

EBS/76/530
Supplement 1

CONFIDENTIAL

December 30, 1976

To: Members of the Executive Board
From: The Secretary
Subject: People's Republic of the Congo - Stand-By Arrangement

Attached for the records of the Executive Directors is the text of the stand-by arrangement for the People's Republic of the Congo agreed at Executive Board Meeting 76/169, December 29, 1976.

Att: (1)

Stand-By Arrangement - People's Republic of the Congo

1. Annexed hereto is a letter dated November 19, 1976 from the Minister of Finance of the People's Republic of the Congo setting forth the objectives and policies which the authorities of the People's Republic of the Congo will pursue.

2. The International Monetary Fund grants this stand-by arrangement to support these objectives and policies.

3. The People's Republic of the Congo will remain in close consultation with the Fund during the period of the stand-by arrangement and, in particular, will consult with the Fund in accordance with paragraph 7 of the annexed letter. These consultations may include correspondence and visits of officials of the Fund to the People's Republic of the Congo or of representatives of the People's Republic of the Congo to Washington, D.C. For the purpose of these consultations, the People's Republic of the Congo will keep the Fund informed of developments in the exchange, trade, credit, and fiscal situation through reports at intervals or dates requested by the Fund.

4. For a period of twelve months from January 1, 1977, the People's Republic of the Congo will have the right, after making full use of any gold tranche that it may have, to make purchases from the Fund in the currencies of other members in exchange for its own currency in an amount equivalent to SDR 4.7 million. The amounts available in accordance with this paragraph 4 shall be augmented by amounts equivalent to repurchases in respect of purchases under the stand-by arrangement, unless when any such repurchase is made, the People's Republic of the Congo informs the Fund that it does not wish the stand-by arrangement to be augmented by the amount of that repurchase.

5. The People's Republic of the Congo will pay charges for this stand-by arrangement in accordance with Executive Board Decision No. 270-(53/95), adopted December 23, 1953; 876-(59/15), adopted April 27, 1959; and 1345-(62/23), adopted May 23, 1962.

6. Subject to paragraph 4 above, the People's Republic of the Congo will have the right to engage in the transactions covered by this stand-by arrangement without further review by the Fund. This right can be suspended only with respect to requests received by the Fund after (a) a formal ineligibility, or (b) a decision of the Executive Board to suspend transactions, either generally (under Article XVI, Section 1(a)(ii)) or in order to consider a proposal, made by an Executive Director or the Managing Director, formally to suppress or to limit the eligibility of the People's Republic of the Congo. When notice of a decision of formal ineligibility or of a decision to consider a proposal is given pursuant to this paragraph 6, purchases under this stand-by arrangement will be

resumed only after consultation has taken place between the Fund and the People's Republic of the Congo and understandings have been reached regarding the circumstances in which such purchases can be resumed.

7. Not later than three years after each purchase of exchange by the People's Republic of the Congo under this arrangement, the People's Republic of the Congo shall repurchase an equivalent amount of the People's Republic of the Congo's currency from the Fund, provided that, if the People's Republic of the Congo's currency held by the Fund as a result of transactions under this arrangement is reduced by repurchases under Article V, Section 7, or otherwise, such reductions shall be credited against the earliest amounts that become payable under this paragraph 7. Repurchases shall be made with the assets specified by the Fund at the time of the repurchase, in accordance with the Fund's policies and practices at the time of repurchase.

8. The rate of exchange at which the People's Republic of the Congo will purchase currencies from the Fund in exchange for the People's Republic of the Congo's currency and at which the Fund will return the People's Republic of the Congo's currency in repurchase operations and make all other computations involving the People's Republic of the Congo's currency will be such rate as the Fund may from time to time determine under Article IV, Section 8, of the Fund Agreement.

Annex to Stand-By Arrangement

PEOPLE'S REPUBLIC OF THE CONGO

Ministry of Finance

The Minister

Brazzaville, November 19, 1976

Dear Mr. Witteveen:

1. The Congo's oil production, after having increased substantially in 1973 and 1974, has since declined. In addition, exports of forest products have fallen. As a result, the improvement in the balance of payments recorded in 1974 has not continued, and in 1975 the Congo again incurred a balance of payments deficit. The Central Bank's external assets have declined by CFAF 2.2 billion in 1975 and by CFAF 2.7 billion in the first six months of 1976. The Government budget has also registered increasing deficits. Prospects are that, in the absence of a corrective program, these deficits will continue. In these conditions, the Government of the Congo is adopting a financial program to improve the budgetary and balance of payments situations. In view of the low level of external reserves, the Government of the People's Republic of the Congo requests a stand-by arrangement from the International Monetary Fund in the amount of SDR 4.7 million for a period of one year; this amount will be augmented by the amount of any repurchases in respect of purchases under the requested stand-by arrangement. Prior to any purchase under the requested stand-by arrangement, the Government will consult with the Managing Director of the International Monetary Fund concerning the currencies to be purchased. The Government intends to block in a special account with the Central Bank the counterpart in CFA francs of purchases made under the stand-by arrangement.

2. The program for 1977 is being reviewed by the Government as part of a longer-term program to assure a satisfactory rate of growth and eventual equilibrium in the balance of payments. Such a program is expected to include, among others, measures relating to producer prices for agricultural products, the granting of seasonal and medium-term credit and extension services to the agricultural sector, reshaping of current expenditures with a reduction in their growth rate, and improvement of the financial situation of state enterprises. The Government hopes to elaborate such a program and to begin to implement it before the end of next year. Meanwhile, the financial program for 1977, as described below, aims at limiting the overall balance of payments deficit to CFAF 2.0 billion.

Fiscal Policies

3. In the 1976 budget, the Government adopted several measures including increases in certain tax rates, to improve public finances. Nevertheless, as a result of a further decline in oil production, the overall deficit is still large. Hence, the Government intends to limit current expenditures with a view to bringing them in better balance with the long-term revenue prospects. The 1977 budget, now being drawn up, will limit total expenditures to CFAF 48.0 billion. Current expenditures, excluding debt service, will be limited to CFAF 43.0 billion, or at the level of expenditures expected to be realized for 1976. Expenditures on wages and salaries will be held at the 1976 level, except for those in respect of hiring personnel completing their training. Transfers to state enterprises will also be held at their actual 1976 levels, pending the results of envisaged studies on improving their operations. Other expenditures, especially those for material and supplies, which have increased considerably since 1974, will be examined with a view to effecting the savings needed to keep current expenditures at the above-mentioned level. Capital expenditures will be for only those projects for which non-bank or foreign financing becomes available. In view of the high level of foreign debt service until 1980, the Government will as far as possible avoid any further increase in its short-term and medium-term external debt.

4. Because of the budgetary problems, the Government has been forced to incur arrears in payments which already total about CFAF 16 billion. It is the Government's intention to reduce these arrears in 1977. To this end, a part of the counterpart funds of the requested drawing from the Fund under the compensatory financing decision will be utilized to reduce arrears. In regard to arrears vis-a-vis state enterprises, the reduction will be linked with efforts to make those enterprises more viable and to regularize their financial transactions with the Treasury.

Credit Policies

5. The rate of expansion in total domestic credit will be limited to 5 per cent in 1977; the level of domestic credit will not exceed CFAF 41 billion at the end of 1977. As credit to the Government is limited by the statutes of the Central Bank and as the present level is close to that ceiling, most of this credit will be extended for purposes other than the Government budget. Since commercial banks' liquidity has now been largely absorbed, they will have to finance a large part of their additional credit operations through rediscounting with the Central Bank. Thus, the Central Bank will be in a better position to control credit expansion; in order to limit total credit to CFAF 41 billion, the BEAC intends to limit its total rediscounts, including rediscounts of customs duty bills and advances to banks, to CFAF 12 billion at the end of 1977, compared to CFAF 8.4 billion at the end of August 1976.

Trade and Payments Policies

6. The Government of the People's Republic of the Congo intends to maintain its present liberal system of trade and payments and does not intend to introduce new restrictions on imports for balance of payments reasons or on payments and transfers for current international transactions.

Consultations with the Fund

7. The Government of the People's Republic of the Congo believes that the measures set forth in the present letter will enable it to achieve the objectives of its financial program, but it will take any further measures that might become appropriate for this purpose. During the period of the stand-by arrangement the Government will consult with the International Monetary Fund on the adoption of any measure as might be necessary at the initiative of the Congo or at the request of the Managing Director of the International Monetary Fund if the objectives set forth in paragraphs 3 and 5 are not met, or if the Managing Director considers that consultation on the program is desirable.

Accept, Sir, the assurances of my highest consideration.

/s/

A. S. POATY
Minister of Finance

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U.S.A.