INTERNATIONAL MONETARY FUND

IMF Country Report No. 13/282

REPUBLIC OF CONGO

2013 ARTICLE IV CONSULTATION

September 2013

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 2013 Article IV consultation with the Republic of Congo, the following documents have been released and are included in this package:

- **Staff Report** for the 2013 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on May 13, 2013 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 August 14, 2013. 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** prepared by the IMF.
- **Debt Sustainability Analysis** prepared by the staffs IMF and the World Bank.
- **Press Release** summarizing the views of the Executive Board.

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

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Washington, D.C.

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REPUBLIC OF CONGO

STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION

August 14, 2013

KEY ISSUES

Context. The Republic of Congo is endowed with abundant natural resources, notably oil and iron ore. Membership in the CFA franc zone continues serving the country well as an anchor for financial stability; macroeconomic performance has been broadly satisfactory in recent years, with strong growth, moderate inflation, and large fiscal and foreign buffers. However, Congo has achieved limited progress in poverty alleviation, and remains vulnerable to external shocks. Moreover, policy coordination has weakened since the expiration of the last ECF arrangement in 2011. Weak governance and business conditions are significant constraints to private sector development and growth inclusiveness. The political situation is generally calm, and the next presidential elections are planned for 2016.

Consultation focus. Policy discussions focused on: (i) the current fiscal stance and fiscal framework for the medium to long term; (ii) vulnerabilities to external shocks; (iii) competitiveness and external sector sustainability; (iv) growth inclusiveness; and (v) policy coordination.

Key policy recommendations and authorities' views. Congo's main challenge is to ensure long-term macroeconomic stability in the face of oil revenue volatility and exhaustibility, and to make growth more inclusive. The mission recommended: (i) improving resilience to shocks and fostering growth inclusiveness by adopting a fiscal framework that ensures budget and debt sustainability, explicitly taking account of impending depletion of oil wealth; (ii) swiftly implementing the IFC-supported action plan to improve the business environment and strengthen competitiveness; (iii) expanding ongoing employment and social safety net programs; and (iv) setting up a policy coordination and monitoring committee. The authorities broadly concurred with staff's assessment and recommendations; they have signaled possible interest in Fund technical assistance in strengthening the fiscal rule introduced in January 2013 to improve the management of oil resources.

Approved By
Anne-Marie Gulde-Wolf and Masato Miyazaki

Discussions took place in Brazzaville from April 29 to May 13, 2013. The staff team comprised Messrs. Matungulu (Head), Crispolti, Fahlberg, Razafimahefa (all AFR), and Rozenov (FIN). The mission was joined by Mr. Sembene (OED) and assisted by Mr. Tchicaya-Ghondhet de Trebaud (resident economist). The team met with the President of the Senate, Mr. Obami Itou; the Speaker of Parliament, Mr. Koumba; State Minister of Economy, Finance, Planning, Integration, Public Portfolio, and Integration, Mr. Ondongo; Special Advisor to the President, Mr. Gokana; National Director of the BEAC, Mr. Ondaye; and other senior officials. The mission also met with representatives of developments partners and of the private sector.

The mission team received research support from Juan Sebastian Corrales and Kwame Achampong Tweneboah Kodua, and administrative assistance from Margaret Attey and Light Koulefianou (all AFR).

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.

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BACKGROUND: GENEROUS RESOURCES ENDOWMENT, BUT LIMITED POVERTY REDUCTION

1. **The Republic of Congo is endowed with abundant natural resources** (Figure 1)**.** Proven oil reserves are estimated at about 2 billion barrels. In 2012, oil production reached 100 million barrels, the fourth largest in sub-Saharan Africa, and generated nearly US$ 4.5 billion in government oil revenues. In addition, Congo has large iron ore deposits and a vast agricultural potential.

2. **Supported by an improving political situation, macroeconomic performance strengthened markedly in the run up to and aftermath of the 2010 HIPC Initiative completion point.** (Text Table 1)[1]. The pick-up in economic activity was broad-based on account of strong aggregate demand, while inflationary pressures remained subdued. The basic non-oil primary balance strengthened, generating large government savings.[2] Moreover, the soundness of the financial sector and the quality of bank loan portfolios was not impaired by the rapid expansion of credit to the private sector.

Text Table 1. Economic Indicators, 2005–11

	2005-08	2009-11
Real GDP growth	4.5	6.5
Oil	2.0	8.4
Non-oil	5.8	5.9
Inflation (eop)	5.2	3.2
Basic non-oil primary balance (in percent of non-oil GDP)	-45.7	-38.9
Private sector credit (percentage change)	26.6	40.7

Source: Authorities of the Republic of Congo.

3. **The benefits of growth are not evenly distributed.** The poverty rate declined from 50.7 percent in 2005 to just 46.5 percent in 2011, and the prevalence of poverty remains much high than in peer oil-exporting countries. Moreover, despite registering the 3rd largest per capita public investment envelop in the CFA Zone during 2005–11, Congo continues to suffer from considerable social and economic infrastructure gaps.

4. **Recently, the authorities have implemented key recommendations from the 2012 Article IV consultations** (Table 6). Notably, they are gradually introducing a fiscal rule to address the pro-cyclicality of fiscal policy and protect the budget from the volatility and exhaustibility of oil revenues; and Congo has reached "compliant" status under the Extractive Industry Transparency Initiative (EITI). However, the country remains in breach of the Central African Economic and Monetary Community (CEMAC) obligations with regard to repatriation of export proceeds and reserve pooling as a large share of its foreign reserves is still deposited off-shore.

[1] Following the civil war of the late 1990s, which brought President Sassou N'guesso back to power, the political situation has stabilized; and the next presidential elections are planned for 2016.

[2] The basic non-oil primary balance is defined as revenue (excluding oil revenue, investment income and grants) minus total expenditure (excluding interest payments and foreign-financed investment). It provides the most appropriate indicator of fiscal stance and effort for the Republic of Congo.

RECENT DEVELOPMENTS AND SHORT-TERM ECONOMIC PROSPECTS

5. **In 2012, economic developments were dominated by the authorities' fiscal response to the explosion of an ammunitions depot in Brazzaville** (Tables 1–4)[3]. The government's swift response in attending to the needs of the victims and beginning reconstruction underpinned a brisk increase in public outlays, which pushed non-oil GDP growth to nearly 10 percent and end-year inflation to 7.5 percent (year-on-year). Spending was nevertheless lower than budgeted owing to capacity and other administrative constraints, helping to contain the basic non-oil primary deficit at 62.9 percent of non-oil GDP (46.3 percent in 2011), compared with a revised budget objective of 73.1 percent of non-oil GDP. Credit to the private sector continued on a high growth path (about 40 percent, year-on-year), reflecting the robust expansion of the non-oil sector and the still modest depth of the financial sector.

6. **While the fiscal and external positions should remain comfortable in 2013, preliminary data points to somewhat weaker economic activity—particularly in the oil sector**.[4] Real GDP growth is rebounding to 5.8 percent (half a percentage point below initial target); and inflation should ease as the effects of the 2012 sharp increase in government spending dissipate. In the fiscal area, the authorities have revised current and capital spending to contain the negative impact on the budget of an oil revenue shortfall and large overruns in domestic arrears repayments[5] (Table 3a). Consequently, the basic non-oil primary deficit show should narrow to 43.5 percent of non-oil GDP (62.9 in 2012), with government bank deposits strengthening by about ten percentage points to 34.2 percent of non-oil GDP (CFAF 963 billion just slightly below the initial target of CFAF 1098 billion). To meet these objectives, the authorities have established quarterly revenue and expenditure targets, and tightened treasury and budget management more generally. The tighter fiscal policy stance, together with lower oil sector income repatriations, is expected to underpin a strengthening of the external current account to a surplus of 8 percent of GDP. In the financial sector, the ongoing expansion of credit to the private sector is expected to continue.

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3 An estimated 250 people lost lives, another 2300 were injured; and extensive housing and other property damages were suffered.

4 Oil output has been revised downward to 96 million barrels (about 3 percent below initial target), reflecting efficiency losses in maturing fields. The ensuing revenue shortfall is expected at CFA 135 billion (4.8 percent of non-oil GDP).

5 In the first quarter, the government settled previously frozen benefits to various social partners in response to rising social tensions, including a teachers' strike that threatened to derail the school year.

MEDIUM-TERM OUTLOOK AND RISKS: BUILDING UP ADDITIONAL BUFFERS AGAINST PERSISTENT VULNERABILITIES

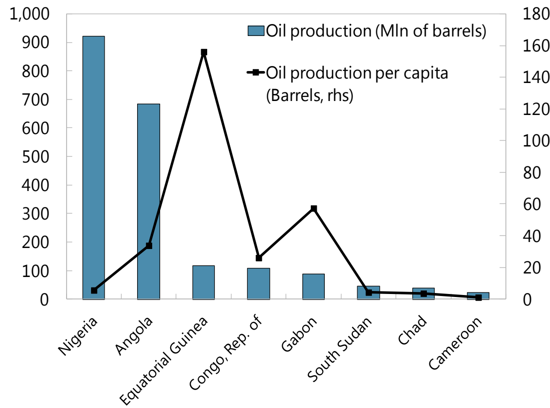
7. Congo's medium-term prospects are generally favorable (Table 1, Figure 6)**.** Real GDP growth is expected to average 6½ percent during 2014–16 under the baseline scenario, despite oil production becoming more volatile due to the transition from maturing to new oil fields (Figure 1). Main drivers of economic activity are investment; strong activity in construction and public works, telecommunications, and agriculture sectors; and a timid start of iron ore mining production.[6] Inflation is expected to remain in line with the regional CEMAC target of 3 percent over the medium term. The recently-introduced fiscal rule is expected to be strengthened to better anchor the fiscal stance; and continued spending prudence will secure further budget consolidation gains and policy buffers.

8. The main risks to the outlook stem from possible downward pressures on oil prices (Table 7)**.** A protracted activity slowdown in the Euro area and in the emerging economies would lower international oil prices and weaken significantly macroeconomic performance. On the domestic front, prospects hinge on ensuring that the next presidential elections in 2016 are run smoothly.

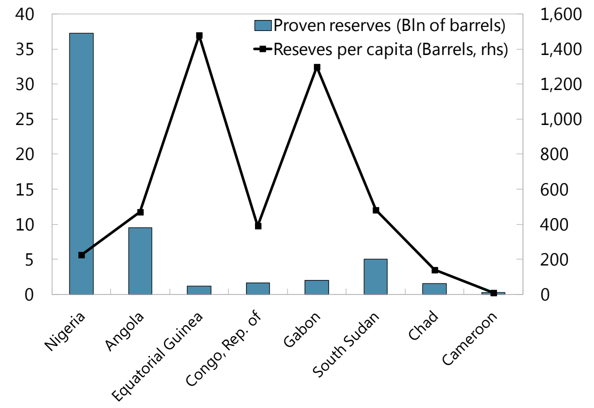
[6] Iron mining is constrained by limited road and rail transportation capacity. Staff estimates that real GDP growth would rise to 9 ½ percent in 2014–16 if iron ore production increases to an annual average of 9 million tons compared with 2.5 million tons/year under the baseline scenario.

Figure 1. Oil and Agricultural Sector: Current Situation, Prospects, and Potentials

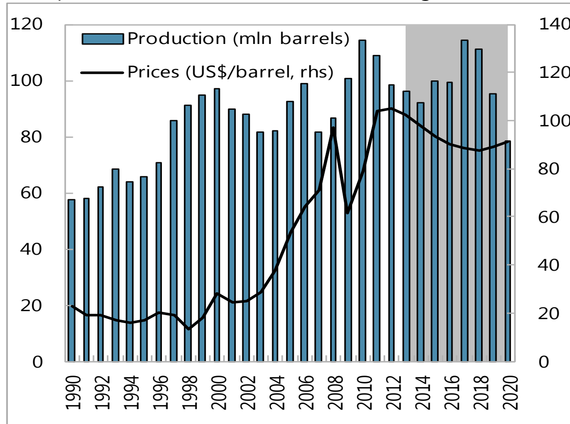
Congo is the 4th oil producer in SSA…



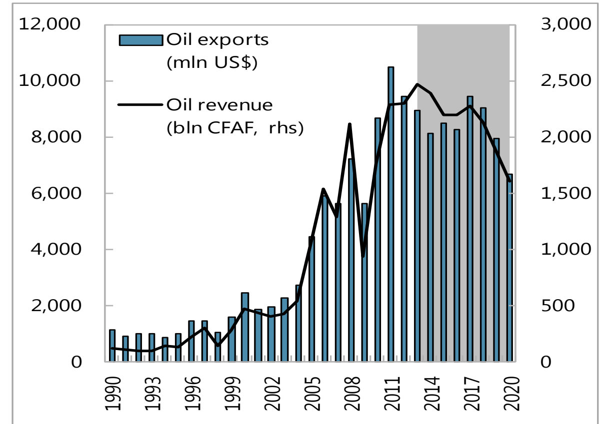
… and has large oil reserves per capita.



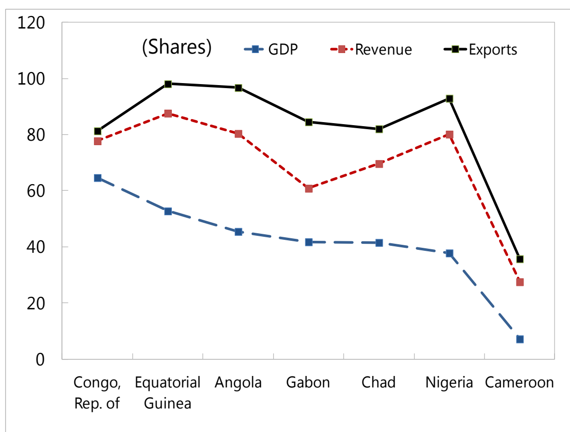
Production and prices have steadily risen in recent years but are expected to recede in the medium to long term.



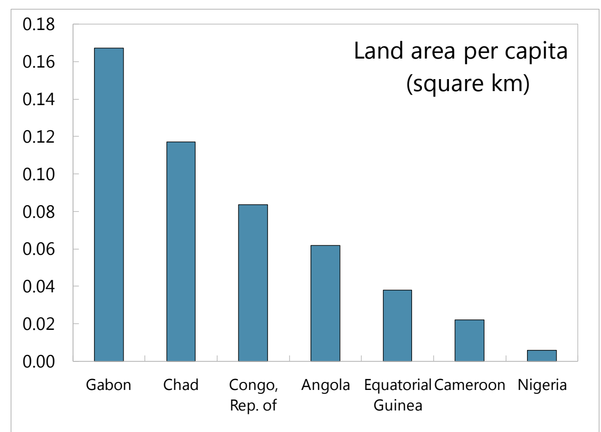
Oil exports and revenue have expanded but are set to decline over time.



Thus, the oil dependence needs to be addressed.



Congo enjoys large land endowments per capita.



Box 1. Mining Sector: Potential Waiting to be Unlocked

The Republic of Congo is endowed with large mineral resources. Iron ore reserves are estimated to exceed 10 billion tons; while potassium and phosphate reserves are assessed at about 1 billion tons and 500 million tons, respectively. To date, mining sector activity is confined to artisanal diamond and gold production, but mining activities have experienced a new dynamism in recent years following the adoption of the more attractive 2005 Mining Code. So far, 48 prospecting permits have been awarded to 28 companies; 49 exploration permits to 26 companies; and 3 production permits to 2 companies.

One project is advancing to the production phase whereas others are delayed owing to uncertain global economic conditions and weak transport infrastructure. Production from one iron ore site (Mayoko exploited by DMC-Exxaro) is expected to start by end-2013 with a modest 130,000-ton output, and will likely reach 7 million tons per year by 2017. A Chinese company was expected to take over a project on the border of Cameroon and Congo but the transaction was cancelled in April 2013 due to weaker growth in China. More generally, main bottlenecks to strong and profitable mining production include the lack of adequate transportation infrastructure, reliable power supply, and scarce skilled labor. For some projects, such as the Mayoko venture, infrastructure (rail road and port) exists but the current capacity levels are inadequate to support production at full capacity. In other cases, such as the projects in the northern part of the country, infrastructure does not exist at all and will need to be developed from ground up.

Republic of Congo: Mining Projects

Company	Mineral	Site	Reserves (million tons)	Investment (millions US$)	Annual Production (million tons) 1/	Current Status	Beginning of production
MPD	Iron	Zanaga	6,800	9,700	30	Prefeasibility study	2018-19
Core Mining	Iron	Avima	2,290	4,500	35	Feasibility study	2016
Congo Iron	Iron	Nabeba/Shanga	230	4,000	22	Feasibility study	2016
DMC	Iron	Mayoko/Lekoumou	685	1,600	7	Feasibility study	2013
Congo Mining	Iron	Mayoko	3,100	500	5	Reserves assessment	2014
Total Iron			**13,105**	**20,300**	**99**		
MPC	Potassium	Mengo (Kouilou)	33	1,600	0.600		2014
Sintoukola Potash	Potassium	Sintoukola (Kouilou)	804	1,200	0.600		2015
SOREMI	Polymetals	Boko Songho/Yanga Koumbaza	n/a	50	0.012		2012
Lulu	Polymetals	Mindouli-Mpassa	60	n.a.	0.020		n.a.
Cominco	Phosphate	Cominco	454	n.a.	4.000		2014
Total non-iron			**1,351**	**2,850**	**5.232**		

Sources: Ministry of Mines and Hydrocarbon and mining companies.
1/ Full production stage.

This box was prepared by Samuel Fahlberg and Ivohasina Razafimahefa.

POLICY DISCUSSIONS

9. Congo's main challenge going forward is to make growth more inclusive, while safeguarding macroeconomic stability in the face of oil revenue volatility and exhaustibility. The discussions therefore focused on the adoption of a stability-oriented fiscal framework; reducing vulnerabilities to external shocks; assessing competitiveness and external sector sustainability; identifying policy options to make growth more inclusive; and improving the effectiveness of policy management.

A. Securing Long-Term Fiscal Sustainability

10. In January 2013, the authorities introduced a fiscal rule aimed at protecting the budget from oil revenue volatility and preventing fiscal policy pro-cyclicality (Annex 1). The rule calls for the allocation of CFAF 1,500 billion of oil revenue to current (CFAF 500 billion) and capital (CFAF 1,000 billion) expenditures each year, while the reminder of oil revenues is saved in government deposits. This allocation would secure gradual gains in fiscal consolidation, and facilitate the achievement of infrastructure scaling up in line with Congo's absorptive capacity and as envisaged under the National Development Plan. For the period 2013–20, nearly 70 percent of projected total oil revenue would be spent (two thirds of which on capital goods), and 30 percent saved. However, if oil revenue falls temporarily below 1,500 billion CFAF, the rule makes provisions for the authorities to draw on the saved funds to protect infrastructure spending[7].

11. Staff urged the authorities to expand the new fiscal rule and cast it in a framework that accounts for the exhaustibility of Congo's oil reserves and insures macroeconomic sustainability over the medium to long term (Annex 1)**.** The enhanced framework would allow a significant scaling up of investment to begin closing the infrastructure gap; alignment of expenditure with absorptive capacity to ensure efficiency of public expenditure and continuing gains in macroeconomic stability; and achievement of an adequate stock of net wealth to provide policy buffers and support consumption in the post-oil era. The framework anchors fiscal policy on a gradually strengthening non-oil primary balance.

12. Developing a long-term stability-prone fiscal framework for the Republic of Congo is crucial in view of the declining oil revenue going forward (Text Table 2 and Annex 1).**[8]** Under an illustrative scenario discussed by the authorities and staff, revenue

[7] Oil revenue is projected to be structurally above CFAF 1500 billion during 2013–19, averaging CFAF 2,123 billion/year; with oil production and prices at annual averages of 100 million barrels and US$ 93/barrel, respectively.

[8] The fiscal framework discussed with the Congolese authorities could be amended as needed consistent with the recommendations from ongoing discussions on the introduction of fiscal rules in the CEMAC region. Staff initiated related policy exchanges with the regional authorities during the 2013 Article IV Consultation discussions with CEMAC**.**

administration reforms would be stepped up to strengthen non-oil revenue collection and address the expected gradual decline in oil resources; and broad spending discipline would be observed to secure further gains in budget consolidation. The proposed fiscal program makes provisions for adequate pro-poor and pro-growth spending while keeping expenditure in line with Congo's absorption capacity. It notably aims to (i) raise the total revenue-to-GDP ratio to an average of 41 percent in 2014–20 and 33 ½ in 2021–32, compared with 32.2 percent in SSA countries in 2012; (ii) limit total expenditure at 31.5 percent of GDP on average during the projection period, compared with 30 percent of GDP for oil exporting SSA countries in 2012, 32 percent of GDP for SSA middle-income countries, and 33 percent for Middle Eastern and North African countries; (iii) secure a stock of public capital of 122 percent of GDP by 2020, compared with 120 percent of GDP in middle-income countries; and (iv) achieve a stock of wealth equivalent to 185 percent of non-oil GDP that would provide policy buffers and safety nets for future generations, as well as a debt-to-GDP ratio of about 10 percent over the long term.[9] Staff underscored aligning the 2014 budget with the above medium- and long-term fiscal framework.

Text Table 2. Medium- and Long-Term Fiscal Framework

(in percent of GDP, unless otherwise indicated)

	2012	2013	2014	2020	2032
Revenue and Grants	42.6	47.0	47.9	36.5	31.4
Of which: Oil revenue	32.8	35.0	34.4	18.0	2.0
Non-oil revenue	9.5	10.3	11.7	17.7	28.8
Total expenditure	36.2	32.6	32.4	31.9	33.1
Of which: Capital expenditure	21.5	18.8	17.3	11.4	6.4
Memorandum items:					
(percent of non-oil GDP)					
Non-oil primary balance 1/	-74.5	-52.4	-43.4	-21.8	-3.0
Wealth 2/	802.9	694.7	627.9	328.6	186.1
Public capital stock (% total GDP)	98.1	108.6	116.1	121.6	87.0
Debt-to-GDP ratio	25.2	29.4	30.3	16.3	9.4
Oil price (in US$ per barrel)	105.0	102.6	97.6	91.0	115.5
Oil production (in million of barrel:	98.5	96.0	92.2	78.2	6.8

Source: IMF staff calculations.
1/ Defined as revenue and grants, excluding oil revenue and investment income, minus total expenditure (excluding interest payments).
2/ Corresponds to the total of financial assets and present value of future oil revenue.

13. The authorities are introducing critical reforms to strengthen non-oil revenue collection, and beginning to improve public financial management (PFM). The tax payers list is being updated, resulting in a 10-percent increase in the number of registered payers in early 2013; and the exchange of taxpayer data between the Tax and Treasury departments and Customs has been stepped up. A withholding tax on government contracts has been introduced; and a one-stop window for customs clearance put in service. Also, Parliament recently adopted an organic law on financial operations of the State; and the authorities have initiated preparations for effective implementation of regional CEMAC PFM directives. However, the efficiency and quality of public expenditures remain weak as notably suggested by frequent power outages and poor road conditions despite a significant scaling up of capital spending in recent years.[10] Staff stressed (i) accelerating the preparation and adoption of the

[9] Results of a value-at-risk analysis suggest that a stock of wealth equivalent to 185 percent of non-oil GDP would provide ample buffer to shield the budget against revenue volatility.

[10] See Figure 2, Annex 3.

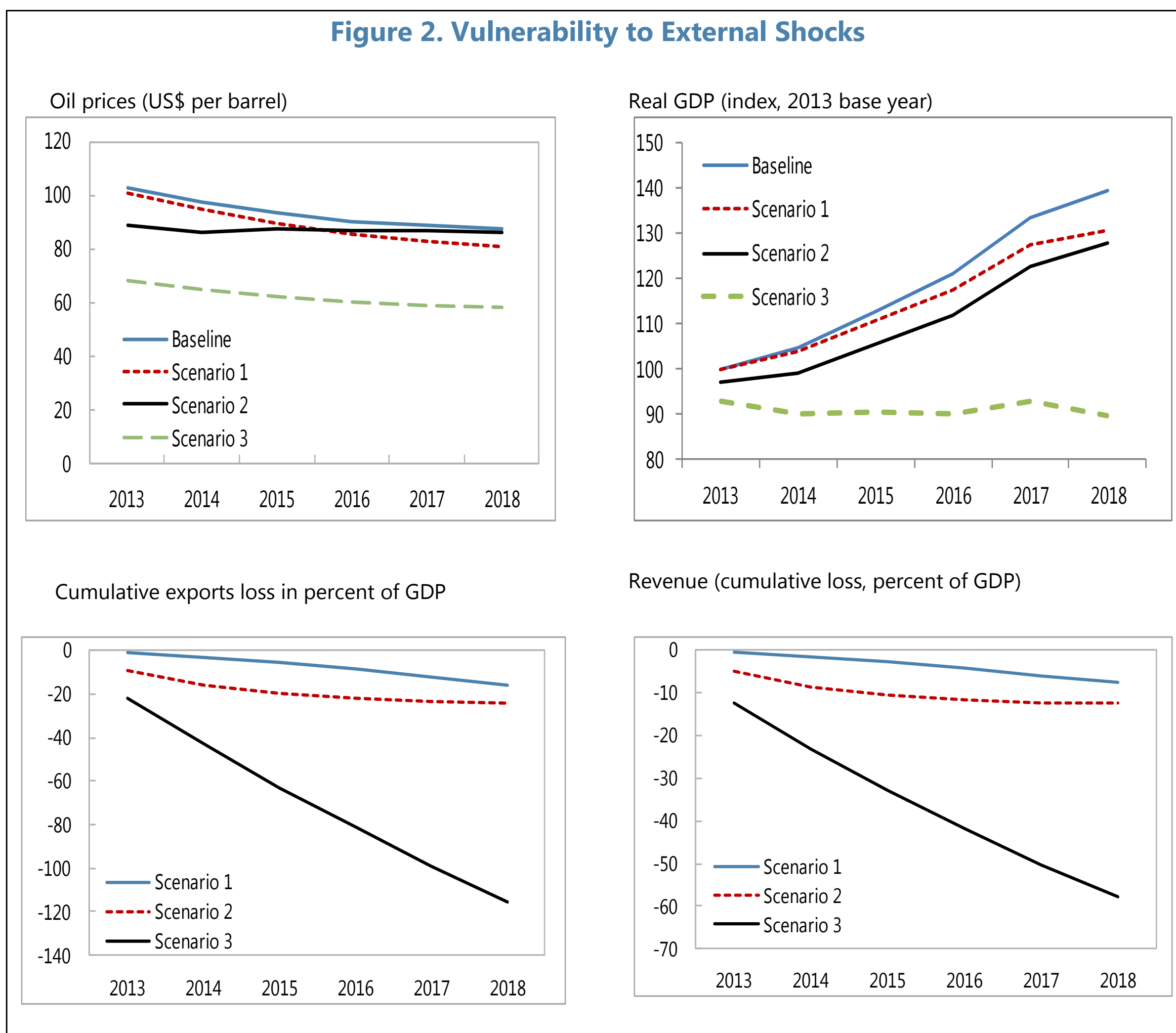
fiscal accountability law; (ii) completing, with the assistance of the World Bank, a public expenditure review in key areas; and (iii) expediting implementation of World Bank-supported reforms to strengthen the management of the public investment program and enhance the productivity of the development budget.

14. The authorities concurred with the pertinence of the proposed medium- and long-term fiscal framework. Facing daunting infrastructure and skills constraints, they especially appreciated the proposed front-loading of investment spending. They recognized that consideration needed to be given to absorptive capacity limits in budgeting government outlays, but argued that Congo's large and pressing development needs justify prudent spending flexibility beyond the targets under the proposed fiscal framework. In discussions with staff, some members of Parliament advocated casting the proposed fiscal framework in a law to underscore its importance and make the arrangement legally binding. To this end, the authorities might request technical assistance from the Fund. The authorities concurred with staff's assessment of the poor quality of expenditure in Congo; and committed to working closely with the World Bank to seek improvements, including in the operation of the Large Infrastructure Project Unit. They have already appointed budget controllers and procurement managers in each ministry; and initiated World Bank-guided public expenditure reviews for key sectors. The authorities have also requested technical support from the Fund in strengthening the PFM legal framework based partly on an evaluation of the reforms introduced in 2008, and implementing the regional CEMAC PFM directives.

B. Addressing Vulnerabilities to External Shocks

15. Shocks to oil prices remain a potentially important source of economic disruptions, given Congo's heavy dependence on the oil sector (Figure 2). Oil currently accounts for 65 percent of GDP, 75 percent of government revenue, and 80 percent of exports. This makes the country one of the economies in sub-Saharan Africa most dependent on oil (Figure 1, panel 5). Staff considered three downside scenarios: (i) a gradual but persistent deterioration of growth in euro area, (ii) a weakening of investment demand in the BRICs (plus South Africa), and (iii) a plunge in oil price to its 2009 level. Simulations suggest that, relative to the baseline scenario, real GDP in 2018 would be lower by 6.2 percent under the first scenario, 8.4 percent under the second scenario, and 35.6 percent under the third scenario.

16. Wary of Congo's vulnerability to external shocks, the authorities concurred about the need for rigorous implementation of the identified precautionary and corrective policy measures. The focus is on beefing up the policy buffers through the achievement of additional fiscal savings and the continued strengthening of Congo's foreign exchange reserves. To that end, while exercising spending restraint, the authorities are strengthening non-oil revenue collection, continuing building up of policy buffers, diversifying the production base, and improving the quality of public expenditure.



C. Enhancing External Sustainability and Competitiveness

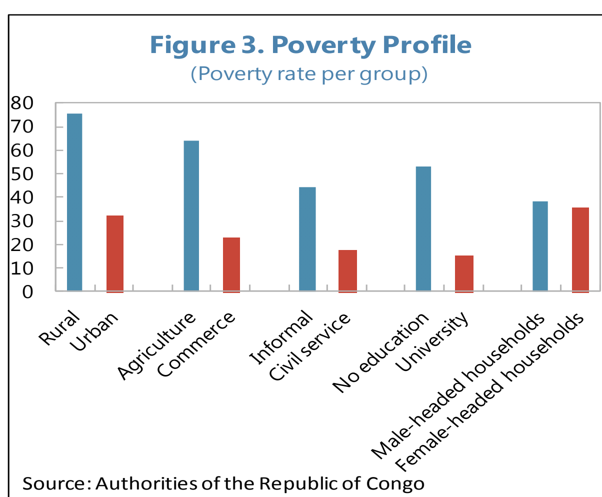
17. Congo's real effective exchange rate (REER) is broadly in line with macroeconomic fundamentals. The currency appreciated by 3.8 percent in real terms between June 2012 and April 2013 on the back of a strengthening euro (vis-à-vis the US dollar) and higher international oil prices. However, a quantitative evaluation of the REER based on the standard Consultative Group on Exchange Rate (CGER) methodologies indicates no significant misalignment. The external sustainability analysis tailored to oil-exporting countries confirmed these findings (Annex 2).

18. Structural bottlenecks remain the main impediments to competitiveness. The World Bank's 2013 *Doing Business Indicators* Report ranks Congo 183rd out of the 185 listed countries; areas of primary investor concern include difficulties in starting a business and dealing with tax administration, as well as obstacles to trading across borders. The country lags also behind comparators on governance, particularly on government's efficiency and quality of regulations.

19. The authorities concurred with staff's assessment of structural impediments to competitiveness and are taking measures to improve the business environment. A reform plan designed with support from the International Finance Corporation (IFC) focuses on streamlining administrative procedures pertaining to enterprise creation, land registration, building authorization, and cross-border trade. In this context, the authorities recently established an Investment Promotion Agency that should become operational in the coming months.

D. Promoting Inclusive Growth

20. The equitable sharing of the benefits from Congo's abundant natural resources remains a major challenge (Annex 3)**.** Poverty is pervasive (Figure 3) and provision of public goods is scarce, despite scaled-up public investment (Text Table 3). The International Labor Organization estimates the unemployment rate at 16 percent and underemployment to be severe. In addition to urging improvements in the quality of public expenditures, the mission recommended stepping up growth inclusiveness efforts through fostering financial development, advancing reforms of the education system to address skills mismatches, and adopting well targeted employment and social safety net programs.



Text Table 3. Availability of Public Goods, 2011

(In percent of household group)

	Poor	Non-Poor	Total
Drinking water	50.2	72.6	64.2
Public transportation	38.1	60.7	52.2
Electricity	18	52.3	39.5

Source: Authorities of the Republic of Congo.

21. The financial sector is broadly sound but remains underdeveloped (Annex 4, Figures 4 and 5)**.** Most financial sector soundness indicator thresholds are met, except that on risk concentration.[11] However, Congo ranks amongst the weakest laggards on key financial development indicators. Despite marked acceleration of credit to the private sector in recent years, financial depth—ratio of credit to GDP—remains modest at 10 percent in 2012. Staff urged improvements in property rights and creditors protection frameworks to improve access to financial services and facilitate the development of the financial sector. The envisaged one-

[11] The high concentration of credit reflects Congo's lack of economic diversification marked by the predominance of a few major activity areas and players in the formal sector.

stop shop for land title registration would strengthen land property-based loan collaterals. Staff urged an expeditious implementation. It also called for a more comprehensive coverage of Congo's credit registry, and for stepped-up efforts to shorten court procedures as relates to legal disputes affecting the financial sector.

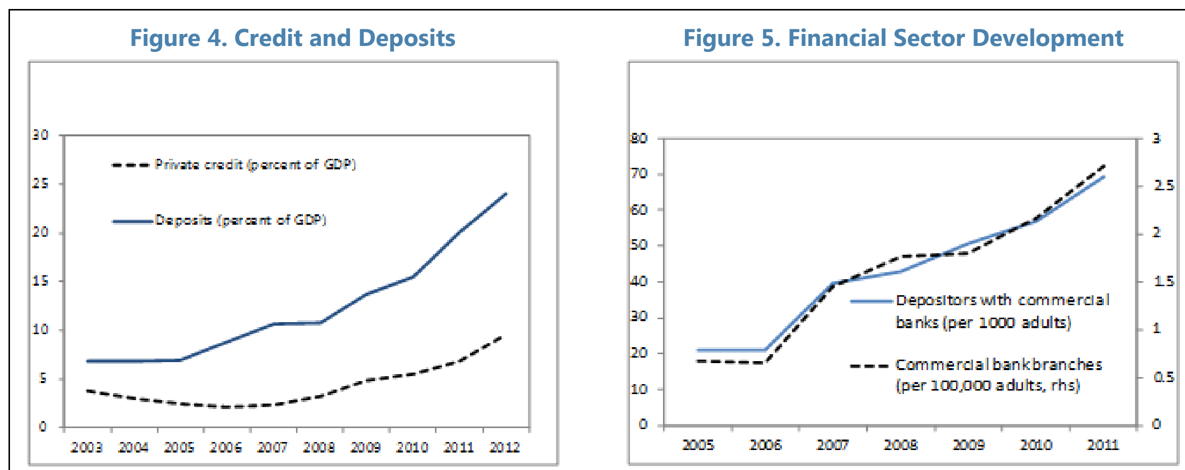


Figure 4. Credit and Deposits

Figure 5. Financial Sector Development

22. Congo is making changes to the education system to ensure that it corresponds better to the needs of the labor market (Annex 3)**.** Consistent with recommendations under the 2012 Article IV consultations, reforms of the education system have been given high priority with significant allocations in the 2013 budget.[12] Consequently, specialized centers are being set up for technical and vocational training. Also, a public-private platform has been charged with aligning teaching curricula with the needs of private sector employers. Staff encouraged the authorities to ensure rigorous implementation of these initiatives drawing on technical assistance from relevant development partners.

23. The authorities are implementing employment and social safety net programs in the context of a new labor market policy (Annex 3)**.** A National Employment Policy is expected to be finalized later this year after comments from various stakeholders are fully incorporated. Pending government adoption and implementation, the authorities have deployed a paid internship program under which unemployed youths are given temporary (possibly leading to permanent) private sector jobs. The authorities are also carrying out labor intensive public works and self employment programs, as well as a rural employment development initiative. Implementation difficulties include delays in obtaining budgeted funds. At the same time, conditioned cash transfer projects are being executed, and are expected to be expanded with support from various partners including the World Bank. Staff encouraged the authorities to expedite implementation of the new national employment policy and ensure timely availability of funding for the various employment programs already under way; while stressing the importance of mobilizing adequate technical assistance.

[12] The 2013 budget allocates CFAF 200 billion (2.8 percent of GDP) to capital outlays for education (compared with CFAF 69 billion (0.9 percent of GDP) in 2012.

24. As part of an endeavor to achieve stronger and more inclusive growth, the government is seeking accelerated economic diversification and employment gains through development of Special Economic Zones (SEZ, Annex 5)**.** They have completed feasibility studies for three of the four economic zones under consideration, but have yet to finalize the governing legal frameworks. Staff urges the authorities to refrain from extending preferential fiscal incentives to SEZ participants and limit government role to providing infrastructure and facilitating administrative procedures.

E. Economic Policy Management and other Surveillance Issues

25. Policy coordination needs strengthening. After the achievement of the HIPC Initiative completion point in 2010 and the expiration of Congo's three-year arrangement under the ECF in 2011, economic policy management has considerably weakened. The committee that monitored the implementation of reforms under the program has become idle. As a result, gaps have emerged in the timeliness and quality of macroeconomic data and of information on developments in the structural area. Recognizing the need for better coordination in the execution of their policy initiatives, the authorities agreed to urgent remedial actions. Budgetary operations are already more rigorously monitored on a weekly basis; and the authorities have committed to improving the collection and dissemination of macroeconomic data. Staff recommended the setting-up of a centralized institutional policy design and monitoring framework, drawing from Congo's broadly satisfactory reform management experience under the last ECF arrangement; and reiterated Fund availability to continue providing policy advice through surveillance and technical assistance.

26. The Republic of Congo complied with nearly all CEMAC quantitative convergence criteria at end-2012.[13] The basic fiscal balance showed a surplus of 10.5 percent of GDP against a floor of zero percent. Total public debt—domestic and external—amounted to 31.3 percent of GDP against a ceiling of 70 percent. No accumulation of domestic or external arrears was recorded, as per CEMAC's relevant requirements. However, the country did not observe the convergence criterion on inflation, which reached 7.5 percent (year-on-year) against a threshold of 3 percent. The one-off prices spike is subsiding and inflation should gradually decline to close to the regional target level by 2014. Staff called for continued spending prudence to keep inflationary pressures in check.

27. Observance of the regional obligation on reserves pooling remains problematic, but the authorities are working toward advantageous solutions with the regional authorities. The authorities continue holding sizable portions of their oil revenues in overseas accounts outside of the regional central bank because of the higher remuneration of such deposits "in the context of a multi-pronged alliance with a strategic partner". Staff pointed out that membership in the CFA franc zone has served Congo well as an anchor for financial

[13] CEMAC's convergence criteria need updating; staff has initiated discussions with the regional authorities to that effect. The fiscal and debt targets could notably be revisited to support a better management of the region's non-renewable resources and help to prevent a too rapid accumulation of debt post HIPC/MDRI.

stability. It urged strict compliance with regional CEMAC obligations, stressing that respect of internal community rules was critical to insuring continued orderly management of the regional central bank and preservation of monetary policy effectiveness in the CFA zone. The authorities pledged full support to the ongoing review of the regional reserves pooling framework and expeditious implementation of ensuing recommendations and proposed corrective actions.

28. Congo's low risk of debt distress is confirmed by an updated Debt Sustainability Analysis (DSA) (Text Table 4). The debt profile has improved significantly since the achievement of the HIPC completion point in 2010 as the country continues to rely mainly on concessional borrowing. Medium-term prospects remain largely favorable in the context of Congo's infrastructure-building partnership with China. The debt burden ratios are shown to remain comfortably below the respective policy thresholds under the baseline and alternative shocks scenarios.

Text Table 4. Debt Indicators

	2013	2020	2033	Threshold
PV of External Debt				
In percent of GDP	18.3	8.1	8.2	30
In percent of exports	24.3	14.3	27.7	100
In percent of government reve	39.8	22.3	26.5	200
Debt service				
In percent of exports	2.6	2.7	1.8	15
In percent of government reve	4.2	4.2	1.7	18

29. Data Issues. Data communication to Fund staff became somewhat sporadic after the expiration of the ECF-supported program in 2011. The authorities are taking steps to improve the timeliness and quality of macroeconomic data, with a view to enhancing the effectiveness of policy design and implementation. They have resumed regular communication of fiscal data to Fund staff.

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30. The Republic of Congo remains on a path of strong growth, but significant gains in poverty reduction have yet to materialize. Congo ought to make growth more inclusive while preserving macroeconomic stability. To this end, the authorities' medium-term policy agenda appropriately aims at seeking further gains in budget consolidation while scaling up investment to address large infrastructure and skills gaps; fostering economic diversification and private sector development; and improving governance and transparency. Invigorating growth and enhancing the effectiveness of Congo's poverty reduction strategy in the period ahead will require the rigorous implementation of reforms underway in these critical areas.

31. Continued close adherence to stability-prone fiscal policies is key to consolidating the recent gains in macroeconomic stability. Staff welcomes the ongoing efforts to strengthen non-oil revenue collection in the context of a new fiscal rule that protects spending against the volatility of oil receipts. It urges expanding and casting the newly introduced fiscal rule in a framework that accounts for the exhaustibility of oil reserves as well; and underscores the timely implementation of World Bank-supported measures to improve

public investment management. While supporting pro-growth and pro-poor outlays, the proposed rule-based fiscal framework should seek the achievement of significant fiscal savings over the long term, necessary to build up buffers and sustain reasonable levels of expenditures in the post-oil era. In this context, Congo should continue adhering to a prudent borrowing policy to preserve long-term debt sustainability after HIPC/MDRI debt relief.

32. Congo's external stability assessment points to additional improvements in the last year, but competitiveness ought to be further strengthened. The real effective exchange rate is in line with macroeconomic fundamentals, but external competitiveness is being stifled by deeply-rooted structural impediments to private sector development. Staff encourages the authorities to promptly implement the reform measures agreed to with the IFC to improve the business environment, including by making the recently established Investment Promotion Agency fully operational and streamlining the administrative requirements for engaging in business activities.

33. Improving governance and business conditions is needed to support strong private sector-led growth and poverty reduction. The authorities have reached compliant status under the EITI; they now have to expedite adoption of the fiscal transparency law that is currently under review in Parliament. To diversify the economy and promote employment, the Government is developing SEZs; strengthening technical and vocational education; and introducing special employment-supporting programs. In parallel, innovative social safety net arrangements are being set up to protect the most vulnerable groups. The timely availability of budgeted funds will be needed to ensure that these programs are well implemented. As regards the SEZs program, the government should avoid granting special fiscal incentives that create distortions and often give rise to abusive practices, focusing instead on revamping infrastructure and advancing administrative facilitation.

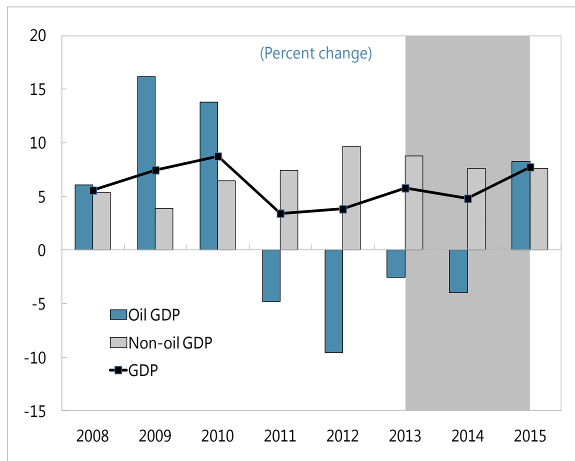
34. While the medium-term prospects are generally favorable, the authorities should be vigilant to risks related to downward pressures on world oil prices. Despite anticipated fluctuations in oil production over the next years, real GDP growth should remain robust and inflation would be contained around the CEMAC target of 3 percent. However, uncertainties in the Euro area and a weakening of investment in the emerging markets, resulting in lower than-currently projected world oil prices, would cloud Congo's otherwise favorable outlook.

35. Congo should fully comply with its CEMAC obligations. The authorities are supporting and closely monitoring the ongoing review of the regional central bank (BEAC)'s reserves management framework. Pending completion of the review, staff urges full observance of relevant CEMAC commitments to insure the continued smooth operation of the BEAC and the pegged exchange rate arrangement. Staff also encourages the authorities to step up the efforts to ensure the timely provision of information to the Fund on the standard macroeconomic data that is required for effective surveillance.

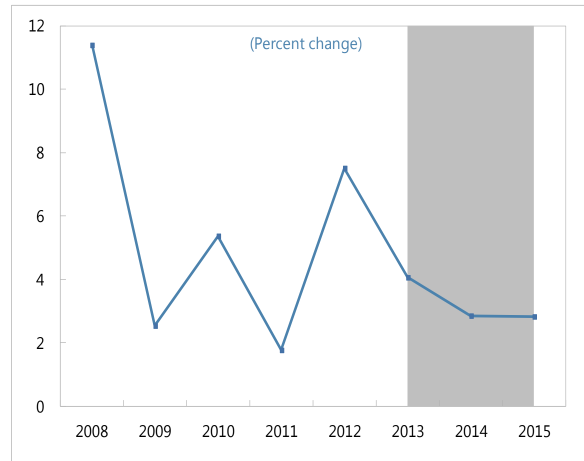
36. Staff recommends that the next Article IV consultation be conducted on the standard 12-month cycle.

Figure 6. Recent Developments and Medium-Term Outlook

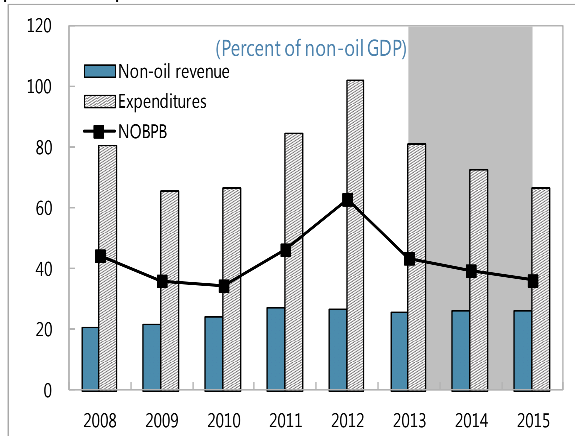
Growth has been relatively robust.



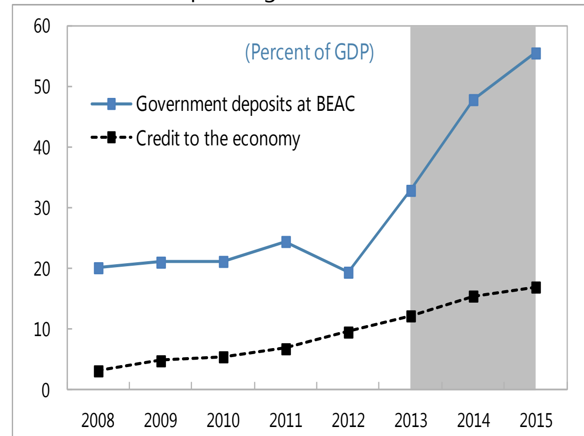
Inflation accelerated but is expected to subside



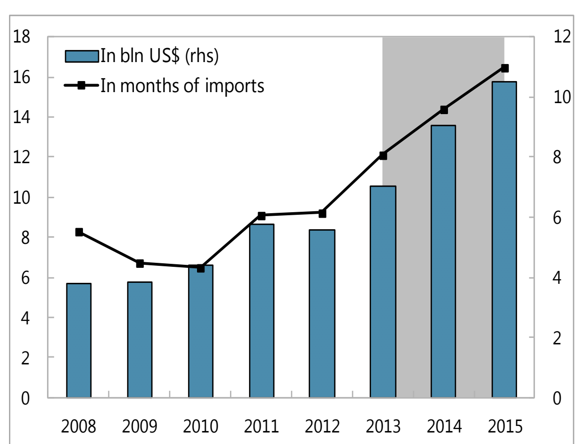
The fiscal position is expected to be stronger than the pre-shock performance.



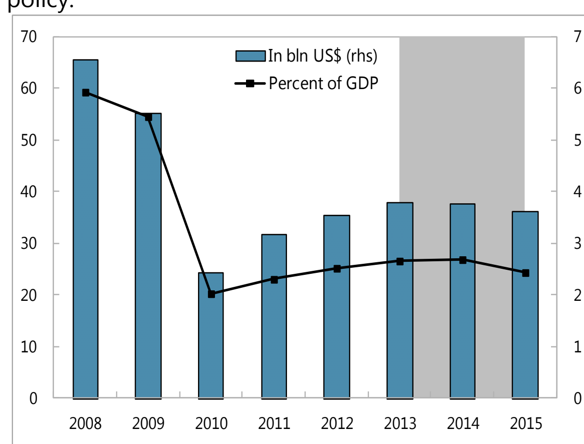
The fiscal buffer is broadly strengthening, and private sector credit is expanding. 1/



International reserves are building up. 1/



The debt profile has improved but requires a prudent policy.



1/ Currently, the authorities are keeping a large part of their revenue in off-shore accounts. This macroeconomic framework assumes a full repatriation and pooling at the BEAC as of end-2013.

Table 1. Republic of Congo: Selected Economic and Financial Indicators 2010–18

	2010	2011	2012	2013	2014	2015	2016	2017	2018
			Est.			Proj.			
	(Annual percentage change)								
Production and prices									
GDP at constant prices	8.8	3.4	3.8	5.8	4.8	7.7	7.3	10.1	4.7
Oil	13.8	-4.8	-9.6	-2.6	-4.0	8.3	-0.5	15.2	-3.0
Non-oil	6.5	7.4	9.7	8.8	7.6	7.6	9.6	8.7	6.8
GDP at current prices	31.3	14.5	2.6	0.8	-1.1	7.1	4.7	13.0	2.6
GDP deflator	20.7	10.7	-1.2	-4.7	-5.6	-0.5	-2.4	2.6	-2.0
Consumer prices (period average)	5.0	1.8	5.0	4.5	3.0	2.9	2.8	2.7	2.6
Consumer prices (end of period)	5.4	1.8	7.5	4.1	2.9	2.8	2.8	2.6	2.6
External sector									
Exports, f.o.b. (CFA francs)	56.2	16.0	-1.6	-7.0	-6.0	6.0	0.7	14.6	-2.3
Imports, f.o.b. (CFA francs)	30.6	25.3	6.9	-8.9	-1.5	6.4	3.4	5.1	3.5
Export volume	13.1	-0.8	-7.0	-3.1	-1.7	8.5	2.3	14.1	-0.2
Import volume	26.0	18.6	-7.1	-4.7	-3.7	7.9	1.4	5.7	2.8
Terms of trade (deterioration -)	34.5	11.3	0.4	-1.9	-3.1	-2.7	-2.6	-2.8	-2.8
Central government finances									
Total revenue (including grants)	67.2	29.7	2.8	11.2	0.7	-4.0	3.6	5.9	-1.1
of which : oil revenue	88.2	29.8	0.3	7.5	-2.8	-8.3	0.3	3.6	-6.7
Non oil revenue	24.2	23.2	16.1	9.4	12.0	10.5	13.8	12.3	10.5
Total expenditure	14.0	39.2	42.4	-9.2	-1.6	0.9	4.1	3.1	4.6
Current	8.3	1.6	48.2	-5.4	8.5	8.5	11.7	10.6	8.6
Capital (including net lending)	21.5	82.0	38.6	-11.8	-9.1	-5.8	-3.5	-5.6	-0.8
	(Percent of GDP)								
Investment and saving									
Gross national saving	24.3	31.1	24.7	34.0	33.2	27.1	26.2	25.9	24.4
Gross investment	20.5	25.3	26.0	26.2	28.1	26.3	25.5	23.3	24.3
Current account balance	3.8	5.9	-1.3	7.9	5.0	0.8	0.6	2.6	0.1
External public debt (end of period)	20.2	23.0	25.2	21.4	21.6	19.5	17.6	14.1	12.3
	(Percent of non-oil GDP)								
Central government finances									
Total revenue	116.8	138.1	120.5	117.4	107.2	94.0	86.2	82.0	73.9
Oil revenue	92.0	108.9	92.7	87.4	76.9	64.4	57.2	53.2	45.3
Nonoil revenue (inc. grants and investment income)	24.7	29.2	27.7	30.1	30.2	29.6	29.0	28.8	28.7
Total expenditure	66.7	84.7	102.3	81.4	72.6	66.9	61.6	57.0	54.4
Current	35.6	32.9	41.4	34.4	33.8	33.5	33.1	32.9	32.6
Capital (and net lending)	31.2	51.7	60.8	47.0	38.8	33.4	28.5	24.1	21.8
Overall balance (deficit -, commitment basis) 1/	50.0	53.4	18.2	36.0	34.6	27.1	24.6	24.9	19.5
Basic primary fiscal balance (- = deficit) 2/	57.6	62.6	29.8	43.9	37.5	28.3	24.9	25.3	19.8
of which Basic non-oil primary balance (- = deficit) 3,	-34.4	-46.3	-62.9	-43.5	-39.4	-36.1	-32.2	-29.1	-26.6
	(Percent of total government revenue excluding grants)								
External public debt service (after debt relief)	3.3	14.0	2.4	4.9	4.4	4.7	4.3	4.2	4.1
External public debt (after debt relief)	54.0	54.8	59.2	46.6	46.3	46.3	42.0	35.7	32.3
	(Billions of CFA francs, unless otherwise indicated)								
Gross official foreign reserves	2,200	2,875	2,774	3,500	4,522	5,286	6,204	7,100	7,835
(Months of imports)	8	9	9	12	16	17	19	21	22
(Percent of GDP)	37	42	40	50	65	71	79	80	87
Nominal GDP	5,947	6,807	6,983	7,039	6,961	7,459	7,811	8,824	9,052
Nominal non-oil GDP	1,911	2,096	2,470	2,817	3,109	3,403	3,843	4,282	4,695
World oil price (U.S. dollars per barrel)	79	104	105	103	98	93	90	89	88
Oil production (Millions of barrels)	115	109	99	96	92	100	99	114	111
Nominal Exchange rate (CFA/USD, period average)	471	510	494	…	…	…	…	…	…

Sources: Congolese authorities; and Fund staff estimates and projections.
1/ Including grants.
2/ Revenue (excluding investment income and grants) minus total expenditures (excluding interest payments and foreign-financed investment.
3/ Basic primary balance minus oil revenue.

Table 2. Republic of Congo: Medium Term Balance of Payments 2010–18

	2010	2011	2012	2013	2014	2015	2016	2017	2018
		Est.	Prel.			Proj.			
	(Billions of CFA francs)								
Current account	229	400	-91	554	349	56	48	227	5
Trade balance	3,016	3,339	3,106	2,933	2,667	2,819	2,782	3,401	3,188
Exports, f.o.b.	4,712	5,464	5,378	5,003	4,705	4,989	5,025	5,759	5,629
Oil sector	4,282	4,947	4,816	4,412	4,031	4,244	4,155	4,750	4,561
Non-oil sector	430	517	562	591	674	745	870	1,009	1,068
Imports, f.o.b.	-1,696	-2,124	-2,272	-2,070	-2,039	-2,170	-2,244	-2,357	-2,440
Oil sector	-513	-608	-523	-429	-366	-446	-424	-461	-452
Government	-391	-666	-817	-627	-581	-550	-533	-497	-494
Non-oil private sector	-791	-850	-932	-1,014	-1,092	-1,174	-1,287	-1,399	-1,495
Balance of services	-1,503	-1,497	-1,342	-1,234	-1,139	-1,280	-1,247	-1,300	-1,308
Oil sector	-978	-952	-792	-658	-558	-690	-655	-709	-696
Nonoil sector	-525	-545	-550	-575	-580	-590	-593	-591	-612
Income	-1,134	-1,304	-1,659	-1,002	-1,023	-1,286	-1,248	-1,600	-1,571
Labor income	-60	-70	-68	-62	-57	-60	-59	-68	-65
Investment income	-1,074	-1,234	-1,591	-940	-966	-1,226	-1,189	-1,532	-1,506
Current transfers (net)	-151	-138	-196	-143	-156	-196	-238	-275	-304
Capital account	1,318	35	10	437	80	60	45	34	25
Debt forgiveness [1]	1,313	0	0	0	0	0	0	0	0
Official grants	4	35	10	75	80	60	45	34	25
Financial account	-1,193	268	-9	100	595	651	827	636	706
Direct investment (net)	1,083	1,439	1,143	1,007	898	987	969	1,025	1,022
Of which: oil sector	1,041	1,392	1,086	867	705	897	871	919	904
Other investment	-2,276	-1,171	-1,152	-907	-302	-336	-142	-388	-316
Medium and long term	-1,290	72	213	119	31	-23	-45	-108	-120
Public sector	-1,292	96	217	109	-4	-55	-77	-129	-128
Drawings	77	181	286	250	125	75	50	0	0
Project	77	181	286	250	125	75	50	0	0
Amortization[2]	-1,369	-84	-69	-141	-129	-130	-127	-129	-128
Private sector	2	-24	-3	10	35	32	33	22	8
Oil	11	34	29	24	20	25	24	21	21
Non-oil	-9	-59	-32	-14	15	8	9	1	-13
Short term	-986	-1,243	-1,365	-1,026	-334	-313	-97	-281	-196
Errors and omissions	0	0	0	362	0	0	0	0	0
Overall balance of payments	353	704	-90	1,453	1,025	767	920	897	736
Financing	-353	-704	90	-729	-1,025	-767	-920	-897	-736
Reserve financing	-406	-704	90	-729	-1,025	-767	-920	-897	-736
IMF (net)	-6	2	-1	-2	-3	-3	-2	-1	-1
Purchases / Disbursments	2	2	0	0	0	0	0	0	0
Repurchases / Repayments	0	0	-1	-2	-3	-3	-2	-1	-1
Other reserves	-406	-704	90	-729	-1,025	-767	-920	-897	-736
Exceptional financing [3]	53	0	-1	0	0	0	0	0	0
Financing gap (- = surplus)	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 2010–18

	2010	2011	2012		2013		2014	2015	2016	2017	2018
			Budget	Est.	Budget	Proj.					
					(Billions of CFA francs)						
Total revenue and grants	2,231	2,894	3,254	2,976	3,512	3,308	3,332	3,198	3,314	3,509	3,470
Primary Revenue	2,222	2,854	3,169	2,954	3,323	3,187	3,204	3,090	3,219	3,425	3,393
Oil revenue	1,758	2,283	2,549	2,291	2,597	2,462	2,392	2,192	2,198	2,277	2,125
Non-oil revenue	463	571	620	663	725	726	813	898	1,022	1,147	1,268
Direct taxes	176	215	236	241	288	288	321	355	404	455	504
Taxes on goods and services	191	233	256	261	273	273	304	336	381	427	470
International trade	78	101	115	118	150	150	169	187	213	240	265
Non-tax revenue	18	22	13	43	15	15	19	21	23	26	28
Investment income	6	5	25	12	46	46	47	48	50	51	52
Grants	4	35	60	10	144	75	80	60	45	34	25
Expenditure and net lending	1,275	1,774	2,984	2,526	2,712	2,293	2,255	2,275	2,369	2,443	2,556
Current expenditure	680	691	943	1,023	1,021	968	1,050	1,140	1,274	1,409	1,530
Wages	180	207	248	248	270	270	292	320	361	402	441
Other current expenditure	399	430	636	723	688	636	694	753	843	931	1,011
Goods and services	179	182	218	278	260	241	288	312	350	386	419
Transfers	171	181	376	334	322	289	289	313	351	387	421
Common charges	49	67	42	112	106	106	117	127	143	157	171
Local authorities	43	44	47	38	44	44	51	54	57	60	64
Interest	59	11	13	13	19	18	13	13	13	16	14
Domestic	1	0	0	0	0	0	0	0	0	0	0
External	57	11	13	13	19	18	13	13	13	16	14
Capital expenditure	595	1,084	1,841	1,503	1,691	1,325	1,205	1,135	1,095	1,034	1,025
Domestically financed	515	868	1,297	1,207	1,047	1,000	1,000	1,000	1,000	1,000	1,000
Externally financed	81	216	544	296	644	325	205	135	95	34	25
Net lending	0	0	200	0	0	0	0	0	0	0	0
Non-oil primary balance 1/	-749	-1,157	-2,291	-1,840	-1,824	-1,475	-1,350	-1,304	-1,289	-1,246	-1,248
Basic primary balance 2/	1,101	1,312	742	737	1,273	1,237	1,167	963	958	1,031	877
Of which: Basic non-oil primary balance 3/	-658	-970	-1,807	-1,554	-1,324	-1,225	-1,225	-1,229	-1,239	-1,246	-1,248
Balance, commitment basis											
Excluding grants	952	1,084	210	440	657	940	996	863	900	1,033	889
Including grants	956	1,120	270	450	801	1,015	1,076	923	945	1,066	914
Change in arrears	-223	-91	-34	-35	-62	-523	-55	-55	-55	-55	-55
External	-64	0	0	0	0	-362	0	0	0	0	0
Domestic	-159	-91	-34	-35	-62	-161	-55	-55	-55	-55	-55
Balance, cash basis	733	1,028	236	415	739	492	1,021	868	890	1,011	859
Financing	-733	-1,028	-236	-415	-739	-492	-1,021	-868	-890	-1,011	-859
Foreign (net)	-369	-603	405	-665	359	471	-4	-55	-77	-129	-128
Drawings	77	181	484	286	500	250	125	75	50	0	0
Amortization due	-64	-84	-79	-69	-141	-141	-129	-130	-127	-129	-128
Rescheduling obtained	26	0	0	0	0	0	0	0	0	0	0
Debt cancellation	56	0	0	0	0	362	0	0	0	0	0
Other	-464	-699	0	-882	0	0	0	0	0	0	0
Deposits abroad 4/	-464	-524	0	-882	0	0	0	0	0	0	0
Loans	0	-175	0	0	0	0	0	0	0	0	0
Domestic (net)	-364	-425	-641	251	-1,098	-963	-1,018	-813	-813	-882	-732
Banking system (net)	-356	-411	-641	331	-1,098	-963	-1,018	-813	-813	-882	-732
Nonbank financing	-8	-14	0	-80	0	0	0	0	0	0	0
Of which, statistical float	47	-11	0	0	0	0	0	0	0	0	
Financing gap (- = surplus)	0	0	0	0	0	0	0	0	0	0	0
Memorandum items:											
Basic fiscal balance 5/	1,033.0	1,300.2	754.0	735.5	1,300.8	1,264.9	1,201.2	998.2	995.3	1,066.4	914.2
Stock of government deposits	1,269	1,680	2,321	1,349	2,448	2,312	3,330	4,143	4,956	5,838	6,569
GDP at current market prices	5,947	6,807	7,164	6,983	7,261	7,039	6,961	7,459	7,811	8,824	9,052
Non-oil GDP at market prices	1,911	2,096	2,470	2,470	2,931	2,817	3,109	3,403	3,843	4,282	4,695

Sources: Congolese authorities; and Fund staff estimates and projections.
1/ Revenue and grants (excluding investment income and oil revenue) minus total expenditures (excluding interest payments).
2/ Revenue (excluding investment income and grants) minus total expenditures (excluding interest payments and foreign-financed investment.
3/ Basic primary balance minus oil revenue.
4/ Fund staff estimates based on preliminary data.
5/ Overall budget balance, excluding grants and foreign-financed investment.

Table 3b. Republic of Congo: Central Government Operations 2010–18

	2010	2011	2012		2013		2014	2015	2016	2017	2018
			Budget	Est	Budget	Proj.			Proj.		
					(Percent of non-oil GDP)						
Total revenue	116.8	138.1	131.7	120.5	119.8	117.4	107.2	94.0	86.2	82.0	73.9
Primary Revenue	116.2	136.2	128.3	119.6	113.4	113.1	103.1	90.8	83.8	80.0	72.3
Oil revenue	92.0	108.9	103.2	92.7	88.6	87.4	76.9	64.4	57.2	53.2	45.3
Non-oil revenue	24.2	27.2	25.1	26.8	24.8	25.8	26.1	26.4	26.6	26.8	27.0
Direct taxes	9.2	10.3	9.6	9.8	9.8	10.2	10.3	10.4	10.5	10.6	10.7
Taxes on goods and services	10.0	11.1	10.4	10.6	9.3	9.7	9.8	9.9	9.9	10.0	10.0
International trade	4.1	4.8	4.7	4.8	5.1	5.3	5.4	5.5	5.5	5.6	5.7
Non-tax revenue	0.9	1.0	0.5	1.8	0.5	0.5	0.6	0.6	0.6	0.6	0.6
Investment income	0.3	0.2	1.0	0.5	1.6	1.6	1.5	1.4	1.3	1.2	1.1
Grants	0.2	1.7	2.4	0.4	4.9	2.7	2.6	1.8	1.2	0.8	0.5
Expenditure and net lending	66.7	84.7	120.8	102.3	92.5	81.4	72.6	66.9	61.6	57.0	54.4
Current expenditure	35.6	32.9	38.2	41.4	34.8	34.4	33.8	33.5	33.1	32.9	32.6
Wages	9.4	9.9	10.0	10.1	9.2	9.6	9.4	9.4	9.4	9.4	9.4
Other current expenditure	20.9	20.5	25.7	29.3	23.5	22.6	22.3	22.1	21.9	21.7	21.5
Goods and services	9.4	8.7	8.8	11.2	8.9	8.5	9.3	9.2	9.1	9.0	8.9
Transfers	8.9	8.6	15.2	13.5	11.0	10.3	9.3	9.2	9.1	9.0	9.0
Common charges	2.6	3.2	1.7	4.5	3.6	3.8	3.8	3.7	3.7	3.7	3.6
Local authorities	2.2	2.1	1.9	1.6	1.5	1.6	1.6	1.6	1.5	1.4	1.4
Interest	3.1	0.5	0.5	0.5	0.6	0.6	0.4	0.4	0.3	0.4	0.3
Domestic	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External	3.0	0.5	0.5	0.5	0.6	0.6	0.4	0.4	0.3	0.4	0.3
Capital expenditure	31.2	51.7	74.5	60.8	57.7	47.0	38.8	33.4	28.5	24.1	21.8
Domestically financed	26.9	41.4	52.5	48.9	35.7	35.5	32.2	29.4	26.0	23.4	21.3
o.w. HIPC financed	0.8	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Externally financed	4.2	10.3	22.0	12.0	22.0	11.5	6.6	4.0	2.5	0.8	0.5
Net lending	0.0	0.0	8.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-oil primary balance 1/	-39.2	-55.2	-92.8	-74.5	-62.2	-52.4	-43.4	-38.3	-33.6	-29.1	-26.6
Basic primary balance 2/	57.6	62.6	30.0	29.8	43.4	43.9	37.5	28.3	24.9	25.3	19.8
Of which: Basic non-oil primary balance 3/	-34.4	-46.3	-73.2	-62.9	-45.2	-43.5	-39.4	-36.1	-32.2	-29.1	-26.6
Balance, commitment basis											
Excluding grants	49.8	51.7	8.5	17.8	22.4	33.4	32.0	25.4	23.4	24.1	18.9
Including grants	50.0	53.4	10.9	18.2	27.3	36.0	34.6	27.1	24.6	24.9	19.5
Change in arrears	-11.7	-4.4	-1.4	-1.4	-2.1	-18.6	-1.8	-1.6	-1.4	-1.3	-1.2
External	-3.4	0.0	0.0	0.0	0.0	-12.8	0.0	0.0	0.0	0.0	0.0
Domestic	-8.3	-4.4	-1.4	-1.4	-2.1	-5.7	-1.8	-1.6	-1.4	-1.3	-1.2
Balance, cash basis	38.3	49.1	9.5	16.8	25.2	17.5	32.8	25.5	23.2	23.6	18.3
Financing	-38.3	-49.1	-9.6	-16.8	-25.2	-17.5	-32.8	-25.5	-23.2	-23.6	-18.3
Foreign (net)	-19.3	-28.8	16.4	-26.9	12.3	16.7	-0.1	-1.6	-2.0	-3.0	-2.7
Drawings	4.0	8.6	19.6	11.6	17.1	8.9	4.0	2.2	1.3	0.0	0.0
Amortization due	-3.3	-4.0	-3.2	-2.8	-4.8	-5.0	-4.1	-3.8	-3.3	-3.0	-2.7
Rescheduling obtained	1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt cancellation	2.9	0.0	0.0	0.0	0.0	12.8	0.0	0.0	0.0	0.0	0.0
Other	-24.3	-33.4	0.0	-35.7	0.0	0.0	0.0	0.0	0.0	0.0	2.0
Deposits abroad 4/	-24.3	-25.0	0.0	-35.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	0.0	-8.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic (net)	-19.0	-20.3	-26.0	10.2	-37.5	-34.2	-32.7	-23.9	-21.2	-20.6	-15.6
Banking system (net)	-18.6	-19.6	-26.0	13.4	-37.5	-34.2	-32.7	-23.9	-21.2	-20.6	-15.6
Nonbank financing	-0.4	-0.7	0.0	-3.2	0.0	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	0.0
Memorandum items:					(Percent of GDP)						
Total revenue	37.5	42.5	43.4	42.6	48.4	47.0	47.9	42.9	42.4	39.8	38.3
Primary revenue	37.4	41.9	42.3	42.3	45.8	45.3	46.0	41.4	41.2	38.8	37.5
Oil revenue	29.6	33.5	34.0	32.8	35.8	35.0	34.4	29.4	28.1	25.8	23.5
Non oil revenue	7.8	8.4	8.3	9.5	10.0	10.3	11.7	12.0	13.1	13.0	14.0
Current expenditure	11.4	10.1	12.6	14.7	14.1	13.8	15.1	15.3	16.3	16.0	16.9
Capital expenditure	10.0	15.9	24.6	21.5	23.3	18.8	17.3	15.2	14.0	11.7	11.3
Basic fiscal balance 5/	17.4	19.1	10.5	10.5	17.9	18.0	17.3	13.4	12.7	12.1	10.1
Basic primary fiscal balance	18.5	19.3	9.9	10.5	17.5	17.6	16.8	12.9	12.3	12.3	10.3
Basic non oil primary fiscal balance	-11.1	-14.3	-24.1	-22.3	-18.2	-17.4	-17.6	-16.5	-15.9	-14.1	-26.6
Balance, cash basis	12.3	15.1	3.1	5.9	10.2	7.0	14.7	11.6	11.4	11.5	9.5

Sources: Congolese authorities; and Fund staff estimates and projections.
1/ Revenue and grants (excluding investment income and oil revenue) minus total expenditures (excluding interest payments).
2/ Revenue (excluding investment income and grants) minus total expenditures (excluding interest payments and foreign-financed investment.
3/ Basic primary balance minus oil revenue.
4/ Fund staff estimates based on preliminary data.
5/ Overall budget balance, excluding grants and foreign-financed investment.

Table 3c. Republic of Congo: Statement of the Central Government Operations, 2010–18 1/

	2010	2011	2012	2013	2014	2015	2016	2017	2018
			Est.			Proj.			
					(Billions of CFA francs)				
Revenue	2,231	2,894	2,976	3,308	3,332	3,198	3,314	3,509	3,470
Taxes	463	571	663	726	813	898	1,022	1,147	1,268
Taxes on income, profits, and capital gains	176	215	241	288	321	355	404	455	504
Taxes on goods and services	191	233	261	273	304	336	381	427	470
Taxes on international trade	78	101	118	150	169	187	213	240	265
Other taxes	18	22	43	15	19	21	23	26	28
Grants	4	35	10	75	80	60	45	34	25
Other revenue	1,764	2,288	2,303	2,508	2,439	2,240	2,247	2,328	2,177
Interest (investment income)	6	5	12	46	47	48	50	51	52
Rent (oil revenue)	1,758	2,283	2,291	2,462	2,392	2,192	2,198	2,277	2,125
Expenditure	1,275	1,774	2,526	2,293	2,255	2,275	2,369	2,443	2,556
Expense	680	691	1,023	968	1,050	1,140	1,274	1,409	1,530
Compensation of employees	180	207	248	270	292	320	361	402	441
Use of goods and services	399	430	723	636	694	753	843	931	1,011
Interest	59	11	13	18	13	13	13	16	14
To nonresidents	57	11	13	18	13	13	13	16	14
To residents	1	0	0	0	0	0	0	0	0
Other Expense	43	44	38	44	51	54	57	60	64
Net acquisition of nonfinancial assets	595	1,084	1,503	1,325	1,205	1,135	1,095	1,034	1,025
Domestically financed	515	868	1,207	1,000	1,000	1,000	1,000	1,000	1,000
o/w HIPC financed	14	6	0	0	0	0	0	0	0
Foreign financed	81	216	296	325	205	135	95	34	25
Net lending/borrowing (overall balance, incl grants)	956	1,120	450	1,015	1,076	923	945	1,066	914
Net acquisition of financial assets ("+": increase in assets)	767	1,068	647	959	1,015	810	811	881	731
Domestic	303	369	-235	959	1,015	810	811	881	731
Currency and deposits	303	369	-314	959	1,015	810	811	881	731
BEAC	300	368	-313	959	1,015	810	811	881	731
Commercial banks	3	1	-1	0	0	0	0	0	0
Loans	0	0	0	0	0	0	0	0	0
Equity and investment fund shares	0	0	79	0	0	0	0	0	0
Foreign	464	699	882	0	0	0	0	0	0
Currency and deposits	464	524	882	0	0	0	0	0	0
Loans	0	175	0	0	0	0	0	0	0
Net incurrence of liabilities ("+": increase in liabilities)	-194	-51	199	-56	-61	-113	-134	-185	-183
Domestic	-225	-148	-18	-165	-58	-58	-57	-56	-56
Loans	-66	-56	17	-4	-3	-3	-2	-1	-1
BEAC	-6	-39	-1	-4	-3	-3	-2	-1	-1
Commercial banks	-4	-4	19	0	0	0	0	0	0
Other	-55	-14	0	0	0	0	0	0	0
Other accounts payable	-159	-91	-35	-161	-55	-55	-55	-55	-55
Foreign	31	96	217	109	-4	-55	-77	-129	-128
Loans	31	96	217	109	-4	-55	-77	-129	-128
o/w arrears	-64	0	0	-362	0	0	0	0	0
Statistical discrepancy	-4	0	1	0	0	0	0	0	0
Memorandum items:									
GDP at market prices	5,947	6,807	6,983	7,039	6,961	7,459	7,811	8,824	9,052
Non-oil GDP at market prices	1,911	2,096	2,470	2,817	3,109	3,403	3,843	4,282	4,695
Oil revenue	1,758	2,283	2,291	2,462	2,392	2,192	2,198	2,277	2,125
Non-oil revenue	473	611	685	847	940	1,006	1,116	1,232	1,345

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)			
						729
Net foreign assets	1,877	1,831	2,325	3,320	3,358	4,314
Central bank	1,788	1,656	2,062	2,766	2,676	3,405
Deposit money banks	89	176	263	554	683	909
Net domestic assets	-908	-813	-911	-1,418	-1,055	-1,688
Net domestic credit	-893	-727	-928	-1,213	-669	-1,437
Net credit to the public sector	-1,083	-962	-1,271	-1,685	-1,347	-2,310
Net credit to the Government	-1,079	-956	-1,269	-1,680	-1,349	-2,312
Central bank	-1,072	-956	-1,262	-1,669	-1,357	-2,320
Claims	18	61	55	16	15	11
Deposits	-1,090	-1,017	-1,317	-1,685	-1,372	-2,331
Deposit money banks	-7	-1	-7	-12	8	8
Claims on public agencies, net	22	17	14	10	11	13
Credit to the economy	167	218	325	462	667	861
Other items, net	-15	-86	17	-205	-386	-251
Broad money	970	1,019	1,415	1,902	2,303	2,626
Currency outside banks	344	342	408	488	565	644
Demand deposits	499	539	843	1,205	1,485	1,694
Time deposits	126	137	163	209	253	289
			(Changes in percent of beginning-of-period broad money)			
Net foreign assets	109.0	-4.8	48.5	70.3	2.0	41.5
Net domestic assets	-72.6	9.8	-9.6	-35.8	19.1	-27.4
Net domestic credit	-72.2	17.2	-19.8	-20.1	28.6	-33.3
Net credit to the government	-84.3	12.6	-30.7	-29.1	17.4	-41.8
Credit to the private sector	10.7	5.2	10.5	9.7	10.8	8.4
			(Annual percent changes, unless otherwise indicated)			
Broad money	36.4	5.0	38.9	34.5	21.1	14.0
Reserve money	43.3	-9.6	69.9	-3.5	16.3	9.2
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	1.1	1.1
			(Percent)			
Total GDP growth	32.0	-14.7	31.3	14.5	2.6	0.8
Non-oil GDP growth	11.9	9.5	12.1	9.7	17.9	14.0
Credit to the private sector/Non-oil GDP	10.7	12.8	17.0	22.1	27.0	30.5

Sources: BEAC; and Fund staff estimates and projections.

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

	2008	2009	2010	2011	2012
		(Percent, at year's end)			
Capital Adequacy					
Regulatory capital to risk-weighted assets	17.0	19.0	13.1	9.9	32.3
Capital (net worth) to assets	5.0	6.0	8.0	7.0	4.6
Asset quality					
Nonperforming loans	2.0	2.0	1.1	1.2	2.8
Provision as percent of past-due loans	91.0	91.0	60.0	75.3	59.9
Earnings and profitability					
Expense/income	50.0	59.0	67.4	71.6	53.1
Liquidity					
Liquid assets/total assets	66.0	59.0	51.4	42.7	57.0
Loan/deposits	35.0	39.0	40.6	39.2	43.5

Sources: Authorities (COBAC) and Fund staff estimates.

Table 6. Implementation of the 2012 Article IV Recommendations

Measures	Status
I - Introduce a simple fiscal rule to help anchor spending and saving objectives.	- Fiscal rule introduced through the 2013 budget: from oil revenue, annual allocation of CFAF 500 billion for current expenditure and CFAF 1000 billion for capital expenditure for 2013–15. If actual oil revenue exceed the spending allocation, save the difference.
Increase non-oil revenue through broadening of tax base, elimination of exemptions and overhaul of the tax system.	- New measures from 2013: updating of taxpayers list, one-stop window for customs clearance, withholding tax on government contracts, upward revision of the tax on income from securities, excise tax on alcoholic beverages
II - Improve PFM to enhance expenditure quality and strengthen accountability, in line with relevant regional guidelines.	- Organic law on financial operations of the State adopted in September 2012. - Budget controllers assigned to each ministry to control payment orders - A manager in each ministry dedicated to the implementation of the procurement code
Policy response to the 2012 explosion: conduct a detailed costing of the losses and of policy responses; limit fiscal impulse to avoid triggering macro instability (inflation); ensure quality of expenditures; prioritize projects to make space for reconstruction spending.	- Response measures undertaken and to be undertaken reported (with a partial costing) to a cabinet meeting in February 2013
III - Improve the business environment to begin removing structural impediments to growth.	- An action plan designed and being implemented with support from the IFC. - A one-stop window for customs clearance created. - Statutes of the Investment Promotion Agency approved in a cabinet meeting in February 2013.
Avoid creating new distortions: instead of a Special Economic Zone, eliminate tax exemptions and tax holidays and streamline the tax system.	- Four special economic zones under creation (legal and fiscal framework under preparation)
IV - Observance of CEMAC obligations, especially on reserves repatriation and pooling requirements.	- Overseas deposits continue. - Discussions underway with BEAC, including on reforms of the oil-savings management.
V - Compliance with the Extractive Industries Transparency Initiative.	- Declared "compliant" with the EITI standard on February 27, 2013.

Table 7. Republic of Congo: Risk Assessment Matrix			
Source of risks		Relative likelihood	Expected Impact
Short/Medium-term	**Global risk** Deeper than expected slowdown in Emerging Markets, reflecting lower than anticipated potential growth, which would trigger a substantial drop in commodity prices including oil and iron ore.	**Medium**	**High** The significant decline in oil prices would strain government revenue and could weaken aggregate demand, which might cause extensive deterioration of hard-won macroeconomic stability.
	Domestic risk Lower oil production. Oil production has fluctuated in recent years as oil fields are maturing. Production is expected to take a declining trend as from 2018. However, an earlier-than-expected decline cannot be ruled out as extraction from oil fields inherently involves uncertainty.	**Low**	**High** Lower production would have similar impacts as the price-related risks reviewed in item 1 above.
Medium-term	**Global risk** Protracted period of slower European growth (larger than expected deleveraging or negative surprise on potential growth), putting downward pressures on oil prices.	**High**	**High** Given the acute dependence on the oil sector (80 percent of exports and 75 percent of government revenue), lower exports and aggregate demand would weaken activity in the non-oil sectors.
	Domestic risk Political instability. President Sassou N'guesso returned to power in 1997, at the end of a civil war. He was reelected to a second and last 7-year term in 2009. The next presidential elections are planned for 2016. The President's political alliance holds an 85-percent majority in Parliament. A constitutional amendment to strike out the two-term limit and allow the President to run for a third term could ignite tensions and instability.	**Low**	**High** Political instability and violence would disrupt economic activity and lead to large macroeconomic imbalances. Economic growth during the civil war was 5 percentage points lower than in years of peace.

Annex 1. Medium- and Long-Term Fiscal Framework[1]

Background:

1. **The budget of the Republic of Congo depends heavily on oil revenues.** Such dependence has recently increased with oil revenues accounting for about 75 percent of total revenues on average since 2000 (60 percent in the 1990s). Under the current production pace of 100 million barrels per year, the proven reserves of about 2 billion barrels would be depleted in 20 years. Based on planning of oil companies that currently hold licenses, production is expected to oscillate around the current level through 2018. Thereafter, oil output would steadily decline at an annual average of about 17 percent, and by 2032 annual production would drop below 10 million barrels. Staff's analysis assumes oil prices to decline by an annual average rate of 3 percent during the period 2013–18, and to remain constant in real terms thereafter.

Key objectives:

2. **This analysis describes a fiscal orientation cast in a framework that:**

- Ensures medium- and long-term fiscal and debt sustainability;
- Begins addressing past fiscal policy pro-cyclicality; and protects the budget from the volatility of oil revenue to prevent disruptive changes in spending plans;
- Contributes to closing the large infrastructure gaps by allocating the bulk of oil revenue to investment spending;
- Takes into account expenditure absorptive capacity to avoid upward pressures on domestic prices and preserve the quality of public expenditures;
- Pursues a prudent borrowing policy; and
- Helps building resource buffers for future generations.

Anchor:

3. **This medium- and long-term fiscal framework uses the non-oil primary balance as policy anchor. In particular, it:**

- Contains total expenditure at about 30 percent of GDP compared to an average of 30 percent of GDP for oil exporting sub-Saharan African countries in 2012, 32 percent in SSA middle-income countries, and 33 percent in Middle East and North Africa. This level is deemed appropriate to address Congo's social and developmental needs, and consistent with the country's absorptive capacity.
- Makes provisions for a gradually build up of the stock of public capital to a middle-income country level of about 120 of GDP.[2] Thereafter, it follows the path of capital accumulation

[1] Prepared by Ivohasina Razafimahefa and Javier Arze del Granado.

[2] S. Gupta, A. Kangur, C. Papageorgiou, A. Wane (2011) "Efficiency-Adjusted Public Capital and Growth", WP/11/217, IMF, Washington. DC.

of upper middle income countries, with a public investment effort of about 6 percent of GDP per year;

- Stabilizes wealth in the long run.

Implementation:

4. The framework would be implemented as outlined below:

- During 2013–20, when oil revenue is structurally above CFAF 1,500 billion, the authorities would (i) allocate CFAF 500 billion of oil revenue to current expenditures and CFAF 1,000 billion to capital expenditures; (ii) cover the remaining current expenditures and all other government financial obligations with collected non-oil revenue and mobilized loans and grants; and (iii) direct all unspent resources to a strengthening of government deposits. The authorities would draw down the saved funds to protect spending if oil revenue falls below 1,500 billion CFAF. A ceiling would be set on the withdrawal to ensure a minimum stabilization buffer.
- Beyond 2020, with oil revenue structurally below CFAF 1,500 billion (based on existing oil exploitation licenses), investment spending would be gradually reduced as the economy would have already benefited from large public investments in earlier years.
- Accordingly, staff expect that:
    - During 2013–20, 30 percent of oil revenue would be saved; 47 percent allocated to investment expenditures; and 23 percent directed to current expenditures;
    - Fiscal consolidation would continue, with the non-oil primary deficit narrowing from 52 percent of non-oil GDP in 2013 to 22 percent in 2020 and 3 percent in 2032;
    - During the projection period, total expenditure would average about 31.5 percent of GDP;
    - By 2020, the stock of public capital would have reached about 122 percent of GDP;
    - In 2032, total wealth would amount to about 185 percent of non-oil GDP, providing safety nets and policy buffers for future generations.[3]

[3] By way of comparison, Saudi government deposits with the central bank—Saudi Arabia Monetary Agency (SAMA)—amounted to about 108 percent of non-oil GDP and SAMA's foreign holdings stood at about 211 percent of non-oil GDP at end-2011.

Republic of Congo: Medium and- Long-Term Fiscal Framework

(billion CFAF, unless otherwise indicated)

	2012	2013	2014	2015	2020	2025	2030	2032
Revenue and Grants	2,976	3,308	3,332	3,198	3,235	3,578	3,903	4,288
of which:								
Oil revenue	2,291	2,462	2,392	2,192	1,600	978	378	274
Non-oil revenue	663	726	813	898	1,567	2,535	3,453	3,939
Total expenditure	2,526	2,293	2,255	2,275	2,834	3,357	4,027	4,530
Current expenditure	1,023	968	1,050	1,140	1,819	2,637	3,273	3,657
Capital expenditure	1,503	1,325	1,205	1,135	1,014	720	754	872
Domesticall financed	1,207	1,000	1,000	1,000	1,000	613	639	733
Foreign financed	296	325	205	135	14	107	114	140
Financing	-450	-1,015	-1,076	-923	-402	-221	125	242
Of which: External borrowing	286	250	125	75	0	104	114	139
Memorandum items:								
(percent of non-oil GDP)								
Non-resource primary balance 1/	-74.48	-52.35	-43.41	-38.31	-21.81	-9.28	-4.92	-2.97
Wealth	802.93	694.69	627.89	570.89	328.63	246.85	198.22	186.15
Net financial assets 2/	51.08	82.73	113.36	136.40	189.64	185.00	172.22	165.52
Natural resource wealth 3/	751.85	611.96	514.52	434.49	138.99	61.85	25.99	20.62
Expenditure (% total GDP)	36.17	32.58	32.40	30.50	31.93	31.75	33.20	33.13
Public capital stock (% total GDP)	98.11	108.65	116.11	117.72	121.59	107.67	93.46	87.04
Debt-to-GDP ratio	25.24	29.42	30.32	26.77	16.35	12.40	10.30	9.42
Oil price (in US$ per barrel)	105.01	102.60	97.58	93.33	91.05	100.52	110.98	115.47
Oil production (in million of barrels)	98.55	96.01	92.20	99.83	78.22	39.83	10.18	6.76
Non-oil GDP (billion CFAF)	2,470	2,817	3,109	3,403	5,687	8,761	11,623	13,323

Source: IMF staff calculations.

1/ Defined as revenue and grants (excluding oil revenue and investment income) minus total expenditure (excluding interest payments).

2/ Correspond to the difference between (i) deposits of the government at the BEAC and overseas and (ii) domestic and foreign debt.

3/ Corresponds to the present value of future government oil revenue.

Republic of Congo: Medium- and Long-Term Fiscal Framework

(in percent of non-oil GDP, unless otherwise indicated)

	2012	2013	2014	2015	2020	2025	2030	2032
Revenue and Grants	120.5	117.4	107.2	94.0	56.9	40.8	33.6	32.2
of which:								
Oil revenue	92.7	87.4	76.9	64.4	28.1	11.2	3.3	2.1
Non-oil revenue	26.8	25.8	26.1	26.4	27.6	28.9	29.7	29.6
Total expenditure	102.3	81.4	72.6	66.9	49.8	38.3	34.6	34.0
Current expenditure	41.4	34.4	33.8	33.5	32.0	30.1	28.2	27.5
Capital expenditure	60.8	47.0	38.8	33.4	17.8	8.2	6.5	6.5
Domesticall financed	48.9	35.5	32.2	29.4	17.6	7.0	5.5	5.5
Foreign financed	12.0	11.5	6.6	4.0	0.3	1.2	1.0	1.0
Financing	-18.2	-36.0	-34.6	-27.1	-7.1	-2.5	1.1	1.8
Of which: External borrowing	11.6	8.9	4.0	2.2	0.0	1.2	1.0	1.0
Memorandum items:								
(percent of non-oil GDP)								
Non-resource primary balance 1/	-74.48	-52.35	-43.41	-38.31	-21.81	-9.28	-4.92	-2.97
Net financial assets 2/	51.08	82.73	113.36	136.40	189.64	185.00	172.22	165.52
Wealth 3/	802.93	694.69	627.89	570.89	328.63	246.85	198.22	186.15
Expenditure (% total GDP)	36.17	32.58	32.40	30.50	31.93	31.75	33.20	33.13
Public capital stock (% total GDP)	98.11	108.65	116.11	117.72	121.59	107.67	93.46	87.04
Debt-to-GDP ratio	25.24	29.42	30.32	26.77	16.35	12.40	10.30	9.42
Oil price (in US$ per barrel)	105.01	102.60	97.58	93.33	91.05	100.52	110.98	115.47
Oil production (in million of barrels)	98.55	96.01	92.20	99.83	78.22	39.83	10.18	6.76
Non-oil GDP (billion CFAF)	2,470	2,817	3,109	3,403	5,687	8,761	11,623	13,323

Source: IMF staff calculations.

1/ Defined as revenue and grants, excluding oil revenue and investment income, minus total expenditure (excluding interest payments).

2/ Correspond to the difference between (i) deposits of the government at the BEAC and overseas and (ii) domestic and foreign debt.

3/ Corresponds to the total of net financial assets and present value of future government oil revenue.

Republic of Congo: Medium- and Long- Term Fiscal Framework
(in percent of GDP, unless otherwise indicated)

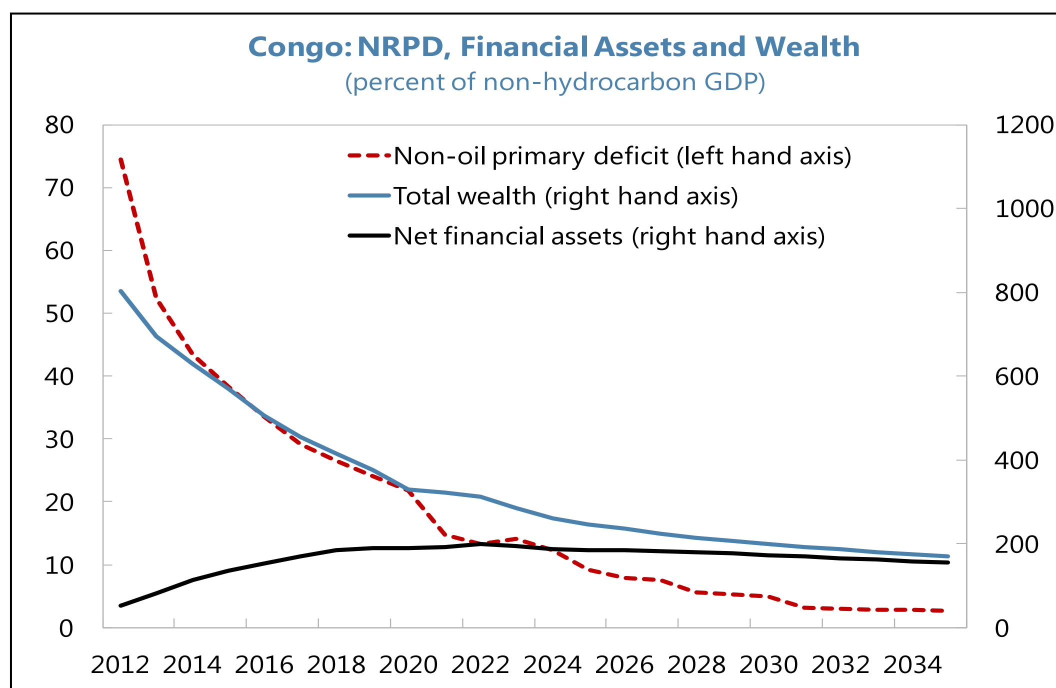
	2012	2013	2014	2015	2020	2025	2030	2032
Revenue and Grants	42.6	47.0	47.9	42.9	36.5	33.8	32.2	31.4
of which:								
Oil revenue	32.8	35.0	34.4	29.4	18.0	9.2	3.1	2.0
Non-oil revenue	9.5	10.3	11.7	12.0	17.7	24.0	28.5	28.8
Total expenditure	36.2	32.6	32.4	30.5	31.9	31.8	33.2	33.1
Current expenditure	14.7	13.8	15.1	15.3	20.5	24.9	27.0	26.7
Capital expenditure	21.5	18.8	17.3	15.2	11.4	6.8	6.2	6.4
Domesticall financed	17.3	14.2	14.4	13.4	11.3	5.8	5.3	5.4
Foreign financed	4.2	4.6	2.9	1.8	0.2	1.0	0.9	1.0
Financing	-6.4	-14.4	-15.5	-12.4	-4.5	-2.1	1.0	1.8
Of which: External borrowing	4.1	3.6	1.8	1.0	0.0	1.0	0.9	1.0
Memorandum items:								
(percent of non-oil GDP)								
Non-resource primary balance 1/	-74.48	-52.35	-43.41	-38.31	-21.81	-9.28	-4.92	-2.97
Net financial assets 2/	51.08	82.73	113.36	136.40	189.64	185.00	172.22	165.52
Wealth 3/	802.93	694.69	627.89	570.89	328.63	246.85	198.22	186.15
Expenditure (% total GDP)	36.17	32.58	32.40	30.50	31.93	31.75	33.20	33.13
Public capital stock (% total GDP)	98.11	108.65	116.11	117.72	121.59	107.67	93.46	87.04
Debt-to-GDP ratio	25.24	29.42	30.32	26.77	16.35	12.40	10.30	9.42
Oil price (in US$ per barrel)	105.01	102.60	97.58	93.33	91.05	100.52	110.98	115.47
Oil production (in million of barrels)	98.55	96.01	92.20	99.83	78.22	39.83	10.18	6.76
Non-oil GDP (billion CFAF)	2,470	2,817	3,109	3,403	5,687	8,761	11,623	13,323
GDP (billion CFAF)	6,983	7,039	6,961	7,459	8,875	10,573	12,130	13,674

Source: IMF staff calculations.

1/ Defined as revenue and grants, excluding oil revenue and investment income, minus total expenditure (excluding interest payments).

2/ Correspond to the difference between (i) deposits of the government at the BEAC and overseas and (ii) domestic and foreign debt.

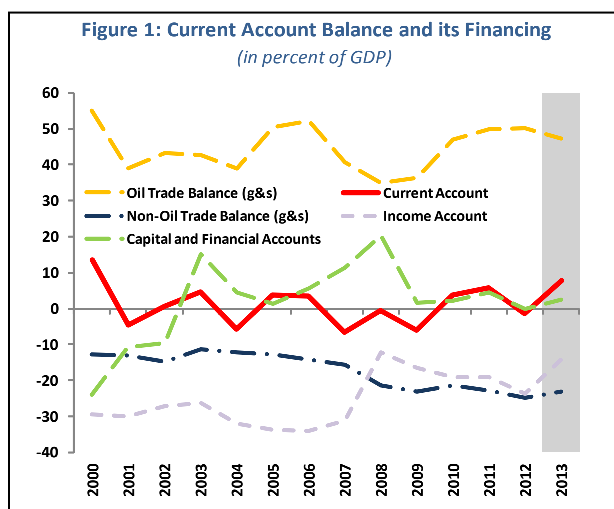
3/ Corresponds to the total of net financial assets and present value of future government oil revenue.

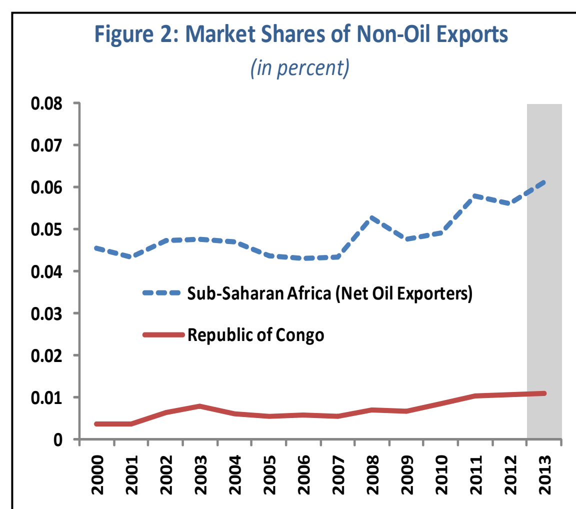


Annex 2. Exchange Rate and Competitiveness[1]

The Republic of Congo's external sustainability has moderately improved over the last year and remains generally strong. The balance of payments continues to be dominated by developments in the oil sector, but mineral exports have the potential to become an important foreign exchange earner in the medium term; and the exchange rate is broadly in line with macroeconomic fundamentals. The removal of structural bottlenecks that stifle competitiveness is a critical prerequisite for fostering private sector development and achieving stronger and inclusive growth.

1. Congo's external balances are dominated by developments in the oil sector. Over the last decade, current and financial accounts have been fairly volatile reflecting swings in international oil prices, production cycles in existing oil fields, and investment spurts to improve extractive capacity (Figure 1). Oil receipts have been generally strong allowing the country to finance large and persistent non-oil trade deficits, while generating significant profit repatriation outflows. Non-oil exports as a share of the world's exports have risen somewhat from their very low levels, but the increase has been lower than that of Sub-Saharan African peers owing to the rather poor business environment in Congo (Figure 2). Over the medium term, main risks stem from the volatility of international petroleum prices, the pace of the expected decline in oil production, and uncertain prospects for effective exploitation of mineral resources.





2. The real effective exchange rate (REER) has appreciated moderately during the last year. Since the conclusion of the last Article IV consultations in June 2012, the REER appreciated by 3.8 percent, mainly reflecting the strengthening of the euro *vis-à-vis* the US dollar (4 percent) and the significant rise of international oil prices (9 percent). Going

[1] Prepared by Valerio Crispolti.

forward, progress in limiting the erosion of competitiveness will critically hinge on the swift adoption of reforms agreed with development partners to improve the business environment and broaden the export base.

3. However, consistent with the evaluation for CEMAC, quantitative analysis suggests that Congo's REER is broadly in line with its medium-term fundamentals (Table 1). Standard methodologies based on the Consultative Group on Exchange Rates (CGER) point to a moderate overvaluation within the range of 7 to 12 percent in real terms. [2] Nonetheless, these results are affected by significant uncertainty as standard methodologies do not fully capture important specifics of resource rich countries—including the non-renewable nature of their resources. [3] Traditional exchange rate assessment approaches were therefore complemented with methodologies tailored to net oil-exporting countries. The results of the external stability approach based on Bems and Carvalho Filho (2009) show a somewhat improved picture with respect to the evaluation done in 2012 and indicate that the REER is broadly in line with its medium-term determinants. [4] The authorities broadly agreed with staff's assessment and noted that, as production in the mining sector picks up, pressures for real appreciation of the currency may intensify over the medium term.

4. The overall quality of Congo's business environment is rather poor. The World Bank Doing Business indicators rank Congo 183 out of 185 countries in 2013 (184 out of 185 in 2012), suggesting significant scope for gains in addressing long-standing structural impediments to private sector development (Figure 3). Critical areas of intervention are the ease of starting a business, paying taxes, and trading across borders. Significant weaknesses are also identified by the World Bank Governance indicators that position Congo largely below the CEMAC average in areas such as government effectiveness and quality of regulation (Figure 4). The authorities acknowledged the limited progress made in improving the business climate so far and concurred that steadfast implementation of the reform agenda agreed with the IFC is a critical priority. In this regard, they expressed the intention to focus on possible "quick wins"—including effective operation of the recently established one-stop window for customs clearance and investment promotion agency.

[2] The exchange rate assessment with standard CGER methodologies is based on Vitek (2010) and Aydin (2010). The dataset used for the regressions contains annual data on non-advanced countries over the period 1990–2012.

[3] For more information on the shortcomings of CGER methodologies in LICs see Prati and others (2011). In the case of non-renewable resource-rich countries, a major pitfall pertains to the fact that the equilibrium levels of the current account or the REER are derived abstracting from intergenerational saving and equity considerations.

[4] The assessment is robust to alternative assumptions on the current account equilibrium level (*norm*) that would stabilize Congo's NFA position at a specific benchmark level based on some rule for intertemporal allocation of the income accruing from the sale of exhaustible resources (e.g. oil, gas).

Table 1. Real Effective Exchange Rate Assessment for the Republic of Congo (2018)
(in percent of GDP unless otherwise indicated)

Traditional Approaches (CGER)			Bems and Carvalho		
			External Sustainability Approach		
Macroeeconomic Balance	Equilibrium Real Effective Exchnage Rate	Purchasing Power Parity	*Constant real consumption*	*Constant real per capita consumption*	*Constant annuity/output ratio*
10.8	-	-	0.6	10.3	0.7
0.1	-	-	0.1	0.1	0.1
-10.7	-	-	-0.5	-10.2	-0.6
10.68	**7.09**	**11.96**	**0.54**	**10.19**	**0.57**

.

Figure 3. 2013 Doing Business Indicators
(185 equals worst business climate; 1 equales best business climate)

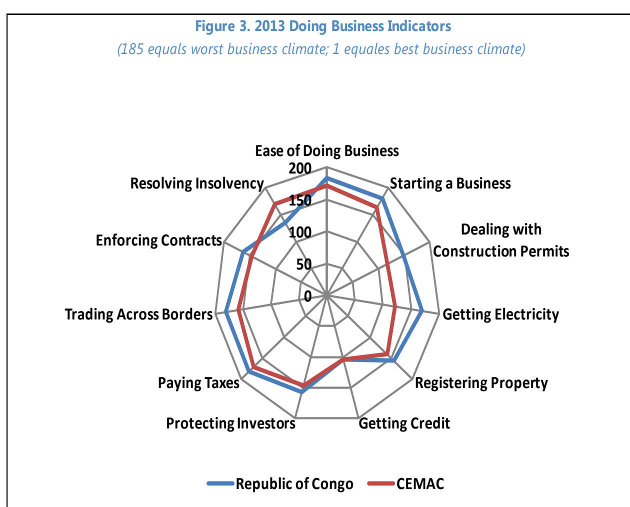
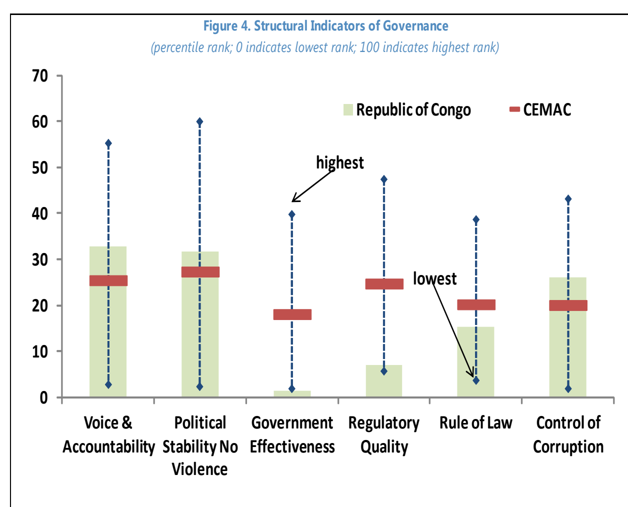


Figure 4. Structural Indicators of Governance
(percentile rank; 0 indicates lowest rank; 100 indicates highest rank)



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Aydin, B., *Exchange Rate Assessment for Sub-Saharan Economies*, mimeo, 2010.

Bems R., and I. Carvalho Filho, *Exchange Rate Assessment: Methodologies for Oil Exporting Countries*, IMF Working paper, n. 281, 2009.

Crispolti V., E. Dabla-Norris, J. Kim, K. Shirono, and G. Tsibouris, *Assessing Reserve Adequacy in Low-Income Countries*, IMF Occasional Paper, n. 276, 2013.

Prati A., L. A. Ricci, L. Christiansen, S. Tokarick, and T. Tresseland, *External Performance in Low-Income Countries*, IMF occasional Paper, n. 272, 2011.

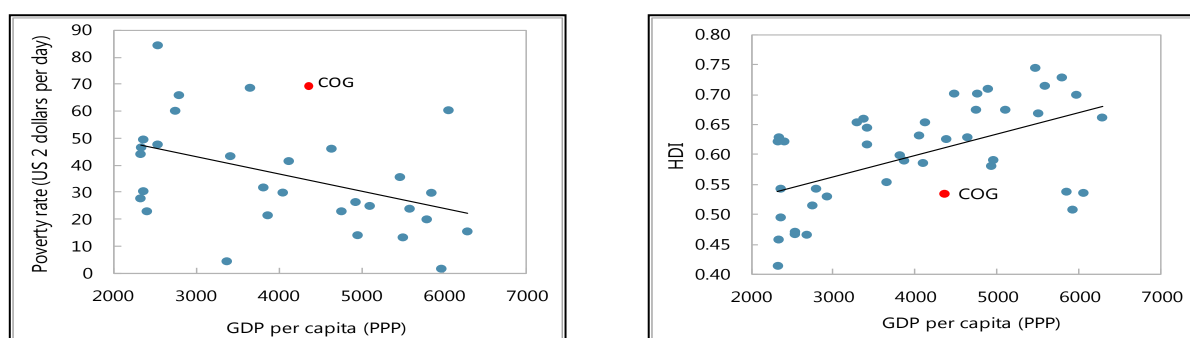
Vitek, *Exchange Rate Assessment Toolkit*, mimeo, 2010.

Annex 3. Growth Inclusiveness[1]

Abundant natural resources and strong growth have yet to translate into significant reduction of poverty. The quality of public investment expenditures for Congo lags behind peers; and the social and economic infrastructure gaps remain large despite considerable increases in investment outlays in recent years. Beyond the efforts to strengthen competiveness and foster private sector development, the authorities are advancing growth inclusiveness by reforming the education system, implementing employment and social safety net programs, and enhancing the productivity of the investment budget.

1. The poverty rate declined only modestly in recent years and is well above that of countries with similar income level (Figure 1). Based on a recent household survey, the poverty rate improved from 50.7 percent in 2005 to 46.5 percent in 2011.[2] Poverty is particularly acute in rural areas, affecting 75.6 percent of their population, compared to 32.3 percent in urban areas. The poverty rate decreases with the level of education; it reaches 53.2 percent among households whose heads have not received a formal education, compared to 15.4 percent among those who have attended universities. International comparisons indicate weak performance of the Republic of Congo in terms of poverty and human development indicators. The country's poverty rate is similar to the average of developing countries in sub-Saharan Africa, but its GDP per capita is about twice as high; and the poverty rate is about twice higher than the median rate of countries with similar level of income. [3]

Figure 1. Income and Poverty 1/



Sources: World Development Indicators (World Bank) and Human Development Report (UNDP).
1/ The poverty rate is measured using WDI definition. The latest available year for the Republic of Congo under this definition is 2005; thus, the 2011 status presented in this figure was estimated by applying the percentage point improvement between 2005 and 2011 taken from the national household survey. For the Human Development Index, a higher value indicates a better performance.

[1] Prepared by Ivohasina Razafimahefa and Valerio Crispolti.

[2] The household survey uses a daily poverty threshold of 2450 kilocalories and non-food needs.

[3] This analysis considers countries that have per capita GDP (in PPP US $) between 50 percent above and below that of the Republic of Congo (i.e. between 2,300 PPP US$ and 6,280 PPP US $). The human development index measures development by combining indicators of life expectancy, educational attainment and income. The HDI serves as a frame of reference for both social and economic development.

2. Large budgeted investments have not led to significant narrowing of the social and infrastructure gaps (Tables 1–2 and Figure 2)**.** Congo's average public investment budget during the last decade was about 50 percent higher than that in the WAEMU region. Expenditure per capita ranks third in the CEMAC region for the same period and is about four times larger than the average of the WAEMU region. However, power outages remain frequent and road infrastructure is far from adequate.

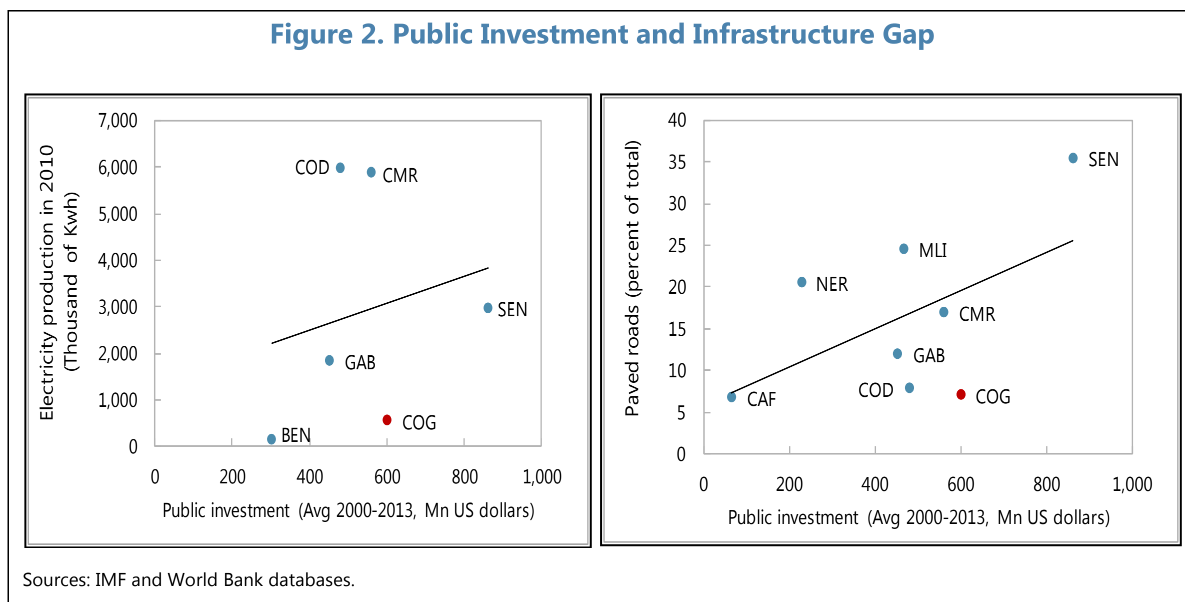
Table 1. CEMAC Expenditure per capita
(Average 2000–10)

	Expenditure per capita (US$)
Cameroon	151
Central African Republic	53
Chad	117
Congo, Republic of	485
Equatorial Guinea	3,118
Gabon	1,469
CEMAC	262

Table 2. WAEMU: Expenditure per capita
(Average 2000–10)

	Expenditure per capita (US$)
Benin	126
Burkina Faso	89
Cote d'Ivoire	175
Guinea-Bissau	100
Mali	101
Niger	56
Senegal	197
Togo	75
WAEMU	122

Figure 2. Public Investment and Infrastructure Gap



Sources: IMF and World Bank databases.

3. The education curriculum is being revised to match the needs of the labor market and help boost employment.[4] While youth unemployment exceeds 30 percent, Congo's labor force cannot meet firms' skills demands. To address the skills shortage, the government has given higher priority to technical education; and set up a committee to revise the

[4] See Annex I, IMF Country Report No. 12/283, for a detailed analysis of unemployment and the mismatch between education curricula and labor market needs in Congo.

education curriculum as well as a public-private consultation platform on related issues. Technical training centers have been created, manned by 120 trainers in 12 areas. A program to alternate in-school based education and on-the-field training is under preparation; and a memorandum of understanding is being negotiated with the private sector to provide an effective private-public sector collaborative framework in this area.

4. The authorities have launched support programs aim at providing transitory income generating activities, improving skills, and facilitating access to stable employment. The International Labor Organization estimates the unemployment rate at 16 percent.[5] Four types of programs are being carried out (i) an internship program for unemployed youths, (ii) a labor-intensive public works program, (iii) a self employment program, and (iv) a rural employment program. Skills acquired through the first two programs would allow beneficiaries to qualify for the latter two programs and secure long-term employment. A total of 8,600 people have benefited from these programs to date, for a total of a labor force of about 1.5 million.

5. Social safety nets programs are being developed, aimed at supporting the most vulnerable groups and providing opportunities to those with working ability to become autonomous. Beneficiaries include people living with physical handicaps, unattended children, and the elderly. Conditioned cash transfer programs for poor and vulnerable households are being implemented and will be enhanced with assistance from the World Bank. Eligibility criteria include continuous schooling of children and regular health checks for all households' members. A pilot program would cover 5,000 households, with an objective of 250,000 households over a three-year period (for a total population of about 4 million). Other programs are designed to gradually reduce dependency on direct social transfers: (i) labor-intensive public works would generate income to households while providing opportunities to improve skills through on-the-job trainings; (ii) a social reintegration fund offers possibilities for the poor to create their own economic activity, and facilitates access to microcredit financing; (iii) a community development program facilitates access to basic social services while supporting community-based economic activities. For 2013–16, the cost of the social safety nets programs is estimated at CFAF 218 billion (about US$ 436 million or 3 percent of 2012 GDP).

6. The authorities are working to improve the productivity of the investment budget and its impact on social and economic conditions. Key reforms to that end include an overhaul of the procurement code and the operation of a new procurement agency. A public expenditure review is undertaken in some key sectors of human development, including health, education and social protection; and a public expenditure management and financial accountability review (PEMFAR) is planned for 2014. Also, the World Bank is providing assistance in (i) improving transparency and accountability in budget management, including in the areas of human resources management and procurement; and (ii) helping to strengthen internal and external controls by providing assistance in strengthening the operation of the

[5] Figures on unemployment rates are subject to large margins of uncertainty. Surveys conducted by the authorities showed unemployment rates of 19.4 percent in 2005 and 6.9 percent in 2011.

Independent Governance Observatory, the Anti-corruption commission, the Economic and Financial Commission of the Parliament, the Supreme Audit Institution, the State General Inspectorate, the media, as well as for selected Non-Governmental Organizations.

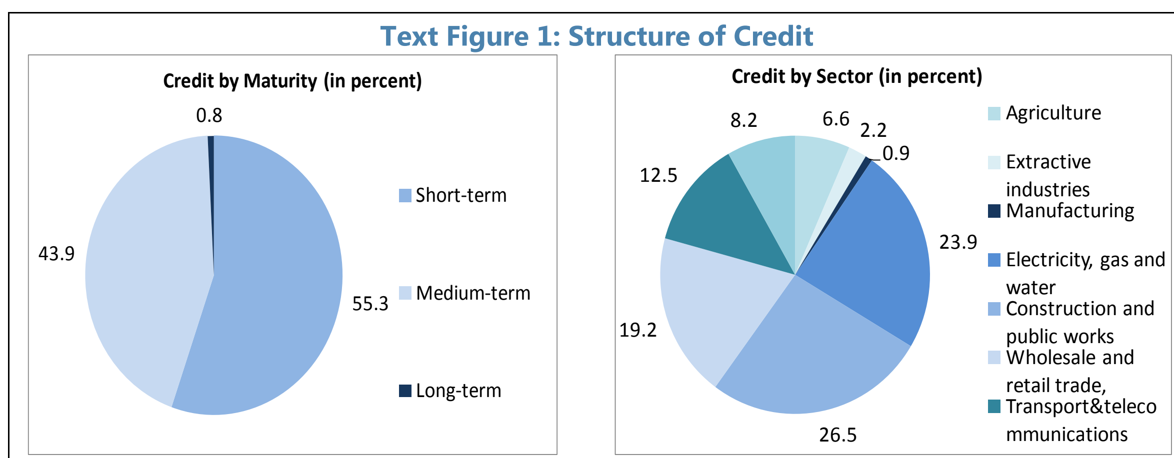
7. Continued and rigorous implementation of the programs spelled out above is critical for government success in improving growth inclusiveness. In this context, reported delays in disbursing budgeted funds for some of the employment programs should be addressed, and necessary steps should be taken to ensure an early implementation of the National Employment Program, and of the envisaged expansion and rationalization of ongoing social safety net programs. Also, the focus on vocational and technical training ought to be sustained beyond the 2013 budget.

Annex 4. Financial Sector Stability and Development[1]

Congo's financial sector is largely dominated by banks. Although the country has experienced rapid growth in intermediation in the post-conflict period, it remains financially underdeveloped. Congo shows weaknesses in a number of areas related to the quality of policies and institutions. The authorities have proposed a set of measures for enhancing access to credit in the context of improving the overall business environment, but deeper reforms will be needed to remove barriers to the effective provision of financial services.

1. The past decade has witnessed a marked improvement of financial intermediation. Between 2003 and 2012 credit to the private sector increased almost nine-fold in nominal terms with annual growth rates exceeding 40 percent in each of the last three years. For the same period, deposits of firms and households rose by a factor of twelve, bringing the ratio of deposits to GDP up to 24.0 percent at end-2012 (compared to 6.8 percent in 2003). While to some extent the dynamic growth of money and credit could be viewed as recovery from the depressed post conflict levels, there are signs of genuine expansion of the financial system in the recent years, including in its outreach, as evidenced by the evolution of the banks' branch network and the number of customers (Figure 1).[2] The intensified competition has brought down interest rate spreads substantially – from about 15 percentage points in the early 2000s to about 8 percentage points in 2012, the decline being driven mainly by the dynamics of lending rates. As of December 2012, more than half of the stock of credit to the private sector was short-term and claims were highly concentrated in a few industries (Text figure 1).[3]

Text Figure 1: Structure of Credit



[1] Prepared by Rossen Rozenov.

[2] As of end-December 2012 the Congolese banking system comprised 9 banks, compared to 6 banks at end-2010.

[3] Credit expansion is expected to decelerate in 2013 and beyond, allaying concerns about the stability of the financial sector; the authorities and staff concurred nevertheless about the need for close monitoring of developments in bank lending.

2. Despite recent favorable trends, the financial sector in Congo remains significantly undeveloped. Standard indicators of financial depth and breadth suggest that the country lags behind its peers at a similar level of economic development. Cross-country comparisons of some commonly used measures, such as private credit to GDP ratio, number of bank branches, depositors and borrowers (scaled by population) reveal that the respective values for Congo are well below the median for a group of countries with broadly comparable per capita GDP (Figure 2, panel A). [4] The differences are less pronounced when Sub-Saharan Africa (SSA) is used as a benchmark, reflecting what is sometimes referred to as "African financial development gap".[5] Yet, based on most metrics Congo underperforms within this comparator group as well (Figure 2, panel B).

3. Promoting the creation of an efficient financial system enhances long-run economic growth. Research shows that countries with well-functioning financial sectors grow faster and that the availability of financing helps to reduce poverty, including through expanding the range of opportunities for education and entrepreneurship and decreasing the dependency on initial wealth. It is therefore important for Congo to ensure that the recent gains in financial deepening and penetration are sustained in the long run. A number of studies have established a strong link between financial development and the quality of a country's policies and institutions. A simple correlation analysis for the Sub Saharan Africa countries suggests that the private credit to GDP ratio in these countries is significantly correlated with some of the CPIA and Doing Business indicators, such as the business and regulatory environment rating, property rights and rule-based governance rating, transparency, accountability and corruption rating, number of procedures necessary to enforce a contract, credit registry coverage and depth of credit information. Congo's standing is relatively weak under most of these indicators which likely contributes to its shallower financial sector (Figure 3).

4. The Congolese authorities have identified some specific problems related to access to credit and have designed corrective measures. As part of a broader initiative to improve the country's ranking in the Doing Business report, the government (together with IFC) has introduced an action plan which among other things envisages the establishment of a business promotion center (*Maison de l'entreprise*) and a special fund for guarantees and support (FIGA—*Fonds d'Impulsion, de Garanties et d'Accompagnement*).[6]—While the details

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[4] Defined as countries whose GDP per capita in PPP which differs by no more than 50 percent from that of Congo (2011 data). This group comprises 42 countries with per capita GDP in PPP between 2180 and 6540 current international dollars and includes five African countries besides Congo.

[5] This term relates to the finding that after controlling for the determinants of financial intermediation, its level in Africa is significantly lower than in other parts of the world, i.e. there is a gap relative to what is implied by the fundamentals. A recent study attributes this gap partially to lower population density and poor infrastructure which make interactions among firms, households and banks more difficult (Allen, F., Carletti, E., Cull, R., Qian, J., Senbet, L., Valenzuela, P: "Resolving the African Financial Development Gap: Cross-Country Comparisons and a Within-Country Study of Kenya", forthcoming in the *NBEER Volume on African Economic Successes*).

[6] *Feuille de route de reformes à court, moyen et long termes en vue de l'amélioration du classement du Congo dans le Doing Business, Avril 2013.*

regarding the size of this fund or the precise mechanisms for extending the guarantees are still being worked out, it is worth noting that in determining the parameters of the support consideration should be given to its potential budgetary implications if the guarantees are called. Other policies are aimed at removing constraints to credit supply, strengthening the judicial framework and reducing the asymmetry of information through initiation of changes in certain COBAC regulations, acceleration of the launch of an arbitration center and creation of a centralized balance sheet bureau (*Centrale des bilans*) that is expected to improve the availability and quality of accounting data. While some of the policies outlined in the action plan are concrete and well defined, others are cast in rather general terms, which makes it difficult to assess how effective they will be in promoting Congo's financial sector development.

5. Overall, the proposed government program represents a good start but broader and more ambitious reforms could be undertaken. In particular, there is significant scope for improvement in the functioning of the legal system which does not seem to be efficient in protecting creditors' rights. Concerns have been raised that court procedures are too slow and costly and that rulings sometimes are influenced by factors other than applying strictly the rule of law. Increasing transparency, including through the publication of court decisions and their motives, and shortening the duration of court procedures would address some of these concerns.[7] Unclear property rights have been a major obstacle to credit provision, at least until recently. In this regard, the decision to establish a comprehensive property register (*Fonds national du cadastre*) and one-stop shop to trace land titles is a positive step. To facilitate further the exchange of information and thus reduce transactions costs, the coverage of the credit registry could be expanded and the quality of information that it provides could be enhanced, (e.g. by including information from non-bank financial institutions and utility companies). Moving from the current practice of monthly dissemination of information to providing real time access to the credit registry could be considered as well.

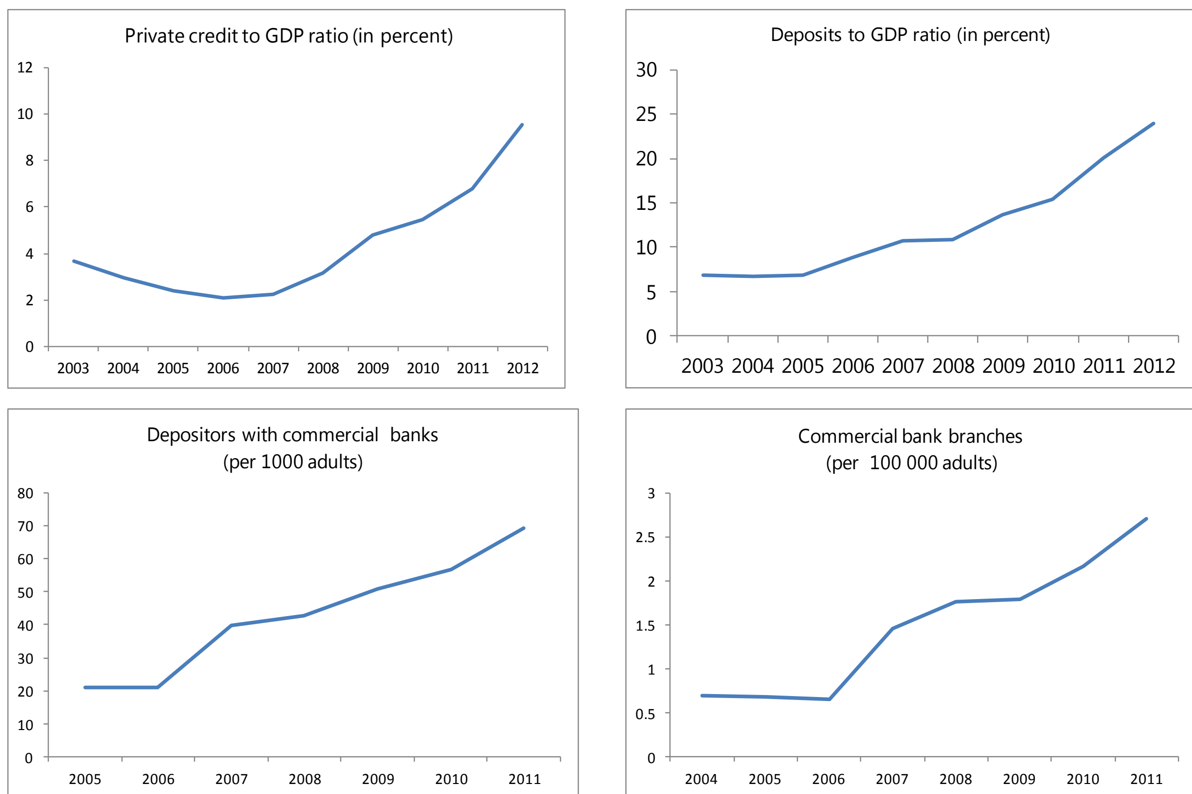
6. Going forward, a key challenge would be to continue to improve access to financial services without putting financial stability at risk. The loan to deposits ratio in Congo, which currently stands at about 40 percent is deemed low by most standards. Banks have abundant liquidity as manifested in their large excessive reserves held in the central bank (about 25 percent of total deposits in end-2012). At the same time, the array of investment instruments available to banks is seriously limited given the capital controls and practically non-existing domestic securities market. Faced with a rising inflow of deposits and intensifying competition in the sector, banks could be tempted to loosen lending standards which would result in deterioration of the quality of their credit portfolios. Currently the share of non-performing loans in total loans is low at 2.8 percent and banks are well capitalized; however, the rapid expansion of credit warrants careful monitoring of the financial soundness indicators. Against this background, relaxing prudential regulations, in particular on individual exposure limits as advocated by some market participants, could be counterproductive. Instead, the

[7] For instance, the average time to resolve insolvency in Congo is estimated at 3.3 years, nearly double that in Botswana, for example (World Bank, Doing Business project 2013).

focus should be on broadening of the investment opportunities, including through the newly launched regional government securities market.

7. In addition to banks, microfinance institutions could play an important role in fostering financial sector development in Congo, especially through improving access to financial services for the poor. Microcredit institutions were first introduced in the 1980's under the framework of cooperatives and credit unions. As of 2009, about 62 microfinance institutions were operating in the country. However, the volumes of deposits and credits of the sector only represented 14.4 percent and 9.1 percent of the financial system, respectively.[8] The authorities plan to enhance cooperation between commercial banks and microfinance institutions to improve availability of medium-term resources for the latter. To that end, the banking supervisory agency has developed accounting software for microfinance institutions to allow commercial banks to better assess their financial viability and the associated risks. Postal banking has also been launched, and can support development microcredit transactions.

Figure 1. Developments in the Financial Sector

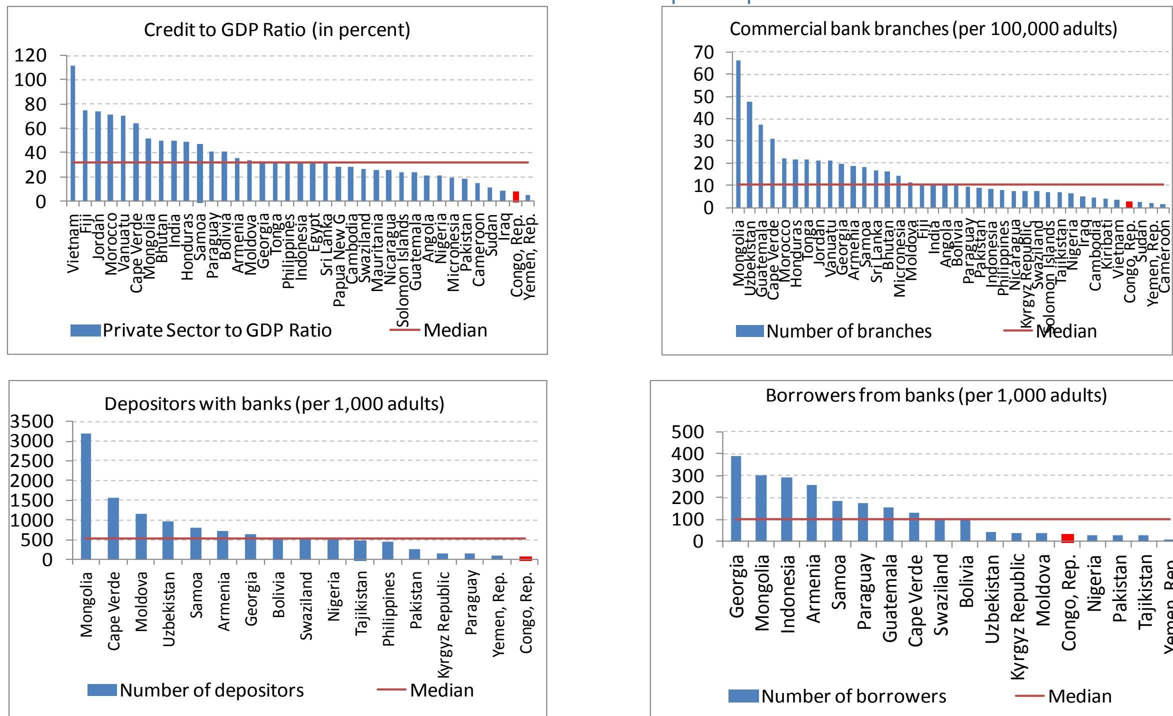


Source: World Development Indicators, IMF staff calculations.

[8] Data from *Republic of Congo—Poverty Reduction Strategy Paper, 2012–16.*

Figure 2. Selected Indicators of Financial Development in Comparative Perspective

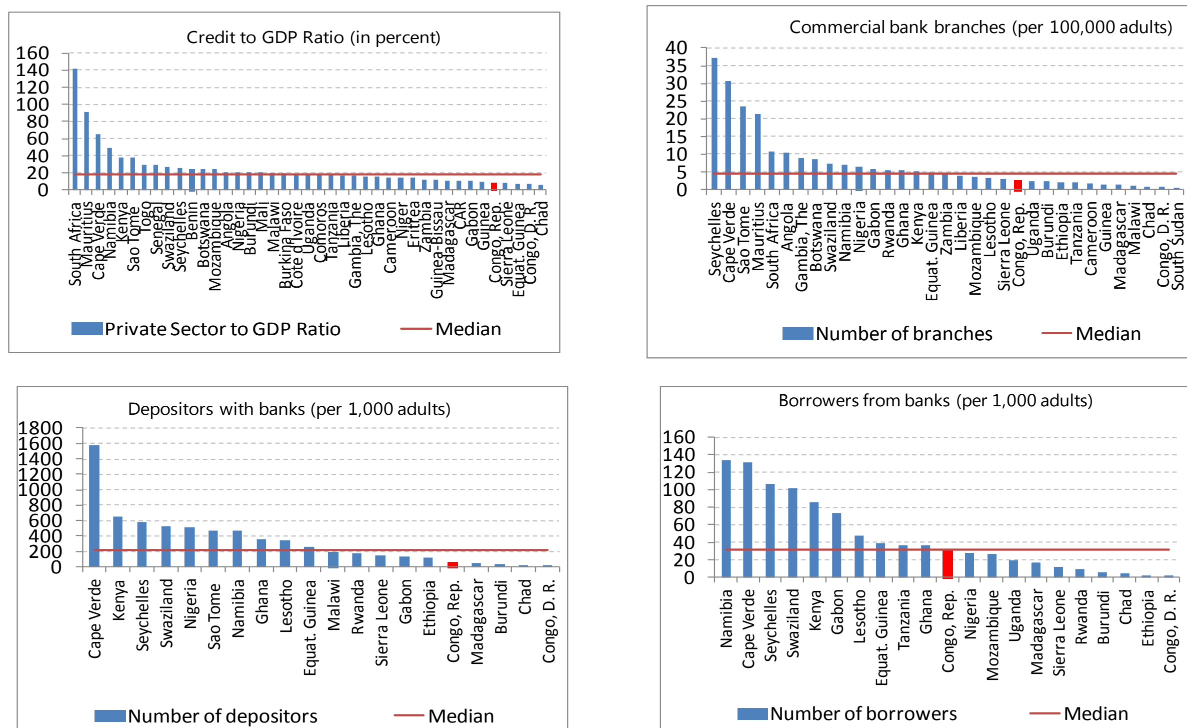
a. Countries with similar per capita income



Source: World Development Indicators Database.

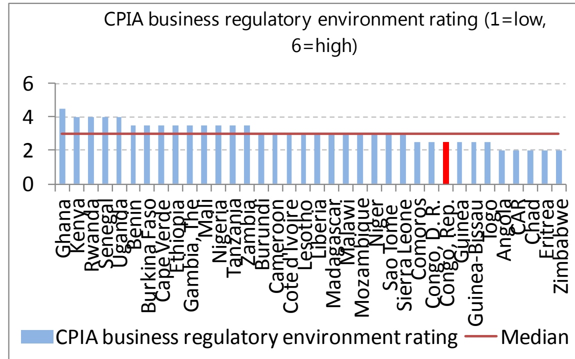
Figure 2. Selected Indicators of Financial Development in Comparative Perspective

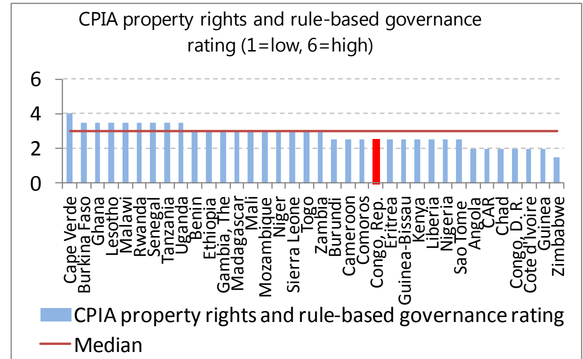
a. Sub-Saharan Africa

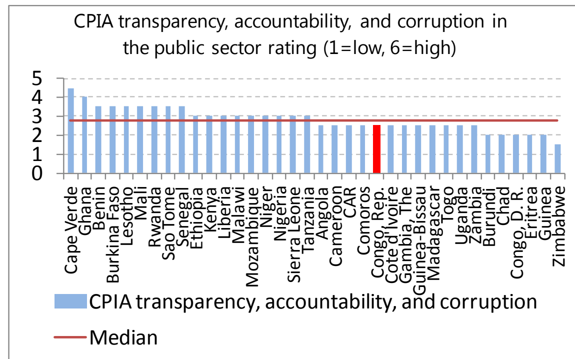


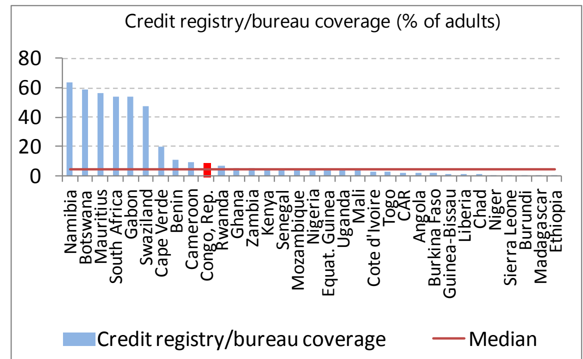
Source: World Development Indicators Database.

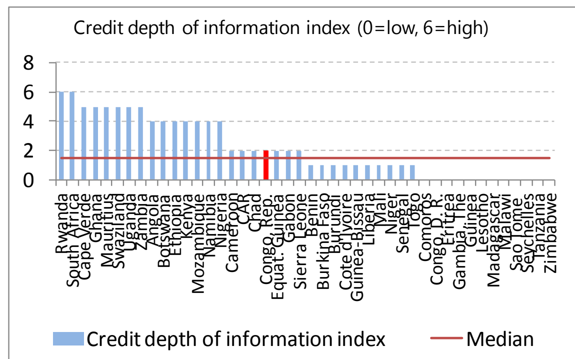
Figure 3. Policies and Institutions

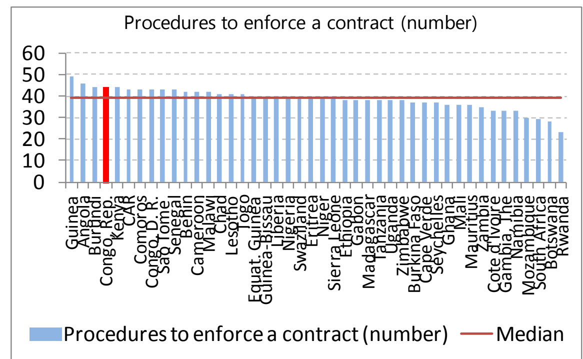












Source: World Development Indicators Database.

Annex 5. Special Economic Zones[1]

1. The authorities are pressing ahead with the creation of special economic zones (SEZ). This initiative aims at accelerating investments, diversifying economic activities and exports, promoting employment creation, facilitating technology transfers, supporting integration to the global economy, and ultimately reducing poverty. To date, four economic zones are under consideration in the regions of Ouesso, Oyo/Ollombo, Brazzaville, and Pointe Noire; the feasibility studies are completed in all but the latter zone.[2] The zones would host investments in agriculture and agro-industry, farming, wood factories, and building materials (including cement factories). The government would contribute by providing the required infrastructure and facilitating administrative procedures (land, roads, electricity, security, on-site tax and customs procedures, special arbitrage, expedited labor procedures etc…). The legal and fiscal framework is currently being prepared; preferential fiscal treatments have not been ruled out but would be limited in compliance with relevant CEMAC regulations. A ministry in charge of developing SEZs was created at the office of the President of the Republic.

2. Experiences with special economic zones shows uneven results at the global level.[3] It has been more than 50 years since the creation of the first modern SEZ. The policy rationale for SEZs is to boost competitiveness of a specific geographical zone (eventually combined with some sectors) with the expectations that it will spur economic activity in other zones over the medium- and long-term. This dual-track strategy led to a rapid export-led growth in China, East Asia, some countries in Central and South America, and a few countries in Africa (including Mauritius). In some cases, the expansion of the fast-tracked part of the economy spilled over to other sectors of the economy, triggering positive structural change. On the other hand, many SEZs did not produce the expected outcome or were severely opposed, as illustrated by the experience of several African countries, Pakistan, Ukraine and Moldova. For instance, in Senegal a SEZ was closed down by the authorities in 1999 because it could attract only 14 companies after operating for 25 years. The Moin Free Zone in Costa Rica received only three firms during its first eight years.

3. The most important factors for the success of a SEZ appear to be adequate infrastructure, enabling regulatory framework, and light administrative procedures. Many SEZs failed because of prohibitive minimum requirements on job creation and initial investment, a long and cumbersome process in obtaining permits, rigid labor regulation, and high infrastructure-related production costs (energy, telecommunications and transport). Various country experiences have shown that the SEZs built and managed by private operators

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[1] Prepared by Ivohasina Razafimahefa and Samuel Fahlberg.

[2] A fifth zone might also be considered for the Niari region.

[3] See *Special Economic Zones: Progress, Emerging Challenges, and Future Directions* by T. Farole and G. Akinci (World Bank, 2011); and *Special Economic Zones: Performance, Lessons Learned, and Implications for Zone Development* by FIAS (World Bank, 2008).

outperform those that are run by governments. Governments should provide infrastructure and facilities only to the gate of the zone, while private developers should bear the on-site costs and ensure operation on a cost-recovery basis. Fiscal incentives have proven to be of little effectiveness in the success of SEZs. Incentives packages have become broadly similar as countries are under pressure from competitors. Those packages often include tax holidays; corporate tax reductions or exemption; duty-free importation of raw material, capital goods, and intermediate inputs; no restrictions or taxes on capital and profits repatriation; exemption from foreign exchange controls (where applicable); no charges on exports; and exemption from most local and indirect taxes. Some of these incentives do not improve competitiveness, create distortions and are a burden on the budget. For instance, profit tax holidays would most likely not be effective as companies are not making profit in the initial years of operation; companies would be tempted to shift their income from non-tax exempt to tax-exempt companies through transfer pricing, and to focus on short-term investments as long-term ones do not benefit from the tax holidays. Moreover, certain fiscal incentives can be considered as explicit or implicit export subsidies, breaching the trade rules. Interventions that could improve competitiveness might include accelerated depreciation, free transfer of foreign currency in and out of the host country, introduction of SEZs under regional trade agreements, and facilitation of SEZs' eligibility to local contents.

INTERNATIONAL MONETARY FUND

REPUBLIC OF CONGO

STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

August 14, 2013

Prepared By

The African Department
(in consultation with other Departments)

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FUND RELATIONS

(as of May 31, 2013)

Membership Status: Joined: July 10, 1963; Article VIII

General Resources Account:	**SDR Million**	**%Quota**
Quota	84.60	100.00
Fund holdings of currency (Exchange Rate)	84.03	99.33
Reserve Tranche Position	0.58	0.68

SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	79.69	100.00
Holdings	70.23	88.13

Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
ECF Arrangements	17.89	21.15

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF [1/]	Dec 08, 2008	Aug 04, 2011	8.46	8.46
ECF [1/]	Dec 06, 2004	Jun 05, 2008	54.99	23.58
ECF [1/]	Jun 28, 1996	Jun 27, 1999	69.48	13.90

[1/] Formerly PRGF.

Projected Payments to Fund [2/]
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2013	2014	2015	2016	2017
Principal	1.57	3.51	3.87	2.66	1.69
Charges/Interest	0.00	0.01	0.03	0.02	0.02
Total	1.57	3.51	3.90	2.68	1.71

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

Implementation of HIPC Initiative:

I. Commitment of HIPC assistance	Enhanced Framework
Decision point date	Mar 2006
Assistance committed	
by all creditors (US$ Million) [1/]	1,574.60
Of which: IMF assistance (US$ million)	7.73
(SDR equivalent in millions)	5.40
Completion point date	Jan 2010
II. Disbursement of IMF assistance (SDR Million)	
Assistance disbursed to the member	5.40
Interim assistance	0.90

Completion point balance	4.49
Additional disbursement of interest income [2/]	0.86
Total disbursements	6.26

[1/] Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts cannot be added.

[2/] Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

Implementation of Multilateral Debt Relief Initiative (MDRI):

I. MDRI-eligible debt (SDR Million)[1/]	7.86
Financed by: MDRI Trust	4.79
Remaining HIPC resources	3.07

II. Debt Relief by Facility (SDR Million)

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

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

Implementation of Post-Catastrophe Debt Relief (PCDR): Not Applicable.

Decision point - point at which the IMF and the World Bank determine whether a country qualifies for assistance under the HIPC Initiative and decide on the amount of assistance to be committed.

Interim assistance - amount disbursed to a country during the period between decision and completion points, up to 20 percent annually and 60 percent in total of the assistance committed at the decision point (or 25 percent and 75 percent, respectively, in exceptional circumstances).

Completion point - point at which a country receives the remaining balance of its assistance committed at the decision point, together with an additional disbursement of interest income as defined in footnote 2 above. The timing of the completion point is linked to the implementation of pre-agreed key structural reforms (i.e., floating completion point).

Safeguard Assessment:

In accordance with Safeguards Policy requirements for regional central banks, a quadrennial safeguards assessment of the Bank of the Central African States (BEAC) is underway. The assessment, which included a mission to Yaoundé during March 20–29, 2013, occurs against the backdrop of fraudulent activities uncovered in the BEAC office in Paris in 2009, and subsequent special audits initiated by the BEAC authorities that identified governance

challenges and control failures. For its part, the BEAC adopted an action plan with the aim of reforming its own governance, strengthening key safeguards, and building capacity. In addition, a series of rolling measures were agreed between the BEAC and the IMF, as a basis for determining whether periodic IMF program reviews could continue for those BEAC members using IMF resources. A summary of the results of the current assessment will be reported upon its completion.

Exchange Rate Arrangement:

Congo's currency is the CFA franc, which is pegged to the Euro at a fixed rate of CFAF 655.95 =Euro 1. Congo does not impose any restrictions on the making of payments and transfers for current international transactions.

Technical Assistance

Technical Assistance Received 2010–2013			
Subject	**Department**	**Staff Member**	**Date**
Customs Administration	FAD	Yves Michel Soler	June 2013
Public Financial Management	AFRITAC	Christophe Maurin	June 2013
Public Financial Management	FAD	Maximilien Pierre Queyranne	December 2012
Budget preparation and IFMIS	FAD	Nicolas Marcel Botton	December 2012
Public Financial Management	AFRITAC	Blaise Yehouenou	June 2012
VAT Administration	AFRITAC	Louis Rene Ossa	May 2012
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

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 were held in Brazzaville on May 15–25, 2012. The staff report (Country Report No. 12/283 at www.imf.org) was considered by the Executive Board on June 27, 2012.

WORLD BANK—IMF JOINT ACTION PLAN

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

Article IV Consultations. World Bank representatives attended meetings during the 2013 IMF Article IV mission.

- **Joint action plan**: The IMF and the World Bank teams met in May 2013 to discuss plans of each team and areas of cooperation, as summarized in the table below. Focus areas of the World Bank team include: (i) enhancement of the efficiency of public expenditure through public expenditure review and assessment of investment program; (ii) improvement of the business environment through an action plan implemented with the International Finance Corporation; and (iii) strengthening of growth inclusiveness through conditioned cash transfer programs. The IMF team will continue providing support through surveillance under the Article IV consultations and technical assistance.

- **Debt Sustainability Analysis:** a full DSA is jointly prepared by the two teams for the 2013 Article IV consultations; a DSA—full or update—will also be conducted in 2014.

REPUBLIC OF CONGO: IMF AND WORLD BANK JOINT ACTION PLAN As of July 19, 2013		
Title	**Products**	**Expected delivery**
Bank work program in next 12 months	Social safety net	2013–14
	Improvement of business environment	2013–14
	Support to economic diversification	2013–14
	Transparency and governance capacity building	2013–14
	Public expenditure review and improvement of the public investment program	2013–14
IMF work program in next 12 months	Article IV consultation	August 2014
Fund request to World Bank	Project document on support to economic diversification	Received
	Program document of transparency and governance project II	Received
	Update on the social safety net project	2013–14
	Update on business environment project	2013–14
	Update on public expenditure review and improvement of the public investment program	2013–14
World Bank request to Fund	Macroeconomic updates for project documents	2013–14
Joint products in next 12 months	Debt Sustainability Analysis	July 2013
	Debt Sustainability Analysis	June 2014

STATISTICAL ISSUES

(As of July 19, 2013)

Assessment of Data Adequacy for Surveillance

General: Data provision has shortcomings, but remains broadly adequate for surveillance. Since the expiration of the ECF-supported program in 2011, data are provided to Fund staff with long delays, which reached six months at times, due to lengthy procedures and weak capacity. Insufficient coordination among different governmental agencies and with the regional institutions obstructs data consistency and availability. Since the occurrence of governance problems at the BEAC, timely delivery of financial sector data has been hampered. Technical assistance has resulted in some progress, and the authorities are taking steps 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. As part of the structural reforms undertaken in the context of the post-conflict program, the government completed an audit of public service employees.

Price statistics: Movements in the prices of commodities consumed by households are recorded for the capital city of Brazzaville and for Pointe Noire, the center of economic activities. 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).

Government finance statistics (GFS): Data provision has become sporadic since end-2011. The authorities have recently set up a centralized reporting system to improve the monitoring of budget execution and the timely availability of data. The result of this initiative is still to be seen. 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 table of financial operations of the State 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 fiscal accounts. 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.

Monetary statistics: BEAC reports monetary, interest rate, and exchange rate statistics for publication in IFS, albeit with delay. 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 that 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. There are also long delays regarding data on the soundness of the banking system.

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. 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. The balance of payments committee, in charge of data reconciliation, validated the BoP for 2008; the validation for subsequent years is still pending as the committee does not meet on a regular basis.

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 statistics on financial operations of the government.

REPUBLIC OF CONGO: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE
As of July 19, 2013

	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]	March 2013	June 2013	M	M	M
Reserve/Base Money	March 2013	June 2013	M	M	M
Broad Money	March 2013	June 2013	M	M	M
Central Bank Balance Sheet	March 2013	June 2013	M	M	M
Consolidated Balance Sheet of the Banking System	March 2013	June 2013	M	M	M
Interest Rates[2]	December 2012	March 2013	M	M	M
Consumer Price Index	February 2013	April 2013	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 2013	May 2013	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	December 2012	March 2013	Q	Q	Q
External Current Account Balance	December 2012	May 2013	A	A	A
Exports and Imports of Goods and Services	December 2012	May 2013	A	A	A
GDP/GNP	December 2012	May 2013	A	A	A
Gross External Debt	December 2012	March 2013	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

REPUBLIC OF CONGO

August 14, 2013

STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITYANALYSIS

Approved By
Anne-Marie Gulde-Wolf and Masato Miyazaki (IMF) and Marcelo Giugale and Jeffrey Lewis (IDA)

Prepared by the Staff of the International Monetary Fund and the World Bank[37]

Congo's debt outlook has strengthened further since the last debt sustainability analysis (DSA) conducted in 2011 (EBS/11/118, Supplement 1). Under the baseline scenario for the current DSA all debt burden indicators are projected to be significantly below the indicative policy thresholds and the standard stress tests do not result in breaches of these thresholds. As a result, the Republic of Congo remains at a low risk of debt distress. However, the economy continues to be vulnerable to external shocks and, in particular, to adverse changes in oil prices. This calls for continued efforts to promote diversification of the economy away from oil to increase the economy's resilience; and to ensure medium- and long-term fiscal and debt sustainability, including through continued adherence to prudent borrowing policies.

[37] Staff teams included Rossen Rozenov and Ivohasina Razafimahefa from the IMF and Emmanuel Pinto Moreira from the World Bank.

BACKGROUND

4. **Congo's stock of external debt has declined substantially thanks to comprehensive HIPC/MRDI debt relief**. As noted in the previous DSA, Congo reached the HIPC Initiative Completion Point in January 2010 which resulted in estimated total debt service savings of $1.9 billion, and a decline of gross public external debt to just over 20 percent of GDP at end-2010 (from about 55 percent of GDP in 2009).[38] The debt-to-GDP ratio increased to 25 percent of GDP in 2012 reflecting new borrowing, notably large disbursements under a bilateral loan agreement with China, contracted in 2006. Bilateral creditors currently comprise nearly two-thirds of total debt (Text Table 1). Domestic public debt is relatively low at 6 percent of GDP and mainly comprises arrears, including wage arrears to employees in the social sectors. An audit of government domestic arrears is underway; a repayment plan will be developed after the outstanding amounts are confirmed.

Text Table 1. Congo: Gross External Debt by Creditor 1/

	2009	2010	2011	2012
		(in billions of CFAF)		
Multilateral creditors	238.6	226.9	90.0	96.9
Bilateral creditors	1,533.7	291.1	956.3	1,143.1
Commercial debt	699.4	685.2	520.8	517.0
Total	2,471.8	1,203.2	1,567.1	1,757.0
		(in percent)		
Multilateral creditors	9.7	18.9	5.7	5.5
Bilateral creditors	62.0	24.2	61.0	65.1
Commercial debt	28.3	56.9	33.2	29.4
Total	100.0	100.0	100.0	100.0

1/ Excludes arrears.

5. **The sustainability of Congo's debt should be assessed in the context of the country's sizeable assets.** Government deposits at BEAC stood at about 20 percent of GDP at end-2012; and the government is holding deposits abroad and has extended loans to some African countries (for an estimated total of about 29 percent of GDP); thus, Congo's net debt position is negative. The strong external position reflects the impact of continuing high oil prices since the achievement of HIPC/MDRI debt relief in 2010. As the government continues to save part of the oil revenue and to build foreign assets, the net public debt is expected to remain in the negative territory throughout the projections horizon. Relative to GDP, the net debt position is projected to peak at the equivalent of a negative 105 percent of GDP around 2022 and gradually decline thereafter reflecting decreasing oil proceeds.

UNDERLYING ASSUMPTIONS

6. **The medium and long-term macroeconomic framework underlying the DSA is consistent with the baseline scenario presented in the Staff Report for 2013 Article IV Consultation.** The main assumptions and projections for key macroeconomic variables are summarized in Box 1. Economic activity is expected to remain strong, largely driven by the non-oil sector. While oil production is foreseen to fluctuate around current levels until 2018,

[38] Press Release No. 10/20, January 28, 2010.

growth in the non-oil sector is projected to be robust, reflecting developments in construction, agriculture and services. The authorities are assumed to undertake large initial capital outlays to address the country's infrastructure gap. Once a threshold of public capital stock is reached, corresponding to middle-income countries level, public investments would be gradually contained as private investments pick up, attracted by the more enabling infrastructure base. Growth would be supported by this dynamics. Compared to the macroeconomic framework underpinning the 2011 DSA, the main difference relates to the assumed external borrowing conditions, particularly for the loan disbursements under the strategic bilateral partnership with China, which have been revised as per the latest discussions with the authorities. In the mining sector, considering the large uncertainty, a conservative approach is adopted; only one of Congo's iron ore projects under development is assumed to reach the production phase, keeping output and activity relatively low. Removing existing sector-specific infrastructure bottlenecks in transportation would provide a significant boost to longer-term growth at the cost of significant initial investments.

7. Under the baseline, the current account balance is expected to remain positive in the medium term. This implies a further increase in international reserves and no pressing external financing needs for the economy. In line with these projections, new external borrowing in the medium term would largely be limited to a second bilateral loan with China in the amount of $1 billion for which negotiations are underway. Disbursements are assumed to take place in the course of four years starting in 2013, and on concessional terms and conditions identical to those of the existing Chinese loan. In the longer run, as the oil exports decline becomes more pronounced and non-oil export receipts fall short of compensating for the loss, additional financing would be needed. The present DSA assumes financing for the gap to be secured on concessional terms, although with a grant element somewhat lower than that under the current China loan.

Box 1. Republic of Congo: Main Macroeconomic Assumptions

- **Real GDP growth:** The non-oil sector is projected to grow robustly by 7.5 percent during 2013–20 driven by construction, agriculture and services; growth would stabilize at about 5 percent thereafter. Despite a large potential, mining production is assumed to originate from only one project, given the uncertainties surrounding the other projects (including sluggish global demand and the need for large investment in infrastructure). Thus, production would start timidly in 2013 at 120,000 tons, augment to 2 million tons in 2015 and stabilize at a conservative projection of 7 million tons from 2017.

- **Oil production and prices:** Oil production is expected to fluctuate around 100 million barrels per year during 2013–18. Based on existing licenses, production would decline by 15 million barrels per year during 2019–32, leading to a drop of annual production from 100 million barrels in 2012 to about 10 million barrels in 2032. Prices at international markets are projected to decrease by about 3 percent per year during 2013–18; thereafter, this analysis assumes constant prices in real terms.

- **Inflation:** Following the sharp acceleration to 7.5 percent (year-on-year) in 2012, inflation is expected to drop to 4.1 percent by end-2013 as the impact of the shocks related to the ammunitions depot explosion in 2012 dissipates. In the medium term, inflation is projected to decline gradually below the CEMAC's convergence criteria of 3 percent.

- **Current account balance:** The fluctuation of the current account balance is driven by the dynamics of exports and imports in the oil and mining sectors. The balance is expected to be positive until 2018, supported by the oil sector; however, it would turn to a widening deficit thereafter as the currently assumed iron ore production would not suffice to compensate for the decline in oil production.

- **Fiscal balance:** The authorities are expected to continue adhering to the fiscal rule introduced in 2013. Following the brisk increase in expenditures in 2012, fiscal consolidation would resume in 2013 and be continued in the medium- and long-term. The basic non-oil primary deficit would improve from about 63 percent of non-oil GDP in 2012 to 27 percent in 2018 and about 4 percent in the long run.

- **External financing:** A second agreement with China is assumed in the medium-term, with total disbursements of US$ 1 billion during 2013–16. These disbursements would finance reconstruction efforts in the aftermath of the 2012 ammunitions depot explosions and contribute to address Congo's infrastructure and skills gaps. The agreement is assumed to be highly concessional, similar to one entered into in 2006. In the long run, external borrowing would be needed to ensure a minimum public investment of about 6 percent of GDP.

8. The macroeconomic outlook is subject to risks. The baseline scenario is built around relatively favorable assumptions about commodity prices and the continued concessionality in new public sector borrowing. Also, the Congolese economy is highly vulnerable to external shocks, notably to a fall in oil prices or slowdown of trade partners' demand. The government has accumulated sufficient fiscal and external reserves to mitigate the immediate effects of such shocks. A protracted worsening of the terms of trade or foreign demand may nevertheless trigger severe imbalances and require additional borrowing to avoid a sharp contraction in income and could have negative implications for debt sustainability.

EXTERNAL DEBT SUSTAINABILITY ANALYSIS

9. All of Congo's debt indicators are below the relevant country-specific debt burden thresholds. The joint Bank-Fund debt sustainability framework (DSF) for low-income countries classifies Congo as a "weak" performer, based on the quality of the country's policies and institutions as measured by the 3-year average of the ratings under the World Bank's Country Policy and Institutional Assessment (CPIA). This is reflected in lower debt sustainability thresholds compared to countries operating in a strong policy environment (Text Table 2). Nevertheless, given the low level of external debt and strengthening indicators of repayment capacity, the debt stock and debt service ratios remain comfortably within the sustainable debt domain throughout the projections period under the baseline.

10. Stress tests do not result in breach of the indicative thresholds either. Standard bound tests that examine the implications of various shocks for the debt and debt-service paths based on the country's historical volatility result only in moderate increases in the debt burden indicators (Figure 1). For all indicators, except for the debt-service to revenue ratio, the most extreme scenario is associated with a shock to exports. A decline in exports to a level equivalent to one standard deviation below their historical average in the first two years of the projection period would cause the PV of debt to GDP ratio to rise by about 4 percentage points and the PV of debt to export ratio by 10 percentage points at the peak.[39] Under the historical scenario, which derives the debt indicators assuming that key variables are at their 10-year historical averages, all debt ratios decline very rapidly. However, as pointed out in the previous DSA, this scenario is less relevant for resource-rich countries since past trends are likely a poor predictor of future outcomes.[40]

Text table 2. Debt Sustainability Framework: Indicative Policy-Dependant Thresholds

	PV of Debt			Debt Service	
	Exports	GDP	Revenue	Exports	Revenue
Weak Policy (CPIA≤3.25)	100	30	200	15	18
Medium Policy (3.25<CPIA<3.75)	150	40	250	20	20
Strong Policy (3.75≤CPIA)	200	50	300	25	22

[39] The vulnerability stems from very high share of oil in Congo's exports and large volatility of oil prices and production.
[40] Therefore, the historical scenario is not shown in the graph. Moreover, the debt dynamics under this scenario results in negative debt-burden indicators.

PUBLIC DEBT SUSTAINABILITY ANALYSIS

11. **Adding domestic public debt to external debt does not change the results of the analysis.** Given the low level of Congo's domestic public and publicly guaranteed (PPG) debt and lack of access to private markets, the evolution of the total public debt indicators broadly follows that of external debt under the baseline. The most extreme shock (in this case real GDP growth in 2013–14 set at one standard deviation below its historical average) raises the PV of debt to GDP ratio substantially to over 50 percent in the outer years of the projections period, and stabilizes at this level. A permanently lower GDP growth would have a similar, albeit somewhat smaller, effect on the debt ratios. The results of the bound tests should be interpreted with caution as they do not capture appropriately the accumulation of assets by the government, which in the case of Congo is quite significant, especially in the initial years of high primary surpluses.

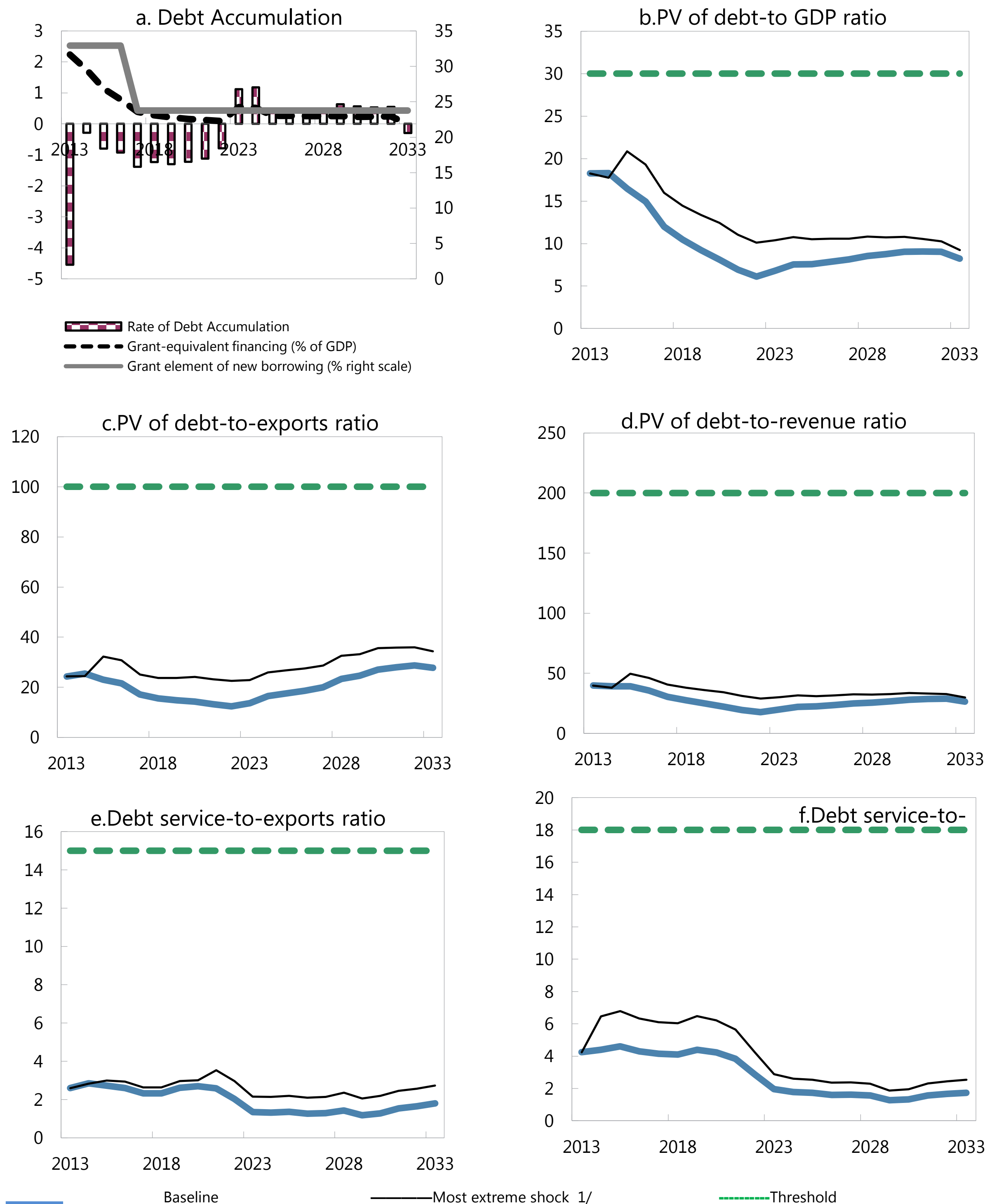
CONCLUSIONS

12. **The DSA shows that the Republic of Congo continues to face a low risk of debt distress, unchanged from the 2011 DSA**. All external debt indicators are well below the country-specific indicative thresholds under the baseline scenario and none of these thresholds are breached under the various standard stress tests. Congo is unlikely to resort to extensive external borrowing in the near future given the comfortable level of reserves which could be used as a buffer to smooth consumption in difficult economic times. It is therefore important for the government to adhere to its medium-term fiscal framework and to save the excess revenue according to the adopted fiscal rule. Should a need for additional borrowing arise, new loans should be contracted on concessional terms to the extent possible in order to maintain debt sustainability.

13. **Improving competitiveness and promoting economic diversification are key to increasing resilience to exogenous shocks.** As the DSA indicates, Congo's debt ratios appear to be most sensitive to swings in exports. Given the high concentration and vulnerability of the economy to downward movements in oil prices, broadening of the economic base by enhancing the development of the non-oil sector would reduce the volatility of exports and would strengthen the debt service capacity of the Congolese economy. In this regard, the national program for improvement of the business environment that the authorities recently launched with assistance from the World Bank to strengthen competitiveness and diversify and boost growth, is a welcome step; it ought to be rigorously implemented. In the same vein, in addressing Congo's weak physical and human capital, priority should be given to making electricity supply more reliable and competitive, and to enhancing the quality of transportation services and of the labor force.

14. **The authorities broadly concur with the conclusions of the DSA.** They expressed commitment to continuing prudent external borrowing policies.

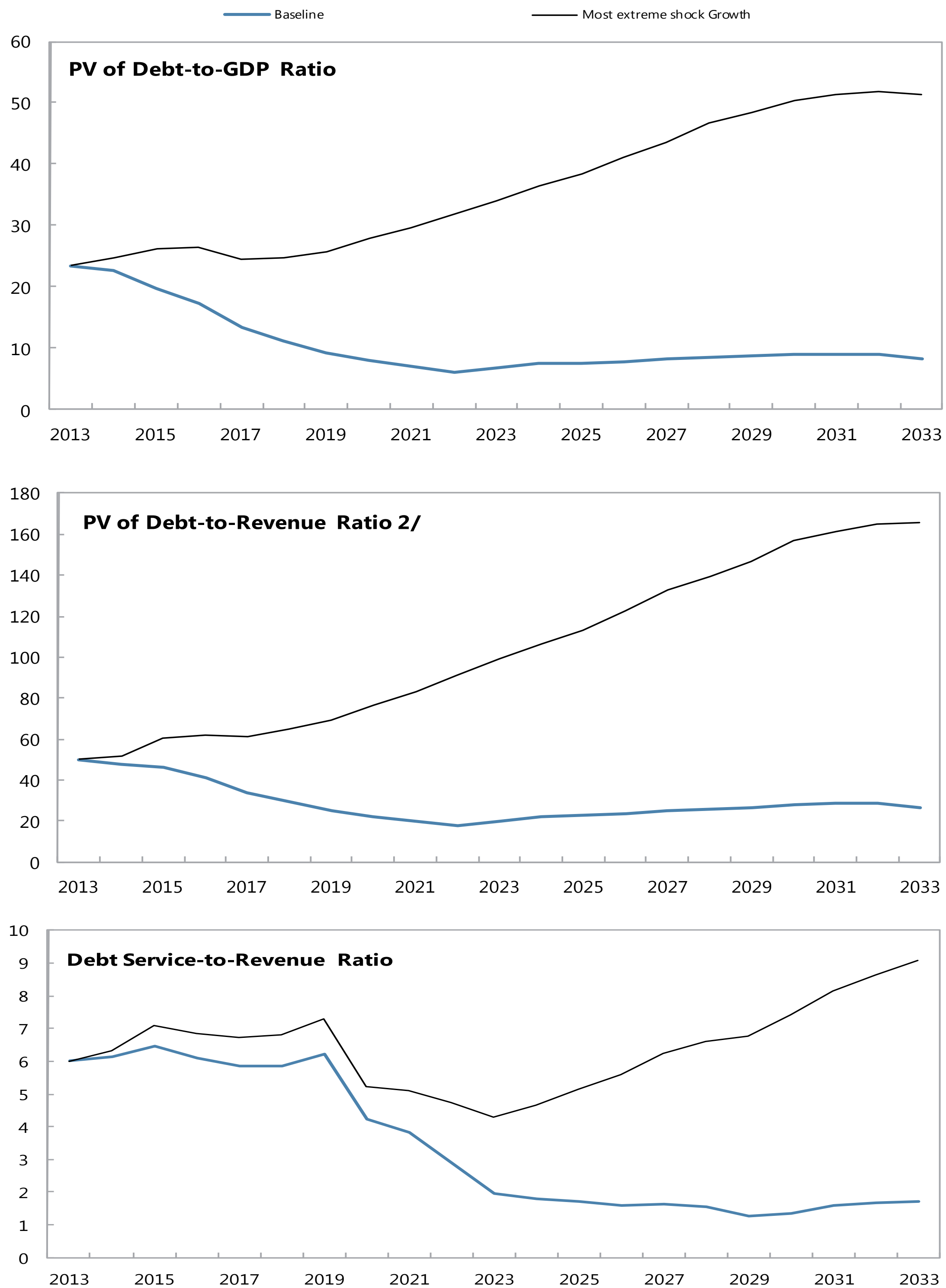
Figure 1. Congo, Republic of: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios. 2013–2033 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2033. In figure b. it corresponds to a Exports shock; in c. to a Exports shock; in d. to a Exports shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock.

Figure 2. Congo, Republic of: Indicators of Public Debt Under Alternative Scenarios, 2013-2033 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2023.

2/ Revenues are defined inclusive of grants.

Table 1. External Debt Sustainability Framework, Baseline Scenario, 2010-2033 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical 6/ Average	Standard 6/ Deviation	Projections									
	2010	2011	2012			2013	2014	2015	2016	2017	2018	2013-2018 Average	2023	2033	2019-2033 Average
External debt (nominal) 1/	**20.2**	**23.0**	**25.2**			**21.4**	**21.7**	**19.6**	**17.8**	**14.3**	**12.5**		**8.6**	**10.1**	
of which: public and publicly guaranteed (PPG)	20.2	23.0	25.2			21.4	21.7	19.6	17.8	14.3	12.5		8.6	10.1	
Change in external debt	-34.3	2.8	2.1			-3.8	0.3	-2.1	-1.8	-3.5	-1.8		1.0	-1.1	
Identified net debt-creating flows	-33.0	-12.4	9.0			-9.8	-4.6	1.4	1.3	2.0	5.1		8.4	8.6	
Non-interest current account deficit	**-4.8**	**-6.0**	**1.1**	**-2.6**	**5.2**	**-8.1**	**-5.2**	**-0.9**	**-0.8**	**-2.7**	**-0.2**		**7.3**	**11.2**	9.2
Deficit in balance of goods and services	-25.5	-27.1	-25.3			-24.1	-22.0	-20.6	-19.6	-23.8	-20.8		-5.3	6.6	
Exports	82.9	83.8	80.9			75.1	72.0	71.3	69.1	70.1	67.2		50.0	29.6	
Imports	57.4	56.8	55.6			50.9	50.0	50.7	49.5	46.3	46.4		44.8	36.2	
Net current transfers (negative = inflow)	2.5	2.0	2.8	1.5	1.1	2.0	2.2	2.6	3.1	3.1	3.4		4.6	4.4	4.5
of which: official	0.0	-0.4	-0.1			-1.0	-1.1	-0.7	-0.5	-0.3	-0.2		0.0	0.0	
Other current account flows (negative = net inflow)	18.1	19.0	23.6			14.0	14.5	17.1	15.8	18.0	17.2		8.1	0.2	
Net FDI (negative = inflow)	**-18.2**	**-3.2**	**6.4**	**-13.1**	**11.2**	**-0.5**	**1.5**	**3.7**	**3.3**	**6.2**	**5.8**		**1.5**	**-2.2**	0.2
Endogenous debt dynamics 2/	**-10.0**	**-3.2**	**1.5**			**-1.2**	**-0.9**	**-1.4**	**-1.2**	**-1.4**	**-0.5**		**-0.4**	**-0.4**	
Contribution from nominal interest rate	0.9	0.2	0.2			0.2	0.2	0.2	0.1	0.2	0.1		0.1	0.1	
Contribution from real GDP growth	-3.8	-0.6	-0.9			-1.4	-1.0	-1.6	-1.4	-1.6	-0.7		-0.5	-0.4	
Contribution from price and exchange rate changes	-7.1	-2.8	2.2			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-1.3**	**15.2**	**-6.9**			**6.0**	**4.9**	**-3.5**	**-3.1**	**-5.5**	**-6.8**		**-7.4**	**-9.7**	
of which: exceptional financing	0.0	0.0	-2.1			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	22.9			18.3	18.3	16.5	14.9	12.0	10.5		6.8	8.2	
In percent of exports	...	...	28.3			24.3	25.4	23.1	21.6	17.1	15.6		13.6	27.7	
PV of PPG external debt	**...**	**...**	**22.9**			**18.3**	**18.3**	**16.5**	**14.9**	**12.0**	**10.5**		**6.8**	**8.2**	
In percent of exports	**...**	**...**	**28.3**			**24.3**	**25.4**	**23.1**	**21.6**	**17.1**	**15.6**		**13.6**	**27.7**	
In percent of government revenues	**...**	**...**	**53.9**			**39.8**	**39.2**	**39.1**	**35.7**	**30.4**	**27.5**		**19.8**	**26.5**	
Debt service-to-exports ratio (in percent)	**1.2**	**0.2**	**0.2**			**2.6**	**2.9**	**2.7**	**2.6**	**2.3**	**2.3**		**1.3**	**1.8**	
PPG debt service-to-exports ratio (in percent)	**1.2**	**0.2**	**0.2**			**2.6**	**2.9**	**2.7**	**2.6**	**2.3**	**2.3**		**1.3**	**1.8**	
PPG debt service-to-revenue ratio (in percent)	**2.6**	**0.4**	**0.4**			**4.2**	**4.4**	**4.6**	**4.3**	**4.1**	**4.1**		**2.0**	**1.7**	
Total gross financing need (Billions of U.S. dollars)	-2.7	-1.3	1.1			-0.9	-0.2	0.7	0.7	0.9	1.3		1.8	2.7	
Non-interest current account deficit that stabilizes debt ratio	29.5	-8.8	-1.0			-4.3	-5.5	1.2	1.0	0.8	1.6		6.3	12.3	
Key macroeconomic assumptions															
Real GDP growth (in percent)	8.8	3.4	3.8	4.6	3.2	5.8	4.8	7.7	7.3	10.1	4.7	6.7	6.6	4.2	3.3
GDP deflator in US dollar terms (change in percent)	15.0	16.1	-8.7	12.7	17.4	-1.5	-6.4	-1.2	-3.1	2.6	-2.0	-2.0	-0.2	2.0	-0.1
Effective interest rate (percent) 5/	2.1	0.9	0.8	2.6	1.2	0.8	0.8	0.8	0.8	1.0	1.0	0.9	1.2	0.8	1.0
Growth of exports of G&S (US dollar terms, in percent)	47.1	21.4	-8.5	18.3	23.4	-3.3	-5.9	5.5	0.7	14.6	-1.8	1.6	7.9	0.0	-2.2
Growth of imports of G&S (US dollar terms, in percent)	26.0	18.6	-7.1	18.5	21.3	-4.7	-3.7	7.9	1.4	5.7	2.8	1.6	6.7	0.0	1.5
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	32.9	32.9	32.9	32.9	23.8	23.8	29.9	23.8	23.8	23.8
Government revenues (excluding grants, in percent of GDP)	37.4	42.0	42.5			45.9	46.7	42.1	41.8	39.4	38.1		34.4	31.0	33.6
Aid flows (in Billions of US dollars) 7/	0.0	0.1	0.0			0.2	0.2	0.1	0.1	0.1	0.1		0.0	0.0	
of which: Grants	0.0	0.1	0.0			0.2	0.2	0.1	0.1	0.1	0.1		0.0	0.0	
of which: Concessional loans	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			2.2	1.7	1.1	0.8	0.4	0.3		0.5	0.0	0.2
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			48.4	59.1	62.7	64.7	97.8	97.1		26.0	47.5	44.9
Memorandum items:															
Nominal GDP (Billions of US dollars)	12.0	14.4	13.7			14.3	14.0	14.9	15.5	17.5	17.9		18.9	28.7	
Nominal dollar GDP growth	25.1	20.0	-5.2			4.2	-1.9	6.4	3.9	13.0	2.6	4.7	6.4	6.3	3.2
PV of PPG external debt (in Billions of US dollars)			3.2			2.6	2.6	2.4	2.3	2.1	1.9		1.3	2.3	
(PVt-PVt-1)/GDPt-1 (in percent)						-4.5	-0.3	-0.8	-0.9	-1.4	-1.2	-1.5	1.1	-0.3	0.1
Gross workers' remittances (Billions of US dollars)	...	...	...			...	...	...	...	...	...		...	...	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.
2/ Derived as $[r - g - \rho(1+g)]/(1+g+\rho+g\rho)$ times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.
3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
4/ Assumes that PV of private sector debt is equivalent to its face value.
5/ Current-year interest payments divided by previous period debt stock.
6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.
7/ Defined as grants, concessional loans, and debt relief.
8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 2. Congo, Republic of: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2013–2033

(In percent)

	Projections							
	2013	2014	2015	2016	2017	2018	**2023**	2033
PV of debt-to GDP ratio								
Baseline	18	18	16	15	12	10	**7**	8
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	18	6	-10	-23	-36	-49	**-98**	-118
A2. New public sector loans on less favorable terms in 2013-2033 2	18	19	17	16	13	11	**8**	12
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	18	19	18	16	13	11	**7**	9
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	18	18	21	19	16	14	**10**	9
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	18	18	17	15	12	11	**7**	8
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	18	16	10	8	6	5	**2**	7
B5. Combination of B1-B4 using one-half standard deviation shocks	18	3	-14	-15	-15	-16	**-16**	1
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	18	27	24	22	18	15	**10**	12
PV of debt-to-exports ratio								
Baseline	24	25	23	22	17	16	**14**	28
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	24	8	-14	-34	-52	-73	**-197**	-399
A2. New public sector loans on less favorable terms in 2013-2033 2	24	26	24	23	18	17	**16**	39
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	24	25	23	22	17	16	**14**	28
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	24	24	32	31	25	24	**23**	34
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	24	25	23	22	17	16	**14**	28
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	24	22	14	12	9	7	**3**	23
B5. Combination of B1-B4 using one-half standard deviation shocks	24	4	-18	-20	-20	-23	**-30**	4
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	24	25	23	22	17	16	**14**	28
PV of debt-to-revenue ratio								
Baseline	40	39	39	36	30	28	**20**	27
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	40	13	-23	-56	-92	-129	**-286**	-382
A2. New public sector loans on less favorable terms in 2013-2033 2	40	40	41	38	32	29	**24**	37
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	40	40	43	39	33	30	**22**	29
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	40	38	50	46	41	38	**30**	30
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	40	38	40	36	31	28	**20**	27
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	40	34	23	20	15	12	**5**	22
B5. Combination of B1-B4 using one-half standard deviation shocks	40	7	-32	-35	-37	-42	**-46**	4
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	40	57	57	52	45	40	**29**	39

Table 2. Congo, Republic of: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2013–2033 *(concluded)*

(In percent)

Debt service-to-exports ratio								
Baseline	3	3	3	3	2	2	**1**	2
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	3	2	2	1	1	1	**-4**	-14
A2. New public sector loans on less favorable terms in 2013-2033 2	3	3	3	3	2	2	**1**	2
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	3	3	3	3	2	2	**1**	2
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	3	3	3	3	3	3	**2**	3
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	3	3	3	3	2	2	**1**	2
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	3	3	3	2	2	2	**0**	1
B5. Combination of B1-B4 using one-half standard deviation shocks	3	3	2	2	2	2	**-2**	-2
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	3	3	3	3	2	2	**1**	2
Debt service-to-revenue ratio								
Baseline	4	4	5	4	4	4	**2**	2
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	4	4	3	2	2	1	**-5**	-13
A2. New public sector loans on less favorable terms in 2013-2033 2	4	4	5	4	4	4	**2**	2
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	4	5	5	5	5	5	**2**	2
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	4	4	5	4	4	4	**3**	2
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	4	4	5	4	4	4	**2**	2
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	4	4	5	4	4	4	**1**	1
B5. Combination of B1-B4 using one-half standard deviation shocks	4	4	4	3	3	3	**-4**	-2
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	4	6	7	6	6	6	**3**	3
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	24	24	24	24	24	24	**24**	24

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.

3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).

4/ Includes official and private transfers and FDI.

5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.

6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 3. Congo, Republic of: Public Sector Debt Sustainability Framework, Baseline Scenario, 2010–2033

(In percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2010	2011	2012	Average 5/	Standard Deviation 5/	2013	2014	2015	2016	2017	2018	2013-18 Average	2023	2033	2019-33 Average
Public sector debt 1/	20.2	30.2	31.3			26.6	26.1	22.9	20.2	15.7	13.2		8.6	10.1	
of which: foreign-currency denominated	20.2	23.0	25.2			21.4	21.7	19.6	17.8	14.3	12.5		8.6	10.1	
Change in public sector debt	-34.3	10.0	1.1			-4.7	-0.5	-3.2	-2.7	-4.5	-2.5		1.0	-1.1	
Identified debt-creating flows	-24.8	-18.9	-6.1			-14.7	-15.0	-14.0	-13.0	-14.4	-10.5		-2.3	1.4	
Primary deficit	-17.1	-16.6	-6.6	-14.0	7.1	-14.6	-15.6	-12.5	-12.2	-12.2	-10.2	-12.9	-1.9	2.0	-1.8
Revenue and grants	37.5	42.5	42.6			47.0	47.9	42.9	42.4	39.8	38.3		34.5	31.0	
of which: grants	0.1	0.5	0.1			1.1	1.1	0.8	0.6	0.4	0.3		0.1	0.0	
Primary (noninterest) expenditure	20.5	25.9	36.0			32.4	32.2	30.3	30.2	27.5	28.1		32.5	33.0	
Automatic debt dynamics	-7.7	-2.3	-0.6			-0.1	0.6	-1.4	-0.8	-2.2	-0.3		-0.4	-0.6	
Contribution from interest rate/growth differential	-4.9	-1.0	-1.2			-1.7	-1.1	-2.1	-1.7	-2.0	-0.8		-0.5	-0.4	
of which: contribution from average real interest rate	-0.5	-0.3	-0.1			0.0	0.1	-0.2	-0.1	-0.2	-0.1		0.0	0.1	
of which: contribution from real GDP growth	-4.4	-0.7	-1.1			-1.7	-1.2	-1.9	-1.6	-1.8	-0.7		-0.5	-0.5	
Contribution from real exchange rate depreciation	-2.8	-1.4	0.6			1.6	1.8	0.6	0.9	-0.1	0.5		...	...	
Other identified debt-creating flows	0.0	0.0	1.1			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	1.1			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	-9.6	29.0	7.2			10.0	14.5	10.8	10.3	9.9	8.0		3.3	-2.5	
Other Sustainability Indicators															
PV of public sector debt	...	...	29.1			23.5	22.7	19.7	17.3	13.4	11.2		6.8	8.2	
of which: foreign-currency denominated	...	...	22.9			18.3	18.3	16.5	14.9	12.0	10.5		6.8	8.2	
of which: external	...	...	22.9			18.3	18.3	16.5	14.9	12.0	10.5		6.8	8.2	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	-16.1	-16.4	-5.6			-11.8	-12.7	-9.8	-9.7	-9.9	-8.0		-1.3	2.5	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	68.2			50.0	47.5	46.1	40.8	33.6	29.1		19.7	26.5	
PV of public sector debt-to-revenue ratio (in percent)	...	...	68.4			51.2	48.6	46.9	41.3	34.0	29.3		19.8	26.5	
of which: external 3/	...	...	53.9			39.8	39.2	39.1	35.7	30.4	27.5		19.8	26.5	
Debt service-to-revenue and grants ratio (in percent) 4/	2.6	0.4	2.5			6.0	6.1	6.4	6.1	5.9	5.8		2.0	1.7	
Debt service-to-revenue ratio (in percent) 4/	2.6	0.4	2.5			6.1	6.3	6.6	6.2	5.9	5.9		2.0	1.7	
Primary deficit that stabilizes the debt-to-GDP ratio	17.3	-26.6	-7.7			-9.9	-15.1	-9.3	-9.5	-7.8	-7.8		-2.9	3.1	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	8.8	3.4	3.8	4.6	3.2	5.8	4.8	7.7	7.3	10.1	4.7	6.7	6.6	4.2	3.3
Average nominal interest rate on forex debt (in percent)	2.1	0.9	0.8	2.6	1.2	0.8	0.8	0.8	0.8	1.0	1.0	0.9	1.2	0.8	1.0
Average real interest rate on domestic debt (in percent)	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Real exchange rate depreciation (in percent, + indicates depreciation	-5.6	-7.1	2.7	-6.6	12.3	6.6	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	20.7	10.7	-1.2	8.8	14.6	-4.7	-5.6	-0.5	-2.4	2.6	-2.0	-2.1	-0.2	2.1	-0.1
Growth of real primary spending (deflated by GDP deflator, in percer	0.0	0.3	0.4	0.1	0.2	0.0	0.0	0.0	0.1	0.0	0.1	0.0	0.1	0.0	0.0
Grant element of new external borrowing (in percent)	...	...	...	...	...	32.9	32.9	32.9	32.9	23.8	23.8	29.9	23.8	23.8	...

Sources: Country authorities; and staff estimates and projections.

1/ [Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.]

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

3/ Revenues excluding grants.

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

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

Table 4. Congo, Republic of: Sensitivity Analysis for Key Indicators of Public Debt 2013–2033

	Projections							
	2013	2014	2015	2016	2017	2018	2023	2033
PV of Debt-to-GDP Ratio								
Baseline	23	23	20	17	13	11	7	8
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	23	24	21	18	14	10	-28	-107
A2. Primary balance is unchanged from 2013	23	23	19	15	9	4	-37	-124
A3. Permanently lower GDP growth 1/	23	23	21	19	16	14	18	44
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014-20	23	25	26	26	24	25	34	51
B2. Primary balance is at historical average minus one standard deviations in 2014-201	23	29	30	28	23	20	17	15
B3. Combination of B1-B2 using one half standard deviation shocks	23	27	27	27	24	23	28	39
B4. One-time 30 percent real depreciation in 2014	23	31	27	24	20	17	13	12
B5. 10 percent of GDP increase in other debt-creating flows in 2014	23	30	27	24	20	18	13	13
PV of Debt-to-Revenue Ratio 2/								
Baseline	50	47	46	41	34	29	20	27
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	50	50	49	42	36	26	-81	-346
A2. Primary balance is unchanged from 2013	50	49	44	35	23	10	-108	-399
A3. Permanently lower GDP growth 1/	50	48	48	45	39	38	52	141
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014-20	50	52	61	62	61	65	99	165
B2. Primary balance is at historical average minus one standard deviations in 2014-201	50	61	70	65	57	53	48	49
B3. Combination of B1-B2 using one half standard deviation shocks	50	57	63	63	59	60	81	125
B4. One-time 30 percent real depreciation in 2014	50	64	63	57	49	45	37	40
B5. 10 percent of GDP increase in other debt-creating flows in 2014	50	63	63	57	50	46	39	42
Debt Service-to-Revenue Ratio 2/								
Baseline	6	6	6	6	6	6	2	2
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	6	6	7	6	6	6	1	-12
A2. Primary balance is unchanged from 2013	6	6	6	6	6	6	0	-15
A3. Permanently lower GDP growth 1/	6	6	7	6	6	6	3	6
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014-20	6	6	7	7	7	7	4	9
B2. Primary balance is at historical average minus one standard deviations in 2014-201	6	6	7	7	6	6	4	4
B3. Combination of B1-B2 using one half standard deviation shocks	6	6	7	7	7	7	4	7
B4. One-time 30 percent real depreciation in 2014	6	7	8	8	8	8	3	4
B5. 10 percent of GDP increase in other debt-creating flows in 2014	6	6	7	6	6	6	3	3

Sources: Country authorities; and staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.

2/ Revenues are defined inclusive of grants.

INTERNATIONAL MONETARY FUND

Press Release No.13/332
FOR IMMEDIATE RELEASE
September 10, 2013

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

IMF Executive Board Concludes 2013 Article IV Consultation with the Republic of Congo

On August 30, 2013, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the Republic of Congo on a lapse-of-time basis, and considered and endorsed the staff appraisal without a meeting.[1, 2]

The Republic of Congo is endowed with abundant natural resources, notably oil and iron ore. Proven oil reserves are estimated at about 2 billion barrels; and the country has large iron ore deposits and a vast agricultural potential.

Supported by an improving political situation, macroeconomic performance strengthened markedly in the run up to and aftermath of the 2010 Highly Indebted Poor Countries (HIPC) Initiative completion point. Real Gross Domestic Product (GDP) growth averaged 6.5 percent during 2009–11, with robust activity in both the non-oil and oil sectors. Inflationary pressures were subdued, and the financial sector remained sound. Moreover, against the background of high oil prices, the government accumulated large fiscal savings. However, in contrast with the broadly satisfactory macroeconomic performance, the incidence of poverty stood at a high 46.5 percent in 2011. In 2012, economic developments were dominated by the authorities'

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[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.

[2] The lapse-of-time procedure is proposed for article IV consultations where the following conditions apply: (i) there are no acute or significant risks, or general policy issues requiring Board discussion; (ii) policies or circumstances are unlikely to have significant regional or global impact; (iii) in the event a parallel program review is being completed, it is also being completed on a lapse-of-time basis; and (iv) the use of Fund resources is not under discussion or anticipated.

fiscal response to the explosion of an ammunitions depot in Brazzaville. The government's swift response in attending to the needs of the victims and beginning reconstruction underpinned a brisk increase in public outlays, which pushed end-year inflation to 7.5 percent (year-on-year). Spending was nevertheless lower than budgeted owing to capacity and other administrative constraints; and the government's financial situation remained broadly comfortable.

In 2013, the fiscal and external positions are expected to improve further. However, preliminary data points to somewhat weaker than-initially-anticipated economic activity, owing to a decline in oil production. Real GDP growth is nevertheless projected at 5.8 percent; and inflation is easing as the effects of the 2012 sharp increase in government spending dissipate. In the financial sector, credit to the private sector remains strong.

The medium-term prospects are generally favorable. While oil production is expected to fluctuate quite considerably, growth should remain robust in the non-oil sector, sustained by the Republic of Congo's large oil revenues; and membership in the CFA franc zone should continue serving the country well as an anchor for macroeconomic stability. The main risks to the outlook are related to possible downward pressures on oil prices, stemming from uncertainties in the Euro area and emerging markets. On the domestic front, prospects hinge on ensuring that the next presidential elections in 2016 are run smoothly.

Executive Board Assessment

In concluding the 2013 Article IV consultation with the Republic of Congo, Executive Directors endorsed the staff appraisal, as follows:

The Republic of Congo remains on a path of strong growth, but significant gains in poverty reduction have yet to materialize. Congo ought to make growth more inclusive while preserving macroeconomic stability. To this end, the authorities' medium-term policy agenda appropriately aims at seeking further gains in budget consolidation while scaling up investment to address large infrastructure and skills gaps; fostering economic diversification and private sector development; and improving governance and transparency. Invigorating

growth and enhancing the effectiveness of the poverty reduction strategy in the period ahead will require the rigorous implementation of reforms underway in these critical areas.

Continued close adherence to stability-prone fiscal policies is key to consolidating the recent gains in macroeconomic stability. The ongoing efforts to strengthen non-oil revenue collection in the context of a new fiscal rule that protects spending against the volatility of oil receipts are commendable. The newly introduced fiscal rule ought to be expanded and cast in a framework that accounts for the exhaustibility of oil reserves as well. While supporting pro-growth and pro-poor outlays, the proposed rule-based fiscal framework should seek the achievement of significant fiscal savings over the long term, necessary to build up buffers and sustain reasonable levels of expenditures in the post-oil era. In this context, the Republic of Congo should continue adhering to a prudent borrowing policy to preserve long-term debt sustainability after HIPC/Multilateral; Debt Relief Initiative (MDRI). World Bank-supported measures to improve public investment management ought to be timely implemented.

The external stability assessment points to additional improvements in the last year, but competitiveness ought to be further strengthened. The real effective exchange rate is in line with macroeconomic fundamentals, but external competitiveness is being stifled by deeply-rooted structural impediments to private sector development. The reform measures agreed to with the International Finance Corporation (IFC) to improve the business environment ought to be promptly implemented, including by making the recently established Investment Promotion Agency fully operational and streamlining the administrative requirements for engaging in business activities.

Improving governance and business conditions is needed to support strong private sector-led growth and poverty reduction. The authorities have reached compliant status under the Extractive Industries Transparency Initiative; they now have to expedite adoption of the fiscal transparency law that is currently under review in Parliament. To diversify the economy and promote employment, the Government is developing Special Economic Zones (SEZs); strengthening technical and vocational education; and introducing special employment-supporting programs. In parallel, innovative social safety net arrangements are being set up to protect the most vulnerable groups. The timely availability of budgeted funds will be needed to ensure that these programs are well implemented. As regards the SEZs program, the

government should avoid granting special fiscal incentives that create distortions and often give rise to abusive practices, focusing instead on revamping infrastructure and advancing administrative facilitation.

While the medium-term prospects are generally favorable, the authorities should be vigilant to risks related to downward pressures on world oil prices. Despite anticipated fluctuations in oil production over the next years, real GDP growth should remain robust and inflation would be contained around the CEMAC (Central African Economic and Monetary Community) target of 3 percent. However, uncertainties in the Euro area and a weakening of investment in the emerging markets, resulting in lower than-currently projected world oil prices, would cloud the country's otherwise favorable outlook.

The Republic of Congo should fully comply with its CEMAC obligations. The authorities are supporting and closely monitoring the ongoing review of the regional central bank (BEAC)'s reserves management framework. Pending completion of the review, relevant CEMAC commitments should be fully observed to insure the continued smooth operation of the BEAC and the pegged exchange rate arrangement. The authorities are encouraged to step up the efforts to ensure the timely provision of information to the Fund on the standard macroeconomic data that is required for effective surveillance.

Republic of Congo: Selected Economic and Financial Indicators, 2010–14

	2010	2011	2012	2013	2014
				Proj.	
			(Annual percentage change)		
Production and prices					
GDP at constant prices	8.8	3.4	3.8	5.8	4.8
Oil	13.8	-4.8	-9.6	-2.6	-4.0
Non-oil	6.5	7.4	9.7	8.8	7.6
GDP at current prices	31.3	14.5	2.6	0.8	-1.1
Consumer prices (period average)	5.0	1.8	5.0	4.5	3.0
Consumer prices (end of period)	5.4	1.8	7.5	4.1	2.9
			(Percent of GDP)		
Current account balance	3.8	5.9	-1.3	7.9	5.0
External public debt (end of period)	20.2	23.0	25.2	21.4	21.6
Central government finances			(Percent of non-oil GDP)		
Total revenue	116.8	138.1	120.5	117.4	107.2
Oil revenue	92.0	108.9	92.7	87.4	76.9
Nonoil revenue (inc. grants and investment income)	24.7	29.2	27.7	30.1	30.2
Total expenditure	66.7	84.7	102.3	81.4	72.6
Current	35.6	32.9	41.4	34.4	33.8
Capital (and net lending)	31.2	51.7	60.8	47.0	38.8
Overall balance (deficit -, commitment basis) [1]	50.0	53.4	18.2	36.0	34.6
Basic primary fiscal balance (deficit -) [2]	57.6	62.6	29.8	43.9	37.5
of which Basic non-oil primary balance (- = deficit)	-34.4	-46.3	-62.9	-43.5	-39.4
		(Percent of total government revenue excluding grants)			
External public debt service (after debt relief) [3]	3.3	14.0	2.4	4.9	4.4
External public debt (after debt relief) [3]	54.0	54.8	59.2	46.6	46.3
		(Billions of CFA francs, unless otherwise indicated)			
Gross official foreign reserves	2,200	2,875	2,774	3,500	4,522
Nominal GDP	5,947	6,807	6,983	7,039	6,961
Nominal non-oil GDP	1,911	2,096	2,470	2,817	3,109
World oil price (U.S. dollars per barrel)	79	104	105	103	98
Oil production (Millions of barrels)	115	109	99	96	92
Nominal Exchange rate (CFA/USD, period average)	471	510	494	…	…

Sources: Authorities of the Republic of Congo; and IMF 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