INTERNATIONAL MONETARY FUND

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DEMOCRATIC REPUBLIC OF THE CONGO

July 2023

FOURTH REVIEW UNDER THE EXTENDED CREDIT FACILITY, REQUEST FOR MODIFICATION OF QUANTITATIVE PERFORMANCE CRITERION, AND FINANCING ASSURANCES REVIEW—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE DEMOCRATIC REPUBLIC OF THE CONGO

In the context of the Third Review under the Extended Credit Facility Arrangement, the Request for Modification of Performance Criteria and the Financing Assurance Review, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board and summarizing the views of the Executive Board as expressed during its June 28, 2023, consideration of the Staff Report on issues related to the IMF arrangement.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 28, 2023, following discussions that ended on May 3, 2023, with the officials of the Democratic Republic of the Congo on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 14, 2023.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Statement by the Executive Director** for the Democratic Republic of the Congo.

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

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International Monetary Fund
Washington, D.C.

IMF Executive Board Concludes the Fourth Review Under the Extended Credit Facility Arrangement with the Democratic Republic of the Congo

FOR IMMEDIATE RELEASE

- *The IMF Executive Board decision allows for an immediate disbursement of US$203.3 million towards international reserves, given elevated downside risks to the economic outlook and the need to continue to build buffers.*
- *Ongoing macroeconomic pressures and looming risks call for prudent fiscal policy to preserve fiscal sustainability and macroeconomic stability, supported by tighter monetary policy to reduce inflationary pressures.*
- *The program remains focused on fiscal consolidation through mobilizing domestic revenue, curbing nonpriority spending and enhancing spending efficiency; building reserves buffers and capacity for policy formulation; and strengthening governance.*

Washington, DC – **June 28, 2023:** The Executive Board of the International Monetary Fund (IMF) concluded today the fourth review of the Extended Credit Facility (ECF) arrangement for the Democratic Republic of the Congo (DRC) approved in July, 15 2021 (see PR 21/217). The completion of the Fourth Review allowed an immediate disbursement equivalent to SDR152.3 million (about US$203.3 million) to support balance-of-payment needs, bringing the aggregate disbursement to date to SDR761.5 million (about US$1,017 million).

The DRC's macroeconomic performance is showing resilience despite elevated uncertainty, heightened by the escalation of the armed conflict in Eastern DRC and the upcoming end-2023 elections. Real GDP growth is estimated at 8.9 percent in 2022 supported by higher-than-projected mining production, which also resulted in significantly higher revenue. Inflation reached 13 percent by end-2022, fueled by spending pressures and related exchange-rate depreciation and despite a decline in import prices. The current account deficit deteriorated to 5.3 percent of GDP, as higher export growth only partially compensated for higher imports and a more deteriorated service account. At end-2022, gross international reserves reached US$4.5 billion (about 2 months of imports). The end-2022 domestic fiscal deficit is estimated at 1.2 percent of GDP, in line with program commitments, though with different spending size and composition, primarily due to higher exceptional security-related spending, given the fiscal space created by higher revenue. Budgetary execution through May 2023 reveals a continuation of elevated exceptional spending and under execution in other spending, amid softening revenue performance.

Progress under the program remains satisfactory. All end-December quantitative performance criteria (QPCs) were met. All end-2022 indicative targets were met except two: the one related to the floor on social spending; and the one related to the ceiling on central bank's guarantees for central government loans due to monitoring shortcomings and even though no new guarantees were issued. All structural benchmarks (SBs) were met except the one related to publishing mining contracts due to delays. The authorities have now published all related agreements to the renegotiated mining contract with Ventora and the contract for the Primera Gold Joint Venture.

At the conclusion of the Executive Board's discussion, Mr. Kenji Okamura, Deputy Managing Director, and Acting Chair, made the following statement:

The Democratic Republic of the Congo's economy has shown resilience, despite the escalating conflict in the east and the lingering effect of past shocks. Growth is estimated at 8.9 percent in 2022, with higher-than-projected inflation as rapid public spending accelerated exchange rate depreciation. The conflict in the east has weighed down on public finances; lower-than-projected revenues in 2023 and higher exceptional spending are constraining other priority spending. Despite these headwinds, performance under the Extended Credit Facility (ECF) arrangement remains broadly satisfactory. Growth prospects remain favorable, while risks are tilted to the downside from the conflict in the east, the end-2023 elections, and adverse terms-of-trade shocks.

The fiscal deficit is expected to narrow in 2023, which will support monetary policy in curbing inflation. Lower revenues and higher exceptional spending warrant spending controls and reprioritization, with continued revenue mobilization efforts. Improved spending efficiency, tighter controls on spending under emergency procedures, and better cash management will improve budget execution and provide space for much needed social and development spending. Progress in fiscal structural reforms—including those related to the civil service, the fuel subsidy, the expenditure chain and the functioning of the Treasury, public investment management and budget credibility—is needed to enhance spending efficiency and governance.

Readiness to further tighten the monetary stance, strengthen the monetary policy framework, and enhance the independence and safeguards of the central bank will support price stability. Reserve accumulation will help build resilience against external shocks. Enacting regulations for the new banking law will strengthen financial supervision and resilience.

Reforms to strengthen the rule of law and the judiciary system, curb corruption, and improve transparency in the mining sector and public finances are critical to improve the business climate for private investment and economic diversification. Taking action to exit the FATF's grey list and implementing the new AML/CFT framework are also key. Implementing the country's ambitious climate agenda would also be important given the vulnerability to climate change.

Table 1. Democratic Republic of the Congo: Selected Economic and Financial Indicators, 2022-25

	2022	2023		2024		2025
	Est.	CR No. 22/390	Proj.	CR No. 22/390	Proj.	Proj.
	(Annual percentage change, unless otherwise indicated)					
GDP and prices						
Real GDP	8.9	6.3	6.8	6.5	4.7	5.3
Extractive GDP	22.6	10.9	11.7	9.6	4.3	4.0
Non-extractive GDP	3.1	4.2	4.4	4.9	4.9	6.1
GDP deflator	6.3	6.1	11.4	6.8	6.6	6.2
Consumer prices, period average	9.3	10.8	14.8	7.2	7.1	7.1
Consumer prices, end of period	13.1	8.3	11.5	6.9	7.1	7.0
	(Annual change in percent of beginning-of-period broad money)					
Money and credit						
Net foreign assets	-7.0	11.3	22.9	15.8	8.9	14.1
Net domestic assets	10.4	7.2	-6.0	4.0	4.2	-0.7
Domestic credit	16.8	10.6	12.4	13.3	6.2	7.8
Broad money	3.4	18.5	16.9	19.9	13.1	13.4
	(Percent of GDP, unless otherwise indicated)					
Central government finance						
Revenue and grants	16.6	16.8	14.8	16.5	16.5	16.8
Expenditures	17.1	18.3	16.1	19.0	17.6	18.2
Domestic fiscal balance	-1.2	-0.6	-0.5	-0.8	-0.2	-0.2
Investment and saving						
Gross national saving	6.2	10.0	4.6	12.1	7.9	12.0
Investment	11.5	14.0	10.1	15.1	11.8	14.8
Non-government	8.0	8.0	6.0	8.0	6.0	8.0
Balance of payments						
Exports of goods and services	43.2	37.8	42.8	38.0	41.1	38.9
Imports of goods and services	48.2	41.6	48.2	40.5	45.6	43.2
Current account balance, incl. transfer	-5.3	-3.9	-5.5	-3.0	-3.9	-2.8
Current account balance, excl. transfers	-6.2	-5.3	-6.3	-4.1	-5.0	-4.2
Gross official reserves (weeks of imports)	7.9	9.9	10.0	11.2	10.2	11.2
External debt						
Debt service in percent of government revenue	6.9	7.6	7.4	7.4	6.1	6.1

Sources: Congolese authorities and IMF staff estimates and projections.

INTERNATIONAL MONETARY FUND

DEMOCRATIC REPUBLIC OF THE CONGO

June 14, 2023

FOURTH REVIEW UNDER THE EXTENDED CREDIT FACILITY, REQUEST FOR MODIFICATION OF QUANTITATIVE PERFORMANCE CRITERION, AND FINANCING ASSURANCES REVIEW

EXECUTIVE SUMMARY

Context. Growth has remained strong and resilient, fueled by expanding mining activity. However, the escalation of the armed conflict in Eastern DRC is having major negative humanitarian effects and weighed on public finances; upcoming elections, scheduled at the end of 2023, are also adding to uncertainty. Since the last review, the government's revenue shortfalls and rapid spending contributed to a deterioration of the external balance, excess domestic currency liquidity, exchange rate depreciation, and persistent inflation.

Program Performance. Progress under the Extended Credit Facility arrangement remains broadly satisfactory, though pressures are building up. All end-December 2022 quantitative performance criteria were met; all indicative targets were met except two, one related to health spending due to delays in procurement and another on central bank deposits used as guarantees for government loans. Three structural benchmarks were met, but the structural benchmark on publishing mining contracts is not met, as additional agreements related to the contract with Ventora and the contract signed with Primera Gold were published with delays.

Key Program Policies. With elevated downside risks, prudent macro policies and structural reforms will sustain efforts towards mobilizing revenues, rationalizing non-tax revenues, containing current spending (particularly under emergency procedures), strengthening the budgetary process, improving public investment management, and enhancing governance. The central bank is tightening policy to contain inflation pressures, while upholding exchange rate flexibility and strengthening its monetary, financial, and operational frameworks following the enactment of new banking and AML/CFT laws. Advancing structural reforms, including those curbing corruption and enhancing transparency, remain critical for private sector growth.

Approved By
Annalisa Fedelino (AFR) and Geremia Palomba (SPR)

Discussions took place April 19-May 3, 2023 in Kinshasa. The staff team comprised M. Vera Martin (head), A. Toure, G. Nolin and M. Oikonomou (all AFR), J. Boussard (SPR), G. Leost (resident representative), and E. Gbadi and H. Katuala (local economists). M. Nkusu (OEDAF) participated in the meetings. The mission met with Prime Minister Jean-Michel Sama Lukonde Kyenge, Vice-Prime Minister and Minister of Economy Vital Kamerhe, Vice-Prime Minister and Minister of Defense Jean-Pierre Bemba, Vice-Prime Minister and Minister for Public Service Jean-Pierre Lihau, Minister of the State and of the Budget Aimé Boji, Minister of Finance Nicolas Kazadi, Minister of Mining Antoinette N'Samba Kalambayi, Central Bank of Congo Governor Malangu Kabedi Mbuyi, other senior officials, development partners, and representatives of the private sector and civil society organizations. Ms. Pohl provided research assistance and Ms. Abu Sharar helped with document preparation.

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CONTEXT

1. Armed groups' attacks have intensified in Eastern DRC, deteriorating further the humanitarian situation. According to UNHCR, more than 1 million people have been displaced since March 2022, worsening food security. Failed ceasefires (envisaged under the Luanda process) continue to undermine regional stability, while the presence of regional forces and the UN's peacekeeping mission (MONUSCO) face mounting criticism. The situation worsened in May with heavy flooding and landslides, which led to at least 400 deaths and further displaced population in the East. Food insecurity has further worsened recently with Zambia banning corn flour exports, a staple in DRC.

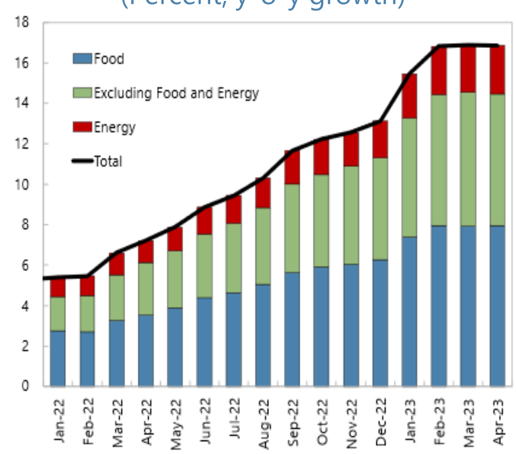
2. The combination of looming elections and security crisis in the East is challenging program performance, with the authorities requesting flexibility under the ECF-arrangement. In April, President Tshisekedi reshuffled the government, including the appointment of new ministers of defense and of economy. Presidential and parliamentary elections are scheduled by end-2023, though delays cannot be excluded. While growth remains resilient, higher public spending added liquidity in the economy, generating self-reinforcing pressures on the exchange rate and prices.

RECENT ECONOMIC DEVELOPMENTS

3. Growth remained resilient in 2022, fueled by higher-than-expected mining activity (Table 1). Growth is now estimated at 8.9 percent (from 6.6 percent at the time of the third review), as mining production expanded by 22.6 percent (from 13.1 percent at the time of the third review).[1] Extractive sector growth more than compensated slower non-extractive growth (3.1 percent, from 3.9 percent) driven by weakened real income in the private sector linked to higher inflation.

4. The exchange rate continued to depreciate, fueling inflation and tightening government's domestic borrowing conditions (Text Figure 1-2). Under pressure from a surge in excess reserves, the parallel rate depreciated 13 percent y-o-y against the U.S. dollar at end-April 2023. The official exchange rate, whose premium to the parallel rate peaked at 14 percent at end-March, almost fully converged to the parallel rate

Text Figure 1. Inflation Developments
(Percent, y-o-y growth)



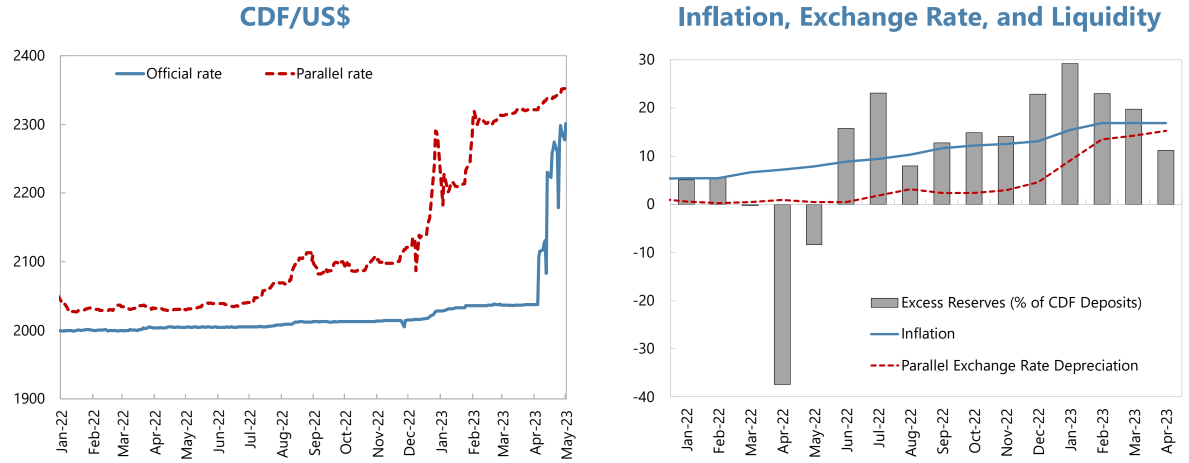
Sources: Congolese authorities and IMF staff calculations.

[1] The increase is driven by the expansion of existing major mines and new smaller mines. New mines accounted for 12 percent of total copper production and 23 percent of total cobalt production in 2022.

by early May, partly as the Central Bank of the Congo (BCC) rescinded the one-sided measure prohibiting banks from offering FX at a discount greater than a 2.5 percent from the previous day's official rate (MEFP ¶29).[2] However, the significant spread between the parallel and official rates contributed to investors' demanding higher rates for treasury bonds indexed to the official CDF/US$ rate and to the issuance in April of the first US$-denominated bond, a setback for de-dollarization efforts.[3] Despite declining global commodity prices, exchange rate pass-through has fueled inflation, which rose to 16.9 percent y-o-y in April 2023, driven by higher transport, energy and food prices.

Text Figure 2. Inflation and Exchange Rate Developments, 2022-23

(Percent, y-o-y growth unless otherwise specified)

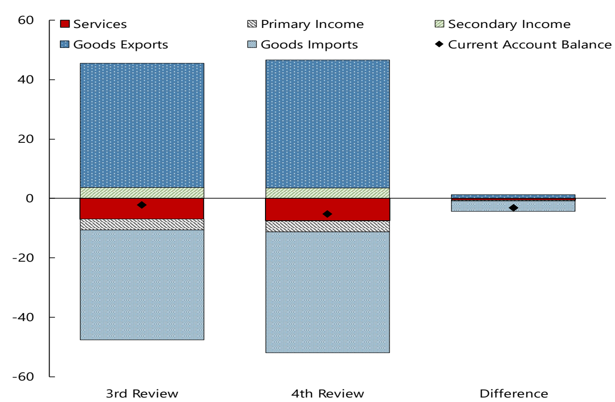


Sources: Congolese authorities and IMF staff calculations.

5. Despite a deteriorated current account position, reserves strengthened in 2022 (Table 2, Text Figure 3). The current account deficit widened to 5.3 percent of GDP, from 1 percent in 2021, as higher export growth only partially compensated for higher imports and a more deteriorated service account. Private inflows (US$1.7 billion) helped gross international reserves (GIR) reach US$4.5 billion (2 months of imports) at end-2022, with BCC's net FX purchases of

Text Figure 3. Contributions to 2022 Current Account Deficit

(Percent of GDP)



Sources: Congolese authorities and IMF staff calculations.

[2] The *instruction* was introduced in August 2020 and cancelled on May 8, 2023.

[3] US$-indexed local currency denominated Treasury securities, issued regularly since 2020 and indexed to the official exchange rate, became less attractive as the spread to the parallel rate widened.

US$381 million in 2022H1.[4] Reserve coverage was however lower than expected at the third review due to higher-than-projected imports (Figure 2). Despite a still low level of reserves, the BCC sold US$50 million twice in January and March 2023 (its first sales since March 2021).

Text Table 1. Democratic Republic of the Congo: 2022 Fiscal Outturn
(Percent of GDP)

	Proj. (3rd Review)	Actual	*Difference*
Total revenues	**15.8**	**15.3**	***-0.5***
Tax revenues	12.1	11.5	*-0.7*
Non tax revenues	3.6	3.8	*0.2*
Expenditure	**18.8**	**17.1**	***-1.6***
Current spending	12.3	11.2	*-1.1*
Capital spending	5.1	3.5	*-1.7*
Foreign financed	3.1	1.7	*-1.4*
Domestically financed	2.1	1.8	*-0.3*
Exceptional expenditure	1.3	2.4	*1.1*
Base domestic fiscal balance	**0.1**	**-0.1**	***-0.2***
Change in domestic arrears (repayment = -)	-1.2	-1.1	*0.1*
Domestic fiscal balance (cash basis)	**-1.1**	**-1.2**	***-0.1***
Overall fiscal balance (cash basis)	**-2.8**	**-1.7**	***1.1***

Sources: Congolese authorities and IMF staff calculations.

6. **The 2022 domestic fiscal deficit—the program target—was met, though with a significantly different spending composition due to higher exceptional spending (Tables 3a-b, Text Table 1).** The end-2022 domestic fiscal deficit is estimated at 1.2 percent of GDP, 0.1 ppts wider than the third review projection. Higher exceptional spending (by 1.1 percent of GDP) and lower revenues (by 0.5 percent of GDP) were partially offset by lower current spending (by 1.1 percent of GDP) and domestically financed investment (by 0.3 percent of GDP) due to lower-than-projected execution in the local development program (Box 1). Overall, exceptional spending amounted to 2.4 percent of GDP, almost doubling the third review projections due to security-related spending, half of which occurred in 2022Q4. Simultaneously, lower externally financed investment declined by 28 percent in 2022 with respect to 2021, reducing the overall fiscal balance to 1.7 percent of GDP, against 2.8 percent of GDP projected in the third review.[5]

7. **Budgetary execution through May 2023 reveals a continuation of similar spending patterns, with higher exceptional spending despite revenue shortfalls and under execution in other spending**. At end-March, fiscal performance deteriorated and the ITs on domestic fiscal balance and fiscal revenue floor were missed. As the authorities prioritized security-related spending, they reduced current spending (mostly transfers). Despite April being a tax month, cumulative revenue collection continued to disappoint, with only 23 percent of annual projection collected against 32 percent on average for the last three years, reportedly because of the higher tax advances in 2022 from mining companies and lower 2022 profits due to higher intermediate costs. End-May cumulative revenues reached CDF7,249 billion, and the end-May domestic fiscal deficit reached CDF496 billion or 0.3 percent of GDP.

8. **Rapid fiscal spending has exacerbated excess liquidity.** Government deposits at the BCC fluctuated sharply, reaching CDF4 trillion (3 percent of GDP) in May 2022 after fiscal revenues significantly outperformed estimates, before falling to CDF0.8 trillion (0.6 percent of GDP) in February 2023—including a CDF1 trillion decline in December alone—as these revenues were spent

[4] The BCC last purchased FX in May 2022, as exchange rate pressures rose and the spread between the parallel and official rates widened.

[5] The authorities also cleared 1.1 percent of GDP in domestic arrears, of which 0.5 percent of GDP to oil importers.

faster than anticipated.[6] Increases in net credit to the government and international reserves led to a 38 percent expansion of the monetary base in 2022. At end-January 2023, excess reserves reached CDF1.2 trillion (16 percent of banks' total domestic-currency assets), contrasting with outstanding BCC bills of CDF170 billion.

9. Private sector credit picked up, but bank deposits stagnated in 2022 (Table 4). Credit to the private sector (at constant exchange rate) grew by 46 percent and stood at 8.6 percent of GDP at end-2022. FX deposits grew by only 3 percent (compared to 31 percent in 2021) and deposits from the extractive sector fell by almost 60 percent. BCC's inspections suggest that mining companies' repatriated export receipts transited through Congolese banks but likely ended up abroad and thus did not increase domestic deposits.[7] The corollary of stagnating deposits and credit growth was a 23 percent decline of bank's net external assets.

10. Dollarization has remained stable, and the banking sector is reporting resilient indicators and attracting interest. At end-2022, FX deposits and FX lending accounted for 85 percent and 95 percent of the total, respectively. NPLs have risen moderately since reinstating credit quality rules in December 2021 (Table 5). Bank net interest margins and profitability are increasing, in part due to higher dollar interest rates. In December 2022, Kenya's KCB Group acquired 85 percent of Trust Merchant Bank; at the end of March, Advans Banque was transformed into a microfinance institution; and Tanzania's CDRB Bank obtained a banking license in May 2023.

Box 1. Local Development Program for the 145 Rural Territories (PDL-145T) Implementation and Governance

The Local Development Program for the 145 rural territories (PDL-145T) is a public investment program aimed at addressing social infrastructure needs at the regional level. With an estimated cost of US$1.7 billion (2.7 percent of GDP), the PDL-145T is aligned with the National Strategic Development Plan, including improving access to basic infrastructure and services in rural areas.

The government designated three agencies to implement the PDL-145T, two under the Ministry of Finance—the Bureau Central de Coordination (BCeCo), and the Cellule d'exécution des Financements en faveur des Etats Fragiles (CFEF)—and the United Nations Development Program (UNDP).

The PDL-145T is partially funded by the August-2021 SDR allocation. The authorities chose to save half of the SDR allocation to strengthen international reserves, while using the other half (about US$714 million) for budget support. The authorities decided to use such support to partly fund the PDL_145T program. The program allocated US$511 million to build schools, health centers, and administrative buildings in 2022, and US$203 million for rural electrification in 2023.

After a slow start in 2022, the implementation is expected to accelerate in 2023. The government transferred US$511 million to the agencies in 2022. With longer-than-expected bidding procedures, most contracts

[6] Approximately CDF425 billion of the decline in deposits in December was due to the transfer to commercial banks of a portion of the SDR allocation allocated to the PDL-145T project (as planned). In January and April 2023, US$140 million and US$30 million were drawn by the government from the remainder of the half of the 2021 SDR allocation assigned to the Treasury, thereby replenishing government deposits at the BCC and increasing the BCC's official reserves (instead of being transferred to commercial banks); the authorities have declared that the same amounts would eventually be directed towards the PDL-145T project.

[7] DRC requires that mining companies repatriate 60 percent of mining export receipts.

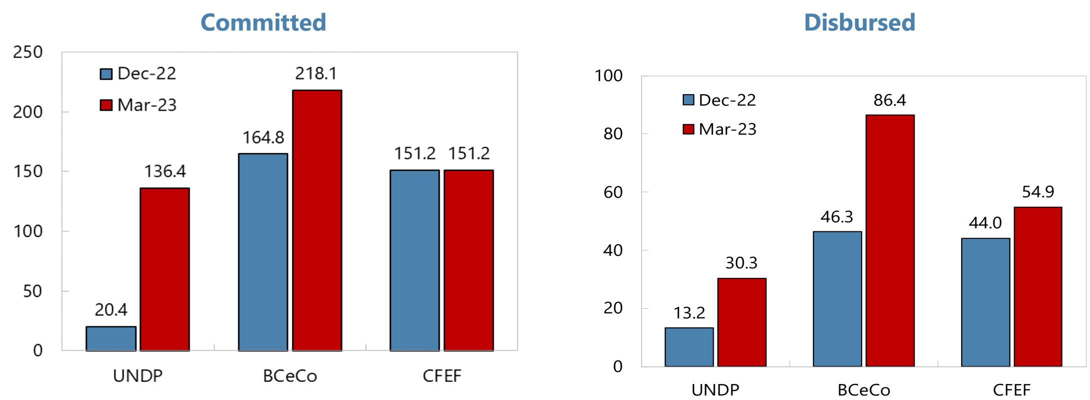
Box 1. Local Development Program for the 145 Rural Territories (PDL-145T) Implementation and Governance (concluded)

were not signed until 2022H2, accounting for an execution rate of only 20.3 percent at end-2022. As work progresses, the implementation rate reached 33.7 percent at end-March 2023. Another US$203 million is planned to be made available for rural electrification in 2023.

Actions to strengthen capacity, while helpful, ended up delaying implementation. Recognizing weaknesses in all phases of public investment management, including territorial accessibility constraints leading to additional costs, the authorities aimed at improved and transparent procurement and investment processes. The Project and Program Monitoring Unit (CSPP) has been strengthened with the appointment of a new coordination team. Based on external audits for the 2017-21 period, an action plan to reinforce BCeCo's capacity and governance is being designed. The physical and financial implementation of PDL-145T is closely monitored by the government: the BCeCo, the CFEF and the UNDP have set up a joint/communal model for monitoring, with detailed project sheets and geo-location for each infrastructure available to the public via internet, including the identification of the beneficiaries of the allocated contracts. In addition, the implementing agencies are producing a quarterly report on project implementation, and the authorities are committed to publishing a consolidated annual report on the use of the SDR allocation.

Box Text Figure 1. Use of the IMF's SDR Allocation in the PDL-145T Program

(US$ million)



Sources: Congolese authorities and IMF staff calculations.

PROGRAM PERFORMANCE

11. All end-December 2022 quantitative performance criteria (QPCs) were met, although some ITs have been missed (Appendix I, Tables 1).

- The domestic fiscal balance QPC was met by a wide margin (0.7 percent of GDP) as higher repayment of domestic arrears compared to the adjustor widened the QPC.

Text Table 2. Democratic Republic of the Congo: Validation of the Floors on Changes in Net International Reserves

(US$ million)

	End-June 2021	End-December 2021	End-June 2022
Adjusted QPC Floor	3	1,618	1,006
First Validation	532	1,739	1,167
New Validation	541	1,646	1,214

Sources: Congolese authorities and IMF staff calculations.

- The end-December 2022 NIR target was met, despite the exclusion of some encumbered assets (previously included). External auditors reassessed the stock of NIR since end-2020, with no impact on previous QPC assessment (**see Text Table 2**).[8]

- Two end-2022 indicative targets (ITs) were missed: the floor on social spending and the ceiling on BCC deposits used as guarantees for central government loans, the latter due to monitoring shortcomings and despite no new guarantees. The end-March 2023 indicative targets on domestic fiscal balance, fiscal revenues, BCC net domestic assets, and BCC FX assets held with domestic correspondents were missed.

12. All structural benchmarks (SBs) were met except the one related to publishing mining contracts. The authorities completed the audit certifying domestic arrears (**end-December 2022 SB**) and adopted the decrees on public investment management and defining the perimeter and structure of the Treasury Single Account (**end-May 2023 SBs**). The continuous structural benchmark on publishing mining contracts is not met as additional agreements related to the contract with Ventora and the contract signed with Primera Gold were published with delays.[9]

OUTLOOK AND RISKS

13. Growth is expected to remain robust in 2023, driven by strong mining activity, while inflation and the current account are projected to improve. Key macro-economic variable projections include:

- Real GDP growth has been revised up from 6.3 to 6.8 percent as mining output continues to contribute positively to the outlook. In 2024, growth is projected to moderate to 4.7 percent as mining production growth stabilizes.

- Inflation is expected to decelerate due to the coordinated tightening of monetary and fiscal policies. Inflation (eop) in 2023 is projected at 11.5 percent and is expected to moderate further to 7.1 percent by end-2024.

- The current account deficit is expected to slightly widen to 5.5 percent of GDP from 5.3 percent, as import growth is expected to surpass export growth, and is projected to narrow to 3.9 percent of GDP in 2024, contributing to the continued build-up of FX reserves.

14. The medium-term outlook remains positive and sustained by extractive activity (Text Table 3). Average growth is projected at 5.2 percent annually during 2024-28, stimulated by mining

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[8] Staff learned that, since the beginning of the program, some assets included in NIR were unavailable or encumbered and should have been excluded as per the TMU definition. To prevent future misclassifications, all BCC encumbered assets at the BIS will be held in segregated subaccounts (MEFP ¶28).

[9] For a list of published contracts please see DRC–List of Mining Contracts. Staff has recently become aware of certain contracts signed in March 2022 that were not published. The authorities have now published all the relevant contracts. However, had this information been available to staff at the time of the third review, it would have affected the assessment of this structural benchmark.

activity, and progress with structural reforms contributing to the growth of the non-mining sector via economic diversification. Inflation is projected to revert to the BCC's 7 percent target over the medium term. The current account deficit is projected to narrow to 2.9 percent of GDP by end-2028, driven by an improved trade balance; GIR coverage is projected to reach 3 months of imports by 2026. An updated DSA maintains a moderate risk of debt distress (Annex X).

Text Table 3. Democratic Republic of the Congo: Medium-Term Macroeconomic Framework, 2022-28

	2022		2023		2024		2025	2026	2027	2028
	CR No. 22/390	Prel.	CR No. 22/390	Proj.	CR No. 22/390	Proj.	Proj.	Proj.	Proj.	Proj.
Real GDP (percent change)	6.6	8.9	6.3	6.8	6.5	4.7	5.3	5.2	5.6	5.2
of which: extractive	13.1	22.6	10.9	11.7	9.6	4.3	4.0	3.2	4.0	1.5
GDP deflator (percent change)	5.4	6.3	6.1	11.4	6.8	6.6	6.2	5.8	5.8	5.9
CPI inflation, average (percent)	9.0	9.3	10.8	14.8	7.2	7.1	7.1	7.0	7.0	7.0
CPI inflation, eop (percent)	12.3	13.1	8.3	11.5	6.9	7.1	7.0	7.0	7.0	7.0
Overall fiscal balance (% GDP), commitment basis	-2.8	-1.7	-2.9	-2.3	-3.3	-1.6	-1.5	-1.1	-1.0	-1.0
External public debt (% GDP)	16.4	15.5	17.4	17.2	17.9	17.2	16.4	15.5	14.3	13.4
Current account balance (% GDP)	-2.2	-5.3	-3.9	-5.5	-3.0	-3.9	-2.8	-2.6	-2.4	-2.9
Gross international reserves (weeks of imports)	8.6	7.9	9.9	10.0	11.2	10.2	11.2	12.1	12.8	13.1

Sources: Congolese authorities and IMF staff estimates and projections.

15. The outlook is subject to elevated downside risks (Annex 1). Risks arising from the intensifying regional conflicts, including further pressures on energy and food prices that could exacerbate food insecurity and renewed trade, supply chain and financial flows disruptions. Negative demand shocks, including from an abrupt growth slowdown in China and continuing geopolitical fragmentation, could cause recurrent commodity price volatility. On the domestic side, risks are skewed to the downside mostly due to the escalating conflict—that could threaten macroeconomic stability and exacerbate poverty and inequality—and uncertainty ahead of the elections that could slow or reverse reform momentum. Higher public spending could generate fiscal and external financing gaps and risk de-anchoring exchange rate and inflation expectations. The country is also vulnerable to extreme climate events such as floods and landslides, which result in the loss of human lives and livelihoods, damage infrastructure, exacerbate food insecurity and inflationary pressures, reduce growth, and intensify displacement.

16. Authorities' Views. The authorities agree that the outlook remains uncertain given the escalating conflict in the East, with downside risks dominating. The authorities reiterate their commitment to prudent macro policies to address additional shocks. They also recognized that the upcoming elections could delay reform efforts, humanitarian and food insecurity conditions could worsen, but also noted risks to the upside from better-than-anticipated export volumes and terms-of-trade. The authorities emphasized medium-term plans to develop mining value chains.

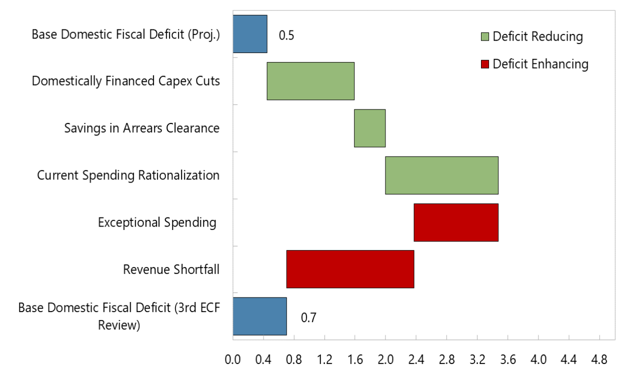
POLICY DISCUSSIONS

While program objectives remain unchanged, ongoing macroeconomic pressures and looming risks call for prudent fiscal policy to preserve fiscal sustainability and macroeconomic stability, supported by tighter monetary policy to reduce inflationary pressures. Over the medium term, the program remains focused on fiscal consolidation through mobilizing domestic revenue, curbing nonpriority spending to *provide space for physical and human capital investment, enhancing spending efficiency, and building reserves buffers.*

A. Fiscal Policy: Balancing Spending Pressures and Macroeconomic Stability

17. Fiscal policy needs to be tightened to support monetary policy in curbing inflation—with significant spending controls and reprioritization in response to the combined revenue shortfall and higher exceptional spending (MEFP ¶13, Text Figure 4). Compared to the third review, revenue projections have been revised downward by CDF334 billion due to lower tax collection observed so far in 2023. With the escalating conflict, the authorities requested a higher exceptional spending envelop, about CDF3,000 billion to allow for rapid spending to cope with the immediate humanitarian and defense needs of the conflict.[10] The recorded revenue shortfall and the higher exceptional spending calls for rationalizing and reprioritizing the planned spending envelop, to support monetary policy efforts in curbing inflation. Current spending rationalization of CDF613 billion—mostly in goods and services to preserve social spending—and lower capital spending (by CDF1,973 billion, considering the lower-execution rate) generate room to accommodate CDF1,852 billion in additional exceptional spending (60 percent of the authorities' request).[11] The envelop for domestic arrear repayments is also decreased by about CDF428 billion to clear arrears under the domestic strategy and the fuel subsidy. The end-December 2023 domestic fiscal deficit (QPC) is proposed at CDF831 billion (0.5 percent of GDP), compared to CDF1,000 billion (0.7 percent of GDP) at the time of the third review, allowing for a small build-up of government deposits as a buffer (0.2 percent of GDP).

Text Figure 4. Contribution to Lower 2023 Fiscal Deficit
(Percent of GDP)



Sources: Congolese authorities and IMF staff calculations.

18. The authorities should continue to advance revenue mobilization efforts (MEFP ¶15-16). Staff views revenue projections in 2023 on the conservative side given potential for higher mining revenue collection through tax regularizations. If revenues surprise on the upside, the adjustor in place will allow to save the windfall. With a revenue-to-GDP ratio declining to 13.7 percent of GDP in 2023, continued efforts to broaden the tax base; improve tax compliance; restore proper VAT functioning; modernize and digitalize revenue collection; and rationalize tax expenditures, non-tax charges, and parafiscal charges will sustain revenue mobilization. The authorities are inventorying parafiscal charges in special accounts and supplemental budget (**end-**

[10] Exceptional spending includes elections, humanitarian and security.

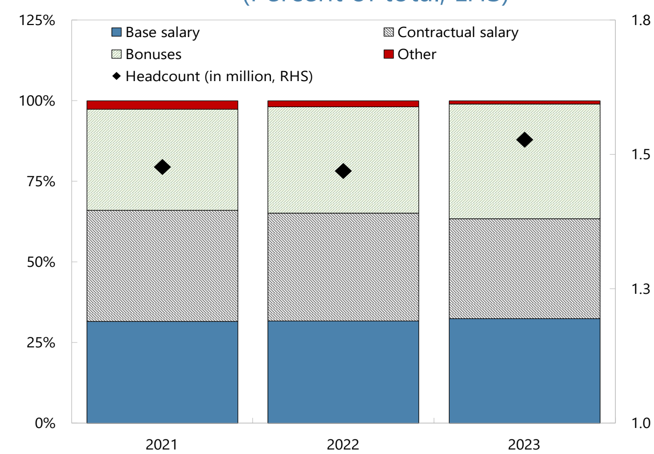
[11] Capital investment is projected to increase by 37 percent, thanks to accelerating externally financed investment.

September-2023 SB); and they will complete the second phase of the non-tax revenue rationalization plan, with sectoral ministries agreeing on the final list of taxes to rationalize and revise tax rates (**proposed end-September 2023 SB**).

19. Improved spending efficiency, tighter controls on spending under emergency procedures, and better cash management will improve budget transparency and provide space for development spending (MEFP ¶13, 24). Staff called for strengthening spending procedures and controls, including procurement, and limiting Treasury's FX payments to external obligations and recourse to emergency procedures, which is not transparency and is subject to possible governance risk, to exceptional cases.[12] The authorities have agreed to reinforce the expenditure chain by limiting spending under emergency procedures to 10 percent of total domestically financed expenditure by end-2023 (**proposed IT**); continue publishing quarterly reports detailing the nature and amount of these expenditures; and to limit the use of such procedures by signing the decree on public spending procedures and accounting, consistent with the provisions of the Public Finance Organic Law and specified in the Budget Execution Manual, including for spending eligible under emergency procedure (**end-July 2023 SB**).

Text Figure 5. Budgeted Wage Bill Composition

(Percent of total, LHS)



Sources: Congolese authorities and IMF staff calculations.

20. The authorities should progress on structural fiscal reforms.

- **Wage bill and civil service reform (MEFP ¶21, Text Figure 5).** The authorities agreed to limit the wage bill envelop to CDF7,130 billion in 2023 (IT). To limit unexpected decisions, an interministerial decree will be issued specifying that any salary increase must be approved jointly by the Ministers of Budget, Finance, and the Civil Service **(end-July 2023 SB)**. Staff urged to advance with the cleaning of the civil service registry, review the remuneration policy for streamlined bonuses, and establish a more equitable and merit-based compensation.

- **Fuel subsidy reform (MEFP ¶20).** As of end-March 2023, the authorities have accumulated arrears of about US$475 million from 2021-22H1. They are yet to certify the 2022H2 liabilities, estimated at US$170 million. There seems to be a reversal against previous estimations of no fuel subsidy in 2023, given past pump price increases and projected lower international oil prices.The authorities now estimate a monthly subsidy of about US$14 million presumably due

[12] Spending under emergency procedure is envisaged under budget execution under the cases where following the normal procedures would be deemed too long. The authorities will enhance coordination on Treasury's cash flow needs and on the reporting of budget execution, including regularizing spending under emergency procedures.

to higher import prices, transportation, logistics and financial costs. On June 8, the authroiteis raised fuel prices by an average 5 percent to reduce the subsidy. Staff called for remaining current on obligations, publishing the audit of the price structure, and advancing with the implementation of the automatic price formula. Staff recommended more timely rule-based adjustments in domestic fuel prices to close the gap with international prices, while allowing for some smoothing mechanism to avoid excessive price volatility and mitigate the impact on consumers. Staff urge the authorities to take the opportunity of the upcoming FAD TA to renew their reform commitment to address the temporary and targeted nature of such subsidies.[13]

- **Social spending (MEFP ¶22).** The authorities have taken measures to achieve the social spending associated with the end-June 2023 IT. In addition, the recent SDG costing exercise in five key areas (health, education, electricity, water/sanitation/hygiene, and road infrastructure) estimated additional expenditure needs to achieve substantial progress towards meeting the SDGs by 2030 at 44 percent of GDP; eradicating extreme poverty would require additional spending of 28 percent of GDP. Given increasing humanitarian needs and elevated poverty rates, social spending has been maintined at the originally budgeted levels and protected from spending reallocations in 2023. Staff call for using the report's findings as an anchor to scale up social spending from 0.4 to 1.6 percent of GDP over 2023-28.

Text Table 4. Democratic Republic of the Congo: Stock of Domestic Arrears, End-December 2022

	(In US$ millions)	(Percent of GDP)
Certified debt stock at end-Dec 2022	**4,494**	**2.9**
Of which		
Banque Centrale du Congo	2,009	1.3
Certified and validated legacy arrears	1,513	1.0
Stock awaiting validation	530	0.3
Protocoles d'accord	443	0.3
Stock awaiting certification	**3,000**	**1.9**
Other arrears	**1,089**	**0.7**
VAT	670	0.4
Oil subsidy	418	0.3
Total	**8,583**	**5.5**

Sources: Congolese authorities and IMF staff calculations.

- **Public investment management (MEFP ¶23).** Staff urged the authorities to reinforce public investment management and address significant basic infrastructure gaps that constrain growth and climate resilience.[14] To this end, the authorities have approved the decree on the life-cycle of investment projects (**end-May 2023 SB**), and are working towards completing the decrees to implement the PPP law (**end-June 2023 SB**) and the manual of investment management procedures (**end-December 2023 SB**), and establishing an integrated IT system for investment projects that would enhance project oversight and prioritization (**end-December 2023 SB**). Staff

[13] An IMF TA on fuel subsidy reform is expected to take place in the coming months.

[14] The PIMA listed legal uncertainty on the role of the various parties involved, their multiplicity, the lack of coordination, and the absence of comprehensive and consistent information sharing processes among the critical limits to public investment management efficiency.

stressed the urgency to integrate FINEX expenditure associated with the PDL-145T in the budgetary expenditure chain and generate the related budget monitoring reports.

- **Domestic arrears clearance (MEFP ¶19, Text Table 4)**. After the December 2022 audit, the authorities will start implementing their domestic arrears strategy with the "*protocoles d'accord*" of US$443 million and with the certified and validated envelop of US$1.2 billion in 2023, and set the threshold for cash repayments at US$300,000, with other claims being repaid with the issuance of domestic bills. The gradual repayment schedule will help prevent additional inflationary pressures. The authorities have committed to refrain from repaying unvalidated arrears and, to only clear validated arrears and remain current on their bilateral agreements.

- **Treasury Single Account (Box 2 and MEFP ¶24).** Fully operationalizing the newly created Directorate General of Treasury and Public Accounting (*Direction Générale du Trésor et de la Comptabilité Publique*, DGTCP) is critical to enhance Treasury management and implement the Treasury Single Account (TSA), building on the decree defining its perimeter and structure (**end-May 2023 SB**).

- **Fiscal credibility and accontability (MEFP ¶24).** Staff reiterated the importance of aligning the budget with program engagements and minimizing discrepancies between budgeted amounts and executed ones. Staff called for the timely rendering of the 2022 accounts to the Court of Auditors and Parliament. To strengthen budgetary transparency, the authorities will publish the cash flow plan as executed in 2022 starting in July 2023.

- **Public debt management (MEFP ¶24).** Strengthening the legal framework governing public debt procedures is critical to enhance public debt management and transparency. Staff called for improving the monitoring of debt by the General Directorate of Public Debt (DGDP) to include timely information on SOEs' debt. To this end, the authorities are finalizing a draft law to harmonize the legal framework, reaffirm the exclusive role of the Ministry of Finance in contracting external debt, and strengthen the mandate of the DGDP, including in monitoring SOEs' debt.

- **Resource-based fiscal framework**. As a multi-mineral commodity exporter, the DRC faces important fiscal policy challenges arising from volatile resource revenues and needs to avoid pro-cyclical fiscal policies and adopt rules that guide medium-term fiscal sustainability. While the revenue adjustor on the domestic fiscal balance (**IT**) aims at reducing pro-cyclical spending in the absence of a non extractive fiscal framework, staff urge the authorities to move toward a resource-based fiscal framework given the limited visibility on extractive revenues projections, the volatility of the fiscal position, and the limited transparency in extractive sector financial flows.

Box 2. Establishing the Treasury Single Account

The Treasury Single Account (TSA) is one of the cornerstone reforms envisaged to improve public financial management in the DRC. Improved cash management based on a TSA requires strengthening of the institutional framework for cash management and adopting an appropriate structure and coverage for the TSA, including the Treasury General Account and its sub-accounts at the BCC. These reforms should facilitate budget execution and strengthen the credibility of the State with its suppliers and partners.

The public accounting and treasury management reform aims to modernize accounting practices and the management of public resources. The objective is to enable decision-makers to carry out careful management of public policies thanks to more reliable, exhaustive, and timely information on the government's financial situation, its assets (financial fixed assets, debts, cash, etc.), and its long-term assets and commitments. Public accounting must also inform Parliament and control institutions. To achieve these objectives, it is envisaged:

- To set up and strengthen the capacities of the DGTCP, to produce quality infra-annual and annual financial statements, and to ensure the regularity and respect the deadlines to produce reports and statements financial services, but also account reconciliation operations.
- To make the public sector accountant the guarantor of accounting quality, being responsible for the financial information presented in the budgetary, accounting, and financial reports. To achieve the desired level of accounting excellence, the public accountant is expected to modernize his control function through an internal control system
- To improve the framework and management tools, and to establish the TSA to optimize the cash management of the State. The centralization of public funds must ensure good readability of assets in real time and enable the government to meet its commitments at any time and at a lower cost. As such, eliminating the scattering of public resources and the creation of pockets of "idle liquidity" in the financial system are top priorities for the Minister of Finance.
- Ensure better cash flow planning to avoid payment arrears and strengthen the government's credibility. Budgetary regulation should be carried out based on commitment plans (*plans d'engagement*) so as not to generate payment arrears. The cash flow *(plan de trésorerie)* and commitment plans should be drawn up at the same time as the drafting of the budget law and communicated in advance to the sectoral ministries to facilitate managing their budget.

All these reforms will require improved capacity for the entire accounting network. The existing information system needs to adapt to changes in the format of accounting returns, but also the requirement for reliability, exhaustiveness, and transparency required by the multiple stakeholders (citizens or civil society, private sector, public institutions, international organizations).

The newly created General Directorate of the Treasury and Public Accounting (DGTCP) is a welcome step towards improving the planning, control, and monitoring of government spending. The DGTCP consolidates the treasury and the public accounting responsibilities, and a new Director has been appointed. Ensuring the operational capacity of the DGTCP is critical to advance with the TSA reforms.

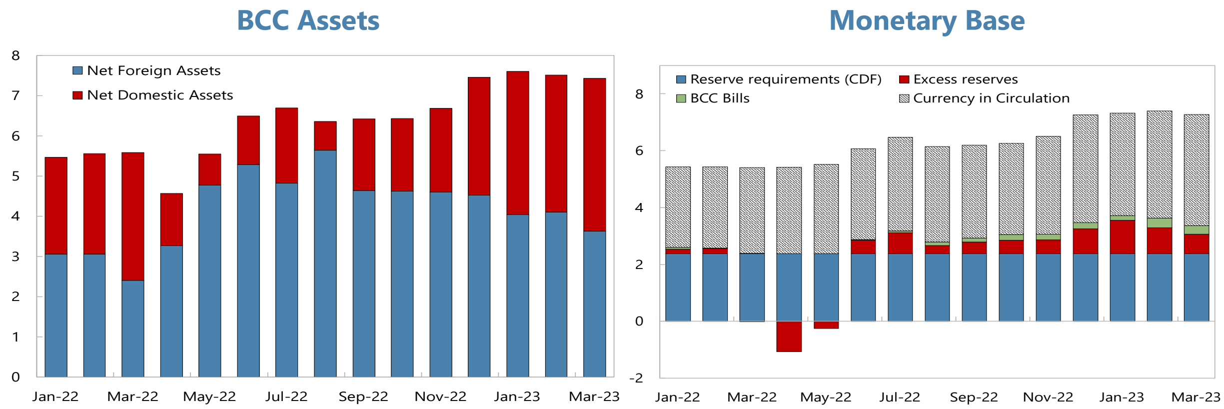
B. Monetary and Financial Sector Policies: Effectively Anchoring Inflation and Safeguarding Financial Stability

21. The monetary stance needs to tighten to lower inflation (MEFP ¶27). Inflation risks de-anchoring inflation expectations and undermining overall policy credibility. As a guide, the BCC has committed to further policy rate increases and deploying quantitative instruments to manage liquidity. Such approach, together with favorable base effects, is expected to bring inflation to the 7 percent target by end-2024, absent shocks.

- The BCC increased its policy rate by 75 bps twice, in November 2022 and March 2023, to 9 percent. These increases were insufficient to reduce inflationary pressures, given that the supplied BCC bills—the only instrument to drain liquidity—were significantly below excess reserves (Text Figure 6 and ¶8).

Text Figure 6. BCC Assets and Liabilities

(CDF trillion)



Sources: Banque centrale du Congo and IMF staff calculations.

- Using reserve requirements will help absorb structural increases in bank reserves, notably those generated by the (unsterilized) accumulation of official reserves and those resulting from reducing the stock of reserve requirements on foreign deposits fulfilled in domestic currency. BCC bills will remain crucial to manage short-term liquidity fluctuations, which are mostly driven by fiscal developments.

- Given the critical need to improve monetary policy transmission and reduce excess liquidity to control inflation, the authorities should consider offering the BCC bills on a full allotment basis at the policy rate; remunerating reserve requirements; and enhancing BCC communication.

22. Continued reserve accumulation will require careful use of FX flows (MEFP ¶28). End-December 2022 net international reserves (NIR) accumulation reached US$1,200 million. The BCC proposes to revise the end-June 2023 QPC to US$250 million (from US$430 million) to account for a shortfall in FX tax payments from mining companies in April and the limited capacity to intervene during 2023H1, while setting the end-December 2023 NIR QPC at US$700 million, in line with the IT at the Third Review. With limited scope for FX purchases so far, the BCC and the Treasury need to closely coordinate on FX inflows and needs; the latter should be limited to external payments.

23. The BCC reiterated its commitment to a flexible exchange rate (MEFP ¶29). Measures have been undertaken to facilitate convergence of the official rate with the parallel rate (¶4). The

BCC's intervention policy will continue to be guided by the need to build reserves and counter disorderly market conditions, supporting the shock absorbing role of the exchange rate.

24. Advancing reserve requirement reforms and BCC communication will strengthen the monetary policy framework (MEFP ¶30). The BCC will reduce the stock of reserve requirements on foreign deposits fulfilled in domestic currency by 2.5 percent by end-June, and another 2.5 percent by end-December 2023. The BCC will adjust this stock to account for exchange rate fluctuations and restitute the over-provision of reserves to banks.[15] Publishing the annual calendar for MPC meetings is an encouraging step towards greater transparency. The BCC will broaden its communication, including by holding regular press conferences after monetary policy decisions. The BCC continues working on enhancing its forecasting capacity, with IMF support.

25. Sustained efforts are required to continue strengthening BCC safeguards (MEFP ¶31). Albeit with delays, the BCC is working towards the adoption of an internal audit charter and procurement rules; a procurement unit will be created in July 2023. The implementation of International Financial Reporting Standards (IFRS) is progressing with IMF technical assistance; the BCC has committed to issue IFRS-compliant financial statements starting with FY 2023. By end-November 2023, an MoU on BCC recapitalization will be signed with the government, ratifying the mechanism through which the central bank's capital will be brought in line with that envisaged in the BCC Organic Law (**end-November 2023 SB**).[16] The BCC will also (i) publish a summary the audit committee's activities in starting with the BCC's 2022 annual report; (ii) prepare a plan to close all FX accounts with local correspondents by end-July 2023 (four of the eight accounts have been closed by May 2023); and (iii) tighten controls and regularize transactions conducted by the BCC as fiscal agent, including through capping expenditures under emergency procedures (¶0) and operationalization of the Treasury Single Account (¶20). Further work is also needed to enhance governance arrangements and frameworks in the areas of foreign reserves management and lending operations and to strengthen controls over the reporting of program monetary data.

26. The BCC's cash operations must be reduced (**MEFP ¶32)** The sizable cash transactions conducted by the BCC as fiscal agent, amounting to 1.6 percent of GDP in 2022, almost half of which in FX, are concerning. To rectify the situation, the authorities are committed to establishing and publishing a framework for the execution of Treasury and BCC operations in accordance with Articles 23-24 of the AML/CFT law, including prohibiting cash transactions exceeding US$10,000 and executing all government and BCC payments to employees and beneficiaries by bank transfer (**proposed end-May 2024 SB**), as well as aligning exemptions to the US$10,000 limit on cash and bearer securities transactions with FATF standards.[17]

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[15] These changes, recommended by IMF technical assistance, will follow the revision of the BCC's *Instruction 10,* planned in June 2023.

[16] Recapitalization needs were estimated at CDF2,913.7 billion by the BCC.

[17] Instruction 15bis, which lists exceptions to Article 23 of the AML/CFT law, only applies to transactions with banks and other regulated financial institutions. The BCC should therefore not be involved in cash transactions exceeding US$10,000 with other legal persons or physical persons.

27. Financial reforms are advancing after adopting the new banking law in December 2022 (MEFP ¶33, 42). These reforms will contribute to address the macrofinancial vulnerabilities highlighted in the August 2022 Financial Sector Stability Review. The BCC will revamp the regulatory framework to align it to the new banking law (**proposed end-November 2023 SB**) while drafting a regulation on related parties (**end-November 2023 SB**). Efforts to resume onsite bank inspections and to deploy risk-based supervision are ongoing, with IMF technical assistance. Inadequate data provision is delaying efforts to conduct bank stress tests. Reforms to emergency liquidity and bank recovery and resolution framework are planned, as is a review of trans-border cooperation agreements for bank recovery and resolution. The BCC will adopt an *instruction* on bank recovery by end-2023; commercial banks will be required to submit relevant preventive recovery planning to the BCC by end-2024. A financial stability unit within the BCC will be created to support the Financial Stability Committee.[18]

C. Structural Reforms to Promote Diversification and Private Activity

28. Strengthening governance and transparency remain critical to sustain macroeconomic stability (MEFP ¶35). Corruption remains pervasive and measures to fight it face reportedly resistance from vested interests. In this context, recent progress includes the March 2023 decree to disclose beneficial ownership on public procurement (MEFP ¶24) and progress under the United Nations Convention against Corruption (UNCAC) Implementation Review Mechanism. Updating the *Journal Officiel*'s website will facilitate access to legislative and regulatory frameworks.

29. Efforts to improve mining sector transparency must be sustained (MEFP ¶36). It is paramount that the authorities disclose all mining contracts as major mining contracts are currently being renegotiated, including potential implications for public finances.[19] While the government continues to support the Extractive Industries Transparency Initiative (EITI), publishing all mining contracts, including renegotiated ones, remains challenging within the 60 days of signature (as specified by the mining code).

30. The authorities are taking action to exit the FATF's grey list (MEFP ¶37). Building on the new AML/CFT law in December 2022, the authorities need to implement the action plan agreed with the FATF. Recent progress includes submitting the National Risk Assessment in May 2023 and the upcoming signature of a decree creating the taskforce supporting and monitoring the implementation of measures carried out by the CENAREF (National Financial Information Unit) with coordinated multi-partners' technical support.

[18] Staff also welcomes the publication of Financial Soundness Indicators on the IMF's website.

[19] China's CMOC Group announced on April 19 it reached consensus on royalty payment around its copper-cobalt project in the Democratic Republic of Congo with state-owned mining company Gécamines. CMOC, the world's second-biggest cobalt producer, holds an 80-percent stake in the Tenke Fungurume Mining (TFM) copper-cobalt ore project in DRC, Gécamines the remaining 20 percent. CMOC entered discussions in 2021Q3 to boost mineral reserves and relevant royalty payments to Gécamines.

31. Structural reforms to improve business climate remain crucial (MEFP ¶38). The business climate remains affected by a complex tax system, administrative hassle, lack of basic infrastructure and electricity, financing, and an unreliable rule of law and judiciary. The authorities are liberalizing the telecommunications sector, revising the Investment Code and the Agricultural Law, and implementing the financial inclusion strategy. Efforts in tackling climate change challenges, particularly building adaptive infrastructure and in reinforcing the DRC's role as a solution country for the global transition will also support growth (Annex II).

32. Authorities will refrain from launching new public or parapublic financial institutions without adequate safeguards (MEFP ¶40). Authorities and staff agreed to discuss plans toward establishing a national development bank—or any new public or parapublic financial institution—to ensure that adequate safeguards and a clear business plan are established, while rationalizing existing public financial institutions.

PROGRAM MODALITIES AND FINANCING ASSURANCES REVIEW

33. The authorities and staff reached an understanding to propose updated program conditionality as follows (MEFP Tables 1-2):

- **QPC Modification:** It is proposed that the end-June 2023 floor on changes in NIR be lowered from US$430 million to US$250 million to partly accommodate the April shortfall in FX tax revenues and limited capacity for FX intervention in 2023H1, without undermining the end-December 2023 reserve accumulation target.

- **New QPCs and ITs** are proposed for end-December 2023 and ITs for end-March 2024, with quarterly ITs in line with projections. To reinforce the chain of expenditure and limit the use of emergency procedures, a new IT on the ceiling of expenditure under emergency procedure as a share of domestically financed expenditure is proposed at 10 percent for end-December 2023.

- **New SBs** are proposed for (i) signing the decree on procedures and public accounting (end-July 2023); (ii) signing a decree specifying that salary hikes must be agreed jointly by the ministers of Budget, Finance, and Public service (end-July 2023); (iii) completing the second phase of the non-tax revenue rationalization plan (end-September 2023); (iv) revising and expanding BCC regulations to comply with the new banking law (end-November 2023); (v) implementing a framework for the execution of Treasury and BCC operations, in accordance with the provisions of the law, with particular reference to Articles 23 and 24 (end-May 2024).

34. Financing assurances. The ECF arrangement is fully financed, with firm commitments for the next 12 months, good prospects of financing for the remainder of its duration (Table 7) and has helped catalyze resources. The WB has approved on March 28 budget support operations of US$500 million (double the size of the operations in 2022), and subsequent operations are planned after the presidential election.

Text Table 5. Democratic Republic of the Congo: External Borrowing Program, 2023-24

PPG external debt	Volume of new debt in 2023		PV of new debt in 2023 (program purposes)		Volume of new debt in 2024		PV of new debt in 2024 (program purposes)	
	US$ million	Percent	US$ million	Percent	US$ million	Percent	US$ million	Percent
By sources of debt financing	**3959.5**	**100**	**2376.5**	**100**	**2561.6**	**100**	**1705.4**	**100**
Concessional debt, of which	**2460.4**	**62**	**1073.3**	**45**	**1323.6**	**52**	**629.0**	**37**
Multilateral debt	2460.4	62	1073.3	45	1223.6	48	597.0	35
Bilateral debt	0.0	0	0.0	0	100.0	4	32.0	2
	0.0	0	0.0	0	0.0	0	0.0	0
Non-concessional debt, of which	**1499.1**	**38**	**1303.3**	**55**	**1238.0**	**48**	**1076.3**	**63**
Semi-concessional	1041.6	26	845.8	36	1238.0	48	1076.3	63
Commercial terms	457.5	12	457.5	19	0.0	0	0.0	0
By Creditor Type	**3959.5**	**100**	**2376.5**	**100**	**2561.6**	**100**	**1705.4**	**100**
Multilateral	2555.4	65	1146.5	48	1223.6	48	597.0	35
Bilateral - Paris Club	99.6	3	94.5	4	100.0	4	32.0	2
Bilateral - Non-Paris Club	847.0	21	678.0	29	868.7	34	726.1	43
Other	457.5	12	457.5	19	369.2	14	350.3	21
Uses of debt financing	**3959.5**	**100**	**2376.5**	**100**	**2561.6**	**100**	**1705.4**	**100**
Infrastructure	3459.5	87	2206.2	93	2038.0	80	1479.6	87
Social Spending	0.0	0	0.0	0	0.0	0	0.0	0
Budget Financing	500.0	13	170.3	7	523.6	20	225.8	13

Sources: Congolese authorities and IMF staff calculations.

35. **DRC's capacity to repay the Fund remains adequate but subject to risks (Table 6, Figure 5).** The economic recovery after the pandemic has generated significant repayment capacity. The improved macroeconomic outlook and the authorities' commitment to the program provide assurances. The IMF credit-to-GDP ratio will peak at 2.9 percent in 2024. The IMF credit to GIR ratio is projected to peak at 34.1 percent in 2024. Higher-than-envisaged reserve accumulation, program implementation of envisioned reforms and the low public debt will help build resilience against shocks and mitigate risks.

36. **Progress in resolving external arrears is advancing slowly.** External official arrears to four non-Paris Club creditors (amounting to 0.1 percent of GDP) date from pre-HIPC Completion Point, are either in negotiation or under reconciliation, though progress to reach an agreement is advancing slowly.[20] Specifically, meetings with each of these creditors are scheduled in the next six months, with enhanced information sharing, to reach an agreement. The remaining external arrears are claims to commercial creditors, including some from Gécamines. As required under the Lending into Arrears (LIA) policy, the authorities continue to make good faith efforts, including by sharing additional information and communication to facilitate resolution.

STAFF APPRAISAL

37. **Growth remains resilient but inflation is a pressing challenge.** Mining activity has supported real GDP growth. Headline inflation increased in 2022, and is now well above the BCC's target, as excess liquidity fueled by significant public spending put pressure on the exchange rate

[20] Bilateral arrears to non-Paris Club creditors pre-date HIPC and are deemed away in the presence of a representative Paris club agreed minute underpinning the HIPC process.

and inflation. Large spending reallocation occurred in 2022. Downside risks to the outlook dominate. External uncertainty stems from geopolitical developments, concerns over trading-partner growth and terms-of-trade shocks; while the escalating conflict in the East and the elections could add to spending pressures and delay needed policy and reform actions.

38. While program performance remains broadly satisfactory, implementation is becoming more challenging. All end-December 2022 quantitative performance criteria were met, and all indicative targets except two. All but one structural benchmarks were also met. Efforts to meet the social spending under the IT will require close monitoring for timely implementation and renewed efforts to reach program objectives in 2023. With revenues disappointing so far in 2023 additional spending pressures, and elevated downside risks to the outlook, implementing reforms will require renewed efforts.

39. Tighter monetary policy is urgently needed to reduce inflation. The BCC should increase the policy rate as needed, while complemented by reserve requirements in domestic currency to reduce structural excess reserves and use BCC bills proactively to manage short-term liquidity fluctuations. Tight policies should be sustained until the path of inflation is clearly converging to target, which will also support de-dollarization and help build reserves.

40. Fiscal policy will also need to do its part to lower inflation and reduce pressures on the exchange rate. Close coordination with monetary policy, including on determining the FX needs of the Treasury, is paramount for macroeconomic stability given increased uncertainty. A domestic fiscal balance of 0.5 percent of GDP in 2023 is appropriate to keep spending pressures under control, while preserving well-targeted capital and social spending. Spending under emergency procedures—which is not transparent, crowds out other planned spending and is subject to possible governance risks—needs to be brought urgently under control (a new indicative target has been included under the program). Adhering to realistic investment plans while implementing reforms to increase the efficiency of investment will be essential for policy credibility; limiting cash payments, especially those in FX, will help complement BCC's efforts to manage liquidity and build up reserves.

41. Advancing structural fiscal reforms remains critical to improve public finances. Strengthening the expenditure chain and the functioning of the Treasury, together with reforms to enhance the budget, will improve the quality, execution, and control of public spending. Reforms to the price structure for fuel products to allow for timelier rule-based adjustments in domestic prices will help reduce untargeted fuel subsidies and generate fiscal space for priority spending. Revenue mobilization reforms, with efforts to streamline non-tax revenues and enhance tax administration, should advance to sustainably mobilize revenues in a more predictable manner.

42. The BCC should strengthen its independence, advance reforms to revamp its monetary policy framework and own safeguards, and bolster financial supervision. Reinforcing the BCC's governance, communications, independence, and financial position will enhance the margin of maneuver for monetary operations, which remains challenged by its undercapitalization and elevated dollarization. Regulatory reforms required by the enactment of the new banking law would improve financial supervision, make the financial system more transparent and resilient, and help kickstart credit growth.

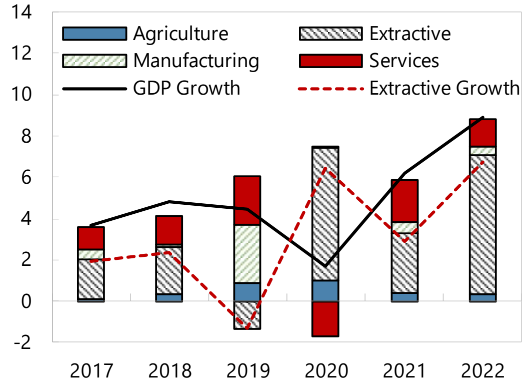
43. Private sector growth should be supported by further improving the business climate. Reforms to strengthen the rule of law, improve the efficiency of the judicial system, and curb corruption are critical for investment. Transparency in the mining sector and in public finances, together with reforms to streamline the tax system, could mobilize investment and economic diversification. Efforts to tackle FAFT's greylisting and to implement the new AML/CFT law should advance, while easing access to financial services will help support medium-term growth.

44. Staff supports the authorities' requests for modifying a QPC and completing the fourth review under the Extended Credit Facility arrangement and the financing assurances review. A strong commitment to tighten policies to curb inflation and steps to advance structural reforms, while building capacity, will support the authorities meet program objectives.

Figure 1. Real Sector Developments, 2017-23

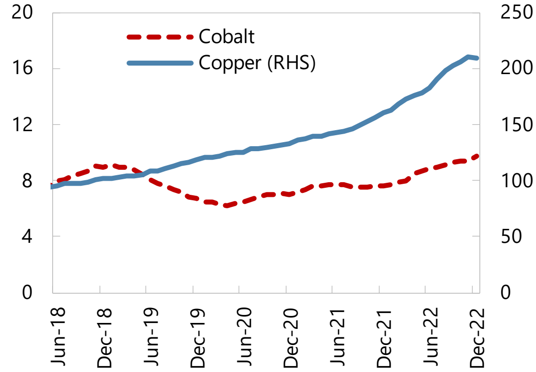
The extractive sector dominates growth dynamics…

Contribution to Real GDP Growth
(Percent)



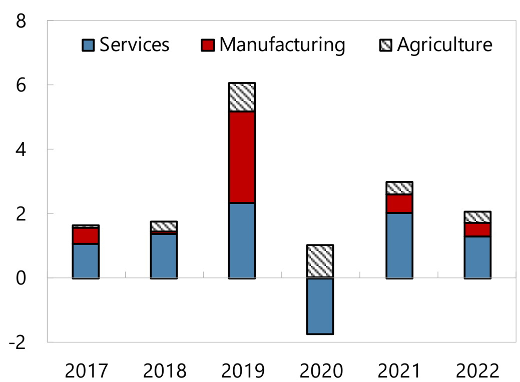
…with growth benefitting from increasing copper and cobalt mining production.

Cobalt and Copper Production
(Thousand metric ton, 12 month rolling Avg.)



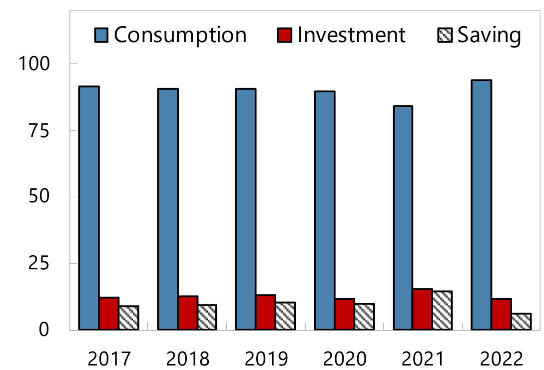
Non-extractive growth has decelerated lately due to services and manufacturing…

Non-Extractive Real GDP Growth
(Percent)



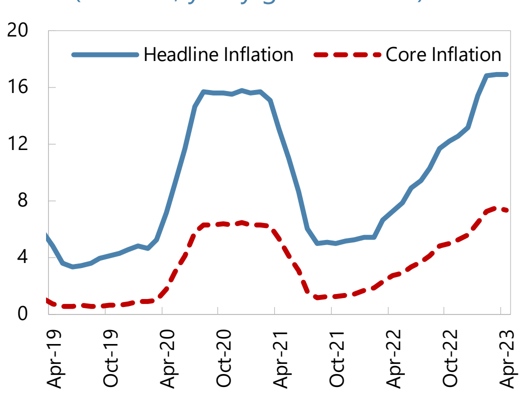
…as investment moderated.

Consumption vs Investment
(Percent of GDP)



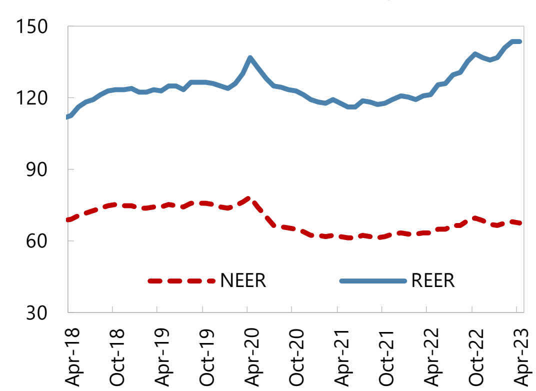
Inflation and core inflation picked up recently due to passthrough effect of the exchange rate depreciation and inflationary pressures linked to fiscal spending…

Inflation
(Percent, y-o-y growth rates)



…as the exchange rate has been under depreciation pressure in this highly dollarized economy.

Nominal and Real Effective Exchange Rates
(2010=100; decrease indicates depreciation)



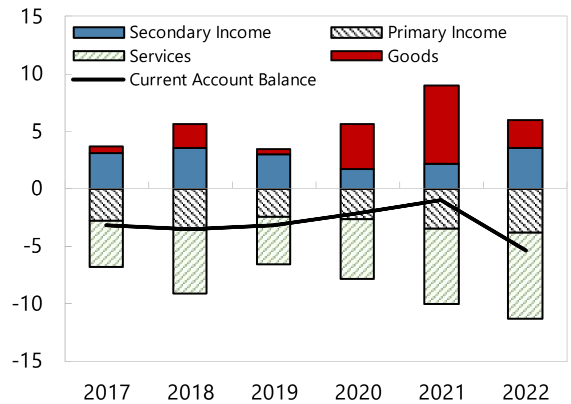
Sources: Congolese authorities; IMF STA INS database; and IMF staff estimates.

Figure 2. External Sector Developments, 2017-23

(Percent of GDP unless specified)

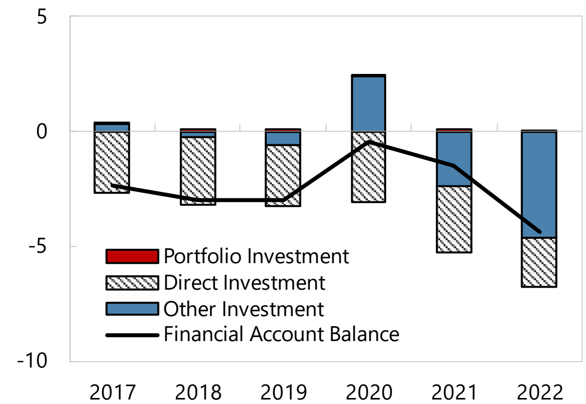
The current account deficit has widened due to higher imports of goods and services…

Current Account Balance



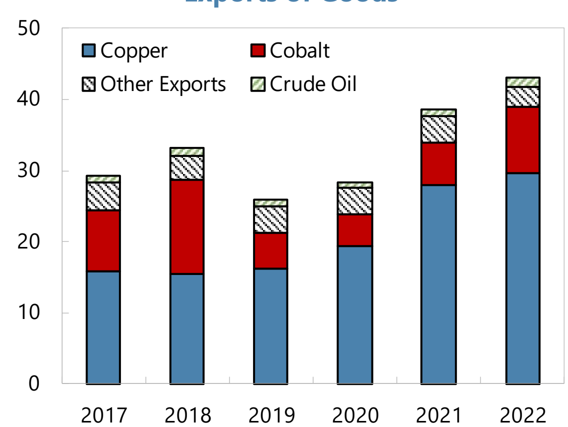
…and has been financed largely by other investment flows followed by FDI.

Financial Account Balance



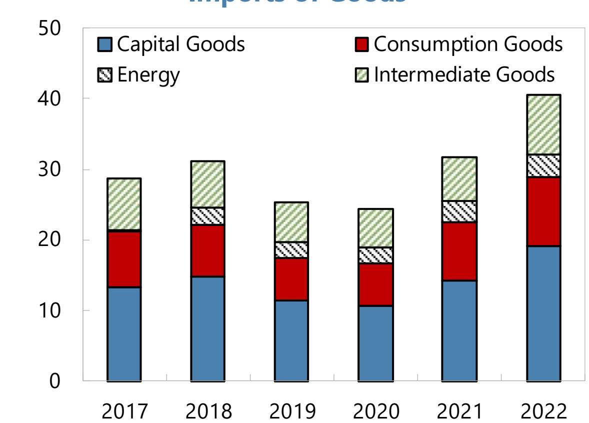
Exports remain highly concentrated in mining products…

Exports of Goods



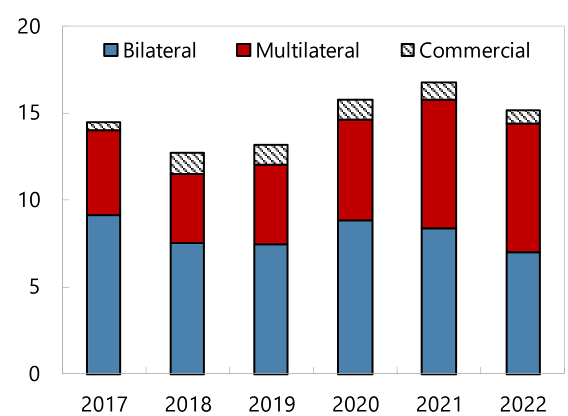
…while broad-based products constitute imports.

Imports of Goods



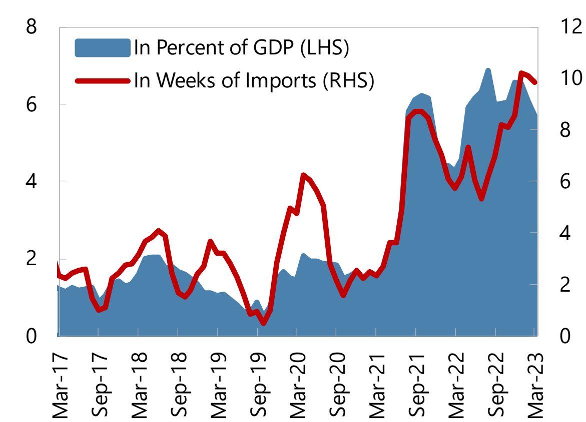
External debt remains subdued…

External Debt



…and reserves have recovered though remain below adequate levels.

International Reserves

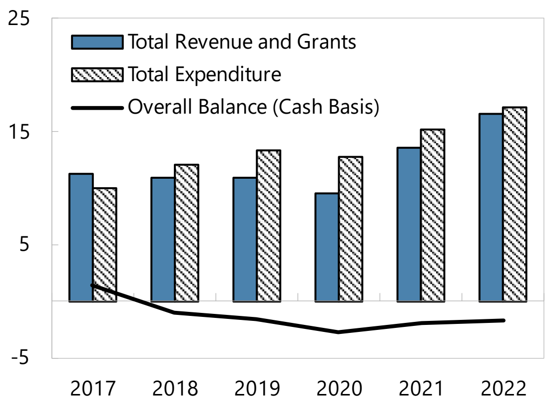


Sources: Congolese authorities and IMF staff estimates.

Figure 3. Fiscal Sector Developments, 2017-23
(Percent of GDP)

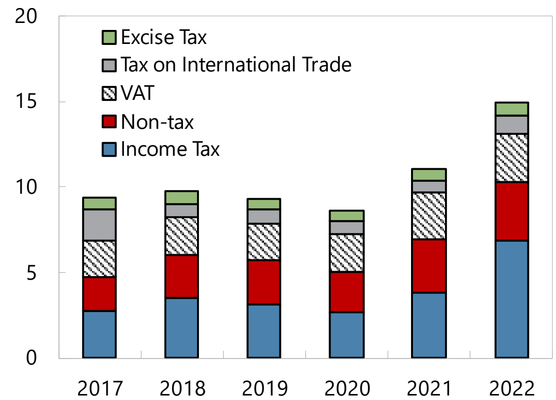
The fiscal deficit has remained wide…

Fiscal Balance



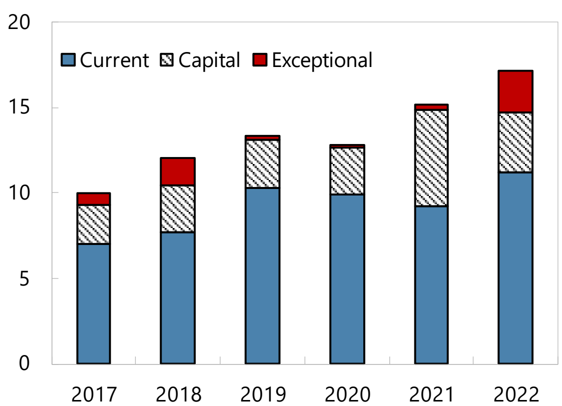
…as stronger revenues collection has not compensated…

Revenue



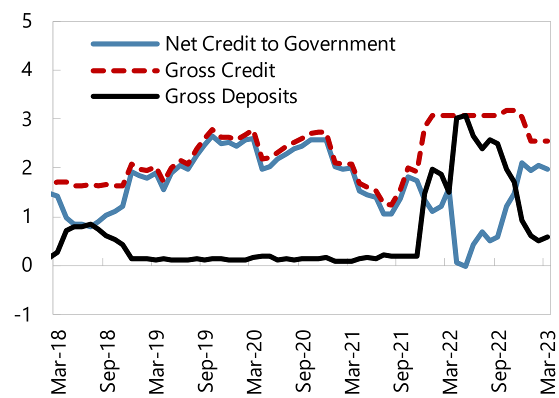
…for the increase in current and exceptional expenditures partly due to security spending with the Eastern conflict.

Expenditure [1/]



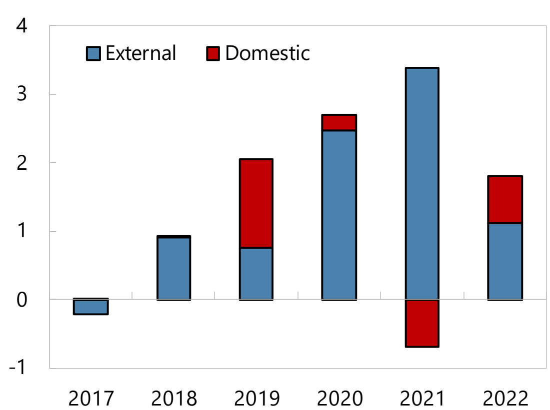
NCG is limited by the discontinuation of BCC advances since end-April 2020. [2/]

BCC Net Credit to the Government



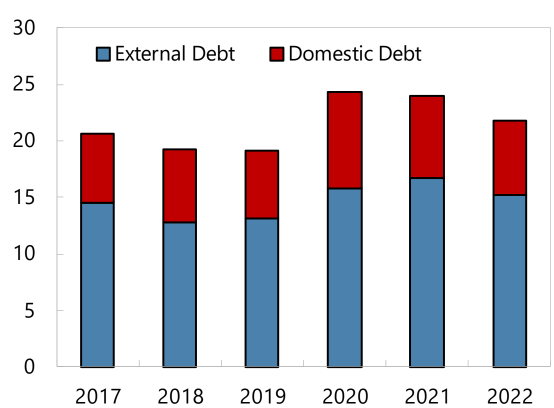
Domestic financing has increased with the higher issuances of government securities …

Financing



…and public debt has remained stable at moderate levels.

Public and Publicly Guaranteed Debt

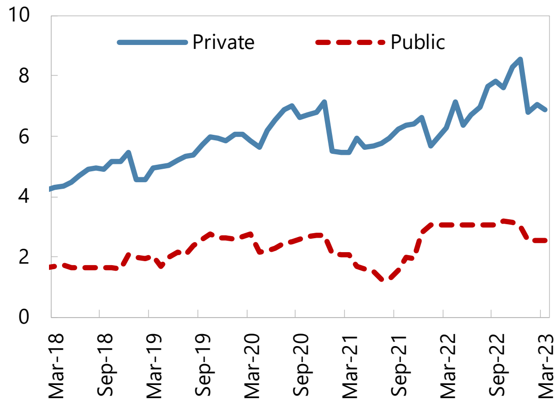


Sources: Congolese authorities and IMF staff estimates.
1/ Exceptional expenditure includes security, elections, and other exceptional expenditures. 2/ The increase in NCG observed in the late part of 2021 onward is driven by the part of the SDR allocation retroceded to the government as budgetary support.

Figure 4. Monetary and Financial Sector Developments, 2018-23

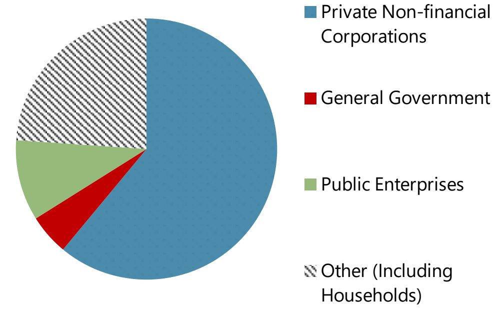
Credit to the economy is increasing, albeit from a low base....

Credit to Private and Public Sector
(Percent of GDP)



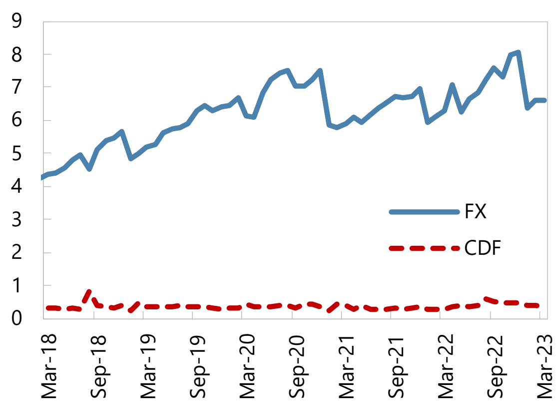
...with most credit allocated to private enterprises.

Bank Credit to the Non-financial Sector
(By sector, in percent of total, as of Mar-23)



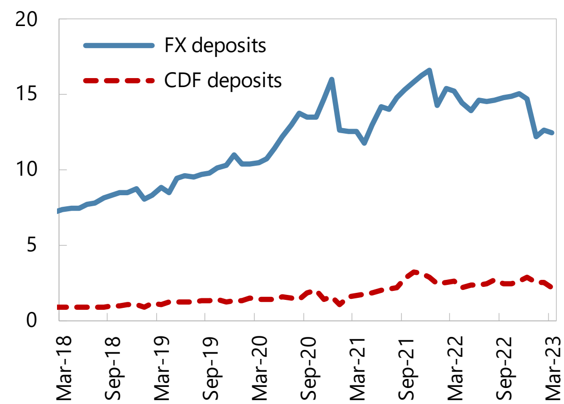
Credit is extended almost entirely in FX, while credit in Congolese francs remains limited.

Bank Credit to the Non-financial Sector
(By currency, in percent of GDP)



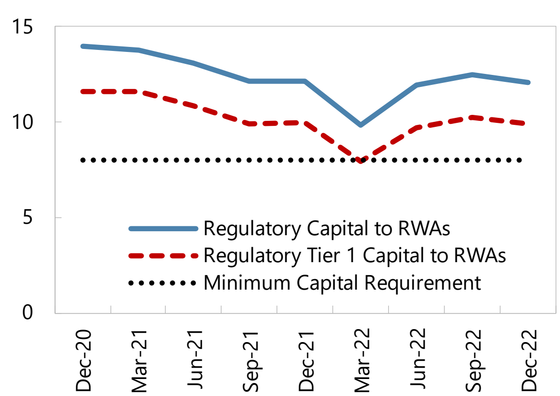
Bank deposits are mostly in FX and have been stagnating.

Evolution of Deposits
(Percent of GDP)



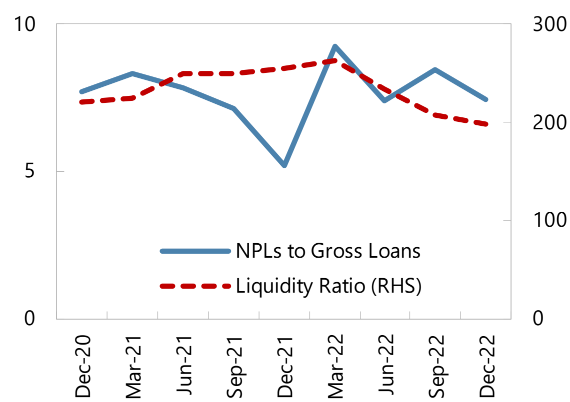
Capital ratios are stable.

Regulatory Capital



NPLs have risen moderately after the reinstatement of credit quality rules.

Liquidity and Asset Quality



Sources: Congolese authorities and IMF staff estimates.

Table 1. Democratic Republic of the Congo: Selected Economic and Financial Indicators, 2021-28

	2021		2022		2023		2024	2025	2026	2027	2028
	CR No. 22/390	Prel.	CR No. 22/390	Prel.	CR No. 22/390	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Annual percentage change, unless otherwise indicated)										
GDP and prices											
Real GDP	6.2	6.2	6.6	8.9	6.3	6.8	4.7	5.3	5.2	5.6	5.2
Extractive GDP	10.1	10.1	13.1	22.6	10.9	11.7	4.3	4.0	3.2	4.0	1.5
Non-Extractive GDP	4.7	4.7	3.9	3.1	4.2	4.4	4.9	6.1	6.3	6.5	7.1
GDP deflator	17.4	19.3	5.4	6.3	6.1	11.4	6.6	6.2	5.8	5.8	5.9
Consumer prices, period average	9.0	9.0	9.0	9.3	10.8	14.8	7.1	7.1	7.0	7.0	7.0
Consumer prices, end of period	5.3	5.3	12.3	13.1	8.3	11.5	7.1	7.0	7.0	7.0	7.0
External sector											
Exports in U.S. dollars, f.o.b. value	60.9	60.9	18.4	27.7	-0.4	2.5	5.4	4.3	3.1	3.4	1.8
Imports in U.S. dollars, f.o.b. value	53.8	53.8	27.8	46.3	3.2	5.6	3.8	4.3	3.1	3.3	4.0
Exports volume	11.9	8.7	15.1	24.5	15.7	11.2	5.4	4.6	3.6	3.8	1.8
Import volume	26.7	32.9	9.1	28.9	5.2	4.2	3.1	3.6	2.0	2.1	2.6
Terms of trade	21.5	28.1	-10.1	-7.7	-9.3	-7.9	-0.8	-1.0	-1.5	-1.4	-1.2
	(Annual change in percent of beginning-of-period broad money)										
Money and credit											
Net foreign assets	41.4	41.4	-1.8	-7.0	11.3	22.9	8.9	14.1	12.1	11.4	12.0
Net domestic assets	-4.7	-4.7	8.5	10.4	7.2	-6.0	4.2	-0.7	0.8	1.9	0.9
Domestic credit	2.6	2.6	10.7	16.8	10.6	12.4	6.2	7.8	7.7	7.5	7.4
Of which: net credit to government	-4.4	-4.4	-1.2	0.5	2.7	2.7	-0.1	1.4	1.6	1.2	1.3
credit to the private sector	6.2	6.2	12.0	14.9	7.6	8.7	5.7	5.8	5.5	5.7	5.5
Broad money	36.7	36.7	6.7	3.4	18.5	16.9	13.1	13.4	12.8	13.3	12.9
	(Percent of GDP, unless otherwise indicated)										
Central government finance											
Revenue and grants	13.8	13.6	17.2	16.6	16.8	14.8	16.5	16.8	17.1	17.3	18.0
Revenue	11.3	11.1	15.9	15.3	15.4	13.7	15.2	15.9	16.3	16.7	17.4
Grants	2.5	2.5	1.3	1.3	1.3	1.1	1.3	0.9	0.8	0.6	0.5
Expenditures	14.6	15.2	18.8	17.1	18.3	16.1	17.6	18.2	18.1	18.2	18.8
Overall fiscal balance (cash basis)	-1.4	-2.0	-2.8	-1.7	-2.9	-2.3	-1.6	-1.5	-1.1	-1.0	-1.0
Domestic fiscal balance (program target)	0.0	0.1	-1.1	-1.2	-0.6	-0.5	-0.2	-0.2	-0.1	0.0	0.0
Non-natural resource overall fiscal balance	-2.8	-2.7	-3.9	-4.0	-4.0	-3.2	-3.9	-4.8	-4.9	-4.7	0.0
Investment and saving											
Gross national saving	13.6	14.4	10.9	6.2	10.0	4.6	7.9	12.0	12.0	11.4	10.8
Government	-1.0	-0.9	-1.2	-1.5	-0.3	-1.5	-0.2	0.7	1.1	0.1	-0.1
Non-government	14.6	15.2	12.1	7.6	10.3	6.2	8.1	11.3	11.0	11.3	10.9
Investment	14.5	15.4	13.1	11.5	14.0	10.1	11.8	14.8	14.6	13.8	13.7
Government	4.7	5.6	5.1	3.5	6.0	4.1	5.8	6.8	6.8	6.2	6.3
Non-government	9.8	9.8	8.0	8.0	8.0	6.0	6.0	8.0	7.8	7.6	7.4
Balance of payments											
Exports of goods and services	39.6	38.9	42.0	43.2	37.8	42.8	41.1	38.9	36.5	34.3	31.8
Imports of goods and services	39.3	38.7	44.2	48.2	41.6	48.2	45.6	43.2	40.6	38.0	35.9
Current account balance, incl. transfers	-0.9	-1.0	-2.2	-5.3	-3.9	-5.5	-3.9	-2.8	-2.6	-2.4	-2.9
Current account balance, excl. transfers	-2.2	-2.3	-4.1	-6.2	-5.3	-6.3	-5.0	-4.2	-3.9	-3.6	-4.1
Overall balance	4.5	-3.5	3.1	-1.3	1.5	-1.5	-0.8	-0.2	-0.1	0.0	0.0
Gross official reserves (millions of U.S. dollars)	2,948	2,948	4,206	4,497	5,269	5,895	6,356	7,242	8,104	8,912	10,027
Gross official reserves (weeks of imports)	6.3	5.3	8.6	7.9	9.9	10.0	10.2	11.2	12.1	12.8	13.1
External debt											
Total stock, including IMF	15.5	16.8	16.4	15.5	17.4	17.2	17.2	16.4	15.5	14.3	13.4
PV of debt (percent of exports of goods and services)	30.8	33.1	30.9	27.2	35.8	29.3	29.6	29.2	28.4	27.1	27.1
Scheduled debt service (millions of U.S. dollars)	457	517	603	695	787	696	702	812	916	1068	1078
Percent of exports of goods and services	2.0	2.3	2.3	2.4	3.1	2.4	2.3	2.5	2.8	3.1	3.1
Percent of government revenue	7.2	8.1	6.2	6.9	7.6	7.4	6.1	6.1	6.2	6.4	5.6
Exchange rate (CDF per U.S. dollars)											
Period average	1,990	1,990.2	...	2,009.8	...	...	...	...	...	...	...
End-of-period	2,000	2,000.0	...	2,046.8	...	...	...	...	...	...	...
Memorandum items:											
DRC copper export price ((US$ per ton)	8,922.0	8,922.0	8,470.3	8,354.7	7,579.5	8,528.8	8,502.1	8,446.3	8,389.5	8,341.7	8,325.6
DRC cobalt export price (US$ per ton)	37,585.8	37,585.8	52,864.4	51,982.5	42,881.8	30,329.3	30,429.2	30,505.7	30,505.7	30,505.7	30,505.7
World crude oil price (US$ per barrel)	69.4	69.2	98.2	96.4	85.5	73.1	68.9	67.0	65.4	64.0	62.8
Nominal GDP (billions of CDF)	112,476	114,248	126,345	132,259	142,543	157,377	175,652	196,486	218,756	244,487	272,393

Sources: Congolese authorities and IMF staff estimates and projections.

Table 2. Democratic Republic of the Congo: Balance of Payments, 2021-28

(Millions of US$, unless otherwise indicated)

	2021		2022		2023		2024	2025	2026	2027	2028
	CR No. 22/390	Prel.	CR No. 22/390	Prel.	CR No. 22/390	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current Account Balance	-535	-587	-1,395	-3,495	-2,724	-3,762	-2,934	-2,340	-2,362	-2,395	-3,239
Current Account Balance (excl. budget grants) [A]	-584	-640	-1,750	-3,824	-2,829	-3,837	-3,023	-2,340	-2,362	-2,395	-3,239
Goods balance	3,940	3,940	2,943	1,638	2,093	853	1,355	1,402	1,469	1,562	872
Exports of goods	22,185	22,185	26,261	28,336	26,169	29,058	30,637	31,954	32,955	34,072	34,672
o/w extractive sector	21,945	21,945	25,982	28,037	25,854	28,737	30,273	31,536	32,499	33,571	34,124
Imports of goods	18,245	18,245	23,318	26,698	24,076	28,205	29,282	30,551	31,485	32,510	33,800
o/w capital goods	8,216	8,216	11,261	12,590	11,632	13,785	14,551	15,384	15,993	16,631	17,406
Services balance	-3,779	-3,779	-4,383	-4,931	-4,706	-4,577	-4,787	-4,993	-5,148	-5,319	-5,473
Primary income	-1,990	-1,990	-2,256	-2,521	-2,584	-2,792	-3,089	-3,212	-3,304	-3,405	-3,452
Secondary income (excl. budget support grants)	1,245	1,189	1,946	1,990	2,368	2,679	3,498	4,463	4,620	4,768	4,814
Budget grants	49	52	355	329	105	74	88	0	0	0	0
Capital Account Balance [B]	171	171	719	538	761	501	757	667	739	752	807
Net Lending(+)/Borrowing(-) [A+B]	-413	-468	-1,031	-3,286	-2,068	-3,335	-2,265	-1,673	-1,623	-1,643	-2,431
Financial Account Balance (excl. IMF and budget loans) [C]	1,159	1,094	-864	-2,350	-1,199	-2,294	-1,628	-1,524	-1,511	-1,635	-2,466
Financial Account Balance	-799	-852	-1,396	-2,876	-1,963	-3,261	-2,177	-1,673	-1,623	-1,643	-2,431
Portfolio investment	48	48	-32	35	-32	36	40	44	48	53	58
Direct investment	-1,678	-1,678	-1,948	-1,409	-2,153	-1,470	-1,614	-1,778	-1,951	-2,150	-2,361
Direct investment liabilities	1,678	1,678	1,948	1,409	2,153	1,470	1,614	1,778	1,951	2,150	2,361
Other investment (excl. IMF and budget support loans)	669	583	-142	-2,525	-78	-2,259	-515	-676	-470	-346	-1,279
of which:											
Project loans	780	1,198	1,449	604	1,574	1,231	1,071	1,020	839	849	972
Change in reserves (+: increase)	2,119	2,141	1,258	1,549	1,063	1,398	461	886	862	808	1,115
Net Errors and Omissions [D]	-435	-435	-720	81	0	0	0	0	0	0	0
Overall Balance [A+B-C+D]	-2,007	-1,998	-887	-854	-869	-1,041	-638	-149	-112	-8	35
Overall Financing Needs	2,007	1,998	887	854	869	1,041	638	149	112	8	-35
ECF financing	431	426	402	398	383	378	161	-151	-188	-292	-335
Disbursements	431	434	407	407	405	409	205	0	0	0	0
Repayments	0	7	5	9	22	31	43	151	188	292	335
SDR allocation	1,467	1,456	0	0	0	0	0	0	0	0	0
Other exceptional financing	110	116	486	456	486	664	477	300	300	300	300
Budget support loans	61	63	131	127	381	589	388	300	300	300	300
World Bank	61	63	131	127							
AfDB	0	0	0	0							
Others	0	0	0	0							
Budget grants	49	52	355	329	105	74	88	0	0	0	0
Memorandum Items:											
Current account balance (in percent of GDP)	-0.9	-1.0	-2.2	-5.3	-3.9	-5.5	-3.9	-2.8	-2.6	-2.4	-2.9
Terms of trade (percent change)	21.5	28.1	-10.1	-7.7	-9.3	-7.9	-0.8	-1.0	-1.5	-1.4	-1.2
Financial account balance (excl. IMF, SDR allocation, and budget loans, in percent of GDP)	2.0	1.9	-1.4	-3.6	-1.7	-3.3	-2.2	-1.8	-1.7	-1.6	-2.2
o/w direct investment liabilities	3.0	2.9	3.1	2.1	3.1	2.1	2.1	2.1	4.0	2.1	2.1
Gross reserves	2,947.8	2,947.8	4,205.8	4,496.7	5,268.8	5,894.9	6,356.3	7,242.0	8,104.0	8,911.8	10,026.8
in weeks of non-aid related imports	6.3	5.3	8.6	7.9	9.9	10.0	10.2	11.2	12.1	12.8	13.1
Nominal GDP (Million US Dollars)	56,515.8	57,406.6	62,859.4	65,807.5	69,474.0	68,631.8	75,370.0	83,024.3	91,115.2	100,378.9	110,239.7

Sources: Congolese authorities and IMF staff estimates and projections.

Table 3a. Democratic Republic of the Congo: Central Government Operations, 2021-28 [1]
(Billions of CDF)

	2021		2022		2023		2024	2025	2026	2027	2028
	CR No. 22/390	Prel.	CR No. 22/390	Prel.	CR No. 22/390	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue and grants	**15,485**	**15,567**	**21,714**	**21,912**	**23,896**	**23,361**	**29,002**	**32,972**	**37,487**	**42,394**	**48,897**
Revenue	**12,683**	**12,683**	**19,904**	**20,237**	**21,978**	**21,635**	**26,740**	**31,255**	**35,762**	**40,831**	**47,429**
Tax revenue	9,090	9,090	15,306	15,147	16,848	16,770	21,264	25,065	28,331	32,306	37,909
Income tax	4,373	4,373	9,324	9,049	9,723	9,738	12,684	15,114	16,914	19,148	22,247
Individuals	1,531	1,531	1,614	1,740	1,788	1,940	2,768	3,066	3,547	4,018	4,484
Businesses	2,498	2,498	7,172	6,647	7,473	7,165	9,058	11,154	12,526	14,314	16,975
Other unallocable taxes on income, profits, and capital gains	344	344	539	663	462	633	858	894	841	815	788
Taxes on goods and services	3,944	3,944	4,581	4,628	5,713	5,485	6,696	7,845	9,076	10,544	12,577
Value-added tax/Turnover tax	3,168	3,168	3,554	3,679	4,518	4,387	5,163	6,131	7,167	8,410	10,081
Excises	776	776	1,027	949	1,195	1,099	1,533	1,715	1,909	2,134	2,496
Taxes on international trade and transactions	773	773	1,401	1,469	1,411	1,547	1,884	2,105	2,341	2,614	3,084
Non-tax revenue	3,547	3,593	4,598	5,091	5,130	4,866	5,475	6,190	7,430	8,526	9,521
Revenue from natural resources and telecommunications	1,787	1,787	2,596	2,496	2,865	2,551	2,887	3,295	4,052	4,559	5,067
Mining royalties	1,065	1,065	1,642	1,499	1,894	1,552	1,772	2,055	2,541	2,844	3,136
Oil royalty and rent	292	292	372	402	337	338	358	387	490	554	605
Telecommunications	219	219	257	254	305	319	374	418	466	521	609
Dividends from state-owned enterprises	211	211	326	341	329	343	382	435	555	640	717
Fees from sectoral ministries	357	357	515	560	490	550	618	691	912	1,192	1,354
Special accounts and budgets	1,065	1,065	1,309	1,309	1,479	1,445	1,613	1,805	2,009	2,245	2,501
Other	338	383	178	726	296	320	357	399.8	457	530	598
Grants	**2,802**	**2,884**	**1,676**	**1,675**	**1,918**	**1,725**	**2,263**	**1,717**	**1,726**	**1,562**	**1,468**
Project	2,705	2,780	962	1,015	1,703	1,555	2,057	1,717	1,726	1,562	1,468
Budget support	97	104	713	660	215	170	206	0	0	0	0
Expenditure	**16,445**	**17,338**	**23,698**	**22,665**	**26,086**	**25,338**	**30,891**	**35,748**	**39,690**	**44,463**	**51,311**
Current expenditure	10,755	10,581	15,555	14,871	16,413	15,798	19,608	21,576	24,177	28,749	33,321
Wages	5,454	5,454	6,565	6,578	7,130	7,130	8,013	8,806	9,764	11,007	12,267
Interest due	250	250	432	470	420	319	401	488	586	682	1,363
External	46	46	56	74	184	82	122	176	228	260	290
Domestic	204	204	376	396	237	237	279	312	359	422	1,073
Goods and services	2,228	2,420	4,404	4,159	3,844	3,444	5,199	5,298	5,715	6,476	7,301
Subsidies and other current transfers	2,457	2,457	3,901	3,664	4,362	4,905	5,995	6,985	8,112	10,585	12,389
Subsidies (incl. VAT reimbursements) [2/]	1,147	1,147	2,243	2,037	2,478	3,060	3,903	4,610	5,428	7,407	8,782
Fuel subsidy	232	232	228	167	0	596	562	546	533	522	0
VAT reimbursement	0	0	328	228	380	375	447	532	631	871	1,033
Transfers to other levels of national government	245	245	350	319	405	401	479	570	675	932	1,106
Special accounts and budgets	1,065	1,065	1,309	1,309	1,479	1,445	1,613	1,805	2,009	2,245	2,501
Capital expenditure	**5,309**	**6,376**	**6,489**	**4,605**	**8,487**	**6,503**	**11,017**	**13,841**	**15,111**	**15,233**	**17,463**
Foreign-financed	4,258	5,164	3,875	2,229	4,932	4,372	4,545	4,125	3,733	3,622	3,863
Domestically-financed	1,052	1,212	2,614	2,376	3,555	2,130	6,472	9,716	11,379	11,611	13,600
Exceptional expenditure [3/]	**380**	**380**	**1,654**	**3,188**	**1,185**	**3,037**	**265**	**332**	**402**	**481**	**527**
Overall fiscal balance (commitment basis)	**-959**	**-1,771**	**-1,984**	**-752**	**-2,189**	**-1,977**	**-1,889**	**-2,776**	**-2,203**	**-2,069**	**-2,414**
Base domestic fiscal balance	**542**	**555**	**137**	**-125**	**1,008**	**751**	**515**	**-193**	**32**	**251**	**272**
Change in domestic arrears (repayment = -)	-585	-495	-1,509	-1,495	-2,008	-1,582	-895	-204	-298	-279	-298
Domestic fiscal balance (cash basis)	**-43**	**60**	**-1,372**	**-1,620**	**-1,000**	**-831**	**-380**	**-397**	**-266**	**-28**	**-27**
Overall fiscal balance (cash basis)	**-1,545**	**-2,266**	**-3,493**	**-2,248**	**-4,197**	**-3,559**	**-2,784**	**-2,980**	**-2,501**	**-2,348**	**-2,712**
Errors and omissions	***-307***	***-815***	***0***	***-77***	***0***	***0***	***0***	**0**	**0**	**0**	**0**
Financing	**1,852**	**3,081**	**3,558**	**2,389**	**4,246**	**3,609**	**2,880**	**3,041**	**2,572**	**2,425**	**2,792**
Domestic financing (banking system)	-798	-798	908	919	812	21	-21	483	621	512	623
Foreign financing	2,650	3,879	2,650	1,470	3,434	3,588	2,901	2,558	1,951	1,913	2,169
Budget loans (disbursements)	121	126	263	256	781	1,352	905	710	720	731	741
Project loans (disbursements)	1,552	2,384	2,912	1,214	3,229	2,817	2,488	2,408	2,007	2,060	2,395
Amortization of external debt	-381	0	-526	0	-576	-580	-492	-560	-776	-878	-967
Other external financing [4/]	1,358	1,369	0	0	0	0	0	0	0	0	0
Memorandum items:											
Gross domestic product (billions of CDF)	112,476	114,248	126,345	132,259	142,543	157,377	175,652	196,486	218,756	244,487	272,393
Mining revenues	3,636	4,066	5,152	8,894	6,744	10,585	11,906	14,749	17,130	19,684	24,274
Unpaid cumulative domestic financial obligations [5/]	9,065	7,621	8,749	7,614	6,741	6,032	4,958	4,713	4,356	4,021	3,663
Social spending	366	366	252	378	657	657	1,294	1,882	2,724	3,958	4,410

Sources: Congolese authorities and IMF staff estimates and projections.

1/ Covers the budgetary central government.

2/ Includes fuel subsidy.

3/ Mainly expenditure related to security and elections.

4/ Includes 50 percent of SDR allocation transferred to the Treasury at end-2021.

5/ Unpaid VAT credit reimbursements and other domestic arrears (cumulative).

Table 3b. Democratic Republic of the Congo: Central Government Operations, 2021-28 [1]

(Percent of GDP)

	2021		2022		2023		2024	2025	2026	2027	2028
	CR No. 22/390	Prel.	CR No. 22/390	Prel.	CR No. 22/390	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue and grants	**13.8**	**13.6**	**17.2**	**16.6**	**16.8**	**14.8**	**16.5**	**16.8**	**17.1**	**17.3**	**18.0**
Revenue	**11.3**	**11.1**	**15.8**	**15.3**	**15.4**	**13.7**	**15.2**	**15.9**	**16.3**	**16.7**	**17.4**
Tax revenue	8.1	8.0	12.1	11.5	11.8	10.7	12.1	12.8	13.0	13.2	13.9
Income tax	3.9	3.8	7.4	6.8	6.8	6.2	7.2	7.7	7.7	7.8	8.2
Individuals	1.4	1.3	1.3	1.3	1.3	1.2	1.6	1.6	1.6	1.6	1.6
Businesses	2.2	2.2	5.7	5.0	5.2	4.6	5.2	5.7	5.7	5.9	6.2
Other unallocable taxes on income, profits, and capital gains	0.3	0.3	0.4	0.5	0.3	0.4	0.5	0.5	0.4	0.3	0.3
Taxes on goods and services	3.5	3.5	3.6	3.5	4.0	3.5	3.8	4.0	4.1	4.3	4.6
Value-added tax/Turnover tax	2.8	2.8	2.8	2.8	3.2	2.8	2.9	3.1	3.3	3.4	3.7
Excises	0.7	0.7	0.8	0.7	0.8	0.7	0.9	0.9	0.9	0.9	0.9
Taxes on international trade and transactions	0.7	0.7	1.1	1.1	1.0	1.0	1.1	1.1	1.1	1.1	1.1
Non-tax revenue	3.2	3.1	3.6	3.8	3.6	3.1	3.1	3.2	3.4	3.5	3.5
Revenue from natural resources and telecommunications	1.6	1.6	2.1	1.9	2.0	1.6	1.6	1.7	1.9	1.9	1.9
Mining royalties	0.9	0.9	1.3	1.1	1.3	1.0	1.0	1.0	1.2	1.2	1.2
Oil royalty and rent	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Telecommunications	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Dividends from state-owned enterprises	0.2	0.2	0.3	0.3	0.2	0.2	0.2	0.2	0.3	0.3	0.3
Fees from sectoral ministries	0.3	0.3	0.4	0.4	0.3	0.3	0.4	0.4	0.4	0.5	0.5
Special accounts and budgets	0.9	0.9	1.0	1.0	1.0	0.9	0.9	0.9	0.9	0.9	0.9
Other	0.3	0.3	0.1	0.5	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Grants	**2.5**	**2.5**	**1.3**	**1.3**	**1.3**	**1.1**	**1.3**	**0.9**	**0.8**	**0.6**	**0.5**
Project	2.4	2.4	0.8	0.8	1.2	1.0	1.2	0.9	0.8	0.6	0.5
Budget support	0.1	0.1	0.6	0.5	0.2	0.1	0.1	0.0	0.0	0.0	0.0
Expenditure	**14.6**	**15.2**	**18.8**	**17.1**	**18.3**	**16.1**	**17.6**	**18.2**	**18.1**	**18.2**	**18.8**
Current expenditure	9.6	9.3	12.3	11.2	11.5	10.0	11.2	11.0	11.1	11.8	12.2
Wages	4.8	4.8	5.2	5.0	5.0	4.5	4.6	4.5	4.5	4.5	4.5
Interest due	0.2	0.2	0.3	0.4	0.3	0.2	0.2	0.2	0.3	0.3	0.5
External	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Domestic	0.2	0.2	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.4
Goods and services	2.0	2.1	3.5	3.1	2.7	2.2	3.0	2.7	2.6	2.6	2.7
Subsidies and other current transfers	2.2	2.2	3.1	2.8	3.1	3.1	3.4	3.6	3.7	4.3	4.5
Subsidies (incl. VAT reimbursements) [2/]	1.0	1.0	1.8	1.5	1.7	1.9	2.2	2.3	2.5	3.0	3.2
Fuel subsidy	0.2	0.2	0.2	0.1	0.0	0.4	0.3	0.3	0.2	0.2	0.0
VAT reimbursement	0.0	0.0	0.3	0.2	0.3	0.2	0.3	0.3	0.3	0.4	0.4
Transfers to other levels of national government	0.2	0.2	0.3	0.2	0.3	0.3	0.3	0.3	0.3	0.4	0.4
Special accounts and budgets	0.9	0.9	1.0	1.0	1.0	0.9	0.9	0.9	0.9	0.9	0.9
Capital expenditure	**4.7**	**5.6**	**5.1**	**3.5**	**6.0**	**4.1**	**6.3**	**7.0**	**6.9**	**6.2**	**6.4**
Foreign-financed	3.8	4.5	3.1	1.7	3.5	2.8	2.6	2.1	1.7	1.5	1.4
Domestically-financed	0.9	1.1	2.1	1.8	2.5	1.4	3.7	4.9	5.2	4.7	5.0
Exceptional expenditure [3/]	**0.3**	**0.3**	**1.3**	**2.4**	**0.8**	**1.9**	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**
Overall fiscal balance (commitment basis)	**-0.9**	**-1.6**	**-1.6**	**-0.6**	**-1.5**	**-1.3**	**-1.1**	**-1.4**	**-1.0**	**-0.8**	**-0.9**
Base domestic fiscal balance	**0.5**	**0.5**	**0.1**	**-0.1**	**0.7**	**0.5**	**0.3**	**-0.1**	**0.0**	**0.1**	**0.1**
Change in domestic arrears (repayment = -)	-0.5	-0.4	-1.2	-1.1	-1.4	-1.0	-0.5	-0.1	-0.1	-0.1	-0.1
Domestic fiscal balance (cash basis)	**0.0**	**0.1**	**-1.1**	**-1.2**	**-0.7**	**-0.5**	**-0.2**	**-0.2**	**-0.1**	**0.0**	**0.0**
Overall fiscal balance (cash basis)	**-1.4**	**-2.0**	**-2.8**	**-1.7**	**-2.9**	**-2.3**	**-1.6**	**-1.5**	**-1.1**	**-1.0**	**-1.0**
Errors and omissions	***-0.3***	***-0.7***	***0.0***	***-0.1***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	**0.0**
Financing	**1.6**	**2.7**	**2.8**	**1.8**	**3.0**	**2.3**	**1.6**	**1.5**	**1.2**	**1.0**	**1.0**
Domestic financing (banking system)	-0.7	-0.7	0.7	0.7	0.6	0.0	0.0	0.2	0.3	0.2	0.2
Foreign financing	2.4	3.4	2.1	1.1	2.4	2.3	1.7	1.3	0.9	0.8	0.8
Budget loans (disbursements)	0.1	0.1	0.2	0.2	0.5	0.9	0.5	0.4	0.3	0.3	0.3
Project loans (disbursements)	1.4	2.1	2.3	0.9	2.3	1.8	1.4	1.2	0.9	0.8	0.9
Amortization of external debt	-0.3	0.0	-0.4	0.0	-0.4	-0.4	-0.3	-0.3	-0.4	-0.4	-0.4
Other external financing [4/]	1.2	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:											
Gross domestic product (billions of CDF)	112,475.6	114,248.4	126,345.3	132,259.1	142,543.3	157,376.7	175,652.1	196,485.7	218,756.4	244,487.4	272,393.3
Mining revenues	3.2	3.6	4.1	6.7	4.7	6.7	6.8	7.5	7.8	8.1	8.9
Unpaid cumulative domestic financial obligations [5/]	8.1	6.7	6.9	5.8	4.7	3.8	2.8	2.4	2.0	1.6	1.3
Social spending	0.3	0.3	0.2	0.3	0.5	0.4	0.7	1.0	1.2	1.6	1.6

Sources: Congolese authorities and IMF staff estimates and projections.

1/ Covers the budgetary central government.

2/ Includes fuel subsidy.

3/ Mainly expenditure related to security and elections.

4/ Includes 50 percent of SDR allocation transferred to the Treasury at end-2021.

5/ Unpaid VAT credit reimbursements and other domestic arrears (cumulative).

Table 4. Democratic Republic of the Congo: Depository Corporations Survey, 2021-28

(Billions of CDF)

	2021		2022		2023		2024	2025	2026	2027	2028
	CR No. 22/390	Prel.	CR No. 22/390	Prel.	CR No. 22/390	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
					Depository corporations survey:						
Net foreign assets	**17,475**	**17,475**	**17,014**	**15,737**	**20,014**	**21,645**	**24,333**	**29,149**	**33,832**	**38,813**	**44,758**
Claims on non-residents	22,744	22,744	23,095	22,220	28,271	30,462	34,674	39,705	44,589	49,563	55,341
Liabilities to non-residents	5,270	5,270	6,082	6,483	8,257	8,817	10,340	10,555	10,757	10,750	10,583
Net domestic assets	**7,482**	**7,482**	**9,613**	**10,076**	**11,536**	**8,535**	**9,814**	**9,584**	**9,877**	**10,725**	**11,195**
Domestic credit	9,759	9,759	12,428	13,960	15,257	17,156	19,040	21,717	24,707	27,984	31,637
Net credit to the central government	1,334	1,334	1,039	1,455	1,752	2,144	2,123	2,606	3,227	3,738	4,361
Credit to other sectors	8,424	8,424	11,387	12,502	13,505	15,013	16,917	19,111	21,481	24,246	27,276
Credit to the private sector	7,565	7,565	10,560	11,294	12,572	13,552	15,271	17,250	19,387	21,881	24,615
Other items, net	-2,276	-2,276	-2,812	-3,881	-3,721	-8,621	-9,226	-12,133	-14,831	-17,259	-20,442
Broad Money (M2)	**24,957**	**24,957**	**26,627**	**25,813**	**31,550**	**30,181**	**34,147**	**38,734**	**43,709**	**49,538**	**55,953**
Narrow Money (M1)	**5,417**	**5,417**	**6,155**	**6,468**	**7,229**	**7,489**	**9,015**	**10,589**	**12,353**	**14,462**	**16,477**
Currency in circulation	2,804	2,804	3,246	3,542	3,681	4,407	5,086	5,713	6,555	7,557	8,678
Demand deposits	2,613	2,613	2,909	2,925	3,548	3,083	3,930	4,703	5,582	6,635	7,467
Quasi money	**19,540**	**19,540**	**20,472**	**19,346**	**24,321**	**22,692**	**25,132**	**28,145**	**31,355**	**35,076**	**39,476**
Time deposits in domestic currency	677	677	747	732	911	793	1,011	1,210	1,436	1,707	1,921
Foreign currency deposits	18,862	18,862	19,725	18,613	23,410	21,899	24,121	26,935	29,919	33,369	37,554
					Banque centrale du Congo:						
Net foreign assets	**2,989**	**2,989**	**3,961**	**4,524**	**3,958**	**7,453**	**8,349**	**10,682**	**13,043**	**15,579**	**18,994**
Claims on non-residents	7,456	7,456	9,064	9,636	11,046	14,580	16,888	19,223	21,557	23,823	26,797
Gross official reserves	5,895	5,895	8,541	9,204	10,945	14,255	14,928	17,263	19,597	21,863	24,837
Liabilities to non-residents	-4,467	-4,467	-5,103	-5,112	-7,088	-7,128	-8,539	-8,541	-8,514	-8,244	-7,803
Net domestic assets	**2,400**	**2,400**	**2,635**	**2,931**	**2,854**	**1,676**	**1,891**	**1,301**	**789**	**360**	**-502**
Domestic credit	2,985	2,985	3,965	3,714	3,594	3,759	2,721	2,484	2,488	2,492	3,344
Net credit to the central government	1,528	1,528	2,555	2,777	2,974	3,010	2,210	2,210	2,210	2,210	3,058
Claims on other depository corporations	1,370	1,370	1,294	832	500	618	377	135	135	135	135
Other items, net	-585	-585	-1,331	-782	-740	-2,084	-830	-1,182	-1,698	-2,132	-3,846
Monetary base (broad definition)	**5,389**	**5,389**	**6,596**	**7,455**	**6,812**	**9,128**	**10,240**	**11,983**	**13,832**	**15,939**	**18,491**
					Other depository corporations:						
Net foreign assets	**14,486**	**14,486**	**13,053**	**11,213**	**16,055**	**14,193**	**15,984**	**18,468**	**20,789**	**23,234**	**25,764**
Net domestic assets	**8,453**	**8,453**	**10,812**	**11,290**	**11,975**	**11,862**	**13,232**	**14,408**	**16,177**	**18,505**	**21,207**
Claims on the central bank	2,812	2,812	3,240	4,234	3,316	4,614	5,564	6,506	7,470	8,521	9,891
Net credit to the central government	-194	-194	-1,517	-1,323	-1,222	-866	-88	396	1,016	1,528	1,303
Credit to local administrations	209	209	190	211	215	255	287	325	365	413	464
Credit to public enterprises	650	650	636	997	718	1,205	1,359	1,537	1,728	1,952	2,197
Credit to private sector	7,478	7,478	10,444	11,190	12,453	13,422	15,136	17,111	19,244	21,734	24,463
Other items, net	-2,503	-2,503	-2,182	-4,020	-3,504	-6,767	-9,027	-11,466	-13,648	-15,643	-17,112
					(Annual percent change)						
Net foreign assets	76.2	76.2	-2.6	-9.9	17.6	37.5	12.4	19.8	16.1	14.7	15.3
Net domestic assets	-10.3	-10.3	28.5	34.7	20.0	-15.3	15.0	-2.3	3.1	8.6	4.4
Domestic credit	5.2	5.2	40.1	53.5	18.2	18.0	6.1	11.5	11.1	11.7	14.7
Net credit to government	-37.4	-37.4	-22.2	9.0	68.7	47.3	-1.0	22.8	23.8	15.9	16.7
Credit to the private sector	17.8	17.8	39.6	49.3	19.1	20.0	12.7	13.0	12.4	12.9	12.5
Broad Money (M2)	36.7	36.7	6.7	3.4	18.5	16.9	13.1	13.4	12.8	13.3	12.9
Memorandum items:											
Nominal GDP (billions of CDF)	112,476	114,248	126,345	132,259	142,543	157,377	175,652	196,486	218,756	244,487	272,393
Credit to the private sector (percent of GDP)	6.7%	6.6%	8.4%	8.5%	8.8%	8.6%	8.7%	8.8%	8.9%	8.9%	0.0%
Velocity (GDP/broad money)	4.5	4.6	4.7	5.1	4.5	5.2	5.1	5.1	5.0	4.9	4.9
Foreign currency deposits (percent of M2)	75.6	75.6	74.1	72.1	74.2	72.6	70.6	69.5	68.5	67.4	67.1
Foreign currency deposits (percent of total deposits)	85.1	85.1	84.4	83.6	84.0	85.0	83.0	82.0	81.0	80.0	80.0

Sources: Congolese authorities and IMF staff estimates and projections.

Table 5. Democratic Republic of the Congo: Financial Soundness Indicators, 2020-22

	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
Capital Adequacy									
Regulatory capital to risk-weighted assets	14.0	13.8	13.1	12.1	12.1	9.9	11.9	12.5	12.1
Tier 1 capital to risk-weighted assets	11.6	11.6	10.9	9.9	10.0	7.9	9.7	10.2	9.9
Common Equity Tier 1 capital to risk-weighted assets	11.2	11.1	10.4	9.5	9.5	7.5	9.3	9.8	9.5
Tier 1 capital to assets	6.1	5.9	5.6	5.1	4.9	4.4	5.1	5.5	5.5
Asset quality									
NPLs to total gross loans	7.7	8.3	7.8	7.1	5.2	9.2	7.4	8.4	7.4
NPLs net of provisions to capital	15.5	16.7	16.4	15.1	10.0	24.0	10.9	20.5	18.9
Provisions to nonperforming loans	61.4	60.6	58.1	60.2	67.7	58.3	74.2	57.9	58.0
Loan concentration by economic activity	51.4	50.1	52.5	54.3	46.9	49.7	50.6	53.8	49.3
Earnings and profitability									
Return on assets (net income/total assets)	0.3	1.4	1.4	1.2	1.1	1.4	1.7	1.9	2.2
Return on equity (net income/equity)	2.1	16.1	17.2	15.3	15.7	18.2	19.5	23.1	24.7
Interest margin to gross income	32.3	30.4	28.1	30.3	28.9	29.5	30.3	29.8	30.8
Noninterest expenses to gross income	75.1	67.6	66.2	66.2	66.8	62.0	62.8	59.6	58.1
Liquidity									
Liquid assets to total assets	14.6	14.7	13.0	15.4	16.7	15.0	18.4	17.5	21.1
Liquid assets to short-term liabilities	42.8	46.5	40.6	46.1	45.0	42.6	53.2	54.8	64.4
Customer deposits to total (noninterbank) loans	220.5	224.9	249.7	250.0	254.7	262.5	234.1	207.0	197.9
Sensitivity to market risk									
Net open position in foreign exchange to capital	25.2	16.0	12.4	10.9	5.4	53.9	-5.4	13.1	16.2
Foreign currency-denominated liabilities to total liabilities	89.8	87.8	86.7	85.0	85.0	84.1	85.8	85.1	82.8
Foreign currency-denominated loans to total loans	90.2	87.7	89.8	88.9	83.6	88.3	87.6	86.6	87.0

Source: Banque centrale du Congo.

Table 6. Democratic Republic of the Congo: Capacity to Repay the Fund, 2021-33

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Total obligations on existing and prospective credit													
Total obligations (In millions of SDRs)	5.3	6.6	23.4	32.1	112.0	138.7	214.8	245.3	321.4	271.9	245.3	184.4	123.4
Principal	4.9	0.0	0.0	0.0	80.0	106.6	182.8	213.2	289.4	239.9	213.2	152.3	91.4
Charges and interest 1/	0.3	6.6	23.4	32.1	32.1	32.1	32.1	32.1	32.1	32.1	32.1	32.1	32.1
Total obligations (In millions of U.S. dollars)	7.5	8.9	31.5	43.1	151.2	188.0	292.2	334.9	438.9	371.3	334.9	251.7	168.5
In percent of exports of goods and services	0.0	0.0	0.1	0.1	0.5	0.6	0.9	1.0	1.2	1.0	0.8	0.6	0.4
In percent of GDP	0.0	0.0	0.0	0.1	0.2	0.2	0.3	0.3	0.4	0.3	0.2	0.2	0.1
In percent of quota	0.5	0.6	2.2	3.0	10.5	13.0	20.2	23.0	30.2	25.5	23.0	17.3	11.6
In percent of total external debt service	1.5	1.3	4.5	6.1	18.6	20.5	27.4	31.1	35.8	28.6	26.0	21.4	16.1
In percent of gross international reserves	0.3	0.2	0.5	0.7	2.1	2.3	3.3	3.3	4.2	3.4	2.9	2.1	1.3
Fund credit outstanding (end-period)													
In millions of SDRs	837.6	1,142.2	1,446.8	1,599.0	1,519.1	1,412.5	1,229.7	1,016.5	727.1	487.3	274.1	121.8	30.4
In millions of U.S. dollars	1,171.8	1,518.5	1,943.9	2,152.1	2,055.4	1,916.8	1,676.3	1,389.1	993.7	665.9	374.6	166.5	41.6
In percent of exports of goods and services	5.2	5.3	6.7	7.0	6.4	5.8	4.9	4.0	2.8	1.8	0.9	0.4	0.1
In percent of GDP	2.0	2.3	2.8	2.9	2.5	2.1	1.7	1.3	0.8	0.5	0.3	0.1	0.0
In percent of quota	78.6	107.1	135.7	150.0	142.5	132.5	115.4	95.4	68.2	45.7	25.7	11.4	2.9
In percent of total external debt	12.2	15.2	16.6	16.8	15.2	13.7	11.7	9.5	6.6	4.4	2.4	1.0	0.3
In percent of gross international reserves	39.8	33.8	33.0	33.9	28.4	23.7	18.8	13.9	9.5	6.1	3.2	1.4	0.3
Memorandum items													
Exports of goods and services (in millions of U.S. dollars)	22,336	28,415	29,139	30,727	32,053	33,063	34,191	34,803	36,036	37,334	41,355	43,140	45,247
Quota (in millions of SDRs)	1,066	1,066	1,066	1,066	1,066	1,066	1,066	1,066	1,066	1,066	1,066	1,066	1,066
GDP (in millions of U.S. dollars)	57,407	65,808	68,632	75,370	83,024	91,115	100,379	110,240	120,725	132,431	147,373	162,156	178,623
Public sector external debt service (in millions of U.S. dollars)	517	695	696	702	812	916	1,068	1,078	1,225	1,300	1,290	1,174	1,050
Public sector external debt (end-period, in millions of U.S. dollars)	9,615	9,990	11,682	12,834	13,545	13,981	14,276	14,685	15,035	15,262	15,535	15,954	16,533
Gross international reserves (in millions of U.S. dollars)	2,948	4,497	5,895	6,356	7,242	8,104	8,912	10,027	10,431	10,978	11,555	12,195	12,905

Source: IMF staff estimates and projections.

1/ On April 7, 2023 the IMF Executive Board agreed that interest rates on all loans provided through the PRGT facilities will remain at zero until the next comprehensive PRGT review to occur in 2024/25.

Table 7. Democratic Republic of the Congo: External Financing Requirements and Sources, 2022-28

(Millions of US$, unless otherwise indicated)

	2022	2023	2024	2025	2026	2027	2028
Gross Financing Requirements	**4,352**	**4,338**	**3,497**	**2,914**	**3,032**	**3,217**	**4,071**
Current account deficit excl. grants	3,824	3,837	3,023	2,340	2,362	2,395	3,239
Public sector loan amortization	528	501	475	574	670	822	832
of which: IMF	0	0	0	108	144	249	291
Identified Financing Sources	**3,489**	**3,265**	**2,816**	**2,614**	**2,732**	**2,917**	**3,771**
Capital account balance	538	501	757	667	739	752	807
Net foreign direct investment	1,409	1,470	1,614	1,778	1,951	2,150	2,361
Portfolio inflows	-35	-36	-40	-44	-48	-53	-58
Project loan disbursements	604	1,231	1,071	1,020	839	849	972
Other capital flows (net)	2,440	1,497	-125	78	113	27	804
Change in reserves (+ increase)	-1,549	-1,398	-461	-886	-862	-808	-1,115
Net Errors and Omission	81	0	0	0	0	0	0
Financing Gap	**863**	**1,073**	**681**	**300**	**300**	**300**	**300**
Prospective Financing	**863**	**1,073**	**681**	**300**	**300**	**300**	**300**
ECF disbursements	407	409	205	0	0	0	0
World Bank	456	664	405	274	274	274	274
African Development Bank (AfDB)	0	0	71	0	0	0	0
Other multilateral and bilateral	0	0	0	26.4	26.4	26.4	26.4

Sources: Congolese authorities and IMF staff projections.

Table 8. Democratic Republic of the Congo: Reviews and Disbursements Under the Extended Credit Facility Arrangement

Availability Date	Action	Associated Disbursement	Quota (In
On July 15, 2021	Approved three-year ECF arrangement	SDR 152.3 million	14.3
On or after September 15, 2021	Completed the first review based on end-June, 2021 performance criteria	SDR 152.3 million	14.3
On or after March 15, 2022	Completed the second review based on end-December, 2021 performance criteria	SDR 152.3 million	14.3
On or after September 15, 2022	Completed the third review based on end-June, 2022 performance criteria	SDR 152.3 million	14.3
On or after March 15, 2023	Completed the fourth review based on end-December, 2022 performance criteria	SDR 152.3 million	14.3
On or after September 15, 2023	Completed the fifth review based on end-June, 2023 performance criteria	SDR 152.3 million	14.3
On or after March 15, 2024	Completed the sixth and final review based on end-December, 2023 performance criteria	SDR 152.2 million	14.3
Total		SDR 1,066.0 million	100.0

Source: International Monetary Fund.

Annex I. Risk Assessment Matrix[1]

Source of Risks	Likelihood	Expected Impact on Economy	Policy Response
Potential External Risks – Conjunctural Shocks			
Abrupt growth slowdown in China. Greater-than-expected economic disruptions from COVID resurgence, rising geopolitical tensions, and/or a sharper-than-expected slowdown in the property sector disrupt economic activity.	Medium	**High** Lower exports and fiscal revenues would generate BOP and budget financing needs. Lower commodity prices could reduce investment in the extractive sector and dampen DRC's growth prospects. Lower fiscal revenues would put at risk priority spending and exacerbate poverty and inequality, derail government's investment plans and lower growth prospects.	– Maintain prudent macro policies to foster macro stability. – Allow the exchange rate to act as a shock absorber and use external buffers to prevent disorderly depreciation that could negatively impact financial stability. – Step up revenue mobilization efforts, limit nonpriority spending to create space for fiscal policy support. – Mobilize external financing support. – Promote economic diversification in exported goods as well as exports' markets destinations.
Intensification of regional conflict(s). Escalation of Russia's war in Ukraine or other regional conflicts and resulting economic sanctions disrupt trade (e.g., energy, food, tourism, and/or critical supply chain components), remittances, refugee flows, FDI and financial flows, and payment systems.	High	**High** Supply disruptions and sharper-than-anticipated increases in international energy prices raise the costs of energy imports and other imported goods	– Develop a contingency plan that would lower the impact of a delayed economic recovery.
Commodity price volatility. A succession of supply disruptions (e.g., due to conflicts and export restrictions) and demand fluctuations (e.g., reflecting China reopening) causes recurrent commodity price volatility, external and fiscal pressures, and social and economic instability.	Medium	**High** Higher volatility in commodity prices will challenge sustainable macro policies and put pressure on the domestic currency, reserves, and fiscal revenues.	– Accumulate international reserve buffers. – Diversify the structure of the economy and export sources. – Increase participation in regional trade area agreements (EAC and AFCFTA). – Use exchange rate flexibility as a shock absorber but intervene

[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. The conjunctural shocks and scenario highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

Source of Risks	Likelihood	Expected Impact on Economy	Policy Response
			to prevent disorderly currency movements
DRC-Specific Risks			
Escalated armed conflicts in the East	High	High Economic activity would be hurt though mostly in areas not well integrated with the rest of the country. Increase fiscal and external imbalances.	– Make room for a budgetary contingency for national security emergency. – Provide humanitarian assistance to people hit by the conflict
Political instability and widespread social discontent ahead of the Presidential elections.	Medium	High Policymaking and macro stability could be undermined as well as the ability to advance with ambitious and much needed structural reforms. Social tensions could undermine the ability to advance with ambitious and much needed structural reforms. They could also threaten (limited) external financing flows from international financial institutions.	– Maintain commitment and ownership of reforms to build strong institutions; step up governance reforms. – Anchor inflationary expectations by tightening monetary policy. – Increase spending on social protection to the poorest segments. – Identify external financing sources, while remaining prudent on sovereign indebtedness.
Extreme climate events. Extreme climate events cause more severe than expected damage to infrastructure (especially in smaller vulnerable economies) and loss of human lives and livelihoods, amplifying supply chain disruptions and causing water and food shortages, and reducing growth.	Medium	Medium Risks related to floods and landslides natural disasters could trigger further public expenditures and alter the planned reduction of public debt.	– Prioritize projects related to climate change – Build infrastructure resilient to natural disaster.

Annex II. Climate Change Risks, Opportunities, and Authorities' Strategy

The DRC is one of the world's most climate-vulnerable countries. Temperature increases, extreme weather events, and changes in total precipitation and rainfall variability are raising social vulnerabilities, food insecurity, and already high poverty rates. At the same time, the DRC has very low carbon emissions and, through its peatlands and forests, significantly contributes to the global mitigation efforts. Its mining resources (including over half of global cobalt reserves and expanding lithium and copper production) are critical for the global energy transition. The authorities aim to make DRC a solution country for the global transition and expect to be compensated for providing a global public good. An improved climate-related strategy would help the country catalyze climate finance to meet the large investment needs necessary to its adaptation and put it on a path to sustainable development.

Vulnerability to Climate Change

1. Climate change risks are exacerbating DRC's poverty and fragility. The Congolese population is amongst the world's most vulnerable: about 77 percent of the population (75 million) live in extreme poverty (14 percent of the SSA total); over half the population lives in rural areas, but the rate of urban poverty is elevated (at 51 percent in Kinshasa). Ineffective land management has pushed the urban poor into unsuitable settlements, exacerbating their vulnerability to climate shocks.

2. The DRC is particularly prone to natural disasters such as floods and landslides.[1] Climate change is projected to increase both the likelihood and the intensity of extreme precipitation events and floods. Temperatures will continue rising through the end of the century; rising heat, increased prevalence of extreme precipitation events and changed weather patterns will impact the economy significantly. DRC is also prone to recurring epidemics including malaria, cholera, and other diarrheal and vector-borne diseases which would proliferate with increased flooding.

3. Poor infrastructure amplifies the impact of natural disasters and is a major constraint to sustainable and inclusive growth. The country's infrastructure deficit is limiting competitiveness for the private sector and constraining economic diversification. Infrastructure gaps are particularly large in road transport and no road connects Eastern and Western DRC.[2] Access to electricity, clean cooking, water and sanitation services is severely lacking.[3] Biomass (mostly fuelwood and charcoal) accounts for 98.8 percent of the country's household total energy consumption. Recurring floods degrade infrastructure and land. Climate events exacerbate already chronic food insecurity, as

[1] Climate Risk Country Profile, Congo, Democratic Republic.

[2] 5 percent of roads are paved, 14 percent in good condition.

[3] 19 percent of the population has access to electricity, and 4 percent to clean cooking. 34 percent of households have access to water (19 percent in rural areas) and 29 percent has access to sanitation.

disruptions in transportation rapidly impact retail food prices and climate events imperil agriculture. Extreme climatic events would also degrade and destroy health, education, and sanitation infrastructure, compromising the population's very limited access to basic public services.

4. Exposure to recurrent natural disasters and climate change events results in economic losses with fiscal implications. Climate change already poses significant challenges in the electricity sector, as the cost of disruption due to natural shocks to the power sector is estimated at 1.9 percent of GDP in 2019.[4] Under an optimistic scenario, climate change could reduce DRC's GDP by 6.5 percent by 2030 and push over an additional 3.5 million people into poverty.[5]

Opportunities for the Global Transition Strategy—The Pivotal Role of the DRC

5. DRC provides a crucial carbon sequestration service to the world through its rainforests and peatlands. The Congo Basin's forest, the second largest rainforest in the world, absorbs as much as 4 percent of global emissions every year. This makes DRC one of the worlds' few net negative carbon emitters and the most important carbon absorption capacity in Africa, equivalent to two thirds of the continents' emissions. The central Congo Basin also contains the world's largest peatlands, and DRC's portion entraps 19 billion tons of carbon. In total, the DRC holds about 42 billion tons of "irrecoverable" carbon (120 percent of global annual emissions) that, if released, could not be recaptured in time to prevent dangerous climate effects.[6]

6. Large natural wealth also positions DRC well as essential the global transition.[7] DRC is the largest cobalt producer worldwide (with about 60 percent of the global cobalt reserves) and the top copper producer in Africa, two key metals needed for the global energy transition. Further, efforts to expand copper and lithium (a third green metal) production could make the DRC a top global supplier.[8] If exploited sustainably, supported by proper infrastructure and suitable governance and standards, green minerals could create important opportunities for DRC's economic growth and private sector to implement green technology, create jobs, and support the transition to a low carbon economy. Higher demand for green metals could provide additional resources for development and more inclusive growth, allowing for climate-resilient infrastructure that promotes connectivity and diversification.

7. DRC water resources could generate large-scale renewable energy. Notably, DRC's hydroelectric potential could power large parts of the region with renewable energy, especially with the Congo River, the second longest in Africa after the Nile and the second in the world by debit

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[4] Lifelines: The Resilient Infrastructure Opportunity, World Bank (2019).

[5] Shockwaves Report, World Bank (2016, 2019).

[6] See Selected Issues Paper on Building Resilience and Exploring Opportunities from Climate Change (IMF, 2022)

[7] PRECOP27 | DRC, SOLUTION COUNTRY (gouv.cd)

[8] Lithium mining in DRC could make it a top global supplier (theafricareport.com)

after the Amazon. DRC also benefits from the Congo Basin, a reservoir which carries about 10 percent of the world's fresh water (52 percent of Africa's).

Finding the Right Balance between Development and Climate Commitments

8. Recent auctions for exploring oil and gas, some in peatlands and rainforest areas, could increase emissions and hamper the government's credibility on its climate commitments (Annex II. Box 1). The authorities aim to address large development needs in one of the poorest countries worldwide, helping attract foreign investment, and kick-start a new era of energy access in line with its ambition to address energy deprivation and poverty. The authorities have argued that gas and oil exploration is not inconsistent with their climate Paris Agreement commitments and needed for development in one of the poorest countries, while being very vocal about the rest of the world needing to subsidize the global public goods in the country.

Annex II. Box 1. Oil and Gas Blocks Exploration

The DRC launched licensing auctions for 27 oil blocks and 3 gas blocks at end-July 2022. The DRC holds an estimated 22 billion barrels of oil and 66 billion cubic meters of gas. Nine of the proposed blocks overlap with protected areas, including a national park, nature reserves, peatlands, and a mangroves marine park. The licensing has brought a lot of media attention and the authorities have created a working group with U.S. officials to work on this issue.

The auction has raised concerns about the future of a forest protection deal signed with the Central African Forest Initiative (CAFI). One of the political milestone in the recent LOI signed by the UK and the DRC's government is: "To respect the ban of all hydrocarbon activity incompatible with the objective's conservation in protected areas, in compliance with the legal framework in force. Oil exploration could be a looming threat for Congo's ecosystems and a comprehensive environmental impact assessment would be needed to identify the risks posed by oil drilling in protected areas.25F[9]

While the auctioning of the 27 oil blocks have been delayed, the government has auctioned off three gas blocks to U.S. and Canadian companies. While these three gas blocks are less controversial as they do not affect rainforests or peatlands, three of the remaining oil blocks are

particularly controversial because they are placed in parts of the country's Cuvette Centrale rainforest and peatlands. After a series of multinational oil companies ruled themselves out of the

controversial projects, the government pushed back bidding which has been postponed to deadlines in July and August 2023. Oil exploration could threaten protected areas, biodiversity, and undermine the objectives of the RST via potential destruction of carbon sinks. Staff will discuss with the authorities their plans and the viability of these projects, calling for a strict adherence to fulfilling social and environmental impact assessments and the national legal framework, which seems to prohibit exploration in protected areas.

The authorities are also considering bidding oil blocks for conservation projects instead of drilling for fossil fuels.26F[10] In March 2023, an U.S. biodiversity fintech-based investment firm has reportedly bid for oil concessions in the Congo basin rainforest and Virunga national park with plans to turn them into conservation projects in partnership with NGOs, selling carbon and biodiversity credits based on avoiding the damage oil exploration would have caused. The company estimates the project would generate at least US$6 billion, create more jobs than oil exploration, and produce higher tax revenue for the DRC government.

[9] CongoPeat_Briefing_on_Oil-Exploration_Updated_27_blocks.pdf

[10] US firm to bid to turn DRC oil permits in Virunga Park into conservation projects | Democratic Republic of the Congo | The Guardian.

9. Strengthening the accountability and governance of oil exploration permits would help reduce reputational risks to the authorities' climate policy framework. To limit reputational risks staff urge the authorities to (i) ensure that any exploration permit is allocated in accordance with the legal framework; (ii) publish all social and environmental impact assessment reports to be published ahead of the projects going into the implementation phase; and (iii) consider alternative options to biding blocks for drilling, including for conservation, or to employ other policies relevant for the forestry sector such as feebates for forests and payments for environmental services, given the importance of preserving the global carbon sinks.

A. Authorities' Climate Change Strategy

The authorities' National Adaptation Plan to Climate Change (NAP), which has been vetted by key stakeholders, spans reform plans covering adaptation (particularly in water resources, forestry, and agriculture), mitigation, and transition. The NAP is complemented by the climate diagnostics provided by the C-PIMA and the forthcoming CCDR (pending publication). The continuous integration of CCDR's recommendations and staff's analysis in the authorities' climate change strategic plan will be critical for achieving DRC's potential as a solution country.

10. The DRC has made efforts to mainstream climate change into its policy framework. Since 2009, the country has been involved in the Reduction Emissions from Deforestation and Forest Degradation (REDD+) initiative, a framework formed under the U.N. Framework Convention on Climate Change (UNFCCC). In 2015, the DRC became the first country worldwide to present its REDD+ Readiness-Package and pledged to reduce Greenhouse gases (GHG) emissions by 17 percent. In 2021, the country increased its ambitions, pledging to cut its emissions to 21 percent by 2030 in its updated Nationally determined contribution (NDC). Ninety climate activities are identified in the new NDC, grouped in sectors such as energy, agriculture, forest and land use, waste management, water management, health, and coastal erosion.

11. DRC's emissions per capita are currently extremely low. Land-use change driven by agriculture, and forestry are the primary contributors to the DRC's greenhouse gas emissions (86 percent), followed by waste (11 percent), agriculture (1.0 percent), and energy (0.6 percent).[11] In 2019, DRC's per capita GHG emissions were 0.63 tCO2e, well below average world levels,[12] while its per-capita carbon emissions were 0.04 metric tons, well below the world average (4.5) and even the SSA average (0.8).[13]

12. The DRC's climate mitigation strategy is anchored on nature-based solutions for climate adaptation to maximize the improvement in ecosystem services. To meet its NDC, the DRC plans to reduce its emissions from land use and forestry. The authorities' strategy includes

[11] For further details see SIP 2022.

[12] World Development Indicators, World Bank, 2022 and CAIT Database, WRI

[13] World Development Indicators, World Bank, 2022

improving forest management, reforesting about three million hectares over the next five years and maintaining the forest cover at 63.5 percent of the territory by 2030.

13. To mitigate climate risks, the DRC identified five priority actions in their National Adaptation Plan (NAP). In 2022, the DRC published its NAP (2022-26) in accordance with the National Strategic Development Plan (PNSD, 2019-26), the NDC (2021-30) and decisions on adaptation taken in line with the Conference of the Parties (COP) on climate change. The plan proposes some priority actions, classified by sector, which are expected to be developed or modified as the NAP process evolves, additional vulnerability and risk assessments are completed, and new information becomes available. Priority actions include:

- *Conservation of forest ecosystems and biodiversity:* Adapting forest management to climate change will ensure energy supply and livelihoods.

- *Integrated agriculture, fishing, livestock farming and rural development:* Selection of resilient varieties at the agricultural research centers and smart agriculture will help livelihoods and strengthen resilience.

- *Water, sanitation, and disaster risk management:* Modifying water resource management and improving the prevention of extreme weather events and floods through early warning system will strengthen the resilience of the water resources.

- *Action plan and associated costs –strategic plan for implementing the recommended actions*: Evaluating the cost of implementing priority climate adaptation measures? and developing public-private partnerships will help formulate and implement? adaptation policies.

- *Private sector engagement*: Increasing the role of the private sector, through corporate social responsibility, will help promulgate and finance any new policies emerging from the NAP that are relevant to their business practices.

B. Costs of Climate Change Adaptation and Mitigation and Investment

14. Achieving the NDC will require sizable financing. The financing needs to achieve this new NDC are estimated at US$48 billion (87.5 percent of GDP in 2021) during 2022-30, split between mitigation (US$25 billion) and adaption (US$23 billion). In the updated NDC, 19 percent of emissions reduction is conditional on external financing and 2 percent will be financed on domestic resources.

15. Current commitments for climate financing have fallen short of financing requirements with limited private capital participation.[14] The DRC offers a wealth of climate-related investment opportunities but accounts for less than 2 percent of the global climate finance flows to Africa. Public institutions such as multilateral climate funds, multilateral and bilateral

[14] Landscape of Climate Finance in Africa: Interactive Data Tools - CPI (climatepolicyinitiative.org)

development finance institutions (DFI) and governments have provided climate finance in the form of grants (50 percent of financing portfolio), project level market debt (10 percent of financing portfolio) and low-cost project debt (40 percent of financing portfolio)—all in all accounting for 98 percent of climate finance flows to the DRC. Private institutions represent only 2 percent. Actual and perceived risk can dissuade private capital players, but several steps could be taken to address structural bottlenecks and expand private climate finance markets and investment. Priority measures should target the enhancement of governance and institutional frameworks. Such measures could include (i) the accreditation of national entities under various financing mechanisms; (ii) the buildup of institutional and technical capacity to develop bankable climate-related project proposals and (iii) the need to establish robust monitoring, reporting and verification (MRV) systems for climate-related outcomes.

16. The DRC's commitments in the fight against climate change will start to feed into PIM practices (PIMA). The DIGNAD simulations show significant benefits from ex-ante adaptation investment (Annex II. Box 2). The DRC's commitments in the fight against climate change are only just starting to feed into public investment management practices. Albeit in the process of becoming operational, good practices will include the coordinating role of the Ministry of Environment and Sustainable Development for investment decisions, the emergence of an institutional and financial framework for natural disaster risk management and the legal obligation of conducting environmental and social impact assessments. In addition, more needs to be done in aligning and recognizing climate consideration in the national and sectoral strategies, in putting in place a legal framework and strategy for land management, and methodologies to assess climate risks and impact on infrastructure (Annex II. Box 3).

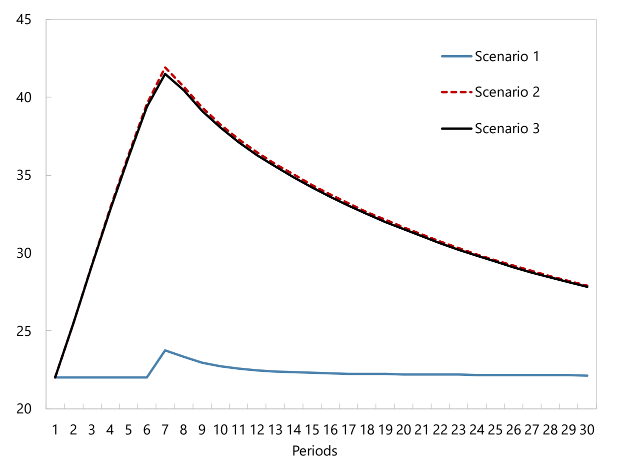
Annex II. Box 2. Benefit of Ex-ante Adaptation Investment: Lessons from the DIGNAD Simulations[1]

The Debt, Investment, Growth, and Natural Disasters (DIGNAD) model can demonstrate the impact of investing in ex-ante adaptation on output growth and public debt. The model is calibrated to the DRC and is simulated for a hypothetical disaster lowering GDP by about 6.5 percent (which is mimicking the optimistic climate risk scenario for the DRC).[2] The decline in GDP arises mainly due to the damages to infrastructure and the negative impact on both private and public capital.

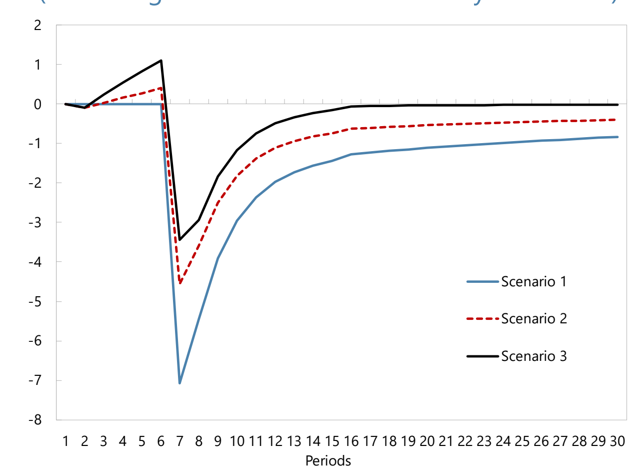
- Scenario 1: No policy change assumes the authorities invest in standard capital infrastructure and do not scale up investment for adaptation infrastructure during years 1–5, then a natural disaster occurs in year 6.
- Scenario 2: Adaptation investment assumes an additional investment in adaptation infrastructure of 4 percent of GDP relative to the no additional investment scenario in years 1–5. The adaptation investment is expected to be financed through concessional public borrowing.
- Scenario 3: Adaptation investment along with PIM reforms assumes additional public investment in adaptation infrastructure as in Scenario 2 and improved public investment management (PIM) efficiency associated with PIM reforms. The current level of public investment efficiency in the DRC is 12 percent. We improved the public investment efficiency by 20 percent reaching 32 percent.

The simulations illustrate that investing in more robust infrastructure (as in Scenarios 2 and 3) results initially in higher public debt but improves the resilience of the economy by reducing the adverse impact of natural disasters on output and damages to physical assets. Investing an additional 4 percent of GDP in physical infrastructure that is capable of withstanding natural Disasters shocks —so-called adaptation capital —for the next five years would save the DRC about 2.5 percent of GDP in output losses relative to the no policy scenario (Scenario 1) when disaster hits. Improved public investment management (PIM) and efficiency (scenario 3) could further lessen the growth impact of natural disaster with an additional saving of 1.1 percent GDP in output loss. Public debt would be expected to stabilize below 30 percent of GDP with adaptative infrastructure investment (Scenarios 2 and 3).

Total Public Debt
(Percent of GDP)



Real GDP Level
(Percentage deviation from the steady state level)



[1] The IMF DIGNAD toolkit is developed by Zamid Aligishiev, Cian Ruane and Azar Sultanov. It should be noted that the simulation assumptions include a single one-time climate hazard event abstracting from recurring climate shocks or slow-moving climate changes.
[2] Shockwaves Report, World Bank, 2016 and 2019.

Annex II. Box 3. Main C-PIMA Recommandations

The quality and resilience of infrastructure in the DRC are critical to mitigate the socio-economic cost of climate change and the risk stemming from natural disasters. DRC's commitments in the fight against climate change are only just starting to feed into public investment management practices. The C-PIMA proposed reform measures along the following axis:

- Strengthening climate-aware planning (high priority), bringing the national and sectoral strategies aligned with the climate targets and objectives described in the NDC, already in place for the forestry sector strategy.[1] Possible measures could be : (i) align the PNSD (National Development Strategy Plan) and sectoral strategies with the NCD's climate objectives to provide a sectoral breakdown of climate-related objectives, targets and outcomes to incorporate climate issues more closely in national public investment planning; (ii) issue legislation on land management incorporating climate risks, to get reflected in the land management strategy and a land use strategy; and (iii) creating a dedicated unit to support the preparation and costing of climate-aware investment strategies by sectoral ministries.
- Coordinating on climate-related public investment decision-making across the entire public sector (medium priority). by making public corporations required to make their climate-related investments compliant with national climate policies and incorporating climate change in the framework for consultation between the central government and the provinces.
- Enhancing project appraisal and selection by incorporating climate-related analysis and criteria, including by (i) incorporating climate change in the legal framework on environmental assessments; (ii) establishing a standard methodology for environmental assessments;[2] incorporating in the PPP legal framework climate change challenges; and (iii) explicitly including factors linked to climate in the decision-making criteria used by the government for investment projects.
- Budgeting and portfolio management (weak priority) by (i) incorporating public investment spending relating to climate change in the budget; (ii) establishing an explicit legal basis for carrying out ex-post reviews or audits on the outcomes of investment projects in terms of climate change mitigation and adaptation; (iii) revamping the asset management and maintenance policies to incorporate climate risks; and (iv) setting up a tagging system for climate-related investment spending over the medium term, which requires preparing the nomenclature and information systems.
- Improving risk management (low priority), by (i) adopting the national natural disaster risk management strategy that incorporates the specific risks to infrastructure from climate change (data on location of the risk, exposure of assets or emergency procurement procedures); (ii) consolidating the financing mechanisms to deal with the costs of climate-related damage to public infrastructure in the budget; and (iii) incorporate climate change-related risks in the fiscal risk statement.

[1] The reduction of deforestation and forest degradation (REDD+) strategy and its investment plan (PIREDD) consistently integrate the details of the actions (draft, preliminary budget, and impact indicators) and the DRC's commitments on sustainable forest management with the aim of participation in combating climate change.
[2] BCECO prepared a draft environmental and social procedures manual (to be validated), whose status needs to be confirmed.

Appendix I. Letter of Intent

Kinshasa, DRC
June 13, 2023

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, D.C. 20431

Madam Managing Director:

1. **We remain committed to implementing the policies and reforms under the Extended Credit Facility arrangement,** building on the 2019-23 National Strategic Development Plan, aimed at maintaining macroeconomic stability, increasing fiscal space, and promoting sustainable growth, while fostering better governance.

2. **Despite a challenging and uncertain environment, growth has proven resilient.** Real GDP growth is estimated at 8.9 percent in 2022, driven by the mining sector. Inflation, however, maintained an upward trend, reaching 16.9 percent in March 2023, partly driven by continued exchange rate depreciation. Despite the widening current account deficit, gross international reserves reached US$4.5 billion at the end of 2022, up from US$2.9 billion at the end of 2021. While the 2022 domestic fiscal deficit was aligned with program targets, the composition of spending changed significantly given the surge in exceptional spending.

3. **In this context, we are committed to meeting conditionality associated with our IMF-supported program.** We have met the quantitative performance criteria (QPCs) as of end-December 2022. The indicative target (IT) related to social spending was not met at end-2022, but we have taken urgent corrective measures to meet it in the future. We have met three structural benchmarks (SBs), but the continuous benchmark on the publication of mining contracts was not met, as the publication of Ventora and Primera Gold contracts was done belatedly. We are also continuing to implement reforms related to public financial management, improving the monetary policy framework and financial supervision, transparency, and anti-corruption.

4. **The outlook remains favorable, but the risks to the downside have increased significantly.** We project growth of 6.8 percent sustained by mining activity, and inflation to decline gradually, as macro policies are tightened to anchor inflation expectations. The downside risks are significant, linked to the international environment as the economy remains vulnerable to external shocks, but also to the impact of the escalating armed conflict in the East, which requires exceptional efforts to address security and humanitarian needs.

5. **Despite spending pressures related to the situation in the East, we are tightening fiscal and monetary policies to maintain macroeconomic stability and meet our program commitments.** To preserve the gains of macroeconomic stabilization of the past few years, we are

planning a level of additional one-time spending consistent with building fiscal space. We have put in place measures to ensure the regularization and governance of these expenditures. In addition to the essential security effort, this additional spending also covers urgent social and humanitarian needs. The tightening of monetary policy should also contain inflationary pressures. Given the low level of international reserves, we remain committed to build up reserves and sustain exchange rate flexibility by only intervening in the foreign exchange market in exceptional circumstances.

6. We also request the modification of the end-June 2023 NIR QPC and the completion of the fourth review under the ECF-supported arrangement and of the financing assurances review, which will allow for the disbursement of SDR152.3 million for balance of payments support, bringing total ECF disbursements to SDR761.5 million. Our program will continue to be based on QPCs and ITs with end-June and end-December test dates and continuous performance criteria, and on structural benchmarks consistent with our reform agenda. The conditionalities are detailed in Tables 1-2 of the Memorandum of Economic and Financial Policies (MEFP) and in the Technical Memorandum of Understanding (TMU). We also request the modification of the end-June 2023 NIR QPC and the completion of the financing assurances review.

7. The attached MEFP sets out our objectives and commitments under the ECF. We will assess progress in continued consultation with the IMF Staff and stand ready to take additional steps that may be needed to achieve program objectives. We reiterate our commitment to consult with the IMF prior to adopting any revisions to the policies set forth in this Letter of Intent (LOI) and the MEFP. We will also provide, in accordance with the TMU, all data and information required to assess the policies and measures implemented. We consent to the publication of this LOI, the MEFP and the TMU, as well as the staff report on the fourth review under the ECF, and all related documents (including the debt sustainability analysis), upon approval by the IMF Executive Board.

Sincerely yours,

/s/
Jean-Michel SAMA LUKONDE
Prime Minister

/s/
Nicolas KAZADI
Minister of Finance

/s/
MALANGU KABEDI MBUYI
Governor of the BCC

/s/
Aimé BOJI SANGARA
Minister of State
Minister of Budget

Attachments:
- Memorandum of Economic and Financial Policies
- Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies

This memorandum updates the MEFP attached to the third review of the program supported by the ECF approved by the IMF's Executive Board on December 20, 2022.

A. Economic Developments and Outlook

1. The situation in the DRC is being affected by the worsening armed conflicts in the eastern part of the country and the preparations for the general elections scheduled for December 2023. The armed conflicts are having a significant impact on the economy and the population, resulting in exceptional expenditures for the re-engagement of the government in these regions, the management of displaced persons, the urgent response to humanitarian needs (food, health, education, etc.), all of which require a significant security effort that leads to additional spending contributing to pressures on the exchange market and inflation. The organization of municipal, legislative and presidential elections is critical to the consolidation of democracy in the country and is essentially domestically financed.

2. Stimulated by the growth of the mining sector, our economy has been resilient in 2022 despite persistent domestic and international uncertainty. The most recent available statistics show economic growth of 8.9 percent in 2022, up from the projections in the third review 6.6 percent. This performance is driven by strong growth of mining production (estimated at 22.6 percent against the 13.1 percent initial forecast), owing to the ongoing development of existing large copper mining projects and to new mines beginning operations. This has offset a slight slowing of growth in non-mining activities (3.1 percent against the 3.9 percent forecast) owing to the insecurity in the East, the fallout from the war in Ukraine, and the impact of inflation on private consumption.

3. Inflation has accelerated. The franc depreciated 5 percent on the parallel market between June and December 2022 and inflation rose to 13.1 percent year-on-year at end-2022. The nominal effective exchange rate and real effective exchange rate depreciated 6.2 percent and 12.4 percent, respectively, in 2022. A sharp increase in public spending in Congolese francs at end-2022 added to the pressure on the exchange rate and inflation. Following the imported inflation during the first part of 2022, the depreciation of the Congolese franc as a result of high levels of public spending later in the year contributed to the acceleration of inflation, which stood at 16.6 percent year-on-year at end-May 2023, despite two 75 basis points policy rate increases in November 2022 and March 2023. The gap between the indicative and parallel rates reached 14 percent at end-March 2023. The BCC sold US$100 million in the first quarter of 2023.

4. Despite a deterioration of the current account, the official reserves increased in 2022. Driven by the extractive sector, buoyant exports (increasing by 27.7 percent against the 18.4 percent initially forecasted) only partially offset the sharp increase in imports (46.3 percent against 27.8 percent), owing to rising public expenditure and imports of capital goods by the mining sector. Despite the sharp widening of the current account deficit, which reached 5.3 percent of GDP, strong capital inflows in the private sector meant that the gross international reserves continued to rise, to reach US$4.5 billion at end-December 2022 or 2 months of imports.

5. **Excess liquidity in domestic currency has experienced significant fluctuations.** The acceleration of public spending in the latter part of the year led to an accumulation of excess reserves equivalent to 23 percent of Congolese franc deposits at end-2022, and a rising demand for dollars. Government deposits at the BCC fell from CDF4,000 billion (3 percent of GDP) in May 2022 to CDF1,200 billion (1 percent of GDP) in January 2023, including a CDF1,000 billion decline in the month of December alone.[1] As a result, base money rose 38 percent in 2022. The issuance of BCC bills was not sufficient to counter the increase in commercial banks' excess reserves, which reached CDF1,300 billion in February 2023 (18 percent of the total domestic currency assets of the banks) before falling below CDF400 billion at end-May.

6. **From a low baseline level, credit to the private sector increased sharply in 2022, but bank deposits stagnated.** Foreign currency deposits increased just 3 percent, compared to 31 percent in 2021. Preliminary data from the BCC suggest that while export receipts repatriated by mining companies transit through the banks, they no longer translate in an increase in deposits. Moreover, credit to the private sector (at a constant exchange rate) increased by 46 percent (or 2.2 percent of GDP). Combined with stagnating deposits, this increase in credit led to a 23 percent decline in the net foreign assets of the banks. Following the reinstatement of credit quality rules in December 2021, non-performing loans increased moderately; however, these data are likely to be revised after the resumption of on-site inspections in 2023.

7. **The economic outlook for 2023 remains good.** We project dynamic growth of 6.8 percent in 2023, still supported by the mining sector (11.7 percent), while growth in the non-mining sector could reach 4.4 percent. A coordinated tightening of fiscal and monetary policies should gradually bring down inflation in the second half of the year. Worse-than-projected terms of trade could result in a widening of the current account deficit to around 5.5 percent of GDP.

8. **We are aware that the short-term outlook is subject to significant downside risks.** These risks include the repercussions of the ongoing war in Ukraine and other uncertainties (global growth and growth in China in particular, risks to the international financial system), which could reduce the demand for and prices of mining products. Internally, if there is no de-escalation of the conflict in the East, macroeconomic stability could be weakened, as a result, inter alia, of additional fiscal pressures and other pressures resulting from the approaching elections. We are therefore, in the context of our program supported by the IMF and our ongoing dialogue, prepared to adjust our economic policies if necessary.

[1] Approximately CDF425 billion of the decline in deposits in December was due to the transfer to the commercial banks of a portion of the SDR allocation for the PDL-145T project. In January, US$140 million were drawn by the government, making it possible to reconstitute the government's deposits at the BCC of around CDF284 billion, the counterpart in foreign currency being transferred to the official reserves. An additional US$30 million were drawn in April.

9. The medium-term growth outlook also remains good. We maintain our projections of average growth of at least 5.2 percent annually between 2024 and 2028, stimulated by the continued development of mining and progress with the structural reforms contributing to the growth of the non-mining sector via economic diversification. We project a gradual narrowing of the current account deficit to 2.4 percent of GDP by 2027.

10. Our economic reform program can also help to strengthen inclusive growth, economic diversification and external competitiveness. We will create new commercial opportunities and support economic diversification by: (i) improving our education and health systems; (ii) improving the business environment and governance; and (iii) developing basic infrastructure, particularly transport and communications, energy and access to safe drinking water. Ambitious structural reforms should help to mobilize foreign direct investment, improve public investment management and the mechanism for monitoring and evaluating those investments, increase competitiveness and increase our resilience to external shocks.

B. Macroeconomic And Structural Policies

2022-23 Fiscal Policy

11. The fiscal deficit widened in 2022 notably because of higher-than-expected exceptional expenditure, despite additional revenues and the under-execution of capital spending. The domestic fiscal deficit is estimated at 1.2 percent of GDP in 2022, 0.1 ppt higher than the projection in the third review. Exceptional expenditure (2.4 percent of GDP) was offset by higher revenues (0.2 percent of GDP) and lower consumption (of goods and services) and capital spending (0.6 percent of GDP each). The sharp increase in current expenditure in the last quarter of 2022 is explained by security spending (1.5 percent of GDP), clearance of domestic arrears (1.2 percent of GDP) and election spending. Spending under emergency procedures increased by 30 percent between the third and fourth quarters of 2022.

12. The quantitative performance criterion (QPC) on the domestic fiscal balance at end-2022 was met, as were all the indicative targets on fiscal operations except for the target for social spending. The domestic fiscal deficit reached CDF1,620 billion (1.2percent of GDP) in 2022, well within the limit of the QPC, considering adjustments related to the repayment of domestic arrears and investments financed with own resources. This was made possible by the increased mobilization of tax and nontax revenues, which totaled CDF18,928 billion, substantially higher than the indicative target (**IT**) of CDF14,500 billion. The IT for spending under three health programs was not met in 2022. Payments to GAVI for the purchase of vaccines were made on time and in accordance with the target but despite the availability of the necessary funds, disbursements for the other programs were still behind schedule. We have taken emergency corrective measures to reach the June 2023 IT, opting to use the Global Fund's e-procurement platform (WAMBO) to purchase antimalarial medicine and completing the purchase of inputs for the mother-infant health program.

13. To maintain macroeconomic stability in 2023, we are determined to tighten fiscal policy to contain inflationary pressures. The escalation of the armed conflict in the East has resulted in exceptional efforts for the re-engagement of the State and the management of displaced persons and humanitarian needs, requiring a major security effort and thus spending beyond the levels set in the 2023 Budget Law. However, we are committed to tightening fiscal policy to curb pressures on demand. Moreover, given the many global and domestic risks, it is crucial to create fiscal space to deal with potential shocks. Therefore:

- We are projecting fiscal revenues slightly below the projected level at the time of the third review, setting the target for revenue for the entire year at CDF20,199 billion (**end-December 2023 IT**).

- Compared to the expenditures planned in the third review, and despite a contraction in spending on goods and services, we are projecting an increase in current expenditure from the level projected at the time of the third review by including the oil subsidy, for which we need to allocate CDF596 billion in 2023, corresponding to payments of certified shortfalls of US$171 million for the last two quarters of 2022, and the payment of estimated shortfalls of US$90 million for the first three quarters in 2023. In addition, we plan to increase additional exceptional spending to CDF3,037 billion, including humanitarian expenditure of CDF416 billion to deal with the security crisis in the East and food insecurity, which will be partially offset by lower current spending by ministries and institutions of around CDF400 billion.

- We renew our commitment to limit the wage bill to CDF7130 billion (**end-December 2023 IT**) and the workforce to 1,499,110 employees, while promoting priority sectors (such as defense and security, education and health and the recruitment of 2500 magistrates). To this end, we engage to (i) freeze the number of civil servants under the general system (277,224 civil servants) and limit their remuneration package to approximately CDF1,281 billion in 2023 while operationalizing the new administrations for digital technology and the disabled; and (ii) reduce staff in other categories (additional budgets, institutions outside the administration and those for "adjustments to the existing situation not taken into account") and limit their remuneration to properly control the wage bill envelope.

- In light of inflationary and cash flow pressures, we plan to modulate the strategy for clearing arrears in order to avoid pressures on the exchange market and inflation, which will also create some fiscal space. We plan to clear one envelope of arrears totaling CDF1,665 billion, which includes arrears to oil companies, under memoranda of agreement, and the domestic debt clearance strategy.

- Taking account of absorption capacity and cash flow pressures, domestically financed public investment spending projections will be reduced to CDF2,141 billion in 2023, including transfers to BCECO and CFEF in 2022 not yet executed by end-2022 and a start on the execution of the remaining part of half of the general allocation of SDRs not disbursed in 2022 (approximately US$203 million).

- As a result, we are forecasting a domestic fiscal deficit of CDF831 billion in 2023 (**end-December 2023 QPC**).

14. Otherwise, our fiscal policy is guided by the following principles:

- Considering the current and expected evolution of the macroeconomic framework that served as the basis for the preparation of the 2023 initial budget law, the 2024 draft budget law will detail in its explanatory memorandum the changes in the execution of the 2023 budget.

- We will limit spending under emergency procedures to 10 percent of total spending from own resources **(proposed end-December 2023 IT)**, including by using normal procedures for security spending to the extent possible, and to 8 percent by end-December 2024. Cash payments will be strictly monitored and controlled.

- In accordance with the Organic Law on the BCC, reiterated under the Stability Pact in effect since August 2022, we will refrain from any direct monetary financing of deficits.

- Our policy remains anchored in the preservation of a moderate risk of debt distress to maintain our access to concessional external financing for our priority projects to the extent possible. We will respect the ceiling on the present value of new loans contracted by the public sector, set at US$1.5 billion (**end-June 2023 QPC**) and US$2 billion (**end-December 2023 QPC**).

- We remain committed to using revenue surpluses over program projections at the test dates to create fiscal space to respond to external and domestic shocks. Therefore, the adjustor for the domestic fiscal balance—in an amount equivalent to 80 percent of the revenue overperformance—is maintained (TMU ¶20).

Structural Fiscal Reforms

Revenue Mobilization

15. We plan to continue our revenue mobilization efforts, which have already begun to bear fruit. Total tax and nontax revenues have increased significantly from 8.7 percent of GDP in 2020 to 15.9 percent of GDP in 2022. We will thus maintain our goal of converging to the average for our peers in sub-Saharan Africa, which stands at around 17 percent of GDP.

16. Our revenue mobilization efforts are based on tax measures and improvement of the performance of the three revenue agencies, based specifically on the following measures:

- *Expansion of the tax base and improved tax payment compliance.*
    - Based on the reports on tax expenditures annexed to the Budget Law and the plan to streamline such expenditures adopted in October 2022, we aim to reform exceptional tax regimes and all conventions, agreements, accords, letters or other documents allowing tax exemptions, with the exception of those set out in the prevailing administrative codes.
    - We will improve tax compliance by facilitating the registration of taxpayers and increasing the number of large, medium-sized, and small taxpayers. We will accelerate digitalization

through (i) the implementation and deployment of the integrated tax management software (ERP) in the General Directorate of Taxes (DGI), (ii) the biometric registration of taxpayers, both individuals and legal entities, to make tax lists more reliable and (iii) the expansion of remote filing with the Tax Centers, which is already mandatory for large taxpayers.

  - We will continue to make the taxpayer registry more secure by limiting access for customs operations, public procurement, and the right to issue VAT invoices to active taxpayers identified by DGI and by improving tax filing and payment rates.
  - We will work to increase the coverage of risks using an adapted audit plan and we will increase the collection of tax arrears

- *Restoring the proper functioning of the VAT*:
  - In accordance with the laws and international practices, the self-liquidating VAT system applies to mining companies in the operational phase and not to specific products, avoiding the accumulation of new VAT arrears.
  - As regards the stock of certified VAT arrears to mining companies, estimated at some US$800 million in the audit by the General Inspectorate of Finance (IGF) in March 2022, we issued refunds in the amount of CDF228 billion in 2022. We are no longer accumulating VAT refund arrears on imports thanks to the self-liquidating VAT system in force, but we still accumulate arrears on domestic VAT (CDF1096 billion or 0.7 percent of GDP in 2022). We plan to repay approximately CDF380 billion in arrears in 2023. The remaining refunds will be made over several years under a plan that will take account our fiscal space.
  - Outside the mining sector, we plan to step up ad hoc VAT audits and connect the central directorates to each other and to the operational units. The limited computerization of the tax administration explains the poor VAT collection, as it reduces the ability of the DGI to control the tax base and collect all taxes owed. To improve this situation, the government signed the decree governing the regulation of standardized invoicing on March 3, 2023. The application of this decree will allow the tax administration to authenticate each commercial transaction by an economic agent that collects VAT using a unique digital code and to use the data on these transactions for auditing VAT statements and assessing the turnover of each economic agent. The government undertakes to sign implementing regulations for this decree by July 2023, prior to the purchase of an IT solution for audits by December 30, 2023, which will make it possible to issue a certification code for each invoice issued and to ensure its conformity.
  - We commit to maintain the decision to no longer grant VAT exemptions, except for exceptional circumstances such as those that led to the exemption of some essential food products.

- *Improvement of the performance of the General Directorate of Customs and Excise (DGDA)*:

- The modernization of facilities is continuing, as is the training of customs agents, particularly in the use of ASYCUDA World, which covers more than 98 percent of customs revenues.

- Given the revenue potential, attention is being focused on the value of imported goods, with enhanced controls of the declared value (particularly for imports of vehicles) using a dedicated system that interacts with ASYCUDA World. Administrative monitoring of exemptions and conditional relief arrangement for imports will also be stepped up.

- Also in the context of enhanced controls, we are providing equipment, materials and software to five key border posts (Kasumbalesa, Petite Barrière-Goma, Kasindi, Mahagi and Sakania).

- The digitalization of customs procedures and management is continuing with the introduction of the GELEC, SYSTAD and BADA softwares to manage disputes, statistics and human resources, respectively. The goal is to expand the deployment of these software to 10 new customs posts in 2023 for a total of 89 out of 108. Moreover, we are continuing to the work to interconnect with the customs administrations of the Republic of Congo, Kenya, Angola, Uganda, Tanzania and Zambia.

- The excise traceability system (STDA) is being implemented. After implementation for tobacco and telecommunications in 2022, the installation of the necessary equipment at beverage producers was accelerated in early 2023. We are expecting to see the initial results of this reform in 2023; excise duties currently represent just 0.6 percent of GDP, as against an average of 1.6 percent for Africa. Beyond the implementation of the STDA, we plan to increase the excise tax rates on tobacco, alcohol and cars, which could generate additional revenues of around CDF200 billion (0.1 percent of GDP).

• *Improvement of the performance of the General Directorate of Administrative, Property, Judicial and Investment Revenues (DGRAD):*

  - The computerization of revenue collection procedures is ongoing with the support of partners such as the French Development Agency and the European Union. After deploying the LOGIRAD software in six of the main revenue-producing units (Mines, Environment, Property, Post Office and Telecommunications, Hydrocarbons, Interior and Security/General Directorate of Migration), we hope to expand into the high tax potential provinces: Haut-Katanga, Tshopo, Haut-Uele, Bas-Uele, Kongo-Central, Kinshasa, Nord-Kivu, Sud-Kivu, Ituri, Tanganyika, Kasaï and Maniema.

  - We are strengthening the legal and institutional framework for the DGRAD by: (i) completing the decree on the operation of the DGRAD; (ii) adapting the administrative regulation on DGRAD career personnel and (iii) bringing interministerial orders in line with the new measures included in the nomenclature and in the procedural regulations.

- We hope to improve nontax revenue collection from: (i) the Congolese National Police and the justice sector; (ii) the issuance of passports and biometric drivers licenses as well as work permits for foreigners; and (iii) DRC embassies and consulates abroad.

- We are working to streamline non-tax charges based on the plan finalized in October 2022 that takes account of the IMF technical assistance recommendations. We are committed to completing the second phase of the plan for streamlining non-tax revenues, with the sectoral ministries agreeing on a final list of taxes to be streamlined and the tax rates to be revised (**proposed end-September 2023 SB**).

- As well, we have made significant progress in making the inventory of all parafiscal charges, special accounts and annexed budgets, with the objective of finalizing it by mid-2023 (**end-June 2023 SB**) with a view to beginning to streamline them.

Controlling Expenditure and Fiscal Risks, and Improving Expenditure Quality

17. We are continuing to develop our capacity to assess and manage fiscal risks. With IMF technical assistance, we have prepared a detailed statement annexed to the Budget Law containing information on (i) macroeconomic risks, (ii) public debt risks, (iii) risks related to public entities other than the central government; (iv) financial sector risks, (v) institutional risks, and (vi) long-term risks, particularly those related to climate change.

18. In the area of public debt risks, we remain committed to avoiding (i) the accumulation of arrears on external public debt service (**QPC**); (ii) the accumulation of government wage arrears (**IT**); and (iii) recourse to central bank loans to the central government (**QPC**). We also commit to no longer using central bank deposits as collateral/guarantees for central government borrowing, while repaying any such existing loans according to the established timetable (**IT**).

19. With technical assistance from the IMF, we have prepared a strategy for clearing domestic arrears. An independent audit of the stock of certified domestic arrears was completed in December 2022 (**end-December 2022 SB**). The strategy presented to the Council of Ministers on May 19, 2023 plans for the payment, by bank transfer and without haircut, of claims of less than US$300,000. Other claims will be converted into Treasury bills that the government will repay annually, before they mature, through buyback operations. To ensure transparency and equity in the repayment process, we will limit the clearance of domestic arrears to claims certified and validated through this the strategy, which were estimated at US$1.166 billion at end-April 2023; we will abstain from signing memoranda of understanding on the payment of arrears and to execute payments on unvalidated arrears; and we will launch a communications campaign and online application to allow creditors to track their files.

20. We remain determined to reform the fuel price subsidy system to manage the risk associated with liabilities to oil distributors:

- The gradual increase in pump prices since late 2021—in total between 25 percent and 87 percent depending on the region and product—and the elimination of the subsidy on fuel purchases by airlines for international flights (since end-May 2022) have made it possible to significantly reduce the pace of accumulation of new liabilities (distributors shortfalls determined by the gap between the pump price and actual price/"verité des prix") in the second half of 2022, although less than anticipated at the time of the third review. Given the high level of shortfalls in the first half of 2022 and despite the clearance of US$336 million in oil subsidy arrears and the payment of US$98 million for the 2022 oil subsidy, the stock of arrears to distributors totaled US$492 million at end-2022 (including US$43.4 million for 2021 and US$448.1 million for 2022). This liability totaled US$475 million at end-March 2023 owing to the payment of US$17 million dollars in January 2023. Considering the current gap between pump prices and prices reflecting market costs, we project shortfalls of about US$14 million per month on average in 2023.

- We will continue our efforts to improve the system for calculating and certifying losses. To this end, a draft decree has been prepared to establish the eligibility criteria and the methods for calculating losses and shortfalls in the oil industry, with a view to its publication by the end of 2023.

- We intend to continue improving the targeting of the oil subsidy by phasing out the subsidy to mining companies as of June 2023. To this end, we have issued a decree to remove mining companies from the diesel subsidy for the southern supply zone and discussions between the Ministry of Hydrocarbons and the oil industry are underway to define the technical conditions for its application.

- The audit of the price structure by an international consulting firm, the final report on which was submitted to the government in early-May 2023, recommends improvements to the price structure. We are committed to developing a plan to implement these recommendations by August 2023, through the Audit Follow-up Committee that has been established.

- In June 2023 (six months after our initial commitment due to delays in the audit, technical difficulties, and the arrival of a new minister of the Economy), we will begin publishing the price structure monthly, along with the difference between pump prices and market prices, the estimated amount of subsidy to cover distributor shortfalls, and tax revenue shortfalls. Distributor shortfalls for a given quarter will be certified within a maximum of two months.

- We are prepared to pursue our policy of gradually adjusting pump prices to reduce the formation of new liabilities, while taking care not to unduly affect the population's purchasing power, and eventually introducing targeted transfers to compensate households most vulnerable to price volatility. To this end, we have requested technical assistance from the IMF's Public Finance Department to support us in this reform.

21. We plan to control the wage bill while launching an ambitious civil service reform. The wage bill increased by 20 percent in 2022 owing to the increase in the base salary of some civil servants under the general scheme and bonuses in the health, education, and security sectors.

Recognizing that this growth is not sustainable in the medium term without creating fiscal pressures, we have projected a wage bill of CDF7,130 billion in 2023 (an 8.6 percent increase over 2022) to improve the base salary for various targeted professions. To avoid ad hoc increases in the wage bill, we will sign an inter-ministerial order specifying that any salary increase must be approved jointly by the Ministers of Budget, Finance and Civil Service **(proposed end-July 2023 SB)**. Moreover, while ensuring the effectiveness of public services we have begun to define a medium-term civil service reform, including an overall wage policy strategy, a cleanup of the civil service staff database based on biometric identification of all public officials and aimed at eliminating all ghost employees, reorganization of the social security coverage of public officials and a financially sustainable pension program.

22. We remain determined to increase social spending.

- Beyond the emergency measures taken to achieve the program indicative target on government spending for the three health programs in 2023, we intend to maintain the same measures to reach the December 2023 IO of CDF75 billion.

- Given the deteriorating humanitarian situation with the escalation of the conflict in the East, which has added hundreds of thousands of displaced persons to the existing 6 million, and a deterioration of the health situation and food insecurity for these displaced persons, the government has increased humanitarian spending related in particular to developing shelters after natural disaster events, providing food and drinking water, and hygienic and sanitation conditions, emergency relief and response to health problems; civil protection of internally displaced persons; and protecting unaccompanied children and facilitating access to education.

- Beyond these emergency humanitarian needs, our social priorities include free access to education, the reduction of regional inequalities, and the acceleration of food security projects to increase the supply and availability of food under the Agricultural Transformation Agenda launched by the President of the Republic. We will also support the actions of the Ministry of Social Affairs and the National Promotion and Social Service Fund (FNPSS), particularly to finalize the national social protection policy and strategy (PSNPS).

23. We will improve the effectiveness of public investment management:

- Our reforms are based on the recommendations of the IMF technical assistance missions in March and September 2022 that assessed public investment management (Public Investment Management Assessment, PIMA). These missions identified structural weaknesses throughout the public investment cycle. The main PIMA recommendations are included in a roadmap for strengthening investment management, which the Council of Ministers has planned to adopt; initially scheduled for February 2023, this roadmap has been delayed due to the need to propose an operational action plan that takes into account the various priority measures, but the Council could adopt it by the end of July 2023.

- We have initiated the following actions: (i) restructuring of the Project and Program Monitoring Unit (CSPP) with the appointment of a new coordination team and redefinition of its missions (including expansion of its responsibilities to the monitoring of projects of the International Fund for Agricultural Development, the French Development Agency, the Arab Bank for Economic Development in Africa and the German International Cooperation Agency), as well as the ongoing recruitment of its staff on a competitive basis which should be completed by the end of June 2023; (ii) enhanced monitoring of projects and programs using a dashboard and proactive management of delays; (iii) the evaluation of performance contracts, signed in 2022, between the government and the coordinators of the project management units (PMUs), representing more than 70 percent of the portfolio of externally financed projects, and the preparation of performance contracts for 2023.

- In addition, (i) the decree on public investment management covering all phases of the project cycle was signed on May 31, 2023 (**end-May 2023 SB**), with the consensus between the stakeholders and the qualitative review by the IMF's Fiscal Affairs Department; (ii) a unique digital identifier will be assigned to each project financed by the government or its development partners; (iii) a procedures manual will be prepared to standardize public investment management methodologies, including the assessment of climate impacts, and will be adopted by the government by end-2023 (**end-December 2023 SB**); (iv) an order ("arrété") modifying the organization and operation of the CSPP was signed in May 2023; (v) information flows on the physical and financial execution of projects and their timetables will be standardized among the project management units, the fiduciary agencies and the entities responsible for monitoring (DCS, CSPP, Aid and Investment Management Platform, General Directorate of the Treasury and Public Accounting, General Directorate of Budget Policy and Programming, Directorate for the Preparation of the Budget Review Laws) and the Directorates of Research and Planning and Administrative and Financial Directorates of the supervisory ministries; and (vi) a comprehensive and realistic public investment program will be prepared, which will support a more transparent project selection process and serve as the main source of information for Parliament on ongoing and future projects.

- The implementation of the first component of the Local Development Program for 145 Territories (PDL-145T), partly financed by the general SDR allocation of August 2021 (US$511 million in 2022 for schools, health centers and administrative buildings and US$203 million planned for 2023 for rural electrification), is continuing. Due to prior actions to comply with bidding procedures, most contracts were not signed until the second half of 2022, accounting for a low implementation rate (about 20 percent of the $511 million made available to implementing agencies was spent by the end of 2022). However, as the work progresses and the first infrastructures are delivered, the implementation rate is expected to accelerate significantly in 2023. The remaining $203 million of the SDR allocation will be made available to the implementing agencies in 2023 for the second component of PDL-145T for rural electrification. We will closely monitor the physical implementation of PDL-145T, with detailed project sheets and geo-location for each infrastructure, and strengthen compliance with public financial management and procurement procedures. We expect to develop best practices that could be extended to the management of other projects. As already committed, we will, in addition to the quarterly reports that will be produced by the implementing agencies within one month of the end of each quarter, publish a consolidated annual report on the use of the SDR allocation in 2022 by end-June 2023.

- Strengthening of the BCeCO continues. The steering committee, which is headed by a representative of the Ministry of Finance, oversees the strategic direction and proper management of the BCeCo. In addition, audits of the BCeCo between 2017 and 2021 demonstrate the need to improve the structuring of the projects it manages and its internal processes (archiving, reporting, monitoring of provisional vouchers and accounting processes). The action plan resulting from the recommendations of this audit is being developed under the supervision of the Ministry of Finance. From now on we will publish the independent external audits annually, including the auditors' comments.

Improving Public Financial Management (PFM)

24. The operational action plan for implementing the public financial management reform strategy, which was adopted by the Council of Ministers on August 19, 2022, focuses on the following priority areas:

- *Budget reform and credibility*.
  - We are working to improve fiscal credibility, notably by improving inter-institutional coordination, preparing the macroeconomic framework, and projecting fiscal resources, notably from the mining sector.
  - Budget credibility is affected by the sizable gaps between the amounts voted in the Budget Law and the amounts executed. In the absence of a Revised Budget Law in 2022, we will send by end-July 2023 the draft Law on budget execution for 2022 to Parliament and the Audit Court, which will be examined at the September 2023 budget session considering the observations of the Court of Auditors. will subsequently be presented with the Audit Office report at the opening of the budget session in September 2023. With the further aim of enhancing budget credibility and transparency, we will publish in June 2023 the Cash Flow Plan as executed in 2022 on the Ministry of Finance website and we undertake to publish it quarterly from now on.
  - For the migration to program budgeting, we are working on: (i) completion of the pilot phase of the decentralization of the payment order process in four pilot ministries and (ii) adoption by the government of the budget and programming template for improvement, presentation and streamlining of the budget.
  - As part of the improvement of intergovernmental financial relations, we have signed in May 2023 the regulations establishing the mechanisms for the distribution of transfers and distribution of national revenues.

- *Tax policy and strengthening of tax administrations (see* ¶15-16).

- *Public expenditure reform, including:*

  - *Improving the expenditure chain and limiting recourse to emergency procedures.* Limited to about 8 percent in 2021, the proportion of expenditures made under the emergency procedure has increased to 13.3 percent in 2022. We are determined to limit spending involving emergency procedures, and, in addition to the continued publication of quarterly reports detailing the nature and amount of these expenditures (the report for the fourth quarter of 2022 was published on April 3, 2023), we propose to set the amount of such spending at 10 percent of spending on own resources in 2023 (**end-December 2023 IT**). Moreover, expenditures carried out using emergency procedures must be regularized via the Committee for the Regularization of Spending under Emergency Procedures (including units of the Ministries of Finance and Budget and the DGTCP), which was reactivated in May 2023 to avoid delays in these regularizations. We also plan to update the procedures manual and expenditure cycle to include the provisions of the Law on Public Finance (LOFIP), which notably recommends performance-based budget management, decentralization of payment orders and settlement of public expenditures by public accountants, with the signing of the decree on the procedures and accounting of public expenditures (including eligible expenditures under emergency procedures) (**proposed end-July 2023 SB**).

  - *Strengthening expenditure reconciliation procedures.* The monitoring, recording and transparency of public expenditure requires regular work by the Expenditure Reconciliation Commission (which includes units of the Ministries of Finance, including the DGTCP, and Budget, as well as the BCC), which has been meeting weekly since May 2023 and will help properly classify expenditures in the budget execution report.

  - *Improving the transparency and efficiency of public procurement.* The new decree on public procurement procedures was adopted and published in the Official Gazette of March 7, 2023 (fulfilling with delay the commitment we had made for the end of 2022). This decree includes the legal provisions needed to improve the identification and dissemination of information on beneficial ownership in line with the IMF technical assistance recommendations. Moreover, the government has begun to digitalize public procurement procedures using the integrated public procurement management system (SIGMAP), which was officially launched by the President of the Republic on August 29, 2022. The roadmap for SIGMAP deployment was transmitted in early May 2023 to the governmental committees charged with its review, with adoption expected by the end of June 2023 (adoption originally scheduled for April 2023).

  - *Strengthening public debt management.* An interministerial decree was signed on December 5, 2020, instructing the General Directorate of Public Debt (DGDP) to evaluate and monitor all new debt contracts, including their consistency with program conditionality, and to ensure that the public enterprise debt declaration is respected. To this end, we are finalizing a draft law on public debt to harmonize the legal framework governing public debt management.

- o *Improving the supervision of public enterprises (EP) and management of the associated risks.* The main EPs (Générale des carrières et des mines (Gécamines), Société minière de Bakwanga (MIBA), Régie de distribution d'eau (REGIDESO), Société nationale d'électricité (SNEL), Régie des voies aériennes (RVA), Société nationale des chemins de fer du Congo (SNCC) et Société commerciale des transports et des ports (SCTP)) will be required to produce financial statements regularly and the government, with technical assistance from the IMF, will produce a consolidated report on the financial position of the public enterprises to be published on the Ministry of the Portfolio's website s.

- *Strengthening public investment management* (see ¶23).

- *Public accounting and cash flow management:*

  - o *Restoration of the government accounting function.* In March 2022 we signed the decree on the creation of the General Directorate of the Treasury and Public Accounting (DGTCP) in March 2022, and the decree establishing the framework and organizational structures of the DGTCP was signed in December 2022. We completed appointments to key positions in February 2023 using a competitive recruitment process. The DGTCP must now be made fully operational by completing the recruitment process for other managerial and coordination positions, including division chiefs, bureau chiefs and other officials using competitive processes, while guaranteeing that the financial and physical resources are available for its proper operation. The order organizing the operation of the national network of government accounting officers was signed in March 2023 (as against October 2022 as initially planned). We will continue to work on the decrees on the public revenue and expenditure accounting procedures: initially planned for October 2023, they could be signed by the end of 2023.

  - o *Improvement of cash management.* It is essential to improve technical coordination to ensure fine-tuned and informed cash management. To this end, the Cash Flow Plan Commission, led by the DGTCP and which includes experts from the Ministries of Finance and Budget and BCC, was reactivated in May 2023 to discuss revenue and expenditure cash flows recorded and anticipated on a weekly basis.

  - o *Introduction of the Single Treasury Account (STA).* We will gradually consolidate all government accounts, including those related to special accounts and annexed budgets. The process towards the implementation of the STA includes an inventory of the government accounts opened at the central bank, which has been completed, but the phase covering accounts opened at commercial banks could not be completed in March 2023 for logistical reasons related to the establishment of teams to conduct the on-site missions. Based on a timetable to be agreed with the technical teams, these missions will be carried out in July 2023. The government also received technical assistance from the IMF in April 2023 to set up the regulatory framework, and this technical work led to the drafting of the decree defining the scope and structure of the STA and setting out its operating procedures. This decree was signed in May 31, 2023 (**end-May 2023 SB**).

- *Reduction of cash payments*. As part of the implementation of the new anti-money laundering and terrorist financing law of December 27, 2022, we undertake to establish a framework for Treasury operations, in accordance with the provisions of the law, particularly Articles 23 and 24, with the goal of significantly reducing cash payments. To this end, we will ensure that public institutions have bank accounts by end-September 2023, a precondition for payments by bank transfer.

- *Digitalization of the public finance management system.* Beyond the digitalization of revenue collection, the government wishes to set up an integrated public finance management (PFM) system to interconnect the various existing public finance IT systems and develop the accounting and budget management modules. We will therefore adopt an overall plan for digitalizing the public finance management system by end-June 2023. As well, an institutional framework for coordination and orientation of the digital PFM system will be established via the signing of a decree establishing the General Directorate of Financial Information Systems. This unit will be responsible for planning the evolution and development of public finance management systems, assisting with contracting for PFM projects and ensuring the security, integrity, reliability and technical regulation of public finance information systems.

25. We will explore overhauling the fiscal framework to anchor fiscal policy in a medium-term balance that excludes mining resources. Significant progress has been made in recent years in the mobilization of mining revenues, particularly via the 2018 Mining Code and revenue mobilization efforts. To continue to strengthen the fiscal framework and avoid procyclical fiscal policy in response to mining prices, we have requested technical assistance from the IMF's Fiscal Affairs Department to work on a fiscal framework that will manage the challenges created by volatile mining prices. In the meantime, we plan to improve our budget statistics to correctly identify and capture mining revenues. As is the case for other commodity exporters, this framework will enable us to develop less cyclical fiscal policies that take account of volatility and uncertainty and the management of fiscal risks.

Improving Finance and Public Debt Statistics

26. Improving government finance and debt statistics will strengthen our institutional capacity. After improving our budgetary statistics through the preparation and regular publication by the DGTCP of the TOFE in the GFSM format developed on the basis of the 1986 GFSM TOFEs for publication in the IMF Statistical Yearbook, we plan to make the new restricted accounting approach operational with a view to using the General Balance of Treasury Accounts (BGCT) as the main source for the TOFE based on the 2014 GFSM format. For public debt statistics, the DGDP plans to reinstate regular quarterly publication of the public sector debt statistics in accordance with the 2013 Guide for Compilers and Users. These statistics will be published in the Quarterly Public Sector Debt Statistics (QPSDS) database starting in the second quarter of 2023.

Monetary, Financial and Exchange Rate Policies

27. In the face of inflationary pressures, we will tighten monetary policy through end-2023. The BCC has been more proactive in managing liquidity, particularly by means of a sizable widening of the tender amount ranges for BCC bills. The BCC will further step up its efforts to curb inflationary pressures and limit the level of surplus liquidity. To this end:

- The BCC will continue to monitor trends in the short-term economic situation and liquidity, as well as the factors liable to affect these trends. The BCC will propose a tightening of its policy rate at the next Monetary Policy Committee (MPC) meeting in June 2023. If necessary, the MPC will act to further tighten monetary policy and mop up excess liquidity by raising the policy rate further.

- The reserve requirement ratio on domestic currency deposits will be strengthened as a monetary policy instrument. The BCC will propose to the CPM to set the mandatory reserve ratio on domestic currency deposits at 10 percent in June 2023, compared to 0 percent currently. It is estimated that this coefficient will allow the absorption of about CDF300 billion of structural excess liquidity. Among other things, this measure will make it possible to absorb the entire impact of the 2.5 percent reduction in the crystallized stock of reserve requirements on foreign currency deposits (¶30) (equivalent to slightly less than 2 percent of the stock of deposits in Congolese francs). If necessary, the MPC will increase the reserve requirement ratio to absorb a sustained increase in excess liquidity.

- The stock of BCC bills, which increased significantly in 2022, has been the main instrument for ensuring the partial absorption of excess liquidity, pending the increase of the reserves requirement ratio for local currency deposits. To strengthen the role played by this instrument in monetary policy transmission, the ranges for offers of BCC bills will be modulated to absorb the cyclical surplus liquidity, whereas reserve requirements on domestic currency deposits will absorb the structural part.

28. We are continuing to enhance our external position:

- We have met the target relating to the accumulation of international reserves. At end-2022, we accumulated net reserves in the amount of US$1,200 million, against the adjusted target of US$1,146 million dollars (**end-December 2022 QPC**). Net foreign exchange purchases contributed to this result in the amount of 381 million dollars.

- We also request the modification of the end-June 2023 net international reserves (NIR) QPC. We remain determined to seize every opportunity to accumulate reserves, which remain low (two months of imports at end-2022). Given the heightened risks and uncertainty, we are aiming to achieve a net accumulation of at least US$250 million dollars in the first half of 2023 (**end-June 2023 QPC**) and US$700 million by end-2023 (**end-December 2023 QPC**). Further to our request to modify the end-June 2023 NIR QPC, we intend to lower the proposed end-June 2023 floor on changes in NIR to US$250 million (from US$430 million dollars) based on the significant shortfall in mining FX tax payments and disbursements of budgetary assistance. Such level also reflects the anticipated decrease in the balances of foreign currency accounts maintained with local correspondents (¶31), the absence of any new guarantee on central government borrowing, and the scheduled repayment of existing guarantees.

- We remain committed to improving our international reserves data. To avoid counting encumbered or unconditionally unavailable assets in NIR, we will ensure that all such assets at BIS are held in separate subaccounts. In addition, to ensure the reliability of historical data, we have revalidated the data on changes in NIR since the end of December 2020.

29. We remain committed to maintaining exchange rate flexibility. To this end:

- It is important for the exchange rate to remain a buffer for external shocks. Our exchange policy will remain guided by objectives related to reserves adequacy and price stability. The BCC's intervention policy will continue to be guided by the need to accumulate reserves on the one hand, and to smooth out episodes of extreme exchange rate volatility that could undermine macroeconomic stability.

- We will continue to ensure that the indicative rate for the Congolese franc reflects market forces. In this context, on May 8, 2023, we eliminated the rule imposed on banks in 2020, whereby they could not apply an ask rate exceeding a margin of 2.5 percent of the indicative rate published by the BCC at close of business on the preceding day.

- Finally, we will continue to honor our commitments: (i) not to impose or intensify restrictions on the making of payments and transfers for current international transactions; (ii) not to introduce or modify multiple currency practices; (iii) not to conclude bilateral payment agreements that are inconsistent with Article VIII; and (iv) not to impose or intensify import restrictions for balance of payments reasons (**continuous PCs**).

30. Modernization of the monetary policy framework will continue:

- The prudent conduct of monetary policy is based on refraining from BCC advances to finance the public budget deficit, pursuant to the BCC Organic Law, the Law on Public Finance, and the Stability Pact between the government and the BCC. To this end, we will adhere to the ceilings on changes in net BCC credit to the government and on the BCC's net domestic assets (**QPCs**). The BCC will also refrain from contracting further guarantees for central government borrowing and will debit as planned the deposits used as collateral for existing loans in favor of international reserves (**IT**).

- Since January 2022, reserve requirements on FX deposits have been fulfilled in FX for deposits more than their end-2021 level. The portion of this reserve comprised of local currency—a crystallized stock of CDF2,375.6 billion, a remnant of the old system—will be reduced by CDF59 billion (2.5 percent) by end-June 2023 and by CDF118.7 billion (5 percent) by end-2023, to be converted into a reserve fulfilled in FX. We will be drawing down the additional local currency liquidity resulting from this reform (¶27). In June 2023, we will issue a revised Instruction 10 governing reserve requirements; the crystallized stock of reserves will thereafter be adjusted for exchange rate fluctuations, and the over-provision of reserves requirement on FX deposits fulfilled in domestic currency will be restituted to affected commercial banks.

- With a multiyear program of IMF technical assistance, we will finish implementing the Forecasting and Policy Analysis System (FPAS) by 2024, and we will then operationalize it to strengthen the monetary policy-making process. We will take any additional accompanying measures required to improve the BCC's economic forecasting and analysis capacities, as well as its messaging.

- In accordance with the principles set forth in the Central Bank Transparency Code, we have published a timetable of meetings of the Monetary Policy Committee. We have committed to reporting extensively on the committee's decisions, including by having the BCC issue a press release and hold a press conference upon completion of these meetings. Measures to strengthen outreach will also focus on policies and reforms carried out by the BCC to increase their visibility.

31. We will continue to strengthen the BCC's governance arrangements by implementing the recommendations of the 2020 safeguards assessment:

- The analysis of the BCC's recapitalization needs, validated by its Board on November 7, 2022, will serve as the basis for the signing of a new memorandum of understanding between the government and the BCC on the implementation of this recapitalization (**end-September 2023 SB**). The recapitalization of the BCC will strengthen its financial and operational autonomy and will support monetary policy operations over time.

- The BCC's financial statements will be issued in compliance with IFRS starting with FY 2023. To complete this reform with IMF technical assistance, we are committed to (i) recruit and train personnel in IFRS; (ii) complete the external audit of the BCC Pension Fund, which is currently in progress; (iii) externally audit the accounts for the reference year; and (iv) carry out an actuarial study on personnel benefits.

- A unit responsible for procurement will be set up by in July 2023. The unit will be responsible to complete procurement rules, for which the BCC has requested World Bank technical assistance. These rules will be adopted by the BCC Board by end-November 2023 (initially planned for June 2022).

- The BCC will strengthen the management of foreign exchange reserves by capping foreign currency assets held with local correspondents (excluding deposits pledged as collateral for central government borrowing) at US$250 million by end-June 2023 and at US$200 million at end-December 2023 (**end-June 2023 and end-December 2023 QPCs, respectively**). Furthermore, we will not debit the international reserves if doing so would cause the balance of the accounts with local correspondents to increase beyond the most recent ceiling. We have closed one foreign exchange account in April, and plan to close another one by end-June 2023.

We will open no new foreign exchange accounts with local correspondent institutions. Finally, by end-July 2023, the BCC will prepare a plan to close foreign exchange accounts with local correspondent institutions.

- The BCC will establish a compliance function based on the following pillars: AML/CFT, ethics, as well as the fight against internal and external fraud. A mapping exercise for AML/CFT internal risks is being prepared and will be validated by the BCC Board.

- The BCC will continue strengthening the independence and capacity of its internal audit function, including with the BCC Board approval of an updated internal audit charter planned in June 2023 (initially scheduled for end-2022).

- The BCC Board's audit committee has finalized its first annual report, a summary of which will be published in the BCC's 2022 annual report.

- The BCC will strengthen the operational frameworks and governance of its reserves management and emergency liquidity assistance, with IMF technical assistance on the latter.

32. We will curb the use of cash in BCC operations. The BCC is committed to limit transactions in cash. As part of efforts to implement the new AML/CFT law of December 27, 2022, we will implement a framework for the execution of Treasury and BCC operations in line with the provisions of the law, with specific reference to Articles 23 and 24 (**proposed end-May 2024 SB**). In this context, and to bring about our eventual removal from the FATF grey list, the BCC will review Instructions 15 and 15bis to align them with FATF standards.

33. Implementing the recommendations of the Financial Sector Stability Review (FSSR) is essential to strengthening surveillance and regulation of the financial sector. Based on the technical assistance program supported by the IMF for the period 2023-26, our strategy is to implement the following recommendations:

- *Financial sector regulation*: the promulgation of the new banking law in December 2022 was an essential milestone in advancing the reforms, particularly in revising or defining new prudential rules for credit institutions and financial companies, including payment institutions. To bring its regulations in line with the new banking law and international standards, the BCC, with technical assistance from the IMF, will revise instructions 17, 18, 21, and 22 for credit institutions other than microfinance institutions, 19 for credit institutions and financial companies, and instructions 7, 8, and 41 for microfinance institutions; the BCC will also draft new instructions on internal control, licensing, and governance for financial companies in general, and an instruction on payment institutions (**proposed end-November 2023 SB**). The BCC will publish an instruction on identifying and managing the risks associated with transactions with related parties in accordance with the 20th Basel Core Principle (**end-November 2023 SB**) and will define prudential regulation for payment institutions by December 2023.

- *Supervision of the financial sector and crisis simulations (stress tests)*: Upon completion of a pilot mission to review credit files (with IMF technical assistance) in May 2023, on-site inspections will be organized for the other banks starting in June 2023. We will establish a stress test committee for non-performing loans (including for the preparation of necessary data), and provide it with qualified staff ready to receive training. To strengthen the BCC's capacity, we will recruit and retain banking experts and implement risk-based supervision, as well as a dedicated unit focusing on IT risks within the Directorate of surveillance of financial intermediaries (*DSIF*) by September 2023 (initially scheduled for December 2022).

- *Crisis management and financial safety net:* The BCC will adopt, by end-December 2023, an instruction specifying the elements to be included in banks' preventive and recovery planning, including scenarios of liquidity crisis and loss of one or more correspondent banking relationships; commercial banks will be required to submit these plans to the BCC by December 2024. The BCC will align the framework for providing emergency liquidity to solvent financial institutions facing temporary illiquidity with international best practices; and review cross-border cooperation agreements with all home countries of DRC-based banks' parent companies, with a view to integrating recovery and resolution planning.

- *Financial stability and macroprudential policy mandate:* To support the work of the Financial Stability Committee set up in November 2021, we will create a financial stability function and provide it with the required resources; we will continue to strengthen supervision of nonbank financial institutions; and we will develop surveillance and early warning tools to analyze sectoral interconnections and interdependence.

34. Our national strategy for financial inclusion will be finalized by end-June 2023. Initially scheduled for December 2022, this strategy is based on the World Bank's report on financial sector development. This strategy includes the following objectives: (i) improve access to financial services and products; (ii) increase lending to households and SMEs; (iii) increase the use of mobile money and other fintech services; (iv) educate and protect consumers; (v) strengthen infrastructure and institutions; and (vi) expand the range of insurance services offered to individuals and businesses. We will also work to restructure and strengthen microfinance institutions, which have the potential to support financial inclusion.

Structural Reforms: Improving Governance and the Business Environment

35. Improved governance and enhanced efforts to combat corruption remain central to the government's strategy:

- We will strengthen the Agency to Prevent and Combat Corruption (APLC) reporting to the Office of the President, in accordance with the United Nations Convention against Corruption (UNCAC) and leading international practices.

- In October 2022, the United Nations Office on Drugs and Crime (UNODC) acknowledged receipt of the information sent by the government for the second cycle of the UNCAC Implementation Review Mechanism, prior to review by two peer countries.

- In accordance with our commitment, the Audit Court management and all its new magistrates have been appointed and were sworn in in the presence of the President of the Republic on August 31, 2022. We are strengthening the resources of the Audit Office, including via a budgetary allocation of CDF49 billion in the 2023 Budget Law, compared to CDF22 billion in 2022.

- Other notable achievements: the validation of the National Justice Reform Policy, and the validation of the National Strategy to Combat Corruption (Ministry of Justice, Agency to Prevent and Combat Corruption, Observatory for the Monitoring of Corruption and Professional Ethics (OSCEP), and other institutions and partners). The General Inspectorate of Finance is continuing to perform its supervisory functions and has published several reports on its internet site.

36. We are continuing our efforts in the areas of mining sector governance and transparency:

- The process for the validation of the DRC by the EITI International Secretariat has been completed and the EITI Board on October 13, 2022, announced that the DRC had obtained a high overall score, giving a satisfactory response to most of the requirements. This approval nonetheless shows that further progress can still be made, particularly in terms of strengthening transparency and publishing beneficial ownership information on mining contracts, and the government is determined to implement these recommendations. Beyond from this approval process, the government will continue to support the work of EITI, including by meeting the budgetary allocations necessary for its operation.

- The government will draw upon several EITI reports published in February and March 2023: the EITI 2020-2021 report, the thematic report on strengthening the disclosures of state-owned enterprises in the DRC's extractive sector, and the report on the social and environmental obligations of the extractive enterprises of Haut Katanga, Lualaba, and Haut-Uéle.

- We will continue to publish the new contracts (**continuous SB**) in accordance with the relevant provisions of the Mining Code and the requirements of the EITI standards, including renegotiated contracts.[2] Furthermore, the financial statements of Gécamines, including the auditors' comments, will continue to be published, as was the case with the 2020-21 accounts.

- Finally, given the importance of cobalt mining (the DRC would have 60 to 70 percent of world reserves) and the share of cobalt mined in an artisanal way (estimated at up to 20 percent), we are working on improving human rights (including the effective prohibition of child labor) and

[2] According to Law No. 18/001 amending and supplementing Law No. 007/2002 on the Mining Code, all mining agreements must be published within sixty days following the date of the contract's entry into force.

environmental impacts, which will guarantee a fair price for artisanal workers, and which will promote better traceability of exports and benefits taxes for the state.

37. We are committed to improving the AML/CFT framework and its effectiveness:

- Following an action plan agreed with the FATF, we are committed to addressing the deficiencies identified by the FATF that led to the DRC's inclusion on the list of jurisdictions under enhanced scrutiny ("grey list").

- Significant progress has been made, starting with the enactment of a new AML/CFT law (No. 22/068) on December 27, 2022. This law expands the application of AML/CFT measures to the entire financial sector (beyond banks), prohibits anonymous bank accounts, strengthens due diligence measures for wire transfer customers, establishes basic customer due diligence requirements for correspondent banks, strengthens due diligence measures for politically exposed persons (PEPs), strengthens due diligence measures for PEPs, and strengthens procedures for declaring the wealth of PEPs.

- The final report of the national ML/FT risk assessment, prepared with the technical assistance of the World Bank, was presented to the Council of Ministers on April 21, 2023, and to the FATF International Cooperation Review Group in May 2023.

- A decree creating a task force to drive the necessary reforms within the framework of a national strategy and to monitor their progress will be signed in June 2023. This task force includes a high-level committee headed by the Prime Minister, an inter-institutional committee, and a technical secretariat. CENAREF's work to implement the agreed-upon action plan benefits from technical assistance from several partners (including the European Union, the World Bank, the United States and Germany); a technical assistance committee coordinates this support.

- We will ensure that we (i) assign supervisory authorities for all designated business sectors and non-financial professions, and develop and implement a risk-based supervisory plan; (ii) adequately resource and strengthen the capacity of CENAREF to carry out its missions; (iii) strengthen AML/CFT investigative and prosecutorial capabilities; and (iv) effectively implement a targeted financial sanctions regime related to terrorism and its financing.

38. We are determined to accelerate reforms to stimulate private investment:

- With coordination by the business climate unit attached to the Office of the President of the Republic and the National Agency for Investment Promotion (ANAPI), the government has adopted a roadmap comprising nearly 70 reforms aiming at: (i) fostering business creation (by introducing a business visa, establishing a one-stop shop for issuing licenses, permits, and specific authorizations); (ii) promoting access to electricity ; (iii) facilitating property transfer (by means of a database of land register transactions, digitalization of Kinshasa real estate plans, reduction of delays in the transfer from 38 to 15 days); and (iv) facilitating international trade (by promoting logistics platforms, establishing the commission for the settlement of commercial disputes, and adopting the law on e-commerce and e-trade).

- Furthermore, we wish a fair and predictable tax collection system that avoids accusations of tax harassment (the revenue mobilization objective should not be incompatible with improving the business climate) and we are working to improve the judicial system for the resolution of business disputes, with the application and protection of property and contractual rights.

- Finally, during the meeting of the Council of Ministers on Friday August 26, 2022, the President of the Republic announced the establishment of the National Barometer for the Business Climate, to periodically assess the degree of economic agents' satisfaction vis-à-vis the reforms and all aspects related to the business environment. The first barometer was unveiled on June 6, 2023, and will be followed by end June 2023 by a plan of urgent measures to improve the business climate.

39. We intend to strengthen our legal and institutional framework for managing public/private partnerships (PPPs) and the associated fiscal risks. Specifically,

- Pursuant to the Law No. 18/016 of July 09, 2018 relating to PPPs, we intend to sign (by end-October 2023) the various decrees implementing the aforementioned law regulating: (i) procedures for granting government guarantees; (ii) procedures for approving PPP contracts; (iii) procedures for referral of the issues to the public entity in question; (iv) procedures for carrying out the preliminary comparative assessment of PPP options in comparison with other forms of government procurement (**end-June 2023 SB**). We will also publish all PPP-related contracts on the ARMP's internet site.

- With the aim of strengthening PPPs, the institutional framework will be revised by end-November 2023. With the IMF's technical assistance, a modified version of the law on PPPs will clarify the roles and responsibilities of: (i) the Ministry of Planning in project identification and selection; (ii) the sectoral ministries in negotiating PPPs with assistance from the UC-PPP (PPP Advice and Coordination Unit]; and (iii) the ministries of finance and the budget in approving PPP projects after their evaluation, including analyzing budgetary risks. In 2023, we will establish the register of guarantees at the DGDP of the Ministry of Finance as well as an exhaustive register of PPPs at the ARMP (Government Procurement Regulatory Authority) and the UC-PPP.

40. We will implement the full range of necessary safeguard measures prior to commencing operation of a national development bank or any new public or para-public financial institution. A business plan, including the identification of financing sources, an analysis of fiscal risks, a sound governance structure, and a system for portfolio credit risk analysis, will be prepared in coordination with Fund staff prior to commencing any operations. During its operations, the bank in question will also have to comply with the full range of procurement procedures applicable to government institutions, and it will be supervised by the BCC. In addition, we will rationalize public financial agencies and corporations to consolidate our efforts.

C. Other Challenges and Program Monitoring

41. We will continue to strengthen the capacities of our institutions, with the support of our partners. The provision of technical assistance has contributed to the performance of diagnostic studies that are essential to the implementation of our reform plans, including a comprehensive assessment of governance, the FSSR and the PIMA. An expert from the IMF Fiscal Affairs Department (funded by the Japanese government in the context of the project "Strengthening Fiscal Sustainability in the Fragile States of sub-Saharan Africa") has been at his duty station since November 2022, as well as a fiscal expert funded by the Belgian technical cooperation (Enabel) posted in Kinshasa and working in close cooperation with IMF technical assistance services. We further welcome the willingness of the IMF Monetary and Capital Markets Department to have experts placed at the BCC.

42. We remain committed to improving our statistics, the quality of which is generally adequate for program monitoring and follow-up:

- We reiterate our commitment to ensure that the data specified in the TMU are provided proactively and in a timely fashion.
- We have published the new revised series of GDP through 2019, with 2005 as the base year, in accordance with the System of National Accounts (SNA) 1993. We have worked with Central AFRITAC and the IMF Statistics Department to update this series for the years 2020 and 2021, which will be published by end-June 2023. Finally, the rebasing of GDP on year 2019 will be done as part of the work on migration to SNA 2008 which will be launched in 2023.
- Since March 2023, the BCC has been transmitting its financial soundness indicators to the IMF for publication on a monthly basis.
- The BCC commits that the DSIF will provide access rights to the statisticians of the Directorate of Research and Statistics (*DRS*) and the Directorate of Economic Analysis (*DAE*) to download the aggregate financial statements of the banks, with a view to producing more reliable and up-to-date monetary data.
- We will continue to support the National Institute of Statistics Institute other government institutions in charge of producing official statistics in the performance of their functions, and we are counting on the continued technical and financial assistance of our partners. Our priorities include improving the collection of data on debt, in particular on state-owned enterprises and the provinces, and debt management; improving the quality and frequency of data transmission by the BCC; and enhancing the accuracy of economic indicators.

43. The program under the Extended Credit Facility arrangement will continue to be evaluated on the basis of quantitative performance criteria, indicative targets, and structural benchmarks (Tables 1 and 2) in connection with semiannual reviews. Definitions of key indicators and concepts, as well as data reporting requirements, are outlined in the attached memorandum of understanding. The fifth and sixth reviews are expected to be completed on or after September 15, 2023, and March 15, 2024 or afterwards, on the basis of test dates for the periodic performance criteria for end-June 2023 and end-December 2023, respectively. Under the leadership of the Minister of Finance, the Minister of Budget and the Governor of the BCC, a technical troika chaired by the Ministry of Finance and comprising the Ministry of Budget and the BCC will be responsible for monitoring implementation of the program. The CTR will handle coordination, technical secretarial services, and liaison with the IMF in the transmission of reports to be shared with Fund staff in accordance with the TMU. The BCC’s external auditors will validate the quantitative monetary criteria and transactions through the account monitored by the IMF and maintained with the BIS at the test dates.

Table 1. Democratic Republic of the Congo: Quantitative Performance Criteria and Indicative Targets Under the Three-Year Extended Credit Facility Arrangement

	2022				2023									2024
	End-Dec.				End-March			End-June		End-Sept.		End-Dec.		End-March
	QPC				IT			QPC		IT		IT	QPC	IT
	CR No. 22/390	Adjusted	Outturn	Status	CR No. 22/390	Prel. Outturn	Status	CR No. 22/390	Proposed Change	CR No. 22/390	Proposed Change	CR No. 22/390	Proposed	Proposed
Quantitative Performance Criteria														
Floors on changes in net international reserves of the BCC (US$ millions)	1,140	1,146	1,200	Met	100	-324	Not Met	430	250	700		700	700	200
Ceilings on changes in net BCC credit to central government (CDF billions) 1/	1,008	996	-519	Met	405	253	Met	405		405		405	405	0
Ceilings on changes in net domestic assets of the BCC (CDF billions)	363	351	49	Met	450	796	Not Met	450		450		450	300	0
Ceilings on the accumulation of external payment arrears (US$ millions) 2/	0		0	Met	0	0	Met	0		0		0	0	0
Floors on the domestic fiscal balance (cash basis, CDF billions)	-1,570	-2,735	-1,620	Met	-560	-746	Not Met	-430		-800		-1,000	-831	-213
Ceilings on contracting or guaranteeing of new external debt by the public sector (present value, US$ millions)	1,300		697	Met	1,180	468	Met	1,500		1,750		2,020	2,500	1000
Ceilings on the levels of foreign currency assets of the BCC held with domestic correspondents (US$ millions)					300	317	Not Met	250		250		200	200	200
Indicative Targets														
Ceilings on the changes in deposits of the BCC used as collateral/guarantee for central government loans (US$ millions)	-150		-115	Not met	-20	-21	Met	-34		-47		-61	-61	-6
Floors on revenues of the central government (CDF billions)	14,500		18,928	Met	3,660	3,361	Not met	10,723		16,321		20,499	20,191	4,486
Floors on social spending (CDF billions)	77		60	Not met	19	0	Not met	42		64		75	75	21
Ceilings on the accumulation of wage arrears of the central government (US$ millions)	0		0	Met	0	0	Met	0		0		0	0	
Ceilings on the wage bill (CDF billions)								3,560		5,345		7,130	7,130	0
Ceiling on spending under emergency procedures (in percent of total spending)										12			10	10
Memorandum items:														
Adjustors														
Balance of payments support (US$ millions)	426		452		298	0		393	600	458	640	486	664	250
Privatization proceeds (US$ millions)	0		0		0	0		0		0		0	0	0
External debt service payments (US$ millions)	281		288		156	114		187	165	320	224	370	289	100
Statutory reserve requirements for foreign currency deposits (CDF billions)	1,848													
Domestic arrears payments (CDF billions)	304		1,495		339	130		1,093		1,614	1,278	2,008	1,582	151
Domestically-financed investment (CDF billions)	2,403		2,376		1,193	189		1,723	1,959	2,566	1,750	3,555	2,130	2,172
Central government revenues (CDF billions)					3,660			10,723		16,321	15,987	20,499	20,191	4,486
Others														
Contracting or guaranteeing of new external debt by the public sector (nominal value, US$ millions)	2,522		1321		1,575			2,180		2,620		3,175		

Sources: Congolese authorities and IMF staff estimates.

1/ Ceilings are positive to account for the partial use of the SDR allocation for fiscal purposes (see IMF Country Report No. 22/3, Box 1).

2/ Continuous.

Table 2. Democratic Republic of the Congo: Structural Conditionality Under the ECF Arrangement

Actions	Rationale	Date	Status
Request for an ECF Arrangement			
BCC Board fully constituted in accordance with the requirements of the 2018 Central Bank Law	Improve governance of the central bank according to the safeguards assessment recommendations	Prior action	Met
Adopt the EITI roadmap on mining transparency (validated by the Council of Ministers)	Improve transparency in the mining sector	Prior action	Met
First Review			
Publish the full 2020 financial statements of Gécamines, including auditor's comments	Improve transparency in the mining sector	End-August 2021	Met
Consolidate all legal documents on non-tax revenues in a single document	Rationalize non-tax revenues	End-September 2021	Met
Submit to Parliament the draft of the new Commercial Banking Law that integrates IMF's staff comments	Enhance financial stability and banking supervision	End-November 2021	Not met
Publish all new mining contracts	Improve transparency in the mining sector	Continuous	Met
Second Review			
Adopt the new reserve requirement regulation of the BCC on new FX deposits	Enhance financial stability and banking supervision	End-December 2021	Met
Sign an MoU between the BCC and the ministry of Finance to regularize the outstanding credit of the BCC to the government	Provide the BCC with space for monetary policy implementation	End-December 2021	Met
Fully implement ASYCUDA World in the electronic single-window at 10 additional customs offices	Improve customs administration	End-December 2021	Met
Recruit an independent auditor to perform an external audit of BCECO for the years 2017-21	Improving public investment efficiency	End-March 2022	Met
Publish all new mining contracts	Improve transparency in the mining sector	Continuous	Not met

Table 2. Democratic Republic of the Congo: Structural Conditionality Under the ECF Arrangement (continued)

Actions	Rationale	Date	Status
Third Review			
Publish the renegotiated contract allowing the return of mining assets in favor of the State	Improve transparency in the mining sector	Prior action	Met
Revision of instruction decree to make the VAT a self-liquidating system for miners consistent with existing legislation and international best practices, so it applies to mining companies, not to specific products	Improve VAT administration	End-June 2022	Met
Publish the 2022 government spending plans aligned with program targets	Improve fiscal transparency	End-July 2022	Met
Adopt a plan to rationalize non-tax charges	Rationalize the tax system	End-September 2022	Not met [1/]
Implementation of the first phase of the excise duty traceability system (STDA)	Improve excise tax administration	End-September 2022	Not met
Adopt a decree on budget governance in line with CD recommendations	Improve public finance management	End-October 2022	Met
Validate the analysis of the BCC's recapitalization needs by the BCC Board	Reinforce the solvency of the BCC	End-November 2022	Met
Publish all new mining agreements in accordance with the relevant provisions of the Mining Code and the requirements of the EITI standards, including renegotiated agreements	Improve transparency in the mining sector	Continuous	Met
Fourth Review			
Complete the audit certifying domestic arrears (¶19)	Improve public finance management	End-December 2022	Met
Adopt a decree on public investment management covering the life cycle of projects, consistent with recommendations in the PIMA report (¶23)	Improve public investment management	End-May 2023	Met

Table 2. Democratic Republic of the Congo: Structural Conditionality Under the ECF Arrangement (continued)

Actions	Rationale	Date	Status
Adopt a regulatory framework defining the perimeter and the structure of the Single Treasury Account (¶24)	Improve public finance management	End-May 2023	Met
Publish all new mining agreements in accordance with the relevant provisions of the Mining Code and the requirements of the EITI standards, including renegotiated agreements (¶36) 2/	Improve transparency in the mining sector	Continuous	Not Met
Fifth Review			
Make an inventory of parafiscal charges in special accounts and supplemental budgets (¶16)	Rationalize the tax system	End-June 2023	
Sign all the decrees implementing the law on public-private partnerships (¶39)	Improve public investment management	End-June 2023	
Update the Budget Execution Manual to include the provisions of the PFM Organic Law and sign the Public Accounting Decree clarifying eligibility for expenditures under emergency procedures (¶24)	Improve public finance management	End-July 2023	Proposed
Sign a decree specifying that any salary increases must be agreed jointly by the Ministers of Budget, Finance, and Public Service (¶21)	Improve public finance management	End-July 2023	Proposed
Complete the second phase of the non-tax revenue rationalization plan in line with the IMF recommendations (¶16)	Rationalize non-tax revenues	End-September 2023	Proposed
Sign a memorandum of understanding on the implementation of the BCC's recapitalization (¶31)	Improve the independence of the BCC	End-September 2023	
Adopt a related parties regulation in line with the Basel Core Principle 20 (¶33)	Strengthen banking regulation and prudential norms	End-November 2023	
Revise and expand BCC regulations to comply with the new banking law as described in MEFP¶33	Enhance financial stability and banking supervision	End-November 2023	Proposed

Table 2. Democratic Republic of the Congo: Structural Conditionality Under the ECF Arrangement (concluded)

Actions	Rationale	Date	Status
Publish all new mining agreements in accordance with the relevant provisions of the Mining Code and the requirements of the EITI standards, including renegotiated agreements (¶36)	Improve transparency in the mining sector	Continuous	
Sixth Review			
Adopt a public investment management procedures manual (¶23)	Improve public investment management	End-December 2023	
Establish a framework for the execution of Treasury and BCC operations in accordance with the AML/CFT law (¶32).	Strengthen the AML/CFT framework	End-May 2024	
Publish all new mining agreements in accordance with the relevant provisions of the Mining Code and the requirements of the EITI standards, including renegotiated agreements (¶36)	Improve transparency in the mining sector	Continuous	

Sources: Congolese authorities and IMF staff.
1/ The plan was adopted on October 7, 2022.
2/ Staff has recently become aware of certain contracts signed in March 2022 that were not published. The authorities have now published all the relevant contracts. However, had this information been available to staff at the time of the third review, it would have affected the assessment of this structural benchmark. According to Law No. 18/001 amending and supplementing Law No. 007/2002 on the Mining Code, all mining agreements must be published within sixty days following the date of the contract's entry into force.

Attachment II. Technical Memorandum of Understanding

1. This **Technical Memorandum of Understanding (TMU)** contains definitions and adjuster mechanisms that clarify the measurement of quantitative performance criteria and indicative targets in Tables 1 and 2, which are attached to the Memorandum of Economic and Financial Policies. Unless otherwise indicated, all performance criteria and indicative targets will be evaluated in terms of cumulative flows since the beginning of each calendar year.

A. Definitions

2. For purposes of this TMU, **external** and **domestic** shall be defined on a residency basis.

3. **Institutional coverage**: The **central government** comprises all units of government that exercise authority over the entire economic territory. However, unless otherwise indicated for the purposes of this memorandum, the central government does not include nonprofit organizations controlled and financed by the central government. The **banking system** comprises the Central Bank of the Congo (BCC) as well as deposit-taking institutions.

4. The **program exchange rates** for the purposes of this TMU are as follows (BCC indicative rates as of December 31, 2020):

- Variables denominated in U.S. dollars will be converted to Congolese francs by using the program exchange rate of CDF1,971.8046 per U.S. dollar.
- Variables denominated in SDRs will be valued at the program exchange rate of CDF2,852.0774 per SDR.
- Variables denominated in euros will be valued at the program exchange rate of CDF2,421.1594 per euro.
- In addition, variables denominated in currencies other than the U.S. dollar, SDR or Euro will first be converted to U.S. dollars at the December 31, 2020, US$/currency official exchange rate (obtained from the IMF *International Financial Statistics*), then converted to Congolese Francs by using the program exchange rate CDF/$.

5. **Quantitative Performance Criteria** (QPCs) included in the program, as defined below, refer to the net international reserves (NIR) of the BCC, foreign currency assets of the BCC held with domestic correspondents, net BCC credit to the government, net domestic assets of the BCC, external payments arrears, contracting or guaranteeing of new external debt by the public sector, and the domestic fiscal balance (cash basis). Performance criteria are set for end-June 2023 and end-December 2023, while indicative targets are set for end-September 2023 and end-March 2024.

6. In addition to the specific QPCs listed in paragraph 5, as for any Fund arrangement, **continuous QPCs** also include the non-introduction of exchange restrictions and multiple currency practices. Specifically, continuous conditionality covers (i) non-imposition or intensification of restrictions on the making of payments and transfers for current international transactions; (ii) non-introduction or modification of multiple currency practices; (iii) non-conclusion of bilateral payments agreements that are inconsistent with Article VIII; and (iv) non-imposition or intensification of import restrictions for balance of payments reasons. These continuous QPCs, given their non-quantitative nature, are not listed in the QPC table annexed to the MEFP.

B. Quantitative Performance Criteria and Adjustors

Floors on Changes in Net International Reserves of the BCC

7. Definition: **Net international reserves (NIR)** are defined as the difference between the BCC **gross foreign reserves** and its **total foreign liabilities**, excluding SDR allocations.

8. Definition: **Gross foreign reserves** are defined broadly consistent with the Sixth Edition of the Balance of Payments Manual and International Investment Position Manual (BPM6) and are defined as the sum of the following items: (i) monetary gold holdings of the BCC kept abroad; (ii) SDR holdings kept abroad; (iii) receipts in foreign currency and (v) convertible claims on nonresidents, such as foreign deposits and foreign securities. The following items are excluded from the definition of gross foreign reserves: any claim on residents in foreign exchange, nonconvertible currency holdings, assets whose availability is subject to conditions and assets that are encumbered or pledged in one form or another, including but not limited to reserve assets used as collateral or security for foreign third-party liabilities, and swap transactions.

9. Definition: **Total foreign liabilities** are all BCC foreign exchange liabilities to nonresidents, including the IMF but excluding SDR allocations.

10. The following **adjustments** will be made to the NIR floors:

- **Balance of payments support (BPS)**: NIR floors will be adjusted upward by an amount equivalent to 50 percent of BPS in excess of the programmed levels. NIR floors will be adjusted downward by an amount equivalent to 50 percent of the shortfall of BPS relative to programmed levels.

- **External debt service payment**: NIR floors will be adjusted (i) upward by an amount equivalent to under payment of external debt service relative to programmed amounts; or (ii) downward by an amount equivalent to the excess of external debt service payments relative to programmed amounts.

- **Privatization proceeds in convertible currencies (PPCC)**: NIR floors will be adjusted upward by 50 percent of total PPCC in excess of the programmed levels. There will be no downward adjustment for any shortfall in these proceeds.

11. Definition: **BPS** is defined as all disbursed foreign grants and loans to the central government, excluding those tied to projects.

12. Definition: **External debt service payments** for the central government are defined as interest and principal due to foreign creditors (excluding the IMF).

Ceilings on the Levels of Foreign Currency Assets of the BCC Held with Domestic Correspondents

13. Definition: **Foreign currency assets of the BCC held with domestic correspondents** are defined as the assets of the BCC (i) denominated in any currency other than the Congolese franc; (ii) held with institutions or subsidiaries domiciled in the Democratic Republic of Congo; (iii) but excluding deposits of the BCC used as collateral/guarantee for central government loans (as defined in ¶29).

Ceilings on Changes in Net Domestic Assets of the BCC

14. Definition: The **net domestic assets** (NDA) of the BCC are defined as narrow base money (¶15) minus NIR (¶7) minus external assets excluded from NIR, minus **Treasury securities issued for the benefit of the BCC** (¶17) minus, beginning in December 2022, reserve requirements fulfilled by deposit-taking institutions. Based on this definition, the NDA of the BCC include: (i) net credit to the central government (¶16); (ii) credit to the private sector; (iii) credit to public enterprises; (iv) credit to commercial banks; (v) other claims on the rest of the economy (on other financial institutions, and other non-financial institutions); and (vi) other net assets.

15. Definition: **Narrow base money** is defined as the sum of (i) currency in circulation; (ii) cash holdings by banks; (iii) bank deposits held with the BCC; (iv) nonbank private sector deposits held with the BCC; and (v) public enterprises deposits held with the BCC.

The following adjustments will be made to the NDA ceilings:

- **BPS:** NDA ceilings will be adjusted downward by an amount equivalent to 50 percent of BPS in excess of the programmed level. NDA ceilings will be adjusted upward by an amount equivalent to 50 percent of the shortfall of BPS relative to programmed levels.

- **External debt service payment:** NDA ceilings will be adjusted (i) downward by an amount equivalent to under payment of debt service relative to programmed amounts; and (ii) upward by an amount equivalent to the excess of external debt service payments relative to programmed amounts.

- **Statutory reserve requirements for foreign currency deposits:** Before December 2022, NDA ceilings will be adjusted upwards (downwards) by the increase (decrease) in the statutory reserve requirements for foreign currency deposits relative to program projections (memorandum item).

- **Privatization proceeds:** NDA ceilings will be adjusted downward by 50 percent of the total amount of privatization proceeds (including PPCC) in excess of the programmed level. There will be no upward adjustment to the NDA ceilings for any shortfall in these proceeds**.**

Ceilings on Changes in Net Central Bank Credit to the Central Government

16. Definition: **Net central bank credit to the central government** (NCG) is defined as the difference between gross BCC claims on the central government minus central government deposits at the BCC. Government deposits include those related to the Convention on the distribution of SDRs between the government and the BCC. For purposes of program monitoring, central government deposits related to externally financed projects and **Treasury securities issued for the benefit of the BCC** are excluded from NCG.

17. Definition: **Treasury securities issued for the benefit of the BCC** are remunerated securities issued by the Treasury to recapitalize the BCC or to regularize historical claims of the BCC on the government; they cover past operating losses, unsecuritized operating losses from 2011 and later years, unpaid interest payments for securities linked to operating losses of the BCC, and foreign currency translation losses. These securities notably include Treasury bonds redeemable at maturity resulting from the December 2021 *Memorandum of Understanding between the Government and the BCC on the regularization of its claims on the Treasury*, and its April 2022 amendment. Non-remunerated BCC credit to the government, non-interest yielding Treasury securities, and BCC advances to the Treasury are excluded from this definition.

18. **The following adjustments** will be made to the NCG ceilings:

- **BPS:** NCG ceilings will be adjusted downward by an amount equivalent to 50 percent of total BPS in excess of the programmed level. NCG ceilings will be adjusted upward by an amount equivalent to 50 percent of the shortfall of BPS relative to programmed levels.

- **External debt service payment:** NCG ceilings will be adjusted (i) downward by an amount equivalent to under payment of debt service relative to programmed amounts; and (ii) upward by an amount equivalent to the excess of external debt service payments relative to programmed amounts.

- **Privatization proceeds**: NCG ceilings will be adjusted downward by an amount equivalent to 50 percent of total privatization proceeds (including PPCC) in excess of the programmed levels. There will be no upward adjustment for any shortfall in these proceeds.

Floors on the Domestic Fiscal Balance

19. Definition: The **domestic fiscal balance** (cash basis) is defined as domestic revenue minus domestically financed expenditure. **Domestic revenue** is defined as total revenue and grants minus grants. **Domestically financed expenditure** is defined as total expenditure minus externally financed investments (loans and grants) minus foreign interest payments plus the net accumulation of domestic arrears.

20. The following adjustments will apply to the floor on the domestic fiscal balance:

- **Domestic arrears payments**: Domestic budget balance floors will be adjusted downward (higher deficit) by the amount of domestic arrears repayments made above the programmed amount; symmetrically, they will be adjusted upward (lower deficit) by the amount of domestic arrears repayments made below the programmed amount.

- **Domestically-financed investment**: Domestic budget balance floors will be adjusted upward (lower deficit) by the amount of domestically-financed investment made below than the programmed amount.

- **Privatization proceeds**: Domestic fiscal balance floors will be adjusted: (i) upward by an amount equivalent to the full shortfall of privatization relative to programmed levels; (ii) downward by 50 percent of the total amount of privatization proceeds in excess of the programmed levels.

- **Revenues of the central government:** The floors of the domestic fiscal balance will be adjusted upwards by an amount equivalent to 80 percent of the revenues of the central government in excess of the programmed level. There will be no downward adjustment for revenue shortfalls.

21. Definition: **Domestic arrears** are defined as obligations to domestic public suppliers that have not been settled by the date of their due date in accordance with contractual provisions with a delay of at least 60 days, also including VAT credits due but not reimbursed, and which have been certified and validated by the government.

Ceilings on the Accumulation of External Payment Arrears

22. Definition: **External payment arrears** are defined as external debt service obligations (principal and interest) of the central government that were not paid on the contractual due date. The ceilings on new external payment arrears apply **continuously** throughout the period covered by the Extended Credit Facility (ECF) arrangement. It does not apply to external payment arrears in process of renegotiation or to cases in which the creditor has agreed to the suspension of payments pending the outcome of negotiations. For the purposes of this continuous PC, which is monitored continuously, the government will immediately report to the IMF staff any new external arrears it accumulates.

Ceilings on the Present Value of Contracting or Guaranteeing of New External Debt by the Public Sector

23. Definition: The **public sector** comprises the central government, local governments, the BCC, state-owned enterprises,[1] decentralized territorial entities and public entities controlled and financed by the central government.

[1] Only Gécamines, SNEL, and MIBA are included in the QPC.

24. Definition: **Debt** is defined as set out in paragraph 8 of the Guidelines on Public Debt Conditionality in Fund Arrangements attached to Executive Board Decision No.16919-(20-103), adopted October 28, 2020. The external debt is defined as contracted when all parties signed the debt contract. For program purposes, external debt is measured on a gross basis using the residency criterion.

25. Definition: The **guarantee** of a debt arises from any explicit legal obligation of the public sector to service a debt in the event of nonpayment by the debtor (involving payments in cash or in kind), or from any implicit legal or contractual obligation of the public sector to finance partially or in full any shortfall incurred by the debtor.

26. Definition: The **present value** (PV) of new external debt is calculated by discounting all projected disbursements and debt service payments (principal and interest) on the basis of a program discount rate of 5 percent and taking account of all loan conditions, including projected disbursements, the maturity, grace period, payment schedule, front-end fees and management fees. The PV is calculated using the IMF "Fund's concessionality calculator," which is based on the amount of the loan and the above parameters. In the case of loans for which the grant element is zero or less than zero, the PV is set at an amount equal to the face value.

27. Definition: **Ceiling.** From March 2022, a performance criterion applies to the PV of new external debt (understood as debt by non-residents) contracted or guaranteed by the public sector with original maturities of one year or more. The ceiling applies to debt contracted or guaranteed for which value has not yet been received. It excludes the use of Fund resources as well as normal import credits having a maturity of up to one year.[2]

28. Definition: **Reporting Requirement.** The authorities will inform IMF staff of any planned external borrowing and the conditions on such borrowing before the loans are either contracted or guaranteed by the government and will consult with staff on any potential debt management operation.

C. Indicative Targets

Ceilings on the Changes in Deposits of the BCC Used as Collateral/Guarantee for Central Government Loans

29. Definition**: Deposits of the BCC used as collateral/guarantee for central government loans** cover central government loans guaranteed by the BCC, and is specifically understood to include central government liabilities secured by liens over BCC deposits in local or foreign currency.

Floors on Revenues of the Central Government

[2] A financing arrangement for imports is considered to be "normal" when the credit is self-liquidating.

30. Definition: **Revenues of the central government** are defined in line with the Government Finance Statistics Manual (GFSM 2001) but on a cash accounting basis, excluding grants. Revenue is an increase in net worth of the central government (including its units in the provinces and agencies) resulting from a transaction.

- Revenues of the central government include taxes and other compulsory transfers imposed by central government units, property income derived from the ownership of assets, sales of goods and services, social contributions (excluding pensions contributions received by the central government), interest, fines, penalties and forfeits and voluntary transfers received from nongovernment other than grants. The definition, for program monitoring, excludes grants and other noncompulsory contributions received from foreign governments and international organizations; such transfers between central government units would be eliminated in the consolidation of the fiscal reports and not recorded as revenue. Receipts from the sale of nonfinancial assets (e.g., privatization and signature bonuses from natural resource contracts), and transactions in financial assets and liabilities, such as borrowing but excepting interest payments, are also excluded from the definition of revenue. Transfer of profits from BCC to the Treasury is also excluded from the definition of revenue. The revenue of special accounts and budgets are also excluded.

- Revenues should be recognized on a cash basis and flows should be recorded when cash is received. Exceptional advanced payments will be treated as if received on the normal due date.

Floors on Social Spending

31. Definition: **Social spending** are central government expenditures (excluding wages) and are defined as the sum of:

- Reproductive, Maternal, Neonatal, Child and Adolescent Health (RMNCAH) and primary health care spending

- Disbursement of Gavi-supported vaccine co-financing and traditional vaccines procurement

- Disbursement of TB/Malaria/HIV/AIDS co-financing

Text Table 1. Democratic Republic of the Congo: Indicative Target for Social Spending

(In billion CDF, cumulative from the beginning of year)

	Jun-21		Sep-21		Dec-21		Mar-22		Jun-22		Sep-22		Dec-22 2/	Mar-23	Jun-23	Sep-23	Dec-23
	CR No. 21/168	Prel.	CR No. 21/168	Prel.	CR No. 22/3	Prel.	CR No. 22/3	Prel.	CR No. 22/210	Prel.	CR No. 22/210	Prel.	Prop.	Prop.	Prop.	Prop.	Prop.
RMNCAH and primary health care	11.2	-	16.9	-	22.5		5.9	1.6	9.6	12.4	15.3	12.4	21.2	6.6	13.25	19.88	26.51
GAVI co-financing and traditional vaccines 1/	8.3	18.6	16.4	18.6	17.4		10.7	10.7	25.7	25.9	36.5	25.9	36.5	8.3	20.31	32.30	32.30
TB/Malaria/HIV/AIDS co-financing	9.1	-	13.6	4.9	18.2		4.7		9.3	0.3	14.0	2.0	18.7	4.1	8.20	12.30	16.39
Total	**28.6**	**18.6**	**46.8**	**23.5**	**58.0**	**47.0**	**21.2**	**12.3**	**44.7**	**38.7**	**65.8**	**40.3**	**76.4**	**19.0**	**41.8**	**64.5**	**75.2**

Sources: Congolese authorities and IMF staff estimates.
1/ The World Bank is covering the financing of traditional vaccines in 2021-22.
2/ Estimates for Dec-22.

Ceilings on the Accumulation of Wage Arrears of the Central Government

32. Definition: **Wage arrears** are defined as approved personnel wages and salaries that have not been paid for 60 days. Wages and salaries include the total compensation paid to public service employees, including permanent benefits. These arrears will be valued on a cumulative basis from July 1, 2021.

33. Definition**: Public service employees** are defined as civil, police, and military personnel either statutory civil servants or under contract of the central government.

Ceilings on the Wage Bill

34. Definition: The **wage bill** is defined as the total compensation paid to public service employees (see ¶33), including permanent benefits.

Ceilings on Central Government Expenditures Executed Under Emergency Procedures

35. Definition: **Central government expenditures executed under emergency procedures** are expenditures that have not been executed according to the normal procedures of the expenditure chain.

36. Definition: The **ceiling** is defined quarterly as the percentage of central government expenditure executed under emergency procedures relative to total domestically financed central government expenditure.

D. Data to be Reported for Program Monitoring Purposes

The authorities of the DRC will provide IMF staff with the data needed to monitor the program within the prescribed time limits, as indicated in the following table.

Text Table 2. Democratic Republic of the Congo: Overview of Data to be Transmitted by the Authorities

	Description of Data	**Reporting Institution**	**Data Frequency** (Reporting frequency, if different)	**Reporting Lag** (Business days)
1	**Exchange rates and FX market statistics** Including rates and volumes submitted by commercial banks, foreign exchange bureaus and the BCC; official exchange rates (*cours indicatif*); parallel exchange rates; BCC interventions; BCC auctions of FX; FX supply and demand reported by commercial banks	BCC (Direction des Opérations Bancaires et des Marchés (DOBM); Direction de la recherche et des statistiques (DRS))	Daily (Weekly)	1

Text Table 2. Democratic Republic of the Congo: Overview of Data to be Transmitted by the Authorities (continued)				
2	**External assets and liabilities of the BCC** Disaggregated by category and currency; NIR and GIR under program definition.	BCC (Direction des Opérations Bancaires et des Marchés (DOBM))	Daily (Weekly)	1
3	**Monetary policy instruments and interventions** Bons BCC, swap facility, emergency lending windows, interbank market (rates and volumes, by bank)	BCC	Daily (Weekly)	1
4	**Reserves of deposit institutions at the BCC** Requirements and excess reserves	BCC (Direction de la surveillance des intermédiaires financiers (DSIF))	Daily (Weekly)	1
5	**Depository Corporations Survey (DCS)** Central bank and other depository institutions surveys	BCC	Monthly	10
6	**Detailed monetary survey** Standardized report forms 1SR & 2SR	BCC	Monthly	10
7	**Government deposits at the BCC and commercial banks** By type, entity, and currency	BCC	Monthly	10
8	**BCC Guarantees** Promissory notes, term deposits, guaranteed deposits, or any other type of contracted guarantee of the BCC in local commercial banks (by bank, category, term and currency); for guarantees, detailed information on payments related to guaranteed loans, and conditions of those loans and related guarantees.	BCC	Monthly	10
9	**BIS 2D FMI USD account statement** Account statement (electronic downloadable data format) provided by the BIS for two-day deposit account in USD opened in the BCC books to record IMF-related disbursements	BCC	Monthly	10
10	**Quantitative performance criteria monitoring** Net international reserves, net BCC credit to the government, BCC net domestic assets, foreign currency assets of the BCC held with domestic correspondents.	BCC	Monthly	15

Text Table 2. Democratic Republic of the Congo: Overview of Data to be Transmitted by the Authorities (continued)				
11	**BCC Cash Payments** BCC and fiscal agent operations, by currency and execution procedure	BCC	Monthly	10
12	**Local currency budget of the BCC**	BCC	Monthly	3
13	**Commercial Banks' Balance Sheets** Detailed asset and liabilities tables, for each deposit institution and aggregated, divided between local and foreign currency.	BCC (Direction de la surveillance des intermédiaires financiers (DSIF))	Monthly	10
14	**Financial Soundness Indicators (FSI)** Capital adequacy, asset quality, profitability, liquidity, market risk sensitivity	BCC (Direction de la surveillance des intermédiaires financiers (DSIF))	Monthly	10
15	**Interest rates term structure** Of deposit institutions and of the BCC	BCC (Direction de la surveillance des intermédiaires financiers (DSIF))	Monthly	10
16	**FX budget of the BCC *(Budget en devises)***	BCC (Direction des opérations bancaires et des marchés (DOBM))	Weekly	5
17	**Statistical summary** Key outputs	BCC	Monthly	15
18	**Exports and imports of commodities** Value and volume	BCC	Monthly	15
19	**Capital and financial account operations of the balance of payments**	BCC	Quarterly	15
20	**GDP estimates and forecasts**	CESCN	Quarterly	45
21	**Expenditures made using emergency procedures** Amounts approved by the Committee on emergency spending and amounts paid and regularized by the BCC	*Comité des urgences*	Quarterly	15
22	**Revenues from customs and excise taxes** Including from the mining sector, broken down by category	DGDA	Monthly	40
23	**Revenues from direct and indirect taxes**	DGI	Monthly	40
24	**Revenues from the mining sector** By type	DGI	Monthly	40

Text Table 2. Democratic Republic of the Congo: Overview of Data to be Transmitted by the Authorities (continued)

25	**Corporate tax *(IBP)* subscriptions**	DGI	Annual	20
26	**Non fiscal revenues** Excluding from provinces, including revenues from mining sector	DGRAD	Monthly	20
27	**Privatization proceeds**	DGRAD	Punctual, in case of assets sale	15
28	**Indicators of domestic production**	INS	Monthly	15
29	**Consumer Price Index**	INS	Weekly	5
30	**Estimate of the fuel pricing policy's budgetary cost**	Ministry of the Economy (validated by the Ministry of Finance)	Quarterly	40
31	**External arrears** Updated amounts	Ministry of Finance (Direction Générale de la Dette Publique (DGDP))	Monthly	15
32	**External debt service** Interest and principal, detailed by creditor	Ministry of Finance (Direction Générale de la Dette Publique (DGDP))	Monthly	10
33	**Domestic debt of the central administration** Stock and debt service, by category and by creditor	Ministry of Finance (Direction Générale de la Dette Publique (DGDP))	Quarterly	15
34	**External public debt incurred** Including by the central or local governments, state-owned enterprises (Gécamines, Sicomines, SNEL, MIBA) and the BCC; details about associated guarantees/collateral	Ministry of Finance (Direction Générale de la Dette Publique (DGDP))	Punctual, in case of signature of a debt contract	15
35	**Stock of outstanding external public debt** Including by the central or local governments, state-owned enterprises (Gécamines, Sicomines, SNEL, MIBA) and the BCC; details about associated guarantees/collateral	Ministry of Finance (Direction Générale de la Dette Publique (DGDP))	Annual	30
36	**Status of natural resource revenue collection**	Ministry of Finance (Comité Technique de suivi et évaluation des Réformes (CTR))	Quarterly	20

Text Table 2. Democratic Republic of the Congo: Overview of Data to be Transmitted by the Authorities (concluded)				
37	**Government cash flow plan *(Plan de trésorerie, PTR)*** Execution and projections	Ministry of Finance (Direction Générale du Trésor et de la Comptabilité Publique (DGTCP))	Weekly	5
38	**Treasury bills and bonds** Issuance amounts, maturities, and interest rates; amortization.	Ministry of Finance (Comité des titres)	Weekly	3
39	**Mining exports** By mineral and by company, as well as annual projections	Ministry of Mines (Cellule Technique de Coordination et de Planification Minière (CTCPM))	Monthly & Quarterly	10
40	**Budget arrears** Updated stock	Ministry of Budget (Direction du Contrôle Budgétaire (DCB))	Annual	15
41	**Budget tracking report *(État de suivi budgétaire)***	Ministry of Budget (Direction Générale des Politiques et Programmation Budgétaire (DGPPB))	Monthly	10
42	**Wage arrears** Stock, including details per category	Ministry of Budget (Direction de la Paie)	Monthly	60
43	**Projected spending commitment plan**	Ministry of Budget (Direction du Contrôle Budgétaire (DCB))	Quarterly	10
44	**Economic outlook note** Prepared for the meeting with the Prime Minister	Ministry of Planning (Direction des études macroéconomiques (DEME))	Weekly	3

DEMOCRATIC REPUBLIC OF THE CONGO

June 14, 2023

FOURTH REVIEW UNDER THE EXTENDED CREDIT FACILITY, REQUEST FOR MODIFICATION OF QUANTITATIVE PERFORMANCE CRITERION, AND FINANCING ASSURANCES REVIEW—DEBT SUSTAINABILITY ANALYSIS

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Prepared by the staffs of the International Monetary Fund (IMF) and the International Development Association (IDA)

Risk of external debt distress:	**Moderate**
Overall risk of debt distress	**Moderate**
Granularity in the risk rating	**Substantial space to absorb shocks**
Application of judgment	**No**

According to the updated Low-Income Country Debt Sustainability Framework (LIC DSF), the Democratic Republic of the Congo (DRC)'s debt-carrying capacity remains weak.[1] The DRC remains at a moderate risk of external and overall debt distress, with substantial space to absorb shocks. Weak revenue mobilization is a main determinant for the DRC's moderate risk of debt distress given low external debt. External debt thresholds for both solvency and liquidity risks are breached under the stress tests, highlighting the country's vulnerability to external shocks, primarily regarding a negative shock to exports. Given limited buffers and exposure to risk from volatile commodities prices, prudent borrowing policies prioritizing concessional loans, and strengthening debt management policies remain essential to debt sustainability.

[1] The DSA reflects a debt carrying capacity of weak considering DRC's Composite Indicator of 2.23, based on the April 2023 World Economic Outlook and the latest CPIA vintage (2021).

PUBLIC DEBT COVERAGE

1. Public and publicly guaranteed (PPG) external and domestic debt covers debt contracted and guaranteed by the central government, the Central Bank of Congo (BCC), provinces, and part of state-owned enterprises (SOEs). The public debt department (*Direction Générale de la Dette Publique*, DGDP) under the Ministry of Finance publishes quarterly and annual reports on its website with information on domestic and external debt based on the residency criteria. The reports summarize the debt of the central government, debt of Sicomines (a joint venture between the Congolese government and Chinese investors) and Gécamines, guaranteed external debt of SOEs managed by the government, and the BCC. Other public institutions are legally prevented from borrowing externally without approval, and unlikely to command market access without a government guarantee. However, the authorities do not receive any regular report from public institutions other than those named above or provinces. In light of this, the authorities are committed to improve quality of debt reporting, especially for SOEs, and are following up on recommendations from recent IMF technical assistance. To this end, the authorities are finalizing a draft law to harmonize the legal framework, reaffirm the exclusive role of the Ministry of Finance in contracting external debt, and strengthen the mandate of the DGDP, including in monitoring SOEs' debt. Supported by the World Bank Sustainable Development Finance Policy (SDFP), under Performance and Policy Actions (PPA2), the authorities improved the coverage of their debt reports to include the reporting of SOEs and provinces debt.[2] Moreover, Sicomines' infrastructure loans

Text Table 1. Democratic Republic of the Congo: Coverage of Public and Publicly Guaranteed Debt and Parameters for Contingent Liability Shocks for the Tailored Stress Test

Public Debt Coverage

	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	
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	X

Public Debt Coverage and the Magnitude of the Contingent Liability Tailored Stress Test

1	**The country's coverage of public debt**	The central, state, and local governments, central bank, government-guaranteed debt, non-guaranteed SOE 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	2.0	Some public institutions are not reporting to the DGDP.
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	0.5	Reflecting risks stemming from irregular data sharing with DGDP.
4	PPP	35 percent of PPP stock	0.0	
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5.0	
	Total (2+3+4+5) (in percent of GDP)		7.5	

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%.

[2] Under the SDFP PPA2 for FY23, the authorities published the quarterly debt bulletins for the second half of 2022 that included debt reporting of 5 SOEs (SNEL, MIBA, Gécamines, Sodimico and Sonahydroc) as well as debt of 3 provinces (Kinshasa, Kwilu and Kongo Central).

have a government guarantee which can only be called after 2050. Its debt is expected to be repaid by 2027 and is collateralized by Sicomines' earnings.[3] Sicomines also contracted a loan to finance the Busanga power plant to secure its electricity supply. Data on the debt of the private sector is scarce, and the private sector is believed not to be borrowing externally.

BACKGROUND AND RECENT DEVELOPMENTS

2. **Despite vast natural resources, the DRC is one of the poorest countries in the world, and its fragility makes the country prone to health and humanitarian crises and conflict.** The economy is highly dollarized, undiversified, and acutely vulnerable to commodity-price shocks and supply risks.

3. **While the DRC's economy has shown resilience in recent years, it remains highly vulnerable to shocks.** After a rebound of real GDP growth to 6.2 percent in 2021, growth increased to 8.9 percent in 2022, and is projected at 6.8 percent in 2023, supported by high commodity prices, expanded mining production, despite slower growth in the non-extractive sector. The primary deficit is expected to widen from 0.2 percent in 2022 to 1.1 percent in 2023, against the backdrop of an escalation of the conflict in the East. Despite a deteriorated current account, reserves strengthened in 2022, reaching about 8 weeks of non-aid related imports at end-2022.

4. **External arrears partly date from pre-HIPC Completion Point, with some Gecamines arrears adding to the stock.** External arrears amount to US$254.5 million.[4] Four non-Paris Club creditors hold claims against the DRC for a total of US$65 million and are in negotiation or under a reconciliation process. Meetings with each of these creditors took place in the first half of 2023 or are scheduled this year, with enhanced information sharing, to reach an agreement. The remaining external arrears are claims from commercial creditors with whom the authorities are also making good faith efforts.

5. **At end-2022, the public debt ratio was 22 percent of GDP, lower by about 2 percentage points of GDP vis-à-vis the the 2021 level.** External public debt-to-GDP decreased from 16.8 percent at the end of 2021 to 15.5 percent at the end of 2022 thanks to strong GDP growth, with about half of public external debt owed to official creditors. Domestic debt in 2022 decreased to 6.4 percent of GDP, mostly reflecting domestic arrears,[5] Treasury bill and bond issuance, and the recording of bank loans under the now phased-out CREDOCs ("Credit

[3] Box 1, Debt Sustainability Analysis, IMF Country Report No. 15/280. This report includes data on disbursements up to end-2022 on publicly guaranteed infrastructure loans, and up to end-2021 for other loans.

[4] In accordance with the LIC DSF Guidance Note, the external arrears do not trigger a determination of an in-debt-distress risk rating when they are *de minimus* cases where arrears are less than 1 percent of GDP. For more details see paragraph 15.

[5] In accordance with the LIC DSF Guidance Note, the domestic arrears do not trigger a determination of an in-debt-distress risk rating when they are arrears to suppliers of goods and services that do not reflect government insolvency and/or liquidity problems. For more details, see paragraph 15.

Documentaire"), a scheme which used central bank's deposits as guarantees for central government loans. Multilateral and bilateral dominates the creditor base (Text Table 2).

6. The overall domestic debt is mostly composed of arrears. Most of the domestic debt stock consists of arrears estimated at 5.7 percent of GDP at end 2022 (Text Table 3). Arrears are mainly composed of reconciled arrears (3.8 percent of GDP) and VAT arrears to exporters—1.0 percent of GDP. In addition, arrears to oil companies amount to 0.6 percent of GDP. Reconciled arrears have been audited and include financial debt, social debt, judiciary debt, debt to suppliers, and debt related to rent and other services.

Text Table 2. Democratic Republic of the Congo: Decomposition of Public Debt and Debt Service by Creditor 2022-24[1]

	Debt Stock			Debt Service					
	2022			2022	2023	2024	2022	2023	2024
	(in M US$)	*(Percent total debt)*	*(Percent GDP)*	*(in M US$)*			*(Percent GDP)*		
Total	14,224.5	100.0	21.6	1,778.0	1,800.5	1,201.9	2.7	2.6	1.6
External	9,989.8	70.2	15.2	695.0	696.4	679.6	1.1	1.0	0.9
Multilateral creditors	4,889.7	34.4	7.4	169.3	167.1	124.0	0.3	0.2	0.2
IMF[2]	2,233.5	15.7	3.4	8.9	31.5	43.1	0.0	0.0	0.1
World Bank	2,124.8	14.9	3.2	51.4	67.4	62.1	0.1	0.1	0.1
AfDB	381.9	2.7	0.6	95.5	57.8	9.4	0.1	0.1	0.0
Other Multilaterals	149.6	1.1	0.2	-	-	-	-	-	-
o/w : European Investment Bank	56.6	0.4	0.1	9.4	5.3	5.3	0.0	0.0	0.0
Arab Bank for Economic Development in Africa	40.9	0.3	0.1	0.5	0.7	0.8	0.0	0.0	0.0
Bilateral creditors	4,592.6	32.3	7.0	496.0	437.6	462.9	0.8	0.6	0.6
Paris Club	107.4	0.8	0.2	21.3	18.5	10.8	0.0	0.0	0.0
o/w : France	43.6	0.3	0.1	21.3	18.5	10.8	0.0	0.0	0.0
Exim Bank of Korea	63.8	0.4	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Non-Paris Club	4,485.2	31.5	6.8	474.7	419.0	452.1	0.7	0.6	0.6
o/w : Exim Bank of China	4,007.6	28.2	6.1	438.2	359.7	396.1	0.7	0.5	0.5
Exim Bank of India	152.2	1.1	0.2	19.9	20.5	16.7	0.0	0.0	0.0
Bonds	...	...	...	...	...	...	...	...	...
Commercial creditors	507.5	3.6	0.8	29.7	91.8	92.7	0.0	0.1	0.1
o/w : FG Hemisphere	93.2	0.7	0.1	-	8.1	8.1	-	0.0	0.0
Financial Investment Holding	31.3	0.2	0.0	7.3	7.3	7.2	0.0	0.0	0.0
Domestic	4,234.8	29.8	6.4	1,083.0	1,104.1	522.4	1.6	1.6	0.7
T-Bills	91.8	0.6	0.1	192.8	96.4	-	0.3	0.1	-
T-Bonds	292.7	2.1	0.4	-	211.2	119.3	-	0.3	0.2
Loans	130.2	0.9	0.2	146.0	107.7	19.4	0.2	0.2	0.0
Arrears	3,720.0	26.2	5.7	744.1	688.7	383.7	1.1	1.0	0.5
Memo items:									
Collateralized debt	3,275.4	23.0	5.0						
Contingent liabilities	3,631.1	25.5	5.5						
o/w : Public guarantees	298.7	2.1	0.5						
o/w : Other explicit contingent liabilities	3,332.4	23.4	5.1						
Nominal GDP (in M USD)	65,807.5	...	...	65,807.5	68,631.8	75,370.0	...	...	...

Sources: Congolese authorities and IMF staff estimates.

1/ As reported by country authorities according to their classification of creditors, including by official and commercial. Debt coverage is the same as the DSA. Percent of GDP figures are computed using GDP in M US$ converted from CDF using average exchange rate, which could lead to discrepancies with the DSA.

2/ Including the part of the SDR allocation retroceded to the government as budgetary support.

Text Table 3. Democratic Republic of the Congo: Total Domestic Debt, 2022

	2022		
	Nominal in US$ million	In percent of GDP	In total domestic debt
Stock of Treasury bills and other bank loans	514.7	0.8	12.2
Reconciled legacy arrears [1/]	2,485.6	3.8	58.7
Arrears from provinces	145.8	0.2	3.4
Arrears to oil companies	418.2	0.6	9.9
VAT arrears	670.5	1.0	15.8
Total	4,234.8	6.4	100.0

Sources: Congolese authorities and IMF staff calculations.
1/ Includes the stock of validated and certified arrears under the domestic debt strategy and the stock of certified arrears awaiting validation.

BACKGROUND ON MACROECONOMIC FORECASTS

7. Projections underlying this DSA are underpinned by the macroeconomic framework of the fourth review of the ECF-supported arrangement.

- GDP growth is expected to remain strong in 2023-28 (5.5 on average) due to new mining projects, high commodity prices, and strong global demand for DRC's commodity exports. These developments, in addition to positive advances in the services sector, would improve the trade balance in the medium to long term. Starting from 5.0 percent of GDP in 2022, the trade deficit is expected to decrease to 4.4 percent in the medium term, recovering from two years of exceptionally strong import growth. Risks stem from upcoming elections, the escalation of the conflict in the East, and a reversal of commodity prices.

- Against the background of large development needs, , ambitious public spending on education and infrastructure relies on available additional financing sources in the context of the catalytic role of the ECF arrangement and domestic revenue mobilization efforts.[6] The latter will hinge on the authorities' plans to broaden the tax base, improve tax compliance, restore VAT functioning, and modernize and digitalize revenue collection.

- Sizable other investment inflows, including project financing, strengthened reserve accumulation in 2022 despite a deteriorated current account. Multilateral and bilateral loans remain the main sources of debt financing. Contracted external borrowing is projected to amount to $4.0 billion and $2.3 billion in 2023 and 2024, respectively. Financial terms of new lending are projected to

[6] The ECF arrangement focus on three key areas, (i) stepping up domestic revenue mobilization through restoring VAT normal functioning, rationalizing non-tax and parafiscal charges, streamlining tax expenditures, and modernizing revenue administration; (ii) strengthening governance including natural resource management and transparency; and (iii) strengthening the monetary policy framework and the central bank's independence. See CR 22/3 for details on key policies under the ECF-supported arrangement.

remain largely concessional, with an increase of lending at non-concessional terms over the medium term.

- Treasury Bill and Bonds gross issuances amounted to US$637 million in 2022 (1 percent of GDP), and are expected to increase, as domestic markets deepen, and concessional financing gradually declines over the long term.

8. The realism tool's outputs find the DSA projections to be consistent with DRC's historical experience (Figures 3 and 4).

- **Debt drivers:** External debt-to-GDP remained low in 2022; new engagement strategies with multilateral institutions will provide financing to sustain development.

- **Fiscal adjustment and growth.** The projected fiscal deficit remains within its historical range, and is contained over the medium term, thanks to improved revenue mobilization and sustained growth.

Box 1. Macroeconomic Assumptions for 2023–43

Real GDP growth. Growth is expected to average at about 5.0 percent over the medium to long term, driven by sustained increases in mining production, supportive commodity prices, and a gradual increase in public investment.

Inflation. After peaking at 11.5 percent in 2023, average inflation measured by GDP deflator growth is projected to stabilize around 6 percent in 2024-28 and beyond, in line with the BCC's target of keeping inflation below 7 percent. The BCC's commitment to tighten monetary policy as needed to curb inflation dynamics will be key to keeping inflation expectations anchored.

Primary balance. The primary fiscal deficit is projected to average 0.8 percent of GDP in 2023-2028, with greater revenue mobilization and additional external financing helping to tackle large spending needs. Capital expenditure is expected to rise over the projection period and to gradually shift towards domestic financing. Revenues are computed as central government revenues plus revenues from SOEs that are assumed equivalent to their debt service flows.

Current account balance. The current account balance is significantly driven by developments in the mining sector. Mineral exports constitute a significant portion of exports and are projected to improve, on average, over the medium term given new mining projects and high global demand for commodities related to the global climate transition. Imports are projected to rise gradually on the back of increasing demand for capital goods and intermediates for infrastructure investment. Overall, the non-interest current account deficit averages 3.4 percent of GDP over 2023-2043.

Financing. External financing is projected to consist of concessional and non-concessional loans from multilateral, bilateral and commercial lenders, and FDI. Part of the financing of public investment projects would also stem from foreign grants. Additional government financing needs are assumed to be covered by treasury bill issuance (70%) and treasury bond issuance with maturities below 7 years (30%) in the domestic market until 2033, with bond issuance assumed to increase (to 40%) by 2043.

Gross official reserves. Gross official reserves are expected to gradually rise to about 13 weeks of imports by 2028. The reserve buildup is crucially driven by stronger exports, financing under the program, and the catalytic effect of the ECF program.

COUNTRY CLASSIFICATION AND DETERMINATION OF SCENARIO STRESS TESTS

9. **DRC's debt carrying capacity is classified as weak (Text Table 4), unchanged from the previous DSA**. The classification of debt carrying capacity is guided by the composite indicator (CI) score which is determined by the World Bank's CPIA and other macroeconomic variables, including forward-looking elements. DRC's CI score is 2.23, roughly unchanged compared to previous vintages. DRC is a fragile state and highly vulnerable to external shocks.

10. **The debt sustainability analysis relies on six standardized stress tests and two tailored stress tests (commodity price shock and combined contingent liabilities shock).** The standardized stress tests use the default settings. While DRC does not qualify for the market financing shock stress test, the commodity price shock stress test is relevant in assessing the sensitivity of projected debt burden indicators to unfavorable commodity export prices.[7]

Text Table 4. Democratic Republic of the Congo: Composite Indicator and Threshold Tables

Debt Carrying Capacity	Weak

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintage
Weak	Weak	Weak	Weak
	2.23	2.13	2.15

Applicable Thresholds

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

Note: The current vintage refers to the 2023 April WEO and the 2021 CPIA; the previous vintages refer to the October and April 2022 WEOs and the 2021 CPIA.

[7] Under the debt sustainability framework, countries with commodity exports accounting for at least 50 percent of total exports of goods and services over the previous three-year period are subject to the stress test. Commodities accounted for about 97 percent of DRC's exports of goods and services over the period 2018-20.

EXTERNAL DEBT SUSTAINABILITY

Baseline

11. External PPG debt remains sustainable in the baseline scenario, but with vulnerabilities stemming from some structural weakness. All external debt is owed or guaranteed by the government. Due to improved access to external financing, external debt increased from $9,615 million in 2021 to $9,990 million in 2022, driven by increased debt towards multilateral creditors. The present value of external debt estimated at 11.7 percent of GDP in 2022 is significantly lower than the benchmark of 30 percent and reflects the extent of concessional debt which is projected to remain broadly unchanged. Despite higher debt issuance resulting from the catalytic effect of the ECF arrangement and temporarily larger fiscal deficits reflecting higher investment needs, the medium-term trajectory of external and public debt does not give rise to debt sustainability concerns, under the currently favorable medium-term growth outlook. The end-June 2023 quantitative performance criterion (QPCs) on the present value of new external borrowing, set at US$1500 million, is on track to be met, and the newly set end-December 2023 QPC at US$2.5 billion reflects some catching up with signing loans initially planned in 2022. Indicators of public external debt and external debt services remain below their threshold in the baseline scenario (Figure 1).

Alternative Scenarios and Stress Tests

12. The debt-to-GDP and the debt service-to-exports indicator breach their thresholds under the most extreme shock scenario of lower nominal exports (Figure 1).[8] In the exports shock scenario, nominal exports fall by 19.5 percent in 2024 and 20.6 percent in 2025, relative to the previous year value. Given a share of 70 percent for copper exports in total exports in 2022, the exports shock could be equivalently modelled as the combination of two consecutive 30 percent drops in 2024 and 2025 in the international price of copper, relative to baseline projections. These breaches highlight vulnerabilities from a reversal in commodity prices. This risk would be mitigated by limiting non-concessional borrowing and seizing the opportunity of high commodity prices to build buffers and safeguard some borrowing space.

PUBLIC DEBT SUSTAINABILITY

Baseline

13. The overall risk of debt distress is projected to remain moderate. The public debt-to-GDP ratio does not breach its threshold in the baseline scenario. However, under the most extreme shock of lower nominal exports, the present value of debt relative to GDP comes close to the threshold in one year (Figure 2). While treasury bill issuance remains low, recognition of yet uncertified VAT arrears and arrears to

[8] Nominal export growth (in USD) is set to its historical average minus one standard deviation, or to the baseline scenario's projection minus one standard deviation, whichever is lower in 2024–25, a shock that is likely unduly harsh to judge external financing needs as imports would likely contract significantly under such a scenario. For the specification of other stress tests, see Table 8 in the 2018 Guidance Note.

suppliers could bring domestic debt and total public debt up. The realization of guarantees and other possible contingent liabilities poses risks.

Alternative Scenarios and Stress Tests

14. Stress tests confirm DRC's vulnerability to shocks to exports and commodity prices. The most extreme shock for the ratio to GDP of the present value of public debt consists of a sharp decline in exports (Figure 2). Under such shock, the present value of the public debt ratio peaks at slightly less than the applicable threshold value of 35 percent. Under this shock the public debt service-to-revenue ratio remains below their 2023 level of 16 percent of revenue in the medium term.

RISK RATING AND VULNERABILITIES

15. The external and overall risk of debt distress for the DRC remain moderate (Text Table 5). Both external and overall public debt are at moderate risk of debt distress due to breaches of the thresholds under the stress tests. Over the duration of the ECF-supported arrangement, public debt metrics remain broadly unchanged, as stronger projected economic and revenue growth is expected to be somewhat offset by higher borrowing. External debt is expected to decrease gradually relative to GDP and exports. At 0.4 percent of GDP, external arrears are below 1 percent of GDP, qualifying as a *de minimis* case, and hence not encumbering the risk rating consideration. The domestic arrears are to suppliers of goods and services and reflect inadequate public finance practices rather than government insolvency and/or liquidity problems, and the authorities are enacting measures that lead to their reduction.

Text Table 5. Democratic Republic of the Congo: Risk Ratings

External debt distress rating	
Mechanical external debt distress rating	Moderate
Final external debt distress rating	Moderate
Judgement was applied	No
Overall Risk Rating	
Mechanical overall debt distress rating	Moderate
Final overall debt distress rating	Moderate
Judgement was applied	No

16. Low revenue mobilization capacity warrants preserving the borrowing space created by favorable commodity prices. Although there is substantial space for additional borrowing without endangering DRC's risk rating (Figure 5), low revenue mobilization remains a key challenge. Under the ECF-supported arrangement, revenues are projected to increase from 9.5 percent of GDP in 2020 to 18 percent by 2028, compared to an average of 20 percent of GDP in SSA.

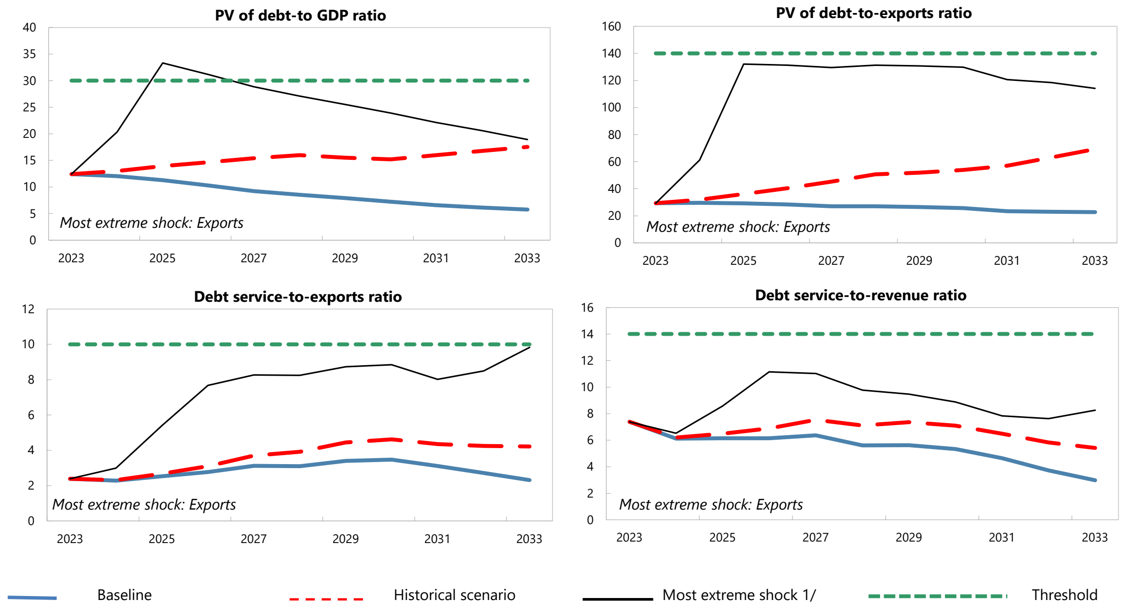
17. Risks stem from export performance and DRC's ability to carry meaningful reforms. Export performance is the Achilles' heel of DRC's debt sustainability. A key risk is therefore the fluctuation in commodity prices. DRC should continue to build buffers by increasing international reserves, mobilizing revenue, and ensuring borrowed resources enhance inclusive growth and promote economic diversification by supporting private sector development in non-extractive sectors. Borrowing on non-concessional is projected to increase but should remain limited, and DRC should continue to rely mostly on concessional sources.

18. Despite low total public debt, limited repayment capacity remains a key vulnerability. Key sources of vulnerabilities include commodity prices fluctuations and challenges to fiscal revenue mobilization. Despite gradually higher revenues projected under the ECF-supported arrangement, the debt service-to-revenue ratio suggests that space for additional borrowing is close to becoming constrained (Figure 1). This calls for prudent fiscal policies including constraining new borrowing. Structural reforms, in particular in revenue mobilization, public financial management, and growth potential-enhancing public investment remain key to DRC's debt carrying capacity.

AUTHORITIES' VIEWS

19. The authorities broadly agreed with the overall assessment of the country's debt sustainability. Debt carrying capacity is expected to improve against the backdrop of the ECF-supported arrangement. The authorities are committed to further improve debt management, including enhancing the reporting of SOE (with the inclusion of SOE debt in public debt statistics by 2023) and publicly guaranteed debt.

Figure 1. Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2023-33



Customization of Default Settings	Size	Interactions
Tailored Stress		
Combined CL	Yes	
Natural disaster	n.a.	n.a.
Commodity price	Yes	Yes
Market financing	n.a.	n.a.

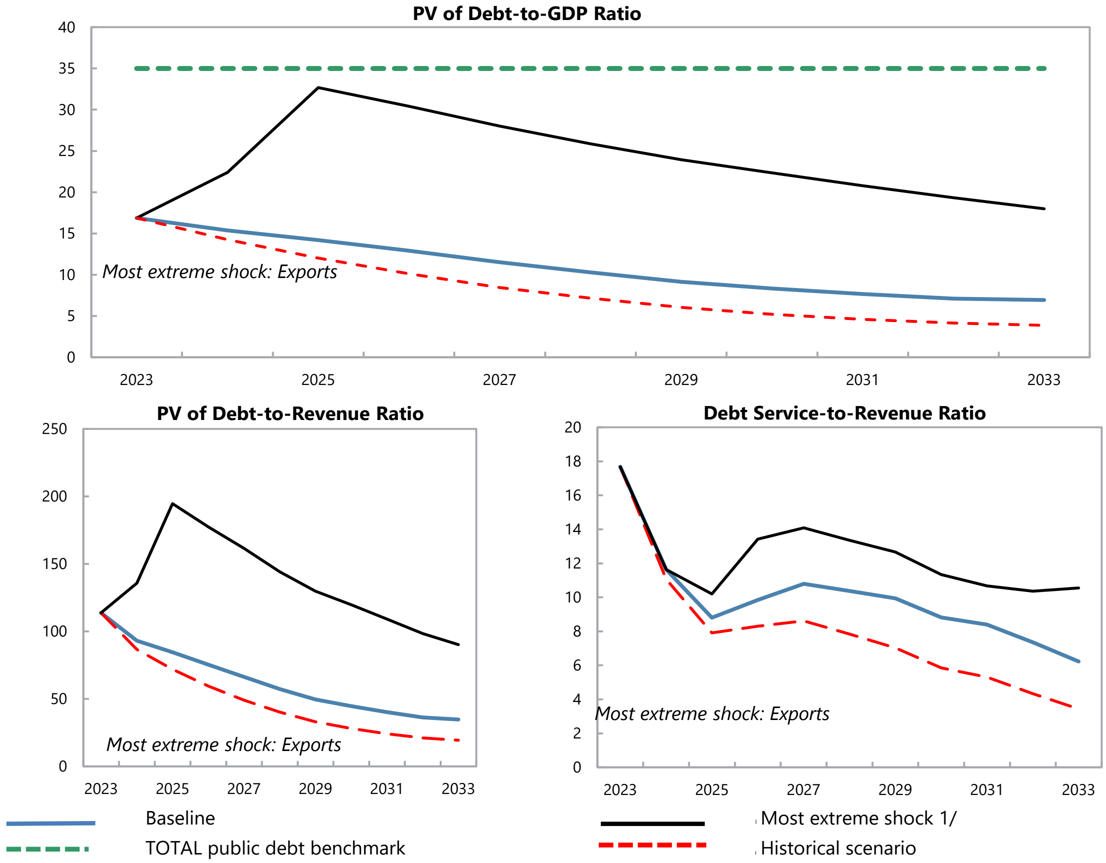
Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing assumptions on additional financing needs resulting from the 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%	2.7%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	31	31
Avg. grace period	7	7

* 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 IMF staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in or before 2033. 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 extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 2. Indicators of Public Debt Under Alternative Scenarios, 2023-33



Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	67%	95%
Domestic medium and long-term	10%	2%
Domestic short-term	23%	3%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	2.7%	2.7%
Avg. maturity (incl. grace period)	31	31
Avg. grace period	7	7
Domestic MLT debt		
Avg. real interest rate on new borrowing	1.7%	1.7%
Avg. maturity (incl. grace period)	3	3
Avg. grace period	1	1
Domestic short-term debt		
Avg. real interest rate	-1.3%	-1.3%

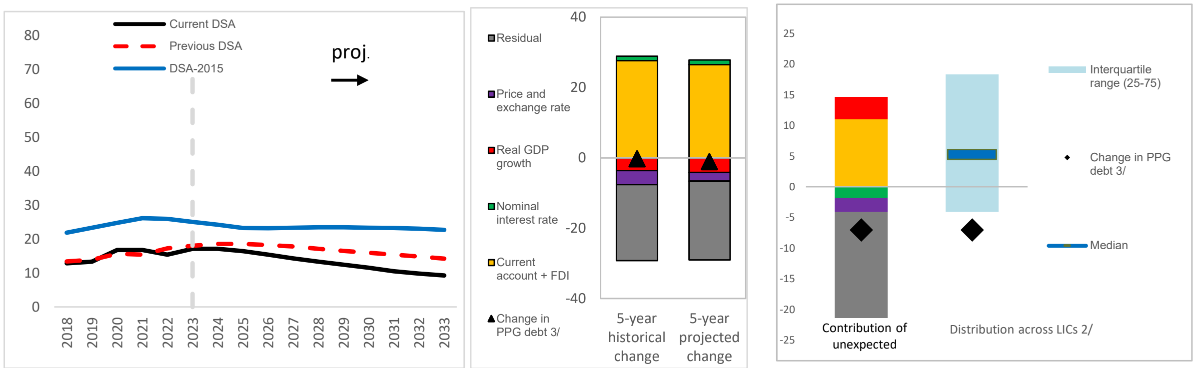
* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities and IMF staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in or before 2033. 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 extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 3. Drivers of Debt Dynamics – Baseline Scenario

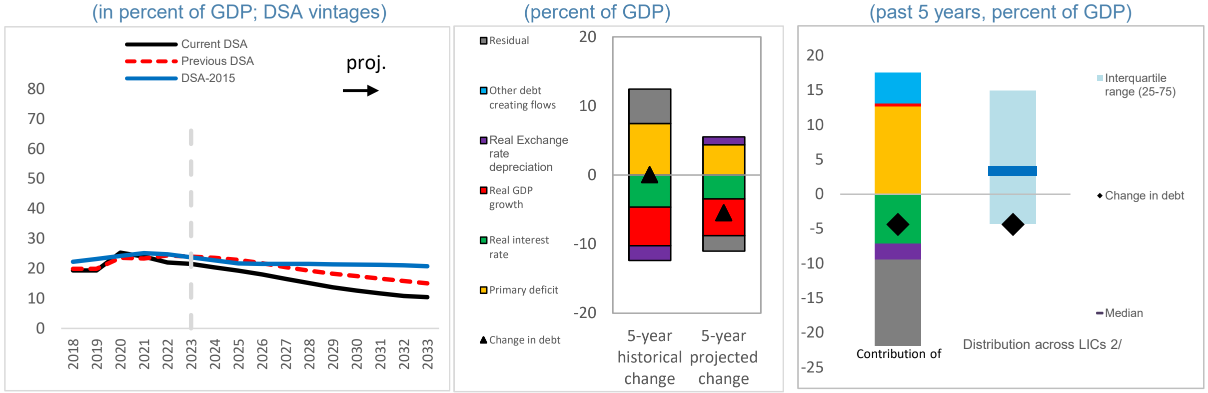
External debt

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

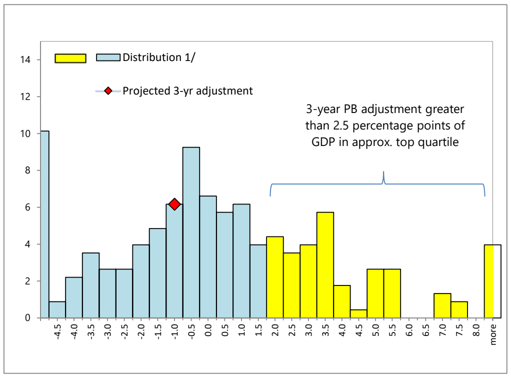
Gross Nominal Public Debt (in percent of GDP; DSA vintages) | **Debt-creating flows** (percent of GDP) | **Unexpected Changes in Debt 1/** (past 5 years, percent of GDP)



Sources: Country authorities and IMF staff estimates and projections.
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.

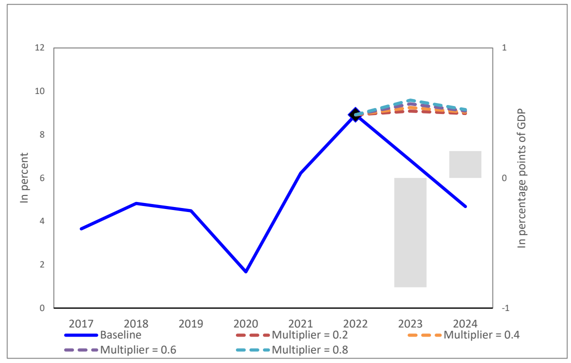
Figure 4. Realism Tools

3-Year Adjustment in Primary Balance
(Percentage points of GDP)



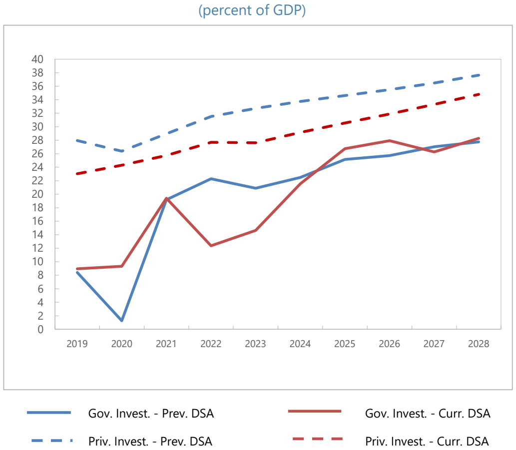
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 2/

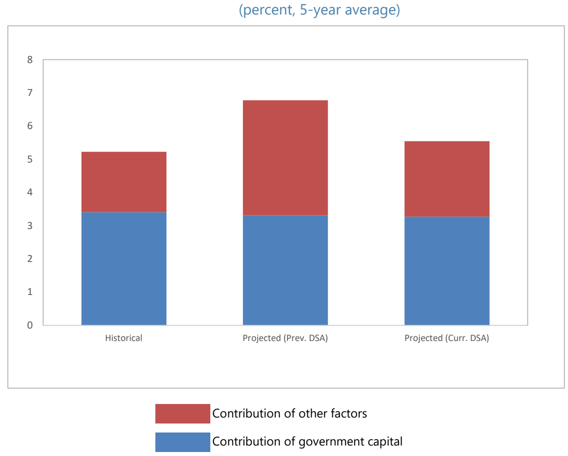


2/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(percent of GDP)

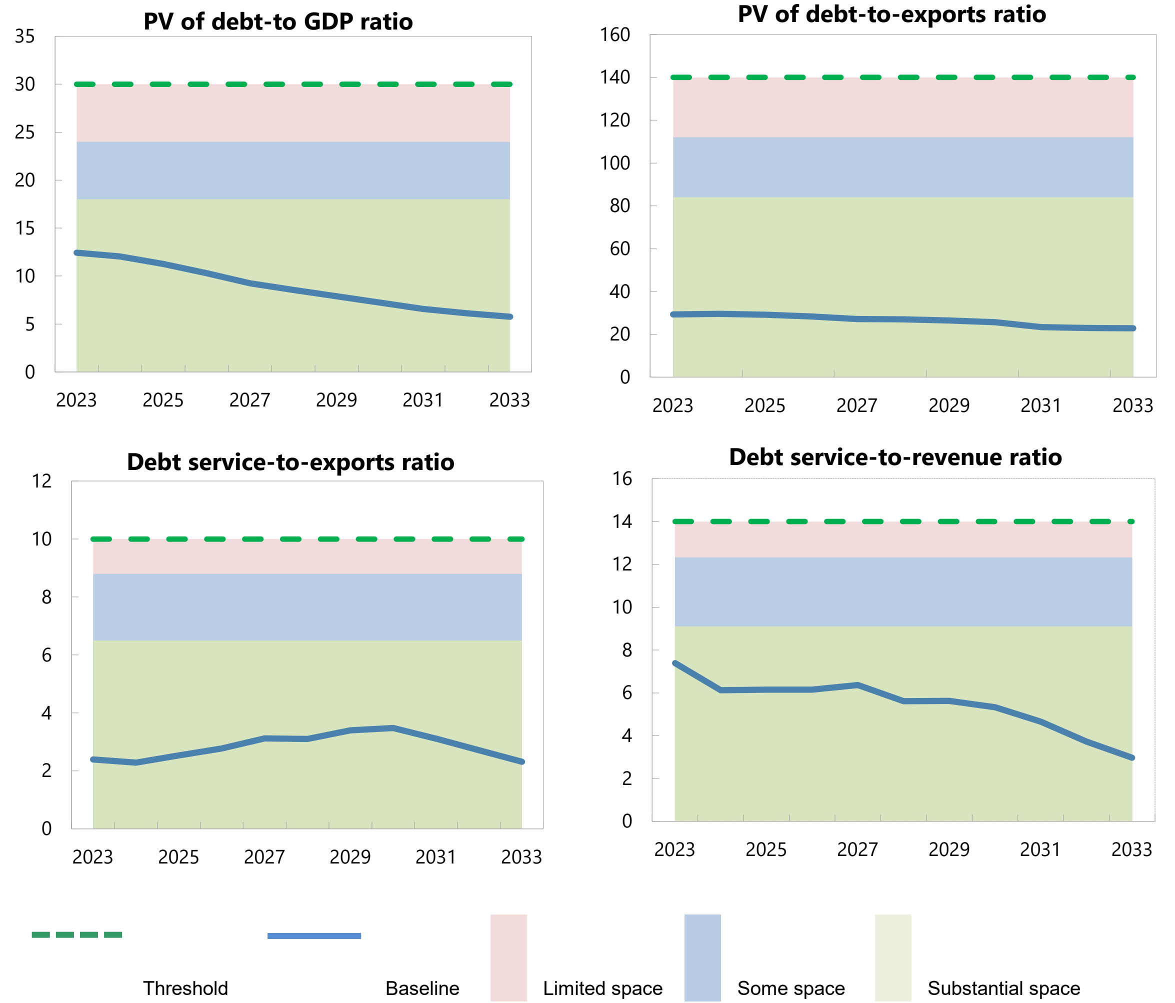


Contribution to Real GDP growth
(percent, 5-year average)



Sources: Country authorities and IMF staff estimates and projections.
1/ Public and private investment rates are preliminary and based on national accounts information. Some discrepancies with fiscal accounts information are expected.
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).

Figure 5. Qualification of the Moderate Category 2023-33[1]



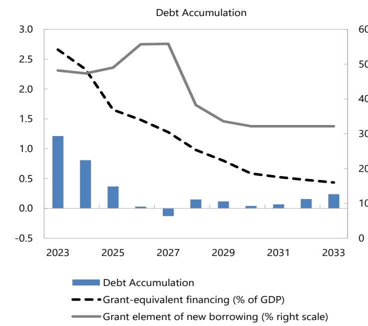
Sources: Country authorities and IMF staff estimates and projections.
1/ For the PV debt/GDP and PV debt/exports thresholds, x is 20 percent and y is 40 percent. For debt service/exports and debt service/revenue thresholds, x is 12 percent and y is 35 percent.

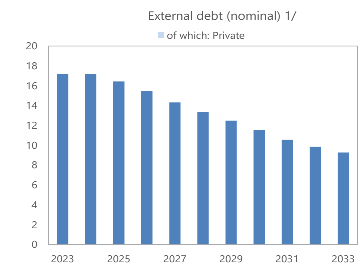
Table 1. Democratic Republic of the Congo: External Debt Sustainability Framework, Baseline Scenario 2020-43

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2033	2043	Historical	Projections
External debt (nominal) 1/	**16.8**	**16.8**	**15.5**	**17.2**	**17.2**	**16.4**	**15.5**	**14.3**	**13.4**	**9.3**	**5.5**	**9.1**	**13.4**
of which: public and publicly guaranteed (PPG)	**16.8**	**16.8**	**15.5**	**17.2**	**17.2**	**16.4**	**15.5**	**14.3**	**13.4**	**9.3**	**5.5**	**9.1**	**13.4**
Change in external debt	3.4	0.0	-1.4	1.7	0.0	-0.7	-1.0	-1.1	-1.0	-0.6	-0.3		
Identified net debt-creating flows	**5.8**	**1.4**	**5.3**	**6.6**	**5.3**	**4.1**	**3.9**	**3.7**	**4.4**	**4.5**	**7.0**	**4.3**	**4.8**
Non-interest current account deficit	**1.9**	**0.8**	**5.1**	**5.2**	**3.6**	**2.5**	**2.3**	**2.1**	**2.7**	**2.6**	**4.8**	**3.8**	**3.1**
Deficit in balance of goods and services	1.2	-0.2	5.0	5.7	4.8	4.6	4.3	4.0	4.4	3.7	5.5	**4.1**	**4.6**
Exports	28.7	38.9	43.2	42.5	40.8	38.6	36.3	34.1	31.6	25.3	17.4		
Imports	29.9	38.7	48.2	48.2	45.6	43.2	40.6	38.0	35.9	29.1	22.9		
Net current transfers (negative = inflow)	-1.7	-2.2	-3.5	-4.0	-4.8	-5.4	-5.1	-4.7	-4.4	-3.3	-2.1	**-3.4**	**-4.3**
of which: official	-1.1	-1.3	-0.9	-0.8	-1.1	-1.4	-1.3	-1.2	-1.1	-0.8	-0.5		
Other current account flows (negative = net inflow)	2.4	3.2	3.6	3.5	3.5	3.3	3.1	2.9	2.7	2.1	1.4	**3.1**	**2.8**
Net FDI (negative = inflow)	**3.1**	**2.9**	**2.1**	**2.1**	**2.1**	**2.1**	**2.1**	**2.1**	**2.1**	**2.1**	**2.3**	**3.1**	**2.1**
Endogenous debt dynamics 2/	**0.9**	**-2.4**	**-1.9**	**-0.7**	**-0.4**	**-0.5**	**-0.5**	**-0.5**	**-0.5**	**-0.2**	**-0.1**		
Contribution from nominal interest rate	0.3	0.2	0.3	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2		
Contribution from real GDP growth	-0.2	-0.9	-1.3	-1.0	-0.7	-0.8	-0.8	-0.8	-0.7	-0.4	-0.3		
Contribution from price and exchange rate changes	0.8	-1.7	-0.8	...	...	...	...	...	...	...	...		
Residual 3/	**-2.4**	**-1.4**	**-6.7**	**-4.9**	**-5.3**	**-4.9**	**-4.9**	**-4.9**	**-5.4**	**-5.1**	**-7.4**	**-4.3**	**-5.4**
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	**...**	**...**	**11.7**	**12.4**	**12.1**	**11.3**	**10.3**	**9.2**	**8.5**	**5.8**	**3.5**		
PV of PPG external debt-to-exports ratio	**...**	**...**	**27.2**	**29.3**	**29.6**	**29.2**	**28.4**	**27.1**	**27.1**	**22.8**	**19.9**		
PPG debt service-to-exports ratio	**3.6**	**2.3**	**2.4**	**2.4**	**2.3**	**2.5**	**2.8**	**3.1**	**3.1**	**2.3**	**2.2**		
PPG debt service-to-revenue ratio	**12.0**	**8.1**	**6.9**	**7.4**	**6.1**	**6.1**	**6.2**	**6.4**	**5.6**	**3.0**	**1.7**		
Gross external financing need (Million of U.S. dollars)	2922.0	2674.9	5432.7	5733.6	5023.0	4692.6	4983.5	5366.8	6431.7	9510.1	30285.5		
Key macroeconomic assumptions													
Real GDP growth (in percent)	1.7	6.2	8.9	6.8	4.7	5.3	5.2	5.6	5.2	4.9	4.9	**5.3**	**5.2**
GDP deflator in US dollar terms (change in percent)	-5.9	11.0	5.2	-2.4	4.9	4.6	4.3	4.3	4.4	5.1	2.5	**2.9**	**4.1**
Effective interest rate (percent) 4/	2.0	1.3	1.7	1.9	1.9	1.8	1.8	1.7	1.7	2.4	2.9	**1.8**	**2.0**
Growth of exports of G&S (US dollar terms, in percent)	5.4	59.7	27.2	2.6	5.4	4.3	3.2	3.4	1.8	4.9	5.5	**14.6**	**4.3**
Growth of imports of G&S (US dollar terms, in percent)	-4.2	52.5	42.8	4.3	3.9	4.3	3.1	3.3	3.8	5.5	6.5	**13.6**	**4.6**
Grant element of new public sector borrowing (in percent)	...	...	...	48.2	47.3	49.0	55.7	55.8	38.3	32.2	32.2	**...**	**41.5**
Government revenues (excluding grants, in percent of GDP)	8.7	11.1	15.3	13.7	15.2	15.9	16.3	16.7	17.4	19.7	22.2	**11.3**	**17.2**
Aid flows (in Million of US dollars) 5/	1168.0	2290.2	2413.3	1943.6	1879.4	1517.4	1479.7	1412.0	1395.3	1094.1	1094.1		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	2.7	2.3	1.7	1.5	1.3	1.0	0.4	0.2	**...**	**1.2**
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	61.3	66.8	67.1	72.9	71.7	57.9	47.8	47.8	**...**	**58.3**
Nominal GDP (Million of US dollars)	48,707	57,407	65,808	68,632	75,370	83,024	91,115	100,379	110,240	178,623	402,696		
Nominal dollar GDP growth	-4.3	17.9	14.6	4.3	9.8	10.2	9.7	10.2	9.8	10.2	7.6	**8.5**	**9.5**
Memorandum items:													
PV of external debt 7/	...	...	11.7	12.4	12.1	11.3	10.3	9.2	8.5	5.8	3.5		
In percent of exports	...	...	27.2	29.3	29.6	29.2	28.4	27.1	27.1	22.8	19.9		
Total external debt service-to-exports ratio	3.6	2.3	2.4	2.4	2.3	2.5	2.8	3.1	3.1	2.3	2.2		
PV of PPG external debt (in Million of US dollars)			7731.8	8529.8	9084.5	9360.5	9384.9	9266.7	9416.0	10303.5	13929.2		
(PVt-PVt-1)/GDPt-1 (in percent)				1.2	0.8	0.4	0.0	-0.1	0.1	0.2	0.1		
Non-interest current account deficit that stabilizes debt ratio	-1.5	0.8	6.4	3.5	3.6	3.3	3.3	3.3	3.7	3.2	5.1		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**No**





Sources: Country authorities and IMF staff estimations 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 local currency, and α= share of local currency-denominated external debt in total external debt.

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.

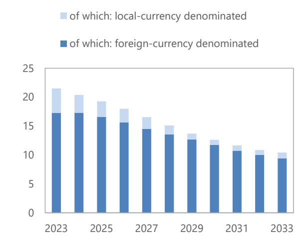
Table 2. Democratic Republic of the Congo: Public Sector Debt Sustainability Framework, Baseline Scenario 2020-43

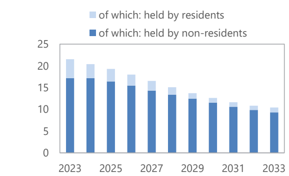
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2033	2043	Historical	Projections
Public sector debt 1/	**25.3**	**24.0**	**22.0**	**21.5**	**20.4**	**19.3**	**18.0**	**16.5**	**15.1**	**10.4**	**8.6**	**15.6**	**15.5**
of which: external debt	**16.8**	**16.8**	**15.5**	**17.2**	**17.2**	**16.4**	**15.5**	**14.3**	**13.4**	**9.3**	**5.5**	**9.1**	**13.4**
Change in public sector debt	5.9	-1.3	-2.0	-0.5	-1.1	-1.1	-1.3	-1.5	-1.4	-0.4	0.8		
Identified debt-creating flows	**4.2**	**-3.6**	**-2.4**	**-1.2**	**-0.4**	**-0.6**	**-1.0**	**-1.2**	**-1.2**	**-0.6**	**0.6**	**-1.0**	**-0.9**
Primary deficit	**3.0**	**1.3**	**0.2**	**1.1**	**0.8**	**1.2**	**0.7**	**0.6**	**0.4**	**0.5**	**1.1**	**0.4**	**0.6**
Revenue and grants	9.5	13.6	16.6	14.8	16.5	16.8	17.1	17.3	18.0	19.9	22.3	**13.3**	**17.8**
of which: grants	0.8	2.5	1.3	1.1	1.3	0.9	0.8	0.6	0.5	0.2	0.1		
Primary (noninterest) expenditure	12.6	15.0	16.8	15.9	17.4	17.9	17.9	17.9	18.3	20.4	23.4	**13.7**	**18.5**
Automatic debt dynamics	**1.2**	**-5.0**	**-2.7**	**-2.3**	**-1.2**	**-1.7**	**-1.8**	**-1.8**	**-1.6**	**-1.1**	**-0.5**		
Contribution from interest rate/growth differential	-0.5	-3.2	-3.1	-2.3	-1.2	-1.7	-1.8	-1.8	-1.6	-1.1	-0.5		
of which: contribution from average real interest rate	-0.2	-1.8	-1.1	-0.9	-0.2	-0.7	-0.8	-0.9	-0.7	-0.6	-0.1		
of which: contribution from real GDP growth	-0.3	-1.5	-2.0	-1.4	-1.0	-1.0	-1.0	-1.0	-0.8	-0.5	-0.4		
Contribution from real exchange rate depreciation	1.7	-1.7	0.4	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	**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**
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	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	**1.7**	**2.3**	**0.5**	**0.7**	**-0.8**	**-0.5**	**-0.3**	**-0.2**	**-0.3**	**0.2**	**0.2**	**1.0**	**-0.2**
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	**...**	**...**	**18.5**	**16.9**	**15.4**	**14.2**	**12.9**	**11.5**	**10.3**	**6.9**	**6.6**		
PV of public debt-to-revenue and grants ratio	**...**	**...**	**111.8**	**113.7**	**93.1**	**84.7**	**75.4**	**66.4**	**57.4**	**34.8**	**29.7**		
Debt service-to-revenue and grants ratio 3/	**11.0**	**11.9**	**16.3**	**17.7**	**11.6**	**8.8**	**9.9**	**10.8**	**10.4**	**6.2**	**7.2**		
Gross financing need 4/	4.1	2.9	2.9	3.7	2.8	2.6	2.4	2.4	2.2	1.8	2.7		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	1.7	6.2	8.9	6.8	4.7	5.3	5.2	5.6	5.2	4.9	4.9	**5.3**	**5.2**
Average nominal interest rate on external debt (in percent)	2.1	1.4	1.7	2.0	1.9	1.9	1.8	1.8	1.7	2.4	2.9	**1.9**	**2.0**
Average real interest rate on domestic debt (in percent)	-5.5	-16.2	-5.7	-9.9	-4.8	-5.1	-4.3	-3.5	-2.9	1.1	1.7	**-9.4**	**-3.0**
Real exchange rate depreciation (in percent, + indicates depreciation)	12.9	-11.1	3.0	...	...	...	...	...	...	...	...	**0.6**	**...**
Inflation rate (GDP deflator, in percent)	5.8	19.3	6.3	11.4	6.6	6.2	5.8	5.8	5.9	5.6	5.9	**11.8**	**6.3**
Growth of real primary spending (deflated by GDP deflator, in percent)	-2.7	26.5	22.2	1.2	14.3	8.9	4.8	5.8	7.8	7.5	6.6	**10.6**	**7.2**
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-2.9	2.6	2.2	1.6	2.0	2.3	2.0	2.0	1.8	0.9	0.3	**0.6**	**1.7**
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?	**No**

Public sector debt 1/





Sources: Country authorities and IMF staff estimations and projections.

1/ Coverage of debt: The central, state, and local governments, central bank, government-guaranteed debt, non-guaranteed SOE 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 stabilize 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 3. Democratic Republic of the Congo: Sensitivity Analysis for Key Indicators of PPG External Debt, 2023-33

(In percent)

	Projections 1/										
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
PV of debt-to GDP ratio											
Baseline	12	12	11	10	9	9	8	7	7	6	6
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	12	13	14	15	15	16	16	15	16	17	18
B. Bound Tests											
B1. Real GDP growth	12	13	12	11	10	9	9	8	7	7	6
B2. Primary balance	12	13	13	12	11	10	10	9	8	8	7
B3. Exports	12	20	**33**	**31**	29	27	26	24	22	21	19
B4. Other flows 3/	12	15	17	16	15	14	13	12	11	10	9
B5. Depreciation	12	15	12	11	9	9	8	7	6	6	6
B6. Combination of B1-B5	12	19	20	19	17	16	15	14	13	12	11
C. Tailored Tests											
C1. Combined contingent liabilities	12	17	16	15	14	13	12	11	10	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	12	16	19	18	16	15	14	13	12	11	10
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	30	30	30	30	30	30	30	30	30	30	30
PV of debt-to-exports ratio											
Baseline	29	30	29	28	27	27	26	26	23	23	23
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	29	32	36	40	45	51	52	54	57	63	69
B. Bound Tests											
B1. Real GDP growth	29	30	29	28	27	27	26	26	23	23	23
B2. Primary balance	29	32	35	34	33	33	32	32	29	29	28
B3. Exports	29	61	132	131	130	131	131	130	121	118	114
B4. Other flows 3/	29	37	45	45	43	44	43	43	39	38	37
B5. Depreciation	29	30	24	23	22	22	21	20	18	18	18
B6. Combination of B1-B5	29	50	48	61	59	60	59	58	54	52	51
C. Tailored Tests											
C1. Combined contingent liabilities	29	42	42	42	41	41	40	40	36	36	36
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	29	46	56	55	52	51	49	47	43	42	40
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	140	140	140	140	140	140	140	140	140	140	140
Debt service-to-exports ratio											
Baseline	2	2	3	3	3	3	3	3	3	3	2
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	2	2	3	3	4	4	4	5	4	4	4
B. Bound Tests											
B1. Real GDP growth	2	2	3	3	3	3	3	3	3	3	2
B2. Primary balance	2	2	3	3	3	3	4	4	3	3	3
B3. Exports	2	3	5	8	8	8	9	9	8	8	10
B4. Other flows 3/	2	2	3	3	4	4	4	4	4	4	3
B5. Depreciation	2	2	3	3	3	3	3	3	3	3	2
B6. Combination of B1-B5	2	3	4	4	5	5	5	5	5	5	5
C. Tailored Tests											
C1. Combined contingent liabilities	2	2	3	3	4	4	4	4	4	3	3
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	2	3	3	4	4	4	4	4	4	4	4
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	10	10	10	10	10	10	10	10	10	10	10
Debt service-to-revenue ratio											
Baseline	7	6	6	6	6	6	6	5	5	4	3
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	7	6	6	7	8	7	7	7	6	6	5
B. Bound Tests											
B1. Real GDP growth	7	6	7	7	7	6	6	6	5	4	3
B2. Primary balance	7	6	6	7	7	6	6	6	5	4	3
B3. Exports	7	7	9	11	11	10	9	9	8	8	8
B4. Other flows 3/	7	6	7	7	8	7	7	6	5	5	4
B5. Depreciation	7	8	8	7	8	7	7	6	6	4	3
B6. Combination of B1-B5	7	7	8	8	8	7	7	7	6	6	5
C. Tailored Tests											
C1. Combined contingent liabilities	7	6	7	7	7	6	6	6	5	4	4
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	7	7	8	9	9	7	7	7	6	5	5
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	14	14	14	14	14	14	14	14	14	14	14

Sources: Country authorities and IMF 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 4. Democratic Republic of the Congo: Sensitivity Analysis for Key Indicators of Public Debt, 2023-33

	Projections 1/										
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
PV of Debt-to-GDP Ratio											
Baseline	17	15	14	13	12	10	9	8	8	7	7
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	17	14	12	10	8	7	6	5	5	4	4
B. Bound Tests											
B1. Real GDP growth	17	17	17	17	16	16	16	16	16	16	17
B2. Primary balance	17	17	16	15	13	12	11	10	9	9	8
B3. Exports	17	22	33	30	28	26	24	22	21	19	18
B4. Other flows 3/	17	18	20	19	17	16	14	13	12	11	11
B5. Depreciation	17	18	15	13	10	8	6	4	3	2	1
B6. Combination of B1-B5	17	16	15	13	11	10	9	8	7	7	7
C. Tailored Tests											
C1. Combined contingent liabilities	17	21	19	18	16	15	13	12	11	11	10
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	17	17	18	19	19	19	19	19	19	19	20
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
TOTAL public debt benchmark	35	35	35	35	35	35	35	35	35	35	35
PV of Debt-to-Revenue Ratio											
Baseline	114	93	85	75	66	57	50	45	40	36	35
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	114	87	72	59	49	40	33	28	24	21	19
B. Bound Tests											
B1. Real GDP growth	114	100	102	98	94	89	85	84	83	83	85
B2. Primary balance	114	100	98	88	78	68	59	54	49	44	42
B3. Exports	114	136	195	178	162	144	130	120	109	98	90
B4. Other flows 3/	114	111	122	110	99	87	77	70	64	57	54
B5. Depreciation	114	107	91	74	59	45	33	23	15	8	3
B6. Combination of B1-B5	114	96	88	73	64	55	48	43	38	35	33
C. Tailored Tests											
C1. Combined contingent liabilities	114	127	115	104	93	81	72	66	59	54	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	114	111	115	117	115	109	104	101	99	97	98
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Service-to-Revenue Ratio											
Baseline	18	12	9	10	11	10	10	9	8	7	6
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	18	11	8	8	9	8	7	6	5	4	3
B. Bound Tests											
B1. Real GDP growth	18	12	10	11	13	12	12	11	11	10	9
B2. Primary balance	18	12	9	11	11	11	10	9	9	8	7
B3. Exports	18	12	10	13	14	13	13	11	11	10	11
B4. Other flows 3/	18	12	9	11	12	11	11	10	9	8	8
B5. Depreciation	18	12	10	11	12	11	10	9	8	7	5
B6. Combination of B1-B5	18	11	9	10	11	10	10	9	8	7	6
C. Tailored Tests											
C1. Combined contingent liabilities	18	12	11	11	12	11	11	10	9	8	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	18	13	10	12	13	13	13	11	11	10	9
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities and IMF 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.

Statement by Mr. Sylla, Executive Director, Mr. Matungulu, Alternate Executive Director, and Ms. Nkusu, Senior Advisor to Executive Director, on the Democratic Republic of the Congo Fourth Review Under the Extended Credit Facility Arrangement, Request for Modification of Quantitative Performance Criterion, and Financing Assurances Review

June 28, 2023

On behalf of our Congolese authorities, we would like to thank the Executive Board, Management, and staff for the Fund's continued engagement with the Democratic Republic of The Congo (DRC). This engagement, including through financial assistance under the Extended Credit Facility (ECF) approved in July 2021, is contributing to the implementation of the 2019–23 National Strategic Development Plan (NSDP), notably by helping advance sound economic policies and key structural reforms.

The period under review was marked by the escalation of armed groups' attacks in the eastern part of the country, with significant adverse economic and humanitarian impacts. These events have necessitated exceptional government expenditures for security and outlays for the provision of goods and services (shelter, food, education, and health) to displaced persons. Higher-than-expected expenditures, including for the organization of elections scheduled for December 2023, contributed to strong pressures on the budget, the exchange rate and inflation. Despite these developments, implementation of the ECF-supported program continued to be satisfactory.

RECENT DEVELOPMENTS AND PROGRAM PERFORMANCE

Growth has proven resilient despite the adverse effects of heightened insecurity in the eastern part of the country and a challenging and uncertain global environment. Real GDP for 2022 is estimated at 8.9 percent, compared with 6.6 percent projected at the time of the third review. The stronger performance was driven by sustained activity in the mining sector, which grew by an estimated 22.6 percent compared with an initial forecast of 13.1 percent. This offset the moderately lower-than-anticipated growth of non-mining production constrained by heightened insecurity in the East and the fallout from the war in Ukraine.

The outturn for other key macroeconomic indicators has been mixed. Inflation accelerated, reaching 13.1 percent year-on-year in December 2022 compared with a projection of 12.3 percent and trending up further to 16.9 percent in March 2023. Domestic price developments have been partly driven by continued exchange rate depreciation in the face of insecurity-related spending pressures. Despite higher exceptional expenditures, the fiscal deficit was contained within the program target but with a significant change in the composition of spending. The 2022 current account deficit was wider than projected but gross international reserves increased more than anticipated thanks to large private inflows and central banks' net purchases. Gross reserves increased from US$2.9 billion at end-2021 to US$4.5 billion at end-2022 compared with a projection of US$4.2 billion. At 7.9 weeks of imports, the reserve coverage at end-2022 was however lower than expected owing to a higher than projected imports bill.

Program performance was broadly satisfactory, and our authorities are strongly committed to making further progress on reforms. All end-December 2022 quantitative performance criteria (QPCs) were met but some indicative targets (ITs) have been missed. Most of the QPCs were met with large margins, including the ceilings on net central bank (*Banque Centrale du Congo, BCC*) credit to the government, change in net domestic assets of the BCC, and on the contracting and guaranteeing of new external debt by the public sector, as well as the floor on domestic fiscal balance. Two end-2022 ITs were missed: the floor on social spending and the ceiling on BCC deposits used as guarantees for central government loans. Notwithstanding large social spending, including those implemented to address the humanitarian challenge posed by heightened insecurity, the program social spending floor is missed as the target covers only a narrowly defined set of spending under three health programs. The ceiling on BCC deposits used as guarantees for central government loans is missed due to monitoring shortcomings and despite no new guarantees being granted. The end-March 2023 indicative targets on domestic fiscal balance, fiscal revenues, BCC net domestic assets, and BCC foreign exchange (FX) assets held with domestic correspondents were missed.

All but one structural benchmarks (SB) were met. The end-December 2022 SB on the completion of the audit certifying domestic arrears was met. The authorities adopted the decree on public investment management and the decree defining the perimeter and structure of the Treasury Single Account (**end-May 2023 SBs**). The continuous structural benchmark on the publication of mining contracts is not met as additional agreements related to the contract with Ventora and the contract signed with Primera Gold were published but not within the timeline prescribed by the relevant law of the country's Mining Code.

OUTLOOK AND RISKS

The economic outlook is favorable although uncertainty remains elevated. For the near-term, 2023 real GDP growth has been revised upward to 6.8 percent from 6.3 percent, reflecting continued strong contribution from mining production whose growth would stabilize afterward, leading to a moderation in GDP growth to 4.7 percent in 2024. As a result of supportive monetary and fiscal policies discussed below, inflation is expected to continue decelerating to reach 11.5 percent and 7.1 percent at end-2023 and end-2024, respectively. The current account deficit is projected to slightly widen to 5.5 percent of GDP in 2023 (5.3 percent in 2022), before narrowing to 3.9 percent of GDP in 2024. The buildup of international reserves should continue, and the reserves import cover is projected to reach 10 weeks and 10.2 weeks in 2023 and 2024, respectively. Beyond 2024, GDP growth is projected to average 5.3 percent a year, sustained by extractive activity and stronger non-mining sector expansion supported by advances in structural reforms and gains in economic diversification. Inflation would be contained at 7 percent, the BCC's inflation target. The current account deficit is projected to narrow over the medium-term, contributing to a gradual accumulation of international reserves, reaching 3 months of imports by 2028.

The authorities and staff concur that risks to the outlook are tilted to the downside. Downside risks include the impacts of the ongoing war in Ukraine, an abrupt slowdown in economic growth in China and other uncertainties that could adversely affect the value of Congo's exports through reduced prices, lower demand, or both. Internally, risks such as the worsening of the security situation in the East, spending pressures related to the forthcoming elections, or tensions ahead of the approaching elections could weaken macroeconomic stability as well. The authorities are stepping up efforts to maintain macroeconomic stability and mitigate risks. In this context, they are prepared to adjust their economic policies if warranted in the context of the ECF-supported program and the ongoing dialogue with the Fund. Also, they are taking steps to ensure peaceful and democratic elections to preserve the country's economic and sociopolitical gains of the past years.

POLICIES AND REFORMS FOR 2023 AND BEYOND

Our Congolese authorities are strongly committed to the program objectives and to reforms going forward. Owing to ongoing macroeconomic pressures and looming risks, they are determined to tighten fiscal policy to preserve fiscal and debt sustainability and macroeconomic stability, supported by tighter monetary policy to contain inflationary pressures.

Fiscal consolidation will be supported by both revenue and expenditure measures. Revenue mobilization efforts will continue focusing on broadening the tax base; improving tax compliance; containing VAT exemptions, except for exceptional circumstances such as those that led to the exemption of some essential food products; and overhauling exceptional tax regimes and all conventions, agreements, other provisions allowing tax exemptions, except for those set out in the prevailing administrative codes. On the expenditure side, the authorities plan to contain the wage bill growth while launching an ambitious civil service reform. An inter-ministerial order specifying that any salary increase must be approved jointly by three ministers—the Ministers of Budget, Finance and Civil Service—is due to be signed by July 2023 to avoid ad hoc and disorderly increases in the wage bill. Moreover, the authorities have begun preparations for a medium-term civil service reform, including an overall wage policy strategy, a cleanup of the civil service staff database aimed at eliminating all ghost employees, a reorganization of the social security coverage of public officials and employees, and a financially sustainable pension system.

Other planned fiscal reforms would further strengthen fiscal performance and enhance transparency. These include accelerating the digitalization of revenue collection; strengthening public financial management, notably by introducing the Treasury Single Account, improving cash management, and reducing cash payments in line with the new AML/CFT of December 2022; reforming the fuel subsidy system; improving the quality of spending; and strengthening the control of fiscal risks from public debt and public enterprises. Reforms of public investment management will continue, based on the 2022 PIMA recommendations. Strengthening management of the *Bureau Central de Coordination* (BCeCo), one of the three implementing agencies of the PDL-145T, will remain a top priority. Given the importance of the PDL-145T, the authorities intend to closely monitor its implementation and strengthen compliance with related public financial management and public procurement procedures.

The central bank will continue to monitor liquidity and economic development trends and respond to ensure the steadfast observance of its price stability mandate, while pursuing reserve accumulation to further strengthen external buffers. At its June 19, 2023 meeting, the Monetary Policy Committee tightened monetary policy by raising the policy rate by 200 basis points to 11 percent and raised the required reserve ratio on deposits in Congolese francs from zero to 10 percent. If warranted by developments, it will further tighten monetary policy and absorb excess bank liquidity as may be needed.

The modernization of the monetary policy framework, the strengthening of the BCC's governance arrangements, and efforts to strengthen financial sector surveillance and supervision will continue. In this context, the BCC will, with a multiyear program of IMF technical assistance, finish implementing the Forecasting and Policy Analysis System (FPAS) by 2024, and then operationalize it to strengthen the monetary policy-making process. It will subsequently take all additional accompanying measures needed to improve the bank's economic forecasting and analysis capacities, as well as its messaging. Operational and governance reforms at the BCC will be sustained, notably by implementing the 2020 Safeguards recommendations. As regards financial sector policy, the new banking law, adopted by Parliament in December 2022, will underpin advances in reforms to strengthen banking and financial sector supervision. Relatedly, implementing the recommendations of the Financial Sector Stability Review (FSSR) is essential to strengthening surveillance and regulation of the financial sector.

The exchange rate system will remain flexible. The authorities are committed to continue implementing an exchange rate policy guided by the price stability objective and the need to have adequate FX reserves. Other than for the need to accumulate FX reserves, the BCC will limit its intervention in the foreign exchange market to smoothening excessive exchange rate volatility that could jeopardize macroeconomic stability.

The authorities are committed to strong structural reforms aimed at supporting inclusive and sustainable private sector-led growth. Key priorities include: (i) improving the education and health systems, liberalizing the telecommunications sector, and revising the Investment Code and the Agricultural Law to improve the business environment and facilitate economic diversification; (ii) enhancing governance and the fight against corruption; (iii) implementing the financial inclusion strategy and (iv) developing basic infrastructure, particularly transport and communications, energy, and access to safe drinking water. The government's Local Development Program of the 145 Territories (PDL-145T), which is partially funded with half of the resources from the 2021 SDR allocation (equivalent to about US$714 million), is a key pillar of the development of basic infrastructure. After a slow start, financial and physical execution of PDL-145T projects for building schools, health centers, and administrative facilities, to which US$511 million was allocated in 2022, has recently picked up. The remainder US$203 million is allocated to the execution of rural electrification projects in 2023.

The authorities are committed to improving the AML/CFT framework and improving its effectiveness. They are committed to addressing the deficiencies identified by the Financial Action Task Force (FATF) that resulted in the DRC's inclusion on the list of jurisdictions under enhanced scrutiny. The authorities will implement the FATF-backed action plan, building on the December 2022 AML/CFT law and the April 2023 final report of the ML/FT National Risk Assessment (NRA), which was prepared with World Bank technical assistance and submitted to the FATF in May 2023. On June 17, the government approved the creation of a taskforce, which includes a high-level committee headed by the Prime Minister, an inter-institutional committee, and a technical secretariat to drive the necessary reforms within the framework of a national strategy, support and monitor the implementation of measures carried out by the CENAREF (National Financial Information Unit), which is responsible for implementing the action plan agreed with the FATF, with coordinated multi-partners' technical support.

The authorities are deploying determined efforts to tackle the climate change challenges they face and reinforce the DRC's role as a solution country for the global low-carbon energy transition. Domestically, climate-related natural disasters are exacerbating poverty and fragility. As noted in Annex II of the staff report, the authorities have developed a National Adaptation Plan to Climate Change (NAP), which has been vetted by key stakeholders, spans reform plans covering adaptation (particularly in water resources, forestry, and agriculture), mitigation, and transition. The NAP is complemented by the climate diagnostics provided by the C-PIMA and the forthcoming CCDR. To achieve its development and climate-related goals and appropriately assume its leadership role in the preservation of the Congo Basin, the second largest rainforest in the world that absorbs as much as four percent of global carbon emissions every year, the DRC will need substantially large financial assistance to meet the cost of needed investments. To that end, the authorities have expressed strong interest and plan to submit a formal request for IMF assistance under the Resilience and Sustainability Trust (RST) in due course.

CONCLUSION

The Congolese authorities have demonstrated strong commitment to implementing their economic and financial program despite the challenges from heightened insecurity in the eastern provinces of the country and elevated global economic uncertainty. Program performance over the period under review has been satisfactory and the authorities have reaffirmed their commitment to the ECF-supported program. Considering their satisfactory program implementation and renewed commitment to the program's objectives, the authorities are requesting the modification of the end-June 2023 net international reserves QPC and the completion of the fourth review under the ECF arrangement. We would greatly appreciate Directors’ favorable consideration of these requests.