INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

Press Release No. 09/74
FOR IMMEDIATE RELEASE
March 12, 2009

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves US$195.5 Million Disbursement to the Democratic Republic of the Congo Under the Exogenous Shocks Facility

The Executive Board of the International Monetary Fund (IMF) has approved a disbursement in an amount equivalent to SDR 133.25 million (about US$195.5 million) to the Democratic Republic of the Congo under the Rapid-Access Component of the Exogenous Shocks Facility (RAC-ESF).

In September 2008, the Executive Board approved modifications to the ESF, which make it faster to access, easier and more flexible to use, and capable of providing more financing. Those modifications came into effect in November 2008. The disbursement to the Democratic Republic of the Congo under the RAC-ESF helps mitigate the impact of the adverse effects of the global financial crisis, which has translated into a severe drop in the country's terms of trade and in foreign direct investment, particularly in the mining sector.

Following the Executive Board's discussion of the Democratic Republic of the Congo on March 11, 2009, Mr. John Lipsky, First Deputy Managing Director and Acting Chair, stated:

"In late 2008, the global financial crisis and the economic slowdown induced sharp declines in the world prices of the Democratic Republic of the Congo's key exports. These declines, combined with an escalation of the conflict in the eastern provinces, have reduced gross official reserves to a very low level, placed pressure on the exchange rate, and weakened economic growth prospects.

"The Congolese authorities have adopted appropriate policies to respond to the shock. These include a fiscal stance that avoids recourse to central bank financing, and tight monetary policy in the context of a flexible exchange rate regime. Nevertheless, in the absence of sufficient donor assistance over the short-term, the resulting balance of payments and fiscal financing gaps would necessitate substantial import compression and government spending cuts.

"The IMF's financial support under the Rapid-Access Component of the Exogenous Shocks Facility, together with stepped-up assistance from the Democratic Republic of Congo's other development partners, will help to cushion the impact of the exogenous shocks on the economy and facilitate the economy's adjustment to the shocks. Although there are substantial risks associated with the persistence and the depth of the global economic slowdown, the authorities are prepared to take additional fiscal measures to safeguard macroeconomic stability should domestic revenues or external donor support fall short of expectations."

The Acting Chair also issued the following statement at the conclusion of the Board's discussion:

"The Democratic Republic of Congo's failure to provide accurate data on the observance of two performance criteria gave rise to non-complying disbursements under the 2002 Poverty Reduction and Growth Facility arrangement, and to disbursements of additional interim assistance under the Heavily Indebted Poor Countries Initiative. As the deviations were minor and the Congolese authorities have implemented corrective measures to address the weaknesses in public and central bank financial management that resulted in the non-complying disbursements and interim debt relief, the Executive Board granted waivers for the non-observance of the two performance criteria."

Annex

Recent Economic Developments

Since 2001, the return of peace in most of the country, improvements in economic management, and transition to a representative government helped economic recovery. Economic growth in 2002–07 averaged over 6 percent while inflation was contained at relatively moderate levels. Gross official reserves were rebuilt albeit from very low levels and hovered around 2–3 weeks of import cover.

However, falling export prices on the onset of the global financial crisis in late 2008 contributed—together with a surge in public spending to tackle the escalating conflict in the eastern provinces—weakened macroeconomic performance. The higher spending (largely for security) and the slowdown in export revenue resulted in large government borrowing from the central bank. This induced draw down of gross official reserves, which by end-2008 reached a five–year low of US$75 million (less than a week of import cover) and a 10 percent depreciation of the franc against the U.S. dollar. In response, the BCC raised its policy rate in three steps from 28 percent to 65 percent in late December 2008 and early January 2009 and the reserve requirement ratio from 5 percent to 7 percent. Economic growth in 2008 is estimated at about 8 percent, relative to a projected 10 percent. Inflation, which eased during the later part of 2008 owing to falling world food and fuel prices, rose markedly in December—fueled by the depreciation of the franc—and ended the year at 28 percent.

Policies to Address Shocks

The IMF's support under the rapid-access component of the ESF will help facilitate adjustment to the sizeable terms-of-trade shock, contribute to the rebuilding of gross official reserves, and catalyze financing from the Democratic Republic of Congo's other development partners. To mitigate the impact of the exogenous shock on the economy, the authorities are: (i) targeting zero government borrowing from the BCC to avoid exchange-rate depreciation and inflation spiral; (ii) Redirecting spending to activities that would prop up domestic demand; and (iii) Keeping monetary policy tight while maintaining the flexible exchange regime. These policies and increased external balance of payment support should allow the DRC rebuild its gross official reserves to the equivalent of about 2.6 weeks of imports by end-2009.

Democratic Republic of the Congo: Selected Economic and Financial Indicators, 2007–10

	2007	2008 Rev SMP	2008 Est.	2009 Proj.	2010 Proj
	(Annual percent change; unless otherwise indicated)				
GDP and prices					
Real GDP	6.3	10.0	8.2	4.4	6.4
GDP deflator	17.9	17.4	19.7	11.5	15.4
Consumer prices, period average	16.7	17.5	18.0	16.4	11.8
Consumer prices, end-of-period	10.0	23.5	27.6	12.0	11.5
External sector					
Exports, f.o.b. (U.S.$ terms)	109.6	35.1	11.3	-46.8	13.7
Imports, f.o.b. (U.S.$ terms)	81.8	29.7	27.6	-19.9	14.4
Export volume	72.7	23.1	-0.2	-25.3	5.8
Import volume	69.9	15.2	12.1	-13.9	11.4
Terms of trade	13.4	-2.6	-2.1	-23.5	4.6
Nominal effective exchange rate[1]	-15.5	…	-11	…	…
Real effective exchange rate[1]	2.6	…	0.8	…	…
	(Annual change in percent of beginning-of-period broad money; unless otherwise indicated)				
Money and credit					
Broad money	49.5	30.2	54.9	16.4	…
Net foreign assets	30.8	14.9	-5.5	-9.3	…
Net domestic assets	20.2	16.4	64.6	26.7	…
Of which:					
Net credit to government	10.3	-7.9	10.4	0.0	…
Credit to the private sector (annual percent change)	73.6	73.0	144.8	26.2	…
	(Percent of GDP, unless otherwise indicated)				
Central government finance					
Total government revenue	14.8	16.3	18.1	17.9	18.4
Grants	3.5	4.5	3.6	7.5	7.4
Total government expenditure[2]	18.8	19.2	22.2	29.0	35.0
Underlying fiscal balance (cash basis)	0.8	1.9	0.8	0.2	-0.5
Overall fiscal balance (payment order basis, incl. grants)	-0.6	1.6	-0.4	-3.6	-9.2
Overall fiscal balance (cash basis, incl. grants)[3]	-1.2	1.0	-1.2	-4.2	-9.3
Investment and saving					
Gross national saving	16.7	15.2	10.5	2.8	8.1
Government	-1.1	2.7	-0.5	-1.2	-1.3
Nongovernment	17.8	12.5	11.0	4.1	9.4
Investment	18.2	20.4	22.8	26.7	35.9
Government[4]	2.3	3.4	3.6	9.6	17.7
Nongovernment	15.9	17.0	19.2	17.1	18.1
Balance of payments					
Exports of goods and services	65.4	49.2	62.1	37.9	39.5
Imports of goods and services	68.8	53.4	74.8	65.4	68.7
Current account balance, incl. transfers	-1.5	-5.2	-12.3	-23.9	-27.8
Current account balance, excl. transfers	-8.9	-7.7	-21.0	-32.5	-34.6
Gross official reserves (end-of-period, US$ millions)	180.6	200.0	83.0	270	416
Gross official reserves (weeks of nonaid-related imports of goods and services)	1.5	1.1	0.9	2.6	3.2
	(Millions of U.S. dollars; unless otherwise indicated)				
External public debt					
Total stock, including IMF[5]	10,524	10,353	10,353	10,172	2,685
Net present value (NPV) of debt[6]	7,896	7,856	7,856	7,719	1,758
NPV (percent of exports of goods and services)[6]	195.2	166.0	136.9	27.6	32.3
Scheduled debt service	370.5	291.4	291.4	257.3	154.5
Percent of exports of goods and services	5.7	4.6	4.0	6.1	3.3
Percent of government revenue	20.3	11.0	11.3	9.1	5.0
Exchange rate (CF/US$)					
Period average	516.0	…	563.2	…	…
End-of-period	503.0	…	639.3	…	…
Memorandum item:					
Nominal GDP (billions of CF/US$)	5,153	6,942	6,671	7,764	9,528

Sources: Congolese authorities and IMF staff estimates and projections.

1/ Change in annual average. Minus sign indicates depreciation.

2/ Includes interest due before debt relief and expenditure financed by HIPC resources.

3/ Cash balance after debt relief on interest payments.

4/ Includes investment financed by resources released under the enhanced HIPC Initiative.

5/ End-of-period debt stock excludes most of London Club debt (some US$1.0 billion in 2007), which is expected to be bought back with deep discount with grants from IDA, but includes accumulated arrears and reflects the arrears clearance arrangements concluded at the HIPC decision point.

6/ Estimates and projections based on end-2007 DSA and after HIPC Initiative interim relief assistance under Cologne terms. Includes assistance beyond the terms of the enhanced HIPC Initiative granted by some Paris Club creditors. Exports are on a three-year backward moving average; projections assume DRC reached the HIPC Completion point in early 2010.