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August 22, 1985

To: Members of the Executive Board

From: The Acting Secretary

Subject: People's Republic of the Congo - Staff Report for
the 1985 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1985 Article IV consultation with the People's Republic of the Congo. A draft decision appears on page 21.

This subject will be brought to the agenda for discussion on a date to be announced.

Mr. Tahari (ext. 6931) or Mr. McCarthy (ext. 8734) are available to answer technical or factual questions relating to this paper prior to the Board discussion.

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INTERNATIONAL MONETARY FUND

PEOPLE'S REPUBLIC OF THE CONGO

Staff Report for the 1985 Article IV Consultation

Prepared by the Staff Representatives for the
1985 Consultation with the People's Republic of the Congo

Approved by A.D. Ouattara and W.A. Beveridge

August 21, 1985

I. Introduction

The 1985 Article IV consultation discussions with the People's Republic of the Congo were held in Brazzaville during the period June 21-July 4, 1985. The representatives of the Congo included Mr. I.O. Lekoundzou, minister of Finance; Mr. J.E. Sathoud, Vice Governor of the Bank of Central African States (BEAC); Mr. G. Bokilo, National Director of the BEAC; Mr. D. Dieudonné, Secretary General of the Ministry of Plan; and other senior officials in charge of economic and financial matters. The staff representatives were Messrs. A. Tahari (head), I. McCarthy, E. van der Mensbrugghe, M. Massourakis, and Ms. C. Elwell (secretary), all from the African Department. Mr. A.D. Ouattara, Director-AFR, joined the mission for the last few days and met with the President of the Republic in Brazzaville, and the Vice Governor of the BEAC in Yaoundé.

The Congo is presently on the 12-month consultation cycle. The last Article IV consultation discussions were held in June 1984, and the staff report (SM/84/223) was discussed by the Executive Board on November 5, 1984. The Congo continues to avail itself of the transitional arrangements of Article XIV. Summaries of the Congo's relations with the Fund and the World Bank Group are contained in Appendices I and II, respectively. A note on statistical issues is provided in Appendix III.

II. Recent Economic Developments

The Congo's economy is heavily dependent on the oil sector, which accounts for almost 40 percent of GDP, about 90 percent of exports, and some two thirds of budgetary receipts. With rapidly rising export proceeds and correspondingly increasing government revenues from oil in the early 1980s, the Government adopted an ambitious Five-Year Economic and Social Development Plan, covering the period 1982-86, and expanded considerably both its current and capital expenditures. The Plan was intended to set the stage for sustained economic growth in the post-

petroleum era, giving priority to an improvement in the country's basic infrastructure and a strengthening of the productive base. The Plan envisaged total investments over the five years equivalent to nearly four times the level of 1981 GDP, with the public sector accounting for about 55 percent of the total. In addition to an anticipated growth in resources from the oil sector, the financing of the Plan was to be covered by foreign borrowing (about 60 percent of the total). The Plan thus involved a highly expansionary demand management policy.

In the first three years of the Plan, however, there was a shortfall in oil resources as output grew by less than anticipated (to about 42 million barrels in 1984) and world market prices weakened. Moreover, beginning in 1983 the Congo experienced difficulties in attracting sufficient foreign capital. The Congolese authorities' policy response to these developments was slow and limited as government outlays were not cut back in line with the reduced resource availability. As a result, during the period 1982-84, large internal and external imbalances emerged, and economic activity slowed markedly. These imbalances were exacerbated by the weak economic and financial performance of the public enterprise sector, which, even after receiving substantial government transfers in the form of current and capital subsidies, experienced continuing losses.

The deterioration in economic conditions was reflected in a deceleration in the growth of real GDP from an annual average of 21 percent in 1980-81 to 13 percent in 1982 and to 3.5 percent in 1983 (Table 1). In 1984 real GDP growth is estimated to have decelerated further to 2.5 percent. The slowdown in 1983 and 1984 was due not only to a slackening in the expansion of the oil sector but also to a decline in activity in the non-oil sector. Oil production, which rose at an annual average rate of 19 percent in 1980-82, increased by only 14 percent per annum in 1983-84, a rate substantially below the level envisaged under the Plan. The non-oil sector, which registered a modest growth in the early 1980s, is estimated to have declined by about 1 percent in 1983 and further by 3 percent in 1984. Despite relatively favorable climatic conditions in 1984, agricultural output stagnated as an improvement in the subsistence sector was offset by continued declines in production of the state farms due largely to management problems and inappropriate pricing policies; increases in agricultural producer prices lagged behind the rate of inflation. Industrial production fell by 7 percent in 1984 as an increase in the output of textiles was offset by the closing of three state enterprises (the sugar refinery, the cement factory, and a glassworks factory), mainly because of technical problems. Reflecting the cut in investment, the completion of some major projects, and financial pressures, the output of public works and construction stagnated, and that of services and commerce declined sharply. As measured by the consumer price index, the domestic rate of inflation accelerated to 12.4 percent in 1984 from 8.8 percent in 1983.

Table 1. People's Republic of the Congo: Selected Economic and Financial Indicators, 1980-85

	1980	1981	1982	1983	1984 Prel.	1985 Proj.
	(Annual percentage change) ^{1/}					
National income and prices						
GDP at 1980 prices	17.7	24.0	13.0	3.5	2.5	-5.5
oil sector GDP at 1980 prices	18.8	32.3	12.7	11.1	11.3	-10.7
oil output (barrels)	20.5	26.1	11.6	17.7	11.3	-10.7
GDP deflator	20.3	21.2	16.3	8.6	12.2	11.1
Consumer prices	7.6	16.7	11.7	8.8	12.4	11.1
External sector						
Exports, f.o.b. ^{3/}	82.5	30.0	10.9	3.3	18.4	-12.4
of which: petroleum ^{3/}	(110.1)	(44.3)	(10.2)	(5.8)	(18.2)	(-14.7)
Imports, c.i.f. ^{3/}	49.5	62.9	-5.1	-6.0	-0.8	1.8
Export volume	24.2	13.6	8.4	11.9	16.6	-8.3
of which: petroleum	(24.5)	(22.5)	(7.0)	(14.5)	(16.1)	(-10.5)
Import volume	20.8	56.1	-0.6	-2.2	-0.6	-0.9
Terms of trade (deterioration -) ^{4/}	18.6	9.7	7.1	-3.9	1.7	-7.2
Real effective exchange rate (depreciation -) ^{4/}	-4.0	-4.2	-4.1	-3.2	-0.3	-3.5
Government budget						
Revenue and grants	107.1	94.0	19.5	7.8	17.6	5.9
Expenditure and net lending	131.5	43.2	67.4	5.2	1.0	-4.1
Money and credit						
Domestic credit	16.3	26.5	52.5	13.2	28.9	7.8
Government (net)	45.2	-54.9	95.7	-32.4	111.5	12.5
Private sector and state enterprises	2.8	80.7	45.5	23.3	18.8	6.8
Broad money (M ₂)	36.9	50.0	25.9	-1.8	7.4	7.1
Velocity (GDP relative to M ₂)	6.5	6.6	6.8	7.0	7.6	7.6
Interest rates ^{2/}	6.5	6.5	6.5	7.5	7.5	8.25
	(In percent of GDP)					
Revenue and grants	29.2	38.8	35.4	33.9	34.7	35.0
Expenditure and net lending	40.6	38.6	49.3	46.1	40.5	37.0
Budget surplus or deficit (-) (commitment basis)	-10.4	0.2	-13.9	-12.2	-5.8	-2.0
Accumulation of arrears (net)	2.9	2.5	-0.7	8.6	2.5	...
Budgetary surplus or deficit (-) (cash basis)	-7.5	2.7	-14.5	-3.6	-3.3	...
Gross domestic savings	35.6	30.0	46.6	33.2	36.5	40.2
Gross investment	35.8	48.1	60.3	41.5	29.9	30.0
External current account deficit ^{5/}	-13.5	-27.2	-21.4	-18.6	-3.9	-12.2
External public debt						
Total outstanding	70.9	67.6	71.7	77.6	70.7	67.6
Debt service ratio ^{6/}	8.9	22.6	25.2	24.5	23.7	28.0
	(In millions of SDRs)					
Overall balance of payments	26.1	15.2	-57.6	-54.4	-91.5	-191.9
Accumulation of arrears	17.9	20.8	-4.2	31.7	35.1	...
	(In weeks of imports) ^{7/}					
Gross official reserves (end of period)	3.9	6.3	2.4	0.7	0.5	0.5

Sources: Data provided by the Congolese authorities; and staff estimates and projections.

^{1/} based on values in CFA francs unless otherwise noted.

^{2/} The rate on savings deposits.

^{3/} based on values in SDRs.

^{4/} Trade-weighted, annual rates.

^{5/} Excluding official transfers.

^{6/} Scheduled public debt service in percent of exports of goods and nonfactor services.

^{7/} In terms of the following year's imports.

Over the period 1982-84, the deceleration in economic activity was accompanied by a substantial weakening in the Congo's overall financial situation. The central government budget (on a commitment basis) moved from a surplus equivalent to 0.2 percent of GDP in 1981 to deficits equivalent to 13.9 percent of GDP in 1982 and 12.2 percent in 1983 (Table 2). ^{1/} Since the Treasury incurred substantial arrears equivalent to about 9 percent of GDP in 1983, the cash deficit was equivalent to only 3.6 percent. The deterioration of the budgetary situation over the two years was the result of a continued expansionary expenditure policy which was out of line with the decelerated growth of revenue. During 1982-83, while the annual rate of growth of revenue slowed to 14 percent, as against 100 percent in 1980-81, total expenditure rose by 36 percent per annum (from 39 percent of GDP in 1981 to 46 percent in 1983). In 1984, although the overall budgetary deficit was brought down to an estimated 5.8 percent of GDP, it still could not be fully financed. As a result, a further 2.5 percent of GDP in domestic and external arrears was accumulated, and the deficit on a cash basis amounted to 3.3 percent of GDP in 1984. The reduction in the 1984 deficit resulted from an increase in budgetary revenue by 18 percent and a further cut in capital outlays by 13 percent. The overall growth in revenue was due solely to a 30 percent rise in petroleum receipts, reflecting a higher volume of exports and the appreciation of the U.S. dollar; non-oil receipts declined by 2 percent (to 11 percent of GDP) owing to the slackening in economic activity. However, current expenditure continued to rise at a rapid pace (14 percent), reflecting a large expansion in personnel and education expenditure, increased subsidies to public enterprises, and a rise in interest payments on the public debt. Scholarships continued to be liberally granted; all graduates of schools and universities unable to find alternative jobs were offered employment by the Government; and for the third year in a row employment in the civil service rose by about 8 percent.

The 1982 cash deficit was financed through substantial increases in both domestic and foreign borrowing. In 1983, the cash deficit was solely financed through external borrowing, and the Government was able to reduce its liabilities vis-à-vis the banking system. However, in 1984 as net foreign borrowing declined sharply, the financing of the deficit was largely covered by domestic resources, notably through sizable recourse to central bank advances.

The financial situation of public enterprises continued to deteriorate in 1984, owing to growing personnel costs, inflexible pricing policies which did not reflect production costs for most enterprises, and management problems. Although recruitment in the sector was limited to 2.8 percent in 1984, compared with 6 percent in the previous year, and the authorities raised some prices (including petroleum prices), which led to an improvement in the financial situation of some of the

^{1/} Excluding outlays which are financed by loans and grants outside the Treasury and the CAA.

Table 2. People's Republic of the Congo: Central Government
Operations, 1981-85 ^{1/}

(In billions of CFA francs)

	1981	1982	1983	1984 Prel.	1985 Proj.
Revenue and grants	210.5	251.6	271.2	319.0	337.9
Oil	126.1	152.3	162.8	212.1	223.9
Non-oil	83.5	98.1	104.9	103.0	110.0
Grants	0.8	1.2	3.5	3.9	4.0
Expenditure and net lending	209.3	350.4	368.7	372.3	357.1
Current	108.2	150.3	195.0	221.8	234.3
Of which: interest	(14.3)	(18.8)	(24.7)	(36.2)	(50.3) ^{2/}
Capital	100.6	198.4	172.5	150.0	122.3
Net lending	0.5	1.7	1.2	0.5	0.5
Overall surplus or deficit (-), commitment basis	1.2	-98.8	-97.5	-53.3	-19.2
Accumulation of expenditure arrears (increase (+))	13.2	-4.8	68.8	23.1	...
Overall surplus or deficit (-), cash basis	14.4	-103.6	-28.7	-30.2	...
Financing	-14.4	103.6	28.7	30.2	...
Foreign (net)	-1.2	64.3	35.9	2.8	-47.4
borrowing	(24.5)	(104.8)	(88.6)	(73.9)	(82.0)
Amortization paid	(-25.7)	(-40.5)	(-52.7)	(-71.1)	(-129.4) ^{3/}
Domestic (net)	-18.8	39.3	-7.2	27.4	...
Banking system	(-16.0)	(16.2)	(-11.6)	(19.8)	(...)
Other	(-2.8)	(23.1)	(4.4)	(7.6)	(...)
Debt rescheduling	5.6	--	--	--	--
<u>Memorandum item:</u>					
Accumulation of arrears on principal	-1.4	8.1	7.9	11.4	...

Sources: Data provided by the authorities; and staff estimates and projections.

^{1/} The consolidation of government operations and those of the Congolese Amortization Fund (CCA) as well as some minor public entities. Adequate information is not available on those government expenditures, particularly for defense purposes, that are financed through foreign grants and loans outside the Treasury and the CCA.

^{2/} Includes CFAF 9.5 billion payment of external arrears.

^{3/} Includes CFAF 27.4 billion payment of amortization arrears.

enterprises (notably, Hydro-Congo), for the majority of the public enterprises prices and tariffs remained inadequate and their operating deficits widened. As a result, the cumulative deficits of the public enterprise sector rose by 12 percent in 1984 (to some 3 percent of GDP), even though it continued to receive large budgetary subsidies and tax exoneration, and the Government took over the debt servicing obligations of some enterprises. Notwithstanding heavy recourse to domestic bank borrowing, these enterprises continued to incur substantial payments arrears.

The sharp increase in net bank credit to the Government, together with that to the private sector and public enterprises, despite the slowdown in economic activity, led to a 29 percent rise in domestic credit in 1984, compared with 13 percent in 1983 (Table 3). With a further drop in net foreign assets, money supply rose by 7 percent, as against a 2 percent drop in the previous year. The rapid expansion of credit outpaced that of deposits at commercial banks, resulting in a liquidity shortage, which was exacerbated by the failure of many of the state enterprises to repay their debts. To face these liquidity problems, the banks relied heavily on advances from the central bank and on increased borrowing from their foreign correspondents and affiliates.

Reflecting developments in the oil sector, the expansionary policy pursued by the Government, and rising debt service obligations, the Congo's overall external position worsened during 1982-83. In SDR terms, the growth of total export receipts fell by two thirds to 11 percent in 1982 and further to 3 percent in 1983 (Table 4). While imports declined by 5 and 6 percent in 1982 and 1983, respectively, partly due to the cut in capital expenditures, there was a marked increase in payments for services, mainly related to oil companies' activities and servicing of the external debt. Thus, the external current account deficit averaged 20 percent of GDP. With net inflows of capital declining significantly, owing mainly to larger debt amortization, the overall balance of payments moved from a surplus of SDR 15.2 million in 1981 to a deficit of SDR 57.6 million in 1982 and of SDR 54.4 million in 1983.

In 1984 the trade balance registered a large surplus attributable to an 18 percent increase in oil receipts and a further drop in imports by 1 percent, and there was an improvement in the services account. As a result, the current account deficit declined sharply to 3.9 percent of GDP. The capital account, however, swung into deficit, due to a large increase in amortization payments and short-term capital outflows of the oil sector. As a result, the overall balance of payments deficit widened to SDR 91 million. There was an improvement in the external position of the oil sector, but a significant deterioration in that of the non-oil sector. The latter resulted largely from the expansionary budgetary and credit policies pursued by the Government and rising debt service obligations. The overall deficit of the balance of payments

Table 3. People's Republic of the Congo: Monetary Survey, 1981-85 ^{1/}

(In millions of CFA francs; end of period)

	1981	1982	1983	1984				1985	
				March	June	Sept.	Dec.	March Prov.	Dec. Proj.
Net foreign assets	30,069	11,111	-14,864	3,737	-2,070	-21,744	-29,885	-22,945	-29,885
Central bank	36,298	13,884	4,648	-2,009	-5,588	-7,526	-20,567	-13,630	-20,567
Commercial and develop- ment banks	-672	-1,595	-16,317	1,467	6,660	-12,051	-6,751	-8,726	-6,751
Postal debt	-5,557	-1,178	-3,195	-3,195	-3,142	-2,167	-2,567	-589	-2,567
Domestic credit	98,631	150,485	170,403	184,168	197,858	213,125	219,590	222,009	236,700
Claims on Government (net)	13,941	27,285	18,452	27,358	31,386	33,258	39,034	36,592	43,900
Claims on private sector and state enterprises	84,690	123,200	151,951	156,810	166,472	179,867	180,556	185,417	192,800
Money supply	92,120	115,953	113,822	116,199	125,077	122,408	122,261	123,136	130,915
Money	75,111	97,602	90,490	97,906	104,353	100,486	101,339	99,979	108,515
Of which: currency in circulation	(30,642)	(43,195)	(42,913)	(42,588)	(43,355)	(44,959)	(43,682)	(44,233)	(46,800)
Quasi-money	17,009	18,351	23,332	18,293	20,724	21,922	20,922	23,157	22,400
Medium- and long-term foreign liabilities	19,383	24,435	21,676	38,344	41,453	42,244	39,032	39,316	39,300
Other items (net)	17,197	21,208	20,041	25,888	29,258	26,729	28,412	36,612	36,600

Sources: Data provided by the Congolese authorities; and staff projections.

^{1/} Consolidated accounts of the central bank, the commercial banks, the Development bank (BNDG), the Postal Checking System, and the Treasury.

Table 4. People's Republic of the Congo: Balance of Payments, 1981-85

(In millions of SDGs)

	1981	1982	1983	1984 Prel.	1985 Proj.
Exports, f.o.b.	909.73	1,008.55	1,041.99	1,233.67	1,080.36
Of which: petroleum	(806.83)	(889.36)	(940.73)	(1,111.74)	(948.62)
Imports, f.o.b.	-681.50	-648.15	-607.59	-602.52	-613.14
Trade balance	228.23	360.40	434.40	631.15	467.22
Services (net)	-660.02	-738.03	-760.67	-667.51	-672.88
Of which:					
scheduled interest on public debt	(-65.07)	(-69.99)	(-76.57)	(-91.54)	(-99.65)
scheduled interest on private debt	(-74.81)	(-76.08)	(-78.48)	(-77.92)	(-78.45)
Private unrequited transfers (net)	-27.37	-42.81	-38.47	-43.18	-44.49
Current account balance (excluding official transfers)	-459.16	-420.44	-364.74	-79.54	-250.15
Public unrequited transfers (net)	37.23	22.30	34.61	31.59	31.98
Current account balance (including official transfers)	-421.93	-398.14	-330.13	-47.95	-218.17
Capital account balance	297.24	121.09	176.60	-62.60	26.23
Public sector capital (net)	55.12	149.26	56.39	24.40	4.86
Of which: scheduled public debt amortization	(-158.26)	(-198.85)	(-198.40)	(-219.97)	(-225.20)
Private sector capital (net)	72.12	197.44	41.31	28.14	-10.43
Of which: scheduled private debt amortization	(-228.33)	(-187.35)	(-192.73)	(-214.25)	(-209.72)
Short-term capital	170.00	-225.61	78.90	-115.14	31.80
Monetary capital (net)	6.30	2.54	36.13	-21.37	--
SDK allocation and exchange guarantee	1.69	10.75	7.81	4.96	--
Trust Fund	1.75	--	--	--	--
Errors and omissions (net) and valuation adjustment	130.12	206.21	55.16	35.51	--
Overall balance	15.17	-57.55	-54.42	-91.45	-191.94
Financing	-15.17	57.55	54.42	91.45	191.94
Change in net foreign assets of the BEAC (increase -)	-53.56	61.77	22.68	56.31	...
Of which: changes in the operations account	(-53.85)	(73.38)	(26.12)	(60.51)	(...)
Debt rescheduling	17.54	--	--	--	...
Accumulation of arrears	20.85	-4.22	31.74	35.14	...
<u>Memorandum items:</u>					
Current account deficit (excluding official transfers) as a ratio of GDP	27.2	21.4	18.6	3.9	12.2
Exchange rates (period average) CFAF/SDG	274.97	320.41	362.79	407.36	447.89
Exchange rate (end of period) CFAF/SDG	287.99	334.52	370.92	436.97	470.11

Sources: Data provided by the Congolese authorities; and staff estimates and projections.

was partly financed by a further drop in net foreign assets, and there was a further accumulation of external arrears estimated at SDR 35.1 million. However, as in previous years these arrears were settled during the first half of the following year. The operations account maintained with the French Treasury moved from a positive position (CFAF 1.0 billion) at end-1983 to a negative position (CFAF 23.7 billion) at end-1984. By the end of 1984, gross official foreign reserves had dropped to the equivalent of only a few days of imports. In view of the accumulation of repayment arrears, the World Bank suspended disbursements to the Congo in September 1984, and only resumed them in late February 1985, after settlement of the overdue obligations.

As a result of large foreign borrowing in recent years, largely to finance the investment program, the Congo's outstanding external public debt rose from SDR 889 million at end-1980 to SDR 1,384 million at end-1984 (Table 5). ^{1/} The Central Government accounts for about 80 percent of the total, the remainder representing debt of the state enterprises guaranteed by the Government. Over this period, the external public debt service payments increased from the equivalent of 9 percent of exports in 1980 to 24 percent in 1984. In relation to budgetary revenue, the ratio rose from 17 percent to 37 percent. Regarding private sector debt, which consists largely of borrowing by the oil companies, available information is limited to debt service, which, as a ratio of exports of goods and nonfactor services, declined steadily from 32 percent in 1980 to 22 percent in 1984. Thus, the total debt service ratio of the Congo rose from 41 percent to 46 percent.

III. Report on the Discussions

The Congo continues to face severe economic and financial difficulties and the medium-term outlook is not favorable, especially in view of the likely stagnation of oil export receipts and rising external debt service obligations in the coming years. In view of the large domestic and external disequilibria and the accumulation of domestic and external arrears, the discussions concentrated on the appropriate adjustment measures required to come to grips with the Congo's serious problems with a view to achieving viable balance of payments and budgetary positions and re-establishing sustainable economic growth over the medium term.

The Congolese authorities were aware of the problems facing the Congo and indicated their intention to implement the requisite adjustment measures. They have decided to adopt an adjustment program for the period from mid-1985 through end-1987, with the stated intention of achieving a sustainable domestic and external position before the launching of the next five-year development plan.

^{1/} These estimates are based on data compiled by the Caisse Congolaise d'Amortissement (CAA) with World Bank-financed technical assistance. These data, however, are not fully comprehensive.

Table 5. People's Republic of the Congo: External Public Debt and Private Sector Debt Service, 1981-85

	1981	1982	1983	1984 Pre1.	1985 Proj.
<hr/>					
Public debt	(In millions of SDRs)				
Outstanding and disbursed (end of period)	1,094.2	1,375.5	1,420.0	1,384.4	1,392.2
Scheduled debt service	223.4	268.8	275.0	311.5	324.9
Interest	65.1	70.0	76.6	91.5	99.7
Amortization	158.3	198.8	198.4	220.0	225.2
<hr/>					
	(In percent)				
Outstanding and disbursed debt as a ratio of GDP	64.7	70.1	72.4	67.4	68.0
Debt service ratio <u>1/</u>	22.8	25.2	24.5	23.7	28.0
Interest as a ratio of total debt service	29.1	26.0	27.8	29.4	30.7
<hr/>					
	(In millions of SDRs)				
Private sector debt service	303.1	263.4	271.2	292.1	288.2
Interest	74.8	76.1	78.5	77.9	78.5
Amortization	228.3	187.3	192.7	214.2	209.7
<hr/>					
	(In percent)				
Debt service ratio <u>1/</u>	30.9	24.8	24.1	22.3	24.8
Interest as a ratio of total debt service	24.7	28.9	28.9	26.7	27.2
<hr/>					
Total external debt service	526.5	532.2	546.2	603.6	613.1
Debt service ratio <u>1/</u>	53.7	49.8	48.6	46.0	52.8
Interest as a ratio of total debt service	26.6	27.4	28.4	28.1	29.1

Sources: Data provided by the Congolese authorities; and staff estimates and projections.

1/ In percent of exports of goods and nontactor services.

1. Prospects for 1985 and the medium term

During the first half of 1985, the economic and financial situation continued to deteriorate, and additional arrears were accumulated. For the year as a whole, real GDP is projected to decline by 5 percent, owing to an 11 percent decline in oil production and stagnation in the non-oil sector. The budgetary and balance of payments deficits are projected to remain large, and public enterprises are expected to continue to experience severe financial difficulties. The external current account deficit is projected to rise to 12.2 percent of GDP, and the overall balance of payments deficit to double to SDR 192 million. As gross official foreign reserves are very low, this large deficit is likely to result in a sizable accumulation of arrears. Although the budgetary deficit is projected to be reduced further, to CFAF 19.2 billion (about 2 percent of GDP), a financing gap of CFAF 67 billion (before domestic financing) will remain, because of increasing debt amortization payments. The scope for additional central bank advances is limited by the statutory provisions of the BEAC which limit such advances to 20 percent of the previous year's ordinary revenues. The reduction in the budgetary deficit in 1985 is expected to be achieved through further cuts in capital outlays and economies on current expenditure, reflecting the measures adopted by the authorities to defer the employment of 3,000 persons to the latter part of the year, to encourage early retirement of almost 500 persons, to reduce expenditures on material by 30 percent, and to limit transfers to public enterprises.

In the coming years, the Congo will be facing a sharply rising trend in external public debt service payments. Oil export receipts are likely to stagnate, if not decline, as production is expected to level off and world oil prices to weaken further. Against this background, two medium-term scenarios for the period 1986-89 were prepared by the staff and discussed with the authorities (Tables 6 and 7). These scenarios were based on the assumptions that: (i) oil production would remain at the level achieved in 1985 (about 5.4 million tons); (ii) petroleum prices would decline to US\$25 per barrel in 1986 and remain at that level for the remainder of the period; (iii) disbursements on external loans would rise in line with the level of the investment program; and (iv) partners' (non-oil) export prices would rise by about 4 percent per annum. Although output from a newly discovered field will come on stream in 1987-88, this would only compensate for the reduction in production of old fields.

The first scenario assumes a continuation of the present stance of budgetary and credit policies. On this basis, given the anticipated stagnation of oil receipts, the budget and the balance of payments would come under severe pressure in the medium term. The current account and the overall balance of payments would register growing deficits, and large financing gaps (in the range of SDR 180-210 million annually) would remain. Similarly, the budgetary deficits would remain large

Table 6. People's Republic of the Congo: Projections of Consolidated Central Government Operations, 1986-89

(In billions of CFA francs)

	1986	1987	1988	1989	1986	1987	1988	1989
	Scenario I (without adjustment)				Scenario II (with adjustment)			
Revenue and grants	309	313	322	333	313	322	339	359
Oil	188	183	184	185	188	183	184	185
Non-oil	117	126	133	143	121	135	150	169
Grants	4	4	5	5	4	4	5	5
Expenditure and net lending	379	419	451	493	331	337	349	366
Current	248	281	304	338	230	236	242	253
Of which: interest <u>1/</u>	(48)	(62)	(66)	(78)	(46)	(52)	(49)	(50)
Capital	130	137	146	154	100	100	106	112
Net lending	1	1	1	1	1	1	1	1
Overall surplus or deficit (-)	-70	-106	-129	-160	-18	-15	-10	-7
Financing	70	106	129	160	18	15	10	7
Foreign (net)	-32	-3	19	13	-50	-25	-5	-9
Borrowing	(78)	(82)	(88)	(92)	(60)	(60)	(64)	(67)
Amortization <u>1/</u>	(-110)	(-85)	(-69)	(-79)	(-110)	(-85)	(-69)	(-76)
Domestic (net)	20	20	20	20	20	20	15	16
Financing gap <u>1/</u>	82	89	90	127	48	20	--	--
<u>Memorandum items:</u>								
Overall surplus or deficit (-)/GDP	-6.6	-9.1	-10.0	-11.3	-1.7	-1.3	-0.8	-0.5
Financing gap/GDP	7.7	7.6	7.0	9.0	4.5	1.7	--	--

Sources: Data provided by the Congolese authorities; and staff projections.

1/ Includes debt servicing on the financing required to close the gaps.

Table 7. People's Republic of the Congo: Projections of the Balance of Payments, 1986-1989

	1986	1987	1988	1989	1986	1987	1988	1989
	Scenario I				Scenario II			
	(without adjustment)				(with adjustment)			
	(In millions of SDGs)							
Exports, f.o.b.	1,057	1,062	1,068	1,072	1,066	1,077	1,089	1,102
Of which: petroleum	(-927)	(-927)	(-927)	(-927)	(-927)	(-927)	(-927)	(-927)
Imports, f.o.b.	-614	-638	-661	-690	-561	-555	-565	-578
Trade balance	443	424	407	382	505	522	524	524
Services (net)	-674	-703	-712	-742	-631	-622	-608	-601
Credit	85	88	92	94	90	96	102	111
Debit	-759	-791	-804	-836	-721	-718	-710	-712
Of which: scheduled interest on public debt <u>1/</u>	(-124)	(-164)	(-183)	(-217)	(-117)	(-143)	(-147)	(-158)
Transfers (net)	-9	-4	--	9	-9	-4	--	9
Private sector	-41	-36	-32	-23	-41	-36	-32	-23
Public sector	32	32	32	32	32	32	32	32
Current account balance	-240	-283	-305	-351	-135	-104	-84	-68
Long-term capital (net)	26	75	128	143	-15	17	62	72
Of which:								
Public sector (net)	(-17)	(32)	(85)	(100)	(-58)	(-26)	(19)	(29)
Borrowing <u>2/</u>	(232)	(249)	(266)	(294)	(191)	(191)	(200)	(217)
Scheduled amortization <u>1/</u>	(-249)	(-217)	(-181)	(-194)	(-249)	(-217)	(-181)	(-188)
Short-term capital (net)	--	--	--	--	--	--	--	--
Overall balance (Financing gap)	-214	-208	-177	-208	-150	-87	-22	4
Memorandum items:								
Outstanding public debt	1,375	1,407	1,492	1,592	1,334	1,309	1,328	1,358
	(In percent)							
Current account deficit (excluding public transfers)/GDP	-12.0	-12.7	-12.3	-12.7	-7.3	-5.5	-4.2	-3.3
Overall balance/GDP	-9.4	-8.4	-6.5	-6.9	-6.6	-3.5	-0.8	0.1
Outstanding public debt/GDP	60.7	56.5	54.4	52.8	58.9	52.5	48.4	45.0
Public debt service ratio <u>3/</u>	32.6	33.2	31.4	35.3	31.7	30.7	27.5	28.5
Interest	10.8	14.3	15.8	18.6	10.1	12.2	12.3	13.0
Principal	21.8	18.9	15.6	16.6	21.6	18.5	15.2	15.5
Total debt service ratio <u>3/</u>	59.1	59.1	56.0	57.9	57.9	56.2	51.5	50.3
Interest	17.9	21.5	23.1	26.1	17.1	19.3	19.5	20.2
Principal	41.2	37.6	32.9	31.8	40.8	36.9	32.0	30.1

Sources: Data provided by the Congolese authorities; and staff projections.

1/ Service on current and projected loans, and on the financing required to close the balance of payments gaps, assuming a 10 percent interest rate, 2 years grace period and 7 years maturity.

2/ In line with the public investment program.

3/ As a percentage of exports of goods and services.

(7-11 percent of GDP) and unfinanceable, and the external public debt service ratio would rise steadily to the equivalent of 41.5 percent of exports of goods and services, and 59 percent of budgetary revenues by 1990. Clearly this situation is unsustainable and would result in a further sizable accumulation of domestic and external arrears and would hamper economic growth. The Congolese representatives concurred with the implications of such a scenario.

The second scenario assumes that strong adjustment measures will be undertaken by the authorities to achieve viable balance of payments and budgetary positions by 1988-89 and to re-establish sustainable economic growth over the medium term. These measures will have to include appropriate investment and pricing policies, rehabilitation of the public enterprise sector, reduction of the budgetary deficit, a restrictive credit policy, and prudent debt management. If appropriate measures are pursued with determination, the external current account deficit is projected to decline steadily from 12.2 percent of GDP in 1985 to about 3 percent in 1989. Under this scenario, imports are projected to decline by 5 percent per annum in 1986-87, and to rise only moderately in 1988-89, while non-oil exports would increase by 8 percent per annum over this period. The overall balance of payments deficit is projected to decline from SDR 192 million in 1985 to SDR 22 million in 1988 and eventually switch to a small surplus in 1989. A resource gap in 1985-87, however, would remain and would need to be covered through exceptional financing, including debt rescheduling. Under this scenario, the overall budgetary deficit (on a commitment basis) is projected to be reduced from 5.8 percent of GDP in 1984 to 0.5 percent in 1987, and eliminated in 1988. ^{1/} The external public debt service ratio would be reduced to 28 percent of exports of goods and services, while the private sector debt service ratio is projected to decline from 25 percent in 1985 to 22 percent in 1989.

The above two scenarios are highly sensitive to fluctuations in world market prices for oil and the exchange rate movements. As an illustration, it is estimated that a fall in the export price of petroleum by US\$1 per barrel would lead to a higher external current account deficit of about SDR 39 million per annum (about 1.5 percent of GDP) over the period 1986-88. The same change, or a 5 percent appreciation of the CFA franc vis-à-vis the U.S. dollar, would lead to lower budgetary receipts of almost CFAF 14 billion (one percent of GDP) per annum.

Against this background and prospects, the consultations discussions centered on the authorities' policies in the areas of investment and prices, rehabilitation of the public enterprise sector, budgetary policy, monetary policy, and external debt management.

^{1/} It may be noted that with the elimination of outstanding arrears, the cash deficit in 1986-87 would be higher.

2. Production, investment, and pricing policies

In recent years the Congolese economy has become increasingly dependent on the oil sector. With the likely stagnation in oil production in coming years, the Congolese authorities have recognized the need to diversify the economy and promote production in the non-oil sector to ensure sustained economic growth, and to increase production and diversify exports, particularly agricultural and forestry exports. They indicated that an agreement with the World Bank will be reached soon on the Bank's assistance in the development of the agricultural sector. Another area where the authorities intend to place greater emphasis is the development of small- and medium-scale enterprises. The staff stressed that the improvement of non-oil activities will require appropriate producer and consumer pricing policies, in particular in the agricultural sector, a reorientation of investment toward productive sectors, and the rehabilitation of public enterprises.

Investment under the 1982-86 plan has so far been largely concentrated in infrastructure, notably road and building construction, and thus has not contributed significantly to enlarging the non-oil sector and generating foreign exchange to service the external debt. While underscoring the importance of limiting the investment programs to levels consistent with the availability of resources, the staff stressed the need to reorient investment more toward the directly productive sectors of the economy, in particular agriculture and forestry, taking into account the recommendations of the World Bank. The Congolese representatives concurred that infrastructure investment had increased very rapidly in the past, but felt that this was needed to set the stage for productive investment and for the development of the non-oil sector. For the remaining period of the Plan, it has been decided to channel more resources toward the directly productive sector. With regard to the level of investment, the Congolese representatives indicated that, during the period of adjustment, investment will be contained to levels below those realized in recent years. Weaknesses in the coordination of investment decisions and implementation, resulting in large cost overruns, had also been a problem; in many cases projects had been started with insufficient preparation, entailing costly revisions at a later stage. To contain the level of investment and address these problems, a specific list of projects will be determined, a number of projects under the 1982-86 Plan will be postponed, and a strict control on the implementation of the investment program will be imposed; since early 1985 any external borrowing requires the express approval of the Ministries of Planning and Finance. The authorities added that private sector investment, in particular to develop small and medium scale enterprises, will be encouraged.

3. Public enterprises

The growth of the non-oil sector of the economy will require the rehabilitation of the public enterprises which dominate the manufacturing, modern agricultural, transportation, and utilities sectors. In recent years, these enterprises have registered increasing operating deficits

and have accumulated payments arrears, notwithstanding the receipt of large budgetary transfers from the Government. The cumulative operating losses of these enterprises during 1980-84 exceeded CFAF 72 billion of which CFAF 51 billion were accumulated in 1983 and 1984. The authorities have recognized the importance of the rehabilitation of these enterprises, and in 1983 they decided to improve the management of several. Also, more recently, recruitment has been curtailed and the prices of petroleum products have been raised; these actions resulted in an improvement in the financial situation of some enterprises. However, these measures met with limited success, as the bulk of the public enterprises have continued to register large deficits. Without strong adjustment measures, the public sector will continue to face severe difficulties, and the budgetary transfers to this sector will not bring about a fundamental improvement in the performance of these enterprises. The measures which need to be implemented, without delay, include reduced hiring, flexible pricing policies, and improved management. The authorities are committed to the rehabilitation of public enterprises, with possible assistance from the World Bank. They are determined to implement the requisite measures, to liquidate nonviable enterprises and to allow private sector participation in others. They stressed, however, that they have to reconcile their economic and social objectives. The World Bank has indicated its readiness to assist the authorities in a rehabilitation program for the public enterprises sector, but World Bank involvement in this area depends on reaching an agreement with the Government on the substance of the needed policy reforms and a timetable to carry them out.

4. Fiscal policy

The Congolese representatives concurred that a substantial reduction in the budgetary deficit in 1985-87 is needed to achieve a sustainable domestic and external financial position. Under their adjustment program, the authorities indicated their intention to achieve a sustainable fiscal situation by 1988. In addition to scaling down the investment program, the growth of current spending would be strictly limited. The authorities indicated their intention to freeze wages and salaries in 1985-87, to cut expenditure on materials, and to reduce budgetary transfers to public enterprises. The authorities stated that, in order to freeze expenditure on wages and salaries, an audit will be undertaken to determine those employees no longer in the civil service but still on the payroll; that early retirement will be encouraged; and that fringe and other benefits will be reduced. Given the likely stagnation of oil receipts, efforts will also be made to diversify non-oil receipts through a revision of the tax system, strengthening of tax administration, and the introduction of a value-added tax. The staff stressed the importance of tackling the structural problems in the budget so as to contain the growth of current spending. In particular, a freeze on expenditure on wages and salaries would be feasible only through a freeze or a reduction in the number of employees which would entail

abandoning the current employment policy. A reduction in transfers would also require a fundamental change in education policy in order to limit scholarships. The reduction in transfers to public enterprises will also be feasible only if strong adjustment measures are undertaken to rehabilitate these enterprises. Furthermore, if these enterprises continue to be unable to service their external debt, the Government will have to take over the servicing of this debt which is guaranteed by the Government. Without major structural adjustment measures, the reduction in the budgetary deficit and the rehabilitation of public enterprises will be difficult and further accumulation of domestic and external arrears will occur.

5. Monetary policy

The Congolese representatives shared the view that a tight fiscal policy has to be accompanied by a restrictive credit policy to avoid exerting undue pressures on prices and the external position. In recent years credit policy has been accommodating, and credit has expanded sharply while the banks experienced growing liquidity problems. The monetary authorities were also concerned about increasingly risky loans to loss-making state enterprises. Accordingly, the Congolese representatives concurred that there was a need to follow a restrictive credit policy. In this regard, an improvement in the fiscal position should make it possible for the monetary authorities to accommodate the credit needs of the productive sectors. The staff also stressed the importance of enhancing the effectiveness of credit control instruments and of pursuing an active interest rate policy to improve resource allocation and the mobilization of savings; most deposit rates are now negative in real terms. Recently, some consideration had been given to increasing interest rates within the BEAC. However, in view of the recent downward trend in international rates, the decision had been taken to delay consideration of any increases. In addition, a proposal for an area-wide money market is being studied; it was hoped to implement the proposed system during the course of 1986.

6. External sector

As noted above, the medium-term outlook for the balance of payments will depend crucially on the adjustment measures to be implemented by the authorities, and on the volume of production and the world market price of oil, as well as on exchange rate movements. The staff representatives stressed that the achievement of a sustainable balance of payments position over the medium term will require the implementation of the adjustment measures (discussed above) that will contain demand pressures, and thereby imports, and promote non-oil exports. The Congolese representatives reiterated their determination to undertake the necessary adjustment measures.

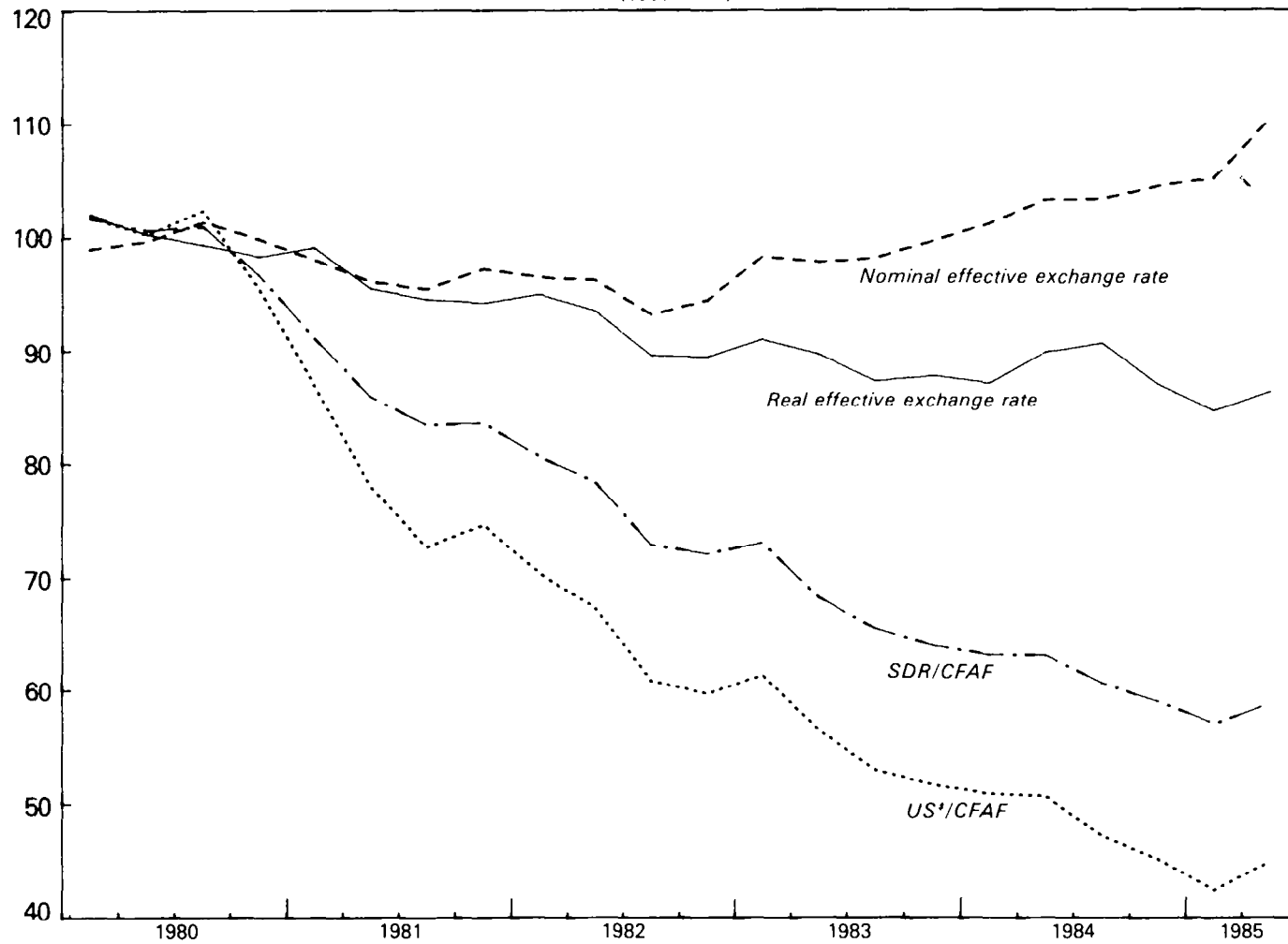
The recent rapid rise in the Congo's external indebtedness has led to debt servicing problems. The implementation of appropriate adjustment measures should eliminate the existing arrears and prevent the accumulation of new ones. The Congolese authorities concurred with the need for restraint in external borrowing. They were cognizant of the need to strengthen the country's reserve position and to preserve its borrowing capacity and indicated that the scaling down in the investment program, and the strict control of new borrowing, as well as the reliance on nonconcessional loans, should help reduce the debt burden and improve the debt profile. In addition, further efforts would be made to improve debt management, including a better coverage of private sector external debt, by strengthening the debt amortization fund (the Caisse Congolaise d'Amortissement) and improving coordination between the amortization fund and the Ministries of Finance and Planning.

The Congo's exchange and trade system is similar to that of other French franc area countries which maintain an operations account with the French Treasury. Between 1980 and the second quarter of 1985, the exchange rate of the Congo's currency, the CFA franc, which is pegged to the French franc, depreciated by 55.1 percent vis-à-vis the U.S. dollar (see Chart). Over the same period, the real effective trade-weighted exchange rate depreciated by 13.6 percent.

The Congo maintains a system of trade and payments that is free of restrictions on payments and transfers for current international transactions with France and all countries linked with the French Treasury by an operations account. Imports from all other countries are subject to licensing, and payments for invisibles to these countries are subject to approval checks for capital control purposes. Capital transfers to these countries require exchange control approval and are restricted, but capital receipts are permitted freely. Arrears on official external obligations have arisen in recent years as a result of the Government's lack of domestic currency; as such, they do not constitute an exchange restriction under Article VIII.

CHART 1
PEOPLES REPUBLIC OF THE CONGO
EXCHANGE RATE INDICES, 1980-85

(1980 = 100)



Source: IMF, *International Financial Statistics*; and staff calculations.



IV. Staff Appraisal

With rapidly rising export proceeds and correspondingly increasing government revenues from oil in the early 1980s, the Congo adopted an ambitious Five-Year Economic and Social Development Plan, covering the period 1982-86, in the context of which both current and capital government expenditures were substantially expanded. The Plan was intended to set the stage for sustained economic growth in the post-petroleum era, giving priority to an improvement in the country's basic infrastructure and a strengthening of the productive base. The Plan envisaged total investments over the five years equivalent to nearly four times the level of GDP in 1981. In addition to an anticipated growth in resources from the oil sector, the financing of the Plan was to be covered by foreign borrowing.

However, in the first three years of the Plan, there was a shortfall in oil resources as output grew by less than anticipated and world market prices weakened. Moreover, beginning in 1983 the Congo experienced difficulties in attracting sufficient foreign capital. Faced with these developments, there was an inadequate policy response as government outlays were not cut back in line with reduced resource availability. As a result, during the period 1982-84, large internal and external imbalances emerged, and economic activity slowed markedly. These imbalances were exacerbated by the weak economic and financial performance of the public enterprise sector, which, even after receiving substantial government transfers in the form of current and capital subsidies, experienced continuing losses, owing to growing personnel costs, inflexible pricing policies which did not reflect production costs, and management problems. As the large imbalances in the public sector and the external current account could not be fully financed, they resulted in a sizable accumulation of domestic and external arrears. The Congo's gross official foreign reserves dropped to less than one week of imports at end-1984. Concomitantly, the Congo's outstanding external public debt rose rapidly and external debt service payments increased markedly in relation to both exports and budgetary revenues.

During the first half of 1985, the economic and financial situation continued to deteriorate and additional arrears were accumulated. For the year as a whole, real GDP is projected to decline, owing to a decline in oil production and stagnation in the non-oil sector. The budgetary and balance of payments deficits are projected to remain large, and public enterprises are expected to continue to experience severe financial difficulties.

The medium-term outlook is not favorable, especially in view of the likely stagnation of oil export receipts and rising external debt service obligations. Without strong adjustment measures, the Congo is likely to continue to face severe economic and financial difficulties. The balance of payments would come under severe pressure in the medium

term. The current account and the overall balance of payments would register growing deficits, and large financing gaps would remain. Similarly, the budgetary deficits would remain large and unfinanceable. Clearly, this situation is unsustainable and would result in a further sizable accumulation of arrears and would hamper economic growth.

The staff welcomes the authorities' decision to implement a program of adjustment covering the period from mid-1985 to 1987, with a view to achieving viable balance of payments and budgetary positions and re-establishing sustainable economic growth over the medium term. However, stronger adjustment measures than those so far proposed under the adjustment program will be required to come to grips with the country's serious problems and to achieve these objectives. In the budgetary area, given the likely stagnation of oil receipts, there is an urgent need to diversify non-oil receipts through a revision of the tax system, the strengthening of tax administration, and the introduction of new tax measures, including a value-added tax. Furthermore, it is crucial to tackle the structural problems in the budget so as to contain the growth of current spending, by freezing or even reducing the number of employees, readjusting education policy in order to limit scholarship outlays, and reducing transfers to public enterprises. The investment program will also have to be scaled down to levels consistent with the availability of resources, to be reoriented more toward the directly productive sectors of the economy, notably agriculture, and to take full account of economic and financial return criteria in project selection. Such a strategy will have to be accompanied by appropriate pricing policies, as well as by measures to encourage private sector investment and production. With regard to public enterprises, the staff welcomes the authorities' intention to rehabilitate or close enterprises, as appropriate, with the assistance of the World Bank; the measures that need to be implemented, without delay, include reductions in hiring, flexible pricing policies, and improved management. The above policies will have to be accompanied by a restrictive credit policy, more effective credit controls, and an active interest rate policy--most deposit rates are now negative in real terms. In the area of external debt, in view of the rising external debt burden, greater restraint on new borrowing, in particular on commercial terms, is called for. The staff also encourages the authorities to adopt the requisite measures in order to eliminate existing arrears and to avoid new ones. Even with strong adjustment measures, financing gaps would remain in 1985-87 and would have to be covered by exceptional financing, including debt rescheduling.

Economic analysis in the Congo continues to be constrained by limitations in the data base in various sectors. The authorities are making efforts to improve the data base; these efforts should be vigorously pursued.

The Article IV consultation discussions with the Congo are on a 12-month cycle.

V. Proposed Decision

The following draft decision is proposed for adoption by the Executive Board:

1. The Fund takes this decision in concluding the 1985 Article XIV consultation with the Congo, in light of the 1985 Article IV consultation with the Congo conducted under Decision No. 5392(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The Fund notes with satisfaction that the Congo continues to maintain an exchange system which is free of restrictions on payments and transfers for current international transactions.

People's Republic of the Congo - Relations with the Fund

(As of July 31, 1985)

I. Membership Status

Date of membership	July 10, 1963
Status	Article XIV

A. Financial Relations

II. General Department

Quota	SDR 37.30 million
Total Fund holdings	SDR 36.83 million (98.75 per- cent of quota)
Reserve tranche	SDR 0.48 million
Fund credit	--
Current operational budget	--

III. Current Stand-By or Extended Arrangement and Special Facilities

Current	None
Prior	On April 25, 1979 the Executive Board approved a one-year stand-by arrangement in an amount equivalent to SDR 4 million, representing 23.5 percent of the then quota, or 10.7 percent of the present quota (EBS/79/197); SDR 2.0 million of this arrangement was drawn. Earlier, in January 1977, a stand-by arrangement for SDR 4.7 million had been approved; this was fully drawn in June 1977.

IV. SDK Department

Net cumulative allocation	SDR 9.72 million
Holdings	SDR 1.8 million (18.6 percent of net cumulative allocation)
Current designation plan	--

People's Republic of the Congo - Relations with the Fund (concluded)

V. Administered Accounts

Trust Fund loans	SDR 12.70 million disbursed; SDR 10.26 million outstanding
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B. Nonfinancial Relations

VI. <u>Exchange System</u>	The CFA franc is pegged to the French franc, the intervention currency, at CFAF 1 = F 0.02.
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VII. Latest Article IV Consultation

Consultation discussions were held during June 1984, and the consultation was concluded by the Executive Board on November 5, 1984. Consultations with the Congo are on the 12-month cycle.

The Executive Board adopted the following decision:

1. The Fund takes this decision in concluding the 1984 Article XIV consultation with the People's Republic of the Congo, in light of the 1984 Article IV consultation with the People's Republic of the Congo conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The Fund notes with satisfaction that the People's Republic of the Congo continues to maintain an exchange system which is free of restrictions on payments and transfers for current international transactions.

VIII. <u>Technical Assistance</u>	None
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IX. <u>Resident Representative</u>	None
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People's Republic of the Congo - Relations with the World Bank Group

1. Operations

(In millions of U.S. dollars as of December 31, 1984)

<u>Project</u>	<u>Total</u> <u>(including undisbursed)</u>	<u>Disbursed</u>
Second education IBRD 1349-0	8.0	8.0
Third Highway IBRD 2227-0	12.7	2.1
Technical assistance IBRD 2285-0	11.0	3.3
Wood processing IBRD 2298-0	12.0	1.8
Petroleum sector technical assistance IDA 0971-0	5.0	3.9
Second Railway IDA 1047-0	30.0	26.8
River Transport IDA 1179-0	17.0	10.6

2. Loan disbursements

Cumulative through end-1982	27.1
Annual disbursements	
1983	11.8
1984	14.5
1985 (proj.)	10-15
1986 (proj.)	10-15
1987 (proj.)	10-15

3. Relations

The Bank's operations in the Congo were curtailed in 1984 because of the country's unwillingness to reduce its investment program and to restrict foreign borrowing. With the accumulation of repayment arrears, the Bank stopped disbursements under its loans in September 1984, and only resumed them in late February 1985, after settlement of outstanding arrears.

The Bank's program of assistance to the Congo focuses principally on rehabilitation of the state enterprise sector and promotion of agriculture. The basic condition to activate such a program is an up-front policy agreement with the Government, providing for restoration of financial equilibrium. Recent discussions between the Government and the Bank have substantially established the policy parameters on which Bank assistance would be based, particularly for the restoration of financial equilibria and for reform of the parastatal sector.

People's Republic of the Congo - Relations with the World Bank Group
(concluded)

A technical assistance program at the macro-economic level, in operation since 1983, aims at maintaining and expanding the dialogue on overall policy issues, particularly in the management of public finance and in investment planning.

A project for parastatal reform in the Water Supply sector is in an advanced stage of preparation and could be negotiated in 1985. A request for PPF financing to prepare a parastatal reform program for Telecommunications is being considered. For the next three years, the pace of operations is likely to be one loan for an average of about US\$10-15 million per year, but would depend on improved macro-economic performance.

Source: World Bank.

People's Republic of the Congo - Statistical Issues

1. Outstanding Statistical Issues

a. Real sector

(1) National accounts

The authorities have begun to compile estimates of gross domestic product (GDP) in real and nominal terms. However, the data are still very preliminary in character and are not yet available for publication.

(2) Prices

The official consumer price index (base 1984) reflects the consumption basket for European expatriates. There is a need to undertake a household expenditure survey as a first step toward compiling a more representative consumer price index.

b. Monetary accounts

Data on international liquidity and money and banking are reported to the Fund's Bureau of Statistics by the Head Office of the Banque des Etats de l'Afrique Centrale (BEAC) with time lags of up to six months. Discussions are under way with the BEAC to reduce this lag through the provision of international liquidity data via cable and the airmailing of all other monthly data as soon as they become available.

c. Government finance

The 1984 Government Finance Statistics Yearbook contains data only through 1980; furthermore, the data prior to 1980 are very incomplete. The authorities have now recommended a new correspondent who has recently submitted an updated derivation table with new annual data for the period 1981 through 1983.

d. External sector

(1) Balance of payments

A technical assistance mission in the field of balance of payments statistics was undertaken in November 1984. The mission report, which was submitted to the authorities in April 1985, emphasized, inter alia, the need for (a) an expansion in the content of the questionnaire used for oil companies with a view to having a better specification of their external transactions, and (b) an appropriate recording in the balance of payments of movements in arrears on external public debt.

People's Republic of the Congo - Statistical Issues (concluded)

(2) External trade

Only annual data are reported for publication in IFS; the latest data available relate to 1983. Data on direction of trade, as reported by the authorities, are available through 1982 in the case of exports and 1980 in the case of imports.

(3) External debt

Despite several years of technical assistance under World Bank financing, there are problems with both the coverage and currentness of external debt data, particularly where publicly-guaranteed and private debt are concerned.

2. Coverage, Currentness, and Reporting of Data in IFS

The table below shows the currentness and coverage of data published in the country page for the People's Republic of the Congo in the July 1985 issue of IFS. The data are based on reports sent to the Fund's Bureau of Statistics by the Banque des Etats de l'Afrique Centrale, which during the past year have been provided irregularly.

Status of IFS Data

		<u>Latest Data in July 1985 IFS</u>
Real Sector	- National Accounts	n.a.
	- Prices	September 1984
	- Production	October 1984
	- Employment	n.a.
	- Earnings	n.a.
Government Finance	- Deficit/Surplus	1980
	- Financing	1980
	- Debt	1980
Monetary Accounts	- Monetary Authorities	August 1984
	- Deposit Money Banks	August 1984
	- Other Financial Institutions	n.a.
External Sector	- Merchandise Trade: Value	1983
	Prices	n.a.
	- Balance of Payments	1984 (1st half)
	- International Reserves	August 1984
	- Exchange Rates	May 1985

