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SM/84/223  
Correction 1

CONTAINS CONFIDENTIAL  
INFORMATION

October 25, 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

The following corrections have been made in SM/84/223 (10/11/84):

Page 3, Table 1, line 3: for "Oil sector GDP"  
read "Oil sector GDP at 1980 prices"

column 1, line 4: for "22.8" read "20.3"

columns 3 and 4, line 9: for "(11.0) and (17.8)"  
read "(11.6) and (14.6)"

under Government budget, line 3: for "Expenditure"  
read "Expenditure and net lending"

under (In percent of GDP), columns 2-4, line 2: for "1.1, -16.6,  
and -7.6"  
read "1.0, -12.6,  
and -9.0"

line 4: for "Gross domestic investment 32.9, 49.2,  
62.1, and 40.4"  
read "Gross investment 35.8, 52.2, 62.2,  
and 44.1"

A corrected page is attached.

Att: (1)

Other Distribution:  
Department Heads



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

|  | 1980                                 | 1981   | 1982   | 1983<br>Prel. | 1984<br>Proj. |
|--|--------------------------------------|--------|--------|---------------|---------------|
|  | <u>(Annual percentage change) 1/</u> |        |        |               |               |
| National income and prices                       |                                      |        |        |               |               |
| GDP at 1980 prices                               | 17.7                                 | 24.0   | 13.0   | 3.6           | 3.1           |
| Oil sector GDP at 1980 prices                    | 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                                     | 20.3                                 | 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   | 11.6   | 14.6          | 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 and net lending                      | 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 <sub>2</sub> )                    | 36.9                                 | 50.0   | 25.9   | -1.8          | ...           |
| Velocity (GDP relative to M <sub>2</sub> ) 3/    | 6.5                                  | 6.6    | 6.8    | 7.0           | ...           |
|  | <u>(In percent of GDP)</u>           |        |        |               |               |
| Revenue and grants                               | 29.2                                 | 38.8   | 36.4   | 37.7          | 35.6          |
| Budget deficit (commitment basis)                | -9.8                                 | 1.0    | -12.6  | -9.0          | --            |
| Gross domestic savings                           | 41.4                                 | 41.9   | 39.8   | 43.3          | 40.4          |
| Gross investment                                 | 35.8                                 | 52.2   | 62.2   | 44.1          | 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          |
|  | <u>(In millions of SDRs)</u>         |        |        |               |               |
| 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          | ...           |
|  | <u>(In months of imports)</u>        |        |        |               |               |
| 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<sub>2</sub> 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,