FOR AGENDA

EBS/10/120

June 16, 2010

To: Members of the Executive Board

From: The Secretary

Subject: **Democratic Republic of the Congo—First Review Under the Three-Year Arrangement Under the Extended Credit Facility and Financing Assurances Review**

Attached for consideration by the Executive Directors is a paper on the first review under the three-year arrangement under the Extended Credit Facility for the Democratic Republic of the Congo and the financing assurances review. A draft decision appears on pages 16 and 17. This paper, together with the paper on the completion point document for the Democratic Republic of the Congo under the enhanced Initiative for Heavily Indebted Poor Countries and the Multilateral Debt Relief Initiative (EBS/10/121, 6/16/10), is tentatively scheduled for discussion on **Wednesday, June 30, 2010**. Unless an objection from the authorities of the Democratic Republic of the Congo is received prior to the conclusion of the Board's consideration, the document will be published. Any requests for modifications for publication are expected to be received two days before the Board concludes its consideration.

Questions may be referred to Mr. Ames (ext. 34076), Mr. Farah (ext. 34526), and Ms. Bovha Padilla (ext. 38917) 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 Thursday, June 24, 2010; and to the African Development Bank, the Common Market for Eastern and Southern Africa, 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.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

DEMOCRATIC REPUBLIC OF THE CONGO

First Review Under the Three-Year Arrangement Under the Extended Credit Facility and Financing Assurances Review

Prepared by the African Department

(In consultation with other departments)

Approved by Mark Plant and Christian Mumssen

June 15, 2010

EXECUTIVE SUMMARY

Background. On December 11, 2009, the Executive Board approved a three-year arrangement under the Extended Credit Facility (ECF) for the Democratic Republic of the Congo (DRC) with total access of SDR 346.45 million (65 percent of quota) and an initial disbursement of SDR 49.49 million. A second disbursement in the same amount will become available upon completion of the first review.

Economic developments. Economic growth is estimated at 2¾ percent in 2009, in line with the program objective. It is expected to rebound to 5½ percent in 2010 on account of the recovery in the mining sector and higher investment. Inflation decelerated to 53 percent at end-2009 and further to 15 percent at end-April 2010. The external current account deficit declined by 6 percentage points of GDP in 2009 largely due to higher official transfers and lower income repatriation associated with weak mining activity. International reserves rose from the historic low of one week of nonaid imports in early 2009 to 7 weeks by year-end, boosted largely by the general and special SDR allocations and Fund financial assistance.

Program implementation. Good revenue performance helped contain the 2009 fiscal deficit below the program target and reduced the government's reliance on borrowing from the banking system. The good fiscal performance continued through March 2010. The central bank tightened monetary policy in second half of 2009, but began to ease its stance in March 2010 in response to falling inflation. Program implementation was satisfactory and all quantitative performance criteria at end-December 2009 were observed. The authorities also implemented almost all of the structural benchmarks, albeit with delays.

Policy recommendations. Fiscal policy should focus on reducing government recourse to central bank financing while creating the fiscal space for priority programs by bolstering revenue and strengthening expenditure management. Further easing of monetary policy should wait until inflationary pressures are fully contained. Structural reforms need to focus on strengthening public financial management (PFM) and addressing financial sector weaknesses. Staff supports the authorities' request for completing the review.

Risks. Escalation of conflict in the eastern provinces, negative terms of trade shock, and election-related expenditure pressures could undermine program implementation. Moreover, risk of debt distress is expected to remain high even after debt relief. Donor support, including for peacemaking efforts and elections, could help mitigate risks to program implementation.

Discussions. They were held in Kinshasa during March 2–20, 2010, and in Washington, D.C. during April 22–27, 2010. The mission comprised Messrs. Ames (Head), Farah, and Ms. Bovha-Padilla (all AFR), and Messrs. Callegari (FAD) and Hostland (SPR). Mr. Jahjah, resident representative, also participated in the discussions. The team worked closely with the World Bank resident office in Kinshasa.

Contents Page

ACRONYMS

BCC	Central Bank of the Congo
BTR	Central bank bills
CGF	Congolese franc
DRC	Democratic Republic of the Congo
ECF	Extended Credit Facility
EITI	Extractive Industries Transparency Initiative
HIPC	Heavily Indebted Poor Countries
JSAN	Joint Staff Advisory Note
MEFP	Memorandum of Economic and Financial Policies
MCM	Monetary and Capital Markets Department
MDRI	Multilateral Debt Relief Initiative
MEFP	Memorandum of Economic and Financial Policies
MONUC	United Nations Mission in the Democratic Republic of the Congo
NCG	Net credit to government
NDA	Net domestic assets
NFA	Net foreign assets
OHADA	Organization for the Harmonization of Business Law in Africa
PFM	Public financial management
PRGS	Poverty Reduction and Growth Strategy
PV	Present value
REER	Real effective exchange rate
SCCA	Sino-Congolese Cooperation Agreement
TMU	Technical Memorandum of Understanding
VAT	Value added tax

I. Background

1. **The DRC authorities' economic program aims to enhance macroeconomic stability and advance reforms to bolster economic management and improve the supply response of the economy**. In support of the program, on December 11, 2009, the Executive Board approved a three-year arrangement under the ECF (July 2009–June 2012) with total access of SDR 346.45 million (65 percent of quota) and an initial disbursement of SDR 49.49 million.

2. **Progress in implementing the authorities' Poverty Reduction and Growth Strategy (PRGS) has been affected negatively by the continuation of conflict**. The authorities have prepared a report on progress in implementing their first generation PRGS[1] and are in the process of preparing their second-generation strategy. The IMF and World Bank staffs have prepared a Joint Staff Assessment Note (JSAN) on the authorities' report.[2]

3. **The security and political situation remains calm but uncertain**. The March 2009 peace agreement between the government and rebels in the eastern provinces is holding, but the reintegration and disarmament program is moving slowly. In early 2010, ethnic based rebels attacked and briefly held the capital of a northwestern province before government forces supported by the United Nations (MONUC) regained control. A cabinet reshuffle in March 2010 preserved the ruling coalition government, but new ministers in charge of budget and finance were appointed.

II. Recent Developments and Performance Under the Program

4. **The DRC economy was adversely affected by the global financial crisis, which triggered steep declines in commodity export prices and a slowdown in mining activity and foreign direct investment.** The domestic commercial bank system was insulated from contagion from the international banking system due to the low level of foreign bank participation. It was nevertheless affected by the impact of the crisis on the real economy. There are signs, however, that economic conditions are improving.

- **Economic activity**: Growth is estimated at 2.8 percent in 2009 (down from 6.2 percent in 2008) on account of a deterioration in the country's terms of trade during the first half of the year and a reduction in domestic demand (Figure 1, and Table 1). Although mining sector performance began to rebound during the second half of the year due to the firming up of world copper prices, the services sector expanded more slowly than projected. Preliminary indicators for the first quarter of 2010 point to continued buoyant copper production in the context of higher world commodity prices. Annualized inflation decelerated to about 53 percent at end-2009—some 5 percentage points higher than

[1] EBD/10/40, 6/16/10.

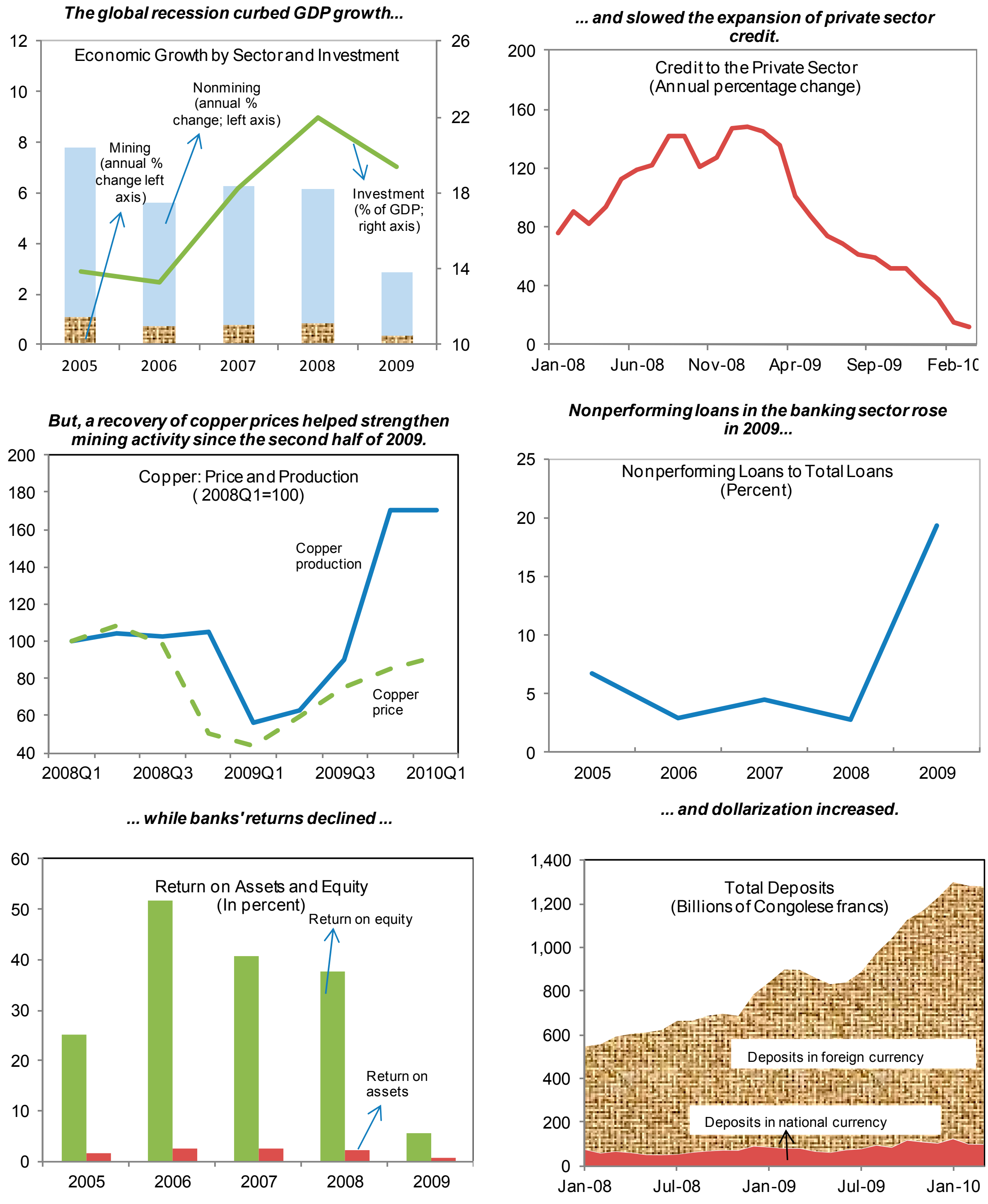
[2] EBD/10/41, 6/16/10.

programmed—and further to 15 percent in April 2010. The Congolese franc (CGF) appreciated modestly against the U.S. dollar during the first quarter of 2010, after depreciating by 49 percent in 2009. The real effective exchange rate remained broadly unchanged, with higher domestic inflation offsetting the depreciation of the nominal effective exchange rate.

- **External sector**. In 2009, despite the steep fall in the terms of trade, the current account deficit narrowed by some 6 percentage points of GDP because of declines in income repatriation—mainly from mining—and higher official transfers. Financial account inflows declined largely because of the reduction in foreign direct investment. Gross international reserves rose to the equivalent of 7 weeks of nonaid imports by end-2009, up from the historic low of one-week coverage a year earlier. This was largely on account of the special and general SDR allocations, disbursements under the ECF arrangement and the rapid access component of the Exogenous Shocks Facility, and the first tranche of the Sino-Congolese Cooperation Agreement (SCCA) signing bonus.

- **The financial sector remains fragile**. Commercial bank profits and return on equity fell sharply in 2009, a number of banks face difficulties in meeting prudential regulation requirements, and there was an increase in nonperforming loans. The Central Bank of the Congo (BCC) has increased its on-site inspection of commercial banks and is developing restructuring plans for the weakest ones. It also provided liquidity support for a financially distressed large commercial bank. Dollarization remains high and dollar-denominated deposits rose further in 2009, which constrains the BCC’s role as the lender of last resort in the event of a banking crisis given its low level of international reserves.

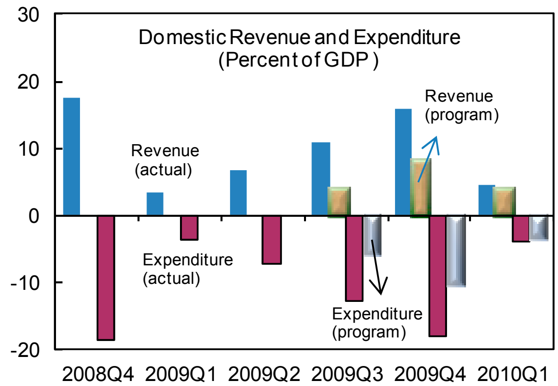
Figure 1. Democratic Republic of the Congo: Recent Economic Developments



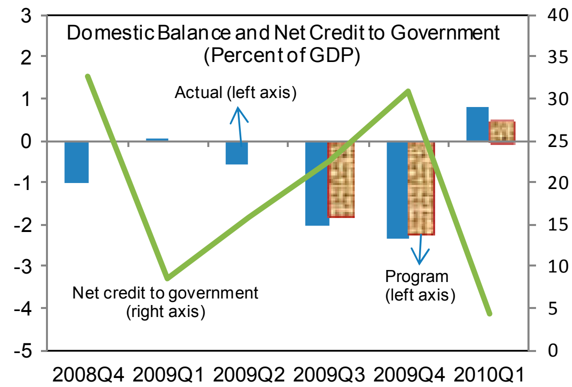
Sources: Congolese authorities and IMF staff estimates.

Figure 1. Democratic Republic of the Congo: Recent Economic Developments (Concluded)

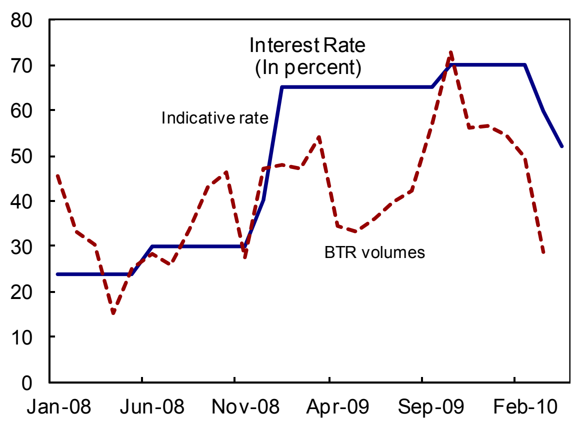
Buoyant revenue during the second half of 2009 and early 2010 ...



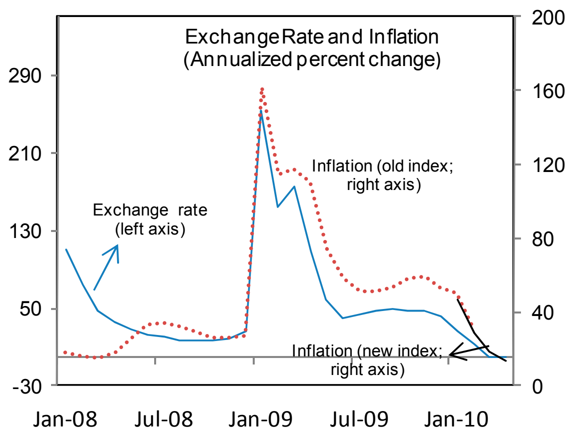
.... helped improve the fiscal position.



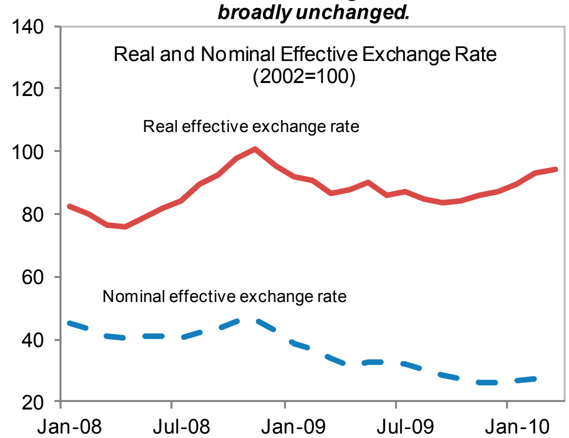
Monetary policy was eased in early 2010, after tightening in the second half of 2009,...



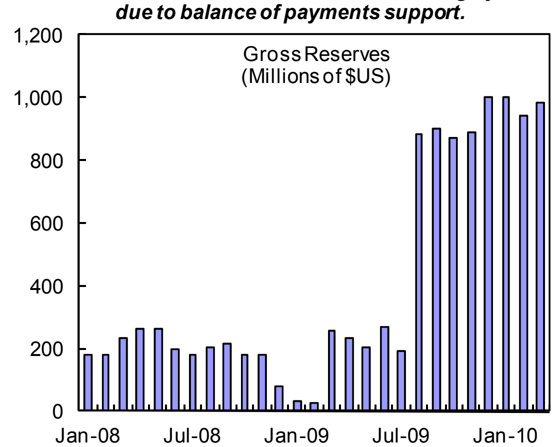
... in response to declining inflation and exchange rate appreciation...



... while the real exchange rate remained broadly unchanged.



International reserves increased, largely due to balance of payments support.



Sources: Congolese authorities and IMF staff estimates.

5. **Macroeconomic policies were geared to mitigate the impact of the global financial crisis on the domestic economy**.

- **The authorities allowed the 2009 domestic fiscal deficit to widen relative to 2008 while curtailing recourse to central bank financing** (Table 2). The deficit increased by 2.2 percentage points of GDP (0.6 percentage points lower than programmed) to 2.5 percent while the share of investment in total spending increased. The loss of revenue from the slowdown of economic activity amounted to 2.8 percent of GDP—0.8 percentage points less than projected—thanks to higher receipts from the mining sector.[3] Although domestically financed spending declined by some 0.4 percentage points of GDP to 18.3 percent, the share allocated to investment in infrastructure increased.[4] This, along with increased (yet lower than projected) external budget support, reduced net credit to the government from the banking system (NCG). During the first quarter of 2010, revenues remained strong (0.7 percentage points of GDP above projection) while there were modest spending overruns (0.4 percentage points of GDP) mainly on national security, preparation for the 50th independence anniversary, and transfers to cover central bank operating losses arising from the cost of monetary policy operations.[5] Thus, NCG declined further.

- **The BCC tightened monetary policy in late 2009, but has recently begun to ease its stance**. It raised its policy interest rate to 70 percent in October 2009—the third upward adjustment during the year—in response to pressures on the exchange rate and inflation. However, because of weak liquidity forecasting, base money grew faster—5 percentage points—than targeted at end-year (Table 3). During the first quarter of 2010, the continued good fiscal performance and improvement in the BCC's liquidity forecasting capacity (including through closer collaboration with the Treasury) enhanced monetary control. In response to the decline in inflation, the BCC cut its policy interest rate to 42 percent in three steps by May 2010.

6. **Paris Club creditors provided exceptional treatment to the rescheduling of the DRC's external debt**. The February 2010 rescheduling agreement reduced the amount of debt service (including arrears) due to Paris Club creditors by 97 percent over the period covered by the ECF arrangement. The authorities have been in contact with their other external creditors, informed them about the terms of the rescheduling agreement reached with the Paris Club in February 2010, and have engaged into negotiations seeking rescheduling agreements on

---

[3] To facilitate comparison, the ratios of fiscal indicators-to-GDP of the original program projections (EBS/09/191; 12/01/09) were recalculated using the latest GDP estimates.

[4] Domestically financed spending also includes repayment of arrears and the BCC deficit.

[5] The operating deficit of the BCC during the first quarter of 2010 was at CGF 30 billion, almost the entire amount budgeted for the year.

comparable terms.[6] Currently the DRC is in the process of negotiating a buy-back operation supported by IDA's Debt Reduction Facility to extinguish the remaining eligible commercial claims under the Heavily Indebted Poor Countries (HIPC) Initiative as of end-December 2009.

7. **An update safeguards assessment of the BCC was completed in April 2010**. It found that the majority of 2008 recommendations have been implemented, including establishing procedures for external audit of the biannual program-data. However, significant safeguards risks remain. The BCC continues to lack autonomy from the government and is in urgent need of recapitalization. Furthermore, the absence of a benchmark financial reporting framework continues to impair transparency. The BCC broadly agreed with the priority recommendations of the assessment and has made some progress towards their implementation. Some risks remain for the accurate reporting of NCG; however, as the balance of the Treasury General Account is not regularly reconciled between the BCC and the Ministry of Finance. The auditor's report did not identify any breach of the audited performance criteria during the period from December 31, 2008 to December 31, 2009. The status of safeguards recommendations will continue to be monitored under the program.

8. **Program performance was satisfactory**. All quantitative performance criteria and indicative targets at end-December 2009 were observed, except for the indicative targets on base money and the accumulation of wage arrears (Memorandum of Economic and Financial Policies (MEFP), Table I.1).[7] Three of the quantitative indicative targets at end-March 2010 were not observed (that is, net foreign assets (NFA), net domestic assets (NDA), and base money). This reflected a larger-than-envisaged share of foreign currency denominated government spending (mainly security related), and higher commercial bank recourse to the BCC's short term lending facility to meet liquidity demand by the private sector to settle quarterly tax obligations. The BCC has since increased purchases of foreign exchange from the market and commercial banks have reversed their borrowing from the central bank (MEFP, ¶4). Almost all of the structural benchmarks were implemented, albeit with delays (MEFP, ¶5 and Table I.2.).[8] The benchmark on the production of fiscal accounts that include foreign financed spending was not met because of inadequate reporting from nongovernmental organizations that manage foreign financed projects. There was good performance in other structural areas such as the adoption of an action plan to strengthen PFM and promulgation of the protocol of the Organization for the

---

[6] Arrears to BDGEL (Banque de Development des Etats des Grand Lacs) (US$80.2 million at end-December 2009) are programmed to be cleared in light of the ongoing discussions between the DRC authorities and BDGEL representatives.

[7] The accumulation of wage arrears vis-à-vis diplomats based overseas during the last quarter of the year amounted to CGF 2 billion or 0.4 percent of the total wage bill. This was because wage payments to diplomats are made outside the automated system in place for all other civil servants.

[8] Staff considered that the benchmark on restructuring one large bank was met based on the central bank's agreement to appoint a Provisional Administrator. The restructuring itself will require more time and is being carried out with technical assistance from the IMF's Monetary and Capital Markets (MCM) Department.

Harmonization of African Business Law (OHADA), which is intended to help reduce the cost of doing business. The authorities have also begun preparation to adhere to the Extractive Industries Transparency Initiative (EITI).

III. Policy Discussions

9. Discussions focused on the 2010 macroeconomic framework, macroeconomic policies, and structural reforms in tax and customs administration, PFM, financial sector, and improving the business climate.

A. Macroeconomic Framework

10. **The economic outlook is improving**. Real GDP growth is expected to reach 5.4 percent on the back of a strong recovery in the mining sector and increased investment in mining and public infrastructure. The curtailment of government recourse to central bank financing should help the BCC better control monetary aggregates and contain inflation to 15 percent by end-2010. Despite the projected increase in mining exports, the current account deficit is expected to widen largely due to higher imports tied to infrastructure and mining projects. However, increased foreign direct investment and financing under the SCCA should help improve the capital and financial accounts. Nevertheless, there is a financing gap of about US$198 million million after taking into account the expected disbursements under the ECF arrangement of US$146 million (SDR 98.99 million) and the need to maintain reserves at the equivalent of 7.5 weeks of nonaid imports (Table 4). Financial support from multilateral and bilateral development partners is expected cover the gap (see ¶15 below).

B. Macroeconomic Policies

Fiscal policy

11. **The authorities are committed to a fiscal policy that further curtails recourse to central bank financing**. The 2010 budget approved by Parliament contained overly optimistic revenue assumptions (some 2 percentage points of GDP greater than under the ECF-supported program) and commensurately higher spending. However, the authorities reconfirmed their commitment to implement a more prudent fiscal policy consistent with the program's objectives. The domestic fiscal deficit is targeted to narrow to 1 percent of GDP, and the overall fiscal deficit will be limited to 5.1 percent of GDP. This would allow NCG to decline by 1.5 percentage points of GDP compared with the zero change envisaged under the original program projections. The larger deposit build up reflects: (i) a better revenue outlook and the authorities' decision to save a portion of the windfall, and (ii) the full saving of the second tranche of the signing bonus under SCCA (1 percentage point of GDP). The revised program envisages revenue-enhancing measures and reprioritization of spending in order to create the fiscal space for priority programs not previously envisaged under the program. In particular:

- **Revenue** is now projected at 18.1 percent of GDP in 2010, 1.4 percentage points of GDP higher than originally programmed. The revised projection takes into account: (i) higher-than-programmed revenue performance during the first quarter of the year (0.7 percent of GDP); (ii) a gradual alignment of the price used for the calculation of taxes on petroleum products (*prix fiscale)* with world prices (0.3 percent of GDP); (iii) enforcement of the payment of income taxes by political institutions (0.2 percent of GDP); and (iv) elimination of ad hoc exemptions on income taxes and import tariffs (0.2 percent of GDP).[9] The program also includes structural reforms that should help boost revenue over the medium term (see ¶16 below).

- **Domestically financed spending** is now capped at 19.1 percent of GDP (about 1.1 percentage points higher than the original program target). In order to create the fiscal space for additional spending on national security and the national elections, the authorities plan to cut domestically financed capital expenditure (by about 0.6 percentage points of GDP).[10] The revised fiscal program also accommodates: (i) a larger BCC deficit (0.3 percent of GDP) that takes account of the higher-than-budgeted costs of monetary policy; (ii) payment of government arrears (0.2 percent of GDP) to a commercial bank that is undergoing restructuring; and (iii) clearance of arrears vis-à-vis the provinces and tax-collection agencies (0.4 percent of GDP). To mitigate risks to the fiscal program in the event of a revenue and/or external budget support shortfall, the authorities identified contingent spending reduction equivalent to 0.5 percent of GDP in capital expenditure and domestic arrears payments.

- **Foreign financed** investment and exceptional spending are projected at about 13.3 percent of GDP, 7 percentage points higher than 2009. A large portion of the increase is explained by the infrastructure projects under the SCCA and outlays associated with the national and provincial elections slated for 2011.

12. **Staff stressed that effective implementation of the recently adopted tax measures and strict expenditure control are essential for achieving the program's fiscal objectives**. The authorities concurred and noted that the recent introduction of new expenditure management procedures that also apply to urgent spending will help strengthen expenditure control. Staff raised concerns over the proposed cuts in government investment and their implications for maintenance of public infrastructure. The authorities maintained that the spending cuts would have limited adverse effects in light of the significant investment financed under the SCCA (5.6 percent of GDP). Given the country's susceptibility to exogenous shocks, staff fully supports the authorities' decision to save a portion of the projected higher domestic revenue (relative to the original program) and the full amount of the second tranche of the SCCA signing bonus.

---

[9] These relate to tariffs on petroleum imports for mining companies and income taxes for commercial banks.

[10] The original program included CGF 11 billion (0.1 percent of GDP) for elections and the 50th independence anniversary celebrations.

13. **Prudent fiscal policy, supported by concessional financing, will also be critical for debt sustainability.** Given that that the HIPC debt sustainability analysis indicates that the DRC will continue to face high risk of debt distress even after receiving substantial debt relief under the HIPC Initiative and the Multilateral Debt Relief Initiative (MDRI),[11] the authorities committed to rely on grants and highly concessional loans (i.e., with a grant element of at least with 35 percent) to meet their external financing needs (MEFP, ¶10).

Monetary and exchange rate policies

14. **Monetary policy will continue to focus on achieving the program's year-on-year inflation objective of 15 percent by end 2010**. Staff and the authorities agree that keeping the central bank policy interest rate significantly positive in real terms is critical to avoiding the reemergence of pressures on the exchange rate and inflation. Although staff supported the easing of monetary policy given the deceleration of inflation during the first quarter of 2010, it noted that the pace and magnitude of easing (a 32 percent reduction in the policy interest rate in three steps since March) could have been more gradual and smaller to minimize the risks to the program's inflation objective. Staff believes that the policy rate should remain unchanged going forward until inflation has been fully contained. Reserve requirements should also remain "as is" for the time being.[12] The implementation of monetary policy will be facilitated by the enhanced collaboration between the central bank and the Treasury regarding liquidity forecasting. The authorities and staff agreed that the flexible exchange rate regime continues to be appropriate given the country's relatively low level of international reserves and its susceptibility to exogenous shocks. BCC intervention in the foreign exchange market will therefore continue to be limited to smoothing short-term exchange rate volatility.

Program financing

15. **The program is fully financed**. The financing gap is estimated at US$198 million over the period July–December 2010. Staff expects this gap to be covered by budget support from the World Bank (US$100 million), the European Commission (US$67 million), and bilateral donors (US$31 million). The program also assumes that completion point is reached by end-2010 and all creditors provide debt relief in accordance with the HIPC Initiative and MDRI. Official grants projected over the program period (Table 2) include debt relief under the HIPC Initiative and MDRI and assume that donors will respond favorably to the DRC reaching the completion point, which is essential if the country's debt is to be sustainable over the medium term.

---

[11] See EBS/10/121, 6/16/10.

[12] The BCC raised the reserve requirement from 5 percent to 7 percent in October 2009. The monetary authorities remain concerned over the impact of such high reserve requirements on financial intermediation.

C. Structural Reforms

16. Structural reforms for the remainder of 2010 will continue to focus on revenue mobilization, PFM, financial sector solvency, and private sector development (MEFP, ¶¶12–15, and Table I.2b).

Revenue administration will be strengthened through the adoption by parliament of a value added tax (VAT) law, establishment of new tax centers in key provinces for medium-sized enterprises, and expansion of one-stop windows at border posts (MEFP, ¶13).

PFM will be improved through the adoption of a new finance law that will streamline budget planning, execution, and monitoring. The authorities are cognizant of the risks associated with fiscal devolution given the weak PFM capacities at the provincial level. In this context, the new finance law will also set the stage for a phased devolution of social expenditures from the central government to the provinces, which takes into account the PFM capacities at the provincial level (MEFP, ¶13).

Financial sector reform will focus on rebuilding central bank independence and addressing weaknesses in the commercial banking sector (MEFP, ¶14). Key reform measures to help improve the financial independence of the central bank include the adoption by parliament of a recapitalization plan, development of a privatization strategy for the Mint and the BCC hospital, and reform of the BCC's pension system. Regarding commercial banks, the BCC will complete on-site banking supervision inspections of the commercial banks and develop restructuring plans for those that are financially weak. It will complete ongoing efforts to address problems faced by one large bank with systemic implications. The BCC will continue strengthening banking supervision by implementing MCM technical assistance recommendations, including by reforming the legal and regulatory framework and reinforcing on-site and off-site inspections.

Reforms to promote private sector development will include advancing the ongoing restructuring of public enterprises, streamlining government regulations, enhancing property rights protection by harmonizing DRC regulations with the OHADA protocol, and adhering to the EITI (MEFP, ¶15).[13]

IV. Capacity to Repay the Fund and Risks

17. **The DRC's capacity to repay the Fund is satisfactory, assuming debt relief** (Tables 5 and 6). After HIPC/MDRI debt relief, outstanding credit to the Fund would decline from SDR 510 million in 2009 to SDR 259 million at end-2010, equivalent to 32 percent of gross international reserves or 5.6 percent of exports of goods and services. The repayment obligations

[13] The authorities are working with the World Bank on reforms to reduce the cost of doing business, including by restructuring public enterprises. The DRC's application for adherence to the EITI will be considered in June 2010.

to the Fund would peak at 1.1 percent of exports of goods and services in 2010 and average less than 1 percent in 2010–22.

18. **There are risks to program implementation**. Re-escalation of conflict in the eastern provinces, deterioration in the terms of trade or spending pressures related to the looming elections could undermine program implementation. Risk of debt distress is expected to remain high even after HIPC/MDRI debt relief. Delayed financial sector reforms could also further weaken the health of the financial sector, while governance concerns could damage the business climate.

V. Staff Appraisal

19. **The DRC economy is recovering from the adverse effects of the global financial crisis**. In 2009, the combined effects of the global economic downturn and lingering conflict in the eastern provinces resulted in a sharp fall in exports, slowdown in economic activity, and uptick in inflation in the context of a steep depreciation of the nominal exchange rate. However, the firming up of world commodity prices is improving export prospects and overall economic growth.

20. **The authorities' policy response to the global financial crisis was appropriate**. They allowed the fiscal deficit to widen and increased the share of investment in total spending while reducing government borrowing from the central bank. This, together with tight monetary policy, enhanced banking supervision, and liquidity support for weak financial institutions helped mitigate the impact of the global financial crisis on domestic demand, stabilize the exchange rate, ease inflation, and minimize pressures on the financial sector.

21. **Fiscal policy in 2010 aims at further reducing government recourse to central bank financing**. Revenue-enhancing measures, together with the impact of higher growth, should help increase the fiscal space for priority programs while reducing fiscal imbalances. Nevertheless, strict adherence to the expenditure commitment and treasury plans will be critical to achieving the program objectives. The authorities' commitment to save a portion of higher projected revenue relative to the original program and the entirety of the second tranche of the SCCA signing bonus is welcome.

22. **The gradual easing of monetary policy by the central bank is appropriate**. The central bank is committed to keeping its policy rate significantly positive in real terms to avoid the reemergence of pressures on the exchange rate and inflation. Recent measures to enhance coordination between the BCC and the Treasury regarding liquidity management are welcome. The flexible exchange rate regime is appropriate for the DRC economy given its susceptibility to exogenous shocks and its relatively low level of international reserves.

23. **Structural reforms in revenue mobilization and PFM are critical for achieving the fiscal policy objectives**. The focus on strengthening revenue collection, tightening and rationalizing expenditure commitment procedures, and revamping the legal and regulatory framework of the PFM system is appropriate.

24. **Fiscal decentralization remains a challenge given institutional capacity constraints in PFM at the provincial level**. The program appropriately focuses on strengthening such capacity while gradually transferring expenditure responsibilities to individual provinces as capacity is put in place.

25. **Financial sector reforms need to be accelerated**. The completion of the first wave of on-site inspections of commercial banks is welcome. However, there is a need to develop credible restructuring plans for the weak banks and complete inspections of the remaining banks. Strengthening of the BCC's banking supervision capacity and strict enforcement of its prudential regulations is critical for safeguarding the health of the financial sector.

26. **The authorities need to press ahead with structural reforms to support higher economic growth**. The focus should be on expediting the restructuring of public enterprises that provide growth-critical services (e.g., transport and utilities), adherence to the EITI, and streamlining business regulations.

27. **The staff is of the view that the Lending into Arrears Policy should be applied**. This is based on the financing assurances review conducted by staff, the good faith efforts exerted by the authorities toward reaching collaborative agreements with commercial creditors, and the fact that relations with commercial creditors would not undermine the program.

28. **Staff recommends the completion of the first review of the ECF arrangement**. While there are risks that spending overruns related to the looming national elections and security operations could destabilize the economy, the revised program's tighter fiscal policy stance should mitigate such risks. Moreover, donor financial and technical assistance, including for elections and peacemaking efforts, will also help reduce these risks.

PROPOSED DECISION

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

First Review under the ECF Arrangement and Financing Assurances Review

1. The Democratic Republic of the Congo has consulted with the Fund in accordance with paragraphs 4(b) and 5(f) of the arrangement for the Democratic Republic of the Congo under the Extended Credit Facility (ECF) (EBS/09/191, 12/1/09) (the arrangement) to review program implementation and financing assurances, and to reach understandings regarding the conditions for further disbursements during the second year of the arrangement.

2. The letter dated June 15, 2010 from the Prime Minister (the "June 2010 Letter") together with its Memorandum of Economic and Financial Policies (the "June 2010 Memorandum") and Technical Memorandum of Understanding (the "June 2010 TMU") shall be attached to the arrangement for the Democratic Republic of the Congo, and the letter dated November 30, 2009 from the Prime Minister shall be read as supplemented and modified by the June 2010 Letter and its attachments.

3. Accordingly, the ECF arrangement for the Democratic Republic of the Congo shall be amended as follows:

   a. A new paragraph 2(d) shall be included to read as follows:

"2(d) the fourth disbursement, in an amount equivalent to SDR 49.493 million, will be available on or after May 31, 2011, at the request of the Democratic Republic of the Congo, and subject to paragraphs 4 and 5 below;"

b. A new paragraph 4(aa) shall be included to read as follows:

"4(aa) if the Managing Director of the Trustee finds that with respect to the fourth disbursement specified in paragraph 2(d) above, the data as of December 31, 2010 indicate that:

(i) the floor on net foreign assets of the Central Bank of the Congo (the "BCC"), or

(ii) the ceiling on net domestic assets of the BCC, or

(iii) the ceiling on net bank credit to the government,

as specified in Table I.1 of the June 2010 Memorandum and further specified in the June 2010 TMU, was not observed.

c. Paragraph 4(b) shall be amended as follows:

The language: ", and with respect to the fourth disbursement, the third review of the Democratic Republic of the Congo's program referred to in paragraph 16 of the June 2010 Memorandum" shall be inserted after the word "Letter".

d. Paragraphs 5(a), 5(b), 5(c) and 5(d) shall be amended as follows:

In each paragraph, the words "as specified in Table I.1 of the Memorandum, and further specified in the TMU" shall be deleted and replaced with "as specified in Table I.1 of the June 2010 Memorandum, and further specified in the June 2010 TMU".

4. The Fund decides that the first review specified in paragraph 4(b), and the financing assurances review specified in paragraph 5(f), of the ECF arrangement for the Democratic Republic of the Congo are completed, and that the Democratic Republic of the Congo may request the second disbursement.

Table 1. Democratic Republic of the Congo: Selected Economic and Financial Indicators, 2007–15

	2007	2008	2009		2010		2011	2012	2013	2014	2015
		Prel.	Prog.	Est.	Prog.	Proj.			Projections		
					(Annual percentage change; unless otherwise indicated)						
GDP and prices											
Real GDP	6.3	6.2	2.7	2.8	5.4	5.4	7.0	6.8	8.1	6.7	7.0
GDP deflator	17.9	18.9	30.3	35.1	23.4	27.1	8.5	9.7	8.0	8.5	7.9
Consumer prices, period average	16.7	18.0	45.0	46.2	24.7	26.2	13.5	10.5	9.0	8.8	8.3
Consumer prices, end-of-period	10.0	27.6	48.7	53.4	15.0	15.0	12.0	9.0	9.0	8.5	8.0
External sector											
Exports, f.o.b. (U.S. dollars)	161.2	7.2	-42.5	-33.6	18.3	48.3	18.7	5.6	7.4	6.7	7.0
Imports, f.o.b. (U.S. dollars)	81.8	27.6	-21.7	-26.3	21.6	46.4	16.3	-0.1	7.3	-1.3	5.3
Export volume	55.5	6.3	5.4	0.6	9.4	8.0	14.4	11.9	18.0	1.8	-3.8
Import volume	69.0	15.8	-11.9	-17.9	17.0	38.1	14.9	-1.5	6.1	-2.8	3.8
Terms of trade	11.3	1.1	-38.6	29.6	4.1	2.6	-6.9	-7.0	0.3	-2.0	-1.9
Nominal effective exchange rate [1]	-15.5	-11.7	…	-26.7	…	…	…	…	…	… …	
Real effective exchange rate [1]	-3.1	-0.7	…	1.0	…	…	…	…	…	… …	
			(Annual change in percent of beginning-of-period broad money; unless otherwise indicated)								
Money and credit											
Broad money	49.5	55.7	33.8	50.4	27.0	41.1	…	…	…	…	…
Net foreign assets	30.8	-6.0	-6.9	17.0	38.6	57.8	…	…	…	…	…
Net domestic assets	20.2	65.6	41.6	33.3	-11.2	-16.4	…	…	…	…	…
Domestic credit	29.5	54.7	15.6	13.5	13.8	2.1	…	…	…	…	…
Of which:											
Net credit to government	10.3	11.3	-10.6	-7.6	0.0	-12.2	…	…	…	…	…
Credit to the private sector (annual percent change)	73.6	141.9	55.5	41.1	25.4	36.8	…	…	…	…	…
					(Percent of GDP; unless otherwise indicated)						
Central government finance											
Total government revenue	14.7	18.5	17.8	16.8	17.9	19.1	19.5	20.3	21.1	22.1	22.6
Excluding signining bonus from the Sino-Congolese Cooperation Agreement	14.7	18.5	15.7	15.8	17.9	17.8	19.5	20.3	21.1	22.1	22.6
Grants	2.2	2.3	9.3	6.9	6.1	10.2	9.9	8.5	6.8	5.7	5.3
Total government expenditure [2]	18.9	23.0	28.7	27.5	36.2	33.1	38.1	35.0	32.4	31.5	29.8
Domestic fiscal balance (cash basis)	-0.1	-0.3	-3.3	-2.5	-1.4	-1.0	-0.4	-0.4	0.0	0.0	0.0
Overall fiscal balance (payment order basis, incl. grants)	-1.9	-2.2	-1.6	-3.8	-12.2	-3.7	-8.7	-6.3	-4.6	-3.7	-1.9
Overall fiscal balance (cash basis, incl. grants)	-2.5	-3.0	-3.0	-4.8	-12.7	-5.1	-9.6	-7.0	-4.7	-3.7	-1.9
Investment and saving											
Gross national saving	17.1	6.1	7.0	9.3	5.8	10.4	19.2	15.6	17.1	22.0	21.7
Government	-1.2	-0.8	1.0	-1.3	-0.1	1.8	2.8	3.2	3.6	4.2	4.5
Nongovernment	18.3	6.9	6.0	10.5	5.9	8.7	16.4	12.4	13.5	17.8	17.2
Investment	18.2	22.0	23.4	19.4	33.5	30.4	40.7	33.6	30.7	29.8	28.5
Government [3]	2.3	3.7	9.3	7.8	18.0	14.7	21.1	17.7	14.7	13.3	11.5
Nongovernment	15.9	18.2	14.1	11.6	15.5	15.7	19.6	15.9	16.0	16.5	17.0
Balance of payments											
Exports of goods and services	65.2	61.3	41.8	45.2	42.7	56.1	63.1	61.6	61.3	60.4	59.5
Imports of goods and services	68.6	76.4	66.4	60.9	71.1	75.1	83.0	77.4	76.7	69.8	67.7
Current account balance, incl. transfers	-1.1	-15.9	-16.4	-10.1	-27.7	-20.0	-21.5	-18.0	-13.6	-7.9	-6.8
Current account balance, excl. transfers	-9.7	-26.5	-30.4	-22.7	-34.4	-27.0	-28.1	-24.2	-19.7	-13.9	-12.7
Current account balance, incl. transfers, after debt relief	0.5	-14.3	-13.0	-6.1	-24.1	-19.4	-21.5	-18.0	-13.6	-7.9	-6.8
Gross official reserves (end-of-period, millions of U.S. dollars)	181	78	1,039	999	1,223	1,257	1,359	1,649	1,927	2,080	2,360
Gross official reserves (weeks of nonaid-related imports of goods and services)	1.2	0.8	9.9	7.2	8.7	7.5	7.9	8.6	10.1	10.1	11.1
					(Millions of U.S. dollars; unless otherwise indicated)						
External public debt											
Total stock, including IMF	12,929	13,532	12,785	13,705	4,329	2,931	4,404	5,662	6,550	7,381	7,944
Present value (PV) of debt [4]	…	… ..	…	12,025	…	3,773	5,045	6,067	6,814	6,594	6,832
PV of debt (percent of exports of goods and services) [4]	0.0 …		…	193.3	…	58.9	74.0	75.2	76.8	69.4	67.0
Scheduled debt service	916.8	999.5	815.5	1,062.6	252.1	203.4	87.3	102.1	120.4	133.5	169.5
Percent of exports of goods and services	14.0	12.0	18.2	21.2	4.9	2.9	1.0	1.2	1.3	1.3	1.6
Percent of government revenue	53.9	41.5	29.4	40.3	8.8	5.5	2.3	2.5	2.8	2.9	3.3
Exchange rate, (CGF per U.S. dollar)											
Period average	516	563	…	817		…	…	…	…	… …	
End-of-period	503	639	…	903		…	…	…	…	… …	
Memorandum item:											
Nominal GDP (CGF billions)	5,175	6,530	8,649	9,073	11,361	12,163	14,125	16,538	19,295	22,323	25,766

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

[4] Estimates and projections are based on calculations under the 2010 HIPC Debt Sustainability Analysis (EBS/10/---, 06/--/2010). 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 reaches the HIPC completion point by end-June 2010.

Table 2a. Democratic Republic of the Congo: Central Government Financial Operations, 2007–12

	2007	2008	2009		2010			2011	2012
		Est.	Prog.	Prel.	Prog.	Budget	Rev. proj.	Projections	
	(Billions of Congo francs; unless otherwise indicated)								
Total revenue and grants	877	1,356	2,364	2,152	2,729	3,907	3,570	4,146	4,750
Total revenue	761	1,205	1,554	1,528	2,031	2,390	2,326	2,750	3,350
Excl. signing bonus for joint venture with China	*761*	*1,205*	*1,359*	*1,430*	*2,031*	*2,319*	*2,206*	*2,750*	*3,350*
Customs and excise	278	427	543	560	806	929	839	1,045	1,264
Direct and indirect taxes	260	431	557	565	734	798	812	1,007	1,276
Petroleum (royalties and taxes)	159	230	120	132	290	298	286	370	404
Administrative revenues	64	118	335	271	202	365	389	328	407
Of which: signing bonus for joint venture with China	0	0	195	97	0	71	120	0	0
Total grants	116	151	809	624	698	1,518	1,244	1,396	1,400
Budget grants	0	0	231	150	0	158	101	0	0
Project grants	32	71	359	185	619	1,141	879	1,028	985
HIPC Initiative assistance [1]	84	80	219	289	79	218	264	367	415
Total expenditure	977	1,500	2,501	2,497	4,112	5,020	4,024	5,375	5,787
Current expenditure	811	1,177	1,407	1,563	1,857	1,918	1,826	2,205	2,755
Wages	301	452	548	548	758	779	765	910	1,078
Memo.: Wage bill provinces	...	0	181	181	241	236	236	281	341
Interest due	195	220	281	407	345	190	288	344	376
Of which: on external debt	166	186	248	372	309	31	252	277	301
Of which: on domestic debt	29	34	33	36	36	159	36	68	75
Transfers and subsidies	112	227	261	284	347	470	371	437	519
Goods and services	204	278	317	323	407	479	402	513	782
Capital expenditure	121	244	792	704	2,042	2,760	1,787	2,984	2,925
Foreign-financed	77	137	539	460	1,589	2,101	1,410	2,342	2,136
Domestic-financed	44	107	253	244	452	659	376	643	788
Government	44	107	141	142	106	205	85	99	116
Provinces	0	0	112	102	347	454	291	543	672
Exceptional expenditure [2]	45	79	296	231	185	344	384	150	66
Foreign-financed	0	5	195	97	92	118	209	73	59
Domestic-financed	45	74	101	133	94	226	175	77	8
Budget reserve	0	0	6	0	28	0	27	35	41
Overall fiscal balance (payment order basis)	-100	-144	-138	-345	-1,383	-1,113	-453	-1,229	-1,037
Underlying fiscal balance (payment order basis) [3]	72	107	-61	-5	2	-155	349	144	67
Domestic fiscal balance (payment order basis) [4]	27	33	-160	-138	-91	-452	54	67	59
Change in arrears (increase = +)	-11	-16	-50	-9	-28	0	-95	-56	-50
Central bank operational result	-20	-36	-74	-80	-35	-39	-75	-75	-75
Overall fiscal balance (cash basis, before interest rescheduling)	-131	-195	-262	-434	-1,446	-1,153	-624	-1,359	-1,162
Underlying fiscal balance (cash basis)	40	56	12	4	-60	-195	178	14	-58
Domestic fiscal balance (cash basis) [5]	-5	-19	-284	-227	-154	-491	-116.6	-63	-66
Total financing	131	195	262	434	1,446	1,153	624	1,359	1,162
Domestic financing	49	59	-71	-2	0	274	-183	0	0
Banking system	44	73	-106	-66	0	0	-183	0	0
Nonbank	4	-14	0	0	0	-42	0	0	0
Privatization receipts	...	0	35	64	...	316	...	...	...
Foreign financing (net)	196	107	282	422	1,180	879	617	1,248	1,045
Amortization due before debt relief	-271	-405	-420	-769	-238	-198	-316	-382	-378
Exceptional Financing	0	0	827	0	1,498	0	4,292	0	0
Project loans	61	52	398	396	1,091	1,077	769	1,432	1,275
Debt relief	0	20	28	54	327	0	164	198	148
Accumulation of external arrears (net, + increase)	407	440	-551	740	-1,498	0	-4,292	0	0
Residual financing gap/errors and omissions	-114	30	50	14	266	0	190	111	117
Memorandum items:									
GDP	5,175	6,530	8,649	9,073	11,361	9,073	12,163	14,125	16,538
Domestically financed spending	766	1,224	1,643	1,657	2,185	2,810	2,323	2,813	3,416
Total wage bill	301	452	548	548	758	779	765	910	1,078
Central government wage bill	301	452	367	367	517	599	529	630	737
Provincial government wage bill	...	0	181	181	241	181	236	281	341
Total goods and services	253	403	460	463	593	669	588	735	1,042
Central government goods and services	204	278	317	323	407	479	402	513	782
Provincial governments' nonwage expenditure	50	125	143	140	186	190	186	222	260

Sources: Congolese authorities and IMF staff estimates and projections.

[1] Reflects revised calculation of HIPC Initiative assistance on the basis of the 2010 Debt Sustainability Analysis (EBS/10/--,--/06/2010).

[2] Exceptional expenditure includes spending for the Demobilization, Disarmament, and Reintegration (DDR) program, and cost of the elections.

[3] Underlying fiscal balance is defined as revenue minus expenditure and excluding interest on foreign debt, foreign-financed capital expenditure, all exceptional spending, and repayment of domestic arrears.

[4] The domestic fiscal balance (payment order basis) is defined as revenue (excluding the signing bonus from the SCCA) minus total expenditure (excluding interest on foreign debt, foreign-financed capital and exceptional expenditure).

[5] The domestic fiscal balance (cash basis) is defined as the domestic fiscal balance (payment order basis) minus the BCC's operating deficit minus the net repayment of domestic arrears.

Table 2b. Democratic Republic of the Congo: Central Government Financial Operations, 2007–12

	2007	2008	2009			2010				2011	2012
	Est.	Est.	Program EBS/09/191	Program Revised GDP	Est.	Program EBS/09/191	Program Revised GDP	Budget	Proj.	Projections	
	(Percent of GDP; unless otherwise indicated)										
Total revenue and grants	17.0	20.8	27.3	26.1	23.7	24.0	22.4	34.4	29.4	29.4	28.7
Total revenue	14.7	18.5	18.0	17.1	16.8	17.9	16.7	21.0	19.1	19.5	20.3
Excl. signing bonus for joint venture with China	…	…	*15.7*	*15.0*	*15.8*	*17.9*	*16.7*	*21.0*	*18.1*	…	…
Customs and excise	5.4	6.5	6.3	6.0	6.2	7.1	6.6	8.2	6.9	7.4	7.6
Direct and indirect taxes	5.0	6.6	6.4	6.1	6.2	6.5	6.0	7.0	6.7	7.1	7.7
Petroleum (royalties and taxes)	3.1	3.5	1.4	1.3	1.5	2.6	2.4	2.6	2.4	2.6	2.4
Other	1.2	1.8	3.9	3.7	3.0	1.8	1.7	3.2	3.2	2.3	2.5
Of which: Signing bonus from joint venture with China	…	0.0	2.3	2.2	1.1	…	…	…	1.0	…	…
Total grants	2.2	2.3	9.4	8.9	6.9	6.1	5.7	13.4	10.2	9.9	8.5
Budget grants	0.0	0.0	2.7	2.5	1.7	0.0	0.0	1.4	0.8	0.0	0.0
Project grants	0.6	1.1	4.2	4.0	2.0	5.4	5.1	10.0	7.2	7.3	6.0
HIPC Initiative assistance [1]	1.6	1.2	2.5	2.4	3.2	0.7	0.7	1.9	2.2	2.6	2.5
Total expenditure	18.9	23.0	28.9	27.6	27.5	36.2	33.8	44.2	33.1	38.1	35.0
Current expenditure	15.7	18.0	16.3	15.5	17.2	16.3	15.3	16.9	15.0	15.6	16.7
Wages	5.8	6.9	6.3	6.0	6.0	6.7	6.2	6.9	6.3	6.4	6.5
Interest due	3.8	3.4	3.3	3.1	4.5	3.0	2.8	1.7	2.4	2.4	2.3
Of which: On external debt	3.2	2.9	2.9	2.7	4.1	2.7	2.5	0.3	2.1	2.0	1.8
Of which: on domestic debt	0.6	0.5	0.4	0.4	0.4	0.3	0.3	1.4	0.3	0.5	0.5
Transfers and subsidies	2.2	3.5	3.0	2.9	3.1	3.1	2.9	4.1	3.0	3.1	3.1
Goods and servicees	3.9	4.3	3.7	3.5	3.6	3.6	3.3	4.2	3.3	3.6	4.7
Of which : Institutions	0.9	1.2	0.9	0.9	0.8	0.9	0.8	1.5	0.9	0.9	1.0
Ministries	2.8	2.5	2.1	2.0	2.1	1.9	1.8	2.0	1.7	2.0	3.0
Centralized payments	0.3	0.5	0.7	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Memo.: Transferred to provinces	…	1.9	0.0	0.6	0.0	-0.5	-0.5	0.0	0.0	0.0	0.0
Total goods and services	…	6.2	0.0	0.0	3.6	3.1	2.9	4.2	3.3	3.6	4.7
Capital expenditure	2.3	3.7	9.2	8.7	7.8	18.0	16.8	24.3	14.7	21.1	17.7
Foreign-financed	1.5	2.1	6.2	5.9	5.1	14.0	13.1	18.5	11.6	16.6	12.9
Domestic-financed	0.9	1.6	2.9	2.8	2.7	4.0	3.7	5.8	3.1	4.5	4.8
Government	0.9	1.6	1.6	1.6	1.6	0.9	0.9	1.8	0.7	0.7	0.7
Provinces	0.0	0.0	1.3	1.2	1.1	3.1	2.9	4.0	2.4	3.8	4.1
Exceptional expenditure [2]	0.9	1.2	3.4	3.3	2.5	1.6	1.5	3.0	3.2	1.1	0.4
Foreign-financed	0.0	0.1	2.3	2.1	1.1	0.8	0.8	1.0	1.7	0.5	0.4
Domestic-financed	0.9	1.1	1.2	1.1	1.5	0.8	0.8	2.0	1.4	0.5	0.0
Budget reserve	0.0	0.0	0.1	0.1	0.0	0.3	0.3	0.0	0.2	0.3	0.3
Overall fiscal balance (payment order basis)	-1.9	-2.2	-1.6	-1.5	-3.8	-12.2	-11.4	-9.8	-3.7	-8.7	-6.3
Underlying fiscal balance (payment order basis)[3]	1.4	1.6	-0.7	-0.7	0.0	0.0	0.0	-1.4	2.9	1.0	0.4
Domestic fiscal balance (payment order basis) [4]	0.5	0.5	-1.9	-1.8	-1.5	-0.8	-0.8	-4.0	0.4	0.5	0.4
Change in arrears (increase = +)	-0.2	-0.2	-0.6	-0.6	-0.1	-0.2	-0.2	0.0	-0.8	-0.4	-0.3
Central bank operational result	-0.4	-0.5	-0.9	-0.8	-0.9	-0.3	-0.3	-0.3	-0.6	-0.5	-0.5
Overall fiscal balance (cash basis, before interest rescheduling)	-2.5	-3.0	-3.0	-2.9	-4.8	-12.7	-11.9	-10.1	-5.1	-9.6	-7.0
Underlying fiscal balance (cash basis)	0.8	0.9	0.1	0.1	0.0	-0.5	-0.5	-1.7	1.5	0.1	-0.4
Domestic fiscal balance (cash basis) [5]	-0.1	-0.3	-3.3	-3.1	-2.5	-1.4	-1.3	-4.3	-1.0	-0.4	-0.4
Total financing	2.5	3.0	3.0	2.9	4.8	12.7	11.9	10.1	5.1	9.6	7.0
Domestic financing	0.9	0.9	-0.8	-0.8	0.0	0.0	0.0	2.4	-1.5	0.0	0.0
Banking system	0.9	1.1	-1.2	-1.2	-0.7	0.0	0.0	0.0	-1.5	0.0	0.0
Foreign financing (net)	3.8	1.6	3.3	3.1	4.6	10.4	9.7	7.7	5.1	8.8	6.3
Residual financing gap	-2.2	0.5	0.6	0.6	0.2	2.3	2.2	0.0	1.6	0.8	0.7
Memorandum items:											
GDP (billions of CGF)	5,175	6,530	8,649	9,073	9,073	11,361	12,163	11,366	12,163	14,125	16,538
Domestically financed spending	14.8	18.7	19.0	18.1	18.3	19.2	18.0	24.7	19.1	19.9	20.7
Total wage bill	5.8	6.9	6.3	6.0	6.0	6.7	6.2	6.9	6.3	6.4	6.5
Central government wage bill	5.8	6.9	4.2	4.0	4.0	4.5	4.2	5.3	4.3	4.5	4.5
Provincial government wage bill	…	…	2.1	2.0	2.0	2.1	2.0	1.6	1.9	2.0	2.1
Total goods and services	4.9	6.2	5.3	5.1	5.1	5.2	4.9	5.9	4.8	5.2	6.3
Central government goods and services	3.9	4.3	3.7	3.5	3.6	3.6	3.3	4.2	3.3	3.6	4.7
Provincial governments' nonwage expenditure	1.0	1.9	1.6	1.6	1.5	1.6	1.5	1.7	1.5	1.6	1.6

Sources: Congolese authorities and IMF staff estimates and projections.

[1] Reflects revised calculation of HIPC Initiative assistance on the basis of 2010 Debt Sustainability Analysis (EBS/10/--,--/06/2010).

[2] Exceptional expenditure includes spending for the Demobilization, Disarmament, and Reintegration (DDR) program, and cost of the elections.

[3] Underlying fiscal balance is defined as revenue minus expenditure and excluding interest on foreign debt, foreign-financed capital expenditure, all exceptional spending, and repayment of domestic arrears.

[4] The domestic fiscal balance is defined as revenue (excluding the signing bonus from the SCCA) minus total expenditure (excluding interest on foreign debt, foreign-financed capital and exceptional expenditure).

[5] The domestic fiscal balance (cash basis) is defined as the domestic fiscal balance (payment order basis) minus the BCC's operating deficit minus the net repayment of domestic arrears.

Table 3a. Democratic Republic of the Congo: Monetary Survey, 2007–10
(At current exchange rates)

	2007	2008	2009		2010	
	Dec	Dec	Dec	Dec	Mar	Dec
			Prog.	Prel	Prel	Rev Proj
	(Billions of Congo francs)					
Net foreign assets	-172.6	-211.0	-279.7	-41.0	119.7	827.1
Net domestic assets	831.4	1,252.4	1,668.2	1,584.5	1,477.4	1,338.2
Domestic credit	373.4	724.3	880.3	859.4	735.3	891.0
Net credit to government	176.2	248.9	143.1	172.8	58.3	-10.3
Credit to the private sector	195.2	472.3	734.1	657.7	652.0	899.6
Credit to parastatals	1.9	3.1	3.1	28.9	25.0	1.7
Other items, net (including valuation change)	458.1	528.1	787.8	725.0	742.1	447.1
Broad money (M2)	641.2	998.4	1,335.5	1,501.9	1,553.4	2,118.6
Narrow money (M1)	300.3	392.5	436.8	479.9	454.3	601.6
Currency in circulation	233.3	304.6	354.5	381.5	353.8	475.3
Demand deposits	67.0	87.9	82.3	98.4	100.5	126.3
Quasi money	341.0	606.0	898.8	1,022.0	1,099.1	1,517.0
Time deposits in domestic currency	2.5	1.3	4.7	3.5	4.7	5.0
Foreign currency deposits	338.5	604.7	894.0	1,018.5	1,094.4	1,512.0
Import deposits	17.6	42.9	52.9	41.7	43.6	46.7
	(Year-on year change in percent)					
Net foreign assets	43.4	-22.2	-32.6	80.6	142.9	2,119.5
Net domestic assets	11.6	50.6	33.2	26.5	3.0	-15.5
Domestic credit	51.3	94.0	21.5	18.7	-10.5	3.7
Net credit to government	33.4	41.2	-42.5	-30.6	-73.4	-106.0
Credit to the private sector	73.6	141.9	55.5	39.3	9.0	36.8
Credit to parastatals	-11.8	63.4	0.0	823.4	516.8	-94.1
Other items, net (including valuation change)	-8.1	15.3	49.2	37.3	21.2	-38.3
Broad money (M2)	49.5	55.7	33.8	50.4	40.3	41.1
Narrow money (M1)	41.2	30.7	11.3	22.3	23.0	25.4
Currency in circulation	28.2	30.6	16.4	25.3	21.1	24.6
Demand deposits	117.6	31.2	-6.4	11.9	30.1	28.4
Quasi money	57.8	77.7	48.3	68.7	49.0	48.4
Time deposits in domestic currency	483.0	-47.8	262.0	167.9	171.6	42.0
Foreign currency deposits	56.9	78.6	47.9	68.4	48.7	48.5
Import deposits	54.0	144.0	23.3	-2.9	-7.5	12.0
	(Annual change in percent of beginning-of-period broad money)					
Net foreign assets	30.8	-6.0	-6.9	17.0	10.7	57.8
Net domestic assets	20.2	65.6	41.6	33.3	-7.1	-16.4
Domestic credit	29.5	54.7	15.6	13.5	-8.3	2.1
Net credit to government	10.3	11.3	-10.6	-7.6	-7.6	-12.2
Credit to the private sector	19.3	43.2	26.2	18.6	-0.4	16.1
Credit to parastatals	-0.1	0.2	0.0	2.6	-0.3	-1.8
Other items, net (including valuation change)	-9.4	10.9	26.0	19.7	1.1	-18.5
Broad money (M2)	49.5	55.7	33.8	50.4	3.4	41.1
Narrow money (M1)	20.4	14.4	4.4	8.8	-1.7	8.1
Currency in circulation	12.0	11.1	5.0	7.7	-1.8	6.2
Demand deposits	8.4	3.3	-0.6	1.0	0.1	1.9
Quasi money	29.1	41.3	29.3	41.7	5.1	33.0
Time deposits in domestic currency	0.5	-0.2	0.3	0.2	0.1	0.1
Foreign currency deposits	28.6	41.5	29.0	41.4	5.1	32.9
Import deposits	1.4	4.0	1.0	-0.1	0.1	0.3
Memorandum items:						
Nominal GDP (billions of Congo francs)	5,174.7	6,529.9	8,729.0	9,072.8	...	12,163.0
Velocity (GDP/broad money)	8.1	6.5	6.5	6.0	...	5.7
Foreign currency deposits (percent of M2)	52.8	60.6	66.9	67.8	70.5	71.4
Foreign currency deposits (percent of total deposit	83.0	87.1	91.1	90.9	91.2	92.0

Sources: Congolese authorities and IMF staff estimates and projections.

Table 3b. Democratic Republic of the Congo: Accounts of the Central Bank of the Congo, 2007–10
(At current exchange rates)

	2007	2008	2009		2010	
	Dec	Dec	Dec Prog.	Dec Prel	Mar Prel	Dec Rev Proj
	(Billions of Congo francs)					
Net foreign assets	-333.3	-390.1	-515.4	-557.6	-520.2	38.1
Net domestic assets	621.7	773.8	974.2	1036.9	1007.1	589.8
Domestic credit	206.6	295.2	230.5	274.8	229.6	102.2
Net credit to government	198.7	272.4	166.6	200.3	121.7	17.1
Credit to the private sector	3.485	3.0	3.0	3.6	3.6	3.6
Credit to parastatals	0.0	0.0	0.0	0.0	0.0	0.0
Claims on deposit money banks	4.4	19.7	60.9	70.9	104.2	81.5
Other items, net	415.1	478.6	743.7	762.1	777.5	487.6
Of which: BTR	32.9	47.0	81.9	56.7	28.8	56.4
Base money	288.5	383.7	458.7	479.2	486.9	627.8
Narrow base money	283.6	378.1	453.1	471.7	479.1	620.3
Currency in circulation	243.8	320.3	367.5	394.7	364.9	488.8
In bank vaults	10.5	15.7	13.0	13.2	11.1	13.5
Outside banks	233.3	304.6	354.5	381.5	353.8	475.3
Deposits at the central bank	38.7	56.2	84.1	69.7	111.6	124.1
Private sector deposits	0.6	0.9	0.9	4.9	1.4	4.9
Parastatal deposits	0.4	0.7	0.7	2.4	1.2	2.4
Foreign currency deposits	1.9	2.7	2.7	3.4	3.9	3.4
Import deposits	3.0	2.9	2.9	4.2	3.9	4.2
	(Year-on year change in percent)					
Net foreign assets	23.1	-17.0	-32.1	-43.0	-6.5	106.8
Net domestic assets	-3.6	24.5	25.9	34.0	17.6	-43.1
Domestic credit	15.5	42.9	-21.9	-6.9	-30.4	-62.8
Net credit to government	21.8	37.1	-38.8	-26.5	-51.6	-91.5
Credit to the private sector	279.1	-13.1	0.0	17.5	-25.1	0.0
Credit to parastatals	-48.5	0.0	0.0	0.0	0.0	0.0
Claims on deposit money banks	-70.2	347.7	208.7	259.9	41.8	14.9
Other items, net	-10.9	15.3	55.4	59.2	47.6	-36.0
Base money	36.5	33.0	19.6	24.9	32.3	31.0
Narrow base money	38.9	33.3	19.8	24.8	32.7	31.5
Currency in circulation	31.5	31.4	14.7	23.2	14.5	23.9
In bank vaults	205.4	49.1	-17.3	-16.1	-58.1	2.4
Outside banks	28.2	30.6	16.4	25.3	21.1	24.6
Deposits at the central bank	110.4	45.2	49.5	24.0	170.4	78.1
Private sector deposits	426.3	48.5	0.0	441.1	942.3	0.0
Parastatal deposits	101.8	62.6	0.0	255.1	35.0	0.0
Foreign currency deposits	-56.0	39.0	0.0	24.5	15.7	0.0
Import deposits	5.0	-1.7	0.0	42.8	9.0	0.0
	(Annual change in percent of beginning-of-period base money)					
Net foreign assets	47.5	-19.7	-32.7	-43.7	7.8	124.3
Net domestic assets	-11.0	52.7	52.2	68.6	-6.2	-93.3
Domestic credit	13.2	30.7	-16.9	-5.3	-9.4	-36.0
Net credit to government	16.8	25.6	-27.6	-18.8	-16.4	-38.2
Credit to the private sector	1.2	-0.2	0.0	0.1	0.0	0.0
Credit to parastatals	0.0	0.0	0.0	0.0	0.0	0.0
Claims on deposit money banks	-4.9	5.3	10.7	13.4	6.9	2.2
Other items, net	-24.1	22.0	69.1	73.9	3.2	-57.3
Base money	36.5	33.0	19.6	24.9	1.6	31.0
Narrow base money	37.6	32.8	19.6	24.4	1.5	31.0
Currency in circulation	27.7	26.5	12.3	19.4	-6.2	19.6
In bank vaults	3.4	1.8	-0.7	-0.7	-0.4	0.1
Outside banks	24.3	24.7	13.0	20.0	-5.8	19.6
Deposits at the central bank	9.6	6.1	7.3	3.5	8.7	11.4
Private sector deposits	0.2	0.1	0.0	1.1	-0.7	0.0
Parastatal deposits	0.1	0.1	0.0	0.5	-0.3	0.0
Foreign currency deposits	-1.2	0.3	0.0	0.2	0.1	0.0
Import deposits	0.1	0.0	0.0	0.3	-0.1	0.0

Sources: Congolese authorities and IMF staff estimates and projections.

Table 4. Democratic Republic of the Congo: Balance of Payments Summary, 2008–15

	2008	2009	2010	2011	2012	2013	2014	2015
		Prel.			Projections			
				(Millions of dollars; unless otherwise indicated)				
Current account	-1,839	-1,123	-2,529	-2,832	-2,559	-2,115	-1,325	-1,245
Merchandise trade	-125	-578	-764	-730	-287	-297	412	587
Exports, f.o.b.	6,585	4,371	6,483	7,695	8,127	8,730	9,319	9,969
Of which: mining products								
Imports, f.o.b.	-6,711	-4,949	-7,247	-8,425	-8,414	-9,028	-8,907	-9,382
Of which: aid-related imports	-1,109	-1,329	-1,687	-1,740	-1,645	-1,494	-1,476	-1,357
Services	-1,624	-1,167	-1,638	-1,904	-1,966	-2,094	-2,001	-2,094
Receipts	522	650	615	627	656	798	852	911
Expenditure	-2,146	-1,817	-2,253	-2,531	-2,622	-2,892	-2,853	-3,005
Of which: aid-related imports	-205	-477	-612	-493	-456	-408	-403	-370
Income	-1,321	-779	-1,015	-1,074	-1,197	-676	-750	-821
Receipts	27	26	27	30	31	35	38	41
Expenditure	-1,348	-805	-1,042	-1,103	-1,228	-711	-788	-862
Of which: interest payments [1]	-493	-555	-70	-23	-27	-225	-262	-291
Current transfers	1,231	1,401	887	875	891	951	1,014	1,083
Of which: official aid	1,019	1,277	805	781	783	840	893	952
Capital and financial account	1,007	458	2,963	3,178	2,594	2,149	1,438	1,561
Capital account	145	144	1,078	754	640	697	722	748
Official	223	227	711	850	742	809	844	880
Private	-78	-83	-89	-96	-103	-112	-121	-132
Capital transfers (HIPC/MDRI)	…	…	8,541	…	…			
Of which: from IMF	…	…	456	…	…			
Debt stock reduction (HIPC/MDRI)	…	…	-8,086	…	…			
Financial account	862	314	1,885	2,424	1,955	1,452	716	813
Official capital	-455	-315	724	1,273	1,024	475	820	587
Gross disbursements	92	485	800	1,337	1,099	938	918	666
Scheduled amortization [2]	-547	-800	-76	-64	-75	-464	-99	-80
Private capital (net)	1,317	629	1,162	1,151	931	977	-104	227
Of which: Foreign direct investment	1,713	629	805	1,130	1,051	854	888	984
Other private non-banking sector [3]	-395	0	357	20	-120	123	-992	-757
Balance before errors and omissions	-832	-665	434	345	35	31	111	314
Errors and omissions	-115	-247	0	0	0	0	0	0
Overall balance	-946	-912	434	345	35	31	111	314
Financing	768	469	-5,174	-449	-136	-154	-238	-427
Net change in non-Fund arrears [4]	781	907	-4,465	0	0	0	0	0
Net banking sector reserves (increase = -)	-13	-438	-709	-449	-136	-154	-238	-427
Central bank	-52	8	-661	-355	-16	-126	-153	-332
Of which: net Fund credit	-137	154	-385	151	152	0	0	-52
Commercial banks	39	-445	-48	-94	-120	-28	-85	-95
Financing need before exceptional assistance	-178	-443	-4,740	-104	-101	-123	-128	-113
Exceptional financing	178	443	4,542	0	0	0	0	0
Consolidation of arrears	0	0	4,465	0	0	0	0	0
Debt relief [5]	178	443	78	0	0	0	0	0
Residual financing need (overfinancing = +)	0	0	-197.6	-104	-101	-123	-128	-113
				(Percent of GDP, unless otherwise indicated)				
Memorandum items:								
Debt service after debt relief (percent of exports of goods and services)	14.1	21.2	2.9	1.0	1.2	1.3	1.3	1.6
Current account balance (including official transfers, but before debt relief)	-15.9	-10.1	-20.0	-21.5	-18.0	-13.6	-7.9	-6.8
Current account balance (excluding official transfers and debt relief)	-24.6	-21.6	-26.4	-27.4	-23.5	-19.0	-13.2	-12.0
Current account balance (including official transfers and debt relief)	-14.3	-6.1	-19.4	-21.5	-18.0	-13.6	-7.9	-6.8
Current account balance (excluding official transfers, but including debt relief)	-23.1	-17.6	-25.7	-27.4	-23.5	-19.0	-13.2	-12.0
Gross official reserves (in millions of U.S. dollars)	78	999	1,257	1,359	1,649	1,927	2,080	2,360
Weeks of non-aid-related imports of goods and services	0.8	7.2	7.5	7.9	8.6	10.1	10.1	11.1

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

[1] Including interest due to the IMF.

[2] Excluding principal repayments to the IMF.

[3] Including unrecorded transactions. The latter may be substantial given weaknesses in statistics.

[4] Mainly arrears to Paris Club creditors.

[5] Including debt relief provided by the IMF and assumes HIPC Completion point by end June 2010.

Table 5. The Democratic Republic of the Congo: Tentative Schedule of Disbursements and Reviews Under the ECF Arrangement, 2010–12

Date	Disbursement	Conditions
June 30, 2010	SDR 49.493 million	Completion of first review, based on observance of performance criteria at end-December 2009.
December 31, 2010	SDR 49.493 million	Completion of second review, based on observance of performance criteria at end-June 2010.
June 30, 2011	SDR 49.493 million	Completion of third review, based on observance of performance criteria at end-December 2010.
December 31, 2011	SDR 49.493 million	Completion of fourth review, based on observance of performance criteria at end-June 2011.
June 30, 2012	SDR 49.493 million	Completion of fifth review, based on observance of performance criteria at end-December 2011.
December 15, 2012	SDR 49.492 million	Completion of sixth review, based on observance of performance criteria at end-June 2012.

Table 6. Democratic Republic of the Congo: Indicators of Capacity to Repay the Fund, 2010–22

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total obligations on existing and prospective credit [1]													
(In millions of SDRs)	37.5	0.4	1.3	1.5	1.5	33.9	62.7	82.3	96.9	83.4	55.0	35.1	15.2
Principal	37.1	0.0	0.0	0.0	0.0	32.4	61.3	81.1	95.9	82.6	54.4	34.6	14.8
Charges and interest [2]	0.4	0.0	1.0	1.1	1.2	1.1	1.0	0.8	0.6	0.4	0.2	0.1	0.0
(In millions of U.S. dollars)	57.5	0.5	2.0	2.3	2.3	52.1	96.1	126.2	148.7	127.9	84.4	53.8	23.4
In percent of exports of goods and services	0.8	0.0	0.0	0.0	0.0	0.5	0.8	1.0	1.1	0.9	0.6	0.3	0.1
In percent of GDP	0.5	0.0	0.0	0.0	0.0	0.3	0.5	0.6	0.6	0.5	0.3	0.2	0.1
In percent of quota	7.0	0.1	0.2	0.3	0.3	6.4	11.8	15.4	18.2	15.6	10.3	6.6	2.9
In percent of gross international reserves	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fund credit outstanding (end-period)													
In millions of SDRs	259.4	358.3	457.3	457.3	457.3	424.9	363.6	282.5	186.5	103.9	49.5	14.8	0.0
In millions of U.S. dollars	397.7	548.0	700.0	700.8	701.4	651.8	557.8	433.4	286.2	159.5	75.9	22.8	0.0
In percent of exports of goods and services	5.6	6.6	7.9	6.7	6.4	5.9	4.7	3.5	2.2	1.1	0.5	0.1	0.0
In percent of GDP	3.1	4.0	4.8	4.4	4.0	3.5	2.8	2.0	1.2	0.6	0.3	0.1	0.0
In percent of quota	95.7	67.2	85.8	85.8	85.8	79.7	68.2	53.0	35.0	19.5	9.3	2.8	0.0
In percent of total external debt	3.1	3.4	3.8	3.6	3.4	3.2	2.8	2.3	1.7	1.1	0.5	0.2	0.0
In percent of gross international reserves	32.1	41.5	44.2	37.5	34.3	32.5	27.2	19.9	12.4	0.1	0.0	0.0	0.0
Memorandum items													
Exports of goods and services (in millions of U.S. dollars)	7,097	8,322	8,782	9,529	10,171	10,880	12,029	12,753	13,440	14,191	14,977	15,791	16,633
Quota (in millions of SDRs)	533	533	533	533	533	533	533	533	533	533	533	533	533
Gross international reserves (in millions of U.S. dollars)	1,257	1,359	1,649	1,927	2,080	2,360	2,641	2,833	3,023	3,233	3,456	3,692	3,941

Sources: IMF staff estimates and projections.

[1] Assumes hypothetical achievement of the completion point under the enhanced HIPC and debt relief under the MDRI in mid-2010.

[2] Upon the effectiveness of the ammendments to the PRGT instrument, there is a temporary interest waiver through end-2011 on ECF outstanding obligations and drawings.

APPENDIX I
TRANSLATED FROM FRENCH

DEMOCRATIC REPUBLIC OF THE CONGO
LETTER OF INTENT

Kinshasa, June 15, 2010

Mr. Dominique Strauss-Kahn
Managing Director
The International Monetary Fund
Washington, D.C. 20431, U.S.A

Dear Mr. Managing Director

1. The Democratic Republic of the Congo continues to advance its socioeconomic development agenda, which is being supported by the international community. There has been good progress in fostering national reconciliation, restoring peace in the eastern provinces, and stabilizing the economy following the adverse effects of the global financial crisis. The Government also renegotiated the Sino-Congolese Cooperation Agreement (SCCA) involving large mining and investment projects to make it consistent with debt sustainability. Nevertheless, daunting challenges remain, including national calamities, persisting security issues in the northern and eastern provinces, and the implementation of the constitutionally mandated fiscal decentralization involving the provinces.

2. Despite these challenges, the Democratic Republic of the Congo implemented satisfactorily its economic program supported by the IMF's Extended Credit Facility (ECF). All quantitative performance criteria at end-December 2009 were observed, and almost all of the structural benchmarks were implemented, albeit with some delay. These policies and reforms helped stabilize the exchange rate, reduce inflation, and nurture economic growth.

3. The 2010 economic program aims to address the economic challenges facing the country consistent with the priorities set forth in our Poverty Reduction and Growth Strategy (PRGS). It focuses on enhancing macroeconomic stability, increasing investment in physical and human capital, and implementing structural reforms to strengthen public financial management, enhance central bank independence, and boost our economy's supply response. The policies and reforms to achieve the program's objectives are set out in the attached Memorandum of Economic and Financial Policies (MEFP). In this context, the government of Democratic Republic of the Congo requests the completion of the first review of the ECF arrangement.

4. We believe that the policies and reforms set forth in the attached MEFP are adequate to achieve our program's objectives. Nevertheless, we are committed to take any further measures that may prove necessary for achieving the program's objectives. During the

period covered by the three-year arrangement, the Democratic Republic of the Congo will consult with the staff of the IMF on the adoption of any additional measures deemed to be appropriate.

5. The Democratic Republic of the Congo will provide the IMF with any information it may request for monitoring the implementation of the program's economic and financial policies. Furthermore, the government will conduct with the IMF a subsequent review of the first annual program (covering the period January 2010–June 2010) no later than end-December 2010 and an initial review of the second year of the program (July 2010–June 2011) no later than end-June 2011. It intends to make the contents of this letter, the attached MEFP, the Technical Memorandum of Understanding (TMU), and the related IMF staff report available to the public. Therefore, it authorizes the Fund to publish these documents on its website once the Executive Board concludes the first review of the ECF arrangement.

Sincerely yours

_______/s/_______

Adolphe Muzito
Prime Minister

Attachments: Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding

APPENDIX I
ATTACHMENT I
TRANSLATED FROM FRENCH

DEMOCRATIC REPUBLIC OF THE CONGO
MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES, 2009–12

Kinshasa, June 15, 2010

I. INTRODUCTION

1. This memorandum describes the economic and financial policies as well as the structural reforms that the Government intends to implement in its program supported by an arrangement under the Extended Credit Facility (ECF) of the International Monetary Fund (IMF) for the remaining period July 2010 to June 2012. Through this program, the Government is pursuing efforts to reestablish the conditions for lasting political, economic, and social stability. In particular, the proposed policies and reforms aim to address the legacy of decades of poor economic management, armed conflicts, corruption, and disregard for the rule of law.

II. RECENT ECONOMIC DEVELOPMENTS

2. The global financial crisis weakened macroeconomic performance. Real GDP growth is estimated to have declined from 6.2 percent in 2008 to 2.8 percent in 2009 owing to weak mining and tertiary sector activities. Year-on-year inflation rose from 27.6 percent at end-2008, to 53.4 percent by end-2009 in response to a weakening of the Congolese franc against the U.S. dollar as exports declined sharply. However, annualized inflation declined to 15 percent at end-April owing to a tightening of monetary policy in late 2009 and a supportive fiscal policy. The external current account deficit narrowed by 6 percentage points of GDP, reflecting largely lower profit repatriation because of weak mining activity and higher official transfers. The special and general SDR allocations together with external budget support boosted international reserves to US$1 billion at end-2009, up from US$78 million at end-2008.

3. Despite unfavorable economic conditions, the Government maintained macroeconomic discipline. It limited the 2009 domestic fiscal deficit to 2.5 percent of GDP compared to a programmed deficit of 3.1 percent of GDP. As a result, the Government reduced its net credit from the banking system despite delays in the disbursement of foreign assistance (equivalent to 0.8 percent of GDP) and of the second tranche of the SCCA signing bonus (1.1 percent of GDP). Fiscal performance remained strong through the second quarter of 2010. The recovery in the mining sector and continued improvements in tax administration boosted revenue—mainly income tax and nontax revenues—by 0.7 percentage points of GDP above program projection. Two-thirds of the revenue overage was used to finance additional security-related spending and the front loading of capital spending for infrastructure in the context of the preparation of the 50th anniversary of the country's independence. The other third was used to reduce net credit to government from the banking system.

4. Prudent monetary policy helped reduce inflation. The Central Bank of Congo (BCC) stepped up sales of central bank bills and raised its policy rate to 70 percent during the second half of 2009. However, the lack of coordination between the BCC and the Treasury in liquidity management resulted in marginally higher-than-programmed base money growth at end-year (24.9 percent instead of programmed 19.6 percent). Nevertheless, continued prudent monetary policy supported by improved fiscal policy contributed to a significant disinflation during the first four months of 2010. In view of this, the BCC reduced its policy rate in three steps to 42 percent between March and May 2010.

5. Program performance was satisfactory. All quantitative performance criteria and indicative targets through end-December 2009 were observed, except for the indicative targets on base money and wage arrears (MEFP, Table I.1).[1] Moreover, although three out of ten quantitative indicative targets—net foreign assets, net domestic assets, and base money—were not observed at end-March 2010, the deviations were relatively small and corrective measures have been taken to ensure that the program remains on track. In particular, in April the BCC increased its purchases of foreign exchange from commercial banks and sales of central bank bills. On the structural front, we observed almost all of the benchmarks, albeit with some delay. The restructuring of a large commercial bank with systemic importance is requiring more time than originally envisaged, and the central bank, in consultation with the IMF's Monetary and Capital Markets department, launched the restructuring process in May 2010, which is expected to be completed before the end of the year. Regarding the benchmark on government submission to parliament of an organic budget law, upon judicial review it was determined that an "organic" law is inconsistent with the Constitution, including the provision related to the prohibition of borrowing by provinces. As a result, in March 2010 the Government submitted to parliament a budget finance law, consistent with the Constitution. The continuous structural benchmark regarding the timely production of fiscal accounts without foreign financing spending was observed beginning in June 2010 because of the impact of the December 2009 civil service strike that hampered the proper functioning of the expenditure management chain. However, the continuous structural benchmark regarding the timely production of fiscal accounts with foreign financing spending was not observed because of difficulties in obtaining information on several foreign financed projects.

---

[1] The accumulation of wage arrears vis-à-vis diplomats based overseas during the last quarter of the year amounted to CGF 2 billion or 0.4 percent of the total wage bill. This was because wage payments to diplomats are done outside the automated system in place for all other civil servants.

III. Economic and Financial Policies for the Remainder of 2010

A. Macroeconomic framework

6. The Democratic Republic of the Congo's economic objectives remain broadly unchanged from those set out in the November 2009 MEFP. The firming up of international commodity prices and increased investment (including that under the SCCA) are expected to support real GDP growth of 5.4 percent in 2010. Year-on-year inflation is targeted to fall to 15 percent supported by prudent macroeconomic policies. The external current account deficit is projected to widen mainly because of higher investment-related imports financed largely by development assistance and foreign direct investment. Gross international reserves are targeted to reach US$1.2 billion (or the equivalent of 7.5 weeks of non-aid imports).

B. Macroeconomic policies

7. The government's fiscal policy remains focused on curtailing government recourse to central bank financing. The domestic fiscal balance is targeted at 1.0 percent of GDP (0.3 percentage points lower than originally programmed), implying 1.5 percentage point of GDP reduction in net credit to the government.[2]

8. Revenue mobilization remains a key pillar of the program. The objective is to raise the ratio of domestic revenue (excluding the signing bonus under the SCCA) from 15.8 percent of GDP in 2009 to 18.1 percent in 2010 (1.4 percentage points of GDP higher than programmed). This will be facilitated by the stronger than programmed revenue performance realized during the first quarter of 2010, as well as by new policy measures. Regarding the latter, the Government: (i) is aligning the reference fuel prices for taxation purposes with world market prices (0.3 percentage points of GDP); (ii) is enforcing the payment of personal income taxes by political institutions (0.2 percentage points of GDP); and (iii) eliminated ad hoc income tax and tariff exemptions (0.2 percentage points of GDP). The Government's policy is to save all revenue beyond that projected under the program, including the second tranche of the SCCA signing bonus, and we will consult with IMF staff before considering the use of such revenues.

9. The Government will implement a prudent expenditure policy while creating the fiscal space for priority programs. It will limit domestically financed spending to 19.1 percent of GDP, about 1 percentage point of GDP higher than in the original program. While the wage bill and expenditure on goods and services will remain broadly unchanged, we have decided to reduce domestically financed investment (by 0.6 percentage points of GDP) to make room for higher spending on the preparation for 2011 presidential elections and national security. We believe, however, that the impact of lower domestically financed government investment will be minimal given the low project implementation rate and the large investment program under the SCCA

---

[2] In order to compare original program projection figures (in percent of GDP) with the outturn, the original program projection figures were rebased using the new GDP estimate for 2010.

(equivalent to 5.6 percent of GDP). The revised program for 2010 also provides for: (i) a larger-than-envisaged central bank deficit on account of the higher than expected cost of monetary policy (0.3 percent of GDP); (ii) the repayment of government obligations to a systemically important commercial bank that is being restructured (0.2 percent of GDP); and (iii) the repayment of arrears in transfers to the provinces and the tax collection agencies (0.4 percent of GDP). Ongoing reforms to bolster expenditure management will help ensure strict adherence to the revised expenditure policy.

10. To ensure the long-term sustainability of its external debt, the central government, local governments and the BCC are committed to a prudent external debt management policy. It will rely on grants and highly concessional loans with a grant element exceeding 35 percent for financing projects with the highest social and economic rates of return. The government will refrain from contracting or guaranteeing new debt that would jeopardize debt sustainability and will consult with Fund staff prior to making any such commitments or guarantees.

11. The primary objective of monetary policy in 2010 is to reduce further inflation. The growth of base money is targeted at 31 percent in 2010, in line with the expansion of nominal GDP. The BCC will maintain a prudent monetary policy and a positive real policy interest rate. It will continue to rely on the sale of central bank bills to manage liquidity. Further, it will limit intervention in the foreign exchange market to smoothing short-term exchange rate volatility in line with the floating exchange rate regime and the BCC's foreign reserve target.

C. Structural reforms

12. Structural reforms will continue to focus on modernizing tax and customs administration, strengthening public financial management (PFM), restructuring and recapitalizing the BCC, and enhancing the economy's supply response. The detailed and updated measures and their timetable are provided in the attached Matrix of Economic and Financial Policy Measures.

13. Modernizing tax and customs administration and PFM remains a priority in 2010. On tax administration, key reforms envisaged include the adoption of a value added tax (VAT) law, expansion of one-stop customs widows, and establishing new tax centers in key provinces for medium-sized enterprises in anticipation of the introduction of the VAT in 2012. On PFM, the modernization of the expenditure management system will be guaranteed by the adoption by end-December 2010 of a new finance law, which will trigger a series of reforms, at both the central and provincial levels, that will help streamline budget planning, execution and monitoring. The law will also define the devolution of functions, and their modalities, from the central government to provinces while taking into account the PFM capacities of provinces. The law will also define the modalities of transfer to provinces of national resources. It also envisages strict borrowing limits to help avoid loss of fiscal control and excessive borrowing. With the adoption and implementation of a new procurement code, the Government aims at improving transparency of public spending.

14. Financial sector reforms will focus on reinforcing the BCC's role and independence in implementing monetary policy and strengthening banking supervision. Given that the first steps of reorganizing/restructuring of the BCC have been achieved (i.e., the appointment of all general directors and the establishment of new organic units in line with the organizational structure developed with technical assistance from the IMF's MCM department), the focus will be on privatizing the Mint and the BCC hospital and rationalizing the BCC's pension system. Progress on these fronts will help reduce the operational costs of the BCC. Further, the groundwork for recapitalizing the BCC is underway and we expect to submit the recapitalization law to Parliament by end-September 2010. On the other front, the focus will be on restructuring weak commercial banks, which is essential for enhancing financial intermediation, and strengthening banking supervision. With the completion of central bank audits of nine key banks, the BCC will develop restructuring plans for those considered most fragile with regard to their prudential ratios.

15. Reforms to improve the economy's supply response are critical for strengthening economic growth and reducing poverty. The Government is finalizing its work on advancing the ongoing reform of public enterprises, especially those that provide growth-critical services. In this context, we are also in the process developing plans to minimize the social cost of the restructuring, of enterprises, especially on public enterprise employees. The Government is also improving governance and the business climate through enhancing property rights protection by harmonizing domestic regulations with those under the OHADA protocol and adhering to the Extractive Industries Transparency Initiative.

D. Program monitoring and related issues

16. The monitoring of the program will continue to be carried out based on semiannual reviews of quantitative performance criteria and quarterly indicative targets while structural reforms will be assessed in the context of semiannual reviews (Tables 1 and 2). The revised program establishes performance criteria for end-December 2010 and indicative targets for end-September 2010. The end-June 2010 quantitative performance criteria and benchmarks remain unchanged from those established in the November 2009 MEFP. The second review is expected to be completed by end-December 2010 and the third review by end-June 2011. The attached TMU provides the definitions and adjustors relevant for the quantitative performance criteria and benchmarks from July 1, 2010 onwards. The TMU accompanying the November 2009 MEFP remains applicable to the quantitative performance criteria and indicative targets through end-June 2010. A safeguards updates assessment was completed in April 2010, as required under the IMF's safeguards policy. The authorities provided to staff an audit report of selected performance criteria. In addition, the BCC drafted an action plan to implement International Financial Regulation Standards, which is expected to be adopted in December 2010.

17. The Government will reinforce its monitoring mechanism through extensive inter-department consultation and exchange of information, under the supervision of the Prime Minister's Office, as outlined in its November 2009 MEFP.

18. The Government has recently completed an update on the implementation its first PRGS. It is also in process of preparing a second generation PRGS. It launched the process in March 2010 and the work is expected to be completed by end-2010.

Sincerely yours,

________/s/_________	________/s/_________	__________/s/_____________
Mapon Matata Ponyo Minister of Finance	Jean-Baptiste Ntwawa Minister of Budget	Jean-Claude Masangu Mulongo BCC Governor

Table I.1. Democratic Republic of the Congo: Quarterly Quantitative Performance Criteria and Indicative Targets, 2009 - 2010

(CGF Millions, unless otherwise indicated)

	2008	2009 Cumulative change[2]					2009	2010 Cumulative change[3,4]										2010
	Stock Dec.	Dec.					Stock Dec.	March					June	Sept.		Dec.		Stock Dec.
	Prel	Perf. Criteria	Perf. Criteria Adj.	Act	Difference	Obesrvation	Act.	Indicative	Indicative Adj.	Act.	Difference	Obesrvation	Perf. Criteria	Indicative	Rev.	Indicative	Perf. Criteria	Prog
Performance criteria																		
Floor on net foreign assets of the BCC [5] (U.S.$ millions)	-610	35	-109	-3	106	Observed	-613	0	37	15	-22	Not Observed	451	516	545	497	648	34
Ceiling on net domestic assets of the BCC [5]	773,772	51,343	155,070	95,545	-59,525	Observed	869,089	4,307	-29,945	-1,748	28,196	Not Observed	-260,923	-286,205	-266,497	-217,169	-266,056	603,033
Ceiling on net bank credit to government	262,875	-105,837	-2,110	-80,522	-78,412	Observed	182,353	-34,776	-69,027	-114,539	-45,511	Observed	-23,242	15,920	-111,982	0	-183,140	-787
Ceiling on the contracting or guaranteeing of new nonconcessional external debt with original maturity of more than one year by the government, including the EADs or the BCC [6]	…	0	0	0	0	Observed	…	0		0	…	…	0	0	0	0	0	0
Ceiling on the contracting or guaranteeing of new nonconcessional external debt with original maturity of less than one year by the government, and loans contracted by the EADs or the BCC [6]	…	0		0	0	Observed	…	0		…	…	…	0	0	0	0	0	0
BCC payments of government expenditure (including urgent in nature) without authorization according to proper budgetary procedures by the ministries of finance and budget [6]	…	0		0	0	Observed	…	0		…	…	…	0	0	0	0	0	0
Accumulation of External payments arrears[6]	…	0		0	0	Observed	…	0		0	…	…	0	0	0	0	0	0
Indicative targets																		
Narrow base money	378,098	75,016	75,016	93,624	18,608	Not Observed	471,722	4,448	4,448	7,393	2,945	Not Observed	27,717	44,130	82,269	101,005	148,586	620,308
Domestic balance (cumulative from the beginning of the year)		-285,251	…	-226,761	58,490	Observed		55,623	…	78,129	22,506	Observed	79,117	-57,794	-3,776	-153,960	-116,768	…
Accumulation of wage arrears		0		2	2	Not Observed		0		…	…	…	0	0	0	0	0	
morandum items:																		
roject deposits	13,976	0	0	-4,460	-4,460		9,516	0	0	-13,976	-13,976		0	0	0	0	0	11,661
alance of payments support (U.S. dollars, millions)		174	…	122	-52	…	…	-37	…	0	37	…	378	341	568	583	647	…
Programmed foreign assistance[7]		359	…	187	-173	…	…	0	…	12	12	…	451	451	678	730	793	…
Programmed external debt service payments		185	…	65	-120	…	…	37	…	12	-25	…	74	110	110	147	146	…
igning bonus from the Sino-congolese Cooperation Agreement (U.S. dollars, millions)		250	…	125	-125	…	…	0	…	0	0	…	0	0	0	0	125	…
rivatization proceeds (U.S. dollars, millions)		45	…	72	27	…	…	0	…	0	0	…	0	0	0	0	0	…

Source: Congolese authorities and IMF staff estimates and projections.

[1] For definition and adjustors see the attached Program Monitoring Section of Memorandum of Economic and Financial Polices and the Technical Memorandum of Understanding.
[2] Cumulative changes are calculated from end-December 2008.
[3] Cumulative changes are calculated from end-December 2009.
[4] The performance criteria and indicative targets for end-June and March 2010 are those established in EBS/09/191 (11/30/2009).
[5] The stocks of net foreign assets and net domestic assets of the BCC are valued at the program exchange rates (US$1 = CGF 639.32; and 1 Euro = 905.07).
[6] These performance criteria will be monitored on a continuous basis.
[7] Non U.S. dollar denominated balance of payment support is valued at program exchange rates.

Table I.2a. The Democratic Republic of the Congo: Structural Benchmarks, 2009–10

Measure	Test dates	Status
Restructuring one large commercial bank [1/]	End-Dec. 2009	Observed with a delay; end-May 2010.
Adoption by the Council of Ministers of an action plan prepared by the committee responsible for assessing tax incentives and exemptions granted under the mining code, investment code, and special convention.	End-Dec. 2009	Observed with a delay; March 2010.
Implementation of ASYCUDA++ in the customs offices in Kinshasa	End- Dec. 2009	Observed.
Repayment plan for 2008 arrears based the internal audit of the Inspection General des Finances and establish a plan to identify and audit of any remaining government arrears.	End- Feb. 2010	Observed with a delay; March 2010.
Submission to Parliament of a draft organic law on public finance that *inter alia* prohibits provinces from borrowing from commercial banks and the Central Bank.	End-March 2010	Observed; Budget Finance Law without restrictions on provincial borrowing was submitted to parliament, in line with the constitution.
Generation and publishing of a monthly budget execution tables (reconciled with the TOFE, the BCC, and the monetary statistics), no later than 30 days after the end of each month.	Continuous	Observed with a delay; starting from June 1, 2010.
Inclusion of externally financed expenditure in the monthly budget execution tables (reconciled with the TOFE, the BCC, and the monetary statistics), no later than 3 months after the end of each month.	Continuous	Not observed
Publication of mining sector partnership contracts between public and private enterprises with 60 days of signature (including information on signing bonuses, taxation system, private shareholders, and members of the board of directors).	Continuous	Observed.
No payment by the BCC of expenditures on behalf of the government (including urgent expenditure payments) without prior authorization by the Minister of Finance in accordance with existing legislation.	Continuous	Observed.

Source: Congolese authorities; and IMF staff assessments.

[1/] IMF staff and authorities agreed to postpone implementation of this measure, while awaiting the recommendations of the January/February 2010 MCM mission.

Table I.2b.The Democratic Republic of the Congo: Structural Conditionality and Macroeconomic Relevance, July–December 2010

Measure	Test date	Macroeconomic Rational
Prior Actions		
Adoption by the Parliament and promulgation of the law introducing a modern single-rate VAT.	End-December 2010	Enhance revenue mobilization to achieve the fiscal objectives of the program.
Establishment of the Kasumbalesa one-stop customs window.	End-July 20101	Enhance revenue mobilization to achieve the fiscal objectives of the program while reducing cost of doing business.
Increase the border fuel price for taxation purposes (PMFF) to at least one-third of the commercial price (PMFC) of fuel imports starting from June 2010, the authorities will gradually reduce the gap in order to reach the target by end-November 2010.	End-November 2010	Reduce distortions in relative prices and limit revenue losses.
Adoption by the Parliament and promulgation of the law on government finance.	End-December 2010	Develop a rule-based public financial management.
Submission to Parliament of the draft law on the recapitalization of the BCC.	End-October 2010	Enhance the independence of the central bank.
Generation and publishing of a monthly budget execution tables (reconciled with the TOFE, the BCC, and the monetary statistics), no later than 30 days after the end of each month.	Continuous	Strengthen the monitoring of the program.
Inclusion of externally financed expenditure (excluding exceptional spending) in the monthly budget execution tables (reconciled with the TOFE, the BCC, and the monetary statistics), no later than 3 months after the end of each month.	Continuous	Strengthen the monitoring of the program.
Publication of mining sector partnership contracts between public and private enterprises with 60 days of signature (including urgent expenditure payments) without prior authorization by the Minister of Finance in accordance with existing legislation.	Continuous	Enhance economic governance and ensure accountability for public resources management.
No payment by the BCC of expenditures on behalf of the government (including urgent expenditure payments) without prior authorization by the Minister of Finance in accordance with existing legislation.	Continuous	Improve economic governance and public financial management.

Source: Congolese authorities; and IMF staff assessments.

DEMOCRATIC REPUBLIC OF THE CONGO

Matrix of Economic and Financial Policy Measures, 2009 to 2011

Sector		Measures	Timetable
I. Tax and budgetary policies and reforms			
A. Tax policy		**Objective: Modernize the tax system**	
	1.	Reduce the number of low-yielding taxes: • Adoption by the Council of Ministers of the report on identifying low-yielding taxes. • Submit to the Parliament draft laws on the elimination of these taxes.	 Done. End-June 2010.
	2.	Limit tax and customs incentives and exemptions: • Establish a commission to evaluate the tax incentives and exemptions in the mining. • Adoption by the Council of Ministers of the action plan, which is elaborated by the Commission in charge of evaluation of incentives and fiscal exemptions, granted in the framework of the Mining Code, Investment Code and special conventions. **(structural benchmark)** • Refrain from granting or renewing discretionary tax incentives and exemptions outside the investment.	 Done. Done. Continuous.
	3.	Reduce the number of nuisance charges and border levies: • Produce a report identifying para fiscal taxes and border fees, without a quid pro quo, and adopt an action plan to eliminate them. • Implement the action plan.	 End-December 2009; delayed to end-July 2010. End-December 2010.
	4.	Implement a VAT: • Adopt and enact the draft law establishing the modern Single-rate VAT **(Structural benchmark)**. • Collect the first VAT tax returns from businesses by the DGI.	 End-December 2010 End-January 2012
	5.	Implement the new Customs Code: • Adoption by the Council of Ministers. • Submission to the Parliament. • Promulgation by the President.	 Done. Done. End-December 2010.
B. Customs administration		**Objective: Modernize customs administration**	
	1.	Transfer customs activities from the Congolese Office of Control (OCC) to General Directorate of Import and Excise Duties (DGDA): • Adoption by the Council of Ministers of the new statutes of the OCC and DGDA. • Modify the decree which determines the number of services operating at borders.	 Done. End-December 2010.

Sector		Measures	Timetable
	2.	Issuance by the Prime Minister of a decree to convert DGDA into a Directorate-General of Customs reporting to the Ministry of Finance.	Done.
	3.	Strengthen the rules requiring pre-inspection of imports by BIVAC; for goods not yet subject to pre-inspection, DGDA will determine their value by using the BIVAC database.	Done.
	4.	Implement ASYCUDA++ in all customs offices where the volume and type of trade justify it: • At Kinshasa. (**structural benchmark**) • At other customs office that account for either a minimum of 5 percent of imports (CIF value) or a minimum of 10 percent of transit (CIF value).	 Done. End-December 2011.
	5.	Introduce the one-stop window at all customs offices: • Set up a one-stop window at Kasumbalesa (**structural benchmark**). • Set up a one-stop window at all other customs offices.	 End-July 2010 End-December 2011.
C. Tax administration		**Objective: Strengthen tax administration**	
	1.	Merge the DGRAD with the DGI: • Set up an independent commission to study the advisability and feasibility of merging the DGRAD with the DGI. • Adopt the report on the advisability and feasibility of merging the DGRAD with the DGI.	 Done. End-September 2010.
	2.	Extend the use of the new single tax identification number (NIF) to all provinces.	End-December 2010.
	3.	Transfer all enterprises that meet the eligibility criteria to the DGE portfolio.	Done.
	4.	Establish tax centers (CDIs) in all provinces to manage medium-sized enterprises: • Establish three CDIs: Bas Congo, Nord Kivu and Sud Kivu. • Establish CDIs in all other provinces.	 End-December 2010 (ongoing). End-December 2011.
	5.	Finalize a study on the feasibility of implementing a computerized revenue system.	End -March 2011.
D. Collection of mining taxes		**Objective: Increase revenues from the mining sector**	

Sector		Measures	Timetable
	1.	Strengthen tax administration in the mining sector: • Strengthen the capacity of the specialized unit, including by means of agreements with specialized audit companies and international consulting firms. • Submit to Parliament draft legislation to transfer all responsibility for tax administration in the mining sector from the DGRAD to the new specialized unit in the DGE, which becomes responsible for internal assessment, in keeping with international best practice, for the audit and collection of all taxes, fees, and royalties from the major mining companies.	 End-June 2010. End-October 2011.
	2.	Starting in July 2009, conduct annual audits by the Inspectorate General of Finance, six months after the year in question, to verify that all tax revenue paid by the mining companies have, in fact, been transferred to the general account of the Treasury.	End-December 2010.
	3.	In the context of strengthening the capacity of OFIDA, establish centers of expertise for the principal mining exports at Kasumbalesa, Sakania, Katanga, Goma and Bukavu.	End-June 2011.
	4.	Strengthen monitoring of oil producers by subjecting them to regular inspections (at least once a year) to check the information contained in their declarations to the DGRAD and the DGI.	Continuous.
E. Management of public finances		**Objective: Strengthen the management of public finances**	
		Adoption by the government of an action plan on reforms of public finances.	Done.
(i) Legal and institutional aspects	1.	Law on public finances • Submit to the Parliament the draft legislation. • Adoption the by Parliament and promulgation of by the President (**Structural benchmark**). • Adopt by the Council of Ministers decrees to implement the law.	 Done. Done End-March 2011.
	2.	Adoption by the Council of Ministers of an action plan to transfer areas of responsibility between the central government and the provinces.	End of December 2010.
	3.	Submit to the Parliament the draft audit report by the Audit Office on the 2008 budget implementation.	Done.
	4.	Adoption by parliament and promulgation by the President of the new Public Procurement Code and its implementing regulations: Adopt and promulgate the law related to public procurement. Sign the regulation.	 Done. End-June 2010.
	5.	Reform the financing of tax collection agencies: • Eliminate transfers to the three government tax collection agencies and replace them with budget appropriations.	 Done.

Sector		Measures	Timetable
		• Replace performance bonuses with budget appropriations covering operating and capital costs and with incentives for officials in the tax collection agencies.	End-January 2011.
	6.	Approve of general regulations on government accounting.	End-December 2010.
	7.	Submit to the Parliament a draft organic law on the Audit Office.	End-December 2010.
	7.	Review the regulatory framework of the Office of the Inspectorate General of Finance.	End-December 2010.
(ii) Budget preparation	1.	Develop a medium-term budget framework: • For the Ministry of Health and the Ministry of Education. • In all ministries, in close cooperation with sector ministries.	 End-September 2010. End-December 2012.
(iii) Budget execution	1.	Publish a decree by the Minister of Finance to oblige the government to pay resident suppliers in the DRC in local currency.	Done.
	2.	Conduct an audit of all accounts of government entities at the BCC and at commercial banks.	End-December 2010.
	3.	Strengthen the computerized expenditure process by improving the software and updating the hardware.	End-March 2011.
	4.	Regularize domestic arrears: • Prepare a plan to repay accumulated arrears as of the end of 2008, based on the audit done by the Office of the Inspector-General of Finance. (**structural benchmark**) • Carry out the action plan to repay accumulated arrears as of the end of 2008 gradually.	 Done. End-January 2011.
	5.	Limit the use of the extraordinary expenses procedure: • Comply rigorously with the decree of December 2008, and halt the use of discretionary disbursements. • Implement a strategy to incorporate the procedure for making urgent expenditures within the computerized expenditure cycle.	 Done. Done.
	6.	Draw up a disbursement plan that conforms to the cash-flow plan.	Continuous.
(iv) Accounting system and budget reports	1.	Finalize the implementation of double-entry bookkeeping at the Directorate of the Treasury in the Ministry of Finance and expand it to all revenue collection agencies.	End of December 2010.
	2.	Production and publication of monthly tables (**structural benchmark**): • Generate and publish monthly budget execution tables (reconciled with the TOFE, the BCC, and the monetary statistics), no later than 30 days after the end of each month. • Include externally financed expenditures (excluding exceptional spending) in the monthly budget execution tables (reconciled with the TOFE, the BCC, and the monetary statistics), no later than 3 months after the end of each month.	 Continuous. Continuous.

Sector		Measures	Timetable
(v) Payroll administration	1.	Extend the Simplified Transitional System (PTS) for the payroll to: • all public officials and government employees • all provinces	 End-December 2010. End-December 2010.
	2.	Harmonize the various civil service payroll administration systems, particularly by revising the salary schedules established under those systems.	End-December 2010.
		II. Monetary and financial policy	
A. Reform of the central bank		**Objective: Make the central bank independent and efficient**	
(i) Restructuring of the central bank	1.	**Restructure the National Mint** • Evaluate assets of the Mint (building, equipment, human resources). • Create the restructuring committee of the Mint. • Adoption of a restructuring action plan. • Restructure the Mint.	 End-June 2011. End-May 2010. End-June 2010. End-June 2011.
	2.	**Restructure (privatize) the central bank hospital:** • Create the restructuring committee of the hospital. • Adoption of a restructuring action plan. • Restructure the hospital.	 End-May 2010. End-June 2010 End - June 2011.
	3.	Reorganize the pension plan: • Close off access to the old pension plan, so that it no longer applies to staff members who are in active service or to new staff. • Appoint a pension committee. • Inform all central bank staff about the main features of the new pension plan. • Administer the new pension plan and manage its investments.	 End-January 2011. End-March 2011. End-July 2011. End-July 2011.
(ii) Recapitalization of the central bank	1.	Adopt by the Council of Ministers the action plan to recapitalize the central bank based on the recommendations of the IMF technical assistance mission.	End-July 2010.
	2.	Submit to the Parliament the draft law on the recapitalization of the central bank.	End-October 2010.
	3.	Adoption by the Council of Ministers of the budget needed to recapitalize the central bank by issuing government securities. Interest rates and maturities remain to be determined, depending on market conditions.	End-November 2010.
	4.	Recapitalize the central bank.	End-June 2011.
B. Monetary policy		**Objective: Strengthen the central bank's capacity to devise monetary and exchange policy**	
(i) Issuing of currency, and quality of currency in circulation	1.	Increase the banknote processing capacity to 100 percent by allocating the necessary resources to the Treasury Directorate: • 40 percent; • 70 percent; • 100 percent.	2009 to 2011 End-June 2010. End-December 2010. End -June 2011.

Sector		Measures	Timetable
	2.	Adopt a 3-year strategy to reform the currency issuance function in the provinces, to improve the quality of currency in circulation, in coordination with assistance from the IMF expert.	Done.
	3.	Issue coins in 2011 in accordance with the strategy developed with the assistance of the IMF expert.	End-June 2011.
(ii) Foreign exchange operations	1.	Hold regular foreign exchange auctions and publish advance notices on the Internet to maintain a continuing presence on the foreign exchange market and assure the transparency of market operations.	Ongoing (done).
C. Banking supervision; banking system		**Objective: Strengthen banking supervision capacity and improve the health of the banking system**	
(i) Banking supervision	1.	Implement a new matrix of sanctions for noncompliance with the banking supervision regulations.	End - June 2010.
(ii) Banking system	1.	Perform audits to assess the quality of the loan portfolio of all remaining banks, and establish a plan to restructure or recapitalize them.	End-May 2010.
	2.	Adopt a strategy to improve the health of commercial banks based on the results of the March 2009 assessment undertaken with technical assistance from IMF and World Bank experts.	Done.
	3.	Restructure a major commercial bank.	Initial steps taken by end-May 2010.
D. Accounting and transparency		**Objective: Improve accounting and transparency**	
(i) Accounting and audit operations	1.	Approve by the central bank's board of directors an action plan to adopt and implement International Financial Reporting Standards (IFRS).	End-December 2010.
(ii) Transparency and communica-tions	1.	Not later than six months after the end of the financial year, publish the central bank's financial statements and audit reports, including the auditor's opinion.	Continuous.
		III. Other structural reforms	
A. Civil service	1.	Complete the survey of the civil service.	End-December 2011.
	2.	Complete the survey of the army and the police.	End-December 2011.
B. Business climate	1.	Send to Parliament the OHADA membership treaty.	Done.
	2.	Adopt by the government a commercial cod project, which allows eliminating all tariff and nontariff barriers that are not consistent with the international agreements ratified by the DRC.	End-November 2010**.**
	3.	Submit to Parliament a draft law on liberalizing the insurance sector.	End-November 2010.
	4.	Set up commercial courts in: • the cities of Kisangani and Matadi; • the remaining provinces.	 End-December 2010. End-December 2011.

Sector		Measures	Timetable
C. Political Decentralization	1.	Implement the 40-percent revenue transfer formula: • transition period; • implementation.	 Done. Done.
(i) Classification of levies and charges for the provinces and ETDs	1.	Submit to Parliament a draft law on the classification of levies and charges for the provinces and decentralized territorial entities (ETDs).	End-November 2010.
(ii) Strengthen the management of public finances at the provincial level	1.	Simplify the budget classification of provincial administrations: • Revise the revenue and expenditure classification system. • Introduce a simplified classification system for the 2012 budget law for the provinces.	 End-November 2010. End-December 2011.
	2.	Develop and approve an action plan to strengthen capacity for the management of public finances at the provincial level.	End-September 2010.
	3.	In all provinces, implement a computerized expenditure process and link it to the central government's expenditure process.	End-December 2010.
D. Debt management	1.	Execute the action plan for effective implementation of the decree that centralizes external debt management in the DGDP including all information concerning public debt as well as all application measures.	End-December 2011.
	2.	Effectively collect and centralize data on internal and external public debt in the DGDP.	End-December 2010.
E. Transparency	1.	Publication within 60 days: • Of mining sector partnership contracts between public and private enterprises (including information on signing bonuses, taxation system, private shareholders, and members of the board of directors. (**structural benchmark**) • Of the negotiation results between mining companies and the government regarding the review of mining contracts.	 Continuous. Done.
	2.	Implement the Extractive Industries Transparency Initiative (EITI).	End-September 2010.
	3.	Establish an independent watchdog agency on corruption: Prepare and adopt the draft law to establish an independent watchdog agency on corruption. Submit to the Parliament by the Government the draft law.	 End-October 2010. End-November 2010.
F. Statistics	1.	Submission by the government of the draft statistics law to the Parliament.	Adopted by the government in January 2010.
	2.	Revision of national accounts statistics: • Finalize the estimated national accounts data (SNA 1993) for 2005 and 2006. • Finalize the estimated national accounts data (SNA 1993) for 2007. • Finalize the estimated national accounts data (SNA 1993) for 2008.	 Done. End-September 2010. End-December 2010.

Sector		Measures	Timetable
		• Have the government adopt the national accounts in accordance with SNA 1993.	End-March 2011.
	3.	Finalization and adoption by the government the national statistical development strategy (SNDS).	End-September 2010.
G. Reform of State enterprises	1.	Develop and submit to the Council of Ministers the social programs for the targeted enterprises: • SNCC and REGIDESO. • SNEL. • ONATRA and RVA.	End-July 2010 Done. End-December 2010. End-June 2011.
	2.	Evaluate cross-debts between the government and State enterprises, and between State enterprises: • Select the consultant. • Complete the evaluation report. • Adopt the action plan by the government.	 Done. End-November 2010. End-December 2010.

APPENDIX I
ATTACHMENT II
TRANSLATED FROM FRENCH

DEMOCRATIC REPUBLIC OF THE CONGO
TECHNICAL MEMORANDUM OF UNDERSTANDING
ON PROGRAM IMPLEMENTATION

Kinshasa, June 15, 2010

1. This memorandum updates the Technical Memorandum of Understanding (TMU) accompanying EBS/09/191. It defines the quantitative targets that will be used to assess the performance by the Democratic Republic of the Congo under the program supported by the Extended Credit Facility (ECF). It also specifies the content and frequency of the data needed for program monitoring. The updated TMU is applicable from July 1, 2010 onwards while that accompanying EBS/09/191 will continue to apply until June 30, 2010, including the definitions of the quantitative targets and adjustors. Unless otherwise indicated, all the quantitative targets are measured in terms of cumulative changes since the beginning of the year (January 1). Variables denominated in U.S. dollars will be converted to Congo francs by using the program exchange rate of CGF 639.32 per U.S. dollar. Variables denominated in currencies other than the U.S. dollar (excluding the SDRs and Euro) will first be converted to U.S. dollars at the end-period US$/currency exchange rate. Variables denominated in SDR will be valued at the program exchange rate of CGF 994.02 per SDR. Variables denominated in euro will be valued at the program exchange rate of CGF 905.07 per Euro.

2. **Institutional coverage: The central government** comprises all units of government that exercise authority over the entire economic territory. However, unless otherwise indicated for the purposes of this memorandum, the central government does not include nonprofit organizations controlled and financed by the central government. The **banking system** is understood to mean the Central Bank of the Congo (BCC) as well as existing or newly licensed commercial banks.

IV. QUANTITATIVE PERFORMANCE CRITERIA

3. Quantitative performance criteria are established end-December 2010 and indicative targets for end-September 2010 with regard to the following variables: [1]

- Changes in the net foreign assets of the BCC;

---

[1]The end-June performance criteria are those established in the MEFP accompanying EBS/09/191; 12/01/09.

- Changes in the net domestic assets of the BCC;
- Changes in net banking system credit to the government (central government);
- Payments of government expenditures (including emergency expenditures) by the BCC without the prior authorization according to proper budgetary procedures by the Ministries of Budget and Finance;
- Nonconcessional medium- and long-term foreign loans contracted or guaranteed by the central government, local governments, or the BCC;
- Nonconcessional short-term foreign loans contracted or guaranteed by the State, local governments, or the BCC; and
- The accumulation of external payment arrears.

A. Floors on the Net Foreign Assets of the BCC

4. **Definition**: Net foreign assets (NFA) are defined as the difference between the BCC gross international reserves and its total liabilities. **Gross foreign assets** are defined as the sum of the following items: (i) monetary gold holdings of the BCC; (ii) SDR holdings; (iii) convertible claims on nonresidents, such as foreign deposits and foreign securities. The following items are excluded from the definition of gross reserves: claims on residents in foreign exchange, nonconvertible currency holdings, and reserves that are encumbered or pledged in one form or another, including but not limited to reserve assets used as collateral or security for foreign third-party liabilities. **Foreign liabilities** are all BCC foreign exchange liabilities to nonresidents (including SDR allocations), including the IMF.

5. The following **adjustments** will be made to the NFA floors.

- **Balance of payments support (BPS)**: NFA will be adjusted (i) upward by an amount equivalent to total BPS in excess of the programmed levels, (ii) downward by (a) an amount equivalent to the **lesser** of total shortfalls of BPS (excluding that from the IMF) relative to programmed levels and US$50 million by end-September 2010 and (b) an amount equivalent to the **lesser** of total shortfalls of BPS (excluding that from the IMF) relative to programmed levels and US$100 million by end-December 2010; and (iii) downward by an amount equivalent to any shortfall in debt relief under the Heavily indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI) from the IMF.

- Scheduled external d**ebt service**: NFA will be adjusted (i) upward by an amount equivalent to under payment of debt service relative to programmed amounts; (ii) downward by an amount equivalent to the excess of external debt service payments relative to programmed amounts.

- **Signing bonus from the Sino-Congolese Cooperation Agreement (SCCA)**: NFA will be adjusted (i) upward by an amount equivalent to total disbursement of signing bonus from SCCA in excess of the programmed levels; (ii) downward by an amount equivalent to total shortfalls in the disbursement of signing bonus from SCCA relative to programmed levels.

- **Privatization proceeds in convertible currencies (PPCC)**: NFA will be adjusted upward by an amount equivalent to total PPCC in excess of the programmed levels.

6. **Definition**: BPS includes (all grants and loans) minus (grants and loans for externally financed projects) plus (debt relief granted by the IMF under the HIPC initiative and MDRI). External financing for the National Disarmament, Demobilization, and Reintegration Program (DDR) is defined as externally financed projects and is therefore not included in the definition of BPS.

7. **Definition**: scheduled external debt service payments (excluding those to the IMF) are defined as debt service due (principal and interest) minus debt relief (excluding debt relief offered by the IMF).

B. Ceilings on the Net Domestic Assets of the BCC

8. **Definition**: The net domestic assets (NDA) of the BCC are defined as base money (see ¶18 below) minus NFA. Based on this definition, the NDA of the BCC include: (i) net credit to the government (central government) (see paragraph 10 below); (ii) credit to the private sector; (iii) credit to public enterprises; (iv) credit to commercial banks; and (v) other net assets.

9. The following **adjustments** will be made to the NDA ceilings.

- **BPS**: NDA will be adjusted (i) downward by an amount equivalent to total BPS in excess of the programmed level; (ii) upward by (a) an amount equivalent to the **lesser** of total shortfalls of BPS (excluding that from the IMF) relative to programmed levels and CGF 31,966 million by end-September 2010 and (b) an amount equivalent to the **lesser** of total shortfalls of BPS (excluding that from the IMF) relative to programmed levels and CGF 63,932 million by end-December 2010; and (iii) upward by an amount equivalent to any shortfall in debt relief under the HIPC/MDRI from the IMF.

- **Scheduled external debt service**: NDA will be adjusted (i) downward by an amount equivalent to under payment of debt service relative to programmed amounts; (ii) upward by an amount equivalent to the excess of external debt service payments relative to programmed amounts.

- **Signing bonus from the SCCA**: NDA will be adjusted (i) downward by an amount equivalent to total disbursement of signing bonus from SCCA in excess of the programmed levels; (ii) upward by an amount equivalent to total shortfalls in the disbursement of signing bonus from SCCA relative to programmed levels.

- **Privatization proceeds**: NDA will be adjusted downward by the total amount of privatization proceeds (including PPCC) in excess of the programmed level.

C. Ceiling on Net Banking System Credit to the Government

Definition: Net banking system credit to the government (NCG) is defined as the sum of net BCC and commercial bank claims on the central government, plus the BCC's net cash deficit. For purposes of program monitoring, government deposits related to externally financed projects are excluded from NCG. External budget support (BPS excluding balance of payment support from the IMF) will be converted to domestic currency by using the market exchange rate prevailing at the time of the disbursement.

10. The following **adjustments** will be made to the NCG ceiling.

- **BPS**: NCG will be adjusted (i) downward by an amount equivalent to total BPS (excluding that from the IMF) in excess of the programmed level, and (ii) upward by (a) an amount equivalent to the **lesser** of total shortfalls of BPS (excluding that from the IMF) relative to programmed levels and CGF 48,050 million by end-September 2010 and (b) an amount equivalent to the **lesser** of total shortfalls of BPS (excluding that from the IMF) relative to programmed levels and CGF 96,100 million by end-December 2010.

- **Debt service payment**: NCG will be adjusted (i) downward by an amount equivalent to under payment of debt service relative to programmed amounts; (ii) upward by an amount equivalent to the excess of external debt service payments relative to programmed amounts.

- **Signing bonus from the SCCA**: NCG will be adjusted (i) downward by an amount equivalent to total disbursement of signing bonus from SCCA in excess of the programmed levels; (ii) upward by an amount equivalent to total shortfalls relative to programmed levels in the disbursement of signing bonus from SCCA.

- **Privatization proceeds**: the NCG ceiling will be adjusted downward by an amount equivalent to total privatization proceeds in excess of the programmed levels.

D. Ceilings on New Nonconcessional Loans Contracted or Guaranteed by the Central Government, Local Governments, or the BCC

11. **Definition**: With regard to contracted or guaranteed debt, the central government is defined as all units of government that exercise authority over the entire economic territory, including nonprofit organizations controlled and financed by the central government.

12. **Definition**: Debt is defined as set out in Executive Board Decision No. 12274, Point 9, as revised on August 3, 2009 (see Annex).[2] For program purposes, external debt is measured on a gross basis using the residency criterion.

E. Ceilings on New Medium-and Long-term Nonconcessional Loans Contracted or Guaranteed by the Central Government, Local Governments, or the BCC

13. **Definition**: nonconcessional debt is defined as all loans with a grant element of less than 35 percent, calculated as the difference between the present value (PV) of the debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of the debt at the time it is contracted is calculated by discounting future flows of payable debt service. The discount rates used for that purpose are the commercial interest reference rates (CIRR) specific to each currency, published by the OECD. The average ten-year CIRRs will be used to calculate the PV of debt having a maturity of at least 15 years, and six-month average CIRRs for loans with shorter maturity. For the purposes of the program, the most recent CIRRs published by the OECD will be used to assess concessionality of loans.

14. **Definition**: the limit on nonconcessional medium- and long-term loans applies to contracted or guaranteed debt and liabilities for which the equivalent value has not been received. It excludes (i) the use of Fund resources; (ii) lending from the World Bank, the African Development Bank, and the International Fund for Agricultural Development; (iii) debts incurred to restructure, refinance, or prepay existing debts, to the extent that such debt is incurred on more favorable terms than the existing debt; and; (iv) concessional debts.

15. **Definition:** the guarantee of a debt arises from any explicit legal obligation of the central government, the BCC, or other agencies on behalf of the central government to service a loan in the event of nonpayment by the recipient (involving payments in cash or in kind), or indirectly through any other obligation of the central government, the BCC, or other agencies on behalf of the central government to finance a shortfall incurred by the loan recipient.

---

[2] SM/09/215, Supplement 1.

F. Ceilings on New Nonconcessional Short-term Loans Contracted or Guaranteed by the Central Government, Local Governments, or the BCC

16. **Definition**: short-term debt is defined as debt having an initial maturity of one year or less, with the exception of normal import credits having a maturity of up to one year,[3] including overdraft positions and debt owed or guaranteed by the government or the BCC.

G. Ceiling on the Accumulation of External Payment Arrears

17. **Definition**: external payment arrears include external debt service obligations (principal and interest) that were not paid on the contractual due date. The ceiling on new external payment arrears applies **continuously** throughout the period covered by the PRGF arrangement. It does not apply to external payment arrears in process of renegotiation or to cases in which the creditor has agreed to the suspension of payments pending the outcome of negotiations.

V. Quantitative Indicative Targets

18. The indicative targets pertain to: (i) base money; (ii) the non-accumulation of wage arrears; and (iii) the domestic fiscal balance.

A. Ceilings on Base Money

19. **Definition**: base money is defined as the sum of (i) currency outside banks; (ii) cash holdings of commercial banks; (iii) deposits of commercial banks with the BCC; (iv) private sector deposits with the BCC; (v) deposits of public enterprises with the BCC; and (vi) foreign exchange deposits and provisions for imports with the BCC.

B. Ceilings on the Accumulation of Wage Arrears

20. **Definitions**: Wage arrears are defined as approved personnel expenses that have not been paid for 30 days. Wages include the total compensation paid employees (civil service; including permanent benefits). These arrears will be valued on a cumulative basis from January 1, 2009.

C. Ceiling on the Domestic Fiscal Balance

21. **Definitions**: the **domestic fiscal balance** is defined as (domestic revenue) minus (domestically financed expenditure). **Domestic revenue** is defined as (total revenue and grants) minus (grants) minus (signing bonus from the SCCA). **Domestically financed**

---

[3] A financing arrangement for imports is considered to be "normal" when the credit is self-liquidating.

expenditure is defined as (total expenditure and net lending) minus (externally financed investments) minus (foreign interest payments) plus (the BCC's operating deficit) plus (the net accumulation of domestic arrears).

22. The following **adjustments** will apply to the ceiling on the domestic fiscal balance:

- **BPS**: The floors on the domestic fiscal balance will be adjusted upward by an amount equivalent to the excess of total shortfall of BPS (excluding that from the IMF) relative to programmed levels over CGF 48,050 million by end-September 2010 and over CGF 96,100 million by end-December 2010.

VI. CONSULTATION CLAUSE

23. In the event that revenue exceeds the programmed amounts during the program period, the authorities will consult the IMF before allocating any surplus revenue to additional expenditure. Further, the authorities will consult with the IMF before implementing any revisions to the policies contained in the MEFP.

VII. DATA TO BE REPORTED FOR PROGRAM MONITORING PURPOSES

24. The authorities of the DRC will provide IMF staff with the data needed to monitor the program within the prescribed time limits, as indicated in the following table.

Summary of Data to be Reported

Information	Responsible entity	Frequency	Reporting deadline
Volume of foreign exchange purchases and sales on the interbank market	BCC	Daily	One day
Volume of BCC purchases and sales on the interbank market	BCC	Daily	One day
Average CGF/USD reference exchange rate on the interbank market	BCC	Daily	One day
Average CGF/USD reference exchange rate	BCC	Daily	One day
Average CGF/USD reference exchange rate offered by commercial banks to their customers	BCC	Daily	One day
Average CGF/USD reference exchange rate used by exchange bureaus	BCC	Daily	One day
Integrated monetary survey	BCC	Monthly	Two weeks
BCC balance sheet	BCC	Monthly	One week
Monetary survey of retail banks	BCC	Monthly	Two weeks
Structure of retail banks' interest rates	BCC	Monthly	Two weeks
Reserves (voluntary and required) of retail banks	BCC	Daily	One day
Volume of CGF transactions on the interbank market	BCC	Daily	One day
Outstanding central bank claims on retail banks	BCC	Daily	One day
Foreign exchange sales (including through auctions) by the BCC	BCC	Weekly	One week
Outstanding and new issues of central bank bills (BTR)	BCC	Weekly	One day
Change in the free reserves of banks	BCC	Weekly	One day
Structure of BCC interest rates	BCC	Monthly	One week
Consumer price index	BCC	Weekly	One week
Retail banks' financial soundness indicators	BCC	Monthly	Two weeks
Commodity exports (value and volume), imports (value and volume) and domestic production indicators	BCC	Monthly	Three weeks
Implementation of the BCC foreign exchange cash flow plan	BCC	Weekly	One week

Summary of Data to be Reported (Concluded)

Information	Responsible entity	Frequency	Reporting deadline
Implementation of the BCC domestic currency cash flow plan	BCC	Monthly	One week
Amounts and holders of promissory notes (bills) guaranteed by the BCC	BCC	Monthly	Three weeks
Evolution of Commitment Plan and Treasury Plan Implementation	MF/MB	Weekly	One day
Implementation of the government cash flow plan	MF	Monthly	Two weeks
Amount, terms, holders, and stock of promissory notes (bills)	MF/BCC	Monthly	Three weeks
Breakdown of customs and excise revenues	MF	Monthly	Four weeks
Breakdown of direct and indirect taxes	MF	Monthly	Four weeks
Breakdown of nontax revenues	MF	Monthly	Four weeks
Projected expenditure commitment schedule	MB	Quarterly	Two weeks
Budgetary monitoring statement (ESB)	MB	Monthly	Two weeks
Approved wage bill by type of beneficiary	MF	Monthly	Three weeks
Wage bill paid by type of beneficiary	MF	Monthly	Three weeks
Compensated employees by category	MF	Monthly	Three weeks
Civil service wage scale	MF	In the event of change	Three weeks
Amounts of emergency spending, amounts approved by the emergency spending committee, amounts adjusted and paid by the BCC	MF/BCC	Monthly	Three weeks
Privatization receipts	MF/BCC	Monthly	Three weeks
Public sector domestic debt by category and by creditor	MF	Monthly	Three weeks
Loan contracts for any new external debt contracted or guaranteed by the central government, the BCC and local governments	MF/BCC	Monthly	Three weeks
Budget execution monitoring table showing Annual Treasury and Commitment Plans and all stages of expenditure execution through payments.	MF/MB	Weekly	Three days
Price Waterhouse Coopers audit reports, indicating any adjustments made to data reported at test dates	BCC		One week

Annex

Definition of debt

(a) For the purpose of this guideline, the term “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 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. For the purpose of the guideline, 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, and

(b) Under the definition of debt set out in point (a) 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.