LAPSE OF TIME

EBS/20/201

December 23, 2020

To: Members of the Executive Board

From: The Secretary

Subject: **Republic of Congo—Request for an Extension of the Arrangement Under the Extended Credit Facility**

Board Action:	Executive Directors' **consideration** on a lapse of time basis
Deadline to Request Board Meeting:	**Friday, January 8, 2021** **12:00 (noon)**
Proposed Decision:	Page 5
Publication:	Yes*
Questions:	Mr. Toujas-Bernate, AFR (ext. 36936) Mr. Baldini, AFR (ext. 38772) Mr. Sulemane, AFR. (ext. 38099)

***The authorities have indicated that they consent to the Fund's publication of this paper.**

INTERNATIONAL MONETARY FUND

REPUBLIC OF CONGO

December 23, 2020

REQUEST FOR AN EXTENSION OF THE ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY

Approved By
Vitaliy Kramarenko (AFR) and Gavin Gray (SPR)

Prepared by the African Department (In consultation with other departments)

1. **In the attached letter, the Congolese authorities request an extension of the date on which the three-year arrangement under the Extended Credit Facility (ECF) will terminate to April 10, 2021.** The arrangement in an amount of SDR 324 million (200 percent of quota) was approved on July 11, 2019. The ECF arrangement is however set to expire automatically on January 10, 2021, since no program review under the arrangement would have been completed during the 18 months period since the arrangement was approved by the Executive Board.[1]

2. **The Republic of Congo is facing a serious economic crisis associated with the COVID-19 pandemic and the decline in oil prices.** These elements are putting the economy under considerable stress. The authorities were extremely quick in imposing lockdowns across the country to reduce the spread of the pandemic and implemented mitigating economic measures to support affected businesses and the most vulnerable groups of the population. Nevertheless, these measures severely hampered trade and services, which were compounded by low investors' confidence and delays in the repayment of government domestic arrears. Oil production also declined due to the temporary impact of the pandemic on oil field operations and the time needed to transfer the operations of some oil fields between two major companies. As a result, the economy is projected to remain in deep recession in 2020 and would not rebound before 2022. Moreover, with the significant decline in oil prices, the fiscal and external positions have weakened, creating significant additional financing needs in 2020 and 2021.

[1]The automatic termination of an ECF arrangement due to the non-completion of a review for a period of 18 months is subject to the provisions under the Poverty Reduction and Growth Trust (the "PRG Trust") including in particular Section II, paragraph 1(b)(4) of the PRG Trust instrument annexed to Decision No. 8759-(87/176) ESAF, as amended. Pursuant to this section, the Executive Board, as Trustee, may decide, at the authorities' request, to delay the automatic termination of the arrangement by up to three months in cases where the reaching of understandings between the authorities and the Trustee on targets and measures to put the ECF-supported program back on track within the term of the arrangement, appears imminent. In such cases, the ECF arrangement will automatically terminate at the end of the extended period unless a program review under the arrangement is completed within this period.

3. **The first review under the ECF arrangement could not be concluded around end-2019 as planned as the authorities needed more time to conclude the debt restructuring process of commercial debt (mainly involving oil traders) and to clear official external arrears.** The authorities remain committed to completing the debt restructuring process for external commercial debt in line with program parameters. Negotiations to conclude a debt restructuring agreement consistent with the objective of restoring debt sustainability were further delayed with the outbreak of the COVID-19 pandemic but intensified in recent months and the staff and authorities are confident that an agreement can be achieved in 2021Q1.

4. Regarding the clearing of official external arrears, postponements in budget support disbursements have delayed full payment of external official arrears, but all official arrears not covered by the DSSI and its extension would be paid by the time of the first review.

5. **Program performance has been mixed:**

- End-June 2019 performance criteria (PCs) on the basic non-oil primary balance and the absence of non-concessional financing and new external financing guaranteed with future natural resource revenues were met. However, the PC on net domestic financing to the central government (adjusted for deviations in net external assistance and oil revenues) was missed due to insufficient use of unanticipated net external assistance and oil revenues to repay domestic debt and the continuous PC on non-accumulation of external official arrears was also missed. The authorities are expected to request waivers for the missed PCs to be supported by corrective actions, including ways to prevent the reoccurrence of external official arrears. Indicative targets (ITs) on non-oil revenue and on new concessional external public debt were met, while ITs on poverty reducing social spending and disbursements of external loans for investment projects were missed.

- Progress in structural reforms has been slow and the pandemic has resulted in further delays. None of the eight structural benchmarks (covering September 2019-March 2020) were met. However, three of them critical to improving governance and transparency were implemented with delay—namely, the successful adoption of implementing decrees of the laws establishing the Anti-Corruption Commission and the Transparency Commission and sharing with BEAC exemptions from foreign exchange regulations for oil operators. Progress has also been made toward submitting to Parliament an amendment aligning the existing anti-corruption law with the United Nations Convention Against Corruption (UNCAC) and on the audit of domestic arrears (including budget exercises of 2017 and 2018 and all arrears of the General Direction of Public Works). The remaining structural benchmarks are also advancing but pandemic-related measures (containment and prioritization of crisis-related policies) and subsequent resource and capacity constraints are weighing on their progress. Regarding the expansion of the social cash transfer program, the authorities focused their efforts to provide one-off cash transfers to mitigate the economic impact of the pandemic.

6. **Other factors related to provision of data and governance also contributed to challenges faced by the ECF:**

- The unrealistic supplementary budget was approved in May 2020 seeking to accommodate some emergency Covid-19 expenditure, but also expanding other unrelated spending programs;

- In 2019, the authorities spent over twice the amount authorized by Parliament and agreed with staff in oil-related transfers and subsidies to state owned refinery CORAF. The spending crowded out priority social spending that remained well below program objectives;

- The authorities kept accumulating sizable deposits at China escrow account (part of the 2019 debt restructuring agreement) instead of repatriating them in line with program commitments. Transparency around the use and operation of the account was also lacking.

7. **Staff held discussions with the authorities in recent months which highlighted some progress despite the impact of the pandemic and some outstanding issues:**

- The authorities' collaboration and data provision have significantly improved since June 2020. A monthly fiscal reporting table has been shared regularly, and the reconciliation of the 2019 fiscal accounts with financing items has been broadly completed.

- The authorities provided clarifications and documents about mechanisms operationalizing the 2019 debt restructuring agreement with China, including the use and operation of the escrow account. They also committed to repatriate excess deposits from this account by the end of 2021.

- The authorities submitted to Parliament a revised 2020 budget law and a draft 2021 budget law. These documents reaffirm the objective of achieving fiscal consolidation to reduce debt ratios and reaching a moderate level of debt distress in the medium term while addressing the impact of the current crisis. These budget laws rightly target imminent healthcare needs for saving lives, protecting the most vulnerable, and supporting the private sector, notably small businesses, while containing non-priority spending.

- The authorities have implemented an oil purchase agreement with the refinery CORAF since May 2020, which has reduced budget transfers to CORAF, a major source of fiscal slippage in 2019.

- Progress in the audit of domestic arrears was delayed due to the pandemic, but a preliminary report was prepared in November 2020 and the audit report is now expected to be finalized in early 2021. The authorities have also reached an agreement with domestic banks to finance a large initial repayment of domestic arrears.

- The authorities renewed their commitment to strengthen transparency and good governance. To strengthen public financial management, the authorities indicated that the organic law for the Court of Auditors and Budgetary Discipline (CABD) could be adopted soon. They also plan to submit to Parliament in early 2021 a revised anti-corruption law, which would reflect best international practice.

- The authorities intensified their efforts on the restructuring process for external commercial debt. The authorities concluded a restructuring agreement with one commercial creditor earlier in 2020 and are confident that agreements in principle (AIP) could be concluded soon with the two largest commercial creditors in line with the objective of restoring debt sustainability; the authorities continue efforts to restructure the remaining debt in the perimeter of their restructuring plan and expect to reach AIPs with all other commercial creditors in 2021Q1. These efforts, in staff's view, would help reach an agreement on debt restructuring with all external commercial creditors by the time of the first review.

8. **The proposed three-month delay in the automatic termination of the ECF arrangement would enable conclusion of the discussions for the review.** Further discussions are needed in some areas, including the issues described above and the authorities' capacity to implement a UCT-quality program is expected to improve sufficiently during this period. The requested extension would provide the time needed to reach staff-level agreement in these areas and complete the preparation of program documentation.

9. **Staff supports the authorities' request for a three-month extension in the automatic termination of the ECF arrangement to April 10, 2021 as an understanding between the authorities and staff on targets and measures to put the ECF-supported program back on track appears imminent.** The attached decision is proposed for adoption by the Executive Board on a lapse-of-time basis.

Proposed Decision

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

1. In a letter dated December 22, 2020 from the Prime Minister, Congo has requested that the automatic termination of the arrangement for Congo under the Extended Credit Facility (EBS/19/64) (the "ECF Arrangement"), set to take place at the end of January 10, 2021, be delayed for a period of three-months which will allow enough time to reach understandings on policies that enable completion of the first review under the ECF Arrangement.

2. The Executive Board decides, in accordance with Section II, paragraph 1(b)(4) of the PRG Trust, to delay the automatic termination of the ECF Arrangement through the end of April 10, 2021. Accordingly, the ECF Arrangement will automatically terminate at the end of this date if no review under the arrangement is completed within this period.

Appendix I. Letter of Intent

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, D.C., 20431
United States of America

December 22, 2020

Subject: Extension of the Three-Year ECF Arrangement 2019–22

Dear Managing Director,

On July 11, 2019, the IMF's Executive Board approved an arrangement for the Republic of Congo under the Extended Credit Facility (ECF). The ECF arrangement is due to automatically expire on January 10, 2021 because of delays in concluding the first review under the ECF arrangement. These delays are associated with insufficient progress on the debt restructuring process for the external commercial debt and the government's intense focus on addressing the urgencies linked to the COVID-19 pandemic.

In recent months, we were able to clarify a number of issues raised by IMF staff regarding developments in 2019, including the operationalization of the debt restructuring agreement with China and oil-related transfers. We submitted to Parliament a revised 2020 budget law and a 2021 budget law which reaffirm the objectives of fiscal consolidation to restore debt sustainability while addressing the impact of the COVID-19 pandemic. We have also implemented measures to reduce budget transfers to the refinery CORAF, to strengthen transparency and governance of public finance management, and started repaying domestic arrears. Moreover, we have intensified our efforts on the restructuring process for external commercial debt.

In view of the automatic expiration of the ECF arrangement on January 10, 2021, we hereby request a delay in the automatic termination of the Extended Credit Facility (ECF) Arrangement through April 10, 2021. The additional three-month will provide enough time to reach understandings on renewed policies to enable the completion of the first review under the current ECF arrangement. We look forward to addressing the following topics during this additional period: the restructuring process for the external commercial debt, non-oil revenue mobilization, boosting social spending, reducing government arrears and strengthening governance and transparency.

We remain fully committed to implementing our Fund-supported economic program and will continue to consult with the IMF in accordance with the relevant IMF policies. We also consent to the publication of this letter and the accompanying staff report.

Sincerely yours,

/s/

Clément Mouamba
Prime Minister