February 2010
IMF Country Report No. 10/54

Republic of Congo: Second Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility—Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director for the Republic of Congo

The following documents have been released and are included in this package:

- The staff report, prepared by a staff team of the IMF, following discussions that ended on September 21, 2009, with the officials of the Republic of Congo on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on November 12, 2009. 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 Press Release summarizing the views of the Executive Board as expressed during its November 30, 2009 discussion of the staff report that completed the review.

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

The documents listed below will be separately released.

Letter of Intent sent to the IMF by the authorities of the Republic of Congo*
Memorandum of Economic and Financial Policies by the authorities of the Republic of Congo *
Technical Memorandum of Understanding*

*Also included in Staff Report

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

REPUBLIC OF CONGO

Second Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility

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

Approved by Sharmini Coorey and Dhaneshwar Ghura

November 12, 2009

- Discussions for the second review of the authorities' PRGF arrangement were held in Brazzaville September 9–21, 2009. The mission met with President Sassou N'Guesso, State Minister Moussa (Planning), Finance Minister Ondongo, Acting National Director of the BEAC Ngassiki, other senior government officials, and representatives of the diplomatic and donor community, the private sector, and the media. The mission comprised Mr. York (head), Ms. Dabdoub (AFR), Mr. Martin (FAD), and Mr. Maseda (BLS) and was assisted by Mr. Melhado, resident representative in Brazzaville. It was joined by staff of the World Bank and Mr. Kudiwu (OED).
- The Executive Board approved Congo's PRGF arrangement on December 8, 2008 with access in an amount equivalent to SDR 8.46 million (10 percent of quota). The first review was completed in June 2009.
- Congo is a member of the Central African Economic and Monetary Community (CEMAC) and its regional central bank (BEAC). The common currency, the CFA franc, is pegged to the euro at CFAF 656.
- The authorities have authorized the publication of this staff report and the Letter of Intent supporting their request for completion of the second program review.

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EXECUTIVE SUMMARY

Recent Economic Developments and Prospects

- The impact of the global financial crisis on the Congolese economy so far seems to be limited to the oil and forestry sectors. An improvement in the terms of trade and strong public investment puts Congo in a good position for a pickup in growth in the period ahead.
- The projected recovery of world oil prices and increased oil production should help move the current account into surplus in 2010. Together with the recent decline in external debt, this will lead to a further strengthening of the external sector.
- Expenditure discipline and healthy tax revenue collection helped the government avoid fiscal slippages during the presidential election period through mid-year; and partial data through August suggest that good performance could continue through the rest of 2009.

Program Performance

- Policy implementation through the first half of 2009 was satisfactory. All quantitative performance criteria and all but one of the structural benchmarks were met.
- The non-oil basic primary deficit target for end-June was observed by a comfortable margin.
- Progress toward observing the HIPC floating completion point triggers has accelerated recently and the authorities are making a strong effort to reach the completion point by year-end.

Policies for 2009–10 and Program Risks

- The authorities are confident that the policy framework laid out in their Memorandum of Economic and Financial Policies of November 2008 remains relevant, achievable, and consistent with their Poverty Reduction Strategy.
- The near–term policies to support solid growth include continued fiscal consolidation to ensure steady progress toward long-term sustainability, and structural reform to enhance public financial management and domestic revenue mobilization, financial sector deepening, and strengthening governance and management over oil resources.
- Congo has weathered the storm from the global financial crisis well and the program's focus on the non-oil primary deficit has helped in this regard. However, there are two main program risks emanating from the fiscal side: fiscal slippages are possible as public pressure to use the country's accumulated oil wealth remain strong; and capacity constraints and institutional weaknesses pose risks to the quality of spending. These risks are mitigated by the better control the authorities have demonstrated over fiscal spending, their commitment to fiscal discipline, and improvements in public financial and investment management supported by the PRGF arrangement.

Staff recommends completion of the second review under the PRGF arrangement and disbursement of the third loan in an amount equivalent to SDR 1.21 million.

I. Background

1. **The Fund's Executive Board approved a new 3-year PRGF arrangement for Congo in December 2008 and the first review was completed in June 2009.** The arrangement is low access, 10 percent of quota, and is designed to achieve sustained and balanced growth, low and stable inflation, and fiscal and external sustainability, with the help of debt relief from the enhanced HIPC Initiative. Satisfactory performance under the PRGF arrangement is one of the conditions for obtaining HIPC debt relief.

2. **Congo reached the HIPC decision point in March 2006.** It has recently made good progress toward meeting the floating completion point triggers, and the authorities are making a strong effort to reach the completion point, possibly by year-end.

3. **In July President Denis Sassou N'Guesso was re-elected for another seven-year term.** A new government was formed in mid-September without the position of prime minister, leaving the president as the head of the government. The new government has indicated its intention to maintain economic policies consistent with the objectives of the program the Executive Board approved last December.

4. As a member of the Central African Economic and Monetary Union (CEMAC), Congo and its CEMAC partners are making a concerted effort to resolve reserves management and governance issues at the regional central bank (BEAC).

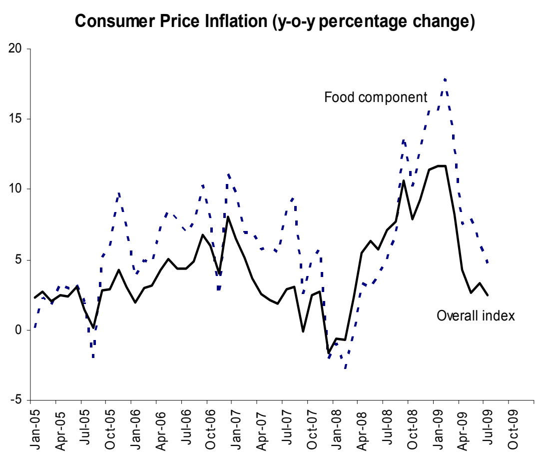
II. Recent Economic Developments and Prospects

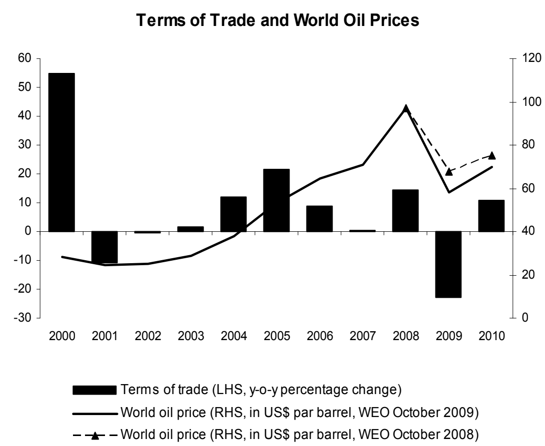
5. **The impact of the global financial crisis on the Congolese economy so far seems to be limited to the oil and forestry sectors.** An improvement in the terms of trade and strong public investment puts Congo in a good position for a pickup in growth in the period ahead.

- The outlook for growth in 2009 has been revised downward twice this year because of lower timber exports and oil production that was lower than projected due to technical factors (Table 1). Overall real GDP growth could, however, increase next year to about 12 percent with oil production from new fields and prospects for increased activity in construction, transportation, and telecommunications, in part spurred by relatively high public investment. Growth in the non-oil sector could reach 6 percent—nearly twice as high as this year but below the target in the authorities' Poverty Reduction Strategy (PRS).

- Food prices have declined sharply since they peaked in February, bringing consumer prices down to 2½ percent (year-on-year) through July. The authorities attribute the decline in inflation to lower world commodity prices than a year ago, and lower transportation costs as a result of road construction in agricultural areas near the capital, Brazzaville.

- The 21 percent deterioration in the terms of trade this year reflecting primarily lower world oil prices will contribute to a widening of the external current account deficit (Table 2). However, the projected recovery of world oil prices and increased oil production (which could rise by 25 percent) should help move the current account into surplus in 2010 by about 2½ percent of GDP. Over the past several years, the debt-to-GDP ratio has dropped from 198.7 percent of GDP at the end of 2004 to 56.6 percent at the end of 2008, reflecting debt rescheduling with Paris and London Club creditors, some debt cancellation, and settlement with litigating creditors holding claims validated by the courts (Box 1). When Congo is able to satisfy the conditions for reaching the HIPC completion point, the debt-to-GDP ratio could fall further to a projected 26.3 percent in 2009 (including relief from the Multilateral Debt Relief Initiative, MDRI).[1,2]





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

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[1] The low-income country DSA in the text Figure includes HIPC debt relief. The full LIC DSA will be presented as an Annex to the HIPC Completion Point document, when that document is presented to the Executive Board possibly later this year. The DSA shows negative debt ratios over the projection period because oil production under the historical scenario is higher than the baseline after 2020. Under the design of the DSA template, the additional oil revenue is used to pay back debt and once it is expunged, oil wealth accumulates (i.e., shown in the figure as negative debt).

[2] There are two key assumptions on external financing driving the results. First, in the near term Congo will receive loans only from the French Development Agency, China, and the World Bank, with the latter likely on ”hardened” IDA terms from mid-2011 since Congo has exceeded the IDA-only income threshold in 2007. Second, the remaining external arrears are assumed to be cleared by 2014, in line with the terms of projected debt relief under the HIPC Initiative.

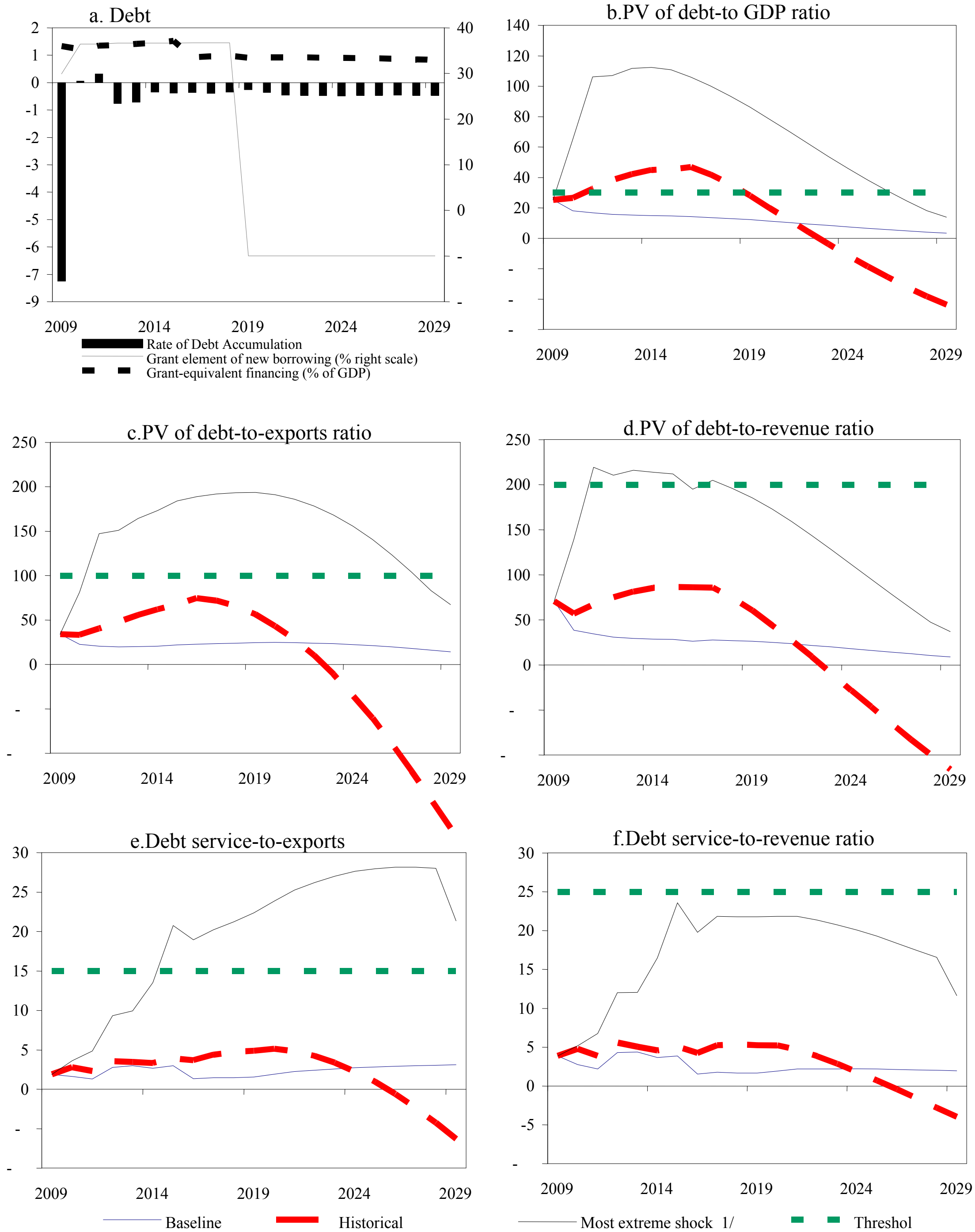
Box 1. Settlement with Litigating Creditors

Earlier this year the Congolese authorities reported to the Paris Club (and staff subsequently reported to the Executive Board, Country Report No. 09/217) that they had received a discount of 79 percent on the settlement (excluding associated payments) in December 2008 with creditors holding claims validated by the courts (mainly in London, Paris, and New York). The total settlement amounted to US$ 939 million (about 9 percent of GDP), including legal fees paid by the authorities and court-imposed penalties. Due to an error in classifying the debt to these creditors the authorities overestimated the discount, which they now calculate at about 37 percent. Due to a confidentiality clause in the agreement, the authorities have not provided source information that would allow the staff to reconcile the related debt information and the discount factor.

The error was discovered and reported to the Paris Club during the debt reconciliation exercise conducted in collaboration with Fund staff, in the context of the HIPC completion point debt sustainability analysis. It involved mainly the inclusion of some debts covered by the London Club agreement (in 2007) as part of the claims held by litigating creditors. In response to the Paris Club's concerns over the comparability of treatment in the context of HIPC debt relief, in mid-October the authorities provided to the Club and staff a detailed explanation of how the error occurred and a statement from the Minister of Finance on actions the authorities have taken, or will take, to strengthen the unit responsible for debt management. These actions include restructuring of the debt unit by separating tasks for entry/recording and verification of data, training in risk management to improve the security and control of the data, conducting regular audits of information/data to ensure accuracy, and creating a legal affairs unit. The Paris Club may seek further information from the authorities. The confidentiality clause in the agreement with litigating creditors limits the details that staff has been able to obtain on the settlement.

Staff's assessment is that this error does not constitute misreporting to the Fund. First, this error does not affect any applicable conditions established for disbursements under the terms of the decisions for such disbursements and thus does not give rise to a noncomplying disbursement under the PRGF misreporting framework. Second, the error did not have a bearing on any performance-related condition of disbursement of interim assistance under the enhanced HIPC Initiative and consequently does not trigger the application of the HIPC misreporting mechanism. Also, the error does not have adverse macroeconomic implications. The removal of the risk of confiscation may have allowed some improvements on the export of Congolese oil, timely repatriation of oil revenue to the Treasury, and the elimination of wasteful legal and financial expenses related to the litigation.

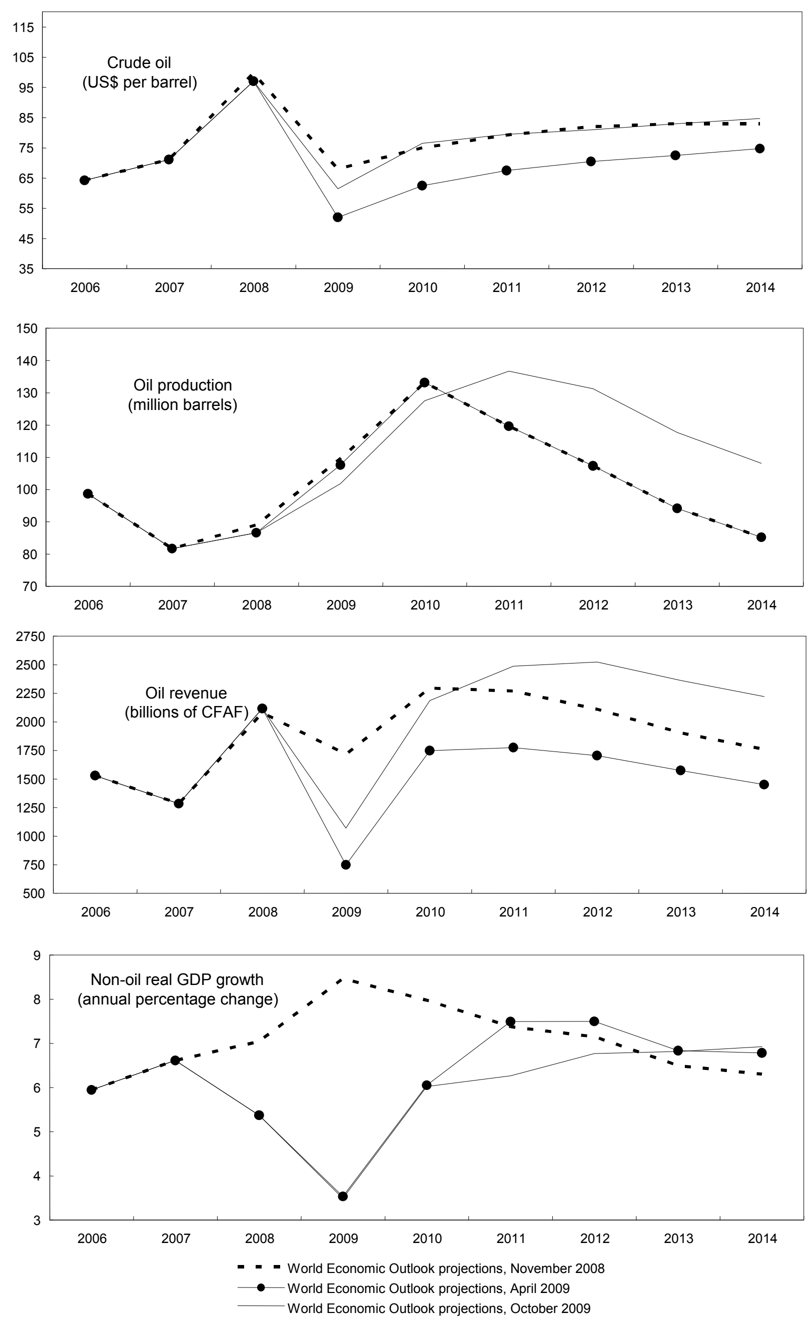
Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2009–09[1]



Sources: Staff projections and simulations.

1/ The most extreme stress test is the test that yields the highest ratio in 2019. In figure b. it corresponds to a Combination shock; in c. to a Exports shock; in d. to a Combination shock; in e. to a Exports shock and in picture f. to a Combination shock.

Oil Prices and Production, Revenue, and Non-oil Real GDP Growth, 2006-14
(In units indicated)



Sources: Fund staff estimates and projections.

- Reflecting the strength of the construction, telecommunications and transport sectors, credit to the private sector increased by 55 percent year-on-year through June. Increased competition in commercial banking might also have contributed as a new bank entered the Congolese market earlier this year. According to the regional supervisor (COBAC), Congo's banking sector is in good health with all five commercial banks well capitalized and highly liquid. The authorities are making progress in implementing their financial sector strategy, developed with assistance from Fund staff.

- Expenditure discipline and healthy tax revenue collection helped the government avoid fiscal slippages during the presidential election period through mid-year. Partial data through August suggest continued good performance. On current trends, staff projects that fiscal adjustment would amount to about 18½ percentage points of non-oil GDP over the past two years (Tables 3a and 3b). Over the medium term, further restraint of non-essential spending is envisaged, consistent with the authorities' desire to move toward long-term sustainability while leaving fiscal room to execute the policies and programs needed to support their PRS. Efforts to reform public financial management and tax and customs administration have facilitated recent fiscal performance.

- A new fuel pricing mechanism was introduced on October 1, 2009 as envisaged. The objective of the mechanism is to avoid budgetary subsidies to the state-owned oil refinery (CORAF) and to protect the consumption of vulnerable groups. At current world oil prices, the mechanism did not signal the need for an adjustment of ex-refinery prices during the fourth quarter (adjustments are to be made quarterly, based on world oil price developments in the previous quarter). This reflected the fact that the government did not reverse the two increases in fuel prices implemented in 2008, even though world oil prices declined in 2009.

Central Government Operations, 2008–09

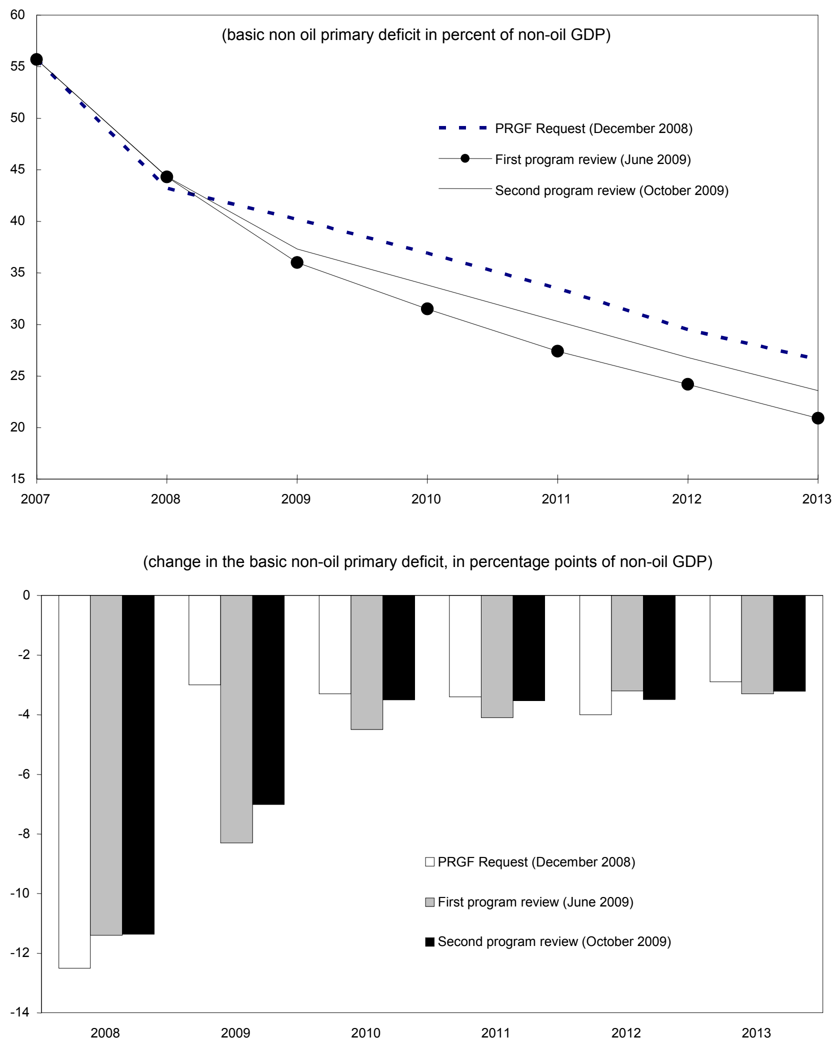
	2008	2009				2008	2009	
		1st Sem.		Dec.			Dec.	
		Prog. [1]	Act.	Prog. [1]	Proj.		Prog. [1]	Proj.
	(in CFA billions)					(in percent of non-oil GDP)		
Revenue and grants	2,480	592	600	1,169	1,491	159.3	68.5	87.4
Primary Revenue	2,442	568	586	1,120	1,442	156.8	65.7	84.5
Oil revenue	2,118	380	380	748	1,070	136.0	43.8	62.7
Non-oil revenue	324	187	206	372	372	20.8	21.8	21.8
Expenditure and net lending	1,238	670	594	1,242	1,178	79.5	72.8	69.1
Of which primary expenditure	1,024	558	551	1,046	1,046	65.8	61.3	61.3
Current expenditure	785	337	327	651	587	50.4	38.2	34.4
Wages	166	88	88	175	175	10.7	10.3	10.3
Other current expenditure	446	199	192	377	377	28.6	22.1	22.1
Interest	150	38	34	74	10	9.6	4.3	0.6
Capital expenditure	453	332	267	592	591	29.1	34.7	34.7
Domestically financed	390	271	261	469	469	25.0	27.5	27.5
Of which, HIPC financed	7	12	3	37	37	0.4	2.2	2.2
Net lending	0	0	0	0	0	0.0	0.0	0.0
Basic primary balance [2]	1,424	9	35	111	433	91.5	6.5	25.4
Of which: Basic non-oil primary balance	-690	-371	-345	-637	-637	-44.3	-37.3	-37.3
Balance, commitment basis, incl. grants	1,242	-78	7	-73	313	79.8	-4.3	18.3
Balance, cash basis	298	-132	-46	-197	-241	19.1	-12.1	-11.1
Memorandum item								
Non-oil GDP at market prices	1,557	…	…	1,768	1,706	…	…	…

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

[1] Country Report No. 09/217. Note for 2009, both the program and projections are calculated as a share of the revised non-oil GDP.

[2] Primary revenue (excluding interest income and grants) minus non-interest current expenditure minus domestically finance capital expenditure (excluding HIPC-financed capital expenditure) and net lending.

Medium-term Fiscal Adjustment Under the PRGF Arrangement, 2007–13



Sources: Country Report Nos. 09/74 and 09/217; and Fund staff estimated and projections.

III. PROGRAM PERFORMANCE

6. **Policy implementation through the first half of 2009 was satisfactory.** All quantitative performance criteria and all but one of the structural benchmarks were met.

- The non-oil basic primary deficit target for end-June was observed by a comfortable margin, coming in at CFAF 345 billion, compared with CFAF 371 billion programmed. Non-oil primary revenue collection was strong, exceeding the (indicative) target by 10 percent. Congo did not contract any new external debt during the 2nd quarter of this year.

- Five of the six structural benchmarks were observed, including continuing measures to strengthen oil sector governance (quarterly certification of oil revenue, timely repatriation of oil proceeds to the treasury) and public financial management (no recourse to emergency payment procedures, except if warranted; disclosure of public procurement activities). An important achievement was the preparation of a medium-term expenditure framework (MTEF), which incorporates the input and priorities of line ministries (health, education, infrastructure, agriculture, forestry, and fishing) and covers training (with the help of Congo's development partners) of staff from various sectoral units involved in budget preparation and management.

- The authorities have not yet completed a strategic study of the oil sector, which will include a critical assessment of its institutions and enterprises, including the state-owned refinery, CORAF. The authorities stated that this study has been delayed because important information (an oil revenue model, various sector audits, an EITI report, and a database) needed to inform the analysis was received only recently. The study is now expected to be completed early next year (March 2010 structural benchmark).

Quantitative Targets Under the PRGF Arrangement, through end-June 2009
(Billions of CFA francs, unless otherwise indicated; cumulative from January)

	End-March 2009		End-June 2009	
	Indicative Target	Actual	Performance criteria	Actual
Quantitative targets				
Non-oil primary fiscal balance (floor)	-211	-123	-371	-345
New medium or long-term nonconcessional external debt (including leasing) contracted or guaranteed by the government (ceiling) [1, 2, 3]	0	19	0	0
New external debt (including leasing) with an original maturity of less than one year (ceiling) [2]	0	0	0	0
New oil-collateralized external debt contracted by or on behalf of the central government (ceiling) [2]	0	0	0	0
New nonconcessional external debt with a maturity of more than 1 year contracted or guaranteed by SNPC (ceiling) [2]	0	0	0	0
New external arrears on nonreschedulable debt (ceiling) [2]	0	0	0	0
New domestic arrears [2]	0	0	0	0
Memorandum items				
Oil revenue	131	178	300	380
Non-oil primary revenue	93	97	187	206

[1] Excluding rescheduling arrangements and disbursements from the IMF; the minimum grant element is set at 50 percent.
[2] Continuous.
[3] The zero ceiling on concessionality does not apply to external loans from the European Investment Bank and the Central African States Development Bank, as specified in paragraph 10 of the Technical Memorandum of Understanding.

Structural Benchmarks Under the PRGF Arrangement, 2009

Measures	Timing	Status
Prepare a medium-term expenditure framework (MTEF) (in consultation with development partners) consistent with the Poverty Reduction Strategy (PRS).	End-June 2009	Observed
No recourse to emergency payment and cash advance procedures, except in situations stated in the organic budget law.	Continuous	Observed
Publication of all invitations to bid and the bids themselves for government procurement contracts above CFAF 200 million on the government's website (www.mefb-cg.org)	Continuous	Observed
Finalize the strategic study of the oil sector–assisted by Congo's development partners–which will include a critical assessment of the institutions and enterprises, including CORAF.	End-June 2009	Ongoing
Quarterly certification of oil revenue by an internationally reputable audit firm, using the same specifications as for the 2003 certification and with no restrictions on access to information; certification reports to be published on the website of the Ministry of Economy, Finance and Budget (www.mefb-cg.org). Also, the government will post the audit on the website, and for each report, a note addressing the comments by the auditors.	Continuous, with a one-quarter lag	Observed
Repatriation of the oil proceeds (to the Treasury) of oil shipments commercialized by private companies and SNPC on behalf of the government within 45 days after the actual shipment date (according to actual quantities, prices, and shipment dates).	Continuous	Observed

IV. Progress Under the Enhanced HIPC Initiative

7. At the HIPC completion point Congo would receive irrevocable debt relief amounting to about US$ 1,575 million in net present value terms.[3] It would also receive debt relief under the MDRI amounting to about US$ 178.6 million in nominal terms (net of HIPC assistance), including an estimated US $7.6 million from the Fund and US$ 161.9 million from the World Bank. Financing assurances from external creditors representing more than 80 percent of Congo's total debt stock at end 2004 (in NPV terms after traditional debt relief mechanisms are applied) have been confirmed.[4]

[3] At the decision point, the committed debt relief was US$ 1,679 million but will be reduced to US$ 1,575 million due to a decline in the 2004 debt stock (in NPV terms). A detailed explanation of the revision will be presented in the staff report supporting the completion point.

[4] The Executive Board has used a threshold of 80 percent to determine that financing assurances are sufficient to reach the completion point. The 80 percent threshold is important to ensure the effectiveness of the HIPC Initiative in encouraging provision by all creditors of the full debt relief decided at the decision point. The debt held by the litigating creditors accounts for about 5 percent of the end-2004 debt stock in NPV terms, and has the effect of reducing the financing assurances by an equivalent amount since the terms of the settlement were

(continued…)

8. **Progress toward observing the floating completion point triggers has accelerated recently, and the authorities are making a strong effort to reach the completion point by year-end**. There are eighteen triggers in eight areas: eight of the triggers have been observed and a further six should be completed shortly (including the modification of the forestry code, integration of the oil revenue model into the MTEF, finalization of the system for appraising public investment projects, and adoption of enabling legislation for the new telecommunications regulations); and the remaining four require a satisfactory track record of implementation (new procurement code, governance issues, including in the oil sector, and anti-corruption action plan) (Table 5). The triggers in the Decision Point document did not objectively define the time period and the specific indicators to monitor and assess the implementation of these four triggers. Consequently, Fund and World Bank staffs and the authorities together have mapped out a set of actions, which if satisfactorily implemented, would satisfy this track record and could allow Congo to reach the completion point this year (Box 2).

V. Policy Discussions And Program for 2009–10

9. **As program performance has continued to be satisfactory and the concern over the impact of global financial crisis has begun to subside in Congo, the discussions for the second review centered on economic policies for the period ahead.** Staff and authorities agreed that the improving economic outlook and fiscal situation offer an opportunity to reassess the fiscal stance and refocus efforts on implementing the PRS.

10. **The authorities expressed confidence that the policy framework laid out in their Memorandum of Economic and Financial Policies (MEFP) of November 2008 (see Country Report No. 09/74) remains relevant, achievable, and consistent with the PRS.** They did, however, voice concern over the slowdown in growth in the non-oil sector, which could frustrate their efforts to alleviate poverty. In their view, annual non-oil sector growth of 7–8 percent is needed to reduce poverty durably.

11. **To support an acceleration of growth, the authorities sought to focus on pro-growth and poverty-reducing social policies.** Preparations for the first annual progress report of the PRS (submitted to the Fund and World Bank in September) and the preparation of the MTEF (assisted by Congo's development partners) has helped to inform policy. A clear message from these discussions is the need to further refine priorities to reflect the country's institutional and administrative capacity and to raise more domestic revenue.

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much less favorable than committed by Congo's creditors under the enhanced HIPC Initiative. The 80 percent threshold is met even after taking into account the settlement with these creditors.

Box 2. Establishing a Track Record for Four HIPC Triggers

Since the Decision Point document did not objectively define the time frame and specific indicators to monitor and assess the triggers on public procurement, anti-corruption, and oil sector governance, the staffs of the Fund and World Bank, together with the authorities, agreed on specific measures to do so. It was further agreed that satisfactory implementation over a two-month period would form a sufficient basis for the staffs to assess performance against the triggers in these areas. The measures are as follows.

The trigger on **public procurement** would be satisfied when the authorities (i) complete all the administrative elements to support the new code, including finalization of standard bidding documents; (ii) appoint the Director General of the procurement agency as the code's regulations require, and recruit three key technical directors; (iii) implement a training program; (iv) demonstrate that all key staff in the new procurement institutions are in position and at least 100 trainers have been trained in the new procedures, and (v) provide evidence that the capacity of the procurement agency in terms of processing time and compliance with standards is deemed acceptable, which would be demonstrated by having some contracts tendered through the new system.

The trigger on **anti-corruption** would be satisfied when the plan is launched and the authorities (i) ensure that the anti-corruption law is used to its full extent (for example, the Anti-corruption Observatory must be consulted on specified documents); (ii) undertake a campaign to sensitize senior government officials on anti-corruption issues; (iii) extend the anti-corruption laws to cover implementation of the new procurement code; and (iv) adopt the enabling decree of the Anti-Corruption Law.

The trigger on **oil sector governance** would be satisfied when (i) the state-owned oil company (SNPC) implements a modern cost-accounting system and uses it to launch the consolidated accounts for 2008; and (ii) oil commercialization is brought into line with international best practice, which is to be demonstrated through a number of actions by COTRADE (the oil marketing company that is a subsidiary of SNPC). These actions involve drafting internal marketing and decision-making procedures; preparing a training plan for COTRADE staff; establishing a marketing transactions database; undertaking site visits to discuss with potential refineries the sale of Congolese crude; reviewing COTRADE's by-laws and provide a revised corporate mandate; transferring revenue to the government treasury on time and in accordance with the second amendment on the valuation of state revenue To assess if these reform measures have indeed had an impact on the market values for the oil sold, an analysis is being undertaken on the discounts and premia obtained by SNPC in relation to the international reference price for sales of Congolese oil, in comparison with those obtained by international companies selling the same oil .

12. The near-term policies to ensure macroeconomic stability and support growth include further fiscal tightening, lowering inflation and deepening financial intermediation, and structural reform in areas critical to the success of the program (see Box 3 for details).

Fiscal Policy

13. **While staff and authorities agreed on the fiscal stance for the short and medium term, there were some differences of opinion initially on how to allocate the emerging fiscal space (see below).** There was agreement that any fiscal room must be used to promote pro-growth and pro-poor social programs—and this is reflected in program plans.

Box 3. Economic and Financial Policies for 2009–10

The policy stance and structural measures described in the authorities' Letter of Intent (Appendix I) supporting their request for completion of the second PRGF review are as follows:

Macroeconomic policies

Monetary policy is within the purview of the regional central bank, which aims to lower inflation in the region to the CEMAC target of 3 percent (average) annually.

For the rest of 2009, the **fiscal stance** will remain consistent with the targets established during the first program review (Country Report No. 09/217), including a reduction of the non-oil primary fiscal deficit to an estimated 37.3 percent of non-oil GDP. For 2010, the authorities envisage a further reduction of the non-oil primary deficit to 33.8 percent of non-oil GDP. Total primary revenue is projected to increase significantly (by about 54 percent of non-oil GDP) with higher oil production and world prices and with a small increase in non-oil revenue. The authorities' tax collection efforts will be supported by continued efforts to reinforce tax and customs administration, a reduction in tax exemptions, and tax policy changes in line with Fund-provided technical assistance. The primary spending envelope (excluding interest payments) is set to decline by about 3 percentage points of non-oil GDP, mainly due to lower current spending and wages. Capital outlays have largely been protected, which is important for supporting implementation of Congo's Poverty Reduction Strategy. Implementation of the new fuel pricing mechanism on October 1 should ensure subsidies from the budget to CORAF are no longer necessary. Some fiscal room has, however, been used to increase spending on decentralized social programs in health and education, and to begin the medium-term program of strengthening the operations and financial performance of state-owned enterprises. Also, the authorities continue to use some of their fiscal savings to clear domestic arrears (mainly wage and pensions) under a plan established in 2006; they will undertake an audit in the period ahead of domestic arrears and liabilities of public enterprises to help assess and ring-fence them.

Structural policies

The authorities remain committed to furthering their structural reform program of the past several years, which emphasizes strengthening public financial management and the governance and management of the oil sector and oil resources, deepening financial intermediation, and following through with policies initiated under the HIPC Initiative and supported by the PRGF arrangement.

To support **better public financial management and domestic revenue mobilization** the program includes structural benchmarks to ensure the budget is based on the new medium-term expenditure framework; the implementation of the new procurement code results in competitive and transparent bidding practices; and the authorities follow through with the planned review of tax exemptions and prepare an action plan and timetable for making tax policy changes in line with Fund technical assistance.

Concerning **governance and the oil sector**, the structural benchmarks include timely repatriation and quarterly certification by an international auditor of oil revenue, finalization of a strategic study of the oil sector, and support for oil commercialization in line with international best practice, responding to recommendations made by the international consultant now advising the authorities. Fund staff will also monitor implementation of the new fuel pricing mechanism to ensure that fuel subsidies do not undermine the fiscal position.

14. **For their part, the authorities indicated some preference for a widening of the expenditure envelope to address Congo's vast investment and social sector needs, on a broad front.** They argued that broadening the scope of current investment and spending programs is necessary to provide a minimal level of government services in many areas, and to avoid a further deterioration of the economic infrastructure. In this regard, they indicated their intention to devote a small amount of resources in the 2010 budget and over the medium term toward the decentralization of some social services and improving the performance of the state-owned public utilities, in line with the recommendations of development partners.

15. **The staff acknowledged Congo's investment and spending needs but encouraged the authorities to maintain their tightly focused program, which takes account of institutional and administrative constraints, and limited non-oil resources. Specifically:**

- Given the relatively small number of policy makers and supporting technical staff, Congo has limited capacity to design, implement, and monitor spending and investment programs over a wide front and across all sectors of the economy. As suggested by the World Bank, it would be preferable to set priorities according to MTEF sectoral work, sectoral strategies in the PRS, and within the new investment management system developed under the enhanced HIPC Initiative.

- Total budgeted primary expenditure is relatively large (about 60 percent of non-oil GDP) and dominated by public investment (which accounts for more than half). The authorities' forceful efforts to consolidate the fiscal position while increasing public investment is causing some compression of current spending, which is needed to provide a basic level of government services. Consequently, adequately financing existing programs could be more effective than initiating new ones at this time.

- HIPC debt relief will free up resources for the authorities to pursue new spending initiatives and further fiscal room could be obtained through accelerating efforts to mobilize more domestic revenue. In this context, the staff welcomed the authorities' intention to pursue tax changes in the period ahead.

16. **In the event, the government was persuaded by the need to continue its recent efforts to consolidate the fiscal position as this would ensure steady progress toward long-term sustainability, recognizing the finite horizon for oil production and the desirability of intergenerational equity.** In this context, it was agreed that an annual decline in the non-oil primary deficit of 3–4 percent of non-oil GDP is adequate for establishing a credible path toward Congo's longer-term fiscal objectives, while meeting

important short-term needs (MEFP ¶5).[5,6] This path of adjustment is somewhat slower than projected during the first program review in June (text table below), which took into account the decline and relatively weaker outlook for world oil prices at that time. The prospects for higher world oil prices and an expansion in oil reserves, however, allow for a smaller fiscal adjustment to stay consistent with long-term sustainability (beyond HIPC and the finite oil production) under the permanent-income approach used to guide the authorities' fiscal stance. A slower pace of consolidation is also justified by the significant fiscal tightening over the past two years, which would lead to a cumulative adjustment beyond that envisaged when the Executive Board approved the PRGF arrangement.

Fiscal Adjustment Under the PRGF Arrangement

	Nonoil primary deficit (percent of nonoil GDP)						Difference from PRGF request (percentage points of nonoil GDP)					Cum. adj. 2008– (percentage points of nonoil GDP)
	2007	2008	2009	2010	2011	2012	2008	2009	2010	2011	2012	
PRGF request (CR No. 09/74)	55.7	43.2	40.2	36.9	33.5	29.1	0.0	0.0	0.0	0.0	0.0	-14.1
1st PRGF Review (CR No. 09/217)	55.7	44.3	36.0	31.5	27.4	24.2	1.1	-4.2	-5.4	-6.1	-4.9	-20.1
Current staff projection	55.7	44.3	37.3	33.8	30.3	26.8	1.1	-2.9	-3.1	-3.2	-2.3	-17.5

Sources: Country Report Nos. 09/74 and 09/217; and Fund staff estimates and projections.

17. **An important program commitment is to raise more non-oil revenue**. In the period ahead, this is to be achieved through completing the tax and customs administration reforms already underway, eliminating tax exemptions, and making the tax policy changes suggested by recent Fund-provided technical assistance (MEFP ¶6). Tax policy changes could yield revenue over the medium term equivalent to about 3½ percent of non-oil GDP although they have not yet been reflected in the medium-term projections, as the authorities have not yet developed a strategy and timetable to implement the Fund's policy recommendations.[7]

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[5] Pro-poor spending is increasing slightly over the medium term, from about 23.8 percent of non-oil GDP this year to 24.7 percent in 2012. This spending may be understated since it is based on an administrative classification. The authorities are working with Fund staff to classify pro-poor spending using a functional classification, which would also allow for a better mapping from the budget to the PRSP.

[6] To strengthen the monitoring of the program from below the line, the staff will introduce at the time of the next review a quantitative performance criterion (ceiling) on (net) domestic financing, with a symmetric adjuster for oil revenue.

[7] Fund-provided technical assistance revealed that the current tax system is unnecessarily complex, inefficient, and non-competitive compared with those of neighboring countries. Recommendations include changes to the income tax (including through transforming the personal income tax into a progressive tax on wages and company earnings), VAT (reducing the number of exemptions and eliminating the system of reduced or zero VAT rates for non-exported goods), and excises (including increasing the rate from 24 percent to 25 percent for all products, with limited exemptions to broaden its base), as well as some institutional reforms to strengthen the system.

Monetary and Financial Sector Policies

18. **The BEAC would continue to focus on lowering inflation and accumulating foreign reserves to support the region's fixed exchange rate regime.** Credit to the private sector (relative to non-oil GDP) is expected to grow by about 13 percent in line with the pickup in economic activity.[8] The Congolese authorities will continue to implement the financial sector strategy drafted with Fund assistance, in an effort to deepen financial intermediation (MEFP ¶8). The banking sector is healthy and competition has increased with the entrance of a new bank, which will help to improve access to financial services.

External Sector Policies

19. **The authorities have reaffirmed their commitment to finance development mainly through their own resources and to seek foreign financing only on highly concessional terms (with a minimum grant element of 50 percent, MEFP ¶9).** They and staff agreed that Congo will not draw on its general and special SDR allocation (SDR 70 million) since it does not carry a concessional rate and the country does not face financing constraints, especially with the improvement in world oil prices. Congo is committed to using its best efforts to obtain comparable treatment from all remaining private external creditors (i.e., suppliers and non-London Club commercial creditors, including some in litigation) in its debt restructuring negotiations as it pursues HIPC debt relief.[9] The authorities are making best efforts to conclude bilateral agreements with Paris Club creditors (Brazil, Russia, and UK) and non-Paris Club creditors (including Angola, Saudi Arabia, and Kuwait) as soon as possible.

20. **The concerns about the comparability of treatment of creditors call for a firm commitment to the HIPC framework, and a close dialogue with creditors in the period ahead.** To this end, the authorities have reaffirmed their commitment to the HIPC process, and within their legal limits will provide information to the Paris Club and other creditors, to give greater clarity regarding the payments made to the litigating creditors. On this basis, support by Congo's creditors would need to be sustained for it to reach the HIPC completion point on a timely basis.

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[8] It should be noted that the substantial (projected) movements in net foreign assets (NFA) and net domestic assets (NDA) over the next year (Table 4) reflect the dramatic changes in oil revenue and oil wealth. For example, favorable world oil prices and higher oil production is projected to increase NFA and NDA (a negative change indicating an accumulation of government deposits at the central bank) by 132 and 121 percent, respectively.

[9] The authorities have represented that they are disputing the amount of the claims by these creditors. While these claims are acknowledged as being disputed, they are not treated as in arrears for purposes of the Lending into Arrears policy.

Structural Policies

21. **The authorities will continue to focus their structural reform efforts on areas that are critical to achieving the program's macroeconomic objectives.** These areas include public financial management and domestic revenue mobilization, financial sector deepening and improving the business environment, strengthening governance and management over oil resources, and improving the operating and financial performance of state-owned enterprises (MEFP ¶10). The program's structural benchmarks are outlined in Box 3.

Safeguarding Fund Resources

22. **Recent developments revealed serious governance problems at the regional central bank (BEAC), raising questions about its ability to safeguard Fund resources.** As a result of weaknesses in BEAC's governance structure, as well as high-level override of controls, BEAC suffered significant losses due to fraud in the operations of its Paris office.

23. **Staff indicated to the authorities that BEAC's Board would need to take actions to address these safeguard concerns in order for Congo's review to proceed.** The authorities acknowledged that the safeguard concerns are legitimate and committed to working with the BEAC to resolve these issues as quickly as possible. They noted that the BEAC had already launched an internal process to address these issues, including external and internal audits.

24. **The BEAC authorities subsequently took a set of satisfactory initial measures to address safeguards issues.** They have: provided staff all internal and external audit reports and related terms of reference; and published (i) BEAC's 2008 audited financial statements, (ii) the special audit reports, (iii) a statement from the BEAC Board, indicating measures taken to investigate the fraud and strengthen controls as well as their intentions with regard to reforming BEAC's governance. They have also agreed to conduct an external audit of all budgetary and accounting processes at BEAC headquarters in Yaoundé under a terms of reference agreed with Fund staff. The next steps will involve the establishment of a time bound action plan to address safeguard issues in governance, oversight, and control overrides.

A. Program Risks

25. **Congo has weathered the storm from the global financial crisis well and the program's focus on the non-oil primary deficit has helped in this regard.** Over the medium term, maintaining fiscal and debt sustainability becomes all the more important, in view of large spending pressures and the finite horizon for oil production. The authorities agreed on the need for continued fiscal consolidation over the medium-term, based on

expenditure restraint and mobilization of more non-oil revenue. There are two main program risks emanating from the fiscal side.

- Fiscal slippages are possible as public pressure to use the country's accumulated oil wealth remain strong. However, the government has demonstrated better control over public spending recently and continues to stress its commitment to maintain fiscal discipline.

- Capacity constraints and institutional weaknesses pose risks to the quality of spending but improvements in public financial and investment management supported by the PRGF arrangement help mitigate such risks.

VI. Staff Appraisal

26. **The short-term prospects for Congo have improved with the better outlook for world oil prices, the possible global economic recovery, and the strengthening of economic management, especially fiscal policy.**

- Growth is expected to pick up next year, bringing output closer to the trajectory projected before the global financial crisis hit last year.

- There has been a significant improvement in the fiscal position and over a short period good progress has been made toward the goal of achieving fiscal sustainability; although there is further to go in this regard.

- The recent acceleration of structural reform should help support private sector development and improve the business climate, which remains among the weakest in the region.

27. **If the program continues to be implemented satisfactorily, prospects should improve for sustaining robust rates of non-oil growth that could reduce poverty durably.** Ongoing fiscal discipline will be necessary to sustain macroeconomic stability, strengthen private sector confidence in economic management, and encourage direct investment.

28. **In this context, the staff welcomes the government's proposed budget for 2010.** This budget provides some fiscal room to accommodate increased spending on pro-growth and pro-poor social programs in line with the PRS, and a move to decentralize the delivery of some services in line with the advice of its development partners. Giving local governments more control over the provision of health and education is expected to improve program effectiveness, and could go a long way toward closing the income gap between urban and rural areas. The amount of resources allocated to this initiative is relatively small for this

year, although the staff agrees with this cautious approach since it will take time to develop institutional and administrative capacity at lower levels of government.

29. **Raising more domestic revenue would help to reduce the dominance and reliance on the oil sector—an important program objective—and create further fiscal room.** In the staffs view, the authorities should move quickly in this regard. The tax and customs administration reform program is nearly complete and tax policy changes should be initiated as soon as possible. Together with the freed up resources from debt relief once the HIPC completion point is reached, domestic revenue from tax policy changes could expand the resource envelope significantly.

30. **The acceleration of structural reform is welcome but momentum will need to be sustained and policies fully implemented, to reap the benefits of these reforms.** The introduction of a new fuel pricing mechanism will help protect the budget from poorly-targeted subsides and create incentives to improve the performance of the state-owned oil refinery, but only if required price adjustments are made in a regular and timely way. Enhanced institutional capacity for public financial and investment management now exist, including through the medium-term expenditure framework, but raising the effectiveness and quality of public spending will depend on the comprehensive and timely implementation of these measures. Likewise, some key instruments to improve governance and the management of the oil sector in line with international standards are now at hand, but their impact will depend on following through with their use.

31. **Congo's external debt-to-GDP ratio has declined significantly over the past several years but the external position is still vulnerable to external shocks.** Consequently, a prudent debt management strategy with a reliance on foreign assistance only on highly concessional terms continues to be important. Maintaining creditor support through concerted efforts to achieve comparability of treatment in debt rescheduling negotiations, and forthright and timely provision of information is also necessary. In this context, the staff welcomes the authorities' good faith efforts to conclude bilateral agreements as soon as possible.

32. Staff recommends completion of the second review under the PRGF arrangement and disbursement of the third loan in an amount equivalent to SDR 1.21 million.

Table 1. Republic of Congo: Selected Economic and Financial Indicators, 2008–12

	2008	2009		2010	2011	2012
	Est.	Prog.[1]	Proj.	Proj.		
	(Annual percentage change)					
Production and prices						
GDP at constant prices	5.6	9.5	7.6	12.1	6.6	2.9
Oil	6.1	24.2	17.5	25.3	7.2	-4.0
Non-oil	5.4	3.5	3.5	6.0	6.3	6.8
GDP at current prices	31.0	-19.3	-14.5	36.8	10.8	2.0
GDP deflator	24.1	-26.3	-20.5	22.0	4.0	-0.9
Consumer prices (period average)	6.0	9.5	4.8	4.0	3.0	3.0
Consumer prices (end of period)	11.4	6.4	3.2	3.0	3.0	3.0
External sector						
Exports, f.o.b. (CFA francs)	24.0	-25.4	-20.1	49.3	11.7	-0.6
Imports, f.o.b. (CFA francs)	24.7	-6.5	-8.7	22.7	4.6	4.4
Export volume	7.2	21.5	16.1	24.8	9.7	-3.8
Import volume	15.2	3.7	1.9	17.0	1.5	2.0
Terms of trade (deterioration -)	15.2	-29.7	-21.0	13.6	-2.6	0.2
Nominal effective exchange rate (end of period)	0.9	…	…	…	…	...
Real effective exchange rate (end of period)	13.2	…	…	…	...	...
	(Percent of beginning-of-period broad money)					
Money and credit						
Net domestic assets	-71.6	25.6	-21.2	-124.3	…	…
Domestic credit	-72.2	25.6	-21.2	-124.3	…	…
Central government	-84.3	22.5	-23.8	-127.2	…	…
Credit to the economy	12.5	3.2	2.7	2.9	…	…
Broad money	36.4	13.6	9.6	10.5	…	…
	(Percent of GDP)					
Investment and saving						
Gross national saving	19.2	20.5	12.0	24.4	26.2	28.2
Gross investment	20.7	33.3	25.8	21.9	20.9	21.2
Current account balance[2]	-1.5	-12.7	-13.8	2.4	5.3	7.0
External public debt (end of period)	56.6	70.5	26.3	19.9	18.9	18.2
	(Percent of non-oil GDP)					
Central government finances						
Revenue and grants	159.3	66.1	87.4	141.2	147.9	143.7
Oil revenue	136.0	42.3	62.7	116.0	120.4	110.9
Nonoil revenue and grants	20.8	22.3	21.8	22.4	22.7	23.0
Total expenditure	79.5	70.3	69.0	66.2	61.1	57.2
Current	50.4	36.8	34.4	31.4	28.9	27.1
Capital (and net lending)	29.1	33.5	34.7	34.8	32.2	30.1
Overall balance (deficit -, commitment basis)[3]	79.8	-4.1	18.3	75.0	86.8	86.4
Primary balance (deficit -)[4]	91.5	6.3	25.4	82.2	90.1	84.0
Nonoil primary balance (- = deficit)	-44.3	-36.0	-37.3	-33.8	-30.3	-26.8
	(Percent of exports of goods and services)					
External public debt service (after debt relief)[5]	5.4	7.7	1.9	1.6	1.3	2.8
External public debt (after debt relief)[5]	72.0	89.9	35.4	24.8	23.4	23.1
	(Percent of total government revenue excluding grants)					
External public debt service (after debt relief)	8.3	20.5	3.9	2.8	2.2	4.3
External public debt (after debt relief)[5]	110.5	238.2	73.6	42.5	39.0	35.9
	(Billions of CFA francs, unless otherwise indicated)					
Gross official foreign reserves	1,825.3	1,678.3	2,164.9	3,619.2	5,440.9	7,393.7
Nominal GDP	4,801.9	3,876.4	4,105.7	5,616.5	6,224.2	6,348.6
World oil price (U.S. dollars per barrel)	97.0	52.0	61.5	76.5	79.5	81.0
Oil production (Millions of barrels)	86.6	107.6	101.8	127.5	136.7	131.3

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

[1]Country Report No. 09/217.

[2]Including public transfers.

[3]Including grants.

[4]Primary revenue (excluding interest income and grants) minus non-interest current expenditure minus domestically financed capital expenditure and net lending.

[5]Assuming HIPC relief by end-2009.

Table 2. Republic of Congo, Medium Term Balance of Payments, 2008–12

	2008	2009		2010	2011	2012
	Est.	Prog.[1]	Proj.		Proj.	
			(Billions of CFA francs)			
Current account	-70	-494	-566	137	328	445
Trade balance	2,314	1,389	1,700	2,852	3,289	3,194
Exports, f.o.b.	3,601	2,792	2,876	4,294	4,798	4,769
Oil sector	3,359	2,563	2,676	4,071	4,560	4,508
Non-oil sector	243	229	200	224	238	261
Imports, f.o.b.	-1,287	-1,403	-1,176	-1,442	-1,509	-1,575
Oil sector	-302	-423	-347	-363	-448	-428
Government	-283	-358	-314	-429	-367	-387
Non-oil private sector	-702	-622	-514	-650	-694	-760
Balance of services	-1,006	-1,294	-990	-1,119	-1,214	-1,197
Oil sector	-753	-933	-772	-836	-928	-886
Nonoil sector	-203	-361	-218	-284	-286	-311
Income	-1,365	-589	-1,264	-1,593	-1,754	-1,558
Labor income	-46	-36	-36	-57	-64	-63
Investment income	-1,319	-553	-1,228	-1,536	-1,690	-1,494
Current transfers (net)	-13	-1	-12	-2	7	6
Capital account	18	22	1,132	33	45	47
Debt forgiveness[2]	0	0	1,110	0	0	0
Official grants	18	22	22	33	45	47
Other	0	0	0	0	0	0
Financial account	1,227	383	-271	1,282	1,447	1,461
Direct investment (net)	1,112	771	933	1,261	1,514	1,534
Of which: oil sector	990	572	888	1,118	1,239	1,182
Portfolio investment	-1	0	0	0	0	0
Other investment	116	-389	-1,204	21	-67	-72
Medium and long term	-207	-90	-1,204	-38	-3	-60
Public sector	-82	72	-1,036	35	55	-16
Drawings	47	120	119	106	120	121
Project	46	101	100	106	120	121
Program	1	0	0	0	0	0
Amortization	-129	-47	-1,156	-71	-65	-137
Private sector	-125	-163	-168	-73	-58	-45
Oil	-79	-153	-98	-39	-24	-21
Non-oil	-46	-10	-69	-35	-34	-24
Short term	323	-299	0	59	-64	-12
Errors and omissions	-62	0	0	0	0	0
Overall balance of payments	1,113	-89	295	1,452	1,820	1,954
Financing	-1,113	89	-295	-1,452	-1,820	-1,954
Reserve financing	-844	89	-295	-1,452	-1,820	-1,954
IMF (net)[3]	1	2	-6	2	2	-1
Purchases/Disbursements	1	2	2	2	2	0
Repurchases / Repayments	0	0	0	0	0	-1
Others reserves	-844	87	-289	-1,454	-1,822	-1,953
Exceptional financing[4]	-270	0	0	0	0	0
Net change in arrears	-801	0	-430	0	0	0
Debt cancellation	207	0	208	0	0	0
Debt rescheduling	325	0	222	0	0	0
Financing gap (- = surplus)	0	0	0	0	0	0
			(Annual percentage change, unless otherwise indicated)			
Memorandum items:						
Current account balance[5]	-1.5	-12.7	-13.8	2.4	5.3	7.0
Export volume	7.2	21.5	16.1	24.8	9.7	-3.8
Import volume	15.2	3.7	1.9	17.0	1.5	2.0
Export price	15.7	-38.6	-31.2	19.7	1.8	3.3
Import price	8.3	-9.9	-10.4	4.8	3.1	2.4
Terms of trade	15.2	-29.7	-21.0	13.6	-2.6	0.2

Sources: BEAC; and Fund staff estimates and projections.

[1] Country Report No. 09/217.

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

[3] Includes assumed disbursements under the new PRGF.

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

[5] Percent of GDP; including public transfers.

Table 3a. Republic of Congo: Central Government Operations, 2008–12

	2008	2009		2010	2011	2012
	Est.	Prog. [1]	Proj.		Proj.	
	(Billions of CFA francs)					
Revenue and grants	2,480	1,169	1,491	2,662	3,055	3,270
Primary Revenue	2,442	1,120	1,442	2,609	2,956	3,046
Oil revenue	2,118	748	1,070	2,187	2,487	2,523
Non-oil revenue	324	372	372	422	469	523
Investment income	20	27	27	20	53	177
Grants	18	22	22	33	45	47
Expenditure and net lending	1,238	1,242	1,178	1,248	1,262	1,303
of which primary expenditure	1,024	1,046	1,046	1,101	1,095	1,133
Current expenditure	785	651	587	593	597	618
Wages	166	175	175	188	200	211
Other current expenditure	446	377	377	361	363	377
Material and supplies	176	164	164	175	186	196
Common charges	42	25	25	23	20	20
Budgetary reserves	0	20	15	10	10	10
Transfers	228	167	172	153	147	151
Traditional transfers	123	128	128	141	146	150
National refinery (CORAF)	62	0	0	0	0	0
Refined petroleum products	23	13	13	10	0	0
Elections	10	25	30	0	0	0
SOCOTRAM	8	1	1	2	1	1
Hydro Congo	3	0	0	0	0	0
Local authorities	23	25	25	36	32	28
Interest	150	74	10	8	2	1
Domestic	10	7	7	6	0	0
External	140	67	3	2	1	1
Capital expenditure	453	592	591	655	665	685
Domestically financed	390	469	469	516	500	517
o.w. HIPC financed	7	37	37	41	…	…
Externally financed	64	123	122	139	165	168
Net lending	0	0	0	0	0	0
Basic primary balance [2]	1,424	111	433	1,549	1,861	1,913
Of which: Basic non-oil primary balance	-690	-637	-637	-638	-626	-610
Balance, commitment basis						
Excluding grants	1,224	-95	291	1,381	1,748	1,920
Including grants	1,242	-73	313	1,414	1,793	1,967
Of which: Non-oil balance	-873	-821	-757	-773	-694	-556
Change in arrears	-944	-124	-554	-94	-93	-82
External	-801	0	-430	0	0	0
Domestic	-143	-124	-124	-94	-93	-82
Balance, cash basis	298	-197	-241	1,320	1,700	1,885
Financing	-298	197	241	-1,320	-1,700	-1,885
Foreign (net)	408	-6	476	35	55	-16
Drawings	47	101	100	106	120	121
Amortization due	-170	-107	-1,164	-71	-65	-137
Rescheduling obtained	325	0	222	0	0	0
Debt cancellation	207	0	208	0	0	0
Exceptional assistance (including debt relief) [3]	…	0	1,110	0	0	0
Domestic (net)	-706	203	-235	-1,355	-1,755	-1,869
Banking system (net)	-599	207	-231	-1,352	-1,752	-1,869
Nonbank financing	-107	-4	-4	-3	-3	0
Financing gap (- = surplus)	0	0	0	0	0	0
Memorandum items:						
GDP at current market prices	4,802	3,876	4,106	5,616	6,224	6,349
Non-oil GDP at market prices	1,557	1,768	1,706	1,885	2,066	2,276
Pro poor spending	343	382	406	455	505	561

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

[1.] Country Report No. 09/217.

[2.] Primary revenue (excluding interest income and grants) minus noninterest current expenditure minus domestically financed capital expenditure (excluding HIPC-financed capital expenditure) and net lending.

[3.] Congo is projected to reach the HIPC completion point at the end of 2009.

Table 3b. Republic of Congo: Central Government Operations, 2008–12

	2008	2009		2010	2011	2012
	Dec. Est.	Prog.[1]	Proj.		Proj.	
	(Percent of non-oil GDP)					
Revenue and grants	159.3	66.1	87.4	141.2	147.9	143.7
Primary Revenue	156.8	63.3	84.5	138.4	143.1	133.8
Oil revenue	136.0	42.3	62.7	116.0	120.4	110.9
Non-oil revenue	20.8	21.0	21.8	22.4	22.7	23.0
Investment income	1.3	1.5	1.6	1.0	2.6	7.8
Grants	1.1	1.2	1.3	1.8	2.2	2.1
Expenditure and net lending	79.5	70.3	69.0	66.2	61.1	57.2
of which primary expenditure	65.8	59.1	61.3	58.4	53.0	49.8
Current expenditure	50.4	36.8	34.4	31.4	28.9	27.1
Wages	10.7	9.9	10.3	10.0	9.7	9.3
Other current expenditure	28.6	21.3	22.1	19.1	17.6	16.6
Material and supplies	11.3	9.3	9.6	9.3	9.0	8.6
Common charges	2.7	1.4	1.5	1.2	1.0	0.9
Budgetary reserves	0.0	1.1	0.9	0.5	0.5	0.4
Transfers	14.7	9.5	10.1	8.1	7.1	6.6
Traditional transfers	7.9	7.2	7.5	7.5	7.0	6.6
National refinery (CORAF)	4.0	0.0	0.0	0.0	0.0	0.0
Refined petroleum products	1.5	0.7	0.8	0.5	0.0	0.0
Elections	0.6	1.4	1.8	0.0	0.0	0.0
SOCOTRAM	0.5	0.1	0.1	0.1	0.1	0.0
Hydro Congo	0.2	0.0	0.0	0.0	0.0	0.0
Local authorities	1.5	1.4	1.5	1.9	1.6	1.2
Interest	9.6	4.2	0.6	0.4	0.1	0.1
Domestic	0.6	0.4	0.4	0.3	0.0	0.0
External	9.0	3.8	0.2	0.1	0.1	0.1
Capital expenditure	29.1	33.5	34.7	34.8	32.2	30.1
Domestically financed	25.0	26.5	27.5	27.4	24.2	22.7
o.w. HIPC financed	0.4	2.1	2.2	2.2	…	…
Externally financed	4.1	6.9	7.2	7.4	8.0	7.4
Net lending	0.0	0.0	0.0	0.0	0.0	0.0
Basic primary balance [2]	91.5	6.3	25.4	82.2	90.1	84.0
Of which: Basic non-oil primary balance	-44.3	-36.0	-37.3	-33.8	-30.3	-26.8
Balance, commitment basis						
Excluding grants	78.6	-5.4	17.1	73.3	84.6	84.4
Including grants	79.8	-4.1	18.3	75.0	86.8	86.4
Of which: Non-oil balance	-56.1	-46.4	-44.4	-41.0	-33.6	-24.4
Change in arrears	-60.6	-7.0	-32.5	-5.0	-4.5	-3.6
External	-51.5	0.0	-25.2	0.0	0.0	0.0
Domestic	-9.2	-7.0	-7.3	-5.0	-4.5	-3.6
Balance, cash basis	19.1	-11.1	-14.2	70.0	82.3	82.8
Financing	-19.1	11.1	14.2	-70.0	-82.3	-82.8
Foreign (net)	26.2	-0.3	27.9	1.9	2.7	-0.7
Drawings	3.0	5.7	5.9	5.6	5.8	5.3
Amortization due	-10.9	-6.0	-68.2	-3.8	-3.1	-6.0
Rescheduling obtained	20.9	0.0	13.0	0.0	0.0	0.0
Debt cancellation	13.3	0.0	12.2	0.0	0.0	0.0
Exceptional assistance (including debt relief) [3]	0.0	0.0	65.0	0.0	0.0	0.0
Domestic (net)	-45.3	11.5	-13.8	-71.9	-85.0	-82.1
Banking system (net)	-38.5	11.7	-13.5	-71.7	-84.8	-82.1
Nonbank financing	-6.9	-0.2	-0.2	-0.1	-0.1	0.0
Financing gap (- = surplus)	0.0	0.0	0.0	0.0	0.0	0.0

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

1. Country Report No. 09/217.

2. Primary revenue (excluding interest income and grants) minus noninterest current expenditure minus domestically financed capital expenditure (excluding HIPC-financed capital expenditure) and net lending.

3. Congo is projected to reach the HIPC completion point at the end of 2009.

Table 4. Republic of Congo: Monetary Survey, 2006–10

	2006	2007	2008	2009		2010
			Est.	Prog. [1]	Proj.	Proj.
Monetary survey	(Billions of CFA francs)					
Net foreign assets	1,043	1,110	1,877	1,717	2,176	3,608
Central bank	901	945	1,788	1,650	2,083	3,536
Deposit money banks	141	165	89	66	92	72
Net domestic assets	-378	-399	-908	-674	-1,113	-2,434
Net domestic credit	-362	-380	-893	-659	-1,098	-2,419
Net credit to the public sector	-456	-481	-1,083	-878	-1,314	-2,666
Net credit to the Government	-457	-479	-1,079	-872	-1,310	-2,662
Central bank	-447	-466	-1,072	-865	-1,303	-2,655
Claims	149	170	18	20	12	14
Deposits	596	636	1,090	885	1,314	2,668
Deposit money banks	-10	-13	-7	-7	-7	-7
Claims on public agencies, net	1	-2	-4	-6	-4	-4
Credit to the economy	94	101	190	219	215	247
Other items, net	-15	-19	-15	-16	-15	-15
Broad money	665	711	970	1,043	1,063	1,174
Currency outside banks	271	239	344	332	377	417
Demand deposits	311	381	499	567	547	604
Time deposits	83	91	126	144	139	153
	(Changes in percent of beginning-of-period broad money)					
Net foreign assets	23.3	10.1	108.0	-12.0	30.8	134.8
Net domestic assets	-11.0	-3.2	-71.6	25.6	-21.2	-124.3
Net domestic credit	-11.0	-2.7	-72.2	25.6	-21.2	-124.3
Net credit to the government	-12.8	-3.3	-84.3	22.5	-23.8	-127.2
Credit to the private sector	1.8	1.1	12.5	3.2	2.7	2.9
	(Annual percent changes, unless otherwise indicated)					
Broad money	47.9	6.9	36.4	13.6	9.6	10.5
Reserve money	36.5	-11.8	44.0	13.6	9.6	10.5
Velocity						
Non-oil GDP/Average M2	1.9	2.0	1.9	2.0	2.2	2.2
Non-oil GDP/End period M2	1.8	2.0	1.6	1.7	2.1	2.1
	(Percent)					
Total GDP growth	25.9	-9.4	31.0	-19.3	-14.5	36.8
Non-oil GDP growth	10.2	9.7	11.9	13.6	9.6	10.5
Credit to the private sector/Non-oil GDP	8.4	7.2	12.2	12.4	12.6	13.1

Sources: BEAC; and Fund staff estimates and projections.

[1]Country Report No. 09/217.

Table 5. Republic of Congo: Triggers for the Floating Completion Point under the Enhanced HIPC Initiative

Trigger	Status/comments
1. **PRSP**: Preparation of a full PRSP through a participatory process and satisfactory implementation of its recommended actions for at least one year, as evidenced by an Annual Progress Report (APR) submitted by the government to the staffs of IDA and IMF.	Observed.
2. **Macroeconomic stability**: Maintenance of macroeconomic stability as evidenced by satisfactory performance under the PRGF-supported program as well as any IMF successor program.	Would be observed after completion of the 2nd PRGF review.
3. **Public expenditure priorities:** Alignment of public spending priorities in accordance with the priorities identified in the I-PRSP, and, when completed, the PRSP, reflecting emphasis on pro-poor growth.	Observed.
4. **Public finance management**:	
(i) Establishment of a functional classification system for government expenditures, including poverty related expenditures, consistent with the IMF's *Government Finance Statistics* manual, and preparation of government budgets using this new classification;	Observed.
(ii) Implementation of a new public investment management system to provide rigorous selection, and efficient execution and monitoring of the projects; submission of draft public investment programs to IDA for review;	Main outstanding measure concerns the finalization of the new system for appraising public investment projects.
(iii) Adoption and satisfactory implementation by the government of a new procurement code (that promotes transparency and competition), in line with international best practice; and	New code adopted with application texts and institutions established. Full implementation requires critical staff appointments and training, the creation of procurement units in key line ministries, and adoption of standard bidding documents.
(iv) Adoption by the government of a medium-term framework (MTEF) for sustainable management of government expenditures and revenues, with technical assistance from IDA and IMF.	Appropriation of the new oil revenue projection model within the MTEF is needed to satisfy the trigger.
5. **Governance and natural resource management**	
Governance: Completion of a diagnostic governance and corruption study by an independent group of internationally reputed experts, assisted by a national anti-corruption committee, based on terms of reference prepared in consultation with IDA and IMF staffs. The terms of reference and composition of the national anti-corruption committee will be satisfactory to IDA and IMF staffs. Adoption by the government of an action plan, prepared in consultation with IDA and IMF staffs, to improve governance and reduce corruption, and sustained implementation of such action plan during the completion of the audits referenced in subsections 5(i) and 5(ii). Assessment of the implementation of the action plan by IDA and IMF staffs on the basis of an independent review by international experts acceptable to IDA and the IMF.	Anti-corruption law and the anti-corruption action plan adopted and implementation underway, including a series of dissemination activities and the adoption of secondary legislation.
Oil sector:	
(i) Assessment by IDA and IMF staffs, based on successive annual audit opinions by an independent firm of international reputation, and certified by the national anti-corruption committee, that SNPC's internal controls and accounting system are in line with international standards and best practices;	Audits of 2006 and 2007 accounts show improvement but contain some reservations. Remedial measures are being taken, most notably the move to a new analytical accounting system. The launch of the 2008 audit will be based on accounts produced from this new system.

Table 5 (Cont). Republic of Congo: Triggers for the Floating Completion Point under the Enhanced HIPC Initiative

Trigger	Status/comments
(ii) Preparation, by an independent firm of international reputation, of a diagnostic study of the practices for the commercialization of oil by SNPC, based on terms of reference prepared in consultation with IDA and IMF staffs. Assessment by IDA and IMF staffs, based on successive audit opinions by an independent firm of international reputation, that the commercialization of oil by SNPC has been brought into line with international best practice on the basis of the recommendations of the diagnostic study, and results in competitive and fair market values to Congo for the oil sold; and	Implementation of several measures to improve oil commercialization underway, including preparation of internal procedures on decision making, a training plan, preparation of a data base, and revision of COTRADE's corporate status and mission.
(iii) Adoption and application by the government, certified by the national anti-corruption committee, during the completion of the audits referenced in 5(i) and 5(ii), of a legal text stipulating: • compulsory declaration, to the National Auditing Office (Cour des Comptes), by the members of the Executive Board of SNPC and those having a management mandate within SNPC and its subsidiaries, at the moment of their nomination and annually thereafter, of their participation or other interests in companies having business relations with SNPC or its subsidiaries as well as the verification and annual publication of the aforementioned declarations by the National Auditing Office (Cour des Comptes). • divestiture by the members of the Executive Board of SNPC and by those having management responsibilities within SNPC or any of its subsidiaries of such participations and/or other interests, within a time period of 6 months after their nomination and prohibition of the taking of any interest in companies having business relations with SNPC during the period of their mandate.	Statement on 2009 submitted to Cour de Comptes, verification by the Court still outstanding.
Forestry sector*:* Review of forestry sector management and legislation with IDA assistance; adoption by the government of measures recommended by the review to promote competition, transparency, and sustainable development in this sector.	Decrees on i) concession attribution, ii) environmental and social impact studies, iii) procedures on contradicting use of forests and iv) forest classification adopted. Adoption of amendments to the Forestry code outstanding, but expected to be submitted to Parliament by mid-October
6. **Structural reform**: Review and adoption of a regulatory framework for the telecommunications sector establishing competition at the level of international gateways and the wireless local loop.	New telecom law adopted but enabling legal texts are outstanding; also the regulatory agency still needs to be constituted and rendered operational.
7. **Social sectors**:	
Education: Implementation during 2006 of a strategy to eliminate fictitious workers from the education budget and increase teacher staff by, at least, 1,000 each year in basic education until 2007.	Observed.
Health: Increase to, at least, 60 percent the share of generic drugs in total expenditures on drugs by the central purchasing agency.	Disbursements to central purchasing agency halted pending finalization of an audit of its financial operations.
HIV/AIDS: Increase in the number of voluntary AIDS counseling and testing centers with associated measures (staff, equipment, and awareness campaign) from 4 at present to, at least, 10 in 2006 and 15 in 2007.	Observed.
8. **External debt management**:	
(i) Publication of the quarterly external debt data and projections on a government website; and	Observed.
(ii) Centralization of all information on debt, including collateralized debt, in the government's debt agency (CCA).	Observed.

Table 6: Republic of Congo: Access and Phasing Under the 3-Year PRGF Arrangement (2008–11)[1]

Timing	Disbursement		Conditions
	Amount in SDRs	Percent of quota	
Dec-08	1,208,570	1.43	Approval of the arrangement
Jun-09	1,208,570	1.43	Review completed (June 2009)
Oct./Nov.-09	1,208,570	1.43	Completion of the second review (end-June 2009 test date)
Mar-10	1,208,570	1.43	Completion of the third review (end-December 2009 test date)
Dec-10	1,208,570	1.43	Completion of the fourth review (end-June 2010 test date)
Jun-11	1,208,570	1.43	Completion of the fifth review (end-December 2010 test date)
Sep-11	1,208,580	1.43	Completion of the sixth (final) review (end-March 2011 test date)[2]
Total	8,460,000	10.00	

[1]The Republic of Congo's quota is SDR 84.6 million.
[2]A test date of end-March 2011 is set to allow the final disbursement to take place before the end of the arrangement period

APPENDIX I—LETTER OF INTENT

Brazzaville, November 5, 2009

The Minister of Finance, Budget
and Public Portfolio

To:

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, DC 20431
United States of America

Dear Managing Director:

A new government was formed by President Sassou N'Guesso on September 15, 2009. The new government is determined to successfully implement the medium-term economic and financial program supported by the IMF under the Poverty Reduction and Growth Facility (PRGF) arrangement, which was approved by the Executive Board in December 2008. Our program is designed to support balanced growth, low inflation, and fiscal and external sustainability, including through debt relief under the enhanced Initiative for Heavily Indebted Poor Countries (HIPC). In the attached Memorandum of Economic and Financial Policies (MEFP, Attachment I), we outline the broad thrust of our macroeconomic policies and the structural reforms we intend to take in the period ahead to achieve the objectives of our program.

Despite the global financial crisis and the volatility of world oil prices, the implementation of our Fund-supported program has been relatively smooth thus far. We attribute this to close program monitoring, our improving capacity and ability to address external shocks because of our better fiscal position, and our determination to reach the HIPC completion point as soon as possible.

Together with IMF staff, we have undertaken the external debt reconciliation that is required for reaching the HIPC completion point. I regret to inform you, Managing Director, that during this work it was discovered that we had made an error in our calculation of the discount we reported to the Paris Club and Fund staff on the settlement with litigating creditors in December 2008. We had mistakenly overestimated the London Club liabilities held by the litigating creditors (holding validated claims). The settlement in December 2008 included a discount of 37 percent, rather than the 65 percent we reported earlier. We notified the Paris Club of this mistake in mid-September and further clarified the situation in a detailed report in mid- October.

In view of the irregularities identified in BEAC's external office, we fully recognize that the IMF is appropriately concerned about safeguarding its resources and, in this regard, understand that it would not be in a position to complete our request for completion of the second review unless it is satisfied that related concerns are being addressed. To this end, we emphasize that the Congolese authorities are working closely with the BEAC and our CEMAC partners to ensure the timely implementation of the remedial measures discussed with Fund staff as necessary to demonstrate satisfactory progress in resolving safeguards concerns at the BEAC. Importantly, the BEAC has already responded in writing to IMF staff that they agree with the outlined remedial measures. In the event, we hope that a resolution to the problems can be found quickly, so as not to jeopardize our relations, or that of our CEMAC partners, with the IMF.

We believe that the policies and measures set forth in the attached MEFP are appropriate to achieve the objectives of our Fund-supported program. During the implementation of the program, we will consult with Fund staff on the adoption of any measures that may be necessary to achieve its objectives, at the initiative of the government, or whenever the Fund staff requests such a consultation.

The government intends to make the contents of this letter and those of the attached Technical Memorandum of Understanding (Attachment II), as well as the staff report accompanying its request for completion of the second review of the program, available to the public and authorizes the IMF to arrange for them to be posted on the Fund's website, subsequent to Executive Board approval of its request.

The third and fourth reviews under the PRGF arrangement are expected to be completed by end-February 2010 and end-September 2010, respectively.

Sincerely yours,

/s/

Gilbert Ondongo
Minister of Finance,
Budget, and Public Portfolio

Attachments (2)

APPENDIX I—ATTACHMENT I

Memorandum of Economic and Financial Policies, 2009–10

November 5, 2009

I. INTRODUCTION

1. In the period ahead, we will continue to pursue macroeconomic policies and structural reform consistent with the objectives laid out in the program approved by the Fund's Executive Board in December 2008, which is guided by the government's Poverty Reduction Strategy (PRS). In our view, those objectives remain achievable despite the global financial crisis, which has had a limited impact on Congo so far. This Memorandum of Economic and Financial Policies (MEFP) provides further details on policies over 2009–10, consistent with the medium-term program we laid out in our Letter of Intent and accompanying MEFP in November 2008.

II. RECENT ECONOMIC DEVELOPMENTS AND PROSPECTS

2. Economic activity has been generally strong during the past several years, although it slowed recently in response to a decline in timber exports and lower-than-expected oil production due to technical problems. Congo remains at high risk of debt distress but there has been a strengthening of our external debt position.

- Economic activity has slowed this year but is expected to pickup in the near term, as oil production is boosted by the output of new fields and the non-oil sector is buoyed by an expansion in the construction, telecommunications, and transport sectors. Real GDP growth in the non-oil sector could reach 6 percent next year, although a higher rate of growth is needed to reduce poverty durably. Inflation peaked in February of this year but has since trended downward and is projected to move toward the CEMAC convergence criterion of 3 percent (average inflation) in the period ahead.

- The external current account deficit is expected to widen this year but it should move into surplus next year, on account of an improvement in the terms of trade and higher oil exports. Our external debt position has been strengthened recently due to the Paris Club rescheduling in December 2008 on Cologne terms and a settlement with litigating creditors holding validated claims. External public debt fell from 90.7 percent of GDP at end 2007 to 56.6 percent at end 2008, and debt service has been cut in half. This position will further improve once Congo reaches the HIPC completion point.

3. The implementation of our Fund-supported program has been smooth so far, despite the global financial crisis and the volatility of world oil prices. Close program monitoring, improving administrative capacity, and our better fiscal position has helped in this regard.

Also, we have been motivated by the desire to reach the HIPC completion point as soon as possible, which will enable us to reap the benefits of further lowering our debt burden, and to free resources to finance pro-growth and pro-poor programs.

- Since 2007 when the basic non-oil primary fiscal deficit ballooned to 55.7 percent of non-oil GDP, we have strengthened public financial management and this will help us achieve our goal of long-term fiscal sustainability. At end 2008, the basic non-oil primary deficit was lowered to 44.3 percent of non-oil GDP, and we expect to further reduce it this year. Over the first half of 2009, the basic non-oil primary balance was CFAF 345 billion, compared with the program target of CFAF 371 billion. We accomplished this over-performance during the run-up to the Presidential election in mid-July, mainly through strong tax revenue and better expenditure control.

- Progress has been made on structural reform and we observed all but one of the structural benchmarks through end June. These benchmarks included measures to improve public financial management (the preparation of a medium-term expenditure framework consistent with our PRS, no recourse to emergency payment procedures, and transparency in public procurement through the publication of bids above a specific threshold); and oil sector governance (the quarterly certification of oil revenue, and timely repatriation of oil proceeds to the treasury). Unfortunately, we could not finalize the strategic study of the oil sector because the inputs required to undertake this analysis were only recently obtained (including the development of an oil revenue model, audit reports of oil costs, audits of SNPC, the EITI report that we have just completed, and the design of a database).

- Also, we have made progress toward meeting the floating completion point triggers under the enhanced HIPC Initiative and we hope to reach the completion point as soon as possible. The Annual Progress report on the implementation of the PRS has been validated and submitted to Fund and World Bank management, and triggers in the social sectors, external debt management, and public expenditure priorities are now complete. The triggers on public financial management, and governance and natural resource management are expected to be met later this year, after we demonstrate a satisfactory track record of implementation of certain measures in these areas (public procurement, oil commercialization, and combating corruption).

III. The Program for 2009–10

4. Over the next year or so, we will maintain the thrust of macroeconomic policies with its focus on achieving low inflation to help preserve Congo's international competitiveness under the fixed exchange rate regime, and fiscal consolidation to preserve Congo's oil wealth for future generations. Structural policies will continue to focus on enhancing public financial management and governance, strengthening oil sector management, and furthering reforms initiated under the HIPC Initiative.

A. Fiscal Policy

5. Over a short period, we have undertaken a substantial tightening of the fiscal stance, which has put Congo in a strong position to address the global financial crisis and to slow the pace of consolidation, without jeopardizing the program's fiscal objectives. The target on the basic non-oil primary deficit remains unchanged for this year at CFAF 637 billion, equivalent to about 37.3 percent of non-oil GDP. We will target a basic non-oil primary deficit of about 33.8 percent of non-oil GDP in 2010; an adjustment of 3½ percentage points compared with the 4½ percentage points indicated at the time of the first review of our program last June. This slower pace of adjustment is possible because we front-loaded our fiscal consolidation efforts (19 percentage points of non-oil GDP over two years) and there is a positive fiscal impact of higher world oil prices and prospects for expanding long-term oil production. When oil prices and oil reserves increase, a smaller fiscal adjustment is needed in the non-oil primary deficit to ensure long-term sustainability.

6. Consequently, the 2010 budget that we have agreed with Fund staff and will be submitted to Parliament later this year will envisage a non-oil primary fiscal deficit of CFAF 638 billion. To achieve this target, we will

- continue to implement reforms to tax and customs administration and begin to address tax policy changes, in line with Fund technical assistance. We project an increase in oil revenue from an improvement in world oil prices and higher oil production, and an increase in non-oil revenue, partly due to an acceleration of growth in the non-oil economy. The Fund's technical assistance on tax policies suggest that Congo could increase non-oil revenue by as much as 3½ percent of non-oil GDP over the medium term, and we will make concerted efforts to implement its recommendations through an action plan with a detailed timetable by end-March 2010 (structural benchmark). We will undertake a planned review of exemptions with the view of eliminating most of them (again in line with Fund technical assistance), including in the areas of tax and customs administration (structural benchmark for end-December 2009) that should also help to mobilize more domestic revenue and the attainment of our targets.

- ensure the budget is consistent with the new medium-term expenditure framework (end December 2009 structural benchmark) and use the additional fiscal room to boost pro-poor spending. This will include a program to decentralize social, health and education outlays to improve their effectiveness (in line with the PRS); a slight increase in public investment (financed by interim-HIPC assistance) targeted at the transportation network; and resources to advance the process of restructuring the operations and performance of the main public utility companies (water, electricity, telephone, and transportation), guided by previous and ongoing technical assistance from our development partners. The reform of these public enterprises will be led by the Ministry of Finance, Budget, and Public Portfolio, which has been given this responsibility under the new government.

- implement on October 1, 2009 the fuel pricing mechanism that was adopted by the government earlier this year (structural benchmark). This mechanism is designed to remove pricing decisions from political interference, make price adjustments regular and transparent, and eliminate poorly-targeted fuel subsidies.

- continue to reduce domestic payments arrears (mainly wages, pensions, and liabilities to public enterprises), which is important for maintaining social cohesion and stability. Also, we will undertake audits to assess the arrears (wages, pensions) and liabilities of public enterprises liquidated or under restructuring. These audits will cover the period 2000-08 (structural benchmark for end-June 2010). These audits may have implications for the budget, which will be discussed with Fund staff once they are completed.

- refrain from using the SDR allocation (amounting to SDR 62.7 million) since it would carry a nonconcessional rate and Congo does not face financing constraints, especially with the improvement in world oil prices.

- continue to implement our program to enhance public financial management (with support from the Fund and World Bank), which will include maintaining the policy of no recourse to emergency payment and cash advance procedures and support for the implementation of the new procurement code by ensuring that public contracts over a specified limit are open to competitive tenders (both continuous structural benchmarks).

B. Monetary and Financial Sector Policies

7. Congo is a member of the Central African Economic and Monetary Community (CEMAC), which has a regional central bank (BEAC) and a fixed exchange rate. BEAC projects broad money growth for Congo of about 10½ percent for this year, consistent with the continued financial deepening of the Congolese economy.

8. To increase the growth of credit to the private sector, we are implementing a financial sector reform strategy drafted with the assistance of Fund staff. This strategy provides a roadmap and a timetable of actions, which we are moving forward with in consultation with the private sector. In the period ahead, reform will focus on enhancing the role of the corporate financial statement registry and the Central Credit Bureau to improve information on credit facilities, costs, and defaults, and strengthen the judicial sector (with assistance from the European Union), compliance with OHADA business laws, and reform of the land Registry Company.

C. External Sector Policies

9. The government will hold to the position that development should be financed mainly with its own resources, and it will seek grants and foreign assistance only on highly concessional terms (with a minimum grant element of 50 percent). It will continue to use its best efforts to obtain comparable treatment from suppliers, non-London Club creditors, and litigating creditors in its debt restructuring, as it pursues HIPC debt relief. We understand that broad-based support from our creditors is essential to proceed to the completion point and we will spare no effort to elicit that support.

D. Structural Policies

10. Concerning structural policies, we will continue to press ahead with the agenda laid out in our MEFP of November 2008, with its focus on improving public financial management, deepening financial intermediation (both discussed above), and strengthening governance and natural resource management. In addition, we will continue to push ahead with reforms initiated under the HIPC Initiative that complement these areas.

- We will strengthen governance through the progressive implementation of the action plan to combat corruption (prepared in consultation with our development partners), and make full use of the office of the Anti-Corruption Observatory. To that end, we will ensure that the Observatory has the necessary resources to operate effectively.

- In the oil sector, we will continue the practice of certifying oil revenue on a quarterly basis through an international auditor (continuous structural benchmark); ensure the repatriation to the treasury of oil proceeds within 45 days after shipment (continuous structural benchmark); support implementation of the new oil commercialization action plan by ensuring that oil is marketed in line with the recommendations made by the international consultant, who is advising the state-owned oil enterprise (SNPC, and its subsidiary COTRADE) on international best practice (these recommendations will include the introduction of competitive tenders for oil sales) (continuous structural benchmark); follow through with the necessary steps to complete the validation process under the EITI; continue to implement the action plan to reform the national petroleum refinery (CORAF); and complete the strategic study of the oil sector by end-March 2010 (structural benchmark).

E. Program Monitoring for 2009–10

11. Over the rest of 2009 and 2010, the program will be monitored through reviews based on biannual quantitative performance criteria for end-December 2009 and end-June 2010 (Table 1) and structural benchmarks (Table 2). Detailed definitions and reporting requirements for all quantitative performance criteria and structural conditions are contained in the accompanying Technical Memorandum of Understanding (TMU, Attachment II). The

authorities will make available to Fund staff all core data, appropriately reconciled and on a regular and timely basis, as specified in the TMU.

12. The third and fourth reviews under the PRGF arrangement are expected to be completed by end-February 2010 and end-September, respectively.

Table 1. Quantitative Targets, 2009-10
(Billions of CFA francs; cumulative from January; unless otherwise indicated)

	End-Jun. 2009		End-Sep. 2009	End-Dec. 2009	End-Mar. 2010	End-Jun. 2010	End-Sep. 2010	End-Dec. 2010
	Perf. Criteria	Actual	Indicative Target	Perf. Criteria	Indicative Target	Perf. Criteria	Indicative Target	Indicative Target
Quantitative targets								
Nonoil primary fiscal balance (floor)	-371	-345	-513	-637	-181	-363	-500	-638
New medium or long-term nonconcessional external debt (including leasing) contracted or guaranteed by the government (ceiling) [1, 2, 3]	0	0	0	0	0	0	0	0
New external debt (including leasing) with an original maturity of less than one year (ceiling) [2]	0	0	0	0	0	0	0	0
New oil-collateralized external debt contracted by or on behalf of the central government (ceiling) [2]	0	0	0	0	0	0	0	0
New nonconcessional external debt with a maturity of more than 1 year contracted or guaranteed by SNPC (ceiling) [2]	0	0	0	0	0	0	0	0
New external arrears on nonreschedulable debt (ceiling) [2]	0	0	0	0	0	0	0	0
New domestic arrears [2]	0	0	0	0	0	0	0	0
Memorandum items								
Oil revenue	300	380	686	1,070	516	1,060	1,618	2,187
Non-oil primary revenue	187	206	279	372	106	211	317	422
Pro-poor spending	…	216	318	406	125	249	352	455

[1] Excluding rescheduling arrangements and disbursements from the IMF; the minimum grant element is set to 50 percent.
[2] Continuous.
[3] The zero ceiling on concessionality does not apply to forthcoming external loans from the European Investment Bank and the Central African States Development Bank, as specified in paragraph 10 of the Technical Memorandum of Understanding.

Table 2. Structural Benchmarks Under the PRGF Arrangement, 2009–10

Measures	Timing
Public financial management and domestic revenue mobilization	
Submit to parliament a 2010 budget consistent with the new medium-term expenditure framework.	End-December 2009
Have no recourse to emergency payment and cash advance procedures except in situations stated in the organic budget law.	Continuous
Support implementation of the new procurement code by ensuring that 80 percent of public contracts) having a total value of over CFAF 250 million are open to competitive bidding.	Continuous
Prepare an action plan and timetable for the implementation of tax policy changes in line with FAD technical assistance.	End-March 2010
Undertake the planned review of exemptions in line with FAD technical assistance, including in the areas of tax and customs.	End-December 2009
Undertake audits to assess the arrears (wages, pensions) and liabilities of public enterprises liquidated or under restructuring. These audits will cover the period 2000–08.	End-June 2010
Governance and natural resource management	
Support implementation of the new oil commercialization action plan by ensuring that oil is marketed in line with the recommendations made by the international consultant, who is advising the state-owned oil enterprise (SNPC, and its subsidiary COTRADE) on international best practice. These recommendations will include the introduction of competitive tenders for oil sales.	Continuous
Have an internationally reputable audit firm certify oil revenue quarterly, using the same specifications as for the 2003 certification and with no restrictions on access to the information; and publish the certification reports on the website of the Ministry of Economy, Finance and Budget (www.mefb-cg.org). Also, the government will post on the website not only the audit but for each report, a note addressing comments by the auditors.	Continuous, with a one-quarter lag
Repatriate to the Treasury the proceeds of oil shipments commercialized by private companies and SNPC on behalf of the government within 45 days after the actual shipment date, based on actual quantities, prices, and shipment dates.	Continuous
Finalize the strategic study of the oil sector—assisted by Congo's development partners—which will include a critical assessment of the institutions and enterprises, including CORAF.	End-March 2010
Public enterprises	
Ensure regular and timely adjustment of petroleum-product prices in line with the pricing mechanism adopted in May 2009, to avoid the need for budget subsidies or subsidies to the state-owned oil refinery, CORAF.	Quarterly

APPENDIX I—ATTACHMENT II

Technical Memorandum of Understanding

Brazzaville, November 5, 2009

1. This technical memorandum of understanding (TMU) describes the definitions that are intended to clarify the measurement of the quantitative performance criteria and indicators in Table 1 of the supplemental Letter of Intent and the Memorandum of Economic and Financial Policies (MEFP, dated November 19, 2008) covering 2008–11. All quantitative performance criteria and indicators will be evaluated in terms of cumulative flows from December 31, 2008. Also, the TMU specifies the periodicity and deadlines for transmission of data to the staff of the IMF for program monitoring purposes.

I. DEFINITIONS AND COMPUTATION

A. Government

2. Unless otherwise indicated, **government** is defined as the central government of the Republic of Congo and does not include local governments, the central bank, and any public entity with autonomous legal personality (i.e., wholly- or partially-owned state enterprises) not currently covered by the government's consolidated financial operations table (tableau des opérations financières de l'Etat—TOFE).

B. Basic Primary Fiscal Balance

3. The scope of the government's **financial operations table** (TOFE) includes the general budget and the special accounts of the Treasury (including the forestry and road funds) and the government debt management agency (Caisse Congolaise d'Amortissement, CCA).

4. The government's **non-oil basic primary fiscal balance** is defined as total non-oil revenue excluding grants and interest income (on the government's accounts in the central and commercial banks), minus total expenditure (including net credit), which is to exclude transfers to Hydro Congo, interest payments on debt, foreign-financed capital expenditure, and expenditure financed by interim assistance under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative. It is calculated from the budget execution outturn reported every month in the TOFE prepared by the Ministry in charge of finance.

5. The government's **total revenue** is reported in the TOFE on a cash basis. It includes all revenue collected by the Treasury (from tax and customs receipts, oil, services and forestry), whether they result from past, current, or future obligations. Receipts also include those recorded on a gross basis, in special accounts.

6. **Oil revenue** is defined as the government's net proceeds from the sale of oil, including the provision for diversified investments, royalties paid by oil companies, and the government's share of excess and profit oil. It excludes all forms of prepayment and pre-financing. The oil revenue projections take account of the 45 day lag between the date of shipment and the date of receipt of the sale proceeds by the Treasury.

7. **Expenditures** are recorded on a payment order basis**.** They include current expenditure, domestically-financed capital expenditure, foreign-financed capital expenditure, and net lending. Current expenditures include expenditures on wages, goods and services, common charges, interests on debt (domestic and external), transfers and subsidies, and other current expenditures. Subsidies to the state-owned oil refinery, CORAF, are estimated on the basis of the enterprises income statement.

8. Pro-poor spending is defined in the budget on the basis of the administrative classification, with a view to moving to the functional classification as soon as possible.

C. Foreign Debt and External Arrears

9. The definition of **government** used for the various external debt indicators includes government, as defined in paragraph 2, public institutions of an administrative nature (*Etablissements Publics Administratifs*), public institutions of a scientific and/or technical nature, public institutions of a professional nature, public institutions of an industrial and/or commercial nature (*Entreprises Publiques d'Intérêt Commercial*), and local governments, with the sole exception of the national oil company (SNPC)—see paragraph 12 below.

10. For the purposes of this memorandum**, debt and concessional loans** are defined as follows:

- As specified in the guidelines adopted by the Executive Board of the IMF,[1] debt will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more

[1] See Executive Board Decision No. 6230-(79/140) as amended by Decisions Nos. 11096-(95/100) and 12274-(00/85).

payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows: (i) loans, i.e., advances of money to the obligor by the lender made 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, i.e., contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. 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 agreement, 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 the 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.

- Loan concessionality is assessed on the basis of the commercial interest reference rates (CIRRs) established by the OECD. A loan is said to be on concessional terms if, on the date of conclusion of the contract, the ratio of the net present value of the loan, calculated on the basis of the reference interest rates, to its nominal value is less than 50 percent (i.e., a grant element of at least 50 percent). 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.

- The concessionality requirement applies not only to the central government, but also covers debt incurred by public enterprises. The sole exception to this concessionality requirement is the projected external loans to the Port Authority of Pointe Noire to support its rehabilitation from the European Investment Bank in an amount up to euro 29 million, and from the Central African States Development Bank in an amount up to euro 9.1 million.

11. The quantitative indicative target with respect to **external debt** apply not only to debt as defined in the above-mentioned guidelines, but also to commitments incurred or guaranteed for which no value has yet been received or on which only partial drawings have been made. However, this does not apply to financing from the IMF or to Treasury bills and bonds issued by the Congolese Treasury in CFA francs on the CEMAC regional market.

12. For **external debt with an initial maturity of less than one year (**a continuous quantitative performance criterion)**,** normal short-term import and export credit are excluded from the scope of the indicator, including the prepayments.

13. The ceiling on any **new nonconcessional external debt with a maturity of more than one year contracted or guaranteed by the SNPC**, with or without government guarantee, will be observed continuously. The SNPC may borrow only to finance investments related to its core activities (research, exploration, production, refining and distribution of oil, construction of a Brazzaville headquarters, creation and strengthening of its database, etc.). In addition, these investments must be included in the SNPC's investment budget approved by its board of directors. The ceiling on debt does not apply to changes in loan accounts with oilfield partners or to loans with maturities of less than one year.

14. The accumulation by the government of **external payment arrears** is the difference between (i) the gross amount of external debt service payments due (principal and interest, including penalty and/or late interest, as appropriate) and (ii) the amount actually paid during the period under consideration. Under the program, the government commits itself to not accumulate external payment arrears on non-reschedulable debt (that is, debt to Paris Club creditors contracted after the cutoff date and debt to multilateral creditors). Non-accumulation of external payment arrears is an indicator to be continuously observed.

D. Oil-Collateralized External Debt and Oil Prepayments

15. Oil-collateralized external debt is external debt which is contracted by giving an interest in oil. Pre-financing is defined as an oil-collateralized loan which is repaid by the sale of the oil in a different calendar year. New pre-financing by or on behalf of the government is strictly prohibited under the program. The refinancing and/or deferral of the existing stock and/or due dates are permitted but should not give rise to an augmentation of the existing stock of oil-collateralized debt.

16. A prepayment is defined as an advance payment by the purchaser of oil on a specific oil shipment. Prepayment-related operations must be repaid within 6 months but in any case within the calendar year in which they were contracted.

E. Payment Arrears and Domestic Debt

17. Domestic payment arrears of the government are equivalent to the difference over the period under review between the amount of payments authorized and the actual payments made (within 90 days).

II. Information for Program Monitoring

18. The government will submit the following information to the staff of the IMF through its Resident Representative, and within the time period specified below.

A. Oil Sector

19. Regarding the oil sector, the government will submit the following information to IMF staff within four weeks after the end of the month:

- the monthly data on oil production by oil field, production costs, volume exported, export prices, and the operations of the national oil company (SNPC);
- the breakdown concerning the share of crude oil that accrues to the government, by oil field, distinguishing the type of resource to which this share relates (royalties, profit oil, etc.);
- any change in the tax parameters;
- a breakdown of oil prices;
- a monthly detailed list of shipments commercialized by SNPC on behalf of the government, including information on the type of product, the date of loading, the recipient, the number of barrels and the selling price (in US dollars and CFAF) as well as the date of receipt of the sale proceeds by the Treasury; and
- actual and projected quarterly data to determine the required subsidies in the fuel sector, including prices, quantities, and costs.

B. Government Finance

20. Regarding government finance, the government will submit the following information to IMF staff:

- A table on government fiscal operations (TOFE) and its annexes. The annexed tables include (i) the breakdown of oil revenue in value terms with the corresponding notes on computation, (ii) excess oil trends and any bonus payments, (iii) the breakdown of tax and non-tax revenue, and central government expenditure, particularly transfers and common charges; and (iv) a report on the amounts of and rationales for emergency payment and cash advance procedures. The provisional TOFE and its annexes will be reported monthly within four weeks from the end of the month, whereas the final TOFE and its annexes will be reported within six weeks from the end of each month.

- Monthly data on the prices and taxation of petroleum products. These data will include: (i) the price structure in effect during the month; (ii) the details of computation of the price structure, (f.o.b. Mediterranean price) at retail prices, including the border impact prices, taxes, transit costs, economic adjustments, ex-refinery prices (for CORAF and imports), entry distribution prices, margins and fees, transport costs and losses, financing expenses, and insurance; (iii) amounts released for sale; and (iv) a breakdown of the tax revenue from oil products—customs duties and value-added tax—and direct/indirect subsidies incurred by the budget. These data will be reported within four weeks from the end of the month.

- The Treasury balance to monitor expenditures. It will include the amount of commitments, payment orders, and payments, for both current and capital expenditure. It will be produced on a quarterly basis, and submitted to Fund staff no later than four weeks after the end of each quarter.

- Data on implementation of the public investment program, including the breakdown relating to financing sources. If the data on the execution of investments financed with foreign grants and loans are not available on schedule, a linear estimate of execution in comparison with annual forecasts will be used. These data will be reported on a quarterly basis within four weeks from the end of the quarter.

- Complete monthly data on domestic financing of the budget (net bank credit to, and net non-bank credit to the government). These data will be reported monthly within four weeks from the end of the month.

- The table used to monitor the expenditure process will list the amount of commitments, payment orders, and payments, for both operating and capital expenditures. It will be produced on a quarterly basis, and submitted to Fund staff no later than four weeks after the end of the quarter.

- A quarterly table for monitoring poverty reduction expenditures, based on the pro-poor sectors defined in the poverty reduction strategy paper—basic health care and education; infrastructure and rural integration; water and electricity; disarmament, demobilization and reintegration; social protection, and agriculture). The quarterly tables will be submitted within four weeks of the end of the quarter.

- A monthly table of prepayments, which will also indicate the nature of the expenditures (current transfers, investment, etc.) and the justification for the need to use the prepayment option.

C. Monetary Sector

21. The government will submit on a monthly basis, within four weeks of the end of the month, the following preliminary information:

- data on net bank credit to the government;
- the consolidated balance sheet of the monetary institutions, the central bank survey, and the commercial banks survey;
- the integrated monetary survey;
- the table of lending and deposit rates; and
- the usual banking supervision indicators for banks and non-bank financial institutions, where necessary.

22. The final data for the integrated monetary survey will be transmitted within six weeks of the end of the month.

D. Balance of Payments

23. The government will submit the following information to IMF staff:

- any revised balance of payments data (including services, private transfers, official transfers, and transactions for the capital and financial account) as soon as the data are revised; and
- foreign trade statistics (volume and price) prepared by the national statistics agency within three months of the end of the reporting month.

E. Debt

24. The government will submit the following to the staff of the IMF within four weeks of the end of the month:

- data on the stock, accumulation, and payment of domestic arrears;
- data on the stock, accumulation, and payment of external payment arrears;

- a breakdown of estimated domestic and external public debt service, service due, and actual payments, including breakdowns of principal and interest and by creditor;

- the list and amounts of new external debt incurred or guaranteed by the government, including detailed information on the terms and conditions (currency, interest rate, grace period, and maturity) stated in the original agreement; and

- actual disbursements of foreign financial assistance (project and non-project), including new borrowing and any external debt relief granted by foreign creditors (CCA tables).

F. Real Sector

25. The government will submit the following to the staff of the IMF:

- monthly itemized consumer price indices, within four weeks of the end of the month;

- any revision of the national accounts; and

- any other indicators and statistical data used to track overall economic developments, including information on activity in the forestry sector and wood-processing industry, as well as the short-term economic bulletins prepared monthly.

G. Structural Reforms and Other Data

26. The government will submit the following information to the IMF staff:

- a monthly detailed table concerning the implementation of structural measures under the program;

- any study or official report on the economy of the Republic of Congo, within two weeks of its publication; and

- any decision, order, law, decree, ordinance, or circular having economic or financial implications for the program, within two weeks from the time it is published, or, at the latest, from its entry into force.

INTERNATIONAL MONETARY FUND

REPUBLIC OF CONGO

Second Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility—Informational Annex

Prepared by the African Department

Approved by Sharmini Coorey and Dhaneshwar Ghura

November 12, 2009

Contents

Annexes

Annex I—Republic of Congo: Relations with the Fund
(As of September 30, 2009)

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

II. General Resources Account:

	SDR Million	Percent Quota
Quota	84.60	100.00
Fund holdings of currency	84.03	99.33
Reserve tranche position	0.58	0.68

III. SDR Department:

	SDR Million	Percent Allocation
Net cumulative allocation	79.69	100.00
Holdings	70.09	87.95

IV. Outstanding Purchases and Loans:

	SDR Million	Percent Quota
PRGF arrangements	26.00	30.73

V. Latest Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	12/08/2008	12/07/2011	8.46	2.42
PRGF	12/06/2004	06/05/2008	54.99	23.58
PRGF	06/28/1996	06/27/1999	69.48	13.90

VI. Projected Payments to Fund: (without HIPC assistance)
(**SDR million; based on existing use of resources and present holdings of SDRs**):

			Forthcoming		
	2009	2010	2011	2012	2013
Principal		1.57	3.14	4.72	4.72
Charges/interest	0.07	0.16	0.15	0.12	0.11
Total	0.07	1.73	3.29	4.84	4.82

VII. Implementation of HIPC Initiative:

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

I. Commitment of HIPC assistance	Enhanced Framework
Decision point date	March 2006
Assistance committed	
by all creditors (US$ million)[1]	1,679.00
Of which: IMF assistance (US$ million)	8.08
(SDR equivalent in millions)	5.64
Completion point date	Floating
II. Disbursement of IMF assistance (SDR million)	
Assistance disbursed to the member	0.08
Interim assistance	0.08
Completion point balance	--
Additional disbursement of interest income[2]	--
III. Implementation of Multilateral Debt Relief Initiative (MDRI)	Not applicable

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

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

VIII. Safeguards Assessments:

The Bank of the Central African States (BEAC) is the regional central bank of the Central African States. The most recent safeguards assessment of the BEAC was completed on July 6, 2009. The findings of this assessment indicate that implementation of previous safeguards recommendations on financial reporting, internal audit, and internal control has been limited, and that the changing risk profile of the BEAC foreign exchange holdings requires further actions to strengthen safeguards at the BEAC. Furthermore, BEAC initiated a number of structural and internal reforms during 2007 aimed at increasing member representation on governance bodies, strengthening management, and enhancing risk management and controls. Several of these reforms remain a work in progress, and should be impacted by the ongoing investigations into the Paris fraud case and the measures taken after the conclusions of these investigations.

IX. Exchange Rate Arrangement:

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

X. Article IV Consultations:

Consultations with Congo are on a 24-month cycle, based on the Board decision on consultation cycles in program countries. The 2008 consultation discussions and request for a new three-year Poverty Reduction and Growth Facility (PRGF) arrangement were held in Brazzaville on May 21–30 and August 21–27, 2008. The staff report (www.imf.org) was considered by the Executive Board on December 8, 2008.

XI. FSAP Participation : N/A.

XII. Technical Assistance :

Subject	**Department**	**Staff Member**	**Date**
Assist the National Accounts Team in finalizing the analysis of main aggregates of 2006 NA estimates	STA	Mr. Gbossa (head), AFRITAC C	Aug/Sept. 2009
Assess the country's domestic tax system and tax policy	FAD and AFRITAC West	Messrs. Montagnat-Rentier (head)	July 2009
Assist National Accounts Team with analysis of main aggregates of 2006 NA estimates and train NA team in synthesis of accounts	STA	Mr. Gbossa (head), AFRITAC C	April 2009

Subject	Department	Staff Member	Date
Follow-up on reforms for the modernization of tax and customs administrations Identifying strategic priorities for the next 3-4 years	FAD and AFRITAC West	Messrs. Montagnat-Rentier, Lefebvre and Koukpaizan	March 2009
Follow-up mission on the implementation of statistics TA programs	AFRITAC C	Mr. Bonkoungou	March 2009
Processing and monitoring of fiscal information	AFRITAC C	Mr. Penanje	August 2008
Budget functional classification	AFRITAC C	Mrs. Lokpe and Nguenan	July 2007
Poverty and Social Impact Analysis	FAD	Mr. Gillingham, Ms. Lacoche, Mr. Manning	November 2007
Public expenditure management	FAD	Mr. Bouley	August 2006
Resident advisor on real sector	STA	Mr. Gbossa	Since February 2006
Modernization of tax and customs administrations	FAD	Messrs. Montagnat-Rentier, Lesprit and Boilil	February 2004
Follow-up mission	FAD	Mr. Lepage	November 2003
Budget functional classification	FAD	Messrs. Bouley, Helis, and Lepage	October 2003
Balance of payments statistics Multisector statistics	STA STA	Mr. Dessart Messrs. Marie, Maiga, and Mmes. Fisher, Matei, Razin, and Balvani	February 2007 May 2002
Resident expert on statistics	STA	Mr. Metreau	Since October 2001
Balance of payments	STA	Mr. Fiévet	June 2001
Budget, tax, and customs	FAD	Messrs. Bouley, Moussa, Brik, and Mrs. Tricoire	April–May 2001
Resident tax expert	FAD	Mr. Laurent	1995–97
Tax administration	FAD	Mr. Grandcolas	Nov. 1995–Apr. 1996
Tax administration	FAD	Messrs. Grandcolas and Castro	November 1994

XIII. Resident Representative:

The resident representative, Mr. Oscar Edgardo Melhado Orellana, took up his assignment in September 2009.

Annex II—Republic of Congo: JMAP Implementation Matrix

Title	Products	Mission timing	Expected delivery
	A. Mutual information on relevant work programs		
Bank work program in next 12 months	*Country Partnership Strategy* *PRSP Progress Report/JSAN* *AAA* Dialog on Governance/HIPC Public Expenditure Review Employment and Growth Study *New Lending:* -Urban & Water Development (Investment) -Economic Diversification Project (TA) -Supplemental to Governance and Transparency Project -Regional Telecommunication Project	May 2009 June 2009 June 2009 June 2009 May 2010 March 2009 December 2009 March 2010 2010	June 2009 June 2009 December 2009 December 2009 May 2011 January 2010 May 2010 July 2010 FY11
IMF work program in next 12 months	Second review under the PRGF arrangement	September 2009	November 2009
	Third review under the PRGF arrangement	February 2010	June 2010
	Fourth review under the PRGF arrangement	September 2010	November 2010
	B. Requests for work program inputs		
Fund request to Bank (with summary justification)	Collaborate on the LIC-DSA	September 2009	December 2009 (with Completion Point)
Bank request to Fund (with summary justification)	Collaborate on review of progress on implementation of HIPC triggers	November 2009	December 2009 (with Completion Point)
	Collaboration on the LIC-DSA	September 2010	October 2010
	C. Agreement on joint products and missions		
Joint products in next 12 months	HIPC Completion Point document	November 2009 (Joint mission)	December 2009
	LIC-DSA for Completion Point	September 2009	December 2009 (with Completion Point)
	JSAN on PRSP Annual Progress Report	June 2009	December 2009 (with Completion Point)

Annex III—Statistical Issues

1. Data provision has some shortcomings, but is broadly adequate for surveillance purposes. In the context of surveillance, long delays in the provision of national accounts, balance of payments and government finance statistics are particularly problematic. The statistical infrastructure is being rebuilt after the civil strife of the late 90's, during which administrative infrastructure suffered severe damage and many records were lost. Since October 2001, an STA multisector statistics advisor (MSA) has been assisting the authorities with the macroeconomic statistics.

2. A STA multi-sector mission in May 2002 conducted an assessment of the statistical system. The mission's general finding was that macroeconomic statistics were weak and suffered from the absence of a national statistical program and shortages of financial, physical, and human resources. It recommended measures for improvement, which were being followed up by the statistical advisor up to end-2008 and currently through technical assistance by AFRITAC Central. Some important steps have been achieved in the implementation of the recommendations, including work to revise the national accounts and move to the SNA93 system of accounts. In addition, the authorities adopted recently a new statistical framework law, which aims at reorganizing the institutional set-up for collection, treatment and analysis of statistical information, and coordination across central ministries. For operationalizing the law, a new strategy for developing statistical capacity has been launched, with support of development partners.

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

Real sector statistics

4. National accounts data are weak, with inconsistencies, both internally and with balance of payments statistics. Estimates for the informal sector are based on information that dates back to 1978. The Directorate General of Statistics (DGS) of the Ministry of Finance (MoF) provides Fund missions with a breakdown of GDP by expenditures and sectors, both in nominal and real terms. In the framework of moving to the SNA93 system of accounts, the DGS completed the national accounts estimates for 2005 (the new base year) and for 2006, with the assistance of the resident statistical expert and Central AFRITAC. Subsequently, a national workshop was organized in August 2009 to validate the new estimates. Authorities are currently working with the central AFRITAC to revise the national accounts' estimates back to 2000 and forward to 2008.

5. Annual data on employment in the central government are available from the MoF, but are not consistent with data from the civil service roster of the Ministry of the Civil Service. As part of the structural reforms undertaken in the context of the post-conflict

program, the government completed an audit of public service employees and established a new civil service payroll roster. Data on employment in the private sector are not available.

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

Government finance statistics

7. Compilation of **government finance statistics** (GFS) has benefited from recent efforts to increase the comprehensiveness of the data through the adoption of systematic compilation practices. The increased interagency cooperation is in line with the recommendations of the May 2002 multisector mission, which recommended that systematic procedures be established for the compilation of government finance statistics, based, to the extent possible, on a unified set of accounting and administrative records using the GFSM 2001 classifications.

8. The Republic of Congo has reported (in September 2008) GFS data to STA for fiscal years 2004 and 2005 using the *GFSM 2001* template, and indicate that data for 2006 and 2007 will be reported no later than June 2009. High-frequency fiscal data has not yet been reported for publication in *IFS*. The compilation of GFS statistics to be reported to the Fund should be carried out in close cooperation with the compilers of the TOFE.

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

10. The Caisse congolaise d'amortissement (CCA) produces comprehensive data on the outstanding stock of external public debt, including arrears and their composition, together with detailed projections on debt service due. These data are provided to Fund missions. However, the debt-stock data cannot be reconciled with flow data in the balance of payments. The CCA also produces domestic debt data. Concerns still exist with regard to the reconciliation of fiscal and monetary statistics.

11. There is no centralized, comprehensive database on the operations of public enterprises. However, some information has been made available to Fund missions by individual enterprises. TOFE compilers do not have access to relevant financial statements of

the Société nationale des pétroles congolais, which carries out several operations on behalf of the government (notably in the oil sector).

Monetary and financial statistics

12. The Bank of Central African States (BEAC) regularly reports monetary, interest rates, and exchange rate statistics for publication in *IFS,* but delays occur sometimes in the submission of data to STA. The accuracy of national monetary statistics may be affected by large cross-border movements of BEAC issued banknotes among the CEMAC member countries. However, the Republic of Congo is moderately affected by such movements: 6.2 percent of banknotes issued in the Congo by the BEAC national directorate circulate in Cameroon and 1.2 percent in Gabon, while currency in circulation in the Republic of Congo includes 2.3 percent of banknotes from Cameroon and 3.2 percent from Gabon. The magnitude of banknote movements between the Republic of Congo and CEMAC member countries other than Cameroon and Gabon is very small.

13. In this regard, the BEAC started in mid-2007 a project to migrate monetary statistics of member countries of the CEMAC to the methodology in the *Monetary and Financial Statistics Manual (MFSM)*. As a part of this project, a regional workshop was organized by the BEAC in December 2007 to finalize the mapping of source data from commercial banks to the *MFSM* concepts and framework. STA participated in this workshop to provide guidance and advice. Submission of data by the BEAC using the standardized report forms is pending.

External sector statistics

14. As in other CEMAC countries, the national agency of the BEAC is responsible for the collection and the dissemination of balance of payments statistics. The balance of payments statistics are prepared on an annual basis while the compilation system has been specifically designed to produce quarterly data. Since 1995, data are being prepared using the *Balance of Payments Manual*, *Fifth Edition*. The BEAC provides annual estimates on exports and imports of goods and services and on capital flows other than public debt. Balance of payments data for 1995 through 2005 are published in the Fund's *International Financial Statistics (IFS),* and STA is working with the authorities in updating the data series.

15. In May 2002, a technical assistance mission found the compilation system and procedures to be conceptually sound but flawed in their application due to the absence of documented sources and methods, understaffing, and insufficient training. This situation resulted in significant delays in the production of balance of payments statistics and, in general, poor monitoring of the quality of the input data provided by respondents. Furthermore, the opacity surrounding certain transactions in the oil sector introduces an important element of imprecision. In addition, net investment flows are overestimated by significant unrecorded disinvestment operations that are part of the tax regime arrangements obtained by oil-drilling nonresident companies. In February 2007, a follow-up STA balance

of payments statistics mission made a number of recommendations aimed at improving institutional arrangements for balance of payments statistics compilation and validation. Progress in this regard has been slow, consequently delaying the process for finalizing BOP data for 2005–08.

REPUBLIC OF CONGO: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE
As of October 31, 2009

	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of publication[7]
Exchange Rates	Current	Current	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	June-2009	Sept-2009	M	M	M
Reserve/Base Money	June-2009	Sept-2009	M	M	M
Broad Money	June-2009	Sept-2009	M	M	M
Central Bank Balance Sheet	June-2009	Sept-2009	M	M	M
Consolidated Balance Sheet of the Banking System	June-2009	Sept-2009	M	M	M
Interest Rates[2]	June-2009	Sept-2009	M	M	M
Consumer Price Index	July-2009	Sept-2009	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	N/A	N/A	N/A	N/A	N/A
Revenue, Expenditure, Balance and Composition of Financing[3] – Central Government	August-2009	Oct-2009	M	M	Q
Stocks of Central Government and Central Government-Guaranteed Debt[5]	June-2009	Sept-2009	Q	Q	Q
External Current Account Balance	Dec-2008	June-2009	A	A	A
Exports and Imports of Goods and Services	June-2009	Sept-2009	A	A	A
GDP/GNP	2008	Sept-2009	A	A	A
Gross External Debt	June-2009	Sept-2009	Q	Q	Q
International Investment Position [6]	...	...	NA	NA	NA

[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 non-bank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.
[7] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA).

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

Press Release No. 09/436
FOR IMMEDIATE RELEASE
November 30, 2009

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Second Review Under Three-Year PRGF Arrangement with the Republic of Congo and Approves US$1.95 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the second review of the Republic of Congo's economic performance under a three-year Poverty Reduction and Growth Facility (PRGF) arrangement. The completion of the review enables a third disbursement of SDR 1.21 million (about US$1.95 million), bringing total disbursements to Congo under the program to SDR 3.63 million (about US$5.84 million).

The IMF Executive Board approved a three-year PRGF arrangement for Congo in December 2008 in an amount equivalent to SDR 8.46 million, or 10 percent of Congo's quota in the Fund, in support of the government's economic program for 2008-2011 (see Press Release 08/311).

Following the Executive Board's discussion of the Republic of Congo, Mr. Murilo Portugal, Deputy Managing Director and Acting Chair, said:

"The Congolese authorities are to be commended for the continued satisfactory implementation of the PRGF arrangement. There has been improvement in fiscal discipline marked by a decline in the non-oil primary deficit since the start of the program. Continued fiscal discipline will be necessary to sustain macroeconomic stability, strengthen private sector confidence, and encourage foreign direct investment.

"The authorities aim to continue consolidation efforts in the 2010 budget and beyond while providing room for increased spending on pro-growth and pro-poor social programs, in line with the Poverty Reduction Strategy. Raising more domestic revenue will help reduce reliance on the oil sector—an important objective—and create further fiscal room. Toward this end, the authorities aim to complete the tax and customs administration reform and to initiate tax policy changes in line with Fund technical assistance.

"The authorities have continued to make progress with structural reforms, and the momentum should be sustained to reap the benefits of those reforms. This includes regular and timely adjustment of fuel prices, strengthening public financial management, and measures to improve the transparency and the management of the oil sector and oil revenue.

"Congo's external position has substantially improved over the past several years but remains vulnerable to external shocks. Prudent debt management, including reliance on foreign assistance on highly concessional terms, will be critical. Maintaining creditor support through concerted efforts to achieve comparability of treatment in debt restructuring negotiations and forthright and timely provision of information are also necessary. The authorities have made progress toward implementing the floating completion point triggers under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative. Continued support for Congo from the international community will remain critical to help the authorities advance their reforms."

Statement by Laurean Rutayisire, Executive Director for the Republic of Congo
November 30, 2009

My Congolese authorities would like to thank staff for the fruitful discussions held in Brazzaville during the September 2009 Fund mission, in connection with the second review under the Poverty Reduction and Growth Facility (PRGF) arrangement. My Congolese authorities are also thankful to the Executive Board and Fund management for their continuous support to the Republic of Congo in its efforts towards maintaining macroeconomic stability and sustained growth, which are articulated around the country's PRSP. My authorities broadly share the thrust of the staff report, as it fairly reflects their recent discussions. They have consented to the publication of the report and their Letter of Intent.

Since the approval of the current PRGF arrangement last December, my Congolese authorities have intensified efforts toward improving public financial management; enhancing transparency and governance, including in the oil sector; pursuing structural reforms, notably addressing infrastructure bottlenecks; building institutional capacity; and moving steadfastly in the implementation of the HIPC completion point triggers. As a result, Congo's economic performance has been strong, despite the effects of the global financial crisis on the oil and forestry sectors. Non-oil sectors continue to grow by more than 3 percent annually. After a pickup in February 2009, inflation has since been subdued and is expected to move toward the CEMAC convergence criterion of 3 percent in the period ahead.

Furthermore, the government's fiscal position remains on track as the non-oil primary deficit target for end-June was observed with a comfortable margin, reaching CFAF 345 billion compared with the program target of CFAF 371 billion. All quantitative performance criteria and all but one of the structural benchmarks were also observed.

Looking forward, the growth of the economy as a whole is expected to accelerate in 2010, reaching 12 percent on account of a significant expansion of the oil sector, stemming from output of new fields, and on the dynamism of the non-oil sectors, notably the construction, telecommunications and transport sectors. The anticipated improvement in the terms of trade is also expected to put the country on a stronger position.

The new government that took office in September is determined to successfully implement the medium-term economic and financial program supported by the PRGF. Reaching the completion point constitutes a top priority of the authorities' agenda, as it will free more resources to help achieve the country's growth potential and significantly accelerate the poverty reduction process. My Congolese authorities have made significant progress toward meeting the completion point triggers, and they are determined to take all necessary measures agreed with Fund and World Bank staffs to ensure that Congo can reach the HIPC completion point as soon as possible, preferably before the end of this year.

In light of all the achievements made by the Congolese authorities since the first review of the program and in view of their strong commitment to press ahead with the remaining reforms, I would like to request the support of the Board for the completion of the second review under the PRGF arrangement.

I. Program implementation and progress under the HIPC Initiative

Program implementation under the PRGF continues to be satisfactory. *On the quantitative front*, my authorities initiated major actions to consolidate fiscal position and put public finances on a sustainable path. The measures have involved vigorous revenue collection efforts and better expenditures control. These efforts have begun to bear fruit. In particular, the non-oil primary deficit target for end-June was observed with a comfortable margin.

On the structural front, all but one of the structural benchmarks through June were observed. An important achievement was the preparation of a medium-term expenditure framework (MTEF). The missed benchmark was related to the completion of the strategic study of the oil sector. This study was delayed because it took time to constitute the data inputs needed to inform the analysis, notably assembling oil sector audit reports, an oil revenue model, an EITI report and a database. Now, the needed information is available, and my authorities will accelerate the completion of the study. My Congolese authorities also introduced a new fuel pricing mechanism on October 1, 2009, which aims at avoiding budgetary subsidies to the state-owned oil refinery, CORAF, protecting the consumption of vulnerable groups and making price adjustments regular and transparent.

Since reaching the HIPC decision point in March 2006, my authorities have made important inroads in meeting the **HIPC process** requirements. Most of the floating completion point triggers have either been met or are well advanced, notably in the social sectors, external debt management and public expenditure priorities. The authorities are working steadfastly on the remaining triggers related to the full implementation of the new procurement code, the finalization of the new public investment management system, and the completion of governance requirements, including in the oil and forestry sectors as well as in the new anti-corruption legislation.

II. Economic and financial policies for the rest of 2009 and 2010

My Congolese authorities are committed to stepping up domestic efforts and undertaking all necessary reforms to boost output growth, diversify the economy and pursue good fiscal management.

On the fiscal front, my authorities are committed to maintain fiscal discipline necessary to sustain macroeconomic stability. For the remainder of 2009, the fiscal stance is expected to remain consistent with the targets established during the first program review. Going forward, the authorities' budget for 2010 envisages a non-oil primary deficit of 33.8 percent of non-oil GDP, against 37.3 percent this year. To attain this objective, they will pursue their efforts to increase non-oil revenue, through reinforcement of tax and customs administrations, a reduction in tax exemptions and tax policy changes, in line with Fund-provided technical assistance.

The authorities will use additional fiscal room to boost pro-poor spending, while ensuing that the budget is in line with the new medium-term expenditure framework. Being a post-conflict country, the Republic of Congo has seen most of its infrastructure destroyed by conflicts, and my authorities will devote a slight increase in public investment to the transportation network, while other resources will be devoted to help advance the process of restructuring the operations and enhancing the performance of the main public utility companies (water, electricity, telephone and transportation). Efforts to reduce domestic payment arrears (mainly wages, pensions, and liabilities to public enterprises) will be pursued to help maintain social cohesion and stability. Audits will also be undertaken to assess the arrears and liabilities of liquidated public enterprises.

As regards monetary and financial sector policies, the pegged exchange rate regime within the framework of the CEMAC continues to serve the Congolese economy well. The immediate challenge facing my authorities in this area remains high inflation, which is driven by non monetary factors. Congo's banking system remains in good health, with all five commercial banks well capitalized and highly liquid. My authorities are implementing a financial sector reform strategy drafted with Fund assistance, in order to increase the growth of credit to the private sector. Going forward, the authorities intend to fully implement this strategy with an emphasis on enhancing the role of the corporate financial statement registry and the Central Credit Bureau. Reforms will also focus on improving the business environment by strengthening the judicial system, ensuring compliance with OHADA business laws, and reforming the land registry company.

On structural policies, my authorities will continue to press ahead with their reform agenda focusing on improving public finance, deepening financial intermediation, and strengthening governance and natural resources management. They are pushing ahead with reforms launched under the HIPC Initiative, so as to achieve the remaining triggers of the HIPC completion point by year-end. They will also implement the new fuel pricing mechanism to ensure that fuel subsidies, while protecting the most vulnerable populations, do not undermine the government fiscal position.

Concerning debt management issues, my Congolese authorities would like to restate their commitment to make mostly use of the country's own resources and, if and when needed, they will seek foreign financing only on highly concessional terms. They will also continue to enhance debt management capacity. Furthermore, my authorities are determined to using their best efforts to obtain comparable treatment from suppliers, non-London Club creditors, and litigating creditors in the country's debt restructuring.

Conclusion

Since the inception of the current PRGF-supported program, my authorities have made good progress in the implementation of their policy and reform agenda, notwithstanding the daunting challenges arising from the difficult external environment. They are determined to maintaining prudent policies going forward and to building on the gains achieved so far to further progress towards enhancing macroeconomic stability, strengthening growth prospects and reducing poverty in a sustainable manner.

Easing the debt burden remains the top priority in the authorities' agenda, as this will free resources needed to achieve the country's growth potential and alleviate poverty. Therefore, my Congolese authorities intend to press ahead with the remaining completion point triggers, in order to reach this important milestone by the end of this year. Continued support from the Fund and the international community will remain critical to help the country advance its reforms, including beyond the completion point.

In view of these encouraging prospects and the satisfactory performance achieved so far under the current program, my Congolese authorities would appreciate the Board's support for the completion of the second review under the PRGF arrangement.