FOR AGENDA

EBS/08/125

November 21, 2008

To: Members of the Executive Board

From: The Acting Secretary

Subject: **Republic of Congo—Staff Report for the 2008 Article IV Consultation, Requests for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Interim Assistance Under the Enhanced Initiative for Heavily Indebted Poor Countries, and Financing Assurances Review**

Attached for consideration by the Executive Directors is the staff report for the 2008 Article IV consultation with the Republic of Congo, the Republic of Congo's requests for a three-year arrangement under the Poverty Reduction and Growth Facility and interim assistance under the enhanced Initiative for Heavily Indebted Poor Countries, and the financing assurances review, which is tentatively scheduled for discussion on **Monday, December 8, 2008**. Draft decisions appear on pages 25–26. At the time of circulation of this paper to the Board, the Secretary's Department has received a communication from the authorities of the Republic of Congo indicating that they consent to the Fund's publication of this paper.

Questions may be referred to Mr. York (ext. 36895) and Mr. Bessaha (ext. 38763) in AFR.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat on Wednesday, December 3, 2008; and to the African Development Bank and the European Commission, following its consideration by the Executive Board.

This document, together with a supplement providing an informational annex, will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities. The supplement, which is not being distributed in hard copy, will also be available in the Institutional Repository; a link can be found in the daily list (http://www-int.imf.org/depts/sec/services/eb/dailydocumentsfull.htm) for the issuance date shown above.

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REPUBLIC OF CONGO

Staff Report for the 2008 Article IV Consultation, Requests for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Interim Assistance Under the Enhanced Initiative for Heavily Indebted Poor Countries, and Financing Assurances Review

Prepared by the African Department
(In consultation with other departments)

Approved by Sharmini Coorey and David Marston

November 21, 2008

- Discussions for the 2008 Article IV consultation, the second and final staff assessment of the Staff-Monitored Program, and negotiations for a Poverty Reduction and Growth Facility (PRGF) arrangement were held in Brazzaville May 21-30 and August 21-27, 2008. The mission met with Prime Minister Mvouba; Mr. Moussa, Senior Minister and Minister of Planning; Mr. Issoïbeka, Minister of Finance; Mr. Dzon, National Director of BEAC; other senior officials, representatives from the National Assembly and the donor community, NGOs, and the private sector. The missions comprised Mr. York (head), Mr. Bessaha, Ms. Karpowicz (all AFR), Mr. Martin (FAD), and Mr. Maseda (BLS). Mr. Moussa, the Fund's resident representative in Brazzaville assisted both missions. Mr. Kudiwu (OED) participated in May and Mr. Alle (OED) in August.
- The 2008 Article IV discussions focused on several medium-term challenges facing Congo: the need to (i) reverse the decline in competitiveness; (ii) broaden economic activity beyond the oil sector, and (iii) consolidate the fiscal stance as oil production declines. The 2007 Article IV discussions were concluded on April 25, 2007.
- Satisfactory policy implementation in a six-month SMP has paved the way for the authorities' request for a three-year PRGF arrangement covering 2008-11. Proposed access is SDR 8.46 million (10 percent of quota). The authorities regard a Fund-supported program as being important for helping them achieve macroeconomic stability and external sustainability, particularly through debt relief under the enhanced HIPC Initiative.
- The Republic of Congo is a member of the Central African Economic and Monetary Community (CEMAC) and its regional central bank, BEAC. The common currency, the CFA franc, is pegged to the euro at CFAF 656. With its CEMAC partners, Congo has accepted the obligations of Article VIII, Sections 2(a), 3, and 4 of the Fund's Articles of Agreement.
- The authorities consent to the publication of this report and the Letter of Intent and Memorandum of Economic and Financial Policies supporting their request for a new arrangement.

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Appendices

EXECUTIVE SUMMARY

Recent Economic Developments and Program Performance

- Economic indicators in the first semester of 2008 were encouraging. Growth has been strong, as oil production resumed and activity in telecommunications, construction, and transport remained buoyant. Inflation rose 5.7 percent (y-o-y) through June 2008, reflecting higher energy and food prices, but expectations are for some moderation in the period ahead.
- The external sector has strengthened considerably recently, as a result of debt restructuring and the impact of relatively high world oil prices and strong oil production.
- Performance under a Staff Monitored Program was broadly satisfactory through end-June 2008 and the fiscal targets were comfortably met.
- Progress was made on structural reform; but some measures proved difficult to implement without further technical assistance. Earlier this year, the authorities were also reluctant to adjust fuel prices to maintain the budgeted level of subsidies, in an environment of high fuel and food prices and social unrest; however, a price adjustment that will reduce subsidies significantly was taken in early October.

Medium-Term Challenges

- To enhance external viability, the authorities recognize the need to improve competitiveness, raise output growth through diversification, and consolidate the fiscal position.
- In this regard, the authorities are making a concerted effort to improve the business climate, liberalize trade, deepen financial intermediation, continue reform of public enterprises, improve governance and transparency, and put in place development strategies in key sectors.

Poverty Reduction and Growth Facility Arrangement

- The authorities are requesting a three-year PRGF arrangement (covering 2008-11) to support strong growth, low and stable inflation, fiscal and external sustainability, and structural reform in priority areas. The proposed arrangement is in line with the authorities' Poverty Reduction Strategy, which was completed earlier this year.
- There are two main risks to the program, stemming from a potential for ownership to weaken and senatorial and presidential elections next year, which will create pressures to spend and could cause a lapse in fiscal discipline.
- Given the strength of the authorities' medium-term economic and financial program and the prior action that was already implemented (fuel price adjustment), the staff supports their request for a three-year arrangement in an amount equivalent to SDR 8.46 million (10 percent of quota), interim-HIPC assistance, and completion of the financing assurances review.

I. INTRODUCTION

1. **Beginning in 2003, building upon renewed peace and political stability, the Congolese authorities turned their attention to improving economic management.** A comprehensive reform program supported by an arrangement under the Poverty Reduction and Growth Facility (PRGF) in 2004 was to be anchored on fiscal consolidation, notably strict control of current non-priority spending, and ambitious structural reforms to boost non-oil growth. However, program implementation was uneven; with only two program reviews being completed through 2006. Chief among the factors that may have contributed to this performance were (l) the government's inability to resist spending pressures as world oil prices rose and weak ownership; and (2) weaknesses in institutional and administrative capacity─especially in public financial management and in the oil sector. A Staff-Monitored Program (SMP) was introduced in 2007 in an effort to establish a satisfactory track record of performance.

2. **Macroeconomic and structural policies have been more actively implemented recently because program ownership was solidified.** Recognizing past failures, late in 2007 the authorities established a new reporting and monitoring structure to guide economic policies and relations with the Bretton Woods Institutions. A policy committee, headed by the President of the Republic, now oversees the economic program. It is supported by a technical committee headed by a special advisor to the President. This new structure is proving effective; during the first half of this year, the authorities satisfactorily completed a six-month SMP that has paved the way for a request for a new PRGF arrangement.

3. **The political environment is stable but there are lingering social tensions**. High world oil prices for the past year or so have heightened the public's expectations and sense of urgency for improving public service delivery, the economic infrastructure, and public sector wages and salaries. The rapid increase in food and fuel prices earlier this year also created tensions, leading to a temporary reversal in some policies. Senatorial and presidential elections are slated for 2009.

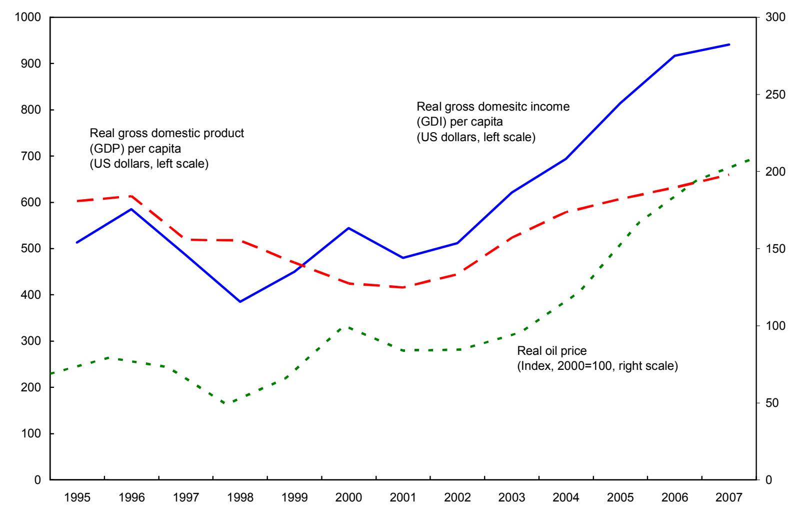
4. **The authorities have been receptive to the Fund's policy advice in the context of both programs and surveillance.** In line with this advice, the authorities have been making efforts to achieve macroeconomic stability, improve the conditions for private sector development, including through reforms to public financial management, and strengthening governance and transparency over the use of public resources. However, capacity constraints and weaknesses in ownership have adversely affected the smooth implementation of the authorities' economic reform efforts.

II. Recent Economic Developments and Prospects

5. **Recent economic indicators point to continuing strong growth, higher inflation, and a significant improvement in the external sector.**

- **Economic growth has been robust in 2008, reflecting a resumption of oil production after an oil-platform accident and solid non-oil activity, driven by the telecommunications, construction, and transport sectors.** Real GDP growth is projected to be about 7.6 percent this year, which should contribute to the trend increase in real gross domestic income (per capita) that has occurred during the past few years as real world oil prices rose (Table 1).

Real Income and Real Oil Prices, 1995-2007

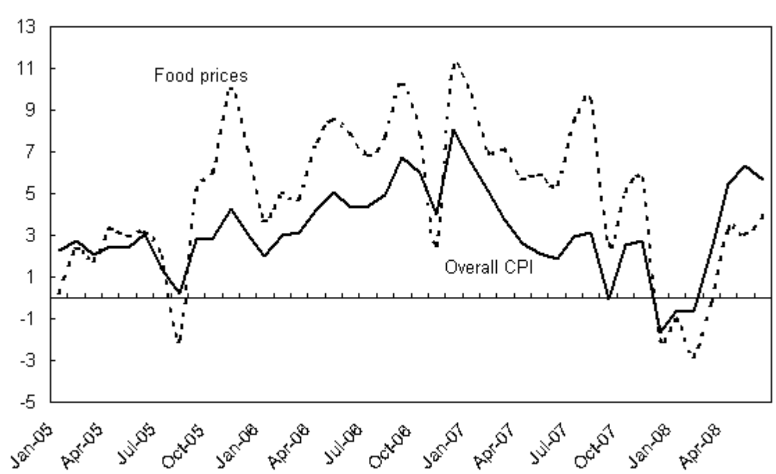


Source: Fund staff estimates.

- **Higher food and energy costs have pushed up inflation, which rose to 5.7 percent in the twelve months through June 2008.** Moreover, non-food prices rose by 6.7 percent during the same period. Recent data point to a further small rise in prices, before moderating in the period ahead.

- **Driven by high oil exports, the current account is projected to swing from a deficit of 26 percent of GDP last year to a surplus of 0.6 percent of GDP in 2008 (Table 2).** Non-oil exports, which have increased only modestly in recent

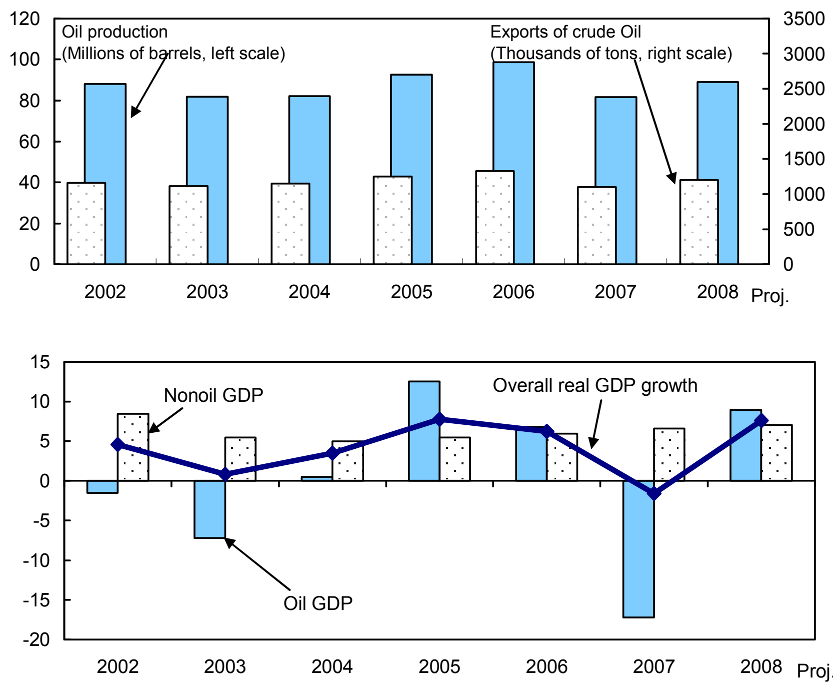
Consumer Price Developments, Jan. 2005-Jun. 2008 (Percent change, y-o-y)



Source: Congolese authorities, and Fund staff estimates.

years, account for less than 6 percent of GDP, reflecting Congo's narrow export base. Foreign direct investment (FDI) continues to expand in the oil sector, partly as a result of investments in newly discovered fields, and could reach more than 23 percent of GDP this year. The real effective exchange rate has appreciated sharply since 2007, mainly reflecting Congo's higher rate of inflation relative to its trading partners.

Oil Production, Prices, and Exports, and Real GDP Growth, 2002-08



Sources: Congolese authorities; and Fund staff estimates and projections.

- **Congo's external public debt has declined sharply in the past several years, partly as a result of Paris Club debt rescheduling and debt relief from London Club creditors under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative.** Recently, arrears with some Paris Club creditors have accumulated (see Box 1 below), but these are being addressed in the discussions to reschedule Congo's external debt.[1] The authorities are continuing their negotiations with litigating creditors, with a view to reaching a settlement that is—to the extent possible—fair to all creditors. Under the June 2006 framework agreement with China, the authorities are also discussing new concessional loans amounting to about US$ 1 billion to finance infrastructure projects over the medium term. The financial terms under

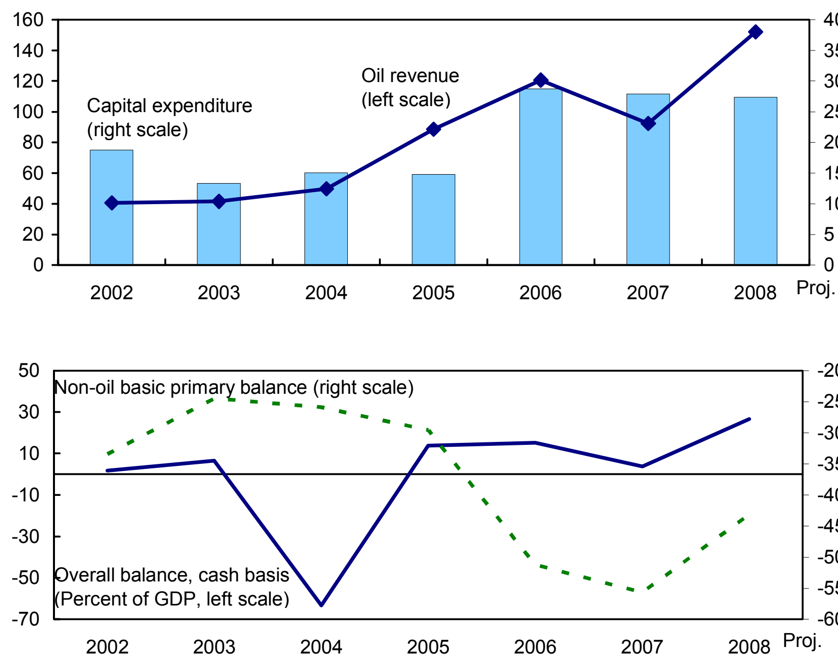
[1] Under the 2004 rescheduling, Congo has concluded bilateral agreements with all but one of the Paris Club creditors.

negotiation for all these loans involve 20-year maturity, 5-year grace period, an interest rate of 0.25 percent, and biannual repayments (with an estimated grant element of about 52.7 percent).

6. **Implementation of economic policies improved recently, after a period of fiscal slippages and delays with structural reform.**

- **Although the basic non-oil primary deficit dipped to 55.7 percent of non-oil GDP in 2007, on present policies it should improve significantly this year.** Through June 2008, the authorities' fiscal targets, in line with the objectives of the SMP, were comfortably achieved (Box 1 and Tables 3a and 3b). The shift in the fiscal stance is attributable to better control and monitoring of expenditures, especially for public investment, and unexpectedly high non-oil revenue from a pick-up in corporate income tax revenue from oil company subcontractors. The quarterly certification of oil receipts has helped ensure the satisfactory repatriation of oil revenue, although there continue to be delays, which the authorities attribute to technical difficulties and problems in dealing with litigating creditors. A supplementary budget—in line with the program's objectives—was adopted recently to account for the higher-than-projected oil revenue, some tariff and tax reductions to help mitigate the recent increase in food and energy costs, and additional pro-poor (generic drugs) and capital spending, financed through interim HIPC assistance.

Fiscal Developments, 2002-08
(Percent of non-oil GDP, unless otherwise indicated)



Source: Congolese authorities; and Fund staff estimates and projections.

Box 1. Performance on the 2008 SMP

Earlier this year, Fund management approved an SMP for Congo covering the six-month period January-June 2008. The SMP was designed to support the authorities' efforts to stabilize the economy, consolidate the fiscal stance and reverse previous expenditure slippages, and to continue structural reform in such areas as public financial management, public enterprises (mainly in the oil sector), and governance and transparency.

Performance on the SMP was broadly satisfactory. At the end of June 2008, the indicative target for the non-oil basic primary deficit was met comfortably, demonstrating the government's ability to control and monitor public spending, although healthy non-oil tax collections certainly provided room to maneuver (Table 4). All of the other quantitative targets were observed, but external arrears to some Paris Club creditors accumulated (CFAF 10.1 billion, about US$ 23.8 million). The authorities have been servicing their external debt on the basis of the 2004 Paris Club rescheduling agreement which provided for lower payments and was predicated on being on track with the Fund program. When the program went off track, some creditors reverted to the original debt service schedule, resulting in some arrears accumulation. Paris Club creditors have provided financing assurances for the program, including with regard to the regularization of the arrears situation.

Progress was made on structural reform during the SMP (Table 5), but several structural benchmarks proved difficult to implement without further technical assistance (adoption of a comprehensive action plan with a timetable to address institutional and procedural deficiencies in the commercialization of Congolese oil, and a three-year action plan to strengthen public investment management). Also, the authorities were reluctant to adjust petroleum product prices to adhere to the budgeted level of subsidies, in an environment of high fuel and food prices earlier this year; and they did not provide timely information on petroleum product prices. The program's other structural benchmarks were observed, including adoption of a plan and timetable for reforming the state-owned oil refinery (CORAF); completion of a technical and financial audit of current transfers and a representative sample of capital expenditures executed in 2006; quarterly certification of oil revenue by an international audit firm (KPMG); and publication on the internet of all invitations to bid and the bids themselves for government procurement contracts above CFAF 200 million.

- **Monetary developments have been heavily influenced by external developments.** Broad money growth was 16 percent through mid-year, net foreign assets rose to US$3.5 billion, and credit to the economy has expanded (Table 6). In an effort to better manage liquidity, the government repaid a large proportion of its statutory advances from BEAC, and stepped up its effort to coordinate treasury operations more effectively with the regional central bank. The banking system remained solid: all four commercial banks are in compliance with the prudential ratios, except the one related to risk concentration (in which banks lend mainly to a few big enterprises operating in only a few sectors, notably telecommunications, construction, and public sector subcontractors, Table 7). Nonperforming loans have increased slightly but so has provisioning. Commercial banks have seen a rise in domestic deposits as non-oil activity continues to be robust.

- **The pace of structural reform picked up during the past several months of the SMP (Box 1); there was progress on a number of important fronts, including with the floating completion point triggers for the enhanced HIPC Initiative.**[2] To enhance public financial management (PFM), the authorities adopted and began implementing a PFM action plan (drafted with assistance from Congo's development partners); produced a draft plan for managing public investment; became a candidate country to join the Extractive Industries Transparency Initiative (EITI) in February 2008 and initiated work on the first EITI report, which is expected to be completed by the end of this year; and consolidated all the government's accounts with the BEAC. In the oil sector, the authorities adopted and began to apply a reform program for the state-owned refinery (CORAF); prepared an initial draft of actions to bring the commercialization of Congolese oil up to international standards; and continued to certify oil receipts on a quarterly basis to ensure transparency and accountability.

III. Enhancing External Viability

7. **The authorities recognize that, as a member of CEMAC, Congo can enhance the external viability of the currency union through policies to improve competitiveness, raise output growth through diversification, and consolidate the fiscal position.** In a number of important ways Congo is lagging behind its CEMAC partners, even though it has the financial resources from oil wealth to finance development needs to meet the Millennium Development Goals (MDGs). With this in mind, the 2008 Article IV discussions focussed on several medium-term challenges:

- How best to diversify the economy and to broaden economic activity beyond the oil sector; and
- How to achieve long-term fiscal sustainability to ensure that Congo's oil wealth is preserved for future generations.

A. International Competitiveness in the Non-Oil Sector

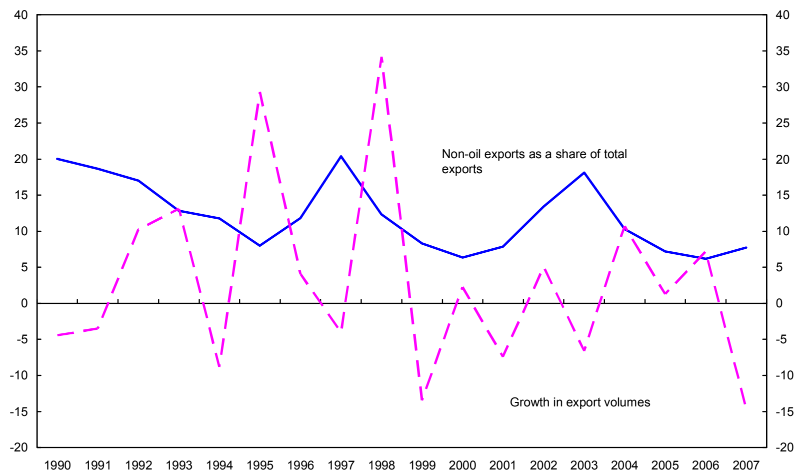
8. **After two decades of relatively poor performance, Congo's exports have picked up (in nominal terms) over the past several years.** The expansion was twice as fast as the average of its CEMAC partners, and four times faster than the average for sub-Saharan Africa as a whole. However, export volume growth was still tepid, especially in the non-oil sector where export growth slowed in real terms from about 5 percent in the 1990s to about

[2] Details on implementation of the HIPC triggers are outlined in the *Second Annual Report on Progress Toward Meeting the Floating Completion Point Triggers Under the Enhanced Heavily Indebted Poor Countries Initiative* (EBD/08/83).

2 percent in this decade. The share of non-oil exports in total exports plunged to about 7 percent in 2007 from nearly 20 percent in 2003.

9. **Several factors have probably contributed to Congo's problems with non-oil exports, among them real effective exchange rate appreciation, institutional constraints, and inadequate infrastructure.**

Export growth and shares, 1990-2007
(Percent)

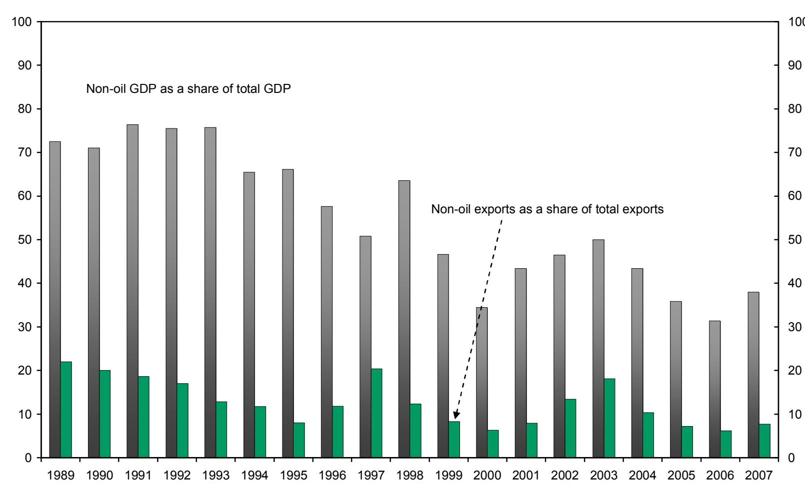


Source: Congolese authorities; and Fund staff estimates.

- The prominence of the oil sector and more recently high world oil prices, have diverted productive resources from traditional exports (including timber), toward extraction and oil-related activities. In this transformation, the non-oil sector lost its weight in total exports and in value added.

- Appreciation of the real effective exchange rate since 2003 has contributed to the erosion of Congo's competitiveness (Box 2).

Non-oil GDP and Non-oil Exports as a share of Total GDP and Total Exports, 1989-2007
(Percent)



Source: Congolese authorities; and Fund staff estimates.

- Congo's institutions are not strong; many elements that could facilitate FDI and private sector development are inadequate. In particular, until quite recently the effort to enhance transparency and governance of natural resources has been at best tentative—a significant constraint in a country with abundant resources but little development.[3]

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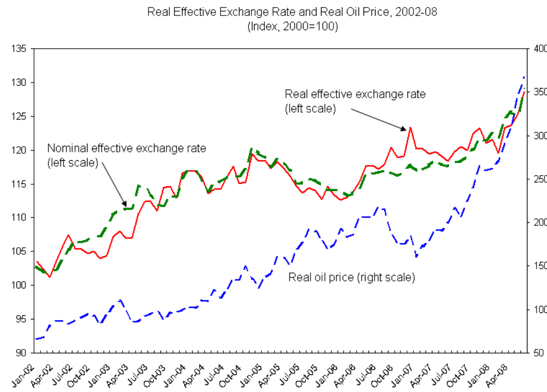
[3] Transparency International places Congo 142 out of 163 countries on its transparency and governance scale.

The financial sector is underdeveloped; the legal framework needs firming up, and the business climate could be improved substantially. The World Bank's 2008 Doing Business survey ranks Congo near the bottom (178 out of 181 economies) in terms of ease of doing business. Procedures to start and to close an activity, hire and fire, get credit or pay taxes are so costly and cumbersome as to deter entrepreneurship.

- The inadequacy of the economic infrastructure also holds back the non-oil export sector. The World Bank indicators show limited access to technology for Congo. Internet costs are high (as in the other CEMAC countries) compared with sub-Saharan Africa as a whole. Only 5 percent of roads are paved (compared with 15 percent for the region). And rail transportation between the two main cities, Brazzaville and Pointe Noire, suffers from frequent disruptions.

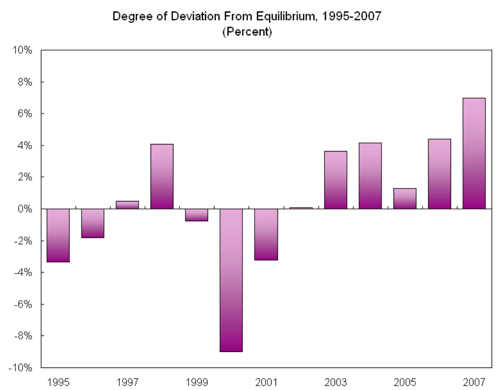
10. **During the discussions, the authorities and the staff agreed that enhancing Congo's competitiveness in the non-oil sector must therefore be a priority**. A primary objective is to implement a broad-based economic program to diversify the economy, achieve fiscal sustainability, and qualify for debt relief to free more resources for pro-poor and pro-growth expenditures. Such a program could boost employment prospects and reduce income disparities between the oil and non-oil sectors; in the latter, poverty is most prevalent.

Box 2. Real Effective Exchange Rate Assessment



Congo’s nominal effective exchange rate appreciated by about 6.2 percent in the period from end-December 2007 through June 2008, primarily on account of the appreciation of the euro to which the CFAF franc is pegged. Over the same period, the real effective exchange rate (REER) was 6.7 percent higher, reflecting higher inflation relative to Congo’s trading partners.

Recent analysis at the regional level suggests



that the CFA franc was in line with fundamentals at the end of 2007. Estimates for Congo, however, suggests that its REER was moderately above the long-run equilibrium value in 2007. One estimate of the equilibrium REER, based on such fundamental variables as government consumption, relative productivity, terms of trade, openness, and money supply, suggests an overvaluation of about 7 percent in 2007, with the overvaluation for 2003-07 driven by relatively high government consumption. This estimate, should, however, be treated with caution since it is not robust to the specification of alternative variables and variations in the estimation period. An alternative estimate using panel data for oil exporters suggested that Congo’s REER was overvalued by about 14 percent. The envisaged fiscal consolidation would help reduce the overvaluation over time (details can be found in the accompanying Selected Issues paper).

B. Diversification of the Non-oil Economy

11. **The authorities are well attuned to the need to accelerate private-sector-led growth to alleviate poverty as specified in their Poverty Reduction Strategy (PRS).**[4] But since the base of economic activity outside the oil sector is narrow and dominated by subsistence agriculture, diversification is critical. The authorities are moving on a broad front, but recognize that policies tailored to a few specific activities or sectors are also needed.

- **Business climate**: To create more favorable conditions for private sector development, the authorities are moving to improve the business environment and reduce the cost of doing business. They are simplifying administrative procedures; working to enable application of OHADA business laws, which are common to Francophone African countries; creating a “one-stop” window for establishing a

[4] The Poverty Reduction Strategy paper was submitted to the Executive Board in August 2008 (EBD/08/84), along with the Joint Staff Advisory Note on the PRS (EBD/08/85).

business; and making a determined effort to enhance governance and combat corruption.

- **Trade liberalization:** As a small open economy Congo would benefit from closer integration with the regional and global economy; presently, trade and investment linkages are concentrated in the oil sector. Integration is to be achieved through CEMAC trade reforms, including reduction of the maximum common external tariff (from 30 to 20 percent) and tariff rates, trade facilitation, and harmonization of rules of origin. Domestically the authorities are working to bring the customs code into line with international standards, fully implement the ASYCUDA system to facilitate customs clearance, and remove nuisance taxes and surcharges that inhibit trade.

- **Financial intermediation:** Financial intermediation is relatively low in Congo compared with its neighbors. For example, the ratio of private sector credit to GDP is a mere 2.1 percent (sub-Saharan African average: 17.4 percent), and the share of the population with a formal bank account is less than 3 percent (CEMAC average: 26.8 percent). The loan/deposit ratio is about 22 percent in Congo, compared with 80 percent for WAEMU countries, and 48 percent for the CEMAC. The authorities are thus giving high priority in the early stages of the reform program to deepening intermediation. A financial sector strategy, drafted with Fund staff assistance, is to be adopted and implemented over the medium term, supported by the proposed PRGF arrangement (see below). Expanding public access to banking services, lowering the cost of credit, better information on the cost of credit and credit history are priorities for action.

Selected Financial Sector Indicators, 2006

	Number of comm. banks[1]	M2/GDP (percent)	Bank assets/GDP (percent)[1]	Private sector credit/GDP (percent)	Central government credit/GDP (percent)	Population with a formal bank account (percent)[1]
Republic of Congo	**4**	**14.6**	**8.9**	**2.1**	**-6.5**	**2.7**
Averages for:						
Sub-Saharan African countries	30	33.6	67.4	17.4	3.8	26.8
Middle income	30	50.4	96.0	28.7	3.5	41.2
Low income	30	24.9	38.3	11.8	4.0	7.6
Oil-exporting countries	53	14.9	33.6	6.3	-4.8	7.1
Oil-importing countries	23	38.3	77.5	20.1	5.8	33.9
CFA countries	9	19.9	16.1	10.8	-1.8	3.9
Non-CFA countries	34	41.8	72.5	21.2	6.9	29.2

Sources: International Financial Statistics, and Sub-Saharan Africa Regional Outlook, May 2006.
[1] Data refer to 2004.

- **Public enterprises**. Though few in number, Congo's parastatals tend to have a disproportionately large influence on economic performance and business conditions because of the narrow economic base. Consequently, raising their financial and operating performance is crucial to achieving Congo's development goals. The authorities are making a concerted effort to rationalize the operations of enterprises in the oil sector, but more could be done to address deficiencies in other public enterprises, especially those in transportation (CFCO, the railway company), ports, and utilities (electricity, water, and sanitation).

- **Key sectors.** While the authorities believe a broad-based approach is necessary to support diversification, they also feel targeted interventions are necessary to jump-start activity in key sectors, particularly agriculture, manufacturing, mining, and forestry. The focus on the oil sector in the past several decades has slowed development in other areas, where the economic infrastructure and human and physical capital have deteriorated. For example, coffee and cocoa were historically important cash crops, but at present production is negligible; timber is the primary export after oil, but its output growth is relatively stagnant. The government is now directing its efforts, with the help of development partners, to reviving agriculture through investment and technological transfer (in cooperation with the governments of China, Israel, and South Africa, among others); encouraging exploration and development and FDI in minerals; and laying the foundations for manufacturing, including by rehabilitating the war-ravaged and dilapidated infrastructure (energy, roads, telecommunications) and improving the skills of the labor force.

C. Fiscal Sustainability

12. **The authorities agreed on the need to achieve long-term fiscal sustainability to ensure that future generations benefit from Congo's current oil wealth.** Staff elaborated various models and fiscal rules of thumb used by oil-exporting countries to guide fiscal policies. One such model is based on the permanent-income hypothesis (PIH), which protects future generations by ensuring that all economic agents are treated equally over time, allowing only the permanent (annual) income from oil wealth to be spent each year.[5] The authorities were attracted by the benefits of using the model and the discipline it provided; and although they recognized the caveats that such models entail, their medium-term fiscal strategy for the proposed PRGF arrangement is guided by it.

13. **Consistent with the PIH model, the authorities intend to target for the long-term an annual reduction in the basic non-oil primary deficit—the program's nominal fiscal anchor—of 3-4 percent over the next several years**. This would move the fiscal stance

[5] Concerning the management of unspent reserves, the staff encouraged the authorities to discuss with the regional monetary authority ways to diversify and increase the rate of return on their portfolio.

toward sustainability, which the staff estimates would occur when the basic non-oil primary deficit is in the range of 3-5 percent of non-oil GDP.[6]

14. **The authorities expressed concern, however, that the pace of fiscal adjustment may not allow for the flexibility needed to address immediate needs, especially for investment in infrastructure.** While sympathetic to this concern and the authorities' desire to front-load public investment in an effort to meet the MDGs, staff urged them to pursue the indicated fiscal path, since the current fiscal position is a long way from sustainability and capacity constraints limit the efficient investment of public resources. Staff also indicated that there would be room to accommodate a scaling–up of investment if concerted efforts were made to (i) re-orient spending by reducing or eliminating poorly targeted spending, such as for fuel subsidies; (ii) rationalize low-priority programs and spending initiatives; (iii) improve public financial management; and (iv) mobilize more domestic resources. As a share of non-oil GDP, non-oil revenue is relatively large at about 21 percent, but it has been stagnant in recent years and could be increased by strengthening tax and customs administration by, e.g., use of a single taxpayer identification number, computerization, and fully implementing the ASYCUDA system; reducing tax exemptions; and more aggressive collection of tax arrears to combat fraud and evasion. A broadening of economic activity would also help boost non-oil tax collections.

15. **As additional fiscal space emerges, making it possible to scale up domestically-financed capital spending even further, the authorities must address the current administrative and institutional constraints.** The government is pressing ahead with its efforts to complete by year-end, with technical assistance from development partners, a three-year action plan to manage public investment, which should help provide a strategic focus both in geographic and sectoral terms. This plan will take into account the findings of the recent technical and financial audit of a sample of 2006 capital expenditures and transfers, as well as input from upcoming work by the World Bank on infrastructure priorities and a public expenditure review.[7] The authorities are working actively with World Bank staff to put in place modern procurement procedures and train staff accordingly.

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[6] The PIH model is underpinned by assumptions that affect estimates of the long-term non-oil primary deficit. These assumptions include the projected oil resources, which in the case of Congo is assumed to be about 1.6 billion barrels (proven); international oil prices; the growth of non-oil GDP; and the real rate of return on government (financial) assets, which is assumed to increase to 3½ percent over the medium term.

[7] The financial and technical audit of capital expenditures and transfers highlighted a number of problems that could be addressed by the timely and comprehensive implementation of the PFM action plan, including weaknesses in budget preparation, excessive centralization of the budget commitment process, lack of reliable expenditure control procedures, weak procurement policies, and the absence of a medium-term public investment program.

D. External Debt Sustainability

16. **The authorities concurred with the findings of the joint IMF and World Bank debt sustainability analysis and the view that Congo is at a high risk of debt distress**. Owing mainly to debt relief from London Club creditors in November 2007, Congo's net debt ratios have improved significantly and are projected to decline further over the long term, reflecting strong oil revenue and projected fiscal consolidation. However, the country is still vulnerable to movements in world oil prices, so a prudent fiscal stance will be essential to achieving debt sustainability (details can be found in the supplement accompanying this staff report).

E. Capacity Building

17. **The authorities stressed the need to build institutional and administrative capacity so that their economic program can be implemented smoothly.** Staff and authorities took stock of the technical assistance being provided by the Fund (much of it through the central AFRITAC), World Bank, and other donors to identify overlaps, gaps, and areas where effective use could be made of Congo's own resources to accelerate progress. It was agreed that additional assistance is needed to successfully implement the ambitious PFM reform, particularly drafting a medium-term expenditure framework, a public procurement code in line with international best practice, and a comprehensive investment management program. Also, assistance in reforming the oil sector is urgently required given the sector's importance and conditionality for the enhanced HIPC Initiative.

18. **Provision of data to the Fund is broadly adequate for surveillance purposes, with timeliness and regularity of basic macroeconomic data being priorities.** Recently, efforts have been made to strengthen national accounts, balance of payments, and fiscal data, with the help of Fund technical assistance.

IV. The Medium-term Economic Program

19. **The authorities' PRGF arrangement is designed to support balanced growth, low and stable inflation, and fiscal and external sustainability.** The medium-term macroeconomic framework (2008-11) is consistent with the PRS and aims to achieve:

- Annual real GDP growth in the non-oil sector of about 8 percent, which the authorities believe is the minimum necessary to reduce poverty durably and to make meaningful progress toward the income and other MDGs.[8]

[8] A discussion of recent poverty trends can be found in the authorities' PRS paper.

- Low and stable inflation of about 3 percent a year, in line with the CEMAC convergence criteria, which will help preserve Congo's competitiveness given the fixed exchange rate regime.

- An improvement in the external position with the current account moving into surplus this year, with the surplus rising into the medium term. This will make it possible to further build up net foreign assets and provide more than adequate savings to finance development. The external position will be strengthened further when Congo reaches the HIPC completion point.

20. **Medium-term policies to achieve these macroeconomic objectives include:**

- Gradual but continued fiscal consolidation to ensure steady progress toward long-term sustainability, recognizing the finite horizon for oil production—which could be as soon as 2028 without further exploration and development—and the need for intergenerational equity. The authorities agreed that an annual decline in the basic non-oil primary deficit of 3-4 percent of non-oil GDP would be adequate to balance the short-term desire to scale up public investment to address urgent needs (rebuild infrastructure, improve physical and human capital, and support key sectors) and put the fiscal stance on a credible path to preserve oil wealth. The reduction in the basic non-oil primary fiscal deficit from a projected 43.2 percent of non-oil GDP this year to 33½ percent in 2011 is projected to come from cuts in non-priority spending, essentially through the elimination of fuel subsidies and restraint on wages and goods and services, and domestic revenue mobilization.

- The regional central bank's focus on keeping inflation low and allowing foreign reserves accumulation, to help support the region's fixed exchange rate regime.

- Further opening of the economy through trade liberalization.

- Structural reform in areas critical to the success of the program (see Box 3): timely and full implementation of the authorities' action plan to strengthen public financial management and enhance tax and customs administration; improvement in the financial and operating performance of state-owned enterprises, notably in the oil sector, given implications for the budget and governance generally; and adoption and implementation of the financial sector strategy.

Box 3. Structural Conditionality for the Proposed PRGF Arrangement

Structural conditionality for the proposed PRGF arrangement is focused on areas that are critical for achieving the program's macroeconomic objectives. Consequently, it covers PFM, reform of the oil sector, and financial stability and deepening intermediation.

- **Public financial management**: To support the authorities' efforts to tighten control over budget execution and monitoring, and to achieve consistency with the PRS, the program gives priority to enhancing PFM. Reforms in this area are important to strengthen governance and transparency in the use of public resources. Program conditionality will support a new economic, functional, and administrative classification for the budget; development of a medium-term expenditure framework; and better public investment management, which is critical given the magnitude of these expenditures.
- **Oil sector:** Performance of the sector is critical to the macroeconomic outlook. To safeguard oil revenue and ensure that state-owned enterprises in the sector are financially sound and efficient, the program will support the government's efforts to repatriate oil revenue in a timely manner and certify those receipts every quarter; adopt a comprehensive plan with a timetable to address procedural deficiencies in the commercialization of Congolese oil; and finalize a strategic study of the sector. The program will also support the authorities' efforts to establish a new petroleum-product pricing regime that would help eliminate subsidies and depoliticize pricing decisions.
- **Financial sector:** The authorities recognize that financial stability and deeper intermediation are needed to support private sector development and broaden economic activity beyond the oil industry. Accordingly, the program will support adoption by the government of a financial sector strategy drawn up in consultation with Fund staff and Congo's development partners. Implementation of the strategy could be supported through conditionality on key elements.

A. Economic Policies for 2008-09

21. **In the first year (2008-09), the program targets real GDP growth of 8½ percent in the non-oil sector and a moderation of inflation to 3 percent by year-end.** The pickup in non-oil activity is largely attributed to strong public investment, a further broadening of growth, and spillovers from high oil production and projected investment in this sector. The near-term policies to support these targets are outlined below.

Fiscal policies

22. **For the rest of 2008 the fiscal stance will remain consistent with targets established earlier this year in the SMP, including a reduction of the basic non-oil primary deficit to 43.2 percent of non-oil GDP.** This target can be achieved by strong non-oil tax collections, firm control of public spending, and a projected decline in fuel subsidies by about 1.6 percent of non-oil GDP, as a result of the across-the-board increase in fuel prices by an average of 13 percent at the beginning of October (this increase was a prior action for Executive Board consideration of the authorities' request for a new PRGF arrangement).

23. **For 2009 the program envisages a decline in the basic non-oil primary deficit to 40.2 percent of non-oil GDP, based primarily on nominal cuts in non-priority spending,**

including a further decline in fuel subsidies. Pro-poor and domestically-financed capital spending would rise as a share of non-oil GDP, consistent with the authorities' PRS. Non-oil tax revenue would increase only slightly as a share of non-oil GDP (to about 21.1 percent) because improvements in tax and customs administration would be mostly offset by the full-year impact of recent tax and tariff reductions aimed at mitigating the adverse impact of food and fuel price inflation through most of 2008.[9] To execute and monitor the budget better, the authorities intend to undertake a number of PFM measures, such as preparing and submitting to parliament, next year's budget consistent with the targets under the proposed PRGF arrangement and using economic, functional, and administrative classifications, and to finalize and adopt a three-year action plan to improve public investment management (both structural performance criteria for December 2008). They will also prepare a medium-term expenditure framework (structural performance criterion for June 2009). To ensure the transparency and accountability of oil revenue, they will continue with quarterly certification of it by a reputable international auditor and lodge the proceeds in the Treasury within 45 days of oil sales (both continuous structural performance criteria).

Monetary and financial sector policies

24. **BEAC projects broad money growth for Congo of about 13 percent for 2009, consistent with the projected expansion of nominal growth in the non-oil sector.** Credit to the private sector should continue to increase strongly as private sector development speeds up and financial intermediation deepens. To facilitate implementation of monetary policy, the authorities intend to continue to reduce the stock of statutory advances, with a view to repaying them fully by the end of 2008, and to work closely with its CEMAC partners to develop the regional securities market.

25. **To initiate reforms, the government will adopt by the end of this year the financial sector strategy established in collaboration with Fund staff.** It is expected that this strategy will contribute to expand credit to the private sector, strengthen the legal framework, improve information on the cost of credit and credit history, diversify financial instruments, and ensure that the country's pension system is placed on a sound footing.

External sector policies

26. **The authorities have reaffirmed their commitment to finance development mainly through their own resources and to seek foreign financing only on highly concessional terms (with a minimum grant element of not less than 50 percent).** They also intend to accelerate efforts to regularize relations with all creditors, including non-

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[9] Details on the authorities' policy response to food and fuel price inflation can be found in the *Staff Report for the First Assessment Under the Staff Monitored Program* (EBS/08/93).

London Club and litigating creditors. In the coming year a priority will be to complete implementation of a new debt management strategy in line with CEMAC regional guidelines. Over the next year, the government will continue to urge its CEMAC partners to liberalize regional trade by reducing the maximum external tariff; removing remaining exemptions, surcharges and export taxes; harmonizing the rules of origin; and otherwise facilitating trade.

Structural policies

27. **As well as continuing to strengthen PFM and initiate financial sector reform, the authorities intend to accelerate progress in rationalizing the oil sector.** The focus in the first year of the program will be to establish a new fuel pricing mechanism (structural performance criterion for March 2009), which would help phase out fuel subsidies by moving prices toward import parity and depoliticize pricing decisions; continue to implement the action plan to improve the operations and financial performance of CORAF; adopt a plan (with the assistance of Congo's development partners) to address institutional and procedural deficiencies in the commercialization of Congolese oil (structural performance criterion for March 2009); and prepare a strategic study on how the oil sector can make the greatest contribution to economic development.

B. Program Financing and Capacity to Repay the Fund

28. **Congo has not achieved debt sustainability, although because of rising oil production and exports it has the capacity to service external debt, including that owed the Fund (Table 8).** External public debt service (before debt relief) has recently declined significantly as a result of debt rescheduling with Paris and London Club creditors on favorable terms. The authorities are making a good faith effort to reach a collaborative agreement with other commercial and litigating creditors, on terms comparable to those of the London Club. Debt service is projected to decline to about 4.2 percent of exports in 2009 and to 1.9 percent over the medium term. Consequently, proposed access for the PRGF arrangement is low, amounting to SDR 8.46 million (10 percent of quota), to be disbursed in seven equal tranches (Table 9).

29. **At the end of September 2008 the Congo's credit outstanding to the Fund was SDR 23.58 million (27.87 percent of quota).** No principal payments are due to the Fund in 2008-09. With the proposed PRGF arrangement Congo's obligations will peak in 2014 at SDR 5.4 million, representing about 0.1 percent of exports.

30. **Financing assurances have now been received from external creditors, accounting for 80 percent of the total HIPC assistance.** Consequently, the authorities are now eligible to receive interim HIPC assistance from the Fund. This assistance would amount to SDR 77,000 and would be used to cover 98 percent of PRGF interest payments falling due

during a twelve-month period following Executive Board approval of the proposed PRGF arrangement.

31. **HIPC debt release would improve external debt indicators and facilitate the achievement of external sustainability**. Satisfactory progress on the PRGF arrangement is required, as is satisfactory implementation of the other floating completion point triggers for the enhanced HIPC Initiative, to secure debt relief.

C. Program Risks

32. **The authorities have expressed their firm commitment to the program and to enhancing governance and transparency over the use of public resources.** Nonetheless, there are risks on two fronts:

- Performance on previous programs was uneven mainly because of the lack of ownership, perhaps stemming from the narrow constituency for reform. The new political and technical apparatus that has been established should help to ensure broad-based support across ministries, departments, and agencies, but the potential for ownership to weaken cannot be ruled out.

- The presidential and senatorial elections looming next year will create spending pressures that could cause a lapse of fiscal discipline and could slow reform in politically sensitive areas (oil in particular).

V. Staff Appraisal

33. **Growth in the non-oil sector has been relatively buoyant in recent years, but it is narrowly based and not high enough to reduce poverty significantly.** Economic reform across the board, including fiscal consolidation, is needed to confront this challenge over the medium term if Congo is to make progress toward the MDGs.

34. **Recent developments should encourage the authorities to stay the course of economic reform.** Relatively high world oil prices, increased oil production, and relative political and social stability should give Congo momentum for accelerating growth and reducing poverty in the next few years. The satisfactory policy implementation during the SMP in the first half of 2008 is encouraging.

35. **To support reform momentum, the authorities must make concerted efforts to improve the business environment, reduce the cost of doing business, raise the quality of government services, and make more effective use of public resources.** This would lay a solid foundation for diversification of the economy and enhance the competitiveness of the non-oil sector, both of which are critical to promoting employment and reducing disparities in the distribution of income.

36. **The real effective exchange rate has appreciated recently, driven mainly by relatively high inflation compared with Congo's trading partners.** This has affected the performance of non-oil exports, but factors like weak institutions and inadequate infrastructure probably have had more effect. Staff's assessment is that Congo's envisaged fiscal consolidation will be important in reducing the overvaluation of the real effective exchange rate over time.

37. **The authorities' medium-term economic and financial program should provide a strong basis for moving forward.** Fiscal consolidation to achieve long-term sustainability would ensure inter-generational equity by preserving the country's oil wealth; it would encourage policy makers to prioritize spending programs and decisions, which in turn would enhance the quality of public spending. Timely and comprehensive implementation of the new PFM action plan would promote smooth execution and careful monitoring of the budget. To help widen the spending envelope, the authorities must make concerted efforts to mobilize more domestic non-oil revenue.

38. **The structural reform agenda is well designed to support broadening of the economic base, bolster Congo's competitiveness, growth prospects, as well as fiscal sustainability:**

- Simplification of business regulations and the application of OHADA business laws would improve the business climate.
- Trade liberalization on a wide front would enlarge Congo's potential market.
- Better financial intermediation would ensure that national savings are available for private sector development.
- Improved performance of state-owned enterprises would generate economic activity and remove a burden on the budget.
- Targeted interventions in key sectors could lead to further FDI.

39. **More transparent and better governance, particularly in the oil sector, would help achieve program objectives and improve Congo's prospects for broad-based growth and poverty reduction.** The authorities should again make special efforts to enhance the monitoring and reporting of oil resources, and address fraud and combat corruption over the use of public resources.

40. **Despite the recent improvements in the external sector, Congo is still at a high risk of debt distress.** Consequently, prudent debt management and debt relief is essential to achieve external sustainability. In this context, the authorities' intention to pursue fiscal consolidation and foreign borrowing only on highly concessional terms is welcome.

41. **Although challenging, the obstacles to growth and poverty reduction in the Congo are not insurmountable, but risks remain.** Weaknesses in ownership have led to

uneven policy implementation in the past, and pressures to spend—especially with elections looming—could prove difficult to resist in the period ahead. Nonetheless, recent performance provides encouraging signs of the authorities' commitment to widen the domestic constituency for reform, and to follow through on their program commitments.

42. Taking into consideration the strength of the authorities' program and the balance of risks, staff supports their request for a three-year PRGF arrangement in an amount equivalent to SDR 8.460 million, a first disbursement in an amount equivalent to SDR 1.209 million, and interim-HIPC assistance in an amount of SDR 77,000. Also, the staff supports completion of the financing assurances review.

43. Consistent with the practice for program countries, it is proposed that the next Article IV consultation with the Republic of Congo be held in accordance with the decision on consultation cycles approved on July 15, 2002.

Proposed Decisions

I. Republic of Congo—Three-Year Arrangement Under the Poverty Reduction and Growth Facility

The following decision, which may be adopted by a majority of the votes cast, is proposed for adoption by the Executive Board:

1. The Republic of Congo has requested a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) in an amount equivalent to SDR 8.46 million.

2. The Fund decides that the arrangement set forth in EBS/08/125 is approved. The Republic of Congo may request the first disbursement under the arrangement, on the condition that the information provided by the Republic of Congo on the implementation of the measure specified as a prior action in Table 2 of the Memorandum of Economic and Financial Policies, attached to the Letter from the Minister of Finance and Budget dated November 19, 2008 is accurate.

II. Republic of Congo—Enhanced Initiative for Heavily Indebted Poor Countries–Interim Assistance

The Fund as Trustee (the "Trustee") of the Trust for Special PRGF Operations for the Heavily Indebted Poor Countries and Interim PRGF Subsidy Operations (the "Trust"), established by Decision No. 11436-(97/10) February 4, 1997, decides that:

A. Satisfactory assurances regarding the exceptional assistance to be provided under the enhanced HIPC Initiative by the Republic of Congo's other creditors have been received, and

B. The Trustee shall disburse to the Republic of Congo as interim assistance the equivalent of SDR 0.077 million, which shall be made available by the Trustee to the Republic of Congo in the form of a grant that shall be paid no later than three business days after the adoption of this decision to an account for the benefit of the Republic of Congo established and administered by the Trustee in accordance with Section III, paragraph 5 of the Trust Instrument; the proceeds of the grant shall be used by the Trustee to meet the Republic of Congo's debt service payments on its existing debt to the Fund as they fall due, in accordance with the following schedule: 98 percent of PRGF interest obligations falling due for the period of twelve months from the date of this decision.

C. For the purpose of Section III, paragraph 3(d) of the Trust Instrument, the conditions for disbursement under B above are that, on the basis of information provided by the Republic of Congo, the Republic of Congo has met all of the conditions specified in the decision approving the PRGF arrangement for the Republic of Congo.

Table 1. Republic of Congo: Selected Economic and Financial Indicators, 2006–11

	2006	2007	2008	2009	2010	2011
		Est.	Projection			
	(Annual percentage change)					
Production and prices						
GDP at constant prices	6.2	-1.6	7.6	12.7	12.3	1.3
Oil	6.8	-17.2	9.0	23.1	21.6	-10.2
Non-oil	5.9	6.6	7.0	8.5	8.0	7.4
GDP at current prices	25.9	-9.4	35.2	-5.1	27.1	0.1
GDP deflator	18.5	-7.9	25.6	-15.8	13.2	-1.2
Consumer prices (period average)	4.7	2.6	4.5	4.2	3.0	3.0
Consumer prices (end of period)	8.1	-1.7	6.0	3.0	3.0	3.0
External sector						
Exports, f.o.b. (CFA francs)	26.7	-13.3	34.7	0.9	35.2	-4.0
Imports, f.o.b. (CFA francs)	52.1	20.8	1.5	12.1	17.5	6.3
Export volume	7.8	-18.8	8.7	33.3	21.3	-9.8
Import volume	40.0	20.0	-10.1	12.5	13.8	4.1
Terms of trade (deterioration -)	0.8	0.6	13.7	-22.2	5.7	-2.4
Nominal effective exchange rate (end of period)	-0.4	5.1	...	...	...	...
Real effective exchange rate (end of period)	1.6	3.1	...	...	...	...
Money and credit	(Percent of beginning-of-period broad money)					
Net domestic assets	-80.3	-5.4	-139.7	-72.9	...	...
Domestic credit	-82.6	-3.2	-139.7	-72.9	...	...
Central government	-84.4	-3.9	-149.5	-78.8	...	...
Credit to the economy	1.9	1.1	9.9	6.0	...	...
Broad money	47.9	7.4	20.0	13.3	...	...
Velocity of broad money (Non-oil)	1.9	1.9	1.8	1.8	...	...
	(Percent of GDP)					
Investment and saving						
Gross national saving	24.5	0.1	10.6	28.9	35.0	33.7
Public	27.1	22.8	35.5	31.8	36.9	38.4
Private	-2.5	-22.7	-24.9	-2.9	-1.9	-4.7
Gross investment	22.9	26.2	20.8	27.7	24.1	25.0
Public	9.0	10.6	8.6	12.9	11.5	12.4
Private	13.9	15.6	12.1	14.8	12.6	12.6
Current account balance[3]	1.6	-26.1	0.6	1.2	10.9	8.7
External public debt (end of period)	81.5	72.9	51.9	54.7	43.3	44.6
	(Percent of non-oil GDP)					
Central government finances						
Revenue and grants	141.5	113.5	155.5	121.1	142.4	132.6
Oil revenue	120.6	92.3	133.2	97.0	116.4	103.9
Nonoil revenue and grants	20.9	21.2	22.3	24.1	26.0	28.7
Total expenditure	87.2	84.2	72.4	73.3	69.1	65.5
Current	58.5	56.3	45.1	39.1	34.4	31.5
Capital (and net lending)	28.7	27.9	27.4	34.2	34.7	34.0
Overall balance (deficit -, commitment basis)[1]	54.3	29.3	83.1	47.8	73.3	67.1
Primary balance (deficit -)[2]	68.6	36.6	90.1	56.9	79.5	70.5
Nonoil primary balance (- = deficit)	-51.3	-55.7	-43.2	-40.2	-36.9	-33.5
	(Percent of exports of goods and services)					
External public debt service (before debt relief)	13.7	10.7	4.5	4.2	3.0	1.9
External public debt	99.1	88.8	64.8	63.1	46.6	49.7
	(Percent of total government revenue excluding grants)					
External public debt service (before debt relief)	25.3	20.6	7.4	8.1	6.0	3.6
External public debt	183.9	170.8	106.8	121.2	93.3	93.5
	(Billions of CFA francs, unless otherwise indicated)					
Gross official foreign reserves	920.4	983.1	2,078.3	2,801.6	4,231.9	5,755.5
(Months of imports, f.o.b.)	10.6	9.3	19.4	23.4	30.1	38.5
(Percent of GDP)	22.8	26.8	42.0	59.6	70.8	96.2
Nominal GDP	4,042.6	3,664.4	4,952.7	4,701.8	5,976.5	5,984.1
World oil price (U.S. dollars per barrel)	64.3	71.1	99.8	68.0	75.0	79.3
Oil production (Millions of barrels)	98.7	81.7	89.0	109.6	133.2	119.6
Nominal effective exchange rate (end of period, percent change)	-0.4	5.1	...	...	...	...
Real effective exchange rate (end of period, percent change)	1.6	3.1	...	...	...	...

Sources: Congolese authorities; and Fund staff estimates and projections.

[1] Including grants.

[2] Primary revenue (excluding grants) minus non-interest current expenditure minus domestically financed capital expenditure and net lending.

[3] Including public transfers.

Table 2. Republic of Congo: Medium Term Balance of Payments, 2006–12
(Billions of CFA francs, unless otherwise indicated)

	2006	2007 Est.	2008	2009	2010	2011	2012
			Projection				
Current account	65	-958	28	56	650	521	630
Trade balance	2,125	1,486	2,420	2,299	3,363	3,056	2,726
Exports, f.o.b.	3,172	2,749	3,703	3,737	5,052	4,850	4,551
Oil sector	2,976	2,500	3,433	3,415	4,705	4,471	4,139
Non-oil sector	196	250	270	322	348	380	413
Imports, f.o.b.	-1,047	-1,264	-1,283	-1,438	-1,689	-1,795	-1,826
Oil sector	-338	-459	-399	-396	-507	-470	-397
Government	-220	-229	-265	-374	-437	-484	-515
Non-oil private sector	-489	-576	-618	-668	-744	-841	-913
Balance of services	-1,129	-1,590	-1,380	-1,422	-1,674	-1,622	-1,348
Income	-916	-835	-991	-820	-1,052	-934	-769
Labor income	-31	-33	-51	-50	-68	-64	-59
Investment income	-885	-802	-940	-770	-984	-869	-709
Current transfers (net)	-13	-19	-22	-1	13	20	21
Capital account	6	16	20	22	37	45	47
Official grants	5	15	20	22	37	45	47
Other	1	1	0	0	0	0	0
Financial account	-66	540	996	645	743	959	804
Direct investment (net)	522	1,007	1,174	1,054	1,126	1,065	1,030
Of which: oil sector	426	906	965	855	906	821	760
Portfolio investment	-1	-1	-1	0	0	0	0
Other investment	-587	-466	-178	-409	-383	-106	-226
Medium and long term	-477	-387	-220	-220	-216	-203	-196
Public sector	-300	-237	-118	-42	24	26	16
Drawings	2	1	10	114	123	128	132
Project	2	1	10	114	123	128	132
Program	0	0	0	0	0	0	0
Amortization	-302	-238	-128	-156	-99	-102	-115
Private sector	-177	-149	-102	-178	-240	-229	-213
Oil	-167	-140	-93	-167	-230	-219	-203
Non-oil	-10	-9	-9	-10	-9	-10	-10
Short term	-110	-79	42	-190	-167	97	-29
Errors and omissions	-350	136	50	0	0	0	0
Overall balance of payments	6	-266	1,093	722	1,431	1,525	1,481
Financing	-356	266	-1,093	-722	-1,430	-1,524	-1,481
Reserve financing	-522	-61	-1,093	-722	-1,430	-1,524	-1,481
IMF (net) [1]	4	0	0	2	1	-1	-3
Purchases / Disbursments	6	0	0	2	2	2	0
Repurchases / Repayments	-2	0	0	0	-1	-2	-3
Other reserves	-526	-61	-1,093	-723	-1,430	-1,524	-1,478
Exceptional financing[2]	166	327	0	0	0	0	0
Net change in arrears	28	-1,578	0	0	0	0	0
Debt cancellation	78	925	0	0	0	0	0
Debt rescheduling	61	981	0	0	0	0	0
Financing gap (- = surplus)	0	0	0	0	0	0	0
	(Annual percentage change, unless otherwise indicated)						
Memorandum items:							
Current account balance [3]	1.6	-26.1	0.6	1.2	10.9	8.7	10.6
Export volume	7.8	-18.8	8.7	33.3	21.3	-9.8	-9.6
Import volume	40.0	20.0	-10.1	12.5	13.8	4.1	0.4
Export price	17.5	6.7	23.9	-24.3	11.5	6.4	3.8
Import price	8.6	0.7	12.9	-0.4	3.2	2.1	1.4
Terms of trade	0.8	0.6	13.7	-22.2	5.7	-2.4	1.5

Sources: BEAC; and Fund staff estimates and projections.

[1] Includes assumed disbursements under the new PRGF.
[2] Includes debt relief from Paris Club and London Club.
[3] Percent of GDP; including public transfers.

Table 3a. Republic of Congo: Central Government Operations, 2006–11

	2006	2007	2008				2009	2010	2011
		Est.	Mar	Jun	Sep	Dec			
					Proj.	Prog.	Projection		
	(Billions of CFA francs)								
Revenue and grants	1,796	1,579	428	1,121	1,957	2,427	2,142	2,808	2,897
Primary Revenue	1,791	1,564	428	1,115	1,942	2,407	2,089	2,715	2,742
Oil revenue	1,531	1,284	343	931	1,691	2,079	1,716	2,296	2,271
Non-oil revenue	261	280	86	184	251	328	373	419	471
Investment income	… .	…	…	…	…	…	32	56	111
Grants	5	15	0	6	15	20	22	37	45
Expenditure and net lending	1,106	1,171	302	595	858	1,130	1,296	1,363	1,430
of which primary expenditure	916	1,055	281	555	791	1,026	1,102	1,147	1,202
Current expenditure	742	784	175	342	522	703	692	678	688
Wages	135	142	39	83	125	167	180	194	210
Other current expenditure	402	518	109	214	327	439	428	401	396
Material and supplies	85	135	38	78	126	170	181	197	212
Common charges	96	81	11	15	23	30	20	20	20
Budgetary reserves	0	0	0	0	5	15	14	20	20
Transfers	220	302	60	121	174	225	213	165	143
Refined petroleum products	18	26	7	9	20	25	20	10	0
National refinery (CORAF)	67	115	19	35	60	75	45	20	0
Other transfers	136	161	33	77	94	125	148	135	143
Local authorities	27	23	6	12	17	23	25	26	27
Interest	179	101	21	33	53	74	59	56	56
Domestic	29	17	2	4	5	7	0	1	0
External	150	84	19	29	47	67	59	56	55
Capital expenditure	360	388	127	252	336	427	604	685	743
Domestically financed	353	372	127	246	321	397	469	525	570
o.w. HIPC financed	… .	… ..	…	…	10	25	19	0	0
Externally financed	7	16	0	6	15	30	135	160	173
Net lending	5	0	0	0	0	0	0	0	0
Basic primary balance [1]	871	509	148	560	1,162	1,406	1,006	1,568	1,540
Of which: Basic non-oil primary balance	-651	-775	-195	-371	-530	-673	-710	-727	-731
Balance, commitment basis									
Excluding grants	685	393	127	520	1,084	1,277	824	1,409	1,422
Including grants	690	408	127	526	1,099	1,297	846	1,446	1,467
Of which: Non-oil balance	-831	-876	-216	-405	-592	-782	-870	-850	-804
Change in arrears	-76	-270	-37	-80	-95	-139	-125	-68	-26
External	12	-180	-23	-21	-21	-35	0	0	0
Domestic	-88	-90	-14	-59	-74	-104	-125	-68	-26
Balance, cash basis	614	138	90	447	1,004	1,158	721	1,377	1,441
Financing	-614	-138	-90	-447	-1,004	-1,158	-721	-1,377	-1,441
Foreign (net)	-165	-105	-5	-59	-71	-101	-42	24	26
Drawings	2	1	0	0	0	10	114	123	128
Amortization due	-302	-238	-13	-59	-71	-111	-156	-99	-102
Rescheduling obtained (arrears)	60	85	8	0	0	0	0	0	0
Debt cancellation (arrears)	75	48	0	0	0	0	0	0	0
Exceptional assistance	0	0	0	0	0	0	0	0	0
Domestic (net)	-449	-34	-85	-388	-933	-1,056	-679	-1,401	-1,467
Banking system (net)	-407	-23	-48	-347	-918	-1,068	-676	-1,397	-1,466
Nonbank financing	-42	-11	-37	-41	-15	12	-3	-4	-1
Financing gap (- = surplus)	0	0	0	0	0	0	0	0	0
Memorandum items:									
GDP at current market prices	4,043	3,664	4953	4953	4953	4,953	4702	5977	5984
Non-oil GDP at market prices	1,269	1,392	1561	1561	1561	1,561	1769	1972	2185
Pro poor spending	200	297	101	120	224	328	389	427	473

Sources: Congolese authorities; and Fund staff estimates and projections.

[1] Primary revenue (excluding investment income and grants) minus noninterest current expenditure minus domestically financed capital expenditure (excluding HIPC-finance capital expenditure) and net lending.

Table 3b. Republic of Congo: Central Government Operations, 2006–11

	2006	2007	2008				2009	2010	2011
		Est.	Mar	Jun	Sep	Dec	Projection		
					(Percent of non-oil GDP)				
Revenue and grants	141.5	113.5	27.4	71.8	125.4	155.5	121.1	142.4	132.6
Primary Revenue	141.1	112.4	27.4	71.4	124.4	154.2	118.1	137.7	125.5
Oil revenue	120.6	92.3	22.0	59.6	108.4	133.2	97.0	116.4	103.9
Non-oil revenue	20.5	20.1	5.5	11.8	16.1	21.0	21.1	21.2	21.6
Investment income	...	...	...	...	...	...	1.8	2.9	5.1
Grants	0.4	1.1	0.0	0.4	1.0	1.3	1.2	1.9	2.1
Expenditure and net lending	87.2	84.2	19.3	38.1	55.0	72.4	73.3	69.1	65.5
of which primary expenditure	72.2	75.8	18.0	35.6	50.7	65.8	62.3	58.1	55.0
Current expenditure	58.5	56.3	11.2	21.9	33.5	45.1	39.1	34.4	31.5
Wages	10.6	10.2	2.5	5.3	8.0	10.7	10.2	9.9	9.6
Other current expenditure	31.7	37.2	7.0	13.7	21.0	28.2	24.2	20.4	18.1
Material and supplies	6.7	9.7	2.4	5.0	8.1	10.9	10.2	10.0	9.7
Common charges	7.6	5.8	0.7	1.0	1.4	1.9	1.1	1.0	0.9
Budgetary reserves	0.0	0.0	0.0	0.0	0.3	1.0	0.8	1.0	0.9
Transfers	17.4	21.7	3.8	7.8	11.1	14.4	12.1	8.4	6.6
Refined petroleum products	1.4	1.9	0.5	0.6	1.3	1.6	1.1	0.5	0.0
National refinery (CORAF)	5.3	8.3	1.2	2.3	3.8	4.8	2.5	1.0	0.0
Other transfers	10.7	11.6	2.1	5.0	6.0	8.0	8.4	6.8	6.6
Local authorities	2.1	1.7	0.4	0.8	1.1	1.5	1.4	1.3	1.2
Interest	14.1	7.2	1.3	2.1	3.4	4.7	3.3	2.8	2.5
Domestic	2.3	1.2	0.1	0.2	0.4	0.5	0.0	0.0	0.0
External	11.8	6.0	1.2	1.9	3.0	4.3	3.3	2.8	2.5
Capital expenditure	28.4	27.9	8.1	16.2	21.5	27.4	34.2	34.7	34.0
Domestically financed	27.8	26.7	8.1	15.8	20.6	25.4	26.5	26.6	26.1
o.w. HIPC financed	0.0	0.0	0.0	0.0	0.6	1.6	1.1	0.0	0.0
Externally financed	0.5	1.1	0.0	0.4	1.0	1.9	7.7	8.1	7.9
Net lending	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Basic primary balance [1]	68.6	36.6	9.5	35.8	74.4	90.1	56.9	79.5	70.5
Of which: Basic non-oil primary balance	-51.3	-55.7	-12.5	-23.8	-33.9	-43.2	-40.2	-36.9	-33.5
Balance, commitment basis									
Excluding grants	54.0	28.2	8.1	33.3	69.4	81.8	46.6	71.4	65.1
Including grants	54.3	29.3	8.1	33.7	70.4	83.1	47.8	73.3	67.1
Of which: Non-oil balance	-65.5	-63.0	-13.8	-25.9	-38.0	-50.1	-49.2	-43.1	-36.8
Change in arrears	-5.9	-19.4	-2.4	-5.1	-6.1	-8.9	-7.1	-3.5	-1.2
External	0.9	-13.0	-1.5	-1.3	-1.3	-2.2	0.0	0.0	0.0
Domestic	-6.9	-6.4	-0.9	-3.8	-4.8	-6.7	-7.1	-3.5	-1.2
Balance, cash basis	48.4	9.9	5.8	28.6	64.3	74.2	40.7	69.8	66.0
Financing	-48.4	-9.9	-5.8	-28.6	-64.3	-74.2	-40.7	-69.8	-66.0
Foreign (net)	-13.0	-7.5	-0.3	-3.8	-4.6	-6.5	-2.4	1.2	1.2
Drawings	0.1	0.0	0.0	0.0	0.0	0.6	6.4	6.2	5.8
Amortization due	-23.8	-17.1	-0.9	-3.8	-4.6	-7.1	-8.8	-5.0	-4.7
Rescheduling obtained (arrears)	4.7	6.1	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Debt cancellation (arrears)	5.9	3.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional assistance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic (net)	-35.4	-2.4	-5.4	-24.9	-59.8	-67.7	-38.4	-71.1	-67.2
Banking system (net)	-32.1	-1.6	-3.1	-22.2	-58.8	-68.4	-38.2	-70.8	-67.1
Nonbank financing	-3.3	-0.8	-2.3	-2.6	-1.0	0.8	-0.2	-0.2	-0.1
Financing gap (- = surplus)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Sources: Congolese authorities; and Fund staff estimates and projections.

[1] Primary revenue (excluding investment income and grants) minus noninterest current expenditure minus domestically financed capital expenditure (excluding HIPC-financed capital expenditure) and net lending.

Table 4. Republic of Congo: Quantitative Indicative Targets, Jan 1 - June 30, 2008
(Billions of CFA francs, unless otherewise indicated; cumulative from January)

	End-Mar. 08		End-Jun. 08	
	Benchmark	Actual	Benchmark	Actual
Quantitative targets				
Nonoil primary fiscal balance (floor)	-198.5	-194.8	-398.6	-371.2
New medium or long-term nonconcessional external debt (including leasing) contracted or guaranteed by the government (ceiling) [1, 2]	0.0	0.0	0.0	0.0
New external debt (including leasing) with an original maturity of less than one year (ceiling)	0.0	0.0	0.0	0.0
New oil-collateralized external debt contracted by or on behalf of the central government (ceiling) [2]	0.0	0.0	0.0	0.0
New nonconcessional external debt contracted by SNPC (ceiling) [2]	0.0	0.0	0.0	0.0
New external arrears on nonreschedulable debt [2]	0.0	0.0	0.0	10.1
New domestic arrears [2]	0.0	0.0	0.0	0.0
Memorandum items				
Oil revenue (in billions of CFA francs)	338.5	342.7	1,081.1	930.7
Non-oil revenue	77.0	85.7	153.9	184.0

[1] Excluding rescheduling arrangements and disbursements from the IMF; the minimum grant element is set to 50 percent.
[2] Continuous.

Table 5. Republic of Congo: Structural Benchmarks Under the SMP, January 1–June 30, 2008

Measures	Date	Status of Implementation
The government will adopt a comprehensive action plan with a timetable to address institutional and procedural deficiencies in the commercialization of Congolese oil, to bring them in line with best international practice.	March 31, 2008	Not observed
The government will adopt a comprehensive action plan with a timetable for reforming CORAF, taking on board the recommendations of the diagnostic study of its operations by an international consultant.	March 31, 2008	Observed
Completion of a technical and financial audit, by an independent, internationally recognized firm, of current transfers and a representative sample of capital expenditures executed during the period from January 1, 2006 to December 31, 2006, based on terms of reference satisfactory to IMF and World Bank staff. Publication of the audit report on the website of the Ministry of Economy, Finance, and Budget (www.mefb-cg.org)	June 30, 2008	Observed
Adoption of a three-year action plan to strengthen public investment management, with assistance from the French Cooperation agency, World Bank, and other development partners.	June 30, 2008	Not observed
Quarterly adjustment in petroleum entry distribution and/or retail prices to ensure that oil subsidies for 2008 remain within budget limits (CFAF 35 billion for the full year). The price adjustments should not pass-through any decline in world oil prices.	Four weeks after the end of each quarter	Not observed
Quarterly certification of oil revenue by an internationally recognized audit firm, using the same specifications as for the 2003 certification and with no restrictions on access to information; certification reports to be published on the website of the Ministry of Economy, Finance, and Budget (www.mefb-cg.org).	Continuous, with a one-quarter lag	Observed
Publication of all invitations to bid and the bids themselves for government procurement contracts above CFAF200 million on the government's website (www.mefb-cg.org)	Continuous	Observed
No granting of new tax and customs exemptions (except those under international conventions).	Continuous	Observed
Centralization of all public revenues and execution of all public payments by the Treasury.	Continuous	Observed
No recourse to emergency payment and cash advance procedures, except in situations stated in the organic budget law.	Continuous	Observed
Provision to Fund staff information and projections concerning (i) the price structure of domestic petroleum products and (ii) the income statement and cash flow of CORAF.	Monthly, with a one-month lag	Not observed

Table 6. Republic of Congo: Monetary Survey, 2006-09

(Billions of CFA francs, unless otherwise indicated)

	2006	2007 Est.	2008 Projection	2009 Projection
Monetary survey				
Net foreign assets	1042.6	1128.0	2269.0	3008.5
Central bank	901.4	962.7	2056.1	2777.7
Deposit money banks	141.2	165.3	212.9	230.9
Net domestic assets	-377.6	-413.7	-1411.8	-2037.1
Net domestic credit	-355.6	-377.1	-1375.2	-2000.5
Net credit to the public sector	-449.4	-478.0	-1546.7	-2223.4
Net credit to the Government	-450.3	-476.4	-1544.4	-2220.1
Central bank	-446.7	-465.8	-1533.8	-2209.5
Claims	149.1	170.5	18.4	20.2
Staturory advances	131.4	153.9	0.0	0.0
Use of IMF credit	17.7	16.6	18.4	20.2
Deposits	595.8	636.3	1552.3	2229.7
Deposit money banks	-3.6	-10.6	-10.6	-10.6
Claims on public agencies, net	1.0	-1.6	-2.3	-3.3
Credit to the economy	93.7	100.9	171.5	223.0
Other items, net	-22.0	-36.6	-36.6	-36.6
Broad money	665.0	714.3	857.1	971.5
Currency outside banks	271.2	239.2	314.8	321.1
Demand deposits	310.8	384.1	433.1	526.6
Time deposits	82.9	91.0	109.2	123.8
	(Changes in percent of beginning-of-period broad money)			
Net foreign assets	128.2	12.8	159.7	86.3
Net domestic assets	-80.3	-5.4	-139.7	-72.9
Net domestic credit	-82.6	-3.2	-139.7	-72.9
Net credit to the government	-84.4	-3.9	-149.5	-78.8
Credit to the private sector	1.9	1.1	9.9	6.0
	(Annual percent changes, unless otherwise indicated)			
Broad money	47.9	7.4	20.0	13.3
Reserve money	36.5	-11.8	31.6	2.0
Memorandum items:				
Velocity				
Non-oil GDP/Average M2	1.9	2.0	1.9	2.0
Non-oil GDP/End period M2	1.9	1.9	1.8	1.8
	(Percent)			
Total GDP growth	25.9	-9.4	35.2	-5.1
Non-oil GDP growth	10.2	9.7	12.1	13.3
Credit to the private sector/Non-oil GDP	7.4	7.2	11.0	12.6

Source: BEAC; and Fund staff estimates and projections.

Table 7. Banking Sector Financial Soundness Indicators, 2004-07
(Percent, at year's end, unless otherwise indicated)

	2004	2005	2006	2007
Capital Adequacy				
Regulatory capital to risk-weighted assets	4	12	14	16
Percentage of banks greater or equal to 10 percent	25	75	100	75
Percentage of banks below 10 and above 6 percent	25	25	0	25
Percentage of banks below 6 percent minimum	50	0	0	0
Capital (net worth) to assets	3	4	4	4
Asset quality				
Nonperforming loans	7	3	2	3
Provision as percent of past-due loans	28	84	67	81
Earnings and profitability				
Net profit (before tax)/net income	8	23	42	...
Return on assets	1	3	3	...
Return on equity	13	33	76	...
Expense/income	71	58	73	...
Interest rate spread (deposit money banks)				
Lending rate minus demand deposit rates	9	11	12	...
Liquidity				
Liquid assets/total assets	39	64	61	72
Liquid assets/short term liabilities	164	273	294	338
Loan/deposits	57	34	27	26
Liquid assets/total deposits	42	68	71	85
Excess reserves/Broad money	16	18	11	16

Source: COBAC and Fund staff estimates.

Table 8. Republic of Congo: Indicators of Capacity to Repay the Fund, 2006-15 [1]

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
			Projections							
Fund obligations based on existing credit										
(Millions of SDRs)										
Principal	2.8	0.0	0.0	0.0	1.6	3.1	4.7	4.7	4.7	3.1
Charges and interest	0.4	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.3	0.3
Fund obligations based on existing and prospective credit										
(Millions of SDRs)										
Principal	2.8	0.0	0.0	0.0	1.6	3.1	4.7	4.7	5.1	4.0
Charges and interest	0.4	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.3
Total obligations based on existing and prospective credit										
Millions of SDRs	3.2	0.5	0.4	0.4	2.0	3.6	5.1	5.1	5.4	4.3
Billions of CFAF	2.5	0.4	0.3	0.3	1.4	2.4	3.5	3.5	3.7	2.9
Percent of government revenue	0.1	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Percent of exports of goods and services	0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1
Percent of debt service [2]	1.4	0.4	0.4	0.5	2.4	4.4	5.6	5.6	6.0	4.8
Percent of GDP	0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.0
Percent of quota	3.8	0.6	0.5	0.5	2.4	4.2	6.1	6.0	6.4	5.1
Outstanding Fund credit [2]										
Millions of SDRs	23.6	23.6	24.8	27.2	28.1	27.3	22.6	17.9	12.8	8.8
Billions of CFAF	18.1	17.3	17.1	18.6	19.2	18.6	15.4	12.2	8.7	6.0
Percent of government revenue	1.0	1.1	0.7	0.9	0.7	0.7	0.5	0.4	0.3	0.2
Percent of exports of goods and services	0.5	0.6	0.4	0.5	0.3	0.3	0.3	0.3	0.2	0.1
Percent of debt service [2]	10.1	17.1	23.0	31.6	34.2	33.6	24.7	19.6	14.1	9.8
Percent of GDP	0.4	0.5	0.3	0.4	0.3	0.3	0.3	0.2	0.1	0.1
Percent of quota	27.9	27.9	29.3	32.2	33.2	32.3	26.7	21.1	15.1	10.4
Net use of Fund credit (millions of SDRs)	5.1	0.0	1.2	2.4	0.8	-0.7	-4.7	-4.7	-5.1	-4.0
Disbursements	7.9	0.0	1.2	2.4	2.4	2.4	0.0	0.0	0.0	0.0
Repayments and Repurchases	2.8	0.0	0.0	0.0	1.6	3.1	4.7	4.7	5.1	4.0
Memorandum items:										
Nominal GDP (Billions of CFAF)	4,043	3,664	4,953	4,702	5,977	5,984	5,945	5,788	5,822	5,895
Exports of goods and services (Billions of CFAF)	3,402	3,007	3,967	4,076	5,552	5,368	5,085	4,646	4,464	4,331
Government revenue (Billions of CFAF)	1,791	1,564	2,407	2,121	2,771	2,852	2,838	2,832	2,856	2,858
Debt service (Billions of CFAF) [2]	179	101	74	59	56	56	62	62	62	61
CFAF/SDR (period average)	769	733	688	684	683	682	681	679	678	678

Sources: IMF staff estimates and projections.

[1] Assumes a new PRGF arrangement of SDR 8.46 million (10 percent of quota).

[2] Total debt service includes IMF repurchases and repayments.

Table 9: Republic of Congo: Proposed Access and Phasing Under the Proposed 3-Year PRGF Arrangement (2008-11) [1]

Timing	Disbursement		Conditions
	Amount in SDRs	Percent of quota	
December 2008	1,208,570	1.43	Approval of the arrangement
April 2009	1,208,570	1.43	Completion of the first review (end-December 2008 test date)
October 2009	1,208,570	1.43	Completion of the second review (end-June 2009 test date)
April 2010	1,208,570	1.43	Completion of the third review (end-December 2009 test date)
October 2010	1,208,570	1.43	Completion of the fourth review (end-June 2010 test date)
April 2011	1,208,570	1.43	Completion of the fifth review (end-December 2010 test date)
June 2011	1,208,580	1.43	Completion of the sixth (final) review (end-March 2011 test date)[2]
Total	8,460,000	10.00	

[1]The Republic of Congo's quota is SDR 84.6 million.
[2]A test date of end-March 2011 is set to allow the final disbursement to take place before the end of the arrangement period.

Table 10. Republic of Congo: Millennium Development Goals, 1990–2015

	1990	1995	2000	2005	2007	2015 Target
Goal 1. Eradicate extreme poverty and hunger						
Target 1: Halve, between 1990 and 2015, number of people earning less than US$ 1 a day.						
1. Population below US$1 a day (in percent)	...	...	...	...	...	...
2. Poverty gap ratio at US$1 a day (in percent)	...	...	...	...	...	...
3. Share of income or consumption held by poorest 20 percent (in percent)	...	...	...	...	...	...
Target 2: Halve, between 1990 and 2015, the proportion of people suffering from hunger.						
4. Prevalence of child malnutrition (in percent of children under 5)	...	...	13.0	...	11.8	...
5. Population below minimum level of dietary energy consumption (in percent)	54.0	59.0	...	33.0	…	[18.5]
Goal 2. Achieve universal primary education						
Target 3: Ensure that, by 2015, children will be able to complete a full course of primary schooling.						
6. Net primary enrollment ratio (percent of relevant age group)	79.0	...	...	44.0	54.0	...
7. Cohort reaching grade 5 (in percent)	60.0	...	66.0	...	73.0	...
8. Youth literacy rate (in percent, ages 15-24)	93.0	...	...	...	…	[100.0]
Goal 3. Promote gender equality and empower women						
Target 4: Eliminate gender disparity in primary and secondary education, preferably by 2005, and all levels of education by 2015.						
9. Ratio of girls to boys in primary and secondary education (in percent)	83.0	...	83.0	89.0	90.0	...
10. Ratio of young literate females to males (in percent, ages 15-24)	95.0	...	...	...	…	...
11. Share of women employed in the nonagricultural sector (in percent)	26.1	...	...	...	…	...
12. Proportion of seats held by women in the national parliament (in percent)	14.0	2.0	12.0	9.0	7.0	...
Goal 4. Reduce child mortality						
Target 5: Reduce by two-thirds, between 1990 and 2015, the under-5 mortality rate.						
13. Under-5 mortarlity rate (per 1,000)	110.0	108.0	108.0	108.0	126.0	[73.3]
14. Infant mortality rate (per 1,000 live births)	83.0	81.0	81.0	81.0	79.0	...
15. Immunization against measles (percent of children under 12 months)	75.0	38.0	34.0	56.0	66.0	...
Goal 5. Improve maternal death						
Target 6: Reduce by three-fourths, between 1990 and 2015, maternal mortality.						
16. Maternal mortality ratio (modeled estimate, per 100,000 live births)	...	...	510.0	...	740.0	...
17. Proportion of births attended by skilled health personnel (% of total)	...	...	...	86.0	86.0	...
Goal 6. Combat HIV/AIDS, malaria, and other diseases						
Target 7: Halt by 2015, and begin to reverse, the spread of HIV/AIDS.						
18. HIV prevalence among females (in percent, ages 15-24)	...	...	...	3.7	2.3	...
19. Contraceptive prevalence rate (percent of women ages 15-49)	...	...	...	44.0	36.0	...
20. Number of children orphaned by HIV/AIDS	...	...	...	...	…	...
Target 8: Halt by 2015, and begin to reverse, the incidence of malaria and other major diseases.						
21. Prevalence of death associated with malaria	...	...	...	...	…	...
22. Share of population in malaria risk areas using effective prevention and treatment	...	...	...	...	…	...
23. Incidence of tuberculosis (per 100,000 people)	137.0	240.0	328.0	367.0	403.0	...
24. Tuberculosis cases detected under DOTS (in percent)	...	67.0	87.0	57.0	51.0	...

Table 10. Republic of Congo: Millennium Development Goals, 1990–2015 (concluded)

	1990	1995	2000	2005	2007	2015 Target
Goal 7. Ensure environmental sustainability						
Target 9: Integrate the principles of sustainable development into policies and programs. Reverse the loss of environmental resources.						
25. Forest area (percent of total land area)	67.0	...	66.0	66.0	66.0	...
26. Nationally protected areas (percent of total land area)	...	...	...	18.0	…	...
27. GDP per unit of energy use (PPP $ per kg oil equivalent)	2.3	4.5	3.9	3.3	…	...
28. CO2 emissions (metric tons per capita)	0.5	0.5	0.3	0.4	…	...
29. Proportion of population using solid fuels	...	...	...	...	…	...
Target 10: Halve by 2015 proportion of people without access to safe drinking water.						
30. Access to improved water source (percent of population)	...	...	...	58.0	71.0	...
Target 11: Achieve by 2020 significant improvement for at least 100 million slum dwellers.						
31. Access to improved sanitation (percent of population)	...	...	...	27.0	20.0	...
32. Access to secure tenure (percent of population)	...	...	...	...	…	...
Goal 8. Develop a Global Partnership for Development						
Target 16. Develop and implement strategies for productive work for youth.						
45. Unemployment rate of population ages 15-24 (total)	...	...	...	...	…	...
Target 17: Provide access to affordable essential drugs.						
46. Population with access to affordable essential drugs (in percent)	...	...	...	...	…	...
Target 18: Make available new technologies, especially information and communications.						
47. Fixed-line and mobile telephones (per 100 people)	…	…	2.9	…	35.8	...
48. Personal computers (per 1,000 people)	35.3	13.1	1.6	2.4	…	...

Sources: World Bank Millenium Development Goals Database, April 2007; and Fund staff estimates.

Note: Targets 12-15 and indicators 22-44 are excluded because they cannot be measured on a country-specific basis. These are related to official development assistance, market access, and the HIPC Initiative.

APPENDIX I

Republic of Congo—Three-Year Arrangement Under the Poverty Reduction and Growth Facility

Attached hereto is a letter from the Minister of Economy, Finance and Budget dated November 19, 2008 (the “Letter”), with an attached Memorandum of Economic and Financial Policies (the “Memorandum”) and Technical Memorandum of Understanding (the “TMU”), requesting from the International Monetary Fund as Trustee of the Poverty Reduction and Growth Facility and Exogenous Shocks Facility Trust (the “Trustee”) a three-year arrangement under the Poverty Reduction and Growth Facility, and setting forth:

(a) the objectives and policies of the program that the authorities of Republic of Congo intend to pursue during the three-year period of the arrangement;

(b) the objectives, policies and measures that the authorities of Republic of Congo intend to pursue during the first year of the arrangement; and

(c) understandings of Republic of Congo with the Trustee regarding reviews that will be made of progress in realizing the objectives of the program and of the policies and measures that the authorities of Republic of Congo will pursue for the second and third years of the arrangement.

To support these objectives and policies, the Trustee grants the requested three-year arrangement in accordance with the following provisions, and subject to the provisions applying to assistance under the Poverty Reduction and Growth Facility and Exogenous Shocks Facility Trust.

1. (a) For a period of three years from the date on which the arrangement becomes effective, Republic of Congo will have the right to obtain loan disbursements from the Trustee in a total amount equivalent to SDR 8.46 million, subject to the availability of resources in the Poverty Reduction and Growth Facility and Exogenous Shocks Facility Trust.

(b) Disbursements under this arrangement shall not exceed the equivalent of SDR 2,417,140 until the beginning of the second year of the arrangement and the equivalent of SDR 4,834,280 until the beginning of the third year of the arrangement.

2. During the period of the arrangement:

(i) the first disbursement, in an amount equivalent to SDR 1,208,570 will be available upon approval of the arrangement, at the request of Republic of Congo; and

(ii) the second disbursement, in an amount equivalent to SDR 1,208,570 will be available on or after April 30, 2009, at the request of Republic of Congo and subject to the paragraphs 4 and 5 below; and

(iii) the third disbursement, in an amount equivalent to SDR 1,208,570 will be available on or after October 31, 2009, at the request of Republic of Congo and subject to the paragraphs 4 and 5 below;

3. The right of Republic of Congo to request disbursements during the second and third years of this arrangement shall be subject to such further phasing and conditions as shall be determined at later reviews.

4. Republic of Congo will not request the disbursements specified in paragraph 2 above:

(a) if the Managing Director of the Trustee finds that, with respect to the second disbursement, the data as of December 31, 2008, and with respect to the third disbursement, the data as of June 30, 2009 indicate that:

(i) the floor on the non-oil primary fiscal balance;

as set out in Table 1 of the Memorandum and further specified in the paragraphs 3-7 of the TMU was not observed or

(b) if the Managing Director of the Trustee finds that

1) with respect to the second disbursement, Republic of Congo, by December 31, 2008, has not carried out its intentions to prepare the 2009 budget consistent with the targets under this arrangement, using economic, functional and administrative classifications, as set out in Table 2 of the Memorandum and as further specified in paragraph 12 of the Memorandum; or

2) with respect to the second disbursement, Republic of Congo, by December 31, 2008, has not carried out its intentions to finalize and adopt the three-year action plan to improve public investment management prepared with assistance from the IMF, World Bank and the French Cooperation; and to publish the plan on the government website, as set out in Table 2 of the Memorandum and as further specified in paragraph 9 of the Memorandum; or

3) with respect to the second disbursement, Republic of Congo, by March 31, 2009, has not carried out its intentions to adopt a new petroleum-pricing regime that will ensure fuel price subsidies are phased out by mid-2011, as set out in Table 2 of the Memorandum and as further specified in paragraph 11 of the Memorandum; or

4) with respect to the second disbursement, Republic of Congo, by March 31, 2009, has not carried out its intentions to adopt a comprehensive action plan with a timetable to address institutional and procedural deficiencies in the commercialization of Congolese oil, in line with international best practice, as set out in Table 2 of the Memorandum and as further specified in paragraph 20 of the Memorandum; or

5) with respect to the third disbursement, Republic of Congo, by June 30, 2009, has not carried out its intentions to prepare, in consultation with development partners, a medium-term expenditure framework consistent with the Poverty Reduction Strategy (PRS), as set out in Table 2 of the Memorandum and as further specified in paragraph 12 of the Memorandum; or

(c) until the Trustee has determined:

(i) with respect to the second disbursement, that the first review, and

(ii) with respect to the third disbursement, that the second review,

of Republic of Congo's program, referred to in the paragraph 3 of the Letter and in paragraph 23 of the Memorandum has been completed.

5. Republic of Congo will not request any disbursement under this arrangement

(a) if, at any time during this arrangement,

(i) the government of Republic of Congo contracts or guarantees any new medium or long-term non-concessional external debt; or

(ii) the government of Republic of Congo contracts or guarantees any new external debt with an original maturity of less than one year; or

(iii) any new oil-collateralized external debt is contracted by or on behalf of the government of Republic of Congo, or

(iv) the SNPC contracts or guarantees any new non-concessional external debt; or

(v) the government of Republic of Congo accumulates any new external arrears on non-reschedulable debt, or

(vi) the government of Republic of Congo accumulates any new domestic arrears

as set out in Table 1 of the Memorandum and as further specified in the TMU; or

(b) if, at any time during this arrangement, the government of Republic of Congo is not

(i) (a) certifying oil revenue, on a quarterly basis, and by an internationally reputable audit firm, using the same specifications as for the 2003 certification and with no restrictions on access to information, (b) publishing the certification reports on the website of the Ministry of Economy, Finance and Budget, and (c) posting on the website for each certification reports a note addressing the comments by the auditors; or

(ii) repatriating to the Treasury oil proceeds of oil shipments commercialized by private companies and the SNPC on behalf of the government within 45 days after the actual shipment date (according to actual quantities, prices and shipment dates,

as set out in Table 2 of the Memorandum and as further specified in paragraph 10 of the Memorandum; or

(c) if Republic of Congo has, at any time thereafter during this arrangement:

(i) imposed or intensified restrictions on payments and transfers for current international transactions; or

(ii) introduced or modified multiple currency practices; or

(iii) concluded bilateral payments agreements that are inconsistent with Article VIII; or

(iv) imposed or intensified import restrictions for balance of payments reasons.

(d) until the Trustee has determined that, with respect to each disbursement, for so long as Republic of Congo outstanding sovereign external payment arrears to private creditors, or by virtue of Republic of Congo's imposition of exchange controls there are non-sovereign external payment arrears, a financing review has been completed.

6. When Republic of Congo is prevented from requesting disbursements under this arrangement because of paragraphs 4 and 5 above, such disbursements will be made available

only after consultation has taken place between the Trustee and Republic of Congo and understandings have been reached regarding the circumstances in which Republic of Congo may request the disbursements.

7. In accordance with paragraph 21 of the Memorandum and the relevant paragraphs of the TMU, Republic of Congo will provide the Trustee with such information as the Trustee requests in connection with the progress of Republic of Congo in implementing the policies and reaching the objectives of the program supported by this arrangement.

8. In accordance with paragraph 4 of the Letter, during the period of this arrangement, Republic of Congo shall consult with the Trustee on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing Director of the Trustee requests such a consultation. Moreover, after the period of this arrangement and while Republic of Congo has outstanding financial obligations to the Trustee arising from loan disbursements under this arrangement, Republic of Congo will consult with the Trustee from time to time, at the initiative of the Government or whenever the Managing Director of the Trustee requests consultation, on Republic of Congo's economic and financial policies. These consultations may include correspondence and visits of officials of the Trustee to Republic of Congo or of representatives of Republic of Congo to the Trustee.

APPENDIX II

Brazzaville, November 19, 2008

The Minister of Economy,
Finance and Budget

To:

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, DC 20431
USA

Dear Mr. Managing Director:

The Republic of Congo is pursuing a medium-term economic and financial program aimed at accelerating growth, alleviating poverty, and achieving external debt sustainability, in particular, through debt relief under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative.

In support of this program, the government of the Republic of Congo hereby requests a three-year arrangement covering the period 2008-11 under the Poverty Reduction and Growth Facility (PRGF), with access equivalent to SDR 8.46 million (10 percent of quota). A disbursement equivalent to SDR 1.21 million would be available upon Executive Board approval of this arrangement. Also, we are requesting interim-HIPC assistance from the Fund, which Congo is eligible to receive having reached the decision point in March 2006, and since financing assurances from external creditors accounting for 80 percent of the total HIPC assistance have now been received. This assistance, in the amount of SDR 77,000, will be used to cover 98 percent of PRGF interest payments falling due during a twelve-month period from the time the Executive Board approves our proposed program.

In support of our request for a new arrangement, we observed the prior action on raising fuel prices, which we undertook on October 1, 2008. Disbursements during the first year of the program will be linked to program reviews based on biannual quantitative performance criteria for end-December 2008 and end-June 2009 (Table 1). Also, our structural reform efforts will be supported by the performance criteria and benchmarks outlined in Table 2 of the MEFP.

We believe that the policies and measures set forth in the attached MEFP are adequate to achieve the objectives of the program. During the implementation of the arrangement, we will consult with Fund staff on the adoption of any measures that may be appropriate and on any revisions to the policies contained in the MEFP, at the initiative of the government or whenever the Fund staff requests such a consultation.

The government intends to make the contents of this letter and those of the attached MEFP, as well as the staff report accompanying its request for a three-year PRGF arrangement, available to the public and authorizes the Fund to arrange for them to be posted on the Fund's website, subsequent to Executive Board approval of its request.

We can assure you, Mr. Managing Director that the government of the Republic of Congo is determined to fully implement the program supported by the PRGF arrangement, and to move to the completion point under the enhanced HIPC Initiative as soon as possible.

Sincerely yours,

/s/

Pacifique Issoïbeka
Minister of Economy, Finance, and Budget

Attachment: Memorandum of Economic and Financial Policies, 2008-11

APPENDIX II
ATTACHMENT I

Memorandum of Economic and Financial Policies, 2008–11

Brazzaville, November 19, 2008

I. Introduction

1. During the first semester of this year, we implemented a Staff-Monitored Program (SMP), as a means of demonstrating our commitment and capacity to pursue an economic and financial program that could be supported by financial resources from the Fund. This SMP has led to an improvement in public finances, strengthened governance and transparency over the use of public resources, and supported progress toward implementing the floating completion point triggers under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative.

2. Under the proposed PRGF arrangement, we intend to continue to implement the medium-term economic and financial strategy that was outlined in the SMP. This medium-term strategy, which is aligned with the government's Poverty Reduction Strategy (PRS) that was adopted in May 2008, aims at supporting continued robust growth in the non-oil sector, low inflation, and gradual fiscal consolidation to preserve the nation's oil wealth, enhanced public financial management, financial sector development, and reforms in the oil sector.

II. Recent Economic Developments

3. Macroeconomic performance has been generally strong during the past several years, although overall economic growth has been affected by disruptions in oil production. Per capita income has increased and we have made progress toward achieving the Millennium Development Goals; however, higher output and employment will be needed in the period ahead to reduce poverty durably.

- An accident at the Nkossa oil platform led to a decline in overall real GDP last year, but we expect growth to reach 7.6 percent this year. Economic activity in the non-oil sector continues to be strong, which is being supported by the recovery in oil production, and growth in the telecommunication, construction, and transport sectors.

- Inflation has picked up recently, mainly reflecting high food and energy prices. In the twelve months through June 2008, consumer prices rose by 5.7 percent and the expectation is for a further small rise in prices through the rest of this year, before moderating in 2009.

- Supported by favorable world oil prices, debt rescheduling under the Paris Club and debt relief from most London Club creditors in the context of the enhanced HIPC Initiative, our external position has strengthened considerably. We project a current account surplus of about 0.6 percent of GDP in 2008, compared with a deficit of nearly 26 percent of GDP last year, and the outstanding stock of external public debt should decline to about 52 percent of GDP, compared with 81½ percent two years earlier. Regrettably, we have accumulated external arrears with some Paris Club creditors (about CFAF 10 billion). This has arisen because we have been servicing our external debt according to the 2004 rescheduling, which was not fully implemented as our previous PRGF arrangement went off track. We are in contact with these creditors and will address these arrears ahead of our request for a new PRGF arrangement. We are continuing to negotiate with litigating creditors with the intention of reaching a settlement soon, and we are cognizant of the need for comparability of treatment with other creditors. Also, in the context of the June 2006 framework agreement, we are discussing with the Chinese authorities the prospects for concessional financing (grant element of 52.7 percent, according to Fund staff estimates), amounting to about US$ 1 billion to accelerate infrastructure investment.

- Relatively high world oil prices, together with expenditure discipline and strong non-oil tax collections, has led to an improvement in the fiscal position. Fiscal developments through June 2008 suggest that we are on track to achieve the targeted reduction in the non-oil basic primary balance, bringing it to about 43 percent of non-oil GDP this year.

4. Recently, we have made progress in structural reform, particularly in the areas of public financial management and addressing problems in the oil sector. With the help of our development partners, we adopted and began implementing a public financial management action plan, in February 2008 we became a candidate country to the Extractive Industries Transparency Initiative (EITI) and we are working toward completing the first EITI report before the end of this year, and we completed the requirements to disburse interim HIPC assistance resources. We have nearly completed the necessary measures to better control and manage public investment, including an audit of past investments, the creation of an inter-ministerial committee and an advisory body (with membership of Fund and World Bank staff) to provide guidance and project appraisal, and we prepared a draft three-year action plan, which should be finalized by the end of this year. In the oil sector, we have begun to implement an action plan to improve the operating and financial performance of the state-owned oil refinery, CORAF, prepared a draft strategy to address institutional and procedural deficiencies in the commercialization of Congolese oil by SNPC, and continued to certify oil revenue, to safeguard our oil resources.

III. MEDIUM-TERM OBJECTIVES AND POLICY FRAMEWORK

5. The PRS provides the foundation for the government's medium-term policy framework. The PRS seeks to diversify the economy and reduce our dependency on oil, enhance governance and transparency in the use of public resources, build human and physical capital to raise potential output growth, and consolidate macroeconomic stability.

6. To support these objectives, economic policies over the medium term will be set to:

- Achieve more robust growth in the non-oil sector─about 8 percent per year─to lift per capita income and generate employment, especially in rural areas, where poverty is high. In this regard, rebuilding the country's infrastructure is critical and we place high priority on investment projects in transportation (railway, roads, and ports), energy and water, agriculture, and the social sector (schools, hospitals).

- Maintain low and stable inflation of about 3 percent per year, in line with the CEMAC convergence criterion, which should help preserve Congo's international competitiveness under the fixed exchange rate regime.

- Consolidate the fiscal position to preserve the nation's oil wealth. In this context, the fiscal adjustment will be kept consistent with long-term fiscal sustainability, based on an annual decline in the non-oil basic primary deficit of about 3-4 percent of non-oil GDP per year. To reduce this deficit from the projected 43.2 percent of non-oil GDP in 2008 to 33½ percent in 2011, we will continue to maintain tight control of spending, while ensuring sufficient resources to support growth-enhancing and poverty reducing social policies and much needed infrastructure investment; further improve public financial management; continue to enhance tax and customs administration.

- Secure external sustainability through prudent debt management, including pursuing grant financing and limiting borrowing to only highly concessional loans, and achieving HIPC debt relief.

- Regularize relations with domestic creditors by continuing to implement the plan to clear domestic arrears, which will enhance the credibility of fiscal policy.

- Ensure that our finite oil resources contribute fully to the development of our economy. In this regard, we intend to develop a sector strategy (with the assistance of our development partners) and rationalize the operations of the state-owned enterprises in this area.

- Develop the financial sector, since financial deepening and more efficient intermediation are needed for the private sector to flourish.

IV. THE PROGRAM FOR 2008-09

7. The short-term economic outlook continues to appear favorable, with relatively high world oil prices, the full resumption of oil production from the Nkossa field, and the start of production in the new Moho Bilondo field. The recovery of oil production will help generate economic activity in the non-oil sector, and, combined with increased public investment and strong domestic demand, should help to lift overall real GDP growth to 7.6 percent this year and to nearly 13 percent in 2009. Although inflation is likely to remain relatively high this year, at about 4½ percent on average, it should moderate somewhat in 2009 as the impact of recent high food and energy costs dissipate. To support our broad macroeconomic objectives, the fiscal stance will remain firm and the regional monetary authority will target the growth of the money aggregates in line with the expansion of non-oil GDP. Structural policies will aim at continuing to strengthen public financial management, enhance governance and transparency over the use of public resources, and financial and oil sector reforms. At the same time, we intend to make a concerted effort to implement the triggers under the enhanced HIPC Initiative.

A. Fiscal Policy

8. Fiscal policy will continue to be an important instrument for implementing the economic policy framework defined in the PRS, and in preserving the country's oil wealth. It will be supported by the implementation of the public financial management action plan as well as of the action plan to improve public investment management (see below). In this regard, we have maintained the broad fiscal targets established under the Staff-Monitored Program for 2008, including a reduction in the non-oil basic primary balance to about 43.2 percent of non-oil GDP, from 55¾ percent last year. In response to the rise in food and energy prices earlier this year and to take account of higher-than-initially projected oil and non-oil revenue, we have adopted a supplementary budget for this year─consistent with achieving the envisaged fiscal consolidation─which includes a temporary reduction of value-added taxes and tariffs on some food stuffs and other staples consumed predominately by the poor, and additional spending on agriculture, transportation, and generic drugs. The supplementary budget also includes CFAF 25 billion (about 1.6 percent of non-oil GDP) in capital spending financed from interim HIPC assistance resources. These resources can be utilized now that the conditions for their use have been fully met. Also, from now on, the budget will bear the full cost of oil subsidies (estimated at CFAF 75 billion this year).

9. For 2009, the budget will target a further reduction of the non-oil basic primary balance to about 40¼ percent of non-oil GDP. This adjustment would be achieved through a modest (nominal) cut in expenditures and higher non-oil revenue. On the spending side, we envisage lower outlays on goods and services, and fuel subsidies owing to the envisaged increase in prices (see below), while allowing for an increase in pro-poor spending (in health and education), and higher domestically-financed public investment (including through the

use of interim HIPC assistance resources). Domestically-financed investment is projected to rise from 25.4 percent of non-oil GDP in 2008 to 26½ percent next year, reflecting the urgent need to rehabilitate the economic infrastructure and the putting in place of the necessary measures to ensure effective use of these resources. We expect to finalize and adopt the three-year public investment management action plan being prepared with assistance from our development partners, by end-December of this year (structural performance criterion).

10. On the revenue side, we anticipate higher oil production but lower world oil prices, which will lead to a decline in oil revenue to about 97 percent of non-oil GDP in 2009 (from 133 percent of non-oil GDP this year) At the same time, ongoing tax and custom administration reform should more than offset the full-year impact of the recent tax and tariff reductions to alleviate the adverse impact of higher food prices, resulting in a slight increase in the non-oil revenue ratio to about 21.1 percent of non-oil GDP next year. To support the monitoring of oil revenue, the program will include a continuous structural performance criterion requiring the repatriation of the proceeds by the Treasury of oil shipments commercialized by private oil companies and SNPC, within 45 days of their lifting (according to the actual schedule of quantities and prices). Also, we will continue to certify oil revenue on a quarterly basis through a reputable international auditor and post the results of these audits and reply to any questions the auditor raises, on the government's website (continuous structural performance criterion).

11. An important policy measure to free up budgetary resources for high priority programs is our intention to adopt by end-March 2009 a new petroleum-product pricing regime that will ensure fuel price subsidies are phased out by mid-2011 (structural performance criterion). This new regime will ensure that prices are adjusted at regular intervals, and will be free from political intervention. To prepare the public for this change in policy, we adjusted fuel prices across-the-board on October 1, 2008 by an average of 13 percent (a prior action for Executive Board consideration of our request for a new three-year PRGF arrangement). These price increases should lead to a decline in subsidies to no more than CFAF 75 billion this year (about 4.8 percent of non-oil GDP). The full-year impact of these price increases should bring subsidies down to CFAF 45 billion, or 2.5 percent of non-oil GDP next year.

B. Public Financial Management and Revenue Mobilization

12. We will continue our efforts to strengthen public financial management (PFM) through the implementation of the recently adopted PFM action plan. This action plan involves reforms to procedures, monitoring, reporting, training, and computerization. Several important aspects of the plan include: improvements in expenditure control through the consolidation of government's bank accounts into a single Treasury account with the central bank; the preparation and submission to parliament a 2009 budget consistent with the targets under the proposed PRGF arrangement, using economic, functional and administrative

classifications (structural performance criterion); the preparation of a medium-term expenditure framework in consultation with development partners (structural performance criterion); the simplification of the expenditure chain; and a unified payroll file for the civil service. To maintain tight control over spending, the government will continue to prohibit the recourse to emergency payment and cash advance procedures, except in situations called for in the organic budget law. With assistance from the World Bank, we are reforming the procurement code and will continue to publish on the government's website all invitations to bid and the bids themselves for contracts above CFAF 200 million. And as noted above, we are also making a concerted effort to strengthen public investment management.

13. To increase non-oil revenue, the government is pursuing a number of measures to improve tax and customs administration. These measures involve better monitoring through the use of a single-taxpayer identification number, computerization, the use of the ASYCUDA software for customs, extending the tax services to the regions, and reducing tax exemptions and refraining from new exemptions (except where permitted under international treaties).

C. Monetary and Financial Sector Policies

14. Monetary policy is conducted at the regional level by BEAC, in a manner consistent with the fixed exchange rate regime, and keeping inflation low. Net foreign assets are expected to increase significantly, primarily due to high oil production, and broad money is expected to expand by about 13 percent next year, in line with the nominal growth of the non-oil sector. To facilitate the implementation of monetary policy, the government has steadily reduced the amount of statutory advances from the central bank, and should repay them in full by year's end. In the period ahead, it will work with the central bank and its CEMAC partners to develop the regional securities market, in an effort to improve the efficacy of monetary policy.

15. We are also committed to strengthen the financial sector and deepen financial intermediation. In this context, by the end of this year, we will adopt the financial sector strategy established in collaboration with Fund staff, and that has benefited from input from regional institutions (COBAC, BEAC, CIMA and CIPRES). This strategy aims to: (i) create conditions for an expansion of private sector credit; (ii) strengthen the legal framework; (iii) improve the information on the cost of credit and default; (iv) diversify the financial instruments; (v) reform the pension funds based on the results of recent audits; and (vi) implement the recommendations of the audit of the insurance sector and of ARC. In this context, we intend to finalize the corporate financial statement registry and the central credit bureau by early next year.

16. Earlier, we undertook to reform the payment system and put in place the electronic transfer of balances between banks. We will strengthen the supervisory mechanisms of the

microfinance institutions in cooperation with COBAC. Finally, the accounting framework and the software that will allow the supervision of microfinance institutions by the COBAC are expected to be in place during 2009.

D. External Sector Policies

17. The program places important emphasis on trade liberalization as a means to improve Congo's international competitiveness, increase market size, and integrate it further in the regional and global market. In this context, the government will continue to encourage its CEMAC partners to reduce the maximum tariff rate under the common external tariff (to 20 percent), remove the remaining exemptions, surcharges and export taxes, harmonize rules of origin, and enhance trade facilitation.

18. The government will hold to the position that development should be financed mainly with its own resources, and it will seek grants and assistance only on highly concessional terms (with a minimum grant element of 50 percent). It will continue to use its best efforts to obtain comparable treatment from suppliers, non-London Club creditors, and litigating creditors. Likewise, we will seek to complete negotiations with the last remaining Paris Club creditor as soon as possible. Finally, we will continue to enhance our debt management capacity and will implement a new strategy, in line with CEMAC guidelines.

E. Oil Sector Reform

19. The government places high priority to ensuring the oil sector makes a positive long-term contribution to Congo's economic development. In this regard, we will undertake a strategic study of the sector—assisted by our development partners—which we expect to finalize in mid-2009. Among other things, this study will make a critical assessment of the institutions and enterprises operating in the sector.

20. Notwithstanding this study, the government will continue to take efforts to improve the operating and financial performance of the national oil refinery (CORAF) and improve the returns from the commercialization of government oil (through SNPC); these remain important aspects of the governance agenda. In the coming months, the government will implement the action plan adopted earlier this year to reform CORAF; as for the commercialization of Congolese oil, the government will refine the draft strategy presented to development partners earlier this year, with a view to putting in place a comprehensive action plan with a timetable to address institutional and procedural deficiencies in this activity, to bring them in line with best international practice by end-March 2009 (structural performance criterion). International best practice would imply prices, marketing mechanisms, and fees that are comparable to those in other small oil-producing countries.

F. Program Monitoring for 2008-09

21. The first year of the program will be monitored through reviews based on biannual quantitative performance criteria for end-December 2008 and end-June 2009 (Table 1) and structural performance criteria and benchmarks (Table 2). Detailed definitions and reporting requirements for all quantitative performance criteria and structural conditions are contained in the accompanying Technical Memorandum of Understanding (TMU). The authorities will make available to Fund staff all core data, appropriately reconciled and on a regular and timely basis, as specified in the TMU.

22. The government's request for a three-year PRGF arrangement was made conditional upon the satisfactory implementation of one prior action. This prior action (Table 2) related to across-the-board increases in fuel prices by an average of 13 percent, leading to a projected decline in subsidies to no more than CFAF 75 billion in 2008. The required price adjustments were implemented on October 1, 2008.

23. The first review under the PRGF arrangement is expected to be completed by April 30, 2009, with the second review by October 31, 2009.

Table 1. Republic of Congo: Quantitative Targets, 2008-09
(Billions of CFA francs, unless otherwise indicated; cumulative from January)

	End-Dec. 08	End-Mar. 09	End-Jun. 09	End-Sep. 09	End-Dec. 09
	Perf. Criteria	Indicative Target	Perf. Criteria	Indicative Target	Indicative Target
Quantitative targets					
Nonoil primary fiscal balance (floor)	-673	-211	-412	-560	-710
New medium or long-term nonconcessional external debt (including leasing) contracted or guaranteed by the government (ceiling) [1, 2]	0.0	0.0	0.0	0.0	0.0
New external debt (including leasing) with an original maturity of less than one year (ceiling) [2]	0.0	0.0	0.0	0.0	0.0
New oil-collateralized external debt contracted by or on behalf of the central government (ceiling) [2]	0.0	0.0	0.0	0.0	0.0
New nonconcessional external debt with a maturity of more than 1 year contracted or guaranteed by SNPC (ceiling) [2]	0.0	0.0	0.0	0.0	0.0
New external arrears on nonreschedulable debt [2]	0.0	0.0	0.0	0.0	0.0
New domestic arrears [2]	0.0	0.0	0.0	0.0	0.0
Memorandum items					
Oil revenue	2,079	402	820	1,259	1,716
Non-oil primary revenue	328	93	186	280	373

[1] Excluding rescheduling arrangements and disbursements from the IMF; the minimum grant element is set to 50 percent.
[2] Continuous.

Table 2. Prior Action, Structural Performance Criteria, and Benchmarks Under the PRGF Arrangement, 2008-09

Measures	Timing
Prior action	
Increase domestic petroleum prices across all products, by an average of 13 percent, which should lead to a decline in subsidies to no more than CFAF 75 billion in 2008.	Observed
Performance Criteria	
Prepare the 2009 budget consistent with the PRGF program, and using the economic, functional, and administrative classifications.	End- Dec. 2008
Finalize and adopt the three-year action plan to improve public investment management prepared with assistance from the IMF, World Bank, and the French Cooperation; and publish the plan on the government website.	End-Dec. 2008
Adopt a new petroleum-pricing regime that will ensure fuel price subsidies are phased out by mid-2011.	End-Mar. 2009
Adopt a comprehensive action plan with a timetable to address institutional and procedural deficiencies in the commercialization of Congolese oil, in line with best international practice.	End-Mar. 2009
Prepare a medium-term expenditure framework (in consultation with development partners) consistent with the Poverty Reduction Strategy (PRS).	June 2009
Quarterly certification of oil revenue by an internationally reputable audit firm, using the same specifications as for the 2003 certification and with no restrictions on access to information; certification reports to be published on the website of the Ministry of Economy, Finance, and Budget (www.mefb-cg.org). Also, the government will post the audit report on the website, and for each report, a note addressing the comments by the auditors.	Continuous, with a one-quarter lag
Repatriation of the oil proceeds (to the Treasury) of oil shipments commercialized by private companies and SNPC on behalf of the government within 45 days after the actual shipment date (according to actual quantities, prices, and shipment dates).	Continuous
Benchmarks	
Adoption by the government of the financial sector strategy developed in consultation with Fund staff.	Dec. 2008
Finalize the strategic study of the oil sector─assisted by Congo's development partners─which will include a critical assessment of the institutions and enterprises, including CORAF.	End-June 2009
Publication of all invitations to bid and the bids themselves for government procurement contracts above CFAF200 million on the government's website (www.mefb-cg.org).	Continuous
No recourse to emergency payment and cash advance procedures, except in situations stated in the organic budget law.	Continuous

APPENDIX II
ATTACHMENT II

Brazzaville, November 19, 2008

Technical Memorandum of Understanding

1. This technical memorandum of understanding (TMU) describes the definitions that are intended to clarify the measurement of the quantitative performance criteria and indicators in Table 1 of the Memorandum of Economic and Financial Policies (MEFP) covering 2008-11, attached to the Letter of Intent. For end-December 2008, all quantitative performance criteria and indicators will be evaluated in terms of cumulative flows from December 31, 2007; after this period, all quantitative performance criteria and indicators will be evaluated in terms of cumulative flows from December 31, 2008. Also, the TMU specifies the periodicity and deadlines for transmission of data to the staff of the IMF for program monitoring purposes.

I. Definitions and Computation

A. Government

2. Unless otherwise indicated, g**overnment** is defined as the central government of the Republic of Congo and does not include local governments, the central bank, and any public entity with autonomous legal personality (i.e., wholly- or partially-owned state enterprises) not currently covered by the government's consolidated financial operations table (tableau des opérations financières de l'Etat—TOFE).

B. Basic Primary Fiscal Balance

3. The scope of the government's **financial operations table** (TOFE) includes the general budget and the special accounts of the Treasury (including the forestry and road funds) and the government debt management agency (Caisse Congolaise d'Amortissement, CCA).

4. The government's **non-oil basic primary fiscal balance** is defined as total non-oil revenue excluding grants, minus total expenditure (including net credit), which is to exclude interest payments on debt, foreign-financed capital expenditure, and expenditure financed by interim assistance under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative. It is calculated from the budget execution outturn reported every month in the TOFE prepared by the Ministry in charge of finance.

5. The government's **total revenue** is reported in the TOFE on a cash basis. It includes all revenue collected by the Treasury (from tax and customs receipts, oil, services and forestry), whether they result from past, current, or future obligations. Receipts also include those recorded on a gross basis, in special accounts.

6. **Oil revenue** is defined as the government's net proceeds from the sale of oil, including the provision for diversified investments, royalties paid by oil companies, and the government's share of excess and profit oil. It excludes all forms of prepayment and prefinancing. The oil revenue projections take account of the 45 day lag between the date of shipment and the date of receipt of the sale proceeds by the Treasury.

7. **Expenditures** are recorded on a payment order basis**.** They include current expenditure, domestically-financed capital expenditure, foreign-financed capital expenditure, and net lending. Current expenditures include expenditures on wages, goods and services, common charges, interests on debt (domestic and external), transfers and subsidies, and other current expenditures. Subsidies to the state-owned oil refinery, CORAF, are estimated on the basis of the enterprises income statement.

C. Foreign Debt and External Arrears

8. The definition of **government** used for the various external debt indicators includes government, as defined in paragraph 2, public institutions of an administrative nature (*Etablissements Publics Administratifs*), public institutions of a scientific and/or technical nature, public institutions of a professional nature, public institutions of an industrial and/or commercial nature (*Entreprises Publiques d'Intérêt Commercial*), and local governments, with the sole exception of the national oil company (SNPC)—see paragraph 12 below.

9. For the purposes of this memorandum**, debt and concessional loans** are defined as follows:

- As specified in the guidelines adopted by the Executive Board of the IMF,[1] debt will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows: (i) loans, i.e., advances of money to the obligor by the lender made on the

[1] See Executive Board Decision No. 6230-(79/140) as amended by Decisions Nos. 11096-(95/100) and 12274-(00/85).

basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. The debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement, excluding those payments that cover the operation, repair, or maintenance of the property. Under the definition of debt set out above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

- Loan concessionality is assessed on the basis of the commercial interest reference rates (CIRRs) established by the OECD. A loan is said to be on concessional terms if, on the date of conclusion of the contract, the ratio of the net present value of the loan, calculated on the basis of the reference interest rates, to its nominal value is less than 50 percent (i.e., a grant element of at least 50 percent). For debts with a maturity exceeding 15 years, the ten-year reference interest rate published by the OECD is used to calculate the grant element. For shorter maturities, the six-month market reference rate is used.

- The concessionality requirement applies not only to the central government, but also covers debt incurred by public enterprises.

10. The quantitative indicative target with respect to **external debt** apply not only to debt as defined in the above-mentioned guidelines, but also to commitments incurred or guaranteed for which no value has yet been received or on which only partial drawings have been made. However, this does not apply to financing from the IMF or to Treasury bills and bonds issued by the Congolese Treasury in CFA francs on the CEMAC regional market.

11. For **external debt with an initial maturity of less than one year (**a continuous quantitative performance criterion)**,** normal short-term import and export credit are excluded from the scope of the indicator, including the prepayments.

12. The ceiling on any **new nonconcessional external debt with a maturity of more than one year contracted or guaranteed by the SNPC**, with or without government guarantee, will be observed continuously. The SNPC may borrow only to finance investments related to its core activities (research, exploration, production, refining and distribution of oil, construction of a Brazzaville headquarters, creation and strengthening of its database, etc.). In addition, these investments must be included in the SNPC's investment budget approved by its board of directors. The ceiling on debt does not apply to changes in loan accounts with oilfield partners or to loans with maturities of less than one year.

13. The accumulation by the government of **external payment arrears** is the difference between (i) the gross amount of external debt service payments due (principal and interest, including penalty and/or late interest, as appropriate) and (ii) the amount actually paid during the period under consideration. Under the program, the government commits itself to not accumulate external payment arrears on non-reschedulable debt (that is, debt to Paris Club creditors contracted after the cutoff date and debt to multilateral creditors). Non-accumulation of external payment arrears is an indicator to be continuously observed.

D. Oil-Collateralized External Debt and Oil Prepayments

14. Oil-collateralized external debt is external debt which is contracted by giving an interest in oil. Prefinancing is defined as an oil-collateralized loan which is repaid by the sale of the oil in a different calendar year. New prefinancing by or on behalf of the government is strictly prohibited under the program. The refinancing and/or deferral of the existing stock and/or due dates are permitted but should not give rise to an augmentation of the existing stock of oil-collateralized debt.

15. A prepayment is defined as an advance payment by the purchaser of oil on a specific oil shipment. Prepayment-related operations must be repaid within 6 months but in any case within the calendar year in which they were contracted.

E. Payment Arrears and Domestic Debt

16. Domestic payment arrears of the government are equivalent to the difference over the period under review between the amount of payments authorized and the actual payments made (within 90 days).

II. Information for Program Monitoring

17. The government will submit the following information to the staff of the IMF through its Resident Representative, and within the time period specified below.

A. Oil Sector

18. Regarding the oil sector, the government will submit the following information to IMF staff within four weeks after the end of the month:

- the monthly data on oil production by oil field, production costs, volume exported, export prices, and the operations of the national oil company (SNPC);
- the breakdown concerning the share of crude oil that accrues to the government, by oil field, distinguishing the type of resource to which this share relates (royalties, profit oil, etc.);
- any change in the tax parameters;
- a breakdown of oil prices;
- a monthly detailed list of shipments commercialized by SNPC on behalf of the government, including information on the type of product, the date of loading, the recipient, the number of barrels and the selling price (in US dollars and CFAF) as well as the date of receipt of the sale proceeds by the Treasury; and
- actual and projected quarterly data to determine the required subsidies in the fuel sector, including prices, quantities, and costs.

B. Government Finance

19. Regarding government finance, the government will submit the following information to IMF staff:

- A table on government fiscal operations (TOFE) and its annexes. The annexed tables include (i) the breakdown of oil revenue in value terms with the corresponding notes on computation, (ii) excess oil trends and any bonus payments, (iii) the breakdown of tax and non-tax revenue, and central government expenditure, particularly transfers and common charges; and (iv) a report on the amounts of and rationales for emergency payment and cash advance procedures. The provisional TOFE and its annexes will be reported monthly within four weeks from the end of the month, whereas the final TOFE and its annexes will be reported within six weeks from the end of each month.
- Monthly data on the prices and taxation of petroleum products. These data will include: (i) the price structure in effect during the month; (ii) the details of computation of the price structure, (f.o.b. Mediterranean price) at retail prices, including the border impact prices, taxes, transit costs, economic adjustments, ex-

refinery prices (for CORAF and imports), entry distribution prices, margins and fees, transport costs and losses, financing expenses, and insurance ; (iii) amounts released for sale; and (iv) a breakdown of the tax revenue from oil products—customs duties and value-added tax—and direct/indirect subsidies incurred by the budget. These data will be reported within four weeks from the end of the month.

- The Treasury balance to monitor expenditures. It will include the amount of commitments, payment orders, and payments, for both current and capital expenditure. It will be produced on a quarterly basis, and submitted to Fund staff no later than four weeks after the end of each quarter.

- Data on implementation of the public investment program, including the breakdown relating to financing sources. If the data on the execution of investments financed with foreign grants and loans are not available on schedule, a linear estimate of execution in comparison with annual forecasts will be used. These data will be reported on a quarterly basis within four weeks from the end of the quarter.

- Complete monthly data on domestic financing of the budget (net bank credit to, and net non-bank credit to the government). These data will be reported monthly within four weeks from the end of the month.

- The table used to monitor the expenditure process will list the amount of commitments, payment orders, and payments, for both operating and capital expenditures. It will be produced on a quarterly basis, and submitted to Fund staff no later than four weeks after the end of the quarter.

- A quarterly table for monitoring poverty reduction expenditures, based on the pro-poor sectors defined in the poverty reduction strategy paper—basic health care and education; infrastructure and rural integration; water and electricity; disarmament, demobilization and reintegration; social protection, and agriculture). The quarterly tables will be submitted within four weeks of the end of the quarter.

- A monthly table of prepayments, which will also indicate the nature of the expenditures (current transfers, investment, etc.) and the justification for the need to use the prepayment option.

C. Monetary Sector

20. The government will submit on a monthly basis, within four weeks of the end of the month, the following preliminary information:

- data on net bank credit to the government;

- the consolidated balance sheet of the monetary institutions, the central bank survey, and the commercial banks survey;
- the integrated monetary survey;
- the table of lending and deposit rates; and
- the usual banking supervision indicators for banks and non-bank financial institutions, where necessary.

21. The final data for the integrated monetary survey will be transmitted within six weeks of the end of the month.

D. Balance of Payments

22. The government will submit the following information to IMF staff:

- any revised balance of payments data (including services, private transfers, official transfers, and transactions for the capital and financial account) as soon as the data are revised; and
- foreign trade statistics (volume and price) prepared by the national statistics agency within three months of the end of the reporting month.

E. Debt

23. The government will submit the following to the staff of the IMF within four weeks of the end of the month:

- data on the stock, accumulation, and payment of domestic arrears;
- data on the stock, accumulation, and payment of external payment arrears;
- a breakdown of estimated domestic and external public debt service, service due, and actual payments, including breakdowns of principal and interest and by creditor;
- the list and amounts of new external debt incurred or guaranteed by the government, including detailed information on the terms and conditions (currency, interest rate, grace period, and maturity) stated in the original agreement; and
- actual disbursements of foreign financial assistance (project and non-project), including new borrowing and any external debt relief granted by foreign creditors (CCA tables).

F. Real Sector

24. The government will submit the following to the staff of the IMF:

- monthly itemized consumer price indices, within four weeks of the end of the month;
- any revision of the national accounts; and
- any other indicators and statistical data used to track overall economic developments, including information on activity in the forestry sector and wood-processing industry, as well as the short-term economic bulletins prepared monthly.

G. Structural Reforms and Other Data

25. The government will submit the following information to the IMF staff:

- a monthly detailed table concerning the implementation of structural measures under the program;
- any study or official report on the economy of the Republic of Congo, within two weeks of its publication; and
- any decision, order, law, decree, ordinance, or circular having economic or financial implications for the program, within two weeks from the time it is published, or, at the latest, from its entry into force.

APPENDIX III
Draft Public Information Notice

INTERNATIONAL MONETARY FUND
Public Information Notice

EXTERNAL
RELATIONS
DEPARTMENT

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

Public Information Notice (PIN) No. 08/xx
FOR IMMEDIATE RELEASE
[Month, dd, yyyy]

IMF Executive Board Concludes 2008 Article IV Consultation with the Republic of Congo

On [December 8, 2008], the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the Republic of Congo.[1]

Background

Economic developments in 2007 were mixed but have improved more recently. Economic activity declined last year because of a temporary fall in oil production (caused by an accident on an oil platform), leading also to a significant deterioration in the external current account, which moved into deficit for the first time in many years. Inflation moderated in 2007, as bottlenecks that affected important transportation routes were eased. The implementation of economic policies was uneven, with a lack of expenditure control and program monitoring giving rise to significant fiscal slippages, and weaknesses in institutional and administrative capacity giving rise to delays in structural reform.

The recovery of oil production and better economic policy implementation contributed to an improvement in economic performance through the first semester of 2008, although inflation accelerated. On current trends, overall real GDP growth in 2008 could reach about 7½ percent, with activity in the non-oil sector broadening; the transportation, construction, and telecommunications sectors are particularly strong. High food and energy costs pushed

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

inflation to 5.7 percent (year-on-year) through June 2008, but the expectation is for a moderation of consumer prices in the period ahead. Driven by high oil exports and high world oil prices through most of the year, the current external account is projected to swing from a deficit of 26 percent of GDP last year to a surplus of 0.6 percent in 2008. Foreign direct investment continues to expand in the oil sector, partly in response to new discoveries, and could reach more than 23 percent of GDP this year. Congo’s external public debt has declined sharply in the past several years, as a result of Paris Club rescheduling and debt relief from London Club creditors (in the context of the enhanced Heavily Indebted Poor Countries Initiative). The real effective exchange rate has appreciated sharply since 2007, primarily reflecting Congo’s relatively high rate of inflation, compared with its trading partners.

Executive Board Assessment

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Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Republic of Congo: Selected Economic and Financial Indicators, 2004–08

	2004	2005	2006	2007 Est.	2008 Proj.
			(Annual percent change)		
Output and inflation					
GDP at constant prices	3.5	7.8	6.2	-1.6	7.6
Oil	0.5	12.5	6.8	-17.2	9.0
Non-oil	5.0	5.4	5.9	6.6	7.0
GDP deflator	16.8	21.3	18.5	-7.9	25.6
Consumer prices (end-of-period)	1.1	3.1	8.1	-1.7	6.0
			(Percent of GDP) [1]		
External sector					
Current account balance (including public trasnfers)	20.3	11.8	1.6	-26.1	0.6
External public debt service (before debt relief)					
(percent of exports of goods and services)	14.1	11.9	13.7	10.7	4.5
Nominal effective exchange rate	3.4	-0.4	-0.4	5.1	...
			(Percent of GDP) [1]		
Public finance					
Total revenue	69.9	108.2	141.5	113.5	155.5
Total expenditure	61.6	64.7	87.2	84.2	72.4
Primary balance (deficit -)	22.7	58.1	68.6	36.6	90.1
Basic primary non-oil balance (percent of non-oil GDP)	-25.9	-29.6	-51.3	-55.7	-43.2
Oil sector					
World oil price (U.S. dollars per barrel)	37.8	53.4	64.3	71.1	99.8
Oil production (Millions of barrels)	82.1	92.6	98.7	81.7	89.0

[1] Unless otherwise noted.