

September 21, 2021

**Statement by Mr. Andrianarivelo, Mr. N'Sonde, and Mr. Sidi Bouna on Republic of
Congo
Executive Board Meeting
September 24, 2021**

I. Introduction and Overview

On behalf of our Congolese authorities, we would like to thank staff for the constructive discussions held in the context of the 2021 Article IV consultation and for the valuable policy advice and recommendations.

The impact of the global pandemic on the Republic of Congo has been severe. Congo has entered the crisis with limited fiscal space and elevated debt levels, which have considerably hampered the authorities' ability to mitigate the effects of the pandemic. Moreover, Covid-19 reached the country at a time when international oil prices were declining rapidly, which has caused significant casualties in relation to the country's population and sharply reduced revenues from exports of crude oil, further compounding the damaging effects of the pandemic on the people and the economy. Real GDP is estimated to have contracted significantly in 2020 by global standards in this pandemic.

The Congolese economy is steadily recovering from the severe crisis caused by the pandemic while debt sustainability has improved owing to debt repayments and restructuring as well as the rebound in oil prices. The launch of a vaccination campaign in March 2021 has helped contain the initial increase in the numbers of infections and fatalities from the disease. Fiscal support has been provided to the vulnerable and to businesses with neither budget support from the international community nor emergency assistance from the IMF. Nonetheless, key macroeconomic indicators point to a slow but steady improvement in overall economic conditions, particularly regarding the fiscal and external positions. Strong adjustment measures undertaken by the authorities, along with higher oil prices have contributed to the recent favorable developments. The SDR allocation has provided much-needed resources that will be used to help support the recovery efforts and alleviate the impact of the crisis on the country.

The authorities reiterate their strong determination to pursue sound policies to restore the country’s macroeconomic stability while contributing to the economic recovery and external stability of the CEMAC region. Fiscal discipline and far-reaching governance reforms underway will be pursued. To further reduce the external debt burden, the authorities are continuing to actively seek favorable agreements with the country’s creditors, notably with oil traders for the restructuring of Congo’s commercial debt.

Support from the international financial community is critically needed to assist the authorities’ efforts to address the considerable challenges that lie ahead, including strengthening policy frameworks, tackling vulnerabilities, and curbing poverty which have been exacerbated by the pandemic and the ensuing economic shock. As the authorities pursue their economic adjustment, they intend to maintain a close engagement with the Fund whose advice they consider as instrumental in their efforts to ensure fiscal and debt sustainability, strengthen governance, and foster stronger, sustainable, and more inclusive growth. The support of the international community is also crucial to help diversify the economy away from oil, as the effects of climate change on the country are increasingly pronounced. The authorities very much appreciate the valuable insights included in the Selected Issues Paper on “Climate Change Adaptation and Transition Issues in a Low-Income Oil Exporting Country.”

II. Debt Sustainability Analysis and the Need for a Successor Arrangement

The Republic of Congo is one of the few requesting members that have not received any emergency financial assistance from the IMF during the pandemic. The Fund’s assessment that the country’s debt was unsustainable prevented it from providing financial support to Congo since the inception of the pandemic. While the authorities have continued to actively negotiate in good faith with creditors to restructure the country’s debt, the reluctance of commercial creditors to provide meaningful debt relief has hampered their efforts to achieve external debt levels deemed sustainable. This has also led to the expiration of the last Extended Credit Facility (ECF) arrangement in April 2021, prior to the completion of its first review.

The authorities welcome the findings of the updated debt sustainability analysis (DSA) which indicate that Congo’s debt sustainability has been restored, and they will pursue efforts to preserve it going forward. This is partly due to the progress achieved by the authorities in restructuring part of their external debt, as well as the effects of higher projected oil prices. The restoration of Congo’s debt sustainability makes it possible again to engage in deep adjustment and reforms that could be supported by the Fund. Indeed, meeting the challenges aforementioned will require external financing which in turn calls for the catalytic role of the IMF, as other international institutions and donors have been reluctant to provide financial assistance without a Fund-supported program. Therefore, the authorities

intend to resume soon discussions with Fund staff on a possible new ECF arrangement. Notwithstanding the improved debt sustainability, the authorities are aware that the overall debt situation remains fragile, as oil prices are volatile. To hedge against the adverse impact of potential oil price reversal, they agree with staff's recommendation to spare financial resources stemming from higher oil prices, pursue economic diversification, strengthen competitiveness, and increase the country's capacity to attract investment. The authorities also take note that the country remains in debt distress given the presence of external arrears for which they continue to seek repayment agreements with the countries involved.

III. Recent Economic Developments, Outlook, and Risks

The Congolese economy is gradually recovering from the deep recession of last year. In 2020, oil exports had declined significantly following to the abrupt drop in oil prices and production while economic activity in the non-oil sector had contracted sharply due to the necessary lockdown measures put in place to contain the spread of the virus, as well as negative spillovers from the oil sector. However, with progress in the efforts to contain the deterioration of the country's overall health situation, economic activity has slowly resumed. Real GDP growth is projected to improve to -0.2 percent in 2021 from -8.2 percent in 2020 while non-oil GDP growth is expected to reach 0.9 percent in 2021 from -8 percent last year. Inflation is forecast to remain moderate and relatively stable at 2 percent in 2021. Despite tighter expenditures control, the non-oil primary deficit should widen slightly to 17 percent of non-oil GDP in 2021 from 15.2 percent in 2020. The current account balance is projected to improve in 2021 driven by high oil exports and should reach a surplus of 12.1 percent after a deficit of 0.1 percent in 2020.

The medium-term economic outlook is projected to improve, supported by high oil prices, increased oil production, and a strengthening of economic activity in the non-oil sector. In particular, the progress achieved in the clearance of large amounts of domestic arrears is contributing to reinvigorating economic activity in the non-oil sector and strengthening the financial system.

The authorities broadly share the staff's assessment on the risks to the outlook and the related policy response. Particularly, the risks stemming from the Delta variant, oil price volatility, and the impact of climate change on agriculture and food security are carefully monitored given their high impact in case they came to materialize. While the authorities believe that the policies and reforms they are undertaking and their efforts to accumulate larger buffers at the regional central bank will help mitigate the identified risks, the support of the international community remains crucial to enhance Congo's resilience to potential adverse shocks.

IV. Macroeconomic Policies and Structural Reforms Looking Ahead

The authorities will build on their satisfactory track record in policy and reform implementation to further macroeconomic adjustment and push forward a transformative agenda toward broad-based, resilient, and inclusive growth. The implementation of prudent policies and sound reforms of recent years in challenging circumstances, notably in the areas of fiscal reforms, tax measures and governance should be encouraged. The new government formed last May has clearly stated its commitment to advance a transformative strategy that warrants support.

IV.1. Fiscal Policy

The authorities have undertaken significant fiscal adjustment over the past few years, as they continued to adapt to lower and volatile oil prices. Fiscal rebalancing took place through tighter control of current expenditures, including a reduction in the subsidies to CORAF and CEC—the oil refinery and the electricity company, respectively—a drastic cut in the externally financed capital spending, and, more recently, measures to increase non-oil revenues.

The authorities intend to continue fiscal consolidation with the objective of achieving more sustainable fiscal and debt positions over the medium-term. They are cognizant that this will require reaching a more substantive agreement with the country’s commercial creditors to bring down overall external debt. In addition, they recognize that further efforts are needed to expand the fiscal space to allow for an increase in social spending—including to respond to the effects of the crisis—the pursuit of the domestic arrears’ repayment strategy, and a resumption of infrastructure spending which declined significantly in recent years. Accordingly, the authorities share the staff’s view that, in the period ahead, a slightly wider non-oil primary deficit than initially planned will be necessary to support the recovery efforts, notably by accommodating the indispensable domestic arrear repayments and the necessary investments in health, education and well-advanced productive infrastructure projects.

It is important that the donor community step up its assistance to the authorities’ adjustment efforts. Resuming budget support and project financing is particularly critical, including to preserve social and infrastructure spending and pursue the clearance of arrears, given Congo’s extremely tight fiscal position at the present.

IV.2. Financial Sector Policy

The economic recovery underway and the ongoing repayment of domestic arrears are helping reduce the vulnerabilities of the banking sector. The swift measures taken by BEAC to ease monetary policy early in the pandemic have helped provide much-needed liquidity to Congolese financial system. However, while the liquidity of financial institutions as whole has continued to improve, the solvency ratio declined partly due to the need to

increase provisioning. In addition, although non-performing loans (NPLs) have started to decline recently, they remain relatively elevated and continue to weigh on banks' balance sheets, thereby constraining the important role that banks could play in supporting the recovery. As elevated NPLs are largely the result of the accumulation of domestic arrears towards the private sector, the continued clearance of these arrears will significantly contribute to strengthening the banking sector.

IV.3. Structural Reforms

Bolstering governance and diversifying the economy away from oil is a key priority of the authorities' reform agenda. They plan to continue to make progress in these important areas with the objective of attracting more diverse private investments and enhancing the resilience of the economy. Significant reforms have been achieved in the domains of governance and transparency over the past few years, starting at the institutional and framework levels. The authorities will continue to reinforce the anti-corruption framework and promote transparency in the management of the oil sector. A new anti-corruption law which aims at better aligning the country's legal framework in this area with international best practices should be adopted by Parliament next month. The authorities look forward to the IMF's technical assistance to further improve public financial management (PFM), including to ensure that all outstanding payments from previous years' budgets are adequately addressed, and set up appropriate safeguards in this area, in line with best practices.

The authorities are determined to accelerate the diversification of the economy by promoting key sectors which have significant growth and employment potential, based on the country's comparative advantage. Their efforts are mainly geared towards the development of more productive agricultural and forestry activities. To this end, they will invest in enabling infrastructure, notably transportation, and expanding power generation and distribution, including with a view to enhancing resilience to climate change while promoting transparency. This will also help ameliorate the business environment, attract private investment, and foster jobs creation.

V. Conclusion

The Congolese authorities have made important progress in stabilizing the economy, improving debt dynamics, and strengthening the country's growth prospects despite the significant impact of the pandemic and the absence of external support. As the economy continues to recover from the crisis, the authorities recognize that more needs to be done to achieve higher, sustained, and more inclusive growth. To achieve these objectives, they intend to maintain a close engagement with the Fund and call on the international community to support their reform agenda.