INTERNATIONAL MONETARY FUND

IMF Country Report No. 20/26

REPUBLIC OF CONGO

January 2020

2019 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; 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 2019 Article IV Consultation with the Republic of Congo, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its January 17, 2020 consideration of the staff report that concluded the Article IV Consultation with the Republic of Congo.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on January 17, 2020, following discussions that ended on November 6, 2019, 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 January 3, 2020.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association (IDA).
- A **Statement by the Executive Director** for the Republic of Congo.

The document listed below will be separately released.

Selected Issues

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INTERNATIONAL MONETARY FUND

COMMUNICATIONS DEPARTMENT

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January 27, 2020

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IMF Executive Board Concludes 2019 Article IV Consultation with the Republic of Congo

On January 17, 2020, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with the Republic of Congo.

The economic situation remains difficult but there are some signs of stability. Non-oil growth could turn positive for the first time since 2015 due to the recovery in the agricultural, forestry and transportation sectors. However, many economic sectors are still in recession due to delays in the implementation of the government strategy to clear arrears and tight financing conditions. The expansion in oil production in 2019 will be less pronounced than initially anticipated, with overall growth staying close to 2 percent.

The authorities have continued to follow prudent fiscal and debt management policies, and the overall level of public debt is expected to decline in 2019, after reaching a peak level of 117 percent of GDP in 2017. However, external public debt remains in distress, and the Congolese authorities are negotiating a debt restructuring with external commercial creditors to restore debt sustainability. Inflation remains at moderate levels (around 2 percent) and the current account is likely to register a strong surplus on the back of rising oil exports and new mining exports coming on stream. Together with a stricter enforcement of FX regulations, this is resulting in a stronger accumulation of net foreign assets at the Bank of Central African States (BEAC) than initially anticipated.

Over the medium term, non-oil growth is expected to recover as the government implements its strategy to clear domestic arrears and introduces reforms in support of its diversification strategy. Short-term risks are tilted to the downside given possible declines in oil prices, and the potential difficulty of sustaining high fiscal surpluses over time, and capacity constraints for the effective implementation of the government’s ambitious structural reform agenda. However, these risks are mitigated by medium-term upside risks to oil production if recent oil discoveries are confirmed.

[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.

Executive Board Assessment[2]

Executive Directors noted that the Republic of Congo continues to face very difficult economic conditions, with a challenging macroeconomic outlook characterized by high debt levels, low growth, and limited business confidence. At the same time, Directors welcomed modest inflation levels, the downward trend in public debt, and rising net foreign assets. To support macroeconomic stability and inclusive growth, Directors encouraged the authorities to pursue continued fiscal consolidation, debt restructuring, and reforms to strengthen governance and diversify the economy.

Directors considered that the government should continue strengthening its medium-term fiscal framework. Noting the prudent execution of last year's budget, they welcomed that the 2020 budget pursues further fiscal consolidation to help restore debt sustainability. Directors emphasized the importance of non-oil revenue mobilization efforts as a key pillar of the fiscal strategy, particularly measures to curb tax exemptions, collect tax arrears, and implement additional tax administration reforms. They also highlighted the importance of strengthening PFM systems and ensuring that adequate resources are allocated to critical social programs in favor of vulnerable groups, including in the areas of health, education, and programs for women. Directors also underscored the importance of coordinated donor community support for the country's adjustment efforts.

Directors agreed that public debt management should continue to be at the center of Congo's economic recovery plan. They supported the authorities' plans to accelerate negotiations with external commercial creditors to reach a debt reduction agreement. Directors also encouraged the authorities to implement their strategy to clear domestic arrears with the private sector and emphasized the need to contain rising non-performing loans, provide enough liquidity to the private sector to be able to meet its tax obligations, and increase business confidence in support of economic activity, especially in the non-oil sector. Avoiding any new accumulation of official external arrears and clearing the existing stock in line with their earlier commitments were also emphasized. To capture debt vulnerabilities more accurately, Directors called for enhanced debt transparency, including for SOEs.

Directors were encouraged by reforms to improve governance and reduce corruption. They welcomed the publication of the audited financial statements of the National Oil Company and 2020 draft budget, which improved public access to economic information. Notwithstanding, Directors considered that further efforts are needed and encouraged continued strengthening and operationalization of the anti-corruption framework and ensuring that the new Anti-Corruption Authority and Commission on Transparency become fully operational.

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

Directors agreed that the Republic of Congo's diversification strategy will be key to sustain higher and more inclusive growth. In this regard, they emphasized the importance of strengthening governance and improving the business environment, including through reforms to increase access to electricity, reduce administrative requirements to start new businesses, and improving access to credit.

Table 1. Republic of Congo: Selected Economic and Financial Indicators, 2017–24

	2017	2018	2019	2020	2021 Proj.	2022	2023	2024
(Annual percentage change unless otherwise indicated)								
Production and prices								
GDP at constant prices	-1.8	1.6	2.2	4.6	1.9	0.0	1.3	2.3
Oil	15.3	23.9	5.5	9.5	-1.6	-8.8	-6.1	-3.4
Non-oil	-6.2	-5.5	0.8	2.5	3.6	4.0	4.1	4.2
GDP at current prices	12.4	24.8	1.1	3.4	-1.5	-3.0	0.2	2.6
GDP deflator	14.4	22.9	-1.1	-1.1	-3.4	-3.0	-1.0	0.3
Consumer prices (period average)	0.4	1.2	1.9	1.8	2.6	2.8	3.0	3.0
Consumer prices (end of period)	1.8	0.9	1.8	2.5	2.7	3.0	3.0	3.0
External sector								
Exports, f.o.b.	37.7	46.1	-1.8	2.0	-5.0	-7.4	-2.5	1.0
Imports, f.o.b.	-43.2	5.0	-2.2	7.3	3.5	1.0	0.3	2.7
Export volume	26.0	30.8	0.9	8.9	-2.6	-9.8	-7.3	-2.7
Import volume	-40.0	10.3	-1.6	6.0	2.1	1.1	-0.2	2.6
Terms of trade (deterioration -)	9.6	16.4	-2.1	-7.5	-3.9	2.7	4.7	3.7
Current account balance (percent of GDP)	-3.5	7.2	8.0	5.8	1.2	-2.1	-2.5	-2.9
Net foreign assets	-54.2	12.3	100.8	32.2	41.7	9.3	11.8	6.8
External public debt (percent of GDP)	80.0	61.3	55.2	52.7	52.8	51.5	48	46
Monetary sector								
Broad money	-10.4	-4.0	15.8	1.5	8.5	0.4	1.4	2.9
Credit to the private sector	-5.4	-2.7	-1.5	2.1	2.4	5.8	7.0	7.8
(Percent of GDP)								
Investment and saving								
Gross national saving	26.2	24.3	27.8	27.4	25.3	24.6	26.2	27.6
Public	1.6	9.2	13.6	13.8	14.4	15.2	14.8	14.8
Private	24.6	15.1	14.2	13.6	11.0	9.5	11.3	12.8
Gross investment	29.8	17.1	19.9	21.6	24.1	26.7	28.7	30.5
Public	7.9	2.2	4.2	4.8	5.8	6.3	6.6	6.8
Private	21.9	14.9	15.7	16.8	18.3	20.2	21.9	23.5
(Percent of non-oil GDP, unless otherwise indicated)								
Central government finances								
Total revenue	53.6	74.2	80.0	79.0	75.4	71.6	67.8	65.5
Oil revenue	25.2	50.6	51.3	45.8	41.2	36.1	32.2	29.6
Non-oil revenue (including grants)	28.4	23.6	28.6	33.2	34.2	35.4	35.6	35.9
Total expenditure and net lending	67.8	57.4	58.0	58.1	57.0	54.4	53.0	51.8
Current	48.4	51.9	47.5	46.2	43.6	41.2	40.1	39.1
Capital (and net lending)	15.2	5.5	10.4	11.9	13.4	13.2	12.9	12.7
Off-budget	4.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (deficit -, payment order basis, % GDP)	-7.4	6.6	8.8	8.4	8.0	8.2	7.6	7.4
Non-oil primary balance (- = deficit)	-35.3	-28.1	-24.7	-21.2	-19.6	-16.5	-15.4	-14.3
Basic primary fiscal balance (- = deficit)[1]	-1.9	24.3	26.6	24.5	21.5	19.7	16.8	15.2
Reference fiscal balance (percent of GDP)[2]	-0.7	-4.7	-0.8	3.0	5.6	6.5	5.7	5.0
Primary balance (percent of GDP)	-5.2	8.9	10.6	9.9	9.4	9.4	8.6	8.2
Financing gap (CFAF billion)[3]	0.0	0.0	260	449	269	68	-98	0.0
Total public debt (percent of GDP)	117.5	87.1	77.5	70.5	66.9	62.5	56.8	54.2
(Percent of total government revenue excluding grants)								
External public debt service	24.0	24.6	37.4	32.2	23.1	19.1	12.6	7.6
(Billions of CFA francs, unless otherwise indicated)								
Nominal GDP	5,188	6,476	6,545	6,767	6,666	6,469	6,484	6,652
Nominal oil GDP	2,493	3,932	3,936	4,046	3,771	3,373	3,161	3,081
Nominal non-oil GDP	2,695	2,544	2,609	2,721	2,894	3,096	3,323	3,570
Nominal GDP in US$ (millions)	8,932	11,664	11,206	11,559	11,496	11,240	11,314	11,624
World oil price (U.S. dollars per barrel)	53	68	62	58	55	55	55	56
Oil production (Millions of barrels)	98	121	128	140	137	125	118	114
Nominal Exchange rate (CFA/USD, period average)	580.9	555.2	…	…	…	…	…	…
REER (percentage change)	-0.5	3.1	…	…	…	…	…	…

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

[1] Revenue excluding grants minus total expenditures (excluding interest payments and foreign-financed public investment).

[2] Overall balance minus 20 percent of oil revenues and minus 80 percent of the oil revenue in excess of the average observed during the three previous years.

[3] Before IMF-ECF financing, other expected financing and exceptional financing due to external debt restructuring net of restructured contingent liabilities.

INTERNATIONAL MONETARY FUND

REPUBLIC OF CONGO

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION

January 3, 2020

KEY ISSUES

Context. The economic situation remains difficult but there are some initial signs of stability, and non-oil growth could turn positive for the first time since 2015. The political environment is stable, though there is discontent with government policies due in part to the authorities' limited engagement with the private sector and civil society.

Outlook and Risks. In the near term, the expansion of oil production explains most of the projected recovery in growth. However, peak oil production will be reached in 2020 rather than 2019 as initially expected. Non-oil growth is expected to pick up gradually as the government starts implementing its arrears clearance strategy, which could have a positive impact on business confidence and credit growth. While fiscal consolidation has been remarkable, debt will remain unsustainable absent a successful restructuring of external commercial debt. Risks are tilted to the downside and come mainly from possible swings in oil prices, though this risk is mitigated by the authorities' prudent oil price assumptions.

Key Policy Recommendations

- Pursue fiscal consolidation efforts and conclude the debt restructuring process for external commercial debt to restore fiscal sustainability.
- Curb tax exemptions, implement tax administration reforms and collect tax arrears to support domestic revenue mobilization efforts.
- Adopt a strategy to clear domestic arrears to support financial stability and non-oil growth.
- Ensure adequate social spending levels to protect vulnerable groups.
- Strengthen the PFM system and ensure that the annual budget cycle is closed on time.
- Continue to implement measures to improve governance and tackle corruption, including through the adoption of operational decrees for the High Authority on Corruption and the Commission on Transparency.
- Speed up reforms to improve market regulation and the business environment to support the diversification strategy.

Approved By
Zeine Zeidane (AFR) and Martin Sommer (SPR)

Discussions were held in Brazzaville between October 24–November 6, 2019. The mission team comprised Messrs. Segura-Ubiergo (mission chief), Baldini, Sulemane, Thomas (all AFR) and Swanepoel (LEG), and Mmes Mboto-Fouda (COM), Verdugo-Yepes (FAD) and Petrescu (SPR). Mr. Sidi Bouna (OED) participated in some of the meetings. The mission met with the Prime Minister Clement Mouamba, the Minister of Finance Calixte Nganongo, the Director of the Central Bank Michel Nzombala, the Head of SNPC Raoul Ominga, and senior staff of the Ministry of Finance, Central bank and Oil Ministry. The mission also met representatives of the private sector, civil society and international development partners. Administrative and research support from Mmes Adjahouinou and Mbogo, and Messrs. Alsokhebr and Ogaja, is gratefully acknowledged.

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BACKGROUND

1. **The political environment remains relatively calm.** At the same time, while there are no signs of social instability or recurrent protests, civil society remains vocal about the governance challenges facing the country.

2. **The ECF-supported program was approved in July and the authorities have taken steps toward its effective implementation.** In particular, the prudent execution of the 2019 budget and the preparation of a 2020 budget consistent with the main program parameters are welcome steps toward restoring fiscal sustainability. In addition, the authorities have made progress to advance key structural reforms, including those that target improvements in governance, though some reforms have experienced delays.

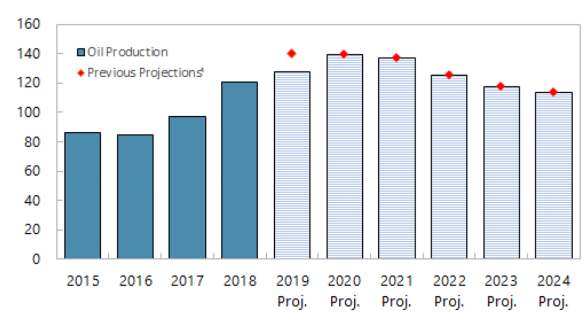
3. **At the same time, the authorities need more time to conclude the debt restructuring process of commercial debt (mainly involving oil traders) and to clear official external arrears**. The authorities remain committed to completing the debt restructuring process for external commercial debt in line with program parameters and clearing official external arrears ahead of the first review under the ECF arrangement in line with their earlier commitments. Negotiations to conclude a debt restructuring agreement consistent with the objective of restoring debt sustainability intensified in November/December and the authorities remain confident that an agreement can be achieved in 2020Q1. The authorities also expect that the upcoming disbursements of budget support will help clear the full amount of external official arrears of about USD$181 million at end-September (1.7 percent of GDP). In the meantime, given the fact that the last Article IV consultation was completed in 2015, this report focuses on the completion of the 2019 Article IV discussions.

RECENT ECONOMIC DEVELOPMENTS

4. **Overall growth for 2019 has been revised down to 2.2 percent** (from 5.4 percent in the original ECF-supported program request). This revision is almost entirely explained by a lower-than-expected expansion in oil production (Table 1, Text Figure 1). While the expansion in oil production is on track for most oil fields, temporary technical disruptions in two oil fields have left the initial target out of reach. The expansion in oil production continues to be substantial, as oil production has been increasing steadily since 2015, with a particularly large increase of over 20 percent in 2018. The authorities had expected production to increase by a similar amount in 2019 but the projected increase is now more likely to take two years, with Congo

Text Figure 1. Republic of Congo: Oil Production

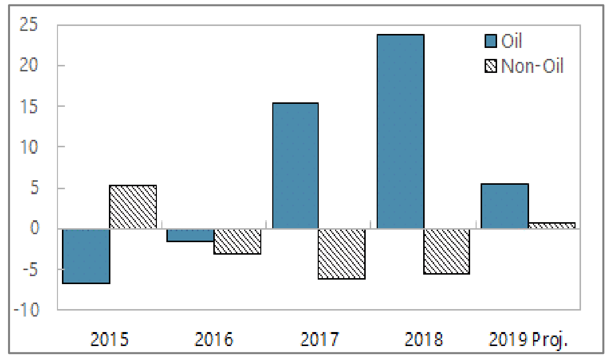
(Millions of Barrels)



Sources: Congolese authorities and IMF staff calculations reaching peak oil production of around 140 million barrels in 2020. Production is then expected to decline gradually as oil fields reach maturity.

5. **Non-oil growth is expected to turn moderately positive in 2019.** While the growth rate of the non-oil economy is likely to remain modest (i.e. slightly below 1 percent), this could still be a positive development and a sign of stability after the non-oil economy experienced a deep recession over the last three years. (Text Figure 2). However, the overall level of growth of the non-oil economy will be driven by the performance of the agricultural and transportation sectors, while many other economic sectors remain in recession.

Text Figure 2. Republic of Congo: GDP Growth



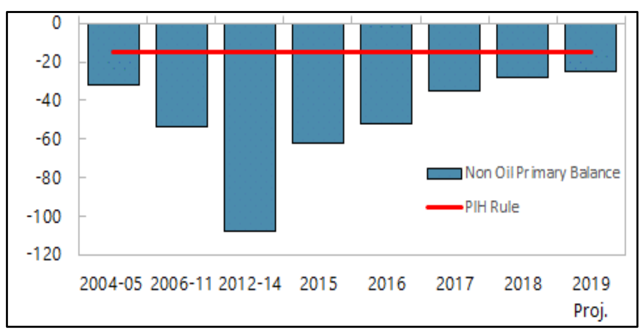
Sources: Congolese authorities and IMF staff calculations.

6. **Inflation remains at moderate levels.** Overall inflation has remained subdued at 1.8 (y/y) at end-October and is expected to remain around 2 percent by year-end. Food prices have declined by about 0.3 percent over the last 12 months, while non-food inflation was up by 4.1 percent over the same period (Figure 1).

7. **The substantial improvement in the overall fiscal position observed in 2018 has continued in 2019.** The overall fiscal balance had improved sharply from a deficit of about 7½ percent of GDP in 2017 to a surplus of 6½ percent of GDP in 2018. This surplus could reach 8¾ percent of GDP in 2019 if the trends observed up to 2019Q2 continue. The non-oil primary deficit (in percent of non-oil GDP), which excludes oil revenues and therefore provides a better measure of the authorities' fiscal effort is also following a positive trend. Indeed, the deficit is expected to improve from 28.1 to 24.8 percent of non-oil GDP between 2018 and 2019. Fiscal performance was driven by a cautious execution of spending as the government followed a prudent policy of freezing about 20 percent of the overall spending appropriations. However, social spending levels remain low and non-oil revenues were about 2 percent below target at end-June, and this is an area that requires particular attention (see discussion below).

Text Figure 3. Republic of Congo: Non-Oil Primary Balance

(Percent of non-oil GDP)

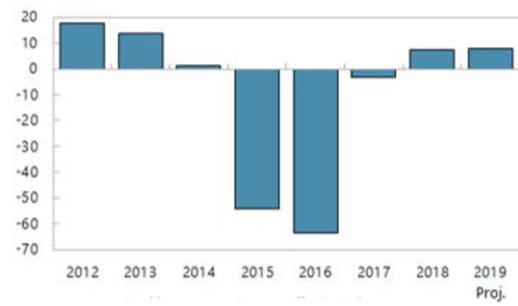


Sources: Congolese authorities and IMF staff calculations.

8. The external current account is expected to record a substantial surplus for a second year in a row. After registering large deficits that exceeded 50 percent of GDP over the 2015–16 period, the current account balance reached a surplus of about 7¼ percent of GDP in 2018. This surplus is expected to continue in 2019 and reach about 8 percent of GDP. The main factors driving the improvement are the recovery in oil exports and new mining exports coming on stream.

Text Figure 4. Republic of Congo: External Current Account Balance

(Percent of GDP)



Sources: Congolese authorities and IMF staff calculations.

9. Net foreign assets are improving faster than expected as a result of the stronger current account and the impact of the new FX regulations introduced by Regional Central Bank (Banque des Etats de l'Afrique Centrale) (BEAC). In 2019Q3, net foreign assets imputed to the Republic of Congo reached CFAF 476bn — 89 percent higher than at end-2018. While this level is still low and would cover only about 1½ months of imports, the change in the trend is positive as it provides a sense of stability in the country and shows that Congo is also contributing to a faster pace of reserve accumulation at the CEMAC regional level compared with earlier projections. The expansion in net foreign assets has also been associated with an increase in liquidity. Broad money increased by 12 percent y/y, but this has resulted in higher levels of bank reserves at BEAC, rather than more lending to the economy. Credit to the private sector in September was down by about 9½ percent (y/y).

10. Despite recent improvements, the overall external position is weaker than warranted by fundamentals and desired policy settings, necessitating policy adjustment to close external gaps. A quantitative assessment of the external position tailored to exporters of non-renewable resources suggests that the current account is around 17 percent below the norm in the medium term, driven by the fact that proven oil reserves will be exhausted in about 25 years and the country has not accumulated sufficient assets so far. The same methodology suggests the exchange rate is overvalued by about 15 percent. Closing external gaps can be achieved if the authorities adjust the non-oil primary balance as projected under the baseline scenario. In addition, there is a need to enhance structural competitiveness through improvements in the business environment, and to increase diversification efforts. The steady implementation of structural reforms—including those under the ECF arrangement—is essential to create an enabling environment for private sector development and economic diversification.

11. The banking sector remains solvent, but is under stress due to rising NPL levels. This is due mainly to the deterioration on the asset side of banks' balance sheets associated with declining economic activity and insufficient progress in reducing public sector arrears to government suppliers. As a result, NPLs are still high and rising to 24 percent of gross loans. This is having a negative impact on some economic sectors; in particular, the construction and parts of the tertiary sector.

OUTLOOK AND RISKS

12. The short-term outlook remains challenging though there are early signs of stabilization and recovery. In the near term, the expansion in oil production accounts for a large share of the projected recovery in growth, though the increase in production could be slower than expected if there are new technical issues associated with a key oil field (Banga-Kayo). The authorities noted that the technical issues had been resolved and the increase in production will resume in 2020 as planned.[1] In addition,

- Non-oil growth is expected to pick up gradually as the government starts to implement its domestic arrears clearance strategy, which should help boost confidence and support credit growth.

- The overall fiscal surplus over 2019–20 is projected to exceed 8 percent of GDP, with relatively strong oil revenues as higher prices offset the downward revision in production. It is expected to remain close to this level over the medium-term, thus maintaining public debt on its downward trajectory and contributing to the accumulation of government deposits and reserves at the BEAC.

- The external current account surplus is expected to remain high in 2019–20, but decline gradually as oil production declines from short-term peaks. At the same time, fiscal consolidation and the accumulation of deposits at BEAC will support external adjustment efforts.

13. Congo is considered in debt distress due to the accumulated external and domestic arrears. External payment arrears have increased in recent years as financial difficulties have prevented Congo from servicing its debt; by September 2019, Congo had accumulated USD$181 million in official bilateral external arrears, in addition to the stock of unrestructured pre-HIPC arrears. Moreover, Congo has also accumulated substantial external commercial arrears with oil traders, as well as domestic arrears. The total public debt level at the end-September 2019 was estimated at 87.8 percent of GDP, with external public debt at 62.3 percent of GDP, of which about 20 percent of GDP was in arrears. Debt is assessed to be unsustainable, absent restructuring (see DSA). In 2019, the present value (PV) of total public debt is 74 percent of GDP, while the PV of external debt is 52 percent of GDP, well above sustainability benchmarks. High debt service also continues to present challenges, with the debt-service-to-revenue ratio at 37 percent, and the debt-service to exports ratio at 14 percent, above sustainability benchmarks. Debt burden indicators are projected to worsen in the near term (2020–21).

14. Risks to domestic economic stability come from both external and domestic sources. In particular,

[1] Over the medium term, the authorities noted that recent new oil discoveries had the potential to moderate the projected decline in oil production. At the same time, they indicated that it was too early to incorporate the effect of these new discoveries and agreed that staff's current projections remain appropriately cautious.

- *Global Risks*. The first source of external risk comes from large swings in energy prices. Current levels of around $60 per barrel are still above the authorities' assumption of $55 in their 2020 budget. While risks to prices appear broadly balanced, elevated price volatility can complicate economic management given limited buffers and financing options. A second source of external risk would be weaker than expected global growth, which could affect oil prices but also FDI and non-oil exports thereby undermining efforts to diversify the economy.

- *Country-Specific Risks*. The first source of domestic risk is political. The government's ability to maintain political stability depends on the performance of the economy, and the authorities' capacity to deliver on key reforms, especially those associated with good governance and transparency, clearance of domestic arrears and social spending. Failure to implement these reforms could erode public confidence in the government's economic program. At the same time, the main economic risk is the authorities' potential difficulty to sustain large primary surpluses over time, which will require difficult reforms to boost non-oil revenues, control spending on subsidies and introduce a stronger mechanism to monitor fiscal risks. Lower-than-expected private investment in the medium term could also have a negative impact on non-oil growth.[2]

- *Other Risks*. Other risks to the outlook include possible delays in the disbursement of budget support from key development partners, which would complicate budget management and make it difficult for the authorities to clear official external arrears, while delays in the completion of the debt restructuring process for commercial debt would generate doubts about Congo's debt sustainability and negatively affect confidence and investment.

[2] The pick-up in investment over the medium term is associated with the authorities' diversification strategy to attract new investment in new economic sectors. Risks are mitigated by a potentially higher level of investment in the oil sector associated with recent new oil discoveries, which could also generate positive spillovers for the non-oil economy.

Box 1. Status of the ECF-Supported Program

The IMF Board approved a three-year ECF arrangement on July 11, 2019. The arrangement gives Congo access to SDR 324 million (about $446.7 million) representing 200 percent of quota. A first disbursement of SDR 32.4 million (about $44.7 million) was made upon program approval. The ECF-supported program seeks to help Congo restore fiscal sustainability through strong fiscal consolidation and the authorities' efforts to restructure debt, improve governance (including PFM) to promote a more transparent and efficient use of public resources, and protect vulnerable groups from the burden of adjustment. The program also aims to support regional stabilization efforts in the Central African Economic and Monetary Community (CEMAC) monetary union.

Performance at end-June was mixed. The two quantitative fiscal targets at end-June (floor on the basic non-oil primary balance, and the ceiling on net domestic financing to the government) were met. In addition, the PCs setting zero ceilings on non-concessional financing, and new external financing guaranteed with future natural resource revenues were also met. But the government accumulated new external arrears with official creditors (about USD20 million) due in part to delays in budget support, and hence the continuous PC on external arrears was missed. At the same time, the three ITs on poverty-reducing spending, non-oil revenues, and disbursements of external loans for investment projects were missed, though the latter two by small margins. On the structural front, the government has made progress on the key benchmarks to improve governance with the preparation of implementation decrees associated with the Transparency Commission, and the Anti-Corruption High Authority, but some reforms (e.g. adoption of a privatization strategy, and decision to implement an automatic fuel pricing mechanism) are experiencing delays.

With the recent submission to Parliament of an adequate 2020 Budget, the macroeconomic framework underlying the program remains adequate. Staff and the authorities have also reached understandings regarding the set of policies needed to complete the first review, including new critical PFM reforms to ensure that budget execution is closed in a timely manner, and spending from previous budget years is audited by the Audit Court (see below). The postponement of the first review is needed to allow staff more time to obtain credible assurances and be sufficiently confident that the authorities' plans on debt restructuring will be concluded on terms consistent with restoring public debt sustainability. In this regard, the authorities remain committed to completing the debt restructuring process for external commercial debt in line with program parameters, and clearing official external arrears in line with earlier commitments ahead of the first review under the ECF arrangement.

POLICY DISCUSSIONS

15. **Policy discussions revolved around three key topics that are aligned with the priorities of the ECF arrangement, as well as the medium-term challenges identified by the authorities in their 5-year development plan.** In particular, discussions focused on (i) the strategy to restore debt sustainability, (ii) structural reforms to foster good governance and tackle corruption, and (iii) policies needed to improve the business environment and prospects for economic diversification to sustain non-oil growth.

A. Policy Theme 1: Fiscal Sustainability and Social Protection

16. **Restoring fiscal sustainability is the first pillar and a key objective of the authorities' medium-term plans**. The decline in public debt of about 30 percent of GDP observed in 2018 was

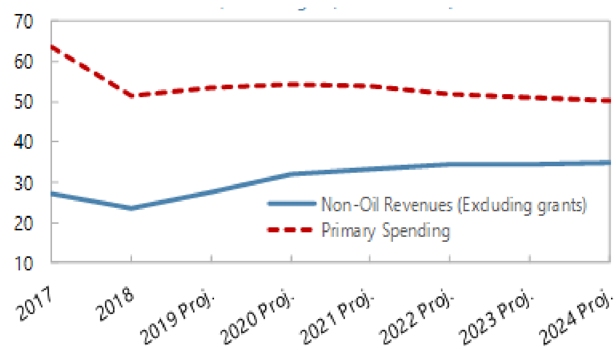
impressive, but sustained efforts are needed to reach the program objective of reducing the net present value of external debt below 30 percent of GDP by 2023 to achieve a moderate level of debt distress.

17. **Staff emphasized the importance of reducing the non-oil primary deficit to about 25 percent of non-oil GDP in 2019 and pursuing the adjustment toward 15 percent by 2023–24.** This represents an adjustment of about 3 percentage points in 2019, and an additional average adjustment of about 2 percent of non-oil GDP per year over the projection period. This represents a rather tight fiscal stance because it approximates a conservative Permanent Income Hypothesis (PIH) rule. This rule is not necessarily an optimal rule for low income countries with large development needs, but it may be necessary when the resource horizon is short, and there are high levels of debt and a poor track record of public investment management.[3] The implementation of this fiscal strategy would place public debt on a strong downward path and allow Congo to rebuild its fiscal and external buffers. In particular, imputed net foreign assets would triple to cover about 4 months of imports.

18. **The fiscal strategy relies on reforms to boost domestic revenue mobilization and efforts to contain current spending**. Non-oil revenues would increase by 4.6 percent of non-oil GDP in 2020, with further annual increases of about 1 percent of non-oil GDP per year over 2021–22, before stabilizing at around 34½ percent by 2023. Staff noted that there was substantial potential to increase non-oil revenues in the short-term given the large stock of tax arrears,[4] and the plans to curb tax exemptions (see related Selected Issues Paper (SIP), chapters on Non-oil Revenue Mobilization and on Fuel Price Subsidies). Overall primary spending levels would not decline substantially given the strong contraction already observed since 2016. However, staff noted that it would be important to pursue efforts to contain the wage bill as well as transfer and subsidies (see SIP chapter on Fuel Price Subsidies) so that fiscal space is generated to support an expansion in public investment. Most of the fiscal consolidation process has so far relied in deep cuts in the investment budget, which fell to 5½ percent of non-oil GDP in 2018. The authorities' efforts to generate savings in current spending would help expand public investment toward 13 percent of non-oil GDP by 2023.

Text Figure 5. Republic of Congo: Composition of Fiscal Consolidation Efforts

(Percentage of non-oil GDP)



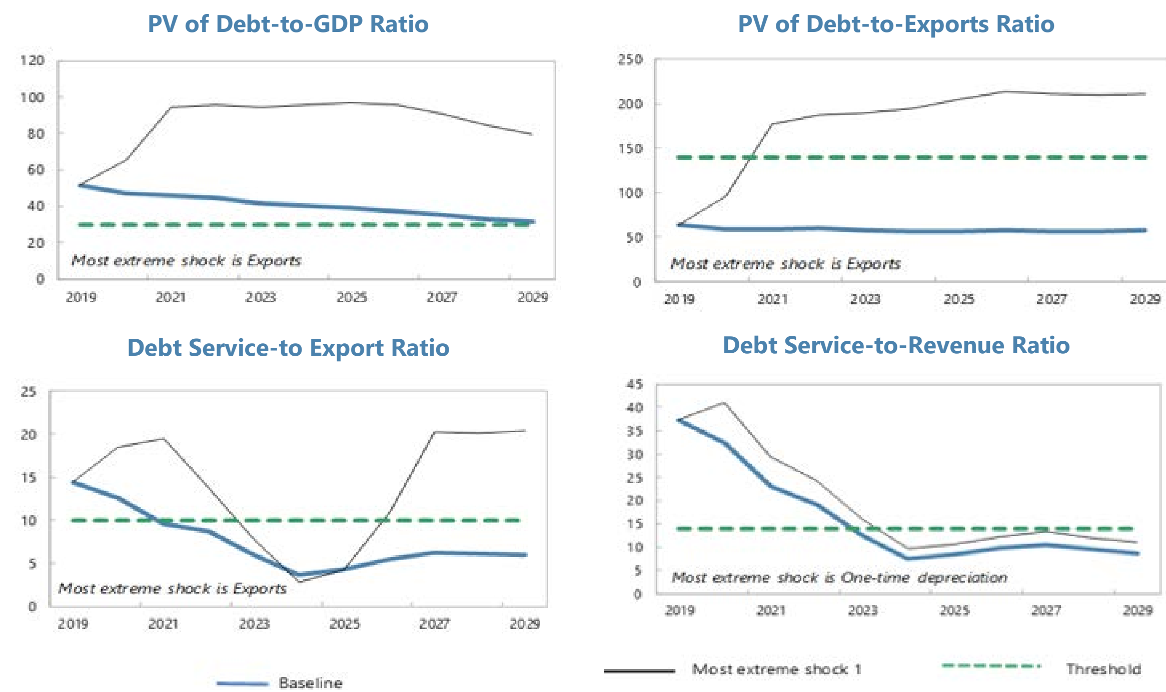
Sources: Congolese authorities and IMF staff calculations.

[3] See IMF Country Report No 19/244, p.14.

[4] The authorities have estimated a total stock of tax arrears of CFAF 704 bn (27.7 percent of non-oil GDP). In addition, they noted that tax exemptions associated with the oil sector accounted for 18 percent of non-oil GDP in 2018, while exemptions associated with the investment code represented an additional 6 percent of non-oil GDP.

19. The implementation of the fiscal strategy would contribute to a strong reduction in public debt, but it would not be sufficient to restore sustainability in the medium term. Absent additional debt restructuring, the PV of external debt to GDP would remain above the sustainability threshold of 30 percent for the next decade (see Text Figure 6 and Debt Sustainability Assessment).[5] While liquidity indicators are projected to decline below their indicative thresholds by 2023, the debt service to revenue indicator exhibits significant breaches over the next three years. Moreover, liquidity indicators remain strongly susceptible to potential shocks; a shock to exports would cause the external debt-service-to-exports ratio to breach its threshold after 2025, while a depreciation shock would cause the external debt-service to revenue ratio to remain above its threshold in the medium term. In addition to the clearance of arrears necessary to end debt distress, the restructuring process of external commercial debt is thus essential to ensuring debt sustainability over the medium term.

Text Figure 6. Republic of Congo: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2019–29



Sources: Congolese authorities and IMF staff estimates and projections.

20. The finalization of the plan to clear domestic arrears is also a key element of the fiscal strategy that will require immediate attention. As noted above, non-performing loans had

[5] Congo's debt carrying capacity was rated weak according to the composite indicator (CI) based on the October 2019 WEO; as a result, the external debt burden thresholds are (i) 30 percent for the PV of debt-to-GDP ratio; (ii) 140 percent for the PV of debt-to-exports ratio; (iii) 10 percent for the debt service-to-exports ratio, and (v) 14 percent for the debt service-to-revenue ratio

increased to about 24 percent of gross loans by end-September and this is largely explained by the difficulties private sector companies are experiencing to service their loans due to the arrears the Treasury has accumulated over time with government suppliers. The stock of domestic arrears at end-2018 is estimated at about 14½ percent of GDP, though this figure may decline once the second phase of the independent audit is finalized. If a sufficient stock of gross claims is rejected by the auditor, there would not be a need for the authorities to restructure their domestic debt to restore debt sustainability.[6] Discussions also focused on the need to avoid using Treasury resources initially planned for this year to settle arrears that had not been properly recorded in previous years, and to strengthen commitment control and cash management to prevent the appearance of new arrears (see discussion below on PFM issues, and SIP chapter on Improving Governance).

21. Staff expressed concern about the low rate of execution of social spending. At end June 2019, the authorities had only spent about 1/3 of the level of social spending allocated to critical social programs, including health, education and cash transfers to poor households. Staff noted that increasing social spending was necessary to ensure that vulnerable groups were being effectively protected from the burden of fiscal adjustment, including through the expansion of the cash transfer system and the allocation of budgetary resources to support women (e.g. training centers and combating gender-based violence). While delays in budget support may partly explain the low level of social spending, staff also noted that weaknesses in PFM, especially the use of Treasury resources to settle spending from previous years, played an important role (see below).

22. The authorities should also develop contingency plans in case key fiscal risks materialize. The fiscal position in 2020 may be at risk if (i) non-oil revenues underperform relative to the ambitious target, (ii) oil production does not ramp up to 140 million barrels as expected, or (iii) efforts to contain non-priority spending take more time. To offset these risks, the authorities need to speed up efforts to recover the existing stock of tax arrears and curb tax exemptions by ensuring that the Tax and Custom Directorates have adequate resources to conclude these tasks effectively. In addition, ensuring adequate social spending levels and stronger outreach efforts could help build a constituency in favor of reforms to contain non-priority spending (for example fuel subsidies and oil-related transfers).

Authorities' Views

23. The authorities indicated that they continue to pursue an ambitious fiscal consolidation plan. They explained that they have followed prudent fiscal policies over the last few years, emphasized the rigorous implementation of agreed fiscal plans for 2019, and stressed the

[6] The first phase of the audit, covering the fiscal years 2014-16, was already finalized. The new audit covers the years 2017–18, and any remaining claims prior to 2014. The preparation of the audit report is taking more time than initially anticipated because the auditor is following an in-depth methodology that requires an assessment of the value of the goods and services provided by the private sector (similar to a forensic audit). In some cases, this is leading to a large rate of rejection of initial gross claims of up to 75 percent. The authorities indicated that the audit would be completed by the end of the year. A preliminary report has been shared with staff. The final report would likely be available in early 2020.

submission to Parliament of a 2020 Budget in line with the medium-term objectives recommended by the IMF.

24. The authorities agreed that the success of the fiscal consolidation strategy largely relies on reforms to boost non-oil revenue collections. In this regard, they pointed to a series of ongoing reforms that could help achieve revenue targets, including a set of legislative and administrative measures, the creation of a Fiscal Policy unit, stronger controls on tax exemptions and tax arrears, and efforts to modernize tax and customs administration through the interconnection between the Customs Directorate, the General Directorate for Domestic Taxes, and the Treasury. This interconnection will facilitate the monitoring of taxes due (with the issuances of tax liabilities prepared by the customs and domestic tax directorates), and the effective payment and tax collection controlled by the Treasury. Tax officials also indicated that they were in the process of reviewing the system of tax exemptions, including for imports of fuel products for the domestic market, to ensure that ad hoc tax exemptions that were granted without clear legal base are eliminated (see SIP chapter on Fuel Price Subsidies). They also noted that in some cases private sector companies will lose the initial tax exemptions that they had been granted because they did not respect contractual commitments, for example on the level of investment they had agreed to bring to the country.[7]

25. The authorities also noted that they plan to continue containing current spending and pursuing debt restructuring efforts with commercial creditors. They indicated that they had introduced a new system to control transfers to the oil refinery CORAF in line with an earlier request from Parliament and this was already generating substantial savings for the budget. Despite the additional fiscal space that this may generate for public investment, the authorities cautioned that the fiscal position was tight, which created political economy challenges to defend the government strategy in Parliament. As regards the debt restructuring process of external commercial debt, the authorities highlighted that this was crucial to restore debt sustainability. They noted that they had sent new letters to external creditors, mainly the oil traders, inviting them to accelerate the negotiations to reach a deal compatible with their program objectives.

26. With respect to domestic arrears, the authorities indicated that the initial estimates are likely to decline once the results of the second audit are finalized. They reiterated their intention to proceed with the payment of the arrears that have already been audited. This would be done through the issuance of 5–7-year debt certificates that private sector agents could discount in the banking sector if they need faster access to liquidity. The authorities also agreed on the need to accelerate social spending levels, but expressed disappointment that delays in disbursements of expected budget support had contributed to the observed underperformance in this area. They also indicated that they are considering improvements in the system to track priority spending, and

[7] The implementation of the measures included in the 2020 Budget Law could yield about 1.6 percent of non-oil GDP. At the same time the authorities also indicated that the effective recovery of tax arrears by the Tax Directorate could raise non-oil revenues by an additional 6 percent of non-oil-GDP.

noted that the installation of a new expenditure-tracking software (SIGFIP) in 2020 would play a key role in this regard.

B. Policy Theme 2: Fostering Good Governance and Tackling Corruption

27. The authorities have recently demonstrated a commitment to improving governance, as a necessary precondition to achieve more inclusive growth. At the same time, there is recognition that additional reforms are needed in a number of areas, including rule of law, PFM systems, financial sector oversight, market regulation, and business climate.

28. Congo has taken important steps to improve governance. The authorities first published a diagnostic report on Governance, prepared with the assistance from IMF staff, that identified all the key areas of weakness that required reforms (see SIP chapter on Improving Governance). The main reforms so far have covered the following areas:

- *Strengthening of the Anti-Corruption Framework*. This objective has been advanced via the adoption of (i) a new asset declaration law for senior government officials, and (ii) the establishment of a High Authority on Corruption with investigative powers, and a Transparency Commission with civil society participation.

- *Greater transparency in oil revenue management*. The authorities took several initiatives in this area including the publication of oil reconciliation reports by KPMG, and the enactment of a law that requires annual external audits of the national oil company SNPC. Progress has continued in this area with the publication of the 2018 audit report. In addition, the authorities have sent reports to Parliament on (i) pre-financing agreements by SNPC, which were associated with the large increase in public debt; (ii) on infrastructure projects implemented by the Ministry of Public Works, and (iii) on special agreements between the government and companies to build infrastructure financed through in-kind oil payments.

- *Disclosure of Information*. The authorities have also taken steps to publish monthly economic data on the websites of the statistics institute and the Ministry of Finance. In addition, the draft 2019 Budget was published online even before the Parliamentary discussion started. This practice is commendable as it allows civil society, the media, and other national and international observers advance access to information to assess government priorities.

- *Independent Audits of Domestic Arrears*. Auditing arrears prior to payment is also an important reform to ensure that public resources are only used to settle payments that are associated with an effective delivery of goods and services. International experience suggests that the emergence of a large stock of domestic arrears is often associated with the emergence of collusion and opportunistic behavior between the private sector and public officials.

29. Further steps are needed, however, and some reforms require active follow-up to ensure that they produce effective change. In particular, the anti-corruption framework requires the adoption of implementing decrees and the allocation of adequate budget resources to allow the new institutions to carry out their activities effectively. For example, the authorities should ensure that the High Authority on Corruption is provided with adequate human and material resources, corruption-related offences are systematically investigated and prosecuted, and that the financial disclosure/asset declaration regime is brought into alignment with international good practices. In addition, the three reports that were sent to Parliament on oil revenue management have not yet been broadly discussed. While these reports point to serious inefficiencies in past economic management, an active debate and publication of the information should be pursued to ensure that there is accountability about previous policies.

30. Staff noted the importance of strengthening the PFM system, particularly budget execution, where new vulnerabilities were identified. In particular, the Treasury used in 2019 an opaque mechanism to settle payment orders from previous years. These payment orders from 2015–17 represented about 3 percent of GDP. They should have been classified as domestic arrears, sent to the debt management unit, and audited prior to payment. Instead, the Treasury kept them in a "transitory account" outside of the regular budget control procedures. While the settlement of these arrears was mostly associated with social sectors (student scholarships, health, education and local communities), it crowded out the clearance of other arrears that had already been audited and left the Treasury without sufficient resources to meet social spending targets from the 2019 budget. Staff proposed that the spending and related documentation should be audited by the Audit Court.

31. Discussions also focused on other important reforms that should help improve the efficiency and transparency of public finance management. Staff commended the authorities for their efforts to adopt a new expenditure tracking software (SIGFIP) that will improve the efficiency and transparency of budget execution, by tracking the various phases of the expenditure chain from the commitment to the payment. In addition, the authorities should also expedite plans to: (i) adopt a new organizational structure of the Ministry of Finance and Budget; (ii) design and implement a medium-term strategy for PFM reforms, with a three-year rolling action plan; (iii) prepare a comprehensive list of all government accounts in the banking system and transfer their balances to the Treasury Single Account; and (iv) adopt a Law on the organization and functioning of the Audit Court.

32. The enforcement of legal claims requires further attention. Congo is assessed poorly in the area of claims enforcement. A key complaint is the lack of specialist training within the judiciary. Further efforts in this area, coupled with the publication of judicial decisions would be important first reform steps. The collection of data in relation to the number of proceedings before courts would allow for better resource allocation and could contribute to a decline in delays.

Authorities' Views

33. The authorities noted that they had implemented a large number of reforms to improve governance. They appreciated the broad recognition to their reform efforts, but pointed out that it will take time for these reforms to produce effective change. They expressed a commitment to allocate adequate budgetary resources to the new anti-corruption institutions, but also explained that it was first important to hire qualified staff who can prepare a business plan, and subsequently submit a specific request for budgetary resources. The authorities also noted that staff advice regarding best international practice should be tailored to country-specific factors and take into account political economy and other institutional constraints. In particular, they indicated that building new effective institutions would be a gradual process that can take some time.

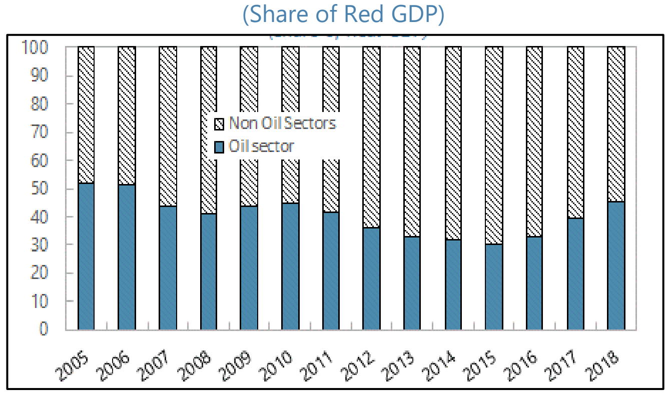
34. The authorities agreed that there was a need to improve the PFM system and highlighted the commitment to adopt the new expenditure-tracking software (SIGFIP). They acknowledged that the mechanism used by the Treasury to settle 3 percent of domestic arrears incurred in past years was not adequate. However, they pointed out that there was no particular opacity in the clearance of these arrears as the details of the spending were known and they quickly accepted staff's recommendation to have this spending audited by the Audit Court. Going forward, the authorities agreed that the Treasury should only be allowed to settle payment orders from the previous year in January (in line with CEMAC PFM regulations) and then should close the budget year and send any remaining stock of unpaid bills to the debt management unit.

C. Policy Theme 3: Economic Diversification and Inclusive Growth

35. Reigniting growth in the non-oil sectors requires reforms to help diversify the economy and increase its resilience to external shocks. In an economy still dominated by the oil sector, achieving broad-based, sustained and inclusive growth has proven a daunting task, and poverty and inequality have risen since the last household survey, almost 10 years ago. The non-oil sector has not increased its share in GDP over time over the last decade. Cyclical difficulties have remained, compounded by a weak business environment. Diversification remains low, even by regional standards, and has not improved in recent decades (see Annex I).

Text Figure 7. Republic of Congo: Oil versus Non-Oil Sector, 2005–18

(Share of Red GDP)



Sources: Institut National de la Statistique du Congo and IMF staff calculations.

36. Discussions focused on the three pillars of the authorities' diversification strategy (human capital, the development of key non-oil sectors, and the business environment). In order to decrease the economy's reliance on the oil sector and on extractive industries more broadly, the National Development Plan (NDP) targets improved performance and competitiveness in the agricultural, industrial, and tourism sectors. As part of these efforts, the authorities plan to allocate resources to improving infrastructure, including transportation and electricity supply, as well as to increase investment in human capital.

37. The agricultural sector is one of three key sectors targeted via the diversification strategy outlined in Congo's NDP. While it remains underdeveloped, this sector is an important source of potential growth and its development may contribute to improving food security and decreasing reliance on food imports. The NDP targets the development of infrastructure for transport and production essential to support the agricultural system, as well as improvement of value chains. In addition, in the context of the National Agricultural Investment and Food and Nutrition Security Plan (PNIASAN), the authorities aim to modernize family farming and promote agribusiness by helping small producers' organizations to access the market and engage with large operators.

38. The forestry sector has been fairly static in recent years, but has growth potential. The authorities suggested that a new $65 million grant from CAFI (the Central Africa Forestry Initiative) will help boost the sector given its push for increased transparency in the adoption of a new forestry law, including the publication of forestry receipts, safeguarding community rights in forest areas, the granting of forestry concessions, and the imposition of fines. The government is trying to develop greater value added in the forestry sector by increasing the rate of domestic processing of logs through measures in the new forestry code (see Annex I).

39. The nascent mining sector is beginning to gain momentum, with notable increases in the export of copper, tin and other metals — mainly to the Chinese market. Moreover, given that this sector requires large investment commitments, it is likely to be a long-term source of economic activity. Congolese mining firm Sapro expects to ramp up output from its Mayoko iron ore project in the coming quarters, having shipped its first ore earlier this year, while Glencore is also targeting iron ore exports over the coming months.

40. Staff stressed the importance of speeding up reforms to improve market regulation and the business environment. The operationalization of the single window for property titling has been a positive step. At the same time, limited progress has been achieved to implement a number of other important reforms, including the simplification of the licensing process, the creation of a national real estate registry, the reduction of costs to start a business, and the reform of administrative fees to facilitate cross-border trade. Such reforms would reduce administrative burdens, improve the business environment and unlock growth potential in promising sectors.

41. The development of the financial sector is essential to support access to credit. Staff recommended expediting the finalization of the interim audit report and the implementation of the domestic arrears repayment strategy in order to reduce private sector NPLs with banks and therefore improve financial sector stability and access to credit. Staff also discussed recent steps taken by the authorities on the recapitalization of two non-systemic banks which have either become insolvent or are in distress and recommended that the authorities should submit their proposed plans to Commission Bancaire de l'Afrique Centrale (COBAC). [8]

[8] One bank is private, with the Congolese state owning 1/3 of the capital; the other bank is public and entirely owned by the Congolese state. Both banks represent less than 3 percent of the overall banking sector assets.

42. Staff also stressed the need to improve economic statistics to support economic analysis. The authorities have been developing a new GDP series with a change in the base year. With continuing support from STA technical assistance missions, the authorities have agreed with staff that new data series should only be adopted once (i) the quality, consistency and reliability of the data have been established, and (ii) the economic impact of the modifications (including changes in nominal GDP) has been fully assessed.

Authorities' Views

43. The authorities agreed on the need to boost the non-oil economy and enhance the business environment, which was negatively affected by the severe recession that occurred over 2015–18. They acknowledged that the economic crisis was compounded by the surge in domestic arrears from the government to the private sector and the associated credit crunch in the banking sector. To reduce uncertainty and support the private sector, the authorities agreed to expedite the strategy to clear domestic arrears once the final audit report is fully finalized.

44. The authorities noted that they are taking steps to improve the business environment. This includes simplifying licensing procedures and improving the main public archives through computerization. The authorities also reiterated that other measures to improve the business climate are planned under programs supported by the AfDB and the World Bank with a focus on important areas that have performed poorly in the Doing Business reports of the World Bank.

STAFF APPRAISAL

45. The Republic of Congo continues to face very difficult economic conditions. The overall growth projection in 2019 has been revised down due to a lower increase in the level of oil production than initially anticipated. There are, however, good prospects for a further increase in oil production in 2020, which would help boost growth. The non-oil economy is likely to grow modestly in 2019 (below 1 percent) thanks to developments in the agricultural and transportation sectors, though many economic sectors still remain in recession. The overall macroeconomic outlook remains challenging, and business confidence appears low due to delays in the implementation of the government strategy to clear domestic arrears. However, inflation remains under control and (imputed) net foreign assets have been rising faster than expected due to the improving current account and the impact of the new foreign exchange regulations.

46. The government needs to continue strengthening its medium-term fiscal framework. Prudent expenditure policy in the execution of the 2019 budget through September, and the draft 2020 budget are consistent with the objective of pursuing fiscal consolidation efforts and reducing debt. At the same time, there are three risks that require special focus.

- First, a substantial part of the fiscal consolidation strategy relies on non-oil revenue mobilization and the authorities should step up efforts to curb exemptions, collect tax arrears and pursue ongoing tax administration efforts, including the planned interconnection among customs, the domestic tax directorate, and the Treasury.[9]

- Second, there is a need to ensure that adequate resources are allocated to critical social programs in favor of vulnerable groups. This will require pursuing reforms to contain oil-related subsidies and a stronger system of monitoring priority programs in the cashflow plan by the Treasury.
- Finally, the authorities need to strengthen their PFM system to ensure that annual budgets are closed in a timely manner, and the Treasury only settles domestic arrears from previous budget years after they have been properly recorded (and audited) by the debt management unit or an independent audit.

47. Public debt management should continue to be at the center of Congo's economic recovery plan. First, staff support authorities' plan to pursue negotiations with external commercial creditors to reduce the current debt burden and ensure that Congo reaches a moderate level of debt distress by 2023. Second, the authorities should implement the strategy to clear domestic arrears with the private sector. This is essential to contain rising non-performing loans, provide enough liquidity to the private sector to be able to meet its tax obligations, and increase business confidence in support of economic activity, especially in the non-oil sector. The authorities should also avoid any new accumulation of official external arrears and clear the existing stock in line with their earlier commitments.

48. Congo has taken steps to improve governance and reduce corruption. Staff welcomed the authorities' efforts to strengthen the anti-corruption framework, improve transparency in the management and accounting of oil revenues, and increase access to economic information, including through the publication of the 2018 audited financial statements of SNPC and the publication of the draft 2020 budget in the website of the Ministry of Finance. At the same time, additional efforts are needed to ensure that these reforms are fully implemented, including through the adoption of implementing decrees for the High Authority on Corruption and for the Transparency Commission, as well as ensuring that the newly created institutions are properly resourced and able to perform their roles.

49. Congo's growth model has been too dependent on developments in the oil sector and the diversification strategy will be key to sustain higher and more inclusive growth. The level of diversification remains low (see Annex I). The success of the strategy will require a focus on two interrelated priorities. First, the country needs to preserve macroeconomic stability; the restoration of debt sustainability through a successful debt restructuring of external commercial debt and the

[9] As discussed in Selected Issues Paper I, this will require a well-sequenced series of reforms that include three key steps. First, the newly created Fiscal Policy Unit in the Ministry of Finance should facilitate the design and implementation of a medium-term revenue strategy. Second, the government should urgently address the erosion of the tax base generated by an excessive and discretionary use of tax exemptions that do not comply with existing laws and regulations. Finally, the government needs to pursue efforts to rationalize the tax code and increase administrative efficiency to recover tax arrears.

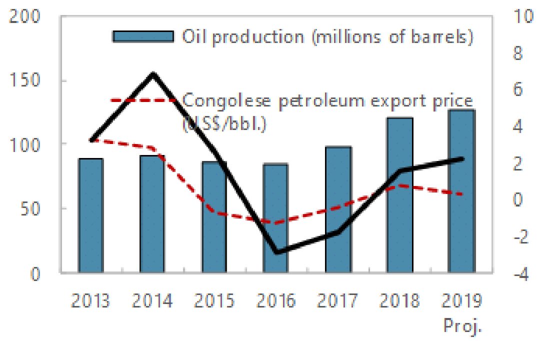
repayment of external and domestic arrears will be essential to boost confidence and signal that the country will be able to maintain a stable economic environment. Second, institutional reforms to strengthen governance and improve the business environment can also play a decisive role. In this regard, improving the quality of infrastructure (including access to electricity), reducing administrative challenges associated with starting a new business, and improving access to credit are essential to bringing Congo more in line with better performers in Sub-Saharan Africa.

50. It is recommended that the next Article IV consultation be held in accordance with Decision No. 14747- (10/96), adopted September 28, 2010, as amended.

Figure 1. Republic of Congo: Recent Economic Developments, 2010–19

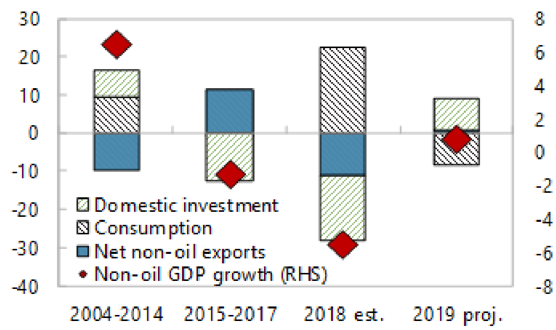
The economy is projected to expand by about 2 percent in 2019…

Growth and Oil



… mainly due to an increase in oil-related investment and production.

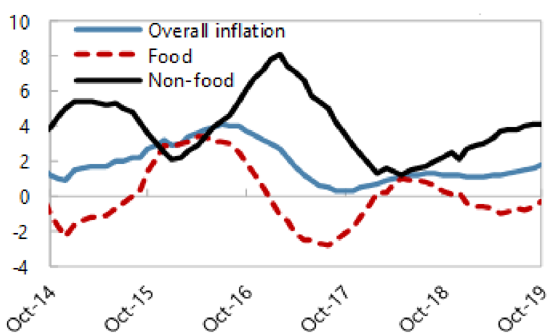
Contribution to Real Non-oil GDP Growth



Overall inflation remains moderate, despite a recent increase in non-food prices.

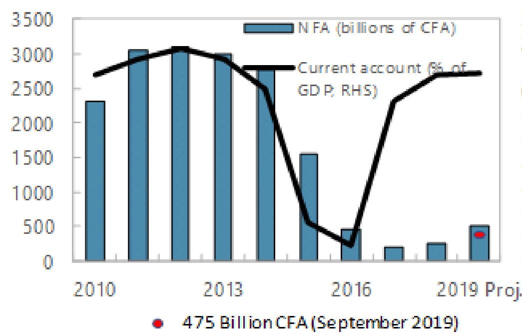
Inflation

(12-month percent change)



Net foreign assets are improving as a result of the stronger current account.

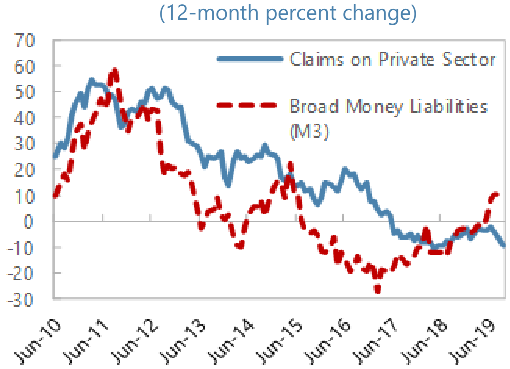
Current Account and NFA



Credit growth remains negative, despite a recent increase in broad money…

Monetary Aggregates

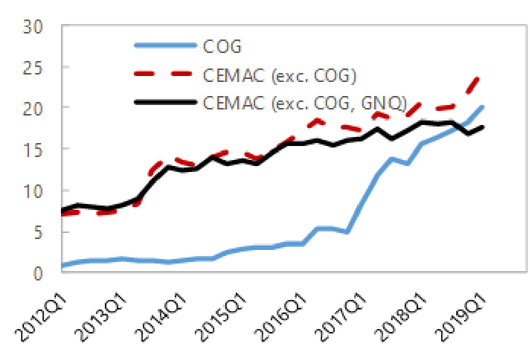
(12-month percent change)



…as banks have tightened credit due to high and rising NPLs in the private sector.

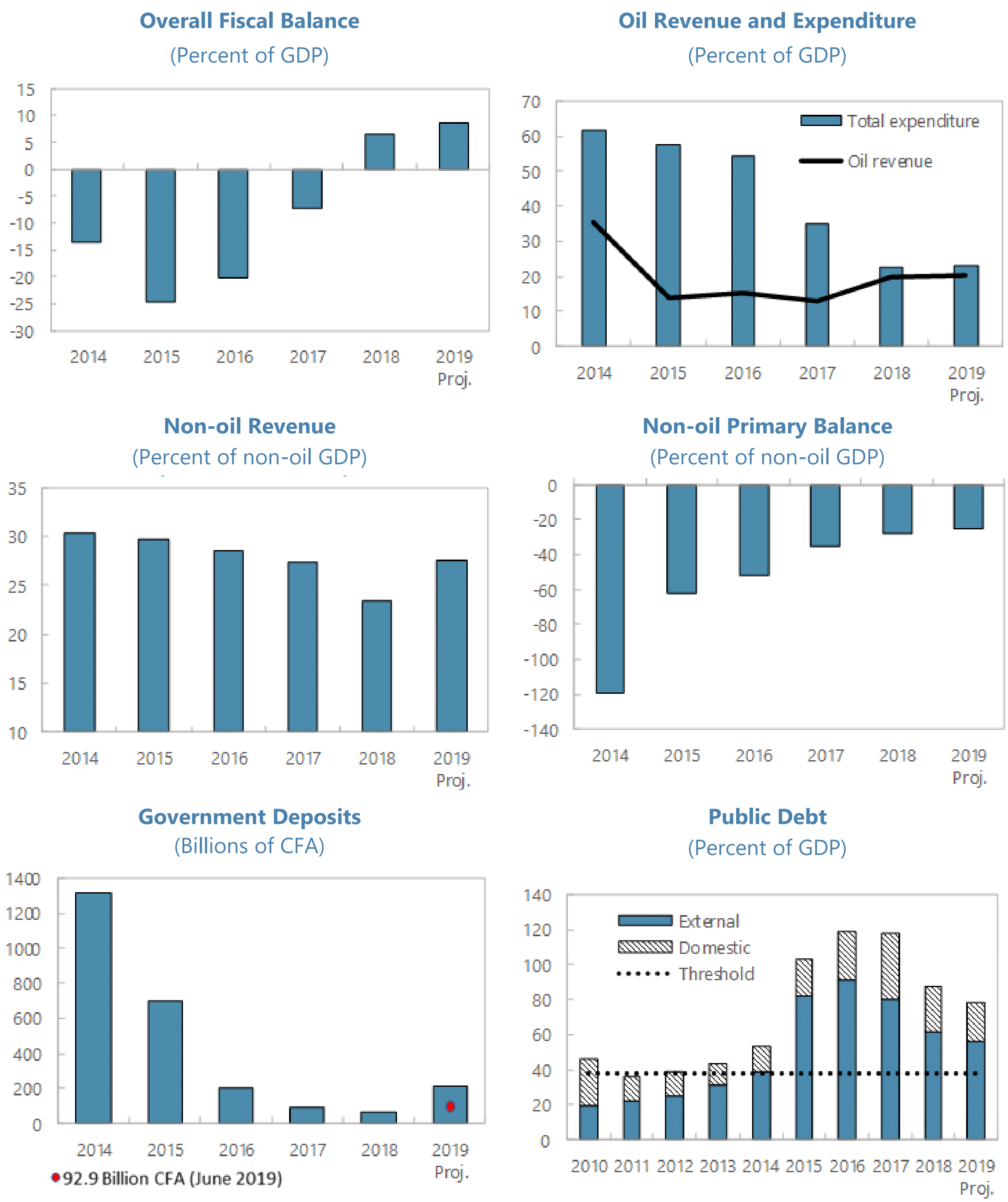
Nonperforming Loans to Gross Loans, 2012–19

(Percent)



Sources: Congolese authorities and IMF staff calculations.

Figure 1. Republic of Congo: Recent Economic Developments, 2010–19 (concluded)



Sources: Congolese authorities and IMF staff calculations.

Table 1. Republic of Congo: Selected Economic and Financial Indicators, 2017–24

	2017	2018	2019		2020	2021	2022	2023	2024
		Proj.	IMF CR 19/244	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Annual percentage change unless otherwise indicated)								
Production and prices									
GDP at constant prices	-1.8	1.6	5.4	2.2	4.6	1.9	0.0	1.3	2.3
Oil	15.3	23.9	15.8	5.5	9.5	-1.6	-8.8	-6.1	-3.4
Non-oil	-6.2	-5.5	1.0	0.8	2.5	3.6	4.0	4.1	4.2
GDP at current prices	12.4	24.8	0.8	1.1	3.4	-1.5	-3.0	0.2	2.6
GDP deflator	14.4	22.9	-4.3	-1.1	-1.1	-3.4	-3.0	-1.0	0.3
Consumer prices (period average)	0.4	1.2	1.5	1.9	1.8	2.6	2.8	3.0	3.0
Consumer prices (end of period)	1.8	0.9	2.0	1.8	2.5	2.7	3.0	3.0	3.0
External sector									
Exports, f.o.b.	37.7	46.1	0.7	-1.8	2.0	-5.0	-7.4	-2.5	1.0
Imports, f.o.b.	-43.2	5.0	2.2	-2.2	7.3	3.5	1.0	0.3	2.7
Export volume	26.0	30.8	14.6	0.9	8.9	-2.6	-9.8	-7.3	-2.7
Import volume	-40.0	10.3	5.6	-1.6	6.0	2.1	1.1	-0.2	2.6
Terms of trade (deterioration -)	9.6	16.4	-8.9	-2.1	-7.5	-3.9	2.7	4.7	3.7
Current account balance (percent of GDP)	-3.5	7.2	5.6	8.0	5.8	1.2	-2.1	-2.5	-2.9
Net foreign assets	-54.2	12.3	57.5	100.8	32.2	41.7	9.3	11.8	6.8
External public debt (percent of GDP)	80.0	61.3	58.1	55.2	52.7	52.8	51.5	48	46
Monetary sector									
Broad money	-10.4	-4.0	7.5	15.8	1.5	8.5	0.4	1.4	2.9
Credit to the private sector	-5.4	-2.7	2.6	-1.5	2.1	2.4	5.8	7.0	7.8
	(Percent of GDP)								
Investment and saving									
Gross national saving	26.2	24.3	26.4	27.8	27.4	25.3	24.6	26.2	27.6
Public	1.6	9.2	12.7	13.6	13.8	14.4	15.2	14.8	14.8
Private	24.6	15.1	13.7	14.2	13.6	11.0	9.5	11.3	12.8
Gross investment	29.8	17.1	20.9	19.9	21.6	24.1	26.7	28.7	30.5
Public	7.9	2.2	4.5	4.2	4.8	5.8	6.3	6.6	6.8
Private	21.9	14.9	16.4	15.7	16.8	18.3	20.2	21.9	23.5
	(Percent of non-oil GDP, unless otherwise indicated)								
Central government finances									
Total revenue	53.6	74.2	78.7	80.0	79.0	75.4	71.6	67.8	65.5
Oil revenue	25.2	50.6	48.3	51.3	45.8	41.2	36.1	32.2	29.6
Nonoil revenue (including grants)	28.4	23.6	30.4	28.6	33.2	34.2	35.4	35.6	35.9
Total expenditure and net lending	67.8	57.4	59.8	58.0	58.1	57.0	54.4	53.0	51.8
Current	48.4	51.9	48.5	47.5	46.2	43.6	41.2	40.1	39.1
Capital (and net lending)	15.2	5.5	11.3	10.4	11.9	13.4	13.2	12.9	12.7
Off-budget	4.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (deficit -, payment order basis, percent of GDP)	-7.4	6.6	7.5	8.8	8.4	8.0	8.2	7.6	7.4
Non-oil primary balance (- = deficit)	-35.3	-28.1	-24.8	-24.7	-21.2	-19.6	-16.5	-15.4	-14.3
Basic primary fiscal balance (- = deficit)[1]	-1.9	24.3	23.4	26.6	24.5	21.5	19.7	16.8	15.2
Reference fiscal balance (percent of GDP)[2]	-0.7	-4.7	-0.8	-0.8	3.0	5.6	6.5	5.7	5.0
Primary balance (percent of GDP)	-5.2	8.9	9.3	10.6	9.9	9.4	9.4	8.6	8.2
Financing gap (CFAF billion)[3]	0.0	0.0	362.2	260	449	269	68	-98	0.0
Total public debt (percent of GDP)	117.5	87.1	81.7	77.5	70.5	66.9	62.5	56.8	54.2
	(Percent of total government revenue excluding grants)								
External public debt service	24.0	24.6	37.6	37.4	32.2	23.1	19.1	12.6	7.6
	(Billions of CFA francs, unless otherwise indicated)								
Nominal GDP	5,188	6,476	6,529	6,545	6,767	6,666	6,469	6,484	6,652
Nominal oil GDP	2,493	3,932	3,926	3,936	4,046	3,771	3,373	3,161	3,081
Nominal non-oil GDP	2,695	2,544	2,603	2,609	2,721	2,894	3,096	3,323	3,570
Nominal GDP in US$ (millions)	8,932	11,664	11,382	11,206	11,559	11,496	11,240	11,314	11,624
World oil price (U.S. dollars per barrel)	53	68	59	62	58	55	55	55	56
Oil production (Millions of barrels)	98	121	140	128	140	137	125	118	114
Nominal Exchange rate (CFA/USD, period average)	580.9	555.2	...	...	...	...	...	...	...
REER (percentage change)	-0.5	3.1	...	...	...	...	...	...	...

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

[1] Revenue excluding grants minus total expenditures (excluding interest payments and foreign-financed public investment).

[2] Overall balance minus 20 percent of oil revenues and minus 80 percent of the oil revenue in excess of the average observed during the three previous years.

[3] Before IMF-ECF financing, other expected financing and exceptional financing due to external debt restructuring net of restructured contingent liabilities.

Table 2a. Republic of Congo: Central Government Operations, 2018–24

(Billions of CFA francs)

	2018	2019		2020	2021	2022	2023	2024
	Prel.	IMF CR 19/244	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
				(CFAF billion)				
Total revenue and grants	1,888	2,048	2,086	2,149	2,182	2,216	2,253	2,338
Revenue	1,882	2,020	2,059	2,121	2,154	2,182	2,217	2,303
Oil revenue	1,288	1,257	1,340	1,246	1,191	1,119	1,069	1,057
of which: repayment of oil-prepurchased debt	227	354	307	366	347	340	339	342
Non-oil revenue	594	763	719	875	963	1,063	1,148	1,246
Direct taxes	253	325	306	354	408	449	482	521
Taxes on goods and services	233	312	286	363	379	418	449	486
Customs Receipts	95	109	109	132	148	169	188	209
Non-tax revenue	14	18	18	27	28	28	29	31
Grants	6	28	28	28	28	34	37	36
Expenditure and net lending	1,461	1,556	1,512	1,581	1,649	1,685	1,760	1,848
Current expenditure	1,320	1,263	1,240	1,257	1,262	1,275	1,332	1,395
Wages	363	374	374	393	403	416	446	478
Other primary current expenditure	788	745	721	763	769	782	823	863
Goods and services	173	188	188	193	200	207	219	226
Transfers	575	520	496	522	520	526	552	583
Social Transfers (Lisungi and others)	…	50	50	60	71	70	75	76
Traditional transfers	251	352	328	339	325	329	346	372
Oil-related transfers	324	118	118	123	125	128	131	135
Common charges	40	37	37	48	48	48	52	55
Interest	147	119	120	101	91	77	63	54
Domestic	24	21	21	18	15	12	11	10
External	123	97	98	82	75	65	52	44
of which: on oil-prepurchased debt	83	50	50	31	21	11	2	0
Annex budgets and special Accounts[1]	22	26	26	0	0	0	0	0
Capital expenditure	141	293	272	325	386	410	427	453
Domestically financed	92	150	129	195	243	276	288	312
Externally financed	50	143	143	130	143	134	139	142
Non-oil primary balance[2]	-714	-647	-646	-578	-568	-510	-512	-512
Basic non-oil primary balance[3]	-670	-531	-530	-476	-452	-410	-410	-406
— excluding oil-related transfers[4]	-346	-413	-412	-354	-327	-282	-279	-272
Reference fiscal balance[5]	-307	-54	-54	203	375	420	373	335
Primary balance	574	610	694	668	624	609	557	544
Overall balance, payment order basis								
Excluding grants	421	464	547	539	505	497	457	455
Including grants	427	491	574	567	533	531	494	490
Change in arrears	-15	0	0	0	0	0	0	0
External[6]	67	0	0	0	0	0	0	0
Domestic[7]	-82	0	0	0	0	0	0	0
Overall balance, cash basis	412	491	574	567	533	531	494	490
Financing	-412	-853	-834	-1,016	-802	-599	-396	-490
Foreign (net)	-210	-538	-548	-486	-305	-252	-122	-7
Drawings	44	122	123	114	116	100	103	109
Amortization due	-339	-660	-671	-601	-421	-352	-224	-116
of which: on oil-prepurchased debt	-144	-303	-308	-309	-118	-127	-65	0
Other foreign financing	86	0	0	0	0	0	0	0
of which: deposits in China	86	0	0	0	0	0	0	0
Domestic (net)	-203	-315	-286	-530	-497	-347	-274	-483
Banking system (net)	34	-145	-86	-296	-274	-200	-201	-460
Central bank	27	-150	-91	-276	-254	-122	-143	-433
Commercial banks	8	5	5	-20	-20	-20	0	30
Nonbank financing	-237	-170	-200	-234	-224	-148	-73	-24
Of which: Repayment of domestic arrears	…	-176	-206	-243	-244	-148	-73	24
Of which: Debt service to ENI	-74	0	0	0	0	0	0	0
Financing gap (- = surplus)	0	362	260	449	269	68	-98	0
Expected financing (excluding IMF)	0	218	161	212	153	0	0	0
IMF-ECF	0	52	26	104	78	52	0	0
Exceptional financing from debt restructuring[9]	0	92	73	132	38	16	-98	0
Memorandum items:								
Stock of domestic arrears[8]	937	810	732	488	245	97	24	0
Stock of government deposits	64	213	155	429	683	748	831	1,192
GDP at current market prices	6,476	6,529	6,545	6,767	6,666	6,469	6,484	6,652
Non-oil GDP at market prices	2,544	2,603	2,609	2,721	2,894	3,096	3,323	3,570

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

[1] Includes net spending (i.e. spending minus revenues) associated with decentralized government entities.

[2] Revenue and grants excluding oil revenues minus total primary expenditures (excluding interest payments).

[3] Non oil revenue excluding grants minus total expenditures excluding interest payments and foreign-financed investment.

[4] Basic non-oil primary balance minus oil revenue and oil-related transfers. This is a Performance Criterion/Indicative Target.

[5] CEMAC definition: overall balance minus 20 percent of oil revenues and minus 80 percent of the oil revenue in excess of the average observed during the three previous yea

[6] Post-HIPC external arrears accumulated since 2016 are consolidated in outstanding debt. The projected repayments are included in amortization of external debt.

[7] Projected repayments of domestic arrears are included in domestic financing.

[8] Includes estimates of domestic arrears audited by the the Caisse Congolaise d'Amortisation (CCA) and reported but not yet audited arrears.

[9] Net of restructured contingent liabilities.

Table 2b. Republic of Congo: Central Government Operations, 2018–24

(Percent of non-oil GDP)

	2018	2019		2020	2021	2022	2023	2024
	Prel.	IMF CR 19/244	Proj.	Projections				
Total revenue and grants	74.2	78.7	80.0	79.0	75.4	71.6	67.8	65.5
Revenue	74.0	77.6	78.9	77.9	74.4	70.5	66.7	64.5
Oil revenue	50.6	48.3	51.3	45.8	41.2	36.1	32.2	29.6
of which: repayment of oil-prepurchased de	8.9	13.6	11.8	13.4	12.0	11.0	10.2	9.6
Non-oil revenue	23.4	29.3	27.6	32.2	33.3	34.3	34.5	34.9
Direct taxes	9.9	12.5	11.7	13.0	14.1	14.5	14.5	14.6
Taxes on goods and services	9.2	12.0	11.0	13.3	13.1	13.5	13.5	13.6
Customs receipts	3.7	4.2	4.2	4.8	5.1	5.4	5.6	5.8
Non-tax revenue	0.5	0.7	0.7	1.0	1.0	0.9	0.9	0.9
of which: Interest on financial assets	0.1	0.1	0.1	0.2	0.2	0.2	0.1	0.1
Grants	0.2	1.1	1.1	1.0	1.0	1.1	1.1	1.0
Expenditure and net lending	57.4	59.8	58.0	58.1	57.0	54.4	53.0	51.8
Current expenditure	51.9	48.5	47.5	46.2	43.6	41.2	40.1	39.1
Wages	14.3	14.4	14.3	14.4	13.9	13.4	13.4	13.4
Other primary current expenditure	31.0	28.6	27.6	28.1	26.6	25.3	24.8	24.2
Goods and services	6.8	7.2	7.2	7.1	6.9	6.7	6.6	6.3
Transfers	22.6	20.0	19.0	19.2	18.0	17.0	16.6	16.3
Social Transfers (Lisungi and others)	...	1.9	1.9	2.2	2.4	2.3	2.3	2.1
Traditional transfers	9.9	13.5	12.6	12.5	11.2	10.6	10.4	10.4
Oil-related transfers	12.7	4.5	4.5	4.5	4.3	4.1	3.9	3.8
Common charges	1.6	1.4	1.4	1.8	1.7	1.6	1.6	1.5
Interest	5.8	4.6	4.6	3.7	3.1	2.5	1.9	1.5
Domestic	0.9	0.8	0.8	0.7	0.5	0.4	0.3	0.3
External	4.8	3.7	3.8	3.0	2.6	2.1	1.6	1.2
of which: on oil-prepurchased debt	3.3	1.9	1.9	1.1	0.7	0.4	0.0	0.0
Annex budgets and special Accounts[1]	0.9	1.0	1.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure	5.5	11.3	10.4	11.9	13.4	13.2	12.9	12.7
Domestically financed	3.6	5.8	5.0	7.2	8.4	8.9	8.7	8.7
Externally financed	1.9	5.5	5.5	4.8	4.9	4.3	4.2	4.0
Off-budget expenditure	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-oil primary balance[2]	-28.1	-24.8	-24.7	-21.2	-19.6	-16.5	-15.4	-14.3
Basic primary fiscal balance	24.3	23.4	26.6	24.5	21.5	19.7	16.8	15.2
Basic non-oil primary balance[3]	-26.4	-20.4	-20.3	-17.5	-15.6	-13.2	-12.3	-11.4
— excluding oil-related transfers[4]	-13.6	-15.9	-15.8	-13.0	-11.3	-9.1	-8.4	-7.6
Reference fiscal balance[5]	-12.1	-2.1	-2.1	7.5	12.9	13.6	11.2	9.4
Primary balance	22.6	23.4	26.6	24.5	21.5	19.7	16.8	15.2
Overall balance, payment order basis		0.0						
Excluding grants	16.6	17.8	21.0	19.8	17.5	16.1	13.8	12.7
Including grants	16.8	18.9	22.0	20.8	18.4	17.2	14.9	13.7
Change in arrears	-0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External[6]	2.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic[7]	-3.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance, cash basis	16.2	18.9	22.0	20.8	18.4	17.2	14.9	13.7
Financing	-16.2	-32.8	-32.0	-37.3	-27.7	-19.4	-11.9	-13.7
Foreign (net)	-8.2	-20.7	-21.0	-17.9	-10.5	-8.1	-3.7	-0.2
Drawings	1.7	4.7	4.7	4.2	4.0	3.2	3.1	3.0
Amortization due	-13.3	-25.4	-25.7	-22.1	-14.5	-11.4	-6.8	-3.2
of which: on oil-prepurchasd debt	-5.7	-11.6	-11.8	-11.4	-4.1	-4.1	-2.0	--
Debt cancellation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other foreign financing	3.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deposits in China	3.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic (net)	-8.0	-12.1	-11.0	-19.5	-17.2	-11.2	-8.2	-13.5
Banking system (net)	1.3	-5.6	-3.3	-10.9	-9.5	-6.4	-6.0	-12.9
Central bank	1.0	-5.8	-3.5	-10.1	-8.8	-4.0	-4.3	-12.1
Commercial banks	0.3	0.2	0.2	-0.7	-0.7	-0.6	0.0	0.8
Nonbank financing	-9.3	-6.5	-7.7	-8.6	-7.7	-4.8	-2.2	-0.7
Of which: Repayment of domestic arrears	...	-6.8	-7.9	-8.9	-8.4	-4.8	-2.2	0.7
Of which: Debt service to ENI	-2.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap (- = surplus)	0.0	13.9	9.9	16.5	9.3	2.2	-2.9	0.0
Expected financing (excluding IMF)	0.0	8.4	6.2	7.8	5.3	0.0	0.0	0.0
IMF-ECF	0.0	2.0	1.0	3.8	2.7	1.7	0.0	0.0
Exceptional financing from debt restructuring[9]	0.0	3.5	2.8	4.9	1.3	0.5	-2.9	0.0
Memorandum items:								
Stock of domestic arrears[8]	36.8	31.1	28.0	17.9	8.5	3.1	0.7	0.0
Stock of government deposits	2.5	8.2	5.9	15.8	23.6	24.2	25.0	33.4
Non-oil GDP at market prices (CFAF billion)	2,544	2,602.8	2,609	2,721	2,894	3,096	3,323	3,570

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

[1] Includes net spending (i.e. spending minus revenues) associated with decentralized government entities.

[2] Revenue and grants excluding oil revenues minus total primary expenditures (excluding interest payments).

[3] Non oil revenue excluding grants minus total expenditures excluding interest payments and foreign-financed investment.

[4] Basic non-oil primary balance minus oil revenue and oil-related transfers. This is a Performance Criterion/Indicative Target.

[5] CEMAC definition: overall balance minus 20 percent of oil revenues and minus 80 percent of the oil revenue in excess of the average observed during the three previous years.

[6] Post-HIPC external arrears accumulated since 2016 are consolidated in outstanding debt. The projected repayments are included in amortization of external debt.

[7] Projected repayments of domestic arrears are included in domestic financing.

[8] Includes estimates of domestic arrears audited by the the Caisse Congolaise d'Amortisation (CCA) and reported but not yet audited arrears.

[9] Net of restructured contingent liabilities.

Table 2c. Republic of Congo: Central Government Operations, 2017–24

(Percent of GDP)

	2017	2018	2019		2020	2021	2022	2023	2024
		Prel.	IMF CR 19/244	Proj.	Projections				
(Percent of GDP)									
Total revenue and grants	27.9	29.2	31.4	31.9	31.8	32.7	34.3	34.8	35.2
Revenue	27.3	29.1	30.9	31.5	31.3	32.3	33.7	34.2	34.6
Oil revenue	13.1	19.9	19.2	20.5	18.4	17.9	17.3	16.5	15.9
of which: repayment of oil-prepurchased debt	*2.4*	*3.5*	5.4	*4.7*	*5.4*	*5.2*	*5.3*	*5.2*	*5.1*
Non-oil revenue	14.2	9.2	11.7	11.0	12.9	14.4	16.4	17.7	18.7
Direct taxes	6.2	3.9	5.0	4.7	5.2	6.1	6.9	7.4	7.8
Taxes on goods and services	5.7	3.6	4.8	4.4	5.4	5.7	6.5	6.9	7.3
Customs Receipts	2.1	1.5	1.7	1.7	2.0	2.2	2.6	2.9	3.1
Non-tax revenue	0.2	0.2	0.3	0.3	0.4	0.4	0.4	0.5	0.5
Grants	0.6	0.1	0.4	0.4	0.4	0.4	0.5	0.6	0.5
Expenditure and net lending	35.2	22.6	23.8	23.1	23.4	24.7	26.0	27.1	27.8
Current expenditure	25.1	20.4	19.4	18.9	18.6	18.9	19.7	20.5	21.0
Wages	7.5	5.6	5.7	5.7	5.8	6.0	6.4	6.9	7.2
Other primary current expenditure	15.1	12.2	11.4	11.0	11.3	11.5	12.1	12.7	13.0
Goods and services	4.2	2.7	2.9	2.9	2.9	3.0	3.2	3.4	3.4
Transfers	9.4	8.9	8.0	7.6	7.7	7.8	8.1	8.5	8.8
Social Transfers (Lisungi and others)	... .	...	0.8	0.8	0.9	1.1	1.1	1.2	1.1
Traditional transfers	5.7	3.9	5.4	5.0	5.0	4.9	5.1	5.3	5.6
Oil-related transfers	3.7	5.0	1.8	1.8	1.8	1.9	2.0	2.0	2.0
Common charges	1.5	0.6	0.6	0.6	0.7	0.7	0.7	0.8	0.8
Interest	2.1	2.3	1.8	1.8	1.5	1.4	1.2	1.0	0.8
Domestic	0.6	0.4	0.3	0.3	0.3	0.2	0.2	0.2	0.1
External	1.6	1.9	1.5	1.5	1.2	1.1	1.0	0.8	0.7
of which: on oil-prepurchased debt	1.4	1.3	0.8	0.8	0.5	0.3	0.2	0.0	0.0
Annex budgets and special Accounts[1]	0.3	0.3	0.4	0.4	0.0	0.0	0.0	0.0	0.0
Capital expenditure	7.9	2.2	4.5	4.2	4.8	5.8	6.3	6.6	6.8
Domestically financed	3.1	1.4	2.3	2.0	2.9	3.6	4.3	4.4	4.7
Externally financed	4.8	0.8	2.2	2.2	1.9	2.1	2.1	2.1	2.1
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-oil primary balance[2]	-18.3	-11.0	-9.9	-9.9	-8.5	-8.5	-7.9	-7.9	-7.7
Basic non-oil primary balance[3]	-14.1	-10.4	-8.1	-8.1	-7.0	-6.8	-6.3	-6.3	-6.1
— excluding oil-related transfers[4]	-10.4	-5.3	-6.3	-6.3	-5.2	-4.9	-4.4	-4.3	-4.1
Reference fiscal balance[5]	-0.7	-4.7	-0.8	-0.8	3.0	5.6	6.5	5.7	5.0
Primary balance	-5.2	8.9	9.3	10.6	9.9	9.4	9.4	8.6	8.2
Overall balance, payment order basis									
Excluding grants	-8.0	6.5	7.1	8.4	8.0	7.6	7.7	7.0	6.8
Including grants	-7.4	6.6	7.5	8.8	8.4	8.0	8.2	7.6	7.4
Change in arrears	0.8	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External[6]	0.3	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic[7]	0.4	-1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance, cash basis	-6.6	6.4	7.5	8.8	8.4	8.0	8.2	7.6	7.4
Financing	6.6	-6.4	-13.1	-12.7	-15.0	-12.0	-9.3	-6.1	-7.4
Foreign (net)	5.0	-3.2	-8.2	-8.4	-7.2	-4.6	-3.9	-1.9	-0.1
Drawings	8.2	0.7	1.9	1.9	1.7	1.7	1.5	1.6	1.6
Amortization due	-4.9	-5.2	-10.1	-10.3	-8.9	-6.3	-5.4	-3.5	-1.7
of which: on oil-prepurchased debt	-1.2	-2.2	-4.6	-4.7	-4.6	-1.8	-2.0	-1.0	0.0
Debt cancellation	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other foreign financing	0.7	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
of which: deposits in China	0.7	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic (net)	1.6	-3.1	-4.8	-4.4	-7.8	-7.5	-5.4	-4.2	-7.3
Banking system (net)	2.0	0.5	-2.2	-1.3	-4.4	-4.1	-3.1	-3.1	-6.9
Central bank	2.1	0.4	-2.3	-1.4	-4.1	-3.8	-1.9	-2.2	-6.5
Commercial banks	-0.2	0.1	0.1	0.1	-0.3	-0.3	-0.3	0.0	0.5
Nonbank financing	-0.4	-3.7	-2.6	-3.1	-3.5	-3.4	-2.3	-1.1	-0.4
Of which: Repayment of domestic arrears	...	...	-2.7	-3.1	-3.6	-3.7	-2.3	-1.1	0.4
Of which: Debt service to ENI	-2.1	-1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap (- = surplus)	0.0	0.0	5.5	4.0	6.6	4.0	1.0	-1.5	0.0
Expected financing (excluding IMF)	0.0	0.0	3.3	2.5	3.1	2.3	0.0	0.0	0.0
IMF-ECF	0.0	0.0	0.8	0.4	1.5	1.2	0.8	0.0	0.0
Exceptional financing from debt restructuring[9]	0.0	0.0	1.4	1.1	2.0	0.6	0.2	-1.5	0.0
Memorandum items:									
Stock of domestic arrears[8]	18.9	14.5	12.4	11.2	7.2	3.7	1.5	0.4	0.0
Stock of government deposits	1.8	1.0	3.3	2.4	6.3	10.2	11.6	12.8	17.9
GDP at current market prices	5,188	6,476	6,528.9	6,545	6,767	6,666	6,469	6,484	6,652
Non-oil GDP at market prices	2,695	2,544	2,602.8	2,609	2,721	2,894	3,096	3,323	3,570

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

[1] Includes net spending (i.e. spending minus revenues) associated with decentralized government entities.

[2] Revenue and grants excluding oil revenues minus total primary expenditures (excluding interest payments).

[3] Non oil revenue excluding grants minus total expenditures excluding interest payments and foreign-financed investment.

[4] Basic non-oil primary balance minus oil revenue and oil-related transfers. This is a Performance Criterion/Indicative Target.

[5] CEMAC definition: overall balance minus 20 percent of oil revenues and minus 80 percent of the oil revenue in excess of the average observed during the three previous years.

[6] Post-HIPC external arrears accumulated since 2016 are consolidated in outstanding debt. The projected repayments are included in amortization of external debt.

[7] Projected repayments of domestic arrears are included in domestic financing.

[8] Includes estimates of domestic arrears audited by the the Caisse Congolaise d'Amortisation (CCA) and reported but not yet audited arrears.

[9] Net of restructured contingent liabilities.

Table 3a. Republic of Congo: Quarterly Central Government Operations Flows, 2018–20

(Billions of CFA francs)

	2018	2019					2020				
		Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual
	Act.	Rev. Prel.	Prel.	Proj.	Proj.	Proj.	Projections				
Total revenue and grants	1,888	482	448	564	594	2,086	501	451	576	620	2,149
Revenue	1,882	466	436	558	598	2,059	486	446	571	619	2,121
Oil revenue	1,288	290	290	375	385	1,340	269	259	349	368	1,246
of which: repayment of oil-prepurchased debt	398	77	77	88	65	307	91	91	91	91	366
Non-oil revenue	594	177	146	183	214	719	216	186	222	251	875
Direct taxes	253	67	53	78	108	306	77	77	90	110	354
Taxes on goods and services	233	78	63	73	72	286	99	81	92	90	363
Customs Receipts	95	26	26	30	27	109	31	24	37	40	132
Non-tax revenue	14	6	4	2	6	18	8	4	3	11	27
Grants	5.9	16	11	5	-5	28	16	5	5	2	28
Expenditure and net lending	1,461	296	314	409	493	1,512	316	379	434	454	1,581
Current expenditure	1,320	255	244	286	455	1,240	263	280	296	417	1,257
Wages	363	87	88	93	107	374	91	98	98	106	393
Other primary current expenditure	810	142	143	168	293	746	150	156	178	279	763
Goods and services	173	51	44	46	47	188	53	57	48	36	193
Transfers	575	80	84	106	227	496	84	84	111	243	522
Social transfers (Lisungi and other)	…	0	0	5	45	50	…	…	…	…	…
Traditional Transfers	234	43.9	42.9	79	162	328	53	54	80	212	399
Transfers paid with crude oil barrels	341	35	36	22	26	118	31	31	31	31	123
Common charges	40	7	9	10	11	37	10	12	13	14	48
Annex budgets and special Accounts[1]	22	5	6	6	8	26	5	3	6	-14	0
Interest	147	26	14	25	56	120	22	26	21	32	101
Domestic	24	5	3	3	10	21	5	2	2	9	18
External	123	20	11	22	46	98	17	24	18	23	82
of which: on oil-prepurchased debt	*83*	*13*	*2*	*13*	23	*50*	*8*	*8*	*8*	*8*	*31*
Capital expenditure	141	42	70	123	38	272	53	98	137	37	325
Domestically financed	92	25	29	43	33	129	37	44	65	49	195
Externally financed	50	17	41	80	5	143	15	54	73	-12	130
Non-oil primary balance[2]	-714	-79	-143	-196	-228	-646	-62	-161	-186	-169	-578
Basic non-oil primary balance[3]	-670	-77	-113	-121	-219	-530	-62	-112	-119	-183	-476
— excluding oil-related transfers[4]	-329	-43	-77	-99	-193	-412	-32	-82	-88	-152	-354
Primary balance	574	*211*	*147*	*179*	156	*694*	*207*	*99*	*163*	*199*	*668*
Overall balance, payment order basis					0						
Excluding grants	421	170	122	149	105	547	170	67	137	165	539
Including grants	427	185	134	155	101	574	185	72	142	167	567
Change in arrears	-15	13	20	0	-32	0	0	0	0	0	0
External[5]	67	13	20	0	-32	0	0	0	0	0	0
Domestic[6]	-82	0	0	0	0	0	0	0	0	0	0
Overall balance, cash basis	412	198	154	155	68	574	185	72	142	167	567
Financing	-412	-302	-142	-188	-203	-836	-271	-164	-277	-306	-1,018
Foreign (net)	-210	-271	-80	-97	-101	-548	-157	-108	-85	-137	-486
Drawings	44	2	29	47	45	123	1	28	44	41	114
Project loans	44	2	29	47	45	123	1	28	44	41	114
Budgetary loans	0	0	0	0	0	0	0	0	0	0	0
Collateralized loans	0	0	0	0	0	0	0	0	0	0	0
Amortization due	-339	-176	-27	-144	-324	-671	-158	-136	-128	-178	-601
Other external financing	86	-96	-82	0	179	0	0	0	0	0	0
Deposits in China	86	0	0	0	0	0	0	0	0	0	0
Domestic (net)	-203	-31	-62	-92	-102	-288	-114	-56	-192	-169	-532
Banking	34	-5	-19	-52	-13	-88					
Central Bank (net)	27	-4	-25	-51	-13	-93	-86	-14	-138	-39	-277
Commercial banks (net)	8	-1	7	-1	0	5	3	0	3	-26	-20
Nonbank financing	-237	-27	-44	-40	-90	-200	-31	-42	-57	-104	-234
Of which: Repayment of domestic arrears	0	-89	-67	-41	-8	-206	-49	-49	-49	-97	-243
Of which: Debt service to ENI	-74	-10	0	0	10	0	0	0	0	0	0
Float	…	71	23	0	-94	0	0	0	0	0	0
Errors and omissions (- = overfinancing)	0	104	-11	0	168	261	0	0	0	0	0
Financing gap (- = surplus)	0	0	0	33	228	261	85	92	135	139	451
Expected financing (excluding IMF)	0	0	0	0	161	161	117	0	95	0	212
World bank	0	0	0	0	0	0	117	0	0	0	117
African Development Bank	0	0	0	0	131	131	0	0	66	0	66
France	0	0	0	0	30	30	0	0	30	0	30
IMF-ECF	0	0	0	26	0	26	35	0	35	35	104
Exceptional financing from debt restructuring[7]	0	0	0	7	67	75	-66	92	5	104	134

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

[1] Includes net spending (i.e. spending minus revenues) associated with decentralized government entities and net of social security contributions.

[2] Revenue and grants excluding oil revenues minus total primary expenditures (excluding interest payments).

[3] Non oil revenue excluding grants minus total expenditures excluding interest payments and foreign-financed investment.

[4] Basic non-oil primary balance minus oil revenue and oil-related transfers. This is a Performance Criterion/Indicative Target.

[5] Post-HIPC external arrears accumulated since 2016 are consolidated in outstanding debt. The projected repayments are included in amortization of external debt.

[6] Projected repayments of domestic arrears are included in domestic financing.

[7] Net of restructured contingent liabilities.

Table 3b. Republic of Congo: Quarterly Central Government Operations, 2018–20

(Billions of CFA francs, cumulative from the beginning of the fiscal year)

	2018	2019				2020			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	Prel.	Rev. Prel.	Prel.	Proj.	Proj.	Proj.			
Total revenue and grants	1,888	482	929	1,493	2,086	501	952	1,528	2,149
Revenue	1,882	466	903	1,461	2,059	486	931	1,502	2,121
Oil revenue	1,288	290	580	955	1,340	269	529	878	1,246
of which: repayment of oil-prepurchased debt	398	77	153	242	307	91	183	274	366
Non-oil revenue	594	177	323	506	719	216	403	624	875
Direct taxes	253	67	120	198	306	77	154	244	354
Taxes on goods and services	233	78	141	214	286	99	181	273	363
Customs Receipts	95	26	52	82	109	31	55	92	132
Non-tax revenue	14	6	9	11	18	8	13	16	27
Grants	6	16	27	32	28	16	21	26	28
Expenditure and net lending	1,461	296	610	1,019	1,512	316	694	1,128	1,581
Current expenditure	1,320	255	499	785	1,240	263	543	840	1,257
Wages	363	87	174	267	374	91	189	287	393
Other primary current expenditure	788	142	285	453	746	150	306	484	763
Goods and services	173	51	95	141	188	53	109	157	193
Transfers	575	80	163	269	496	84	168	279	522
Social transfers (Lisungi and other)	…	0	0	5	50	…	…	…	…
Traditional Transfers	234	44	87	166	328	53	107	187	399
Transfers paid with crude oil barrels	341	35	70	92	118	31	61	92	123
Common charges	40	7	16	26	37	10	21	34	48
Annex budgets and special Accounts[1]	22	5	11	17	26	5	8	14	0
Interest	147	26	39	64	120	22	48	69	101
Domestic	24	5	8	11	21	5	7	9	18
External	123	20	31	53	98	17	41	59	82
Capital expenditure	141	42	112	234	272	53	151	288	325
Domestically financed	92	25	54	96	129	37	82	146	195
Externally financed	50	17	58	138	143	15	69	142	130
Off-budget expenditure	0	0	0	0	0	0	0	0	0
Net lending	0	0	0	0	0	0	0	0	0
Non-oil primary balance[2]	-714	-79	-221	-417	-646	-62	-223	-409	-578
Basic primary balance	618	212	389	643	809	207	354	584	770
Basic non-oil primary balance[3]	*-670*	-77	-190	-312	-530	-62	-174	-293	-476
— excluding oil-related transfers[4]	*-329*	*-43*	*-120*	-219	*-412*	*-32*	*-113*	*-201*	*-354*
Primary balance	574	211	358	538	694	207	306	469	668
Overall balance, payment order basis									
Excluding grants	421	170	292	442	547	170	237	374	539
Including grants	427	185	319	474	574	185	258	400	567
Change in arrears	-15	13	32	32	0	0	0	0	0
External[5]	67	13	32	32	0	0	0	0	0
Domestic[6]	-82	0	0	0	0	0	0	0	0
Overall balance, cash basis	412	198	351	506	574	185	258	400	567
Financing	-412	-302	-444	-633	-836	-271	-435	-712	-1,018
Foreign (net)	-210	-271	-351	-447	-548	-157	-265	-350	-486
Drawings	44	2	31	78	123	1	29	73	114
Amortization due	-339	-176	-203	-347	-671	-158	-294	-423	-601
of which: on oil-prepurchased debt	-144	…	0	-77	-308	-77	-155	-232	-309
Arrears cancellation	0	0	0	0	0	0	0	0	0
Other	86	-96	-179	-179	0	0	0	0	0
Deposits in China	86	0	0	0	0	0	0	0	0
Domestic (net)	-203	-31	-93	-185	-288	-114	-170	-362	-532
Banking	34	-5	-23	-75	-88	-83	-97	-232	-297
Central Bank (net)	27	-4	-29	-80	-93	-86	-100	-238	-277
Commercial banks (net)	8	-1	6	5	5	3	3	6	-20
Nonbank financing	-237	-27	-70	-110	-200	-31	-73	-130	-234
Of which: Repayment of domestic arrears	0	-89	-156	-197	-206	-49	-97	-146	-243
Of which: Debt service to ENI	-74	-10	-10	-10	0	0	0	0	0
Of which: Carry over payments from 2018	0	-89	-89	-89	0	0	0	0	0
Float	0	71	94	94	0	0	0	0	0
Errors and omissions (- = overfinancing)		104	93	93	261	0	0	0	0
Financing gap (- = surplus)	0	0	0	33	261	85	177	312	451
Expected financing (excluding IMF)	0	0	0	0	161	117	117	212	212
World bank	0	0	0	0	0	117	117	117	117
African Development Bank	0	0	0	0	131	0	0	0	66
France	0	0	0	0	30	0	0	0	30
IMF-ECF	0	0	0	26	26	35	35	70	104
Exceptional financing from debt restructuring[7]	0	0	0	7	75	-66	25	30	134

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

[1] Includes net spending (i.e. spending minus revenues) associated with decentralized government entities.

[2] Revenue and grants excluding oil revenues minus total primary expenditures (excluding interest payments).

[3] Non oil revenue excluding grants minus total expenditures excluding interest payments and foreign-financed investment.

[4] Basic non-oil primary balance minus oil revenue and oil-related transfers. This is a Performance Criterion/Indicative Target.

[5] Post-HIPC external arrears accumulated since 2016 are consolidated in outstanding debt. The projected repayments are included in amortization of external debt.

[6] Projected repayments of domestic arrears are included in domestic financing.

[7] Net of restructured contingent liabilities.

Table 4. Republic of Congo: Medium-Term Balance of Payments, 2017–24

(Billions of CFA francs)

	2017	2018	2019		2020	2021	2022	2023	2024
	Est.	Proj.	IMF CR 19/244	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account	-184	467	363	520	393	83	-134	-164	-195
of which non-oil	-975	-903	-896	-839	-877	-972	-955	-901	-889
Trade balance	1,394	2,924	2,875	2,879	2,820	2,475	2,083	1,962	1,940
Exports, f.o.b.	3,556	5,195	5,197	5,100	5,203	4,940	4,574	4,460	4,506
Oil sector	2,806	4,439	4,447	4,312	4,402	4,105	3,700	3,483	3,446
Non-oil sector	750	756	749	788	801	835	873	977	1,060
Imports, f.o.b.	-2,162	-2,270	-2,321	-2,221	-2,383	-2,465	-2,491	-2,498	-2,565
Oil sector	-655	-961	-1,021	-939	-1,022	-1,016	-977	-922	-916
Government	-390	-254	-234	-218	-260	-309	-328	-342	-363
Non-oil private sector	-1,117	-1,056	-1,067	-1,064	-1,101	-1,140	-1,186	-1,235	-1,287
Balance of services	-913	-1,452	-1,545	-1,438	-1,511	-1,479	-1,402	-1,346	-1,346
Oil sector	-680	-1,193	-1,271	-1,164	-1,247	-1,205	-1,122	-1,064	-1,059
Nonoil sector	-233	-259	-274	-274	-264	-274	-279	-281	-287
Income	-404	-749	-722	-670	-658	-648	-547	-503	-499
Labor income	-8	-34	-32	-30	-30	-25	-19	-14	-13
Investment income	-396	-715	-689	-641	-628	-622	-528	-489	-487
Current transfers (net)	-261	-256	-246	-250	-258	-265	-268	-277	-290
Capital account	80	4	22	22	22	22	15	15	36
Official grants	30	10	28	28	28	28	15	15	36
Debt cancellation	57	0	0	0	0	0	0	0	0
Non-financial non-produced assets	-6	-6	-6	-6	-6	-6	0	0	0
Financial account	-146	-535	-580	-573	-630	-73	174	345	222
Direct investment (net)	194	190	266	266	273	272	300	315	276
Portfolio investment	-1	-1	-1	-1	-1	-1	-1	-1	-1
Other investment	-339	-724	-845	-838	-902	-345	-125	30	-53
Medium and long term	54	-518	-744	-757	-506	-202	-213	-94	17
Public sector	185	-229	-538	-548	-486	-305	-252	-122	-7
Drawings	424	44	122	123	114	116	100	103	109
Project	219	59	122	123	114	116	100	103	109
Program	205	0	0	0	0	0	0	0	0
Other (collateralized)	0	-15	0	0	0	0	0	0	0
Amortization[1]	-257	-339	-660	-671	-601	-421	-352	-224	-116
Net change in arrears	17	67	0	0	0	0			
Private sector	-130	-289	-206	-209	-19	103	39	28	24
Oil	-142	-290	-219	-222	-33	26	24	22	22
Non-oil	12	1	13	13	14	77	15	6	2
Short term	-394	-206	-100	-80	-397	-142	88	124	-70
Errors and omissions	0	0	0	0	0	0	0	0	0
Overall balance of payments	-249	-64	-194	-30	-214	32	55	196	63
Financing	249	64	-168	-230	-235	-302	-123	-101	-77
Reserve financing	213	-22	-168	-230	-235	-302	-123	-101	-77
Government deposits abroad	35	86	0	0	0	0	0	0	0
Exceptional financing [2]	0	0	0	0	0	0	0	0	0
Financing gap (- = surplus)	0	0	362	260	449	269	68	-98	0
Expected financing (excluding IMF)	0	0	218	161	212	153	0	0	0
IMF-ECF	0	0	52	26	104	78	52	0	0
Exceptional financing from debt restructuring[3]	0	0	92	73	132	38	16	-98	0

Sources: Bank of Central African States (BEAC) and IMF staff estimates and projections.

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

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

[3] Net of restructured contingent liabilities.

Table 5. Republic of Congo: Monetary Survey, 2017–24

	2017	2018	2019					2020	2021	2022	2023	2024
		Prel.	Q1	Q2	Q3	Q4	IMF CR 19/244					
			Prel.	Prel.	Prel.	Proj.		Proj.	Projections			
	(Billions of CFA francs)											
Net foreign assets	212	252	181	341	476	501	351	631	859	936	1,036	1,125
Central bank	180	202	181	303	375	406	319	537	761	832	930	993
Deposit money banks	32	49	-0	37	101	95	32	94	99	104	106	132
Net domestic assets	1,554	1,443	1,425	1,392	1,351	1,462	1,472	1,362	1,302	1,235	1,164	1,140
Net domestic credit	1,807	1,772	1,724	1,687	1,672	1,698	1,708	1,532	1,367	1,345	1,289	990
Net credit to the public sector	596	636	625	609	650	576	543	385	189	99	-45	-447
Net credit to the Government	600	634	630	611	649	575	542	384	188	97	-46	-449
Central bank	484	510	507	481	488	445	412	274	98	28	-115	-548
Claims	577	575	574	574	600	600	626	704	781	776	716	644
Deposits	-93	-64	-68	-93	-115	-155	-213	-429	-683	-748	-831	-1,192
Deposit money banks	116	124	123	130	161	126	126	100	101	103	103	104
Claims on public agencies, net	-4	1	-5	-2	1	1	1	1	1	1	95	103
Credit to the economy[1]	1,212	1,136	1,099	1,078	1,022	1,122	1,165	1,147	1,178	1,247	1,334	1,437
Credit to the Private Sector	1,092	1,063	1,027	1,008	953	1,047	1,091	1,069	1,095	1,158	1,239	1,335
Other items, net	-253	-328	-298	-294	-320	-236	-236	-170	-65	-110	-125	150
Broad money	1,767	1,695	1,607	1,733	1,824	1,963	1,823	1,993	2,162	2,171	2,201	2,265
Currency outside banks	470	445	408	469	475	515	478	523	567	569	577	594
Demand deposits	987	973	894	948	1,038	1,127	1,046	1,144	1,241	1,246	1,263	1,300
Time deposits	309	278	304	315	310	321	298	326	354	355	360	371
	(Changes in percent of beginning-of-period broad money)											
Broad money	-10	-4.0	-5.2	2.2	7.6	15.8	7.5	1.5	8.5	0.4	1.4	2.9
Net foreign assets	-12.6	2.2	-4.2	5.3	13.2	14.7	5.8	6.6	11.5	3.5	4.6	4.0
Net domestic assets	2.2	-6.3	-1.1	-3.0	-5.4	1.1	1.7	-5.1	-3.0	-3.1	-3.3	-1.1
Net domestic credit	3.2	-2.0	-2.8	-5.0	-5.9	-4.3	-3.7	-8.5	-8.3	-1.0	-2.6	-13.6
Net credit to the public sector	4.6	2.3	-0.6	-1.6	0.8	-3.5	-5.5	-9.7	-9.8	-4.2	-6.6	-18.3
Credit to the economy[1]	-1.4	1.9	-2.2	-3.4	-6.7	-0.8	1.8	1.3	1.5	3.2	4.0	4.7
Credit to the Private Sector	-3.2	-1.6	-2.1	-3.3	-6.4	-0.9	2.1	1.1	1.3	2.9	3.7	4.4
Other items, net	-1.0	(4.3)	1.8	3.5	0.5	5.4	5.4	3.4	5.3	(2.1)	(0.7)	12.5
	(Annual percent changes, unless otherwise indicated)											
Broad money	-10.4	-4.0	-1.8	8.1	12.0	15.8	2.5	1.5	8.5	0.4	1.4	2.9
Reserve money	-10.4	2.4	14.0	21.4	24.9	19.5	2.6	-4.7	5.9	0.1	5.5	8.9
Credit to the economy 1/	-2.2	-6.3	-6.3	-3.7	-9.7	-1.2	--	2.2	2.7	5.9	7.0	7.7
Credit to the Private Sector	-5.4	-2.7	-2.9	-2.4	-9.6	-1.5	1.5	2.1	2.4	5.8	7.0	7.8
Velocity (Non-oil GDP/average M2)	1.4	1.5	...	...	...	1.3	--	1.4	1.3	1.4	1.5	1.6
	(Percent)											
Total nominal GDP growth	12.4	24.8	...	...	...	1.1	2.3	3.4	-1.5	-3.0	0.2	2.6
Non-oil GDP growth	-7.3	-5.6	...	...	...	2.5	44.8	4.3	6.4	7.0	7.3	7.4
Credit to the economy/Non-oil GDP	45.0	44.6	...	...	...	43.0	--	42.1	40.7	40.3	40.1	40.3
Memorandum Items:												
Gross imputed official reserves (CFA billion)	277	291	274	389	489	520	458.2	754	1056	1179	1274	1323
In months of imports	0.84	0.9	...	...	...	1.5	1.3	2.2	3.1	3.5	3.7	3.9
Central bank liablities to non-residents	96.4	88.7	92.9	85.4	114.2	113.8	139.6	217.5	295.0	346.9	344.3	330.1

Sources: BEAC; and IMF staff estimates and projections.

[1] Private sector and public enterprises.

Table 6. Republic of Congo: Gross Financing Needs, 2017–24

(Billions of U.S. dollars)

	2017	2018	2019		2020	2021	2022	2023	2024	2019–22
	Est.	Proj.	IMF CR 19/244	Proj.	Proj.					
Financing needs	5.14	7.30	7.84	7.21	7.43	7.21	6.81	6.25	6.02	28.66
External current account deficit excl. grants and oil exports	4.70	6.69	6.69	6.06	6.41	6.48	6.20	5.86	5.82	25.15
Amortization on external debt	0.44	0.61	1.15	1.15	1.03	0.73	0.61	0.39	0.20	3.51
Financing	4.77	7.34	7.50	7.16	7.07	7.26	6.90	6.59	6.13	28.39
Oil exports	4.83	8.00	7.75	7.38	7.52	7.08	6.43	6.05	5.99	28.41
Current transfers	-0.45	-0.46	-0.43	-0.43	-0.44	-0.46	-0.47	-0.48	-0.50	-1.79
Capital transfers	0.14	0.01	0.04	0.04	0.04	0.04	0.03	0.03	0.06	0.14
Foreign Direct and portfolio Investment	0.33	0.34	0.46	0.45	0.47	0.47	0.52	0.55	0.48	1.91
External borrowing (drawings)	0.73	0.08	0.21	0.21	0.20	0.20	0.17	0.18	0.19	0.78
Short-term flows	-0.68	-0.37	-0.17	-0.14	-0.68	-0.25	0.15	0.22	-0.12	-0.91
Other flows[1]	-0.13	-0.25	-0.36	-0.36	-0.03	0.18	0.07	0.05	0.04	-0.15
Change in net official reserves (accumulation = —)	0.367	-0.040	-0.29	-0.39	-0.40	-0.52	-0.21	-0.18	-0.13	-1.53
Financing Gap	0.0	0.00	0.63	0.45	0.77	0.47	0.12	-0.17	0.02	1.80
Targeted level of gross imputed official reserves										
in billion of US$	0.48	0.52	0.80	0.89	1.29	1.82	2.05	2.22	2.31	
in months of imports	0.8	0.9	1.34	1.5	2.2	3.1	3.5	3.7	3.9	

Sources: BEAC; and IMF staff estimates and projections.

[1] This item includes: (i) net change in arrears; (ii) private sector external borrowing; (iii) change in government deposit abroad; and (iv) exceptional financing received.

Table 7. Republic of Congo: Financial Soundness Indicators for the Banking Sector, 2015–19

(Percent, unless otherwise indicated)

	2015	2016	2017	2018 Dec [4]	2019 Apr [4]
Capital					
Regulatory capital to risk-weighted assets[1, 2]	19.5	19.1	22.8	24.9	26.4
Asset quality					
Non-performing loans less provisions to capital	4.6	7.9	33.0	39.4	41.1
Non-performing loans (gross) to total loans (gross)	3.6	4.8	13.3	18.2	20.5
Earnings and profitability					
Return on equity	20.4	28.0	9.9	16.7	…
Return on assets[3]	2.3	4.0	1.7	3.0	…
Liquidity					
Ratio of liquid assets to short-term liabilities	116.1	104.4	146.6	176.0	161.1
Total deposits to total (noninterbank) loans	125.5	102.8	90.5	89.1	91.0
Credit					
Gross loan (banks' book) - bn FCFA	1,424	1,460	1,401	1308.0	1224.1
Gross loan - annualized growth rate	19.8	2.5	-4.1	-6.6	-2.5

Source: FSI database.

[1] Current year profits are excluded from the definition of regulatory capital, following the Basel I capital accord

[2] The risk-weighted assets are estimated using the following risk weights: 0% - cash reserves in domestic and foreign

[3] The ratio of after-tax profits to the average of beginning and end-period total assets.

[4] Preliminary estimates from COBAC Banking Sector database and may be subject to revision.

Table 8. Republic of Congo: Public Debt Stock

	2015			2016			2017			2018			September 2019		
	CFAF billion	USD million	percent of GDP	CFAF billion	USD million	percent of GDP	CFAF billion	USD million	percent of GDP	CFAF billion	USD million	percent of GDP	CFAF billion	USD million	percent of GDP
Total public debt	**5205**	**8631**	**102.9**	**5473**	**8796**	**118.6**	**6097**	**11001**	**117.5**	**5689**	**9873**	**87.8**	**5747**	**9539**	**87.8**
External debt	**4154**	**6888**	**82.1**	**4219**	**6781**	**91.4**	**4152**	**7492**	**80.0**	**3970**	**6890**	**61.3**	**4080**	**6773**	**62.3**
Of which: arrears	*378*	*627*	*7.5*	*436*	*701*	*9.4*	*453*	*817*	*8.7*	*520*	*902*	*8.0*	*1364*	*2264*	*20.8*
Multilateral and other creditors	115	190	2.3	140	225	3.0	154	278	3.0	207	360	3.2	244	405	3.7
IMF	7	12	0.1	5	8	0.1	4	6	0.1	2.4	4	0.0	1.5	2	0.0
IDA/IBRD	66	109	1.3	76	121	1.6	76	137	1.5	109	189	1.7	123	205	1.9
AfDB	13	22	0.3	9	14	0.2	29	52	0.6	49	84	0.7	72	119	1.1
IFAD	11	18	0.2	11	17	0.2	13	23	0.2	12	21	0.2	13	21	0.2
Others	17	29	0.6	39	63	1.1	33	59	0.6	35	61	0.5	34	57	0.5
Official bilateral	1768	2932	35.0	1941	3120	42.1	1973	3559	38.0	1816	3152	28.0	1791	2973	27.4
Paris Club	111	185	2.2	132	212	2.9	247	445	4.8	196	340	3.0	214	355	3.3
Brazil	32	53	0.6	34	55	0.7	29	52	0.6	30	52	0.5	31	52	0.5
Belgium	0	0	0.0	35	56	0.8	85	154	1.6	78	135	1.2	91	151	1.4
France	79	132	1.6	63	101	1.4	52	94	1.0	64	110	1.0	66	109	1.0
Russia							74	133	1.4	18	31	0.3	19	31	0.3
Switzerland							7	12	0.1	7	12	0.1	7	11	0.1
Non-Paris Club	1657	2747	32.8	1809	2907	39.2	1726	3114	33.3	1620	2812	25.0	1577	2618	24.1
China	1497	2483	29.6	1526	2452	33.1	1434	2588	27.6	1387	2408	21.4	1333	2213	20.4
India	31	52	0.6	37	59	0.8	47	84	0.9	53	92	0.8	57	94	0.9
Kuwait	33	55	0.7	34	54	0.7	30	55	0.6	32	55	0.5	33	55	0.5
Turkey	0	0	0.0	116	186	2.5	116	209	2.2	45	79	0.7	47	77	0.7
Pre-HIPC arrears (not restructured)	95	158	1.9	97	155	2.1	99	179	1.9	103	179	1.6	107	178	1.6
Private Creditors	2271	3765	44.9	2138	3437	46.3	2026	3655	39.0	1946	3378	30.1	2045	3395	31.2
Oil-prepurchased debt	1484	2461	29.4	1361	2187	29.5	1190	2148	22.9	1061	1841	16.4	1184	1966	18.1
Glencore	530	879	10.5	514	827	11.1	447	806	8.6	385	668	5.9	441	732	6.7
Trafigura	804	1332	15.9	691	1110	15.0	605	1092	11.7	533	925	8.2	582	966	8.9
Orion	151	250	3.0	156	250	3.4	139	250	2.7	143	248	2.2	161	268	2.5
Afreximbank	0	0	0.0	0	0	0.0	194	350	3.7	164	284	2.5	123	205	1.9
Suppliers	293	486	5.8	291	467	6.3	231	417	4.5	232	402	3.6	231	383	3.5
Domestic debt	**1051**	**1744**	**20.8**	**1253**	**2015**	**27.2**	**1944**	**3509**	**37.5**	**1719**	**2984**	**26.5**	**1667**	**2767**	**25.5**
BEAC advances	572	949	11.3	572	920	12.4	572	1033	11.0	572	993	8.8	572	950	8.7
Domestic bond				184	295	4.0	198	358	3.8	160	278	2.5	157	261	2.4
Audited arrears in CCA	185	307	3.7	185	298	4.0	235	424	4.5	361	627	5.6	361	599	5.5
Unaudited and partially audited arrears							747	1349	14.4	626	1086	9.7	577	957	8.8
Memorandum items:															
Additional debt claimed by Commisimpex				486	782	10.5	486	878	9.4	486	844	7.5	486	807	7.4
Rejected claims[1]						34.1	826	1490	15.9	415	720	6.4	415	689	6.3

Sources: Congolese authorities; and IMF staff estimates

[1] Claims associated with infrastructure projects rejected by the authorities after an administrative review.

Table 9. Republic of Congo: External Arrears, 2015–19

	End-2015 stock	New arrears in 2016	End-2016 stock	New arrears in 2017	End-2017 stock	New arrears in 2018	End-2018 stock	September 2019 stock			September 2019 (Excl. unrestructured pre-HIPC arrears)		
	CFAF billion	CFAF billion	CFAF billion	CFAF billion	CFAF billion	CFAF billion	CFAF billion	CFAF billion	USD million	percent of GDP	CFAF billion	USD million	percent of GDP
Total	**377.9**	**58.0**	**436.0**	**17.0**	**453.0**	**66.9**	**520**	**1363.9**	**2264.1**	**20.8**	**1066.5**	**1770.4**	**16.3**
Multilateral and other creditors	0.0	4.8	4.8	-0.6	4.2	2.6	6.8	8.0	13.3	0.1	8.0	13.3	0.1
IMF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
World Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IFAD	0.0	0.0	0.0	0.2	0.2	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
AfDB	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.0	4.8	4.8	-0.8	4.0	2.8	6.8	8.0	13.3	0.1	8.0	13.3	0.1
Bilateral	95.5	13.5	109.0	23.2	132.2	-0.3	131.9	169.1	280.7	2.6	109.0	180.9	1.7
Paris Club	0.0	11.5	11.5	19.1	30.6	29.7	60.3	90.1	149.6	1.4	90.1	149.6	1.4
Brazil	0.0	8.4	8.4	7.2	15.6	8.4	24.0	31.4	52.0	0.5	31.4	52.0	0.5
Belgium	0.0	0.0	0.0	1.0	1.0	1.4	2.4	9.8	16.3	0.1	9.8	16.3	0.150
France	0.0	3.0	3.0	4.0	7.1	20.0	27.1	42.2	70.0	0.6	42.2	70.0	0.6
Switzerland	0.0	0.0	0.0	6.8	6.8	0.0	6.8	6.8	11.3	0.1	6.8	11.3	0.1
Russia	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-Paris Club	95.5	2.1	97.5	4.1	101.6	-30.0	71.6	79.0	131.1	1.2	18.9	31.3	0.3
United Arab Emirates /1	11.6	1.2	12.9	-0.8	12.0	0.6	12.7	13.3	22.1	0.2	0.0	0.0	0.0
Angola 1/	34.5	0.0	34.5	5.7	40.2	1.2	41.5	43.6	72.4	0.7	0.0	0.0	0.0
China	0.0	0.0	0.0	0.0	0.0	1.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0
India	0.0	0.8	0.8	1.7	2.4	3.8	6.2	9.4	15.6	0.1	9.4	15.6	0.1
Kuwait	0.0	0.1	0.1	0.1	0.2	0.2	0.4	0.1	0.1	0.0	0.1	0.1	0.0
Saudi Arabia 1/	46.2	0.0	46.2	-2.6	43.6	-42.9	0.7	0.0	0.0	0.0	0.0	0.0	0.0
Turkey	0.0	0.0	0.0	0.0	0.0	6.0	6.0	9.4	15.6	0.1	9.4	15.6	0.1
Postal debt 1/	3.1	0.0	3.1	0.0	3.1	0.0	3.1	3.1	5.2	0.0	0.0	0.0	0.0
Private Creditors	282.5	39.7	322.1	-5.6	316.5	64.6	381.2	1186.5	1969.7	18.1	949.4	1576.1	14.5
CMEC and Chinese companies 2/	0.0	36.2	36.2	28.0	64.2	-63.8	0.4	0.2	0.3	0.0	0.2	0.3	0.0
Eurobond (London Club)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Afreximbank	0.0	0.0	0.0	0.0	0.0	0.2	0.2	0.4	0.6	0.0	0.4	0.6	0.0
Oil traders	0.0	0.0	0.0	22.4	22.4	126.5	148.9	944.0	1567.0	14.4	944.0	1567.0	14.4
Glencore	0.0	0.0	0.0	2.7	2.7	55.3	58.0	324.4	538.5	5.0	324.4	538.5	5.0
Trafigura	0.0	0.0	0.0	19.8	19.8	-0.4	19.4	581.9	965.9	8.9	581.9	965.9	8.9
Orion	0.0	0.0	0.0	0.0	0.0	71.6	71.6	37.7	62.5	0.6	37.7	62.5	0.6
Suppliers 3/	282.5	3.4	285.9	-56.0	229.9	1.7	231.6	230.6	382.8	3.5	4.9	8.1	0.1

Source: Congolese authorities and IMF staff estimates.

[1]End-2015 stocks are unrestructured pre-HIPC arrears.

[2]China Machinery Engineering Corporation, previously classified as official bilateral debt.

[3] Includes disputed debts (pre-HIPC claims).

Table 10. Republic of Congo: Sustainable Development Goals (SDGs)

Goal	Indicator	2018
SDG1	*No poverty*	
	Poverty headcount ratio at $1.90 a day (2011 PPP) (in percent of population)[1]	37.0
SDG2	*Zero hunger*	
	Prevalence of undernourishment (in percent of population)[1]	40.3
SDG3	*Good health and wellbeing*	
	Maternal mortality ratio (modeled estimate, per 100,000 live births)[1]	378.0
SDG4	*Quality education*[2]	
	Primary completion rate, female (in percent of relevant age group)	75.9
	Primary completion rate, male (in percent of relevant age group)	67.4
	Primary completion rate, total (in percent of relevant age group)	71.6
SDG5	*Gender equality*	
	Proportion of seats held by women in national parliaments (in percent)	11.3
SDG6	*Clean water and sanitation*	...
SDG7	*Affordable and clean energy*	
	Access to electricity (in percent of population)[1]	66.2
SDG8	*Decent work and economic growth*	
	GDP per capita growth (annual in percent)	-1.5
SDG9	*Industry, innovation, and infrastructure*	
	Manufacturing, value added (in percent of GDP)[1]	6.5
	Manufacturing, value added (annual in percent growth)	...
SDG10	*Reduced inequalities*	
	Foreign direct investment, net inflows (in percent of GDP)	38.3
SDG11	*Sustainable cities and communities*	
	Urban population (in percent of total)	66.9
SDG12	*Responsible consumption and production*	
	Mineral rents (in percent of GDP)[1]	0.0
	Coal rents (in percent of GDP)[1]	0.0
	Forest rents (in percent of GDP)[1]	4.7
SDG13	*Climate action*	...
SDG14; SDG15	*Life below water; life on land*	
	Terrestrial and marine protected areas (in percent of total territorial area)	36.8
	Terrestrial protected areas (in percent of total land area)	40.7
SDG16	*Peace and justice: strong institutions*	
	Battle-related deaths (number of people)	...
SDG17	*Partnerships for the goals*	
	Mobile cellular subscriptions (per 100 people)	95.3
	Fixed telephone subscriptions (per 100 people)[1]	0.3

Sources: World Bank Development Indicators and IMF staff estimates.

[1]As of end 2017. For the poverty headcount (SDG 1) the latest available data are in 2011.

[2]As of 2012.

Annex I. External Sector Assessment

The external position of the Republic of Congo is weaker than implied by fundamentals and desirable policy settings. A quantitative assessment of the external position tailored to exporters of non-renewable resources shows that the current account is around 17 percent below the norm in the medium term, driven by the fact that proven oil reserves will be exhausted in about 25 years and the country has not accumulated sufficient assets so far. The quantitative assessment of the exchange rate using the Fund's EBA-lite methodology, as well as alternative approaches tailored to exporters of non-renewable resources, show a range of estimates from an undervaluation of 10 percent to an overvaluation of 18 percent of Congo's REER. Taking into account these methodologies and the specificities of the Congolese case as an oil producer, staff assesses the exchange rate to be overvalued by around 15 percent. Going forward, diversification is essential to mitigate the impact of decreased oil production on external imbalances.

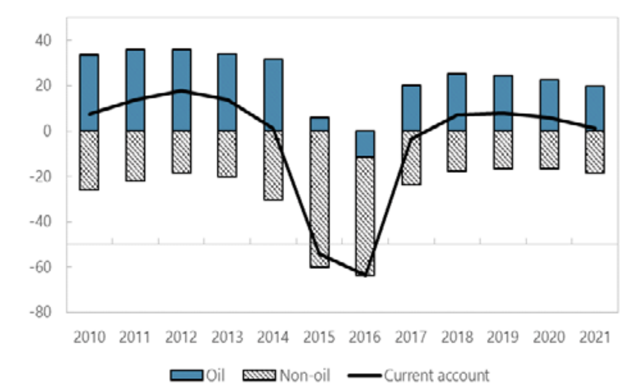
A. Background

1. The current account is improving thanks to favorable developments in the oil and non-oil sectors as well as import compression associated with weaker growth and fiscal adjustment.[1]

- The recent improvement is driven by two factors. First, the oil-sector trade balance continued to improve in 2018 thanks to the ramp-up in oil production resulting from a new offshore field (Moho Nord, the largest in Congo's history) and the rise in oil prices since the 2016 troughs. Given the recent increase in oil prices and a lower-than-expected expansion in oil production due to temporary technical disruptions at one plant, the oil-sector trade balance in 2019 is projected to remain close to 2018 levels. Second, the non-oil-sector current account balance has narrowed substantially since 2016, reflecting import compression associated with the large drop in public investment, as well as an increase in mining sector and other non-oil exports. As a result, the current account moved

Figure 1. Decomposition of the Current Account, 2010–21

(Percent of GDP)



Sources: Congolese authorities and IMF staff calculations.

[1] Estimates are preliminary as balance of payment estimates are reported with considerable lags and subject to relatively large revisions.

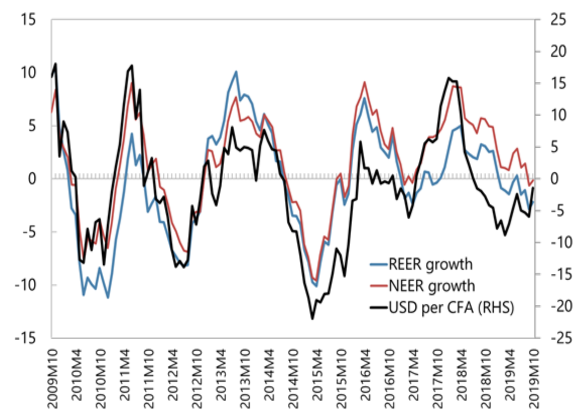
from an average deficit of 50 percent of GDP over 2015–16 to a surplus of 7.2 percent in 2018 and is projected to reach a surplus of 8 percent in 2019.

- The oil-sector current account is projected to remain in surplus over the medium term, with oil production reaching a peak of 140 million barrels in 2020. However, the ramp-up in production will have a limited impact on the overall current account in the long run as oil fields mature. The deterioration in the current account after 2020 is driven by lower oil production, which is projected to decline by an average of 5 percent between 2020 and 2039, absent new discoveries. The increase in non-oil exports is not projected to be sufficiently large to compensate for the decline in oil exports, despite diversification efforts.

- **Exchange rates are little changed from a year ago.** As of October 2019, the nominal effective exchange rate was just 0.15 percent below its level the previous year, while the real effective exchange rate had decreased about 2.2 percent (y/y). The small nominal exchange rate movement reflects the movements in the exchange rate of the euro (to which the CFA franc is pegged) against global currencies. The CFA franc has however depreciated by 1.4 percent against the U.S. dollar in the last year, reflecting the depreciation of the Euro against the U.S. dollar. Since the REER depreciated more than the nominal effective exchange rate, this suggests inflation was accelerating on average faster in Congo's trading parteners than in Congo, implying a gain in trade competitiveness.

Figure 2. Exchange Rates

(Y/Y growth)



Sources: IFS.

Source: International Financial Statistics.

B. Current Account and Exchange Rate Assessment

2. The revised EBA-lite current account approach would suggest that Congo's real effective exchange rate is undervalued. The revised EBA-lite current account model, using the default levels for desirable policy settings except for the cyclically adjusted overall fiscal balance and reserve accumulation,[2] shows an exchange rate undervaluation of around 10 percent. The estimated

[2] Analysis is based on the October 2019 vintage of the EBA-lite model. As in the June 2019 ESA, the optimal medium-term fiscal stance for the cyclically adjusted fiscal balance is set to the latest value (7.7 percent of GDP projected in 2019) to account for the need to maintain public debt on a sustainable path. Since foreign assets are well below the adequate levels, the desired change in reserves is set at 12.6 percent of GDP, the projected increase under the baseline scenario. The other policy settings are for public health expenditures at 3.4 percent of GDP, the capital control index which is set at the average degree of openness in developing countries (0.15), and the ratio of private sector credit to GDP set at the SSA average (45.8 percent of GDP) which in turn implies a desirable credit growth of 5.9 percent.

undervaluation is below the 21 percent undervaluation obtained in the last assessment in June 2019. The change reflects in part a higher CA norm (due primarily to improvements in the fiscal balance and reserves over the past year) but also underscores the fact that current account regression approaches are subject to swings in assessments, especially when applied to commodity exporters such as the Republic of Congo.

Summary Table. Republic of Congo: 2019 EBA-lite CA Model Results

CA-Actual	7.9%
Cyclical Contributions (from model)	0.5%
Cyclically adjusted CA	7.4%
CA-Norm	1.8%
Cyclically adjusted CA Norm	1.3%
Multilaterally Consistent Cyclically adjusted CA Norm	2.0%
CA-Gap	5.5%
of/which Policy gap	2.06%
Elasticity	-0.53
REER Gap	-10%
CA-Fitted	4.5%
Residual	3.5%
Natural Disasters and Conflicts	0.6%

Source: IMF staff calculations.

3. **The revised REER EBA-lite approach also suggests an undervaluation of the REER.** Based on the index REER EBA-lite assessment, the norm REER is 4.65 in 2019, compared with its actual level of 4.61 (all expressed in logs), therefore implying that Congo's REER is undervalued by about 4.3 percent.

Summary Table. Republic of Congo: 2019 EBA-lite IREER Model Results

Ln(REER) Actual	4.61
Ln(REER) Fitted	4.62
Ln(REER) Norm	4.65
Residual	-0.01
REER Gap	-4.3%
Policy Gap	-3%
Natural Disasters and Conflicts	-1.0%

4. **Since the static EBA-lite approach does not consider the exhaustibility of natural resources, staff have also analyzed the consumption allocation rules associated with the Bems and de Carvalho Filho approach (2009).** This approach measures the annuity that can be derived from natural resource wealth, and the related consumption/savings associated with it. The temporary nature of non-renewable resource revenues would call for more savings and hence

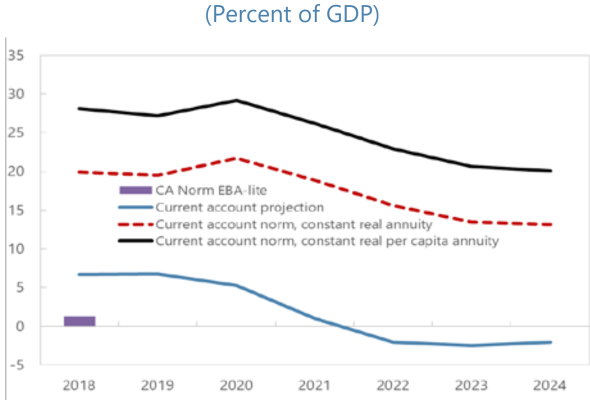
a higher current account norm, especially if the natural resource production is on a declining trend as in Congo's case. At the same time, in anticipation of the expected increase in oil production capacity, a larger current account deficit would be consistent with optimal consumption smoothing behavior or with investment dynamics of a credit-constrained government.

5. The consumption allocation rules imply current account norms that are in surplus (i.e higher savings), and well above what is currently projected for the medium term. We use a dynamic approach based on the following assumptions: (i) proven oil reserves (1.6 billion of barrels) plus a reasonable expectation of new discoveries; (ii) some demographic transition effect that reduces the current rate of population growth to 1.5 percent in the long run, and (iii) a broader interpretation of the return on oil wealth based not only on the rate of return on financial assets, but also on the potential impact of higher return on investments in human capital and infrastructure that could help diversify the economy and boost exports (staff assume a 9 percent return). These assumptions are consistent with the previous June 2019 external sector analysis.

- Under these assumptions, the implied current account norm hovers around 17 percent of GDP over the medium term with a constant real annuity rule, suggesting an 18 percent overvaluation of the real exchange rate.
- The large current account norm translates into a large current account gap (around 17 percent in the medium term), which is driven by the fact that proven oil reserves will be exhausted in about 25 years, and the country has not accumulated enough assets so far. The fiscal savings norm is also higher than current fiscal surpluses but converges to the desired level by 2023 as Congo accumulates financial assets and the non-oil primary balance converges to a PIH rule.

Figure 3. Current Account Norms

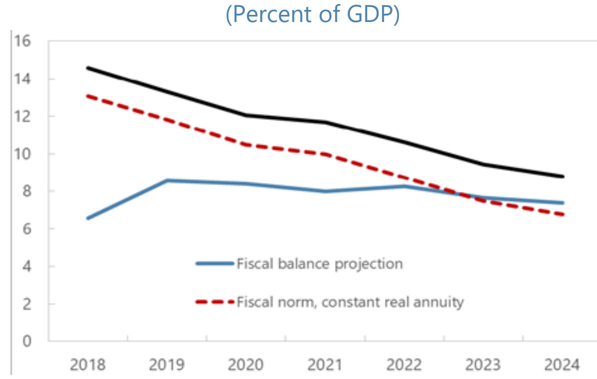
(Percent of GDP)



Sources: Congolese authorities and IMF staff estimates.

Figure 4. Fiscal Norms

(Percent of GDP)



Sources: Congolese authorities and IMF staff estimates.

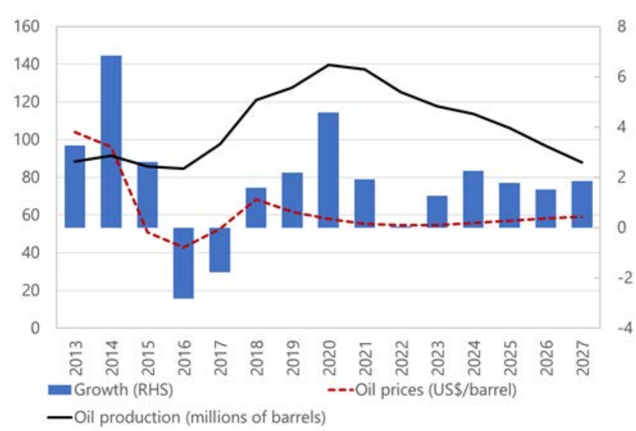
6. Policy adjustment is needed to close external gaps. The current account balance is well below the level necessary to ensure sufficient savings in anticipation of the decline in oil production. Closing external gaps can be achieved if the authorities adjust the non-oil primary balance as projected under the baseline, with the non-oil primary deficit declining toward 14 percent of non-oil GDP by 2024. In addition, there is a need to enhance structural competitiveness and continue efforts towards diversification to help close external gaps and improve the current account balance in the medium and long term.

C. Diversification

7. The Congolese economy continues to be largely dependent on oil exports, leaving the country vulnerable to commodity price fluctuations and implying risks to the external position in the medium term as oil production begins to decline. In recent years, the decline in oil prices and delayed fiscal adjustment triggered a deep recession, with negative real GDP growth in 2015 and 2016 and a negative current account balance of over 50 percent of GDP (see Figures 5 and 6). In the medium term, as oil production declines, the current account balance is projected to decrease gradually, becoming negative after 2021. In addition to enhanced vulnerability from external imbalances, the economy is also expected to experience subdued growth in the medium term connected to reduced oil production after 2020.

Figure 5. GDP Growth and Oil

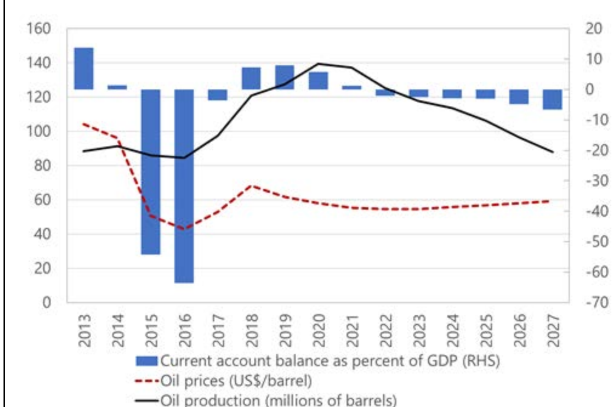
(Percent of GDP)



Sources: Congolese authorities and IMF staff estimates.

Figure 6. Current Account Balance and Oil

(Percent of GDP)

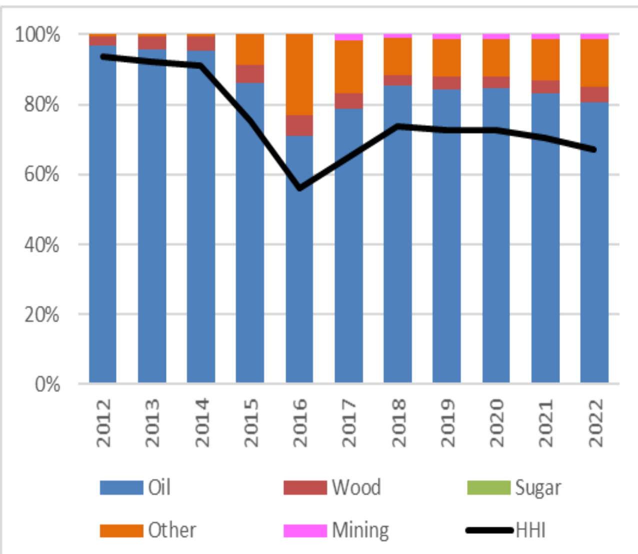


Sources: Congolese authorities and IMF staff estimates.

8. Despite some recent growth in non-oil exports, oil is projected to remain Congo's primary export in the medium term. Like many oil exporters, Congo manifests some symptoms of Dutch disease, whereby higher revenues from the development of a specific sector — especially natural resource extraction — lead to currency appreciation, ultimately making other sectors less competitive. Oil has been the dominant export for Congo in past decades, accounting for over 95 percent of total exports in 2012 (see Figure 7). The share of oil in total exports declined with the fall in oil prices in 2015 and 2016, but has since increased. Meanwhile, exports in other traditional sectors have shown limited improvement in recent years. Wood exports have remained stable and are projected to continue to account for just around 3 to 5 percent of total exports in the medium term.[3] Sugar exports remain a very modest share of total exports. There has been a recent increase in mining activity, especially for copper; mining exports are projected to account for around 2 percent of total exports starting in 2018. Other exports, including some agricultural and industrial products, have also increased slightly in recent years. However, despite a projected decline in production, oil is expected to remain the primary export for Congo, accounting for 75 percent of exports by 2025.

Figure 7. Congolese Goods Exports, 2012–22

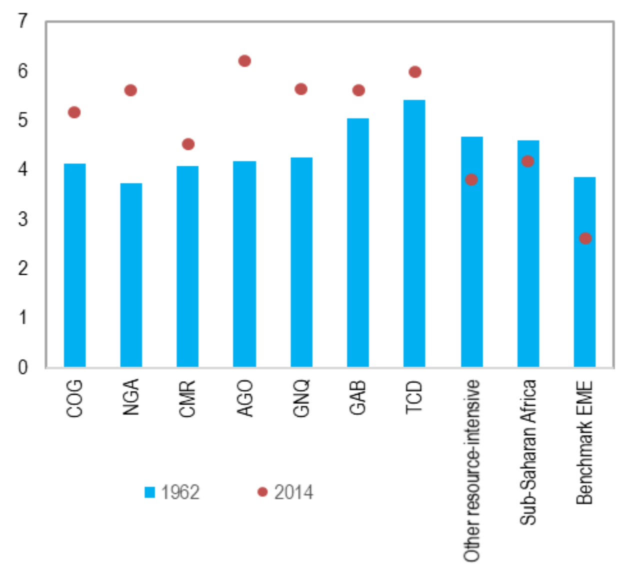
(Percent of total exports)



Sources: Congolese authorities and IMF staff estimates.

Figure 8. Goods Export Diversification

(Theil index; lower values = higher diversification)



Source: IMF staff calculations in 'Economic Diversification in Sub-Saharan Africa', Fall 2017 Regional Economic Outlook.

Note: Other resource-intensive countries: South Africa, Tanzania, Burkina Faso, Central African Republic, Mali, Sierra Leone, Ghana, Guinea, Niger, and Zambia. Benchmark EME: Poland, Mexico, Thailand, Chile, Colombia, Indonesia, and Malaysia.

9. **Export diversification in Congo has decreased in recent decades and remains below the regional average (see Figure 8).** The level of export diversification in Congo, as in most of Sub-Saharan Africa, is much lower than in emerging market economies outside the region, which have a higher level of income. Within sub-Saharan Africa, Congo's diversification level is lower than the average level of both non-oil exporting resource-intensive countries and of non-resource intensive countries. Moreover, while the average export diversification for both latter groups increased between 1962 and 2014, diversification in Congo and in other oil exporters in the region

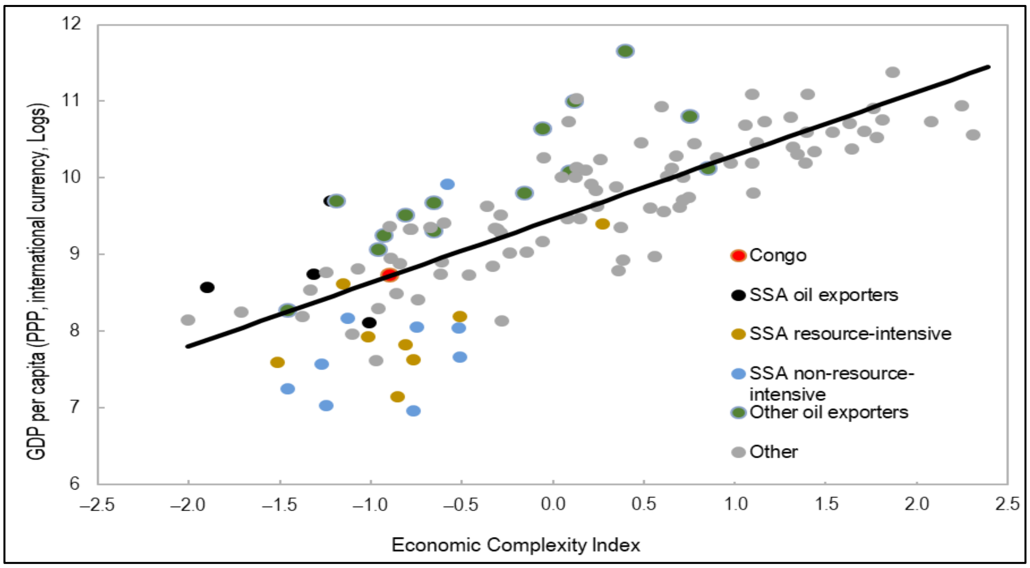
[3] Growth in the forestry sector is also limited by considerations regarding the rate of forest renewal. These considerations are crucial for sustainability concerns.

decreased over the same period. The level and trajectory of Congo's diversification is comparable to those of other oil exporters in the region, which face similar diversification challenges.[4]

10. Economic complexity in Congo is low, but it is comparable to other countries in Sub-Saharan Africa. Economic complexity, which captures the knowledge intensity of an economy's exports, is low for both resource-intensive and non-resource intensive economies in sub-Saharan Africa. However, Congo and other oil exporters have a higher per-capita GDP than other countries in the region.

Figure 9. Economic Complexity, 2017

(Index; higher values = higher complexity)



Sources: Observatory of Economic Complexity and IMF staff calculations

Note: Other resource-intensive countries: South Africa, Tanzania, Burkina Faso, Central African Republic, Mali, Sierra Leone, Ghana, Guinea, Niger, and Zambia. Benchmark EME: Poland, Mexico, Thailand, Chile, Colombia, Indonesia, and Malaysia.

11. The agricultural sector is a key focus of diversification efforts within the 2018–22 National Development Plan (NDP); its development may contribute to improving the current account balance in the medium term by reducing reliance on food imports. In addition, in the context of the National Agricultural Investment and Food and Nutrition Security Plan (PNIASAN), the authorities aim to modernize family farming and promote agribusiness by helping small producers' organizations to access the market and / or to engage with large operators. Since 2018, specific interventions have been carried out under PNIASAN: (i) improving access to land (especially in

[4] However, in recent years Gabon has engaged in substantial diversification efforts which are likely to improve the level of export diversification.

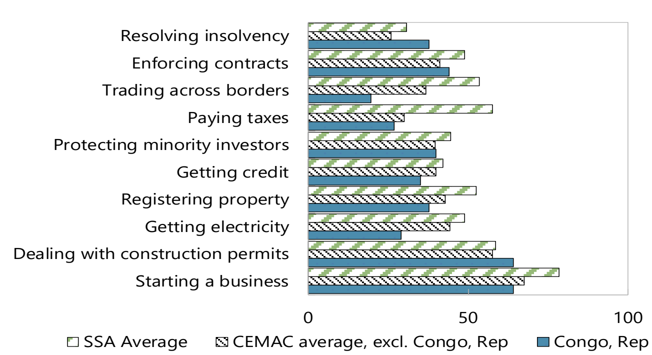
peri-urban areas); (ii) rehabilitation and maintenance of rural roads, (iii) development of plant, animal and fish production; (iv) training of small-scale farmers.

12. The authorities target higher value added in the forestry sector –a stable source of exports in recent years –through an increase in the domestic processing of wood. While value added is higher for sawn wood and finished products, the amount of human and physical capital required means wood processing businesses are not always profitable. A new forestry law introduced this year suggests requiring private companies to cede up to 15 percent of logs to the government to increase volumes available for domestic processing; in return these companies would be subject to lower national taxes. –Moreover, authorities have considered implementing an export ban on logs as part of the new forestry code; a similar ban in Gabon yielded mixed results. Currently, the legal limit for logs as a share of wood exports is 15 percent, but some companies have long-standing agreements.

13. Improvements in the business environment are essential to support Congo's diversification strategy. Congo's performance on various sub-indices in the World Bank's Doing Business 2019 suggests that there is room for improvement in several areas. While Congo performs better than the CEMAC and Sub-Saharan African average on the ease of acquisition of construction permits, it lags behind CEMAC and Sub-Saharan African averages for starting a business, registering property, access to credit, and access to electricity. The simplification of administrative procedures for new businesses and improving access to credit would thus be essential to improve the business climate in support of diversification; Special Economic Zones could be used as a laboratory for administrative reforms related to these issues. The authorities have started to engage in a series of reforms aimed at simplifying procedures for obtaining licenses, improving the transparency of the register of companies, and reducing parafiscal charges for commercial entities. Additional measure to improve the business climate are planned under programs supported by the World Bank and AfDB.

14. Staff noted that the NDP emphasizes improvements in human capital as a key pillar to support the diversification strategy. However, limited progress has been achieved so far given the limited resources allocated to social sectors. Staff supports the World Bank's initiatives in this area, stressing the importance of protecting social programs that support education and training while subjecting them to rigorous evaluation.

Figure 10. Distance to the Frontier



Source: World Bank, *Doing Business, 2019*.

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Annex II. Capacity Development Strategy for FY2020

1. Congo is a medium intensity user of Fund technical assistance (TA). The main capacity development areas have focused on (i) tax policy and administration, (ii) PFM, including accounting and investment management, cash management, government finance statistics, and debt management; (iii) national accounts, and external sector, and (iv) the anti-corruption framework, which is connected to the AML/CFT regime and to other reform areas that are relevant to governance and transparency. The intensity of TA activities reflects the need to strengthen economic institutions, improve transparency and help develop capacity for economic management and reduce fragility.

A. Capacity Development Priorities

2. Capacity development activities will focus on helping the authorities achieve program objectives and support improvements in public sector service delivery. The main areas of focus include tax policy and administration to assist the authorities in their efforts to increase non-oil revenues; PFM reforms with emphasis on efficiency and transparency in the preparation of fiscal tables (TOFE) and the production of consistent Treasury accounts (*Balance des Comptes du Trésor*); real and external sectors, with a focus on the national accounts, production of high frequency data, and BoP statistics; and governance reforms to strengthen the anti-corruption framework and its operationalization.

B. Authorities' Views

3. The authorities expressed satisfaction with IMF TA, noting that it has targeted their top priority needs. They indicated an interest in further developing domestic capacity to strengthen institutions and implement TA recommendations to achieve the objectives under their economic reform program supported by the IMF. Staff has worked closely with functional departments (FAD, LEG, MCM and STA) and the regional technical assistance center (AFC) to ensure that technical assistance is targeted to priority needs and delivered in a well-sequenced manner.

Priorities	Objectives
Tax Policy and Administration	Focus should be to assist the authorities in their efforts to increase non-oil revenues. Areas of particular importance include the review of tax exemptions, and the strategy to recover a large stock of tax arrears.
PFM	Address the serious problem of efficiency and transparency in the preparation of fiscal tables (TOFE) and the production of consistent Treasury accounts (*balance des comptes du Trésor*). Avoid extrabudgetary spending, enforce spending controls, and produce final Treasury accounts shortly after the end of the fiscal year.
Real and External Sectors statistics)	Improving data coverage, timeliness, and methodology of national accounts data, prices and high frequency data, and access to relevant sources. Produce timely annual BoP data, start producing quarterly BoP statistics and the IIP data.
Expenditure Policy (Subsidies)	Developing strategy and timetable to reduce oil, water and electricity subsidies while protecting the most vulnerable segments of society.
Financial Sector	Ensure plans that the resolution of banks under stress follow best international practice, and to review the government's strategy to keep rising levels of NPLs under control. Compilation of FSI to the Fund. In addition, improving AML/CFT framework.
Governance	Strengthen the anti-corruption framework, where a number of laws and decrees have been recently approved but they now need to be operationalized.

Annex III. Authorities' Implementation of 2015 Policy Recommendations

	2015 Article IV Recommendations	Authorities' Implementation
Fiscal and Debt Sustainability	• Adopt multi-year budget planning focused on ensuring long-term fiscal sustainability. Specifically, the non-oil primary deficit reduced to about 40 percent of non-oil GDP. • Clarify the basis for non-oil revenue forecasts. • Pursue prudent borrowing to keep NPV of debt within DSA thresholds. • Develop a medium-term debt strategy and enhance transparency in debt and asset management.	**Partially Implemented**. The authorities have adopted a medium-term fiscal framework in line with the three-year ECF-supported program. They have also indicated their willingness to adjust this framework as needed. The non-oil primary balance is already well below the recommendation of reducing it below 40 percent of non-oil GDP. The key objective now is to keep the NPV of external debt below 30 percent by 2023. This requires continued fiscal consolidation efforts and the successful completion of the debt restructuring strategy.
Public Financial Management	• Strengthen commitment control with a view to preventing arrears. • Strengthen institutional and analytical capacity ahead of regional bond issuance. • Update the PFM reform plan to include improved fiscal reporting, tightened procedures for in-year budget adjustments, better forecasting of fiscal aggregates, reinforcing links with NDP, and rationalizing IT system coverage and inter-operability. • Consolidate investment spending and energy subsidies on the budget and improve investment efficiency through improved project selection and adequate maintenance provision.	**Partially Implemented**. The authorities have strengthened commitment controls to prevent extrabudgetary spending but controls to prevent domestic arrears have been ineffective so far given the severe cash constraints observed over the last three years. Domestic arrears have increased significantly. Overall, progress in public financial management has focused on the transposition of the CEMAC directives and drafting of expenditure and accounting manuals of procedures, with the support of IMF Technical Assistance, but their implementation has shown limited progress so far. The upgrading of the IT system, though well designed, needs to involve the functional actors more broadly to ensure a successful transition in 2020.
Statistics	• Improve quality and timeliness of macroeconomic statistics. • National statistics agency should have adequate funding and capacity enhanced.	**Partially Implemented**. Progress was made in recovering the backlog in the production of national accounts and balance of payments statistics with the support of IMF TA. Further progress continues to be undermined, however, by the resource constraints of the National Institute of Statistics.
Poverty and Inequality	• Reprioritize public expenditures with focus on poverty and growth impact. • Rationalize subsidies (e.g. gasoline) that disproportionately benefit higher income groups and create a fiscal burden. • Move towards targeted cash transfer scheme.	**Partially implemented**. A pilot cash transfer program was launched in 2014 with assistance from the World Bank but its effective operationalization has been subject to considerable delays due to lack of resources. The authorities have reduced allocations for public investment as part of the fiscal consolidation process, but a stronger institutional system to strengthen public investment decisions has not yet been put in place. Substantial progress was being made in 2019 to reduce oil-related subsidies.
Financial Sector	• Implement a centralized balance sheet bureau; • Strengthen the credit registry; • Establish a property registry and a unique window to register land titles; • Strengthen the judicial framework • operationalize the financial intelligence unit (ANIF-Congo)	**Partially implemented**. Reforms are being pursued through the BEAC national directorate and COBAC with progress made in issuing property titles and credit registries. Procedures to increase due diligence for domestic and foreign politically-exposed persons are regulated at the CEMAC level (April 2016). ANIF-Congo is operational and has conducted initial outreach to banks through seminars.
Regional Cooperation	• Respect CEMAC reserves repatriation and pooling requirements. • Develop strategy for deepening regional securities markets.	**Implemented**. The drawdown of off-shore holdings of foreign exchange reserves during 2016 helped to cushion the impact of lower oil revenues on official reserves. The government repatriated in December 2018 the free component of FX deposits held in China.

Annex IV. Risk Assessment Matrix[1]

Sources of Risks	Relative Likelihood	Impact if Realized	Recommended Policy Response
Global risks			
Rising protectionism and retreat from multilateralism	**High**	**Medium** Congo's trade structure is largely dependent on oil, but rising protectionism would undermine the country's capacity to diversify the economy away from the oil sector as access to global markets would become more difficult.	To reduce the "twin" deficits and ensure external sustainability. Specific measures include rationalizing public capital expenditures while improving its quality and protecting the poor; and improving non-oil tax revenue collection. Pursue further regional integration to expand trade within CEMAC, and with the rest of Africa, building on the AfCFTA. Introduce reforms in areas where Congo can have a comparative advantage such as agriculture, agribusiness and tourism.
Weaker than expected global growth	**Medium (US); High (Europe, China);** **Medium (Large stressed emerging Economies)**	**Medium** Weaker than expected global growth could affect oil prices, but also FDI and non-oil exports, thereby undermining efforts to diversify the economy.	Rigorous implementation of the ECF-supported program would reduce vulnerabilities in Congo and increase the capacity of the economy to attract investment in an increasingly competitive environment with other SSA countries.
Large Swings in Energy Prices	**Medium**	**High** Volatility in oil prices can complicate economic management but the real risk for Congo would be associated with a substantial decrease in oil prices. This would reduce fiscal buffers, and compromise the authorities' budget objectives, including plans to increase social spending and clear domestic arrears to support growth.	Ensure that plans to boost non-oil revenues are rigorously implemented. Consider additional fiscal adjustment of non-priority spending if downside risks materialize. Negotiate a price clause with oil traders that offers additional debt relief in case of lower oil prices.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Sources of Risks	Relative Likelihood	Impact if Realized	Recommended Policy Response
Country-specific risks			
Political Risk	**Medium**	**High** The government's ability to maintain political stability depends on the performance of the economy, and the authorities' capacity to deliver on key reforms, especially those associated with governance and transparency, clearance of domestic arrears and social spending	Maintain rigorous implementation of the program. Increase outreach to the private sector and civil society to build a continuous dialogue on the main economic challenges facing the country. Implement the reforms to improve governance and plans to increase social spending to maintain broader support to government policies.
Difficulties to sustain fiscal consolidation in 2020 and over the medium-term	**Medium**	**High** Insufficient prioritization of government spending, inconsistent arrears repayment, and increase in public debt resulting in risks to macroeconomic stability and risks of higher social and political instability.	Improve coordination between government ministries to ensure that spending is properly prioritized, and the objectives of the program well understood by the various stakeholders.
Failure to complete the debt restructuring strategy for commercial debt	**High**	**High** Delays in the conclusion of a debt restructuring agreement would keep Congo's debt at unsustainable levels and would erode international support for Congo's economic program supported by the three-year ECF arrangement. Delays in Fund disbursements would trigger delays in budget support from other partners and compromise the authorities budget objectives, and incentives to continue to pursue difficult reforms, including those that target improvements in governance.	The authorities need to continue to pursue their good faith negotiations supported by their legal and financial advisors.
Other Risks	**Medium**	**High** Other risks to the outlook include possible delays in the disbursement of budget support from key development partners. This would complicate budget management and make it difficult for the authorities to clear official external arrears.	The authorities should ensure that they do not accumulate arrears with key development partners, as this can generate delays and disrupts plans for budget support. They should also meet the reform efforts envisaged by the budget support programs to unlock the expected resources without delay

INTERNATIONAL MONETARY FUND

REPUBLIC OF CONGO

January 3, 2020

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

Republic of Congo: Joint Bank-Fund Debt Sustainability Analysis	
Risk of external debt distress	*In debt distress*
Overall risk of debt distress	*In debt distress*
Granularity in the risk rating	*Unsustainable*
Application of judgement	*No*

Approved By
Zeine Zeidane and Martin Sommer (IMF) and Marcello Estevão (IDA)

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

Based on an assessment of external public debt indicators and given the continued buildup of external arrears, the Republic of Congo is classified as "in debt distress". Moreover, despite the recent restructuring agreement with China, external public debt remains unsustainable with the net present value of external debt in percent of GDP projected to remain above the indicative threshold in the medium term, and the debt service to revenue indicator exhibiting significant breaches over the next three years.[1] The increase in debt in recent years reflects large fiscal deficits, a large terms-of-trade loss which caused nominal GDP to decline through deflation in the oil economy, and a decline in real GDP growth. Domestic debt has also been rising due to the accumulation of domestic arrears and statutory advances from BEAC, leading to further deterioration of overall public debt indicators: the net present value of public debt to GDP remains above its indicative threshold over the medium term. Given the accumulation of domestic and external arrears, the overall assessment confirms that the Republic of Congo remains in debt distress. Going forward, restoring debt sustainability crucially hinges on the pursuit of fiscal consolidation and the restructuring of private commercial claims, while clearance of arrears remains crucial for ending the debt distress event.

[1] Congo's debt carrying capacity was rated weak according to the composite indicator (CI) based on the October 2019 WEO.

PUBLIC DEBT COVERAGE

1. The coverage of public debt in this DSA is limited to central government debt, but includes oil-backed debt contracted by SNPC, the largest state-owned enterprise. The stock of debt includes public and publicly guaranteed debt of the central government. Local governments in Congo are not allowed to borrow and depend on local taxes and transfers from the central government. Debt from oil-backed pre-financing arrangements contracted with oil traders through SNPC and guaranteed by the central government is included in the analysis and is the main source of non-central government debt in Congo. However, debt from state owned enterprises (SOEs) not guaranteed by the government is not included in this analysis because of limited information on their fiscal performance.[2] As regards the national oil company (SNPC), transparency has improved with the October 2019 publication of the 2018 financial statement audited by a reputable private accounting firm, but information on debt and fiscal performance in other years remains limited, with the exception of government-guaranteed debt.[3] While the government-guaranteed debt is included in the DSA stock of debt, non-government guaranteed debt owed by SNPC is not included due to incomplete information. The level of fiscal risk posed by the commercial operations of SNPC is still being determined.[4] The potential fiscal risks would be partly mitigated by a positive operating balance over several years, continued efforts to improve transparency regarding its balance sheet, and SNPC's control over several oil fields from which it will continue to derive its revenues.[5] SNPC appears to satisfy some criteria for managerial independence,[6] and does not benefit from direct government subsidies, though its subsidiary (CORAF) has been receiving transfers from the government to offset losses associated with the freeze of fuel prices. Staff will continue efforts to compile information on SOEs to improve the scope of the DSA, in line with guidelines under the revised LIC-DSF.

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[2] There are 31 SOEs in Congo, with government ownership ranging from 50 to 100 percent.

[3] The cost of activities related to the distribution of refined products is not supported by SNPC, but rather by the government. SNPC simply acts on behalf of the government. However, some other activities of SNPC run according to private sector principles: SNPC controls several oil fields from which it derives revenues. Investments made in these fields will be recouped with future oil revenues from the fields. Meanwhile, government-guaranteed loans are related to government-owned fields and the oil distributed by SNPC from these fields.

[4] The assessment to be made in line with the LIC DSF Guidance Note. Note that, for fiscal accounts, revenues from the private operations of SNPC are not included in the fiscal balance.

[5] SNPC non-guaranteed debt is associated with the "carry" of investment activities by private sector companies on behalf of SNPC's ownership in the development of the oil fields. The private sector companies pre-finance the investment spending on behalf of SNPC to develop the various oil fields and will recover the investment through discounts on the oil revenues that accrue to SNPC once the oil fields are in operation.

[6] As regards managerial independence, SNPC satisfies the criteria regarding pricing policy for crude oil, the largest product category, though not for refined oil. With regards to relations with the government, is not clear whether SNPC also benefits from a special tax regime as it appears that no corporate taxes were paid over 2013–15 and 2017 when the company made considerable profits.

1. The contingent liability stress test is customized to account for vulnerabilities associated with rejected domestic arrears, non-guaranteed SOEs debt, and litigated debt (Text Table 1). Non-guaranteed SOEs debt is estimated at 9 percent of GDP and we assume half of this amount could end-up on the central government balance sheet. In addition, Congo's total PPP capital stock is estimated at 4.6 percent of GDP, and 35 percent of this total stock is assumed may end up on the government balance sheet under the stress test. Debt vulnerabilities are also affected by rejected domestic arrears (about 6.3 percent of GDP) and an additional 7.4 percent of GDP external claim, which is currently being litigated (and not included in the debt stock).[7] The contingent liability test is also calibrated to account for these potential risks to the public sector balance sheet. At the same time, the experience of previous audits and preliminary progress reported on the ongoing independent audit of domestic arrears suggest a strong possibility that the stock of domestic arrears incurred during 2017–18 could be revised down substantially after the conclusion of the current audit. This is an upside risk that could considerably mitigate the impact of contingent liability shocks.

Text Table 1. Republic of Congo: Coverage of Public-Sector Debt and Design Stress Tests of Contingent Liability

	Subsectors of the public sector	Sub-sectors covered
1	Central government	X
2	State and local government	X
3	Other elements in the general government	
4	o/w: Social security fund	X
5	o/w: Extra budgetary funds (EBFs)	
6	Guarantees (to other entities in the public and private sector, including to SOEs)	X
7	Central bank (borrowed on behalf of the government)	X
8	Non-guaranteed SOE debt	

1	The country's coverage of public debt	The central, state, and local governments plus social security, central bank, government-guaranteed debt		
		Default	Used for the analysis	Reasons for deviations from the default settings
2	Other elements of the general government not captured in 1.	0 percent of GDP	13.8	Litigated debt (Commisimpex) and rejected domestic arrears
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	4.5	SOE's debt not guaranteed by the government
4	PPP	35 percent of PPP stock	1.60	
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5	
	Total (2+3+4+5) (in percent of GDP)		24.9	

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

BACKGROUND

A. Evolution and Composition of Public Debt

2. Public debt in the Republic of Congo has increased significantly in recent years, though the trend reversed starting in 2018. The increase in debt reflects the rapid accumulation of new domestic and external debt to finance ambitious investment projects and raise public sector wages.

[7] The authorities continue to represent a dispute with respect to this external claim. Disputed claims are not included in the baseline for program purposes, as they are included when calibrating the contingent liability stress test (Text Table 1).

The severe terms of trade loss from the decline in international oil prices and the behind-the-curve policy response to the shock exacerbated the adverse impact of the fiscal expansion on debt indicators. Total debt began to decline in 2018, and while by September 2019 it was below 2017 peak levels, it remains substantially higher than at the start of the decade, amounting to US$ 9.5 billion, or 88 percent of GDP.

- *Public external debt has increased markedly since Congo reached the HIPC Initiative Completion Point in January 2010.* In 2010, following the debt relief initiative, gross public external debt was just over 20 percent of GDP; however, it grew rapidly over the next years to reach around US$ 7.5 billion or 80 percent of GDP by end-2017 (Table 1). The trend reversed in 2018, when public external debt declined to US$ 6.9 billion. In 2019, public external debt has stabilized reaching around US$ 6.8 billion, or 62 percent of GDP, by the end of September. A large share of external debt is owed to China (20.4 percent of GDP) and oil traders (18.1 percent of GDP).

- *External payment arrears have increased in recent years as financial difficulties have prevented the Republic of Congo from servicing its debt, especially debt owed to oil traders.* External arrears increased from CFAF 453 billion (US$ 817 million) at end-2017 to CFAF 520 billion (US$ 908 million) by end 2018, due largely to the accumulation of arrears with oil traders, and despite some reductions in bilateral and other commercial arrears. The cancellation of some private external debt following court arbitrations and the agreement with Saudi Arabia to restructure its pre-HIPC claims according to HIPC terms reduced pre-HIPC arrears from 324 billion (US$584 million) as of end-2017 to about CFAF 283 billion (US$497 million) at end 2018. The remaining pre-HIPC arrears are mainly accumulated against the United Arab Emirates (UAE), Angola and some external private suppliers. Arrears to UAE and Angola continue to be deemed away under the policy on arrears to official bilateral creditors, as the underlying Paris Club HIPC agreement is adequately representative. The rescheduling deal reached with China Machinery Engineering Corporation (CMEC) in February 2018 also helped to reduce post-HIPC external arrears by about US$115.8 million. In the course of 2019, external arrears have more than doubled, reaching CFA 1364 billion (USD 2.2 billion) at the end of September (Table 2).[8] Most of the increase is driven by an increase of 800 billion CFAF in arrears with oil traders. New arrears with oil traders are a result of both missed debt service payments as well as a debt reconciliation process completed together with financial advisors in preparation for debt restructuring negotiations; during this process some existing debt was reclassified as arrears.

[8] Preliminary information from Paris Club members and the authorities suggests that additional external official arrears have accumulated in October 2019.

- *Domestic public debt rose from 15 percent of GDP at end-2014 to 25.5 percent of GDP in September 2019 as statutory advances and domestic arrears increased significantly* (Table 1). The 2019 estimates take into account the results of the first phase of the audit of domestic arrears which covered CFAF 528 billion,[9] and preliminary results from the ongoing audit of the domestic arrears accumulated over 2017–2018.[10] The bulk of domestic debt involves arrears currently being audited, mostly due to contractors in the construction and transportation sectors (8.8 percent of GDP), statutory advances from the regional central bank (8.7 percent of GDP), and pension arrears and unpaid social benefits (3.4 percent of GDP) which started accumulating after the liquidation of public enterprises as severance packages were not paid according to the agreements. Government debt to commercial banks remains relatively small (2.4 percent of GDP) and comes from the issuance of bonds and Treasury bills since 2016.

3. This debt sustainability analysis incorporates the impact of the April 2019 restructuring deal with China. This agreement combined with the February 2018 agreement provides a total debt relief of about US$370 million over the IMF program period (2019–22). In addition, it also secures substantial debt relief immediately after the program (2023–28), reducing annual debt service by half, and generating a low and predictable stream of payments over the 2029–45 period (below 0.5 percent of GDP per year). The authorities are currently engaged in negotiations for debt restructuring with oil traders and are committed to completing the restructuring of external commercial debt.

4. There are weaknesses in public debt management and claims reporting, as highlighted by the disclosure in June 2017 of oil-backed loans contracted between 2014 and 2015. According to the January 2018 IMF mission to support the activities of the National Committee for Public Debt (NCPD), weaknesses in the current framework include (i) insufficiently transparent debt management (lack of debt strategy to guide debt mobilization), (ii) lack of a formal Treasury management framework, and; (iii) non-compliance with several CEMAC debt management guidelines (e.g. the debt management strategy is not annexed to the finance law, loan agreements are not ratified by the NCPD, etc.). It also found that the National Committee for Public Debt which was created in 2008 had never been operational. More recently, the committee has been reactivated by the authorities and has adopted a manual of debt procedures (structural benchmark) during its first meeting on May 28, 2019. The implementation of the recommendations of the manual will ensure a better coordination and monitoring of public debt management activities.

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[9] The authorities initially disclosed in June 2017 a potential stock of CFAF 1573 billion of possible arrears, but they argued that only CFAF 528 billion should be the subject of an audit, given that the balance represented spending that had been committed ("engagé") but for which no services were received. The audit focused on arrears to government suppliers that had been accumulated over the 2014–16 period. Once the independent audit from Ernst and Young was completed, about 3/4 of this stock was rejected due to irregularities.

[10] The 2019 stock includes 8.8 percent of partially audited and not yet audited arrears recognized by the authorities. However, it excludes other gross claims related to public works (6.4 percent of GDP) rejected by the authorities after internal review. These two stocks are subject to a new audit funded by the AfDB.

Table 1. Republic of Congo: Gross Public Debt by Creditor, 2015–19

	2015			2016			2017			2018			September 2019		
	CFAF billion	USD million	percent of GDP	CFAF billion	USD million	percent of GDP	CFAF billion	USD million	percent of GDP	CFAF billion	USD million	percent of GDP	CFAF billion	USD million	percent of GDP
Total public debt	**5205**	**8631**	**102.9**	**5473**	**8796**	**118.6**	**6097**	**11001**	**117.5**	**5689**	**9873**	**87.8**	**5747**	**9539**	**87.8**
External debt	**4154**	**6888**	**82.1**	**4219**	**6781**	**91.4**	**4152**	**7492**	**80.0**	**3970**	**6890**	**61.3**	**4080**	**6773**	**62.4**
of which: arrears	*378*	*627*	*7.5*	*436*	*701*	*9.4*	*453*	*817*	*8.7*	*520*	*902*	*8.0*	*1364*	*2264*	*20.8*
Multilateral and other creditors	115	190	2.3	140	225	3.0	154	278	3.0	207	360	3.2	244	405	3.7
IMF	7	12	0.1	5	8	0.1	4	6	0.1	2.4	4	0.0	1.5	2	0.0
IDA/IBRD	66	109	1.3	76	121	1.6	76	137	1.5	109	189	1.7	123	205	1.9
AfDB	13	22	0.3	9	14	0.2	29	52	0.6	49	84	0.7	72	119	1.1
IFAD	11	18	0.2	11	17	0.2	13	23	0.2	12	21	0.2	13	21	0.2
Others	17	29	0.6	39	63	1.1	33	59	0.6	35	61	0.5	34	57	0.5
Official bilateral	1768	2932	35.0	1941	3120	42.1	1973	3559	38.0	1816	3152	28.0	1791	2973	27.4
Paris Club	111	185	2.2	132	212	2.9	247	445	4.8	196	340	3.0	214	355	3.3
Brazil	32	53	0.6	34	55	0.7	29	52	0.6	30	52	0.5	31	52	0.5
Belgium	0	0	0.0	35	56	0.8	85	154	1.6	78	135	1.2	91	151	1.4
France	79	132	1.6	63	101	1.4	52	94	1.0	64	110	1.0	66	109	1.0
Russia							74	133	1.4	18	31	0.3	19	31	0.3
Switzerland							7	12	0.1	7	12	0.1	7	11	0.1
Non-Paris Club	1657	2747	32.8	1809	2907	39.2	1726	3114	33.3	1620	2812	25.0	1577	2618	24.1
China	1497	2483	29.6	1526	2452	33.1	1434	2588	27.6	1387	2408	21.4	1333	2213	20.4
India	31	52	0.6	37	59	0.8	47	84	0.9	53	92	0.8	57	94	0.9
Kuwait	33	55	0.7	34	54	0.7	30	55	0.6	32	55	0.5	33	55	0.5
Turkey	0	0	0.0	116	186	2.5	116	209	2.2	45	79	0.7	47	77	0.7
Pre-HIPC arrears (not restructured)	95	158	1.9	97	155	2.1	99	179	1.9	103	179	1.6	107	178	1.6
Private Creditors	2271	3765	44.9	2138	3437	46.3	2026	3655	39.0	1946	3378	30.1	2045	3395	31.3
Oil-prepurchased debt	1484	2461	29.4	1361	2187	29.5	1190	2148	22.9	1061	1841	16.4	1184	1966	18.1
Glencore	530	879	10.5	514	827	11.1	447	806	8.6	385	668	5.9	441	732	6.7
Trafigura	804	1332	15.9	691	1110	15.0	605	1092	11.7	533	925	8.2	582	966	8.9
Orion	151	250	3.0	156	250	3.4	139	250	2.7	143	248	2.2	161	268	2.5
Afreximbank	0	0	0.0	0	0	0.0	194	350	3.7	164	284	2.5	123	205	1.9
Suppliers	293	486	5.8	291	467	6.3	231	417	4.5	232	402	3.6	231	383	3.5
Domestic debt	**1051**	**1744**	**20.8**	**1253**	**2015**	**27.2**	**1944**	**3509**	**37.5**	**1719**	**2984**	**26.5**	**1667**	**2767**	**25.5**
BEAC advances	572	949	11.3	572	920	12.4	572	1033	11.0	572	993	8.8	572	950	8.7
Domestic bond				184	295	4.0	198	358	3.8	160	278	2.5	157	261	2.4
Audited arrears in CCA	185	307	3.7	185	298	4.0	235	424	4.5	361	627	5.6	361	599	5.5
Unaudited and partially audited arrears							747	1349	14.4	626	1086	9.7	577	957	8.8
Memorandum items:															
Additional debt claimed by Commisimpex				486	782	10.5	486	878	9.4	486	844	7.5	486	807	7.4
Rejected claims[1]				1573		34.1	826	1490	15.9	415	720	6.4	415	689	6.3

Sources: Congolese authorities and IMF staff estimates.

[1] Claims associated with infrastructure projects rejected by the authorities after an administrative review.

Table 2. Republic of Congo: External Arrears Situation as of End-September 2019

	End-2015 stock	New arrears in 2016	End-2016 stock	New arrears in 2017	End-2017 stock	New arrears in 2018	End-2018 stock	September 2019 stock			September 2019 (Excl. unrestructured pre-HIPC arrears)		
	CFAF billion	CFAF billion	CFAF billion	CFAF billion	CFAF billion	CFAF billion	CFAF billion	CFAF billion	USD million	percent of GDP	CFAF billion	USD million	percent of GDP
Total	**377.9**	**58.0**	**436.0**	**17.0**	**453.0**	**66.9**	**520**	**1363.9**	**2264.1**	**20.8**	**1066.5**	**1770.4**	**16.3**
Multilateral and other creditors	0.0	4.8	4.8	-0.6	4.2	2.6	6.8	8.0	13.3	0.1	8.0	13.3	0.1
IMF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
World Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IFAD	0.0	0.0	0.0	0.2	0.2	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
AfDB	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.0	4.8	4.8	-0.8	4.0	2.8	6.8	8.0	13.3	0.1	8.0	13.3	0.1
Bilateral	95.5	13.5	109.0	23.2	132.2	-0.3	131.9	169.1	280.7	2.6	109.0	180.9	1.7
Paris Club	0.0	11.5	11.5	19.1	30.6	29.7	60.3	90.1	149.6	1.4	90.1	149.6	1.4
Brazil	0.0	8.4	8.4	7.2	15.6	8.4	24.0	31.4	52.0	0.5	31.4	52.0	0.5
Belgium	0.0	0.0	0.0	1.0	1.0	1.4	2.4	9.8	16.3	0.1	9.8	16.3	0.150
France	0.0	3.0	3.0	4.0	7.1	20.0	27.1	42.2	70.0	0.6	42.2	70.0	0.6
Switzerland	0.0	0.0	0.0	6.8	6.8	0.0	6.8	6.8	11.3	0.1	6.8	11.3	0.1
Russia	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-Paris Club	95.5	2.1	97.5	4.1	101.6	-30.0	71.6	79.0	131.1	1.2	18.9	31.3	0.3
United Arab Emirates /1	11.6	1.2	12.9	-0.8	12.0	0.6	12.7	13.3	22.1	0.2	0.0	0.0	0.0
Angola 1/	34.5	0.0	34.5	5.7	40.2	1.2	41.5	43.6	72.4	0.7	0.0	0.0	0.0
China	0.0	0.0	0.0	0.0	0.0	1.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0
India	0.0	0.8	0.8	1.7	2.4	3.8	6.2	9.4	15.6	0.1	9.4	15.6	0.1
Kuwait	0.0	0.1	0.1	0.1	0.2	0.2	0.4	0.1	0.1	0.0	0.1	0.1	0.0
Saudi Arabia 1/	46.2	0.0	46.2	-2.6	43.6	-42.9	0.7	0.0	0.0	0.0	0.0	0.0	0.0
Turkey	0.0	0.0	0.0	0.0	0.0	6.0	6.0	9.4	15.6	0.1	9.4	15.6	0.1
Postal debt 1/	3.1	0.0	3.1	0.0	3.1	0.0	3.1	3.1	5.2	0.0	0.0	0.0	0.0
Private Creditors	282.5	39.7	322.1	-5.6	316.5	64.6	381.2	1186.5	1969.7	18.1	949.4	1576.1	14.5
CMEC and Chinese companies 2/	0.0	36.2	36.2	28.0	64.2	-63.8	0.4	0.2	0.3	0.0	0.2	0.3	0.0
Eurobond (London Club)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Afreximbank	0.0	0.0	0.0	0.0	0.0	0.2	0.2	0.4	0.6	0.0	0.4	0.6	0.0
Oil traders	0.0	0.0	0.0	22.4	22.4	126.5	148.9	944.0	1567.0	14.4	944.0	1567.0	14.4
Glencore	0.0	0.0	0.0	2.7	2.7	55.3	58.0	324.4	538.5	5.0	324.4	538.5	5.0
Trafigura	0.0	0.0	0.0	19.8	19.8	-0.4	19.4	581.9	965.9	8.9	581.9	965.9	8.9
Orion	0.0	0.0	0.0	0.0	0.0	71.6	71.6	37.7	62.5	0.6	37.7	62.5	0.6
Suppliers 3/	282.5	3.4	285.9	-56.0	229.9	1.7	231.6	230.6	382.8	3.5	4.9	8.1	0.1

Sources: Congolese authorities and IMF staff estimates.

[1] End-2015 stocks are unrestructured pre-HIPC arrears.

[2] China Machinery Engineering Corporation, previously classified as official bilateral debt.

[3] Includes disputed debts (pre-HIPC claims).

B. Macroeconomic Outlook

5. Box 1 summarizes the main assumptions for key macroeconomic variables in the scenario underpinning the DSA. The baseline scenario assumes that the authorities will continue implementing fiscal adjustment in the medium term to restore long-term fiscal sustainability and support the buildup of regional international reserves, in line with the ongoing Fund-supported program. Consistent with the 2019 and 2020 budgets, and medium-term fiscal projections, an adjustment to the non-oil primary fiscal balance of about 10 percent of non-oil GDP is assumed over 2019–23, which would help re-build fiscal and external buffers. External disbursements in the medium term reflect program financing, while lower disbursements beyond the program period are in line with the authorities' commitment to pursue prudent external borrowing (Text Table 2). The baseline scenario assumes that Congo continues to obtain external financing on concessional terms similar to the June 2019 DSA; the grant element increases progressively and averages at 41 percent over 2024–28 assuming the bulk of new financing is provided on concessional terms.[11] After 2028, we assume new disbursements become less concessional, bringing back the grant element to about 25 percent over 2028–39. Slower-than-expected expansion in oil production due to temporary technical disruptions at one plant has led to a downward revision of projected 2019 real GDP growth compared to the previous 2019 DSA; however, oil production is still projected to peak around 140 million barrels in 2020, as these temporary issues are resolved, so the projected real growth rate in 2020 is higher than in the previous 2019 DSA.

6. Realism tools point out some risks around the forecast. The fiscal adjustment-growth realism tool suggests that the growth path could be optimistic given the projected consolidation. Staff assess the projected growth to be realistic since it is essentially driven by developments in the oil sector. The recovery projected over the coming years under the baseline also factors in a stronger policy framework associated with an improved fiscal position (through adjustment and debt restructuring) and the positive impact of the repayment of domestic arrears on the private sector. However, delays in the completion of the debt restructuring process for commercial debt would generate doubts about Congo's debt sustainability and negatively affect confidence and investment. As concerns debt drivers, there is a high projected contribution of the residual component to debt-creating flows in the next five years, as in the last five years (Figure 3); the contribution of other debt drivers also remains broadly similar between the historic and projection periods, with the exception of those affected by the decline in oil prices and subsequent recession.[12]

[11] China has historically provided the bulk of Congo's external financing. This financing has also been highly concessional (48 percent grant element). The increase in grant element after the program period reflects our assumption that China would remain the main creditor.

[12] The decline in global oil prices and subsequent recession caused a large decline in Congo's current account balance as a share of nominal GDP (to below zero) in 2015 and 2016; this led to a positive contribution of the current account to debt accumulation in the past five years (see Figure 3). However, over the next five years, the average current account balance is projected to be positive in the baseline, implying a negative contribution to debt accumulation. The change in the contribution of real GDP growth between the historic and projection periods (in Figure 3) is also associated with the effects of the crisis on reducing GDP growth.

Box 1. Main Macroeconomic Assumptions

- **Non-oil sector:** Non-oil growth is projected to turn positive in 2019 after three years in a deep recession, and to gradually improve to 4.1 percent in 2023 as the impact of fiscal adjustment dissipates, investment recovers, and the implementation of structural reforms bears fruit. Beyond 2023, non-oil growth is projected to average 4.4 percent, which is similar to the historical average of 4.3 percent over 2008–17, with growth driven by agriculture, forestry, commerce, and the transport/communication sectors. Recent developments suggest the mining sector also has the potential to contribute to growth. While near-term growth risks are tilted to the down side, in the medium-term risks are balanced, as governance sector reforms and the implementation of diversification efforts, including the use of Special Economic Zones and improvements to the business environment, are expected to support the development of non-oil sector (see Annex on the External Sector Assessment).
- **Oil production and prices:** In 2019, the expansion of oil production has been lower than previously anticipated, due to temporary technical disruptions in two oil fields. Annual oil production is projected to peak at about 140 million barrels in 2020, and then to steadily decline over 2020–38, to about 53 million barrels in 2039, in the absence of new oil discoveries. International oil prices have increased recently but remain well below their 2013 peak levels, and are projected to gradually increase over the medium term to about $70 per barrel by 2035. While long-term projected oil prices are above medium-term prices, debt sustainability would not be highly sensitive to an undershoot in oil prices in the long term; the contribution of oil to overall GDP as well as exports and revenue is projected to decline in the next 20 years, while debt burden indicators are projected to be sufficiently below their respective thresholds in the long run (i.e. by 2035).
- **Inflation:** Overall inflation has remained subdued at 1.8 (y/y) at end-October 2019 and is expected to remain around 2 percent by year-end. It is expected to increase gradually to 3 percent in 2024 and to remain close to 3 percent over the long term, consistent with the CEMAC's convergence criteria of a 3 percent ceiling.
- **Current account balance**: The current account balance in 2019 has been revised upward since the last 2019 DSA due to stronger than projected growth of exports of mining and other non-oil goods, and a reduction in oil-related imports. In line with assumed fiscal consolidation and increased oil-production, the current account is projected to remain in surplus over 2020–21, and to gradually turn back to an average deficit of about 2.5 percent over 2022–24, along with decreasing oil production and a pick-up in imports associated with the recovery in the non-oil sector. The current account deficit is projected to reach an average of 12 percent over 2025–39, reflecting a projected long-term decline in oil production that is only partially offset by growth in non-oil exports resulting from diversification efforts.
- **Primary balance:** The baseline assumes fiscal adjustment to address the current macroeconomic imbalances. The primary balance is projected to remain in surplus from 2019 onwards thanks to improvements in revenues and containment of spending.

Text Table 2. Republic of Congo: Comparison of Assumptions Between Current and Previous 2019 DSAs

	2019	2020	2021	2027	2035
	New Loan Disbursements (billions of CFA francs)				
Current DSA	443	507	385	119	148
2019 DSA	484	525	360	118	147
	Grant Element of New External Borrowing (percentage points)				
Current DSA	30.7	30.1	32.1	41.3	25.4
2019 DSA	30.3	28.9	33.0	41.4	25.4
	Primary balance (percent of GDP)				
Current DSA	10.6	9.9	9.4	5.9	2.9
2019 DSA	9.3	9.2	9.0	5.6	2.6
	Real GDP growth (percent)				
Current DSA	2.2	4.6	1.9	1.8	3.4
2019 DSA	5.4	1.6	1.9	1.9	3.4
	Current Account Balance (percent of the GDP)				
Current DSA	7.9	5.8	1.2	-6.6	-15.2
2019 DSA	5.6	5.1	1.6	-5.4	-14.9
	Oil prices (U.S. dollars per barrel)				
Current DSA	61.8	57.9	55.3	59.2	69.4
2019 DSA	59.2	59.0	58.1	62.4	73.1

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

C. Country Classification and Determination of Stress Test Scenarios

7. The composite index (CI) based on the October 2019 World Economic Outlook (WEO) data indicates weak debt carrying capacity for Congo. The methodology relies on computing a composite indicator (CI) based on information from the (2018) CPIA score, external conditions as captured by world economic growth, and country-specific factors including import coverage of reserves. The Republic of Congo's low CI score indicates a weak debt carrying capacity, reflecting mainly a low CPIA and a low level of foreign reserves (Table 3). The CI score is similar to that in the previous 2019 DSA, which was based on April 2019 WEO data.

8. Congo should consider commodity price and market financing shocks. Since oil exports represent more than 80 percent of Congo's exports, the commodity price tailored stress test is triggered. Similarly, as a holder of a Eurobond (issued in the context HIPC debt restructuring), the market financing module is also activated.

Table 3. Republic of Congo: Composite Indicator (CI) Score

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	2.779	1.07	43%
Real growth rate (in percent)	2.719	1.644	0.04	2%
Import coverage of reserves (in percent)	4.052	31.303	1.27	51%
Import coverage of reserves^2 (in percent)	-3.990	9.799	-0.39	-16%
Remittances (in percent)	2.022	0.000	0.00	0%
World economic growth (in percent)	13.520	3.499	0.47	19%
CI Score			2.47	100%
CI rating			Weak	

Debt Carrying Capacity	Weak

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintages
Weak	Weak 2.47	Weak 2.49	Weak 2.50

APPLICABLE	
EXTERNAL debt burden thresholds	
PV of debt in % of	
Exports	140
GDP	30
Debt service in % of	
Exports	10
Revenue	14

APPLICABLE	
TOTAL public debt benchmark	
PV of total public debt in percent of GDP	35

Source: IMF staff calculations. The CI cutoff value for medium debt carrying capacity is 2.69.

DEBT SUSTAINABILITY ANALYSIS

A. External Debt Sustainability Analysis

9. Under the baseline, there are protracted breaches of the present value (PV) of debt-to-GDP ratio vis-à-vis Congo's indicative thresholds (Figure 1). The PV of external debt to GDP is currently around 52 percent and is projected to decline slowly but remain above the indicative threshold of 30 percent over the next ten years, reaching 30 percent only in 2031. Thus, even as the PV of debt-to-GDP declines gradually provided fiscal adjustment is undertaken as projected, commercial debt restructuring will still be needed to bring debt to sustainable levels by 2023 (in line with the current IMF-supported program). The debt service-to-revenue ratio is currently above the indicative threshold of 14 percent but is projected to decline below 14 percent by 2023 and remain below this level thereafter. The debt service-to-exports ratio is similarly above its indicative threshold of 10 percent currently, but is projected to decline to 10 percent by 2021 and remain below the threshold in the ten years after. The PV of debt-to-exports ratio is projected to remain stable over the next decade around 60 percent, below the threshold of 140 percent. Text Table 3 highlights the changes in the baseline scenario projections of debt burden indicators between the current DSA and the previous 2019 DSA, which are overall minor[13].

10. All indicators of external public debt breach their indicative thresholds by substantial margins in stress test scenarios (Figure 1). Standard bound tests examine the implications of various shocks to the debt and debt-service paths based on the historical volatility of the country's economic indicators. These result in sharp increases in the debt burden indicators in all cases. The exports shock stress test is the most extreme for most indicators, reflecting the Republic of Congo's high dependence on oil exports. A decline in exports to a level equivalent to one standard deviation below their historical average in the second and third years of the projection period would cause the PV of debt-to-exports ratio to rise above 210 percent at its peak, while the PV of debt-to-GDP would rise to over 95 percent. Under this stress scenario, the debt-service-to-exports ratio would still decline below the threshold of 10 percent by 2023 but would then rise above this threshold after 2025. For the debt service-to–revenue ratio, a one-time depreciation has the largest impact; under this shock, the ratio would decline below its indicative threshold of 14 percent after 2023. The commodity price shock, triggered due to Congo's reliance on oil exports, also leads to prolonged breaches of debt burden indicators (PV of debt to GDP and to exports). Additionally, while the market financing risk module indicates a moderate risk of heightened liquidity pressures, the small size of the outstanding Eurobond (less than 3 percent of GDP) implies that a heightened market stress event would not have a large enough impact to bring debt burden indicators above their respective thresholds when they are otherwise below (Figure 5).

11. Reflecting the build-up of considerable external arrears, the Republic of Congo is classified to be "in debt distress". External arrears are close to 21 percent of GDP and have been rising in recent years. In addition to arrears with oil traders, with whom the authorities are currently undergoing negotiations for debt restructuring, Congo also accumulated external arrears with

[13] All values for the PV of debt (see Text Table 3), including for 2019, are based on projections.

multiple official lenders. The clearance of external arrears (through the clearance of post-HIPC external official arrears, and as part of debt restructuring in the case of external commercial debt) would be required to end the ongoing episode of debt distress.

Text Table 3. Republic of Congo: Comparison of PPG Gross External Debt Indicators, Baseline Scenario

	2019	2020	2021	2027	2035
			PV of Debt-to-GDP Ratio		
Current DSA	51.5	47.2	46.0	35.3	22.4
2019DSA	51.6	48.4	46.2	36.2	22.7
			PV of Debt-to-Exports Ratio		
Current DSA	63.3	58.7	59.3	56.9	56.4
2019DSA	62.2	59.6	58.7	61.0	60.4
			Debt Service-to-Exports Ratio		
Current DSA	14.4	12.6	9.6	6.3	4.9
2019DSA	13.9	12.5	9.3	6.6	5.4
			Debt Service-to-Revenue Ratio		
Current DSA	37.3	32.3	23.1	10.6	4.9
2019DSA	37.4	32.0	22.8	10.7	5.1

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

B. Public Debt Sustainability Analysis

12. The Republic of Congo is in debt distress; an analysis of the Republic of Congo's overall public debt highlights heightened overall debt vulnerabilities (Figure 2). In addition to the presence of external debt distress, the high level of domestic arrears further indicates that debt distress has materialized. Moreover, an analysis of the projected evolution of debt burden indicators suggests heightened vulnerabilities arising from public debt. Under the baseline scenario, the present value of public and publicly guaranteed debt-to-GDP (including domestic arrears and direct financing from the BEAC) is significantly above the 35 percent benchmark level associated with heightened public debt vulnerabilities for countries with a weak debt carrying capacity for the entire period from 2019 until 2029. This assessment is further supported by stress-tests. The primary balance shock stress test is the most extreme for two indicators based on the present value of public debt, highlighting the need for strong fiscal adjustment over the medium term. Consistent with Congo's dependence on oil receipts, the most extreme shock for the debt service-to-revenue ratio is the newly introduced commodity price shock.

CONCLUSION

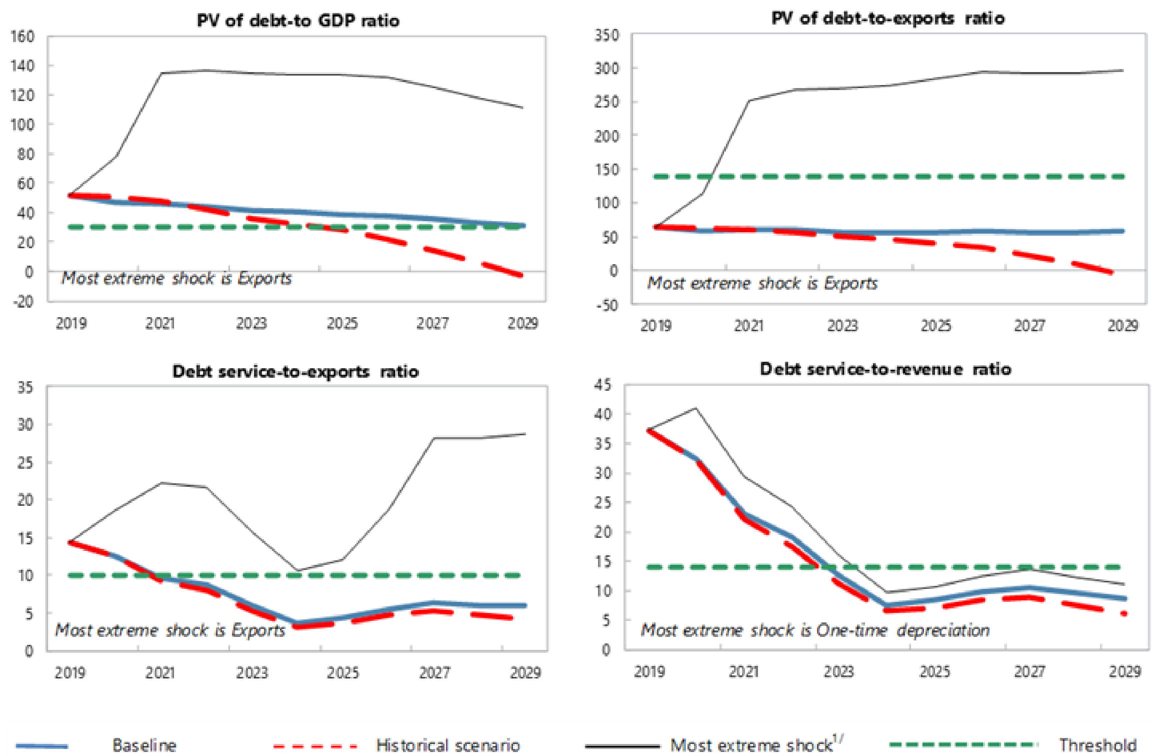
13. Congo is assessed as being in external and overall debt distress. The overall risk of debt distress is a result of the assessment of external debt distress due to external arrears, and the accumulation of domestic arrears. In addition, the level of debt in Congo is unsustainable given protracted breaches of the threshold for the PV of debt-to-GDP under the baseline despite assumed strong fiscal adjustment going forward, as well as breaches of the thresholds in the medium-term for all debt indicators under stress scenarios. There is no change in debt sustainability from the classification in the previous 2019 DSA. The authorities have committed to not contracting new non-concessional loans before the sustainability of public finances has been unequivocally restored, or while Congo is still in debt distress or at high risk of debt distress. The authorities are also committed to the repayment of official external bilateral arrears and the restructuring of external commercial debt, especially the debt associated with oil traders.

14. Over the medium term, improving competitiveness and promoting economic diversification are key to increasing resilience to exogenous shocks. Reflecting its high dependence on oil, the Republic of Congo's debt ratios appear to be most sensitive to swings in oil exports. Given the high concentration and vulnerability of the economy to downward movements in oil prices, broadening the economic base by enhancing the development of the non-oil sector would reduce the volatility of exports and would strengthen the debt service capacity of the Congolese economy. In this regard, efforts to improve the business climate with assistance from the World Bank should help strengthen competitiveness and boost growth, while plans to develop the agricultural, industrial, and tourism sectors as laid out in the National Development Plan should help diversify the export base. Diversification efforts are discussed in more detail in External Sector Assessment Annex to the Staff Report.

15. There is also a continued need to strengthen public debt and asset management, and capacity development is needed to improve the efficiency of institutions that handle fiscal and debt policies. The recent IMF public debt management technical report highlighted the need to: (i) strengthen the legal and institutional framework to cover the entire process of issuing and managing debt by the re-dynamization of the National Committee for Public Debt (NCPD) and clarification of its attributions; (ii) develop a medium-term debt management strategy and enhance transparency in debt management; (iii) introduce a formal framework for managing the government's cash flows; and (iv) strengthen the staff analytical capabilities with respect to public debt management. In addition, there is an urgent need to strengthen debt recording and monitoring capacity, better track all potential liabilities of the government, such as through the collection of data on major SOEs, contingent liabilities and publicly guaranteed debt which are currently not covered in the official debt statistics and the DSA. In line with the recommendations from MCM TA missions, the authorities should move forward with developing a debt management strategy, append it to the budget law, and strengthen the government's cash flow management.

16. The authorities concurred with staff's assessment that Congo is in debt distress, and that debt is unsustainable. They expressed their commitment to maintain prudent fiscal and debt management policies and are also pursuing their strategy to restructure Congo's public debt, in order to restore debt sustainability. The authorities also indicated that macroeconomic assumptions underpinning the DSA analysis, including projections for oil production, should remain appropriately cautious while information on new oil discoveries is still being analyzed. Authorities agreed that while there are downside risks to the growth outlook, the Congolese economy has the potential to benefit from the development of new sectors, including mining and industry, as the 5-year National Development Plan is implemented and the economy becomes more diversified.

Figure 1. Republic of Congo: Indicators of Public and Publicly Guaranteed External Debt Under Alternatives Scenarios, 2019–29



Customization of Default Settings		
	Size	Interactions
Tailored Tests		
Combined CLs	Yes	
Natural Disasters	n.a.	n.a.
Commodity Prices 2/	No	No
Market Financing	No	No

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing Assumptions for Stress Tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	-2.7%	1.1%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	25	25
Avg. grace period	5	5

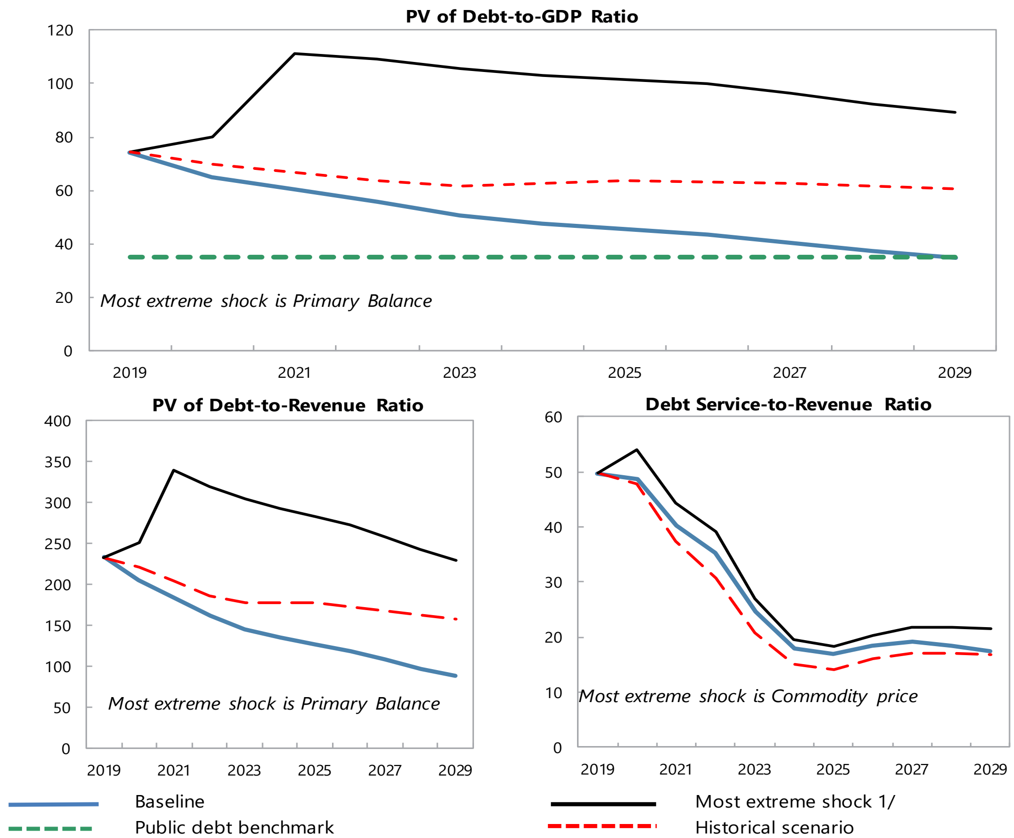
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2029. Stress tests with one-off breaches are also presented (if any), while these one-off breaches are deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Figure 2. Republic of Congo: Indicators of Public Debt Under Alternative Scenarios, 2019–29



Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	100%	100%
Domestic medium and long-term	0%	0%
Domestic short-term	330%	0%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	-2.7%	1.1%
Avg. maturity (incl. grace period)	25	25
Avg. grace period	5	5
Domestic MLT debt		
Avg. real interest rate on new borrowing	0.0%	0.0%
Avg. maturity (incl. grace period)	1	1
Avg. grace period	0	0
Domestic short-term debt		
Avg. real interest rate	0.7%	0.7%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

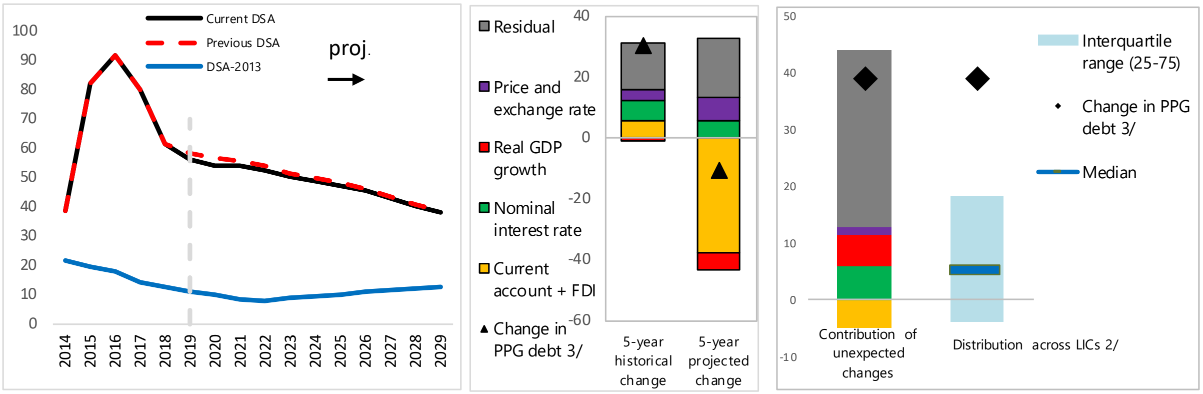
Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2029. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 3. Republic of Congo: Drivers of Debt Dynamics—Baseline Scenario

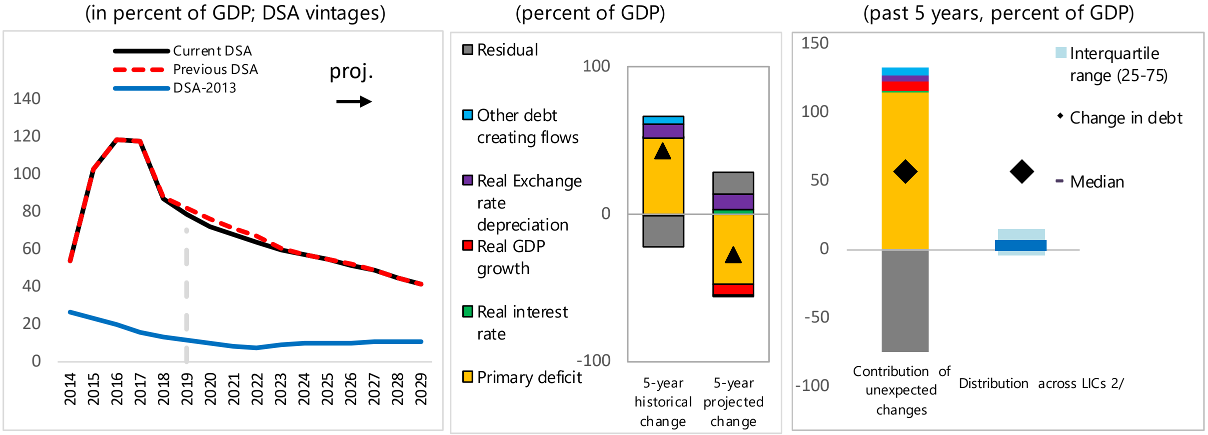
External Debt

Gross Nominal PPG External Debt (in percent of GDP; DSA vintages) | Debt-creating flows (percent of GDP) | Unexpected Changes in Debt 1/ (past 5 years, percent of GDP)



Public Debt

Gross Nominal Public Debt (in percent of GDP; DSA vintages) | Debt-creating flows (percent of GDP) | Unexpected Changes in Debt 1/ (past 5 years, percent of GDP)



1/ Difference between anticipated and actual contributions on debt ratios.

2/ Distribution across LICs for which LIC DSAs were produced.

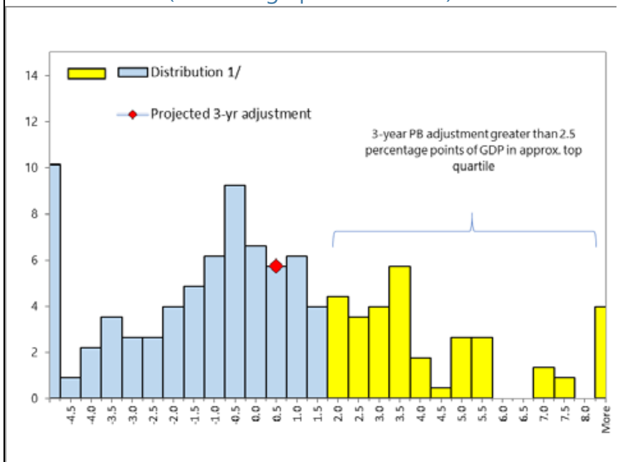
3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

Sources: Congolese authorities and IMF staff projections.

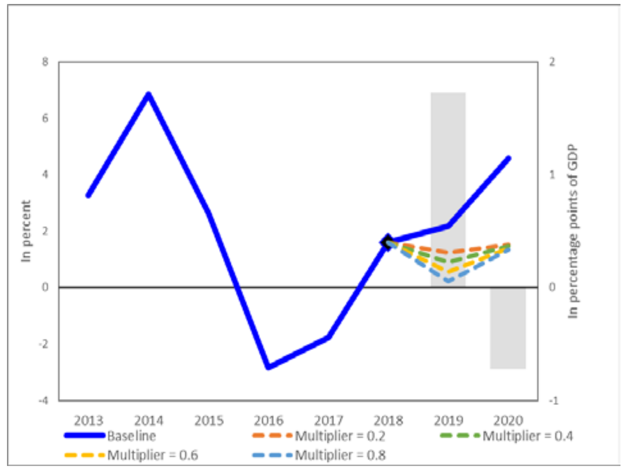
Figure 4. Republic of Congo: Realism Tools

3-Year Adjustment in Primary Balance

(Percentage points of GDP)

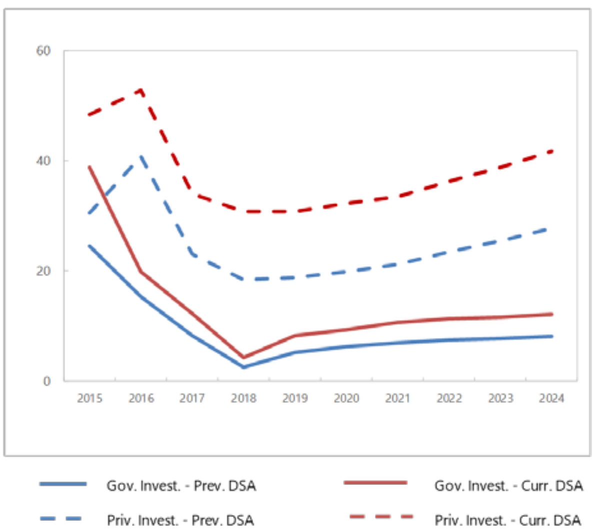


Fiscal Adjustment and Possible Growth Path [2]



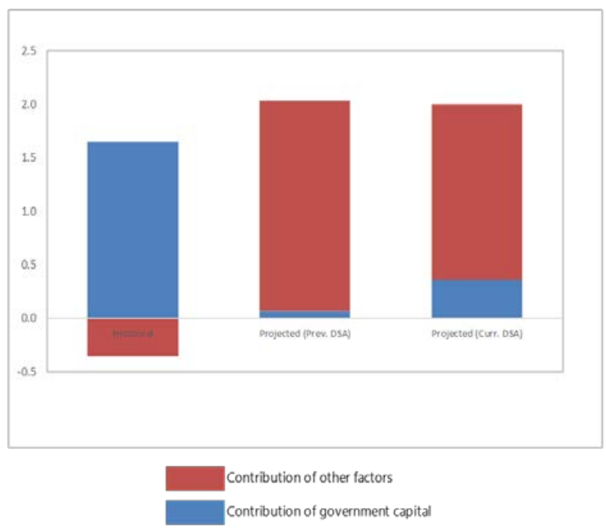
Public and Private Investment Rates[3]

(Percent of GDP)



Contribution to Real GDP growth

(Percent, 5-year average)



Sources: Congolese authorities and IMF staff estimates.

1/ Data cover Fund-supported programs for LICS (excluding emergency financing) approved since 1990. The size of 3-year adjustment for program inception is found on the horizontal axis, the percent of sample is found on the vertical axis.

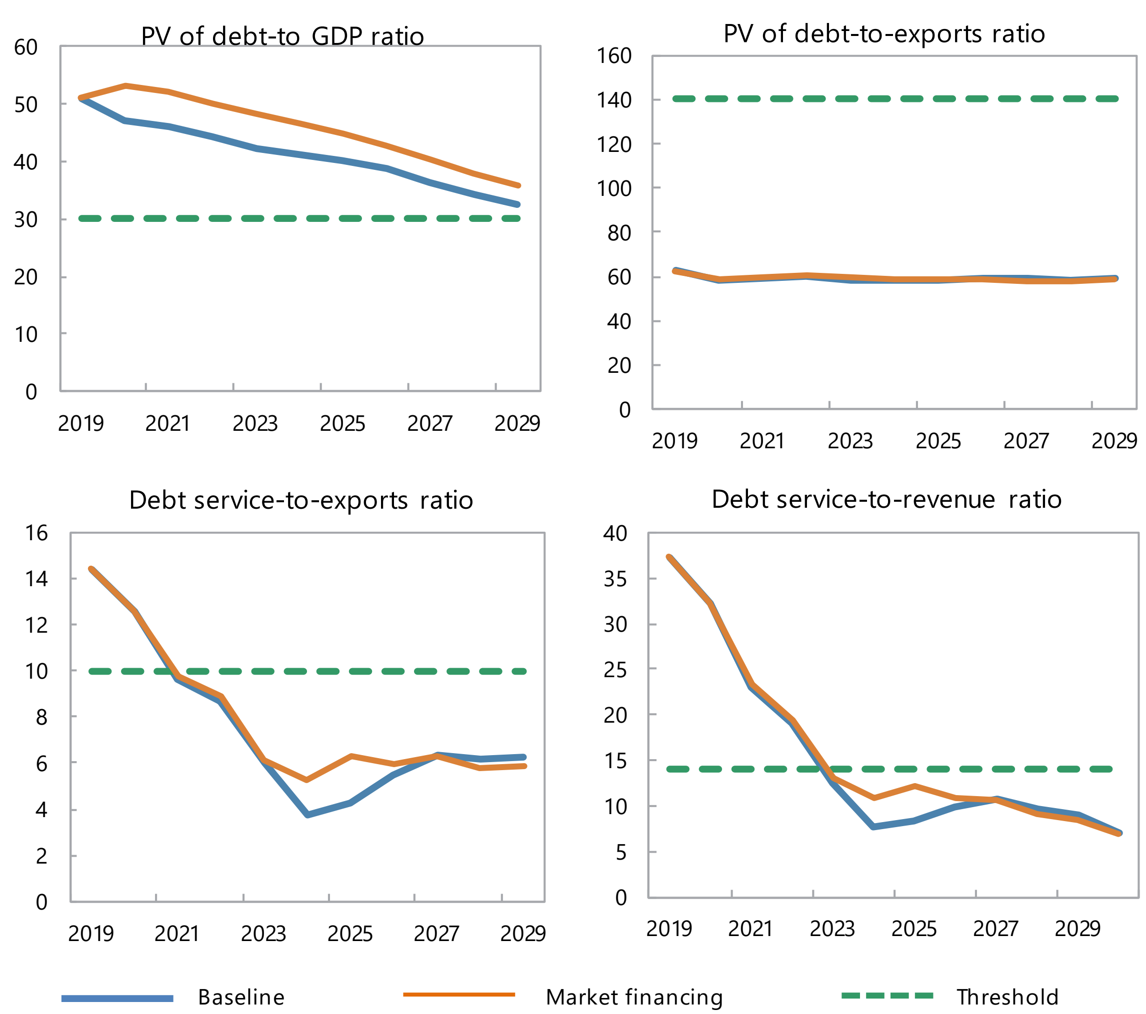
2/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

3/ The changes in investment reflect a change in the methodology for computing the price index used to convert norminal investment to investment at constant prices; this does not reflect a change in actual investment rates.

Figure 5. Republic of Congo: Market-Financing Risk Indicators

	GFN 1/	EMBI 2/
Benchmarks	14	570
Values	5	1250
Breach of benchmark	No	Yes
Potential heightened liquidity needs	Moderate	

1/ Maximum gross financing needs (GFN) over 3-year baseline projection horizon.
2/ EMBI spreads correspond to the latest available data.



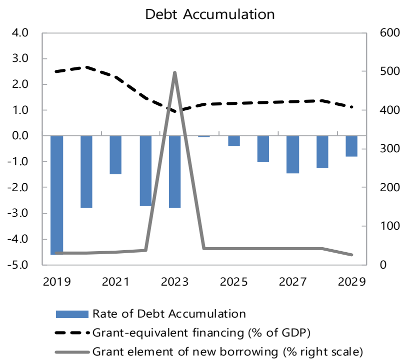
Sources: Congolese authorities; and IMF staff estimates and projections.

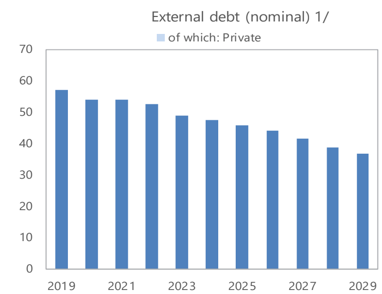
Table 4. Republic of Congo: External Debt Sustainability Framework, Baseline Scenario, 2016–39

(Percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029	2039	Historical	Projections
External debt (nominal) 1/	**91.4**	**80.0**	**61.3**	**57.2**	**53.9**	**54.0**	**52.7**	**49.0**	**47.4**	**36.7**	**19.5**	**50.8**	**47.4**
of which: public and publicly guaranteed (PPG)	**91.4**	**80.0**	**61.3**	**57.2**	**53.9**	**54.0**	**52.7**	**49.0**	**47.4**	**36.7**	**19.5**	**50.8**	**47.4**
Change in external debt	9.3	-11.4	-18.7	-4.1	-3.4	0.1	-1.3	-3.7	-1.6	-2.2	-1.3		
Identified net debt-creating flows	**34.0**	**-11.9**	**-28.9**	**-13.4**	**-12.4**	**-6.4**	**-2.6**	**-3.0**	**-2.3**	**5.8**	**10.2**	**-5.7**	**-2.8**
Non-interest current account deficit	**61.1**	**1.9**	**-9.1**	**-9.4**	**-7.0**	**-2.4**	**1.1**	**1.7**	**2.3**	**10.1**	**16.2**	**6.6**	**1.5**
Deficit in balance of goods and services	51.9	-9.2	-22.7	-22.0	-19.4	-14.9	-10.5	-9.5	-8.9	0.7	9.4	**-0.3**	**-9.6**
Exports	59.1	73.0	83.8	81.4	80.4	77.6	74.2	72.2	71.1	54.6	32.6		
Imports	110.9	63.8	61.1	59.3	61.1	62.6	63.6	62.7	62.1	55.3	42.0		
Net current transfers (negative = inflow)	6.6	5.0	4.0	3.8	3.8	4.0	4.1	4.3	4.4	4.8	4.1	**1.4**	**4.3**
of which: official	-0.2	-0.5	-0.1	-0.4	-0.4	-0.4	-0.5	-0.5	-0.5	-0.7	-0.8		
Other current account flows (negative = net inflow)	2.6	6.2	9.7	8.8	8.5	8.6	7.4	7.0	6.8	4.6	2.7	**5.5**	**6.7**
Net FDI (negative = inflow)	**-37.6**	**-3.7**	**-2.9**	**-4.1**	**-4.0**	**-4.1**	**-4.6**	**-4.9**	**-4.1**	**-3.9**	**-5.6**	**-12.5**	**-4.1**
Endogenous debt dynamics 2/	**10.5**	**-10.1**	**-16.8**	**0.1**	**-1.3**	**0.1**	**1.0**	**0.1**	**-0.4**	**-0.5**	**-0.4**		
Contribution from nominal interest rate	2.4	1.6	1.9	1.5	1.2	1.1	1.0	0.8	0.7	0.4	0.3		
Contribution from real GDP growth	2.6	1.4	-1.0	-1.4	-2.5	-1.0	0.0	-0.7	-1.1	-0.9	-0.6		
Contribution from price and exchange rate changes	5.5	-13.1	-17.8	...	...	...	...	...	...	...	...		
Residual 3/	**-24.7**	**0.6**	**10.2**	**9.3**	**9.0**	**6.5**	**1.3**	**-0.7**	**0.7**	**-8.0**	**-11.5**	**4.9**	**0.5**
of which: exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	**...**	**...**	**54.1**	**51.5**	**47.2**	**46.0**	**44.3**	**41.2**	**40.1**	**31.3**	**17.8**		
PV of PPG external debt-to-exports ratio	**...**	**...**	**64.5**	**63.3**	**58.7**	**59.3**	**59.7**	**57.1**	**56.4**	**57.4**	**54.6**		
PPG debt service-to-exports ratio	**13.1**	**9.0**	**8.5**	**14.4**	**12.6**	**9.6**	**8.7**	**6.0**	**3.7**	**6.0**	**5.4**		
PPG debt service-to-revenue ratio	**23.4**	**24.0**	**24.6**	**37.3**	**32.3**	**23.1**	**19.1**	**12.6**	**7.6**	**8.6**	**4.3**		
Gross external financing need (Million of U.S. dollars)	2433.0	424.5	-569.5	-194.1	-109.0	113.5	321.9	131.4	86.0	1236.7	2694.9		
Key macroeconomic assumptions													
Real GDP growth (in percent)	-2.8	-1.8	1.6	2.2	4.6	1.9	0.0	1.3	2.3	2.4	3.3	**3.4**	**2.0**
GDP deflator in US dollar terms (change in percent)	-6.3	16.8	28.5	-6.0	-1.4	-2.4	-2.3	-0.6	0.5	0.4	2.4	**0.3**	**-1.0**
Effective interest rate (percent) 4/	2.6	2.0	3.1	2.3	2.2	2.1	1.8	1.5	1.4	1.2	1.3	**1.4**	**1.6**
Growth of exports of G&S (US dollar terms, in percent)	-9.5	41.8	50.0	-6.8	2.0	-4.1	-6.5	-2.0	1.1	-4.0	0.7	**6.5**	**-2.9**
Growth of imports of G&S (US dollar terms, in percent)	-9.1	-34.1	25.1	-6.8	6.2	1.9	-0.7	-0.8	1.8	1.0	2.4	**3.4**	**0.1**
Grant element of new public sector borrowing (in percent)	...	...	...	30.7	30.1	32.1	36.4	497.0	41.3	25.2	25.6	**...**	**78.0**
Government revenues (excluding grants, in percent of GDP)	33.2	27.3	29.1	31.5	31.3	32.3	33.7	34.2	34.6	38.1	41.5	**38.5**	**34.7**
Aid flows (in Million of US dollars) 5/	247.6	205.2	312.9	314.4	314.8	301.3	196.4	204.0	211.3	90.7	174.4		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	2.5	2.7	2.3	1.5	0.9	1.2	1.1	1.1	**...**	**1.6**
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	34.8	33.7	36.7	47.1	147.1	55.8	47.0	53.9	**...**	**57.3**
Nominal GDP (Million of US dollars)	7,787	8,932	11,664	11,200	11,553	11,489	11,234	11,306	11,616	12,970	21,806		
Nominal dollar GDP growth	-9.0	14.7	30.6	-4.0	3.2	-0.6	-2.2	0.6	2.7	2.8	5.7	**3.6**	**1.0**
Memorandum items:													
PV of external debt 7/	...	...	54.1	51.5	47.2	46.0	44.3	41.2	40.1	31.3	17.8		
In percent of exports	...	...	64.5	63.3	58.7	59.3	59.7	57.1	56.4	57.4	54.6		
Total external debt service-to-exports ratio	13.1	9.0	8.5	14.4	12.6	9.6	8.7	6.0	3.7	6.0	5.4		
PV of PPG external debt (in Million of US dollars)			6306.9	5771.1	5457.7	5287.9	4973.6	4660.0	4655.7	4064.4	3879.9		
(PVt-PVt-1)/GDPt-1 (in percent)				-4.6	-2.8	-1.5	-2.7	-2.8	0.0	-0.8	-0.1		
Non-interest current account deficit that stabilizes debt ratio	51.9	13.3	9.6	-5.3	-3.7	-2.5	2.4	5.4	3.9	12.3	17.5		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**Yes**





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g) + Ɛα (1+r)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, ρ = growth rate of GDP deflator in U.S. dollar terms, Ɛ=nominal appreciation of the

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/ Current-year interest payments divided by previous period debt stock.

5/ Defined as grants, concessional loans, and debt relief.

6/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

7/ Assumes that PV of private sector debt is equivalent to its face value.

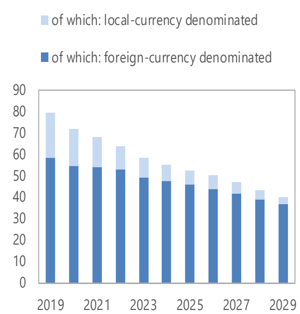
8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

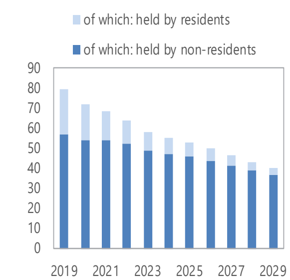
Table 5. Republic of Congo: Public Sector Debt Sustainability Framework, Baseline Scenario, 2016–39

	Actual			Projections								Average 6/	
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029	2039	Historical	Projections
Public sector debt 1/	**118.6**	**117.5**	**87.1**	**79.8**	**71.8**	**68.3**	**64.0**	**58.4**	**55.2**	**40.0**	**20.4**	**73.1**	**57.3**
of which: external debt	**91.4**	**80.0**	**61.3**	**57.2**	**53.9**	**54.0**	**52.7**	**49.0**	**47.4**	**36.7**	**19.5**	**50.8**	**47.4**
of which: local-currency denominated													
Change in public sector debt	15.6	-1.1	-30.4	-7.3	-8.0	-3.5	-4.3	-5.6	-3.2	-3.2	-1.4		
Identified debt-creating flows	**34.3**	**-13.9**	**-27.3**	**-8.6**	**-11.6**	**-7.6**	**-6.4**	**-7.9**	**-8.8**	**-5.2**	**-3.0**	**-0.6**	**-7.5**
Primary deficit	**17.8**	**5.2**	**-8.9**	**-10.6**	**-9.9**	**-9.4**	**-9.4**	**-8.6**	**-8.2**	**-4.8**	**-2.4**	**0.4**	**-7.9**
Revenue and grants	34.1	27.9	29.2	31.9	31.8	32.7	34.3	34.8	35.2	38.8	42.3	**38.9**	**35.2**
of which: grants	0.9	0.6	0.1	0.4	0.4	0.4	0.5	0.6	0.5	0.7	0.8		
Primary (noninterest) expenditure	51.8	33.1	20.3	21.3	21.9	23.4	24.8	26.2	27.0	34.0	39.9	**39.3**	**27.4**
Automatic debt dynamics	**15.5**	**-19.9**	**-18.5**	**2.1**	**-1.6**	**2.0**	**3.0**	**0.7**	**-0.6**	**-0.5**	**-0.6**		
Contribution from interest rate/growth differential	6.0	-0.6	-7.9	-1.0	-2.9	-0.5	0.5	-0.7	-1.4	-1.0	-0.5		
of which: contribution from average real interest rate	3.0	-2.7	-6.1	0.9	0.6	0.9	0.6	0.1	-0.1	0.0	0.2		
of which: contribution from real GDP growth	3.0	2.1	-1.8	-1.9	-3.5	-1.4	0.0	-0.8	-1.3	-1.0	-0.7		
Contribution from real exchange rate depreciation	9.4	-19.3	-10.5	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	**1.1**	**0.8**	**0.0**	**-0.1**	**-0.2**	**-0.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.9**	**-0.1**
Privatization receipts (negative)	1.1	0.8	0.0	-0.1	-0.2	-0.3	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	**-18.6**	**12.8**	**-3.1**	**4.4**	**5.0**	**6.7**	**4.6**	**3.7**	**6.4**	**2.6**	**1.5**	**1.4**	**4.6**
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	**...**	**...**	**81.9**	**74.4**	**65.0**	**60.2**	**55.5**	**50.5**	**47.8**	**34.6**	**18.6**		
PV of public debt-to-revenue and grants ratio	**...**	**...**	**280.9**	**233.4**	**204.6**	**183.8**	**162.0**	**145.2**	**135.9**	**89.0**	**43.9**		
Debt service-to-revenue and grants ratio 3/	**28.6**	**26.4**	**30.5**	**49.7**	**48.7**	**40.2**	**35.2**	**24.6**	**17.9**	**17.6**	**9.7**		
Gross financing need 4/	28.5	13.4	0.0	5.1	5.4	3.5	2.7	-0.1	-1.9	2.0	1.6		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	-2.8	-1.8	1.6	2.2	4.6	1.9	0.0	1.3	2.3	2.4	3.3	**3.4**	**2.0**
Average nominal interest rate on external debt (in percent)	2.7	2.1	3.0	2.4	2.2	2.1	1.8	1.5	1.4	1.2	1.3	**1.4**	**1.6**
Average real interest rate on domestic debt (in percent)	7.7	-10.6	-17.6	2.4	2.6	5.1	4.9	3.4	2.3	6.5	40.0	**2.0**	**4.0**
Real exchange rate depreciation (in percent, + indicates depreciation)	11.0	-20.7	-13.3	...	...	...	...	...	...	...	...	**5.1**	**...**
Inflation rate (GDP deflator, in percent)	-6.1	14.4	22.9	-1.1	-1.1	-3.4	-3.0	-1.0	0.3	0.4	2.4	**1.6**	**-0.7**
Growth of real primary spending (deflated by GDP deflator, in percent)	-10.9	-37.3	-37.7	7.2	7.5	8.9	6.4	6.6	5.4	6.3	4.2	**5.4**	**6.9**
Primary deficit that stabilizes the debt-to-GDP ratio 5/	2.1	6.3	21.6	-3.3	-1.9	-5.9	-5.1	-3.0	-5.0	-1.6	-1.0	**10.0**	**-3.6**
PV 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	0.0	0.0	0.0		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**Yes**

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central, state, and local governments plus social security, central bank, government-guaranteed debt. Definition of external debt is Residency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

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

4/ 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 and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Table 6. Republic of Congo: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2019–29

(Percent)

	Projections 1/										
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
PV of debt-to GDP ratio											
Baseline	**52**	**47**	**46**	**44**	**41**	**40**	**39**	**37**	**35**	**33**	**31**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	**52**	**50**	**47**	**42**	**36**	**32**	28	22	14	6	-3
B. Bound Tests											
B1. Real GDP growth	**52**	**51**	**52**	**50**	**46**	**45**	**44**	**42**	**40**	**37**	**35**
B2. Primary balance	**52**	**62**	**97**	**98**	**96**	**95**	**95**	**94**	**92**	**88**	**86**
B3. Exports	**52**	**77**	**135**	**137**	**134**	**134**	**134**	**132**	**125**	**118**	**111**
B4. Other flows 3/	**52**	**58**	**69**	**69**	**66**	**66**	**65**	**64**	**60**	**57**	**54**
B5. Depreciation	**52**	**60**	**59**	**57**	**53**	**51**	**50**	**48**	**45**	**42**	**40**
B6. Combination of B1-B5	**52**	**69**	**76**	**75**	**73**	**72**	**71**	**69**	**65**	**61**	**58**
C. Tailored Tests											
C1. Combined contingent liabilities	**52**	**62**	**62**	**61**	**59**	**58**	**57**	**56**	**54**	**52**	**51**
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	**52**	**52**	**56**	**56**	**54**	**54**	**53**	**52**	**49**	**47**	**44**
C4. Market Financing	**52**	**53**	**52**	**50**	**47**	**45**	**43**	**41**	**39**	**36**	**35**
Threshold	30	30	30	30	30	30	30	30	30	30	30
PV of debt-to-exports ratio											
Baseline	63	59	59	60	57	56	57	58	57	56	57
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	63	62	61	56	50	45	41	33	23	10	-6
B. Bound Tests											
B1. Real GDP growth	63	59	59	60	57	56	57	58	57	56	57
B2. Primary balance	63	77	125	132	133	134	139	**144**	**147**	**151**	**157**
B3. Exports	63	115	**253**	**267**	**270**	**273**	**284**	**294**	**293**	**292**	**296**
B4. Other flows 3/	63	73	89	93	92	92	95	98	97	97	98
B5. Depreciation	63	59	60	60	57	57	57	58	57	57	58
B6. Combination of B1-B5	63	89	83	123	122	122	126	128	127	127	129
C. Tailored Tests											
C1. Combined contingent liabilities	63	77	80	82	81	81	83	86	88	89	93
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	63	69	76	79	78	78	79	81	81	81	82
C4. Market Financing	63	59	60	61	58	57	57	57	56	56	57
Threshold	140	140	140	140	140	140	140	140	140	140	140
Debt service-to-exports ratio											
Baseline	14	13	10	9	6	4	4	5	6	6	6
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	14	13	9	8	5	3	4	5	5	5	4
B. Bound Tests											
B1. Real GDP growth	14	13	10	9	6	4	4	5	6	6	6
B2. Primary balance	14	13	11	12	10	7	8	11	14	14	14
B3. Exports	14	19	22	22	16	11	12	19	28	28	29
B4. Other flows 3/	14	13	10	9	7	4	5	7	10	10	10
B5. Depreciation	14	13	10	9	6	4	4	5	6	6	6
B6. Combination of B1-B5	14	15	14	13	9	6	7	11	13	13	13
C. Tailored Tests											
C1. Combined contingent liabilities	14	13	10	9	6	4	5	6	7	7	7
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	14	14	11	10	7	4	5	7	8	8	8
C4. Market Financing	14	13	10	9	6	5	6	6	6	6	6
Threshold	10	10	10	10	10	10	10	10	10	10	10
Debt service-to-revenue ratio											
Baseline	**37**	**32**	**23**	**19**	13	8	8	10	11	10	9
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	**37**	**32**	**22**	**17**	11	7	7	8	9	7	6
B. Bound Tests											
B1. Real GDP growth	**37**	**35**	**26**	**22**	**14**	9	9	11	12	11	10
B2. Primary balance	**37**	**32**	**27**	**27**	**20**	**15**	**15**	**20**	**23**	**22**	**20**
B3. Exports	**37**	**40**	**37**	**33**	**23**	**15**	**16**	**23**	**33**	**30**	**28**
B4. Other flows 3/	**37**	**32**	**24**	**20**	14	9	9	13	**16**	**15**	14
B5. Depreciation	**37**	**41**	**29**	**24**	**16**	10	11	12	14	12	11
B6. Combination of B1-B5	**37**	**37**	**29**	**24**	**16**	10	11	**16**	**18**	**17**	**16**
C. Tailored Tests											
C1. Combined contingent liabilities	**37**	**32**	**24**	**20**	13	8	9	11	11	10	9
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	**37**	**36**	**26**	**22**	**15**	9	10	12	14	13	12
C4. Market Financing	**37**	**32**	**23**	**19**	13	11	12	11	11	9	8
Threshold	14	14	14	14	14	14	14	14	14	14	14

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private transfers and FDI.

Table 7. Republic of Congo: Sensitivity Analysis for Key Indicators of Public Debt, 2019–29

	Projections 1/										
	2019	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**
PV of Debt-to-GDP Ratio											
Baseline	**74**	**65**	**60**	**56**	**50**	**48**	**46**	**43**	**40**	**37**	35
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	**74**	**70**	**67**	**64**	**62**	**63**	**64**	**63**	**63**	**62**	**61**
B. Bound Tests											
B1. Real GDP growth	**74**	**72**	**72**	**70**	**67**	**66**	**67**	**68**	**67**	**67**	**67**
B2. Primary balance	**74**	**80**	**111**	**110**	**106**	**103**	**102**	**100**	**97**	**93**	**89**
B3. Exports	**74**	**80**	**102**	**100**	**97**	**95**	**94**	**92**	**87**	**81**	**76**
B4. Other flows 3/	**74**	**76**	**83**	**80**	**76**	**73**	**72**	**69**	**65**	**61**	**57**
B5. Depreciation	**74**	**78**	**70**	**64**	**58**	**53**	**50**	**45**	**40**	**35**	31
B6. Combination of B1-B5	**74**	**75**	**81**	**79**	**75**	**73**	**72**	**71**	**70**	**67**	**65**
C. Tailored Tests											
C1. Combined contingent liabilities	**74**	**80**	**76**	**72**	**68**	**65**	**64**	**62**	**60**	**57**	**54**
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	**74**	**69**	**67**	**67**	**65**	**66**	**67**	**67**	**67**	**66**	**66**
C4. Market Financing	**74**	**65**	**61**	**56**	**51**	**48**	**46**	**43**	**40**	**37**	34
Public debt benchmark	35	35	35	35	35	35	35	35	35	35	35
PV of Debt-to-Revenue Ratio											
Baseline	233	205	184	162	145	136	128	118	108	98	89
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	233	221	205	186	178	178	178	174	168	163	157
B. Bound Tests											
B1. Real GDP growth	233	226	219	202	191	189	187	184	180	174	171
B2. Primary balance	233	252	340	320	304	293	284	273	259	243	230
B3. Exports	233	253	311	292	278	269	261	250	231	212	195
B4. Other flows 3/	233	240	253	233	218	209	200	189	175	159	146
B5. Depreciation	233	244	215	187	166	152	138	124	108	93	79
B6. Combination of B1-B5	233	235	249	230	216	209	202	195	186	176	168
C. Tailored Tests											
C1. Combined contingent liabilities	233	252	232	211	195	186	178	169	159	148	140
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	233	236	224	211	199	194	189	183	179	174	170
C4. Market Financing	233	206	185	164	147	137	127	117	107	97	88
Debt Service-to-Revenue Ratio											
Baseline	50	49	40	35	25	18	17	18	19	18	18
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	50	48	37	31	21	15	14	16	17	17	17
B. Bound Tests											
B1. Real GDP growth	50	53	45	40	28	21	20	22	23	23	22
B2. Primary balance	50	49	44	43	32	25	24	29	32	31	30
B3. Exports	50	49	41	38	27	20	19	24	30	29	27
B4. Other flows 3/	50	49	41	36	26	19	18	22	25	24	23
B5. Depreciation	50	51	46	40	28	19	19	20	21	20	19
B6. Combination of B1-B5	50	48	43	40	29	22	21	23	23	22	21
C. Tailored Tests											
C1. Combined contingent liabilities	50	49	41	36	25	19	18	19	20	19	18
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	50	54	44	39	27	20	18	20	22	22	22
C4. Market Financing	50	49	40	36	25	21	21	19	19	18	17

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the benchmark.

2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

3/ Includes official and private transfers and FDI.

INTERNATIONAL MONETARY FUND

REPUBLIC OF CONGO

January 3, 2020

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

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

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FUND RELATIONS

A. Financial Relations

(As of November 30, 2019)

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

General Resources Account	**SDR Million**	**Percent Quota**
Quota	162.00	100.00
Fund holdings of currency (Exchange Rate)	142.05	87.68
Reserve Tranche Position	19.97	12.33
SDR Department	**SDR Million**	**Percent Allocation**
Net cumulative allocation	79.69	100.00
Holdings	50.91	63.89
Outstanding Purchases and Loans	**SDR Million**	**Percent Quota**
ECF Arrangements	34.09	21.04

Latest Financial Arrangements

Type	**Date of Arrangement**	**Expiration Date**	**Amount Approved** (SDR Million)	**Amount Drawn** (SDR Million)
ECF [1]	Jul 11, 2019	Jul 10, 2022	324.00	32.40
ECF [1]	Dec 08, 2008	Aug 04, 2011	8.46	8.46
ECF [1]	Dec 06, 2004	Jun 05, 2008	54.99	23.50

Projected Payments to Fund[2]

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

			Forthcoming		
	2019	**2020**	**2021**	**2022**	**2023**
Principal	0.12	0.97	0.60	0.00	0.00
Changes/Interest		0.23	0.23	0.23	0.23
Total	**0.19**	**1.20**	**0.83**	**0.23**	**0.23**

[1] Formerly PRGF

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

Implementation of HIPC Initiative	
Commitment of HIPC assistance	**Enhanced Framework**
Decision point date	Mar 2006
Assistance committed by all creditors (US$ Million)[1]	1,574.60
Of which: IMF assistance (US$ million)	7.73
(SDR equivalent in millions)	5.40
Completion point date	Jan 2010
Disbursement of IMF assistance (SDR Million)	
Assistance disbursed to the member	5.40
Interim assistance	0.90
Completion point balance	4.49
Additional disbursement of interest income[2]	0.86
Total disbursements	6.26

Note:

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

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

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

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

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

Implementation of Multilateral Debt Relief Initiative (MDRI)

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

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

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

Implementation of Catastrophe Containment and Relief (CCR): Not Applicable

As of February 4, 2015, the Post-Catastrophe Debt Relief Trust has been transformed to the Catastrophe Containment and Relief (CCR) Trust.

Safeguards Assessment:

The Bank of the Central African States (BEAC) is the regional central bank of CEMAC. A full safeguards assessment (SA) under the periodic four-year cycle for regional central banks was completed in August 2017. The assessment noted the positive steps taken by the BEAC to complete amendments to its Charter to strengthen governance provisions and plans to enhance financial reporting transparency through full transition to the international financial reporting standards (IFRS) beginning with the 2018 financial statements. The focus will now shift to implementation of the reforms in daily decision-making and secondary legal instruments. The assessment noted, however, that the BEAC will need to reinforce the capacity of its accounting, internal audit, and risk management functions, and that the governance arrangements over reserves management be aligned with the new BEAC charter. The implementation of most of the recommendations has progressed broadly as planned, and staff maintains close engagement with the BEAC as it continues to implement the governance reforms and transition to IFRS.

B. Nonfinancial Relations

Exchange System:

The de jure and de facto exchange rate arrangement of the Central African Monetary Union (CAMU) is a conventional peg. Congo has accepted the obligations of Article VIII, Sections 2, 3 and 4 and maintains no separate legal tender. The regional currency is the CFA franc, which is pegged to the Euro at a fixed rate of CFAF 655.95 =Euro 1. Congo does not impose any restrictions on the making of payments and transfers for current international transactions.

Article IV Consultations:

Consultations with Congo are now on a 24-month cycle, based on the Board decision on Article IV consultation cycles. The last Article IV consultation discussions were held in Brazzaville on May 19–Jun 1, 2015. The consultation was concluded by the Executive Board on July 17, 2015 when the staff report (Country Report No. 15/263 at www.imf.org) was discussed.

Technical Assistance

Technical Assistance Received in Fiscal Year 2019

Dept/Provider	Topic	Mission Purpose	Start	End
Fiscal Affairs				
AFC	Tax Administration	Revenue Admininistration HQ Based Mission	6/25/2018	7/6/2018
FAD	Tax Administration	Evaluation of reform progress	6/26/2018	7/6/2018
AFC	Public Financial Management	Public Financial Management Advisor	7/23/2018	8/3/2018
FAD	Public Financial Management	Budget Execution and Control [New JSA Funded project-JSA10]	8/1/2018	8/13/2018
AFC	Macro-fiscal	Macrofiscal	10/1/2018	10/12/2018
AFC	Public Financial Management	Public Financial Management - Accounts viability work	10/9/2018	10/19/2018
AFC	Customs Administration	Customs Administration	10/15/2018	10/26/2018
AFC	Tax Administration	Tax Administration	10/22/2018	11/2/2018
AFC	Tax Administration	Tax Administration	11/12/2018	11/23/2018
FAD	Public Financial Management	Budget execution and control 1 of 2	12/10/2018	12/21/2018
FAD	Tax Policy	Revenue mobilization: selected tax policy issues	1/8/2019	1/21/2019
AFC	Tax Administration	Revenue Administration	1/21/2019	2/1/2019
FAD	Public Financial Management	Budget execution and control	4/4/2019	4/17/2019
AFC	Public Financial Management	Public Financial Management	4/15/2019	4/26/2019
Legal				
LEG	Bank Regulation and Evaluation	Draft Banking Law - Desk Review	3/25/2019	3/27/2019
Monetary and Capital Markets				
AFC	Liability Management	Public Debt Management - Framework building	9/11/2018	9/21/2018
AFC	Liability Management	Public Debt Management and Institutional Framework	3/28/2019	4/6/2019
Statistics				
AFC	National Accounts Statistics	National Accounts	12/3/2018	12/14/2018
STA	Balance of Payments Statistics	Balance of Payments Statistics (JSA AFR)	1/7/2019	1/18/2019
AFC	Government Finance Statistics	Government Finance Statistics	1/21/2019	2/1/2019
AFC	Real Sector Statistics	National Accounts	4/15/2019	4/26/2019

Technical Assistance Received in Fiscal Year 2018

Dept/Provider	Topic	Mission Purpose	Start	End
Fiscal Affairs				
AFC	Revenue mobilization	Customs Administration	6/25/2017	7/7/2017
FAD	Budget preparation & PEM	Joining AFR mission	9/26/2017	10/4/2017
AFC	Budget preparation & PEM	Public Financial Management	11/13/2017	11/24/2017
FAD	Revenue mobilization	Resident Revenue Admin. Advisor	11/20/2017	12/1/2017
FAD	Budget preparation & PEM	Budget execution and control	11/29/2017	12/13/2017
FAD	Budget preparation & PEM	New Macrofiscal Regional Resid	3/26/2018	4/6/2018
Monetary and Capital Markets				
AFC	Assets & Liability Management	Liability Management Adv	1/9/2018	1/19/2018
AFC	Assets & Liability Management	Liability Management Adv	4/24/2018	5/4/2018
AFC	Assets & Liability Management	Liability Management Adv	3/5/2018	3/16/2018
Statistics				
AFC	Government Finance Statistics	Government Finance Statis	9/25/2017	10/6/2017
AFC	National Accounts	National Accounts	12/4/2017	12/16/2017
STA	BOP and External Sector Statistics	Balance of Payments Statistics	2/19/2018	3/2/2018

Technical Assistance Received in Fiscal Year 2017

Dept/Provider	Topic	Mission Purpose	Start	End
Fiscal Affairs				
AFC	Revenue Administration	Tax Administration	5/16/2016	5/27/2016
FAD	Revenue Administration	Strengthening CEMAC customs union	5/16/2016	5/27/2016
AFC	Public Financial Management	Public Financial Management	7/25/2016	8/5/2016
FAD	Revenue Administration	Customs administration [BTB 17	8/24/2016	9/5/2016
FAD	Public Financial Management	Public Accounting - chart of accountin(	9/19/2016	9/30/2016
AFC	Revenue Administration	Tax Administration - STX	10/17/2016	10/28/2016
FAD	Revenue Administration	Strengthening CEMAC customs union	1/8/2017	1/20/2017
AFC	Revenue Administration	Tax Administration - LTX	2/13/2017	2/21/2017
Monetary and Capital Markets				
AFC	Assets & Liability Management	Public Debt Management	8/21/2016	9/7/2016
AFC	Assets & Liability Management	Liability Management	8/22/2016	9/2/2016
AFC	Assets & Liability Management	Public Debt Management	11/14/2016	12/1/2016
Statistics				
AFC	National Accounts	National Accounts	5/13/2016	5/24/2016
AFC	National Accounts	National Accounts	7/4/2016	7/15/2016
AFC	National Accounts	National Accounts	8/22/2016	9/2/2016
AFC	Government Finance Statistics	Government Finance Statis	9/26/2016	10/7/2016
AFC	National Accounts	National Accounts	1/30/2017	2/11/2017
STA	BOP and External Sector Statistic:	Balance of Payments Statistics	3/13/2017	3/24/2017

Technical Assistance Received in Fiscal Year 2016

Dept/Provider	Topic	Mission Purpose	Start	End
Fiscal Affairs				
AFC	Revenue Administration	Tax Administration - LTX visit 4	6/22/2015	7/2/2015
FAD	Revenue Administration	Customs administration [1/2]	7/6/2015	7/17/2015
AFC	Public Financial Management	Public Financial Management - STX Visit	8/31/2015	9/11/2015
FAD	Revenue Administration	Follow up mission on customs administration	9/14/2015	9/21/2015
AFC	Revenue Administration	Tax Administration Advisor	11/9/2015	11/19/2015
AFC	Public Financial Management	Public Financial Management	11/16/2015	11/20/2015
FAD	Revenue Administration	Customs administration [2/2]	1/7/2016	1/20/2016
AFC	Revenue Administration	Tax Administration	5/16/2016	5/27/2016
FAD	Revenue Administration	Strengthening CEMAC customs union	5/16/2016	5/27/2016
AFC	Public Financial Management	Public Financial Management	7/18/2016	7/30/2016
Monetary and Capital Markets				
AFC/MCM	Assets & Liability Management	Liability Management	5/18/2015	5/29/2015
AFC/MCM	Regulation/Supervision	Public Debt Management	11/30/2015	12/10/2015
Statistics				
STA	Government Finance Statistics	Government Finance Statistics - Follow up to FY14 TA	4/20/2015	5/1/2015
AFC	National Accounts Statistics	National Accounts - LTX Visit 2	6/15/2015	6/26/2015
AFC	National Accounts Statistics	National Accounts	11/16/2015	11/27/2015

Technical Assistance Received in Fiscal Year 2015

Dept/Provider	Topic	Mission Purpose	Start	End
Fiscal Affairs				
FAD	Revenue Administration	Review actions undertaken to modernize Customs Administration	4/24/2014	5/7/2014
FAD	Public Financial Management	Follow-up of Public Financial Management Diagnostic	5/13/2014	5/26/2014
AFC	Public Financial Management	Public Financial Management. Workshop	6/8/2014	6/13/2014
AFC	Public Financial Management	Public Financial Management.	6/9/2014	6/13/2014
AFC	Public Financial Management	Public Financial Management	7/26/2014	7/31/2014
AFC	Public Financial Management	Public Financial Management.	8/4/2014	8/8/2014
FAD	Revenue Administration	Customs Administration	10/31/2014	11/12/2014
AFC	Revenue Administration	Tax Administration	11/26/2014	12/5/2014
AFC	Public Financial Management	Public Financial Management.	12/1/2014	12/12/2014
FAD	Revenue Administration	Follow-up mission on customs administration [BTB 15FA203]	2/10/2015	2/16/2015
FAD	Revenue Administration	Customs Administration STX Follow up	3/7/2015	3/20/2015
FAD	Public Financial Management	Preparation of budgetary nomenclature and chart of accounts	3/16/2015	3/27/2015
AFC	Public Financial Management	Public Financial Management	4/6/2015	4/17/2015
Monetary and Capital Markets				
AFC/MCM	Regulation/Supervision	Public Debt Management - LTX Visit 2	12/3/2014	12/12/2014
AFC/MCM	Assets & Liability Management	Liability Management - Debt sustainability framework	5/18/2015	5/29/2015
Statistics				
AFC/STA	National Accounts	National Accounts	8/4/2014	8/15/2014
AFC/STA	National Accounts	National Accounts	3/16/2015	3/27/2015
STA	Government Finance Statistics	Government Finance Statistics - Follow up to FY14 TA	4/20/2015	5/1/2015

RELATIONS WITH THE WORLD BANK

The IMF and the World Bank teams maintain an ongoing exchange of views on relevant macroeconomic and structural issues in the Republic of Congo. Cooperation during the last year has included discussions related to the macroeconomic situation in Republic of Congo; preparation of the Republic of Congo fiscal management, economic diversification & social sectors resilience DPO; institutional reforms for public financial management; scaling up of social safety nets; reinforcing capacity in statistics, improving quality in urban development and infrastructure sector and updates on the status of World Bank country programs. These World Bank country programs are aimed at improving competitiveness and development outcomes and include a conditional cash transfer program and measures to improve rural area productivity through investment in roads, programs to develop seeds and the training of farmers. A full DSA was jointly prepared by the two teams for the ECF supported program in June 2019.

Republic of Congo: IMF and World Bank Joint Action Plan
(As of November 21, 2019)

Title	Products	Expected Delivery
Bank work program in next 12 months	**Analytical Work**	
	Tertiary Education Study	June 2020
	Congo Seventh Economic Updates	May 2020
	Digital Economy Assessment	June 2020
	Realizing Demographic Dividends in the Congo	June 2020
	Lending	
	Statistics Capacity Building Project Additional Financing US$20 million	Ongoing
	Northern Congo Agroforestry Project	May 2020
	Support to Enterprise Development and Competitiveness Project US$25 million	Ongoing
	LISUNGI Social Safety Nets Project Additional Financing US$12 million	Ongoing
	Congo Fiscal management, economic diversification & social sectors resilience DPO US$100 million	December 2019
	Skills Development for Employability Project – Additional Financing US$20 million	July 2020
	Health System Strengthening Project – Additional Financing US$20 million	September 2020
	Water, Electricity & Urban Development Project US$85.5 million	December 2020
	Forest and Economic Diversification Project US$16.51 million	Ongoing

Title	Products	Expected Delivery
	Urban Development and Poor Neighborhood Upgrading Project US$80.0 million	Ongoing
	Education Sector Support Project US$30.0 million	Ongoing
	Commercial Agriculture Project US$100.0 million	Ongoing
	Integrated Public Sector Reform Project US$40.0 million	Ongoing
	Second DPO for Congo – US$100 million *[to be confirmed]*	December 2020
IMF work program in next 12 months	Article IV consultation Technical Assistance AFRITAC (National Accounts) STA (Balance of Payments, GDDS+)	2019–20
World Bank request to Fund	Updates on macro-economic and Balance of Payments projections	Ongoing
Joint products in next 12 months	Debt Sustainability Analysis	June 2020

STATISTICAL ISSUES

(As of December 3, 2019)

I. Assessment of Data Adequacy for Surveillance
General: Data provision is broadly adequate for surveillance, but there are some key data shortcomings in national accounts, monetary, fiscal, and external sector statistics due to capacity constraints.
National Accounts: National accounts data are weak but are improving with assistance from AFRITAC Central. The National Statistics Institute (NSI) of the Ministry of Planning provides GDP data broken down by expenditure and sector both in nominal and real terms. The NSI compiled national accounts estimates for 2005 (the new base year) and for 2006–17 as part of the move to the *SNA93* system of accounts, and the authorities are working with AFRITAC Central to improve these estimates. The recent access to value added tax data should significantly improve source data and the quality of GDP estimates. A system of provisional accounts is also being implemented and will provide estimates for the most recent years. The NSI is also developing monthly and quarterly indicators of economic activities. Annual data on central government employment are available from the Ministry of Finance.
Price Statistics: Movements in the prices of commodities consumed by households are recorded for the capital city of Brazzaville and for Pointe Noire, the center of economic activities. For some functions, indices and price movements are significantly different between the two cities. Data are compiled on a monthly basis. Since August 2010, the authorities introduced a new CPI measure with new weights and a new composition of the basket of goods and services. This new CPI is harmonized with that of other countries in the Central African Economic and Monetary Community (CEMAC).
Government Finance Statistics: Work is advancing on the adoption of the CEMAC TOFE Directive based on GFSM 2001/2014. CD activities focus on expanding GFS reporting to include extra budgetary units, social security funds and local governments, and improve timeliness and data quality, in particular regarding inconsistencies between above and below-the-line. Moreover, there are significant inconsistencies between the outstanding stock of debt and future debt service payments, and debt stock data cannot readily be reconciled with flow data in the fiscal accounts. Concerns still exist regarding the reconciliation of fiscal and monetary statistics.
Monetary Statistics: Monetary statistics are reported to the Fund by the Banque des États de l'Afrique Centrale (BEAC) on a monthly basis in the format of the standardized report forms (SRFs). The depository corporation survey does not include data from deposit taking microfinance institutions, a growing sector in the country. There is however a significant time lag in the reporting of these statistics to STA and Fund missions. It is hoped to include data in the future on interest rates offered by the financial institutions sector to non-financial entities on deposits and loans. For OFCs, the priority is to cover the insurance sector as the largest OFC

subsector. In the CEMAC countries, the OFC sector is around 15% of the financial sector. Collaboration between BEAC and the regional supervisory entity for insurance corporations (CIMA) is key for this expansion. The Bank of Central African States (BEAC) has not reported data for the Republic of Congo to the Financial Access Survey (FAS) since 2015. Until 2015, BEAC reported some data and indicators of the FAS, including the two indicators adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (commercial bank branches per 100,000 adults and ATMs per 100,000 adults).
Financial sector surveillance: Republic of Congo report to STA all core and some encouraged financial soundness indicators.
Balance of payments: BOP statistics have been submitted to STA until 2016, a remarkable improvement achieved under the JSA-AFR project, while an IIP has been produced for the first time but not submitted. Work on quarterly BOP data for 2017 and 2018 has been completed. However, the BDP6+ IT application common to all CEMAC countries is still experiencing computational issues, and this has delayed the publication of the results, as well as hampering the automated compilation of the IIP. BOP statistics reflect relatively good transactions coverage, but financial instruments breakdown should be improved for reconciliation with monetary and external debt statistics.
II. Data Standards and Quality
The Republic of Congo has not yet implemented the enhanced General Data Dissemination System (e-GDDS). The metadata posted on the Fund's Dissemination Standards Bulletin Board (DSBB) have not been updated since 2003, although the IMF multisector mission conducted in September 2019 assisted the authorities with this task.

Republic of Congo: Table of Common Indicators Required for Surveillance

(As of December 3, 2019)

	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]
Exchange Rates	Current	Current	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	August 2019	October 2019	M	M	M
Reserve/Base Money	August 2019	October 20195	M	M	M
Broad Money	August 2019	October 2019	M	M	M
Central Bank Balance Sheet	August 2019	October 2019	M	M	M
Consolidated Balance Sheet of the Banking System	August 2019	October 2019	M	M	M
Interest Rates[2]	August 2019	October 2019	M	M	M
Consumer Price Index	September 2019	October 2019	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	August 2019	October 2019	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	September 2019	October 2019		Q	Q
External Current Account Balance	December 2016	March 2019	A	A	A
Exports and Imports of Goods and Services	December 2016	March 2019	A	A	A
GDP/GNP	December 2017	May 2019	A	A	A
Gross External Debt	September 2019	October 2019	Q	Q	Q
International Investment Position[6]	…	…	NA	NA	NA

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

[2] Both market-based and officially-determined, including discounts rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic non-bank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments. Data not provided by the authorities due to technical capacity constraints.

[5] Including currency and maturity composition.

[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents. Data not provided by the authorities due to technical capacity constraints.

[7] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA).

Statement by Mr. Mohamed-Lemine Raghani, Executive Director for the Republic of Congo and Mr. Sidi Bouna Senior Advisor to the Executive Director
January 17, 2020

Introduction

On behalf of our Congolese authorities, we would like to thank staff for the candid policy discussions held in Brazzaville during the 2019 Article IV consultation and for the in-depth analysis in the reports and the Selected Issues Paper (SIP).

The Congolese economy is recovering steadily from the severe crisis that hit the country after the 2014 oil price shock. Key macroeconomic indicators point to a continued improvement in Congo's overall economic performance, in particular, with respect to the fiscal and external positions. Strong adjustment measures combined with higher oil production have contributed to this achievement.

The authorities reiterate their determination to pursue the sound policies agreed under the ECF approved last July to restore the country's macroeconomic stability while contribute to the economic recovery of the CEMAC region. Fiscal discipline and far-reaching governance reforms will be pursued. Moreover, to further reduce the burden of external debt, the authorities are also actively seeking an agreement with the country's oil traders on the restructuring of Congo's commercial debt which is essential to finalizing the discussions related to the first review under the ECF. They are hopeful that an agreement with oil traders will be reached during the first quarter of 2020.

The Fund's continued assistance is critical to help address Congo's considerable challenges that still lie ahead. As the economic adjustment continues, the authorities will maintain a close engagement with the Fund whose advice they view as instrumental in their efforts to ensure fiscal and debt sustainability, strengthen governance, and foster stronger and more inclusive growth.

Recent Economic Developments, Outlook, and Risks

Congo's macroeconomic performance has improved further in 2019. Growth strengthened to 2.2 percent in 2019 from 1.6 percent in 2018 while non-oil GDP rose, for the first time since 2015, reaching 0.8 percent. Inflation has remained contained at 1.9 percent in 2019. The fiscal stance has also strengthened in 2019 under tighter expenditures control. The non-oil primary deficit narrowed to 24.8 percent of non-oil GDP in 2019 from 28.1 percent in 2018. The current account surplus remained elevated in 2019, as in 2018, driven by high oil exports. The country's net foreign assets have increased, leading to a higher contribution to regional central bank's foreign exchange reserves.

The gradual recovery of the Congolese economy is projected to continue over the medium term, supported by the reforms and policies implemented under the ECF, as well as an increase in oil production. The expected progress in the clearance of domestic arrears should also reinvigorate activity in the non-oil sectors and strengthen the financial sector.

The authorities broadly share the staff's assessment of the risks to the outlook, especially the risks stemming from potential global oil price volatility as well as delays in donor support which could affect program implementation. They are confident that the policies and reforms envisaged under the ECF and the efforts to accumulate larger buffers at the regional central bank will help mitigate identified risks.

Fiscal Policy

The Republic of Congo has undertaken substantial fiscal consolidation over the past few years to adjust to lower and volatile global oil prices, by drastically cutting expenditures, mainly capital spending. The non-oil primary fiscal deficit has narrowed considerably year after year since the 2014 oil shock, and the country's public debt has declined significantly, particularly in 2018.

The authorities intend to continue on the path of fiscal adjustment with a view to achieving more sustainable fiscal and debt positions over the medium-term. The authorities are aware that this will require reaching a favorable agreement with the country's commercial creditors to bring overall external debt down to 30 percent of GDP in NPV terms within the next three years. In addition, they are cognizant that additional efforts are needed to expand the fiscal space for social spending, which ended the year lower than the authorities had initially planned, and for infrastructure spending which declined substantially in recent years, affected by the sizeable fiscal adjustment.

Fiscal adjustment is being rebalanced through an increase in non-oil revenues and tighter control of current expenditures. The 2020 budget adopted by Parliament in December 2019 is in line with program objectives. It targets higher non-oil revenues and streamlined current spending, including through new important measures to reduce subsidies to state-owned enterprises. The reduction of tax exemptions also envisaged under the 2020 budget will significantly contribute to raising tax revenue. In this regard, we welcome the relevant analysis contained in the Selected Issues Paper (SIP) which provides valuable insights on specific and effective measures to improve revenue performance in Congo.

The authorities underline the importance of the donor community's support to their adjustment efforts. Providing the much-needed budget support in a timely manner is critical to achieve the objectives of the program, including the social spending targets and the clearance of external arrears, given the country's current extremely tight fiscal position.

Financial Sector

The overall solvency of the banking system continues to be sound although non-performing loans (NPLs) remain elevated. The latter continue to weigh on banks' balance sheets, thereby constraining the important role the Congolese financial sector could play in support of the recovery. As the rise in NPLs is largely the result of the accumulation of domestic arrears by the public sector, the expected clearance of these arrears will significantly contribute to reinforcing the banking sector. Furthermore, the authorities, in collaboration with the regional banking commission (COBAC), are considering options to address the difficulties of two non-systemic banks.

Structural Reforms

Improving governance and diversifying the economy away from oil is at the core of the authorities' reform agenda. They plan to continue making progress in these important areas with the objective of attracting more diverse private investments and enhancing the resilience of the economy.

Significant reforms have been undertaken in the areas of governance reform and transparency over the past few years. The authorities will continue reinforcing the anti-corruption framework and promoting transparency in the management of the oil sector. They will adopt the decrees needed for the Anti-Corruption High Authority and the Transparency Commission to effectively carry out their mandate while providing them with adequate resources to become fully operational. The authorities look forward to the IMF's technical assistance to further improve public financial management (PFM), including ensuring that all outstanding payments from previous years' budgets are adequately addressed and setting up appropriate safeguards in line with international best practices.

The authorities are determined to accelerate the diversification of the economy by promoting key sectors which have significant potential based on the country's comparative advantage. Their efforts in this area are mainly geared towards developing more productive agricultural and forestry activities. To this end, they will invest in enabling infrastructure, particularly transportation, and expand power generation and distribution. The authorities will also promote transparency in these sectors while improving the business environment, notably by simplifying the licensing procedures and addressing weaknesses in areas identified in the World Bank's "Doing Business" reports with the assistance of development partners, with a view to further attracting private investments and fostering jobs creation.

Conclusion

The Congolese authorities have made important strides in stabilizing the economy and raising the country's growth prospects. Notwithstanding, they are aware that more remains to be done to achieve higher, sustained, and more inclusive growth. To accelerate progress towards program objectives they will maintain a close engagement with the Fund and call on the international community to continue supporting their reform agenda under the ECF.