

## **Democratic Republic of the Congo: Selected Issues and Statistical Appendix**

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INTERNATIONAL MONETARY FUND  
THE DEMOCRATIC REPUBLIC OF THE CONGO

**Selected Issues and Statistical Appendix**

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Approved by the African Department

August 21, 2007

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**DEMOCRATIC REPUBLIC OF THE CONGO**  
**BASIC DATA, 2001–06**

Area	2,344,860 square kilometers
Population	
Total, CGF millions (2006 estimate)	59.3
Annual growth rate	3.04
GDP per capita, CGF (2006 estimate)	70,289

	2001	2002	2003	2004	2005	2006 Est.
(Annual percentage change, unless otherwise indicated)						
Output and prices						
Real GDP	-2.1	3.5	5.7	6.6	6.5	5.1
Nominal GDP (CGF Billions)	1,407	1,967	2,351	2,692	3,486	4,168
GDP deflator (2000=100)	484	654	739	793	965	1,097
Consumer prices, annual average	357.3	25.3	12.9	4.0	21.4	13.2
Consumer prices, end of period	135.1	15.0	4.4	9.2	21.3	18.2
(CGF Millions, unless otherwise indicated)						
Central government finance						
Revenue (excluding grants)	91,276	152,193	176,817	248,003	388,956	528,698
Grants (excluding humanitarian aid)	0	7,447	46,506	51,354	175,942	328,131
Expenditure	115,147	198,406	319,634	405,772	670,512	883,936
Primary balance (commitment basis)	-4,339	22,391	-9,870	-12,768	19,394	4,515
Overall balance (commitment basis)	-23,871	-38,765	-96,311	-106,415	-105,614	-27,106
Overall balance (cash basis)	...	-46,772	-110,565	-115,441	-323,557	-32,614
Overall balance (commitment basis, percent of GDP)	-1.7	-2.0	-4.1	-4.0	-3.0	-0.7
Money and credit						
Net domestic credit	23,426	16,360	49,204	68,834	148,033	245,406
Net credit to government	12,242	2,328	29,582	27,212	84,567	132,088
Credit to the private sector	10,789	13,205	19,393	39,823	63,021	111,147
Credit to parastatals	395	827	228	1,799	444	2,171
Broad money	69,686	94,089	124,503	215,270	267,292	428,794
Central bank interest rate (percent)	140	24	8	14	15	16
(Changes in percent of beginning-of-period broad money, unless otherwise indicated)						
Net domestic credit	30.7	-10.1	34.9	15.8	36.8	36.4
Net credit to government	-6.8	-14.2	29.0	-1.9	26.6	17.8
Credit to the private sector	37.5	3.5	6.6	16.4	10.8	18.0
Credit to parastatals	-0.1	0.6	-0.6	1.3	-0.6	0.6
Broad money	216.7	35.0	32.3	72.9	24.2	60.4
(US\$ Millions, unless otherwise indicated)						
External sector						
Current account, including transfers	-252	-90	56	-157	-755	-644
Merchandise trade	74	45	117	60	-402	-421
Exports, f.o.b.	880	1,076	1,340	1,813	2,071	2,319
Imports, f.o.b.	-807	-1,031	-1,223	-1,753	-2,473	-2,740
Capital account	-315	0	-4	-5	-91	82
Overall balance	-709	-161	-452	-257	-368	-431
Gross official reserves	22	75	98	236	131	155
Gross official reserves (in weeks of non-aid-related imports)	1.1	3.2	2.8	5.4	2.7	3.0

## Democratic Republic of the Congo: Basic Data, 2001–06 (concluded)

	2001	2002	2003	2004	2005	2006 Est.
(Annual percentage changes; '-' = depreciation)						
Exchange rates						
CGF/USD, average	273	347	405	398	474	468
USD/CGF, end of period	0.003	0.003	0.003	0.002	0.002	0.002
Exchange rate (USD/CGF, end of period)	-54.7	-18.5	2.6	-16.1	-6.4	1.3
Nominal effective exchange rate <sup>1</sup>	-84.1	-70.9	-21.7	-12.0	-17.6	1.3
Real effective exchange rate <sup>1</sup>	-10.3	-52.9	-13.5	-5.1	-2.1	11.6
(US\$ Millions, unless otherwise indicated)						
External public debt						
Total, including IMF	12,457	10,709	10,775	10,542	10,000	10,519
<i>Of which:</i> multilateral institutions	2,754	3,567	3,625	3,925	4,090	4,214
official bilateral creditors	9,386	6,789	6,558	6,499	5,410	5,658
Scheduled debt service (Percent of exports of goods and services)	76	47	30	21	14	18
(Percent, unless otherwise indicated)						
Social indicators <sup>2</sup>						
Life expectancy at birth (years)	46	45	42	...	44	...
Infant mortality rate (per 1,000 live births)	128	129	129	...	129	...
Gross primary school enrollment rate (1998–2002)						
Male	...	69	52	51	...	...
Female	...	54	47	46	...	...
Literacy rate (adult, total) <sup>3</sup>	...	...	...	...	...	...
Immunization rate (percent between 12–23 months)						
Measles	37	45	54	64	70	...
Diphtheria	32	43	49	64	73	...
Child malnutrition (percent under 5 years)	31	...	...	...	...	...

Sources: Congolese authorities; World Bank; UNICEF; and IMF staff estimates.

<sup>1</sup> Annual averages. Minus sign indicates depreciation.

<sup>2</sup> Data for 2003 from UNICEF. Data prior to 2003 from World Bank.

<sup>3</sup> UNICEF.

## I. ASSESSMENT OF ECONOMIC DEVELOPMENT AND FUND INVOLVEMENT (2000–06)<sup>1</sup>

### A. Introduction

1. **In the early 2000s the economy of the Democratic Republic of Congo (DRC) was derelict after many years of mismanagement and poor governance, prolonged financial isolation, and a devastating civil war.** The human toll of the conflict was staggering, with an estimated 3 million dead. A large part of DRC territory was under the control of foreign-backed rebel groups and the economy was trapped in a vicious cycle of hyperinflation, currency depreciation, increasing dollarization, financial disintermediation, lack of saving, falling output, and general impoverishment of the population.
2. **Over the last five years the international community has supported reunification of the country and organization of the first democratic presidential and congressional elections.** A power-sharing agreement was signed in 2002 and a transition government of national unity formed in June 2003 was charged with holding elections within two years. After extending the transition period by one year, the first democratic elections were successfully completed by the end of 2006. The new coalition government took office in late February 2007 after it was confirmed by the newly elected National Assembly.
3. **The Fund's postconflict engagement in the DRC has encompassed three phases.** First, the Fund and the DRC ended many years of noncooperation by agreeing on a nine-month staff-monitored program (SMP).<sup>2</sup> This laid the groundwork for deeper IMF involvement with the approval in July 2002 of a comprehensive program supported by PRGF arrangement. During this second phase, implementation of the program allowed the DRC to reach the decision point for the enhanced HIPC Initiative in 2003. The DRC, however, was unable to obtain full HIPC debt relief because large expenditure slippages in the run-up to the elections prevented completion of the last review of the arrangement before it expired in March 2006. In the third phase, starting in late 2005, Fund staff have helped the authorities design and monitor two SMPs. The intent was to strengthen implementation of economic policy and make it possible to draw up a credible medium-term program deserving of new PRGF financial support. Completion of the first review of such an arrangement would pave the way for the DRC to reach the HIPC completion point and receive full debt relief under the enhanced HIPC and the MDRI.

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<sup>1</sup> Prepared by Alain Feler.

<sup>2</sup> The option of the IMF providing initial financial support through an EPCA was precluded by the fact that the DRC had been in continuous arrears with the Fund since 1990. These arrears were cleared through a bridge loan before a PRGF arrangement was approved in July 2002.

4. The present note describes the three phases of Fund engagement in the DRC with a view to drawing lessons that could prove useful in identifying objectives and policies for a medium-term program that could be supported through a successor PRGF arrangement.

## **B. The Program for June 2001–March 2002**

### **Objectives and policies**

5. **Discussions on an economic program started in 2000 as the international community was making renewed efforts to resolve the conflict in the DRC and the related humanitarian and political crises.** The government and the international community felt that lasting peace would be possible only if the political and security processes were accompanied by rapid stabilization of the economy. It was hoped that overcoming hyperinflation, returning to normal budgets, and resuming growth would help strengthen the political consensus to work toward peace and reunification and address economic governance issues. The SMP for June 2001–March 2002 took into account the DRC's particularly difficult sociopolitical circumstances, including the fact that half of its territory was still controlled by rebel groups. This constraint demanded an appropriate level of security expenditure. The SMP also considered it important to allow public salaries to recover part of the erosion caused by years of hyperinflation. It was also recognized that the very low foreign reserves meant that debt service could not be paid in the short term, and arrears on external debt would have to continue to accumulate.

6. **The SMP goals were to quickly break hyperinflation, stabilize the economy, and lay the foundations for reconstruction.** The main quantitative objectives for 2001 were to:

- halt the decline in real GDP that had occurred in each of the previous five years;
- sharply reduce the inflation rate to below 100 percent (compared to 511 percent in 2000); and
- maintain gross official reserves at a level equivalent to 2.4 weeks of imports of goods and services.

To ensure rapid rebuilding of the institutions responsible for managing the economy, the IMF conducted a mission to assess technical assistance (TA) needs and prepare a medium-term TA program. The World Bank also supported the program with a US\$50 million pre-arrears-clearance grant for projects with rapid social and economic impact; other donors provided humanitarian aid.

7. **Macroeconomic policies were therefore anchored on restrained fiscal and monetary policies, adoption of a floating exchange rate regime, restoration of basic budget procedures, and removal of the main price distortions.** Fiscal policy was centered on strict adherence to a monthly plan to cut the treasury cash deficit from 3.9 percent of GDP in 2000 to near balance in 2001 so that the government need not have recourse to bank financing. New statutes were to be adopted for the Central Bank because its independence

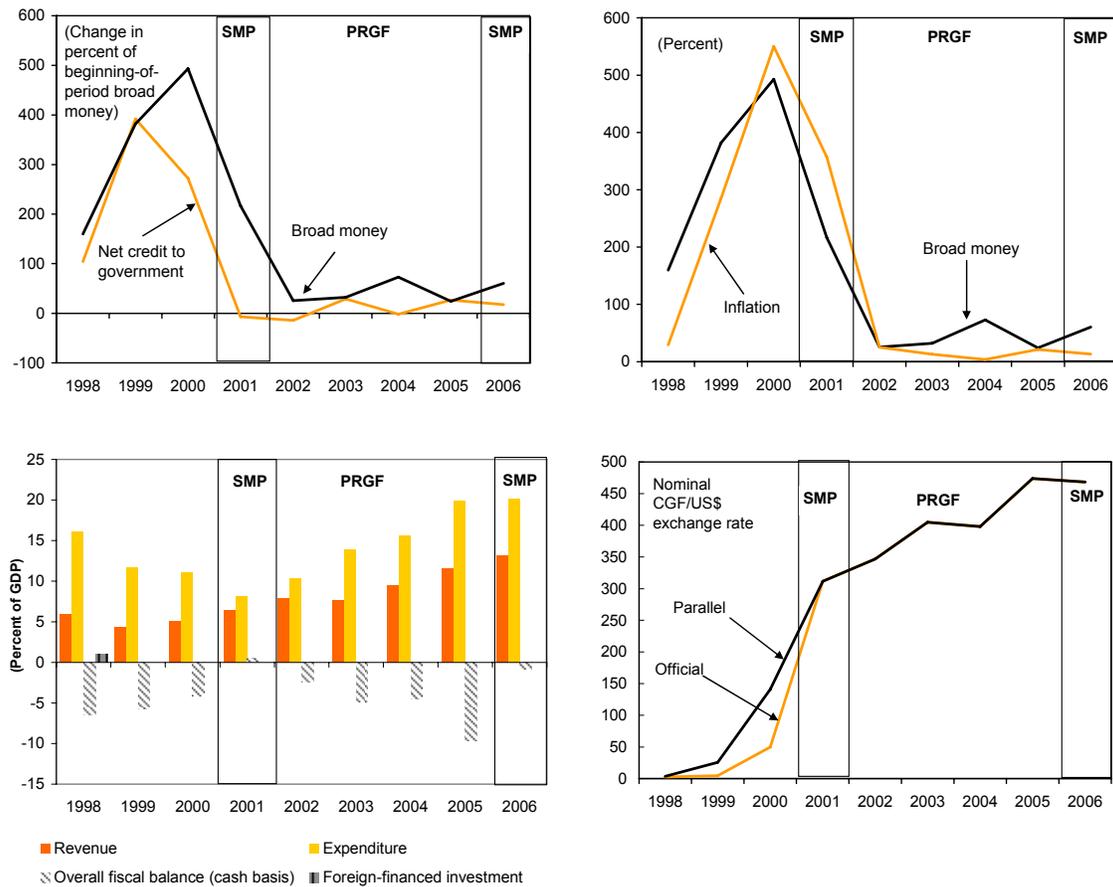
was essential to support a prudent monetary policy within a flexible exchange rate system. In the structural area, where the World Bank took the lead, reforms were directed to strengthening the banking system and improving economic security and governance, notably by setting minimum transparency rules for key sectors; and the diamond export monopoly was removed in 2001. The World Bank also facilitated reform of public enterprises by emphasizing audits and building domestic consensus on privatization and other reforms.

### **Performance on the program**

8. **The SMP quickly strengthened macroeconomic stability in 2001** (Figure I.1). Public finances were significantly strengthened by improved budgetary procedures; revenue and expenditure were centralized, and extrabudgetary channels reduced. For the first time in years, Parliament approved the budget. More important, the government strictly observed its monthly cash flow plan, thus ending monetization of the budget deficit, which had fueled the vicious circle of hyperinflation and currency depreciation in the past. With monetary policy effectively tightened, inflation fell sharply in the second half of 2001. With this the exchange rate was stabilized under the new floating exchange rate regime, and the difference between the official and the market exchange rate markedly narrowed. In addition, in 2001 the external current account was much better than expected; by year-end gross external reserves had increased to 4.7 weeks of imports, double the targeted minimum. While real GDP continued to fall instead of stabilizing as expected, some signs of recovery began to appear in the second half of the year.

9. **During the 2001–02 SMP prompt and far-reaching structural measures brought significant improvement in the business environment.** All prices were liberalized except those for certain public utilities, though these were raised substantially to reflect changes in costs. The prices of petroleum products were increased by about 300 percent, to international levels, which eliminated not only heavy subsidies but also smuggling to neighboring countries. Together these measures significantly improved product delivery and transportation as a whole. Meanwhile, a new investment code and a law creating commercial courts were published and substantial progress was achieved in preparing for adoption of a new mining code. Administrative capacity was buttressed with the help of TA from the Fund, the World Bank, and other development partners. This made it possible to draw a clear road map for coordinated and targeted TA during the following PRGF arrangement.

Figure I.1. Democratic Republic of the Congo: Selected Fiscal and Monetary Developments, 1998–2006



Sources: Congolese authorities; and IMF staff estimates.

### C. The PRGF-Supported Program

#### Objectives and policies

10. **Building on the success of the SMP, the PRGF-supported program aimed at entrenching macroeconomic stability and reviving economic growth so as to start reducing endemic poverty.** Given the DRC's dire starting conditions, the interim PRSP had stressed that it would not be feasible to achieve the Millennium Development Goal (MDG) of reducing poverty by half by 2015. Thus the PRGF-supported program defined realistic, though ambitious, macroeconomic targets for 2005, including (i) average real GDP growth rate of about 5 percent; (ii) a reduction of the annual inflation rate to 5 percent by year-end; and (iii) an increase in gross international reserves to US\$320 million, close to 10 weeks of nonaid imports of goods and services.

11. **Another major goal was to begin normalizing the DRC's relations with its external creditors, including the Fund.** As of March 2002 the DRC had accumulated about US\$2 billion of arrears with international financial institutions (IFIs), including US\$503 million with the Fund. To make it possible to approve the PRGF arrangement, arrears with the Fund and the World Bank were cleared through two bridge loans; arrears with other IFIs were consolidated, except for the arrears to the African Development Bank (AfDB), which were in part repaid by donors. In addition, the DRC had accumulated more than US\$8.5 billion of arrears with bilateral creditors, including more than US\$7.8 billion to countries participating in the Paris Club.

12. **Medium-term projections showed that the country would need more favorable debt relief than under Naples terms** (67 percent reduction of debt in net present value (NPV) terms). In fact, flow rescheduling on Naples terms was concluded with Paris Club creditors in September 2002, and then topped up to Cologne terms (80 percent reduction in NPV terms) in 2003 when the DRC reached the decision point under the enhanced HIPC initiative. At the time it was hoped that DRC could reach the HIPC completion point shortly after the end of the PRGF arrangement.

13. **As in many other postconflict cases, the revival of the economy was predicated on a number of assumptions:**

- First, the signing of a comprehensive peace agreement in December 2002 followed by formation of an inclusive transitional government would stabilize security and the political situation and allow for gradual reunification of the country.
- Second, strong security, political, technical, and financial support from the international community would allow the rebuilding of institutions.
- Third, removal of major economic distortions and profound changes in regulation were expected to boost real GDP growth by improving resource allocation and supporting better functioning of production and trade activities.
- Fourth, the passing of laws regulating telecommunication, forestry, and mining sectors, and restructuring of these sectors, were expected to boost growth.
- Fifth, substantial increased investment in infrastructure, especially for key road connections and improved navigability of the Congo River, was to help relieve major supply bottlenecks, leading to broad-based economic expansion partly financed through direct foreign investment.

14. **Achievement of the PRGF-supported program's objectives would have to be based on sound financial policies.** Building on the progress toward stabilizing the economy that was achieved under the SMP, programmed financial policies were anchored in continued improvements in public expenditure management, sustained determination to mobilize revenue, and a shift in the composition of expenditure toward the social sectors, which was

monitored with quantitative targets. Strict adherence to monthly cash-flow plans continued to be essential to avoid recourse to bank financing that could undermine the ability of the Central Bank of Congo (BCC) to conduct the prudent monetary policy necessary to keep prices stable within a floating exchange rate system.

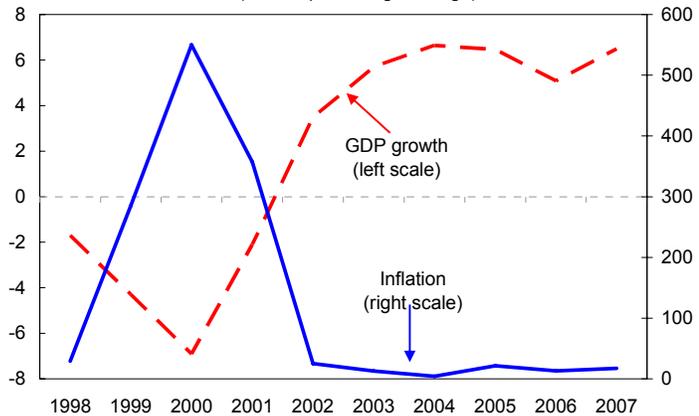
### Performance under the PRGF-supported program

#### 15. Macroeconomic performance improved markedly in the first three years of the PRGF-supported program, allowing completion of the first five reviews (Figures I.2 and I.3).

Economic activity started to recover in 2002 and real GDP growth averaged more than 5 percent a year during 2002-04. Fiscal revenue increased from 6.5 percent of GDP in 2001 to 9.5 percent in 2004. The higher revenue, combined with a renewal of the DRC's access to external financing, allowed the

government to increase its spending, including for investment, while avoiding bank financing of the budget. This supported by prudent monetary policy, brought inflation down impressively, to 4 percent in 2004. The BCC also increased its ability to deal with external shocks by building its international reserves to US\$236 million, or 5.2 weeks of imports, by the end of 2004.

Figure I.2. Democratic Republic of the Congo: GDP Growth and Inflation, 1998–2007  
(Annual percentage change)

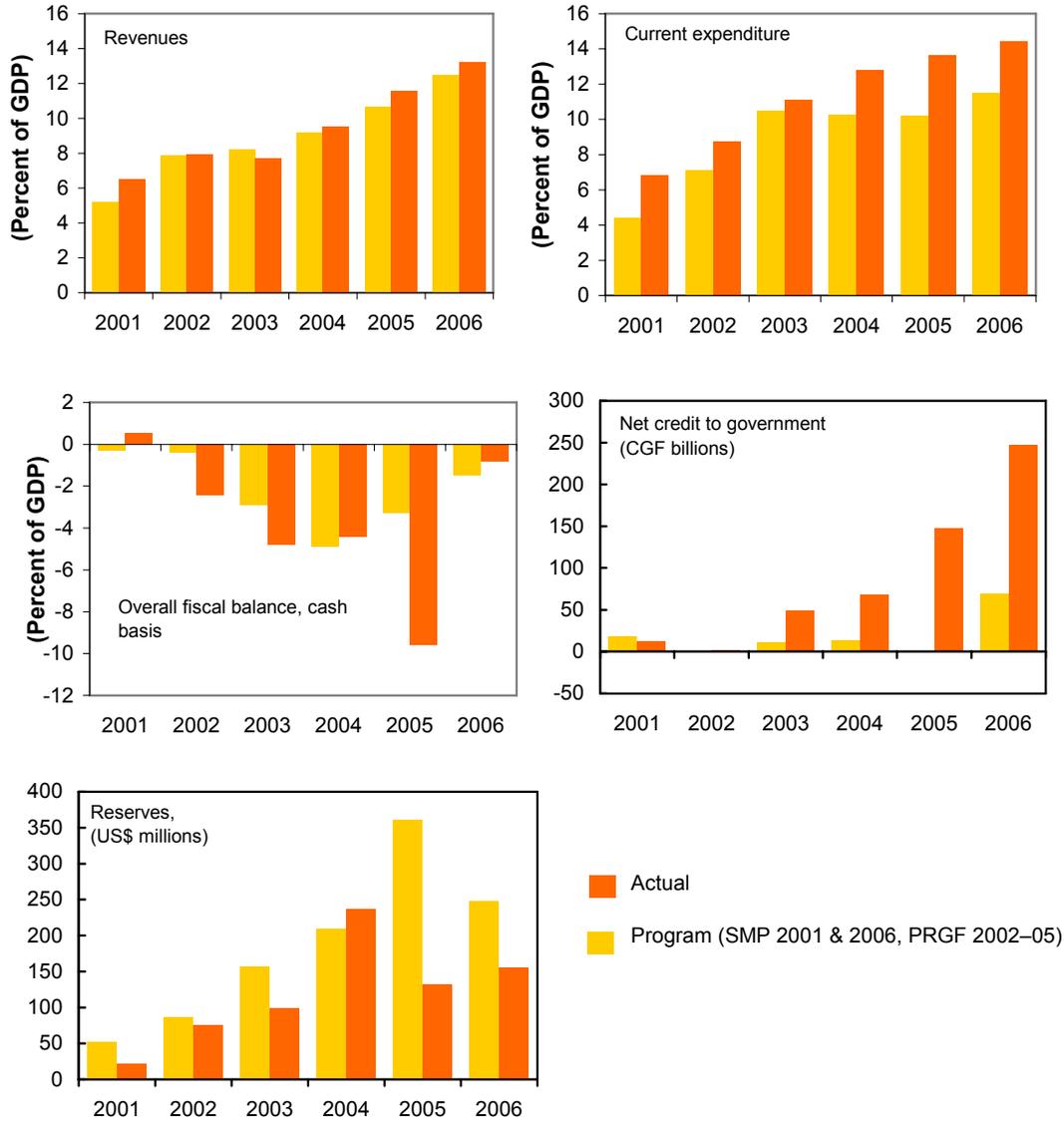


Sources: Congolese authorities; and IMF staff estimates.

16. **But macroeconomic policy implementation started to weaken in 2005, as the authorities shifted their focus to the election.** As a result, the last program review could not be completed, even after the PRGF arrangement was extended until March 2006. The circumvention of mechanisms to limit public expenditure to budget appropriations led to overruns in current spending in 2005. The resulting increase in bank financing of the budget rekindled inflation, which rose to 21.4 percent in 2005, while the Congo franc depreciated by close to 20 percent (annual average) and international reserves fell to US\$131 million, 2.6 weeks of imports. However, real GDP growth held steady at 6.5 percent, sustained by a continued recovery in private sector activity.

17. **Notable progress on structural reforms was made during the first three years of the program.** Expenditure commitment and control procedures were streamlined and tightened. On the revenue side, administrative capacity to collect revenue was rebuilt and data collection and information management systems improved. A new large taxpayers' unit was established, monitoring of exemptions was enhanced, and customs procedures were

Figure I.3. Democratic Republic of the Congo: Developments during PRGF and SMP, 2002–06



Sources: Congolese authorities; and IMF staff estimates.

simplified. The BCC started to implement an action plan to strengthen accounting and better manage international reserves, internal audit procedures, and supervision of the banking system. In late 2002 the BCC also introduced central bank bills to absorb excess liquidity in the banking system. Six private and three public banks were liquidated, and the BCC approved restructuring plans for other banks. In addition, all public enterprises were audited, and restructuring plans for the most important ones prepared. Government arrears with the domestic private sector (US\$840 million) were also audited.

18. **Measures were also taken to improve governance, although the remaining agenda is large.** A law on combating money laundering and the financing of terrorism and a law on anti-corruption were passed. A new forestry code consistent with long-term sustainability was adopted in 2002, and a large number of concessions were annulled. The code rationalizes taxation in the sector and introduces transparent market-based mechanisms to encourage high-value industrialization. A new mining code consistent with international best practices was adopted in 2002. The operations of the new Mining Registry (*cadastre minier*) were partly brought in line with the mining code. However, corruption remains a major issue in the management of public resources, especially natural resources.

19. **From 2005 onward, the implementation of structural reforms also slowed.** While a census of public employees was conducted in 2005, efforts to contain the size of the civil service and remove “ghost workers” from the public payroll yielded limited results, making it hard for the government to control its wage bill. Also, because many government agencies wanted to continue collecting fees, the decrees designating the customs office as the sole agency to operate the one-stop window for import valuation at DRC’s main port was only partially implemented. The pace of reform in the mining sector, forestry, and public enterprises was not sustained, and the BCC made little further progress in strengthening its operations and reducing its large structural deficit.

20. **On social policies, under the PRGF-program progress was significant, though incomplete.** The government adopted the Poverty Reduction Strategy Paper (PRSP) in July 2006. The PRSP provides a sobering poverty diagnosis: more than 70 percent of the population lives below the poverty line. The document outlines medium-term policies and measures to deal with issues identified after broad consultation in each province. The drafting of detailed medium-term strategies for education and health, prepared with the assistance of the World Bank and other donors, is well advanced. Domestic budget appropriations for education and health were increased from 2.0 percent of GDP in 2003 to 3.8 percent in 2006, financed largely with resources made available by interim assistance under the enhanced HIPC Initiative. However, actual spending fell short, mainly because of spending overruns for the elections, security, and political institutions (mainly the presidency, vice presidencies, and parliament).

21. **Although poverty is still very high, anecdotal evidence suggests that improved security and sustained growth are helping to improve living standards.** The pay of public employees has risen much faster than inflation; total wages rose from 1.7 percent of GDP in 2002 to 5 percent in 2006. The end of armed conflicts in most of the country also allowed the rural population to increase food production. Sustained growth, the liberalization of the economy, and improvement in transportation, especially on the Congo River, has led to a much greater supply of consumer goods and a decline in some prices. Nevertheless, progress toward the MDGs has been slow and income inequality is very high (the GINI index is estimated at 40 percent).

#### **D. Macroeconomic Policy and Structural Reforms Since 2006**

22. **When the PRGF arrangement expired after the last review could not be completed, the government agreed to implement a program for April–December 2006 to be monitored by Fund staff.** The main purpose was to offer the authorities a policy framework to keep the economy stable during the electoral period and finish implementing delayed structural reforms.

23. **However, political and security tension during the election period made it difficult for the government to implement tight macroeconomic policies.** As large public spending overruns, primarily for security and campaign-related activities, continued to be monetized, the Congo franc depreciated by 15 percent against the US dollar, 12-month inflation rose to 18.2 percent (the target was 9.5 percent), and gross international reserves stood at US\$150 million by the end of the year, far below the US\$250 million target. In the second half of 2006 the government also did not service nonreschedulable debt to official bilateral creditors amounting to US\$58 million. Meanwhile, real GDP growth slowed to 5.1 percent, owing to stagnating output in mining and manufacturing.

24. **In view of the rapidly deteriorating macroeconomic situation, the government formed after the elections agreed on an economic program for April–December 2007 soon after taking office in February 2007.** The program, which is monitored by Fund staff, offers the authorities an opportunity to demonstrate their commitment to macroeconomic stability and structural reform, and time to draw up a credible medium-term program that could be supported by the Fund through a successor PRGF arrangement. This objective requires better management of public finance to avoid government recourse to bank financing that inevitably translates into exchange rate and inflationary pressures. It is also essential that the authorities implement the structural reforms left pending from the last review of the PRGF arrangement and move to improve governance in the mining sector.

25. **It appears that the new government has tightened fiscal policy.** Strong revenue collection and lower than anticipated public spending reduced net bank credit to the government in the second quarter of 2007. This brought about declines in base money and commercial bank excess reserves, a 12 percent appreciation of the Congo franc, a decline in inflation to 12 percent, and some rebuilding of international reserves. However, the 2007 budget approved by Parliament and promulgated by the President calls for a very large and unrealistic increase in government revenue and concomitant higher spending, especially on wages. Execution of budgeted spending would likely yield a wide fiscal deficit, expand the monetary base, and push up inflation.

#### **E. Program Conditionality and Compliance**

26. **Quantitative conditionality under the PRGF-supported program was primarily designed to curb inflationary pressures by avoiding monetization of fiscal deficits.** Ceilings were set on net BCC domestic assets (NDA) and net bank credit to the government

(NCG), and a floor on net BCC net foreign assets. Sub-ceilings were set for some categories of public expenditure; the DRC government was also not to accumulate external arrears and contract or guarantee external debt on nonconcessional terms.

27. **Five of the six reviews of the PRGF arrangement were completed.** In each case, observance of some quantitative performance criteria was waived because deviations were sufficiently minor for the authorities to take corrective action and keep the program on track. About three-fourths of the quantitative performance criteria set for the first five program reviews were observed. However, larger slippages relative to the performance criterion on NCG for the end of September 2005 and to the indicative targets for the end of December 2005 on NCG, NDA, and NFA precluded completion of the last review before the arrangement expired in March 2006 (Table I.1).

28. **The PRGF-supported program had substantial structural conditionality, focused on core areas of the Fund's mandate** (Table I.2). Of the 42 structural measures set as conditions, 18 were to strengthen public finances, 10 to address weaknesses of the central bank and the financial system, and the rest to reform public enterprises and governance. Fiscal structural measures aimed at putting in place appropriate budget processes, building revenue, and improving the quality of public spending.

29. **Structural conditionality was particularly heavy at the beginning of the PRGF arrangement.** This is consistent with institutional weaknesses and the many deficiencies that greatly hampered economic policy-making after decades of mismanagement and civil conflict.

30. **The structural conditions were substantially met during the first three years of the PRGF arrangement** (Table I.3). More than 80 percent of the measures were implemented in the course of the PRGF arrangement, although half met with some delay. The slippages were found to be sufficiently limited or adequately remedied to allow for waivers. Compliance with structural conditionality, however, deteriorated markedly toward the end of the arrangement. During the final phase of the political transition, none of the four structural performance criteria for the sixth review and none of the structural indicators for the SMP were observed.

Table I.1. Democratic Republic of the Congo: Observance of Performance Criteria during PRGF Arrangement, 2002–06

	Total	Observed	Not observed	
			Waived	Not waived
1st review				
Quantitative Performance Criteria	9	8	1 <sup>1</sup>	0
Structural Performance Criteria	3	1	2 <sup>2</sup>	0
2nd review				
Quantitative Performance Criteria	9	5	4 <sup>3</sup>	0
Structural Performance Criteria	1	0	1 <sup>4</sup>	0
3rd review				
Quantitative Performance Criteria	11	8	3 <sup>5</sup>	0
Structural Performance Criteria	1	1	0	0
4th review				
Quantitative Performance Criteria	11	8	3 <sup>6</sup>	0
Structural Performance Criteria	1	1	0	0
5th review				
Quantitative Performance Criteria	11	8	3 <sup>7</sup>	0
Structural Performance Criteria	1	0	1 <sup>8</sup>	0
6th review				
Quantitative Performance Criteria	10	9	0	1 <sup>9</sup>
Structural Performance Criteria	4	0	0	4
Total PRGF				
Quantitative Performance Criteria	61	46	14	1
Structural Performance Criteria	11	3	4	4

Source: IMF documents.

<sup>1</sup> End-September 2002 Ceiling on BCC's NDA.

<sup>2</sup> Implemented with delay.

<sup>3</sup> End-March 2003 Floor on BCC's NFA, ceilings on BCC's NDA and NCG, and continuous PC prohibiting budgetary expenditure financed by the BCC without the prior authorization of the Ministry of Finance.

<sup>4</sup> New expenditure procedures established with delay.

<sup>5</sup> End-December 03 Floor on BCC's NFA and ceilings on BCC's NDA and NCG.

<sup>6</sup> End-March 04 Floor on BCC's NFA and ceilings on BCC's NDA and NCG.

<sup>7</sup> End-September 04 Floor on BCC's NFA and ceilings on BCC's NDA and NCG. End-December 04 indicators on BCC's NFA and on BCC's NDA and NCG were also missed.

<sup>8</sup> External audit of MIBA done with three month delay.

<sup>9</sup> End-September 2005 ceiling on NCG. End-December 2005 indicative targets for BCC's NFA and NDA, and NCG were also missed.

Table I.2. Democratic Republic of the Congo: Compliance with Structural Conditionality Under the PRGF Arrangement, 2002–06.

	Exp.	Done	Status
<b>PAs</b>			
1 Publish 2002 budget in compliance with the program targets	Jan-02	Jan-02	On time
2 Eliminate all wage payment arrears and compliance with indicators	Mar-02	Mar-02	On time
3 Adopt decree requiring that all budgetary disbursements be authorized by MinFin	Apr-02	Apr-02	On time
4 Publish new statutes enshrining BCC independence.	Apr-02	Apr-02	On time
5 Select int'l audit firm for financial audit of BCC	Apr-02	Apr-02	On time
6 Publish new mining code	Apr-02	Apr-02	On time
7 Create inter-ministerial committees to monitor PRGF and poverty reduction.			
<b>1st review</b>	Feb-03	Feb-03	
<b>PAs</b>			
1 Prepare 2003 budget, and agree with Fund staff on ...	Dec-02	Dec-02	On time
2 Audit by int'l firm au 5 end-Sep 02 QPCs	Dec-02	Dec-02	On time
3 Adjust petroleum product prices (by 18%)	Feb-03	Feb-03	On time
4 Open BIS account to deposit proceeds of IMF drawings		Done	On time
<b>SPCs</b>			
1 Completion of the financial audit of the Central Bank of the Congo (BCC).	Sep-02	Sep-02	On time
2 Preparation of a list of banks to be liquidated, privatized, or restructured, and placement into receivership of the NBK, BCA, and BCCE.	Sep-02	Jan-03	Waived
3 Publication of a Code of Ethics and Good Conduct applicable to the civil service.	Sep-02	Oct-02	Waived
<b>SPIs</b>			
1 Preparation of global strategy and action plan for fight against corruption	Sep-02	Feb-03	
2 Formulation of strategy for restructuring of GECAMINES	Sep-02	Sep-02	On time
3 Draft action plan taking into account of BCC's financial audit	Dec-02		
4 Completion of financial audit of COHYDRO.	Dec-02	Mar-03	No
<b>2nd review</b>	Jul-03	Jul-03	
<b>SPCs</b>			
1 Establish new expenditure procedures	Mar-03	Apr-03	Waived
<b>3rd review</b>	Feb-04	Feb-04	
<b>SPCs</b>			
1 Complete audits of five commercial banks.	Sep-03	Sep-03	On time
<b>SPIs</b>			
1 Prepare draft reunification and pro-poor budget for 2004.	Sep-03	Sep-03	On time
2 Prohibit Gvt guarantee of external debt contracted w/o MinFin approval.	Sep-03	Sep-03	On time
3 Eliminate identified "ghost workers" from the government payroll.	Sep-03	Sep-03	On time
4 Effective implementation of new gvt expenditure procedures, restoring and streamlining the entire expenditure chain.	Sep-03	Feb-04	Delayed
5 Submit to parliament GAO's audit of execution of 2001 and 2002 budgets	Dec-03	Jan-04	Delayed
6 Adopt anti-corruption, AMLT Law.	Dec-03	Jan-04	Delayed
7 Prepare a reorganization plan for COHYDRO.	Dec-03	???	
8 Finalize reorganizing plans for banks deemed viable by external audits.	Dec-03		
<b>4th review</b>	Jul-04	Jul-04	
<b>PAs</b>			
1 Submit to Parliament new customs code <sup>1</sup>	Mar-04	Jul-04	Delayed
<b>SPCs</b>			
1 BCC adoption of list of commercial banks to be liquidated or reorganized	Mar-04	Mar-04	On time
<b>SPIs</b>			
1 Submit draft law on harmonized classification system, reduce the number of taxes collected by DGRAD	Feb-04	Feb-04	On time
2 Full implementation of new expenditure procedures, from commitment to payment.	Feb-04	Feb-04	On time
3 Select int'l firm to conduct the external audit of the diamond company MIBA <sup>2</sup>	Mar-04	Jan-05	Delayed
4 Finalize plans to reorganize viable commercial banks and liquidate nonviable ones.	Jun-04	Jun-04	On time
5 Finalize COHYDRO reorganization plan	Jun-04	Sep-04	Delayed
<b>5th review</b>	Jan-05	Aug-05	
<b>SPCs</b>			
1 Select int'l firm to conduct the external audit of the diamond company MIBA <sup>2</sup>	Sep-04	Jan-05	Waived
<b>6th review</b>	Feb-06 <sup>3</sup>	No	
<b>SPCs</b>			
1 Adopt decree making the customs office OFIDA the sole agency intervening at the one-stop window at Matadi and assessing the value of imports.	Sep-05	Dec-05	No
2 Implement a simplified double-entry gvt accounting framework	Sep-05	Jun-06	No
3 Adopt government strategy for restructuring BCC's balance sheet.	Sep-05		No
4 Ministries of Defense and Budget to implement of results of military census in Kinshasa for the pay of August 2005	Sep-05		*
<b>SPIs</b>			
1 Completion of an inventory and quantification of the duties and fees collected for quasi-public agencies (such as ONATRA, OCC, OGEFREM, and CEEC).	Sep-05	Sep-05	On time
2 Implement simplified transitional payroll system, restore budgetary and administrative oversight on the pay, and transfers of paymasters to the Treasury.	Sep-05		No

Source: IMF documents.

<sup>1</sup> March 04 SPI changed into PA for 4th review.

<sup>2</sup> March 04 SPI changed into Sep04 SPC.

<sup>3</sup> Originally scheduled for May 2005. Moved to reflect delay in completion of 5th review and extension of arrangement until March 2006.

\* Superseceded by assistance provided by EU to strengthen controls of military budget.

Table I.3. Democratic Republic of the Congo: Compliance with Structural Conditionality under PRGF arrangement, 2002–06

	All measures	Prior Actions	Performance	
			Criteria	Indicators
	(Number of individual policy measures)			
Conditionality measures	42	12	11	19
Fiscal	18	7	4	7
Budget	4	3	--	1
Revenue	5	2	1	2
Expenditure	9	2	3	4
Governance	4	--	1	3
Public enterprises	6	--	1	5
Government debt	1	--	--	1
Monetary/Financial	10	2	5	3
Central Bank	5	2	2	1
Banks	5	--	3	2
Real sector	1	1	--	--
Program monitoring	2	2	--	--

Source: IMF documents.

## F. Performance Relative to Other Post Conflict Cases

31. **The DRC's macroeconomic performance was largely in line with comparable postconflict cases.** Fund involvement in such cases is difficult to assess because each country's circumstances are unique, including the timing and length of engagement relative to the conflict. The most suitable comparator for the DRC seems to be Sierra Leone, a country also rich in mineral resources that went through years of a vicious civil war. The DRC's macroeconomic performance since 2000 compares relatively well with that of Sierra Leone except for international reserve adequacy, but it should be noted that the share of external grants in GDP is substantially less in the DRC than in Sierra Leone.

## G. Main Lessons and Policy Challenges for the Medium Term

32. **Stabilizing the economy was a vital element in helping the country move toward peace and security, and making it possible to hold the first successful democratic elections in more than 40 years.** Donor-supported programs in the security, political, and economic areas were tightly coordinated and reinforced each other. This demonstrated a firm commitment from the international community to accompany the process by providing security as well as political, technical, and financial assistance. It encouraged all stakeholders, within and outside the government, to participate in the political and peace process. Since 2001, the IMF and the World Bank have been working to help the government stabilize the economy and secure sufficient technical and financial assistance from the international community to start rebuilding institutions and infrastructure and to finance the budget.

Table I.4. Selected Economic Indicators for the Democratic Republic of the Congo and Sierra-Leone, 2000–07

	2000	2001	2002	2003	2004	2005	2006 Est.	2007 Proj.
<b>DRC</b>								
Real GDP growth	-6.2	-4.4	3.5	5.7	6.6	6.5	5.1	6.5
GDP deflator	589.0	260.0	32.0	13.0	6.1	21.6	13.1	17.0
CPI inflation (avg)	554.0	299.0	25.3	12.8	4.0	21.4	13.2	17.4
Dom. Gvt Revenue/GDP	4.5	5.9	7.9	7.9	9.5	11.6	13.2	13.2
Grant/GDP	0.0	0.0	0.4	0.4	2.0	5.2	8.2	7.5
Dom. Gvt Expenditure/GDP	...	...	...	...	10.4	11.9	12.7	11.8
Wage bill/GDP	2.2	1.5	2.0	2.0	3.6	4.4	5.5	5.5
Underlying fiscal balance					-0.9	-0.4	0.5	1.5
GIR (weeks of imports)	3.8	4.7	2.6	2.4	5.2	2.5	2.8	3.1
<b>Sierra Leone</b>								
Real GDP growth	...	18.2	27.5	9.3	7.4	7.3	7.4	7.0
GDP deflator		1.8	-3.6	8.2	16.0	12.9	11.6	10.5
CPI inflation (average)	...	2.6	-3.7	7.5	14.2	12.1	9.5	10.8
Dom. Gvt Revenue/GDP	...	13.0	12.1	12.4	12.3	11.9	11.8	12.1
Grant/GDP	...	5.9	8.2	7.8	8.9	10.0	22.8	34.0
Dom. Gvt Expenditure/GDP	...	29.5	28.6	26.9	24.8	24.6	22.8	20.5
Wage bill/GDP	...	7.0	7.3	6.9	6.1	6.5	6.1	6.1
GIR (US\$ millions)	...	51.9	84.6	59.4	124.9	168.3	184.2	193.4
GIR (weeks of imports)	...	7.6	10.0	7.6	13.2	16.4	15.2	14.8

Source: IMF documents.

33. **Rapid disinflation was crucial in restoring economic confidence.** It encouraged private sector activity and foreign direct investment. This was made possible by the combination of tighter fiscal and monetary policies and high external financial support. The economy is now relatively open, major price distortions have been removed, and the private sector is driving growth. As a result, robust real GDP growth has been sustained for the past five years. However, progress in the social sector has been slow and improvement in social indicators limited.

34. **The program outcome also demonstrates that the economic situation is still very fragile and maintaining momentum for economic stabilization and reforms is a challenge.** Repeated pressures on the exchange rate and inflation demonstrate how rapidly progress can be overturned when macroeconomic policies are relaxed. This reflects (i) the difficulties of maintaining consensus on policies in a postconflict situation; (ii) weak institutions complicating the decision-making process and programming implementation; and (iii) an unsettled security situation in the eastern provinces, making it difficult to focus on economic and financial issues.

35. **With the elections over, the question now is whether the new government will regain the momentum for reform.** The challenges are enormous; determined leadership will be essential to move the process forward and prepare a coherent and focused medium-

term program that would deserve the support of the IMF and the rest of the international community. Government institutions will need to be reinforced and decision-making made more open to ensure that the full government works toward observing the priorities and meeting the objectives set in the program. This implies that the political and technical committees responsible for design, implementation, and monitoring of programs be strengthened, streamlined, and given full support from the highest level of government.

36. **Strengthening the management of macroeconomic policies is essential.** Repeated cycles of policy tightening and relaxation have to cease for the private sector to gain confidence in government management of the economy and be willing to increase investment. Steady policies and improved confidence would greatly help the development of the domestic financial market, including the government bond market, which would greatly help treasury cash flow management. As a first step, the government needs to stop having recourse to bank credit to finance the fiscal deficit, the main source of economic instability. To achieve this, the government needs to strengthen public financial management along the lines indicated below in the chapter on the medium-term fiscal strategy.

37. **Tighter fiscal policy should also be accompanied by a prudent monetary policy and a deepening of financial intermediation.** This will require the central bank to improve its operations and capacity to conduct monetary policy and supervise the financial sector (see also the section below on the financial sector). In particular, fiscal and monetary policies should be better coordinated to reduce volatility in base money.

38. **Fighting vested interests and widespread corruption is essential to promote private sector development and achieve high growth.** The main reason for failing to implement structural measures has often been the inability to overcome opposition from powerful vested interests. To succeed now, the government must build broad coalitions with civil society and other groups outside government, as was the case early in the initial PRGF-supported program. In turn, this will imply government willingness to operate in a more open and transparent way and better communicate the purpose and objectives of the program. This will require that the government make management of natural resources—especially mining and forestry and public finance much more transparent.

39. **Social policies should receive greater attention.** Improved and less costly delivery of services in health and education would help the population support strong economic policies. While significant progress was made to improve salaries in those sectors, the quality of services remains low, and fees paid by hospital patients and parents of students remain high. So, it would seem essential for the government, together with donors, to assess the utilization of public resources in those sectors, and complete medium-term strategies for their developments (which are also conditions for reaching the HIPC completion point).

40. **The international community must continue its support of the reform process.**

The international committee (CIAT) set up to accompany the political transition was disbanded at the end of the transition. While development partners continue an active dialogue on sectoral policies with the government, a new forum would improve coordination on issues, especially those with significant political, security, and economic elements. It is also essential that the international community increase its technical and financial assistance, given the country's limited absorptive capacity and huge reconstruction and social needs. Because the DRC's debt burden is unsustainable, it is essential that financial assistance be in the form of grants.

41. **The DRC has substantial macroeconomic imbalances and structural problems in core areas of IMF expertise, warranting continued close involvement.**

One key area is for the IMF to agree with the government on strong economic policies and medium-term program. This is vital since satisfactory implementation of a PRGF-supported program is a condition for the DRC to reach the HIPC completion point and obtain debt relief that will bring the external debt to a sustainable level. The DRC could also greatly benefit from Fund technical assistance to strengthen capacity, particularly in the fiscal area and at the central bank. Current efforts to improve the DRC's record of economic policy implementation and governance must be strongly encouraged in order to buttress donor support and avoid jeopardizing the progress achieved since 2001.

## II. THE DRC FINANCIAL SECTOR<sup>3</sup>

### A. Overview

42. **This chapter describes recent developments in the financial sector of the DRC and offers suggestions for fostering financial deepening.** Because of the civil war and cycles of high inflation and depreciation of the local currency, the financial sector is barely functioning. Although there has been progress in stabilizing the economy, confidence in the financial sector has yet to recover, further slowing its development.

43. **Reconstructing the DRC financial system is a precondition for successful and broad-based economic recovery.** A reliable financial system promotes growth by (i) efficiently mobilizing and pooling savings; (ii) channeling investments toward activities with high returns; (iii) making it possible to monitor the use of funds; (iv) facilitating risk management by allowing for risk diversification; and (v) easing the exchange of goods and services. Deep financial markets also render monetary policy more efficient. Finally, access to finance can increase welfare and promote alleviation of poverty and the emergence of an economically active middle class.

44. **If growth is to be sustained, the financial sector must be strengthened** to ensure its stability, encourage growth in private sector credit, and increase competition by facilitating market entry subject to “fit and proper” tests according to international best practices. This calls for reforming the BCC, reinforcing prudential supervision, and restructuring insolvent financial institutions. Building a sound microfinance sector would also be a vital step toward increasing deposits from, and credit to, the private sector, especially medium and small enterprises.

45. **Meeting such challenges is more difficult in postconflict countries like the DRC.** Information asymmetries between borrower and lender are aggravated by the loss of financial records. This results in credit rationing and crowding out of most of potential borrowers except for a few large players. A weak judicial system, pervasive corruption, and ill-defined property rights also constrain access to credit. Reinvigorating the banking system must therefore be carefully sequenced with reform of the legal system, creating mechanism for banks to share credit information, and strengthening financial sector assessment of credit risk. This will help reduce the risk premium and enhance access to credit.

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<sup>3</sup> Prepared by Julien Hartley.

## B. Size and Structure of the Banking Sector

46. **Commercial banks—the dominant institutions in the financial sector—are small** (Table II.1). Their assets accounted for about 10 percent of total GDP and 75 percent of total financial sector assets in 2006.<sup>4</sup> The state holds minority shares in two banks and the other nine are totally or majority foreign-owned.<sup>5</sup> In addition, 10 insolvent banks are being restructured or liquidated.

Table II.1. Democratic Republic of the Congo: Financial System Structure, 2006

	Number of		Financial Sector Assets (end of 2004)		Financial Sector Assets (end of 2006)	
	Institutions	Branches	(Billions of CF)	(Percent of GDP)	(Billions of CF)	(Percent of GDP)
<b>Commercial banks</b>						
Large commercial banks	11	58	182.5	7.0%	405.1	10.1%
Large domestic bank	3	20	107.5	4.1%	138.7	3.5%
Major foreign-owned banks	8	38	75.0	2.9%	266.4	6.7%
<b>Insurance companies</b>						
Insurance companies	2	146	22.9	0.9%	n.a	n.a
State pension fund	1	36	13.3	0.5%	n.a	n.a
Other insurance companies	1	110	9.5	0.4%	n.a	n.a
<b>Other non-bank financial institutions</b>						
Finance companies	1	10	19.2	0.7%	n.a	n.a
Savings and loans	1	66	16.0	0.6%	n.a	n.a
Postal savings network	1	69	n.a		n.a	n.a
Non-bank microfinance institution	28	n.a	n.a		n.a	n.a
Development finance institutions	1	1	0.9	0.0%	n.a	n.a
<b>Total financial sector</b>	<b>45</b>		<b>241.5</b>	<b>9.3%</b>		

Source: Central Bank of the Congo (BCC), Directory of Bank Supervision.

47. **Bank networks have limited coverage.** Since the state-owned banks with large networks were liquidated, only 60 bank branches cover a country the size of Western Europe. The number of bank accounts is estimated at 100,000. With one branch per million inhabitants, the DRC has one of the lowest bank penetration rates in the world. Furthermore, banks are concentrated in the capital, Kinshasa, though a few branches were recently opened in economically important cities like Lubumbashi (capital of the mineral-rich Katanga province), Kisangani, Mbuji-Mayi, Kananga, Goma, Bukavu, and Matadi.

<sup>4</sup> Because the BCC does not regularly compile data for the nonbanking financial sector, this is an estimate.

<sup>5</sup> Four banks have applied for an operating license, one of which is awaiting a change of status from *bureau de change* to commercial bank.

48. **Concentration in the banking sector is relatively moderate.** The Herfindahl-Hirshman Index (H) indicates medium concentration of total bank assets (Table II.2).<sup>6</sup> At the end of 2006, the market was still dominated by one bank that accounted for about 25 percent of deposits, though this is down from 33 percent in 2005. This trend reflects the arrival of new banks since 2002, a sign of economic recovery and growth potential.

**Table II.2. Democratic Republic of the Congo : Herfindahl Index (H), 2006**

Bank	Assets (Millions of US\$)	Share (Percent of total)	(H)
1	183.9	23.6	556.9
2	120.0	15.4	237.2
3	116.7	15.0	224.4
4	82.9	10.6	113.2
5	70.7	9.1	82.4
6	62.1	8.0	63.4
7	57.5	7.4	54.5
8	56.3	7.2	52.2
9	22.4	2.9	8.2
10	6.7	0.9	0.7

Sources: Central Bank of the Congo (BCC), Directory of Bank Supervision, and IMF staff estimates.

### C. Banking System Operations

49. **The depth of the banking sector and the extent of its financial intermediation are minimal.** While the ratio of broad money to GDP doubled in the past five years, it still amounted to only 11 percent in 2006, one-third the average for SSA (Table II.3).<sup>7</sup> Similarly, relative to GDP total banking sector assets rose from 4.1 percent in 2001 to 10 percent by the end of 2006, much below the 25 percent average for low-income SSA countries. The DRC also lags other SSA countries in respect to private sector credit. The very limited interbank activity (3 percent of GDP in 2006) reflects a lack of confidence among banks and collaterals.

<sup>6</sup> The Herfindahl-Hirschman Index (H) is the sum of squares of the market shares of all firms in a sector. By using market shares, the index stresses the importance of larger firms. Higher values indicate greater concentration. An occasional rule of thumb is that H below 1,000 indicates relative limited concentration and H above 1,800 significant concentration.

<sup>7</sup> Given the very high dollarization of the economy, broad money is probably greatly underestimated, since foreign currency notes circulating in the country are not recorded.

50. **The banking sector is highly dollarized** (Table II.4). Most bank loans (75 percent) and deposits (87 percent) are denominated in foreign currency (mostly U.S. dollars). In light of past inflation, businesses prefer using foreign currencies for settling large transactions and as a vehicle for savings. This preference is accentuated by the absence of high-denomination Congolese banknotes. Payment systems other than cash are virtually nonexistent.

**Table II.3. Democratic Republic of the Congo: Banking Sector Development, 2001–06**  
(Percent of GDP)

	2001	2002	2003	2004	2005	2006
<b>Democratic Republic of the Congo</b>						
Bank assets	4.1	4.2	5.1	8.1	7.3	10.1
Private sector deposits	1.9	2.0	2.5	4.1	4.2	6.1
Bank credit to private sector	0.7	0.6	0.8	1.5	1.9	2.8
Broad money	5.0	4.9	5.4	8.3	7.9	10.7
<b>Sub-Saharan Africa</b>						
Bank assets	22.2	23.4	24.0	23.7	23.7	24.5
Private sector deposits	20.5	21.8	22.3	22.9	23.9	25.3
Bank credit to private sector	12.3	12.5	13.3	14.1	15.0	15.7
Broad money	29.5	31.4	31.4	31.6	31.9	33.2

Sources: Central Bank of the Congo (BCC), Directory of Bank Supervision, and IMF staff estimates.

**Table II.4. Democratic Republic of the Congo: Trend of Dollarization, 2001–06**

	2001	2002	2003	2004	2005	2006
Credit in foreign currency (percent of total credit)	...	...	52.7	79.3	75.9	75.3
Credit in foreign currency (percent of M2)	...	...	7.5	14.2	17.9	19.4
Foreign currency deposits (percent of total deposits)	70.8	79.1	84.3	85.4	86.5	87.2
Foreign currency deposits (percent of M2)	27.8	32.6	38.6	42.6	45.8	49.3
Local currency deposits (percent of total deposits)	29.2	20.9	15.7	14.6	13.5	12.8
Local currency deposits (percent of M2)	11.5	8.6	7.2	7.3	7.2	7.2

Sources: Central Bank of the Congo (BCC), Directory of Bank Supervision, and IMF staff estimates.

51. **Banks face difficulties in mobilizing deposits.** High dollarization and a large informal sector partly explain why the ratio of total bank sight deposits to currency in circulation was only 17 percent at the end of 2006. Deposits represented 60 percent of the banking system balance sheet, and 89 percent were short term. Local currency time deposits were less than 1 percent of total deposits, mostly because of the country's past experience

with hyperinflation but also because banks generally have very restrictive requirements for opening an account, including high minimum balances and fees.<sup>8</sup>

52. **Banks focus on large corporate customers.** Their client base mainly consists of international and top-tier local companies, especially in mining and trade, the public sector, and wealthy individuals. This reflects limited investment opportunity, imperfect competition, and banks that are highly risk-averse, given the difficult sociopolitical situation. However, this has started to change. One bank that started operations in August 2005 concentrates on supporting small and medium-sized enterprises. Others are also beginning to show an interest in the retail clientele, offering deposit accounts with lower minimum balances.

53. **Banks extend very little credit to the private sector.** In 2006, less than 3 percent of GDP was loaned to the private sector, compared with 12.3 percent for low-income countries in SSA. About 87 percent of the loans are short-term, mirroring the maturity structure of bank deposits, the main source of bank funding. Most loans are either for working capital, overdrafts, and letters of credit. Moreover, a large share of loans is made to a small number of clients, resulting in a high loan concentration. Banks' exposure to government lending is also limited.

54. **Most banks are highly liquid;** 83 percent of bank assets consist of cash, deposits at the central bank, and investments in central bank treasury bills. This is due to a high liquidity ratio requirement, limited access to domestic financial instruments such as bonds, and an inefficient payments system. Currently the use of checks and credit cards is minimal. Settlements between provinces can take 30 days and may be executed only in Congo franc, even though the banking system is highly dollarized. The holding of liquid assets is also encouraged by an interbank market that lacks depth (Table II.5).

55. **The profitability of banks has recently improved.** Return on assets averaged about 3 percent and return on equity 52 percent in 2006; the latter largely reflects the low capital base of the banking system. With credit activity limited, noninterest income (such as fees on international transfers, foreign exchange transactions, and letters of credit) constitutes a large share of total income.

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<sup>8</sup> Banks require that customers deposit between US\$1,000 and US\$5,000.

**Table II.5. Democratic Republic of the Congo: Interbank Market, 2001–06**

	2001	2002	2003	2004	2005	2006
			(Billions of CF)			
Annual volume	0.4	10.0	46.3	104.0	122.0	116.7
			(Millions of US\$)			
Annual volume	1.6	28.8	114.4	261.5	257.2	249.3
			(Annual average)			
Interest rate on the interbank market	12%	24%	14%	8%	38%	24%
			(Annual average)			
Base interest rate from the BCC	132%	46%	21%	9%	42%	31%
			(Annual average, billions of CF)			
Excess reserves	1.8	4.6	1.5	2.1	2.0	7.1

Sources: Central Bank of the Congo (BCC), Directory of Bank Supervision, and IMF staff estimates.

#### **D. Banking System Soundness and Vulnerability**

56. **The BCC is responsible for supervising the financial system.** Under the Central Bank Law of 2002, the BCC issues bank licenses, publishes regulations, and supervises banks both off- and on-site. The BCC also issued regulations for microfinance institutions (MFIs) in 2003. Regulation of the financial system has improved substantially since 2002, but many areas need improvement.

##### **Banking system soundness**

57. **The solvency of banks has somewhat improved but remains fragile** (see Table II.6). At the end of 2006 the capital-risk-weighted adequacy ratio averaged 10.5 percent—the first time the 10 percent requirement was met since 2002. However, four banks did not meet this requirement.

58. **Nonperforming loans (NPLs) are reported to be low.** However, the accuracy of the reporting system is uncertain, not least because the BCC does not have sufficient inspection capacity to verify the information and if necessary require adjustments. Loan classification is in line with international norms (see Table II.7).

**Table II.6. Democratic Republic of the Congo: Financial Soundness Indicators, 2003–06**  
(Percent)

	2003	2004	2005	2006
Capital adequacy				
Regulatory capital to risk-weighted assets	-3.40	6.83	7.66	10.52
Regulatory Tier 1 capital to risk-weighted assets	-4.06	6.56	7.12	10.30
Asset quality				
Non-performing loans to total gross loans	1.54	2.03	6.75	3.00
Non-performing loans net of provisions to capital	0.06	4.06	9.28	6.53
Earnings and profitability				
Return on assets	0.55	-1.12	1.66	2.65
Return on equity	0.59	-18.51	25.28	51.61
Interest margin to gross income	18.92	20.91	32.68	39.77
Non-interest expenses to gross income	77.36	86.41	58.02	44.45
Liquidity				
Liquid assets to total assets (liquid asset ratio)	47.03	77.19	88.46	82.99
Liquid assets to short-term liabilities	53.64	81.42	94.96	92.88
Sensitivity to market risk				
Net open foreign exchange position to capital	29.97	52.53	12.92	50.43
Foreign currency-denominated liabilities to total liabilities	69.23	80.23	73.61	76.37

Source: Central Bank of the Congo (BCC), Directory of Bank Supervision.

**Table II.7. Democratic Republic of the Congo: Loan Provisioning Rules for Nonperforming Loans**

	Rate of provisioning (annual basis)			International Best Practices		
	Definition	Financial guarantees or highly liquid collateral	Collateral security	Moral Guarantee	Definition	Provisions
1 Overdue	< 2 months	1%	15%	20%	<3 months	5%
2 Doubtful	2 to 6 months	1%	35%	50%	3 to 6 months	15%
3 Foreclosure proceedings initiated	legal action undertaken	1%	50%	70%	6 to 12 months	50%
4 Loss	> 12 months	10%	100%	100%	> 12 months	100%

Sources: Central Bank of the Congo (BCC), Directory of Bank Supervision, and IMF staff estimates.

## Banking system risks

59. **Though financial soundness and performance indicators have improved in the last two years, risks remain high.** Volatile macroeconomic policy can lead to a rapid change in the liquidity of the banking sector. For instance, a fiscal and monetary tightening in early 2007 sharply reduced banks excess reserves; so by end-March 2007, 8 out of 10 banks did not observe the liquidity ratio.<sup>9</sup> Furthermore, because the ratio is based on overall liquidity, it is uncertain whether it captures the liquidity risk in individual currencies.

60. **No bank respected the ratio on net foreign exchange position.** This is a source of concern considering how volatile the Congo franc is and the difficulties banks may have in covering short-term position.

61. **No bank respected the credit risk ratio** (25 percent of equity on a single signature), partly because banks concentrate their activities on a few large enterprises and because they have a narrow capital base. In addition, the risk for the banking system of enterprises borrowing in foreign currency is uncertain; there is little information on how much of which currencies are in the company revenue streams.

62. **Interest rate risk is small.** There is little maturity mismatch between assets and liabilities due to the predominance of short-term assets. Loans are overwhelmingly short-term (87 percent), as are liabilities (demand deposits account for 89 percent of total deposits), and the interest rate spreads are large.

## E. Microfinance

63. **The microfinance sector, though embryonic, is growing fast.** The BCC has granted licenses, most of them since 2000, to 11 microfinance institutions and 46 cooperatives. Two commercial banks also provide micro credits.

64. **Microfinance institutions help deepen financial intermediation.** Reports from 28 institutions show their total deposits and loans increasing in 2005 by 50 percent, to US\$9.3 million in deposits and US\$6.8 million in loans. Most loans were for trade-related activities; 97 percent were granted in urban areas and 61 percent to women. The potential for rapid growth is demonstrated by ProCredit Bank, which opened in August 2005 and had 22,000 accounts by March 2007. It opens 100 new accounts every day and processes about 400 loan applications every month; the average loan, often denominated in U.S. dollars, amounts to US\$2,750.

65. **Regulation of the sector needs to be tightened.** MFIs are regulated by an instruction from the BCC issued in 2003 and updated in 2005.<sup>10</sup> The BCC is building an exhaustive

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<sup>9</sup> Banks had grown accustomed to holding high excess reserves because the government was financing spending through money creation.

<sup>10</sup> Cooperatives are regulated by a separate law.

database on MFIs and establishing a reporting system with assistance from the U.N. Development Program (UNDP) and the U.N. Capital Development Fund (UNCDF). Currently, information on microfinance is limited and unreliable because institutions do not report financial statements to the BCC, as required.

## F. Nonbank Financial Institutions

66. **The nonbank sector is in dire straits.** Financial information is scarce because nonbank institutions do not produce audited accounts, do not follow international accounting standards, and are not well supervised. Several have stopped allowing customers to draw on their deposits, seriously damaging confidence in the sector.

### Savings banks

67. **The state-owned *Caisse d'épargne du Congo* (CADECO) has ceased to function.** It has accumulated large losses and a high volume of nonperforming loans. The BCC excluded CADECO from its clearing house and dispatched a team to take over its management in July 2006. Financial and organizational audits of the CADECO are urgently needed to decide its future.

68. **The postal savings network is almost bankrupt and no longer operates as a financial institution.** Though 69 offices are still open, small depositors are unable to withdraw funds because available resources are used to cover operating expenses.

### Insurance

69. **The state-owned *Société nationale d'assurances* (SONAS), which has a monopoly on the insurance market, faces serious financial difficulties.** Its restructuring and opening the sector to competition are essential to improve the availability of insurance products at a reasonable cost.

### Pension funds

70. **The *Institut National de Sécurité Sociale* (INSS) also faces serious difficulties.** The INSS is not able to collect the premiums it needs to pay claims because of the large size of the informal sector and the number of public enterprises in financial distress. Moreover, much of its infrastructure has been mismanaged. But it still employs 1,650 agents and has 36 branches throughout the country.

### Specialized financial institutions

71. **The *Société Financière de Développement* (SOFIDE) and *Fonds de Promotion de l'Industrie* (FPI) are specialized institutions that have accumulated heavy losses.** SOFIDE is a development bank that finances medium and long-term projects for small and medium-sized enterprises. Its loan portfolio has dropped sharply and is mostly nonperforming, it has been accumulating losses for years, and it has a negative net worth. To promote the development of manufacturing enterprises, the FPI is funded by a tax on

industry, the *taxe de promotion de l'industrie* (TPI). It provides subsidized loans to enterprises, but defaults are reportedly high.<sup>11</sup>

### G. Addressing the Challenges Facing the Financial Sector

72. **Despite recent progress, financial intermediation is still very limited.** A strengthened central bank and a conducive business environment. This together with prudent macroeconomic policies is essential to develop financial markets and deepen financial intermediation.

#### Strengthening the central bank

73. **The BCC's current program of reforms needs to be accelerated.** This is essential to (i) improve BCC financial and technical capacity; (ii) enhance its management of monetary policy; (iii) reduce operating losses by streamlining its operations to gain financial autonomy; (iv) strengthen bank supervision; and (v) modernize the payment system.

74. **Procedures for licensing and closing banks should be reinforced.** Minimum capital should be raised from the current US\$1.5 million to probably at least US\$5 million, given the level of risk faced by banks in the DRC and their rapidly growing balance sheet. Transparent application of licensing requirements is also essential to ensure that the reference shareholder satisfies criteria for reputation, experience, and financial standing and that new banks are prudent. In addition, banks in difficulties should be either restructured or liquidated without delay. The process, however, must ensure that depositors' claims are protected.<sup>12</sup>

75. **Aligning prudential regulation and bank supervision with international standards is crucial.** As recommended by the South African Development Community (SADC) committee on bank supervision, the BCC is to complete an assessment of its compliance with the 25 Basel Core Principles by the end of 2007. This will form the basis for an action plan for remedying deficiencies and introducing new banking regulations. Over the long term regulations should be upgraded to international standards (Basel 1 and 2). Bank supervision will also be strengthened with the Bank Supervision Application<sup>13</sup> software, which is to become operational in early 2008. Ultimately, however, the supervision of banks will improve only to the extent that the department of the BCC in charge of it is able to monitor and enforce the observance of prudential ratios, including by imposing sanctions when necessary.

76. **To modernize the national payment system,** the BCC should press ahead with the implementation of the SADC Payment System Project. The law related to the payment system also needs to be amended to recognize new technologies. ATMs, point-of-sale machines, and electronic bank cards would lower the costs of financial services. Considering

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<sup>11</sup> Estimated at 48 percent.

<sup>12</sup> The BCC estimates these at US\$10 million.

<sup>13</sup> This application was developed by the central banks of the South African Development Community (SADC).

the size of the country and the lack of roads and land lines, linking the financial infrastructure to cell phone technology could also be a useful shortcut.

### Improving the business environment

77. **Building the financial sector requires improving the business environment.** The main reasons for high lending costs and limited access to credit are lack of competition and the risks associated with the high cost of doing business in the DRC. The World Bank's Doing Business survey ranks Congo last among 175 economies in terms of ease of doing business (Table II.8). On measures of the scope, access, and quality of credit information available through public registries or private bureaus, the DRC scores zero on a scale of zero to six. Financial institutions find it difficult to assess creditworthiness because information from the *Centrale des Risques* is limited and unreliable, standards for accounting and auditing practices are poor, collateral and property registries are not generally available, and contracts are difficult to enforce.

**Table II.8. Democratic Republic of the Congo : Doing Business Rankings, 2005–06**

	DRC			SSA		
	2006	2005	Change	2006	2005	Change
<b>Ease of Doing Business</b>	<b>175</b>	<b>175</b>	<b>0</b>	<b>131</b>	<b>131</b>	<b>0</b>
Starting a business	172	170	-2	125	123	-2
Dealing with licenses	140	138	-2	110	110	0
Employing workers	170	171	1	118	118	0
Registering property	141	140	-1	121	123	1
Getting credit	159	160	1	112	110	-1
<b>Protecting Investors</b>	<b>142</b>	<b>141</b>	<b>-1</b>	<b>92</b>	<b>93</b>	<b>1</b>
Paying taxes	147	146	-1	104	104	0
Trading across borders	159	155	-4	124	124	0
Enforcing contracts	171	171	0	111	112	1
Closing a business	145	147	2	111	114	3

Source: World Bank Doing Business 2006 database.

78. **In the short term, adopting the following measures should be a priority:**

(i) granting tax exemptions for provisions for disputed debt and foreign-exchange losses; (ii) promulgating the new accounting plan for lending institutions; and (iii) amending the current corporate law to allow for creation of limited liability companies, the legal structure required for banks.

79. **Other crucial legal reforms are ratification and implementation of OHADA.**

DRC membership in the Organization for the Harmonization of African Business Law (OHADA) became effective in February 2006 but has yet to be ratified by Parliament. Over the medium term new laws governing contracts are needed and judicial administration must be made more efficient. Setting up a pledge registry and a credit bureau would also help deepen financial intermediation. Finally, new charts of accounts for financial institutions

should be disseminated promptly to facilitate audit and publication of bank financial statements.

### **Developing microfinance institutions**

80. **Given the size of the country, MFIs could compensate for the limited outreach of the traditional banking system.** They already have as many accounts as banks and serve clients that the banks find costly to reach, such as poor and rural households, nonsalaried workers, and small entrepreneurs operating in the informal sector. To achieve long-term sustainable outreach and avoid the boom-bust cycles that some countries faced when the sector grew rapidly, MFI soundness should be carefully monitored to ensure that they achieve and sustain profitability.

81. **Supervision of MFIs must be improved.** Completion of the BCC database and analysis of the sector will be a precondition for effective regulation. A draft law for regulating the sector is to be presented to the National Assembly by May 2008. The BCC should also draft regulations and supervision procedures for other deposit-taking institutions. This must all be done carefully to avoid further burdening the limited supervisory capacity of the BCC.

### **Increasing donor support**

82. **Given the challenges in the financial sector, the assistance of development partners is very important.** For the last few years the IMF and the World Bank staffs have helped address weaknesses in the BCC and the banking sector. Microfinance is receiving considerable attention from development partners, and efforts are under way, with the help of the Consultative Group to Assist the Poor (CGAP), to improve coordination and ensure that best international practices are applied. More should be done, however, to address the serious financial difficulties of the state-owned insurance company and the social security system.

83. **Although the BCC has its own strategic plan, there is no comprehensive strategy for the financial sector.** DRC participation in the IMF and World Bank Financial Sector Assessment Program (FSAP) would make possible a comprehensive evaluation of the financial system and give the authorities a basis for designing a strategy to reduce sector vulnerabilities and improve access to financial services.

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### III. THE DRC'S MEDIUM-TERM AGENDA FOR STRUCTURAL FISCAL REFORMS<sup>14</sup>

#### A. Introduction

84. **Progress in rebuilding DRC revenue collection and budget execution capacities has been remarkable.** After a long period of civil and military strife, which left several parts of the country without functioning government structures, the transition government implemented reforms in both revenue administration and budget preparation and execution. More efficient collection, in addition to the rebound of economic growth, helped increase the share of total revenue (excluding oil revenue and grants) in GDP from 6.3 percent in 2002 to 9.9 percent in 2006. Monthly reporting on budget execution from commitments to payments is now available on the basis of a computerized expenditure chain, and important progress has been made in preparing three-month rolling spending commitment and cash-flow plans.

85. **Despite these important achievements, the agenda of structural fiscal reforms is still vast.** Low government revenue, combined with a massive need to step up reconstruction and social spending, leaves the DRC's fiscal position heavily dependent on external financing. At the same time, the need to consolidate progress in macroeconomic stabilization precludes monetization of fiscal deficits, which has been the main cause of inflation—most notably through the immediate impact on the exchange rate under conditions of high dollarization and very limited sterilization capacity of the central bank. Reconciling fiscal consolidation with the need for a large increase in infrastructure and social expenditure will require accelerating reforms to overcome the fragmentation of revenue collection agencies, address corruption, and strengthen public financial management (PFM).

86. **This chapter addresses the agenda for structural fiscal reforms over the next five years.** To create fiscal space for the urgently needed increase in infrastructure and social expenditures,<sup>15</sup> the medium-term fiscal strategy should aim to (i) streamline the tax system and broaden the tax base; (ii) improve tax collection; (iii) strengthen PFM; (iv) enhance the quality and efficiency of government spending; and (v) manage fiscal risks emanating from decentralization. The remainder of this chapter presents an overview of structural fiscal issues (section B) and discusses fiscal reform priorities (section C). Section D concludes.

#### B. Structural Fiscal Issues

87. **Tax administration and budget preparation and execution have significantly improved since 2001, but critical weaknesses remain:**

- **Weak revenue mobilization.** In 2006 revenues (excluding grants) amounted to 13.2 percent of GDP and covered only 60 percent of total spending. Low government revenue, combined with large need for rebuilding infrastructure, leaves the DRC

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<sup>14</sup> Prepared by Andreas Westphal.

<sup>15</sup> This is reflected in the PRSP, which proposes a massive, but unrealistic, increase in total spending by 13½ percentage points of GDP to 28.8 percent of GDP by 2008.

heavily dependent on external financing (including direct budgetary support) and limits pro-poor spending.

- **A complex tax system impedes transparency and engenders graft.** A plethora of taxes, and the pervasive fees and duties collected by a variety of public agencies, results in unwieldy tax administration and revenue leakage.
- **Despite progress over the last few years, weaknesses remain in tax and customs administration.** Fragmentation of collection agencies, the prevalence of corruption, frequent changes in management and a costly and nontransparent incentive system have hindered reform. In the eastern provinces, major investments, including in human capital, are essential to ensure basic collection functions. The presence of multiple agencies collecting fees and duties at the border hinders the work of customs.
- **The weaknesses of revenue mobilization are particularly pronounced in the mining sector.** Widespread corruption, lack of controls, and tax exemptions lead to large revenue losses. A sustained approach to managing joint venture contracts would improve government revenue from mining (less than ½ percent of GDP in 2005) and improve transparency. Noncompliance in paying mining fees should result in penalties and, where breach is continuous, cancellation of contracts. Ad hoc exemptions have further narrowed the tax base.
- **Budget management is fragmented between several ministries with little coordination among them, leading to overruns and payment arrears.** Budget preparation and execution is split between the ministries of finance, budget, and planning, resulting in a de-linking of commitment management from cash flow management and the emergence of arrears to domestic suppliers (0.8 percent of GDP in 2006). Circumvention of budgetary expenditure chain through the use of ad hoc spending procedures (“mises à disposition de fonds”) is widespread, significantly weakening budgetary discipline. These ad hoc procedures also give the budget ministry broad leeway to allocate resources irrespective of budget ceilings, often at the expense of pro-poor spending.
- **The decentralization agenda enshrined in the new constitution poses serious fiscal risks.** The constitution grants provinces 40 percent of government revenue collected in their territory and full responsibility for their budgets, but the transfer of spending responsibilities is less clearly defined. Such measures, particularly if implemented rapidly, could lead to loss of control over government spending, fiscal imbalances between provinces, and macroeconomic instability.

### C. Fiscal Reform Priorities

#### Tax policy

88. **Efforts to streamline the tax system need to continue so as to expand the tax base without increasing the burden on the formal economy.** This can be achieved by

(i) reassessing tax policy for the mining sector, which until now has been ineffective in ensuring that the sector makes an adequate contribution to government revenue; (ii) limiting tax exemptions to those complying with the investment, mining, and forestry codes; (iii) refraining from granting ad-hoc exemptions; (iv) simplifying taxes, including by reforming the turnover tax and corporate taxes; and (v) eliminating nuisance taxes.<sup>16</sup> A drastic reduction in the number of taxes and fees (about 800) is also a necessary condition for increasing tax administration efficiency.

89. **Preparations for introducing the VAT should be accelerated.** The authorities have for several years planned to replace the current turnover tax system with a broad-based value-added tax and a draft VAT law was finalized in the second quarter of 2006. However, the draft was not submitted to Parliament, implying that a VAT introduction will not be feasible before January 2010. To meet this deadline, the draft VAT law should be submitted to Parliament as soon as possible and sufficient budgetary resources be provided for necessary investments by the revenue collection agencies. In particular, this will require setting up ten tax centers for medium-sized enterprises (*Centres des Impôts*, or CDIs) in the provinces (only one is fully operational so far and another two may be established by end-2007). Moreover, the revenue collection agencies will need to step up training of their staff.<sup>17</sup>

## Tax administration

90. **Tax administration reform remains the main short-term instrument for increasing the tax take.** The DRC is highly dependent on donor support, which is volatile—partially reflecting changes in the perception of the authorities’ willingness to vigorously address governance issues—and uncertain over the medium term. Fiscal sustainability, therefore, requires far-reaching changes in the management and institutional structure of the three revenue agencies. However, reforms in this area have proceeded only slowly despite considerable technical assistance from the IMF and other donors. Reform continues to be hampered by vested interests, resulting in inefficient procedures, poor governance, and insufficient investment in information technology, human capital, and the provincial CDIs.

91. **Further strengthening the tax administration capacity is a short-term priority.** In the short term, tax administration reform should focus on (i) strengthening the large taxpayers’ unit (LTU) and extending its scope to cover another 111 large enterprises; (ii) establishing CDIs in all provinces; (iii) improving taxpayer registration by enforcing the use of the new single taxpayer identification number for commercial, financial, and fiscal operations; (iv) strengthening and refocusing the work of the audit unit; and (v) improving cooperation with customs.

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<sup>16</sup> Recently drafted legislation (on introduction of a rebuilding tax and on establishment of a road fund) suggests a further increase in the number of taxes.

<sup>17</sup> In addition, VAT preparations should comprise social impact analysis.

92. **The merger of the tax and nontax collection agencies is a key medium-term reform to overcome the fragmentation of the revenue administration.** The timing of this reform will crucially hinge on (i) the pace of tax reform, in particular a sharp reduction in the number of taxes and fees; and (ii) progress in streamlining management and regulations within the two organizations, most notably by reinforcing the LTU.

93. **Further efforts are necessary to modernize the customs organization and procedures.** These should focus on strengthening the customs offices at the port of Matadi, in Kinshasa, and at other ports of entries in Katanga and the eastern provinces. Strengthening customs administration also urgently requires stopping interference by the Congolese Office of Control (OCC) by merging its customs department with the main customs administration, OFIDA.<sup>18</sup> This would render the one-stop window at the main port of entry fully operational and help establish similar structures at other points of entry. This will need to be complemented by stepped-up efforts to modernize the computer system, implement a new manual of procedures, enforce the regulations requiring pre-inspection of imports, and enhance operational capacity to fight fraud and contraband. Ensuring uniform application of the tax and tariff rates across the country is another priority.

94. **There is a need to reform the intransparent and costly incentive system for the tax collection agencies.** At present, these agencies receive 5 percent of non-oil revenue to cover operating expenses and grant salary bonuses to employees. This system, which implies a strong bias against efficiency-enhancing capital spending, should be replaced by appropriations in the government budget for the operating expenses and investment of collection agencies, coupled with a more moderate bonus system.

### **Tax administration in the mining sector**

95. **Increasing the tax take from the mining sector will be essential to reducing high aid dependence.**<sup>19</sup> The key role of the mining sector in earlier decades and information about new mining projects coming on-stream suggest considerable potential for broadening the domestic revenue base. Reinforcing the capacities and procedures of the revenue agencies is critical for improving the management of mining revenue and ultimately increasing collections.<sup>20</sup> However, this can only be done if the authorities address the serious governance issues in this area, in particular the resistance of vested interests to creating more effective tax administrations structures, widespread corruption, and lack of enforcement of legislation and regulations, including the tolerance of pervasive smuggling.

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<sup>18</sup> The other functions of OCC, mostly in the area of norms, should be transferred to a ministry.

<sup>19</sup> In addition to improvements in the tax administration in the mining sector, two amendments to the Mining Code, which was drafted in 2002 with World Bank assistance and is broadly in line with international best practices, should be considered: (i) the introduction of a *sliding scale royalty regime* to allow the government to benefit from high commodity prices; and (ii) the introduction of *fees on the transfer of mining titles*.

<sup>20</sup> Improving tax administration capacity in the mining sector should be based on strengthening existing institutions. Establishing a new independent revenue agency responsible for tax and nontax collection in the mining sector is not desirable as it would contribute to a further fragmentation of the revenue administration.

96. **The current fragmentation of revenue administration is preventing realization of the mining sector's revenue potential.** According to the current division of responsibilities, the nontax agency DGRAD, an institution with very limited capacity and infrastructure, is in charge of collecting mining sector royalties, while DGI is in charge of corporate income taxes. In assessing tax obligations, both agencies depend on information from the customs administration on the nature and value of mining sector exports. However, owing to the absence of export taxes for this sector,<sup>21</sup> customs lacks incentives to control exports. This deprives DGRAD and DGI of the means to assess whether mining company self-assessment of export values is appropriate. Difficulties in accessing independent laboratories further complicate their task.

97. **Transferring mining sector collection functions—at least for large companies—from DGRAD to a specialized unit under the DGI's LTU could resolve this problem.** Such a move would anticipate the eventual merger of DGRAD with DGI over the medium term. However, the transfer of current DGRAD collection responsibilities for large mining companies to the DGI requires an immediate push to build up DGI's administrative and technical capacity in this area. The most promising approach would be to establish a unit within the LTU that is responsible for assessment, audit, and collection of all taxes, fees, and royalties of large mining companies, with full access to information from other ministries and agencies<sup>22</sup> based on information-sharing agreements between the LTU and those agencies. Strong capacity building efforts will be needed to develop the LTU unit's core competences, perhaps through agreements with specialized audit firms or international consultancies capable of providing training. While core tax administration functions, such as tax audits, should not be outsourced, tax audit experts might be contracted to work with LTU staff (e.g., external auditors could participate in audits together with LTU auditors).

98. **These measures will need to be complemented with efforts to strengthen OFIDA's capacity to control mining sector exports.** The modern specialized customs office recently built in Kasumbalesa should be made fully operational and specialize in managing Katanga mining sector trade. The primary task of the office should be to provide comprehensive data on trade by taxpayer (including values of exports and imported inputs) to the LTU unit. Measures needed to achieve this include training and assignment of specialized staff, computerization, access to verification tools (independent laboratories, databases, and weighing bridges), anti-smuggling capability, and introduction of a system for monitoring customs performance that is not based on collected revenue. This should be the first step toward broader compliance and enforcement strategies to be prepared by OFIDA to control mining sector exports (including illegal flows from the Eastern provinces).

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<sup>21</sup> Export taxes exist only for artisanal mining.

<sup>22</sup> At present, only 12 mining companies voluntarily file their corporate income tax declarations with the LTU; the corporate income tax obligation of the bulk of the companies is administered by the DGI branch in Katanga. Setting up a specialized unit within the LTU will require deciding whether there is a need to establish an LTU branch in Katanga.

## Public financial management

99. **PFM reform needs to be accelerated.** Some PFM progress has been registered in recent years in the DRC, but key weaknesses remain, including a lack of a framework for institutional and operational budgetary discipline. Now that the political transition period is ended, it is time to conduct an in-depth assessment of progress made in strengthening PFM over the past three years and to reach consensus on a new medium-term strategy. This strategy should seek to (i) eliminate or reduce the fragmentation of the budget management responsibilities or significantly ameliorate the coordination among responsible ministries; (ii) prepare and execute realistic budgets; and (iii) eliminate ad hoc expenditure execution procedures. Other key actions are to:

- Adopt double-entry treasury accounting.
- Reorganize the cashier relationship between the Finance Ministry and the BCC.
- Strengthen the capacity of line ministries to prepare and manage their budgets and to report accurately on budget execution.
- Implement a new payroll system, reflecting the results of the civil service and military censuses.
- Design a medium-term fiscal framework in close cooperation with line ministries.

100. **Donor coordination in the area of PFM reforms needs to be strengthened.** Given the large and increasing number of bilateral and multilateral donors that are providing technical assistance to strengthen PFM, much greater coordination to avoid overlap, inconsistent advice, and inefficient use of scarce TA resources is needed:

- The World Bank is providing TA in procurement and will focus its public expenditure review on fiscal management, including at the provincial level.
- The French Cooperation is financing the implementation of a new payroll system and intends to conduct a study on the existing accounting framework.
- The EU plans to conduct a PEFA in the second half of 2007.
- The Belgian authorities are helping with the reorganization of the Ministry of Budget.
- Other donors are working on strengthening budget preparation and execution for specific sectors.

## Expenditure policy

101. **The composition of spending needs to be aligned with the government's priorities of increased pro-poor spending and investment in infrastructure.** This will require:

- *Developing an institutional framework for expenditure prioritization.* While the authorities have not yet developed a medium-term fiscal framework,<sup>23</sup> the surge in infrastructure and social spending envisaged in the PRSP and the government program implies the need for an institutional framework for selecting public investment projects and spending programs with the highest social rate of return.
- *Better coordination of investment projects financed from foreign grants and loans as part of a medium-term Public Investment Program (PIP).* At present, responsibilities for contracting, executing, and monitoring foreign-financed investment projects are de facto scattered, despite the pro forma coordination role of the Ministry of Planning. In this context, the authorities will also need to develop institutional capacity for reflecting the annual PIP in the budget and estimating medium- and long-term recurrent expenditure implications (e.g., maintenance, wages).
- *A gatekeeper role for the Budget Ministry.* The Budget Ministry should be put in charge of (i) undertaking cost-benefit analyses of investment projects and expenditure programs submitted by line ministries; and (ii) assessing the availability of budgetary resources for the projects.
- *Ring-fencing of priority spending.* Despite the priority attached to health and education spending, these sectors have periodically suffered from underinvestment and lack of maintenance, reflecting both short-term shifts in government priorities to election-related and military spending, and the volatility of foreign financing. To establish some certainty for key expenditure programs, contingent expenditure savings in non-key areas will need to be identified.
- *Civil service reform and an adequate budgetary sector wage policy.* Updating the civil service roster based on the results of the military and civil service censuses, the retirement program, and a new payroll system are high priorities considering the very low wages, the size of the civil service, the lack of control over the number of civil servants, and the large number of ghost workers and civil servants above retirement age.
- *Containing expenditures of political institutions.* While the establishment of the new institutions requires additional spending for government functions at the provincial and local level, the tendency of parliamentarians to grant themselves hefty wage

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<sup>23</sup> The PRSP comprises projections for 2006–08. However, its implementation did not begin in 2006 and many sectoral and macroeconomic objectives would need to be updated to keep it meaningful.

increases, and of ministers to employ generously paid staff in their cabinets runs counter to the declared objective of stepping up pro-poor spending.

## Decentralization

102. **While the new constitution established a far-reaching decentralization agenda, key parameters, including the revenue sharing mechanism, are only vaguely defined.** The 2005 constitution, which became effective on February 1, 2006, establishes three levels of government: central government, provinces, and subprovincial (*Entités Territoriales Décentralisées*), and defines the responsibilities that are (i) exclusively assigned to the central government; (ii) shared between the central government and the provinces; or (iii) exclusively assigned to provinces (e.g., primary education and health care). It also determines that 40 percent of “national revenues” collected in each *province* will be devolved to that province, and 10 percent will be assigned to an equalization fund (*Caisse Nationale de Péréquation*). However, the constitution does not clarify which government level is responsible for collecting revenues, the distribution of “shared responsibilities,” or what will be the tax base used to calculate the 40 and 10 percent shares of revenue.

103. **Pressures for rapid decentralization are increasing.** While the government is currently preparing 11 laws that are required to implement decentralization, elected provincial assemblies and governors are demanding that the constitution’s revenue transfer rule be applied as of this year. There is a high risk that the fiscal aspect of the reform will be decided with a view to appeasing provincial governments and holding together the fragile government coalition rather than ensuring fiscal sustainability over the medium term.

104. **Full and immediate implementation of the 40 percent rule would involve significant risks for macroeconomic stability and the quality of spending:**

- It would lead to a sizeable resource transfer to largely unprepared provincial and local authorities, implying high risks of poor-quality spending and large-scale misappropriation of funds. The creation of excessive provincial administrations and the granting of high salaries for provincial politicians are prominent risks.
- The transfer of 40 percent of the revenues collected in each province would unavoidably create a major vertical imbalance because health and primary education together account for only 18½ percent of total expenditures, leaving the central government with sizeable unfunded spending responsibilities.
- It would also create substantial inequity among provinces, as the share of several provinces in total revenue collection is below 1 percent, which would prevent them providing even the most basic public services.
- At the same time, the *Caisse Nationale de Péréquation* as currently designed would not mitigate these horizontal imbalances because it is limited to investment financing (while poorer provinces would be unable to cover current expenditures).

105. **These risks argue for a gradual approach.** Revenue transfers to the provinces should be increased only gradually and revenue devolution should be in line with the devolution of expenditure responsibilities. The latter, in turn, crucially hinges on progress in building provincial capacity. Institutional capacity for expenditure execution is often only rudimentary—most obvious in, but not limited to the reunified eastern provinces. This reflects, *inter alia*, the nascent state of provincial public administration, a pronounced shortage of qualified staff, and the absence of harmonized treasury management, accounting, and computer systems.

106. **A gradual approach to expenditure devolution requires a strategy for building subnational administrative capacity.** Each line ministry should elaborate medium-term sectoral transfer plans that are credible, feasible, and negotiated among the interested parties. These transfer plans should be accompanied by performance indicators that would trigger moving to the next stage. It may be necessary for the central government to reach a consensus with provincial governments not only on performance criteria but also on procedures for costing expenditure responsibilities. In any case, the status of PFM reforms should be a key criterion for determining the pace and scope of expenditure devolution. This process usually takes years (e.g., decentralization in Belgium and Spain lasted several decades; Peru and Mexico have also taken a gradual approach to devolving expenditure mandates based on capacity).

107. **To contain the risk of vertical imbalances, the base for deriving the 40 percent to be transferred to provinces should be narrowly defined.** A narrow definition would help reduce the gap between the supplementary revenue transferred to provinces and the expenditure devolution that can realistically be expected (given the assignment of expenditure responsibilities in the constitution and the presumably slow pace of building provincial capacity). This could be achieved by excluding custom duties, oil sector revenues, and LTU revenues, which are difficult to assign to specific provinces.

108. **Adequate control mechanisms need to ensure that approved provincial budgets are balanced and consistent with the overall macroframework.** The central government will need to keep control over provincial spending by enforcing budget monitoring and reporting mechanisms, including expenditure procedures to be used at the sub-national levels, particularly in respect of internal and external financial control.<sup>24</sup> This will require giving the Ministry of Finance (MOF) an explicit role in regulating, coordinating, and supervising local government finances and their link with national fiscal policies. The MOF should also review and preapprove the budget and borrowing authorizations of subnational governments. Moreover, the central government should remain in control of major taxes and customs and oversee provincial borrowing. At the same time, the administration of all national domestic taxes (both direct and indirect taxes) as well as customs duties should remain the responsibility of the central tax administration. In the medium term, it will be crucial to build local government ability to collect the taxes for which they are responsible

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<sup>24</sup> The regulations should include mechanisms for sanctioning provinces that do not comply.

and to reinforce budget preparation and execution, as well as treasury management and the accounting framework.

109. **The revenue transfer to provinces should be complemented by an equalization component.** The equalization formula should be based on transparent and objective criteria, e.g., the number of inhabitants and the surface, and aim to ensure at least a minimum level of public services. While revenue equalization may be opposed by the provinces with the highest share in total revenue, the planned division of the current 11 provinces into 26 new provinces may help break this resistance; several new provinces emanating from currently “rich” provinces would receive only a very small share of total revenue.

#### **D. Conclusion**

110. **The medium-term fiscal strategy has to reconcile fiscal consolidation with the need for a large increase in infrastructure and social expenditure.** Structural fiscal reforms need to be accelerated to create fiscal space for rebuilding infrastructure after the civil war and increase social spending, particularly on education and health. A tangible and sustained increase in the revenue-to-GDP ratio and an improved structure of public expenditures in line with the PRSP can only be achieved if there is a comprehensive strategy to address the structural fiscal issues discussed in this chapter. Moreover, reforms will need to be implemented much more vigorously than in the recent past. In particular, the authorities will need to (i) confront the vested interest that have so far been successful in preserving the fragmentation and inefficiencies of the revenue collection agencies; (ii) speed up the fight against corruption; and (iii) enforce the rule of law, especially in the mining sector.

## STATISTICAL APPENDIX

Table 1. Democratic Republic of the Congo: GDP by Sector at Market Prices, 2001–06

	2001	2002	2003	2004	2005	2006 Est.
	(CGF Millions)					
Primary sector	930	1,128	1,343	1,497	1,866	2,133
Agriculture, forestry, livestock, hunting, and fishing	827	962	1,143	1,275	1,571	1,796
Mining <sup>1</sup>	103	166	200	222	296	337
Secondary sector	176	266	268	320	461	562
Manufacturing	67	102	107	137	183	216
Construction and public works	51	86	94	105	140	182
Electricity and water	57	78	67	79	138	164
Tertiary sector	277	536	676	810	1,059	1,315
Wholesale and retail trade	146	297	363	396	521	620
Transport and communications	57	71	87	94	127	162
Trade and commerce	48	80	122	136	170	198
Public administration and other services	27	44	52	91	121	167
GDP at factor cost	1,383	1,931	2,287	2,626	3,386	4,009
Import duties and taxes	24	36	64	67	100	159
GDP at market prices	1,407	1,967	2,351	2,692	3,486	4,168
(Annual percentage change)	374	40	20	15	29	20

Sources: Congolese authorities; and IMF staff estimates.

<sup>1</sup> Including processing of minerals.

Table 2. Democratic Republic of the Congo: GDP by Sector at 2000 Prices, 2001–06

	2001	2002	2003	2004	2005	2006 Est.
	(CGF Millions)					
Primary sector	172	175	182	189	197	202
Agriculture, forestry, livestock, hunting, and fishing	141	142	143	144	148	153
Mining <sup>1</sup>	31	34	38	45	49	49
Secondary sector	28	30	35	40	44	46
Manufacturing	12	13	14	15	17	17
Construction and public works	13	15	19	23	25	27
Electricity and water	3	3	3	3	3	3
Tertiary sector	86	89	95	103	113	123
Wholesale and retail trade	54	55	56	60	65	71
Transport and communications	10	12	15	18	19	23
Trade and commerce	16	17	19	20	21	23
Public administration and other services	6	5	5	6	8	6
GDP at factor cost	286	295	312	332	354	371
Import duties and taxes	5	6	6	7	7	9
GDP at market prices	291	301	318	339	361	380
(Annual percentage change)	-2	3	5.7	6.8	6.5	5.1

Sources: Congolese authorities; and IMF staff estimates.

<sup>1</sup> Including processing of minerals.

Table 3. Democratic Republic of the Congo: GDP by Sector at 2000 Prices, 2001–06  
(Annual percentage change)

	2001	2002	2003	2004	2005	2006 Est.
Primary sector	-3.1	2.2	3.6	3.9	4.5	2.3
Agriculture, forestry, livestock, hunting, and fishing	-3.9	0.5	1.2	0.6	2.9	3.3
Mining <sup>1</sup>	0.8	9.9	13.3	16.3	9.7	-0.6
Secondary sector	-4.3	8.7	16.4	15.0	9.3	4.6
Manufacturing	-16.2	6.8	10.1	8.9	9.3	-0.3
Construction and public works	6.7	11.5	24.7	21.6	10.1	7.6
Electricity and water	8.6	2.8	0.0	0.3	3.2	5.8
Tertiary sector	-1.2	3.6	6.3	8.8	9.0	9.6
Wholesale and retail trade	-0.7	1.7	2.3	6.9	8.1	9.9
Transport and communications	8.1	21.0	25.1	13.7	10.9	16.7
Trade and commerce	-10.0	6.1	6.2	8.0	3.2	12.2
Public administration and other services	-138.6	-408.2	79.1	12.7	-69.5	402.6
GDP at factor cost	-2.7	3.2	5.7	6.7	6.5	4.9
Import duties and taxes	44.4	16.3	4.0	12.2	6.9	14.2
GDP at market prices	-2.1	3.5	5.7	6.8	6.5	5.1

Sources: Congolese authorities; and IMF staff estimates.

<sup>1</sup> Including processing of minerals.

Table 4. Democratic Republic of the Congo: Distribution of GDP by Sector at 2000 Prices, 2001–06  
(Percent of GDP)

	2001	2002	2003	2004	2005	Est. 2006
Primary sector	59.0	58.3	57.1	55.6	54.6	53.1
Agriculture, forestry, livestock, hunting, and fishing	48.5	47.0	45.1	42.5	41.0	40.3
Mining <sup>1</sup>	10.6	11.2	12.1	13.1	13.5	12.8
Secondary sector	9.6	10.0	11.1	11.9	12.2	12.2
Manufacturing	4.1	4.2	4.4	4.5	4.6	4.4
Construction and public works	4.6	5.0	5.8	6.7	6.9	7.1
Electricity and water	0.9	0.9	0.8	0.8	0.8	0.8
Tertiary sector	29.6	29.7	29.9	30.4	31.1	32.5
Wholesale and retail trade	16.9	17.2	17.6	18.8	20.3	22.3
Transport and communications	3.5	4.1	4.9	5.2	5.4	6.0
Trade and commerce	5.6	5.8	5.8	5.9	5.7	6.1
Public administration and other services	2.0	1.6	1.6	1.7	2.1	1.7
GDP at factor cost	98.2	98.0	98.0	97.9	97.9	97.8
Import duties and taxes	1.8	2.0	2.0	2.1	2.1	2.2

Sources: Congolese authorities; and IMF staff estimates.

<sup>1</sup> Including processing of minerals.

Table 5. Democratic Republic of the Congo: GDP Deflators by Sector, 2001–06

(2000 = 100)

	2001	2002	2003	2004	2005	2006 Est.
Primary sector	542	643	739	793	946	1,057
Agriculture, forestry, livestock, hunting, and fishing	587	680	798	884	1,059	1,172
Mining <sup>1</sup>	336	491	521	497	605	693
Secondary sector	632	881	762	790	1,043	1,216
Manufacturing	568	808	767	899	1,104	1,306
Construction and public works	383	573	503	462	562	679
Electricity and water	2,230	2,970	2,556	2,971	5,057	5,685
Tertiary sector	322	600	712	784	941	1,066
Wholesale and retail trade	271	543	648	662	804	872
Transport and communications	560	573	563	537	653	714
Trade and commerce	290	458	659	679	824	853
Public administration and other services	1,347	1,445	1,065	1,266	2,080	3,325
Public administration	455	871	860	1,268	1,540	2,346
Other services	893	574	205	-3	540	979
GDP deflator (at factor cost)	484	655	733	790	957	1,080
Import duties and taxes	460	600	1,032	953	1,338	1,863
GDP deflator (at market prices)	484	654	739	793	965	1,097
(Annual percentage change)	384	35	13	7	22	14

Sources: Congolese authorities; and IMF staff estimates.

<sup>1</sup> Including processing of minerals.

Table 6. Democratic Republic of the Congo: Components of Aggregate Demand and Saving, 2001–06

	2001	2002	2003	2004	2005	2006 Est.
	(CGF Billions, unless otherwise indicated)					
Consumption	1,311	1,823	2,070	2,374	3,292	3,880
Government	70	107	145	201	290	352
Nongovernment	1,241	1,716	1,925	2,172	3,003	3,528
Gross investment	114	172	281	332	467	534
Government	25	18	62	72	114	134
Nongovernment	89	154	219	260	353	400
Net exports of goods and services	-17	-73	-52	-105	-393	-413
Exports	199	407	601	789	1,146	1,269
Imports	217	480	653	894	1,539	1,682
GDP at market prices	1,408	1,922	2,299	2,601	3,366	4,001
Net income from abroad <sup>1</sup>	-113	-7	-82	-107	-189	-191
Net current transfers <sup>1</sup>	131	145	171	185	325	455
Gross national disposable income	1,426	2,060	2,388	2,680	3,503	4,265
Gross national saving	8	141	304	270	109	233
Government	-22	-20	-41	-57	-87	-16
Nongovernment	30	161	345	327	196	249
Current account, including transfers	-68	-31	23	-62	-358	-301
	(Percent of GDP)					
Consumption	93.1	94.8	90.0	91.2	97.8	97.0
Government	4.9	5.5	6.3	7.7	8.6	8.8
Nongovernment	88.2	89.3	83.8	83.5	89.2	88.2
Gross investment	8.1	9.0	12.2	12.8	13.9	13.4
Government	1.8	1.0	2.7	2.8	3.4	3.4
Nongovernment	6.3	8.0	9.5	10.0	10.5	10.0
Net exports of goods and services	-1.2	-3.8	-2.3	-4.0	-11.7	-10.3
Exports	14.2	21.2	26.1	30.3	34.0	31.7
Imports	15.4	25.0	28.4	34.4	45.7	42.0
Net income from abroad	-8.0	-0.4	-3.6	-4.1	-5.6	-4.8
Net current transfers	9.3	7.5	7.5	7.1	9.7	11.4
Gross national disposable income	101.3	107.2	103.9	103.0	104.0	106.6
Gross national saving	0.6	7.3	13.2	10.4	3.2	5.8
Government	-1.6	-1.1	-1.8	-2.2	-2.6	-0.4
Nongovernment	2.2	8.4	15.0	12.6	5.8	6.2
Current account, including transfers	-4.8	-1.6	1.0	-2.4	-10.6	-7.5

Sources: Congolese authorities; and IMF staff estimates.

<sup>1</sup> Including debt relief.

Table 7. Democratic Republic of the Congo: Selected Indicators of Production, 2001–06

	2001	2002	2003	2004	2005	2006 Est.
(Thousands of tons, unless otherwise indicated)						
Mineral production						
Copper	38	27	16	19	26	36
GECAMINES	21	18	9	8	16	24
GECAMINES partners	16	9	7	11	10	12
SODIMICO	1	...	...	...	...	...
Cobalt	12	12	8	10	8	11
Cement	192	234	315	417	521	519
Diamonds (millions of carats)	18,198	22,503	26,981	29,516	35,207	28,540
Industrial	6,355	6,328	7,840	7,870	8,368	2,510
Artisanal	11,843	16,174	19,141	21,646	26,839	26,030
Crude oil (millions of barrels)	9	8	9	10	9	9
Gold (kilograms)	1,493	2,154	819	1,202	2,244	230
Agricultural production						
Palm oil	4	5	13	13	18	13
Palm kernel oil	1	0	1	1	0	0
Robusta coffee	3	4	1	1	2	4
Arabica coffee	2	3	2	2	4	4
Cocoa	2	3	1	1	1	0
Rubber	2	1	3	3	6	3
(Thousands of cubic meters)						
Forestry						
Logs	14	17	61	93	108	134
Sawn timber	18	28	20	35	30	32
Transportation						
Port activities (cargo handling)	1,115	1,313	1,458	1,811	2,071	2,183

Sources: Congolese authorities; and IMF staff estimates.

Table 8. Democratic Republic of the Congo: Manufacturing Output, 2001–06

	2001	2002	2003	2004	2005	2006 Est.
(Thousands of tons, unless otherwise indicated)						
Food processing						
Maize flour	12	13	13	14	14	14
Wheat flour	90	88	154	185	184	186
Sugar	58	63	74	81	89	91
Milk	78	70	63	57	61	61
Sweets	...	...	...	...	...	...
Butter	2,823	284	1,240	685	...	...
Animal food	34	29	26	25	22	21
Cigarettes (millions of boxes)	2,299	3,707	2,462	2,922	3,087	3,048
Beer (in millions of liters)	157	135	157	203	252	301
Soft drinks (in millions of liters)	71	76	99	130	156	162
Industrial production						
Steel	307	150	158	145	110	104
Nonferrous metal	6	5	5	5	5	5
Metal products	102	170	187	175	217	241
Industrial chemicals						
Explosives	35	34	32	30	28	26
Soaps	25	15	17	19	21	24
Paints, veneer, and enamel	67	71	92	101	117	129
Acetylene	19	21	14	8	13	10
Tires (in thousands of units)	44	42	45	49	50	53
Nonmetallic						
Cement	201	265	331	402	511	530
Crushed stones	185	194	203	205	210	217
Bottles (in thousands of units)	20	17	21	19	19	18
Oil refinery	0	0	0	0	0	0
(Thousands of square meters, unless otherwise indicated)						
Textiles and shoes						
Cotton fabrics	2,353	3,454	1,291	263	1,079	852
Printed fabrics	7,193	9,526	4,277	4,730	8,514	6,411
Shoes (in thousands of pairs)	1,347	5,676	2,930	3,393	5,878	1,432
Blankets (in thousands of units)	29	20	14	14	15	12
(Thousands of units)						
Light industrial production						
Metallic furniture	1,453	1,095	821	616	615	572
Shovels and spades	19	20	21	22	23	23
(Units)						
Transport equipment						
Shipbuilding	2	1	1	3	3	2
Ship repairs	25	26	28	30	28	21

Sources: Congolese authorities; and IMF staff estimates.

Table 9. Democratic Republic of the Congo: Retail Prices of Petroleum Products, 2001–March 2007<sup>1 2</sup>

(CGF per liter )

	Premium Gasoline		Kerosene		Diesel Oil	
	West region	East region	West region	East region	West region	East region
2001	203	230	176	203	199	224
2002	257	284	222	251	252	279
2003	313	317	282	310	289	298
2004	324	318	284	293	319	313
2005						
January	365	...	360	...	362	...
February	365	...	360	...	362	...
March	367	408	362	398	364	404
April	434	492	417	479	432	488
May	445	505	441	500	443	502
June	408	460	403	453	405	461
July	347	390	343	384	345	394
August	438	494	436	488	437	491
September	439	506	437	501	438	503
October	441	534	439	530	440	532
November	441	534	439	530	440	532
December	441	534	439	530	440	532
2006						
January	441	534	439	530	440	532
February	441	534	439	530	440	532
March	441	534	439	530	440	532
April	442	547	439	542	441	545
May	451	600	446	590	449	595
June	460	600	456	590	458	595
July	460	600	456	590	458	595
August	489	555	473	545	487	546
September	490	554	474	544	488	544
October	490	554	474	544	488	544
November	505	578	486	572	497	575
December	510	585	490	580	500	585
2007						
January	510	585	490	580	500	585
February	510	585	490	580	500	585
March	510	585	490	580	500	585

Source: Congolese authorities.

<sup>1</sup> End-of-period prices.<sup>2</sup> The authorities stopped reporting prices for the eastern region in October 2004.

Table 10. Democratic Republic of the Congo: Production and Consumption of Electricity and Water, 2001–06

	2001	2002	2003	2004	2005	2006 Est.
	(Millions of kilowatt-hours)					
Electricity <sup>1</sup>						
Total production	5,798	5,937	5,980	6,922	7,128	7,633
Hydroelectric plants	5,786	5,926	5,973	6,914	7,119	7,624
Power stations	12	11	7	8	9	9
Net domestic consumption	3,347	3,236	2,893	3,058	3,596	4,507
Exports	1,013	1,145	1,230	1,598	1,707	1,190
Imports	12	9	27	21	21	22
Losses	1,450	1,565	1,884	2,287	1,846	1,958
	(Millions of cubic meters, unless otherwise indicated)					
Water <sup>2</sup>						
Total production	214	206	212	202	226	235
Domestic consumption	126	127	116	134	134	141
Memorandum items:						
Electricity subscribers	291,801	301,611	332,829	353,720	374,611	443,844
Average monthly consumption (Kilowatt-hours)	956	894	724	720	800	846
Water subscribers	430,959	433,904	433,830	445,754	457,678	465,788
Average monthly consumption (Cubic meters)	24	24	22	25	24	25

Sources: Congolese authorities; and IMF staff estimates.

<sup>1</sup> Société Nationale d'Electricité (SNEL).

<sup>2</sup> Régie de Distribution d'Eau (REGIDESO).

Table 11. Democratic Republic of the Congo: Consumer Price Index for Kinshasa, 2001–March 2007  
(Index, August 1995 = 100)

	Food	Rent	Clothing	Other	General Index	Inflation <sup>1</sup>		
						O-p-p	Y-o-y	Y-t-d
2001 <sup>2</sup>	363,385	413,753	718,795	542,836	421,685	357	135	135
2002 <sup>2</sup>	416,203	486,604	787,276	631,717	485,086	28	15	15
2003 <sup>2</sup>	425,187	514,265	823,877	690,264	508,802	12.9	4.8	4.8
2004 <sup>2</sup>	434,306	535,268	857,806	737,712	529,126	4.0	9.5	9.5
2005	546,165	622,109	930,811	892,191	644,137	21.4	21.3	18.9
January	473,509	572,385	922,205	792,433	572,344	2.8	11.8	2.8
February	495,610	594,747	947,884	823,129	596,365	4.2	16.1	7.1
March	512,595	619,490	951,320	867,470	619,223	3.8	19.7	11.2
April	535,126	655,383	944,954	938,159	651,809	5.3	24.8	17.0
May	549,039	665,179	946,601	940,731	662,302	1.6	26.6	18.9
June	535,105	589,119	909,186	806,595	614,681	-7.2	17.4	10.4
July	572,144	639,001	918,502	890,083	661,418	7.6	25.6	18.8
August	575,966	642,102	929,204	928,450	672,353	1.7	26.9	20.7
September	567,546	616,660	925,931	929,574	663,723	-1.3	22.6	19.2
October	574,321	620,749	922,598	929,808	668,336	0.7	21.6	20.0
November	577,674	629,676	922,598	930,092	671,689	0.5	21.9	20.6
December	585,343	620,823	928,753	929,767	675,402	0.6	21.3	21.3
2006	635,950	683,064	1,002,694	982,161	729,096	21.4	18.2	5.0
January	588,974	626,438	931,253	933,094	679,193	0.6	18.7	0.6
February	593,085	636,916	933,654	934,455	683,557	0.6	14.6	1.2
March	603,975	641,735	934,784	937,896	691,652	1.2	11.7	2.4
April	608,838	636,106	951,798	939,997	695,095	0.5	6.6	2.9
May	619,875	652,712	981,082	957,189	709,008	2.0	7.1	5.0
June	628,708	664,438	992,200	960,605	717,213	1.2	16.7	6.2
July	634,473	661,112	995,035	965,887	721,541	0.6	9.1	6.8
August	636,490	697,906	1,012,500	977,759	731,085	1.3	8.7	8.2
September	652,081	730,513	1,039,621	1,002,706	751,453	2.8	13.2	11.3
October	671,288	769,143	1,077,056	1,024,009	774,648	3.1	15.9	14.7
November	695,827	743,072	1,105,449	1,068,910	796,413	2.8	18.6	17.9
December	697,790	736,670	1,077,902	1,083,425	798,297	0.2	18.2	18.2
2007								
January	711,526	746,219	1,088,794	1,097,828	811,449	1.6	19.5	1.6
February	728,095	762,028	1,098,726	1,110,170	826,750	1.9	20.9	3.6
March	742,169	780,001	1,102,899	1,121,696	840,381	1.6	21.5	5.3

Source: Congolese authorities.

<sup>1</sup> O-p-p = over-previous-period i.e. monthly inflation; Y-o-y = year-on-year i.e. twelve-month inflation; Y-t-d = year-to-date i.e. change in prices compared with beginning-of-the-year prices.

<sup>2</sup> Indices are for end-of-period.

Table 12. Democratic Republic of the Congo: Central Government Operations, 2001–06

	2001	2002	2003	2004	2005	2006 Est.
	(CGF Millions)					
Total revenue and grants	91,276	159,640	223,323	299,357	564,898	856,830
Total revenue	91,276	152,193	176,817	248,003	388,956	528,698
Income and profit taxes	16,462	28,304	34,401	53,076	54,763	74,935
Taxes on goods and services	14,451	31,742	52,149	72,071	107,218	146,711
Taxes on international trade	21,768	42,707	53,549	83,818	119,554	163,591
Import duties and taxes	21,111	38,859	48,411	77,464	110,408	151,076
Export duties and taxes	654	3,848	5,120	6,325	9,039	12,375
Other revenue	38,595	49,440	36,717	39,038	107,421	143,461
Grants	0	7,447	46,506	51,354	175,942	328,131
Expenditure	115,147	198,406	319,634	405,772	670,512	883,936
Wages and salaries	23,540	39,287	57,104	93,223	146,776	218,898
Goods and services (incl. off-budget)	65,591	72,916	94,466	119,855	143,842	133,194
Transfers and subsidies	4,984	6,675	19,867	26,590	43,937	87,102
Interest payments <sup>1</sup>	19,532	61,156	86,441	93,647	125,008	138,986
Exceptional expenditure	0	0	0	398	97,071	171,706
Investment	1,694	10,385	61,756	72,059	113,878	134,050
Net lending	-194	7,986	0	0	0	0
Overall balance (commitment)	-23,871	-38,765	-96,311	-106,415	-105,614	-27,106
Primary balance (commitment)	-4,339	22,391	-9,870	-12,768	19,394	4,515
Change in arrears	31,787	4,712	4,176	-1,350	-203,238	-6,587
Float	0	0	0	11,400	397	21,151
Central bank operating result	0	-12,719	-18,430	-19,076	-15,102	-20,072
Overall balance (cash) <sup>2</sup>	7,916	-46,772	-110,565	-115,441	-323,557	-32,614
Financing	-7,916	46,772	110,565	115,441	323,557	32,614
Domestic financing (net)	1,577	-17,240	27,751	215	261,077	43,521
External financing	-6,953	61,795	70,777	89,305	60,062	-13,146
Discrepancy	-2,540	2,217	12,037	25,921	2,418	2,239
<i>Memorandum items:</i>	(Percent)					
Revenue (excl. grants) / total expenditure	79.3	76.7	55.3	61.1	58.0	59.8
Wage bill / revenue (excl. grants)	25.8	25.8	32.3	37.6	37.7	41.4

Sources: Congolese authorities; and IMF staff estimates.

<sup>1</sup> Scheduled interest payments excluding interest on arrears.

<sup>2</sup> From 2002, balances shown here are not cash balances as they include interests due but not paid under the debt rescheduling arrangement.

Table 13. Democratic Republic of the Congo: Central Government Revenue, 2001–06

	2001	2002	2003	2004	2005	2006 Est.
(CGF Millions)						
Total revenue (excl. grants)	91,276	152,193	176,817	248,003	388,956	528,698
Taxes on income and profits	16,462	28,304	34,401	53,076	54,763	74,935
Corporations and enterprises	10,739	15,114	16,944	32,087	26,465	36,214
Individuals	4,994	11,240	14,604	18,324	24,243	33,173
Dividends and interest	112	175	0	0	2	2
Rental income	271	728	1,189	1,373	1,988	2,720
Other	346	1,047	1,665	1,291	2,065	2,826
Taxes on goods and services	14,451	31,742	52,149	72,071	107,218	146,711
Turnover taxes	4,958	18,794	31,827	49,466	79,573	108,883
Domestic turnover tax	4,199	10,734	22,603	32,817	52,315	71,586
Turnover tax on imports	759	8,060	9,224	16,650	27,257	37,298
Selective excises	9,085	12,750	19,945	22,207	27,067	37,037
Beer	3,803	4,987	5,854	6,640	6,791	9,293
Tobacco products	4,051	5,831	5,617	6,247	6,519	8,920
Other excises	1,231	1,932	8,473	9,320	13,757	18,824
Others	408	198	377	398	579	792
Taxes on international trade	21,768	42,707	53,549	83,818	119,554	163,591
Import duties and taxes	21,111	38,859	48,411	77,464	110,408	151,076
Import duties	20,629	38,431	47,461	75,483	107,984	147,759
Statistical tax, penalties	482	427	951	1,981	2,424	3,317
Export duties and taxes	654	3,848	5,120	6,325	9,039	12,375
Export duties	609	2,843	3,690	4,397	6,820	9,332
Turnover tax	13	238	458	344	2	10
Statistical tax, penalties	32	767	971	1,584	2,217	3,034
Others	3	0	18	28	107	140
Other revenue	38,595	49,440	36,717	39,038	107,421	143,461
(Percent of total)						
Taxes on income and profits	18.0	18.6	19.5	21.4	14.1	14.2
Taxes on goods and services	15.8	20.9	29.5	29.1	27.6	27.7
Taxes on international trade	23.8	28.1	30.3	33.8	30.7	30.9
Other revenue	42.3	32.5	20.8	15.7	27.6	27.1
(Percent of GDP)						
Total revenue (excl. grants)	6.5	7.9	7.7	9.5	11.6	13.2
Taxes on income and profits	1.2	1.5	1.5	2.0	1.6	1.9
Taxes on goods and services	1.0	1.7	2.3	2.8	3.2	3.7
Taxes on international trade	1.5	2.2	2.3	3.2	3.6	4.1
Other revenue	2.7	2.6	1.6	1.5	3.2	3.6
<i>Memorandum item:</i>						
GDP (CGF Millions)	1,407,545	1,922,300	2,298,656	2,601,000	3,365,649	4,000,658

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

Table 14. Democratic Republic of the Congo: Central Government Expenditure, 2001–06

	2001	2002	2003	2004	2005	2006 Est.
	(CGF Millions)					
Total budget expenditure	115,147	198,406	319,634	405,772	670,512	883,936
Wages and salaries	23,540	39,287	57,104	93,223	146,776	218,898
Goods and services (incl. off-budget)	65,591	72,916	94,466	119,855	143,842	133,194
Transfers and subsidies	4,984	6,675	19,867	26,590	43,937	87,102
Interest on domestic debt	545	12,613	2,967	7,592	17,761	22,921
Interest on external debt <sup>1</sup>	18,987	48,544	83,474	86,055	107,248	116,065
Exceptional expenditure	0	0	0	398	97,071	171,706
Investment	1,694	10,385	61,756	72,059	113,878	134,050
Net lending	-194	7,986	0	0	0	0
	(Percent of total)					
Wages and salaries	20.4	19.8	17.9	23.0	21.9	24.8
Goods and services (incl. off-budget)	57.0	36.8	29.6	29.5	21.5	15.1
Transfers and subsidies	4.3	3.4	6.2	6.6	6.6	9.9
Interest on domestic debt	0.5	6.4	0.9	1.9	2.6	2.6
Interest on external debt	16.5	24.5	26.1	21.2	16.0	13.1
Exceptional expenditure	0.0	0.0	0.0	0.1	14.5	19.4
Investment	1.5	5.2	19.3	17.8	17.0	15.2
Net lending	-0.2	4.0	0.0	0.0	0.0	0.0
	(Percent of GDP)					
Wages and salaries	1.7	2.0	2.5	3.6	4.4	5.5
Goods and services (incl. off-budget)	4.7	3.8	4.1	4.6	4.3	3.3
Transfers and subsidies	0.4	0.3	0.9	1.0	1.3	2.2
Interest on domestic debt	0.0	0.7	0.1	0.3	0.5	0.6
Interest on external debt	1.3	2.5	3.6	3.3	3.2	2.9
Exceptional expenditure	0.0	0.0	0.0	0.0	2.9	4.3
Investment	0.1	0.5	2.7	2.8	3.4	3.4
Net lending	0.0	0.4	0.0	0.0	0.0	0.0
<i>Memorandum item:</i>						
GDP (CGF Millions)	1,407,545	1,922,300	2,298,656	2,601,000	3,365,649	4,000,658

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

<sup>1</sup> Scheduled interest payments excluding interest on arrears.

Table 15. Democratic Republic of the Congo: Sectoral Distribution of State-Owned Enterprises

Enterprise		Acronym	Activity
<b>Mining</b>			
1.	Générale des Carrières et des Mines	GECAMINES	Mining
2.	Sté de devpt Indust. & Min. du Congo	SODIMICO	Gold mining
3.	Off. Mines d'Or de Kilo-Moto	OKIMO	Mining
4.	Entreprise Minière de Kisenge	EMK'Mn	Mining
5.	Centre d'Expertise, d'Evaluation et de Certification des substances minières	C.E.E.C	Diamond certifying agency
<b>Energy</b>			
6.	La Congolaise des hydrocarbures	COHYDRO	Oil
7.	Régie de Distribution d'eau	REGIDESO	Water company
8.	Société Nationale d'Electricité	SNEL	Electricity company
<b>Industry</b>			
9.	Société d'Exploit. Sidérurgique	SOSIDER	Steel company
10.	Sté Africaine d'Explosifs	AFRIDEX	Explosives company
<b>Agriculture, forestry, and livestock</b>			
11.	Cacaoyer de Bulu	CACAOCO	Cocoa
12.	Palmeraies de Gosuma	PALMECO	Palm oil
13.	Caisse de Stabilisation Cotonnière	CSCO	Cotton board
14.	Office National du Café	ONC	Coffee board
15.	Office National d'Elevage	ONDE	Husbandry
16.	Cotonnière du Congo	COTONCO	Cotton company
17.	Complexe Sucrier de Lotokila	CSL	Sugar company
18.	Réserves Stratégiques Générales	R.S.G.	
<b>Transport</b>			
19.	Lignes Aériennes Congolaises	LAC	National airline
20.	Cie Maritime du Congo	CMDC	Maritime transport
21.	Sté National; de Chemin de Fer du Congo	SNCC	Railways
22.	Sté de Chemin de Fer des Uélés	CFU	Railways
23.	Office National de Transports	ONATRA	Transport
24.	Régie des Voies Aériennes	RVA	Airport security
25.	Régie des Voies Maritimes	RVM	Maritime transport
26.	Régie des Voies Fluviales	RVF	Waterways management
27.	City-Train	CITYTRAIN	Transport
<b>Post and telecommunications</b>			
28.	Office Congolais de Postes et Télécommunications	OCPT	Telecommunications
29.	Agence Congolaise de Presse	ACP	Press agency
30.	Radio Télévision Nationale Congolaise	RTNC	Broadcasting
31.	Régie Nationale de Télécom par Satellite	RENATELSAT	Telecommunications
<b>Financial and social security</b>			
32.	Caisse Générale d'Epargne du Congo	CADECO	Savings institution
33.	Office de Gest° Dettes Publiques	OGEDEP	Debt management agency
34.	Sté Nationale d'Assurances	SONAS	Insurance
35.	Institut Nat. De Sécurité Sociale	INSS	Social security
36.	Office des Douanes et Acciises	OFIDA	Customs administration
37.	Fonds des Promotions de l'Industrie	FPI	Promotion of industrial activity

Table 15. Democratic Republic of the Congo: Sectoral Distribution of State-Owned Enterprises (concluded)

Enterprise		Acronym	Activity
<b>Service</b>			
38.	Office de Gestion de Frêt Maritime	OGEFREM	Maritime freight agency
39.	Office des Petites et Moyennes Entrep.	OPEC	Small enterprises agency
40.	Office des Biens Mal Acquis	OBMA	Agency managing recovered properties
41.	Office Congolais de Contrôle	OCC	Standard control agency
42.	Office National de Tourisme	ONT	Tourism agency
43.	Régie National d'Approvi.et d'Impr.	RENAPI	Office supply
44.	Hôtel Karavia	KARAVIA	Hotel
<b>Commerce</b>			
45.	Foire Internationale de Kinshasa	FIKIN	Trade promotion
<b>Construction</b>			
46.	Office des Routes	OR	Road maintenance
47.	Office des Voiries et Drainage	OVD	Sewage
<b>Medical</b>			
48.	Fonds National Médico-Sanitaire	FONAMES	Health Fund
<b>Recherche</b>			
49.	Institut National des Statistiques	INS	Statistics institute
50.	Institut Nat. d'Etudes & Rech. Agro	INERA	Research institute
51.	Téledétection par Satélite	METELSAT	Survey by satellite
<b>Conservation de la Nature</b>			
52.	Inst. Congolais de Conserv de la nature	ICCN	Conservation of environment
53.	Inst. des Jardins Zoo. & Botan. Congo	IJZBC	Zoo and botanical institute
54.	Inst. des Musées Nationaux du Congo	IMNC	Museum institute
<b>Formation</b>			
55.	Institut National de Préparation Professionnelle	INPP	Training institute

Source: Congolese authorities.

Table 16. Democratic Republic of the Congo: Monetary Survey, 2001–06

	2001	2002	2003	2004	2005	2006 Est.
	(CGF Millions)					
Net foreign assets	-181,368	-222,335	-258,995	-281,772	-273,877	-304,708
Net domestic assets	257,401	321,167	389,112	503,967	550,985	743,618
Net domestic credit	23,426	16,360	49,204	68,834	148,033	245,406
Net credit to government	12,242	2,328	29,582	27,212	84,567	132,088
Credit to the private sector	10,789	13,205	19,393	39,823	63,021	111,147
Credit to parastatals	395	827	228	1,799	444	2,171
Other items, net	233,974	304,807	339,908	435,133	402,952	498,211
Broad money (M2)	69,686	94,089	124,503	215,270	267,292	428,794
Narrow money (M1)	42,627	57,893	72,110	117,078	138,893	212,690
Currency in circulation	31,873	49,757	63,148	101,467	119,935	181,886
Demand deposits	10,754	8,135	8,962	15,611	18,958	30,804
Quasi money	27,059	36,196	52,393	98,192	128,399	216,104
Time deposits in domestic currency	25	162	321	362	381	429
Foreign currency deposits	27,034	36,034	52,071	97,830	128,018	215,675
Import deposits	6,347	4,744	5,616	6,956	9,819	11,430
	(Annual change in percent of beginning-of-period broad money, unless otherwise indicated)					
Net foreign assets	-694.6	-58.8	-39.0	-18.3	3.7	-11.5
Net domestic assets	933.1	91.5	72.2	92.3	21.8	72.1
Net domestic credit	30.7	-10.1	34.9	15.8	36.8	36.4
Net credit to government	-6.8	-14.2	29.0	-1.9	26.6	17.8
Credit to the private sector	37.5	3.5	6.6	16.4	10.8	18.0
Credit to parastatals	-0.1	0.6	-0.6	1.3	-0.6	0.6
Other items, net	902.4	101.6	37.3	76.5	-14.9	35.6
Broad money (M2)	216.7	35.0	32.3	72.9	24.2	60.4
Narrow money (M1)	109.4	21.9	15.1	36.1	10.1	27.6
Currency in circulation	72.3	25.7	14.2	30.8	8.6	23.2
Demand deposits	37.1	-3.8	0.9	5.3	1.6	4.4
Quasi money	107.3	13.1	17.2	36.8	14.0	32.8
Time deposits in domestic currency	0.1	0.2	0.2	0.0	0.0	0.0
Foreign currency deposits	107.2	12.9	17.0	36.8	14.0	32.8
Import deposits	21.8	-2.3	0.9	1.1	1.3	0.6
<i>Memorandum items:</i>						
Velocity (GDP/ broad money)	20.2	20.4	18.4	12.0	12.3	9.0
Net foreign assets (US\$ Millions)	-664	-641	-640	-708	-577	-651
Of which: central bank	-716	-700	-729	-874	-754	-926

Source: Congolese authorities.

Table 17. Democratic Republic of the Congo: Central Bank Accounts, 2001–06  
(CGF Millions)

	2001	2002	2003	2004	2005	2006 Est.
Net foreign assets	-195,368	-242,846	-294,888	-347,579	-357,785	-433,605
Foreign assets	6,819	29,776	36,414	104,915	56,589	77,783
Foreign liabilities	202,187	272,622	331,302	452,494	414,374	511,388
Net domestic assets	247	304	370,038	470,260	495,988	644,918
Net domestic credit	14,640	9,634	42,489	52,163	123,246	178,822
Net credit to government	13,080	5,472	36,900	38,382	103,278	163,131
Gross credit to government	19,839	25,810	60,984	150,513	158,578	175,608
Government deposits	6,759	20,336	24,085	112,131	55,300	12,477
Credit to commercial banks	414	2,799	3,901	12,604	19,964	14,771
Credit to parastatals	0.3	0.4	0.3	0.3	0.3	1.1
Credit to the private sector	1,146	1,363	1,689	1,176	5	919
Other items, net	-14,393	-9,330	327,549	418,098	372,741	466,096
Assets = Liabilities	49,966	61,012	410,122	551,538	519,925	684,651
Monetary base	51,354	61,359	75,151	122,681	138,203	211,313
Currency in circulation	32,678	51,559	63,148	101,467	119,935	181,886
In bank vaults	805	1,801	2,748	4,421	3,859	3,448
Outside banks	31,873	49,757	63,148	101,467	119,935	181,886
Banks' deposits	2,896	638	3,164	6,434	8,471	22,556
Parastatals' deposits	91	52	86	193	89	207
Private sector deposits	2,683	128	270	53	78	117
Foreign currency deposits	7,637	5,333	3,964	6,071	5,620	4,424
Import deposits	5,369	3,650	3,459	4,688	3,361	2,818

Source: Congolese authorities.

Table 18. Democratic Republic of the Congo: Balance Sheet of Commercial Banks, 2001–06  
(CGF Millions)

	2001	2002	2003	2004	2005	2006 Est.
Net foreign assets	14,001	20,512	35,893	65,807	83,908	128,897
Foreign assets	29,295	30,840	67,188	108,043	109,291	163,730
Foreign liabilities	15,295	10,328	31,295	42,235	25,383	34,832
Reserves	4,359	3,072	5,912	10,855	12,330	26,004
Cash in vault	805	1,801	2,748	4,421	3,859	3,448
Deposits with central bank	3,554	1,271	3,164	6,434	8,471	22,556
Net domestic credit	9,201	9,524	13,779	35,709	53,221	103,911
Net credit to government	-838	-3,144	-7,318	-11,170	-18,711	-31,043
Gross credit to government	1,253	593	780	2,637	2,637	2,637
Government deposits	2,092	3,737	8,097	13,807	13,807	13,807
Credit to parastatals	395	827	228	1,799	444	2,170
Credit to the private sector	9,644	11,842	17,704	38,646	63,017	110,227
Other items, net	-1,442	8,338	9,988	12,094	22,378	25,913
Assets = Liabilities	27,560	41,446	62,410	118,063	163,370	263,483
Deposits	27,402	38,819	57,035	107,485	141,570	242,161
Demand deposits	7,980	7,956	8,606	15,364	18,791	30,481
Time deposits	25	162	321	362	381	429
Foreign currency deposits	19,397	30,701	48,108	91,759	122,398	211,252
Credit from central bank	622	1,533	3,218	8,309	15,341	12,711
Import deposits	978	1,094	2,157	2,269	6,458	8,612

Source: Congolese authorities.

Table 19. Democratic Republic of the Congo: List of Commercial Banks

	Date of establishment	Capital and reserves (US\$ Millions)	Involvement (Percent of capital)			Private sector (foreign)	Market share, 2006	Number of branches, 2006
			Government	Private sector (domestic)	Private sector (foreign)			
1	Banque Commerciale du Congo (BCC)	17,849	26	49	26	24	11	
2	Afriland First Bank Congo Démocratique	660	0	6	94	1	1	
3	Banque Congolaise	16,957	10	39	51	15	14	
4	Banque Internationale pour l'Afrique au Congo	5,370	0	0	100	9	6	
5	Procrédit BankCongo	3,321	0	0	100	3	2	
6	Banque Internationale de Crédit (BIC)	7,083	0	100	0	11	5	
7	Citigroup	4,902	0	0	100	8	1	
8	Banque Privée du Congo		0	50	50	0	1	
9	Rawbank	12,413	0	14	86	7	3	
10	Stanbic Bank	5,998	0	0	100	15	1	
11	Trust Merchant Bank	8,874	0	0	100	7	4	
12	Société Financière de Banque <sup>1</sup>	3,000	0	4	96	0	0	
13	Mining Bank Congo <sup>1</sup>	1,500	0	0	100	0	0	
14	Invest Bank Congo <sup>1</sup>	2,000	0	12	88	0	0	
15	Solidaire Banque Internationale <sup>1</sup>	2,000	0	28	72	0	0	
16	La Cruche Banque <sup>1</sup>	1,600	0	100	0	0	0	

Source: Congolese authorities.

<sup>1</sup> Banques agréées mais non encore opérationnelles.

Table 20. Democratic Republic of the Congo: Distribution of Commercial Banks' Credits by Sector, 2001–06

	2001	2002	2003	2004	2005	2006 Est.
(CGF Millions)						
Agriculture	3,126	1,398	2,130	3,480	5,728	3,000
Mining	57	89	3,879	5,298	4,341	8,343
Manufacturing	1,657	1,976	4,247	5,123	4,374	4,806
Construction	138	140	821	2,339	2,361	2,062
Energy	42	184	185	1,405	123	4,903
Transportation	437	833	1,973	2,497	11,632	919
Distribution	2,326	4,278	4,571	6,966	12,547	6,918
Trade	33	...	...	...	...	147
Imports	0	...	...	...	...	147
Exports	33	...	...	...	...	...
Other	2,404	3,783	8,265	16,089	22,519	24,284
Total	10,220	12,681	26,071	43,197	63,625	55,381
(Percent of total)						
Agriculture	30.6	11.0	8.2	8.1	9.0	5.4
Mining	0.6	0.7	14.9	12.3	6.8	15.1
Manufacturing	16.2	15.6	16.3	11.9	6.9	8.7
Construction	1.4	1.1	3.1	5.4	3.7	3.7
Energy	0.4	1.5	0.7	3.3	0.2	8.9
Transportation	4.3	6.6	7.6	5.8	18.3	1.7
Distribution	22.8	33.7	17.5	16.1	19.7	12.5
Trade	0.3	...	...	...	...	0.3
Imports	0.0	...	...	...	...	0.3
Exports	0.3	...	...	...	...	...
Other	23.5	29.8	31.7	37.2	35.4	43.8

Sources: Congolese authorities; and IMF staff estimates.

Table 21. Democratic Republic of the Congo: Developments in the Commercial Banking System, 2001–06

	2001	2002	2003	2004	2005	2006 Est.
(CGF Millions, end of period)						
Assets of commercial banking system	29,295	36,548	67,188	108,043	109,291	163,730
Loans of commercial banks	15,295	16,036	31,295	42,235	25,383	34,832
Deposits of commercial banks	27,401	38,819	57,035	107,988	141,570	221,972
Congo francs	8,005	8,118	8,927	16,198	19,172	5,489
Foreign exchange	19,397	30,701	48,108	91,790	122,398	216,483
(Percent of GDP)						
Assets of commercial banking system	2.1	1.9	2.9	4.2	3.2	4.1
Loans of commercial banks	1.1	0.8	1.4	1.6	0.8	0.9
Deposits of commercial banks	1.9	2.0	2.5	4.2	4.2	5.5
(Percent per annum)						
Lending rates						
Central Bank of the Congo						
Rediscount	140	24	8	14	29	40
Money market	140	24	8	14	34	50
Advances	165	49	15	18	34	50
Commercial banks						
Short-term credit	170	49	28	28	63	48
Medium-term credit	170	49	28	28	63	48
Memorandum items:						
Broad money (CGF millions)	69,686	94,089	124,503	215,270	267,292	428,794
Percent of GDP	5	5	5	8	8	11
Currency in circulation outside banks	31,417	49,757	63,148	101,467	119,935	181,886
Percent of GDP	2	3	3	4	4	5
Percent of broad money	45	53	51	47	45	42
Nominal GDP (CGF billions)	1,407	1,922	2,299	2,601	3,366	4,001

Source: Congolese authorities.

Table 6. Democratic Republic of the Congo: Balance of Payments Summary, 2004–12

	2004	2005	2006	2007	2008	2009	2010	2011	2012
	Est.	Proj.	Proj.	SMP	Proj.	Proj.	Proj.	Proj.	Proj.
	(US\$ Millions; unless otherwise indicated)								
Current account	-157	-755	-644	-858	-1,168	-1,183	-1,248	-1,432	-1,326
Merchandise trade	60	-402	-421	-359	-484	-506	-540	-510	-379
Exports, f.o.b.	1,813	2,071	2,319	2,521	3,033	3,301	3,665	4,136	4,717
Of which: mining products	1,151	1,439	1,614	1,876	2,280	2,579	2,954	3,429	4,001
Imports, f.o.b.	-1,753	-2,473	-2,740	-2,879	-3,517	-3,807	-4,205	-4,646	-5,095
Of which: aid-related imports	-306	-644	-665	-665	-491	-421	-396	-485	-513
Services	-322	-427	-461	-580	-734	-806	-864	-962	-1,001
Receipts	172	343	390	358	358	386	452	491	534
Expenditure	-494	-770	-851	-938	-1,092	-1,192	-1,316	-1,453	-1,535
Of which: aid-related imports	-112	-166	-232	-204	-174	-153	-137	-124	-111
Income	-286	-413	-470	-462	-411	-413	-420	-581	-630
Receipts	91	105	18	18	19	20	21	24	27
Expenditure	-377	-518	-487	-480	-430	-433	-440	-604	-657
Of which: interest payments <sup>1</sup>	-180	-283	-354	-233	-274	-264	-257	-254	-251
Current transfers	392	487	708	542	462	542	576	621	685
Of which: official aid	327	355	686	507	429	460	494	532	575
Capital and financial account	-129	218	143	291	733	816	888	1,071	1,097
Capital account <sup>2</sup>	-5	-91	82	76	164	224	298	342	426
Official	105	58	151	152	246	313	394	446	534
Private	-109	-149	-70	-75	-82	-88	-96	-103	-109
Financial account	-124	309	61	215	569	592	590	728	671
Official capital	-11	-30	-357	-170	-313	-334	-144	-67	47
Gross disbursements	220	253	114	330	172	191	197	297	387
Scheduled amortization <sup>3</sup>	-230	-283	-471	-500	-485	-525	-341	-364	-339
Private capital (net) <sup>4</sup>	-113	339	419	385	882	926	734	795	624
Of which: foreign direct investment	435	257	263	303	966	1,263	1,192	793	1,034
Balance before errors and omissions	-286	-537	-500	-567	-434	-367	-361	-361	-229
Errors and omissions	29	168	70	0	0	0	0	0	0
Overall balance	-257	-368	-431	-567	-434	-367	-361	-361	-229
Financing	-393	-99	-331	-83	-243	-351	-275	-360	-506
Net change in non-Fund arrears <sup>5</sup>	-332	-99	-259	0	0	0	0	0	0
Net banking sector reserves (increase = -)	-61	1	-72	-83	-243	-351	-275	-360	-506
Of which: net Fund credit	69	37	0	-62	-124	-140	-147	-155	-87
Financing need before exceptional assistance	-649	-467	-762	-650	-678	-718	-636	-721	-735
Exceptional financing	649	467	762	564	565	607	509	520	474
Consolidation of arrears	344	100	302	0	-58	0	0	0	0
Debt relief on current debt service	305	367	461	564	623	607	509	520	474
Residual financing need (overfinancing = +)	0	0	0	-86	-112	-111	-127	-201	-261
	(Percent of GDP; unless otherwise indicated)								
<i>Memorandum items:</i>									
Debt service, after debt relief (percentage of exports of goods and services) <sup>4</sup>	8.2	6.8	10.0	11.7	5.8	5.0	2.2	2.1	2.2
Current account balance, incl. grants, before debt relief	-2.4	-10.6	-7.5	-9.6	-11.5	-10.8	-10.5	-11.1	-9.4
Current account balance, excl. official transfers, before debt relief	-7.4	-15.6	-15.6	-15.3	-15.8	-15.0	-14.7	-15.2	-13.5
Current account balance, incl. grants, after debt relief	-1.0	-7.6	-3.7	-5.2	-7.4	-6.8	-7.2	-7.7	-6.3
Current account balance, excl. grants, after debt relief	-6.0	-12.6	-11.8	-10.8	-11.6	-11.0	-11.4	-11.8	-10.4
Gross official reserves (US\$ millions)	236.2	131.2	154.5	171.3	264.3	315.4	443.5	607.3	889.1
Weeks of non-aid-related imports of goods and services	5.4	2.7	3.0	3.1	3.3	3.5	4.5	5.6	8.6
Percent of short-term debt by residual maturity									

Sources: Congolese authorities and IMF staff estimates and projections.

<sup>1</sup> Including interest due to the IMF.<sup>2</sup> Excluding repayments to the IMF.<sup>3</sup> Adjusted to reflect a shift to the 5th *Balance of Payment Manual*. Current transfers and the current account balance have been adjusted accordingly.<sup>4</sup> Including unrecorded transactions. The latter may be substantial, given the weak state of statistics.<sup>5</sup> Including US\$58 million of arrears in 2006, on non reschedulable Paris Club debt service.

Table 23. Democratic Republic of the Congo: Composition of Commodity Exports, 2001–06  
(Values in US\$ Millions; volumes and unit values as indicated)

	2001	2002	2003	2004	2005	2006 Est.
Total exports, f.o.b.	880	1,076	1,340	1,813	2,071	2,319
<i>Of which</i> : parallel exports	273	276	326	298	277	243
Volume (2002 = 100)	100	100	100	120	116	116
Unit value (2002 = 100)	124	100	124	140	157	146
Copper	42	44	19	57	113	257
Volume (thousands of tons)	26	28	10	19	29	36
Unit value (US\$ per ton)	1,578	1,559	1,869	2,967	3,890	6,952
Cobalt	70	175	102	407	260	373
Volume (thousands of tons)	3	12	4	8	7	11
Unit value (US\$ per ton)	20,437	14,862	23,686	52,251	35,025	34,384
Gold <sup>1</sup>	21	10	0	0	0	3
Volume (tons)	2	1	0	0	0	0
Unit value (US\$ millionsdollars per ton)	8	10	0	0	0	16
Diamonds <sup>1</sup>	462	653	957	1,009	1,158	884
Volume (millions of carats)	29	35	39	62	41	37
Unit value (US\$ per carat)	16	17	21	21	23	19
Crude oil	201	205	251	360	453	580
Volume (millions of barrels)	9	9	9	10	9	9
Unit value (US\$ per barrel)	23	24	27	36	50	61
Coffee <sup>1</sup>	2	15	13	18	8	38
Volume (thousands of tons)	4	7	5	7	2	8
Unit value (US\$ per ton)	447	930	1,071	1,188	1,685	1,810
Rubber	1	0	2	4	4	8
Volume (thousands of tons)	2	0	2	3	2	3
Unit value (US\$ per ton)	601	477	1,041	1,385	1,585	2,339
Other exports	82	-27	-4	-42	76	177

Sources: Congolese authorities; and IMF staff estimates.

<sup>1</sup> Includes parallel-market exports.

Table 24. Democratic Republic of the Congo: Composition of Imports, 2001–06

	2001	2002	2003	2004	2005	2006 Est.
Imports, total						
Value, f.o.b.	773	1,031	1,223	1,753	2,473	2,740
Volume index (2002 = 100)	77	100	127	161	181	196
Unit value index (2002 = 100)	96	100	107	117	126	130
Oil products						
Value, f.o.b.	63	106	108	96	115	158
Volume index (2002 = 100)	82	100	123	160	162	165
Unit value index (2002 = 100)	97	100	116	154	67	91
Non-oil						
Value, f.o.b.	710	925	1,115	1,657	2,358	2,582
Volume index (2002 = 100)	77	100	135	183	219	240
Unit value index (2002 = 100)	96	100	114	122	111	111
Aid-related imports <sup>1</sup>	194	349	347	448	702	666
Non-aid-related imports	579	682	877	1,305	1,771	2,075
	(Percent of total imports)					
Imports						
Oil	8.1	10.2	8.8	5.5	4.7	5.8
Non-oil	91.9	89.8	91.2	94.5	95.3	94.2
Aid-related imports	25.1	33.9	28.3	25.6	28.4	24.3
Non-aid-related imports	74.9	66.1	71.7	74.4	71.6	75.7

Sources: Congolese authorities; and IMF staff estimates.

<sup>1</sup> Estimated.

Table 25. Democratic Republic of the Congo: Foreign Trade Indicators, 2001–06

	2001	2002	2003	2004	2005	2006 Est.
(Index, 2002 = 100, unless otherwise indicated)						
Merchandise exports						
Value, U.S. dollars	82	100	125	169	182	205
(percent change)	-1	22	25	35	8	13
Volume index	88	100	100	120	116	116
(percent change)	-2	13	0	20	-3	-1
Unit values, U.S. dollars	93	100	124	140	157	178
(percent change)	1	8	24	13	12	13
Merchandise imports						
Value, U.S. dollars	74	100	137	188	227	252
(percent change)	19	35	37	38	21	11
Volume	77	100	127	161	181	196
(percent change)	27	31	27	27	13	8
Unit values, U.S. dollars	96	100	107	117	126	130
(percent change)	-6	4	7	9	8	3
Terms of trade	96	100	116	120	125	137
(percent change)	7	4	16	4	4	10

Sources: Congolese authorities; and IMF staff estimates.

Table 26. Democratic Republic of the Congo: External Public and Publicly Guaranteed Debt Outstanding, 2001–06<sup>1</sup>

	2001	2002	2003	2004	2005	2006 Est.
(US\$ Millions)						
External public debt	12,457	10,709	10,775	10,542	10,000	10,519
Multilateral institutions	2,754	3,567	3,625	3,925	4,090	4,214
IMF	503	547	595	716	792	831
Other	2,251	3,020	3,030	3,209	3,297	3,383
Official bilateral creditors	9,386	6,789	6,558	6,499	5,410	5,658
Paris Club	9,088	6,352	6,117	6,056	5,106	5,341
Other	298	437	441	443	304	317
Commercial creditors (Kinshasa Club)	280	296	535	60	472	618
Commercial creditors (London Club)	37	58	58	58	29	29
(Percent of total)						
External public debt	100.0	100.0	100.0	100.0	100.0	100.0
Multilateral institutions	22.1	33.3	33.6	37.2	40.9	40.1
IMF	4.0	5.1	5.5	6.8	7.9	7.9
Other	18.1	28.2	28.1	30.4	33.0	32.2
Official bilateral creditors	75.3	63.4	60.9	61.7	54.1	53.8
Paris Club	73.0	59.3	56.8	57.4	51.1	50.8
Other	2.4	4.1	4.1	4.2	3.0	3.0
Commercial creditors (Kinshasa Club)	2.2	2.8	5.0	0.6	4.7	5.9
Commercial creditors (London Club)	0.3	0.5	0.5	0.5	0.3	0.3

Sources: Congolese authorities; and IMF staff estimates.

<sup>1</sup> Including arrears on principal and interest, as well as staff estimates of accumulated unpaid late interest where data are available.

Table 27. Democratic Republic of the Congo: Debt Service Due and Paid, 2001–06 <sup>1</sup>  
(US\$ Millions)

	2001	2002	2003	2004	2005	2006 Est.
Total debt service due	728	548	438	420	344	485
Principal	318	263	242	219	202	284
Multilateral institutions	61	41	33	52	59	64
IMF	0	0	0	0	0	0
Other	61	41	33	52	59	64
Official bilateral creditors	251	222	201	146	99	155
Paris Club	236	206	185	130	89	146
Other	15	16	16	16	9	9
Commercial creditors (Kinshasa Club)	6	5	8	20	45	65
Commercial creditors (London Club)	0	0	0	0	0	0
Interest	410	285	196	201	142	201
Multilateral institutions	74	40	19	24	26	30
IMF	16	6	3	5	6	7
Other	58	34	16	19	19	23
Official bilateral creditors	336	245	176	176	108	163
Paris Club	333	243	173	174	107	162
Other	2	2	3	2	2	2
Commercial creditors (Kinshasa Club)	1	1	0	1	4	5
Commercial creditors (London Club)	0	0	0	0	3	2
Total debt service paid	0	26	126	95	144	126
Principal	0	12	75	71	118	113
Multilateral institutions	0	12	15	21	31	13
IMF	0	0	0	0	0	0
Other	0	12	15	21	31	13
Official bilateral creditors	0	0	57	29	50	56
Paris Club	0	0	57	29	50	56
Other	0	0	0	0	0	0
Commercial creditors (Kinshasa Club)	0	0	3	22	38	43
Commercial creditors (London Club)	0	0	0	0	0	0
Interest	0	14	51	24	26	14
Multilateral institutions	0	14	15	7	4	2
IMF	0	2	2	1	0	0
Other	0	12	13	6	4	2
Official bilateral creditors	0	0	35	16	19	10
Paris Club	0	0	35	16	19	10
Other	0	0	0	0	0	0
Commercial creditors (Kinshasa Club)	0	0	0	1	3	2
Commercial creditors (London Club)	0	0	1	0	0	0

Sources: Congolese authorities; and IMF staff estimates.

<sup>1</sup> Until 2001, includes interest payments on arrears.

## APPENDIX

### Democratic Republic of the Congo: Summary of the Tax System, 2006 (Amounts are expressed in Congo francs, unless otherwise indicated)

Tax	Nature and Scope of Tax	Exemptions and Deductions	Rates
I. Income Taxes			
1. Professional income tax ( <i>impôt sur les revenus professionnels</i> (IRP))			
a. Profit tax	<p>Levied on profits of industrial, commercial, artisanal, farming, or real estate enterprises and associations. Also levied on profits from the sale, transfer, or assignment of patents, trademarks, manufacturing processes or methods; on profits from the realization of assets and on the transfer of firms, practices, or offices.</p> <p>Enterprises having less than 200 employees and assets of less than CGF 1,200,000 are considered small enterprises (SMEs).</p> <p>A withholding tax applies to imports (1 percent for registered enterprises and 5 percent for others) and wholesale purchases (at a rate of 2 percent). The withholding tax is deductible from the IRP upon payment of the tax installments and balance.</p>	<p>The following entities are exempt from the profit tax: the central government, provinces, towns, and religious, scientific, or philanthropic institutions.</p>	<ul style="list-style-type: none"> <li>• 40 percent of net profits for taxpayers under ordinary law and category 1 SMEs (annual turnover in excess of CGF 300,000);</li> <li>• progressive schedule for category 2 SMEs (turnover of CGF 150,000–300,000);</li> <li>• flat rate for category 3 SMEs (turnover of CGF 75,000–150,000); and</li> <li>• quarterly quotas for category 4 SMEs (turnover below CGF 75,000).</li> <li>• minimum contribution 1/1000 of turnover.</li> </ul>
b. Individual income tax ( <i>impôt professionnel sur les rémunérations</i> )	<p>Levied on the remuneration of individuals paid by third parties (wages, various remunerations, pensions,</p>	<p>Family allowances, social security, retirement pension, and unemployment insurance</p>	<p>Percent 0–72,000                      3</p>

**Democratic Republic of the Congo: Summary of the Tax System, 2006**  
(Amounts are expressed in Congo francs, unless otherwise indicated)

Tax	Nature and Scope of Tax	Exemptions and Deductions	Rates
(IPR))	etc.). The tax is withheld at the source by the employer and paid to the tax collecting agency before the tenth day of the month following payment of remunerations.	contributions are deducted from the tax base. Retirement, disability, and military pensions are IPR-exempt, as is the remuneration of employees of international organizations and diplomatic missions.	5 10 15 20 25
		788,401–1,200,000 1,200,001–1,686,000 1686,001–2,091,600 2,091,601–2,331,600 > 2,331,600	30 35 40 45 50
2. Extraordinary tax on remuneration of expatriates	Levied on the gross amount of remuneration paid by employers to their expatriate staff.	2 percent reduction for each dependent for incomes below the 8th bracket.  The government, nonprofit organizations, international organizations, and embassies are exempted.	50 without exceeding 35 percent of taxable income. 25 percent.
3. Rental income tax ( <i>impôt sur les revenus locatifs</i> (IRL))	Levied on gross annual income from the leasing and subleasing of buildings and land. The owner shall submit an annual return before March 31 of the year following that in which the income was realized.	The central government, towns, provinces, public utility companies, religious, philanthropic, and scientific institutions, and diplomatic missions.	22 percent of gross income.
4. Capital income tax ( <i>impôt sur les revenus mobiliers</i> )	Levied on gross amount of interest payments and dividends received by shareholders and associates.	.	20 percent of gross amount.

**Democratic Republic of the Congo: Summary of the Tax System, 2006**  
(Amounts are expressed in Congo francs, unless otherwise indicated)

Tax	Nature and Scope of Tax	Exemptions and Deductions	Rates
<p>II. Turnover Tax (<i>impôt sur le chiffre d'affaires</i> (ICA))</p> <p>1. Domestic ICA</p>	<p>General tax on sales by producers on local markets, services provided or used in the DRC, and construction work.</p> <p>Levied on gross invoice amounts, except for construction work (base set at <math>\frac{3}{4}</math> of the value of the work).</p> <p>Payment is made in two stages:</p> <ul style="list-style-type: none"> <li>- first installment before the 20th of the month in which the transactions were effected, and</li> <li>- balance, before the 15th of the following month.</li> </ul>	<p>ICA-exempt:</p> <ul style="list-style-type: none"> <li>- retail sales;</li> <li>- sales of handcraft</li> <li>- works of national interest;</li> <li>- medical and paramedical activities;</li> <li>- goods transport;</li> <li>- funeral services;</li> <li>- hotel charges for national and international civil servants.</li> </ul>	<ul style="list-style-type: none"> <li>3 percent: local products similar to those imported with a</li> <li>5 percent customs duty;</li> <li>9 percent bank services</li> <li>13 percent: other products</li> <li>18 percent: provision of services and construction work;</li> <li>6 percent: domestic air flights;</li> <li>15 percent: international air flights; and</li> <li>30 percent: provision of assistance when the provider is not established in the DRC.</li> </ul>
<p>2. ICA on imports</p>	<p>Levied on the c.i.f. value of imports plus import duties. Tax levied by the customs and excise office (OFIDA). For petroleum products (including gasoline, kerosene, diesel oil and fuel oil, and liquefied petroleum gas), ICA is set in the context of a petroleum products pricing (PPP) formula and based on a 3-month average border price, including import duty. The PPP formula (and petroleum products taxation) is subject to revision when the exchange rate, the border price or the consumption volume vary by more than 5 percent.</p>	<p>Imports expressly exempted.</p>	<ul style="list-style-type: none"> <li>3 percent for goods liable to customs duty of 5 percent and</li> <li>13 percent for other imports. (including petroleum products)</li> </ul>

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Tax	Nature and Scope of Tax	Exemptions and Deductions	Rates
<b>III. Nonpersonal Property Taxes</b>			
Tax on property ownership.			
1. Land tax	Lump-sum tax calculated on the type of real estate, its location, and the standing of the owner.	The central government, towns, provinces, public utility companies, religious, philanthropic and scientific institutions, and diplomatic missions; permanent exemption for small farms.	Built properties: from US\$1.5–75/floor according to location; Nonbuilt properties: from US\$1.5–30, according to location.
2. Tax on mining and petroleum concessions	Tax owed by holders of concessions granted by the government for mining and petroleum research and/or exploration.	Exemption of older tax payers (55 years) and widower.	Residential: from US\$0.3–1.5/m <sup>2</sup> according to a classification of four ranks. US\$0.02/ha for research concessions and US\$0.04/ha for exploitation concessions in first year (increase of 50 percent in the 2nd year, 75 percent in the 3rd year and 100 percent in the 4th year);
3. Vehicle tax and special tax on highway use (toll fee—TSCR)	The vehicle tax is based on the weight and horsepower of motor vehicles. The TSCR is a tax on road use.	Exempt are vehicles owned by the central government, international organizations, the diplomatic corps, utility companies, mopeds, and ambulances.	Vehicle tax: tax sticker price ranges between US\$5–44 according to horsepower; TSCR: annual sticker price between US\$6–45 per vehicle.

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Tax	Nature and Scope of Tax	Exemptions and Deductions	Rates
<b>IV. Excise Duties</b>			
1. Selected products	Excise duties are levied on a large number of locally manufactured or imported consumer goods. Base: for imports: c.i.f. value + import duty. For locally manufactured products: ex-factory price. Examples: 3 percent on flavored beverages and other nonalcoholic drinks; 5 percent on sugar, cement, and matches; 10 percent on mineral and sparkling waters, ethyl alcohol, and eau de vie; perfumes and eaux de toilette; 15 percent on beer under 6° proof and sparkling wines; and wines under 15° proof; 20 percent on vermouths; 25 percent on wines more than 15° proof; 30 percent on other alcoholic drinks (whiskies, rum, gin, vodka, etc.); and 40 percent on cigars, cigarettes, and cigarillos.		Eight rates: 3 percent, 5 percent, 10 percent, 15 percent, 20 percent, 25 percent, 30 percent, and 40 percent.
2. Petroleum products	For petroleum products (including gasoline, kerosene, diesel oil and fuel oil, and liquefied petroleum gas), excise duty is set in the context of a petroleum products pricing (PPP) formula and based on a set reference border price		Rate: 25 percent for gasoline, 15 percent for other products.

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Tax	Nature and Scope of Tax	Exemptions and Deductions	Rates
<b>V. Customs Duties</b>			
1. Import duties	Levied on the c.i.f. value of imports. For petroleum products (including gasoline, kerosene, diesel oil and fuel oil, and liquefied petroleum gas), import duty is set in the context of a petroleum products pricing (PPP) formula and based on a 3-month average border price.	Various exemptions or reduced rates (e.g., 5 percent instead of 10 percent or 20 percent for inputs designated as not available in the DR Congo) under the customs code, the investment and mining codes, and international agreements.	4 rates: 0 percent, 5 percent, 10 percent, and 20 percent. Examples: 0 percent on farm inputs, banknotes, and stamps; 5 percent on capital goods, fuel oil, and industrial flours; 10 percent on widely consumed food products, pharmaceutical products, flours for direct consumption, spare parts and petroleum products; 20 percent on finished products.
2. Other levies on imports	Direction Générale des Recettes Administratives, Judiciaires, Domaniales et de participations (DGRAD) various, at fixed rates or ad valorem; Office congolais de contrôle (OCC) 1.5 percent on the f.o.b./c.i.f. value (including fee for pre-shipment inspection company BIVAC when import value exceeds US\$ 2500); Fonds pour la Promotion de l'Industrie (FPI) 2 percent value c.i.f. + customs duties, and Office de Gestion du Frêt Maritime (OGEFREM) 0.5 percent of the c.i.f. value.		Various ad valorem rates: (OCC, OGEFREM) and fixed (DGRAD).

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3. Export duties	Mining exports are subject to royalties:	None.	<p>Ferrous metals: 0.5 percent</p> <p>Non ferrous metals: 2 percent</p> <p>Precious metals: 2.5 percent</p> <p>Precious stones: 4 percent</p> <p>Artisanal gold and diamonds: 1.5 percent</p>
	Other selected exports are subject to duties:	None.	<p>Coffee: 1 percent;</p> <p>Logs: 6 percent</p> <p>Sawn wood: 3 percent</p> <p>Other mining products: 5–10 percent</p> <p>Crude petroleum products: 5 percent (except for production under convention).</p>
<b>VI. Administrative Charges and Licenses</b>			
1. Environment	Licenses (fishing, hunting, and logging).	None.	Specific rates.
2. Real estate	Recording fees, transaction fees, stamp duties.	None.	Specific rates.
3. Mines	Prospecting fees; mining operations permit (individuals and companies); licenses for trading companies (gold, diamonds, etc.).	None.	Specific rates.

Source: Congolese authorities.