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October 11, 1984

To: Members of the Executive Board

From: The Secretary

Subject: People's Republic of the Congo - Staff Report for the 1984 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1984 Article IV consultation with the People's Republic of the Congo. A draft decision appears on page 14.

This subject will be brought to the agenda for discussion on a date to be announced.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Sidibé (ext. (5)8730) or Mr. McCarthy (ext. (5)8734).

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INTERNATIONAL MONETARY FUND

PEOPLE'S REPUBLIC OF THE CONGO

Staff Report for the 1984 Article IV Consultation

Prepared by the Staff Representatives for the 1984 Consultation with the People's Republic of the Congo

Approved by J.B. Zulu and W.A. Beveridge

October 10, 1984

I. Introduction

The 1984 Article IV consultation discussions with the People's Republic of the Congo were held in Brazzaville during the period June 15-28, 1984. The Congo continues to avail itself of the transitional arrangements of Article XIV. The representatives of the Congo included Mr. I.O. Lekoundzou, Minister of Finance; Mr. J.E. Sathoud, Vice-Governor of the Bank of Central African States (BEAC); Mr. G. Bokilo, National Director of the BEAC; and other senior officials concerned with economic and financial matters. The staff representatives were Messrs. Sidibé (head), Cronquist, McCarthy, and Rajcoomar, all from the African Department, and Mrs. Rousseau (secretary-BLS).

A summary of the Congo's relations with the Fund is provided in Appendix I, and with the World Bank Group in Appendix II.

II. Recent Economic Developments

Following the rapid and large rise in resources accruing from the oil sector, in 1981 the Congolese authorities adopted a Five-Year Economic and Social Development Plan, covering the period 1982-86. This plan, designed to set the stage for self-sustained economic growth in the post-petroleum era, gives priority to the improvement of the basic physical infrastructure (roads, railroad, and waterways) and to the revival of the productive base and the creation of conditions propitious to its future expansion, including the rehabilitation of state enterprises. The plan envisages total investments of CFAF 1,970 billion (at 1981 prices), of which CFAF 1,110 billion represents investments by the public sector. Some 70 percent of the public sector investment program, the core of the plan, would be undertaken by the Central Government. On an annual basis, such investment expenditure under the budget would average CFAF 156 billion, compared with CFAF 87 billion in 1981.

During the period 1982-83, the first two years of the plan, real economic growth slowed considerably (Chart 1 and Table 1). Oil production, which rose by 26 percent to some 29 million barrels in 1981, increased by only 12 percent in 1982. Although the growth rate of oil output recovered to 18 percent in 1983, it still remained substantially below the levels envisaged under the plan. Thus, notwithstanding the rapid expansion in construction and public works, services and trade, and the manufacturing sector, stimulated by the sharp increase in public sector investment, in 1982 the growth of real GDP was almost halved to 13 percent. In 1983 world oil prices softened significantly, resulting in a substantial slowdown in investments by the oil companies. Moreover, though construction and public works continued to expand rapidly, the output of the non-oil sector stagnated and real GDP growth is estimated to have declined further to about 4 percent in 1983.

Meanwhile, the rehabilitation efforts were not successful and the economic performance of the state enterprises--which dominate the manufacturing, modern agricultural, transportation, and utilities sectors--remained unsatisfactory. They continued to suffer from inappropriate investment, employment, and pricing policies, as well as weaknesses in management. During the two years 1982-83, employment and personnel expenditure of the state enterprises rose by 15 percent and 57 percent, respectively, and their operating deficits increased tenfold to CFAF 22.5 billion in 1983. Government operating subsidies to these enterprises more than doubled in 1982 to CFAF 13 billion. In 1983 such subsidies declined by about 50 percent owing solely to the Government's difficult financial situation. As a result, the state enterprises continued to incur substantial payments arrears.

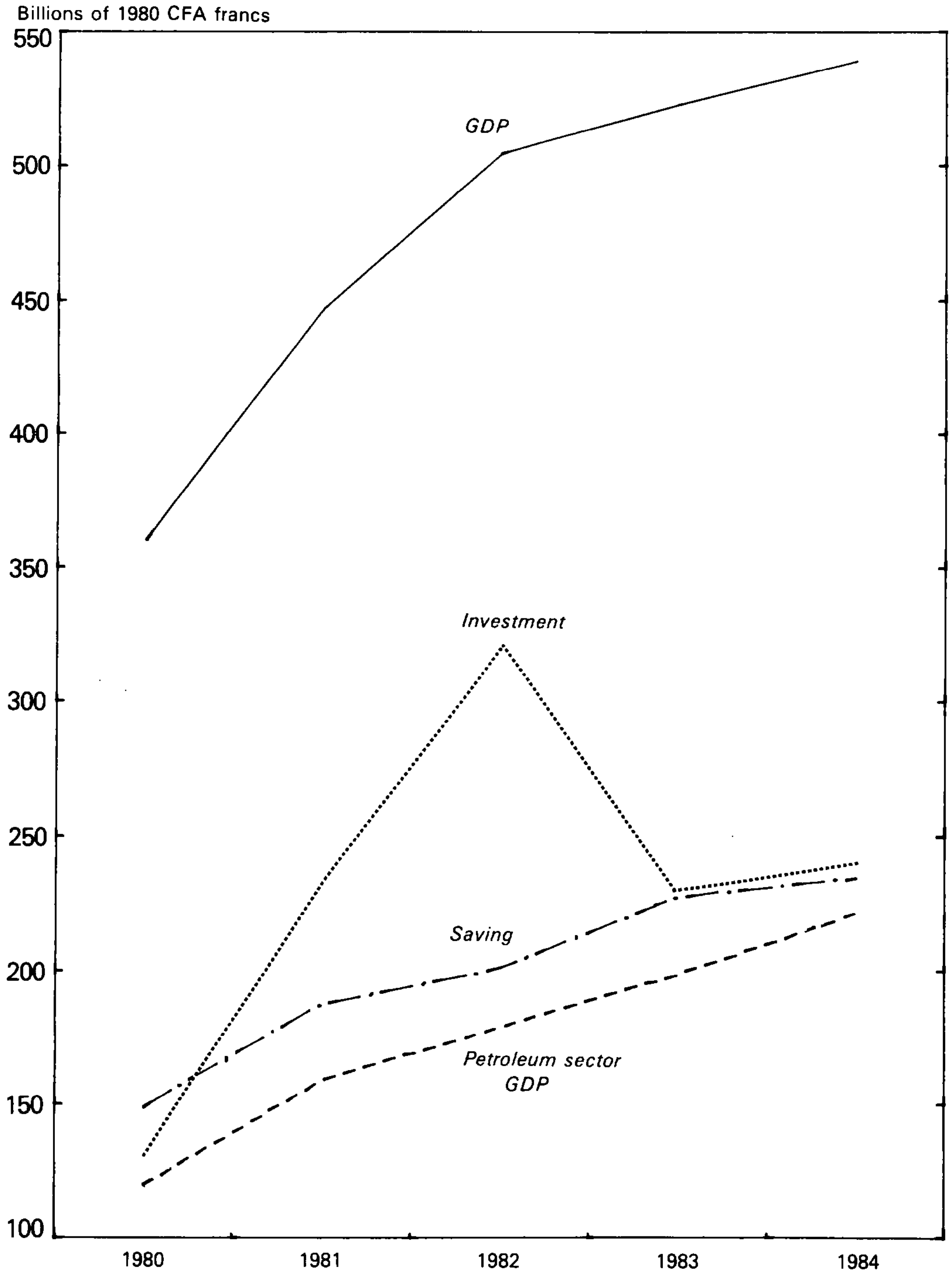
Over the same two-year period, the deceleration in economic activity was accompanied by a weakening in the Congo's overall financial situation. The government budget moved from a surplus on a commitment basis of about CFAF 6 billion (1 percent of GDP) in 1981 to deficits of CFAF 90 billion (12.6 percent of GDP) in 1982 and CFAF 72 billion (9 percent of GDP) in 1983 (Chart 2 and Appendix IV--Table I). In both years the Treasury incurred arrears, particularly in 1983. As a result, the deficits on a cash basis amounted to CFAF 87 billion in 1982 and CFAF 11 billion in 1983. In the latter year, Treasury arrears are estimated to have increased by CFAF 61 billion, including some CFAF 35 billion incurred vis-à-vis public work companies resulting from cost overruns and the accelerated execution of infrastructure projects. The financing of the Treasury cash deficits involved substantial recourse to foreign and domestic borrowing, particularly in 1982.

The deterioration in the budgetary situation reflected a continued expansionary fiscal policy stance in the face of sluggish revenue growth. Because of the slower growth in oil output and exports (Chart 3) and the softening of oil prices--though this was cushioned by the depreciation of the CFA franc--budgetary resources from the oil sector, which more

CHART 1

PEOPLE'S REPUBLIC OF THE CONGO

SUPPLY AND USE OF RESOURCES, 1980-84



Source: Data provided by the Congolese authorities; and staff estimates.

Table 1. People's Republic of the Congo: Selected Economic and Financial Indicators, 1980-84

	1980	1981	1982	1983 Prel.	1984 Proj.
	(Annual percentage change) 1/				
National income and prices					
GDP at 1980 prices	17.7	24.0	13.0	3.6	3.1
Oil sector GDP	14.8	32.3	12.7	11.1	6.0
Oil output (barrels)	20.5	26.0	11.6	17.7	7.4
GDP deflator	22.8	21.2	16.3	9.1	4.4
Consumer prices	7.6	16.7	11.7	8.8	7.3
External sector					
Exports, f.o.b.	82.5	51.5	25.0	11.5	27.7
Of which: petroleum	(110.1)	(68.2)	(24.2)	(13.7)	(29.4)
Imports, c.i.f.	49.5	89.8	7.5	5.5	0.8
Export volume	24.2	13.9	11.0	17.8	4.6
Of which: petroleum	(24.5)	(22.5)	(11.0)	(17.8)	(4.6)
Import volume	20.8	47.5	4.8	-0.8	-7.2
Terms of trade (deterioration -)	18.6	3.3	9.2	-8.4	14.1
Real effective exchange rate (depreciation -) 2/	-4.0	0.3	-0.3	-2.1	1.7
Government budget					
Revenue and grants	101.0	99.8	22.9	17.1	1.6
Expenditure	139.6	45.3	70.5	7.6	-17.9
Money and credit					
Government (net)	45.2	-54.8	95.6	-34.1	...
Private sector and state enterprises	2.8	80.7	45.5	23.3	...
Broad money (M_2)	36.9	50.0	25.9	-1.8	...
Velocity (GDP relative to M_2) 3/	6.5	6.6	6.8	7.0	...
	(In percent of GDP)				
Revenue and grants	29.2	38.8	36.4	37.7	35.6
Budget deficit (commitment basis)	-9.8	1.1	-16.6	-7.6	--
Gross domestic savings	41.4	41.9	39.8	43.3	40.4
Gross domestic investment	32.9	49.2	62.1	40.4	40.4
External current account deficit 4/	13.5	27.2	21.7	20.4	12.7
External debt					
Total outstanding	68.0	66.0	71.0	75.4	81.6
Debt service ratio 5/	8.9	22.8	25.3	25.5	23.4
	(In millions of SDRs)				
Overall balance of payments	26.2	15.2	-57.6	-59.2	-72.6
Accumulation of arrears	17.9	20.9	-4.2	31.7	...
	(In months of imports)				
Gross official reserves (end of period)	0.9	1.5	0.5	0.2	...

Sources: Data provided by the Congolese authorities; and staff estimates and projections.

1/ Based on values in CFA francs unless otherwise noted.
2/ Trade-weighted, annual rates.
3/ With M_2 calculated as the average of end-of-quarter figures.
4/ Excluding official transfers.
5/ Scheduled public debt service in percent of exports of goods and nonfactor services.

than doubled in 1981, rose by only 21 percent in 1982 and 7 percent in 1983. As the level of economic activity slowed down, the growth rate of non-oil revenue also fell substantially in these two years. As a result, total budgetary revenue, which doubled in 1981, increased by only 23 percent in 1982 and 16 percent in 1983. In terms of GDP, budgetary revenue declined from 38.7 percent in 1981 to 36.2 percent in 1982; it recovered slightly to 37.1 percent in 1983. In contrast, government spending which was equivalent to 37.8 percent in 1981, reached 49 percent in 1982 and declined to 46.6 percent in 1983, as investment outlays were curtailed. The latter expenditure, which had doubled in 1981, rose by about 124 percent in 1982; in the following year, these outlays declined by about 10 percent owing to the emergence of liquidity problems and to difficulties in securing external financing. As a ratio to GDP, investment outlays under the budget moved from 16 percent in 1981 to 27.3 percent and 21.7 percent in 1982 and 1983, respectively. During these last two years, current expenditure grew at an annual rate of 30 percent. Almost all the major current expenditure items increased rapidly. The wage bill rose at the rate of 19 percent per annum, while subsidies and transfers more than doubled. This was attributable to the Government's salary awards granted to civil servants in 1982 and to the long-standing policy of granting scholarships and offering employment to all school and university graduates, as well as to increased subsidies to state enterprises and government agencies. Moreover, interest payments on the public debt also rose substantially, reflecting increased borrowing, the takeover by the Government of debt obligations of a number of state enterprises, and the depreciation of the CFA franc.

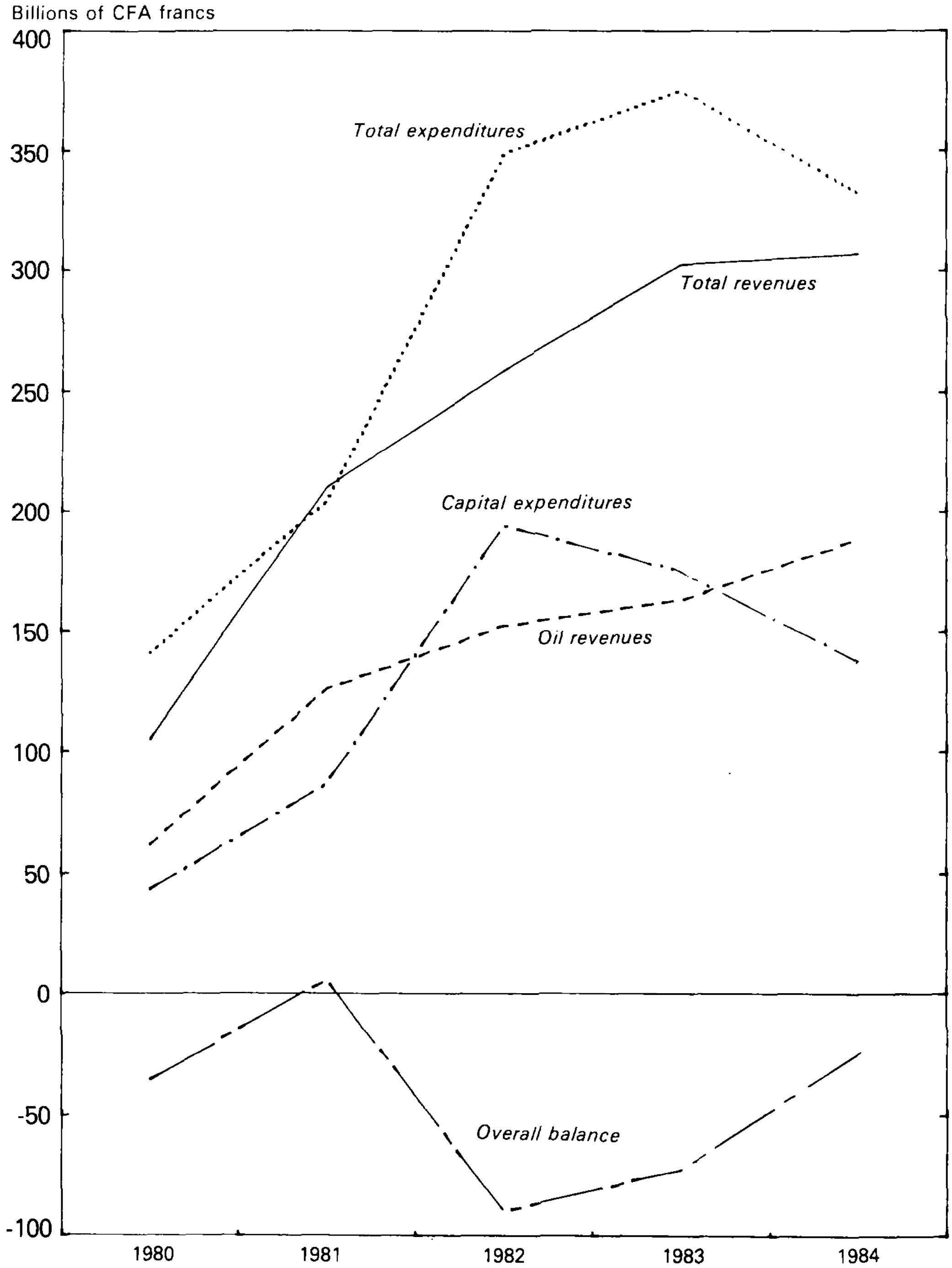
In 1982, the sharp increase in government borrowing from the central bank, together with buoyant private sector demand for credit, led to a 53 percent expansion in domestic credit, or 57 percent in terms of broad money outstanding at the beginning of the period (Chart 4 and Appendix IV--Table II). Net claims of the banking system on the Government a large part of which consisted of central bank medium-term loans to finance investment outlays, rose by 96 percent in 1982, or 14 percent of broad money. In the same year, private sector credit (including credit to state enterprises) expanded by about 45 percent, following an 81 percent growth in the preceding year. In 1983, the expansion in domestic credit decelerated to 13 percent, reflecting the reduced recourse to central bank advances and the slowdown in economic activity. With net foreign assets falling rapidly, especially in 1983, broad money expansion was halved to 26 percent in 1982 and in 1983 money supply fell. As measured by movements in the expatriate consumer price index, the only one available, inflation decelerated to 12 percent in 1982 and to 9 percent in 1983, from 17 percent in 1981.

Developments in the Congo's external current account position are dominated by the oil sector which is also a large importer of capital and manpower. Because the oil fields are small and difficult to exploit,

CHART 2

PEOPLE'S REPUBLIC OF THE CONGO

CENTRAL GOVERNMENT REVENUE AND EXPENDITURE, 1980-84



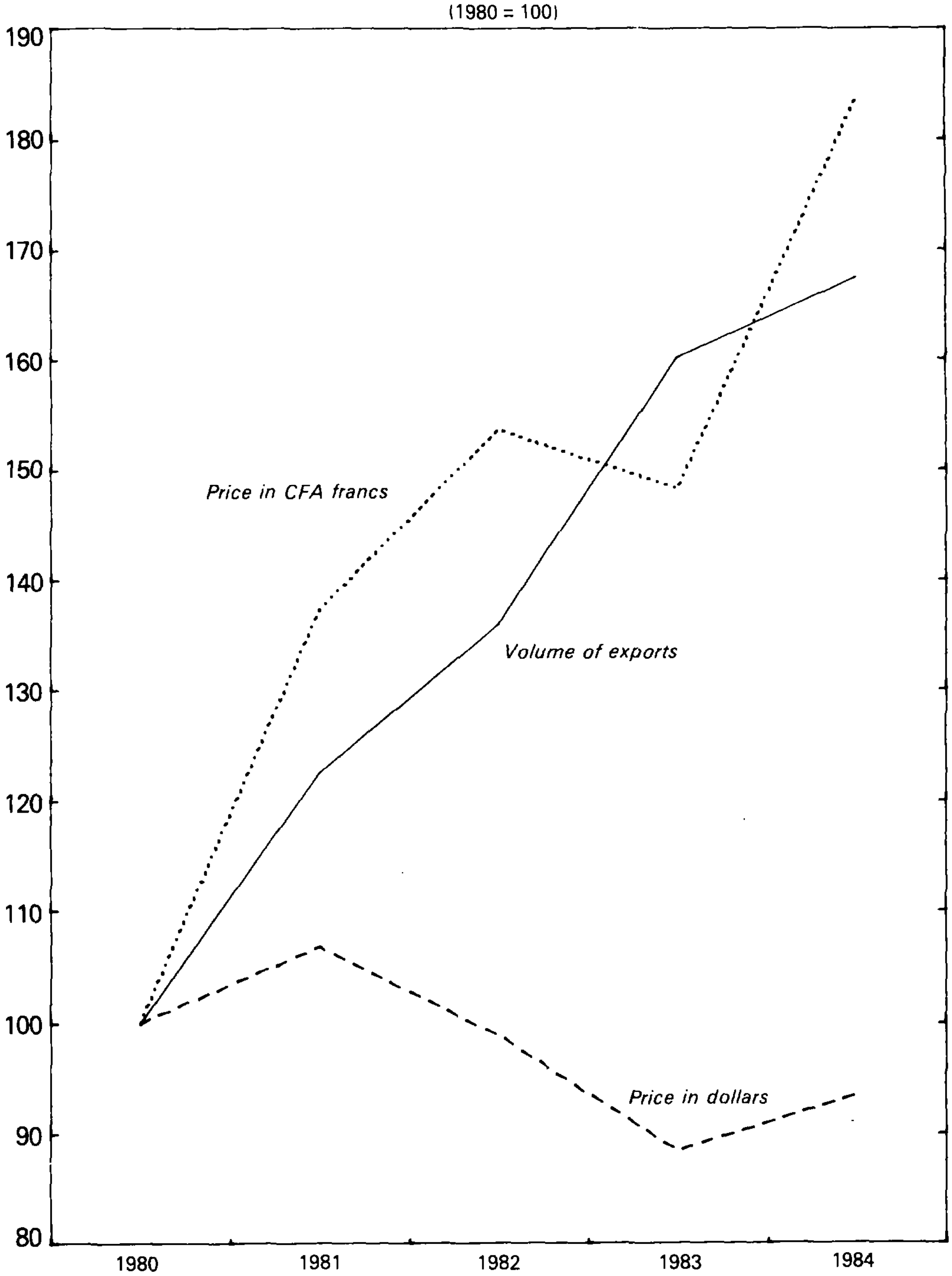
Sources: Data provided by the Congolese authorities, and staff estimates.

CHART 3

PEOPLE'S REPUBLIC OF THE CONGO

DETERMINANTS OF THE VALUE OF PETROLEUM EXPORTS, 1980-84

(1980 = 100)

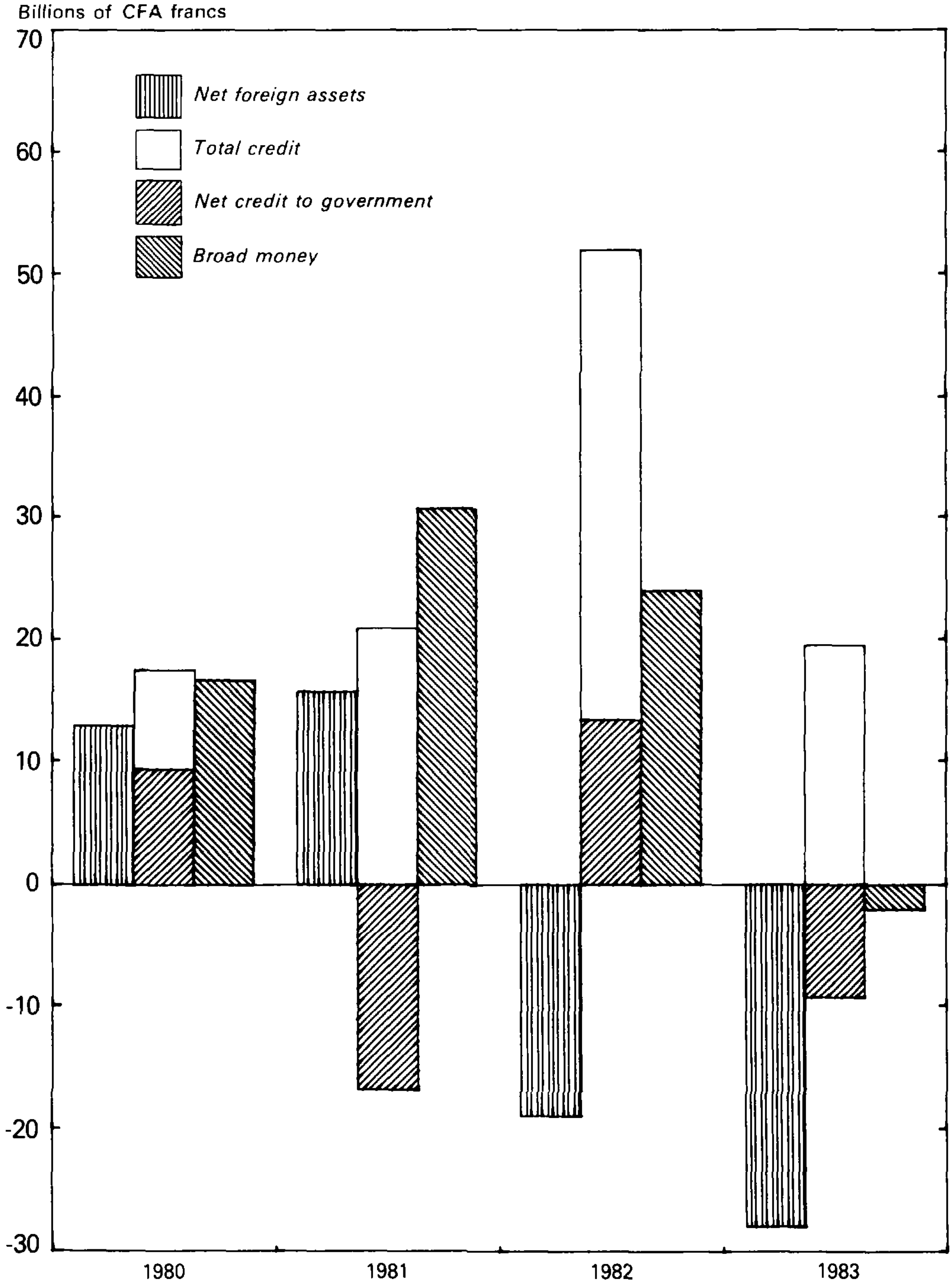


Sources: Data provided by the Congolese authorities; and staff estimates.

CHART 4

PEOPLE'S REPUBLIC OF THE CONGO

CHANGES IN MONETARY AGGREGATES, 1980-83



Sources: Data provided by Congolese authorities, and staff estimates.

the Congo is a high-cost producer, requiring large investments in exploration, research, and development. Thus, trade surpluses are more than offset by growing net service payments. Reflecting this as well as the increasing debt amortization, the Congo's external position came under pressure during the last two years as conditions in the oil sector became less favorable.

Following a period of very rapid expansion, the growth of petroleum exports in terms of domestic currency decelerated to 24 percent in 1982 and 14 percent in 1983 (Appendix IV--Table III). As a result, the growth rates of total exports were halved to 25 percent and 12 percent, respectively, in these two years. Since 1978, the share of petroleum receipts has increased in almost every year, moving from 69 percent of total exports in 1978-79 to 80 percent in 1980, and to nearly 90 percent in 1983. The contribution of the forestry sector--the primary source of export earnings in the past--declined from 18 percent in 1978 to less than 5 percent in 1983. As the growth rates of payments for imports declined rapidly, the trade balance continued to register substantial and increasing surpluses in 1982-83. However, because of larger payments for services mainly on account of expenditures related to oil companies' activities, and of the servicing of public and private debt, in 1982 the external current account deficit rose slightly to CFAF 154 billion (SDR 425 million), and it further deteriorated in 1983 to CFAF 164 billion (SDR 402 million). In terms of GDP, however, the external current account deficit declined from 27.2 percent in 1981 to about 21 percent in 1982-83. In both of these years, the public sector continued to borrow heavily to finance its investment program. At the same time, long-term borrowing by the private sector, notably the oil sector, also increased substantially. Nevertheless, net inflows of capital were significantly lower than in 1980-81 owing to larger debt amortization, which more than doubled between 1980 and 1982 and rose further by 14 percent in 1983. The outflow of short-term capital also rose sharply in 1982. Consequently, there was a major turnaround in the external position in 1982 and an overall deficit of CFAF 21 billion (SDR 58 million) was registered. Despite the considerable improvement in the short-term capital account, the overall balance of payments deficit increased to CFAF 24 billion (SDR 59 million) in 1983. Over the two-year period, gross official reserves fell from the equivalent of SDR 110 million at end-1981 to SDR 11 million at end-1983, or less than a week of 1984 estimated imports, c.i.f.

The rapid growth of oil output since 1980 and the subsequent improvement in its credit standing, prompted the Congo to resort to large-scale foreign borrowing to support its investment program. Although not yet fully comprehensive, data compiled by the Caisse Congolaise d'Amortissement (CCA) with World Bank technical assistance show that in 1982-83 outstanding external public debt increased by 69 percent to CFAF 606.7 billion (US$1.45 billion) at end-1983, equivalent to 75.4 percent of GDP. The Central Government accounts for 80 percent of this total, the remainder representing debt of the state enterprises, especially the transportation company, guaranteed by the Government. The external public debt service ratio, which had declined substantially because of debt rescheduling and the sharp rise in exports, rose rapidly from about 9 percent in 1980 to some 23 percent in 1981. In the subsequent two years, notwithstanding the continued rapid growth of exports, the public debt service ratio increased steadily to 26 percent in 1983. Outstanding arrears on external debt service rose from CFAF 8.1 billion at end-1982 to CFAF 21 billion at end-1983. However, as in previous years these arrears were settled during the first half of the following year.

Regarding private sector debt that consists largely of borrowing by the oil companies, available information is limited to debt service, which as a ratio of exports of goods and nonfactor services declined steadily from 55 percent in 1978 to 25 percent in each of the two years 1982-83. Thus, the total debt service ratio of the Congo declined from 54 percent in 1981 to 51 percent in 1982-83.

III. Report on the Discussions

The availability of resources, both domestic and foreign, for the financing of the plan is critically dependent on prospects for the oil sector which are subject to uncertainties pertaining to both production and the external environment. In the light of this, during the last consultation discussions (1982) the staff representatives stressed that the authorities' fiscal and investment policies should retain sufficient flexibility to permit rapid responses to exogenous shocks. Also, as part of its dialogue with the Government, the World Bank staff organized two development policy seminars in September 1982 and 1983 during which they sought to impress upon the Congolese authorities the need for moderation in the ambitious investment and borrowing programs. On these occasions, the Congolese representatives reiterated that because of uncertainties concerning oil resources, they have adopted a flexible approach to development planning. For this reason, the plan does not provide for annual tranches, as investment targets are to be adjusted annually in the light of experience and changing circumstances, particularly with respect to oil sector prospects. Against this background and the experience of 1982-83, the consultation discussions centered on the authorities' fiscal and investment policy stance.

1. Production and pricing policies

Investments under the plan have so far been concentrated on infrastructure, notably roads and building construction, and thus, have not significantly contributed to enlarging the non-oil productive sector of the economy. In fact, the output of agriculture and forestry declined over the three years 1981-83, while production in the manufacturing sector stagnated. The Congolese representatives concurred that infrastructure investments had increased very rapidly, more so than anticipated, perhaps because these projects are relatively easy to design and implement. Weaknesses in the coordination of investment decisions and implementation had also been a problem. In the authorities' view the emphasis on infrastructure remains appropriate in the medium term; an improved infrastructure is considered essential for the development of the non-oil sector. Nevertheless, the Congolese representatives added that, in the light of recent experience, it had been decided to channel more resources towards the directly productive sectors. In line with this decision, priority is to be given to those infrastructure projects which would promote agriculture and forestry production, and ensure a greater flow of goods and services from the producing to the consuming areas.

The staff representatives stressed that the growth of the non-oil sector of the economy is predicated upon the rehabilitation of the state enterprises. Unless effective measures--involving inter alia an end to government intervention, notably in pricing and employment policies--are introduced, the large transfers of resources to these enterprises will not bring about a fundamental improvement in their performance. The Congolese representatives observed that the authorities were mindful of the fact that the rehabilitation of these enterprises was vital to the achievement of the objective of ensuring a self-sustained economic growth in the post-petroleum era. Therefore, they were committed to the principle that the state enterprises should contribute to the mobilization of domestic savings. However, it has so far proven difficult to reconcile their economic and social objectives. The development of managerial resources and implementation of appropriate management techniques was a costly learning experience. In an attempt to correct the situation, changes in the management of a number of state enterprises were introduced in 1983; it was too early to assess the result of these corrective measures. Meanwhile, the Government would encourage private sector investment. In this respect, rather than create new state enterprises, the Government would seek association with private domestic and foreign capital, especially in the agricultural and forestry sectors.

Minimum wage rates which had remained unchanged since 1975 were increased in March 1984. The Congolese representatives stated that the authorities intend to continue prudent incomes policies while maximizing employment opportunities. In line with this policy, no general wage award was granted to civil servants in recent years, except in 1982 when monthly wages were raised by lump sums ranging from CFAF 10,000 for those with low salaries to CFAF 7,000 for those with high salaries. Wages in the public enterprises have generally been higher than in the civil service, reflecting in part the qualification mix of employees. Wage awards in these enterprises will be examined within the framework of the ongoing rehabilitation efforts. As regards prices of goods and services, price controls apply to a large number of products, both domestically produced and imported, and prices have only infrequently been changed.

2. Domestic financial policies

Towards the end of 1982, forecast oil output for 1983 was revised downward by 20 percent. In early 1983, world prices for oil fell and the tax reference price for the Congo's oil was lowered by 12 percent to US$29 per barrel. As it became apparent that developments in the oil sector would be less favorable than anticipated, the authorities decided in May 1983 to curtail budgeted investment outlays by about 12 percent, while current expenditures were maintained at their budgeted level. In the event, investment spending exceeded the revised level, as road construction projects were executed at an accelerated pace and substantial cost overruns were incurred. Since government access to foreign capital markets became restricted, the Treasury incurred substantial domestic and external arrears.

During the course of 1983 the oil companies also substantially revised upwards estimates of their operating costs. This, together with the decline in oil prices, prompted the authorities to reduce by about one third their projections of oil and non-oil budgetary resources for 1984-86. The authorities' initial response was to hold the 1984 budget at approximately the same level as the 1983 outturn. However, as indicated above this level of spending proved unsustainable and entailed the accumulation of substantial arrears. In June 1984, when it became apparent that additional budgetary resources would not be forthcoming, the investment budget was scaled down from CFAF 172 billion to CFAF 115 billion, a level which was still above that suggested by the World Bank. Because of the authorities' delayed response and problems with budgetary control, government spending in 1984 is likely to exceed the revised level.

In discussing the policy response to the change in resource prospects, the Congolese representatives indicated that it has proven difficult to adjust quickly the level of investments; the time lags between the decision to restrain expenditure and the impact on actual spending had not been sufficiently appreciated. The perceived socio-political implications of scaling down investments, including those intended for the rehabilitation of state enterprises, also represented a serious obstacle. The Congolese representatives stated that given the revised oil scenario which showed a significant deterioration in revenue prospects, they have decided to scale down the investment program for 1985-86. The staff stressed and the Congolese representatives agreed that public investment targets for 1985-86, the last two years of the development plan, should be reviewed in a timely manner. In this way, the 1985 level of investment would be determined sufficiently early to be included in the 1985 budget.

Turning to the current expenditure component of the budget, the Congolese representatives acknowledged that such outlays have increased rapidly over the last few years. Indeed, current budgetary outlays more than doubled between 1980 and 1983. In the near future, the recurrent costs of investment projects and the servicing of public debt are likely to impose a rapidly increasing burden on the budget. In view of this, the staff representatives emphasized the need for a timely readjustment of the Government's educational and recruitment policies which have resulted in a growing financial burden. During the first three years of the plan, the annual rate of growth of civil service employment has averaged 10 percent, or the rate foreseen under the plan. Moreover, as noted above, scholarships continued to be liberally granted, and all graduates of schools and universities unable to find a job elsewhere were offered employment by the Government. The Congolese representatives observed that the Central Government and the parastatals were the only sectors that could offer sufficient employment and argued that, having borne the cost of education, the Government should act as employer of last resort. Moreover, the authorities were of the view that it was better to offer employment to all graduates than to grant general salary awards. The loss in civil servants' productivity had to be balanced against the effects of an explosive social situation which would result from massive urban unemployment. The Congolese representatives noted, however, that they were aware of the dangers of such a policy and, therefore, investment policies for 1985-86 and for the second plan would place more emphasis on the productive and employment-generating projects and on the development of a small business sector. Concerning the recurrent costs, the Congolese representatives indicated that a World Bank-financed study was currently under way; the objective is to better delineate the problem and subsequently adopt appropriate remedial measures.

Regarding monetary policy, the Congolese representatives shared the view that credit policy continued to be generally accommodating. They were, however, concerned about the sharp expansion of nonrediscountable credit by commercial banks during the last three years; over the same period, commercial banks' resources increased rapidly, reflecting the improved liquidity of the economy and a substantial increase in foreign borrowing by these banks. Moreover, following the recent upsurge in budgetary revenue, the central bank statutory ceiling was substantially raised, enabling the Government to increase its recourse to central bank financing of development projects. The Congolese representatives agreed that there was a need to enhance the effectiveness of credit control instruments, notably through the implementation of a reserve ratio and an active interest rate policy. The Congolese representatives indicated that they did not rule out such options. Consideration was being given to the creation of a money market which could permit the pursuit of a more active interest rate policy. At present, most interest rates, in real terms, remain negative.

3. External policies

The medium-term balance of payments prospects for the Congo depend critically on the volume of production and the world market price of oil, as well as exchange rate movements. Barring the discovery and exploitation of new oil finds and assuming that the Emeraude field continues to show a decline in output, the Congolese authorities expect production to peak at 5.9 million tons in 1985, an increase of nearly 6 percent compared to 1984. The volume of production is then projected to decline to about 5.6 million tons per annum during 1986-87, and to about 5 million tons in 1988-89. In nominal terms, the export price is assumed to remain unchanged at about US$29 per barrel during 1984-86, and to rise thereafter at an annual rate of about 8 percent; it is also assumed that the authorities' stated policy decision to scale down investment spending will be implemented. On that basis, the prospects are for continued trade surpluses of about CFAF 250 billion per annum over the period 1985-89. In the absence of comprehensive information concerning the oil sector, it has been difficult to assess the medium-term current account and overall balance of payments outlook. Nevertheless, given the rising importance of public and private external debt service, the staff estimates that both the current account and the overall balance of payments are likely to remain under pressure in the medium term.

Because of the rapid growth of borrowing and the shift toward loans on commercial terms, the external public debt service ratio (including publicly guaranteed debt) rose to 26 percent in 1983, compared with 9 percent in 1980. Borrowing from financial institutions, most of which carries interest rates of about 2 percentage points above LIBOR, almost doubled between 1981 and 1983, while concessional loans stagnated. As a result, loans on commercial terms increased from 24 percent of outstanding public debt in 1981 to 40 percent in 1983. Moreover, owing to weaknesses in debt management policies, an appropriate matching of the terms of these loans and the project returns was not realized. The Congolese representatives observed that although they favored a policy of borrowing on conventional terms only for the financing of projects with high rates of return, it has not been possible to effectively implement such a policy. This was partly due to the fact that such loans were readily available whereas, as noted above, productive projects took longer to identify, prepare, and implement. The Congolese representatives added that the authorities were cognizant of the need to preserve the country's borrowing capacity, indicating that the downward revision in investment targets should help reduce recourse to commercial loans. In addition, further efforts would be made to improve debt management, including a better coverage of private sector external debt, by strengthening the debt amortization fund (the Caisse Congolaise d'Amortissement) and improving coordination between the amortization fund and the ministries of Finance and of Planning.

The Congo shares a common central bank (BEAC) and a common currency, the CFA franc, with Cameroon, the Central African Republic, Chad, and Gabon. The CFA franc is pegged to the French franc at the rate of CFAF 1 = F 0.02. The trade-weighted effective exchange rate of the Congo appreciated by about 4 percent in nominal terms between 1980 and

1982 and by a further 7 percent during 1983, as two trading partners (Brazil and Argentina) experienced sharply depreciating currencies. In real terms, however, the effective exchange rate index showed virtually no change between 1980 and the first half of 1984. The Congolese representatives indicated that they considered the common exchange rate arrangements appropriate to their circumstances.

The Congo maintains a system of trade and payments that is free of restrictions on payments and transfers for current international transactions with France and all countries linked with the French Treasury by an operations account. Imports from all other countries are subject to licensing, and payments for invisibles to these countries are subject to approval checks for capital control purposes. Moreover, capital transfers to these countries require exchange control approval and are restricted, but capital receipts are permitted freely. There has been some accrual of arrears on external payments owing to a lack of budgetary resources to purchase foreign exchange from the common central bank.

IV. Staff Appraisal

In the wake of a rapid and sharp rise in resources accruing from the oil sector, the Congo adopted an ambitious investment program designed to channel resources to the development of sectors, notably infrastructure and the rehabilitation of state enterprises, with a view to promoting self-sustained economic growth in the post-petroleum era. Resources from the oil sector were to be supplemented by heavy foreign borrowing. In the event, the volume of oil resources proved to be lower than anticipated, and beginning in 1983 the Congo experienced difficulties in attracting sufficient foreign capital. Faced with this situation, the authorities' policy response has been slow and limited in scope. As fiscal policy remained expansionary, the Congo's budgetary and external positions weakened considerably, and substantial arrears were incurred in 1983. Economic growth also decelerated significantly. Investment spending was concentrated on infrastructure, and did not directly contribute to promoting the development of the non-oil productive sector. Moreover, notwithstanding large transfers of resources in the form of current and capital subsidies, the economic and financial performance of the state enterprises, which dominate this sector, remained poor and their output actually declined.

The weakening of the external position of the Congo stemmed primarily from inappropriate public sector demand management policies. Under the circumstances, the investment program for the remaining period of the plan should be scaled down and its sectoral allocation should also be reoriented so as to give greater priority to the directly productive economic sectors. The staff notes the intention of the authorities to make the required adjustments within the context of the current review of development efforts and urges an early completion of this exercise so that the new investment targets are reflected in the 1985 budget. Moreover, given the uncertainties surrounding oil resource prospects, short- and medium-term economic policies should be sufficiently flexible to permit rapid responses to exogenous shocks.

The rehabilitation of the state enterprises is a necessary condition for the attainment of self-sustained growth of the non-oil sector. It is therefore essential to re-examine the role of these enterprises, which, in the staff's view, should contribute to the mobilization of domestic savings. In order to ensure efficient use of resources, transfers to and borrowings by these enterprises should be made contingent upon the effective implementation of corrective measures designed to bring about a fundamental improvement in their performance. In this respect, government intervention, notably in the area of pricing and employment policies, must be avoided.

In addition to adjusting the investment program and improving the performance of the state enterprises, the improvement of government finances also requires that the growth of current spending be contained and that greater efforts be made to mobilize domestic resources. The recurrent costs of investment projects, the servicing of public debt, and the need to rapidly settle outstanding domestic arrears are likely to impose an increasing burden on the budget. In view of this, a timely readjustment of educational and recruitment policies is called for. The staff understands the authorities' concerns in this respect, but feels that in the medium term the pursuit of present employment policies is likely to reduce considerably, if not eliminate, the public sector's contribution to the mobilization of domestic savings. At the same time, there is a need to review the tax system with a view to reducing the dependence on oil revenue. Appropriate fiscal policies will make it possible to accommodate private sector demand for credit without exerting undue pressures on prices and the external sector. It would also be helpful to ensure greater effectiveness of credit control through the activation of the reserve ratio and a more active interest rate policy. In the circumstances of the Congo, the maintenance of relative price stability is essential for the growth of the non-oil sector of the economy.

Prudent demand management policies, including appropriate investment policies, would help reduce the need for external borrowing, especially on commercial terms. Moreover, it is essential to ensure that only projects with high rates of return are financed through borrowing on conventional terms. This could help preserve the country's borrowing capacity; access to international capital markets will become even more important in the medium term, especially if oil prospects become less favorable.

The efforts being made to improve the statistical base should be vigorously pursued in order to enhance economic analysis and help effect required adjustments on a timely basis. Further progress is required in centralizing debt statistics, including private sector debt, and debt management.

The Congo maintains a liberal exchange and trade system. Arrears on official external obligations have arisen as a result of the Government's lack of domestic currency to purchase foreign exchange from the common central bank. The staff encourages the authorities to adopt fiscal policies aimed at eliminating arrears on official external payments obligations.

It is recommended that the next Article IV consultation with the Congo be held on the standard 12-month cycle.

V. Proposed Decision

The following draft decision is proposed for adoption by the Executive Board:

1. The Fund takes this decision in concluding the 1984 Article XIV consultation with the Congo, in light of the 1984 Article IV consultation with the Congo conducted under Decision No. 5392(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The Fund notes with satisfaction that the Congo continues to maintain an exchange system which is free of restrictions on payments and transfers for current international transactions.

People's Republic of the Congo - Relations with the Fund

(As of August 31, 1984)

I. Membership Status

(a)	Date of membership	July 10, 1963
(b)	Status	Article XIV

A. Financial Relations

II. General Department

(a)	Quota	SDR 37.3 million
(b)	Total holdings of CFA francs	SDR 36.83 million (98.75 percent of quota)
(c)	Reserve tranche position	SDR 0.48 million
(d)	Fund credit	--
(e)	Current operational budget (maximum use of currency)	--

III. Current Stand-By or Extended Arrangement and Special Facilities

(a)	Current stand-by or extended arrangements	None
(b)	Previous stand-by or extended arrangements during the last 10 years	On April 25, 1979 the Executive Board approved a one-year stand-by arrangement in an amount equivalent to SDR 4 million, representing 23.5 percent of the then quota, 10.7 percent of the present quota (EBS/79/197). SDR 2.0 million of this stand-by was drawn down. Earlier, in January 1977, a stand-by for SDR 4.7 million had been approved which was drawn down in June 1977.
(c)	Special facilities	In February 1977 the Congo purchased SDR 6.5 million under the compensatory financing facility.

People's Republic of the Congo - Relations with the Fund (continued)

(As of August 31, 1984)

IV. SDR Department

(a) Net cumulative allocation	SDR 9.72 million
(b) Holdings	SDR 2.30 million (23.67 percent of net cumulative allocation)
(c) Current designation plan	--

V. Administered Accounts

(a) Trust Fund loans	SDR 12.70 million disbursed, SDR 11.19 million outstanding
(b) Distribution of profits	US$2.09 million
(c) Gold distribution (fine ounces)	11,126

VI. Overdue Obligations to the Fund --

B. Nonfinancial Relations

VII. Exchange Rate Arrangement

The CFA franc is pegged to the French franc, the intervention currency, at CFAF 1 = F 0.02. On August 31, 1984, CFAF 450.5 = SDR 1.

VIII. Last Article IV Consultation

Consultation discussions were held during June-July 1982 and the consultation was concluded by the Executive Board on October 29, 1982 (SM/82/182, 8/31/82).

The Executive Board's decision (Decision No. 7232-(82/138)), adopted October 29, 1982, was as follows:

1. The Fund takes this decision in concluding the 1982 Article XIV consultation with the People's Republic of the Congo, in light of the 1982 Article IV consultation with the People's Republic of the Congo conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

People's Republic of the Congo - Relations with the Fund (concluded)

(As of August 31, 1984)

2. The Fund notes with satisfaction that the People's Republic of the Congo continues to maintain an exchange system which is free of restrictions on payments and transfers for current international transactions.

IX. Technical Assistance None

People's Republic of the Congo - Relations with the World Bank Group

I. The Congo is no longer eligible for IDA credits; instead, since 1982 it has been receiving Bank loans.

The major projects have been in railroad realignment, road maintenance, wood processing, and technical assistance.

II. Bank Group Operations (as of July 31, 1984)

1. IDA (in millions of U.S. dollars)

Project	Agreement date	Amount of loan	Disbursed
Highway Engineering (S006 COB)	05/26/69	0.04	0.04
Highway Improvement (189 COB)	05/28/70	1.67	1.67
Education (237 COB)	03/26/71	3.50	3.50
Education (237-1 COB)	05/05/77	0.50	0.50
Highway Maintenance (274 COB)	12/22/71	4.12	4.12
Railway (297 COB)	04/07/72	6.39	6.39
Railway (297-2 COB)	07/03/73	0.41	0.41
Livestock (435 COB)	11/02/73	5.60	5.60
Petroleum (971 COB)	04/11/80	5.00	3.78
Railway II (1047 COB)	07/15/80	30.00	26.51
River Transport (1179 COB)	03/10/82	17.00	10.45
		74.23	62.97

2. Bank (in millions of U.S. dollars)

Project	Agreement date	Amount of loan	Disbursed
Potash (480 COB)	01/05/67	30.00	30.00
2nd Railway (1228 COB)	03/23/76	38.00	38.00
2nd Education (1349 COB)	12/14/76	8.00	8.00
3rd Highway (2227 COB)	12/21/82	12.70	1.85
Technical Assistance (2285 COB)	05/19/83	11.00	1.99
Ouesso Wood Processing	05/31/84	12.00	0.14
		111.70	79.98

People's Republic of the Congo - Statistical Issues

1. Coverage, Currentness, and Reporting of Data in IFS

		Latest Date in October 1984 IFS
Real Sector	- National Accounts	n.a.
	- Prices	January 1983
	- Production (petroleum)	March 1984
	- Employment	n.a.
	- Earnings	n.a.
Government Finance	- Deficit/Surplus	n.a.
	- Financing	n.a.
	- Debt	n.a.
Monetary Accounts	- Central Bank	April 1984
	- Deposit Money Banks	April 1984
External Sector	- Merchandise Trade: Values	1982
	- Merchandise Trade: Prices	n.a.
	- Balance of Payments	1982
	- International Reserves	April 1984
	- Exchange Rates	August 1984

During the past year, the reporting of data for inclusion in IFS has been generally timely.

2. Outstanding Statistical Issues

Real Sector--National Accounts

The authorities have begun to compile national accounts data in real and nominal terms. However, the data are still very preliminary in character. The authorities are endeavoring to improve their estimates.

Real Sector--Prices

The authorities compile wholesale and consumer price indices based upon a consumption basket for European expatriates. They have been asked to provide data concerning a local consumption index.

People's Republic of the Congo - Statistical Issues (concluded)

Government Finance

There are no data in IFS and no data after 1980 in the GFS Yearbook. Furthermore, the data prior to 1980 are very incomplete. The authorities have now recommended a new correspondent and it is hoped that this situation will improve, although there are still conceptual problems.

3. Technical Assistance

The possibility of technical assistance in statistics was discussed with the authorities. They have expressed their interest in early technical assistance concerning balance of payments statistics.

Table I. People's Republic of the Congo: Central Government Operations, 1980-84 1/

(In billions of CFA francs)

	1980	1981	1982	1983	1984 Est.
Revenue and grants	105.3	210.4	258.7	302.9	307.9
Of which: oil revenue	(61.9)	(126.1)	(152.3)	(162.8)	(188.4)
Expenditure and net lending	140.7	204.5	348.6	375.2	332.4
Current	97.6	117.3	153.0	198.9	192.9
Capital	43.2	86.7	193.9	174.9 2/	139.0
Net lending	-0.1	0.5	1.7	1.4	0.5
Overall surplus or deficit (-), commitment basis	-35.4	5.9	-89.9	-72.3	-24.5
Arrears	13.0	10.3	2.8	61.1 2/	...
Overall surplus or deficit (-), cash basis	-22.4	16.2	-87.1	-11.2	...
Financing	22.4	-16.2	87.1	11.2	...
Foreign, net	28.8	-3.4	66.9	-12.1	...
Domestic, net	-9.4	-18.1	21.7	-9.0	...
Debt rescheduling	1.2	5.6	--	--	...
Arrears on principal	1.8	-0.3	-1.5	8.1	...

Source: Data provided by the Congolese authorities.

1/ The consolidation of government operations and those of the Congolese Amortization Fund (CCA). Adequate information is not available on those government expenditures, particularly for defense purposes, that are financed through foreign grants and loans outside the Treasury and the CCA.

2/ Including CFAF 35.4 billion, equivalent to the amount of investment expenditure and arrears, respectively, resulting from cost overruns and the faster than foreseen execution of infrastructure projects.

Table II. People's Republic of the Congo: Monetary Survey, 1980-84

(In billions of CFA francs; end of period)

	1980	1981	1982	1983	1984 March (Prov.)
Net foreign assets	14.5	30.1	11.1	-16.8	-3.7
Domestic credit	77.8	98.6	150.5	169.9	184.0
Claims on Government (net)	30.9	14.0	27.3	18.0	27.2
Claims on private sector and state enterprises	46.9	84.6	123.2	151.9	156.8
Money supply	61.4	92.1	115.9	113.8	116.9
Money	54.3	75.1	97.6	90.5	98.0
Quasi-money	7.1	17.0	18.3	23.3	18.9
Other items (net)	30.8	36.6	45.7	39.3	63.5

Source: Data provided by the Congolese authorities.

Table III. People's Republic of the Congo: Balance of Payments, 1979-84

(In billions of CFA francs)

	1979	1980	1981	1982	1983 Prel.	1984 Est.
Exports, f.o.b.	105.44	192.39	291.49	364.27	406.28	518.97
Of which: petroleum	(73.20)	(153.70)	(258.52)	(321.03)	(365.03)	(472.54)
Imports, f.o.b.	-77.21	-115.19	-218.36	-235.14	-247.51	-250.00
Trade balance	28.23	77.20	73.13	129.13	158.77	268.97
Services (net)	-51.55	-112.20	-211.48	-267.75	-306.80	-361.75
Of which:						
scheduled interest on public debt	-6.81	-8.11	-20.85	-25.39	-31.19	-34.00
scheduled interest on private debt	-13.46	-27.14	-23.97	-27.60	-31.97	-34.00
Private unrequited transfers (net)	-6.73	-13.60	-8.77	-15.53	-15.66	-17.00
Current account balance (excluding official transfers)	-30.05	-48.60	-147.12	-154.15	-163.69	-109.78
Public unrequited transfers (net)	8.99	13.38	11.93	8.09	14.10	14.50
Current account balance (including official transfers)	-21.06	-35.22	-135.19	-146.06	-149.59	-95.28
Capital account balance	30.43	66.12	95.24	43.93	93.31	63.72
Public sector capital (net)	23.22	64.28	17.66	54.15	22.97	3.72
Of which: scheduled public debt amortization	(-7.36)	(-11.22)	(-50.71)	(-72.14)	(-80.82)	(-96.00)
Private sector capital (net)	2.44	16.48	23.11	71.63	38.20	60.00
Of which: scheduled private debt amortization	(-33.68)	(-42.83)	(-73.16)	(-67.97)	(-78.51)	(-85.00)
Short-term capital	4.77	-14.64	54.47	-81.85	32.14	--
Monetary capital (net)	0.25	0.38	2.02	0.92	14.72	--
SDR allocation and exchange guarantee	0.49	0.50	0.54	3.90 1/	3.18 1/	--
Trust Fund	1.07	0.85	0.56	--	--	--
Errors and omissions (net) and valuation adjustment	-6.93	-25.42	41.69	76.43	14.28	--
Overall balance	4.25	7.21	4.86	-20.88	-24.10	-31.56
Financing	-4.25	-7.21	-4.86	20.88	24.10	31.56
Change in net foreign assets of the BEAC (increase -)	-7.25	-13.30	-17.16	22.41	11.17	...
Debt rescheduling	1.10	1.18	5.62	--	--	...
Accumulation of arrears	1.90	4.91	6.68	-1.53	12.93	...
Memorandum items:						
Exchange rate (period average) CFAF/SDR	274.83	275.01	320.41	362.80	407.36	435.00
Current account deficit (excluding official transfers) as a ratio of GDP	11.8	13.5	27.2	21.7	20.4	12.7

Sources: Data provided by the Congolese authorities; and staff estimates.

1/ Exchange rate guarantee.