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**Joint Statement by Mr. Kiekens, Mr. Dumont and Mr. Larsen
on the Democratic Republic of the Congo
(Preliminary)
Executive Board Meeting 07/52
June 18, 2007**

We welcome today's discussion on the Staff-Monitored Program (SMP) for the Democratic Republic of the Congo (DRC). We believe that such a discussion is relevant in the particular case of the DRC since there has been no board discussion on this country for two years. Except for occasional oral briefings, the last discussion at the board on the DRC, which was on the fifth review of the PRGF, was held in August 2005. In view of the importance of this country, which remains one of the most challenging in Africa and is among the major borrowers of the PRGF, it is necessary to have a full discussion at the Board on the occasion of the implementation of the new SMP program. More generally, we believe that Board guidance is useful to set an effective strategy and provide the authorities with clear and adequate orientations.

After prolonged armed conflicts, the country has been facing the difficult task of restoring political stability, consolidating peace and reducing widespread poverty through accelerated private sector-led growth. In this difficult period, the support of the international community will be critical to help stabilize the country, rebuild its economy and ensure basic services to the population. This is particularly important given DRC's pivotal role in the region. The international community stands ready to help. However, an important prerequisite is a strong commitment by the authorities to the necessary macroeconomic, structural and governance reforms.

Improving macroeconomic management remains key to stabilizing the economy and setting the conditions for private sector-led growth. In this regard, we welcome the close dialogue with the Fund on the macroeconomic framework in 2007, and we therefore strongly encourage the authorities to continue building a strong track record through the SMP so that they can move to a PRGF as soon as possible, and we similarly encourage staff to work proactively with the authorities to this end. In this context, we welcome the progress in recent months as described in the staff's buff statement. It is clear that the prospect of an IMF-financed program provides strong incentives to reforms and is a catalyst for the donor

community's support. We are encouraged by the authorities' willingness to engage in a discussion on a PRGF program as early as possible on the basis of an assessment of the benchmarks for end-June 2007. *We would appreciate staff's comments on this agenda, as well as the completion point.*

With a net present value of debt amounting to 339 percent of exports of goods and services, the DRC is clearly experiencing debt distress. It is therefore crucial for the country to move as soon as possible into a PRGF arrangement aimed at facilitating the HIPC completion point and further debt relief under the MDRI which are critical to ensure growth recovery and long-term external debt sustainability. In this respect, we can only regret that recent developments have not allowed for an early approval of the PRGF that would have triggered financial benefits for the country. We note that DRC has not been able to service its debt to its bilateral creditors. We hope that the authorities will soon be able to address this situation, in particular with the creditors of the Paris Club. Additionally, DRC also has to handle challenging relations with its commercial creditors, some of them being "vulture funds". *We would appreciate staff's comment on this issue.*

Coming back to the design of the program, we agree with the envisaged macroeconomic policy stance. In particular, we concur that the combination of a tight fiscal policy and a proactive monetary policy is essential to restore macroeconomic stability. In particular, tightening fiscal policy is critical to stop the recourse to central bank financing and prevent inflationary pressures. Good governance, transparency of contracts and effective use of revenues in the mining sector is another pillar. In particular, we encourage the authorities to accelerate the implementation of the EITI. Improving public financial management, governance, and accountability are also essential to raise the quality and the effectiveness of public spending, and to attract external resources. We would also caution the government about an overly-rapid devolution of revenue and spending responsibilities to provinces. *In this context, we are worried by the amendments to the 2007 Budget, which are currently under discussion. We would appreciate having an update on the ongoing 2007 budget preparation.* In the light of the experience with the 2006 structural benchmarks, we would also appreciate staff's comments on the choice and realism of the structural targets for 2007.

We acknowledge the many challenges facing the government in achieving the program for 2007. The execution of a realistic budget, without recourse to central bank financing, is a challenging objective, in light of the limited scope for increasing government revenue in the short term as well as the lack of external budget support. We also acknowledge that reining in inflationary pressures by tightening monetary policy will also be challenging, notably given the high dollarization of the economy and the capacity constraints at the central bank (BBC). We particularly appreciate technical support from the Fund and from European Central Banks at the BBC.

We also note the substantial risks to the program, not the least of which is preserving security and containing the likely pressures associated with increasing civil servant salaries and security spending, and we firmly encourage the authorities to resist pressures and to pursue a prudent fiscal policy.

We remain confident in the authorities' capacity and commitment to pursue their fruitful collaboration with the IMF with a view to reach an agreement as soon as possible on a PRGF program that would be instrumental to the success of the reform agenda. Given the size of the government, it would be instrumental to strengthen governmental coordination. As underlined in the report, with a democratically-elected President and Parliament, the DRC has a great opportunity to rise to these challenges.

With these remarks, we wish the authorities every success in the implementation of this challenging program.