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GRAY/21/2734

September 23, 2021

**Statement by Ms. Shortino and Ms. Senich on Republic of Congo
(Preliminary)
Executive Board Meeting 21/95
September 24, 2021**

We thank staff for the reports and Mr. Andrianarivelo, Mr. N'Sonde, and Mr. Sidi Bouna for their helpful Buff statement. The COVID-19 pandemic and oil price shocks have deeply affected the Congolese economy, with output contracting by over 8 percent in 2020. The economy remains fragile due to the ongoing uncertainty of the pandemic, reduced oil revenues in response to the transition to a low-carbon global economy, and the effects of climate change. Poverty, food insecurity, and unemployment are on the rise, and while the economy is improving this year, population growth will outstrip the expected GDP gains. **We agree with much of staff's analysis in the paper. We urge the authorities to accelerate reforms to strengthen governance and support economic diversification, including with regards to adaptation to climate change.** International aid can help support and reinforce efforts in these areas.

We urge the authorities to accelerate reforms in debt transparency and management. In particular, we agree with staff's recommendations that the debt management office should publish periodic and comprehensive public reports on the debt outlook. We also urge both creditors and debtors to increasingly improve disclosure practices. We note with concern that a comprehensive picture of State-Owned Enterprise (SOE) debt, particularly debt without explicit government guarantees, is still incomplete. We encourage the authorities to work with its development partners to undertake a complete stock-take of SOE debt. We welcome that the authorities have made progress in resolving domestic arrears, and urge continued attention to improving the business environment, including by demonstrating good faith in settling internationally-awarded claims that have been under dispute. We strongly welcome Table 7 that includes a breakdown of public debt stock by major creditor.

We note that staff's judgement that debt is sustainable is highly vulnerable to oil price shocks, and we found the Article IV's discussion on the effect of the global transition to a low-carbon future on the ROC to be sobering. The report cites a lack of investment during the pandemic as a reason for the significant drop in oil production in 2020. The

8.5 percent decrease in oil production suggests that ROC faces capacity constraints in basic operations and maintenance. *Could staff comment on whether the lack of investment in 2020 was driven by one-off problems caused by the pandemic or related to external arrears to oil service providers, or is there a recurring problem in the governance of the oil sector? Given the ROC's vulnerability to the volatility in oil prices, are there any hedging mechanisms that are feasible for ROC?*

We agree with staff that to strengthen resilience, the authorities will need to address weak governance and social fragilities linked to poverty and inequality, as well as adopt structural reforms that support economic diversification and adaptation to climate change. We support staff's recommendations to reduce tax exemptions and transfers to SOEs so as to create space for increased spending on social assistance, education, health, and infrastructure. We note that many of the needed growth-oriented reforms staff recommend are outside of the Fund's main areas of expertise; *could staff please provide more detail on the extent to which the World Bank and other multilateral development banks will provide lending and capacity development on these reforms?* While we commend the authorities for implementing measures to improve governance through the recent establishment of the Commissions on Anti-Corruption and Transparency, we urge them to adopt the new anti-corruption law.

Like Mr. Bevilaqua, Mr. Velloso, and Ms. Cruz, we welcome the authorities' intention to engage in discussions with staff on a possible ECF arrangement, as noted in their Buff statement, but we would expect the missed structural benchmarks under the previous ECF to become either prior actions or frontloaded structural reforms under the new ECF. We also expect a new Fund program to have measures to improve the effectiveness and transparency in the use of public funds, funds received from development partners, and resources freed by the DSSI.