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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 19/72-2

10:04 a.m., August 26, 2019

2. Democratic Republic of the Congo—2019 Article IV Consultation

Documents: SM/19/204 and Correction 1; and Supplement 1; and Supplement 2; and Supplement 3; SM/19/205

Staff: Villafuerte Almeida, AFR; Sommer, SPR

Length: 59 minutes

Executive Board Attendance

T. Zhang, Acting Chair

Executive Directors	**Alternate Executive Directors**
	K. Obiora (AE)
M. Raghani (AF)	
	R. Morales (AG), Temporary
N. Ray (AP)	
	B. Saraiva (BR)
	P. Sun (CC)
	M. Mulas (CE), Temporary
L. Levonian (CO)	
	S. Benk (EC)
	P. Rozan (FF), Temporary
	K. Merk (GR)
	P. Dhillon (IN), Temporary
	M. Psalidopoulos (IT)
	I. Lopes (IT), Temporary
	K. Chikada (JA)
	K. Badsi (MD), Temporary
	M. Merhi (MI), Temporary
A. De Lannoy (NE)	
	J. Damgaard (NO), Temporary
	A. Tolstikov (RU), Temporary
	F. Rawah (SA), Temporary
	R. Pandit (ST), Temporary
	P. Trabinski (SZ)
S. Riach (UK)	
	P. Pollard (US), Temporary

G. Bauche, Acting Secretary
J. Morco, Summing Up Officer
D. Jiang, Board Operations Officer
L. Nagy-Baker, Verbatim Reporting Officer

Also Present
African Department: V. Davies, A. Fedelino, C. Gicquel, D. Robinson, M. Villafuerte Almeida. Corporate Services and Facilities: N. Massou. Finance Department: N. Denewet, H. Nguyen. Office of Executive Directors: At table Chikada, at the table Chikada. Strategy,

Policy, and Review Department: M. Sommer. World Bank Group: Y. Amde, A. Kaho. Executive Director: H. Beblawi (MI).

2. DEMOCRATIC REPUBLIC OF THE CONGO—2019 ARTICLE IV CONSULTATION

Mr. Raghani and Mr. Alle submitted the following statement:

Our Congolese authorities would like to thank Management and Staff for their effort that led to the resumption of the Article IV consultation with the Democratic Republic of Congo (DRC) delayed since 2015. In this regard, they are particularly grateful to the Managing Director for the fruitful meeting with President Tshisekedi on April 5 of this year, which paved the way for closer Fund engagement with DRC. The subsequent staff mission in Kinshasa provided the opportunity to discuss the main economic developments of the past years as well as the key challenges facing the Congolese economy. The authorities broadly share the thrust of staff reports as a fair reflection of the discussions and policy recommendations.

The Congolese authorities have managed to restore macroeconomic stability amid adverse shocks that included a sharp fall in world prices of the country's main exports and heightened and protracted security situations. The year 2018 has seen an improvement in macroeconomic indicators compared to the 2014-16 period, though an outbreak of the Ebola epidemic has added to the many challenges already facing the country.

The December 2018 presidential election and the ensued first-ever democratic transition in the DRC opened up promising possibilities for positive changes. The strong resolve of the new administration to combat corruption and significantly improve governance, paired with its fast-paced re-engagement with key external partners, are early signs that bode well for DRC's economic and social prospects

The Congolese authorities value the cooperation with the Fund and look forward to a strengthened engagement which will be instrumental in entrenching the new reform momentum. With the Board support, the conclusion of the 2019 Article IV consultation would give a strong signal to the international financial community on the authorities' commitment to reforms and sound economic management. Furthermore, this would open up possibilities for negotiating a Fund-supported program to meet balance-of-payment needs as already expressed by the authorities.

Key Economic Developments and Outlook

The 2014-18 period was characterized by two major and distinct developments. In 2014-16, the collapse in international prices of copper then cobalt had an adverse and deep impact on the economy given their importance in DRC's exports. Growth decelerated sharply from 6.9 percent in 2015 to 2.4 percent in 2016. Between 2015 and 2017, inflation rose from 1 percent to 36 percent on average. Government revenue decreased significantly, and the central bank stepped in to finance the deficit. The external position deteriorated as a result of falling exports receipts and reserves dwindled from 4.9 to 1.9 weeks of imports cover. The Congolese franc lost 72 percent of its value against the US dollar.

In 2017-18, the economy recovered somewhat as stronger copper and cobalt prices drove production and dynamism in the mining industry. GDP growth rate rebounded to an estimated 5.8 percent in 2018 while inflation dropped to 7.2 percent by year-end. Foreign reserves slightly improved to 2.6 weeks of imports and the Congolese franc depreciated by 2.5 percent over the year.

Alongside the improvement in mineral prices, the authorities have taken decisive actions to support the recovery. The central bank has played a significant role in these positive developments, including by adjusting downward [?] its policy rate and conducting operations to manage reserves. Economic figures from the first half of 2019 confirm that the authorities' actions are bearing fruits and that the recovery is firming up despite challenges. Inflation and has continued to decline while the depreciation rate of the Congolese franc has moderated, and international reserves have strengthened. As well, financial conditions have continued to improve since end-2018. Dollarization in the financial system has steadied and credit to the private sector has strongly recovered.

Our authorities remain cautiously optimistic about the outlook. First, the recovery that started in 2018 should continue and form the basis for a stronger baseline growth forecast of 5.9 percent in 2019 compared to staff's scenario of 4.3 percent. Early investment projects should boost activity in the non-extractive sectors and contribute to overall growth. Second, the authorities foresee higher demand for their main exports resulting from increased global demand for electric cars. The confidence in the overall outlook is backed by the strong determination to initiate reforms and lift bottlenecks that have constrained the economy thus far. The planned actions to scale up public investment, improve the business climate and diversify the economy, are expected to yield high payoffs in the short to medium term. The authorities will also endeavor to address risks, including mobilizing more revenue to build buffers against shocks and stepping up actions to fight insecurity and contain the Ebola epidemic.

Policies and Reforms Going Forward

President Tshisekedi has early on made public his commitment to overhaul governance in DRC and engage in comprehensive reforms both to improve democracy and give a new impetus to the economy. His 100-Daysprogram gave an indication of this agenda with an emphasis on four pillars: (i) promoting good governance; (ii) sustaining economic growth; (iii) fostering human well-being; and (iv) ensuring solidarity. The positive outcome of this program will form the ground for policies and reforms going forward. The interactions with Fund staff during the Article IV mission have helped shed more light on challenges and on specific policy priorities as well. Accordingly, in the period ahead, the authorities will endeavor to increase domestic revenue mobilization, scale up public investment while strengthening the quality of capital spending, enhance monetary and financial sector policies, improve the business climate and diversify the economy.

Stepping up domestic revenue mobilization

The authorities are committed to working towards significantly increasing DRC's tax-to-GDP ratio from the current 12 percent which is low compared to peers. To this end, they intend to take actions on many fronts. First, they are committed to enforcing the new Mining Code for the government to get its fair share of resource revenue. Second, taxes, tax collection processes and institutions will be reviewed to enhance transparency and accountability and ensure that revenue effectively goes to the Treasury. An important effort also lies in collecting more non-resource revenue, including by broadening the tax base and streamlining tax expenditures. The recently completed tax expenditure assessment with the assistance of FAD and the World Bank will help rationalization going forward.

Reforms on the expenditure side will complement revenue efforts to create fiscal space for much-needed public investment. In the face of scarce resources, the authorities are determined to address any source of potential waste. The current balance of current expenditures versus investment would be reversed to emphasize the latter.

Scaling up public investment and strengthening its quality

Scaling up public investment to close the infrastructure gap ranks high on the authorities' agenda as evidenced by early actions under the president's 100-Days program. This strategy will gain more traction moving forward. For the financing, the government will rely on both domestic and external resources. The former will come from Treasury securities to be issued starting in 2019 and the latter is expected to kick in as the country normalizes its relations with its partners. DRC is ranked in the category of moderate risk of debt distress and has borrowing space. Yet, the authorities are committed to pursue a prudent debt strategy for maintaining long-term debt sustainability. This will entail reinforcing the selection of investment projects based on their economic and social returns and ensuring accountability in project execution.

Enhancing monetary and financial sector policies

Despite limited space for maneuver in the recent period, the authorities have utilized monetary and exchange rate policies to address the negative developments stemming from the shock on minerals' prices. Going forward, the authorities took good note of staff recommendations on the monetary policy stance and reserves management as welcomed inputs for their decision-making process. They particularly considered the advice on ways to fine-tune and improve the monetary policy framework. Likewise, aware of the weak external position, they are stepping up prudent macroeconomic policies and structural reforms to improve competitiveness and address external vulnerabilities. These policies should also help build trust in the Congolese Franc and contribute to de-dollarization.

The authorities clarified to staff the rationale behind the requirement made to mining companies under the new Mining Code of 2018, to repatriate 60 percent of export receipts to their accounts in the DRC and the restrictions on the use of these resources. This measure is meant to increase the spillover of the mining industry to the rest of the economy and address some loopholes in the past Code. They took note of staff assessment that "this measure constitutes a tightening of the existing capital flow management measure (CFM) under the Fund's Institutional View on capital flows".

The financial sector's indicators have improved significantly as a result of the improved economic situation. The authorities are taking steps to further strengthen the sector so that banks can avail enough credit to match the expected dynamism of the private sector. A new Central Bank Law enacted in December 2018 reinforces its supervisory role and banks ultimately. The minimum capital requirement has been increased to US$30 million - as recommended by the last FSAP – and the majority of banks have complied with this requirement. The minimum capital requirement is planned to be raised to US$50 million at end-2020. The authorities are also committed to addressing the loss of correspondent banking relations (CBRs), including by improving their AML/CFT framework. In addition to steps taken recently including an onsite evaluation against the 2012 FATF standards in late 2018, the prompt implementation of the upcoming mutual evaluation's priority actions should help improve the framework.

Improving the business climate

The authorities are committed to improving the business climate with the view to attracting private sector investment. The provision of infrastructures including in the underserved regions is part of this objective. Many other planned initiatives, such as tax reforms, the civil service reform, the enforcement of property rights and a professional and independent judiciary system would contribute to enhance the business climate. As well, combating corruption and improving overall governance should also contribute to the same goal. In this regard, efforts will be made to improve transparency in the mining sector, including in the management of key SOEs such as Gecamines and Sicomines. Moreover, the results of the forthcoming governance assessment under the Fund's new governance framework would help the authorities in the design and prioritization of their reform plans.

Diversifying the economy

The dependency on mineral export is a major vulnerability that should be addressed. The authorities envisage strategies to add value locally to minerals through medium-sized processing units across resource-rich regions. This approach is meant to limit revenue volatility associated with the export of raw materials and provide job opportunities to youths. They also intend to promote other sectors like agriculture and agri-business. These job-rich sectors are as well targeted for their potential to help address poverty in rural areas. Additionally, it is expected that efforts to improve the business climate paired with policies to attract private investment would help promote activities in the non-resource sector. The flow of foreign investors which have been exploring business opportunities in DRC since the presidential elections bodes well for the future.

Conclusion

The Democratic Republic of Congo has come a long way towards improving its economic prospects. The authorities have strived to restore macroeconomic stability and spur recovery following shocks in recent years related to the high volatility in the world prices of its main mineral exports. Furthermore, the new leadership that emerged from the end-2018 presidential election has taken decisive steps to re-engage with key external partners while setting an ambitious reform agenda. A renewed relationship with the Fund ranks high among the country's priorities to deliver on its development agenda.

In view of the authorities' commitment, we would appreciate Executive Directors' support for the conclusion of the 2019 Article IV consultation.

Mr. Ostros and Mr. Damgaard submitted the following statement:

We thank staff for the comprehensive set of papers and Mr. Raghani and Mr. Alle for their informative buff statement. The Democratic Republic of the Congo is facing a difficult economic situation with widespread poverty and weak social indicators. Fiscal capacity is limited, and corruption remains an issue. However, growth has picked up in the last couple of years with stronger copper and cobalt prices, and inflation has come down from very high levels. We broadly agree with staff's appraisal and offer the following points for emphasis.

We welcome the authorities' commitment to balance the budget, but additional efforts should be made to enhance revenue mobilization. An increased resource envelope is vital to scale up public investments, including much-needed infrastructure investments. We agree with staff's recommendation on the need for capacity development on fiscal issues, particularly to simplify the tax system and enhance revenue collection. At the same time, the authorities should focus on expenditure efficiency and keep the public wage bill in check. Staff mentions that donor financing could be forthcoming, though not in the immediate future. Could staff elaborate on the prospects for future donor support? And how do the authorities best avoid a situation with rapidly increasing public debt as observed in other countries in the region with large investment needs?

Continued financial sector reforms are necessary to enhance the resilience of the financial sector and to promote healthy financial intermediation. The regulatory framework should be strengthened to better address the elevated financial sector vulnerabilities, and the AML/CFT framework should be enhanced in line with best international practice. We also encourage the authorities to improve the microfinance legislation to promote inclusive growth and financial inclusion. We welcome the new Central Bank Law and its focus on reinforcing independence and recapitalizing the central bank. However, we note that international reserves are very low and have been trending downward.

We encourage the authorities to push forward with their plans to curb corruption and improve economic governance. Specifically, the 2011 decree to publish all mining, oil, and forestry contracts should be fully applied, and the passage of the anti-corruption law and the law establishing an independent anti-corruption commission should be expedited. In addition, steps should be taken to improve the business climate and thereby accelerate growth. We agree with staff's recommendations to reduce red tape, simplify the tax system, and provide regulatory and physical security to the business community.

Finally, we welcome the first Article IV since 2015 and commend the authorities for the re-engagement with the IMF. We also note that the authorities have expressed interest in a Fund-supported program to accompany their economic development agenda. Could staff elaborate on the scope for an IMF program as well as the terms and conditions for such program?

Ms. Pollard and Ms. Crane submitted the following statement:

We thank staff for the informative papers and Messrs. Raghani and Alee for the helpful buff statement. We welcome this long overdue Article IV review and urge the authorities to meet their surveillance commitments in a timelier manner going forward. While the staff report highlights some positive steps, the overall picture is of a fragile economy with high poverty and poor social outcomes, where the nexus of natural resource revenue, weak public financial management, and corruption is at the root of many problems. We concur with staff that a decisive reform push is needed, but it remains to be seen whether the authorities will have the commitment and skill to advance reforms against a raft of challenges including insecurity and vested interests. We urge the new finance team, once in place, to work with IMF staff and other development partners to identify the most critical reforms and make sure that donor resources and technical assistance are well-targeted toward key priorities.

Fiscal and debt sustainability. A simpler tax system with a broader base and reduced opportunities for corruption, as well as stronger controls on budgetary spending, should be urgent reform priorities. The authorities have much work to do to build trust in government, that taxes paid will be matched with services that have value for the public. We urge the authorities to move forward step by step on revenue mobilization, in line with staff advice, to integrate mining revenues fully into the Treasury, reduce tax exemptions, simplify the tax system, and improve tax administration and control of borders. Can staff comment on what a healthy balance between resource and non-resource revenues would look like for a country like DRC? We also encourage the authorities to improve the quality of public financial management, which will require reducing the use of emergency spending procedures, carefully vetting public investment projects, and avoiding opaque and/or expensive borrowing. Can staff comment on actions the authorities should take to strengthen investment management prior to scaling up of public investment? Do the authorities concur with staff on the risks of collateralized borrowing?

Anti-corruption and AML/CFT. Corruption is a macro-critical issue in DRC. We urge the authorities to work alongside civil society to root out corruption and increase transparency in the natural resource sector, SOEs, and in public financial management more broadly. We welcome the authorities' interest in an IMF governance assessment. Stronger attention to AML/CFT issues will be needed to safeguard DRC's remining correspondent banking relationships. We welcome DRC's membership in the Financial Action Task Force-style regional body, the Task Force on Money Laundering in Central Africa (GABAC), and echo staff in urging prompt implementation of any priorities identified in the GABAC mutual evaluation.

IMF engagement. Should the authorities wish to pursue a significant reform program with IMF financial support, an initial period under an SMP—with a strong focus on improving public financial management—would be an appropriate bridge following years of arms-length engagement with no active IMF surveillance. Attention to building social safety nets, in cooperation with the multilateral development banks and other social partners, would also be key to any potential IMF program. While the staff paper notes the possibility of a Rapid Credit Facility should the Ebola epidemic and its economic impact worsen, we hope that recent breakthroughs on Ebola treatments will prove to be a turning point that allows Ebola impacts to be contained.

Mr. Benk and Mr. Zaborovskiy submitted the following statement:

We thank staff for the informative set of documents, including the insightful Selected Issues Papers (SIPs), and Messrs. Raghani and Alle for their helpful buff statement. We would like to express our deep condolences for the loss of life caused by the severe Ebola outbreak in the Democratic Republic of the Congo (DRC). The epidemic has led to a further deterioration of the already daunting economic and social situation in the country. Some reports[1] recently mentioned that the preliminary data from a medical trial offer hope for stopping the deadly epidemic. This sign of progress, as well as the DRC authorities' efforts to re-engage with the Fund after a long hiatus, are welcome. While we agree with the thrust of the staff appraisal, we would like to make the following comments for emphasis.

Budget discipline, revenue mobilization, and spending efficiency should be prioritized in the fiscal sphere. Rebuilding the whole public financial management process, simplifying the tax system while broadening the tax base, and strengthening revenue management remain critical to support sustainable economic development in the DRC. We strongly encourage the authorities to integrate mining revenues into the central government Treasury; and step up efforts to improve the monitoring and governance of the state-owned sector, especially the public companies in the mining industry. Considering the recent slide in copper prices, we welcome staff's further elaborations on its impact on the budget revenue projections and economic forecast presented in the report. Staff's recommendations on natural resource management outlined in the related SIP, including higher transparency, a competitive bidding process, and anti-corruption measures, deserve careful consideration and implementation by the DRC authorities. We take note of the DRC's moderate risk of external and overall debt distress, as well as the limited space to absorb shocks. Regarding the projected payments to the Fund mentioned in the Informational Annex, we would like staff to comment on the DRC's capacity to repay the Fund on time, according to the outlined schedule.

The rule of zero central bank financing of the government should guide the monetary policy. The central bank's monetary aggregates targeting seems to deliver satisfactory results. However, the high dollarization and shallow financial market distort the transmission. Under these circumstances, the monetary policy should remain disciplined, avoiding monetizing the fiscal deficit, and preserving price stability. Fine-tuning the monetary policy framework would be beneficial considering the abundant liquidity in the banking system and the weaker-than-warranted external position. We encourage the authorities to stay on course to strengthen central bank independence and enhance financial transparency, continue with accumulating foreign exchange reserves, and accelerate efforts to avoid exchange rate misalignment. We echo staff's call for the recapitalization of the central bank to help the institution fulfill its mandates.

[1] https://www.wsj.com/articles/two-experimental-ebola-drugs-reduce-mortality-rate-11565635580

Adopting the Financial Sector Assessment Program's recommendations and strengthening the AML/CFT framework would facilitate the DRC financial sector's development. The banking sector in the DRC remains weak and financial inclusion is significantly below the sub-Saharan African average. As rightly shown in the SIP on macrofinancial linkages, fostering financial stability requires a\ complex set of appropriate policies, including a strong macroeconomic policy mix and a robust financial supervision framework. In this regard, we encourage the authorities to fully align the draft banking law with best international practices and prioritize its steadfast enactment. Since only one bank in the DRC maintains correspondent banking relations, we strongly encourage the authorities to fix the system-wide deficiencies against the Financial Action Task Force standards and improve its AML/CFT framework informed by the upcoming mutual evaluation.

Institutional improvements in key areas such as governance, anti-corruption, transparency would be crucial to strengthen business environment. As rightly pointed out in the SIP on poverty and government social spending, bringing peace to conflict-afflicted parts of the country and increasing targeted social assistance are necessary starting points for facilitating the DRC's economic development. Continued persistence will be needed to enforce anti-corruption legislation, enhance transparency through public tendering, and implement business-friendly reforms. We encourage the authorities to accelerate their efforts and we support the Fund's technical assistance where needed to enhance their capacity to do so.

Mr. Obiora and Mr. Essuvi submitted the following statement:

We broadly agree with the thrust of the staff appraisal. We congratulate the government and people of the Democratic Republic of the Congo (DRC) for a peaceful political transition and for their commitment to re-engage with the Fund after the last Article IV Consultation held in June 2015. Although the DRC's economy is recovering from the 2014–2016 commodities price slump, daunting challenges remain stemming from the risk of Ebola outbreak, violent conflicts in the northeastern part of the country, as well as potential commodities price shocks. Against this backdrop, we urge the authorities to strengthen fiscal and monetary policies, steadfastly implement structural reforms and enhance transparency to promote a more sustainable and inclusive growth.

Boosting revenue mobilization is critical to scale-up much-needed public investment. Despite plethora of natural resources, the DRC is one of the poorest countries in the world with widespread poverty of about 77 percent. Reversing this situation requires scaled-up and urgent investments in infrastructure and social spending, which in turn calls for a strengthening of revenue mobilization efforts. We urge the authorities to reinforce institutional and human capacities for revenue collection and management, including a simplification of the tax system, centralization of tax collection into one agency, and further training of officials to deal with the complexity of the natural resource taxation system. To this end, we welcome the approval of the new Mining Code in June 2018, which will boost revenues in the sector. Notwithstanding this applaudable development, we are concerned that projections of total tax revenues, including mining royalties for 2019, are decreasing relative to 2018, and would welcome staff comments on potential factors underlying this.

Enhancing transparency will improve budget credibility. Regardless of the progress made in the budget process, numerous challenges remain to improve the transparency of budget preparation and execution. Although the 2011 Public Finance Law introduced the medium-term fiscal and expenditure framework to improve revenue and expenditure projections, much work remains to actually implement this law. In this connection, we urge the authorities to restore the expenditure chain process by developing an electronic system for public finance management. We also encourage them to finalize the implementation of the Single Treasury Account and strengthen accountability and oversight of SOEs as these measures will help improve the budget credibility. To this end, we welcome the forthcoming governance assessment under the Fund's new governance framework as indicated in the enlightening buff Statement by Mr. Raghani and Mr. Alle.

The autonomy of the Central Bank of Congo (BCC) is essential for effective monetary policy. While we agree with staff's assessment that the current monetary stance is appropriate, strengthening the financial and operational autonomy of the BCC will be crucial to improving the effectiveness of its mandate. Given the country's weak external position and potential commodity price shocks, the BCC should strive to increase its foreign exchange reserves and create other policy buffers to anchor the stability of the financial system and to respond effectively in case the need arises.

Addressing vulnerabilities remains critical to enhancing the resilience of the financial system. Reflecting persisting challenges from the 2014–2016 crisis, the deterioration in overall financial soundness and the increased fragilities of some commercial banks warrant greater vigilance and better supervision. In this connection, we welcome the authorities' decision to increase the minimum capital requirements for commercial banks. Furthermore, we urge the authorities to strengthen the legal supervisory framework aligned with the 2014 FSAP recommendations, including strengthening crisis management practices, and enhancing credit information. To this end, we are encouraged by the approval of the new BCC Law enacted in December 2018. We note staff's mention of a Banking Law to regulate credit institutions and would welcome further elaboration on this development. What is the rationale for this law? Is it being championed by the Central Bank?

Structural reforms are required to enhance inclusive growth and reduce poverty. Several structural bottlenecks appear to be hampering poverty reduction, inclusive growth and diversification of the DRC's economy. To deal with these challenges, we urge the authorities to consider simplifying the tax system for small and medium-size enterprises; protecting and reinforcing properties rights; engendering the independence of the judiciary; and fighting corruption at all levels of government. Additionally, investment in infrastructure, and boosting credit to the private sector could act as a fillip to promoting a more sustainable and inclusive growth.

Mr. Merk and Mr. Braeuer submitted the following statement:

We thank staff for their informative and well written report and Mr. Raghani and Mr. Alle for their helpful buff statement. We welcome the authorities' decision to engage in the first Art. IV consultation since 2015. In an environment, that has recently been more challenging and is characterized by receding export prices, persistent security concerns and, most currently, public health threats, it is encouraging to see that the economy has proved largely robust. Yet, substantial external and domestic risks and daunting policy challenges remain. Could staff provide an update on the current state of the Ebola outbreak, including its economic impact and related risks?

The relatively smooth transition to a new presidency in the beginning of the year represents a valuable opportunity and an obligation for the authorities to promote the re-engagement with the Fund, to secure macroeconomic stability by firmly enrooting prudent economic policies and to engage in bold structural reforms in order to facilitate poverty reduction and more robust, sustainable and inclusive growth.

We broadly concur with staff's assessment and policy recommendations and want to highlight the following points, mainly for emphasis:

We concur with staff that a tight fiscal stance remains appropriate. The new presidency's determination to scale up expenditure to tackle the infrastructure gap is understandable. However, timing appears to be a crucial factor in this regard. The authorities should first strengthen revenues including by improving tax compliance and the efficiency of tax collection. In parallel, current spending should be restrained including by reforms in the civil service to moderate public wage expenses. Further, substantial advances in efficiency, transparency and accountability of institutions, especially with regard to improvements in project management as well as in public financial management, should precede the fiscal expansion envisaged. As staff rightly emphasizes, the authorities should avoid expensive external borrowing, collateralized loans and external arrears.

Monetary financing of the budget, if resumed, represents a major risk for economic stability. Not least with a view to recent years' renewed spike in inflation, an adequately capitalized and effectively independent central bank remains of the essence to build trust and avoid harmful fiscal dominance. Could staff provide their assessment of the new Central Bank Law's effectiveness in this regard? Foreign exchange reserves should be strengthened with a close watch on potential inflationary pressures.

We highly welcome the authorities' focus on fighting corruption and enhancing governance. It appears all parties involved agree that decisive additional actions are necessary in this regard. We are looking forward to tangible progress in the near future, informed by the envisaged IMF governance assessment.

We welcome the authorities' interest in entering into a closer dialogue with the Fund and take note of their interest in a Fund-supported program. Based on staff's assessment, a potential financial arrangement would likely be fraught with considerable program risks, including political and implementation risks. Should discussions on a Fund-supported program– commence, we would expect that necessary safeguards are put in place and a credible, yet adequately ambitious program of sustained transformational reforms and pro-poor policies are agreed on. For this, we expect clear reform signals from the new government as soon as it has taken up its work.

Mr. Psalidopoulos and Ms. Lopes submitted the following statement:

We thank staff for the helpful reports and Mr. Raghani and Mr. Alle for the insightful buff statement. We welcome the resumption of the Article IV consultations with the Democratic Republic of the Congo (DRC), after the interregnum of four years. In a country marked by fragility, with pervasive poverty and frail institutions, it is crucial for the authorities to press ahead with reforms to achieve the desired strong and inclusive growth path. We agree with staff that while policies have been contributing to macroeconomic stability, they are not sufficient to tackle the deep-rooted structural challenges of the country. As we broadly share staff's assessment we would just like to make a few points for emphasis.

On the fiscal front, we agree that the current tight fiscal stance should be maintained, for as long as financing sources remain limited. However, going forward, revenue mobilization needs to be improved; we support the calls to simplify the tax system and to strengthen the tax base, and look forward to the plan to rationalize tax expenditures. Strengthening PFM and expenditure efficiency should also contribute to improve the effectiveness of the fiscal policy.

Improving the management of DRC's large natural resources' endowment is crucial. We thank staff for the helpful SIP in this matter, and share the proposed recommendations, notably regarding the importance of increasing transparency and improving governance of the sector. We note that staff's assessment of the revised mining code is mixed – a few positive elements are identified, but some drawbacks that can weaken the mining sector activity are flagged. In this context, we would like to ask staff whether the authorities are considering looking at changing any elements of the code.

We support staff's view that the monetary policy stance is adequate. We welcome the enactment of the new Central Bank Law that should reinforce its independence, accountability, as well as to increase its capital. However, we note that staff still considers that the "central bank would benefit from increased autonomy and enhanced financial transparency". We were wondering what would this advice entail in practice: does staff consider that a new revision of the Central Bank Law is needed, or the full enactment of this law would be sufficient?

Lastly, we note that the report as well as the buff statement mention the interest of the authorities of having a Fund-supported program to accompany their economic development agenda. We wonder whether there is a timeline and modality for such engagement.

Mr. Siriwardana and Mr. Singh submitted the following statement:

We thank the staff for their comprehensive reports on economic situation in the DRC and Mr. Raghani and Mr. Alle for their informative buff statement.

The country is grappling with its worst ever outbreak of the deadly Ebola disease and faces considerable development challenges amid the commodity price shocks. The political transition provides an opportunity for reform to reduce widespread poverty, create jobs, and promote inclusive growth. Prudent macroeconomic policies have helped stimulate a recovery. Green shoots are reflected in improved GDP growth, buoyed by higher commodity prices, falling inflation, and a marginal budget surplus. It is critical to consolidate and build on these gains to sustain the growth momentum, going forward.

We agree that the key policy recommendations contained in the Staff report encompassing increasing fiscal space and budget credibility; improving monetary and exchange rate policies; strengthening financial sector policies; and improving business environment, governance, and corruption, should get adequate attention.

We concur that DRC needs to strengthen its fiscal position and create fiscal space by improving its revenue mobilization levels. The challenges, viz., proliferation of taxes and tax institutions; widespread fiscal exemptions; a narrow tax base; and long, porous borders, need to be addressed. Second, the central bank needs to be recapitalized to restore confidence in the local currency and ensure its operational effectiveness. Third, the need to strengthen toolkits to supervise and resolve banks with problems. Fourth, promoting transparency and accountability in the management of natural resources is needed. Although some efforts are underway in these areas, improvement overall business climate is imperative to accelerate growth and foster inclusion.

The turnaround in the economy may hinge on strengthening governance and developing human capital. We welcome the new government’s 100 day-program focusing on good governance and sustainable economic growth and also the intention to scale up public investment to reduce a large infrastructure gap. However, these announcements may be implemented in a time bound manner to yield visible dividends.

With these comments, we wish the authorities continued success in their reform endeavors to realize their developmental goals. We would also like to place our appreciation for the efforts of both the IMF and the national authorities in re-engaging in the Article IV process.

Mr. Chikada and Mr. Kuretani submitted the following statement:

We thank staff for the comprehensive reports and Mr. Raghani and Mr. Alle for their informative statement. We welcome that Democratic Republic of the Congo (DRC) has re-engaged in the consultation after a long hiatus since 2015. We also appreciate the Fund staff's engagement in still challenging environment.

While the staff report highlights some encouraging progress, there remain substantial challenges, particularly DRC's high dependence on mining sector, its limited fiscal capacity and the dollarized financial sector. In this regard, we support the staff's proposal as well as the authorities' resolve to implement the transformational reforms including strengthening domestic revenue mobilization. As we broadly concur with the thrust of the staff appraisal, we would like to limit our comments to the following points:

Fiscal Policy

Increasing domestic revenue mobilization is critical to create sustainable fiscal space for much-needed development spending. We welcome that the authorities have already introduced the new Mining Code in 2018 to boost mining revenues. However, more needs to be done to strengthen the fiscal capacity and develop the economy. We agree with staff that the authorities should further integrate mining revenue into the central government's Treasury and strengthen tax administration. In addition, the current tax system is extremely complex and fragmented. In this regard, we also concur with staff that a simplification of tax system should strengthen the tax base and enhance revenue collection.

Public Financial Management systems need to be strengthened to improve fiscal management and the efficiency of public expenditures. The country faces insufficient fiscal space to tackle its large and long-standing development needs. Therefore, we support the staff's view that the authorities should maintain a prudent expenditure policy aligned with realistic revenue projections and strictly adhere with the rule of zero central bank financing of the government budget. In this regard, we encourage the authorities to implement the Fund capacity development advices.

De-dollarization

While de-dollarization would require considerable time to accomplish, it needs to be tackled in a coherent and steady manner so as to establish trust in the Congolese Franc. In this regard, the above-mentioned fiscal reforms as well as strengthening the central bank's transparency and monetary policy capabilities would be prerequisite for the de-dollarization. We would also like to point out that a dollarized economy would not just hamper the monetary policy transmission mechanism, but it could also limit the authorities' lenders of the last resort function to alleviate liquidity stress and thus support the financial system. In this context, we view the current low level of foreign exchange reserves might require even more attention as the DRC's financial system is significantly dollarized, but the Central Bank of Congo's capacity to provide dollar liquidity would be limited. Could staff elaborate on the authorities' capacity and possible measures to support the dollarized financial institutions and financial system when faced with unforeseen liquidity stress, especially as the authorities seem to consider that DRC has ample foreign currency liquidity thanks to the mining sector with high foreign currency earning capacity?

Structural Reforms

Enhanced transparency is urgently needed; including through public tendering of mining assets, publication of all mining contracts, disclosure of true ownership of contractual parties, publication of audited financial statements of SOEs, and closely monitoring the management of public assets. We generally agree with staff that the authorities should address these transformational reforms to unleash economic activity and more inclusive growth. However, the authorities seem to have different views regarding difficulties of these reforms. Could staff elaborate more on how to better implement these reforms and share the other countries' successful reform examples for reference?

Mr. Di Tata and Mr. Morales submitted the following statement:

We thank staff for a clear report and Mr. Raghani and Mr. Alle for their informative buff statement.

Following elections, the Democratic Republic of the Congo (DRC) has experienced a peaceful period of transition so far this year. We hope that the reengagement with the Fund after a four-year hiatus would provide an opportunity to reopen a fruitful dialogue between staff and the authorities that would contribute to finding durable solutions to the long-standing structural problems facing the country. As Mr. Raghani and Mr. Alle indicate in their buff statement, the interaction between the authorities and Fund staff has already helped shed light on specific policy priorities for the Congolese government.

The DRC's economy remains extremely fragile. Continuous violent conflicts since independence and unsuccessful efforts to rebuild the state have translated into political instability, weak institutional capacity, and poor governance. Extreme poverty and the displacement of five million people add to the DRC's challenges. The 2014-2016 decline in the price of copper and cobalt, which constitute the bulk of Congolese exports, led to declining foreign exchange receipts and lower government revenue in recent years, and the prolonged political stalemate before the recent elections constrained access to external financing.

Revenue mobilization measures should take priority to address significant fiscal imbalances. Efforts should aim at substantially narrowing DRC's sizable tax compliance gap (estimated at 5.3 percent of GDP) within a framework that increasingly relies on non-mineral domestic sources. We encourage the authorities to promptly devise a plan to rationalize tax expenditures in line with the recent IMF-World Bank tax expenditure assessment. This should be complemented by comprehensive revenue administration measures addressing DRC's narrow tax base, the inefficient VAT system, proliferation of distorting taxes, overlap between national and provincial taxes, and widespread corruption. On a related point, the authorities should work on a comprehensive solution to eliminate VAT credit tax arrears with mining companies, which amount to US$1.3 billion, including by introducing appropriate institutional and audit arrangements.

To address revenue shortfalls, the authorities have introduced a new Mining Code that substantially raises mining royalties and taxes and eliminates accelerated depreciation provisions. However, staff observes that the new code could be improved by clarifying the application of the windfall profits tax, limiting the allocation of free shares to the state once a license is renewed, and revising the discretionary power to classify minerals as "strategic", among other issues. We would appreciate it if staff could usefully explain if changes to the Code could help deter foreign investors from challenging in courts the de-facto termination of the ten-year stability clause. On other related issues, we agree with staff that mining revenue, including from state-owned enterprises, should be integrated into the central government's treasury, and that tax administration improvements should be introduced, for example, to limit opportunities for transfer pricing.

Government expenditure plans should be adapted to available resources, and weekly cash management ad-hoc procedures should be phased out. To support these efforts, the DRC authorities should standardize spending procedures, allocate investment in line with available non-mineral fiscal revenue, and integrate all public sector accounts into the budget process for better control. We understand current pressures to initiate an ambitious investment program to address basic infrastructure needs. However, a sustainable scaling up of public investment should be based on an appropriate management of proceeds related to natural resources, for which we encourage the authorities to update the Fiscal Analysis of Resource Industries (FARI) model with Fund technical assistance.

The international community should step up logistical and financial support to tackle the Ebola public health emergency. Without firm action, the Ebola epidemic could rapidly spread to other countries in the region. We certainly support the possible use of the Rapid Credit Facility (RCF) to mitigate the impact on DRC's fiscal and external positions. For the medium term, a commitment to economic reform would help sustain a steady recovery in external financing. The authorities should promptly clear domestic arrears and adopt a medium-term debt strategy, including for state-owned enterprises' obligations, while maintaining strict policies to avoid expensive borrowing and undue collateralized loans. Could staff usefully explain its assessment of the government plans to issue treasury bonds in the current circumstances?

A rapid build-up of policy buffers is required to contain DRC's high vulnerability to external shocks. Global uncertainty is likely to affect commodity price volatility, an issue especially important for the DRC given that minerals exports account for more than 90 percent of total exports and 30 percent of GDP. We understand the need to ensure a higher repatriation of export proceeds to rebuild external buffers, and we encourage the authorities to periodically reassess the effectiveness of higher repatriation requirements in achieving this goal without creating disruptions in international payments affecting companies operating in the sector.

The central bank should continue to focus on keeping inflation in check. The central bank has been effective in maintaining inflation close to its medium-term goal of 7 percent, despite limited room for maneuver. Also, we welcome the enactment of the new Central Bank Law in December 2018 that reinforces central bank independence, accountability, and transparency. To improve monetary policy effectiveness, the central bank should wind down the monetization of the deficit, withdraw foreign exchange holdings at domestic commercial banks, and constitute reserve requirements on foreign currency deposits in foreign currency rather than in domestic currency, as is currently the case. Regarding financial intermediation, we are concerned about the rapid recovery in credit growth that reached 56 percent in 2018 in a context of widespread uncertainty, especially given DRC's high dollarization (90 percent in 2018). Staff comments are welcome.

Lastly, we encourage the authorities to promptly address system-wide deficiencies based on the FATF AML/CFT standards. This should help contain the loss of correspondent banking relations. In addition, we welcome the high priority given by the government to the fight against corruption and encourage the authorities to expedite the passage of the anti-corruption law and the introduction of an independent anti-corruption commission.

With these remarks, we wish the authorities every success in their policy endeavors.

Mr. Ray, Ms. Johnson and Mr. Khurelbaatar submitted the following statement:

We thank staff for the report and Mr. Raghani and Mr. Alle for their buff statement. We welcome the reengagement between the Fund and the Congolese authorities that has allowed an Article IV consultation to take place after a delay of almost three years.

The DRC faces many economic and development challenges. The economy began to recover in 2018, supported by strong growth in the mining sector. Inflation dropped sharply, the exchange rate stabilized, and the fiscal balance turned positive. However, the country still faces numerous challenges in addressing economic imbalances, reducing poverty, promoting inclusive growth and strengthening governance. Adding to this, the intensification of ongoing conflicts and further spread of the Ebola epidemic could undermine development efforts. The authorities should continue to implement structural reforms and take actions to address the country's development needs.

Streamlining the tax system will be a priority for improving revenue collection. The current tax system is extremely complex with a large number of taxes, levies and special taxes imposed by the central government and numerous other agencies. A simpler tax system, with fewer taxes and tax collecting institutions, would enhance revenue collection and a relatively simplified tax collection arrangement could improve the business environment.

Improving governance and scaling-up anti-corruption efforts are critical. The report shows that corruption and inefficiency are rampant, and the country ranks poorly in terms of transparency and accountability. The lack of strong governance, rule of law and transparency in government operations makes it possible to misuse public resources, hinders economic growth possibilities and corrodes trust in the government. Therefore, we urge the authorities to undertake reforms to increase transparency and accountability in the government and combat corruption.

The support of the international community is required to meet the overwhelming challenges facing the country. Despite abundant mineral resources, the country is one of the poorest in the world, with widespread poverty and inequality levels. Regional and local fighting, Ebola epidemics and lack of capacity in the public service are a tremendous challenge for the authorities to implement economic and social reforms and to attain higher inclusive growth. In this light, support from the international community is vital for the country's development. Could staff elaborate more on the highest priority areas where the international community may support the authorities?

Ms. Levonian and Mr. Rankin submitted the following statement:

We thank staff for their informative reports on the Democratic Republic of Congo (DRC) and Mr. Raghani and Mr. Alle for their useful buff statement. We welcome the Congolese authorities' renewed engagement with the Fund and other international partners, but note that the DRC's position remains challenging: poverty and unemployment are widespread, the economy needs diversification and is vulnerable to commodity-price shocks, and conflict has hindered efforts to contain the Ebola epidemic. We agree with the thrust of the staff appraisal and offer the following comments for emphasis.

Increasing non-resource revenue mobilization would help create the fiscal space needed for development spending. We welcome the authorities' commitment to raise the tax-to-revenue ratio and encourage further action to simplify the tax system and rationalize the number of revenue agencies. These policy changes should help expand the tax base, increase revenues, and improve the business climate. Aligning public expenditure projections with non-mining revenue projections would further shield critical development spending from volatile commodity prices. We note staff comments that increasing the effective tax rate on mining significantly above international comparators may have the unintended consequence of limiting development of the sector. Expensive external borrowing and collateralized loans should be avoided to maintain debt sustainability.

Tackling corruption and improving governance, particularly in the management of natural resources, are important preconditions to improving the business climate and generating inclusive growth. We welcome the authorities' commitments in this regard and encourage the swift passage of the proposed anti-corruption law and establishment of an independent anti-corruption commission. Publishing all mining contracts and audited financial statement of state-owned enterprises would further promote public transparency and good governance. We thank staff for the very useful annex on governance and corruption challenges in the DRC and look forward to reviewing the findings of the governance assessment exercise later this year.

The DRC should improve its AML/CFT framework. We welcome the DRC's decision to join the Central African Anti-Money Laundering Action Group (GABAC) and encourage the authorities to prioritize implementation of upcoming GABAC policy recommendations. We note that only one local bank maintains direct links with the global payments system. This is a worrisome trend, which limits financial deepening, financial inclusion, and ultimately economic development. We encourage the Fund to continue to work with the authorities of all countries impacted by the withdrawal of correspondent banking relationships to better understand the drivers, impacts, and potential solutions.

Central bank reserves should be increased to reduce vulnerabilities. While reserve coverage is projected to gradually rise towards 5 weeks of imports over the baseline scenario, this level remains insufficient to provide buffers against external shocks or anchor the financial system. Stepped-up efforts to strengthen the central bank's financial position, including through recapitalization, would strengthen operational autonomy and improve the effectiveness of monetary policy.

In the Risk Assessment Matrix, staff assess the potential economic impact of an Ebola epidemic escalation as "low" noting that the epidemic is taking place in areas not well integrated with the rest of the county. Have staff revised this assessment following recent Ebola cases in Goma, a major transit hub? How is the Fund working with the World Bank and other relevant IFIs to assess the potential economic impact?

The report indicates that financing from the Rapid Credit Facility (RCF) could help cushion the adverse fiscal and BoP consequences of an Ebola epidemic escalation. Are staff able to provide an estimate of the quantum and potential parameters of such financing?

The DRC recently requested to join the Easter African Community (EAC). We welcome staff views on the potential benefits of regional integration.

The DRC ranks near the bottom of the 2018 Global Gender Gap index. Could staff outline the potential economic gains of closing gender gaps in formal employment and education attainment?

Mr. Moreno and Ms. Mulas submitted the following statement:

We thank staff for its comprehensive set of papers and Mr. Raghani and Mr. Alle for their informative buff statement. We welcome that the first Article IV since 2015 is focused on policies that would lead to diversifying the economy and tackling high levels of poverty and unemployment in the context of a rapidly expanding population. We broadly agree with staff's appraisal and main recommendations and would like to emphasize the following points.

We welcome the resumption of the Article IV consultation with the Democratic Republic of Congo (DRC). Staff's report stated that the authorities had cited political uncertainty as reasons for delaying the overdue consultation. While we are aware of the difficulties that the authorities have faced, we strongly believe that a close engagement with staff is in DRC's best interest. Therefore, we welcome the authorities' intention to strengthen its engagement with the staff, particularly in entrenching the new reform momentum. Staff's report informed that the authorities have also expressed interest in a Fund-supported program to accompany their economic development agenda. In 2017, the Prime Minister formally requested financial support under the Rapid Credit Facility. Could staff clarify if the present interest is related to the 2017 request? Further comments are welcome.

Revenue mobilization is crucial to enhance a more inclusive growth. Despite a vast endowment of natural resources, DRC remains one of the poorest countries in the world. As highlighted in the interesting and useful

Selected Issues (SI) report, poverty remains pervasive across all dimensions and could continue to worsen due to the high degree of vulnerability. Besides, staff emphasizes that income and gender inequality worsen the poverty situation. According to the World Bank, the extreme poverty rate went up to 73 percent in 2018, one of the highest in sub-Saharan Africa. We agree with staff on the need to address DRC’s social development need with a complex set of policies and intervention, including an increase of government spending for social outlays, which would require both mobilizing more revenue and prioritizing spending in social sectors. As highlighted in the buff statement, we welcome authorities’ commitment to working towards significantly increasing DRC’s tax -to-GDP ratio, which is less than 12 percent, compared to that of peers at over 20 percent. To this end, we urge authorities to swiftly adopt concrete and feasible measures taking into account staff’s recommendations.

Reforms in the financial sector need to be implemented and the level of foreign reserves should build up. We welcome the new Central Bank Law enacted in December 2018 and we encourage its full implementation as soon as possible, as well as the Banking Law. We consider imperative to increase the level of central bank foreign reserves as the current level at 1.9 weeks of imports of goods and services– compared to Fund’s metric of 13.2 weeks – is insufficient to provide buffers for the economy in the face of an external shock.

Fighting corruption and improving governance should be a priority. DRC’s ratings remain low on various international governance indicators, despite some improvement in the last decade. The SI report identified many challenges that DRC faces and that need to be addressed. We welcome that results of the forthcoming governance assessment under the Fund’s new governance framework would help the authorities in the design and prioritization of their reform plans. We encourage authorities to define an ambitious reform plan as good governance, including the absence of systemic corruption, is vital for macroeconomic stability as well as sustainable and inclusive economic growth.

Mr. De Lannoy and Mr. Cools submitted the following statement:

We thank staff for an excellent set of papers, including the highly topical chapters of the Selected Issues Papers, and Mr. Raghani and Mr. Alle for the insightful buff statement. We commend the authorities for their constructive re-engagement with the Fund, including the sharing of data with staff. This is an important step. We agree with staff's key policy recommendation and would like to make the following points for emphasis.

Fiscal

We agree with staff's assessment that core functions of public financial management remain weak, in particular on revenue and expenditure forecasting. The continuing use of exceptional expenditures should be halted, and open tender procedures should be used for large expenditures. We agree with staff that revenue mobilization, both in the mining and the non-mining sector will be critical to attract donor funding.

Mining Sector

We agree with staff that the publication of all mine, oil and gas contracts is important, in line with domestic legislation and EITI commitments. In addition, financial statements of all SOEs, including Gécamines and Sicomines should be published, in line with Mr. Raghani and Mr. Alle's buff statement. We also agree with staff that an audit of Gécamines is urgently required.

We commend staff for the SIP chapter on Natural Resource Management. In this light, we invite staff to help raise awareness for the issue of conflict minerals in the informal artisanal mining sectors in the east of the DRC. While industry-led due diligence measures have been set up, supply chain issues remain prevalent, including smuggling of natural resources out of the DRC, and leakages of conflict minerals into the legitimate supply chains, facilitated by corruption.

Governance

We commend the authorities for their request to the Fund to conduct a governance assessment. We urge staff to dedicate the necessary resources and staffing to governance issues, as the capacity of the DRC to address macro-economic imbalances critically hinges upon addressing the severe governance problem. Can staff provide information on staffing related to planned governance TA missions in the DRC as part of the governance assessment?

While passage of the anticorruption law will not eradicate widespread corruption, it is a critical first step to create a legal basis to address corruption. In addition, the whistleblower law should be modified so that revenue agencies will no longer be permitted to keep a portion of the fines for their own funding, as this is an incentive to predatory behavior.

Debt Sustainability

The report mentions that 40 percent of external debt stems from the mining infrastructure project Sicomines. These liabilities are guaranteed by the DRC government and are collateralized with Sicomines' revenues. Assistance on debt management going forward will be crucial.

Ebola Rapid Credit Facility

The Risk Assessment Matrix qualifies the expected impact of the Ebola crisis as low for the whole country, as the current epidemic is taking place in areas not well integrated with the rest of the country. While we agree that a coordinated humanitarian response by the international community is paramount, the need for an RCF should be well demonstrated based on verifiable funding needs as a consequence of the Ebola outbreak.

SMP

We hope that the authorities will continue their constructive attitude towards the Fund. We invite staff and management to consider a Staff Monitored Program when a government is finally formed. This would allow the authorities to build a reform track record, especially in the field of governance.

Mr. Saraiva and Mr. Antunes submitted the following statement:

We thank staff for the informative report and Mr. Raghani and Mr. Alle for the useful buff statement. Economic activity in the Democratic Republic of Congo (DRC) is picking up after the 2015-2016 commodity prices shock. Nevertheless, substantial structural challenges continue to limit the country's growth potential and need to be resolutely tackled. We welcome the present Article IV consultation, the first since 2015. The constructive engagement with the IMF reflects the new Congolese authorities' willingness to work with international partners with a view to strengthen institutions and boost sustainable and inclusive development. Going forward, creating fiscal space for infrastructure and social investment through better revenue mobilization and diversifying the economy beyond the extractive sector should be among DRC's top priorities.

The sustainable scaling up of productive investments will depend on enhanced domestic revenue mobilization. Budget credibility needs to be improved by more realistic revenue projections. Furthermore, we take note that, after reduction under the Multilateral Debt Relief Initiative in 2010, external debt has been kept at relatively low levels and overall risk of debt distress is assessed by staff as moderate. Considering the need to scale up investments to address the country's many productive and social bottlenecks, we echo staff's assessment that increasing domestic revenue mobilization is critical. Indeed, tax-to-GDP ratio remains below the regional average. We encourage the authorities to continue working with international partners with a view to broaden the tax base, simplify tax regulations and improve customs and border controls. Furthermore, increasing the efficiency of public spending may feedback onto resource mobilization, building up the legitimacy of the revenue effort from the perspective of the taxpayers and international development partners.

Strengthening the Central Bank is crucial to keep inflation under control in the long run. After accelerating to double digits in 2017 and 2018, inflation has been reined in and is projected to hover around 5 percent in the medium run. The long-term objective of the monetary policy framework should be increasing confidence in the Congolese Franc, thereby creating a healthy macroeconomic environment for non-mining investments with potential impact on employment, income and growth. Given the prevalence of downside risks and the relatively low level of international reserves coverage, we encourage the authorities to remain vigilant in face of possible external shocks. The enactment of the new BCC Law, which has the potential to yield increased operational and financial autonomy and better transparency, is a step in the right direction. Should conditions allow, we second staff's calls for recapitalizing the BCC and increasing FX reserves.

Long-lasting structural change will depend on economic diversification, which can be fostered through regional integration. We appreciate staff's stock taking of key macro-critical topics on the insightful selected issues paper. We encourage the authorities to carefully consider the policy recommendations, and we reaffirm our support to enhanced IMF engagement in DRC, including through capacity building. Ultimately, sustainable development will depend on economic diversification, given the structural limitations of the export-oriented extractive sector to generate positive domestic spillovers. Regional integration can play a pivotal role, allowing DRC small and medium enterprises to access other dynamic African markets. Accordingly, we welcome the recent DRC request to join the East African Community (EAC). Could staff elaborate on the benefits of regional integration and suggest strategies to make the most of the possible accession to the EAC?

The Ebola outbreak represents a serious threat; the international community must work together with DRC authorities to prevent regional contagion and minimize losses in affected populations. The current outbreak is the second largest Ebola epidemic on record, with almost two thousand lives lost since August 2018. On 17 July, it was declared a Public Health Emergency of International Concern by the World Health Organization. We encourage staff to continue closely monitoring the situation. If requested, the IMF should stand ready to join international efforts to fight the epidemics, including by extending a Rapid Credit Facility as warranted.

Ms. Mahasandana and Ms. Pandit submitted the following statement:

We thank staff for their well-presented set of reports and Mr. Raghani and Mr. Alle for their informative buff statement. We welcome the resumption of the Article IV consultation and we commend the Congolese authorities on their commitment and efforts to restore macroeconomic stability. Nonetheless, significant challenges remain, and the economic outlook is subject to many downside risks, such as escalation of the present Ebola epidemic, a fall in commodities price and intensification of armed conflicts. In this regard, the improvement in the political uncertainty represents an opportune time for the authorities to undertake the necessary transformational reforms, particularly those that remain outstanding from the previous consultation, to restore fiscal and debt sustainability, build stronger policy buffers and promote macroeconomic stability as well as achieve higher inclusive and sustainable growth. We also share the staff's call for the international community to step up its support to response to the Ebola epidemic. We broadly support the staff appraisal and would like to raise the following comments for emphasis.

A broad base fiscal reform is essential to creating fiscal space for developmental and social spending and restoring the fiscal and debt sustainability. We positively note that a budget surplus was recorded in 2018 and the overall debt destress is in moderate level. However, we concur with staff's recommendations to increase revenue mobilization and expand the non-mining revenue, such as through the rationalization of tax exemption, increase tax base, simplification of the tax system and tax administration reform, to create a sustainable fiscal space. In addition, it is important to take into consideration the effect of fiscal reform on the most vulnerable segments of society, given that the poverty and unemployment are widespread.

Further strengthening of the public finance management is also crucial to enhance cash management and efficiency of public expenditures. We are encouraged by the quarterly update of the macroeconomic framework and the improved cooperation between services to provide revenue forecast. However, we note that weakness is remaining in revenue and expenditure projection. We encourage authorities to remain caution against optimistic forecast to enhance its credibility. We also encourage authorities to fully implement a Treasury Single Account (TSA) to enhance cash management. Can staff comment on the estimated size of revenue that are not integrated into the TSA and the size of the so-called “special accounts” that are not integrated into the budget? We also share the staff’s recommendation to develop strategy to clear the sizeable domestic arrears.

Refinement to BBC policy framework could enhance the monetary policy effectiveness, given the high levels of financial dollarization. We agree that financial de-dollarization should be a long-term objective, achieved through prudent macroeconomic policy and greater trust in the local currency and the conduct of monetary policy. In this vein, staff’s recommendation to fine-tune the reserve requirement on foreign currency deposits and increase BCC FX reserves can enhance the policy effectiveness. At the same time, ongoing efforts by authorities to maintaining appropriate monetary policy stance, ensuring central bank’s operational independence through the recapitalization of the BBC and enhancing financial transparency will gradually support the long-term effort to build the necessary credibility that can promote effectiveness of monetary policy and encourage de-dollarization. Annex IV highlighted that initial de-dollarization measures have been reversed. Can staff elaborate further on these measures? Is there any ongoing work on medium-term roadmap for de-dollarization as recommended in the previous Article IV consultation? Staff’s recommendations on action plan to further promote de-dollarization are welcome.

Financial regulations should be further strengthened to safeguard and promote financial system stability and development. We concur with staff in encouraging the authorities to adopt the Banking Law in line with the international standard and enact the related regulations and guidelines that have been recently adopted, as well as implementing the priority action to improve its AML/CFT framework, to help safeguard and develop the financial system. Improvement to the legislation regulating microfinance should also be emphasized to enhance financial inclusion that support inclusive growth.

Weak governance and corruption are key challenges in the DRC that require bold and decisive actions by the authorities. We take positive note on the commitment by the authorities to combat corruption and significantly improve governance, as well as their request for an IMF governance assessment to help in the design and prioritization of the government's reform plans. We commend staff for the comprehensive report on governance and corruption challenges and support the recommendations to resolve these challenges by enhancing transparency in mining deal, SOEs transactions and proper use of public assets. Improvement in governance and corruption is in line with the necessary reforms to promote business climate. These efforts will enhance the institutional credibility and attract higher private investment that can generate inclusive growth as well as facilitating further economic diversification for sustainable growth. To this end, we welcome the authorities' strategies to develop downstream activities across resource-rich regions and promote other sector such as agriculture and agri-business, that would help diversify the economy and create more jobs.

With these comments, we wish the authorities success in their endeavors.

Mr. de Villeroché, Ms. Riach, Mr. Castets, Mr. Rozan and Ms. Stockill submitted the following joint statement:

We would like to thank staff for their comprehensive report as well as useful selected issues papers, and Mr. Raghani and Mr. Alle for their buff statement. The Democratic Republic of the Congo is a fragile country, highly dependent on mining exports, and faced with deep challenges, in particular high poverty, weak implementation capacity, a violent conflict and an Ebola outbreak. In this context, we very much welcome the new authorities' resolve to tackle this situation and to reengage with international partners, as expressed in the buff statement, and to proceed with transformational reforms. We strongly welcome the renewed dialogue between the IMF and the Congolese authorities, in the context of a political transition. This engagement is to key to restore trust with the development partners. We share the thrust of staff's assessment and would like to offer the following comments.

First, we welcome the stabilization of the economy, after the 2015-2016 commodity shock and uncertainties linked with the political context. The more prudent macroeconomic policies introduced two years ago have helped stabilize the situation. Besides, the political transition and pledges to improve governance and scale up investment are very positive signs. However, reaching development goals will require an acceleration of reforms, to trigger stronger non-extractive growth and secure more resources. Given ongoing political challenges, buttressing investors' trust and ensuring reform implementation going forward requires the nomination of a government. Finally, given the volatility of the commodity prices, and the significant risks to the outlook highlighted by staff, careful policy planning will be important and we share staff's caution on the growth outlook. In that regard, we would like to know to what extent the recent drop in cobalt prices has been taken into account by staff.

Second, given the large gap in domestic revenue mobilization, we welcome the authorities' resolve to significantly increase DRC's tax-to-GDP ratio, enhance public finance management, and restore expenditure processes. We share staff's main policy recommendations in this regard. It will be important to broaden the tax base and to enhance the treasury management. A useful step would be to publish the recent report on tax exemption made with the support of the African Development Bank and the World Bank. These additional resources should pave the way to stronger and carefully assessed public investments to support growth, while keeping in mind the need to maintain debt sustainability. We underline staff advice on the need to avoid expensive external borrowing, collateralized loans, and external arrears. Finally, we also encourage authorities to audit and develop a strategy to clear domestic arrears.

Third, we welcome the steps taken to enhance the monetary policy framework, in particular through the reinforcement of the Central Bank's independence. We encourage authorities to continue their progress in this regard, in particular by recapitalizing the BCC and by enhancing FX reserves management. Enforcement of the new financial regulations should also help safeguard the financial system and develop financial inclusion. Enhancement of the AML/CFT framework should support stronger correspondent banking.

Fourth, more broadly, fighting corruption and improving governance and fostering transparency will be important, in particular in the context of the high dependence on mining. We encourage the authorities to swiftly pass the new anticorruption law, and welcome the request for an IMF governance assessment.

Going forward, strong partnership with international actors will be essential to the DRC's progress. We encourage the authorities to continue to deepen their engagement with the Fund, which could usefully take the form of a program, as noted in the buff statement, once conditions are met. In any program discussions, we emphasize the need for a focused set of high priority reforms (given local capacity constraints and fragility) and a coordinated effort by the Fund and development partners regarding technical assistance and policy advice., We welcome annex II setting out the Fund's capacity development strategy, and would like to ask staff for further details on the financing and technical programs of other development partners, and in particular the World Bank.

Mr. Sun and Mr. Huang submitted the following statement:

We thank staff for the insightful reports and Mr. Raghani and Mr. Alle for their helpful buff statement. We welcome the authorities' reengagement with the Fund on the Article IV consultation since 2015. After being hit by the commodity prices shock, the Democratic Republic of the Congo's (DRC) economy has shown signs of recovery. The GDP growth rate stood at 5.8 percent in 2018, with inflation contained and the Congolese franc stabilized. However, tremendous challenges remain, including the present Ebola epidemic and violent conflict. The authorities are encouraged to continue their prudent macroeconomic policy to restore economic stability and tackle the widespread poverty. We agree with the thrust of staff's appraisal and would like to limit ourselves to the following comments for emphasis.

Enhancing domestic revenue mobilization is crucial to create fiscal space. The DRC's revenue to GDP ratio is way below the SSA average, suggesting significant room for improvement. With more than 350 taxes and 800 parafiscal levies collected by several different agencies, the current tax system needs to be simplified. The new Mining Code could increase the government's revenue, but at the same time, disincentivize private investment. We encourage the authorities to make the Code in line with international standards. In the meantime, we see merit in staff's suggestions on natural resource management, including integrating the mining revenue into the treasury and adopting a fiscal rule based on the non-mineral balance. The external debt-to-GDP ratio is low, but the risk of debt distress is moderate, reflecting the country's weak revenue mobilization. Given the authorities' plan to scale up public investment, we encourage the authorities to enhance the public debt management so as to ensure the debt sustainability. We take note of the authorities' plan to issue treasury securities starting in 2019. Could staff elaborate more on this, including the amount, currency, and potential impact on debt sustainability?

The high level of dollarization is the main impediment to the effectiveness of monetary policy. With 90 percent of deposits in US dollars and required reserves in local currency, the commercial banks are faced with an exchange rate mismatch. We take note of staff's suggestion to address this mismatch by allowing the required reserves to be maintained in foreign currency, but this might further increase the level of dollarization. Nevertheless, we agree with staff that the de-dollarization should be a long-term objective and be pursued at an appropriate pace. We encourage the authorities to continue their efforts to enhance the central banks' independence and governance. The central bank needs to be adequately capitalized and the financing of the budget from the central bank should be avoided. The financial sector is underdeveloped and vulnerable. We welcome the authorities' progress in implementing a risk-based supervision system, but further efforts are needed to improve the supervisory framework and institutional capacity. The declining correspondent banking relations is one of the concerns. We join staff in suggesting that the authorities enhance the AML/CFT framework.

Decisive actions are needed to combat corruption and improve governance. We commend the authorities' determination in fighting corruption. In addition to introducing the anti-corruption law and establishing an anti-corruption commission, the authorities are encouraged to improve the public finance management, enhance the governance of SOEs, and streamline the tax system, so as to reduce the chance of corruption. Finally, we noticed that the DRC has requested to join the East African Community (EAC). Given the DRC's low score on trading across borders in the Doing Business Indicators, we believe that better integration into the region would help to facilitate cross-border trade and improve the business climate.

With these remarks, we wish the authorities every success in their policy endeavors.

Mr. Trabinski, Mr. Heim and Mr. Makhammadiev submitted the following statement:

We thank staff for their insightful set of papers and Mr. Raghani and Mr. Alle for their informative buff statement. The Democratic Republic of the Congo (DRC) has abundant mineral resources, but faces deep-rooted challenges, such as a high poverty rate, an adverse security and humanitarian situation, poor governance, as well as the recent outbreak of the Ebola disease. Against this background, we welcome DRC's re-engagement with the Fund and encourage the authorities to step-up efforts to implement reforms along the lines of the key policy recommendations outlined in the staff report. In particular, establishing a prudent and transparent fiscal policy framework, strengthening the autonomy of the central bank, setting the economy on broader footing and improving governance are paramount.

We echo staff's call for the continuation of a tight fiscal stance. While the authorities have taken efforts to reduce expenditure and address weak revenue performance, more needs to be done. In particular, there is a need to boost revenue mobilization, e.g. by reducing the current tax gap and simplifying the overall tax system. Moreover, we agree with staff that various public accounts need to be fully integrated into the central government Treasury. In this context, we take note of the overall weak capacity, especially with respect to the limited ability to collect resource revenues, and we welcome the Fund's TA. At the same time, we recall staff's assessment in the last informal meeting, according to which most recommendations of technical assistance missions have not been implemented. Staff's comments on the efficacy of recent TA activities and plans for future TA would be welcome.

The financial and operational autonomy of the Central Bank of Congo (BCC) needs to be strengthened. We urge authorities to refrain from monetary financing of the budget. To this end, we welcome the approval of the new Central Bank Law at the end of last year, which marks a critical step in strengthening the BCC's independence. What is staff's assessment of this new law, and has staff already observed a change in the way the BCC operates? We also welcome the recapitalization plan for the BCC and encourage the authorities to ensure implementation, once budgetary constraints are resolved. Moreover, foreign exchange reserves remain low and limit the BCC's capacity to smooth volatility in the FX market.

Greater efforts must be made to increase the diversity of the economy, combat the endemic corruption, and improve the business climate. To promote the non-mining private sector, we urge the authorities to streamline administrative procedures and ensure the professionalism and independence of the judiciary system. Widespread petty corruption calls for a reform of the civil service by optimizing the number of personnel in parallel with increasing salaries. In addition, improving transparency will be key to reduce governance and corruption vulnerabilities of SOEs in the mining industry. Moreover, public tendering of mining assets, publication of all mining contracts and audited financial statements, as argued in the valuable SIP on Governance and Corruption Challenges, are urgently needed.

The revised Mining Code should be assessed against the potential negative impact on investor sentiment. While we welcome the authorities' efforts to increase positive spillover effects of the extractive industry on the rest of the economy, some of the changes in the new Mining Code are cause for concern. Specifically, the royalty on "strategic minerals" and the windfall profit tax would make investing in mining activity in DRC riskier and costlier.

Furthermore, the removal of the ten-year stability clause may undermine policy credibility. Staff's comments in this regard would be welcome.

Mr. Palei and Mr. Tolstikov submitted the following statement:

We thank staff for the set of informative papers and Mr. Raghani and Mr. Alle for their helpful buff statement. We welcome the resumption of the Article IV consultations with the Congolese authorities after a four-years lull. Democratic Republic of the Congo (DRC) has experienced significant external and domestic shocks during this period, which led to growth slowdown, currency depreciation and a surge in inflation. It is encouraging that the economy has withstood these shocks and that recovery is ongoing, supported by improved external conditions and prudent macroeconomic policies. However, as indicated in the staff report, growth rates projected under the baseline scenario would be insufficient to address the DRC's acute development needs and meet the demand for employment of the rapidly expanding population. Therefore, we agree with staff's call to develop and implement an ambitious structural reforms agenda.

Stepping up domestic revenue mobilization is critical for creating conditions for increased development spending. Domestic and external financing options remain constrained, limiting much needed public investments. At the same time, the DRC has substantial room for increasing tax revenue, which is well below the SSA average. The introduction of the new Mining Code has the potential to increase natural resource revenues, but it is important to improve efficiency of tax collection, limit transfer pricing practices, reinstate VAT collection, and clear VAT credit arrears. Non-mining revenue tax structure should be streamlined, and tax administration strengthened. The tax expenditures should be rationalized and reduced.

The authorities developed the ambitious investment program to reduce infrastructure gap and remove bottlenecks for economic activity, which may require substantial financing. As financing sources are limited, reforms on the expenditure side are needed to complement the revenue mobilization efforts. The efficiency of the public financial management has to be increased, and the Treasury Single Account system has to be fully implemented, streamlining budget execution. The reform of the civil service is needed to reduce the number of civil servants while increasing their wages.

We note that the DRC's risk of debt distress is assessed as moderate despite low debt-to-GDP ratio, which reflects high debt-service-to-revenue ratios. In addition to revenue mobilization, the authorities should monitor and reduce non-concessional external borrowing. It is also important to develop a medium-term action plan to address the sizable domestic arrears.

We agree that the current monetary policy stance is appropriate. At the same time, the efficiency of the monetary policy is substantially constrained by the high level of dollarization and very low level of foreign exchange reserves, which are not sufficient even to counter disorderly market movements. To address the latter issue, staff recommend that the foreign currency deposits held by the Central Bank of Congo (BCC) at domestic banks, be removed and invested abroad. While this would statistically increase the DRC's FX reserves, such a measure may have negative implications for the liquidity and stability of domestic banks. Could staff elaborate in greater details on the size of the BCC's FX deposits and the potential effect of their removal on the domestic banks' balance sheet?

According to staff, the DRC's financial system is highly vulnerable to shocks. The authorities should continue strengthening financial sector regulation. We welcome recent improvements in the legal supervisory framework, including the new Central Bank Law, which enhances independence and supervisory role of the BCC. The resilience of the banking sector requires full implementation of the newly increased minimum capital requirements. We note that only one Congolese bank maintains direct links with the global payments system, which makes the issue of the AML/CFT compliance vitally important. It highlights the importance of the prompt implementation of the recommendations of the 2018 AML/CFT evaluation report.

We agree that strengthening governance and enhancing transparency, particularly in the management of natural resources, is essential for boosting economic growth and attracting investments. We look forward for the forthcoming governance assessment under the Fund's new governance framework, which should help the authorities to develop their strategy in this area.

With these remarks, we wish the authorities success.

The Acting Chair (Mr. Zhang) made the following statement:

This is the first Article IV report with the Democratic Republic of Congo (DRC) since 2015, and all Directors welcomed the authorities' reengagement with the Fund following the peaceful political transition. I believe this provides the opportunity to put in place decisive reforms to tackle the country's pressing challenges. The support of the international community, including capacity building, will be crucial. The authorities have succeeded in halting the macroeconomic declines triggered by the commodity shocks during 2016 and 2017 and the delays in conducting the presidential elections. The macroeconomic situation and social conditions remain quite challenging. Furthermore, the ongoing Ebola epidemic continues to claim heavy casualties both in terms of life and economic growth. In this context, I encourage the authorities to make full use of the range of support and assistance that the international community can provide to support the country's economic management and development efforts. In particular, the Fund stands ready to assist the government in addressing its numerous macroeconomic problems and fostering inclusive growth, particularly in response to the Ebola epidemic.

The staff representative from the African Department (Mr. Villafuerte), in response to questions and comments from Executive Directors, made the following statement:[2]

I thank Directors for their useful comments and questions, and the Congolese authorities for the close engagement during the Article IV consultation process. Today I would like to update the Board on recent developments before turning to some policy issues raised by Directors.

President Tshisekedi and former President Kabila have reportedly reached an agreement on the composition of a 65-member government, which was announced today. An extraordinary parliamentary session mainly devoted to the inauguration of the new government has been called. The new Minister of Finance will be the current General Manager of the Inland Revenue Service, a positive development, particularly given the importance of revenue mobilization as a key policy challenge.

On recent economic data, the year-on-year inflation rate in July was 4.1 percent, while the exchange rate has remained stable since the beginning of the year. Continued expenditure restraint so far this year led to a small cumulative fiscal surplus in the period of January to July, amounting to 0.1 percent of projected 2019 GDP. Central bank international reserves amounted to about US$1 billion as of end-July, or 3.9 weeks of annual projected input. M2 increased by 27 percent and credit growth to the private sector moderated to 32 percent year-on-year as of end-July. These figures are in line with 2019 projections in the staff report.

[2] Prior to the Board meeting, SEC circulated the staff's additional responses by email. For information, these are included in an annex to these minutes.

I will now turn to questions on the current state of the Ebola outbreak, its estimated impact, and the plans by the authorities and the international community, including the Fund, to combat it. As of August 22, 2,938 cases, including 1,969 deaths, had been reported. Ebola appears to be under control in the city of Goma, but the epidemic has spread to a new province with two cases confirmed, including one death, in South Kivu. The World Health Organization (WHO) continues to stress the challenges faced by aid workers who are combating insecurity, community resistance, and disinformation on social media. Overall, the number of cases seems to have started to moderate over the last two to three weeks. In a very positive development, the WHO announced that two experimental drugs administered to sick patients cut the mortality rates from over 75 percent to as low as 10 percent. This, in effect, would mean that a cure has been developed for the Ebola disease.

As stated during a late July informal Board session, the economic impact of the outbreak in DRC has been limited so far. At the national level, there are no visible signs of a negative impact on economic growth, fiscal revenue and expenditures, or the availability of foreign exchange, as the main sectors of the economy are located elsewhere. Even at the local level, there are no reports of meaningful disruptions to economic activities beyond those caused by difficult security conditions. Therefore, we continue to keep a low risk assessment for the Ebola epidemic. However, we acknowledge that this situation could change given the vulnerabilities in the affected regions. In fact, this outbreak has lasted for more than a year in contrast to the nine previous Ebola outbreaks in DRC, which were controlled in less than three months. Preliminary simulations made by the World Bank on the basis of the experience in West Africa in 2014-16 suggested that the 2020 growth rate would decline by 1 to 2 percentage points if the outbreak expands substantially within the provinces of North Kivu and Ituri, or if it even expands to the other four neighboring provinces. The authorities, with support from the UN system and those in the local civil society, have prepared a revamped strategy to fight the epidemic that aims at further involving local communities and attending to the associated social and humanitarian needs, by developing differentiated approaches by zones depending on the classification of risk; improving the monitoring and financial reporting with support from the World Bank; and enhancing security to affected populations and aid workers. This strategy has been costed and requires increased financial resources. In that regard, the World Bank announced on July 24 that it is mobilizing up to US$300 million in grants and credit to scale up support for the global response to the Ebola epidemic, in addition to US$100 million already disbursed since August 2018. From the latter amount, US$20 million was disbursed to the government of DRC through the cash component of its pandemic emergency financing facility.

We continue to engage with the authorities on how we could help, potentially through a Rapid Credit Facility (RCF). As of now, we are tentatively planning to field a staff visit in mid-September to discuss the draft 2020 budget, and that mission can also help assess any Ebola-related financing needs through discussions with the authorities and other partners.

Another set of questions was raised about the scope for the Fund-supported arrangement in light of the authorities' request for one to accompany their economic development agenda. Once the government is fully in place, we expect the government to firm up its economic reform plans and priority actions, taking into account among other things, the outcomes of the 2019 Article IV consultation and of upcoming governance assessment mission and a Public Expenditure and Financial Accountability (PEFA) exercise. The strength of macroeconomic policies and reform plans and actions will guide both the timeline and modalities of Fund engagement going forward. The timing of the governance assessment still needs to be confirmed. Staffing is expected to come from the Legal Department (LEG) and the Fiscal Affairs Department (FAD) with support from the Monetary and Capital Markets Department (MCM), the Finance Department (FIN), and from the Africa Regional Technical Assistance Center (AFRITAC) Central. The country team in the African Department (AFR), including our resident representative office, will collaborate closely with staff working on the governance assessment.

Ms. Pollard made the following statement:

Let me begin by thanking staff for the papers and for their answers to our technical questions and Mr. Raghani and Mr. Alle for their buff statement. We issued a gray statement, but I would like to highlight a few points.

First, on investment, we appreciate that the DRC faces very large investment needs, but we urge the authorities to move gradually and only as improvements in investment management take hold. We echo staff's concerns about collateralized borrowing. We took note in the answer to question 16 that the authorities view risks of collateralized borrowing related to Sicomines to be low. We would point out, however, the need for stronger transparency, both on this project and around other state-owned enterprises (SOEs), including the submission of audited financial statements.

We welcome the authorities' interest in the Fund-supported governance assessment. Tackling corruption is essential to creating a supportive environment for private sector growth. While capacity needs are great, TA should be calibrated to the authorities' ability to effectively absorb it. In the answer to question 25, staff notes that most TA reports have highlighted a low rate of implementation of past recommendations. This partly reflects capacity constraints. We also encourage close collaboration with other development partners on TA and welcome that the World Bank is planning a possible multisectoral TA project to go alongside a possible series of policy-based loans.

Finally, I appreciate staff's remarks on the update of the Ebola crisis and on future engagement with the authorities. We are open to considering a possible RCF in the near term, depending on the scale of the Ebola impacts, but ahead of any future Extended Credit Facility (ECF) request, we would prefer to see a period of performance under a Staff-Monitored Program (SMP), particularly in light of the extended period with no active Fund surveillance.

Mr. De Lannoy made the following statement:

I thank staff for the excellent set of papers and Mr. Raghani and Mr. Alle for their buff statement. I echo what Ms. Pollard just said in her intervention. Let me start by commending the authorities for having reengaged with the Fund. The authorities have been forthcoming in terms of information and data exchange. This is an important step that hopefully leads to a constructive engagement between the Fund and the DRC. We welcome that a government is finally formed. Only now will we be able to make a more informed assessment of the balance of power between the old regime and the new, and also the capacity to initiate the needed reforms by the new authorities. With a 65-member government, this may prove to be very challenging. The Fund should not hastily rush into a program. We will first need to be convinced that there is genuine political will and support across the board in Kinshasa to implement deep economic and governance reforms. The Review of Conditionality we concluded in May contained an interesting section on SMPs. The review concluded that SMPs needed to be destigmatized, as SMPs have been largely successful in building a policy reform track record prior to an upper credit tranche (UCT) program. The review also concluded that SMPs have helped to address weak implementation capacity, as they can function as an effective capacity development instrument. These are exactly the two things we need here. We need a proven policy track record, and we need stronger implementation capacity prior to disbursing funds.

This brings me to a question that is relevant for the Comprehensive Surveillance Review (CSR). How do we organize Board engagement? Today we have a Board meeting on the Article IV consultation, and at some point, we will have a Board meeting on program requests. Something in between is missing, especially for a country that has just reengaged with the Fund. Like Mr. Psalidopoulos and Ms. Lopes have asked in their gray statement, a discussion on the timeline is warranted, including a discussion on technical assistance (TA) and a potential SMP. We believe it would be good to have that discussion now that the government is formed.

In terms of reforms, we commend some important legislative steps, such as the central bank law that has been approved by parliament. However, the key to addressing macroeconomic imbalances in the DRC is to address governance concerns and to battle endemic corruption. We strongly commend the authorities for having volunteered for a governance assessment, and we would ask staff to dedicate the necessary resources to make this a success. We thank staff for addressing the issue of natural resource management in the selected issues paper. This will be key in any governance assessment and will have to include the audit of Gécamines and the issue of conflict minerals being smuggled out of the country or into a legitimate supply chain.

Finally, on a potential RCF to address the Ebola outbreak, a coordinated international humanitarian response is warranted to address the Ebola outbreak. The Fund’s role should be limited to addressing balance of payments problems that might arise from this crisis, which judging from the staff report, are limited. At this stage, we do not see a case for RCF support, especially in light of the resources already disbursed by the World Bank. With that, we wish the authorities the best of luck at this critical juncture.

Mr. Obiora made the following statement:

I thank staff for the difficult assignment and the analysis and assessment, which we broadly agree with. In line with the enlightening Board statement by Mr. Raghani and Mr. Alle, we are encouraged and happy that the Congolese authorities have managed to restore macroeconomic stability following the sharp fall in prices of their main exports and amidst protracted security challenges. Having achieved this somewhat tenuous stability, the authorities now need to focus on three main priorities.

First, they need to create the fiscal space needed for both fiscal, infrastructure, and social spending. Despite the fact that the DRC has a plethora of natural resources, it remains one of the poorest countries in the world. It is critical that the authorities boost revenue mobilization to revise this outcome, and we are happy with the update that staff provided this morning on the incoming Finance Minister, who seems to be an expert in revenue mobilization. It could not have come at a better time.

The independence of the central bank is critical at this juncture to finally stop the monetization of budget deficits and to lend some credibility to monetary policymaking, and to this end we are delighted that the authorities are making good progress with enacting a banking law and discussing the recapitalization of the central bank.

Finally, the authorities need to do much more to advance structural reforms, to create transparency in governance, and to improve the business climate. With regard to a timeline for program engagement, I would like to echo and support Ms. Pollard and Mr. De Lannoy. We need to go through an SMP and establish a track record from the authorities before we can go into any programs that need resource disbursement.

Mr. Trabinski made the following statement:

We commend the Congolese authorities for the first peaceful transition of power, and we welcome the reengagement with the Fund and resumption of the Article IV consultations. We hope that under new political leadership, Article IV consultations will be held on a regular basis. In this regard, we also thank staff for a well-drafted set of reports and Mr. Raghani and Mr. Alle for their informative buff statement.

As noted in the report, the DRC remains a fragile state and faces significant challenges related to security, widespread poverty, poor governance, and recent Ebola incidents. On the other hand, we take positive note of the authorities’ willingness to step up the reform agenda. Moreover, like other chairs, we encourage the authorities to address the most pressing issues, such as strengthening the fiscal position, enhancing financial sector oversight and resilience, and conducting necessary structural reforms, while promoting inclusive and sustainable growth.

We have issued a gray statement, so let me focus on two additional questions. First, with regard to fiscal policy, we share the staff’s view that revenue mobilization should remain a key policy priority for the administration in the context of the country's high investment needs and existing challenges to debt sustainability. With regard to this, we would like to echo the voices of Mr. Riach, Mr. de Villeroché, and Ms. Pollard that the authorities should prioritize public investment, while ensuring efficient selection and execution of projects. In this context, we would like to encourage the authorities to improve public financial management (PFM), possibly with support from the international community to implement a medium-term debt strategy. We note from the report and staff's answers to technical questions that staff stands ready to provide technical assistance inter alia in the area of the PFM. Could staff provide more details on whether the authorities have asked for Fund advice in this regard?

Second, we thank staff for answers to our question on the efficacy of recent TA activities and plans for future TA. Considering the low level of implementation of past Fund recommendations, which reflects capacity constraints, could staff shed more light on what would be the strategy to increase the traction of the staff's advice and implementation of past and current recommendations?

Finally, with regard to structural reforms, it is clear that the structural challenges for the DRC are paramount and include governance, administration, SOEs, central bank governance, financial sector oversight, the Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) framework, to name the most pressing ones. This list remains open and does not include much-needed but longer-term reforms in the education or health care sectors as well as efforts oriented toward diversifying the economy from extractive commodities. Given the vast number of needs, could staff share their views on how structural reforms should be prioritized by the authorities?

We welcome the authorities' request for the governance assessment, which could help in this regard, but we would appreciate more information on when the staff would plan to conduct this assessment and when the Board would be informed about its results.

Mr. Saraiva made the following statement:

I thank the staff for the set of papers, the answers to the technical questions, and the initial remarks. I thank Mr. Raghani and Mr. Alle for their useful statement. We issued a gray statement. I will just make three points.

First, I would like to join other Directors and welcome the reengagement of the DRC authorities with the Fund. This is an important step, and like others, I believe it should open a process in which a track record of full dialogue with the Fund should be reestablished. I would also like to express our appreciation to staff for undertaking this Article IV consultation under difficult circumstances on the ground, and reaffirm our continued support to the Fund's capacity building initiatives in the DRC.

The second point regards the new mining codes. The staff presented an assessment of this legislation. It points to some positive aspects and some negative aspects. First, it addresses the problem of the lack of revenue mobilization in the sector. But on the other hand, it may create distortions that inhibit investment in the area. It is important to keep close engagement of the staff with the Congolese authorities to explore alternative ways in which revenues can be maximized but without hampering investment in the sector.

What I missed in the analysis of the sector is something related to market conditions in the extractive sector, especially how staff sees market concentration in that area and if there are any initiatives to increase competition in the extractive sector.

Finally, I welcome the information that was given regarding the evolution of the Ebola outbreak. I take note that the staff keeps a low risk assessment of this epidemic, but still there is an important potential for damage and we particularly welcome the scaling up of the World Bank's assistance to the DRC in this regard. However, it is important that the Fund, if necessary, should play a role in preventing the outbreak from having a damaging macroeconomic impact on the DRC, and therefore we should be ready to join the international community if warranted.

Mr. Rozan made the following statement:

I thank staff for their report and their introductory remarks, especially updating us on the state of the Ebola epidemic. We have issued a joint statement with Ms. Riach, so I will keep my remarks brief.

First, like other Directors, we congratulate the Congolese authorities for their reengagement with the Fund with this first Article IV consultation in four years. It will support the credibility of the authorities thanks to the very valuable policy advice provided, and it is a starting point for deepening the engagement with the wider donor community and building trust with investors, and the possible formation of a government goes in this good direction.

Second, given the large development needs, the Fund's focus on fiscal operations is warranted. The fiscal debt is quite extensive, and there is room for progress on PFM to support human development and capital expenditure, and I associate myself with the remarks of Ms. Pollard on the public investment management.

Third, we agree with staff that a priority should be placed on good governance and the rule of law, especially since there is a very sizeable mining sector, and we particularly welcome the request for the governance assessment, and we look forward to being updated on that front.

Finally, we want to emphasize our strong support for deep engagement between the DRC and the Fund, building on this very positive first step toward a potential Fund program. An SMP would be a very good way forward, and we would like to be regularly updated on that, as Mr. De Lannoy has said previously. We also take note of the limited capacity for absorption of TA, so we encourage development partners to coordinate their TA.

Mr. Merk made the following statement:

We thank staff for the well-written report. We particularly appreciate the structured and transparent discussion of baseline and reform scenarios in the chapter of outlook and risks, which we found helpful. Like other Directors, we welcome the authorities' decision to engage in the first Article IV consultation since 2015. In addition, we have a few remarks, mostly for emphasis. We concur with staff that a tight fiscal stance remains appropriate. The authorities should strengthen revenues and restrain current spending. Further substantial advances in efficiency, transparency, and accountability of institutions should precede fiscal expansion, and the authorities should avoid expensive external borrowing, collateralized loans, and external arrears. Monetary financing of the budget would represent a major risk for economic stability, and an adequately capitalized and effectively independent central bank remains of the essence to build trust and avoid harmful fiscal dominance.

The staff representative from the African Department (Mr. Villafuerte), in response to further questions and comments from Executive Directors, made the following additional statement:

Directors' questions mostly centered on the capacity development agenda going forward. Specifically on PFM, we recently had a scoping mission at the request of the authorities to design a project under the Managing Natural Resource Wealth Trust Fund, and this is an area where much needs to be done in terms of enhancing the expenditure chain and the cash management system, but also in terms of enhancing or putting in place a framework for managing fiscal policy in the context of high dependency on natural resources, to mining in this specific case. This is a medium-term project that is currently being designed and that has substantial buy-in from the authorities. I also mentioned the PEFA exercise that is being financed by the European Union and will be coordinated by the World Bank. It will provide important diagnostic tools to help frame programs in that area going forward.

In terms of absorption capacity, we acknowledge that capacity constraints are partly to blame, but also an important factor over the last few years has been an insufficient buy-in or political support to engage in more meaningful reforms. In the first part of the decade, our capacity development activities were more substantial, and then they fell off over the last few years because of the lack of political support. During the last mission, this was clearly reflected in the reform matrices and in public financial management (PFM), but also in other areas. In fact, the reform matrices have not been updated. They have lagged behind relative to current problems particularly because technical staff have not seen specific actions receiving any political support. The current government is clearly committed to acting in these areas, so absorption capacity should increase, and we, the World Bank and other partners are keen to get involved. As Directors have said, a challenge will be to properly coordinate our various activities to avoid overburdening the authorities and wasting resources that are not needed.

In terms of the governance assessment, we are in discussions with FAD and LEG on when to mobilize a mission. In principle, we are targeting late October, but resources need to be obtained to ensure that we are in line with that timeline.

Mr. Raghani made the following concluding statement:

Let me begin by highlighting the DRC's reengagement with the Fund. The authorities are most enthusiastic about the resumption of Article IV consultations following the important political transition that took place in the DRC. I thank the mission chief, Mr. Villafuerte, and his team for their candid collaboration with the DRC authorities. The authorities have appreciated the quality of discussions held in Kinshasa in key policy areas, as well as the analysis in the selected issues paper. I also thank staff for their responses to the questions raised by Directors.

Directors have made valuable comments and policy recommendations to help the authorities move forward with their transformation agenda and benefit from support of the international financial community. I took good note of Directors' recommendations, which I will faithfully convey to my DRC authorities. As I issued an extensive buff statement and expressed the authorities' broad agreement with staff's policy recommendations, I will limit my remarks to three policy points.

First, the authorities fully understand that scaling up domestic revenue is paramount to meeting their public investment agenda and closing the enormous project and social infrastructure gap facing the country. This is why they are committed to enforcing the new mining code to allow the government to get its fair share of resources revenue while increasing spillovers from the mining sector to the rest of the economy. Other measures are planned to raise government revenue to adequate levels, including enhancing transparency in government operations to adequate levels, rationalizing tax collection processes and institutions, streamlining tax expenditure based on the recent assessment, and improving accountability in the collection of public resources and in transferring them to the treasury.

Second, monetary and exchange rate policies have helped correct the effects of recent adverse developments in mineral prices. That said, the authorities acknowledge that more remains to be done to improve the effectiveness of monetary policy, including the implementation of the last Financial Sector Assessment Program (FSAP) recommendations to recapitalize the central bank and increase its independence. The authorities have reiterated their firm determination to reach their objectives by 2020.

Regarding the monetary policy framework, while a joint Ministry of Finance and central bank team has been established last year July to move ahead with the second phase of the central bank's recapitalization in line with the new law, efforts are being envisaged to align foreign exchange regulations with requirements under the Fund's Article VIII, which will require some time.

Regarding the AML/CFT, measures are underway to improve the framework, including through peer assessment and the Central African Action Group Against Money-Laundering, which the DRC joined in 2017.

Third, Directors have put much emphasis on combating corruption and improving overall governance, which is well taken. This imperative meets the authorities' determination to leave no stone unturned in this area, including improving transparency in the mining sector and enhancing the management of key SOEs. The research of the forthcoming governance assessment under the Fund's new governance framework should help the authorities in the design and prioritizing of reform measures.

To conclude, let me state that the broad support to the DRC's current agenda is greatly appreciated, even more so as this is a fragile state and endowed with important natural resources, which are also the source of most of its challenges. In addition, the economy remains highly vulnerable to external shocks. It is therefore critical to support the current transition and the authorities' stated commitment to buttress governance. The new government announced early this morning in Kinshasa is tasked with putting in place the ambitious agenda of reforms and transformation. The fight against the Ebola pandemic is among the many challenges the new government team has to confront.

I welcome and appreciate the Acting Chair's introductory remarks on the international community's willingness to support the DRC and his invitation to the authorities to seize this opportunity. I strongly caution against requiring SMPs to build a track record prior to any financial assistance. When a member country faces actual balance of payment needs, we should not undermine the sectoral evenhandedness in Fund support to members. At best, the Independent Evaluation Office's (IEO) empirical work shows that timely and appropriate Fund support to a fragile country's effort to turn the corner can make a big difference. Assisting in alleviating capacity constraints is central to sustaining policy implementation efforts. Providing adequate financial support when needed to meet financing gaps and catalyze donors' assistance is also paramount to transforming such a country's prospects. The authorities of the DRC will count on Fund TA and financial assistance to support their reform agenda.

The Acting Chair (Mr. Zhang) noted that the DRC is an Article VIII member and maintained an exchange restriction subject to the Fund's approval under Article VIII. Staff did not recommend approval at that time, and therefore no decision was proposed.

The following summing up was issued:

Executive Directors agreed with the thrust of the staff appraisal. They commended the authorities for pursuing prudent macroeconomic policies that helped reduce inflation and stimulate a recovery from the fall in export prices in 2016–17. However, the DRC faces deep-seated challenges, including widespread poverty, and the outlook is subject to downside risks, including from the Ebola epidemic. Against this background, Directors welcomed the authorities' re-engagement with the Fund, and stressed that the peaceful political transition provides an opportunity to put in place transformational reforms to strengthen public finances, boost growth of the non-extractive sector, tackle corruption, and reduce widespread poverty. Directors noted that the DRC would need the support of the international donor community and assistance in building capacity. Some Directors encouraged the authorities to continue to build an adequate track record of policy implementation.

Directors emphasized that enhancing domestic revenue mobilization is imperative to finance acute development and social needs. They recommended reducing exemptions, enlarging the tax base, simplifying the tax system, and improving tax administration and border control. They also encouraged further integrating mining revenue into the treasury.

Directors also highlighted the need to improve public financial management and the efficiency of public expenditure. They noted that generating realistic revenue and expenditure projections is key to improving the credibility of the budget process. Restoring the expenditure chain and restricting the use of emergency spending procedures would promote transparency and accountability. Directors noted that streamlining the civil service and improving remuneration would increase its efficiency. To maintain debt sustainability, Directors highlighted the need to carefully vet public investment projects, avoid costly borrowing and collateralized loans, and develop a strategy to clear domestic arrears.

Directors agreed that refining the monetary policy framework would enhance its effectiveness. They urged the central bank to increase its foreign reserves to enable it to intervene to stabilize the market, as warranted. They noted that recapitalizing the central bank would help strengthen its independence and enhance its ability to conduct monetary policy and promote financial stability.

Directors stressed that improved regulation is important to help safeguard and develop the financial system. In this context, they suggested aligning the draft banking law with international standards. To improve the AML/CFT framework, Directors encouraged the authorities to implement the priority actions that would be identified in the evaluation report of the Central African Anti-Money Laundering Action Group. Directors noted that promoting microfinance would foster inclusive growth and financial inclusion.

Directors concurred that fighting corruption and improving governance are crucial to boost the efficiency of public spending and growth prospects. To enhance transparency and accountability in the management of natural resources, they called for public tendering of mining assets, publication of all mining contracts, disclosure of true ownership of contractual parties, and publication of audited financial statements of state enterprises. Directors also urged the authorities to expedite the passage of the anti-corruption law and the law establishing an independent anti-corruption commission. They welcomed the authorities' request for a Fund mission to conduct a governance assessment. Directors underscored the urgent need to improve the business climate to attract private investment and promote inclusive growth. Priorities include reducing red tape, simplifying the tax system, and reforming the judiciary.

It is expected that the next Article IV consultation with the Democratic Republic of the Congo will be held on the standard 12-month cycle.

APPROVAL: May 13, 2020

JIANHAI LIN
Secretary

Annex

The staff circulated the following written answers, in response to technical and factual questions from Executive Directors, prior to the Executive Board meeting:

Outlook and risks

1. ***Considering the recent slide in copper prices, we welcome staff's further elaborations on its impact on the budget revenue projections and economic forecast presented in the report.***

- The slide in copper and cobalt prices account for the projected fall in fiscal revenues and export receipts in 2019 and 2020 relative to 2018, as well as a deceleration in mining production.

2. ***We would like to know to what extent the recent drop in cobalt prices has been taken into account by staff.***

- Projections in the staff report were based on the previous global assumptions produced by the Research Department in June, which already included a substantial fall in cobalt prices in 2019. The more recent vintage of mineral prices does not lead to any meaningful changes in the outlook.

3. ***Could staff provide an update on the current state of the Ebola outbreak, including its economic impact and related risks?***

- Staff will respond to this question during the Board meeting.

4. ***In the Risk Assessment Matrix, staff assess the potential economic impact of an Ebola epidemic escalation as "low" noting that the epidemic is taking place in areas not well integrated with the rest of the county. Have staff revised this assessment following recent Ebola cases in Goma, a major transit hub? How is the Fund working with the World Bank and other relevant IFIs to assess the potential economic impact?***

- Staff will respond to this question during the Board meeting.

Fiscal policy and debt sustainability

5. ***We are concerned that projections of total tax revenues, including mining royalties for 2019, are decreasing relative to 2018, and would welcome staff comments on potential factors underlying this.***

- The decrease in total tax revenues in 2019, including mining royalties, is the result of decreasing prices for copper and cobalt, the main export products.

6. ***We would like to ask staff whether the authorities are considering looking at changing any elements of the Mining Code.***

- Our understanding is that the authorities do not intend to change any element of the code at this stage. They have indicated, however, that they are open to dialogue with the mining companies to understand their concerns.

7. ***Some of the changes in the new Mining Code are cause for concern. Specifically, the royalty on "strategic minerals" and the windfall profit tax would make investing in mining activity in DRC riskier and costlier. Furthermore, the removal of the ten-year stability clause may undermine policy credibility. Staff's comments in this regard would be welcome.***

- Staff shares these concerns about elements of the revised Mining Code. The authorities' discretion to designate minerals as strategic, implying higher royalty payments, and the ambiguity of the windfall profit tax could discourage investment by increasing risks and lowering potential returns. Furthermore, the removal of the stability clause raises the prospect of legal action by mining companies while undermining policy credibility.

8. ***We would appreciate it if staff could usefully explain if changes to the Code could help deter foreign investors from challenging in courts the de-facto termination of the ten-year stability clause.***

- Mining companies did threaten to seek international arbitration against the government over the abrogation of the stability clause, claiming that this violated a pre-existing agreement. To date, there has not been any action in this regard.

9. ***Could staff elaborate on the prospects for future donor support? And how do the authorities best avoid a situation with rapidly increasing public debt as observed in other countries in the region with large investment needs?***

- While on mission, staff met with the international community. The World Bank, AfDB and the EU expressed interest in supporting the country. They were looking forward to the Fund's Article IV consultation and were hoping for an IMF-supported arrangement soon to provide a framework for their own operations. Other bilateral donors also showed interest in increasing their engagement with the country.

- The authorities are aware of the challenges of debt sustainability and are keen to keep their debt at a sustainable level. However, the country is facing huge investment needs and the new President's vision for the country's development involves major investment plans. The authorities will have to efficiently select and execute projects to support inclusive growth.

10. ***Could staff elaborate more on the highest priority areas where the international community may support the authorities?***

- The top priority areas include: supporting the government response to the Ebola epidemic, strengthening domestic revenue collection capacity, undertaking civil service reform; and improving PFM (a PEFA assessment is upcoming).

11. ***We would like to ask staff for further details on the financing and technical programs of other development partners, and in particular the World Bank.***

- The World Bank is currently preparing a new Country Partnership Framework for 2019-21. The previous Country Assistance Strategy (CAS) involved helping the Government make progress towards achieving the MDGs and strengthening the country's foundations for higher growth rates and shared prosperity. In recognition that sustained progress on governance was critical, CAS implementation was going to pay particular attention to issues related to good governance, as the building block to support state effectiveness, service delivery, and improved business climate for private sector development (PSD) and job creation.
- The World Bank has started discussions towards a (two-year) programmatic budget support operation. That operation might be accompanied by a multi-sectoral technical assistance project closely aligned to the targeted reform areas.
- As of November 2018, total outstanding IDA credits were US$457.7 million, while disbursed grants amounted to US$1.61 billion.

12. ***Can staff comment on what a healthy balance between resource and non-resource revenues would look like for a country like DRC?***

- A healthy balance would largely depend on export prices and production levels for natural resources. Given the relatively low levels of non-resource revenues in DRC, sizable scope exists to increase relative to resource revenues. Moreover, in the long term, diversifying the economy and sources of revenue away from natural resources is recommended to reduce the country's vulnerability to commodity shocks. This would result in a decrease in the share of resource revenues.

13. ***We take note of the authorities' plan to issue treasury securities starting in 2019. Could staff elaborate more on this, including the amount, currency, and potential impact on debt sustainability?***

14. ***Could staff usefully explain its assessment of the government plans to issue treasury bonds in the current circumstances?***

- The authorities had planned to issue local currency treasury bonds, initially starting in July but more likely by the end of the year. An amount of CF 160 billion (about US$ 97 million) was proposed. However, the domestic market's absorption capacity remains to be assessed. The public debt level is low, with domestic debt at 6.5 percent of GDP. The authorities are aware that, despite the low level of debt, servicing it could be an issue as revenues remain weak. To ensure debt sustainability, they are committed to developing a debt management strategy.

15. ***Can staff comment on the estimated size of revenue not integrated into the TSA and the size of the so-called "special accounts" that are not integrated into the budget?***

- Special accounts and budgets amounted to about 0.7 percent of GDP a year during 2016-19. Staff has not produced estimates of revenue not integrated in the TSA.

16. ***Can staff comment on actions the authorities should take to strengthen investment management prior to scaling up of public investment? Do the authorities concur with staff on the risks of collateralized borrowing?***

- Staff recommends the following actions: (i) strengthen public capacity to manage investment projects; (ii) improve oversight of public investment by encouraging greater participation of civil society and stricter parliamentary monitoring; (iii) prioritize investment needs; (iv) respect laid-down procedures for the award of contracts and for executing public expenditures; (v) ensure that the benefits and costs of investment projects are carefully evaluated before investment decisions are made.
- The authorities are aware of the risks of collateralized borrowing. However, they assess the risk as low in the case of Sicomines because they are confident of the project's capacity to repay and its profitability.

Financial sector, monetary, and exchange rate policies

17. ***We note staff's mention of a Banking Law to regulate credit institutions and would welcome further elaboration on this development. What is the rationale for this law? Is it being championed by the Central Bank?***

- The revision of the Banking Law is part of the process of updating and upgrading the banking regulatory framework to international standards. The rationale came from the need to strengthen the supervision of the banking sector after the 2008 global financial crisis. The law should enhance the BCC supervisory role and improve the operations of the banks, especially in securing customers' deposits and overall financial sector operations. It will also integrate MFIs into the law. Upon the authorities' request, LEG and MCM provided extensive comments on the latest version of the law, which also benefited from two TA mission earlier on.

18. ***Does staff consider that a new revision of the Central Bank Law is needed, or the full enactment of this law would be sufficient?***

- The revisions of the Central Bank Law, which benefited from LEG TA, took some time to be adopted. Future governance and safeguards assessments will be good opportunities to review in more detail the governance aspects of the new Law. LEG and MCM have recently provided comments on the draft Banking Law taking into account the revised Central Bank Law.

19. ***What is staff's assessment of this new (Central Bank) law, and has staff already observed a change in the way the BCC operates?***

20. ***Could staff provide their assessment of the new Central Bank Law's effectiveness in this regard?***

- One of the objectives of the revised Law is to reinforce the independence and autonomy of the BCC, especially through its recapitalization. In July, the authorities set up a team composed of staff from the BCC and Ministry of Finance to work on the timing of the recapitalization of the Central Bank, which is planned for 2020 through a bond issuance.

21. ***We are concerned about the rapid recovery in credit growth that reached 56 percent in 2018 in a context of widespread uncertainty, especially given DRC's high dollarization (90 percent in 2018). Staff comments are welcome.***

- An important driver of the large credit growth in 2018 was increased credit demand from the mining sector, which expanded substantially that year. Growth in credit to the private sector has since moderated, at 4.1 percent in July relative to end-2018.

22. ***Could staff elaborate on the authorities' capacity and possible measures to support the dollarized financial institutions and financial system when faced with unforeseen liquidity stress, especially as the authorities seem to consider that DRC has ample foreign currency liquidity thanks to the mining sector with high foreign currency earning capacity?***

- The reference to ample foreign currency liquidity pertains to the existence of a large (positive) net foreign asset position of commercial banks. Still, that does not guarantee the ability of all individual banks to face (foreign currency) liquidity stress. This is a reason behind staff's recommendation to increase the central bank's international reserves.

- Furthermore, the authorities should continue to strengthen the preventive supervisory function and introduce a general framework for crisis prevention and management, which has been developed with the support of Fund TA. The new Banking Law should be approved promptly to provide the BCC with the needed toolkit to supervise and resolve banks with problems.

23. ***Annex IV highlighted that initial de-dollarization measures have been reversed. Can staff elaborate further on these measures? Is there any ongoing work on medium-term roadmap for de-dollarization as recommended in the previous Article IV?***

- A specific example of a reversal in de-dollarization measures is the demand made to mining companies during the recent crisis to pay taxes in US dollars. The authorities are still committed to de-dollarize but recognize that it has been challenging given the recent adverse shocks.
- Financial de-dollarization hinges in the first place on the credibility of macroeconomic policies and the local currency, and the ability of the economy to face shocks (to terms of trade, for example). Still, there is some scope for specific measures aimed at enhancing the role of the local currency in local transactions and deepening financial markets in local currency. Such measures could be framed within a revised feasible plan for de-dollarization and for improving the BCC credibility.

24. ***Could staff elaborate in greater details on the size of the BCC's FX deposits and the potential effect of their removal on the domestic banks' balance sheet?***

- The BCC's FX deposits in domestic banks represent about 5 percent of the FX deposits (or 4 percent of total deposits) of domestic banks. Removal of those deposits could only be done gradually and by assessing the individual situation of each bank and elaborating a plan to avoid disturbance in the banking system.

Structural reforms

25. ***Could staff elaborate more on how to better implement these (transformational) reforms and share the other countries' successful reform examples for reference?***

- Strictly adhering to the standards of the Extractive Industries Transparency Initiative (EITI) is a critical step to enhance transparency of natural resources management. DRC subscribed to the EITI in 2008 and continues to be an active member. The 2017 report is under preparation. The authorities requested a governance assessment from the Fund. That assessment is expected to identify areas for improvement and the reforms that need to be prioritized to increase transparency.

- There are plenty of countries benefitting from increased transparency. Mexico and Brazil are recent examples of countries that have implemented measures to increase the transparency of their natural resources management: Mexico's National Hydrocarbons Commission (CNH) has made public disclosure a central part of its mandate to oversee both the operations of the state-owned company Pemex, and contract allocations to private investors in the hydrocarbon sector. In Brazil, Petrobras has also moved towards strengthening transparency and integrity after corruption scandals. It has adopted anti-corruption policies and actions, strengthened internal controls and reporting, and given a greater voice to minority shareholders.

26. ***Could staff outline the potential economic gains of closing gender gaps in formal employment and education attainment?***

- Even though staff has not made a formal analysis of the gender gap in the DRC, past analysis in AFR's REO suggests that reducing gender inequality would increase real GDP growth in SSA by about 1 percentage point per year, if gender inequality can be brought down to levels seen in fast-growing Asian.

27. ***Can staff provide information on staffing related to planned governance TA missions in the DRC as part of the governance assessment?***

- Staff will respond to this question during the Board meeting.

28. ***The DRC recently requested to join the Eastern African Community (EAC). We welcome staff views on the potential benefits of regional integration.***

29. ***Could staff elaborate on the benefits of regional integration and suggest strategies to make the most of the possible accession to the EAC?***

- The EAC has made great progress in recent years toward integrating the economies of its member states by establishing a free trade area and a customs union, and is currently working toward a common market. EAC is an important trading partner for DRC. In 2018 (estimates), DRC's export to EAC accounted for 6 percent of its total exports and 9 percent of its total imports. Thus, further integration with EAC can enhance the trade linkages and boost economic activity in DRC, while the net impact is not easy to quantify. The EAC membership will also enable DRC to utilize the infrastructure linkages within the region through roads, railways, and seaports and to reach broader export destinations with lower cost. DRC has a small coastline on the western side in Kinshasa and largely depends on the ports of Kenya and Tanzania for its trade. Economic integration would also contribute to the political stability in the region as eastern DRC and neighboring countries suffered from civil conflicts for many years, which had taken tool on economic development.

- The first step of accession to the EAC will involve joining the customs union, which will require establishing free trade on goods and services amongst members and agreeing on a common external tariff. Given that mineral exports and related capital goods importation account for a significant portion of DRC's external trade, it should be the key area for negotiation during the membership process.

Fund engagement

30. ***Could staff elaborate on the scope for an IMF program as well as the terms and conditions for such program?***

- Staff will respond to this question during the Board meeting.

31. ***We note that the report as well as the buff statement mention the interest of the authorities of having a Fund-supported program to accompany their economic development agenda. We wonder whether there is a timeline and modality for such engagement.***

- Staff will respond to this question during the Board meeting.

32. ***The report indicates that financing from the Rapid Credit Facility (RCF) could help cushion the adverse fiscal and BoP consequences of an Ebola epidemic escalation. Are staff able to provide an estimate of the quantum and potential parameters of such financing?***

- Staff will respond to this question during the Board meeting.

33. ***In 2017, the Prime Minister formally requested financial support under the Rapid Credit Facility. Could staff clarify if the present interest relates to the 2017 request?***

- The present request is not related to the 2017 request. It was triggered by the challenges arising from the Ebola epidemic since August 2018, which the WHO has declared a "Public Health Emergency of International Concern."

34. ***Regarding the projected payments to the Fund mentioned in the Informational Annex, we would like staff to comment on the DRC's capacity to repay the Fund on time, according to the outlined schedule.***

- Staff do not foresee any issue in this area. The outstanding amount is small and paying external debt is a priority for the authorities.

35. ***Staff's comments on the efficacy of recent TA activities and plans for future TA would be welcome.***

- Recent TA has helped in strengthening capacity in areas such as banking supervision, national income accounting, and customs administration. The authorities have expressed satisfaction with TA activities and a desire for a continuation and extension to other areas. Staff proposes supporting the authorities request to the extent that resources permit. That said, most TA reports have highlighted a low rate of implementing past recommendations, also reflecting capacity constraints.