

**Republic of Congo: 2010 Article IV Consultation and Fourth Review Under the Three-Year Arrangement Under the Extended Credit Facility, and Request for Modification of Performance Criteria—Staff Report; Staff 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 2010 Article IV consultation with the Republic of Congo and Fourth Review Under the Three-Year Arrangement Under the Extended Credit Facility, and Request for Modification of Performance Criteria, the following documents have been released and are included in this package:

- The staff report for the combined 2010 Article IV consultation and Fourth Review Under the Three-Year Arrangement Under the Extended Credit Facility, and Request for Modification of Performance Criteria, prepared by a staff team of the IMF, following discussions that ended on November 22, 2010, 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 December 20, 2010. 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 of December 20, 2010.
- A Public Information Notice (PIN) and Press Release, summarizing the views of the Executive Board as expressed during its January 19, 2011, 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.

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 2010 Article IV Consultation and Fourth Review  
Under the Three-Year Arrangement Under the Extended Credit Facility,  
and Request for Modification of Performance Criterion**

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

Approved by Domenico Fanizza and Dhaneshwar Ghura

December 20, 2010

- **Discussions:** Held in Brazzaville, November 9–22, 2010 with Finance Minister Ondongo, National Director of the Banque des Etats de l’Afrique Centrale (BEAC) Ondaye, and other senior government officials, representatives of the diplomatic and donor community, the UN High Commissioner for Refugees, the private sector, and the media. The team comprising Ms. Baker (head), Mr. Mpatwe, Ms. Tartari (all AFR), Mr. Caceres (FAD), and Mr. Maseda (BLS) was assisted by Mr. Melhado, resident representative.
- **Past Surveillance:** The authorities have implemented policies broadly in line with past advice aimed at achieving long term fiscal and external sustainability, and supporting sustained high non-oil growth. Measures have also been implemented to strengthen governance and transparency in the oil sector. Policy initiatives to date to raise competitiveness and improve the business climate have been limited, and progress on improving social service provision has lagged.
- **Program implementation:** Observed all performance criteria and structural benchmarks through the end-June test date for the Fourth Review. Some expenditure pressures were observed in the third quarter; the authorities are taking measures.
- **Exchange rate:** Member of the Central African Economic and Monetary Community (CEMAC). The common currency, the CFA franc, is pegged at the fixed exchange rate of CFA franc 656 per euro. CEMAC member countries accepted the obligations of Article VIII in 1996.
- **Data:** Adequate for surveillance. Improvements in timeliness, coverage, periodicity, and methodological consistency would strengthen monitoring and policymaking.
- The authorities consent to the publication of this report, and the Letter of Intent and Memorandum of Economic and Financial Policies supporting the Fourth Review.

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## EXECUTIVE SUMMARY

Through the HIPC process, the authorities began to address policy challenges and economic fragilities. As a result, the economy has become more resilient and policy making and transparency in oil wealth management have improved. Yet, formidable development challenges remain. The authorities plan to scale up capital spending to ease infrastructure bottlenecks, financed mostly by own resources. Discussions focused on balancing development needs and fiscal sustainability, and policies to strengthen the business climate.

### *Background and outlook*

Congo weathered the global downturn well, and indicators point to an acceleration in economic activity. The outlook is favorable, provided public investment and policies to strengthen the business climate are successful in raising future non-oil growth.

### *The Authorities' policies and views*

- In support of fiscal consolidation, efforts focus on raising non-oil revenue collection and reducing current expenditure to make space for higher capital spending while continuing to save a large share of oil revenue.
- Measures are being taken to safeguard investment efficiency, including strengthening public financial management and project appraisal, implementation and monitoring.
- Significant challenges remain to increasing credit to the private sector, despite elimination of interest rate ceilings and regulations aimed at transparency in lending.
- Guided by the newly adopted action plan to improve the business climate, work is in train to foster public-private dialogue and establish an investment promotion agency.

### *Staff's recommendations*

- Program performance through end-June was satisfactory. All performance criteria and structural benchmarks were met.
- The broad thrust of fiscal policy is appropriate, but sustained consolidation efforts are required to achieve sustainability.
- Strong public financial management is key to successfully implementing the 2011 fiscal program. To safeguard public investment efficiency, the procedures put in place during the HIPC process should be used consistently, starting with project prioritization and appraisal, and supported by heightened monitoring.
- Prospects depend critically on developing a strong non-oil sector. Frontloading of actions to reduce the cost of doing business, strengthen human capital and resolve land-use issues should complement basic infrastructure, and be supported by policies to increase credit to the private sector, including by lowering the cost of collateral.

Staff recommends completion of the Fourth Review under the Three-Year ECF arrangement on the basis of performance to date and the strength of the program.

## I. THE ECONOMIC AGENDA

1. The road leading to the HIPC completion point was long, with a pronounced period of adjustment during which the poor did not perceive an increase in welfare in line with Congo's burgeoning oil wealth. Yet, through this process, the authorities began to address policy challenges and economic fragilities, making strides toward macroeconomic stability and fiscal sustainability. They also made progress on improving public financial management and took some initial steps to strengthen institutions. As a result, the economy has become more resilient and policy making and transparency in the management of oil resources have improved.

2. With HIPC behind them, the authorities aim to address challenges posed by still-high poverty and oil dominance, setting their sights on the next phase of development—fostering a dynamic non-oil sector. And, building on gains in macroeconomic and external stability, they plan to redouble efforts to reduce poverty and bring the benefits of stability and oil wealth to the people. Their three-pronged approach focuses on (a) investing in basic infrastructure and human capital, (b) raising pro-poor spending, and (c) supporting growth of the non-oil economy. At the outset, key public infrastructure will be completed to ease bottlenecks in transportation and public utilities which have held back non-oil activity, while upgrading and constructing new health and education buildings.

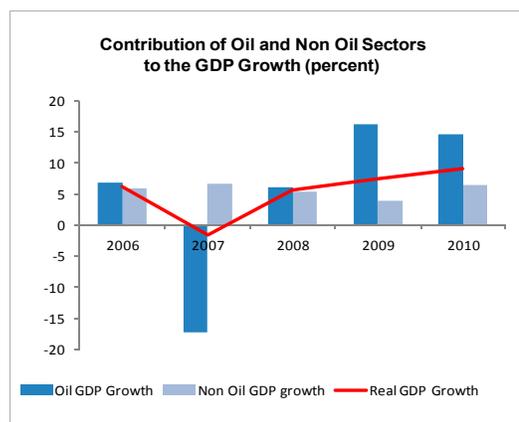
3. Discussions focused on the authorities' shift in policy direction. Key issues included striking a balance between development needs and safeguarding stability and sustainability; the steps the government could begin to take to strengthen the business climate; as well as the need for greater focus on improving health and education services.

## II. PROGRESS TOWARD ACHIEVING POLICY OBJECTIVES

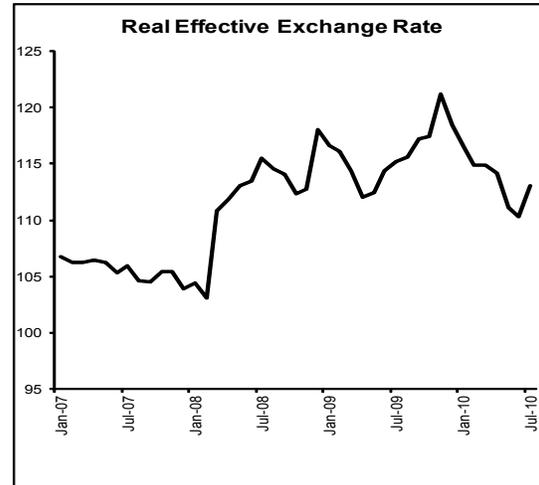
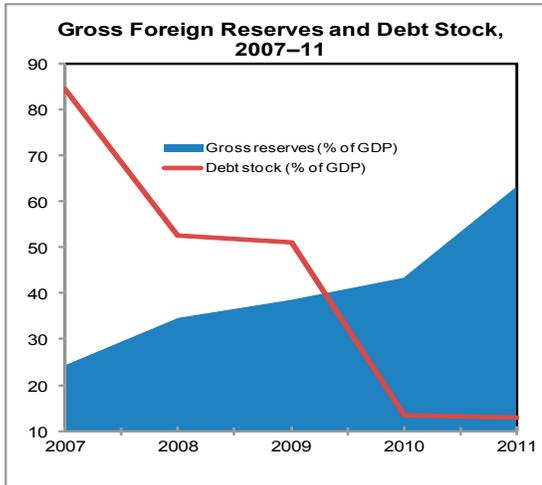
*Despite the global downturn, developments since the last Article IV have been positive and Congo is reaping the benefits of sustained policy implementation and HIPC debt relief. Yet, progress to date in social areas such as health and education has been disappointing.*

### 4. **Economic resilience has increased markedly since 2008, despite oil dominance.**

- Macroeconomic stability is now well established. Economic activity remained robust as the global economy faltered, buoyed by rising production and sustained non-oil growth in construction, telecommunication and transport, which more than offset the hard-hit timber market. Inflation returned to the low single digits.



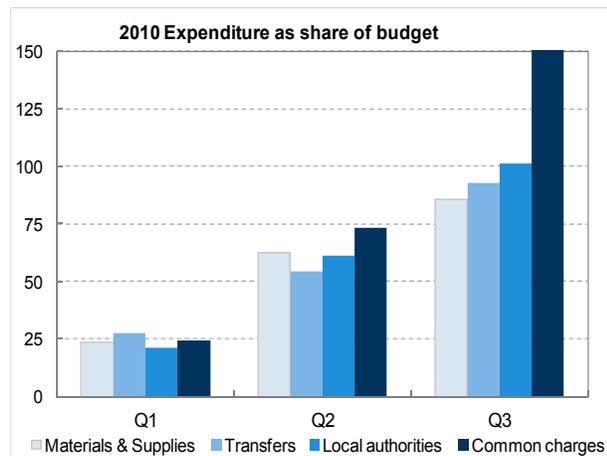
- The external position improved significantly despite the massive terms of trade shock in 2009. Official foreign assets were buoyed by overall fiscal surpluses, while HIPC debt relief reduced external liabilities. The real effective exchange rate strengthened.



**5. Fiscal consolidation through June 2010 progressed somewhat faster than envisioned at the time of the last Article IV consultation, but spending pressures began to mount in the third quarter.**

- As oil revenues plummeted in 2009, the authorities slashed current expenditure while modestly raising non-oil revenue collection to register a consolidation of the basic non-oil primary deficit (BNOPD) of 8½ percentage points of non-oil GDP.
- Consolidation continued in the first half of 2010, with revenue over performance and under execution of capital projects more than offsetting a tick up in current expenditure across spending categories. The authorities observed the end-June BNOPD program target.

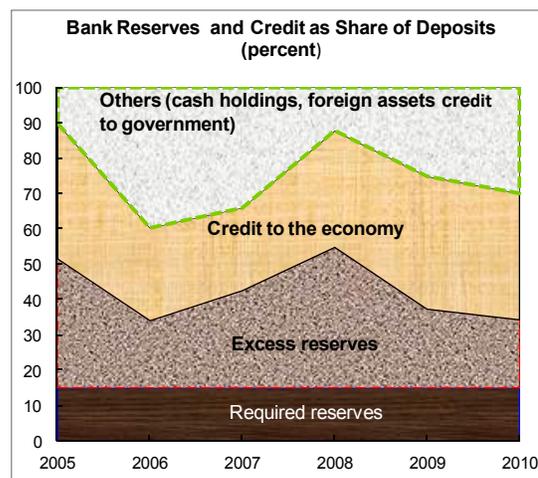
- Preliminary data indicate that current spending pressures intensified in the third quarter, rising to 93 percent of annual budget allocation by end-September. About half of the increase is estimated to be due to the need for the government to respond with increasing public resources to the refugee crisis in



the North of the country and a move toward a pay-for-use system for some public utility services.<sup>1,2</sup> Part was also due to overruns associated with the Fiftieth Anniversary of Congo's Independence celebrated in August. A recent severe outbreak of polio has necessitated a mass vaccination campaign, placing further strains on government finances.

#### 6. **Liquidity conditions remain ample and the underdeveloped banking sector**

**appears generally sound.** Entry of two new banks has increased competition and pushed lending rates down slightly, but total outstanding credit to the private sector remains small at less than 4 percent of GDP, and excess reserve and cash holdings are large. While financial sector soundness indicators do not raise red flags, problems have been identified in one small non-systemic bank accounting for about 3 percent of total banking sector assets. Under the action plan the bank has until end December 2010 to meet prudential ratios or be liquidated.



7. **Progress was made in addressing institutional weaknesses in the context of the HIPC process.** The authorities took steps to strengthen public financial management through establishing a functional classification of expenditure, integrating public investment into the 2010 budget process through the medium term expenditure framework (MTEF), and rationalizing budget execution procedures. They also adopted and have implemented a new procurement code, which supports transparency and competition. Oil sector transparency and governance has been improved through quarterly certification of oil revenues and transfer of oil receipts to the treasury within 45 days of shipment (structural benchmarks).

<sup>1</sup> The UN High Commissioner for Refugees reports that there are 115,000 refugees in Congo, more than 80 percent women and children, of which 39,000 attend school. Camps are spread over 500 km along the river on 106 sites. The government has been increasingly providing logistics and security services, in addition to schooling for those students not in refugee schools and some medical services. Exact amounts are difficult to pin point as they span various expenditure categories (transfers, materials/supplies, and local authorities).

<sup>2</sup> Since meters had been destroyed in the war, common charges for electricity, water and telecoms were being charged on a flat rate basis, with a detrimental impact on the balance sheets of public utilities in these sectors. Some public utility companies have started implementing meters and pay-for-use billing systems, which will also apply to services provided to state institutions.

8. **At the same time, tangible improvement in key social areas such as the provision of health and education services has yet to become apparent.**<sup>3</sup> While the 2011 draft budget contains higher spending, less than 5 percent of the overall budget is allocated to health and education, much of which is targeted toward infrastructure not service provision, and strategies to place doctors and teachers in rural areas face challenges.<sup>4</sup>

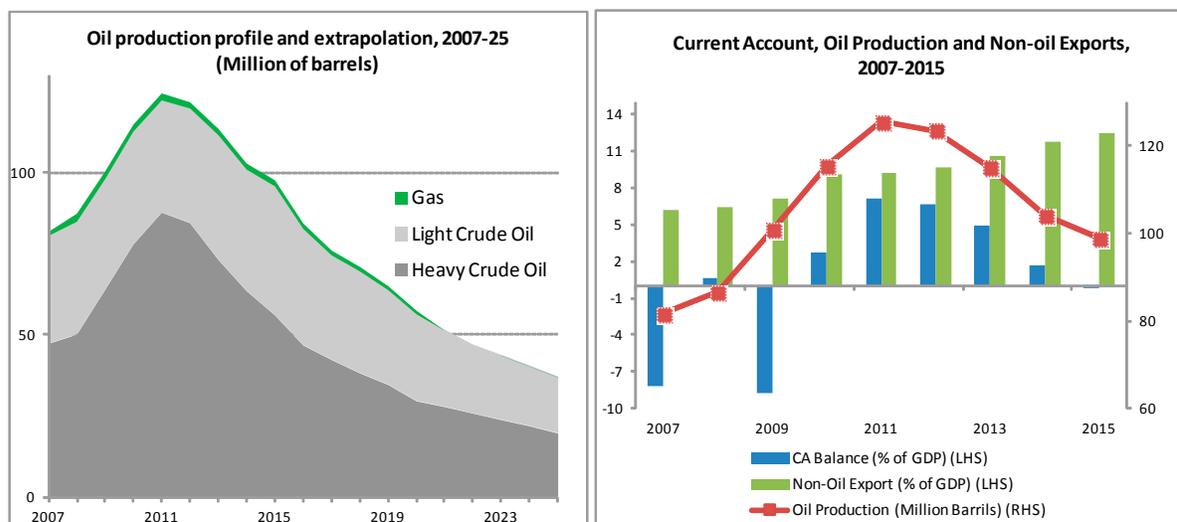
### III. PROSPECTS AND RISKS IN THE POST-HIPC ERA

9. **The outlook is favorable, despite continued high dependence on oil.** Oil production in currently operational fields is expected to peak in 2011, but new contracts may be signed following the change in the oil taxation regime underway leading to new fields coming on stream by 2015. Prospects for the non-oil economy depend on the success of public investment in basic infrastructure and improvements in the business climate in raising future growth. In the near term, growth will be supported by strong activity in the construction, telecoms and transport sectors related in large part to the scaling up of public investment, but looking ahead activity will need to increasingly rely on private sector participation in the economy. There are strong indications that economic activity is accelerating, and growth is forecast to reach 9 percent in 2010. Under the baseline scenario, non-oil growth is expected to pickup markedly over the medium term (from a low base) as infrastructure projects are completed, but oil dominance would remain. Inflation would remain somewhat higher than trading partners over the near term, as bottlenecks in transportation limit the supply of consumption and investment goods in the capital city, but decline steadily as projects to increase rail and road capacity are completed. In the absence of new oil fields coming on stream, the current account would return to deficit by the end of the medium term. However, debt sustainability would further strengthen given the appreciable decline in the net external debt ratio as gross official foreign assets rise to above 135 percent of GDP in 2015.

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<sup>3</sup>Congo's social indicators remain weak and in some cases—notably health—have worsened (Table 8).

<sup>4</sup>Lack of basic infrastructure, housing and public services in rural areas has thwarted attempts to hire and place medical and education professionals in the most underserved regions.



10. **The outlook is subject to domestic as well as external risks.** In addition to risks stemming from oil price volatility or lower oil production, downside risks center around uncertainties about the ability of public investment and structural reform to raise future growth, deliver promised poverty reduction and strengthen social cohesion. Risks to fiscal sustainability and policy credibility are heightened by ambitious planned revenue and expenditure measures. New oil discoveries are an upside risk.

Republic of Congo: Medium Term Macroeconomic Framework <sup>1/</sup>								
<i>(in percent of GDP unless otherwise indicated)</i>								
	2008	2009	2010	2011	2012	2013	2014	2015
	Est.	Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Real GDP (percentage change)	5.6	7.5	9.1	7.8	4.7	4.9	5.9	7.2
<i>Oil</i>	6.1	16.2	14.7	8.8	-1.7	-6.8	-9.4	-5.0
<i>Non-oil</i>	5.4	3.9	6.5	7.3	7.9	10.2	11.7	11.1
External current account balance	0.6	-8.7	2.7	7.1	6.6	5.0	1.6	-0.1
Basic non-oil primary fiscal balance (deficit -)								
<i>in percent of non-oil GDP</i>	-44.3	-36.0	-34.7	-34.5	-33.9	-31.3	-28.1	-25.7
Gross official foreign reserves (in bn CFAF)	1,825	1,740	2,494	4,115	5,894	7,726	9,246	10,709
<i>in percent of GDP</i>	34.6	38.5	43.3	63.1	84.4	106.5	123.6	135.6
External public debt	51.5	50.0	12.5	12.2	12.5	13.1	13.7	13.9

<sup>1/</sup> The baseline scenario is based on the staff's medium-term projection.  
Sources: Congolese authorities; and Fund staff estimates and projections.

#### IV. BALANCING DEVELOPMENT NEEDS AND FISCAL SUSTAINABILITY

*Formidable development challenges remain in both basic infrastructure and social service provision. With the country on a stronger economic footing, the authorities plan to step up efforts to reduce infrastructure bottlenecks. Discussions focused on striking an appropriate balance between scaling up expenditure and fiscal sustainability.*

## Fiscal policy

11. **The authorities are taking measures to solidify 2010 consolidation efforts.** As previously noted, the authorities experienced spending pressures in the third quarter, some related to unforeseen humanitarian and utility costs, but also overruns attributable mainly to the Fifty-year Independence celebration, with little pro-growth impact. Aided by the seasonal drop off in spending in the fourth quarter, they are taking measures to rein in current spending while building on over performance in non-oil revenue by strengthening customs collection and ensuring that dividends from profitable public enterprises are collected. Allowing for additional humanitarian and immunization spending and the change in the utility billing system, the authorities expect a consolidation in 2010 of 1.3 percentage points of non-oil GDP in 2010, bringing consolidation over the first two years under the three-year ECF arrangement to 9.6 percentage points of GDP. The authorities noted that such an adjustment is broadly equivalent to the three year adjustment contained in the original program (IMF Country Report No. 09/74), and could justify a slower pace of consolidation in order to address development challenges which are holding back non-oil growth and poverty reduction.

12. **With HIPC behind them and ample policy buffers, starting with the 2011 budget the authorities plan to scale up public investment, while continuing to save a large share of oil revenue.**<sup>5</sup> They pointed to paved road density in Congo that is one-quarter that of Sub-Saharan Africa and the country's insufficient and unreliable electricity supply.<sup>6</sup> They stressed that frontloading public investment will lay the foundation for future growth, which is key for job creation and poverty reduction as oil production declines, and rebuffed the validity of anchoring policy strictly on a permanent income model that does not differential between consumption and investment spending.

13. **That said, the authorities reiterated their commitment to fiscal sustainability and investment efficiency.** Their 2011 BNOPD target of CFAF 753 billion (34.5 percent of non-oil GDP) is consistent with the consolidation envisioned in the original program. They plan to achieve this target through further efforts to strengthen non-oil revenue collection and restrain current expenditure to make space for a 37 percent increase in domestically financed public investment, while continuing to save a large share of oil revenue. Specific actions the authorities intend to take include:

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<sup>5</sup> The draft 2011 budget is expected to be adopted by parliament by December 31, 2010.

<sup>6</sup> The World Bank's Africa Infrastructure Diagnostic for Congo identifies transportation and electricity bottlenecks as the key factors restraining growth, and estimates that raising the infrastructure platform to the level of Mauritius would increase per capita GDP growth by 3.7 percent per year.

- *Non-oil revenue*: measures to broaden the tax base (payment of forestry and telecoms royalties to the treasury, taxation of transactions related to public contracts); reduce exonerations; and improve administration, with particular emphasis on customs appraisal and control. The expected net gain is 1 percentage point of non-oil GDP.
- *Current expenditure*: continue efforts begun in early 2009 to reduce current expenditure, focusing on bringing transfers and spending on materials and supplies down from the high levels experienced in 2010 due to one-off events. The expected reduction in non-wage primary current expenditure is 2.9 percentage points of non-oil GDP. While appearing ambitious relative to the high base of 2010, compared to 2009 the decline mostly reflects lower transfers to loss-making state enterprises.
- *Domestically financed capital expenditure*: carry out the necessary investment for growth and poverty reduction taking into account capacity constraints. While continuing to pursue additional sources of non-oil revenue, in the event these fail to materialize, cap domestically financed capital expenditure (excluding the use of HIPC interim assistance funds) at CFAF 650 billion through project prioritization and use of strict measures to ensure project quality. While somewhat lower than that envisioned in the 2011 draft budget, this envelope is sufficiently ample to cover execution of all projects currently in train and the launch of new priority projects.<sup>7</sup> The authorities will continue to finance investment mostly out of their own resources, with some highly concessional foreign co-funding.

14. **The authorities are conscious of the risks that ongoing current expenditure pressures place on their deficit target, and stand ready to take measures.** Pressures may emanate from an unresolved refugee crisis, the impact of inflation on spending on materials and supplies, higher transfers to compensate for royalties being paid into the treasury, the need for more healthcare and education professionals, and rising operations and maintenance costs as infrastructure projects are completed. A preliminary costing of the planned three-year phase-in of the civil service reform which takes effect in January 2011 does not appear to put undue pressure on public finances.<sup>8</sup> The authorities will remain vigilant and reduce non-priority current outlays to meet the deficit target while protecting social spending, which appears feasible given still-high total current spending.

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<sup>7</sup> A World Bank assessment identified more than 75 percent of projects as pro-poor or pro-growth (value terms).

<sup>8</sup> The civil service reform (a) rolls back the moratorium in place since 1994 on civil servants receiving wage payments stemming from promotions, and includes (b) a reclassification of job grades and (c) a new merit-based salary scale. Parallel efforts to reduce ghost workers and eliminate workers collecting multiple salaries have begun to show results. After a slight tick up in 2011, the wage bill would resume a downward trend.

15. **Over the medium term the authorities will continue efforts toward achieving fiscal sustainability.** Ongoing efforts to boost non-oil revenue will be redoubled through a planned tax reform aimed at broadening the tax base and reducing complexity (with FAD technical assistance), and significant efforts to strengthen tax administration. On expenditure, current spending will be streamlined to make space for increased social service provision and operations and maintenance costs, and while investment expenditure is expected to remain elevated over the near term, it will come down as major projects are completed. (Box 1)

### **Structural fiscal measures**

16. **Despite progress on PFM, the authorities recognize that there is still work to be done on addressing weaknesses in budgetary control and treasury operations.** They are increasing vigilance over the length of the budgetary chain, and plan to work with development partners to strengthen treasury operations.

17. **The authorities plan to redouble efforts to safeguard public investment quality by more fully employing the toolkit developed as part of the HIPC process.** Beginning with the appraisal process, the authorities will ensure that all projects have a feasibility study and are aligned with the MTEF, and re-enforce budget execution procedures and controls at the commitment stage of the expenditure chain. They will also complement competitive bidding under the procurement code with increased coordination among agencies involved in the investment process, and prepare a procurement plan for 2011 with quarterly monitoring reports, in collaboration with the World Bank.

## **V. SUPPORTING ECONOMIC DIVERSIFICATION**

*The authorities are in the process of developing a second generation Poverty Reduction Strategy for 2011–16. Identified motors of growth include agriculture and agro-industry, and transportation through development of a transit corridor to central Africa. Discussions focused on putting in place the necessary conditions for private sector-led non-oil growth.*

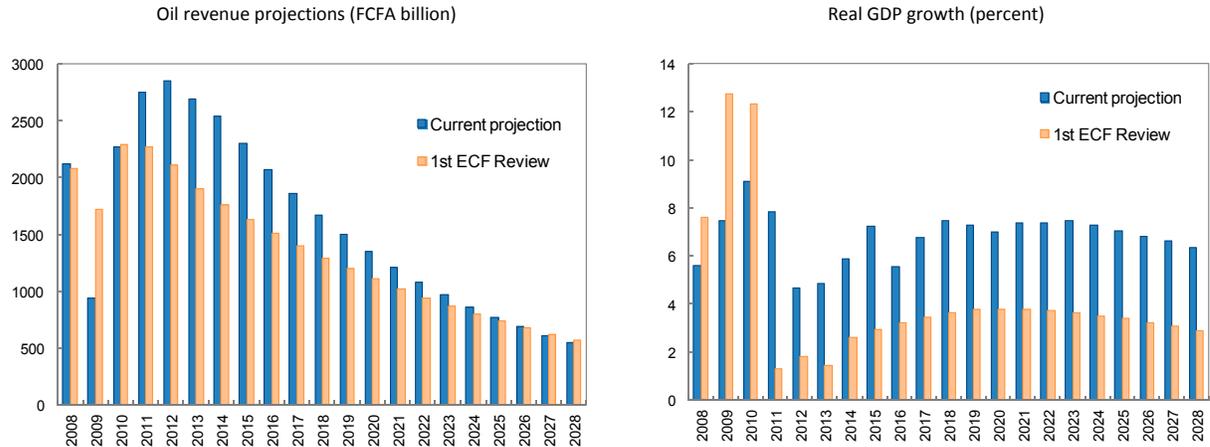
18. **The authorities have taken some measures to increase banking sector credit to the private sector, but large challenges remain.** They have allowed greater competition through the entry of new banks; begun eliminating ceilings on lending rates; and pushed for greater transparency of loan conditions, including publication of the complete costs of loan offerings, including fees and charges. They have also had some success in increasing the use of banking services by paying some wages and pensions through direct deposit, eliminating account fees, and closing the postal bank, although the latter has reduced financial service coverage in rural areas. Despite these efforts, credit to the private sector has increased only modestly, reflecting the low capacity of SMEs to produce financial statements and business plans, the lack of quality projects, and the high cost of collateral.

### Box 1: Update on Fiscal Sustainability

Congo has achieved significant fiscal consolidation over the course of the current ECF program (Country Report No. 09/74), with a projected reduction in the basic non-oil primary balance of almost 10 percent of non-oil GDP over 2008 and 2010. Despite this sizeable progress, further consolidation efforts are needed to ensure fiscal sustainability.

**Key variables affecting the sustainable fiscal deficit are now projected to be more favorable than at the beginning of the ECF program**, notably the oil and growth profiles. Oil revenues (in cumulative terms) over 2008–28 are projected to be 18 percent higher (Figure 1; left panel), mostly due to larger expected oil production (12 percent higher). Projected nominal GDP growth is also higher, mostly reflecting growth-enhancing public investment.

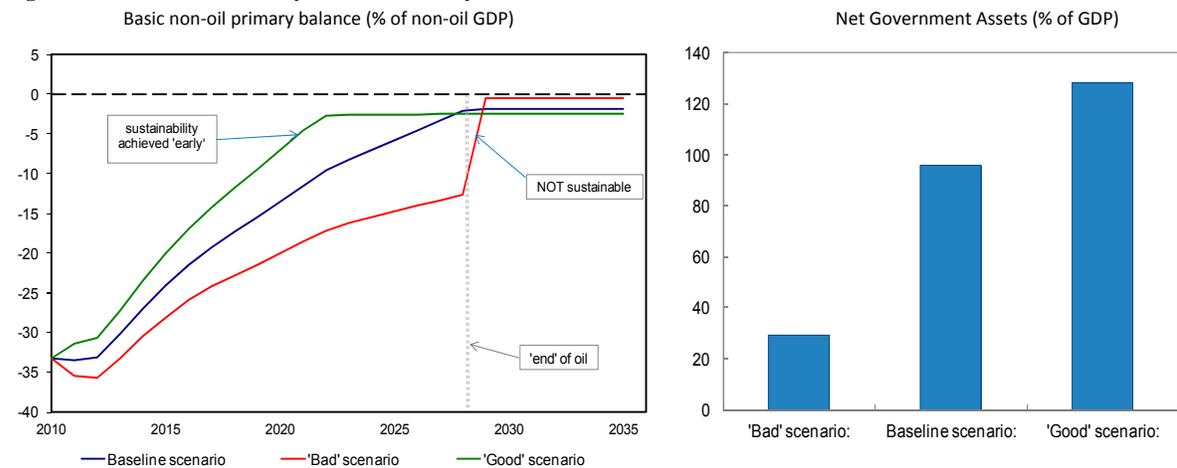
**Figure 1: Current projections and the projections at the beginning of the three-year ECF program**



Source: IMF staff calculations.

**To illustrate possible adjustment paths we consider three scenarios:** a baseline in which sustainability is reached by the time oil is exhausted in 2028 (a 1.8 percentage point average consolidation per year); a “good” scenario with a faster rate of consolidation; and a “bad” scenario with a slower pace of consolidation. Under the baseline net government assets amounting to around 96 percent of GDP are accumulated by the end of the oil period, implying a sustainable long-term primary deficit of 1.8 percent of GDP annually. Under the “good” scenario, fiscal sustainability is attained earlier (by 2022), and a net asset accumulation of 128 percent of GDP could sustain a long-term primary deficit of 2.4 percent of GDP. Conversely, under slower consolidation, a significant fiscal adjustment would be needed at the end of the oil period to reach a sustainable long-term primary deficit of 0.5 percent of GDP.

**Figure 2: Fiscal sustainability—scenario analysis**

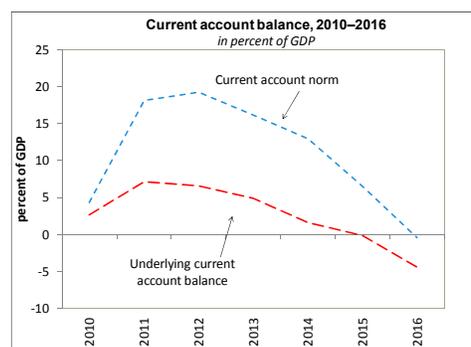


Source: IMF staff calculations.

19. **The authorities have recently adopted an action plan to improve the business climate.** The near-term priorities contained in the comprehensive plan include improving public-private dialogue; simplifying and making the tax system more business friendly; ensuring investment security; and addressing issues related to land use and tenure, such as the use of long-term leasing. With the help of development partners, the council for public private dialogue is operational, while work is already in train to establish an agency for investment promotion, an industrial standard setting agency, as well as an office for the protection of intellectual property.

## VI. OTHER SURVEILLANCE ISSUES

20. **The exchange rate regime has anchored macrostability in Congo,** and the real effective exchange rate is broadly in line with policy dependant medium term fundamentals given the uncertainty surrounding such estimates.<sup>9</sup> However, external stability in the CEMAC region requires regionally lower public expenditure and structural reforms to bring the real effective exchange rate in line with medium-term fundamentals.



## VII. THE FOURTH REVIEW UNDER THE ECF—GROWTH ORIENTED POLICIES

21. **Program implementation through June was satisfactory.** All quantitative performance criteria and structural benchmarks were met, including the strategic study of the oil sector (end-September structural benchmark) (Table 6). Net domestic financing was higher, reflecting in part lower oil revenue.

22. **Policies over the remainder of 2010 are aimed at sustaining fiscal consolidation.** The revised BNOPD target of CFAF 663 billion (Appendix I, LOI, Table 1), reflects (a) higher outlays to address the refugee crisis in the North of the

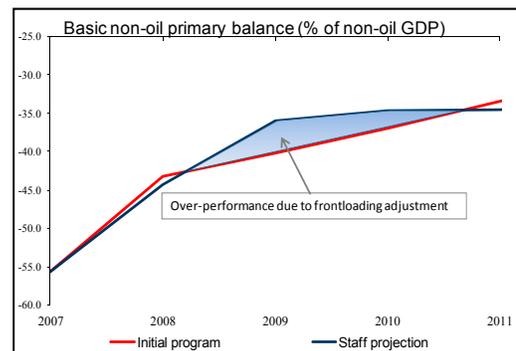
Quantitative Targets and Performance, 2010 (Billions of CFA francs; cumulative from January; unless otherwise indicated)				
	End-Mar. 2010		End-Jun. 2010	
	Prog.	Est.	Prog.	Est.
<b>Quantitative targets</b>				
Basic Non-oil primary fiscal balance (floor)	-181	-180	-363	-350
New medium or long-term nonconcessional external debt (including leasing) contracted or guaranteed by the government (ceiling) <sup>1,2,3,4</sup>	0	0	0	0
<b>Memorandum items</b>				
Oil revenue	516	419	1,060	910
Non-oil primary revenue	106	115	211	227
Net domestic financing of the government (ceiling, indicative target)	-295	-150	-618	-188
<sup>1</sup> Excluding rescheduling arrangements and disbursements from the IMF, the minimum grant element is set to 35 percent.				
<sup>2</sup> Continuous.				
<sup>3</sup> The zero ceiling also applies to new (i) external debt with an original maturity of less than one year, (ii) oil-collateralized external debt contracted by or on behalf of the central government, (iii) nonconcessional external debt with a maturity of more than 1 year contracted or guaranteed by SNPC, (iv) external arrears on nonreschedulable debt, and (v) to new domestic arrears.				
<sup>4</sup> The zero ceiling on nonconcessional external debt does not apply to forthcoming external loans from the European Investment Bank and the Central African States Development Bank, as specified in paragraph 11 of the Technical Memorandum of Understanding.				

<sup>9</sup> Based on the external stability assessment methodology for oil exporters in Bems and Carvalho-Filho (2009).

country, (b) the cost of the universal Polio vaccination campaign, and (c) the move toward pay-for-use billing systems for some utility services. To safeguard the deficit target the authorities are committed to reining in public expenditure while strengthening customs revenue and ensuring that dividends from profitable public enterprises are collected (Appendix I, MEFP, paragraph 6).

23. **Fiscal policies for 2011 center around scaling up investment expenditure while safeguarding public investment quality.** The authorities BNOPD target of CFAF 189 billion for end-March (final test date of the program) and BNOPD projection of CFAF 753 billion for end-December (-34.5 percent of non-oil GDP) allows for a 37 percent increase in domestically financed public investment (excluding HIPC funds), financed in large part by measures to boost non-oil revenue collection and restrain current expenditure. Investment quality will be improved through increasing use of the toolkit put in place during the HIPC process (Appendix I, MEFP, paragraphs 7 and 9). In the event that announced measures fail to materialize, the authorities are committed to further reducing capital expenditure to meet the budget target.

24. **Under the government's program, the adjustment under the three year program would be in line with the envisioned adjustment over the course of the original program,** with a frontloading of consolidation of current expenditure. The programmed total adjustment is 9.8 percentage points of non-oil GDP (9.8 percentage points in the original program).



## VIII. STAFF APPRAISAL

25. Congo is reaping the benefits of sustained policy implementation and HIPC debt relief, and economic resilience has increased markedly. Macroeconomic stability is now well established, the external position has improved appreciably, and fiscal consolidation has progressed somewhat faster than envisioned. Yet, a large basic infrastructure gap remains and tangible improvement in key social areas such as health and education services has yet to become apparent. Swiftly directing resources to these areas would improve the quality of life, but could also serve to strengthen social cohesion.

26. The medium-term outlook is positive, provided that public investment and measures to improve the delivery of public services and the business climate are successful in raising non-oil growth. Ensuring public investment efficiency is critical to realizing a strong growth dividend. With oil production set to peak in 2011, growth in the future will need to increasingly rely on private sector participation in the economy. Non-oil growth is expected to pickup markedly over the medium term supported by robust activity in the construction,

transport and telecoms sectors and improved basic infrastructure, but excessive dependence on oil would remain.

27. Staff supports the broad thrust of fiscal policy which aims to strengthen non-oil revenue and restrain current expenditure to make space for needed infrastructure spending. However, sustained consolidation efforts are required over the medium term to achieve fiscal sustainability, especially in light of mounting pressures on current expenditures. Measures being taken to rein in spending over the remainder of 2010 and collect additional non-oil revenue are welcome and feasible, as are the authorities' planned efforts to reinforce quality control in the context of a sizeable increase in public investment in 2011. However, the authorities should stand ready to safeguard the deficit target in the event that consolidation gains fail to materialize, while protecting social outlays.

28. The moderate planned scaling up of investment is welcome, but strong public financial management will be key to successfully implementing the authorities' 2011 fiscal program. There is still considerable scope to strengthen budget control and treasury operations and the authorities should work closely with development partners. In order to safeguard public investment efficiency, the authorities should fully implement the procedures put in place during the HIPC process, starting with project prioritization and appraisal, and supported by heightened monitoring.

29. Prospects depend on developing a strong non-oil sector. The authorities' comprehensive action plan to improve the business climate is welcome, and frontloading of key actions to reduce red tape and resolve land use issues would be an important complement to the increased provision of public infrastructure. These efforts should be supported by policies to increase the banking sector's provision of credit to the private sector, including by decreasing the cost of collateral.

30. The exchange rate regime has anchored macrostability in Congo. However, external stability in the CEMAC region requires regionally lower public expenditure and structural reforms to bring the real effective exchange rate in line with medium-term fundamentals.

31. Staff supports the establishment of end-March performance criteria and the authorities' request for the modification of the end-December 2010 performance criterion on the basic non-oil primary balance, and recommends completion of the Fourth Review under the three-year ECF arrangement on the basis of performance to date and the strength of the program.

Table 1. Republic of Congo: Selected Economic and Financial Indicators, 2008–15

	2008	2009	2010		2011	2012	2013	2014	2015
	Est.	Prel.	Prog. <sup>1</sup>	Rev. Prog.	Proj.	Proj.	Proj.	Proj.	Proj.
(Annual percentage change)									
Production and prices									
GDP at constant prices	5.6	7.5	12.1	9.1	7.8	4.7	4.9	5.9	7.2
Oil	6.1	16.2	25.3	14.7	8.8	-1.7	-6.8	-9.4	-5.0
Non-oil	5.4	3.9	6.0	6.5	7.3	7.9	10.2	11.7	11.1
GDP at current prices	32.0	-14.3	36.8	27.4	13.2	7.1	3.9	3.1	5.6
GDP deflator	25.0	-20.3	22.0	16.7	5.0	2.3	-0.9	-2.7	-1.5
Consumer prices (period average)	6.0	4.3	4.0	5.3	5.9	5.5	4.0	3.5	3.1
Consumer prices (end of period)	11.4	2.5	3.0	5.8	6.2	5.4	2.5	4.3	2.2
External sector									
Exports, f.o.b. (CFA francs)	26.7	-18.2	49.3	53.2	10.5	4.1	-0.9	-4.2	0.0
Imports, f.o.b. (CFA francs)	25.7	-10.6	22.7	36.1	18.5	10.2	7.9	8.8	8.5
Export volume	7.1	13.8	24.8	14.1	11.3	-1.4	-4.9	-5.8	-1.2
Import volume	16.2	-0.4	17.0	16.5	14.6	8.3	6.2	6.9	6.6
Terms of trade (source: GEE, deterioration - )	15.2	-21.9	13.6	10.6	1.6	2.9	1.7	0.2	0.3
Nominal effective exchange rate (end of period)	1.4	3.0	...	...	...	...	...	...	...
Real effective exchange rate (end of period)	0.5	0.9	...	...	...	...	...	...	...
(Percent of GDP)									
Investment and saving									
Gross national saving	22.7	15.9	24.4	24.9	31.7	32.0	31.7	30.2	29.4
Gross investment	22.1	24.6	21.9	22.3	24.6	25.4	26.7	28.5	29.5
Current account balance <sup>2</sup>	0.6	-8.7	2.4	2.7	7.1	6.6	5.0	1.6	-0.1
External public debt (end of period)	51.5	50.0	19.9	12.5	12.2	12.5	13.1	13.7	13.9
(Percent of non-oil GDP)									
Central government finances									
Revenue and grants	160.4	78.3	141.2	127.6	142.5	136.0	122.1	104.7	95.7
Oil revenue	136.0	54.8	116.0	101.9	112.8	104.7	88.9	70.0	59.6
Non-oil revenue and grants	22.1	21.9	22.4	24.3	25.3	26.0	26.4	26.8	27.3
Total expenditure	80.7	65.3	66.2	62.9	70.4	68.1	64.9	61.0	58.5
Current	50.4	36.8	31.4	33.7	30.8	28.6	26.8	25.0	24.0
Capital (and net lending)	30.3	28.5	34.8	29.2	39.7	39.4	38.1	36.1	34.4
Overall balance (deficit -, commitment basis) <sup>3</sup>	79.8	13.0	75.0	64.8	72.1	67.9	57.2	43.7	37.2
Basic primary fiscal balance (deficit -) <sup>4</sup>	91.5	18.8	82.2	67.2	78.3	70.7	57.6	41.9	33.9
of which: Basic non-oil primary fiscal balance ( - = deficit)	-44.3	-36.0	-33.8	-34.7	-34.5	-33.9	-31.3	-28.1	-25.7
(Percent of total government revenue excluding grants)									
External public debt service (after debt relief) <sup>5</sup>	8.3	3.9	2.8	2.8	1.8	1.9	2.1	2.1	2.0
External public debt (after debt relief) <sup>5</sup>	110.5	171.2	42.5	29.6	26.1	26.3	27.3	28.8	29.4
(Billions of CFA francs, unless otherwise indicated)									
Gross official foreign reserves	1,825	1,740	3,619	2,494	4,115	5,894	7,726	9,246	10,709
Nominal GDP	5,279	4,523	5,616	5,761	6,523	6,987	7,256	7,478	7,896
Nominal non-oil GDP	1,557	1,705	1,885	1,914	2,182	2,496	2,904	3,452	3,973
World oil price (U.S. dollars per barrel)	97	62	77	76	79	82	85	86	88
Oil production (Millions of barrels)	87	101	128	115	126	123	115	104	99
Nominal Exchange rate (CFA/USD, period average)	446	471	466	502	...	...	...	...	...

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

<sup>1</sup> Country Report No. 10/54.<sup>2</sup> Including public transfers.<sup>3</sup> Including grants.<sup>4</sup> Primary revenue (excluding interest income and grants) minus non-interest current expenditure minus domestically financed capital expenditure and net lending.<sup>5</sup> HIPC completion point reached in January 2010. In March 2010, the Paris Club granted 100 percent debt relief.

Table 2. Republic of Congo: Medium Term Balance of Payments, 2008–15

	2008	2009	2010		2011	2012	2013	2014	2015
		Prel.	Prog. <sup>1</sup>	Rev. Prog.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Billions of CFA francs)								
Current account	31	-394	137	155	465	463	360	123	-11
Trade balance	2,399	1,864	2,852	3,055	3,251	3,269	3,060	2,640	2,432
Exports, f.o.b.	3,696	3,024	4,294	4,633	5,121	5,329	5,283	5,059	5,057
Oil sector	3,359	2,699	4,071	4,110	4,518	4,653	4,517	4,183	4,076
Non-oil sector	337	325	224	523	603	676	766	877	980
Imports, f.o.b.	-1,297	-1,160	-1,442	-1,578	-1,870	-2,060	-2,223	-2,419	-2,625
Oil sector	-302	-394	-363	-405	-394	-392	-403	-368	-355
Government	-293	-255	-429	-470	-682	-773	-800	-889	-979
Non-oil private sector	-701	-511	-650	-704	-793	-896	-1,020	-1,162	-1,291
Balance of services	-1,009	-963	-1,119	-1,089	-1,134	-1,179	-1,195	-1,207	-1,233
Oil sector	-753	-758	-836	-784	-756	-750	-716	-653	-630
Nonoil sector	-203	-204	-284	-305	-378	-429	-479	-554	-603
Income	-1,364	-1,276	-1,593	-1,784	-1,670	-1,638	-1,514	-1,315	-1,210
Labor income	-46	-36	-57	-58	-64	-66	-64	-59	-58
Investment income	-1,318	-1,240	-1,536	-1,726	-1,607	-1,572	-1,450	-1,256	-1,152
Current transfers (net)	5	-19	-2	-28	18	11	9	5	0
Capital account	35	15	33	1,288	60	57	60	63	66
Debt forgiveness <sup>2</sup>	0	0	0	1,278	0	0			
Official grants	35	15	33	10	60	57	60	63	66
Other	0	0	0	0	0	0	0	0	0
Financial account	1,136	184	1,282	-695	1,093	1,260	1,415	1,337	1,411
Direct investment (net)	1,112	909	1,261	1,093	1,161	1,236	1,262	1,258	1,309
Of which: oil sector	990	864	1,118	951	887	885	844	772	749
Portfolio investment	-1	0	0	0	0	0	0	0	0
Other investment	24	-725	21	-1,788	-68	24	153	79	102
Medium and long term	-162	-81	-38	-1,290	103	128	125	125	132
Public sector	-82	-85	35	-1,301	72	83	78	76	80
Drawings	47	1	106	36	115	134	134	134	135
Project	46	1	106	36	115	134	134	134	135
Program	1	0	0	0	0	0	0	0	0
Amortization	-129	-86	-71	-1,337	-43	-51	-56	-59	-56
Private sector	-80	4	-73	11	31	45	47	50	53
Oil	-77	9	-39	9	19	24	23	21	21
Non-oil	-3	-5	-35	2	12	20	24	28	32
Short term	186	-644	59	-498	-171	-104	27	-46	-30
Errors and omissions	-82	-2	0	0	0	0	0	0	0
Overall balance of payments	1,120	-195	1,452	748	1,618	1,780	1,835	1,523	1,466
Financing	-1,120	195	-1,452	-748	-1,618	-1,780	-1,835	-1,523	-1,466
Reserve financing	-850	132	-1,452	-760	-1,618	-1,780	-1,835	-1,523	-1,466
IMF (net) <sup>3</sup>	1	2	2	-6	2	-1	-2	-3	-3
Others reserves	-851	131	-1,454	-753	-1,620	-1,779	-1,832	-1,520	-1,463
Exceptional financing <sup>4</sup>	-270	62	0	12	0	0	0	0	0
Net change in arrears	-801	-17	0	-402	0	0	0	0	0
Debt cancellation	207	58	0	18	0	0	0	0	0
Debt rescheduling	325	21	0	396	0	0	0	0	0
Financing gap (- = surplus)	0	0	0	0	0	0	0	0	0
	(Annual percentage change)								
<i>Memorandum items:</i>									
Export price	8.2	-29.8	19.7	29.2	5.1	4.7	3.4	1.9	2.2
Import price	24.6	-10.2	4.8	16.8	3.4	1.7	1.6	1.8	1.8

Sources: BEAC; and Fund staff estimates and projections.

<sup>1</sup> Country Report No. 10/54.<sup>2</sup> Includes stock debt relief of the HIPC completion point.<sup>3</sup> Includes HIPC and MDRI debt relief (2010) and assumed disbursements under the ECF.<sup>4</sup> Includes flow debt relief from Paris Club and London Club, and payments to litigating creditors.

Table 3a. Republic of Congo: Central Government Operations, 2008–15

	2008	2009	2010		2011	2012	2013	2014	2015
	Est.	Prel.	Prog. <sup>1</sup>	Rev. Prog.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Billions of CFA francs)								
Revenue and grants	2,497	1,335	2,662	2,443	3,109	3,394	3,546	3,616	3,801
Primary Revenue	2,462	1,307	2,609	2,414	3,015	3,262	3,349	3,341	3,452
Oil revenue	2,118	934	2,187	1,949	2,462	2,613	2,582	2,415	2,368
Non-oil revenue	344	373	422	465	553	648	767	926	1,084
Investment income	...	13	20	18	33	76	137	212	283
Grants	35	15	33	10	60	57	60	63	66
Expenditure and net lending	1,256	1,113	1,248	1,203	1,537	1,699	1,884	2,108	2,323
<i>of which primary expenditure</i>	1,024	1,023	1,101	1,145	1,346	1,495	1,676	1,897	2,107
Current expenditure	785	627	593	644	671	715	779	862	955
Wages	166	175	188	180	211	234	258	288	320
Other current expenditure	446	355	361	409	404	427	462	512	569
Local authorities	23	24	36	43	40	42	45	48	51
Interest	150	73	8	12	15	13	14	14	15
Domestic	10	9	6	0	0	0	0	0	0
External	140	64	2	12	15	13	14	14	15
Capital expenditure	471	485	655	559	866	984	1,105	1,246	1,368
Domestically financed	390	469	516	513	690	793	911	1,048	1,167
o.w. HIPC financed <sup>2</sup>	7	37	41	17	40	0	0	0	0
Externally financed	81	16	139	46	176	191	194	197	201
Net lending	0	1	0	0	0	0	0	0	0
Basic primary fiscal balance <sup>3</sup>	1,424	320	1,549	1,286	1,710	1,766	1,673	1,445	1,345
Of which: Basic non-oil primary fiscal balance	-690	-614	-638	-663	-753	-847	-909	-970	-1,023
Balance, commitment basis									
Excluding grants	1,206	207	1,381	1,229	1,512	1,638	1,601	1,445	1,412
Including grants	1,242	222	1,414	1,239	1,572	1,695	1,661	1,508	1,478
Of which: Non-oil fiscal balance	-873	-740	-773	-738	-984	-1,051	-1,118	-1,181	-1,239
Change in arrears	-944	-124	-94	-371	-53	-82	-30	-27	0
External	-801	0	0	-222	0	0	0	0	0
Domestic	-143	-124	-94	-149	-53	-82	-30	-27	0
Balance, cash basis	298	97	1,320	868	1,519	1,613	1,631	1,481	1,478
Financing	-216	-98	-1,320	-868	-1,519	-1,613	-1,631	-1,481	-1,478
Foreign (net)	408	-39	35	-14	60	83	78	76	80
Drawings (new loan disbursement)	47	1	106	36	115	134	134	134	135
Amortization due	-170	-106	-71	-68	-55	-51	-56	-59	-56
Rescheduling obtained	325	15	0	0	0	0	0	0	0
Debt cancellation	207	54	0	18	0	0	0	0	0
Exceptional assistance (including debt relief) <sup>4</sup>	0	-2	0	0	0	0	0	0	0
Domestic (net)	-624	-59	-1,355	-655	-1,580	-1,696	-1,709	-1,557	-1,558
Banking system (net)	-599	122	-1,352	-668	-1,618	-1,696	-1,709	-1,557	-1,558
Nonbank financing	-24	-181	-3	13	38	0	0	0	0
Other		0	0	-200	0	0	0	0	0
Financing gap (- = surplus)	0	0	0	0	0	0	0	0	0
<i>Memorandum items:</i>									
GDP at current market prices	5,279	4,523	5,616	5,761	6,523	6,987	7,256	7,478	7,896
Non-oil GDP at market prices	1,557	1,705	1,885	1,914	2,182	2,496	2,904	3,452	3,973
Pro poor spending	328	381	455	465	567	684	799	953	1,099

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

<sup>1</sup> Country Report No. 10/54.

<sup>2</sup> From the HIPC interim relief trust fund.

<sup>3</sup> Primary revenue (excluding interest income and grants) minus noninterest current expenditure minus domestically finance capital expenditure (excluding HIPC-financed capital expenditure) and net lending.

<sup>4</sup> HIPC completion point reached in January 2010. In March 2010, the Paris Club granted 100 percent debt relief.

Table 3b. Republic of Congo: Central Government Operations, 2008–15

	2008	2009	2010		2011	2012	2013	2014	2015
		Prel.	Prog. <sup>1</sup>	Rev. Prog.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Percent of non-oil GDP)								
Revenue and grants	160.4	78.3	141.2	127.6	142.5	136.0	122.1	104.7	95.7
Primary Revenue	158.1	76.7	138.4	126.2	138.2	130.7	115.3	96.8	86.9
Oil revenue	136.0	54.8	116.0	101.9	112.8	104.7	88.9	70.0	59.6
Non-oil revenue	22.1	21.9	22.4	24.3	25.3	26.0	26.4	26.8	27.3
Investment income	0.0	0.8	1.0	0.9	1.5	3.0	4.7	6.1	7.1
Grants	2.3	0.9	1.8	0.5	2.8	2.3	2.1	1.8	1.7
Expenditure and net lending	80.7	65.3	66.2	62.9	70.4	68.1	64.9	61.0	58.5
<i>of which primary expenditure</i>	65.8	60.0	58.4	59.8	61.7	59.9	57.7	54.9	53.0
Current expenditure	50.4	36.8	31.4	33.7	30.8	28.6	26.8	25.0	24.0
Wages	10.7	10.3	10.0	9.4	9.7	9.4	8.9	8.3	8.0
Other current expenditure	28.6	20.8	19.1	21.4	18.5	17.1	15.9	14.8	14.3
Local authorities	1.5	1.4	1.9	2.2	1.8	1.7	1.6	1.4	1.3
Interest	9.6	4.3	0.4	0.6	0.7	0.5	0.5	0.4	0.4
Domestic	0.6	0.6	0.3	0.0	0.0	0.0	0.0	0.0	0.0
External	9.0	3.7	0.1	0.6	0.7	0.5	0.5	0.4	0.4
Capital expenditure	30.3	28.4	34.8	29.2	39.7	39.4	38.1	36.1	34.4
Domestically financed	25.0	27.5	27.4	26.8	31.6	31.8	31.4	30.4	29.4
<i>o.w. HIPC financed</i>	0.4	2.2	2.2	0.9	1.8	0.0	0.0	0.0	0.0
Externally financed	5.2	0.9	7.4	2.4	8.0	7.7	6.7	5.7	5.1
Net lending	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Basic primary fiscal balance <sup>2</sup>	91.5	18.8	82.2	67.2	78.3	70.7	57.6	41.9	33.9
<i>Of which: Basic non-oil primary fiscal balance</i>	-44.3	-36.0	-33.8	-34.7	-34.5	-33.9	-31.3	-28.1	-25.7
Balance, commitment basis									
Excluding grants	77.5	12.1	73.3	64.2	69.3	65.6	55.1	41.9	35.5
Including grants	79.8	13.0	75.0	64.8	72.1	67.9	57.2	43.7	37.2
<i>Of which: Non-oil fiscal balance</i>	-56.1	-43.4	-41.0	-38.6	-45.1	-42.1	-38.5	-34.2	-31.2
Change in arrears	-60.6	-7.3	-5.0	-19.4	-2.4	-3.3	-1.0	-0.8	0.0
External	-51.5	0.0	0.0	-11.6	0.0	0.0	0.0	0.0	0.0
Domestic	-9.2	-7.3	-5.0	-7.8	-2.4	-3.3	-1.0	-0.8	0.0
Balance, cash basis	19.1	5.7	70.0	45.4	69.6	64.6	56.2	42.9	37.2
Financing	-13.9	-5.7	-70.0	-45.4	-69.6	-64.6	-56.2	-42.9	-37.2
Foreign (net)	26.2	-2.3	1.9	-0.7	2.8	3.3	2.7	2.2	2.0
Drawings	3.0	0.1	5.6	1.9	5.3	5.4	4.6	3.9	3.4
Amortization due	-10.9	-6.2	-3.8	-3.6	-2.5	-2.0	-1.9	-1.7	-1.4
Rescheduling obtained	20.9	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt cancellation	13.3	3.2	0.0	0.9	0.0	0.0	0.0	0.0	0.0
Exceptional assistance (including debt relief) <sup>3</sup>	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic (net)	-40.1	-3.5	-71.9	-34.2	-72.4	-67.9	-58.9	-45.1	-39.2
Banking system (net)	-38.5	7.2	-71.7	-34.9	-74.1	-67.9	-58.9	-45.1	-39.2
Nonbank financing	-1.6	-10.6	-0.1	0.7	1.7	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	-10.5	0.0	0.0	0.0	0.0	0.0
Financing gap (- = surplus)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	(Percent of GDP, unless otherwise indicated)								
<i>Memorandum items:</i>									
Revenue and grants	47.3	29.5	47.4	42.4	47.7	48.6	48.9	48.4	48.1
Oil revenue	40.1	20.7	38.9	33.8	37.7	37.4	35.6	32.3	30.0
Non-oil revenue	6.5	8.2	7.5	8.1	8.5	9.3	10.6	12.4	13.7
Current expenditure	14.9	13.9	10.5	11.2	10.3	10.2	10.7	11.5	12.1
Capital expenditure	8.9	10.7	11.7	9.7	13.3	14.1	15.2	16.7	17.3
Basic primary fiscal balance <sup>2</sup>	27.0	7.1	27.6	22.3	26.2	25.3	23.1	19.3	17.0
<i>Of which: Basic non-oil primary fiscal balance</i>	-13.1	-13.6	-11.4	-11.5	-11.5	-12.1	-12.5	-13.0	-13.0
Balance, cash basis	5.6	2.2	23.5	15.1	23.3	23.1	22.5	19.8	18.7
Pro poor spending (percent of non-oil GDP)	-4.1	27.2	24.1	24.3	26.0	27.4	27.5	27.6	27.6

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

<sup>1</sup> Country Report No. 10/54.<sup>2</sup> Primary revenue (excluding interest income and grants) minus noninterest current expenditure minus domestically financed capital expenditure (excluding HIPC-financed capital expenditure) and net lending.<sup>3</sup> HIPC completion point reached in January 2010. In March 2010, the Paris Club granted 100 percent debt relief.

Table 4. Republic of Congo: Monetary Survey, 2008–11

	2008	2009	2010	2011	
		Prel.	Prog. <sup>1</sup>	Rev. Prog.	Proj.
Monetary survey	(Billions of CFA francs)				
Net foreign assets	1,877	1,831	3,608	2,584	4,313
Central bank	1,788	1,656	3,536	2,415	4,034
Deposit money banks	89	176	72	169	279
Net domestic assets	-908	-813	-2,434	-1,441	-3,009
Net domestic credit	-893	-727	-2,419	-1,355	-2,923
Net credit to the Government	-1,079	-956	-2,662	-1,624	-3,242
Central bank	-1,072	-956	-2,655	-1,623	-3,241
Credit to the economy	190	235	247	274	323
Broad money	970	1,019	1,174	1,143	1,304
Currency outside banks	344	342	417	384	438
Demand deposits	499	539	604	605	690
Time deposits	126	137	153	154	176
	(Changes in percent of beginning-of-period broad money)				
Net foreign assets	109.0	-4.8	134.8	73.9	151.2
Net domestic assets	-72.6	9.8	-124.3	-61.7	-137.2
Net domestic credit	-72.2	17.2	-124.3	-61.7	-137.2
Net credit to the government	-84.3	12.6	-127.2	-65.6	-141.5
Credit to the private sector	12.5	4.7	2.9	3.8	4.3
	(Annual percent changes, unless otherwise indicated)				
Broad money	36.4	5.0	10.5	12.2	14.0
Reserve money	44.0	-0.6	10.5	12.2	14.0
Velocity					
Non-oil GDP/Average M2	1.9	2.5	2.2	2.7	2.8
Non-oil GDP/End period M2	1.6	2.5	2.1	2.5	1.7
	(Percent)				
Total GDP growth	32.0	-14.3	36.8	27.4	13.2
Non-oil GDP growth	11.9	9.5	10.5	12.2	14.0
Credit to the private sector/Non-oil GDP	12.2	13.8	13.1	14.3	14.8

Sources: BEAC; and Fund staff estimates and projections.

<sup>1</sup> Country Report No. 10/54.

**Table 5. Republic of Congo: Banking Sector Financial Soundness Indicators, 2006–10**  
(percent, at year's end, unless otherwise indicated)

	2006	2007	2008	2009	2010 <sup>1</sup>
<b>Capital Adequacy</b>					
Regulatory capital to risk-weighted assets	14.0	16.0	17.0	19.0	16.0
Percentage of banks greater or equal to 10 percent	100.0	75.0	100.0	100.0	100.0
Percentage of banks below 10 and above 6 percent minimum	--	25.0	--	--	--
Percentage of banks below 6 percent minimum	--	--	--	--	--
Capital (net worth) to assets	4.0	4.0	5.0	6.0	6.0
<b>Asset quality</b>					
Foreign exchange loans to total loans	--	--	2.0	2.0	9.0
Nonperforming loans	2.0	2.7	2.0	2.0	1.3
Provision as percent of past-due loans	66.5	80.9	91.0	91.0	
<b>Earnings and profitability</b>					
Net profit (before tax)/net income	42.0	--	41.6	33.6	39.2
Return on assets	3.0	--	2.4	2.1	1.7
Return on equity	76.0	--	45.0	24.0	22.0
Expense/income	73.0	--	50.0	59.0	56.0
Lending rate minus demand deposit rates	12.0	--	--	--	--
<b>Liquidity</b>					
Liquid assets/total assets	61.0	72.0	66.0	59.0	58.0
Liquid assets/short term liabilities	294.0	338.0	326.0	270.0	264.0
Loan/deposits	27.0	26.0	35.0	39.0	38.0
Liquid assets/total deposits	71.0	85.0	78.0	68.0	69.0
Excess reserves/Broad money	11.0	16.0	32.0	24.0	

Sources: Authorities (COBAC) and Fund staff estimates.

<sup>1</sup> For 2010, indicators relates to the period up to end- September 2010.

**Table 6. Republic of Congo: Structural Benchmarks under the ECF Arrangement, 2010–11**

Measures	Timing	Status
<b>Public financial management and domestic revenue mobilization</b>		
Have no recourse to emergency payment and cash advance procedures except in situations stated in the organic budget law.	Continuous	Observed
Support implementation of the new procurement code by ensuring that 80 percent of public contracts) having a total value of over CFAF 250 million are open to competitive bidding.	Continuous	Observed
Undertake audits to assess the arrears (wages, pensions) and liabilities of public enterprises liquidated or under restructuring. These audits will cover the period 2000–08.	End-June 2010	Observed
<b>Governance and natural resource management</b>		
Support implementation of the new oil commercialization action plan by ensuring that oil is marketed in line with the recommendations made by the international consultant, who is advising the state-owned oil enterprise (SNPC) on international best practice. These recommendations will include the introduction of competitive tenders for oil sales.	Continuous	Observed
Have an internationally reputable audit firm certify oil revenue quarterly, using the same specifications as for the 2003 certification and with no restrictions on access to the information; and publish the certification reports on the website of the Ministry of Economy, Finance and Budget ( <a href="http://www.mefb-cg.org">www.mefb-cg.org</a> ). Also, the government will post on the website not only the audit but for each report, a note addressing comments by the auditors.	Continuous, with a one-quarter lag	Observed
Repatriate to the Treasury the proceeds of oil shipments commercialized by private companies and SNPC on behalf of the government within 45 days after the actual shipment date, based on actual quantities, prices, and shipment dates.	Continuous	Observed
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-Sept. 2010	Observed
<b>Public enterprises</b>		
Ensure regular and timely adjustment of petroleum-product prices in line with the pricing mechanism adopted in May 2009, to avoid the need for budget subsidies or subsidies to the state-owned oil refinery, CORAF.	Quarterly	Observed

**Table 7: Republic of Congo: Access and Phasing Under the Three-Year ECF Arrangement (2008–11)<sup>1</sup>**

Timing	Disbursement		Conditions
	Amount in SDRs	Percent of quota	
12/22/2008	1,208,570	1.43	Approval of the arrangement
6/24/2009	1,208,570	1.43	Review completed (July 2009)
12/4/2009	1,208,570	1.43	Review completed (November 2009)
8/30/2010	1,208,570	1.43	Review completed (August 2010)
Jan-11	1,208,570	1.43	Completion of the fourth review (end-June 2010 test date)
Jun-11	1,208,570	1.43	Completion of the fifth review (end-December 2010 test date)
Sep-11	1,208,580	1.43	Completion of the sixth (final) review (end-March 2011 test date) <sup>2</sup>
Total	8,460,000	10.00	

<sup>1</sup> The Republic of Congo's quota is SDR 84.6 million.

<sup>2</sup> 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 8. Rep. of Congo: Millennium Development Goals, 1990–2009**

	1990	1995	2000	2009
Goal 1: Eradicate extreme poverty and hunger				
Employment to population ratio, 15+, total (%)	66	65	64	65
Employment to population ratio, ages 15–24, total (%)	49	46	46	46
Prevalence of undernourishment (% of population)	42	41	20	15
Goal 2: Achieve universal primary education				
Persistence to last grade of primary, total (% of cohort)	...	...	55	70
Primary completion rate, total (% of relevant age group)	59	48	55	73
Goal 3: Promote gender equality and empower women				
Proportion of seats held by women in national parliaments (%)	14	2	12	7
Ratio of female to male primary enrollment (%)	94	85	93	94
Ratio of female to male secondary enrollment (%)	76	75	70	...
Ratio of female to male tertiary enrollment (%)	20	...	32	...
Goal 4: Reduce child mortality				
Immunization, measles (% of children ages 12–23 months)	75	38	34	79
Mortality rate, infant (per 1,000 live births)	67	70	74	80
Mortality rate, under-5 (per 1,000)	104	110	116	127
Goal 5: Improve maternal health				
Adolescent fertility rate (births per 1,000 women ages 15–19)	...	...	128	111
Maternal mortality ratio (modeled estimate, per 100,000 live births)	460	520	590	580
Goal 6: Combat HIV/AIDS, malaria, and other diseases				
Incidence of tuberculosis (per 100,000 people)	170	240	350	390
Prevalence of HIV, female (% ages 15–24)	...	...	...	2
Prevalence of HIV, male (% ages 15–24)	...	...	...	1
Prevalence of HIV, total (% of population ages 15–49)	5.1	5.8	4.6	3.5
Tuberculosis case detection rate (all forms)	14	53	86	63
Goal 7: Ensure environmental sustainability				
CO2 emissions (kg per PPP \$ of GDP)	0.2	0.2	0.1	0.1
CO2 emissions (metric tons per capita)	0.5	0.6	0.3	0.4
Forest area (% of land area)	67	66	66	66
Improved sanitation facilities (% of population with access)	...	...	30	30
Improved water source (% of population with access)	...	...	70	71
Marine protected areas (% of total surface area)	...	...	...	0
Terrestrial protected areas (% of total surface area)	...	...	...	10.3
Goal 8: Develop a global partnership for development				
Debt service (PPG and IMF only, % of exports, excluding workers' remittances)	31	11	1	5
Internet users (per 100 people)	0.0	0.0	0.0	4.3
Mobile cellular subscriptions (per 100 people)	0	0	2	50
Net ODA received per capita (current US\$)	89	45	11	129
Telephone lines (per 100 people)	1	1	1	1
Other				
Fertility rate, total (births per woman)	5.4	5.0	4.8	4.4
GNI per capita, Atlas method (current US\$)	890	420	580	1,830
GNI, Atlas method (current US\$) (billions)	2.2	1.2	1.8	6.7
Gross capital formation (% of GDP)	15.9	36.6	22.6	25.8
Life expectancy at birth, total (years)	59	56	54	54
Literacy rate, adult total (% of people ages 15 and above)	...	...	...	...
Population, total (millions)	2.4	2.8	3.0	3.7
Trade (% of GDP)	99.5	128.3	123.9	127.6

Source: World Development Indicators database.

**APPENDIX I—LETTER OF INTENT**

Brazzaville, December 20, 2010

The Minister of Finance, Budget  
And Public Portfolio

To:

Mr. Dominique Strauss-Kahn  
Managing Director  
International Monetary Fund  
Washington, DC 20431  
United States of America

Dear Managing Director:

The Republic of Congo continues to pursue a medium-term economic and financial program aimed at supporting balanced growth, low and stable inflation and fiscal and external sustainability, supported by the IMF under the Three-year Extended Credit Facility arrangement approved by the Executive Board in December 2008. In the attached Memorandum of Economic and Financial Policies (MEFP, Attachment I), we outline the broad thrust of our macroeconomic policies and the structural reforms we intend to take in the period ahead to achieve the objectives of our original program. These objectives include an increase in real non-oil GDP growth, maintenance of low and stable inflation, and medium-term fiscal adjustment toward long-term sustainability.

Prospects for the Congolese economy are favorable. Economic indicators for the first half of the year are encouraging, pointing to robust growth in the non-oil sector and rising oil production. On the external front, the recovery in the terms of trade and rising oil and timber exports are expected to shift the current account into surplus in 2010. Moreover, the overall fiscal surplus will add to the significant improvement in the external position resulting from HIPC debt relief, and we will continue to use our best efforts to conclude bilateral debt agreements and to use good faith efforts to obtain comparable treatment from commercial creditors as soon as possible.

Mr. Managing Director, over the course of the first half of the program we have made significant progress toward achieving program goals, despite the global financial crisis and the volatility of world oil prices. In particular, macroeconomic stability is now well established and strides have been made toward fiscal sustainability through consolidation which has outpaced that envisioned in the original program. We attribute this to close

program monitoring and implementation in the run up to, and in the period following, the HIPC completion point.

The implementation of our Fund-supported program through end-June remained satisfactory and we observed all quantitative performance criteria and structural benchmarks, including the strategic study of the oil sector (end-September structural benchmark). However, in recent months spending has come under pressure from, on the one hand, a need to respond with increasing public resources to the refugee crisis in the northern department of Likouala, and on the other, a severe polio outbreak, as well as the move toward a pay-for-use system for some public utility services. We also faced higher expenditures related to our 50<sup>th</sup> Anniversary celebration held in August.

Over the remainder of 2010 we will redouble our consolidation efforts, reining in public expenditure while strengthening customs revenue and ensuring that dividends from profitable public enterprises are collected. Given the large expenses we are incurring to address the humanitarian and health crises as well as the change in utility billing mechanism, we have revised our end-December basic non-oil primary deficit (BNOPD) ceiling to CFAF 663 billion, while taking measures to mobilize an additional CFAF 22 billion in revenue. In the event that these measures are unsuccessful, we will further restrain expenditure to stay within the deficit ceiling. It is important to note that the revised end-2010 BNOPD ceiling implies a consolidation of about 1.3 percentage points of non-oil GDP relative to 2009, and a cumulative adjustment under the first two years of the program of 9½ percentage points of GDP, which is broadly equivalent to the total three-year adjustment envisioned in the original program. This strong performance provides greater fiscal space for much needed investment and allows us to achieve the objectives of the program.

In this context and given ample policy buffers, in 2011 we intend to scale up growth-enhancing and poverty-reducing public investment, and to focus on closing the large infrastructure gap which is holding back economic diversification and growth. Total capital expenditure is budgeted to increase by 55 percent relative to 2010 to 15.2 percent of GDP, with projects aligned with the medium-term expenditure framework (MTEF). With a view toward fiscal sustainability, and in order to continue to save a large portion of oil revenues, we plan to finance a substantial share of the increase in capital spending by significant gains in non-oil revenue collection and restraint of current expenditure. At the same time, it is important to note that the budget also aims to strengthen social cohesion following a long period of adjustment during which the poor did not perceive the benefits of the nation's soaring oil wealth. Let me reiterate that it is our firm belief that the frontloading of these projects, especially in basic infrastructure, is key to laying the foundation of durable growth and poverty reduction.

That said, the budgeted capital expenditure for 2011 should be viewed as indicative. As firmly as we believe these projects are necessary, we are also fully aware of the challenges

and risks associated with such a large increase in capital expenditure, even in our current situation where the base is low. While gains to date in capacity building and public financial management have been substantial, we are conscious that there remains significant scope to further improve project appraisal, monitoring and implementation. Moreover, such a large increase in domestic demand in the face of transport and other bottlenecks may raise near-term inflation and crowd out private sector activity, not to mention pose risks to fiscal sustainability in the event that revenues come in much lower than currently projected or envisioned revenue and current expenditure measures fail to materialize.

For these reasons, the government of Congo is committed to limiting domestically financed capital spending (excluding HIPC funds) in 2011 to CFAF 650 billion, an increase of 37 percent over 2010, and maintaining a prudent external financing policy. Such an investment envelope would cover all projects currently in train and provide space for us to launch priority new projects. It also implies a small consolidation of the BNOPD to 34.5 percent of non-oil GDP given that 4 percentage points of the increase would be financed by measures to both strengthen non-oil revenue and reduce current expenditure. At current oil price forecasts, some \$3.2 billion in oil revenue (66 percent of total oil revenue) would be saved, corresponding to an overall fiscal surplus of 24 percent of total GDP.

We intend to achieve the domestically financed capital spending target mostly through imposing strict measures to ensure project quality and pushing back the start date of lower priority projects; in the event that these are insufficient, we will take measures to further prioritize new projects. As regards strengthening project quality, we will focus on fully implementing the reforms put in place as part of the HIPC process, as detailed in the MEFP. But again, if these measures prove insufficient, we will further prioritize to stay on target.

We believe that the policies and measures set forth in the attached MEFP are not only aligned with the objectives of our Fund-supported program, but will pave the way to achieving our long-term goal of becoming an emerging market. During the implementation of the program, we will consult with Fund staff on the adoption of any measures which may be necessary to achieve its objectives, at the invitation 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 Technical Memorandum of Understanding (TMU, Attachment II), as well as the staff report accompanying its request for completion of the fourth review of the program, available to the public and authorizes the IMF to arrange for them to be posted on the Fund's website, subsequent to Executive Board approval of its request.

The fifth and sixth (final) reviews under the ECF arrangement are expected to be completed by end-June 2011 and end-September 2011, respectively.

Sincerely yours,

/s

Gilbert Ondongo  
Minister of Finance,  
Budget, and Public Portfolio

Attachments (2)

**APPENDIX I—ATTACHMENT I**

## Memorandum of Economic and Financial Policies, 2010–11

Brazzaville, December 20, 2010

**I. INTRODUCTION**

1. Building on achievements to date and HIPC debt relief, in the period ahead we will continue to pursue macroeconomic policies and structural reform consistent with the objectives laid out in the program approved by the Fund's Executive Board in December 2008, which is guided by our Poverty Reduction and Growth Strategy (PRS). In our view, these objective are not only achievable, they comprise the main building block toward our long-term goal of becoming an emerging market. This Memorandum of Economic and Financial Policies (MEFP) provides further details on policies over 2010–11 consistent with the medium-term program we laid out in our Letter of Intent and accompanying MEFP in November 2008.

**II. RECENT ECONOMIC DEVELOPMENTS AND PROSPECTS**

2. Over the past couple of years, resilience of the Congolese economy has increased significantly through sustained policy implementation and HIPC debt relief. Economic activity remained strong throughout the global downturn, even when faced with a large deterioration in the terms of trade. The external position has improved markedly, and Congo is now at moderate risk of debt distress. Indicators for 2010 are suggestive of an acceleration of growth, and inflation remains manageable.

- Growth is accelerating and will likely reach 9 percent in 2010. Oil production continues to rise as new fields come on stream, and is expected to peak in 2011. Importantly, non-oil growth is booming in the construction, telecommunications and transport sectors and is expected to attain the level required to durably reduce poverty over the near term before rising to double digits as transport and electricity bottlenecks are eased. Inflation will likely edge up over the near term as the pace of growth quickens and remain above the CEMAC convergence criteria of 3 percent, but would decline fairly rapidly as basic infrastructure is completed.
- The current account should swing back into surplus in 2010 as a result of the improvement in the terms of trade and rising oil exports, and register a healthy surplus over the next few years before trending downward with oil production. Adding to the gains resulting from HIPC debt relief, the external position would be further strengthened by an accumulation of foreign assets resulting from running a sustained overall fiscal surplus. We have completed bilateral agreements with most

Paris Club creditors, and we will continue to use our best efforts to conclude the remaining bilateral debt agreements and to use good faith efforts to obtain comparable treatment from commercial creditors as soon as possible.

3. Policy implementation over the course of the first half of our three-year Fund-supported program has been satisfactory and we have made significant progress toward achieving program goals. Notably, fiscal consolidation has outpaced that envisioned in the original program and macroeconomic stability is now well established. Performance in the structural area has also been satisfactory, with gains in public financial management and oil sector governance. We attribute these positive results to close program monitoring and implementation in the run up to, and in the period following, the HIPC completion point.
  - We have continued to make progress toward fiscal sustainability. Building on the large fiscal consolidation of 8½ percentage points of non-oil GDP in 2009, efforts continued in the first half of 2010. The basic non-oil primary deficit (BNOPD) at end-June was CFAF 350 billion, in line with the program target. We accomplished this through strong efforts to strengthen non-oil revenue and enhanced expenditure control.
  - We have solidified the early gains in public financial management and oil sector governance started under the HIPC process through sustained observance of continuous structural benchmarks. The strategic study of the oil sector and the audit of the arrears of restructured public enterprises have also been completed. In sum, we observed all structural benchmarks through end-September.

### **III. THE PROGRAM FOR 2010–11**

4. Over the next year or so, we will maintain the broad thrust of macroeconomic policies aimed at fostering future growth with low inflation, while saving a portion of oil revenues for future generations. Structural policies will aim to solidify gains to date in public financial management and oil sector governance, and ensure that public investment financed by oil wealth is growth enhancing and poverty reducing.

#### **A. Fiscal Policy**

5. From end-2008 through June 2010 our fiscal policy entailed a period of sharply frontloaded fiscal adjustment. However, we have recently needed to respond with increasing public resources to the refugee crisis in the northern department of Likouala of the country and a severe polio outbreak. The acceleration of expenditure in the third quarter of 2010 was also due to higher infrastructure spending in what was an exceptionally good dry season which allowed us to advance project implementation, and higher common charges resulting in part from a move toward a pay-for-use billing system for some utilities which was not

envisioned in the program target. At the same time, higher spending was also incurred related to the celebration of 50 years of independence held in August.

6. Over the remainder of 2010, we will redouble our efforts, reining in public expenditure while strengthening customs revenue and ensuring that dividends from profitable public enterprises are collected. Our revised BNOPD for end-2010 of CFAF 663 billion (34.7 percent of non-oil GDP) implies a consolidation of the fiscal position by about 1.3 percentage points of non-oil GDP relative to 2009. Such a target implies a fiscal adjustment over the first two years of the program of over 9½ percent of GDP, which is broadly equivalent to the total three-year adjustment envisioned in the original program. This strong performance reduces the required adjustment over the course of the remainder of the program and provides greater fiscal space for much needed investment given our higher level of net foreign assets and somewhat stronger oil profile.

7. Consequently, starting with the 2011 budget we plan to scale up public investment to support non-oil activity, increase employment and reduce poverty while making sustained progress toward our long run goal of becoming an emerging market. Given our recognized capacity constraints and the macroeconomic risks to a rapid increase in capital spending, we will target a BNOPD for March 2011 of CFAF 189 billion and an indicative target for end-2011 of CFAF 753 billion (34.5 percent of non-oil GDP), adding slightly to the adjustment achieved through end-2010. We plan to achieve this target by further efforts to strengthen non-oil revenue collection and restraint of current expenditure to make space for a 37 percent increase in domestically financed public investment, while continuing to save a large share of oil revenue.

8. Specifically, we plan to implement measures to strengthen non-oil revenue and restrain current expenditure amounting to 4 percentage points of GDP.

- We will raise non-oil revenue collection through measures to broaden the tax base (payment of forestry and telecoms royalties to the treasury, taxation of transactions related to public contracts); reduce exonerations; and improve administration, with specific focus on improving customs appraisal and control. We envision an increase of 19 percent in non-oil revenue compared to 2010, equivalent to an adjustment of 1 percentage point of non-oil GDP.
- We will continue efforts begun in early 2009 to reduce current expenditure, focusing on bringing transfers and spending on materials and supplies down from the high levels experienced in 2010 due to one-off events. While the envisioned reduction appears large relative to the high base of 2010 (2.9 percentage points of GDP relative to 2010), we believe it is feasible when compared to end-2009.

9. We will carry out the necessary domestically financed investment for growth and poverty reduction—which is embodied within the 2011 budget envelope of CFAF 800

billion—taking into account absorptive capacity. We will also seek out additional non-oil revenue sources which may become available. However, if new revenue sources fail to materialize, we will cap domestically financed capital expenditure (excluding HIPC funds) at CFAF 650 billion in 2011. This envelope is sufficiently ample to allow execution of all projects currently in train and new priority projects contained in the 2011 budget. To achieve this target we will:

- *impose strict measures to ensure project quality.* We will focus on fully implementing the reforms aimed at strengthening investment quality put in place as part of the HIPC process, starting with re-enforcing budget execution procedures and controls at the commitment stage of the expenditure chain. Beginning with the appraisal process, we will ensure that all projects have a feasibility study and are aligned with the MTEF. We will also complement competitive bidding under the procurement code with increased coordination among agencies involved in the investment process, and prepare a procurement plan for 2011 with quarterly monitoring reports, in collaboration with the World Bank.

In the event that these measures are insufficient, we are committed to taking further measures to delay projects of lower priority to ensure we stay within the CFAF 650 billion cap on domestically financed capital expenditure.

## **B. Monetary and Financial Sector Policies**

10. Congo is a member of the Central African Economic and Monetary Community (CEMAC), which has a regional central bank (BEAC) and a fixed exchange rate of CFAF 659 per euro since 1994. BEAC projects broad money growth for Congo of about 14 percent for 2010, consistent with the continued financial deepening of the Congolese economy.

11. To increase the growth of credit to the private sector, we are implementing a financial sector reform strategy drafted with the assistance of Fund staff. This strategy provides a roadmap and a timetable of actions, which we are moving forward with in consultation with the private sector. In the period ahead, reforms will focus on facilitating access to credit, especially for small businesses and households, through fostering competition, removing interest rate ceilings and increasing transparency regarding loan offerings.

## **C. External Sector Policies**

12. The government will continue its policy of financing development mainly through its own resources, and will seek grants and foreign assistance only on highly concessional terms (with a minimum grant element of 35 percent). It will continue to use best efforts to conclude agreements with bilateral creditors and good faith efforts to obtain comparable treatment from remaining commercial creditors, including those under litigation.

#### **D. Structural Policies**

13. The policies which we aim to pursue over the coming years in our quest to attain emerging market status will be laid out in our long-term National Development Plan (NDP 2011–25) and growth, employment and poverty reduction strategy (second generation PRS, 2011–16) which are currently under preparation. A key pillar of our strategy is to support economic diversification through improvements to the business climate, while solidifying gains in PFM, governance and transparency. Guided by our newly adopted Action Plan to Improve the Business Climate, we have established a Council for Public-Private dialogue to deepen the government’s understanding of the concerns of the private sector, and over the near term will work to (i) strengthen investment security, (ii) simplify the taxation system and (iii) resolve issues related to land use, including long-term leasing.

#### **E. Program Monitoring**

14. Over the remainder of 2010 and 2011, the program will be monitored through reviews based on biannual quantitative performance criteria for end-December 2010 and end-March 2011 (Table 1) and structural benchmarks (Table 2). Detailed definitions and reporting requirements for all quantitative performance criteria and structural conditional are contained in the accompanying Technical Memorandum of Understanding (TMU, Attachment II). The authorities will make available to the Fund staff all core data, appropriately reconciled and on a regular and timely basis, as specified in the TMU.

15. The fifth and sixth (final) reviews under the ECF arrangement are expected to be completed by end-June 2011 and end-September 2011, respectively.

**Table 1. Republic of Congo: Quantitative Targets and projections, 2010–11**  
(Billions of CFA francs; cumulative from January; unless otherwise indicated)

	End-Jun. 2010		End-Sep. 2010		End-Dec. 2010		End-Mar. 2011
	Prog.	Est.	Indicative Target	Prel.	Prog.	Rev. Prog.	Prog.
<b>Quantitative targets</b>							
Basic Non-oil primary fiscal balance (floor)	-363	-350	-500	-639	-638	-663	-189
New medium or long-term nonconcessional external debt (including leasing) contracted or guaranteed by the government (ceiling) <sup>1, 2, 3</sup>	0	0	0	0	0	0	0
New external debt (including leasing) with an original maturity of less than one year (ceiling) <sup>2</sup>	0	0	0	0	0	0	0
New oil-collateralized external debt contracted by or on behalf of the central government (ceiling) <sup>2</sup>	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) <sup>2</sup>	0	0	0	0	0	0	0
New external arrears on nonreschedulable debt (ceiling) <sup>2</sup>	0	0	0	0	0	0	0
New domestic arrears <sup>2</sup>	0	0	0	0	0	0	0
<b>Memorandum items</b>							
Oil revenue	1,060	910	1,618	1,252	2,187	1,949	595
Non-oil primary revenue	211	227	317	334	422	465	137
Net domestic financing of the government (ceiling, indicative target)	-618	-188	-999	-156	-1,352	-668	-383

<sup>1</sup> Excluding rescheduling arrangements and disbursements from the IMF; the minimum grant element is set to 35 percent.

<sup>2</sup> Continuous.

<sup>3</sup> The zero ceiling on nonconcessional external debt does not apply to forthcoming external loans from the European Investment Bank and the Central African States Development Bank, as specified in paragraph 11 of the Technical Memorandum of Understanding.

**Table 2. Republic of Congo: Structural Benchmarks under the ECF Arrangement, 2010–11**

Measures	Status <sup>1</sup> End-June 2010	Timing
<b>Public financial management</b> Justification: Strengthen investment quality		
Support implementation of the new procurement code by ensuring that 80 percent of public contracts) having a total value of over CFAF 250 million are open to competitive bidding.	Observed	Continuous
<b>Governance and natural resource management</b> Justification: Continue strengthening of oil sector governance.		
<p>Have an internationally reputable audit firm certify oil revenue quarterly, using the same specifications as for the 2003 certification and with no restrictions on access to the information; and publish the certification reports on the website of the Ministry of Economy, Finance and Budget (<a href="http://www.mefb-cg.org">www.mefb-cg.org</a>). Also, the government will post on the website not only the audit but for each report, a note addressing comments by the auditors.</p> <p>Repatriate to the Treasury the proceeds of oil shipments commercialized by private companies and SNPC on behalf of the government within 45 days after the actual shipment date, based on actual quantities, prices, and shipment dates.</p>	<p>Observed</p> <p>Observed</p>	<p>Continuous, with a one-quarter lag</p> <p>Continuous</p>

<sup>1</sup> End-June 2010 structural benchmarks on (i) no recourse to emergency payment and cash advance procedures; (ii) audits to assess the arrears (wages, pensions) and liabilities of public enterprises liquidated or under restructuring; (iii) oil marketing in line with the recommendations made by the international consultant; (iv) finalization of the strategic study of the oil sector; and (v) regular and timely adjustment of petroleum-product prices were also observed.

**APPENDIX I—ATTACHMENT II****Technical Memorandum of Understanding**

Brazzaville, December 20, 2010

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 Letter of Intent (December 20, 2010) and the Memorandum of Economic and Financial Policies (MEFP, dated December 20, 2010) covering 2010–11. All quantitative performance criteria and indicators for 2010 will be evaluated in terms of cumulative flows from December 31, 2009, and all quantitative performance criteria and indicators for 2011 will be evaluated in terms of cumulative flows from December 31, 2010. 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, **government** 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 and investment income (on the government's accounts in the central and commercial banks), minus total expenditure (including net lending), which is to exclude transfers to Hydro Congo, interest payments on debt, externally-financed capital expenditure, and capital expenditure financed by debt services savings 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 pre-financing. 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.

8. Pro-poor spending is defined in the budget on the basis of the functional classification.

### C. Net domestic financing of the central government

9. Net domestic financing (NDF) of the central government is defined as the change in the government's net position (claims minus deposits at the BEAC and commercial banks) in the banking system, which is elaborated in the table of Position Nette due Gouvernement table (PNG). NDF also includes the change in the stock of Treasury bills and bonds issued by the Congolese Treasury in CFA francs on the CEMAC regional market, when those securities are established but exclude the change in the outstanding of IMF credits at the BEAC (recours au credits due FMI) . At end-December 2009, NDF was assessed at -956.29 billion CFAF. For each test date, any adjustment by the BEAC to the data reported by individual commercial banks, on account of their misclassification of government or for other reasons, will be reported to the Fund.

### D. Foreign Debt and External Arrears

10. 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.

11. 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,<sup>1</sup> 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 35 percent (i.e., a grant element of at least 35 percent).<sup>2</sup> For debts with a maturity exceeding 15 years, the ten-year reference interest rate published by the OECD is

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<sup>1</sup> See Executive Board Decision No. 6230-(79/140) as amended by Decisions Nos. 11096-(95/100) and 12274-(00/85), and 14416-(09/91), August 31, 2009, effective December 1, 2009.

<sup>2</sup> See "Staff Guidance Note on Debt Limits in Fund-Supported Programs" <http://www.imf.org/external/np/pp/eng/2009/121809.pdf>, December 22, 2009.

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. The sole exception to this concessionality requirement is the projected external loans to the Port Authority of Pointe Noire to support its rehabilitation from the European Investment Bank in an amount up to euro 29 million, and from the Central African States Development Bank in an amount up to euro 9.1 million.

12. 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.

13. 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.

14. 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.

15. 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.

#### **E. Oil-Collateralized External Debt and Oil Prepayments**

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

17. 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.

### **F. Payment Arrears and Domestic Debt**

18. 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**

19. 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**

20. 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**

21. 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**

22. The government will submit on a monthly basis, within four weeks of the end of the month, the following preliminary information:

- 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.

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

### **D. Balance of Payments**

24. 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**

25. 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**

26. 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**

27. The government will submit the following information to the IMF staff:
- a monthly detailed table concerning the implementation of structural measures under the program;
  - any study or official report on the economy of the Republic of Congo, within two weeks of its publication; and
  - any decision, order, law, decree, ordinance, or circular having economic or financial implications for the program, within two weeks from the time it is published, or, at the latest, from its entry into force.

INTERNATIONAL MONETARY FUND

REPUBLIC OF CONGO

**Staff Report for the 2010 Article IV Consultation and Fourth Review  
Under the Three-Year Arrangement Under the Extended Credit Facility,  
and Request for Modification of Performance Criterion**

**Informational Annex**

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

Approved by Domenico Fanizza and Dhaneshwar Ghura

December 20, 2010

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**Annex I—Republic of Congo: Relations with the Fund**  
(As of November 30, 2010)

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

**II. General Resources Account:**

	<u>SDR Million</u>	<u>Percent Quota</u>
Quota	84.60	100.00
Fund holdings of currency	84.03	99.33
Reserve tranche position	0.58	0.68

**III. SDR Department:**

	<u>SDR Million</u>	<u>Percent Allocation</u>
Net cumulative allocation	79.69	100.00
Holdings	70.06	87.95

**IV. Outstanding Purchases and Loans:**

	<u>SDR Million</u>	<u>Percent Quota</u>
ECF arrangements	17.48	20.67

**V. Latest Financial Arrangements:**

<u>Type</u>	<u>Approval Date</u>	<u>Expiration Date</u>	<u>Amount Approved (SDR Million)</u>	<u>Amount Drawn (SDR Million)</u>
ECF <sup>1</sup>	12/08/2008	12/07/2011	8.46	4.83
ECF <sup>1</sup>	12/06/2004	06/05/2008	54.99	23.58
ECF <sup>1</sup>	06/28/1996	06/27/1999	69.48	13.90

<sup>1</sup> Formerly PRGF

**VI. Projected Payments to Fund: (without HIPC assistance)**  
(SDR million; based on existing use of resources and present holdings of SDRs):

	<u>2010</u>	<u>2011</u>	<u>Forthcoming</u>	<u>2013</u>	<u>2014</u>
Principal			1.65	3.14	3.51
Charges/interest		0.04	0.08	0.07	0.06
Total		0.04	1.72	3.21	3.57

## VII. Implementation of HIPC Initiative:

The Republic of Congo reached the completion point under the enhanced HIPC Initiative in January 2010.

I. Commitment of HIPC assistance	<u>Enhanced Framework</u>
Decision point date	March 2006
Assistance committed by all creditors (US\$ million) <sup>1</sup>	1,574.60
Of which: IMF assistance (US\$ million) (SDR equivalent in millions)	7.73 5.40
Completion point date	January 2010
II. Disbursement of IMF assistance (SDR million)	
Assistance disbursed to the member	5.40
Interim assistance	0.90
Completion point balance	4.49
Additional disbursement of interest income <sup>2</sup>	0.86
III. Implementation of Multilateral Debt Relief Initiative (MDRI)	6.26

## VIII. Implementation of Multilateral Debt Relief Initiative (MDRI):

I. MDRI-eligible debt (SDR Million) <sup>3</sup>	7.86
Financed by: MDRI Trust	4.79
Remaining HIPC resources	3.07
II. Debt Relief by Facility (SDR Million)	

	<u>Eligible Debt</u>			<u>Total</u>
	<u>Delivery Date</u>	<u>GRA</u>	<u>PRGT</u>	
	January 2010	N/A	7.86	7.86

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> The MDRI provides 100 percent debt relief to eligible member countries that qualified for the assistance. Grant assistance from the MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to the Fund as of end-2004 that remains outstanding at the time the member qualifies for such debt relief.

**IX. 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 July 6, 2009. The findings of this assessment indicate that implementation of previous safeguards recommendations on financial reporting, internal audit, and internal control has been limited, and that the changing risk profile of the BEAC foreign exchange holdings requires further actions to strengthen safeguards at the BEAC. Subsequent to revelation of Paris office fraud, a series of initial measures and longer term safeguard measures were agreed between IMF and BEAC in order to continue with country programs. In December 2009, BEAC adopted an action plan with the aim of reforming its own governance, and strengthening key safeguards. While implementation of the 2009 action plan is still in progress, BEAC adopted additional measures to address the weaknesses highlighted by the first special audit.

**X. 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. Congo does not impose any restrictions on the making of payments and transfers for current international transactions.

**XI. Article IV Consultations:**

Consultations with Congo are on a 24-month cycle, based on the Board decision on consultation cycles in program countries. The 2008 consultation discussions and request for a new three-year Extended Credit Facility (ECF) arrangement were held in Brazzaville on May 21–30 and August 21–27, 2008. The staff report ([www.imf.org](http://www.imf.org)) was considered by the Executive Board on December 8, 2008.

**XII. FSAP Participation : N/A.**

**XIII. Technical Assistance :**

<b>Subject</b>	<b>Department</b>	<b>Staff Member</b>	<b>Date</b>
Customs administration	AFRITAC		October 2010
Debt Management	AFRITAC		October 2010
Customs administration	AFRITAC		October 2010.
National Accounts	AFRITAC	Maxime Bonkougou	October 2010
Seminar on budget management	AFRITAC		September 2010
Domestic taxation	AFRITAC		August 2010
Improving budgetary procedures	AFRITAC		June 2010
National Accounts	AFRITAC	Huber Gbossa	April 2010
Poverty-reducing spending definition	AFRITAC	Jean Pierre Nuenang	March 2010
Tax administration. Strengthening capacity at domestic revenue authority	AFRITAC	Philippe Laurent	February 2010
Customs administration	AFRITAC	Ives Soler	December 2009
Tax policy	FAD	Mario Mansur	Aug/Sept. 2009
Assist the National Accounts Team in finalizing the analysis of main aggregates of 2006 NA estimates	STA	Mr. Gbossa (head), AFRITAC C	Aug/Sept. 2009
Assess the country's domestic tax system and tax policy	FAD and AFRITAC West	Messrs. Montagnat-Rentier (head)	July 2009
Assist National Accounts Team with analysis of main aggregates of 2006 NA estimates and train NA team in synthesis of accounts	STA	Mr. Gbossa (head), AFRITAC C	April 2009
Follow-up on reforms for the modernization of tax and customs administrations	FAD and AFRITAC West	Messrs. Montagnat-Rentier, Lefebvre and Koukpaizan	March 2009
Identifying strategic priorities for the next 3-4 years			
Follow-up mission on the implementation of statistics TA programs	AFRITAC C	Mr. Bonkougou	March 2009
Processing and monitoring of fiscal information	AFRITAC C	Mr. Penanje	August 2008

<b>Subject</b>	<b>Department</b>	<b>Staff Member</b>	<b>Date</b>
Budget functional classification	AFRITAC C	Mrs. Lokpe and Nguenan	July 2007
Poverty and Social Impact Analysis	FAD	Mr. Gillingham, Ms. Lacoche, Mr. Manning	November 2007
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 Multisector statistics	STA STA	Mr. Dessart Messrs. Marie, Maiga, and Mmes. Fisher, Matei, Razin, and Balvani	February 2007 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

#### **XIV. Resident Representative:**

The resident representative, Mr. Oscar Edgardo Melhado Orellana, took up his assignment in September 2009.

**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	<i>Dialogue on Governance</i>	FY11	Ongoing
	<i>AAA</i> ➤ Statistical capacity building ➤ Employment and Growth Study	Ongoing May 2010	Ongoing May 2011
	<i>New Lending:</i> ➤ Economic Diversification Project (TA)	December 2009	September 2010
	➤ Governance and Transparency Project - II ➤ Regional Telecommunication Project	March 2010  2010	May 2011  May 2011
IMF work program in next 12 months	Fifth review under the ECF arrangement	Feb/March 2011	April 2011
	Sixth (final) review under the ECF arrangement	June 2011	
B. Requests for work program inputs			
Fund request to Bank (justification)	Final English version of the Public Expenditure Review		June 2010
	Program document of economic diversification project		October 2010
	Preliminary study on employment and growth		January 2011
Bank request to Fund (justification)	Macroeconomic updates for program documents	FY11	FY11
C. Agreement on joint products and missions			
Joint products in next 12 months	JSAN on new PRS	March 2011	April 2011
	Collaboration on data on non-oil sector growth	FY11	FY11

### Annex III

#### Republic of Congo—STATISTICAL ISSUES

As of December 8, 2010

#### I. Assessment of Data Adequacy for Surveillance

**General:** Data provision has some shortcomings, but is broadly adequate for surveillance. The limited statistics coverage and long delays in the provision of national accounts and balance of payments statistics are particularly problematic. Since the occurrence of governance problems at the Bank of Central African States (BEAC), timely delivery of financial sector data has been hampered. Poor coordination among different governmental agencies is also an issue. Technical assistance has resulted in some progress but there is still need to consolidate these gains and further strengthening of statistical capacities.

**National Accounts:** National accounts data is weak, with inconsistencies, both internally and with balance of payments statistics. 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. In the framework of moving to the SNA93 system of accounts, the DGS completed the national accounts estimates for 2005 (the new base year) and for 2006, with the assistance of the resident statistical expert and Central AFRITAC. Authorities are currently working with the Central AFRITAC to revise the national accounts' estimates back to 2000 and up to 2008. 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, but the two civil service's databases are yet to be unified.

**Price statistics:** Movements in the prices of commodities consumed by households are recorded for the capital city of Brazzaville and for Pointe Noire—the second largest city. Data are compiled on a monthly basis. Starting August 2010, the authorities introduced a new CPI measure with new weights and a new composition of the basket of good and service. This new CPI is harmonized with that of other countries in the Central African Economic and Monetary Community (CEMAC).

**Government finance statistics (GFS):** Progress is underway to increase the comprehensiveness of the data through the adoption of systematic compilation practices and steps have been taken to computerize expenditure chain accounting. 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. 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 (SNPC), which carries out several operations on behalf of the government (notably in the oil sector).

**Monetary statistics:** 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. In 2007, the BEAC started 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. Following governance issues occurred in 2009 at the BEAC data delivery on financial system indicators has been hampered.

The accuracy of national monetary statistics may be affected by large cross-border movements of BEAC issued banknotes among CEMAC member countries. However, the Republic of Congo is moderately affected by such movements: 6.2 percent of banknotes issued in the Republic of 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.

**Balance of payments:** Although BEAC produces balance of payments data, delays occur and data suffers from significant inconsistencies with other datasets. The opacity surrounding certain transactions in the oil sector introduces an extra layer of imprecision. In addition, net investment flows are overestimated by significant unrecorded disinvestment operations that are part of the tax regime arrangements obtained by nonresident oil-drilling companies. 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. 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 and validation. Progress in this regard has been slow, consequently delaying the process for finalizing BOP data for 2005–08.

## II. Data Standards and Quality

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.

No data ROSC is available.

## III. Reporting to STA

The Republic of Congo has reported (in September 2008) GFS data to STA for fiscal years 2004 and 2005 using the GFSM 2001 template—data for 2006 and 2007 has experienced delays. 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 division in charge of TOFE statistics.

**REPUBLIC OF CONGO: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE  
As of May 10, 2010**

	Date of latest observation	Date received	Frequency of Data <sup>7</sup>	Frequency of Reporting <sup>7</sup>	Frequency of publication <sup>7</sup>
Exchange Rates	Current	Current	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities <sup>1</sup>	July 2010	Oct. 2010	M	M	M
Reserve/Base Money	July 2010	Oct. 2010	M	M	M
Broad Money	June 2010	Oct. 2010	M	M	M
Central Bank Balance Sheet	July 2010	Oct. 2010	M	M	M
Consolidated Balance Sheet of the Banking System	July 2010	Oct. 2010	M	M	M
Interest Rates <sup>2</sup>	July 2010	Oct. 2010	M	M	M
Consumer Price Index	Sept. 2010	Oct. 2010	M	M	M
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> – General Government <sup>4</sup>	N/A	N/A	N/A	N/A	N/A
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> – Central Government	Sept 2010	Nov.2010	M	M	Q
Stocks of Central Government and Central Government-Guaranteed Debt <sup>5</sup>	Sept 2010	Nov. 2010	Q	Q	Q
External Current Account Balance	Dec 2009	Apr. 2010	A	A	A
Exports and Imports of Goods and Services	Dec 2009	Apr. 2010	A	A	A
GDP/GNP	2009	Apr. 2010	A	A	A
Gross External Debt	Sept 2010	Nov. 2010	Q	Q	Q
International Investment Position <sup>6</sup>	...	...	NA	NA	NA

<sup>1</sup> Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

<sup>2</sup> Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

<sup>3</sup> Foreign, domestic bank, and domestic non-bank financing.

<sup>4</sup> The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

<sup>5</sup> Including currency and maturity composition.

<sup>6</sup> Includes external gross financial asset and liability positions vis-à-vis nonresidents.

<sup>7</sup> Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA).



INTERNATIONAL MONETARY FUND

*Public Information Notice*

EXTERNAL  
RELATIONS  
DEPARTMENT

Public Information Notice (PIN) No. 11/13  
FOR IMMEDIATE RELEASE  
February 1, 2011

International Monetary Fund  
700 19<sup>th</sup> Street, NW  
Washington, D. C. 20431 USA

## **IMF Executive Board Concludes 2010 Article IV Consultation with the Republic of Congo**

On January 19, 2011, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the Republic of Congo.<sup>1</sup>

### **Background**

Economic performance remained robust throughout the global downturn and shows signs of further strengthening. Despite the massive terms of trade shock experienced in 2009, real economic activity expanded by 7½ percent supported by rising oil production and sustained non-oil activity in construction, telecommunications and transportation. Inflation fell below the Communauté Economique et Monétaire des Etats d'Afrique Centrale (CEMAC) convergence criteria of 3 percent, reflecting falling food and fuel prices over the course of 2009 and the strength of the euro to which the CFA franc is pegged. Indicators point to an acceleration of activity in 2010, accompanied by a tick up in inflation as transportation bottlenecks tighten.

In 2010, the external position improved significantly, as fiscal surpluses raised official foreign assets and Highly Indebted Poor Countries (HIPC) debt relief significantly reduced external liabilities. With the recovery in oil prices and rising oil production, the current account turned toward surplus, while the real effective exchange rate rebounded in the second half of year as the euro strengthened vis-à-vis the US dollar.

Fiscal consolidation from end-2008 through June 2010 progressed somewhat faster than envisioned at the time of the last Article IV consultation, owing to stepped up efforts to

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<sup>1</sup> 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. An explanation of any qualifiers used in summings up can be found here: <http://www.imf.org/external/np/sec/misc/qualifiers.htm>.

raise non-oil revenue and reduce current expenditure. As a result, the basic non-oil primary deficit declined by 8½ percentage points of non-oil GDP in 2009. Consolidation continued in the first half of 2010, with revenue over performance and under execution of capital projects more than offsetting a pick up in current expenditure.

The underdeveloped financial system was unscathed by the global financial turmoil, and appears generally sound. While liquidity in the domestic market remains ample, credit to the economy remains low at around 4 percent of GDP.

Looking ahead, with oil expected to peak in 2011, non-oil activity is expected to accelerate over the medium term to double digits from a low base as public investment in basic infrastructure eases transportation and energy bottlenecks. Inflation would remain elevated over the near term, as rising domestic demand strains limited railway capacity, but fall as transport infrastructure is completed. The current account would remain in surplus, but decline over time as oil exports wane, while the net external debt ratio would decline appreciably as gross foreign assets accumulate. Downside risks include oil price volatility and uncertainties regarding the efficiency of public investment in raising future growth, while new oil discoveries represent an upside risk.

### **Executive Board Assessment**

Executive Directors commended the Congolese authorities for the continued satisfactory implementation of their program supported by an Extended Credit Facility (ECF). As a result of the sustained implementation of prudent policies, macroeconomic stability is now well established and the external position has improved markedly, while structural reforms have moved ahead. Directors noted that Congo's medium-term economic outlook is favorable, provided that public investment and measures to improve the business climate are successful in raising non-oil growth. Significant challenges remain and strong efforts will continue to be needed to increase private sector participation in the economy and accelerate poverty reduction.

Directors praised the authorities for the significant fiscal consolidation achieved since the program's approval in December 2008, which provides space for much needed infrastructure spending. At the same time, they cautioned against mounting current spending pressures and called on the authorities to strike an appropriate balance between scaling up capital spending, long-term fiscal sustainability, and enhancing the level and effectiveness of priority social spending. Directors underscored that fiscal sustainability requires continued consolidation efforts, including measures to collect additional non-oil revenue, reining in non-priority spending, improving expenditure efficiency with stronger quality controls, and further strengthening oil wealth management, including by accelerating progress toward full compliance with the Extractive Industries Transparency Initiative.

Directors emphasized the importance of strong public financial management for the successful implementation of the authorities' 2011 fiscal program. They saw significant scope for improving budget control and strengthening the treasury and accounting of fiscal operations. They encouraged the authorities to work closely with development partners to implement the mechanisms put in place during the HIPC process for

strengthening the management of public investment, in particular project prioritization, appraisal, and monitoring.

Directors concurred that promoting private sector development is key to reducing oil dependence and assuring sustained poverty-reducing growth. As a complement to scaling up public investment, they encouraged the authorities to take prompt action to improve the business climate by frontloading the implementation of key measures of the recently-adopted Action Plan. These efforts should be supported by policies to increase the private sector's access to credit, deepen financial intermediation, and raise the operating and financial performance of state-owned enterprises.

**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, 2007–10**

	2007	2008	2009	2010	
		Est.	Prel.	Prog. <sup>1</sup>	Rev. Prog.
	(Annual percent change)				
Production and prices					
GDP at constant prices	-1.6	5.6	7.5	12.1	9.1
Oil	-17.2	6.1	16.2	25.3	14.7
Non-oil	6.6	5.4	3.9	6.0	6.5
GDP at current prices	-9.4	32.0	-14.3	36.8	27.4
GDP deflator	-7.9	25.0	-20.3	22.0	16.7
Consumer prices (period average)	2.6	6.0	4.3	4.0	5.3
Consumer prices (end of period)	-1.7	11.4	2.5	3.0	5.8
	(Percent of GDP)				
Current account balance <sup>2</sup>	-25.9	0.6	-8.7	2.4	2.7
External public debt (end of period)	112.7	51.5	50.0	19.9	12.5
	(Percent of non-oil GDP)				
Central government finances					
Revenue and grants	113.5	160.4	78.3	141.2	127.6
Oil revenue	92.3	136.0	54.8	116.0	101.9
Non-oil revenue and grants	21.2	20.8	21.9	22.4	24.3
Total expenditure	86.3	80.7	65.3	66.2	62.9
Current	56.3	50.4	36.8	31.4	33.7
Capital (and net lending)	30.0	30.3	28.5	34.8	29.2
Overall balance (deficit -, commitment basis) <sup>3</sup>	27.1	79.8	13.0	75.0	64.8
Basic primary fiscal balance (deficit -) <sup>4</sup>	36.6	91.5	18.8	82.2	67.2
<i>Of which:</i> Basic non-oil primary fiscal balance (- = deficit)	-55.7	-44.3	-36.0	-33.8	-34.7
	(Percent of total government revenue excluding grants)				
External public debt service (after debt relief) <sup>5</sup>	20.6	8.3	3.9	2.8	2.8
External public debt (after debt relief) <sup>5</sup>	264.1	110.5	171.2	42.5	29.6
	(Billions of CFA francs, unless otherwise indicated)				
Gross official foreign reserves	983	1,825	1,740	3,619	2,494
Nominal GDP	3,664	5,279	4,523	5,616	5,761
Nominal non-oil GDP	1,392	1,557	1,705	1,885	1,914
World oil price (U.S. dollars per barrel)	71	97	62	77	76
Oil production (Millions of barrels)	82	87	101	128	115
Nominal Exchange rate (CFA/USD, period average)	479	446	471	466	...

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

<sup>1</sup> Country Report No. 10/54.

<sup>2</sup> Including public transfers.

<sup>3</sup> Including grants.

<sup>4</sup> Primary revenue (excluding interest income and grants) minus non-interest current expenditure minus domestically financed capital expenditure and net lending.

<sup>5</sup> HIPC completion point reached in January 2010. In March 2010, the Paris Club granted 100 percent debt relief.



Press Release No. 11/13  
FOR IMMEDIATE RELEASE  
January 19, 2011

International Monetary Fund  
Washington, D.C. 20431 USA

**IMF Executive Board Completes Fourth Review Under the Republic of Congo's ECF Arrangement and Approves US\$1.9 Million Disbursement**

The Executive Board of the International Monetary Fund (IMF) today completed the fourth review of the Republic of Congo's economic performance under a program supported by the Extended Credit Facility (ECF). The Board's decision enables the immediate disbursement of an amount of SDR 1.2 million (about US\$1.9 million), bringing total disbursements under the ECF to The Republic of Congo to SDR 6.0 million (about US\$9.4 million).

At the conclusion of the Executive Board's discussion on the Republic of Congo, Mr. Naoyuki Shinohara, Deputy Managing Director and Acting Chair, stated:

“Congo has weathered the global downturn well, supported by prudent macroeconomic policies under the ECF arrangement with the Fund. Economic activity has remained robust, buoyed by rising oil production and sustained non-oil growth in construction, telecoms, and transport. Inflation has declined to low single digits. The external position has improved significantly, as fiscal surpluses have raised official foreign assets and HIPC debt relief significantly reduced external liabilities. The outlook is favorable provided that non-oil sector activity accelerates on the back of improvements in basic infrastructure and the business climate.

“Significant fiscal consolidation has provided space for much needed infrastructure spending. Given the risks of mounting current spending pressures, an appropriate balance should be struck between scaling up public expenditure and macroeconomic stability. Over the medium term, fiscal sustainability requires continued consolidation efforts, including implementation of measures to collect additional non-oil revenue, reining in non-priority spending, enforcing quality control to improve expenditure efficiency, and further strengthening oil wealth management.

“Good progress has been made on structural reforms in the areas of public financial management and the management of oil wealth. The reform agenda should now focus on

addressing weaknesses in budgetary control and treasury operations. The authorities' plans to safeguard public investment quality by fully implementing the mechanisms elaborated in the context of the HIPC process are welcome. In particular, measures aimed at improving the project appraisal process, reinforcing budget execution, monitoring, and control, and increasing coordination among public agencies, are all important steps in the right direction.

“To support non-oil growth and to durably reduce poverty, further efforts are needed to increase private sector participation, enhance the financial performance of state-owned enterprises, and deepen financial intermediation. As a complement to scaling up public investment, it will be important to swiftly implement key measures of the recently-adopted Action Plan to improve the business climate in close collaboration with development partners,” Mr. Shinohara added.

**Statement by Kossi Assimaidou, Executive Director for the Republic of Congo**  
**January 19, 2011**

**I. INTRODUCTION**

I would like to thank Management and Staff for their continuous support to my Congolese authorities, and for the valuable policy advice and assistance provided over the years. My authorities would like to reiterate their firm commitment to the policies under the Extended Credit Facility (ECF), and they remain determined to reaching their objectives as set out in the program i.e., stabilizing the economy, consolidating the budget, and raising growth to higher and more sustainable levels. Consistently with Congo's PRSP, another key objective of the program is to fight poverty more efficiently and increase employment opportunities, particularly among the youth.

Performance under the ECF-supported program continues to be satisfactory with all end-June 2010 quantitative performance criteria and structural benchmarks met. In particular, steady progress continues to be made in improving governance in the oil sector through the observance of all related structural benchmarks.

Macroeconomic performance was also strong in 2010 despite the difficult global environment and volatile oil prices. While oil continues to be the country's main engine of growth, the non-oil sector's contribution to real GDP is increasing. Also in 2010, fiscal consolidation has accelerated despite the pressure that was put on the budget due—in part—to events outside the authorities' control i.e., a refugee crisis and a polio outbreak.

Concerned about the need to better spread the benefits of growth to the most vulnerable segments of the population, and to create a better economic environment conducive to private sector-led growth, my authorities have embarked on a scaling up of pro-poor investment in infrastructure. However, they would like to assure Directors that they will take all necessary measures to avoid associated risks, including through a capping of the total amount of capital spending projected in 2011 and imposing strict measures to ensure project quality.

In their efforts to close the country's large infrastructure gap, my authorities will finance the bulk of their investment through domestic resources and will seek grants and foreign assistance only on highly concessional terms. They would like to express anew their gratitude to the international community and to the IMF in particular, for the debt relief granted under the HIPC and MDRI initiatives. The fiscal space created following the reaching of the HIPC completion point and the important resources freed will continue to be used to improve the situation of social sectors, in particular the health and education sectors where they are aware that significant progress still needs to be made.

## **II. POLICIES UNDER THE EXTENDED CREDIT FACILITY**

### **1. Fiscal Policy**

My authorities have continued their fiscal consolidation efforts in 2010, reducing the basic non-oil primary balance to approximately 34 percent of GDP, down 10 points from 2008 (44 percent). They are in a good position to achieving this year the total fiscal consolidation that was targeted for the whole period of the three-year arrangement at the time of its approval by the Board, thereby providing additional fiscal space for needed infrastructure investment. As a result of their accelerated consolidation efforts, my authorities plan to scale-up public investment in 2011 in order to ease notably transport and electricity bottlenecks, and therefore help support non-oil activity and accelerate economic diversification.

However, they are mindful of the country's capacity constraints and the macroeconomic risks associated with a rapid increase in capital spending, including potential inflation and fiscal sustainability risks. Thus, they plan to further strengthen non-oil revenue collection and restrain current expenditure to make space for the projected 37 percent increase in domestically-financed public investment in 2011. Non-oil revenue collection will also be reinforced through measures to broaden the tax base, reducing exonerations, and improving tax administration.

As regards outlays, the higher level of expenditure in the second part of 2010 was due to the urgent need to respond to the refugee crisis in the northern department of Likouala, and a severe polio outbreak, as well as higher spending related to the celebration of the 50 years of independence. At the same time, my authorities took advantage of an exceptionally good dry season to advance a number of infrastructure projects. I would like to add that my authorities remain committed to the objective of reducing non-priority spending, and efforts to reduce current outlays will be further strengthened focusing primarily on bringing transfers and spending on materials and supplies down from the high levels attained in 2010. However, should revenues fail to materialize, domestically-financed capital expenditure will be capped at CFAF 650 billion in 2011, and projects of lower priority will be delayed. My authorities will also focus on imposing strict measures to ensure project quality. In particular, they will ensure that all projects have a feasibility study and are aligned with the medium-term expenditure framework.

### **2. Monetary and Financial Sector Policies**

Congo being a member of the Central African Economic and Monetary Community (CEMAC) follows a regional monetary policy, with an exchange rate pegged to the Euro. This has served the country well and has been an anchor for macroeconomic stability.

In the banking sector, despite renewed competition with the opening of two new banks in Brazzaville and abundant liquidity, credit to the private sector remains weak. To improve the private sector's access to credit, my authorities are currently implementing a financial sector reform strategy which was drafted with IMF assistance. More specifically, the reform will

focus on facilitating access to credit for small businesses and households, removing interest rates ceilings to further enhance competition, and increasing transparency in the offering of loans.

### **3. Structural Reforms**

One of the key objectives of Congo's PRSP and its Fund-supported program is to accelerate the diversification of the economy away from the main reliance on finite oil. To this end, Congo's authorities will pursue their efforts to improve the business climate. Through the newly adopted Action Plan to Improve the Business Climate, they have established a council for public-private dialogue to deepen the government's understanding of the concerns of the private sector. They will work in the near-term to strengthen investment security, simplify the taxation system, and resolve issues related to land uses, including long-term leasing.

### **III. CONCLUSION**

I would like to reiterate my authorities' firm commitment to the policies and objectives set under the Fund-supported program. On their behalf, I would like to request Executive Directors' support for the completion of the fourth review under the ECF and the modification of a performance criterion—the basic non-oil primary balance target for end-December 2010—that had to be revised as a result, in part, of unforeseen events as explained above.