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Republic of Congo: Third Review Under the Three-Year Arrangement Under the Extended Credit Facility—Staff Report; Staff Supplements; and Press Release on the Executive Board Discussion

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 May 10, 2010, 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 May 20, 2010. 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.

- Two Staff supplements of May 20, 2010 and August 25, 2010 respectively, updating information on recent economic developments.

- A Press Release summarizing the views of the Executive Board as expressed during its August 31, 2010 discussion of the staff report that completed the review.

The documents listed below have been separately released.

Letter of Intent sent to the IMF 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

Staff Report for the Third Review Under the Three-Year Arrangement Under the Extended Credit Facility

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

Approved by Domenico Fanizza and Dhaneshwar Ghura

May 20, 2010

- **Discussions were held in Brazzaville April 27–May 10, 2010**. The mission met with President Sassou N'Guesso, State Minister Moussa (Planning), Finance Minister Ondongo, National Director of the BEAC Ondaye, other senior government officials, and representatives of the diplomatic and donor community, the private sector, and the media. The mission comprised Ms. Baker (head), Messrs. York, Mpatswe and Poplawski-Ribeiro (all AFR), Mr. Caceres (FAD), and Mr. Maseda (BLS) and was assisted by Mr. Melhado, resident representative. It was joined by Mr. Sidi Bouna (OED).
- **The ECF arrangement in the amount of SDR 8.46 million (about $12.6 million, or 10 percent of quota) was approved by the Executive Board on December 8, 2008**. The arrangement is designed to achieve balanced growth, low and stable inflation and fiscal and external stability. The second review was completed in November 2009, and Congo reached the HIPC completion point in January 2010.
- **Program implementation through end-December 2009 has been satisfactory**. All end-December performance criteria were met, and the authorities are on track to meeting end-March indicative targets. The authorities observed eight of the ten structural benchmarks through March. The remaining two were delayed because of technical problems.
- In the attached supplemental Letter of Intent (LOI), the authorities request completion of the third ECF review and have agreed to the publication of the LOI and this staff report.
- 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.

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EXECUTIVE SUMMARY

Recent Economic Developments and Prospects

- Economic indicators are encouraging and overall growth should quickly accelerate with the global recovery taking hold. Oil production is rising and there are signs of increasing activity in the non-oil sector. Inflation has fallen below the Communauté Economique et Monétaire de l'Afrique Centrale (CEMAC) convergence criteria of 3 percent per year.
- The external position continues to improve, and Congo's contribution to the common pool of reserves is rising. The current account is expected to swing into surplus buoyed by higher oil exports and firming oil prices in 2010; and Congo's external debt has declined dramatically as a result of Heavily Indebted Poor Countries (HIPC) debt relief.

Program Performance

- Performance under the program has been satisfactory. The authorities met all end-December performance criteria, and preliminary data through February indicate that they are on track to meet end-March indicative targets. The authorities observed eight of the ten structural benchmarks. The remaining two were delayed because of technical problems, and did not impact the overall reform process.

Policies in the Period Ahead

- The authorities believe that the policy objectives laid out in their November 2009 Memorandum of Economic and Financial Policies remain consistent with their poverty reduction strategy and are within reach. Fiscal consolidation and structural reforms aimed at ensuring the effective use of oil wealth and supporting development of a strong non-oil sector will continue to support these objectives.
- The main risk to the program stems from possible spending pressures that could cause fiscal slippages in the post-HIPC period. Directing resources freed by HIPC debt relief toward pro-growth and pro-poor spending may help mitigate these pressures.

Staff recommends completion of the third review under the Extended Credit Facility (ECF) arrangement and disbursement of the fourth loan in an amount equivalent to SDR 1,208,570.

I. Introduction

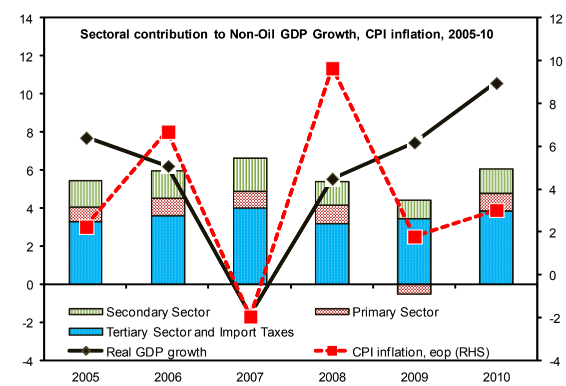
1. **With the HIPC completion point behind them, Congo's prospects for achieving sustained growth and poverty reduction have improved**. The authorities have shored up macroeconomic stability, strengthened public financial management, enhanced governance and transparency over the use of oil resources, and bolstered debt management capacity. Further consolidation of these initiatives will cement the foundation for sustained growth and poverty reduction. Looking ahead, the authorities plan to turn their focus toward restoring public services and basic infrastructure, and fostering economic diversification.

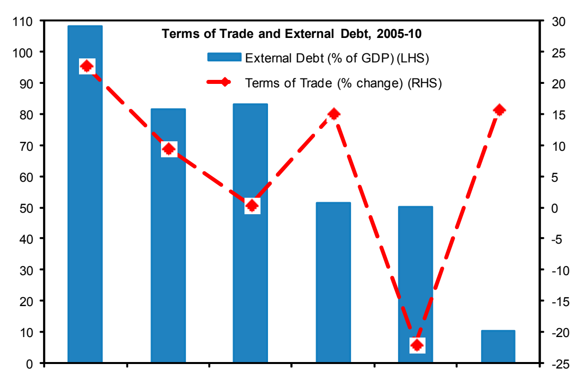
2. **The authorities are confident that the policy framework laid out in their Memorandum of Economic and Financial Policies (MEFP, November 2009) remains relevant, achievable and consistent with their Poverty Reduction Strategy (PRS).** They believe that implementation of tax reform will serve to reduce oil dependence, while the forthcoming strategic study of the oil sector will guide them in managing oil wealth.

II. Recent Developments, Performance Under the Program and Outlook

3. **Despite the global downturn economic developments in 2009 were favorable; and with the external environment improving, prospects for 2010 are encouraging** (Table 1).

- Signs of brisk economic activity are apparent, and real gross domestic product (GDP) growth is expected to reach double digits in 2010. Growth will be driven by a large increase in oil output and buoyant non-oil activity (construction, telecommunication, transport). Inflation has come down below the CEMAC convergence criteria, and is expected to remain low. Improving terms of trade and external conditions will swing the current account into surplus, increasing Congo's contribution to the CEMAC common pool of reserves.





Source: Congolese Authorities; and Fund staff estimates and projections

- Improved resilience of the economy and continued fiscal consolidation have reduced, but not eliminated, program risks, which center around possible increased public pressures for easing the fiscal stance.

4. **Policy implementation through end-March has been in line with the program.**

Quantitative Targets, 2009 (Billions of CFA francs, unless otherwise indicated; cumulative from January)	End-Sep. 2009		End-Dec. 2009	
	Indicative Target	Act.	Perf. Criteria	Prel.
Quantitative targets				
Nonoil primary fiscal balance (floor)	-495	-558	-614	-614
New medium or long-term nonconcessional external debt (including leasing) contracted or guaranteed by the government (ceiling) [1, 2, 3]	0	0	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	653	628	934	934
Non-oil primary revenue	280	280	373	373
Pro-poor spending	318	314	406	401

[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 9 of the Technical Memorandum of Understanding.

- The authorities met all end-December performance criteria (PC), and preliminary data through February indicate that they are on track to meet end-March indicative targets.

- The authorities also continued to make progress in public financial management (PFM) and the management of oil wealth, observing eight of ten structural benchmarks (Table 2). The missed benchmarks include (i) transfer of oil receipts to the treasury within 45 days (continuous), and (ii) completion of the strategic oil study (end-March). On the former, the authorities explained that in order to meet the HIPC completion point trigger of aligning oil commercialization with best international practice, they absorbed the functions of the oil commercialization entity into the national oil company. This operational change resulted in a delay in some cases past the 45 days, but progress is being made in regularizing the payment transfer. On the strategic oil study, the consultant reports that owing to the complexity of certain legal and tax regime issues they now expect to complete the study by end-September.

5. **The HIPC completion point reduced debt service obligations and increased the resilience of external debt indicators to shocks**. Debt relief under HIPC and Multilateral Debt Relief Initiative (MDRI) will generate total debt service savings of about US$1.9 billion. In March 2010, Paris Club creditors agreed to grant 100 percent debt relief to Congo, amounting to US$2.4 billion.[1] In light of the improved external debt conditions post-HIPC, the minimum grant element for official borrowing under the program was reduced from 50 percent to 35 percent, consistent with the Fund's debt limits policy.[2] However, the authorities will continue to finance investment primarily with own-resources.

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[1] Congo continues to use its best efforts to conclude agreements with bilateral creditors and good faith efforts to obtain comparable treatment from remaining commercial creditors, including those under litigation.

[2] Given lack of reliable data on public enterprises, official borrowing covers central government and the SNPC.

III. Policy Discussions

6. **With program performance satisfactory and the HIPC completion point behind them, discussions for the third review centered on how to widen the fiscal envelope in support of development objectives, while continuing efforts toward fiscal sustainability.** The authorities' stressed the importance of continuing to improve spending efficiency, mobilizing more non-oil revenue and using the resources freed by HIPC debt relief.

A. Supporting quality spending: strengthening non-oil revenue and PFM

7. **The authorities noted that simultaneously supporting the objectives of the PRS and fiscal sustainability would require lasting gains in non-oil revenue collection.** Given their ongoing commitment to a prudent external borrowing policy and their desire to save oil revenue to move toward fiscal sustainability, they viewed stronger domestic revenue mobilization as key to improving public service delivery and increasing priority spending, while reducing vulnerability to oil prices. They also noted that potential improvements in implementation capacity and procurement procedures could generate substantial savings.

8. **The authorities saw scope for improving non-oil revenue through broadening the tax base and improving the design of the tax system.** Progress is being made on implementing the tax action plan—exceptional tax exemptions have been eliminated through a ministerial decree, as were exemptions on government procurement and contracts. A new technical committee has begun work on broader tax reform issues in line with the action plan. Key actions over the coming months could include measures aimed at raising non-oil revenue collection, such as further reducing exemptions and possible harmonization of domestic and regional tax rates. Given persistent capacity constraints and the scope of the desired reform, the authorities requested Fund technical assistance in the area of tax policy.

9. **The authorities intend to continue strengthening public financial management to buttress spending efficiency.**

- The authorities felt that some reversal of the significant compression of public sector wages may be warranted to improve public service delivery, in the context of a well-designed civil service reform. Key reform actions in this area—under the stewardship of the World Bank—include unification and computerization of civil service payroll database; rightsizing of the civil service, especially toward social sectors; and improving the salary structure.

- They also noted that improved expenditure prioritization could better align spending with the objectives in their PRS. In this context, further refinements to the functional classification of expenditure, developed with the help of Fund technical assistance, will aid in tracking pro-growth and pro-poor spending.[3]

10. **Going forward, the authorities will continue to monitor closely government finance and the use of oil resources through an indicative target (ceiling) on net domestic financing of the central government.**

B. Safeguarding fund resources

11. **The Bank for Central African States (BEAC) authorities have committed to strengthening governance and key safeguards at the central bank**. In the wake of the serious fraud in the Paris Office, the BEAC has adopted an action plan and commenced implementation of a series of initial measures agreed with the Fund. The completion of some actions, in particular, a special audit of budgetary and accounting controls at BEAC headquarters has been delayed. The results of this audit, which is now expected to be finalized in the coming weeks, are expected to inform the next round of safeguards reforms at the BEAC. The Congolese authorities reiterated their commitment to working with the BEAC to resolve these issues as quickly as possible.

IV. Staff Appraisal

12. The near-term outlook is favorable. Strong policies, improving external conditions and debt relief obtained under the HIPC completion point will support macroeconomic stability. Fiscal consolidation in excess of program targets and progress on key structural reforms have strengthened policy implementation and resilience to shocks.

13. These continuing efforts, together with investment in basic infrastructure, augur well for a take-off of non-oil growth and lasting poverty reduction. Promptly directing resources freed by HIPC debt relief toward pro-growth and pro-poor spending may help mitigate pressures for easing the fiscal stance—the main risk for future program implementation—which stem from past compression of current expenditure, including wages, and public calls for higher public investment in light of improved debt indicators. Greater pro-poor expenditure would also help advance development objectives.

14. Structural reforms have moved ahead, particularly in the area of PFM and the management of oil resources. The non-observance of two structural benchmarks due to technical issues had little impact on the broader reform process, and the authorities are taking actions in these areas.

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[3] Improvements in this area are underway. Once this work is satisfactorily completed, staff will propose an indicative target on such spending, consistent with the guidelines under the ECF.

15. In the period ahead, efforts should continue in key areas, such as tax reform, improving expenditure efficiency and strengthening oil wealth management. Simultaneously supporting the objectives of the PRS and fiscal sustainability, while maintaining the authorities' prudent external debt policy, necessitates redoubled efforts to increase non-oil revenue collection to expand the resource envelope for improving public service delivery and raising priority spending. Scope for increasing non-oil tax collection is potentially large, and staff supports the authorities' request for technical assistance in the area of tax policy.

- The authorities' planned implementation of their tax action plan is welcome, but should be accompanied by continued efforts to improve tax and customs administration.

- As fiscal space widens some additional spending may be justified. However, it will be critical to bolster gains in expenditure efficiency, including through a well-designed civil service reform and further strengthening of oil wealth management, while continuing efforts toward achieving fiscal sustainability.

16. Reaching the completion point has significantly reduced Congo's debt burden. Staff welcomes the authorities' good faith efforts to obtain comparable treatment from all remaining commercial creditors and their best efforts to conclude bilateral agreements as soon as possible. Staff also welcomes the authorities' intention to continue closely monitoring of public finances, including through an indicative target on net domestic financing. New foreign borrowing should only be considered if extended on concessional terms.

17. The commitment of the BEAC authorities to address serious deficiencies in internal control and governance is welcome. Measures taken by the CEMAC's January Heads of States Summit demonstrate progress in addressing concerns regarding the safeguarding of Fund resources. The Congolese authorities should continue to strongly support the reform efforts to resolve these issues as quickly as possible.

18. Staff recommends completion of the third review of the ECF arrangement and disbursement of the fourth loan in an amount equivalent to SDR 1,208,570.

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

	2008	2009		2010		2011	2012
	Est.	Prog.[1]	Proj.	Prog.[1]	Proj.	Proj.	Proj.
	(Annual percentage change)						
Production and prices							
GDP at constant prices	5.6	7.6	7.5	12.1	10.6	8.7	3.2
Oil	6.1	17.5	16.2	25.3	20.6	12.8	-3.6
Non-oil	5.4	3.5	3.9	6.0	6.1	6.6	7.0
GDP at current prices	32.0	-14.5	-14.3	36.8	36.7	15.3	1.7
GDP deflator	14.4	-20.5	-6.3	22.0	11.7	3.8	2.7
Consumer prices (period average)	6.0	4.8	4.3	4.0	4.9	3.5	3.0
Consumer prices (end of period)	11.4	3.2	2.5	3.0	3.9	3.0	3.0
External sector							
Exports, f.o.b. (CFA francs)	26.7	-20.1	-16.8	49.3	50.8	18.0	-1.2
Imports, f.o.b. (CFA francs)	25.8	-8.7	-10.6	22.7	36.7	7.0	6.7
Export volume	7.1	16.1	14.4	24.8	19.7	15.5	-4.0
Import volume	16.1	1.9	-0.4	17.0	22.1	4.3	4.9
Terms of trade (deterioration -)	15.2	-21.0	-21.9	13.6	15.8	1.9	0.3
Nominal effective exchange rate (end of period)	1.4	…	3.0	…	…	…	...
Real effective exchange rate (end of period)	0.5	…	0.9	…	…	...	...
	(Percent of GDP)						
Investment and saving							
Gross national saving	22.6	12.0	16.9	24.4	27.4	31.6	31.8
Gross investment	22.1	25.8	24.6	21.9	23.7	22.7	23.1
Current account balance[2]	0.6	-13.8	-7.7	2.4	3.6	8.9	8.7
External public debt (end of period)	51.5	26.3	50.2	19.9	10.4	8.8	8.1
	(Percent of non-oil GDP)						
Central government finances							
Revenue and grants	160.4	87.4	78.3	141.2	145.1	163.5	154.7
Oil revenue	136.0	62.7	54.8	116.0	120.0	134.9	122.0
Nonoil revenue and grants	20.8	21.8	21.9	22.4	22.4	23.3	24.0
Total expenditure	80.7	69.0	65.3	66.2	66.4	63.1	60.4
Current	50.4	34.4	36.8	31.4	31.9	29.6	28.1
Capital (and net lending)	30.3	34.7	28.5	34.8	34.5	33.5	32.4
Overall balance (deficit -, commitment basis)[3]	79.8	18.3	13.0	75.0	78.7	100.4	94.2
Basic primary fiscal balance (deficit -)[4]	91.5	25.4	18.8	82.2	86.5	103.8	93.5
Of which: Basic non-oil primary fiscal balance (- = deficit)	-44.3	-37.3	-36.0	-33.8	-33.5	-31.1	-28.5
	(Percent of total government revenue excluding grants)						
External public debt service (after debt relief) [5]	8.3	3.9	3.8	2.8	1.7	1.2	1.3
External public debt (after debt relief) [5]	110.5	73.6	171.8	42.5	23.7	18.5	16.6
	(Billions of CFA francs, unless otherwise indicated)						
Gross official foreign reserves	1,825.3	2,164.9	1,733.1	3,619.2	3,271.5	5,417.4	7,668.2
Nominal GDP	5,279.3	4,105.7	4,523.4	5,616.5	6,181.6	7,126.1	7,245.7
World oil price (U.S. dollars per barrel)	97.0	61.5	61.8	76.5	80.0	83.0	84.3
Oil production (Millions of barrels)	86.6	101.8	100.7	127.5	121.4	136.9	131.9

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

[1]Country Report No. 10/54.

[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]HIPC completion point reached in January 2010. In March 2010, the Paris Club granted 100 percent debt relief.

Table 2. Republic of Congo: Structural Benchmarks under the ECF Arrangement, 2009–10

Measures	Timing/status
Public financial management and domestic revenue mobilization	
Submit to parliament a 2010 budget consistent with the new medium-term expenditure framework.	End-December 2009; observed
Have no recourse to emergency payment and cash advance procedures except in situations stated in the organic budget law.	Continuous; observed
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; observed
Prepare an action plan and timetable for the implementation of tax policy changes in line with FAD technical assistance.	End-March 2009; observed
Undertake the planned review of exemptions in line with FAD technical assistance, including in the areas of tax and customs.	End-December 2009; observed
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) on international best practice. These recommendations will include the introduction of competitive tenders for oil sales.	Continuous; observed
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; observed, with delay
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; not 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-March 2010; not observed
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; observed

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

	2008	2009		2010		2011	2012
	Est.	Prog.[1]	Est.	Prog.[1]	Proj.	Proj.	Proj.
	(Billions of CFA francs)						
Revenue and grants	2,497	1,491	1,335	2,662	2,760	3,431	3,581
Primary Revenue	2,442	1,442	1,307	2,609	2,708	3,321	3,380
Oil revenue	2,118	1,070	934	2,187	2,283	2,831	2,825
Non-oil revenue	324	372	373	422	425	490	555
Investment income	20	27	13	20	19	65	154
Grants	35	22	15	33	33	45	47
Expenditure and net lending	1,256	1,178	1,113	1,248	1,263	1,324	1,400
Of which primary expenditure	1,024	1,046	1,023	1,101	1,104	1,142	1,215
Current expenditure	785	587	627	593	606	621	650
Wages	166	175	175	188	190	207	227
Other current expenditure	446	377	355	361	363	371	385
Local authorities	23	25	24	36	35	32	28
Interest	150	10	73	8	18	11	11
Domestic	10	7	9	6	6	0	0
External	140	3	64	2	12	11	11
Capital expenditure	471	591	485	655	657	703	750
Domestically financed	390	469	469	516	516	533	576
o.w. HIPC financed [2]	7	37	37	41	41	…	…
Externally financed	81	122	16	139	141	171	174
Net lending	0	0	1	0	0	0	0
Basic primary fiscal balance [3]	1,424	433	320	1,549	1,645	2,179	2,165
Of which: Basic non-oil primary fiscal balance	-690	-637	-614	-638	-638	-652	-660
Balance, commitment basis							
Excluding grants	1,206	291	207	1,381	1,464	2,062	2,134
Including grants	1,242	313	222	1,414	1,497	2,107	2,182
Of which: Non-oil fiscal balance	-873	-757	-713	-773	-786	-724	-644
Change in arrears	-944	-554	-124	-94	-508	-93	-82
External	-801	-430	0	0	-413	0	0
Domestic	-143	-124	-124	-94	-94	-93	-82
Balance, cash basis	298	-241	97	1,320	989	2,014	2,099
Financing	-298	241	-98	-1,320	-989	-2,014	-2,099
Foreign (net)	408	476	-39	35	487	95	91
Drawings (new loan disbursement)	47	100	1	106	108	126	127
Amortization due	-170	-1,164	-106	-71	-1,151	-30	-35
Rescheduling obtained	325	222	15	0	215	0	0
Debt cancellation	207	208	54	0	211	0	0
Exceptional assistance (including debt relief) [4]	0	1,110	-2	0	1,105	0	0
Domestic (net)	-706	-235	-59	-1,355	-1,476	-2,110	-2,191
Banking system (net)	-599	-231	122	-1,352	-1,473	-2,107	-2,191
Nonbank financing	-107	-4	-181	-3	-3	-3	0
Financing gap (- = surplus)	0	0	0	0	0	0	0
Memorandum items:							
GDP at current market prices	5,279	4,106	4,523	5,616	6,182	7,126	7,246
Non-oil GDP at market prices	1,557	1,706	1,705	1,885	1,902	2,099	2,316
Pro poor spending	343	406	401	455	456	532	620

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

[1] Country Report No. 10/54.

[2] From the HIPC interim relief trust fund.

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

[4] HIPC completion point reached in January 2010. In March 2010, the Paris Club granted 100 percent debt relief.

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

	2008	2009		2010		2011	2012
	Est.	Prog.[1]	Est.	Prog.[1]	Proj.	Proj.	Proj.
	(Percent of non-oil GDP)						
Revenue and grants	160.4	87.4	78.3	141.2	145.1	163.5	154.7
Primary Revenue	156.8	84.5	76.7	138.4	142.4	158.2	146.0
Oil revenue	136.0	62.7	54.8	116.0	120.0	134.9	122.0
Non-oil revenue	20.8	21.8	21.9	22.4	22.4	23.3	24.0
Investment income	1.3	1.6	0.8	1.0	1.0	3.1	6.6
Grants	2.3	1.3	0.9	1.8	1.7	2.1	2.0
Expenditure and net lending	80.7	69.0	65.3	66.2	66.4	63.1	60.4
Of which primary expenditure	65.8	61.3	60.0	58.4	58.1	54.4	52.5
Current expenditure	50.4	34.4	36.8	31.4	31.9	29.6	28.1
Wages	10.7	10.3	10.3	10.0	10.0	9.9	9.8
Other current expenditure	28.6	22.1	20.8	19.1	19.1	17.7	16.6
Local authorities	1.5	1.5	1.4	1.9	1.9	1.5	1.2
Interest	9.6	0.6	4.3	0.4	1.0	0.5	0.5
Domestic	0.6	0.4	0.6	0.3	0.3	0.0	0.0
External	9.0	0.2	3.7	0.1	0.7	0.5	0.5
Capital expenditure	30.3	34.7	28.4	34.8	34.5	33.5	32.4
Domestically financed	25.0	27.5	27.5	27.4	27.2	25.4	24.9
o.w. HIPC financed	0.4	2.2	2.2	2.2	2.2	…	…
Externally financed	5.2	7.2	0.9	7.4	7.4	8.1	7.5
Net lending	0.0	0.0	0.1	0.0	0.0	0.0	0.0
Basic primary fiscal balance [2]	91.5	25.4	18.8	82.2	86.5	103.8	93.5
Of which: Basic non-oil primary fiscal balance	-44.3	-37.3	-36.0	-33.8	-33.5	-31.1	-28.5
Balance, commitment basis							
Excluding grants	77.5	17.1	12.1	73.3	77.0	98.2	92.2
Including grants	79.8	18.3	13.0	75.0	78.7	100.4	94.2
Of which: Non-oil fiscal balance	-56.1	-44.4	-41.8	-41.0	-41.3	-34.5	-27.8
Change in arrears	-60.6	-32.5	-7.3	-5.0	-26.7	-4.4	-3.5
External	-51.5	-25.2	0.0	0.0	-21.7	0.0	0.0
Domestic	-9.2	-7.3	-7.3	-5.0	-5.0	-4.4	-3.5
Balance, cash basis	19.1	-14.2	5.7	70.0	52.0	96.0	90.7
Financing	-19.1	14.2	-5.7	-70.0	-52.0	-96.0	-90.7
Foreign (net)	26.2	27.9	-2.3	1.9	25.6	4.5	4.0
Drawings	3.0	5.9	0.1	5.6	5.7	6.0	5.5
Amortization due	-10.9	-68.2	-6.2	-3.8	-60.5	-1.4	-1.5
Rescheduling obtained	20.9	13.0	0.9	0.0	11.3	0.0	0.0
Debt cancellation	13.3	12.2	3.2	0.0	11.1	0.0	0.0
Exceptional assistance (including debt relief) [3]	0.0	65.0	-0.1	0.0	58.1	0.0	0.0
Domestic (net)	-45.3	-13.8	-3.5	-71.9	-77.6	-100.5	-94.6
Banking system (net)	-38.5	-13.5	7.2	-71.7	-77.4	-100.4	-94.6
Nonbank financing	-6.9	-0.2	-10.6	-0.1	-0.1	-0.1	0.0
Financing gap (- = surplus)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:	(Percent of GDP, unless otherwise indicated)						
Revenue and grants	47.3	36.3	29.5	47.4	44.6	48.1	49.4
Oil revenue	40.1	26.1	20.7	38.9	36.9	39.7	39.0
Non-oil revenue	6.1	9.1	8.2	7.5	6.9	6.9	7.7
Current expenditure	14.9	14.3	13.9	10.5	9.8	8.7	9.0
Capital expenditure	8.9	14.4	10.7	11.7	10.6	9.9	10.3
Basic primary fiscal balance [2]	27.0	10.6	7.1	27.6	26.6	30.6	29.9
Of which: Basic non-oil primary fiscal balance	-13.1	-15.5	-13.6	-11.4	-10.3	-9.2	-9.1
Balance, cash basis	5.6	-5.9	2.2	23.5	16.0	28.3	29.0
Pro poor spending (percent of non-oil GDP)	22.0	23.8	23.5	24.1	24.0	25.3	26.8

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

[1]Country Report No. 10/54.

[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]HIPC completion point reached in January 2010. In March 2010, the Paris Club granted 100 percent debt relief.

Table 4. Republic of Congo: Monetary Survey, 2008–10

	2008	2009		2010	
	Est.	Prog.[1]	Est.	Prog.[1]	Proj.
Monetary survey	(Billions of CFA francs)				
Net foreign assets	1,877	2,176	1,881	3,608	3,440
Central bank	1,788	2,083	1,705	3,536	3,249
Deposit money banks	89	92	176	72	191
Net domestic assets	-908	-1,113	-862	-2,434	-2,304
Net domestic credit	-893	-1,098	-719	-2,419	-2,161
Net credit to the Government	-1,079	-1,310	-956	-2,662	-2,429
Central bank	-1,072	-1,303	-956	-2,655	-2,428
Credit to the economy	190	215	235	247	272
Broad money	970	1,063	1,019	1,174	1,136
Currency outside banks	344	377	342	417	382
Demand deposits	499	547	539	604	601
Time deposits	126	139	137	153	153
	(Changes in percent of beginning-of-period broad money)				
Net foreign assets	108.0	30.8	0.3	134.8	153.1
Net domestic assets	-71.6	-21.2	4.7	-124.3	-141.6
Net domestic credit	-72.2	-21.2	17.9	-124.3	-141.6
Net credit to the government	-84.3	-23.8	12.6	-127.2	-144.6
Credit to the private sector	12.5	2.7	4.7	2.9	3.6
	(Annual percent changes, unless otherwise indicated)				
Broad money	36.4	9.6	5.0	10.5	11.5
Reserve money	44.0	9.6	-0.6	10.5	11.5
Velocity					
Non-oil GDP/Average M2	1.9	2.2	2.3	2.2	2.4
Non-oil GDP/End period M2	1.6	2.1	2.3	2.1	2.3
	(Percent)				
Total GDP growth	32.0	-14.5	-14.3	36.8	36.7
Non-oil GDP growth	11.9	9.6	9.5	10.5	11.5
Credit to the private sector/Non-oil GDP	12.2	12.6	13.8	13.1	14.3

Sources: BEAC; and Fund staff estimates and projections.

[1]Country Report No. 10/54.

Table 5. Republic of Congo, Medium Term Balance of Payments, 2008–12

	2008	2009		2010		2011	2012
	Est.	Prog. [1]	Est.	Prog. [1]	Proj.	Proj.	Proj.
	(Billions of CFA francs)						
Current account	29	-566	-348	137	224	636	631
Trade balance	2,398	1,700	1,912	2,852	3,047	3,767	3,588
Exports, f.o.b.	3,696	2,876	3,073	4,294	4,634	5,466	5,400
Oil sector	3,359	2,676	2,708	4,071	4,194	4,983	4,878
Non-oil sector	337	200	366	224	440	483	523
Imports, f.o.b.	-1,298	-1,176	-1,161	-1,442	-1,587	-1,699	-1,813
Oil sector	-302	-347	-394	-363	-372	-472	-459
Government	-294	-314	-255	-429	-511	-441	-497
Non-oil private sector	-702	-514	-512	-650	-704	-785	-856
Balance of services	-1,009	-990	-964	-1,119	-1,170	-1,299	-1,290
Oil sector	-753	-772	-760	-836	-857	-977	-933
Nonoil sector	-203	-218	-205	-284	-313	-322	-357
Income	-1,364	-1,264	-1,277	-1,593	-1,649	-1,838	-1,671
Labor income	-46	-36	-37	-57	-59	-71	-69
Investment income	-1,318	-1,228	-1,240	-1,536	-1,590	-1,768	-1,602
Current transfers (net)	5	-12	-19	-2	-3	6	5
Capital account	35	1,132	15	33	1,138	45	47
Debt forgiveness [2]	0	1,110	0	0	1,105	0	0
Official grants	35	22	15	33	33	45	47
Other	0	0	0	0	0	0	0
Financial account	1,125	-271	188	1,282	170	1,463	1,573
Direct investment (net)	1,112	933	909	1,261	1,301	1,586	1,600
Of which: oil sector	990	888	864	1,118	1,159	1,312	1,249
Portfolio investment	-1	0	0	0	0	0	0
Other investment	13	-1,204	-722	21	-1,131	-123	-26
Medium and long term	-163	-1,204	-81	-38	-1,012	145	147
Public sector	-82	-1,036	-85	35	-1,035	95	91
Drawings	47	119	1	106	108	126	127
Project	46	100	1	106	108	126	127
Program	1	0	0	0	0	0	0
Amortization	-129	-1,156	-86	-71	-1,143	-30	-35
Private sector	-81	-168	4	-73	23	50	56
Oil	-78	-98	9	-39	21	38	38
Non-oil	-3	-69	-5	-35	2	12	18
Short term	176	0	-641	59	-119	-268	-174
Errors and omissions	-76	0	-2	0	0	0	0
Overall balance of payments	1,113	295	-145	1,452	1,532	2,144	2,252
Financing	-1,113	-295	145	-1,452	-1,532	-2,144	-2,252
Reserve financing	-844	-295	83	-1,452	-1,544	-2,144	-2,252
IMF (net)[3]	1	-6	2	2	-6	2	-1
Purchases / Disbursments	1	2	2	2	2	2	0
Repurchases / Repayments	0	0	0	0	0	0	-1
Others reserves	-844	-289	81	-1,454	-1,538	-2,146	-2,251
Exceptional financing[4]	-270	0	62	0	12	0	0
Net change in arrears	-801	-430	-17	0	-413	0	0
Debt cancellation	207	208	58	0	211	0	0
Debt rescheduling	325	222	21	0	215	0	0
Financing gap (- = surplus)	0	0	0	0	0	0	0
	(Annual percentage change)						
Memorandum items:							
Export price	18.3	-31.2	-27.3	19.7	26.0	2.1	2.9
Import price	8.3	-10.4	-10.2	4.8	12.0	2.6	1.8

Sources: BEAC; and Fund staff estimates and projections.

[1]Country Report No. 10/54.

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

[3]Includes assumed disbursements under the new ECF.

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

Table 6: Republic of Congo: Proposed Access and Phasing Under the Three-Year ECF Arrangement, 2008-11 [1]

Timing	Disbursement		Conditions
	Amount in SDRs	Percent of quota	
12/22/2008	1,208,570	1.43	Approval of the arrangement
6/24/2009	1,208,570	1.43	Review completed (July 2009)
12/4/2009	1,208,570	1.43	Review completed (November 2009)
May-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—SUPPLEMENTAL LETTER OF INTENT

Brazzaville, May 19, 2010

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:

The Fund's Executive Board completed the second review of Congo's Extended Credit Facility (ECF) arrangement in November 2009 and determined that it had reached the completion point under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative in January 2010. The Congolese authorities are grateful for this support and are determined to maintain the momentum of economic reform, to further consolidate macroeconomic stability and accelerate growth to reduce poverty durably. In this regard, we believe the program objectives elaborated in our Memorandum of Economic and Financial Policies of November 2009 remain relevant and achievable. These objectives include an increase in real non-oil GDP growth this year, maintaining a low level of inflation, and continued fiscal adjustment toward long-term sustainability.

Recent economic developments have been favorable, with robust growth and low inflation, and there are signs that economic activity is picking up strongly in the non-oil sector. On the external front the outlook is positive, with the recovery in the terms of trade and rising oil production pointing to a current account surplus in 2010. With the HIPC completion point behind us, economic prospects have improved and we will continue to use our best efforts to conclude bilateral debt agreements and to use good faith efforts to obtain comparable treatment from commercial creditors as soon as possible.

The implementation of our Fund-supported program continues to be satisfactory and we observed all the quantitative performance criteria at end-December 2009. Indeed, the target on the basic non-oil primary fiscal balance was observed by a significant margin, despite the adverse (but waning) impact of the global financial crisis. We attribute this strong performance to prudent budget management and the emerging benefits of public financial management and tax and customs administration reforms, and some tax policy changes. While performance on structural areas has been broadly favorable, we did not meet two

structural benchmarks. The first unobserved structural benchmark concerns the transfer of oil receipts to the treasury within 45 days. As you know, one of the HIPC completion point triggers entailed aligning oil commercialization with best international practice. In this context, we took on board the recommendations made by the World Bank to integrate within the parent company (SNPC) the subsidiary charged with crude oil commercialization. This operational change resulted in a delay in some cases past the 45 days, but progress is being made in regularizing the payment transfer.
The second benchmark that we did not meet is completion of the strategic study of the oil sector. This study is progressing, although not on the timeline we envisaged earlier, owing to the complexity of certain issues, including the legal terms and conditions of oil contracts and the tax regime. To ensure this study effectively guides policies in this critical sector, we have solicited technical assistance from an international expert to buttress the analysis. The study should be completed by end-September.

For 2010 and beyond, we will continue to monitor our program through quantitative performance criteria, which focus on consolidation of the fiscal position. As envisaged earlier, we will target a basic non-oil primary fiscal deficit of CFAF 638 billion, equivalent to a reduction of about 3 percent of non-oil GDP (Table 1). We propose to strengthen the monitoring of the use of the government's financial resources through a[n indicative target] on net domestic financing of the banking sector to the government (ceiling). HIPC debt relief has led to a significant improvement in the government's external position and we will continue to maintain a prudent external borrowing policy, to preserve external sustainability. Nonetheless, we do have some margin to maneuver and we can now accommodate foreign financing on less concessional terms. Consequently, we propose to reduce the program's grant element on new medium- or long-term external debt to 35 percent, from 50 percent. This would help increase the range of potential projects that we could consider with the assistance of our development partners, without jeopardizing debt sustainability. Indeed, an updated debt sustainability analysis demonstrates that moderate external borrowing on these terms will not lead to a deterioration of the external debt indicators over the medium to long term.

With the help of Fund technical assistance, we are making progress in using a functional classification to enhance the monitoring of poverty-related spending. Once this work is completed, we will adopt an indicative target on such spending, consistent with the framework under the ECF.

In coordination with our CEMAC partners, we continue to place great importance on addressing the weaknesses in the regional central bank (BEAC). The BEAC authorities remain committed to strengthening governance. Initial measures have been taken to safeguard Fund resources. An external audit of all budgetary and accounting processes at BEAC headquarters is ongoing and expected to be completed in the coming months. We remain committed to working with the BEAC to resolve these issues as quickly as possible.

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 III), as well as the staff report accompanying its request for completion of the third review of the program, available to the public and authorizes the Fund to arrange for them to be posted on the Fund's website, subsequent to Executive Board approval of its request.

The fourth review under the ECF arrangement based on performance through end-June 2010 is expected to be completed before end-October 2010.

Sincerely yours,

/s

Gilbert Ondongo
Minister of Finance, Budget, and Public Portfolio

Attachments: Table 1. Quantitative Targets, 2009–10
Table 2. Structural Benchmarks Under the ECF Arrangement, 2010–11
Technical Memorandum of Understanding

APPENDIX I—ATTACHMENT I

Table 1. Republic of Congo: Quantitative Targets, 2009–10

(Billions of CFA francs; cumulative from January; unless otherwise indicated)

	End-Dec. 2009		End-Mar. 2010	End-Jun. 2010	End-Sep. 2010	End-Dec. 2010
	Perf. Criteria	Prel.	Indicative Target	Perf. Criteria	Indicative Target	Perf. Criteria
Quantitative targets						
Basic Non-oil primary fiscal balance (floor)	-637	-614	-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
New external debt (including leasing) with an original maturity of less than one year (ceiling) [2]	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
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
New external arrears on nonreschedulable debt (ceiling) [2]	0	0	0	0	0	0
New domestic arrears [2]	0	0	0	0	0	0
Memorandum items						
Oil revenue	1070	934	516	1,060	1,618	2,187
Non-oil primary revenue	372	373	106	211	317	422
Net domestic financing of the government (ceiling, indicative target)	…	…	-295	-618	-999	-1,352
Pro-poor spending	405	401	125	249	352	455

[1] Excluding rescheduling arrangements and disbursements from the IMF; the minimum grant element is set to 35 percent.

[2] Continuous.

[3] The zero ceiling on nonconcessional external debt does not apply to forthcoming external loans from the European Investment Bank and the Central African States Development Bank, as specified in paragraph 11 of the Technical Memorandum of Understanding.

APPENDIX I—ATTACHMENT II

Table 2. Republic of Congo: Structural Benchmarks under the ECF Arrangement, 2010–11

Measures	Timing/status
Public financial management and domestic revenue mobilization	
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
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) 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
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-September 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 III

Technical Memorandum of Understanding

Brazzaville, May 19, 2010

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 (May 19, 2010) and the Memorandum of Economic and Financial Policies (MEFP, dated November 5, 2009) covering 2008–11. All quantitative performance criteria and indicators will be evaluated in terms of cumulative flows from December 31, 2009. 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 investment income (on the government's accounts in the central and commercial banks), minus total expenditure (including net lending), which is to exclude transfers to Hydro Congo, interest payments on debt, externally-financed capital expenditure, and capital expenditure financed by debt services savings 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 functional classification.

C. Net domestic financing of the central government

9. Net domestic financing (NDF) of the central government is defined as the change in the government's net position (claims minus deposits at the BEAC and commercial banks) in the banking system, which is elaborated in the table of Position Nette due Gouvernement table (PNG). NDF also includes the change in the stock of Treasury bills and bonds issued by the Congolese Treasury in CFA francs on the CEMAC regional market, when those securities are established but exclude the change in the outstanding of IMF credits at the BEAC (recours au dredits due FMI) . At end-December 2009, NDF was assessed at -956.29 billion CFAF. For each test date, any adjustment by the BEAC to the data reported by individual commercial banks, on account of their misclassification of government or for other reasons, will be reported to the Fund.

D. Foreign Debt and External Arrears

10. 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.

11. 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 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 35 percent (i.e., a grant element of at least 35 percent).[2]

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

[2] See "Staff Guidance Note on Debt Limits in Fund-Supported Programs" http://www.imf.org/external/np/pp/eng/2009/121809.pdf, December 22, 2009.

> 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.

12. 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.

13. 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.

14. 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.

15. 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.

E. Oil-Collateralized External Debt and Oil Prepayments

16. 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.

17. 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.

F. Payment Arrears and Domestic Debt

18. 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

19. 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

20. 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

21. 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

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

- 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.

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

D. Balance of Payments

24. 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

25. 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

26. 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

27. 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

Third Review Under the Three-Year Arrangement Under the Extended Credit Facility—Informational Annex

Prepared by the African Department

Approved by Domenico Fanizza and Dhaneshwar Ghura

May 20, 2010

Contents

Annexes

Annex I—Republic of Congo: Relations with the Fund
(As of April 30, 2010)

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	70.06	87.95

IV. Outstanding Purchases and Loans:

	SDR Million	Percent Quota
ECF arrangements	16.28	19.28

V. Latest Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF [1]	12/08/2008	12/07/2011	8.46	3.63
ECF [1]	12/06/2004	06/05/2008	54.99	23.58
ECF [1]	06/28/1996	06/27/1999	69.48	13.90

[1] Formerly PRGF

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

	Forthcoming				
	2010	2011	2012	2013	2014
Principal			1.65	3.14	3.51
Charges/interest	0.02	0.03	0.06	0.06	0.05
Total	0.02	0.03	1.71	3.20	3.56

VII. Implementation of HIPC Initiative:

The Republic of Congo reached the completion point under the enhanced HIPC Initiative in January 2010.

I. Commitment of HIPC assistance	Enhanced Framework
Decision point date	March 2006
Assistance committed	
by all creditors (US$ million)[1]	1,574.60
Of which: IMF assistance (US$ million)	7.73
(SDR equivalent in millions)	5.40
Completion point date	January 2010
II. Disbursement of IMF assistance (SDR million)	
Assistance disbursed to the member	5.40
Interim assistance	0.90
Completion point balance	4.49
Additional disbursement of interest income[2]	0.86
III. Implementation of Multilateral Debt Relief Initiative (MDRI)	6.26

VIII. Implementation of Multilateral Debt Relief Initiative (MDRI):

I. MDRI-eligible debt (SDR Million)[3]	7.86
Financed by: MDRI Trust	4.79
Remaining HIPC resources	3.07

II. Debt Relief by Facility (SDR Million)

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

[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.

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

IX. 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. Subsequent to revelation of Paris office fraud, a series of initial measures and longer term safeguard measures were agreed between IMF and BEAC in order to continue with country programs. In December 2009, BEAC adopted an action plan with the aim of reforming its own governance, and strengthening key safeguards. A number of special audits are being conducted as well as part of this action plan.

X. 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.

XI. 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
National Accounts	AFRITAC	Huber Gbossa	April 2010
Poverty-reducing spending definition	AFRITAC	Jean Pierre Nuenang	March 2010
Tax administration. Strengthening capacity at domestic revenue authority	AFRITAC	Philippe Laurent	February 2010
Customs administration	AFRITAC	Ives Soler	December 2009
Tax policy	FAD	Mario Mansur	Aug/Sept. 2009
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
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

Subject	Department	Staff Member	Date
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	Third review under the ECF arrangement	April/May 2010	May 2010
	Article IV consultation and Fourth review under the ECF arrangement	September 2010	November 2010
	Fifth review under the ECF arrangement	Feb/March 2011	April 2011
	B. Requests for work program inputs		
Bank request to Fund (with summary justification)	Collaboration on the LIC-DSA	September 2010	October 2010
	C. Agreement on joint products and missions		
Joint products in next 12 months	LIC-DSA	September 2010	October 2010

Annex III—Statistical Issues

1. Data provision has some shortcomings, but is broadly adequate for surveillance purposes. In the context of surveillance, the limited statistics coverage and long delays in the provision of national accounts and balance of payments 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 is 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. Authorities are currently working with the Central AFRITAC to revise the national accounts' estimates back to 2000 and up 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, but the two civil

service's databases are yet to be unified. 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 for Pointe Noire (price reference period of January 1996 and weights for 1989)—the second largest city. Weights no longer reflect current household consumption patterns. Data are compiled on a monthly basis. The authorities intend to harmonize their CPI measure with that of other countries in the Central African Economic and Monetary Community (CEMAC).

Government finance statistics

7. **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—data for 2006 and 2007 has experienced delays. 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 division in charge of TOFE statistics.

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 (SNPC), 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 CEMAC member countries. However, the Republic of Congo is moderately affected by such movements: 6.2 percent of banknotes issued in the Republic of 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 from respondents. Furthermore, the opacity surrounding certain transactions in the oil sector introduces an extra layer of imprecision. In addition, net investment flows are overestimated by significant unrecorded disinvestment operations that are part of the tax regime arrangements obtained by nonresident oil-drilling 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 May 10, 2010

	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]	Dec-2009	Apr-2010	M	M	M
Reserve/Base Money	Dec-2009	Apr-2010	M	M	M
Broad Money	Dec-2009	Apr-2010	M	M	M
Central Bank Balance Sheet	Dec-2009	Apr-2010	M	M	M
Consolidated Balance Sheet of the Banking System	Dec-2009	Apr-2010	M	M	M
Interest Rates [2]	Dec-2009	Apr-2010	M	M	M
Consumer Price Index	Dec-2009	Apr-2010	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	Feb-2010	Apr-2010	M	M	Q
Stocks of Central Government and Central Government-Guaranteed Debt [5]	March-2010	Apr-2010	Q	Q	Q
External Current Account Balance	Dec-2009	Apr-2010	A	A	A
Exports and Imports of Goods and Services	Dec-2009	Apr-2010	A	A	A
GDP/GNP	2009	Apr-2010	A	A	A
Gross External Debt	March-2010	Apr-2010	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

REPUBLIC OF CONGO

Third Review Under the Three-Year Arrangement Under the Extended Credit Facility

Supplementary Information

Prepared by the African Department

Approved by Domenico Fanizza and Dhaneshwar Ghura

August 25, 2010

1. **This supplement provides an update of economic and policy developments since the staff report was issued**.[1] The thrust of the staff appraisal remains unchanged.

2. **Recent data point to sustained economic activity and stable prices.** Real sector activity during the first half of the year has remained strong, reflecting increasing oil sector activity and a buoyant non-oil sector. As envisaged, oil production has expanded as new offshore wells come on stream. Non-oil sector activity has been supported by expanding production in the telecommunications and beverage sectors. As of end-June, the consumer price level was broadly unchanged from end-2009, erasing the tick up observed earlier in the year due to a severe railway service disruption and ongoing transportation bottlenecks. The external position remains solid, with gross official foreign reserves steady at US$3.8 billion at end-April.

3. **Program performance appears broadly satisfactory.**

- Preliminary fiscal data point to a basic non-oil primary deficit in line with the end-March indicative program target.

- The structural reform agenda is moving forward, albeit with delays in some areas. Following successful reform of public procurement and the budget circuit, the government is preparing a non-oil tax reform aimed at eliminating distortions, reducing complexity and broadening the tax base. However, re-organization of the national oil company has led to delays in governance reforms.

[1] The staff report for the Third Review Under the three-year Arrangement under the Extended Credit Facility was issued on May 20, 2010. Executive Board consideration on a lapse of time basis was postponed due to delays in implementing safeguards-related measures at the BEAC.

4. **Looking ahead, the authorities recently announced a broad-based civil service reform beginning in January 2011 with the objective of improving public service delivery.** As a result of this reform, public sector salaries, which have been unduly compressed since 1994, would likely increase. The possible budgetary impact would be offset by measures rolled out last April to eliminate ghost workers and wage fraud, as well as gains in non-oil revenue resulting from an overhaul of the tax system currently being developed. In the staff's view, based on available information, the salary reform would not compromise the sustainability of the fiscal position. These issues will be discussed in detail with the authorities at the time of the next review.

Press Release No. 10/325
FOR IMMEDIATE RELEASE
August 31, 2010

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Third Review Under the ECF Arrangement with the Republic of Congo and Approves US$1.78 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the third review of the Republic of Congo's economic performance under a three-year arrangement under the Extended Credit Facility (ECF). The completion of the review enables the disbursement of SDR 1.21 million (about US$1.83 million), which would bring total disbursements under the arrangement to SDR 3.63 million (about US$5.48 million). The Executive Board's decision was taken under lapse-of-time procedures, which allows the Board to complete reviews without convening formal discussions.

The three-year ECF arrangement for the Republic of Congo was originally approved on December 8, 2008 (see Press Release No. 08/311) in an amount equivalent to SDR 8.46 million (about US$12.8 million).

In completing the third review under the three-year ECF arrangement, the Executive Board endorsed the staff's appraisal, as follows:

The near-term outlook for the Congolese economy is favorable. Strong policies, improving external conditions, and debt relief obtained under the Heavily Indebted Poor Country (HIPC) completion point (January 2010) will support macroeconomic stability. Fiscal consolidation in excess of program targets and progress on key structural reforms have strengthened policy implementation and resilience to shocks.

These continuing efforts, together with investment in basic infrastructure, augur well for a take-off of non-oil growth and lasting poverty reduction. Promptly directing resources freed by HIPC debt relief toward pro-growth and pro-poor spending may help mitigate public pressures for increasing public expenditure, while helping to advance development objectives.

Structural reforms have moved ahead, particularly in the area of public financial management (PFM) and the management of oil resources. The broader reform process was not impacted by the non-observance of two structural benchmarks due to technical issues, and the authorities are taking actions in these areas.

In the period ahead, efforts should continue in key areas, such as tax reform, improving expenditure efficiency and strengthening oil wealth management. Simultaneously supporting the objectives of the authorities' Poverty Reduction Strategy and fiscal sustainability, while maintaining a prudent external debt policy, necessitates redoubled efforts to increase non-oil revenue collection to expand the resource envelope for improving public service delivery and raising priority spending. Scope for increasing non-oil tax collection is potentially large, and staff supports the authorities' request for technical assistance in the area of tax policy.

- The authorities' planned implementation of their tax action plan is welcome, but should be accompanied by continued efforts to improve tax and customs administration.

- As fiscal space widens some additional spending may be justified. However, it will be critical to bolster gains in expenditure efficiency, including through a well-designed civil service reform and further strengthening of oil wealth management, while continuing efforts toward achieving fiscal sustainability.

Reaching the completion point has significantly reduced Congo's debt burden. Staff welcomes the authorities' good faith efforts to obtain comparable treatment from all remaining commercial creditors and their best efforts to conclude bilateral agreements as soon as possible. Staff also welcomes the authorities' intention to continue closely monitoring of public finances, including through an indicative target on net domestic financing. New foreign borrowing should only be considered if extended on concessional terms.