

**EXECUTIVE
BOARD
MEETING**

EBS/23/11
Supplement 2

February 2, 2023

To: Members of the Executive Board

From: The Secretary

Subject: **Republic of Congo—Second Review Under the Three-Year Extended Credit Facility Arrangement, Requests for Modification and Waivers of Nonobservance of Performance Criteria, and Financing Assurances Review—Supplementary Information, Revised Proposed Decision, and Supplementary Letter of Intent**

Board Action:	Executive Directors' consideration (Formal)
Tentative Board Date:	Monday, February 6, 2023
Proposed Decision:	Pages 3–5
Publication:	Yes*
Questions:	Ms. Mitra, AFR (ext. 39523) Mr. Hespeler, AFR (ext. 39587) Ms. El Idrissi, AFR (ext. 34422) Mr. Islam, AFR (ext. 36981)
Document Transmittal in the Absence of an Objection and in accordance with Board policy:	After Board Consideration—African Development Bank, World Trade Organization

*The authorities have indicated that they consent to the Fund's publication of this paper.



REPUBLIC OF CONGO

SECOND REVIEW UNDER THE THREE-YEAR EXTENDED CREDIT FACILITY ARRANGEMENT, REQUESTS FOR MODIFICATION AND WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW—SUPPLEMENTARY INFORMATION, REVISED PROPOSED DECISION, AND SUPPLEMENTARY LETTER OF INTENT

Approved By Vitaliy Kramarenko (AFR) and Geremia Palomba (SPR)

1. The Republic of Congo recently temporarily accumulated and have fully paid arrears on external debt owed to Belgium and France since circulation to the Board of the staff report for the second review under the Extended Credit Facility Arrangement (ECF). Arrears in the amount of \$3.5 million and \$6.0 million were accumulated to Belgium as of January 14 and 15, 2023 and were paid on January 20, 2023. Arrears in the amount of \$10.3 million were accumulated to France as of January 15, 2023 and were paid on January 20, 2023. These arrears arose from capacity constraints faced by the Caisse Conglaise d'Amortissement (CCA), specifically errors made by overburdened staff. To address these constraints and prevent future arrears, the structure of the CCA is in the process of being reorganized in line with recent IMF technical assistance (TA) recommendations. The reorganization is expected to reduce the burden on CCA staff and facilitate hiring additional qualified staff. Decrees required to implement the new structure of the CCA have been drafted with support of IMF TA. The Ministry of Finance and the Prime Minister's office are working towards quickly adopting these decrees.

2. Staff supports the authorities' request for a waiver of non-observance of the continuous PC on the non-accumulation of new arrears on external debt on the basis of the temporary nature of the breach and corrective measures put in place by the authorities. The temporary accumulation of these arrears resulted in breach of the continuous PC which places a zero ceiling on the accumulation of new arrears on external debt contracted or guaranteed by the central government. Corrective actions have been taken by the authorities through quick payment of the arrears and ongoing reorganization of the CCA, supported by IMF TA, that will prevent the reoccurrence of this type of error. In light of these corrective actions, staff assesses that the breach has been corrected and staff believes that this issue does not alter the overall assessment conducted in the staff report, including

the authorities' continued commitment to the program. Based on information provided by the authorities, there are no other external arrears at this moment.

3. The PC table attached to the supplemental LOI will replace "Table 1. Republic of Congo: Quantitative Performance Criteria (PC) and Indicative Targets (IT), 2022–23" attached to the original LOI and MEFP.

4. A revised proposed decision is attached to this supplement.

Revised Proposed Decision

The following decision, which may be adopted by a majority of the votes cast, is proposed for adoption by the Executive Board:

1. The Republic of Congo has consulted with the Fund in accordance with paragraph 4.A(b) of the arrangement under the Extended Credit Facility for the Republic of Congo (EBS/22/1, Sup. 2, 01/18/2022, the "ECF Arrangement") in order to review program implementation and to reach understandings regarding the conditions for future disbursements.
2. The letter dated December 14, 2022 from the Minister of Finance and Economy of the Republic of Congo (the "December 2022 Letter"), together with its attached Memorandum of Economic and Financial Policies (the "December 2022 MEFP") and the Technical Memorandum of Understanding (the "December 2022 TMU") and the Supplementary Letter dated February 1, 2023 (the "February 2023 Supplementary Letter"), shall be attached to the ECF Arrangement, and the letter dated January 10, 2022 from the Prime Minister and the Minister of Finance and Budget, together with its attachments, as supplemented and modified, shall be read as further supplemented and modified by the December 2022 Letter, its attachments and the February 2023 Supplementary Letter.
3. Accordingly, the ECF Arrangement for the Republic of Congo shall be amended as follows:
 - a. A new paragraph 2(e) shall be included in the ECF Arrangement to read as follows:

"2(e) the fifth disbursement, in an amount equivalent to SDR 32.40 million, will be available on or after October 15, 2023 at the request of the Republic of Congo and subject to paragraphs 4 and 5 below."
 - b. In Paragraph 4.B(a) of the ECF Arrangement "Table 1 of the June 2022 MEFP and further specified in the June 2022 TMU" shall be replaced with a reference to "Table 1 of the February 2023 Supplementary Letter and further specified in the December 2022 TMU".

- c. In paragraph 4.B(b) of the ECF Arrangement, “paragraph 41 of the June 2022 MEFP” shall be replaced by “paragraph 39 of the December 2022 MEFP”.
 - d. A new paragraph 4.C shall be included in the ECF Arrangement to read as follows:

“4.C. The Republic of Congo will not request the fifth disbursement under this arrangement specified in paragraph 2(e) above:

 - a. if the Managing Director of the Trustee finds that the data as of June 30, 2023 indicate that:
 - i. the floor on the basic non-oil primary budget balance; or
 - ii. the ceiling on net domestic financing to the central government;as set out in Table 1 of the February 2023 Supplementary Letter and further specified in the December 2022 TMU was not observed; or
 - b. until the Trustee has determined that the fourth program review referred to in paragraph 39 of the December 2022 MEFP has been completed.”
 - e. In paragraph 5 of the ECF Arrangement, the words “Table 1 of the June 2022 MEFP and further specified in the June 2022 TMU” shall be replaced with a reference to “Table 1 of the February 2023 Supplementary Letter and further specified in the December 2022 TMU”.
4. The Fund decides that the financing assurances review specified in paragraph 5(e) of the ECF Arrangement and that the second review specified in paragraph 4.A(b) of the ECF Arrangement are completed, and that the Republic of Congo may request the third disbursement referred to in paragraph 2(c) of the ECF Arrangement notwithstanding the nonobservance of the performance criteria on (1) the floor on the basic non-oil primary balance, referred to in paragraph 4.A.(a)(i) of the ECF Arrangement, at end-June 2022; (2) the ceiling on net domestic financing of the central government, referred to in paragraph 4.A.(a)(ii) of the ECF Arrangement, at end-June 2022; (3) the continuous ceiling on the accumulation of new arrears on external debt contracted or guaranteed by the central government, referred to in paragraph 5(a) of the ECF Arrangement; and (4) the continuous

ceiling on the nominal value of new non-concessional external debt contracted or guaranteed by the central government, referred to in paragraph 5(b) of the ECF Arrangement, on the condition that the information provided by the Republic of Congo on the performance under these criteria is accurate and on the further condition that that the information provided by the Republic of Congo on the implementation of the measures specified as prior actions in Table 3 of the December 2022 MEFP is accurate.

Appendix I. Supplementary Letter of Intent

February 1, 2023

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431
U.S.A.

Madam Managing Director:

1. In addition to our Letter of Intent dated December 14, 2022, we wish to provide additional information on external arrears of \$19.8 million (0.2 percent of GDP) that were temporarily accumulated to two of our official creditors. Arrears in the amount of \$3.5 million and \$6.0 million were accumulated to Belgium as of January 14 and 15, 2023 and were paid on January 20, 2023. Arrears in the amount of \$10.3 million were accumulated to France as of January 15, 2023 and were paid on January 20, 2023. The debt service to Belgium was originally due on December 14 and 15, 2022 and to France on December 15, 2022. Once the delayed payments exceeded the 30-day grace period provided for in the TMU, they became arrears for program purposes and constituted non-observance of the continuous PC in the TMU. Upon notification by the respective creditors, we immediately paid these arrears.
2. The situation has been corrected with rapid payment of these arrears and we are addressing the capacity constraints faced by the Caisse Congolaise d'Amortissement (CCA), specifically overburdened staff, that led to these arrears. The structure of the CCA is in the process of being reorganized in line with recent IMF technical assistance (TA) recommendations. The reorganization is expected to reduce the burden on CCA staff and facilitate hiring additional qualified staff. Decrees required to implement the new structure of the CCA have been drafted with support of IMF TA. The Ministry of Finance and the Prime Minister's office are working towards quickly adopting these decrees. We wish to assure you that with the new structure of the CCA, which is part of on-going improvements in our debt management capacity with the support of IMF TA, such arrears will not occur in the future and we request a waiver for the non-observance of this continuous Performance Criteria.
3. The government stands ready to take any additional measures that may be necessary to further improve debt management, a key pillar of the program. We will consult with the IMF

on the adoption of such measures in advance of any revision of the policies contained in the MEFP, in accordance with the Fund's policies on such consultations.

Sincerely,

/s/

Jean-Baptiste Ondaie
Minister of Finance and Economy
Brazzaville, Republic of Congo

Table 1. Republic of Congo: Quantitative Performance Criteria (PC) and Indicative Targets (IT), 2022–23(Billions of CFA francs; cumulative from the beginning of the year, except where otherwise indicated)¹

	Type of criteria	End-Feb 2022			End-Jun 2022			End-Sept 2022		End-Dec 2022		End-Mar 2023		End-June 2023		End-Sept 2023		End-Dec 2023
		PC	Actual	Status	PC	PC Modified	Actual	Status	IT	IT modified	PC	PC modified	IT	IT modified	PC	IT	PC	
		Program			Program	Program		Program	Program	Program	Program	Program	Program	Program	Program	Program	Program	
Floor on basic non-oil primary budget balance ²	PC	-128	-62	Met	-309	-321	-284	Not Met	-459	-396	-510	-506	-131	-143	-303	-444	-523	
Adjusted target (floor)		-126				-233												
Upward (Downward) adjustment for higher (lower) than expected oil-related transfers		0				57												
Downward (Upward) adjustment for higher (lower) than expected net external assistance and upward adjustment for lower oil revenue		1				31												
Ceiling on net domestic financing of the central government	PC	168	106	Met	289	217	144	Not Met	331	101	-262	-57	209	-15	-47	-121	-297	
Adjusted target (ceiling)		169				22												
Downward (Upward) adjustment for higher (lower) than expected net external assistance and oil revenue		1				-195												
Ceiling on accumulation of new arrears on external debt contracted or guaranteed by the central government ³	PC	0	0	Met	0	0	12	Not Met	0	0	0	0	0	0	0	0	0	
Ceiling on contracting or guaranteeing of new non-concessional external debt by the central government (US\$ million) ^{4,5,7}	PC	0	0	Met	0	0	1132	Not Met	0	0	0	0	0	0	0	0	0	
Ceiling on new external debt contracted by or on behalf of the central government and guaranteed with future natural resource (including oil) deliveries ⁶	PC	0	0	Met	0	0	0	Met	0	0	0	0	0	0	0	0	0	
Floor on non-oil revenues	IT	96	113	Met	289	298	355	Met	495	553	758	762	182	191	405	632	881	
Floor for social and poverty-reducing spending	IT	61	38	Not Met	152	152	184	Met	228	228	379	379	96	80	181	322	402	
Ceiling on disbursements of external loans for investment projects	IT	17	16	Met	56	56	133	Not Met	111	149	143	157	25	67	123	176	186	
Ceiling on new concessional external debt contracted or guaranteed by the central government (CFAF billion) ⁷	IT	15	0	Met	37	36	0	Met	52	0	69	33	43	46	86	100	140	
Floor on repayment of domestic arrears accumulated by the central government	IT	16	20	Met	30	60	270	Met	161	361	402	365	21	20	40	90	200	
Memo items:																		
Oil revenue ⁸		161	222		439	680	907		1082	1272	1546	1405	236	241	584	965	1439	
Expected external assistance, net ⁹		-118	-182		-299	-409	-471		-614	-557	-870	-845	-67	-133	-239	-364	-555	
- BoP assistance (IMF-ECF)		51	54		102	106	108		106	108	158	108	0	55	83	83	110	
- Budgetary loans and grants (excl. IMF)		9	0		19	19	61		29	66	103	98	92	30	88	127	189	
- Change in non-program external arrears		0	-15		0	0	0		0	0	0	0	0	0	0	0	0	
Payments for current external debt service due after debt relief		127	167		318	428	532		643	622	974	943	160	164	328	491	744	

¹ Quantitative Performance Criteria and Indicative Targets are defined in the TMU. "Program" columns represent the PCs and ITs set at the time of the first review of the ECF arrangement; and "Modified Program" represent the modifications to these PCs and ITs proposed during the current second review of the ECF arrangement.² Defined as non-oil domestic revenue minus total expenditures excluding interest payments, transfers paid with crude oil, and foreign-financed investment.³ These ceilings are set to zero and to be respected continuously from the date of program approval.⁴ Excluding all sources of budgetary support identified in the program.⁵ Excluding all types of financing mentioned in paragraph 10 of the TMU.⁶ Subject to the exception allowed in paragraph 11 of the TMU.⁷ Cumulative from the date of program approval and is on a contractual basis in accordance with the IMF's debt limits policy.⁸ <https://www.imf.org/-/media/Files/Publications/PP/2021/English/PPEA2021037.ashx>⁹ Excluding oil barter transactions for the payment of transfers.⁹ As defined in paragraphs 18 and 22 of the TMU.