INTERNATIONAL MONETARY FUND

REPUBLIC OF CONGO

September 2015

2015 ARTICLE IV CONSULTATION—PRESS RELEASE; AND STAFF REPORT

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 2015 Article IV consultation with the Republic of Congo, the following documents have been released and are included in this package:

- A **Press Release**.

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse of time basis, following discussions that ended on June 1, 2015, 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 1, 2015.

- An **Informational Annex** prepared by the IMF staff.

- **Debt Sustainability Analysis** prepared by the staffs IMF and the World Bank.

The document listed below has been or will be separately released.

   Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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**International Monetary Fund
Washington, D.C.**

IMF Executive Board Concludes 2015 Article IV Consultation with the Republic of Congo

On July 17, 2015, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the Republic of Congo on a lapse-of-time basis, and considered and endorsed the staff appraisal without a meeting.[1][2]

Growth was strong and inflation moderated in 2014 but the Republic of Congo has been hit hard by the oil price shock. Growth rose to 6.8 percent in 2014, driven by a rebound in oil production. Inflation eased to 0.5 percent at end–2014 (y/y), driven mainly by lower global food prices. The fiscal deficit amounted to 8.5 percent of GDP in 2014, a near doubling from 2013, owing mostly to increased spending and the lower oil revenues. The fiscal deficit was mainly financed by borrowing from the regional central bank and by drawing on government deposits held abroad. The current account deficit widened by one percent of GDP to 5½ percent of GDP in 2014. However, official reserves held at the BEAC increased by CFAF 189 billion to CFAF 2,698 billion at end-2014, owing to the repatriation of commercial banks' deposits and government deposits held abroad. As a consequence, the Republic of Congo's international reserves and government deposits at the regional central bank remain at about 9½ months of prospective imports and 20 percent of GDP, respectively, both the highest among members of the Central African Economic and Monetary Community (CEMAC). Public debt now amounts to about 36½ percent of GDP, up from 32 percent of GDP in 2013 and from 20 percent of GDP in 2010, following the HIPC Completion Point. The authorities are taking corrective fiscal measures by reining in investment expenditure in a supplementary 2015 budget.

Robust growth in recent years has not resulted in a broad-based improvement in living standards. Growth averaged 5 percent over the last 5 years as government spending was ramped up,

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

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

financed mostly by rising oil revenues. This translated into increased activity in the agriculture, industry and services sectors. Nevertheless, the Republic of Congo continues to suffer from high rates of poverty and inequality, large infrastructure gaps, and important development challenges.

The near- and medium-term outlook will be shaped by developments in the oil sector and the path and quality of fiscal adjustment. Oil production is expected to decline in 2015 mainly due to the delay in the coming on stream of a new oil field. GDP growth in 2015 is projected at 1 percent and to average about 3 percent per annum during 2015–20. The lower international oil price is projected to lead to deterioration in the current account and continued pressure on the budget. Over the period to 2018, the expected increase in oil production from the coming on stream of new oil fields should improve fiscal and external balances. From 2018, this trend is likely to reverse as oil production declines. Non-oil growth is projected to slow to about 3 percent in 2015–16, as public investment spending contracts and mining projects are delayed due to the uncertain global outlook for iron ore. Inflation is projected at 2½ percent over the medium term, underpinned by the pegged exchange rate regime. Risks to the outlook relate to oil price volatility, persistently low oil prices, accumulation of domestic payment arrears, and domestic instability.

Executive Board Assessment

Growth was strong and inflation moderated in 2014. Growth rose to 6.8 percent in 2014, driven by a rebound in oil production. Inflation eased to 0.5 percent at end–2014 (year-on-year), driven mainly by lower global food prices.

But Congo has been hit hard by the oil price shock. The fiscal deficit amounted to 8.5 percent of GDP in 2014, a near doubling from 2013, owing mostly to increased spending and the lower oil receipts. The current account balance also deteriorated.

The economy is projected to expand by about 3 percent per annum during 2015–20 as new oil fields come on stream. Though necessary, the fiscal consolidation implied by the supplementary budget is expected to result in growth slowing to 1 percent in 2015. Risks to the outlook relate to oil price volatility, persistently low oil prices, accumulation of domestic payment arrears, and domestic instability. While Congo's real effective exchange rate is broadly in line with macroeconomic fundamentals, the performance of non-oil exports is weak and points to competitiveness concerns.

The 2015 supplementary budget should be passed swiftly and its implementation monitored closely. The authorities should weigh carefully their response to revenue shortfalls and expenditure overruns. Maintaining deposits at the regional central bank would provide a buffer in the event of additional adverse shocks. Contingency plans should be prepared to address downside risks.

Safeguarding fiscal and debt sustainability will require a coherent medium-term fiscal adjustment strategy. In view of the limited remaining lifetime of oil reserves, and continued low prices, fiscal policy should be anchored on a gradual multi-year reduction in the non-oil primary deficit. The rise in government debt since the 2010 HIPC/MDRI relief in addition to the drawdown of oil reserves, underscores the importance of continued adherence to a prudent

borrowing policy that keeps the NPV of net debt below indicative DSA thresholds. This should also be coordinated within the context of a revised CEMAC macroeconomic surveillance framework (See CEMAC Staff Report).

Public expenditure should increasingly be oriented towards policies to support inclusive growth and pro-poor programs. The link between the actions in the NDP and the annual budgets should be clearly established during budget preparation, with a stronger focus on economic diversification. The selection, evaluation, and monitoring of investment projects, as well as the budgeting of their operating and maintenance costs, need to be strengthened. More broadly, the authorities are encouraged to follow up on the recommendations from the PEFA and PEMFAR to strengthen budget execution, procurement and disbursement processes and improve the efficiency and quality of spending.

Fiscal adjustment should be underpinned by improved revenue policies and PFM reforms. There is scope to boost non-oil revenues by limiting the use of reduced VAT rates and tax exemptions whilst reinforcing tax and customs administration. PFM reforms should focus on improving the quality of investment, resolving the accumulation of arrears, and ensuring comprehensive fiscal reporting that consolidates off-budget spending, possibly with IMF technical assistance.

Financial sector reforms are essential to underpin growth, diversification and reduce inequality. The financial sector should benefit from the authorities' plans to revise its strategy in this sector with a view to covering recent innovations and consistency with regional objectives. Key priorities remain the improvement of the credit registry, establishing a property registry and a unique window to register land titles, and strengthening the judicial framework. Promoting broader usage of microfinance and mobile banking should also enhance financial access.

External sustainability should aim at maintaining a level of reserves above five months of imports to support the exchange rate peg. The decline in oil prices, and its impact on foreign exchange reserves, reinforces the importance of compliance with CEMAC reserves pooling requirements to underpin the pegged exchange rate arrangement. In this regard, staff welcomes the repatriation of part of Congo's overseas deposits and recommends a continuation of this policy.

The quality and timeliness of macroeconomic statistics needs urgent strengthening, to help improve macroeconomic analysis and policymaking and ensure compliance with obligations under Article VIII. Progress needs to be made in improving capacity and operationalizing the NSSD. In particular, macroeconomic statistics should be unified across government agencies and the national statistics agency should have adequate funding.

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, 2013–16

	2013	2014	2015	2016
		Est.	Proj.	
	(Annual percentage change)			
Production and prices				
GDP at constant prices	3.3	6.8	1.0	6.5
Oil	-10.2	3.4	-3.4	18.2
Non-oil	8.1	7.9	2.3	3.4
GDP at current prices	-4.6	0.5	-17.3	16.1
Consumer prices (period average)	4.6	0.9	0.9	1.7
Consumer prices (end of period)	2.1	0.5	1.8	2.1
	(Percent of GDP)			
Current account balance	-4.5	-5.5	-10.7	-6.0
External public debt (end of period)	32.0	36.4	48.5	44.3
	(Percent of non-oil GDP)			
Central government finances				
Total revenue	111.7	93.9	71.7	80.1
Oil revenue	82.1	64.7	39.6	47.5
Nonoil revenue (inc. grants and investment income)	29.6	29.2	32.1	32.6
Total expenditure	116.0	110.9	89.6	84.0
Current	33.7	36.2	32.6	32.0
Capital (and net lending)	57.7	53.2	37.6	36.6
Off-Budget	24.6	21.4	19.4	15.4
Overall balance (deficit -, commitment basis) [1]	-4.3	-17.0	-17.9	-3.9
Basic primary fiscal balance (deficit -) [2]	14.1	-5.9	-5.6	6.1
of which Basic non-oil primary balance (- = deficit)	-68.0	-70.6	-45.2	-41.4
	(Percent of total government revenue excluding grants)			
External public debt service (after debt relief) [3]	5.2	6.6	7.4	6.9
External public debt (after debt relief) [3]	68.8	86.0	122.4	110.3
	(Billions of CFA francs, unless otherwise indicated)			
Nominal GDP	6,657	6,689	5,528	6,421
Nominal non-oil GDP	2,796	3,050	3,098	3,253
World oil price (U.S. dollars per barrel)	104	96	59	64
Oil production (Millions of barrels)	88	91	88	104
Nominal Exchange rate (CFA/USD, period average)	494	494	...	...

Sources: Congolese authorities and Fund staff estimates and projections.

[1] Including grants.

[2] Revenue (excluding interest income and grants) minus total expenditure (excluding interest payments and foreign-financed investment).

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

REPUBLIC OF CONGO

KEY ISSUES

Economic context. The Republic of Congo has been hit hard by the oil price shock. Fiscal and current account balances deteriorated in 2014 reflecting increased government spending and lower oil prices. Corrective measures are now being taken. Private sector activity is held back by infrastructure gaps, a difficult business climate, and a shallow financial system. Growth and spending have yet to translate into significant reductions in poverty and progress in this area lags peers. Persistent inequality could be a source of instability.

Outlook and Risks. The economy is projected to expand by about 3 percent per annum during 2015–20 as new oil fields come on stream. The fiscal consolidation implied by the proposed supplementary budget will hold back non-oil growth this year. Reduced oil exports earnings and budget revenues are expected to lower external and fiscal buffers in 2015. These should improve over the next three years in line with expanding oil output. Risks to the outlook relate to oil price volatility, persistently low oil prices, accumulation of domestic payment arrears, and domestic instability.

Policies. The 2015 supplementary budget should be passed swiftly and implementation monitored closely. Over the medium term, fiscal and debt sustainability should be ensured by a comprehensive and coherent fiscal adjustment strategy which incorporates lower projected oil prices and the limited remaining lifetime of oil reserves. Effort should also be made to bolster the quality of capital spending to maximize longer-term growth and poverty reduction, and strengthen public financial management. Strengthening the legal and institutional frameworks will support the business climate and financial sector development and inclusion. Further repatriation of overseas deposits would increase compliance with regional reserve pooling requirements and help safeguard the smooth operation of the exchange rate peg.

Approved By **Anne-Marie Gulde and Bob Traa**	Discussions took place in Brazzaville during May 19–June 1, 2015. The staff team comprised Ms. Hakura (head) and Messrs. McLoughlin, Jenkinson, and Issoufou (all AFR). The mission was assisted by Mr. Tchicaya-Gondhet de Trebaud (resident economist). The team met with the State Minister of Economy, Finance, Planning, Public Portfolio and Integration, Mr. Ondongo, and other senior officials. The mission also met with representatives of the private sector, civil society, and development partners. The mission team received research support from Messrs. Dernaoui and Mengistu, and administrative assistance from Mmes. Ng Choy Hing 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, is pegged to the Euro.

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ANNEXES

BACKGROUND

1.   Robust growth is yet to result in a broad-based improvement in living standards.
Growth averaged 5 percent over the last 5 years as government spending was ramped up,
financed mostly by rising oil receipts. This translated into increased activity in agriculture,
industry and services. Nevertheless, the Republic of Congo continues to suffer from large
infrastructure gaps and the 2011 household survey showed limited progress in reducing poverty
and inequality, (Selected Issues Paper (SIP) Chapter 1). Against a background of uncertainty
about the future of oil prices and growth in key export markets, sharply lower oil receipts will
constrain efforts to address these development challenges. Limited progress in this area could
give rise to tensions and instability.

Selected Poverty and Inequality Indicators

Poverty Head Count Ratio at National Level
(2011, percent 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 ie Armenia, Egypt, El Salvador, Georgeia, Guatemala,, Indonesia and Mondgolia .

Lorenz Curve for Household Consumption Expenditure
2005 and 2011

Source: World Bank, World Development Indicators Database   Source: World Bank Poverty and Inequality Database

2.   The oil dependence requires a recalibration of policies. The current low international
oil price environment has increased the urgency for fiscal consolidation and underscores the
need to address pervasive development challenges. In view of the projected depletion of oil
reserves over the medium term, it is essential that the ongoing investment surge is effective and
supportive of economic diversification. The public investment program should therefore be
clearly oriented towards raising the potential growth of the non-oil economy – the main source
of employment – and combined with a stronger policy focus on the costs of doing business and
competitiveness issues.

3.   Presidential elections are planned for mid–2016. The constitution does not allow
President Sassou N'guesso to run for a third term. In May 2015, the government launched a
dialogue with political, civil society and religious leaders to discuss constitutional reform to
remove this obstacle. Opposition parties have announced a boycott of this process.

4. **Policies have partially followed recent Article IV recommendations (Annex 1).**
An expansionary supplementary budget was approved in September 2014 for increased
spending on the All Africa Games (AAG) that will be held in Brazzaville in 2015. In view of the oil
price decline, however, the 2015 budget envisaged some fiscal consolidation and the Cabinet
recently approved a supplementary budget with additional fiscal adjustment to fully take into
account the decline in oil prices. The authorities stopped short of adopting the recommended
medium-term fiscal framework, however, that targets a decline in the nonoil primary deficit. In
the context of the Public Expenditure Management and Financial Accountability Review
(PEMFAR), the authorities are reviewing, with development partners, the scope for improving the
efficiency and quality of public expenditures. Some of the government's deposits in China have
been repatriated to the Bank of Central African States (BEAC), in line with regional reserves
pooling arrangements.

RECENT ECONOMIC DEVELOPMENTS

5. **Growth rose to 6.8 percent in 2014, up from 3.3 percent the previous year, driven
by a rebound in oil production, and continued strong performance of the non-oil sector.**
Non-oil growth was buoyed by strong growth in agriculture, construction, industry, and transport
and communication. Inflation decelerated from 2.1 percent at end–2013 to 0.5 percent at end-
2014 (year-on-year), driven mainly by lower global food prices.

6. **Nevertheless, the Republic of Congo has been hit hard by the oil price shock.**
The sharp increase in government spending in recent years has supported growth, but it also
increased the country's vulnerability to shocks. Fiscal and current account balances deteriorated
in 2014, reflecting increased government spending and the lower oil price.

7. **The overall fiscal deficit amounted to 8.5 percent of GDP in 2014, a near doubling
from 2013.** This reflects continued strong capital spending and lower oil receipts. Despite a
3 percent increase in production, oil receipts declined by 5 percent of GDP in line with oil prices
and revisions to various profit sharing arrangements in July 2014.

8. **The basic non-oil primary deficit improved from over 74 percent to 72.1 percent of
non-oil GDP in 2014.** This measure excludes oil receipts, grants, and foreign-financed capital
spending. The improvement was due to lower off-budget spending and payments of domestic
arrears:

- Current expenditures were broadly in line with budgeted amounts, rising by 2.5 percent of
  non-oil GDP compared to 2013.

- Domestically-financed on-budget capital spending increased by 2.7 percent of non-oil GDP
  as construction for the 2015 AAG and the urbanization program continued.

- Non-oil revenues underperformed, falling by 0.5 percent of non-oil GDP compared to 2013,
  largely owing to lower than expected customs revenues.

- Off-budget expenditures decreased by 3.2 percent of non-oil GDP.

- Domestic arrears payments amounted to 1.5 percent of non-oil GDP in 2014, down by 4.9 percent of non-oil GDP from 2013.

- Foreign-financed capital expenditures, which is not part of the basic non-oil primary balance, decreased by 7.1 percentage points of non-oil GDP to 11.6 percent of non-oil GDP as only about half of the budgeted amount was executed.

9.   In the wake of the decline in oil prices, the government repatriated offshore deposits to finance the fiscal deficit and to bolster official reserves.

- The fiscal deficit of 8.5 percent of GDP was mainly financed by drawing on government deposits held abroad (2.1 percent of GDP) and by borrowing from the regional central bank (about 5.2 percent of GDP).[1]
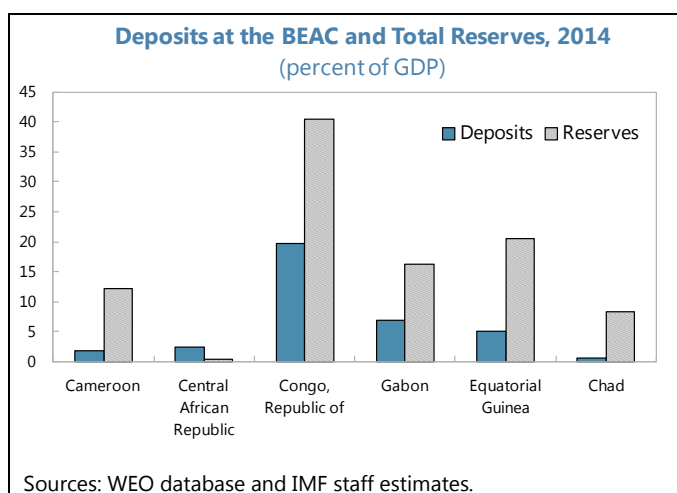
Deposits at the BEAC and Total Reserves, 2014
(percent of GDP)

Sources: WEO database and IMF staff estimates.

- The current account deficit widened by one percent of GDP to 5½ percent of GDP in 2014. However, official reserves held at the BEAC increased by CFAF 189 billion to CFAF 2,698 billion at end-2014, thanks to the repatriation of government deposits held in China (CFAF 141 billion) and commercial banks' deposits held abroad (CFA 427 billion, see ¶11).[2]

- As a consequence, the Republic of Congo's international reserves and government deposits at the regional central bank remain at about 9½ months of prospective imports and 20 percent of GDP, respectively, both the highest among members of the Central African Economic and Monetary Community (CEMAC).

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[1] The authorities chose to borrow from the central bank (*avances statutaires*) in order to preserve their deposits at the BEAC which are mostly held in the Fund for Future Generations and for which penalties are incurred in the event of unscheduled drawings.

[2] In addition to their international reserves at the BEAC, the Republic of Congo's holds offshore deposits in China. These deposits are partly held to provide guarantees for long-term concessional infrastructure loans that make up the bulk of Congo's external debt.

Figure 1. Republic of Congo: Macroeconomic Developments

Congo continues to be highly dependent on oil.

Oil GDP, 2014
(percent of GDP)
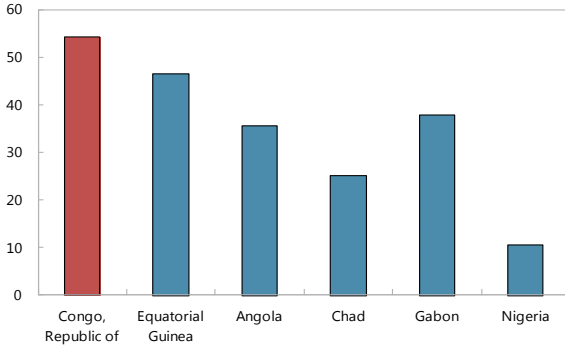
It comprises 80 percent of foreign exchange earnings.

Oil Exports, 2014
(as share of total exports)
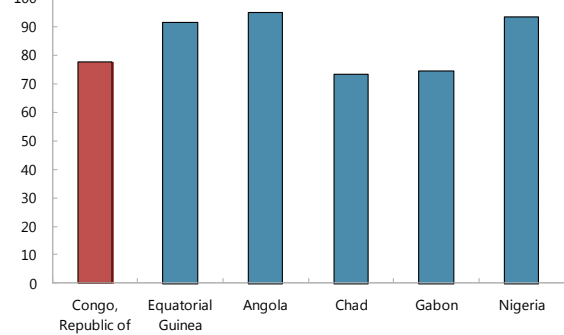
And makes it the 4th largest oil producer in SSA...

Oil Production Comparison
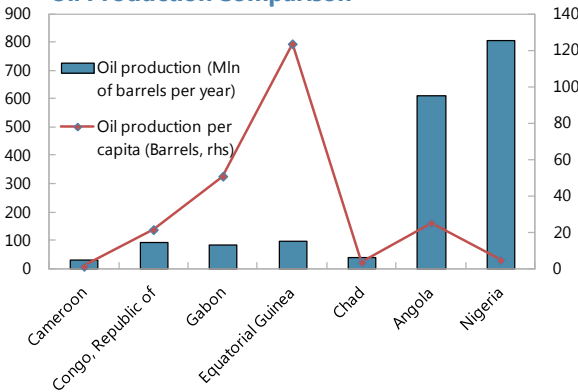
Growth in 2014 was supported by a rebound in oil production after three consecutive years of decline.

Real Oil and Non-Oil GDP Growth
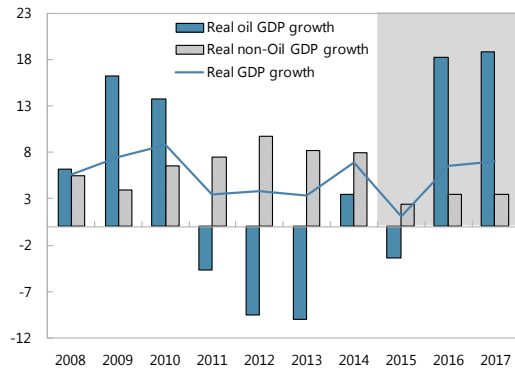
Oil production has increased but oil prices have fallen and are expected to remain low...

Oil Production and Price per Barrel
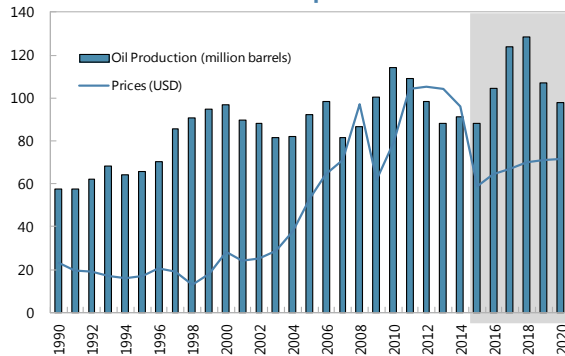
..as a result, oil receipts and oil exports declined in 2014.

Oil Revenue and Exports
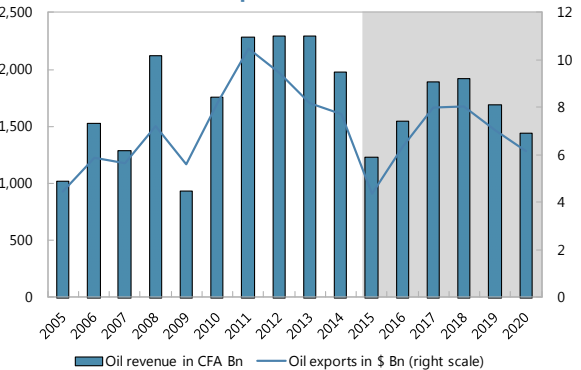
Sources: WEO database, BEAC and IMF Staff estimates.

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

Inflation decelerated in 2014 in spite of higher nonfood inflation...

Consumer Price Index
(year on year percent change, average period)

...and CFAF depreciation.

Effective Exchange Rate
(base year =2010)
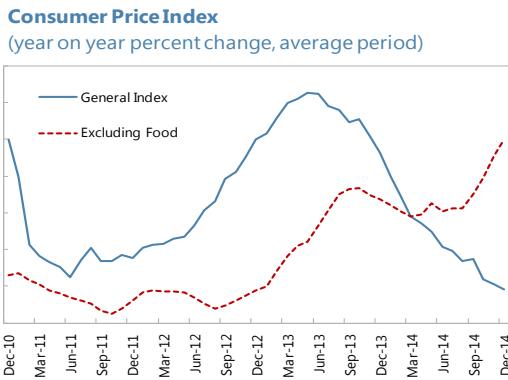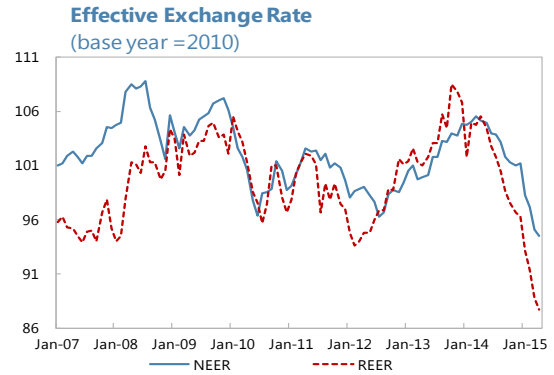
The current account deficit widened in 2014 and reserves declined in U.S. dollar terms.

Current Account and International Reserves
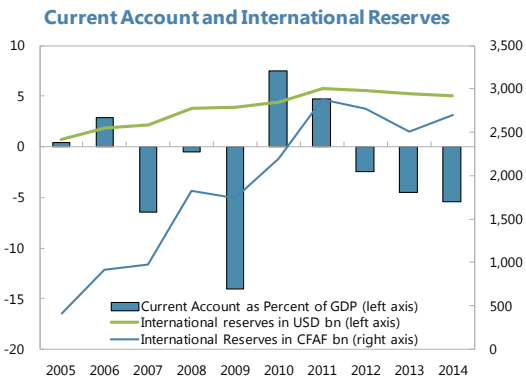
Reserves in months of prospective imports of goods and services increased in 2014.

Gross Reserves
(in months of prospective imports)
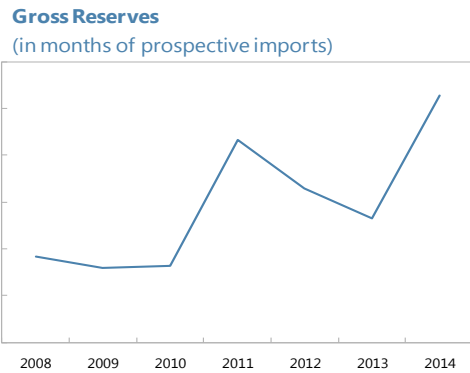
...however external debt is rising

External Public Debt
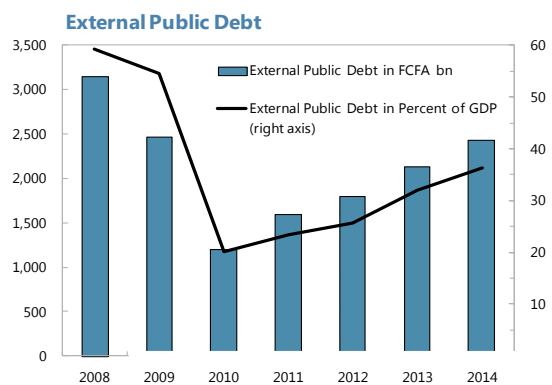
The fiscal balance deteriorated as oil revenues were lower than expected and expenditures increased.

Revenue, Expenditure and Balance
(billions of CFAF)
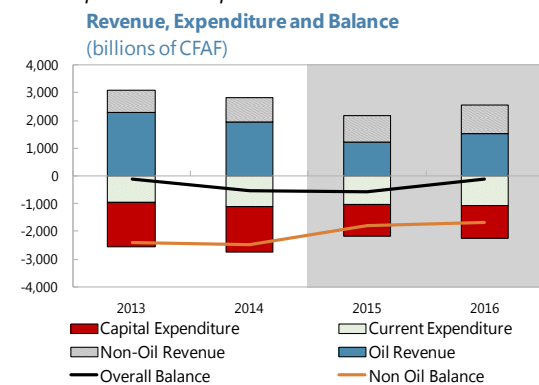
Sources: WEO database, BEAC and IMF Staff estimates.

10. **The authorities are taking corrective fiscal measures.** The 2015 budget is based on an oil price assumption of $70 per barrel and implies some consolidation. However, in the first quarter Congo received less than $50 per barrel from its oil exports. In response, only 30 percent of monthly budget allocations for current expenditures were released, except for the wage bill and the salary component of transfers which were executed in full. At the same time, the implementation of lower-priority projects was slowed. In late-May, the Council of Ministers adopted a supplementary budget based on an oil price of $55. Parliamentary approval is pending.

11. **BEAC measures caused commercial banks' net foreign assets (NFA) to decline.** The trend increase in banks' NFA observed in recent years reversed in 2014 when the BEAC moved in May and July 2014, facilitating and instructing banks to henceforth conduct foreign exchange transactions directly with the regional central bank rather than building foreign exchange balances abroad. As a result, banks reduced their NFA by CFAF 427 billion (6.4 percent of GDP) during 2014, to CFAF 165.5 billion at end–2014.

12. **Despite rising credit growth, financial depth continues to lag peers.** The growth of credit to the economy accelerated to 27.6 percent in 2014, from 16½ percent in 2013. Notwithstanding the recent acceleration of credit growth, the ratio of private credit to GDP remains at 15 percent of GDP, well below the level in emerging market economies.

13. **Public debt now amounts to about 36½ percent of GDP, up from 32 percent of GDP in 2013 and from 20 percent of GDP in 2010, following the HIPC Completion Point.** The increase in the government's gross debt to GDP ratio in 2014 reflects continued borrowing, the terms of trade loss from the sharp decline in oil prices (which reduced nominal GDP growth), as well as valuation changes from the depreciation of the CFAF.

**14.** **Two of three ratings agencies maintained Congo's strong sovereign rating.** S&P's downgraded Congo's rating from B+ to B, as part of a reassessment for all oil exporting countries.

15. **Empirical approaches commonly used in the case of oil-exporting countries suggest that Congo's real effective exchange rate is in line with medium-term fundamentals, but competitiveness concerns remain in the non-oil economy (Annex 2).** The persistent large non-oil current account deficits (26 percent of GDP in 2014) highlight competitiveness concerns stemming from the challenging business climate and significant infrastructure gaps (Figures 2 and 3). Non-oil exports remained weak in 2014 despite the depreciation of the real effective exchange rate by 2.6 percent in 2014. Congo remains in the lowest 10 percentile rank on the World Bank's overall 'Ease of Doing Business' score. Scores are particularly low for the ease of obtaining credit and electricity, and the quality of the insolvency regime.

Figure 2. Republic of Congo: Business Environment and Governance

Congo's business climate is challenging....
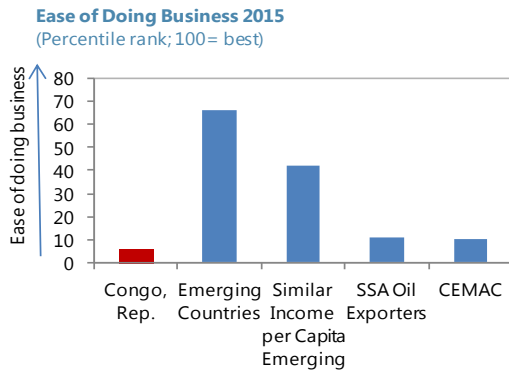
.... compared to regional and global peers

Ease of Doing Business 2015
(Percentile rank; 100= best)

Doing Business Indicators 2015
(Ranking; 189= last place)
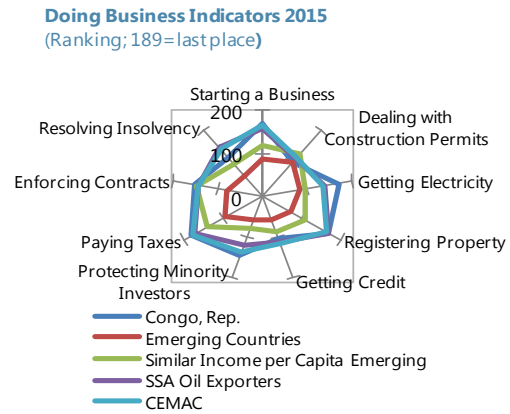
Congo's governance indicators are similar to those in other CEMAC countries...
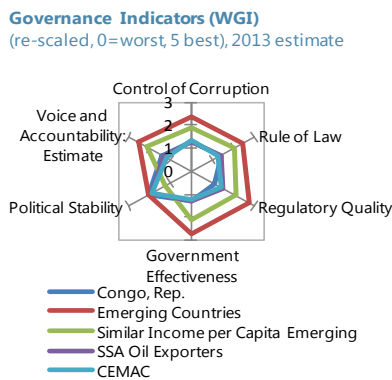
...but lower than expected for a country with a similar income level.

Governance Indicators (WGI)
(re-scaled, 0=worst, 5 best), 2013 estimate

Governance and GDP per Capita
(log PPP)
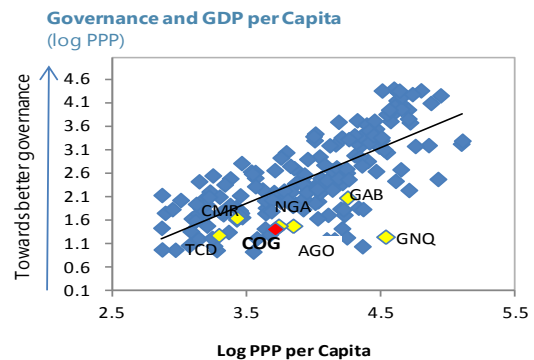
Congo has made limited gains in improving governance ...

...on par with the region.

Change in Governance Indicator
(Percentile Rank of score average, 100= best)

Political and Democracy Stability Score
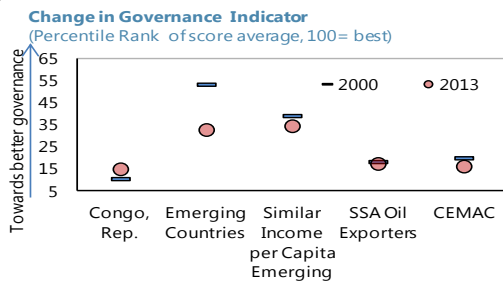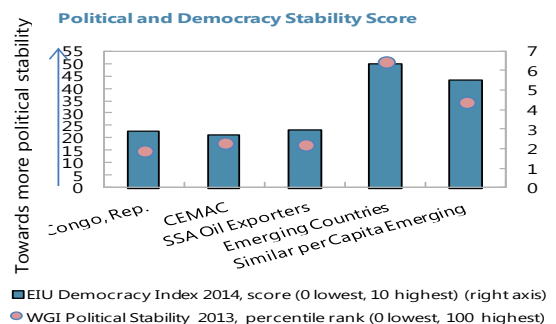
Sources: *Doing Business, 2015*; World Bank's Worldwide *Governance Indicators (WGI), 2013,* (average of control of corruption, government effectiveness, rule of law, regulatory quality, political stability and voice and accountability); Economist Intelligence Unit (EIU) ; and IMS staff calculations.
LIC=Low-income country; UMIC= Upper-middle income country; OIL=Oil producers; WGI= Worldwide Governance Indicators.
SSA oil exporters = Angola, Cameroon, Chad, Congo, Rep. of, Equatorial Guinea, Gabon, Nigeria.

Figure 3. Infrastructure Developments in the Republic of Congo

Quality of infrastructure is associated with higher income per capita in emerging and developing economies...

Emerging and Developing Economies: Purchasing Power Parity GDP Per Capita vs. Quality of Infrastructure, 2013

$y = 0.67\ln(x) - 2.55$
$R^2 = 0.54$
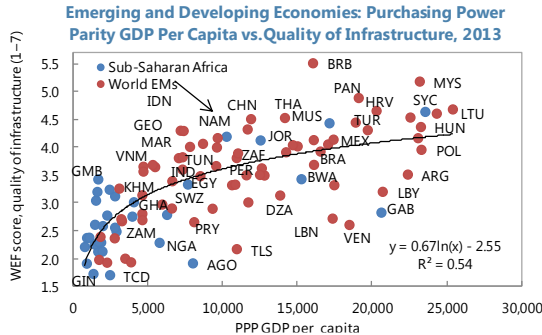
Note: A larger World Economic Forum score (WEF) indicates a higher quality of infrastructure. Republic of Congo is not in the sample.

In Congo, despite some progress, infrastructure gaps remain.

SSA: Levels of Infrastructure Development, 2000 and 2010
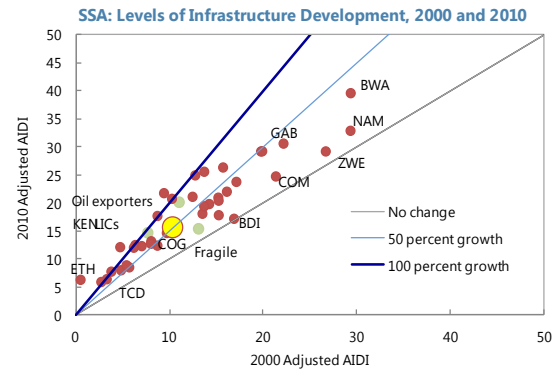
Information communications technology showed the greatest catch-up...

Mobile Cellular Subscriptions per 100 Persons
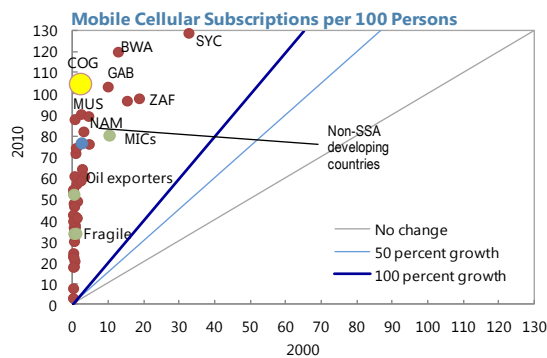
While there has been limited progress in access to water and sanitation.

Access to Improved Water Source, Percent of Population
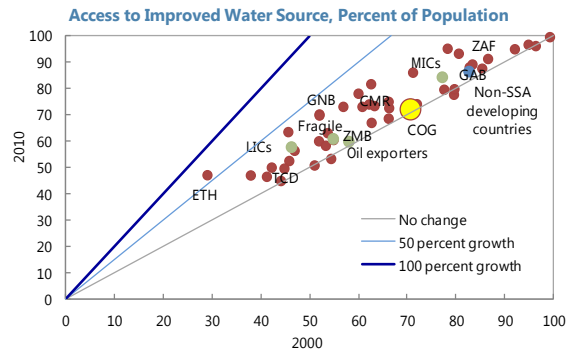
Electricity supply is inadequate, unreliable and costly...

Electricity Production, Kwh Per Capita
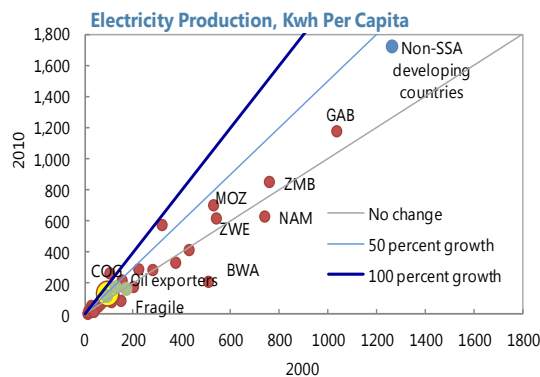
...and improvement in transport has been very limited.

Roads Paved, Percent of Total
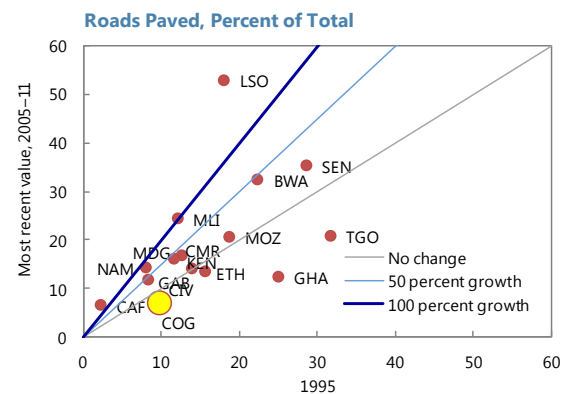
Sources: October 2014 REO Chapter 3, African Department, IMF and IMF Staff calculations.

OUTLOOK AND RISKS

16.   The near- and medium-term outlook will be shaped by developments in the oil sector. Oil production is expected to decline in 2015 mainly due to the delay in the coming on stream of a new oil field. GDP growth in 2015 is projected at 1 percent and to average about 3 percent per annum during 2015–20. The lower international oil price is projected to lead to deterioration in the current account and continued pressure on the budget. This is expected to require the drawdown of government deposits at the BEAC of 6.5 percent of GDP in 2015. Over the period to 2018, the expected increase in oil production from new oil fields coming on stream should improve fiscal and external balances. From 2018, this trend reverses as oil production declines. Non-oil growth is projected to slow to about 3 percent in 2015–16, as public investment spending contracts and mining projects are delayed due to the uncertain global outlook for iron ore. Inflation is projected at 2½ percent over the medium term, underpinned by the pegged exchange rate regime.

17.   The path and quality of fiscal adjustment will play a key role. In two alternative scenarios, staff highlighted the implications of continued high government spending and improving public sector investment efficiency, respectively, on the medium-term economic outlook (Text Table):

- **In a "downside" scenario with continued high spending, fiscal adjustment would be postponed by replacing declining oil revenues with external borrowing.**
  Higher government spending compared to the baseline would provide a short-term boost to growth but increased inflation would erode competitiveness. Together with higher imports, this would lead to deteriorations in the current account deficit over the period 2016 to 2018. Moreover, in view of the projected decline in oil production and receipts from 2018, public debt would by 2019 exceed 60 percent of GDP, such that continued high spending would need to be financed by drawing down reserves. This would eventually trigger the need for a sharper fiscal adjustment in order to preserve reserves and buttress the exchange rate peg. The result in the medium to long term would be lower growth and a permanently deteriorated overall debt position.

- **An "upside policy scenario" illustrates the implications of improving public sector investment efficiency.** The increase in investment efficiency could be achieved by implementing the PEFA and PEMFAR recommendations and enhanced coordination between government agencies (see ¶30–31). In this scenario, increased investment efficiency leads to higher growth in all years relative to the baseline. Although higher growth slightly worsens the medium-term current account, owing to higher imports, in the medium term, the overall fiscal balance and reserves are higher than in the baseline.

Text Table. Republic of Congo: Comparison of Baseline and Alternative Scenarios

	2015-20	2021-27	2028-34	2015-20	2021-27	2028-34	2015-20	2021-27	2028-34
		Baseline			Downside			Upside	
Production and Prices			(annual percentage change)						
Real GDP	2.8	2.6	4.2	2.9	0.9	2.3	3.3	3.1	4.8
Non-oil real GDP	3.2	4.9	5.1	3.3	2.9	3.2	3.7	5.5	5.6
Consumer Prices (end of period)	2.3	2.5	2.6	3.0	2.2	2.5	2.3	2.5	2.6
External Sector			(percent of GDP)						
Current Account Balance	-2.5	1.7	5.1	-6.3	2.3	6.5	0.4	1.6	3.1
Gross Official Foreign Reserves	28.2	17.0	17.1	31.5	16.9	11.3	37.2	40.5	37.0
Gross Official Foreign Reserves (Months of Imports)	5.8	4.2	4.9	6.1	4.4	3.1	8.0	10.2	10.8
External Public Debt (percent of GDP)	40.6	37.0	33.2	55.7	59.9	49.8	40.1	37.3	30.7
Fiscal Aggregates			(percentage of non-oil GDP)						
Nonoil Revenue (inc. grants and investment income)	32.6	31.6	30.9	33.8	33.3	33.1	32.6	31.5	30.6
Total Expenditure	78.8	49.5	33.1	89.1	50.4	39.3	78.0	49.9	32.5
Overall balance (deficit -, commitment basis) 1/	-0.3	1.5	1.9	-10.4	3.3	-1.4	6.1	2.9	2.8
Non-Oil Primary Balance 2/	-45.8	-17.8	-2.1	-54.7	-16.3	-5.5	-44.8	-18.0	-1.5
Memorandum items:			(billions of CFA francs)						
Nominal GDP	7,117	7,646	9,595	7,335	7,527	8,319	7,280	7,904	10,389
Government expenditure and net lending	2,771	2,635	2,889	3296	2,612	2,931	2,783	2,788	3,075
Government Expenditure (growth in percent)	-3.4	0.1	2.7	1.2	-3.1	1.6	-3.3	0.6	2.7

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

1/ Including grants.

2/ Revenue and grants (excluding investment income and oil revenue) minus total expenditures (excluding interest payments).

18. **Risks to the outlook are broadly balanced (Risk Assessment Matrix, Annex 3).** Global risks relate to a prolonged period of low oil prices. In the absence of a clearly articulated medium-term fiscal consolidation plan, the accumulation of domestic expenditure arrears could accelerate and risks to debt sustainability increase. This could significantly undermine the resilience of the economy and the fiscal space that is essential to confront the challenges of economic diversification and poverty reduction. It could also give rise to tensions and instability. The upside risk to the baseline scenario relates to improvements in public sector investment efficiency.

Authorities' Views

19. **The authorities were more optimistic about non-oil growth.** The authorities expect non-oil growth in 2015 to be buoyed by continued strong growth in the agriculture and industry sectors. The AAG are also expected to boost tourism, commerce, and services. The authorities expected household consumption to remain robust, supported by rising public sector wages. At the same time, they acknowledged that uncertainty from the oil price shock could impact consumer and investor sentiment. The spillover effects to the rest of the economy from the slowdown in spending in the construction sector are expected to be moderate, since large building projects are mostly undertaken by foreign companies that rely heavily on imports.

20.   The authorities reiterated their commitment to prudent fiscal policy over the medium term but noted the spending pressures related to the government's diversification plans. They were closely monitoring oil price developments and recognized the need for improvements in the quality of government spending. The authorities emphasized that it is the government's role to make the necessary investments in basic infrastructure and in education and health to facilitate growth and competitiveness and unlock private sector activity in non-oil sectors. The Special Economic Zones (SEZ) policy is also expected to permit the private non-oil sector to take off.[3] Better roads will also help to establish Congo as a 'transit country' for cargo unloaded in Point Noire to be shipped across the region. These investments are expected to have significant returns in terms of boosting non-oil growth in the future.

POLICY DISCUSSIONS

A.   Fiscal Policy: Developing the Non-Oil Economy to Protect the Poor

21.   Against the background of the limited remaining lifetime of oil reserves, the decline in international oil prices makes the need for fiscal adjustment more urgent. Staff reiterated earlier recommendations regarding fiscal adjustment to preserve medium-term fiscal sustainability. At the same time there is a need to safeguard priority expenditures to address social and infrastructure gaps. The supplementary 2014 budget, ratified in September, deviated from a consolidation path consistent with fiscal sustainability. The supplementary budget entailed a considerable increase in domestically-financed capital expenditures, mainly for the AAG. Following the fall in oil prices, however, on-budget domestically-financed capital spending was under-executed as the authorities prioritized AAG projects and the urbanization program. Additional spending pressures emanate from elections in 2016 (presidential) and 2017 (legislative).

22.   The draft supplementary 2015 budget appropriately tightens the fiscal stance. According to the authorities' projections, the supplementary budget envisages a narrowing of the non-oil primary fiscal deficit to about 42 percent of non-oil GDP from 81.2 percent of non-oil GDP in 2014. Staff projects a smaller narrowing of the non-oil primary deficit to a deficit of 57 percent of non-oil GDP in 2015. The consolidation mostly reflects reductions in domestically-financed investment spending. In addition to postponing non-priority projects and not initiating new ones, this would entail partly reversing the doubling of on-budget current and capital expenditures that took place over the past three years. This is expected to have a significant negative impact on non-oil growth, which is projected to decline to 3.2 percent per annum in the period 2015 to 2020, compared to almost 8 percent per annum in the five years preceding. The focus of the adjustment on reductions in investment spending, which has a strong external component, reduces import growth and therefore dampens the overall impact on growth. In view of the projected reduction in expenditure, the authorities should strive to safeguard pro-

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[3] SEZs were discussed in Country Report No. 14/272.

poor programs, improve investment efficiency to maximize the buildup of capital and safeguard debt sustainability, and ensure that public financial management weaknesses do not generate arrears. Non-oil tax revenue collection is expected to increase from new taxes introduced in 2015, including on mobile telephone operators, and further strengthening of customs administration. Staff recommended that the Supplementary Budget clarify the basis for the strong projected growth of non-oil revenues. Staff also emphasized the importance of preparing contingency plans, given the fluid global situation, to manage downside risks should they materialize. In this regard, staff welcomed the authorities' intention to closely monitor budget execution through comprehensive monthly fiscal reports.

23.   The authorities are likely to face important fiscal policy tradeoffs in the rest of 2015. They should carefully weigh the trade-off between financing the projected fiscal deficit from drawing down government deposits at the central bank (as currently assumed in the staff's baseline projections), additional fiscal adjustment, and additional borrowing from external or domestic sources. In particular, it would be useful to analyze the nature and expected benefits of discretionary spending and the comparative costs of alternative financing, including from using the government's fiscal buffers. Maintaining deposits at the regional central bank would provide a buffer in the event of additional adverse shocks, including to oil prices, and would ensure the continued smooth operation of the pegged exchange rate arrangement which has served Congo well. External sustainability will require maintaining a level of reserves above five months of imports to support the exchange rate peg. The decline in oil prices, and its impact on foreign exchange reserves, reinforces the importance of compliance with existing regional reserve pooling requirements.

24.   Over the medium-term, it will be important to develop a comprehensive and coherent fiscal adjustment strategy. There are several aspects to this:

- *Strengthen fiscal reporting, including regarding the government's overseas deposits and off budget expenditures*.[4] In particular, the monthly preparation of the Table of Government Financial Operations (TOFE) budget execution should include off-budget spending above the line and financing from changes in offshore deposits below the line.[5] Off budget spending mainly comprises in-kind oil payments to finance a number of commercial agreements and to cover losses incurred by the state oil refinery (CORAF) in maintaining regulated domestic fuel prices. At a minimum, these amounts should be included as memorandum items in fiscal

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[4] The 2013 TOFE reports negative financing of CFAF 629 billion (9.4 percent of GDP) under "*décalage techniques*" (statistical discrepancy). Based on discussions with the authorities in June 2014, the published 2014 IMF Article IV consultation report noted that this large negative financing reflected a buildup of overseas deposits. However, data newly made available to staff makes clear there was no such build up of offshore deposits. In fact, there was a drawdown of deposits by about CFAF 59 billion during 2013. Outside the coverage of standard fiscal reporting, the money was spent on a power plant built under the supervision of a foreign oil company.

[5] Consideration could also be given to include subventions to the oil sector (to cover trading shortfalls owing to the operation of administered retail prices for petroleum products) to the transfer expenditures line in the TOFE, in line with the GFS 1986 Manual.

reporting. This is important to make a meaningful assessment of the stance of fiscal policy and to derive a realistic fiscal consolidation path.

- *Adopt a multi-year perspective in fiscal planning*. In this regard, staff recommended that over the next five years, the non-oil primary deficit should be reduced to about 40 percent of non-oil GDP in order to ensure long-term fiscal sustainability (Annex IV).

- *Strengthen commitment control*. This would help stem the accumulation of domestic spending arrears and curtail increases in public debt that could significantly undermine the resilience of the economy and fiscal policy space.

- *Enhance macroeconomic surveillance and coordination at the regional level*. In view of the significant and differential impact of the oil price decline in the CEMAC context, the Republic of Congo could spearhead enhanced regional coordination in order to ensure an appropriate policy mix in response to the shock.

25.   The impact of fiscal consolidation on longer-term growth and the poor should be minimized. Specific measures could include:

- *Strengthen non-oil revenue collection*. Consideration should be given to minimizing the use of reduced VAT rates and tax exemptions, and strengthening the effectiveness of tax and customs audits and inspections and bringing non-filers into the tax net.

- *Reprioritize capital spending, including off-budget capital spending*. There is scope to rationalize capital spending by prioritizing projects with clear impact on growth potential. Recent work by the IMF[6] to assess investment efficiency reveals an efficiency gap for Congo which is significantly higher than the average for Low Income Developing Countries. This suggests that there is scope for improved quality of investment. In particular, project selection methods should be enhanced to boost the quality of public investment spending and maximize the level of Congo's long-run capital stock (Annex IV). This should also entail adequate provisions for maintenance costs in budget planning. Also, any off-budget investment spending should be consolidated under the budget process and hence be subject to standardized procedures.

- *Rationalize subsidies that disproportionately benefit the people that least needs them*. Energy subsidies amounted to about 4 percent of non-oil GDP in 2014. With the fall in oil prices, such subsidies have significantly declined to about ½ percent of GDP. Several countries (e.g. Cameroon, Indonesia) have taken advantage of the current environment of low international prices to phase out subsidies on petroleum products. Congo would benefit from implementing similar steps. The prices of utilities should also be evaluated. Timing the rollout of a program of energy subsidy reforms to coincide with the introduction of the pilot

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[6] Making Public Investment More Efficient (IMF 2015).

cash transfer program could help to mitigate the social impact of the removal of energy subsidies (SIP Chapter 2).

- *Consider options to control the growth of the government wage bill*. A multi-year schedule of civil servants' wage increases was announced in 2013, when the outlook for international oil prices was more favorable. The wage bill is forecast to peak at nearly 14 percent of non-oil GDP in 2017, from less than percent 10 percent in 2013. Part of the upward pressure on the wage bill is expected to emanate from the increase in hiring of qualified health care professionals related to the countrywide medium-term hospital building program aimed at re-balancing the significant geographical inequalities in health care provision. However, increases in wage rates should be moderated.

26.   Adherence to a prudent borrowing policy is essential to avoid jeopardizing debt sustainability. External debt has risen steadily in recent years and the authorities intend to mobilize additional borrowing in addition to drawing down the country's oil reserves. Against this background, staff urged the authorities to pursue a prudent borrowing policy that keeps the NPV of net debt below indicative Debt Sustainability Analysis (DSA) thresholds. As a result of the decline in oil prices and the consequent drop in nominal GDP, the NPV of gross external debt to GDP ratio temporarily breaches the 30 percent of GDP threshold in 2015 and 2016. Together with the sustained breaches in the standard stress tests, this would give rise to a downgrade to a "high risk of debt distress." However, an analysis based on net debt, which takes into account Congo's sizable government deposits at the BEAC, indicates that there are only sustained breaches of the thresholds under the stress tests. On this basis, Congo is classified as at "moderate risk of debt distress." To the extent that new borrowing over the medium-term is on less concessional terms than recent years, the risk of debt distress could rise.

27.   Staff encouraged the authorities to strengthen debt management and also take into account the drawdown of oil wealth. As the authorities seek to broaden financing sources, it would be important to develop a medium-term debt strategy (MTDS), strengthen skills for evaluating financing offers, and to enhance transparency in debt and asset management. As regards the option to issue government bonds in the local and regional markets, staff recommended strengthening institutional and analytical capacities before proceeding. This should include drawing up a strategy, in close collaboration with CEMAC partners, to develop the regional government securities market and outlining in more detail the financing requirements that would be covered by government securities and other sources, in the MTDS.

Authorities' Views

28.   The authorities had mixed views on staff's recommendations. The authorities aimed to fast track Parliamentary approval of the 2015 supplementary budget. They also highlighted their intention to consider additional cuts in expenditure in the event of further revenue shortfalls. The expenditures related to the AAG were the authorities' main immediate priority. The pace of other investment expenditures would be slowed and projects completed over a longer period of time. The authorities would not consider making adjustments to the announced

multi-year increases in civil servants' salaries because of their commitments to social partners. They also argued that the rural poor would be hit hardest by the removal of energy subsidies and would therefore maintain the current system of administered prices for petroleum products. The authorities acknowledged that off-budget expenditures had caused discrepancies in the fiscal accounts and agreed that, going forward, off-budget spending, including for energy subsidies, should be consolidated in fiscal reporting.

B. Public Financial Management Reforms

29.   The PFM system faces a number of challenges in critical areas. Progress has been made in recent years in refining the legislative framework for the budget, strengthening the public procurement system, and in developing a medium-term budget framework. Significant shortcomings remain, however, in adhering to budget allocations during execution. In addition, the budget does not provide full coverage of government revenues and expenditures (see ¶24). Shortcomings in commitment control are also evident, in particular for investment expenditures, while there is also frequent recourse to in-year budget adjustments. These practices complicate budget management and the timely and accurate reporting of expenditures. This is further compounded by weaknesses in accounts preparation. A visible result of these shortcomings is the persistence of domestic payment arrears at some 5.5 percent of GDP and there are risks from further arrears being generated by the reduction in public spending.

30.   Since the adoption of the Organic Law in 2012, reforms have mainly focused on the transposition of the six CEMAC PFM Directives. The government is taking important steps to transpose the CEMAC PFM Directives through draft legislation on fiscal transparency, budget classification, and the chart of accounts. The draft fiscal responsibility and transparency (FRT) law would establish guiding principles for other PFM laws and includes provisions on natural resources revenue transparency which would complement Congo's compliant status under the Extractive Industry Transparency Initiative (EITI) since February 2013. This should be implemented expeditiously and remain consistent with the relevant CEMAC directive. The authorities have also made efforts to work on improving the expenditure management under the IT system (SIDERE), and program budgeting is being developed. While the efforts to transpose the Directives are welcome, implementation of PFM reforms is lagging in some critical areas. These are highlighted in the recent PEFA assessment, which presents an opportunity to refocus reforms on these critical shortcomings (Box 1). At the same time, reinvigorating the reform process will require a clearer institutional framework and a review of the timeline of activities in order to ensure appropriate sequencing.

31.   Staff encouraged implementation of measures to enhance the equity and efficiency of government spending based on the findings of the PEMFAR. This includes:

- Prioritizing the budgetary allocations to the agriculture and social sectors (health and education) and building capacity of staff in these ministries in PFM issues whilst improving monitoring and evaluation of projects to address low execution rates;

- Improving the allocations of public resources, including by providing a geographic coverage of the budget by regions or rural vs. urban areas;

- Piloting, and eventually mainstreaming, a pro-poor cash transfer program that is well-targeted and adequately monitored;

- Improving access to health care, for example by waiving user fees for the poor and compensating providers as part of the government's universal health care coverage, to be rolled out over the medium term; and

- Prioritizing infrastructure spending with a stronger growth and human development impact.

Box 1: Public Expenditure and Accountability Framework Assessment and Recommendations

A follow up to the initial 2006 assessment under the PEFA was undertaken in 2014. The PEFA recognizes progress made since the earlier assessment in introducing a medium-term budgetary framework, reforms to the procurement system and the clearer legal underpinnings provided by the 2012 budget framework law. At the same time, the assessment finds continued important scope to strengthen the credibility of budget allocations; the scope and coverage of budget documents; timeliness and accuracy of accounting data; internal control and transparency. In addition, a critical cross-cutting issue that hampers progress across the cycle of budgetary operations is the performance of the various IT systems underpinning the PFM system.

Against this background, staff recommended that an updated reform plan should contain the following critical elements:

- Broadening the scope of budget documentation and fiscal reporting and consolidating off-budget spending;

- Ensuring reliable forecasts of fiscal aggregates and strengthening commitment controls and procedures to help prevent further accumulation of arrears;

- Tightening procedures for in-year budget adjustments;

- Taking a multi-year perspective in fiscal planning, in particular for commitments on investment projects;

- Reinforcing the link between the National Development Plan (NDP) and budgetary allocations; and

- Rationalizing IT systems to ensure full coverage and inter-operability between key departments and modules.

Authorities' Views

32.   The authorities gave high priority to PFM reforms and considered that their focus on the overarching legal framework, as set out in the CEMAC Directives, was appropriate. In particular, they noted their intention to move ahead with the FRT law before the end of the year. The authorities emphasized that ongoing projects were not being cancelled and only

postponed. For this reason, the costs of the projects should not increase and arrears should not accumulate. The authorities consider that the problem of payment arrears may be overstated, depending on the accounting conventions used for their recording, as their definition of arrears differs from that of private sector companies. The authorities nevertheless broadly agree that a more comprehensive presentation of government fiscal operations is appropriate, and indicated their willingness to further engage with IMF staff on how to move ahead with this. The question of providing geographical information on budget allocations, meanwhile, was something that the authorities considered to be best addressed in the context of their ongoing efforts to move towards a program budgeting approach to budget preparation.

33.   With regard to public investment efficiency, the authorities indicated that they intended to give higher priority to quality concerns in the public investment program. In terms of sectoral priorities, however, they considered that agriculture allocations were appropriate and that a range of flanking policies in rural areas (health, electricity, water, transportation, etc.) were equally important for developing agricultural potential. With regard to the proposed cash transfer program, in the second half of 2015 the authorities plan to roll out the *Lisungi* project, with World Bank support, across a number of pilot districts.

C.   Promoting Financial Sector Development and Inclusion

34.   An analysis of macro-financial linkages suggests that the decline in oil prices may have important spillover effects to the financial sector. Banks' compliance with CEMAC prudential ratios remains, on average, broadly adequate. Three (out of the 10) banks do not maintain capital above the COBAC CFAF 10 billion minimum. Two of these have drawn up time-bound recapitalization plan. The third bank may be turned into an SME bank with the government taking a share in it. The non-performing loan (NPL) ratio more than doubled, albeit from low levels, to 2.5 percent in 2014. The stress tests in the January 2015 FSAP highlight that Congolese banks would be most vulnerable to a re-classification of performing loans to NPLs. In light of this, anecdotal reports of a buildup of government arrears to domestic private sector operators underscore the risk that the large decline in oil revenues and the resulting need to reduce government spending could lead to a further increase in NPLs.

35.   Increased financial access and intermediation could have important economic benefits. The Republic of Congo's financial sector is shallow, highly concentrated, and characterized by limited inclusiveness (SIP chapter 3). Staff's analysis suggests that increasing access to bank lending and other financial services, increasing the quality of loan collateral and lowering bank intermediation costs could have an important impact on growth, productivity, and inequality. In light of this, staff advised to (i) accelerate the implementation of a centralized balance sheet bureau to strengthen the quality of accounting data; (ii) strengthen the credit registry; (iii) establish a property registry and a unique window to register land titles; (iv) strengthen the judicial framework by boosting the judges' and tribunals' capacity to address financial sector issues. In addition, there is scope to encourage microfinance and mobile banking by fostering collaboration between commercial banks, microfinance institutions and telecommunication companies and move forward with the ongoing implementation of the

electronic payment system for taxes and utilities and developing the bank branches network. The authorities are encouraged to work in close collaboration with COBAC and BEAC on financial innovations to ensure consistency with regional regulations. Staff encouraged the authorities to put in place a strategy to develop the financial sector that includes a roadmap of prioritized time-bound actions, involves all the relevant stakeholders, and whose implementation is proactively monitored.

36.   AML/CFT. Staff encouraged the authorities to move forward with ensuring financial sector compliance with customer due diligence (CDD) and operationalizing the recently created financial intelligence unit (ANIF-Congo) and ensuring that it has an adequate budget that will allow it to immediately undertake its core functions independently.

Authorities' Views

37.   The authorities highlighted that the FSAP findings showed that the Congolese banks were the most resilient to shocks among the banks in the CEMAC region. They recognized the importance of encouraging financial sector development in order to promote the diversification of the economy. The authorities acknowledged that the successful development of the sector requires reforms of the legal system to facilitate use of collateral. They considered that progress has been made in requiring civil servants to receive salaries through bank accounts and the development of mobile banking. More generally, the authorities are in the process of reviewing and updating their 2006 financial sector development strategy which would also ensure that national measures are fully integrated with regional objectives in the CEMAC context.

D.   Other Surveillance Issues

38.   The quality and timeliness of macroeconomic data needs to be improved. This would benefit the implementation of the Republic of Congo's important agenda of macroeconomic and structural reforms, as well as ensure compliance with data provision obligations under Article VIII (e.g. in relation to IIP data, off-budget spending, and deposits held abroad). In this regard, staff encouraged the authorities to operationalize the National Strategy for Statistics Development (NSSD) to address data issues and technical capacity constraints over the coming years. Staff also underscored the need to ensure adequate funding to the statistics agency and emphasized the need to clarify which agency is in charge of compiling and providing national accounts and debt data and to make sure that all government agencies unify their data in a coherent manner.

39.   The authorities are encouraged to improve policy coordination and monitoring. This would be instrumental in ameliorating the efficiency and effectiveness of macroeconomic and structural reform policies. For instance, the PEMFAR highlights that the planning, budgeting, and implementation of public investment would benefit from enhanced coordination between all institutions relevant to public investment spending. At the same time, the impending need to renew the 2012–16 NDP in 2016 presents an opportunity to more firmly embed Congo's

development objectives in the context of further regional integration, including transportation infrastructure.

Authorities' View

40.   The authorities noted that the implementation of the NSSD is underway. They recognized the assistance from development partners (the World Bank, AFRISTAT, IMF) and indicated that the aim is for all official statistics to be unified and to eventually have the National Institute of Statistics be the single entity responsible for disseminating statistics.

41.   The NDP provides the overall strategic vision within which public investment expenditures are made. Building on an evaluation of the second period of the NDP, the authorities will prepare a new development plan which will encompass the post 2015 Millennium Development Goals agenda and the objectives of the continent.

STAFF APPRAISAL

42.   Growth was strong and inflation moderated in 2014. Growth rose to 6.8 percent in 2014, driven by a rebound in oil production. Inflation eased to 0.5 percent at end–2014 (year-on-year), driven mainly by lower global food prices.

43.   But Congo has been hit hard by the oil price shock. The fiscal deficit amounted to 8.5 percent of GDP in 2014, a near doubling from 2013, owing mostly to increased spending and the lower oil receipts. The current account balance also deteriorated.

44.   The economy is projected to expand by about 3 percent per annum during 2015–20 as new oil fields come on stream. Though necessary, the fiscal consolidation implied by the supplementary budget is expected to result in growth slowing to 1 percent in 2015. Risks to the outlook relate to oil price volatility, persistently low oil prices, accumulation of domestic payment arrears, and domestic instability. While Congo's real effective exchange rate is broadly in line with macroeconomic fundamentals, the performance of non-oil exports is weak and points to competitiveness concerns.

45.   The 2015 supplementary budget should be passed swiftly and its implementation monitored closely. The authorities should weigh carefully their response to revenue shortfalls and expenditure overruns. Maintaining deposits at the regional central bank would provide a buffer in the event of additional adverse shocks. Contingency plans should be prepared to address downside risks.

46.   Safeguarding fiscal and debt sustainability will require a coherent medium-term fiscal adjustment strategy. In view of the limited remaining lifetime of oil reserves, and continued low prices, fiscal policy should be anchored on a gradual multi-year reduction in the non-oil primary deficit. The rise in government debt since the 2010 HIPC/MDRI relief in addition to the drawdown of oil reserves, underscores the importance of continued adherence to a prudent borrowing policy that keeps the NPV of net debt below indicative DSA thresholds.

This should also be coordinated within the context of a revised CEMAC macroeconomic surveillance framework (See CEMAC Staff Report).

47. **Public expenditure should increasingly be oriented towards policies to support inclusive growth and pro-poor programs.** The link between the actions in the NDP and the annual budgets should be clearly established during budget preparation, with a stronger focus on economic diversification. The selection, evaluation, and monitoring of investment projects, as well as the budgeting of their operating and maintenance costs, need to be strengthened. More broadly, the authorities are encouraged to follow up on the recommendations from the PEFA and PEMFAR to strengthen budget execution, procurement and disbursement processes and improve the efficiency and quality of spending.

48. **Fiscal adjustment should be underpinned by improved revenue policies and PFM reforms.** There is scope to boost non-oil revenues by limiting the use of reduced VAT rates and tax exemptions whilst reinforcing tax and customs administration. PFM reforms should focus on improving the quality of investment, resolving the accumulation of arrears, and ensuring comprehensive fiscal reporting that consolidates off-budget spending, possibly with IMF technical assistance.

49. **Financial sector reforms are essential to underpin growth, diversification and reduce inequality.** The financial sector should benefit from the authorities' plans to revise its strategy in this sector with a view to covering recent innovations and consistency with regional objectives. Key priorities remain the improvement of the credit registry, establishing a property registry and a unique window to register land titles, and strengthening the judicial framework. Promoting broader usage of microfinance and mobile banking should also enhance financial access.

50. **External sustainability should aim at maintaining a level of reserves above five months of imports to support the exchange rate peg.** The decline in oil prices, and its impact on foreign exchange reserves, reinforces the importance of compliance with CEMAC reserves pooling requirements to underpin the pegged exchange rate arrangement. In this regard, staff welcomes the repatriation of part of Congo's overseas deposits and recommends a continuation of this policy.

51. **The quality and timeliness of macroeconomic statistics needs urgent strengthening,** to help improve macroeconomic analysis and policymaking and ensure compliance with obligations under Article VIII. Progress needs to be made in improving capacity and operationalizing the NSSD. In particular, macroeconomic statistics should be unified across government agencies and the national statistics agency should have adequate funding.

52. **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, 2013–20

	2013	2014	2015	2016	2017	2018	2019	2020
			Projections					
	(Annual percentage change unless otherwise indicated)							
Production and prices								
GDP at constant prices	3.3	6.8	1.0	6.5	7.0	3.4	-1.6	0.3
Oil	-10.2	3.4	-3.4	18.2	18.8	3.5	-16.4	-9.0
Non-oil	8.1	7.9	2.3	3.4	3.3	3.4	3.6	2.9
GDP at current prices	-4.6	0.5	-17.3	16.1	22.2	2.0	-4.7	-4.8
GDP deflator	-7.7	-6.0	-18.2	9.0	14.2	-1.4	-3.1	-5.1
Consumer prices (period average)	4.6	0.9	0.9	1.7	2.5	2.5	2.5	2.5
Consumer prices (end of period)	2.1	0.5	1.8	2.1	2.4	2.5	2.5	2.5
External sector								
Exports, f.o.b.	-10.1	-3.6	-25.6	36.9	22.6	0.3	-9.7	-9.6
Imports, f.o.b.	9.0	3.2	-18.4	12.0	-0.4	6.2	8.2	-13.9
Export volume	-11.1	3.9	-1.8	25.5	7.1	3.5	-12.3	-4.7
Import volume	8.0	2.5	-28.1	16.2	3.7	4.9	3.9	-8.4
Terms of trade (deterioration -)	-0.1	-4.6	-26.8	-9.9	-13.4	-4.4	-1.2	0.9
Current account balance (percent of GDP)	-4.5	-5.5	-10.7	-6.0	3.4	2.7	-3.0	-1.2
Gross official foreign reserves (CFAF billion)	2,509	2,698	2,194	2,015	2,109	2,154	1,753	1,565
(Months of imports)	7.4	9.3	6.5	5.9	5.9	5.9	5.3	5.0
(Percent of GDP)	38	40	40	31	27	27	23	22
External public debt (percent of GDP)	32.0	36.4	48.5	44.3	38.0	36.7	37.6	38.6
Monetary sector								
Broad money (growth)	0.7	13.1	1.6	...	...	...	...	...
Credit to the economy (growth)	16.5	27.6	15.5	...	...	...	...	...
	(Percent of GDP)							
Investment and saving								
Gross national saving	26.5	29.9	23.9	25.4	30.1	29.0	25.1	26.0
Gross investment	30.9	35.4	34.6	31.4	26.7	26.4	28.1	27.2
	(Percent of non-oil GDP)							
Central government finances								
Total revenue	111.7	93.9	71.7	80.1	87.9	86.1	76.9	68.6
Oil revenue	82.1	64.7	39.6	47.5	55.1	53.1	44.0	35.8
Nonoil revenue (inc. grants and investment income)	29.6	29.2	32.1	32.6	32.7	33.0	32.7	32.6
Total expenditure	116.0	110.9	89.6	84.0	81.6	76.2	74.1	67.2
Current	33.7	36.2	32.6	32.0	32.7	30.8	29.9	29.4
Capital (and net lending)	57.7	53.2	37.6	36.6	34.4	31.6	31.2	25.4
Off-budget	24.6	21.4	19.4	15.4	14.6	13.8	13.0	12.4
Overall balance (deficit -, commitment basis) 1/	-4.3	-17.0	-17.9	-3.9	6.2	9.9	2.8	1.3
Non-oil primary balance (- = deficit) 2/	-85.7	-81.2	-57.3	-51.1	-48.6	-42.9	-40.9	-34.2
Basic primary fiscal balance (- = deficit) 3/	14.1	-5.9	-5.6	6.1	15.1	14.8	3.2	1.7
Basic non-oil primary balance (- = deficit) 4/	-68.0	-70.6	-45.2	-41.4	-40.0	-38.3	-22.8	-16.9
Basic non-oil primary balance (cash basis)	-74.4	-72.1	-46.4	-43.5	-42.0	-39.3	-23.7	-17.8
	(Percent of total government revenue excluding grants)							
External public debt service (after debt relief)	5.2	6.6	7.4	6.9	6.3	7.6	9.2	8.3
External public debt (after debt relief)	68.8	86.0	122.4	110.3	99.6	95.1	98.1	102.7
	(Billions of CFA francs, unless otherwise indicated)							
Nominal GDP	6,657	6,689	5,528	6,421	7,848	8,007	7,633	7,265
Nominal non-oil GDP	2,796	3,050	3,098	3,253	3,434	3,624	3,845	4,020
World oil price (U.S. dollars per barrel)	104	96	59	64	67	70	71	71
Oil production (Millions of barrels)	88	91	88	104	124	128	107	98
Nominal Exchange rate (CFA/USD, period average)	494	494	...	...	...	...	...	...
REER (percentage change)	7.4	-2.6	...	...	...	...	...	...

Sources: Congolese authorities; and Fund staff estimates and projections.
1/ Including grants.
2/ Revenue and grants (excluding investment income and oil revenue) minus total expenditures (excluding interest payments).
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, 2013–20

	2013	2014	2015	2016	2017	2018	2019	2020
			Projections					
			(Billions of CFA francs)					
Current account	-298	-367	-589	-384	263	213	-233	-89
of which non-oil	-1,843	-1,766	-1,302	-1,305	-1,178	-1,376	-1,596	-1,236
Trade balance	2,309	2,067	1,361	2,357	3,404	3,283	2,543	2,408
Exports, f.o.b.	4,675	4,509	3,353	4,590	5,628	5,644	5,099	4,609
Oil sector	4,039	3,814	2,564	3,693	4,619	4,590	3,976	3,418
Non-oil sector	636	694	789	897	1,009	1,054	1,122	1,191
Imports, f.o.b.	-2,366	-2,442	-1,993	-2,233	-2,224	-2,361	-2,556	-2,201
Oil sector	-519	-612	-487	-609	-602	-518	-441	-369
Government	-971	-905	-579	-656	-613	-789	-1,013	-687
Non-oil private sector	-877	-924	-927	-967	-1,009	-1,054	-1,102	-1,146
Balance of services	-1,227	-1,223	-1,069	-1,308	-1,352	-1,346	-1,244	-1,147
Oil sector	-622	-621	-494	-744	-805	-777	-660	-569
Nonoil sector	-605	-603	-575	-563	-548	-568	-584	-578
Income	-1,190	-1,008	-627	-1,169	-1,516	-1,470	-1,269	-1,081
Labor income	-57	-53	-35	-51	-65	-64	-55	-47
Investment income	-1,133	-955	-592	-1,118	-1,451	-1,405	-1,214	-1,034
Current transfers (net)	-190	-202	-254	-265	-273	-254	-262	-268
Capital account	26	31	30	26	25	28	28	27
Debt forgiveness 1/	0	0	0	0	0	0	0	0
Official grants	26	31	30	26	25	28	28	27
Financial account	-90	390	59	181	-193	-196	-195	-127
Direct investment (net)	1,248	1,311	879	1,393	1,048	1,021	898	783
Of which: oil sector	1,109	1,121	799	1,314	970	938	808	688
Other investment	-1,338	-922	-819	-1,212	-1,241	-1,217	-1,093	-910
Medium and long term	365	185	252	187	153	-23	-28	16
Public sector	340	157	232	155	124	-53	-55	-15
Drawings	497	324	374	313	294	164	195	196
Project	497	324	374	313	294	164	195	196
Amortization 2/	-157	-168	-142	-158	-170	-217	-250	-210
Private sector	25	29	20	32	30	29	27	31
Oil	14	14	13	25	22	21	18	16
Non-oil	11	15	7	7	8	8	8	15
Short term	-1,703	-1,107	-1,072	-1,399	-1,394	-1,194	-1,065	-926
Errors and omissions	0	0	0	0	0	0	0	0
Overall balance of payments	-362	54	-500	-177	95	45	-400	-188
Financing	362	-54	500	177	-95	-45	400	188
Reserve financing	269	-195	500	177	-95	-45	400	188
IMF (net)	-2	-3	-3	-2	-1	-1	0	0
Purchases / Disbursments	0	0	0	0	0	0	0	0
Repurchases / Repayments	-2	-3	-3	-2	-1	-1	0	0
Other reserves	269	-195	500	177	-95	-45	400	188
Government deposits abroad 3/	59	141	0	0	0	0	0	0
Exceptional financing 4/	34	0	0	0	0	0	0	0
Financing gap (- = surplus)	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 preliminary data.

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

Table 3. Republic of Congo: Central Government Operations, 2013–20

	2013		2014			2015				2016	2017	2018	2019	2020
	Budget		Sup Budget	SR Proj.		Budget	Budget (supp. Prelim.) 6/	SR Proj.	Revised Proj.	Projections				
	(Billions of CFA francs)													
Total revenue and grants	3,512	3,123	3,465	3,193	2,863	2,648	2,269	3,237	2,221	2,606	3,018	3,120	2,955	2,756
Primary Revenue	3,339	3,096	3,263	3,146	2,831	2,475	2,095	3,205	2,181	2,574	2,987	3,087	2,922	2,723
Oil revenue	2,597	2,295	2,378	2,250	1,973	1,479	860	2,205	1,226	1,545	1,894	1,924	1,692	1,440
Non-oil revenue	741	801	885	895	857	996	1,236	1,000	955	1,028	1,094	1,163	1,231	1,284
Direct taxes	288	321	343	350	360	336	336	391	336	356	380	405	434	458
Taxes on goods and services	273	296	317	333	333	403	403	372	403	425	451	479	503	520
Customs Receipts	150	148	195	172	155	220	196	192	196	208	222	236	248	257
Non-tax revenue	31	36	30	40	10	33	300	45	20	39	41	43	46	49
Interest on deposits	30	1	20	9	1	10	10	10	10	6	6	6	5	6
Grants	144	26	182	38	31	163	164	23	30	26	25	28	28	27
Expenditure and net lending	2,818	3,243	3,600	2,831	3,381	3,055	2,706	2,880	2,775	2,732	2,803	2,762	2,848	2,703
Current expenditure	1,022	943	1,106	1,077	1,106	993	1,010	1,182	1,011	1,042	1,123	1,116	1,150	1,180
Wages	270	275	324	308	323	369	369	345	369	420	470	482	494	506
Other current expenditure	698	650	731	718	743	577	594	790	601	581	611	593	616	637
Goods and services	260	257	327	324	338	282	222	358	222	233	239	245	251	257
Transfers	332	264	301	294	303	206	203	324	209	248	270	243	257	269
Common charges	106	98	102	100	103	89	169	108	169	100	102	105	108	110
Local authorities	35	32	36	36	25	32	32	31	25	24	24	23	22	21
Interest	19	18	15	15	15	15	15	16	16	16	17	19	18	16
Capital expenditure	1,796	1,612	2,495	1,754	1,624	2,062	1,696	1,698	1,164	1,190	1,181	1,146	1,198	1,023
Domestically financed	1,048	1,089	1,846	1,343	1,269	1,477	1,110	1,375	760	850	862	954	975	800
Externally financed	749	523	649	411	355	585	586	323	404	340	319	192	223	223
Off-budget expenditure	0	688	0	0	652	0	0	0	600	500	500	500	500	500
Net lending	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Non-oil primary balance 1/	-1,914	-2,398	-2,518	-1,883	-2,478	-1,881	-1,291	-1,841	-1,774	-1,661	-1,668	-1,553	-1,571	-1,376
Basic primary balance 2/	1,288	395	326	741	-180	20	-10	664	-174	198	520	536	125	69
Of which: Basic non-oil primary balance 3/	-1,309	-1,900	-2,052	-1,509	-2,153	-1,459	-869	-1,541	-1,400	-1,347	-1,374	-1,389	-876	-680
Overall balance, commitment basis														
Excluding grants	551	-146	-317	324	-550	-570	-601	335	-584	-152	190	331	79	26
Including grants	694	-120	-135	362	-518	-407	-437	357	-554	-126	215	358	107	53
Change in arrears	-68	-180	-38	-137	-47	0	0	-103	-38	-68	-68	-34	-34	-34
External	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Domestic	-68	-180	-38	-137	-47	0	0	-103	-38	-68	-68	-34	-34	-34
Overall balance, cash basis	627	-300	-173	225	-565	-407	-437	255	-593	-194	146	324	73	19
Basic non-oil primary balance, cash basis	-1,376	-2,081	-2,089	-1,646	-2,201	-1,459	-869	-1,644	-1,438	-1,416	-1,442	-1,423	-911	-715
Financing	-628	300	221	-225	565	407	437	-255	593	194	-146	-324	-73	-19
Foreign (net)	470	433	509	216	286	265	271	118	232	155	124	-53	-55	-15
Drawings	605	497	467	374	324	422	422	300	374	313	294	164	195	196
Amortization due	-135	-157	-157	-157	-180	-157	-152	-182	-142	-158	-170	-217	-250	-210
Rescheduling obtained	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Debt cancellation	0	34	0	0	0	0	0	0	0	0	0	0	0	0
Other	0	59	199	0	141	0	0	0	0	0	0	0	0	0
Deposits abroad 4/	0	59	0	0	141	0	0	0	0	0	0	0	0	0
Loans	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Domestic (net)	-1,098	-134	-288	-441	280	142	166	-373	360	39	-270	-272	-18	-4
Banking system (net)	-1,098	27	-288	-441	340	142	166	-373	360	39	-270	-272	-18	-4
Nonbank financing	0	-161	0	0	-60	0	0	0	0	0	0	0	0	0
Financing gap (- = surplus)	0	0	48	0	0	0	0	0	0	0	0	0	0	0
Memorandum items:														
Basic fiscal balance 5/	1,299	377	331	736	-194	15	-15	657	-180	188	509	523	302	249
Stock of government deposits	2,448	1,324	982	1,765	982	1,194	1,194	2,138	622	582	852	1,123	1,141	1,145
GDP at current market prices	7,261	6,657	6,689	6,851	6,689	5,528	5,528	7,277	5,528	6,421	7,848	8,007	7,633	7,265
Non-oil GDP at market prices	2,796	2,796	3,050	3,111	3,050	3,098	3,098	3,437	3,098	3,253	3,434	3,624	3,845	4,020

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.
6/ Reflects the supplementary budget approved by the ministerial cabinet and awaiting formal ratification by parliament

Table 4. Republic of Congo: Central Government Operations, 2013–20

	2013		2014			2015				2016	2017	2018	2019	2020
	Budget		Sup. Budget	SR Proj.		Budget	Budget (supp. Prelim.) 6/	SR Proj.	Revised Proj.	Projections				
						(Percent of non-oil GDP)								
Total revenue and grants	125.6	111.7	113.6	102.6	93.9	85.5	73.2	94.2	71.7	80.1	87.9	86.1	76.9	68.6
Primary Revenue	119.4	110.7	107.0	101.1	92.8	79.9	67.6	93.2	70.4	79.1	87.0	85.2	76.0	67.8
Oil revenue	92.9	82.1	78.0	72.3	64.7	47.7	27.7	64.2	39.6	47.5	55.1	53.1	44.0	35.8
Non-oil revenue	26.5	28.6	29.0	28.8	28.1	32.2	39.9	29.1	30.8	31.6	31.8	32.1	32.0	31.9
Direct taxes	10.3	11.5	11.3	11.3	11.8	10.8	10.8	11.4	10.8	11.0	11.1	11.2	11.3	11.4
Taxes on goods and services	9.7	10.6	10.4	10.7	10.9	13.0	13.0	10.8	13.0	13.1	13.1	13.2	13.1	12.9
International trade	5.4	5.3	6.4	5.5	5.1	7.1	6.3	5.6	6.3	6.4	6.5	6.5	6.5	6.4
Non-tax revenue	1.1	1.3	1.0	1.3	0.3	1.0	9.7	1.3	0.6	1.2	1.2	1.2	1.2	1.2
Investment income	1.1	0.0	0.7	0.3	0.0	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.1	0.1
Grants	5.1	0.9	6.0	1.2	1.0	5.3	5.3	0.7	1.0	0.8	0.7	0.8	0.7	0.7
Expenditure and net lending	100.8	116.0	118.0	91.0	110.9	98.6	87.3	83.8	89.6	84.0	81.6	76.2	74.1	67.2
Current expenditure	36.5	33.7	36.2	34.6	36.2	32.1	32.6	34.4	32.6	32.0	32.7	30.8	29.9	29.4
Wages	9.7	9.8	10.6	9.9	10.6	11.9	11.9	10.0	11.9	12.9	13.7	13.3	12.8	12.6
Other current expenditure	24.9	23.3	24.0	23.1	24.4	18.6	19.2	23.0	19.4	17.9	17.8	16.3	16.0	15.8
Goods and services	9.3	9.2	10.7	10.4	11.1	9.1	7.2	10.4	7.2	7.2	7.0	6.8	6.5	6.4
Transfers	11.9	9.4	9.9	9.4	9.9	6.6	6.5	9.4	6.8	7.6	7.9	6.7	6.7	6.7
Common charges	3.8	3.5	3.4	3.2	3.4	2.9	5.5	3.1	5.5	3.1	3.0	2.9	2.8	2.7
Local authorities	1.3	1.1	1.2	1.2	0.8	1.0	1.0	0.9	0.8	0.7	0.7	0.6	0.6	0.5
Interest	0.7	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.4
Capital expenditure	64.2	57.7	81.8	56.4	53.2	66.6	54.7	49.4	37.6	36.6	34.4	31.6	31.2	25.4
Domestically financed	37.5	38.9	60.5	43.2	41.6	47.7	35.8	40.0	24.5	26.1	25.1	26.3	25.4	19.9
Externally financed	26.8	18.7	21.3	13.2	11.7	18.9	18.9	9.4	13.0	10.4	9.3	5.3	5.8	5.5
Off-budget expenditure	0.0	24.6	0.0	0.0	21.4	0.0	0.0	0.0	19.4	15.4	14.6	13.8	13.0	12.4
Net lending	0.0	0.0	0.0	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/	-68.4	-85.7	-82.6	-60.5	-81.2	-60.7	-41.7	-53.6	-57.3	-51.1	-48.6	-42.9	-40.9	-34.2
Basic primary balance 2/	46.1	14.1	10.7	23.8	-5.9	0.6	-0.3	19.3	-5.6	6.1	15.1	14.8	3.2	1.7
Of which: Basic non-oil primary balance 3/	-46.8	-68.0	-67.3	-48.5	-70.6	-47.1	-28.1	-44.8	-45.2	-41.4	-40.0	-38.3	-22.8	-16.9
Overall balance, commitment basis														
Excluding grants	19.7	-5.2	-10.4	10.4	-18.0	-18.4	-19.4	9.7	-18.8	-4.7	5.5	9.1	2.1	0.6
Including grants	24.8	-4.3	-4.4	11.6	-17.0	-13.1	-14.1	10.4	-17.9	-3.9	6.2	9.9	2.8	1.3
Change in arrears	-2.4	-6.4	-1.2	-4.4	-1.5	0.0	0.0	-3.0	-1.2	-2.1	-2.0	-0.9	-0.9	-0.9
External	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	-2.4	-6.4	-1.2	-4.4	-1.5	0.0	0.0	-3.0	-1.2	-2.1	-2.0	-0.9	-0.9	-0.9
Overall balance, cash basis	22.4	-10.7	-5.7	7.2	-18.5	-13.1	-14.1	7.4	-19.1	-6.0	4.3	8.9	1.9	0.5
Basic non-oil primary balance, cash basis	-49.2	-74.4	-68.5	-52.9	-72.1	-47.1	-28.1	-47.8	-46.4	-43.5	-42.0	-39.3	-23.7	-17.8
Financing	-22.5	10.7	7.2	-7.2	18.5	13.1	14.1	-7.4	19.1	6.0	-4.3	-8.9	-1.9	-0.5
Foreign (net)	16.8	15.5	16.7	7.0	9.4	8.6	8.7	3.4	7.5	4.8	3.6	-1.4	-1.4	-0.4
Drawings	21.6	17.8	15.3	12.0	10.6	13.6	13.6	8.7	12.1	9.6	8.6	4.5	5.1	4.9
Amortization due	-4.8	-5.6	-5.1	-5.1	-5.9	-5.1	-4.9	-5.3	-4.6	-4.9	-5.0	-6.0	-6.5	-5.2
Rescheduling obtained	0.0	0.0	0.0	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	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	2.1	6.5	0.0	4.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deposits abroad 4/	0.0	2.1	0.0	0.0	4.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic (net)	-39.3	-4.8	-9.4	-14.2	9.2	4.6	5.4	-10.8	11.6	1.2	-7.9	-7.5	-0.5	-0.1
Banking system (net)	-39.3	1.0	-9.4	-14.2	11.1	4.6	5.4	-10.8	11.6	1.2	-7.9	-7.5	-0.5	-0.1
Nonbank financing	0.0	-5.8	0.0	0.0	-2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap (- = surplus)	0.0	0.0	1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:						(Percent of GDP)								
Total revenue	48.4	46.9	51.8	46.6	42.8	47.9	41.0	44.5	40.2	40.6	38.5	39.0	38.7	37.9
Primary revenue	46.0	46.5	48.8	45.9	42.3	44.8	37.9	44.0	39.5	40.1	38.1	38.6	38.3	37.5
Oil revenue	35.8	34.5	35.6	32.8	29.5	26.8	15.5	30.3	22.2	24.1	24.1	24.0	22.2	19.8
Non oil revenue	10.2	12.0	13.2	13.1	12.8	18.0	22.3	13.7	17.3	16.0	13.9	14.5	16.1	17.7
Total expenditure	38.8	48.7	53.8	41.3	50.5	55.3	48.9	39.6	50.2	45.6	37.1	34.6	37.0	36.9
Current expenditure	14.1	14.2	16.5	15.7	16.5	18.0	18.3	16.2	18.3	16.2	14.3	13.9	15.1	16.2
Capital expenditure	24.7	24.2	37.3	25.6	24.3	37.3	30.7	23.3	21.0	18.5	15.0	14.3	15.7	14.1
Extra Budgetary Expenditure		10.3	0.0	0.0	9.7	0.0	0.0	0.0	10.9	10.9	7.8	6.4	6.2	6.6
Basic fiscal balance 5/	17.9	5.7	5.0	10.7	-2.9	0.3	-0.3	9.0	-3.3	2.9	6.5	6.5	4.0	3.4
Basic primary fiscal balance	17.7	5.9	4.9	10.8	-2.7	0.4	-0.2	9.1	-3.1	3.1	6.6	6.7	1.6	1.0
Basic non oil primary fiscal balance	-18.0	-28.5	-30.7	-22.0	-32.2	-26.4	-15.7	-21.2	-25.3	-21.0	-17.5	-17.3	-11.5	-9.4
Overall balance, cash basis	8.6	-4.5	-2.6	3.3	-8.5	-7.4	-7.9	3.5	-10.7	-3.0	1.9	4.0	1.0	0.3

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.
6/ Reflects the supplementary budget approved by the ministerial cabinet and awaiting formal ratification by parliament

Table 5. Republic of Congo: Government Cash Flow Schedule, 2013–20

	2013	2014	2015	2016	2017	2018	2019	2020
					Projections			
			(Billions of CFA francs)					
Deposits in banking system, beginning of period	1,349	1,324	982	622	583	852	1,124	1,142
Gross cash inflows	2,889	2,440	1,610	1,865	2,193	2,094	1,891	1,641
Oil receipts	2,295	1,973	1,226	1,545	1,894	1,924	1,692	1,440
Non-oil primary surplus	0	0	0	0	0	0	0	0
Domestic debt placement	0	0	0	0	0	0	0	0
External debt placement	497	324	374	313	294	164	195	196
Arrears accumulation	0	0	0	0	0	0	0	0
Deposits from abroad	59	141	0	0	0	0	0	0
Other	38	1	10	6	6	6	5	6
Gross cash outflows	2,914	2,781	1,970	1,904	1,924	1,823	1,874	1,637
Non-oil primary deficit	2,398	2,478	1,774	1,661	1,668	1,553	1,571	1,376
Interest	18	15	16	16	17	19	18	16
Domestic amortization	161	60	0	0	0	0	0	0
External amortization	157	180	142	158	170	217	250	210
Arrears payments	180	47	38	68	68	34	34	34
Deposits abroad	0	0	0	0	0	0	0	0
Other	0	2	0	0	0	0	0	0
Net cash flow 1/	-25	-342	-360	-39	270	272	18	4
Deposits in banking system, end of period	1,324	982	622	583	852	1,124	1,142	1,146
Memorandum items:								
			(Billions of CFA Francs, unless otherwise indicated)					
GDP	6,657	6,689	5,528	6,421	7,848	8,007	7,633	7,265
Overall balance	-120	-520	-564	-131	209	353	102	48
Overall balance, cash	-301	-567	-603	-200	140	318	68	13
Debt	2,542	2,799	3,007	3,103	3,170	3,096	2,993	2,889
Domestic 2/	411	364	326	257	189	154	120	86
External	2,131	2,435	2,682	2,845	2,981	2,942	2,873	2,803
			(Percent of GDP)					
Overall balance	-1.8	-7.8	-10.2	-2.0	2.7	4.4	1.3	0.7
Debt	38.2	41.8	54.4	48.3	40.4	38.7	39.2	39.8
Domestic 2/	6.2	5.4	5.9	4.0	2.4	1.9	1.6	1.2
External	32.0	36.4	48.5	44.3	38.0	36.7	37.6	38.6
Deposits in banking system	19.9	14.7	11.3	9.1	10.9	14.0	15.0	15.8
Total deposits 3/	29.0	28.0	29.1	24.4	23.3	26.1	27.5	28.8

Sources: Congolese authorities; and Fund staff estimates and projections.
1/ Inconsistencies with banking system flows reported in Tables 3 and 4 relate to a float.
2/ Domestic debt consists principally of the stock of arrears.
3/ Government deposits in the regional central bank and abroad.

Table 6. Republic of Congo: Monetary Survey, 2012–15

	2012	2013	2014	2015
				Proj.
Monetary survey		(Billions of CFA francs)		
Net foreign assets	3,097	3,000	2,768	2,294
Central bank	2,676	2,406	2,601	2,101
Deposit money banks	422	594	166	193
Net domestic assets	-794	-682	-145	371
Net domestic credit	-669	-542	24	541
Net credit to the public sector	-1,347	-1,332	-984	-624
Net credit to the Government	-1,349	-1,324	-982	-622
Central bank	-1,357	-1,278	-952	-591
Claims	15	12	360	400
Deposits	-1,372	-1,290	-1,312	-991
Deposit money banks	8	-46	-30	-30
Claims on public agencies, net	11	9	22	23
Credit to the economy	667	780	979	1,142
Other items, net	-125	-139	-169	-170
Broad money	2,303	2,319	2,623	2,664
Currency outside banks	565	623	667	678
Demand deposits	1,485	1,369	1,612	1,638
Time deposits	253	326	343	349
	(Changes in percent of beginning-of-period broad money)			
Net foreign assets	2.2	-4.2	-10.0	-18.1
Net domestic assets	18.9	4.9	23.2	19.6
Net domestic credit	28.6	5.5	24.4	19.7
Net credit to the government	17.4	1.1	14.7	13.7
Credit to the private sector	10.8	4.9	8.6	6.2
	(Annual percent changes, unless otherwise indicated)			
Broad money	21.1	0.7	13.1	1.6
Reserve money	16.3	-13.1	44.6	-1.8
Velocity (non-oil GDP/End of period M2)				
Non-oil GDP/End period M2	1.1	1.2	1.2	1.2
	(Percent)			
Total GDP growth	2.6	-4.6	0.5	-17
Non-oil GDP growth	17.9	13.2	9.1	1.6
Credit to the private sector/Non-oil GDP	27.0	27.9	32.1	36.8

Sources: BEAC; and Fund staff estimates and projections.

Table 7. Republic of Congo: Banking Sector Financial Soundness Indicators, 2012–15

	2012	2013	2014	Feb-2015*
	(Percentage, end of year)			
Capital Adequacy				
Regulatory capital to risk-weighted assets	12.8	11.9	16.1	15.6
Capital to assets	6.6	8.2	4.5	4.2
Asset quality				
Nonperforming loans to total gross loans	1.5	1.2	2.5	2.8
Nonperforming loans (net of provisions) to capital	1.0	0.3	4.7	5.1
Earnings and profitability				
Return on assets	1.6	2.0	1.0	n.a.
Return on equity	27.8	28.4	23.4	n.a.
Liquidity				
Liquid assets/total assets	32.1	25.2	17.1	15.1

Sources: Authorities (COBAC) and Fund staff estimates.

*Latest available observation. Data were extracted in April 2015.

Table 8. Republic of Congo: Millennium Development Goals, 1995–2013

	1995	2000	2009	2011	2012	2013
Goal 1: Eradicate extreme poverty and hunger						
Employment to population ratio, 15+, total (%)	62.6	63.7	65.8	66.0	66.0	66.1
Employment to population ratio, ages 15–24, total (%)	40.4	40.1	40.2	40.0	39.9	39.8
Prevalence of undernourishment (% of population)	44.7	30.1	35.7	35.0	33.0	...
Goal 2: Achieve universal primary education						
Persistence to last grade of primary, total (% of cohort)	...	55.0	70.0	...	...	...
Primary completion rate, total (% of relevant age group)	...	...	69.5	76.1	73.0	...
Goal 3: Promote gender equality and empower women						
Proportion of seats held by women in national parliaments (%)	2.0	12.0	7.3	7.3	7.4	7.4
Ratio of female to male primary enrollment (%)	85.5	92.5	93.3	94.4	107.0	...
Ratio of female to male secondary enrollment (%)	75.0	70.4	...	...	86.7	...
Ratio of female to male tertiary enrollment (%)	...	31.4	21.1	58.4	62.7	...
Goal 4: Reduce child mortality						
Immunization, measles (% of children ages 12–23 months)	38.0	34.0	63.0	75.0	65.0	65.0
Mortality rate, infant (per 1,000 live births)	68.3	76.5	45.1	39.4	37.3	35.6
Mortality rate, under-5 (per 1,000)	107.0	121.0	65.7	55.7	52.0	49.1
Goal 5: Improve maternal health						
Adolescent fertility rate (births per 1,000 women ages 15–19)	132	136	129	127	127	...
Maternal mortality ratio (modeled estimate, per 100,000 live births)	650	610	580	560	...	410
Goal 6: Combat HIV/AIDS, malaria, and other diseases						
Incidence of tuberculosis (per 100,000 people)	239	356	393	383	382	382
Prevalence of HIV, female (% ages 15–24)	3.4	2.5	1.5	1.3	1.3	1.2
Prevalence of HIV, male (% ages 15–24)	1.8	1.4	0.8	0.7	0.7	0.7
Prevalence of HIV, total (% of population ages 15–49)	5.8	5.2	3.1	2.8	2.6	2.5
Tuberculosis case detection rate (all forms)	56.0	83.0	62.0	68.0	68.0	63.0
Goal 7: Ensure environmental sustainability						
CO2 emissions (kg per PPP $ of GDP)	0.2	0.1	0.1	...	...	...
CO2 emissions (metric tons per capita)	0.6	0.3	0.5	...	...	...
Forest area (% of land area)	66.3	66.1	65.7	65.6	65.6	...
Improved sanitation facilities (% of population with access)	...	12.7	14.1	14.4	14.6	...
Improved water source (% of population with access)	...	69.2	73.8	74.8	75.3	...
Marine protected areas (% of total surface area)	0.0	32.8	32.8	...	33.5	...
Terrestrial protected areas (% of total surface area)	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)	10.9	0.6	4.9	1.2	1.2	...
Internet users (per 100 people)	0.0	0.0	4.5	5.6	6.1	6.6
Mobile cellular subscriptions (per 100 people)	0.0	2.2	73.8	91.9	98.8	105.0
Net ODA received per capita (current US$)	45.9	10.2	70.9	61.5	32.0	...
Telephone lines (per 100 people)	0.8	0.7	0.3	0.3	0.3	0.4
Other						
Fertility rate, total (births per woman)	5.2	5.1	5.1	5.1	5.0	...
GNI per capita, Atlas method (current US$)	430	570	1,950	2,200	2,480	2,590
GNI, Atlas method (current US$) (billions)	1.2	1.8	7.8	9.3	10.8	11.5
Gross capital formation (% of GDP)	36.6	22.6	22.5	25.3	26.0	30.9
Life expectancy at birth, total (years)	52.9	52.3	56.6	57.8	58.3	...
Literacy rate, adult total (% of people ages 15 and above)	...	...	...	79.3	...	...
Population, total (millions)	2.7	3.1	4.0	4.2	4.3	4.5
Trade (% of GDP)	128.0	124.0	121.0	145.0	144.0	143.0

Source: World Development Indicators database.

Annex I. Authorities' Implementation of 2014 Policy Recommendations

	2014 Article IV Recommendations	Authorities' Implementation
Fiscal Policy Anchor	· Implement a fiscal anchor based on a reduction of the non-oil primary deficit over time in order to ensure fiscal and debt sustainability and the accumulation of sufficient wealth buffers for the post – hydrocarbon future. · Improve non-oil revenue collection	· The 2014 Supplementary budget deviated from the recommended fiscal consolidation path. The 2015 Budget and 2015 Supplementary budget have put fiscal policy on a consolidation path. However, the authorities have stopped short of adopting a fiscal anchor based on a reduction of the non-oil primary deficit over time. · The tax base for the VAT has been broadened, including the introduction of a tax on mobile telephone operators in 2015.
Public financial Management	· Bolster transparency and strengthen accountability of Public Financial Management in line with regional guidelines. · Improve budget execution and procurement / disbursement processes.	· 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. The draft law awaits ratification by the Council of Ministers. · Progress is being made in discussions with staff on making fiscal reporting more comprehensive by including financing flows from overseas government deposits and off-budget spending
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. · A food security safety net has been implemented · A national institute for professional training related to implementation of social protection programs has been established. · Employment programs to develop skills to meet private sector needs continue. Infrastructure in the education sector has been upgraded. · The pilot program of targeted cash transfers was officially launched in 2014, and implementation continues.
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. Paying taxes has been made easier for companies by reducing the corporate income tax rate and abolishing the tax on the rental value of business premises and on company-owned cars. Minority investor protections have been improved by enhancing company disclosure and transparency requirements. These measures have been reflected in the 2015 World Bank 'Doing Business' survey. However, Congo's business climate remains among the most challenging in the world. · Market depth, financial intermediation and access to finance continue to lag.
Policy Coordination	· Enhance policy coordination and monitoring · Improve data strength and timeliness	· Lack of coordination between government agencies continues to hamper the efficiency and effectiveness of macroeconomic and structural reform policies. · Improving the quality and timeliness of data remains urgent.
Regional Cooperation	· Observance of CEMAC obligations, especially as regards to reserves repatriation and pooling requirements.	· The authorities repatriated a portion of their Chinese deposits in 2014 and in the first few months of 2015.

Annex II. External Sector Assessment

Republic of Congo's real effective exchange rate depreciated slightly in 2014. Commonly-used empirical approaches to assess the level of the exchange rate for an oil-exporting country which take into account that Congo derives around 80 percent of its export revenues from the hydrocarbon sector and also has significant investment needs, suggest that the Republic of Congo's real effective exchange rate (REER) is broadly in line with medium term fundamentals. However, competitiveness concerns remain, as Congo's business climate remains among the most challenging in the world.

1.   **The decline in international oil prices in 2014 was accompanied by a slight depreciation of Congo's real effective exchange rate.** In Congo, the decline in the terms of trade associated with the oil price shock was accompanied by a decline in the real effective exchange rate. This contrasted with a REER appreciation in other CEMAC oil-exporting countries (Figure 1). The REER depreciated by 2.6 percent during 2014 as the nominal effective exchange rate depreciated by 3.5 percent over the same period.

Figure 1.Terms of Trade and Exchange Rate Developments in CEMAC, 2014
(Percentage change)
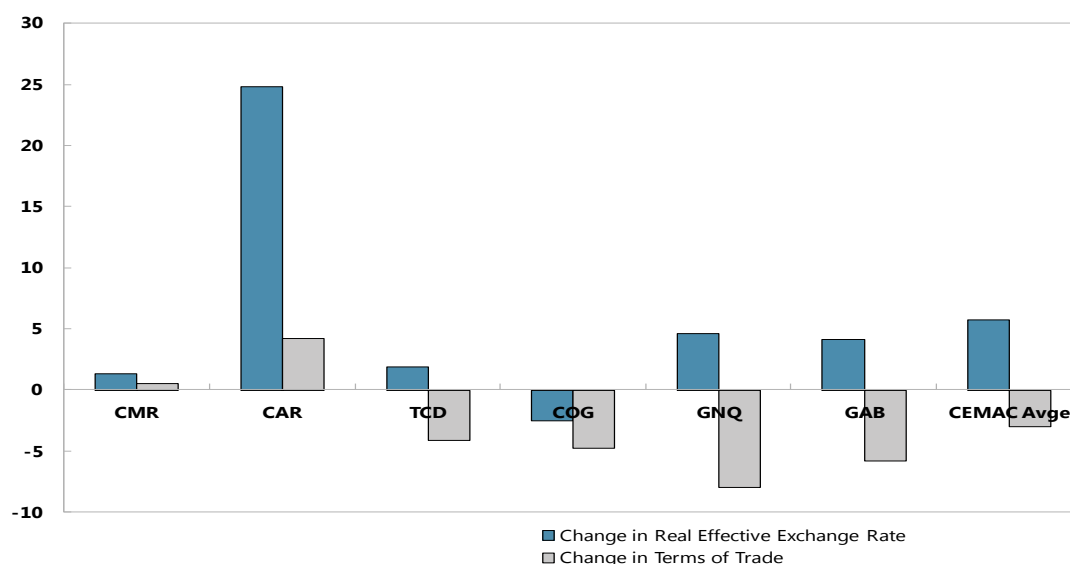
Sources: IMF staff estimates.

Figure 2. Real Effective Exchange Rate and Non – Oil Exports in CEMAC and SSA Frontier Markets
(Index value, percent of GDP)
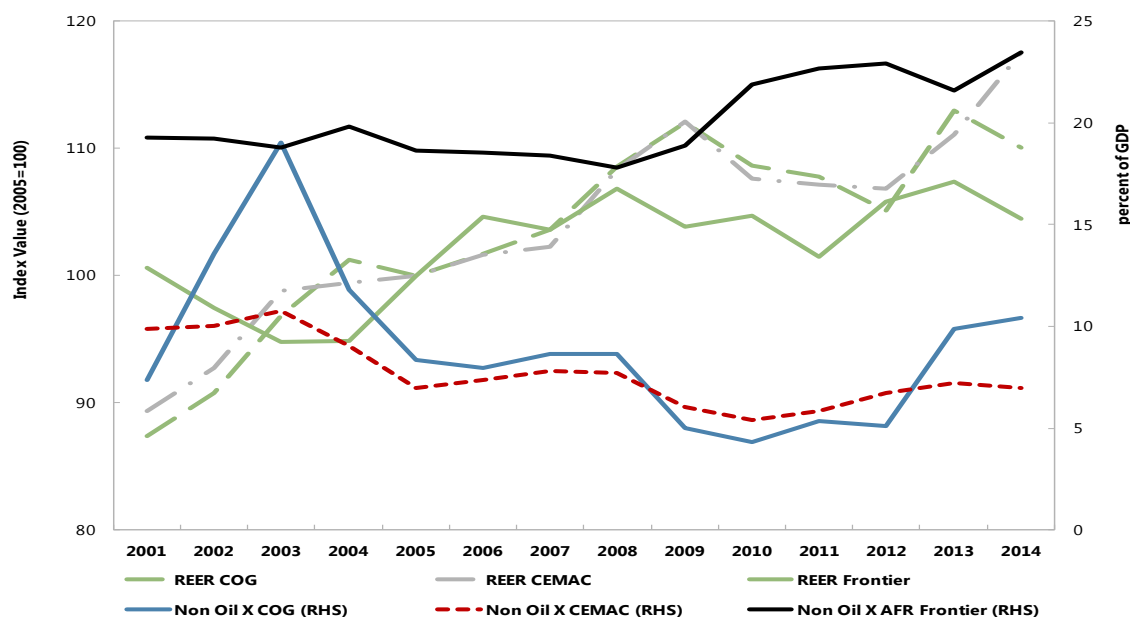
Sources: IMF staff estimates.

2.   **Despite the decline in the real effective exchange rate, the performance of Congo's non–oil exports continues to be weak relative to those of SSA Frontier Markets (Figure 2).** Congo's non–oil exports lifted a little in 2014, and lie above the regional average. However, they still lie well below the SSA Frontier Market average, countries which on average experienced a similar depreciation of their exchange rate in 2014.

3.   **An application of the Araujo et al. (2013) methodology suggests that the exchange rate is broadly in line with medium-term fundamentals (Table 1).** This approach utilizes a dynamic general equilibrium model to calculate the medium-term current account norm. It is based on an inter-temporal optimization problem that takes into account not only consumption smoothing motives, but also the optimal investment needs of a developing country such as Congo. The current account norm estimated by the model takes into account absorptive capacity constraints associated with investment, reflecting the fact that ambitious public and private investment programs in developing countries are often plagued by poor planning and poor coordination which associated to weak oversight contribute to large cost overruns. Results from this methodology suggest that the exchange rate is broadly in equilibrium under cost overrun assumptions of 15 and 30 percent. Higher cost overruns lead to relatively higher investment needs to cover for the larger inefficiencies, which in turn imply a higher current account balance norm.

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

	Year: 2020	Implied Real Exchange Rate Adjustment
	Percent of GDP	CA Elasticity: 0.92
Underlying Current Account	-1.2	
CA norm (Araujo 2013, 15% cost overrun)	0.7	2
CA norm (Araujo 2013, 30% cost overrun)	1.2	3
CA Norm (Constant real annuity - Bems Carvalho Filo 2009)	3	5

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)

4.   **The approach of Bems and Carvalho (2009) does not take into account existing investment needs and shows a slight overvaluation of the real exchange rate of 5 percent in the medium term.** This methodology abstracts from existing investment needs and calculates the path of the current account norm based on inter-temporal allocation rules for oil income flows. The implied paths for the current account are always above the projections for Congo, since the methodology does not take into account the effects of public investment on future productivity growth. Therefore, in the context of Congo's ambitious public investment program, the results of the Araujo et al. (2013) model would be more suitable for assessing potential medium–term real exchange rate misalignments**.**

5.   **While the statistical analysis does not show signs of a significant overvaluation, the stubborn poverty and continuous weak performance of exports in the non–oil economy are indicative of significant competitiveness concerns.** Congo's non–oil current account deficit stood at 29.4 percent of GDP in 2014, in part reflecting considerable obstacles from a challenging competitive business environment, especially in comparison to regional and global peers (Figure 2, main text). Congo ranks 178th out of 189 countries in the World Bank's 2015 'Doing Business' ranking. Congo improved its overall 'Doing Business' ranking by 1 place compared to that of 2014, largely due to the streamlining of procedures to start businesses and improvements in protection for minority investors.

References

Araujo, J., B. Li, M. Poplawski-Ribeiro, and L.F. Zanna, 2013, "Current Account Norms in Natural Resource Rich and Capital Scarce Economies," IMF Working Paper 13/80 (Washington, DC: International Monetary Fund).

Bems, R. and I. Carvalho, 2009, "Exchange Rate Assessments: Methodologies for Oil Exporting Countries," IMF Working Paper 09/281 (Washington, DC: International Monetary Fund).

Figure 3. Current Account Norms and Projections
(Percent of GDP)

Araujo et. al. (2013)
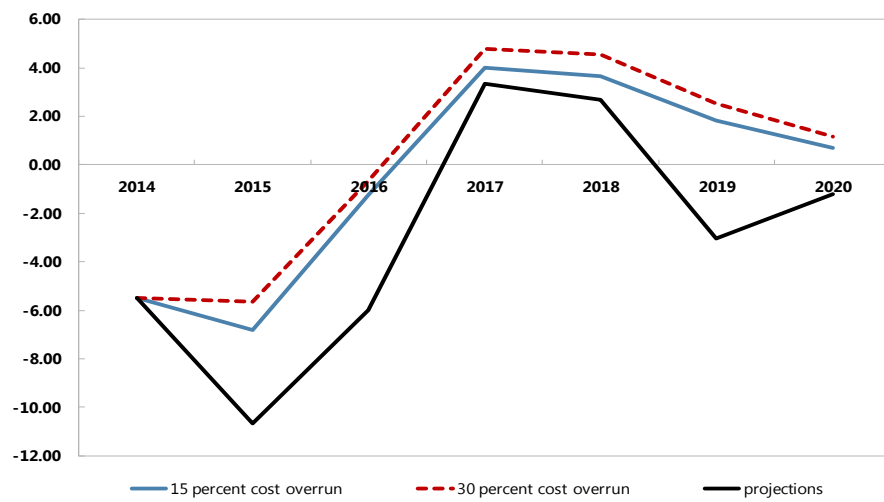
Bems and Carvalho Filo (2009)
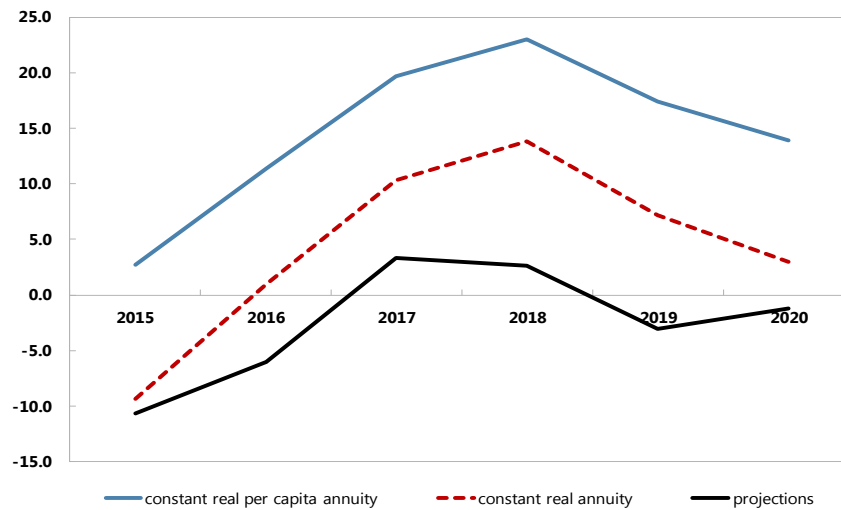
Source: IMF staff estimates.

Annex III. Risk Assessment Matrix[1]

Sources of Risks	Relative Likelihood	Impact if Realized	Recommended Policy Response
Global risks			
Protracted period of slower growth in key advanced economies (AEs) and emerging economies (EMs)	**High for AEs and medium for EMs**	**High** Slower growth could lead to a sustained period of lower oil prices, depressing exports and government revenues. This would make emerging cash constraints more binding and increase risk to fiscal and debt sustainability.	Reduce public expenditures while improving its quality and protecting the poor; improve non-oil tax revenue collection.
Risks to energy prices: • Increased volatility due to uncertainty about the persistence of the oil supply shock and the underlying drivers of the price decline.	**High**	**High** Same as above. In addition, new investments in the oil sector could be held back further thereby affecting long-term oil production plans.	Same as above
• Persistently low prices triggered by supply factors reversing only gradually, and weaker demand	**Medium**		
Sharp growth slowdown and financial risks in China: • Insufficient progress with reforms leads to a continued buildup of vulnerabilities, which over the medium term results in a significant growth slowdown.	**Medium**	**High** Same as above as a sharp growth slowdown and financial risks in China could weigh on international oil prices. FDI from China in the oil and iron ore sectors and concessional lending for development projects from China would also decline, holding back the government's diversification program and growth prospects.	Same as above
• Sharp slowdown in 2015-16. Growth falls significantly below target, possibly due to a severe housing downturn or a shock in the shadow banking sector, and absent offsetting stimulus.	**Low**		
Country-specific risks			
Incoherent fiscal policy adjustment	**Medium**	**High** Insufficient prioritization of government spending, arrears accumulation, and increase of public debt resulting in risk of macroeconomic instability and social and political instability.	Strengthen the quality of government spending, including by implementing a well-targeted cash transfer program, improve fiscal transparency, prevent the build up of spending arrears, and improve the business climate and access to finance.

[1] 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 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 between 30 and 50 percent). 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.

Annex IV. Fiscal Sustainability—The Impact of Lower Oil Prices

The 2014 Article IV consultation recommended the adoption of the Non–Resource Primary Balance (NRPB) as the anchor for a sustainable fiscal policy for the Republic of Congo. A sustainable fiscal policy path for the Republic of Congo would imply a declining path of the Non-Resource Primary Deficit (NRPD). This would permit the authorities to undertake their ambitious investment program, aimed at diversifying the economy, while at the same time building up wealth in preparation for the exhaustion of oil reserves in the medium term. The recent decline in oil prices has however substantially affected the value of Congo's oil endowment, while government spending remained elevated. This annex derives an expenditure path that is consistent with fiscal sustainability at the current lower WEO oil price baseline. Provided that the efficiency of government investment rises substantially, this expenditure path could still be consistent with building a capital stock commensurate with that of emerging market countries. However, Congo's financial buffers in the long run would be negative.

A.   Background

1.   **The 2014 Article IV consultation for the Republic of Congo recommended the adoption of the Non–Resource Primary Deficit (NRPD) as the primary anchor of fiscal policy.** In view of the relatively short remaining lifetime of Congo's oil endowment, targeting a declining path of the NRPD over time would also allow Congo to set out a more realistic timescale for its ambitious public investment program, while at the same stabilizing the country's net financial assets to prepare for the time when oil resources are exhausted.[1]

2.   **In the meantime however, the price of oil has declined sharply and is likely to remain relatively low in the immediate future.** The near halving of international oil prices since October 2014 has caused fiscal oil receipts to plummet, from 82.1 percent of non–oil GDP in 2013 to an estimated 64.7 percent of non–oil GDP in 2014. This oil price decline has also affected the value of Congo's natural resource endowment into the future.

3.   **Despite the squeeze on oil revenues, government expenditures in Congo remain elevated.** The Republic of Congo faces continued spending pressures. Large capital spending commitments, for example those associated with the hosting of the All Africa Games in September 2015, are inelastic. The forthcoming 2016 presidential and 2017 legislative elections are also placing significant pressure on current spending.

4.   **This note examines the implications of the recent oil price decline for fiscal sustainability in the Republic of Congo.** Government expenditures must be put on a sustainable path, while at the same time allowing the authorities to pursue their ambitious infrastructure program aimed at diversifying the economy and preparing for the post– hydrocarbon era. These considerations must however take into account that the value of Congo's oil

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[1] The authorities' projections imply that production will fall from a peak of about 128 million barrels in 2018 to about 12 million barrels in 2034. According to BP Statistical Review of World Energy 2014, the proven reserves to production ratio is 15.6 years.

resources and financial endowment has been substantially reduced by the recent oil price decline (Table 1).

Table 1. Republic of Congo: Medium-Term Fiscal Framework
(Percent of GDP, unless otherwise indicated)

	2014	2015	2020	2025	2030	2034
Revenue and Grants	42.8	40.2	37.9	35.0	32.2	30.3
of which:						
Oil revenue	29.5	22.2	19.8	11.6	3.4	1.9
Non-oil revenue	12.8	17.3	17.7	23.0	28.4	28.2
Total expenditure	50.5	50.2	37.2	34.2	30.6	28.7
Current expenditure	16.5	18.3	16.2	16.9	16.0	13.7
Capital expenditure	24.3	21.0	14.1	17.3	14.6	15.0
Domesticall financed	19.0	13.7	11.0	14.1	11.8	12.3
Foreign financed	5.3	7.3	3.1	3.2	2.8	2.7
Off Budget	9.7	10.9	6.9	n.a	n.a	n.a
Financing	7.8	10.0	-0.7	-0.8	-1.6	-1.7
Of which: External borrowing	4.8	6.8	2.7	2.8	2.5	2.5
Memorandum items:						
(percent of GDP)						
Non-resource primary balance 1/	-37.0	-32.1	-18.9	-10.8	-1.9	-0.2
Net financial assets 2/	-19.6	-30.5	-23.9	-17.8	-10.9	-3.0
Wealth 3/	176.1	194.1	74.1	26.4	-0.2	-1.8
Expenditure	50.5	50.2	37.2	34.2	30.6	28.7
Public capital stock	130.2	153.5	191.6	214.6	209.6	194.0
Gross Debt	41.8	54.4	39.8	37.0	34.3	29.6
Oil price (in US$ per barrel)	96.2	58.9	71.5	78.9	87.1	90.6
Oil production (in million of barrels)	91.4	88.3	97.7	58.0	18.4	12.5
Non-oil GDP (billion CFAF)	3050	3098	4020	5745	8253	10815
GDP (billion CFAF)	6689	5528	7265	7745	8986	11334

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.   The Impact of Lower Oil Prices

5.   The recent decline in oil prices has substantially affected Congo's near term oil receipts (Figure 1). Plummeting oil prices have led to a commensurate decline in projected government oil receipts over 2015–2016. As a percentage of GDP, projected oil receipts in the medium term are currently lower than in the 2014 Article IV consultation, with the exception of the period 2018–2020. Production forecasts for this period have in the meantime been revised upwards significantly, due to the coming on stream of a major new oil field.

6.   The decline in oil receipts is a major factor behind the lower level of total wealth and net financial assets over the forecast horizon. Due largely to the oil shock, Congo starts with an initial lower value of wealth. The decline in oil receipts, combined with the rapid accumulation of external debt over recent years, and large fiscal deficits in 2013 and 2014 also implies that Congo finds itself initially in a net liability position.

7.   Total wealth is drawn down rapidly over time. Total financial wealth is composed of the net financial asset position,[1] plus natural resource wealth in each year. Natural resource wealth is defined as the discounted sum of the stream of future oil revenues.[2] Hence Congo's wealth position is not only affected by the shock to oil revenues, but it is also drawn down rapidly in order to finance an elevated level of expenditures.

8.   As a result, Congo is unable to build up wealth buffers in the long run. Congo begins as a net debtor (negative net financial assets), as the elevated levels of debt exceed assets. Wealth is drawn down over time, associated with continued high government spending and lower future oil revenues. Even as the non-oil primary deficit reduces over time, the legacy of high government expenditures is projected to leave Congo as a long run net debtor, with a net financial asset position in the order of –20.3 percent of GDP in 2034. As future oil revenues dissipate, long run total wealth will be negative.

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[1]The initial net financial asset position at end 2014 is defined as the difference between government deposits at the BEAC and abroad and external and domestic debt. Thereafter, the net financial asset position grows by the factor (1+r/1+g), where g is the nominal growth rate of non-oil GDP and r is the interest rate. This is known as the 'automatic dynamics' of the net financial asset position. The interest rate is fixed at 6.5 percent, while growth varies endogenously according to the macro framework. For 2015 onwards, net financial assets is then the sum of these 'automatic dynamics', plus present year oil revenues, and the non–oil primary balance.

[2] Future oil revenues are discounted by product of the factor (1+g)/r. For example, to discount 2018 oil revenues back to end 2014, multiply oil revenues in 2018 by the product of (1+g)/r for 2015–18.

9.   As a result of elevated expenditures and the drawdown in wealth, Congo is projected to build up a public capital stock well above that of the middle income country average.[3] Assuming a high efficiency of public infrastructure investment expenditures, the fiscal consolidation path permits the accumulation of an unadjusted capital stock in the order of 194 percent of GDP in 2034. This level lies well above the average for middle income countries[4]. The elevated level of the public capital stock comes at the cost of completely eroding Congo's financial buffers, with no wealth reserves left for future generations.

10.   Potential inefficiencies in the public investment process and weak public financial management processes would imply a lower effective level of the public capital stock. The gap between the two estimated capital stocks under different assumptions on investment efficiency highlights the need for Congo to improve their PFM systems, in order to improve the quality of investment expenditures, maximize their return on public investment and the level of the public capital stock.

11.   The decline in natural resource wealth makes it urgent to address both the level and quality of public expenditures. To prevent the rapid drawdown of total financial wealth and the complete erosion of future financial wealth, Congo needs to address the level of public expenditures as a matter of priority. For example, non priority expenditures and expenditures on investment projects with limited value-added in terms of economic development could be cancelled. Furthermore, maximizing the quality of expenditures would help boost the long run level of the capital stock. Swift implementation of reforms to public financial management practices and the enhancement of investment project selection methods are essential for boosting the quality of public investment spending and maximizing the level of Congo's long-run public capital stock.

12.   Preliminary analysis using a 'balance sheet' approach to public sector assets and liabilities highlights importance of increasing the quality of public expenditures in the medium term. The bulk of Congo's net worth is composed of the proven value of oil reserves. A high level of public investment quality would be important to maximize the level of the public capital stock and hence increase growth. This would help shield the public sector balance sheet from downside risks to the oil price outlook, as well as the projected decline in the value of proven oil reserves at present that is implied by current resource extraction rates.[5]

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[3] The public capital stock is calculated using the methodology followed by the literature, e.g. Gupta et al. (2014) and Kamps (2006), as follows. The public capital stock is constructed using the perpetual inventory equation, $K_t = (1 - \delta_t)K_{t-1} + \left(1 - \frac{\delta_t}{2}\right)I_{t-1} * q$, where K_t is the stock of public capital at time t; δ_t is a $time-varying$ depreciation rate; I_{t-1} is public investment spending at time t-1, assuming that new investment is operational in the middle of the period; and q is a time invariant efficiency adjustor. The calculation of the unadjusted public capital stock (which corresponds to a 'high efficiency' of public investment) assumes that this term is equal to 1. The calculation of the 'efficiency adjusted' capital stock assumes that this term is equal to 0.5 (which corresponds to a 'low efficiency' of public investment). The latter calculation takes into account that public investment is unlikely to translate fully into productive capital assets under weak institutional frameworks. Data on public investment and GDP are expressed in constant 2005 prices using investment and GDP deflators respectively.

[4] This elevated projected level of the public capital stock is a preliminary analysis and warrants further investigation.

[5] Proven oil reserves are calculated as the sum of the value of future oil production implied by the authorities' production projections. To derive the value of oil output in any given year, the projected production is multiplied by the Congolese oil export price and converted into CFA Francs.

Figure 1. Republic of Congo: Fiscal Sustainability

Figure 1a. Republic of Congo - Government Oil Revenues
(percent of GDP)

Sources: Congolese Authorities and IMF Staff calculations
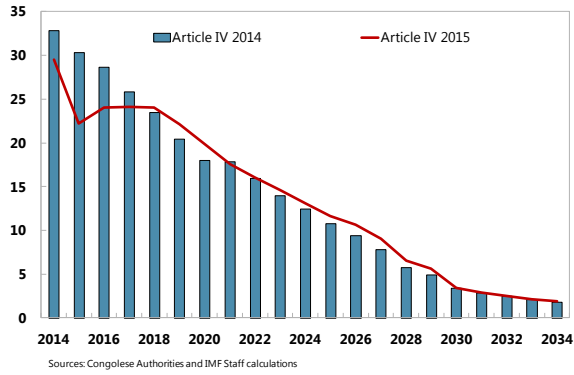
Figure 1b. Republic of Congo - Total Wealth
(percent of GDP)

Sources: Congolese authorities and IMF Staff calculations
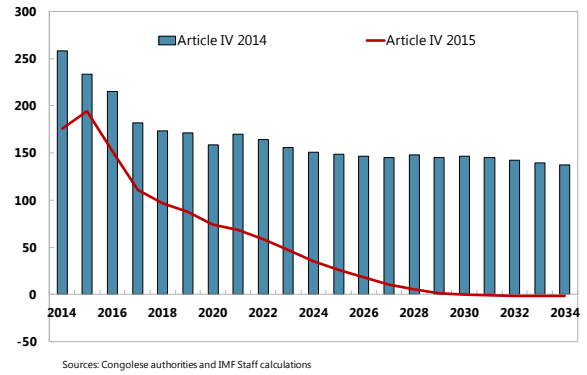
Figure 1c. Republic of Congo - NRPB, Financial Assets and Wealth
(percent of GDP)

Sources: IMF Staff calculations
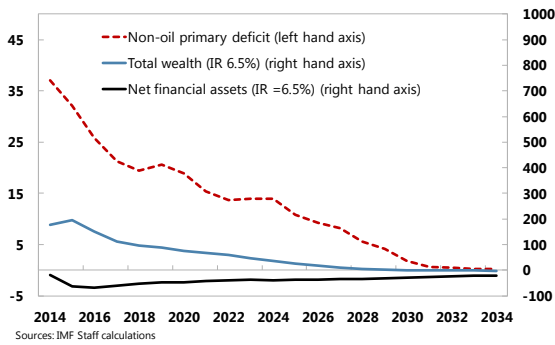
Figure 1d. Republic of Congo - Long Run Capital Stock
(percent of GDP)

Sources: IMF Staff calculations
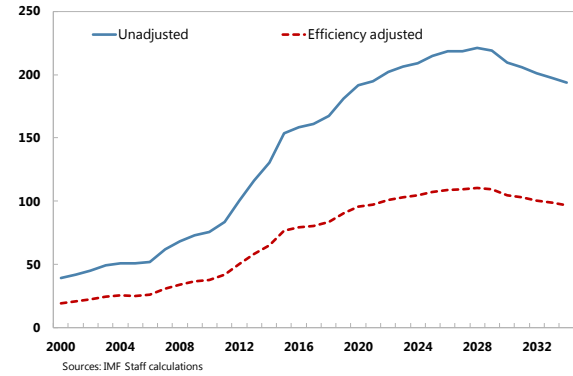
Source: IMF Staff estimates.

Table 2. Republic of Congo: Preliminary Government Balance Sheet

	2013	2014	2015	2016	2017	2018	2019	2020
					Projections			
				(CFA francs, billions)				
Assets	60,740	57,274	54,015	52,174	50,060	46,284	42,545	39,073
Domestic deposits	1,324	981	621	582	851	1,123	1,141	1,145
Foreign deposits	642	562	562	562	562	562	562	562
Oil reserves	50,646	46,644	43,970	40,485	35,630	30,808	26,642	23,072
Public capital stock	7,749	8,708	8,483	10,167	12,639	13,413	13,822	13,915
Loans	379	379	379	379	379	379	379	379
Liabilities	2,542	2,799	3,007	3,103	3,170	3,096	2,993	2,889
Domestic debt /1	411	364	326	257	189	154	120	86
External debt	2,131	2,435	2,682	2,845	2,981	2,942	2,873	2,803
Net worth /2	58,199	54,475	51,007	49,072	46,890	43,188	39,552	36,184
Net worth excluding oil reserves	7,552	7,831	7,037	8,587	11,261	12,380	12,910	13,111
Wealth /3	n.a.	11,780	10,733	9,764	8,731	7,734	6,684	5,381
				(percent of GDP)				
Assets	912	856	977	813	638	578	557	538
Liablities	38	42	54	48	40	39	39	40
Net Worth	874	814	923	764	597	539	518	498
Net worth excluding oil reserves	113	117	127	134	143	155	169	180
Wealth /3	n.a.	176	194	152	111	97	88	74
Memorandum items:								
GDP	6,657	6,689	5,528	6,421	7,848	8,007	7,633	7,265

Sources: Data provided by the authorities; and IMF staff calculations.

/1 Domestic debt consists principally of the stock of arrears.

/2 Net worth is defined as total assets (the sum of domestic and foreign deposits, oil reserves, the public capital stock and bilateral loans) minus total liabilities (the sum of domestic and external debt)

/3 Wealth is defined as the sum of net financial assets and the present discounted value of future oil receipts. In 2014, net financial assets corresponds to the difference between government deposits at the BEAC and abroad and external and domestic debt. See footnote one of the text for further details.

References

Gupta, S., A. Kangur. C. Papageorgiou and A. Wane, 2011, "Efficiency Adjusted Capital and Growth," IMF Working Paper 11/217 (Washington, DC: International Monetary Fund).

Kamps, C., 2006, "New Estimates of Government Net Capital Stocks for 22 OECD countries, 1960–2001," *IMF Staff Papers*, Vol. 53 No. 1, pp. 120-150.

INTERNATIONAL MONETARY FUND

REPUBLIC OF CONGO

**STAFF REPORT FOR THE 2015 ARTICLE IV
CONSULTATION—INFORMATIONAL ANNEX**

July 1, 2015

| Prepared By | The African Department
(in Consultation with other Departments) |

CONTENTS

RELATIONS WITH THE FUND

A.   Financial Relations

(As of June 9, 2015)

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	70.35	88.28

Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
ECF Arrangements	11.24	13.29

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				
	2015	2016	2017	2018	2019
Principal	2.30	2.66	1.69	1.69	1.33
Charges/Interest	0.00	0.01	0.01	0.01	0.01
Total	2.30	2.67	1.70	1.70	1.34

[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
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
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] Assistances 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):

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

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:

The Bank of the Central African States (BEAC) is the regional central bank of the Central African Economic and Monetary Community (CEMAC). As with other regional central banks, the BEAC is subject to a safeguards assessment every four years. The quadrennial assessment in 2013 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." The BEAC also embarked on a reform and modernization plan (RMP) to strengthen controls. The 2013 assessment concluded that despite some progress made by the BEAC in reinforcing its safeguards framework, further actions were needed to fully restore sound governance and control, including through amendments to the BEAC charter and commitment to achieve the RMP. The assessment also recommended maintaining the annual monitoring visits to the BEAC to follow up on progress on implementing the safeguards rolling measures and advancing work on the BEAC's own reform plan in the context of new program requests and reviews to CEMAC countries. Consistent with this close engagement, a safeguards staff visit to the BEAC was conducted in April 2015. Staff concluded that while the BEAC continues the implementation of its reform plan, slippages have occurred and the timeframe of the RMP has been revised. Progress on implementing the safeguards rolling measures has been mixed, and priority recommendations on amendments to the BEAC charter and adoption of an internationally recognized financial reporting framework (IFRS) are delayed. The BEAC has requested IMF technical assistance to advance the implementation of the above recommendations, and steps for the prompt delivery of these actions have been initiated. Strong actions and close coordination with member states to gain consensus will be needed in the period ahead for the BEAC to conclude its reforms and the outstanding safeguards recommendations. Progress on implementation of the latter will remain subject to monitoring by the IMF, as a condition to continuing new program requests and reviews for CEMAC member countries.

B. Nonfinancial Relations

Exchange System:

The de jure and de facto exchange rate arrangement of the Central African Monetary Union (CAMU) is a conventional peg. Congo has accepted the obligations of Article VIII, Sections 2, 3 and 4 and maintains 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:

Consultations with Congo are now on a 12-month cycle, based on the Board decision on Article IV consultation cycles. The last Article IV consultation discussions were held in Brazzaville on May 13 – 26, 2014. The consultation was concluded by the Executive Board on July 21, 2014 when the staff report (Country Report No. 14/272 at www.imf.org) was discussed.

Technical Assistance

Technical Assistance Received 2012–2015			
Subject	**Department**	**Staff Member**	**Date**
National Accounts	AFRITAC	Hubert Gbossa	June 2015
Liability Management	AFRITAC	Helene le Manchec, Chaker Soltani	May 2015
Government Finance Statistics	STA	Vincent Marie	April 2015
Program Budgeting	AFRITAC	Abdoulaye Toure	April 2015
National Accounts	AFRITAC	Francois Ramde	March 2015
Balance of Payments Statistics	STA	Michel Dessart	February 2015
Debt Management	AFRITAC	Chaker Soltani	December 2014
Program Budgeting	AFRITAC	Marie Christine Uguen, Abdoulaye Toure, Christophe Moret	December 2014
Strengthening LTO/MTO Administration	AFRITAC	Anthony Ramarozatovo	November 2014
Program Budgeting	AFRITAC	Abdoulahi Mfombout	August 2014
National Accounts	AFRITAC	Hubert Gbossa	August 2014
Program Budgeting	AFRITAC	Christophe Moret	July 2014 (remotely)
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

WORLD BANK WORLD—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 2015 Article IV consultations; a DSA—full or update—will also be conducted in 2016.

REPUBLIC OF CONGO: IMF AND WORLD BANK JOINT ACTION PLAN		
(As of June 9, 2015)		
Title	**Products**	**Expected Delivery**
Bank work program in next 12 months	2nd Edition Economic Update	September 2015
	Public Expenditure Management and Financial Accountability Review (PEMFAR)	June 2015
	Trade Facilitation and Intervention	June 2015
	Country Program Strategy (CPS) Progress Report	June 2015
	Policy Note on Economic Diversification	December 2016
	Systematic Country Diagnostic	June 2016
	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+)	2015–16
World Bank request to Fund	Macroeconomic updates for project documents	2015–18
Joint products in next 12 months	Debt Sustainability Analysis	July 2015
	Debt Sustainability Analysis	June 2016

STATISTICAL ISSUES

(As of June 9, 2015)

A. Assessment of Data Adequacy for Surveillance
General: Data provision is broadly adequate for surveillance, but there are 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 National Statistics Institute (NSI) 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 NSI completed the national accounts estimates for 2005 (the new base year) and for 2006–08, with the assistance of AFRITAC Central. The authorities are currently working with the AFRITAC Central to revise national accounts' estimates up to 2012. A system of provisional accounts is also being implemented, and will provide estimates for the most recent years. 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. Both the Directorate General of the Economy and NSI produce data on the national accounts outturn for any given year, and coordination between the institutions is weak. Going forward, the NSI will be the sole source of national accounts data.
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. For some functions, indices and price movements are significantly different between the two cities. 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: Although the Ministry of Economy, Finance, Planning, Public Investment, and Integration (MEFPPI) produces GFS data, data is submitted to the IMF statistical department with substantial delays and is limited to budgetary central government above-and-below the line transactions. Debt data are available from Caisse Congolaise d'Amortissement (CCA) sources, but are not integrated in GFS reporting, although provided to Fund missions. The debt data contain significant inconsistencies between the outstanding stock of debt and future debt service payments. Furthermore, fiscal financing transactions are incomplete leading to 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. A more comprehensive financial balance sheet could be produced to fully capture the public sector assets / liability position. 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. Recent technical assistance missions have been

fielded to address issues of timeliness and comprehensiveness. The authorities have expressed an intention to expand GFS reporting to include extra budgetary units, social security funds and local government and improve timeliness. However, significant effort is required to produce comprehensive GFS on a timely basis. 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. However, there are significant inconsistencies between the outstanding stock of debt and future debt service payments. Moreover, 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. There is however a significant time lag in the reporting of these statistics to Fund missions. 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.

Financial sector surveillance: Republic of Congo report to STA all core and some encouraged financial soundness indicators.

Balance of payments: Although BEAC produces balance of payments data; there is substantial delay in data submission to STA. The recent BOP mission of February 2015 tried to address this issue for data posterior to 2007 by assisting the authorities to fill in the required reporting forms for the IMF. The mission also urged the National Committee of the Balance of Payments, in charge of data validation, to validate data for 2011 onwards. The mission has noted that though data sources were reliable, the lack of motivation of respondents undermined the coverage of cross-border financial transactions. Balance of payments data through 2007 are published in the Fund's International Financial Statistics (IFS), and STA is expecting the authorities to update the data series this year. 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 9, 2015)

	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]
Exchange Rates	Current	Current	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	March 2015	June 2015	M	M	M
Reserve/Base Money	March 2015	June 2015	M	M	M
Broad Money	March 2015	June 2015	M	M	M
Central Bank Balance Sheet	March 2015	June 2015	M	M	M
Consolidated Balance Sheet of the Banking System	March 2015	June 2015	M	M	M
Interest Rates[2]	May 2015	May 2015	M	M	M
Consumer Price Index	February 2015	May 2015	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	N/A	N/A	N/A	N/A	N/A
Revenue, Expenditure, Balance and Composition of Financing[3] – Central Government	March 2015	May 2015	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	December 2014	May 2015		Q	Q
External Current Account Balance	December 2014	May 2015	A	A	A
Exports and Imports of Goods and Services	December 2014	May 2015	A	A	A
GDP/GNP	December 2014	May 2014	A	A	A
Gross External Debt	December 2014	March 2015	Q	Q	Q
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 discounts 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. Data not provided by the authorities due to technical capacity constraints.
[5] Including currency and maturity composition.
[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents. Data not provided by the authorities due to technical capacity constraints.
[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 2015 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

Approved By

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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 moderate risk of debt distress. This is a higher risk relative to the analysis prepared in the previous year.[1] It confirms the vulnerability of the Congolese economy to external shocks, in particular to declines in oil prices and external demand, even in a baseline scenario with sustained fiscal adjustment. Under the baseline scenario for the current DSA, the present value of debt-to GDP ratio temporarily breaches the policy-dependent indicative threshold in 2015 and 2016. The other debt burden indicators are projected to remain below the policy-dependent indicative thresholds. Standard stress tests result in multiple breaches of these thresholds. The solitary breach under the baseline, coupled with these stress test breaches would normally give rise to a "high risk of debt distress" classification. However, an analysis based on net debt that takes into account Congo's sizable government deposits at the regional central bank indicates that there are only sustained breaches of the thresholds under the stress tests. On this basis, Congo is classified as at "moderate risk of debt distress". In order to increase the resilience of the Congolese economy, in addition to the fiscal adjustment assumed in the baseline scenario, 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.

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[1] This DSA is based on end–2014 debt data. The 2014 DSA (see IMF Country Report No. 14/272) was based on end–2013 debt data. The fiscal year for the Republic of Congo is January–December.

BACKGROUND

1.   **Congo's stock of external debt has continued its upward trend since the extensive HIPC/MRDI debt relief in 2010.** 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 estimated external debt stock at the end of 2014 amounted to around US$4.9 billion, up from US$2.4 billion in 2010.[2] 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 between 2006 and 2014.[3] Bilateral creditors currently comprise nearly two-thirds of total debt (see Table 1). Domestic public debt is relatively low at around 5.4 percent of GDP at end–2014 and consists mostly of domestic arrears. 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 may not have been rightfully terminated.[4]

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

	2010		2011		2012		2013		2014	
	CFA billion	USD million	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	2,131	4,315	2,435	4,934
Multilateral	227	459	90	191	97	190	95	193	102	207
Bilateral	291	589	957	2,031	1,187	2,325	1,537	3,112	1,740	3,526
of which China	182	369	761	1,615	1,014	1,987	1,401	2,836	1,569	3,180
Private Creditors	685	1,386	520	1,104	508	996	499	1,010	495	1,003
Total debt service	72.6	146.8	65.7	139.3	69.9	137.1	151.9	307.6	176.0	356.7
Interest	15.7	31.8	13.4	28.5	11.9	23.3	18.1	36.7	16.2	32.9
Amortization	56.9	115.0	52.2	110.8	58.1	113.8	133.8	270.9	159.8	323.8
Multilateral	8.2	16.5	7.4	15.6	7.0	13.8	10.4	21.0	6.0	12.1
Bilateral	23.6	47.7	37.5	79.5	47.2	92.5	114.8	232.4	143.2	290.2
Private Creditors	25.1	50.8	7.4	15.6	3.8	7.5	8.7	17.6	10.6	21.5

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

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[2] This figure includes also the external arrears stock of US$683.7 million at end–2014. More than ⅔ are related to commercial creditors, for which legal decisions are pending. No timeline has been provided by the authorities for the resolution of these cases. The rest is owed to bilateral creditors for which the provisions of debt relief under the HIPC Initiative are still under discussion.

[3] The loans from China are denominated in US dollars and obtained on a concessional basis (20 years maturity, 5 years grace period, 0.25 percent interest rate).

[4] The authorities are currently undertaking an audit of domestic arrears. To protect their buffers, the authorities intend to put in place a multi-year repayment plan once the audit is completed. In 2014 and 2015, there may also have been a buildup of domestic arrears because of the tight fiscal situation from the decline in oil prices.

2.   The sustainability of Congo's external debt should be assessed in the context of the country's sizeable financial assets (Table 2). The government gross debt to GDP ratio increased in 2014 reflecting continued borrowing on concessional terms, the terms of trade loss from the sharp decline in oil prices in the second half of 2014 which limited nominal GDP growth, as well as debt valuation changes from the depreciation of the CFAF relative to the dollar. While a substantial amount of buffers were used during 2014, gross reserves at about 45 percent of GDP at end-2014 remain sizable. Moreover, the government's total deposits while lower than in 2013 remain fairly sizeable partly owing to the government drawing on statutory advances to the tune of 5.5 percent of GDP. As a result, total government deposits at end–2014 are equivalent to about 89 percent of the net present value of gross external public debt.

Table 2. Republic of Congo: Assets and Liabilities (Percent of GDP)		
	2013	2014
Gross External Debt 1/	32.0	36.4
NPV of Gross External Debt /1	26.6	26.8
Gross Reserves (including deposits abroad)	47.3	44.7
Government Deposits (including deposits abroad)	29.5	19
Memorandum item:		
Advances taken by the government	0	5.4

Sources: Congolese authorities and IMF staff calculations.

1/ Includes external arrears see footnote 2.

3.   There is a need to strengthen public debt and asset management.[5] The August 2013 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 the 2015 Article IV Consultation. The main assumptions and projections for key macroeconomic variables are summarized in Box 1. Economic activity in the near to medium term is expected to reflect developments in oil production and prices. Oil production is expected to reach peak production of

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

about 128 million barrels in 2018 as new oil fields come on streams, and then moderate in the following years. Oil prices dipped in the second half of 2014 and are projected to stay below 80 dollars per barrel in the medium term. The decline in oil prices is associated with a drop in overall nominal GDP in 2015. Non–oil growth is expected to average 3.2 percent over 2015–20, reflecting developments in forestry, agriculture, commerce and transport/communication sectors, and the delay of mining projects. The authorities are expected to tighten fiscal policy in the near and medium term, scaling back capital expenditures and prioritizing projects once the large outlays associated with the fall 2015 All Africa Games are made. The path of public expenditure is projected to permit the public capital stock to reach a level exceeding that typically observed in middle income countries. Private investment is expected to pick up, attracted by an improved infrastructure base and a friendlier business climate.

5.   Assumptions regarding external borrowing have been largely maintained compared to the macroeconomic framework underpinning last year's DSA (see Table 3). As in last year's DSA, the debt profile reflects not only already committed loans, but also the authorities' medium term borrowing plans taking into account their commitment to fiscal consolidation. New gross external borrowing over the medium term (2015–22) is expected to total around US$3.3 billion. It is assumed that Congo continues to obtain external financing on highly concessional terms, in line with the agreement signed with China in 2012. The degree of concessionality is assumed to lessen after 2025. Compared to previous DSAs, the grant element remains unchanged at about 48 percent reflecting 5 years of grace period, 20 years maturity and low interest rate on loans.

6.   Under the baseline, the current account balance is expected to be negative over 2015–16, but to turn positive in later years. These developments are mainly driven by the lower international oil price, the investments in the oil sector that result in an initial upward trend in imports of goods and services, and developments in oil production. The *Moho Nord* deep offshore field, developed by Total jointly with Chevron and SNPC, is expected to attract around US$10 billion of foreign direct investments over 2013–16. Also the recent discovery by ENI of the Nené–Banga and Litchendjili offshore fields is expected at its peak to further add over 140,000 barrels per day to oil production. These two fields will reach their full production potential in the period 2017–18, when Congolese oil production is expected to peak. Considering the current highly uncertain conditions in the mining sector, the start of mining production is projected to be delayed until after 2021. The commencement of production on large mining projects is dependent upon the removal of significant sector-specific infrastructure bottlenecks in transportation, the financing of which is being hindered by the uncertain outlook for the global market for iron ore. 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. [6]

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

Table 3. Congo, Republic of: Comparison of PPG Gross External Debt, Baseline Scenario
(Percent of GDP, unless otherwise indicated)

	2015	2016	2017	2018	2019	2025	2034
PV of Debt to GDP Ratio							
2015DSA	38.6	34.0	28.1	26.4	26.2	26.0	25.6
2014DSA	25.4	24.3	21.2	20.6	20.6	18.3	13.7
PV of Debt to Exports Ratio							
2015DSA	56.7	43.1	35.8	34.1	35.2	42.0	51.7
2014DSA	33.6	33.1	28.6	28.7	30.3	36.6	35.1
PV of Debt to Government Revenue Ratio							
2015DSA	97.5	84.7	73.7	68.4	68.4	75.1	85.0
2014DSA	57.5	55.9	52.7	52.8	54.7	50.8	43.3
Debt Service to Exports Ratio							
2015DSA	4.3	3.5	3.1	3.9	4.8	2.6	3.4
2014DSA	3.9	3.7	3.3	3.4	3.5	2.5	2.7
Memorandum Items							
New Loan Disbursements (billions FCFA)							
2015DSA	374	300	280	150	180	200	250
2014DSA	300	280	260	240	220	108	141
Grant Element of New External Borrowing (in percentage points)							
2015DSA	48.2	48.2	48.2	48.2	48.2	48.2	28.1
2014DSA	48.7	48.7	48.7	48.7	48.7	48.7	28.1
Basic non-oil primary balance (percent of the non-oil GDP)							
2015DSA	-25.8	-26.0	-25.4	-24.5	-22.8	-10.8	2.3
2014DSA	-44.8	-40.0	-35.3	-30.7	-26.5	-7.8	0.1
Real GDP growth (annual percentage change)							
2015DSA	1.0	6.5	7.0	3.4	-1.6	2.4	4.3
2014DSA	7.5	7.3	9.0	3.5	1.9	3.1	4.7
Current Account Balance (percentage of the GDP)							
2015DSA	-10.4	-5.7	3.6	2.9	-2.8	2.8	7.2
2014DSA	-3.5	-1.4	2.3	1.4	-1.6	-2.0	-1.8

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 3.2 percent per year during 2015–20 driven by agriculture, forestry, commerce and transport/communication sectors; non-oil growth would stabilize at about 5 percent thereafter. The estimated potential of mining in Congo is more than 50 million tons of iron per year. However, given the uncertainties surrounding the mining projects (including sluggish global demand and the associated low prices, and the need for large investment in infrastructure) the baseline projections for mining output are conservative. It is assumed that major mining projects will not commence until 2021, with a small volume of production in that year.

- **Oil production and prices:** Annual oil production is projected at around 92 million barrels in 2015 and expected to peak at 128 million barrels in 2018. Based on official projections, production would steadily decline over 2019–34, to about 13 million barrels in 2034. International oil prices dipped significantly in the latter half of 2014 and are expected to stay depressed throughout 2015, affecting overall nominal GDP in this year. Following projections in the IMF's *World Economic Outlook*, international oil prices are projected to increase from their 2015 low by an average of 5 percent over the period until 2020; thereafter, they are assumed to remain constant in real terms.

- **Inflation:** Annual average inflation decelerated to 0.9 percent in 2014 from 4.6 percent in 2015, largely on the back of lower food prices. 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 in the public sectors. The balance is expected to trend positive as oil production increases up to 2018; the upward trend of the current account balance is expected to be reinforced by declining government imports associated with the expected fiscal consolidation. As oil production declines after the peak in 2018, it is expected that the current account will revert to a small deficit in 2020.

- **Fiscal balance:** With the government already holding back capital expenditures for priority projects in 2015, the baseline projections assume that fiscal consolidation continues in 2016 and continues in the medium- and long-terms. The basic non-oil primary deficit on a cash basis would narrow from about 46 percent of non-oil GDP in 2015 to about 18 percent in 2020 and close to zero in the long run. Staff's projected fiscal outturn implies under implementation of the approved 2015 budget. A supplementary 2015 budget has been approved by the cabinet and is awaiting formal ratification by parliament.

- **External financing:** In the medium term, the authorities are assumed to continue to borrow externally at similarly concessional terms as in the recent past. In 2014, an additional CFAF 313 billion (about US$ 630 million) was disbursed under the terms of the bilateral agreements with China, implying that the funds available under these accords have been fully disbursed. This is assumed to be followed by additional borrowing over the period 2015–22 to the tune of another US$ 3.3 billion from various sources. These disbursements would contribute to address Congo's infrastructure gap. In the long run, external borrowing is expected to decline as a percentage of GDP, with primarily domestic sources ensuring the development of the long run capital stock. The concessionality level is expected to lessen after 2025.

DEBT SUSTAINABILITY ANALYSIS

C.   External DSA

7.   Under the baseline, all Congo's debt indicators, except the PV of debt to GDP ratio, are below the relevant country-specific debt burden thresholds (Figure 1). 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.[7] For 2015–16, the PV of debt to GDP ratio breaches the policy-dependent indicative threshold, mainly reflecting the impact of lower international oil prices on Congo's economy.

8.   Three of the stress tests breach significantly the indicative threshold (Figure 1). 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. For the PV of debt-to-exports ratio and the debt service-to-exports ratio, the most extreme scenario is associated with a shock to exports. [8]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 present value of debt-to-exports ratio to rise by about 170 percentage points at its peak. Similarly, the present value of the debt service-to-exports ratio would rise by 18 percentage points at its peak, in response to the same shock. For the remaining indicators, the most extreme shock is also the exports shock. In response to a half standard deviation shock to exports, the PV of the debt to GDP ratio would rise by about 40 percentage points at its peak and remain above the critical threshold throughout the forecast horizon. For the remaining indicators, the most extreme scenario either implies a temporary slight breach (the present value of debt-to-revenue ratio) or a persistent breach of (the present value of debt service-to-revenue ratio) the respective threshold.

9.   The breach of the policy-dependent PV of the debt to GDP ratio threshold in 2015 and 2016 under the baseline together with multiple breaches of the thresholds under the stress tests would give rise to a downgrade of Congo to a "high risk of debt distress." Under the historical scenario, which derives the debt indicators assuming that key variables are at their 10–year historical averages, the present value of debt to GDP and the present value of debt-to-revenue

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[7] 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.

[8] The vulnerability stems from the very high share of oil in Congo's exports (about 80 percent) and the significant volatility of oil prices and production. The magnitude of the shock is comparable to that of last year's DSA (-11.5 percent, compared with -10 percent in 2014).

ratios decline very rapidly. However, as pointed out in previous DSAs, this scenario is less relevant for resource-rich countries since past trends are likely to be a poor predictor of future outcomes.

10.   A debt sustainability analysis that takes into account Congo's sizable government deposits at the regional central bank would suggest that Congo could be classified as at "moderate risk of debt distress (Figure 3). Here, Congo's significant accumulated deposits at the central bank mitigate the degree of debt distress.[9] They permit the reduction of the present value of Congo's debt obligations, such that the present value of the relevant net debt stock and net debt service ratios remain comfortably below the debt burden thresholds under the baseline. In this analysis, however, there continue to be sustained breaches of the thresholds under the stress tests. A DSA analysis that takes into account Congo's deposits abroad would further support the proposed moderate risk of debt distress rating.

D. Public DSA

11.   Adding domestic public debt to external debt does not change the results of the analysis (see Figures 2 and 4). Congo's domestic public and publicly guaranteed (PPG) debt includes domestic arrears.[10] Under the baseline, the total public debt indicators tend to diminish over time. However, the potential evolution of the public debt ratios carries a warning regarding the present expansionary stance of fiscal policy. Under the alternative 'fix primary balance' scenario, under which the primary balance is unchanged from 2015 onwards, all public debt ratios increase significantly going forward. Regarding the stress tests, the most extreme shock (in this case real GDP growth in 2016–17 set at one standard deviation below its historical average) raises the PV of debt to GDP ratio in the outer years (from 2019) of the projection period, and stabilizes at this level. A permanently lower GDP growth would have a similar, albeit somewhat smaller, effect on the present value of the debt-to-revenue ratio. The accumulation of official foreign reserves, which in the case of Congo is significant due to previous years of high primary surpluses, can be regarded as a buffer against these potential shocks.

AUTHORITIES' VIEW

12.   The Republic of Congo's authorities broadly concurred with the overall assessment of moderate risk of debt distress. They reiterated their commitment to prudent fiscal policy that should help to alleviate their financing needs as well as to preserve the government deposits at the central bank that would provide a buffer against adverse shocks. The authorities also reaffirmed that they do not want to repeat the experience from the beginning of the 2000s, when debt exceeded by

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[9] It is assumed that Congo is able to use its deposits at the central bank (US$2.46 billion at end 2014) to offset future debt service payments on bilateral loans with China.

[10] Although there are indications that domestic arrears may be substantially larger, these do not represent legally verified claims. Therefore, they cannot be included in the DSA. The DSA's standard stress test whereby the debt ratio is raised by 10 percent of GDP can be thought of as illustrating the effect of adding domestic arrears to the stock of domestic debt upon their possible verification.

far the CEMAC convergence criteria. They assured staff of their plans to continue to borrow only on highly concessional terms. Finally, and in light of the ongoing run of lower international oil prices, the authorities' strategy continues to center around economic diversification.

CONCLUSION

13.   In the Staff's view, the Republic of Congo faces a medium-term moderate risk of debt distress. An analysis of net debt that takes into consideration the government's large deposits at the regional central bank finds that all external debt indicators are well below the country-specific indicative thresholds under the baseline scenario but three of these thresholds are breached for a sustained period under the various standard stress tests. In view of the persistent low oil prices and decline in fiscal and external buffers, Congo may resort to external borrowing in the near future. It is therefore important for the government to anchor macroeconomic policies by a stability oriented medium-term fiscal framework that targets a reduction of the non-oil primary fiscal deficit and to maintain gross official reserves above five months of prospective imports of goods and services to support the exchange rate peg and to prepare for the post-oil era. 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.

14.   Improving competitiveness and promoting economic diversification are keys 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 and asset 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. The issuance of government securities would also provide an alternative means of financing but would hinge on the strengthening of institutions and analytical capacities.

Figure 1. Republic of Congo: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios - Gross Debt, 2015–2035 1/

a. Gross Debt Accumulation

b. PV of Gross Debt-to GDP ratio

Rate of Debt Accumulation
Grant-equivalent financing (% of GDP)
Grant element of new borrowing (% right scale)

c. PV of Gross Debt-to-exports ratio

d. PV of Gross Debt-to-revenue ratio

e. Gross Debt service-to-exports ratio

f. Gross Debt service-to-revenue ratio

Baseline
Historical scenario
Most extreme shock 1/
Threshold
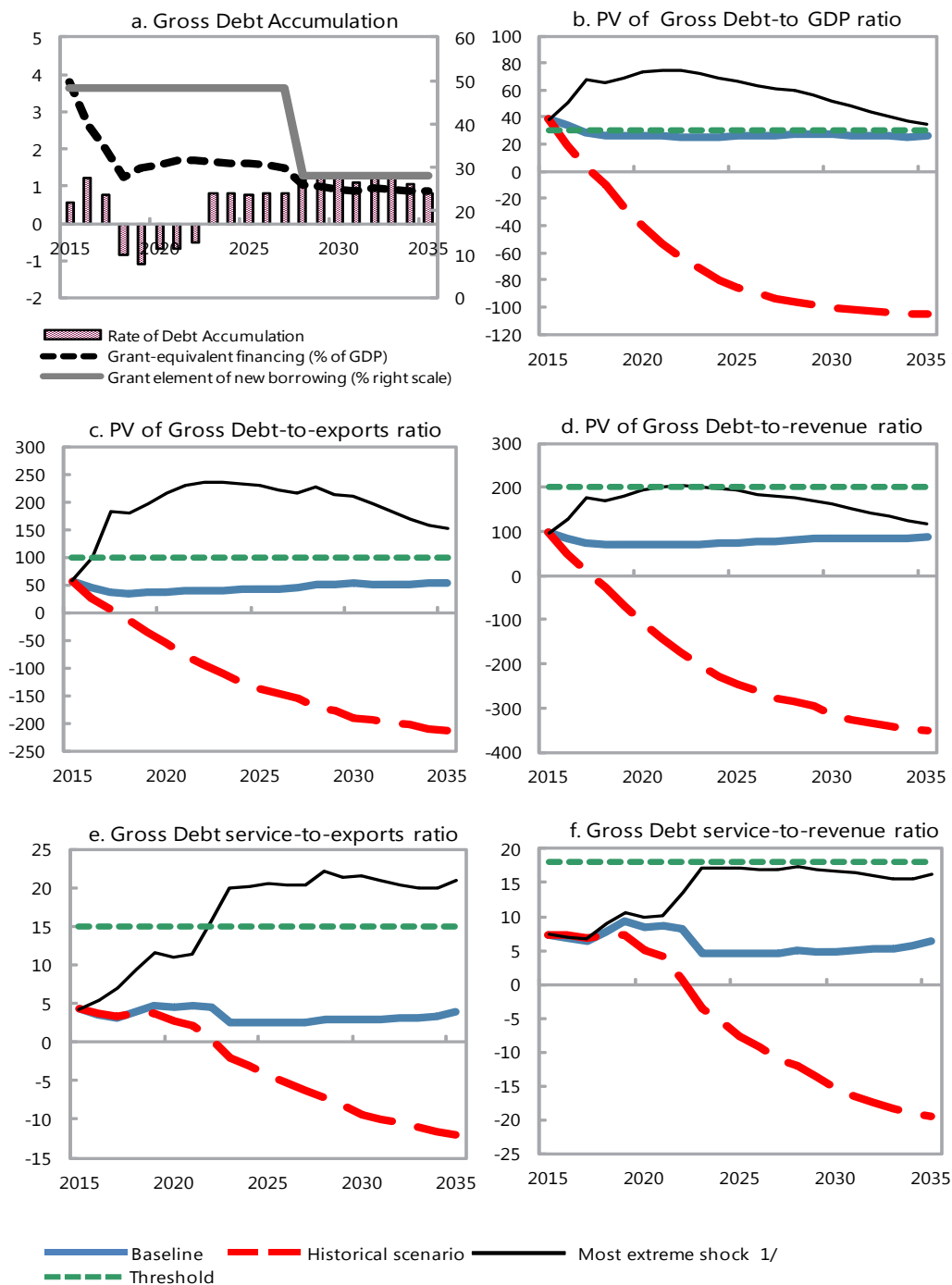
Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2025. 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 2. Republic of Congo: Indicators of Public Debt Under Alternative Scenarios - Gross Debt, 2015–2035 1/
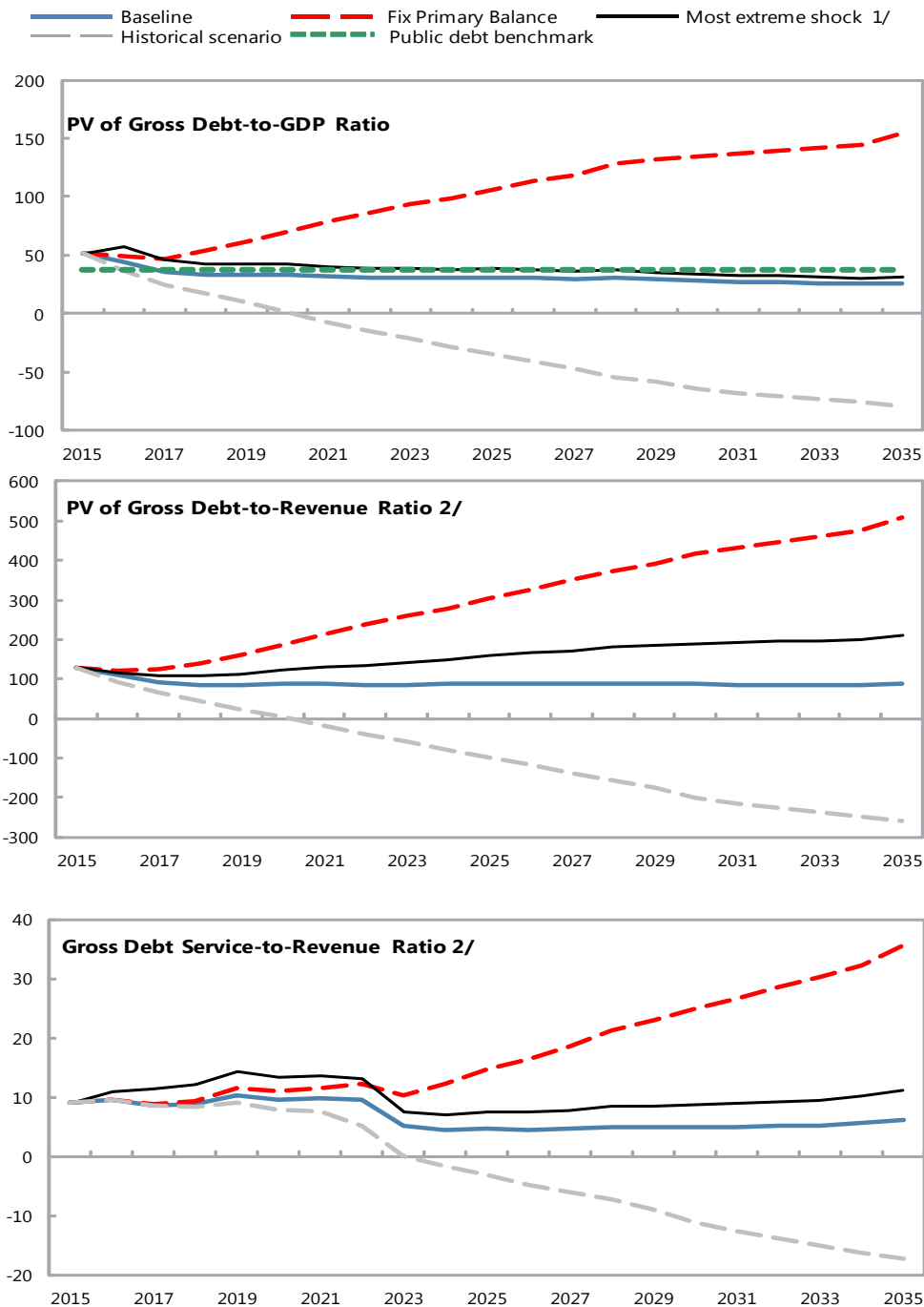
Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2025.

2/ Revenues are defined inclusive of grants.

Figure 3. Republic of Congo: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios - Net Debt, 2015–2035 1/ 2/

a. Net Debt Accumulation

b.PV of net debt-to GDP ratio

Rate of Net Debt Accumulation
Grant-equivalent financing (% of GDP)
Grant element of new borrowing (% right scale)

c.PV of net debt-to-exports ratio

d.PV of net debt-to-revenue ratio

e.Net Debt service-to-exports ratio

f.Net Debt service-to-revenue ratio

Baseline   Historical scenario   Most extreme shock 1/
Threshold
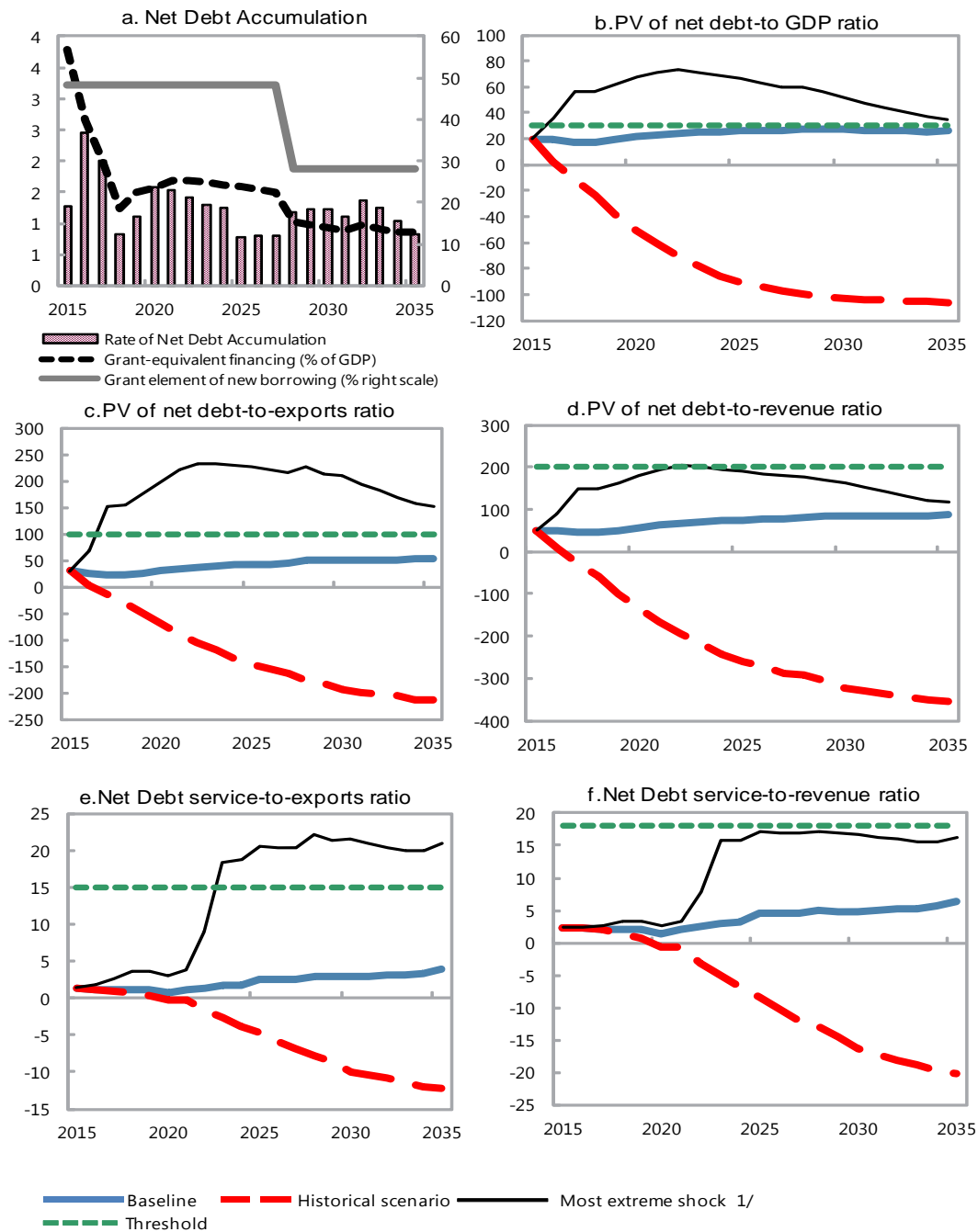
Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2025. 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.
2/ Net debt is calculated by subtracting USD 2.46 billion of government deposits held at the regional central bank from future debt service payments.

Figure 4. Republic of Congo: Indicators of Public Debt Under Alternative Scenarios - Net Debt, 2015–2035 1/ /2
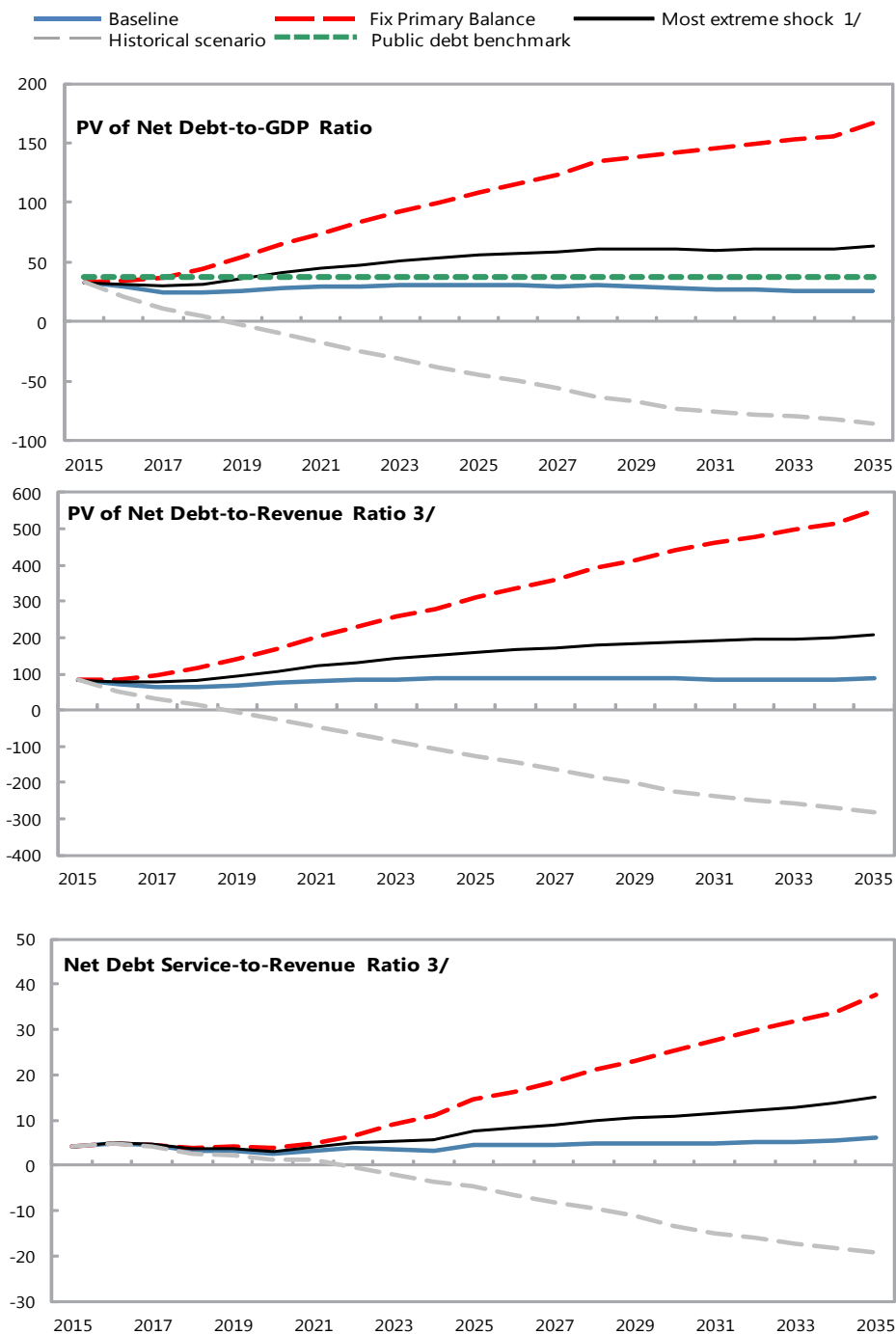
Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2025.
2/ Net debt is calculated by subtracting USD 2.46 billion of government deposits held at the regional central bank from future debt service payments.

3/ Revenues are defined inclusive of grants

Table 4. Republic of Congo: External Debt Sustainability Framework, Baseline Scenario – Gross Debt, 2012–35
(Percent of GDP, unless otherwise indicated)

	Actual			Historical 6/ Average	Standard 6/ Deviation	Projections						2015-2020 Average							2021-2035 Average
	2012	2013	2014			2015	2016	2017	2018	2019	2020		2021	2022	2023	2024	2025	2035	
External debt (nominal) 1/	**25.7**	**32.0**	**36.4**			**51.5**	**46.1**	**38.7**	**36.7**	**37.2**	**38.1**		**38.0**	**37.7**	**38.4**	**38.6**	**39.2**	**34.1**	
of which: public and publicly guaranteed (PPG)	25.7	32.0	36.4			51.5	46.1	38.7	36.7	37.2	38.1		38.0	37.7	38.4	38.6	39.2	34.1	
Change in external debt	2.2	6.3	4.4			15.1	-5.4	-7.4	-2.0	0.4	0.9		-0.1	-0.2	0.7	0.2	0.6	0.6	
Identified net debt-creating flows	-12.7	-13.9	-14.3			9.1	0.3	-3.5	-1.5	6.2	2.9		0.5	0.7	0.6	2.0	-1.4	-0.2	
Non-interest current account deficit	**2.2**	**4.2**	**5.3**	**0.3**	**6.6**	**10.4**	**5.7**	**-3.6**	**-2.9**	**2.8**	**0.9**		**0.4**	**0.7**	**-2.5**	**-2.1**	**-2.8**	**-7.3**	**-3.8**
Deficit in balance of goods and services	-24.2	-16.2	-12.6			-5.3	-16.3	-26.1	-24.2	-17.0	-17.4		-16.4	-15.0	-17.2	-15.5	-15.0	-11.8	
Exports	78.5	75.8	73.3			68.2	79.0	78.6	77.5	74.5	71.8		68.6	66.9	65.1	63.2	62.0	49.5	
Imports	54.3	59.6	60.7			62.9	62.6	52.5	53.3	57.5	54.5		52.2	51.8	48.0	47.7	47.0	37.8	
Net current transfers (negative = inflow)	2.8	2.9	3.0	2.0	1.1	4.6	4.1	3.5	3.2	3.4	3.7		3.8	3.8	3.9	3.8	3.8	2.9	3.5
of which: official	-0.1	-0.3	-0.4			-0.4	-0.3	-0.2	-0.3	-0.3	-0.3		-0.3	-0.3	-0.3	-0.3	-0.3	-0.2	
Other current account flows (negative = net inflow)	23.6	17.6	14.9			11.0	17.9	19.1	18.1	16.3	14.6		13.0	12.0	10.8	9.5	8.4	1.6	
Net FDI (negative = inflow)	**-16.4**	**-18.7**	**-19.6**	**-21.1**	**3.1**	**-1.1**	**-2.8**	**2.5**	**2.5**	**2.6**	**1.7**		**0.8**	**0.4**	**4.0**	**5.3**	**2.1**	**6.8**	**3.7**
Endogenous debt dynamics 2/	**1.5**	**0.6**	**0.0**			**-0.2**	**-2.6**	**-2.4**	**-1.0**	**0.9**	**0.2**		**-0.7**	**-0.4**	**-0.8**	**-1.2**	**-0.7**	**0.3**	
Contribution from nominal interest rate	0.2	0.2	0.2			0.3	0.3	0.2	0.3	0.3	0.3		0.3	0.2	0.2	0.2	0.2	0.3	
Contribution from real GDP growth	-0.9	-0.9	-2.2			-0.5	-2.9	-2.6	-1.3	0.6	-0.1		-1.0	-0.7	-1.0	-1.4	-0.9	0.0	
Contribution from price and exchange rate changes	2.2	1.2	2.0			...	...	...	...	...	...		...	...	...	...	...	...	
Residual (3-4) 3/	14.9	20.2	18.7			6.0	-5.6	-3.9	-0.5	-5.8	-1.9		-0.6	-0.9	0.0	-1.8	2.0	0.8	
of which: exceptional financing	0.4	-0.5	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0	
PV of external debt 4/	...	...	28.3			38.6	34.0	28.1	26.4	26.2	26.5		25.8	25.1	25.5	25.6	26.0	26.4	
In percent of exports	...	...	38.6			56.7	43.1	35.8	34.1	35.2	36.8		37.6	37.6	39.1	40.5	42.0	53.3	
PV of PPG external debt	**...**	**...**	**28.3**			**38.6**	**34.0**	**28.1**	**26.4**	**26.2**	**26.5**		**25.8**	**25.1**	**25.5**	**25.6**	**26.0**	**26.4**	
In percent of exports	...	...	38.6			56.7	43.1	35.8	34.1	35.2	36.8		37.6	37.6	39.1	40.5	42.0	53.3	
In percent of government revenues	...	...	66.9			97.5	84.7	73.7	68.4	68.4	70.4		70.3	69.7	71.5	72.9	75.1	87.8	
Debt service-to-exports ratio (in percent)	**0.2**	**0.3**	**0.3**			**4.3**	**3.5**	**3.1**	**3.9**	**4.8**	**4.4**		**4.6**	**4.4**	**2.4**	**2.5**	**2.6**	**3.8**	
PPG debt service-to-exports ratio (in percent)	**0.2**	**0.3**	**0.3**			**4.3**	**3.5**	**3.1**	**3.9**	**4.8**	**4.4**		**4.6**	**4.4**	**2.4**	**2.5**	**2.6**	**3.8**	
PPG debt service-to-revenue ratio (in percent)	**0.4**	**0.5**	**0.5**			**7.4**	**6.9**	**6.4**	**7.7**	**9.3**	**8.5**		**8.7**	**8.2**	**4.5**	**4.4**	**4.6**	**6.3**	
Total gross financing need (Billions of U.S. dollars)	-1.9	-1.9	-1.9			1.1	0.6	0.2	0.4	1.2	0.0		0.6	0.5	0.4	0.7	0.1	0.3	
Non-interest current account deficit that stabilizes debt ratio	0.0	-2.1	0.9			-4.7	11.1	3.8	-1.0	2.3	0.0		0.5	1.0	-3.2	-2.4	-3.4	-7.8	
Key macroeconomic assumptions																			
Real GDP growth (in percent)	3.8	3.3	6.8	5.2	3.0	1.0	6.5	7.0	3.4	-1.6	0.3	2.8	2.5	1.8	2.8	3.7	2.4	0.0	3.2
GDP deflator in US dollar terms (change in percent)	-8.7	-4.6	-5.9	7.3	17.7	-31.3	9.6	15.6	-0.2	-2.0	-3.6	-2.0	-2.5	-1.1	-1.0	-1.0	-1.0	0.0	-0.2
Effective interest rate (percent) 5/	0.8	0.9	0.7	2.3	1.5	0.6	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.6	0.6	0.5	0.5	0.8	0.5
Growth of exports of G&S (US dollar terms, in percent)	-8.6	-4.8	-2.7	13.9	25.3	-35.5	35.2	23.2	1.8	-7.4	-6.8	1.7	-4.6	-1.9	-0.9	-0.3	-0.6	0.0	0.5
Growth of imports of G&S (US dollar terms, in percent)	-7.4	8.0	2.5	15.7	19.4	-28.1	16.2	3.7	4.9	3.9	-8.4	-1.3	-4.3	-0.1	-5.8	2.1	-0.2	0.0	0.6
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	48.2	48.2	48.2	48.2	48.2	48.2	48.2	48.2	48.2	48.2	48.2	48.2	28.1	37.5
Government revenues (excluding grants, in percent of GDP)	42.5	46.5	42.3			39.6	40.2	38.1	38.6	38.4	37.6		36.7	36.0	35.6	35.2	34.6	30.1	33.2
Aid flows (in Billions of US dollars) 7/	0.0	0.1	0.1			0.7	0.6	0.5	0.3	0.4	0.4		0.4	0.4	0.4	0.4	0.4	0.0	
of which: Grants	0.0	0.1	0.1			0.1	0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0	
of which: Concessional loans	0.0	0.0	0.0			0.6	0.5	0.5	0.3	0.3	0.3		0.4	0.4	0.4	0.4	0.4	0.0	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			3.8	2.7	2.0	1.2	1.5	1.4		1.7	1.7	1.7	1.6	1.6	0.9	1.2
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			52.0	52.4	52.4	56.2	55.1	55.0		54.3	54.3	54.4	54.4	54.4	35.1	44.5
Memorandum items:																			
Nominal GDP (Billions of US dollars)	13.7	13.5	13.6			9.4	11.0	13.6	14.0	13.5	13.1		13.0	13.1	13.4	13.7	13.9	20.4	
Nominal dollar GDP growth	-5.2	-1.5	0.6			-30.6	16.7	23.7	3.2	-3.6	-3.4	1.0	-0.1	0.7	1.7	2.7	1.4	0.0	3.0
PV of PPG external debt (in Billions of US dollars)			3.6			3.6	3.8	3.8	3.7	3.6	3.5		3.4	3.3	3.4	3.5	3.6	5.4	
(PVt-PVt-1)/GDPt-1 (in percent)						0.6	1.2	0.8	-0.9	-1.1	-0.7	0.0	-0.7	-0.5	0.8	0.8	0.8	0.8	0.8
Gross workers' remittances (Billions of US dollars)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0	
PV of PPG external debt (in percent of GDP + remittances)	...	...	28.3			38.6	34.0	28.1	26.4	26.2	26.5		25.8	25.1	25.5	25.6	26.0	26.4	
PV of PPG external debt (in percent of exports + remittances)	...	...	38.6			56.7	43.1	35.8	34.1	35.2	36.8		37.6	37.6	39.1	40.5	42.0	53.3	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	0.3			4.3	3.5	3.1	3.9	4.8	4.4		4.6	4.4	2.4	2.5	2.6	3.8	

Sources: Country authorities; and staff estimates and projections.

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

Table 5. Republic of Congo: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, Baseline Scenario – Gross Debt, 2015–35

(In percent)

						Projections		
	2015	2016	2017	2018	2019	2020	**2025**	2035
PV of debt-to GDP ratio								
Baseline	39	34	28	26	26	26	**26**	26
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	39	21	7	-8	-25	-39	**-79**	-93
A2. New public sector loans on less favorable terms in 2015-2035 2/	39	35	30	29	29	30	**33**	38
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	39	36	31	29	29	29	**29**	29
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	39	51	67	66	69	73	**67**	35
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	39	42	45	42	42	42	**41**	42
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	39	24	8	6	4	2	**5**	22
B5. Combination of B1-B4 using one-half standard deviation shocks	39	42	52	50	51	52	**50**	40
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	39	47	39	37	36	37	**36**	37
PV of debt-to-exports ratio								
Baseline	57	43	36	34	35	37	**42**	53
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	57	27	9	-10	-34	-54	**-128**	-188
A2. New public sector loans on less favorable terms in 2015-2035 2/	57	45	38	37	39	42	**53**	76
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	57	43	36	34	35	37	**42**	54
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	57	98	181	181	197	215	**228**	152
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	57	43	36	34	35	37	**42**	54
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	57	31	10	7	5	3	**8**	44
B5. Combination of B1-B4 using one-half standard deviation shocks	57	62	77	75	79	85	**94**	94
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	57	43	36	34	35	37	**42**	54
PV of debt-to-revenue ratio								
Baseline	98	85	74	68	68	70	**75**	88
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	98	52	18	-21	-66	-104	**-229**	-309
A2. New public sector loans on less favorable terms in 2015-2035 2/	98	88	78	74	76	80	**95**	125
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	98	89	81	75	75	78	**83**	97
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	98	126	176	171	180	194	**192**	117
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	98	104	117	109	109	112	**120**	140
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	98	61	20	14	9	5	**14**	73
B5. Combination of B1-B4 using one-half standard deviation shocks	98	104	136	129	132	139	**144**	133
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	98	117	102	95	95	98	**104**	122

Table 5. Republic of Congo: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, Baseline Scenario – Gross Debt, 2015–35 *(continued)*

(Percent)

Debt service-to-exports ratio

Baseline	4	4	3	4	5	4	**3**	4
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	4	4	3	4	4	3	**-4**	-11
A2. New public sector loans on less favorable terms in 2015-2035 2/	4	4	3	4	5	5	**3**	6
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	4	4	3	4	5	4	**3**	4
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	4	5	7	9	12	11	**20**	21
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	4	4	3	4	5	4	**3**	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	4	4	3	4	4	4	**-1**	1
B5. Combination of B1-B4 using one-half standard deviation shocks	4	5	5	7	8	7	**7**	9
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	4	4	3	4	5	4	**3**	4

Debt service-to-revenue ratio

Baseline	7	7	6	8	9	8	**5**	6
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	7	7	7	7	7	5	**-7**	-18
A2. New public sector loans on less favorable terms in 2015-2035 2/	7	7	7	8	10	9	**6**	9
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	7	7	7	8	10	9	**5**	7
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	7	7	7	9	11	10	**17**	16
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	7	8	10	12	15	13	**7**	10
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	7	7	6	7	9	8	**-2**	1
B5. Combination of B1-B4 using one-half standard deviation shocks	7	8	9	11	13	12	**11**	12
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	7	10	9	11	13	12	**6**	9
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	40	40	40	40	40	40	**40**	40

Sources: Country authorities; and staff estimates and projections.

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

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

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

4/ Includes official and private transfers and FDI.

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

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

Table 6. Republic of Congo: Public Sector Debt Sustainability Framework, Baseline Scenario – Gross Debt, 2012–35

(Percent of GDP, unless otherwise indicated)

	Actual			Average 5/	Standard Deviation 5/	Estimate	Projections					2015-20 Average			2021-35 Average
	2012	2013	2014			2015	2016	2017	2018	2019	2020		2025	2035	
Public sector debt 1/	34.1	38.2	47.1			64.5	56.2	46.1	43.6	43.9	44.7		44.3	34.1	
of which: foreign-currency denominated	25.7	32.0	36.4			51.5	46.1	38.7	36.7	37.2	38.1		39.2	34.1	
Change in public sector debt	1.1	4.0	8.9			17.4	-8.2	-10.1	-2.6	0.3	0.8		0.5	0.6	
Identified debt-creating flows	-6.0	4.8	12.1			24.4	-7.4	-13.4	-5.8	0.2	0.9		-1.4	-1.7	
Primary deficit	-6.6	1.5	7.5	-11.6	10.6	9.7	1.7	-3.0	-4.7	-1.7	-1.0	0.2	-1.0	-1.9	-1.6
Revenue and grants	42.6	46.9	42.8			40.2	40.6	38.5	39.0	38.7	37.9		35.0	30.3	
of which: grants	0.1	0.4	0.5			0.5	0.4	0.3	0.3	0.4	0.4		0.3	0.2	
Primary (noninterest) expenditure	36.0	48.4	50.3			49.9	42.3	35.5	34.2	37.0	36.9		34.0	28.4	
Automatic debt dynamics	-0.5	0.8	3.6			14.7	-9.1	-10.4	-1.1	1.9	1.9		-0.4	0.3	
Contribution from interest rate/growth differential	-1.3	-0.5	-2.3			1.8	-5.4	-5.4	-2.0	0.5	-0.2		-1.5	0.3	
of which: contribution from average real interest rate	-0.1	0.6	0.1			2.3	-1.4	-1.8	-0.4	-0.2	-0.1		-0.5	0.3	
of which: contribution from real GDP growth	-1.2	-1.1	-2.4			-0.5	-3.9	-3.7	-1.5	0.7	-0.1		-1.0	0.0	
Contribution from real exchange rate depreciation	0.8	1.3	5.9			12.9	-3.7	-5.0	0.9	1.4	2.1		...	...	
Other identified debt-creating flows	1.1	2.5	1.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	1.1	2.5	1.0			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	7.1	-0.8	-3.2			-7.1	-0.8	3.3	3.3	0.1	-0.1		1.9	2.2	
Other Sustainability Indicators															
PV of public sector debt	...	...	39.0			51.7	44.2	35.5	33.3	33.0	33.1		31.1	26.4	
of which: foreign-currency denominated	...	...	28.3			38.6	34.0	28.1	26.4	26.2	26.5		26.0	26.4	
of which: external	...	...	28.3			38.6	34.0	28.1	26.4	26.2	26.5		26.0	26.4	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	-5.5	4.5	8.5			19.7	11.7	5.3	3.6	7.5	8.1		5.7	0.0	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	91.2			128.6	108.8	92.4	85.4	85.2	87.1		88.9	87.1	
PV of public sector debt-to-revenue ratio (in percent)	...	...	92.2			130.4	109.9	93.2	86.2	86.0	88.0		89.8	87.8	
of which: external 3/	...	...	66.9			97.5	84.7	73.7	68.4	68.4	70.4		75.1	87.8	
Debt service-to-revenue and grants ratio (in percent) 4/	2.6	6.4	2.2			9.0	9.5	8.6	8.8	10.4	9.6		4.6	6.2	
Debt service-to-revenue ratio (in percent) 4/	2.6	6.4	2.2			9.1	9.6	8.7	8.9	10.5	9.7		4.6	6.3	
Primary deficit that stabilizes the debt-to-GDP ratio	-7.7	-2.5	-1.4			-7.7	9.9	7.1	-2.2	-2.0	-1.8		-1.5	-2.5	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	3.8	3.3	6.8	5.2	3.0	1.0	6.5	7.0	3.4	-1.6	0.3	2.8	2.4	0.0	3.2
Average nominal interest rate on forex debt (in percent)	0.8	0.9	0.7	2.3	1.5	0.6	0.6	0.7	0.7	0.7	0.7	0.7	0.5	0.8	0.5
Average real interest rate on domestic debt (in percent)	...	8.8	...	-2.3	11.7	...	...	...	...	...	...	...	...	...	...
Real exchange rate depreciation (in percent, + indicates depreciation)	3.5	5.2	20.0	-1.4	13.3	36.0	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	-1.2	-7.7	-6.0	6.2	15.3	-18.2	9.0	14.2	-1.4	-3.1	-5.1	-0.7	-1.0	0.0	-0.2
Growth of real primary spending (deflated by GDP deflator, in percent)	44.2	39.0	11.0	9.5	17.3	0.2	-9.8	-10.2	-0.2	6.5	0.0	-2.3	-3.8	-0.1	1.4
Grant element of new external borrowing (in percent)	...	...	...	...	...	48.2	48.2	48.2	48.2	48.2	48.2	48.2	48.2	28.1	...

Sources: Country authorities; and staff estimates and projections.

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

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

3/ Revenues excluding grants.

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

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

Table 7. Republic of Congo: Sensitivity Analysis for Key Indicators of Public Debt – Gross Debt, Baseline Scenario 2015–35

				Projections				
	2015	2016	2017	2018	2019	2020	2025	2035
PV of Debt-to-GDP Ratio								
Baseline	52	44	36	33	33	33	31	26
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	52	37	25	18	9	1	-35	-79
A2. Primary balance is unchanged from 2015	52	49	47	54	62	71	107	154
A3. Permanently lower GDP growth 1/	52	45	36	35	35	37	42	58
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-2017	52	47	42	42	44	47	56	64
B2. Primary balance is at historical average minus one standard deviations in 2016-2017	52	43	35	33	33	33	31	26
B3. Combination of B1-B2 using one half standard deviation shocks	52	41	32	31	31	32	37	43
B4. One-time 30 percent real depreciation in 2016	52	58	46	43	42	42	38	32
B5. 10 percent of GDP increase in other debt-creating flows in 2016	52	50	41	38	38	39	37	31
PV of Debt-to-Revenue Ratio 2/								
Baseline	129	109	92	85	85	87	89	87
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	129	91	64	46	24	2	-100	-261
A2. Primary balance is unchanged from 2015	129	121	123	138	160	186	305	508
A3. Permanently lower GDP growth 1/	129	110	95	89	91	96	120	190
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-2017	129	116	109	107	113	123	159	210
B2. Primary balance is at historical average minus one standard deviations in 2016-2017	129	105	92	85	85	86	88	87
B3. Combination of B1-B2 using one half standard deviation shocks	129	100	82	78	81	85	107	143
B4. One-time 30 percent real depreciation in 2016	129	142	119	110	109	111	109	104
B5. 10 percent of GDP increase in other debt-creating flows in 2016	129	124	106	98	99	103	106	102
Debt Service-to-Revenue Ratio 2/								
Baseline	9	9	9	9	10	10	5	6
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	9	10	9	8	9	8	-3	-17
A2. Primary balance is unchanged from 2015	9	9	9	9	11	11	15	36
A3. Permanently lower GDP growth 1/	9	10	9	9	11	10	6	12
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-2017	9	10	9	10	12	11	8	15
B2. Primary balance is at historical average minus one standard deviations in 2016-2017	9	9	9	9	10	10	5	6
B3. Combination of B1-B2 using one half standard deviation shocks	9	10	9	9	11	10	4	9
B4. One-time 30 percent real depreciation in 2016	9	11	11	12	14	13	7	11
B5. 10 percent of GDP increase in other debt-creating flows in 2016	9	9	9	9	11	10	6	8

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