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September 22, 2021

**Statement by Mr. Hendrick and Ms. Bustillo on Republic of Congo
(Preliminary)
Executive Board Meeting
September 24, 2021**

We thank staff for the informative report and the interesting selected issues paper on climate change adaptation and transition challenges, and Mr. Andrianarivelo, Mr. N'Sonde, Mr. Sidi Bouna for their insightful Buff statement.

The Republic of Congo is gradually recovering from the COVID-19 pandemic and the decline in international oil prices that severely hit the economy in 2020. The medium-term outlook is projected to improve but remains fragile. Challenges ahead include the resolution of pending external arrears as well as stepping up efforts to diversify the economy and foster inclusive growth for which external financing remains critical. To this end, as debt sustainability has been restored, we welcome the authorities' intention to explore a new ECF arrangement, as noted in the Buff statement.

We welcome the authorities' efforts to improve debt sustainability and encourage a swift resolution of pending external arrears. This will help to increase confidence, as well as create fiscal space to support the recovery. We agree with staff's assessment that a slightly higher non-oil primary deficit is needed to support increased social spending and infrastructure needs. To this end, we stress the importance of addressing limitations of the social protection system which, as noted by staff is underfunded and has very low coverage—only 0.9 percent of the Congolese population benefits from social protection compared to 22.3 percent in Sub-Saharan Africa. Reducing VAT exemptions, transfers and subsidies to oil related state-owned enterprises, among other vulnerabilities that need to be reduced, will help to increase fiscal space to enhance social and infrastructure spending.

On the banking sector, while banking sector vulnerabilities have been reduced, non-performing loans are still high. The Buff statement notes that continued clearance of arrears will significantly contribute to strengthening the banking sector. *We would appreciate staff's comments on the expected timeline.*

On structural reforms, we welcome the authorities' commitment to governance and transparency, including the new anti-corruption law soon to be adopted by Parliament, which will continue to

improve the institutional framework and strengthen the country's external financing prospects. Moreover, as indicated in the Buff statement, the authorities are also committed to structural reforms, particularly accelerating the diversification of the economy and promoting sectors with growth and employment potential. *To this end, we would appreciate staff's comments on whether reforms to address the severe youth unemployment noted in Annex V are being contemplated.*

With these comments, we wish the Republic of Congo and its people all the best in these challenging times.