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Republic of Congo: First Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Request for Waivers of Nonobservance of Performance Criteria, and Modification of Performance Criteria—Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director for the Republic of Congo

In the context of the first review under the three-year arrangement under the Poverty Reduction and Growth Facility and its request for waivers of nonobservance of a performance criteria, and modification of performance criteria, the following documents have been released and are included in this package:

- The staff report for the First Review Under the Three-Year Arrangement and Request for Waivers of Nonobservance of Performance Criteria, and Modification of Performance Criteria, prepared by a staff team of the IMF, following discussions that ended on March 6, 2009, with the officials of the Republic of Congo on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on May 29, 2009. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A Press Release summarizing the views of the Executive Board as expressed during its June 17, 2009, discussion of the staff report that completed the review.

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

The documents listed below have been separately released.

Supplemental Letter of Intent sent to the IMF by the authorities of the Republic of Congo*
Technical Memorandum of Understanding*
*Also included in Staff Report

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

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INTERNATIONAL MONETARY FUND

REPUBLIC OF CONGO

First Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Request for Waivers of Nonobservance of Performance Criteria, and Modification of Performance Criteria

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

Approved by Sharmini Coorey and Dhaneshwar Ghura

May 29, 2009

- Discussions for the first review of the authorities' Poverty Reduction and Growth Facility (PRGF) arrangement were held in Brazzaville February 26 through March 6, 2009. The mission met with President Sassou N'Guesso; State Ministers Ayessa (Chief of Staff of the President's Office) and Moussa (Planning); Finance Minister Issoïbeka; Acting National Director of the BEAC Mboumba, other senior government officials; the President of the Senate and Vice President of the National Assembly; and representatives of the diplomatic and donor community, the private sector, and the media. The mission comprised Mr. York (head), Mr. Mpatswe, Ms. Dabdoub (all AFR), Mr. Martin (FAD), and Mr. Maseda (BLS), and was assisted by Mr. Moussa, resident representative in Brazzaville. It was joined by staff of the World Bank and Mr. Sidibouna (OED).
- The Executive Board approved the Republic of Congo's three-year PRGF arrangement on December 8, 2008 with access of SDR 8.46 million (equivalent to 10 percent of quota).
- The Republic of Congo is a member of the Central African Economic and Monetary Community (CEMAC) and its regional central bank (BEAC). The common currency, the CFA franc, is pegged to the euro at CFAF 656.
- The authorities have authorized the publication of this staff report and the Supplemental Letter of Intent supporting their request for completion of the first program review.

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EXECUTIVE SUMMARY

Recent Economic Developments and Prospects

- The global financial crisis had limited impact on Congo in 2008, but the slowdown in external demand, collapse in world oil prices, and worsening terms of trade have contributed to a deterioration in the economic outlook. Higher oil production will help support higher overall real GDP growth this year (about 9½ percent), but the non-oil sector could expand by only 3½ percent—less than half the rate projected six months ago. At end-2008, inflation was 11.4 percent and it is expected to decline only gradually, on account of non-oil commodity price stickiness and structural problems.
- The external current account deficit was reduced in 2008, but could increase significantly along side the dramatic deterioration in the terms of trade projected for this year.
- Relatively high world oil prices through most of 2008,coupled with expenditure discipline, helped to bring about a major improvement in the overall fiscal position; the basic non-oil primary deficit declined to 44.3 percent of non-oil GDP, in line with the program.

Program Performance

- Policy implementation under the authorities' PRGF arrangement through 2008 and the early part of this year was broadly satisfactory. The quantitative target on the non-oil primary fiscal balance was observed but the authorities contracted new non-concessional external debt; and the six structural performance criteria were observed (three with a delay).
- The authorities have also made progress in implementing many of the floating completion point triggers under the enhanced HIPC Initiative, although reforms have been relatively slow and uneven in public financial management, and governance and natural resource management.

Policy Issues

- The discussions for this first program review were dominated by an exchange of views on the implications of, and appropriate policy response to, the global financial crisis and the decline in world oil prices. To address the dramatic decline in oil revenue, the government has taken actions to limit the deterioration of the fiscal position this year and to safeguard its financial assets. These actions could improve the efficiency of the budget while leaving room for fiscal stimulus should the economic outlook deteriorate further.
- The risks to the program are significant, stemming from the potential for a further weakening of the global economy with adverse consequences for domestic demand, and spending pressures in the run-up to the Presidential election in July 2009.

Staff recommends completion of the first review under the PRGF arrangement and the second disbursement in an amount equivalent to SDR 1.21 million, and supports the authorities' request for waivers of the nonobservance of one continuous quantitative performance criterion and three structural performance criteria (of which one is continuous); and the modification of the quantitative performance criterion on the non-oil primary fiscal balance at end-June 2009, as well as the continuous criterion on non-concessional external public debt; and the modification of structural performance criteria to structural benchmarks.

I. Background

1. **The Fund's Executive Board approved a new three-year Poverty Reduction and Growth Facility (PRGF) arrangement for Congo in December 2008, after a prolonged period when Congo had no Fund-supported program.** The PRGF arrangement is designed to achieve balanced growth, low and stable inflation, and fiscal and external sustainability, with the help of debt relief through the enhanced Heavily Indebted Poor Countries (HIPC) Initiative.

2. **In the past year or so, implementation of macroeconomic and structural policies has improved because program ownership has been solidified.** The PRGF arrangement has proceeded smoothly thus far. However, the global financial crisis and ensuing collapse of world oil prices are becoming a serious challenge for Congo. This situation may be exacerbated by spending pressures in the run-up to the presidential election in July 2009, which could cause a lapse of fiscal discipline and slow reform in politically sensitive areas (oil in particular).

II. Recent Economic Developments and Prospects

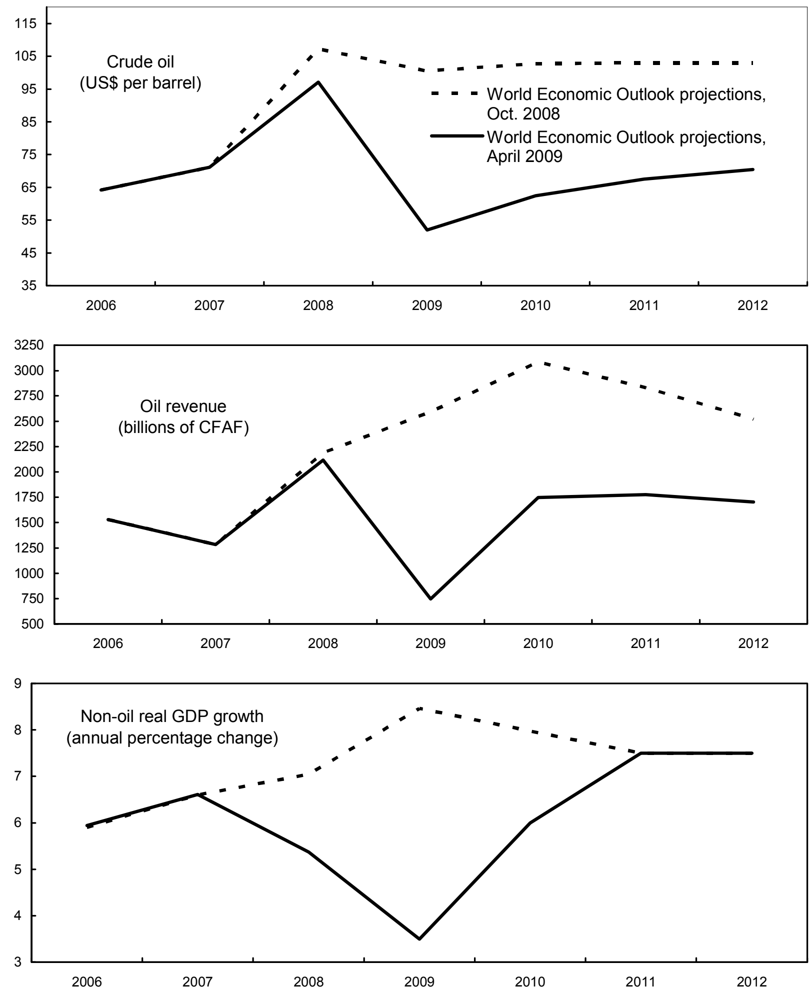
3. **The global financial crisis had limited impact on Congo in 2008, but the slowdown in external demand, collapse in world oil prices, and worsening terms of trade have contributed to a deterioration in the economic outlook.**

- Overall real GDP growth in 2008 (5.6 percent) was much lower than projected only six months ago; oil production was slightly below potential due to technical problems and activity in the non-oil sector was slowed by a decline in timber and other exports (Table 1). Higher oil production will help support higher growth this year (about 9½ percent), but the non-oil sector could expand by only 3½ percent—less than half the rate projected in October 2008 (text figure below). Growth in the non-oil sector is not projected to reach the authorities' target of 7½–8 percent until 2011.

- Consumer price inflation accelerated during last year, reaching 11.4 percent at year's end driven by high food prices. The authorities attribute these price developments to ongoing speculative behavior in the aftermath of the food/fuel crisis through part of 2008, which is exacerbated by supply bottlenecks (e.g., poor transportation) between the two largest cities (Pointe Noire and Brazzaville). Consequently, inflation could decline gradually, remaining above the CEMAC convergence criterion of 3 percent through next year.

- The external current account deficit was reduced in 2008, but was still sizeable at 7 percent of GDP (Table 2). Fortunately, heavy investment in the oil sector that continued through most of 2008 ensured an overall balance of payments surplus and further accumulation of net foreign assets. However, the sharp decline in the terms of trade expected in 2009 (about 30 percent) will contribute to a significant increase in the current account deficit, to a projected 13 percent of GDP.

Oil Prices and Revenue, and Non-Oil Real GDP Growth, 2006-12
(In units indicated)



Source: Fund staff estimates and projections.

- The external debt position improved significantly on account of the rescheduling of Congo’s debt to Paris Club creditors on Cologne terms last December and a settlement with litigating creditors holding validated claims. The Paris Club agreement resulted in immediate cancellation of US$643 million in debt and rescheduling of US$111 million over the program period. The settlement with litigating creditors involved payment of about US$800 million, representing a

65 percent discount, which is broadly comparable to those granted in 2007 by London Club creditors.[1]

- Relatively high world oil prices through most of 2008, coupled with expenditure discipline, helped to bring about a major improvement in the overall fiscal position. The basic non-oil primary deficit declined to 44.3 percent of non-oil GDP, in line with the program, compared with 55.7 percent in 2007 (see Tables 3a and 3b, and text table below). To safeguard the fiscal stance against falling oil prices, the authorities adopted a 2009 budget in early February that envisaged a consolidation of current spending beyond the level envisaged when the Executive Board approved the program. As oil prices have since fallen further, the authorities propose to take additional actions to consolidate the budget (see below). This is prudent, considering that oil revenue is projected to plunge from 136 percent of non-oil GDP in 2008 to about 42 percent this year. The overall primary balance (including oil revenue) is, however, expected to remain in a small surplus.

Central Government Operations, 2007–09

	2007	2008		2009				2007	2008		2009			
		Prog. [1]	Actual	Mar. Proj.	Mar. Prel.	Dec. Prog.[1]	Dec. Proj.		Prog. [1]	Actual	Mar. Proj.	Mar. Prel.	Dec. Prog.[1]	Dec. Proj.
	(Billions of CFA francs)							(Percent of non-oil GDP)						
Revenue and grants	1,579	2,427	2,480	236	276	2,142	1,169	113.4	155.5	159.3	…	…	121.1	66.1
Primary Revenue	1,564	2,407	2,442	224	275	2,089	1,120	112.4	154.2	156.8	…	…	118.1	63.3
Oil revenue	1,284	2,079	2,118	131	178	1,716	748	92.2	133.2	136.0	…	…	97.0	42.3
Non-oil revenue	280	328	324	93	97	373	372	20.1	21.0	20.8	…	…	21.1	21.0
Expenditure and net lending	1,201	1,130	1,238	344	238	1,296	1,242	86.3	72.4	79.5	…	…	73.3	70.3
Of which primary expenditure	1,055	1,026	1,024	289	220	1,102	1,046	75.8	65.7	65.8	…	…	62.3	59.1
Current expenditure	784	703	785	168	164	692	651	56.3	45.0	50.4	…	…	39.1	36.8
Wages	142	167	166	44	44	180	175	10.2	10.7	10.7	…	…	10.2	9.9
Other current expenditure	518	439	446	99	98	428	377	37.2	28.1	28.6	…	…	24.2	21.3
Interest	101	74	150	19	15	59	74	7.3	4.7	9.6	…	…	3.3	4.2
Capital expenditure	418	427	453	176	74	604	592	30.0	27.4	29.1	…	…	34.2	33.5
Domestically financed	372	397	390	145	74	469	469	26.7	25.4	25.0	…	…	26.5	26.5
Of which, HIPC financed	…	25	7	5	3	19	37	…	1.6	0.4	…	…	1.1	2.1
Net lending	0	0	0	0	0	0	0	0.0	0.0	0.0	…	…	0.0	0.0
Basic primary balance [2]	509	1,406	1,424	-65	55	1,006	111	36.6	90.1	91.5	…	…	56.9	6.3
Of which: Basic non-oil primary balance	-775	-673	-690	-196	-123	-710	-637	-55.7	-43.1	-44.3	…	…	-40.2	-36.0
Balance, commitment basis, incl. grants	378	1,297	1,242	-108	38	846	-73	27.2	83.1	79.8	…	…	47.8	-4.1
Balance, cash basis	108	1,158	-167	-133	17	721	-197	7.8	74.2	-10.7	…	…	40.7	-11.1
Memorandum item														
Non-oil GDP at market prices	1,392	1,561	1,557	…	…	1,769	1,768							

Sources: Congolese authorities; and Fund staff estimates and projections.
[1] Country Report No. 09/74. Note for 2009, both the program and projections are calculated as a share of the revised non-oil GDP (which is not the case in Table 3b).
[2] Primary revenue (excluding interest income and grants) minus non-interest current expenditure minus domestically finance capital expenditure (excluding HIPC-financed capital expenditure) and net lending.

III. PROGRAM PERFORMANCE

4. **Policy implementation through 2008 and the early part of this year was broadly satisfactory**. All of the quantitative performance criteria, except the zero ceiling on new non-concessional external public debt, were observed at the end-2008 test date; the six structural performance criteria were observed (three with a delay); and all benchmarks were implemented (see text tables below).

[1] The agreement with litigating creditors included a confidentiality clause, so further details of the agreement are not known. The government is current on its external debt service with all other private external creditors.

- The program's floor on the basic non-oil primary balance was observed by a small margin, helped by the inclusion in non-oil revenue of interest receipts that were not intended to be part of the calculation, but were not excluded by the definition contained in the technical memorandum of understanding.[2]

- Preliminary data for the first quarter of 2009 indicate that revenue was above projections while spending was below program, due to lower outlays for public investment (related to the delay in adopting the 2009 budget)[3]; consequently, the indicative target on the non-oil primary fiscal balance appears to have been observed by a wide margin.

- The zero ceiling on new non-concessional external debt was breached by the contracting in March 2009 of a new loan by the Port Authority of Pointe Noire (a state-owned enterprise) with the French Development Agency in the amount of EUR 29 million.[4] This loan forms part of a non-concessional financing package with a number of creditors and is to be used for the rehabilitation of the Port's facilities, which the authorities deem critical to support Congo's development (Box 1). While the staff is concerned about the contracting of new non-concessional external debt in light of Congo's ongoing debt distress (see Box 2), the staff could support the authorities' request for a waiver of the nonobservance of this performance criterion because (i) the project is expected to significantly boost the profitability of the Port, which would help ensure its ability to service this debt, and (ii) the authorities have restated their commitment to seek foreign financing on highly concessional terms (with a minimum grant element of not less than 50 percent), continue to strengthen debt management, and will consult with Fund staff on external financing issues.

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[2] Fund staff and the authorities agreed that in future─and as initially intended─interest income will be excluded from the definition of the basic non-oil primary balance, in line with the view that (i) interest outlays and receipts should be treated symmetrically and (ii) interest income from oil-related financial wealth is often transferred to oil funds, rather than directly to the budget. This understanding is reflected in the Technical Memorandum of Understanding attached to the authorities' supplemental Letter of Intent (Appendix I).

[3] The delay in adopting the 2009 budget was intentional, as the authorities revised the budget that was initially submitted to Parliament to account for the plunge in world oil prices.

[4] The terms of the ADF loan includes a maturity of 15 years, 5 year grace period, and an interest rate of 4½ percent, which has an estimated grant element of about 11½ percent.

Box 1. The Project to Rehabilitate the Port of Pointe Noire

The port of Pointe Noire is the most important commercial gateway for two-way traffic of goods into and out of Congo. In March 2009, the Port Authority of Pointe Noire signed a loan agreement with the French Development Agency for EUR 29 million to help finance the rehabilitation of the port's facilities (dredging, new loading areas, and repair to buildings). This loan, which precludes any loan guarantee from the government of Congo, forms part of a non-concessional external financing package amounting to EUR 67.1 million (about 0.9 percent of GDP). The other creditors include the European Investment Bank (EUR 29 million) and the Central African States Development Bank (EUR 9.1 million). The Port is expected to contribute EUR 54.6 million of its own resources.

It is regrettable that the financing for this project will not be made on more concessional terms. However, the project could be accommodated under the PRGF arrangement because it (i) has broad support from several of Congo's main development partners, including the World Bank (which has assessed the project and found it viable); and (ii) is expected to significantly boost the profitability of the Port, allaying concerns over its ability to service this external debt.

Quantitative Targets, through end-March 2009
(Billions of CFA francs, unless otherewise indicated; cumulative from January)

	End-Dec. 08		End-Mar. 09	
	Perf. Criteria	Actual	Ind. Target	Preliminary
Quantitative targets				
Nonoil primary fiscal balance (floor)	-673	-670	-211	-123
New medium or long-term nonconcessional external debt (including leasing) contracted or guaranteed by the government (ceiling) [1, 2]	0.0	0.0	0.0	19.0
New external debt (including leasing) with an original maturity of less than one year (ceiling) [2]	0.0	0.0	0.0	0.0
New oil-collateralized external debt contracted by or on behalf of the central government (ceiling) [2]	0.0	0.0	0.0	0.0
New nonconcessional external debt with a maturity of more than 1 year contracted or guaranteed by SNPC (ceiling) [2]	0.0	0.0	0.0	0.0
New external arrears on nonreschedulable debt [2]	0.0	0.0	0.0	0.0
New domestic arrears [2]	0.0	0.0	0.0	0.0
Memorandum items				
Oil revenue	2,079	2,118	131	178
Non-oil primary revenue	328	324	93	97

[1] Excluding rescheduling arrangements and disbursements from the IMF; the minimum grant element is set to 50 percent.
[2] Continuous.

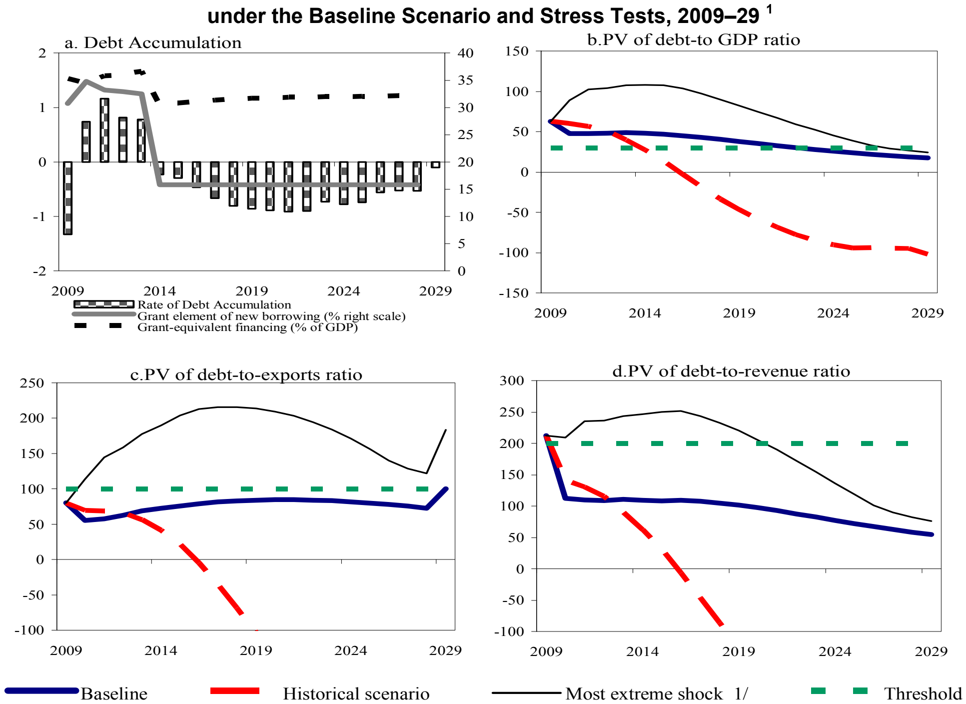
Box 2. External Debt Sustainability Analysis

This external debt sustainability analysis (DSA, prepared in consultation with World Bank staff) is an update of the last full DSA prepared in December 2008 (contained in *Country Report* No. 09/74). This update is based on the stock of debt at end-December 2008, lower world oil prices, and new borrowing, and it demonstrates that Congo continues to be at high risk of debt distress. The main conclusions of the December 2008 DSA remain valid, as the findings of the update suggest that:

- The present value (PV) of the debt-to-GDP ratio is likely to breach the indicative threshold over the medium term (2009–20), then fall sharply, and to remain below the threshold thereafter (see Figure below and Table 4). In comparison, the PV of debt service-to-exports ratio for the baseline and historical scenarios are projected to be below the threshold throughout the period.
- The stress tests highlights Congo's vulnerability to various shocks. Under the extreme case, the PV of debt-to-exports ratio is above the threshold from 2010 and remains there; and the PV of debt-to-revenue ratio is above the threshold until 2020, but drops below it subsequently.

This updated DSA is based on the April 2009 World Economic Outlook assumptions, including for world oil prices, which rise from US$52 per barrel in 2009 to US$75 in 2014; real GDP growth is projected to average about 3½ percent per year and the current account deficit to rise to about 20 percent of GDP over the long term.

Indicators of Public and Publicly Guaranteed External Debt under the Baseline Scenario and Stress Tests, 2009–29 [1]



Source: Fund staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in 2019. In figure b. it corresponds to a Combination shock; in c. to a Exports shock; in d. to a Combination shock.

- The continuous structural performance criterion on the quarterly certification of oil revenue by an internationally reputable firm for the third quarter of 2008 was completed with a delay, due to operational difficulties on the part of the auditor. The report noted small discrepancies in revenue, which the authorities clarified were the result of exchange rate changes, the timing of oil shipments, and the transfer of oil proceeds. The fourth quarter report for 2008 was completed as planned.

- The adoption of a new petroleum pricing mechanism was expected at end-March 2009, but was not adopted until mid May. This new mechanism will help to ensure transparency in domestic petroleum pricing and remove government interference in pricing decisions, allows for the flexibility of price adjustments in both directions, and is expected to lead to the elimination of subsidies by mid-2011 as envisaged.

- The adoption of a comprehensive action plan with a timetable to address institutional and procedural deficiencies in the commercialization of Congolese oil was also expected at end-March 2009, but was not adopted until mid May. The additional time was needed to refine the plan─with technical assistance from the World Bank and an international expert─which should help to strengthen governance in the oil sector, and bring Congo in line with international best practice.

Structural Performance Criteria and Benchmarks Under the PRGF Arrangement for end-March 2009

Measures	Timing	Status
Performance Criteria		
Prepare the 2009 budget consistent with the PRGF program, and using the economic, functional, and administrative classifications.	End- Dec. 2008	Observed
Finalize and adopt the three-year action plan to improve public investment management prepared with assistance from the IMF, World Bank, and the French Cooperation; and publish the plan on the government website.	End-Dec. 2008	Observed
Quarterly certification of oil revenue by an internationally reputable audit firm, using the same specifications as for the 2003 certification and with no restrictions on access to information; certification reports to be published on the website of the Ministry of Economy, Finance, and Budget (www.mefb-cg.org). Also, the government will post the audit report on the website, and for each report, a note addressing the comments by the auditors.	Continuous, with a one-quarter lag	Observed with a delay (on the third quarter report)
Adopt a new petroleum-pricing regime that will ensure fuel price subsidies are phased out by mid-2011.	End-March 2009	Observed with a delay
Adopt a comprehensive action plan with a timetable to address institutional and procedural deficiencies in the commercialization of Congolese oil, in line with best international practice.	End-March 2009	Observed with a delay
Repatriation of the oil proceeds (to the Treasury) of oil shipments commercialized by private companies and SNPC on behalf of the government within 45 days after the actual shipment date (according to actual quantities, prices, and shipment dates).	Continuous	Observed
Benchmarks		
Adoption by the government of the financial sector strategy developed in consultation with Fund staff.	End-Dec. 2008	Observed
Publication of all invitations to bid and the bids themselves for government procurement contracts above CFAF200 million on the government's website (www.mefb-cg.org).	Continuous	Observed
No recourse to emergency payment and cash advance procedures, except in situations stated in the organic budget law.	Continuous	Observed

5. **The authorities have also made progress in implementing the floating completion point triggers for the enhanced HIPC Initiative (Table 6)**. Triggers in two of the eight areas (public expenditure priorities, external debt management) have been met, and three others are nearing completion (PRSP implementation, structural reform, and social sectors). However, progress is slow and uneven in two areas (public financial management, and governance and natural resource management). The way forward is clear on all the remaining triggers and there is an understanding between Fund and World Bank staff and the authorities on the required steps to reach the completion point.[5] In light of the remaining steps, the completion point could be reached in the fourth quarter of this year, provided the authorities make a concerted effort to move forward.[6]

IV. Policy Issues

6. **The discussions for this first program review were dominated by an exchange of views on the implications of, and appropriate policy response to, the global financial crisis and the decline in world oil prices.** Staff and authorities generally agreed on measures for addressing the crisis and safeguarding the integrity of the budget, and recognized that it may be necessary to provide fiscal stimulus if the outlook worsens.

A. Response to the Global Financial Crisis

7. **The authorities stressed that so far the decline in global economic activity and low world oil prices were the primary channels through which the national economy is being adversely affected.** Weakness in external demand is suppressing timber exports to China, the European Union, and the United States, with negative spillovers in manufacturing and the service sector. At the same time, low world prices will cause oil revenue to plunge, with adverse fiscal implications. The authorities were not overly concerned about the financial sector at this time; they noted that the banking system is not well integrated into global financial markets; and commercial banks are well capitalized, currently meet all prudential regulations, except the one related to risk concentration, and have excess liquidity. However, the authorities did recognize the risks of second round effects on the banking system if the crisis was prolonged (such as increased credit risk, and exposure of Congolese banks with high foreign ownership to possible capital repatriation by parent banks).

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[5] In public financial management, these steps include adoption and implementation of a procurement code in line with international best practice; and for governance and natural resource management they include supplying full information for the audits of the state-owned oil enterprise, and finalization of an anti-corruption action plan.

[6] This timing could coincide with the second review of the PRGF arrangement, which is based on quantitative performance criteria through end-June 2009.

8. **The authorities noted that the difficult economic environment jeopardizes smooth implementation of the program, but stressed their intention to take whatever measures are necessary to achieve its objectives**. They have already reduced current spending in the 2009 budget adopted by Parliament, which was designed to avoid having to draw down their bank deposits to finance the budget. As world oil prices fell further and the revenue outlook darkened, the staff and the authorities agreed that such an objective was difficult to achieve and sought ways to limit the deterioration of the fiscal stance. This was important because

- the dramatic decline in world oil prices lowers the expected stream of future oil wealth and consequently the long-term level of the non-oil primary deficit that is consistent with sustainability;[7]
- the government's financial assets were significantly reduced by the payment to litigating creditors;
- there are uncertainties about whether the oil price shock is temporary or long lasting; and
- the government's high level of domestic and external indebtedness speaks to the desirability of safeguarding domestic financial resources.

9. **The government and staff agreed that budget reallocation could improve the efficiency of government spending and save resources this year.** Savings could accrue from the projected elimination of fuel subsidies (CFAF 45 billion)—retail fuel prices remain unchanged although prices for imported petroleum products have fallen—and from the use of more interim HIPC resources (CFAF 18 billion) rather than domestic resources to finance public investment. The government had also indicated its intention to accelerate efforts to enhance tax and customs administration to increase non-oil revenue this year, including by broadening the use of the single taxpayer identification number, simplifying customs procedures, and fully implementing the ASYCUDA software. Together, these actions and the downward revisions to current spending in the 2009 budget are projected to result in a decline of the program target on the basic non-oil primary fiscal deficit to CFAF 637 billion (36 percent of non-oil GDP) from the CFAF 711 billion (40.2 percent non-oil GDP) envisaged when the Executive Board approved the arrangement. Consequently, the authorities propose modifying the programmed path for the basic non-oil fiscal balance, and,

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[7] Under a permanent income hypothesis framework─which is used to guide the authorities' medium-term fiscal policies─the staff estimates that the long-term sustainable non-oil deficit has probably declined to about 0–2 percent of non-oil GDP, compared with the range of 3–5 percent of non-oil GDP that was estimated when the program was discussed by the Executive Board last December. This implies the need for additional fiscal consolidation of about 3 percent of non-oil GDP over the medium term, which the authorities have built in to their revised macroeconomic and fiscal framework.

in particular, the quantitative performance criterion at end-June 2009, to accommodate these changes. The authorities believe that these actions are consistent with the objectives of their PRGF arrangement and that the 2009 budget remains supportive of economic activity. Indeed, the reduction of poorly targeted fuel subsidies and the use of HIPC financing would improve the allocation of the budget while leaving room for a fiscal stimulus should the economic outlook deteriorate further.[8]

10. **To insulate the fiscal position from the uncertainties of world oil prices, the authorities have requested Fund technical assistance to reform tax policy**. Such a reform could help boost non-oil tax revenue in Congo, which is relatively low compared with some CEMAC partners. The intent would be to broaden the tax base and eliminate exemptions and loopholes, reduce evasion, and ensure that the tax regime contributes to enhancing Congo's competitiveness.

11. **The authorities also believe that it is necessary to step up development of the financial sector and financial intermediation, which could help to support economic activity even in the short term**. Although national savings are relatively high, there is little credit extended to the private sector. Last December, the authorities adopted a financial sector strategy (drafted with Fund assistance) that provides a roadmap and timetable for its implementation. The key measures in the short term could include enhancing the role of the corporate financial statement registry and the Central Credit Bureau to improve information on credit facilities, costs and defaults; carrying out a census of foreign exchange and money transfer bureaus and improving their regulation to facilitate foreign exchange transactions; strengthening supervision and the capacity of microfinance institutions to extend credit; and initiating a national program for the modernization of the payment system.

B. Risks

12. **Despite the efforts the authorities are making to respond effectively to the global financial crisis and collapse in world oil prices, the risks to the program are significant**.

- If the global economy worsens, the drivers of Congo's economic activity—timber and oil exports—could falter, which would dampen domestic demand even more. Lower growth in the non-oil sector would set back the authorities' efforts to alleviate poverty and make progress toward the Millennium Development Goals. Moreover, lower oil revenue would make it difficult to sustain the pace of public investment, which is needed to generate growth. Also, lower growth and slow progress in reducing poverty could undermine the broader support for the reform program.

[8] The expenditure cuts for 2009 could be restored, for example, without jeopardizing the authorities' objective of moving toward long-term fiscal sustainability.

- The presidential election in July 2009 could add to the pressures the authorities already face to ramp up public spending. A loss of fiscal discipline would be regrettable, given declining domestic resources, an uncertain outlook and a fiscal stance that is nowhere near sustainable, and the need for satisfactory performance on the PRGF arrangement as a floating completion point trigger for the enhanced HIPC Initiative.

V. Staff Appraisal

13. **There are reasons to be cautiously optimistic about the short-term outlook for Congo, despite the risks of the weakening global economy and looming presidential election pressures:**

- Growth, though modest, could still be sufficient to support progress toward the economic objectives the authorities elaborated in their Poverty Reduction Strategy.

- Recent improvements in fiscal and financial management, together with substantial accumulated financial assets, have given them greater capacity to address the crisis; and debt rescheduling from the Paris and London Club has helped to reduce debt service, freeing up resources to finance public spending.

- Program ownership has strengthened, as demonstrated by the satisfactory implementation of economic policies over the past year or so and the disciplined response to the global financial crisis.

14. **Nevertheless, given its risks noted above, the authorities understand the need to step up their efforts to monitor the program, especially fiscal policy developments.** Successful budget execution will depend on regular and frequent reporting of expenditures, timely repatriation of oil proceeds, and expenditure restraint, if the targets are to be met. Also, in light of Congo's debt distress, the authorities should refrain from further external borrowing on non-concessional term.

15. **The fiscal stance is adequate to support the authorities' program objectives and help offset this year's projected softening of economic activity.** However, should the outlook deteriorate further, it may be necessary to reassess the situation, with a view to gauging the scope for using some domestic resources to provide a stimulus to aggregate demand.

16. **The progress in structural reform is welcome, as is the authorities' intention to pursue tax reform and accelerate efforts to enhance financial intermediation through stepped-up implementation of their financial sector strategy**. More concerted efforts are required, however, to move ahead with reforms to public financial management, and governance and natural resource management.

17. Staff recommends completion of the first review of the PRGF arrangement and disbursement of the second loan in an amount equivalent to SDR 1.21 million. The staff supports the authorities' request for (i) waivers of the non-observance of one continuous quantitative and three structural performance criteria (of which one is continuous), since the nonobservance of the program's targets were either temporary and corrective actions (including measures to be implemented during the program period) have been taken; (ii) the modification of the quantitative performance criterion on the non-oil primary fiscal balance for end-June 2009, and the continuous performance criterion on non-concessional external debt to accommodate the additional commercial borrowing to support the rehabilitation of the port facilities in Pointe Noire; and (iii) the modification of structural performance criteria to structural benchmarks. All other conditions were observed and the authorities are committed to achieving the policy objectives supported by the arrangement.

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

	2008	2009	2009	2010	2011	2012
	Est.	Prog.[1]	Projections			
	(Annual percentage change)					
Production and prices						
GDP at constant prices	5.6	12.7	9.5	11.9	1.1	1.8
Oil	6.1	23.1	24.2	23.7	-10.2	-10.2
Non-oil	5.4	8.5	3.5	6.0	7.5	7.5
GDP at current prices	31.0	-5.1	-19.3	33.5	2.6	1.0
GDP deflator	24.1	-15.8	-26.3	19.4	1.5	-0.7
Consumer prices (period average)	6.0	4.2	9.5	5.1	3.4	3.0
Consumer prices (end of period)	11.4	3.0	6.4	3.8	3.0	3.0
External sector						
Exports, f.o.b. (CFA francs)	27.1	0.9	-25.4	47.9	-2.2	-7.0
Imports, f.o.b. (CFA francs)	18.7	12.1	-6.5	17.9	6.5	4.7
Export volume	6.4	33.3	21.5	24.5	-10.0	-11.7
Import volume	8.5	12.5	3.7	10.5	2.7	2.2
Terms of trade (deterioration -)	14.4	-22.2	-29.7	11.6	-3.6	1.5
Nominal effective exchange rate (end of period)	1.4	...	…	…	…	...
Real effective exchange rate (end of period)	0.5	...	…	…	...	...
Money and credit	(Percent of beginning-of-period broad money)					
Net domestic assets	-71.7	-72.9	25.6	-84.8	-81.1	-72.2
Domestic credit	-72.2	-72.9	25.6	-84.8	-81.1	-72.2
Central government	-84.3	-78.8	22.5	-87.5	-83.6	-74.6
Credit to the economy	12.5	6.0	3.2	2.9	2.8	2.8
Broad money	29.1	13.3	13.6	11.7	11.3	10.9
	(Percent of GDP)					
Investment and saving						
Gross national saving	15.2	28.9	20.5	28.0	26.7	23.0
Gross investment	22.0	27.7	33.3	26.7	27.1	27.8
Current account balance[4]	-6.8	1.2	-12.7	1.2	-0.4	-4.8
External public debt (end of period)	58.1	54.7	70.5	53.8	53.7	54.2
	(Percent of non-oil GDP)					
Central government finances						
Revenue and grants	159.3	121.1	66.1	113.2	106.9	98.8
Oil revenue	136.0	97.0	42.3	88.5	80.7	69.9
Nonoil revenue and grants	21.9	22.3	22.3	23.6	24.2	24.3
Total expenditure	79.5	73.3	70.3	63.5	59.8	57.4
Current	50.4	39.1	36.8	31.7	28.9	28.5
Capital (and net lending)	29.1	34.2	33.5	31.8	31.0	28.9
Overall balance (deficit -, commitment basis)[2]	79.8	47.8	-4.1	49.7	47.1	41.4
Primary balance (deficit -)[3]	91.5	56.9	6.3	57.0	53.3	45.8
Nonoil primary balance (- = deficit)	-44.3	-40.2	-36.0	-31.5	-27.4	-24.2
	(Percent of exports of goods and services)					
External public debt service (before debt relief)	4.9	4.2	7.7	3.0	2.6	3.2
External public debt	69.3	63.1	89.9	62.4	65.0	70.8
	(Percent of total government revenue excluding grants)					
External public debt service (before debt relief)	8.1	8.1	20.5	6.2	5.0	5.6
External public debt	113.4	121.2	238.2	126.7	123.7	123.1
	(Billions of CFA francs, unless otherwise indicated)					
Gross official foreign reserves	1,765.3	2,801.6	1,678.3	2,678.5	3,754.5	4,821.9
Nominal GDP	4,801.9	4,701.8	3,876.4	5,175.8	5,309.7	5,362.5
World oil price (U.S. dollars per barrel)	97.0	68.0	52.0	62.5	67.5	70.5
Oil production (Millions of barrels)	86.6	109.6	107.6	133.2	119.6	107.4

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

[1] Country Report No. 09/74.

[2] Including grants.

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

[4] Including public transfers.

Table 2. Republic of Congo: Balance of Payments, 2008-12

	2008	2009	2009	2010	2011	2012
	Est.	Prog.[1]	Projections			
			(Billions of CFA francs)			
Current account	-325	56	-494	64	-19	-258
Trade balance	2,244	2,299	1,389	2,477	2,278	1,913
Exports, f.o.b.	3,745	3,737	2,792	4,131	4,039	3,757
Oil sector	3,532	3,415	2,563	3,901	3,791	3,486
Non-oil sector	212	322	229	230	248	270
Imports, f.o.b.	-1,501	-1,438	-1,403	-1,654	-1,760	-1,844
Oil sector	-469	-396	-423	-541	-516	-491
Government	-380	-374	-358	-405	-455	-483
Non-oil private sector	-651	-668	-622	-708	-789	-869
Balance of services	-1,423	-1,422	-1,294	-1,581	-1,511	-1,484
Income	-1,124	-820	-589	-845	-807	-707
Labor income	-50	-50	-36	-56	-54	-49
Investment income	-1,074	-770	-553	-790	-753	-658
Current transfers (net)	-22	-1	-1	13	20	21
Capital account	18	22	22	37	45	47
Official grants	18	22	22	37	45	47
Other	0	0	0	0	0	0
Financial account	1,107	645	383	899	1,051	1,281
Direct investment (net)	946	1,054	771	988	972	1,012
Of which: oil sector	738	855	572	767	726	740
Portfolio investment	-1	0	0	0	0	0
Other investment	163	-409	-389	-90	79	269
Medium and long term	215	-220	-90	-228	-231	-210
Public sector	329	-42	72	14	5	8
Drawings	47	114	120	106	116	118
Project	46	114	101	106	116	118
Program	1	0	0	0	0	0
Amortization	-42	-156	-47	-92	-111	-110
Private sector	-114	-178	-163	-242	-235	-218
Oil	-108	-167	-153	-233	-227	-208
Non-oil	-7	-10	-10	-9	-9	-10
Short term	-52	-190	-299	139	310	479
Errors and omissions	264	0	0	0	0	0
Overall balance of payments	1,064	722	-89	1,000	1,077	1,071
Financing	-1,064	-722	89	-1,000	-1,077	-1,071
Reserve financing	-795	-722	89	-1,000	-1,077	-1,071
IMF (net)[2]	1	2	2	1	-1	-3
Purchases / Disbursments	1	2	2	2	2	0
Repurchases / Repayments	0	0	0	-1	-2	-3
Other reserves	-796	-723	87	-1,000	-1,076	-1,067
Exceptional financing[3]	-270	0	0	0	0	0
Net change in arrears	-1,506	0	0	0	0	0
Debt cancellation	912	0	0	0	0	0
Debt rescheduling	325	0	0	0	0	0
Financing gap (- = surplus)	0	0	0	0	0	0
			(Annual percentage change, unless otherwise indicated)			
Memorandum items:						
Current account balance [4]	-6.8	1.2	-12.7	1.2	-0.4	-4.8
Export volume	6.4	33.3	21.5	24.5	-10.0	-11.7
Import volume	8.5	12.5	3.7	10.5	2.7	2.2
Export price	19.4	-24.3	-38.6	18.9	8.6	5.4
Import price	9.4	-0.4	-9.9	6.6	3.7	2.5
Terms of trade	14.4	-22.2	-29.7	11.6	-3.6	1.5

Sources: BEAC; and Fund staff estimates and projections.
[1] Country Report No. 09/74.
[2] Includes assumed disbursements under the new PRGF.
[3] Includes debt relief from Paris Club and London Club, and payments to litigating creditors.
[4] Percent of GDP; including public transfers.

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

	2008		2009	2009	2010	2011	2012
	Dec Prog.[1]	Dec. Act.	Prog.[1]	Projections			
	(Billions of CFA francs)						
Revenue and grants	2,427	2,480	2,142	1,169	2,236	2,352	2,410
Primary Revenue	2,407	2,442	2,089	1,120	2,177	2,262	2,252
Oil revenue	2,079	2,118	1,716	748	1,748	1,775	1,706
Non-oil revenue	328	324	373	372	429	486	546
Investment income	...	20	32	27	22	45	111
Grants	20	18	22	22	37	45	47
Expenditure and net lending	1,130	1,238	1,296	1,242	1,255	1,316	1,400
of which primary expenditure	1,026	1,024	1,102	1,046	1,050	1,089	1,135
Current expenditure	703	785	692	651	627	635	695
Wages	167	166	180	175	188	199	210
Other current expenditure	439	446	428	377	351	342	356
Material and supplies	170	176	181	164	174	184	194
Common charges	30	42	20	25	23	20	20
Budgetary reserves	15	0	14	20	10	0	0
Transfers	225	228	213	167	144	139	143
Traditional transfers	111	123	120	128	133	138	142
National refinery (CORAF)	75	62	45	0	0	0	0
Refined petroleum products	25	23	20	13	10	0	0
Elections	10	10	25	25	0	0	0
SOCOTRAM	3	8	3	1	1	1	1
Hydro Congo	0	3	0	0	0	0	0
Local authorities	23	23	25	25	26	27	28
Interest	74	150	59	74	62	66	100
Domestic	7	10	0	7	1	0	0
External	67	140	59	67	61	66	100
Capital expenditure	427	453	604	592	628	681	706
Domestically financed	397	390	469	469	485	520	540
o.w. HIPC financed	25	7	19	37	0	0	
Externally financed	30	64	135	123	143	161	165
Net lending	0	0	0	0	0	0	0
Basic primary balance[2]	1,406	1,424	1,006	111	1,127	1,173	1,117
Of which: Basic non-oil primary balance	-673	-690	-710	-637	-622	-602	-589
Balance, commitment basis							
Excluding grants	1,277	1,224	824	-95	944	991	962
Including grants	1,297	1,242	846	-73	981	1,036	1,009
Of which: Non-oil balance	-782	-873	-870	-821	-767	-740	-697
Change in arrears	-139	-1,408	-125	-124	-80	-63	-50
External	-35	-1,266	0	0	0	0	0
Domestic	-104	-143	-125	-124	-80	-63	-50
Balance, cash basis	1,158	-166.6	721	-197	901	973	960
Financing	-1,158	166.6	-721	197	-901	-973	-960
Foreign (net)	-101	814	-42	-6	14	5	8
Drawings	10	47	114	101	106	116	118
Amortization due	-111	-170	-156	-107	-92	-111	-110
Rescheduling obtained (arrears)	0	26	0	0	0	0	0
Debt cancellation (arrears)	0	911	0	0	0	0	0
Exceptional assistance	0	…	0	0	0	0	0
Domestic (net)	-1,056	-647	-679	203	-915	-977	-968
Banking system (net)	-1,068	-599	-676	207	-912	-974	-968
Nonbank financing	12	-48	-3	-4	-3	-3	0
Financing gap (- = surplus)	0	0	0	0	0	0	0
Memorandum items:							
GDP at current market prices	4953	4,802	4702	3876	5176	5310	5363
Non-oil GDP at market prices	1561	1,557	1769	1768	1976	2199	2439
Pro poor spending	328	343	389	382	404	441	461

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

[1] Country Report No. 09/74.

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

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

	2008		2009	2009	2010	2011	2012
	Dec Prog.[1]	Dec. Act.	Prog.[1]	Projections			
	(Percent of non-oil GDP)						
Revenue and grants	155.5	159.3	121.1	66.1	113.2	106.9	98.8
Primary Revenue	154.2	156.8	118.1	63.3	110.2	102.9	92.3
Oil revenue	133.2	136.0	97.0	42.3	88.5	80.7	69.9
Non-oil revenue	21.0	20.8	21.1	21.0	21.7	22.1	22.4
Investment income	0.0	1.3	1.8	1.5	1.1	2.0	4.5
Grants	1.3	1.1	1.2	1.2	1.9	2.0	1.9
Expenditure and net lending	72.4	79.5	73.3	70.3	63.5	59.8	57.4
of which primary expenditure	65.7	65.8	62.3	59.1	53.2	49.5	46.5
Current expenditure	45.0	50.4	39.1	36.8	31.7	28.9	28.5
Wages	10.7	10.7	10.2	9.9	9.5	9.1	8.6
Other current expenditure	28.1	28.6	24.2	21.3	17.7	15.6	14.6
Material and supplies	10.9	11.3	10.2	9.3	8.8	8.3	7.9
Common charges	1.9	2.7	1.1	1.4	1.1	0.9	0.8
Budgetary reserves	1.0	0.0	0.8	1.1	0.5	0.0	0.0
Transfers	14.4	14.7	12.1	9.5	7.3	6.3	5.9
Traditional transfers	7.1	7.9	6.8	7.2	6.7	6.3	5.8
National refinery (CORAF)	4.8	4.0	2.5	0.0	0.0	0.0	0.0
Refined petroleum products	1.6	1.5	1.1	0.7	0.5	0.0	0.0
Elections	0.6	0.6	1.4	1.4	0.0	0.0	0.0
SOCOTRAM	0.2	0.5	0.2	0.1	0.1	0.0	0.0
Hydro Congo	0.0	0.2	0.0	0.0	0.0	0.0	0.0
Local authorities	1.5	1.5	1.4	1.4	1.3	1.2	1.1
Interest	4.7	9.6	3.3	4.2	3.1	3.0	4.1
Domestic	0.5	0.6	0.0	0.4	0.0	0.0	0.0
External	4.3	9.0	3.3	3.8	3.1	3.0	4.1
Capital expenditure	27.4	29.1	34.2	33.5	31.8	31.0	28.9
Domestically financed	25.4	25.0	26.5	26.5	24.6	23.6	22.1
o.w. HIPC financed	1.6	0.4	1.1	2.1	0.0	0.0	0.0
Externally financed	1.9	4.1	7.7	6.9	7.2	7.3	6.8
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Basic primary balance [2]	90.1	91.5	56.9	6.3	57.0	53.3	45.8
Of which: Basic non-oil primary balance	-43.1	-44.3	-40.2	-36.0	-31.5	-27.4	-24.2
Balance, commitment basis	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Excluding grants	81.8	78.6	46.6	-5.4	47.8	45.0	39.4
Including grants	83.1	79.8	47.8	-4.1	49.7	47.1	41.4
Of which: Non-oil balance	-50.1	-56.1	-49.2	-46.4	-38.8	-33.6	-28.6
Change in arrears	-8.9	-90.5	-7.1	-7.0	-4.1	-2.9	-2.0
External	-2.2	-81.3	0.0	0.0	0.0	0.0	0.0
Domestic	-6.7	-9.2	-7.1	-7.0	-4.1	-2.9	-2.0
Balance, cash basis	74.2	-10.7	40.7	-11.1	45.6	44.2	39.3
Financing	-74.2	10.7	-40.7	11.1	-45.6	-44.2	-39.3
Foreign (net)	-6.5	52.3	-2.4	-0.3	0.7	0.2	0.3
Drawings	0.6	3.0	6.4	5.7	5.4	5.3	4.8
Amortization due	-7.1	-10.9	-8.8	-6.0	-4.7	-5.1	-4.5
Rescheduling obtained (arrears)	0.0	1.7	0.0	0.0	0.0	0.0	0.0
Debt cancellation (arrears)	0.0	58.5	0.0	0.0	0.0	0.0	0.0
Exceptional assistance	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic (net)	-67.6	-41.6	-38.4	11.5	-46.3	-44.4	-39.7
Banking system (net)	-68.4	-38.5	-38.2	11.7	-46.2	-44.3	-39.7
Nonbank financing	0.8	-3.1	-0.2	-0.2	-0.1	-0.1	0.0
Financing gap (- = surplus)	0.0	0.0	0.0	0.0	0.0	0.0	0.0

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

[1] Country Report No. 09/74.

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

Table 4. Republic of Congo External Debt Sustainability Framework, Baseline Scenario, 2006-2029 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Projections									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2009-2014 Average	2019	2029	2015-2029 Average
External debt (nominal) 1/	**81.6**	**112.7**	**58.1**	**70.5**	**53.8**	**53.7**	**54.2**	**55.6**	**54.1**		**43.0**	**25.5**	
o/w public and publicly guaranteed (PPG)	81.6	112.7	58.1	70.5	53.8	53.7	54.2	55.6	54.1		43.0	25.5	
Change in external debt	-26.7	31.1	-54.6	12.3	-16.7	-0.1	0.5	1.3	-1.4		-2.5	-0.6	
Identified net debt-creating flows	-37.3	-0.8	-47.2	-14.7	-26.4	-18.2	-15.3	-7.6	-6.6		6.1	15.3	
Non-interest current account deficit	**1.0**	**23.6**	**3.8**	**10.9**	**-2.4**	**-0.8**	**3.0**	**7.0**	**8.3**	**4.3**	**18.9**	**27.2**	**18.4**
Deficit in balance of goods and services	-18.5	-2.7	-17.1	-2.5	-17.3	-14.5	-8.0	-1.6	1.9		18.6	33.0	
Exports	84.2	87.6	83.9	78.4	86.3	82.7	76.6	70.7	66.3		45.1	15.9	
Imports	65.6	84.9	66.8	76.0	68.9	68.2	68.6	69.0	68.2		63.8	48.9	
Net current transfers (negative = inflow)	0.3	0.5	0.4	0.0	-0.2	-0.4	-0.4	-0.5	-0.5	-0.1	-0.7	-0.9	-0.7
o/w official	-0.2	-0.2	-0.1	-0.6	-0.7	-0.8	-0.9	-0.9	-1.0		-1.0	-1.0	
Other current account flows (negative = net inflow)	19.2	25.8	20.4	13.4	15.2	14.0	11.4	9.1	6.8		0.9	-4.9	
Net FDI (negative = inflow)	**-19.2**	**-27.5**	**-19.7**	**-19.9**	**-19.1**	**-18.3**	**-18.9**	**-15.3**	**-14.8**	**-17.7**	**-12.2**	**-11.7**	**-11.9**
Endogenous debt dynamics 2/	**-19.1**	**3.1**	**-31.3**	**-5.7**	**-4.9**	**0.9**	**0.5**	**0.7**	**-0.1**		**-0.6**	**-0.3**	
Contribution from nominal interest rate	3.9	2.2	1.4	2.0	1.3	1.5	1.5	1.5	1.4		1.1	0.4	
Contribution from real GDP growth	-5.3	1.3	-4.5	-7.7	-6.3	-0.6	-0.9	-0.7	-1.5		-1.7	-0.7	
Contribution from price and exchange rate changes	-17.6	-0.4	-28.2	…	…	…	…	…	…		…	…	
Residual (3-4) 3/	**10.6**	**32.0**	**-7.4**	**27.0**	**9.7**	**18.1**	**15.8**	**9.0**	**5.2**		**-8.6**	**-15.9**	
o/w exceptional financing	-4.1	-8.9	5.6	0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	46.5	62.9	47.8	47.7	47.9	48.9	48.0		38.0	17.7	
In percent of exports	...	...	55.5	80.2	55.4	57.7	62.6	69.2	72.4		84.1	110.9	
PV of PPG external debt	**...**	**...**	**46.5**	**62.9**	**47.8**	**47.7**	**47.9**	**48.9**	**48.0**		**38.0**	**17.7**	
In percent of exports	**...**	**...**	**55.5**	**80.2**	**55.4**	**57.7**	**62.6**	**69.2**	**72.4**		**84.1**	**110.9**	
In percent of government revenues	**...**	**...**	**90.7**	**212.5**	**112.5**	**109.8**	**108.8**	**110.6**	**109.3**		**101.8**	**55.0**	
Debt service-to-exports ratio (in percent)	**13.3**	**10.0**	**5.3**	**7.7**	**2.7**	**3.2**	**3.5**	**3.8**	**4.1**		**7.0**	**36.5**	
PPG debt service-to-exports ratio (in percent)	**13.3**	**10.0**	**5.3**	**7.7**	**2.7**	**3.2**	**3.5**	**3.8**	**4.1**		**7.0**	**7.3**	
PPG debt service-to-revenue ratio (in percent)	**25.3**	**20.6**	**8.6**	**20.3**	**5.4**	**6.1**	**6.1**	**6.1**	**6.3**		**8.4**	**3.6**	
Total gross financing need (Billions of U.S. dollars)	-0.5	0.4	-1.2	-0.2	-2.0	-1.7	-1.4	-0.6	-0.4		1.2	4.6	
Non-interest current account deficit that stabilizes debt ratio	27.7	-7.6	58.4	-1.4	14.3	-0.7	2.5	5.6	9.7		21.4	27.9	
Key macroeconomic assumptions													
Real GDP growth (in percent)	6.2	-1.6	5.6	9.5	11.9	1.1	1.8	1.4	2.8	4.7	4.0	2.8	3.5
GDP deflator in US dollar terms (change in percent)	19.5	0.5	33.3	-34.4	19.0	1.6	-0.5	-1.7	-1.3	-2.9	0.4	2.6	1.1
Effective interest rate (percent) 5/	4.5	2.7	1.7	2.5	2.5	2.8	2.7	2.7	2.6	2.6	2.6	1.5	2.3
Growth of exports of G&S (US dollar terms, in percent)	26.9	3.0	34.7	-32.8	46.4	-1.6	-6.2	-8.1	-4.9	-1.2	-3.3	-35.0	-4.3
Growth of imports of G&S (US dollar terms, in percent)	52.8	28.0	10.7	-18.3	20.8	1.6	1.8	0.3	0.1	1.1	1.2	5.2	2.4
Grant element of new public sector borrowing (in percent)	...	...	...	30.8	34.8	33.2	32.9	32.5	15.8	30.0	15.8	…	15.8
Government revenues (excluding grants, in percent of GDP)	44.3	42.7	51.3	29.6	42.5	43.4	44.0	44.2	43.9		37.3	32.1	35.7
Aid flows (in Billions of US dolla 6/	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1		0.1	0.2	
o/w Grants	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1		0.1	0.2	
o/w Concessional loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Grant-equivalent financing (in percent of GDP) 7/		...	...	1.5	1.4	1.6	1.6	1.7	1.0		1.2	…	1.2
Grant-equivalent financing (in percent of external financing) 7/		...	...	41.4	51.5	51.7	52.1	52.2	70.5		64.1	…	60.7
Nominal GDP (Billions of US dollars)	7.7	7.7	10.8	7.7	10.3	10.6	10.7	10.7	10.8		12.7	21.5	
Nominal dollar GDP growth	26.9	-1.1	40.7	-28.1	33.1	2.7	1.2	-0.4	1.4	1.6	4.4	5.5	4.7
PV of PPG external debt (in Billions of US dollars)			5.0	4.9	4.9	5.0	5.1	5.2	5.2		4.8	3.8	
(PVt-PVt-1)/GDPt-1 (in percent)				-1.3	0.7	1.2	0.8	0.8	-0.2	0.3	-0.9	-0.1	-0.6

Source: Staff simulations.

1/ Includes both public and private sector external debt.
2/ Derived as [r - g - r(1+g)]/(1+g+r+gr) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and r = 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/ Defined as grants, concessional loans, and debt relief.
7/ 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 5. Republic of Congo: Monetary Survey, 2006-10

	2006	2007	2008	2009	2010
	Actual	Actual	Est.	Projection	
	(Billions of CFA francs)				
Monetary survey					
Net foreign assets	1,191	1,110	1,827	1,717	2,723
Central bank	1,050	945	1,739	1,650	2,650
Deposit money banks	141	165	87	66	74
Net domestic assets	-471	-399	-909	-674	-1,559
Net domestic credit	-474	-380	-893	-659	-1,543
Net credit to the public sector	-581	-481	-1,083	-878	-1,792
Net credit to the Government	-582	-479	-1,079	-872	-1,783
Central bank	-573	-466	-1,072	-865	-1,776
Claims	116	170	18	20	21
Deposits	689	636	1,090	885	1,797
Deposit money banks	-9	-13	-7	-7	-7
Claims on public agencies, net	1	-2	-4	-6	-9
Credit to the economy	107	101	190	219	249
Other items, net	3	-19	-16	-16	-16
Broad money	720	711	918	1,043	1,165
Currency outside banks	244	239	293	332	371
Demand deposits	382	381	499	567	633
Time deposits	95	91	126	144	161
	Changes in percent of beginning-of-period broad money				
Net foreign assets	23.3	10.1	100.9	-12.0	96.6
Net domestic assets	-11.0	-3.2	-71.7	25.6	-84.8
Net domestic credit	-11.0	-3.7	-72.2	25.6	-84.8
Net credit to the government	-12.8	-4.3	-84.3	22.5	-87.5
Credit to the private sector	1.8	1.1	12.5	3.2	2.9
	Annual percent changes, unless otherwise indicated				
Broad money	47.9	6.9	29.1	13.6	11.7
Reserve money	36.5	-11.8	22.3	13.6	11.7
Memorandum items:					
Velocity					
Non-oil GDP/Average M2	1.9	2.0	1.9	2.0	...
Non-oil GDP/End period M2	1.8	2.0	1.7	1.7	1.7
	Percent				
Total GDP growth	25.9	-9.4	31.0	-19.3	33.5
Non-oil GDP growth	10.2	9.7	11.9	13.6	11.7
Credit to the private sector/Non-oil GDP	8.4	7.2	12.2	12.4	12.6

Source: BEAC; and Fund staff estimates and projections.

Table 6. Republic of Congo: Triggers for the Floating Completion Point under the Enhanced HIPC Initiative

Trigger	Status/comments
1. **PRSP**: Preparation of a full PRSP through a participatory process and satisfactory implementation of its recommended actions for at least one year, as evidenced by an Annual Progress Report (APR) submitted by the government to the staffs of IDA and IMF.	Adoption of APR expected by end-May 2009.
2. **Macroeconomic stability**: Maintenance of macroeconomic stability as evidenced by satisfactory performance under the PRGF-supported program as well as any IMF successor program.	Fund staff supports the authorities' request for completion of the first program review.
3. **Public expenditure priorities:** Alignment of public spending priorities in accordance with the priorities identified in the I-PRSP, and, when completed, the PRSP, reflecting emphasis on pro-poor growth.	Observed
4. **Public finance management**:	
(i) Establishment of a functional classification system for government expenditures, including poverty related expenditures, consistent with the IMF's *Government Finance Statistics* manual, and preparation of government budgets using this new classification;	Observed
(ii) Implementation of a new public investment management system to provide rigorous selection, and efficient execution and monitoring of the projects; submission of draft public investment programs to IDA for review;	Action plan establishing new system adopted at end 2008; agreement reached on indicators to review implementation as part of budget monitoring in mid-2009.
(iii) Adoption and satisfactory implementation by the government of a new procurement code (that promotes transparency and competition), in line with international best practice; and	Discussions on draft code ongoing; application texts submitted to IDA for review.
(iv) Adoption by the government of a medium-term framework for sustainable management of government expenditures and revenues, with technical assistance from IDA and IMF.	In progress (WB/ French providing technical assistance).
5. **Governance and natural resource management**	
Governance: Completion of a diagnostic governance and corruption study by an independent group of internationally reputed experts, assisted by a national anti-corruption committee, based on terms of reference prepared in consultation with IDA and IMF staffs. The terms of reference and composition of the national anti-corruption committee will be satisfactory to IDA and IMF staffs. Adoption by the government of an action plan, prepared in consultation with IDA and IMF staffs, to improve governance and reduce corruption, and sustained implementation of such action plan during the completion of the audits referenced in subsections 5(i) and 5(ii). Assessment of the implementation of the action plan by IDA and IMF staffs on the basis of an independent review by international experts acceptable to IDA and the IMF.	Revised draft of diagnostic study, governance and anti-corruption action plan and the draft anti-corruption law submitted to the Council of Ministers, but Council of Ministers discussion not yet scheduled; Observatory established but more budget resources are needed to make it fully functional.
Oil sector:	
(i) Assessment by IDA and IMF staffs, based on successive annual audit opinions by an independent firm of international reputation, and certified by the national anti-corruption committee, that SNPC's internal controls and accounting system are in line with international standards and best practices;	2006 draft audit shared with IDA, indicates that accounts cannot be audited due to incomplete information; information for the 2007 audit provided to the auditor. Final audit reports expected by mid-June.

Table 6 (Cont.). Republic of Congo: Triggers for the Floating Completion Point under the Enhanced HIPC Initiative

Trigger	Status/comments
(ii) Preparation, by an independent firm of international reputation, of a diagnostic study of the practices for the commercialization of oil by SNPC, based on terms of reference prepared in consultation with IDA and IMF staffs. Assessment by IDA and IMF staffs, based on successive audit opinions by an independent firm of international reputation, that the commercialization of oil by SNPC has been brought into line with international best practice on the basis of the recommendations of the diagnostic study, and results in competitive and fair market values to Congo for the oil sold; and	Study completed and action plan adopted in May 2009. Audit opinions to be issued on the basis of implementation of action plan.
(iii) Adoption and application by the government, certified by the national anti-corruption committee, during the completion of the audits referenced in 5(i) and 5(ii), of a legal text stipulating:	
• compulsory declaration, to the National Auditing Office (Cour des Comptes), by the members of the Executive Board of SNPC and those having a management mandate within SNPC and its subsidiaries, at the moment of their nomination and annually thereafter, of their participation or other interests in companies having business relations with SNPC or its subsidiaries as well as the verification and annual publication of the aforementioned declarations by the National Auditing Office (Cour des Comptes).	2006 declarations certified by National Auditing Office (NAO). 2007 and 2008 declarations to be certified by June 2009.
• divestiture by the members of the Executive Board of SNPC and by those having management responsibilities within SNPC or any of its subsidiaries of such participations and/or other interests, within a time period of 6 months after their nomination and prohibition of the taking of any interest in companies having business relations with SNPC during the period of their mandate.	
Forestry sector*:* Review of forestry sector management and legislation with IDA assistance; adoption by the government of measures recommended by the review to promote competition, transparency, and sustainable development in this sector.	Review completed; awaiting implementation of priority recommendations.
6. **Structural reform**: Review and adoption of a regulatory framework for the telecommunications sector establishing competition at the level of international gateways and the wireless local loop.	Package of legislation submitted to the Supreme Court and the SGG for review, but not yet discussed by the Council of Minister.
7. **Social sectors**:	
Education: Implementation during 2006 of a strategy to eliminate fictitious workers from the education budget and increase teacher staff by, at least, 1,000 each year in basic education until 2007.	In final stage of implementation.
Health: Increase to, at least, 60 percent the share of generic drugs in total expenditures on drugs by the central purchasing agency.	Observed
HIV/AIDS: Increase in the number of voluntary AIDS counseling and testing centers with associated measures (staff, equipment, and awareness campaign) from 4 at present to, at least, 10 in 2006 and 15 in 2007.	Observed
8. **External debt management**:	
(i) Publication of the quarterly external debt data and projections on a government website; and	Observed.
(ii) Centralization of all information on debt, including collateralized debt, in the government's debt agency (CCA).	Observed

Table 7: Republic of Congo: Access and Phasing Under
the 3-Year PRGF Arrangement (2008-11) [1]

Timing	Disbursement: Amount in SDRs	Disbursement: Percent of quota	Conditions
December 2008	1,208,570	1.43	Disbursed
June 2009	1,208,570	1.43	Completion of the first review
October 2009	1,208,570	1.43	Completion of the second review (end-June 2009 test date)
April 2010	1,208,570	1.43	Completion of the third review (end-December 2009 test date)
October 2010	1,208,570	1.43	Completion of the fourth review (end-June 2010 test date)
April 2011	1,208,570	1.43	Completion of the fifth review (end-December 2010 test date)
June 2011	1,208,580	1.43	Completion of the sixth (final) review (end-March 2011 test date)[2]
Total	8,460,000	10.00	

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

APPENDIX I—Supplemental Letter of Intent

Brazzaville, May 27, 2009

The Minister of Economy,
Finance and Budget

To:

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

Dear Managing Director:

The Republic of Congo is pursuing a medium-term economic and financial program supported by the IMF under the Poverty Reduction and Growth Facility (PRGF). The program is designed to support balanced growth, low inflation, and fiscal and external sustainability, including through debt relief under the enhanced Initiative for Heavily Indebted Poor Countries (HIPC). This letter supplements the Letter of Intent (and attached Memorandum of Economic and Financial Policies, MEFP) dated November 19, 2008 supporting our PRGF arrangement, which was approved by the Fund's Executive Board on December 8, 2008.

The implementation of our Fund-supported program has proceeded smoothly thus far. Looking ahead, however, we face numerous challenges due to the global financial crisis and the ensuing decline in world oil prices. Indeed, Congo's terms of trade are expected to deteriorate by about 30 percent this year. The decline in world oil prices will lead to a significant drop in the government's oil revenue, with adverse implications for the fiscal position. At the same time, the weakness in global economic activity has reduced demand for some of our key exports, with adverse implications for prospects in the non-oil economy. The difficult environment poses a risk to the smooth implementation of our economic program but we are determined to stay the course, and to take whatever measures are necessary to achieve its broad objectives.

We observed the program's quantitative performance criteria on the non-oil primary fiscal balance through end-December 2008 but breached the zero ceiling on new medium- or long-term non-concessional external debt (Table 1, attached). All of the program's structural performance criteria through end-March 2009 were observed (although three with a delay), as were the benchmarks (Table 2, attached). Consequently, to complete the first review of the program, we are requesting:

- a waiver on the (continuous) zero ceiling on new non-concessional debt, as the Port Authority of Pointe Noire—a state-owned enterprise—contracted a loan from the French Development Agency in March 2009 in an amount of EUR 29 million, as part of a financing package to rehabilitate the Port's facilities. The government is not providing a guarantee for this loan. Other creditors to this project are expected to include the European Investment Bank (EUR 29 million) and the Central African States Development Bank (EUR 9.1 million). While this loan is on commercial terms (with an estimated grant element of about 11½ percent), the government, its creditors, and development partners (including the World Bank, which has assessed the project and found it viable), believe the project is critical to furthering Congo's economic development and that it will further strengthen the Port's profitability, alleviating concerns about its ability to service this external debt. We also request that the program be modified to accommodate the EIB and BDEAC loans, which we expect to be contracted in the period ahead;

- a waiver on the structural performance criterion on the quarterly certification of oil revenue for the third quarter of 2008 by an internationally reputable audit firm, since this measure was observed with a delay, caused by operational difficulties on the part of the international auditor;

- a waiver on the adoption of a new petroleum pricing mechanism, which was not implemented in the envisaged timeframe; and

- a waiver on the adoption of a comprehensive action plan with a timetable to address institutional and procedural deficiencies in the commercialization of Congolese oil. It took additional time and further technical assistance than we envisaged to produce a plan in line with international best practice.

In response to the decline in world oil prices, the 2009 budget envelope—which was passed by Parliament earlier this year—was revised downward, compared with the program that was approved by the Fund's Executive Board last December. The smaller envelope is to be achieved mainly through lower current spending.

As world oil prices have fallen further since the budget was adopted only a few months ago, we are taking additional actions to consolidate the fiscal position and maintain its consistency with our medium-term objectives under the PRGF arrangement. This further adjustment will come from the projected elimination of fuel subsidies, and savings from using interim-HIPC resources to finance capital expenditures, rather than domestic resources. These adjustments are projected to lower the basic non-oil primary deficit by an additional 3.6 percentage points of non-oil GDP this year.

- In this context, we request that the floor on the quantitative performance criterion on the basic non-oil primary balance be raised at end-June 2009 from a deficit of CFAF 412 billion to a deficit of CFAF 371 billion; and the end-2009 target from a deficit of CFAF 710 billion to a deficit of CFAF 637 billion.

- Over the program period, we will make a concerted effort to ensure steady progress is made toward achieving long-term sustainability. In this context, we will accelerate efforts to mobilize more domestic revenue through reform of the tax system. This reform would aim to eliminate exemptions and loopholes, reduce tax evasion, broaden the tax base, remove nuisance taxes, and ensure that the tax regime contributes to enhancing Congo's international competitiveness. To help with this reform, we have requested technical assistance from the Fund and our development partners. On the expenditure side, we will continue to reduce low priority spending that is not aligned with our Poverty Reduction Strategy; make sure the public investment program is responsive to the evolving fiscal situation; and we expect to generate savings from the reform of the civil service and the unification of the civil service payroll. Taken together, these measures would allow us to sustain the pace of fiscal adjustment needed to ensure long-term sustainability.

We remain optimistic about the medium-term prospects for the Congolese economy and are confident that the fiscal stance, and the allocation of our budgetary resources, provide a strong basis for addressing the current situation. However, if the global financial crisis worsens, we may need to reassess the appropriateness of the fiscal stance, together with Fund staff. This assessment could include analyzing the scope for using some domestic resources, if a fiscal stimulus is needed to support aggregate demand and the achievement of our economic objectives, as elaborated in our Poverty Reduction Strategy and supported under the PRGF arrangement.

We have sufficient domestic resources to finance our ambitious public investment program─which is supportive of economic activity in the non-oil sector─and we will continue to seek foreign financing on highly concessional terms (with a minimum grant element of not less than 50 percent). We will redouble our efforts to strengthen our external debt management and will consult with Fund staff on any external financing issues going forward. We will not contract any new oil-collateralized external debt by or on behalf of the government, which is prohibited under the PRGF arrangement. Finally, in line with our commitments to the Paris Club, we have submitted to the Club a comprehensive report on the current status of our relations with all of our creditors.

We believe that the policies and measures set forth in the November 2008 MEFP continue to be appropriate to achieve the objectives of the program. In line with the Fund's decision to streamline conditionality, we request that the program's structural performance criteria be modified to structural benchmarks. During the implementation of the arrangement, we will consult with Fund staff on the adoption of any measures that may be necessary to achieve the program objectives, at the initiative of the government, or whenever the Fund staff requests such a consultation.

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

We can assure you, Managing Director, that the government of the Republic of Congo is determined to fully implement the program supported by the PRGF arrangement, and to move to the completion point under the enhanced HIPC Initiative as soon as possible.

The second review under the PRGF arrangement, based on performance through end-June 2009, is expected to be completed in October/November of this year.

Sincerely yours,

/s/

Pacifique Issoïbeka
Minister of Economy, Finance, and Budget

Attachments (3)

APPENDIX I—ATTACHMENT I

Table 1. Republic of Congo: Revised Quantitative Targets, 2008-09
(Billions of CFA francs, unless otherwise indicated; cumulative from January)

	End-Dec. 08		End-Mar. 09		End-Jun. 09	End-Sep. 09	End-Dec. 09
	Perf. Criteria	Actual	Indicative Target	Prel.	Perf. Criteria	Indicative Target	Indicative Target
Quantitative targets							
Nonoil primary fiscal balance (floor)	-673	-670	-211	-123	-371	-513	-637
New medium or long-term nonconcessional external debt (including leasing) contracted or guaranteed by the government (ceiling) [1, 2, 3]	0	0	0	19	0	0	0
New external debt (including leasing) with an original maturity of less than one year (ceiling) [2]	0	0	0	0	0	0	0
New oil-collateralized external debt contracted by or on behalf of the central government (ceiling) [2]	0	0	0	0	0	0	0
New nonconcessional external debt with a maturity of more than 1 year contracted or guaranteed by SNPC (ceiling) [2]	0	0	0	0	0	0	0
New external arrears on nonreschedulable debt [2]	0	0	0	0	0	0	0
New domestic arrears [2]	0	0	0	0	0	0	0
Memorandum items							
Oil revenue	2,079	2,118	131	178	300	526	748
Non-oil primary revenue	328	324	93	97	187	279	372

[1] Excluding rescheduling arrangements and disbursements from the IMF; the minimum grant element is set to 50 percent.
[2] Continuous.
[3] The zero ceiling on concessionality does not apply to forthcoming external loans from the European Investment Bank and the Central African States Development Bank, as specified in paragraph 9 of the Technical Memorandum of Understanding.

APPENDIX I─ATTACHMENT II

Table 2. Structural Benchmarks Under the PRGF Arrangement 2008–09

Measures	Timing	Status
Prepare the 2009 budget consistent with the PRGF program, and using the economic, functional, and administrative classifications.	End-Dec. 2008	Observed
Finalize and adopt the three-year action plan to improve public investment management prepared with assistance from the IMF, World Bank, and the French Cooperation; and publish the plan on the government website.	End-Dec. 2008	Observed
Adopt a new petroleum-pricing regime that will ensure fuel price subsidies are phased out by mid-2011.	End-Mar. 2009	Observed with a delay
Adopt a comprehensive action plan with a timetable to address institutional and procedural deficiencies in the commercialization of Congolese oil, in line with best international practice.	End-Mar. 2009	Observed with a delay
Prepare a medium-term expenditure framework (in consultation with development partners) consistent with the Poverty Reduction Strategy (PRS).	End-June 2009	
Quarterly certification of oil revenue by an internationally reputable audit firm, using the same specifications as for the 2003 certification and with no restrictions on access to information; certification reports to be published on the website of the Ministry of Economy, Finance, and Budget (www.mefb-cg.org). Also, the government will post the audit report on the website, and for each report, a note addressing the comments by the auditors.	Continuous, with a one-quarter lag	Observed with a delay
Repatriation of the oil proceeds (to the Treasury) of oil shipments commercialized by private companies and SNPC on behalf of the government within 45 days after the actual shipment date (according to actual quantities, prices, and shipment dates).	Continuous	Observed
Adoption by the government of the financial sector strategy developed in consultation with Fund staff.	Dec. 2008	Observed
Finalize the strategic study of the oil sector─assisted by Congo's development partners─which will include a critical assessment of the institutions and enterprises, including CORAF.	End-June 2009	In progress
Publication of all invitations to bid and the bids themselves for government procurement contracts above CFAF200 million on the government's website (www.mefb-cg.org).	Continuous	Observed
No recourse to emergency payment and cash advance procedures, except in situations stated in the organic budget law.	Continuous	Observed

APPENDIX I—ATTACHMENT III

Technical Memorandum of Understanding

Brazzaville, May 27, 2009

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

I. DEFINITIONS AND COMPUTATION

A. Government

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

B. Basic Primary Fiscal Balance

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

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

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

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

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

C. Foreign Debt and External Arrears

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

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

- As specified in the guidelines adopted by the Executive Board of the IMF, [1] debt will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows: (i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official

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

swap arrangements); (ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. The debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement, excluding those payments that cover the operation, repair, or maintenance of the property. Under the definition of debt set out above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

- Loan concessionality is assessed on the basis of the commercial interest reference rates (CIRRs) established by the OECD. A loan is said to be on concessional terms if, on the date of conclusion of the contract, the ratio of the net present value of the loan, calculated on the basis of the reference interest rates, to its nominal value is less than 50 percent (i.e., a grant element of at least 50 percent). For debts with a maturity exceeding 15 years, the ten-year reference interest rate published by the OECD is used to calculate the grant element. For shorter maturities, the six-month market reference rate is used.

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

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

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

12. The ceiling on any **new nonconcessional external debt with a maturity of more than one year contracted or guaranteed by the SNPC**, with or without government

guarantee, will be observed continuously. The SNPC may borrow only to finance investments related to its core activities (research, exploration, production, refining and distribution of oil, construction of a Brazzaville headquarters, creation and strengthening of its database, etc.). In addition, these investments must be included in the SNPC's investment budget approved by its board of directors. The ceiling on debt does not apply to changes in loan accounts with oilfield partners or to loans with maturities of less than one year.

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

D. Oil-Collateralized External Debt and Oil Prepayments

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

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

E. Payment Arrears and Domestic Debt

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

II. Information for Program Monitoring

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

A. Oil Sector

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

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

B. Government Finance

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

- A table on government fiscal operations (TOFE) and its annexes. The annexed tables include (i) the breakdown of oil revenue in value terms with the corresponding notes on computation, (ii) excess oil trends and any bonus payments, (iii) the breakdown of tax and non-tax revenue, and central government expenditure, particularly transfers and common charges; and (iv) a report on the amounts of and rationales for emergency payment and cash advance procedures. The provisional TOFE and its annexes will be reported monthly within four weeks from the end of the month, whereas the final TOFE and its annexes will be reported within six weeks from the end of each month.
- Monthly data on the prices and taxation of petroleum products. These data will include: (i) the price structure in effect during the month; (ii) the details of computation of the price structure, (f.o.b. Mediterranean price) at retail prices, including the border impact prices, taxes, transit costs, economic adjustments, ex-refinery prices (for CORAF and imports), entry distribution prices, margins and fees, transport costs and losses, financing expenses, and insurance; (iii) amounts released for sale; and (iv) a breakdown of the tax revenue from oil products—customs duties and value-added tax—and direct/indirect subsidies incurred by the budget. These data will be reported within four weeks from the end of the month.

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

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

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

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

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

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

C. Monetary Sector

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

- data on net bank credit to the government;

- the consolidated balance sheet of the monetary institutions, the central bank survey, and the commercial banks survey;

- the integrated monetary survey;

- the table of lending and deposit rates; and

- the usual banking supervision indicators for banks and non-bank financial institutions, where necessary.

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

D. Balance of Payments

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

- any revised balance of payments data (including services, private transfers, official transfers, and transactions for the capital and financial account) as soon as the data are revised; and

- foreign trade statistics (volume and price) prepared by the national statistics agency within three months of the end of the reporting month.

E. Debt

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

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

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

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

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

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

F. Real Sector

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

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

- any revision of the national accounts; and

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

G. Structural Reforms and Other Data

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

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

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

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

INTERNATIONAL MONETARY FUND

REPUBLIC OF CONGO

First Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Request for Waivers of Nonobservance of Performance Criteria, and Modification of Performance Criteria—Informational Annex

Prepared by the African Department

Approved by Sharmini Coorey and Dhaneshwar Ghura

May 29, 2009

Contents

Annexes

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

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

II. General Resources Account:

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

III. SDR Department:

	SDR Million	Percent Allocation
Net cumulative allocation	9.72	100.00
Holdings	0.14	1.45

IV. Outstanding Purchases and Loans:

	SDR Million	Percent Quota
PRGF arrangements	24.79	29.30

V. Latest Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	12/08/2008	12/07/2011	8.46	1.21
PRGF	12/06/2004	06/05/2008	54.99	23.58
PRGF	06/28/1996	06/27/1999	69.48	13.90

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

			Forthcoming		
	2009	2010	2011	2012	2013
Principal		1.57	3.14	4.72	4.72
Charges/interest	0.16	0.16	0.15	0.13	0.11
Total	0.16	1.73	3.29	4.84	4.82

Projected Payments to Fund: (with Board-approved HIPC assistance)
(**SDR million; based on existing use of resources and present holdings of SDRs**):

	Forthcoming				
	2009	2010	2011	2012	2013
Principal		1.57	3.14	4.72	4.72
Charges/interest	0.12	0.16	0.15	0.13	0.11
Total	0.12	1.73	3.29	4.84	4.82

VII. Implementation of HIPC Initiative:

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

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

VIII. Safeguards Assessments:

The Bank of the Central African States (BEAC) is the regional central bank of the Central African States. The most recent safeguards assessment of the BEAC was

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

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

completed on August 30, 2004. In accordance with the four year cycle established for assessments of regional central banks, an update assessment was initiated in April 2008. The preliminary findings of this assessment indicate that implementation of previous safeguards recommendations on financial reporting, internal audit, and internal control has been limited, and that the changing risk profile of the BEAC foreign exchange holdings requires further actions to strengthen safeguards at the BEAC. Completion of the update assessment, however, requires an official response from the BEAC authorities that has yet to be received.

IX. Exchange Rate Arrangement:

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

X. Article IV Consultations:

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

XI. FSAP Participation : N/A.

XII. Technical Assistance :

Subject	Department	Staff Member	Date
Assist National Accounts Team with analysis of main aggregates of 2006 NA estimates and train NA team in synthesis of accounts	STA	Mr. Gbossa (head), AFRITAC C	April 2009
Follow-up on reforms for the modernization of tax and customs administrations	FAD and AFRITAC West	Messrs. Montagnat-Rentier, Lefebvre and Koukpaizan	March 2009
Identifying strategic priorities for the next 3-4 years			
Follow-up mission on the implementation of statistics TA programs	AFRITAC C	Mr. Bonkoungou	March 2009
Processing and monitoring of fiscal information	AFRITAC C	Mr. Penanje	August 2008
Budget functional classification	AFRITAC C	Mrs. Lokpe and Nguenan	July 2007
Poverty and Social Impact Analysis	FAD	Mr. Gillingham, Ms. Lacoche, Mr. Manning	November 2007
Public expenditure management	FAD	Mr. Bouley	August 2006
Resident advisor on real sector	STA	Mr. Gbossa	Since February 2006
Modernization of tax and customs administrations	FAD	Messrs. Montagnat-Rentier, Lesprit and Boilil	February 2004

Subject	Department	Staff Member	Date
Follow-up mission	FAD	Mr. Lepage	November 2003
Budget functional classification	FAD	Messrs. Bouley, Helis, and Lepage	October 2003
Balance of payments statistics	STA	Mr. Dessart	February 2007
Multisector statistics	STA	Messrs. Marie, Maiga, and Mmes. Fisher, Matei, Razin, and Balvani	May 2002
Resident expert on statistics	STA	Mr. Metreau	Since October 2001
Balance of payments	STA	Mr. Fiévet	June 2001
Budget, tax, and customs	FAD	Messrs. Bouley, Moussa, Brik, and Mrs. Tricoire	April–May 2001
Resident tax expert	FAD	Mr. Laurent	1995–97
Tax administration	FAD	Mr. Grandcolas	Nov. 1995–Apr. 1996
Tax administration	FAD	Messrs. Grandcolas and Castro	November 1994

XIII. Resident Representative:

The resident representative, Mr. Yaya Moussa, took up his assignment in September 2005.

Annex II—Republic of Congo: JMAP Implementation Matrix

Title	Products	Mission timing	Expected delivery
A. Mutual information on relevant work programs			
Bank work program in next 12 months	*Country Partnership Strategy* *PRSP Progress Report/JSAN* *AAA* Policy advice on infrastructure development Dialog on Governance/HIPC Investment Climate Analysis Public Expenditure Review *New Lending:* HIV/AIDS Projet Additional Financing for: - Primary Education Project - Urban Development	May 2009 June 2009 May 2009 June 2009 March 2009 June 2009 May 2009 March 2009	June 2009 June 2009 May 2009 Ongoing April 2009 September 2009 June 2009 May 2009 FY10
IMF work program in next 12 months	First review under the PRGF arrangement	February 26-March 6, 2009	April 2009
	Staff visit	June 3-10, 2009	
	Second review under the PRGF arrangement	September 2009	November 2009
B. Requests for work program inputs			
Fund request to Bank (with summary justification)	Collaborate on the LIC-DSA	August 2009	1st Semester FY10 (with Completion Point)
Bank request to Fund (with summary justification)	Collaborate on review of progress on implementation of HIPC triggers	June 2009	1st Semester FY10 (with Completion Point)
C. Agreement on joint products and missions			
Joint products in next 12 months	Progress on implementation of HIPC Triggers	June 2009 (Joint mission)	1st Semester FY10 (Completion Point)
	LIC-DSA for Completion Point	August 2009	1st Semester FY10 (with Completion Point)

Annex III—Statistical Issues

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

2. A STA multi-sector mission in May 2002 conducted an assessment of the statistical system. The mission's general finding was that macroeconomic statistics are weak and suffer from the absence of a national statistical program and shortages of financial, physical, and human resources. It recommended measures for improvement, which are being followed up by the statistical advisor.

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

Real sector statistics

4. National accounts data are weak, with inconsistencies, both internally and with balance of payments statistics. Estimates for the informal sector are based on information that dates back to 1978. The Directorate General of Statistics (DGS) of the Ministry of Finance (MoF) provides Fund missions with a breakdown of GDP by expenditures and sectors, both in nominal and real terms. Historically, data on oil sector transactions have been weak, raising questions about transparency in the inter-play between the oil companies operating in the country and the government agencies dealing with them. With the assistance of the resident statistical expert and Central AFRITAC, the DGS completed the national accounts estimates for 2005, the new base year, and has initiated compilation of the 2006 accounts. A mission of the Central AFRITAC (AFC) visited Brazzaville during April 6–17, 2009 to assist in the analysis of main aggregates for the 2006 national accounts and train the national accounts team in synthesis of accounts.

5. Annual data on employment in the central government are available from the MoF, but are not consistent with data from the civil service roster of the Ministry of the Civil Service. As part of the structural reforms undertaken in the context of the post-conflict program, the government completed an audit of public service employees and established a new civil service payroll roster. Data on employment in the private sector are not available.

6. Movements in the prices of commodities consumed by households are recorded for the capital city of Brazzaville (weights for 1977 and price reference period of

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

Government finance statistics

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

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

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

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

11. There is no centralized, comprehensive database on the operations of public enterprises. However, some information has been made available to Fund missions by individual enterprises. TOFE compilers do not have access to relevant financial statements of the Société nationale des pétroles congolais, which carries out several operations on behalf of the government (notably in the oil sector).

Monetary and financial statistics

12. The Bank of Central African States (BEAC) regularly reports monetary, interest rates, and exchange rate statistics for publication in *IFS,* but delays occur sometimes in the

submission of data to STA. The accuracy of national monetary statistics may be affected by large cross-border movements of BEAC issued banknotes among the CEMAC member countries. However, the Republic of Congo is moderately affected by such movements: 6.2 percent of banknotes issued in the Congo by the BEAC national directorate circulate in Cameroon and 1.2 percent in Gabon, while currency in circulation in the Republic of Congo includes 2.3 percent of banknotes from Cameroon and 3.2 percent from Gabon. The magnitude of banknote movements between the Republic of Congo and CEMAC member countries other than Cameroon and Gabon is very small.

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

External sector statistics

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

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

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

	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of publication[7]
Exchange Rates	Current	Current	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Feb-09	April-09	M	M	M
Reserve/Base Money	Feb-09	April-09	M	M	M
Broad Money	Feb-09	April-09	M	M	M
Central Bank Balance Sheet	Feb-09	April-09	M	M	M
Consolidated Balance Sheet of the Banking System	Feb-08	April-09	M	M	M
Interest Rates[2]	Dec-08	April-09	M	M	M
Consumer Price Index	Jan-09	April-09	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	N/A	N/A	N/A	N/A	N/A
Revenue, Expenditure, Balance and Composition of Financing[3] – Central Government	Dec-08	March-09	M	Q	Q
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Dec-08	March-09	Q	Q	Q
External Current Account Balance	Dec-08	March-09	A	A	A
Exports and Imports of Goods and Services	Dec-08	March-09	A	A	A
GDP/GNP	2008	March-09	A	A	A
Gross External Debt	Dec-08	March-09	Q	Q	Q
International Investment Position [6]	...	...	NA	NA	NA

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic non-bank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.
[7] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA).

Press Release No. 09/217
FOR IMMEDIATE RELEASE
June 17, 2009

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes First Review Under PRGF Arrangement for the Republic of Congo and Approves US$1.86 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) completed today the first review of the Republic of Congo's economic performance under a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF). The completion of the review enables the disbursement of SDR 1.21 million (about $1.86 million), which would bring total disbursements under the arrangement to SDR 2.42 million (about US$3.72 million).

The Executive Board, in completing the review, granted waivers for the nonobservance of one quantitative performance criteria related to the ceiling on new non-concessional external public debt and three structural performance criteria. The Executive Board also approved the modification of the quantitative performance criterion on the non-oil primary fiscal balance and the continuous performance criterion related to non-concessional external debt.

The three-year PRGF arrangement for the Republic of Congo was originally approved by the Executive Board on December 8, 2008 (see Press Release No. 08/311) in an amount equivalent to SDR 8.46 million (about US$13.01 million).

Following the Board's discussion on the Republic of Congo, Mr. Murilo Portugal, Deputy Managing Director and Acting Chair, made the following statement:

"The slowdown in external demand, collapse in world oil prices, and worsening terms of trade have led to a deterioration in Congo's economic outlook. While higher oil production could help support growth this year, the expansion in the non-oil sector is likely to be well below the pace of 2008. The satisfactory implementation of the PRGF arrangement has put the Congolese authorities in a good position to address the challenges posed by the difficult global environment.

"The significant decline in the non-oil primary fiscal deficit in 2008 and the planned steps to consolidate the fiscal stance further this year provide some room for fiscal easing should the economic outlook deteriorate further. Over the long run, continued fiscal discipline will be critical to the sustainability of the fiscal position, and the authorities need to resist spending pressures.

“The recent progress in improving the management of Congo’s financial and natural resources is encouraging. The authorities remain committed to strengthening public financial management and further enhancing governance and transparency in the oil sector.

“The authorities’ intention to pursue tax reform and accelerate efforts to improve financial intermediation through stepped up implementation of the financial sector strategy is timely. Tax reform would help to mobilize domestic revenue, which is important in the current environment of volatile world oil prices. Further development of the financial sector could support economic activity.

“Congo’s external position has been strengthened through the recent rescheduling of its external debt with Paris Club creditors, and the settlement with litigating creditors on favorable terms. However, Congo continues to remain in debt distress. It is therefore important that the authorities seek foreign financing only on highly concessional terms and maintain their efforts to strengthen debt management.

“Debt relief under the Enhanced Heavily Indebted Poor Countries Initiative would further improve Congo’s external debt position. The authorities have made significant progress toward implementing the floating completion point triggers, and remain committed to completing the remaining steps”, added Mr. Portugal.

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

June 17, 2009

On behalf of my Congolese authorities, I would like to thank Management and staff for maintaining a close and constructive dialogue with my Congolese authorities. This continuous interaction has helped Congo keep up its efforts towards maintaining macroeconomic stability and sustained growth. My authorities broadly share the thrust of the staff report put forward for Board discussion as it sheds light on the good progress made in the implementation of the PRGF program while recalling the daunting challenges that still lie ahead.

The first months of implementation of the PRGF arrangement have shown my authorities' commitment to sound economic management and a clear and strong program ownership. Amid an adverse international environment of global slowdown and declining oil price, Congo achieved over the past period, noticeable results in improving public financial management and bolstering fiscal discipline, enhancing transparency and governance especially in the oil sector, building institutional capacity, consolidating macroeconomic stability and moving steadfastly towards the HIPC floating completion point. Growth prospects remain benign, about 9.5 percent this year, despite the negative spillovers of the current global economic crisis.

My Congolese authorities are committed to maintain the momentum of strong policy implementation and are requesting Directors' support for the completion of the first review under the PRGF arrangement. As well, my authorities request waivers of the nonobservance of the continuous quantitative performance criterion on non-concessional external public debt; modification of the quantitative performance criterion on the non-oil primary fiscal balance at end-June 2009, as well as the continuous criterion on non-concessional external public debt; and modification of structural performance criteria to structural benchmarks.

Prospects and medium term policies

Despite the downside risks, mainly associated with unfavorable global prospects, my Congolese authorities are committed to step up domestic efforts and undertake all necessary reforms to boost output growth, diversify economy and maintain fiscal discipline with a view to addressing the country's priority needs. Easing the debt burden remains the backbone of my authorities' agenda going forward. Accordingly, they intend to put a special emphasis on the implementation of the remaining triggers in order to reach the completion point by the end of this year.

On the fiscal front, my authorities are committed to maintain fiscal discipline, especially in the run up of the presidential elections scheduled for July 2009. To increase non-oil revenue, they will continue to enhance tax and customs administrations, by *inter alia*, broadening the use of the single taxpayer identification number, simplifying customs procedures, and fully implementing the ASYCUDA software. Paired with the cutting of current spending in the 2009 budget, the fiscal measures should improve the basic non-oil primary fiscal deficit from 40.2 percent, the program target, to 36 percent of non-oil GDP. Going forward, my authorities are preparing, with Fund assistance, a tax policy reform, with the view to broadening the tax base and building a tax regime more conducive to economic activity and competitiveness.

As regards monetary policy and the financial sector, the pegged exchange rate regime in the framework of the CEMAC continues to serve the Congolese economy well. As already mentioned, the immediate challenge facing my authorities in this area remains high inflation, which is driven by non monetary factors. As the country enters the dry seasons, transportation conditions improve and markets are better furnished with goods; early 2009 data already show a downward trend in prices and my authorities expect inflation to fall to around 5 percent at the end of this year.

Last December, my authorities adopted a financial sector strategy in which emphasis is laid on enhancing the role of the corporate financial statement registry and the Central Credit Bureau, strengthening supervision and the capacity of microfinance institutions to extend credit; and initiating a national program for the modernization of the payment system.

On structural reforms, my Congolese authorities are determined to complete the remaining triggers of the HIPC completion point. In this regard, the anti-corruption legal texts are near completion and my authorities expect to submit the draft law to Parliament by July 2009. Transparency regarding the practices for the commercialization of oil by SNPC should improve further with the action plan adopted in May 2009 following a diagnostic study conducted by an independent firm of international reputation.

Debt management remains at the centerpiece of my authorities' efforts. Nevertheless Congo's countrywide infrastructure bottlenecks continue to weigh heavily on the country's capacity to unleash its potential to broad based growth and poverty reduction. Faced with the enormous financing needs to deal with the infrastructure constraint, and the non-availability of concessional financing, the state-owned Port Authority of Pointe Noire contracted in March 2009, an external loan in the amount of EUR 29 million. This loan, for which my authorities are requesting a waiver is to be used for the rehabilitation of the Port's facilities, which are critical to support Congo's development. The analysis showed that the project will significantly boost the profitability of the Port, which would help ensure its ability to service this debt, without recourse to central government resources. Going forward, my Congolese authorities would like to restate their commitment to seek foreign financing on highly concessional terms, while continuing to enhance debt management.

Conclusion

Since embarking on a new PRGF program last December, my Congolese authorities have worked on a steady pace to further reforms and solidify the gains from previous efforts. This policy tempo enabled the Republic of Congo to enhance macroeconomic stability and launch needed investments to diversify growth away from oil, reduce poverty and heal the post conflict society.

The continuous support of the Fund and the international community that helped achieve the appreciable results of this first period will be decisive to my authorities' efforts to step up reforms, and meet the important steps still on the agenda. Of these, my Congolese authorities make it a priority to reach the HIPC completion point, which will free more resources and help unleash the country's growth potential. In view of this promising prospect and the satisfactory performance recorded over the past period, my Congolese authorities would appreciate the Board's support for the completion of the first review under the PRGF arrangement.