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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,

[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.

construction, and telecommunications sectors are particularly strong. High food and energy costs pushed 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

Executive Directors welcomed Congo's continued strong growth in 2008 reflecting a resumption of oil production and solid non-oil sector activity, and the significant improvement in the external current account position driven by high oil prices. At the same time, higher food and energy costs pushed up inflation. Directors welcomed the contribution of better policy implementation in supporting economic activity, including through the establishment of a new reporting and monitoring structure, and were encouraged by Congo's satisfactory completion of its staff-monitored program earlier this year.

Looking ahead, Directors welcomed Congo's commitment to continued adjustment and economic reform supported by the new PRGF arrangement. They stressed that sustained ownership and determined implementation of the envisaged policies will be crucial to allow Congo to face the many remaining challenges in accelerating growth and alleviating poverty. Foremost among these challenges are the need to improve international competitiveness, to raise output growth through diversification, and to strengthen fiscal consolidation and debt sustainability. Efforts will also be needed to address institutional and administrative bottlenecks that have hindered past reform efforts. Confronting these challenges will be critical to enable Congo to make progress toward meeting the Millennium Development Goals.

Directors noted the recent appreciation in Congo's real effective exchange rate driven by the country's relatively high inflation compared with its trading partners. The international competitiveness of the non-oil export sector has also been hampered by weak institutions and inadequate infrastructure. Directors welcomed the authorities' intention to pursue a broad-based approach to improve international competitiveness and diversify the economy.

Fiscal consolidation will have a key contribution to make by creating fiscal space to allow rebuilding of the country's infrastructure. In addition, the authorities will need to persevere with ambitious structural reforms that include measures to enhance the business environment and reduce the costs of doing business, deepen financial intermediation through adoption of the financial sector strategy, raise the operating and financial performance of state-owned enterprises in the oil sector, and liberalize trade.

Directors noted that the authorities' fiscal strategy aims to achieve long-term sustainability through gradual, but sustained, consolidation. Fiscal consolidation is important to ensure inter-generational equity by preserving the country's oil wealth and to improve debt sustainability. Directors noted that the authorities' objective of lowering the basic non-oil primary deficit, by the equivalent of about 3 percent of non-oil GDP per year, aims to strike a broad balance between putting fiscal policy on a sustainable path, and front-loading public investment to address urgent needs, while taking account of administrative and institutional capacity constraints. A few Directors saw scope for a stronger pace of fiscal adjustment. The authorities were encouraged to resist possible spending pressures related to the upcoming elections.

The achievement of fiscal sustainability is likely to require actions on several fronts, including: re-orienting spending by reducing or eliminating poorly targeted programs, such as for general fuel subsidies; mobilizing more domestic non-oil resources; and enhancing public financial management through the timely and full implementation of the recently adopted action plan. A concerted effort should also be directed at improving the management of public investment, with assistance from Congo's development partners.

More transparent and strengthened governance, particularly in the oil sector, will be important for achieving the authorities' policy objectives. Directors welcomed the recent measures in this area—including the action plans to improve the operating and financial performance of the state-owned enterprises in the oil sector and the returns from the commercialization of Congolese oil. They stressed the importance of further steps to enhance the monitoring and reporting of oil revenue, and to prevent fraud and promote best practices in the use of public resources. Directors looked forward to the completion of the first report under the Extractive Industries Transparency Initiative.

Directors took note of the recent improvements in the external debt indicators but noted that Congo is still at a high risk of debt distress. Consequently, prudent debt management and debt relief will be essential for achieving external sustainability. Directors therefore welcomed the authorities' intention to finance development increasingly through their own resources and to seek foreign financing only on highly concessional terms. They encouraged the authorities to accelerate efforts to regularize relations with all creditors, including the remaining London Club and litigating creditors. Directors stressed the importance of satisfactory performance under the PRGF arrangement and timely implementation of the policy triggers for HIPC Initiative debt relief. A few Directors expressed their willingness to consider advancing the timetable for reaching the HIPC Initiative completion point to mid-2009 if sufficient progress can be made on the HIPC Initiative triggers.

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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 transfers)	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.