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Democratic Republic of the Congo: 2007 Article IV Consultation—Staff Report; Staff Supplement; Staff Statement; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for the Democratic Republic of the Congo

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2007 Article IV consultation with the Democratic Republic of the Congo, the following documents have been released and are included in this package:

- The staff report for the 2007 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on June 7, 2007, with the officials of the Democratic Republic of the Congo on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on August 15, 2007. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A staff statement of September 5, 2007, updating information on recent developments.

- A staff supplement on the joint Fund/World Bank debt sustainability analysis.

- A Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its September 5, 2007 discussion of the staff report that concluded the Article IV consultation.

- A statement by the Executive Director for the Democratic Republic of the Congo.

The documents listed below have been or will be separately released.

Selected Issues Paper and Statistical Appendix
Poverty Reduction Strategy Paper
Poverty Reduction Strategy Paper—Joint Staff Advisory Note

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

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DEMOCRATIC REPUBLIC OF THE CONGO

Staff Report for the 2007 Article IV Consultation

Prepared by the Staff Representatives for the
2007 Consultation with the Democratic Republic of the Congo

Approved by Robert Corker and Mark Plant

August 14, 2007

- Discussions took place in Kinshasa May 23–June 7. The staff team comprised Messrs. Briançon (head), Maret (Res. Rep.), Ben Ltaifa, Hartley, Farah (all AFR), Féler (PDR), and Westphal (FAD). Mr. Ames, who is to succeed Mr. Briançon, joined the mission on June 2, 2007. Mr. N'Sonde, office of the Executive Director, participated in policy meetings.
- The mission met the ministers of finance, budget, planning, and mining, and the Governor of the Central Bank.
- The last Article IV consultation was concluded on August 29, 2005. The last Poverty Reduction and Growth Facility (PRGF) arrangement expired at end-March 2006; the sixth review was not completed because of policy and reform slippages.
- On June 18, 2007, the Board discussed the 2007 Staff Monitored Program (SMP). It expressed deep concern about the risk to the fiscal framework and macroeconomic stability of an expansionary budget. It also urged faster implementation of structural reforms.
- The Democratic Republic of the Congo (DRC) reached the decision point under the enhanced Heavily Indebted and Poor Countries (HIPC) Initiative in July 2003. At the completion point it will receive HIPC debt relief and relief under the Multilateral Debt Relief Initiative (MDRI) of more than US$7 billion in NPV terms. Reaching the completion point would require a successful first review of a new PRGF arrangement, one year implementation of the Poverty Reduction Strategy Paper (PRSP) and the observance of the agreed triggers.
- The exchange rate regime is an independent float. The DRC has accepted Article VIII sections 2(a), 3, and 4, of the Fund's Articles of Agreement, but maintains an exchange restriction and a multiple currency practice.
- The authorities agreed to publication of the mission concluding statement.

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EXECUTIVE SUMMARY

The DRC has made significant economic and political progress since 2001, after years of turmoil. Rapid disinflation helped restore economic confidence and renew growth. The economy is now relatively open, and fiscal and monetary policies have become more effective. Democratic elections in 2006 marked the end of political transition.

The good economic performance proved difficult to sustain. Starting in 2005—and coinciding with the election cycle—fiscal loosening led to the re-emergence of inflation and a reduction of international reserves to low levels. Structural reforms also slowed.

The new government's reassertion of fiscal discipline in early 2007 is threatened by an expansionary budget. The 2007 budget contains unrealistic revenue projections and concomitant higher spending, especially on wages. Execution of such a budget would widen the deficit, expand the monetary base, and prompt a new inflationary cycle. The government is assessing how to implement the budget and maintain macroeconomic stability.

Achieving high and sustained economic growth requires the stepping up of structural reforms. Over the medium term, economic growth is likely to benefit from a pick-up in mining and increased public investment. Nevertheless, sustaining high growth will require reforms to enhance economic governance, improve the business climate, and deepen financial intermediation. Fighting corruption will be important for mobilizing donor support.

Tax and public financial management reforms are critical for supporting sustainable growth and making progress toward the Millennium Development Goals (MDGs). On the revenue side, priorities are to reform tax-collection agencies, streamline the tax system, and boost the contribution of the mining sector. On the expenditure side, civil service reform and strengthened controls are needed to direct spending to priority areas. Devolution of revenues, as called for under the constitution, should be phased in, with assistance from the World Bank, to avoid loss of fiscal discipline and inequities among provinces.

Monetary policy will focus on establishing single-digit inflation in a floating exchange rate regime. Financial sector deepening requires strengthening the operations of the central bank and improvements in supervision to reduce bank sector vulnerabilities.

The exchange rate seems appropriate for external sustainability assuming aid flows, debt relief and prudent macroeconomic policies.

A tenuous security situation, adverse terms of trade shocks, and incoherent policies could undermine sustainability and the reform agenda. The new government could mitigate some of the risks by quickly gaining credibility for good economic management. Building broad political support for its economic agenda, including passing a revised budget that conveys a message of macroeconomic moderation, will be key in this regard.

The DRC's external debt is unsustainable. Along with prudent macroeconomic policies, relief from the HIPC Initiative and MDRI will be needed to make it sustainable.

I. Background

1. **The DRC, one of the poorest countries in the world, is still very far from meeting the MDGs.** Over years of conflict, civil war, and poor economic management, per capita income (in constant 2000 US Dollars) collapsed from US$400 in 1960 to less than US$100 in 2001. As a result, the DRC ranks 166th out of 177 countries in the 2006 UN Human Development Index.

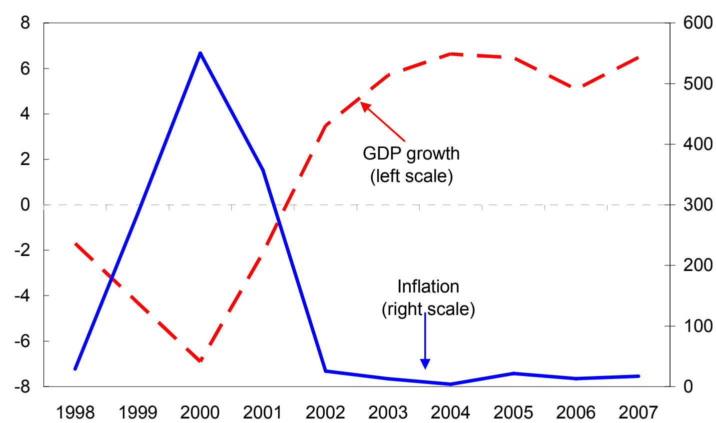
2. **The DRC is entering a new era after the first democratic elections in 40 years in 2006 ended three years of political transition.** The new government has an opportunity to demonstrate its commitment to economic stability and reform, which would set the stage for the DRC to sustain growth and reduce poverty. However, the tenuous security situation, as demonstrated by continued violence in the eastern provinces, still threatens peace and economic progress.

II. The PRGF Arrangement: Lessons and Challenges

3. **The PRGF-supported program (2002–06) was designed to entrench macroeconomic stability, revive growth, and reduce poverty**. Given the dire initial political and security conditions, the consensus was that the DRC could not attain the MDGs by 2015. The PRGF-supported program thus defined more realistic targets, including (i) achieving average annual real GDP growth of 5 percent: (ii) reducing inflation to 5 percent; and (iii) increasing international reserves to 10 weeks of imports. Financial policies were anchored on adherence to monthly budget cash-flow plans to avoid bank financing of the fiscal deficit and undermining the ability of the Banque Centrale du Congo (BCC) to conduct prudent monetary policy within a floating exchange rate system.

4. **Economic performance improved markedly during 2002–04 as the transitional government focused on reconstruction and reunification**. Economic liberalization and financial stabilization helped real GDP grow at about 5 percent (Figure 1). Public finances were reinforced by rising revenue and external financial support, which allowed an increase in public investment. Inflation fell from 357 percent in 2001 to 4 percent in 2004, and by end-2004 international reserves reached US$236 million (5.4 weeks of imports).

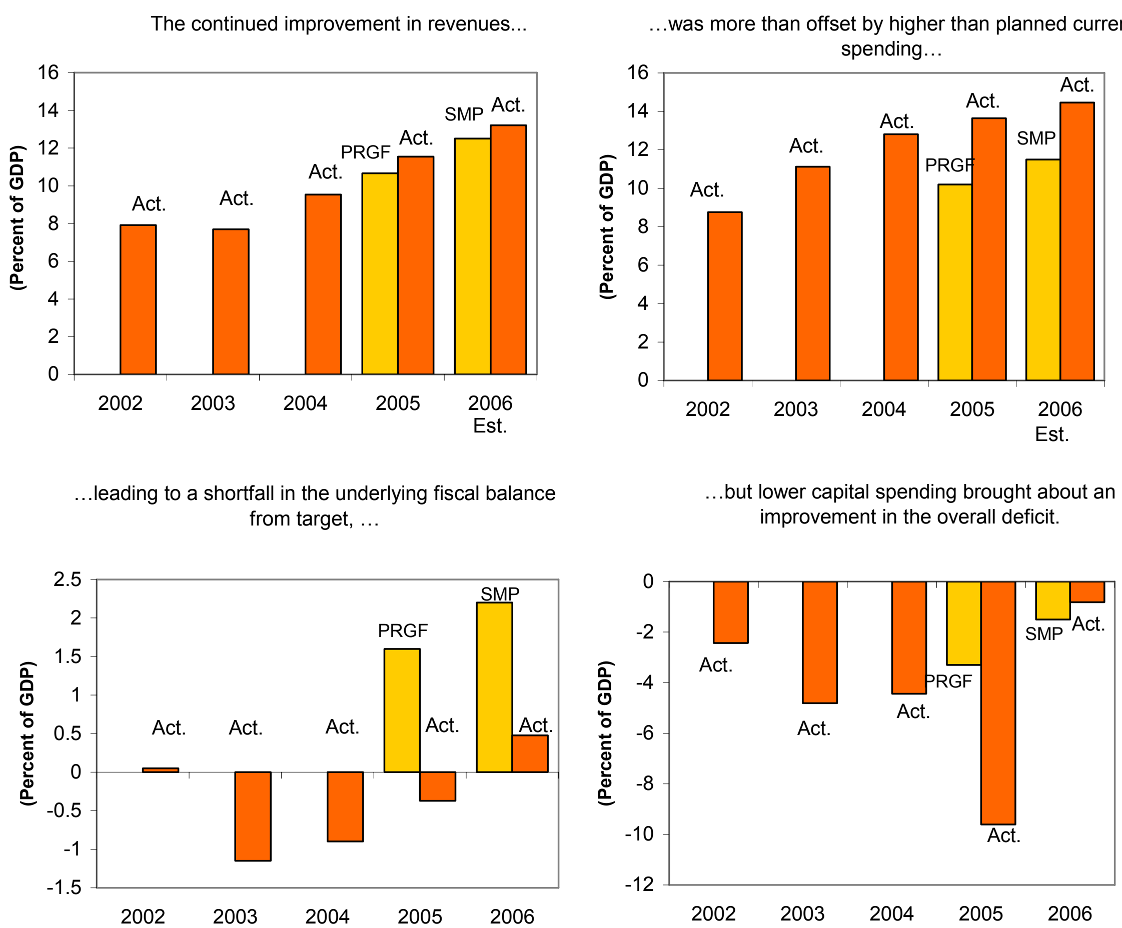
Figure 1. Democratic Republic of the Congo: GDP Growth and Inflation, 1998–2007
(Annual percentage change)



Sources: Congolese authorities and IMF staff estimates.

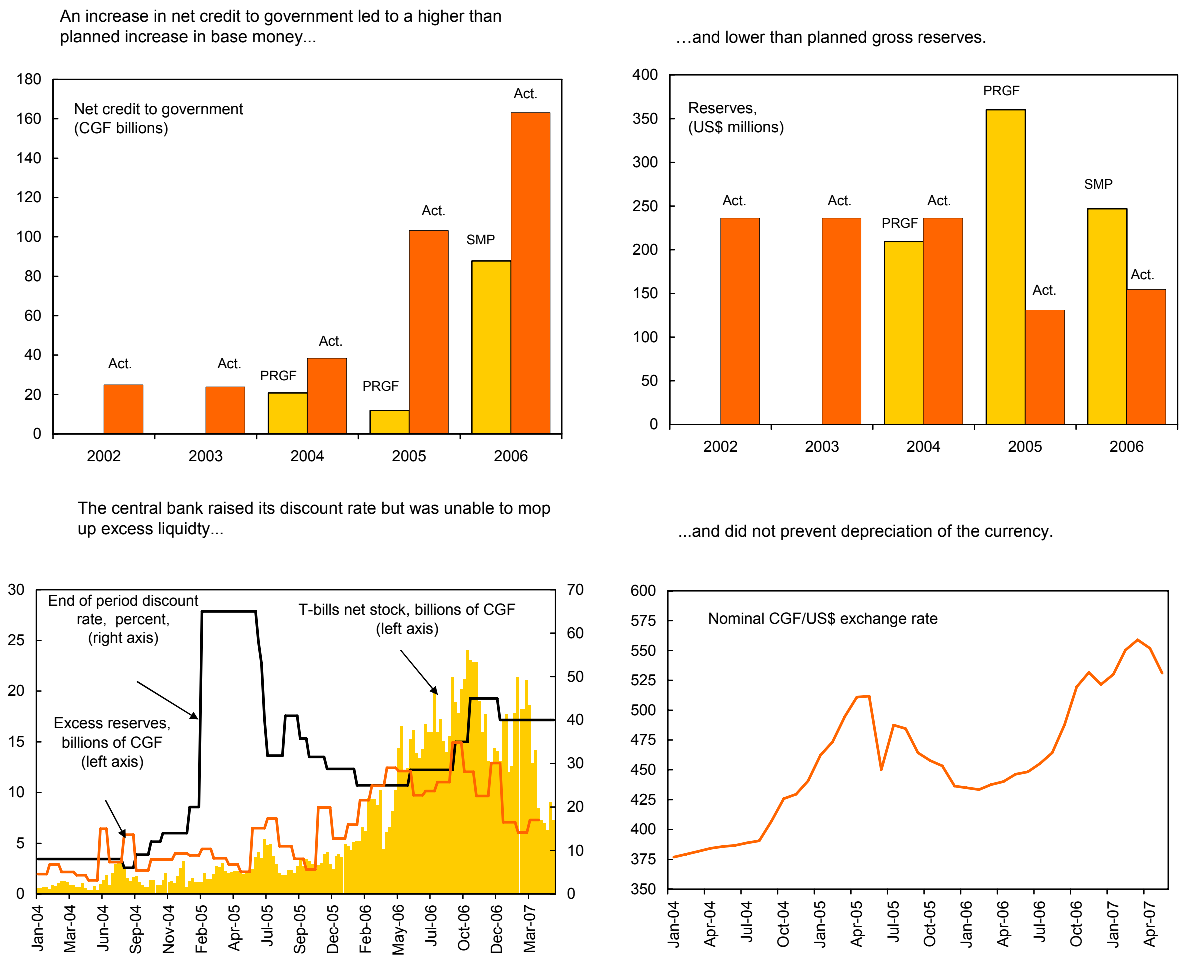
5. **In 2005, program implementation began to weaken, as focus turned to the drafting of a new constitution and the preparation for general elections.** This precluded completion of the last PRGF review; the arrangement expired in March 2006. Large monetized public spending overruns, primarily for security and the elections, continued under a 2006 SMP and into the beginning of 2007 when a new government was installed (Figures 2 and 3). Consequently, in 2006, the Congo franc depreciated by 15 percent against the US dollar, 12-month inflation rose to 18.2 percent, and gross international reserves declined to US$155 million (3 weeks of imports) even though the DRC did not service US$58 million in debt to official creditors. Real GDP growth, which had picked up to 6½ percent in 2004–05, slipped back to 5 percent in 2006 because of stagnating manufacturing production and a drop in diamond exports. Little progress was made in reforming the mining sector, public enterprises, the civil service, the social sectors, customs administration, and the central bank.

Figure 2. Democratic Republic of the Congo: Recent Fiscal Developments



Sources: Congolese authorities and IMF staff estimates.

Figure 3. Democratic Republic of the Congo: Recent Monetary Developments



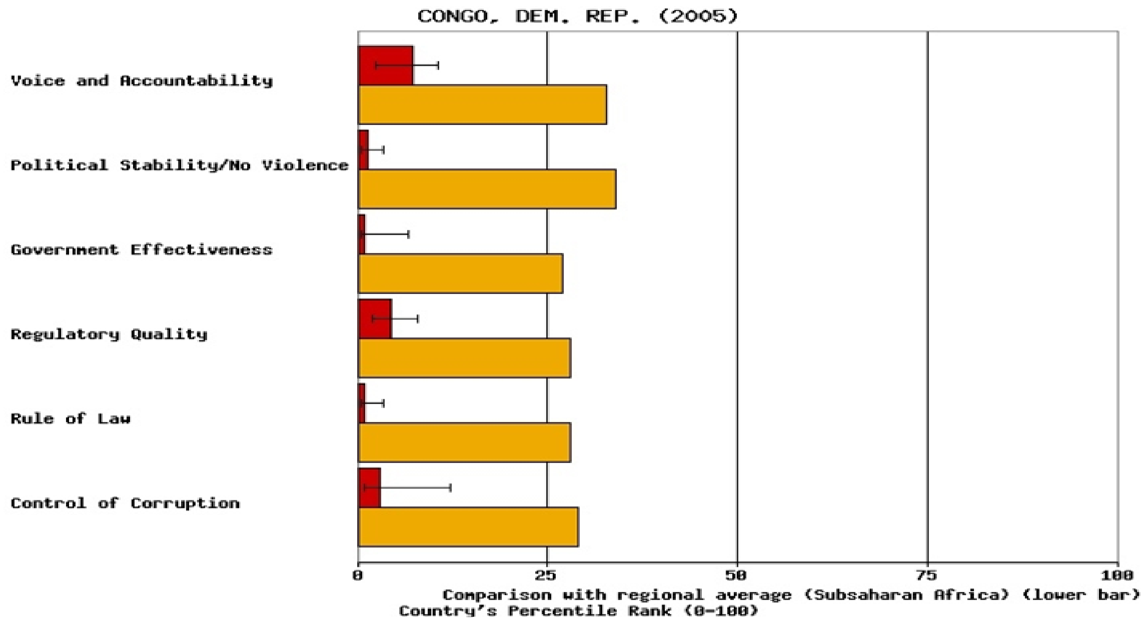
Sources: Congolese authorites and IMF staff estimates.

6. **Recent slippages apart, there is no doubt that the situation of the DRC has improved remarkably since 2001**. The program provided a framework for the country to start rebuilding the economy, which is crucial to lasting peace and security. In particular, rapid disinflation proved vital to restoring economic confidence and encouraging trade and private sector activity. The economy is now relatively open, major price distortions have been removed, the exchange rate is floating, the private sector is the driving force behind growth, and fiscal and monetary policies have become more effective.

7. **However, the experience of 2002–06 suggests that achieving durable macroeconomic stability and high growth will be an arduous process with unavoidable setbacks**. Very weak implementing capacity and poor governance put a strain on the focus and quality of policies (Figure 4). Although the international community provided considerable technical and financial support, endemic corruption is testing donor relations and must be addressed if vital support is to be forthcoming. Rebuilding infrastructure also

demands increasing attention if the population is to have more opportunity to participate in the economy. Freeing up resources spent on security and building political institutions is important in this regard. Effectively mobilizing the DRC's vast natural resource wealth—governance problems have been particularly rife in the mining sector—will also be essential.

Figure 4. Democratic Republic of the Congo, Governance Indicators, 2005



Source: Kaufmann, Kraay, and Mastruzzi (2006). Methodology and details of underlying survey are provided on "http://info.worldbank.org/governance/wgi2007/home.htm."
Note: Percentile rank indicates the percentage of countries worldwide that rate below selected country subject to a margin of error. The statistically likely range of the indicator is shown as a thin black line.

III. Macroeconomic Framework for 2007

8. **With a view to stabilizing the economy and giving the new government time to craft its medium-term strategy, staff and the authorities agreed on a SMP for 2007**.[1] The program is intended to reduce inflation to 12 percent by year-end, stabilize international reserves, and increase real GDP growth to 6½ percent—boosted by a recovery in mining and manufacturing, and supported by public and private investment (Table 1).

9. **Avoiding money-financing of government expenditure requires increasing the underlying fiscal surplus by 0.9 percentage point of GDP to 1.3 percent** (Tables 2 and 3). It assumes that government revenue is kept at 13¼ percent of GDP in 2007 by increasing the turnover tax rate from 13 to 15 percent, adjusting nominal fees and duties, and reinforcing

[1] Staff Report for the Review of the 2006 Staff Monitored Program (SMP) and a New SMP for 2007, May 4, 2007.

tax administration. To contain spending, the government is to keep the wage bill at 5.5 percent of GDP and limit spending to revenue collected.

10. **The first results of the 2007 program were encouraging**. Strong revenue collection and lower than anticipated spending on goods and services reduced net bank credit to the government (Tables 4 and 5). This contributed to a decline in base money, a fall in commercial banks' excess reserves, an appreciation of the Congo franc of 12 percent in the three months to May 2007, and a decline in annualized inflation to 12 percent in April-May. International reserves also increased to US$190 million at end-May, partly because the DRC did not service debt due to Paris Club creditors amounting to US$52 million. Preliminary data are consistent with the projected real GDP growth rate of 6.5 percent.

11. **However, the 2007 budget promulgated in July threatens progress**. It contains unrealistic revenue projections—4½ percent of GDP higher than the draft budget submitted by government—that are not supported by specific tax measures, and total budget appropriations were increased by 3½ percent of GDP—including 1½ percent of GDP for wages, nearly half of which is for large pay increases for parliamentarians. Execution of budgeted spending would lead to a new round of currency depreciation and inflation.

12. **Structural reforms are also moving slowly**. On program structural benchmarks, the government has just started publishing joint venture contracts signed by public enterprises on the website of the Ministry of Finance; it rejected the first draft of the audit of the central bank's organization prepared by foreign consultants, because it did not meet the terms of reference; and discussions continue on a plan to limit the cost of the merger of the *Union des Banques Congolaises* and *Banques Congolaise* to that envisaged under the SMP.

IV. Policy Discussions and the Medium-Term Policy Framework

13. **The discussions focused on three medium-term challenges the DRC faces: (i) growth and poverty alleviation; (ii) the fiscal strategy; and (iii) financial sector development**. The government indicated that its medium-term strategy incorporates policies included in the 2006 PRSP. However, it had not yet had time to prepare a detailed macroeconomic framework taking all priorities into account. Nevertheless, it was made clear that the government saw fiscal tightening, economic reforms, and improved governance as crucial steps to build the economy and regain international support.

A. Medium-Term Growth and Poverty Alleviation

14. **The mission emphasized that the DRC can achieve high economic growth by stepping up structural reforms and improving governance**. This would allow the DRC to break out of its current constrained path where fiscal space is limited by low revenues and a lack of external financing and private sector activity is inhibited by a poor business climate.

15. **An illustrative baseline scenario predicated on the aggressive resumption of reforms and increased donor financing for development, projects annual real GDP growth of 8 percent through 2012** (see Text Table).[2] It assumes successful execution of the agreed 2007 program, agreement on a new PRGF arrangement, and reaching soon the HIPC completion point.[3] Medium-term growth would be led by a rebound in mining output and a pick-up in the reconstruction effort. While the growth rate is ambitious, improvements in the sociopolitical situation and high commodity prices have sparked investor interest in the mining sector, which holds a large share of world reserves. The authorities estimate that total investments in copper and cobalt projects could reach US$3 billion through 2012, allowing output to return to levels not recorded since the 1980s and contributing about 2.0 percentage points a year to GDP growth (Figure 5). Concomitantly, an ambitious program—within a budget that is consistent with macroeconomic stability—to rebuild infrastructure would boost activity in construction and public works, water and electricity, transport, and telecommunications. This would require measures to boost revenue and better spending prioritization.

16. **Initially, the increase in public and private investment is expected to be financed largely through foreign savings**. A surge in imports would lead to a widening external current account deficit, although that would begin to reverse as mining exports come on stream. New mines will be mostly financed by foreign direct investment, while increasing donor support and debt relief would be needed to fill the remaining current account gap and rebuild international reserves to about 9 weeks of imports.

17. **The authorities recognized that improving the business environment is critical to private sector–led growth**. Aware that the World Bank study on Doing Business in 2007 ranks the DRC at the bottom in terms of ease of starting a business, they plan to accelerate reforms to meet requirements of the Organization for the Harmonization in Africa of Business Law, streamline regulations, eliminate numerous nuisance taxes, strengthen the judicial system, rebuild a multimodal transportation system, and create a forum for dialogue with the private sector and social partners.

18. **The authorities agreed that government divestiture from public enterprises is urgently needed.** Most public enterprises are close to bankruptcy. Starting with the electricity company, the national railroad, the state transport company, and the water company, the government strategy is first to privatize management and then form joint ventures with domestic and foreign investors. In view of the problems faced by joint ventures in mining and other sectors, staff encouraged the authorities to assess, with World Bank assistance, the impact of joint ventures on the economy before proceeding with new ones. The authorities should also resubmit to the new National Assembly the draft laws related to

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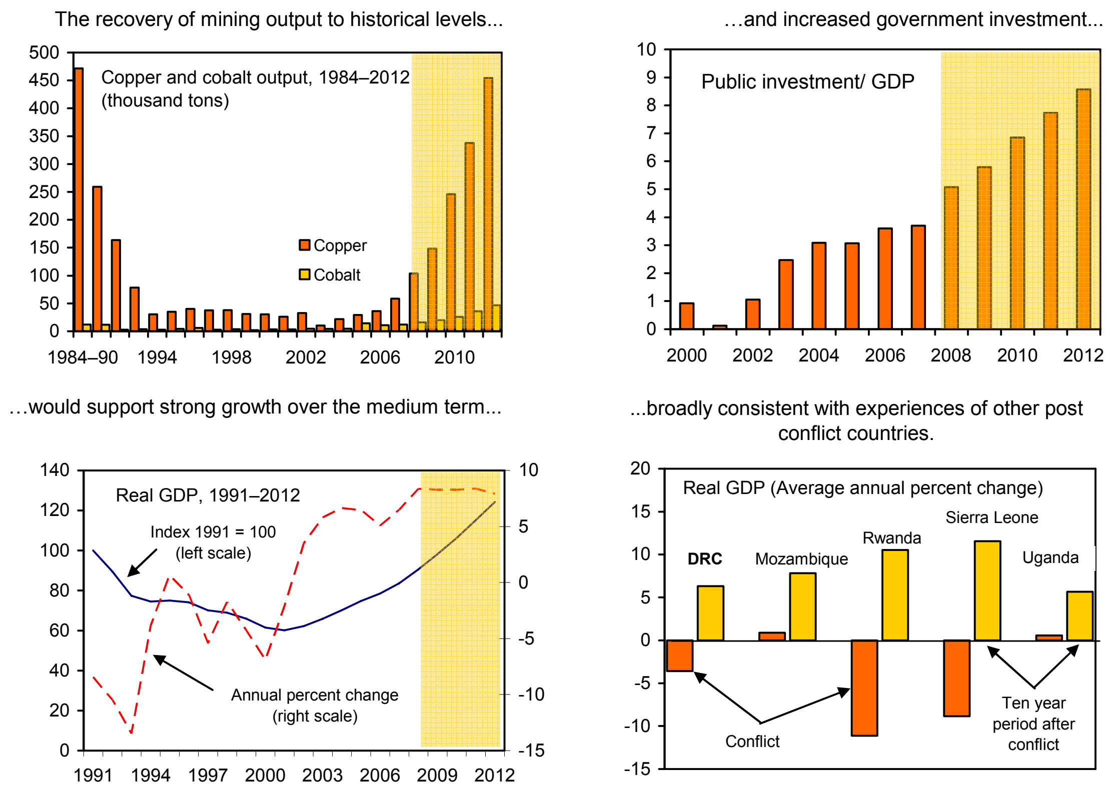
[2] Both the baseline and alternative scenarios assume maintenance of basic security.

[3] For illustrative purpose, the baseline scenario assumes that the DRC would reach the HIPC completion point and receive full debt relief under the HIPC Initiative and MDRI in June 2008.

the legal framework for public enterprises and agencies to allow their restructuring, privatization, or liquidation.

Figure 5. Democratic Republic of the Congo: Growth Performance



Sources: Congolese authorities and IMF staff estimates.

Note: Conflict duration: DRC, 1996–2001; Mozambique, 1976–1992; Rwanda, 1990–1994; Sierra Leone, 1997–1999; Uganda, 1971–1985.

19. **Implementing the government's governance compact will be vital to the high–growth scenario.** The priorities are to improve and make more transparent the management of mining resources; strengthen tax collection; enhance budget preparation and execution; implement the civil service reform; and meet requirements for the AML/CFT and the Extractive Industries Transparency Initiative (EITI). The staff welcomed the adoption of legislation to intensify the fight against corruption, money laundering, and the financing of terrorism, but urged the authorities to take all necessary measures to make the laws effective.

Democratic Republic of the Congo: Base and Alternative Scenarios, 2007–12

	2007 SMP	2008 Proj.	2009 Proj.	2010 Proj.	2011 Proj.	2012 Proj.
Base scenario						
	(Annual percentage change)					
GDP and prices						
Real GDP	6.5	8.4	8.3	8.3	8.4	7.9
Consumer prices, period average	17.4	8.9	8.0	8.0	8.0	8.0
	(Percent of GDP; unless otherwise indicated)					
Balance of payments						
Current account balance, incl. transfers	-8.6	-11.5	-10.8	-10.5	-11.1	-9.4
Gross official reserves (weeks of imports)	3.1	3.3	3.5	4.5	5.6	8.6
Central government finance						
Total revenue and grants	19.2	20.2	20.9	21.9	22.4	22.8
Of which : Grants	5.9	6.0	6.3	6.0	6.2	6.2
Total expenditure	18.0	19.4	20.5	23.2	24.7	26.1
Current expenditure	13.0	14.5	14.9	16.5	17.2	17.7
Of which: Wages	5.5	5.9	6.1	6.1	6.1	6.1
Capital and exceptional expenditure	5.0	4.9	5.6	6.7	7.5	8.3
Overall fiscal balance (cash basis)	0.9	0.6	0.4	-1.3	-2.3	-3.3
Domestic financing	-0.3	-0.2	-0.1	-0.1	-0.1	0.0
Net foreign financing /external arrears	-0.7	-0.4	-0.2	1.5	2.4	3.4
Alternative scenario						
	(Annual percentage change)					
GDP and prices						
Real GDP	6.5	4.7	4.8	5.0	4.9	4.7
Consumer prices, period average	17.4	14.4	18.0	19.0	21.0	22.0
	(Percent of GDP; unless otherwise indicated)					
Balance of payments						
Current account balance, incl. transfers	-8.6	-12.0	-14.5	-16.0	-15.3	-13.8
Gross official reserves (weeks of imports)	3.1	3.3	3.5	3.5	3.5	3.5
Central government finance						
Total revenue and grants	19.2	19.3	19.4	18.7	18.7	18.3
Of which : Grants	5.9	5.7	5.8	5.1	5.1	4.7
Total expenditure	18.0	18.5	19.0	20.0	21.0	21.6
Current expenditure	13.0	14.0	14.1	15.1	15.4	15.0
Of which: Wages	5.5	5.9	6.1	6.1	6.1	6.1
Capital and exceptional expenditure	5.0	4.5	4.9	5.0	5.7	6.5
Overall fiscal balance (cash basis)	1.0	0.6	0.4	-1.3	-2.3	-3.3
Domestic financing	-0.3	0.3	0.5	0.9	1.4	1.9
Net foreign financing /external arrears	-0.7	-0.9	-0.9	0.4	0.9	1.4

Sources: Congolese authorities and IMF staff estimates and projections.

20. **A simplified low-income country external debt sustainability analysis (LIC-DSA) confirms that the DRC external debt is unsustainable without debt relief under the enhanced HIPC and MDRI initiatives** (DSA Appendix). Assuming DRC reaches the HIPC completion point by June 2008,[4] full relief would allow the NPV of debt to fall and remain

[4] The status of execution of HIPC triggers is provided in Table 8.

durably below the threshold of 150 percent of exports of goods and services—though the outcome would be vulnerable to significant exogenous shocks. This argues in favor of an external financing strategy that relies mainly on grants and to a lesser extent on highly concessional debt.

21. **Achieving the medium-term objectives will, however, be a challenge**. Beyond the fragile security and political situation, risks include; (i) a sharp deterioration in the terms of trade; (ii) slower than expected private-sector-led growth; (iii) lower-than-expected donor support if governance does not improve sufficiently; (iv) slow progress in structural reforms, possibly due to limited implementation capacity; and (v) fiscal slippages that would undermine the still fragile macroeconomic situation. The new government now has a window of opportunity to mitigate some of the risks and gain credibility for prudent macroeconomic management and reforms. Building broad political support for its economic agenda, and passing a revised budget that conveys a message of macroeconomic moderation would be crucial steps in this regard.

22. **An alternative scenario illustrates some of these risks**. It assumes persistent corruption hinders revenue collection, recurrent spending slippage fuels renewed cycles of inflation and exchange rate volatility, and slow progress in improving the business environment makes private sector activity uneven. Untied donor support would also be limited while lower international reserves would limit central bank ability to smooth out shocks. As a result, real GDP growth would average 4-5 percent and inflation exceed 20 percent. Progress in reducing poverty would be minimal (Table 7). New arrears would accumulate on external debt service.

B. Medium-Term Fiscal Strategy

23. **Discussions on the fiscal strategy centered on reconciling a sustainable fiscal stance with the need for large capital and social expenditures**. The authorities concurred that, to create the needed fiscal space, the medium-term framework should aim to (i) streamline the tax system and broaden the tax base; (ii) improve tax collection; (iii) improve public financial management (PFM); and (iv) enhance the efficiency of government spending.

24. **While recognizing the need to improve revenue collection, the authorities were reluctant to embrace a comprehensive reform strategy for collection agencies**. Staff argued that strengthening the large taxpayer unit (LTU)—including by increasing the number of the covered enterprises—and merging the tax administration with the non-tax-collection agency (DGRAD) will enhance accountability, reduce leakage, and bring in more revenue. Similarly, for customs it will be essential to eliminate the interference of the quality control office and other public agencies at the one-stop customs window at the main port of entry, Matadi, and set up similar structures at other customs points. While sanguine about the prospects for making the revenue collection agencies more effective, the authorities were

concerned about the sociopolitical risk of far-reaching organizational changes. They were more amenable to the staff proposal to replace the generous bonus system for the revenue collection agencies with clearly defined budget allocations.

25. **The authorities concurred that tax administration reform will need to be complemented by tax policy reforms**. They therefore requested a tax policy mission to review the scope for reducing nuisance taxes (the DRC has currently more than 800 taxes, duties and fees), limiting tax exemptions; and assessing preparations for introducing a value–added tax (VAT). Staff urged the authorities to submit the draft VAT law to Parliament as soon as possible and provide sufficient budgetary resources for necessary investments in tax administration.

26. **Increasing the tax take from mining—including by fighting corruption—is paramount for both mobilizing revenue.** Prospects for new mining projects suggest considerable potential for increasing mining revenue. Staff emphasized, however, that the current fragmented tax administration and responsibility for collecting mining revenue could jeopardize collections. In particular, because the customs administration has no incentive to monitor exports, the agency in charge of collecting royalties is poorly placed to assess whether mining company self-assessments of export values are appropriate. Moreover, staff proposed the reinforcement of tax administration in the mining sector by improving communication between collection agencies and creating a specialized unit within the LTU to collect mining royalties, licenses fees, and other nontax revenue currently collected by the DGRAD. The authorities felt that they need more time to assess the way forward.

27. **Better prioritizing of expenditures and PFM reforms are crucial**. Staff argued for an institutional framework for expenditure prioritization, whereby public investment projects and spending programs selected are those with the highest rate of social return. In this context, the authorities were sympathetic to protecting priority spending (especially health and education) from the volatility of foreign financing and improving expenditure execution—especially with social spending currently well below PRSP targets. Staff emphasized that PFM reforms must be accelerated to improve further the tracking of spending to ensure its consistency with budget objectives. This could stimulate aid flows by alleviating donor concerns about a lack of transparency in government spending. Finally, better expenditure control will require civil service reform and firmer payroll management to contain the wage bill and allow for a more progressive wage structure.

28. **The authorities are well aware of the risks to economic and financial stability from devolution but face political pressure to move rapidly**. Although implementing laws and regulations are still being discussed,[5] elected provincial assemblies and governors have demanded that 40 percent of government revenue generated in a province be transferred—as

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[5] The World Bank is assisting the authorities in this regard.

provided under the constitution—as early as this year. Staff argued for a gradual transfer in line with the devolution of spending responsibilities, taking into consideration capacity at the provincial level. It warned that automatic transfer carries the potential for imbalances and inequities among provinces, especially since the revenue collected by several provinces is below 1 percent of the total. Staff also argued for (i) excluding custom duties as well as oil and mining revenues from the base for deriving the 40 percent to be transferred to provinces; (ii) including in the revenue transfer formula an equalization component based on transparent and objective criteria; and (iii) prohibiting borrowing by provinces. While concurring in principle, the authorities were concerned that the politics might preclude such solutions.

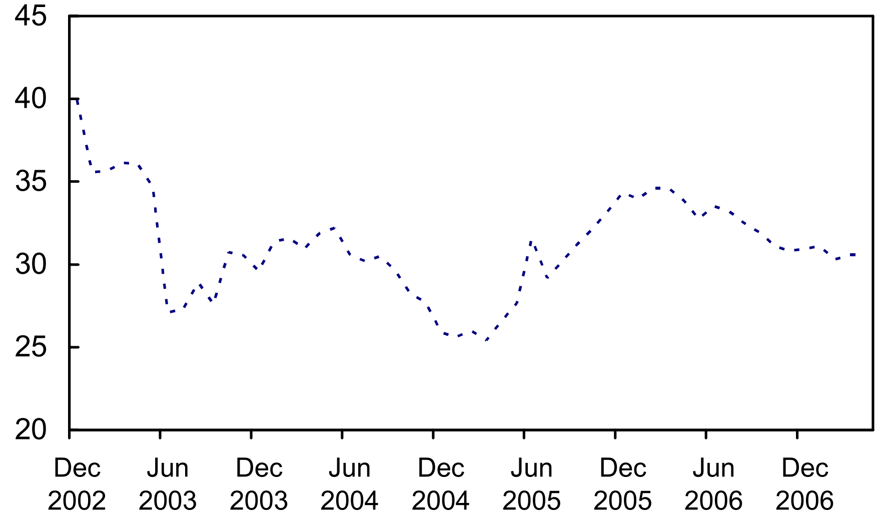
C. Monetary Policy and Banking Sector Reform

29. **The authorities plan to refocus monetary policy on bringing inflation down to single digits and building up international reserves.** They pointed out that this was not possible in recent years because monetization of the fiscal deficit made it difficult to contain base money growth. With high dollarization, rapid monetary expansion translated almost immediately into a depreciation of the currency and high inflation, especially since many local prices and wages are pegged to the U.S. dollar.

30. **Notwithstanding volatility, staff argued that base money should be the nominal anchor against the backdrop of a floating exchange rate**. The latter was appropriate given that the BCC has minimal international reserves and the economy is relatively open and vulnerable to terms of trade shocks. The BCC should continue letting the market determine the exchange rate and interventions be limited to increasing the market's liquidity, smoothing out short-term exogenous shocks, and achieving the BCC's international reserve target. To do this effectively, the BCC must acquire a better understanding of how the market operates and the factors influencing commercial banks participation. Staff also urged the authorities to quickly lift the remaining exchange restriction and multiple currency practice.

31. **In light of this, and despite difficulties in assessing the equilibrium exchange rate in a post–conflict situation, the exchange rate seems appropriate for external sustainability assuming continued aid flows, debt relief and prudent macroeconomic policies**. Staff noted, and the authorities agreed, that over the medium term, large capital inflows related to public and private investments could put upward pressure on the real exchange rate (Figure 6). Effects on competitiveness should be defrayed by rebuilding infrastructure, improving governance, and reducing the cost of doing business.

Figure 6. Democratic Republic of the Congo: Real Effective Exchange Rate, December 2002–April 2007
(Index, 2000 = 100)



Sources: Congolese authorities and IMF staff estimates.

32. **The BCC needs to implement reforms to improve financial transactions, restore its independence, and enhance the credibility of the Congo franc.** It is preparing to issue higher-denomination notes—currently, the highest face value is equivalent to US$1—to increase the use of the Congolese franc in transactions. The BCC also plans to formulate an efficient national payment system with World Bank assistance. Finally, since seignorage is limited, the BCC agreed that it must concentrate on its core functions—including improving its role as cashier of the government—and thoroughly reorganize itself to reduce its recurrent operating losses—0.5 percent of GDP in 2006. These reforms will also help the BCC regain its autonomy.

33. **Improving banking supervision and addressing commercial bank vulnerabilities would improve confidence in the financial sector and deepen financial intermediation.** The DRC financial sector development indicators compare unfavorably with other Sub-Saharan African countries (see Text Tables). The BCC agreed that its priorities should include (i) completing the restructuring of banks started in 1998 and raising the minimum capital requirement, (ii) enhancing competition by granting licenses to new banks that have a reference shareholder, (iii) strengthening on-site supervision, (iv) reinforcing compliance with prudential ratios; and (v) bringing regulation into line with international standards. To ensure sound development of the microfinance sector, the BCC is compiling a comprehensive database and is drafting a law for the sector to be submitted to parliament next year.

Democratic Republic of the Congo: Comparative Financial Indicators, 2006

	Private sector credit	M2	Bank Assets [1]
	(Percent of GDP; unless otherwise indicated)		
Congo, Dem. Rep. of	**2.8**	**10.7**	**8.0**
SADC	55.2	60.9	83.0
SADC excl. South Africa	15.0	28.3	27.5
Sub-Saharan Africa	37.5	44.6	60.6
Sub-Saharan Africa excl. South Africa and Nigeria	14.8	26.9	25.0

Sources: Congolese authorities and IMF staff estimates and projections.

[1] 2004 data.

Financial Soundness Indicators, 2003–06
(Percent; unless otherwise indicated)

	2003	2004	2005	2006
Capital adequacy				
Regulatory capital to risk-weighted assets	-3.4	6.8	7.7	10.5
Regulatory Tier 1 capital to risk-weighted assets	-4.1	6.6	7.1	10.3
Asset quality				
Nonperforming loans to total gross loans	1.5	2.0	6.8	3.0
Nonperforming loans net of provisions to capital	0.1	4.1	9.3	6.5
Earnings and profitability				
Return on assets	0.6	-1.1	1.7	2.7
Return on equity	0.6	-18.5	25.3	51.6
Interest margin to gross income	18.9	20.9	32.7	39.8
Noninterest expenses to gross income	77.4	86.4	58.0	44.5
Liquidity				
Liquid assets to total assets (liquid asset ratio)	47.0	77.2	88.5	83.0
Liquid assets to short-term liabilities	53.6	81.4	95.0	92.9
Sensitivity to market risk				
Net open position in foreign exchange to capital	30.0	52.5	12.9	50.4
Foreign currency-denominated loans to total loans	56.8	87.2	84.2	87.8
Foreign currency-denominated liabilities to total liabilities	69.2	80.2	73.6	76.4

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

D. Statistical Issues

34. **The economic database is largely adequate for surveillance and program monitoring, but needs substantial improvement** . The CPI should be expanded beyond Kinshasa and Lubumbashi and reflect changes in the consumption basket since 1987. The quality and timeliness of national accounts, balance of payments, and government finance statistics need upgrading. The authorities are working with development partners, including the Fund, to reinforce economic statistics. A review of the national accounts—which is likely to substantially increase nominal GDP—is underway.

V. Staff Appraisal

35. **Despite remarkable progress, stronger and more consistent policies and reforms are needed to put the DRC on a rapid development path**. Policy slippage over the last two years led to sharp fluctuations in the exchange rate and high inflation, while the implementation of structural reforms was limited. With the elections successfully over, policy makers need to shift gears to reassert macroeconomic stability, jump start reforms, and improve governance. This will require strong leadership and a skilled economic team to build a broad consensus on the direction of economic policies, overcome entrenched interests and combat corruption. The authorities need to craft as a matter of urgency an ambitious and coherent medium-term macroeconomic framework that reflects the priorities in the PRSP.

36. **Adequate and timely foreign assistance is essential to the successful implementation of the government strategy**. This will support rebuilding infrastructure and key social services, especially primary health, education and strengthening institutions. Reduced corruption and willingness to reform will help create a virtuous cycle of growth and donor support.

37. **A high rate of economic growth can be achieved in the medium term, but there are downside risks**. A recovery in mining output and the rehabilitation of infrastructure are expected to be drivers of growth. The DRC is vulnerable to commodity price swings and lower donor support. Political inaction in the context of a fragmented coalition and the tense security situation, especially in the eastern provinces, pose significant risk. Some risks can be lowered by focusing immediately on macroeconomic stability, building reserves, and making the economy more resilient by removing obstacles to private sector development.

38. **Although recent SMP performance in the fiscal area has been encouraging, the 2007 budget represents a serious danger for macroeconomic stability**. Because the revenue projections in the 2007 budget are unrealistic, the execution of proposed spending would almost certainly result in monetization of a large fiscal deficit and a new round of currency depreciation and high inflation. The proposed inflation of the wage bill is neither affordable nor justified. Spending based on a monthly cash flow plan should be limited to revenue collected. Further, the authorities should proceed as a matter of urgency with a supplementary budget in line with the SMP.

39. **Improving public financial management is paramount to enhancing the efficiency and credibility of the budget process**. This means strengthening revenue collection, rationalizing spending procedures, and improving the tracking of poverty-related expenditure. Civil service reform and better payroll management will also be essential to contain the wage bill.

40. **Devolution should proceed cautiously to preserve the integrity of the budget**. The transfer of budget resources to provinces needs to be accompanied by a commensurate transfer of responsibilities. To avoid undermining fiscal discipline, it should be preceded by a strong push to build local capacity and control mechanisms. A mechanism to ensure a degree of equity among provinces is also needed.

41. **A tight monetary policy stance is critical to bringing inflation down.** To make monetary policy more effective, it is essential that the BCC enhance monetary policy instruments and international reserve management by implementing recommendations from Fund technical assistance. At the same time, to make monetary policy more credible, the central bank needs to improve the transparency of its operations, including its accounts.

42. **Staff views the exchange rate as broadly appropriate for external sustainability**, provided that prudent macroeconomic policies are implemented and aid flows and debt relief are forthcoming. So, intervention in the foreign exchange market should largely be restricted to short-term smoothing operations.

43. **Priority should be given to implementing the governance compact and giving renewed impetus to structural reforms,** starting with addressing delays in mining sector and public enterprise reforms, accelerating adherence to the Extractive Industries Transparency Initiative, and reforming the social sectors and judiciary. Legislation to intensify the fight against corruption, money laundering, and the financing of terrorism is a welcome start. All efforts should be made to implement the new laws effectively.

44. **Debt sustainability hinges on debt relief**. It is thus crucial for the government to comply with all trigger measures so that the DRC can reach the HIPC completion point without undue delays. Prudent debt management is also important. In the meantime, it is essential for the central bank to build up its reserves so that it can service lumpy debt payments. Staff does not recommend approval of the existing exchange restrictions and encourages the authorities to remove these restrictions as soon as possible.

45. It is proposed that the DRC remain on the standard 12-month consultation cycle.

Table 1. Democratic Republic of the Congo: Selected Economic and Financial Indicators, 2004–12

	2004	2005	2006	2007	2008	2009	2010	2011	2012
				SMP	Proj.	Proj.	Proj.	Proj.	Proj.
	(Annual percentage change; unless otherwise indicated)								
GDP and prices									
Real GDP	6.6	6.5	5.1	6.5	8.4	8.3	8.3	8.4	7.9
GDP deflator	6.1	21.6	13.1	17.0	7.8	6.0	6.0	6.3	7.1
Consumer prices, period average	4.0	21.4	13.2	17.4	8.9	8.0	8.0	8.0	8.0
Consumer prices, end-of-period	9.2	21.3	18.2	12.0	8.0	8.0	8.0	8.0	8.0
External sector									
Exports, f.o.b. (US$ terms)	35.3	14.3	12.0	8.7	20.3	8.8	11.0	12.9	14.0
Imports, f.o.b. (US$ terms)	43.3	41.1	10.8	5.1	23.2	8.3	10.5	10.5	9.7
Export volume	20.1	-3.2	3.8	9.0	20.4	19.4	19.0	17.6	13.9
Import volume	31.7	32.9	9.0	2.1	18.0	7.1	9.2	9.2	8.3
Terms of trade	3.5	11.2	6.1	-3.1	-4.3	-9.8	-7.8	-5.2	-1.1
Nominal effective exchange rate [1]	-12.0	-17.6	1.5	…	…	…	…	…	…
Real effective exchange rate [1]	-5.1	-2.1	11.8	…	…	…	…	…	…
	(Annual change in percent of beginning-of-period broad money; unless otherwise indicated)								
Money and credit									
Broad money	72.9	24.2	60.4	27.3	…	…	…	…	…
Net foreign assets	-18.3	3.7	-11.5	8.3	…	…	…	…	…
Net domestic assets	92.3	21.8	72.6	20.3	…	…	…	…	…
Of which:									
Net credit to government	-1.9	26.6	17.8	2.5	…	…	…	…	…
Credit to the private sector (annual percent change)	105.5	58.1	78.4	28.3	…	…	…	…	…
	(Percent of GDP; unless otherwise indicated)								
Central government finance									
Total government revenue	9.5	11.6	13.2	13.3	14.2	14.6	15.9	16.2	16.6
Grants	2.0	5.2	8.2	5.9	6.0	6.3	6.0	6.2	6.2
Total government expenditure [2]	15.6	19.9	22.1	18.0	19.4	20.5	23.2	24.7	26.1
Underlying fiscal balance (cash basis)	-0.9	-0.4	0.5	1.3	0.9	0.7	-0.3	-0.9	-1.2
Overall fiscal balance (payment order basis, incl. grants)	-4.1	-3.1	-0.7	1.2	0.8	0.4	-1.3	-2.3	-3.3
Overall fiscal balance (cash basis, incl. grants) [3]	-2.2	-8.4	-0.1	1.4	1.2	0.9	-0.7	-1.6	-2.4
Investment and saving									
Gross national saving	10.4	3.2	5.8	5.6	8.1	12.7	13.7	11.6	15.4
Government	-2.2	-2.6	-0.4	0.7	2.1	2.6	2.6	2.5	2.6
Nongovernment	12.6	5.8	6.2	4.9	5.9	10.0	11.0	9.1	12.7
Investment	12.8	13.9	13.4	15.2	19.6	23.4	24.2	22.7	24.7
Government [4]	2.8	3.4	3.4	3.7	4.9	5.6	6.7	7.5	8.3
Nongovernment	10.0	10.5	10.0	11.5	14.7	17.8	17.5	15.1	16.4
Balance of payments									
Exports of goods and services	30.3	34.0	31.7	32.2	33.5	33.6	34.6	35.7	37.2
Imports of goods and services	34.4	45.7	42.0	42.6	45.6	45.6	46.4	47.1	46.9
Current account balance, incl. transfers	-2.4	-10.6	-7.5	-9.6	-11.5	-10.8	-10.5	-11.1	-9.4
Current account balance, excl. transfers	-7.4	-15.6	-15.6	-15.3	-15.8	-15.0	-14.7	-15.2	-13.5
Gross official reserves (end-of-period, US$ millions)	236.2	131.2	154.5	171.3	264.3	315.4	443.5	607.3	889.1
Gross official reserves (weeks of nonaid-related imports of goods and services)	5.4	2.7	3.0	3.2	3.3	3.5	4.5	5.6	8.6
	(US$ Millions; unless otherwise indicated)								
External public debt									
Total stock, including IMF [5]	10,643	10,822	10,813	5,151	2,634	2,693	3,256	3,905	4,589
Net present value (NPV) of debt [6]	7,348	7,624	7,831	1,789	1,664	1,734	2,151	2,647	3,181
NPV (percent of exports of goods and services) [6]	474.7	400.6	339.4	68.7	55.6	52.2	57.6	63.9	68.2
Scheduled debt service	163.2	154.1	251.6	335.9	195.4	182.8	88.7	97.4	116.1
Percent of exports of goods and services	8.2	6.4	9.3	11.7	5.8	5.0	2.2	2.1	2.2
Percent of government revenue	21.7	12.9	13.7	19.5	9.6	8.0	3.4	3.4	3.6
Exchange rate, Congo franc/U.S. dollar									
Period average	397.8	474.4	468.3	…	…	…	…	…	…
End-of-period	444.1	431.3	503.4	…	…	…	…	…	…
Memorandum item:									
Nominal GDP (CGF billions)	2,601	3,366	4,001	4,986	5,825	6,687	7,678	8,849	10,226

Sources: Congolese authorities and IMF staff estimates and projections.

[1] Change in annual average. Minus sign indicates depreciation.
[2] Includes interest due before debt relief and expenditure financed by HIPC resources.
[3] Cash balance after debt relief on interest payments.
[4] From 2003 onward, includes investment financed by resources released under the enhanced HIPC Initiative.
[5] End-of-period debt stock includes accumulated arrears and reflects the arrears clearance arrangements concluded at the HIPC decision point.
[6] Estimates and projections are based on joint 2007 World Bank/IMF DSA; for 2008 and beyond, it is assumed that the DRC reaches the HIPC Decision Point by mid-2008 and benefits from debt relief under HIPC and MDR initiatives. Exports are on a three-year backward moving average.

Table 2. Democratic Republic of the Congo: Central Government Financial Operations, 2004–12

	2004	2005	2006	2007		2008	2009	2010	2011	2012
	Est.	Est.	Est.	SMP	Budget	Proj.	Proj.	Proj.	Proj.	Proj.
	(Billions of Congo francs; unless otherwise indicated)									
Total revenue and grants	299.4	564.9	856.8	957.0	1,246.3	1,176.0	1,397.5	1,679.4	1,981.0	2,328.1
Total revenue	248.0	389.0	528.7	662.0	883.5	825.7	979.2	1,217.9	1,432.2	1,695.1
Customs and excise	104.1	145.4	195.5	272.6	273.7	343.0	405.3	501.9	579.9	678.9
Direct and indirect taxes	71.4	111.4	157.9	217.6	250.4	267.8	328.9	436.0	530.9	649.9
Petroleum (royalties and taxes)	52.1	98.1	132.5	109.9	163.4	137.1	144.6	149.2	156.2	164.2
Other	20.4	34.1	42.8	61.9	196.0	77.8	100.4	130.8	165.2	202.2
Total grants	51.4	175.9	328.1	295.1	362.8	350.3	418.3	461.5	548.8	633.0
Budget grants	2.4	5.6	39.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project grants	26.3	75.2	165.5	84.4	152.1	141.6	190.8	254.2	304.9	386.7
HIPC Initiative assistance [1]	22.7	95.2	123.3	210.7	210.7	208.7	227.5	207.3	243.9	246.4
Total expenditure	405.8	670.5	883.9	897.2	1175.3	1,130	1,370.3	1,780.1	2,184.8	2,665.0
Current expenditure	333.3	459.6	578.2	647.9	799.0	842.7	993.4	1268.8	1519.3	1812.9
Wages [2]	93.2	146.8	218.9	274.3	338.9	341.9	407.9	468.3	539.8	623.8
Interest due [3]	93.6	125.0	139.0	150.6	180.9	180.6	184.1	189.5	197.6	217.1
Of which: on external debt	86.1	107.2	116.1	125.5	155.7	155.5	159.0	164.4	172.5	191.9
Transfers and subsidies	26.6	43.9	87.1	84.1	125.9	121.1	152.0	230.0	290.3	350.2
Other current expenditure	119.9	143.8	133.2	139.0	153.3	199.1	249.4	381.1	491.7	621.9
Of which: centralized payments	30.6	27.4	26.6	11.2	11.2	17.4	22.0	35.3	42.8	49.4
Capital expenditure	72.1	113.9	134.1	183.6	294.3	287.6	376.9	511.3	665.5	852.2
Foreign-financed	57.0	79.5	92.1	125.7	202.3	212.4	286.2	381.2	508.1	666.7
Domestic-financed	15.1	34.4	41.9	57.9	92.1	75.2	90.6	130.0	157.4	185.5
Exceptional expenditure [4]	0.4	97.1	171.7	65.6	81.9	0.0	0.0	0.0	0.0	0.0
Foreign-financed	0.4	64.2	130.9	40.1	40.1	0.0	0.0	0.0	0.0	0.0
Domestic-financed	0.0	32.9	40.8	25.5	41.9	0.0	0.0	0.0	0.0	0.0
Other HIPC-related expenditure [5]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall fiscal balance (payment order basis)	-106.4	-105.6	-27.1	59.9	71.0	45.8	27.2	-100.7	-203.8	-336.9
Underlying fiscal balance (payment order basis)	-14.3	2.2	24.6	81.5	148.2	63.3	54.2	-16.6	-72.1	-111.3
Change in arrears (increase = +) [6]	-1.4	-203.2	-6.6	-4.4	-4.4	0.0	0.0	0.0	0.0	0.0
Float (increase = +)	11.4	0.4	21.2	0.0	1.0	0.0	0.0	0.0	0.0	0.0
Central bank operational result	-19.1	-15.1	-20.1	-10.0	-10.0	-10.0	-10.0	-10.0	-10.0	-10.0
Overall fiscal balance (cash basis, before interest rescheduling)	-115.4	-323.6	-32.6	45.4	57.6	35.8	17.3	-110.7	-213.8	-346.9
Underlying fiscal balance [7]	-23.3	-12.5	19.1	67.1	134.7	53.3	44.2	-26.6	-82.0	-121.3
Total financing	115.4	323.6	32.6	-45.4	...	-35.8	-17.3	110.7	213.8	346.9
Domestic financing	0.2	261.1	43.5	-12.8	...	-10.0	-5.0	-5.0	0.0	0.0
Banking system	0.2	57.4	47.5	10.5	...	-10.0	-5.0	-5.0	0.0	0.0
Non bank	0.0	25.6	-4.0	-23.3	...	0.0	0.0	0.0	0.0	0.0
Domestic debt relief	0.0	178.1	0.0	0.0	...	0.0	0.0	0.0	0.0	0.0
Foreign financing	89.3	60.1	-13.1	-79.7	...	-90.5	-80.0	33.9	76.4	158.1
Amortization due before debt relief	-84.5	-135.1	-213.1	-278.5	...	-279.5	-320.5	-220.3	-248.8	-245.6
Budget loans	60.9	50.7	0.0	0	...	0.0	0.0	0.0	0.0	0.0
Project loans	28.1	64.7	53.0	113.5	...	70.8	95.4	127.1	203.2	280.0
Debt relief	84.8	79.8	122.5	85.3	...	151.7	145.0	127.1	121.9	123.7
Accumulation of external arrears	0.0	0.0	24.4	0.0	...	-33.4	0.0	0.0	0.0	0.0
Residual financing gap/errors and omissions	25.9	2.4	2.2	47.1	...	64.7	67.8	81.8	137.4	188.8
Memorandum items:										
GDP (billions of Congo francs)	2,601	3,366	4,001	4,986	4,986	5,825	6,687	7,678	8,849	10,226

Sources: Congolese authorities and IMF staff estimates and projections.

[1] Reflects revised calculation of HIPC Initiative assistance from 2002-based Debt Sustainability Analysis (DSA).
[2] For 2004 and 2005, program figures reflect a change in classification of retirement allowances as part of exceptional spending.
[3] For 2005, interest payments include rescheduling agreements with commercial creditors under the enhanced HIPC Initiative.
[4] Exceptional expenditure includes spending for the Demobilization, Disarmament, and Reintegration (DDR) program, cost of the elections, payments for retirement allowances, repayments of domestic arrears, and payment for bank restructuring.
[5] For 2005, HIPC Initiative savings used for pro-poor wages and domestic investment were recorded under wages and domestic-financed investment.
[6] Internal and external arrears.
[7] Underlying fiscal balance is defined as revenue minus expenditure and excluding interest on foreign debt, foreign-financed capital expenditure, all exceptional spending, and repayment of domestic arrears. Difference between estimated figure for 2005 and one reported in IMF Country Report No. 05/374 reflects the change in definition to exclude all exceptional spending.

Table 3. Democratic Republic of the Congo: Central Government Financial Operations, 2004–12

	2004	2005	2006	2007		2008	2009	2010	2011	2012
	Est.	Est.	Est.	SMP	Budget	Proj.	Proj.	Proj.	Proj.	Proj.
	(Percent of GDP; unless otherwise indicated)									
Total revenue and grants	11.5	16.8	21.4	19.2	25.0	20.2	20.9	21.9	22.4	22.8
Total revenue	9.5	11.6	13.2	13.3	17.7	14.2	14.6	15.9	16.2	16.6
Customs and excise	4.0	4.3	4.9	5.5	5.5	5.9	6.1	6.5	6.6	6.6
Direct and indirect taxes	2.7	3.3	3.9	4.4	5.0	4.6	4.9	5.7	6.0	6.4
Petroleum (royalties and taxes)	2.0	2.9	3.3	2.2	3.3	2.4	2.2	1.9	1.8	1.6
Other	0.8	1.0	1.1	1.2	3.9	1.3	1.5	1.7	1.9	2.0
Total grants	2.0	5.2	8.2	5.9	7.3	6.0	6.3	6.0	6.2	6.2
Budget grants	0.1	0.2	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project grants	1.0	2.2	4.1	1.7	3.1	2.4	2.9	3.3	3.4	3.8
HIPC Initiative assistance [1]	0.9	2.8	3.1	4.2	4.2	3.6	3.4	2.7	2.8	2.4
Total expenditure	15.6	19.9	22.1	18.0	23.6	19.4	20.5	23.2	24.7	26.1
Current expenditure	12.8	13.7	14.5	13.0	16.0	14.5	14.9	16.5	17.2	17.7
Wages [2]	3.6	4.4	5.5	5.5	6.8	5.9	6.1	6.1	6.1	6.1
Interest due [3]	3.6	3.7	3.5	3.0	3.6	3.1	2.8	2.5	2.2	2.1
Of which: on external debt	3.3	3.2	2.9	2.5	3.1	2.7	2.4	2.1	1.9	1.9
Transfers and subsidies	1.0	1.3	2.2	1.7	2.5	2.1	2.3	3.0	3.3	3.4
Other current expenditure	4.6	4.3	3.3	2.8	3.1	3.4	3.7	5.0	5.6	6.1
Of which: centralized payments	1.2	0.8	0.7	0.2	0.2	0.3	0.3	0.5	0.5	0.5
Capital expenditure	2.8	3.4	3.4	3.7	5.9	4.9	5.6	6.7	7.5	8.3
Foreign-financed	2.2	2.4	2.3	2.5	4.1	3.6	4.3	5.0	5.7	6.5
Domestic-financed	0.6	1.0	1.0	1.2	1.8	1.3	1.4	1.7	1.8	1.8
Exceptional expenditure [4]	0.0	2.9	4.3	1.3	1.6	0.0	0.0	0.0	0.0	0.0
Foreign-financed	0.0	1.9	3.3	0.8	0.8	0.0	0.0	0.0	0.0	0.0
Domestic-financed	0.0	1.0	1.0	0.5	0.8	0.0	0.0	0.0	0.0	0.0
Overall fiscal balance (payment order basis)	-4.1	-3.1	-0.7	1.2	1.4	0.8	0.4	-1.3	-2.3	-3.3
Underlying fiscal balance (payment order basis)	-0.6	0.1	0.6	1.6	3.0	1.1	0.8	-0.2	-0.8	-1.1
Change in arrears (increase = +) [5]	-0.1	-6.0	-0.2	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0
Float (increase = +)	0.4	0.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Central bank operational result	-0.7	-0.4	-0.5	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1
Overall fiscal balance (cash basis, before interest rescheduling)	-4.4	-9.6	-0.8	0.9	1.2	0.6	0.3	-1.4	-2.4	-3.4
Underlying fiscal balance [7]	-0.9	-0.4	0.5	1.3	2.7	0.9	0.7	-0.3	-0.9	-1.2
Total financing	4.4	9.6	0.8	-0.9	...	-0.6	-0.3	1.4	2.4	3.4
Domestic financing	0.0	7.8	1.1	-0.3	...	-0.2	-0.1	-0.1	0.0	0.0
Banking system	0.0	1.7	1.2	0.2	...	-0.2	-0.1	-0.1	0.0	0.0
Non bank	0.0	0.8	-0.1	-0.5	...	0.0	0.0	0.0	0.0	0.0
Domestic debt relief	0.0	5.3	0.0	0.0	...	0.0	0.0	0.0	0.0	0.0
Foreign financing	3.4	1.8	-0.3	-1.6	...	-1.6	-1.2	0.4	0.9	1.5
Amortization due before debt relief	-3.2	-4.0	-5.3	-5.6	...	-4.8	-4.8	-2.9	-2.8	-2.4
Budget loans	2.3	1.5	0.0	0.0	...	0.0	0.0	0.0	0.0	0.0
Project loans	1.1	1.9	1.3	2.3	...	1.2	1.4	1.7	2.3	2.7
Debt relief	3.3	2.4	3.1	1.7	...	2.6	2.2	1.7	1.4	1.2
Accumulation of external arrears	0.0	0.0	0.6	0.0	...	-0.6	0.0	0.0	0.0	0.0
Residual financing gap	1.0	0.1	0.1	0.9	...	1.1	1.0	1.1	1.6	1.8
Memorandum items:										
GDP (billions of Congo francs)	2,601	3,366	4,001	4,986	4,986	5,825	6,687	7,678	8,849	10,226

Sources: Congolese authorities and IMF staff estimates and projections.

[1] Reflects revised calculation of HIPC Initiative assistance from 2002-based Debt Sustainability Analysis (DSA).
[2] For 2004 and 2005, program figures reflect a change in classification of retirement allowances as part of exceptional spending.
[3] For 2005, interest payments include rescheduling agreements with commercial creditors under the enhanced HIPC Initiative.
[4] Exceptional expenditure includes spending for the Demobilization, Disarmament, and Reintegration (DDR) program, cost of the elections, payments for retirement allowances, repayments of domestic arrears, and payment for bank restructuring.
[5] Internal and external arrears.

Table 4. Democratic Republic of the Congo: Monetary Survey, 2004–07
(At current exchange rates)

	2004	2005	2006	2007			
				Mar Prel	Jun Proj	Sep SMP	Dec SMP
				(CGF Billions)			
Net foreign assets	-281.8	-273.9	-304.7	-332.9	-322.5	-315.0	-271.8
Net domestic assets	504.0	551.0	744.9	823.7	820.1	854.9	834.2
Domestic credit	68.9	148.0	246.7	245.8	257.3	307.1	289.3
Net credit to government	27.2	84.6	132.1	100.4	115.9	165.0	142.6
Credit to the private sector	39.9	63.0	112.5	142.7	139.1	139.8	144.6
Credit to parastatals	1.8	0.4	2.2	2.8	2.3	2.2	2.2
Other items, net (including valuation change)	435.1	403.0	498.2	577.9	562.7	547.8	544.9
Broad money (M2)	215.3	267.3	428.8	477.4	485.4	524.2	545.4
Narrow money (M1)	117.1	138.9	212.7	210.6	227.5	259.3	276.4
Currency in circulation	101.5	119.9	181.9	178.9	192.1	216.5	230.1
Demand deposits	15.6	19.0	30.8	31.7	35.4	42.7	46.3
Quasi money	98.2	128.4	216.1	266.8	257.9	264.9	269.0
Time deposits in domestic currency	0.4	0.4	0.4	0.5	0.7	1.1	1.4
Foreign currency deposits	97.8	128.0	215.7	266.3	257.1	263.8	267.6
Import deposits	7.0	9.8	11.4	13.3	12.1	15.6	17.0
				(Percent change year-on-year)			
Net foreign assets	-8.8	2.8	-11.3	-26.7	-16.1	-7.0	11.6
Net domestic assets	29.5	9.3	35.2	46.0	36.2	25.5	11.6
Domestic credit	40.0	115.0	66.7	82.2	54.0	48.9	17.2
Net credit to government	-8.0	210.8	56.2	50.8	41.1	61.7	7.9
Credit to the private sector	105.5	58.1	78.4	112.0	67.5	37.4	28.3
Credit to parastatals	688.3	-75.3	389.2	175.4	21.3	-6.2	0.0
Other items, net (including valuation change)	28.0	-7.4	23.6	34.6	29.3	15.4	8.9
Broad money (M2)	72.9	24.2	60.4	65.3	53.5	39.0	27.3
Narrow money (M1)	62.4	18.6	53.1	50.8	42.8	37.5	29.6
Currency in circulation	60.7	18.2	51.7	49.1	45.8	46.3	26.1
Demand deposits	74.2	21.4	62.5	61.3	28.3	5.2	50.4
Quasi money	87.4	30.8	68.3	78.8	64.5	40.5	25.1
Time deposits in domestic currency	12.8	5.3	12.4	-7.3	61.5	20.1	224.4
Foreign currency deposits	87.9	30.9	68.5	79.1	64.5	40.6	24.7
Import deposits	23.9	41.2	16.4	6.1	43.6	66.6	47.7
				(Annual change in percent of beginning-of-period broad money)			
Net foreign assets	-18.3	3.7	-11.5	-6.6	-4.2	-1.8	8.3
Net domestic assets	92.3	21.8	72.6	18.4	17.5	25.1	20.3
Domestic credit	15.8	36.8	36.9	-0.2	2.5	14.0	9.9
Net credit to government	-1.9	26.6	17.8	-7.4	-3.8	7.7	2.5
Credit to the private sector	16.4	10.8	18.5	7.1	6.2	6.3	7.4
Credit to parastatals	1.3	-0.6	0.6	0.1	0.0	0.0	0.0
Other items, net (including valuation change)	76.5	-14.9	35.6	18.6	15.0	11.1	10.4
Broad money (M2)	72.9	24.2	60.4	11.3	13.2	22.4	27.3
Narrow money (M1)	36.1	10.1	27.6	-0.5	3.5	10.8	14.8
Currency in circulation	30.8	8.6	23.2	-0.7	2.4	8.0	11.1
Demand deposits	5.3	1.6	4.4	0.2	1.1	2.8	3.6
Quasi money	36.8	14.0	32.8	11.8	9.7	11.6	12.6
Time deposits in domestic currency	0.0	0.0	0.0	0.0	0.1	0.2	0.2
Foreign currency deposits	36.8	14.0	32.8	11.8	9.7	11.5	12.4
Import deposits	1.1	1.3	0.6	0.4	0.2	1.0	1.3
Memorandum items:							
Nominal GDP (CGF billions)	2,601	3,366	4,001	...	...	...	4,986
Velocity (GDP/broad money)	12.1	12.6	9.3	...	...	...	9.1
Foreign currency deposits (percent of M2)	45.4	47.9	50.3	55.8	53.0	50.3	49.1
Foreign currency deposits (percent of total deposits	86.0	86.9	87.4	89.2	87.7	85.7	84.9

Sources: Congolese authorities and IMF staff estimates and projections.

Table 5. Democratic Republic of the Congo: Accounts of the Central Bank of the Congo, 2004–07
(At current exchange rates)

	2004	2005	2006	2007			
				Mar Prel	Jun Proj	Sep SMP	Dec SMP
				(CGF Billions)			
Net foreign assets	-347.6	-357.8	-433.6	-491.8	-461.4	-476.1	-434.3
Gross offical reserves (in millions of US dollars)	236.2	131.2	154.5	124.9	164.0	109.4	171.3
Foreign assets	104.9	56.6	77.8	69.3	91.4	65.9	95.8
Foreign liabilities	452.5	414.4	511.4	561.1	552.8	542.0	530.2
Net domestic assets	470.3	496.0	644.9	708.1	681.4	723.2	693.1
Domestic credit	52.2	123.2	178.8	182.6	160.3	212.7	184.4
Net credit to government	38.4	103.3	163.1	139.9	150.0	196.9	173.6
Credit to the private sector	1.2	0.0	0.919	1.6	1.1	1.3	1.1
Credit to parastatals	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Claims on deposit money banks	12.6	20.0	14.8	41.1	9.1	14.5	9.7
Other items, net	418.1	372.7	466.1	525.5	521.2	510.6	508.6
Base money	122.7	138.2	211.3	216.3	220.0	247.1	258.7
Narrow base money	111.9	129.2	204.1	207.1	212.4	240.3	251.9
Currency in circulation	105.9	123.8	185.3	187.2	197.4	221.5	233.7
In bank vaults	4.4	3.9	3.4	8.3	5.3	4.9	3.6
Outside banks	101.5	119.9	181.9	178.9	192.1	216.5	230.1
Deposits at the central bank	5.8	5.3	18.4	19.0	14.4	18.3	17.9
Private sector deposits	0.1	0.1	0.1	0.7	0.5	0.4	0.1
Parastatal deposits	0.2	0.1	0.2	0.2	0.2	0.2	0.2
Foreign currency deposits	6.1	5.6	4.4	6.5	4.7	3.5	3.4
Import deposits	4.7	3.4	2.8	2.7	2.9	3.4	3.4
				(Percent change year-on-year)			
Net foreign assets	-17.9	-2.9	-21.2	-41.7	-25.4	-15.0	0.5
Net domestic assets	27.1	5.5	30.0	43.8	30.1	21.3	6.9
Domestic credit	22.8	136.3	45.1	70.6	29.9	40.4	3.0
Net credit to government	4.0	169.1	58.0	55.0	42.4	48.0	6.4
Credit to the private sector	-30.3	-99.6	19,310.8	3,827.0	505.2	1,130.9	0.0
Credit to parastatals	0.0	4.1	224.4	75.4	96.2	3,266.4	0.0
Claims on deposit money banks	223.1	58.4	-26.0	146.0	-48.8	-21.0	-34.4
Other items, net	27.6	-10.8	25.0	36.4	30.1	14.8	8.3
Base money	63.2	12.7	52.9	48.9	40.9	35.5	21.9
Narrow base money	65.3	15.5	57.9	53.4	42.6	39.4	22.3
Currency in circulation	60.7	16.9	49.7	49.0	44.3	43.3	25.8
Deposits at the central bank	292.2	-9.1	250.0	108.3	21.4	7.3	-9.6
Private sector deposits	-80.2	46.6	49.3	482.6	163.0	-45.9	0.0
Parastatal deposits	125.7	-53.8	131.7	90.2	35.8	109.3	0.0
Foreign currency deposits	53.2	-7.4	-21.3	-4.8	2.9	-51.8	0.0
Import deposits	35.5	-28.3	-16.2	-21.7	12.2	20.1	17.2
				(Annual change in percent of beginning-of-period base money)			
Net foreign assets	-70.1	-8.3	-54.9	-27.5	-13.2	-18.7	0.9
Net domestic assets	133.4	21.0	107.8	29.9	17.3	35.2	21.0
Domestic credit	12.9	57.9	40.2	1.8	-8.8	15.9	2.6
Net credit to government	2.0	52.9	43.3	-11.0	-6.2	15.9	4.9
Credit to the private sector	-0.7	-1.0	0.7	0.3	0.1	0.1	0.0
Credit to parastatals	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Claims on deposit money banks	11.6	6.0	-3.8	12.4	-2.7	-0.1	-2.4
Other items, net	120.5	-37.0	67.5	28.1	26.1	19.3	18.4
Base money	63.2	12.7	52.9	2.4	4.1	16.5	21.9
Narrow base money	58.8	14.1	54.2	1.4	4.0	16.2	21.7
Currency in circulation	53.2	14.6	44.5	0.9	5.7	16.8	22.6
Deposits at the central bank	5.7	-0.4	9.5	0.3	-1.9	-0.7	-0.9
Private sector deposits	-0.3	0.0	0.0	0.3	0.2	0.1	0.0
Parastatal deposits	0.1	-0.1	0.1	0.0	0.0	0.0	0.0
Foreign currency deposits	2.8	-0.4	-0.9	1.0	0.1	0.0	0.0
Import deposits	1.6	-1.1	-0.4	0.0	0.0	0.2	0.2

Sources: Congolese authorities and IMF staff estimates and projections.

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

	2004 Est.	2005 Proj.	2006 Proj.	2007 SMP	2008 Proj.	2009 Proj.	2010 Proj.	2011 Proj.	2012 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 [1]	-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 [2]	-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 [3]	-230	-283	-471	-500	-485	-525	-341	-364	-339
Private capital (net) [4]	-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 [5]	-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)								
Memorandum items:									
Debt service, after debt relief (percentage of exports of goods and services) [4]	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.

[1] Including interest due to the IMF.
[2] Excluding repayments to the IMF.
[3] Adjusted from SM06/226, to reflect a shift to the 5th *Balance of Payment Manual* . Current transfers and the current account balance have been adjusted accordingly.
[4] Including unrecorded transactions. The latter may be substantial, given the weak state of statistics.
[5] Including US$58 million of arrears in 2006, on non reschedulable Paris Club debt service.

Table 7. Democratic Republic of the Congo: Millenium Development Goals, 1990–2005

	1990	1995	2000	2005	SSA 2005
1. Eradicate extreme poverty and hunger	2015 target = halve 1990 US$1 a day poverty, and malnutrition rates				
Income share held by lowest 20%	...	...	...	...	...
Malnutrition prevalence, weight for age (% of children under 5)	...	34	31	...	29.6
Poverty gap at $1 a day (PPP) (%)	...	...	...	...	...
Poverty headcount ratio at $1 a day (PPP) (% of population)	...	...	...	...	*41.1*
Poverty headcount ratio at national poverty line (% of population)	...	...	...	...	...
Prevalence of undernourishment (% of population)	31	...	...	*72*	*30*
2. Achieve universal primary education	2015 target = net enrollment to 100				
Literacy rate, youth total (% of people ages 15-24)	69	...	...	70	*73*
Persistence to grade 5, total (% of cohort)	*55*	...	...	...	...
Primary completion rate, total (% of relevant age group)	*46*	*42*	*39*	*39*	*58*
School enrollment, primary (% net)	*54*	...	...	...	*66*
3. Promote gender equality	2005 target = education ratio to 100				
Proportion of seats held by women in national parliament (%)	5	*5*	...	8	16
Ratio of girls to boys in primary and secondary education (%)	...	...	*79*	*73*	*86*
Ratio of young literate females to males (% ages 15-24)	72	...	...	*81*	*88*
Share of women employed in the nonagricultural sector (% of total nonagricultural employme	22	21	21	*20*	...
4. Reduce child mortality	2015 target = reduce 1990 under-5 mortality by two-thirds				
Immunization, measles (% of children ages 12-23 months)	38	27	46	70	64
Mortality rate, infant (per 1,000 live births)	129	129	129	129	96
Mortality rate, under-5 (per 1,000)	205	205	205	205	163
5. Improve maternal health	2015 target = reduce 1990 maternal mortality by three-fourths				
Births attended by skilled health staff (% of total)	...	...	*61*	...	45
Maternal mortality ratio (modeled estimate, per 100,000 live births)	...	...	990	...	...
6. Combat HIV/AIDS, malaria, and other diseases	2015 target = halt, and begin to reverse, AIDS, and other diseases				
Contraceptive prevalence (% of women ages 15-49)	...	...	*31*	...	23
Incidence of tuberculosis (per 100,000 people)	133	233	318	356	348
Prevalence of HIV, female (% ages 15-24)	...	...	...	2	...
Prevalence of HIV, total (% of population ages 15-49)	...	...	...	3	6
Tuberculosis cases detected under DOTS (%)	...	41	52	72	49
7. Ensure environmental sustainability	2015 target = various				
CO2 emissions (metric tons per capita)	0.1	0.1	0	*0*	*0.8*
Forest area (% of land area)	62	...	60	59	27
GDP per unit of energy use (constant 2000 PPP $ per kg of oil equivalent)	5	3	2	*2*	*3*
Improved sanitation facilities (% of population with access)	16	...	...	*30*	*37*
Improved water source (% of population with access)	43	...	...	*46*	*56*
Nationally protected areas (% of total land area)	...	...	...	*9*	*11*
8. Develop a Global Partnership for Development	2015 target = various				
Aid per capita (current US$)	24	4	4	32	44
Debt service (PPG and IMF only, % of exports of G&S, excl. workers' remittances)	...	...	*3*	7	7
Fixed line and mobile phone subscribers (per 1,000 people)	1	1	0	48	142
Internet users (per 1,000 people)	0	*0*	0	2	29
Personal computers (per 1,000 people)	...	...	...	...	*15*
Total debt service (% of exports of goods, services and income)	...	...	...	...	9
Unemployment, youth female (% of female labor force ages 15-24)	...	...	...	...	...
Unemployment, youth male (% of male labor force ages 15-24)	...	...	...	...	...
Unemployment, youth total (% of total labor force ages 15-24)	...	...	...	...	...
9. General indicators					
Fertility rate, total (births per woman)	6.7	6.7	6.7	6.7	5
GNI per capita, Atlas method (current US$)	220	130	80	120	746
GNI, Atlas method (current US$) (billions)	8.4	6.0	4.2	7.0	554
Gross capital formation (% of GDP)	9.1	9.4	3.5	14.2	19
Life expectancy at birth, total (years)	46	43	42	44	47
Literacy rate, adult total (% of people ages 15 and above)	47	...	...	*67*	*61*
Population, total (millions)	38	45	50	58	743
Trade (% of GDP)	59	52	44	71	67

Source: World Development Indicators database, September 2006.

Note: Italicized data are for earlier or later years than those stated.

Table 8. Democratic Republic of the Congo: Progress Status of Triggers for Reaching the Floating Completion Point under the HIPC Initiative

(As of June 2007)

Triggers	Progress status
1. **PRSP** Completion of a full PRSP through a participatory process and its implementation for one year, duly documented in the DRC's annual progress report, and confirmed as satisfactory by a joint staff advisory note (JSAN).	**Ongoing**. The full PRSP was completed through a participatory process, and was adopted by the government in July 2006. The PRSP and the JSAN were submitted to the Fund and World Bank Boards in April 2007. The document is being disseminated. The implementation plan for the strategy was endorsed by sectoral ministries, NGOs, and civil society. A priority action program (PAP) 2007–08 was developed in collaboration with development partners and sectoral ministers, to start implementing the PRSP.
2. **Macroeconomic stability** Continued maintenance of macroeconomic stability after reaching the decision point, as evidenced by satisfactory performance under a program supported by an arrangement under the IMF's PRGF.	**Underperforming**. Macroeconomic stability deteriorated during the period leading up to and after the elections. The PRGF arrangement expired in March 2006 before the completion of the final review. Under a program for 2006 monitored by Fund staff (SMP), key quantitative and structural performance indicators for end-September and end-December were missed. In particular, the government ran a larger than planned budget deficit, which was money-financed. As a result, inflation outpaced the program target, and the Congo franc weakened. Under a SMP for 2007, the new government has tightened macroeconomic policies, leading to a decline of inflation and appreciation of the Congolese franc since March 2007. However, fiscal discipline is at risk following the promulgation in July of an expansionary budget for 2007.
3. **Use of budgetary savings** resulting from enhanced HIPC Initiative-related debt service relief during the interim period for poverty-related expenditures in accordance with the I-PRSP, with supporting documentation satisfactory to the staffs of IDA and the IMF.	**Ongoing.** The use of budgetary savings from the enhanced HIPC Initiative is aligned with the priorities expressed in I-PRSP and PRSP. The government continues its efforts to use HIPC savings to finance spending in the areas of health and education. These social sectors have received a large share of the pro-poor spending since 2003: the budget executed for these sectors has increased from 0.7 percent of GDP in 2003 to 2.6 percent in 2006. An external audit of the HIPC account was completed recently.

Table 8 . Democratic Republic of the Congo: Progress Status of Triggers for Reaching the Floating Completion Point under the HIPC Initiative (continued)

(As of June 2007)

Triggers	Progress status
4. **Public expenditure management** (a) Implementation of a modernized budget-execution system, providing information from commitment to payment, and allowing for the monitoring of arrears;	**Ongoing**. (a) The budget-execution system is improving. A reporting mechanism is in place within the public finance management system. General budget execution reports (*États de suivi budgetaire*, or ESBs) can be produced automatically using the Budget-Treasury's unique database. Production of ESBs remains irregular and of uneven quality. Treasury accounts, describing the financial flows and account balance is produced monthly. On this basis, State financial operations table (TOFE) is prepared for thorough monitoring. However, the Treasury cash balance is not yet exhaustive or reliable. Additional efforts are needed to guarantee the monitoring of payments and occurrence of arrears.
(b) adoption and implementation of a double-entry government accounting system and a new chart of accounts; and	(b) The double-entry system is being implemented. The staff has been trained, equipment purchased, and software developed. Additional efforts are needed for the staff to master the new system;
(c) production of quarterly budget execution reports using economic, administrative, and functional classifications.	(c) A new classification has been adopted. The budgetary reports are produced using economic, administrative, and functional classifications, but with a lag of 2-3 months.
5. **Governance and service delivery in priority sectors** (a) Completion of a budget-tracking exercise on health, education, rural development and infrastructure expenditure, consisting of (i) monitoring the execution of poverty-related public expenditure; (ii) evaluation by user groups of the quality of related public services, and (iii) evaluation by service-providers of constraints to effective provision; and	**Partially done**. (a) (i) The treasury monitors poverty-related public expenditures in all sectors, using the new budget classifications. (ii) Evaluation by user groups of health clinics and schools was conducted through an Institutional and Governance Review (2005). (iii) Evaluation by service providers in education and health was conducted through an Institutional and Governance Review (2005).
(b) adoption and implementation of a new procurement code and key implementing decrees.	(b) The draft procurement code was adopted in April 2006. The application laws were validated in October 2006. The final version of the code and the laws need to be adopted by the Council of Ministers, then by Parliament. The consultant tasked with preparing a national procurement strategy and a program of capacity reinforcement has issued a preliminary report. The last step is to put in place institutions compatible with the new code, and to make them operational.

Table 8. Democratic Republic of the Congo: Progress Status of Triggers for Reaching the Floating Completion Point under the HIPC Initiative (concluded)

(As of June 2007)

Triggers	Progress status
6. **Social and rural sectors** Adoption of sectoral development strategies and related implementation plans for health, education and rural development, which are satisfactory to IDA.	**Partially done**. The country health status report was issued in May 2005 (Health, nutrition and population country status report – No. 35626-ZR). Health sector strategy was completed in March 2006 based on the findings of this report. For education, the government finalized, in September 2004, the Status Report on the National Education System, which assesses the sector's constraints, and adopted a draft action plan for the Education for All (EFA) Initiative. The education sector strategy was drafted in the second quarter of 2006. An agriculture sector review was completed in May 2006. The rural development strategy is under preparation.
7. **Debt management** Installation and full activation of a computerized debt-recording system, covering public and publicly-guaranteed debt that can (a) produce monthly debt-service projections, and incorporate actual disbursement and debt-service payment execution data; (b) produce advance monthly debt-service projections that will be published quarterly; and (c) support the centralization of debt information into a single center.	**Ongoing**. A public debt management software (DMFAS) was installed, and the public external debt outstanding was recorded. However, the database still contains errors (according to the evaluation by the UNCTAD mission in March 2007), and it does not cover publicly-guaranteed debt. Training of the relevant staff on debt management is on-going. The implementation program is projected to be completed by September 2007. Remaining activities are : a) production of manual of procedures DMFAS; b) study trips to exchange experiences with other users of DMFAS; c) training on portfolio management; d) training on debt sustainability analysis using DSM. OGEDEP does not yet produce or publish the debt service projections. It also does not play the role of the single debt information center, as other entities in the administration do not systematically inform OGEDEP of debt-related activities. Efforts to sensitize all parties involved in any matters concerning public debt and restructuring of OGEDEP is necessary to meet this trigger.

INTERNATIONAL MONETARY FUND

THE DEMOCRATIC REPUBLIC OF THE CONGO

Staff Report for the 2007 Article IV Consultation

Informational Annex

Prepared by the African Department

August 14, 2007

- **Relations with the Fund**. Describes financial and technical assistance from the Fund and provides information on the safeguards assessment and exchange rate system. Outstanding purchases and loans amounted to SDR 553.47 million (103.8 percent of quota) at end-June 2007.
- **Relations with the World Bank.** Describes the World Bank Group program and portfolio.
- **Statistical Issues.** Assesses the quality of the statistical data. Weaknesses in a broad range of economic statistics are hampering the analyses of economic developments in the country.

Contents Page

DEMOCRATIC REPUBLIC OF THE CONGO
RELATIONS WITH THE FUND
(As of June 30, 2007)

I. Membership Status: Joined: September 28, 1963; Article VIII

II. General Resources Account:	**SDR Million**	**Percent of Quota**
Quota	533.00	100.00
Fund holdings of currency	533.00	100.00

III. SDR Department:	**SDR Million**	**Percent of Allocation**
Net cumulative allocation	86.31	100.00
Holdings	1.23	1.42

IV. Outstanding Purchases and Loans:	**SDR Million**	**Percent of Quota**
Poverty Reduction and Growth Facility (PRGF) arrangement	553.47	103.84

V. Latest Financial Arrangements:

Type	**Approval Date**	**Expiration Date**	**Amount Approved (SDR Million)**	**Amount Drawn (SDR Million)**
PRGF	June 12, 2002	March 31, 2006	580.00	553.47
Stand-By	June 9, 1989	June 8, 1990	116.40	75.00
SAF	May 15, 1987	May 14, 1990	203.70	145.50

VI. Projected Payments to Fund:

(SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2007	**2008**	**2009**	**2010**	**2011**
Principal	42.00	86.67	97.34	105.35	110.69
Charges/interest	3.20	6.04	5.57	5.06	4.51
Total	45.20	92.71	102.91	110.41	115.21

VII. Implementation of HIPC Initiative:

	Enhanced Framework
I. Commitment of HIPC assistance	
Decision point date	July 2003
Assistance committed by all creditors (US$ millions)	6,311.00
Of which: IMF assistance (US$ millions)	318.90
(SDR equivalent millions)	228.30
Completion point date	Floating

II. Disbursement of IMF assistance (SDR millions)	
Assistance disbursed to the member	3.39
Interim assistance	3.39
Completion point balance	--
Additional disbursement of interest income	--
Total disbursements	3.39

VIII. Implementation of MDRI Assistance: Not applicable

IX. Exchange Rate Arrangement:

The currency of the Democratic Republic of the Congo (DRC) is the Congo franc, which since May 26, 2001, has been freely floating. On June 29, 2007, the rate was US$1=CGF 496.2.

Effective February 10, 2003, the DRC accepted the obligations of Article VIII, Sections 2 (*a*), 3, and 4, of the Fund's Articles of Agreement. However, the DRC maintains measures that give rise to one restriction and one multiple currency practice subject to Fund approval under Article VIII. The exchange restriction involves an outstanding net debit position against other contracting members under the inoperative regional payments agreement with the Economic Community of the Great Lakes Countries. The multiple currency practice relates to a fixed exchange rate set on a quarterly basis applying to transactions through the bilateral payments agreement with Zimbabwe.

X. Last Article IV Consultation:

The DRC is on the standard 12-month consultation cycle. The Executive Board concluded the last Article IV consultation on August 19, 2005.

XI. Safeguards Assessment:

A safeguards assessment of the central bank (BCC) was completed on January 3, 2003. The assessment concluded that there may be substantial risks of misreporting or misuse due to vulnerabilities in the external audit mechanism, financial reporting, and system internal controls. Staff findings, recommendations related to program conditionality, and other recommendations may be found in IMF Country Report No. 03/161. Staff is monitoring BCC implementation of the measures.

XII. Technical Assistance:

Subject	Department	Staff Member	Date
Monetary statistics	STA	Mr. Papadacci Ms. Tanase	June 29–July 12, 2000
Exchange rate system	MCM	Mr. Bussers	May 9–14, 2001 July 1–7, 2001
Article VIII obligations	MCM/LEG	Ms. De Boeck Mr. Leimone	Oct. 21–29, 2002
Capacity-building assistance to the central bank	MCM	Mr. Laurens Mr. Sarr Mr. Akitoby Mr. Paul Mr. Bussers	Oct. 12–26, 2001
		Mr. Tavernier	Feb. 1–14, 2002 Aug. 8–Sep. 20, 2002
		Mr. Paul	Feb. 1–7, 2002
		Mr. Beaumé	July 15–25, 2002
		Mr. Tavernier Mr. Normand	Oct. 10–22, 2004
		Mr. Saffre	Nov. 8–12, 2004
		Mr. Cotier Mr. Le Clerc	Mar. 3–Apr. 07, 2006
		Mr. Cotier	May 28–June 2, 2006
		Mr. Le Clerc	May 24–Jun. 2, 2006
		Mr. Leblanc	Feb. 1–Mar. 31, 2007
		Mr. Leblanc	May 2–May 15, 2007
		Mr. Lecinq	May 2–May 17, 2007

Subject	Department	Staff Member	Date
Assist the Central Bank of Congo (BCC) to build up institutional and operational capacity in monetary policy implementation and bank liquidity management.	MCM	Mr. Lecinq	Feb. 2–Feb. 12, 2007
Monetary policy/ foreign exchange management, bank supervision and budget	MCM	Mr. Laurens Mr. Sarr Mr. Paul Mr. Beaumé Mr. Régnard Mr. Tavernier	Oct. 29–Nov. 12, 2002
Action plan for developing the financial system in the DRC	MCM	Mr. Laurens Mr. Fonteyne Ms. Nkhata Mr. Saffré Mr. Paul Mr. Regnard Mr. Vandecan Mr. Pauwels	Nov. 5–15, 2003
Assistance to the central bank on currency, monetary and foreign exchange operations, and strengthening of capacity in AML/CFT	MCM	Mr. Nascimiento Mr. Vandecan Mr. Lecinq Mr. Van de Velde Mr. Hotte	Nov. 30–Dec. 14, 2004
Monetary and foreign exchange operations, currency in circulation, and banking supervision	MCM	Mr. Nascimiento Mr. Hartley Mr. Van de Velde Mr. Lecinq Mr. Cotier	Nov. 29–Dec 13, 2005
Currency in circulation	MCM	Mr. Van de Velde	Mar. 28–Apr. 10, 2005 Mar. 03–Apr. 07, 2006
Monetary operations	MCM	Mr. Lecinq	Sept. 05–16, 2005
Bank supervision and regulation	MCM	Mr. Regnard	Nov. 22–Dec. 05, 2004

Subject	Department	Staff Member	Date
Internal audit	MCM	Mr. Normand Mr. Tavernier	Mar. 26–Apr. 8, 2006
Subject	**Department**	**Staff Member**	**Date**
Legislative and supervisory AML/CFT framework	MCM	Ms. Smith Mr. Mathias Mr. Beekarry	Jan. 23–27, 2006
Tax administration/ policy	FAD	Mr. Corfmat Mr. Fossat	May 11–21, 2001
Tax policy	FAD	Ms. Geourjon Mr. Laporte Mr. Schneider	Nov. 19–Dec. 3, 2002
Expenditure management	FAD	Mr. Schiller Mr. Fournel Mr. Barrier	Aug. 4–18, 2001
		Mr. Bouley Mr. Calcoen	Aug. 31–Sept. 10, 2002
		Mr. Bouley Mr. Lepage Mr. Kwant	Nov. 11–25, 2003
		Mr. Nguenang	Feb. 19–Nov. 19, 2007
Revenue administration	FAD	Mr. Benon Mr. Jolibert Mr. Montagnard–Rentier	Dec. 3–17, 2002
		Mr. Benon Mr. Lesprit	July 13–26, 2003
		Mr. Benon	Sept. 16–20, 2003
		Mr. Montagnat–Rentier Mr. Lesprit Mr. Boilil Mr. Vandenberghe	Oct. 26–Nov. 9, 2004
		Mr. Boilil	Apr. 10–30, 2006

Subject	Department	Staff Member	Date
Fiscal Decentralization	FAD	Mr. Seade Mr. Brosio Mr. Catalan Mr. Hartley Mr. Mati Mr. Raouya Ms. Kubota (World Bank) Mr. Vaillancourt (World Bank)	July 15–31, 2004
Real sector and government finance statistics	STA	Mr. Marie Mr. Gorter	June 4–13, 2001
Government finance statistics	STA	Mr. Maiga	Mar. 19–Apr. 13, 2002 Sept. 4–25, 2002
Multisector statistics	STA	Ms. Fisher Mr. Tanase Ms. Noukovska Mr. Fiévet Mr. Maiga Mr. Ntungwanayo (World Bank)	Oct. 8–21, 2003
Tax administration, Central Africa regional expert	FAD	Mr. Fossat	Sept. 6, 2005

XIII. Long-term Resident Experts:

Expenditure management	Mr. Catalan Mr. Nguenang	Jan. 2002–Jun. 2004 Since Sept. 2004
Customs administration	Mr. Bremeersch	Jan. 2002–Jan. 2004
Tax administration	Mr. Schlotterbeck Mr. Fossat Mr. Raouya	Jan. 2002–Mar. 2003 Sept. 2005 Sept. 2003–Apr. 2005
Advisor to Governor of BCC	Mr. d'Ambrières Mr. Nyssens Mr. d'Ambrières	Apr. 2002–Dec. 2003 Jan. 2004–Jan. 2005 Since Feb. 25 2006
Building BCC capacity	Mr. Pauwels	Since Sept. 2004

Statistics	Mr. Métreau	Oct. 2004–
	Mr. Gbossa	Since Dec. 12, 2005

IV. Resident Representative: Mr. Maret assumed his duties as Resident Representative on November 30, 2005.

DEMOCRATIC REPUBLIC OF THE CONGO
RELATIONS WITH THE WORLD BANK GROUP

I. INTRODUCTION

1. This annex first underscores the importance that the government of the Democratic Republic of the Congo (DRC) attaches to effective partnership with international development partners and foreign investors. It then summarizes the strategy and activities of the World Bank Group (IDA, IFC, and MIGA) in the DRC. It concludes with a description of areas of specific collaboration between the World Bank Group and the International Monetary Fund.

II. PARTNERSHIP IN THE DRC'S DEVELOPMENT STRATEGY

2. The new duly-elected government took office in February 2007. The government presented to the Parliament its program for 2007–11, with five priority sectors, infrastructure, employment, education, water and electricity, and health. The government's program also included a governance compact, which is a contract between the population and itself. The new government's intentions to implement change and improve the political, economic and social environment are supported by development partners. The Consultative Group meeting, which could not take place during the electoral period, is expected to resume in November 2007. In that context, a technical meeting took place on June 25, 2007 in Kinshasa during which a Priority Action Plan (PAP, July 2007–December 2008) was endorsed by both the Government and the donor community. This will be followed up by a Consultative Group in October 2007 to further mobilize donors support to the government program.

3. **The PRSP was adopted by the outgoing transitional government, and was endorsed by the new government.** The PRSP is a result of extensive participatory consultations at grassroots level as well as with the international development partners. The full PRSP aims at restoring political stability, consolidating peace, and reducing poverty through fostering accelerated growth. The strategy comprises five pillars: (i) promoting good governance and consolidating peace; (ii) maintaining macroeconomic stability and growth; (iii) improving access to social services and reducing vulnerability; (iv) combating HIV/AIDS; and (v) improving community dynamics. The PRSP and the Joint Staff Advisory Note (JSAN) were discussed by the World Bank's Board of Directors on May 31, 2007.

III. BANK GROUP STRATEGY AND OPERATIONS (IDA, IFC, AND MIGA)

4. **Overall strategy.** On July 31, 2001, the Executive Directors of IDA endorsed a **Transitional Support Strategy** to map out Bank financial and nonfinancial support to the DRC for the following 12–24 months, which included the Emergency Early Recovery Project (EERP), the Economic Recovery Credit (ERC), the Private Sector Development and Competitiveness Project (PSDC), and the Emergency Multi-Sector Rehabilitation and

Reconstruction Project (EMRRP), as described hereunder. The second TSS was discussed by the Board on February 26, 2004 and covers the period 2004–06. A Country Assistance Strategy (CAS) covering the period of 2007–10 is being prepared jointly with other donors in order to be presented to the Executive Directors of IDA following consultations with the newly elected government. The new CAS will be closely aligned with the PRSP.

5. The 2004 TSS sets forth the scope and configuration of future support during 2004–06. The TSS accompanied government efforts during the transition period, with a particular focus on (i) social stability and security, (ii) high and shared growth, (iii) governance and institutional strengthening, and (iv) social development.

6. A Country Assistance Strategy (CAS) is under preparation, and is expected to be presented to the Board of Directors by early November 2007. The CAS is an integral part of the common assistance framework for the country, which is being developed through extensive discussions and coordination with development partners, including the IMF, the EC, the UN, and bilaterals. The governance compact proposed by the new government has been endorsed by the development partners under this common assistance framework.

A. International Development Association (IDA)

7. IDA provides support through trust funds and investment operations. There is currently no development policy operation ongoing, the most recent one having closed in December 2006. The IDA funds are made available on 100 percent grant basis in view of the country's debt burden. Total commitments amount to about US$ 1.9 billion. Operational details are summarized in Table 1.

Trust funds

8. The trust funds that are currently active target the areas of stabilization and recovery, demobilization, capacity building, support for the PRSP, forest governance, and arrears clearance.

Grants and credits

Development policy operations

9. While the Fund leads the dialogue on overall macroeconomic framework, the Bank leads the policy reform efforts of individual components contributing to good public finance management. Since the re-engagement, IDA has provided three development policy operations—the Economic Recovery Credit (ERC), the Post-Reunification Economic Recovery Credit (PRERC), and the Transitional Support to Economic Recovery Operation (TSERO). Through ERC, approved in 2002, the Bank led the policy dialogue in restructuring the mining public enterprise, improving governance of the forestry sector, and reforming public finance system, in addition to providing arrears-clearance process. The operation was implemented satisfactorily and closed in June 2003. With PRERC, approved in 2004, the

Bank continued to lead the public finance reform dialogue through a civil service retirement program, a domestic debt settlement program, and utilities billing and payment reforms. These reforms allowed the government to start “cleaning house” by addressing the various types of arrears accumulated by the previous regime. The operation was implemented satisfactorily and closed in December 2005. The focus of the TSERO, approved in December 2005 in the amount of SDR 62.1 million (US$90 million equivalent at the time of negotiations), was on the continuation of improvements to the budget process, strengthening the execution of pro-poor spending, implementation of civil service management reforms, the continuation of support for reforms in natural resource sectors, and increased transparency on the revenue side. Unlike the previous two operations, which had multiple thematic tranches, TSERO was a stand-alone single- tranche operation. It disbursed fully in December 2005 and is now closed.

Investment operations

10. The IDA leads the dialogue with the authorities in the areas of social sector reforms, demobilization and disarmament, infrastructure rehabilitation, and private sector development. More specifically, investment operations include (i) infrastructure rehabilitation, including power and roads; (ii) demobilization and reintegration; (iii) emergency support to living conditions and urban, economic and social reunification (iv) private sector development; (v) debt buy back operation; (vi) social development, including multi-sectoral HIV/AIDS program and recently approved education project. Implementation of projects to date is broadly satisfactory. See Table 1 for more information about projects listed above.

Nonlending activities

11. For several years prior to and during the first TSS (2001), IDA assistance also emphasized **nonlending activities and advisory services**, including trust funds and grants, to improve the understanding of the socioeconomic context, rebuild the knowledge base to support policy dialogue and design effective poverty-reduction strategies. FY03 activities included a Public Expenditure Review, which focused on the overall structure of expenditures; specific issues in the health, education, and transport sectors; evaluation of the DRC’s ability to monitor execution of poverty-related expenditures; strengthening of public expenditure management systems. In FY06, the Country Financial Accountability Assessment (CFAA) was undertaken, and was officially delivered to the Government and the donor community in Kinshasa. A workshop was also organized for Government delegates, the Reform Committee, Parliament, Cour des Comptes and several donors to validate the conclusions and action plan of the report. Based of this assessment, authorities continue to gradually implement recommendations for an efficient and transparent spending circuit. A double entry accounting plan has been recently implemented. The Agricultural Sector Review was completed in FY06. The Forest Sector Review was published in FY07 with co-authorship of a series of research centers and civil society organizations.

Table 1. Summary of World Bank Financial Assistance

Credit Name	**Amount**	**Date approved**	**Theme**	**Status**
Emergency Early Recovery Project (EERP)	US$50 million IDA grant	July 31, 2001	Economic reforms, a pilot community-driven development initiative, rehabilitation of the Kinshasa-Matadi road, and HIV/AIDS activities	Completed and fully disbursed
Economic Recovery Credit (ERC)	US$450 million	June 13, 2002	Arrears clearance, budgetary/foreign exchange support, and forestry and mining sector reforms	Completed and fully disbursed
Emergency Multi-Sector Rehabilitation and Reconstruction Project (EMRRP)	US$454 million, o/w US$44 million grant. Supplementary funding of $125 million was approved on Dec. 8, 2005.	Aug. 6, 2002	Reconstruction and rehabilitation of critical infrastructure, increase in social service delivery, institutional capacity strengthening, development of sectoral strategies	As of April 2007, 100 percent of the initial funds (credit and grants) have been committed and more than 60 percent disbursed.
Private Sector Development and Competitiveness Project (PSDC)	US$120 million	July 29, 2003	Increase competitiveness by improving the investment climate, support reform of public enterprises, stimulate economic diversification in Katanga, and provide job search support for the unemployed	Ongoing
Emergency Economic and Social Reunification Support Project	US$214 million,	Sept. 11, 2003	Finance emergency rehabilitation activities (large infrastructure, urban rehabilitation, community development, in particular to the reunified provinces)	77 percent of credit has been disbursed
Southern Africa Power Market Project (SAPM)	US$178.6 million	Nov. 11, 2003	Restore capacity to deliver electric power to SAPP	Ongoing
Post-Reunification Economic Recovery Credit (PRERC)	US$200 million	Feb. 26, 2004	Support to civil service retirement program, settlement of government debt arrears to private creditors, and reform of utilities billing and payment	Credit fully disbursed
Multi-sectoral HIV/AIDS program (MAP)	US$102 million	Mar. 26, 2004	Mitigate the negative impact of the HIV/AIDS epidemic on the socioeconomic development of the DRC through prevention of transmission, support, and care for persons living with the virus (PLV)	Ongoing. Project effective since Oct. 8, 2004
Emergency Demobilization and Reintegration Project	US$100 million IDA grant; plus US$100 million in counterpart (MDRP) funds (grants)	May 25, 2004	Demobilize 150,000 ex-combatants country-wide and help them transition to civilian life, help increase social and economic expenditures, and lower defense expenditures	97 percent of the IDA grant and 78 percent of the MDRP grant have been disbursed by end-February 2007

Credit Name	Amount	Date approved	Theme	Status
Emergency Social Action Project	US$60 million IDA grant	Aug. 6, 2004	Improve access of the poor to social and economic services and increase the availability and management of development resources at the community level	Ongoing
Emergency Living Conditions Improvement Support Project	US$ 82 million IDA grant	May 26, 2005	The Project aims to assist the Government in responding to multi-sector emergency needs in urban areas – including large cities (other than Kinshasa), as well as key medium and small urban centers	19 percent of the credit has been disbursed
Health Sector Rehabilitation Support Project	US$150 million IDA grant	Sept. 1, 2005	This project aims to ensure that the target population of 10 million in selected under-served health zones has access to and use of a well-defined package of quality essential health services, including malaria control interventions	Ongoing
Debt Buy Back Operation	US$ 900 thousand IDA grant	Sept. 8, 2005	This project will address the commercial debt of the DRC and facilitate the provisions of the debt relief by the remaining commercial creditors	Ongoing
Transitional Support to Economic Recovery Operation (TSERO)	US$90 million IDA grant	Dec. 8, 2005	Support for the improvement of the budget and revenue-collecting process, execution of pro-poor spending, natural resource sector management, and implementation of civil service management reforms	Completed and fully disbursed
Emergency Urban and Social Rehabilitation Project	US$180 million IDA grant	March 29, 2007	The development objective of this project is to help DRC face urgent post-elections challenges by: (i) providing resources to maintain macro-economic stability and fund critical expenditure in the immediate future; and (ii) addressing urgent rehabilitation and social needs in Kinshasa, which is key to political and social stability	Approved March 29, 2007 and effective on July 5, 2007
Regional and Domestic Power Markets Development Project	US $297 million IDA grant	May 29, 2007	The objectives of the Project are to: increase the quantity and quality of power supplied to Kinshasa, to the Katanga region and for export, and to improve the operational efficiency of the power utility	Approved May 29, 2007 Working towards effectiveness
Education Sector Project	US$150 million IDA grant	June 5, 2007	The objective of the project is to prevent further deterioration in the delivery of essential services for primary education and prepare ground for a sustainable development and financing of the sector that will facilitate donor coordination and future transition to a sector wide program	Approved June 5, 2007. Working towards effectiveness

B. International Finance Corporation (IFC)

12. IFC supported the cellular telephone operator Celtel with a US$7 million loan in 2002 and a further US$20 million in 2003. Currently, IFC is conducting a needs assessment of local small and medium enterprises to help determine potential future interventions. IFC has made a US$4.9 million equity investment for a 7.5 percent equity stake in Kingamyambo Musonoi Tailings SARL (KMT), which could become one of the first mining projects to be developed under the new Mining Code. The next step will be to complete a bankable feasibility study and raise the financing for the project. Construction is planned to begin in end–2007 or early 2008. In the financial sector, IFC plans to assist banks operating in the DRC with trade financing facilities in order to help establish routine trade finance operations. IFC will work closely with the Bank in the context of the PSDC project to help implement specific sectoral initiatives and key investment projects. Considerable effort has already been spent in resolving outstanding disputes in the DRC, two of which, UTEXAFRICA, a textile business, and the Grand Hotel du Congo (formerly Inter-Continental) were settled in 2002 and 2005, respectively. A settlement is being sought actively for the last dispute remaining on the books, SOTEXKI, a textile business in Kisangani.

C. Multilateral Investment Guarantee Agency (MIGA)

13. MIGA can now issue guarantees for projects because the DRC has paid its initial capital subscription (the DRC has been a member of the agency since 2003). Several projects are under consideration, notably in the mining sector. On May 3, 2005, MIGA approved its first project in DRC for a US$13.3 million in guarantee coverage for the Dikulushi copper and silver mine. The guarantees approved provide coverage for investments and loans by Anvil Mining Ltd. of Canada and RMB International (Dublin) Limited of Ireland to Anvil Mining Congo, SAR of the DRC, against the risks of transfer restriction, expropriation, breach of contract and war and civil disturbance. The project was also the first extractive industries project to be considered and approved by the Board of the World Bank Group, which followed the conclusion of the Bank-sponsored Extractive Industries Review in August 2004. In addition, MIGA is currently looking at non-mining deals in agribusiness, manufacturing and services.

IV. Bank-Fund collaboration in specific areas

14. In addition to its direct assistance to the DRC, the Bank also supports policy reforms in close collaboration with the Fund in a number of areas: donor coordination, public finance management, decentralization, financial sector reform, governance and anticorruption, and the PRSP process. The Fund takes the lead on macroeconomic policies aimed at facilitating stabilization and sustainable growth. The Bank complements the Fund’s work through its support to structural reforms. Table 2 details areas of collaboration and areas where either the Bank or the Fund lead.

Table 2. Summary of Bank-Fund Collaboration

Thematic area	Areas of collaboration	Areas where Bank leads	Areas where Fund leads
Donor coordination	Promotion of international partnership activities	Preparation of Consultative Groups, co-chairing with EC the Country Assistance Framework (CAF). Monitoring of multilateral aid flows.	Monitoring of bilateral aid flows.
Public finance management	HIPC-AAP exercises; joint DSAs.	Policy reform support, particularly in the areas of budget preparation, budget execution, expenditure tracking, fiscal reporting, and public debt recording/management.	Reforming and modernizing revenue management systems.
		Preparing public expenditure reviews and CFAA.	Technical assistance on reform of public sector accounting system
		Preparing proposed reforms of customs and internal indirect taxes, corporate taxation; and reforming taxation in mining and forestry sectors.	Technical assistance for improving tax administration
		Financing technical assistance in the area of training and the structure of corporate taxation; conducting in-depth analysis of forestry taxation systems.	
Decentralization		Technical assistance and advice on the decentralization of public finances and service delivery.	Technical assistance for improving tax administration.
Public enterprise reform	--	Assistance on public enterprise sector reforms. Improving the legal, regulatory, judicial, and fiscal environment for private sector development.	--
Financial sector reform	--	Restructuring of commercial banks.	Monetary policy issues and central bank restructuring
Governance and anticorruption	--	Leading the dialogue for implementing the governance compact. Improving the codes of conduct for public servants, as well as strengthening anticorruption and anti-money-laundering efforts.	Anti-money laundering.
		Financing technical assistance for a comprehensive procurement reform: preparation of a Country Procurement Assessment Review, production of a new procurement code, the implementation of a system of procurement follow-up, and reorganization of public entities in charge of the procurement process.	
PRSP process	Joint staff advisory notes	Aiding in preparation of consultations and workshops, coordination of donor funding, recruitment of national experts for Permanent Secretariat, and the National Poverty Survey.	Implementation of macroeconomic framework in PRSP

Table 3. The Democratic Republic of Congo: Financial Relations with the World Bank Group—Statement of Loans and Credits (in U.S. dollars), as of June 30, 2007

	IBRD	**IDA**	**IDA Grant**	**Total**
Original principal	330,000,000	2,773,794,622	1,593,700,000	4,697,494,622
Cancellations	28,484,478	259,852,029	0	288,336,507
Disbursed	301,515,522	2,325,634,050	491,482,515	3,118,632,087
Undisbursed	0	397,827,230	1,131,104,631	1,528,931,861
Repaid	247,045,475	287,332,982	0	534,378,457
Due	0	2,289,518,211	0	2,289,518,211
Exchange adjustment	0	0	0	0
Borrower's obligation	0	2,289,518,211	0	2,289,518,211

This document was prepared by World Bank Staff and approved by the Africa Region Operations Committee on August 1, 2007. Questions should be addressed to Keiko Kubota (202-473-6836) or Heather Milkiewicz (202-473-3632).

Democratic Republic of the Congo
Statistical Issues

Data provision to the Fund is adequate for surveillance and program monitoring purposes, but the quality of the national accounts, balance of payments, and government finance statistics need upgrading. In spite of the difficulties, the authorities have continued to produce an array of economic and financial statistics, most of which are contained in the annual report of the Central Bank of the Congo (BCC) or its monthly statistical bulletin. The Office de Gestion de la Dette Publique (OGEDEP) compiles a comprehensive set of external debt statistics. Statistical issues related to specific areas are described below.

After a fact-finding mission to Kinshasa in June 2001 in real sector and government finance statistics, STA provided technical assistance on government finance statistics in March–April and September 2002, augmented by capacity-building support from the World Bank. In October 2003, a STA multisector mission assessed economic and financial data and proposed measures to improve them. Since late-2004, a real sector statistics advisor, based in Kinshasa and serving both the Democratic Republic of Congo (approximately 70 percent of his time) and the Republic of Congo, has been assisting the authorities.

On April 24, 2004, the DRC began participating in the IMF General Data Dissemination System (GDDS); its metadata (comprehensive information on statistical production, dissemination practices, and plans for improvement) are posted on the IMF Dissemination Standards Bulletin Board and are due for update.

National accounts

The national accounts are compiled in constant and current prices by the Directorate of Research of the BCC and published yearly. The compilation methodology conforms to the *System of National Accounts 1968* (1968 SNA) and is based on the balance sheets of enterprises and the results of surveys of public and semipublic enterprises and agencies. Most of the surveys date from the late 1980s. The activities of the traditional sector (including the informal sector) are estimated with extrapolation techniques using industry-specific data that are outdated. As a result, GDP is likely to be underestimated.

With help from the resident statistical advisor, work on the national accounts is underway to introduce 2005 as the new base year, incorporate the results of a recent household survey (1-2-3 Survey), as well as implement the methodological recommendations of the 1993 SNA. While outputs of this work remain to be validated and officially published, 2005 GDP estimates show a considerable upward revision compared to the published data.

Employment and unemployment

Annual data on employment in the central government are available from the Ministries of Economy, Finance, and Budget, together with data on employment in the formal sector.

Prices

Consumer price indices are calculated for Kinshasa by the BCC, the National Statistics Institute (INS), the Institute of Economic and Social Research (IESR), and the Economics Section of the U.S. Embassy in Kinshasa. The IESR also calculates a monthly consumer price index for the Lubumbashi market. The household surveys on which these calculations are based date back to the late 1980s; they need to be updated to take account of changes in household consumption patterns and demographic shifts, while geographical coverage should be expanded.

Government finance statistics

The BCC produces aggregated monthly statistics on a cash basis based on its own accounting for the government cash operations. The treasury produces two sets of monthly statistics based on its own records: one relates to the transactions executed through the BCC, the other set attempts to consolidate operations through commercial bank accounts and off-budget operations. These statistics do not rely on an integrated double-entry public accounting system and do not provide sufficient details about the nature of expenditures owing to problems in the expenditure chain. However, the treasury has started to produce quarterly expenditure data reports by ministry and institution.

The current work on tax administration and expenditure control is expected to improve the quality and timeliness of fiscal statistics. In parallel with technical assistance on public expenditure management, the STA multisector statistics advisor has been advising on government finance statistics, producing improvements in the quality of the statistics. Furthermore, adoption of a simplified double-entry bookkeeping system should significantly improve the availability of data on government financial operations.

In 2003 the DRC reported annual data up to 2002 for the IMF's *Government Finance Statistics Yearbook* in the format of the *Government Finance Statistics Manual 2001*, but has not reported subsequently.

Monetary and financial statistics

The BCC Directorate of Research regularly produces timely monetary statistics. These statistics are now generally reliable but some problems remain with the classification of accounts.

Since the last money and banking statistics mission in June 2000, BCC reporting of data for publication in the IMF's *International Financial Statistics (IFS)* has improved and monetary data are currently reported on time. The 2003 multisector statistics mission recommended a new chart of accounts for the BCC and other deposit-taking institutions, including the information needed for sectorization of economic units and classification of financial assets.

Balance of payments

Balance of payments statistics are prepared annually based on information on the exports and imports of large public and semipublic enterprises, BCC payment records, and a survey of the foreign operations of residents. The estimates also take account of information on the informal sector and foreign aid flows provided by the World Bank and the local UN Development Program (UNDP) office, which collects the data from the European Union, embassies, and nongovernmental organizations. However, the 2003 multisector mission found that, due to computer problems, data have not been processed since 1999, so balance of payments statistics are compiled using data from different sources, supplemented by estimates. The mission suggested that the BCC implement a system of quarterly surveys of corporations that are authorized to hold accounts overseas. The mission also recommended reinvigoration of a working group comprising staff of the customs and other agencies to prepare quarterly foreign trade data and take measures to improve data on services and transfers. No external sector data are reported to STA for publication.

External and domestic debt

OGEDEP compiles external and domestic debt statistics that are of reasonable quality in spite of limited computer facilities. However, data on public enterprise foreign debt and in particular on cross-arrears in the public sector are still of very poor quality. The World Bank has been providing assistance in the compilation of cross-arrears in the public sector and public sector arrears with the private sector.

Public enterprise sector

There is no comprehensive database on the operations of public enterprises, although IMF missions are provided some information on the operations of individual enterprises. Generally, data are provided annually and become available with at least a six-month delay. As part of its public enterprise reform project, the World Bank has been collecting data pertaining to the sector.

Social indicators

The most consistent data are assembled for the UNDP human development, poverty, and gender-related indices. Two multiple indicator cluster surveys carried out between 1996 and 2001 in collaboration with the UN Children's Fund (UNICEF) also provide important social indicators. A national household living standards survey, assisted by IDA and other institutions, is planned. In addition, in the context of the interim poverty reduction strategy paper (I-PRSP), the authorities, with assistance from the World Bank and the UNDP, have begun to construct a comprehensive database for social indicators.

THE DEMOCRATIC REPUBLIC OF CONGO: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE

As of July 23, 2007					
Exchange Rates	13-Jul-07	16-Jul-07		D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	31-May-07	16-Jun-07		M	M
Reserve/Base Money	31-May-07	16-Jun-07		M	M
Broad Money	31-May-07	16-Jun-07		M	M
Central Bank Balance Sheet	31-May-07	16-Jun-07		M	M
Consolidated Balance Sheet of the Banking System	31-May-07	16-Jun-07		M	M
Interest Rates[2]	20-Jun-07	25-Jun-07		W	W
Consumer Price Index	30-Jun-07	16-Jul-07		W	W
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	31-May-07	15-Jun-07		M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – Central Government[4]	31-May-07	15-Jun-07		M	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Dec-07	Feb-07		A	V
External Current Account Balance	Dec-07	Feb-07		A	V
Exports and Imports of Goods and Services	Dec-07	Feb-07		A	V
GDP/GNP	Dec-07	Mar-07		A	V
Gross External Debt	Dec-07	Feb-07		A	V

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governme

[5] Including currency and maturity composition.

[6] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I); Not Available (NA).

Statement by the IMF Staff Representative
September 5, 2007

This statement provides information on recent developments received since the staff report was issued. It does not change the thrust of the staff appraisal.

1. **Recent macroeconomic indicators have been encouraging.** In June-July, annualized inflation dropped below 12 percent, the end-year target; the Congo franc was stable, slightly below CF500 per US dollar; and gross foreign exchange reserves covered about 3 weeks of imports. The improved situation made it possible for the central bank to reduce its base rate from 50.0 percent at end-March to 22.5 percent in August.

2. **Preliminary indications are that quantitative benchmarks under the staff monitored program (SMP) were met at end-June.** A narrower-than-anticipated fiscal deficit on account of higher revenue led to a reduction in net credit to the government. This, however, may have been facilitated by unanticipated government revenue, the nature of which remains to be determined.

3. **Pressure on spending has been building up following the promulgation of an expansionary 2007 budget in July**. In particular, the government is unlikely to keep the wage bill below 5.5 percent of GDP as targeted under the SMP, since the budget calls for a wage bill equivalent to 6.8 percent of GDP. Already, parliamentarians have tripled their own salaries and teachers are asking a large pay raise before starting the new school year. Nevertheless, the authorities reiterated that they would continue implementing a treasury cash-flow plan consistent with the overall objectives of the SMP.

4. **Three of the nine structural benchmarks under the SMP were met at end-June**. These are the installation of a new computerized accounting system of the central bank, the external audit of the central bank 2006 accounts, and the installation of a new civil service payroll in Kinshasa. For the other benchmarks, the draft 2007 budget submitted to the National Assembly provided for higher expenditures (0.3 percent of GDP) compared with SMP fiscal framework; the organizational audit of the Central Bank (BCC) was completed in August instead of June, because the initial draft was considered unsatisfactory; the action plan to finalize the UBC/BC merger is yet to be adopted; the audit of the expenditure financed by HIPC resources was completed in June 2007, but the government is still working on an action plan to implement its recommendations; the audit of government expenditure for December 2006-Februry 2007 is not completed; and the main public-private partnership contracts have not been published.

INTERNATIONAL MONETARY FUND AND
INTERNATIONAL DEVELOPMENT ASSOCIATION

DEMOCRATIC REPUBLIC OF THE CONGO

Joint Fund/World Bank Debt Sustainability Analysis 2007[1]

Prepared by the staffs of the International Monetary Fund
and the International Development Association

Approved by Robert Corker and Mark Plant (IMF),
and Sudhir Shetty and Vikram Nehru (IDA)

August 14, 2007

1. **The Democratic Republic of the Congo (DRC) is in debt distress**. At end 2006, debt service on public and publicly guaranteed (PPG) external debt amounted to 26 percent of exports while the net present value (NPV) of PPG external debt exceeded 300 percent of exports, 90 percent of GDP, and 700 percent of government revenue. As a result, most debt burden indicators substantially exceed their policy-based thresholds under the baseline scenario.[2] Further, the DRC has not serviced any of its debt service obligations to Paris Club creditors since July 2006. Even if the security situation stabilizes and macroeconomic and structural policies improve substantially as assumed under the baseline scenario, external debt indicators will remain above the relevant policy-based thresholds for many years to come and even worsen in the event of adverse exogenous shocks. Accordingly, the DRC should seek external financing mainly in the form of grants. It should strengthen its track record of policy implementation with a view to reaching the completion point under the enhanced HIPC initiative as soon as possible, which would allow it to benefit from

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[1] This is the first debt sustainability analysis for the DRC prepared under the joint World Bank/IMF Debt Sustainability Framework for Low Income Countries. Bank and Fund staffs also completed a HIPC DSA jointly in July 2003 when the DRC reached its decision point under the enhanced HIPC Initiative. (*"Democratic Republic of the Congo - Decision Point Document for the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative"*, IMF Country Report No. 03/267 and IDA/R 2003-0059) This is, however, the first DSA that establishes a debt distress rating for the DRC.

[2] The World Bank's Country Policy and Institutional Assessment (CPIA) rates the DRC as a low performer. Under the joint World Bank/ IMF debt sustainability framework, the corresponding thresholds are 30 percent for the NPV of external PPG debt to GDP ratio, 100 percent for the NPV of external PPG debt to exports ratio, 200 percent for the NPV of external PPG debt to revenue ratio, 15 percent for the external PPG debt service to exports ratio, and 25 percent for the external PPG debt service to revenue ratio. ("*OperationalFramework for Debt Sustainability Assessments in Low-Income Countries – Further Considerations*", www.imf.org and IDA/R2005-0056). Assuming the DRC reaches the HIPC completion point by mid-2008 and benefits from debt relief under enhanced HIPC and the MDR initiatives, debt burden indicators would fall below policy-based thresholds (see Paragraph 11).

substantial stock-of-debt relief under this initiative as well as the Multilateral Debt Reduction Initiative (MDRI).

I. Background

2. **Three decades of economic mismanagement, culminating in civil strife, led to the accumulation of a large stock of external arrears.**[3] At end-2001, the DRC's arrears on PPG external debt amounted to US$10.6 billion. Clearance of close to US$2 billion of arrears to multilateral institutions and progress in stabilizing the macroeconomic situation, followed by the approval of a PRGF arrangement in July 2002, paved the way for the HIPC decision point in 2003. At the decision point and based on the outstanding stock of debt at end-2002 of US$8.4 billion in NPV terms,[4] HIPC debt relief to the DRC was estimated at US$6.3 billion in NPV terms.

3. **At the time of the decision point, it was assumed that the DRC would reach the completion point shortly after the end of the PRGF arrangement, in the third quarter of 2006.** However, substantial policy slippages towards the final phase of the democratic transition prevented the completion of the last review under the PRGF arrangement, which had been extended to end-March 2006. Since then, Fund staff has helped the authorities design and monitor two Staff Monitored Programs (SMPs)[5], with a view to strengthening economic policy implementation and allowing for the development of a credible medium-term program to be supported under a successor PRGF arrangement. The DRC also completed and adopted officially a full PRSP in July 2006 and has made progress towards meeting the HIPC completion point triggers. Completing the first review under a new PRGF and satisfying the HIPC completion point triggers would pave the way for the DRC to reach the completion point, possibly by mid-2008, and hence the delivery of the remaining HIPC and MDRI debt relief.

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[3] The DRC faced negative growth rates over 13 consecutive years, leading to a dramatic decline of GDP per capita (in constant 2000 US dollars) from US$400 at independence in 1960 to US$100 in 2001.

[4] "*Democratic Republic of the Congo – Decision Point Document for the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative*", IMF Country Report No. 03/267 and IDA/R2003-0059. Detailed information on clearance of arrears to multilaterals is also provided in this document.

[5] Covering the periods April-December 2006 and January–December 2007, respectively.

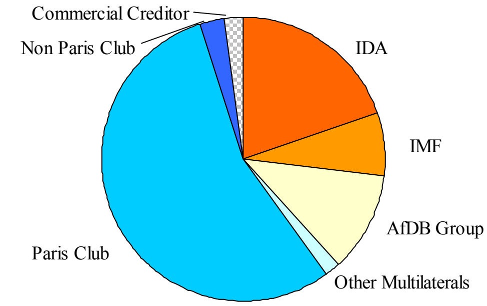

Figure 1: Nominal Debt Stock as of end 2006 by Creditor

4. **At end-2006, the DRC's public and publicly guaranteed debt is estimated at US$11.5 billion,** including US$4.6 billion to multilateral institutions and more than US$6.0 billion to Paris Club creditors (see Figure 1).[6] During the interim period, the DRC is benefiting from substantial interim HIPC debt relief provided by major multilateral creditors. While IDA continues to disburse interim HIPC debt relief,[7] interim assistance from the Fund was disbursed until June 2006, based on the decision taken upon the completion of the fifth review under the PRGF arrangement. Further interim assistance from the Fund would require approval of a new PRGF arrangement. The DRC has signed debt relief agreements with a number of commercial creditors. It has also benefited from a flow rescheduling on Cologne terms and debt relief beyond HIPC assistance by Paris Club creditors. However, the DRC has been unable to meet its debt service obligations to Paris Club creditors since July 2006. The Chairman of the Paris Club indicated to the authorities that the treatment of the resulting arrears would have to await an agreement on a new PRGF arrangement.

II. External Debt Sustainability Analysis [8]

5. **The baseline scenario of this DSA assumes the stabilization of the security situation and adoption of prudent macroeconomic policies and structural reforms—** especially those aimed at strengthening governance. These include enhancing transparency in the mining sector, reducing the costs of doing business, strengthening tax collection, improving budget preparation and execution, and reforming the civil service. The implementation of prudent policies and reforms, together with a recovery of the mining sector, is projected to lead to strong economic growth through 2012 (see Box 1).[9]

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[6] These estimates exclude amounts of penalties and late interest due to London Club creditors. The DRC is working on a World Bank financed buy-back operation for its debt to London Club creditors.

[7] The DRC would reach its one-third limit of IDA interim debt relief in August 2009.

[8] The external debt sustainability analysis provides information only on the NPV of PPG external debt, as information on private external debt is not available. For the NPV calculation, a 5 percent discount rate is used. Debt service payments are converted to US dollars using WEO exchange rate projections consistent with the requirements of the joint World Bank/IMF LIC Debt Sustainability Framework. ("*Operational Framework for Debt Sustainability Assessments in Low-Income Countries – Further Considerations*", www.imf.org and IDA/R2005-0056).

[9] The baseline is consistent with the macroeconomic framework envisaged for the period 2007-2012 in the context of the 2007 consultation under the Article IV of the IMF articles of agreement. However, the latter

(continued)

6. **Consistent with current guidelines,[10] the baseline scenario assumes only HIPC interim relief.** Multilateral creditors provide interim HIPC debt relief according to the debt relief agreements. For the Paris Club, debt service in the interim period is calculated assuming a Cologne flow treatment and debt relief beyond HIPC assistance. For non-Paris Club creditors or commercial creditors comparable treatment to the Paris Club has been assumed, unless debt relief agreements have already been signed.[11]

7. **Under the baseline scenario, all external debt burden indicators breach their thresholds (Table 1a)**. In 2006, all debt stock indicators, i.e., the NPV ratios of debt to GDP, export and revenue, markedly exceed the policy-based thresholds, and are projected to converge towards their thresholds only at the end of the 20–year projection period. The gradual decline of these ratios largely reflects the projected rebound of exports and real GDP growth, together with the assumption that external financial support mainly takes the form of grants, with new loans contracted on highly concessional terms. A broadly similar trend applies if principal macroeconomic variables assume their 10–year historical average, as captured in the historical average scenario.

8. **While the long-term macroeconomic projections in this DSA are in line with the decision point DSA,[12] the medium-term growth prospects have improved.** The recent political transition and high commodity prices have sparked investor interest in the mining sector. New investments in the sector are expected to significantly increase, boosting mineral production, especially copper and cobalt, over the medium term. This is expected to raise real GDP and export growth rates for 2008-12 relative to projections in past DSAs.[13] Imports

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reflects the impact of the debt stock reductions under the enhanced HIPC and MDRI initiatives that would result from the DRC reaching the completion under the enhanced HIPC initiative.

[10] "*Staff Guidance Note on the Application of the Joint Fund-Bank Debt Sustainability Framework for Low-Income Countries*", April 2007, www.imf.org and IDA/No. 39748.

[11] The NPV of debt in this DSA also differs from decision point data as a result of methodological differences between the joint Bank-Fund LIC DSA framework and the HIPC methodology. These are using: a) a fixed 5 percent discount rate instead of currency-specific discount rates under HIPC; b) WEO exchange rate projections instead of fixed exchange rates as of end-of the base date; and c) annual exports instead of a three-year average of exports in the NPV of debt to exports ratio. Moreover, debt relief simulations in the current DSA have been updated reflecting the change in the expected HIPC completion point date and updated information on commercial debt.

[12] "*Democratic Republic of the Congo – Decision Point Document for the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative*", IMF Country Report No. 03/267 and IDA/R2003-0059

[13] The decision point DSA assumed an average real GDP growth of 6 percent during 2008-2012, while the current baseline has an average growth rate of 8.2 percent. The IMF published a DSA for the DRC in 2005 which projected an average real GDP growth of 6.7 percent during 2008 - 2012. The improved growth projection in the current DSA is based on more recent information on commodity prices and mining sector output projections. However, the long-term projections in both DSAs are in line with the current LIC DSA.

related to the investment in the mining sector also lead to a relative widening of the current account deficit during the same period, largely financed through foreign direct investment.

9. **These baseline macroeconomic projections are subject to significant risks.** Poor governance, unresolved security issues, weak implementation capacity and lower than envisaged donor support may hinder the consistent implementation of sound policies and reforms as well as the impacts of these measures. Moreover, given the DRC's high dependence on mining exports, it remains vulnerable to adverse terms of trade shocks. Finally, the current security tension especially in the eastern provinces could escalate.

Democratic Republic of Congo: External Debt Burden Indicators 2006 [1]

	Indicators	Thresholds [2]
NPV of Debt to GDP	98	30
NPV of Debt to Exports	309	100
NPV of Debt to Revenue	742	200
Debt service to Exports	30	15
Debt service to Revenue [3]	73	25

Sources: World Bank and IMF Staff estimates.

[1] Debt burden indicators are expressed in percent. Debt refers to public and publicly guaranteed external debt.

[2] Thresholds refers to the policy dependent debt burden thresholds that are applied to countries with a low quality of policies and insitutions under the joint World Bank/IMF Debt Sustainability Framework.

[3] Central government revenues excluding grants.

10. **All debt burden indicators are projected to exceed their thresholds under the stress tests** (Table 1b). If the DRC contracts loans on less concessional terms its debt stock indicators would deteriorate substantially. The NPV of debt to GDP ratio and NPV of debt to revenue ratio, for example, would reach 56 percent and 285 percent, in 2017, respectively. Similarly, a slump in export growth in 2008 and 2009 would significantly and adversely affect the DRC's debt to export indicators, raising its NPV of debt to exports ratio to 310 percent and its debt service to exports ratio to 23 percent in 2017.

Box 1: Democratic Republic of the Congo – Macroeconomic Assumptions Underlying the Baseline

- **Since 2002, real GDP growth has averaged 5.5 percent.** Construction and telecommunications contributed significantly to growth, reflecting a recovery of economic activity after years of civil strife. Aggregate demand rebounded on the back of large international support for reconstruction and the political transition and favorable terms of trade.

- Assuming that the DRC maintains security and strengthens its record of policy implementation, including major improvements in governance, **real GDP growth** is projected to increase to 8 percent a year during 2007–12 led by a mining rebound and a continuation of the reconstruction efforts of the past years. Large investments in copper and cobalt are expected to increase their output to historical production levels by 2012. Consequently, the mining sector is expected to grow at on average 17 percent between 2008 and 2012 in real terms.[1] Over the long run, real GDP is projected to stabilize at around 5 percent a year as the strong recovery tapers off over time.

- **Inflation** is projected to decrease from 18 percent at end 2006 to 8 percent in 2008 and is projected to remain at that rate over the long run. With a view to reducing the DRC's vulnerability to external shocks, **gross international reserves** are projected to be gradually rebuilt from the equivalent of 3 weeks of non-aid related imports in 2006 to about 9 weeks in 2012. The **nominal exchange rate** relative to the US dollar is assumed to depreciate in line with the inflation differential between the DRC and the United States. However, potentially large capital inflows that the DRC could attract if the security situation and governance improve, could lead to a real appreciation of the currency, which in turn could lead to lower than projected debt burden indicators.

- **Exports of goods and services** are projected to increase on average by 11.4 percent per year in 2007–12 and by 6.0 percent over the long run. The initial export boom reflects the coming on stream of important projects to rehabilitate the DRC's large mining sector. The rehabilitation of the DRC's infrastructure could also contribute to the development of other exports, including agricultural products. **Imports** are expected to increase sharply in 2008 related to large mining and infrastructure projects, continuing to grow at 10 percent till 2012 before assuming a long-term growth rate of 5 percent.

- The **non-interest current account deficit** was estimated to be equivalent to 4.9 percent of GDP in 2006 and projected to peak at about 9.0 percent of GDP in 2011. The fluctuations of the current account balance reflect the lumpiness of imports related to mining projects. Thereafter, it will gradually narrow as exports pick up and imports decline. The widening current account deficit during the 2008–12 period is assumed to be financed mainly by foreign direct investment, with net FDI inflows averaging 9 percent of GDP between 2008 and 2012.

- The **overall fiscal deficit** (including grants) is projected to shift from near balance in 2006 to a deficit of some 2.8 percent of GDP by 2012. This assumes the execution of reforms to widen the tax base, strengthen tax and customs administration, which would help raise revenue by some 3 percentage points of GDP over the next five years. On that basis, public expenditure could increase by 7 percentage points, particularly to help address the DRC's substantial social and infrastructure rehabilitation needs, on a non-inflationary and sustainable basis.

- **Donor support** is assumed to increase subject to significant improvement in governance and macroeconomic policies. Under the baseline, external grants would increase, as a share of GDP, from 2 percent in 2004 to 6 percent in 2012 and remain at around this level going forward.

- **Achieving the macroeconomic objectives will, however, be a challenge**. Beyond the fragile security and political situation, risks include: (i) fiscal slippages that could destabilize a fragile economy; (ii) significant adverse terms of trade shocks; (iii) slower than projected private-sector led growth; (iv) lower-than-anticipated donor support if governance does not improve markedly; and (v) slow progress in structural reforms, possibly due to limited implementation capacity.

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[1] The DRC has Africa's largest deposits of copper, cobalt and coltan, and significant reserves of diamonds and oil. After years of economic mismanagement, poor governance and conflict, the contribution of the mining sector to GDP declined from 25 percent of GDP in the mid-1980s, to less than 10 percent of GDP in the early 2000s.

11. **The DRC's debt burden indicators are projected to fall below their thresholds if it benefits from debt relief under the enhanced HIPC and the MDRI initiatives**. Under an alternative scenario, which assumes the DRC reaches the HIPC completion point in mid-2008, the NPV of government and government-guaranteed external debt would fall to the equivalent of 16.0 percent of GDP, 48 percent of exports, and 114 percent of government revenue by 2008.

12. **Even after the completion point is reached, the DRC's debt sustainability is likely to remain vulnerable to adverse exogenous shocks.** Applying the standardized stress tests to the post-completion point scenario, it can be shown that under the most extreme stress tests all debt stock indicators would breach their thresholds, two of them over sustained period of time.[14]

III. Public Debt Sustainability Analysis

13. **The DRC's domestic debt is estimated to be relatively low following its restructuring in 2005**. Identified government domestic debt[15] was equivalent to 0.5 percent of GDP at end 2006 and is expected to be paid off by end-2007. Thereafter, the baseline fiscal framework assumes zero net domestic borrowing.

14. **As a result, the above sustainability analysis for external debt broadly applies for total government and government-guaranteed debt** (Tables 2a and 2b). Under the baseline scenario, the NPV of public debt to GDP ratio decreases only gradually to the relevant policy thresholds towards the end of the 20-year projection period.

IV. Conclusions

15. **The DRC is currently in debt distress**. Even if the security situation stabilizes and macroeconomic and structural policies lead to robust recovery, as assumed under the baseline scenario, the external debt indicators would breach policy-based thresholds. Moreover, even after reaching the HIPC completion point and benefiting from debt relief under the enhanced HIPC and MDRI initiatives, the DRC remains vulnerable to shocks that could lead to lower exports and economic growth. It is therefore essential that the DRC adheres to prudent macroeconomic policies and implement significant structural reforms far reaching structural reforms, while seeking external financing mostly in the form of grants or loans on highly concessional terms. It should also strengthen its track record of policy implementation with a view to quickly reaching the completion point under the enhanced HIPC Initiative.

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[14] A combination of different shocks leads to the largest increase in NPV of debt to GDP and NPV of debt to exports ratio. The most extreme shock for the NPV of debt to exports ratio is the shock on export growth.

[15] Excluding debt vis-à-vis the central bank.

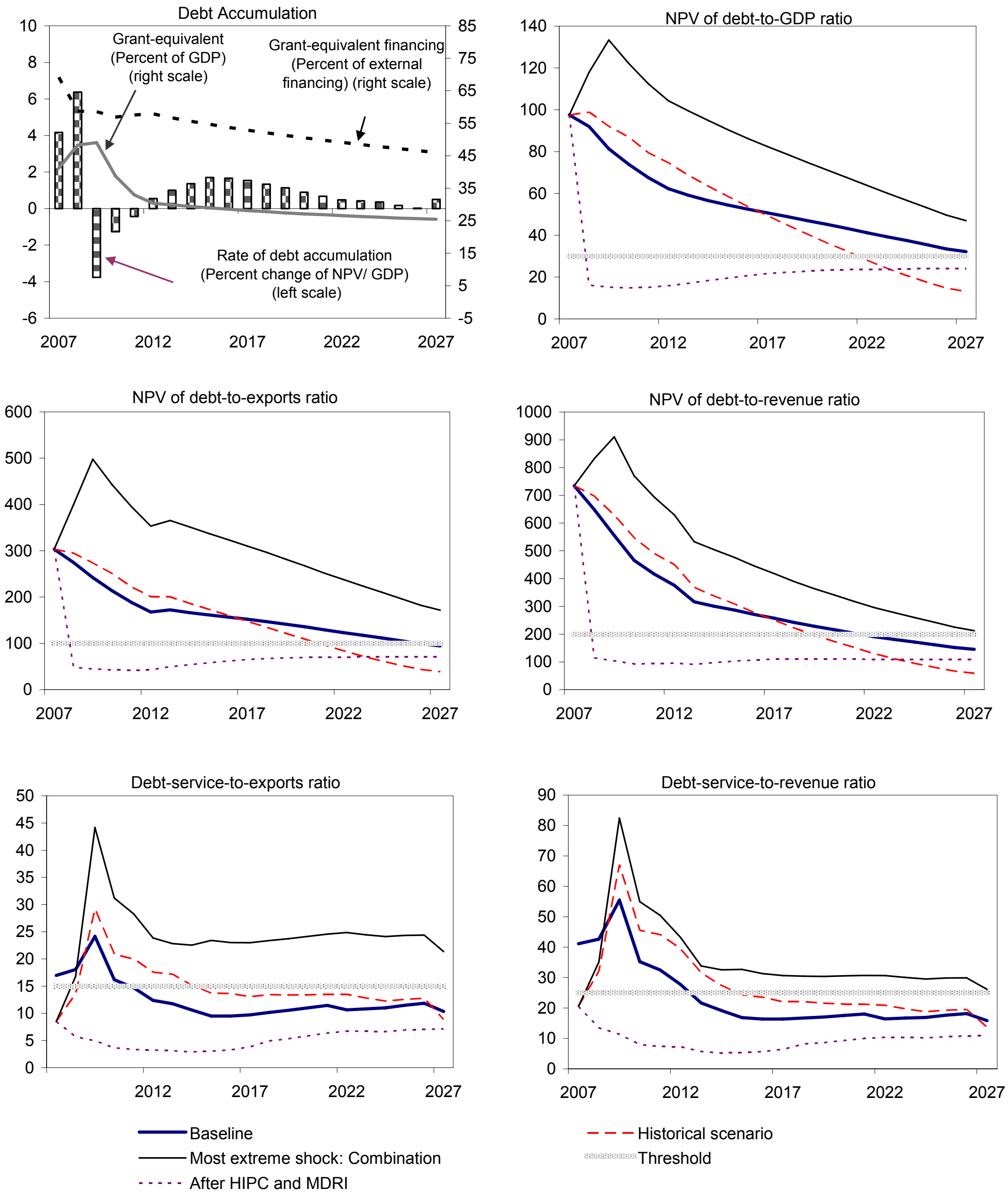
Table 1a. Democratic Republic of the Congo: External Debt Sustainability Framework, Baseline Scenario, 2006–27 [1]
(Percent of GDP, unless otherwise indicated)

	Actual	Historical Average [6]	Standard Deviation [6]	Projections									
	2006			2007	2008	2009	2010	2011	2012	2007–12 Average	2017	2027	2013–27 Average
External debt (nominal) [1]	135.2			133.4	118.7	106.0	96.5	88.4	81.8		65.6	40.4	
Of which: public and publicly guaranteed (PPG)	135.2			133.4	118.7	106.0	96.5	88.4	81.8		65.6	40.4	
Change in external debt	-18.3			-1.7	-14.8	-12.7	-9.5	-8.1	-6.6		-2.6	-1.9	
Identified net debt-creating flows	-21.6			-3.1	-7.9	-9.8	-7.6	-2.5	-4.4		0.7	0.3	
Non-interest current account deficit	3.4	-1.5	4.4	5.5	8.8	8.4	8.4	9.1	7.6		8.1	4.9	7.3
Deficit in balance of goods and services	10.3			10.2	12.0	12.0	11.8	11.4	9.8		10.3	7.7	
Exports	31.7			32.2	33.5	33.6	34.6	35.7	37.2		33.3	33.9	
Imports	42.0			42.3	45.6	45.6	46.4	47.1	46.9		43.6	41.6	
Net current transfers (negative = inflow)	-8.3	-4.6	3.2	-6.1	-4.6	-4.9	-4.8	-4.8	-4.8		-4.6	-4.9	-4.8
Of which: official	-8.0			-5.7	-4.2	-4.2	-4.2	-4.1	-4.1		-3.3	-2.2	
Other current account flows (negative = net inflow)	1.4			1.4	1.4	1.4	1.4	2.6	2.7		2.4	2.1	
Net FDI (negative = inflow)	-3.1	-2.7	2.4	-3.4	-9.5	-11.5	-10.0	-6.1	-7.3		-5.8	-3.5	-5.0
Endogenous debt dynamics [2]	-21.9			-5.2	-7.2	-6.6	-5.9	-5.5	-4.7		-1.7	-1.1	
Contribution from nominal interest rate	4.1			3.2	2.7	2.4	2.1	1.9	1.8		1.2	0.5	
Contribution from real GDP growth	-6.5			-8.4	-9.9	-9.0	-8.1	-7.4	-6.4		-2.9	-1.6	
Contribution from price and exchange rate changes	-19.5			…	…	…	…	…	…		…	…	
Residual (3-4) [3]	3.3			1.40	-6.9	-2.9	-1.9	-5.6	-2.2		-3.3	-2.3	
Of which: exceptional financing	-8.9			-5.0	-5.6	-5.5	-4.3	-4.0	-3.4		-2.0	-1.0	
NPV of external debt [4]	98.0			97.5	92.0	81.4	73.9	67.5	62.3		50.7	32.1	
In percent of exports	309.1			303.3	274.3	241.9	213.3	188.7	167.6		152.3	94.8	
NPV of PPG external debt	98.0			97.5	92.0	81.4	73.9	67.5	62.3		50.7	32.1	
In percent of exports	309.1			303.3	274.3	241.9	213.3	188.7	167.6		152.3	94.8	
In percent of government revenues	741.7			734.5	648.7	555.6	465.6	416.8	375.8		257.3	145.3	
Debt service-to-exports ratio (Percent)	30.5			17.0	18.0	24.1	16.2	14.7	12.4		9.7	10.3	
PPG debt service-to-exports ratio (Percent)	30.5			17.0	18.0	24.1	16.2	14.7	12.4		9.7	10.3	
PPG debt service-to-revenue ratio (Percent)	73.1			41.1	42.6	55.4	35.3	32.5	27.7		16.4	15.9	
Total gross financing need (millions of U.S. dollars)	851.7			674.7	539.5	547.2	465.4	1068.4	693.7		1099.5	1765.9	
Non-interest current account deficit that stabilizes debt ratio	21.7			7.2	23.6	21.0	17.8	17.2	14.2		10.7	6.8	
Key macroeconomic assumptions													
Real GDP growth (Percent)	5.1	0.7	5.3	6.5	8.4	8.3	8.3	8.4	7.9	8.0	4.5	4.0	4.4
GDP deflator in US dollar terms (Percentage change)	14.6	1.9	13.0	-1.6	4.2	0.1	0.1	0.4	1.1	0.7	1.9	1.9	1.9
Effective interest rate (Percent) [5]	3.2	3.6	2.7	2.5	2.3	2.2	2.2	2.2	2.2	2.2	1.9	1.2	1.6
Growth of exports of G&S (US dollar terms, Percent)	12.2	6.6	20.3	6.3	17.8	8.8	11.6	12.4	13.5	11.7	6.2	6.4	5.7
Growth of imports of G&S (US dollar terms, Percent)	10.7	13.6	28.9	5.5	21.7	8.5	10.4	10.5	8.7	10.9	5.5	5.5	5.5
Grant element of new public sector borrowing (Percent)	…	…	…	41.2	48.3	49.0	38.8	33.0	30.4	40.1	28.1	25.4	27.3
Aid flows (Billions of US dollars) [7]	1,563			1,287	1,222	1,314	1,264	1,450	1,567		1,750	2,364	
Of which: Grants	686			507	429	460	494	532	575		648	776	
Of which: Concessional loans	114			330	228	247	260	398	517		706	1,244	
Grant-equivalent financing (Percent of GDP) [8]	…			7.2	5.3	5.3	5.0	5.1	5.2		4.3	3.1	3.9
Grant-equivalent financing (Percent of external financing) [8]	…			76.8	82.0	82.2	78.9	71.3	67.1		62.5	54.1	60.0
Memorandum items:													
Nominal GDP (Millions of US dollars)	8,543			8,953	10,114	10,965	11,889	12,943	14,126		19,711	35,514	
(NPVt-NPVt-1)/GDPt-1 (Percent)				4.2	**6.4**	-3.8	-1.3	-0.4	0.5	0.9	1.5	0.5	0.9

Source: IMF staff simulations.

[1] Includes both public and private sector external debt.
[2] Derived as [r - g - r(1+g)]/(1+g+r+gr) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and r = growth rate of GDP deflator in U.S. dollar terms.
[3] Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rat
[4] Assumes that NPV of private sector debt is equivalent to its face value.
[5] Current-year interest payments divided by previous period debt stock.
[6] Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.
[7] Defined as grants, concessional loans, and debt relief.
[8] Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the NPV of new debt).

Figure 2. Democratic Republic of the Congo: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2007–27
(Percent, unless otherwise indicated)



Sources: World Bank and IMF Staff projections and simulations.

[1] Assumes that DRC reaches its HIPC Completion Point in June 2008. Includes additional bilateral debt relief provided by Paris Club creditors on a voluntary basis.
[2] Historical average scenario is based on past 5 years, covering the DRC's post-conflict period.

Table 1b. Democratic Republic of the Congo: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, 2007–27
(Percent)

		Projections						
	2007	2008	2009	2010	2011	2012	2017	2027
NPV of debt-to-GDP ratio								
Baseline	98	92	81	74	67	62	51	32
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2008–27 [1]	98	99	92	87	79	75	49	13
A2. New public sector loans on less favorable terms in 2008–27 [2]	98	93	82	75	70	65	56	43
A3. Assuming full delivery of HIPC and MDRI assistance after June 2008	98	16	15	15	15	16	22	24
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2008–09	98	104	105	95	87	80	65	41
B2. Export value growth at historical average minus one standard deviation in 2008–09 [3]	98	98	97	89	82	76	60	34
B3. US dollar GDP deflator at historical average minus one standard deviation in 2008–09	98	108	107	98	89	82	67	42
B4. Net non-debt creating flows at historical average minus one standard deviation in 2008–09 [4]	98	101	100	92	85	79	62	34
B5. Combination of B1-B4 using one-half standard deviation shocks	98	118	133	122	112	104	82	47
B6. One-time 30 percent nominal depreciation relative to the baseline in 2008 [5]	98	129	114	104	95	87	71	45
NPV of debt-to-exports ratio								
Baseline	303	274	242	213	189	168	152	95
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2007–26 [1]	303	295	274	251	222	201	148	39
A2. New public sector loans on less favorable terms in 2007–26 [2]	303	276	245	218	195	175	169	126
A3. Assuming full delivery of HIPC and MDRI assistance after June 2008	303	48	45	43	42	43	65	71
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2008–09	303	274	242	213	189	168	152	95
B2. Export value growth at historical average minus one standard deviation in 2008–09 [3]	303	400	497	443	395	353	310	171
B3. US dollar GDP deflator at historical average minus one standard deviation in 2008–09	303	274	242	213	189	168	152	95
B4. Net non-debt creating flows at historical average minus one standard deviation in 2008–09 [4]	303	300	297	265	237	212	185	100
B5. Combination of B1-B4 using one-half standard deviation shocks	303	356	390	347	309	276	244	136
B6. One-time 30 percent nominal depreciation relative to the baseline in 2008 [5]	303	274	242	213	189	168	152	95
NPV of debt-to-revenue ratio								
Baseline	734	649	556	466	417	376	257	145
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2007–26 [1]	734	697	629	548	490	450	250	59
A2. New public sector loans on less favorable terms in 2007–26 [2]	734	653	563	475	430	392	285	193
A3. Assuming full delivery of HIPC and MDRI assistance after June 2008	734	114	104	93	93	96	110	109
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2008–09	734	737	717	600	537	485	332	187
B2. Export value growth at historical average minus one standard deviation in 2008–09 [3]	734	693	664	561	507	460	305	153
B3. US dollar GDP deflator at historical average minus one standard deviation in 2008–09	734	761	734	615	551	496	340	192
B4. Net non-debt creating flows at historical average minus one standard deviation in 2008–09 [4]	734	710	682	578	522	474	313	154
B5. Combination of B1-B4 using one-half standard deviation shocks	734	832	911	770	694	629	418	212
B6. One-time 30 percent nominal depreciation relative to the baseline in 2008 [5]	734	911	780	654	585	528	361	204
Debt service-to-exports ratio								
Baseline	17	18	24	16	15	12	10	10
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2008-27 [1]	8	14	29	21	20	18	13	9
A2. New public sector loans on less favorable terms in 2008-27 [2]	8	12	25	17	16	13	11	13
A3. Assuming full delivery of HIPC and MDRI assistance after June 2008	8	6	5	4	3	3	4	7
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2008-09	8	12	25	17	16	13	10	11
B2. Export value growth at historical average minus one standard deviation in 2008–09 [3]	8	17	44	31	28	24	23	21
B3. US dollar GDP deflator at historical average minus one standard deviation in 2008–09	8	12	25	17	16	13	10	11
B4. Net non-debt creating flows at historical average minus one standard deviation in 2008–09 [4]	8	12	26	18	17	14	14	13
B5. Combination of B1-B4 using one-half standard deviation shocks	8	15	35	25	22	19	18	17
B6. One-time 30 percent nominal depreciation relative to the baseline in 2008 [5]	8	12	25	17	16	13	10	11
Debt service-to-revenue ratio								
Baseline	41	43	55	35	32	28	16	16
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2008–27 [1]	21	32	67	46	44	39	22	14
A2. New public sector loans on less favorable terms in 2008–27 [2]	21	29	58	38	35	29	18	20
A3. Assuming full delivery of HIPC and MDRI assistance after June 2008	21	14	11	8	7	7	6	11
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2008–09	21	33	75	48	44	38	22	21
B2. Export value growth at historical average minus one standard deviation in 2008–09 [3]	21	29	59	40	36	31	23	19
B3. US dollar GDP deflator at historical average minus one standard deviation in 2008–09	21	34	77	49	45	39	23	22
B4. Net non-debt creating flows at historical average minus one standard deviation in 2008–09 [4]	21	29	59	40	37	31	23	19
B5. Combination of B1-B4 using one-half standard deviation shocks	21	35	82	55	50	43	31	26
B6. One-time 30 percent nominal depreciation relative to the baseline in 2008 [5]	21	41	81	52	48	41	24	23
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) [6]	30	30	30	30	30	30	30	30

Source: IMF staff projections and simulations.

[1] Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
[2] Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline, while grace and maturity periods are the same as in the baseline.
[3] Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly as an offsetting adjustment in import levels).
[4] Includes official and private transfers and FDI.
[5] Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
[6] Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

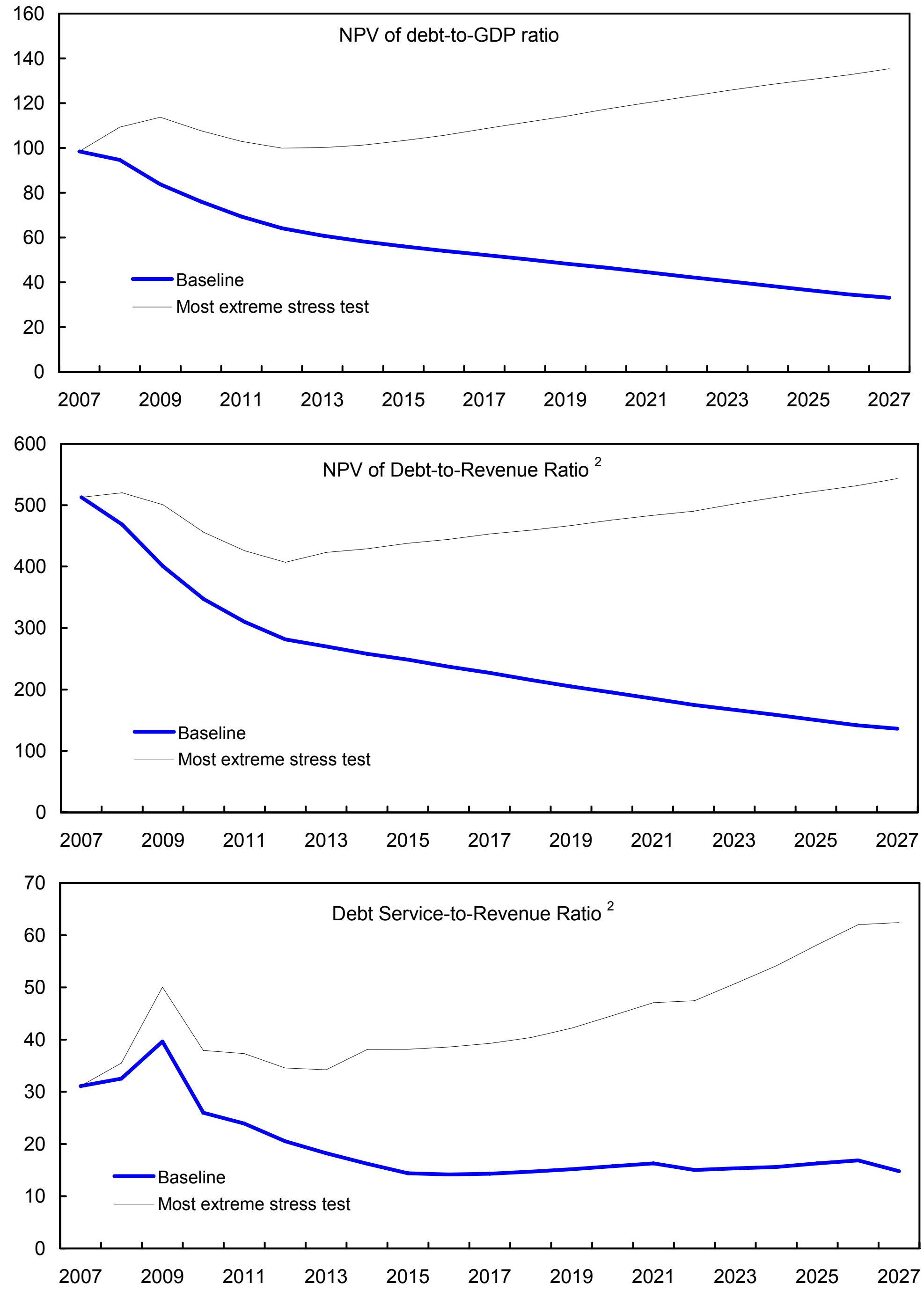
Table 2a. Democratic Republic of the Congo: Public Sector Debt Sustainability Framework, Baseline Scenario, 2006–27
(In percent of GDP, unless otherwise indicated)

	Actual			Estimate	Projections								
	2006	Historical Average [5]	Standard Deviation [5]	2007	2008	2009	2010	2011	2012	2007-12 Average	2017	2027	2013-27 Average
Public sector debt [1]	145.8			134.5	122.1	109.0	99.3	91.0	84.2		67.6	41.5	
Of which: foreign-currency denominated	145.3			134.0	122.1	109.0	99.3	91.0	84.2		67.6	41.5	
Change in public sector debt	5.8			-11.3	-12.5	-13.0	-9.8	-8.3	-6.8		-2.7	-2.0	
Identified debt-creating flows	-4.2			-18.4	-15.3	-11.8	-8.6	-7.0	-5.4		-2.1	-2.4	
Primary deficit	-4.0	-2.4	2.2	-4.9	-3.5	-2.8	-0.8	0.4	1.5	-1.7	1.8	0.3	1.2
Revenue and grants	21.4			19.2	20.2	20.9	21.9	22.4	22.8		23.0	24.3	
Of which: grants	8.2			5.9	6.0	6.3	6.0	6.2	6.2		3.3	2.2	
Primary (noninterest) expenditure	17.4			14.3	16.7	18.1	21.0	22.8	24.3		24.8	24.5	
Automatic debt dynamics	2.9			-11.8	-9.7	-6.9	-6.1	-6.0	-5.7		-2.9	-1.9	
Contribution from interest rate/growth differential	-3.1			-6.8	-9.0	-8.6	-8.1	-7.5	-6.5		-3.0	-2.0	
Of which: contribution from average real interest rate	3.7			2.1	1.4	0.7	0.3	0.2	0.2		0.0	-0.3	
Of which: contribution from real GDP growth	-6.8			-8.9	-10.4	-9.3	-8.3	-7.7	-6.7		-3.0	-1.7	
Contribution from real exchange rate depreciation	6.0			-5.1	-0.7	1.8	1.9	1.5	0.8		...	...	
Other identified debt-creating flows	-3.1			-1.7	-2.0	-2.2	-1.7	-1.4	-1.2		-1.0	-0.7	
Privatization receipts (negative)	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	-3.1			-1.7	-2.0	-2.2	-1.7	-1.4	-1.2		-1.0	-0.7	
Other (specify, e.g. bank recapitalization)	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	10.0			7.1	2.8	-1.2	-1.1	-1.3	-1.4		-0.5	0.4	
NPV of public sector debt	105.9			98.5	94.6	83.7	76.0	69.4	64.1		52.2	33.1	
Of which: foreign-currency denominated	105.4			98.0	94.6	83.7	76.0	69.4	64.1		52.2	33.1	
Of which: external	105.4			98.0	94.6	83.7	76.0	69.4	64.1		52.2	33.1	
NPV of contingent liabilities (not included in public sector debt)	...			...	...	...	...	...	...		...	...	
Gross financing need [2]	6.6			1.1	3.1	5.5	4.9	5.7	6.2		4.6	4.2	
NPV of public sector debt-to-revenue and grants ratio (Percent)	494.4			512.9	468.5	400.4	347.3	309.9	281.4		226.9	136.1	
NPV of public sector debt-to-revenue ratio (Percent)	801.2			741.6	667.3	571.5	478.9	428.7	386.5		264.8	149.5	
Of which: external [3]	797.4			737.8	667.3	571.5	478.9	428.7	386.5		264.8	149.5	
Debt service-to-revenue and grants ratio (Percent) [4]	49.7			31.1	32.5	39.6	26.0	23.9	20.6		14.3	14.8	
Debt service-to-revenue ratio(Percent) [4]	80.6			45.0	46.3	56.5	35.9	33.1	28.2		16.7	16.2	
Primary deficit that stabilizes the debt-to-GDP ratio	-9.8			6.4	9.0	10.2	8.9	8.7	8.3		4.5	2.2	
Key macroeconomic and fiscal assumptions													
Real GDP growth (Percent)	5.1	0.7	5.3	6.5	8.4	8.3	8.3	8.4	7.9	8.0	4.5	4.0	4.4
Average nominal interest rate on forex debt (Percent)	3.8	4.2	3.5	2.7	2.4	2.3	2.3	2.3	2.3	2.4	2.0	1.3	1.6
Average real interest rate on domestic currency debt (Percent)	43.5	-365.6	934.4	89.7	-24.1	...	...	...	...	32.8	...	...	
Real exchange rate depreciation (Percent, + indicates depreciation)	4.4	1.0	47.9	-3.7	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, Percent)	13.1	164.3	204.4	17.0	7.8	6.0	6.0	6.3	7.1	8.4	8.0	8.0	8.0
Growth of real primary spending (deflated by GDP deflator, Percent)	18.6	251.0	747.5	-12.2	26.4	17.3	25.9	17.2	15.3	15.0	3.6	4.3	4.4

Sources: Congolese authorities; and IMF staff estimates and projections.

[1] Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.
[2] Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.
[3] Revenues excluding grants.
[4] Debt service is defined as the sum of interest and amortization of medium and long-term debt.
[5] Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Figure 3. Democratic Republic of the Congo: Indicators of Public Debt Under Alternative Scenarios, 2007–27 [1]
(Percent)



Sources: World Bank and IMF Staff projections and simulations.

[1] Most extreme stress test is test that yields highest ratio in 2017; the no reform scenario projects debt burden indicators on the basis of the estimated 2007 primary balance; since this a surplus, the scenario implies a decline in debt burden indicators.
[2] Revenue including grants.

Table 2b. Democratic Republic of the Congo: Sensitivity Analysis for Key Indicators of Public Debt 2007–27

	Projections							
	2007	2008	2009	2010	2011	2012	2017	2027
NPV of Debt-to-GDP Ratio								
Baseline	98	95	84	76	69	64	52	33
A. Alternative scenario[1]								
A1. Permanently lower GDP growth [2]	98	96	86	79	74	70	70	93
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2008-2009	98	109	114	108	103	100	108	135
B2. Primary balance is at historical average minus one standard deviations in 2008-2009	98	98	89	81	74	69	57	40
B3. Combination of B1-B2 using one half standard deviation shocks	98	107	107	96	86	78	59	33
B4. One-time 30 percent real depreciation in 2008	98	141	127	117	108	100	82	58
B5. 10 percent of GDP increase in other debt-creating flows in 2008	98	104	92	84	77	72	60	42
NPV of Debt-to-Revenue Ratio [2]								
Baseline	513	469	400	347	310	281	227	136
A. Alternative scenario[1]								
A1. Permanently lower GDP growth [2]	513	473	408	359	326	302	298	376
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2008-2009	513	520	501	456	426	407	453	543
B2. Primary balance is at historical average minus one standard deviations in 2008-2009	513	484	426	371	332	302	249	164
B3. Combination of B1-B2 using one half standard deviation shocks	513	514	479	413	363	324	248	134
B4. One-time 30 percent real depreciation in 2008	513	697	609	535	482	439	357	240
B5. 10 percent of GDP increase in other debt-creating flows in 2008	513	514	442	385	345	315	261	174
Debt Service-to-Revenue Ratio [2]								
Baseline	31	33	40	26	24	21	14	15
A. Alternative scenario[1]								
A1. Permanently lower GDP growth [2]	31	33	40	27	26	23	25	42
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2008-2009	31	36	50	38	37	35	39	62
B2. Primary balance is at historical average minus one standard deviations in 2008-2009	31	33	45	32	26	22	19	19
B3. Combination of B1-B2 using one half standard deviation shocks	31	35	49	34	28	22	18	15
B4. One-time 30 percent real depreciation in 2008	31	36	46	33	30	27	23	22
B5. 10 percent of GDP increase in other debt-creating flows in 2008	31	33	55	32	27	23	19	21

Sources: Congolese; and IMF staff estimates and projections.

[1] Other historical scenarios were excluded because of poor data (especially fiscal) during the conflict period (1998–2001).
[2] Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of 20 (i.e., the length of the projection period).
[3] Revenues are defined inclusive of grants.

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IMF Executive Board Concludes 2007 Article IV Consultation with the Democratic Republic of the Congo

On September 5, 2007, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the Democratic Republic of the Congo (DRC).[1]

Background

The DRC has made significant economic and political progress since 2001, after years of conflict and political instability. Adoption of prudent macroeconomic policies resulted in rapid disinflation and the stabilization of the exchange rate. The implementation of structural reforms made the economy more open, removed major price distortions, and strengthened macroeconomic policy management. These, combined with improved confidence fostered by progress on the political and security fronts—including the formation of a transition government of national unity in 2002—helped increase investment and renew growth.

However, economic performance weakened starting in 2005, as the government's focus turned to the drafting of a new constitution and the preparation for general elections**.** In 2006, large money financed government overspending, primarily for security and the elections, resulted in the Congo franc to depreciate by 15 percent against the US dollar, 12-month inflation to rise to 18.2 percent, and gross international reserves to decline to US$150 million (3 weeks of imports). Real GDP growth, which had picked up to 6.5 percent in 2004–05 slowed to 5 percent in 2006 because of weak manufacturing production and a drop in diamond exports. Major

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

reforms suffered delays, including those in the mining sector, public enterprises, the civil service, the social sectors, customs administration, and the central bank.

The first democratic elections in four decades were successfully held in 2006, bringing to an end the mandate of the transitional government and leading to the formation of a new government in February 2007.

The new government has taken steps to reestablish macroeconomic discipline. Strong revenue collection and expenditure restraint reduced net bank credit to the government. This tightened liquidity conditions and contributed to a decline in base money. Consequently, since last May, the Congo franc has appreciated by 12 percent, annualized inflation declined to 12 percent and international reserves increased to US$190 million. Preliminary data indicate that real GDP could grow by 6½ percent in 2007. However, the DRC accumulated external arrears vis-à-vis bilateral creditors, and its external debt remains unsustainable.

Despite recent improvement, risks to macroeconomic stability remain high. In particular, the 2007 budget promulgated last July is very expansionary. It calls for a very large increase in domestically financed spending, including on wages, which is unlikely to be matched by a commensurate increase in revenue.

Executive Board Assessment

They commended the authorities of the Democratic Republic of the Congo (DRC) for the successful completion of the first democratic elections in four decades, and encouraged the new government to work with all parties to improve security and bring peace to all the country's provinces.

Directors noted that the generally prudent macroeconomic policies implemented by the new government have contributed to some encouraging results, with improved fiscal position, reduced inflation, strengthened international reserves, and an appreciation of the Congo franc. They regretted, however, the recent spending pressures in the wake of the expansionary 2007 budget and the delays in structural reforms. Against this background, and with continuing security concerns, Directors considered that the economic situation remains challenging. They called for early actions to further strengthen fiscal discipline, improve governance, and carry forward structural reforms to lay the basis for sustained growth and progress toward the MDGs. Directors stressed that the 2007 program monitored by Fund staff (SMP) provides an opportunity to establish credibility for good economic management and pave the way for a medium-term program that could be supported by a PRGF arrangement. In this context, Directors noted that, under the SMP, all quantitative benchmarks for end-June and several structural benchmarks have been met. Strong leadership will be important to build a broad consensus for the needed reforms and ensure their effective implementation. While also underscoring the importance of strong implementation, some Directors called on the authorities and the staff to work towards early consideration of a new PRGF-supported program.

Directors stressed that the implementation of the 2007 budget, as promulgated, would put macroeconomic stability at risk. Optimistic revenue projections and a concomitant expansion of spending would likely lead to a new cycle of widening fiscal deficit, rapid money expansion, depreciation of the currency, and rising inflation. Directors also noted that the large increase in the wage bill would undermine fiscal sustainability and crowd out pro-poor spending. They encouraged the authorities to take the necessary measures for meeting the fiscal objectives of the 2007 SMP, and noted their assurances on the implementation of a Treasury cash-flow plan consistent with the SMP.

Directors stressed the need for the government to continue avoiding central bank financing of fiscal deficits, as this has helped improve macroeconomic stability. They considered improving public financial management (PFM) critical in this regard, and more generally, underscored its importance for enhancing the efficiency and credibility of the budget process. Directors called for reforms to strengthen tax administration and revenue collection, rationalize expenditure procedures and improve expenditure prioritization, better track pro-poor spending, and establish an affordable and efficient civil service. Directors noted the authorities' planned devolution of government revenue to the provinces. They encouraged the authorities to proceed cautiously, in line with the devolution of spending responsibilities and taking into account PFM capacity building requirements in the provinces.

Directors noted that monetary policy should remain tight to reduce inflation. This requires strengthening monetary policy management and enhancing the central bank's credibility and independence. Reinforcing financial sector supervision is also needed to strengthen the banking system and deepen financial intermediation.

Directors noted that the floating exchange rate regime is appropriate for the DRC and has served the country well. They encouraged the authorities to limit interventions to smoothing short-term fluctuations, and achieving the central bank's international reserve target. Directors encouraged the authorities to lift the remaining exchange restriction and multiple currency practice.

To promote growth and reduce poverty, Directors emphasized that the medium-term policy agenda should include bold strategies to combat corruption—especially in the natural resources sector—privatize public enterprises, strengthen the judiciary, and reduce the regulatory burden on business. In that regard, Directors called for the effective implementation of the relevant laws to fight corruption, money laundering, and the financing of terrorism. They welcomed the authorities' intention to meet the requirements of the Extractive Industries Transparency Initiative. Progress in these areas will be essential to mobilize donor support.

Directors emphasized that rural sector development and increased investment in human capital—health and education—will be critical in addressing entrenched poverty. In this regard, Directors encouraged the authorities to proceed with the costing of the proposed pro-poor programs and the development of mechanisms to monitor the effectiveness of the programs.

Directors noted that the DRC’s external debt is unsustainable. They encouraged the authorities to quickly establish a track record for prudent policies and reforms to help advance toward qualifying for debt relief under the enhanced Heavily Indebted Poor Country and Multilateral Debt Relief initiatives. Directors underscored the need for prudent debt policy and strengthened debt management capacity.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Democratic Republic of the Congo: Selected Economic Indicators, 2004–08

	2004	2005	2006	2007 SMP	2008 Proj.
	(Annual percentage change)				
Domestic economy					
Real GDP	6.6	6.5	5.1	6.5	8.4
Consumer prices, end-of-period	9.2	21.3	18.2	12.0	8.0
	(Percent of GDP; unless otherwise indicated)				
Government finance					
Total government revenue	9.5	11.6	13.2	13.3	14.2
Total government expenditure[1]	15.6	19.9	22.1	18.0	19.4
Overall fiscal balance (payment order basis, including grants)	-4.1	-3.1	-0.7	1.2	0.8
Overall fiscal balance (cash basis, including grants)[2]	-2.2	-8.4	-0.1	1.4	1.2
External sector					
Balance of payments					
Exports of goods and services	30.3	34.0	31.7	32.2	33.5
Imports of goods and services	34.4	45.7	42.0	42.6	45.6
Current account balance, including transfers	-2.4	-10.6	-7.5	-9.6	-11.5
Gross official reserves (seeks of nonaid-related imports of goods and services)	5.4	2.7	3.0	3.2	3.3

Sources: Congolese authorities and IMF staff estimates and projections.

1 Includes interest due before debt relief and expenditure financed by HIPC resources.
2 Cash balance after debt relief on interest payments.

Statement by Laurean W. Rutayisire, Executive Director
for the Democratic Republic of the Congo
September 5, 2007

On behalf of my Congolese authorities, I would like to thank Management for maintaining dialogue with the Democratic Republic of the Congo (DRC) throughout the period since the beginning of the political transition up to now. In particular, I thank the Managing Director for recently holding a discussion with the Minister of Finance on the way forward in the relation between the DRC and the IMF. I would also like to commend staff for their quality advice and technical assistance to my Congolese authorities and, in particular, for the constructive policy dialogue during their visit to Kinshasa in the context of the 2007 Article IV consultation.

As I have underlined before, the DRC has successfully implemented a three-year PRGF-supported program between 2002 and 2006, albeit the non completion of the last review due to fiscal slippages in the run-up of critical elections that put an end to a long political transition. Under this PRGF-supported program, tremendous progress in various areas of policy and reform implementation was accomplished. Important structural reforms undertaken include, but are not limited to: unification of the multiple exchange rates; price liberalization; implementation of new procedures for expenditure and budget classification; launching of the civil service reform; establishment of a Large Taxpayer Unit; adoption of investment, mining and forestry codes. Efforts are currently pursued to complete the reform agenda, albeit difficulties stemming from capacity problems and exogenous factors.

On the policy front, the DRC has also demonstrated resolve to reestablish track record in implementation of sound policies. The country succeeded to bring down hyperinflation by taking necessary steps to tighten fiscal policy and improve public financial management. In its first three months in office (February through April 2007), the current government successfully addressed the underlying macroeconomic problems by better controlling spending, reducing the financing of government operations by the central bank, thereby lowering inflationary pressures, enhancing the international reserves cushion, and stabilizing the exchange rate.

A **tightening of policies** in the last few months, on both the fiscal and monetary fronts, has contributed to stabilizing the macroeconomic situation and reducing net bank credit to the government, curbing down annualized inflation in June-July to below the end-year target of 12 percent, allowing the exchange rate to appreciate somewhat and the central bank (BCC) to re-accumulate reserves up to 3 weeks of imports coverage. On the spending front, my authorities continue to implement their treasury cash-flow plan, in line with the objectives of the 2007 budget framework agreed with Fund staff.

On the structural front, four out of nine benchmarks under the SMP have been met on time. These include: the new computerized accounting system of the BCC; the submission to Parliament of a draft 2007 Budget, consistent with the macroeconomic framework laid out in the letter of the Government to the IMF Management; the completion of the external audit of the central bank's 2006 accounts; and the installation of a new civil service payroll (*Paie transitoire simplifiée*) in Kinshasa. Concerning the benchmark related to the 2007 Budget, it is important to underscore that my Congolese authorities continue to meet their commitment to spending based on the treasury cash-flow, and the Minister of Finance reiterated this commitment to Fund Management during their recent meeting in Maputo, Mozambique. Regarding a fifth benchmark, the organizational audit of the BCC was completed, albeit with some delay due to the non respect by the auditor of the terms of reference initially agreed. The action plan envisaged to implement the recommendations of the auditor will be finalized this month after validation of the final report. Further, on another benchmark, the audit of the expenditure financed by HIPC resources was completed in June 2007 and experts from the ministries of finance and budget and the central bank have designed a draft action plan, which is awaiting approval and publication on the Ministry of Budget's website.

As for the remaining structural agenda envisaged in the framework for 2007, my authorities continue to make progress in its implementation and attribute the slow pace to capacity problems. This remaining agenda includes notably: (i) the pursuit of the publication of public-private partnership contracts, which has already started; (ii) the definitive adoption of an action plan to contain the cost burden to the government of the merger of two banks (*Union des Banques Congolaises* and *Banque Congolaise*); and (iii) the completion of the audit of government expenditure for December 2006-February 2007 by the *Cour des Comptes.*

ECONOMIC POLICIES AND STRUCTURAL MEASURES GOING FORWARD

My Congolese authorities will continue to act in accordance with the objectives laid out in their program for 2007. They have set ambitious –yet realistic—macroeconomic objectives for this year, notably reaching a real GDP growth of at least 6.5 percent (predicated on improved performance in the mining, manufacturing, telecommunications and transportation sectors). They also aim at reducing year-on-year inflation to 12 percent from 18 percent last year through the pursuit of tight fiscal and monetary policies, the measures of which they are already implementing.

More specifically, **in the fiscal policy area**, my Congolese authorities are set to implement ambitious measures, especially in the areas of fighting tax evasion, reforming tax and customs administrations, in order to further boost ***revenue***. They are also aware of the tremendous revenue potential from the mining sector, and steps are being taken to assess the way forward to strengthen the collection of royalties and taxes in this sector. Over the medium-term, my authorities intend to complement efforts in tax administration with tax policy reforms, including the strict limitation of tax exemptions and the introduction of a value-added tax (VAT). Fund technical assistance in this regard is required.

On the ***expenditure*** side, my authorities are giving priority to strengthening control on current spending, including for political institutions and ministries. By further improving public financial management (PFM), my authorities are determined to put an end to practices that result in budget overruns, notably through a spending commitment plan and a treasury cash flow plan published 10 days before the month they refer to. As for cash advances, these are limited to budget-line items and renewed only if and after supporting documentation for previous uses is submitted. Efforts are well underway to improve PFM and prioritize expenditure so as to create the fiscal space needed to accommodate infrastructure and poverty reduction demands.

My authorities are resisting pressures to substantially raise salaries in a country where these have not been adjusted for a long time and teachers earn less than most civil servants. They are committed to keeping the wage bill under control in 2007. Efforts towards budget control over the medium to long term are also underway. These include a civil service census; an action plan to strengthen management of the civil service; and extension of the simplified transitional payroll to the rest of the civil service over the whole national territory by the end of 2007. In the meantime, my authorities have instituted a freeze on hiring and budgeted positions (except for education) until the overhaul of the payroll system has been completed.

The ***devolution policy*** mandated by the Constitution will be carefully implemented, so as to ensure that macroeconomic stability is preserved. In this vein, the central government, including recently at the highest level, maintains communication with the provincial authorities to explain the need to build administrative and budgetary capacities in the decentralized entities, put in place a system to monitor budget execution in the provinces, and accompany resource transfers with well-defined transfers of responsibility and identification of resources necessary to accomplish tasks.

Debt profile and management

In spite of gains from an overall improved security situation and from restored macroeconomic stability and economic recovery, DRC's debt distress continues to exert a drag on the economy, a situation that calls for rapid progress towards the HIPC completion point's enhanced debt relief.

While cash flow problems prevented the DRC from servicing all its bilateral debt obligations in the last 15 months, my authorities maintain communication with the Paris Club on these difficulties. They reiterated their commitment to normalizing the country's relations with the Paris Club creditors as soon as the government's financial situation allows it. They also maintain dialogue with London and Kinshasa Clubs' private creditors, with the view to obtaining debt relief on comparable terms.

Monetary policy and the financial sector reform

With the end of fiscal overruns and the authorities' firm commitment to avoid financing deficits with money creation, the central bank will concentrate on its objectives of containing inflation and building international reserves. Monetary policy will be made more proactive through the implementation of the BCC's program of reforms, with technical assistance of the Fund. Reforms will, among others, make information on the central bank's operations more timely and more accurate, and enhance its capacities as cashier of the government and for managing and forecasting bank liquidity. Making use of its treasury plan and the recommendations of the organizational audit, the BCC will also make efforts to limit its operating deficit to the planned cap for 2007.

On the financial sector, the central bank shares the view that priorities in addressing the sector's vulnerabilities, as depicted in the Selected Issues paper, should include the completion of banks restructuring; increasing capital requirement and reinforcing compliance with prudential standards to mitigate market risks, especially the foreign exchange risk; improving regulation; strengthening on-site supervision; and enhancing competition, with the view to deepen financial intermediation and improve the quality of services. The microfinance sector carries a tremendous potential, and the BCC is compiling a comprehensive database and is drafting a law to be submitted to Parliament in 2008.

Other structural reforms

My Congolese authorities are set to improve governance and the business environment, with the view to attract investment and contribute to the development of the private sector. They aim at a sustainable private sector-led growth, based on reconstruction activities as well sectors with high potential, notably the water, electricity, transport, telecommunications and mining sectors. In all these sectors, there is also considerable scope for large increase in public investment in an environment of improved macroeconomic management. As regard the mining sector, my authorities intend to meet the requirements of the Extractive Industries Transparency Initiative (EITI).

Other structural reforms—some of which are used as structural benchmarks in the current SMP—are being implemented. In particular, the government has started the publication, on the finance ministry's website, of public-private partnership contracts. The audit of government spending between December 2006 and February 2007 by the *Cour des Comptes* is also underway and the latter is expected to submit its final report this month after the deadlines set forth in its procedural texts have been respected. Regarding the UBC/BC merger, it is my authorities' strong intention to limit to the maximum possible the government's burden in the takeover. In this vein, the authorities have requested experts to verify the valuation of the UBC's balance sheet, its outside balance-sheet loans and the rental debt of the BC vis-à-vis the government. These expert missions have started in August 2007.

CONCLUSION

As a post-conflict country, the Democratic Republic of the Congo now faces an opportunity to definitely consolidate peace and political stability as well as progress towards poverty reduction and achieving the MDGs. However, this window of opportunity may be small. The swift involvement of the Fund in 2002 has been instrumental to the progress made between that year and late 2005. Prompt Fund assistance this time around, through a new PRGF arrangement in support of the Congolese authorities' ongoing efforts to maintain macroeconomic stability, will enable them to mobilize donor support and attract private investors, thereby helping put the country on a path of robust and sustained growth and lasting poverty reduction.