

**IMMEDIATE
ATTENTION**

EBS/10/92
Supplement 2

August 26, 2010

To: Members of the Executive Board

From: The Secretary

Subject: **Republic of Congo—Third Review Under the Three-Year Arrangement Under the Extended Credit Facility—Supplementary Information**

The attached supplement to the paper on the third review under the three-year arrangement under the Extended Credit Facility for the Republic of Congo (EBS/10/92, 5/20/10), which was circulated for consideration on a lapse of time basis, has been prepared on the basis of additional information. Unless an objection from the authorities of the Republic of 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.

It is not proposed to bring this matter to the agenda of the Executive Board for discussion unless an Executive Director so requests by noon on **Tuesday, August 31, 2010**. In the absence of such a request, the draft decision that appears on pages 9 and 10 of the staff report (EBS/10/92, 5/20/10) will be deemed approved by the Executive Board effective on Wednesday, September 9, 2010, and will be so recorded in the minutes of that meeting. If an Executive Director requests that the matter be taken up at a Board meeting, the item will be placed on the agenda on a date to be announced.

Questions may be referred to Ms. Baker, AFR (ext. 34041).

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 forthwith; and to the African Development Bank and the European Commission, following its consideration by the Executive Board.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

REPUBLIC OF CONGO

**Third Review Under the Three-Year Arrangement
Under the Extended Credit Facility**

Supplementary Information

Prepared by the African Department

Approved by Domenico Fanizza and Dhaneshwar Ghura

August 25, 2010

1. **This supplement provides an update of economic and policy developments since the staff report was issued.**¹ The thrust of the staff appraisal remains unchanged.
2. **Recent data point to sustained economic activity and stable prices.** Real sector activity during the first half of the year has remained strong, reflecting increasing oil sector activity and a buoyant non-oil sector. As envisaged, oil production has expanded as new offshore wells come on stream. Non-oil sector activity has been supported by expanding production in the telecommunications and beverage sectors. As of end-June, the consumer price level was broadly unchanged from end-2009, erasing the tick up observed earlier in the year due to a severe railway service disruption and ongoing transportation bottlenecks. The external position remains solid, with gross official foreign reserves steady at US\$3.8 billion at end-April.
3. **Program performance appears broadly satisfactory.**
 - Preliminary fiscal data point to a basic non-oil primary deficit in line with the end-March indicative program target.
 - The structural reform agenda is moving forward, albeit with delays in some areas. Following successful reform of public procurement and the budget circuit, the government is preparing a non-oil tax reform aimed at eliminating distortions,

¹ The staff report for the Third Review Under the three-year Arrangement under the Extended Credit Facility (EBS/10/92) was issued on May 20, 2010. Executive Board consideration on a lapse of time basis was postponed due to delays in implementing safeguards-related measures at the BEAC.

reducing complexity and broadening the tax base. However, re-organization of the national oil company has led to delays in governance reforms.

4. **Looking ahead, the authorities recently announced a broad-based civil service reform beginning in January 2011 with the objective of improving public service delivery.** As a result of this reform, public sector salaries, which have been unduly compressed since 1994, would likely increase. The possible budgetary impact would be offset by measures rolled out last April to eliminate ghost workers and wage fraud, as well as gains in non-oil revenue resulting from an overhaul of the tax system currently being developed. In the staff's view, based on available information, the salary reform would not compromise the sustainability of the fiscal position. These issues will be discussed in detail with the authorities at the time of the next review.