June 2007
IMF Country Report No. 07/205

Republic of Congo: 2007 Article IV Consultation—Staff Report; Staff Statement; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for the Republic of Congo

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2007 Article IV consultation with the Republic of Congo, the following documents have been released and are included in this package:

- the staff report for the 2007 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on March 2, 2007, 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 April 9, 2007. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF;

- a staff statement of April 25, 2007 updating information on recent developments;

- a Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its April 25, 2007 discussion of the staff report that concluded the Article IV consultation; and

- a statement by the Executive Director for the Republic of Congo.

The documents listed below have been or will be separately released.

Report on Progress Toward Meeting the Completion Point Triggers Under the Enhanced Heavily Indebted Poor Countries Initiative
Selected Issues Paper
Statistical Appendix

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

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

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INTERNATIONAL MONETARY FUND

REPUBLIC OF CONGO

Staff Report for the 2007 Article IV Consultation

Prepared by the Staff Representatives for the 2007 Consultation
with the Republic of Congo

Approved by Thomas Krueger and Anthony Boote

April 9, 2007

- The discussions for the 2007 Article IV consultation with the Republic of Congo (hereafter "Congo") were held in Brazzaville during October 12–25, 2006 and in Washington during February 26–March 2, 2007. The mission team comprised Messrs. Mongardini (Head), Bessaha, and Karangwa, Ms. Lu (all AFR), Ms. Oliva (PDR), Messrs. Carcillo (FAD) and Nguenang (FAD expert), and Mr. Moussa (Resident Representative). Mr. Kudiwu (OED) attended the policy discussions.
- The mission met with Prime Minister Mvouba, Senior Planning Minister Moussa, Minister of Finance Issoïbeka, Minister of Energy Itoua, Central Bank National Director Dzon, other senior officials, members of Parliament, the donor community, labor unions, civil society, and the press.
- The last Article IV consultation was concluded on June 10, 2004 (IMF Country Report No.04/232). Congo, with other members of the Central African Economic and Monetary Community (CEMAC), has accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Fund's Articles of Agreement.
- The three-year arrangement under the PRGF covering the period October 1, 2004–September 30, 2007 was approved by the Board on December 6, 2004, and was extended through June 5, 2008 at the time of the second review (IMF Country Report No. 06/262).

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EXECUTIVE SUMMARY

- **Recent developments.** While the oil boom has kept economic growth buoyant since 2004, inflation accelerated in 2006, fueled by expansionary fiscal policy and transportation bottlenecks. The overall fiscal and external current accounts had large surpluses, but the non oil fiscal deficit widened significantly.
- **Article IV Consultation discussions.** Staff proposed a strategy to boost sustainable growth underpinned by: (i) a medium-term fiscal strategy that would reduce the non oil deficit; (ii) reforms to improve public spending, budget transparency, and oil sector management; and (iii) measures to reduce the cost of doing business. On the budget, while the authorities presented to parliament a 2007 budget in line with staff recommendations, they generally prefer flexibility in each budget year to accommodate priority investment spending. They also prefer a more gradual approach to financial sector and trade reforms.
- **PRGF performance.** The June 2006 performance criterion on the adjusted primary fiscal balance was missed by 2.7 percent of GDP, and cumulative expenditure overruns at end-year 2006 were an estimated 5 percent of GDP. Most structural measures were also missed. Staff cannot therefore recommend the conclusion of the third review under the PRGF arrangement. Discussions on a possible staff-monitored program (SMP) to bring the authorities' program back on track continue.
- **Key risks.** The election cycle could further compromise fiscal discipline and delay structural reforms. New large and nontransparent loans linked to foreign-financed projects could jeopardize Congo's debt sustainability and weaken its governance/transparency agenda.

I. Introduction

1. **Past Fund advice centered on the need to improve fiscal management, adopt a medium term framework, strengthen transparency and good governance, and create an environment favorable to private sector activity.** The authorities have made some progress on transparency and governance, but fiscal and other structural reforms are lagging.

2. **The political debate is focused on the June/July 2007 parliamentary elections**. Pressure for higher government spending is mounting. Relations between the government and civil society have deteriorated with the trial of two oil transparency activists.

3. **After two years of satisfactory performance, expenditure overruns and delays in structural reforms in 2006 have derailed the PRGF-supported program**. Discussions continue on an SMP to establish the track record needed to resume discussions on the PRGF-supported program.

II. Recent Economic Developments and Performance Under the PRGF

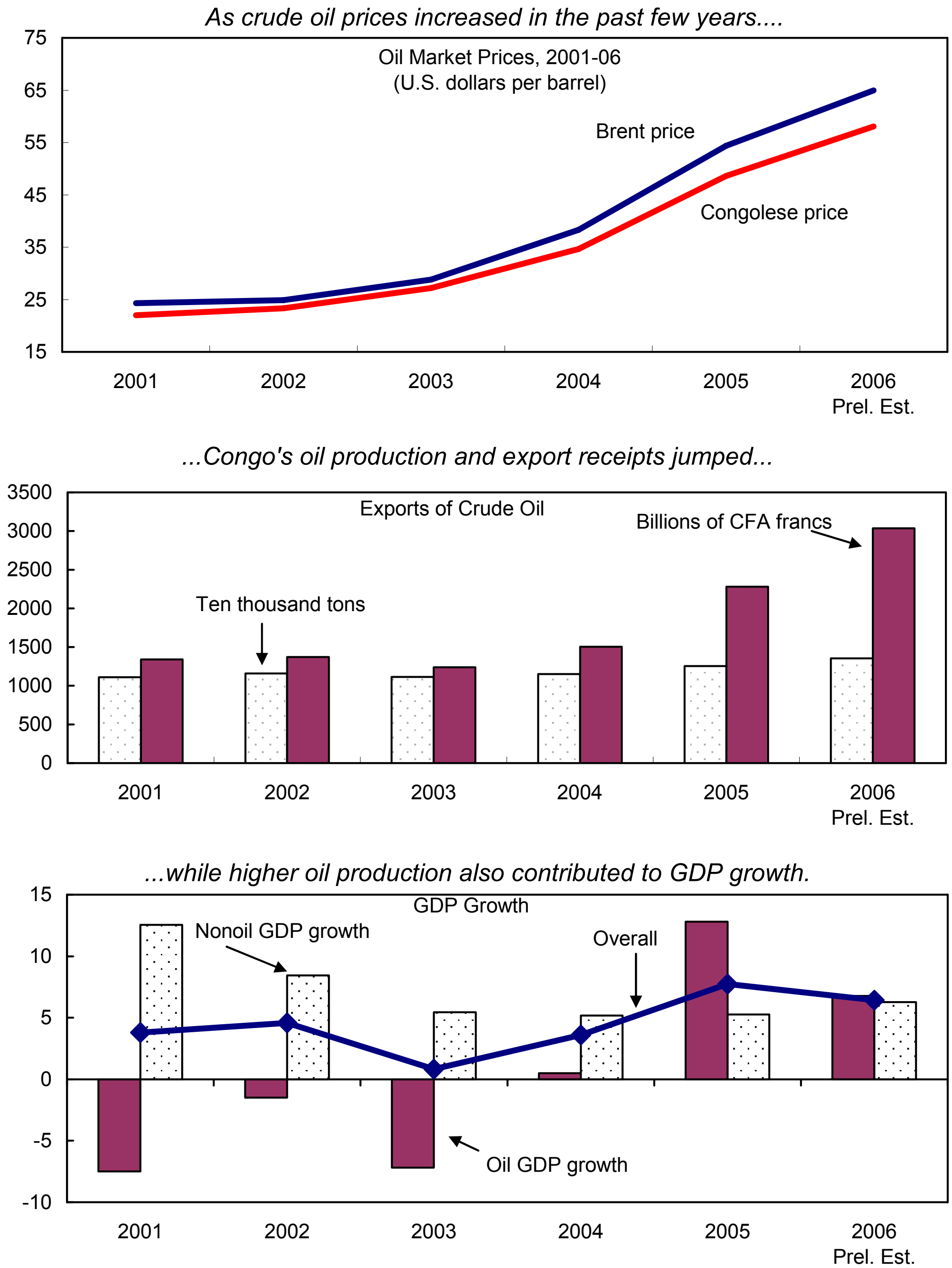
4. **Macroeconomic performance was strong in 2004-05, but weakened in 2006.** Growth eased in 2006 as oil growth moderated from its rapid pace in 2005. Solid non oil growth helped keep overall GDP growth above the average of the *Communauté Économique et Monétaire de l'Afrique Centrale* (CEMAC) region (Figures 1 and 2). Inflation accelerated in 2006, reaching the highest level in the CEMAC in December (8.2 percent year-on-year), fueled by expansionary fiscal policy and transportation disruptions (Figures 3 and 4). The external current account registered large surpluses in 2005–06 because of higher oil export receipts.

5. **Broad money expanded rapidly in 2005-06, mainly reflecting increases in net foreign assets stemming from higher oil prices.** Gross foreign assets soared to 26 percent of GDP in 2006 (15 months of imports), from 13 percent in 2005, a significant part of which was not sterilized. Credit to the private sector remained sluggish, reflecting: (i) limited lending opportunities; (ii) the high cost of credit; and (iii) legal and institutional constraints in recovering collateral.

6. **The health of the banking system is improving, partly reflecting the recapitalization and privatization of one troubled bank.** The cost of privatizing the bank to the government budget was CFAF 14 billion (0.4 percent of GDP), given the negative net worth of the bank. Nonetheless, the privatization process was not transparent and could cost the government budget at least CFAF 6 billion (0.2 percent of GDP) more than the value of the bank, according to an independent consultant.[1] The buyer also has the option until

[1] See the published report at http://www.mefb-cg.org/

Figure 1. Republic of Congo: Oil Prices, Exports, and Real GDP Growth, 2001-06 [1]

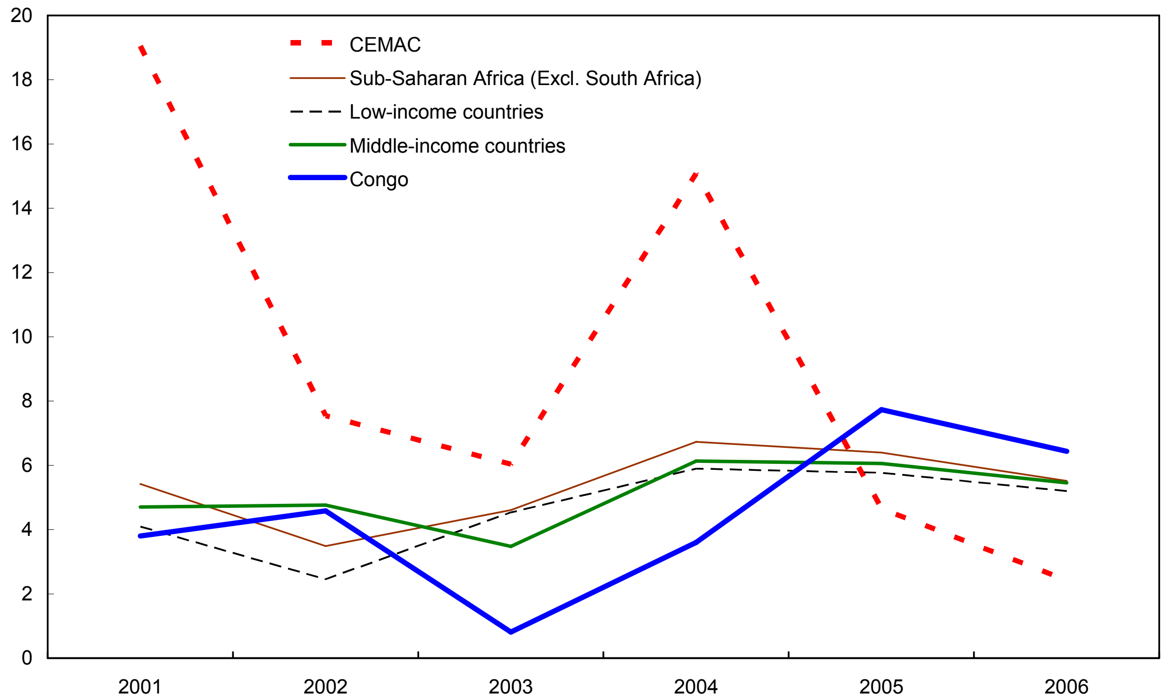


Sources: Congolese authorities and Fund staff estimates.

[1] Price differentials fluctuate due to various factors, including shifts in regional supply-demand balances for each main crude oil category. Price differentials have varied considerably over time. The gap between Congolese blend price and the Brent price widened sharply during the second half of 2004 and early 2005, rising from about $2.10 a barrel in June 2004 to $5.30 in December 2006 with a peak of $8.50 a barrel in December 2004. This partly reflected the strong growth in world demand for light oil blends, and increases in freight costs, notably in 2004-2005, which producers of heavy fuels were only partly able to pass on to their customers.

Figure 2. Real GDP Growth, 2001-06
(Percent)

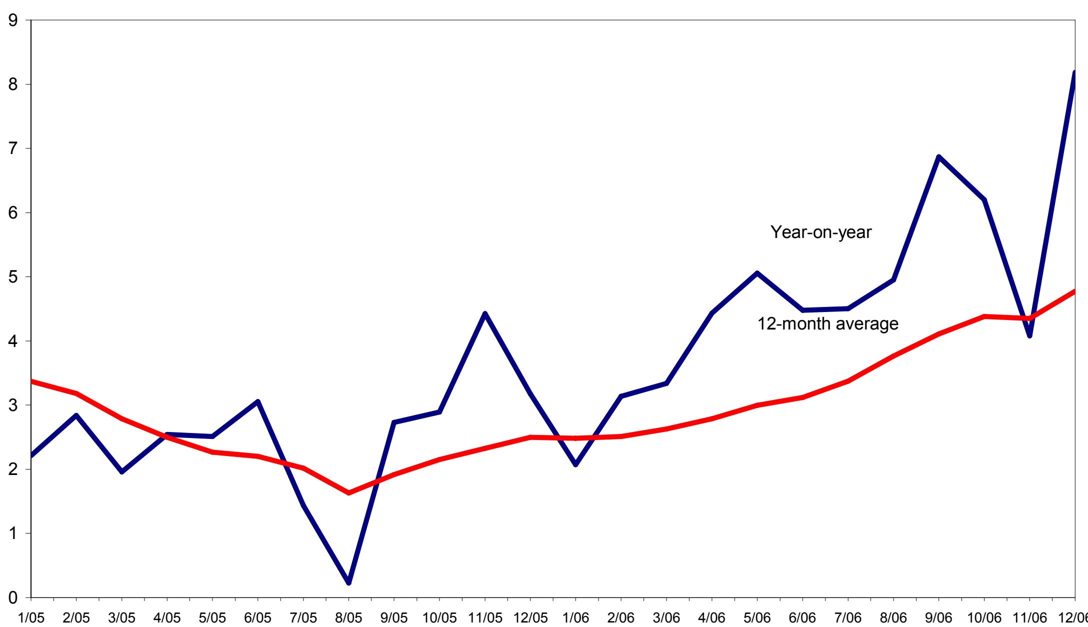
Congo's growth performance in 2005-06 was above the average for the CEMAC region, and for low- and middle-income countries



Source: Congolese authorities; and Fund staff estimates.

Figure 3. Congo: Monthly Inflation, 2005-06
(Percent)

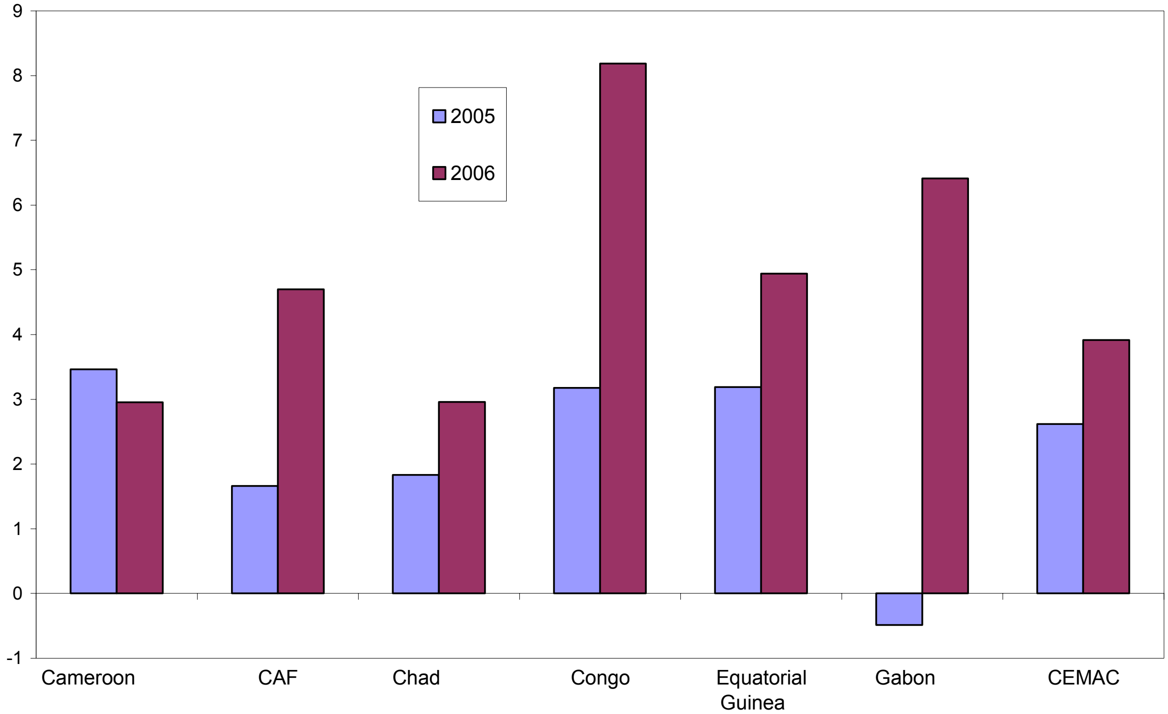
Inflation accelerated in 2006, fueled by expansionary fiscal policy and transportation disruptions.



Source: Congolese authorities, and Fund staff estimates.

Figure 4. Inflation in the CEMAC, 2005-06
(End-of-period, percent)

Congo's inflation rate is now the highest in the CEMAC region.



Source: Fund staff estimates.

September 2007 to transfer additional assets deemed non-performing to the government, which could push up further the budgetary cost. Under the regional rating system, three banks were found in good condition at end-December 2005, while the fourth one was reported to be in a fragile situation.

7. **New borrowing has eroded some of the recent improvement in external debt indicators**. The debt cancellation of about $1,7 billion and the rescheduling of outstanding arrears done in the context of the 2004 Paris Club agreement have cut the public debt burden from 213 percent of GDP in 2004 to an estimated 78 percent of GDP in 2006. Since the March 2006 Paris Club agreement, the authorities have signed bilateral agreements with 8 Paris Club creditors. The last phase of the Paris Club agreement has not been activated as it hinges upon satisfactory implementation of the PRGF arrangement. Most of the new external borrowing was contracted with China—primarily for the electricity sector and partly on nonconcessional terms—with commitments totaling $829 million (12 percent of GDP) at end-2006. The authorities also signed a framework agreement with China in June 2006 for cooperation in the areas of oil exploration, infrastructure, and social development, though its financial terms are not yet available. The authorities have reached a tentative agreement with London Club creditors on debt relief consistent with the enhanced Heavily Indebted Poor Countries (HIPC) Initiative.

Text Table. Republic of Congo: Fiscal Performance in 2006
(Percent of GDP)

	June			December		
	Prog. (1)	Est. (2)	(2)-(1)	Prog. (1)	Prel. (2)	(2)-(1)
Domestic revenue	17.3	22.1	4.8	35.4	46.5	11.1
Oil	14.2	19.0	4.7	29.2	39.6	10.4
Non oil	3.1	3.1	0.0	6.2	6.9	0.7
Domestic primary expenditure[1]	-10.5	-13.1	-2.6	-17.6	-22.6	-5.0
Current	-6.5	-7.7	-1.2	-11.9	-13.8	-1.9
Capital	-4.0	-5.4	-1.4	-5.7	-8.8	-3.1
Basic primary fiscal balance	6.8	9.0	2.2	17.8	23.9	6.1
Debt service	-4.4	-6.5	-2.1	-8.4	-13.9	-5.5
Arrears payments	-1.1	-0.8	0.3	-2.4	-2.2	0.2
Fiscal balance after debt service (+ = surplus)	2.4	2.5	0.1	9.4	10.0	0.6
Identified financing	-2.2	-2.5	-0.2	-9.4	-10.0	-0.6
Domestic	-2.2	-4.3	-2.0	-9.4	-14.0	-4.6
of which: Banking system	-2.2	-3.9	-1.7	-9.4	-13.5	-4.1
External (incl. debt relief)	0.0	1.8	1.8	0.0	4.0	4.0
Memorandum items						
Nominal GDP (CFAF billions) [2]	3,862	3,862	0.0	3,862	3,862	0.0
Non oil primary balance [3]	-20.8	-28.4	-7.6	-31.9	-44.2	-12.3

Source: Congolese authorities; and Fund staff estimates.
[1] Excluding interest payments and foreign-financed investment.
[2] Preliminary estimate; the program originally projected GDP of CFAF 3,411 billion for 2006.
[3] Percent of nonoil GDP.

8. **The PRGF-supported program went off-track in 2006 owing to large expenditures overruns.** Oil and non oil revenues were higher than programmed (text table). The authorities, however, missed the June 2006 performance criterion on the adjusted primary fiscal balance by 2.7 percent of GDP. Additional spending authorized by the October 2006 revised budget without prior consultation with Fund staff brought the expenditure slippages to an estimated 5 percent of GDP at the end of 2006. Transfers to the refinery (CORAF) more than doubled in 2006, reaching CFAF 65.7 billion (1.7 percent of GDP). The non oil primary deficit surged to an estimated 44 percent of non oil GDP in 2006 (up from 27 percent in 2005).

9. **The authorities have not yet provided comprehensive fiscal data for 2006 to allow Bank and Fund staff to assess the quality of investment spending.** Limited available data suggests that spending overruns were mostly in non-priority areas. Furthermore, the authorities did not meet the conditions for the CFAF 50 billion adjuster on additional investment spending authorized by the Board at the time of the second PRGF review: the relevant projects were not approved by the World Bank and not awarded through transparent and competitive procurement procedures.

10. **There were significant delays on the structural front, mainly reflecting political concerns, capacity weaknesses, and limited donor assistance.** The divestiture of other business interests by both management and the executive board of the SNPC was met (end-

September 2006 structural performance criterion). However, the other performance criterion on the diagnostic study of the commercialization of the SNPC and most other structural benchmarks were missed. The audit covering the awarding of the Marine XI oil concessions was published with a delay (Box 1).

Box 1. Key Findings and Recommendations of the Marine XI Audit[2]

The audit identified: (i) the weaknesses and limitations of government institutions involved in the awarding process; (ii) the lack of regulations to implement the existing *Code des Hydrocarbures*, in particular the lack of procedures for the awarding of contracts under competitive conditions; (iii) the absence of clarity regarding the role that SNPC should play as holder of mining rights in the process of negotiation of new contracts and its participation in setting up of associations with private operators; (iv) the lack of regulations governing the selection process in awarding contracts to local and foreign operators; (v) the potential conflicts of interest between the oil sector and SNPC management; (vi) the lack of effective controls; and (vii) the deficiencies in the Code of Penal Law as it does not cover conflicts of interest in the oil sector.

The report recommends immediate measures to clarify the role that SNPC, issue a decree that all new contracts are subject to an open international competitive bidding, and establish a registry of qualified firms. Over the next few months, the authorities should also consider establishing: (i) a new institutional framework that provides a clear separation of responsibilities between the sector authorities and the national oil company SNPC; (ii) a regulatory framework and implementation procedures to enhance current control mechanisms, including those related to control, filing, data management and information-related procedures; and (iii) the adoption of regulations to implement the existing *Code des Hydrocarbures*.

11. **Progress on the triggers for the HIPC completion point has been slow**. As detailed in the accompanying joint Bank-Fund report, the authorities have made progress on the triggers in the forestry and social sectors. Progress otherwise has been slower than envisaged in the action plan agreed to in August 2006.

III. Article IV Consultation Discussions

12. **The Article IV Consultation discussions took place against the backdrop of large fiscal slippages in 2006 and pressures to increase spending in the run-up to the upcoming elections.** They centered on a strategy to increase sustainable growth while preserving fiscal and external sustainability (see the selected issues papers (SIP) accompanying this report).

[2] See http://www.mefb-cg.org/

A. Medium-Term Scenarios and Debt Sustainability Analysis (DSA)

13. **The medium-term outlook hinges on strong oil prices and production.** Oil production is expected to rise until 2010. The non oil growth rate is projected to remain at the current level over the medium term. Inflation would gradually decline as the fiscal stimulus is removed in the adjustment scenario. The external current account would continue to record large surpluses in the next few years, contributing to a large build-up of international reserves.

14. **Congo's fiscal stance is not sustainable.** Without fiscal adjustment, external debt ratios would exceed sustainability thresholds by 2011 (Figure 5). The authorities did not favor an immediate fiscal adjustment, as they anticipate increased growth, higher oil revenues, and larger current account balances from potential new oil discoveries.

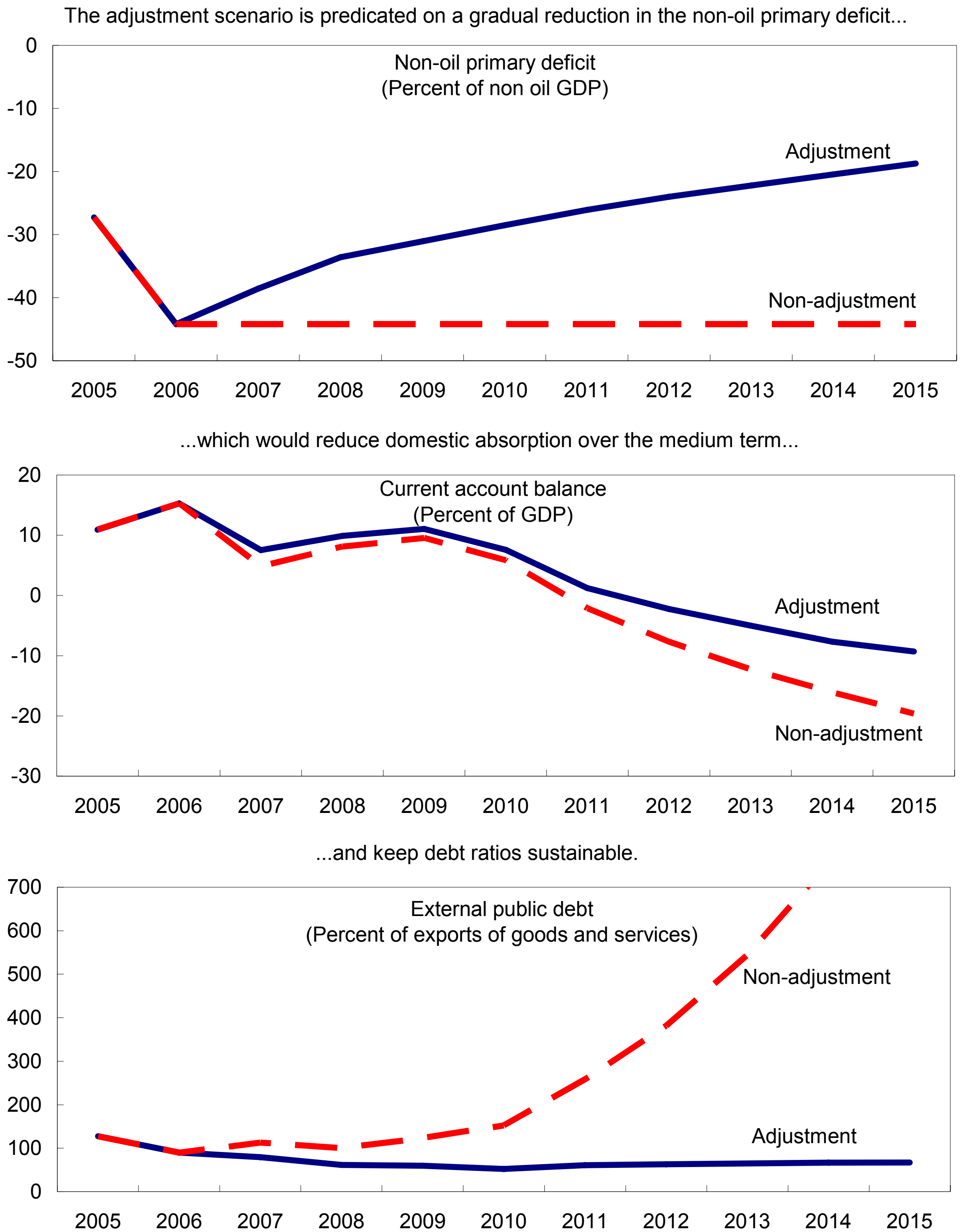
15. **Congo's debt would become sustainable only after fiscal adjustment and full delivery of debt relief under the HIPC Initiative** (Appendix I). The non-adjustment scenario and stress tests signal significant vulnerability to shocks, especially without changes to bolster fiscal policy, raise growth, and increase foreign direct investment. In contrast, in the adjustment scenario, the ratio of total public debt (external and domestic) to revenue is projected to be sustainable for the next 20 years. The recently contracted new loans also highlight the need to limit new borrowing, given their impact on the debt ratios over the next decade.

16. **Based on this analysis, the discussions centered on an adjustment scenario to achieve fiscal sustainability that allows room for priority spending.**

17. **External competitiveness is key to developing the non oil sector and increasing sustainable growth.** Non oil exports (excluding wood) make up a small share of exports and the real effective exchange rate (REER) appreciated by 8.4 percent in 2006, reflecting higher inflation. Estimates of the equilibrium real exchange rate confirm that expansionary fiscal policy in 2006 led to an overvaluation of the REER (Figure 6). A continuation of this trend could slow non oil economic growth and further compromise fiscal and debt sustainability.[3]

[3] Cf. Bhattacharya and Ghura (IMF Working Paper No. 06/185).

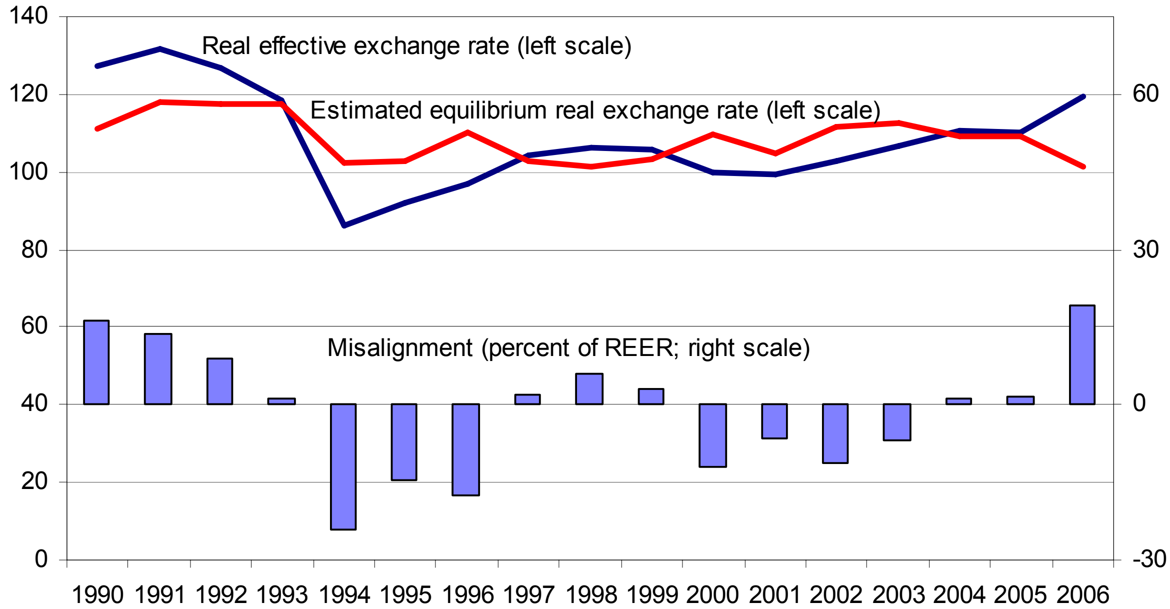
Figure 5. Congo: Baseline vs. Adjustment Scenario, 2005-15



Source: Fund staff estimates and projections.

Figure 6. Real vs. Estimated Equilibrium Real Effective Exchange Rate, 1990-2006

The REER became overvalued vis-à-vis its equilibrium rate in 2006



Sources: INS Database; and Chudik and Mongardini (IMF WP/07/90).

B. Policy Discussions

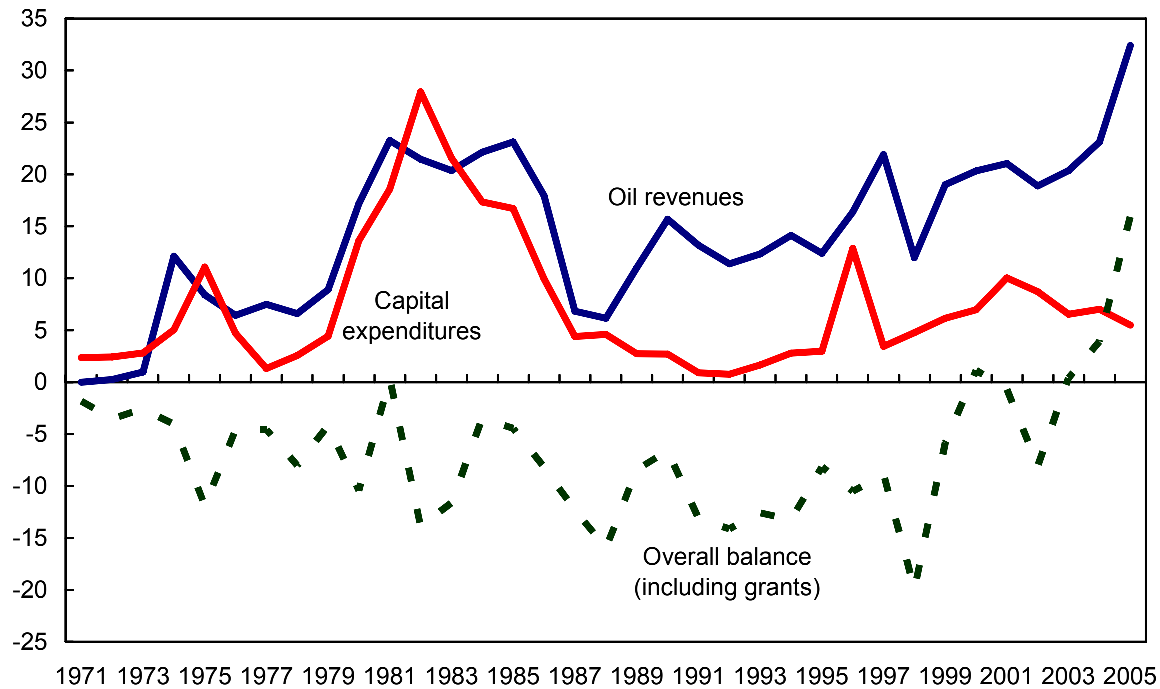
18. **The discussions centered around much-needed reforms to create the conditions for higher growth and progress toward the Millennium Development Goals (MDGs)**. In particular, the authorities must avoid the procyclical spending of the 1980s, which together with the civil war, contributed to increasing the overall deficit and debt burden and lowered living standards (Figure 7). Staff proposed a strategy for sustainable growth that calls for (i) a medium-term fiscal strategy aimed at moving toward fiscal sustainability in the long run; (ii) reforms to improve the quality of public spending and increase transparency in budgeting and the oil sector; and (iii) measures to reduce the cost of doing business to promote private sector investment and higher non oil growth.

Anchoring fiscal policy to a medium-term fiscal strategy (MTFS)

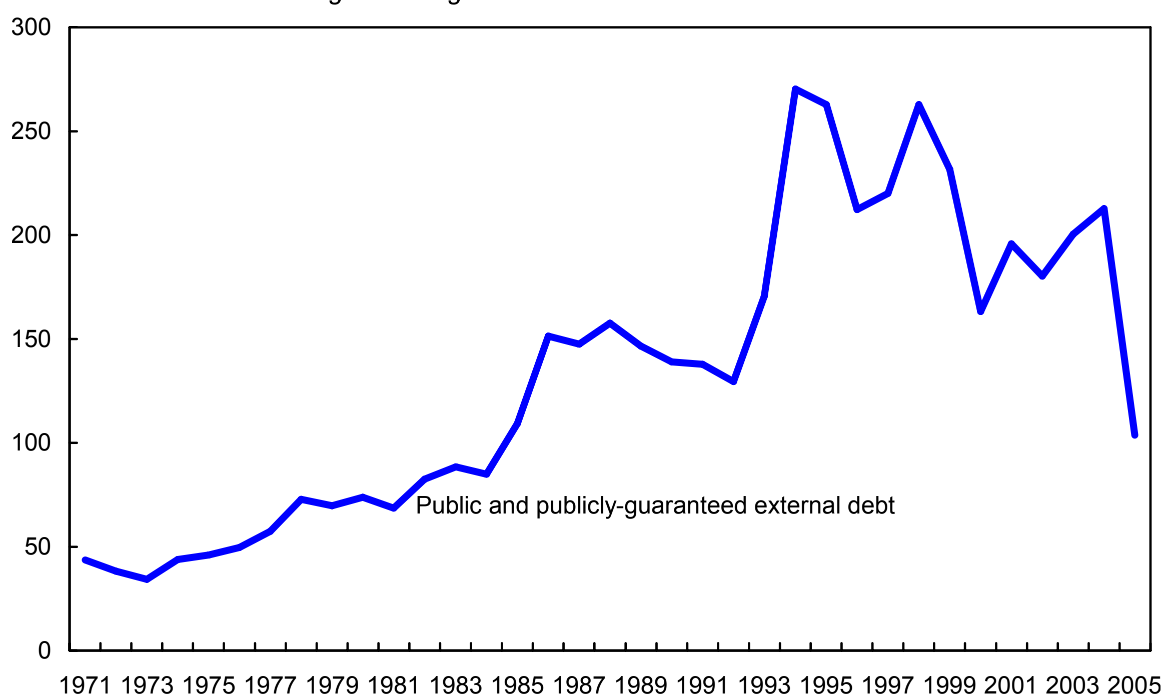
19. **Congo has one of the highest non oil fiscal deficits in sub-Saharan Africa (Figure 8) and limited oil resources**. The non oil primary balance has also deteriorated since 2003. Such high deficits are clearly unsustainable given that oil production is expected to peak in 2010 and be exhausted in about 20 years. The authorities attributed the slippages in 2006 in part to higher outlays for security (owing to conflicts in neighboring countries), the presidency of the African Union, and urgent priority investments.

Figure 7. Republic of Congo: Key Fiscal Indicators, 1971-2005
(Percent of GDP)

Following the oil boom of the 1970s, Congo pursued highly procyclical fiscal policies....



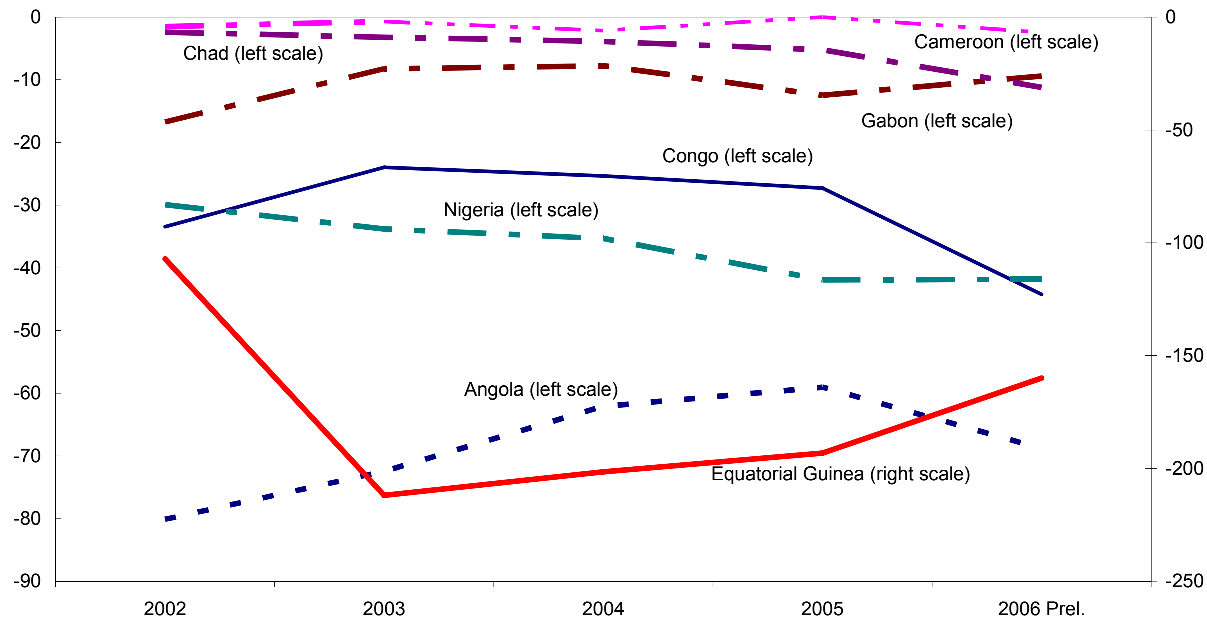
...leading to the highest debt burden in Africa in the mid-1990s.



Sources: Congolese authorities; Fund staff estimates; and *World Development Indicators.*

Figure 8. Oil Producing Countries: Non Oil Primary Balance, 2002-06
(Percent of non oil GDP)

Congo has one of the highest non oil deficits in Africa, despite an expected decline in production starting in 2010.



Source: Fund staff estimates.

Text Table. Republic of Congo: Sustainable Nonoil Primary Deficit with Habit Formation and Catch up Period, 2005-55

	2005	2006-10	2011-15	2016-20	2021-55
		Annual Averages			
Baseline parameters [1]					
Primary balance (Percent of GDP)	20.1	27.2	21.5	14.6	-6.9
Non oil primary balance (Percent of non oil GDP)	-29.0	-24.4	-17.5	-14.2	-13.4
Lower interest rate in the long-run [2]					
Primary balance (Percent of GDP)	21.2	29.9	25.6	19.2	-0.2
Non oil primary balance (Percent of non oil GDP)	-29.0	-17.7	-8.9	-6.5	-6.0
Higher Growth rate in the long-run [3]					
Primary balance (Percent of GDP)	21.2	29.8	25.7	19.0	-0.4
Non oil primary balance (Percent of non oil GDP)	-29.0	-17.4	-8.5	-6.1	-5.6

Source: Fund staff projections based on Carcillo, Leigh, and Villafuerte (forthcoming).

[1] The baseline parameters are 6.5 percent growth rate and 4.4 percent real interest rate for 2006-10, and 2 percent growth rate and 4 percent real interest rate after 2016.
[2] Same as baseline, except a 2 percent growth rate and a 3 percent real interest rate after 2016.
[3] Same as baseline, except a 3 percent growth rate and a 4 percent real interest rate after 2016.

20. **The mission highlighted the need for an MTFS that explicitly addresses both the country's limited oil resources and its development needs.** Staff favored anchoring the

MTFS to a permanently sustainable non oil primary fiscal balance (Chapter II of the SIP). This strategy would keep government spending as a percent of GDP constant, even after oil resources are depleted, as new financial assets would yield enough interest income to finance higher spending. The sustainable non oil primary deficit is estimated at around 13 percent of non oil GDP, well below the 27 percent of 2005 and the 44 percent in 2006 (text table).[4] Given the size of the deficit, fiscal policy should seek to reach sustainable deficits gradually over the next 15 years, while allowing room for priority spending.

Text Table. Republic of Congo: Government Capital Expenditure, 2005-07

	2005	2006		
		Prog	Prel.	Staff
Government capital expenditure				
Billions of CFAF	170.2	286.0	342.1	400.0
Percent of GDP	5.4	7.4	8.9	11.9
Percent of non oil GDP	13.6	21.1	25.3	26.0

Source: Congolese Authorities, and Fund staff estimates.

21. **For 2007, staff urged the authorities to pass a budget consistent with restoring macroeconomic stability**. Oil revenue would decline because of slowing production from maturing oil fields and lower international prices. The staff proposed current primary expenditures decline marginally on account of lower transfers to the oil refinery, while capital spending increase to about 12 percent of GDP. The non oil primary balance would thus decline by about 5½ percentage points to 38.6 percent of non oil GDP. While this drop would reduce inflationary pressures, it would, nonetheless, loosen the non oil primary balance by 10 percent of non oil GDP, compared with the program target for the second review.

22. **The authorities agreed there is a need for prudent fiscal policy in the long run, but argued for flexibility within each budget year for priority investments**. For 2007, they argued that the social rate of return on railway, electricity, water, and sanitation projects outweighed the negative return on financial assets held at the BEAC. The authorities therefore originally proposed capital spending of 15 percent of GDP. While acknowledging the need to strike a balance between sustainability considerations and the country's

[4] Includes foreign-financed capital expenditure. A fiscal sustainability analysis anchored to maintaining constant per capita spending (in real terms) yields similar results.

development needs, staff noted that the authorities' proposed fiscal stance was unsustainable. The mission emphasized the need to undertake a fiscal adjustment starting in 2007 to move towards a sustainable non oil primary deficit. The authorities subsequently presented a budget in line with staff's recommendation but indicated their wish to discuss additional capital spending for a possible supplementary budget, once improvements in public financial management had been implemented. In this context, the mission also underscored the need to accelerate implementation of public financial management (PFM) reforms to improve the transparency of oil revenue management and the quality of spending. Finally, given the envisaged increase in the government's net asset position associated with the MTFS, the mission urged the authorities to seek ways to increase the rate of return on financial assets. The recent agreement to change the investment policies at the BEAC to increase the remuneration of reserves could help in this regard.

23. **The authorities agreed on a policy of no new non-concessional external borrowing.** They however did not share the staff's recommendation that concessional loans should be contracted only if they do not jeopardize debt sustainability and are consistent with Congo's strategy to enhance transparency and good governance. The mission urged the authorities to continue negotiating with all creditors (including litigating creditors) on terms consistent with the enhanced HIPC initiative.

Improving public financial management

24. **The composition and quality of public spending in 2006 deteriorated sharply.** Investment spending in health and education only accounted for 15 percent of total capital spending. In addition, subsidies to the national oil refinery were significantly higher than spending on primary education. A large portion of current expenditure was executed using exceptional spending procedures, and many public investment contracts were awarded without transparent procurement and open competitive bidding. For 2007, in the absence of adequate information, staff could not evaluate the authorities' proposal to increase capital spending. The authorities shared staff's advice to strengthen public finance management (PFM) (Box 2 and SIP, Chapter III). With assistance from the World Bank, they subsequently drafted a PFM action plan. Bank and Fund staff are of the view that this action plan is a good start but still requires improvements, including details on each action, as well as an extension to cover the reform of the expenditure chain and the management of public investment projects.

Box 2. Staff Recommendations to Improve Public Financial Management

In cooperation with World Bank staff, the mission advised the authorities to

- Implement a new **functional classification of the budget** to improve transparency and track poverty-related expenditures. The Fund is providing technical assistance, but progress so far has been slow.
- Comply with the **organic budget law**, particularly in delineating responsibilities between the Ministry of Finance and the Ministry of Planning on investment spending.
- Limit the recourse to **exceptional spending procedures**, consistent with the organic budget law.
- Streamline **current transfers**, including by rapidly eliminating subsidies to the domestic refined petroleum products, to increase pro-poor and infrastructure spending.
- Implement a new **public investment management system**, with World Bank assistance, to better align investment spending to the priorities in the PRSP.
- Establish a new **procurement code** in line with best international standards.
- Strengthen **customs administration** and the fight against tax fraud and corruption on the revenue side.
- Improve the **monitoring of the expenditure chain and control**, with technical assistance from the Fund.

Reducing the cost of doing business

25. **Congo ranks as one of the lowest countries in the world in terms of the ease of doing business**. According to the World Bank database, the cost of starting a business, constraining labor legislation, difficulties in registering property and enforcing contracts, limited access to credit, and restrictions on border trade are particular concerns (Table 13). The mission underscored the importance of reforms that liberalize the price of energy and basic commodities, strengthen governance, develop the financial sector, and promote external trade (SIP, Chapters IV-VI).

26. **The authorities acknowledged that administered prices distort the efficient allocation of resources and promote black markets**. While they liberalized the price and import of cement in February 2007, they did not support rapid liberalization of prices on other important products, citing inflation concerns and social pressures. On domestic petroleum product subsidies (1.9 percent of GDP in 2006), the authorities agreed in principle

to increase gradually the prices of jet oil, gasoline, and diesel. They argued that any increase in electricity tariffs would be inappropriate given the country's frequent blackouts and should await completion of ongoing electricity projects.

27. **Governance and transparency must improve in order to attract foreign investment to the non oil sector.** Staff stressed that major governance concerns remain. Recognizing that widespread corruption inflates the cost of doing business, the authorities committed to step up efforts to establish transparent and effective institutions. They also agreed to raise public awareness about the government's agenda to fight corruption (text table). They observed that good governance is a two-way process that must also involve foreign companies that exploit Congo's natural resources.

Text Table. World Bank Governance Indicators, 2005

	Congo	CEMAC Average	Sub-Saharan Africa's Average
Indicators: [1]			
Voice and accountability	-0.7	-1.0	-0.5
Political stability	1.2	-0.8	-0.5
Government effectiveness	-1.3	-1.1	-0.7
Regulatory quality	-1.2	-0.7	-0.7
Rule of law	-1.4	-0.8	-0.7
Control of corruption	-1.0	-0.7	-0.7

Source: World Bank.
[1] Indicators are measured on a scale from +5 to -5, with zero as the average for the sample.

28. **The mission expressed concern about the limited access to and high costs of financial services in Congo** (Text Table). The authorities agreed with the staff's assessment; but they indicated that Congo's financial sector has just emerged from a long and costly restructuring that has yet to bear fruit. The mission encouraged the authorities to (i) widen public access to and lower the cost of financial services by promoting the introduction of new financial instruments, such as credit cards, automatic teller machines, and micro credits; (ii) increase competition by surrendering the licensing rights to the COBAC, liberalizing deposit and lending rates, helping microfinance institutions compete with banks, and promoting cross-border competition within the CEMAC as recommended by the CEMAC regional FSSA; and (iii) strengthen loan recovery and expand the types of collaterals, which would help reduce interest spreads.

Text Table. Financial Indicators in Congo and Other African Countries, 2004

	Number of Comm. Banks	M2/GDP (percent)	Bank Assets/GDP (percent)	Private Sector Credit/GDP (percent)	Central Government Credit/GDP (percent)	Population with Formal Bank Account (percent)
Republic of Congo	4	14.6	8.9	3.2	0.9	2.7
Averages for:						
Sub-Saharan African countries	30	42.7	67.4	39.5	6.1	26.8
Middle income	30	59.9	96.0	70.2	6.7	41.2
Low income	30	27.6	38.3	12.3	5.5	7.6
Oil-exporting countries	53	20.0	33.6	11.1	3.5	7.1
Oil-importing countries	23	49.4	77.5	47.6	6.8	33.9
CFA countries	9	20.4	16.1	11.8	1.5	3.9
Non-CFA countries	34	46.5	72.5	44.0	6.8	29.2

Source: *Sub-Saharan Africa Regional Outlook* (May 2006).

29. **The authorities stated that liberalizing interest rates was beyond their discretion since monetary policy is set at the regional level.** They insisted that the national authority should maintain the right to license banks to ensure the health of the banking sector. On licensing microfinance institutions, they took the view that the current procedure should be kept to ensure the good quality of new entrants.

30. **Progress in Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) has been slow.** The authorities acknowledged that Congo's lack of a financial intelligence unit (FIU) kept the CEMAC AML/CFT legal framework from being implemented. Staff welcomed the authorities' draft decree specifying the organization, function, and financing of the FIU, and their plans to establish this unit soon. In the third quarter of 2006, the authorities organized a workshop to educate stakeholders about the role of the FIU.

31. **Trade practices both at the regional and national levels hinder Congo's external trade**. The authorities noted the importance of external trade and emphasized the benefits Congo could reap as the port of Point Noire expands into a regional hub. While recognizing that tariffs are high and that other trade taxes add to the complexity of CEMAC's trade policy regime, they see deficient infrastructure as a larger barrier to trade. The mission also noted the wide use of tariff exemptions (particularly for the oil sector) since 2004, which have raised governance concerns and hurt revenue collection; onerous documentation requirements for imports and exports; and weak preshipment inspections. The authorities indicated their openness to discuss ways to simplify the structure of tariffs and other fees in the context of CEMAC, eliminate nontariff barriers, and strengthen customs administration. They are seeking technical assistance to fight customs fraud and collect trade-related statistics.

32. **Staff met with representatives of parliament, civil society, trade unions, and the employers' associations.** These stakeholders had serious concerns about governance and the cost of doing business in Congo. They supported (i) the establishment of an anticorruption

committee with meaningful representation from civil society; (ii) submission to parliament of an anticorruption law that regulates conflicts of interest in public administration and helps tackle fraud; and (iii) public procurement reforms.

33. **The statistical database needs improving**. In particular, the national accounts data and balance of payments statistics need to be revamped. The authorities committed to submitting a statistics law in 2007.

IV. Discussions on a Staff-Monitored Program

34. **Discussions on an SMP are ongoing.** With the third review held up by large spending overruns and delays in key structural reforms, the authorities requested an SMP during the mission of October 2006. A second round of discussions took place in February/March 2007 in Washington. Following the discussions, the authorities presented a 2007 budget in late March 2007 to parliament in line with staff recommendations. Policy discussions on the pace and nature of structural reforms continue.

V. Staff Appraisal

35. **Congo is at a crossroads.** Higher oil exports and fiscal revenues in the past two years, together with prospects for additional debt relief and peace consolidation, could pave the way for higher sustainable growth and greater progress on the MDGs. Such a desirable outcome depends on the policy choices the authorities will make in the next few years.

36. **Policy implementation in 2006 was disappointing**. The government increased spending without addressing weak budgetary controls and a nontransparent procurement system. The bulk of additional spending was for capital projects under government control. Fiscal policy is thus straining absorptive capacity, as evidenced by rising inflation and supply shortages. The supplementary budget passed in October 2006 worsened the fiscal slippages, further straining the economy.

37. **It is imperative that Congo avoid repeating the boom-and-bust cycle of the 1980s, especially given the projected decline in oil production within the next decade.** Sound macroeconomic policies, built around a sustainable fiscal strategy, should enable the authorities to meet pressing investment needs without jeopardizing macroeconomic stability or fiscal sustainability. While the overall magnitudes presented in the draft 2007 budget appear broadly appropriate, further action is required to strengthen the quality and composition of government spending. In addition, the authorities should frame capital spending in the context of a simplified medium-term expenditure framework to ensure budgetary allocations reflect government policy priorities.

38. **Improved public financial management is crucial for creating the conditions for sustained growth and poverty reduction.** Key reforms to build a sound PFM system include expenditure prioritization, the introduction of a functional classification of the

budget, an overhaul of public investment management, elimination of exceptional spending procedures, adoption of a procurement code in line with best international standards, and transparent oil resource management.

39. **Stronger implementation of the transparency and governance agenda would promote growth**. In this regard, the anticorruption committee being established must be independent and represent civil society. The implementation of the anticorruption law is expected to lead to improvements on governance in public administration and provide a way to manage conflicts of interest. Finally, adopting the recommendations of the audit of the Marine XI oil concession would maximize government revenue and establish transparency in awarding oil concessions.

40. **Developing the financial sector would advance economic diversification.** Congo's low financial intermediation hinders investment and economic growth. Reforms should include measures to simplify licensing procedures, improve access to financial services, and increase regulatory transparency. The privatization of a troubled bank in 2006 in a non-transparent and costly way to the budget is regrettable.

41. **The trade regime needs to be rationalized and made more transparent.** Priorities should be to spearhead trade reform in the context of the CEMAC, adopt a transparent trade regime, minimize bureaucratic procedures for exports and imports, and gradually phase out exemptions. The authorities are also encouraged to work with their CEMAC partners on lowering the common external tariff.

42. **There is a need to lower the cost of doing business to attract private investment.** While the liberalization of the price of cement is a positive step in this direction, the authorities should press ahead with comprehensive reforms aimed at liberalizing domestic energy and commodity prices.

43. **Mixed progress in implementing triggers for the HIPC completion point is cause for concern**. Corrective steps to minimize delays and establish a better record under an SMP would help revitalize the PRGF-supported program. This would unlock debt relief and pave the way for higher growth and poverty reduction.

44. **Congo's data needs to improve in terms of quality, timeliness and coverage to ensure adequate surveillance and monitoring of program implementation; and data provision to staff should be on a regular and timely basis.** The authorities should seek external support to improve data quality.

45. **It is proposed that the next Article IV consultation** be held in accordance with the decision on consultation cycles approved on July 14, 2002.

Table 1. Republic of Congo: Selected Economic and Financial Indicators, 2004–12 [1]

	2004	2005	2006		2007	2008	2009	2010	2011	2012
			Prog.	Prel. Est.	Adjustment Scenario					
					(Annual percentage change)					
Production and prices										
GDP at constant prices	3.6	7.7	7.4	6.4	3.7	7.2	6.0	8.8	-1.1	3.5
Oil	0.5	12.8	9.7	6.8	-1.7	8.8	5.0	13.5	-15.9	-3.7
Nonoil	5.2	5.3	6.3	6.3	6.5	6.5	6.5	6.5	6.5	6.5
GDP at current prices	10.8	37.3	8.3	22.6	-13.3	15.1	6.6	12.4	-6.0	2.6
GDP deflator [2]	6.9	27.4	0.8	15.2	-16.4	7.3	0.6	3.3	-4.9	-0.9
Consumer prices (period average)	3.6	2.5	2.5	4.7	7.0	5.0	3.0	3.0	3.0	3.0
Consumer prices (end of period)	1.1	3.2	2.5	8.2	7.0	5.0	3.0	3.0	3.0	3.0
External sector										
Exports, f.o.b. (CFA francs)	18.7	43.2	10.0	30.0	-24.8	16.0	4.9	13.9	-15.5	-3.4
Imports, f.o.b. (CFA francs)	21.1	17.8	16.0	19.3	-2.6	10.3	5.7	25.5	1.5	7.7
Export volume	8.4	12.4	9.3	7.0	-2.0	8.5	5.0	12.9	-14.2	-2.3
Import volume	16.7	3.3	7.8	16.5	2.6	11.4	5.4	-3.5	2.4	8.6
Terms of trade (deterioration -)	12.5	22.2	9.0	9.0	-2.0	-2.4	-1.9	-1.9	0.0	0.0
Nominal effective exchange rate (end of period)	1.8	-0.6	...	3.2	...	...	...	...	...	...
Real effective exchange rate (end of period)	1.1	-0.4	...	8.4	...	...	...	...	...	...
Central government finances										
Total revenue (including grants)	21.6	67.0	12.7	44.6	-25.3	21.8	8.8	7.3	-7.4	1.0
of which: oil revenue	25.8	92.3	10.6	50.1	-31.1	19.8	6.9	4.8	-15.0	-5.5
Non oil revenue	14.1	6.0	8.9	20.7	0.6	31.3	15.7	15.8	14.7	15.2
Total expenditure	8.3	13.6	6.6	38.9	-4.2	3.1	4.4	4.9	5.4	3.5
Current	5.3	16.1	-12.2	19.8	-14.1	-7.1	2.4	3.7	4.3	-1.9
Capital (including net lending)	18.5	5.9	70.4	103.7	15.4	18.3	6.7	6.2	6.6	9.2
					(Percent of beginning-of-period broad money)					
Money and credit [3]										
Net domestic assets	-2.4	-86.3	-79.1	-114.3	-14.7	-61.7	-69.3	-82.3	-53.8	-51.5
Domestic credit	1.8	-73.0	-79.1	-114.3	-14.7	-61.7	-69.3	-82.3	-53.8	-51.5
Central government	0.3	-74.9	-80.6	-116.0	-16.6	-63.4	-70.7	-83.7	-55.2	-52.9
Credit to the economy	1.2	0.3	1.5	1.6	2.0	1.7	1.4	1.4	1.4	1.4
Broad money	17.4	34.5	9.1	44.5	13.6	12.0	9.9	9.9	9.9	9.9
Velocity of broad money (Non oil)	3.5	3.3	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7
					(Percent of GDP)					
Investment and saving										
Gross national saving	26.1	33.4	38.7	39.1	37.2	38.4	40.8	35.9	32.1	29.7
Gross investment	24.2	22.4	24.7	23.8	29.7	28.5	29.7	28.3	30.9	31.9
Central government finances										
Revenue and grants	32.5	39.6	41.2	46.6	40.2	42.6	43.4	41.4	40.8	40.2
Total expenditure	28.6	23.7	23.3	26.8	29.6	26.5	26.0	24.2	27.2	27.4
Overall balance (deficit -, commitment basis) [4]	3.9	15.9	17.9	19.8	10.6	16.0	17.4	17.2	13.7	12.8
Primary balance (deficit -) [5]	10.5	21.2	20.1	23.9	13.8	18.7	19.8	19.4	16.2	14.6
Nonoil primary balance (in percent of Nonoil GDP; - = deficit)	-25.3	-27.3	-32.1	-44.2	-38.6	-33.6	-31.1	-28.5	-26.1	-24.0
Current account balance [6]	1.8	10.9	14.0	15.3	7.6	9.9	11.0	7.6	1.2	-2.2
External public debt (end of period)	212.7	103.2	...	78.2	85.7	73.0	46.9	41.7	44.0	43.6
					(Percent of exports of goods and services)					
External public debt service (before debt relief)	14.4	11.8	6.9	12.9	10.9	5.6	5.2	2.6	3.8	1.6
External public debt	252.2	120.0	103.4	86.0	107.3	91.0	59.4	52.1	60.6	63.4
					(Percent of total government revenue excluding grants)					
External public debt service (before debt relief)	37.8	25.8	15.1	25.2	22.0	10.8	9.5	5.1	6.9	2.9
External public debt	661.2	263.5	228.1	168.2	217.3	174.3	109.9	102.2	109.7	110.5
					(Billions of CFA francs, unless otherwise indicated)					
Gross official foreign reserves	62.6	409.3	794.9	992.4	1,175.6	1,717.2	2,372.0	3,209.6	3,845.7	4,519.8
In months of imports, c.i.f.	1.3	7.3	12.2	14.9	18.1	24.0	31.3	33.8	39.9	43.5
In percent of GDP	2.7	13.0	23.3	25.7	35.1	44.6	57.7	69.5	88.6	101.5
Nominal GDP	2,294	3,150	3,411	3,862	3,349	3,854	4,110	4,619	4,341	4,455
World oil price (U.S. dollars per barrel) [7]	38.2	54.4	51.3	65.0	50.8	54.8	54.5	55.3	53.8	53.3
Oil production (millions of barrels)	82.1	92.6	101.5	98.8	97.2	105.7	111.0	126.0	106.0	102.1
Potential windfall oil fiscal revenue [8]	0.0	0.0	346.4	0.0	345.5	376.4	389.9	437.9	240.7	231.9

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

[1] In view of the structural shift in GDP starting in 2005 stemming from significantly higher oil prices, some of the ratios to GDP may not be comparable to past levels.

[2] Projections for the GDP deflator are based on terms of trade projections, which include a prudence factor, with oil price projections reduced by US$10/barrel relative to *WEO* price forecasts.

[3] The large decline in net domestic assets for the projection period reflects an important buildup of assets in the oil revenue stabilization account.

[4] Including grants.

[5] Revenue (excluding grants) minus noninterest current expenditure minus domestically-financed capital expenditure and net lending.

[6] Including public transfers.

[7] From 2006 onward, oil revenue forecasts incorporate a prudence factor, with oil price projections reduced by US$10/barrel relative to *WEO* price forecasts.

[8] Additional revenue that would be generated by using *WEO* forecasts for world oil prices, that is, without applying the prudence factor.

Table 2. Republic of Congo: Central Government Operations, 2004–12

	2004	2005	2006		2007	2008	2009	2010	2011	2012
			Prog.	Prel. Est.	Adjustment Scenario					
	(Billions of CFA francs)									
Revenue and grants	746	1,246	1,404	1,801	1,346	1,640	1,784	1,914	1,773	1,790
Revenue	738	1,240	1,367	1,796	1,321	1,614	1,756	1,885	1,742	1,758
Oil revenue	530	1,020	1,128	1,531	1,054	1,263	1,351	1,415	1,203	1,137
Nonoil revenue	208	220	240	266	267	351	406	470	539	621
Grants	8	6	37	5	25	26	28	29	30	32
Expenditure and net lending	656	745	795	1,036	992	1,023	1,067	1,119	1,180	1,221
Current expenditure	496	575	505	689	592	550	563	583	608	597
Wages	123	130	134	134	141	153	160	165	170	175
Other current expenditure	230	270	307	381	353	306	321	335	350	364
Material and supplies	55	62	73	79	130	138	147	154	162	170
Common charges	52	66	70	89	39	40	41	43	44	45
Transfers	123	142	164	213	184	128	133	138	144	149
Refined petroleum products	9	14	17	18	15	13	14	14	15	15
HydroCongo[1]	12	11	9	9	0	0	0	0	0	0
National refinery (CORAF)	0	31	40	66	35	0	0	0	0	0
Other transfers	102	86	98	120	134	114	119	124	129	134
Local authorities	15	17	20	19	22	23	24	30	30	31
Interest	128	158	44	155	75	68	58	54	58	26
Domestic	17	30	18	21	9	8	8	7	7	7
External	111	128	27	134	67	60	50	46	51	20
Capital expenditure	161	170	286	342	400	473	505	536	572	624
Domestically financed	128	154	216	335	344	411	436	460	487	536
Externally financed	32	16	70	7	56	62	68	76	84	88
Net lending	0	0	4	5	0	0	0	0	0	0
Primary balance [2]	242	669	687	923	461	721	815	895	705	652
Of which: Non oil primary balance	-276	-340	-432	-599	-593	-578	-588	-593	-596	-603
Balance, commitment basis										
Excluding grants	82	494	573	761	330	591	689	765	562	537
Including grants	89	500	610	766	355	617	717	794	593	569
Of which: Non oil balance	-428	-509	-509	-756	-699	-646	-634	-621	-610	-568
Change in arrears	-1,646	-57	-93	-84	-101	-71	-56	-33	-33	-30
External	-1,613	10	-6	-6	-6	-6	0	0	0	0
Domestic	-33	-67	-87	-78	-95	-65	-56	-33	-33	-30
Balance, cash basis	-1,556	443	517	682	254	547	661	761	560	539
Financing	1,556	-443	-517	-682	-254	-547	-661	-761	-560	-539
Foreign (net)	1,584	-162	-148	-137	-143	-78	-76	-1	-9	42
Drawings	24	24	33	2	31	35	41	47	54	62
Amortization due	-165	-307	-181	-292	-253	-113	-117	-48	-62	-20
Rescheduling obtained (arrears)	916	48	0	78	52	…	…	…	…	…
Debt cancellation (arrears)	809	47	…	75	26	…	…	…	…	…
Exceptional assistance	…	27	…	…	…	…	…	…	…	…
Domestic (net)	-28	-281	-369	-545	-110	-469	-585	-761	-551	-581
Banking system (net)	1	-250	-363	-521	-108	-468	-585	-761	-551	-581
Nonbank financing	-29	-31	-7	-24	-2	0	0	0	0	0
Financing gap (- = surplus)	0	0	0	0	0	0	0	0	0	0

Table 2. Republic of Congo: Central Government Operations, 2004–12 (concluded)

	2004	2005	2006 Prog.	2006 Prel. Est.	2007	2008	2009	2010	2011	2012
					Adjustment Scenario					
	(Percent of GDP)									
Revenue and grants	32.5	39.6	41.2	46.6	40.2	42.6	43.4	41.4	40.8	40.2
Revenue	32.2	39.4	40.1	46.5	39.5	41.9	42.7	40.8	40.1	39.5
Oil revenue	23.1	32.4	33.1	39.6	31.5	32.8	32.9	30.6	27.7	25.5
Non oil revenue	9.0	7.0	7.0	6.9	8.0	9.1	9.9	10.2	12.4	13.9
Total expenditure	28.6	23.7	23.2	26.7	29.6	26.5	26.0	24.2	27.2	27.4
Primary expenditure	21.6	18.1	20.0	22.6	25.7	23.2	22.9	21.4	23.9	24.8
of which: pro-poor spending	4.5	4.9	6.1	5.4	6.8	6.8	…	…	…	…
Current	16.0	13.2	13.5	13.8	15.4	12.5	12.3	11.5	12.7	12.8
Wages	5.4	4.1	3.9	3.5	4.2	4.0	3.9	3.6	3.9	3.9
Other	10.7	9.1	9.6	10.4	11.2	8.5	8.4	7.9	8.8	8.9
Capital and net lending	5.6	4.9	6.4	8.8	10.3	10.7	10.6	10.0	11.2	12.0
Interest	5.6	5.0	1.3	4.0	2.2	1.8	1.4	1.2	1.3	0.6
Foreign-financed capital expenditure	1.4	0.5	2.1	0.2	1.7	1.6	1.7	1.6	1.9	2.0
Overall balance, commitment basis [3]	3.9	15.9	17.9	19.8	10.6	16.0	17.4	17.2	13.7	12.8
Primary balance	10.5	21.2	20.1	23.9	13.8	18.7	19.8	19.4	16.2	14.6
Of which: Non oil primary balance	-12.0	-10.8	-12.7	-15.5	-17.7	-15.0	-14.3	-12.8	-13.7	-13.5
	(Percent of nonoil GDP)									
Non oil revenue	19.1	17.6	17.8	19.6	17.4	20.4	21.4	22.6	23.6	24.7
Wages	11.3	10.4	10.0	9.9	9.2	8.9	8.4	7.9	7.4	7.0
Primary expenditure	45.5	45.8	50.5	64.5	55.9	51.8	49.7	47.6	45.4	44.0
Non oil primary balance [4]	-25.3	-27.3	-32.1	-44.2	-38.6	-33.6	-31.1	-28.5	-26.1	-24.0
	(Billions of CFA francs)									
Memorandum items:										
Potential windfall oil revenue [5]	0.0	0	346	0	345	376	390	438	241	232
GDP at current market prices	2294	3150	3411	3862	3349	3854	4110	4619	4341	4455
Non oil GDP at market prices	1089	1247	1347	1354	1538	1723	1893	2080	2286	2512
Pro poor spending	102.8	155.3	208.8	208.8	229.3	262.3	…	…	…	…

Sources: Ministry of Economy, Finance, and the Budget; and Fund staff estimates and projections.

[1] Excess oil revenue (which arises when operating costs of oil companies are lower than the limits stipulated in production-sharing agreements) is partly assigned automatically to cover an existing liability (HydroCongo).

[2] Revenue (excluding grants) minus noninterest current expenditure minus domestically financed capital expenditure and net lending.

[3] Including grants.

[4] Excluding investment income.

[5] From 2006 onward, oil revenue forecasts incorporate a prudence factor, with oil price projections reduced by US$10/barrel relative to *WEO* price forecasts.

Table 3. Republic of Congo: Monetary Survey, 2004–07

	2004	2005	2006		2007
		Est.	Prog.	Prel. Est.	Proj.
			(Billions of CFA francs)		
Net foreign assets	62.4	466.1	862.8	1,180.5	1,364.5
Central bank	47.3	393.3	789.9	987.7	1,171.6
Deposit money banks	15.1	72.9	72.9	192.9	192.9
Net domestic assets	271.8	-16.5	-372.1	-530.5	-625.9
Net domestic credit	270.1	26.2	-329.4	-487.9	-583.3
Net credit to the public sector	185.1	-60.0	-422.5	-581.4	-689.5
Net credit to the government	188.8	-61.4	-423.9	-582.8	-690.9
Central bank	173.3	-23.0	-385.5	-574.6	-682.7
Deposit money banks	15.5	-8.2	-38.4	-8.2	-8.2
Claims on public agencies, net	-3.7	1.5	1.5	1.5	1.5
Credit to the economy	85.0	86.1	93.0	93.5	106.2
Other items, net	1.7	-42.6	-42.6	-42.6	-42.6
Broad money	334.2	449.7	490.7	650.0	738.6
Currency outside banks	155.9	198.7	202.9	273.3	291.4
Demand deposits	122.9	189.0	211.1	291.2	339.9
Time deposits	55.4	62.0	76.7	85.5	107.3
			(Changes in percent of beginning-of-year broad money)		
Net foreign assets	19.8	120.8	88.2	158.9	28.3
Net domestic assets	-2.4	-86.3	-79.1	-114.3	-14.7
Net domestic credit	1.8	-73.0	-79.1	-114.3	-14.7
Net credit to the government	0.3	-74.9	-80.6	-116.0	-16.6
Credit to the economy	1.2	0.3	1.5	1.6	2.0
Broad money	17.4	34.5	9.1	44.5	13.6
Memorandum items:					
Velocity					
Non oil GDP/average M2	3.5	3.3	2.7	2.7	2.7
Non oil GDP/end-period M2	3.3	2.8	2.7	2.1	2.1
Total GDP growth (annual percentage change)	10.8	37.3	8.3	22.6	-13.3
Non oil GDP growth (annual percentage change)	5.2	14.5	8.0	8.5	13.6
Credit to the economy/Non oil GDP	7.8	6.9	6.9	6.9	6.9

Sources: BEAC; and Fund staff calculations and projections.

Table 4. Republic of Congo: Balance of Payments, 2004–12
(Billions of CFA francs, unless otherwise indicated)

	2004	2005	2006		2007	2008	2009	2010	2011	2012
	Est.	Est.	Prog.	Prel. Est.	Adjustment Scenario					
Current account	42	344	477	590	253	380	454	351	52	-100
Trade balance	1,222	1,895	2,059	2,536	1,731	2,052	2,146	2,340	1,784	1,595
Exports, f.o.b.	1,792	2,567	2,839	3,336.8	2,510	2,911	3,055	3,480	2,941	2,841
Oil sector	1,502	2,282	2,501	3,035	2,195	2,571	2,687	3,078	2,506	2,370
Non oil sector	289	285	337	302	316	340	368	403	435	471
Imports, f.o.b.	-570	-671	-780	-800.7	-779	-860	-909	-1,140	-1,157	-1,246
Oil sector	-98	-124	-107	-123	-88	-93	-89	-101	-89	-92
Government	-99	-119	-218	-248	-272	-318	-341	-363	-383	-415
Non oil private sector	-373	-428	-454	-429	-420	-449	-479	-676	-685	-739
Balance of services	-602	-753	-720	-800	-628	-660	-665	-824	-791	-849
Income	-578	-798	-865	-1,145	-850	-1,011	-1,026	-1,165	-940	-845
Labor income	-19	-33	-35	-43	-31	-36	-38	-44	-35	-33
Investment income	-559	-765	-830	-1,101	-819	-974	-988	-1,121	-905	-812
Current transfers (net)	0	-1	4	-1	-1	-1	-1	-1	-1	-1
Capital account	9	7	38	6	26	27	29	30	32	33
Official grants	8	6	37	5	25	26	28	29	30	32
Other	1	1	1	1	1	1	1	1	1	1
Financial account	-122	-110	-119	-149	-167	143	172	457	552	741
Direct investment (net)	297	386	410	472	375	407	356	425	361	391
Of which: oil sector	243	339	366	427	322	348	292	354	283	305
Portfolio investment	-5	-5	-4	-4	-5	-5	-5	-5	-5	-5
Other investment	-414	-490	-524	-616	-538	-260	-179	37	196	355
Medium and long term	-232	-472	-302	-470	-324	-237	-236	-182	-158	-100
Public sector	-141	-336	-151	-290	-193	-84	-76	-1	-9	42
Drawings	24	24	33	2	31	35	41	47	54	62
Project	24	10	33	2	31	35	41	47	54	62
Program	0	14	0	0	0	0	0	0	0	0
Amortization	-165	-360	-178	-292	-224	-119	-117	-48	-62	-20
Private sector	-91	-136	-150	-180	-131	-153	-160	-182	-150	-142
Oil	-84	-128	-140	-170	-123	-144	-151	-173	-141	-133
Non oil	-7	-8	-10	-10	-8	-9	-9	-9	-9	-9
Short term	-182	-19	-222	-147	-214	-23	57	219	354	455
Errors and omissions	0	0	0	0	0	0	0	0	0	0
Overall balance of payments	-71	241	397	447	112	550	655	838	636	674
Financing	71	-241	-397	-447	-112	-550	-655	-838	-636	-674
Reserve financing	-43	-346	-397	-594	-184	-544	-655	-838	-636	-674
IMF (net)	-6	-6	-2	19	21	10	-1	-3	-6	-11
Purchases	0	0	0	21	21	11	0	0	0	0
Repurchases	-6	-6	-2	-2	-1	-1	-1	-3	-6	-11
Other reserves	-37	-340	-395	-613	-204	-554	-654	-835	-630	-663
Exceptional financing[1]	113	105	-6	147	72	-6	0	0	0	0
Net change in arrears	-1,613	10	-6	-6	-6	-6	0	0	0	0
Debt cancellation	809	47	0	75	26	0	0	0	0	0
Debt rescheduling	917	48	0	78	52	0	0	0	0	0
Financing gap (- = surplus)	0	0	0	0	0	0	0	0	0	0
	(Annual percentage change, unless otherwise indicated)									
Memorandum items:										
Current account balance[2]	1.8	10.9	14.0	15.3	7.6	9.9	11.0	7.6	1.2	-2.2
Export volume	8.4	12.4	9.3	7.0	-2.0	8.5	5.0	12.9	-14.2	-2.3
Import volume	16.7	3.3	7.8	16.5	2.6	11.4	5.4	-3.5	2.4	8.6
Export price	16.7	39.4	17.3	11.6	-7.1	-3.3	-1.6	-1.8	-0.8	-0.9
Import price	3.8	14.0	7.6	2.4	-5.2	-10.5	-5.5	3.0	-3.1	-8.7
Terms of trade	12.5	22.2	9.0	9.0	-2.0	-2.4	-1.9	-1.9	0.0	0.0

Sources: BEAC; and Fund staff estimates and projections.

[1] Includes debt relief from Paris Club.

[2] Percent of GDP.

Table 5. Republic of Congo: Millennium Development Goals, 1990–2015

	1990	1995	2001	2015 Target
Goal 1. Eradicate extreme poverty and hunger				
Target 1: Halve, between 1990 and 2015, number of people earning less than US$ 1 a day.				
1. Population below US$1 a day (in percent)	...	...	...	
2. Poverty gap ratio at US$1 a day (in percent)	...	...	...	
3. Share of income or consumption held by poorest 20 percent (in percent)	...	...	...	
Target 2: Halve, between 1990 and 2015, the proportion of people suffering from hunger.				
4. Prevalence of child malnutrition (in percent of children under 5)	...	...	...	
5. Population below minimum level of dietary energy consumption (in percent)	37.0	42.0	30.0	[18.5]
Goal 2. Achieve universal primary education				
Target 3: Ensure that, by 2015, children will be able to complete a full course of primary schooling.				
6. Net primary enrollment ratio (percent of relevant age group)	...	...	...	
7. Cohort reaching grade 5 (in percent)	62.3	55.1	...	
8. Youth literacy rate (in percent, ages 15-24)	92.5	95.6	97.6	[100.0]
Goal 3. Promote gender equality and empower women				
Target 4: Eliminate gender disparity in primary and secondary education, preferably by 2005, and all levels of education by 2015.				
9. Ratio of girls to boys in primary and secondary education (in percent)	82.7	84.4	87.2	
10. Ratio of young literate females to males (in percent, ages 15-24)	95.2	97.6	98.7	
11. Share of women employed in the nonagricultural sector (in percent)	...	...	...	
12. Proportion of seats held by women in the national parliament (in percent)	14.0	2.0	12.0	
Goal 4. Reduce child mortality				
Target 5: Reduce by two-thirds, between 1990 and 2015, the under-5 mortality rate.				
13. Under-5 mortarlity rate (per 1,000)	110.0	108.0	108.0	[73.3]
14. Infant mortality rate (per 1,000 live births)	83.0	81.0	81.0	
15. Immunization against measles (percent of children under 12 months)	75.0	38.0	35.0	
Goal 5. Improve maternal death				
Target 6: Reduce by three-fourths, between 1990 and 2015, maternal mortality.				
16. Maternal mortality ratio (modeled estimate, per 100,000 live births)	...	...	...	
17. Proportion of births attended by skilled health personnel (% of total)	...	...	...	
Goal 6. Combat HIV/AIDS, malaria, and other diseases				
Target 7: Halt by 2015, and begin to reverse, the spread of HIV/AIDS.				
18. HIV prevalence among females (in percent, ages 15-24)	...	...	7.8	
19. Contraceptive prevalence rate (percent of women ages 15-49)	...	...	...	
20. Number of children orphaned by HIV/AIDS	...	...	78,000	
Target 8: Halt by 2015, and begin to reverse, the incidence of malaria and other major diseases.				
21. Prevalence of death associated with malaria	...	...	...	
22. Share of population in malaria risk areas using effective prevention and treatment	...	...	...	
23. Incidence of tuberculosis (per 100,000 people)	...	...	338.2	
24. Tuberculosis cases detected under DOTS (in percent)	...	79.0	97.0	

Table 5. Republic of Congo: Millennium Development Goals, 1990–2015 (concluded)

	1990	1995	2001	2015 Target
Goal 7. Ensure environmental sustainability				
Target 9: Integrate the principles of sustainable development into policies and programs. Reverse the loss of environmental resources.				
25. Forest area (percent of total land area)	65.1	...	64.6	
26. Nationality protected areas (percent of total land area)	...	4.5	4.5	
27. GDP per unit of energy use (PPP $ per kg oil equivalent)	1.7	2.7	3.3	
28. CO2 emissions (metric tons per capita)	0.9	0.7	0.8	
29. Proportion of population using solid fuels				
Target 10: Halve by 2015 proportion of people without access to safe drinking water.				
30. Access to improved water source (percent of population)	...	...	51.0	
Target 11: Achieve by 2020 significant improvement for at least 100 million slum dwellers.				
31. Access to improved sanitation (percent of population)	...	...	14.0	
32. Access to secure tenure (percent of population)	...	...	...	
Goal 8. Develop a Global Partnership for Development				
Target 16. Develop and implement strategies for productive work for youth.				
45. Unemployment rate of population ages 15-24 (total)	...	...	...	
Target 17: Provide access to affordable essential drugs.				
46. Population with access to affordable essential drugs (in percent)	...	...	...	
Target 18: Make available new technologies, especially information and communications.				
47. Fixed-line and mobile telephones (per 1,000 people)	...	8.6	55.3	
48. Personal computers (per 1,000 people)	...	...	3.9	

Sources: World Bank; and Fund staff estimates.

Note: Targets 12-15 and indicators 22-44 are excluded because they cannot be measured on a country-specific basis. These are related to official development assistance, market access, and the HIPC Initiative.

Table 6. Republic of Congo: Key Oil Sector Indicators, 2004-08

	2004	2005	2006		2007	2008
		Est.	Prog.	Prel. Est.	Projection	
Price (in US$ per barrel, unless otherwise indicated)						
Brent						
International price [1]	38.3	54.4	61.3	65.0	60.8	64.8
Price rule [2]	...	54.4	51.3	65.0	50.8	54.8
Average Congolese blends	34.7	48.6	46.1	60.5	46.5	51.0
Exchange rate (CFA Francs/US$)	527.9	528.1	549.2	532.5	...	...
Brent (in thousands of CFA francs per barrel)	20.2	28.7	28.1	34.6	25.3	27.2
Production (in millions of barrels)	82.1	92.6	101.5	98.8	97.2	105.7
Crude	79.2	89.8	98.6	95.7	94.3	103.2
Natural gas	2.8	2.8	3.0	3.1	2.9	2.6
Government revenue (in billions of CFA francs) [3]	532.4	1,022	1,132	1,554	1,059	1,268
Regular	526.1	1,018	1,128	1,530	1,054	1,263
Of which: marketed by SNPC [4]	415.8	0.0	...	...	...	...
Bonus	4.3	2.1	0.0	20.0	0.0	0.0
Dividends	2.0	2.2	4.0	4.0	5.0	5.0
Percent of gross sales						
Government revenue	35.0	42.8	43.8	48.1	46.8	47.1
Memorandum items:						
Gross sales (Billions of CFA francs)	1,501.4	2,376.0	2,572.5	3,183.2	2,254.5	2,679.3
Potential windfall revenue (Billions of CFA francs) [5]	0.0	0.0	346.4	0.0	345.5	376.4

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

[1] IMF, *WEO*, January 2007.
[2] Base for projecting the price of Congolese blends and government revenues. From 2006 onward, oil revenue forecasts incorporate a prudence factor, with oil price projections reduced by US$10/barrel relative to *WEO* price forecasts.
[3] Oil revenues in the fiscal table include "Transfers to CORAF" and "Bonuses", and exclude "Dividends" (included in Nonoil revenue).
[4] Oil marketed by SNPC on behalf of the state.
[5] Additional revenue that would be generated by using *WEO* forecasts for world oil prices, that is, without applying the prudence factor.

Table 7. Republic of Congo: Elements of Government Financial Operations, 2005-12
(Billions of CFA francs, unless otherwise indicated)

	2005	2006	2007	2008	2009	2010	2011	2012
		Prel. Est.	Adjustment Scenario					
Domestic revenue	1,239.8	1,796.0	1,321.1	1,613.6	1,756.5	1,884.8	1,742.2	1,758.2
Oil	1,019.8	1,530.5	1,054.0	1,262.9	1,350.6	1,414.9	1,203.2	1,137.5
Non oil	220.0	265.5	267.1	350.7	405.8	469.9	539.0	620.7
Domestic primary expenditure [1]	-571.1	-873.4	-860.5	-893.1	-941.3	-990.1	-1,037.1	-1,106.0
Current	-417.2	-533.7	-516.3	-481.8	-504.9	-529.7	-549.6	-570.3
Capital	-153.9	-339.7	-344.2	-411.3	-436.4	-460.4	-487.4	-535.6
Basic primary fiscal balance	668.7	922.6	460.6	720.5	815.2	894.7	705.1	652.2
Debt service	-439.6	-535.5	-430.8	-252.1	-230.3	-134.1	-153.7	-76.4
Current debt service	-372.5	-452.0	-329.8	-181.3	-174.4	-101.2	-120.9	-46.4
Domestic	-41.3	-26.3	-10.8	-8.4	-7.9	-7.5	-7.1	-6.7
External	-331.2	-425.7	-319.0	-172.9	-166.6	-93.7	-113.8	-39.7
Of which: post-cutoff-date arrears [2]	-149.4	-112.4	-81.5	0.0	0.0	0.0	0.0	0.0
Arrears payments	-67.1	-83.5	-101.0	-70.8	-55.9	-32.9	-32.8	-30.0
Domestic [3]	-67.1	-77.5	-95.0	-64.8	-55.9	-32.9	-32.8	-30.0
External	0.0	-6.0	-6.0	-6.0	0.0	0.0	0.0	0.0
Fiscal balance after debt service (+ = surplus)	229.1	387.1	29.8	468.4	584.9	760.6	551.4	575.8
Identified financing	-229.1	-387.1	-29.8	-468.4	-584.9	-760.6	-551.4	-581.2
Domestic	-269.6	-540.0	-108.1	-468.4	-584.9	-760.6	-551.4	-581.2
External	40.5	152.9	78.3	...	...	...	...	...

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

[1] Excluding interest payments and foreign-financed investment.
[2] Payments due on consolidated arrears related to post-cutoff-date debt to Paris Club creditors.
[3] Including payment of arrears to the pension funds which in Table 2 are part of net domestic financing.

Table 8. Republic of Congo: External Financing Requirements, 2004–12
(Billions of CFA Francs)

	2004	2005	2006	2007	2008	2009	2010	2011	2012
			Prel. Est.	Adjustment Scenario					
Requirements	165.7	362.2	316.9	176.0	294.1	317.9	534.2	646.2	794.3
Current account excluding official transfers	-42.2	-344.1	-590.4	-252.8	-380.1	-453.7	-351.0	-52.5	100.2
Debt amortization	165.2	360.3	291.6	223.8	119.3	116.7	47.7	62.5	20.1
Change in net foreign assets (increase, +) [1]	36.7	339.9	613.4	204.5	554.0	654.0	834.6	630.0	663.4
Errors and omissions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Resources	165.7	362.2	316.9	176.0	294.1	317.9	534.2	646.2	795.3
Official transfers	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Official project grants	9.1	6.9	6.2	26.1	27.4	28.7	30.1	31.5	33.0
Long-term public loan disbursements	24.4	24.3	1.9	30.8	35.4	40.7	46.8	53.9	61.9
Program	0.3	13.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project	24.4	10.4	1.9	30.8	35.4	40.7	46.8	53.9	61.9
Oil-colllateralized borrowing	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Private capital (net)	18.7	226.5	140.6	25.6	226.7	248.4	457.3	560.8	699.3
Debt relief	1,726	94.8	152.9	78.3	0.0	0.0	0.0	0.0	0.0
Use of IMF resources	0.0	0.0	21.3	21.2	10.6	0.0	0.0	0.0	0.0
Change in arrears (increase, +)	-1,613	9.7	-6.0	-6.0	-6.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum item:									
Exchange rate: CFA francs per U.S. dollar (average)	527.6	526.6	522.4	...	...	...	...	...	...

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

[1] Excluding the change in the net position vis-à-vis the Fund.

Table 9. Republic of Congo: External Debt, 2004-05

	Nominal Debt Stock Including Arrears, end-2004		Nominal Debt Stock Including Arrears, end-2005		Total Arrears, end-2005	
	US$ million	Percent of total	US$ million	Percent of total	US$ million	Percent of total
Total	9,248	100	6,667	100	2,935	100
Multilateral	524	6	473	7	0	0
African Development Bank	138	1	82	1	0	0
African Development Fund	12	0	21	0	0	0
BADEA	21	0	18	0	0	0
European Union	40	0	33	0	0	0
IDA	270	3	290	4	0	0
IMF	29	0	26	0	0	0
OPEC Fund	13	0	11	0	0	0
Bilateral and commercial	8,725	94	6,194	93	2,841	97
Paris Club	5,048	55	3,050	46	0	0
Post-cutoff date	960	10	478	7	0	0
Pre-cutoff date	4,088	44	2,571	39	0	0
Other official bilateral	289	3	366	5	254	9
Algeria	20	0	21	0	21	1
Angola	60	1	77	1	77	3
Bulgaria	2	0	1	0	1	0
China	47	1	31	0	16	1
Cuba	1	0	2	0	1	0
Saudi Arabia	64	1	60	1	60	2
Kuwait	49	1	60	1	60	2
Libya	28	0	30	0	30	1
Romania	1	0	1	0	1	0
Commercial	3,388	37	2,778	42	2,587	88
of which: London Club	2,177	24	2,021	30	2,021	69

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

Table 10. Republic of Congo: Income and Social Indicators, 1970–2002

	Latest Single Year			Same Region/Income Group	
	1970–75	1980–85	1990–2002	Sub-Saharan Africa	Upper-middle-income countries
Total population, midyear (Millions)	1.4	1.9	3.1	688.9	2,494.6
Growth rate (Annual average, percent)	2.7	2.8	2.9	2.4	1.9
Urban population (Percent of population)	35.0	49.3	66.6	33.1	30.6
Total fertility rate (births per woman)	6.3	6.3	6.3	5.1	3.5
GNI per capita (U.S. dollars)	530.0	1,060.0	610.0	450.0	430.0
Consumer price index (1995=100)	...	60.6	136.0	...	...
Food price index (1995=100)	...	71.8	136.0	...	...
Public expenditure			(Percent of GDP)		
Health	...	...	1.4	2.5	1.1
Education	7.8	4.6	4.2	3.4	3.1
Gross school enrollment rates [1]			(Percent of age group)		
Primary	135.8	147.4	96.9	78	107
Secondary	47.6	75.4	41.9	25	64
Tertiary	2.6	6.3	5.0	3	14
Immunization rate			(Percent of children under 12 months)		
DPT	...	54	41	54	65
Measles	...	67	37	58	65
Life expectancy at birth			(Years)		
Total	48	51	52	46	59
Male	45	48	50	45	58
Female	51	54	54	47	60
Mortality rate					
Infant (per 1,000 live births)	100	88	81	103	79
Under 5 (per 1,000 live births)	160	125	108	174	121
Adult (15-59)					
Male (per 1,000 people)	514	408	475	519	310
Female (per 1,000 people)	395	298	406	461	259

Source: World Bank, *World Development Indicators*, 2004.

[1] Gross enrollment rate: break in series between 1997 and 1998 is due to change from ISCED76 to ISCED97; ratios exceeding 100 indicate discrepancies between the estimates of school-age population and reported enrollment data.

Table 11. Republic of Congo: Quantitative Criteria and Indicators, March - December 2006
(Billions of CFA francs, unless otherwise indicated; cumulative from January) [1]

	End-Mar. 06			End-Jun. 06		
	Proj.	Adj. proj.	Est.	Perf. crit.	Adj. perf. Crit.	Est.
Quantitative criteria						
Primary fiscal balance (floor)	174.7	238.9	167.7	262.3	455.3	347.1
Change in net claims of the banking system on the government (ceiling) [2]	-79.6	-79.6	-51.0	-86.5	-86.5	-149.9
New medium or long-term nonconcessional external debt (including leasing) contracted or guaranteed by the government (ceiling) [3]	0.0	0.0	0.0	0.0	0.0	0.0
New external debt (including leasing) with an original maturity of less than one year (ceiling) [4]	0.0	0.0	0.0	0.0	0.0	0.0
New oil-collateralized external debt contracted by or on behalf of the central government (ceiling) [4]	0.0	0.0	0.0	0.0	0.0	0.0
New nonconcessional external debt contracted by SNPC (ceiling) [4]	0.0	0.0	0.0	0.0	0.0	0.0
External arrears payment (floor) [5]	28.3	28.3	2.6	56.3	56.3	56.7
New external arrears on nonreschedulable debt [4]	0.0	0.0	0.0	0.0	0.0	0.0
Domestic arrears payment (ceiling)	21.8	21.8	16.2	43.5	43.5	31.3
New domestic arrears [4]	0.0	0.0	0.0	0.0	0.0	0.0
Quantitative indicators						
Non oil revenue	59.9	59.9	60.6	119.8	119.8	121.2
Domestically financed investment (ceiling)	43.2	43.2	106.2	150.0	150.0	207.0
Memorandum items						
Oil revenue (Billions of CFA francs)	276.5	340.7	332.0	548.9	741.9	732.1
Petroleum price (Brent,US$/barrel), quarterly average	61.0	…	59.6	60.0	…	69.0
Exchange rate (CFAF/US$), quarterly average	547.8	…	547.4	549.7	…	516.8
Petroleum price Brent (Thousand CFAF/barrel), quarterly average	33.4	…	32.6	33.0	…	35.7

[1] All definitions of the quantitative performance criteria and corresponding adjusters are specified in the attached technical memorandum of understanding.
[2] Excluding IMF credit.
[3] Excluding rescheduling arrangements and disbursements from the IMF.
[4] Continuous performance criterion.
[5] Payments of consolidated arrears on post-cut-off date debt to the Paris Club creditors.

Table 12. Republic of Congo: Structural Performance Criteria and Benchmarks through December 2006

Measures	Date	Status
1. Structural performance criteria		
Completion of a certification report by the national auditing office (*Cour des Comptes)* that public officials (both in the government and at public enterprises) are not personally benefiting from government oil sales by the SNPC or its subsidiaries, and submission of the report to the government; publication of the report on the Internet site of the Ministry of Economy, Finance, and Budget (www.mefb-cg.org).	September 30, 2006	Met
Completion, by an independent firm of international reputation, of a diagnostic study of the SNPC's marketing strategy of government oil; submission of the report to the government.	December 31, 2006	Not Met
2. Structural benchmarks		
Publication on the Internet site of the Ministry of Economy, Finance, and Budget (www.mefb-cg.org) of the audit report of the awarding of the Marine XI oil field concession in 2005.	September 30, 2006	Not met, implemented with delay
Adoption of a timetable for the elimination of all implicit subsidies for refined petroleum products within one year.	September 30, 2006	Not met
Establishment—i.e., adoption of the terms of reference and staffing—of an anticorruption committee, whose terms of reference and composition will be satisfactory to IDA and IMF staffs.	September 30, 2006	Not met
Completion, by an independent firm of international reputation, of a diagnostic study of the economic viability of CORAF, and submission of the report to the government, based on terms of reference satisfactory to IMF staff.	October 31, 2006	Not met
Completion, by audit firms of international reputation and in accordance with international standards, of audits of oil costs for 2004 and 2005, for all production-sharing contracts (as defined in these contracts), and submission of the reports to the government. Publication of the audits on the Internet site of the Ministry of Economy, Finance, and Budget (www.mefb-cg.org).	December 31, 2006	Not met

Table 12. Republic of Congo: Structural Performance Criteria and Benchmarks through December 2006 (concluded)

Measures	Date	Status
Submission to Parliament of a draft "Anticorruption Law," that includes, among other things, conflict-of-interest and financial disclosure rules for public officials. The financial disclosure rules would stipulate that (i) senior public officials (including in the government, civil service, and public enterprises) must disclose their wealth and origins of their incomes when acceding to the post and on an annual basis; and (ii) the annual disclosure statements are to be declared to the national auditing office (*Cour des Comptes*) and certified by the national anticorruption committee. The anticorruption committee should publish a summary report on its findings within six months of the end of the calendar year.	December 31, 2006	Not met
Centralization of all public revenues and execution of all public payments by the Treasury.	Continuous	Met
Quarterly certification of oil revenue by an audit firm of international reputation, using the same terms of reference as for the 2003 certification and without qualification on access to information; certification reports to be published on the Internet site of the Ministry of Economy, Finance, and Budget (www.mefb-cg.org).	Continuous, with one-quarter lag	Met

Table 13. Republic of Congo: World Bank Doing Business Survey, 2007

Indicator	Congo	Africa Average	OECD Average
A. Starting a Business			
Number of procedures	8.0	11.0	6.2
Time (days)	71.0	61.8	16.6
Cost (% of income per capita)	214.8	162.8	5.3
Min. capital (% of income per capita)	192.4	209.9	36.1
B. Dealing with Licenses			
Procedures (number)	15.0	17.7	14.0
Time (days)	175.0	230.2	149.5
Cost (% of income per capita)	1243.0	1024.5	72.0
C. Hiring and Firing Workers			
Difficulty of hiring index	78.0	44.3	27.0
Rigidity of hours index	60.0	52.0	45.2
Difficulty of firing index	70.0	44.9	27.4
Rigidity of employment index	69.0	47.1	33.3
Hiring costs (% of salary)	28.8	12.7	21.4
Firing costs (weeks of wages)	41.2	71.2	31.3
D. Registering Property			
Number of procedures	7.0	7.0	4.7
Time (days)	137.0	109.9	31.8
Cost (% of property per capita)	27.2	11.6	4.3
E. Getting Credit			
Legal rights index	3.0	4.2	6.3
Credit information index	2.0	1.3	5.0
Public credit registry coverage (% adults)	1.4	1.5	8.4
Private bureau coverage (% adults)	0.0	3.8	60.8
F. Protecting Investors			
Disclosure index	4.0	4.4	6.3
Director liability indiex	5.0	4.5	5.0
Shareholder suits index	6.0	5.2	6.6
Investor protection index	5.0	4.7	6.0
G. Paying Taxes			
Payments (number)	94.0	40.9	15.3
Time (hours)	576.0	336.4	202.9
Total tax payable (% of gross profit)	57.3	71.2	47.8
H. Trading across borders			
Documents for export (number)	12.0	8.2	4.8
Time for export (days)	50.0	40.0	10.5
Cost to Export (US$ per container)	1732.0	1561.0	811.0
Documents for import (number)	15.0	12.2	5.9
Time for import (days)	62.0	51.5	12.2
Cost to Import (US$ per container)	2201.0	1947.0	883.0
I. Enforcing Contracts			
Number of procedures	47.0	38.1	22.2
Time (days)	560.0	581.1	351.2
Cost (% of debt)	45.6	42.2	11.2
J. Closing a Business			
Time (years)	3.0	2.6	1.4
Cost (% of estate)	24.0	16.0	7.1
Recovery rate (cents on the dollar)	19.4	17.7	74.0

Source: World Bank Doingbusiness Database.

Appendix I: Republic of Congo—External and Public Debt Sustainability Analyses (DSA)[1]

Congo's debt level and debt service obligations have increased recently after the decrease in debt burden stemming from HIPC relief in 2006. Two scenarios elaborated in the DSA suggest that the probability of debt distress under the continuation of current policies is high unless a substantial fiscal adjustment is undertaken. Based on existing debt ratios and on this analysis, the Republic of Congo is rated as at a high risk of debt distress, taking into account full unconditional delivery of HIPC and MDRI debt relief. The risk would be higher if the analysis assumed only interim assistance.

Background

1. **The sustainability of Congo's external and total public debt is assessed using the Fund-Bank debt sustainability framework for low income countries.** The previous DSA was carried out in the context of the HIPC decision point in March 2006, using end-2004 outstanding debt data. This DSA assumes unconditional delivery of HIPC and MDRI debt relief in 2009.

2. **In 2006, total external debt is estimated at $6.5 billion (text table) or 75 percent of GDP.**[2] The bulk of this debt is owed to bilateral official creditors and commercial creditors, the shares of which represents 42 and 50 percent of outstanding debt, respectively; multilateral creditors only account for 8 percent. Debt owed to Paris Club creditors fell as a share of the total from 55 percent in 2004 to 35 percent in 2006, reflecting the granting of traditional debt relief in 2005 as well as interim debt relief received from some creditors in 2006, following the HIPC decision point.

3. **New borrowing has contributed to a significant increase in the stock of debt and in the debt service burden**. Congo contracted a loan for $551 million from China on concessional terms in December 2005, which adds to a previously unrecorded 2003 loan of $238 million, with repayments coming due in 2008. In addition, in June 2006 the Congolese government signed a non-concessional loan from China in the amount of US$32 million and a Framework Agreement that allows for further borrowing. Financial details of this agreement have not yet been communicated to IMF staff.

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[1] This DSA was prepared jointly by the World Bank and IMF staff.

[2] The analysis is based on end-June 2006 debt data provided by the authorities during the October 2006 mission. The data at end-2006 are therefore preliminary staff estimates.

Table 1. Republic of Congo: External Debt at end-2006

	Stock of Debt		Full Debt Relief Delivery	
	Millions of dollars	Percent of total debt	Millions of dollars	Percent of total debt
Total	6,480	100	5,698	100
Multilateral debt	501	8	389	7
Bilateral debt	2,757	42	2,746	48
Paris Club	2,292	35	2,292	40
Non-Paris Club	465	7	432	8
Total commercial debt[1]	3,222	50	2,563	45
Memorandum items:				
Oil Stabilization Fund[2]	1,031			
Of which: share of litigating debt (percent)	103			

Source: Fund staff estimates.
[1] London Club reconciled figures as of March 2006.
[2] End-September 2006.

4. **External debt service data used for the purpose of this DSA reflects full delivery of traditional debt relief, and additional HIPC debt relief on Cologne terms as of 2006** (Table 1). Multilateral debt service payments are those included in the March 2006 HIPC decision-point document. Bilateral and commercial debt service payments are calculated taking into account: (i) the HIPC decision point in March 2006; and (ii) an assumed completion point being reached in 2009. Assuming full delivery of debt relief in 2006, the stock of debt is estimated to be $5.7 billion. In contrast, if debt relief from bilateral non-Paris Club or commercial creditors is excluded, the stock of debt at end-2006 rises to $6.5 billion.

5. **Based on the information provided by the authorities, external debt service payments on new borrowing included in the analysis are**:

- a $238 million loan signed in 2003, with a maturity 15 years, 0.2 percent interest, and a 5-year grace period;
- a $552 million loan signed in December 2005, with a 17-year maturity, 0.2 percent interest, and a 5-year grace period;
- a non-concessional loan for Renminbi 250 million with a maturity of 20 years, an interest rate of 2 percent (plus a management fee of 3.5 percent paid upfront in 2006 and a yearly commitment fee of 0.3 percent), and an 8-year grace period;
- a $6 million loan signed in 2005 with BADEA, with a maturity of 20 years, an interest rate of 1 percent and a grace period of 10 years.

In addition, it is assumed that the Framework Agreement signed with China in June 2006 will result in an increase of debt service payments of $3.4 million (equivalent to 10 percent of the projected new debt service payments with non-Paris Club creditors for the period 2011–35)[3].starting in 2011, reflecting a 5-year grace period and repayments ending in 2025. This latter assumption does not affect the conclusions of the analysis.

6. **As of end-2006, domestic debt amounted to CFAF 345 billion (8.9 percent of GDP), based on the information provided by the Congolese authorities.** This comprises social debt (including pensions) of CFAF 266 billion, commercial debt of CFAF 75 billion, and public enterprise debt of CFAF 4 billion. Arrears make up 99 percent of the stock of domestic debt. Domestic debt at end-2006 was CFAF 175 billion lower than at end-2005, mostly due to the cancellation of commercial debt for CFAF 57 billion, payments of arrears on social debt (including pensions) for 57 billion, and payments to local banks.

7. **The analysis develops two scenarios**:

- a non-adjustment scenario, which assumes that the authorities will continue with their current fiscal policies, maintaining the non oil primary deficit at 44.2 percent of non oil GDP in 2006 throughout the projection period; and
- a baseline scenario that targets a trend decline of the non oil primary deficit to 24 percent of non oil GDP in 2012, and to 13 percent by the end of the projection period.

8. **The macroeconomic assumptions underlying the two scenarios for the period 2007-12 are shown in Table 2**. Over the longer term, real GDP is projected to grow annually by around 5 percent, while inflation is expected to average 3 percent. Exports are projected to grow by around 3 percent a year. A cautious approach to oil price projections is applied by subtracting a $10 prudence factor from the $63 per barrel projected by the WEO. Both scenarios assume the same accumulation of gross international reserves. At the same time, oil production is assumed to decline starting in 2011. In the non-adjustment scenario, the financing gap is assumed to be financed externally at non-concessional terms as commercial debt. Non-concessional loans are assumed to pay an interest rate of 5 percent, have a 1 year grace period, and a maturity of 10 years. These terms are the same as those assumed in the HIPC decision-point document. Domestic debt is assumed to be fully amortized in the next ten years: commercial debt is assumed to be paid back within 5 years; and social debt is assumed to be amortized over 9 years, with payments of CFAF 30 billion per year.

[3] Average new debt service payments to non-Paris Club creditors scheduled for the period 2011-2035.

Table 2. Republic of Congo: Macroeconomic Baseline Assumptions, 2007-12
(Percent, unless otherwise indicated)

	Historical average (1996-2005)	2007	2008	2009	2010	2011	2012
Real GDP growth	3.3	3.7	7.2	6.0	8.8	-1.1	3.5
Inflation	4.1	7.0	5.0	3.0	3.0	3.0	3.0
Exports of G&S (US dollar terms)	16.7	-21.1	30.1	5.4	14.5	-14.9	-2.7
Imports of G&S (US dollar terms)	7.8	2.0	13.2	5.7	25.9	1.5	8.6
Current account balance (percent of GDP)	-4.0	7.6	9.9	11.0	7.6	1.2	-2.2
Grant element of new external borrowing	...	29.1	35.8	34.5	33.7	35.4	34.4

External and Public Debt Sustainability

9. **Congo is classified as a poor performer using the Country Policy and Institutional Assessment (CPIA).**[4] This rating implies that the thresholds used to assess the risk of debt distress are lower than those used to assess eligibility for the HIPC Initiative: NPV of debt to exports of 100 percent and NPV of debt to revenue of 200 percent. Congo qualified for the HIPC Initiative on the basis of a threshold NPV of debt to revenue ratio of 250 percent.

10. **The debt sustainability outlook is strikingly different from one scenario to the other.** Under the non-adjustment scenario, even after debt relief is granted under the enhanced HIPC Initiative, Congo's debt in NPV terms would breach all sustainability thresholds by 2011. In contrast, a medium-term fiscal strategy envisaging a decrease in the non oil deficit would bring Congo's debt ratios to within sustainable bounds, as shown in the baseline scenario.

11. **Under the baseline scenario, the NPV of external debt-to-GDP is expected to decline smoothly, albeit at a lower pace than projected in the HIPC decision-point document, as a result of the newly contracted external debt.** At end-2006, the NPV of external debt is estimated to be 75 percent of GDP and 87 percent of exports. This implies a decline from the 2005 levels, when the NPV of debt was 99 percent of GDP and 122 percent of exports (Table 1). The NPV of debt-to-GDP ratio declines steadily under this scenario to about 12 percent by 2026. The path projected under the baseline scenario is very similar to that projected in the LIC DSA published in the HIPC decision-point document (Figure 1).

[4] Independently of whether the three-year moving average or the 2005 classification is used.

12. **Under the baseline scenario, the external debt service indicator also suggests a moderate burden.** The projected debt-service levels are below the indicative threshold in the medium and long term. The debt service-to-exports and debt service-to-revenue ratios nonetheless rise faster than projected at HIPC decision point: this reflects the newly contracted external debt, with debt service payments falling due starting in 2011.

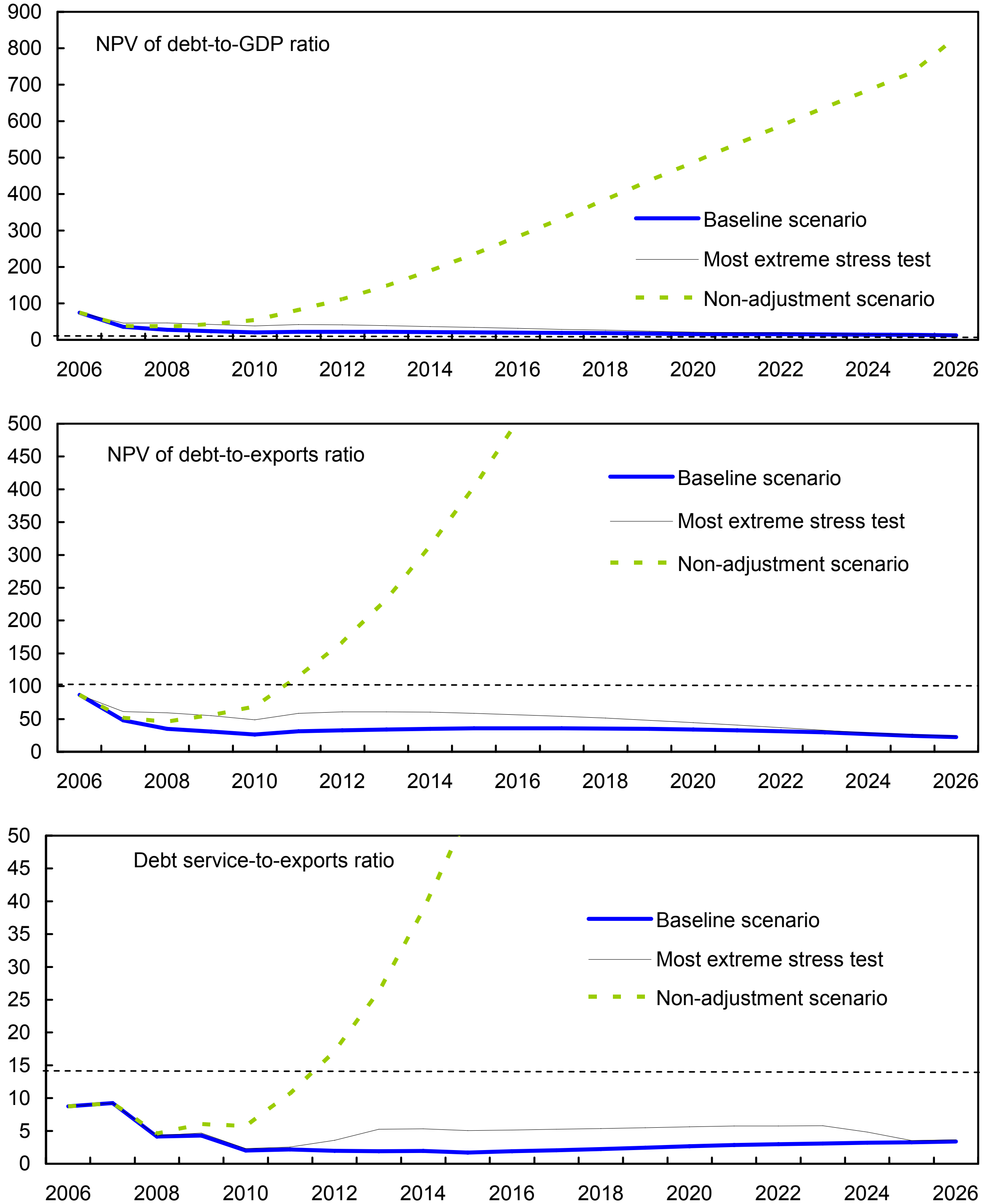
13. **Under the non-adjustment scenario, both Congo's external and public debt become unsustainable by 2011, even after the granting of debt relief at end-2009.** Debt indicators consistently show that Congo would reach debt levels above the indicative thresholds in NPV terms by 2011.

14. **Figure 2 illustrates the debt dynamics of Congo's total domestic and external public debt.** Under the non-adjustment scenario, Congo's debt ratios (NPV debt-to-GDP, NPV debt-to-revenue, and debt service-to-revenue) increase sharply as a result of cumulative financing gaps. In contrast, the baseline scenario show that public debt indicators remain within sustainable bounds. In this latter scenario, the NPV of public debt-to-revenue ratio is projected to decline from 172 percent in 2006 to 29 percent by 2026. The debt service-to-revenue ratio is projected to decline from 22 to less than 2 percent by 2015, but to increase thereafter due to payments on the newly contracted debt (Table 3 and Figure 2).

15. **Stress tests under the baseline scenario confirm Congo's vulnerability to plausible shocks,** in particular to a fall in FDI inflows**,** lower real GDP growth, and a depreciation of the CFA franc to the US dollar (Table 4). Under the most extreme stress test (a shock to non-debt creating flows), the NPV of debt-to-GDP ratio would remain above its 30 percent indicative threshold until 2016.

16. **In summary, the analysis shows that, with Congo's high debt level, keeping the non oil fiscal deficit unchanged over the long run endangers debt sustainability, even if HIPC completion point is reached.** In the absence of significant fiscal adjustment, Congo is likely to face debt distress well within the 20-year forecast horizon, given that sustainability indicators quickly breach the policy-dependent indicative thresholds in the forecast horizon in the non-adjustment scenario. An adjustment of policies, in particular a reduction of non oil deficits in the long run, would bring Congo's debt onto a sustainable path: this outcome would be contingent on the pursuit of prudent macroeconomic policies, thus highlighting the need to ensure that new borrowing in the period ahead is lower than it has been in recent years.

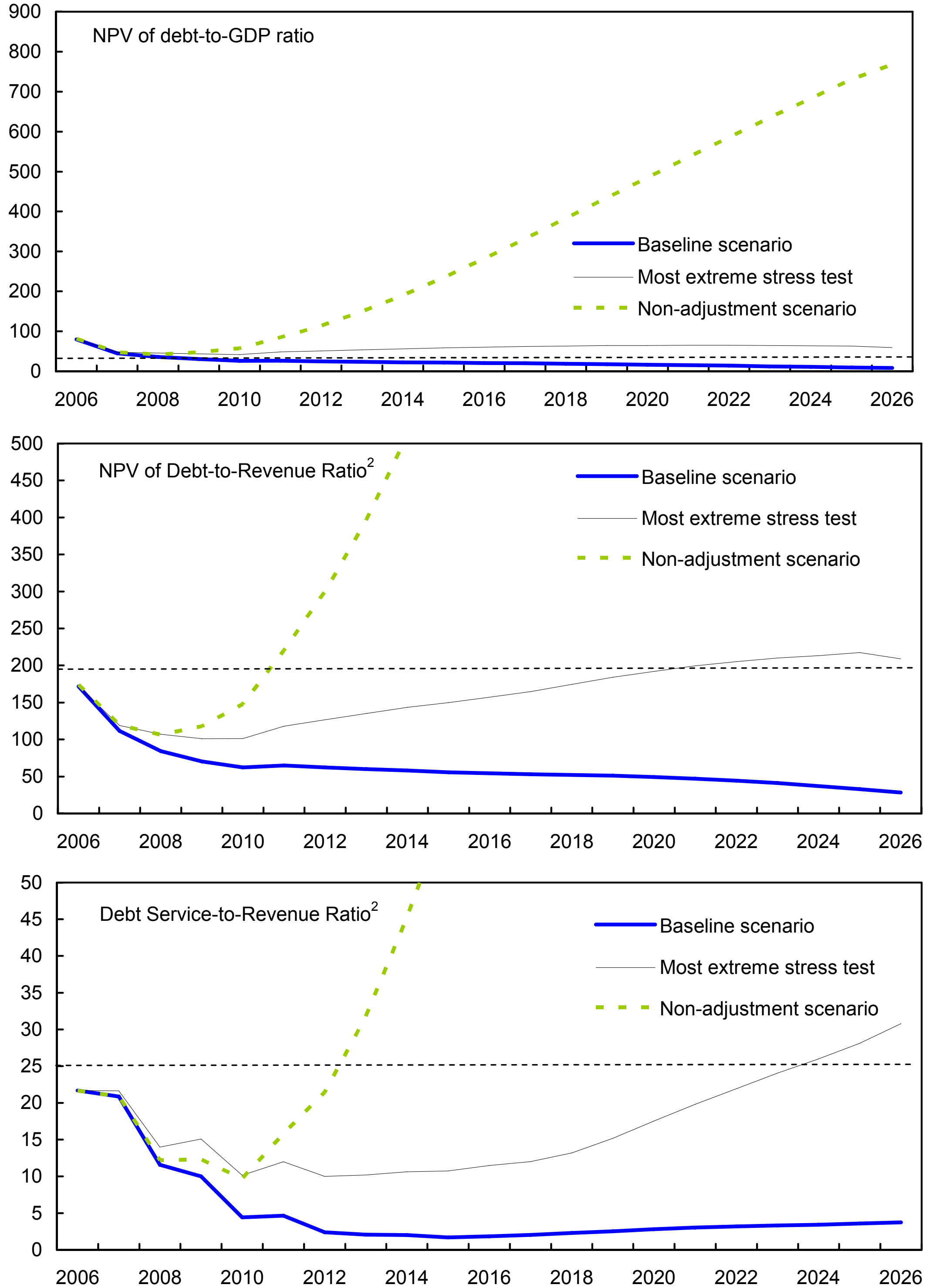
Figure 1. Congo: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2006-26
(Percent)



Source: Staff projections and simulations.

Figure 2. Congo: Indicators of Public Debt Under Alternative Scenarios, 2006-26[1]

(Percent)



Source: Staff projections and simulations.

[1] Most extreme stress test is test that yields highest ratio in 2016.

[2] Revenue including grants.

Table 3. Congo: External Debt Sustainability Framework, Baseline Scenario, 2006-26 [1]
(Percent of GDP, unless otherwise indicated)

	Actual	Historical Average [6]	Standard Deviation [6]	Projections								
	2005			2006	2007	2008	2009	2010	2006-11 Average	2016	2026	2012-26 Average
External debt (nominal) [1]	**103.2**			**78.2**	**85.7**	**73.0**	**46.9**	**41.7**		**39.2**	**29.3**	
o/w public and publicly guaranteed (PPG)	103.7			77.6	79.2	61.3	48.1	42.2		39.2	29.3	
Change in external debt	-108.9			-26.2	1.7	-18.0	-13.2	-5.9		-1.7	-0.9	
Identified net debt-creating flows	-81.2			-33.0	-22.0	-29.8	-28.0	-25.7		-16.5	-10.3	
Non-interest current account deficit	**-12.8**	**-3.8**	**7.9**	**-16.4**	**-8.3**	**-12.6**	**-14.6**	**-12.0**		**-7.2**	**-2.1**	-3.0
Deficit in balance of goods and services	-60.2			-65.7	-51.7	-57.4	-56.4	-55.0		-35.1	-26.8	
Exports	81.5			86.4	75.0	78.6	77.4	78.4		56.1	54.6	
Imports	21.3			20.7	23.3	21.2	21.0	23.4		21.0	27.8	
Net current transfers (negative = inflow)	0.0	-0.2	0.4	0.0	0.0	0.0	0.0	0.0		0.0	-0.2	-0.1
Other current account flows (negative = net inflow)	47.4			49.2	43.3	44.7	41.8	43.0		28.0	24.8	
Net FDI (negative = inflow)	**-12.2**	**-9.4**	**6.2**	**-12.2**	**-11.2**	**-12.8**	**-10.5**	**-10.8**		**-8.1**	**-8.6**	-8.2
Endogenous debt dynamics [2]	**-56.2**			**-4.4**	**-2.4**	**-4.4**	**-2.9**	**-2.9**		**-1.2**	**0.5**	
Contribution from nominal interest rate	1.9			1.1	0.8	0.3	0.6	1.0		0.7	0.5	
Contribution from real GDP growth	-12.2			-5.5	-3.2	-4.7	-3.5	-3.8		-2.0	0.0	
Contribution from price and exchange rate changes	-45.8			…	…	…	…	…		…	…	
Residual (3-4) [3]	**-27.7**			**6.9**	**23.6**	**11.8**	**14.8**	**19.8**		**14.9**	**9.4**	
o/w exceptional financing	-1.7			-2.0	-1.1	0.1	-6.8	0.0		0.0	0.0	
NPV of external debt [4]	99.2			74.9	35.9	27.4	23.8	20.7		20.1	12.2	
(percent of exports)	121.7			86.7	47.9	34.8	30.7	26.4		35.8	22.3	
NPV of PPG external debt	**99.2**			**74.9**	**35.9**	**27.4**	**23.8**	**20.7**		**20.1**	**12.2**	
(percent of exports)	121.7			86.7	47.9	34.8	30.7	26.4		35.8	22.3	
Debt service-to-exports ratio (percent)	12.9			8.7	9.3	4.2	4.3	2.0		1.9	3.4	
PPG debt service-to-exports ratio (percent)	12.9			8.7	9.3	4.2	4.3	2.0		1.9	3.4	
Total gross financing need (billions of U.S. dollars)	-0.9			-1.6	-0.8	-1.8	-1.9	-2.1		-1.7	-1.4	
Non-interest current account deficit that stabilizes debt rat	96.2			9.7	-10.0	5.3	-1.4	-6.1		-5.5	-1.2	
Key macroeconomic assumptions												
Real GDP growth (percent)	7.9	3.3	2.9	6.6	3.8	7.4	6.1	9.0	5.3	5.1	0.0	4.7
GDP deflator in US dollar terms (change in percent)	27.5	8.8	17.7	16.0	-12.4	15.5	0.8	3.8	3.1	0.9	0.0	-1.3
Effective interest rate (percent) [5]	1.2	3.9	1.3	1.4	0.9	0.5	1.1	2.2	1.4	1.9	1.5	1.8
Growth of exports of G&S (US dollar terms, in percent)	43.5	16.7	24.5	31.0	-21.1	30.1	5.4	14.5	7.5	2.2	0.0	1.5
Growth of imports of G&S (US dollar terms, in percent)	18.0	7.8	14.5	20.2	2.0	13.2	5.7	25.9	11.4	8.8	0.0	4.3
Grant element of new public sector borrowing (percent)	...	...	...	31.2	29.1	35.8	34.5	33.7	33.3	33.0	37.7	31.0
Memorandym item:												
Nominal GDP (billions of US dollars)	6.0			7.4	6.7	8.3	8.9	10.1		11.9	15.4	

Source: Staff simulations.

[1] Includes both public and private sector external debt.
[2] Derived as [r - g - r(1+g)]/(1+g+r+gr) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and r = 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 NPV of private sector debt is equivalent to its face value.
[5] Current-year interest payments devided by previous period debt stock.
[6] Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 4. Congo: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, 2006-26
(Percent)

	Projections							
	2006	2007	2008	2009	2010	2016	2020	2026
NPV of debt-to-GDP ratio								
Baseline Scenario	75	36	27	24	21	20	16	12
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2007-26 [1]	75	41	53	64	76	89	83	59
A2. New public sector loans on less favorable terms in 2007-26 [2]	75	36	27	24	21	21	17	14
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2007-08	75	37	30	26	23	22	18	13
B2. Export value growth at historical average minus one standard deviation in 2007-08 [3]	75	27	29	26	22	22	17	12
B3. US dollar GDP deflator at historical average minus one standard deviation in 2007-08	75	38	40	35	30	29	23	18
B4. Net non-debt creating flows at historical average minus one standard deviation in 2007-08	75	46	47	43	38	32	21	13
B5. Combination of B1-B4 using one-half standard deviation shocks	75	19	13	8	6	13	15	15
B6. One-time 30 percent nominal depreciation relative to the baseline in 2007 [5]	75	55	42	36	31	31	24	19
NPV of debt-to-exports ratio								
Baseline Scenario	87	48	35	31	26	36	34	22
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2007-26 [1]	87	55	67	83	96	159	175	109
A2. New public sector loans on less favorable terms in 2007-26 [2]	87	48	35	31	27	38	37	26
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2007-08	87	48	35	31	26	36	34	22
B2. Export value growth at historical average minus one standard deviation in 2007-08 [3]	87	31	45	40	35	47	44	27
B3. US dollar GDP deflator at historical average minus one standard deviation in 2007-08	87	48	35	31	26	36	34	22
B4. Net non-debt creating flows at historical average minus one standard deviation in 2007-08	87	61	59	55	49	56	45	23
B5. Combination of B1-B4 using one-half standard deviation shocks	87	19	12	8	6	17	24	20
B6. One-time 30 percent nominal depreciation relative to the baseline in 2007 [5]	87	48	35	31	26	36	34	22
Debt service ratio								
Baseline Scenario	9	9	4	4	2	2	3	3
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2007-26 [1]	9	8	5	5	3	13	18	15
A2. New public sector loans on less favorable terms in 2007-26 [2]	9	9	4	4	2	2	3	4
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2007-08	9	9	4	4	2	2	3	3
B2. Export value growth at historical average minus one standard deviation in 2007-08 [3]	9	8	5	5	2	3	4	4
B3. US dollar GDP deflator at historical average minus one standard deviation in 2007-08	9	9	4	4	2	2	3	3
B4. Net non-debt creating flows at historical average minus one standard deviation in 2007-08	9	9	4	5	2	5	6	4
B5. Combination of B1-B4 using one-half standard deviation shocks	9	7	4	4	2	-1	0	3
B6. One-time 30 percent nominal depreciation relative to the baseline in 2007 [5]	9	9	4	4	2	2	3	3
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) [6]	31	31	31	31	31	31	31	31

Source: Staff projections and simulations.

[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 5. Congo: Public Sector Debt Sustainability Framework, Baseline Scenario, 2003-2026
(Percent of GDP, unless otherwise indicated)

	Actual			Estimate					Projections			
	2005	Historical Average [5]	Standard Deviation [5]	2006	2007	2008	2009	2010	2006-11 Average	2016	2026	2012-26 Average
Public sector debt [1]	121.1			82.7	88.0	72.3	56.6	48.8		41.2	19.9	
o/w foreign-currency denominated	109.0			73.7	79.1	65.7	51.5	45.1		41.2	19.9	
Change in public sector debt	-92.8			-38.5	5.4	-15.7	-15.6	-7.8		-1.8	-2.2	
Identified debt-creating flows	-58.2			-53.0	0.1	-27.7	-51.1	-27.5		-12.9	-1.5	
Primary deficit	-20.9	-5.7	7.0	-23.8	-12.8	-17.8	-18.9	-18.4	-17.8	-10.3	-0.2	-6.7
Revenue and grants	39.6			46.6	40.2	42.6	43.4	41.5		38.5	28.1	
of which : grants	0.2			0.1	0.7	0.7	0.7	0.6		0.7	0.6	
Primary (noninterest) expenditure	18.6			22.8	27.4	24.8	24.6	23.1		28.2	27.9	
Automatic debt dynamics	-34.0			-27.5	15.1	-10.1	-3.4	-5.4		-1.8	-0.9	
Contribution from interest rate/growth differential	-17.7			-6.7	-0.6	-6.2	-3.9	-4.5		-2.1	-1.2	
of which : contribution from average real interest rate	-2.4			0.6	2.4	-0.2	0.1	0.1		0.0	0.0	
of which : contribution from real GDP growth	-15.4			-7.3	-3.0	-5.9	-4.1	-4.6		-2.1	-1.2	
Contribution from real exchange rate depreciation	-16.3			-20.8	15.7	-3.9	0.5	-0.9		...	...	
Other identified debt-creating flows	-3.3			-1.6	-2.2	0.2	-28.8	-3.7		-0.8	-0.4	
Privatization receipts (negative)	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	
Debt relief (HIPC and other)	-3.3			-1.6	-2.2	0.2	-28.8	-3.7		-0.8	-0.4	
Other (specify, e.g. bank recapitalization)	0.0			0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	-34.5			14.5	5.2	12.0	35.4	19.7		11.1	11.1	
NPV of public sector debt	56.7			80.1	44.8	36.0	30.6	25.8		20.9	8.0	
o/w foreign-currency denominated	44.6			71.2	35.9	29.3	25.4	22.1		20.9	8.0	
o/w external	44.6			71.2	35.9	29.3	25.4	22.1		20.9	8.0	
NPV of contingent liabilities (not included in public sector debt)	0.0			0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Gross financing need [2]	-6.8			-13.7	-4.4	-12.9	-14.5	-16.5		-9.1	-0.3	
NPV of public sector debt-to-revenue ratio (percent) [3]	143.4			171.8	111.5	84.5	70.5	62.2		54.4	28.6	
o/w external	112.7			152.6	89.3	68.9	58.5	53.3		54.4	28.6	
Debt service-to-revenue ratio (percent) [3, 4]	35.7			21.7	20.9	11.6	10.0	4.4		1.8	3.7	
Primary deficit that stabilizes the debt-to-GDP ratio	71.9			14.6	-18.2	-2.0	-3.2	-10.6		-8.5	2.0	
Key macroeconomic and fiscal assumptions												
Nominal GDP (local currency)	3150			3862	3349	3854	4110	4619		5497	11241	
Real GDP growth (percent)	7.7	3.3	3.3	6.4	3.7	7.2	6.0	8.8	5.2	5.1	5.6	5.1
Average nominal interest rate on forex debt (percent)	1.4	4.0	1.5	1.2	0.9	0.5	1.0	2.2	1.4	1.9	1.5	1.8
Average real interest rate on domestic currency debt (percent)	-1.7	-2.4	17.1	12.5	19.8	11.4	10.2	0.6	10.1	...	...	-41.1
Real exchange rate depreciation (in percent, + indicates depreciation)	-9.0	-3.4	15.6	-20.5	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, percent)	27.4	9.7	20.6	15.2	-4.8	6.2	1.8	2.4	3.6	2.5	2.7	2.5
Growth of real primary spending (deflated by GDP deflator, percent)	-12.8	5.5	23.2	30.1	9.3	-1.8	3.8	3.1	8.1	4.3	4.8	4.5
Grant element of new external borrowing (percent)	52.8	5.3	16.7	31.2	29.1	35.8	34.5	33.7	33.3	33.0	71.3	1.9

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

[1] Public sector comprises central government, gress 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 including 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 6. Congo: Sensitivity Analysis for Key Indicators of Public Debt 2006-26

	Projections							
	2006	2007	2008	2009	2010	2015	2020	2026
NPV of Debt-to-GDP Ratio								
Baseline Scenario	80	45	36	31	26	22	17	8
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	80	52	56	64	73	109	117	319
A2. Non-oil primary balance is unchanged from 2006	81	48	42	48	57	234	124	768
A3. Permanently lower GDP growth [1]	80	45	37	33	29	35	41	45
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2007-2008	80	48	46	44	42	59	65	59
B2. Primary balance is at historical average minus one standard deviations in 2007-2008	80	58	65	59	52	50	40	28
B3. Combination of B1-B2 using one half standard deviation shocks	80	56	64	59	53	55	46	34
B4. One-time 30 percent real depreciation in 2007	80	63	53	50	43	39	28	17
B5. 10 percent of GDP increase in other debt-creating flows in 2007	80	54	44	39	33	30	22	13
NPV of Debt-to-Revenue Ratio [2]								
Baseline Scenario	172	111	85	70	62	56	49	29
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	172	128	131	147	176	279	347	1126
A2. Non-oil primary balance is unchanged from 2006	174	119	106	118	148	631	353	2699
A3. Permanently lower GDP growth [1]	172	113	88	76	70	90	123	161
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2007-2008	172	119	107	101	101	150	192	209
B2. Primary balance is at historical average minus one standard deviations in 2007-2008	172	144	154	136	125	129	120	99
B3. Combination of B1-B2 using one half standard deviation shocks	172	139	150	135	127	140	138	120
B4. One-time 30 percent real depreciation in 2007	172	158	124	115	104	99	84	59
B5. 10 percent of GDP increase in other debt-creating flows in 2007	172	135	104	89	80	77	66	45
Debt Service-to-Revenue Ratio [2]								
Baseline Scenario	22	21	12	10	4	2	3	4
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	22	21	18	23	22	21	33	46
A2. Non-oil primary balance is unchanged from 2006	22	21	12	12	10	60	8	397
A3. Permanently lower GDP growth [1]	22	21	12	11	5	5	10	24
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2007-2008	22	22	14	15	10	11	18	31
B2. Primary balance is at historical average minus one standard deviations in 2007-2008	22	21	22	28	12	6	14	17
B3. Combination of B1-B2 using one half standard deviation shocks	22	21	21	27	13	7	15	19
B4. One-time 30 percent real depreciation in 2007	22	21	12	11	6	3	4	7
B5. 10 percent of GDP increase in other debt-creating flows in 2007	22	21	19	13	6	3	5	8

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

[1] Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of 20 (i.e., the length of the projection period).

[2] Revenues are defined inclusive of grants.

INTERNATIONAL MONETARY FUND

REPUBLIC OF CONGO

Staff Report for the 2007 Article IV Consultation—Informational Annex

Prepared by the Staff Representatives for the 2007 Consultation
with the Republic of Congo

Approved by Thomas Krueger and Anthony Boote

April 9, 2007

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Annexes

Annex I—Republic of Congo: Relations with the Fund

(As of February 28, 2007)

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

II. General Resources Account:

	SDR Million	Percent Quota
Quota	84.60	100.00
Fund holdings of currency	84.07	99.37
Reserve tranche position	0.54	0.63

III. SDR Department:

	SDR Million	Percent Allocation
Net cumulative allocation	9.72	100.00
Holdings	0.13	1.29

IV. Outstanding Purchases and Loans:

	SDR Million	Percent Quota
PRGF arrangements	23.58	27.87

V. Latest Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	12/06/2004	06/05/2008	54.99	23.58
PRGF	06/28/1996	06/27/1999	69.48	13.90
Stand-by arrangement	05/27/1994	05/26/1995	23.16	12.50

VI. Projected Payments to Fund: (**SDR million; based on existing use of resources and present holdings of SDRs**):

	Forthcoming				
	2007	2008	2009	2010	2011
Principal	0.00	0.00	0.00	1.57	3.14
Charges/interest	0.42	0.53	0.53	0.52	0.51
Total	0.42	0.53	0.53	2.10	3.66

VII. Implementation of HIPC Initiative:

The Republic of Congo reached the decision point under the enhanced HIPC Initiative in March 2006.

I. Commitment of HIPC assistance	Enhanced Framework
Decision point date	March 2006
Assistance committed	
by all creditors (US$ million) [9]	1,679.00
Of which: IMF assistance (US$ million)	8.08
(SDR equivalent in millions)	5.64
Completion point date	Floating
II. Disbursement of IMF assistance (SDR million)	
Assistance disbursed to the member	--
Interim assistance	--
Completion point balance	--
Additional disbursement of interest income [10]	--

VIII. Safeguards Assessments:

The Bank of the Central African States (BEAC) is the regional central bank of Central African States, of which Republic of Congo is a member. A safeguard assessment of the BEAC completed on August 30, 2004 found that BEAC has implemented a number of measures to strengthen its safeguards framework since the 2001 safeguards assessment, but further progress needs to be made in key areas (see IMF Country Report No. 06/262; June 30, 2006).

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

[10] 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.

IX. Exchange Rate Arrangement:

Congo's currency is the CFA franc, which is pegged to the Euro at a fixed rate of CFAF 655.957 = Euro 1. On December 31, 2006, the rate of the CFA franc was CFAF 749.30 per SDR. Congo does not impose any restrictions on the making of payments and transfers for current international transactions.

X. Article IV Consultations:

Consultations with Congo are on a 24-month cycle, based on the Board decision on consultation cycles in program countries. The 2004 consultation discussions started in Brazzaville in February 2004 and concluded in Washington in March 2004. The staff report (www.imf.org) was considered by the Executive Board on June 10, 2004.

XI. FSAP Participation :

N/A.

XII. Technical Assistance :

Subject	Department	Staff Member	Date
Public expenditure management	FAD	Mr. Bouley	August 2006
Resident advisor on real sector	STA	Mr. Gbossa	Since November 2005
Modernization of tax and customs administrations	FAD	Messrs. Montagnat-Rentier, Lesprit and Boilil	February 2004
Follow-up mission	FAD	Mr. Lepage	November 2003
Budget functional classification	FAD	Messrs. Bouley, Helis, and Lepage	October 2003
Multisector statistics	STA	Messrs. Marie, Maiga, and Mmes. Fisher, Matei, Razin, and Balvani	May 2002
Resident expert on statistics	STA	Mr. Sin	Since October 2001
Balance of payments	STA	Mr. Fiévet	June 2001
Budget, tax, and customs	FAD	Messrs. Bouley, Moussa, Brik, and Mrs. Tricoire	April–May 2001
Resident tax expert	FAD	Mr. Laurent	1995–97
Tax administration	FAD	Mr. Grandcolas	November 1995–April 1996
Tax administration	FAD	Messrs. Grandcolas and Castro	November 1994

XIII. Resident Representative:

The resident representative, Mr. Yaya Moussa, took up his assignment in September 2005.

Annex II—Republic of Congo: Relations with the World Bank Group (As of March 26, 2007)

A. Partnership in the Republic of Congo's development strategy

1. After four successive conflicts 1993, 1997, 1998/99 and 2001/03, civil peace has been gradually restored since the ceasefire was signed in 2000 and a peace agreement with the last active rebel group was reached in March 2003. Since the ceasefire and adoption of the new Constitution in 2002, the country has been largely at peace, to the great benefit of Congolese people. Congo has now completed a five-year transition period, including ratification of the presidency of Denis Sassou-Nguesso, and election of a parliament and a senate, in 2002. The international community re-engaged in Congo in 2001 following the clearance of arrears to the Bank and the Fund. The PRGF arrangement approved by the IMF Board in December 2004 paved the way for financing from donors including the AfDB, and the debt rescheduling by the Paris Club. More recently the HIPC Decision point approval in March 2006 has led to the strengthening of dialogue as well as the international community engagement in Congo. The HIPC floating completion point triggers focus on the following issues: (i) preparation of a full PRSP, (ii) maintenance of macroeconomic stability, (iii) alignment of public spending with priorities identified in the PRSP, (iv) strengthening of public finance management, (v) improvement of governance in the natural resource management, (vi) improvement of regulation in the telecom sector, (vii) improvement of services in education, health and the prevention of HIV/AIDS; and (viii) transparency in external debt management.

2. The main external development partners in Congo include: the European Union, the African Development Bank (AfDB), the French Agency for Development (AFD), the UNDP, the World Bank and the IMF. The main areas of intervention are on governance, urban development, transport, health, education, environment, and public finance. The AFD and the AfDB issued their assistance strategies in 2005 for 2005-07 while the World Bank is preparing an Interim Strategy Note for the next FY07-08.

B. World Bank Group (IDA, IFC and MIGA) assistance strategy

3. In 2001, the Bank reengaged in Congo in the context of a Transitional Support Strategy (TSS). The first TSS (Report 21328-COB) for the Republic of Congo, to guide operation for the period 2000-02, was endorsed by the Board on January 16, 2001. It focused on the consolidation of the peace process and the physical reconstruction of the country. The second TSS for FY03-05, endorsed by the Board in September 2003 (Report 26566-COB), aimed at helping Congo to break out of the conflict trap. It was anchored on four interrelated pillars: (i) creating jobs through economic growth and diversification, (ii) repositioning the public sector and enhancing its capacity, (iii) mitigating short- and medium-term risks to the social environment, and (iv) providing resources to support socio-economic development and stability through enhanced external assistance and debt relief. The Bank provided financial

support and policy advice in these areas through lending and non-lending instruments.

4. As of March 26, the World Bank portfolio in the Republic of Congo consisted of 4 IDA operations with a total commitment of $87 million, out of which $58 were disbursed. Table 1 below shows the status of the Bank's portfolio in Congo. Operations have focused on: (i) supporting the implementation of reforms aimed at transparency and efficiency of public resource management (Economic Recovery Credit, and Transparency and Governance Capacity Building Project); (ii) supporting socio-economic infrastructure rehabilitation and rural development (Emergency Infrastructure Rehabilitation and Living Conditions Improvement, Emergency Recovery and community Support, and the Basic Education Support); and (iii) supporting national policies and programs in the area of HIV-AIDS (HIV-AIDS and Health Project). Two projects were closed recently, the ERC at end December 2006 and the Emergency Infrastructure Rehabilitation and Living Conditions Improvement at end January 2007. One project is currently under preparation, the Agriculture and Rural Roads Rehabilitation Project ($20 million). A supplemental to the Transparency and Governance Capacity Building Project is being prepared ($15 million; grant).

Table 1. Republic of Congo: Status of World Bank Portfolio (all IDA)

(Millions of US$ unless otherwise specified)

Operation	Board Approval	Effective	Closing	Amount	Disbursed
Basic Education Support	09/23/2004	03/25/2005	12/31/2008	20.0	9.1
MAP/HIV-AIDS and Health	04/20/2004	10/28/2004	06/30/2009	19.0	11.0
Emergency Recovery & Community Support	06/24/2003	09/16/2003	12/31/2007	41.0	32.7
Transparency and Governance	02/07/2002	02/28/2003	12/31/2007	7.0	4.8
Total				87.0	57.6

5. The lending program is complemented by a number of grants, including a $17 million Multi-country Demobilization and Reintegration Program grant that became effective in August 2006.

6. The analytical work program carried out under the TSS FY03-05 consisted of a Public Expenditure Review (PER), a Debt Sustainability Analysis (DSA), a combined Country Procurement Assessment Report (CPAR) and Country Financial Accountability Assessment (CFAR), an Education sector review, and an Agriculture Policy Note.

Interim Strategy Note

7. An update of the Bank's assistance strategy in the form of an Interim Strategy Note (ISN), is currently under preparation. The proposed ISN covers the period FY07-08 and includes an IDA grant envelope of SDR62 million (or $80 million equivalent). It is expected to be presented to the Board early May 2007. This would be followed by a full Country Assistance Strategy (CAS), once the full PRSP is in place. On the basis of large broad consultations carried out on in the country as well as during the HIPC Decision Point discussions, the proposed ISN focuses on the following two pillars:

- ***Scaling up the governance focus, especially with regard to oil sector governance, public financial management***, with an emphasis on budgeting and public investment management, and corruption. This ISN is strategically timed to support the HIPC floating completion point triggers, which will serve as interim benchmarks for the governance reform. This scaled-up reform effort will continue to complement other ongoing donor initiatives, such as the Bank-supported Extractive Industry Transparency Initiative.

- Creating the foundation for equitable growth, through improved implementation of poverty alleviation programs, with special ***emphasis on health, underserved communities in urban areas; and the rural sector*** to foster economic diversification and address poverty issues.

IFC

8. IFC has no current investments in Congo, but is closely following developments in the privatization of the railway. In addition, it is also exploring opportunities in the financial sector restructuring, SME development, infrastructure rebuilding, and development of the oil sector and mining.

MIGA

9. Congo has contributed to the General Capital Increase in March 2003. MIGA has no exposure in Congo, and there is no active application.

C. Bank-Fund collaboration in specific areas

10. The IMF and World Bank staffs maintain a close collaborative relationship in supporting policies to help Congo strengthen civil peace, sustain macro-economic stability, improve governance, consolidate the social recovery, and promote sustainable development. Exchange of information and discussion on progress in the implementation of the reform program under the PRGF Program and the HIPC initiative take place on a regular basis between the Bank and the Fund. Joint missions will be carried out to review progress.

C.1. Areas in which the Bank leads

- Social sector reforms;
- Rural development;
- Privatization and regulatory reform and private sector development;
- Transparency in the use of public funds, notably through the reform of public procurement and public investment management; and
- Corruption issues and analysis

C.2. Areas where the Bank and the Fund share the lead

- Assistance to PRSP preparation;
- Debt sustainability;
- Governance issues;
- Governance in natural resource management in particular the oil sector and forestry sector;
- Public Finance management;
- Financial sector;
- Statistics and measurement issues.

C.3. Areas in which the Fund leads

- Macroeconomic stability;
- Fiscal policy including tax policy and administration; customs/tariffs policy, and non-oil revenue mobilization;
- Monetary policy;
- Competitiveness/exchange rate/trade policy issues;
- External payments regime;

Annex III—Republic of Congo: Statistical Issues

Data provision to the Fund is generally adequate for surveillance purposes, despite weaknesses in national accounts and balance of payments statistics. The statistical infrastructure is being slowly rebuilt after the civil strife of 1997 and December 1998–October 1999, during which administrative infrastructure suffered severe damage and many records were lost. Since October 2001, a STA resident statistical expert has been assisting the authorities with the macroeconomic statistics.

A STA multisector mission visited Brazzaville in May 2002 to conduct an assessment of the statistical system. The mission's general finding was that macroeconomic statistics are weak and suffer from the absence of a national statistical program and shortages of financial, physical, and human resources. It recommended measures for improvement, which are being followed up by the statistical advisor.

The Republic of Congo has participated in the General Data Dissemination System (GDDS) since November 5, 2003; however, the metadata posted on the Fund's Dissemination Standards Bulletin Board (DSBB) has not been updated or certified since 2003.

Real sector statistics

National accounts data are weak, with inconsistencies, both internally and with the balance of payments. Estimates for the informal sector are based on information that dates back to 1978. The Directorate General of Statistics (DGS) of the Ministry of Finance provides Fund missions with a breakdown of GDP by expenditures and sectors, both in nominal and real terms. Historically, data on oil sector transactions have been weak, raising questions about transparency in the inter-play of the oil companies operating in the country and the government agencies dealing with them.

Annual data on employment in the central government are available from the Ministry of Finance, but they are not consistent with data from the civil service roster of the Ministry of the Civil Service. As part of the structural reforms undertaken in the context of the post-conflict program, the government completed an audit of public service employees and established a new civil service payroll roster. Data on employment in the private sector are not available.

Movements in the prices of commodities consumed by households are recorded for the capital city of Brazzaville (weights for 1977 and price reference period of December 1977) and the second-largest city of Pointe Noire (price reference period of January 1996 and weights for 1989). Weights no longer reflect current household consumption patterns. Data are compiled on a monthly basis. The authorities intend to compile a CPI that is harmonized with other CEMAC countries.

Government finance statistics

Compilation of **government finance statistics** (GFS) is neither comprehensive nor systematic. The *Tableau des Opérations Financières de l'État* (TOFE) is based on several disparate sources rather than a comprehensive set of accounting statements. Financing data are currently obtained from monetary statistics instead of the government accounts. As a result, the consistency between government finance and monetary and financial statistics cannot be ascertained.

At the time of the May 2002 multisector mission, the *Balance des comptes du Trésor*, a basic and essential treasury source document, as well as other sources, were not made available to the producers of the TOFE.[11] The mission recommended that systematic procedures be established for the compilation of government finance statistics, based, to the extent possible, on a unified set of accounting and administrative records.

TOFE compilers do not have access to relevant financial statements of the Société Nationale des Pétroles Congolais (SNPC), which carries out several operations on behalf of the government (notably in the oil sector).

In 2003, the Congo reported GFS data to STA for publication in the *GFS Yearbook* using the *GFSM 2001* template but, no data has been reported since and no fiscal data has been reported for publication in *IFS* since 2001. The compilation of GFS statistics to be reported to the Fund should be carried out in close cooperation with the compilers of the TOFE.

Progress is underway to address these shortcomings. In February/March 2003, a FAD follow-up mission found that most of the recommendations of the 2001 FAD mission on expenditure management, in particular with regard to the centralization of all government revenue and execution of public expenditure through the budget, are being implemented, and steps have been taken to computerize the expenditure chain.

The Caisse Congolaise d'Amortissement (CCA) produces comprehensive data on the outstanding stock of external public debt, including arrears and its composition, together with detailed projections on debt service due. These data are provided to Fund missions. However, the debt-stock data cannot be reconciled with flow data in the balance of payments. The CCA also produces domestic debt data.

There is no centralized, comprehensive database on the operations of public enterprises. However, some information has been made available to Fund missions by individual enterprises.

Monetary and financial statistics

Monthly data on monetary statistics for the Congo, as well as for the other members of the Central African Economic and Monetary Community (CEMAC), are regularly reported to the Fund in electronic form by the regional central bank (BEAC). Accuracy of monetary data

[11] This compilation is not undertaken on the basis of treasury accounting records, to which the compilers themselves do not have access. The mission examined the Excel worksheet used for the compilation of the TOFE and made recommendations for improvements, although it could not establish the links between that worksheet and the primary data sources.

may be hampered by large cross-border movements of currency among CEMAC member countries. However, the Congo is moderately affected by such movements: 5.7 percent of banknotes issued in the Congo by the BEAC national directorate circulate in Cameroon and about one percent in Gabon, while currency in circulation in the Congo includes about 2.6 percent of banknotes from Cameroon and about 3.4 percent from Gabon.

The monetary and financial statistics mission that visited the BEAC headquarters in May 2001 provided technical assistance on the compilation and timeliness of monetary statistics. The mission discussed an action plan for the implementation of the *Monetary and Financial Statistics Manual (MFSM)* and for the introduction of an area-wide page in *IFS* for the CEMAC. Following the 2001 mission, a regional workshop on monetary and financial statistics was organized by the BEAC in Libreville (Gabon) in May 2002 to support the implementation of the *MFSM* in the CEMAC countries. The new page for CEMAC was published in the January 2003 issue of *IFS*.

The May 2002 multisector mission found that the institutional coverage of government and of nonfinancial public sector in monetary statistics are outdated and need to be revised.

External sector statistics

As in other CEMAC countries, the national agency of the BEAC is responsible for the collection and the dissemination of balance of payments data. The balance of payments statistics are prepared on an annual basis while the compilation system has been specifically designed to produce quarterly data. Through 1994, balance of payments data were compiled in the framework of the *Balance of Payments Manual, Fourth Edition*. The BEAC provides annual data on exports of goods and services and on capital flows other than public debt. Since 1995, data are being prepared using the *Balance of Payments Manual*, *Fifth Edition*. In 2006, balance of payments data for 1995 through 2005 were reported to the Fund for publication in *International Financial Statistics*.

In May 2002, the technical assistance mission found the compilation system and procedures to be conceptually sound but flawed in their application due to the absence of documented sources and methods, understaffing, and insufficient training. This situation has resulted in significant delays in the production of balance of payments statistics and, in general, poor monitoring of the quality of the input data provided by the statistical respondents. Furthermore, the opacity surrounding certain transactions in the oil sector introduces an important element of imprecision. In addition, net investment flows are overestimated by significant unrecorded disinvestment operations that are part of the tax regime arrangements obtained by oil-drilling nonresident companies.

In February 2007, an expert reporting to the IMF’s Statistics Department outlined a number of recommendations aimed at improving institutional arrangements for balance of payments statistics compilation.

REPUBLIC OF CONGO: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE
As of March 26, 2007

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of publication[6]
Exchange Rates	Current	Current	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Nov.-06	Dec.-06	Q	Q	Q
Reserve/Base Money	Dec. 06	Feb. 06	M	M	M
Broad Money	Dec. 06	Feb. 06	M	M	M
Central Bank Balance Sheet	Dec. 06	Feb. 06	M	M	M
Consolidated Balance Sheet of the Banking System	Dec. 06	Feb. 06	M	M	M
Interest Rates[2]	Jan. 06	Feb. 06	M	M	M
Consumer Price Index	Aug-06	Oct-06	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	Jun-06	Aug-06	Q	Q	Q
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Jun-06	Oct-06	Q	Q	Q
External Current Account Balance	2005	Aug-06	A	A	A
Exports and Imports of Goods and Services	2005	Aug-06	A	A	A
GDP/GNP	2005	Mar-06	A	A	A
Gross External Debt	Jun-06	Oct-06	Q	Q	Q

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

Statement by the IMF Staff Representative
April 25, 2007

Since the issuance of the staff report for the Article IV Consultation, www.imf.org, the Congolese authorities have provided the following information, which does not alter the thrust of the staff appraisal:

- The estimate for real GDP growth in 2006 has been revised downward to 6.1 percent, reflecting lower non oil GDP growth (5.8 percent).

- Consumer price inflation (year-on-year) declined to 6.1 and 5.2 percent in January and February 2007, respectively. The slowdown was mainly attributable to lower food and energy prices.

- Revised expenditure data show a somewhat higher non oil primary deficit for 2006 (44.8 percent of non oil GDP, 0.6 percentage points higher than in the staff report), reflecting higher subsidies to the oil refinery and transfers to local governments. Information on the financing of the deficit is still pending.

- The authorities have launched an audit of the national oil refinery (CORAF).

INTERNATIONAL MONETARY FUND
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EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 07/47
FOR IMMEDIATE RELEASE
April 26, 2007

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

IMF Executive Board Concludes 2007 Article IV Consultation with the Republic of Congo

On April 25, 2007, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the Republic of Congo.[1]

Background

The implementation of the PRGF-supported program was broadly satisfactory in 2004-05; but expenditure overruns and delays in structural reforms pushed the program off track in 2006. Discussions are continuing on a staff-monitored program aimed at establishing a solid track record that could pave the way for resuming discussions on the PRGF-supported program.

Macroeconomic performance was mixed in 2006. Real GDP growth is estimated at 6.1 percent in 2006, reflecting higher oil prices and production as well as robust non oil GDP growth. However, inflation accelerated in 2006 to 8.2 percent (year-on-year), fueled by the expansionary fiscal policy and transportation disruptions. The external current account registered a large surplus on account of higher oil export receipts.

Fiscal performance was disappointing. Oil and non oil revenues were higher than programmed, but expenditure slippages are estimated at 5 percent of GDP at end-2006. As a result, the non oil primary deficit rose to an estimated 45 percent of non oil GDP in 2006, a large increase from

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

27 percent of non oil GDP in 2005. Moreover, the composition and quality of public spending deteriorated, raising concerns about budgetary execution and expenditure control.

Broad money expanded rapidly in 2006, reflecting the unsterilized increase in net foreign assets stemming from higher oil prices. Gross foreign assets soared to 29 percent of GDP in 2006. Credit to the private sector remained sluggish.

Debt relief has improved the external debt indicators, but accelerated new borrowing could undermine debt sustainability. Following debt relief granted by the Paris Club creditors and multilateral creditors, the debt stock declined to 86 percent of GDP in 2006 from 213 percent of GDP in 2004. However, recent new external borrowing commitments of $829 million as of end-2006 could jeopardize debt sustainability.

On the structural front, performance was mixed in 2006. While the certification report by the national audit office on conflict of interest in oil management was submitted to the government and published, most other structural measures were not met. The audit of the awarding of the Marine XI oil concession was completed and published with a delay. It revealed serious weaknesses in the decision-making process, which could lead to significant conflicts of interest. Progress in implementing the triggers for the Completion Point for the Heavily Indebted Poor Countries (HIPC) Initiative has been slow.

The outlook for 2007 and the medium term is uncertain. On the positive side, higher oil prices and the prospects for debt relief under the HIPC have created favorable conditions that could pave the way for higher sustainable growth and enable Congo to reach the Millennium Development Goals. On the negative side, the rapid increase in government spending, against the background of significant absorptive and administrative capacity constraints, could jeopardize macroeconomic stability, fiscal sustainability, and external competitiveness.

Executive Board Assessment

Directors welcomed the acceleration of economic growth in recent years, reflecting favorable oil market conditions as well as higher non-oil activity. Looking forward, Directors emphasized that containing inflation, strengthening public financial management, enhancing financial intermediation, and improving governance and the business climate are crucial for achieving the authorities' growth objectives and making progress toward the Millennium Development Goals.

Directors regretted the fiscal slippages in 2006 which contributed to the failure to complete the third review under the PRGF arrangement. They supported the authorities' intention to limit spending in 2007 as part of efforts to restore fiscal sustainability and reduce inflationary pressures—key priorities in the context of the Republic of Congo's membership in a currency union. Directors considered that the draft 2007 budget was broadly appropriate. They noted that it would help meet pressing investment needs without jeopardizing macroeconomic stability. Nevertheless, Directors stressed that further actions will be needed to achieve fiscal sustainability, and that these actions should be framed within a medium-term fiscal strategy, incorporating a trajectory to reduce the non-oil deficit.

Directors encouraged the authorities to make further progress in public financial management, including by prioritizing expenditure—with appropriate emphasis on health and education. Also, it will be important to introduce a functional classification of the budget and to eliminate exceptional spending procedures. Directors emphasized that these measures are essential to improve the quality of spending and to increase the growth potential of the economy. While recognizing the need for improved infrastructure, Directors emphasized that progress in this area would require greater transparency in procurement.

Most Directors expressed concern about the accumulation of non-concessional debt, and called on the authorities to adhere strictly to their commitment to control future borrowing and to work toward debt sustainability in the context of the HIPC and the MDRI—using the DSA as a guide for future borrowing. A few Directors cautioned, however, that borrowing limits should not unduly constrain growth opportunities.

Directors considered that recent steps to improve oil sector transparency are in the right direction. However, they called upon the authorities to strengthen the sector's finances and reduce oil subsidies. They looked forward to the audit of the national oil refinery (CORAF). More generally, Directors called for an acceleration of governance reforms, including through the setting up of an independent anticorruption committee and the passage of a comprehensive anticorruption law. Directors welcomed the authorities' intention to implement the recommendations of the audit of the Marine XI oil concession, and they called on the government to adhere to the provisions of the Extractive Industries Transparency Initiative.

Directors welcomed the authorities' intentions to develop the financial sector in support of their efforts to diversify the economy and increase financial intermediation. They expressed concern about the privatization of a troubled bank in 2006 in a nontransparent and costly way for the budget. Looking ahead, Directors called for a simplification of licensing procedures and improved access to financial services. It would also be useful to move away from interest rate controls, in consultation with the *Banque des États de l'Afrique Centrale*.

Directors observed that the exchange rate peg within the *Communauté Économique et Monétaire de l'Afrique Centrale* (CEMAC) continues to provide a credible anchor for economic policy. However, the real appreciation of the currency will need to be monitored carefully to maintain external competitiveness. Directors encouraged the authorities to spearhead trade reforms in the context of the CEMAC, adopt a transparent trade regime, minimize bureaucratic procedures for exports and imports, and gradually phase out exemptions. They noted that lowering the common external tariff would require the cooperation of the other CEMAC partners.

Directors underscored that achieving the medium-term growth objectives will require improving the business environment and lowering costs. They noted that liberalizing domestic energy and commodity prices will help foster greater private sector activity, and welcomed the recent decision to liberalize the price of cement.

Directors encouraged the authorities to reach understanding with staff on a staff-monitored program that could bring the PRGF arrangement back on track. Most Directors also expressed concern about the limited progress toward implementing the triggers for the HIPC completion point. A few Directors suggested that the HIPC triggers should be re-examined. Directors urged the authorities to implement corrective steps promptly, thereby moving forward quickly to unlock debt relief and pave the way for higher growth and poverty reduction.

Directors regretted that gaps in the provision of economic data continue to hamper effective surveillance and the monitoring of the program. They called upon the authorities to ensure a regular and timely provision of high quality data, including details on external financing.

Republic of Congo: Selected Economic and Financial Indicators, 2004-07

	2004	2005	Prel. 2006	Proj. 2007
	(Annual changes in percent)			
Domestic Economy				
GDP at constant prices	3.6	7.7	6.1	3.7
Oil	0.5	12.8	6.8	-1.7
Non oil	5.2	5.3	5.7	6.5
GDP deflator	6.9	27.4	15.2	-16.4
Consumer prices (end-of-period)	1.1	3.2	8.2	7.0
Consumer prices (period average)	3.6	2.5	4.7	7.0
	(Percent of GDP)			
Gross national savings	26.1	33.4	39.1	37.2
Gross fixed investment	24.2	22.4	23.8	29.7
	(Billions of CFA francs) [1]			
External sector				
Exports, f.o.b.	1,791.8	2,566.5	3,336.8	2510.3
Imports, f.o.b.	569.9	671.2	800.7	779.5
Current account balance (including public transfers)	42.2	344.1	590.4	252.8
External public debt service before debt relief (percent of exports of goods and services)	14.4	11.8	12.9	10.9
External public debt (percent of GDP)	212.7	103.2	78.2	85.7
Nominal effective exchange rate (percent change)	1.8	-0.6	3.2	...
Real effective exchange rate (percent change)	1.1	-0.3	8.4	...
	(Percent of GDP) [1]			
Financial variables				
Central governance revenue	32.5	39.6	46.6	40.2
Total expenditure	28.6	23.7	27.4	23.7
Overall balance (deficit -, commitment)	3.9	15.9	19.2	10.6
Primary balance (deficit -)	10.5	21.2	23.3	13.5
Primary non oil balance (percent of non oil GDP)	-25.3	-27.3	-44.8	-38.6
Change in broad money (percent)	17.4	34.5	44.5	13.6

[1] Unless otherwise noted.

Statement by Laurean Rutayisire, Executive Director for the Republic of Congo
April 25, 2007

I. Introduction

On behalf of my Congolese authorities, we thank Management and staff for their continued engagement with the Republic of Congo, as reflected by extensive consultation and constructive policy dialogue held during the last six months. We also wish to express our appreciation to Management for the frank dialogue held recently with H.E. President Denis Sassou Nguesso in Libreville Gabon, during the inauguration of the AFRITAC-Centre. We would like to commend staff for the well-written and comprehensive set of reports prepared for Board consideration, including the Selected Issues report, which identifies key strategic areas that could help Congo increase its growth in a sustainable manner, while preserving fiscal and external sustainability.

Since the Republic of Congo embarked on a Fund program, supported by the PRGF arrangement in December 2004, the country has continued to make progress in securing macroeconomic stability and implementing structural reforms, as well as developing an interim Poverty Reduction Strategy. In March 2006, reflecting these achievements, the Republic of Congo became the 29th country to reach the decision point under the enhanced HIPC Initiative. At the same time, important steps were taken to consolidate further the peace process and to put the democratic institutions required by the 2002 constitution.

While macroeconomic performance remained strong in 2006, however, program implementation registered some slippages, on account of expenditures related to political and regional factors, including a plan to evacuate foreign nationals from Kinshasa, if the Presidential elections in the Democratic Republic of the Congo were to fail. Also, the African Union Chairmanship of UN Security Council membership of Congo contributed to such spending. Taking stock of this situation, my authorities are committed to take corrective actions in the context of a staff-monitored program (SMP), in order to bring the program back on track before the end of this year.

Discussions on an SMP started during the mission of October 2006 in Brazzaville, and continued in February-March 2007 in Washington, DC. A high level Congolese delegation, led by the Senior Minister, Minister of Planning and the Minister of Economy, Finance and

Budget, came to Washington, DC. Another round took place during the 2007 Spring Meetings to reach understanding on remaining outstanding issues. At this stage, my authorities are of the view that there is basis for common understanding on the key elements of the SMP. In a recent correspondence, staff appreciated this common understanding.

II. Recent Macroeconomic Developments and Performance under the PRGF

Congo's **macroeconomic performance** in 2006 was favorable. Despite the moderate slowdown in economic activity compared with 2005, Congo's economic performance in 2006 has remained strong, with real GDP growth estimated to have grown by 6 ½ percent, due mostly attributable to higher oil prices and production, as well as robust non oil GDP activity. Non oil sector GDP is estimated to have reached 6.3 percent, mostly driven by strong activity in the construction sector. As rightly noted by staff, the non oil growth helped maintain overall GDP growth above the CEMAC region. The external current account recorded large surpluses in 2005-06, averaging 13 percent of GDP, due mostly to higher oil export receipts. In contrast, inflation accelerated under the pressure of higher petroleum product prices and transportation disruptions associated with the poor conditions of the railway (CFCO) linking the main cities in the Congo and the Port of Pointe-Noire. In the fiscal area, revenue performance was strong, as oil and non oil revenues were higher than programmed, which also contributed to the overall fiscal surplus, estimated at 19.8 percent of GDP. Although pro-poor spending was lower than programmed, its level grew by 0.5 percentage point to 5.4 percent of GDP, compared with 2005.

In the banking sector, credit to the private sector was sluggish, reflecting limited lending opportunities, the high cost of credit, as well as legal and institutional constraints in recovering collateral. The health of the banking system is improving, partly reflecting the recapitalization and privatization of one troubled bank.

Congo's level of indebtedness improved recently, mainly as result of the traditional relief granted by Paris Club creditors since 2005, as well as interim debt relief obtained from some creditors, following the HIPC decision point in Marc 2006. Since then, the authorities have signed bilateral agreements with 8 Paris Club creditors. The authorities have also reached a preliminary agreement with London Club creditors on debt relief, consistent with the enhanced HIPC Initiative. They also expect to reach an agreement with other commercial creditors (excluding litigating creditors) in the last quarter of 2007. Moreover, since June 2006, Congo has not contracted any new external debt.

The **PRGF-supported program implementation** registered some slippages, largely owing to expenditure overruns. As noted earlier, these slippages in 2006 were due in part to higher outlays for security (owing to conflicts in neighboring countries), the Presidency of the African Union, and urgent priority investments. Some progress has been made on structural reforms envisaged under the PRGF program. In particular, the authorities have published the audit report on the awarding of the Marine XI oil field concession in 2005. They have liberalized the price and import of cement in February 2007. Despite some delays, most of the measures are underway. Congo has also fulfilled the performance criteria on centralization of all public revenue and execution of all public payments by Treasury; transparency in oil sector, including quarterly certification of oil revenue by internationally reputed audit firm, and disclosure of internal and external debt. These elements, plus my authorities' commitment to follow public procurement procedures, based on international tender bids, are testimony of the evolution of a good public finance management system that can assure efficient implementation of public expenditure and adequate tracking of pro-poor spending.

I would also like to recall most of structural reforms undertaken in recent years by the authorities, which include the recent steps taken to reintegrate into the Kimberley process, and the efforts made to refocus SNPC activities on its core activities. In this connection, two SNPC affiliates have been liquidated and a number of subsidiaries of SNPC Services have ceased operations. New procurement guidelines were introduced to ensure competitive bidding both for work contracts and for the purchase of goods and services.

It is also worth noting that after the consultations last October with the Fund staff in Brazzaville, the country experienced frequent torrential rains, causing important damages in the transport infrastructure (railway), health and urban sanitation system, electricity and water supply. This calamity compounded the long outstanding state of dilapidation in these sectors, which followed from protracted conflict, which befell the country, and whose aftermath is yet to be fully overcome. In light of these circumstances and following a discussion between the government and Parliament in Brazzaville, an agreement was reached on an emergency program, covering the following areas: (i) rehabilitation of the railway linking Brazzaville and the Sea Port of Pointe-Noire, the country's single most supply route; (ii) rehabilitation and strengthening of the energy and safe water network; (iii) rehabilitation of a dilapidated national referral hospital in Brazzaville and; (iv) urban upgrading and (v) rehabilitation of the traffic in the Congo River for a proper navigation. To finance this emergency program, the authorities needed an additional envelope. Their request has been weighted against the short-term macroeconomic risks that these additional investment spending might entail, in terms of inflation and deterioration of the quality of investment, taking account of weak absorptive capacity and administrative constraints.

My Congolese authorities are also fully aware of the remaining weaknesses that need to be addressed, which include enhancing transparency in the management of natural resources, the strengthening of budget management, reducing the cost of doing business, alleviating of poverty and bringing the country's debt burden down to more sustainable levels. They wish to reiterate their determination to continue with implementation of the economic policies and to take all necessary measures to stimulate private sector led-growth and fight poverty. They will pursue efforts to work on the necessary steps to reach the completion point under the enhanced HIPC Initiative.

III. Macroeconomic and Structural Policies for 2007

My Congolese authorities recognize the importance of implementing prudent policies and accelerate structural reforms, in order to sustain growth and achieve the MDGs. They are determined to take necessary steps to create conditions for broad-based economy and poverty alleviation.

Fiscal Policy for 2007 and Reforms

For 2007, the authorities are committed to prudent policy, in order to preserve debt sustainability and macroeconomic stability. On the revenue side, revenue is expected to decline, in line with lower expected oil prices and a stable oil production level until new operations progressively take over older ones. Against this background, my authorities submitted to the Parliament a draft budget for 2007 that is consistent with the understanding reached with staff on an SMP. Among key fiscal objectives set for 2007 is the need to strengthen the framework for the mobilization of oil and non-oil revenues and raise pro-poor spending, while taking account of absorptive capacity constraints. The authorities are also determined to improve the quality of spending and strengthen the public financial management (PFM) and reduce losses in public enterprises. In order to strengthen the oil revenue mobilization, the authorities will continue their efforts to ensure that the quarterly certification of oil revenues and reconciliation of oil revenues accounts; and other measures will be pursued. With regard to non-oil revenues, the focus will be on measures to strengthen tax and customs administration, combat fraud and tax evasion and limit discretionary tax and customs exemptions.

Structural Reforms

The authorities are committed to undertake major reforms to address structural weaknesses in key sectors of the economy with the view of improving efficiency and limiting potential costs on future budgets. To improve the business climate, the authorities have liberalized the price and import of cement in February 2007. On the adjustment of petroleum product prices, they will adopt a decree before the end of 2007. On governance and transparency, the authorities are committed to step up efforts to establish transparent and effective institutions. They also agreed to raise public awareness about the authorities' agenda to fight corruption. Regards trade policy, my authorities are open to discuss ways to simplify the structure of tariffs and other fees in the context of CEMAC, eliminate nontariff barriers, and strengthen customs administration. On AML/CFT, a workshop was organized to educate stakeholders about the role of the Financial Intelligence Unit (FIU).

IV. Progress in Implementing Triggers for HIPC Completion Point

With regard to the implementation of the HIPC triggers, progress was made on triggers related to the forestry and social sectors. However, my authorities are also aware of the limited progress made since last August. This situation is due to a combination of factors, notably capacity constraints; and the need to build consensus. Nevertheless, my Congolese authorities, at the highest level, are fully committed to pursue efforts to minimize delays and establish a strong record under an SMP that would revitalize the PRGF-supported program. This will enable the country to create conditions for higher growth and poverty reduction. My authorities remain keenly aware of the need to improve social indicators and accelerate progress towards achieving the MDGs. Considering all the factors above, may authorities will make every effort to bringing their program to a successful conclusion.

My authorities acknowledge that timely and regular provision of data is essential for a productive policy dialogue between the Republic of Congo and the Fund. Despite the capacity constraints facing the country, the authorities are determined to address this issue. In this regard, a statistics law will be submitted this year.

V. Conclusion

My Congolese authorities are thankful to the Fund and the international community for their engagement with the Republic of Congo, as reflected by the sustained constructive policy dialogue held recently both in Brazzaville and in Washington. My Congolese authorities are committed to continuing working closely with their partners to achieve the goals of sustained growth and poverty alleviation and to strengthen institutional capacity. In this context, my authorities are hopeful that they can continue to rely on the support of the Fund and the broader international community to help them create a solid foundation for economic development and poverty reduction.