitative performance criteria for end-December 2008 and end-June 2009 (Table 1) and structural performance criteria and benchmarks (Table 2). Detailed definitions and reporting requirements for all quantitative performance criteria and structural conditions are contained in the accompanying Technical Memorandum of Understanding (TMU). 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.

22. The government's request for a three-year PRGF arrangement was made conditional upon the satisfactory implementation of one prior action. This prior action (Table 2) related to across-the-board increases in fuel prices by an average of 13 percent, leading to a projected decline in subsidies to no more than CFAF 75 billion in 2008. The required price adjustments were implemented on October 1, 2008.

23. The first review under the PRGF arrangement is expected to be completed by April 30, 2009, with the second review by October 31, 2009.

Table 1. Republic of Congo: Quantitative Targets, 2008-09
(Billions of CFA francs, unless otherewise indicated; cumulative from January)

	End-Dec. 08	End-Mar. 09	End-Jun. 09	End-Sep. 09	End-Dec. 09
	Perf. Criteria	Indicative Target	Perf. Criteria	Indicative Target	Indicative Target
Quantitative targets					
Nonoil primary fiscal balance (floor)	-673	-211	-412	-560	-710
New medium or long-term nonconcessional external debt (including leasing) contracted or guaranteed by the government (ceiling) [1, 2]	0.0	0.0	0.0	0.0	0.0
New external debt (including leasing) with an original maturity of less than one year (ceiling) [2]	0.0	0.0	0.0	0.0	0.0
New oil-collateralized external debt contracted by or on behalf of the central government (ceiling) [2]	0.0	0.0	0.0	0.0	0.0
New nonconcessional external debt with a maturity of more than 1 year contracted or guaranteed by SNPC (ceiling) [2]	0.0	0.0	0.0	0.0	0.0
New external arrears on nonreschedulable debt [2]	0.0	0.0	0.0	0.0	0.0
New domestic arrears [2]	0.0	0.0	0.0	0.0	0.0
Memorandum items					
Oil revenue	2,079	402	820	1,259	1,716
Non-oil primary revenue	328	93	186	280	373

[1] Excluding rescheduling arrangements and disbursements from the IMF; the minimum grant element is set to 50 percent.
[2] Continuous.

Table 2. Prior Action, Structural Performance Criteria, and Benchmarks Under the PRGF Arrangement, 2008-09

Measures	Timing
Prior action	
Increase domestic petroleum prices across all products, by an average of 13 percent, which should lead to a decline in subsidies to no more than CFAF 75 billion in 2008.	Observed
Performance Criteria	
Prepare the 2009 budget consistent with the PRGF program, and using the economic, functional, and administrative classifications.	End- Dec. 2008
Finalize and adopt the three-year action plan to improve public investment management prepared with assistance from the IMF, World Bank, and the French Cooperation; and publish the plan on the government website.	End-Dec. 2008
Adopt a new petroleum-pricing regime that will ensure fuel price subsidies are phased out by mid-2011.	End-Mar. 2009
Adopt a comprehensive action plan with a timetable to address institutional and procedural deficiencies in the commercialization of Congolese oil, in line with best international practice.	End-Mar. 2009
Prepare a medium-term expenditure framework (in consultation with development partners) consistent with the Poverty Reduction Strategy (PRS).	June 2009
Quarterly certification of oil revenue by an internationally reputable 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). Also, the government will post the audit report on the website, and for each report, a note addressing the comments by the auditors.	Continuous, with a one-quarter lag
Repatriation of the oil proceeds (to the Treasury) of oil shipments commercialized by private companies and SNPC on behalf of the government within 45 days after the actual shipment date (according to actual quantities, prices, and shipment dates).	Continuous
Benchmarks	
Adoption by the government of the financial sector strategy developed in consultation with Fund staff.	Dec. 2008
Finalize the strategic study of the oil sector—assisted by Congo's development partners—which will include a critical assessment of the institutions and enterprises, including CORAF.	End-June 2009
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 recourse to emergency payment and cash advance procedures, except in situations stated in the organic budget law.	Continuous

Appendix I—Attachment II

Technical Memorandum of Understanding

Brazzaville, November 19, 2008

1. This technical memorandum of understanding (TMU) describes the definitions that are intended to clarify the measurement of the quantitative performance criteria and indicators in Table 1 of the Memorandum of Economic and Financial Policies (MEFP) covering 2008-11, attached to the Letter of Intent. For end-December 2008, all quantitative performance criteria and indicators will be evaluated in terms of cumulative flows from December 31, 2007; after this period, all quantitative performance criteria and indicators will be evaluated in terms of cumulative flows from December 31, 2008. Also, the TMU specifies the periodicity and deadlines for transmission of data to the staff of the IMF for program monitoring purposes.

I. Definitions and Computation

A. Government

2. Unless otherwise indicated, g**overnment** is defined as the central government of the Republic of Congo and does not include local governments, the central bank, and any public entity with autonomous legal personality (i.e., wholly- or partially-owned state enterprises) not currently covered by the government's consolidated financial operations table (tableau des opérations financières de l'Etat—TOFE).

B. Basic Primary Fiscal Balance

3. The scope of the government's **financial 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).

4. The government's **non-oil basic primary fiscal balance** is defined as total non-oil revenue excluding grants, minus total expenditure (including net credit), which is to exclude interest payments on debt, foreign-financed capital expenditure, and expenditure financed by interim assistance under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative. It is calculated from the budget execution outturn reported every month in the TOFE prepared by the Ministry in charge of finance.

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

6. **Oil revenue** is defined as the government's net proceeds from the sale of oil, including the provision for diversified investments, royalties paid by oil companies, and the government's share of excess and profit oil. It excludes all forms of prepayment and prefinancing. The oil revenue projections take account of the 45 day lag between the date of shipment and the date of receipt of the sale proceeds by the Treasury.

7. **Expenditures** are recorded on a payment order basis**.** They include current expenditure, domestically-financed capital expenditure, foreign-financed capital expenditure, and net lending. Current expenditures include expenditures on wages, goods and services, common charges, interests on debt (domestic and external), transfers and subsidies, and other current expenditures. Subsidies to the state-owned oil refinery, CORAF, are estimated on the basis of the enterprises income statement.

C. Foreign Debt and External Arrears

8. The definition of **government** used for the various external debt indicators includes government, as defined in paragraph 2, public institutions of an administrative nature (*Etablissements Publics Administratifs*), public institutions of a scientific and/or technical nature, public institutions of a professional nature, public institutions of an industrial and/or commercial nature (*Entreprises Publiques d'Intérêt Commercial*), and local governments, with the sole exception of the national oil company (SNPC)—see paragraph 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, debt will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows: (i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. The debt is the present value (at the inception of the lease) of all lease payments 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.

- The concessionality requirement applies not only to the central government, but also covers debt incurred by public enterprises.

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

11. For **external debt with an initial maturity of less than one year (**a continuous quantitative performance criterion)**,** 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 external debt with a maturity of more than one year contracted 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 a Brazzaville headquarters, creation and strengthening of its database, etc.). In addition, these investments must be included in the SNPC's investment budget approved by its board of directors. The ceiling on debt does not apply to changes in loan accounts with oilfield partners or to loans with maturities of less than one year.

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 penalty and/or late interest, as appropriate) and (ii) the amount actually paid during the period under consideration. Under the program, the government commits itself to not accumulate external payment arrears on 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 External Debt and Oil Prepayments

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

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

E. Payment Arrears and Domestic Debt

16. Domestic payment arrears of the government are equivalent to the difference over the period under review between the amount of payments authorized and the actual payments made (within 90 days).

II. Information for Program Monitoring

17. The government will submit the following information to the staff of the IMF through its Resident Representative, and within the time period specified below.

A. Oil Sector

18. 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;
- a breakdown of oil prices;
- a monthly detailed list of shipments commercialized by SNPC on behalf of the government, including information on the type of product, the date of loading, the recipient, the number of barrels and the selling price (in US dollars and CFAF) as well as the date of receipt of the sale proceeds by the Treasury; and
- actual and projected quarterly data to determine the required subsidies in the fuel sector, including prices, quantities, and costs.

B. Government Finance

19. 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 non-tax 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 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 poverty reduction strategy paper—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.

C. Monetary Sector

20. 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.

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

D. Balance of Payments

22. 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

23. 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

24. 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

25. 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 AND
INTERNATIONAL DEVELOPMENT ASSOCIATION

REPUBLIC OF CONGO

Joint IMF and World Bank Debt Sustainability Analysis

Prepared by staffs of the International Monetary Fund and
the International Development Association

Approved by Sharmini Coorey and David Marston (IMF)
and Carlos Braga and Sudhir Shetty (World Bank)

November 19, 2008

Based on the joint IMF-World Bank Debt Sustainability Framework for Low-Income Countries, Congo's gross external debt is assessed at high risk of distress.[1] *Owing mainly to the debt relief from London Club creditors in November 2007, Congo's debt ratios have improved significantly over the past year. Debt ratios are projected to decline further over the long term, reflecting buoyant oil revenue and continued fiscal consolidation. However, an alternative scenario demonstrates that Congo is vulnerable to movements in oil prices; consequently, pursuing a prudent fiscal stance is critical to achieving debt sustainability.*

VI. INTRODUCTION

1. The previous DSA was carried out during the 2007 Article IV consultation, based on the outstanding stock of debt at end-June 2006.[2] The analysis concluded that, under the long-term scenario that assumes the continuation of policies prevailing in 2006, the risk of debt distress in Congo was high, even after accounting for the full unconditional delivery of HIPC and MDRI assistance.

2. **Congo's net public debt has declined significantly during the past several years.**[3] Three developments have contributed to this decline: (i) debt restructuring from the Paris

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[1] This takes into account the classification of Congo as a weak performer, with an average CPIA rating for the past three years of 2.74.

[2] This analysis can be found in Appendix I of Country Report No. 07/205.

[3] Public debt includes central government debt only. Net debt is defined as external and domestic debt less liquid financial assets. Liquid financial assets are government deposits at the central bank, which, apart from the funds in the operations account, are allocated into one of three accounts to help manage the large oil savings: (i)

(continued…)

Club; (ii) debt relief from London Club commercial creditors in 2007, which significantly lowered the stock of external arrears; and (iii) favorable world oil prices, which strengthened the external position and public finances.[4]

3. **In 2007, total external debt is estimated at US$ 6.3 billion or 73 percent of GDP (down from 255 percent in 2004) and its net present value is slightly above US$ 5 billion (Table 1).** The bulk of this debt is owed to bilateral official creditors and commercial creditors, whose shares represent 65 and 27 percent of outstanding debt, respectively; multilateral creditors only account for 8 percent. More than two thirds of domestic payment arrears (which accounted for about 99 percent of the total domestic debt) were repaid over the last two years. At end-2007, domestic debt stood at 8 percent of GDP.

Table 1. Republic of Congo: Net Present Value of Disbursed Debt Outstanding, 2007-13
(Millions of U.S. dollars)

	2007	2008	2009	2010	2011	2012	2013
	Actual	Projected					
Total	5282.6	5090.4	4841.8	4718.3	4580.4	4385.5	4183.7
Multilateral	323.4	317.2	311.1	300.0	282.5	260.8	239.3
IDA	162.3	166.6	171.0	174.0	174.7	174.4	173.3
IMF	33.4	34.4	35.4	33.9	29.9	23.2	16.2
Others	127.6	116.2	104.7	92.0	77.9	63.1	49.9
Official bilateral	3213.3	3059.2	2902.1	2878.3	2849.9	2780.9	2711.6
Paris Club	2896.9	2740.7	2597.9	2592.7	2592.4	2552.3	2513.1
Non-Paris Club	316.4	318.5	304.2	285.7	257.5	228.6	198.5
Commercial	1745.9	1714.1	1628.6	1540.0	1447.9	1343.8	1232.8

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

4. **Since the previous DSA, there have been important developments on Congo's creditor relations.** The authorities concluded agreements with the London Club and all but one of its bilateral Paris Club creditors, and are negotiating in good faith with the remaining commercial and litigating creditors. The authorities have reportedly paid the equivalent of 5.2 percent of non-oil GDP to the litigating creditors to keep the discussions moving forward.

short-term deposits (1-month minimum maturity), (ii) stabilization account (6-month minimum maturity), and (iii) a fund for future generations (5-year minimum maturity).

[4] The agreement involved the swap of US$2.1 billion in outstanding commercial debt and arrears of US$0.5 billion in new Eurobonds maturing in 2029, implying relief of over US$1.6 billion. The participation rate was over 92 percent. The agreement was broadly consistent with the enhanced HIPC Initiative.

The authorities are cognizant of the need for comparability of treatment of creditors; and for reaching agreements that are—to the extent possible—fair to all of them.

5. **The authorities are making significant progress in strengthening debt management.** Although not regularly, Congo is already publishing quarterly debt service projections on the government's website and is preparing a new external debt management strategy, in line with CEMAC regional guidelines. The strategy will benefit from technical assistance, such as the debt management performance assessment recently conducted by the government, from the regional central bank and the World Bank, following the DeMPA methodology.

VII. Key Macroeconomic Assumptions in the Baseline Scenario

6. **The main assumptions underlying the DSA are based on a macroeconomic framework consistent with the proposed Poverty Reduction and Growth Facility arrangement and the authorities' Poverty Reduction Strategy paper.** In broad terms, the baseline scenario assumes (Table 2):

- Real GDP growth of 3.4 percent over the long term, largely reflecting declining oil production. The baseline takes account of proven oil reserves only, which amounted to about 1.6 billion barrels at end-2006.
- Inflation averaging 3 percent per year, in line with the CEMAC convergence criterion.
- A trend decline in exports and a worsening external current account balance, due to a decline in oil production.
- A strong fiscal position, mainly on account of a build up of financial assets as the counterpart to continued fiscal consolidation (see below).
- Medium-term world oil price projections are based on the most recent WEO assumptions until 2013 (which imply prices rising from US$ 68 per barrel in 2009 to US$ 83 per barrel in 2013) and constant in real terms thereafter.

Table 2. Republic of Congo: Macroeconomic Baseline Assumptions, 2008-28

	Historical Average (1998-2007)	2008	2009	2010	2011	2012	2013	Average (2014-28)
Real GDP growth (percent)	3.4	7.6	12.7	12.3	1.3	1.8	1.4	3.4
Inflation (percent)	2.5	4.5	4.2	3.0	3.0	3.0	3.0	3.0
Exports of G&S (U.S. dollars terms, percent change)	18.5	42.0	-6.7	36.8	-2.9	-4.9	-8.2	0.4
Imports of G&S (U.S. dollars terms, percent change)	14.7	19.6	-16.0	21.2	2.3	-5.4	-1.8	3.0
Current account balance (percent of GDP)	3.7	0.6	1.2	10.9	8.7	10.6	8.1	0.9
Foreign direct investment (percent of GDP)	9.9	23.7	21.3	22.7	21.5	20.8	17.7	12.2
Gross public debt (billions of US dollars)	...	5.6	5.8	5.7	5.7	5.8	5.8	5.6
Assets (government deposits, billions of US dollars)	0.3	3.2	4.6	7.5	10.5	13.5	16.3	18.7
Grant element of new external borrowing (percent)	...	50.9	50.1	51.5	43.9	42.4	31.8	24.9
Exchange rate (national currency per U.S. dollar, p.a.)	598.2	444.7	489.7	487.5	485.4	483.3	481.1	412.6
Government revenue and grants (percent of GDP)	32.1	49.0	45.6	47.0	48.4	48.5	48.9	42.0
Non-oil balance (percent of non-oil GDP)	-34.6	-43.2	-40.2	-36.9	-33.5	-29.5	-26.6	derived from PIH
Oil production (millions of barrels)	89.7	89.0	109.6	133.2	119.6	107.4	94.2	46.4
WEO Oil prices	36.4	99.8	68.0	75.0	79.3	82.0	83.0	const. in real terms

7. **The fiscal stance is set to achieve long-term sustainability.** In this regard, the baseline assumes a gradual reduction of the non-oil primary deficit─the program's fiscal anchor─and a consolidation path consistent with a permanent-income hypothesis model (PIH)[5]. Based on this model, the sustainable non-oil primary deficit is estimated at about 3-5 percent of non-oil GDP, compared with more than 40 percent of non-oil GDP currently. Specific fiscal assumptions include: (i) a peak in oil production of 133.2 million barrels in 2010, before declining gradually; (ii) world oil prices based on the latest WEO projections until 2013 and constant in real terms thereafter; (iii) a quality discount on Congolese oil,[6] which is assumed to remain constant over the long term; and (iv) a real rate of return on government (financial) assets increasing gradually to about 3½ percent per year.

8. **The profile of new external borrowing is consistent with the concessionality requirement under the proposed PRGF arrangement.** Given that Congo has passed the IDA-only income threshold in 2007, it is assumed to receive World Bank financing on "hardened" terms from FY11 onwards, and to graduate to IBRD status in 2018.[7] Anticipated

[5] The permanent income hypothesis helps determine the level of the non-oil primary deficit that can be financed over the long term from government oil revenue, including investment income from its accumulated financial assets.

[6] The discount on Congolese oil was between US$1 and US$ 25 per barrel in 2008, depending on the quality. The discount on gas is somewhat larger, between US$ 35 and US$ 55 dollars per barrel.

[7] If a country maintains its Gross National Income per capita above the annual IDA operational income cutoff for two consecutive years, it receives IDA financing on "hardened" terms from the third year onwards. The concessionality of hardened terms is lower than that of regular IDA credits as the maturity is reduced to 20

(continued…)

borrowing under the June 2006 framework agreement with China is included in the analysis.[8] Domestic debt is assumed to be fully amortized over the next three years.

A. External and Public Debt Sustainability Analysis

9. **In the baseline DSA, Congo's external debt burden ratios indicate a high risk of debt distress, although these ratios show a declining trend (Figure 1 and Table 3).** Despite the gradual reduction in the concessionality of new loans and the decline in oil revenue, total external debt falls over time as income from financial assets offsets the revenue loss caused by the decline in oil production.

- The NPV of debt-to-GDP ratio breaches the indicative threshold during 2008-17, then drops below the threshold in 2018 and remains there through the rest of the projection period.[9]

- The debt service-to-exports and debt service-to-revenue ratios are projected to be below their respective thresholds throughout the projection period.

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years, compared with 40 years for regular IDA credits. Other conditions remain the same. Graduation to IBRD requires a country to be judged as creditworthy by the World Bank, a process that normally takes several years.

[8] The authorities have provided the staffs with information on a number of infrastructure projects, which are to be financed through concessional Chinese loans amounting to about US$1 billion. No loans have been signed yet. The DSA assumes these loans are disbursed over 5 years, beginning in 2009. The authorities are negotiating financial terms for all these loans of 20-year maturity, 5-year grace period, an interest rate of 0.25 percent, with biannual repayments. The staffs estimate the grant element of these loans at about 52.7 percent. The impact of these loans on the DSA is limited (they contribute to a temporary 5-percent increase in the NPV of debt-to-GDP ratio) because (i) they account for a relatively small share of GDP (about 8 percent) and a fraction of the financial assets the government is projected to accumulate over the medium-term and (ii) are concessional.

[9] In judging Congo to be at high risk of debt distress currently, the staffs have taken account of the breach of the NPV of debt-to-GDP ratio above the indicative threshold and the highly uncertain global economic environment (volatile world oil prices, and global financial crisis and slowing growth), which suggests a cautious approach, even though the long-term scenario indicates an adequate capacity to service external debt.

Table 3. Republic of Congo: External Debt Burden Indicators, 2008-28

	Indicators			
	2008	2018	2028	Thresholds [1]
NPV of debt in percent of:				
GDP	40	29	19	30
Exports	50	45	38	100
Revenues (including grants)	82	65	54	200
Debt service in percent of:				
Exports	5	6	5	15
Revenues (including grants)	8	8	7	25

[1] Based on Congo's 2008 classification as a weak performer

10. **Standardized stress tests seem to point to Congo's vulnerability to various shocks.** Under the most extreme stress test, net non-debt creating flows are lower than the historical average (by one half standard deviation). Under this scenario, the NPV of external debt-to-GDP rises to 66 percent in 2013. It should be noted, however, that this shock does not constitute a particularly relevant benchmark for Congo as its economic performance during the period used to perform these tests is affected by a structural break (the civil war), and a temporary fall in oil production caused by an oil accident at the Nkossa oil platform.

11. **The historical scenario displays an unfavorable evolution of Congo's debt ratios over the medium term.** Most ratios show a worsening trend and the NPV of debt-to-GDP breaches the indicative thresholds early in the projection period, before improving markedly thereafter. In the case of Congo, however, this scenario presents the same limitations as the standardized stress tests.[10]

12. **Over the long term, total public debt evolves in a similar manner to external debt.** Given the projected repayment of the remaining domestic debt obligations over the next several years, the evolution of total debt coincides with that of external debt.[11] On a net basis, both stock and flow indicators display a declining trend over time.

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[10] It should also be noted, more fundamentally, that the historical scenario introduced in the LIC DSA template is not well suited to oil-producing countries like Congo, which can accumulate net foreign assets well beyond prudential needs (i.e., more than the equivalent of a few months of imports). *De facto*, while this scenario replaces the non-interest current account deficits and FDI by their historical averages, it also assumes that the government accumulates the same level of reserves as under the baseline scenario. This latter assumption is unrealistic for a country with ample reserves: in the event the authorities were facing less favorable external developments (as assumed in the historical scenario), they would likely prefer to accumulate less reserves, rather then undertake external borrowing (and higher gross debt) to maintain the level of reserves.

[11] This assumes that there is no development of a domestic bond market in the future, which is contrary to BEAC plans. This development would not, however, change the net debt and the sustainability of total public debt.

- The NPV of debt-to GDP becomes negative, because financial assets accumulate as a result of fiscal consolidation under the baseline scenario;

- The debt service-to-revenue falls to 7 percent by 2028, compared with 13 percent currently.

13. **Congo's net public debt does not appear to be vulnerable to the standardized DSA stress tests (Figure 2).** This is because the buildup of financial assets stemming from fiscal consolidation provides a significant cushion against shocks. However, Congo's public debt appears vulnerable to oil price shocks and alternative assumptions on the conduct of fiscal policy (elaborated in the alternative scenario B below).

VIII. Alternative Macroeconomic Scenarios

14. Two alternative scenarios are elaborated to highlight the impact of (i) the full delivery of HIPC and MDRI relief at the completion point, which is assumed to take place in June 2010 and (ii) a combination of lower world oil prices and no fiscal adjustment.

A. Alternative scenario: HIPC and MDRI relief

15. **The first alternative scenario simulates full delivery of enhanced HIPC and MDRI assistance to illustrate the importance of this debt relief for sustainability**. Owing to earlier relief granted by London Club creditors, the remaining debt relief due at the completion point is relatively small compared to the savings from fiscal consolidation and, consequently, has only a limited impact on sustainability:

- The NPV of debt-to-GDP is on average about 4 percentage points lower than under the baseline;
- The NPV of debt service-to-exports is about ½ percentage point lower compared with the baseline.

B. Alternative scenario: Lower World Oil Prices and No Fiscal Adjustment

16. **The second alternative scenario simulates a two-pronged shock: lower world oil prices combined with no fiscal adjustment.** Oil prices are 1 standard deviation lower over the simulation period compared with the baseline, and the non-oil basic primary deficit in percent of non-oil GDP is kept at the level recorded in 2007 (55 percent).[12] Under these assumptions, the rate of debt accumulation increases; it reaches 32 percent by 2028 as oil

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[12] The oil price shock is calibrated as one standard deviation of Brent crude prices over the period 1970-2006. This reduces future oil prices by US$19 per barrel, corresponding to average prices of around US$49 per barrel in 2009.

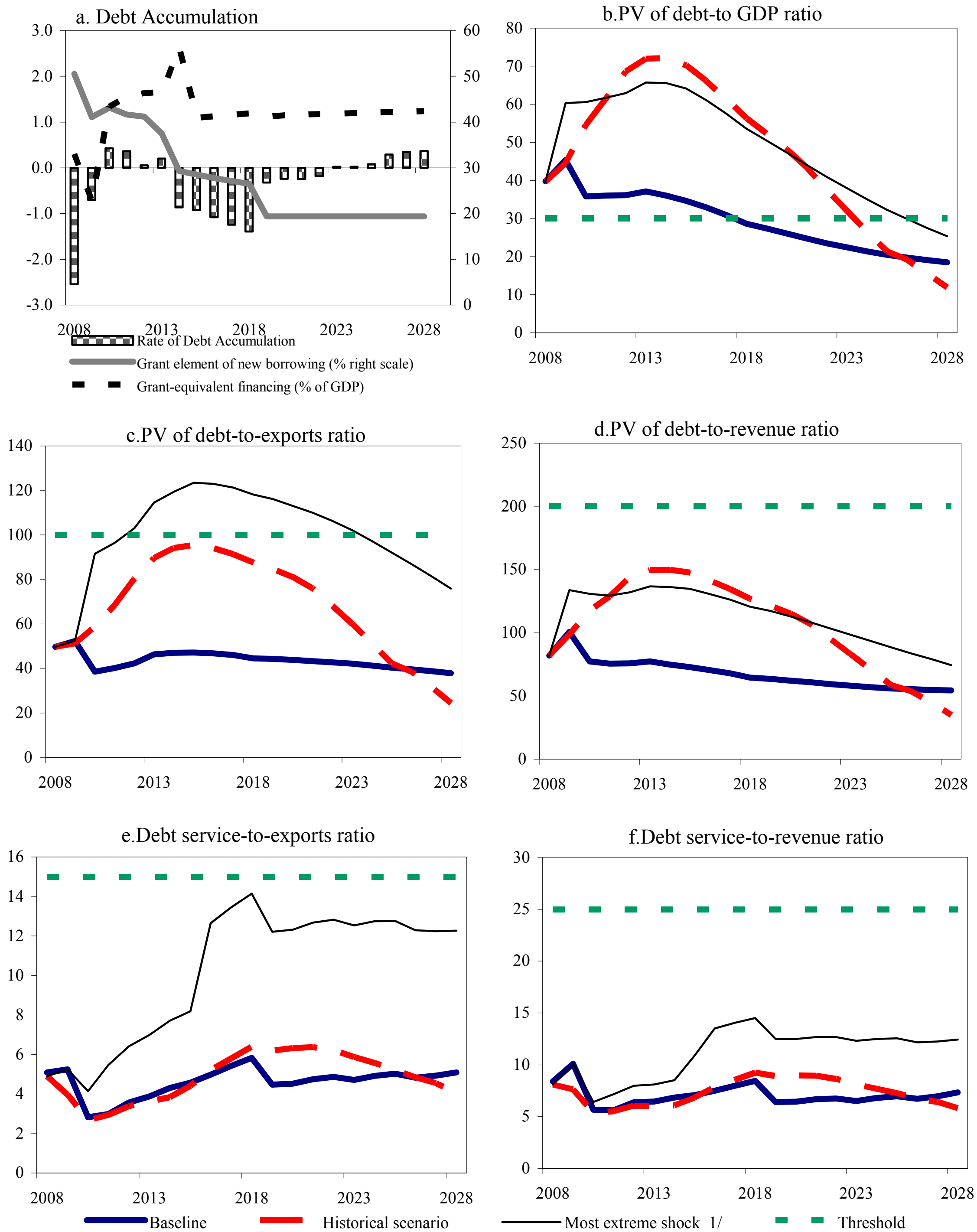
revenue declines and income from financial assets is not sufficient to offset the combined oil shock and the lack of fiscal adjustment.

- The NPV of debt-to-GDP breaches the indicative threshold in 2008 and remains above this level throughout the projection period, rising sharply to 290 percent in 2028.
- The debt service indicators also deteriorate, especially during the latter part of the simulation period.

IX. Conclusion

17. **Under the baseline scenario, Congo's external debt ratios indicate a high risk of debt distress.** This baseline is predicated on world oil prices at around US$ 77 over the medium term, and a path of fiscal consolidation consistent with long-term sustainability. Standardized stress tests and alternative scenarios, however, point to Congo's vulnerability to prolonged oil price shocks and slow fiscal adjustment.

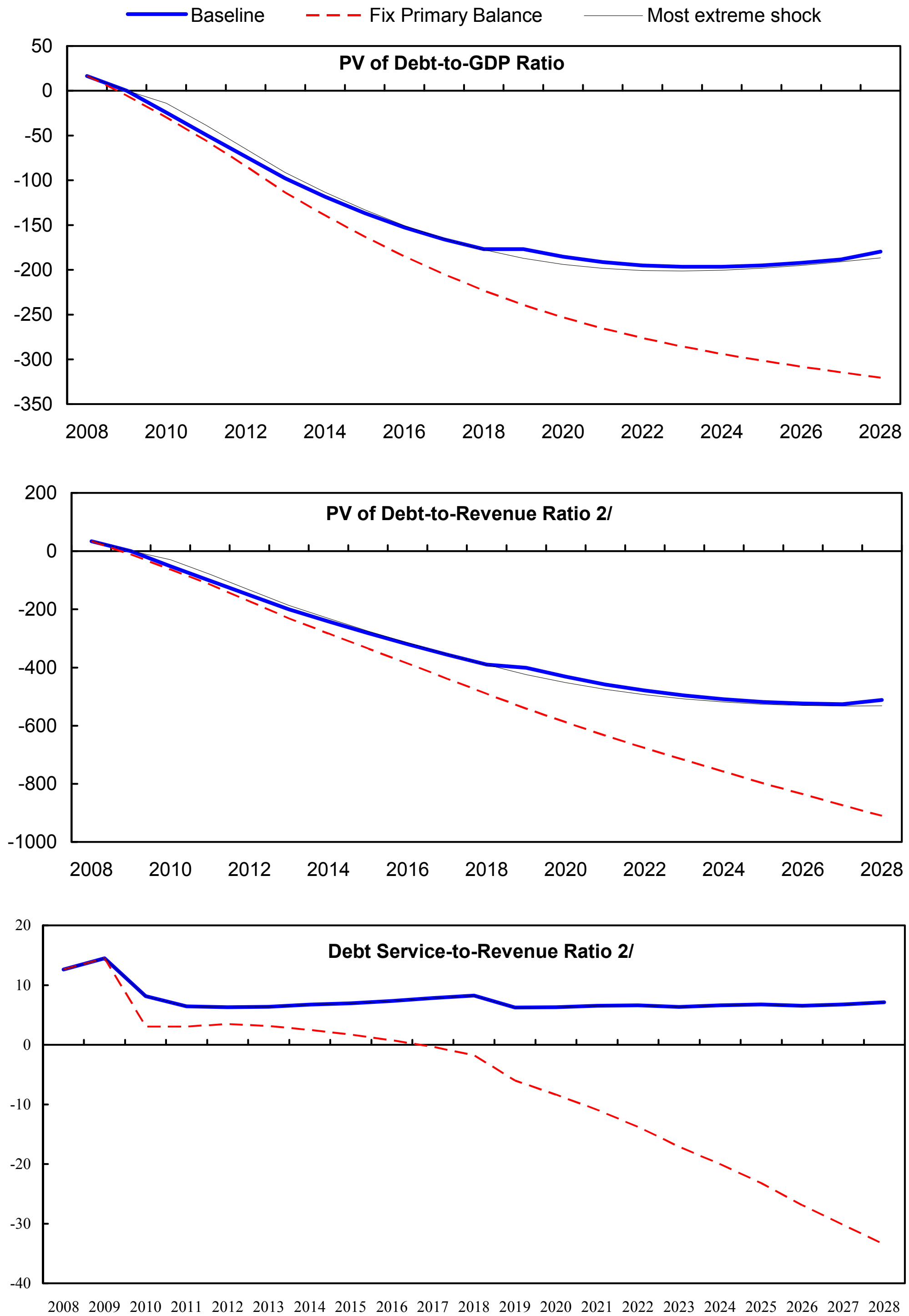
Figure 1. Republic of Congo: Indicators of Public and Publicly Guaranteed External Debt under the Baseline Scenario and Stress Tests, 2008-28 [1]



Source: Staff projections and simulations.

[1] The most extreme stress test is the test that yields the highest ratio in 2018. In figure b. it corresponds to a Combination shock; in c. to a Exports shock; in d. to a Combination shock; in e. to a Exports shock and in picture f. to a Combination shock

Republic of Congo: Indicators of Public Debt Under the Baseline Scenario and Stress Tests, 2008-28 [1]



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

[1] The most extreme stress test is the test that yields the highest ratio in 2018.

[2] Revenues are defined inclusive of grants.

Table 1a.: Public Sector Debt Sustainability Framework, Baseline Scenario, 2005-2028
(In percent of GDP, unless otherwise indicated)

	Actual			**Estimate**	**Projections**						
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2018	2028
Public sector debt 1/	112.3	80.8	69.0	23.9	13.3	-14.0	-38.7	-62.8	-87.0	-168.8	-174.3
o/w foreign-currency denominated	103.5	85.7	78.1	51.3	58.6	46.3	46.4	46.7	48.1	36.8	23.7
Change in public sector debt	-124.3	-31.5	-11.8	-45.1	-10.6	-27.3	-24.7	-24.1	-24.2	-11.5	4.8
Identified debt-creating flows	-52.4	-52.7	-64.4	-38.9	-17.1	-27.5	-24.8	-21.8	-22.3	-10.2	5.5
Primary deficit	-19.1	-21.5	-13.9	-27.8	-19.2	-25.1	-25.4	-24.7	-23.3	-17.1	-4.6
Revenue and grants	38.8	44.4	43.1	49.0	45.6	47.0	48.4	48.5	48.9	45.4	35.1
of which: grants	0.2	0.1	0.4	0.4	0.5	0.6	0.8	0.8	0.9	1.0	1.0
Primary (noninterest) expenditure	19.7	23.0	29.2	21.2	26.3	21.8	23.0	23.8	25.6	28.3	30.5
Automatic debt dynamics	-30.3	-27.8	1.5	-11.1	2.1	-2.3	0.6	2.9	1.0	6.9	10.1
Contribution from interest rate/growth differential	-23.0	-6.2	0.6	-2.9	-7.1	3.3	-0.6	1.1	-1.6	6.6	10.6
of which: contribution from average real interest rate	-6.0	0.3	-0.7	2.0	-4.4	4.8	-0.8	0.4	-2.5	1.1	5.6
of which: contribution from real GDP growth	-17.0	-6.6	1.3	-4.9	-2.7	-1.5	0.2	0.7	0.9	5.5	5.0
Contribution from real exchange rate depreciation	-7.3	-21.6	0.9	-8.2	9.2	-5.6	1.2	1.8	2.6	...	...
Other identified debt-creating flows	-3.0	-3.4	-52.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization receipts (negative)	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt relief (HIPC and other)	-3.0	-3.4	-52.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual, including asset changes	-71.9	21.2	52.6	-6.2	6.5	0.2	0.1	-2.3	-1.9	-1.2	-0.7
Other Sustainability Indicators											
PV of public sector debt	8.8	-4.9	47.7	16.6	-0.1	-24.5	-49.2	-73.5	-98.0	-177.0	-179.5
o/w foreign-currency denominated	0.0	0.0	56.8	43.9	45.3	35.8	35.9	36.1	37.1	28.7	18.5
o/w external	...	...	56.8	43.9	45.3	35.8	35.9	36.1	37.1	28.7	18.5
PV of contingent liabilities (not included in public sector debt)	...	...	...	...	...	...	...	...	...	...	...
Gross financing need 2/	6.3	-5.6	-7.4	-2.1	-19.6	-12.7	-21.4	-22.4	-21.7	-14.8	-3.0
PV of public sector debt-to-revenue and grants ratio (in percent)	22.6	-11.1	110.8	33.8	-0.1	-52.1	-101.5	-151.3	-200.3	-389.7	-511.5
PV of public sector debt-to-revenue ratio (in percent)	22.7	-11.1	111.9	34.1	-0.1	-52.8	-103.1	-153.9	-203.9	-398.5	-526.9
o/w external 3/	…	…	133.1	90.4	100.3	77.2	75.4	75.5	77.1	64.5	54.4
Debt service-to-revenue and grants ratio (in percent) 4/	9.2	9.9	6.4	3.3	2.7	2.0	1.9	2.2	2.2	2.1	1.8
Debt service-to-revenue ratio (in percent) 4/	9.2	9.9	6.5	3.4	2.8	2.1	2.0	2.2	2.2	2.2	1.9
Primary deficit that stabilizes the debt-to-GDP ratio	105.2	10.0	-2.1	17.3	-8.6	2.1	-0.7	-0.6	0.9	-5.6	-9.4
Key macroeconomic and fiscal assumptions											
Real GDP growth (in percent)	7.8	6.2	-1.6	7.6	12.7	12.3	1.3	1.8	1.4	3.6	2.9
Average nominal interest rate on forex debt (in percent)	1.6	4.5	2.7	2.8	2.1	2.1	2.0	2.3	2.2	2.5	2.8
Average real interest rate on forex debt (in percent)	-13.5	-11.4	3.6	-24.2	30.9	-11.5	1.0	...	...	...	...
Real exchange rate depreciation (in percent, + indicates depreciation)	-3.9	-22.5	-7.4	-17.5	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	21.6	19.5	0.5	35.2	-23.5	13.7	-0.7	-2.0	-3.6	-0.5	2.2
Growth of real primary spending (deflated by GDP deflator, in percent)	0.0	0.2	0.3	-0.2	0.4	-0.1	0.1	0.1	0.1	0.0	0.0
Grant element of new external borrowing (in percent)	...	...	...	50.5	41.1	43.2	41.6	41.2	37.4	26.5	19.3

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

1/ The central government net debt is used in the analysis.

2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 1b.: Sensitivity Analysis for Key Indicators of Public Debt 2008-2028

		Projections						
	2008	2009	2010	2011	2012	2013	2018	2028
PV of Debt-to-GDP Ratio								
Baseline	17	0	-24	-49	-73	-98	-177	-179
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	17	9	-7	-23	-42	-59	-112	-127
A2. Primary balance is unchanged from 2008	17	-5	-30	-56	-84	-114	-223	-320
A3. Permanently lower GDP growth 1/	17	1	-24	-48	-75	-102	-189	-188
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2009-2010	17	4	-19	-42	-69	-94	-165	-131
B2. Primary balance is at historical average minus one standard deviations in 2009-2010	17	13	2	-25	-51	-77	-159	-171
B3. Combination of B1-B2 using one half standard deviation shocks	17	12	-2	-28	-54	-78	-150	-125
B4. One-time 30 percent real depreciation in 2009	17	18	-10	-35	-62	-88	-174	-183
B5. 10 percent of GDP increase in other debt-creating flows in 2009	17	0	-14	-39	-65	-91	-177	-187
PV of Debt-to-Revenue Ratio 2/								
Baseline	34	0	-52	-102	-151	-200	-390	-511
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	34	19	-16	-48	-86	-121	-247	-360
A2. Primary balance is unchanged from 2008	34	-12	-64	-115	-173	-232	-490	-910
A3. Permanently lower GDP growth 1/	34	1	-50	-100	-155	-209	-417	-533
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2009-2010	34	9	-40	-87	-141	-191	-361	-369
B2. Primary balance is at historical average minus one standard deviations in 2009-2010	34	29	4	-51	-106	-156	-351	-488
B3. Combination of B1-B2 using one half standard deviation shocks	34	26	-5	-57	-110	-160	-329	-356
B4. One-time 30 percent real depreciation in 2009	34	39	-22	-72	-127	-180	-383	-523
B5. 10 percent of GDP increase in other debt-creating flows in 2009	34	1	-30	-80	-134	-186	-391	-532
Debt Service-to-Revenue Ratio 2/								
Baseline	13	14	8	6	6	6	8	7
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	13	16	18	24	26	27	27	27
A2. Primary balance is unchanged from 2008	13	14	3	3	3	3	-2	-34
A3. Permanently lower GDP growth 1/	13	15	8	7	7	8	12	19
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2009-2010	13	16	14	17	19	21	26	39
B2. Primary balance is at historical average minus one standard deviations in 2009-2010	13	14	19	26	13	10	10	13
B3. Combination of B1-B2 using one half standard deviation shocks	13	16	21	29	22	21	25	38
B4. One-time 30 percent real depreciation in 2009	13	17	11	10	10	10	14	13
B5. 10 percent of GDP increase in other debt-creating flows in 2009	13	14	8	6	6	6	8	7

Sources: Country authorities; and Fund staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the length of the projection period.
2/ Revenues are defined inclusive of grants.

Table 2a.: External Debt Sustainability Framework, Baseline Scenario, 2005-2028 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Projections							
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2018	2028
External debt (nominal) 1/	**103.5**	**85.7**	**78.1**	**51.3**	**58.6**	**46.3**	**46.4**	**46.7**	**48.1**	**36.8**	**23.7**
o/w public and publicly guaranteed (PPG)	103.5	85.7	78.1	51.3	58.6	46.3	46.4	46.7	48.1	36.8	23.7
Change in external debt	-110.7	-17.8	-7.6	-26.8	7.3	-12.3	0.1	0.3	1.4	-2.7	-0.6
Identified net debt-creating flows	-63.4	-36.7	-0.4	-28.3	-31.2	-35.4	-27.1	-28.8	-24.0	-16.4	-9.3
Non-interest current account deficit	**-6.9**	**0.8**	**23.8**	**-2.0**	**-2.4**	**-11.8**	**-9.6**	**-11.7**	**-9.2**	**-3.2**	**2.7**
Deficit in balance of goods and services	-29.7	-18.5	2.8	-10.3	-18.6	-28.3	-24.0	-23.2	-17.7	-1.9	10.8
Exports	84.2	84.2	82.1	80.1	86.7	92.9	89.7	85.5	80.3	64.3	48.9
Imports	54.5	65.6	84.9	69.8	68.0	64.6	65.7	62.4	62.6	62.5	59.7
Net current transfers (negative = inflow)	-0.5	0.3	0.5	0.4	0.0	-0.2	-0.3	-0.4	-0.4	-0.6	-0.9
o/w official	-1.0	-0.2	-0.2	-0.1	-0.5	-0.6	-0.8	-0.8	-0.9	-1.0	-1.1
Other current account flows (negative = net inflow)	23.3	19.0	20.5	7.8	16.2	16.7	14.7	11.9	8.9	-0.7	-7.3
Net FDI (negative = inflow)	**-8.4**	**-19.2**	**-27.5**	**-23.7**	**-22.4**	**-18.8**	**-17.8**	**-17.3**	**-15.1**	**-12.8**	**-12.0**
Endogenous debt dynamics 2/	**-48.1**	**-18.3**	**3.2**	**-2.6**	**-6.3**	**-4.7**	**0.3**	**0.2**	**0.4**	**-0.4**	**0.0**
Contribution from nominal interest rate	2.6	3.7	2.3	1.5	1.2	0.9	0.9	1.1	1.1	1.0	0.6
Contribution from real GDP growth	-12.7	-5.1	1.4	-4.1	-7.6	-5.7	-0.6	-0.8	-0.7	-1.4	-0.7
Contribution from price and exchange rate changes	-38.0	-16.9	-0.5	…	…	…	…	…	…	…	…
Residual (3-4) 3/	**-47.4**	**18.9**	**-7.2**	**1.6**	**38.5**	**23.1**	**27.2**	**29.1**	**25.3**	**13.6**	**8.7**
o/w exceptional financing	-3.3	-4.1	-8.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PV of external debt 4/	...	...	60.4	39.8	45.3	35.8	36.0	36.1	37.2	28.7	18.5
In percent of exports	...	...	73.6	49.7	52.3	38.6	40.1	42.3	46.3	44.6	37.8
PV of PPG external debt	**...**	**...**	**60.4**	**39.8**	**45.3**	**35.8**	**36.0**	**36.1**	**37.2**	**28.7**	**18.5**
In percent of exports	**...**	**...**	**73.6**	**49.7**	**52.3**	**38.6**	**40.1**	**42.3**	**46.3**	**44.6**	**37.8**
In percent of government revenues	**...**	**...**	**141.6**	**81.9**	**100.5**	**77.3**	**75.5**	**75.7**	**77.3**	**64.5**	**54.4**
Debt service-to-exports ratio (in percent)	**11.9**	**13.3**	**10.7**	**5.1**	**5.3**	**2.8**	**3.0**	**3.6**	**3.9**	**5.8**	**5.1**
PPG debt service-to-exports ratio (in percent)	**11.9**	**13.3**	**10.7**	**5.1**	**5.3**	**2.8**	**3.0**	**3.6**	**3.9**	**5.8**	**5.1**
PPG debt service-to-revenue ratio (in percent)	**25.8**	**25.3**	**20.6**	**8.4**	**10.1**	**5.7**	**5.6**	**6.4**	**6.5**	**8.4**	**7.3**
Total gross financing need (billions of U.S. dollars)	-0.3	-0.6	0.4	-2.4	-1.9	-3.4	-3.1	-3.2	-2.6	-1.6	-1.4
Non-interest current account deficit that stabilizes debt ratio	103.9	18.6	31.5	24.8	-9.7	0.5	-9.8	-12.0	-10.6	-0.5	3.3
Key macroeconomic assumptions											
Real GDP growth (in percent)	7.8	6.2	-1.6	7.6	12.7	12.3	1.3	1.8	1.4	3.6	2.9
GDP deflator in US dollar terms (change in percent)	21.6	19.5	0.5	35.2	-23.5	13.7	-0.7	-2.0	-3.6	-0.5	2.2
Effective interest rate (percent) 5/	1.6	4.5	2.7	2.8	2.1	2.1	2.0	2.3	2.2	2.5	2.8
Growth of exports of G&S (US dollar terms, in percent)	36.9	26.9	-3.5	42.0	-6.7	36.8	-2.9	-4.9	-8.2	-1.4	4.5
Growth of imports of G&S (US dollar terms, in percent)	40.4	52.8	28.0	19.6	-16.0	21.2	2.3	-5.4	-1.8	0.8	5.9
Grant element of new public sector borrowing (in percent)	...	...	...	50.5	41.1	43.2	41.6	41.2	37.4	26.5	19.3
Government revenues (excluding grants, in percent of GDP)	38.6	44.3	42.7	48.6	45.1	46.4	47.7	47.7	48.1	44.4	34.1
Aid flows (in billions of US dollars) 7/	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.2
o/w Grants	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.2
o/w Concessional loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grant-equivalent financing (in percent of GDP) 8/	...	...	...	0.3	-0.7	1.3	1.6	1.6	1.7	1.2	1.2
Grant-equivalent financing (in percent of external financing) 8/	...	...	...	75.3	-104.0	53.4	55.5	55.6	52.9	57.0	39.0
Memorandum items:											
Nominal GDP (billions of US dollars)	6.1	7.7	7.7	11.1	9.6	12.3	12.3	12.3	12.0	13.2	20.9
(PVt-PVt-1)/GDPt-1 (in percent)				-2.5	-0.7	0.4	0.4	0.1	0.2	-1.4	0.4

Source: Staff simulations.

1/ Includes both public and private sector external debt.

2/ [r - g - r(1+g)]/(1+g+r+gr) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and r = growth rate of GDP deflator in U.S.D. terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes. The high residuals in this case, reflects the accumulation of reserves (from oil production).

4/ Assumes that PV of private sector debt is equivalent to its face value.

5/ Current-year interest payments divided by previous period debt stock.

6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

7/ Defined as grants, concessional loans, and debt relief.

8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 2b.: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2008-2028
(In percent)

	Projections							
	2008	2009	2010	2011	2012	2013	**2018**	2028
PV of debt-to GDP ratio								
Baseline	40	45	36	36	36	37	**29**	19
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2008-2028 1/	40	45	55	61	69	72	**56**	12
A2. New public sector loans on less favorable terms in 2008-2028 2	40	46	36	36	36	36	**28**	20
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2009-2010	40	51	46	46	46	47	**36**	24
B2. Export value growth at historical average minus one standard deviation in 2009-2010 3/	40	45	58	59	60	63	**52**	25
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-2010	40	37	36	36	36	37	**29**	19
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-2010 4/	40	60	61	62	63	66	**54**	25
B5. Combination of B1-B4 using one-half standard deviation shocks	40	40	59	60	61	64	**53**	26
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	40	75	59	59	59	61	**47**	30
PV of debt-to-exports ratio								
Baseline	50	52	39	40	42	46	**45**	38
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2008-2028 1/	50	51	59	68	80	90	**88**	24
A2. New public sector loans on less favorable terms in 2008-2028 2	50	53	39	40	42	45	**43**	40
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2009-2010	50	52	39	40	42	46	**45**	38
B2. Export value growth at historical average minus one standard deviation in 2009-2010 3/	50	52	92	96	103	115	**118**	76
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-2010	50	52	39	40	42	46	**45**	38
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-2010 4/	50	70	65	69	74	82	**83**	52
B5. Combination of B1-B4 using one-half standard deviation shocks	50	50	72	76	81	91	**93**	60
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	50	52	39	40	42	46	**45**	38
PV of debt-to-revenue ratio								
Baseline	82	101	77	76	76	77	**65**	54
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2008-2028 1/	82	99	118	129	144	150	**127**	35
A2. New public sector loans on less favorable terms in 2008-2028 2	82	102	78	75	75	75	**63**	58
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2009-2010	82	114	98	96	96	98	**82**	69
B2. Export value growth at historical average minus one standard deviation in 2009-2010 3/	82	101	125	123	126	130	**116**	74
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-2010	82	83	78	76	76	78	**65**	55
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-2010 4/	82	134	131	129	132	137	**121**	74
B5. Combination of B1-B4 using one-half standard deviation shocks	82	89	128	126	129	133	**119**	76
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	82	165	127	124	125	127	**106**	89

Table 2b.: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2008-2028 (continued)
(In percent)

Debt service-to-exports ratio

Baseline	5	5	3	3	4	4	**6**	5
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2008-2028 1/	5	4	3	3	3	4	**6**	4
A2. New public sector loans on less favorable terms in 2008-2028 2	5	5	3	3	4	4	**5**	4
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2009-2010	5	5	3	3	4	4	**6**	5
B2. Export value growth at historical average minus one standard deviation in 2009-2010 3/	5	5	4	5	6	7	**14**	12
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-2010	5	5	3	3	4	4	**6**	5
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-2010 4/	5	5	3	4	4	5	**10**	9
B5. Combination of B1-B4 using one-half standard deviation shocks	5	5	3	4	5	6	**11**	10
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	5	5	3	3	4	4	**6**	5

Debt service-to-revenue ratio

Baseline	8	10	6	6	6	6	**8**	7
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2008-2028 1/	8	8	5	6	6	6	**9**	6
A2. New public sector loans on less favorable terms in 2008-2028 2	8	10	6	6	7	7	**8**	6
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2009-2010	8	11	7	7	8	8	**11**	9
B2. Export value growth at historical average minus one standard deviation in 2009-2010 3/	8	10	6	7	8	8	**14**	12
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-2010	8	8	6	6	6	7	**8**	7
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-2010 4/	8	10	6	7	8	8	**15**	12
B5. Combination of B1-B4 using one-half standard deviation shocks	8	8	6	7	8	8	**14**	12
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	8	17	9	9	11	11	**14**	12
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	26	26	26	26	26	26	**26**	26

Source: Staff projections and simulations.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

INTERNATIONAL MONETARY FUND

REPUBLIC OF CONGO

Staff Report for the 2008 Article IV Consultation, Requests for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Interim Assistance Under the Enhanced Initiative for Heavily Indebted Poor Countries, and Financing Assurances Review—Informational Annex

Prepared by the African Department

Approved by Sharmini Coorey and David Marston

November 19, 2008

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Annex I—Republic of Congo: Relations with the Fund
(As of September 30, 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	0.16	1.67

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	0.13	0.36	0.36	0.35	0.33
Total	0.13	0.360	1.93	3.49	5.04

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) [1]	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 [2]	--

VIII. Safeguards Assessments:

The Bank of the Central African States (BEAC) is the regional central bank of the Central African States. The most recent safeguards assessment of the BEAC was completed on August 30, 2004. The assessment found that the Bank has implemented a number of measures to strengthen its safeguards framework since the 2001 safeguards assessment, and recommended further enhancements in the areas of external and internal audits, and financial reporting. Latest monitoring results indicate the existence of certain vulnerabilities including in the system of internal controls. These and other aspects of the BEAC safeguards framework will be reviewed in the context of the 2008 update safeguards assessment of BEAC that is underway.

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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.

[2]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 September 30, 2008, the rate of the CFA franc was CFAF 776.39 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, Mr. Manning	November 2007
Budget functional classification	AFRITAC C	MMrs Lokpe and Nguenang	July 2007
Processing and monitoring of fiscal information	AFRITAC C	Mr. Penanje	August 2008
Public expenditure management	FAD	Mr. Bouley	August 2006
Resident advisor on real sector	STA	Mr. Gbossa	Since February 2006
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
Balance of payments statistics	STA	Mr. Dessart	February 2007
Multisector statistics	STA	Messrs. Marie, Maiga, and Mmes. Fisher, Matei, Razin, and Balvani	May 2002
Resident expert on statistics	STA	Mr. Metreau	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: JMAP Implementation Matrix

Title	Products	Mission timing	Expected delivery
A. Mutual information on relevant work programs			
Bank work program in next 12 months	*Full CAS* *PRSP/JSAN* *AAA* Policy advice on infrastructure development Governance/HIPC Investment Climate Analysis Public Expenditure Review *New Lending:* Additional Financing Education Urban Development	FY09 June 2008 September 2008 September 2008 December 2008 November 2008 December 2008 October 2008	FY 09 October 2008 December 2008 December 2008 February 2009 August 2009 June 2009 FY 2010
IMF work program in next 12 months	First assessment under the Staff Monitored Program (SMP), Article IV consultation, and initiate discussions on the prospective PRGF arrangement	Mid-May 2008	July 2008
	Second assessment under the SMP, Article IV consultation, and finalize discussions on the prospective PRGF arrangement	End-August 2008	October 2008
B. Requests for work program inputs			
Fund request to Bank (with summary justification)	Collaborate on the LIC-DSA	September 2008	October 2008
Bank request to Fund (with summary justification)	Progress on implementation of HIPC Triggers	September 2008	October 2008 (Board on Progress Report)
C. Agreement on joint products and missions			
Joint products in next 12 months	LIC-DSA	September 2008	October 2008
	PRSP Progress Report/JSAN		October 2008

Annex III—Statistical Issues

18. Data provision has some shortcomings, but is broadly adequate for surveillance purposes. In the context of surveillance, long delays in the provision of national accounts, balance of payments and government finance statistics are particularly problematic. The statistical infrastructure is being slowly rebuilt after the civil strife of the late 90's, during which administrative infrastructure suffered severe damage and many records were lost. Since October 2001, an STA multisector statistics advisor (MSA) has been assisting the authorities with the macroeconomic statistics.

19. A STA multi-sector mission in May 2002 conducted 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.

20. The Republic of Congo participates 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

21. National accounts data are weak, with inconsistencies, both internally and with balance of payments statistics. 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 (MoF) 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 between the oil companies operating in the country and the government agencies dealing with them. With the assistance of the resident statistical expert, the DGS completed the national accounts estimates for 2005, the new base year, and has initiated compilation of the 2006 accounts.

22. Annual data on employment in the central government are available from the MoF, but 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.

23. 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 countries in the Central African Economic and Monetary Community (CEMAC).

Government finance statistics

24. Compilation of **government finance statistics** (GFS) has benefited from recent efforts to increase the comprehensiveness of the data through the adoption of systematic compilation practices. The increased interagency cooperation is in line with the recommendations of the May 2002 multisector mission, which 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 using the GFSM 2001 classifications.

25. The Republic of Congo has reported (in September 2008) GFS data to STA for fiscal years 2004 and 2005 using the *GFSM 2001* template, and indicate that data for 2006 and 2007 will be reported no later than June 2009. High-frequency fiscal data has not yet been reported for publication in *IFS*. The compilation of GFS statistics to be reported to the Fund should be carried out in close cooperation with the compilers of the TOFE.

26. 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 expenditure chain accounting.

27. The Caisse congolaise d'amortissement (CCA) produces comprehensive data on the outstanding stock of external public debt, including arrears and their 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. Concerns still exist with regard to the reconciliation of fiscal and monetary statistics.

28. 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. TOFE compilers do not have access to relevant financial statements of the Société nationale des pétroles congolais, which carries out several operations on behalf of the government (notably in the oil sector).

Monetary and financial statistics

29. The Bank of Central African States (BEAC) regularly reports monetary, interest rates, and exchange rate statistics for publication in *IFS,* but delays occur sometimes in the submission of data to STA. The accuracy of national monetary statistics may be affected by

large cross-border movements of BEAC issued banknotes among the CEMAC member countries. However, the Republic of Congo is moderately affected by such movements: 6.2 percent of banknotes issued in the Congo by the BEAC national directorate circulate in Cameroon and 1.2 percent in Gabon, while currency in circulation in the Republic of Congo includes 2.3 percent of banknotes from Cameroon and 3.2 percent from Gabon. The magnitude of banknote movements between the Republic of Congo and CEMAC member countries other than Cameroon and Gabon is very small.

30. In this regard, the BEAC started in mid-2007 a project to migrate monetary statistics of member countries of the CEMAC to the methodology in the *Monetary and Financial Statistics Manual (MFSM)*. As a part of this project, a regional workshop was organized by the BEAC in December 2007 to finalize the mapping of source data from commercial banks to the *MFSM* concepts and framework. STA participated in this workshop to provide guidance and advice. Submission of data by the BEAC using the standardized report forms is pending.

External sector statistics

31. As in other CEMAC countries, the national agency of the BEAC is responsible for the collection and the dissemination of balance of payments statistics. The balance of payments statistics are prepared on an annual basis while the compilation system has been specifically designed to produce quarterly data. Since 1995, data are being prepared using the *Balance of Payments Manual*, *Fifth Edition*. The BEAC provides annual data on exports of goods and services and on capital flows other than public debt. Balance of payments data for 1995 through 2005 are published in the Fund's *International Financial Statistics (IFS),* and STA is working with the authorities in updating the data series.

32. In May 2002, a 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 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 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, a follow-up STA balance of payments statistics mission made 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 October 1, 2008

	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of publication[7]
Exchange Rates	Current	Current	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Jun-08	Aug-08	M	M	M
Reserve/Base Money	Jun-08	Aug-08	M	M	M
Broad Money	Jun-08	Aug-08	M	M	M
Central Bank Balance Sheet	Jun-08	Aug-08	M	M	M
Consolidated Balance Sheet of the Banking System	Jun-08	Aug-08	M	M	M
Interest Rates[2]	Aug-08	Sept-08	M	M	M
Consumer Price Index	Jun-08	Aug-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	Jun-08	Aug-08	M	Q	Q
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Jun-08	Aug-08	Q	Q	Q
External Current Account Balance	Jun-08	Aug-08	A	A	A
Exports and Imports of Goods and Services	Jun-08	Aug-08	A	A	A
GDP/GNP	2007	Aug-08	A	A	A
Gross External Debt	Jun-08	Aug-08	Q	Q	Q
International Investment Position [6]	...	...	NA	NA	NA

[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] Includes external gross financial asset and liability positions vis-à-vis nonresidents.
[7] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA).

Statement by the IMF Staff Representative on the Republic of Congo
December 8, 2008

1. The following information has become available since the staff report was issued. The information does not alter the thrust of the staff appraisal.

2. Sharply rising food prices pushed overall consumer price inflation (CPI) to 7.8 percent in the twelve months through October 2008. Food prices increased by 10.2 percent during this period, while non-food prices rose by 4 percent. Food items account for 60 percent of the CPI.

The increase in the CPI was higher than projected but the decline in global commodity and non-fuel commodity prices which began in the third quarter of this year should help to lower inflation through the end of 2008. In this regard, the staff estimates suggest that the authorities' end-year inflation projection of 6 percent could still be reached.

INTERNATIONAL MONETARY FUND
Public Information Notice

EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 09/20
FOR IMMEDIATE RELEASE
February 13, 2009

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2008 Article IV Consultation with the Republic of Congo

On December 8, 2008, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the Republic of Congo.[1]

Background

Economic developments in 2007 were mixed but have improved more recently. Economic activity declined last year because of a temporary fall in oil production (caused by an accident on an oil platform), leading also to a significant deterioration in the external current account, which moved into deficit for the first time in many years. Inflation moderated in 2007, as bottlenecks that affected important transportation routes were eased. The implementation of economic policies was uneven, with a lack of expenditure control and program monitoring giving rise to significant fiscal slippages, and weaknesses in institutional and administrative capacity giving rise to delays in structural reform.

The recovery of oil production and better economic policy implementation contributed to an improvement in economic performance through the first semester of 2008, although inflation accelerated. On current trends, overall real GDP growth in 2008 could reach about 7½ percent, with activity in the non-oil sector broadening; the transportation, construction, and telecommunications sectors are particularly strong. High food and energy costs pushed inflation to 5.7 percent (year-on-year) through June 2008, but the expectation is for a moderation of consumer prices in the period ahead. Driven by high oil exports and high world oil prices through most of the year, the current external account is projected to swing

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

from a deficit of 26 percent of GDP last year to a surplus of 0.6 percent in 2008. Foreign direct investment continues to expand in the oil sector, partly in response to new discoveries, and could reach more than 23 percent of GDP this year. Congo's external public debt has declined sharply in the past several years, as a result of Paris Club rescheduling and debt relief from London Club creditors (in the context of the enhanced Heavily Indebted Poor Countries Initiative). The real effective exchange rate has appreciated sharply since 2007, primarily reflecting Congo's relatively high rate of inflation, compared with its trading partners.

Executive Board Assessment

Executive Directors welcomed Congo's continued strong growth in 2008 reflecting a resumption of oil production and solid non-oil sector activity, and the significant improvement in the external current account position driven by high oil prices. At the same time, higher food and energy costs pushed up inflation. Directors welcomed the contribution of better policy implementation in supporting economic activity, including through the establishment of a new reporting and monitoring structure, and were encouraged by Congo's satisfactory completion of its staff-monitored program earlier this year.

Looking ahead, Directors welcomed Congo's commitment to continued adjustment and economic reform supported by the new PRGF arrangement. They stressed that sustained ownership and determined implementation of the envisaged policies will be crucial to allow Congo to face the many remaining challenges in accelerating growth and alleviating poverty. Foremost among these challenges are the need to improve international competitiveness, to raise output growth through diversification, and to strengthen fiscal consolidation and debt sustainability. Efforts will also be needed to address institutional and administrative bottlenecks that have hindered past reform efforts. Confronting these challenges will be critical to enable Congo to make progress toward meeting the Millennium Development Goals.

Directors noted the recent appreciation in Congo's real effective exchange rate driven by the country's relatively high inflation compared with its trading partners. The international competitiveness of the non-oil export sector has also been hampered by weak institutions and inadequate infrastructure. Directors welcomed the authorities' intention to pursue a broad-based approach to improve international competitiveness and diversify the economy. Fiscal consolidation will have a key contribution to make by creating fiscal space to allow rebuilding of the country's infrastructure. In addition, the authorities will need to persevere with ambitious structural reforms that include measures to enhance the business environment and reduce the costs of doing business, deepen financial intermediation through adoption of the financial sector strategy, raise the operating and financial performance of state-owned enterprises in the oil sector, and liberalize trade.

Directors noted that the authorities' fiscal strategy aims to achieve long-term sustainability through gradual, but sustained, consolidation. Fiscal consolidation is important to ensure inter-generational equity by preserving the country's oil wealth and to improve debt sustainability. Directors noted that the authorities' objective of lowering the basic non-oil primary deficit, by the equivalent of about 3 percent of non-oil GDP per year, aims to strike a broad balance between putting fiscal policy on a sustainable path, and front-loading public investment to address urgent needs, while taking account of administrative and institutional capacity constraints. A few Directors saw scope for a stronger pace of fiscal adjustment. The authorities were encouraged to resist possible spending pressures related to the upcoming elections.

The achievement of fiscal sustainability is likely to require actions on several fronts, including: re-orienting spending by reducing or eliminating poorly targeted programs, such as for general fuel subsidies; mobilizing more domestic non-oil resources; and enhancing public financial management through the timely and full implementation of the recently adopted action plan. A concerted effort should also be directed at improving the management of public investment, with assistance from Congo's development partners.

More transparent and strengthened governance, particularly in the oil sector, will be important for achieving the authorities' policy objectives. Directors welcomed the recent measures in this area—including the action plans to improve the operating and financial performance of the state-owned enterprises in the oil sector and the returns from the commercialization of Congolese oil. They stressed the importance of further steps to enhance the monitoring and reporting of oil revenue, and to prevent fraud and promote best practices in the use of public resources. Directors looked forward to the completion of the first report under the Extractive Industries Transparency Initiative.

Directors took note of the recent improvements in the external debt indicators but noted that Congo is still at a high risk of debt distress. Consequently, prudent debt management and debt relief will be essential for achieving external sustainability. Directors therefore welcomed the authorities' intention to finance development increasingly through their own resources and to seek foreign financing only on highly concessional terms. They encouraged the authorities to accelerate efforts to regularize relations with all creditors, including the remaining London Club and litigating creditors. Directors stressed the importance of satisfactory performance under the PRGF arrangement and timely implementation of the policy triggers for HIPC Initiative debt relief. A few Directors expressed their willingness to consider advancing the timetable for reaching the HIPC Initiative completion point to mid-2009 if sufficient progress can be made on the HIPC Initiative triggers.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Republic of Congo: Selected Economic and Financial Indicators, 2004–08

	2004	2005	2006	2007 Est.	2008 Proj.
	(Annual percent change)				
Output and inflation					
GDP at constant prices	3.5	7.8	6.2	-1.6	7.6
Oil	0.5	12.5	6.8	-17.2	9.0
Non-oil	5.0	5.4	5.9	6.6	7.0
GDP deflator	16.8	21.3	18.5	-7.9	25.6
Consumer prices (end-of-period)	1.1	3.1	8.1	-1.7	6.0
	(Percent of GDP) [1]				
External sector					
Current account balance (including public transfers)	20.3	11.8	1.6	-26.1	0.6
External public debt service (before debt relief)					
(percent of exports of goods and services)	14.1	11.9	13.7	10.7	4.5
Nominal effective exchange rate	3.4	-0.4	-0.4	5.1	...
	(Percent of GDP) [1]				
Public finance					
Total revenue	69.9	108.2	141.5	113.5	155.5
Total expenditure	61.6	64.7	87.2	84.2	72.4
Primary balance (deficit -)	22.7	58.1	68.6	36.6	90.1
Basic primary non-oil balance (percent of non-oil GDP)	-25.9	-29.6	-51.3	-55.7	-43.2
Oil sector					
World oil price (U.S. dollars per barrel)	37.8	53.4	64.3	71.1	99.8
Oil production (Millions of barrels)	82.1	92.6	98.7	81.7	89.0

[1] Unless otherwise noted.

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

Press Release No. 08/311
FOR IMMEDIATE RELEASE
December 8, 2008

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves US$12.53 Million PRGF Arrangement for the Republic of Congo and Interim Assistance under the Enhanced HIPC Initiative

The Executive Board of the International Monetary Fund (IMF) today approved a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) for the Republic of Congo in an amount equivalent to SDR 8.46 million (about US$12.53 million and 10 percent of quota) in support of the government's economic program for 20082011. The first disbursement under the PRGF arrangement will be in an amount equivalent to SDR 1.21 million (about US$1.79 million).

In addition, the Board granted interim assistance under the Enhanced Initiative for Heavily Indebted Poor Countries (HIPC) in an amount equivalent to SDR 77,000 (about US$ 0.11 million).

Following the Executive Board's discussion on the Republic of Congo, Mr. Murilo Portugal, Deputy Managing Director and Acting Chairman, stated:

“Strong growth in the non-oil sector of the Congolese economy continued and the balance of payments strengthened considerably in 2008. These positive developments were supported by better policy implementation, including the successful implementation of the staff-monitored program during the first semester of this year. The program’s fiscal targets were comfortably met and satisfactory progress was made in structural reform. The authorities also continued to strengthen governance and transparency related to the use of public resources.

“The authorities took a number of measures to mitigate the impact of high food and fuel prices earlier this year, including some tariff and tax reductions, and additional pro-poor and capital spending. The drop in world oil prices will help to reduce general fuel subsidies and could facilitate the authorities’ intended move to a new pricing mechanism.

“Against the background of the global economic slowdown, Congo faces a number of challenges to accelerate growth and alleviate poverty, including the need to improve international competitiveness, raise output growth through diversification, and consolidate the fiscal position. The authorities' medium-term economic and financial program, supported by a new arrangement under the Fund's Poverty Reduction and Growth Facility, should help to address these challenges.

"The authorities' program targets a gradual but continued fiscal consolidation, recognizing the finite horizon for oil production. A decline in the basic non-oil primary fiscal deficit of about 3 percent per year over the medium term would allow scaling up of public investment to address urgent needs, while ensuring a sustainable fiscal path. The reduction in the basic non-oil primary deficit is projected to come from cuts in non-priority spending and domestic revenue mobilization.

"The authorities' structural reform agenda is designed to support broadening of the economic base, bolster Congo's competitiveness, and strengthen transparency. This agenda includes: further reform of public financial management (PFM) through the timely and comprehensive implementation of a PFM action plan established with the assistance of Congo's development partners; enhanced public investment management; adoption and implementation of a financial sector strategy to deepen intermediation; improved operating and financial performance of state-owned enterprises in the oil sector; trade liberalization; and better governance and transparency with regard to the use of public resources more generally.

"Congo's external debt indicators have improved recently but the country has not yet achieved external sustainability. The authorities' program aims to support the regularization of relations with all creditors, the implementation of a new debt management strategy in line with Central African Economic and Monetary Community (CEMAC) regional guidelines—which include access to foreign financing only on highly concessional terms—and debt relief under the Enhanced Initiative for Heavily Indebted Poor Countries (HIPC). In this context, satisfactory performance under the PRGF arrangement and timely implementation of the HIPC triggers are essential," Mr. Portugal said.

ANNEX

Background

The Republic of Congo has experienced strong economic growth in 2008, reflecting the resumption of oil production after an oil-platform accident as well as solid non-oil activity, driven by the telecommunication, construction, and transport sectors. Real GDP growth is projected to be about 7.6 percent in 2008. In 2007 real GDP contracted by 1.6 percent due to a sharp decrease in oil production. Higher food and energy costs pushed up consumer price inflation in the first half of 2008, reaching 5.7 percent in the 12 months through June 2008. Inflation is expected to moderate in the second half of 2008. The fiscal policy performance has improved recently, after a period of budget slippages and delays in implementing structural reforms. Although the basic, non-oil, primary fiscal deficit dipped to 55.7 percent of non-oil GDP in 2007, based on present policies it should improve significantly this year. Driven by high oil exports, the current account is projected to swing from a deficit of 25 percent of GDP last year to a surplus of 0.6 percent of GDP in 2008. Congo's external public debt has declined sharply in the past several years, partly as a result of Paris Club debt rescheduling and debt relief from London Club creditors under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative.

Program Summary

The authorities' medium-term economic program is designed to support balanced growth, low and stable inflation, as well as fiscal and external sustainability. The macroeconomic framework for 2008-11 aims to achieve:

- Annual real GDP growth in the non-oil sector of about 8 percent.
- Low and stable inflation of about 3 percent per year.
- An improvement in the external position with the current account moving into surplus this year, and a rising surplus in the medium term.

Medium-term policies to achieve these objectives include:

- Gradual, but continued fiscal consolidation to ensure steady progress toward long-term sustainability, recognizing the finite horizon for oil production.
- The regional central bank's focus on keeping inflation low within the Central African Economic and Monetary Community (CEMAC).
- Further opening of the economy through trade liberalization.
- Structural reforms in areas critical to the success of the program, including strengthening of public financial management, improvement in the financial and operating performance of state-owned enterprises, and adoption and implementation of the financial sector strategy.

Republic of Congo: Selected Economic and Financial Indicators, 2004–08

	2004	2005	2006	2007 Est.	2008 Proj.
		(Annual percent change)			
Output and inflation					
GDP at constant prices	3.5	7.8	6.2	-1.6	7.6
Oil	0.5	12.5	6.8	-17.2	9.0
Non-oil	5.0	5.4	5.9	6.6	7.0
GDP deflator	16.8	21.3	18.5	-7.9	25.6
Consumer prices (end-of-period)	1.1	3.1	8.1	-1.7	6.0
		(Percent of GDP) [1]			
External sector					
Current account balance (including public transfers)	20.3	11.8	1.6	-26.1	0.6
External public debt service (before debt relief) (percent of exports of goods and services)	14.1	11.9	13.7	10.7	4.5
Nominal effective exchange rate	3.4	-0.4	-0.4	5.1	...
		(Percent of GDP) [1]			
Public finance					
Total revenue	69.9	108.2	141.5	113.5	155.5
Total expenditure	61.6	64.7	87.2	84.2	72.4
Primary balance (deficit -)	22.7	58.1	68.6	36.6	90.1
Basic primary non-oil balance (percent of non-oil GDP)	-25.9	-29.6	-51.3	-55.7	-43.2
Oil sector					
World oil price (U.S. dollars per barrel)	37.8	53.4	64.3	71.1	99.8
Oil production (Millions of barrels)	82.1	92.6	98.7	81.7	89.0

[1] Unless otherwise noted.

Statement by Laurean Rutayisire, Executive Director for the Republic of Congo
December 8, 2008

I. Introduction

On behalf of my Congolese authorities, I thank staff for the constructive dialogue during the Article IV consultations and the review of the Staff-Monitored Program (SMP). I would also like to thank the Executive Board and Management for the continued support to the Republic of Congo. The authorities appreciate the set of reports prepared for Board consideration, which highlight key strategic areas that could help the country enhance growth in a sustainable manner with a view to reducing poverty, while preserving fiscal and external sustainability.

At the outset, I would like to recall the backdrop that sheds light on the efforts of my Congolese authorities and their unyielding commitment and achievements in securing macroeconomic stability and implementing structural reforms over the past years. The implementation of the PRGF arrangement signed in 2004 was steady, amid numerous challenges related to the civil conflict aftermath. In 2006, the program was undermined by fiscal slippages stemming from unavoidable spending sources, namely the high cost of carrying out democratic elections and building strong institutions, building social and economic infrastructure following a destructive conflict, and containing spillovers from political instability in the central Africa region.

In 2007, my Congolese authorities, cognizant of the need to resume sound economic management, have embarked on a SMP with a view to consolidating the fiscal stance, establishing a good track record paving the way for a new PRGF arrangement. To date, after implementing two SMPs, staff's assessment concurred that my authorities have made good progress in improving public financial management, especially fiscal consolidation, enhancing governance and transparency and implementing structural reforms aimed at diversifying the economy. Growth is projected to reach 7.6 percent in 2008 and all fiscal targets under the last SMP were comfortably met. On several other fronts, the Republic of Congo has also been performing well. After developing an interim Poverty Reduction Strategy that led the country to the decision point under the enhanced HIPC Initiative in March 2006, the final PRSP was completed in April 2008. The authorities are moving steadfastly on the triggers for the HIPC floating completion point.

My authorities' agenda for the coming years builds on these positive achievements as well as lessons from the past, while taking account of the daunting challenges ahead. To accompany their efforts, my Congolese authorities are requesting Directors' support for a new three-year

PRGF arrangement. They are confident that the key policies set forth in this program, along with the PRS will help foster growth, diversify the economy away from oil, further improve public financial management, enhance governance and transparency, build human and physical capacity, consolidate macroeconomic stability, and reduce poverty.

II. Recent Macroeconomic Developments and Performance under the SMP

Congo's macroeconomic performance has been strong over 2007-08. The projected end-year rate of 7.6 percent owes to a resumption of oil production and buoyant non-oil activity, driven by the telecommunications, construction, and transportation sectors. Inflation recently accelerated as a result of high food and energy prices, but should ease in the period ahead. High world oil prices associated with authorities' measures to ensure expenditure discipline and strong non-oil tax collection, substantially improved the fiscal position.
The authorities have stepped up actions to strengthen their external position. After obtaining debt rescheduling from Paris Club and London Club creditors under the enhanced HIPC Initiative, they are negotiating fair settlements with all creditors. It is also worth mentioning that FDI continues to expand in the oil sector, partly as a result of investments in newly discovered fields.

The SMP implementation was broadly satisfactory. At the end of June 2008, the indicative target for the non-oil basic primary deficit was met comfortably, demonstrating the authorities' ability to control and monitor public spending. All other quantitative targets were observed, but external arrears to some Paris Club members accumulated. On the structural front, the government made progress in the areas of public financial management by adopting and beginning to implement an action plan. The authorities also took measures to better control and manage public investment, including an audit of past investments, the creation of an inter-ministerial committee and an advisory body to provide guidance and project appraisal.

As regards the oil sector, very bold actions to improve transparency and ensure sound management of oil revenue have been taken. In that regard, my authorities are implementing an action plan to improve the operating and financial performance of the state-owned oil refinery, CORAF. In the same line, they have prepared a draft strategy to address institutional and procedural deficiencies in the commercialization of Congolese oil by SNPC, and have pursued the certification of oil revenue, in order to safeguard oil resources. In February 2008, Congo became a candidate country to the Extractive Industries Transparency Initiative (EITI) and continues working toward completing the first EITI report before the end of this year. In early October 2008, as a prior action to support their request for a new PRGF arrangement, the authorities proceeded with a price adjustment of petroleum products that would reduce subsidies significantly. The publication on the government website of all information agreed with the Fund has continued as a means to further improve transparency.

III. Medium-Term Prospects and Economic Policies

My Congolese authorities are determined to continue with the implementation of economic policies that aim at supporting balanced growth, low and stable inflation, and fiscal and external sustainability. They are also committed to pursuing efforts to reach the completion point under the enhanced HIPC Initiative.

The economic prospects appear favorable, with relatively high world oil prices, the full resumption of oil production from the Nkossa field, and the start of production in the new Moho Bilondo field. Expansion of volumes should compensate if price were to fall. As a result, the overall real GDP is expected to rise from 7.6 percent in 2008 to nearly 13 percent in 2009. Inflation is planned to remain high this year, but to moderate in 2009, as the impact of recent high food and energy costs dissipate.

To support the objectives put forward in their macroeconomic framework, my authorities intend to achieve over the medium-term a more robust growth in the non-oil sector, about 8 percent per year. They believe this constitutes the minimum necessary to reduce poverty durably and to make meaningful progress toward improving income and meeting the MDGs. In this regard, the authorities intend to rebuild the country's infrastructure, which was damaged by several years of conflict. In particular, they will place high priority on investment projects in transportation, energy and water, as well as in the social sector.

1. Fiscal Policy

For the rest of 2008, the fiscal stance will remain consistent with targets set earlier this year in the SMP, including a reduction of the basic non-oil primary deficit to 43.2 percent of non-oil GDP. For 2009, the program envisages a further decline in the basic non-oil primary deficit to 40.2 percent of non-oil GDP, based on nominal cuts in non-priority spending, including further decline in fuel subsidies. To ensure a better management of the budget, the authorities intend to undertake a number of PFM measures, such as submitting to Parliament next year's budget consistent with the targets under the proposed PRGF arrangement and using economic, functional and administrative classifications. They will also adopt a three-year action plan to improve public investment management. It is also the authorities' intention to prepare a medium-term expenditure framework, which can ensure adequate implementation of public expenditure and tracking of pro-poor spending. To enhance transparency and accountability and strengthen oil revenue, my authorities will continue with quarterly certification of oil revenues and lodge the proceeds in the Treasury within 45 days of oil sales.

2. Monetary and Financial Sector Policies

The pegged exchange rate regime has served the congolese economy well. The authorities are taking the necessary actions to maintain low and stable inflation in line with the CEMAC convergence criterion, which will help preserve Congo's international competitiveness. To facilitate the implementation of monetary policy, they intend to continue to reduce the stock of statutory advances, with a view to repaying them fully by the end of 2008. The authorities also continue to work closely with the CEMAC partners to develop the regional securities market.

Cognizant of the key role a dynamic financial sector plays in the development of private sector activity, the authorities will adopt by the end of this year the financial sector strategy established in collaboration with Fund staff. This strategy will contribute to expand credit to the private sector, strengthen the legal framework, improve information on the cost of credit and credit history, diversify financial instruments, and ensure that the country's pension system is placed on a sound footing.

3. Debt management and Structural Policies

Despite recent improvements, Congo is still at high risk of debt distress. Accordingly, my authorities are determined to pursue a prudent management of the debt. In this regard, they are committed to finance development through their own resources and to seek foreign financing only on highly concessional terms. They also intend to accelerate efforts to regularize relations with all creditors, including non-London Club and litigating creditors. It is also their priority to implement in the coming year a new debt management strategy, in line with CEMAC regional guidelines.

The structural agenda will aim at continuing to strengthen public financial management, further enhancing governance and transparency over the use of public resources, and accelerating financial and oil sector reforms. At the same time, the authorities are determined to implement the triggers under the enhanced HIPC Initiative, which encompass a broad range of structural measures. Finally, the authorities intend to accelerate reform of public enterprises, in order to enhance efficiency. For the oil sector especially, my authorities intend to finalize by mid-2009 a strategic study on how this sector can make the greatest contribution to Congo's economic development.

IV. CONCLUSION

Congo is a post-conflict country facing daunting development challenges. Amid difficult pressures, my authorities have endeavored to build a good track record over the last period to resume with sound policymaking and fully regain the trust of the international partners. All signs to date indicate that the Republic of Congo is back on track, and efforts need to be sustained. On this path, my authorities strongly believe that the assistance from the Fund and the donor community is of great importance if they are to tackle successfully the issues of sustained growth, debt relief, broad-based economy and poverty reduction. My authorities are committed to strengthen domestic capacity for program ownership in order to ensure a successful implementation of reforms. My Congolese authorities are hopeful that they can continue to count on the donor community to provide them with the necessary support to their development efforts.