INTERNATIONAL MONETARY FUND

IMF Country Report No. 14/301

DEMOCRATIC REPUBLIC OF THE CONGO

October 2014

2014 ARTICLE IV CONSULTATION—STAFF REPORT; PRESS RELEASE; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE DEMOCRATIC REPUBLIC OF THE CONGO

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2014 Article IV consultation with the Democratic Republic of the Congo, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 9, 2014, following discussions which started in Kinshasa and Lubumbashi during February 11–26, 2014, and were concluded in Washington DC at the time of the Spring Meetings (April 9–10, 2014), with the officials of the Democratic Republic of the Congo on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on May 20, 2014.
- An **Informational Annex** prepared by the IMF.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Press Release** summarizing the views of the Executive Board as expressed during its June 9, 2014, consideration of the staff report that concluded the Article IV consultation with the Democratic Republic of the Congo.
- A **Statement by the Executive Director** for the Democratic Republic of the Congo.

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

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International Monetary Fund
Washington, D.C.

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DEMOCRATIC REPUBLIC OF THE CONGO

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION

May 20, 2014

KEY ISSUES

Context and outlook: Despite strong macroeconomic performance under the Fund-supported program (2009–12) with economic activity steadily accelerating and inflation declining sharply, poverty remains pervasive and the economy vulnerable, exposing this progress to reversal. Limited fiscal space and shocks to revenues often offset by expenditure adjustments have not supported pro-poor and critical investment spending necessary for inclusive growth, giving rise to mounting social demands to share in the benefits of the accelerating growth.

Focus of consultation: The discussions focused on medium-term policy measures to preserve macroeconomic stability while promoting inclusive growth, improve transparency and good governance in the natural resources sector; and foster financial stability and development.

Key policy recommendations:

- Maintain the fiscal anchor of no (net) central bank financing of the budget while creating fiscal space through enhanced domestic revenue mobilization, and improving the quality of public spending through public financial management (PFM) reforms, and building more robust buffers against external shocks.
- Implement measures included in the updated governance matrix agreed with the World Bank and the recommendations of the Extractive Industries Transparency Initiative (EITI) and the National Conference on Mineral Resources Management (NCMRM) to enhance transparency and good governance in the management of natural resources.
- Accelerate reforms of the Central Bank of the Congo (BCC) and the financial sector by (i) passing the central bank law to strengthen its independence and governance, (ii) completing its recapitalization, and (iii) strengthening its analytical capacity, (iv) disengaging from non-core activities, and (v) implement FSAP recommendations to promote financial sector stability and development.

Approved By
Michael Atingi-Ego and Ranil Salgado

Discussions took place in Kinshasa and Lubumbashi during February 11–26, 2014, and were concluded in Washington DC at the time of the Spring Meetings (April 9–10, 2014). The staff team comprised Messrs. Toé (head), Fischer, Melhado, Mvogo, Ms. Salins (all AFR); Mr. Petit (FAD); Ms. Oliva (MCM); and Mr. N'Sonde (OED). Discussions were held with the Prime Minister, the Vice-Prime Minister in charge of the budget; the Minister Delegate in charge of Finance; the Governor of the BCC; the Economic and Finance Commissions of the Senate and the National Assembly, and senior provincial officials. The mission also met with a broad range of stakeholders and development partners.

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BACKGROUND

1. The Democratic Republic of the Congo (DRC) achieved strong macroeconomic performance under the Fund-supported program (2009–12) with economic growth steadily accelerating and inflation declining sharply. However, poverty remains pervasive and the economy vulnerable, exposing this progress to reversal. Limited fiscal space and shocks to revenues often offset by expenditure adjustments have not supported pro-poor and critical investment expenditures necessary for inclusive growth. Poor alignment of the budget with the priorities set in the Poverty Reduction Strategy Paper (PRSP) also contributed. As a result, the DRC would most likely not reach any of the Millennium Development Goals (MDGs) by the 2015 deadline (Text Table 1 and Table 8).This is born out from the preliminary data from a recent household survey, which indicate that poverty declined only marginally from 71 to 63 percent between 2005 and 2012 despite economic growth averaging 6.3 percent over this period.

Text Table 1. Democratic Republic of the Congo: Progress to MDGs

Millenium Develoment Goals	1990 MDG Benchmark	Current status (2012)	Likelihood of achieving target by 2015
1. Halve the rates for extreme poverty and malnutrition			
Poverty headcount ratio at 1.25$ a day (PPP) (% of population)	88 (2005)	...	Low
Poverty headcount ratio at national poverty line (% of population)	71 (2005)	63	Low
2. Achieve universal primary education			
Primary completion rate, total (% of relevant age group)	52	73	Low
3. Promote gender equality and empower women			
Raise the ratio of girls to boys in primary school to 100%	71	88	Medium
4. Reduce child mortality by two-thirds			
Reduce under 5- mortality rate (per 1,000)	171	146	Low
Reduce infant mortality rate (per 1,000 live births)	112	100	Low
5. Improve maternal healh			
Maternal mortality ratio (modeled estimate, per 100,000 live births)	930	540	Low
6. Combat HIV/AIDS, malaria, and other diseases			
Prevalence of HIV/AIDS (% of population ages 15-49)	1.3	1.1	...
7. Ensure environmental sustainability			
Access to an improved water source (% of population)	43	46	Low

Sources: Congolese authorities; and Table 8.

2. **Domestic political uncertainty is taming the implementation of structural reforms**. Lack of progress in structural reforms, particularly in the management of natural resources, was the main cause for not completing three reviews under the previous Extended Credit Facility (ECF) arrangement, which expired on December 10, 2012. A cabinet reshuffle, rumored since early 2013 and confirmed by President Kabila in late October following the conclusion of a "National Dialogue" is yet to take place. This uncertainty is paralyzing economic decision-making process, including initiation of discussions on a new Fund-supported program.

3. **There has been growing optimism for the return of lasting peace in the DRC**. First, in February 2013, a Peace, Security, and Cooperation Framework for the DRC was signed in Addis Ababa by the United Nations Secretary-General and 11 African heads of state committing the signatories to work for a sustained peace in the Great Lakes region. Second, in November the DRC's army, backed by the UN peacekeeping force, defeated a major rebel group (M23) and is shifting its attention to some other rebel groups. However, peace remains fragile as some institutional reforms under the peace agreement are yet to be fully implemented.

4. **The authorities have been receptive to the Fund's policy advice under the Article IV consultation, but some key recommendations have been implemented with varying degrees of determination**. The authorities maintained the fiscal anchor[1] adopted in 2009, which has been the pillar of the current macroeconomic stability. However, the recommended increase in international reserve coverage of imports to better hedge against external shocks fell short of target and some structural reforms, including the recapitalization of the BCC stalled. For other reforms, such as improving transparency and management of natural resources and strengthening the BCC's supervision and analytical capacity progress remained slow.

RECENT ECONOMIC DEVELOPMENTS, OUTLOOK AND RISKS

5. **The DRC's macroeconomic performance in 2013 was strong (Figure 1, Tables 1–4)**. Gross domestic product (GDP) growth is estimated at 8.5 percent in real terms up from 7.2 percent in 2012. Benefitting from the benign global environment, the DRC continues to gain from strong trade and investment inflows from non-European countries. The mining sector remains the main driver of growth, particularly copper production, which increased by 52 percent in volume terms, with the commercial and construction sectors also performing well. Nonetheless, estimating overall growth is challenging given the lack of comprehensive source data and weak institutional capacities for compiling national accounts by the National Statistics Institute (*Institut national de la statistique*—INS).

6. **Inflation fell to a historic low and the exchange rate remained stable, but reserve coverage stagnated**. Inflation fell further in 2013 to 1.0 percent at end-December, benefiting from a restrictive fiscal policy, control of the monetary aggregates, and the absence of major import price shocks.[2] The exchange rate remained remarkably stable in 2013, and the US$50 million accumulated international reserves were only sufficient to keep the reserve coverage unchanged from 2012, at 7.7 weeks of imports of goods and services.

[1] The anchor, adopted in the context of the ECF-supported program, consists of a zero financing from the central bank (apart from the use of counterpart funds from HIPC and MDRI).

[2] There is a significant pass-through from international food prices and the exchange rate to inflation (WP/13/226).

7. **Budget execution in 2013 was consistent with the fiscal anchor**. The domestic and overall fiscal balances were contained at 0.2 and -1.7 percent of GDP respectively, despite a significantly weaker revenue performance in 2013 compared to 2012. Total revenue (excluding grants) fell by 1.9 percentage points of GDP on account of lower bonus and license payments in the mining and telecommunications sectors and weaker value added tax (VAT) performance[3] (1 percentage point of GDP) that were partially offset by a strong performance in direct taxes. Consistent with the fiscal anchor, spending adjusted downwards with exceptional spending (security and elections) dropping the most (1.1 percent of GDP). Domestically-financed capital spending nevertheless increased by 1.0 percent of GDP, resulting in an overall fiscal deficit of 1.7 percent of GDP in 2013. Payments of domestic arrears (0.3 percent of GDP), brought financing needs to 2.0 percent of GDP, of which 0.4 percent was met with a drawdown of debt relief-related deposits and the balance with external financing.

8. **Despite deterioration in the external current account, the external position remained in surplus in 2013**. This surplus of US$65 million (0.2 percent of GDP) is lower than the 2012 figure because the current account deficit widened by 2.1 percentage points of GDP to 10.1 percent of GDP in 2013. This higher deficit is in turn essentially due to higher mining related imports and higher profits repatriation, which have been reclassified, resulting in almost a doubling of the income deficit (Table 4).

9. **There has been very little progress on the structural reforms launched three years ago at the BCC**. Recapitalization has not moved forward and the BCC continues to perform activities that are nonessential for the conduct of monetary policy, namely management of the hospital center and the mint. Further, the budget constraints imposed on the BCC could limit its ability to implement effective monetary policy given its difficult financial situation.

10. **Medium-term economic growth prospects remain favorable**. The economy is projected to grow at 8.7 percent in 2014 and on average 7.5 percent during 2015–18. The mining sector is expected to remain the main driver of growth, including with the investment phase of the Sino-Congolese joint venture (Sicomines) accelerating. Growth is also expected to be buoyed in the construction, commercial, transport, and communication sectors, which benefit from mining investments. The medium-term growth projections could be even stronger if the current deficit in electricity production is addressed to support mining production. In 2014, headline inflation is targeted at 4 percent, which appears achievable in light of current trends and projected commodity prices. Average inflation is expected to remain low at around 5 percent during 2015–18.

11. **The fiscal stance is expected to remain consistent with the fiscal anchor, which continues to be appropriate to tame inflation expectations**. In 2014, revenues are projected to return to the pre-2013 trend, despite lingering concerns about the VAT performance and reach 13.9 percent of GDP, while public spending is expected to increase marginally to 19.6 percent. Domestically-financed capital spending would decrease from 2.2 percent of GDP in 2013 to

[3] The recent counter-performance appears to be linked to increased VAT credits. Multiple accounting changes related to the VAT refund account have also complicated calculation of the net VAT. A detailed analysis of the VAT performance is being undertaken.

1.9 percent, resulting in a projected increase in the domestic fiscal surplus to 0.5 percent of GDP in 2014, with domestic financing needs expected to be virtually nil. Over the medium term, fiscal policy is expected to remain supportive of macroeconomic stability.

12. The external current account deficit is projected to decline gradually over the medium term and help maintain the overall position in surplus. As a result, reserves coverage would improve from 7.7 weeks in 2013 to 8.3 weeks on average during 2014–16. Nevertheless, this level would fall short of the 10 weeks objective that the authorities had set earlier for 2012 and far below the optimal level (Appendix I, paragraph 12). The trade balance is projected to improve, spurred by rising exports of goods. This performance should more than offset the deterioration in the income balance and contributes to lowering the current account deficit to 9.3 and 8.8 percent of GDP in 2014 and 2015, respectively.

13. The outlook is subject to a number of downside risks (Table 6). The DRC's dependency on mineral resources, lack of progress in reforming the BCC into an efficient, independent and well capitalized central bank and an escalation of the armed conflict are the main risks.

14. Heavy dependence on the natural resource sector: As indicated in Table 6, a sustained decline in commodity prices (in particular copper prices) would result in lower fiscal revenues and export earnings, which in turn could lead to lower spending in priority sectors and investments further slowing poverty reduction. Staff simulated a commodity price shock with copper prices 40 and 15 percent lower than the baseline levels in 2014 and 2015, respectively. The results are: (i) a 4 percentage point drop in real GDP growth in 2014 and a 0.1 point drop in 2015; (ii) a cumulative decline in fiscal revenue 3.7 percentage points of GDP over 2014–15; (iii) a widening of the current account deficit in 2014 by 7 percentage points of GDP; and (iv) a significant depreciation of the exchange rate, which in turn leads to inflation jumping to 40 percent. An escalation of the armed conflict could have similar consequences as mines close, fiscal revenue declines and security expenditures increase.

15. Another risk relates to a continued inaction on the reforms of the BCC. Protracted delays in recapitalizing and reforming the BCC could eventually trigger a chain of negative reactions: loss of its credibility, higher inflation, a depreciation of the currency, loss of international reserves, a run on deposits in the banking sector as the BCC would not be able to act as a lender of last resort for dollar deposits (Appendix III).

POLICY DISCUSSIONS

A. Promoting sustained and inclusive growth while consolidating macroeconomic stability

16. Staff supported the authorities' fiscal policy stance, but stressed the need to create more fiscal space. Balancing the budget has essentially relied on expenditure adjustments which could be avoided by increasing revenues and improving the quality of spending (Appendix II). The volatility and unpredictability of external financing and of revenues from natural resources, coupled with a lack of control over revenues from the non-resource sector has put the burden of adjustment to achieve a balance budget on expenditures. Given the country's enormous needs for infrastructure and social spending (e.g., education and health), this situation has created an unwanted tradeoff between current macroeconomic stability and future growth. Such a trade-off could be avoided by increasing revenues and improving the quality of spending (Appendix II). Based on the DRC's tax potential (Box II.1.), staff estimates that the revenue-to-GDP ratio could be increased by more than 7 percentage points of GDP over the medium term. The least volatile and most predictable revenues (non-natural resource and non-grant revenues) represent less than 10 percent of non-natural resource GDP, or substantially below DRC's peers. Staff recommended accelerating PFM reforms aimed at improving the quality of spending and broadening the tax base through (i) strengthening government control over the VAT, (ii) streamlining the many procedures at customs and securing borders, and (iii) interconnecting computer systems of the Customs and Tax departments.

17. There is also the need to build policy space and strike the right balance between various macroeconomic objectives. Staff recommends targeting inflation at around 4 to 6 percent, which would create additional space for reserve accumulation. Depending on the assumed opportunity cost of holding reserves, the optimal coverage level for the DRC is between 5.7 and 14.1 months, an objective that can only be feasible over the long run (Figure I.10.). For the medium term, staff recommends aiming for reserve coverage of at least three months of imports, coupled with a flexible exchange rate to be able to deal with exogenous shocks. This objective should be achievable while maintaining broad macroeconomic stability.

18. A reformed and efficient BCC could partly shift the burden of macroeconomic stability towards the central bank. The BCC's independence and analytical capacity needs strengthening to enhance its credibility as a precondition for a successful de-dollarization and more effective monetary policy. The slow progress, or reform reversal, of structural reforms at the BCC is a source of concern. Staff recommends that the authorities recapitalize the BCC and make it an independent and accountable entity with the capacity to carry out its mandate of maintaining price stability and financial sector stability. Staff also recommends BCC's divestment of the hospital center and the mint, which are not consistent with its mandate. The budget constraints on the BCC and its inadequate foreign exchange reserve levels limit its ability to control inflation by making it difficult to absorb excess liquidity through the sale of foreign exchange or the issuance of central bank bills. The de-dollarization strategy that the authorities are implementing requires a stable macroeconomic environment, a credible, efficient and independent central bank, effective banking supervision, and sufficiently well-developed financial infrastructure.

19. Promoting inclusive growth is imperative given the persistently high poverty rate. International experience suggests that sustained high growth and adequate social spending is vital for reducing poverty. Furthermore, sectors intensive in labor and family businesses like the agriculture and service sectors have a relatively stronger impact on poverty reduction than the industrial mining sector[4]—a sector poorly integrated with the rest of the economy. Staff thus recommended to the authorities to increase social spending and investment in labor intensive sectors such as agriculture, and improve the business environment, including through infrastructure development to promote private sector participation in employment creation.

20. Medium-term growth can be further accelerated if key obstacles are addressed. The growth take-off envisioned by the authorities could materialize once the electricity deficit constraining mining companies' expansion plans is overcome, feeder roads are developed, and the business climate is significantly improved. Staff has developed an alternative scenario consistent with its policy recommendations that shows an acceleration of growth to double digits by 2016 (mainly in agriculture and other non-mineral resource sectors), a moderately higher inflation, a depreciation of the exchange rate, and faster reserve accumulation (Table 5 and Text Table 2).

Text Table 2. Democratic Republic of the Congo: Selected Economic and Financial Indicators: Baseline and Alternative Scenarios, 2013–19

	2013	2014	2016	2018	2019	2014	2016	2018	2019
	Est.	Baseline				Alternative scenario			
Real GDP	8.5	8.7	7.9	6.4	5.7	8.8	10.4	8.7	8.0
Consumer prices, end-of-period	1.0	3.7	5.0	5.5	5.5	4.0	5.5	6.0	6.0
Fiscal revenue (% of GDP)	13.0	13.9	14.7	14.9	15.0	13.9	15.3	18.5	19.5
Overall balance, including grants (% of GDP)	-1.7	-2.2	-1.6	-3.6	-3.0	-2.2	-1.7	-2.9	-2.5
Current account, including grants (% of GDP)	-10.1	-9.3	-7.8	-7.1	-6.4	-9.3	-7.5	-6.2	-4.9
Gross reserves (weeks of non-aid imports of goods and services)	7.7	8.4	8.6	8.5	8.3	8.4	9.7	10.6	11.3

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

Authorities' views

21. The authorities broadly concurred with the staff's analysis and policy recommendations, but found staff's medium-term growth projections too conservative. They indicated that their own projections were higher (9.5 percent in 2014 and 10.7 percent on average over 2015–17) predicated on continued strong expansion in mining production and agriculture,

[4] See Regional Economic Outlook for sub-Saharan Africa, Spring 2014.

which is receiving increased investments. They stressed that sustained growth over the medium to long term is needed to address pervasive poverty and indicated their strong commitment to implement the right policies. However, while sympathetic of staff's advice on the policy mix to maintain macroeconomic stability, they stressed that given the DRC's history of hyperinflation and dramatic devaluations, very low inflation and exchange rate stability are paramount macroeconomic objectives. Nonetheless, the authorities would endeavor to accumulate international reserves market conditions permitting.

22. The authorities fully shared staff's emphasis on revenue mobilization, but pointed to administrative constraints that are being addressed. They noted in particular, weak capacity and lack of infrastructure, including deficient communications, poor working conditions, governance issues, and dealing with highly sophisticated international taxpayers. They concurred with staff on the need to closely monitor and track on monthly basis VAT reimbursements and also shared staff's assessment that the disappointing VAT performance reflected wider difficulties that will need to be addressed through a tighter control of the tax base. They stressed that improvements in this area was consistent with their objective to raise revenues. They also underlined the potential of the mining sector for significant additional tax revenues and welcomed the Fund's continued technical assistance (TA) in modeling tax revenues from the mining sector and advice on new mining code.

23. The authorities also concurred with the need to reform the BCC to make it a more effective and accountable institution. They indicated that under the new BCC's management, the pace of reforms has picked up with renewed efforts to disengage from non-core activities and rationalize the BCC's operations. They felt strongly that the recapitalization of the BCC should be linked to significant improvement in its operating results.

B. Improving transparency and good governance in natural resource management

24. Improving transparency and governance in the natural resource sector remains a major challenge. The DRC was suspended in April 2013 from the EITI for a year, but expects to become compliant by May 2014 upon completion of certain reporting requirements. Transparency should also extend to the infrastructure loans under the Sicomines agreement (DSA, paragraphs 9 and 13). Structural reforms aimed at improving the governance of SOEs in the mining sector have been introduced, but progress remains slow. Moreover, Gécamines, beneficiary of mining royalties that would otherwise accrue to the Treasury, continues to divest assets without competitive biddings in disregard of a government's decree. The SOEs claim that a recent change in their status to commercial enterprises enables them to make independent business decisions. Consistent with World Bank's advice, staff urged the authorities to closely monitor the sale of assets by SOEs and improve their management by strengthening the capacity and accountability of government representatives on their boards of directors. Lastly, the authorities could benefit from drawing on international best practices when revising the mining and petroleum codes (the former being discussed with stakeholders and the latter tabled before parliament) and from strengthening the anti-money laundering framework to address the illegal exploitation of natural resources.

Authorities' view

25. The authorities concurred that governance and transparency of the sector remain a challenge, including the corporate governance of the SOEs operating in the sector. They pointed to the NCMRM organized in January 2013 to promote best practices[5] and the subsequent governance matrix (GM) agreed with the World Bank aimed at enhancing transparency across the board in the management of natural resources. They indicated that 136 mining contracts have been published and annual productions and exports for 2003–12 have been made available.

C. Promoting Financial Stability and Development

26. The Financial Sector Assessment Program (FSAP) conducted in 2013 for the first time proved timely. It concluded that the financial system remains underdeveloped and subject to major weaknesses (Appendix III). Stress tests conducted by staff revealed that the banking sector is particularly vulnerable to liquidity shocks, owing to the absence of risk-based supervision, inadequate regulation, and lax implementation of the regulations governing the financial system. Consequently, staff recommended that the authorities (i) strengthen the BCC's capacities for data collection to enhance monitoring and analysis (in particular with regard to nonperforming loans) and introduce risk-based supervision; (ii) adopt a law on the statutes of the central bank and the banking law that provide the central bank with the necessary powers to enforce prudential norms and to establish a legal and operational crisis management framework in the coming years; and (iii) promote financial inclusion by adopting a new leasing legislation, strengthening supervision of microfinance institutions, and restructuring the defunct Savings Bank of Congo (CADECO).

27. A credible de-dollarization strategy requires a series of pre-conditions.[6] Drawing on international experience staff urged the authorities to focus on building the necessary pre-conditions, which are: (i) maintaining macroeconomic stability and increasing international reserve coverage to enhance the credibility of the currency; (ii) clarifying the BCC's mandate to pursue price stability as its primary objective; (iii) recapitalizing the BCC and restoring its operational independence and accountability, (iv) adopting the banking law, clearly defining the legal and regulatory framework; and (v) enhancing the current financial infrastructure (including supervisory framework, payments systems, and safety net tools). Staff welcomed the government's recent efforts on de-dollarization, including the payment of taxes by extractive companies and the Treasury's operating expenses in local currency.

Authorities' views

28. The authorities welcomed the candid analysis and agreed with the main recommendations of the FSAP. They adopted a comprehensive 3-year time-bound action plan to implement them. They already reorganized the banking supervision department to improve its accountability and performance and started the recruitment process of 15 additional staff. This

[5] The Conference made about 100 recommendations, some of which have been included in the GM. A follow-up conference was organized in March 2014.

[6] For a discussion about the dollarization and effectiveness of monetary policy in the DRC, see WP/13/226).

action plan includes the reinforcement of technical capacities and the adoption of a supervisory risk-based framework. They also concurred with the need to pace the process of de-dollarization and step up efforts to strengthen the sector and financial infrastructures. The timeline for the recapitalization of the BCC and the approval of the BCC law, however, remain controversial even within the government agencies.

OTHER ISSUES

29. The DRC's debt sustainability rating improved from high to moderate risk of debt distress. The improvement stems essentially from an increase in the discount rate from 4 to 5 percent and the large upward revision of GDP (see DSA). The improved macroeconomic fundamentals over the past few years also contributed. Despite this improved rating, the DRC will need to continue to borrow mainly on concessional terms, and improve its debt management capacity.

30. Exchange system. The Real Effective Exchange Rate (REER) level is deemed to be broadly in line with the DRC's macroeconomic fundamentals. The DRC has not introduced any new measures related to the exchange system, but maintains one exchange restriction and one multiple currency practice as described in the Informational Annex.

31. Data provided to the Fund are broadly adequate for surveillance, but there is room for improvement. The FSAP found that data quality and a non-unified treatment in the collection of data and computation of key financial indicators remain a challenge affecting the reliability of the analyses and conclusions. Compilation of national account and balance of payments data is also weak with only few primary source data available. Staff urged the authorities to increase capacities in statistical analysis and to allocate sufficient resources to data production, including at the INS and to expand surveys to key sectors, such as trade, commerce and agriculture production as well as surveys on the informal sector. Demographic, labor and social data are particularly weak which represent a challenge when well targeted poverty reduction policies need to be designed.

Authorities' views

32. Overall, the authorities agreed with staff's assessments on the debt and the external sustainability. The authorities concur with staff that reforms need to be implemented to improve the DRC's competitiveness by improving the business environment. They acknowledged that the management of public debt needed improvement and welcomed Fund TA recently received in this area. They also acknowledged difficulties in compiling debt data, especially from public entities that are not part of the public administration but underlined recent progress. They stressed their intention to continue to borrow on highly concessional terms whenever possible and to carefully scrutinize investment projects for their efficiency. They also concur with the need to accumulate more international reserves, an objective which they need to weigh also against its possible negative effects on the exchange rate and financial sector stability.

33. The authorities recognized challenges in data collection and analysis but underlined recent progress in this area. For example, they recently made resources available to the INS for the collection of CPI data. Furthermore, while demographic data are currently extrapolated from the last national census from 1985 and adjusted based on a 2006 household survey, a new survey was conducted in 2013 for which results will be published soon. A national census is also planned for 2014/15. The authorities also welcomed the TA they have been receiving for the transition of the national accounts to SNA93.

STAFF APPRAISAL

34. The DRC achieved over the past few years macroeconomic stability against difficult odds. Staff commends the authorities for their resolute pursuit of prudent macroeconomic policies despite spending pressures to address the security challenges, particularly in the eastern part of the country and the absence of budget support from donors. The steady inflows of FDIs in the natural resources sector has been the main driver of the high growth rates and the authorities are encouraged to put in place policies that will promote labor intensive production activities and help reduce poverty.

35. Consolidation of peace in the eastern part of the country and a more stable political environment would help in the implementation of economic reforms. The defeat of the M23 rebel group and the on-going implementation of the Addis Ababa peace agreement represent a unique opportunity to consolidate peace and accelerate the economic reforms needed to sustain the current macroeconomic stability and equitably share its benefits countrywide. To sustain the peace process, the relevant institutional reforms should be accelerated. Also, removing the political uncertainty would help reenergize the implementation of key structural reforms.

36. There is a need for a more ambitious reserve accumulation. The current historic low level of inflation provides the policy space to embark in a faster reserve accumulation without disrupting the foreign exchange market. This could however entail a more flexible exchange rate and the authorities are encouraged to communicate more on the issue to lessen fears of a return to hyperinflation.

37. The authorities are encouraged to build on the hard gained macroeconomic stability and vigorously mobilize domestic revenues to boost social and infrastructure spending. Such an increase in spending is required to turn the current stability into sustainable improvement in social indicators and poverty reduction. While revenues from the mining sector need to be further increased in line with its potential, the authorities also need to tap the large potential of less volatile and more predictable revenues from the non-resource sector. These more predictable resources will better protect key spending against revenue shocks. The Fund stands ready to support the authorities in this endeavor through TA.

38. The limited resources also speak to the importance of improving PFM. Sustained progress in strengthening the budget process, medium-term fiscal planning and quality of spending must be achieved supported by political forces and improved inter-government cooperation.

39. Reforms aimed at enhancing transparency and good governance in the mineral resource sector need to be pursued vigorously. The authorities should (i) accelerate the implementation of the GM and the main recommendations of the NCMRM, and (ii) monitor closely the operations of the SOEs and strengthen their oversight over SOEs. Staff also encourages the authorities to review the Gécamines unusual role as a beneficiary of royalties on licensed permits and to reform Gécamines into a company focused on mining production.

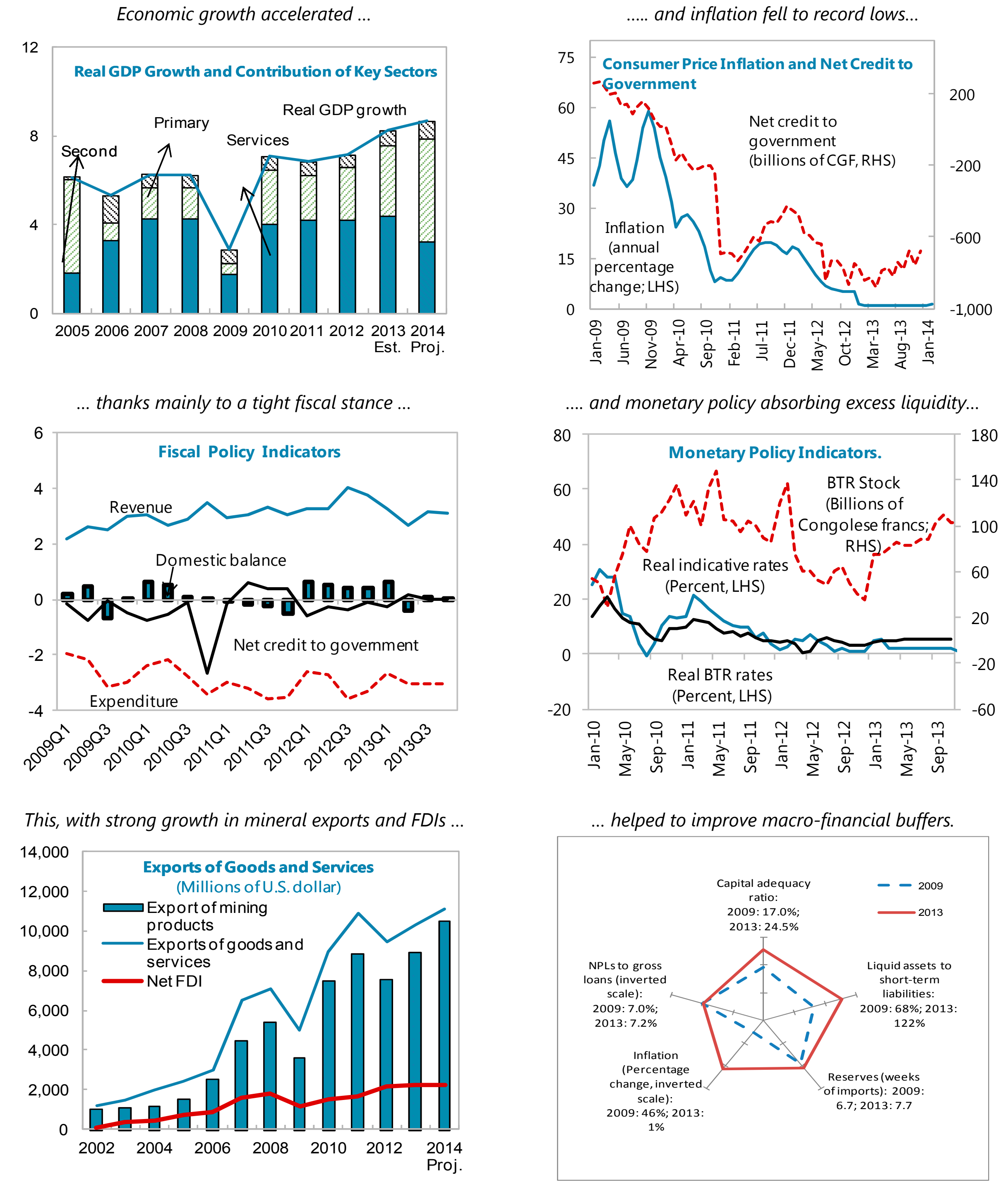
40. Inclusive growth and sustained poverty reduction will largely depend on growth in labor intensive sectors like agriculture, artisanal mining and services. While this requires stepped up social and infrastructure spending, the development of labor intensive businesses will also depend on critical improvements in the business environment. The authorities are encouraged to better align its budget with the PRSP priorities to accelerate progress towards the MDGs.

41. Staff welcomes the authorities' determination in implementing the FSAP recommendations, but urges them to expedite the recapitalization and other reforms of the BCC. Steadfast implementation of the FSAP recommendations is essential for better comprehending emerging risks and in taking timely corrective measures. The recapitalization of the BCC together with other structural reforms aimed at transforming the BCC into an autonomous and efficient central bank is a precondition for de-dollarizing the economy and for monetary policy to play an increasing role for macroeconomic and financial stability.

42. Staff remains concerned about the lack of resources, both in human and financial capital for the production of key statistical data, including the national accounts. A substantially reinforced INS is required to leverage the currently deficient data production and to enable policy makers to take efficient decisions based on real-time data.

43. Staff recommends that the next Article IV consultation with the DRC be held on the standard 12-month consultation cycle.

Figure 1. Democratic Republic of the Congo: Recent Economic Developments

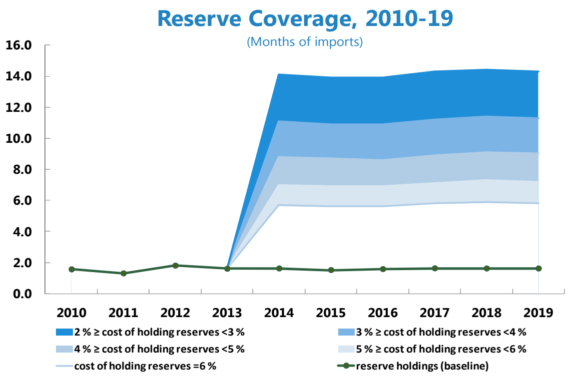


Sources: Congolese authorities; and IMF staff estimates and projections.

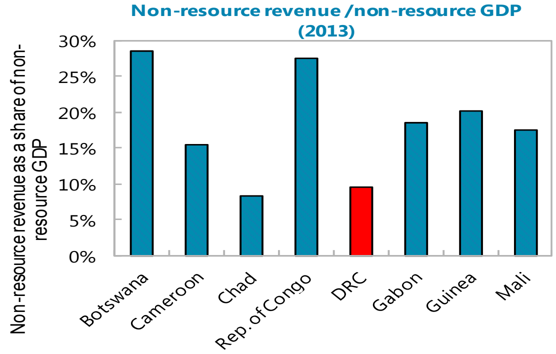
Figure 1. Democratic Republic of the Congo: Recent Economic Developments (concluded)

But the policy buffers remains insufficient for sustained and inclusive growth and hedging against shocks.

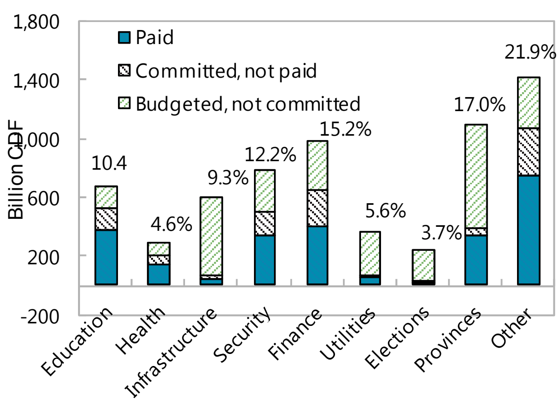
International reserves remain below the optimal reserve coverage …



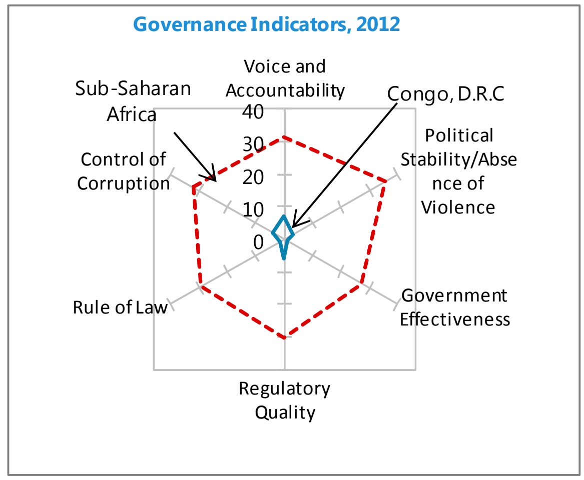
… and domestic revenue excluding natural resources are far below potential and peers …



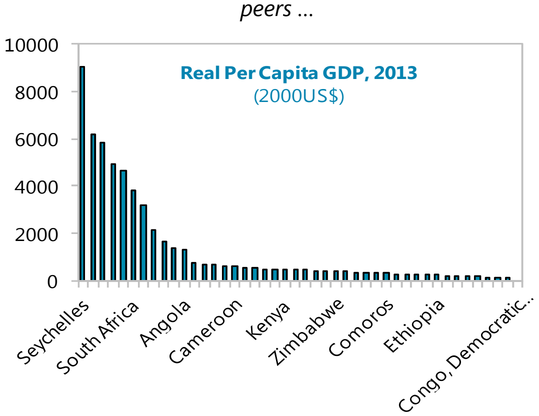
… and budget execution is weak …



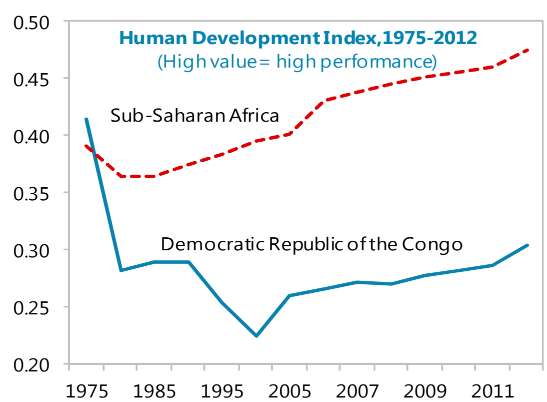
… as are the institutions …



… resulting in a lower GDP per capita compared to peers …



… and weak development indicators, although improving.



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

Table 1. Democratic Republic of the Congo: Selected Economic and Financial Indicators, 2011–19

	2011	2012	2013	2014	2015	2016	2017	2018	2019
			Est.			Proj.			
	(Annual percentage change; unless otherwise indicated)								
GDP and prices									
Real GDP	6.9	7.2	8.5	8.7	8.5	7.9	7.3	6.4	5.7
GDP deflator[1]	10.3	7.5	0.7	1.3	2.9	4.0	4.8	5.6	5.1
Consumer prices, period average[1]	15.5	2.1	0.8	2.4	4.1	4.8	5.3	5.5	5.5
Consumer prices, end-of-period[1]	15.4	2.7	1.0	3.7	4.5	5.0	5.5	5.5	5.5
External sector									
Exports, f.o.b. (U.S. dollars)	19.9	-13.7	16.6	16.5	12.1	11.9	11.5	7.5	8.8
Imports, f.o.b. (U.S. dollars)	23.8	-7.0	16.3	5.1	6.2	10.1	6.4	8.6	6.8
Export volume	19.6	-1.7	25.0	7.5	12.1	11.5	10.8	6.8	8.1
Import volume	5.0	-7.8	15.4	8.7	7.9	10.5	6.4	8.3	6.4
Terms of trade	-11.8	-11.5	-7.2	12.4	2.0	1.0	0.5	0.4	0.3
	(Annual change in percent of beginning-of-period broad money; unless otherwise indicated)								
Money and credit									
Broad money	23.2	21.1	18.1	10.1	13.1	…	…	…	…
Net foreign assets	-3.7	22.9	2.3	10.7	7.1	…	…	…	…
Net domestic assets	25.9	-1.9	15.7	-0.5	6.1	…	…	…	…
Domestic credit	19.2	-4.6	14.5	5.2	5.9	…	…	…	…
Of which:									
Net credit to government (annual percent change)	11.7	-18.9	3.6	-0.2	0.3	…	…	…	…
Credit to the private sector (annual percent change)	16.7	25.6	26.5	11.9	12.0	…	…	…	…
	(Percent of GDP; unless otherwise indicated)								
Central government finance									
Revenue and Grants	18.0	20.1	17.4	17.4	18.2	19.3	19.3	19.1	18.9
Revenue	12.4	14.9	13.0	13.9	14.0	14.7	14.8	14.9	15.0
Grants	5.6	5.2	4.4	3.5	4.2	4.6	4.5	4.2	3.9
Expenditure	19.1	19.5	19.1	19.6	19.9	20.9	22.3	22.7	22.0
Domestic fiscal balance (cash basis)	-1.1	1.2	0.2	0.5	0.7	0.7	0.2	-0.3	-0.8
Net borrowing/lending (overall balance, incl grants)	-1.2	0.6	-1.7	-2.2	-1.7	-1.6	-3.0	-3.6	-3.0
Investment and saving									
Gross national saving	10.5	12.3	11.2	12.2	13.7	15.8	17.4	17.8	17.5
Government	1.1	3.7	2.9	3.4	3.8	4.3	4.2	4.0	3.9
Nongovernment[2]	9.4	8.5	8.3	8.8	9.9	11.5	13.2	13.8	13.6
Investment	16.5	20.3	21.3	21.6	22.7	23.8	25.0	25.1	24.2
Government	4.4	6.1	6.4	6.2	6.6	7.0	7.9	7.7	6.5
Nongovernment	12.1	14.2	14.9	15.3	16.1	16.8	17.1	17.4	17.7
Balance of payments									
Exports of goods and services	45.5	34.1	36.4	39.1	40.2	41.3	42.3	41.8	42.4
Imports of goods and services	50.3	40.0	42.5	41.1	39.9	40.1	39.2	39.2	39.0
Current account balance, incl. transfers	-5.9	-8.0	-10.1	-9.3	-8.8	-7.8	-7.4	-7.1	-6.4
Current account balance, excl. transfers	-9.3	-10.9	-15.4	-14.0	-12.9	-12.0	-11.5	-11.1	-10.3
Gross official reserves (end-of-period, millions of U.S. dollars)	1300	1645	1695	1905	1955	2165	2425	2575	2725
Gross official reserves (weeks of non-aid-related imports of goods and services)	7.7	7.7	7.7	8.4	8.1	8.6	8.8	8.5	8.3
	(Millions of U.S. dollars; unless otherwise indicated)								
External public debt									
Total stock, including IMF	4,629	4,662	5,196	6,055	7,096	8,012	9,495	10,953	12,128
Present value (PV) of debt[3]	4,763	5,354	3,205	3,918	4,504	5,139	6,058	7,063	7,805
PV of debt (percent of exports of goods and services)	43.5	57.0	29.5	31.1	32.0	32.7	34.6	37.6	38.1
Scheduled debt service	160.0	181.7	194.6	189.3	330.0	366.5	403.1	341.3	317.3
Percent of exports of goods and services	1.5	1.9	1.8	1.5	2.3	2.3	2.3	1.8	1.5
Percent of government revenue	5.4	4.4	5.0	4.2	6.6	6.4	6.4	5.0	4.3
Exchange rate, (CGF per U.S. dollar)									
Period average	918	919	919	…	…	…	…	…	…
End-of-period	911	915	926	…	…	…	…	…	…
Memorandum item:									
Nominal GDP (CGF billions)[1]	21,913	25,250	27,596	30,390	33,939	38,094	42,838	48,132	53,469

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

[1] Starting in 2012 CPI numbers are calculated by INS using a revised methodology. The CPI for 2012 according to the previous methodolgy amounted to 5.7 percent (eop) and 9.3 (average).

[2] The projections for 2011 and beyond account for mining companies profit outflows.

[3] Projections are based on calculations under the 2010 HIPC Debt Sustainability Analysis (EBS/10/121, 06/16/2010). Includes assistance beyond the terms of the enhanced HIPC Initiative granted by some Paris Club creditors. Exports are a trailing three-year moving average.

Table 2a. Democratic Republic of the Congo: Central Government Financial Operations, 2011–19

	2011	2012	2013	2014	2015	2016	2017	2018	2019
			Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Billions of Congo francs; unless otherwise indicated)								
Total revenue and grants	3,940	5,069	4,796	5,293	6,186	7,355	8,271	9,209	10,130
Total revenue	2,714	3,763	3,585	4,231	4,765	5,613	6,357	7,175	8,032
Excl. signing bonus for joint venture with China	2,714	3,459	3,585	4,231	4,765	5,613	6,357	7,175	8,032
Customs and excise	1,001	1,310	1,322	1,634	1,776	2,227	2,531	2,843	3,181
Direct and indirect taxes	956	1,227	1,417	1,680	1,989	2,291	2,614	2,979	3,358
Petroleum (royalties and taxes)	367	332	334	388	388	394	404	418	420
Nontax revenues	389	895	512	528	612	701	808	935	1,074
Signing bonus for joint venture with China	0	304	0	0	0	0	0	0	0
Other signature bonuses and license revenue	24	145	0	0	0	0	0	0	0
Other	365	445	512	528	612	701	808	935	1,074
Total grants	1,226	1,306	1,212	1,063	1,422	1,743	1,914	2,034	2,098
Budget grants	44	0	8	0	0	0	0	0	0
Project grants	849	958	764	632	959	1,249	1,386	1,554	1,571
HIPC Initiative assistance [1]	333	348	440	431	462	493	528	480	527
Total expenditure	4,194	4,922	5,275	5,950	6,749	7,965	9,570	10,919	11,757
Current expenditure	2,386	2,620	2,901	3,378	3,885	4,432	5,069	5,814	6,602
Wages	1,091	1,256	1,398	1,570	1,736	1,948	2,191	2,461	2,734
Interest due	381	373	356	318	393	395	397	400	404
Transfers and subsidies	346	408	447	578	649	743	841	949	1,061
Goods and services	567	583	700	913	1,107	1,345	1,639	2,004	2,402
Capital expenditure	1,253	1,762	2,129	2,280	2,762	3,437	4,395	4,984	5,022
Foreign-financed	876	1,456	1,522	1,713	2,027	2,441	3,143	3,434	3,130
Domestically-financed	377	305	607	566	735	996	1,252	1,551	1,892
Exceptional expenditure [2]	561	541	273	195	0	0	0	0	0
Foreign-financed	174	139	69	38	0	0	0	0	0
Domestically-financed	388	402	204	158	0	0	0	0	0
Budget reserve	0	0	0	96	102	95	107	120	134
Overall fiscal balance (payment order basis)	-255	146	-478	-656	-563	-609	-1,299	-1,710	-1,628
Change in arrears (increase = +)	-56	-60	-75	-93	-96	-98	-102	-105	-109
Central bank operational result	1	-17	0	0	0	0	0	0	0
Overall fiscal balance (cash basis, before interest rescheduling)	-310	70	-553	-750	-658	-708	-1,401	-1,816	-1,736
Domestic fiscal balance [3]	-244	292	60	162	241	276	104	-149	-446
Total financing	310	-70	553	750	658	708	1,401	1,816	1,736
Domestic financing	300	-369	113	-7	13	-127	74	309	88
Banking system [4]	230	-457	113	-7	13	-127	74	309	88
of which: Use of HIPC resources	64	0	8	-7	13	-127	74	309	88
Other sources of domestic financing	70	88	0	0	0	0	0	0	0
Foreign financing (net)	11	414	440	757	646	736	1,225	1,402	1,023
Amortization (including debt relief)	-258	-275	-387	-362	-423	-456	-531	-478	-536
Project loans	269	689	828	1,119	1,068	1,192	1,757	1,880	1,559
Residual financing need/errors and omissions	-1	-115	0	0	0	98	101	105	626
Memorandum items:									
GDP	21,913	25,250	27,596	30,390	33,939	38,094	42,838	48,132	53,469
Domestically-financed spending	2,958	3,167	3,525	4,068	4,524	5,337	6,252	7,323	8,478
Expenditure on education, health, and rural sector development	942	1,086	1,187	1,307	1,460	1,638	1,842	2,070	2,300

Sources: Congolese authorities and IMF staff estimates and projections.

[1] Reflects revised calculation of HIPC Initiative assistance on the basis of the 2010 Debt Sustainability Analysis (EBS/10/121,16/06/2010).

[2] Exceptional expenditure includes spending for the Demobilization, Disarmament, and Reintegration (DDR) program, and cost of the elections.

[3] The domestic fiscal balance is defined as revenue (excluding the signing bonus from the SCCA) minus total expenditure (excluding interest on foreign debt, foreign-financed capital, and exceptional expenditure).

[4] For 2011 onward, all banking system financing reflects the use of government deposits, including IMF HIPC relief, and program adjustors.

Table 2b. Democratic Republic of the Congo: Central Government Financial Operations, 2011–19

	2011	2012	2013 Est.	2014 Proj.	2015 Proj.	2016 Proj.	2017 Proj.	2018 Proj.	2019 Proj.
	(Percent of GDP; unless otherwise indicated)								
Total revenue and grants	18.0	20.1	17.4	17.4	18.2	19.3	19.3	19.1	18.9
Total revenue	12.4	14.9	13.0	13.9	14.0	14.7	14.8	14.9	15.0
Excl. signing bonus for joint venture with China	12.4	13.7	13.0	13.9	14.0	14.7	14.8	14.9	15.0
Customs and excise	4.6	5.2	4.8	5.4	5.2	5.8	5.9	5.9	5.9
Direct and indirect taxes	4.4	4.9	5.1	5.5	5.9	6.0	6.1	6.2	6.3
Petroleum (royalties and taxes)	1.7	1.3	1.2	1.3	1.1	1.0	0.9	0.9	0.8
Nontax revenues	1.8	3.5	1.9	1.7	1.8	1.8	1.9	1.9	2.0
Signing bonus for joint venture with China	0.0	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other signature bonuses and license revenue	0.1	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	1.7	1.8	1.9	1.7	1.8	1.8	1.9	1.9	2.0
Total grants	5.6	5.2	4.4	3.5	4.2	4.6	4.5	4.2	3.9
Budget grants	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project grants	3.9	3.8	2.8	2.1	2.8	3.3	3.2	3.2	2.9
HIPC Initiative assistance [1]	1.5	1.4	1.6	1.4	1.4	1.3	1.2	1.0	1.0
Total expenditure	19.1	19.5	19.1	19.6	19.9	20.9	22.3	22.7	22.0
Current expenditure	10.9	10.4	10.5	11.1	11.4	11.6	11.8	12.1	12.3
Wages	5.0	5.0	5.1	5.2	5.1	5.1	5.1	5.1	5.1
Interest due	1.7	1.5	1.3	1.0	1.2	1.0	0.9	0.8	0.8
Transfers and subsidies	1.6	1.6	1.6	1.9	1.9	2.0	2.0	2.0	2.0
Goods and services	2.6	2.3	2.5	3.0	3.3	3.5	3.8	4.2	4.5
Capital expenditure	5.7	7.0	7.7	7.5	8.1	9.0	10.3	10.4	9.4
Foreign-financed	4.0	5.8	5.5	5.6	6.0	6.4	7.3	7.1	5.9
Domestically-financed	1.7	1.2	2.2	1.9	2.2	2.6	2.9	3.2	3.5
Exceptional expenditure [2]	2.6	2.1	1.0	0.6	0.0	0.0	0.0	0.0	0.0
Foreign-financed	0.8	0.6	0.3	0.1	0.0	0.0	0.0	0.0	0.0
Domestically-financed	1.8	1.6	0.7	0.5	0.0	0.0	0.0	0.0	0.0
Budget reserve	0.0	0.0	0.0	0.3	0.3	0.3	0.3	0.3	0.3
Overall fiscal balance (payment order basis)	-1.2	0.6	-1.7	-2.2	-1.7	-1.6	-3.0	-3.6	-3.0
Change in arrears (increase = +)	-0.3	-0.2	-0.3	-0.3	-0.3	-0.3	-0.2	-0.2	-0.2
Central bank operational result	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall fiscal balance (cash basis, before interest rescheduling)	-1.4	0.3	-2.0	-2.5	-1.9	-1.9	-3.3	-3.8	-3.2
Domestic fiscal balance [3]	-1.1	1.2	0.2	0.5	0.7	0.7	0.2	-0.3	-0.8
Total financing	1.4	-0.3	2.0	2.5	1.9	1.9	3.3	3.8	3.2
Domestic financing	1.4	-1.5	0.4	0.0	0.0	-0.3	0.2	0.6	0.2
Banking system[4]	1.0	-1.8	0.4	0.0	0.0	-0.3	0.2	0.6	0.2
of which: Use of HIPC resources	0.3	0.0	0.0	0.0	0.0	-0.3	0.2	0.6	0.2
Other sources of domestic financing	0.3	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign financing (net)	0.0	1.6	1.6	2.5	1.9	1.9	2.9	2.9	1.9
Amortization (including debt relief)	-1.2	-1.1	-1.4	-1.2	-1.2	-1.2	-1.2	-1.0	-1.0
Project loans	1.2	2.7	3.0	3.7	3.1	3.1	4.1	3.9	2.9
Residual financing need/errors and omissions	0.0	-0.5	0.0	0.0	0.0	0.3	0.2	0.2	1.2
Memorandum items:									
GDP (billions of CGF)	21,913	25,250	27,596	30,390	33,939	38,094	42,838	48,132	53,469
Domestically-financed spending	13.5	12.5	12.8	13.4	13.3	14.0	14.6	15.2	15.9
Expenditure on education, health, and rural sector development	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3

Sources: Congolese authorities and IMF staff estimates and projections.

[1] Reflects revised calculation of HIPC Initiative assistance on the basis of the 2010 Debt Sustainability Analysis (EBS/10/121,16/06/2010).
[2] Exceptional expenditure includes spending for the Demobilization, Disarmament, and Reintegration (DDR) program, and cost of the elections.
[3] The domestic fiscal balance is defined as revenue (excluding the signing bonus from the SCCA) minus total expenditure (excluding interest on foreign debt, foreign-financed capital, and exceptional expenditure).
[4] For 2011 onward, all banking system financing reflects the use of government deposits, including IMF HIPC relief, and program adjustors.

Table 3. Democratic Republic of the Congo: Monetary Survey, 2011–15
(at current exchange rate)

	2011 Dec.	2012 Dec.	2013 Dec.	2014 Dec.	2015 Dec
	Act.	Act.	Prel.	Proj.	
	(Billions of Congo francs)				
Net foreign assets	834.9	1389.2	1457.8	1829.4	2101.1
Central bank	19.2	337.1	393.4	581.0	634.4
Commercial banks	815.7	1052.0	1064.3	1248.4	1466.7
Net domestic assets	1,608.7	1563.7	2024.3	2008.1	2240.4
Domestic credit	441.0	326.6	712.9	892.5	1116.8
Net credit to government	-521.0	-977.9	-872.8	-879.5	-866.6
Credit to the economy	962.0	1304.5	1585.7	1772.0	1983.4
o/w credit to private sector	913.3	1147.2	1450.8	1623.5	1817.5
o/w credit to parastatals	48.7	157.3	134.9	148.5	165.9
Other items, net (including valuation change)	1,167.7	1237.2	1311.4	1115.5	1123.6
Broad money (M2)	2,418.4	2930.1	3460.4	3810.8	4309.8
Narrow money (M1)	790.1	883.8	1061.5	1073.7	1222.9
Currency in circulation	615.3	595.2	692.9	648.8	720.8
Demand deposits	174.7	288.7	368.6	424.9	502.1
Quasi money	1,628.4	2046.3	2398.9	2737.1	3086.9
Import deposits	25.2	22.8	21.7	26.7	31.7
	(Year-on-year change in percent)				
Net foreign assets	-8.0	66.4	4.9	25.5	14.9
Net domestic assets	46.0	-2.8	29.4	-0.8	11.6
Domestic credit	588.8	-25.9	118.3	25.2	25.1
Net credit to government	-30.6	87.7	-10.8	0.8	-1.5
Credit to the economy	18.0	35.6	21.6	11.8	11.9
o/w credit to the private sector	16.7	25.6	26.5	11.9	12.0
o/w credit to parastatals	50.5	223.0	-14.3	10.1	11.7
Other items, net (including valuation change)	12.5	5.9	6.0	-14.9	0.7
Broad money (M2)	23.1	21.2	18.1	10.1	13.1
Narrow money (M1)	11.9	11.9	20.1	1.2	13.9
Quasi money	29.4	25.7	17.2	14.1	12.8
	(Annual change in percent of beginning-of-period broad money)				
Net foreign assets	-3.7	22.9	2.3	10.7	7.1
Net domestic assets	25.8	-1.9	15.7	-0.5	6.1
Domestic credit	19.2	-4.7	13.2	5.2	5.9
Net credit to government	11.7	-18.9	3.6	-0.2	0.3
Credit to the economy	7.5	43.3	31.8	17.6	19.7
Other items, net (including valuation change)	6.6	2.9	2.5	-5.7	0.2
Broad money (M2)	23.1	21.2	18.1	10.1	13.1
Narrow money (M1)	4.3	3.9	6.1	0.4	3.9
Quasi money	18.8	17.3	12.0	9.8	9.2
Memorandum items:					
Nominal GDP (billions of Congo francs)	21,913	25,250	27,596	30,390	33,939
Velocity (GDP/broad money)	9.1	8.6	8.0	8.0	7.9
Foreign currency deposits (percent of M2)	66.6	69.0	68.4	67.5	66.6
Foreign currency deposits (percent of total deposits)	89.3	86.5	85.6	81.4	80.0
Net foreign assets of the BCC [1]	19	337	393	581	634
Net domestic assets of the BCC [1]	790	515	591	503	525
Of which: Net credit to government from the BCC [1]	-428	-752	-680	-686	-673
Base money [1]	809	852	984	1,084	1,160
Of which: currency in circulation [1]	647	643	760	687	834

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

[1] In billions of Congo francs at current exchange rates.

Table 4. Democratic Republic of the Congo: Balance of Payments, 2011–19

	2011	2012	2013 [1]	2014	2015	2016	2017	2018	2019
		Est.	Est.	Projections					
	(Millions of U.S. dollars; unless otherwise indicated)								
Current account	-1,416	-2,212	-3,036	-3,017	-3,139	-3,024	-3,099	-3,231	-3,161
Merchandise trade	656	-66	-49	1,086	1,841	2,260	3,146	3,238	3,813
Exports, f.o.b.	9,966	8,597	10,028	11,680	13,094	14,654	16,337	17,560	19,104
Of which: mining and oil	9,724	8,445	9,799	11,360	12,708	14,198	15,804	16,782	18,210
Imports, f.o.b.	-9,311	-8,663	-10,077	-10,594	-11,254	-12,394	-13,191	-14,323	-15,292
Of which: aid-related imports	-1,949	-1,958	-1,456	-1,656	-2,145	-2,633	-3,119	-3,291	-3,058
Services	-1,811	-1,561	-1,791	-1,731	-1,724	-1,819	-1,870	-2,046	-2,153
Receipts	890	767	895	1,042	1,169	1,308	1,458	1,567	1,705
Expenditure	-2,700	-2,328	-2,686	-2,773	-2,892	-3,127	-3,328	-3,614	-3,858
Of which: aid-related imports	-439	-208	-243	-255	-250	-307	-364	-384	-356
Income	-1,299	-1,598	-2,811	-4,170	-4,999	-5,413	-6,456	-6,643	-7,110
Receipts	102	19	49	70	77	84	91	99	106
Expenditure	-1,401	-1,617	-2,861	-4,240	-5,076	-5,497	-6,547	-6,742	-7,216
Of which: interest payments [2]	-24	-29	-26	-20	-96	-87	-134	-116	-298
Current transfers	1,038	1,013	1,616	1,798	1,743	1,949	2,080	2,220	2,289
Of which: official aid	798	783	1,581	1,526	1,448	1,626	1,729	1,839	1,879
Capital and financial account	1,361	2,810	3,101	3,319	3,373	3,399	3,541	3,563	2,997
Capital account	855	1,262	495	598	785	944	1,018	1,104	1,115
Official	925	1,042	416	338	501	634	681	738	721
Private	-70	220	79	260	284	310	337	366	393
Capital transfers (HIPC/MDRI)	…	…	…	…	…	…	…	…	…
Of which: from IMF	…	…	…	…	…	…	…	…	…
Financial account	506	1,547	2,606	2,721	2,588	2,455	2,523	2,459	1,882
Official capital	156	598	731	1,028	924	1,018	1,504	1,517	1,158
Gross disbursements	293	750	900	1,197	1,116	1,210	1,727	1,786	1,432
Scheduled amortization [3]	-137	-152	-169	-169	-192	-192	-223	-270	-274
Private capital (net)	350	949	1,875	1,693	1,664	1,437	1,019	942	724
Of which: foreign direct investment	1,665	2,167	2,223	2,242	2,459	2,530	2,373	2,384	2,086
Other private non-banking sector [4]	-1,315	-1,217	-349	-549	-795	-1,093	-1,355	-1,442	-1,361
Balance before errors and omissions	-55	598	65	302	235	375	442	332	-164
Errors and omissions	1	29	0	0	0	0	0	0	0
Overall balance	-54	627	65	302	235	375	442	332	-164
Financing	55	-598	-65	-302	-234	-475	-542	-432	-411
Net change in non-IMF arrears	0	0	0	0	0	0	0	0	0
Net banking sector reserves (increase = -)	55	-598	-65	-302	-234	-475	-542	-432	-411
Central bank	162	-345	-50	-125	-58	-299	-365	-255	-234
Of which: Net IMF credit	156	0	0	0	-43	-89	-105	-105	-84
Commercial banks	-107	-253	-15	-177	-177	-177	-177	-177	-177
Financing need before exceptional assistance	0	0	0	0	0	-100	-100	-99	-575
Residual financing need (overfinancing = +)	0	0	0	0	0	-100	-100	-99	-575
Of which: fiscal	0	0	0	0	0	-100	-100	-99	-575
	(Percent of GDP, unless otherwise indicated)								
Memorandum items:									
Debt service after debt relief (percent of exports of goods and services)	1.5	1.9	1.8	1.5	2.3	2.3	2.3	1.8	1.5
Current account balance (including official transfers)	-5.9	-8.0	-10.1	-9.3	-8.8	-7.8	-7.4	-7.1	-6.4
Current account balance (excluding official transfers)	-9.3	-10.9	-15.4	-14.0	-12.9	-12.0	-11.5	-11.1	-10.3
Gross official reserves (millions of U.S. dollars)	1,300	1,645	1,695	1,905	1,955	2,165	2,425	2,575	2,725
Weeks of non-aid-related imports of goods and services	7.7	7.7	7.7	8.4	8.1	8.6	8.8	8.5	8.3

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

[1] Two reclassifications were introduced in 2013. First, repatriation of profits by international companies operating in the natural resources sector passed from the financial account (other private non-banking sector) to the current account (expenditure under the income balance). Second, a larger part of official grants were registered under the current account (current transfers) for aid covering recurrent expenditures that was previously registered under the capital account (official).

[2] Including interest due to the IMF.

[3] Excluding principal repayments to the IMF.

[4] Including unrecorded transactions. The latter may be substantial given weaknesses in statistics.

Table 5. Democratic Republic of the Congo: Alternative Scenario: Selected Economic and Financial Indicators, 2011–19

	2011	2012	2013	2014	2015	2016	2017	2018	2019
			Est.	Proj.					
	(Annual percentage change; unless otherwise indicated)								
GDP and prices									
Real GDP	6.9	7.2	8.5	8.8	9.5	10.4	10.0	8.7	8.0
GDP deflator[1]	10.3	7.5	0.7	1.4	3.8	5.8	6.6	7.2	6.8
Consumer prices, period average[1]	15.5	2.1	0.8	2.5	4.5	5.3	5.8	6.0	6.0
Consumer prices, end-of-period[1]	15.4	2.7	1.0	4.0	5.0	5.5	6.0	6.0	6.0
External sector									
Exports, f.o.b. (U.S. dollars)	19.9	-13.7	16.6	16.7	13.0	13.0	12.6	8.5	9.8
Imports, f.o.b. (U.S. dollars)	23.8	-7.0	16.3	5.2	6.4	10.1	6.4	8.7	6.5
Export volume	19.6	-1.7	25.0	7.7	12.9	12.6	11.9	7.8	9.1
Import volume	5.0	-7.8	15.4	8.8	8.1	10.4	6.3	8.4	6.1
Terms of trade	-11.8	-11.5	-7.2	12.4	2.0	1.0	0.5	0.4	0.3
	(Annual change in percent of beginning-of-period broad money; unless otherwise indicated)								
Money and credit									
Broad money	23.2	21.1	18.1	16.1	21.7	…	…	…	…
Net foreign assets	-3.7	22.9	2.3	10.9	12.3	…	…	…	…
Net domestic assets	25.9	-1.9	15.7	5.4	9.6	…	…	…	…
Domestic credit	19.2	-4.6	14.5	9.4	10.0	…	…	…	…
Of which:									
Net credit to government (annual percent change)	11.7	-18.9	3.6	-0.2	0.3	…	…	…	…
Credit to the private sector (annual percent change)	16.7	25.6	26.5	21.9	20.9	…	…	…	…
	(Percent of GDP; unless otherwise indicated)								
Central government finance									
Revenue and Grants	18.0	20.1	17.4	17.4	18.9	19.7	21.6	22.3	23.0
Revenue	12.4	14.9	13.0	13.9	14.8	15.3	17.4	18.5	19.5
Grants	5.6	5.2	4.4	3.5	4.1	4.4	4.2	3.8	3.5
Expenditure	19.1	19.5	19.1	19.6	20.2	21.4	24.1	25.2	25.4
Domestic fiscal balance (cash basis)	-1.1	1.2	0.2	0.5	1.1	0.6	0.6	0.1	-0.5
Net borrowing/lending (overall balance, incl grants)	-1.2	0.6	-1.7	-2.2	-1.3	-1.7	-2.5	-2.9	-2.5
Investment and saving									
Gross national saving	10.5	12.3	11.2	12.4	14.6	17.9	21.1	23.2	24.4
Government	1.1	3.7	2.9	3.3	4.5	4.8	6.6	7.3	7.9
Nongovernment [2]	9.4	8.5	8.3	9.1	10.2	13.0	14.4	15.9	16.5
Investment	16.5	20.3	21.3	21.8	23.7	25.4	28.3	29.3	29.2
Government	4.4	6.1	6.4	6.2	6.7	7.3	8.8	8.9	8.1
Nongovernment	12.1	14.2	14.9	15.5	17.0	18.1	19.5	20.4	21.1
Balance of payments									
Exports of goods and services	45.5	34.1	36.4	39.2	40.2	40.7	40.9	40.0	40.0
Imports of goods and services	50.3	40.0	42.5	41.1	39.6	38.8	36.9	36.2	35.1
Current account balance, incl. transfers	-5.9	-8.0	-10.1	-9.3	-8.9	-7.5	-7.2	-6.2	-4.9
Current account balance, excl. transfers	-9.3	-10.9	-15.4	-14.0	-13.0	-11.5	-11.1	-9.9	-8.3
Gross official reserves (end-of-period, millions of U.S. dollars)	1300	1645	1695	1905	2145	2435	2785	3225	3725
Gross official reserves (weeks of non-aid-related imports of goods and services)	7.7	7.7	7.7	8.4	8.8	9.7	10.1	10.6	11.3
	(Millions of U.S. dollars; unless otherwise indicated)								
External public debt									
Total stock, including IMF	4,629	4,662	5,196	6,055	7,096	8,012	9,495	10,953	12,128
Present value (PV) of debt [3]	4,763	5,354	3,205	3,918	4,504	5,139	6,058	7,063	7,805
PV of debt (percent of exports of goods and services)	43.5	57.0	29.5	31.1	31.9	32.3	33.9	36.4	36.6
Scheduled debt service	160.0	181.7	194.6	189.3	330.0	366.5	403.1	341.3	317.3
Percent of exports of goods and services	1.5	1.9	1.8	1.5	2.3	2.3	2.2	1.7	1.5
Percent of government revenue	5.4	4.4	5.0	4.2	6.2	6.0	5.2	3.7	3.0
Exchange rate, (CGF per U.S. dollar)									
Period average	918	919	919	…	…	…	…	…	…
End-of-period	911	915	926	…	…	…	…	…	…
Memorandum item:									
Nominal GDP (CGF billions)[1]	21,913	25,250	27,596	30,443	34,617	40,423	47,397	55,240	63,704

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

[1] Starting in 2012 CPI numbers are calculated by INS using a revised methodology. The CPI for 2012 according to the previous methodolgy amounted to 5.7 percent (eop) and 9.3 (average).

[2] The projections for 2011 and beyond account for mining companies profit outflows.

[3] Projections are based on calculations under the 2010 HIPC Debt Sustainability Analysis (EBS/10/121, 06/16/2010). Includes assistance beyond the terms of the enhanced HIPC Initiative granted by some Paris Club creditors. Exports are a trailing three-year moving average.

Table 6. Democratic Republic of the Congo: Risk Assessment Matrix (RAM)[1]

Source of Risks	Relative Likelihood	Expected Impact on Economy	Staff Advice on Policy Responses
		External Risks	
Significant slowdown in growth in China in 2014.	Low	Deterioration of the current account deficit as export earnings decline, lower direct investment in the natural resource sector, as well as lower accumulation of international reserves.	Increase international reserves with a flexible exchange rate to provide more robust buffers against external shocks. Increase fiscal space to become less reliable from fiscal revenues from the mining sector.
Heightened geopolitical risks in the Middle East (sharp rise in oil prices).	Low	As an exporter of crude oil, DRC would benefit, but import bill of refined products would increase and in the absence of price adjustments at the pump, revenue would decline.	Adjust domestic petroleum prices to stem decline in fiscal revenues or eliminate petroleum subsidies.
Sustained decline in the commodity prices.	Medium	Sustained lower fiscal revenues and exports earnings leading to lower spending in priority sectors and investment and slower poverty reduction.	Increase domestic non-natural resources mobilization to lessen dependence on fiscal revenues from the mining sector (paragraph 16).
		Domestic Risks	
Escalation of armed conflict.	Medium	Collapse in economic activities in war affected areas and severe strain on public finance (similar effect as in commodity price shock (paragraph 14).	Increase international reserves with a flexible exchange rate to provide more robust buffers against external shocks. Increase fiscal space to become less reliable from fiscal revenues from the mining sector.
Lack of progress in structural reforms at the BCC.	High	Loss of credibility to defend low inflation and further increase in dollarization.	Accelerate key structural reforms, in particular the recapitalization of the BCC and financial independence for the conduct of monetary policy (paragraph 16).
Lack of progress in the management and transparency of mineral resources.	Medium	Significant forgone fiscal revenues, further decline in foreign aid, deterioration in the business environment, and lack of progress in poverty reduction and public investments.	Extended transparency and good governance in the mineral resources sector to SOEs. Implement TA-supported revenue forecasting methods.

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

Table 7. Democratic Republic of the Congo: Principal FSAP Recommendations

Recommendations	Priority[1]
Financial stability, supervision, and crisis management	
Complete the cleaning up of the BCC's balance sheet and its recapitalization.	Short-term Comment: A progress report on streamlining the BCC operating costs is due by end-May.
Adopt the new banking law, and the central bank law to reinforce the BCC's independence, responsibilities, and its transparency.	Short-term Comment: The drafts are already at the Ministry of Finance level. The Banking Law is expected to be approved in the coming months.
Strengthen the BCC's validation and analysis of data.	Short-term Comment: Continuous measure that is to start immediately and progress over time.
Establish a legal framework and operational mechanism for crisis prevention, preparation, and management.	Medium-term Comment: Preparatory work could start in the coming months.
Strengthen the legal and regulatory framework for bank intervention and liquidation, as well as the crisis management framework.	Medium-term Comment: Preparatory work could start in the coming months.
Introduce effective risk-based supervision.	Medium-term Comment: Continuous measure with preparatory work starting in the coming months but progress will require time.
Strengthen regulations on provisioning and classification of nonperforming loans.	Short-term Comment: Work is in progress.
De-dollarization	
Adopt a medium-term roadmap for de-dollarization, with realistic timelines, prioritizations of measures and that takes into account the risks of de-dollarization.	Medium-term Comment: The pre-conditions for de-dollarization need to be in place. The plan needs to be realistic, have medium-term targets and prioritize.
Financial inclusion	
Adopt a revised law on leasing.	Medium-term.
Strengthen supervision of microfinance and provide for the liquidation of institutions that are not viable	Medium-term Comment: The World Bank 6-year project on financial infrastructure and markets signed on April 2014 covers this aspect.
Adoption of a restructuring (or liquidation) plan of the CADECO based on minimization of risks and fiscal costs.	Short-term.
Financial infrastructure	
Review and adopt the draft law on payment systems.	Short-term.
Make the new credit registry operational.	Short-term.
Amend the law on commercial courts, adapting it to OHADA.	Medium-term.
Non-banking financial institutions	
Promulgate an upgraded insurance code to strengthen governance and the powers of the supervisor.	Medium-term Comment: The liberalization of the sector is un process and should materialize in the coming weeks.

1. Source: FSAP report.

Table 8. Democratic Republic of the Congo: Millennium Development Goals

	1990	1995	2000	2005	2012
Goal 1: Eradicate extreme poverty and hunger					
Employment to population ratio, 15+, total (%) (modeled ILO estimate)	66.0	67.0	67.0	67.0	67.0
Employment to population ratio, ages 15-24, total (%) (modeled ILO estimate)	40.0	40.0	40.0	40.0	40.0
GDP per person employed (constant 1990 PPP $)	1455.0	830.0	605.0	642.0	766.0
Income share held by lowest 20%	..	..	..	5.0	..
Malnutrition prevalence, weight for age (% of children under 5)	..	31.0	34.0	28.0	24.0
Poverty gap at $1.25 a day (PPP) (%)	..	..	..	53.0	..
Poverty headcount ratio at $1.25 a day (PPP) (% of population)	..	..	..	88.0	..
Vulnerable employment, total (% of total employment)	..	..	..	..	..
Goal 2: Achieve universal primary education					
Literacy rate, youth female (% of females ages 15-24)	..	..	63.0	53.0	..
Literacy rate, youth male (% of males ages 15-24)	..	..	78.0	79.0	..
Persistence to last grade of primary, total (% of cohort)	55.0	50.0	..	76.0	71.0
Primary completion rate, total (% of relevant age group)	52.0	47.0	35.0	55.0	73.0
Adjusted net enrollment rate, primary (% of primary school age children)	61.0	67.0	36.0	..	..
Goal 3: Promote gender equality and empower women					
Proportion of seats held by women in national parliaments (%)	5.0	..	..	12.0	9.0
Ratio of female to male primary enrollment (%)	71.0	69.0	91.0	81.0	88.0
Ratio of female to male secondary enrollment (%)	48.0	61.0	..	53.0	59.0
Ratio of female to male tertiary enrollment (%)	..	..	..	35.0	55.0
Share of women employed in the nonagricultural sector (% of total nonagricultural employment	25.9	..	..	..	..
Goal 4: Reduce child mortality					
Immunization, measles (% of children ages 12-23 months)	38.0	27.0	46.0	61.0	73.0
Mortality rate, infant (per 1,000 live births)	112.0	112.0	112.0	112.0	100.0
Mortality rate, under-5 (per 1,000 live births)	171.0	171.0	171.0	171.0	146.0
Goal 5: Improve maternal health					
Adolescent fertility rate (births per 1,000 women ages 15-19)	137.0	134.0	131.0	131.0	135.0
Births attended by skilled health staff (% of total)	..	..	61.0	74.0	80.0
Contraceptive prevalence (% of women ages 15-49)	8.0	..	31.0	21.0	17.0
Maternal mortality ratio (modeled estimate, per 100,000 live births)	930.0	870.0	770.0	660.0	540.0
Pregnant women receiving prenatal care (%)	..	..	68.0	85.0	89.0
Unmet need for contraception (% of married women ages 15-49)	..	..	..	27.0	..
Goal 6: Combat HIV/AIDS, malaria, and other diseases					
Children with fever receiving antimalarial drugs (% of children under age 5 with fever)	..	..	52.0	30.0	39.0
Condom use, population ages 15-24, female (% of females ages 15-24)	..	..	..	7.0	..
Condom use, population ages 15-24, male (% of males ages 15-24)	..	..	..	20.0	..
Incidence of tuberculosis (per 100,000 people)	327	327	327	327	327
Prevalence of HIV, female (% ages 15-24)	..	..	..	..	0.8
Prevalence of HIV, male (% ages 15-24)	..	..	..	..	0.4
Prevalence of HIV, total (% of population ages 15-49)	1.3	1.4	1.5	1.4	1.1
Tuberculosis case detection rate (%, all forms)	19.0	31.0	40.0	55.0	51.0
Goal 7: Ensure environmental sustainability					
CO2 emissions (kg per PPP $ of GDP)	0.0	0.0	0.0	0.0	0.0
CO2 emissions (metric tons per capita)	0.0	0.0	0.0	0.0	0.0
Forest area (% of land area)	70.7	70.0	69.4	68.7	67.9
Improved sanitation facilities (% of population with access)	17.0	19.0	23.0	26.0	31.0
Improved water source (% of population with access)	43.0	43.0	44.0	45.0	46.0
Marine protected areas (% of territorial waters)	17.0	4.0	23.0	4.0	29.0
Goal 8: Develop a global partnership for development					
Net ODA received per capita (current US$)	26.0	5.0	4.0	35.0	44.0
Debt service (PPG and IMF only, % of exports of goods, services and primary income)	..	..	3.0	15.0	2.0
Internet users (per 100 people)	0.0	0.0	0.0	0.2	1.7
Mobile cellular subscriptions (per 100 people)	0.0	0.0	0.0	5.0	31.0
Telephone lines (per 100 people)	0.0	0.0	0.0	0.0	0.0
Other					
Fertility rate, total (births per woman)	7	7	7	7	6
GNI per capita, Atlas method (current US$)	240	140	90	130	230
GNI, Atlas method (current US$) (billions)	8.4	6	4.2	6.9	15.4
Gross capital formation (% of GDP)	9.1	9.4	1.4	20.3	26.5
Life expectancy at birth, total (years)	47	46	46	48	50
Literacy rate, adult total (% of people ages 15 and above)	..	..	67	61	..
Population (Total) (billions)	0.0	0.0	0.0	0.1	0.1
Trade (% of GDP)	58.7	52.2	43	78.8	122.8

Source: World Bank, *World Development Indicators*.

Table 9. Democratic Republic of the Congo: Financial Soundness Indicators, 2010–13

	2010	2011	2012	2013
Capital adequacy				
Regulatory capital to risk-weighted assets	28.8	29.7	28.3	24.5
Regulatory Tier I capital to risk-weighted assets	21.1	21.2	19.9	17.0
Asset quality				
NPLs to gross loans	6.6	6.7	6.3	7.2
NPLs net of provision to capital	10.0	10.0	8.3	7.0
Earnings and profitability				
Return on assets	0.7	0.6	0.2	0.9
Return on equity	3.0	3.0	6.2	5.1
Interest margin to gross income [1]	26.0	32.0	31.0	33.0
Non-interest expenses to gross income	73.7	73.5	73.1	73.9
Liquidity				
Liquid assets to total assets (liquid asset ratio)	60.0	52.0	…	…
Liquid assets to short-term liabilities	123.0	119.2	121.3	122.0
Sensitivity to market risk				
Net open in foreign exchange position to capital	-5.0	1.8	5.2	-16.0
Foreign currency-denominated liabilities to total liabilities	76.2	77.4	…	…
Memoramdum items:				
Capital adequacy				
SSA	19.4	20.9	…	…
Fragile countries	24.3	34.7	…	…
Return on assets				
SSA	2.2	2.2	…	…
Fragile countries	1.7	1.0	…	…
NPLs to total gross loans				
SSA	9.8	8.4	…	…
Fragile countries	10.4	12.8	…	…

Source: Central Bank of the Congo, Directory of Bank Supervision.

Note: Prudential norms were altered throughout the observation period. Application 3 covered 2003 to 2009; application 4, 2010; and application 5, since 2011.

[1] Since 2009 the definition of interest margin to gross income has been made consistent with the IMF reference manuel whereby interest earnings, commissions, and other earnings are reported separately.

Appendix I. External Sustainability Assessment

This note assesses external stability in the Democratic Republic of the Congo (DRC) and concludes that developments in the balance of payments position are consistent with external stability. While the DRC recorded continuously current account (CA) deficits over the past decade, these were financed mainly by private inflows, especially foreign direct investments (FDI) and the real effective exchange rate (REER) is broadly in line with the DRC's macroeconomic fundamentals.[1] *However, the level of international reserves is insufficient to buffer the economy against external shocks and factor's beyond the level of the REER play a prominent role. The DRC's competitiveness suffers from institutional constraints, lack of infrastructure and electricity, and a weak business environment.*

A. Balance of payments

1. **Over the past decade, the DRC recorded continuous CA deficits financed by both private and official flows** (Table I.1.). Since 2007 CA deficits averaged about 6 percent of GDP and, in 2013, it represented 10.1 percent of GDP. The CA deficit is expected to start narrowing in 2014 to 9.3 percent of GDP and to an average of 6.2 percent of GDP for the period 2015–33 due to the strong growth of mining exports in the medium term and to development of the agricultural sector on the medium-long term.

Table I.1. Democratic Republic of the Congo: Balance of Payments, 2007－14

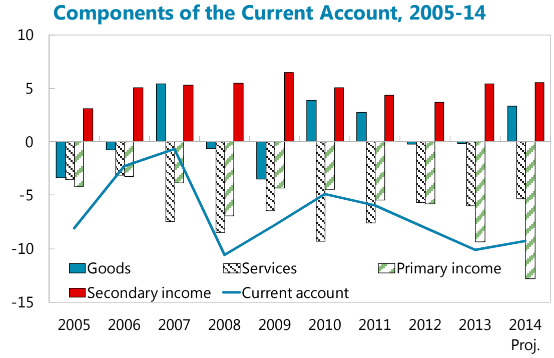
	2007	2008	2009	2010	2011	2012	2013 Est.	2014 Proj.
				(Percent of GDP)				
Current account balance (including grants)	-0.7	-10.6	-7.8	-4.9	-5.9	-8.0	-10.1	-9.3
Current account balance (excluding grants)	-5.2	-15.0	-13.6	-8.8	-9.3	-10.9	-15.4	-14.0
Capital and Financial account	-1.3	5.7	0.5	8.1	5.7	10.2	10.3	10.2
Private Flows	0.8	7.3	3.0	2.0	1.8	5.2	7.7	7.2
Official Flows	-2.1	-1.6	-2.6	6.1	3.9	5.1	2.7	3.0
Errors and omissions	-1.8	0.6	2.2	-0.2	0.0	0.1	0.0	0.0
Overall balance	-3.8	-4.3	-5.1	3.0	-0.2	2.3	0.2	0.9

Sources: Congolese authorities; and IMF staff estimates.

[1] The REER assessment should be interpreted with much caution given the data limitation and the high dollarization of the economy, but the REER is deemed to be broadly in line with the fundamentals.

2. **The trade balance has been positive since 2009 but the DRC remains a net importer of services** (Figure I.1.). Moreover, the repatriation of profits by international companies operating in the natural resources sector lead to a strongly negative primary income balance (but an improvement of the financial account balance).[2]

Figure I.1. Democratic Republic of the Congo: Components of the Current Account, 2005-14

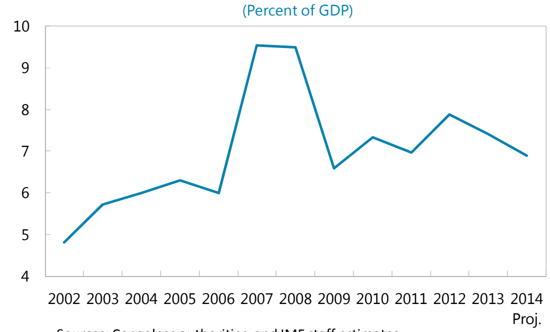


Sources: Congolese authorities; and IMF staff calculations.

3. **The CA deficits have been mainly and increasingly financed by FDI especially in the natural resources sector**. Net FDI represented 7.4 percent of GDP in 2013 and are expected to reach 6.9 percent in 2014 (Figure I.2.). They are expected to decrease thereafter over the medium term.

Figure I.2. Democratic Republic of the Congo: Net FDI, 2002-14

(Percent of GDP)

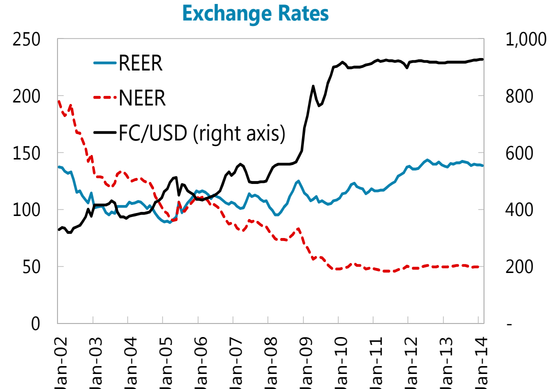


Sources: Congolese authorities; and IMF staff estimates.

B. Exchange rate

4. **The REER appreciated over the past several years while the NEER slightly depreciated** (Figure I.3.). Since 2012, both exchange rates remained stable and the Consultative Group on Exchange rate (CGER) methodologies suggest that the REER level is broadly in line with the DRC's macroeconomic fundamentals.

Figure I.3. Democratic Republic of the Congo: Exchange Rates



Sources: Congolese authorities; and IMF staff calculations.

[2] Note, some repatriated benefit were previously recorded in the financial account under portfolio investments and have now been reclassified to be considered expenditures under the income balance in the current account.

5. **The two approaches of the CGER methodology used to evaluate the REER indicate no major misalignment**. The results for the macroeconomic balance approach and the external sustainability approach are summarized in Table I.2., but should be interpreted cautiously due to data limitations.[3] Both the macroeconomic balance and the external stability balance approaches calculate the exchange rate misalignment as a percent change in the real exchange rate that is needed to close the gap between a CA norm and the underlying CA i.e., the CA balance projected over the medium term.

Table I.2. Democratic Republic of the Congo: Exchange Rate Misalignment[1]

Method	
Macro Balance	
Tokarick elasticity	0.4
CGER elasticity	1.0
External Sustaibility	
Tokarick elasticity	0.3
CGER elasticity	0.7
Average	0.6

Source: IMF staff calculations.
[1] Positive numbers signify overvaluation.

6. **The macroeconomic balance approach indicates a slight overvaluation of the REER**. Under this approach the CA norm is estimated through the projected values of medium-term fundamentals. This norm is estimated to lie between -6.6 and -7.0 percent of GDP based on coefficients estimated by Vitek[4] (2013). Assuming an elasticity of the trade balance with respect to the real exchange rate of 0.71 as calculated by Tokarick[5] (2010) for the DRC, the difference between the underlying CA and the CA norm indicates an REER misalignment between 0.7 and 0.0 percent of GDP. A use of the CGER elasticity of the CA would imply an REER misalignment between 1.8 and 0.1 percent of GDP.

7. **The external balance approach also suggests a slight overvaluation of the real exchange rate**. Under this approach, the CA norm is defined as the balance that would stabilize net foreign assets (NFA). The exchange rate misalignment is then equal to the adjustment necessary to bring the underlying CA to a level stabilizing the NFA. The CA balance necessary to stabilize the DRC's NFA-to-GDP ratio at its 2017 level (-62 percent) is estimated to be -6.9 percent compared

[3] For instance, the result for the REER methodology is not displayed due to the lack of data on the DRC's productivity, one of the main explicative variables in the model. More generally the quality of DRC data on external sector is very poor.

[4] Francis Vitek, 2013, "Exchange Rate Assessment Tools for Advanced, Emerging and Developing Economies."

[5] Tokarick, Stephen, 2010, "A Method for Calculating Export Supply and Import Demand Elasticities", IMF Working paper WP/10/180.

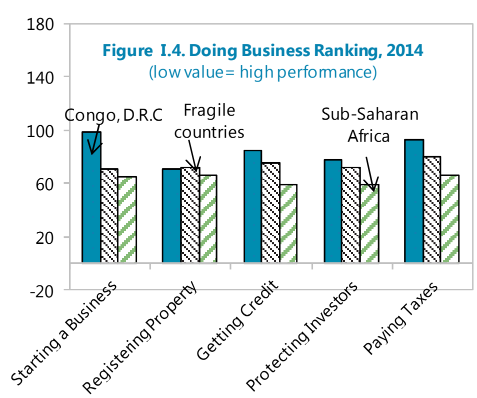
with an underlying CA of -7.1 percent. Using Tokarick's trade balance elasticity of 0.71 implies an overvaluation of 0.3 percent (0.7 percent with the CGER's elasticity).

C. Structural competitiveness

8. While the real exchange rate appears to be broadly in line with fundamentals, it is not the main determinant of the DRC competitiveness considering the high level of dollarization of the economy. In 2013, mining and oil exports accounted for 97 percent of the total value of good exports and are denominated in dollars.

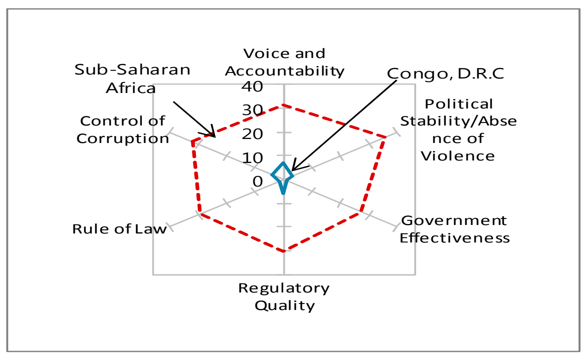
9. **The DRC's competitiveness depends actually critically on improving the business environment**. The country continues to rank near the bottom of the ease of doing business according to the 2014 edition of the World Bank report "Doing Business" because of administrative complexities, inefficient and distorted tax policy and a low access to credit (Figures I.5. and I.6.).[6] The absence of credit information and a weak judiciary limit the capacity of the banking system to extend credit to the economy.

Figure I.5. Democratic Republic of the Congo: Doing Business Ranking, 2014
(low value=high performance)



Source: World Bank, *Doing Business, 2014*.

Figure I.6. Democratic Republic of the Congo: Governance Indicators

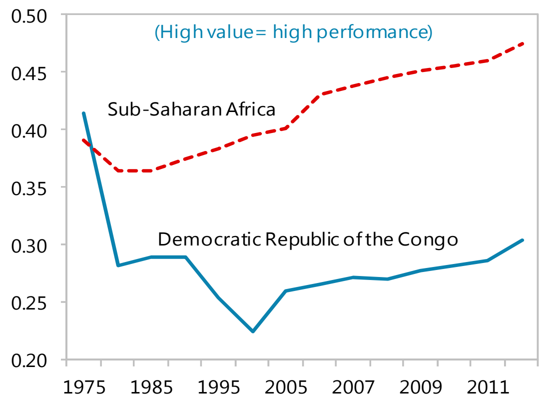


Source: World Bank, *Worldwide Governance Indicators.*

[6]As pointed out in an independent evaluation of the Doing Business survey (see www.worldbank.org/ieg/doingbusiness), care should be exercised when interpreting these indicators given subjective interpretation, limited coverage of business constraints, and a small number of informants, which tend to overstate the indicators' coverage and explanatory power.

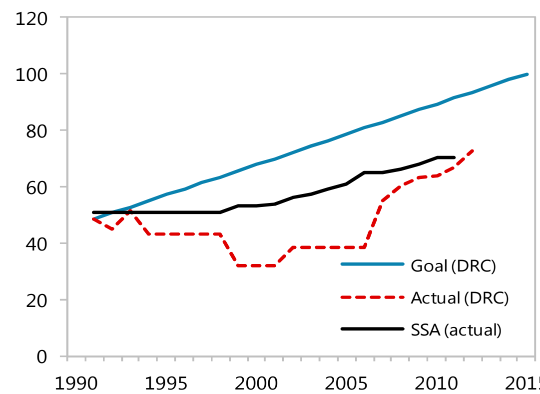
10. **The lack of reliable electricity supply, transportation networks, social services and a low level of human capital are also significant impediments to the development of the export sector (Figures I.7. and I.8.**).

Figure I.7. Democratic Republic of the Congo: Human Development Index



Source: UNDP, Human Development Report.

Figure I.8. Democratic Republic of the Congo: Primary School Completion Rate, Total
(Percent of relevant age group)



Source: World Bank, Millennium Development Goals.

D. Reserve adequacy

11. **The level international reserves held by the DRC appear to be insufficient to cushion the effect of external shocks**. As a large natural resources exporter,[7] the DRC should hold above-average levels of international reserves as demonstrated by the April 2012 Regional Economic Outlook for sub-Saharan Africa (IMF). The study suggests that the adverse domestic impact of external shocks is larger in resources exporters than elsewhere, and confirms the effectiveness of reserves in mitigating the domestic effect of external shocks. But reserve holding comes at a cost in terms of foregoing the higher rates of return that could be obtained via alternative investments.

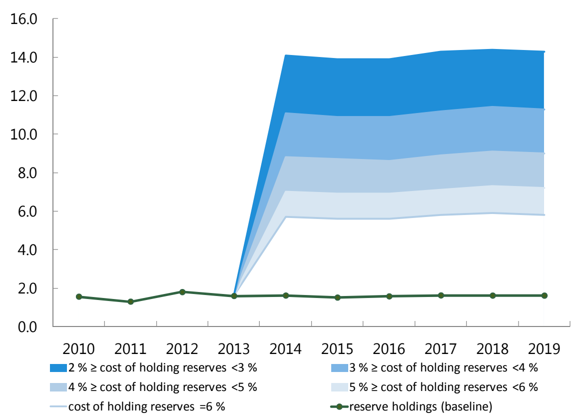
12. **Using the Fund's reserve adequacy template for resource-exporting low income countries, staff estimates that the DRC should hold gross reserves equivalent to at least 5.7 months of imports for a cost of holding reserves of 6 percent[8] (11.1 months for 3 percent), against an actual 1.8 months (Figures I.9. and I.10.)**. This estimate is based on 2013 data and applying an unconditional probability of shock. The methodology balances the risk-reducing effects

[7] In the DRC, ninety-six percent of exports come from the extractive industries, mainly copper, cobalt, diamonds, gold and oil.

[8] The reserve coverage should represent up to 10.2 months of next year imports for a cost of holding reserves of 2 percent.

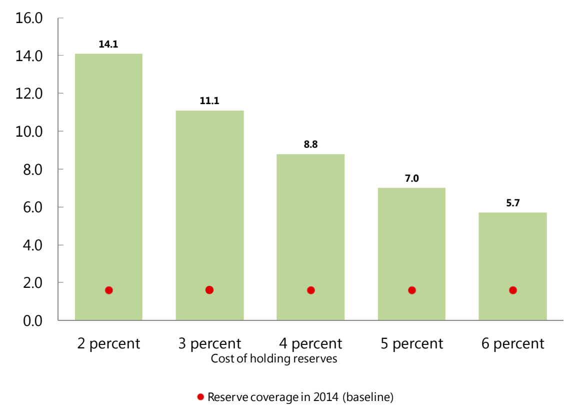
of reserves against their carrying costs. It estimates both the likelihood and the scale of a drop in domestic demand in a country and compares the benefits of holding additional reserves (which helps containing demand declines) with the costs of holding additional reserves (revenues foregone by investing in liquid and thus lower yielding foreign assets).

Figure I.9. Democratic Republic of the Congo: Reserve Coverage2010–19
(months of next year imports)



Sources: Congolese authorities; and IMF staff estimates.

Figure I.10. Democratic Republic of the Congo: Optimal Level of Reserves
(2014; months of next year imports)

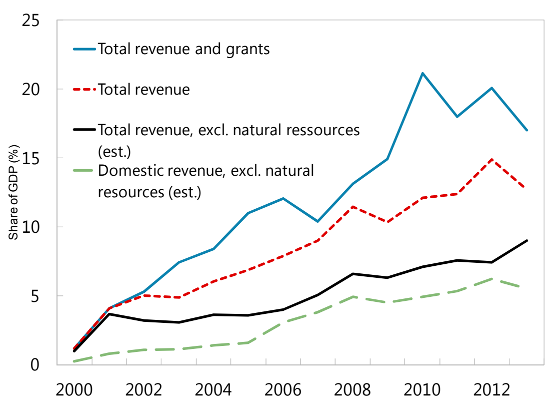


Sources: Congolese authorities; and IMF staff estimates.

Appendix II. Creating Fiscal Space to Sustain Macroeconomic Stability and Promote Inclusive Growth

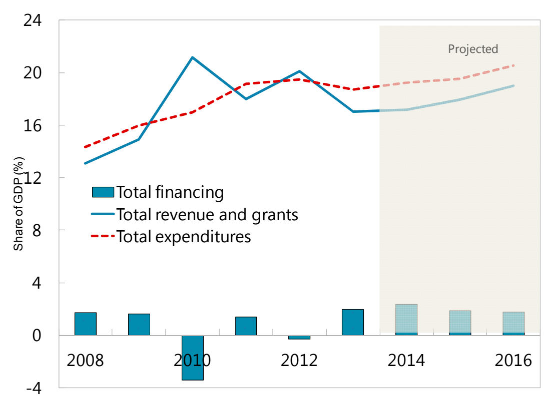
1. **A tight fiscal policy stance has been the anchor of the DRC's disinflation strategy and instrumental in achieving macroeconomic stability**. The government's policy has essentially consisted in adjusting expenditure to available revenues. However, the variability and unpredictability of external financing and of revenue linked to natural resources (Figure II.1.), coupled with a lack of control over revenues from the non-resource sector have put the burden of adjustment to achieve a balance budget on expenditures (Figure II.2.). Given the country's large needs for infrastructure and social spending (e.g., education and health), this situation has created an unwanted tradeoff between current macroeconomic stability and future growth that could be addressed by mobilizing more revenues and by improving the efficiency of spending through vigorous reforms in public financial management (PFM).

Figure II.1. Democratic Republic of the Congo: Non-aid, Non-resource Revenue



Sources: Congolese authorities; and IMF staff estimates.

Figure II.2. Democratic Republic of the Congo: Revenue-driven Budget Adjustments

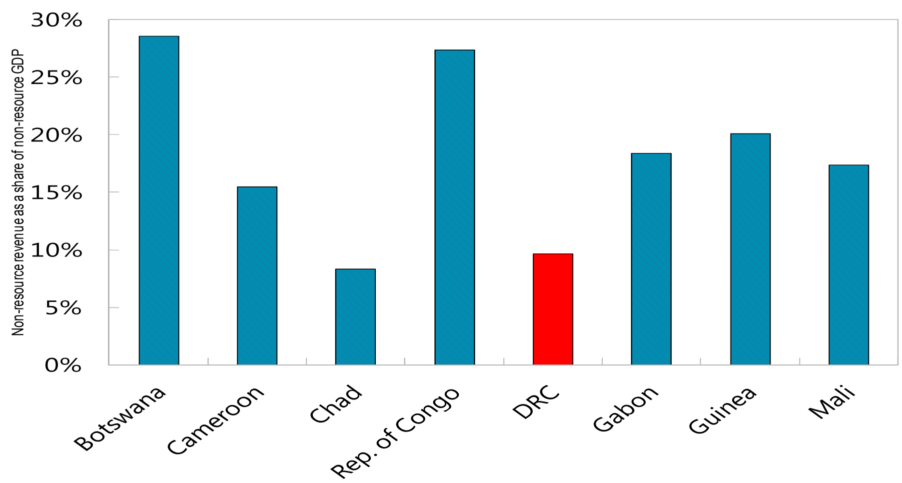


Sources: Congolese authorities; and IMF staff estimates.

2. **There is a vast potential to broaden the tax base**. With non-resource, non-aid revenues at less than 10 percent of non-resource GDP, the DRC is clearly constrained in its ability to finance the needed investments in education, health, and basic infrastructure necessary to reduce poverty and diversify its economy. This ratio also ranks the DRC among the weakest performers compared to other sub-Saharan African countries (Figure II.3.). Based on a study of the DRC's tax potential, staff estimates that the DRC could increase its overall revenue-to-GDP ratio by more than 7 percentage points of GDP in the medium term (Box II.1.). The econometric results help prioritizing reforms. First, better understanding and fixing the recent VAT counter-performance should be given immediate

priority, in order to secure past successes. Second, improving customs efficiency and control of borders can potentially bring significant benefits. Third, improving control of natural resources revenue (i.e., non-tax revenue) should be a priority.

Figure II.3. Democratic Republic of the Congo: Non-resource, Non-aid Revenue as a Share of Non-resource GDP



Sources: Congolese authorities; and IMF staff estimates.

3. **Mobilizing revenue of such magnitude, while realistic, will require a high-level commitment from the authorities**. Drastically streamlining the vast array of small taxes and fees (parafiscalité) that plague the business environment, simplifying the tax system and reducing tax exemptions have already started but remain long and challenging undertakings. Equally difficult will be the numerous improvements to revenue administration, which will require a well coordinated and resolute implementation:

- Reorganizing revenue collection agencies, possibly merging the *Direction générale des Impôts* (DGI) with the *Direction générale des recettes administratives, judiciaires, domaniales et des participations* (DGRAD);
- Pursuing taxpayers segmentation;
- Computerizing the DGI and linking its IT systems to those of Customs to facilitate audits;
- Strengthening VAT administration;
- Streamlining and formalizing customs processes and improving border controls;
- Reallocating personnel to productive tasks;
- Improving audit capacity, notably in the area of natural resources; and
- Supporting the extension of the tax net to all potential taxpayers.

4. **Specific measures to mobilize mining revenues would be important**. With 29 percent of non-aid revenue (3.7 percent of GDP), the natural resource sector (including oil) is by far the largest contributor to the national budget. Yet, the authorities' limited understanding of the sector's economic, financial and accounting modus operandi and the fact that some large mining operators generate less revenue than expected has triggered an effort to review mining taxation (e.g., higher royalty and introduction of a resource rent tax), and improve surveillance and audit capacity of the mining industry. Although these efforts represent important steps forward, the authorities will need to tread carefully to preserve recent growth, and lay the ground for more investments. This will include at least the following steps:

- Finalizing the ongoing negotiations of the mining code as quickly as possible, notably by fully leveraging new modeling capacity and establishing a common model with industry to support discussions;

- Preserving some stability for projects that have already started to produce, or whose investments plans are locked in, especially in the presence of a license-based regime;

- Improving transparency further (mining contracts are already public) by renewing the authorities' EITI commitment by addressing previously identified shortcomings and improving data transmission from mining operators; and

- Reinforcing the role of the Ministry of Mines in the governance of the sector and clarifying the role of the state-owned enterprise Gécamines as a mining operator.

5. **The impact of government spending on inclusive growth and poverty reduction could be increased by resolutely improving PFM**. The necessary decrees pertaining to the 2012 PFM law (*Loi sur les finances publiques*) needs to be adopted to accelerate its implementation. Other areas, including the medium-term budget framework, public investment management, decentralization (and related provincial PFM), budget tracking and execution, as well as management and planning of foreign-financed investments all require significant improvements (despite some noticeable successes). All these reforms require significant coordination and data sharing between numerous bodies (including foreign donors) and their slow progress is more a reflection of the organizational inefficiency of the DRC government rather than a lack of competence in any of the concerned agencies or ministries. Beyond technical issues, progress in the PFM thus hinges on the necessary political and administrative will.

6. **Delays in PFM reforms can also have a detrimental effect on revenue mobilization effort**. Low or delayed execution, notably for provincial transfers, is a strong incentive for recipient

organizations to try meeting their spending needs by mobilizing their own revenue through various and possibly detrimental means, hence proliferating non-tax measures. Furthermore, difficulties implementing the revenue sharing formula for provinces (40 percent to the provinces) threatens the very cohesion of the country by increasing tensions between provinces and between Kinshasa and the provinces.

Box II.1. Democratic Republic of the Congo: Tax Potential – Some Preliminary Results

An international comparison can provide strong indications on the magnitude of the gap between existing and potential revenue collection. The literature points to a series of factors that are related to the share of government revenue in GDP. Income level, openness to international trade, public spending and debt, the presence of natural resources and access to oceans or sea should have a positive impact on revenue levels, whereas the importance of agriculture and international aid, should have a negative impact.

Staff performed preliminary regression analyses based on a panel dataset of sub-Saharan non-oil African countries over the period 1984–2009, in which six measures of revenue (total non aid, of which non-tax and tax revenue, and in the latter, income tax, sales tax, and international trade taxes) were alternatively regressed on income per capita, various variables expressed as a share of GDP (agricultural sector, imports, international aid, public investment, external debt), and dummy variables for the access to sea and the presence of natural resources. The difference between the predicted values and actual DRC values represented the revenue gap. Econometric results were overwhelmingly significant and the direction of the impact matched expectations.

A few key results detailed in Table II.1 are: (i) potential revenue and actual revenue for the DRC significantly increased over 1984–2013; (ii) the gap between potential and actual revenue narrowed after 2004; (iii) all types of revenue are below potential, except sales taxes; and (iv) proportionally larger gaps are noted for international trade taxes and non-tax revenue.

Table II.1. Democratic Republic of the Congo: Revenue Potential

	Total 1/		Tax 1/		Non-tax 1/		Income tax 1/		Sales tax 1/		Int'l trade taxes 1/	
	Act.	Pot.	Act.	Pot.	Act.	Pot.	Act.	Pot.	Act.	Pot.	Act.	Pot.
1984	2.9	17.8	2.9	12.9	…	…	0.9	5.5	…	…	2.0	2.7
1990	2.7	18.0	2.7	13.2	…	…	0.8	5.4	…	…	1.8	1.3
1995	1.4	11.1	1.3	8.6	0.1	4.1	0.4	3.2	…	…	0.9	2.4
2000	3.8	9.6	3.3	7.6	0.5	4.1	1.2	2.8	1.0	1.5	1.1	1.9
2005	11.4	16.0	8.8	11.3	2.6	4.8	3.7	4.3	2.6	2.3	2.6	3.6
2009	16.8	20.5	13.1	14.5	3.7	5.4	5.1	5.3	4.1	3.1	3.8	4.8
2013 /2	21.1	28.5	16.9	20.6	4.2	6.6	6.8	6.9	5.4	4.2	4.8	7.4
Gap in 2013	7.4		3.7		2.4		0.1		-1.2		2.6	

1/ All regressions are separate, so that total and subtotals by column are not consistent.
2/ Potential revenue for 2013 is calculated based on the 2004/2009 trend.

Appendix III. Promoting Financial Stability and Development

1. **The Congolese banking sector remains embryonic and relying on traditional banking functions**. The total financial system assets account for us$3.8 billion, of which total bank assets are estimated at US$3.6 billion (some 13 of GDP). Banking sector deposits are estimated at US$2.6 billion (some 9 of GDP), also about 95 percent of the total financial system. The financial sector includes 246 institutions of which 18 are commercial banks and 143 are in the microfinance sector, 5 specialized institutions, and state-owned insurance company (SONAS) and the National Social Security Institute (INSS). The bancarization of the civil servants pay, launched at end-2011 and estimated at 70 percent of its potential by end-2013, increased the number of deposit accounts in banks and it is contributing, alongside with the reinforcement of the microfinance sector, to strengthen the much needed financial inclusion. Funding is mostly dominated by deposits of which about 90 percent are in sight accounts and USD-denominated. On the asset side, banks keep loans—most of which are also short term (so-called overdrafts to finance operating expenses) and in USD—and correspondent accounts abroad. Intermediation activities are almost non-existent.

2. **The financial soundness indicators (FSI) of DRC's banking system mask substantial fragilities**. Although the FSIs suggest a well capitalized banking system (Table 8) at levels above comparator economies these ratios mask important weaknesses. First, buffers (e.g., provisions, capital levels, and reserve requirements) are constituted in local currency (CGF) although banks' balance sheets are predominantly denominated in US dollar. Second, provisions are not calculated on the basis of risk profiles, but rather on the basis of recorded unpaid balances and only cover the unpaid amounts. Third, non-performing loans (on which provisions are calculated) are substantially underestimated due to the large segment of overdraft loans which do not have maturities (a phenomenon called "evergreening") and which are subjected to no or very low provisioning rates. Furthermore, banks' profitability levels and earnings are low due to high operational and foreign exchange transaction costs.

3. **There is a need to strengthen buffers to minimize the vulnerabilities of the financial sector.** The buildup of buffers not only in domestic currency but also in USD is needed as part of the strategy to de-dollarize the economy while preserving financial stability. In addition to the shortcomings of measured financial soundness, of supervision data and enforcement, staff's stress tests conducted under the Financial Sector Assessment Program (FSAP) revealed considerable vulnerabilities to the 2009 crisis-type of shocks (a commodity price plunge and the deterioration of fiscal revenues), and especially to liquidity shocks. Vulnerabilities also extend to the non-banking sector. The new increase of the minimum capital requirement for micro-finance institutions that staff

commended should help consolidate the rapidly growing sector and strengthen its financial soundness and governance weaknesses.

4. **There is significant scope for improvements on the supervisory approach, process, and practices.** Banks monitoring requires the adoption of a forward-looking analysis of their risk profile, based on a methodology that looks at understanding banks' characteristics, businesses and vulnerabilities associated. The current supervisory approach of the Central Bank is largely relying on a series of checks on compliance with laws and regulations rather than a risk assessment approach. Furthermore, the implementation of the current regulatory framework needs to be applied on a more systematic and rigorous fashion to prove effective and the coordination between on-site and off-site supervision as well as licensing functions need to be further reinforced. Staff urges the BCC to reinforce existing supervisory capacity as the current technical expertise is insufficient.

5. **The framework for crisis management, recovery, and resolution needs to be clarified and reinforced**. The toolkit for crisis management and bank resolution requires regulatory and operational arrangements that facilitate official financial support to banks (emergency liquidity assistance and solvency support), prompt corrective actions for banks in non-compliance with prudential norms, a mechanism for orderly liquidation of failed banks, and, once potential moral hazard risks are minimized, a well-designed deposit guarantee scheme protecting small local currency-denominated deposits.

INTERNATIONAL MONETARY FUND

DEMOCRATIC REPUBLIC OF THE CONGO

May 20, 2014

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By	The African Department (In collaboration with other departments)

CONTENTS

RELATIONS WITH THE IMF

As of April 30, 2014

Membership Status: Joined September 28, 1963; Article VIII

General Resources Account:	**SDR Million**	**Percent of Quota**
Quota	533.00	100.00
Fund holdings of currency	533.00	100.00
SDR Department:	**SDR Million**	**Percent of Quota**
Net cumulative allocation	510.86	100.0
Holdings	352.14	68.93
Outstanding Purchases and Loans:	**SDR Million**	**Percent of Quota**
ESF RAC loan	108.16	20.29
ECF Arrangement	200.64	37.64

Latest Financial Arrangements:

Type	**Approval Date**	**Expiration Date**	**Amount Approved (SDR Million)**	**Amount Drawn (SDR Million)**
ECF[1, 2]	Dec 11, 2009	Dec 10, 2012	346.45	197.97
ECF[1]	June 12, 2002	Mar 31, 2006	580.00	553.47
Stand-By	June 09, 1989	June 08, 1990	116.40	75.00

[1] Formerly PRGF.

[2] Three reviews were concluded (of which two were associated with non-complying purchases on account of misreporting on external arrears for which the Fund granted waivers) and the last three reviews were not concluded because of governance concerns in the management of natural resources; the ECF arrangement was not extended as requested by the authorities.

Projected Payments to Fund:[3]

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

	Forthcoming				
	2014	**2015**	**2016**	**2017**	**2018**
Principal	0.00	27.46	56.35	66.24	66.24
Charges/interest	0.15	0.96	0.85	0.69	0.52
Total	0.15	28.42	57.19	66.93	66.77

Implementation of HIPC Initiative:

I.	Commitment of HIPC assistance	Enhanced Framework
	Decision point date	July 2003
	Assistance committed by all creditors (US$ millions)[4]	7,252.00
	Of which: IMF assistance (US$ millions)	391.60
	(SDR equivalent millions)	280.30
	Completion point date	July 2010
II.	Disbursement of IMF assistance (SDR millions)	
	Assistance disbursed to the member	280.30
	Interim assistance	49.05
	Completion point balance	231.25
	Additional disbursement of interest income[5]	50.44
	Total disbursements	330.74

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

[4] 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 numbers cannot be added.

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

Implementation of MDRI Assistance:

I.	MDRI-eligible debt (SDR Million)[6]	248.08
	Financed by: MDRI Trust	0.00
	Remaining HIPC resources	248.08
II.	Debt Relief by Facility (SDR Million)	

	Eligible Debt		
Delivery Date	GRA	PRGT	Total
July 2010	N/A	248.08	248.08

Exchange Rate Arrangement:

The currency of the Democratic Republic of the Congo (DRC) is the Congo franc. The de jure exchange rate arrangement is floating, although the Fund classifies the Congo franc as an "other managed arrangement". At end-April 2014, the rate was US$1=CF 926.99.

Effective February 10, 2003, the DRC accepted the obligations of Article VIII, Sections 2 (a), 3, and 4, of the Fund's Articles of Agreement; however, the DRC maintains measures that give rise to one exchange rate restriction and one multiple currency practice subject to Fund approval. The exchange restriction involves an outstanding net debt position against other contracting members under the inoperative regional payments agreement with the Economic Community of the Great Lakes Countries. The multiple currency practice relates to a fixed exchange rate set quarterly applying to transactions through a bilateral payments agreement with Zimbabwe.

Last Article IV Consultation:

Consultations with the DRC are held in accordance with the provisions of the 2010 Decision on consultation cycles approved in September 2010. The last Article IV consultation was concluded by the Executive Board on September 24, 2012.

Safeguards Assessment:

An updated safeguards assessment of the Banque Centrale du Congo (BCC) completed in April 2010 found that while most of the 2008 recommendations had been implemented, significant risks remained. The BCC continued to lack autonomy from the government and was in need of recapitalization, and the absence of an independently defined financial reporting framework continued to impair

[6] The MDRI provides 100 percent debt relief to eligible countries that qualified for the assistance. Grant assistance from MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to

transparency. The Ministry of Finance completed the first phase of the recapitalization in March 2011 by bringing the BCC's net worth to zero. The transition process to a new financial reporting framework has been significantly protracted; the BCC now aims to issue their 2015 financial statements in accordance with IFRS.

Technical Assistance:

STA

FY 2007 – Real sector statistics
FY 2008 – Real sector statistics
FY 2009 – National accounts
FY 2010 – Monetary statistics and national accounts
FY 2011 – Monetary statistics and national accounts
FY 2012 – Monetary statistics, national accounts and balance of payments.
FY 2013 – National accounts (three missions), balance of payments (one mission)
FY 2014 – Balance of payments (one mission)

MCM

Capacity building assistance to the central bank
FY 2012 – One mission (TA needs assessment)
FY 2013 – One mission
FY 2014 – One mission
Strengthening capacity in Anti-Money Laundering/Combating Financial Terrorism (AML/CFT)
FY 2005 – One short visit
FY 2006 – Two short visits
Strengthening capacity in monetary policy implementation, exchange operations, and liquidity management
FY 2005 – Three short visits
FY 2006 – Two short visits
FY 2007 – Seven short visits
FY 2008 – Three short visits
FY 2009 – One short visit
FY 2011 – Three short visits
FY 2012 – Two short visits (of which one on currency reform and handling)
FY 2013 – Two missions and four short visits (of which three on upgrading the financial framework)
Restructuring and reorganization of the central bank
FY 2009 – One short visit
FY 2010 – One short visit
FY 2011 – Four short visits
FY 2012 – One mission
Strengthening capacity in banking supervision and financial sector development

FY 2005 – One short visit on bank supervision and regulation
FY 2006 – One short visit on internal audit
FY 2007 – Action plan for developing the financial system
FY 2008 – One short visit on TA assessment
FY 2008 – Two short visits on bank supervision and regulation
FY 2008 – One short visit on internal audit
FY 2010 – Three short visits on bank supervision and regulation
FY 2011 – Three short visits
FY 2011 – Two short visits on bank supervision and regulation
FY 2012 – One mission
FY 2013 – Six short visits on bank supervision and regulation
FY 2014 – Two missions and one short visit on bank supervision and regulation

LEG

FY 2012 – Two missions
FY 2013 – One mission
FY 2014 – One mission

FAD

Public financial management
FY 2007 – Short-term expert visit
FY 2009 – One mission and one short- term expert visit
FY 2010 – Short –term expert visit
FY 2011 – One mission
FY 2012 – One mission (MNRW TTF diagnostic) and one short-term expert visit (JSA)
FY 2013 – One mission and three short-term expert visits (all MNRW TTF)
FY 2014 – Two short-term expert visits (all MNRW TTF)
Revenue administration
FY 2005 – One short visit
FY 2006 – One short visit
FY 2007 – One short visit
FY 2008 – One short visit
FY 2009 – One short visit
FY 2011 – One short visit (VAT diagnostics)
FY 2012 – One short visit (MNRW TTF diagnostic)
FY 2013 – Eight visits (on which three on MNRW)
FY 2014 – One mission
Fiscal decentralization
FY 2005 – Short visit
Tax Policy
FY 2012 – One short visit (MNRW TTF diagnostic)
FY 2013 – Two short visits

FY 2014 – Two short-term expert visits.

AFRITAC Central

Public financial management
FY 2009 – Four missions
FY 2010 – Three missions
FY 2011 – One mission
FY 2012 – Five missions and one short visit
FY 2014 – Two short visits and one mission

Tax administration
FY 2008 – One mission
FY 2009 – Two missions
FY 2010 – Three missions
FY 2011 – Two missions
FY 2012 – One HQ mission and four short-term expert visits.
FY 2013 – Two HQ missions and three short term expert visits.
FY 2014 – One HQ mission and two short term expert visits.

Bank supervision
FY 2008 – Three missions
FY 2009 – Three missions
FY 2010 – Three missions
FY 2011 – Two missions and one short visit
FY 2012 – Five missions
FY 2014 – Four missions

Public debt
FY 2008 – One mission and one short visit
FY 2009 – One short visit
FY 2010 – Three missions
Statistics
FY 2009 – One short visit
FY 2010 – Two missions
FY 2011 – One mission and one short visit
National Accounts
FY 2009 – One short visit
FY 2010– Two missions
FY 2011 –One mission and one short visit
FY 2012 – One mission
FY 2014 – National accounts (two missions)

Long-term Resident Experts:

Expenditure management	Mr. Catalan	Jan. 2002 – June 2004
	Mr. Nguenang	Sept. 2004 – July 2008
Tax administration	Mr. Fossat	Sept. 2005 – Jan. 2007
VAT preparation and implementation	Mr. Ramarozatovo	Feb. 2011 – July 2013
Customs administration	Mr. Bremeersch	Jan. 2002 – Jan. 2004
Advisor to Governor of BCC	Mr. Nyssens	Jan. 2004 – Jan. 2005
	Mr. d'Ambrières	Feb. 2006 – June 2006
	Mr. Traoré	June 2010 – ongoing
Capacity building of BCC	Mr. Pauwels	Sept. 2004 – Mar. 2007
Statistics	Mr. Métreau	Oct. 2004 – Oct. 2005
	Mr. Gbossa	Dec. 2005 – Dec. 2008

Resident Representative: Mr. Melhado Orellana assumed his duties in October 2012.

JMAP IMPLEMENTATION MATRIX

As of April 30, 2014

1. The Fund and World Bank teams discussed a joint managerial action plan under the JMAP initiative on April 3, 2014.

2. The World Bank's FY15 work program entails 5 projects (including 1 regional ICT project), a Health Systems strengthening project, a Post Basic Education Training project, a Statistics project and a Southeastern Agriculture based Growth Pole project. The Fund's work program entails a three-year arrangement under the Extended Credit Facility (ECF) approved by the Fund's Executive Board in December 2009 and an Article IV consultation.

3. Both institutions will provide technical assistance to help in the implementation of the FSAP recommendations.

Title	Products	Provisional timing of missions	Actual or expected delivery date
	A. Mutual information on relevant work program		
• World Bank work program in the next 12 months	• Health Systems Strengthening project	• December 2014	• FY 15
	• Post Basic Education Training	• December 2014	• FY 15
	• Statistics Project	• January 2015	• FY 15
	• Southeastern Agriculture based Growth Pole	• December 2014	• FY 15
	• CAB Regional Project	• July 2014	• FY 15
• Fund work program in the next 12 months	• New ECF arrangement	• September 2014	• December 2014
	• First review of ECF arrangement	• July 2015	• September 2015
	B. Requests for work program inputs		
• Fund request to Bank	• Provide comments on implications of sector-specific issues, including developments in the mining, energy, telecom and agricultural sectors and the reform of public enterprises	• None	• FY 15
• Bank request to Fund	• Macroeconomic scenarios for investment operations	• Managed by Kinshasa office	• FY 15
	C. Agreement on joint products and missions		
Joint products in the next 12 months	• Debt Sustainability Analysis	• None	• May 2014
	• Banking sector supervision technical assistance (continuous coordination)	• None	• FY 14–15

STATISTICAL ISSUES

I. Assessment of Data Adequacy for Surveillance

General: Data provision to the Fund is broadly adequate (category B as per SM/13/155) for surveillance and program monitoring purposes, but upgrades to the national accounts, balance of payments, and government finance statistics would be helpful. In spite of difficulties, the authorities have continued to produce an array of economic and financial statistics, most of which are published in the annual report of the Central Bank of the Congo (BCC) or its monthly statistical bulletin.

National accounts: Annual national accounts (ANA) are compiled in constant and current prices by National Institute of Statistics (INS) under the Ministry of Plan with the technical assistance (TA) from IMF/AFC. The compilation methodology has then changed since 2006 with the use of ERETES software and the compilation of definitive ANA for 2005 and 2006 in compliance with the *System of National Accounts 1993 (1993 SNA)* (implying an upward revision of GDP by about 60 percent). The insufficient human resources pushes the authorities of INS to temporary suspend the use of the ERETES software. The INS compiles then ANA for 2007 to 2009 on a light system with Microsoft Excel. The use of ERETES software is resumed in 2013 for the compilation of 2010 definitive ANA which are ongoing. Once the 2010 definitive ANA are achieved a provisional ANA system is supposed to be based on that 2010 ANA to compile 2011, 2012, 2013 etc. accounts.

Price statistics: Consumer price indices (CPI) are calculated for Kinshasa by the INS, the BCC, the Institute of Economic and Social Research (IESR), and the Economics Section of the U.S. Embassy in Kinshasa. In 2011, the INS started to compile CPI data Country wide using weights calculated on the basis of the 2005 household survey. Prices are collected in the 11 provinces (the BCC in 2013 began the compilation of a similar CPI using a slightly different basket and different weights and based on prices in 5 provinces).

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

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

In 2003 the DRC reported annual data up to 2002 for the IMF's *Government Finance Statistics Yearbook* in the format of the *Government Finance Statistics Manual 2001* but has not reported subsequently. However, work is underway to resume submission of data to the GFSY, beginning with data for 2010.

Monetary statistics: Monetary and financial statistics (MFS) are compiled and reported to the Fund by the BCC Directorate of Statistics. These statistics are now generally reliable but institutional coverage, source data, and timeliness issues remain to be addressed.

The BCC has improved data compilation with the adoption in 2007 and 2011 of new charts of accounts for the central bank and commercial banks, respectively. The sectorization of institutional units and the classification of financial assets used in these new charts of accounts are broadly in line with the Fund's *Monetary and Financial Statistics Manual*'s methodology. In September 2013, the BCC completed migration to the Standardized Report Forms (SRFs) for the submission of its MFS to the Fund. Since then, SRF-based monetary statistics have been reported to STA for publication in IFS.

Despite this progress, MFS data are still in need of improvements in terms of financial institution coverage, source data reliability, and the timeliness for reporting the data to the Fund. The depository corporation survey does not include data from non-bank deposit taking institutions, a growing sector in the country. In addition, source data from commercial banks are not fully reliable as respondents do not completely master the new sectoral chart of accounts yet. Similarly, the data is reported with delays of up to five months in a package that include several months. Only when STA send reminders, does the BCC submit the data.

Balance of payments: Annual balance of payments statistics are compiled with information on the exports and imports of large public and semipublic enterprises, BCC payment records, and a survey of the foreign operations of residents. The estimates also take account of information on the informal sector and foreign aid flows provided by the World Bank and the local UN Development Program office, which collects the data from the European Union, embassies, and nongovernmental organizations. In effect balance of payments statistics are compiled using data from different sources, supplemented by estimates. In February 2012, the authorities created an interministerial committee, lead by the central bank and also including representatives from customs, and the National Statistics Institute and key sectors, to improve the collection and the validation of balance of payment data and ensure its regular publication.

II. Data Standards and Quality

Since April 24, 2004, the DRC participates in the General Data Dissemination System. The metadata needs to be updated.

Democratic Republic of the Congo: Table of Common Indicators Required for Surveillance
(as of May 12, 2014)

	Date of latest observation	Date received	Frequency of Data [6]	Frequency of Reporting [6]	Frequency of Publication [6]
Exchange Rates	30-Apr-14	12-May-14	D	W	D
International Reserve Assets and Reserves	Feb-14	Apr-14	M	M	M
Liabilities of the Monetary Authorities [1]	Feb-14	Apr-14	M	M	M
Reserve/Base money	Feb-14	Apr-14	M	M	M
Broad money	Feb-14	Apr-14	M	M	M
Central Bank Balance Sheet	Feb-14	Apr-14	M	M	M
Consolidated Balance Sheet of the Banking System	Feb-14	Apr-14	M	M	M
Interest Rates [2]	28-Feb-14	1-Apr-14	M	M	M
Consumer Price Index	30-Apr-14	12-May-14	W	W	W
Central Government revenue, expenditure, and financing [3]	Dec-13	Feb-14	M	M	M
Stock of Central Government and Central Government-Guaranteed Debt [4]	2013	Feb-14	A	A	I
External Current Account Balance	2013	Feb-14	A	A	I
Exports and Imports of Goods and Services	2013	Feb-14	A	A	I
GDP/GNP	2013	Feb-14	A	A	I
Gross External Debt	2013	Feb-14	A	A	I
International Investment Position [5]	NA	NA	NA	NA	NA

[1]Any reserves assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the national values of financial derivatives to pay and receive foreign currency, including those linked to a foreign curreny but settled by other means.
[2]Both market-based and officially-determined, including discount rates, money markets rates, rates on treasury bills, notes and bonds.
[3]Foreign, domestic bank, and domestic nonbank financing.
[4]Including currency and maturity composition.
[5]Includes external gross financial asset and libility positions vis-à-vis nonresidents.
[6]Daily(D), Weekly (W), Monthly (M), Quarterly (Q), Irregular (I), Not available (NA).

INTERNATIONAL MONETARY FUND

DEMOCRATIC REPUBLIC OF THE CONGO

May 22, 2014

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITYANALYSIS

Approved By

Michael Atingi-Ego and Ranil Salgado (IMF) and Jeffrey D. Lewis and Marcelo Giugale (IDA)

Prepared by the staffs of the International Monetary Fund and the International Development Association.[1]

Improved macroeconomics fundamentals, an increase in the discount rate and the migration to the 1993 System of National Accounts with an upward revision of the GDP series advocate in favor of a reclassification of the Democratic Republic of the Congo (DRC) debt sustainability rating from high risk to moderate risk of debt distress. However, the country is still vulnerable to shocks that could lead to a deterioration of some debt indicators. To maintain this rating the DRC will need to sustain fiscal discipline, create more fiscal space, including through a better mobilization of domestic revenues (both the natural resource and non-natural resource sectors), continue to borrow mainly on concessional terms, and improve its debt management capacity.

[1] This DSA was prepared by International Monetary Fund (IMF) staff with input from the World Bank, using the standard debt sustainability framework for low-income countries (LIC-DSA); see "Staff Guidance Note on the Application of the Joint Bank-Fund Debt Sustainability Framework for Low-Income Countries."

BACKGROUND

1. **The DRC's external debt decreased sharply since the country benefited from a substantial debt relief in 2010**. The DRC reached the completion point under the Enhanced Heavily Indebted Poor Countries (HIPC) initiative and benefited from assistance under the Multilateral Debt Relief Initiative (MDRI) in July 2010. The ratio of public and publicly-guaranteed external debt (PPGE) to GDP was reduced from 75 percent at end 2009 to 22 percent in 2010 and represented 18 percent of GDP in 2013. Simultaneously the private external debt of the country increased from 2.1 percent of GDP in 2010 to 4.8 percent in 2013 but its exposure remained relatively limited.

2. **The bulk of outstanding public external debt is owed to official creditors**. In 2013, 60 percent of the debt was owed to multilateral creditors and only 4.5 percent to the bilateral official creditors. However the share of the debt owed to commercial creditors has marginally increased from 33.0 percent of the total public debt in 2010 to 35.5 percent at end-2013 (Text Table 1).

Text Table 1. Democratic Republic of the Congo: Total External Debt Stock, Central Government 2010–13

(millions of US$, unless otherwise indicated)

	2009	2010	2011	2012	2013	2013 (Percent)
	Act.				Est.	
Total	13705	4556	4629	4662	5196	100.0
Multilateral creditors	4986	2530	2655	2653	3121	60.1
Bilateral creditors	8130	247	242	242	233	4.5
Commercial creditors	589	1780	1733	1768	1842	35.5

Sources: Congolese authorities; and IMF staff estimates.

3. **Terms of the most recently renegotiated mining investment for the Sino-Congolese (SCCA) joint venture (known as Sicomines) project do not change the external debt profile.** In April 2008, the DRC signed a cooperation agreement with a consortium of Chinese enterprises involving a US$3.2 billion mining project and a set of public infrastructure projects totaling US$6 billion to be implemented in two phases. The Agreement was amended in October 2009 to exclude the second phase public infrastructure projects, leaving just a single phase totaling US$3 billion to be implemented over the period 2009–14. The amended agreement also limited the government's guarantee solely to the financing of the infrastructure projects. The 2012 debt sustainability analysis (DSA) was conducted based on the October 2009 agreement. Implementation of the public investment component stalled in 2012 as legislation envisaged under the Sicomines agreement was not acted upon by Parliament. In 2013, the Sicomines agreement was further amended and staff received in early 2014 information about the changes introduced. Based on the available information, the original financial terms of the agreement have been maintained and the public guarantee continues to be limited to the infrastructure projects totaling $3 billion. Recent passage of the legislation paved the way for the resumption of public investment program. The renegotiated agreement

envisages mining production to start in 2015, somewhat earlier than projected in 2009, but with a lower initial production capacity. However, over the project period, the total size of both the mining and the public investment projects remained unchanged.

4. **One of the main change since the 2012 DSA is the revision of the GDP series following the migration to the 1993 System of National Accounts (SNA93).** With technical assistance from the IMF, the national accounts were rebased to 2005 from 1987 together with a migration to the SNA93, resulting in an upward revision of nominal GDP of about 60 percent. The SNA better takes account of the informal economy and in this context the GDP reevaluation was widely attributed to the private sector, on the consumption and investment posts. Export and imports data have not been revised upward since estimates of parallel trade were already included in BOP data. As a result, the revision of the GDP series has a strong impact on the debt-to-GDP ratios, but not on the other debt ratios (Text Table 2).

Text Table 2. Democratic Republic of the Congo: Comparative Debt Ratios, 2012–17

	2012	2013	2014	2015	2016	2017
	Act.	Est.	Proj.			
PPGE debt to GDP ratio						
old DSA	32.3	34.7	36.5	36.8	37.4	36.5
new DSA	17.0	17.9	19.3	20.7	21.4	23.3
PPGE debt to exports ratio						
old DSA	56.5	56.5	56.9	55.3	58.5	51.5
new DSA	49.8	49.2	49.2	51.5	52.0	55.1
PPGE debt to revenue ratio						
old DSA	144.9	159.9	162.9	160.5	160.2	153.1
new DSA	113.8	137.9	138.3	147.4	145.6	156.8

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

5. **As in the 2012 DSA, strong growth over the medium term is supported by large investments in mining and public infrastructure projects**. Projections for mining production have been revised upward substantially over the short term based on updated information from major mining companies and the investment profile for the SCCA revised in line with the renegotiated agreement leading to a quicker accumulation of debt over the next few year. The strong growth in mining production should lead to stronger fiscal revenues in 2014 after lower than projected fiscal revenues in 2013. The export growth has been weaker than expected in the previous DSA for 2013 and is projected to increase smoothly over the medium term (Text Table 3 and Box 1).

6. **Higher discount rate improves some indicators**. Compared to the previous DSA the discount rate in the DSA used to calculate the present value (PV) of external debt has been adjusted upward from 4.0 percent to 5.0 percent, which decreases the present value of the debt.

Text Table 3. Democratic Republic of the Congo: Selected Indicators, 2012–17

	2012	2013	2014	2015	2016	2017
	Act.	Est.	Proj.			
Real GDP growth						
old DSA	7.2	8.2	6.4	7.3	5.1	8.0
new DSA	7.2	8.5	8.7	8.5	7.9	7.3
Revenues (excluding grants) growth						
old DSA	33.4	6.1	11.7	10.9	8.2	11.2
new DSA	38.6	-4.8	16.1	10.0	14.5	9.6
Overall fiscal deficit (percent of GDP)						
old DSA	-2.6	-3.4	-3.8	-3.5	-3.3	-2.8
new DSA	0.6	-1.7	-2.2	-1.7	-1.6	-3.0
Exports of goods and services growth						
old DSA	-5.6	17.2	12.8	12.6	2.0	20.7
new DSA	-8.5	16.1	4.7	5.8	9.7	6.4
Current account deficit (percent of GDP)						
old DSA	-12.5	-14.2	-15.4	-12.0	-15.9	-8.5
new DSA	-8.0	-10.1	-9.3	-8.8	-7.8	-7.4

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

Box 1. Democratic Republic of the Congo: Macroeconomic Assumptions for 2014–33

For the medium term (2014–18), projections are consistent with the macroeconomic framework of the 2014 Article IV Consultation, which assumes a strong growth driven by mining production and investments in infrastructures.

Long-term (2019–33) projections assume macroeconomic stability and a moderate growth on account of a slowdown in mining production partially offset by sustained increase in investments and a dynamic tertiary sector.

Real GDP growth is expected to increase from 8.5 percent in 2013 to 8.7 percent in 2014 and average about 7.5 percent during 2015–18. It should decline in the long run to 4.5 percent on average for the period 2019–33.

Average Inflation (measured by the GDP deflator in dollars) is 0.6 percent in 2013 and is expected to increase to 2.1 percent on average over the medium-long run.

The overall fiscal balance displayed a deficit of 1.7 percent of GDP in 2013 and is expected to slightly increase in the medium-long run to 3.1 percent on average due to a reduction of grants as percent of GDP.

The non-interest current account deficit is projected to decrease from 10.0 percent of GDP in 2013 to 6.6 percent in 2018. In the long term it should keep narrowing to 1.5 percent of GDP by 2033, due to the slowdown of FDIs (which have high import content) and the development of the agricultural sector.

Financing: The authorities are expected to rely increasingly on private financial flows (especially FDIs) to finance the current account deficit and the public investments. FDIs are expected to decrease in percent of GDP from 7.4 percent in 2013 to 3.2 percent on average in the medium-long run, but should remain the main financing source of the current account deficit. Aid flows represented 5.6 percent of GDP in 2013 out of which 1.2 percent were concessional loans. Over the medium term, this ratio would decline marginally to 5.3 percent by 2017 and further to 1.3 percent by 2033.

EXTERNAL DEBT SUSTAINABILITY RESULTS

7. **The most extreme shock leads to a significant breach of the debt to exports ratio and a slighter breach of the debt to GDP and to revenue ratios, while the other indicators are expected to remain below their thresholds**. With the shock in exports the PV of debt-to-export ratio would increase significantly from 34 percent in 2013 to 178 percent in 2015 and remain well above the threshold of 100 percent for the main part of the projection period (Figure 1 and Tables 1 and 2).

8. **The debt ratios are consistently lower in the historical scenario than the baseline.** This is because the non-interest current account deficit has been lower on average from 2005 to 2012 than projected for the period 2014–33 in the baseline scenario, and the net inflows of FDI higher. Thus applying the historical numbers leads to lower gross financing needs and a lower present value of external public debt. And since the net inflow of FDIs has been higher than the non-interest current account deficit from 2003 to 2012, at an average of 6.9 percent of GDP compared to 2.9 percent, the PV of the external debt declines to low single digit in the historic scenario during the projected period. Indeed, assuming sustained larger FDIs than the current account deficit—as is the assumption under the historical scenario—gross financing needs decline and nominal value of foreign public debt becomes negligible.

9. **Overall, compared with the previous DSA, the current results suggest that the DRC's risk of debt distress has decreased from high to moderate.** This is largely on account of improved macroeconomic fundamentals, the significant upward revision of the GDP series and the increase of the discount rate to 5 percent.

PUBLIC DSA RESULTS

10. **The DRC's (estimated) domestic debt is primarily domestic arrears**. These include arrears owed to domestic creditors, "social debts" (e.g., wages owed to past government employees), arrears owed to state-owned enterprises (SOEs), arrears owed to suppliers and contractors, and unpaid judgments and awards stemming from judicial decisions. Not all of the arrears identified in the last audit of domestic arrears have been certified and many claims on the government may be at least partly offset by liabilities owed to the government. Based on the last audit conducted, the debt management unit estimates that approximately US$1400 million (4.5 percent of 2013 GDP) would be valid after further assessment. Out of this amount authorities plan to obtain a discount from creditors of at least 50 percent, leaving an amount of US$700 million to clear; this is the estimate used in this DSA. The baseline includes the expected clearance of all arrears by 2024. Consequently, while the PV of total public debt-to-GDP ratio is 2.6 percent of GDP higher in 2013 than that of the PV of external debt-to-GDP ratio in the baseline scenario, the difference declines over time and disappears after 2019 (Figure 2).

11. **Although the fixed primary balance scenario outcome is quite similar to the baseline, the historical scenario leads to a substantial fall in debt levels similar to historic scenario under the external debt analysis.** The debt ratio in the historical scenario is lower than the baseline partly as a result of the higher primary fiscal balance (average of 1.2 percent of GDP in 2005–12) used in the historical scenario projections when compared to the average projected primary deficit in the baseline scenario

(average -3.1 percent of GDP over 2014–33, Table 3 and 4). Thus, if on average, real GDP grows as fast as it did over the last decade and the government pursues a fiscal policy that generates smaller primary deficits than those forecast under the baseline, it could generate sufficient savings such that the country's net debt (debt minus assets) becomes negative after 2023.

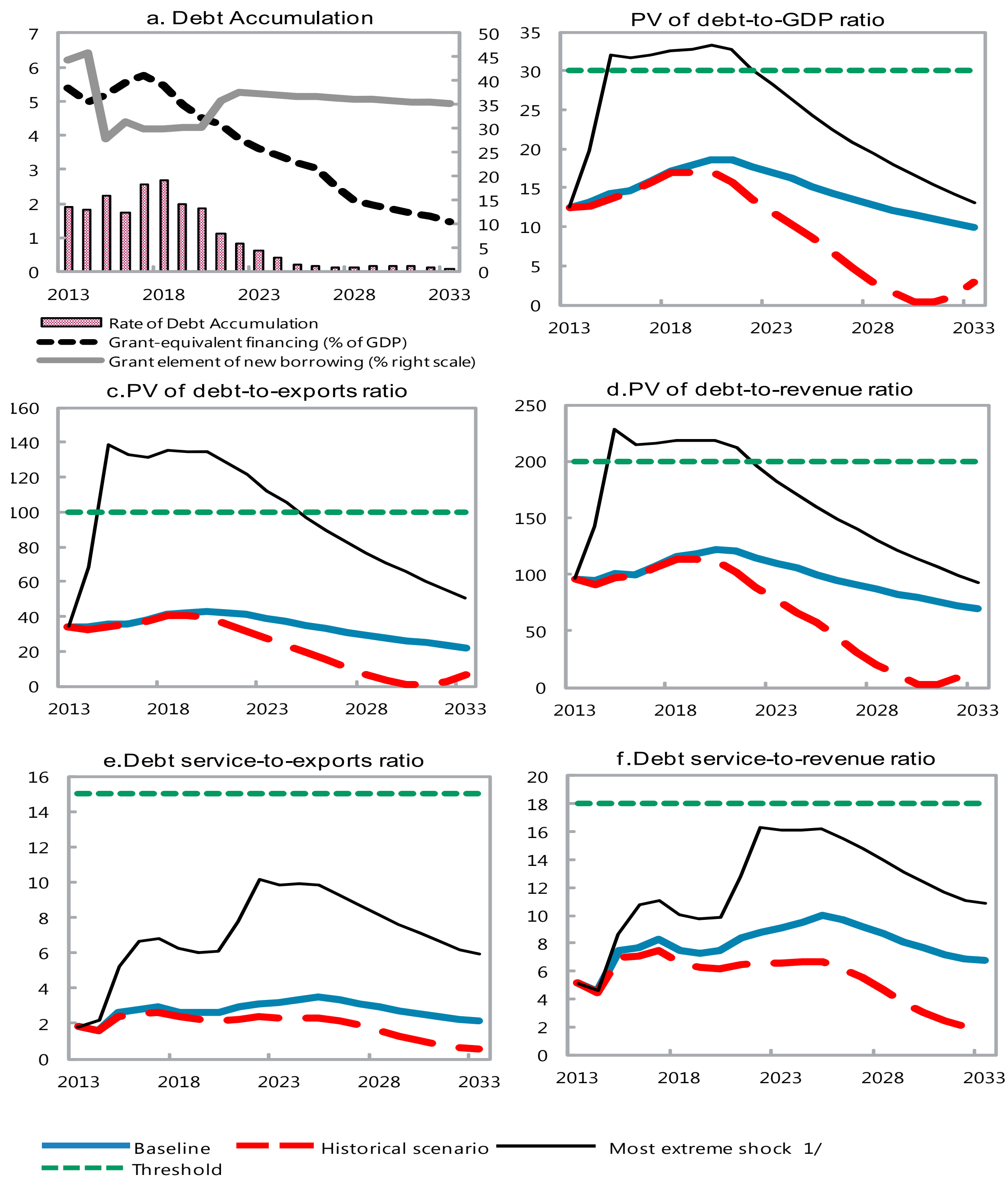
12. Public debt remains sustainable even under the shock scenarios. The most extreme shock is a shock on GDP growth.[2] This implies a raise of the PV of the debt-to-GDP ratio from 14.7 percent to a maximum of 23.0 percent in 2021 that remains below the benchmark of the public debt ratio of 38 percent. The impact is also significant on the PV of the debt-to-exports ratio, which rises to 131.8 percent of GDP over the long run (64 percentage points of GDP higher than under the baseline).

CONCLUSION

13. On account of the better macroeconomic fundamentals, an upward revision of the GDP series, and a higher discount rate the DRC's debt sustainability rating is upgraded from a high risk to a moderate risk of debt distress. However, a significant portion of the debt stock and repayment profile in the DRC is attributable to the publicly-guaranteed Sicomines infrastructure loans and the Sicomines mining investments which should be carefully monitored. Under the current framework, not only is the country still vulnerable to a drop in commodity prices that would reduce growth and drive the PV of debt ratios above their thresholds, but a sizable enough price shock could undermine the economics of the mining project that is supposed to pay off the infrastructure loans. This would shift the repayment burden for much or the entire loan outstanding on the government. It is urgent that the DRC improves its compilation of debt data, including Sicomines data, and strengthens its debt risk analysis capabilities. Meanwhile, the DRC should continue to take a cautious approach to external borrowing.

[2] The real GDP is assumed to grow at its historical average minus one standard deviation in 2014–15.

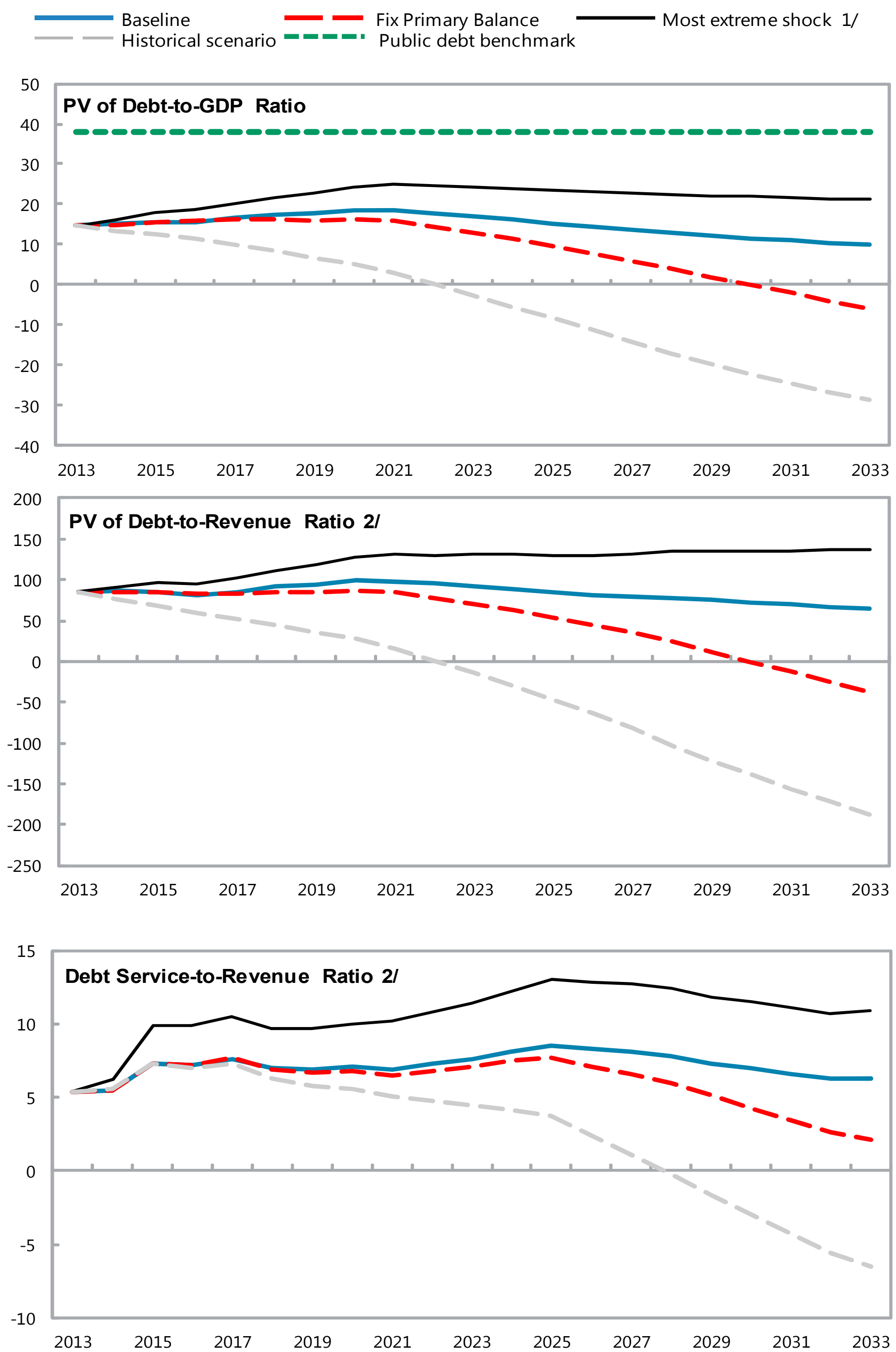
Figure 1. Democratic Republic of the Congo: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2013–33[1]



Sources: Congolese authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2023. In figures b, c, d, e and f, it corresponds to a Exports shock.

Figure 2. Democratic Republic of the Congo: Indicators of Public Debt under Alternative Scenarios, 2013–33[1]



Sources: Congolese authorities; and IMF staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio on or before 2023.
2/ Revenues are defined inclusive of grants.

Table 1. Democratic Republic of the Congo: External Debt Sustainability Framework, Baseline Scenario, 2010–33[1]

(in percent of GDP, unless otherwise indicated)

	Actual			Historical 6/ Average	Standard 6/ Deviation	Projections									
	2010	2011	2012			2013	2014	2015	2016	2017	2018	2013-2018 Average	2023	2033	2019-2033 Average
External debt (nominal) 1/	**24.5**	**21.3**	**20.0**			**23.0**	**26.0**	**29.2**	**30.4**	**32.1**	**33.0**		**24.1**	**14.2**	
of which: public and publicly guaranteed (PPG)	22.4	19.2	16.9			18.0	19.4	21.0	21.8	23.6	25.2		24.1	14.2	
Change in external debt	-59.2	-3.2	-1.3			3.0	3.1	3.1	1.2	1.6	0.9		-1.5	-0.8	
Identified net debt-creating flows	-12.2	-4.5	-2.6			1.1	0.5	-0.1	-0.8	-0.3	0.0		1.9	-1.3	
Non-interest current account deficit	**4.7**	**5.8**	**7.9**	**2.9**	**4.2**	**10.0**	**9.2**	**8.5**	**7.4**	**6.9**	**6.6**		**5.9**	**1.5**	5.4
Deficit in balance of goods and services	5.5	4.8	5.9			6.1	2.0	-0.3	-1.1	-1.9	-1.0		-1.8	-9.5	
Exports	43.6	45.5	34.1			36.4	39.1	40.2	41.3	42.3	41.8		43.9	45.4	
Imports	49.1	50.3	40.0			42.5	41.1	39.9	40.1	40.4	40.8		42.1	35.9	
Net current transfers (negative = inflow)	-3.9	-3.3	-2.9	-3.9	1.0	-5.3	-4.7	-4.1	-4.2	-4.1	-4.0		-3.2	-2.0	-2.9
of which: official	-3.9	-3.3	-2.9			-5.3	-4.7	-4.1	-4.2	-4.1	-4.0		-3.2	-2.0	
Other current account flows (negative = net inflow)	3.2	4.3	4.9			9.1	11.9	12.9	12.7	12.9	11.6		10.8	13.1	
Net FDI (negative = inflow)	**-7.3**	**-7.0**	**-7.9**	**-6.9**	**1.8**	**-7.4**	**-6.9**	**-6.9**	**-6.5**	**-5.6**	**-5.2**		**-3.2**	**-2.6**	-3.2
Endogenous debt dynamics 2/	**-9.6**	**-3.4**	**-2.7**			**-1.5**	**-1.7**	**-1.6**	**-1.7**	**-1.6**	**-1.4**		**-0.8**	**-0.3**	
Contribution from nominal interest rate	0.2	0.1	0.1			0.1	0.1	0.4	0.4	0.4	0.5		0.4	0.2	
Contribution from real GDP growth	-5.2	-1.4	-1.3			-1.6	-1.9	-2.0	-2.1	-2.0	-1.9		-1.2	-0.5	
Contribution from price and exchange rate changes	-4.5	-2.0	-1.5			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-47.0**	**1.3**	**1.4**			**1.8**	**2.6**	**3.2**	**2.1**	**2.0**	**0.9**		**-3.4**	**0.5**	
of which: exceptional financing	-22.2	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	14.7			17.4	19.8	22.4	23.3	24.3	24.9		17.0	9.9	
In percent of exports	...	...	43.0			47.7	50.6	55.8	56.5	57.6	59.6		38.6	21.7	
PV of PPG external debt	**...**	**...**	**11.6**			**12.5**	**13.2**	**14.2**	**14.7**	**15.9**	**17.2**		**17.0**	**9.9**	
In percent of exports	**...**	**...**	**33.9**			**34.2**	**33.8**	**35.4**	**35.6**	**37.6**	**41.0**		**38.6**	**21.7**	
In percent of government revenues	**...**	**...**	**77.5**			**95.8**	**94.9**	**101.3**	**99.6**	**107.1**	**115.1**		**109.6**	**69.3**	
Debt service-to-exports ratio (in percent)	**1.3**	**1.5**	**1.9**			**1.8**	**1.6**	**2.6**	**2.8**	**2.9**	**2.7**		**3.2**	**2.1**	
PPG debt service-to-exports ratio (in percent)	**1.3**	**1.5**	**1.9**			**1.8**	**1.6**	**2.6**	**2.8**	**2.9**	**2.7**		**3.2**	**2.1**	
PPG debt service-to-revenue ratio (in percent)	**4.8**	**5.4**	**4.4**			**5.1**	**4.6**	**7.5**	**7.7**	**8.3**	**7.4**		**9.1**	**6.8**	
Total gross financing need (Millions of U.S. dollars)	-411	-112	198			981	944	914	773	1058	1135		2,664	-46	
Non-interest current account deficit that stabilizes debt ratio	63.9	9.0	9.2			7.1	6.1	5.3	6.2	5.3	5.7		7.3	2.4	
Key macroeconomic assumptions															
Real GDP growth (in percent)	7.1	6.9	7.2	6.0	1.3	8.5	8.7	8.5	7.9	7.3	6.4	7.9	5.1	3.6	4.5
GDP deflator in US dollar terms (change in percent)	5.7	9.0	7.4	6.0	6.3	0.6	-0.4	0.6	1.1	1.4	2.1	0.9	2.5	2.8	2.5
Effective interest rate (percent) 5/	0.2	0.5	0.6	2.4	1.5	0.6	0.5	1.6	1.6	1.6	1.6	1.3	1.9	1.6	1.7
Growth of exports of G&S (US dollar terms, in percent)	79.9	21.5	-13.7	29.0	42.3	16.6	16.5	12.1	11.9	11.5	7.5	12.7	9.9	8.4	7.7
Growth of imports of G&S (US dollar terms, in percent)	48.6	19.4	-8.5	26.7	32.2	16.1	4.7	5.8	9.7	9.6	9.6	9.3	7.5	2.1	6.2
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	44.4	45.8	27.9	31.3	30.0	29.9	34.9	37.3	35.2	35.5
Government revenues (excluding grants, in percent of GDP)	12.1	12.4	14.9			13.0	13.9	14.0	14.7	14.8	14.9		15.5	14.2	15.0
Aid flows (in Billions of US dollars) 7/	1,948	1,486	1,921			1,668	1,759	1,836	2,120	2,232	2,283		2,259	1,724	
of which: Grants	1,848	1,336	1,421			1,318	1,137	1,486	1,770	1,882	1,933		1,920	1,480	
of which: Concessional loans	100	150	500			350	622	350	350	350	350		339	244	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			5.4	5.0	5.2	5.6	5.8	5.5		3.6	1.5	2.9
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			80.9	73.9	66.7	71.9	65.7	65.1		75.8	72.2	73.5
Memorandum items:															
Nominal GDP (Millions of US dollars)	20,500	23,870	27,483			30,012	32,516	35,477	38,690	42,117	45,737		65,427	127,777	
Nominal dollar GDP growth	13.2	16.4	15.1			9.2	8.3	9.1	9.1	8.9	8.6	8.9	7.7	6.5	7.1
PV of PPG external debt (Millions of US dollars)			3,187			3,712	4,255	4,979	5,592	6,583	7,714		10,917	12,404	
(PVt-PVt-1)/GDPt-1 (in percent)						1.9	1.8	2.2	1.7	2.6	2.7	2.2	0.6	0.1	0.5
Gross workers' remittances (Millions of US dollars)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of PPG external debt (in percent of GDP + remittances)	...	...	11.6			12.5	13.2	14.2	14.7	15.9	17.2		17.0	9.9	
PV of PPG external debt (in percent of exports + remittances)	...	...	33.9			34.2	33.8	35.4	35.6	37.6	41.0		38.6	21.7	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	1.9			1.8	1.6	2.6	2.8	2.9	2.7		3.2	2.1	

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

1/ Includes both public and private sector external debt.

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

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

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

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

6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

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

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

Table 2. Democratic Republic of the Congo: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2013–33

(in percent)

	Projections							
	2013	2014	2015	2016	2017	2018	**2023**	2033
PV of debt-to GDP ratio								
Baseline	12	13	14	15	16	17	**17**	10
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	12	13	14	15	16	17	**12**	3
A2. New public sector loans on less favorable terms in 2013-2033 2/	12	14	15	17	19	21	**23**	17
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	12	14	15	16	17	18	**18**	10
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	12	20	32	32	32	33	**28**	13
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	12	13	14	15	16	17	**17**	10
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	12	16	18	19	20	21	**19**	10
B5. Combination of B1-B4 using one-half standard deviation shocks	12	17	22	22	23	24	**22**	11
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	12	19	20	21	22	24	**24**	14
PV of debt-to-exports ratio								
Baseline	34	34	35	36	38	41	**39**	22
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	34	32	34	35	37	40	**27**	6
A2. New public sector loans on less favorable terms in 2013-2033 2/	34	36	38	40	44	49	**52**	37
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	34	33	35	35	37	40	**38**	21
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	34	68	138	133	132	135	**112**	50
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	34	33	35	35	37	40	**38**	21
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	34	40	46	45	47	50	**44**	23
B5. Combination of B1-B4 using one-half standard deviation shocks	34	46	60	59	59	63	**55**	27
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	34	33	35	35	37	40	**38**	21
PV of debt-to-revenue ratio								
Baseline	96	95	101	100	107	115	**110**	69
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	96	90	97	98	106	113	**77**	21
A2. New public sector loans on less favorable terms in 2013-2033 2/	96	100	109	112	125	139	**148**	119
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	96	98	107	105	113	122	**116**	73
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	96	142	228	214	216	219	**182**	92
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	96	94	101	99	106	114	**109**	68
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	96	112	131	127	132	139	**126**	74
B5. Combination of B1-B4 using one-half standard deviation shocks	96	119	154	147	152	158	**139**	78
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	96	134	143	140	151	162	**154**	97

Table 2. Democratic Republic of the Congo: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2013–33 (concluded)

(in percent)

	Projections							
	2013	2014	2015	2016	2017	2018	**2023**	2033
	Debt service-to-exports ratio							
Baseline	2	2	3	3	3	3	**3**	2
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	2	2	2	3	3	2	**2**	1
A2. New public sector loans on less favorable terms in 2013-2033 2/	2	2	3	3	3	3	**4**	3
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	2	2	3	3	3	3	**3**	2
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	2	2	5	7	7	6	**10**	6
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	2	2	3	3	3	3	**3**	2
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	2	2	3	3	3	3	**4**	2
B5. Combination of B1-B4 using one-half standard deviation shocks	2	2	3	4	4	3	**5**	3
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	2	2	3	3	3	3	**3**	2
	Debt service-to-revenue ratio							
Baseline	5	5	7	8	8	7	**9**	7
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	5	4	7	7	7	7	**7**	2
A2. New public sector loans on less favorable terms in 2013-2033 2/	5	5	7	8	9	8	**11**	11
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	5	5	8	8	9	8	**10**	7
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	5	5	9	11	11	10	**16**	11
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	5	5	8	8	8	8	**9**	7
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	5	5	8	8	9	8	**11**	8
B5. Combination of B1-B4 using one-half standard deviation shocks	5	5	8	9	10	9	**12**	8
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	5	7	11	11	12	11	**13**	10
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	33	33	33	33	33	33	**33**	33

Sources: Congolese authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 3. Democratic Republic of the Congo: Public Sector Debt Sustainability Framework, Baseline Scenario, 2013–33

(in percent of GDP, unless otherwise indicated)

	Actual			Average 5/	Standard Deviation 5/	Estimate	Projections								
	2010	2011	2012			2013	2014	2015	2016	2017	2018	2013-18 Average	2023	2033	2019-33 Average
Public sector debt 1/	26.9	22.8	19.8			20.4	21.3	22.3	22.7	24.2	25.5		24.1	14.2	
of which: foreign-currency denominated	22.4	19.2	16.9			18.0	19.4	21.0	21.8	23.6	25.2		24.1	14.2	
Change in public sector debt	-62.7	-4.1	-3.1			0.6	0.9	1.1	0.4	1.5	1.3		-1.0	-0.8	
Identified debt-creating flows	-26.2	-4.5	-4.9			-1.4	-0.8	-1.4	-1.5	0.0	0.6		0.7	3.6	
Primary deficit	-4.4	1.1	-0.7	-1.2	1.4	1.6	2.0	1.3	1.2	2.6	3.1	2.0	2.9	4.4	3.4
Revenue and grants	21.1	18.0	20.1			17.4	17.4	18.2	19.3	19.3	19.1		18.4	15.4	
of which: grants	9.0	5.6	5.2			4.4	3.5	4.2	4.6	4.5	4.2		2.9	1.2	
Primary (noninterest) expenditure	16.8	19.0	19.4			19.0	19.5	19.5	20.5	21.9	22.2		21.3	19.8	
Automatic debt dynamics	-17.3	-4.1	-2.8			-1.4	-1.4	-1.4	-1.4	-1.4	-1.5		-1.3	-0.7	
Contribution from interest rate/growth differential	-10.8	-3.8	-2.9			-1.6	-1.5	-1.4	-1.5	-1.4	-1.4		-1.3	-0.7	
of which: contribution from average real interest rate	-4.9	-2.0	-1.4			0.0	0.1	0.2	0.2	0.1	0.0		-0.1	-0.2	
of which: contribution from real GDP growth	-5.9	-1.7	-1.5			-1.5	-1.6	-1.7	-1.6	-1.5	-1.5		-1.2	-0.5	
Contribution from real exchange rate depreciation	-6.4	-0.3	0.1			0.2	0.1	0.1	0.0	0.0	0.0		...	...	
Other identified debt-creating flows	-4.6	-1.5	-1.4			-1.6	-1.4	-1.4	-1.3	-1.2	-1.0		-0.9	-0.1	
Privatization receipts (negative)	-4.6	-1.5	-1.4			-1.6	-1.4	-1.4	-1.3	-1.2	-1.0		-0.9	-0.1	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	-36.5	0.4	1.8			2.0	1.7	2.5	1.9	1.6	0.7		-1.6	-4.4	
Other Sustainability Indicators															
PV of public sector debt	...	...	14.4			14.8	15.0	15.6	15.6	16.5	17.5		17.0	9.9	
of which: foreign-currency denominated	...	...	11.6			12.5	13.2	14.2	14.7	15.9	17.2		17.0	9.9	
of which: external	...	...	11.6			12.5	13.2	14.2	14.7	15.9	17.2		17.0	9.9	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	-3.6	2.0	0.2			2.6	3.0	2.6	2.6	4.1	4.4		4.3	5.3	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	71.8			85.1	86.3	85.5	80.9	85.5	91.3		92.1	64.1	
PV of public sector debt-to-revenue ratio (in percent)	...	...	96.7			113.9	108.0	111.0	106.0	111.2	117.2		109.6	69.3	
of which: external 3/	...	...	77.5			95.8	94.9	101.3	99.6	107.1	115.1		109.6	69.3	
Debt service-to-revenue and grants ratio (in percent) 4/	3.8	5.2	4.5			5.4	5.4	7.3	7.2	7.6	6.9		7.6	6.3	
Debt service-to-revenue ratio (in percent) 4/	6.6	7.5	6.0			7.2	6.8	9.5	9.5	9.9	8.9		9.1	6.8	
Primary deficit that stabilizes the debt-to-GDP ratio	58.3	5.2	2.4			1.0	1.2	0.2	0.8	1.1	1.8		3.8	5.2	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	7.1	6.9	7.2	6.0	1.3	8.5	8.7	8.5	7.9	7.3	6.4	7.9	5.1	3.6	4.5
Average nominal interest rate on forex debt (in percent)	0.2	0.5	0.6	2.5	1.5	0.7	0.7	2.2	2.2	2.2	2.2	1.7	1.9	1.6	1.8
Average real interest rate on domestic debt (in percent)	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Real exchange rate depreciation (in percent, + indicates depreciatior	-8.7	-1.7	0.4	-0.1	14.3	1.0	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	17.4	10.3	7.5	16.9	9.1	0.7	1.3	2.9	4.0	4.8	5.6	3.2	6.0	6.4	6.0
Growth of real primary spending (deflated by GDP deflator, in percer	39.2	21.3	9.1	7.4	13.0	6.4	11.3	8.7	13.4	14.7	7.9	10.4	4.5	2.9	3.7
Grant element of new external borrowing (in percent)	...	...	...	...	...	44.4	45.8	27.9	31.3	30.0	29.9	34.9	37.3	35.2	...

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

1/ [Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.]

2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

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

5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 4. Democratic Republic of the Congo: Sensitivity Analysis for Key Indicators of Public Debt, 2013–33

		Projections						
	2013	2014	2015	2016	2017	2018	2023	2033
	PV of Debt-to-GDP Ratio							
Baseline	14.8	15	16	16	17	17	17	10
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	15	13	13	11	10	9	-3	-29
A2. Primary balance is unchanged from 2013	15	15	16	16	16	16	13	-6
A3. Permanently lower GDP growth 1/	15	15	16	16	17	18	19	15
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014-2015	15	16	18	19	20	22	24	21
B2. Primary balance is at historical average minus one standard deviations in 2014-2015	15	14	14	14	15	16	16	9
B3. Combination of B1-B2 using one half standard deviation shocks	15	14	14	14	16	18	20	18
B4. One-time 30 percent real depreciation in 2014	15	20	19	19	19	20	19	13
B5. 10 percent of GDP increase in other debt-creating flows in 2014	15	22	22	22	22	23	22	13
	PV of Debt-to-Revenue Ratio 2/							
Baseline	85	86	85	81	85	91	92	64
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	85	76	68	58	52	44	-14	-188
A2. Primary balance is unchanged from 2013	85	85	85	82	84	85	70	-38
A3. Permanently lower GDP growth 1/	85	87	86	82	87	94	101	97
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014-2015	85	91	96	94	102	112	131	137
B2. Primary balance is at historical average minus one standard deviations in 2014-2015	85	79	75	72	77	83	85	59
B3. Combination of B1-B2 using one half standard deviation shocks	85	79	74	74	82	92	109	113
B4. One-time 30 percent real depreciation in 2014	85	113	107	98	99	103	105	85
B5. 10 percent of GDP increase in other debt-creating flows in 2014	85	124	120	112	115	120	117	83
	Debt Service-to-Revenue Ratio 2/							
Baseline	5	5	7	7	8	7	8	6
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	5	6	7	7	7	6	4	-7
A2. Primary balance is unchanged from 2013	5	5	7	7	8	7	7	2
A3. Permanently lower GDP growth 1/	5	5	7	7	8	7	8	8
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014-2015	5	6	8	8	8	8	9	11
B2. Primary balance is at historical average minus one standard deviations in 2014-2015	5	5	7	7	7	7	7	6
B3. Combination of B1-B2 using one half standard deviation shocks	5	6	7	7	8	7	8	9
B4. One-time 30 percent real depreciation in 2014	5	6	10	10	11	10	11	11
B5. 10 percent of GDP increase in other debt-creating flows in 2014	5	5	8	8	8	8	10	8

Sources: Congolese authorities; and IMF staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.
2/ Revenues are defined inclusive of grants.

Press Release No. 14/283
FOR IMMEDIATE RELEASE
June 16, 2014

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2014 Article IV Consultation with the Democratic Republic of the Congo

On June 9, 2014, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with the Democratic Republic of the Congo.

The Democratic Republic of Congo (DRC) has continued to post strong economic growth in the recent years (7 percent on average for 2010–12) despite the difficult domestic security situation. Mineral production and related investments have become the main drivers of the robust growth, although economic activity is strengthening in other areas such as the agricultural sector resulting into a real gross domestic product (GDP) growth rate of 8.5 percent in 2013. Fiscal restraint and the absence of major external price shocks helped to further reduce inflation to a record low of 1 percent at end-2013. Higher mining exports and sustained inward foreign investment contributed to an overall balance of payments surplus. However, gross international reserves increase in 2013 was only sufficient to keep the reserve coverage at 7.7 weeks of non aid related imports of goods and services, which remains low although the exchange rate remained remarkably stable since 2010.

Notwithstanding the strong economic growth, poverty remains pervasive and the economy vulnerable. Limited fiscal space and shocks to revenues often offset by expenditure adjustments have not supported pro-poor and critical investment spending necessary for inclusive growth, giving rise to mounting social demands to share in the benefits of the accelerating growth.

Progress in structural reforms was mixed. The government implemented important reforms aimed at de-dollarizing the economy, deepening financial markets and improving public finance management (PFM). The Central Bank of Congo (BCC) successfully initiated the introduction of new denominations of the Congolese Franc and the government expanded public salary

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

payments through banks for most civil servants. Reforms in PFM also progressed with improvements in the expenditure chain and a reduction of the expenditure float. In contrast, structural reforms to further the independence of the BCC, including through its recapitalization, and to improve transparency and governance of state-owned enterprises (SOEs) in the mining sector largely stalled.

Medium-term economic growth prospects remain favorable. The economy is projected to grow at 8.7 percent in 2014 and on average 7.5 percent during 2015–18. The mining sector is expected to remain the main driver of growth, including with the investment phase of the Sino-Congolese joint venture (Sicomines) accelerating. Inflation is projected at 4 percent in 2014, which appears achievable in light of current low inflation, the BCC sterilizing any excessive liquidity and in the absence of foreign price shocks. A drop in the international prices of the DRC's main mineral exports export represent the main risk to the DRC's economic outlook.

Executive Board Assessment[2]

Directors commended the authorities for maintaining macroeconomic stability in the face of a challenging external and domestic environment, but noted that notwithstanding the recent strong economic growth, poverty remains widespread and the attainment of the Millennium Development Goals (MDGs) is at risk. Directors welcomed the recent positive developments on the security front and encouraged the authorities to use this window of opportunity to consolidate recent macroeconomic gains and step up the pace of structural reforms needed to promote diversified, sustainable and more inclusive growth.

Directors emphasized the importance of creating fiscal space to increase priority social spending and support public investments for meeting the MDGs, through improvements in public financial management, better alignment of the budget with the Poverty Reduction Strategy Paper, and strengthened domestic—including non-resource—revenue mobilization. In this regard, they called for improved tax administration, including by addressing known VAT shortcomings, tighter control of the tax base, and greater efforts to raise the contribution of the mining sector to the budget.

Against this backdrop, Directors called for improved governance and transparency and strengthened oversight of state-owned enterprises (SOEs) in the mining sector. Corrective actions in this area could help pave the way for discussion of a possible successor arrangement. Directors underscored the need to accelerate reforms, including the adoption of a mining code and petroleum law aligned with international best practices, and encouraged full compliance with

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

the Extractive Industry Transparency Initiative (EITI) and the adoption of an improved anti-money laundering framework. In this regard, they recommended more effective management of tax mining assets to avoid SOE revenue losses in the natural resource sector.

Directors called for critical reforms at the Banque Centrale du Congo (BCC) to bolster its operational independence and accountability, strengthen its capacity to conduct monetary policy, sustain price and financial sector stability, and instill market confidence. In this context, they welcomed the authorities' adoption of a three-year action plan incorporating the Financial Sector Assessment Program (FSAP) recommendations. They advised swift implementation of key policy measures—including, recapitalizing the BCC, adoption of the draft law of the statutes of the BCC and the Banking Law, and divestment of noncore activities. The analytical, regulatory and supervisory capacity of the BCC should also be strengthened.

Directors called for enhanced exchange rate flexibility in order to set the stage for a more ambitious accumulation of international reserves, designed to help enhance the economy's resilience to exogenous shocks and further strengthen market confidence, especially given the authorities'de-dollarization strategy.

Congo Democratic Republic of the: Selected Economic Indicators

	2012	2013	2014	2015	2016
GDP and Prices	(Annual percentage change; unless otherwise indicated)				
Real GDP	7.2	8.5	8.7	8.5	7.9
GDP deflator	7.5	0.7	1.3	2.9	4.0
Consumer prices, period average	2.1	0.8	2.4	4.1	4.8
Consumer prices, end-of-period	2.7	1.0	3.7	4.5	5.0
External sector					
Exports, f.o.b. (U.S dollars)	-13.7	16.6	16.5	12.1	11.9
Imports, f.o.b. (U.S. dollars)	-7.0	16.3	5.1	6.2	10.1
Export volume	-1.7	25.0	7.5	12.1	11.5
Import volume	-7.8	15.4	8.7	7.9	10.5
Terms of trade	-11.5	-7.2	12.4	2.0	1.0
	(Annual change in percent of beginning-of-period broad money, unless otherwise indicated)				
Money and credit					
Broad money	21.1	18.1	10.1	13.1	…
Net foreign assets	22.9	2.3	10.7	7.1	…
Net domestic assets	-1.9	15.7	-0.5	6.1	
Domestic credit	-4.6	14.5	5.2	5.9	…
Of which:					
Net credit to government (annual percent change)	-18.9	3.6	-0.2	0.3	…
Credit to the private sector (annual percent change)	25.6	26.5	11.9	12.0	…
	(Percent of GDP)				
Central government finance					
Revenue and Grants	20.1	17.4	17.4	18.2	19.3
Revenue	14.9	13.0	13.9	14.0	14.7
Grants	5.2	4.4	3.5	4.2	4.6
Expenditure	19.5	19.1	19.6	19.9	20.9
Domestic fiscal balance (cash basis)	1.2	0.2	0.5	0.7	0.7
Net borrowing/lending (overall balance, incl. grants)	0.6	-1.7	-2.2	-1.7	-1.6
Investment and saving					
Gross national saving	12.3	11.2	12.2	13.7	15.8

Democratic Republic of the Congo: Selected Economic Indicators, 2012–16 (concluded)

Government	3.7	2.9	3.4	3.8	4.3
Nongovernment	8.5	8.3	8.8	9.9	11.5
Investment	20.3	21.3	21.6	22.7	23.8
Government	6.1	6.4	6.2	6.6	7.0
Nongovernment	14.2	14.9	15.3	16.1	16.8
Balance of payments					
Exports of goods and services	34.1	36.4	39.1	40.2	41.3
Imports of goods and services	40.0	42.5	41.1	39.9	40.1
Current account balance, incl. transfers	-8.0	-10.1	-9.3	-8.8	-7.8
Current account balance, excl. transfers	-10.9	-15.4	-14.0	-12.9	-12.0
Gross official reserves (end-of-period, millions of U.S. dollars)	1,645	1,695	1,905	1,955	2,165
Gross official reserves (weeks of non-aid-related imports of goods and services)	7.7	7.7	8.4	8.1	8.6
	(Millions of U.S. dollars; unless otherwise indicated)				
External public debt					
Total stock, including IMF	4,662	5,196	6,055	7,096	8,012
Present value (PV) of debt [3]	5,354	3,205	3,918	4,504	5,139
PV of debt (percent of exports of goods and services)	57.0	29.5	31.1	32.0	32.7
Scheduled debt service	181.7	194.6	189.3	330.0	366.5
Percent of exports of goods and services	1.9	1.8	1.5	2.3	2.3
Percent of government revenue	4.4	5.0	4.2	6.6	6.4
Exchange rate, (CGF per U.S. dollar)					
Period average	919	919	...	...	…
End-of-period	915	926	…	…	…
Memorandum item:					
Nominal GDP (CGF billions)[1]	25,250	27,596	30,390	33,939	38,094

Sources: Congolese authorities; and IMF staff estimates and projections.
[1] Starting in 2012 CPI numbers is calculated by INS using a revised methodology. The CPI for 2012 according to the previous methodolgy amounted to 5.7 percent (eop) and 9.3 (average).
[2] The projections for 2011 and beyond account for mining companies profit outflows.
[3] Projections are based on calculations under the 2010 HIPC Debt Sustainability Analysis (EBS/10/121, 06/16/2010). Includes assistance beyond the terms of the enhanced HIPC Initiative granted by some Paris Club creditors. Exports are a trailing three-year moving average.

Statement by Kossi Assimaidou, Executive Director for the Democratic Republic of the Congo June 9, 2014

The Democratic Republic of the Congo (DRC) authorities would like to thank Executive Directors, Management, and staff for their continued support, constructive dialogue, and valuable advice on macroeconomic policies. My authorities highly appreciate the informative and candid exchange of views with the mission during the 2014 Article IV consultation, and thank staff for their advice and policy recommendations. They remain committed to prudent macroeconomic policies that would preserve macroeconomic stability and to keep advancing towards higher and sustainable growth.

Following years of macroeconomic instability mainly characterized by hyper- and high inflation, the DRC has registered in recent years strong macroeconomic performance both under International Monetary Fund (IMF)-supported program (2009–12) and during the post program period. In particular, growth has accelerated in recent years to reach 8.5 percent in 2013 and is projected at 8.7 percent for this year by staff –although the authorities consider this projection somewhat conservative and expect growth of 9.5 percent this year and above 10 percent over 2015–17 on account of continued strong expansion in mining production and agriculture. Inflation has fallen to single digits since 2012 thanks to prudent fiscal and monetary policies which have translated into domestic fiscal surpluses and successfully contained excess liquidity. Despite a mixed revenue performance in 2013 mainly due to challenges in the implementation of the new value-added tax (VAT) (increased VAT credits, accounting changes related to the VAT refund account), fiscal balance objectives were met owing to skillful spending adjustments guided by the zero central bank financing anchor.

Building on this encouraging performance and supported by favorable medium-term growth prospects, my DRC authorities remain committed to diversifying and transforming the economy through important investments in non-mining sectors notably agriculture, transport, and communication. They aim to strengthen government revenues against shocks from commodity prices, expand the fiscal space that is highly needed to meet social needs, and forcefully tackle the persistent poverty through stronger, job-creating growth notably in labor-intensive agriculture. In so doing, my authorities are cognizant of the importance of preserving the hard-won macroeconomic stability; they will continue to take steps to improve transparency and governance in the natural resource sector which they agree should contribute more to the budget; and advance financial stability and development. My authorities broadly share staff's key policy recommendations.

I. POLICY CHALLENGES AND RISKS TO THE OUTLOOK

As noted above, the DRC's growth performance in 2013 was robust, benefitting from a benign external environment and driven by a growing mining sector and strong performance from the construction and commercial sectors. Inflation has fallen to low levels and the exchange rate has remained stable. While reserve coverage has stabilized at about 8 weeks of imports of goods and services, reserves in nominal terms have continued to accumulate thanks to a proactive policy on the part of the central bank.

On the fiscal policy front, the authorities have managed to increase domestically-financed capital spending by an equivalent of 1 percent of GDP to respond to continued investment needs, despite downward spending adjustment necessitated by the weaker-than-expected revenue performance, lower budget support and reduced project grants from donors.

On the external sector, the increased current account deficit in 2013 resulted mainly from higher mining equipment imports as well as higher profits repatriation. The deficit continues to be financed by increased foreign direct investment (FDI).

My DRC authorities are mindful of the risks that heavy dependence of the economy on the natural resource sector or renewed armed conflict poses to the macroeconomic stability and the positive outlook. They fully share the risk assessment conducted by staff and welcome the policy advice to respond to these risks, notably efforts to boost domestic non-natural resources mobilization, increase the international reserve buffers to hedge against adverse external shocks. Building on progress in regional peace-making under the Framework for Peace signed in February 2013 in Addis Ababa, the DRC authorities continue to work towards preventing resumption of armed conflicts.

II. TOWARDS SUSTAINED, INCLUSIVE GROWTH AMID CONTINUED MACROECONOMIC STABILITY

A. Macroeconomic Policies and Reforms

My authorities will continue to maintain their fiscal anchor to consolidate fiscal sustainability and macroeconomic stability, notably low inflation and stable exchange rate. They place emphasis on revenue mobilization, notably through closely monitoring VAT reimbursements, tighter control of the tax base, and efforts to raise the contribution of the mining sector to the budget towards its fair share of the economy. In particular, the tax revenue growth potential highlighted by staff (Appendix II) confirms the authorities' vision in this area. Faced with administrative and infrastructure capacity constraints, the authorities welcome the IMF's advice on a new mining code and its technical assistance in designing tax revenues from the mining sector. They agree that sustaining fiscal discipline, along with a sound debt strategy—based on concessional borrowing—and stronger debt management capacity, will help maintain the country's debt sustainability rating which recently improved to "moderate risk of debt distress".

Monetary policy continues to aim at containing inflation under a flexible exchange rate regime. The authorities concur with staff's view that consolidating macroeconomic stability will also entail reforming the central bank, Banque Centrale du Congo (BCC), to make it a more effective and accountable institution. The pace of reforms at the central bank has picked up. The aim is to disengage from non-core activities, and focus on monetary policy and strengthening the financial sector regulation and supervision frameworks. The central bank recapitalization process remains a central piece of the authorities' reform agenda and will be pursued along with improvement in the BCC's operations.

B. Sustained and Inclusive Growth

The authorities share the view on the need to implement policies aimed at sustaining growth and promoting its inclusiveness. They are cognizant of the critical need to tackle the electricity gap, develop roads, notably between productive rural areas and consumption cities; and enhance the business climate. In this regard, they are putting emphasis on the development of agriculture, which is labor-intensive, and in which important investments are being negotiated with external partners. Small scale agricultural projects are also being promoted. My authorities welcome technical assistance in the area of public financial management, which should help to improve the quality of spending and budget execution.

III. Natural Resource Management

The DRC has made significant progress in transparency in the natural resource sector. The authorities will continue the publication of mining contracts as well as annual productions and exports. Under the leadership of the highest authority, national conferences on mining resources management (NCMRM) now take place on an annual basis to promote best practices for transparency and governance in the sector. The recommendations feed into the governance matrix agreed with the World Bank to enhance transparency in natural resource management. Finally, the authorities concur with staff advice on the corporate governance of the state-owned enterprises (SOEs) operating in the sector, including the need to improve management and the close monitoring by the government—as the sole or main shareholder—of the sale of assets by SOEs.

IV. Financial Stability and Deepening

The authorities appreciate the results of the first Financial Sector Assessment Program, noting the need to develop the financial system, introduce a risk-based supervision to enable the banking sector to better weather liquidity shocks, and enhance the regulatory framework and its implementation. The FSAP recommendations are already being implemented through an exhaustive action plan.

The authorities have taken good note of the pre-requisites presented by the IMF staff to a credible de-dollarization strategy, notably (i) macroeconomic stability and increased reserve coverage to enhance the credibility of the national currency; (ii) credible mandate of the central bank to pursue price stability as its primary objective; (iii) effectiveness, independence and accountability of the central bank; (iv) clear legal and regulatory framework for the banking sector; and (v) enhanced financial infrastructure and supervisory framework. They press forward to complete these pre-conditions while encouraging the use of the national currency, Franc Congolais, by promoting the payment of taxes by extractive companies and the operating expenses of the Treasury in national currency.

V. Conclusion

The DRC has registered significant macroeconomic performance in recent years. Mindful of the long way to put the economy on a sustained and inclusive growth path, my authorities are committed to sound policies and transformative reforms. Donor support remains critical to the DRC ongoing efforts to strengthen the economy, address capacity constraints, develop its resources and reduce poverty. In this regard, they welcome the IMF's continued support to the DRC and look forward to greater IMF engagement under an Extended Credit Facility program, which would help to catalyze this assistance and enable the DRC to achieve its development goals.