May 12, 2020
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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 20/6-1

10:00 a.m., January 17, 2020

1. Republic of Congo—2019 Article IV Consultation

Documents: SM/20/1 and Correction 1; and Supplement 1; and Supplement 1, Correction 1; and Supplement 2; SM/20/2

Staff: Segura Ubiergo, AFR; Sommer, SPR

Length: 1 hour, 25 minutes

Executive Board Attendance

M. Furusawa, Acting Chair

Executive Directors	Alternate Executive Directors
	T. Sitima-wina (AE), Temporary
M. Raghani (AF)	
	R. Morales (AG), Temporary
	C. White (AP)
	B. Saraiva (BR)
Z. Jin (CC)	
	M. Tabora (CE), Temporary
L. Levonian (CO)	
R. Kaya (EC)	
A. Buisse (FF)	
	K. Merk (GR)
	B.Singh (IN), Temporary
	T. Persico (IT), Temporary
	K. Chikada (JA)
	S. Alavi (MD), Temporary
	P. Al-Riffai (MI), Temporary
	D. Cools (NE), Temporary
	J. Sigurgeirsson (NO)
	L. Palei (RU)
M. Mouminah (SA)	
	D. Susiandri (ST), Temporary
P. Inderbinen (SZ)	
	D. Ronicle (UK)
	P. Pollard (US), Temporary

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

Also Present
African Department: A. Baldini, A. Segura Ubiergo, A. Selassie, J. Sulemane, J. Toujas-Bernate, Z. Zeidane. Fiscal Affairs Department: C. Verdugo Yepes. FED: A. Buisse. Legal Department: W. Bergthaler, J. Purcell, J. Swanepoel. Research Department: G. Cugat. Strategy, Policy, and Review Department: M. Sommer. World Bank Group: S. Ba, F. Carneiro.

Alternate Executive Director: R. Alkhareif (SA), M. El Qorchi (MD), M. Psalidopoulos (IT), P. Rozan (FF), F. Sylla (AF). Senior Advisors to Executive Directors: R. N'Sonde (AF), S. Potapov (RU), M. Sidi Bouna (AF), J.Weil (CO). Advisors to Executive Directors: S. Bah (AF), O. Bayar (EC), M. Bernatavicius (NO), S. Buetzer (GR), S. Chea (ST), D. Crane (US), Z. Huang (CC), T. Iona (AP), R. Makhammadiev (SZ), H. Mori (JA), K. Osei-Yeboah (MD), B. Rankin (CO), Y. Pierre (BR), E. Comolet (FF).

1. REPUBLIC OF CONGO—2019 ARTICLE IV CONSULTATION

Mr. Raghani and Mr. Sidi Bouna submitted the following statement:

Introduction

On behalf of our Congolese authorities, we would like to thank staff for the candid policy discussions held in Brazzaville during the 2019 Article IV consultation and for the in-depth analysis in the reports and the Selected Issues Paper (SIP).

The Congolese economy is recovering steadily from the severe crisis that hit the country after the 2014 oil price shock. Key macroeconomic indicators point to a continued improvement in Congo's overall economic performance, in particular, with respect to the fiscal and external positions. Strong adjustment measures combined with higher oil production have contributed to this achievement.

The authorities reiterate their determination to pursue the sound policies agreed under the ECF approved last July to restore the country's macroeconomic stability while contribute to the economic recovery of the CEMAC region. Fiscal discipline and far-reaching governance reforms will be pursued. Moreover, to further reduce the burden of external debt, the authorities are also actively seeking an agreement with the country's oil traders on the restructuring of Congo's commercial debt which is essential to finalizing the discussions related to the first review under the ECF. They are hopeful that an agreement with oil traders will be reached during the first quarter of 2020.

The Fund's continued assistance is critical to help address Congo's considerable challenges that still lie ahead. As the economic adjustment continues, the authorities will maintain a close engagement with the Fund whose advice they view as instrumental in their efforts to ensure fiscal and debt sustainability, strengthen governance, and foster stronger and more inclusive growth.

Recent Economic Developments, Outlook, and Risks

Congo's macroeconomic performance has improved further in 2019. Growth strengthened to 2.2 percent in 2019 from 1.6 percent in 2018 while non-oil GDP rose, for the first time since 2015, reaching 0.8 percent. Inflation has remained contained at 1.9 percent in 2019. The fiscal stance has also strengthened in 2019 under tighter expenditures control. The non-oil primary deficit narrowed to 24.8 percent of non-oil GDP in 2019 from 28.1 percent in 2018. The current account surplus remained elevated in 2019, as in 2018, driven by high oil exports. The country’s net foreign assets have increased, leading to a higher contribution to regional central bank’s foreign exchange reserves.

The gradual recovery of the Congolese economy is projected to continue over the medium-term, supported by the reforms and policies implemented under the ECF, as well as an increase in oil production. The expected progress in the clearance of domestic arrears should also reinvigorate activity in the non-oil sectors and strengthen the financial sector.

The authorities broadly share the staff’s assessment of the risks to the outlook, especially the risks stemming from potential global oil price volatility as well as delays in donor support which could affect program implementation. They are confident that the policies and reforms envisaged under the ECF and the efforts to accumulate larger buffers at the regional central bank will help mitigate identified risks.

Fiscal Policy

The Republic of Congo has undertaken substantial fiscal consolidation over the past few years to adjust to lower and volatile global oil prices, by drastically cutting expenditures, mainly capital spending. The non-oil primary fiscal deficit has narrowed considerably year after year since the 2014 oil shock, and the country’s public debt has declined significantly, particularly in 2018.

The authorities intend to continue on the path of fiscal adjustment with a view to achieving more sustainable fiscal and debt positions over the medium-term. The authorities are aware that this will require reaching a favorable agreement with the country’s commercial creditors to bring overall external debt down to 30 percent of GDP in NPV terms within the next three years. In addition, they are cognizant that additional efforts are needed to expand the fiscal space for social spending, which ended the year lower than the authorities had initially planned, and for infrastructure spending which declined substantially in recent years, affected by the sizeable fiscal adjustment.

Fiscal adjustment is being rebalanced through an increase in non-oil revenues and tighter control of current expenditures. The 2020 budget adopted by Parliament in December 2019 is in line with program objectives. It targets higher non-oil revenues and streamlined current spending, including through new important measures to reduce subsidies to state-owned enterprises. The reduction of tax exemptions also envisaged under the 2020 budget will significantly contribute to raising tax revenue. In this regard, we welcome the relevant analysis contained in the Selected Issues Paper (SIP) which provides valuable insights on specific and effective measures to improve revenue performance in Congo.

The authorities underline the importance of the donor community's support to their adjustment efforts. Providing the much-needed budget support in a timely manner is critical to achieve the objectives of the program, including the social spending targets and the clearance of external arrears, given the country's current extremely tight fiscal position.

Financial Sector

The overall solvency of the banking system continues to be sound although non-performing loans (NPLs) remain elevated. The latter continue to weigh on banks' balance sheets, thereby constraining the important role the Congolese financial sector could play in support of the recovery. As the rise in NPLs is largely the result of the accumulation of domestic arrears by the public sector, the expected clearance of these arrears will significantly contribute to reinforcing the banking sector. Furthermore, the authorities, in collaboration with the regional banking commission (COBAC), are considering options to address the difficulties of two non-systemic banks.

Structural Reforms

Improving governance and diversifying the economy away from oil is at the core of the authorities' reform agenda. They plan to continue making progress in these important areas with the objective of attracting more diverse private investments and enhancing the resilience of the economy.

Significant reforms have been undertaken in the areas of governance reform and transparency over the past few years. The authorities will continue reinforcing the anti-corruption framework and promoting transparency in the management of the oil sector. They will adopt the decrees needed for the Anti-Corruption High Authority and the Transparency Commission to effectively carry out their mandate while providing them with adequate resources to become fully operational. The authorities look forward to the IMF's technical assistance to further improve public financial management

(PFM), including ensuring that all outstanding payments from previous years' budgets are adequately addressed and setting up appropriate safeguards in line with international best practices.

The authorities are determined to accelerate the diversification of the economy by promoting key sectors which have significant potential based on the country's comparative advantage. Their efforts in this area are mainly geared towards developing more productive agricultural and forestry activities. To this end, they will invest in enabling infrastructure, particularly transportation, and expand power generation and distribution. The authorities will also promote transparency in these sectors while improving the business environment, notably by simplifying the licensing procedures and addressing weaknesses in areas identified in the World Bank's "Doing Business" reports with the assistance of development partners, with a view to further attracting private investments and fostering jobs creation.

Conclusion

The Congolese authorities have made important strides in stabilizing the economy and raising the country's growth prospects. Notwithstanding, they are aware that more remains to be done to achieve higher, sustained, and more inclusive growth. To accelerate progress towards program objectives they will maintain a close engagement with the Fund and call on the international community to continue supporting their reform agenda under the ECF.

Mr. Obiora and Mr. Sitima-wina submitted the following statement:

We agree with the thrust of the staff appraisal and policy recommendations. Though challenges remain, the Congolese authorities have taken commendable steps towards restoring fiscal sustainability and enhancing governance. Accordingly, we urge the authorities to sustain the remarkable fiscal consolidation efforts, highlighted in the buff Statement by Mr. Raghani and Mr. Sidi Bouna. These efforts are critical to restore debt sustainability. Further, considering that the growth outlook and strengthening of the external sector are predicated on higher oil revenues, it would be appropriate to have conservative projections as the key oil field remains exposed to downside risks. These risks underscore the importance of boosting growth in the non-oil sectors to enhance economic resilience to external shocks. Thus, steadfast implementation of the National Development Plan (NDP) and the diversification strategy will be key to sustain higher and more inclusive growth.

Unwavering fiscal consolidation is required to decisively bring public debt on a downward path and clear domestic arrears. The substantial improvement in the overall fiscal position observed in 2018 and 2019 as well as the projected fiscal surplus over the medium-term are encouraging. We therefore welcome the authorities' commitment to bolster non-oil revenue collections through ongoing reforms including, legislative and administrative measures, stronger controls on tax exemptions and tax arrears and efforts to modernize tax and customs administration. The finalization of a plan to clear domestic arrears estimated at around 14½ percent of GDP at end-2018 is urgent as it would ease liquidity constraints in private firms that are having difficulties to honor tax obligations and service bank loans. Going forward, the Treasury should further strengthen its commitment controls and cash management system to prevent the reemergence of new arrears. At the same time, while containing expenditures remains a critical pillar of consolidation, we urge the authorities to ensure that pro-poor expenditures and growth enhancing investments in infrastructure are not compromised given their importance in boosting non-oil growth.

Accelerating the restructuring of external commercial debt is critical to restoring debt sustainability. We note that the authorities have sent new letters to external creditors, mainly the oil traders, inviting them to accelerate negotiations. It is concerning that recent experience in some countries in Sub-Saharan Africa shows that debt restructuring can take up to three years to conclude. Given these experiences, does staff have any further information to support prospects of concluding this process within the first quarter of 2020?

We welcome the authorities' commitment to improving governance, financial sector oversight, market regulation, and business climate as necessary preconditions to achieve more inclusive growth. Building on the diagnostic report on Governance prepared with assistance from IMF staff, the reforms carried out in strengthening the Anti-Corruption Framework; enhancing transparency in oil revenue management; and conducting independent Audits of Domestic Arrears prior to payment are key to enhancing public finance management. Furthermore, the prioritization of investments in infrastructure, including transportation and electricity supply and human capital as part of the diversification strategy would have a positive impact on the business environment and competitiveness. In this context, we encourage the authorities to speed up reforms to improve market regulation including, in the simplification of business licensing processes, the creation of a national real estate registry and the reform of administrative fees, which would facilitate cross-border trade and reduce administrative burdens to unlock the growth potential.

Deepening the financial sector and maintaining its stability is essential to improving access to credit. In this context, we urge the authorities to expedite the orderly restructuring or resolution of two non-systemic banks in consultation with Commission Bancaire de l'Afrique Centrale (COBAC). This would be critical in preserving financial sector stability and resilience. In the same vein, we encourage the authorities to remain vigilant to stem any risks that could emanate from the banking system. In particular, we believe that the clearance of domestic arrears would reduce non-performing loans (NPLs) and further improve financial sector stability.

Mr. De Lannoy, Ms. Levonian, Mr. Psalidopoulos, Mr. Sigurgeirsson, Mr. Bernatavicius, Mr. Cools, Mr. Persico and Mr. Rankin submitted the following joint statement:

We thank Mr. Raghani and Mr. Sidi Bouna for their helpful buff statement and staff for their informative report. The Republic of Congo continues to face very difficult economic conditions and risks are tilted to the downside. We agree with the thrust of the staff appraisal and offer the following comments for emphasis.

Program Modalities

We welcome this first Article IV report since 2015, as a further sign of the authorities' commitment to re-engage with the Fund. Nevertheless, we do regret that it has been impossible to close the first review of the ECF-supported program due to protracted discussions on debt restructuring with commercial creditors. We note that the authorities remain committed to completing the debt restructuring process in line with program parameters. However, we are concerned that the Risk Assessment Matrix considers the failure to complete the debt restructuring strategy for commercial debt to be a risk with a high likelihood (and a high impact). Could staff provide an update of the discussions on debt restructuring and the prospects of closing the first review?

We are concerned about the delay in disbursement of budget support from key development partners. The non-disbursement not only threatens macroeconomic conditions, it complicates budget management and imperils the arrears clearance that shall take place prior to the closure of the first review. Could staff kindly provide an update on the state of play of this delay and explain the reasons behind this delay, especially regarding the delay in the approval of the World Bank's DPO?

More broadly (beyond the Republic of Congo), we are concerned about recurring coordination issues on lending policies between the World Bank and the Fund. Building off of the G20 Principles for effective coordination between the IMF and MDBs in case of countries requesting financing while facing macroeconomic vulnerabilities, we invite management to reflect on a horizontal approach to limit coordination issues going forward.

We are concerned about the accumulation of new external official arrears, while being cognizant that these have been incurred in part due to the non-disbursement of planned budget support. We urge the authorities to prioritize official arrears clearance.

Fiscal

We are concerned about the low rate of execution of social spending and underscore the importance of protecting vulnerable groups during fiscal adjustment. In particular, we encourage the authorities to advance their efforts to reduce gender gaps, including through the protection of expenditures for the construction of rehabilitation centers for victims of violence, the focus on income-generating activities for young mothers, and support for HIV/AIDS prevention.

We also caution that fossil fuel subsidies create significant fiscal pressures, encourage wasteful consumption, and accelerate climate change. We therefore encourage the authorities to allow a greater pass-through of international oil prices, while mitigating the impact of subsidy reform on the poor through targeted cash-transfers.

Governance

While recognizing that the ECF contains an ambitious governance chapter, we regret that some reforms have experienced delays. We encourage the authorities to swiftly adopt implementing decrees for the High Authority on Corruption and for the Transparency Commission, as well as to ensure that newly created governance institutions are properly resourced and able to perform their critical roles.

Mr. Beblawi and Ms. Al-Riffai submitted the following statement:

We thank staff for their well written reports and Messrs. Raghani and Sidi Bouna for their informative buff statement. Though the economic conditions in the Republic of Congo remain difficult, we welcome the relative calm in the political environment as well as the signs of improved social stability. The authorities are rightly reiterating their commitment to focus on policy priorities, such as restoring fiscal discipline, clearing domestic arrears, improving social spending, and implementing structural reforms.

We commend the authorities on the considerable improvement in the overall fiscal position in 2018, which has also continued into 2019. Nonetheless, more is needed to advance reforms aimed at boosting non-oil revenues, controlling spending on subsidies and transfers, and introducing a stronger mechanism to monitor and mitigate fiscal risks. It will be crucial to increase social spending and make sure that the underlying social safety net is effective in alleviating the adverse impact of the reforms on the vulnerable population. We look forward to the rapid disbursement of funds for budget support by key development partners.

Congo remains in debt distress and debt burden indicators are projected to worsen in the near term. Though we welcome the authorities' stated commitment not to contract new non-concessional loans, before the sustainability of public finances has been restored, we recognize that more will be required to ensure a moderate level of debt distress in the medium term, including the clearing of domestic arrears and external debt restructuring. We concur with staff that debt management should remain a priority in the authorities' strategy and look forward to the completion of the debt management strategy, appending it to the budget law, and strengthening the government's cash flow management. We welcome that the government is currently conducting a detailed analysis of its public enterprise portfolio to better assess the strategic position and viability of the 32 public companies and to propose a privatization strategy for each enterprise.

We welcome the steps taken to improve Public Financial Management (PFM) systems over the past two years; however, we concur with staff on the need to expedite efforts to finalize a medium-term strategy for PFM reforms. Can staff comment on whether the financial resources, and the institutional and capacity capabilities are present to appropriately advance these reforms? For sustainable reform results, we see merit in designing PFM reforms taking into account the underlying political economy characteristics. We also appreciate the authorities' plan to revamp the public investment framework, including their plan to implement the Public Expenditure Tracking Survey (PETS) to identify losses in the investment process.

We are concerned about the continuing fragilities in the banking sector, due to the high and rising NPLs, brought about the insufficient progress made in reducing public sector arrears to government suppliers. Clearing arrears will be instrumental to improving the stability of the banking sector and to supporting economic recovery. We recall that in an earlier report, staff highlighted the limited correspondent banking relationships which may greatly elevate systemic risk in case of financial or operational failure in a highly dollarized economy. Could staff comment on any development regarding the opening of new correspondent banking relationships?

We commend and support the authorities on their efforts to stabilize the macro economy and to move forward with structural and governance reforms. We look forward to the development of national capacity so as to advance with the necessary reforms.

Mr. Chikada, Mr. White, Mr. Iona and Ms. Mori submitted the following joint statement:

We thank staff for the comprehensive papers and Mr. Raghani and Mr. Sidi Bouna for their informative buff statement. We see some positive signs in fiscal consolidation and non-oil sector growth as well as improving governance. While the expansion of oil production is expected to support near term growth, the economic situation remains difficult with unsustainable debt, high reliance on the oil sector, low non-oil revenue, and insufficient social protection. Continued efforts in fiscal consolidation, debt restructuring, improving governance and diversifying the economy are needed to restore macroeconomic stability and achieve inclusive growth. As we broadly concur with the thrust of the staff appraisals, we will limit our comments to the following.

Restoring debt sustainability crucially hinges on the restructuring of private commercial claims and the pursuit of fiscal consolidation. We note that the authorities need more time to conclude the debt restructuring and to clear official external arrears, which was expected to be completed by now when the program request was made in July. In relation to this, in the Annex IV. Risk Assessment Matrix, staff assesses the relative likelihood and impact of failure to complete the debt restructuring as high. Could staff update the board on progress in the restructuring negotiation and elaborate on the factors behind the high risk of failure? As debt restructuring and arrear clearance are crucial to restore macroeconomic stability, we urge the authorities to make efforts to conclude it promptly. On domestic arrears, the authorities should complete the audit and finalize and implement the domestic arrears clearance strategy without delay to improve financial sector soundness and support non-oil private sector activities. To capture the country's debt vulnerabilities more accurately, we encourage the authorities and staff to strengthen efforts to compile information on SOEs.

Further efforts to boost non-oil revenues and improve spending efficiencies while ensuring adequate social spending are important. While we welcome the substantial improvement in the overall fiscal position as well as the positive trend of the non-oil primary deficit, non-oil revenues are still below target and should be improved given the short resource horizon and high levels of debt. We encourage the authorities to step up their efforts to generate higher non-oil revenues by broadening the tax base, rationalizing the tax code and increasing administrative efficiency. On the expenditure side, we welcome the authorities' efforts to adopt new expenditure tracking software to improve the efficiency and transparency of budget execution as well as their plans to design a PFM reform strategy and transfer to Treasury Single Account. We agree with staff that pursuing efforts to contain the wage bill as well as transfers to state-owned oil refinery and subsidies are important. In this context, as analyzed in the SIP, non-application of the pricing rule and inefficient operation of SOEs weigh on the fiscal position and should be addressed immediately while paying due consideration to measures to mitigate the impact of reform on the vulnerable. We would appreciate it if staff could provide any update on authorities' plan to gradually reduce the wage bill as a percent of non-oil GDP, which they indicated in the ECF program request would be adopted before the end of September 2019.

Additional reforms to improve governance and reduce corruption are necessary to achieve sustained and inclusive growth. We commend the authorities for publishing a diagnostic report on governance and taking a number of steps in areas such as strengthening of the anti-corruption framework, improving transparency in oil revenue management and providing broader access to information. We encourage the authorities to continue their efforts to effectively implement and ensure enforceability of related frameworks by taking advantage of IMF TA. We agree with staff that the introduction of legislation and implementation of regulations aimed at empowering the Cour des Comptes et Discipline Budgetaire to effectively carry out audits should be pursued urgently.

Enhancing economic diversification and reducing reliance on the oil sector are key to sustaining higher and more inclusive growth. We encourage the authorities to implement necessary reforms under the three pillars of their diversification strategy. We agree with staff that improving the business environment by improving the quality of infrastructure, reducing administrative challenges associated with starting a new business, and improving access to credit are essential.

Mr. Tan and Mr. Chea submitted the following statement:

We thank staff for the comprehensive set of reports and Mr. Raghani and Mr. Sidi Bouna for the informative buff statement.

We welcome the authorities' commitment toward restoring fiscal sustainability and the progress in implementing structural reforms in line with the Fund ECF-supported program. At the same time, Congo remains vulnerable to substantial economic and development challenges stemming from both external and domestic risks. In this context, further efforts are needed to strengthen the medium-term fiscal framework, reduce public debt level, and improve governance and transparency to mitigate challenging macroeconomic conditions and large infrastructure and social gaps. Advancing progress in these areas will help to further enhance economic diversification and promote sustainable and inclusive growth. We concur with the broad thrust of staff's appraisal and would like to offer the following comments for emphasis.

Putting public debt on a downward trajectory is key to restoring fiscal and debt sustainability in the medium term. While we take positive note of the authorities' prudent execution of the 2019 budget and the completion of the 2020 draft budget, additional efforts are needed to strengthen public financial management to ensure debt sustainability. We therefore share staff's view and encourage the authorities to further strengthen its fiscal consolidation and domestic revenue mobilization strategy to collect tax arrears from the non-oil sector in order to create fiscal space for priority development and social spending such as health, education and vulnerable groups. This will help to further contribute to poverty reduction and maintain sustainable political and social outcomes. Accelerating debt restructuring efforts is equally important given that Congo is considered in debt distress. We welcome the authorities' plans to reduce debt burden by pursuing negotiations with external commercial creditors and to reduce domestic arrears to support private sector-growth and confidence. Moving forward, we encourage the authorities to continue to strengthen debt management capacity and transparency, while at the same time be vigilant of all debt and contingent liabilities from state-owned enterprises. Could staff comment on the likelihood of the authorities' commitment towards debt restructuring strategy for commercial debt in the event that there is further delay?

Structural reforms should focus on promoting governance and transparency to enhance the business climate and improve economic diversification, while protecting the vulnerable from the adjustment impact. We support the authorities' ongoing commitment toward reducing corruption and improving governance and transparency of oil revenue as well as steps to improve the business environment. Nonetheless, Congo remains dependent on the oil sector for growth, while large infrastructure gaps and weak regulatory framework remain as an obstacle. We therefore concur with staff and encourage the authorities to improve economic diversification by reducing administrative burdens and improving human capital development in order to foster foreign investment and unlock growth potential in other promising sectors. Going forward, we encourage the authorities to work closely with development partners to improve anti-corruption measures, public sector accountability and governance.

Ensuring financial sector sustainability is crucial in preserving financial and macroeconomic stability. Although the banking system is assessed to remain sound, it is important that the authorities align its banking supervisory and regulatory framework with international standards, keep non-performing loans under control, expedite efforts to repay domestic arrears and intensify work on enhancing the AML/CFT framework. A stable and developed financial sector will complement the authorities' reform efforts to diversify the economy and increase its resilience to external shocks.

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

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

We thank staff for the papers and Mr. Raghani and Mr. Sidi Bouna for the helpful buff statement. We welcome this stand-alone Article IV discussion, considering the long delay since the last Article IV review. The Congolese authorities have made some important initial steps toward strengthening the macroeconomic framework, including through substantial fiscal adjustment, and their governance action plan has identified key priorities. However, with non-oil revenues lagging, fiscal adjustment has come at the expense of social spending and capital investment, which is not sustainable. Governance steps so far have focused more on architecture than implementation. The government's failure to pay its financial obligations on time also weighs on the financial sector and business climate more generally. Stronger government engagement with civil society and the private sector is needed to build confidence in, and support for, the reform strategy. We concur with the staff appraisal and would like to highlight several points.

Governance and Anti-Corruption. We call on the authorities to take more decisive action on economic governance and anti-corruption, with a focus on implementation and compliance. For example, the asset declaration requirement needs to be operationalized, the access to information law implemented, and the framework for tax exemptions more tightly applied. Information shared with parliament needs to be more comprehensive. For example, SNPC data should include its subsidiary, CORAF, and such information should be made public. We welcome initial steps by the Ministry of Finance to publish monthly economic data on its web site. Can staff comment on the current status of this effort?

Debt Management. Expanding debt coverage, clearing external arrears, and concluding a debt restructuring agreement to reduce debt risks need to be top priorities. We echo staff on the importance of strengthening the legal and institutional framework for the contracting of debt, developing a debt management strategy, and strengthening debt recording, monitoring, and publication of all public liabilities, especially major SOEs. The authorities should move expeditiously toward a robust debt deal with the oil traders, underpinned by debt sustainability parameters that take into account uncertainties about SOE debt and contingent liabilities. Delays in debt restructuring are understandably giving pause to key budget support partners, and risk feeding into a vicious circle. The authorities also need to effectively manage broader fiscal risks, including by appropriately addressing both arrears and contingent liabilities.

Social Spending. We are concerned by low social spending, considering Republic of Congo's high poverty rate and poor human development outcomes. We encourage IMF staff, in cooperation with MDB staff, to work with the authorities to make sure that social spending targets are specified in a meaningful way and that strong efforts are made to consistently meet them. This will be particularly important ahead of reforms to fuel and other subsidy programs to avoid adverse impacts on vulnerable groups.

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

We thank staff for its insightful report and Mr. Raghani and Mr. Sidi Bouna for their helpful buff statement. We broadly concur with staff's recommendations and would therefore only like to add the following points for emphasis.

We take note that Congo's economic situation has improved somewhat, even though it remains difficult. Compared to the projections at the time of the program request last summer, growth in 2019 has been weaker than expected and the necessary debt restructuring remains incomplete. Looking at growth prospects more broadly, a decisive factor for Congo's future economic prosperity will be the development of its non-oil sector. As outlined by staff, the government's ability to deliver on key reforms will thus be of the essence to support economic stability.

Congo's unsustainable debt situation needs to be tackled. We commend the authorities for their fiscal consolidation efforts, including a prudent execution of the 2019 budget and a 2020 budget consistent with program parameters. Nonetheless, we take note that this has been achieved mainly at the expense of lower investment and social spending. Against this backdrop, and considering that Congo is in debt distress, the authorities need to improve revenue mobilization and collection. Furthermore, we echo staff's call to restructure external commercial debt. In this context, we look forward to a successful agreement on this issue before the first program review.

Moreover, we strongly encourage staff and the authorities to work towards greater transparency over public debt and contingent liabilities. The DSA rightly highlights that there is an urgent need to strengthen public debt management, in particular debt recording and monitoring capacities, not least regarding the operations of the many SOEs which are currently not covered in the DSA. The lack of transparency and incomplete information over debt levels and fiscal performance of the more than 30 SOEs is worrying. In this context, we would welcome additional comments on how staff arrived at their estimate that non-guaranteed SOEs debt stands at 9 percent of GDP as well the assumption that half of this amount could end-up on the central government balance sheet.

Delivering on key reforms with regard to public financial management, as well as on improving governance and transparency, will be key to restore business confidence and thereby strengthen the private sector. We therefore join staff in encouraging the authorities to address weaknesses in public financial management and to increase their efforts in implementing key reforms under the Fund-supported program.

Generally speaking, comprehensive structural reforms are needed to pave the way to a more diverse, stable, and inclusive economy. While we recognize that non-oil growth is expected to pick up gradually, the business environment needs to be improved substantially to promote private sector led growth.

We take positive note of staff's assessment that the banking sector appears overall solvent. At the same time, we would like to emphasize the risks associated with rising NPL levels, which weigh negatively on access to credit and private credit growth. Accordingly, the authorities should vigorously pursue their NPL reduction strategy and clear arrears to the private sector as firms face difficulties to service their loans due to arrears from the government.

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

We thank the staff for their analytical reports and Mr. Raghani and Mr. Sidi Bouna for their informative buff statement.

The economy of Republic of Congo is predominantly dependent on oil resources and continues to be vulnerable to cyclical movements in global oil prices. We agree with the staff on the strong need for economic diversification towards non-oil sectors in order to help insulate the economy against adverse external shocks. The authorities have identified the agricultural sector as one of the three key sectors targeted through the diversification strategy outlined in Congo's National Development Plan (NDP). While it remains underdeveloped, this sector is an important source of potential growth and its development may contribute to poverty reduction in rural areas, improved food security and decreased reliance on food imports. The NDP targets the development of infrastructure as essential to support the agricultural sector as well as for improvement in value chains. Since the supply chain management and linkages to market form a vital part of modernization of agricultural sector, whether the staff could elaborate on the authorities' specific strategy on productivity improvement, agro-industry linkages and marketing network?

The business confidence seems low due to delays in the implementation of the government strategy to clear domestic arrears. NPLs of the banking system are still high and are partly contributed by insufficient progress in reducing public sector arrears to government suppliers, which is adversely affecting construction sector and segments of the tertiary sector. We agree with the staff assessment that restoration of debt sustainability through a successful debt restructuring of external commercial debt and the repayment of external and domestic arrears will be essential to boost confidence and signal that the country will be able to maintain a stable economic environment. We encourage the authorities to complete the debt restructuring process for external commercial debt in line with the three-year Extended Credit Facility (ECF) program parameters and clear official external arrears ahead of the first review under the ECF arrangement.

Institutional reforms to strengthen governance and improve the business environment will play a vital role in the process of diversification of the economy. We welcome the authorities' efforts to strengthen the anti-corruption framework and improve transparency in the management and accounting of oil revenues. Given its abysmally low ranking in Doing Business, improving the quality of infrastructure, reducing administrative challenges associated with starting a new business, and improving access to credit are macro-critical to bring Congo more in line with its better performing peers. The staff also noted that the NDP emphasizes improvements in human capital as a key pillar to support the diversification strategy. However, limited progress has been achieved so far given the limited resources allocated to social sectors. Rationalization of large fiscal subsidies, particularly the oil subsidies, may free up resources for stepping up social sector spending. Steadfast implementation of the program objectives under the recent ECF would be vital to make progress in transforming the country's growth prospects. We do recognize that the economic scenario, development challenges and the implementation setting remain difficult and complex.

Finally, we would encourage a clear communication strategy to ensure adequate and sustained broad support for the reform efforts.

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

Mr. Villar and Mr. Tabora Munoz submitted the following statement:

We thank staff for the set of insightful reports and Mr. Raghani and Mr. Sidi Bouna for their informative and comprehensive buff statement.

The Republic of Congo continues to face very difficult economic conditions. Despite good prospects for future growth, especially in the oil sector, the 2019 growth projection has been revised downward and there is significant uncertainty on the speedy recovery of the non-oil economy. Stepping up efforts and pushing ahead the reforms program, completing debt restructuring, and clearing external and domestic arrears in a proper and transparent way, are key to restore debt sustainability and pursue the ambitious fiscal consolidation program. We broadly agree with the thrust of the staff appraisal and policy recommendations, and we commend the Congolese authorities for the steps taken towards restoring fiscal sustainability and enhancing governance.

We welcome the authorities' determination to continue implementation of the ECF- supported program in a satisfactory manner, despite that program performance is currently mixed, particularly regarding the accumulation of new external arrears and spending for poverty reduction. In that regard, the Fund's continued assistance, and strengthening the public confidence in the government's economic program, are paramount. We concur with the staff's prudent stance on postponing the first review of the program to obtain credible assurances that the authorities' plans on debt restructuring and clearing official external arrears are consistent with earlier commitments. We urge the authorities to conclude the audit report on domestic arrears and start the repayment strategy in order to reduce private-sector Non-Performing Loans (NPLs), strengthen financial sector stability, reduce uncertainty in the private sector, and make these resources available to promote economic growth. Staff's comments would be appreciated, particularly updates on the program's performance, and when its first review is expected.

Moving up fast with restructuring of the external commercial debt is instrumental to restoring debt sustainability. Congo is in debt distress—debt burden indicators are projected to worsen in the near term (2020-2021)—and has also accumulated substantial external and domestic arrears, putting debt well above reasonable sustainability benchmarks. Therefore, obtaining credible assurances as to be sufficiently confident that the authorities' plans on debt restructuring are consistent with restoring public debt sustainability is critical. Given the difficulties experienced by other Sub-Saharan African countries renegotiating their debt, could the staff provide any further information on the Congo's current restructuring process and how feasible the expectation of concluding this process within the first quarter of 2020 is, as stated in the report?

Boosting mobilization of internal revenues and efforts to contain current spending will help consolidate the ambitious fiscal strategy. Efforts to contain non-priority and current spending could help build public support for complex reforms, entice donor support, and strengthen the credibility of the economic program. Increasing non-oil revenues and reducing tax exemptions as envisaged under the 2020 budget are fundamental conditions to create fiscal space to increase social spending, necessary to ensure that most vulnerable groups are being effectively protected from the burden of fiscal adjustment. In that regard, authorities' commitment to integrate customs, domestic tax and treasury are critical, as well as pursuing ongoing tax administration efforts, especially those related to the creation of the Fiscal Policy Unit in the Ministry of Finance, curbing the discretionary use of tax exemptions and increasing administrative efficiency to recover tax arrears. Restoring infrastructure spending as originally planned, particularly to improve access to electricity, is also instrumental for bolstering economic growth.

We encourage the authorities to continue the efforts to diversify the economy away from oil. The steadfast implementation of structural reforms - including those under the ECF program-, as well as reducing the administrative burden associated with the cost of starting new businesses and improving access to credit, are crucial to improve the business climate, unlock growth potential in promising sectors, and enable private sector development. As part of the efforts to diversify the economy, we encourage the authorities to promote the National Agricultural Investment and Food and Nutrition Security Plan (PNIASAN) aimed at promoting agribusiness value chains by helping small producers' organizations to access the market and engage with large operators, as well as boosting the forestry sector and its institutional framework.

We welcome the authorities' recent commitment to improve the governance and anti-corruption framework. We believe these improvements are a necessary precondition for the economic program's success. In that regard, we encourage the authorities to continue tackling governance issues, especially: strengthening the institutional framework for greater transparency in oil-revenue management in line with good international practices; fortifying efficiency and transparency of the Public Financial Management (PFM) system, adopting the new expenditure-tracking system (SIGFIP); Carrying out independent auditing prior to payment of arrears; fostering the enforcement of legal claims; and, establishing a new asset declaration regime for high-ranking government officials.

Mr. Saraiva and Mr. Nithder Pierre submitted the following statement:

We thank staff for the well written set of reports and Mr. Raghani and Mr. Sidi Bouna for their insightful buff statement. Through a relatively calm political environment, real GDP growth has picked up moderately in 2019 but, at an estimated 1.9 percent, it remains weak. The recovery has been driven by a double-digit rise in export volume on the back of rising oil exports, which has offset a continued slump in private consumption and fiscal retrenchment. In addition, non-oil activity could resume growth after a significant period, owing to developments in agricultural and transportation sectors. Notwithstanding, the overall macroeconomic outlook remains challenging and steadfast implementation of government domestic arrears clearance strategy is critical to boost business confidence and private credit growth. Under the Extended Credit Facility (ECF), progress has been made to advance some key structural reforms including steps to improve governance and fight corruption. We support the authorities' focus on strengthening fiscal sustainability, restructuring debt and improving governance. We encourage them to take on board staff's advice in the implementation of the specific policies underpinning their medium-term development agenda.

Strengthening the medium-term fiscal framework is key to improve business environment and safeguard social and development spending. We commend the authorities for putting in place a cautious expenditure policy in the execution of the 2019 budget and drafting the 2020 budget consistently in line with the objective of pursuing fiscal consolidation. We note, however, that the fiscal strategy relies on reforms to boost domestic revenue collection and contain current spending. Timely measures to increase non-oil revenue mobilization including tax arrears collection and effective plans to curb tax exemptions while containing the wage bill, transfers and subsidies are of the essence. We welcome the authorities' commitment to strengthen the PFM system to ensure timely annual budget execution as well as its implementation in accordance with prior resource allocation. In this way, budgetary resources may be made available for social spending. We agree that proper use of flexibility could help address the country's development needs through investment spending, which suffered deep cuts in 2019.

Proper public debt management will be paramount to ensure debt sustainability in Congo. We support authorities' plan to pursue negotiations with external commercial creditors to reduce the current debt burden and ensure Congo's ability to achieve a moderate level of debt distress by 2023. Furthermore, domestic arrears clearance strategy, which is essential to increase business confidence in support of economic activity, should be implemented expeditiously as outlined by the debt management unit. We agree with staff that avoiding any new accumulation of official external arrears and clearing the existing stock in line with authorities' earlier commitments will be of the essence.

Reigniting growth in the non-oil sectors requires reforms to help diversify the economy and increase its resilience to external shocks. Hence, we welcome authorities' efforts, through the national development plan (NDP), to improve performance and competitiveness in the agricultural, industrial, and tourism sectors. We support the plan to allocate resources for better transportation infrastructure, electricity supply and investment in human capital. However, the success of the economic diversification strategy requires preservation and reinforcement of the achievements in terms of macroeconomic stability, as well as institutional reforms to strengthen governance and improve the business environment. In this regard, clearance of arrears and avoiding incurring in new ones will help reduce pressures on banks and uncertainty for the private sector while enhancing business confidence and access to credit. Additionally, reducing administrative challenges associated with starting a new business, and boosting access to credit are keys to put Congo more in line with its Sub-Saharan successful neighbors.

Finally, we commend the authorities for their efforts to address governance vulnerabilities. Important actions were recently taken to improve governance and transparency including strengthened anti-corruption framework, improved transparency in the management and accounting of oil revenues, and increased access to economic information. In this regard, we take positive note of the publication of the diagnostic report on governance, prepared with the assistance of IMF staff, which identifies key arears of weakness. We also welcome the publication of the 2018 audited financial statements of national oil company (SNPC) and the draft 2020 budget. Nonetheless, continued efforts are needed to implement measures to tackle corruption, including through the adoption of operational decrees for the High Authority on Corruption and the Commission on Transparency as well as proper budgetary resource allocation to enable newly created institutions perform their roles.

Mr. Inderbinen and Mr. Makhammadiev submitted the following statement:

We thank staff for the excellent set of reports and Mr. Raghani and Mr. Sidi Bouna for their helpful buff statement.

We note staff's tentative optimism regarding the progress made by the Republic of Congo towards macroeconomic stability. We are similarly hopeful but not sanguine, given that the external debt burden remains unsustainable and several global and country-specific risks loom. We support staff's policy conclusions aimed at addressing the key factors behind persistent fragility: a strong dependence on oil production (and market volatility), considerable shortcomings in securing and managing fiscal revenues, and weak public financial management in general. The latter also points to serious governance issues that still await remedial measures.

We call on the authorities to act determinedly to restore debt sustainability and reduce debt distress to a moderate level. To this end, the authorities should conclude the debt restructuring process for external commercial debt in line with the parameters of the Fund-supported program and expeditiously clear official external arrears. Do staff have full visibility of the authorities' plans on the restructuring of external commercial debt? How realistic is their timeframe (2020Q1)? We regret accumulation of new official external arrears that have added to already unsustainable debt levels. We also note with concern that debt burden indicators are projected to worsen in the near term. Going forward, the authorities should avoid accumulation of any new official external arrears and uphold commitments to clear the current stock. Given that the lack of transparency aggravates debt vulnerabilities, strengthening debt recording and monitoring capacity should be a strategic priority. We urge the authorities to collect data on SOEs, contingent liabilities and publicly guaranteed debt and to include the data in the official debt statistics. The authorities should also pursue development and implementation of a debt management strategy, in line with MCM TA recommendations.

A sustained fiscal adjustment supported by non-oil revenue mobilization efforts is warranted. High debt levels and weak public investment management call for a tight fiscal stance. We encourage the authorities to consolidate tax policy responsibilities to overcome shortcomings of the fragmented institutional framework. The recent creation of a Tax Policy Unit is a step in the right direction. Will the unit reduce fragmentation across different agencies or only in the Ministry of Finance? We note that the excessive and discretionary use of exemptions are eroding the tax base and limiting potential revenue mobilization. Therefore, it is critical to curb tax exemptions without further delay. We also note large revenue potential of collecting tax arrears and encourage the authorities to move forward with their recovery. We welcome staff's attention to the opaque mechanism used by the Treasury in 2019 to settle spending from previous years. It underscores the need to address weaknesses in the PFM system, also to unclog social spending.

We encourage the authorities to continue their comprehensive reform efforts as agreed with the Fund in the context of the ECF. Against the backdrop of limited oil resources, a diversification strategy that builds on better conditions for doing business needs to be pursued with determination and urgency. Clearance of domestic arrears is essential to spur business confidence. Reducing red tape is also needed to create a more favorable business environment. We urge the authorities to enable the anti-corruption framework through the operationalization of the High Authority and the Transparency Commission. Given the central role of the oil sector in Congo's economy, prudent management of oil resources is of utmost importance. In this regard, increasing transparency of the operations of SNPC and CORAF is critical for addressing corruption vulnerabilities and improving accountability in the oil sector. We look forward to the results of the audit of CORAF operations. We also encourage the authorities to align the asset declaration framework with international best practice.

It will be crucial that the international community coordinate closely on policy and financial support. The Fund arrangement provides an appropriate framework for such coordination. Transparency on the financing for the government's reform agenda will be crucial.

Mr. Kaya and Mr. Bayar submitted the following statement:

We thank staff for the well-written set of reports, and Messrs. Raghani and Sidi Bouna for their helpful buff statement. Since the outset of the authorities' Fund-supported economic program, key macroeconomic indicators point to a recovery of the Congolese economy: Growth has continued, as non-oil GDP growth returned to positive territory for the first time in the last five years; inflation remained under control; fiscal balances improved; and the current account registered a high level of surplus for a second consecutive year. The authorities also did a commendable job in advancing their ambitious structural reform agenda, despite severe institutional constraints. Nevertheless, the strength of the recovery falls short in addressing Congo's substantive developmental needs, while at the same time, remains precarious amid the significant risks facing the economy. Therefore, we strongly encourage the authorities to persevere with sound policies, as entailed by their economic program, and to redouble their efforts in delivering on the structural reform agenda. We agree with the thrust of staff's appraisal and would like to add the following comments for emphasis.

Restoring debt sustainability in Congo critically hinges on the continuation of the fiscal adjustment efforts. We welcome the reduction in the public debt-to-GDP ratio by more than 35 percentage points in the last couple of years. Beyond the major contribution by high oil revenues, the authorities also put forward a significant fiscal effort, as the non-oil primary deficit has shrunk by an impressive 10.5 percentage points in the same period. However, as the Debt Sustainability Analysis clearly demonstrates, Congo's debt remains high and unsustainable, calling for unwavering discipline on the fiscal front. We therefore support the staff-advised fiscal strategy, which, inter alia, relies on reforms to boost domestic revenue mobilization and efforts to contain current spending. We also appreciate the ongoing steps to improve the public financial management frameworks, and governance and transparency arrangements, including for the operations of the systemic state-owned enterprises. We note with concern the significant slippages on social spending targets and encourage the authorities to ramp up targeted support to vulnerable segments of the society, as well as to increase spending on education, health, and programs for women.

Building on the improvement in fiscal balances, as well as the ongoing program support by multilateral development partners, the authorities need to swiftly address the domestic and external arrears to official creditors. On the former, we look forward to the finalization of the plan to clear domestic arrears, building on the findings of a rigorous and independent audit of claims. The resolution of domestic arrears will go a long way in improving the ailing asset quality of the banking sector, which in turn, could jumpstart credit intermediation to the private sector and underpin the non-oil economic momentum. On the latter, the lack of progress in clearing official external arrears not only breaches a key tenet of the Extended Credit Facility arrangement, but also endangers the continuation of the vital support by international development partners. Could staff comment on if and how the authorities' plan to address the external official arrears? On a similar note, reaching a fair agreement on the restructuring of private commercial debt is a pre-requisite for the success of the program, in general, and debt sustainability, in particular. In this vein, we are encouraged by the authorities' expectation that such an agreement could be possible in the first quarter of 2020. Do staff have any insights about the tentative elements of a possible restructuring deal vis-à-vis commercial creditors?

A faster, more durable, and inclusive development of Congo is only possible through sustained structural reform efforts. To this end, we welcome the authorities' emphasis on human capital, the development of key non-oil sectors (i.e. agriculture, industry, and tourism), and the business environment. We take positive note of the authorities' ongoing collaboration with the AfDB and World Bank as such.

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

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

We thank staff for their informative report and Mr. Raghani and Mr. Sidi Bouna for their helpful buff statement. The Congolese economy is showing early signs of stabilization and recovery from the prolonged recession after the sharp decline in oil prices in 2014. Non-oil growth is expected to turn positive for the first time since 2015. Fiscal and external balances improved in 2018 and continued to strengthen in 2019. The authorities remain committed to completing the debt restructuring process for external commercial debt and clearing official external arrears ahead of the first review under the ECF arrangement. We broadly agree with staff's analysis in the report and would limit our comments to the following points.

We welcome the authorities' efforts to restore fiscal and debt sustainability. The non-oil primary fiscal deficit is expected to decline from 35.3 percent of non-oil GDP in 2017 to 24.8 percent of non-oil GDP in 2019. The public debt-to-GDP ratio has declined from 117 percent to 87 percent between 2017 and 2018 amid firming international oil prices, gradual fiscal consolidation, and the recent debt restructuring agreement with China. We agree with staff that an additional fiscal adjustment of about 2 percent of non-oil GDP per year is needed over the projection period in order to rebuild fiscal and external buffers. The authorities are well advised to expand the tax base, strengthen the tax administration, and generate savings in current spending. Clearance of domestic arrears is critical to reinvigorate the economic recovery and facilitate credit provision to the private sector. We also agree with staff that ensuring adequate social spending is necessary to mitigate the impact of the fiscal adjustment on the most vulnerable groups. Could staff elaborate on the progress in preparation of the audit report on the stock of domestic arrears? Could staff also comment on the efficiency of social spending in the Republic of Congo?

Despite the recent improvements in the fiscal position, public debt remains in distress due to the accumulation of domestic and external arrears and ongoing debt restructuring discussions with oil traders. The present value of external public debt in percent of GDP is projected to remain above the desirable threshold over the medium term. External arrears are close to 21 percent of GDP and have been rising over the recent years. Against this background, we encourage the authorities to continue their efforts to reach a debt restructuring agreement with oil traders. Strengthening public debt management also remains the authorities' key priority. Could staff elaborate on the prospects for reaching a debt restructuring deal with the Republic of Congo's creditors?

Financial risks remain high and the banking sector is vulnerable to macroeconomic shocks and to oil price shocks. The NPLs are increasing and their already high level poses significant risks to the banking sector's soundness. We encourage the authorities to advance their strategy for clearing domestic arrears with the private sector. This is critical to contain rising NPLs, provide enough liquidity to the banking sector, and improve business confidence in the non-oil sector.

We welcome the authorities' efforts to strengthen governance, improve the business environment, and address corruption vulnerabilities. We note that staff's recommendations in this area are based on the so-called Governance Diagnostic that was prepared by the authorities with the Fund's technical assistance. This report contains a broad set of measures to strengthen the country's anti-corruption framework, including various reforms to strengthen PFM, the introduction of a financial disclosure regime, and the creation of the High Authority on Corruption and the Transparency Commission. We would appreciate more detailed information on the envisioned functioning of the High Authority on Corruption and the Transparency Commission, including its mandate, sources of financing, and procedures of appointing its management and staff. Could staff elaborate on the role and place of the High Authority on Corruption among other law enforcement institutions in the Republic of Congo?

We agree with staff that increasing fiscal transparency, especially for the government's oil revenues, would be a critical step in improving governance. According to staff, the authorities should take steps to improve EITI reporting and implement the key aspects of the EITI Code into domestic law. In our view, instead of relying on a third party, the Fund's policy advise in this area would benefit from its own analysis and expertise. We would advise the authorities and staff to conduct a Fiscal Transparency Evaluation and, in accordance with its results, discuss specific measures and a medium-term reform agenda.

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

We would like to thank staff for the well-written reports and Mr. Raghani and Mr. Sidi Bouna for their informative buff statement. We commend the authorities for the steps that have been taken toward the effective implementation of the ECF-supported program, especially regarding fiscal policy and structural reforms, as well as for their determination to pursue policies aimed at restoring macroeconomic stability while contributing to the economic recovery of the CEMAC region, as highlighted in the buff statement.

Congo's real GDP growth in 2019 has been revised downwards on account of a lower-than-expected expansion in oil production. At the same time, oil production is expected to peak in 2020, which makes it urgent to spur non-oil growth in the coming years. Non-oil growth was below 1 percent in 2019, following three years of decline. Measures to restore the availability of credit to the non-oil sector and improve the business environment by simplifying procedures and increasing the use of digital platforms would be important steps in the right direction. For the medium term, the implementation of Congo's diversification strategy, as outlined in its National Development Plan, should guide government actions to promote the agricultural, industrial, and tourism sectors.

We welcome the sharp turnaround of the fiscal position, with the overall fiscal surplus estimated at 8 ¾ percent of GDP in 2019. More importantly, the non-oil primary deficit improved by 3.3 percentage points of non-oil GDP between 2018 and 2019. While we commend the authorities for their cautious fiscal stance, social spending levels remain low. Moreover, non-oil revenues turned out 2 percent below the target at end-June 2019 because of weak non-oil economic activity. Against this backdrop, revenue enhancing measures are necessary to bring the non-oil primary deficit to 15 percent of GDP by 2023-24, from 25 percent in 2019, including by interconnecting the Customs Directorate, the General Directorate for Domestic Taxes, and the Treasury to facilitate the monitoring of taxes falling due. This should be complemented by a plan to collect tax arrears, estimated at about 27 percent of GDP, and a firm approach to reverse tax exemptions. In addition, fiscal space should be made available by phasing out oil subsidies and containing the wage bill to allow for a recovery of growth-supporting public investment and to provide adequate social protection.

Congo recorded an external current account surplus equivalent to 8 percent of GDP in 2019. A recovery in oil exports and new mining exports contributed to current account surpluses for two years in a row. In addition, net foreign assets have increased faster than expected, partly owing to the new foreign exchange regulations introduced by the BEAC. Maintaining a high external current account surplus down the road would be crucial for medium-term sustainability since Congo's NFA level still covers only about 1½ months of imports.

Congo needs to promptly address external arrears to restore debt sustainability. In addition to pre-HIPC arrears, the country has USD181 million in official bilateral arrears and has accumulated substantial external commercial arrears with oil traders, with total arrears amounting to 20 percent of GDP. We agree that restructuring the external commercial debt is crucial to restore debt sustainability; however, little progress has been achieved on this front. Could staff elaborate further on the postponement of the first review under the ECF to obtain credible assurances? In addition, could it comment briefly on the terms proposed by the government to oil traders to accelerate the negotiations towards the restructuring of external commercial debt?

High NPLs and public sector arrears explain lingering stress on the banking system. Credit to the private sector in September 2019 declined by 9½ percent y/y, adversely affecting non-oil economic activity. Delays in resolving public sector arrears are generating an increase in NPLs, which are already high at 24 percent of gross loans. An ongoing independent audit that would help verify outstanding claims should be finalized promptly, which would facilitate developing the best approach for their clearance and for avoiding the emergence of new arrears. For the medium term, an overhaul of cash management practices and expenditure controls, in anticipation of the implementation of a Treasury Single Account, should seek to ensure timely government payments.

Public Finance Management reforms are key to improve budget implementation. We are concerned about the low execution of priority government programs, especially social protection programs. Spending on critical social programs such as health, education and cash transfers has been way below budget allocations in recent times. We understand that underperformance in this area was partly caused by delays in budget support. We encourage the authorities to move expeditiously to implement the new expenditure tracking software (SIGFIP) in order to improve the efficiency and transparency of budget execution. More generally, the adoption of PFM reforms over the medium term is necessary to address multiple vulnerabilities along the budgeting cycle.

We welcome the steps taken by the authorities to foster good governance and tackle corruption. The establishment of a High Authority on Corruption and a Transparency Commission, and the enactment of a new asset declaration law for senior government officials, are important steps to improve Congo's governance framework. These efforts should be complemented by adopting the corresponding implementing decrees and by allocating adequate human and material resources to allow the new entities to investigate and prosecute corruption-related offences. In addition, the adoption of initiatives to increase transparency in oil revenue management is key to restore confidence. In this regard, we commend the authorities for introducing legislation requiring annual external audits of the national oil company SNPC, publishing SNPC's 2018 Audit Report, and reporting to Parliament on SNPC's pre-financing agreements.

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

Mr. El Qorchi and Mr. Alavi submitted the following statement:

We thank staff for a well written set of papers and Mr. Raghani and Mr. Sidi Bouna for their insightful buff statement. We concur with the thrust of the staff appraisal and limit our comments to the following:

The Republic of Congo continues to cope with challenging economic condition as some sectors of the economy are yet to recover from a prolonged recession that, inter alia, led to accumulation of large domestic arears and caused a credit crunch in the banking sector. Nonetheless, it is comforting to see tentative signs of economic stability as non-oil growth is projected to turn positive, inflation to remain subdued and the current account to record a large surplus on the back of recovery in oil exports. To entrench macroeconomic stability over the medium term, the authorities should press ahead with their prudent policies and accelerate reform efforts to decrease the economy's high dependency on the hydrocarbon sector.

We welcome the authorities' efforts to restore fiscal sustainability. Adoption of a medium-term fiscal framework, in line with the ECF-supported program, is a positive step and should be buttressed by containing current spending and rationalizing subsidies to the oil refinery. However, like staff, we are concerned by the low execution rate of social and priority spending in 2019 in the context of the country's deteriorating poverty and inequality indicators over the past decade, and urge the authorities to step up their efforts to protect vulnerable groups, including by improving the efficiency and transparency of the PFM system. In the meantime, given the projected decline in oil revenues over the medium term, we support the authorities' ongoing initiatives to boost non-oil revenue collection while underscoring the need for additional measures to strengthen tax policy framework, broaden the tax base and modernize tax administration, as proposed in the staff's well-crafted SIP.

Despite recent declines in the public debt, ROC remains in debt distress. Against this background, we encourage the authorities to accelerate efforts to restore debt sustainability by pursuing robust debt management policies, restructuring private commercial claims and clearing arears. Of similar importance is building debt management capacity with the help of additional IMF technical assistance.

We acknowledge the authorities' steady progress in improving governance and curbing corruption. The recent steps to strengthen the anti-corruption framework, increase transparency in the accounting of oil revenues and to enhance access to economic information are noteworthy. Nevertheless, additional measures, including on further strengthening the PFM system and improving contract enforcement will help alleviate public discontent and improve confidence.

The Congolese economic model is heavily reliant on the oil sector and the extractive industries, leaving the economy exposed to external commodity price shocks, while the weak business environment continues to impede investment and growth. As such, going forward, successful implementation of the authorities' three pillar diversification strategy—on fostering competitiveness, investing in human capital and improving business environment—will be crucial in increasing the economy's resilience to external shocks and achieving broad based inclusive growth.

With this, we wish the authorities continued success.

Mr. Mouminah, Mr. Alkhareif and Mr. Rawah submitted the following statement:

We thank staff for the well-focused set of reports and Mr. Raghani and Mr. Sidi Bouna for their helpful buff statement. We are in broad agreement with staff's analysis and policy recommendations and would limit our remarks to a few issues.

We welcome the economic recovery although the overall economic situation remains difficult. In this connection, we take positive note of the preliminary signs of macroeconomic stability, particularly the recovery in the non-oil sector, and the faster than expected accumulation in net foreign assets. Here, we would appreciate staff's elaboration on the main drivers behind the projected higher non-oil sector growth over the medium-term. That said, the macroeconomic outlook remains challenging; development needs remain significant; and the Republic of Congo is in debt distress. Against this background, it is crucial to continue implementing sound policies and reforms, supported by stronger outreach efforts, aimed at achieving high and more inclusive growth while restoring fiscal sustainability.

Ensuring meaningful debt reduction, including by continued fiscal consolidation efforts, is key to restoring fiscal sustainability. Here, we take positive note of the prudent execution of the 2019 budget and the preparation of 2020 budget consistent with the main parameters of the ECF-supported program. Nonetheless, the fiscal adjustment has relied on drastic cuts in capital spending while social spending was notably low against the backdrop of high poverty rate. Here, we encourage the authorities to boost revenue mobilization while containing current spending. Also, efforts towards debt restructuring and arrears clearance, including the implementation of domestic arrears repayment strategy, should be accelerated while measures to prevent further arrears accumulation should be adopted. This should help in expanding the fiscal space to accommodate priority spending and restoring debt sustainability. In addition, we note that delays in budget support disbursements have weighed on both external arrears accumulation and social spending. Here, we would appreciate staff's update on future disbursements and their elaboration on the authorities' contingency measures should delays become protracted.

Finally, we encourage the authorities to step up their structural reform efforts to foster economic diversification and inclusive growth. Priorities include improving market regulation and the business environment, strengthening PFM, and supporting the development of the financial sector to foster access to credit. Here, we welcome the authorities' focus on enhancing economic diversification under the National Development Plan (NDP), including through improving human capital and supporting the development of key non-oil sectors. We encourage the authorities to continue their efforts to further improve governance and reduce corruption.

With these remarks, we wish the authorities further success.

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

We thank staff for the well-written set of reports and Mr. Raghani and Mr. Sidi Bouna for their helpful buff statement. Against the backdrop of the Fund-supported program, the Congolese economy has shown early signs of stabilization and recovery. However, challenges remain. The authorities are encouraged to continue pursuing fiscal consolidation, expedite the debt restructuring negotiation with private sector creditors, and promote the diversification of the economy. We broadly agree with staff's appraisal and would like to limit our comments to the following.

Boosting non-oil revenue is essential for restoring fiscal sustainability. We take positive note that the fiscal position is expected to continue to improve in 2019, mainly driven by a cautious execution of spending. Looking forward, strengthening non-oil revenue mobilization is the key to sustain further consolidation efforts. We thank staff for the selected issue paper on this topic. In order to raise revenue from the non-oil sector, the authorities are encouraged to strengthen the collection of tax arrears, eliminate tax exemptions which do not comply with existing rules and laws, and improve the institution of tax administration. On the expenditure side, we concur with staff that more efforts are needed to contain current spending so as to create more room for capital and social spending. In addition, we encourage the authorities to finalize the audit and clear the domestic arrears in a timely manner, which would help to reinvigorate the private sector and bring down the non-performing loans.

The unsustainable public debt remains a major source of concern. The significant fiscal adjustment and debt restructuring with official creditors contributed to a substantial reduction in public debt. However, the Republic of Congo remains in debt distress and the debt is assessed to be unsustainable. In this regard, we urge the authorities to expedite the debt restructuring negotiation with private sector creditors in line with the ECF program parameters. Further strengthening the debt management capacity and transparency of both official and commercial debts are essential to secure the debt sustainability.

More should be done to promote economic diversification and improve governance. With the non-oil sector not increasing its share in GDP for the past decades, we see a strong need to diversify the Congolese economy. The three pillars of the authorities' diversification strategy, namely human capital, key non-oil sectors, and business environment, have identified the right steps to decrease the economy's reliance on the oil sector. We see merit in staff's suggestions on the way to develop the agricultural, forestry, and mining sectors, which, however, remain heavily reliant on natural resources and are vulnerable to commodity price fluctuations. In this vein, we encourage the authorities to promote the development of sectors with more value added, such as the industrial and tourism sectors. The authorities' recent efforts to foster good governance are commendable. More should be done to further tackle corruption and increase transparency.

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

Mr. Ronicle, Mr. Rozan, Mr. Comolet and Ms. Nelson submitted the following joint statement:

We thank staff for the well written and comprehensive set of reports, as well as Mr. Raghani and Mr. Sidi Bouna for their insightful buff statement.

The economic outlook shows some encouraging signs though structural challenges remain high. We commend efforts made by the authorities so far, and very much welcome the conduct of this first Article IV since 2015 but agree with staff that there is still a lot to be done to address vulnerabilities. Clear progress has been achieved on fiscal consolidation and we note the improvement in the non-oil primary balance. As Congo is in external and overall debt distress, we note positively the authorities' commitment to completing the debt restructuring process for external commercial debt as this is critical to restoring debt sustainability and ensuring consistency with the ECF arrangement. In that regard, we encourage strong coordination between the Fund, World Bank and other key bilateral and multilateral partners in particular to reach the first review of the ECF.

We note with concern that the 2019 growth forecast has been revised down substantially (from 5.4 percent in to 2.2 percent), largely due to a lower than expected expansion in oil production. We thank staff for its work on SNPC and for the detailed analysis on oil price subsidies in the selected issues paper. A sound risk management framework will be useful to prevent shocks related to technical issues affecting oil production or unexpected fall of revenue due to oil prices fall below reference levels. We note that non-oil growth is expected to turn moderately positive in 2019 though many economic sectors are expected to remain in recession. We agree with Staff views on reforms to promote economic diversification and encourage the authorities to swiftly implement policy recommendations.

We welcome the effort to improve debt management and agree with Staff that public debt management should continue to be at the center of Congo's economic recovery plan. Could Staff provide a detailed update on the status of negotiations with the oil traders? We note that debt management is not identified as a priority area for capacity development in FY 2020 (annex II), though areas for capacity development are helpfully detailed in the debt sustainability analysis. Could Staff elaborate on what support the IMF will provide for debt management? We also encourage the authorities to (i) define a debt strategy, (ii) implement a formal Treasury management framework and (iii) comply with several CEMAC debt management guidelines.

The room created by the expected debt restructuring with oil traders should help build donor confidence. The domestic arrears clearance strategy is expected to gradually increase non-oil growth, help boost confidence and support credit growth. Could staff provide us with their details and analysis of the securitization strategy? In addition, the audit on domestic arrears is ongoing and the preliminary results show a high difference between committed expenses and implemented activities – we encourage the authorities to pursue the audit fully in order to ensure that these positions can be reconciled.

On fiscal policy, we welcome the authorities' efforts to mobilize revenue, an essential objective of the program. Enlarging the fiscal space to finance development spending and economic diversification will be instrumental to improving Congo's outlook. Non-oil revenue is key, and efforts should be sustained in broadening the tax base by reducing tax exemptions, as well as other actions detailed in the selected issues paper such as implementing property taxes, enhancing tax compliance in extractive industries, strengthening institutions involved in fiscal policy design and implementation, and modernizing tax administration system. Could staff provide further information on the intentions of the authorities to conduct a Public Expenditure Tracking Survey (PETS) and a Public Investment Management Assessment (PIMA)? New vulnerabilities of budget execution were identified by staff. We support the proposition of an audit by the Audit Court of the spending and related documentation and we support the commitment of the authorities in improving budget control procedures.

We share Staff concerns regarding the low rate of execution of social spending. As a large part of the population is vulnerable, and poverty and inequality levels remain high, the effective implementation of social policies and tackling of identified PFM weaknesses to increase social spending execution is of major importance. We support staff recommendation in that regard. The audit of spending by the Audit Court could provide useful insight to identify key areas for improvement.

On the financial sector, increasing vulnerabilities raises concern. Credit supply has continued to dwindle, and non-performing loans are high and increasing (24 percent of gross loans in September 2019). We support Staff recommendations on how to address challenges within the sector.

A full and proper implementation of reforms to improve governance and fight corruption will help achieve shared prosperity. The toll of corruption is still high and will continue to weigh on growth if not addressed. We commend the authorities for their efforts so far to improve governance. While efforts have been made to improve legislation, policies and practices, implementation should now be the priority of the authorities, especially on transparency and PFM reforms.

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

As you know, the economic situation in Congo remains difficult, but there are some signs of stability and non-oil growth turning positive for the first time in several years. The risks are to the downside, and the debt remains very high. In your grays you have emphasized the importance of swiftly clearing the domestic arrears and accelerating restructuring of external commercial debt mostly to the oil traders to support the debt sustainability and alleviate the program risks.

You also called for fiscal consolidation while creating space for social and priority development spending and implementation of reforms to strengthen governance and diversify the economy. Those are the points you focused on in your grays.

A number of Directors also asked the questions on the prospects and timeliness of the debt restructuring in the first review, and I think those questions will be addressed in the staff oral intervention.

The representative from the African Department (Mr. Segura-Ubiergo), in response to questions and comments from Executive Directors, made the following statement:[1]

[1] 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 would like to address the broader policy issues that have appeared in many gray statements. First, the question of debt restructuring, the issue of budget support disbursements, and the timeline for the first review of the ECF arrangement.

On the question of debt restructuring, let me comment on maybe three points: the process, the substance, and the timeline. On the process, I think that there were probably two periods, one period immediately after the Board. You will remember that at the Board discussion we focused mostly on the debt restructuring from China, but at the time Directors insisted on the importance of achieving the debt restructuring of commercial debt, so staff paid particular attention to progress in this area. We felt that before the Annual Meetings in the first few months after the program, the authorities were not coordinating their approach sufficiently, and the discussions were not moving in the direction needed to restore debt sustainability. We expressed our concerns to the authorities regarding the importance of achieving debt restructuring that would be consistent with the program parameters, obviously remaining neutral regarding the discussions, and the authorities took corrective measures. They started intensifying the discussions. They sent new letters to the creditors explaining the importance of achieving debt restructuring that was consistent with the program, which you will recall had several indicators, but one of them is achieving a net present value of external debt below 30 percent by 2023. The idea is that you are restoring a moderate level of debt distress by the end of the program, which is a key objective of the program.

The authorities held a number of meetings in Paris and in other locations. They started sharing data with the traders. They took input from the traders regarding their concerns. Obviously the traders expressed concerns, because they felt there was a contractual obligation on the side of the authorities to respect these contracts. The authorities noted that they had an incapacity to continue to make these payments, and that was demonstrated with the difficulty they had to clear external and domestic arrears. We also noted that the authorities were beginning to follow a much more consistent approach, making use of their financial advisors, financial legal advisors, and sharing information with us also more closely. We felt that the process started improving substantially since November.

On the substance of the process of the discussions, you will recall that at the time of the Board discussion in July, Directors asked if the magnitude of the debt restructuring would be consistent with the objective of restoring debt sustainability. We noted at the time that the restructuring would have to involve a net present value haircut of about 30 percent. These assumptions remained broadly valid. Obviously it is subject to revisions, because we have new assumptions regarding the WEO has updated its oil projections. We also will incorporate the results of the fiscal outturns at the end of December, which will become available in February, but we still believe that those parameters are broadly appropriate.

Let me also point out that we are not in a position to discuss further details because that is part of the negotiations. The authorities may decide to request a slightly higher or lower debt restructuring, also depending on other aspects of the negotiations, including, for example, to what extent oil traders will agree to provide protection in case of downward turns in oil prices, which is one of the recommendations we made to the authorities. As you will recall, we indicated that part of the negotiation should also involve a clause whereby if there is a decline in oil prices, the oil traders could provide additional relief. Similarly, while prices are higher, they could perhaps have to provide less relief. That is important to avoid a situation where the debt sustainability is sensitive to assumptions regarding oil prices.

Regarding the timeline, this is an issue where we have to be careful. The authorities have indicated their optimism regarding the possibility of completing the restructuring in the first quarter of 2020. The debt advisors told us in November that the process would take about three months. It is difficult for us to assess the realism of that timeline, because obviously the discussions are very complex. It is very important that the authorities take appropriate steps to ensure that they are also taking into account the opinion of the traders and that they are using scenarios consistent with our own assumptions regarding debt sustainability. What we can tell you, and we are confident in telling you, is that we have seen a notable improvement since November that gives us the reassurance that the process is advancing towards the goal that would be needed. That is what we can say in terms of the debt restructuring process and the timeline.

Regarding the question of budget support and especially coordination with the World Bank, let me point out that there were several budget support operations, not just the one related to the World Bank. The largest operation concerned the African Development Bank, which made the disbursement as envisaged in the program on December 30, and that was a substantial operation. It was around 200 million U.S. dollars, and it provided important liquidity for the authorities to handle some of their key priorities, social spending, clearance of domestic arrears, and also external arrears.

We can also indicate that the authorities told us this week, as we noted in one of the answers to technical questions, that they have started the process of repaying external arrears, especially with a special focus to the new arrears that were accumulated since the start of the program. The criterion on the non-accumulation of external arrears in the program was not respected, and this would be a key corrective action, so we feel this is a step in the right direction, the clearance of these official arrears.

The authorities also noted that they would need the budget support to be able to clear the remaining stock of official arrears. I would like to note that regarding the coordination with the World Bank, we have worked very closely with our World Bank colleagues. They participated in all our missions. They provide advice in some of the most critical areas regarding the IMF-supported program, including the question of social spending, which is an area of particular interest to us, and also many Directors have noted the importance of preserving adequate levels of social spending to protect the poor. They also advise us on other important areas like governance, where both institutions have some expertise.

Now, regarding the disbursement decision, I will not comment on that particular point. I just wanted to emphasize that the coordination has been very close. We exchanged views regarding the tradeoffs associated with the timeline for the possible disbursement, and it was ultimately their decision to proceed or not to proceed with the disbursement.

Finally, my last point regarding the timeline for the first review. I would like to note that our mission in October and November was able to reach an understanding on the policies that would be needed to support the first review. Most notably the authorities agreed to submit to Parliament a budget that was consistent with the program parameters, and this budget has, in fact, already been approved by Parliament. The authorities also agreed to speed up key reforms under the program, including on governance, and, for example, we have received confirmation that the implementation decree that would render operational the high authority on corruption has already been signed by the President. The authorities also agreed to take steps and corrective measures to approve public financial management (PFM) systems. We note in the report there have been some PFM weaknesses, and the authorities agreed to take those measures, including sending to the Audit Court information regarding some expenditures that did not follow adequate procedures.

All these policies were agreed during the mission. The main reason why there has been a delay, as explained in the report, was because IMF staff and management felt that the authorities needed more time to complete this debt restructuring process and also to execute the plan to clear official external arrears.

If the authorities can effectively deliver on their plans to complete the debt restructuring in the first quarter of 2020, we feel we have the elements to proceed relatively quickly. Obviously, this will be subject to review and making sure that the macroeconomic outlook framework remains adequate and that the authorities, in fact, complete the reforms that were agreed during the last mission. Thank you.

Ms. Levonian made the following statement:

The economic situation in the Republic of Congo remains difficult, but we very much welcome the Fund’s renewed engagement with the authorities, and we issued a joint gray statement, so I think I will be able to be very brief.

First, like many other Directors, we regret that the IMF-supported program has been stalled due to the protracted debt restructuring negotiations with oil traders, and I note the comments from this morning. There is one aspect that you did not quite cover, so I am kind of curious. I understand that the Fund’s lending into arrears policy permits Fund lending if the member is pursuing appropriate policies and is making a good faith effort to reach agreement with its private sector creditors. You also elaborated a little bit on the policies that are being implemented and what has passed in the recent budget. I am just wondering whether, with all that in place, the debt restructuring is the thing that is preventing the first review from going forward. If everything else was in place, would you make use of the lending into arrears policy--as long as the negotiations are going on in good faith, would you then proceed? It is a question that I would have on that.

Secondly, like other colleagues, I would like to stress my concern with the delayed loan disbursement from the World Bank. While the macro- framework in the Congo is adequate, I understand the World Bank is reluctant to disburse budgetary loans as long as the IMF program is delayed. However, because the World Bank disbursements are built into the Fund’s macro- framework, there seems to be a circular chicken-and-egg thing that is going on. If you could comment on that, that would be helpful. While the African Development Bank loans ultimately averted what could have a serious macro crisis, this experience raised broader questions on international financial institution (IFI) coordination more broadly, and you commented on the World Bank aspect. Last year, we saw a different coordination issue in Mongolia where the Fund and Multilateral Development Banks (MDBs) were providing inconsistent policy signaling. While the MDBs are ultimately responsible for their own lending decisions, it is also clear that IFIs are more effective than the sum of their parts when they operate as a coherent system, so I would, therefore, invite management and SPR to reflect on this coordination issue and come back to the Board with recommendations that build off of the G20 principles for effective coordination between the IMF and MDBs.

In closing, I would like to commend the authorities for the progress they have made to date, particularly on fiscal discipline, and further efforts on social spending and governance reforms would help drive inclusive growth, and I will leave it at that, and wish the authorities well.

Mr. Buisse made the following statement:

First, I welcome the efforts of the authorities to stabilize the macroeconomic situation and to address outstanding issues to successfully complete the first review under the ECF arrangement. I strongly encourage coordination between the World Bank and other key bilateral and multilateral partners. I completely agree with what has just been said. This chicken-and-egg issue is really problematic. Delaying disbursement of the World Bank was certainly a setback, and it complicates, as was explained, the fiscal management and arrears clearance before the first review.

Second, I commend the authorities' fiscal consolidation efforts going forward to develop resilience from oil price volatility. To be able to do that, domestic resource mobilization beyond oil will be a key element. The selected issues papers on this situation was particularly helpful.

There are two short-term issues that need to be tackled to further stabilize the macro situation, as was presented by the staff team. A negotiation with the oil traders is a crucial step in restructuring Congo's commercial debt. I thank Mr. Raghani and Mr. Sidi Bouna for their buff statement and note that the agreement with oil traders could be expected by the first quarter of 2020, which is very encouraging. I encourage the authorities in their efforts to achieve that and hope that this will create significant fiscal room to be able to finalize the first review under the ECF.

The clearance of external and domestic arrears must be a priority to support confidence from international donors and lift the weight on the non-oil economy and support diversification.

Going forward, to avoid repetition of this issue, continued efforts on debt management policy are critical, as underlined, and I encourage the authorities to work closely with the IMF and other partners to ensure progress and particularly to comply with the CEMAC debt management guidelines.

I support the authorities' commitment to enhance governance and fight corruption. Staff analysis on the progress made so far is very helpful. Legislation and policies have been improved, and as you noted, some of them have already been voted, so we would follow closely the implementation of transparency in PFM reform. Thank you.

Mr. Kaya made the following statement:

First, the Congolese authorities face arguably the most daunting set of challenges among their peers. We therefore acknowledge the political and economic backdrop against which the authorities are striving to build a successful program with the support of the Fund and other development partners. On that note, we appreciate the efforts to create stability in the Congolese economy, as we see signs of recovery in the non-oil income and a low and stable inflation, current account surpluses, and a significant improvement in fiscal balances, albeit with some help from the favorable oil income. We also welcome the advances in the structural reform agenda which needs to be cemented by effective implementation in key areas, including public financial management, governance, and transparency.

Second, as rightly emphasized by staff, addressing the arrears problems must lie at the core of the authorities' fiscal strategy. Here we regret that no sufficient progress has been recorded on this field. On domestic arrears, we look forward to the completion of the independent audit study. Following that step, the authorities need to act swiftly to phase out the verified stock of arrears to clear the congested financial intermediation channels. Similarly, the failure to clear the external official arrears is a key hindrance to the success of the authorities' Fund-supported program. We are encouraged by the staff response to our question indicating that the authorities have recently started to repay the new delinquencies is the correct direction. We also expect the stock to be addressed before the first review of the ECF arrangement.

Finally, on the restructuring of external commercial debt, we appreciate staff's response this morning. Indeed, like many other Directors, we see this process as a very complex and difficult one, and in the experience in similar cases, we believe we need to prepare to adjust the program parameters should the negotiations take more time than we have envisaged.

Mr. Cools made the following statement:

While we are discussing today the Article IV consultation, it is in the current context difficult to ignore the ECF, especially as we should have discussed today both things together, and we hope that the delay for the closure of the first review is only a matter of time. In that light, we welcome the signs of optimism that you gave this morning.

Several of the reasons why the first review could not be closed are beyond the control of the Congolese authorities, and here I really want to entirely second the statement by Ms. Levonian and also what Mr. Buisse said on the interaction between the World Bank and the IMF. And while on the ground we understand the cooperation has, indeed, been exemplary, there seems to be a broader issue on coordination of lending policies. In that light, it seems that the World Bank has in general become more cautious in disbursing budget support and is increasingly taking into account whether policy commitments to the IMF under the IMF program have been implemented before deciding on budget support. There could be pros and cons to this new policy stance of the World Bank, if I can call it that way, but it can create significant uncertainty. If implemented unexpectedly, it has the potential to derail IMF programs, and this is certainly relevant in the case of Congo where the World Bank is not ready to disburse the Development Policy Operations (DPO) budget support as debt restructuring with the oil traders have not been completed, contrary to the expectations under the Memorandum on Economic and Financial Policies (MEFP). Then this budget support is needed to clear external arrears, which is a necessary step to close the first ECF review.

I had also mentioned the chicken and egg in my speaking notes, and this is exactly what we do not like to see. We should as two institutions jointly inspire certainty in a very uncertain environment and not contribute to uncertainty.

As Ms. Levonian also said, this might be a broader issue transcending the Republic of Congo, and it is certainly a political issue and not an issue of cooperation on the ground, and we think it warrants a discussion at management level with the World Bank. It is really about making sure that lending policies and lending timelines from both the Fund and the Bank support each other and do not contradict each other, so we would be interested in seeing the management's thinking on how to approach this issue with the World Bank. There is the upcoming Independent Evaluation Office (IEO) report, but this might be a bit further down, and we should address this head on.

Finally, together with Ms. Pollard and Ms. Crane, we are also concerned about the low level of social spending, but here as well we have some sympathy for the argument of the authorities that the non-disbursement of the DPO does complicate things in that light as well. I would like to thank the authorities and wish them the best in their policy endeavors.

Ms. Pollard made the following statement:

We appreciate the effort to sequence technical assistance, so that the authorities' limited absorptive capacity is not overwhelmed. The immediate focus on cash management, the Treasury Single Account (TSA), and fiscal reporting seems reasonable, and the World Bank's Public Expenditure Review (PER) in the second half of 2020 is welcome. Public investment management is also important, but we understand that capacity support should be timed in a way that it can be well absorbed.

In addition, we welcome the information from staff that a long-term advisor will be placed in the Republic of Congo in early 2020 to support financial management. Resident advisors are particularly useful in fragile states where patient hands-on support is required for TA to be effectively taken up. Can staff comment on whether there are any other IMF resident advisors in the Republic of Congo?

Second, on the issue that has been raised by many others on IFI coordination and the debt restructuring deal, we share the concern of others reflected in question 12 about delays in budget support and we also support the comments this morning by Ms. Levonian, Mr. Buisse, and just now by Mr. Cools. Such delays have made it difficult for the authorities to meet social spending targets and could also affect their ability to pay arrears, and we particularly think it would be important to have management at both institutions have a discussion about the need to coordinate better.

Another issue is that we have been coordinating ourselves very closely with our counterparts at the U.S. offices at both the World Bank and the African Development Bank and encourage other chairs with concerns to do the same. In the meantime, the best path forward for the authorities is to decisively implement reforms and work diligently towards a debt restructuring deal that meets the parameters of the IMF program, and we very much welcome staff's comments this morning on that.

The relatively light treatment of debt in the previous debt restructuring deal with a large official creditor has left a heavier burden for the current restructuring. That was a choice made by the authorities, and now they need to work expeditiously to bring the debt deal with private creditors to a successful close.

Mr. Morales made the following statement:

Congo is still facing difficult economic conditions, a situation that is likely to continue for some time. To mitigate vulnerabilities, restoring fiscal sustainability, strengthening governance, adopting diversification policies, and breaking the fiscal arrears nonperforming loans cycle are of crucial importance. As important as to clearing external and domestic arrears, it is necessary to avoid their resurgence in the future. We hope that firm steps towards external debt restructuring are taken before the first review, as was explained this morning.

Regarding domestic arrears, an overhaul of public finance management efforts and revenue mobilization efforts, policies to phase out subsidies, and decisive action to make governance reforms effective are imperative. Otherwise, arrears could only be contained by keeping social spending and public investment at suboptimal levels, as we have seen recently, which affect the most vulnerable population.

On these policies, I wanted to highlight two issues. First, regarding expenditure control, the government is considering improvements to track priority spending, including new expenditure-tracking software. We encourage the authorities to move fast on the introduction of such a system, and we believe that having in place a preemptive mechanism that anticipates and avoids the spending delays could be more effective than overburdening the debt management office with overdue payment orders, especially if they relate to recurrent spending. We should be following best international practices.

On revenue mobilization, devising a strategy to clear tax arrears, currently at 27 percent of non-oil GDP, could trigger a vicious cycle of higher compliance and better tax administration. With this, we commend the authorities for the progress so far with implementation of the program, and we wish them success in their policy endeavors.

Mr. Inderbinen made the following statement:

We put out a gray in which we acknowledge the progress in economic recovery and also the efforts of the authorities in implementing the program and in particular also achievements on the fiscal front, and we would like to join others in thanking staff for the good documentation and also the very clear and candid remarks this morning on the process for the first review, which like others, we hope can be completed soon.

On the commercial creditors, we took good note that there has been improvement in the discussions since the fall, which is very welcome, including with the oil traders. We also note from Mr. Raghani’s helpful buff statement that they hope for conclusion of an agreement with oil traders in the first quarter of 2020, as reiterated by staff as well, but we would caution that past experience in similar cases has revealed certain complexities in such deals, including with the financing of commercial banks, so we would take that as a cautionary note.

We underline the importance of the clearance of the official arrears, and here we welcome the initiated payments, thanks to the disbursement by the African Development Bank. There are also the remaining arrears that need to be cleared, and here, of course, we have the difficult question of disbursement by other development partners and the circularity problems that Ms. Levonian and others were alluding to. Here, as Ms. Pollard stated, from our part we are trying to coordinate also with our counterparts in the OEDs and the World Bank and in the African Development Bank, but I wonder if management may comment on efforts on their side to ensure that these issues can be cleared and that we can advance on the necessary disbursements.

On the financial sector, we note the pending problem of the non-performing loans (NPLs) that are related to the domestic arrears by the government. We also note the two undercapitalized banks that need to be addressed, and we note from the buff also the intention of the authorities to provide plans to the regional supervisor to address these issues, and we would invite staff to follow up on these issues, including with the regional supervisor, including with Commission Bancaire de l’Afrique Centrale (COBAC), as they did state the readiness to do in the broader discussion we had on the CEMAC region in the fall.

Last but not least, like others, we encourage further progress on the governance issues, and there again we welcome the information this morning that progress has been made on the decrees that are outstanding. I understand it is on both decrees, so with the Anti-Corruption Commission as well as the Transparency Commission. Maybe staff can confirm that.

Mr. Saraiva made the following statement:

We issued a gray statement. I basically want to join myself to other voices on this specific issue of coordination with the World Bank. I think it is clear that Congo needs to continue with this strong and firm fiscal consolidation in order to achieve macroeconomic stabilization and resume stronger growth on a sustainable basis, while implementing the key reforms that are in the IMF program. For that to take place--and this is the point highlighted by Ms. Levonian and several others here--timely and predictable disbursements of budget support grants are of the essence. I really think that more needs to be done in this respect to ensure that this will not be an issue that will undermine the adjustment and the implementation of the program.

I would like to also highlight the importance of the progress that has been made. I take note of what Mr. Segura-Ubiergo has mentioned here regarding the approval of a budget that is consistent with the program, meaning the alignment of the authorities with several measures, including regarding PFM. I agree that the conclusion of the restructuring, the negotiation with the commercial debt, is something absolutely critical, as well as firm implementation of the plan to clear arrears with official creditors. I think those aspects are fundamental for the program to continue on track.

Mr. Jin made the following statement:

We take positive note that the Congolese economy has shown some signs of stabilization. The recovery of the non-oil sector in particular is encouraging. The authorities’ continuous efforts in fiscal adjustment and structural reforms are commendable. Thanks to the fiscal consolidation and the debt restructuring with the official creditors, the debt-to-GDP ratio has reduced by more than 35 percentage points from its peak. To further ensure the debt sustainability, it is essential to conclude the restructuring of commercial debt in a timely manner. We welcome the authorities’ commitment to ensure the restructuring in line with the ECF program parameters and encourage the authorities to double their efforts to complete the negotiation as soon as possible. We join other Directors in highlighting the importance of strengthening domestic revenue mobilization. The authorities’ fiscal consolidation efforts are highly commendable but are achieved mainly by cutting the much-needed capital and social spending. In this regard, we encourage the authorities to further boost non-oil revenues by broadening the tax base and strengthening the tax administration.

Finally, the Congolese economy is heavily reliant on the oil sector. The authorities' National Development Plan (NDP) has rightly identified the three pillars of economic diversification. We encourage the authorities to implement necessary reforms to improve the business environment and support the development of key non-oil sectors, which will also help to broaden the tax base and ensure a sustainable and inclusive growth. With these remarks, we wish the authorities every success in their future policy endeavors.

Mr. Palei made the following statement:

Like many others, we are concerned about the delay in the completion of the first review under the ECF-supported program, due to the lack of a debt restructuring agreement with commercial creditors and oil traders. Like other Directors, we have questions about this situation and largely support the comments made by Ms. Levonian and other Directors.

We would seek additional clarification on the reasons for the African Development Bank to make the disbursement as opposed to the decision by the IMF and the World Bank to delay the disbursement under the program and budget assistance. Do they have different criteria for lending, or are there some other reasons for different treatment of the country by African Development Bank?

Another question is related to the Risk Assessment Matrix (RAM) which considers the failure to agree on debt restructuring to be of high risk and high impact. Why does staff consider this probability to be very high? And I would like to better understand how to reconcile today's comments on the substantial progress in this area with the opinion that there is a high risk of failure.

Then one more question is related to the restructuring provided by China. As I understand Ms. Pollard, she implies that the debt relief provided by a sovereign creditor is not comparable to the debt relief expected from the private sector creditors. Could you please say a little bit more on the reduction in net present value (NPV) provided by sovereign creditors, and how does it compare with the 30 percent NPV reduction that you have mentioned for the private sector?

Then we note that the Republic of Congo became another case of the governance diagnostic approach carried out by the IMF and introduced recently, and the specific recommendations by the IMF include a broad set of technical, legal, and political measures to strengthen the country's anti-corruption framework, including the creation of the new law enforcement institutions. Generally we do support the work, but there is still uncertainty about its effectiveness, and at this stage we would be interested in having more information on why this particular approach was chosen in the case of the Republic of Congo, on how many other governance diagnostic reports have been carried out by the IMF by now, and on whether it may make sense to use more traditional and more reliable approaches offered by the IMF in other countries. For example, the authorities could have a fiscal transparency evaluation, which is a well-known instrument and which is very useful in many countries. Then we also think that there is a possibility to have Public Investment Management Assessment (PIMA) and maybe a Public Expenditure Tracking Survey (PETS). There are other instruments aimed at improving governance, and they have implications for anti-corruption work. We would like staff to elaborate on the choice between various forms of helping the authorities in the area of governance and anti-corruption efforts.

One more question is on the delay in Article IV report. In this case, we have a delay which is very long, four years. I think it is not in line with the guidelines we have at the IMF. Even when a country has a program, it has to be no more than two years, so maybe you could explain why there was such a long delay in preparation of the Article IV report.

Mr. Ronicle made the following statement:

First, I support all those who have spoken out this morning about the importance of effective coordination with the World Bank in this context. I am looking forward to the answers to those questions.

Second, let me add to Ms. Levonian's question about the importance of the debt restructuring in the timing of the first review. My recollection of our discussion at the time of the ECF request was that staff viewed the restructuring with external creditors as being helpful to restoring debt sustainability but not crucial because most of their consolidation is going to happen through fiscal policy. In that light, given Mr. Inderbinen's remarks about the complexity of this sort of negotiation and the potential further delays, I am curious to know whether it is the restructuring that really matters here in terms of the timing of the first review.

Mr. Persico made the following statement:

I want only to associate our chair to the remarks on the coordination between IMF and World Bank and other multilateral institutions that have already been raised by other Directors.

Mr. Tabora made the following statement:

First, we commend the Congolese authorities for the steps taken towards restoring fiscal sustainability and enhancing governance. I think this is very important for us. We welcome the authorities' determination to continue implementing the ECF-supported program in a satisfactory manner despite the delay of the first review. In that regard, we believe that the IMF's continued technical assistance and coordination with other MDBs, including the World Bank and the African Development Bank, is critical, as well as strengthening public confidence in the government's economic program is paramount. In that regard, we want to know what is the status of the audit report for domestic arrears and the starting process of the repayment strategy in order to reduce the NPLs, because we believe that this is very important to reduce the uncertainty in the private sector and make these resources available to promote economic growth.

The other point is boosting mobilization of internal revenues efforts and contain current spending, and it is very important to consolidate the ambitious fiscal strategy. Increasing non-oil revenues and reducing tax exemptions as envisaged under the 2020 budget are fundamental conditions to create fiscal space to increase social spending necessary to ensure that most vulnerable groups are being effectively protected from the burden of fiscal adjustment.

Now that you mentioned the 2020 budget is already approved, we would like to know how you see the implementation of the reduction of the tax exemption will be performed in 2020, and how feasible is that contributing to the fiscal consolidation?

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

On the coordination of the IFIs, I totally agree that the coordination of the IFIs is very important, as many Directors have mentioned. Management of the IMF has regular meetings with the World Bank management to ensure the cross-coordination, and we expect that this coordination will be intensified and strengthened, under the leadership of the new Managing Director. Of course, each institution can take the decision based on their assessment and judgment. We think that coordination is important, and we will make every effort to strengthen coordination.

The representative from the African Department (Mr. Segura-Ubiergo), in response to questions and comments from Executive Directors, made the following statement:

On the critical issue for the first ECF review, the only outstanding issue is the debt restructuring. The other elements of the review are either there or very close to completion. There was a question about governance. There were two decrees, which the authorities had committed to adopting before the first review. One of them has already been signed. The other one has not yet been signed, but it is very close to being signed. Those two conditions would have become prior actions if the authorities had not implemented them, and the authorities gave their agreement to the implementation, so we do not see an issue there.

On fiscal policy, sometimes one of the most difficult discussions that you can have with the country authorities regarding the path for the fiscal consolidation and fiscal outlook, there was full agreement on the fiscal stance and on the measures. So there was a full agreement on the set of policies that would support the first review. It was important at the same time to have a credible process for the debt restructuring of commercial debt. That was a clear message that we heard from the Board in July. We indicated at the time that we felt the authorities had pursued good faith efforts in the debt restructuring process of commercial debt. We indicated the authorities had focused primarily on the restructuring of official debt, especially with their major creditor, China, but that they had continued to pursue these good faith efforts, and that view still stands.

The standard of scrutiny increased after the Board meeting in July. We started looking more carefully about whether the authorities were on a path to achieve effective resolution or not, and our conclusion in the first few months was that the authorities were not on that path. I have indicated that transparently at the beginning of the discussion. Up to October, we were not confident the process was sufficient to give reassurances to the Board that this process would be successful.

We expressed our concern to the authorities, and they took action at the highest level, and so there has been a change in course. At the same time, it is also premature for us to just assume that because there is this change in course, there would be a successful resolution immediately. We need more time to evaluate whether the steps that I have described at the beginning of the discussion, including sending letters, having discussions, and having a dialogue, are effectively going to lead to the successful outcome. That explains why we have followed a more cautious approach in this case. Mr. Sommer can comment further on the question of lending into arrears.

Regarding the question of whether the Republic of Congo has other advisors, the answer is no. This is the first one. We think it is a crucial step, and the authorities often indicate that having a resident advisor plays a crucial role because it is someone who is on the ground, capable of answering questions, and it really helps implement recommendations from technical assistance reports. The person is there almost as a member of the ministry's staff. This advisor will provide support to other countries in the region, but most of his time will be dedicated to the Republic of Congo. I think the Fiscal Affairs Department (FAD) has really done a very nice job trying to identify a suitable person and respond quickly to the authorities' request.

I think I have responded on the issue of the governance decrees. The second one, on the Transparency Commission, has not yet been signed, but it is very close to signature. A draft has been prepared, and it is very close to signature, so we expect that decree to be signed quickly.

On the question of why specific institutions follow a specific approach regarding the African Development Bank, the only thing that I can say is that the African Development Bank contacted us, and we expressed our views regarding the importance of disbursing resources in a timely manner, and the African Development Bank made a decision to disburse by linking the disbursement decision to the initial program approval of the IMF in June. They felt that the initial program in June would, in fact, unlock the resources for them. The fact is that following their prior actions and their reforms had been implemented and their own assessment of risks, they made that decision independently taking our feedback. For example, when we indicated to them that the macro framework remains broadly adequate or that the reforms on governance are on track, they asked us about these specific questions where we can provide a substantive answer, and they made that decision.

On the question of the structure of the governance and the anti-corruption institutions, the main driving force behind these reforms is the

Congolese authorities. The Congolese authorities requested a governance assessment from the IMF. They produced their own report, and we provided technical assistance. Especially the Legal Department made an evaluation of how to strengthen the institutions. The authorities came to the conclusion that it would be helpful to have this anti-corruption authority with investigative powers to improve their management of potential cases of corruption and that having a commission on transparency with participation with civil society would also be a helpful element to address concerns from civil society about lack of access to information and so forth, so we supported the authorities' decision to follow that route.

There are other instruments that obviously the IMF can use, including the ones that you have mentioned, and we are ready to deploy those instruments if the authorities request them. Other more technical aspects regarding those issues, I think we have discussed them bilaterally, and we are ready to provide additional technical information to you through our experts in the Legal Department.

Regarding the delay in the Article IV, I think the main issue that we faced is that over the last two years the authorities were focused on having a program in place. Their immediate focus was how can we put together an economic reform program to stabilize the economy, and they felt that the focus on that issue was more of a priority than thinking about medium-term issues, so there was a reason why it took a bit more time to prepare the Article IV report. I must say also that the reason why we presented the Article IV now is precisely to avoid further delays. We did not want to be in a situation where we continue to expect the first review and the Article IV to be combined and then given the uncertainty with the process of the first review, then the Article IV is further delayed. So that is the reason why we tried at least to correct part of this delay.

Finally, on the question of the status of the domestic arrears report, the authorities have prepared a draft report. They have shared with us this draft report. As I think we noted in the technical answers, it is a very complex process because the auditors do on-site inspections to ensure that the goods and services have been delivered or not. It is not just an administrative review of paperwork, so we need to give them the chance to complete the draft report to ensure that it is consistent and also a fair chance to the private sector to express their concerns. Because the auditor may reject claims, the private sector needs to be given an opportunity to provide complementary information, so that the claims are not arbitrarily dismissed and that process may take a few more weeks. Parts of the audits have already been audited, and there is no question about their validity, and they are already embedded in the macro framework as part of the authorities' repayment plan. Obviously to be able to make these payments, the authorities need resources.

I think the final question that you asked was regarding the implementation of key tax reforms. Yes, we described in the report and in one of the selected issues papers (SIPs) the importance of reducing tax exemptions and tax arrears. We think the authorities are really stepping up efforts to identify all these exemptions. They have working groups. They are reviewing all their investment decisions. In particular, it is quite impressive how they have collected all the contracts that provided exemptions to investors, and they are now assessing whether these exemptions actually had an impact, whether the private sector benefited from an exemption, and whether they actually implement the investment or not. Before these exemptions are completely eliminated, it is important to ensure that the authorities have the time to assess the tradeoffs.

I have missed one of the questions regarding the matrix on risks. At the time we were drafting the report, we felt the risk was still high. This is a dynamic evaluation, and it is subject to a subjective element. So whether we now consider it high or medium-high or medium, I am not sure it is going to be very helpful for me to try to exactly classify whether it should be medium or high. At the time we were writing the report, we felt the risk was still high because of the complexity of the negotiations and the fact that we still had not seen an actual plan, like the terms. Have the authorities already offered specific terms to the oil traders? Have the traders expressed an indication that they might be willing to accept these terms or not? Without access to that information, we considered that the risk was still high. Things are evolving positively. That evaluation might change, and the risk might be reduced to medium in the coming weeks if the path that we have seen continues.

The staff representative from the Strategy, Policy, and Review Department (Mr. Sommer), in response to questions and comments from Executive Directors, made the following statement:

Let me take this opportunity to elaborate on the Fund's lending policies with respect to debt restructurings. I think as a general principle it would be useful to note at the outset that we generally try to achieve the debt restructuring as soon as possible in the program to ensure success of the key objectives of the program.

With respect to the private creditors, the Fund typically aims to complete a debt restructuring by the first review. It is not a hard-and-fast rule, but it is a principle that has been broadly applied in the past cases. Now, the specific reason for why staff was not able to propose to the Board completion of this review is that we simply do not have the credible assurances that the debt restructuring will be completed successfully in line with the program parameters. As the mission chief has noted, this has been a long-standing process for about two years. There has not been a whole lot of tangible progress since the program approval, although as the mission chief notes, in the past few weeks there have been some signs of progress in the negotiations, but let's keep in mind that the specific claims held by the private creditors vis-à-vis the Republic of Congo are of a challenging nature. They have collateral-like features. There is still the pending risk of litigation. Given the lack of credible assurances, we are unable to basically recommend completion of this review under the guidelines of conditionality.

Just to recall at the time of the program approval back in the summer, a number of Executive Directors actually expressed their policy preference for the debt restructuring to be done by the first review for a number of reasons. There was a safeguards consideration. The debt is still very much in excess of the usual thresholds that we use at the IMF to assess debt sustainability. Also, there were some concerns expressed by several Executive Directors about the perceived gaps in applied NPV haircuts between the official and private creditors. Now, I would note again on that part that it is actually not unusual for debt restructuring outcomes playing out in a way where the private creditors provide somewhat higher haircuts than the official creditors. I think there are a number of precedents regarding this, and the Fund staff does not generally take a stance on this, only to the extent that the gap between the two haircuts pose some risks for the probability that the debt restructuring will be completed successfully.

Maybe just to sum up, the lending into arrears policy and the good-faith criterion for negotiating with private creditors is just one element of the overall package of rules that the Fund has for these types of cases. Indeed, the guidelines on conditionality and the safeguards considerations prevent staff from recommending completion of the review at this time.

Mr. Jin made the following statement:

Since the discussion has touched upon the comparison between the official bilateral lending and the commercial oil traders lending, I would like to make a comment or explanation focusing on China's bilateral official lending.

The debt restructuring by China has contributed 370 million U.S. dollars to fill around 20 percent of the total financing gap. It is critical to note that the lending from China has a much longer repayment period and much lower interest rate. That means China's debt restructuring was based on a much more preferential basis compared to commercial lenders. More importantly, all of China's lending contracts were signed before 2014 based on the IMF's assessment of the Republic of Congo's debt sustainability risk, which was rated as low at that time, and that assessment was not objected to by the Board members. After 2014, the Fund adjusted that assessment to be moderate, and after that it became even higher, due to the rising debt-to-GDP ratio. It was after 2014 that oil traders extended new credit to the Republic of Congo. The fact that China restructured the Republic of Congo's debt before the confirmation of the debt restructuring agreement between the Republic of Congo and oil traders has reflected our strong commitment to supporting the Republic of Congo's economic growth and taking leadership in providing financing support that has made Board's discussion of this program possible on July 11.

Mr. Palei made the following statement:

Thank you very much for the answers, and also I thank Mr. Jin for clarifying the situation with the debt restructuring provided by China and agreed on by China. There is no question for us that there could be different treatment between sovereign creditors and commercial creditors, and they are in different positions. However, for us, it would be useful to have a ballpark estimate of the NPV reduction so that we will have an idea of how comparable is the debt treatment between the sovereign sector and private creditors. So if staff could come back to us, it is great. If you do not know the number now, maybe you could come back with an estimate and provide it later. It would be very useful.

On Article IV, we still have concerns about this long delay, and maybe staff could provide us a written answer so that we will better understand, or we could have bilateral discussions on this.

On the governance diagnostic approach, we support the efforts by the Legal Department, and we know that many Board members requested such an approach to improve governance and fight corruption. At the same time, when the IMF works with the authorities on a program and provides lending to the authorities, the responsibility for choosing priorities and technical assistance should not be delegated to the authorities only. I understand that it is a two-way process, and the team, the IMF team and the authorities, should discuss these priorities, but for us, we do not know whether the approach spearheaded by the Legal Department will be efficient in the future. We will have a review at some point and a briefing before that, but now we do not have any information on the effectiveness of this process. We do know that the IMF stands for "it is mostly fiscal", so we do know that Fiscal Transparency Evaluation is a good instrument, and we know that other instruments are very useful for the authorities and for the program to be successful. So here I call on staff to reflect again on the content of technical assistance and on the priorities under the program and the instruments used to focus on achieving the program goals.

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

On the question of the NPV of the previous operation, we discussed it at the time of the Board approval. I provided the information. I have no problem providing it again. We indicated that according to our calculations, the NPV reduction of Chinese debt was about 5 percent. We also noted that if you were to set the terms of the commercial debt to the terms of the Chinese debt, that would be an additional contribution of about 18 percent. And then we had a discussion on these issues. The debt advisors argue, as Mr. Jin has pointed out and the authorities, that both stocks of debt cannot be treated in the same manner. It is their view that because of the fact that the debt with the oil traders carries very high interest rate, very high interest rate, and lots of fees, so frankly, it was a type of debt that did not follow proper procedures. It was not even approved, for example, by the oil company, by its Board and so forth, and it is a debt subject to higher risks. The creditors took much greater risks by not following appropriate due diligence procedures. Therefore, the authorities feel and the debt advisors agree that this debt should be subject to a higher haircut.

Mr. Raghani made the following remarks:

I would like to thank my colleagues, Executive Directors, for their insightful comments and valuable policy recommendations they have provided both in their grays and during today's Board meeting. I want also to express my deep appreciation to the mission chief, Mr. Segura-Ubiergo, and his team, for the constructive policy dialogue and the excellent collaboration with my Congolese authorities.

Directors have acknowledged the Republic of Congo's strong economic adjustment of recent years, as well as the important steps taken by the authorities to improve governance. However, they have also noted that the Republic of Congo's economic situation remains difficult and that the authorities face significant challenges as they strive to achieve higher and more inclusive growth. Let me address more specific issues raised by Executive Directors.

Directors have emphasized the need to restore debt sustainability through more rapid progress towards the restructuring of the country's commercial debt. First, I can assure Directors that the authorities are determined to further reduce the Republic of Congo's external debt burden, which will require reaching a favorable agreement with private creditors on the restructuring of the country's commercial debt.

Second, with the assistance of the financial advisor, they are having active discussions, as mentioned this morning by the mission chief in his responses to questions, with those creditors on a restructuring that is consistent with the objective of the ECF-supported program, and they believe that they will be able to reach an agreement by the end of the first quarter of 2020. That said, I recognize, like some Directors, particularly like Ms. Levonian, Mr. Inderbinen and others, that this is a complex issue. We are going to do our best, but it is something that needs more efforts, and we think that by the first quarter we will be able to reach this agreement.

The Executive Board also stressed the importance of ensuring adequate social spending to protect the vulnerable groups from the burden of the adjustment. The authorities' ongoing fiscal consolidation efforts, including through decisive measures to boost non-oil revenues and curb current expenditures aim primarily at expanding the fiscal space to enable higher social spending.

However, as some Directors have noted, delays in the disbursement of budget support has played an important role in this year's lower-than-planned social spending. On their behalf, I would like to urge donors, like also many Directors did this morning, I would like to urge donors to provide the committed budget support in a timely manner, which will be essential to meeting the social spending targets under the Fund-supported program. Timely budget assistance is also crucial to the clearance of the Republic of

Congo's external arrears. I take good note of the statement by the Chairman regarding the effort made by management in coordinating the effort between IMF and the World Bank, and also I agree with Ms. Pollard on the need for Executive Directors to coordinate with their colleagues and other chairs in order to make progress on this issue.

Directors have welcomed the important steps taken by the Congolese authorities to improve governance. However, they have also underscored that additional reforms are needed in this area to achieve sustainable and inclusive growth. I very much welcome the recognition by the Executive Board of the important measures already implemented to promote governance and transparency. The authorities are determined to build on the progress achieved so far to continue to reinforce governance, particularly the anti-corruption framework, while also promoting transparency in the oil sector in close collaboration with the IMF and development partners.

Many Directors have called on the authorities to further promote economic diversification away from the oil sector. Accelerating the debt reduction of the country is a key pillar of the authorities' five-year development plan, which targets a number of key sectors with significant potential, particularly agriculture and forestry. The actions underway to improve the business climate should also support the effort to diversify the economy and help create an environment attractive to private investment.

To conclude, Mr. Chairman, I would like to thank Executive Directors once again for their support to the Congolese authorities' policy reforms. They reiterate their strong commitment to continued engagement with the IMF.

The following summing up was issued:

Executive Directors agreed with the thrust of the staff appraisal. They noted that the Republic of Congo continues to face very difficult economic conditions, with a challenging macroeconomic outlook characterized by high debt levels, low growth, and limited business confidence. At the same time, Directors welcomed modest inflation levels, the downward trend in public debt, and rising net foreign assets. To support macroeconomic stability and inclusive growth, Directors encouraged the authorities to pursue continued fiscal consolidation, debt restructuring, and reforms to strengthen governance and diversify the economy.

Directors considered that the government should continue strengthening its medium-term fiscal framework. Noting the prudent execution of last year's budget, they welcomed that the 2020 budget pursues further fiscal consolidation to help restore debt sustainability. Directors emphasized the importance of non-oil revenue mobilization efforts as a key pillar of the fiscal strategy, particularly measures to curb tax exemptions, collect tax arrears, and implement additional tax administration reforms. They also highlighted the importance of strengthening PFM systems and ensuring that adequate resources are allocated to critical social programs in favor of vulnerable groups, including in the areas of health, education, and programs for women. Directors also underscored the importance of coordinated donor community support for the country's adjustment efforts.

Directors agreed that public debt management should continue to be at the center of Congo's economic recovery plan. They supported the authorities' plans to accelerate negotiations with external commercial creditors to reach a debt reduction agreement. Directors also encouraged the authorities to implement their strategy to clear domestic arrears with the private sector, and emphasized the need to contain rising non-performing loans, provide enough liquidity to the private sector to be able to meet its tax obligations, and increase business confidence in support of economic activity, especially in the non-oil sector. Avoiding any new accumulation of official external arrears and clearing the existing stock in line with their earlier commitments were also emphasized. To capture debt vulnerabilities more accurately, Directors called for enhanced debt transparency, including for SOEs.

Directors were encouraged by reforms to improve governance and reduce corruption. They welcomed the publication of the audited financial statements of the National Oil Company and 2020 draft budget, which improved public access to economic information. Notwithstanding, Directors considered that further efforts are needed and encouraged continued strengthening and operationalization of the anti-corruption framework and ensuring that the new Anti-Corruption Authority and Commission on Transparency become fully operational.

Directors agreed that the Republic of Congo's diversification strategy will be key to sustain higher and more inclusive growth. In this regard, they emphasized the importance of strengthening governance and improving the business environment, including through reforms to increase access to electricity, reduce administrative requirements to start new businesses, and improving access to credit.

It is expected that the next Article IV consultation with the Republic of Congo will be held in accordance with the Executive Board decision on the consultation cycle for members with a Fund arrangement.

APPROVAL: May 19, 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. ***We would appreciate staff's elaboration on the main drivers behind the projected higher non-oil sector growth over the medium-term.***

- Non-oil growth is expected to increase gradually toward 4-4.5 percent over the medium-term. The authorities expect growth to be driven by agriculture, construction and services (commerce and financial services) which have been in recession in recent years, but could experience a recovery once the government starts implementing its strategy to clear domestic arrears. The implementation of this strategy would also strengthen banks' balance sheets and help credit growth. In addition, there has been a recent increase in mining activity (especially copper) and wood exports, which suggests that new (non-oil) sectors are becoming increasingly important. Finally, the authorities also expect that improvements in the business environment, including through stronger governance and anti-corruption efforts, could help attract investment into new economic sectors in support of their diversification strategy.

Fiscal policy and debt sustainability

2. ***We note that the authorities have sent new letters to external creditors, mainly the oil traders, inviting them to accelerate negotiations. It is concerning that recent experience in some countries in Sub-Saharan Africa shows that debt restructuring can take up to three years to conclude. Given these experiences, does staff have any further information to support prospects of concluding this process within the first quarter of 2020?***

- Oral Response

3. ***Do staff have full visibility of the authorities' plans on the restructuring of external commercial debt? How realistic is their timeframe (2020Q1)?***

- Oral Response

4. ***Given the difficulties experienced by other Sub-Saharan African countries renegotiating their debt, could the staff provide any further information on the***

Congo's current restructuring process and how feasible the expectation of concluding this process within the first quarter of 2020 is, as stated in the report?

- Oral Response

5. ***Could staff provide an update of the discussions on debt restructuring and the prospects of closing the first review?***

- Oral Response

6. ***Could Staff provide a detailed update on the status of negotiations with the oil traders?***

- Oral Response

7. ***Could staff comment briefly on the terms proposed by the government to oil traders to accelerate the negotiations towards the restructuring of external commercial debt?***

- Oral Response

8. ***Could staff elaborate on the prospects for reaching a debt restructuring deal with the Republic of Congo's creditors?***

Oral Response

9. ***Do staff have any insights about the tentative elements of a possible restructuring deal vis-à-vis commercial creditors?***

- Oral Response

10. ***Could staff update the board on progress in the restructuring negotiation and elaborate on the factors behind the high risk of failure?***

- Oral Response

11. ***Could staff comment on the likelihood of the authorities' commitment towards debt restructuring strategy for commercial debt in the event that there is further delay?***

- Oral Response

12. ***The non-disbursement not only threatens macroeconomic conditions, it complicates budget management and imperils the arrears clearance that shall take place prior to the closure of the first review. Could staff kindly provide an update on the state of play of this delay and explain the reasons behind this delay, especially regarding the delay in the approval of the World Bank's DPO*?**

- Oral Response

- More broadly (beyond the Republic of Congo), we are concerned about recurring coordination issues on lending policies between the World Bank and the Fund. Building off of the G20 Principles for effective coordination between the IMF and MDBs in case of countries requesting financing while facing macroeconomic vulnerabilities, we invite management to reflect on a horizontal approach to limit coordination issues going forward.

- Oral Response

13. ***We would appreciate staff's update on future disbursements and their elaboration on the authorities' contingency measures should delays become protracted.***

- Oral Response

14. ***Could staff comment on if and how the authorities' plan to address the external official arrears*?**

- The authorities indicated this week that they have initiated payments to clear all the new official external arrears that had been accumulated since the ECF program approval last July. In addition, they remain committed to the clearance of official external arrears before the first review, as indicated in the July Memorandum of Economic and Financial Policies (MEFP) and in line with discussion during the last mission in October/November. The authorities noted that they intend to keep the fiscal program on track to ensure that adequate resources are available to clear official external arrears and requested support from development partners to ensure timely budget support disbursements to achieve this objective.

15. ***Could staff elaborate on the progress in preparation of the audit report on the stock of domestic arrears? Could staff also comment on the efficiency of social spending in the Republic of Congo?***

➢ Staff expects the final audit report to be completed in 2020Q1, ahead of the first program review. A preliminary report was shared with staff in November 2019. The preparation of the report is taking more time than initially anticipated because the independent auditor is conducting an administrative review of a large stock of complex budget documents related to a large number of projects and transactions. In addition, the auditors are conducting onsite inspections to reconcile the administrative review with the actual delivery of goods and services.

➢ Social spending in Congo remains inefficient in the areas of health, social protection, and education. There are important sources of inefficiency in those sectors including the excessive price of services and relatively weak management of human resources. Delays in budget support and the use of Treasury resources to settle spending from previous years further worsened this weak performance in social sectors in 2020.

16. ***We concur with staff on the need to expedite efforts to finalize a medium-term strategy for PFM reforms. Can staff comment on whether the financial resources, and the institutional and capacity capabilities are present to appropriately advance these reforms?***

- FAD will place a Long-Term Expert (LTX) in March/April 2020 to help strengthen the authorities' capacity to implement PFM reforms. Among other activities, the LTX, will help the authorities (i) improve cash management and the use of a Treasury Single Account (TSA), (ii) strengthen accounting practices, and (iii) further develop capacity for fiscal reporting.

17. ***The lack of transparency and incomplete information over debt levels and fiscal performance of the more than 30 SOEs is worrying. In this context, we would welcome additional comments on how staff arrived at their estimate that nonguaranteed SOEs debt stands at 9 percent of GDP as well the assumption that half of this amount could end-up on the central government balance sheet.***

➢ Information on the level of SOE debt was provided by the authorities based on available data at the time of the last mission. The assumption that 50 percent of this stock could end up on the government's balance sheet is a reasonably conservative assumption given that these companies were able to borrow without government guarantees, with creditors in principle having performed already some risk assessment of their operations, and limiting the risk that the totality of the debt would end up on the government's balance sheet. Some public companies also have assets that could be liquidated to prevent an increase in debt, though precise valuations of these assets are not available.

➢ In addition, in some SOEs the government has less than 100 percent ownership, and hence would not inherit the totality of the debt in case of default. The estimate of the debt level of SOEs and other related assumptions are consistent with the July 2019 Staff Report. Finally, the authorities are also in the process of preparing a detailed report on SOEs to obtain further information on the assets and liabilities of public enterprises and strengthen the assessment of fiscal risks.

18. ***We encourage the authorities to consolidate tax policy responsibilities to overcome shortcomings of the fragmented institutional framework. The recent creation of a Tax Policy Unit is a step in the right direction. Will the unit reduce fragmentation across different agencies or only in the Ministry of Finance*?**

- The recent establishment of a Tax Policy Unit, together with ongoing reforms to upgrade IT systems and improve the interconnection among the tax administration, customs and the Treasury will also help reduce fragmentation, not only across different agencies but also within the Ministry of Finance.

19. ***Could Staff elaborate on what support the IMF will provide for debt management?***

- Debt management is a key pillar of public finance management, governance and transparency reforms. IMF staff have been particularly active in providing capacity building support in this area. For example, during FY19, there were two TA missions on public debt management with a focus on the PFM framework and the institutional set-up for effective public finance management. These activities are expected to continue in FY20. The planning process for additional capacity development is ongoing, and debt management will continue to be considered a priority focus area of TA delivery.

20. ***Could staff provide us with their details and analysis of the securitization strategy?***

- As noted in Q15, we expect the audit of domestic arrears to be completed in the coming months. Once the audit is finalized, and the stock of domestic arrears is confirmed, the authorities will finalize their strategy for repayment; at that point staff will be in a position to provide an analysis of the details of this strategy, including specific arrangements on securitization.

21. ***Could staff provide further information on the intentions of the authorities to conduct a Public Expenditure Tracking Survey (PETS) and a Public Investment Management Assessment (PIMA)?***

- The World Bank intends to conduct a Public Expenditure Review (PER) in FY21 (Starting July 1, 2020). In light of the authorities' limited institutional capacity to receive new TA, the authorities (in consultation with staff) agreed to postpone the PIMA assessment to better focus their absorptive capacity on other ongoing reform priorities in PFM such as cash management, the Treasury Single Account, and fiscal reporting.

Program-related issues

22. ***Staff's comments would be appreciated, particularly updates on the program's performance, and when its first review is expected.***

- Oral Response

23. ***Could staff elaborate further on the postponement of the first review under the ECF to obtain credible assurances*?**

- Oral Response

24. ***We would appreciate it if staff could provide any update on authorities' plan to gradually reduce the wage bill as a percent of non-oil GDP, which they indicated in the ECF program request would be adopted before the end of September 2019.***

- Oral Response

Structural reforms

25. ***Since the supply chain management and linkages to market form a vital part of modernization of agricultural sector, whether the staff could elaborate on the authorities' specific strategy on productivity improvement, agro-industry linkages and marketing network?***

➢ The strategy for developing the agricultural sector laid out in the National Development Plan (PND) 2018-2022 targets productivity improvements through a variety of mechanisms including (i) the establishment of local credit mechanisms; (ii) increased land allocation and scientific research into plant strains to support increased production of major crops (cassava, plantains, potatoes, yams, rice, peanuts and sweet potatoes); (iii) the development of orchards in rural areas to increase fruit production; (iv) increased allocation of land in semi-urban areas for vegetable production; and (v) experimentation and popularization of rice crops in flood-prone areas.

➢ In addition, the PND identifies several strategies to support commercialization/marketing, including the construction of five large urban markets in each of the four Special Economic Zones and in Dolisie, the organization of regional markets in large towns and rural centers (which can develop the link between production zones and urban centers), and the creation of cold chains (including the manufacture of insulated and refrigerated containers for transportation). Moreover, the PND identifies improving the business climate as an essential strategic sub-axis to help support the emergence of domestic private companies and help attract foreign investors in agro-industry.

26. ***We welcome initial steps by the Ministry of Finance to publish monthly economic data on its website. Can staff comment on the current status of this effort?***

- Steps towards more regular publication of data were taken in 2019, with financial sector data being published regularly since June 2019 and inflation data being published since September 2019. Other data such as debt data and fiscal data, including Tables of Fiscal Operations (TOFE), are published on the Ministry's website but with less regularity, given the need to ensure the consistency of data. STA is providing ongoing support to improve access to information, including through plans to set up a portal to facilitate faster and more comprehensive access to information.

27. ***We would appreciate more detailed information on the envisioned functioning of the High Authority on Corruption and the Transparency Commission, including its mandate, sources of financing, and procedures of appointing its management and staff. Could staff elaborate on the role and place of the High Authority on Corruption among other law enforcement institutions in the Republic of Congo?***

➢ In addition to the formulation and ensuring the proper implementation of the national anti-corruption strategy, the High Authority on Corruption has a broad anti-corruption mandate including the promotion of good governance throughout the public administration and investigating of corruption. It has also full budgetary independence from the Executive. Senior officials of the High Authority are appointed by Ministerial Decree, with a specific commission, under the authority of the Prime Minister and with civil society representation, charged with advertising positions and assessing applications. Senior officials serving at the Authority are required to have relevant expertise as well as good moral character to be appointed. All appointees are required to affirm that they will act impartially in the discharge of their functions.

➢ The Transparency Commission, on the other hand, is in charge of ensuring broad public access to information in respect of the state's financial affairs. The Commission was established by the 2017 Transparency Law as part of the CEMAC regional efforts to increase fiscal transparency.

Financial sector policies

28. ***Could staff comment on any development regarding the opening of new correspondent banking relationships?***

- The Congolese authorities and CEMAC monetary authorities have not indicated to Staff any recent development in the area of correspondent banking relationship. Staff will remain in close dialogue with the authorities on this topic and will ask for updates during the next mission.