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Republic of Congo: 2012 Article IV Consultation—Staff Report; Public Information Notice 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 the 2012 Article IV consultation with the Republic of Congo the following documents have been released and are included in this package:

- The staff report for the 2012 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on May 25, 2012, 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 June 8, 2012. 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.
- Informational Annex
- A Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its June 27, 2012 discussion of the staff report that concluded the Article IV consultation.
- A statement by the Executive Director for the Republic of Congo.

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

June 8, 2012

STAFF REPORT FOR THE 2012 ARTICLE IV CONSULTATION

KEY ISSUES

Context: The key issue facing Congo is how to use oil and mineral resources effectively in support of inclusive growth. Economic conditions are supportive—macroeconomic stability is in place, the terms of trade are favorable, and the external position is strong. External risks are mitigated by membership in CEMAC, under which all members benefit from the French convertibility guarantee, and large fiscal buffers. Yet, growth has not been inclusive. Over half of the population lives in poverty and a labor skills mismatch results in high unemployment and underemployment, especially among youth. The difficult business climate holds back diversification. On March 4, 2012 a munitions depot exploded in Brazzaville causing death and destruction; near-term policies focus on reconstruction and addressing the humanitarian crisis.

Strengthening fiscal policy: The medium-term orientation of fiscal policy aims to scale up investment expenditure to close the infrastructure gap while saving a portion of oil revenue. This approach is broadly sound, but leaves development and savings objectives vulnerable to oil prices, and needs to be accompanied by strong measures to raise expenditure quality. Implementing a fiscal anchor could help reduce procyclicality of spending.

Raising the inclusiveness of growth: Inclusive growth is multidimensional and coordinated policies are required to address weaknesses in the fiscal framework, the business climate, financial sector development and the labor market. The new National Development Plan 2012–2016 is consistent with raising inclusiveness, and plans are in place to improve the business climate and increase the financial sector's role in development. Effective implementation is critical to creating a stable environment governed by the rule of law. Labor policies need to improve the quality of education and increase technical training.

Data issues: Despite intensive technical assistance, data continues to suffer shortcomings but is broadly adequate for surveillance.

Approved By
Anne-Marie Gulde-Wolf and Dhaneshwar Ghura

Discussions were held in Brazzaville May 15–25, 2012. The mission team comprised Ms. Baker (head), Ms. Tartari and Mr. Arze del Granado (all AFR) and Mr. Acosta-Ormaechea (FAD). The mission met with President Sassou Nguesso, Minister of Finance Ondongo, the Ministers of Education, Industrial Policy, Labor and Mining, as well as other government officials. The mission was assisted by Mr. Melhado, resident representative, and was joined by Mr. Assimaidou (ED) and Mr. Sidi Buona (OED).

The Republic of Congo is a member of the Central African Economic and Monetary Community (CEMAC). The common currency, the CFA franc, is pegged to the Euro at CFAF 655.957 per Euro.

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CONGO AT THE CROSSROADS

1. **Conditions supporting non-oil growth have arguably never been more favorable.** Social peace is restored, macroeconomic stability is in place, the terms of trade are favorable, and the external position is strong. After a decade of civil conflict in the 1990s, Congo has returned to lower middle income status. Oil and mineral wealth is large, and sufficient to finance development.

2. **Yet, for development to proceed, fundamental reforms are needed not only aimed at broadening the economic base but making growth more inclusive.** The business climate ranks among the most challenging on earth (Congo ranks 181 of 183 countries on the World Bank's 2011 Doing Business), the financial sector is underdeveloped with banking sector assets less than 22 percent of GDP (Box 1), and governance is weak. The 2011 Human Development Report indicates that around 70 percent of the Congolese population suffers from at least one aspect of multidimensional poverty.

3. **Good progress on basic reforms was made under the three-year ECF arrangement which expired in August 2011, but tougher steps lie ahead**. Oil wealth is being used to scale up investment to close the large gap in basic infrastructure and action plans have been drawn up to guide development and improve the business climate. The time has come to consolidate the gains to date and take ownership of reforms which break vested interest and strengthen governance and transparency so that the benefits of Congo's vast natural resource wealth are shared by all.

DEVELOPMENTS AND THE CHALLENGES AHEAD

A. Growth has been sustained, but not inclusive

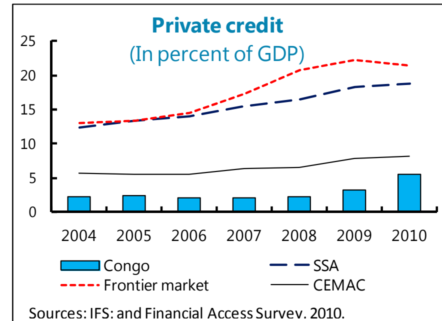
4. **Non-oil growth has been robust**, buoyed by public investment-related construction, telecoms and transport. Yet the economy remains highly dependent on oil, with limited non-oil private sector activity.

5. **Over half the population lives in poverty, with the vast majority living in urban areas and working in the informal sector.** The oil sector by its nature is not inclusive, and acute urban migration in the 1970s and 80s led to the demise of agriculture. Other factors contributing to jobless growth include lack of economic diversification stemming from the difficult business environment, a sizable labor skills mismatch resulting from an education system ill suited to the needs of the private sector and rigid job market regulation (see Annex I).

Box 1. Republic of Congo—Financial Sector Developments

The Congolese financial sector is one of the least developed in Africa. However, increased confidence in the strength of the economy, the recent acceleration in growth, improved infrastructure, and ample liquidity have laid the ground for sustained financial deepening.

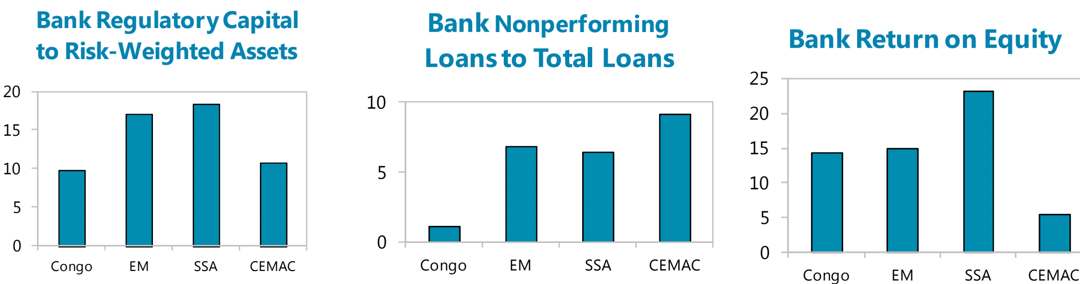
The financial sector in Congo is underdeveloped. Banking sector assets account for 21 percent of GDP, and loans are mostly short term and highly concentrated in a few productive sectors. Financial depth remains very low at 6½ percent. The main barriers limiting credit supply include insufficient investor protection, weak contract enforcement, low project bankability, lack of property ownership and bottlenecks in land registration. However, the recent establishment of a postal bank, use of Mobile Money, improved infrastructure, and measures to aid the use of collateral are expected to facilitate access to banking services.



The number of banks increased from six in 2010 to nine institutions in 2012. The financial sector is dominated by universal banks which are mostly privately owned subsidiaries of foreign institutions. Microfinance institutions, pension funds and insurance play a very limited role in providing financial services.

The banking system appears to be sound, and exposure to Euro area distress, limited. The ratio of the nonperforming loans to deposits is low at about 1.1 percent despite robust credit growth. Credit to the private sector picked up strongly in 2011 reflecting increasing demand in the construction, transportation, telecomm and hotel sectors. While the majority of loans are very short term, a shift toward medium-term credit has recently been observed. Yet, the diversity of financial services provided is limited and focuses on loans to enterprises in the real sector.

Republic of Congo: Selected Financial Sector Indicators for the Banking Sector in 2011



Sources: COBAC and the IMF estimations.

Compliance by Congolese banks with CEMAC prudential ratios is broadly satisfactory, although the limit on lending to a single borrower is routinely violated. The undiversified economy provides few credit-worthy large borrowers and leads to a concentration of risks. Increasing banking activity associated with a pickup in non-oil growth would require strengthening of staffing and oversight capability of the regional regulator, COBAC.

B. Scaling up is justified, but the supplemental budget poses risks to macroeconomic stability and expenditure quality

6. The 2011 budget aptly aimed at scaling up investment. Sustained high oil prices contributed to a double-digit overall surplus (oil accounted for 80 percent of fiscal revenues in 2011) . However, the non-oil primary deficit (NOPD) widened by 12 percentage points of non-oil GDP, despite a strong showing of non-oil revenue collection and some rationalization of non-wage current expenditure, because of higher domestically financed capital expenditure.

7. On March 4, a munitions depot exploded in Brazzaville, leading to passage of a supplemental budget for 2012. The explosions caused widespread destruction and loss of life. The revised budget makes available additional expenditure of nearly 25 percent of non-oil GDP (Box 2). As a result, while the overall balance would remain in surplus, the NOPD would more than double relative to 2010 reaching about 75 percent of non-oil GDP. Higher imports will push the current account down to near balance.

8. So far inflation has remained subdued, but limited supply response places risks to the upside (Annex II). Transport from the port city to Brazzaville may become strained due to lagging transport (rail and road) capacity. Given low domestic non-oil production, much of the additional expenditure will flow out of the economy in the form of imports, but the sheer magnitude of the fiscal injection and the relatively large cash component is expected to push broad money growth above 40 percent.

9. Apart from inflation, the largest risk is to expenditure quality. The supplemental budget lifts total expenditure (including net lending) to over 120 percent of non-oil GDP, and represents a more than doubling of capital spending since 2010 without a commensurate increase in staffing or capacity. While it is unclear how much will be actually be executed, full execution over the remaining months of the year would likely require sidestepping the procurement code and other quality control measures.

Additional investment in the 2012 budget

	in percent of non-oil GDP
Additional capital expenditure	20.9
of which	
Defense	3.5
Public works (excl. housing)	7.9
Housing	8.3
Health and education	0.8
Memo item:	
Non-oil GDP (in CFAF bn)	2472

Source: IMF staff calcuations.

Box 2. Republic of Congo—Fiscal Developments and the 2012 Budget

Fiscal performance was sustained under the three-year ECF arrangement (2008–11). The original 2012 budget showed a reversal of gains in non-oil revenue collection and current expenditure rationalization, while the additional spending in the supplemental budget further heightens concerns about implementation and absorptive capacity, and poses potential risks to macrostability.

In 2011 the authorities began scaling up public investment, financed in part by fiscal space created by measures to improve non-oil revenue collection. Sustained high oil prices contributed to an overall double-digit surplus, with the widening of the non-oil basic primary deficit (NOBPD) reflecting the government's general policy of using own-financing for investment.

The original 2012 budget continued to emphasize investment, while showing a reversal of trends in non-oil revenue collection and non-wage current expenditure rationalization. The share of social spending was programmed to decline slightly, despite an increase of 26 percent in non-wage current expenditure. The budget also contained 8 percent of non-oil GDP in net lending to state-owned enterprises.

The 2012 supplemental budget contains nearly 25 percentage points of non-oil GDP in additional spending. Four percentage points of the increase is current expenditure aimed at compensation of victims and related expenditures. The additional investment expenditure falls into three broad categories: housing (40 percent), public works (33 percent) and defense (17 percent), with some social infrastructure spending (rehabilitation of schools and hospitals) in public works. While the overall balance will remain in surplus and the government will save 9 percent of oil revenue, the supplemental budget poses two types of risks.

Government operations, budget and outturn 2008-2012

	2008	2009	2010	2011		2012	2012
	Prel.	Prel.	Prel.	Est. [1]	Prel.	Original budget	Final budget
	(in percent of non-oil GDP)						
Total revenue	160.4	78.3	116.8	142.5	138.1	133.1	139.2
of which oil	136.0	54.8	92.0	112.8	108.9	100.4	105.5
Total expenditure (incl net lending)	80.7	65.6	66.7	70.4	84.7	104.1	125.6
Wage	10.7	10.3	9.4	9.7	9.9	10.4	10.1
Current non-wage	39.7	26.5	26.2	21.1	23.1	25.1	28.1
Capital expenditure	30.3	28.7	31.2	39.7	51.7	60.3	79.4
of which domestic	25.0	27.5	26.9	31.6	41.4	35.5	52.5
of which external	5.2	1.2	4.2	8.0	10.3	24.8	26.9
Net lending	0.0	0.1	0.0	0.0	0.0	8.3	8.1
Overall balance (cash basis)	19.1	5.4	38.3	69.6	49.1	29.0	13.6
Non-oil basic primary balance (NOBPB)	-44.3	-36.0	-34.4	-34.5	-46.3	-53.0	-73.3
Memo items:	(in percent of GDP)						
Overall balance (cash basis)	5.6	2.0	12.3	23.3	15.1	10.0	4.5
Capital expenditure	8.9	10.8	10.0	13.3	15.9	20.8	26.2
Non-oil GDP (in CFAF bn)	1557	1705	1911	2182	2096	2397	2472
Total GDP (in CFAF bn)	5311	4530	5947	6523	6807	6954	7493

Source: IMF staff calcuations.
[1] Country Report No. 11/67

- *Macroeconomic stability*, through higher inflation which is detrimental to vulnerable groups. Staff estimates a rise in headline inflation of 2.4 percentage points (Annex II).

- *Expenditure efficiency,* due to absorptive capacity and implementation constraints. If fully implemented, relative to 2010 investment will have more than doubled in nominal terms, rising to 25 percent of total GDP without a commensurate increase in capacity.

C. The external position is strong, but competitiveness remains an issue

10. The strong external position mainly reflects high oil prices and debt relief. The fixed exchange rate anchors macrostability. The current account is in surplus, net external debt is negative, and Congo's large foreign assets contribute to ample reserve coverage of the CEMAC region (see Country Report No. 12/244). The government also has large offshore holdings, in contravention of CEMAC obligations.

11. Barring a large, permanent negative oil price shock, external stability does not appear to be at risk (Box 3). The balance of payments is expected to remain in surplus over the medium term, contributing to a sizeable build up of foreign assets. A fiscal sustainability assessment tailored to natural resource exporters mirrors these results, with total net wealth stabilized over the longer run following a period of scaling up (Annex III).

12. Yet, competitiveness is weak, leaving the economy highly vulnerable to volatile oil prices. Oil accounts for over 85 percent of exports, and the majority of consumption goods are imported. The unreliable electricity supply leads to high production costs for businesses running on oil-based generators, transport bottlenecks are pervasive outside major cities and labor costs exceed those in neighboring countries because of a shortage of qualified labor and the high cost of hiring and training.

13. The new National Development Plan 2012–16 (NDP) aims to address these issues through closing the infrastructure gap, strengthening the business climate and improving education (see Joint Staff Advisory Note, Country Report No. 12/243). The plan is broadly consistent with inclusive growth and the CEMAC regional development plan. The key to successful development lies in the effective implementation of the plan.

OUTLOOK AND RISKS

14. The outlook is favorable, with two pillars supporting a takeoff in non-oil growth—a foundation of basic infrastructure is under construction and the authorities have started to implement their action plan to improve the business climate. Growth will be driven by public investment, natural resources (mining and forestry) and telecoms, with increasing contributions from agro-industry (biofuel, palm oil), transport and services.

15. Under the baseline, the key issue is not the financing of development, rather how to use oil and mineral resources effectively in support of inclusive growth. At current projections for oil prices, oil resources are sufficient to finance basic

infrastructure, with mining resources expected to come on stream beginning in late 2017 which could support development spending over the longer term.

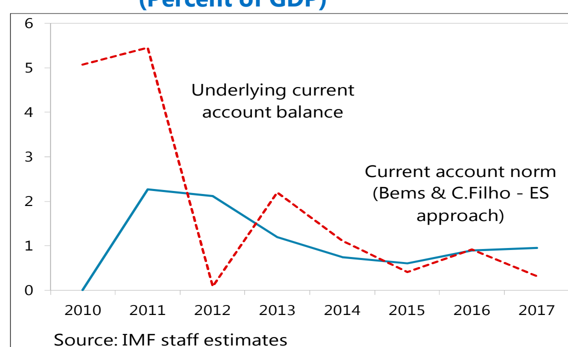
Box 3. Republic of Congo—External Stability and Competitiveness

An external stability analysis based on methodologies tailored to resource rich countries suggests that the real effective exchange rate (REER) is broadly in line with medium term fundamentals. However, competitiveness is weak, hindered by a large infrastructure gap, complex trade regime, challenging business climate, low labor productivity and a labor skills mismatch (for more on labor, see Annex I) .

Model Based Exchange Rate Assessment

Since the 1994 devaluation of the CFA franc, the REER for Congo has appreciated, broadly tracking movements in the Euro. Application of the external stability (ES) approach contained in Bems and Carvalho-Filho (2009) points to a slight overvaluation of the currency. Depending on the allocation rule employed, the level of overvaluation is estimated between 1 and 12 percent, with large confidence intervals surrounding the estimates. However, when the growth-enhancing productivity of import-intensive public investment is taken into account, the REER appears broadly in line with medium term fundamentals, consistent with the finding for the CEMAC region as a whole. These results are highly sensitive to a large range of assumptions and do not include the one-off foreign investment in the mining sector starting in 2015 ($6–8 billion in investment 2015–17; large scale iron production is expected to begin in late 2017, lasting about 30 years).

Current account balance, 2011–17
(Percent of GDP)



External Stability Assessments, 2017

	Bems/Carvalho		External sustainability
	Constant real consumption	Constant real per capita	
MT Current Account Norm (in percent of GDP)	0.95	5.01	3.50
Underlying Current Account[1] (in percent of GDP)	0.3	0.3	0.3
Overvaluation (percent)	1.68	12.09	8.20

Source: IMF staff estimates.

[1] The underlying current account is different from Table 1. It has been adjusted to exclude the huge one-off foreign investment in the mining sector in 2015-17.

Competitiveness

Competitiveness is multidimensional. Congo's Doing Business ranking (181 of 183) suggests there is significant room for improvement in the business climate, especially in the ease of paying taxes, border trade, and starting a business. The tax regime is particularly nontransparent, unpredictable and complex; the trade regime is also highly complex. Low labor productivity brought on by the rigid labor market dominated by skills mismatch, lack of technical expertise, and low mobility renders goods uncompetitive.

Doing Business Indicator, 2011-12

Topic Ranking	2012	2011	Change in ranks
Overall	181	180	-1
Starting a Business	175	175	0
Construction Permits	103	105	2
Getting Electricity	152	153	1
Registering Property	156	132	-24
Getting Credit	98	139	41
Protecting Investors	155	153	-2
Paying Taxes	182	180	-2
Trading Across Borders	181	181	0
Enforcing Contracts	159	159	0

Source: Doing Business Reports 2011 and 2012

16. External risks are mostly conjunctural and appear manageable. In the event of a deepening of the European crisis, inward spillovers would be limited due to weak financial interlinkages and low remittances. Moreover, Congo faces the same potential risks to confidence and the external payment system as other countries in the CFA zone, which are attenuated by the French convertibility guarantee. Risks of a large and protracted drop in the oil price, while high, are allayed by ample regional foreign exchange holdings and sizable fiscal buffers held offshore (see Country Report No. /12/244).

17. Near-term domestic risks surround the policies aimed at addressing the fallout from the events of March 4. In addition to the potential inflationary pressures noted above, government capacity has become severely strained. The need to mount a response to the crisis has overwhelmed government, and there is a significant risk that other important reforms are delayed beyond 2012. In order for the development agenda to move ahead, the authorities must balance efforts to address near-term challenges, while sustaining reform momentum.

18. Longer-term domestic risks center on uncertainties about the ability of public investment and structural reform to raise future growth and deliver poverty reduction. Mitigation of these risks requires sustained policy actions, including in the so-far elusive areas of oil wealth management and governance and transparency. It also requires improved coordination among ministries and respect by government for contractual commitments signed with the private sector.

REPORT ON THE POLICY DISCUSSIONS

Discussions focused on raising the inclusiveness of growth to ensure widespread distribution of the benefits of the spending of oil wealth. Key topics include strengthening fiscal policy frameworks, improving expenditure quality and making the economic environment more business friendly. Near-term risks associated with the large supplemental budget also figured prominently.

A. Near-term fiscal policy—addressing the fallout of the explosions

19. A well thought out response to the tragic events of March 4 is needed. While initial cash payments to victims will allow them to attend immediate necessities such as food and shelter, staff noted that addressing the broader impact of the crisis requires detailed assessment and costing of losses and careful consideration of the policy response. Additional spending should be clearly aimed at addressing the humanitarian crisis.

20. While a response is necessary, 2012 budgeted investment expenditure exceeds capacity and poses inflationary risks. Additional expenditure amounts to nearly 25 percent of non-oil GDP to be executed within seven months, on top of an already large investment envelope. Staff stressed that public investment should be carried out in line with absorptive and implementation capacity, and using quality control measures recently put in place such as the procurement code which may inhibit rent-seeking behavior. Limiting the fiscal impulse should also reduce inflationary pressures and the temptation to introduce new administered prices.

21. Project prioritization should be used to make space for reconstruction spending. Projects in train in basic infrastructure should continue, with lower priority projects delayed and reappraised in the context of the 2013 budget. Weaknesses in public financial management point to the important role of close collaboration with development partners in assessing the capital spending envelope.

Authorities' views

22. The supplemental budget should be seen as indicative. In order to quickly unlock funding, rough estimates were made of the immediate spending needs to address the crisis and maintain social cohesion. This included current expenditure to provide cash to affected families, pay for camps for those displaced from their homes and deliver education services to ensure children did not lose the entire school year.

23. A high-level committee is studying reconstruction needs. A final report containing cost estimates of the multi-year reconstruction envelope is expected by end June. The 2012 supplemental budget is like two budgets together, and additional spending has been booked under the Ministry of Finance to ensure that it does not enter into the base of line ministries in the 2013 budget process. While a precise estimate of 2012 implementation is not available, for example, it is unlikely that construction of the 5,000 houses budgeted will be completed this year, and part of this spending will be rolled over into 2013. Nonetheless, projects in other areas will continue as planned.

24. Higher defense spending is part of a broader policy of relocating military installations outside of cities. Urban sprawl has led to many installations falling within residential areas. The additional spending aims to address the immediate needs of the 800 army staff stationed at the blast site and step up the relocation process begun in 2010.

B. Strengthening fiscal policy—anchors and expenditure quality

The absence of a hard budget constraint has led to complacency regarding non-oil revenue collection and rising current expenditure, reinforcing oil dependence. At the same time, low capacity hinders the ability of government to effectively scale up investment to meet development needs. Implementing a simple fiscal rule would help anchor policy, while redoubling efforts to improve expenditure quality.

25. Fiscal policy aims to scale up investment expenditure while saving a portion of oil revenue. This medium-term policy orientation is broadly sound, but leaves development and savings objectives vulnerable to oil prices. Staff emphasized that improving fiscal institutions should be a priority. Over the long run, with basic infrastructure in place, fiscal consolidation should resume, bringing the NOPD down to low single digits in support of fiscal sustainability.

26. Little effort is being made to rationalize current expenditure and increase non-oil revenue collection. Non-wage current expenditure is rising rapidly, led by goods and services, utilities and common charges and transfers. Pressures are expected to intensify over the medium term as operations and maintenance costs start to kick in. Staff recommended that measures be taken to reduce non-priority current spending, while raising non-oil revenue to pay for operations and maintenance through broadening the tax base, eliminating exemptions, and overhauling the unduly complex tax system.

27. Ample resources reinforce weak governance. Staff reiterated concerns about the lack of transparency regarding large offshore holdings, and urged the authorities to comply with their obligations under CEMAC. Staff noted regional efforts toward reforming the common reserve framework to offer more appropriate savings opportunities for oil exporters (Country Report No. 12/244) and urged the authorities to actively participate in this process.

28. Ample budgetary resources also reduce the urgency of raising spending quality. Staff noted that while progress has been made in PFM**,** further efforts are needed to strengthen expenditure quality. Regarding investment, key steps include strengthening capacity in project appraisal, selection and implementation of both the central government and sectoral ministries; providing training to line ministries to support full compliance with the procurement code; and improving oversight and reporting through on-sight audits and ex-post evaluations by external auditors and reporting the results to parliament. On social spending, staff advised the authorities to conduct an expenditure tracking diagnostic together with development partners to identify the main areas of leakage as a first step to putting in place an expenditure tracking system. More broadly,

strengthening institutional capacity—including of the key oversight bodies such as the Supreme Audit Authority, State Inspectorate General and Anti-corruption commission and publishing annual reports—will serve to enhance spending quality and governance.

29. **Implementing a simple oil price based fiscal revenue rule would help anchor spending and savings objectives.** Such a rule would smooth revenue forecasts, reducing revenue volatility and facilitating medium-term spending decisions (Annex III). Scaling up of investment should be further pinned down by limiting spending in line with absorptive and implementation capacity. This could be set in the context of a broader regional fiscal rule containing country specific quantitative targets (see Country Report No. 12/244).

Authorities' views

30. **The authorities recognized the potential benefits of a fiscal rule.** They expressed interest in learning more about possible fiscal rules which would stabilize revenue and allow for a scaling up of development expenditure.

31. **Steps are being taken to strengthen expenditure quality.** Under the umbrella of the recently adopted results-based management model, ministries are held accountable for achieving agreed quarterly and annual goals, as laid out in the institutional framework for monitoring and evaluation contained in the NDP. In this context, public investment projects over $2 million have been devolved to line ministries and they are working toward a functional classification of expenditure to eliminate duplication of responsibilities.

32. **Specific measures have also been taken to further strengthen the expenditure chain.** Building on the improvements in simplification, rationalization and accountability from the new expenditure chain adopted in 2010, (i) budget controllers have been assigned permanently to each ministry to exert control over payment orders and (ii) each ministry has a manager dedicated to the implementing the procurement code. However, challenges remain in the areas of onsite inspection (technical capacity and high cost) and eliminating rent-seeking behaviors. The key is for all control measures to be used to their full potential in all ministries. There was broad agreement that implementing a public expenditure tracking system could help identify key weaknesses driving high leakage of funds, especially in social spending. Discussions are ongoing with the World Bank and Unicef on moving these initiatives forward,

33. **Work is also ongoing aimed at improving project quality.** This hinges not only on appropriate project selection based on the NDP and MTEF but also project sequencing. An interministerial team from the

ministries of planning and finance is working on fully integrating the MTEF into a robust macroeconomic framework, which includes the financing of development. There is also a plan to have subcommittees of the Commission for Project Selection in each ministry to identify key projects in each sector.

C. Fostering inclusive growth

By its nature, the natural resource sector is not inclusive—growth is often volatile, production is capital intensive and rents are not widely distributed. In order to make growth more inclusive the government must efficiently transform oil income into growth-enhancing capital and social expenditure, while implementing policies to improve the business climate, financial sector and labor market. This should be supported by gains in institution building, governance and transparency.

34. **Progress in raising the inclusiveness of growth has been uneven.** Public investment and reforms to the legal framework are moving forward, while SME issues and financial sector development have lagged. A recent decline in unemployment has been offset by rising underemployment and increasing participation in the informal sector.

35. **A key stumbling block is governance**, including uncertainty regarding the upholding of contractual agreements. In addition, government intervention in the economy, the lack of property rights, weak investor protection and challenges to starting a business all hold back private sector participation in the economy.

36. **The underdeveloped financial market represents an additional bottleneck.** Bank lending to the private sector represents 6 percent of GDP, is very short-term and highly concentrated in a few industries. Lending to SME's is limited. Progress toward easing financing constraints is slowly being made. Plans for a guarantee fund for SMEs are taking shape, although consensus regarding the exact form this should take is yet to be reached, and the recent creation of a postal bank aims to provide greater access to banking services, especially in rural areas.

37. **Market participants saw potential for increasing lending**, but noted that legal hurdles prevail regarding land registration and the effective use of collateral, and most activity remains in the informal sector. That said, they reported that SMEs appear somewhat better structured and more bankable, although there is still a need to improve risk assessment.

38. **There is a significant skills mismatch which does not allow the labor market to clear**—currently operating and prospective firms are unable to fulfill their labor needs domestically, while at the same time youth unemployment is above 30 percent. This broadly reflects the low quality of instruction resulting from inadequate implementation of

the education budget, and the focus on general education over technical training.

39. A multi-pronged approach to jobless growth is needed. Staff advised the authorities to redouble efforts to not only adopt measures but truly implement the action plan to improve the business climate, with emphasis on creating a stable environment governed by the rule of law. Likewise, efforts to facilitate the banking sector's provision of credit to the private sector should continue, including legal reforms to strengthen contract enforcement and enable the use of land as collateral. Regarding labor, the authorities should conduct a skills assessment to inform education policies aimed at strengthening technical education to better meet the demands of industry.

40. In supporting private sector development, the government should avoid creating new distortions. As an alternative to moving ahead with the development of Special Economic Zones, tax exemptions and tax holidays should be eliminated in exchange for streamlining the unnecessarily complex tax system for all firms. Staff urged caution regarding public-private partnerships in light of the contingent liabilities these entail. More broadly, the role of the state should be limited to providing a supportive environment for private sector activity.

Authorities' views

41. The authorities noted that the NDP aims to address these challenges, but low capacity and a lack of coordination among ministries has held back progress.

42. Various initiatives are underway to increase economic diversification. Establishing Special Economic Zones will (i) overcome the difficult business climate and (ii) raise the inclusiveness of growth by jump starting manufacturing and integrating SMEs into the supply chain, thereby creating new local businesses and jobs. Work is also underway to simplify legal requirements and reduce the cost of establishing a business. Laws on consumer protection and competition are under review. The draft SME law has been vetted by the Supreme Court and will soon be sent to parliament together with implementing regulations.

43. Plans are also in the works to increase access to financial services. While some reforms fall under the purview of the regional authorities, access to banking services is expected to increase with the creation of a new postal bank and elimination of deposit minimums. Work is beginning on setting up a housing fund to encourage long-term mortgage lending and creating a specialized financial institution to guarantee lending to SMEs, although the latter requires passage of the SME law.

44. Initial steps are being taken to strengthen the labor market. A National Employment Policy is being developed with input from labor unions, which would strengthen labor rights, including the right to strike. Other initiatives under consideration include increasing technical training, paid internships, and establishment of a dispute resolution mechanism.

STAFF APPRAISAL

45. Conditions are favorable for sustained non-oil growth. Macroeconomic stability is in place, the terms of trade are favorable, and the external position is strong. Yet, the benefits of growth have not trickled down and over 50 percent of the population lives in poverty. For development to proceed fundamental reforms are needed not only aimed at broadening the economic base but at making growth more inclusive. While the strategy contained in the National Development Plan is broadly appropriate, the key lies in implementation. The tragic events of March 4, while colossal, should not have a long-term impact on growth or sustainability.

46. The medium-term outlook is favorable, provided that public investment and measures to improve the delivery of public services and the business climate are successfully implemented. Barring a large and permanent negative oil price shock, the key issue is not the financing of development, rather how to use the vast natural resource wealth effectively to diversify the economy and create jobs.

47. While a response to the March 4 explosions is necessary, the 2012 supplemental budget poses risks to expenditure quality. It is unclear how much will be actually be executed, but full execution over the remaining months of the year would likely require sidestepping the procurement code and other quality control measures. Fiscal space for reconstruction efforts should be opened through project prioritization. Projects in train in basic infrastructure should continue, with lower priority projects delayed and reappraised in the context of the 2013 budget.

48. The medium-term orientation of fiscal policy is broadly appropriate, aiming to scale up investment in support of development objectives while saving a portion of oil revenues. Such a stance could usefully be grounded in a simple fiscal oil price rule to help anchor spending and saving objectives in the face of volatile oil prices. Once basic infrastructure is in place, fiscal consolidation should resume in order to bring the non-oil primary deficit down to low single digits in support of fiscal sustainability.

49. The scaling up of investment should be consistent with absorptive and implementation capacity to avoid waste of public resources. Improving PFM is critical to

strengthening expenditure quality. An expenditure tracking diagnostic should be carried out for social spending to identify areas of leakage. Improvements in expenditure control and the adoption of a results-based management framework are welcome and should serve to strengthen spending quality and accountability.

50. Diversification requires actions to improve the business climate, the financial sector and the labor market. A multi-pronged approach is needed. Measures to improve the business climate should focus on creating a stable environment governed by the rule of law. A cautious approach is warranted regarding Special Economic Zones. A first-best option would be to improve the overall business climate, including more coordination among ministries, and to avoid creating a dual tax system by simplifying the tax code. A skills assessment will be useful in informing labor policies aimed at eliminating the skills mismatch and reducing youth unemployment.

51. The fixed exchange rate regime has anchored macrostability in Congo and external stability does not appear at risk, **but competitiveness remains an issue.** Efforts should focus on eliminating the infrastructure gap, providing a reliable energy supply, simplifying trade procedures and taxes, and raising the quality of education, including technical training. Regarding the exchange rate regime, the authorities should comply with all CEMAC obligations, including the repatriation requirement, while working with the CEMAC on institutional reform in the area of oil wealth management.

52. Data continues to suffer from shortcomings but is broadly adequate for surveillance. Transparency regarding the financing of fiscal operations is particularly detrimental. Policy making would also benefit from more timely data reporting; an upgrading of the base year, report form and periodicity of national accounts data; and improvements in data coordination among ministries.

53. Staff recommends that the next Article IV consultation take place on the standard 12 month cycle.

Table 1. Republic of Congo: Selected Economic and Financial Indicators, 2008–17

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
				Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Annual percentage change)									
Production and prices										
GDP at constant prices	5.6	7.5	8.8	3.4	4.9	5.3	5.4	19.8	4.3	5.8
Oil	6.1	16.2	13.8	-4.8	-6.0	-2.0	-2.0	-0.7	7.8	1.3
Non-oil	5.4	3.9	6.5	7.4	9.7	8.0	7.9	26.0	3.4	6.9
GDP at current prices [1]	32.0	-14.7	31.3	14.5	10.1	2.2	0.8	12.3	6.4	8.9
GDP deflator	25.0	-20.6	20.7	10.7	4.9	-2.9	-4.3	-6.2	2.0	2.9
Consumer prices (period average)	6.0	4.3	5.0	1.8	5.1	4.5	3.0	2.9	2.8	2.7
Consumer prices (end of period)	11.4	2.5	5.4	1.8	5.3	4.1	2.9	2.8	2.7	2.7
External sector										
Exports, f.o.b. (CFA francs)	26.6	-20.9	60.7	17.7	8.8	-4.6	-5.6	-0.5	5.7	3.6
Imports, f.o.b. (CFA francs)	25.6	-11.2	50.9	36.0	25.7	-3.3	4.0	25.9	-0.4	2.8
Export volume	7.5	12.8	12.9	-0.1	-3.2	-2.1	0.7	5.6	7.2	3.8
Import volume	24.5	-13.8	36.3	26.9	9.9	-1.2	1.9	30.5	-1.0	4.7
Terms of trade (deterioration -)	16.9	-32.8	31.6	10.6	5.7	-2.6	-4.1	-3.3	-3.3	-3.6
Central government finances										
Total revenue (including grants)	58.1	-46.6	67.2	29.7	12.4	1.5	-1.0	3.4	1.9	2.9
of which: oil revenue	64.9	-55.9	88.2	29.8	11.7	-1.6	-6.0	-6.2	2.0	0.5
Non oil revenue	15.8	15.2	24.2	23.2	8.6	15.5	16.8	28.0	1.4	8.2
Total expenditure	4.5	-10.9	14.0	39.2	68.2	-4.3	6.1	12.8	3.0	8.6
Current	0.1	-20.0	8.3	1.6	36.6	15.8	14.1	26.8	7.8	12.2
Capital (including net lending)	12.7	4.0	21.5	82.0	69.9	-4.3	1.2	3.1	-1.2	5.1
	(Percent of GDP)									
Investment and saving										
Gross national saving	20.6	15.1	25.5	26.1	33.8	32.9	31.3	29.1	25.7	26.4
Gross investment	18.3	22.5	20.5	25.3	33.6	32.6	33.6	46.5	41.2	40.0
Current account balance	2.3	-7.4	5.1	0.8	0.2	0.3	-2.3	-17.5	-15.5	-13.6
External public debt (end of period)	59.3	54.6	20.2	18.1	21.9	23.6	24.4	22.2	20.8	19.0
	(Percent of non-oil GDP)									
Central government finances										
Total revenue	160.4	78.3	116.8	138.1	131.6	115.3	97.7	74.7	70.9	63.4
Oil revenue	136.0	54.8	92.0	108.9	103.1	87.5	70.4	48.8	46.4	40.5
Nonoil revenue (inc. grants and investment income)	24.4	23.5	24.7	29.2	28.5	27.8	27.3	25.8	24.5	22.9
Total expenditure	80.7	65.5	66.7	84.7	112.6	99.6	90.4	75.5	72.4	68.3
Current	50.4	36.8	35.6	32.9	38.2	38.1	37.2	34.9	35.0	34.2
Capital (and net lending)	30.3	28.7	31.2	51.7	74.5	61.5	53.2	40.6	37.4	34.1
Overall balance (deficit -, commitment basis) [2]	79.8	12.7	50.0	53.4	10.9	15.7	7.2	-0.8	-1.5	-4.9
Basic primary fiscal balance (deficit -) [3]	91.5	18.8	57.6	62.6	30.0	23.6	10.7	0.1	-1.3	-4.7
of which Basic non-oil primary balance (- = deficit)	-44.3	-36.0	-34.4	-46.3	-73.1	-63.9	-59.6	-48.7	-48.2	-45.7
	(Percent of total government revenue excluding grants)									
External public debt service (after debt relief) [3]	8.3	9.0	3.3	3.4	2.9	2.5	2.6	2.1	2.1	2.1
External public debt (after debt relief) [4]	127.9	187.2	54.0	43.2	51.4	55.7	58.3	57.5	56.1	54.2
	(Billions of CFA francs, unless otherwise indicated)									
Gross official foreign reserves	1,825	1,740	2,200	2,875	4,118	5,350	6,184	6,758	7,282	7,867
Nominal GDP	5,311	4,530	5,947	6,807	7,493	7,660	7,721	8,673	9,228	10,048
Nominal non-oil GDP	1,557	1,705	1,911	2,096	2,472	2,867	3,350	4,530	4,864	5,594
World oil price (U.S. dollars per barrel)	97	62	79	104	115	110	103	97	93	93
Oil production (Millions of barrels)	87	101	115	109	103	100	98	98	105	107
Nominal Exchange rate (CFA/USD, period average)	446	471	471	499	…	…	…	…	…	…

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

[1] Non-oil growth includes a large foreign private investment in the minining sector starting in 2015.

[2] Including grants.

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

[4] 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, 2008–17

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
				Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Billions of CFA francs)									
Current account	122	-335	301	53	14	24	-178	-1,514	-1,430	-1,368
Trade balance	2,509	1,859	3,102	3,330	3,221	3,037	2,588	1,783	2,116	2,221
Exports, f.o.b.	3,810	3,014	4,845	5,700	6,200	5,917	5,584	5,555	5,871	6,082
Oil sector	3,386	2,657	4,282	4,947	5,363	5,009	4,575	4,341	4,572	4,668
Non-oil sector	424	357	563	753	838	908	1,009	1,213	1,299	1,414
Imports, f.o.b.	-1,301	-1,155	-1,743	-2,370	-2,979	-2,880	-2,996	-3,772	-3,755	-3,861
Oil sector	-307	-383	-513	-608	-574	-537	-479	-460	-495	-445
Government	-293	-259	-511	-866	-1,213	-1,103	-1,180	-1,142	-1,148	-1,178
Non-oil private sector	-701	-513	-718	-897	-1,192	-1,240	-1,337	-2,170	-2,113	-2,238
Balance of services	-1,014	-943	-1,292	-1,325	-1,321	-1,344	-1,310	-1,915	-1,875	-2,019
Oil sector	-739	-737	-978	-952	-869	-832	-740	-711	-768	-835
Nonoil sector	-275	-206	-315	-373	-452	-512	-570	-1,204	-1,108	-1,184
Income	-1,378	-1,231	-1,475	-1,948	-1,901	-1,674	-1,437	-1,341	-1,627	-1,522
Labor income	-46	-36	-60	-70	-76	-71	-65	-62	-65	-67
Investment income	-1,331	-1,196	-1,416	-1,878	-1,825	-1,603	-1,373	-1,280	-1,562	-1,455
Current transfers (net)	5	-19	-33	-4	14	5	-19	-41	-43	-49
Capital account	35	15	1,318	35	60	55	35	30	30	30
Debt forgiveness [1]	0	0	1,313	0	0	0	0	0	0	0
Official grants	35	15	4	35	60	55	35	30	30	30
Financial account	1,041	183	-1,266	629	1,171	1,156	980	2,062	1,925	1,924
Direct investment (net)	1,131	879	1,095	1,442	1,408	1,314	1,195	2,434	2,266	2,168
Of which: oil sector	1,009	834	991	1,326	1,265	1,144	991	939	1,045	896
Other investment	-90	-696	-2,360	-813	-237	-159	-215	-372	-341	-244
Medium and long term	-155	-77	-1,277	72	413	178	85	60	16	14
Public sector	-82	-80	-1,285	97	406	173	80	45	-8	-10
Drawings	47	6	77	181	484	239	150	100	50	50
Project	46	6	77	181	484	239	150	100	50	50
Amortization [2]	-129	-86	-1,362	-83	-78	-67	-70	-55	-58	-60
Private sector	-73	3	9	-25	7	6	5	15	24	23
Oil	-71	9	11	32	34	32	27	26	29	20
Non-oil	-1	-6	-2	-57	-27	-26	-22	-11	-5	3
Short term	65	-619	-1,084	-885	-650	-337	-300	-431	-357	-258
Errors and omissions	-78	-2	0	0	0	0	0	0	0	0
Overall balance of payments	1,120	-196	353	718	1,245	1,234	837	578	525	586
Financing	-1,120	196	-353	-718	-1,245	-1,234	-837	-578	-525	-586
Reserve financing	-850	132	-406	-704	-1,245	-1,234	-837	-578	-525	-586
IMF (net)	1	2	-6	2	-1	-2	-3	-3	-2	-1
Purchases / Disbursments	1	2	2	2	0	0	0	0	0	0
Repurchases / Repayments	0	0	0	0	-1	-2	-3	-3	-2	-1
Other reserves	-850	132	-406	-704	-1,245	-1,234	-837	-578	-525	-586
Exceptional financing [3]	-270	64	53	-14	0	0	0	0	0	0
Net change in arrears	-801	-15	-64	-14	0	0	0	0	0	0
Debt cancellation	207	58	91	0	0	0	0	0	0	0
Debt rescheduling	325	21	26	0	0	0	0	0	0	0
Financing gap (- = surplus)	0	0	0	0	0	0	0	0	0	0

Sources: BEAC; and Fund staff estimates and projections.

[1] Country Report No. 11/67.

[2] Includes stock debt relief of the HIPC completion point.

[3] Includes flow debt relief from Paris Club and London Club, and payments to litigating creditors.

Table 3a. Republic of Congo: Central Government Operations, 2008–17

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
				Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Billions of CFA francs)									
Total revenue	2,497	1,335	2,231	2,894	3,254	3,304	3,272	3,382	3,446	3,547
Primary Revenue	2,442	1,307	2,222	2,854	3,169	3,224	3,193	3,282	3,342	3,441
Oil revenue	2,118	934	1,758	2,283	2,549	2,508	2,357	2,211	2,256	2,267
Non-oil revenue	324	373	463	571	620	716	836	1,070	1,085	1,174
Investment income	20	13	6	5	25	25	43	70	75	76
Grants	35	15	4	35	60	55	35	30	30	30
Expenditure and net lending	1,256	1,118	1,275	1,774	2,984	2,855	3,030	3,418	3,520	3,822
of which primary expenditure	1,024	1,023	1,136	1,548	2,228	2,549	2,833	3,277	3,428	3,729
Current expenditure	785	627	680	691	943	1,092	1,246	1,580	1,703	1,912
Wages	166	175	180	207	248	287	336	454	488	561
Other current expenditure	446	355	399	430	636	740	838	1,050	1,136	1,266
Local authorities	23	24	43	44	47	54	61	64	68	72
Interest	150	73	59	11	13	12	11	11	12	13
Domestic	10	9	1	0	0	0	0	0	0	0
External	140	64	57	11	13	12	11	11	12	13
Capital expenditure	471	490	595	1,084	1,841	1,762	1,783	1,838	1,817	1,910
Domestically financed	390	469	515	868	1,297	1,468	1,598	1,708	1,737	1,830
Externally financed	81	21	81	216	544	294	185	130	80	80
Net lending	0	1	0	0	200	0	0	0	0	0
Basic primary balance[1]	1,424	320	1,101	1,312	741	675	360	4	-62	-262
Of which: Basic non-oil primary balance	-690	-614	-658	-970	-1,808	-1,833	-1,997	-2,207	-2,343	-2,555
Balance, commitment basis										
Excluding grants	1,206	202	952	1,084	210	394	207	-66	-104	-305
Including grants	1,242	216	956	1,120	270	449	242	-36	-74	-275
Of which: Non-oil balance	-876	-718	-802	-1,163	-2,279	-2,059	-2,115	-2,248	-2,330	-2,542
Change in arrears	-944	-124	-223	-91	-34	-34	-34	0	0	0
External	-801	0	-64	0	0	0	0	0	0	0
Domestic	-143	-124	-159	-91	-34	-34	-34	0	0	0
Balance, cash basis	298	92	733	1,028	236	415	208	-36	-74	-275
Financing	-298	-92	-733	-1,028	-236	-415	-208	36	74	275
Foreign (net)	408	-34	-369	-603	405	170	77	42	-10	-10
Drawings	47	6	77	181	484	239	150	100	50	50
Amortization due	-170	-106	-64	-84	-79	-69	-73	-58	-60	-60
Rescheduling obtained	325	21	26	0	0	0	0	0	0	0
Debt cancellation	207	52	56	0	0	0	0	0	0	0
Other	0	0	-464	-699	0	0	0	0	0	0
Deposits abroad [2]	0	0	-464	-524	0	0	0	0	0	0
Loans [3]	0	0	0	-175	0	0	0	0	0	0
Domestic (net)	-706	-59	-364	-425	-641	-585	-285	-5	84	285
Banking system (net)	-599	122	-356	-411	-641	-585	-285	-5	84	285
Nonbank financing	-107	-181	-8	-14	0	0	0	0	0	0
Of which, statistical float	-82	-107	47	-11	0	0	0	0	0	0
Financing gap (- = surplus)	0	0	0	0	0	0	0	0	0	0
Memorandum items:										
GDP at current market prices	5,311	4,530	5,947	6,807	7,493	7,660	7,721	8,673	9,228	10,048
Non-oil GDP at market prices	1,557	1,705	1,911	2,096	2,472	2,867	3,350	4,530	4,864	5,594

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

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

[2] Fund staff estimates based on preliminary data.

[3] In 2012 this includes loans of treasury funds to the regional development bank BDEAC (CFAF 50 billion).

Table 3b. Republic of Congo: Central Government Operations, 2008–17

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
				Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
					(Percent of non-oil GDP)					
Total revenue	160.4	78.3	116.8	138.1	131.6	115.3	97.7	74.7	70.9	63.4
Primary Revenue	156.8	76.7	116.2	136.2	128.2	112.5	95.3	72.4	68.7	61.5
Oil revenue	136.0	54.8	92.0	108.9	103.1	87.5	70.4	48.8	46.4	40.5
Non-oil revenue	20.8	21.9	24.2	27.2	25.1	25.0	25.0	23.6	22.3	21.0
Investment income	1.3	0.8	0.3	0.2	1.0	0.9	1.3	1.6	1.5	1.4
Grants	2.3	0.9	0.2	1.7	2.4	1.9	1.0	0.7	0.6	0.5
Expenditure and net lending	80.7	65.6	66.7	84.7	120.7	99.6	90.4	75.5	72.4	68.3
of which primary expenditure	65.8	60.0	59.4	73.8	90.1	88.9	84.6	72.3	70.5	66.7
Current expenditure	50.4	36.8	35.6	32.9	38.2	38.1	37.2	34.9	35.0	34.2
Wages	10.7	10.3	9.4	9.9	10.0	10.0	10.0	10.0	10.0	10.0
Other current expenditure	28.6	20.8	20.9	20.5	25.7	25.8	25.0	23.2	23.3	22.6
Local authorities	1.5	1.4	2.2	2.1	1.9	1.9	1.8	1.4	1.4	1.3
Interest	9.6	4.3	3.1	0.5	0.5	0.4	0.3	0.2	0.2	0.2
Domestic	0.6	0.6	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External	9.0	3.7	3.0	0.5	0.5	0.4	0.3	0.2	0.2	0.2
Capital expenditure	30.3	28.7	31.2	51.7	74.5	61.5	53.2	40.6	37.4	34.1
Domestically financed	25.0	27.5	26.9	41.4	52.5	51.2	47.7	37.7	35.7	32.7
o.w. HIPC financed	0.4	2.2	0.8	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Externally financed	5.2	1.2	4.2	10.3	22.0	10.3	5.5	2.9	1.6	1.4
Net lending	0.0	0.1	0.0	0.0	8.1	0.0	0.0	0.0	0.0	0.0
Basic primary balance [1]	91.5	18.8	57.6	62.6	30.0	23.6	10.7	0.1	-1.3	-4.7
Of which: Basic non-oil primary balance	-44.3	-36.0	-34.4	-46.3	-73.1	-63.9	-59.6	-48.7	-48.2	-45.7
Balance, commitment basis										
Excluding grants	77.5	11.8	49.8	51.7	8.5	13.7	6.2	-1.5	-2.1	-5.4
Including grants	79.8	12.7	50.0	53.4	10.9	15.7	7.2	-0.8	-1.5	-4.9
Of which: Non-oil balance	-56.3	-42.1	-42.0	-55.5	-92.2	-71.8	-63.1	-49.6	-47.9	-45.4
Change in arrears	-60.6	-7.3	-11.7	-4.4	-1.4	-1.2	-1.0	0.0	0.0	0.0
External	-51.5	0.0	-3.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	-9.2	-7.3	-8.3	-4.4	-1.4	-1.2	-1.0	0.0	0.0	0.0
Balance, cash basis	19.1	5.4	38.3	49.1	9.5	14.5	6.2	-0.8	-1.5	-4.9
Financing	-19.1	-5.4	-38.3	-49.1	-9.5	-14.5	-6.2	0.8	1.5	4.9
Foreign (net)	26.2	-2.0	-19.3	-28.8	16.4	5.9	2.3	0.9	-0.2	-0.2
Drawings	3.0	0.4	4.0	8.6	19.6	8.4	4.5	2.2	1.0	0.0
Amortization due	-10.9	-6.2	-3.3	-4.0	-3.2	-2.4	-2.2	-1.3	-1.2	-1.1
Rescheduling obtained	20.9	1.2	1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt cancellation	13.3	3.0	2.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	-24.3	-33.4	0.0	0.0	0.0	0.0	0.0	0.0
Deposits abroad [2]	0.0	0.0	-24.3	-25.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans [3]	0.0	0.0	0.0	-8.3	0.0	0.0	0.0	0.0	0.0	0.0
Domestic (net)	-45.4	-3.4	-19.0	-20.3	-25.9	-20.4	-8.5	-0.1	1.7	5.1
Banking system (net)	-38.5	7.2	-18.6	-19.6	-25.9	-20.4	-8.5	-0.1	1.7	5.1
Nonbank financing	-6.9	-10.6	-0.4	-0.7	0.0	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	0.0
Memorandum items:					(Percent of GDP)					
Total revenue	47.0	29.5	37.5	42.5	43.4	43.1	42.4	39.0	37.3	35.3
Primary revenue	46.0	28.9	37.4	41.9	42.3	42.1	41.4	37.8	36.2	34.2
Oil revenue	39.9	20.6	29.6	33.5	34.0	32.7	30.5	25.5	24.5	22.6
Non oil revenue	6.1	8.2	7.8	8.4	8.3	9.3	10.8	12.3	11.8	11.7
Current expenditure	11.2	13.9	11.4	10.1	12.6	14.3	16.1	18.2	18.5	19.0
Capital expenditure	8.9	10.8	10.0	15.9	24.6	23.0	23.1	21.2	19.7	19.0
Basic primary fiscal balance	26.8	7.1	18.5	19.3	9.9	8.8	4.7	--	-0.7	-2.6
Of which: Basic non oil primary fiscal balance	-13.0	-13.6	-11.1	-14.3	-24.1	-23.9	-25.9	-25.4	-25.4	-25.4
Balance, cash basis	5.6	2.0	12.3	15.1	3.1	5.4	2.7	-0.4	-0.8	-2.7

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

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

[2] Fund staff estimate based on preliminary data.

[3] In 2012 this includes loans of treasury funds to the regional development bank BDEAC (CFAF 50 billion).

Table 3c. Republic of Congo: Statement of the Central Government Operations, 2008–17 [1]

	2008	2009	2010	2011 Est.	2012 Proj.	2013 Proj.	2014 Proj.	2015 Proj.	2016 Proj.	2017 Proj.
	(Billions of CFA francs)									
Revenue	2,497	1,335	2,231	2,894	3,254	3,304	3,272	3,382	3,446	3,547
Taxes	324	373	463	571	620	716	836	1,070	1,085	1,174
Taxes on income, profits, and capital gains	122	140	176	215	236	277	323	407	405	429
Taxes on goods and services	132	151	191	233	256	300	350	444	445	475
Taxes on international trade	59	67	78	101	115	125	147	198	213	245
Other taxes	11	15	18	22	13	14	16	21	22	25
Grants	35	15	4	35	60	55	35	30	30	30
Other revenue	2,138	947	1,764	2,288	2,574	2,533	2,401	2,281	2,331	2,343
Interest (investment income)	20	13	6	5	25	25	43	70	75	76
Rent (oil revenue)	2,118	934	1,758	2,283	2,549	2,508	2,357	2,211	2,256	2,267
Expenditure	1,256	1,117	1,275	1,774	2,784	2,855	3,030	3,418	3,520	3,822
Expense	785	627	680	691	943	1,092	1,246	1,580	1,703	1,912
Compensation of employees	166	175	180	207	248	287	336	454	488	561
Use of goods and services	446	355	399	430	636	740	838	1,050	1,136	1,266
Interest	150	73	59	11	13	12	11	11	12	13
To nonresidents	140	64	57	11	13	12	11	11	12	13
To residents	10	9	1	0	0	0	0	0	0	0
Other Expense	23	24	43	44	47	54	61	64	68	72
Net acquisition of nonfinancial assets	471	490	595	1,084	1,841	1,762	1,783	1,838	1,817	1,910
Domestically financed	390	469	515	868	1,297	1,468	1,598	1,708	1,737	1,830
o/w HIPC financed	7	37	14	6	0	0	0	0	0	0
Foreign financed	81	21	81	216	544	294	185	130	80	80
Net lending/borrowing (overall balance, incl grants)	1,242	217	956	1,120	470	449	242	-36	-74	-275
Primary non-oil net lending / borrowing (NOBPB)	-693	-614	-658	-970	-1,808	-1,833	-1,997	-2,207	-2,343	-2,555
Net acquisition of financial assets ("+": increase in assets)	455	-79	767	1,068	838	583	282	2	-86	-286
Domestic	455	-79	303	369	838	583	282	2	-86	-286
Currency and deposits	455	-80	303	369	638	583	282	2	-86	-286
BEAC	453	-72	300	368	638	583	282	2	-86	-286
Commercial banks	2	-7	3	1	0	0	0	0	0	0
Foreign	0	0	464	699	0	0	0	0	0	0
Currency and deposits	0	0	464	524	0	0	0	0	0	0
Loans	0	0	0	175	0	0	0	0	0	0
Net incurrence of liabilities ("+": increase in liabilities)	-705	-189	-194	-51	368	134	40	39	-12	-11
Domestic	-311	-155	-225	-148	-37	-37	-37	-3	-2	-1
Loans	-169	-31	-66	-56	-3	-2	-3	-3	-2	-1
BEAC	-153	43	-6	-39	-3	-2	-3	-3	-2	-1
Commercial banks	8	-1	-4	-4	0	0	0	0	0	0
Other	-24	-73	-55	-14	0	0	0	0	0	0
Other accounts payable	-143	-124	-159	-91	-34	-34	-34	0	0	0
Foreign	-393	-34	31	96	405	170	77	42	-10	-10
Loans	-393	-34	31	96	405	170	77	42	-10	-10
o/w arrears	-801	0	-64	0	0	0	0	0	0	0
Statistical discrepancy	82	107	-4	0	0	0	0	0	0	0
Memorandum items:										
GDP at market prices	5,311	4,530	5,947	6,807	7,493	7,660	7,721	8,673	9,228	10,048
Non-oil GDP at market prices	1,557	1,705	1,911	2,096	2,472	2,867	3,350	4,530	4,864	5,594
Oil revenue	2,118	934	1,758	2,283	2,549	2,508	2,357	2,211	2,256	2,267
Non-oil revenue	380	400	473	611	705	796	914	1,171	1,190	1,280
Deposits in BEAC	1,090	1,017	1,317	1,685	2,323	2,906	3,189	3,191	3,105	2,819
Deposits abroad	...	...	464	988	988	988	988	988	988	988

Sources: Congolese authorities; and Fund staff estimates and projections.
1/ Presentation of fiscal table according to Government Finance Statistics Manual 2001.

Table 3d. Republic of Congo: Integrated Financial Balance Sheet of the Central Government, 2011–13 [1/]

(in billions of CFA francs, unless otherwise indicated)

	2011			2012		2013	
	Opening balance	Transactions	Closing / Opening balance	Transactions	Closing / Opening balance	Transactions	Closing / Opening balance
Net financial worth	375	1,120	1,495	270	1,764	449	2,214
Financial assets	1,792	1,068	2,860	638	3,498	583	4,081
Domestic	1,328	369	1,697	638	2,335	583	2,918
Currency and deposits	1,328	369	1,697	638	2,335	583	2,918
Foreign	464	699	1,163	0	1,163	0	1,163
Currency and deposits	464	524	988	0	988	0	988
Loans	0	175	175	0	175	0	175
Liabilities	1,417	-51	1,366	368	1,734	134	1,868
Domestic	214	-148	66	-37	30	-37	-7
Loans	59	-56	3	-3	0	-2	-2
Other accounts payable	155	-91	64	-34	30	-34	-5
Foreign	1,203	96	1,299	405	1,704	170	1,875
Loans	1,203	96	1,299	405	1,704	170	1,875
o/w arrears	391	0	391	0	391	0	391
Memorandum items:							
GDP at market prices	5,947		6,807		7,493		7,660
Non-oil GDP at market prices	1,911		2,096		2,472		2,867
Net financial worth (in percent of GDP)	6		22		24		29
Net financial worth (in percent of non-oil GDP)	20		71		71		77

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

1/ Presentation of fiscal table according to Government Finance Statistics Manual 2001.

Table 4. Republic of Congo: Monetary Survey, 2008–13

	2008	2009	2010	2011	2012	2013
				Est.	Proj.	Proj.
Monetary survey	(Billions of CFA francs)					
Net foreign assets	1,877	1,831	2,325	3,320	4,748	6,064
Central bank	1,788	1,656	2,062	2,766	4,011	5,246
Deposit money banks	89	176	263	554	737	818
Net domestic assets	-908	-813	-911	-1,418	-1,955	-2,425
Net domestic credit	-893	-727	-928	-1,213	-1,749	-2,219
Net credit to the public sector	-1,083	-962	-1,271	-1,685	-2,326	-2,911
Net credit to the Government	-1,079	-956	-1,269	-1,680	-2,321	-2,906
Central bank	-1,072	-956	-1,262	-1,669	-2,309	-2,894
Credit to the economy	167	218	325	462	564	676
Other items, net	-15	-86	17	-205	-205	-205
Broad money	970	1,019	1,415	1,902	2,793	3,639
Currency outside banks	344	342	408	488	717	934
Demand deposits	499	539	843	1,205	1,769	2,305
Time deposits	126	137	163	209	307	400
	(Changes in percent of beginning-of-period broad money)					
Net foreign assets	109.0	-4.8	48.5	70.3	75.1	47.1
Net domestic assets	-72.6	9.8	-9.6	-35.8	-28.2	-16.8
Net domestic credit	-72.2	17.2	-19.8	-20.1	-28.2	-16.8
Net credit to the government	-84.3	12.6	-30.7	-29.1	-33.7	-20.9
Credit to the private sector	10.7	5.2	10.5	9.7	5.3	4.0
	(Annual percent changes, unless otherwise indicated)					
Broad money	36.4	5.0	38.9	34.5	46.9	30.3
Reserve money	43.3	-9.6	69.9	-3.5	37.2	30.3
Velocity (non-oil GDP/End of period M2)						
Non-oil GDP/Average M2	2.1	2.5	2.2	2.7	2.8	2.8
Non-oil GDP/End period M2	1.6	1.7	1.4	1.1	0.9	0.8
	(Percent)					
Total GDP growth	32.0	-14.7	31.3	14.5	10.1	2.2
Non-oil GDP growth	11.9	9.5	12.1	9.7	18.0	16.0
Credit to the private sector/Non-oil GDP	10.7	12.8	17.0	22.1	22.8	23.6

Sources: BEAC; and Fund staff estimates and projections.

Table 5. Republic of Congo: Banking Sector Financial Soundness Indicators, 2007–11

	2007	2008	2009	2010	2011 [1]
	(Percent, at year's end)				
Capital Adequacy					
Regulatory capital to risk-weighted assets	16.0	17.0	19.0	13.1	9.9
Percentage of banks greater or equal to 10 percent	75.0	100.0	100.0	83.3	57.1
Percentage of banks below 10 and above 6 percent minimum	25.0	...	...	16.7	28.6
Percentage of banks below 6 percent minimum	...	...	...	14.3	14.3
Capital (net worth) to assets	4.0	5.0	6.0	8.0	7.0
Asset quality					
Foreign exchange loans to total loans	...	2.0	2.0	8.7	12.5
Nonperforming loans	2.7	2.0	2.0	1.1	1.2
Provision as percent of past-due loans	80.9	91.0	91.0	60.0	75.3
Earnings and profitability					
Net profit (before tax)/net income	...	41.6	33.6	45.4	42.8
Return on assets	...	2.4	2.1	1.8	1.4
Return on equity	...	45.0	24.0	22.0	19.7
Expense/income	...	50.0	59.0	67.4	71.6
Lending rate minus demand deposit rates	...	...	...	...	...
Liquidity					
Liquid assets/total assets	72.0	66.0	59.0	51.4	42.7
Liquid assets/short term liabilities	338.0	326.0	270.0	245.0	196.4
Loan/deposits	26.0	35.0	39.0	40.6	39.2
Liquid assets/total deposits	85.0	78.0	68.0	61.1	49.4
Excess reserves/Broad money	16.6	32.4	23.5	20.1	23.4

Sources: Authorities (COBAC) and Fund staff estimates.

[1] Latest available data end December 2011.

Table 6. Republic of Congo: Millennium Development Goals, 1990–2009

	1990	1995	2000	2009
Goal 1: Eradicate extreme poverty and hunger				
Employment to population ratio, 15+, total (%)	66.0	65.0	64.0	65.0
Employment to population ratio, ages 15–24, total (%)	49.0	46.0	46.0	46.0
Prevalence of undernourishment (% of population)	42.0	41.0	20.0	15.0
Goal 2: Achieve universal primary education				
Persistence to last grade of primary, total (% of cohort)	...	...	55.0	70.0
Primary completion rate, total (% of relevant age group)	59.0	48.0	55.0	73.0
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 (%)	94.0	85.0	93.0	94.0
Ratio of female to male secondary enrollment (%)	76.0	75.0	70.0	...
Ratio of female to male tertiary enrollment (%)	20.0	...	32.0	...
Goal 4: Reduce child mortality				
Immunization, measles (% of children ages 12–23 months)	75.0	38.0	34.0	76.0
Mortality rate, infant (per 1,000 live births)	67	70	74	81
Mortality rate, under-5 (per 1,000)	104	110	116	128
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)	...	...	...	2.3
Prevalence of HIV, male (% ages 15–24)	...	...	...	1.0
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)	...	...	30.0	30.0
Improved water source (% of population with access)	...	...	70.0	71.0
Marine protected areas (% of total surface area)	...	...	...	0.0
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	2,080
GNI, Atlas method (current US$) (billions)	2.2	1.2	1.8	7.7
Gross capital formation (% of GDP)	15.9	36.6	22.6	24.6
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	122.8

Source: World Development Indicators database.

ANNEX I. EMPLOYMENT IN CONGO—HOW TO MAKE THE LABOR MARKET AND EDUCATION SYSTEM MORE SUPPORTIVE OF INCLUSIVE GROWTH?

1. **Despite the high and sustained growth registered in recent years, employment creation in the oil-rich Congolese economy has been low—unemployment is a serious problem, especially among urban youth.** This jobless growth is the result of a number of factors including lack of economic diversification, an education system ill suited to the needs of the private sector, rigid job market regulation, and a history of predominance of the public sector in formal employment.

2. **The sections which follow draw on the key results of the 2009 Employment and Informal Sector Survey (EISS)** and the World Bank's 2011 Employment and Growth Study (Report No. 61999 CG) to highlight key areas of reform to support job creation and inclusive growth.

Background—Demographic and social indicators

3. **The population of Congo is young.** According to the 2011 household survey, nearly 40 percent of the total population of 4.1 million is under 15, in contrast to a mere 3 percent age 65 or over. The working age population (age 15 to 64) is estimated at 58 percent of the population, with half between the ages of 15 to 29.

4. **The people of Congo are predominantly urban and poor**. The urban population is estimated at 67 percent, mostly in the two main cities of Brazzaville (administrative capital) and Pointe Noire (economic capital). About 30 percent of the urban population is between the ages of 15 and 29. According to the 2005 household survey, about half of the population (50.1 percent) lives below the poverty line. Poverty is most prevalent in semi-urban and rural areas, followed by Brazzaville (53.4 percent of the population) and Pointe Noire (32.2 percent).

5. **Congo's population and workforce are projected to grow considerably over the long term**. According to the United Nation's Population Forecasts, the population is expected to nearly double to 6.9 million by 2050. The working age population will increase to 4.6 million (2.1 million in 2007), of which 1.7 million between the ages of 15 and 29.

The labor market and unemployment in Congo

6. **Economic activity in Congo is heavily skewed toward the oil sector, accounting for about two-thirds of nominal GDP (Figure I.1 and Figure I.2)**. Over the past decade, real growth has averaged about 5 percent, with the maturing oil sectoring

growing by about 2 percent per year and non-oil sector by 7 percent per year. Non-oil growth has centered on public investment-related construction, forestry and agriculture, with little growth in manufacturing.

Figure I.1. Contributions of Oil and Non-oil Sectors to Nominal GDP (Billion CFAF)

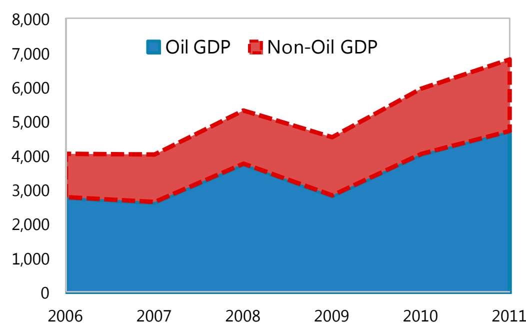
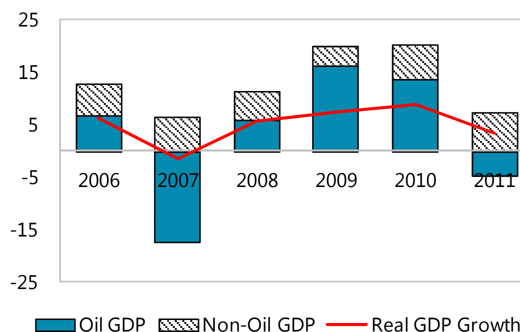


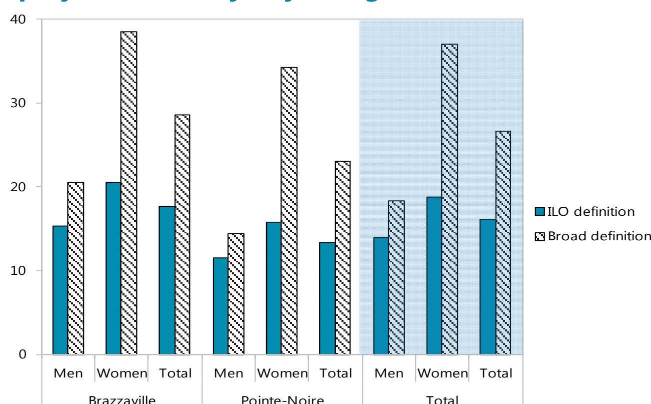
Figure I.2. Contribution of Oil and Non-oil Sectors to Growth (In percent)



Source: Fund staff calculations

7. **Despite sustained growth, unemployment remains high**. According to the 2009 EISS, unemployment in the two main cities of Congo measured by the ILO definition was 16.1 percent, while a broader definition that includes discouraged job seekers puts the figure at 26.6 percent (Figure I.3). The 2011 household survey measured unemployment at 7 percent, with the decline offset by a rise in under employment in the informal sector. The National Employment Office of Congo estimates 2011 youth unemployment at 34.2 percent.

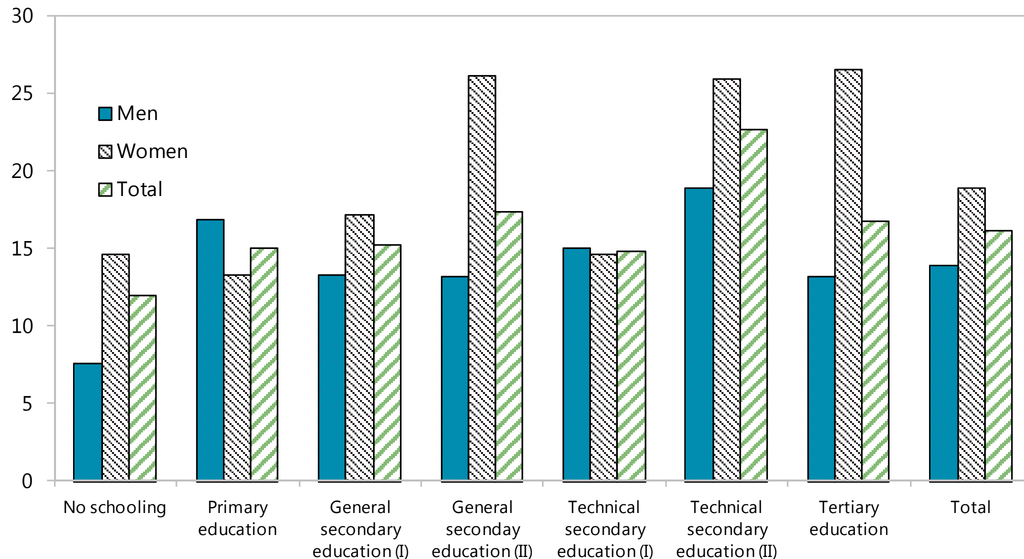
Figure I.3. Unemployment rate by city and gender, ILO and broad definition



Source: 2009 Employment and Informal Survey (EISS) as contained in World Bank (2011). Employment and Growth Study (Report No. 61999 CG).

8. Unemployment in Congo is a mostly urban phenomenon, affecting the young working age population (ages 15 to 29). The 2005 household (nationwide) survey indicates a rate of urban unemployment exceeding 30 percent, compared to 5.8 percent in rural areas and 9.0 percent in semi-urban areas (formal and informal sector). The unemployment rate was highest for the 15–19 age group (40 percent), declining with age to average 27.7 percent for 25–27 year olds. According to the EISS, unemployment is more prevalent among those who are well educated; the lowest unemployment rate was recorded for those who did not complete schooling (Figure I.4).

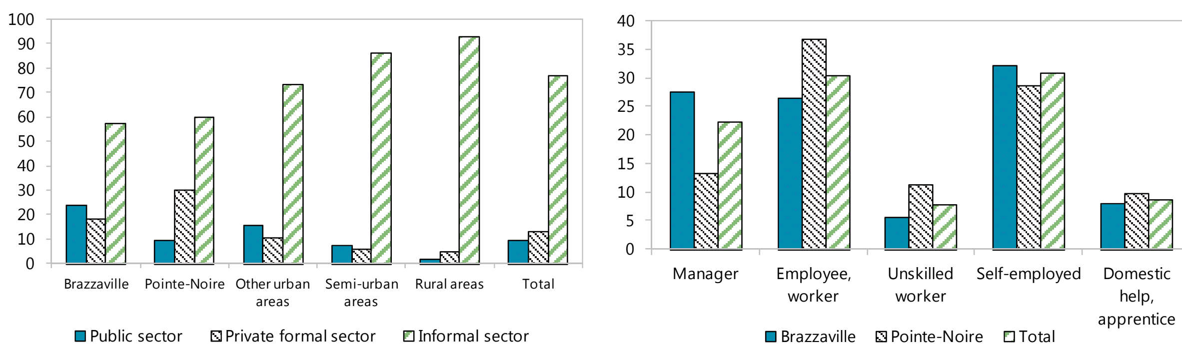
Figure I. 4. Unemployment rate according to ILO definition by city, gender and education level



Source: 2009 Employment and Informal Survey (EISS) as contained in World Bank (2011), Employment and Growth Study (Report No. 61999 CG).

9. Most economic activity and jobs occur in the informal sector. An estimated 77 percent of the active population works in the informal sector (2005 household survey), with greater informal activity occurring in rural areas (Figure I.5). The majority of the active population in urban areas is self-employed (31 percent) working in the services sector, followed closely by employee/workers.

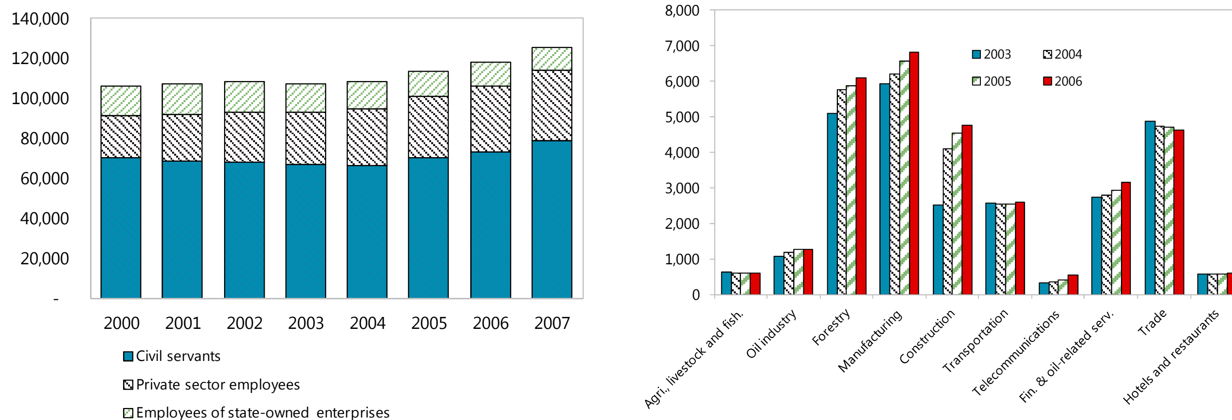
Figure I.5. Sectoral distribution of active population and active population by professional category



Source: 2009 Employment and Informal Survey (EISS) as contained in World Bank (2011), Employment and Growth Study (Report No. 61999 CG).

10. The formal sector is small, and dominated by civil servants and employees of state-owned enterprises. Private sector formal employment is highest in the forestry and manufacturing sectors, but in 2006 accounted for less than thirteen thousand positions (Figure I.6).

Figure I.6. Employment level by sector (number of employees) 2001–07, and employment in the formal sector (by sector) , 2003–06



Source: 2009 Employment and Informal Survey (EISS) as contained in World Bank (2011), Employment and Growth Study (Report No. 61999 CG).

The roots of jobless growth

11. Jobless growth can be broadly attributed to four factors: lack of economic diversification, a history of predominance of the public sector in formal employment, an education system ill suited to the needs of the private sector, and ineffective coordination of agencies charged with facilitating employment. Rigid job market regulation may also play a role.

12. The dominance of the oil sector/lack of diversification. Formal private sector activity is dominated by the capital intensive oil sector, which provides around 1,200 jobs, and more recently public sector-related construction (contractors). Economic

diversification is hindered by lack of infrastructure (roads and energy/electricity), an unfavorable business environment and weak governance. In 2012, Congo fell one place in the World Bank's Doing Business ranking to 181 of 183, and ranks 154 of 183 on Transparency International's Corruption Perception Index.

13. The legacy of a predominant public sector in formal employment. Congo was the capital of French Equatorial Africa and the culture of a large public administration persisted for decades after independence from France in 1960. Employment of young graduates in government or state-owned enterprises was practically guaranteed, and still today 56 percent of all workers who attended college work in the public sector (16 percent in the formal private sector). As a result, the education system is aimed at preparing students for a career in public administration, contributing to a skills mismatch between employment demand and supply in the private sector.

14. The skills mismatch. Congo has a long history of valuing education, and rates of schooling and literacy are above the SSA average. However, education in Congo focuses primarily on general education rather than vocational or technical training. The share of students going to tertiary education is relatively high, but most students enroll in arts and humanities, limiting job opportunities to public administration or teaching. In addition, the quality of teaching has not kept pace with growing school attendance, as noted by rising student-teacher ratios. The high share of well educated unemployed and rising underemployment is indicative of a mismatch between the skills demanded by the private sector and those offered by job seekers.

15. The ineffective implementation and coordination by agencies charged with facilitating employment. Despite the fact that the National Employment Office is still the main employment agency, only a small fraction of job seekers approaches the agency to find employment. Reasons include lack of knowledge of the process or belief that it would not be helpful—indeed, roughly half of job seekers use personal relationships (parents/friends) to find employment. At the same time, the policies and programs aimed at promoting employment are underfunded, and have undergone no formal review of their effectiveness. More broadly, the roles and responsibilities of the various ministries and agencies charged with labor market issues (the National Employment Office, Social Security, the Civil Service Ministry, and the Ministry of Employment and Skills Training) are not clearly defined.

16. Rigid job market regulation. Procedures under the current labor code for separation are cumbersome, complex and costly, including for layoffs due economic or technical reasons. This inhibits formal employment. At the same time, the labor code

does not set minimum labor standards to protect employees.

Key actions to support job creation and inclusive growth

17. The complexity of the challenges to overcoming jobless growth necessitates a multipronged approach. Efforts will be required to (a) increase wage employment opportunities in the private non-oil sector, (b) improve the quality of education and eliminate the skills mismatch, and (c) create a legal environment supportive of a strong business climate and well functioning labor market.

18. Address constraints to private sector growth (labor demand). The government is investing in basic infrastructure, mostly roads and electricity generation, and has begun to implement a plan to improve the business climate. These efforts should continue and be brought to fruition, with added focus placed on reducing credit constraints faced by small and medium enterprises. Tackling governance and corruption will be key to attracting private sector investment.

19. Address labor supply issues. Increasing formal sector employment requires a reduction in the current skill mismatch and improvements in the quality of education. As a first step, a skills assessment aimed at understanding private sector labor skill needs (demand) and labor supply in the formal and informal sectors (supply) should be conducted. This should be supported by sustained dialogue between the public and private sectors and training institutions—technical and vocational training programs should be reformed in line with market needs. The quality of general and technical education should be increased.

20. Reform the legal and regulatory framework to support employment creation. Key actions include: clear roles and responsibilities should be assigned to facilitate coordination across ministries and agencies; current policies and regulations reviewed and revised; and capacity increased. The new National Employment Policy is a step in the right direction toward a long-term labor market policy, and should be supported by well targeted (youth) employment programs based on experience and best practice of other countries.

Prepared by Carol Baker based on the World Bank's 2011 Employment and Growth Study (Report No. 61999 CG).

ANNEX II. ASSESSING THE POTENTIAL INFLATIONARY IMPACT OF THE 2012 SUPPLEMENTAL BUDGET

Government policy drives inflation dynamics in Congo mainly through two channels: (i) controlled prices, which hinder the pass-through from international to domestic prices, and (ii) the predominant role of government expenditure in domestic activity. The inflationary impact of a large increase in government spending is estimated to last about 12 quarters with a peak reached after 5 quarters. Limited supply response due to the undiversified economy and infrastructure bottlenecks—especially in transportation—is likely to amplify inflationary pressures in the near-term.

1. **A cointegrated VAR model is used to estimate the impact of domestic activity and non-core inflation on core inflation in Congo**. Using data for 1996 –2010, the model yields a statistically significant long-term relationship between core CPI and non-core CPI and real output, which is given by:

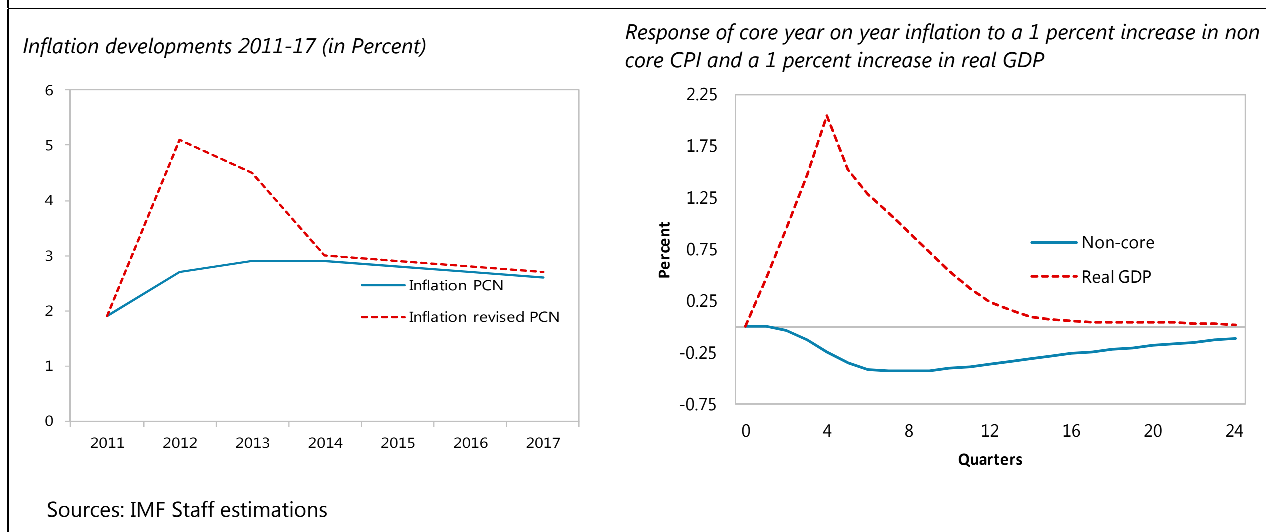
$$\text{Core CPI} = -0.420 - 0.314 \times \text{Non-core CPI} + 1.236 \times \text{Real GDP}$$

$$[-1.618] \qquad\qquad [3.701]$$

2. **The negative long-term relationship between the core CPI and non-core CPI may be partly the result of important distortions in domestic prices** (e.g., price controls), the frequency of adverse supply shocks (including disruptions in transport services), and the impact of civil wars during the estimation period, which had effects on the level and volatility of food prices.

3. **Domestic activity is found to have a very strong impact on core inflation in the short-run.** The cointegrated VAR predicts that a one percentage point increase in real GDP will be associated with an increase in core inflation of 2 percentage points. The impact on inflation is expected to last 12 quarters, with the peak at about 5 quarters (Figure II.1).

Figure II.1. Inflation Dynamics, 2011-17



Sources: IMF Staff estimations

4. The increase in expenditure contained in the supplemental budget could add significantly to inflationary pressures in 2012 and into the midterm. Both the direct cash transfers to the families affected by the explosions of March 4, 2012 and the reconstruction spending will add to domestic demand. While leakages (i.e., high import share of both consumption and investment) will be large, staff estimates a rise in GDP growth of 2.6 percentage points in 2012. The cointegrated VAR predicts an increase in core inflation by about 2 percent after 5 quarters, with higher inflation expected to last 12 quarters.

5. However, the inflationary impact is likely to be larger. The rapid increase in demand for domestic goods and imports is expected to overwhelm limited transport services between the port of Pointe Noire and Brazzaville 500 kilometers to the east, limiting the supply response and exacerbating inflationary pressures. As a result, staff estimate a rise of at least 2.4 percentage points in 2012 to over 5 percent.

6. Higher inflation will affect vulnerable groups in two ways: first through higher prices (i.e., lower real disposable income, in particular, minimum wage and pensions and transfers might not be fully indexed) and second through scarcity of staple goods. Political pressures to compensate for this increase in inflation could further widen the non-oil fiscal deficit.

Prepared by Darlena Tartari based on IMF Working Paper 11/232

ANNEX III. AN APPROACH TO ANCHORING FISCAL POLICY

Traditional methods for anchoring fiscal policy are ill-suited to resource-rich countries with development needs. Models based on the Permanent Income Hypothesis (PIH models) are particularly inappropriate in that they aim to smooth consumption, and therefore cannot capture the growth-enhancing benefits of the near-term scaling up of investment. External stability and debt sustainability analyses also have limitations in anchoring fiscal policy when net debt is negative and assets are projected to climb. This raises the question of how to anchor fiscal policy.

In such a case, fiscal policy can be anchored by implementing a simple oil revenue rule to pin down budgetary revenue and basing capital expenditure on an assessment of an adequate capital spending envelope over the scaling up period taking into account absorptive and implementation capacity. The revenue and expenditure paths can then be calibrated to ensure consistency with a fiscal sustainability framework based on total net wealth (financial and physical).

A framework for the stabilization objective

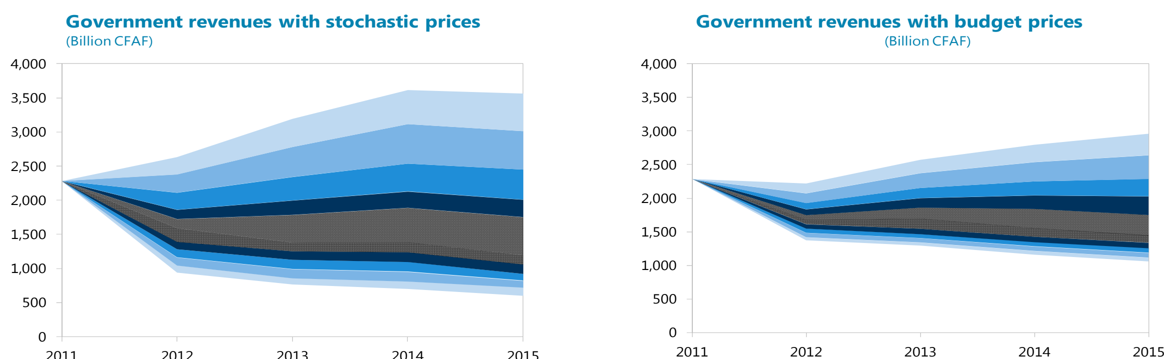
1. This section presents the benefits of an oil price-based rule for oil revenues and a structural revenue rule for non-oil revenues, followed by the calculation of the implied stabilization buffer required to mitigate the volatility of budgetary spending.

2. In the simplest case, an oil price-based rule can be used to smooth forecasted oil revenues and budgetary expenditures. Under such a framework, budgetary revenues are projected using a smoothed formula-based oil price, which could then be used to set the expenditure envelope. When actual oil prices are higher (lower) than the budget-oil price, actual (realized) revenues are higher (lower) than budgetary revenues and the surplus (deficit) is accumulated in (withdrawn from) a stabilization buffer.

3. The larger the desired smoothing and the less responsive budgetary revenues become to price shocks, the larger the needed stabilization buffer to effectively insure against shocks. Cross country experience indicates that employing an 8-year moving average (5 historical years and 3 years of forward projection) reduces volatility relative to actual prices while still allowing the budgetary price to react to market shocks.

4. The application of a budget oil price to data for Congo points to a significant reduction in the volatility of budgetary oil revenues. The within-year standard deviation of budgetary revenues resulting from the stochastic simulation of oil prices under the smoothing rule in the fourth year of the implementation decreases by more than 35 percent relative to its observed volatility without the smoothing rule (Figure III.1).

Figure III.1. Republic of Congo—Distribution of Future Government Oil Revenues With and Without a Stabilization Framework, 2011–15



Source: IMF staff estimates based on WEO oil prices applied to oil revenue forecast models.

5. Estimating structural non-oil revenues by extracting the cyclical components of output in non-oil revenues can also help to minimize revenue volatility and pro-cyclicality of the budget. Structural non-oil revenues can be computed by adjusting non-oil revenues by the ratio of potential to actual output. Total budgetary revenues are then defined as the sum of oil price-based oil revenues and structural non-oil revenues. Given the dominance of oil sector in GDP and national revenues, adding a structural revenue rule for non-oil revenues in Congo does not have a significant impact in the estimated annual flows to the stabilization fund. Hence, for the sake of simplicity, the implementation of an oil price rule is recommended.

6. Value-at-risk modeling is used to estimate the optimal size of a local currency denominated stabilization buffer by simulating the potential volatility of oil prices, and in turn, the contribution of oil revenues to the budget. This type of modeling is often considered more rigorous than simple benchmarking methods that do not take into account volatility determinants of the value to be insured by the policy: the contribution of oil revenue to the budget.

7. The initial stabilization buffer should be large enough to ensure that, given an oil price-based budget rule, the buffer would not be fully depleted over a period of three years with a high degree of confidence. This aims to avoid the high cost of adjustment in the event that the buffer was fully depleted. The minimum required size of the stabilization buffer is estimated based on the oil production profile and fiscal regime as well as stochastic simulation of future oil prices.

8. Assuming the 8-year moving average price rule recommended above, the estimated minimum size of the stabilization buffer for Congo is around 1,005 billion CFA (approximately 48 percent of non-oil GDP). Congo's end-2011 net government deposits in

BEAC and estimated offshore holdings (114 percent of non-oil GDP) are more than sufficient to set up the initial stabilization buffer. Any excess could be saved in the form of financial wealth, provided reserve adequacy benchmarks are met.

Fiscal sustainability

9. This section presents a framework for anchoring expenditure which moves beyond the PIH model but is consistent with fiscal sustainability. Specifically, it allows for a scaling up of investment to close the infrastructure gap, while remaining mindful of absorptive and implementation capacity constraints. Net wealth is stabilized over the long term.

10. For completeness, consider the limitations of the PIH for a country like Congo with endemic poverty, a large infrastructure gap and negative net debt. The slow build up of capital stock suggested by a standard PIH is unlikely to be an optimal. Moreover, given the already high levels of capital spending in 2011, even a gradual path of consolidation toward a PIH-consistent level (e.g., over 2012–17) would imply a massive fiscal withdrawal (about 15 percentage points of non-oil GDP per year) which would push the economy into recession and lower per capita GDP by more than half over the medium term (Table III.1).

Table III.1. Selected economic indicators under baseline and standard PIH scenarios

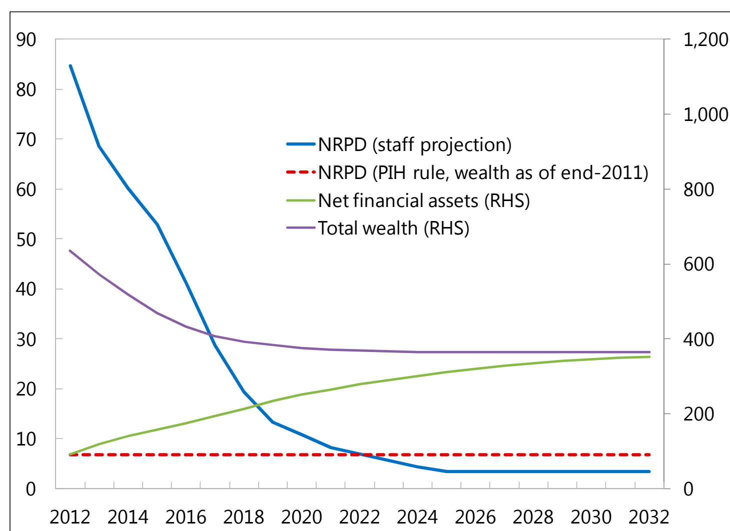
	Baseline (front-loaded investment)		Standard-PIH	
	2017	2032	2017	2032
Per capita GDP (in US$)	3,868	4,872	2,992	2,571
Real GDP (annual percent change)[1]	5.1	3.9	-1.7	2.3
Capital public spending (percent non-oil GDP)	23.8	9.1	6.8	17.3
Cumulative Capital spending (billions of US$)	18.8	40.9	4.6	26.5
Non Resource Primary Balance (NRPB)	-28.7	-3.5	-14.9	-14.9
Net financial assets (billions of US$)	18.2	100.8	30.2	135.2

Source: Staff calculations

[1] Data for 2017 reports the average of 2013-17, and 2032 reports the average of 2018-32.

11. In contrast, the scaling up of investment would boost short-run growth, raise productivity of the private sector and improve welfare by drawing down natural resource wealth in the short run. Under the baseline scenario, investment is front-loaded decreasing only slightly from 2012 to 2015 (from 25.7 to 18.8 percent of GDP), and declining gradually thereafter to 4.7 percent of GDP in 2025 (Figure III.2). With infrastructure needs met, in 2025, the underlying non-resource primary deficit (NRPD) would reach a level consistent with maintaining total net wealth at about 400 percent of non-oil GDP (about 3½ percent of non-oil GDP). A fiscal sustainability analysis tailored to natural resource based economies suggests that this scenario is sustainable.

Figure III.2. Republic of Congo: NRPB and wealth (PIH rule by 2025) (in percent of non-oil GDP)



Source: Staff calculations

12. As the exercise above demonstrates, scaling up of investment can be consistent with fiscal sustainability. This result reflects in part the potential growth enhancing impact of investment. In contrast, implementing a standard-PIH framework in Congo would likely result in a deterioration of economic and social conditions given the important role of public investment in economic activity and diversification. It should be noted that while the macroeconomic scenario above is consistent with fiscal sustainability, it is not unique—indeed, many paths for scaling up may be consistent with fiscal sustainability. The next section presents a heuristic benchmarking method for anchoring the size and path of public investment.

The Size and Path of Public Investment

13. In the application of the fiscal sustainability framework above, the target long-term stock of desired wealth is based on an assessment of the required envelope of public investment and its annual path. The cumulative level of investment over the scaling up period should be consistent with the amount estimated to be required to bring the capital stock to a regional average level. The baseline (heuristically) assumes a level of capital spending that would allow Congo to achieve the mean level of total (public plus private) capital stock of middle income countries by 2015 (i.e., 220 percent of GDP), followed by a ten year consolidation bringing the level of total investment to the average observed in middle income countries (i.e., around 25 percent of GDP). The assumed capital spending over 2012–15 is slightly lower than envisaged in the recent Poverty

Reduction Strategy and Annual Development Plan 2012-16.

14. A caveat regarding use of benchmarking for a country with weak policy frameworks is required. It is questionable whether the high level of capital spending contained in the NDP is consistent with the government's public financial management (PFM) and institutional capacity required to efficiently implement it. The magnitude of the assumed scaling up of investment should be reduced if evidence suggests that improvements in PFM are not sufficient to support this level of spending. Future work should aim to formalize the relationship between scaling up and implementation capacity to ensure that growth dividends are maximized.

CEMAC Considerations

15. Applying a fiscal rule in Congo would be broadly consistent with the CEMAC regulations. Fiscal rules are not applied in the Congo although some institutional arrangements have been put in place through the regional central bank, BEAC. Such an oil price rule is broadly consistent with the fiscal convergence criteria of the CEMAC region, and the rule per se could be designed and calibrated to be fully consistent with all convergence criteria.

16. Savings could be accumulated in the BEAC in a Fund for Future Generations, a vehicle established by the central bank for this purpose in 2006.

Prepared by Javier Arze del Granado, Carol Baker, Darlena Tartari and Santiago Acosta Ormaechea

INTERNATIONAL MONETARY FUND

REPUBLIC OF CONGO

STAFF REPORT FOR THE 2012 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

June 8, 2012

Prepared By

The African Department
(in consultation with other departments)

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I. FUND RELATIONS

Membership Status:

Joined: 07/10/1963; Article VIII.

General Resources Account:

	SDR Million	Percent Quota
Quota	84.60	100.00
Total holdings of currency	84.03	99.33
Reserve position in the fund	0.58	0.68

SDR Department:

	SDR Million	Percent Allocation
Net cumulative allocation	79.69	100.00
Holdings	70.06	87.91

Outstanding Purchases and Loans:

	SDR Million	Percent Quota
ECF Arrangements	20.32	24.02

Financial Arrangements: None

Projected obligations to Fund:*

(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2012	2013	2014	2015	2016
Principal	0.86	3.14	3.51	3.87	2.66
Charges/Interest	0.01	0.02	0.05	0.04	0.03
Total	0.87	3.16	3.56	3.91	2.69

*/ When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Safeguards Assessment:

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 indicated that implementation of previous safeguards recommendations on financial reporting, internal audit, and internal control was limited, and that the changing risk profile of BEAC foreign exchange holdings, required further actions to strengthen safeguards at BEAC. Subsequent to the revelation of fraud in the Paris office (late 2009), a series of measures and longer term safeguard measures were agreed between the IMF and BEAC in order to continue with country programs. Consequently, BEAC adopted an action plan for 2010 with the aim of strengthening key safeguards. In addition, since 2010, BEAC and the Fund agreed on additional measures to address the weaknesses highlighted by the special audit and strengthen governance bodies. Fund staff is actively monitoring the implementation of these measures.

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.

Last Article IV Consultations:

Following completion of the three-year Extended Credit Facility (ECF) arrangement in August 2011, consultations with Congo are now on a 12-month cycle, based on the Board decision on Article IV consultation cycles. The last Article IV consultation discussions and the Fourth Review under the ECF arrangement were held in Brazzaville on November 9–23, 2010. The staff report (Country Report No. 11/67 at www.imf.org) was considered by the Executive Board on January 19, 2011.

Previous Fund Recommendations:

The staff and the authorities have intensively exchanged views regarding policy priorities in the context of the recent Article IV discussions and the ECF arrangement. During the 2010 consultations, Executive Directors cautioned about the mounting current spending pressures and called for striking an appropriate balance between the scaling up of capital spending in priority areas and fiscal sustainability. They also stressed the need for sustained improvements in public financial management to raise the quality of capital spending and to enhance the management, governance and transparency of oil revenues.

Resident Representative:

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

FSAP Participation: none

Technical Assistance Received April 2009–April 2012

Subject	Department	Staff Member	Date
Customs Administration	AFRITAC	Ives Soler	April 2012
Treasury Operations	AFRITAC	Jean Pierre le Bouder	April 2012
Customs administration	FAD	Gilles Parent, Yves Soler, and Christian Breemeersch	January 2012
National Accounts	AFRITAC	Maxime Bonkoungou and Hubert Gbossa	January 2012
Treasury Operations	AFRITAC	Blaise Yehouenou and Eric Brintet	January 2012
Tax administration	AFRITAC	René Ossa	September 2011
National Accounts	AFRITAC	Hubert Gbossa	September 2011
Treasury management	AFRITAC	Jean Pierre le Bouder and Eric Brintet	July 2011
Consistency of Finance law with CEMAC guidelines	AFRITAC	Abdoulahi Mfoubout and Bruno Imbert.	July 2011
Tax policy reform	FAD	Mario Mansour (head)	February 2011
Improving budget process	AFRITAC	Abdoulahi Mfoubout (head)	February 2011
National Accounts	AFRITAC	Hubert Gbossa	January 2011
National Accounts	AFRITAC	Maxime Bonkoungou	October 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 in finalizing the analysis of main aggregates of 2006 NA estimates	STA	Mr. Gbossa (head), AFRITAC Central	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 Central	April 2009

II. WORLD BANK - IMF COLLABORATION

The IMF and the World Bank teams maintain an ongoing exchange of views on relevant macroeconomic and structural issues. The intense cooperation and the coordination include the following:

- **Article IV Consultations**. World Bank representatives attended meetings during the 2012 IMF Article IV mission. This facilitated the discussions and provided valuable input, in particular in the areas of mutual interest such as public financial management.

- **Joint managerial action plan**. The IMF and World Bank Republic of Congo teams met on July 8, 2011 to discuss a joint managerial action plan. The Fund provides economic updates crucial for the Bank's sectoral work. The World Bank's work program comprises work in seven areas: (i) Human development: engagement is broadly based in HIV, education, and health; (ii) Urban water supply and electricity sector reform: physical infrastructure as well as management of the sector; (iii) Agriculture and rural development: infrastructure provision, especially roads, and support in formulation of agricultural policies and expenditure programs; (iv) Economic diversification, including support in implementing the action plan to improve the business climate for the SMEs; (v) Governance: the current program is coming to an end and a new phase is being prepared; (vi) Telecommunications sector: development of fiber optic infrastructure in the context of the Central African Backbone project; and (vii) Forestry sector. The Bank's work is supported by a Country Partnership Strategy (2010–12) which focuses on reducing oil dependence. A new CPS is expected to be discussed by the World Bank Board in September 2012. Future activities include support to a regional initiative to develop the main transport corridors, a forestry project to support the management of the forestry sector and a trade facilitation assessment. An Employment and Growth Study was completed in December 2011 covering the key challenges and labor market developments. A mining sector review is also being prepared.

- **Joint Staff Advisory Note on the Poverty Reduction Strategy Paper.** The staffs have prepared a JSAN on the National Development Plan for 2012–16.

REPUBLIC OF CONGO: TABLE OF JOINT MANAGERIAL PLAN BETWEEN THE IMF AND THE WORLD BANK

As of May 30, 2012

Title	Products	Mission timing	Expected delivery
A. Mutual information on relevant work programs			
Bank work program in next 12 months	*Dialogue on Governance* *AAA* ➢ Statistical capacity building ➢ Mining sector review ➢ Trade facilitation assessment *New Lending:* ➢ Governance and Transparency Project - II ➢ Forestry management project (TA)	FY11 Ongoing October 2011 October 2011 2011 2011	Ongoing Ongoing June 2012 August 2012 February 2012 March 2012
IMF work program in next 12 months	Article IV consultation	May 2012	June 2012
B. Requests for work program inputs			
Fund request to Bank (justification)	Final English version of the Employment and Growth Study		December 2011 (received)
	Program document of governance and transparency project II		February 2012 (received)
	Program document of forestry project		March 2012
Bank request to Fund (justification)	Macroeconomic updates for program documents		FY12 and FY13
C. Agreement on joint products and missions			
Joint products in next 12 months	JSAN on new PRS		April 2012
	Collaboration on data on non-oil sector growth		Ongoing

III. STATISTICAL ISSUES

(As of May 30, 2012)

Assessment of Data Adequacy for Surveillance

- **General:** Data provision has shortcomings, but is broadly adequate for surveillance. The incomplete reporting of fiscal financing, and limited statistical 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 a need to consolidate these gains and further strengthen 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 context of moving to the SNA93 system of accounts, the DGS completed the national accounts estimates for 2005 (the new base year) and for 2006–07, with the assistance of a resident statistical expert and AFRITAC Central. The authorities are currently working with the AFRITAC Central to revise national accounts' estimates back to 2000 and up to 2010. 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 goods and service. This new CPI is harmonized with that of other countries in the Central African Economic and Monetary Community (CEMAC). However, implementation of the new CPI suffers from severe deficiencies, given the fixed nature of the products followed, especially in the fast-moving telecoms sector.

- **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. However, the recording of fiscal financing in the official TOFE is incomplete and results in large, unexplained statistical discrepancies. The Caisse Congolaise d'Amortissement (CCA) produces 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 readily be reconciled with flow data in the balance of payments or the fiscal accounts, as a result of weak collaboration between the CCA and public works and the CCA and the BEAC. 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 rate, and exchange rate statistics for publication in IFS. 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 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: 10 percent of banknotes issued in the Republic of Congo by the BEAC national directorate circulate in Cameroon and 2 percent in Gabon, while currency in circulation in the Republic of Congo includes 0.9 percent of banknotes from Cameroon and 1.9 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, delaying the process for finalizing BOP data for 2005–10.

- **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.

- **Reporting to STA**

The Republic of Congo reported (in September 2008) GFS data to STA for fiscal years 2004 and 2005 using the GFSM 2001 template—data for 2006–10 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 30, 2012

	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of publication[7]
Exchange Rates	Current	Current	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	January 2012	April 2012	M	M	M
Reserve/Base Money	January 2012	April 2012	M	M	M
Broad Money	January 2012	April 2012	M	M	M
Central Bank Balance Sheet	March 2012	May 2012	M	M	M
Consolidated Balance Sheet of the Banking System	January 2012	April 2012	M	M	M
Interest Rates[2]	December 2011	January 2012	M	M	M
Consumer Price Index	April 2011	May 2012	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	N/A	N/A	N/A	N/A	N/A
Revenue, Expenditure, Balance and Composition of Financing[3] – Central Government	March 2012	May 2012	Q	Q	Q
Stocks of Central Government and Central Government-Guaranteed Debt[5]	March 2012	May 2012	Q	Q	Q
External Current Account Balance	December 2011	May 2012	A	A	A
Exports and Imports of Goods and Services	December 2011	May 2012	A	A	A
GDP/GNP	December 2011	April 2012	A	A	A
Gross External Debt	March 2012	May 2012	Q	Q	Q
International Investment Position[6]	...	...	NA	NA	NA

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

INTERNATIONAL MONETARY FUND

Public Information Notice

EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 12/74
FOR IMMEDIATE RELEASE
July 10, 2012

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

IMF Executive Board Concludes Article IV Consultation with Republic of Congo

On June 27, 2012, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Republic of Congo.[1]

Background

Economic performance strengthened in 2011. While production in maturing oil fields declined, non-oil growth accelerated, buoyed by strong activity in the construction, telecommunications and transport sectors. The scaling up of public investment provided a further boost to activity through improvements to the road system, which facilitated transport of goods between the port and the capital city. Inflation declined to below the Central African Economic and Monerary Community (CEMAC) convergence criteria of 3 percent as supply bottlenecks eased and school tuition fees were eliminated.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

The external position remained strong, with the sustained large fiscal surplus raising official foreign assets. At end 2011, net external debt turned negative, with assets exceeding debt by about 30 percent of Gross Domestic Product (GDP). Despite high oil prices, the current account registered only a small surplus reflecting high imports associated with the scaling up of public investment and strong profit remittances by oil companies. The terms of trade improved, but the real effective exchange rate moved sideways, ending the year broadly unchanged.
The overall fiscal cash balance registered a double-digit surplus, despite the significant scaling up of investment. Revenue was supported by high oil prices and improvements in non-oil revenue collection, while additional fiscal space was provided through rationalization of current expenditure. However, these efforts were insufficient to offset the higher capital spending, and as a result, the 2011 basic non-oil primary deficit (BNOPD) widened by over ten percentage points of non-oil GDP.

In March 2012, a munitions depot exploded in Brazzaville causing widespread destruction and loss of life. Reconstruction efforts are underway, and a very large supplemental budget was approved in April. Despite the high import content, the additional spending is expected to boost growth, while the low level of economic diversification and limited domestic capacity for a supply response will push inflation higher. The overall fiscal cash balance is expected to remain in surplus, but the BNOPD would deteriorate significantly, to over 70 percent of non-oil GDP. Higher imports would reduce the current account surplus to near balance.

Beyond 2012, the outlook is favorable. Public investment is laying a foundation of basic infrastructure and the government has started to implement their action plan to improve the business climate. Non-oil growth is expected to remain robust as economic diversification moves forward, with new investments beginning over the medium term in mining and agroindustry.

As production in mature oil fields continues to taper off, the current account will remain in slight surplus before turning sharply negative in 2015–17 reflecting imported investment

goods related to a huge mine expected to come on stream in late 2017. External risks appear manageable, as inward spillovers from a worsening of the situation in Europe are relatively limited due to weak trade and financial linkages. The risk of a large negative shock to the oil price is partially attenuated by ample regional reserve holdings and sizable fiscal buffers held offshore. Domestic risks surround uncertainties regarding the ability of public investment and structural reform to raise future growth and deliver poverty reduction. Maintaining reform momentum for strong policy implementation will help mitigate these risks.

Executive Board Assessment

Executive Directors commended the authorities for achieving macroeconomic stability. Despite robust growth, poverty nevertheless remains widespread and unemployment is high. Directors urged the authorities to use the favorable environment to pursue ambitious reforms in order to broaden the economic base and make growth more inclusive.

Directors agreed that fiscal policy appropriately focuses on scaling up investment, while saving a portion of oil revenue. They recognized the pressing capital expenditure needs, especially in response to the devastating arms depot explosion in Brazzaville, but underscored the importance of project prioritization to ensure that the level of investment is consistent with absorptive and implementation capacity. Directors emphasized that improving public financial management is critical to enhancing expenditure quality. They welcomed efforts to strengthen accountability through adoption of a results-based management framework and expenditure control measures. Directors also called for efforts to contain non-priority current spending and increase non-oil revenue collection. They saw merit in a simple fiscal rule to help anchor spending and savings objectives.

Directors welcomed the new National Development Plan. They noted that unlocking the country’s sizable economic potential requires coordinated efforts to improve the business climate, develop the financial sector, and address the labor skills mismatch and high youth unemployment. Directors emphasized the importance of creating a stable business environment governed by the rule of law and adequate investor protection. They urged a

cautious approach to the use of special economic zones given the risks these entail in creating a dual tax system. Directors also encouraged the authorities to conduct a skills assessment to inform labor policies and to work with the private sector regarding training needs.

Directors noted that Congo's membership in CEMAC and the region's common fixed exchange rate regime has anchored macroeconomic stability. They urged the authorities to comply with all CEMAC obligations, including the repatriation and reserve pooling requirements. In addition, Directors encouraged timely compliance with the Extractive Industries Transparency Initiative and stronger efforts to improve national accounts and balance-of-payments data.

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, 2008–13

	2008	2009	2010	2011	2012	2013
				Est.	Proj.	Proj.
	(Annual percentage change)					
Production and prices						
GDP at constant prices	5.6	7.5	8.8	3.4	4.9	5.3
Oil	6.1	16.2	13.8	-4.8	-6.0	-2.0
Non-oil	5.4	3.9	6.5	7.4	9.7	8.0
GDP at current prices	32.0	-14.7	31.3	14.5	10.1	2.2
Consumer prices (period average)	6.0	4.3	5.0	1.8	5.1	4.5
Consumer prices (end of period)	11.4	2.5	5.4	1.8	5.3	4.1
	(Percent of GDP)					
Current account balance	2.3	-7.4	5.1	0.8	0.2	0.3
External public debt (end of period)	59.3	54.6	20.2	18.1	21.9	23.6
Central government finances	(Percent of non-oil GDP)					
Total revenue	160.4	78.3	116.8	138.1	131.6	115.3
Oil revenue	136.0	54.8	92.0	108.9	103.1	87.5
Nonoil revenue (inc. grants and investment income)	24.4	23.5	24.7	29.2	28.5	27.8
Total expenditure	80.7	65.5	66.7	84.7	112.6	99.6
Current	50.4	36.8	35.6	32.9	38.2	38.1
Capital (and net lending)	30.3	28.7	31.2	51.7	74.5	61.5
Overall balance (deficit -, commitment basis) [1]	79.8	12.7	50.0	53.4	10.9	15.7
Basic primary fiscal balance (deficit -) [2]	91.5	18.8	57.6	62.6	30.0	23.6
of which Basic non-oil primary balance (- = deficit)	-44.3	-36.0	-34.4	-46.3	-73.1	-63.9
	(Percent of total government revenue excluding grants)					
External public debt service (after debt relief) [3]	8.3	9.0	3.3	3.4	2.9	2.5
External public debt (after debt relief) [3]	127.9	187.2	54.0	43.2	51.4	55.7
	(Billions of CFA francs, unless otherwise indicated)					
Gross official foreign reserves	1,825	1,740	2,200	2,875	4,118	5,350
Nominal GDP	5,311	4,530	5,947	6,807	7,493	7,660
Nominal non-oil GDP	1,557	1,705	1,911	2,096	2,472	2,867
World oil price (U.S. dollars per barrel)	97	62	79	104	115	110
Oil production (Millions of barrels)	87	101	115	109	103	100
Nominal Exchange rate (CFA/USD, period average)	446	471	471	499	…	…

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

[1] Including grants.

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

[3] HIPC completion point reached in January 2010. In March 2010, the Paris Club granted 100 percent debt relief.

Statement by Mr. Kossi Assimaidou, Executive Director of the Republic of Congo
June 27, 2012

On behalf of my Congolese authorities, I would like to express their appreciation to staff for the fruitful discussions held in Brazzaville under the 2012 Article IV consultation. The staff report presents a candid analysis of the economy, the progress achieved and the daunting challenges ahead. My authorities welcome the report's focus on policies to preserve macroeconomic stability and to keep advancing towards higher and sustainable growth. The authorities broadly agree with the staff's assessment and are grateful for their useful recommendations.

In spite of high growth rates driven by the oil sector, efforts to reduce poverty and raise employment over the years have been challenging. The emphasis in this year's Article IV report on "making growth more inclusive" is therefore timely. The authorities share many of the analyses in the report and agree in particular that an appropriate sequencing of policies and reforms along with a better coordination in their implementation is key to enhancing growth inclusiveness. They also concur that promoting job-intensive growth requires a multi-pronged approach, and share the view that to diversify the economy away from oil which as stressed in the report is not inclusive by nature, it is essential to improve the business climate. Reforming the education system—in line with the needs of a more vibrant economy—, is also crucial to reducing labor skills mismatch.

In addition to the sound policies highlighted in the report, the authorities believe that their current efforts to scale up infrastructure investment and close the country's wide infrastructure gap are critical to improving growth inclusiveness. They are convinced that within the broader framework of the 2011-2016 National Development Plan and the current PRSP, improving the country's infrastructure will help accelerate the diversification of the economy, increase Congo's growth potential, and stimulate employment. They agree, however, that careful planning of infrastructure build up is needed and that the project implementation requires the use of quality control measures, as rightly stressed by staff in the report.

On this year's supplemental budget, they would like to emphasize that:

- The supplemental budget is primarily a response to the tragic explosion inside a military depot in Brazzaville in March which cost hundreds of lives, led to thousands of displaced, and destroyed a vast neighborhood of the capital;
- This tragic event, which deeply affected the population, led to numerous claims on the government (social, military etc.). As such, the supplemental budget is—either directly or indirectly—

linked to the tragedy, as the authorities sought to address its immediate and potential consequences on the Congolese population and the country.

Macroeconomic Performance and Risks

Overall, macroeconomic performance remains strong driven by the non-oil sector, in a context of domestic and external stability, and a rapid buildup of foreign exchange reserves. Congo's economic outlook continues to be favorable, further buoyed by recent important discoveries in the mining sector, notably iron ore.

The authorities agree that higher inflation is a risk, and acknowledge the concerns expressed by staff. In particular, the projected increase in broad money, and the country's limited supply capacity, due notably to transport bottlenecks, could exacerbate inflationary risks.

However, while the economy could experience some degree of inflation, there are a number of mitigating factors to a sharp rise in overall prices. First, as a member of the zone Franc, the monetary authorities will remain vigilant and will continue to closely monitor any potential rapid deterioration of the inflation outlook. Although monetary policy is set at the regional level, the BEAC takes into consideration member countries' public finances when determining the amount of central bank refinancing to be provided to domestic commercial banks, as a means of achieving price stability in the region. In this regard, while consumer prices are projected to increase by 5.1 percent this year (period average)—compared to last year's 1.8 inflation rate—, prices in 2012 will revert to the approximate levels of the preceding three years. Furthermore, many of the investment projects underway—either by design or because they are capital intensive—are likely to have a limited impact on the country's narrow production capacity as a large share of the inputs needed for the investments will be imported, not purchased locally. This will therefore lessen the potential pressures on domestic prices from higher capital spending.

Fiscal Challenges

It is currently projected that the authorities' supplemental budget will "lift budget spending to over 120 percent of non-oil GDP". The authorities emphasize however that while capital investment is being scaled up they will continue to adopt prudent policies on public sector wages, domestic and international debt, and national savings.

Thus, the increase in the overall budget envelope for this year (supplemental budget included) is driven mainly by capital spending—essential for raising the country's growth potential—, and not current spending. In this regard, despite a substantial increase in domestic revenues (including oil), the authorities have refrained from raising public sector wages or hiring additional staff, thereby containing the increase in current expenditures. In addition, debt remains in check, as higher fiscal revenues—which have risen to almost 140% of non-oil GDP i.e. more than total expenditures—are financing the increase in spending. Also, despite higher capital spending, the authorities have continued to save part of their high oil revenues. Thus, while gross investment as a share of GDP is projected to reach 33.6 percent this year (from 25.3 percent last year), gross saving will also increase to 33.8 percent (from 26.1 percent last year).

On the issue of capacity, the authorities noted the concerns expressed by staff in the report that while total expenditures are expected to rise above 120 percent of non-oil GDP, this increase will happen "without commensurate increase in staffing or capacity".

While the authorities remain committed to carrying out public investment "in line with absorptive and implementation capacity and using quality control measures", they also insist that at present, the size of the supplemental budget remains a broad estimate based on a preliminary assessment made immediately after the March tragedy as they sought to react rapidly to the event. While waiting for the results of the report by the high level committee studying reconstruction needs, they believe that it is unlikely that the full supplemental budget will be executed due in part to absorptive capacity issues.

Structural Reforms and the Investment Climate

The authorities are determined to improve the business climate as they are aware that progress in this area is key to a successful diversification of the economy and the promotion of a sustainable private sector led growth. They would like to highlight that improving the business climate is at the core of the 2011-2016 National Development Plan. An action plan to that effect is currently being implemented. As required under the plan, a Council for Public-Private Dialogue was created to formalize exchanges of views between the government and the private sector and to facilitate a better understanding of mutual concerns. Also on this matter, the authorities are confident that the creation of Special Economic Zones, modeled on the successful experiences of Mauritius and Singapore will contribute to further improving the business climate and economic diversification.

Finally, on compliance with the reserve pooling requirement, the authorities indicate that the issue is being addressed at the regional level, and that a high level working group has been set up to offer proposals and modalities to strengthen compliance by all members of the CEMAC.