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REPUBLIC OF CONGO

September 2014

2014 ARTICLE IV CONSULTATION—STAFF REPORT; PRESS RELEASE AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE REPUBLIC OF CONGO

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2014 Article IV consultation with the Republic of Congo, the following documents have been released and are included in this package:

- **Staff Report** prepared by a staff team of the IMF, for Executive Board's consideration on July 21, 2014, following discussions that ended on May 26, 2014 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 July 7, 2014.
- **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 as expressed during its July 21, 2014 consideration of the staff report that concluded the Article IV consultation with the Republic of Congo.
- **Statement by the Executive Director for the Republic of Congo.**

The following document has been or will be separately released.

Selected Issues Paper

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

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REPUBLIC OF CONGO

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION

July 7, 2014

KEY ISSUES

Economic context. Growth has been strong, inflation low, and fiscal buffers and international reserves adequate. However, poverty and unemployment remain high, despite large government spending financed from oil revenue. The business climate is among the most challenging and the private credit-to-GDP ratio among the lowest in sub-Saharan Africa (SSA).

Outlook and Risks. The economy is projected to expand by about 6 percent per annum between 2014 and 2019, as new oil fields come on stream and an ambitious public investment program is implemented to diversify the economy and make growth more inclusive. Oil production is expected to peak in 2017. The medium-term outlook for non-oil growth and poverty reduction hinges on progress addressing deep-seated structural weaknesses and fiscal adjustment. Risks to the outlook relate to oil price volatility and political instability.

Policies. Macroeconomic policies should focus on meeting the economy's social and development needs while mitigating risks to macroeconomic stability in the longer term.

- The growth of government spending should be arrested and the 2014 budget should not be exceeded. Amid spending pressures related to the 2015 Africa Games and the 2016 presidential elections, new fiscal developments should be reflected in a supplementary budget in 2014 to enhance transparency.
- In view of the limited remaining lifetime of oil reserves, a gradual fiscal consolidation should be targeted over the medium-term to safeguard fiscal and debt sustainability. Ongoing efforts to address implementation and absorptive capacity constraints need to be stepped up to maximize the benefits from public investments.
- Consideration should be given to adopt the non-oil primary balance as the fiscal anchor.
- The private sector's supply response to public infrastructure spending should be maximized through implementation of reforms to improve the business climate, support private investment, and develop the financial sector.
- The pilot project for cash transfers should be well-targeted and monitored to reduce poverty.
- Compliance with reserves pooling requirements would insure the continued smooth operation of the BEAC and the exchange rate peg, which both continue to serve the Republic of Congo well.

Approved By
Anne-Marie Gulde-Wolf and Bob Traa

Discussions took place in Brazzaville during May 13–26, 2014. The staff team comprised Ms. Hakura (head) and Messrs. Maino, Alter, and McLoughlin (all AFR). Mr. Ghilardi (RES/SPR) presented the DIGNAR model. The mission was joined by Mr. Sembene (OED) and assisted by Mr. Tchicaya-Ghondhet de Trebaud (resident economist). Mr. Nouvel (FAD consultant) was on an overlapping technical assistance mission and contributed to the mission's findings. The team met with the State Minister of Economy, Finance, Planning, Public Portfolio and Integration, Mr. Ondongo, and other senior officials.

The mission team received research support from Mr. Dernaoui, and administrative assistance from Mmes. Attey and 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 (CFAF), is pegged to the Euro.

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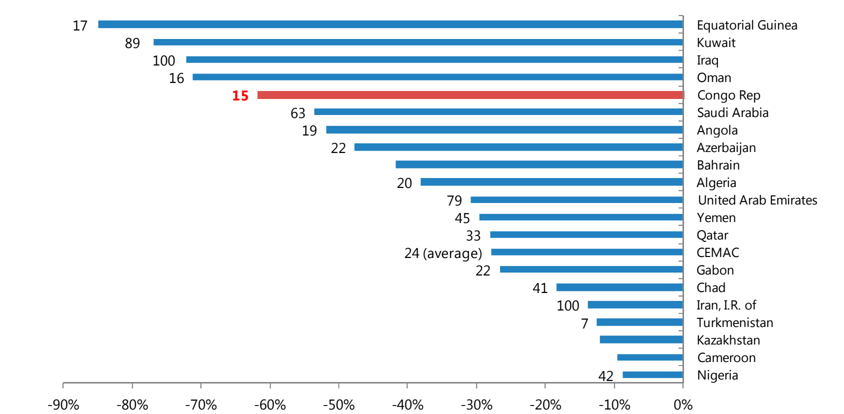
BACKGROUND

1. **Recent economic developments in the Republic of Congo have been favorable.** Growth in the last 5 years has averaged about 5 percent per year, higher than in regional peers. The country's debt situation improved markedly as a result of the 2010 HIPC/MDRI debt relief. Gross oil revenue averaged more than US$8 billion per year in 2012 and 2013, equivalent to about 60 percent of GDP. Substantial fiscal savings have been set aside by virtue of the prevailing high international oil prices.

2. **The 2012–16 National Development Plan (NDP) is in its third year of implementation.** This ambitious public investment program aims to address large social and infrastructure gaps, diversify the economy, and put Congo on a path to become an emerging market economy. Partly as a result of this, the government spending to non-oil GDP ratio is now among the highest of oil-exporting countries in Africa and the Middle East despite relatively limited oil reserves. Congo reached "compliant" status under the Extractive Industry Transparency Initiative (EITI) in February 2013.

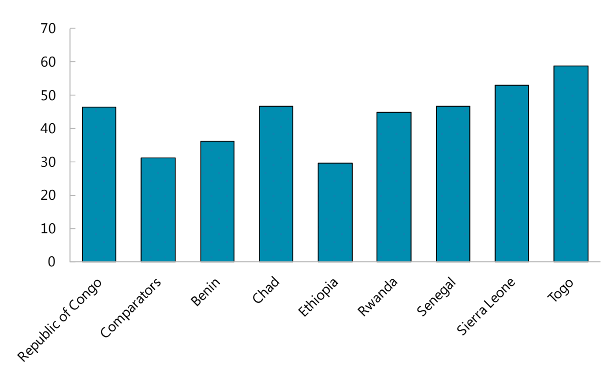
Oil-Producing Countries 2013 Non-oil Fiscal Balance (in percent of non-oil GDP) And Years of Production Left



Sources: National authorities; IMF staff estimates and projections; and British Petroleum Statistical Yearbook 2012.

3. **Poverty and unemployment remain comparatively high, despite robust economic growth and large government spending.** The poverty rate amounted to 46.5 percent in 2011. This is down from 50.7 percent in 2005 but is still higher than Congo's 2015 Millennium Development Goals (MDG) target of 35 percent, and higher than in countries with similar per capita GDP and similar to other SSA countries with significantly lower income. Other social indicators also remain areas of concern, particularly in education and health. The authorities' latest employment survey estimates the unemployment rate at about 10 percent in 2012 following the International Labor Organization definition, while a broader definition that includes discouraged job seekers puts the figure at 19.7 percent. Enhanced

Poverty Headcount Ratio at National Poverty Line (2011, % of Population)[1/]



[1/] Comparators are developing countries that have a per capita GDP (in PPP US$) between 25 percent above and below that of the Republic of Congo.

coordination of policies and monitoring are needed to make growth inclusive and to strengthen structural reform policies.

4. Political context. Presidential elections are planned for 2016. Under the constitution President Sassou N'guesso cannot be re-elected for a third seven-year term. Opposition parties are pressing for electoral reforms, including to establish an independent electoral commission and to verify the voter register. Recent turmoil in neighboring countries has so far not had material spillovers.

5. Progress in implementing the policy recommendations of the last two Article IV consultations has been limited (Annex 1). The authorities breached the fiscal anchor introduced in 2013, and are exploring alternative anchors. A draft fiscal responsibility and transparency (FRT) law has been prepared that would improve public financial management (PFM) but is yet to be approved. There remains ample scope to improve the efficiency and quality of public expenditures.

6. Against this background, this year's consultation focused on the need to put the economy on a path of fiscal consolidation while safeguarding targeted social spending and growth-enhancing capital spending. Discussions also focused on the importance for the authorities to make progress with initiatives to boost inclusive non-oil growth and address deep-seated structural weaknesses impeding competitiveness. Staff liaised with Congo's multilateral development partners. They shared staff's concerns about the efficiency of government spending, highlighting the need for better prioritization and monitoring of public expenditures.

RECENT ECONOMIC DEVELOPMENTS

7. Macroeconomic developments in 2013 were broadly satisfactory. Growth fell to 3.3 percent in 2013, on declining oil production from aging oil wells. Non-oil growth continued to be buoyed by favorable developments in the agriculture, construction, and services sectors. Inflation decelerated to 2.1 percent in December 2013 (y/y), down from 7.5 percent a year earlier, aided by lower food prices and CFA franc appreciation against the U.S. dollar.

8. The overall fiscal balance remained in surplus in 2013 at 5.8 percent of GDP (13.9 percent of non-oil GDP), up from 5.5 percent of GDP in 2012.

- Notwithstanding continued high international oil prices, oil revenues declined by almost 11 percent of non-oil GDP, reflecting declining production and export volumes.
- The basic non-oil primary balance (defined as the non-oil primary balance net of grants and foreign-financed capital spending) improved by about 19.5 percentage points of non-oil GDP to a deficit of 43.4 percent of non-oil GDP in 2013. Domestically-financed capital spending was broadly in line with the budgeted amount and represented a decline of 9.9 percentage points of non-oil GDP. Current expenditures on transfers and common charges fell short of the budget and declined by 7.7 percentage points of non-oil GDP. Non-oil tax revenues over performed owing to rising non-oil private sector imports and

customs administration reforms that are being undertaken, including the establishment of a one-stop window for customs clearance.

- Foreign-financed capital spending increased by 6.7 percentage points of non-oil GDP to 18.7 percent of non-oil GDP as the execution rate improved to about 70 percent of the budget, up from 54 percent in 2012.
- Domestic arrears payments amounted to 6.4 percent of non-oil GDP in 2013, a near doubling from 2012. The bulk of domestic arrears involve pension arrears and unpaid social benefits, which started accumulating after the liquidation of public enterprises in the past as dismissed employees were not fully compensated.

9. The fiscal rule introduced by the authorities in 2013 was breached owing to settlement of unbudgeted domestic arrears. Under the rule, CFAF 1,500 billion of oil revenue would be spent (CFAF 1,000 billion on domestically financed capital expenditure and CFAF 500 billion on current expenditure). The remainder would be saved. Accordingly, from the oil revenues of CFAF 2,295 billion that materialized in 2013, CFAF 795 billion should have been saved. Instead, savings amounting to about CFAF 629 billion (9.4 percent of GDP) were added to the government's deposits in China (Box 1).

10. The 2014 budget envisages a decline in the surplus to 3.3 percent of GDP and again targets government spending of about 100 percent of non-oil GDP:

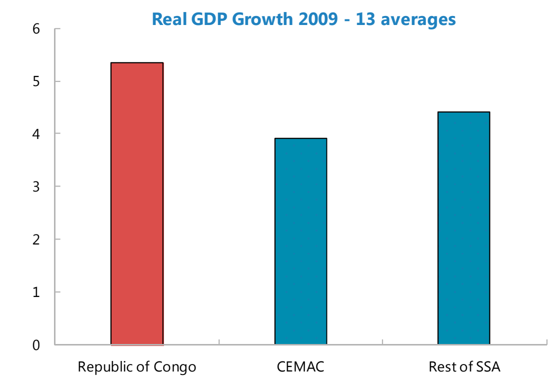
- An increase in the wage bill from hiring of new civil servants. The wage bill is budgeted to increase by 18 percent in 2014 and by about 12 percent per year over the 2015–17 period, reflecting the government's agreement with labor unions to raise salaries by 50 percent from 2013 to 2016 as well as their plan to hire qualified educators and health-care workers.
- A sizable increase in capital spending reflecting among other things: (i) the government's efforts to implement the NDP; (ii) ongoing construction and rehabilitation efforts related to the 2012 ammunition explosion; (iii) the urbanization program (*municipalisation accélérée*); and (iv) the need to build the infrastructure and facilities for the 2015 All Africa Games.
- A modest increase in non-oil revenue, including from additional one-stop windows for customs clearance.

11. Against the backdrop of high oil prices, the overall balance of payments (BOP) remains in surplus. The fiscal accounts suggest that the government's bank deposits in China increased in 2013. Despite declining for the second year in a row, the Republic of Congo's reserves at the BEAC continue to cover about 7 months of prospective imports of goods and services.

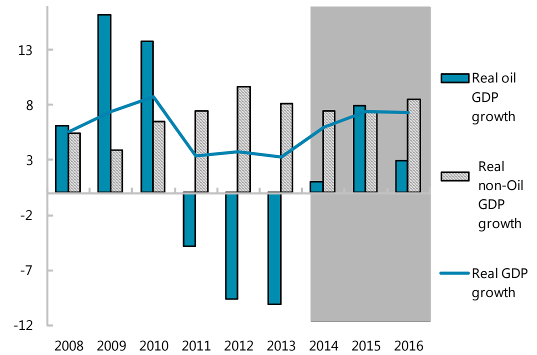
12. The ongoing stagnation in non–oil exports raises competitiveness concerns (Annex 2). Competitiveness has been affected by the 11 percent appreciation of the Republic of Congo's real effective exchange rate (REER) from the 2012 average. This is a result of the strengthening of the euro (to which the regional currency, the CFAF, is pegged) and the relatively higher inflation than in trading partners. Competitiveness constraints also arise from the challenging overall business environment that lags most countries in the world and regional peers (Figure 2) and the large social and infrastructure gaps.

Figure 1. Republic of Congo: Macroeconomic Developments

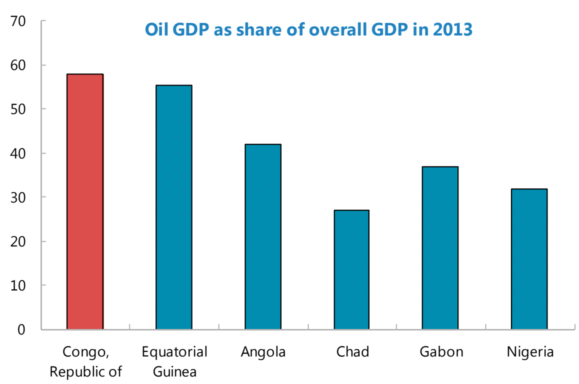
Republic of Congo's growth has outperformed regional peers



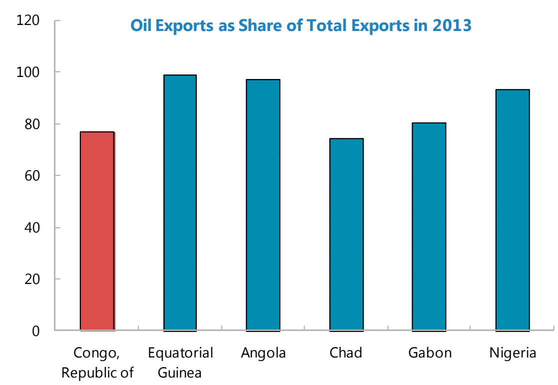
With oil fields aging, growth has been mainly driven by non-oil growth



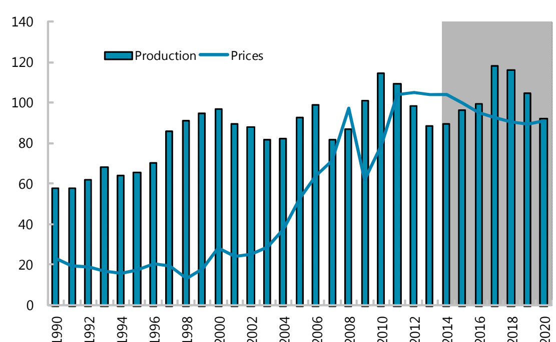
The oil sector's share of GDP remains high



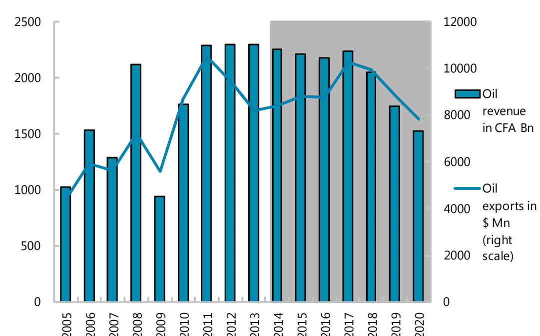
Oil exports are the main foreign exchange earner



Oil production is expected to peak in 2017 as new oil fields come on stream but then decline as oil wells are depleted



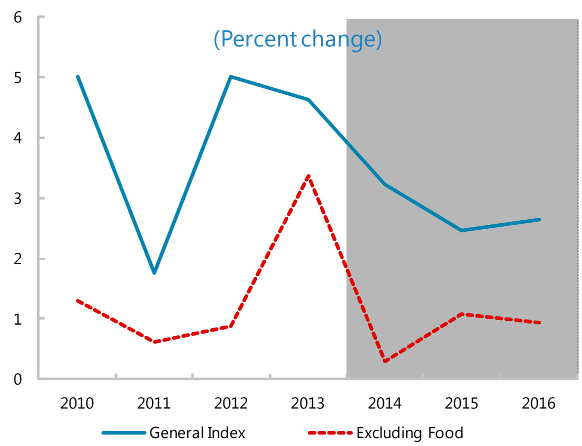
And oil revenues in billions of CFA are projected to gradually decline with lower oil prices



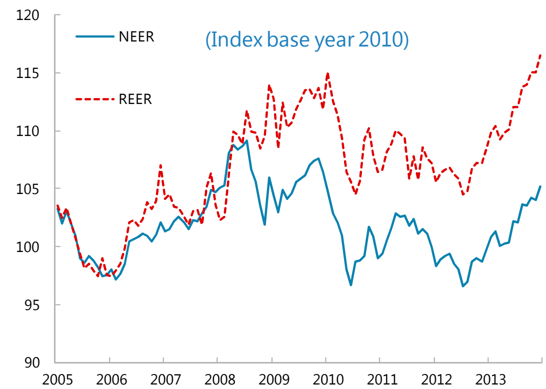
Sources: WEO database and IMF staff estimates

Figure 1. Republic of Congo: Macroeconomic Developments (continued)

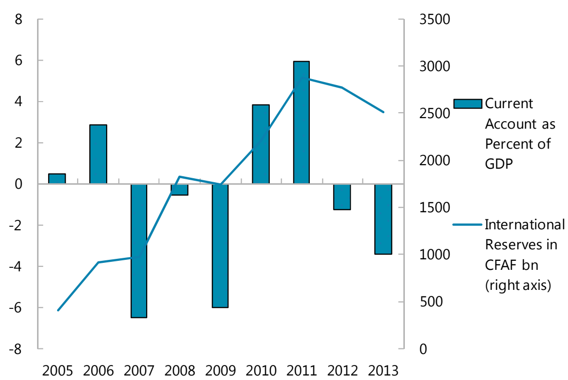
Inflation is decelerating aided by lower food prices…



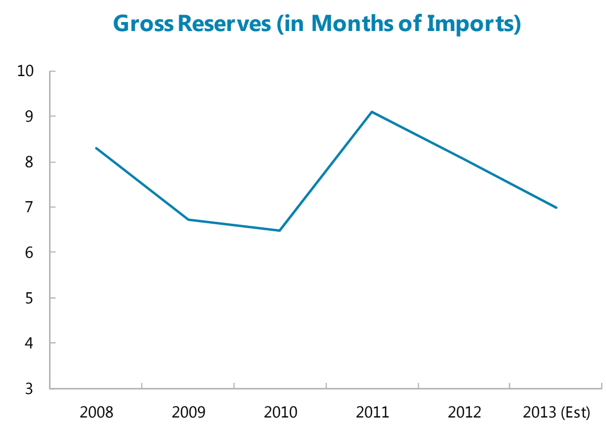
…and CFAF appreciation



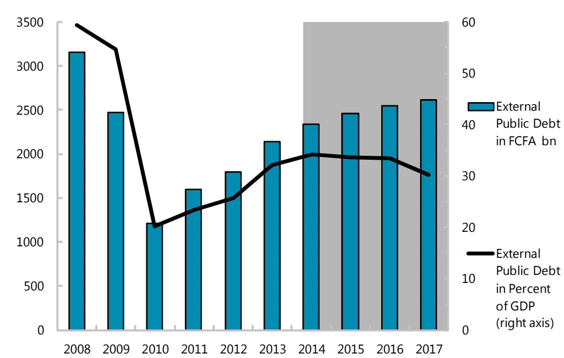
The current account deficit widened in 2013 and reserves declined as the government withdrew deposits from the regional central bank



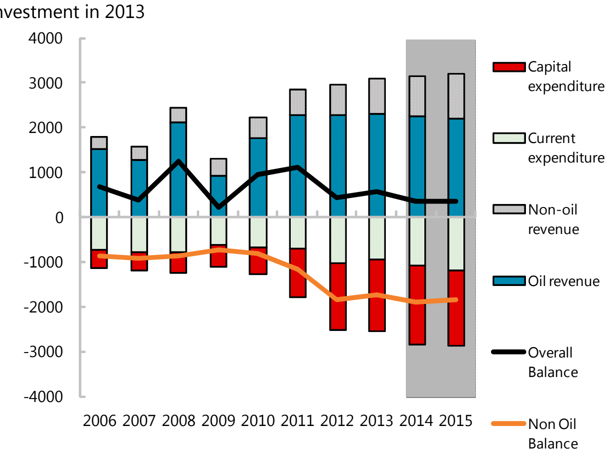
Reserves in months of prospective imports of goods and services also declined in 2013



The debt stock and the debt ratio are rising again, calling for prudence



Sizable oil revenues from high oil prices and increases in non-oil revenues improved the fiscal balance in spite of continued large government investment in 2013



Sources: WEO database and IMF staff estimates

Box 1. Congo's Economic Relationship with China

China has become the Republic of Congo's most important development partner (Table 1). It has operations ranging from development financing, direct investment, and technical assistance. It is also an important trading partner. Currently, more than one-third of Congo's annual oil and timber–the two major export commodities–are exported to China; and Congo ranks among the top five major African trading partners of China.

Table 1. The Role of China in Congo's Public Investments

	2006	2007	2008	2009	2010	2011	2012	2013
Chinese project loans in percent of:								
Non-oil GDP	1.7	3.3	4.6	10.9	10.6	8.2	11.2	17.3
Total government capital expenditure	5.6	11.2	15.2	38.1	33.9	15.9	18.4	29.9

Source: Congolese authorities and IMF staff calculations

China's financial assistance to the Republic of Congo has been growing significantly since 2006. The cooperation with China has been supported by the 2006 strategic partnership agreement, which envisioned concessional loans of about US$1.6 billion for key infrastructure projects. A second concessional agreement with total disbursements of US$1 billion during 2013–16, is expected to sustain infrastructure investments. **Congo's borrowing from China is on concessional terms**—carrying a 5-year grace period, 20 years maturity and a 0.25 percent interest rate. As a guarantee for the loans, the Congolese authorities are required to keep a minimum deposit balance equivalent to about twenty percent of total outstanding loans in an escrow account in China's EXIM Bank from the proceeds of their oil sales to China. In recent years, the higher remuneration on deposits at the EXIM Bank compared with government deposits at the BEAC (currently less than one percent) has encouraged Congolese government deposits in China.

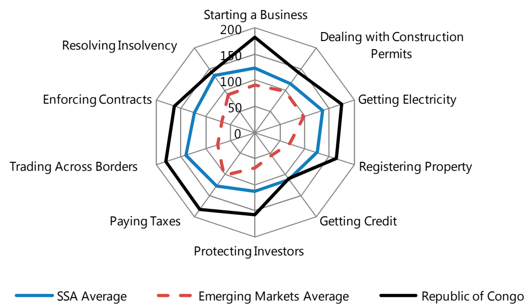
13. Following three years of very rapid growth, commercial banks' credit to the private sector decelerated to 27 percent in March 2014 (y/y) amid declining deposit growth. However, at less than 12 percent of GDP, the outstanding stock of credit to the private sector remains among the lowest in SSA. Commercial banks lowered their lending rates from 13–14 percent in recent years to around 7–10 percent in early 2014, reflecting excess liquidity in the banking system from lack of lending opportunities as well as the 75 basis point reduction in the BEAC's policy rate since October 2013.

14. External public debt has continued to trend upward. It reached 32 percent of GDP in 2013, up from 20 percent of GDP in 2010, when the Republic of Congo obtained HIPC/MDRI debt relief. Most of Congo's borrowing is on concessional terms from China and is targeted at financing key infrastructure projects (Box 1).

Figure 2. Republic of Congo: Governance and Business Environment

Congo's business environment is more challenging than that in other SSA countries

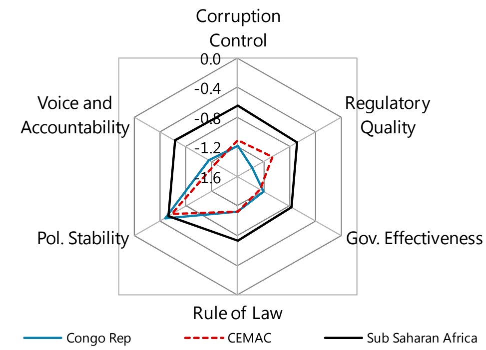
Doing Business Indicators: 2014 Ranking



Governance indicators are below regional averages except for political stability

Governance Indicators

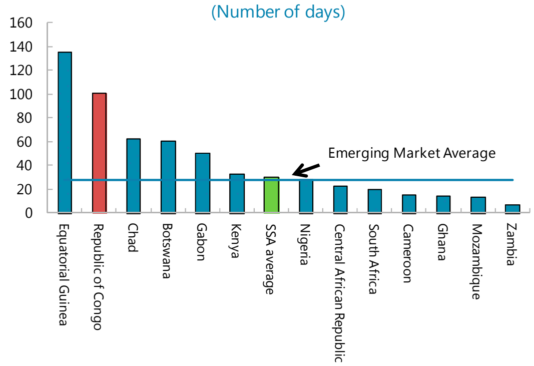
(Re-scaled: 0=worst, 5=best)



The Republic of Congo is considered a risky destination for domestic and foreign investors

Doing Business 2014: Starting a Business

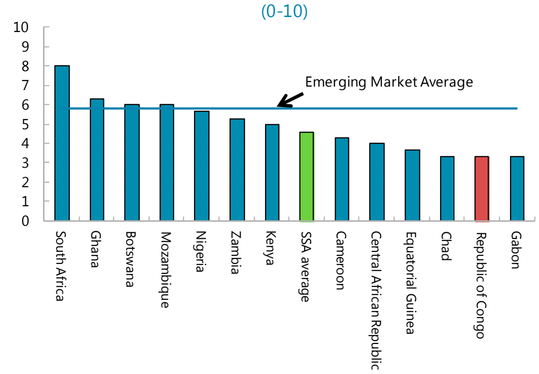
(Number of days)



And hurdles to business creation and entrepreneurship are significant

Doing Business 2014: Investor Protection Index

(0-10)



15. The Republic of Congo's favorable maiden sovereign credit rating issued in 2013 was recently reaffirmed and is among the strongest in the region. The rating agencies credited the Republic of Congo's strong net asset position and robust growth prospects but also noted weaknesses in the policy-making environment and data problems.

OUTLOOK AND RISKS

16. The near-term outlook for growth is favorable but inflation will likely drift up. The economy is projected to expand by about 6 percent in 2014, on a technical rebound in oil production and the start of iron ore production. Inflation is expected to inch up owing to demand pressures from continued large government spending, which may be compounded by cost pressures from the recent expulsion of about 80,000 low-paid illegal workers from the Democratic Republic of Congo.

17. The medium-term outlook is favorable but hinges on substantial progress with structural reforms and fiscal adjustment. NDP implementation should be complemented by efforts to improve the business climate and to implement targeted employment and social safety net programs. The high level of government spending and the exhaustibility of oil reserves, in conjunction with concerns about absorptive and implementation capacity of government spending, call for careful management of oil revenues. Therefore, and in line with the authorities' stated commitment, a core feature of the baseline scenario is a gradual reduction in the non-oil primary deficit to about 30 percent of non-oil GDP over the next five years, down from about 60 percent of non-oil GDP in 2013. A further reduction would be in order over the long term to help build an endowment the size of which would depend on average investment returns. This endowment could support government spending in the post-oil era while allowing room to implement the government's public investment program (Annex 3).

18. An alternative scenario in which fiscal consolidation is delayed illustrates the downsides of continued high government spending (see Debt Sustainability Analysis, DSA). In this scenario, fiscal adjustment would be postponed. Declining oil revenues would be replaced by funds borrowed from abroad, possibly by taking advantage of the favorable sovereign credit rating. The higher government spending (compared to the baseline) would initially provide a boost to overall growth but higher inflation would erode competitiveness and deteriorate the current account. The buildup in external debt over the medium term to finance the higher spending would eventually trigger an abrupt fiscal adjustment. The result in the medium to long term would be a loss of competitiveness, lower growth and a worse overall net external position compared to the baseline scenario of fiscal consolidation. A DSA run on the "alternative policy scenario" would suggest significantly higher debt vulnerabilities and entail a rating downgrade. Box 2 discusses the tradeoffs related to scaling-up public investment.

19. There are upside and downside risks to the outlook (Annex 4). A protracted period of slower growth in advanced and emerging economies and a sharp slowdown in growth in China, by weighing on international prices of commodities, could reduce oil revenues. To the extent that this gives rise to a reduction in government spending this could reduce growth in the Republic of Congo. Social tensions and political instability resulting from inequality and poor job opportunities could also adversely affect the outlook. Conversely, geopolitical tensions could cause international oil prices to rise. Moreover, the discovery of new oil reserves and the earlier-than-expected start of new mining projects would provide more time and financial resources to prepare for the post-oil era.

Authorities' Views

20. The authorities were in broad agreement with the fiscal adjustment path underlying the baseline scenario and risks to the outlook. They were more optimistic regarding the medium-term outlook for the mining sector noting that several projects were moving closer to the production stage. The authorities highlighted their programs to increase agricultural sector productivity. They were hopeful that their efforts to put in place basic infrastructure (access to potable water, expansion of paved-roads network, and access to electricity), particularly in the rural areas, and to improve the business climate and health and education systems would lead to higher non-oil growth and poverty reduction over the medium term.

Box 2. Public Investment, Debt Sustainability and Savings Tradeoffs

The Republic of Congo's projected decline in oil revenue poses a challenge for the design of public investment paths that can foster economic growth while ensuring fiscal and debt sustainability. To analyze this issue, the Debt, Investment, Growth and Natural Resources (DIGNAR) model developed by the IMF's Research Department was applied. The model takes into account the projected paths for the oil price, oil production, public investment, concessional debt as well as oil revenues.

Simulations were carried out with three alternative investment paths: (i) the baseline scenario described earlier consistent with the authorities fiscal consolidation objectives and commitments, (ii) the "alternative policy" scenario and (iii) a "high investment until 2017" scenario. Moreover, to study the impact of PFM reforms and structural reforms, a sustained steady increase in investment efficiency was considered. Finally, in order to analyze the downside risks posed by a decline in the oil price (production), a scenario with a lower path for oil revenues was considered.

The model and its simulations yielded the following main results:

- The baseline scenario delivers the best outcome in terms of public capital and debt sustainability and allows a buildup of savings. The ratio of public debt to GDP settles at around 35 percent in the long run.
- An aggressive scaling up of public investment can pose a threat to fiscal sustainability. In the "alternative policy" scenario, the public debt to GDP ratio reaches 120 percent and savings fall to the statutory minimum requirement.
- An increase in investment efficiency through credible and sustained PFM reforms and improvement in the business environment would allow for a relatively faster buildup of capital without adversely affecting the debt ratio or savings.
- An unexpected decrease in oil revenues (from a fall in oil prices or production) can result in a relatively fast decline in savings and increase the level of public debt in the long run.

21. **The authorities reiterated their commitment to anchoring fiscal policy in a prudent way.** They noted that they had observed the spirit of the 2013 fiscal rule. However, savings fell short owing to the need to settle unbudgeted arrears and because of below-budget oil revenues. In practice, however, they considered that the present anchor has a number of problems, foremost that the absolute level of savings is not guaranteed.

POLICY DISCUSSIONS

A. Strengthening the Fiscal Framework

22. **Staff advised the authorities to anchor fiscal policy on a non-oil primary balance rule that insulates spending from oil revenue volatility while ensuring medium-term fiscal and debt sustainability and supporting growth.** The authorities' fiscal anchor introduced in 2013 would help to protect government spending from oil price volatility but could be further strengthened by taking into account oil exhaustibility over the medium term. In particular, staff recommended anchoring fiscal policy on a gradual reduction in the non-oil primary deficit that takes into account public investment needs and the effect of this type of investment on growth while

preserving medium-term fiscal sustainability. The authorities are also encouraged to follow up on the recommendations on the reform of fiscal anchors in the forthcoming 2014 CEMAC Article IV consultation report.

23. In view of the short-term spending pressures, staff underscored the importance of meeting the fiscal targets in the 2014 budget. The aging of existing oil wells and recent technical difficulties to sustain oil production caused gross oil export revenue to decline, thus illustrating the uncertain outlook for oil production and revenues. Including the large foreign-financed capital spending, the 2014 budget would imply a 22 percent increase in total government spending compared to the outturn in 2013. The acceleration of foreign-financed capital spending would raise the Republic of Congo's external debt to about 38 percent of GDP by the end of 2014, up from 32 percent of GDP projected for end-2013. Ideally, a supplementary budget would formalize changes to fiscal targets, particularly in case the 2015 All Africa Games would require additional spending.

24. Efforts to enhance the effectiveness of spending should be stepped up. Projects should be analyzed and prioritized carefully to maximize their impact on productivity and poverty reduction. Implementation of projects with a more limited impact on medium-term growth and poverty reduction should be scaled back particularly in view of absorption and implementation capacity constraints. Also, by foregoing lower-priority capital investment projects, maintenance costs in later years would be commensurately lower. The authorities are also encouraged to contain fiscal risks relating to their plans to establish a special fund for guarantees and support (FIGA—*Fonds d'Impulsion de Garantie et d'Accompagnement*), which is designed to aid the creation of small and medium-size enterprises (SMEs). Particularly, there should be an annual report and assessment of the fiscal risks involved with the FIGA.

25. The design of the fiscal consolidation package matters for achieving the government's distributional and efficiency objectives while supporting growth. To the extent that the fiscal consolidation is based on progressive tax and expenditure measures, vulnerable households can be protected from the adjustment. For example, fuel subsidies in the Republic of Congo (about 3.6 percent of GDP in 2010) likely benefit the better off (see Selected Issues Paper (SIP) on Equitable Fiscal Consolidation). In this regard, staff welcomes the authorities' intention to focus more on critical social spending and to develop a comprehensive social safety net system.

Authorities' Views

26. The authorities noted that they were discussing ideas for a dynamic fiscal anchor, with all options on the table, including staff's proposal to target a declining path for the non-oil primary deficit. They highlighted that the Republic of Congo has consistently met the CEMAC convergence criteria of a positive basic fiscal balance. While underscoring their vast investment needs, they were cognizant of the risk of excessive debt-financed investments. If necessary, they would table a supplementary budget to revise their spending plans. The authorities noted that, apart from the initial capital injection, the FIGA has to generate its own revenues and be self-sufficient. Also, project proposals under the FIGA would be carefully appraised and the use of credit monitored.

B. Strengthening Public Financial Management

27. Some encouraging steps have recently been taken to strengthen PFM. Preparations to implement some of the CEMAC directives on PFM, including with Fund technical assistance (TA), have been initiated. Since the adoption of a new Organic Budget Law (LORFE) in 2012, the authorities have engaged in a number of projects for strengthening and reforming the PFM system. These efforts include work on improving the expenditure management under the IT system (SIDERE), and program budgeting has started being developed. A law on FRT has also been drafted recently. This law would establish guiding principles for other PFM laws and includes provisions on natural resources revenue transparency. The draft law, which aims, on the whole to establish a more transparent fiscal framework, would assign oversight responsibility to a new body.

28. Significant efforts remain for addressing the PFM system's weaknesses. In this context, full advantage should be taken of the ongoing Public Expenditure Management and Financial Accountability Review (PEMFAR). The PEMFAR, which is conducted by the World Bank and other development partners, should help identify steps to improve budget execution and procurement and disbursement processes. For example, reducing the number of steps in the procurement process would speed up the implementation of projects under the NDP. The public expenditure review in key sectors could form the basis for action plans to improve the efficiency and quality of spending. Staff encouraged the authorities to complete the audit of domestic arrears as a matter of priority and to put in place a repayment plan that is included in medium-term budget planning. Moreover, to improve budget execution and prevent the accumulation of arrears, the authorities were encouraged to focus on: (i) real-time reporting of budget implementation (tax revenues and expenditure) through centralized accounting systems; and (ii) improving treasury management and forecasting, including unifying data reporting at the central level, enhancing the reliability of revenue and expenditure forecasts as well as their monthly adjustments, and entrusting the centralized cash flow management to a dedicated team.

Authorities' Views

29. The authorities noted their intention to move ahead with the FRT law. The authorities also indicated that Fund PFM TA would be most beneficial if it would be timed with the drafting of new legislation. They reaffirmed that they are continuing to work with the World Bank and the EU to improve aspects of financial transparency and responsibility in the context of the PEMFAR and that they are in the process of implementing reforms regarding real time reporting and centralized accounting. An audit of domestic arrears is underway; pension arrears will be audited separately from commercial arrears. Depending on the size of commercial arrears, a multi-year repayment plan would be put in place.

C. Financial Sector Issues

30. Overall compliance with the regional prudential ratios remains broadly adequate in the aggregate but the financial sector remains underdeveloped (see SIP on Financial Inclusion, Development, and Risks). The ratio of non-performing loans to total loans has remained low and banks have maintained capital above the minimum levels (8 percent, Table 7). Lack of credible collateral and inadequate protection of creditors' rights continues to hinder financial sector development. Banks remain averse to channel loans to SMEs in spite of ample liquidity. Despite a steady increase in private sector credit and the development of microfinance and mobile banking outperforming regional trends, financial access in Congo—measured as the proportion of population with access to formal financial accounts—remains among the lowest in the CEMAC and CFA Franc Zone. Banks' business models rely on fees and commissions related to bank services and transfers. One bank is implementing an action plan to comply with the financial supervisor's (COBAC) regulations by mid-2014.

31. The policy agenda should include measures to address the main barriers to financial access. The authorities should expedite actions to address problems regarding legislation, property rights and documentation to support access to finance. Actions should include: (i) strengthening the judicial framework by boosting the judges' and tribunals' capacities to address financial sector issues; (ii) implementing a centralized balance sheet bureau (*Centrale des bilans*) to strengthen the quality of accounting data; and (iii) establishing a property registry (*Fonds National du Cadastre*) and a unique window to register land titles. The efforts to create a good environment for microfinance and mobile banking should continue by fostering collaboration between commercial banks and microfinance institutions and telecommunication companies. Ongoing implementation of the electronic payment system for taxes and utilities has to move forward and development of the banking branches network encouraged. Efforts to strengthen the quality of information available at the central risk bureau (*Centrale des risques)* and the central payment incident bureau (*Centrale des incidents de paiement)* should continue.

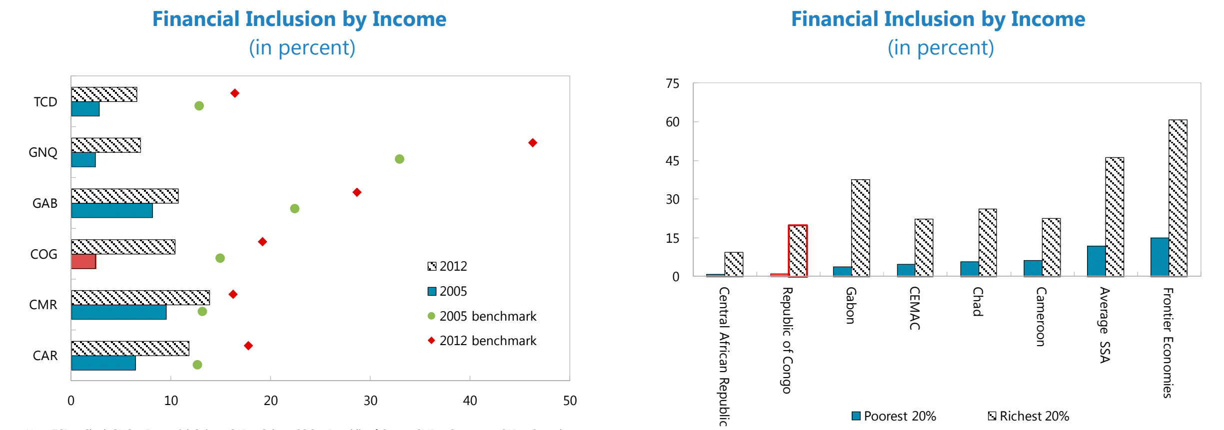
Authorities' Views

32. The authorities reaffirmed their commitment to continue to work with the regional authorities on strengthening the regional regulatory and supervisory system. They highlighted their efforts to increase and monitor credit to SME's for carefully appraised projects. The authorities also noted their efforts to strengthen the implementation of the Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) framework, including through outreach and training.

D. Structural Reforms for Inclusive Growth

33. The authorities have recently reinforced targeted social expenditures and safety net programs in the context of a new labor market policy. The finalization of a previously initiated National Employment Policy is pending review by stakeholders. However, a range of measures have been introduced to address skills mismatches that exacerbate unemployment. This includes strengthening and expanding the coverage of technical and vocational programs as well as implementation of programs to support rural job creation and self-employment. There are also plans to introduce training to meet the needs of the mining sector this year. Preparations are underway for the pilot cash transfer program (*Lisungi*) to the poor for spending on health and education services with the assistance of the World Bank. Food stamp and school-lunch programs were implemented in 2014.

Republic of Congo: Financial Depth and Inclusion



Note: TCD = Chad, GNQ = Equatorial Guinea, GAB = Gabon, COG = Republic of Congo, CMR = Cameroon, CAR = Central African Republic.
Source: World Development Indicators (WDI) database, country authorities and IMF staff calculations

Source: Global Findex database (World Bank) and IMF staff calculations

34. The government is making efforts to create employment and diversify the economy by creating four special economic zones (SEZs) (SIP on SEZs). The legal framework governing the zones has not yet been finalized, but the 2014 budget law extends preferential incentives to SEZs. Given the narrow tax base and high dependence of government revenue on the oil sector, strict controls should be put in place to avoid abuse of the favorable fiscal regime. Staff encouraged the authorities to prevent the proliferation of tax incentives and exemptions in SEZs. The impact on direct and indirect tax expenditure should be quantified and monitored.

35. Efforts to improve the business climate should be intensified. The Republic of Congo ranked 185th out of 189 countries in the 2014 World Bank's *Doing Business Survey*. This is in spite of recent steps to improve the business environment that have been taken in the context of an inter-ministerial action plan in collaboration with the International Finance Corporation (IFC). In the short term, the authorities plan to streamline administrative procedures and costs pertaining to registering enterprises, construction permits, access to electricity, cross-border trade, access to land, as well as take measures to protect investors. An Investment Promotion Agency established last year is in the process of identifying relevant sectors in which investments could be promoted.

Authorities' View

36. The authorities acknowledged that the fiscal incentives to SEZs entail loss of revenue. However, they considered that the losses incurred in the short term would be recouped in the long term as the tax expenditures would create employment and promote industrialization. The authorities agreed on the need to be vigilant and to ensure that the tax incentives do not become widespread and encourage rent seeking behavior. The authorities highlighted their commitment to strengthening social safety nets and ameliorating the business environment. They argued that due to the timing of implementation of some measures, the 2014 Doing Business rating did not yet reflect all the measures that they had implemented.

E. Asset and Liability Management and Other Issues

37. Staff urged compliance with CEMAC reserve repatriation obligations. Staff pointed out that membership in the CFA franc zone has served Congo well as an anchor for financial stability. To preserve orderly reserve management and monetary policy effectiveness in the CFA franc zone, staff urged the authorities to work with the BEAC and other member states to achieve a regional consensus on reserve management, including on their plan to establish a Sovereign Wealth Fund (SWF) that was adopted in late 2013. Staff recommended the SWF not invest in the domestic economy in order not to undermine the fiscal discipline to be enhanced by the authorities' fiscal anchor.

38. An updated Debt Sustainability Analysis (DSA) maintains Congo's low risk of debt distress rating. The recent increase in the volatility of Congo's exports along with the trend increase in external debt results in one of the standard stress tests breaching the policy-dependent thresholds. This would normally give rise to a reclassification of Republic of Congo to "moderate risk of debt distress." However, in view of the government's large deposits at the BEAC (60 percent of external public debt) which are more than fully covered by gross official foreign reserves at the BEAC, Congo continues to be classified as at "low risk of debt distress."

39. Efforts to strengthen debt management need to be stepped up in view of Congo's trend increase in debt. Developing a medium-term debt strategy and enhancing transparency in debt management in line with the recommendations of ongoing MCM TA would become particularly important if the authorities choose to tap international capital markets. A sovereign bond issuance should be the outcome of careful consideration of the nature and expected return of the investments the authorities plan to finance with the bond proceeds, and the comparative costs of alternative financing, including from the authorities' own reserves.

40. The authorities need to improve policy coordination and monitoring. This would be instrumental in ameliorating the efficiency and effectiveness of macroeconomic and structural reform policies. In the same vein, serious shortcomings in data strength and timeliness need to be overcome, including by introducing monitorable time bound targets to measure progress. Reforms are taking place at the National Institute of Statistics (NIS), building on IMF TA received on national accounts and government finance statistics. Improved reporting of data on official holdings of foreign exchange would enhance the transparency of government operations and complement the commitments Congo has made in the context of its membership of the EITI. It would also bolster confidence in macroeconomic management.

Authorities' View

41. The authorities noted their support for the BEAC working group that is putting forward proposals to deal with partial compliance with reserves repatriation requirements, including drawing on discussions with the IMF. The authorities noted that they intend to establish the SWF at the BEAC in accordance with the regional fiscal and saving framework. The aim of the SWF would be to invest part of the oil savings in higher-yielding foreign assets to preserve financial wealth for future generations.

42. The authorities intend to continue to pursue a prudent debt management policy that would maintain a strong net external position. Large infrastructure and development projects are expected to continue to be financed from external borrowing on highly concessional terms.

STAFF APPRAISAL

43. Economic performance continues to be broadly satisfactory. Growth is expected to pick up to about 6 percent in 2014 on a technical rebound in oil production and the start of mining production as well as continued strong non-oil growth supported by the government's large investment program. Inflation is likely to remain contained thanks to the peg of the CFA franc to the euro. Several years of high oil prices have allowed substantial fiscal savings and gross official reserves remain adequate. However, Congo's real effective exchange rate is somewhat overvalued. Also, the track record on lowering poverty and fuel subsidies has been poor.

44. Significant policy actions are needed to translate oil revenues into sustainable, inclusive non-oil growth. Despite large government spending, poverty and unemployment remain high. The government budget relies heavily on oil revenue. Therefore, oil price volatility and the exhaustibility of oil reserves could pose risks to macroeconomic stability and the authorities' objective of attaining high, and sustained inclusive non-oil growth over the medium term.

45. Putting the economy on a sustainable path requires arresting the growth of government spending and putting the economy on a path of fiscal consolidation, as outlined in the baseline scenario. While the authorities' introduction of the 2013 fiscal anchor represented an encouraging first step in this direction, it should be strengthened further by explicitly linking the anchor to the exhaustibility of oil reserves and targeting a gradual reduction in the non-oil primary deficit while safeguarding targeted social spending and growth-enhancing capital spending. The rise in government debt after the HIPC/MDRI relief, underscores the importance of continued adherence to a prudent borrowing and expenditure policy and to build up savings. Adequate measures should be taken to meet the 2014 budget targets, particularly as spending pressures related to construction for the 2015 All-Africa Games and the 2016 presidential elections are likely to continue. A supplementary budget is needed to formalize changes to fiscal targets.

46. Efficient implementation of the ambitious investment program is critical to diversify the economy and promote employment. The lack of basic infrastructure (water, electricity, roads), and effective education and health systems are hampering private investment. The selection, evaluation, and monitoring of investment projects as well as the budgeting of their operating and maintenance costs need to be strengthened. The link between the actions envisaged in the NDP and the annual budgets should be clearly established during budget preparation.

47. PFM reforms are important to improve accountability, governance, and the quality of public spending. The authorities are encouraged to follow up on recommendations from the ongoing PEMFAR to strengthen budget execution, procurement and disbursement processes and improve the efficiency and quality of spending. The authorities should complete the audit of domestic arrears as a matter of priority and put in place a repayment plan that is included in medium-term budget planning. Over the medium-term, strengthening treasury management, spending control and procedures should help prevent further accumulation of arrears. Over the long term, addressing the main weaknesses of the PFM system and implementing the provisions of the LORFE and future law on FRT will imply significant changes to the PFM system, reinforced capacities, and a robust project management. The draft FRT law should be implemented expeditiously and remain consistent with international best practice.

48. The Republic of Congo's medium-term prospects hinge on progress with structural reforms. The sustained growth of activity outside the oil sector would need to be supported by provision of adequate infrastructure, continued reforms to strengthen the business climate in line with the IFC-supported action plan, furthering financial development and increasing access to finance by strengthening the legal and information systems. There should be a careful analysis of the implications of the fiscal incentives for SEZs that were introduced in the 2014 budget law. The government's programs to strengthen the education system to improve the matching of workers' skills with the needs of the private sector and to implement social spending to the poor, including through the *Lisungi* cash transfer program that is being rolled out, should be well-targeted and evaluated and monitored regularly to ensure their effectiveness.

49. Congo should fully comply with its CEMAC obligations. Staff urges the authorities to continue to support the ongoing review of CEMAC's reserves pooling framework and to fully observe relevant commitments to ensure the continued smooth operation of the BEAC and the pegged exchange rate arrangement. In this respect, the authorities should make certain that the planned establishment of a SWF investing in higher-yielding foreign assets is consistent with the CEMAC reserves pooling framework.

50. Efforts to strengthen macroeconomic statistics should continue. The authorities' efforts to reform the National Institute of Statistics, including with IMF technical assistance, are important to strengthen macroeconomic analysis and policymaking. The authorities should also step up efforts to ensure the timely provision of information to the Fund regarding the standard macroeconomic data that is required for effective surveillance. Transparency on foreign assets holdings can help to bolster confidence in macroeconomic management.

51. It is recommended that the next Article IV consultation take place on the standard 12-month cycle.

Table 1. Republic of Congo: Selected Economic and Financial Indicators, 2011–19

	2011	2012	2013	2014	2015	2016	2017	2018	2019
			Est.			Proj.			
	(Annual percentage change unless otherwise indicated)								
Production and prices									
GDP at constant prices	3.4	3.8	3.3	6.0	7.5	7.3	9.0	3.5	1.9
Oil	-4.8	-9.7	-10.2	1.0	7.9	2.9	18.9	-1.6	-10.1
Non-oil	7.4	9.7	8.1	7.5	7.3	8.5	6.3	5.0	5.2
GDP at current prices	14.4	2.6	-4.6	2.9	6.2	4.4	13.5	1.1	-2.1
GDP deflator	10.7	-1.2	-7.7	-2.9	-1.2	-2.7	4.2	-2.3	-3.9
Consumer prices (period average)	1.8	5.0	4.6	3.0	2.9	2.9	2.8	2.7	2.4
Consumer prices (end of period)	1.8	7.5	2.1	3.2	2.5	2.6	3.9	2.0	2.5
External sector									
Exports, f.o.b.	16.0	-1.5	-9.0	0.7	3.4	1.0	14.7	-2.7	-8.4
Imports, f.o.b.	25.4	7.0	9.1	7.4	2.5	-3.6	1.0	-2.3	-0.5
Export volume	-0.8	-7.0	-10.0	4.0	7.7	4.5	13.9	0.2	-5.0
Import volume	18.6	-7.0	8.6	8.9	5.7	-1.2	4.6	0.6	0.5
Terms of trade (deterioration -)	11.2	0.8	0.2	0.6	-2.3	-0.5	-0.7	0.0	-2.6
Current account balance (percent of GDP)	5.9	-1.2	-3.4	-3.3	-3.9	-1.6	2.1	1.2	-1.8
Net official foreign position (percent of GDP)	33.3	40.9	43.2	42.9	43.5	44.9	42.5	43.6	43.9
Gross official foreign reserves (CFAF billion)	2,875	2,774	2,509	2,778	3,118	3,453	3,782	3,963	3,927
(Months of imports)	9	8	7	7	9	9	10	11	11
(Percent of GDP)	42	40	38	41	43	45	44	45	46
Deposits abroad (percent of GDP)	15	27	37.5	36	34	33	29	29	29
(Billions of CFA francs) [1/]	988	1,870	2,499	2,499	2,499	2,499	2,499	2,499	2,499
External public debt (percent of GDP)	23	26	32	34	34	33	30	31	31
Monetary sector									
Broad money (growth)	34.5	21.1	0.7	11.3	…	…	…	…	…
Credit to the economy (growth)	37.6	43.4	16.5	26.1	…	…	…	…	…
	(Percent of GDP)								
Investment and saving									
Gross national saving	31.2	24.8	27.5	33.2	30.7	32.0	32.6	31.6	29.3
Gross investment	25.3	26.0	30.9	36.5	34.6	33.7	30.5	30.4	31.1
	(Percent of non-oil GDP)								
Central government finances									
Total revenue	138.1	120.5	111.7	102.6	94.2	87.5	84.6	77.2	67.4
Oil revenue	108.9	92.7	82.1	72.3	64.2	57.1	53.9	46.1	36.2
Nonoil revenue (inc. grants and investment income)	29.2	27.7	29.6	30.3	30.0	30.4	30.7	31.1	30.9
Total expenditure	84.7	102.2	91.4	91.0	83.8	77.8	72.5	67.4	62.3
Current	32.9	41.4	33.7	34.6	34.4	34.2	33.2	31.6	29.7
Capital (and net lending)	51.7	60.8	57.7	56.4	49.4	43.7	39.2	35.8	32.6
Overall balance (deficit -, commitment basis) [2/]	53.4	18.2	20.3	11.6	10.4	9.7	12.1	9.8	5.0
Basic primary fiscal balance (- = deficit) [3/]	62.6	29.8	38.7	23.8	19.3	10.1	12.6	10.2	5.4
Basic non-oil primary balance (- = deficit) [4/]	-46.3	-62.9	-43.4	-48.5	-44.8	-40.0	-35.3	-30.7	-26.5
Basic non-oil primary balance (cash basis) [4/]	-50.7	-66.2	-49.8	-52.9	-47.8	-41.7	-36.9	-31.5	-26.5
	(Percent of total government revenue excluding grants)								
External public debt service (after debt relief)	14.0	2.4	4.9	5.5	6.2	6.2	6.0	6.1	7.0
External public debt (after debt relief)	55.8	60.4	68.8	74.1	76.3	76.9	75.2	78.3	83.3
	(Billions of CFA francs, unless otherwise indicated)								
Nominal GDP	6,804	6,979	6,657	6,851	7,277	7,599	8,628	8,722	8,540
Nominal non-oil GDP	2,096	2,470	2,796	3,111	3,437	3,809	4,138	4,444	4,808
World oil price (U.S. dollars per barrel)	104	105	104	104	100	95	92	91	89
Oil production (Millions of barrels)	109	98	88	89	96	99	118	116	104
Nominal Exchange rate (CFA/USD, period average)	471	510	494	…	…	…	…	…	…

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

[1/] Staff estimates based on fiscal financing flows confirmed by the authorities that are added to the 2010 confirmed stock.

[2/] Including grants.

[3/] Revenue (excluding investment income and grants) minus total expenditures (excluding interest payments and foreign-financed investment.

[4/] Basic primary balance minus oil revenue.

Table 2. Republic of Congo: Medium-Term Balance of Payments, 2011–19

	2011	2012	2013	2014	2015	2016	2017	2018	2019
			Est.			Proj.			
				(Billions of CFA francs)					
Current account	404	-87	-227	-226	-284	-125	180	104	-158
of which non-oil	-1,547	-1,736	-1,743	-1,826	-1,737	-1,675	-1,582	-1,555	-1,530
Trade balance	3,338	3,105	2,415	2,264	2,366	2,516	3,248	3,152	2,682
Exports, f.o.b.	5,464	5,380	4,898	4,930	5,097	5,151	5,909	5,751	5,269
Oil sector	4,947	4,818	4,039	4,007	4,114	4,064	4,698	4,482	3,919
Non-oil sector	517	562	859	923	983	1,087	1,211	1,270	1,349
Imports, f.o.b.	-2,126	-2,275	-2,483	-2,666	-2,732	-2,634	-2,661	-2,600	-2,587
Oil sector	-608	-523	-524	-566	-672	-539	-537	-460	-409
Government	-667	-820	-974	-1,066	-971	-936	-908	-881	-873
Non-oil private sector	-850	-932	-985	-1,034	-1,089	-1,160	-1,216	-1,258	-1,305
Balance of services	-1,488	-1,334	-1,248	-1,253	-1,333	-1,305	-1,368	-1,360	-1,300
Oil sector	-952	-792	-631	-623	-686	-652	-716	-691	-616
Non-oil sector	-536	-543	-617	-630	-647	-653	-651	-669	-684
Income	-1,309	-1,661	-1,203	-1,049	-1,102	-1,107	-1,456	-1,430	-1,274
Labor income	-70	-68	-57	-56	-58	-58	-67	-64	-56
Investment income	-1,239	-1,593	-1,146	-993	-1,044	-1,049	-1,389	-1,366	-1,218
Current transfers (net)	-138	-196	-190	-187	-215	-229	-244	-258	-266
Capital account	35	10	26	38	23	26	25	28	28
Debt forgiveness [1]	0	0	0	0	0	0	0	0	0
Official grants	35	10	26	38	23	26	25	28	28
Financial account	790	893	526	461	604	435	125	50	94
Direct investment (net)	1,439	1,143	1,259	1,356	1,313	1,350	1,031	1,025	936
Of which: oil sector	1,393	1,086	1,120	1,164	1,221	1,252	928	913	813
Other investment	-649	-250	-733	-895	-709	-914	-906	-975	-842
Medium and long term	-189	236	347	228	91	85	79	76	42
Public sector	-207	217	340	216	118	94	72	51	13
Drawings	181	286	497	374	300	280	260	240	220
Project	181	286	497	374	300	280	260	240	220
Amortization[2]	-387	-69	-157	-157	-182	-186	-188	-189	-207
Private sector	18	20	6	12	-27	-9	7	25	29
Oil	21	15	-5	-4	-35	-17	-2	15	19
Non-oil	-3	5	11	15	8	9	9	10	11
Short term	-460	-486	-1,080	-1,123	-800	-999	-985	-1,051	-884
Errors and omissions	0	0	0	0	0	0	0	0	0
Overall balance of payments	1,229	816	326	273	343	337	329	182	-36
Financing	-1,229	-816	-326	-273	-343	-337	-329	-182	36
Reserve financing	-704	90	269	-273	-343	-337	-329	-182	36
IMF (net)	2	-1	-2	-3	-3	-2	-1	-1	0
Purchases / Disbursments	2	0	0	0	0	0	0	0	0
Repurchases / Repayments	0	-1	-2	-3	-3	-2	-1	-1	0
Other reserves	-704	90	269	-273	-343	-337	-329	-182	36
Government deposits abroad [3]	-524	-882	-629	0	0	0	0	0	0
Exceptional financing [4]	-1	-25	34	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] Staff estimates based on fiscal financing flows confirmed by the authorities.

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

Table 3. Republic of Congo: Central Government Operations, 2011–19

	2011	2012	2013		2014		2015	2016	2017	2018	2019
			Budget	Est.	Budget	Proj.			Proj.		
					(Billions of CFA francs)						
Total revenue and grants	2,894	2,976	3,512	3,123	3,682	3,193	3,237	3,334	3,499	3,430	3,239
Primary Revenue	2,854	2,954	3,339	3,096	3,465	3,146	3,205	3,297	3,464	3,392	3,201
Oil revenue	2,283	2,291	2,597	2,295	2,505	2,250	2,205	2,177	2,230	2,050	1,742
Non-oil revenue	571	663	741	801	960	895	1,000	1,121	1,234	1,342	1,458
Direct taxes	215	241	288	321	343	350	391	437	480	520	569
Taxes on goods and services	233	261	273	296	317	333	372	414	452	488	522
Customs Receipts	101	118	150	148	260	172	192	215	236	256	275
Non-tax revenue	22	43	31	36	40	40	45	54	66	78	93
Interest on deposits	5	12	30	1	35	9	10	10	10	10	11
Grants	35	10	144	26	182	38	23	26	25	28	28
Expenditure and net lending	1,774	2,526	2,818	2,555	3,113	2,831	2,880	2,965	2,998	2,993	2,997
Current expenditure	691	1,023	1,022	943	1,115	1,077	1,182	1,302	1,375	1,404	1,430
Wages	207	248	270	275	324	308	345	386	432	444	455
Other current expenditure	430	723	698	650	740	718	790	873	901	922	941
Goods and services	182	278	260	257	329	324	358	397	408	419	429
Transfers	181	334	332	264	309	294	324	359	365	367	364
Common charges	67	112	106	98	102	100	108	117	128	137	148
Local authorities	44	38	35	32	36	36	31	26	22	19	16
Interest	11	13	19	18	15	15	16	16	20	19	18
Capital expenditure	1,084	1,503	1,796	1,612	1,998	1,754	1,698	1,663	1,623	1,589	1,568
Domestically financed	868	1,207	1,048	1,089	1,349	1,343	1,375	1,357	1,339	1,322	1,320
Externally financed	216	296	749	523	649	411	323	306	285	268	248
Net lending	0	0	0	0	0	0	0	0	0	0	0
Non-oil primary balance [1/]	-1,157	-1,840	-1,914	-1,710	-1,956	-1,883	-1,841	-1,802	-1,720	-1,605	-1,493
Basic primary balance [2/]	1,312	737	1,288	1,082	1,015	741	664	655	770	685	260
Of which: Basic non-oil primary balance [3/]	-970	-1,554	-1,309	-1,213	-1,490	-1,509	-1,541	-1,522	-1,460	-1,365	-1,273
Balance, commitment basis											
Excluding grants	1,084	440	551	541	387	324	335	342	476	409	214
Including grants	1,120	450	694	568	569	362	357	369	501	437	242
Change in arrears	-91	-82	-68	-180	-38	-137	-103	-68	-68	-34	0
External	0	-18	0	0	0	0	0	0	0	0	0
Domestic	-91	-64	-68	-180	-38	-137	-103	-68	-68	-34	0
Balance, cash basis	1,028	386	627	387	532	225	255	300	432	402	242
Basic non-oil primary balance, cash basis	-1,062	-1,636	-1,376	-1,393	-1,527	-1,646	-1,644	-1,590	-1,529	-1,399	-1,273
Financing	-1,028	-386	-628	-387	-534	-225	-255	-300	-432	-402	-242
Foreign (net)	-603	-665	470	-254	467	216	118	94	72	51	13
Drawings	181	286	605	497	467	374	300	280	260	240	220
Amortization due	-84	-69	-135	-157	0	-157	-182	-186	-188	-189	-207
Rescheduling obtained	0	0	0	0	0	0	0	0	0	0	0
Debt cancellation	0	0	0	34	0	0	0	0	0	0	0
Other	-699	-882	0	-629	0	0	0	0	0	0	0
Deposits abroad [4/]	-524	-882	0	-629	0	0	0	0	0	0	0
Loans	-175	0	0	0	0	0	0	0	0	0	0
Domestic (net)	-425	279	-1,098	-133	-1,001	-441	-373	-394	-504	-454	-254
Banking system (net)	-411	359	-1,098	28	-1,001	-441	-373	-394	-504	-454	-254
Nonbank financing	-14	-80	0	-161	0	0	0	0	0	0	0
Of which, statistical float	-11	0	0	0	0	0	0	0	0		
Financing gap (- = surplus)	0	0	0	0	-3	0	0	0	0	0	0
Memorandum items:											
Basic fiscal balance [5/]	1,300	736	1,299	1,065	1,036	736	657	649	761	677	462
Stock of government deposits	1,680	1,349	2,448	1,324	1,765	1,765	2,138	2,532	3,036	3,490	3,744
GDP at current market prices	6,804	6,979	7,261	6,657	6,851	6,851	7,277	7,599	8,628	8,722	8,540
Non-oil GDP at market prices	2,096	2,470	2,796	2,796	3,111	3,111	3,437	3,809	4,138	4,444	4,808

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 4. Republic of Congo: Central Government Operations, 2011–19

	2011	2012	2013		2014		2015	2016	2017	2018	2019
			Budget	Est.	Budget	Proj.			Proj.		
					(Percent of non-oil GDP)						
Total revenue and grants	138.1	120.5	125.6	111.7	118.4	102.6	94.2	87.5	84.6	77.2	67.4
Primary Revenue	136.1	119.6	119.4	110.7	111.4	101.1	93.2	86.6	83.7	76.3	66.6
Oil revenue	108.9	92.7	92.9	82.1	80.5	72.3	64.2	57.1	53.9	46.1	36.2
Non-oil revenue	27.2	26.8	26.5	28.6	30.9	28.8	29.1	29.4	29.8	30.2	30.3
Direct taxes	10.3	9.8	10.3	11.5	11.0	11.3	11.4	11.5	11.6	11.7	11.8
Taxes on goods and services	11.1	10.6	9.7	10.6	10.2	10.7	10.8	10.9	10.9	11.0	10.9
International trade	4.8	4.8	5.4	5.3	8.4	5.5	5.6	5.7	5.7	5.8	5.7
Non-tax revenue	1.0	1.8	1.1	1.3	1.3	1.3	1.3	1.4	1.6	1.8	1.9
Investment income	0.2	0.5	1.1	0.0	1.1	0.3	0.3	0.3	0.2	0.2	0.2
Grants	1.7	0.4	5.1	0.9	5.9	1.2	0.7	0.7	0.6	0.6	0.6
Expenditure and net lending	84.7	102.2	100.8	91.4	100.1	91.0	83.8	77.8	72.5	67.4	62.3
Current expenditure	32.9	41.4	36.5	33.7	35.8	34.6	34.4	34.2	33.2	31.6	29.7
Wages	9.9	10.1	9.7	9.8	10.4	9.9	10.0	10.1	10.4	10.0	9.5
Other current expenditure	20.5	29.3	24.9	23.3	23.8	23.1	23.0	22.9	21.8	20.8	19.6
Goods and services	8.7	11.2	9.3	9.2	10.6	10.4	10.4	10.4	9.9	9.4	8.9
Transfers	8.6	13.5	11.9	9.4	9.9	9.4	9.4	9.4	8.8	8.3	7.6
Common charges	3.2	4.5	3.8	3.5	3.3	3.2	3.1	3.1	3.1	3.1	3.1
Local authorities	2.1	1.6	1.3	1.1	1.2	1.2	0.9	0.7	0.5	0.4	0.3
Interest	0.5	0.5	0.7	0.6	0.5	0.5	0.5	0.4	0.5	0.4	0.4
Domestic	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External	0.5	0.5	0.7	0.6	0.5	0.5	0.5	0.4	0.5	0.4	0.4
Capital expenditure	51.7	60.8	64.2	57.7	64.2	56.4	49.4	43.7	39.2	35.8	32.6
Domestically financed	41.4	48.9	37.5	38.9	43.4	43.2	40.0	35.6	32.4	29.7	27.5
o.w. HIPC financed	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Externally financed	10.3	12.0	26.8	18.7	20.9	13.2	9.4	8.0	6.9	6.0	5.2
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-oil primary balance [1/]	-55.2	-74.5	-68.4	-61.2	-62.9	-60.5	-53.6	-47.3	-41.6	-36.1	-31.1
Basic primary balance [2/]	62.6	29.8	46.1	38.7	32.6	23.8	19.3	10.1	12.6	10.2	5.4
Of which: Basic non-oil primary balance [3/]	-46.3	-62.9	-46.8	-43.4	-47.9	-48.5	-44.8	-40.0	-35.3	-30.7	-26.5
Balance, commitment basis											
Excluding grants	51.7	17.8	19.7	19.4	12.4	10.4	9.7	9.0	11.5	9.2	4.4
Including grants	53.4	18.2	24.8	20.3	18.3	11.6	10.4	9.7	12.1	9.8	5.0
Change in arrears	-4.4	-3.3	-2.4	-6.4	-1.2	-4.4	-3.0	-1.8	-1.7	-0.8	0.0
External	0.0	-0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	-4.4	-2.6	-2.4	-6.4	-1.2	-4.4	-3.0	-1.8	-1.7	-0.8	0.0
Balance, cash basis	49.1	15.6	22.4	13.9	17.1	7.2	7.4	7.9	10.4	9.1	5.0
Basic non-oil primary balance, cash basis	-50.7	-66.2	-49.2	-49.8	-49.1	-52.9	-47.8	-41.7	-36.9	-31.5	-26.5
Financing	-49.1	-15.6	-22.5	-13.9	-17.2	-7.2	-7.4	-7.9	-10.4	-9.1	-5.0
Foreign (net)	-28.8	-26.9	16.8	-9.1	15.0	7.0	3.4	2.5	1.7	1.2	0.3
Drawings	8.6	11.6	21.6	17.8	15.0	12.0	8.7	7.4	6.3	5.4	4.6
Amortization due	-4.0	-2.8	-4.8	-5.6	0.0	-5.1	-5.3	-4.9	-4.5	-4.2	-4.3
Rescheduling obtained	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt cancellation	0.0	0.0	0.0	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	-33.4	-35.7	0.0	-22.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deposits abroad [4/]	-25.0	-35.7	0.0	-22.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	-8.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic (net)	-20.3	11.3	-39.3	-4.8	-32.2	-14.2	-10.8	-10.3	-12.2	-10.2	-5.3
Banking system (net)	-19.6	14.5	-39.3	1.0	-32.2	-14.2	-10.8	-10.3	-12.2	-10.2	-5.3
Nonbank financing	-0.7	-3.2	0.0	-5.8	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	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:					(Percent of GDP)						
Total revenue	42.5	42.6	48.4	46.9	53.8	46.6	44.5	43.9	40.6	39.3	37.9
Primary revenue	41.9	42.3	46.0	46.5	50.6	45.9	44.0	43.4	40.2	38.9	37.5
Oil revenue	33.5	32.8	35.8	34.5	36.6	32.8	30.3	28.6	25.9	23.5	20.4
Non oil revenue	8.4	9.5	10.2	12.0	14.0	13.1	13.7	14.7	14.3	15.4	17.1
Total expenditure	26.1	36.2	38.8	38.4	45.4	41.3	39.6	39.0	34.8	34.3	35.1
Current expenditure	10.1	14.7	14.1	14.2	16.3	15.7	16.2	17.1	15.9	16.1	16.7
Capital expenditure	15.9	21.5	24.7	24.2	29.2	25.6	23.3	21.9	18.8	18.2	18.4
Basic fiscal balance [5/]	19.1	10.5	17.9	16.0	15.1	10.7	9.0	8.5	8.8	7.8	5.4
Basic primary fiscal balance	19.3	10.6	17.7	16.3	14.8	10.8	9.1	5.1	6.0	5.2	3.0
Basic non oil primary fiscal balance	-14.3	-22.3	-18.0	-18.2	-21.7	-22.0	-21.2	-20.0	-16.9	-30.7	-26.5
Balance, cash basis	15.1	5.5	8.6	5.8	7.8	3.3	3.5	4.0	5.0	4.6	2.8

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 5. Republic of Congo: GFS Statement of the Central Government Operations, 2011–19 [1/]

	2011	2012	2013	2014	2015	2016	2017	2018	2019
			Est.			Proj.			
					(Billions of CFA francs)				
Revenue	2,894	2,976	3,123	3,193	3,237	3,334	3,499	3,430	3,239
Taxes	571	663	801	895	1,000	1,121	1,234	1,342	1,458
Taxes on income, profits, and capital gains	215	241	321	350	391	437	480	520	569
Taxes on goods and services	233	261	296	333	372	414	452	488	522
Taxes on international trade	101	118	148	172	192	215	236	256	275
Other taxes	22	43	36	40	45	54	66	78	93
Grants	35	10	26	38	23	26	25	28	28
Other revenue	2,288	2,303	2,296	2,260	2,215	2,187	2,241	2,060	1,753
Interest (investment income)	5	12	1	9	10	10	10	10	11
Rent (oil revenue)	2,283	2,291	2,295	2,250	2,205	2,177	2,230	2,050	1,742
Expenditure	1,774	2,526	2,555	2,831	2,880	2,965	2,998	2,993	2,997
Expense	691	1,023	943	1,077	1,182	1,302	1,375	1,404	1,430
Compensation of employees	207	248	275	308	345	386	432	444	455
Use of goods and services	430	723	650	718	790	873	901	922	941
Interest	11	13	18	15	16	16	20	19	18
To nonresidents	11	13	16	15	16	16	20	19	18
To residents	0	0	2	0	0	0	0	0	0
Other Expense	44	38	0	36	31	26	22	19	16
Net acquisition of nonfinancial assets	1,084	1,503	1,612	1,754	1,698	1,663	1,623	1,589	1,568
Domestically financed	868	1,207	1,089	1,343	1,375	1,357	1,339	1,322	1,320
o/w HIPC financed	6	0	0	0	0	0	0	0	0
Foreign financed	216	296	523	411	323	306	285	268	248
Net lending/borrowing (overall balance, incl grants)	1,120	450	568	362	357	369	501	437	242
Net acquisition of financial assets ("+": increase in assets)	1,068	647	749	438	370	392	504	453	254
Domestic	369	-235	121	438	370	392	504	453	254
Currency and deposits	369	-314	-47	438	370	392	504	453	254
BEAC	368	-313	-82	438	370	392	504	453	254
Commercial banks	1	-1	35	0	0	0	0	0	0
Loans	0	0	0	0	0	0	0	0	0
Equity and investment fund shares	0	79	168	0	0	0	0	0	0
Foreign	699	882	629	0	0	0	0	0	0
Currency and deposits	524	882	629	0	0	0	0	0	0
Loans	175	0	0	0	0	0	0	0	0
Net incurrence of liabilities ("+": increase in liabilities)	-51	170	172	76	13	23	3	16	12
Domestic	-148	-46	-202	-141	-106	-70	-69	-35	0
Loans	-56	17	-22	-4	-3	-2	-1	-1	0
BEAC	-39	-1	-3	-4	-3	-2	-1	-1	0
Commercial banks	-4	19	-19	0	0	0	0	0	0
Other	-14	0	0	0	0	0	0	0	0
Other accounts payable	-91	-64	-180	-137	-103	-68	-68	-34	0
Foreign	96	217	375	216	118	94	72	51	13
Loans	96	217	375	216	118	94	72	51	13
o/w arrears	0	0	0	0	0	0	0	0	0
Statistical discrepancy	0	-27	-9	0	0	0	0	0	0
Memorandum items:									
GDP at market prices	6,804	6,979	6,657	6,851	7,277	7,599	8,628	8,722	8,540
Non-oil GDP at market prices	2,096	2,470	2,796	3,111	3,437	3,809	4,138	4,444	4,808
Oil revenue	2,283	2,291	2,295	2,250	2,205	2,177	2,230	2,050	1,742
Non-oil revenue	611	685	828	943	1,032	1,157	1,268	1,380	1,497

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

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

Table 6. Republic of Congo: Monetary Survey, 2009–14

	2009	2010	2011	2012	2013	2014
					Est.	Proj.
Monetary survey	(Billions of CFA francs)					
Net foreign assets	1,831	2,325	3,320	3,358	2,877	3,374
Central bank	1,656	2,062	2,766	2,676	2,406	2,679
Deposit money banks	176	263	554	683	470	695
Net domestic assets	-813	-911	-1,418	-1,055	-558	-794
Net domestic credit	-727	-928	-1,213	-669	-542	-778
Net credit to the public sector	-962	-1,271	-1,685	-1,347	-1,332	-1,774
Net credit to the Government	-956	-1,269	-1,680	-1,349	-1,324	-1,765
Central bank	-956	-1,262	-1,669	-1,357	-1,278	-1,719
Claims	61	55	16	15	12	9
Deposits	-1,017	-1,317	-1,685	-1,372	-1,290	-1,728
Deposit money banks	-1	-7	-12	8	-46	-46
Claims on public agencies, net	17	14	10	11	9	11
Credit to the economy	218	325	462	667	780	985
Other items, net	-86	17	-205	-386	-16	-16
Broad money	1,019	1,415	1,902	2,303	2,319	2,580
Currency outside banks	342	408	488	565	623	693
Demand deposits	539	843	1,205	1,485	1,369	1,523
Time deposits	137	163	209	253	326	363
	(Changes in percent of beginning-of-period broad money)					
Net foreign assets	-4.8	48.5	70.3	2.0	-20.9	21.4
Net domestic assets	9.8	-9.6	-35.8	19.1	21.6	-10.2
Net domestic credit	17.2	-19.8	-20.1	28.6	5.5	-10.2
Net credit to the government	12.6	-30.7	-29.1	17.4	1.1	-19.0
Credit to the private sector	5.2	10.5	9.7	10.8	4.9	8.8
	(Annual percent changes, unless otherwise indicated)					
Broad money	5.0	38.9	34.5	21.1	0.7	11
Reserve money	-9.6	69.9	-3.5	16.3	-13.1	6
Velocity (non-oil GDP/End of period M2)						
Non-oil GDP/End period M2	1.7	1.4	1.1	1.1	1.2	1.2
	(Percent)					
Total GDP growth	-14.7	31.3	14.4	2.6	-4.6	3
Non-oil GDP growth	9.5	12.1	9.7	17.9	13.2	11
Credit to the private sector/Non-oil GDP	12.8	17.0	22.1	27.0	27.9	32

Sources: BEAC; and Fund staff estimates and projections.

Table 7. Republic of Congo: Banking Sector Financial Soundness Indicators, 2009–13

	2009	2010	2011	2012	2013
	(Percent, at year's end)				
Capital Adequacy					
Regulatory capital to risk-weighted assets	19.0	13.1	9.9	12.7	11.9
Capital (net worth) to assets	6.0	8.0	7.0	7.7	9.6
Asset quality					
Nonperforming loans	1.5	1.1	1.2	2.9	2.3
Provision as percent of past-due loans	91.0	60.0	75.3	60.0	58.7
Earnings and profitability					
Expense/income	59.0	67.4	71.6	80.9	89.9
Liquidity					
Liquid assets/total assets	59.0	51.4	42.7	37.2	29.1
Loan/deposits	39.0	40.6	39.2	42.4	59.3

Sources: Authorities (COBAC) and Fund staff estimates.

Table 8. Republic of Congo: Millennium Development Goals, 1990–2012

	1990	1995	2000	2009	2011	2012
Goal 1: Eradicate extreme poverty and hunger						
Employment to population ratio, 15+, total (%)	...	62.2	63.4	65.5	65.6	65.7
Employment to population ratio, ages 15–24, total (%)	...	39.4	39.2	39.2	39.1	39.0
Prevalence of undernourishment (% of population)	...	44.7	30.1	35.7	37.4	...
Goal 2: Achieve universal primary education						
Persistence to last grade of primary, total (% of cohort)	...	...	55.0	70.0	...	...
Primary completion rate, total (% of relevant age group)	60.6	...	...	69.5	76.1	73.0
Goal 3: Promote gender equality and empower women						
Proportion of seats held by women in national parliaments (%)	14	2	12	7	7	7
Ratio of female to male primary enrollment (%)	93.9	85.5	92.5	93.3	94.4	107.4
Ratio of female to male secondary enrollment (%)	76.2	75.0	70.4	...	...	86.7
Ratio of female to male tertiary enrollment (%)	19.7	...	31.4	21.1	58.4	62.7
Goal 4: Reduce child mortality						
Immunization, measles (% of children ages 12–23 months)	75.0	38.0	34.0	76.0	90.0	80.0
Mortality rate, infant (per 1,000 live births)	64.7	70.2	74.8	67.0	63.9	62.2
Mortality rate, under-5 (per 1,000)	100.0	110.1	118.3	104.5	98.9	96.0
Goal 5: Improve maternal health						
Adolescent fertility rate (births per 1,000 women ages 15–19)	132	132	136	129	127	...
Maternal mortality ratio (modeled estimate, per 100,000 live births)	420	480	540	580	560	...
Goal 6: Combat HIV/AIDS, malaria, and other diseases						
Incidence of tuberculosis (per 100,000 people)	169	245	353	395	387	381
Prevalence of HIV, female (% ages 15–24)	...	...	...	2.3	2.5	1.3
Prevalence of HIV, male (% ages 15–24)	...	...	...	1.0	1.2	0.8
Prevalence of HIV, total (% of population ages 15–49)	4.4	5.4	4.9	3.1	2.9	2.8
Tuberculosis case detection rate (all forms)	15	54	84	62	67	68
Goal 7: Ensure environmental sustainability						
CO2 emissions (kg per PPP $ of GDP)	0.2	0.2	0.1	0.1	...	...
CO2 emissions (metric tons per capita)	0.5	0.6	0.3	0.5	...	...
Forest area (% of land area)	67	66.3	66.1	65.7	65.6	...
Improved sanitation facilities (% of population with access)	...	...	19.8	18.2	17.8	...
Improved water source (% of population with access)	...	...	70.8	72.1	72.4	...
Marine protected areas (% of total surface area)	0.0	0.0	0.0	32.8	...	0.0
Terrestrial protected areas (% of total surface area)	5.4	6.8	9.1	9.4	...	30.4
Goal 8: Develop a global partnership for development						
Debt service (PPG and IMF only, % of exports, excluding workers' remittances)	31	11	1	5	1	...
Internet users (per 100 people)	0.0	0.0	0.0	4.5	5.6	6.1
Mobile cellular subscriptions (per 100 people)	0	0	2	75	94	101
Net ODA received per capita (current US$)	91	46	10	71	61	...
Telephone lines (per 100 people)	1	1	1	0	0	0
Other						
Fertility rate, total (births per woman)	5.3	5.2	5.1	5.1	5.0	...
GNI per capita, Atlas method (current US$)	920	430	570	1,950	2,200	2,550
GNI, Atlas method (current US$) (billions)	2.2	1.2	1.8	7.8	9.3	11.1
Gross capital formation (% of GDP)	15.9	36.6	22.6	22.5	25.3	...
Life expectancy at birth, total (years)	55	53	52	57	58	...
Literacy rate, adult total (% of people ages 15 and above)	...	...	...	...	...	...
Population, total (millions)	2.4	2.7	3.1	4.0	4.2	4.3
Trade (% of GDP)	70.8	128.3	123.9	120.6	122.1	...

Source: World Development Indicators database.

Annex I. Republic of Congo: Authorities' Implementation of 2013 Policy Recommendations

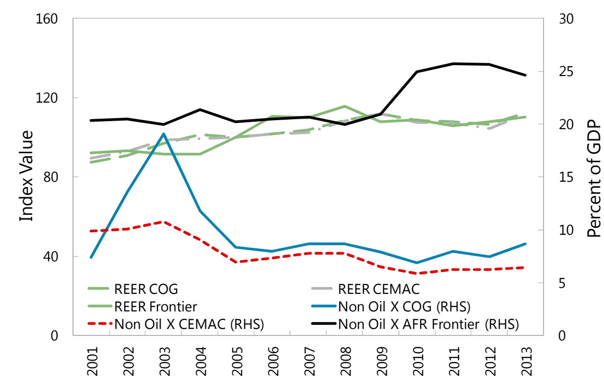
	2013 Article IV Recommendations	Authorities' Implementation
Fiscal Policy Rule	· Implement a fiscal anchor to reduce the pro-cyclicality of spending; orient fiscal policy to the medium term by scaling up investment expenditure while saving a portion of oil revenue.	· The authorities breached the fiscal rule in 2013. · Options for redefining the fiscal rule in order to ensure that in practice it results in higher savings are under discussion. · The authorities recognize the desirability of reducing the non–oil primary deficit over time.
Public financial Management	· Increase transparency and accountability of Public Financial Management in line with regional guidelines.	· The authorities have prepared a draft fiscal responsibility and transparency law that will implement some of the Economic and Monetary Community of Central African States (CEMAC) directives on public financial management, and would improve budget accounting, preparation, and execution.
Fiscal Expenditures	· Address social and economic infrastructure gaps by boosting the quality of public investment spending. · Expansion of ongoing employment and social safety net programs.	· Efficiency and quality of public expenditures remains poor, as suggested by frequent power outages and poor road conditions. Efforts to improve the selection, evaluation, and monitoring of investment projects as well as the budgeting of their operating and maintenance costs need to be strengthened. · Social programs (food stamps, school lunches) have been implemented. · Employment programs to develop skills to meet private sector needs have been put in place and are being extended to the mining sector. · A pilot program of targeted cash transfers is scheduled to commence in 2015.
Business Climate	· Strengthen the business climate. · Remove barriers to the effective provision of financial services to foster private sector development and inclusive growth.	· The authorities have taken steps to strengthen the business climate. Starting a business is now easier, with a reduction in registration costs. Tax administration has been simplified, with several employment taxes merged into one and a reduction in the corporate income tax rate. These measures have been reflected in the 2014 World Bank 'Doing Business' survey. However, Congo remains one of the most challenging business climates in the world. · Market depth, financial intermediation and access to finance are lagging.
Policy Coordination	· Enhance policy coordination and monitoring by reinstituting the high-level committee for this purpose.	· The authorities are wary of reinstating the high-level policy coordination committee and it has not reconvened.
Regional Cooperation	· Observance of CEMAC obligations, especially as regards to reserves repatriation and pooling requirements.	· Overseas deposits continue. · Discussions with the BEAC regarding reforms to the management of oil savings continue.

Annex II. Republic of Congo: External Sector Assessment[1]

The stagnation in non–oil exports underscores concerns about competitiveness. The real effective exchange rate (REER) of Congo has continued to appreciate. Also, quantitative estimates suggest that the REER is somewhat stronger than what would be consistent with medium-term fundamentals.

52. Congo's non-oil exports have stagnated at around 7 percent of GDP, alongside an appreciation of the REER during the period 2001-12. Congo's export performance contrasts with that of seven non-oil African Frontier countries which, on average, achieved a significant increase in non-oil exports despite a similar average REER appreciation.[2]

Figure 1. Real Effective Exchange Rate and External Competitiveness



Sources: IMF staff estimates

53. Quantitative analysis suggests that Congo's REER is somewhat overvalued (Table 1). Araujo and others (2013) develops an empirical methodology that takes account of the particular development challenges faced by resource-rich developing countries (RRDCs).[3] This methodology permits that investing resource wealth at home may be more profitable than saving most of the resource windfall abroad, for example in the face of overseas borrowing constraints. In this setting, the returns to public and private capital are higher than the interest rate earned on official reserves. Therefore it is optimal to invest part of the natural resource revenues domestically in public and private capital, instead of saving it all abroad. The model also allows for absorptive capacity constraints in the economy. Application of this model points to a mild overvaluation of the REER, in the order of 6 to 8 percent. The implementation of the more traditional external sustainability approach (which does not take account the particular features of RRDCs mentioned above) indicates an overvaluation of 4 to 6 percent. Nonetheless, these results are affected by considerable estimation uncertainty.

54. Competitiveness continues to be undermined by a poor overall business environment. The World Bank Doing Business Indicators rank Congo 185th out of 189 countries.[4] This reflects that Congo has one of the most challenging business climates in the world and faces significant impediments to private sector development. This has been identified as one of the main factors

[1] Prepared by Cameron McLoughlin (AFR).
[2] The African Frontier countries included in the analysis are Ghana, Kenya, Senegal, South Africa, Tanzania, Uganda and Zambia.
[3] Araujo and others (2013), 'Current Account Norms in Natural Resource Rich and Capital Scarce Economies', IMF Working Paper No. 13/80; Washington, DC, 2010.
[4] These indicators should be interpreted with caution due to a limited number of respondents, a limited geographical coverage, and standardized assumptions on business constraints and information availability.

holding back the growth of bank lending to the private sector, which at less than 12 percent of GDP is among the lowest in sub–Saharan Africa.

Table 1. Current Account Norms and Implied REER Adjustment[1/]

	Year: 2019 Percent of GDP	Implied Real Exchange Rate Adjustment CA Elasticity: 0.87
Underlying Current Account	-1.8	
CA norm (Araujo, 2013, 25% cost overrun)	2	6
CA norm (Araujo, 2013, 50% cost overrun)	3	8
CA Norm (Static External Sustainability)	2	4
CA Norm (Constant annuity/output ratio – Bems & Carvalho Filo, 2009)	4	6

Source: IMF staff estimates.

[1/] The percent cost overrun captures absorptive capacity constraints in the economy. Import and export elasticities are obtained from Tokarick (2010).

55. However, reforms are being put in place. The authorities are undertaking reforms to the business climate in the context of an inter-ministerial action plan in collaboration with the International Finance Corporation (IFC) that was set up in 2013. Some of these reforms that were undertaken in 2013, in particular the implementation of a one stop shop for customs clearance, were not reflected in the 2014 Doing Business ranking due to timing issues. Going forward, specific measures that will be implemented under the plan include the reinforcement of investor protection by increasing the number of magistrates at the commerce tribunal; a reduction in the number of procedures required to obtain construction permits; and a reduction in the number of formalities required to import and export. Furthermore, the recently created investment promotion agency is in the process of identifying priority sectors in which competitiveness should be promoted through inward investment and technology transfer. The creation of Special Economic Zones throughout the country is also part of the government's strategy to promote industrial competitiveness of key industries in the petroleum, agricultural and services sectors.

Annex III. Republic of Congo: Anchoring Fiscal Policy in the Medium Term

The Republic of Congo introduced a fiscal rule in January 2013 to delink fiscal policy from volatile oil revenues and build wealth for future generations. The rule was however breached in its first year of operation and the authorities are examining options for redefining the rule. A prudent fiscal policy that targets a gradual reduction in the non oil primary deficit over time would ensure fiscal sustainability, while at the same time implementing the government's investment program aimed at diversifying the economy and building up wealth buffers for the future. An alternative scenario illustrates the risks from a sharp increase in government spending in the next few years.

A. Background

1. **In January 2013, the Congolese authorities implemented a fiscal rule in order to secure long term fiscal sustainability in the context of exhaustible oil resources.** The fiscal rule envisioned the allocation of CFAF 1,500 billion of oil revenues to current (CFAF 500 billion) and capital (CFAF 1,000 billion) expenditures each year. The remainder would be saved in government deposits. This would protect the budget from oil revenue volatility, prevent fiscal policy procyclicality, and permit the authorities to implement their ambitious program of investment.

2. **However, the rule was breached by a wide margin in its first year of operation.** According to the rule, from the CFAF 2,295 billion of oil revenues in 2013, CFAF 795 billion should have been saved at the BEAC. However, unbudgeted arrears payments held back government savings. At the same time, government deposits at the BEAC declined. The Congolese authorities are currently considering options to redefine the fiscal rule to take into account fiscal sustainability concerns and the need to diversify the economy away from the hydrocarbon sector.

3. **This note examines a new fiscal rule that takes into account fiscal and debt sustainability concerns and the exhaustibility of oil resources in the medium term.** The objective of such a rule is to put government expenditures on a sustainable path, such that they become less dependent on oil revenues that are volatile and are projected to decline over the medium term (Table 1). To prepare the economy for a future without hydrocarbon resources, the rule should also permit the authorities to implement their ambitious infrastructure investment program (in line with absorptive capacity constraints) to diversify the economy and build up wealth buffers for future generations.

Table 1. Republic of Congo: Medium-Term Fiscal Framework
(in percent of non-oil GDP, unless otherwise indicated)

	2013	2014	2015	2019	2025	2033	2034
Revenue and Grants	111.7	102.6	94.2	67.4	45.2	32.5	31.8
of which:							
Oil revenue	82.1	72.3	64.2	36.2	13.4	2.2	1.9
Non-oil revenue	28.6	28.8	29.1	30.3	31.3	30.0	29.7
Total expenditure	91.4	91.0	83.7	62.3	38.2	31.2	30.5
of which: Capital expenditure	57.7	56.4	49.4	32.6	15.7	13.2	12.9
Memorandum items:							
(percent of non-oil GDP)							
Non-oil primary balance 1/	-61.2	-60.5	-53.6	-31.1	-6.5	-2.2	-1.5
Net financial assets 2/	42.5	52.5	61.2	92.8	117.1	124.8	123.8
Net financial assets (6.5% Interest Rate) 2/	42.5	52.5	61.2	92.8	117.1	124.8	123.8
Net financial assets 5% Interest Rate) 2/	42.5	51.9	59.9	87.7	105.2	97.9	94.4
Net financial assets (3.5% Interest Rate) 2/	42.5	51.3	58.7	82.9	94.7	76.3	71.4
Wealth 3/	655.3	567.4	493.5	303.3	184.7	144.5	141.4
Debt-to-GDP ratio	38.2	38.7	37.3	35.2	31.4	18.8	17.4
Oil price (in US$ per barrel)	104.1	104.1	99.6	89.4	100.6	115.6	115.6
Oil production (in million of barrels)	88.4	89.3	96.4	104.3	50.9	13.9	12.5

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.

B. Policy Anchor

4. **Given the relatively short term horizon of Congo's oil resources, the authorities should explicitly target the Non Resource Primary Balance (NRPB) as the anchor for fiscal policy.** This approach would help to delink fiscal policy from the volatility of oil revenues and avoid the need to adjust spending abruptly when oil revenues are exhausted, which would negatively impact economic activity. It would also address fiscal sustainability concerns.

5. **The first option that is available as a guide for setting the trajectory of the NRPB is based on the Permanent Income Hypothesis (PIH).** This involves setting the NPRB at a level consistent with current accumulated financial wealth, as well as that expected to accrue in the future from natural resources. The main downside of this approach is that it does not permit the government to use part of its natural resource wealth to undertake a period of 'scaling up' investment to develop the domestic capital stock.

6. **The Fiscal Sustainability Framework (FSF) takes into account an intertemporal budget constraint and incorporates ex–ante the growth impact of a higher initial investment program.** In contrast to the PIH, the focus here is not on the preservation of the full amount of financial wealth. In this framework, fiscal sustainability is consistent with a non–oil primary balance that allows a drawdown of government wealth (with spending on human and physical capital). It

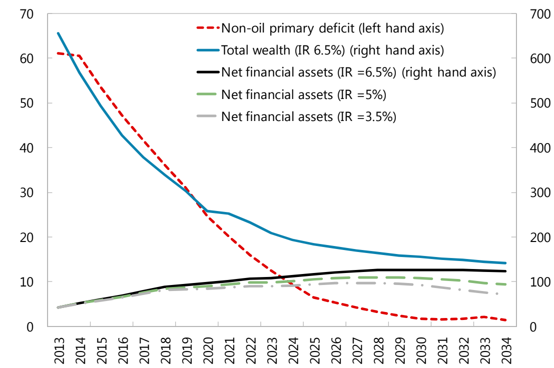
entails a gradual increase in non–oil revenues, which stems from the diversification program and avoids a sudden reduction in government expenditure.

C. Implementation – Fiscal Sustainability Framework

7. Implementation of the Fiscal Sustainability Framework (FSF) in Congo would entail a sustained reduction of the non–oil primary deficit over the forecast horizon (Figure 1). Staff analysis indicates that the non–oil primary deficit should be reduced to about 31 percent of non–oil GDP by 2019. In the long term, the non–oil primary deficit should be further reduced in order to stabilize the net financial asset position at a level that would depend on the average return on investment (see below). This build up of financial assets would help provide a buffer of assets for future generations once oil revenues are exhausted.

Figure 1. Republic of Congo: NRPD, Financial Assets and Wealth

(percent of non-oil GDP)



Sources: IMF staff estimates

8. The accumulated level of net financial assets will depend on the average return on investment. Accumulated net financial assets are composed of two parts: the initial value and the present discounted value of future oil revenues until end 2034. Assuming a long-term interest rate ranging between 3.5 to 6.5 percent, net financial assets would reach a level between 71 percent and 124 percent of non–oil GDP by 2034.[5]

9. Careful note should be taken of absorptive capacity constraints and the quality of investment projects. The quality of investment projects is critical in determining the effect of investment on projected growth and non–oil revenues, and hence the adjustment path of the NRPB. Care should be taken in the choice of projects to ensure that they maximize such 'fiscal returns'. Project selection should also balance the growth impact of investment with the institutional capacity required for implementation.

10. The implementation of a fiscal rule in Congo should also bear in mind regional considerations. The fiscal sustainability framework outlined above is broadly consistent with the

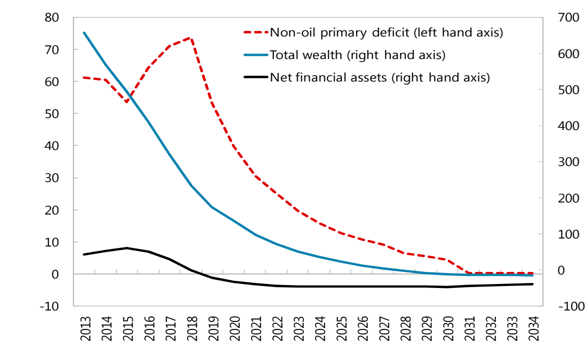
[5] The proposed consolidation path is consistent with the principles and international experience summarized in the 2012 IMF Policy Paper on *Macroeconomic Policy Frameworks for Resource-Rich Developing Countries*. The 2014 Article IV mission provided the authorities hands-on explanations on applying the fiscal sustainability framework to calibrate fiscal adjustment paths. A similar analysis in the 2013 Article IV Staff Report (Country Report No. 13/282) found that the NRPB should be stabilized at a level consistent with maintaining total net wealth at slightly under 200 percent of non–oil GDP. The difference between the two analyses is attributed to subsequent downward revisions in the authorities projections for growth in the non-oil sector, in particular in the forestry and construction and public works sectors.

fiscal convergence criteria of the CEMAC region. It may be further calibrated in order to be fully consistent with all the convergence criteria.

D. Alternative Policy Scenario

11. An alternative policy scenario, describes the risks of a sharp acceleration of public expenditures in the immediate term. Under the alternative policy scenario, government expenditures accelerate sharply from 2016 onwards, reaching a peak of 104.9 percent of non–oil GDP in 2018. Despite a higher growth rate in the short term, in the long term the elevated spending levels under this scenario increase inflation, reduce competitiveness and increase external debt.

Figure 2. Republic of Congo: NRPD, Financial Assets and Wealth
(alternative scenario, percent of non-oil GDP)



Sources: IMF staff estimates

12. In the alternative policy scenario, a sharp fiscal adjustment is required in the medium term to correct the economic imbalances resulting from the initial fiscal expansion (Figure 2). Moreover, under this scenario, net financial assets and total wealth are negligible in the long run, leaving Congo with limited sources of income once oil resources are exhausted.

Annex IV. Republic of Congo: Risk Assessment Matrix[6]

Sources of Risks	Likelihood	Impact if Realized	Recommended Policy Response
Protracted period of slower growth in advanced and emerging economies. Lower-than-expected domestic oil production from maturing oil fields.	**High** **Low**	**High** Lower oil prices/production would lower exports and government revenues and could result in postponement of some investment activities. Absent a strengthening of the expected fiscal consolidation, government foreign currency deposits would be quickly drawn down and there could be greater reliance on foreign borrowing.	Build up fiscal buffers now: improve non-oil tax revenue collection, streamline public investment.
Increasing geopolitical tensions surrounding Ukraine lead to disruptions in financial, trade and commodity markets and increase global oil prices by 15 percent.	**Medium**	**Medium** An increase in oil prices would increase export revenue and scope for spending on development priorities. May help build external buffers. The same would apply for a new oil discovery or sooner-than-expected advancement of mining projects.	Target spending in order to improve productivity; increase absorptive and implementation capacity.
Lower commodity demand from a sustained decline in world oil prices, including from a sharp slowdown in growth in China.	**Medium**	**Medium** Lower oil prices and exports as in item 1. FDI and concessional lending for development projects from China could also decline stunting progress with the government's diversification program.	Build up fiscal buffers now: improve non-oil tax revenue collection and streamline public investment.
Social tensions from inequality and poor job opportunities and uncertainties about presidential succession.	**Medium**	**Medium/High** Instability could disrupt economic activity and lead to macroeconomic imbalances.	Continue efforts to strengthen property rights, improve the business climate, and address social inclusion and implement arrears repayment plan.

[6] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability of 30 percent or more). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non mutually exclusive risks may interact and materialize jointly.

REPUBLIC OF CONGO

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

July 7, 2014

Prepared By The African Department
(in consultation with other Departments)

CONTENTS

RELATIONS WITH THE FUND

E. Financial Relations

As of May 31, 2014

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	14.75	17.43

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				
	2014	2015	2016	2017	2018
Principal	1.93	3.87	2.66	1.69	1.69
Charges/Interest	0.00	0.04	0.03	0.02	0.02
Total	1.94	3.91	2.69	1.72	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:

	Enhanced Framework
I. Commitment of HIPC assistance	
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).

Safeguards Assessment:

Consistent with the safeguards policy requirement for regional central banks, the BEAC was subject to a quadrennial assessment in 2013. It occurred against the backdrop of significant change at the BEAC to address governance challenges and control failures that emerged in 2009, and led to close engagement in the period after through close IMF monitoring of safeguards "rolling measures" in the context of new program requests and reviews for CEMAC countries. The 2013 assessment found that risks remain elevated and that annual IMF staff visits to monitor priority recommendations and progress on the BEAC's reform plan would continue as part of the safeguards "rolling measures" approach.[7] Consistent with this approach, a safeguards staff visit to the BEAC was conducted from April 1–9. Staff concluded that the BEAC has made good progress in implementing recommendations from the 2013 assessment and is advancing its reform plan to strengthen controls at the bank. That said, the BEAC continues to face challenges on institutional autonomy and broader governance reforms remain paramount in the medium-term. Staff will maintain close engagement with the BEAC to assess sustainability of the measures already in place and implementation of the reforms and new safeguards measures going forward. Developments on implementation of these measures will allow staff to consider whether sufficient progress has been made to discontinue the annual monitoring of safeguards rolling measures and thereby revert to the four-year cycle of full safeguards assessments for regional central banks.

F. Nonfinancial Relations

Exchange Rate Arrangement:

The de jure and de facto exchange rate arrangement of the Central African Monetary Union (CAMU) is a conventional peg. The Republic of Congo participates in the CAMU and has no separate legal tender. The regional 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.

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 April 29-May 13, 2013. The staff report (Country Report No. 13/282 at www.imf.org) was approved by the Executive Board on a lapse of time basis without a meeting on August 30, 2013.

[7] Staff has been conducting annual monitoring of safeguards developments at the BEAC since 2010.

Technical Assistance

Technical Assistance Received 2011–2014			
Subject	**Department**	**Staff Member**	**Date**
Program Budgeting	AFRITAC	Olivier Benon	June 2014
Liability Management	MCM	Chaker Soltani	February 2014
National Accounts	AFRITAC	Hubert Gbossa and Francois Ramde	February 2014
Government Finance Statistics	STA	Ciaran Judge	January 2014
National Accounts	AFRITAC	Francois Ramde	October 2013
Debt Management	MCM	Oumar Dissou	August 2013
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

Technical Assistance Received 2011–2014			
Subject	**Department**	**Staff Member**	**Date**
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VAT Administration	AFRITAC	Louis Rene Ossa	May 2012
National Accounts	AFRITAC	Hubert Gbossa	January 2011

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 in the Republic of Congo. Cooperation during the last year has included discussions related to the macroeconomic situation in Republic of Congo; the ongoing Public Expenditure Management and Financial Accountability Review (PEMFAR); progress in the achievement of the Millennium Development Goals (MDG); and updates on the status of World Bank country programs. These World Bank country programs are aimed at improving competitiveness and development outcomes and include a conditional cash transfer program and measures to improve rural area productivity through investment in roads, programs to develop seeds and the training of farmers. A full DSA is jointly prepared by the two teams for the 2014 Article IV consultations; a DSA—full or update—will also be conducted in 2015.

REPUBLIC OF CONGO: IMF AND WORLD BANK JOINT ACTION PLAN As of June 20, 2014		
Title	**Products**	**Expected delivery**
Bank work program in next 12 months	1st Edition Economic Update	September 2014
	Public Expenditure Management and Financial Accountability Review (PEMFAR)	November 2014
	Trade Facilitation and Intervention	December 2014
	2nd Edition Economic Update	April 2015
	Country Program Strategy (CPS) Progress Report	June 2015
	Policy Note on Economic Diversification	June 2015
	Transparency & Governance Repeat Project	June 2015
	Water, Electricity & Urban Development SIL	December 2015
	Agricultural Development and Rural Roads Rehabilitation Project	October 2015
	Support to Economic Diversification Project	February 2016
	LISUNGI Safety Nets Project	February 2018
	Skills Development for Employability Project	September 2018
	Health Sector Project	June 2019
	Statistics Capacity Building Project	June 2019
IMF work program in next 12 months	Article IV consultation Technical Assistance: MCM (Liability / Debt Management) AFRITAC (National Accounts) STA (Balance of Payments, GDDS+)	2014–15
World Bank request to Fund	Macroeconomic updates for project documents	2014–15
Joint products in next 12 months	Debt Sustainability Analysis	July 2014
	Debt Sustainability Analysis	June 2015

STATISTICAL ISSUES

As of June 27, 2014

A. Assessment of Data Adequacy for Surveillance
General: Data provision is broadly adequate for surveillance with some key data shortcomings in national accounts, monetary, fiscal, and external sector statistics due to capacity constraints.
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 up to 2012. 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. Since August 2010, the authorities introduced a new CPI measure with new weights and a new composition of the basket of goods and services. This new CPI is harmonized with that of other countries in the Central African Economic and Monetary Community (CEMAC).
Government Finance Statistics:. Data provision has become sporadic since end-2011 and is limited to central government above the line transactions and for transactions for some extrabudgetary units. 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. On the ground collection of data related to local government units is good. However, there is a lack of consistency / transparency between above the line and below the line transactions, particularly as relates to oil revenues. There are also inconsistencies and lags related to consolidation and intra – governmental transfers. Reliable balance sheet (e.g. debt) data is nonexistent. Future technical assistance efforts could focus on expanding the institutional coverage to include social security operations and the accounts of SNPC (the nationalized oil company). A more comprehensive financial balance sheet could be produced to fully capture the public sector assets / liability position. 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. 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.
Monetary Statistics Monetary statistics are reported to the Fund by the Banque des États de l'Afrique Centrale (BEAC) on a monthly basis in the format of the standardized report forms (SRFs). The depository corporation survey does not include data from deposit taking microfinance institutions, a growing sector in the country. It is hoped to include data in the future on interest rates offered by the financial institutions sector to non-financial entities on deposits and loans.
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 through 2007 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 on the International Investment Position is not compiled.
B. 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 since 2003. No data ROSC is available.

REPUBLIC OF CONGO: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE

As of June 30, 2014

	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]	Memo Items:[8] Data Quality – Methodological soundness[9]	Memo Items:[8] Data Quality – Accuracy and reliability[10]
Exchange Rates	Current	Current	D	D	D	Current	Current
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	January 2014	May 2014	M	M	M	January 2014	May 2014
Reserve/Base Money	March 2014	May 2014	M	M	M	March 2014	May 2014
Broad Money	March 2014	May 2014	M	M	M	March 2014	May 2014
Central Bank Balance Sheet	March 2014	May 2014	M	M	M	March 2014	May 2014
Consolidated Balance Sheet of the Banking System	March 2014	May 2014	M	M	M	March 2014	May 2014
Interest Rates[2]	May 2014	May 2014	M	M	M	May 2014	May 2014
Consumer Price Index	April 2014	May 2014	M	M	M	March 2014	May 2014
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	February 2014	May 2014	M	M	M	February 2014	May 2014
Stocks of Central Government and Central Government-Guaranteed Debt[5]	December 2013	May 2014	Q	Q	Q	December 2013	May 2014
External Current Account Balance	December 2013	May 2014	A	A	A	December 2013	May 2014
Exports and Imports of Goods and Services	December 2013	May 2014	A	A	A	December 2013	May 2014
GDP/GNP	December 2013	May 2014	A	A	A	December 2013	May 2014
Gross External Debt	December 2013	May 2014	Q	Q	Q	December 2013	May 2014
International Investment Position[6]	…	…	NA	NA	NA	…	…

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

[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

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITYANALYSIS

July 7. 2014

Approved By
Anne-Marie Gulde-Wolf and Bob Traa (IMF) and Jeffrey D. Lewis and Marcelo Giugale (IDA)

The Debt Sustainability Analysis (DSA) has been prepared jointly by IMF and World Bank staff, in consultation with the authorities, using the debt sustainability framework for low-income countries approved by the Boards of both institutions.

This debt sustainability analysis (DSA) concludes that the Republic of Congo faces a low risk of debt distress, similar to the analysis prepared in the previous year.[8] *Under the baseline scenario for the current DSA all debt burden indicators are projected to remain below the policy-dependent indicative thresholds. Standard stress tests result in one breach of these thresholds which could give rise to a downgrade of Congo's rating to "moderate risk of debt distress". This finding underscores the vulnerability of the Congolese economy to external shocks, in particular, to adverse changes in oil prices and external demand. However, in view of the Republic of Congo's large government deposits at the BEAC and gross official reserves at the BEAC, which gradually increase in the medium-term under the baseline scenario, and which are a mitigating factor that could help Congo weather potential adverse shocks, Congo is classified as at "low risk of debt distress". In order to increase the resilience of the Congolese economy, efforts should continue to focus on diversification of the tradable sectors. Moreover, medium-and long-term fiscal and debt sustainability can be promoted through continued adherence to prudent borrowing policies and building of fiscal buffers. Under an alternative policy scenario, which assumes a continuation of large government spending over the medium term, gross official reserves would quickly deteriorate and debt-burden indicators would be more unfavorable. Under the alternative policy scenario debt vulnerabilities would be significantly higher and entail a rating downgrade."*

[8] This DSA is based on end-2013 debt data. The 2013 DSA (see IMF Country Report No. 13/282) was based on end-2012 debt data. The fiscal year for the Republic of Congo is January–December.

BACKGROUND

1. **Congo's stock of external debt has been building up since the extensive HIPC/MRDI debt relief in 2010**. As noted in the previous DSA, Congo reached the HIPC Initiative Completion Point in January 2010. This resulted in estimated total debt service savings of US$1.9 billion, and a decline in gross public external debt to just over 20 percent of GDP at end-2010 (from about 55 percent of GDP in 2009) (See Press Release No. 10/20, January 28, 2010). However, the external debt stock at the end of 2013 amounted to around US$4.3 billion, up from US$2.4 billion in 2010.[9] The debt-to-GDP ratio increased steadily over the past 3 years, reflecting new borrowing, notably large disbursements under bilateral loan agreements with China, contracted in 2006 and 2012. Bilateral creditors currently comprise nearly two-thirds of total debt (see Table 1). Domestic public debt is relatively low at around 4 percent of GDP. The bulk of domestic arrears involve pension arrears and unpaid social benefits which started accumulating after the liquidation of public enterprises in the past as employees were not rightfully terminated.[10]

Table 1. Republic of Congo: Gross External Debt by Creditor and Total Debt service

	2010		2011		2012		2013	
	CFA billion	USD million	CFA billion	USD million	CFA billion	USD million	CFA billion	USD million
Debt stock	1,203	2,434	1,568	3,325	1,792	3,511	2,132	4,316
Multilateral	227	459	90	191	97	190	95	193
Bilateral	291	589	957	2,031	1,187	2,325	1,538	3,113
of which China	182	369	761	1,615	1,014	1,987	1,401	2,837
Private Creditors	685	1,386	520	1,104	508	996	499	1,010
Total debt service	72.6	146.8	65.7	139.3	69.9	137.1	150.7	305.1
Interest	15.7	31.8	13.4	28.5	11.9	23.3	16.9	34.1
Amortization	56.9	115.0	52.2	110.8	58.1	113.8	133.8	270.9
Multilateral	8.2	16.5	7.4	15.6	7.0	13.8	10.4	21.0
Bilateral	23.6	47.7	37.5	79.5	47.2	92.5	114.8	232.4
Private Creditors	25.1	50.8	7.4	15.6	3.8	7.5	8.7	17.6

Source: Caisse Congolaise d'Amortissement (CCA) and IMF staff calculations

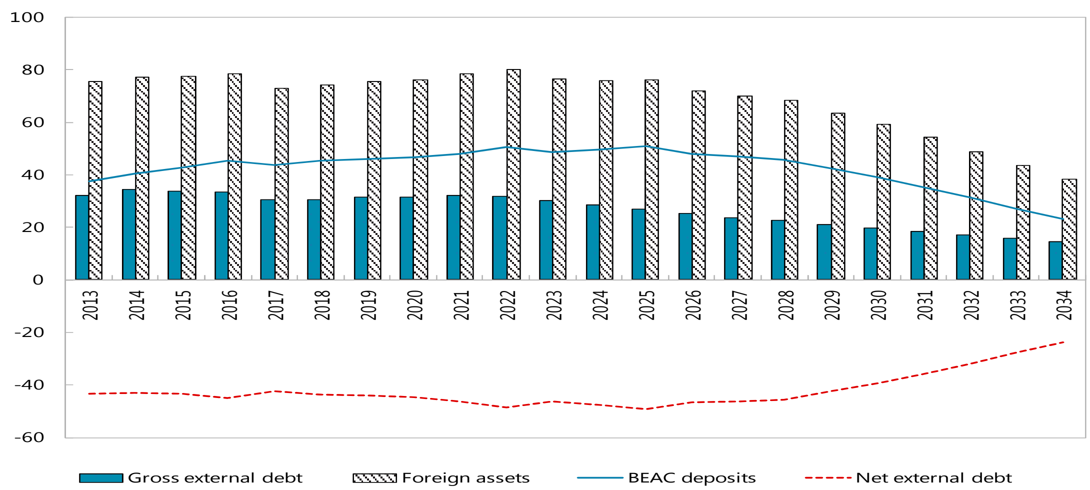
2. **The sustainability of Congo's debt should be assessed in the context of the country's sizeable financial assets.** Gross official reserves stood at about 38 percent of GDP at end-2013. In addition, the government holds substantial foreign currency deposits at China's EXIM bank. As depicted in Figure 1, the government's large deposits at the BEAC are equivalent to about

[9] This figure includes also the external arrears stock of US$739 million. More than ⅔ are related to commercial creditors, for which legal decisions are pending. The rest is owed to bilateral creditors for which the provisions of debt relief under the HIPC Initiative are still under discussion.

[10] The authorities are currently undertaking an audit of domestic arrears. Once the audit is completed, the authorities intend to put in place a multi-year repayment plan.

60 percent of external public debt and gross official reserves at the BEAC are equivalent to about 118 percent of external debt. The large gross official reserves and government deposits at the BEAC reflect the ongoing run of high international oil prices since the achievement of HIPC/MDRI debt relief in 2010. Assuming the government continues to save part of its annual oil revenues, Congo's gross official reserves will continue to exceed the level of public debt throughout the projection horizon.[11]

Figure 1. Republic of Congo: Gross and Net External Position



Sources: Congolese authorities; IMF and WB staff calculations and projections.

3. **Nonetheless, there is a need to strengthen public debt management.** A recent IMF public debt management technical assistance needs assessment mission highlighted the need to: (i) strengthen the legal and institutional framework to cover the entire process of issuing and managing debt; (ii) develop a medium-term debt management strategy and enhance transparency in debt management; (iii) introduce a formal framework for managing the government's cash flows; and (iv) strengthen the staff analytical capabilities with respect to managing the public debt.

UNDERLYING ASSUMPTIONS

4. **The medium and long-term macroeconomic framework underlying the DSA is consistent with the baseline scenario presented in the Staff Report for 2014 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

[11] The Congolese authorities are receiving ongoing technical assistance from the IMF's Monetary and Capital Markets Department to strengthen debt management.

sector, reflecting developments in construction, agriculture and services. Oil production is foreseen to gradually increase from 88 million barrels in 2013 to a peak of 118 million barrels in 2017 and then decline in later years. Large capital expenditures are projected to continue in the medium term to address the country's infrastructure gap. Once a critical amount of public capital stock is reached, corresponding to middle-income countries' level, public investment is assumed to gradually decline as private investment picks up, attracted by an improved infrastructure base and a friendlier business climate.

5. Assumptions regarding external borrowing have been adjusted compared to the macroeconomic framework underpinning last year's DSA (see Table 2). The projected debt profile in last year's DSA only reflected already committed loans. In this year's DSA, the debt profile is substantially higher as it also includes the authorities' medium-term borrowing plans. The Congolese authorities are projected to continue borrowing externally at broadly the same pace as in the last three years. In line with these projections, new gross external borrowing over the medium term (2014–19) is expected to total around US$3.3 billion. The terms of the new debt are assumed to be highly concessional, in line with the agreement signed with China in 2012.[12] The degree of concessionality is assumed to lessen after 2025. Compared to previous DSAs, the grant element is higher, mainly due to the assumed upward revision of the discount rate (from 3 to 5 percent).[13]

6. Under the baseline, the current account balance is expected to be negative over 2014–16, but it turns positive in later years. These developments are mainly driven by ambitious infrastructure projects and new investments in the oil sector that result in an upward trend in imports of goods and services. The *Moho Nord* deep offshore field, developed by Total jointly with Chevron and SNPC, is expected to attract around $10 billion of foreign direct investments over 2013–16, and to come on stream in 2017 when Congolese oil production is expected to peak. Considering the large uncertainty in the mining sector, a conservative approach is adopted; only one of Congo's iron ore projects under development is assumed to reach the production phase, containing output growth. Removing existing sector-specific infrastructure bottlenecks in transportation would provide a significant boost to longer-term growth at the cost of significant initial investments. In the long run, as oil exports decline and non-oil export receipts fail to compensate for this loss, additional financing would be needed. The present DSA assumes that the financing gap after 2025 is filled on concessional terms, although with a lower grant element than that under the current Chinese loans.[14]

[12] This assumption reflects the high level of deposit collateralization, which at this moment is estimated to be around 150 percent.

[13] The 2014 DSA's grant element of new public sector borrowing in the short and medium term is around 49 percent, reflecting 5 years of grace period, 20 years maturity and very low interest rate on loans.

[14] The grant element of new borrowing in the long term is assumed to be around 28 percent, mainly reflecting higher interest rates.

Table 2. Republic of Congo: Comparison of PPG External Debt, Baseline Scenario

(In percent of GDP, unless otherwise indicated)

	2014	2015	2016	2017	2018	2019	2024	2032
				PV of Debt to GDP Ratio				
2014DSA	27.0	25.4	24.3	21.2	20.6	20.6	19.0	13.7
2013DSA	18.3	16.5	14.9	12.0	10.5	9.2	7.5	9.0
				PV of Debt to Exports Ratio				
2014DSA	34.8	33.6	33.1	28.6	28.7	30.3	36.3	35.1
2013DSA	25.4	23.1	21.6	17.1	15.6	14.8	16.5	28.7
				PV of Debt to Government Revenue Ratio				
2014DSA	58.6	57.5	55.9	52.7	52.8	54.7	51.9	43.3
2013DSA	39.2	39.1	35.7	30.4	27.5	24.9	22.1	28.8
				Debt Service to Exports Ratio				
2014DSA	3.5	3.9	3.7	3.3	3.4	3.5	2.4	2.7
2013DSA	2.9	2.7	2.6	2.3	2.3	2.6	1.3	1.7
Memorandum Items								
				New Loan Disbursements (billions FCFA)				
2014DSA	374	300	280	260	240	220	108	139
2013DSA	125	75	50	1	1	1	202	139
				Grant Element of New External Borrowing (in percentage points)				
2014DSA	48.7	48.7	48.7	48.7	48.7	48.7	48.7	28.1
2013DSA	32.9	32.9	32.9	23.8	23.8	23.8	23.8	23.8
				Basic non-oil primary balance (percent of the non-oil GDP)				
2014DSA	-48.5	-44.8	-40.0	-35.3	-30.7	-26.5	-7.8	0.1
2013DSA	-39.4	-36.1	-32.2	-29.1	-26.6	-24.0	-9.3	-3.0
				Real GDP growth (annual percentage change)				
2014DSA	6.0	7.5	7.3	9.0	3.5	1.9	3.9	4.5
2013DSA	4.8	7.7	7.3	10.1	4.7	2.7	4.3	4.2
				Current Account Balance (percentage of the GDP)				
2014DSA	-3.1	-3.5	-1.4	2.3	1.4	-1.6	-2.2	-2.1
2013DSA	5.2	0.9	0.8	2.7	0.2	-3.2	-8.5	-11.9

Sources: Congolese authorities; IMF and WB staff calculations and projections.

Box 1. Republic of Congo: Main Macroeconomic Assumptions

- **Real GDP growth:** The non-oil sector is projected to grow on average by 7 percent per year during 2014–21 driven by construction, agriculture and public investment; non-oil growth would stabilize at about 5 percent thereafter. Given the uncertainties surrounding the mining projects (including sluggish global demand and the need for large investment in infrastructure) the baseline projections for mining output are cautious. Iron ore production, which is expected to start timidly in 2014 with 200,000 tons, is supposed to augment to 2 million tons in 2015, to 7 million tons by 2017, and to 17 million tons by 2023. These projections are conservative, since the estimated potential of mining in Congo is more than 50 million tons per year if infrastructure gaps are addressed.[15]
- **Oil production and prices:** Annual oil production is projected at around 89 million barrels in 2014 and expected to peak at 118 million barrels in 2017. Based on official projections, production would steadily decline over 2019–34, to about 13 million barrels in 2034. Following projections in the IMF's *World Economic Outlook*, international oil prices are projected to decrease by about 3 percent per year during 2014–18; thereafter, they are assumed to remain constant in real terms.
- **Inflation:** Following the sharp acceleration to 7.5 percent (year-on-year) in 2012, inflation decelerated to close to 2 percent at the end of 2013 in line with regional and international trends. The appreciation of the CFA franc with respect to the U.S. dollar also helped to anchor price stability. In the medium term, inflation is projected to stay below the CEMAC's convergence criteria of 3 percent.
- **Current account balance:** Current account fluctuations are driven by the dynamics of exports and imports in the oil and mining sectors. The balance is expected to be positive when oil production peaks in 2017 and 2018; however, it would turn to a widening deficit thereafter as the currently assumed mining production would not suffice to compensate for the decline in oil production.
- **Fiscal balance:** Following the budgeted sharp increase in public capital expenditures in 2014, the baseline projections assume that fiscal consolidation resumes in 2015 and continues in the medium- and long-term. The basic non-oil primary deficit would narrow from about 48.5 percent of non-oil GDP in 2014 to 26.5 percent in 2019 and close to zero in the long run.
- **External financing:** In the medium term, the authorities are assumed to continue to borrow externally at similarly concessional terms. The second loan agreement with China worth US$ 1 billion is assumed to be disbursed over the 2013–14 period. This is assumed to be followed by additional borrowing over the period 2015–21 to the tune of another US$ 3.3 billion. These disbursements would finance reconstruction efforts in the aftermath of the 2012 ammunitions depot explosions, contribute to address Congo's infrastructure gap and help the preparations of the 11th All-Africa Games organized in Brazzaville in 2015. In the long run, external borrowing would be needed to ensure a minimum public investment of about 9 percent of GDP. The concessionality level is expected to lessen after 2025.

[15] Fluctuations in real GDP growth from 2018 onward mainly reflect fluctuations in oil production with the exception of 2023 when mining production is expected to increase further.

7. The macroeconomic outlook is subject to risks. The baseline scenario is built around relatively favorable assumptions about commodity prices and the availability of new public sector borrowing on concessional terms. Given the high reliance on oil revenues and exports, the Congolese economy remains vulnerable to external shocks, notably to a fall in oil prices or a slowdown of trade partners' demand. However, the Republic of Congo has accumulated sufficient fiscal and external reserves to mitigate the immediate effects of such shocks. Nevertheless, a protracted worsening of the terms of trade or foreign demand could trigger severe imbalances and require additional borrowing to avoid a sharp contraction in income. This could have negative implications for debt sustainability.

8. To illustrate the vulnerabilities facing Congo, a DSA under an "alternative policy scenario" that assumes a continuation of current large spending is also prepared. The important policy decisions facing the authorities are highlighted by a comparison of the baseline scenario with the "alternative policy" scenario (see Table 8).

DEBT SUSTAINABILITY ANALYSIS

G. External DSA

9. Under the baseline, 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.[16] 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. One of the stress tests breaches temporarily the indicative threshold. Standard bound tests that examine the implications of various shocks to the debt and debt-service paths based on the country's historical volatility result in sharp increases in the debt burden indicators (Figure 2a). 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 14 percentage points and the PV of debt to export ratio by 35 percentage points at the peak.[17] This development results in a breach of the threshold in the case of the PV of debt to GDP path during 2016–23. The breach of the threshold relates to increased

[16] The thresholds for weak performers are 100, 30 and 200 percent for the PV of debt to exports, GDP and government revenue, respectively. Debt service thresholds are 15 and 18 percent of exports and revenue, respectively.

[17] The vulnerability stems from the very high share of oil in Congo's exports and the large volatility of oil prices and production. The magnitude of the shock doubled to -10 percent in this exercise compared with last year's DSA.

oil export volatility in recent years that results in a doubling of the magnitude of the export shock compared with the magnitude of the shock in last year's DSA. While this breach of the policy-dependent threshold would give rise to a downgrade of Congo to a "moderate risk of debt distress," we consider that the higher volatility of the oil exports is temporary and is expected to be compensated by a higher production in the medium term. In addition, Congo's large external asset position would help to buffer it from an adverse export shock. 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 to be a poor predictor of future outcomes.

H. Public DSA

11. Adding domestic public debt to external debt does not change the results of the analysis (see Figure 3). Congo's domestic public and publicly guaranteed (PPG) debt includes domestic arrears. 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 2014-15 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 accumulation of official foreign reserves, which in the case of Congo is significant due to high primary surpluses, can be regarded as a buffer against these potential shocks.

I. External and Public DSA in an Alternative Policy Scenario

12. External and Public DSAs were also ran for the case in which an "alternative policy" scenario is used as the baseline. Under the alternative policy scenario, continued large government capital spending together with further real appreciation from higher inflation would lead the current account to register increasing deficits from 2015 onwards. As a result, reserves would fall to 5 months of imports by 2019—which is on the low side for a country with a highly concentrated export basket and a pegged exchange rate, and the government would eventually need to borrow more to finance its spending. As a result, the debt-to-GDP ratio is projected to exceed 50 percent by 2020 and to top 66 percent by 2025. Under the alternative policy scenario, new loans would likely be less concessional from 2020 onwards. Interest rates would rise to 5 percent, on average, and the average grace period would shorten. Eventually, the rise in external debt would force the inevitable downward adjustment in government spending, and growth would fall below the average growth rates in the "strong policy" scenario.

13. Under the alternative policy scenario, debt vulnerabilities would be significantly higher and may entail a rating downgrade." Figure 2b illustrates that the PV of the debt-to-GDP ratio would generally remain above the indicative threshold of 40 percent from 2019 onward. Moreover, the PV of debt-to-exports ratio would breach the threshold from 2021 onwards and the debt service-to-exports ratio would reach the threshold in 2030.

AUTHORITIES VIEW

14. **The Republic of Congo's authorities broadly concurred with the overall assessment of low risk of debt distress, highlighting the strong net external position that would provide a buffer against adverse shocks.** The authorities reiterated that they do not want to repeat the experience from the beginning of the 2000s, when debt exceeded by far the CEMAC convergence criteria. They assured staff of their plans to continue to borrow only under highly concessional terms. Finally, the authorities are aware of the risks related to oil prices and exports and their strategy is to continue the economic diversification.

Box 2. Macroeconomic Assumptions: Strong vs. Alternative Policy Scenario

1. **Under the baseline "strong policy" scenario, the authorities undertake fiscal consolidation and build up their fiscal and external buffers in the medium to long term.** Under this "strong policy" scenario, the government implements a fiscal consolidation, with government spending remaining broadly flat in nominal terms over the period 2014–19. Growth continues on average at a healthy clip in the medium to long-term, even in the face of a contraction in the oil sector. Inflation remains moderate. The current account is a deficit of one percent on average over 2014–19, slipping into an average deficit of 2 percent over the medium to long-term. Gross official reserves average 10 months of prospective imports of goods and services over 2014–19, and coverage is expected to remain above that ino the longer-term. The initial fiscal consolidation frees up fiscal space for higher average expenditure growth over 2027–34 (Table 8, "Baseline").

2. **The alternative policy scenario illustrates the risks of continued large government spending.** In this scenario, government spending increases unchecked to a peak of 105 percent of GDP in 2018. As a result, overall growth would on average be higher than in the strong policy scenario over the period 2014–19, yet already in the period 2020–26 growth would dip below that of the baseline. (Table 8, "Alternative Policy").

3. **However, the short term boost to growth comes at a significant longer-term cost**. Higher imports cause the current account to deteriorate significantly over the period 2020–26, with the deficit remaining on average wider than in the strong policy scenario. Higher government spending also pushes up inflation compared to the baseline scenario, eroding competitiveness. Gross official reserves fall below external public debt. A sharp correction in government spending is required to correct the imbalances.

4. **The keys assumptions underlying the alternative policy scenario are as follows:**

- Congo is assumed to maintain a minimum level of official foreign reserves equal to 5 months of imports.
- In the face of declining oil revenues and continued large government spending, it is assumed that capital expenditures are financed by first running down deposits in China. Following this, the government increases external borrowing to sustain higher government spending than in the baseline. As a result, the debt-to-GDP ratio is projected to exceed 50 percent by 2021 and to top 66 percent by 2025. Under the alternative policy scenario, new loans would likely be less concessional from 2020 onwards. Interest rates would rise to 5 percent, on average, and the average grace period would shorten. Eventually, the rise in external debt would force the inevitable downward adjustment in government spending.
- The longer-term effect of postponing the fiscal consolidation is to run up unsustainable external liabilities, leaving no financial assets to provide a permanent income once oil reserves are exhausted.

CONCLUSION

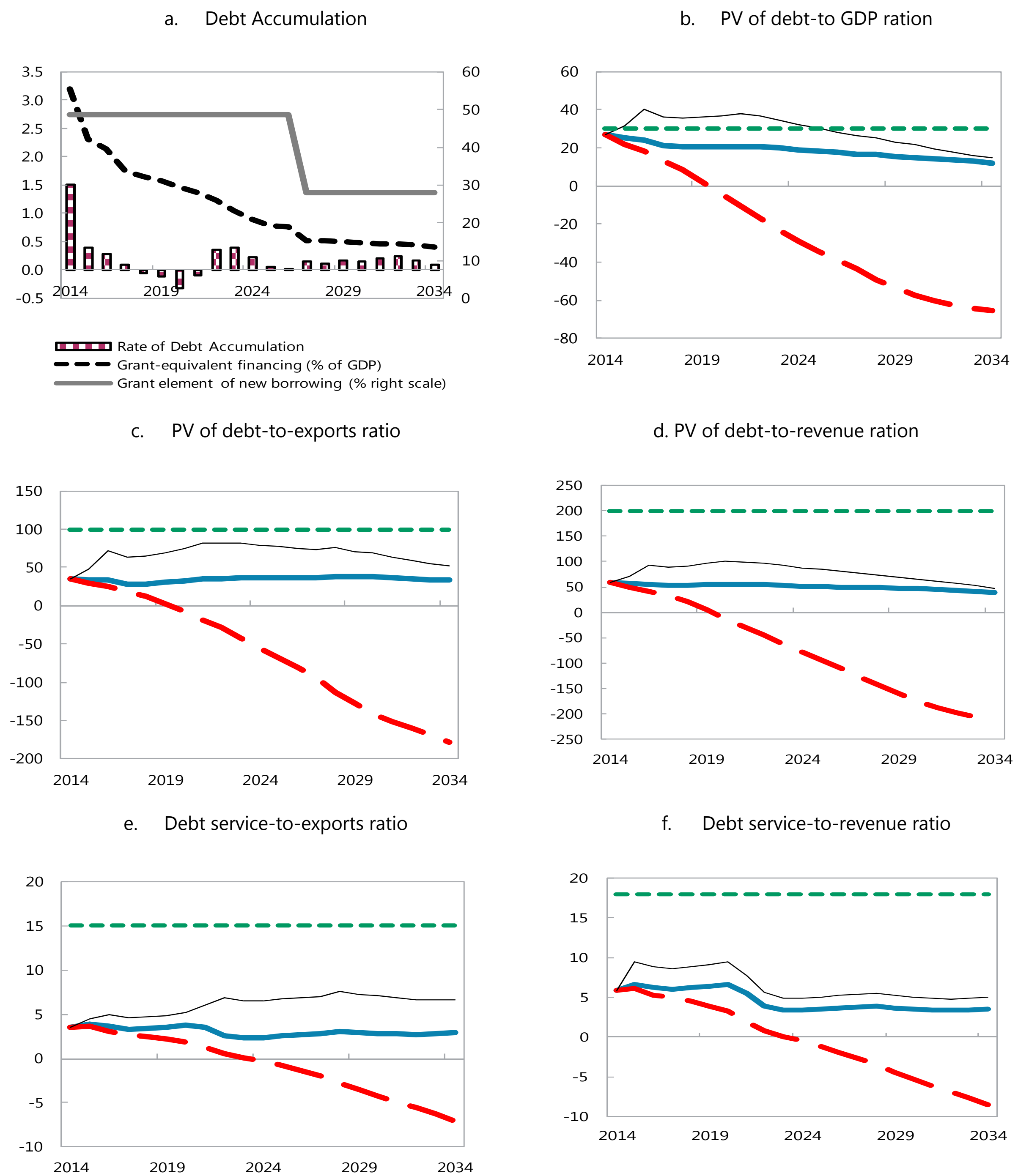
13. In the Staff's view, the Republic of Congo continues to face a low risk of debt distress, but with the potential of a negative revision in the future if external vulnerabilities deteriorate. All external debt indicators are well below the country-specific indicative thresholds under the baseline "strong policy" scenario but one of these thresholds is temporarily breached under the various standard stress tests. Nevertheless, Congo is unlikely to resort to extensive external borrowing in the near future given the comfortable level of reserves. It is therefore important for the government to anchor macroeconomic policies by a stability-oriented medium-term fiscal framework that targets a gradual reduction of the non-oil primary fiscal deficit and to save some oil revenue to prepare for the post-oil era.[18] The pattern seen in the last 3 years with respect to external borrowing underscores the constrained capacity to finance large infrastructure projects. Since we expect this trend to continue, new borrowing contracts should reflect similar concessional terms as the recent ones in order to maintain debt sustainability. In a "alternative-policy" scenario, which illustrates the risks of persistent delays in putting the non-oil primary deficit on a medium-term consolidation path, vulnerabilities would increase and the Republic of Congo would need to be reclassified to being at a "high risk of debt distress."

14. 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, efforts toward improving the business climate with assistance from the World Bank should help strengthen competitiveness and boost growth. 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.

15. Focusing on policies to strengthen public debt management and institutions could enhance the Congolese authorities' capacity to manage debt and fiscal policies. In the DSA framework, this would raise the Congolese economies' debt-carrying capacity, by raising the country's CPIA rating. Moreover the development and integration of the regional debt market within the CEMAC area would broaden the menu of options to manage the Republic of Congo's financing needs.

[18] Although gross official reserves declined in the past two years, the government accumulated savings overseas.

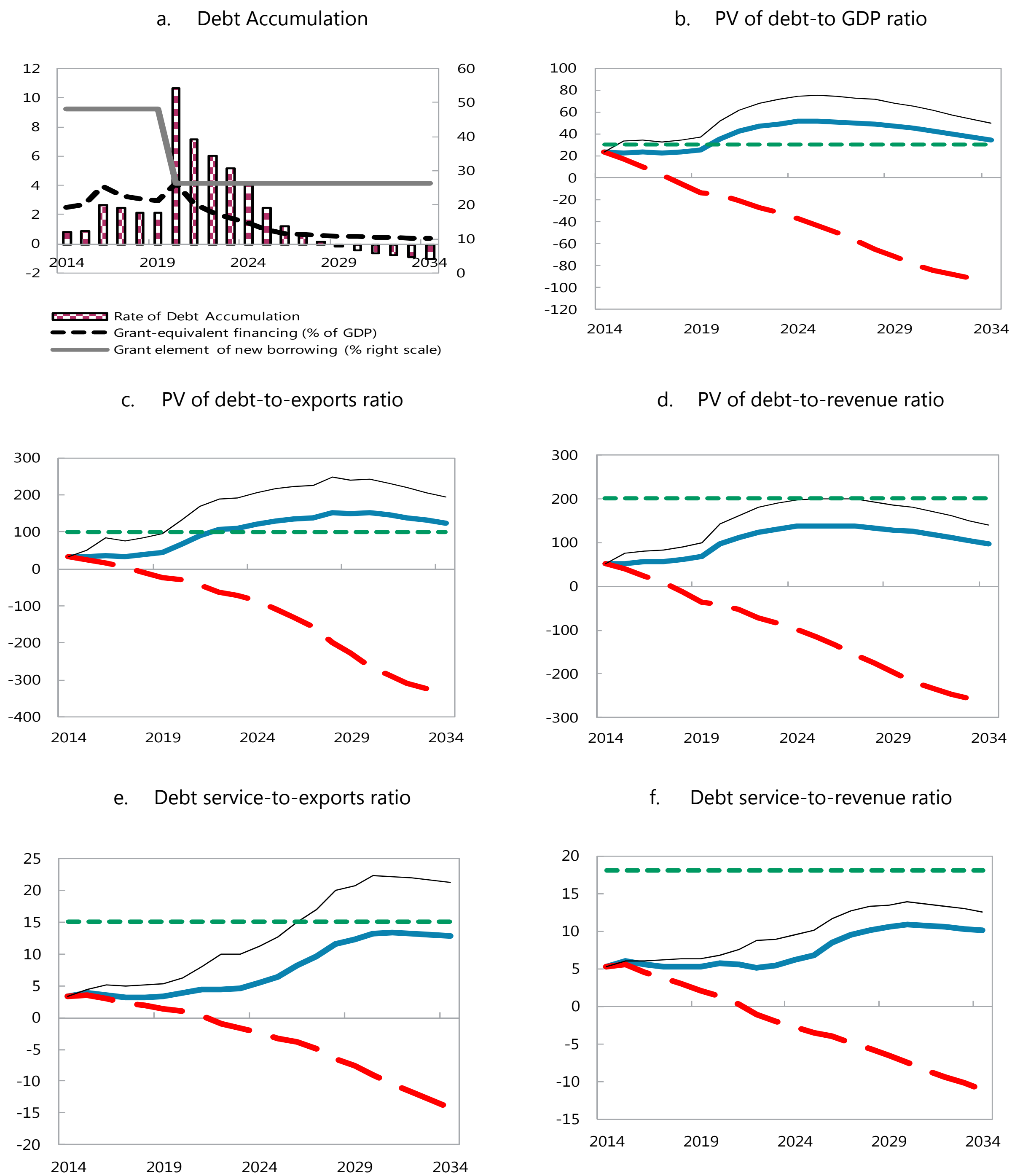
Figure 2a. Republic of Congo: Indicators of Public and Publicly Guaranteed External Debt under Baseline Scenario, 2014–34 [1/]



Sources: Country authorities; and staff estimates and projections.

[1/] The most extreme stress test is the test that yields the highest ratio on or before 2024. 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 Exports shock

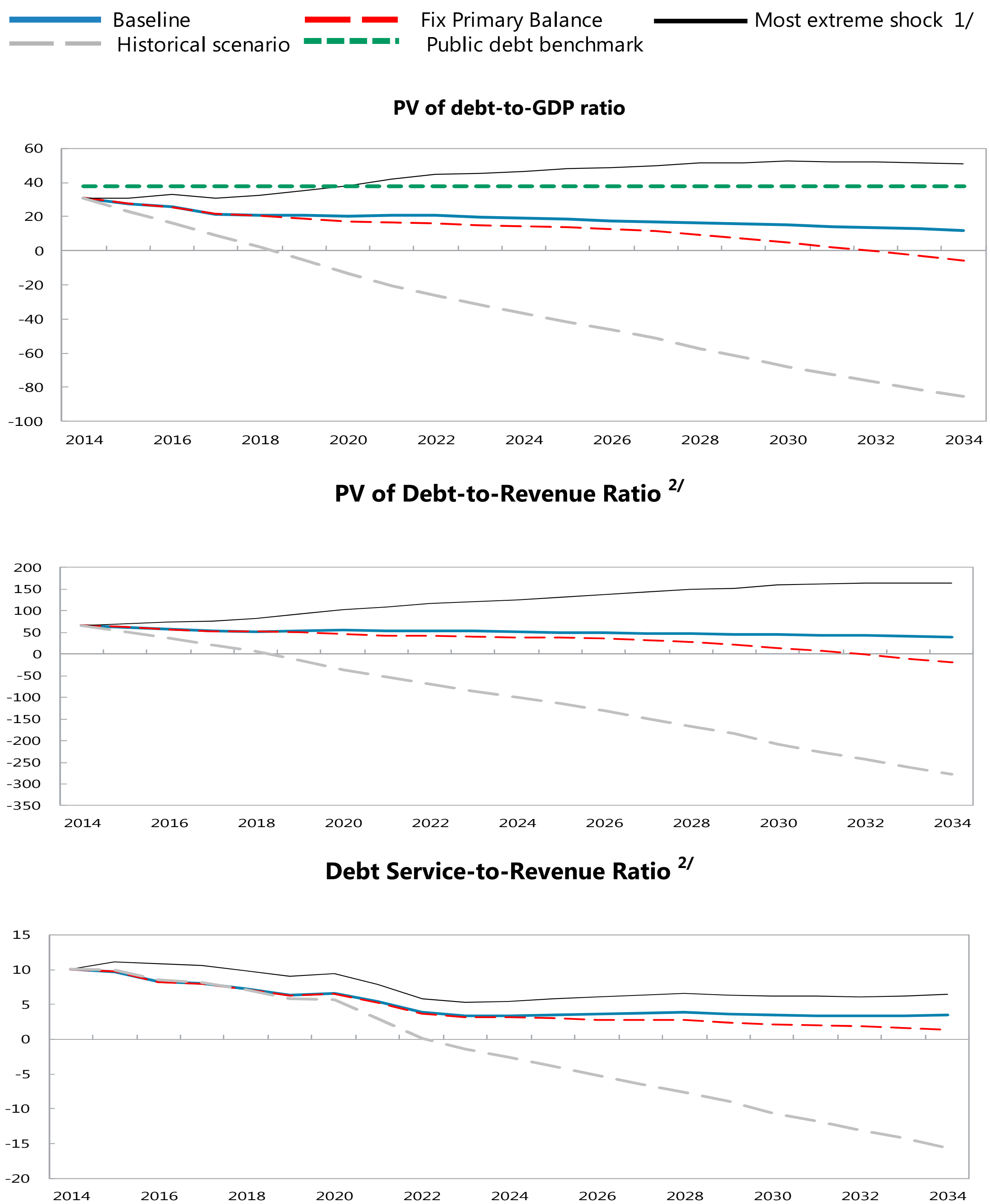
Figure 2b. Republic of Congo: Indicators of Public and Publicly Guaranteed External Debt under Alternative Policy Scenario, 2014–34 [1/]



Sources: Country authorities; and staff estimates and projections.

[1/] The most extreme stress test is the test that yields the highest ratio on or before 2024. In figure b. it corresponds to a Exports shock; in c. to a Exports shock; in d. to a Exports shock;

Figure 3. Republic of Congo: Indicators of Public Debt Under Alternative Shocks, Baseline Scenario, 2014–34



Sources: Congolese authorities; IMF and WB staff calculations and projections.

[1]/ The most extreme stress test is the test that yields the highest ratio on or before 2024.

[2]/ Revenues are defined inclusive of grants.

Table 3. Republic of Congo: External Debt Sustainability Framework, Baseline Scenario, 2011–34

(In percent of GDP, unless otherwise indicated)

	Actual			Historical [6/] Average	Standard [6/] Deviation	Projections									
	2011	2012	2013			2014	2015	2016	2017	2018	2019	2014-2019 Average	2024	2034	2020-203- Average
External debt (nominal) [1/]	**23.5**	**25.7**	**32.0**			**33.9**	**33.1**	**32.6**	**29.1**	**28.9**	**29.5**		**27.9**	**15.3**	
of which: public and publicly guaranteed (PPG)	23.5	25.7	32.0			33.9	33.1	32.6	29.1	28.9	29.5		27.9	15.3	
Change in external debt	3.2	2.2	6.4			1.8	-0.8	-0.5	-3.5	-0.2	0.6		-1.3	-1.2	
Identified net debt-creating flows	-30.5	-13.8	-15.1			-18.3	-16.5	-18.4	-16.6	-13.9	-9.7		-5.1	-2.2	
Non-interest current account deficit	**-6.1**	**1.1**	**3.2**	**-0.5**	**4.9**	**3.1**	**3.5**	**1.4**	**-2.3**	**-1.4**	**1.6**		**2.2**	**1.8**	2.2
Deficit in balance of goods and services	-27.2	-25.4	-17.5			-14.7	-14.2	-15.9	-21.8	-20.5	-16.2		-7.6	-1.4	
Exports	84.0	81.1	78.9			77.4	75.5	73.5	74.1	71.7	67.8		52.3	36.6	
Imports	56.8	55.7	61.4			62.7	61.3	57.5	52.3	51.1	51.6		44.7	35.2	
Net current transfers (negative = inflow)	2.0	2.8	2.9	1.7	1.1	2.7	3.0	3.0	2.8	3.0	3.1		3.1	2.1	2.8
of which: official	-0.4	-0.1	-0.3			-0.5	-0.2	-0.3	-0.2	-0.3	-0.3		-0.2	-0.1	
Other current account flows (negative = net inflow)	19.1	23.6	17.8			15.1	14.7	14.3	16.6	16.2	14.7		6.7	1.1	
Net FDI (negative = inflow)	**-21.1**	**-16.4**	**-18.9**	**-17.5**	**7.9**	**-19.8**	**-18.0**	**-17.8**	**-11.9**	**-11.8**	**-11.0**		**-6.3**	**-3.4**	-5.4
Endogenous debt dynamics [2/]	**-3.2**	**1.5**	**0.6**			**-1.6**	**-2.0**	**-2.1**	**-2.3**	**-0.8**	**-0.3**		**-0.9**	**-0.6**	
Contribution from nominal interest rate	0.2	0.2	0.2			0.2	0.4	0.2	0.2	0.2	0.2		0.1	0.1	
Contribution from real GDP growth	-0.6	-0.9	-0.9			-1.8	-2.3	-2.3	-2.5	-1.0	-0.5		-1.1	-0.7	
Contribution from price and exchange rate changes	-2.8	2.2	1.2			...	...	...	...	...	...		...	...	
Residual (3-4) [3/]	**33.7**	**16.0**	**21.5**			**20.2**	**15.7**	**17.9**	**13.1**	**13.7**	**10.3**		**3.8**	**1.0**	
of which: exceptional financing	0.0	0.4	-0.5			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt [4/]	...	...	26.6			27.0	25.4	24.3	21.2	20.6	20.6		19.0	12.1	
In percent of exports	...	...	33.7			34.8	33.6	33.1	28.6	28.7	30.3		36.3	33.1	
PV of PPG external debt	**...**	**...**	**26.6**			**27.0**	**25.4**	**24.3**	**21.2**	**20.6**	**20.6**		**19.0**	**12.1**	
In percent of exports	**...**	**...**	**33.7**			**34.8**	**33.6**	**33.1**	**28.6**	**28.7**	**30.3**		**36.3**	**33.1**	
In percent of government revenues	**...**	**...**	**57.2**			**58.6**	**57.5**	**55.9**	**52.7**	**52.8**	**54.7**		**51.9**	**39.6**	
Debt service-to-exports ratio (in percent)	**0.2**	**0.2**	**0.3**			**3.5**	**3.9**	**3.7**	**3.3**	**3.4**	**3.5**		**2.4**	**2.9**	
PPG debt service-to-exports ratio (in percent)	**0.2**	**0.2**	**0.3**			**3.5**	**3.9**	**3.7**	**3.3**	**3.4**	**3.5**		**2.4**	**2.9**	
PPG debt service-to-revenue ratio (in percent)	**0.4**	**0.4**	**0.5**			**5.9**	**6.6**	**6.2**	**6.1**	**6.2**	**6.4**		**3.4**	**3.5**	
Total gross financing need (Billions of U.S. dollars)	-3.9	-2.1	-2.1			-2.0	-1.8	-2.2	-2.2	-2.1	-1.3		-0.6	-0.2	
Non-interest current account deficit that stabilizes debt ratio	-9.3	-1.2	-3.2			1.2	4.3	1.9	1.1	-1.2	1.0		3.5	3.0	
Key macroeconomic assumptions															
Real GDP growth (in percent)	3.4	3.8	3.3	4.8	3.0	6.0	7.5	7.3	9.0	3.5	1.9	5.8	3.9	4.7	3.7
GDP deflator in US dollar terms (change in percent)	16.0	-8.7	-4.6	10.7	18.2	0.6	0.6	-1.8	5.6	-0.6	-2.3	0.4	1.3	2.2	0.7
Effective interest rate (percent) [5/]	0.9	0.8	0.9	2.5	1.4	0.6	1.2	0.7	0.8	0.7	0.7	0.8	0.5	0.6	0.5
Growth of exports of G&S (US dollar terms, in percent)	21.6	-8.5	-4.1	15.7	24.4	4.6	5.4	2.5	16.0	-0.5	-5.8	3.7	1.0	3.3	0.3
Growth of imports of G&S (US dollar terms, in percent)	18.6	-7.0	8.6	17.5	21.5	8.9	5.7	-1.2	4.6	0.6	0.5	3.2	2.0	4.1	1.8
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	48.7	48.7	48.7	48.7	48.7	48.7	48.7	48.7	28.1	37.7
Government revenues (excluding grants, in percent of GDP)	42.0	42.5	46.5			46.1	44.2	43.5	40.3	39.0	37.6		36.6	30.6	34.5
Aid flows (in Billions of US dollars) [7/]	0.1	0.0	0.1			0.1	0.0	0.1	0.1	0.1	0.1		0.1	0.1	
of which: Grants	0.1	0.0	0.1			0.1	0.0	0.1	0.1	0.1	0.1		0.1	0.1	
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/]	...	...	...			3.2	2.3	2.1	1.8	1.7	1.6		0.9	0.4	0.8
Grant-equivalent financing (in percent of external financing) [8/]	...	...	...			53.4	52.3	53.1	53.1	54.0	54.4		58.0	39.5	48.3
Memorandum items:															
Nominal GDP (Billions of US dollars)	14.4	13.7	13.5			14.4	15.5	16.4	18.8	19.4	19.3		21.5	36.9	
Nominal dollar GDP growth	20.0	-5.2	-1.5			6.6	8.1	5.4	15.1	2.8	-0.4	6.3	5.2	7.0	4.5
PV of PPG external debt (in Billions of US dollars)			3.7			3.9	4.0	4.0	4.0	4.0	4.0		4.1	4.5	
(PVt-PVt-1)/GDPt-1 (in percent)						1.5	0.4	0.3	0.1	0.0	-0.1	0.4	0.2	0.1	0.1
Gross workers' remittances (Billions of US dollars)	...	...	...			...	...	...	...	...	...		...	...	
PV of PPG external debt (in percent of GDP + remittances)	...	...	26.6			27.0	25.4	24.3	21.2	20.6	20.6		19.0	12.1	
PV of PPG external debt (in percent of exports + remittances)	...	...	33.7			34.8	33.6	33.1	28.6	28.7	30.3		36.3	33.1	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	0.3			3.5	3.9	3.7	3.3	3.4	3.5		2.4	2.9	

Sources: Congolese authorities; IMF and WB staff calculations 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 ch

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 4. Republic of Congo: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, Baseline Scenario, 2014–34

(In percent)

	Projections							
	2014	2015	2016	2017	2018	2019	**2024**	2034
PV of debt-to GDP ratio								
Baseline	27	26	25	21	21	21	**19**	12
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	27	23	21	16	12	6	**-7**	-8
A2. New public sector loans on less favorable terms in 2014-2034 2	27	27	26	24	24	24	**25**	18
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	27	27	27	24	23	23	**21**	14
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	27	31	40	35	35	35	**31**	14
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	27	28	28	25	24	24	**22**	14
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	27	30	34	30	29	30	**27**	14
B5. Combination of B1-B4 using one-half standard deviation shocks	27	29	31	27	27	27	**24**	13
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	27	37	35	31	30	30	**28**	18
PV of debt-to-exports ratio								
Baseline	35	34	34	29	29	31	**37**	34
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	35	31	29	22	17	9	**-13**	-23
A2. New public sector loans on less favorable terms in 2014-2034 2	35	35	36	32	33	36	**48**	51
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	35	34	34	29	29	31	**37**	34
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	35	47	69	61	62	67	**77**	51
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	35	34	34	29	29	31	**37**	34
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	35	40	46	41	41	44	**51**	37
B5. Combination of B1-B4 using one-half standard deviation shocks	35	38	41	36	37	39	**46**	36
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	35	34	34	29	29	31	**37**	34
PV of debt-to-revenue ratio								
Baseline	58	58	57	54	54	56	**53**	40
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	58	53	49	41	31	17	**-18**	-27
A2. New public sector loans on less favorable terms in 2014-2034 2	58	60	61	59	61	65	**68**	60
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	58	62	63	60	60	62	**59**	45
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	58	71	91	88	90	95	**86**	47
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	58	63	65	62	62	64	**61**	46
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	58	69	78	75	76	80	**73**	44
B5. Combination of B1-B4 using one-half standard deviation shocks	58	67	72	69	69	73	**67**	44
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	58	83	82	77	77	80	**76**	57

Table 5. Republic of Congo: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, Baseline Scenario, 2014–34 *(continued*

(In percent)

	Projections							
	2014	2015	2016	2017	2018	2019	**2024**	2034
Debt service-to-exports ratio								
Baseline	3	4	4	3	3	4	**2**	3
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	3	4	3	3	2	2	**0**	-3
A2. New public sector loans on less favorable terms in 2014-2034 2/	3	4	4	3	4	4	**3**	4
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	3	4	4	3	3	4	**2**	3
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	3	4	5	5	5	5	**7**	7
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	3	4	4	3	3	4	**2**	3
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	3	4	4	3	4	4	**4**	4
B5. Combination of B1-B4 using one-half standard deviation shocks	3	4	4	3	4	4	**3**	4
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	3	4	4	3	3	4	**2**	3
Debt service-to-revenue ratio								
Baseline	6	7	6	6	6	6	**3**	3
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	6	6	5	5	4	4	**0**	-3
A2. New public sector loans on less favorable terms in 2014-2034 2/	6	7	6	6	7	7	**4**	5
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	6	7	7	7	7	7	**4**	4
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	6	7	6	6	7	7	**7**	6
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	6	7	7	7	7	7	**4**	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	6	7	6	6	7	7	**6**	5
B5. Combination of B1-B4 using one-half standard deviation shocks	6	7	7	6	7	7	**5**	5
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	6	9	9	9	9	9	**5**	5
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	40	40	40	40	40	40	**40**	40

Sources: Congolese authorities; IMF and WB staff calculations 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 a 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 6. Republic of Congo: Public Sector Debt Sustainability Framework, Baseline Scenario, 2011–34

(In percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2011	2012	2013	Average 5/	Standard Deviation 5/	2014	2015	2016	2017	2018	2019	2014-19 Average	2024	2034	2020-34 Average
Public sector debt 1/	33.1	34.1	38.2			37.9	35.4	33.9	29.5	28.9	29.5		27.9	15.3	
of which: foreign-currency denominated	23.5	25.7	32.0			33.9	33.1	32.6	29.1	28.9	29.5		27.9	15.3	
Net public debt	33.1	34.1	38.2			37.9	35.4	33.9	29.5	28.9	29.5		27.9	15.3	
Change in public sector debt	10.2	1.1	4.1			-0.3	-2.4	-1.5	-4.4	-0.6	0.6		-1.3	-1.2	
Identified debt-creating flows	-19.3	-6.0	-5.5			-6.7	-7.6	-6.7	-10.3	-5.8	-2.7		-6.6	-2.3	
Primary deficit	-16.6	-6.6	-8.8	-14.3	6.8	-5.5	-5.3	-5.1	-6.0	-5.2	-3.1	-5.0	-5.2	-1.4	-3.4
Revenue and grants	42.5	42.6	46.9			46.6	44.5	43.9	40.6	39.3	37.9		36.9	30.8	
of which: grants	0.5	0.1	0.4			0.6	0.3	0.3	0.3	0.3	0.3		0.3	0.2	
Primary (noninterest) expenditure	25.9	36.0	38.1			41.1	39.2	38.8	34.5	34.1	34.9		31.7	29.4	
Automatic debt dynamics	-2.7	-0.5	0.8			-1.2	-2.3	-1.6	-4.3	-0.6	0.3		-1.3	-1.0	
Contribution from interest rate/growth differential	-1.2	-1.3	-0.5			-2.3	-2.8	-2.7	-3.2	-1.3	-0.9		-1.5	-1.0	
of which: contribution from average real interest rate	-0.4	-0.1	0.6			-0.1	-0.1	-0.3	-0.4	-0.3	-0.4		-0.4	-0.2	
of which: contribution from real GDP growth	-0.8	-1.2	-1.1			-2.2	-2.6	-2.4	-2.8	-1.0	-0.5		-1.1	-0.7	
Contribution from real exchange rate depreciation	-1.5	0.8	1.3			1.0	0.5	1.1	-1.1	0.7	1.2		...	...	
Other identified debt-creating flows	0.0	1.1	2.5			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	1.1	2.5			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	29.5	7.1	9.6			6.4	5.2	5.2	5.9	5.2	3.3		5.3	1.2	
Other Sustainability Indicators															
PV of public sector debt	...	...	32.8			31.0	27.8	25.7	21.6	20.6	20.6		19.0	12.1	
of which: foreign-currency denominated	...	...	26.6			27.0	25.4	24.3	21.2	20.6	20.6		19.0	12.1	
of which: external	...	...	26.6			27.0	25.4	24.3	21.2	20.6	20.6		19.0	12.1	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	-16.5	-5.5	-5.8			-0.8	-1.0	-1.5	-2.8	-2.4	-0.7		-4.0	-0.3	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	69.9			66.5	62.4	58.6	53.3	52.3	54.3		51.5	39.4	
PV of public sector debt-to-revenue ratio (in percent)	...	...	70.5			67.3	62.8	59.0	53.7	52.8	54.7		51.9	39.6	
of which: external 3/	...	...	57.2			58.6	57.5	55.9	52.7	52.8	54.7		51.9	39.6	
Debt service-to-revenue and grants ratio (in percent) 4/	0.4	2.6	6.4			10.1	9.7	8.2	8.0	7.2	6.3		3.4	3.5	
Debt service-to-revenue ratio (in percent) 4/	0.4	2.6	6.4			10.2	9.8	8.3	8.0	7.2	6.4		3.4	3.5	
Primary deficit that stabilizes the debt-to-GDP ratio	-26.8	-7.7	-12.9			-5.1	-2.9	-3.6	-1.6	-4.6	-3.6		-3.9	-0.2	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	3.4	3.8	3.3	4.8	3.0	6.0	7.5	7.3	9.0	3.5	1.9	5.8	3.9	4.7	3.7
Average nominal interest rate on forex debt (in percent)	0.9	0.8	0.9	2.5	1.4	0.6	1.2	0.7	0.8	0.7	0.7	0.8	0.5	0.6	0.5
Average real interest rate on domestic debt (in percent)	...	...	8.8	...	...	...	...	...	...	...	...		...	...	
Real exchange rate depreciation (in percent, + indicates depreciation)	-7.6	3.5	5.3	-5.4	12.0	3.4	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	10.7	-1.2	-7.7	8.5	15.0	-2.9	-1.2	-2.7	4.2	-2.3	-3.9	-1.5	1.3	2.2	0.7
Growth of real primary spending (deflated by GDP deflator, in percent)	31.0	44.2	9.4	8.5	15.9	14.4	2.4	6.1	-3.0	2.2	4.2	4.4	0.8	3.0	2.6
Grant element of new external borrowing (in percent)	...	...	...	...	...	48.7	48.7	48.7	48.7	48.7	48.7	48.7	48.7	28.1	...

Sources: Congolese authorities; IMF and WB staff calculations 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 7. Republic of Congo: Sensitivity Analysis for Key Indicators of Public Debt, Baseline Scenario 2014–34

		Projections						
	2014	2015	2016	2017	2018	2019	2024	2034
PV of Debt-to-GDP Ratio								
Baseline	31	28	26	22	21	21	19	12
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	31	23	16	9	2	-5	-37	-86
A2. Primary balance is unchanged from 2014	31	28	25	22	20	19	14	-6
A3. Permanently lower GDP growth 1/	31	28	26	23	23	24	29	39
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2015-201(	31	31	33	31	32	35	47	51
B2. Primary balance is at historical average minus one standard deviations in 2015-2016	31	26	23	19	18	18	16	10
B3. Combination of B1-B2 using one half standard deviation shocks	31	26	21	19	20	22	29	34
B4. One-time 30 percent real depreciation in 2015	31	38	34	28	27	26	23	15
B5. 10 percent of GDP increase in other debt-creating flows in 2015	31	34	32	27	26	26	25	16
PV of Debt-to-Revenue Ratio 2/								
Baseline	66	62	59	53	52	54	51	39
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	66	52	37	22	6	-14	-100	-278
A2. Primary balance is unchanged from 2014	66	62	58	53	52	50	38	-18
A3. Permanently lower GDP growth 1/	66	63	60	56	57	62	77	126
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2015-201(	66	69	75	76	82	93	126	165
B2. Primary balance is at historical average minus one standard deviations in 2015-2016	66	59	52	47	46	47	44	34
B3. Combination of B1-B2 using one half standard deviation shocks	66	58	48	48	51	57	80	110
B4. One-time 30 percent real depreciation in 2015	66	85	78	70	68	69	63	49
B5. 10 percent of GDP increase in other debt-creating flows in 2015	66	76	72	66	66	69	67	51
Debt Service-to-Revenue Ratio 2/								
Baseline	10	10	8	8	7	6	3	3
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	10	10	8	8	7	6	-3	-16
A2. Primary balance is unchanged from 2014	10	10	8	8	7	6	3	1
A3. Permanently lower GDP growth 1/	10	10	8	8	7	7	4	8
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2015-201(	10	10	9	9	8	7	7	12
B2. Primary balance is at historical average minus one standard deviations in 2015-2016	10	10	8	8	7	6	3	3
B3. Combination of B1-B2 using one half standard deviation shocks	10	10	9	8	8	7	4	7
B4. One-time 30 percent real depreciation in 2015	10	11	11	11	10	9	5	6
B5. 10 percent of GDP increase in other debt-creating flows in 2015	10	10	8	8	7	6	5	5

Sources: Congolese authorities; IMF and WB staff calculations 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.

Table 8. Republic of Congo: Comparison of Baseline and Alternative Policy Scenarios

	Averages					
	2014–19	2020–26	2027–34	2014–19	2020–26	2027–34
	Baseline			Alternative Policy		
Production and Prices	(Annual percentage change)					
Real GDP	5.8	3.3	4.1	6.1	2.4	1.8
Non-oil real GDP	6.6	5.4	4.9	6.9	4.5	2.5
Consumer prices (end of period)	2.8	3.0	2.1	3.6	2.9	1.6
External Sector	(Percent of GDP)					
Current account balance	-1.2	-1.9	-2.7	-7.1	-6.4	-4.1
Gross official foreign reserves	46.5	53.8	38.9	39.8	25.6	21.9
Gross official foreign reserves (months of imports)	10.1	13.9	12.0	7.7	6.5	6.5
External public debt	34.5	34.1	22.7	37.3	59.8	65.8
Fiscal Aggregates	(Percentage of non-oil GDP)					
Nonoil revenue (inc. grants and investment income)	30.6	31.3	30.9	30.5	31.2	31.4
Total expenditure	75.8	45.1	32.9	93.4	54.9	39.0
Overall balance (deficit -, commitment basis) 1/	9.8	6.2	2.4	-9.1	-4.9	-2.4
Basic primary fiscal balance (- = deficit) 2/	13.6	6.4	2.9	-5.3	-3.4	0.6
Basic non-oil primary balance (- = deficit) 3/	-37.6	-11.2	-0.9	-52.5	-12.9	0.3
Basic non-oil primary balance (cash basis)	-39.6	-11.2	-0.9	-54.4	-12.9	0.3
Memorandum items:	(Billions of CFA Francs)					
Nominal GDP	7,936	9,163	13,203	8,074	9,436	10,992
Government expenditure and net lending	2,943	2,975	4,024	3,838	3,791	3,923
Government expenditure (growth in percent)	2.8	0.9	5.4	10.2	-2.4	1.5

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.

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

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

On July 21, 2014, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the Republic of Congo.[1]

Recent economic developments in the Republic of Congo have been favorable. Growth in the last 5 years has averaged about 5 percent per year, higher than in regional peers. Gross oil revenue averaged more than US$8 billion per year in 2012 and 2013, equivalent to about 60 percent of Gross Domestic Product (GDP). Substantial fiscal savings have been set aside by virtue of the ongoing run of high international oil prices. However, poverty remains comparatively high, despite robust economic growth and large government spending. The poverty rate amounted to 46.5 percent in 2011 compared with 50.7 percent in 2005.

The overall fiscal surplus in 2013 remained sizable at 5.8 percent of GDP (13.9 percent of non-oil GDP) reflecting sizable oil revenues from high oil prices and increases in non-oil revenues. Public investment spending and arrears payments for social benefits and payments to suppliers pushed total cash government spending to about CFAF 2,735 billion in 2013, about 5 percent above the 2012 level when spending was raised in the aftermath of the Mpila ammunitions explosion, and up from CFAF 1,865 billion in 2011. External public debt has continued to trend upward, reaching 32 percent of GDP in 2013, up from 20 percent of GDP in 2010, when the Republic of Congo obtained debt relief through the Highly Indebted Poor Countries Initiative (HIPC) and the Multilateral Debt Relief Initiative (MDRI). Most of Congo's borrowing is on concessional terms from China and is targeted at financing key infrastructure projects. Despite declining for the second year in a row, the Republic of Congo's reserves at the Banque des Etats de l'Afrique Centrale (BEAC) continue to cover about 7 months of prospective imports of goods and services.

The country's medium-term prospects are promising provided that progress is made with structural reforms and fiscal adjustment. The economy is projected to expand by about 6 percent

[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.

per annum between 2014 and 2019, as a result of increases in oil production and the start of iron ore production. Inflation is easing, aided by lower food prices and real appreciation of the CFA franc. The government budget relies heavily on oil revenue. Therefore, oil price volatility and the exhaustibility of oil reserves could pose risks to macroeconomic stability and the authorities' objective of attaining sustained high inclusive non-oil growth over the medium term. Other key risks to the economic outlook relate to a decline in oil prices associated with slower growth in advanced economies and major emerging markets, as well as social tensions arising from inequality and poor job opportunities.

Executive Board Assessment[2]

Directors commended the authorities for the overall good economic performance, including strong growth and low inflation. Directors noted that the medium-term economic outlook is favorable, underpinned by new mining production and the government's ambitious investment program. They emphasized, however, that prudent policies and rigorous implementation of reforms will be critical to meet the country's social and development needs, reduce poverty and unemployment, and boost non-oil growth, while ensuring macroeconomic stability.

Directors emphasized the need to contain the growth of government spending and recommended fiscal consolidation over the medium term to safeguard fiscal sustainability. They encouraged the authorities to strengthen the fiscal framework by adopting the non-oil primary balance as a fiscal anchor to insulate spending from the volatile and exhaustible nature of oil revenues. Directors agreed that broadening the tax base and reducing exemptions will also strengthen the fiscal position.

Directors supported the public investment program, aimed at improving infrastructure, diversifying the economy, and boosting employment. They stressed that increasing the efficiency of government investment will be key to achieving this goal. Directors underscored the need to strengthen public financial management to improve accountability, governance, and the quality of public spending. In this context, they called for expeditious enactment of the Fiscal Responsibility and Transparency law.

Directors noted the Republic of Congo's low risk of debt distress. To preserve debt sustainability, they advised the authorities to continue to strengthen public debt management, particularly by developing a medium-term debt strategy and enhancing transparency.

To further promote the non-oil sector, Directors stressed the importance of structural reforms to strengthen the business climate, enhance financial development and increase access to finance

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[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

by strengthening legal and informational systems. They recommended a careful analysis of the implications of recently introduced fiscal incentives for special economic zones. Directors also highlighted that programs designed to strengthen the education system and implement social spending to the poor should be well-targeted, evaluated and monitored to ensure their effectiveness.

Directors encouraged the authorities to fully comply with the regional CEMAC (Economic and Monetary Community of Central Africa) obligations. They welcomed the authorities' support for the ongoing review of the CEMAC's reserves pooling framework and stressed that the planned establishment of a sovereign wealth fund, investing in higher yielding assets, should be consistent with the regional reserves pooling architecture.

Republic of Congo: Selected Economic and Financial Indicators, 2011–15

	2011	2012	2013	2014	2015
			Est.	Proj.	
	(Annual percentage change)				
Production and prices					
GDP at constant prices	3.4	3.8	3.3	6.0	7.5
Oil	-4.8	-9.7	-10.2	1.0	7.9
Non-oil	7.4	9.7	8.1	7.5	7.3
GDP at current prices	14.4	2.6	-4.6	2.9	6.2
Consumer prices (period average)	1.8	5.0	4.6	3.0	2.9
Consumer prices (end of period)	1.8	7.5	2.1	3.2	2.5
	(Percent of GDP)				
Current account balance	5.9	-1.2	-3.4	-3.3	-3.9
External public debt (end of period)	23	26	32	34	34
Central government finances	(Percent of non-oil GDP)				
Total revenue	138.1	120.5	111.7	102.6	94.2
Oil revenue	108.9	92.7	82.1	72.3	64.2
Nonoil revenue (inc. grants and investment income)	29.2	27.7	29.6	30.3	30.0
Total expenditure	84.7	102.2	91.4	91.0	83.8
Current	32.9	41.4	33.7	34.6	34.4
Capital (and net lending)	51.7	60.8	57.7	56.4	49.4
Overall balance (deficit -, commitment basis) 1/	53.4	18.2	20.3	11.6	10.4
Basic primary fiscal balance (- = deficit) 2/	62.6	29.8	38.7	23.8	19.3
of which Basic non-oil primary balance (- = deficit)	-46.3	-62.9	-43.4	-48.5	-44.8
	(Percent of total government revenue excluding grants)				
External public debt service (after debt relief) 3/	14.0	2.4	4.9	5.5	6.2
External public debt (after debt relief) 3/	55.8	60.4	68.8	74.1	76.3
	(Billions of CFA francs, unless otherwise indicated)				
Nominal GDP	6,804	6,979	6,657	6,851	7,277
Nominal non-oil GDP	2,096	2,470	2,796	3,111	3,437
World oil price (U.S. dollars per barrel)	104	105	104	104	100
Oil production (Millions of barrels)	109	98	88	89	96
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 expenditure (excluding interest payments and foreign-financed investment).
3/HIPC completion point reached in January 2010.

Statement by Mr. Assimaidou and Mr. Sembene on the Republic of Congo

July 21, 2014

Introduction

The economic situation has remained sound in Congo in recent years as described in the staff report, with growth being strong, inflation kept in check, and international reserves maintained at a healthy level. At the same time, the country has remained among the top growth performers in the region while its sovereign credit ratings compares favorably with its peers. A number of human development indicators have also improved during the past decade according to the UNDP. However, while prospects for further improvements in economic performance and social welfare are strong, they are constrained by fierce infrastructure bottlenecks, high unemployment and inequality, and daunting institutional capacity constraints facing the country.

To meet these challenges, my Congolese authorities have continued to spare no efforts to improve job opportunities and alleviate poverty, notably by implementing reforms to make the economy more diversified and competitive, promoting inclusive non-oil growth, and expanding social protection schemes. In particular, these efforts have included steps to expand the social safety net, set up special economic zones, improve the business climate, and increase the supply of skilled labor. Going forward, they expect these endeavors to be facilitated by the surge in economic activity that will result from favorable oil production prospects. Similarly, their ambitious public investment program aimed at upgrading the country's basic infrastructure bodes well for the economic outlook, through its positive effects on economic diversification and competitiveness. The ambitious reform agenda they have developed with IFC assistance to improve the business climate will also stimulate non-oil growth.

Recent Fiscal Developments and Policy Framework

Congo's fiscal performance remains strong. In 2013 the overall fiscal surplus in percent of GDP is estimated to have increased further while the non-oil primary deficit in percent of GDP declined significantly compared to their 2012 levels. On the revenue front, strong non-oil tax revenue mobilization triggered by customs and tax administration reforms helped to partly offset the adverse impact of lower-than-expected oil revenues and spending pressures on the overall fiscal balance. Performance on the expenditure side was broadly kept in line with the budget although capital spending overruns were noted emanating from the ongoing preparation of the All-Africa Games which is a continental multi-sport event to be held next year in Brazzaville. That this positive fiscal outturn was secured amid a significant decline in oil revenues reflects in particular the steps taken to reduce domestically-financed capital spending.

While spending pressures may continue to build up this year in the run up to the 2015 edition of the All Africa Games, the authorities stand ready to take necessary actions to contain them and to mitigate inherent fiscal risks. Moreover, staff's call for formalizing revisions to fiscal targets is consistent with the authorities' stated readiness to prepare a supplementary budget, if warranted.

The authorities acknowledge the need to strengthen their fiscal policy framework, notably through the continued implementation of a fiscal rule. The fiscal rule that was introduced last year was deemed inadequate, partly because it targeted predetermined absolute levels of spending and savings amid the uncertain outlook for oil revenue. Going forward, the authorities intend to revise the rule by moving away from an absolute split of oil revenues between public spending and savings. To this end, they plan to formulate a new fiscal rule on the basis of a review of international best practices in resource-rich countries, taking into account the country's specific circumstances. In this process, staff's call for anchoring fiscal policy to the non-oil primary balance will be given due attention. It is also the authorities' intention to continue to work on a medium-term budget framework, in line with staff's recommendation.

While the authorities recognize the importance of placing non-oil fiscal deficit on a gradually declining path, they reckon that progress toward this goal will have to be balanced against the need to address the critical infrastructure investment needs facing the country at this juncture. Given the high incidence of poverty, they will also continue to attach high priority to boosting social expenditures, consistent with recent efforts to expand social protection schemes, implement school nutrition programs, and deliver technical and vocational training.

Fiscal Transparency and Public Financial Management

The authorities continue to take steps to strengthen financial transparency. This is notably illustrated by the preparation of the draft fiscal responsibility and transparency law as well as their ongoing work to ensure Congo's full compliance with CEMAC directives on public financial management. Congo's "compliant country" status under the Extractive Industry Transparency Initiative (EITI) also speaks of the authorities' resolve. As such, the country submits regular EITI reports that fully disclose revenues mobilized from the extraction of its natural resources.

The authorities are also taking additional measures to improve public financial management. To this end, they will continue to team up with the country's development partners, notably the World Bank and the European Union in the context of the Public Expenditure Management and Financial Accountability Review. The Fund is also called upon to support the initiatives taken by the authorities to strengthen public financial management, including by providing technical assistance in the finalization of the fiscal responsibility and transparency law. Furthermore, an audit of domestic arrears has been commissioned and, upon its completion, prompt steps will be taken to develop a multi-year payment plan.

Public Debt Management and Policy Coordination

The authorities remain strongly committed to prudent public debt management. Although the country's positive sovereign credit ratings would guarantee easy access to international capital markets, they have expressed their continued preference for concessional financing in order to preserve sound debt burden indicators. In order to implement critical infrastructure projects, the Congolese authorities have continued to borrow from China on concessional terms on the basis of their 2006 strategic partnership agreement. Thanks to the authorities' prudent approach to debt management, the country's risk of debt distress remains low.

The authorities are determined to sustain their efforts to enhance policy coordination, as recommended by staff. In this regard, they take note of staff's renewed call for the reinstitution of a high-level policy coordination committee. However, it is their view that improved policy coordination would more likely be secured by improving the efficiency of the existing institutions rather than reinstating the high-level policy coordination committee or establishing new committees. In the country's current context, they believe that the proliferation of public entities does not necessarily help to improve policy coordination, but is likely to create more acute governance problems.

Financial Sector Reforms and Public Assets Management

Congo's financial sector indicators remain broadly sound. Close supervision and regulation of the sector that are conducted at the regional level have contributed to adequate compliance with prudential ratios, as underscored in the staff report. Beyond the significant financial stability gains that were secured over the past few decades, they see scope for making inroads into financial development. While the rapid expansion of microfinance institutions significantly contributed to improving financial inclusion, access to financial services remains limited for many small- and medium enterprises and low-income households. In this connection, the Congolese authorities will keep working closely with BEAC and regional authorities to take necessary actions to promote financial development, while preserving financial stability by strengthening the supervisory and regulatory framework.

The authorities look forward to the conclusions of the working group tasked with reviewing the CEMAC's reserves pooling framework. Pending completion of this ongoing work, they will take necessary actions to optimize returns to the country's foreign assets. In this connection, it is also their intention to establish a sovereign wealth fund (SWF) that will invest part of savings from oil revenue in foreign asset acquisitions. A law enabling the creation of such a SWF has been adopted by the Parliament. It is envisaged that the SWF will be established at the BEAC and will acquire mostly risk-free foreign assets.

In conclusion, I would like to convey my authorities' appreciation of the productive policy discussions they continue to hold with Fund staff. The informative staff report and Selected Issues Paper will be valuable in their quest for sound policymaking and improved economic performance. Looking ahead, they look forward to benefiting from continued Fund's policy advice and technical assistance, particularly in the area of national account and government finance statistics. They would also like to express their appreciation to the Board and management for their continued support.