

DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

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Statement by Mr. Nana-Sinkam on
the People's Republic of the Congo
Executive Board Meeting 82/138
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On behalf of my Congolese authorities, I wish to thank the staff for the excellent set of documents they have prepared in connection with the 1982 Article IV consultation with the Congo. These comprehensive papers portrayed very well the evolution of the economic and financial situation of the People's Republic of the Congo since the 1978 Article IV consultation discussion in the Board.

Following the recovery in oil output and favorable world prices for the country's export products, which leads to an improvement of the country's external position, the Congo's economy has expanded rapidly since 1978. The real GDP growth rate averaged about 13 per cent during the period 1979-81, external and budgetary receipts increased largely. Crude oil export value rose by 57 per cent in 1976, doubled in 1980, and rose again by 44 per cent in 1981 to SDR 807 million.

Consequently, on the external sector, the overall balance of payments turned from a deficit SDR 24 million in 1978, reflecting mainly the rapid increase of external debt interest payments, to a surplus of SDR 8 million in 1979 and SDR 59 million in 1981 and is forecasted to reach SDR 57 million in 1982.

In 1981, total budgetary revenue rose to CFAF 210 billion compared to CFAF 117 billion in 1980, reflecting the increase of resources from the oil sector, and also the improvement in the non-oil sector. The overall budgetary balance registered a surplus of CFAF 18.9 billion in 1981 as compared to a deficit of CFAF 12.6 billion the previous year. The domestic arrears were reduced by 10 per cent. Furthermore, because of the continued improvement in oil and non-oil revenues, total budgetary revenue is projected to increase by 17 per cent in 1982. Thus, the 1982 budgetary outcome is likely to remain favorable, despite an estimated 23 per cent increase in government spending.

However, the authorities are well aware that the recent improvement of the budgetary situation reflects the upsurge in oil revenue rather than a fundamental readjustment of budgetary policy. They are also aware that the availability of domestic resources for development financing remains critically dependent not only on oil resource prospects but also on the fiscal policy stance. Therefore, the objective of the budgetary policy in the medium term is to raise the ratio of non-oil receipts to current expenditure from 57 per cent to 75 per cent in the 1983 budget (excluding debt service). The Government also intends to review the tax system to adapt it to the new economic conditions and objectives.

At the end of 1981, the authorities adopted the first five-year economic and social development plan covering the period 1982-86 with three primary objectives: the improvement of the basic physical infrastructure,

the rehabilitation of state enterprises, and the improvement of the standard of living of the population. But the prospects for the oil sector, on which depend the financing of the plan, is somewhat uncertain do to the conditions of world market and exchange rate movement and also the peculiar characteristics of the Congolese oil (high productive cost). Being aware of these uncertainties, the authorities have adopted a flexible approach to development planning. The bulk of the investment which is from the public sector (44 per cent for infrastructure, 37 per cent for agriculture, forestry, and industry) would be adjusted annually in light of experience and changing circumstances, particularly with respect to the oil sector's revenue prospects. Investment priorities would focus on projects having large impact on production and/or on the living conditions of the population.

For the state enterprises rehabilitation programs, emphasis would be on existing enterprises and the creation of new enterprises will be limited to indispensable ones and with proved rentability.

In the monetary field, the authorities' main objective remained the promotion of economic growth with price stability. The recent rapid expansion of credit to the economy should be viewed in the light of the revival of economic activity in the non-oil sector. However, the Government is concerned about the sharp expansion (159 per cent) of nonrediscountable credit by commercial banks during the two years ended March 1982. Moreover, domestic credit expanded by 26 per cent in 1981 as compared to an average of 14 per cent in the two preceeding years. This expansion of credit compounded by the depreciation of the CFAF boosted the inflation rate to 17 per cent in 1981 from an average of 7.5 per cent in 1979/80.

After a persistent deficit during the 1970s, the Congo's overall balance of payments remained in surplus in 1981 for the third consecutive year in terms of SDRs; this surplus declined by 16 per cent to SDR 54 million in 1981, reflecting the depreciation of the CFA franc (through the French franc).

Although the account deficit is expected to decline from 23 per cent of GDP to 18 per cent in the same year, the Congolese authorities are seriously concerned by the weight of their external indebtedness and the heavy and unsustainable reliance on external financing for their development efforts. Therefore, they have designed and undertaken profound structural reforms and measures to correct the imbalances of their economy. However, they are fully aware that it is not going to be an easy task but rather a long-term process for which a sustained Fund support will be required.

It is within this context that today's discussions and comments by the Executive Directors will provide a useful guideline to the Congolese authorities.