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Democratic Republic of the Congo: Review of the 2006 Staff-Monitored Program and a New Staff-Monitored Program for 2007—Staff Report; Staff Statement; Statement by the Executive Director for the Democratic Republic of the Congo

In the context of the review of the 2006 staff-monitored program and a new staff-monitored program for 2007 with the Democratic Republic of the Congo, the following documents have been released and are included in this package:

- The staff report for the Review of the 2006 Staff-Monitored Program and a New Staff-Monitored Program for 2007, prepared by a staff team of the IMF, following discussions that ended on March 13, 2007, 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 May 21, 2007. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A staff statement of June 18, 2007 updating information on recent developments.

- A statement by the Executive Director for the Democratic Republic of the Congo.

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

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INTERNATIONAL MONETARY FUND

DEMOCRATIC REPUBLIC OF THE CONGO

Review of the 2006 Staff-Monitored Program

and a New Staff-Monitored Program for 2007

Prepared by the African Department
(In consultation with other departments)

Approved by Robert Corker and Anthony Boote

May 21, 2007

- Most quantitative and structural benchmarks under the Staff Monitored Program (SMP) for April-December 2006 were not met; nevertheless, the SMP helped prevent major financial instability during the protracted electoral period.

- The mission assisted the new government in preparing a new SMP for 2007 to improve macroeconomic management and establish a track record of policy implementation. Satisfactory performance under the SMP would open the way for discussions on a new arrangement under the Poverty Reduction and Growth Facility (PRGF).

- Discussions took place in Kinshasa from February 27 to March 13 and during the spring meetings. The staff team comprised Mr. Briançon (head), Mr. Maret (Resident Representative), Mr. Ben Ltaifa, Mr. Hartley (all AFR), Mr. Féler (PDR) and Mr. Westphal (FAD). Mr. N'Sonde, Senior Advisor to Mr. Rutayisire participated in policy meetings.

- The mission met President Kabila, Prime Minister Gizenga, the ministers in charge of finance, budget, planning and mining, and the Governor of the Central Bank.

- The last Article IV consultation was concluded on August 29, 2005. The 2007 Article IV mission is planned for late May 2007. The last PRGF arrangement expired at end-March 2006 without the sixth review being completed, reflecting fiscal slippages and delays in the implementation of structural reforms.

- The Democratic Republic of the Congo (DRC) reached the decision point under the enhanced HIPC Initiative in July 2003. It will receive debt relief thereunder and under the MDRI in excess of US$7 billion in NPV terms at the completion point, which could be reached at the time of the first review of a PRGF arrangement, provided that the PRSP was implemented for one year and floating completion point triggers were observed.

- The authorities agreed to the publication of the Letter of Intent.

Contents Page

Executive Summary

The protracted election period and security tensions hampered the implementation of the staff monitored program for 2006. Key quantitative and structural benchmarks were not observed. Economic performance remained weak until the new government took office in late February 2007.

Cognizant of the need to reestablish macroeconomic stability, the government agreed on a policy framework for 2007 to be monitored by the staff. Satisfactory performance under the SMP at end-June would pave the way for discussions on a new arrangement under the Poverty Reduction and Growth Facility (PRGF). The DRC could reach the completion point and benefit from debt relief under the enhanced HIPC Initiative and the MDRI at the time of the first review of a new PRGF arrangement.

The combination of a tight fiscal policy stance and a proactive monetary policy is essential to restoring macroeconomic stability. The implementation of a realistic budget under the tight constraints of low external financing and limited recourse to bank borrowing is key for achieving the program objectives and regaining donor support. This requires observing limits on budget appropriations, especially for security and sovereign spending which have been the main sources of fiscal slippages in the past. A proactive monetary policy stance would be best supported by enhancing the efficiency of central bank operations and containing the central bank deficit.

Limited external budget support in 2007 is a source of concern. There remains a financing gap of about 1 percent of GDP if the government is to reduce domestic bank credit during the rest of the year. With limited external financial support and a low level of international reserves, the DRC may continue to be unable to service bilateral debt in 2007.

Accelerating the pace of structural reform is essential to achieve high and sustainable growth. Improving governance in the management of public resources, especially in the mining sector, would help improve the investment climate and government resources devoted to the social sector and reducing poverty. In that context, perseverance in reforming the civil service, the budget process, and public financial management is critical. It is also important to implement the devolution policy imbedded in the new constitution gradually to avoid further weakening central government control over public resources.

The government faces several risks in implementing its economic program. These include preserving security and containing related spending, reaching an agreement with trade unions on a reasonable wage bill and avoiding social tensions, and overcoming the challenges associated with limited external financing and low international reserves.

I. INTRODUCTION

1. **The protracted election period and security tensions made it difficult for the government to implement the staff monitored program in 2006.** Key quantitative and structural benchmarks for end-September and end-December were missed (Appendix I, Tables 1 and 2).

2. **The new government prepared with Fund staff a policy framework for 2007 that is spelled out in the attached Letter of Intent (Appendix I) and will be monitored by staff.** Progress in implementing this framework and meeting the quantitative and structural benchmarks for end-June 2007 would allow for the start of discussions on a medium-term program that could be supported by the Fund under a new PRGF arrangement. In turn, completion of the first review of the new PRGF arrangement would be one of the conditions for the DRC to reach the completion point and benefit from debt relief under the enhanced HIPC Initiative and the Multilateral Debt Relief Initiative (MDRI).

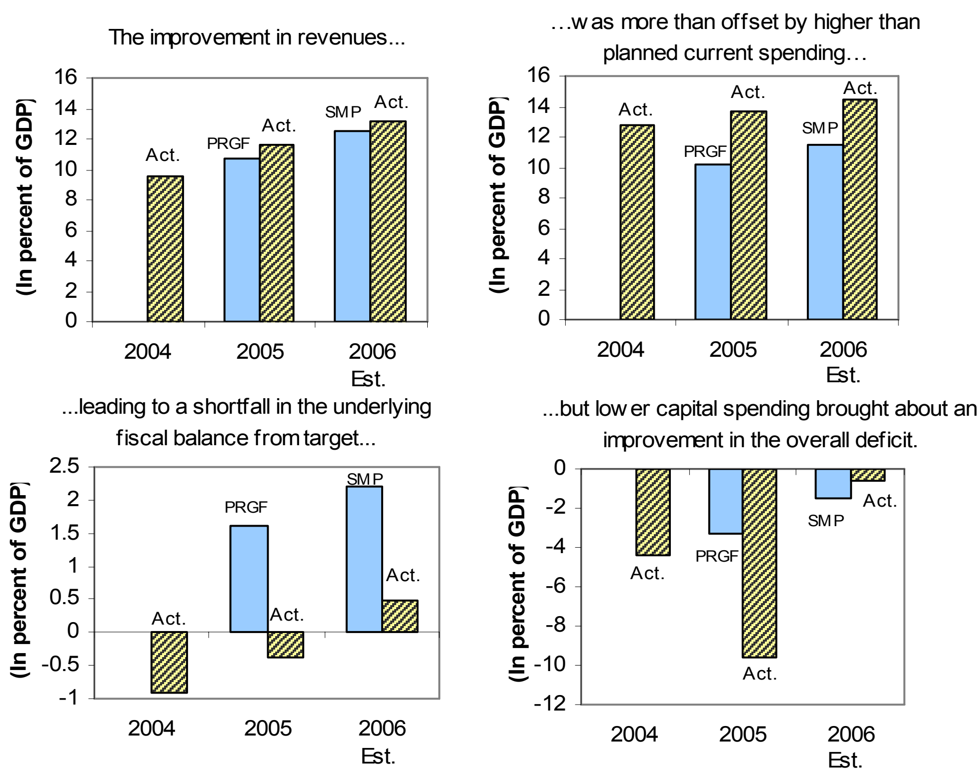
3. **The SMP for 2007 is a first step toward implementing the program of the new government endorsed by the National Assembly in February 2007**. The program, which draws on the PRSP adopted in July 2006, emphasizes five priority sectors to rebuild the country—infrastructure, employment, education, water, and electricity—and includes a compact to strengthen governance. The government is fully aware that implementing a strong set of policies is essential for meeting the population's high expectations that the free and democratic elections would bring a rapid improvement in living conditions.

4. **The first free and democratic elections in more than 40 years were a success.** The elections of the President and the National Assembly ended three years of the political transition. A new government headed by Prime Minister Gizenga was confirmed by the National Assembly on February 23; it comprises 60 ministers and deputy ministers, representing a broad coalition supporting the President. Given the size of the government, however, policy coordination may remain a challenge. Furthermore, the armed confrontation that erupted in Kinshasa on March 22-23 demonstrates the fragility of the political and security situations and the need to strengthen them for the government to focus on stabilizing the economy.

II. RECENT DEVELOPMENTS AND PERFORMANCE UNDER THE SMP

5. **Macroeconomic performance fell short of objectives in 2006.** By the end of last year, gross international reserves stood at US$150 million compared with the SMP target of US$247 million, the Congo franc had depreciated by 15 percent against the US dollar, and 12-month inflation had risen to 18.2 percent, compared with a target of 9.5 percent. The government also did not service its debt to official bilateral creditors amounting to US$58 million in the second half of 2006. Real GDP growth slowed slightly to 5.1 percent, owing to stagnating output in mining and manufacturing.

Figure 1. Democratic Republic of the Congo: Fiscal Developments, 2004–06



Source: Congolese authorities and IMF staff estimates.

6. **An easing of fiscal policy was mainly responsible for last year's poor performance.** The underlying fiscal surplus amounted to only ½ percent of GDP in 2006 compared with a target of 2.2 percent.[1] As in the past, the government continued to have difficulties containing money financed current expenditure—especially for sovereignty and security. In addition, central bank losses were twice as large as anticipated (0.5 percent of GDP) mainly because of a large increase in operating expenses. Capital expenditure was much less than targeted, because the execution of foreign-financed projects slowed down during the elections. On a more positive note, an improvement in tax administration, achieved with Fund-supported technical assistance, led to a better-than-anticipated revenue performance.

7. **A tightening of monetary policy in late 2006 was unable to mop up the excess liquidity resulting from money-financed government expenditure.** The central bank increased interest rates by 16.5 percentage points to 45 percent and doubled reserve requirements to 4 percent in September-October 2006. While this led to an increase in the outstanding stock of central bank bonds to a modest 0.4 percent of GDP by end-2006, this was not sufficient to prevent broad money from expanding by 60 percent last year.

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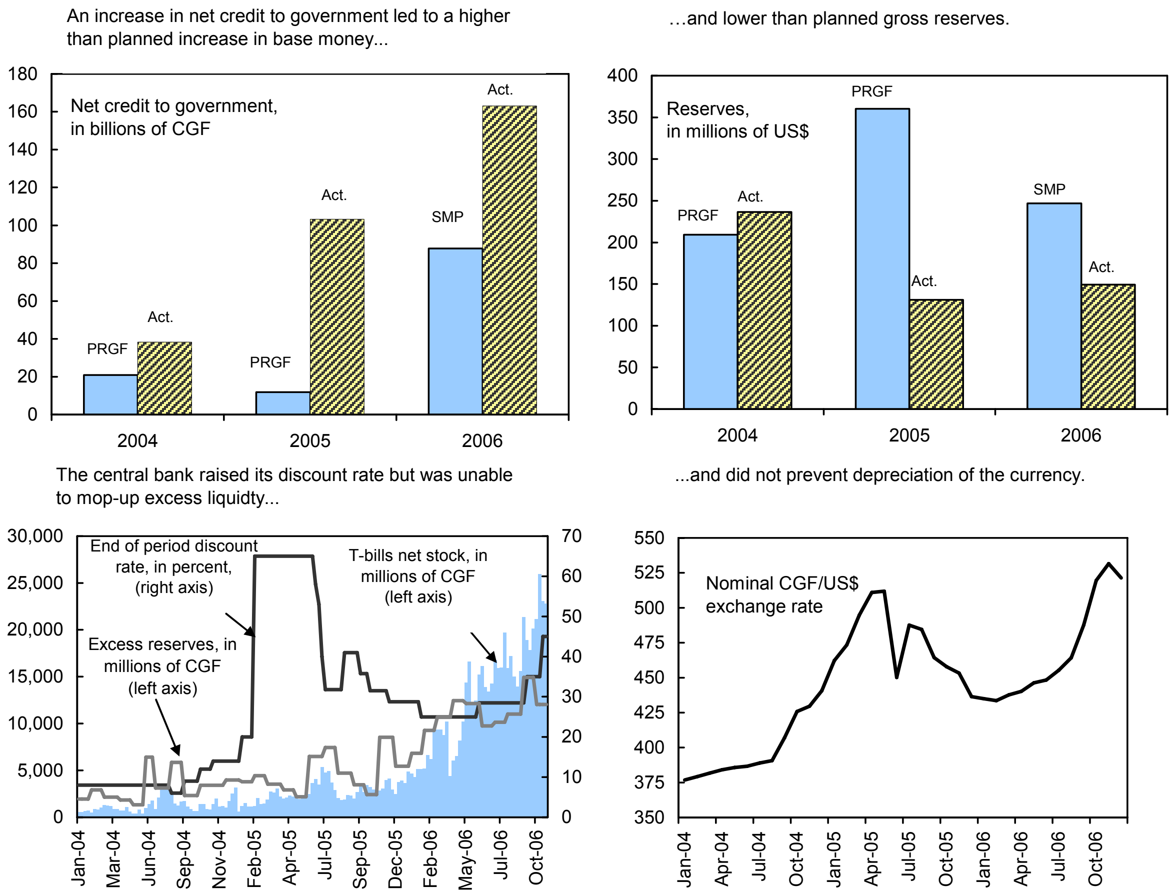
[1]The underlying fiscal balance excludes grants, exceptional spending tied to the elections and the political transition, foreign-financed spending, and external interest payments.

Figure 2. Democratic Republic of the Congo: Monetary Developments, 2004–06



Source: Congolese authorities and IMF staff estimates.

8. **The macroeconomic situation worsened in early 2007, before the formation of a new government.** It took three months for the new government to be formed and approved by Parliament in late February. The resulting political vacuum led to further overspending that the Central Bank of the Congo (BCC) was unable to offset by increasing interest rates further to 50 percent. Hence, in the first two months of 2007, the Congo franc slid a further 12 percent, 12-month inflation rose to 21 percent, and international reserves dropped to about US$100 million or 1½ weeks of non-aid related imports. Preliminary budget reports also indicate that the government was unable to settle in the first months of 2007 all domestic payment orders issued toward the end of 2006, resulting in a possible accumulation of arrears.

9. **Since March 2007, a tightening of policies has helped stabilize the economic situation.** Better than anticipated government revenue and a tightening of government spending led to a reduction of ½ percent of GDP in net bank credit to the government. International reserves recovered to $160 million in April, from $100 million at end-February,

as oil companies made large tax and royalty payments in US dollars. The exchange rate appreciated somewhat in March-April.

10. **The DRC continued not to service its external debt owed to official bilateral creditors in the first quarter of 2007.** The government communicated these difficulties to the Paris Club secretariat in April 2007. It reiterated its commitment to strengthen economic policy implementation, to prepare a medium-term program eligible for IMF financial support and to normalize the DRC's relations with Paris Club creditors as soon as possible. In addition, the government indicated that it would continue to seek debt relief on comparable terms from all other external creditors.

III. THE PROGRAM FOR 2007

11. **With a democratically-elected President and Parliament, the DRC is entering a new era.** Capitalizing on the mandate received from voters, the new government has an opportunity to demonstrate its determination to strengthen macroeconomic stability, fight corruption, and pursue structural reforms. The challenge is to strengthen macroeconomic management to set the stage for sustainable growth and poverty reduction. Improved public financial management, governance, and accountability are crucial for the government to balance high expectations of the population with tight resources, including limited external budget support.

A. Macroeconomic and Structural Policies

12. **Macroeconomic targets for 2007 reflect continued recovery of the economy from a low base**. Real GDP growth is expected to reach 6.5 percent on the back of a rebound in mining and manufacturing, and investments in infrastructure and social sectors. End-of-period inflation is projected to decline to 12 percent, assuming a tightening of fiscal policy. The international reserve target is set at 3 weeks of non-aid related imports, taking into account the low level of external budget support expected thus far.

13. **The authorities agreed with the mission on the need to tighten fiscal policy.** The key objective is to refrain from financing government spending through domestic bank credit for the rest of 2007 to reduce pressure on the Congo franc and inflation. This is a challenging objective, given limited scope for increasing government revenue in the short term, the lack of untied external budget support currently expected, projected debt service payments, and likely pressures to increase civil service salaries. In the draft budget for 2007, which the authorities intend to submit to the Parliament in May, the target for the underlying fiscal surplus (cash-basis) was set at 1.3 percent of GDP, compared with 0.5 percent of GDP achieved in 2006.[2] Nevertheless, there remains a financing gap of US$85 million (0.9 percent of GDP) if arrears on external debt service and domestic bank financing of the budget are to be avoided in 2007. Staff emphasized the urgency of mobilizing donor funding and

[2] The government is currently operating under a budget resolution maintaining budget appropriations at their 2006 level.

recommended that the government hold back on spending as much as possible until additional external support is mobilized.[3] Staff also explained the difficult budget situation to donors and the risk that the DRC would be unable to service all external debt falling due in 2007 without additional support.

14. **The mission urged the authorities to be cautious in setting an objective for government revenue in 2007.** Initially, the new government believed it could increase revenue rapidly by combating corruption in tax administration. While recognizing that fighting corruption was essential, staff pointed out that improving tax administration was in general a slow process showing large benefit mostly over the medium term. It would also be a challenge to offset a drop in oil revenue, projected at 1.1 percent of GDP, resulting from lower international prices.[4] Thus, the government agreed that an ambitious target would be to keep total government revenue unchanged in 2007 at 13¼ percent of GDP. The authorities expect that ongoing tax administration reforms, especially improved controls at the border, will increase government revenue by 0.8 percent of GDP. In addition, starting on July 1, 2007, the government will increase the main rate of the turnover tax from 13 percent to 15 percent, a measure anticipated to yield ½ percent of GDP on an annual basis.

15. **The government aims at reducing non-interest current spending relative to GDP to 10 percent in 2007, bringing it back to its pre-election level.** The bulk of the effort will come from tightening non wage and non-interest current spending, which is targeted to decline by 1.0 percentage points to 4.5 percent of GDP in 2007, largely through better control over spending for sovereignty (see below). At the same time, outlays for health and education are to increase to 2.9 percent of GDP in 2007. Exceptional spending—mainly foreign financed outlays for the elections—would decline by 3 percentage points of GDP, while spending on public investment would increase by 0.3 percentage points of GDP to a still moderate 3.7 percent of GDP.

16. **The government has committed to keep the wage bill at 5.5 percent of GDP in 2007, as in 2006**. To strengthen control over the size of the civil service, the government is determined to implement measures to strengthen the payroll, complete the civil service and military censuses, and standardize civil service enrollment procedures. The authorities are also assessing the possibility of incorporating previously unpaid teachers into the civil service and granting a moderate pay increase starting in July 2007, while observing the ceiling for the wage bill. The authorities have also started work on a broad reform of the civil service with the assistance of the World Bank. In addition, the government is committed to

[3] No untied budget support has been confirmed for 2007. However, under an emergency aid package approved on March 29, 2007, the World Bank is to finance US$16 million in school operating expenditure and $41.8 million in payments of domestic debt in 2007. The emergency package also includes financing for investment projects.

[4] The drop in revenue is partly due to the fact that profit taxes are paid with a lag, which boosted revenue in 2006, but is likely to reduce it in 2007. Nevertheless, since the discussions on the program in March 2007, the international price of oil has recovered, and so the drop in oil revenue may not be as large as projected.

improving control over the military payroll with the support of the international community (Appendix I, paragraph 16).

17. **The government agreed that strengthening of public financial management is a high priority**. The objective is to enhance the efficiency of public spending through greater transparency. The government is committed to strictly observe spending ceilings included in the monthly spending commitment plan and cash flow plan, which are posted on the internet. Particular attention will be paid to controlling spending for sovereignty (security, the Parliament, the Presidency and cabinets of ministries), which accounted for most of overspending in the past. To be successful, however, this will require a strong commitment on the part of the government as well as an improved security situation. The mission also urged the authorities to enforce spending procedures and reduce cash advances, which often bypass procedures. Another important aspect is the strengthening of the management of government accounts at the central bank, with weaknesses in accounting and audit frameworks to be addressed in the coming months (benchmarks for end-June 2007).

18. **The government is seeking assistance from the Fund and other donors to deal with the challenges created by the transfer of revenue in the context of devolution.** Under the constitution, 40 percent of government revenue collected in a province is to be transferred to the provinces and an additional 10 percent is to finance an equalization fund for all the provinces. The government has drafted two laws specifying how devolution is to be implemented. Staff urged the authorities to implement such a reform over a long timeframe to avoid weakening public resource management. It emphasized the importance (i) for the central government to retain fiscal control and for provinces to implement budget procedures and monitoring mechanisms; and (ii) for higher revenue transfers to be commensurate with a transfer of spending responsibilities and improved local government capacity. The mission indicated that Fund staff was ready to work with the World Bank and other donors in assisting in the preparation of a framework for the devolution of revenue and expenditure responsibilities to provinces.

19. **Reining in inflationary pressures through a tight monetary policy will remain a challenge for the BCC.** The effectiveness of monetary policy is constrained by the high dollarization of the economy—90 percent of bank deposits are denominated in foreign currencies—an unstable demand for local currency, fiscal dominance, and thin financial markets. The conduct of monetary policy is further hindered by capacity constraints at the level of the central bank, including high operational costs, weak auditing and accounting frameworks, poor liquidity management, and insufficient forecasting capacity.

20. **Against this backdrop, the BCC will maintain a proactive interest rate policy in combination with the use of central bank bonds to mop up commercial banks' excess liquidity.** To that effect, the BCC will work to improve its liquidity management and forecasting capacity, including through better coordination with the Ministry of Finance. In addition, it will seek to rebuild international reserves and observe the quarterly targets through foreign exchange intervention.

21. **The central bank will continue strengthening its operations with the assistance of Fund technical experts**. In particular, the BCC expects to complete the restructuring of the departments in charge of currency issuance, accounting, internal audit, and banking supervision in 2007. An audit of the BCC's organization to be completed by end-May 2007 is to recommend additional measures to strengthen central bank operations while reducing their costs. In the meantime, the BCC will cut its operating deficit by more than one half to 0.2 percent of GDP (excluding the cost of monetary policy) by limiting expenditures.

22. **The letter of intent includes structural measures that were not implemented under the SMP for 2006 as well as other new measures to improve transparency, including in the mining sector** (see table). More complete discussions of structural reforms the government plans to implement will take place in the context of the discussions for the 2007 Article IV consultation and subsequent discussions on a new PRGF-supported program.

B. Program Monitoring

23. **The government and staff will assess progress in implementing the SMP against quantitative and structural benchmarks** (Appendix I, Tables 3 and 4). Test dates for the quantitative benchmarks are June 30, September 30 and December 31, 2007.

C. Risks

24. **Implementing the SMP for 2007 presents the government with many challenges.** First, insufficient external budget support to fill the US$85 million residual financing gap would lead to further accumulation of arrears on debt service to bilateral creditors. Second, the government may be unable to prevent a depreciation of the Congo franc in the face of exogenous shocks that could result if the political and security situation were to deteriorate. Third, the government will have to demonstrate a stronger commitment than in the past to observe extremely tight spending ceilings and avoid money financed overruns, especially for security; expectations raised by elections will make this extremely difficult. Fourth, the size of the government is likely to make it difficult to improve its decision making process and avoid recurrent delays in structural reforms (including those that were supposed to be implemented in 2006). Fifth, the government needs to work with trade unions to avoid social tensions and granting a large public sector pay increase. And sixth, a too rapid devolution of revenue and spending responsibilities to provinces could lead the central government to lose control over public financial management.

IV. Staff Appraisal

25. **Recent slippages have put at risk the significant progress toward macroeconomic stability achieved during the 2002-2006 PRGF arrangement**. With support from the Fund and donors, the DRC succeeded in reviving economic growth, bringing inflation to a manageable level and reducing exchange rate volatility. However, performance deteriorated starting late in 2005, as the focus of the transitional government shifted to the elections, which prevented the conclusion of the sixth review before the expiration of the PRGF arrangement and, later, the successful conclusion of the 2006 SMP.

26. **With a democratically elected President and Parliament, the DRC has a great opportunity to rise to persistent challenges.** Capitalizing on the mandate received from voters, the new government has an opportunity to make difficult decisions and demonstrate its determination to strengthen macroeconomic stability, achieve high and sustainable growth and reduce poverty. Improved governance and enhanced public financial management are critical to mobilizing the support of both the population and donors.

27. **The 2007 SMP offers the new government an opportunity to demonstrate its determination to get away from the cycle of loose macroeconomic policies, resulting in a rapid depreciation of the currency and high inflation, followed by periods of policy tightening.** Strong implementation of the SMP including a qualitative change in the conduct of macroeconomic management and policies would set a solid basis for discussions of a medium-term program that would warrant Fund support under a new PRGF arrangement and increased external assistance.

28. **Tightening fiscal policy is central to restoring macroeconomic stability.** The implementation of a realistic budget that is responsive to available external financing, with limited recourse to bank financing, is crucial. If the fragile security situation requires additional spending, this will have to be offset by cutting other expenditure to avoid pressure on the exchange rate and inflation. The new government needs to implement a prudent wage policy and resist granting a large pay increase that it could finance only through monetary creation.

29. **The BCC should maintain a proactive monetary policy and improve its operations.** Achieving the monetary policy objectives will require a dynamic interest rate policy, supported by improved liquidity forecasting and management. Prudent management of international reserves is also necessary for the central bank to meet its quarterly reserve targets. To improve transparency and contain its deficit, the BCC needs to accelerate key reforms, including implementing the new computerized accounting system and completing the audit of its organization.

30. **Progress in other structural reforms is critical to the successful implementation of the economic program**. These include improving the transparency and management of the mining sector; strengthening public financial management, especially observing ceilings on budget appropriations; and implementing a comprehensive civil service reform to contain the wage bill.

31. **External financial assistance is essential to strengthen the macroeconomic environment, rebuild the economy, and improve living standards, and respond to expectations raised by the democratic process.** Strong program implementation would help galvanize donor support that is necessary to cover the remaining financing gap of US$85 million in the 2007 budget. Lack of additional financial support would likely lead to a further accumulation of arrears on bilateral debt service.

32. **The government will have to deal with many risks in implementing the staff-monitored program.** These include overcoming the challenges associated with limited external financing and low international reserves, preserving security and containing related spending, increasing the focus of the large coalition government on macroeconomic policies, and implementing a reasonable wage bill while avoiding social tensions.

Table 1. Democratic Republic of the Congo: Selected Economic and Financial Indicators, 2004–07

	2004	2005	2006		2007
			SMP	Est.	Proj.
	(Annual percentage change; unless otherwise indicated)				
GDP and prices					
Real GDP	6.6	6.5	6.5	5.1	6.5
GDP deflator	6.1	21.6	7.9	13.1	17.0
Consumer prices, period average	4.0	21.4	10.0	13.2	17.4
Consumer prices, end-of-period	9.2	21.3	9.5	18.2	12.0
External sector					
Exports, f.o.b. (U.S. dollar terms)	35.3	14.3	15.5	12.0	8.7
Imports, f.o.b. (U.S. dollar terms)	43.3	41.1	26.1	10.8	5.1
Export volume	20.1	-3.2	10.0	3.8	9.0
Import volume	31.7	32.9	26.4	9.0	2.1
Terms of trade	3.5	11.2	5.2	6.1	-3.1
Nominal effective exchange rate [1]	-12.0	-17.6	…	1.5	…
Real effective exchange rate [1]	-5.1	-2.1	…	11.8	…
	(Annual change in percent of beginning-of-period broad money; unless otherwise indicated)				
Money and credit					
Broad money	72.9	24.2	20.8	60.2	27.3
Net foreign assets	-18.3	3.7	11.8	-12.6	8.3
Net domestic assets	92.3	21.8	10.5	73.4	20.3
Of which:					
Net credit to government	-1.9	26.6	-5.8	17.8	2.5
Credit to the private sector (annual percent change)	105.5	58.1	15.5	78.7	28.3
	(Percent of GDP; unless otherwise indicated)				
Central government finance					
Total government revenue	9.5	11.6	12.5	13.2	13.3
Grants	2.0	5.2	9.5	8.2	5.9
Total government expenditure [2]	15.6	19.9	23.2	22.1	18.0
Underlying fiscal balance (cash basis)	-0.9	-0.4	2.2	0.5	1.3
Overall fiscal balance (payment order basis, incl. grants)	-4.1	-3.1	-1.2	-0.7	1.2
Overall fiscal balance (cash basis, incl. grants) [3]	-2.2	-8.4	-0.7	-0.1	1.4
Investment and saving					
Gross national saving	9.7	3.9	11.9	5.8	5.6
Government	-2.2	-2.6	2.3	-0.4	0.7
Nongovernment	11.9	6.5	9.5	6.2	4.9
Investment	12.8	13.9	16.7	13.4	15.2
Government [4]	2.8	3.4	6.7	3.4	3.7
Nongovernment	10.0	10.5	10.0	10.0	11.5
Balance of payments					
Exports of goods and services	30.3	34.0	30.5	31.7	32.2
Imports of goods and services	34.4	45.7	42.4	42.0	42.6
Current account balance, incl. transfers	-3.0	-10.0	-5.8	-7.5	-9.6
Current account balance, excl. transfers	-8.0	-15.0	-14.8	-15.6	-15.3
Gross official reserves (end-of-period, millions of U.S. dollars)	236.2	131.2	246.8	149.3	171.3
Gross official reserves (weeks of nonaid-related imports of goods and services)	5.4	2.7	4.2	2.8	3.2
	(Millions of U.S. dollars; unless otherwise indicated)				
External public debt					
Total stock, including IMF [5]	10,643	10,822	10,813	10,813	5,151
Net present value (NPV) of debt [6]	7,348	7,624	6,125	7,831	1,789
NPV (percent of exports of goods and services) [6]	474.7	400.6	265.4	339.4	68.7
Scheduled debt service	163.2	154.1	251.6	251.6	335.9
Percent of exports of goods and services	8.2	6.4	9.8	9.3	11.7
Percent of government revenue	21.7	12.9	13.6	13.7	19.5
Exchange rate, Congo franc/U.S. dollar					
Period average	397.8	474.4	…	468.3	…
End-of-period	444.1	431.3	…	503.4	…
Memorandum items:					
Nominal GDP (billions of Congo francs)	2,601	3,366	3,868	4,001	4,986

Sources: Congolese authorities and IMF staff estimates and projections.

[1] Change in annual average. Minus sign indicates depreciation.
[2] Includes interest due before debt relief and expenditure financed by HIPC resources.
[3] Cash balance after debt relief on interest payments.
[4] From 2003 onward, includes investment financed by resources released under the enhanced HIPC Initiative.
[5] End-of-period debt stock includes accumulated arrears and reflects the arrears clearance arrangements concluded at the HIPC decision point. The increase in the projected stock-of-debt at end-2006 reflects the postponement of the HIPC completion point from 2006 to 2007.
[6] Estimates and projections based on end-2002 DSA and after HIPC Initiative assistance assuming completion point in 2007, and includes assistance beyond the terms of the enhanced HIPC Initiative granted by some Paris Club creditors. Exports are on a three-year backward moving average.

Table 2. Democratic Republic of the Congo: Central Government Financial Operations, 2004–07

	2004	2005	2006		2007
	Est.	Est.	SMP	Est.	Proj.
	(Billions of Congo francs; unless otherwise indicated)				
Total revenue and grants	299.4	564.9	850.2	856.8	957.0
Total revenue	248.0	389.0	482.8	528.7	662.0
Customs and excise	104.1	145.4	169.8	195.5	272.6
Direct and indirect taxes	71.4	111.4	141.0	157.9	217.6
Petroleum (royalties and taxes)	52.1	98.1	124.1	132.5	109.9
Other	20.4	34.1	47.9	42.8	61.9
Total grants	51.4	175.9	367.5	328.1	295.1
Budget grants	2.4	5.6	40.5	39.3	0.0
Project grants	26.3	75.2	205.8	165.5	84.4
HIPC Initiative assistance [1]	22.7	95.2	121.1	123.3	210.7
Total expenditure	405.8	670.5	896.7	883.9	897.2
Current expenditure	333.3	459.6	477.2	578.2	647.9
Wages [2]	93.2	146.8	180.1	218.9	274.3
Interest due [3]	93.6	125.0	122.0	139.0	150.6
Of which: on external debt	86.1	107.2	112.0	116.1	125.5
Transfers and subsidies	26.6	43.9	47.4	87.1	84.1
Other current expenditure	119.9	143.8	127.6	133.2	139.0
Of which: centralized payments	30.6	27.4	25.6	26.6	11.2
Capital expenditure	72.1	113.9	240.7	134.1	183.6
Foreign-financed	57.0	79.5	221.0	92.1	125.7
Domestic-financed	15.1	34.4	19.6	41.9	57.9
Exceptional expenditure [4]	0.4	97.1	178.8	171.7	65.6
Foreign-financed	0.4	64.2	133.0	130.9	40.1
Domestic-financed	0.0	32.9	45.9	40.8	25.5
o/w: BC bailout	...	...	...	...	10.5
Other HIPC-related expenditure [5]	0.0	0.0	0.0	0.0	0.0
Overall fiscal balance (payment order basis)	-106.4	-105.6	-46.5	-27.1	59.9
Underlying fiscal balance (payment order basis)	-14.3	2.2	98.0	24.6	81.5
Change in arrears (increase = +) [6]	-1.4	-203.2	-2.1	-6.6	-4.4
Float (increase = +)	11.4	0.4	0.0	21.2	0.0
Central bank operational result	-19.1	-15.1	-10.0	-20.1	-10.0
Overall fiscal balance (cash basis, before interest rescheduling)	-115.4	-323.6	-58.6	-32.6	45.4
Underlying fiscal balance [7]	-23.3	-12.5	85.9	19.1	67.1
Total financing	115.4	323.6	58.5	32.6	-45.4
Domestic financing	0.2	261.1	-29.0	43.5	-12.8
Banking system	0.2	57.4	-15.5	47.5	10.5
Non bank	0.0	25.6	-13.5	-4.0	-23.3
Domestic debt relief	0.0	178.1	0.0	0.0	0.0
Foreign financing	89.3	60.1	56.1	-13.1	-79.7
Amortization due before debt relief	-84.5	-135.1	-216.9	-213.1	-278.5
Budget loans	60.9	50.7	0.0	0.0	0.0
Project loans	28.1	64.7	148.2	53.0	113.5
Debt relief	84.8	79.8	124.8	122.5	85.3
Accumulation of external arrears	0.0	0.0	0.0	24.4	0.0
Residual financing gap/errors and omissions	25.9	2.4	31.4	2.2	47.1
Memorandum items:					
GDP (billions of Congo francs)	2,601.3	3,366	3,868	4,001	4,986

Sources: Congolese authorities and IMF staff estimates and projections.

[1] Reflects revised calculation of HIPC Initiative assistance from 2002-based Debt Sustainability Analysis (DSA).
[2] For 2004 and 2005, program figures reflect a change in classification of retirement allowances as part of exceptional spending.
[3] For 2005, interest payments include rescheduling agreements with commercial creditors under the enhanced HIPC Initiative.
[4] Exceptional expenditure includes spending for the Demobilization, Disarmament, and Reintegration (DDR) program, cost of the elections, payments for retirement allowances, repayments of domestic arrears, and payment for bank
[5] For 2005, HIPC Initiative savings used for pro-poor wages and domestic investment were recorded under wages and domestic-financed investment.
[6] Internal and external arrears.
[7] Underlying fiscal balance is defined as revenue minus expenditure and excluding interest on foreign debt, foreign-financed capital expenditures, all exceptional spending and repayment of domestic arrears. Difference between estimated figure for 2005 and the one reported in IMF Country Report No. 05/347 reflects the change in definition to exclude all exceptional spending.

Table 3. Democratic Republic of the Congo: Central Government Financial Operations, 2004–07

	2004	2005	2006		2007
	Est.	Est.	SMP	Est.	Proj.
	(Percent of GDP; unless otherwise indicated)				
Total revenue and grants	11.5	16.8	22.0	21.4	19.2
Total revenue	9.5	11.6	12.5	13.2	13.3
Customs and excise	4.0	4.3	4.4	4.9	5.5
Direct and indirect taxes	2.7	3.3	3.6	3.9	4.4
Petroleum (royalties and taxes)	2.0	2.9	3.2	3.3	2.2
Other	0.8	1.0	1.2	1.1	1.2
Total grants	2.0	5.2	9.5	8.2	5.9
Budget grants	0.1	0.2	1.0	1.0	0.0
Project grants	1.0	2.2	5.3	4.1	1.7
HIPC Initiative assistance [1]	0.9	2.8	3.1	3.1	4.2
Total expenditure	15.6	19.9	23.2	22.1	18.0
Current expenditure	12.8	13.7	12.3	14.5	13.0
Wages [2]	3.6	4.4	4.7	5.5	5.5
Interest due [3]	3.6	3.7	3.2	3.5	3.0
Of which: on external debt	3.3	3.2	2.9	2.9	2.5
Transfers and subsidies	1.0	1.3	1.2	2.2	1.7
Other current expenditure	4.6	4.3	3.3	3.3	2.8
Of which: centralized payments	1.2	0.8	0.7	0.7	0.2
Capital expenditure	2.8	3.4	6.2	3.4	3.7
Foreign-financed	2.2	2.4	5.7	2.3	2.5
Domestic-financed	0.6	1.0	0.5	1.0	1.2
Exceptional expenditure [4]	0.0	2.9	4.6	4.3	1.3
Foreign-financed	0.0	1.9	3.4	3.3	0.8
Domestic-financed	0.0	1.0	1.2	1.0	0.5
o/w: BC bailout	...	...	...	...	0.2
Other HIPC-related expenditure [5]	0.0	0.0	0.0	0.0	0.0
Overall fiscal balance (payment order basis)	-4.1	-3.1	-1.2	-0.7	1.2
Underlying fiscal balance (payment order basis)	-0.6	0.1	2.5	0.6	1.6
Change in arrears (increase = +) [6]	-0.1	-6.0	-0.1	-0.2	-0.1
Float (increase = +)	0.4	0.0	0.0	0.5	0.0
Central bank operational result	-0.7	-0.4	-0.3	-0.5	-0.2
Overall fiscal balance (cash basis, before interest rescheduling)	-4.4	-9.6	-1.5	-0.8	0.9
Underlying fiscal balance [7]	-0.9	-0.4	2.2	0.5	1.3
Total financing	4.4	9.6	1.5	0.8	-0.9
Domestic financing	0.0	7.8	-0.8	1.1	-0.3
Banking system	0.0	1.7	-0.4	1.2	0.2
Non bank	0.0	0.8	-0.4	-0.1	-0.5
Domestic debt relief	0.0	5.3	0.0	0.0	0.0
Foreign financing	3.4	1.8	1.5	-0.3	-1.6
Amortization due before debt relief	-3.2	-4.0	-5.6	-5.3	-5.6
Budget loans	2.3	1.5	0.0	0.0	0.0
Project loans	1.1	1.9	3.8	1.3	2.3
Debt relief	3.3	2.4	3.2	3.1	1.7
Accumulation of external arrears	0.0	0.0	0.0	0.6	0.0
Residual financing gap	1.0	0.1	0.8	0.1	0.9
Memorandum items:					
GDP (billions of Congo francs)	2,601	3,366	3,868	4,001	4,986

Sources: Congolese authorities and IMF staff estimates and projections.

[1] Reflects revised calculation of HIPC Initiative assistance from 2002-based Debt Sustainability Analysis (DSA).
[2] For 2004 and 2005, program figures reflect a change in classification of retirement allowances as part of exceptional spending.
[3] For 2005, interest payments include rescheduling agreements with commercial creditors under the enhanced HIPC Initiative.
[4] Exceptional expenditure includes spending for the Demobilization, Disarmament, and Reintegration (DDR) program, cost of
[5] For 2005, HIPC Initiative savings used for pro-poor wages and domestic investment were recorded under wages and domestic-financed investment.
[6] Internal and external arrears.
[7] Underlying fiscal balance is defined as revenue minus expenditure and excluding interest on foreign debt, foreign-financed capital expenditures, all exceptional spending and repayment of domestic arrears. Difference between estimated figure for 2005 and the one reported in IMF Country Report No. 05/347 reflects the change in definition to exclude all exceptional spending.

Table 4. Democratic Republic of the Congo: Cumulative Cash-Flow Plan, Quarterly 2007 [1]

	2007			
	Q1 Proj.	Q2 Proj.	Q3 Proj.	Q4 Proj.
Total revenue and grants	178,575	343,377	526,841	746,392
Total revenue	169,169	311,081	477,426	661,951
Customs and excise	54,042	112,057	188,450	272,582
Direct and indirect taxes	54,967	102,920	161,153	217,554
Non-tax revenue	22,294	35,783	47,697	61,929
Petroleum revenue	37,866	60,321	80,127	109,886
Total grants	9,406	32,296	49,415	84,441
Budget grants	0	0	0	0
Project grants	9,406	32,296	49,415	84,441
Total expenditure [2]	183,175	371,503	577,475	793,684
Current expenditure	134,230	253,754	385,755	530,010
Wages	59,280	119,056	191,740	274,314
Interest paid	13,360	18,954	25,230	32,648
External debt	1,821	2,780	4,523	7,523
Domestic debt	11,539	16,174	20,707	25,125
Other current expenditure	47,920	77,252	107,469	138,952
Institutions	7,931	13,509	19,162	26,207
Ministries	32,429	53,186	74,284	95,955
Centralized payments (utilities)	6,748	8,031	9,622	11,205
Decentralized services	812	2,527	4,401	5,585
Other	0	0	0	0
Transfers and subsidies	13,671	38,492	61,317	84,096
Capital expenditure	13,638	66,678	120,834	183,647
Foreign-financed	7,283	45,861	85,049	125,701
Domestic financed	6,355	20,817	35,784	57,946
Exceptional expenditures [3]	27,066	36,964	48,451	65,591
Domestically financed	19,855	20,939	22,811	25,528
Foreign financed	7,211	16,025	25,640	40,063
Float (increase = -)	0	3,500	10,000	0
Repayment of domestic arrears	3,153	4,436	4,436	4,436
BCC treasury deficit	5,088	6,171	7,999	10,000
Underlying fiscal balance (cash basis) [4]	22,164	25,184	37,975	67,082
Consolidated balance (cash basis)	-4,600	-28,126	-50,634	-47,291
Total financing	4,600	28,126	50,634	47,291
Domestic financing	-1,737	-4,990	21,257	-12,778
Banking system [5]	-1,737	6,648	32,895	10,498
Non bank	0	-11,638	-11,638	-23,276
Foreign financing	-3,868	22,910	19,171	49,864
Amortization (net payment) [2]	-8,956	-18,318	-58,196	-71,392
Clearance of external arrears	0	0	0	-28,744
Loans	5,088	41,228	77,368	113,508
Project loans	5,088	41,228	77,368	113,508
Residual financing gap/errors and omissions	0	0	0	47,092
Memo. item: Accumulation of external arrears	28,744	28,744	28,744	0

Sources: Congolese authorities and staff estimates and projections.

[1] Excluding HIPC
[2] Including domestic arrears and the balance of the BCC (for the latter,a minus sign corresponds to a surplus).
[3] Exceptional expenditure include spending for the DDR program, cost of the elections, payments for retirement allowances, repayment of the domestic debt, and payment for bank restructuring.
[4] Underlying fiscal balance is defined as revenue minus expenditure and excluding interest on foreign debt, foreign-financed capital expenditures, all exceptional spending and repayment of domestic arrears. Difference between estimated figure for 2005 and the one reported in IMF Country Report No. 05/347 reflects the change in definition to exclude all exceptional spending.
[5] Net banking system credit to the government plus treasury balance of the Central Bank.

Table 5. Democratic Republic of the Congo: Monetary Survey, 2004–07
(At current exchange rates)

	2004	2005	2006 Sep. SMP	2006 Sep. Prel.	2006 Dec. SMP	2006 Dec. Prel.	2007 Mar Proj.	2007 Jun Proj.	2007 Sep Proj.	2007 Dec Proj.
					(Billions of Congo francs)					
Net foreign assets	-281.8	-273.9	-279.3	-294.3	-242.3	-307.4	-322.1	-309.6	-315.0	-271.8
Net domestic assets	504.0	551.0	601.6	680.9	579.0	747.3	816.8	826.9	854.9	834.2
Domestic credit	68.9	148.0	161.3	206.2	143.6	246.9	263.0	276.1	307.1	289.3
Net credit to government	27.2	84.6	84.6	102.0	69.1	132.1	130.4	138.8	165.0	142.6
Credit to the private sector	39.9	63.0	74.7	101.8	72.8	112.7	130.3	135.1	139.8	144.6
Credit to parastatals	1.8	0.4	2.0	2.4	1.7	2.2	2.3	2.3	2.2	2.2
Other items, net (including valuation change)	435.1	403.0	440.3	474.7	435.4	500.3	553.7	550.8	547.8	544.9
Broad money (M2)	215.3	267.3	310.2	377.2	322.9	428.3	481.8	503.0	524.2	545.4
Narrow money (M1)	117.1	138.9	154.2	188.6	167.8	213.2	225.0	242.1	259.3	276.4
Currency in circulation	101.5	119.9	125.8	148.0	140.9	182.4	189.4	203.0	216.5	230.1
Demand deposits	15.6	19.0	28.4	40.6	26.9	30.8	35.6	39.1	42.7	46.3
Quasi money	98.2	128.4	156.0	188.6	155.2	215.1	256.9	260.9	264.9	269.0
Time deposits in domestic currency	0.4	0.4	1.2	0.9	1.8	0.4	0.6	0.8	1.1	1.4
Foreign currency deposits	97.8	128.0	154.7	187.7	153.4	214.6	256.3	260.1	263.8	267.6
Import deposits	7.0	9.8	12.1	9.4	13.7	11.5	12.9	14.3	15.6	17.0
					(Year-on-year change in percent)					
Net foreign assets	-8.8	2.8	-4.8	-10.5	11.5	-12.3	-22.6	-11.5	-7.0	11.6
Net domestic assets	29.5	9.3	14.2	29.3	5.1	35.6	44.8	37.3	25.5	11.6
Domestic credit	40.0	115.0	56.8	100.5	-3.0	66.8	95.0	65.2	48.9	17.2
Net credit to government	-8.0	210.8	71.8	107.3	-18.3	56.2	95.8	68.9	61.7	7.9
Credit to the private sector	105.5	58.1	40.8	91.7	15.5	78.7	93.6	62.7	37.4	28.3
Credit to parastatals	688.3	-75.3	275.8	355.0	283.1	391.9	133.4	19.0	-6.2	0.0
Other items, net (including valuation change)	28.0	-7.4	3.9	12.0	8.1	24.2	29.0	26.6	15.4	8.9
Broad money (M2)	72.9	24.2	25.0	52.0	20.8	60.2	66.8	59.1	39.0	27.3
Narrow money (M1)	62.4	18.6	21.6	48.7	20.8	53.5	61.1	51.9	37.5	29.6
Currency in circulation	60.7	18.2	12.9	32.8	17.5	52.1	57.9	54.1	46.3	26.1
Demand deposits	74.2	21.4	84.6	164.1	41.8	62.5	80.8	41.6	5.2	50.4
Quasi money	87.4	30.8	28.5	55.4	20.8	67.5	72.1	66.4	40.5	25.1
Time deposits in domestic currency	12.8	5.3	177.3	110.2	361.7	12.4	6.3	84.1	20.1	224.4
Foreign currency deposits	87.9	30.9	28.0	55.2	19.8	67.7	72.4	66.4	40.6	24.7
Import deposits	23.9	41.2	-0.3	-22.5	39.4	17.3	2.8	69.3	66.6	47.7
					(Annual change in percent of beginning-of-period broad money)					
Net foreign assets	-18.3	3.7	-2.0	-7.6	11.8	-12.6	-3.4	-0.5	-1.8	8.3
Net domestic assets	92.3	21.8	18.9	48.6	10.5	73.4	16.2	18.6	25.1	20.3
Domestic credit	15.8	36.8	4.9	21.8	-1.7	37.0	3.8	6.8	14.0	9.9
Net credit to government	-1.9	26.6	0.0	6.5	-5.8	17.8	-0.4	1.6	7.7	2.5
Credit to the private sector	16.4	10.8	4.4	14.5	3.7	18.6	4.1	5.2	6.3	7.4
Credit to parastatals	1.3	-0.6	0.6	0.7	0.5	0.7	0.0	0.0	0.0	0.0
Other items, net (including valuation change)	76.5	-14.9	14.0	26.8	12.1	36.4	12.5	11.8	11.1	10.4
Broad money (M2)	72.9	24.2	16.1	41.1	20.8	60.2	12.5	17.5	22.4	27.3
Narrow money (M1)	36.1	10.1	5.7	18.6	10.8	27.8	2.7	6.7	10.8	14.8
Currency in circulation	30.8	8.6	2.2	10.5	7.8	23.4	1.6	4.8	8.0	11.1
Demand deposits	5.3	1.6	3.5	8.1	3.0	4.4	1.1	1.9	2.8	3.6
Quasi money	36.8	14.0	10.3	22.5	10.0	32.4	9.8	10.7	11.6	12.6
Time deposits in domestic currency	0.0	0.0	0.3	0.2	0.5	0.0	0.0	0.1	0.2	0.2
Foreign currency deposits	36.8	14.0	10.0	22.3	9.5	32.4	9.7	10.6	11.5	12.4
Import deposits	1.1	1.3	0.9	-0.2	1.4	0.6	0.3	0.6	1.0	1.3
Memorandum items:										
Nominal GDP (billions of Congo francs)	2,601	3,366	...	4,001	3,868	4,001	...	...	...	4,986
Velocity (GDP/broad money)	12.1	12.6	...	10.6	12.0	9.3	...	...	...	9.1
Foreign currency deposits (percent of M2)	45.4	47.9	49.9	49.7	47.5	50.1	53.2	51.7	50.3	49.1
Foreign currency deposits (percent of total deposits)	86.0	86.9	83.9	81.9	84.3	87.3	87.7	86.7	85.7	84.9

Sources: Congolese authorities and IMF staff estimates and projections.

Table 6. Democratic Republic of the Congo: Accounts of the Central Bank of the Congo, 2004–07
(At current exchange rates)

	2004	2005	2006				2007			
			Sep. SMP	Sep. Prel.	Dec. SMP	Dec. Prel.	Mar Proj.	Jun Proj.	Sep Proj.	Dec Proj.
	(Billions of Congo francs)									
Net foreign assets	-347.6	-357.8	-378.6	-413.8	-343.8	-436.3	-480.1	-469.1	-476.1	-434.3
Gross offical reserves (in millions of US dollars)	236.2	131.2	163.5	167.1	246.9	149.3	164.4	157.0	109.4	171.3
Foreign assets	104.9	56.6	77.8	84.2	118.5	75.1	85.5	84.6	65.9	95.8
Foreign liabilities	452.5	414.4	456.4	498.0	462.2	511.5	565.6	553.8	542.0	530.2
Net domestic assets	470.3	496.0	526.9	596.2	504.9	648.6	704.1	704.7	723.2	693.1
Domestic credit	52.2	123.2	117.8	151.5	97.2	179.0	189.7	192.2	212.7	184.4
Net credit to government	38.4	103.3	104.7	133.0	87.8	163.1	163.9	171.5	196.9	173.6
Other items, net	418.1	372.7	409.2	444.7	407.8	469.6	514.4	512.5	510.6	508.6
Base money	122.7	138.2	148.4	182.4	161.1	212.2	224.0	235.6	247.1	258.7
Narrow base money	111.9	129.2	138.9	172.4	150.0	205.9	217.1	228.7	240.3	251.9
Currency in circulation	105.9	123.8	130.1	154.5	143.7	185.9	196.9	209.2	221.5	233.7
Deposits at the central bank	5.8	5.3	8.5	17.1	6.1	19.7	19.2	18.7	18.3	17.9
Private sector deposits	0.1	0.1	0.1	0.7	0.1	0.1	0.8	0.6	0.4	0.1
Parastatal deposits	0.2	0.1	0.1	0.1	0.1	0.2	0.1	0.2	0.2	0.2
Foreign currency deposits	6.1	5.6	6.0	7.2	7.0	3.4	3.7	3.6	3.5	3.4
Import deposits	4.7	3.4	3.5	2.8	4.2	2.9	3.3	3.3	3.4	3.4
	(Year-on-year change in percent)									
Net foreign assets	-17.9	-2.9	-9.3	-19.5	3.9	-22.0	-38.3	-27.5	-15.0	0.5
Net domestic assets	27.1	5.5	11.1	25.7	1.8	30.8	43.0	34.5	21.3	6.9
Domestic credit	22.8	136.3	62.9	109.6	-21.2	45.2	77.3	55.8	40.4	3.0
Net credit to government	4.0	169.1	66.9	112.1	-15.0	58.0	81.6	62.7	48.0	6.4
Other items, net	27.6	-10.8	1.8	10.6	9.4	26.0	33.5	27.9	14.8	8.3
Base money	63.2	12.7	15.9	42.4	16.6	53.6	54.2	50.9	35.5	21.9
Narrow base money	65.3	15.5	15.9	43.9	16.1	59.4	60.8	53.5	39.4	22.3
Currency in circulation	60.7	16.9	13.2	34.4	16.1	50.1	56.7	52.9	43.3	25.8
Deposits at the central bank	292.2	-9.1	99.3	299.8	15.2	275.4	109.6	58.5	7.3	-9.6
Private sector deposits	-80.2	46.6	-63.7	122.1	0.0	51.3	635.3	249.6	-45.9	0.0
Parastatal deposits	125.7	-53.8	-54.3	-56.4	0.0	141.0	28.9	8.4	109.3	0.0
Foreign currency deposits	53.2	-7.4	59.4	91.7	24.2	-39.8	-46.2	-22.1	-51.8	0.0
Import deposits	35.5	-28.3	-21.6	-37.8	24.6	-13.4	-5.9	28.6	20.1	17.2
	(Annual change in percent of beginning-of-period base money)									
Net foreign assets	-70.1	-8.3	-15.0	-40.5	10.1	-56.8	-20.6	-15.4	-18.7	0.9
Net domestic assets	133.4	21.0	22.4	72.5	6.5	110.4	26.1	26.4	35.2	21.0
Domestic credit	12.9	57.9	-4.0	20.4	-18.9	40.3	5.0	6.2	15.9	2.6
Net credit to government	2.0	52.9	1.0	21.5	-11.2	43.3	0.4	3.9	15.9	4.9
Other items, net	120.5	-37.0	26.4	52.1	25.3	70.1	21.1	20.2	19.3	18.4
Base money	63.2	12.7	7.4	32.0	16.6	53.6	5.5	11.0	16.5	21.9
Narrow base money	58.8	14.1	7.0	31.2	15.0	55.5	5.2	10.7	16.2	21.7
Currency in circulation	53.2	14.6	4.6	22.3	14.4	44.9	5.2	11.0	16.8	22.6
Deposits at the central bank	5.7	-0.4	2.3	8.5	0.6	10.5	-0.3	-0.5	-0.7	-0.9
Private sector deposits	-0.3	0.0	0.0	0.4	0.0	0.0	0.3	0.2	0.1	0.0
Parastatal deposits	0.1	-0.1	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0
Foreign currency deposits	2.8	-0.4	0.3	1.1	1.0	-1.6	0.1	0.1	0.0	0.0
Import deposits	1.6	-1.1	0.1	-0.4	0.6	-0.3	0.2	0.2	0.2	0.2

Sources: Congolese authorities and IMF staff estimates and projections.

Table 7. Democratic Republic of the Congo: Balance of Payments Summary, 2004–07

	2004 Est.	2005 Proj.	2006 IMF Country Report No. 06/259	2006 Proj.	2007 Proj.
	(Millions of U.S. dollars; unless otherwise indicated)				
Current account	-198	-710	-486	-644	-858
Merchandise trade	60	-402	-468	-421	-359
Exports, f.o.b.	1,813	2,071	2,366	2,319	2,521
Of which: diamonds	828	1,060	1,087	884	1,009
Of which: oil exports	360	453	494	579	486
Imports, f.o.b.	-1,753	-2,473	-2,834	-2,740	-2,879
Of which: aid-related imports	-306	-644	-649	-665	-665
Services	-322	-427	-533	-461	-580
Receipts	172	343	195	390	358
Expenditure	-494	-770	-728	-851	-938
Of which: aid-related imports	-112	-166	-240	-232	-204
Income	-327	-368	-400	-470	-462
Receipts	91	105	124	18	18
Expenditure	-418	-473	-524	-487	-480
Of which: interest payments [1]	-221	-238	-251	-251	-233
Current transfers	392	487	915	708	542
Of which: official aid	327	355	756	686	507
Capital and financial account	-129	218	87	143	292
Capital account [2]	-5	-91	82	82	77
Official	105	58	151	151	152
Private	-109	-149	-70	-70	-75
Financial account	-124	309	5	61	215
Official capital	-11	-30	-149	-357	-170
Gross disbursements	220	253	322	114	330
Of which: net new financing	220	253	322	114	330
Scheduled amortization [3]	-230	-283	-471	-471	-500
Private capital (net) [4]	-113	339	154	419	385
Of which: foreign direct investment	435	257	496	263	303
Balance before errors and omissions	-327	-492	-399	-500	-566
Errors and omissions	70	123	0	64	0
Overall balance	-257	-368	-399	-436	-566
Financing	-393	-99	-432	-326	-83
Net change in non-Fund arrears [5]	-332	-99	-302	-259	0
Net banking sector reserves (increase = -)	-61	1	-130	-67	-83
Of which: net Fund credit	69	37	0	0	-62
Financing need before exceptional assistance	-649	-467	-831	-762	-649
Exceptional financing	649	467	762	762	564
Consolidation of arrears	344	100	302	302	0
Debt relief on current debt service	305	367	461	461	564
Residual financing need (overfinancing = +)	0	0	-68	0	-85
	(In percent of GDP; unless otherwise indicated)				
Memorandum items:					
Debt service, after debt relief (percentage of exports of goods and services) [4]	8.3	7.2	9.8	6.1	9.3
Current account balance, incl. grants, before debt relief	-3.0	-10.0	-5.8	-7.5	-9.6
Current account balance, excl. official transfers, before debt relief	-8.0	-15.0	-14.8	-15.6	-15.3
Current account balance, incl. grants, after debt relief	-1.6	-7.0	-1.1	-3.7	-5.2
Current account balance, excl. grants, after debt relief	-6.6	-12.0	-10.9	-11.8	-10.8
Gross official reserves (in millions of U.S. dollars)	236.2	131.2	246.8	149.3	171.3
Weeks of non-aid-related imports of goods and services	5.4	2.7	4.2	2.8	3.2
Percent of short-term debt by residual maturity					

Sources: Congolese authorities and IMF staff estimates and projections.

[1] Including interest due to the IMF.
[2] Excluding repayments to the IMF.
[3] Adjusted from IMF Country Report No. 06/259, to reflect a shift to the 5th balance of payment manual. Current transfers and the current account balance have been adjusted accordingly.
[4] Including unrecorded transactions. The latter may be substantial given the weak state of statistics.
[5] Including US$58 million of arrears in 2006, on non reschedulable Paris Club debt service.

APPENDIX I

TRANSLATED FROM FRENCH

May 14, 2007

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
Washington, D.C., 20431

Dear Mr. de Rato:

1. The Democratic Republic of the Congo (DRC) implemented an economic program in 2002–2006 that was supported by the International Monetary Fund under the Poverty Reduction and Growth Facility (PRGF). This program has enabled us to begin to rebuild our economy, restore growth, curb inflation, and reach the decision point of the enhanced Heavily Indebted Poor Countries (HIPC) Initiative. It was followed, from April to December 2006, by a staff monitored program (le Programme Relais de Consolidation, PRC), which served as the framework for macroeconomic management during the final phase of the political transition.

2. The first free and democratic elections held in the DRC in more than 40 years resulted in the election, by direct universal suffrage, of the President of the Republic and of the members of the National Assembly. The new government, supported by the presidential coalition in Parliament, will strive to meet the high expectations of the people by tackling the enormous challenges still facing the country.

3. In particular, in addition to endemic poverty, the macroeconomic situation remains fraught with difficulties, as evidenced by the upward trend of inflation and the pressure on the exchange rate since the elections. Consequently, despite the efforts of the transition government, some of the objectives of the PRC could not be met and the main quantitative and structural benchmarks for end-September and end-December 2006 were unfortunately not observed. Moreover, the economic situation worsened in the first two months of 2007, with a decline in international reserves to less than two weeks of imports and a surge in inflation to 21 percent on a year-on-year basis.

4. The newly installed government is determined to remedy this situation through urgent measures. As indicated in its program and governance contract approved by the National Assembly, the government will adopt the necessary policies to lay the foundation for robust and sustained economic growth and thus contribute to lasting poverty reduction, in accordance with the priorities set out in the Poverty Reduction Strategy Paper (PRSP) adopted in July 2006.

5. In this context, we are pleased to present below the government's economic program for 2007, which will be monitored on a quarterly basis by means of quantitative and structural benchmarks. Successful execution of this program will demonstrate the government's firm commitment to overcoming the challenges facing the DRC. During the implementation of the 2007 SMP, the government will prepare a sound medium-term economic and financial program, for which it will request IMF support under a new three-year PRGF arrangement. This would also enable the DRC to benefit fully from bilateral and multilateral debt relief initiatives.

6. The government would like to receive the support of the IMF staff in monitoring the implementation of this program and will submit all information requested for that purpose. In addition, the government is prepared to take any additional measures that may prove necessary for the success of this program, after consulting with Fund staff. As in the past, the government authorizes the publication of this letter.

I. Recent Developments

7. **The economic situation deteriorated in the second half of 2006**, with the Congo franc depreciating by more than 12 percent and end-year inflation rising to 18.2 percent (year-over-year). The government found it difficult to contain expenditure during the election period, owing mainly to political pressures and security concerns. Despite a satisfactory revenue performance, the underlying fiscal balance for 2006 was below the program target by more than 1.5 percent of GDP and was financed by additional borrowing from the banking system. Real GDP growth fell short of initial projections, because of the wait-and-see attitude adopted during the election campaign, and a decline in mining and manufacturing activities.

8. **Bank financing of the government budget contributed to excessive monetary expansion.** The Central Bank of the Congo (BCC) tried to mop up this surplus in the fourth quarter of 2006 by increasing its short-term base lending rate by more than 10 percentage points, to 45 percent, and by doubling the reserve requirement to 4 percent. However, these measures had only a limited effect on base money, which grew 53.6 percent during the year, or three times the rate envisaged, owing to insufficient reductions in government expenditure. As a result, the trends of inflation and the exchange rate remained a concern.

9. **The main targets of the PRC were not met.** In particular, the benchmarks for net foreign assets of the central bank, net domestic assets of the central bank, net bank credit to the government, and the nonaccumulation of external arrears at end-2006 were not observed, nor were the structural benchmarks.

II. Macroeconomic Framework and Policies for 2007

A. Macroeconomic Framework

10. **The objective of the program for 2007 is to restore macroeconomic stability in an environment of strong and sustainable growth.** The objective is to reduce year-on-year

inflation to 12 percent and increase international reserves coverage to 3 weeks of imports. Real GDP growth could climb to 6.5 percent, sustained by better performances in the mining and manufacturing sectors, as well as the dynamism of telecommunications and transportation sectors.

B. Government Finance

11. **The government is determined to set the stage for sustainable fiscal consolidation.** This objective necessitates strict and transparent management of government budget on a cash basis and non-recourse to bank financing on an annual basis, even if external budget support is available. The underlying fiscal surplus, on a cash basis, should amount to 1.3 percent of GDP, or an effort of 1 percent of GDP vis-à-vis 2006, owing to a realistic increase in revenue and effective expenditure control.

12. **The government will quickly implement ambitious measures, including in the area of combating tax fraud, to boost revenue.** The reassessment of many excise taxes and the increase in turnover tax rate from 13 to 15 percent aim to increase current non-oil revenue by 0.5 percent of GDP on a full year basis. In addition, an acceleration of tax administration reforms, supported by Fund technical assistance, would help boost revenue substantially. Thus, total government revenue is expected to remain at 13.2 percent of GDP, despite a reduction in oil receipts equivalent to 1.1 percent of GDP owing to a drop in crude oil prices.

13. **In view of the targets for the underlying fiscal balance and for revenue, the government will limit its current spending to 13.0 percent of GDP.** Priority will be given to strengthen control on current expenditure, particularly in sovereign institutions and ministries. In this context, the wage bill will be capped at CGF 275 billion (5.5 percent of GDP). The government will also ensure that budget appropriations for education and health amount to at least CGF 146 billion (2.9 percent of GDP).

14. **Keeping the wage bill under its ceiling will require controlling the size of the civil service.** In this regard, the government will (i) prepare, by end-December and with World Bank support, a program and an action plan to strengthen management of the civil service, and will continue implementing the retirement program; (ii) put in place a simplified, transitional payroll system in Kinshasa (excluding education) before end-June 2007, to be used for the July pay, and for the rest of the civil service by end-2007; (iii) complete verification of the results of the civil service census and adjust the payroll accordingly; and (iv) institute a freeze on hiring and budgeted position (excluding education) until the overhaul of the payroll system has been completed. The payroll for education will be determined in coordination with the World Bank in the context of the education project, and in accordance with the ceiling on the overall wage bill in the 2007 budget.

15. Regarding wage policy, the government intends to grant an increase in wage or wage benefits that are consistent with the ceiling on the wage bill. The increase, which is to be applied in July without retroactive effect, is being discussed with social partners and will be included in the 2007 Budget law. No additional measure that would have for incidence to

increase the wage bill will be taken outside a budget law. To keep the wage bill for sovereign institutions below CGF 25 billion, the government will take a decree limiting the size of cabinets of ministries and other sovereign institutions and separation grants given political appointees who are leaving the government. Concerning inactive security personnel, their wage compensations and benefits in 2007 will amount to CGF 10.4 billion, and their management will be transferred from the Ministry of Defense to the Ministry of Social Affairs, after completing their census. The wage bill for the rest of the public civil servants will be capped at CGF 184 billion.

16. **The reform of the security sector reform remains a government priority.** In this context, the government, with the support of development partners, will conduct a census of army and police personnel. The government will continue efforts to improve payroll procedures, with a view to ensuring that military wages are actually paid. The total wage bill for active security personnel will be capped at CGF 55 billion.

17. **As part of its governance program, the government will improve public financial management.** The government is determined to put an end to practices that result in budget overruns. The spending commitment plan and the treasury cash flow plan will provide an economic classification of spending by ministry and will be updated monthly for the three months ahead. These plans will be published 10 days before the first month they refer to, and their execution (ESB) 30 days after the end of the reference month on the websites of the budget and finance ministries. Cash advances (*mises à disposition de fonds - MAD*) will be limited solely to the budget line-items listed in the circular containing instructions for the execution of the government budget. Cash advances can be renewed only if supporting documentation is submitted for previous uses of funds.

18. **The government will carefully implement the devolution policy mandated by the Constitution, to ensure that macroeconomic stability is preserved.** In 2007, the government will transfer CGF 40.1 billion to decentralized local entities (*Entités territoriales décentralisées – ETDs*) to cover their operations. With a view to ensuring the future success of decentralization, the government will take steps to (i) build the administrative and budgetary capacities of decentralized entities; (ii) put in place a system to monitor budget execution in the provinces; and (iii) define transfers of responsibility and the identification of resources necessary to accomplish the corresponding tasks.

C. Financial Sector and Monetary Policy

19. **The objective of monetary policy is to reduce inflation and build international reserves**. For monetary programming purposes, it is assumed that base money will grow by 22 percent in base money and broad money by 27 percent in 2007, which is consistent with the objective of reducing 12-month inflation to 12 percent. These assumptions take account of the volatility of the demand for money, the weakness of monetary instruments, and the high level of dollarization of the economy.

20. **To improve the conduct of monetary policy, the BCC will pursue its program of reforms with the support of the Fund.** In particular, more timely and accurate information on central bank operations will become available with the implementation of a new accounting software on June 4, 2007. In addition, the BCC will enhance its capacities for managing and forecasting bank liquidity by completing the computerization of the liquidity framework and prepare a monthly forecast.

21. **The BCC will limit its operating deficit to CGF 10 billion in 2007.** To this end, recurrent spending (excluding the cost of monetary policy) and capital spending will be capped at CGF 36 billion and CGF 7 billion, respectively—consistent with the BCC treasury plan. If BCC's revenue exceeds the budgeted amount of CGF 49 billion, the additional resources will be used to reduce the deficit. To monitor budget execution, each department of the BCC, including the provincial branches, will prepare a monthly cash flow plan and a report on the plan execution will be submitted to the bank's management before the end of the following month. In addition, the BCC will adopt an action plan by end-June 2007 for implementation of the recommendations of the organizational audit to be completed by end-May. The audit of the BCC's 2006 accounts will also be completed by end-May 2007.

22. **Concerning the banking sector, the government will complete the financing arrangements for the takeover of the Union des Banques Congolaises (UBC) by Banque Congolaise (BC).** The UBC's balance sheet loss of CGF 8.5 billion (equivalent to US$17 million), certified by an external auditor, was refinanced by the BCC. The government will negotiate with the BC to ensure that the cost of this operation borne by the government in the 2007 budget does not exceed US$16 million, as projected in the PRC. The BCC and the Ministry of Finance will prepare a note on this operation and its financing.

D. Other Structural Measures

23. **The government will also implement the following structural measures:**

(a) Completion of the financial audit of HIPC expenditure no later than April 30, 2007. The conclusions of this audit will be posted on the website of the Ministry of Budget and an action plan will be adopted for implementation of the audit recommendations by end-May.

(b) Audit of expenditure validations, payment orders, and payments issued between December 1, 2006 and February 28, 2007, to be carried out by the Audit Office by end-June 2007. The audit should help determine the goods and services actually delivered and the outstanding amounts payable in 2007.

(c) Posting on the website of the Ministry of Finance, in April 2007, of the partnership contracts entered into by public and private enterprises. This measure, which is in line with the governance contract approved by the National Assembly, will ultimately allow for a better assessment of the impact of these contracts on employment, economic activity, and government revenue.

(d) Government accession to the Extractive Industries Transparency Initiative (EITI) and the development of an action plan for 2007 by end-June.

24. Severe cash flow problems have kept the DRC from honoring all its bilateral debt service commitments since July of 2006. The government communicated with the Paris Club secretariat about these difficulties in April 2007. It reiterated its commitment to quickly improve economic policy implementation, with a view to preparing a medium-term program eligible for IMF support and normalizing the DRC's relations with Paris Club creditors as soon as possible. In addition, the government is determined to continue all debt relief negotiations with its London and Kinshasa Clubs creditors.

III. PROGRAM MONITORING

25. The government established a committee *(Comité du Pilotage du Programme du Gouvernement (CPPG)),* headed by the Prime Minister, in charge of monitoring the implementation of its program approved by the National Assembly. The work and the decisions of this committee relating to economic and financial management will be assisted by an interministerial committee monitoring programs concluded with the international financial institutions, chaired by the Minister of Finance, and by an ad-hoc committee comprising the Minister of Planning, the Minister of Finance, the Minister of Budget, and the Governor of the BCC. The latter will be assisted by a technical committee in charge of monitoring the implementation of structural reforms (CTR) and by the central bank. The quantitative and structural indicators listed in the attached tables will be used for monitoring purposes. Fund staff and the government will conduct a quarterly review of the program.

26. The government would like to begin discussions on a medium-term program that could receive the financial support of the Fund ported by the eligible for IMF financial support under the Poverty Reduction and Growth Facility (PRGF) after an assessment of the quantitative and structural indicators for end-June 2007 under the SMP.

27. Be assured, Mr. the Managing Director, that the government will take all necessary steps to ensure the success of this program.

Sincerely yours,

/s/

Antoine Gizenga
Prime Minister

Table 1. Democratic Republic of the Congo: Structural Benchmarks for 2006

Measures	Timetable	Status
1. Audit by an international audit firm of the accounts of the Union des Banques Congolaises (UBC) as at June 15, 2006 and of the accounts of Banque Congolaise (BC) as at the same date, taking into account the takeover of the UBC. The audits will determine the total budgetary cost of this takeover and serve as the basis for the joint preparation of a memorandum by the central bank and the finance ministry explaining how the government will finance this operation.	End-August 2006	Partially met. Audits completed on July 28, 2006. The joint memorandum was not prepared.
2. Implement a new simplified transitional payroll system incorporating the results of the census.	End-September 2006	Not met
3. Complete audit of the use of HIPC funds.	End-September 2006	Not met
4. Select an international firm for the organizational audit of the central bank (BCC).	End-September 2006	Not met. The international firm was selected in December 2006

Table 2. Democratic Republic of the Congo: Quarterly Quantitative Benchmarks, 2005-06 [1]
(Millions of Congo francs; unless otherwise indicated)

	2005 Stock December	End-September					End-December				
		Quant. Benchmark	Adjusted Quant. Benchmark	Act.	Gap	Comment	Quant. Benchmark	Adjusted Quant. Benchmark	Act.	Gap	Comment
a. Floor on net foreign assets of the BCC (millions of U.S. dollars)	-895	29	78	34	44	Not Met	116	96	9	87	Not Met
b. Ceiling on net domestic assets of the BCC	536,016	-3,485	-28,379	27,658	56,037	Not Met	-29,499	-22,541	68,884	91,425	Not Met
c. Ceiling on net bank credit to government	95,383	-4,432	-29,326	19,271	48,598	Not Met	-19,920	-12,963	45,550	58,512	Not Met
d. Ceiling on new nonconcessional foreign loans contracted or guaranteed by the government, including by EADs (decentralized administrative entities) or the BCC, maturing at more than one year	0	0	0	0	0	Met	0	0	0	0	Met
e. Ceiling on new nonconcessional foreign loans contracted or guaranteed by the government, including by EADs or the BCC, maturing at less than one year	0	0	0	0	0	Met	0	0	0	0	Met
f. Ceiling on wage arrears for the civil service	0	0	0	0	0	Met	0	0	0	0	Met
g. Ceiling on new external debt arrears (millions of U.S. dollars)	0	0	0	50	50	Not Met	0	0	58	58	Not Met
Memorandum item:											
Narrow base money	129,222	9,632	9,632	43,141	33,509		20,754	20,754	76,715	55,962	
Project deposits	10,815	-4,426	-4,426	1,811	6,238		-4,426	-4,426	-1,986	2,440	

Source: Congolese authorities.

[1] For definition and adjustors see the attached Program Monitoring Section of Memorandum of Economic and Financial Polices and the Technical Memorandum of Understanding.

Table 3. Democratic Republic of the Congo: Structural Benchmarks, 2007

Measures	Timetable	Status
1. Placement in service of the BCC's new computerized accounting system.	End-June	
2. Publication by sector, on the finance ministry website, of the partnership contracts signed by public enterprises and private enterprises/investors.	End-May	
3. Submission to Parliament of the draft 2007 budget under the 2007 economic program described in the government letter to the IMF Executive Board.	End-May	
4. Adoption by the government of an action plan to limit the cost to the government of the UBC/BC merger to US$16 million (including the staff census) as indicated in the 2006 PRC memorandum.	End-May	
5. Completion of the audit of HIPC expenditure and adoption of an action plan to implement its recommendations.	End-June	
6. Completion of the BCC organizational audit.	End-May	
7. Finalization of the external audit of the BCC's 2006 accounts.	End-June	
8. Use of the simplified transitional payroll procedure (PTS) in Kinshasa (excluding education) based on the census results.	End-June	
9. Finalization by the court of accounts of the audit of government expenditure verification, payment orders, and payments issued between December 1, 2006 and February 28, 2007, to determine goods and services actually delivered and outstanding amounts payable.	End-June	

Table 4. Democratic Republic of the Congo: Quarterly Quantitative Benchmarks, 2006 -07 [1]
(Millions of Congo francs; unless otherwise indicated)

	2006	2007				2007
	Stock December	March Proj.	June Benchmarks	Sept. Benchmarks	Dec. Benchmarks	Stock December
a. Floor on net foreign assets of the BCC (millions of U.S. dollars)	-886	23	33	4	83	-802
b. Ceiling on net domestic assets of the BCC	604,900	956	7,867	32,640	8,769	613,669
c. Ceiling on net bank credit to government	140,932	-1,737	6,648	32,895	10,498	151,430
d. Ceiling on the contracting or guaranteeing of new nonconcessional external debt with original maturity of more than one year by the government, including the EADs or the BCC	0	0	0	0	0	0
e. Ceiling on the contracting or guaranteeing of new nonconcessional external debt with original maturity of less than one year by the government, loans contracted by the EADs or the BCC	0	0	0	0	0	0
f. Ceiling on wage arrears for the civil service	0	0	0	0	0	0
Memorandum item:						
Narrow base money	205,937	11,126	22,749	34,372	45,994	251,932
Project deposits	8,830	0	0	0	0	8,830

Source: Congolese authorities.

[1] For definition and adjustors see the attached Program Monitoring Section of Memorandum of Economic and Financial Polices and the Technical Memorandum of Understanding.

APPENDIX I
ATTACHMENT I
TRANSLATED FROM FRENCH

DEMOCRATIC REPUBLIC OF THE CONGO
TECHNICAL MEMORANDUM OF UNDERSTANDING

Kinshasa, May 14, 2007

1. This memorandum covers the agreements on monitoring implementation of the staff monitored program (SMP), for the period April-December 2007, by the staff of International Monetary Fund (IMF). It establishes the information to be reported and the deadlines for its submission to the IMF staff for program monitoring. It defines the quantitative benchmarks, as well as the structural benchmarks presented in the Memorandum on Economic and Financial Policies (MEFP) of the government of the Democratic Republic of the Congo (DRC), which is attached to the letter of May 14, 2007 to the Managing Director of the International Monetary Fund.

A. Monitoring Program Implementation

2. Implementation of the program covering the period April, 1 to December, 31, 2007 will be monitored on the basis of the benchmarks described in Tables 3 and 4 of the MEFP of March 12, 2007.

B. Definition of Quantitative Benchmarks

3. The quantitative benchmarks described in Table 4 of the MEFP are as follows:

a. floor on net foreign assets of the central bank (BCC);
b. ceiling on net domestic assets of the BCC;
c. ceiling on net bank credit to the government;
d. ceiling on new nonconcessional external loans contracted or guaranteed by the central government, including those contracted by the decentralized autonomous entities (EADs) or the BCC, with maturities of more than one year, except borrowing for debt rescheduling purposes, and IMF credit;
e. ceiling on new nonconcessional external loans contracted or guaranteed by the central government, and loans contracted by the EADs and the BCC, with maturities of one year or less, except borrowing for debt rescheduling purposes, IMF credit, and normal import credits (suppliers' credits), excluding imports of petroleum products;
f. ceiling on wage arrears (see paragraph 9 for definition);

Definitions

4. **Net foreign assets of the BCC** is defined as the difference between the BCC's gross foreign assets and all its foreign liabilities, as shown in the "BCC Balance Sheet" prepared by the BCC. For purposes of the relevant benchmarks, the net foreign assets will be valued in U.S. dollars at the program exchange rates: US$l = CGF 444.1; SDR 1 = CGF 687.4; and EUR 1 = CGF 605.3.

5. **The net domestic assets of the BCC** are equal to the sum of the following line items, as they appear in the BCC balance sheet, except for 'other items, net' which are valued in CGF at the current exchange rate. For the relevant benchmark, domestic assets will be adjusted for the effect of the CGF/U.S. dollar exchange rate variation from the programmed rate on net foreign assets and foreign exchange deposits and provisions for imports, and on 'other items, net' (revaluation). (See point 4. above):

- net claims on the government;
- claims on nonfinancial public enterprises;
- claims on the nonfinancial private sector;
- claims on banks;
- claims on other banking and nonbank institutions; and
- "other items, net," defined as other assets minus other liabilities (including capital and revaluation accounts, and liquidity management instruments (*Billets de Trésorerie*) purchased by deposit money banks and the public).

6. **Net banking system credit to the government** is defined as the sum of net claims of the central bank and of deposit money banks on the government, as defined in the "Integrated Monetary Survey" prepared by the BCC (excluding deposits linked to project-related assistance; see paragraph 7 above), plus the BCC's net cash deficit. Items under net bank credit to the government are valued at the current exchange rates.

7. The end-June, end-September, and en-December 2007 benchmarks on **net bank credit to the government and the BCC's net domestic (foreign) assets** will be adjusted upward (downward) for one hundred percent of any shortfall (surplus) from the programmed external budgetary assistance net of debt service payments including external debt service rescheduling and relief. For the computation of adjustors, expenditures and bank deposits relating to the National Disarmament, Demobilization, and Reintegration Program (DDR), elections, and domestic debt are considered projects. Their financing through external assistance are therefore excluded from external budgetary assistance. The adjustors do not apply to HIPC resources, which will be deposited in a special account in the BCC. The adjustors will be in US dollars for the floor on the BCC's net foreign assets, and in Congo

Francs (using the current exchange rate) for the ceilings on net bank credit to the government and on the BCC's net domestic assets.

8. Debt relief under the HIPC initiative is defined: (a) for bilateral and commercial creditors, as the difference between the debt service due after possible stock treatment under the Naples terms at end-2002 and post-HIPC service due (excluding relief beyond the HIPC Initiative), including only arrangements that have been signed or are to be signed within the year, and; (b) for multilateral creditors, as the difference between the service due after consolidation of arrears and post-HIPC service. Any debt relief for the DRC under the HIPC initiative will be credited to the HIPC account (account of the Treasury General Account in the BCC) in the same month that said relief is realized (i.e., on the date the service on the original debt owed is due, but cancelled under the HIPC initiative). The procedure for using the HIPC account is set out in the IMF staff report on the HIPC decision point (IMF Country Report No. 03/267).

9. Wages comprise all remuneration, payable to government employees during the month in question (active and retired civil servants, military personnel, national police and security personnel, diplomats, members of political and traditional institutions), including regular compensation and bonuses, but excluding nonrecurring compensation. Under the program, **wage arrears** for a given month are defined as wages unpaid at the end of the following month. For remuneration paid in the provinces, the arrears are measured on the basis of the balances of the accounts of the provincial delegated payment authorization officers (ODs) in the Treasury General Account at the BCC.

10. The definition of the external debt can be found in the Fund's Decision 6230-(79/140), paragraph 9, revised on August 24, 2000 (Annex I).

11. The grant element of borrowing will be calculated on the basis of currency-specific rates based on the OECD commercial interest reference rates (CIRR) on the date the contract is signed, as specified in the Annex. A loan is defined as concessional if, on the date the contract is signed, the ratio of the present value of the loan, calculated on the basis of the reference interest rate, to its nominal value is less than 65 percent (i.e., including a grant element of at least 35 percent).

12. **Base money** is defined as the sum of the following:

- currency in circulation (in and outside banks);
- deposits of banks with the BCC;
- deposits of public enterprises with the BCC;
- deposits of private enterprises and individuals with the BCC; and
- deposits of other financial institutions, other than deposit money banks, with the BCC, and;
- foreign exchange deposits and provisions for imports at the BCC.

Note: "Base money" excludes all central bank bills issued by the BCC, which are counted as other BCC liabilities, and which are included in BCC net domestic assets. Narrow base money is defined as base money less foreign exchange deposits and provisions for imports with the BCC. Narrow base money is valued at the actual exchange rate (see paragraph 4 above).

13. The following concepts are used in the letter of intent and the Memorandum on Economic and Financial Policies:

a. Budget: annual law authorizing the government's financial operations. Transfers to the provinces are included, but the provinces' own revenues are not covered. The social security system is not consolidated in the budget;
b. Supplementary budgets (*budgets annexes*): Budgets of agencies and entities similar to administrative public enterprises that are funded primarily by government transfers (*rétrocessions*) and subsidies;
c. Extrabudgetary *accounts*: accounts receiving government revenue not tracked by the Treasury Management and Payment Authorization Directorate, or not included in the supplementary budgets. These accounts are consolidated with those regularly monitored by the Treasury Management and Payment Authorization Directorate;
d. Poverty-reduction *expenditure*: "pro-poor" spending as defined in the new nomenclature on the basis of the priorities set forth in the I-PRSP and detailed in Annex II.

C. Structural Benchmarks

14. The structural benchmarks are described in Table 3 of the Memorandum on Economic and Financial Policies.

D. Reporting

15. The authorities will forward to the IMF's African Department, preferably by e-mail or fax, the data and information needed to monitor program implementation. These data and information must be duly reconciled so as to ensure their internal consistency. Following are the data or documents to be submitted:

1. **Exchange system**

The following information is to be submitted with a time lag of one day.

a. Volume of purchases and sales of foreign exchange on the interbank market, by the BCC (interventions), by commercial banks, and by exchange bureaus;
b. Average CGF/U.S. dollar reference exchange rate of the BCC (indicative rate);
c. Average CGF/U.S. dollar exchange rate on the interbank market;

d. Average CGF/U.S. dollar exchange rate offered by commercial banks to their customers; and,
e. Average CGF/U.S. dollar exchange rate used by exchange bureaus.

2. **Banking system**

The following monthly information is to be submitted no later than four weeks after the end of each month, unless otherwise stated.

a. Integrated monetary survey, with a breakdown into domestic currency and foreign currency;
b. BCC balance sheet, with a breakdown into domestic currency and foreign currency;
c. BCC operating account, and implementation of the BCC's cash flow plan;
d. Consolidated balance sheet of deposit money banks, with a breakdown into domestic currency and foreign currency;
e. Volume of purchases and sales of BCC bills (*interventions*) by commercial banks and by the public (every week);
f. Net banking system credit to the government;
g. Structure of nominal and real interest rates of deposit money banks;
h. Reserves (voluntary and required) of deposit money banks;
i. Structure of BCC interest rates; and
j. Structure of rates for central bank bills.

3. **Public sector**

Unless otherwise indicated, the following information is to be submitted not later than four weeks after the end of each month.

a. Implementation of Treasury cash flow plan (TOFE);
b. Budget tracking statements (*états de suivi budgétaire*, ESB reconciled with the TOFE, detailing expenditures according to economic, administrative, and functional classifications, and by province – see Annex III);
c. Table: 'Monitoring of Wage Arrears' with following details: wage bill, wages paid from the Treasury General Account broken down by employees categories, region (Kinshasa/provinces), and status (active/retired);
d. Civil service pay scale (if changed);
e. Government revenue broken down by collecting agencies, individual taxes, and sources of nontax revenue; tax and non tax payments by oil producing companies;
f. Public sector domestic debt, by category of creditor (commercial banks, private entities, etc.): collect and report data on domestic public debt as soon as they are available;
h. Payments and invoiced amounts on centralized expenditures.
i. Posting on the websites of the ministry of finance and the ministry of budget of summaries of the monthly cash flow plan and spending plan for the coming three months and the monthly outturn for each "*service*".

4. **Real sector**

Report within four weeks of the end of each month (unless otherwise indicated) the following indicators of recent economic developments: the consumer price index (on a weekly basis), monthly merchandise exports (value and volume) of crude oil, copper, cobalt, zinc, industrial and hand cut diamonds; imports (value and volume) by main categories (raw materials, intermediate goods, consumer goods, capital goods, and petroleum products); and output indicators for the manufacturing, mining, and services sectors, published in the BCC's monthly reports on economic activity.

5. **External debt**

The following monthly information is to be provided four weeks after the end of each month.

a. Disbursements of external loans and grants, including those associated with new loans contracted (on a monthly basis, with a lag of three weeks);
b. Monthly debt service payments (interest and principal) classified by creditor, made in foreign currency (source: the Public Debt Management Office—OGEDEP, and the BCC) and in CGF (source: DTO);
c. Monthly external debt service obligations before and after debt relief; arrears on external debt obligations (stock and new arrears) broken down by principal and interest, and classified by creditors (to be provided monthly by OGEDEP), and;
d. Copies of (i) the new loans contracted, including those contracted by the EADs; and (ii) debt rescheduling agreements with the Paris Club, non-Paris Club bilateral creditors, commercial creditors, and multilateral creditors, within four weeks of the signing of such agreements.

6. **Miscellaneous**

A progress report on implementation of the structural reforms will be submitted to Fund staff each month. In addition, information on the legal and regulatory environment as it affects business (new decrees, circulars, and laws) and price policy, as well as the official gazette, will also be reported to Fund staff.

Jean-Claude Masangu Mulongo	**Adolphe Muzito**	**Athanase Matenda Kyelu**
Governor	Minister of Budget	Minister of Finance
Central Bank of the Congo		

Kinshasa, May 14, 2007

APPENDIX I
ATTACHMENT I
ANNEX I
TRANSLATED FROM FRENCH

Definition of External Debt

The definition of "debt" and "concessional borrowing" for the purposes of this memorandum of understanding are as follows:

a. As set out in Point 9 of the Guidelines on Benchmark with Respect to Foreign Borrowing adopted by the IMF's Executive Board on August 24, 2000, debt is understood to mean a current, that is, not contingent, liability created under a contractual agreement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services at some future points in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debt can take a number of forms, the primary ones being as follows: (i) loans, that is, advances of money to the obligor by the lender on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans, under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers' credits, that is, contracts where the supplier permits the obligor to defer payment until some time after the date on which the goods are delivered or services are provided; and (iii) leases, that is, arrangements under which property is provided that the lessee has the right to use for one or more specified period(s) of time, which are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of this guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the arrangement, excluding those payments that cover the operation, repair, or maintenance of the property. Under the definition of debt set out above, arrears, penalties, and judicially awarded damages arising from failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

b. **A loan is considered concessional** if, on the date the contract is signed, the ratio of the present value of the loan, based on the reference interest rates, to the nominal value of the loan is less than 65 percent (i.e., a grant element exceeding 35 percent). The reference interest rates used in this assessment are the commercial interest reference rates (CIRRs) established by the Organization for Economic Cooperation and Development (OECD). For debts with a maturity exceeding 15 years, the ten-year reference interest rate published by the OECD is used to calculate the grant element. For shorter maturities, the six-month market reference rate is used.

APPENDIX I
ATTACHMENT I
ANNEX II
TRANSLATED FROM FRENCH

Definitions of Poverty Reducing Spending

1. **The concept**

Poverty reducing spending comprises all outlays by the government aimed at improving the living standards and well-being of the people, based on the priorities established in the Interim Poverty Reduction Strategy Paper (PRSP) and the final PRSP.

2. **Benchmarks**

Poverty reducing spending defined in the budget on the basis of the **classification for the general functions of government.**

Spending on the following functions and sub-functions are considered to be poverty reducing:

02		**Defense**
02.	600	Reintegration of demobilized soldiers
03		**Security**
03.	300	The judiciary and court system
03.	320	Courts
04		**Economic Affairs**
04.	200	Agriculture, forestry, hunting, fisheries, and rural development
04.	210	Agriculture, livestock
04.	220	Forestry
04.	230	Hunting and fishing
04.	240	Rural development
04.	300	Fuel and electricity
04.	350	Electricity (in the provinces)
04.	500	Transport
04.	510	Roads
04.	511	National roads
04.	512	Provincial roads
04.	513	Farm roads
04.	514	Urban roads
04.	520	Sea, river and lake transport
04.	530	Railroads

05		**Protection of the Environment and of Flora and Fauna**
05.	100	Household waste management
05.	200	Sewage and sanitation
05.	300	Pollution control
05.	400	Protection of fauna and flora
06		**Public Housing and Facilities**
06.	100	Housing development
06.	200	Equipment of community facilities, regional and urban development
06.	300	Water supply
06.	400	Street lighting
07		**Health**
07.	100	Medicines, prostheses, and medical equipment and supplies
07.	110	Medicines and pharmaceuticals
07.	120	Light medical equipment
07.	130	Prostheses and medical supplies
07.	200	Local medical services (outpatient care)
07.	210	General medical services
07.	220	Specialized medical services
07.	230	Dental services
07.	240	Paramedical services (including traditional medicine, physiotherapy, and labs)
07.	300	Hospital services
07.	310	General hospitals
07.	320	Specialized hospitals
07.	330	Maternity clinics and dispensaries
07.	400	Public health services
07.	410	Preventive care
07.	420	Treatment
07.	430	Vaccination
07.	440	Polio vaccination campaign
07.	432	Other vaccination campaigns
07.	440	Epidemic control programs
07.	441	AIDS program
07.	442	Malaria program
07.	443	Tuberculosis program
07.	444	Programs for other epidemics
07.	500	Research and development in the field of health
	60	Other health issues (includes mainly wages of health professionals)
08		**Education**
08.	100	Pre-school and elementary education

08.	110	Pre-school education
08.	120	Elementary education
08.	200	Secondary education
08.	210	General secondary education
08.	220	Technical and professional secondary education
08.	400	Higher education
08.	410	General higher education
08.	420	Technical, professional, and administrative higher education (only equipment and repair of infrastructure, Articles 71.20, 72.10, 73.10, 74.10, 75.20, 81.10, and 82.10).
	500	Other education
08.	510	General and professional continuing training for adults
08.	800	Other educational affairs (Wages of educational employees)
09		**Social Security and Welfare**
09.	100	Diseases and disabilities
09.	110	Diseases
09.	120	Disabilities
09.	200	Aging
09.	210	Social security for the elderly
09.	400	Family and children
09.	500	Unemployment programs
09.	600	Housing and housing conditions
09.	700	Social exclusion programs

APPENDIX I
ATTACHMENT I
ANNEX III
TRANSLATED FROM FRENCH

Budget Tracking Statements

Report 1: Main budget tracking report with economic classification of expenditure (ESB principal). Monthly.

This report provides data on expenditures at the level of the four steps in the expenditure procedure (commitment, verification, payment order, payment), on the one hand, and by economic classes, on the other, and cumulatively from the start of the fiscal year (2004 Revised Classification).

The last column of the main budget tracking statement is the "Balances Outstanding" (*Restes à Payer comptables*, RAP) column, which is the difference between payment orders and actual payments by the BCC.

Report 2: Budget tracking report with administrative classification. Monthly.

Based on the main statement, this document will present expenditures according to administrative classification.

Report 3: Budget tracking report, by "Major Government Functions." Monthly.

This document will present expenditure by major government function.

Report 4: Budget tracking report, by source of financing. Monthly.

This report provides data on total expenditure according to sources of financing, economic classification and cumulatively from the start of the fiscal year.

Report 5: Budget tracking report with administrative and economic classifications. Monthly.

Based on the main statement and the one with the administrative classification, this document will present expenditure according to administrative and economic classification.

Report 6: Budget tracking statement, Poverty-Reducing Expenditure by economic classification. Monthly.

Based on Report 1, poverty reducing expenditure broken down according to economic classification.

Report 7: Budget tracking statement, Poverty-Reducing Expenditure by administrative classification. Monthly.

Based on Report 1, poverty reducing expenditure broken down according to administrative classification.

Report 8: Budget tracking statement, Poverty-Reducing Expenditure by government functions. Monthly.

Based on Report 3, poverty reducing expenditure broken down according to main functions of government.

Report 9: Budget tracking report, Poverty-Reducing Expenditure by source of financing. Monthly.

This report provides data on total expenditure according to sources of financing, economic classification and cumulatively from the start of the fiscal year. It should identify poverty reducing expenditure financed through domestic sources and HIPC savings.

Report 10: Budget tracking report, Poverty-Reducing Expenditure by geographical distribution. Monthly source of financing. Monthly.

This report provides data on poverty reducing expenditure broken down by provinces, economic classification, and cumulatively from the start of the fiscal year. It should identify poverty reducing expenditure executed in Kinshasa and in individual provinces.

INTERNATIONAL MONETARY FUND

THE DEMOCRATIC REPUBLIC OF THE CONGO

Review of the 2006 Staff-Monitored Program and a New Staff-Monitored Program for 2007

Informational Annex

Prepared by the African Department

May 21, 2007

- **Relations with the Fund**. Describes financial and technical assistance from the Fund and provides information on the safeguards assessment and exchange rate system. Outstanding purchases and loans amounted to SDR 553.47 million (103.8 percent of quota) at end-March 2007.
- **Relations with the World Bank.** Describes the World Bank Group program and portfolio.
- **Statistical Issues.** Assesses the quality of the statistical data. Weaknesses in a broad range of economic statistics are hampering the analyses of economic developments in the country.

Contents Page

DEMOCRATIC REPUBLIC OF THE CONGO
RELATIONS WITH THE FUND
(As of March 31, 2007)

I. Membership Status: Joined: September 28, 1963; Article VIII

II. General Resources Account:	**SDR Million**	**In Percent of Quota**
Quota	533.00	100.00
Fund holdings of currency	533.00	100.00

III. SDR Department:	**SDR Million**	**In Percent of Allocation**
Net cumulative allocation	86.31	100.00
Holdings	0.19	0.22

IV. Outstanding Purchases and Loans:	**SDR Million**	**In Percent of Quota**
Poverty Reduction and Growth Facility (PRGF) arrangement	553.47	103.84

V. Latest Financial Arrangements:

Type	**Approval Date**	**Expiration Date**	**Amount Approved (SDR Million)**	**Amount Drawn (SDR Million)**
PRGF	June 12, 2002	March 31, 2006	580.00	553.47
Stand-By	June 9, 1989	June 8, 1990	116.40	75.00
SAF	May 15, 1987	May 14, 1990	203.70	145.50

VI. Projected Payments to Fund (without HIPC Assistance)

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

	Forthcoming				
	2007	**2008**	**2009**	**2010**	**2011**
Principal	42.00	86.67	97.34	105.35	110.69
Charges/interest	5.48	6.07	5.60	5.08	4.54
Total	47.48	92.73	102.94	110.44	115.23

VII. Implementation of HIPC Initiative:

	Enhanced Framework
I. Commitment of HIPC assistance	
Decision point date	July 2003
Assistance committed by all creditors (millions U.S. dollars)	6,311.00
Of which: IMF assistance (millions U.S. dollars)	318.90
(SDR equivalent millions)	228.30
Completion point date	Floating

II. Disbursement of IMF assistance (millions SDRs)	
Assistance disbursed to the member	3.39
Interim assistance	3.39
Completion point balance	--
Additional disbursement of interest income	--
Total disbursements	3.39

VIII. Implementation of MDRI Assistance: Not Applicable

IX. Exchange Rate Arrangement:

The Democratic Republic of the Congo's (DRC) currency is the Congo franc, which, since May 26, 2001, has been freely floating. On March 31, 2007, the rate was US$1=Congo francs 553.0

Effective February 10, 2003, the DRC accepted the obligations of Article VIII, Sections 2 (*a*), 3, and 4, of the Fund's Articles of Agreement. However, the DRC maintains measures that give raise to one restriction and one multiple currency practice (MCP) subject to Fund approval under Article VIII of the Fund's Articles of Agreement. The exchange restriction involves an outstanding net debit position vis-à-vis other contracting members under the inoperative regional payments agreement with the Economic Community of the Great Lakes Countries (CEPGL). The multiple currency practice involves a fixed exchange rate set on a quarterly basis applying to transactions through the bilateral payments agreement (BPA) with Zimbabwe.

X. Last Article IV Consultation:

(a) Consultations with the Democratic Republic of the Congo are held in accordance with the provisions of the decision on consultation cycles approved on July 15, 2002.

(b) The last Article IV consultation was concluded by the Executive Board on August 19, 2005.

XI. Safeguards Assessment

A safeguards assessment of the BCC was completed on January 3, 2003. The assessment concluded that substantial risks of misreporting or misuse may exist due to vulnerabilities in the external audit mechanism, financial reporting framework, and system internal controls. Staff findings, proposed recommendations under program conditionality, and other recommendations are reported in IMF Country Report No. 03/161. Implementation of the measures by the BCC continues to be monitored by staff.

XII. Technical Assistance:

Subject	Department	Staff Member	Date
Monetary statistics	STA	Mr. Papadacci	Jun. 29–Jul. 12, 2000
		Ms. Tanase	
Exchange rate system	MFD	Mr. Bussers	May 9–14, 2001
			Jul. 1–7, 2001
Article VIII obligations	MFD/LEG	Ms. De Boeck	Oct. 21–29, 2002
		Mr. Leimone	
Capacity-building assistance to the central bank	MFD	Mr. Laurens	Oct. 12–26, 2001
		Mr. Sarr	
		Mr. Akitoby	
		Mr. Paul	
		Mr. Bussers	
		Mr. Tavernier	Feb. 1–14, 2002
			Aug. 8–Sep. 20, 2002
		Mr. Paul	Feb. 1–7, 2002
		Mr. Beaumé	Jul. 15–25, 2002
		Mr. Tavernier	Oct. 10–22, 2004
		Mr. Normand	
		Mr. Saffre	Nov. 8–12, 2004
		Mr. Cotier	Mar. 03-Apr. 07, 2006
		Mr. Le Clerc	
		Mr. Cotier	May 28-Jun. 2 2006
		Mr. Le Clerc	May 24-Jun. 2 2006
		Mr. Leblanc	Feb. 01-Mar. 31 2007

Subject	Department	Staff Member	Date
Assist the Central Bank of Congo (BCC) to build up institutional and operational capacity in monetary policy implementation and bank liquidity management.	MFD	Mr. Lecinq	Feb. 2-Feb. 12 2007
Monetary policy/ foreign exchange management, bank supervision and budget	MFD	Mr. Laurens Mr. Sarr Mr. Paul Mr. Beaumé Mr. Régnard Mr. Tavernier	Oct. 29–Nov. 12, 2002
Action plan for developing the financial system in the DRC	MFD	Mr. Laurens Mr. Fonteyne Ms. Nkhata Mr. Saffré Mr. Paul Mr. Regnard Mr. Vandecan Mr. Pauwels	Nov. 5–15, 2003
Assistance to the central bank on currency, monetary and foreign exchange operations, and strengthening of capacity in AML/CFT	MFD	Mr. Nascimiento Mr. Vandecan Mr. Lecinq Mr. Van de Velde Mr. Hotte	Nov. 30 – Dec. 14, 2004
Monetary and Foreign Exchange Operations, Currency in Circulation, and Banking Supervision	MFD	Mr. Nascimiento Mr. Hartley Mr. Van de Velde Mr. Lecinq Mr. Cotier	Nov. 29-Dec 13, 2005
Currency in circulation	MFD	Mr. Van de Velde	Mar. 28-Apr. 10, 2005 March 03-Apr. 07, 2006
Monetary operations	MFD	Mr. Lecinq	Sept. 05-16, 2005
Bank supervision and regulation	MFD	Mr. Regnard	Nov. 22–Dec. 05, 2004

Subject	Department	Staff Member	Date
Internal audit	MFD	Mr. Normand	Mar. 26-Apr. 8, 2006
		Mr. Tavernier	
Legislative and supervisory AML/CFT framework	MFD	Ms. Smith	Jan. 23-27, 2006
		Mr. Mathias	
		Mr. Beekarry	
Tax administration/ policy	FAD	Mr. Corfmat	May 11–21, 2001
		Mr. Fossat	
Tax policy	FAD	Ms. Geourjon	Nov. 19–Dec. 3, 2002
		Mr. Laporte	
		Mr. Schneider	
Expenditure management	FAD	Mr. Schiller	Aug. 4–18, 2001
		Mr. Fournel	
		Mr. Barrier	
		Mr. Bouley	Aug. 31–Sep. 10, 2002
		Mr. Calcoen	
		Mr. Bouley	Nov. 11–25, 2003
		Mr. Lepage	
		Mr. Kwant	
Revenue administration	FAD	Mr. Benon	Dec. 3–17, 2002
		Mr. Jolibert	
		Mr. Montagnard-Rentier	
		Mr. Benon	Jul. 13–26, 2003
		Mr. Lesprit	
		Mr. Benon	Sep. 16–20, 2003
		Mr. Montagnat-Rentier	Oct. 26–Nov. 9, 2004
		Mr. Lesprit	
		Mr. Boilil	
		Mr. Vandenberghe	
		Mr. Boilil	Apr 10–30, 2006

Subject	Department	Staff Member	Date
Fiscal Decentralization	FAD	Mr. Seade	Jul. 15–31, 2004
		Mr. Brosio	
		Mr. Catalan	
		Mr. Hartley	
		Mr. Mati	
		Mr. Raouya	
		Ms. Kubota (World Bank)	
		Mr. Vaillancourt (World Bank)	
Real sector and government finance statistics	STA	Mr. Marie	Jun. 4–13, 2001
		Mr. Gorter	
Government finance statistics	STA	Mr. Maiga	Mar. 19–Apr. 13, 2002
			Sep.4–25, 2002
Multisector statistics	STA	Ms. Fisher	Oct. 8–21, 2003
		Mr. Tanase	
		Ms. Noukovska	
		Mr. Fiévet	
		Mr. Maiga	
		Mr. Ntungwanayo (World Bank)	
Tax administration Central Africa Regional Expert	FAD	Mr. Fossat	Sept. 6, 2005

XIII. Long-term Resident Experts:

Expenditure management	Mr. Catalan	Jan. 2002–Jun. 2004
	Mr. Nguenang	Since Sep. 2004
Customs administration	Mr. Bremeersch	Jan. 2002–Jan. 2004
Tax administration	Mr. Schlotterbeck	Jan. 2002–Mar. 2003
	Mr. Fossat	Sept 2005
	Mr. Raouya	Sep. 2003–Apr. 2005
Advisor to Governor of BCC	Mr. d'Ambrières	Apr. 2002–Dec. 2003
	Mr. Nyssens	Jan. 2004-Jan. 2005
	Mr. d'Ambrières	Since Feb. 25 2006
Capacity building of BCC	Mr. Pauwels	Since Sep. 2004
Statistics	Mr. Métreau	Oct. 2004-
	Mr. Gbossa	Since Dec. 12 2005

IV. Resident Representative: Mr. Maret assumed his duties as Resident Representative on November 30, 2005.

Democratic Republic of the Congo:
Relations with the World Bank Group

I. Introduction

1. This annex first underscores the importance that the government of the Democratic Republic of the Congo (DRC) attaches to effective partnership with international development partners and foreign investors. It then summarizes the strategy and activities of the World Bank Group (IDA, IFC, and MIGA) in the DRC. It concludes with a description of areas of specific collaboration between the World Bank Group and the International Monetary Fund.

II. Partnership in the DRC's development strategy

2. The new duly-elected government took office in February 2007. The government presented to the Parliament its program for 2007-11, with five priority sectors, infrastructure, employment, education, water and electricity, and health. The government's program also included a governance annex, which is a compact between the population and itself. The new government's intentions to implement change and improve the political, economic and social environment are supported by development partners. The Consultative Group meeting, which was suspended during the electoral period, is expected to resume in June 2007.

3. **The PRSP was adopted by the outgoing transitional government, and was endorsed by the new government.** The PRSP is a result of extensive participatory consultations at grassroots level as well as with the international development partners. The full PRSP aims at restoring political stability, consolidating peace, and reducing poverty through fostering accelerated growth. The strategy comprises five pillars: (i) promoting good governance and consolidating peace; (ii) maintaining macroeconomic stability and growth; (iii) improving access to social services and reducing vulnerability; (iv) combating HIV/AIDS; and (v) improving community dynamics. The PRSP and the Joint Staff Advisory Note (JSAN) are expected to be presented to the Boards of Directors shortly.

III. Bank Group strategy and operations (IDA, IFC, and MIGA)

4. **Overall strategy.** On July 31, 2001, the Executive Directors of IDA endorsed a **Transitional Support Strategy** to map out Bank financial and nonfinancial support to the DRC for the following 12–24 months, which included the Emergency Early Recovery Project (EERP), the Economic Recovery Credit (ERC), the Private Sector Development and Competitiveness Project (PSDC), and the Emergency Multi-Sector Rehabilitation and Reconstruction Project (EMRRP), as described hereunder. The second TSS was discussed by the Board on February 26, 2004 and covers the period 2004–06. A Country Assistance Strategy (CAS) covering the period of 2007-09 is being prepared in order to be presented to the Executive Directors of IDA following consultations with the newly elected government. The new CAS will be closely aligned with the PRSP.

5. The 2004 TSS sets forth the scope and configuration of future support during 2004–06. The TSS accompanied government efforts during the transition period, with a particular focus on (i) social stability and security, (ii) high and shared growth, (iii) governance and institutional strengthening, and (iv) social development.

6. A Country Assistance Strategy (CAS) is under preparation, and is expected to be presented to the Board of Directors in summer 2007. The CAS is an integral part of the common assistance framework for the country, which is being developed through extensive discussions and coordination with development partners, including the IMF, the EC, the UN, and bilaterals. The governance compact proposed by the new government has been endorsed by the development partners under this common assistance framework.

III. A. International Development Association (IDA)

7. IDA provides support through trust funds, development policy support, and investment operations. The IDA funds are made available on 100 percent grant basis in view of the country's debt burden. Operational details are summarized in Table 1.

III. A. 1. Trust funds

8. The trust funds that are currently active target the areas of stabilization and recovery, demobilization, capacity building, support for the PRSP, forest governance, and arrears clearance. Together these trust funds make up over US$1.3 billion.

III. A. 2. Grants and credits

Development policy support

9. Since the re-engagement, IDA has provided three policy reform operations—the Economic Recovery Credit (ERC), the Post-Reunification Economic Recovery Credit (PRERC), and the Transitional Support to Economic Recovery Operation (TSERO). Through ERC, approved in 2002, the Bank led the policy dialogue in restructuring the mining public enterprise, improving governance of the forestry sector, and reforming public finance system, in addition to providing arrears-clearance process. The operation was implemented satisfactorily and closed in June 2003. With PRERC, approved in 2004, the Bank continued to lead the public finance reform dialogue through a civil service retirement program, a domestic debt settlement program, and utilities billing and payment reforms. These reforms allowed the government to start "cleaning house" by addressing the various types of arrears accumulated by the previous regime. The operation was implemented satisfactorily and closed in December 2005. The focus of the TSERO, approved in December 2005 in the amount of SDR 62.1 million (US$90 million equivalent at the time of negotiations), was on the continuation of improvements to the budget process, strengthening the execution of pro-poor spending, implementation of civil service management reforms, the continuation of support for reforms in natural resource sectors, and increased transparency on the revenue side. Unlike the previous two operations, which had multiple thematic tranches, TSERO was

a single tranche programmatic operation. It disbursed fully in December 2005 and is now closed.

Investment operations

10. The IDA leads the dialogue with the authorities in the areas of social sector reforms, demobilization and disarmament, infrastructure rehabilitation, and private sector development. More specifically, investment operations include (i) infrastructure rehabilitation, including power market; (ii) demobilization and reintegration; (iii) emergency support to living conditions and urban, economic and social reunification (iv) private sector development; (v) debt buy back operation; (vi) social development, including multi-sectoral HIV/AIDS program. Implementation of projects to date is broadly satisfactory, except for the EDRP and the Health Sector Rehabilitation Support project. See Table 1 for more information about projects listed above.

Nonlending activities

11. For several years prior to and during the first TSS (2001), IDA assistance also emphasized **nonlending activities and advisory services**, including trust funds and grants, to improve the understanding of the socioeconomic context, rebuild the knowledge base to support policy dialogue and design effective poverty-reduction strategies. FY03 activities included a Public Expenditure Review, which focused on the overall structure of expenditures; specific issues in the health, education, and transport sectors; evaluation of the DRC's ability to monitor execution of poverty-related expenditures; strengthening of public expenditure management systems. In FY06, the Country Financial Accountability Assessment (CFAA) was undertaken, and was officially delivered to the Government and the donor community in Kinshasa. A workshop was also organized for Government delegates, the Reform Committee, Parliament, Cour des Comptes and several donors to validate the conclusions and action plan of the report. Based of this assessment, authorities continue to gradually implement recommendations for an efficient and transparent spending circuit. A double entry accounting plan has been recently implemented. The Agricultural Sector Review was completed in FY06. The Forest Sector Review was published in FY07 with co-authorship of a series of research centers and civil society organizations.

Table 1. Summary of World Bank Financial Assistance

Credit Name	Amount	Date approved	Theme	Status
Emergency Early Recovery Project (EERP)	US$50 million IDA grant	Jul. 31, 2001	Economic reforms, a pilot community-driven development initiative, rehabilitation of the Kinshasa-Matadi road, and HIV/AIDS activities	Completed and fully disbursed
Economic Recovery Credit (ERC)	US$450 million	Jun. 13, 2002	Arrears clearance, budgetary/foreign exchange support, and forestry and mining sector reforms	Completed and fully disbursed
Emergency Multi-Sector Rehabilitation and Reconstruction Project (EMRRP)	US$454 million, o/w US$44 million grant. Supplementary funding of $125 million was approved on Dec. 8, 2005.	Aug. 6, 2002	Reconstruction and rehabilitation of critical infrastructure, increase in social service delivery, institutional capacity strengthening, development of sectoral strategies	As of April 2007, 100 percent of the initial funds (credit and grants) have been committed and more than 60 percent disbursed.
Private Sector Development and Competitiveness Project (PSDC)	US$120 million	Jul. 29, 2003	Increase competitiveness by improving the investment climate, support reform of public enterprises, stimulate economic diversification in Katanga, and provide job search support for the unemployed	Ongoing
Emergency Economic and Social Reunification Support Project	US$214 million, o/w US$164 million grant	Sep. 11, 2003	Finance emergency rehabilitation activities (large infrastructure, urban rehabilitation, community development, in particular to the reunified provinces)	77 percent of credit has been disbursed
Southern Africa Power Market Project (SAPM)	US$178.6 million	Nov. 11, 2003	Restore capacity to deliver electric power to SAPP	Ongoing
Post-Reunification Economic Recovery Credit (PRERC)	US$200 million	Feb. 26, 2004	Support to civil service retirement program, settlement of government debt arrears to private creditors, and reform of utilities billing and payment	Credit fully disbursed
Multi-sectoral HIV/AIDS program (MAP)	US$102 million	Mar. 26, 2004	Mitigate the negative impact of the HIV/AIDS epidemic on the socioeconomic development of the DRC through prevention of transmission, support, and care for persons living with the virus (PLV)	Ongoing. Project effective since Oct. 8, 2004
Emergency Demobilization and Reintegration Project	US$100 million IDA grant; plus US$100 million in counterpart (MDRP) funds (grants)	May 25, 2004	Demobilize 150,000 ex-combatants country-wide and help them transition to civilian life, help increase social and economic expenditures, and lower defense expenditures	97 percent of the IDA grant and 78 percent of the MDRP grant have been disbursed by end-February 2007

Credit Name	Amount	Date approved	Theme	Status
Emergency Social Action Project	US$60 million IDA grant	Aug. 6, 2004	Improve access of the poor to social and economic services and increase the availability and management of development resources at the community level	Ongoing
Emergency Living Conditions Improvement Support Project	US$ 82 million IDA grant	May 26, 2005	The Project aims to assist the Government in responding to multi-sector emergency needs in urban areas – including large cities (other than Kinshasa), as well as key medium and small urban centers	19 percent of the credit has been disbursed
Health Sector Rehabilitation Support Project	US$150 million IDA grant	Sep. 1, 2005	This project will ensure that the target population of selected health zones has access to and use of a well-defined package of quality essential health services. In particular, this project will support the implementation of the Ministry of Health's (MOH) Package of Essential Health Services (EHS) in 83 selected Health Zones in the provinces of Equateur	Ongoing
Debt Buy Back Operation	US$ 900 thousand IDA grant	Sep. 8, 2005	This project will address the commercial debt of the DRC and facilitate the provisions of the debt relief by the remaining commercial creditors	Ongoing
Transitional Support to Economic Recovery Operation (TSERO)	US$90 million IDA grant	Dec. 8, 2005	Support for the improvement of the budget and revenue-collecting process, execution of pro-poor spending, natural resource sector management, and implementation of civil service management reforms	Completed and fully disbursed
Emergency Urban and Social Rehabilitation Project	US$180 million IDA grant	March 29, 2007	The development objective of this project is to help DRC face urgent post-elections challenges by: (i) providing resources to maintain macro-economic stability and fund critical expenditure in the immediate future; and (ii) addressing urgent rehabilitation and social needs in Kinshasa, which is key to political and social stability.	Approved by the Board March 29, 2007

III. B. International Finance Corporation (IFC)

12. IFC supported the cellular telephone operator Celtel with a US$7 million loan in 2002 and a further US$20 million in 2003. Currently, IFC is conducting a needs assessment of local small and medium enterprises to help determine potential future interventions. IFC has made a US$4.9 million equity investment for a 7.5 percent equity stake in Kingamyambo Musonoi Tailings SARL (KMT), which could become one of the first mining projects to be developed under the new Mining Code. The next step will be to complete a bankable feasibility study and raise the financing for the project. Construction is planned to begin in end-2007 or early 2008. In the financial sector, IFC plans to assist banks operating in the DRC with trade financing facilities in order to help establish routine trade finance operations. IFC will work closely with the Bank in the context of the PSDC project to help implement specific sectoral initiatives and key investment projects. Considerable effort has already been spent in resolving outstanding disputes in the DRC, two of which, UTEXAFRICA, a textile business, and the Grand Hotel du Congo (formerly Inter-Continental) were settled in 2002 and 2005, respectively. A settlement is being sought actively for the last dispute remaining on the books, SOTEXKI, a textile business in Kisangani.

III. C. Multilateral Investment Guarantee Agency (MIGA)

13. MIGA can now issue guarantees for projects because the DRC has paid its initial capital subscription (the DRC has been a member of the agency since 2003). Several projects are under consideration, notably in the mining sector. On May 3, 2005, MIGA approved its first project in DRC for a US$13.3 million in guarantee coverage for the Dikulushi copper and silver mine. The guarantees approved provide coverage for investments and loans by Anvil Mining Ltd. of Canada and RMB International (Dublin) Limited of Ireland to Anvil Mining Congo, SAR of the DRC, against the risks of transfer restriction, expropriation, breach of contract and war and civil disturbance. The project was also the first extractive industries project to be considered and approved by the Board of the World Bank Group, which followed the conclusion of the Bank-sponsored Extractive Industries Review in August 2004.

IV. Bank-Fund collaboration in specific areas

14. In addition to its direct assistance to the DRC, the Bank also supports policy reforms in close collaboration with the Fund in a number of areas: donor coordination, public finance management, decentralization, financial sector reform, governance and anticorruption, and the PRSP process. The Fund takes the lead on macroeconomic policies aimed at facilitating stabilization and sustainable growth. The Bank complements the Fund's work through its support to structural reforms. Table 2 details areas of collaboration and areas where either the Bank or the Fund lead.

Table 2. Summary of Bank-Fund Collaboration

Thematic area	Areas of collaboration	Areas where Bank leads	Areas where Fund leads
Donor coordination	Promotion of international partnership activities	Preparation of Consultative Groups, co-chairing with EC the Country Assistance Framework (CAF). Monitoring of multilateral aid flows.	Monitoring of bilateral aid flows.
Public finance management	HIPC-AAP exercices; joint DSAs.	Policy reform support, particularly in the areas of budget preparation and execution, expenditure tracking, fiscal reporting, and public debt recording/management. Preparing public expenditure reviews and CFAA. Civil service reform. Financing technical assistance in the area of customs reform and the structure of corporate taxation; conducting in-depth analysis of mining and forestry taxation systems.	Reforming and modernizing revenue management systems. Technical assistance on reform of public sector accounting system, budget execution procedures, and budget reporting. Technical assistance for tax policy and tax administration reform, including in customs, direct and indirect taxation, and the introduction of value added tax.
Decentralization		Technical assistance and advice on the decentralization of public finances and service delivery.	Fiscal and macroeconomic implication of decentralization.
Public enterprise reform	--	Assistance on public enterprise sector reforms. Improving the legal, regulatory, judicial, and fiscal environment for private sector development.	--
Financial sector reform	--	Restructuring of commercial banks.	Monetary policy issues and central bank restructuring
Governance and anticorruption	--	Leading the dialogue for implementing the governance compact. Improving the codes of conduct for public servants, as well as strengthening anticorruption and anti-money-laundering efforts. Financing technical assistance for a comprehensive procurement reform: preparation of a Country Procurement Assessment Review, production of a new procurement code, the implementation of a system of procurement follow-up, and reorganization of public entities in charge of the procurement process.	Anti-money laundering.
PRSP process	Joint staff advisory notes	Aiding in preparation of consultations and workshops, coordination of donor funding, recruitment of national experts for Permanent Secretariat, and the National Poverty Survey.	Implementation of macroeconomic framework in PRSP

Table 3. The Democratic Republic of Congo: Financial Relations with the World Bank Group—Statement of Loans and Credits (in U.S. dollars), as of March 31, 2007

	IBRD	IDA	IDA Grant	Total
Original principal	330,000,000	2,773,794,622	1,147,000,000	4,250,794,622
Cancellations	28,484,478	259,852,029	0	288,336,507
Disbursed	301,515,522	2,303,305,634	459,058,047	3,063,879,202
Undisbursed	0	420,050,893	716,411,604	1,136,462,496
Repaid	247,045,475	276,240,622	0	523,286,098
Due	0	2,277,894,656	0	2,277,894,656
Exchange adjustment	0	0	0	0
Borrower's obligation	0	2,277,894,656	0	2,277,894,656

This document was prepared by World Bank Staff and approved by the Africa Region Operations Committee on May 3, 2007. Questions should be addressed to Keiko Kubota (202-473-6836) or Heather Milkiewicz (202-473-3632).

Democratic Republic of the Congo: Statistical Issues

Despite a difficult environment, the authorities have continued to produce an array of economic and financial statistics, most of which are contained in the annual report of the Central Bank of the Congo (BCC), which also issues a monthly statistical bulletin. Moreover, a comprehensive set of external debt statistics is compiled by the Office de Gestion de la Dette Publique (OGEDEP). Statistical issues related to specific sectoral areas are described below.

Following a fact-finding mission to Kinshasa in June 2001 in real sector and government finance statistics, STA provided technical assistance on government finance statistics in March–April and September 2002, which was augmented by capacity-building support from the World Bank. A STA multitopic mission visited Kinshasa in October 2003 to assess the DRC's economic and financial data and propose measures to improve them. A multisector statistics advisor based in Kinshasa is providing assistance to the authorities.

On April 24, 2004, the DRC began participating in the IMF's General Data Dissemination System (GDDS), and its metadata (comprehensive information on statistical production, dissemination practices, and plans for improvement) were posted on the IMF's Dissemination Standards Bulletin Board. However, metadata need to be updated annually. Participation in the GDDS provides a framework for statistical development and capacity building in macroeconomic statistics and socio-demographic (population, health, education, and poverty) indicators.

National accounts

The national accounts are compiled in constant and current prices by the Directorate of Research of the BCC and published on an annual basis. The compilation methodology conforms to the *System of National Accounts 1968* (1968 SNA) and is based on the balance sheets of enterprises and the results of surveys of public and semipublic enterprises and agencies, with most of these surveys dating from the late 1980s. The activities of the traditional sector (including the informal sector) are also included and estimated with extrapolation techniques using industry-specific data that are outdated. As a result, GDP is likely to be underestimated. With help of the multisector statistics advisor, work is underway to introduce a new base year (2003) and introduce the recommendations of the 1993 SNA.

Employment and unemployment

Annual data on employment in the central government are available from the Ministries of Economy, Finance, and Budget, together with data on employment in the formal sector.

Prices

Consumer price indices are calculated for Kinshasa by the BCC, the National Statistics Institute (INS), the Institute of Economic and Social Research (IESR), and the Economics Section of the U.S. Embassy in Kinshasa. The IESR also calculates a monthly consumer price index for the Lubumbashi market. The household surveys on which these calculations are based date back to the late 1980s and need to be updated to take account of changes in household consumption patterns and demographic shifts.

Government accounts

The BCC produces aggregated monthly statistics on a cash basis based on its own accounting records of the government cash operations it executes. The treasury produces two sets of monthly statistics based on its own records: one relates to the transactions executed through the BCC, the other set attempts to consolidate operations through commercial bank accounts and off-budget operations. These statistics do not rely on an integrated double-entry public accounting system and provide insufficient details about the nature of expenditures owing to problems in the expenditure chain. However, the treasury has started to produce, on a quarterly basis, expenditure data reports broken down by ministry and institution.

The ongoing improvements in tax administration and expenditure control are expected to improve the quality and timeliness of fiscal statistics. In parallel with technical assistance in the public expenditure management area, the STA statistics advisor has been providing technical assistance in government finance statistics, producing improvements in the overall quality of government finance statistics. Furthermore, the adoption of a simplified, double-entry bookkeeping system for the government should significantly improve the availability of data on government financial operations.

In 2003, the DRC reported annual data up to 2002 for the IMF's *Government Finance Statistics Yearbook* in the format of the *Government Finance Statistics Manual 2001*, but has not reported subsequently.

Monetary accounts

The Directorate of Research of the BCC regularly produces timely monetary statistics. Generally, the reliability of these statistics is now satisfactory, but some problems remain with the sectorization of accounts.

Since the last money and banking statistics mission in June 2000, data reporting by the BCC for publication in the IMF's *International Financial Statistics (IFS)* has improved; currently, monetary data are reported to STA on a timely basis. The multisector statistics mission that visited Kinshasa in October 2003 recommended a new chart of accounts for the BCC and the other deposit-taking institutions, including information needed for the sectorization of economic units and classification of financial assets.

Balance of payments

Balance of payments statistics are prepared on an annual basis, based on information on exports and imports of large public and semipublic enterprises, the BCC's payments records, and a survey of residents' foreign operations. The estimates also take account of information on the informal sector and foreign aid flows provided by the World Bank and the local

United Nations Development Program (UNDP) office, which collects these data from the European Union, embassies, and nongovernmental organizations. However, the multisector mission found that, due to computer problems, data have not been processed since 1999. As a result, the balance of payments is currently compiled using data from different sources, supplemented by estimates.

The mission suggested that the BCC implement a system of quarterly surveys of those corporations that are authorized to hold accounts overseas. Further, the mission recommended the reinvigoration of a working group comprising staff of the customs and other relevant agencies to prepare quarterly foreign trade data and other measures to improve data on services and transfers. No data are reported to STA for publication.

External and domestic debt

External and domestic debt statistics are compiled by OGEDEP and are of reasonable quality in spite of limited computer facilities. However, data on public enterprise foreign debt and, in particular, on cross arrears in the public sector are still of very poor quality. The World Bank has been providing assistance in the compilation of cross-arrears in the public sector and public sector arrears with the private sector.

Public enterprise sector

There is no centralized, comprehensive database on the operations of public enterprises, although IMF missions are provided some information on the operations of individual enterprises. Generally, data are provided on an annual basis and become available with at least a six-month delay. As part of public enterprise reform, the World Bank has been collecting data pertaining to the sector.

Social indicators

The most consistent data sets are those assembled for the UNDP human development, poverty, and gender-related development indices. Two multiple indicator cluster surveys carried out between 1996 and 2001 in collaboration with the United Nations Children's Fund (UNICEF) also provide important social indicators. A national household living standards survey with the help of IDA and other institutions is planned. In addition, in the context of the interim poverty reduction strategy paper (I-PRSP), the authorities, with assistance from the World Bank and the UNDP, have initiated work to construct a comprehensive database for social indicators.

TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE

	Date of latest observation	Date received	Frequency of Data [6]	Frequency of Reporting [6]	Frequency of publication [6]	Memo Items [7]: Data Quality – Accuracy and reliability [9]	Data Quality – Methodological soundness [8]
Exchange Rates	5-Apr-07	5-Apr-07	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities [1]	30-Mar-07	6-Apr-07	M	M	M		
Reserve/Base Money	30-Mar-07	6-Apr-07	M	M	M		
Broad Money	28-Feb-07	19-Mar-07	M	M	M		
Central Bank Balance Sheet	30-Mar-07	6-Apr-07	M	M	M		
Consolidated Balance Sheet of the Banking System	28-Feb-07	19-Mar-07	M	M	M		
Interest Rates [2]	30-Mar-07	4-Apr-07	W	W	W		
Consumer Price Index	31-Mar-07	2-Apr-07	W	W	W		
Revenue, Expenditure, Balance and Composition of Financing [3] – General Government [4]	30-Mar-07	9-Apr-07	M	M	M		
Revenue, Expenditure, Balance and Composition of Financing [3] – Central Government [4]	30-Mar-07	9-Apr-07	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt [5]	Dec-06	Feb-07	A	V	A		
External Current Account Balance	Dec-06	Feb-07	A	V	A		
Exports and Imports of Goods and Services	Dec-06	Feb-07	A	V	A		
GDP/GNP	Dec-06	Mar-07	A	V	A		
Gross External Debt	Dec-06	Feb-07	A	V	A		

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

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

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

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

[7] These columns should only be included for countries for which a Data ROSC (or a Substantive Update) has been prepared.

[8] Reflects the assessment provided in the data ROSC or the Substantive Update (published on ..., and based on the findings of the mission that took place during...) for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), or not observed (NO).

[9] Same as footnote 8, except referring to international standards concerning source data, statistical techniques, assessment and validation of source data, assessment and validation of intermediate data and statistical outputs, and revision studies.

Statement by the IMF Staff Representative
June 18, 2007

This statement sets out recent developments and key policy challenges. These developments do not alter the thrust of the staff assessment.

1. **Since issuance of the staff report for the staff monitored program (SMP), a mission visited Kinshasa to conduct discussions for the 2007 Article IV consultation.** A staff report on the discussions will be circulated in late July.

2. **Fiscal tightening since end-February means that key quantitative benchmarks for end-June are likely to be met.** The underlying fiscal surplus exceeded the program target by 0.8 percent of annual GDP during the first four months of 2007, reflecting mainly higher government revenue (oil revenue and profit taxes), and lower spending on goods and services, than anticipated.

3. **International reserves have increased sharply and inflation declined.** The central bank almost doubled international reserves (to 3 weeks of imports) in the three months to end-May reflecting the government reducing its net liabilities to the central bank and commercial banks' excess reserves declining. The increase is also due to the government continuing not to serve its external debt to the Paris Club. During the same period, the Congo franc appreciated by 12 percent against the US dollar, which helped bring annualized inflation down to 12 percent in April-May. These developments allowed the central bank to cut its base rate from 50 percent to 30 percent. Economic activity remains buoyant underpinned by major projects in mining.

4. **Discussions at the National Assembly on the draft 2007 budget suggest that the budgetary framework agreed under the SMP will not be adhered to.** The Economic and Financial Commission of the National Assembly may recommend a very large increase in revenue projections and a concomitant increase in expenditures—with salaries being among the main beneficiaries. The draft budget submitted to Parliament already deviated from the SMP framework by envisaging higher expenditure (0.3 percent of GDP; a budget submission in line with the SMP is a benchmark for end-May). The government increased spending mainly for goods and services and scholarships, while reducing budget appropriations required to cover the expected deficit of the central bank and the cost of the merger of the Union des Banques Congolaises (UBC), which is bankrupt, with the Banque Congolaise (BC).

5. **Implementation of structural reforms remains slower than envisaged.** None of the four structural benchmarks for end-May were fully met: in addition to the submission of the draft budget to the national Assembly, the government has just started publishing joint venture contracts signed by public enterprises; it rejected the first draft of the audit of the central bank's organization prepared by foreign consultants because it did not meet the terms of reference; and discussions on a plan to cover the cost of the mergers of the UBC and BC are ongoing. Progress has also been slow on benchmarks to be completed by end-June.

6. **Against the background of the SMP, the key policy challenges are:**

- **Avoiding central bank financing of the budget.** This will deepen macroeconomic stability and means that it is important for the National Assembly to adopt a 2007 budget that is consistent with the program, in particular regarding spending.

- **Receiving and making effective use of additional financial support from the international community.** This is required for the Democratic Republic of the Congo to meet its external debt service and avoid recourse to domestic financing by the government. There remains a residual financing gap equivalent to 1 percent of GDP in 2007.

- **Implementing the government's governance compact.** This is essential to improve transparency in tax collection and strengthen public financial management, the quality of public spending, and the business environment.

- **Accelerating the implementation of structural reforms**, especially those constituting structural benchmarks for the SMP.

- **Restructuring the central bank and strengthening its key departments.** This is a crucial step to make monetary policy more effective and credible.

- **Greater coordination on economic policy.** This is crucial for the government to successfully implement the 2007 program and design a medium-term macroeconomic framework that could serve as a basis for discussions on a Fund–supported program.

Statement by Laurean W. Rutayisire, Executive Director
for the Democratic Republic of the Congo
June 18, 2007

On behalf of my Congolese authorities, I would like to thank Management for maintaining dialogue with the Democratic Republic of the Congo (DRC) throughout the period since the beginning of the political transition. I would also like to thank staff for their continued advice and technical assistance to my Congolese authorities and, in particular, for the constructive policy dialogue and fruitful exchanges during their recent visit to Kinshasa.

A Staff-monitored program (SMP) is intended to countries that lack capacity to implement a longer term program financed by Fund resources. This is not the case for the Democratic Republic of the Congo. This country has successfully implemented a three-year PRGF-supported program between 2002 and 2006, albeit the nonconclusion of the last review due to fiscal slippages in the run-up of critical elections that put an end to political transition following a long period of civil conflict. Under this PRGF-supported program, the DRC accomplished tremendous progress in various areas of policy and reform implementation. Important structural reforms undertaken include but are not limited to: (i) unification of the multiple exchange rates; (ii) price liberalization; (iii) full implementation of new procedures for expenditure and budget classification; (iv) launching of the civil service reform; (v) reform of the payment system; (vi) establishment of a Large Taxpayer Unit; (vii) adoption of investment, mining and forestry codes; (viii) audit of the diamonds sector. On the policy front, the DRC has also demonstrated its capacity to turn things around when need arises. Under the same PRGF program, the country succeeded to curb the long-living hyperinflation by taken necessary steps to tighten fiscal policy stance and improve public financial management. More recently, the new government has successfully restored macroeconomic stability in its first three month by better controlling spending, reducing the financing by the central bank of government operations, lowering inflationary pressures, enhancing the international reserves cushion, and reversing the depreciating trend of the exchange rate.

The cost of peace and democracy efforts, which have been fully supported by the international community and reflected in fiscal overruns in the year of crucial elections (2006), should not be used indefinitely against the country. Based on the difficult financial situation facing DRC, as well as the immense challenges of bringing about economic revival and consolidating peace and democracy, my Congolese authorities are in dire need for an instrument which will enable them to mobilize broader international donor support, and an SMP stops short of providing such a vehicle. Given these realities and the performances demonstrated in previous programs, it is our view that flexibility should be accorded to the DRC in order to reestablish a new PRGF program relationship with the Fund. I would appreciate the Board support to our request to quickly address the urgent need of the DRC.

Background and Recent Macroeconomic Developments

Since the beginning of the transition period that ended in late 2006 with the first democratic elections in more than 40 years, and especially since the HIPC Decision point reached in 2003, considerable progress has been achieved in macroeconomic stabilization. While acknowledging that policy difficulties have emerged in recent months, especially in fiscal policy, it is important to bear in mind the political and social context of DRC in the last decade. The fiscal overruns observed at the end of the last PRGF program and throughout the subsequent SMP in 2006 should be regarded as part of the "cost of peace and democracy".

Following a long civil war with regional implications and during which the country was divided in at least three territories controlled by loyal forces and various groups of rebels, respectively, all parties signed in December 2002 the *global and inclusive* Sun City Accord, with the full support of the international community. The Accord allowed to put an end to fighting, form a government of national unity and later on the holding of the first democratic presidential, parliamentary and provincial elections in more than four decades. The government of national unity comprised a collegial presidency (the "1+4" system) comprising the President and four Vice-presidents representing the seating regime, the formal rebels and the civil political opposition. As part of efforts to be inclusive and lay the ground for a successful transition—one that would be broadly supported,— the government of national unity comprised more than 60 cabinet ministers representing all parties, including the civil society, again with the understanding of the international community.

The economic pillar of the government of national unity's program, the *Programme Economique du Gouvernement*, was supported by the PRGF arrangement agreed with the IMF since June 2002. As a result of sound macroeconomic policies and improvement of the business environment, the Congolese economy reached and maintained annual growth rates above 6 percent while inflation fell back from the hyperinflation levels of the 1990s and was brought under control. As noted above, the authorities conducted important structural reforms notably aimed at economic liberalization and enhancement of the business climate. The prompt involvement of the international financial community, notably the Fund, carried much weight in this positive turnaround. However, starting in late 2005, the macroeconomic situation deteriorated in the run-up to the general elections following large fiscal slippages.

The newly-appointed government, supported by a large majority in the National Assembly, is starting to have a grip on the conduct of sound macroeconomic policies. Fully aware of the need to reestablish and maintain macroeconomic stability, the government agreed to a policy framework for its first few months, which will lay the ground for discussions on a new arrangement under the PRGF as soon as possible. Already, since March 2007, a tightening of policies, on both the fiscal and monetary fronts has contributed to stabilize the economic situation and reduce net bank credit to the government, curbed down the inflationary pressures, allowed the exchange rate to appreciate somewhat and the central bank (BCC) to reaccumulate reserves since March.

This remarkable turnaround achieved by my Congolese authorities in a short time period will be sustained through appropriate measures aimed at meeting the objective of restoring macro stability in an environment of strong and sustainable growth. The resolve of my Congolese authorities in this regard is unmistakable as expressed by Prime Minister Gizenga in the government's Letter of Intent and MEFP as well as before the Parliament during the discussion on the draft 2007 budget. It is important that the international financial community support the Democratic Republic of the Congo's reconstruction and development efforts, particularly at this juncture.

Economic Policies and the Structural Reform Agenda for 2007

Going forward, my Congolese authorities have started, and will continue, to act in accordance with the objective of preserving macroeconomic stability in an environment of strong and sustainable growth. For 2007, they have set macroeconomic objectives, notably reaching real GDP growth of at least 6.5 percent (predicated on improved performance in the mining, manufacturing, telecommunications and transportation sectors). They also aim at reducing year-on-year inflation to 12 percent from 18 percent last year through the pursuit of tight fiscal policy which they have already engaged in, and the reduction of money growth; and increasing international reserves.

Fiscal policy

My authorities have begun to set the stage for sustainable fiscal consolidation through strict and transparent management of government budget on a cash basis and avoidance to recourse to bank financing, including in the absence of external budget support. In this vein, they have started to implement ambitious measures, especially in the areas of fighting tax fraud, reforming tax administration, in order to boost revenue. On the expenditure side, they give priority to strengthening control on current spending, including for political institutions and ministries. By improving public financial management, my authorities are determined to put an end on practices that result in budget overruns, notably through a spending commitment plan, a treasury cash flow plan that will be published 10 days before the month they refer to. As for cash advances, these will be limited to budget-line items and renewed only if and after supporting documentation is submitted for previous uses.

Withstanding social pressures to substantially raise salaries in a country where these have not been adjusted for a long time and teachers earn less than most civil servants, my Congolese authorities are committed to keeping the wage bill under control (at 5.5 percent of GDP) in 2007, while launching an action plan to strengthen management of the civil service, putting in place a simplified transitional payroll (*Paie transitoire simplifiée, PTS*), completing the civil service census, and instituting a freeze on hiring and budgeted positions (except for education) until the overhaul of the payroll system has been completed. As part of efforts to contain spending, the government intends to limit the size of institutions and ministries.

The devolution policy mandated by the Constitution will be carefully implemented, so as to ensure that macroeconomic stability is preserved. In this endeavor, the central government has initiated communication with the provincial authorities to explain the need to build administrative and budgetary capacities in the decentralized entities, put in place a system to monitor budget execution in the provinces, and accompany resource transfers with well-defined transfers of responsibility and identification of resources necessary to accomplish tasks.

Monetary policy and the financial sector

With the end of fiscal overruns and the authorities' firm commitment to avoid financing deficits with money creation, the central bank will concentrate on its objective of containing inflation and build international reserves. Monetary policy will be made more proactive through the implementation of the Banque Centrale du Congo (BCC)'s program of reforms, with technical assistance of the Fund. These reforms will, among others, make information on its operations more timely and accurate and enhance its capacities for managing and forecasting bank liquidity. Making use of its treasury plan and recommendations of the organizational audit which was completed recently, the BCC will also make efforts to limit its operating deficit to the planned cap for 2007.

Regarding the banking sector, it is my authorities' strong intention to limit to the maximum possible the government's burden in the takeover of one bank (Union des Banques Congolaises, UBC) by another (Banque Congolaise). In this vein, the authorities have requested the verification of the valuation of the UBC's balance sheet.

Other Structural reforms

My Congolese authorities remain committed to the full implementation of their structural reform agenda, including the nine structural measures used as benchmarks in the current SMP. Among the measures due at end May 2007, the authorities have: (i) started to publish, on the finance ministry website, public-private partnership contracts; (ii) submitted on time to Parliament the draft 2007 budget under their economic program for 2007; and (iii) received an initial auditor report on the BCC organizational audit which was completed before end-May. This report has been rejected on quality grounds, and my authorities are expected another report from the international auditor.

As regards the structural measures that are due by end-June, the BCC's new computerized accounting system has been tested and is being made operational. The measures also include the finalization of the external audit of the BCC's 2006 account; the completion of the audit of HIPC expenditure and the adoption of an action plan to implement its recommendations; the implementation of the PTS (excluding education) in the capital city, Kinshasa, while awaiting its use in provinces later this year; and finalization by the Court of Accounts of the audit of recent government expenditure, payment orders, and payments.

External debt management and external funding

While cash flow problems prevented the DRC from servicing all its bilateral debt obligations in the last 12 months, my authorities have communicated recently with the Paris Club on these difficulties. They reiterated their commitment to normalizing the country's relations with the Paris Club creditors as soon as the government financial situation allows it. They also maintain dialogue with London and Kinshasa Clubs' private creditors, with the view to obtaining debt relief on comparable terms.

In the aim of resuming external funding, my Congolese authorities are preparing a Consultative Group meeting with the country's donors. This meeting, which will take place in September or October 2007, will be crucial to mobilizing external assistance to help the government sustain its growth and development strategy based on the *Cinq Chantiers du Président:* infrastructure, employment, education, water, and electricity.

CONCLUSION

The Democratic Republic of the Congo faces numerous daunting challenges: the country has to address endemic poverty and weak infrastructure which hampers the development of the agriculture and mining sectors, despite tremendous potential. The institutional capacity is being built while administrative and human capacities remain inappropriate to put the country on a sustainable path towards strong growth and lasting poverty reduction.

As a post-conflict country, the Democratic Republic of the Congo faces now an opportunity for definitely consolidating peace and political stability. However, this window of opportunity can be small. The prompt involvement of the Fund and World Bank in 2002 has been instrumental to the progress made between that year and late 2005. This prevented a possible resumption of fighting and emergence of social chaos. Prompt Fund support through a new PRGF arrangement will enable my Congolese authorities to mobilize donors and private investors, and help move the country to a path of solid and sustained growth and poverty reduction. I call on the Board to support our request.