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Democratic Republic of the Congo: Second Review Under the Three-Year Arrangement Under the Extended Credit Facility and Financing Assurances Review—Staff Report; Staff Supplement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for the Democratic Republic of the Congo

In the context of the second review under the three-year arrangement under the extended credit facility and financing assurances review, the following documents have been released and are included in this package:

- The staff report for the Second Review Under the Three-Year Arrangement Under the Extended Credit Facility and Financing Assurances Review, prepared by a staff team of the IMF, following discussions that ended on November 14, 2010, 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 January 25, 2011. 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 supplement updating information on recent developments.

- A Press Release summarizing the views of the Executive Board as expressed during its February 2, 2011, discussion of the staff report that completed the review.

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

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

Letter of Intent sent to the IMF by the authorities of the Democratic Republic of the Congo*
Memorandum of Economic and Financial Policies by the authorities of the Democratic Republic of the Congo*
Technical Memorandum of Understanding*

*Also included in Staff Report

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

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INTERNATIONAL MONETARY FUND

DEMOCRATIC REPUBLIC OF THE CONGO

Second Review of the Three-Year Arrangement Under the Extended Credit Facility and Financing Assurances Review

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

Approved by Michel Atingi-Ego and Christian Mumssen

January 25, 2011

Fund relations. In December 2009, the Executive Board approved a three-year arrangement under the Extended Credit Facility (ECF) for the Democratic Republic of the Congo (DRC) with access of SDR 346.45 million (65 percent of quota). The Executive Board completed the first review in June 2010 and decided that the DRC had reached the completion point under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative. HIPC debt relief amounted to about $7.3 billion in present value terms: the highest among all HIPC countries.

Discussions. Discussions for the second review took place in Kinshasa (September 6–16, November 10–14, 2010) and in Washington (October 4–10, 2010). The staff team comprised Messrs. York (Head); Farah; Fischer; and Jahjah (IMF resident representative) (all AFR); Hostland (SPR); and Callegari and Arnold (both FAD). Staff from the World Bank participated in these discussions.

Security situation. The DRC has a UN Phase III security designation reflecting the fragile social and political environment. The disarmament and reintegration of former Congolese rebels—a key pillar of the 2009 peace accord—is proceeding slowly, and signs of discord exist among the parties. Rebels from neighboring countries continue to operate and to destabilize the eastern provinces. The presidential and parliamentary elections planned for late next year could also become a source of political and social instability.

Contents Page

EXECUTIVE SUMMARY

Recent developments and program performance

- In 2010, an improvement in global economic conditions supported strong macroeconomic performance; however, weaknesses in the financial sector were also exposed.
- The program's broad fiscal policy objectives for 2010 are achievable despite a shortfall in external financing, owing to improved tax and other revenue collections (including from the natural resource sector), tight control over spending, and cuts in some lower priority public investment.
- The authorities observed all quantitative performance criteria at end-June and implemented all but one of the program's structural benchmarks. In addition, preliminary data through November 2010 point to the likely achievement of the year-end targets.

Policy discussions and program for 2011

- As program performance continued satisfactorily and concern over the impact of the global financial crisis subsided, policy discussions centered on further consolidating macroeconomic stability, strengthening the independence and effectiveness of the central bank, and improving the business climate. These discussions were challenging considering the low level of external finance, problems with a failed commercial bank, and governance and transparency issues in the natural resource sector.
- The authorities restated their commitment to implement the medium-term program outlined in their Memorandum of Economic and Financial Policies (MEFP) of June 2010. The broad thrust of policies detailed in that MEFP remain relevant for achieving DRC's medium-term objectives of real GDP growth of about 7 percent per year, single-digit inflation, and a buildup of gross international reserves to the equivalent of 9 weeks of non-aid imports. The authorities intend to reduce further fiscal dominance in the period ahead to achieve these broad macroeconomic objectives.
- To strengthen the investment climate and management of natural resources, the authorities agreed to pursue a broad range of reforms in the extractive sector. These reforms aim, *inter alia*, to ensure the sanctity of contracts and private property rights and enhance the transparency of transactions in these industries.

Program risks

- The recent improvement in macroeconomic management has helped the DRC withstand the headwinds created by the global financial crisis and other adverse economic elements. Sustaining this improvement will be critical because the risks to the program have not abated and stem from the faltering of the global economic recovery, the potential for fiscal slippages in the lead up to the presidential and parliamentary elections late next year, and fragility in the banking sector.

Staff recommends completion of the second review under the ECF arrangement and the third disbursement in an amount equivalent to SDR 49.493 million.

I. BACKGROUND

1. **The IMF's Executive Board completed the first review under the Extended Credit Facility (ECF) arrangement in June 2010 and decided that the DRC had reached the completion point under the enhanced HIPC Initiative**. HIPC and Multilateral Debt Relief (MDRI) for the DRC amounted to about US$7.3 billion in present value terms, the largest amount of any HIPC country. At the June Board meeting, Executive Directors emphasized the importance of overcoming weaknesses in governance and transparency, especially in extractive industries, if DRC is to benefit fully from this relief.

2. **Concerns over governance and transparency brought a slowdown of external financial support for the DRC in the second half of 2010**. In response, the government broadened its economic governance reforms with the help of its development partners and adopted a smaller expenditure envelope to achieve the program's overall fiscal policy objectives for 2010 and 2011.

II. RECENT ECONOMIC DEVELOPMENTS AND PROSPECTS

3. **In 2010, an improvement in global economic conditions supported strong macroeconomic performance; however, weaknesses in the financial sector were also exposed**.

- Real GDP is estimated to have expanded by some 6 percent in 2010 compared with 2.8 percent a year earlier, supported by mining, construction, and tertiary activities (Figure 1 and Table 1). A positive outlook for world commodity prices is expected to benefit these activities and help maintain robust growth this year. Moderate increases in food prices and the relative stability of the Congolese franc helped bring inflation to single digits for the first time in many years (Figure 2). Inflation should remain at those levels in the near term, close to the authorities' medium-term inflation objective.

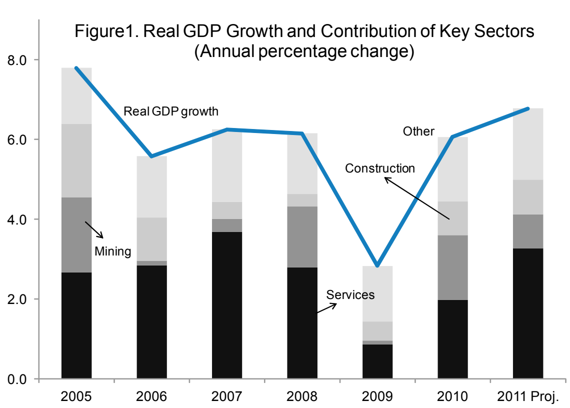

Figure1. Real GDP Growth and Contribution of Key Sectors
(Annual percentage change)

Source: Congolese authorities; and IMF staff estimates.

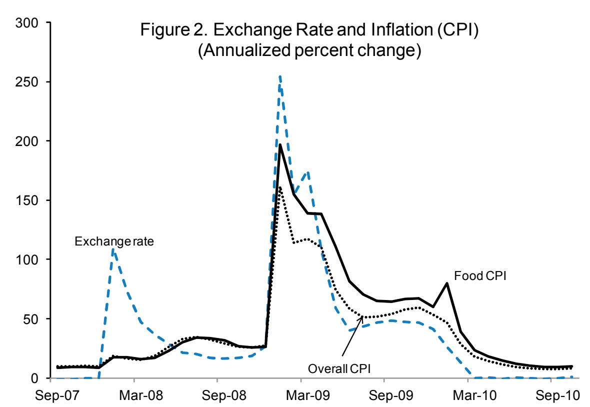

Figure 2. Exchange Rate and Inflation (CPI)
(Annualized percent change)

- The external current account deficit (including official transfers) in 2010 is estimated to have widened by some 7 percentage points of GDP as strong imports tied to investment projects outpaced the recovery of exports (Table 2). However, financial and capital inflows including HIPC and MDRI debt relief, helped boost the import coverage of international reserves from 6.9 weeks in 2009 to 8.4 weeks at the end of 2010 (Figure 3). In mid-November 2010, Paris Club creditors cancelled US$7.3 billion of the US$7.5 billion in HIPC-eligible debt owed by the DRC to these creditors, and the authorities have initiated and/or completed debt-rescheduling agreements with its bilateral and commercial creditors. The external outlook in 2011 is benign given the DRC's reduced external debt burden, prospects in the mining sector, and improved terms of trade (Figure 4).

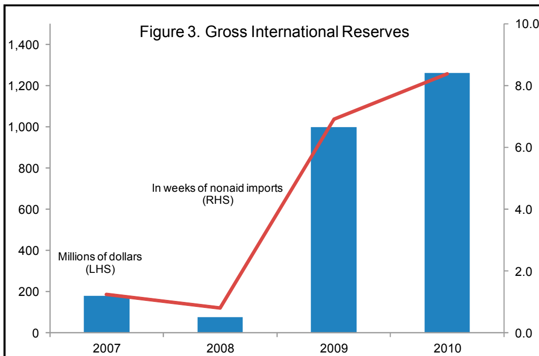

Figure 3. Gross International Reserves

Sources: Congolese authorities; and IMF staff estimates.

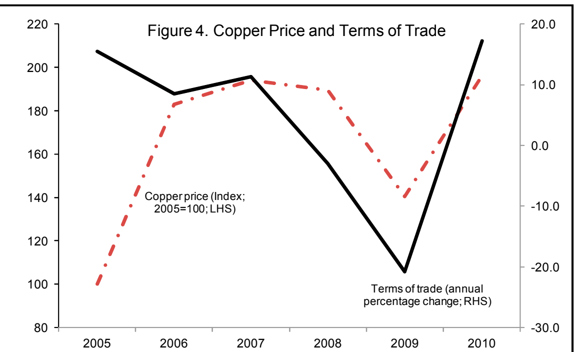

Figure 4. Copper Price and Terms of Trade

The program's broad fiscal policy objectives for 2010 are likely to have been achieved, despite a shortfall in external financing (excluding debt relief by the IMF) of about 1.9 percent of GDP (Table 3).[1] The domestic fiscal deficit (cash basis) is estimated to have declined by about 2½ percentage points of GDP (Table 4a and 4b).[2] Improved tax and other revenue collections (including from the natural resource sector), tight control over spending, and cuts in some lower priority public investment helped in this regard.

Table 3. Central Government, 2009— 11 (percent of GDP)

	2009	2010		2011
		Prog.[1]	Est	Proj.
Revenue	16.8	19.6	19.0	21.6
Signing bonus from SCCA	1.1	1.0	0.0	0.9
Grants (budget)	1.7	0.8	4.2	0.0
Of which: IMF HIPC debt relief	…	…	3.6	0.0
Expenditure[2]	18.3	19.5	19.0	22.0
Of which: Elections	…	0.3	0.8	1.0
Investment	2.7	3.2	2.5	4.1
Domestic balance (before grants)	-2.5	-1.0	0.0	-1.3
Foreign debt service (cash)	0.6	1.2	0.8	0.6
Financing need				
(after grants and SCCA bonus)	-0.4	-0.3	3.4	-1.1
Financing	0.4	0.3	-3.4	1.0
Domestic financing	0.0	-1.5	-3.6	0.3
Of which: banking system	-0.7	-1.5	-3.6	-0.3
Foreign financing	0.3	1.8	0.2	0.7
Of which: financing need	0.3	1.6	0.0	0.5
Memorandum item				
Pro-poor spending	5.3	…	5.9	6.7

Sources: Congolese authorities; and IMF staff estimates and projections.
[1] IMF Country Report No. 10 329; the ratios are based on revised GDP figures.
[2] Excluding foreign-financed projects and foreign-interest payments.

- The growth of broad money slowed in 2010, a result of fiscal consolidation and better liquidity management (Figures 5 and 6, Table 5). The Central Bank of Congo (BCC) reduced sharply

[1] Budget support from the World Bank (US$100 million), the European Commission (US$67 million), and bilateral donors (US$31 million) did not materialize in 2010; however, the support from the EC is now due in early 2011. The shortfall in foreign financing was caused by a slowdown in disbursements from the World Bank and donors over concerns about governance and transparency in extractive industries. These issues are being addressed by the authorities and this financing should pickup in the latter part of the year.

[2] The domestic fiscal balance is defined as domestic revenue excluding the signature bonus from the Sino-Congolese Cooperation Agreement (SSCA) minus expenditure, excluding foreign-financed projects and foreign-interest payments.

its policy interest rate as inflation fell, while still maintaining the real policy rate relatively high. It also made important progress in implementing priority safeguard measures although critical reforms such as the move to International Financial Reporting Standards will take longer than expected, reflecting capacity constraints.

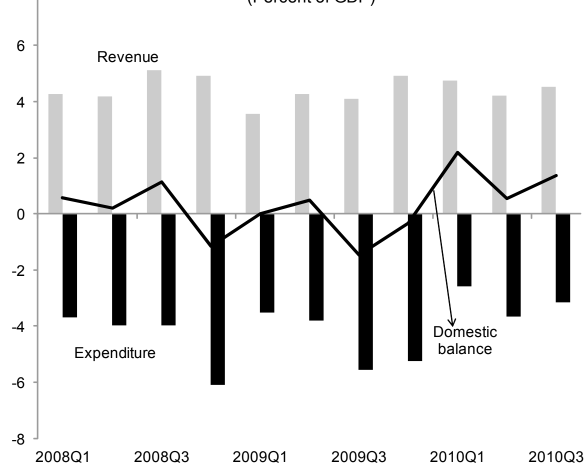

Figure 5. Fiscal Indicators (Percent of GDP)

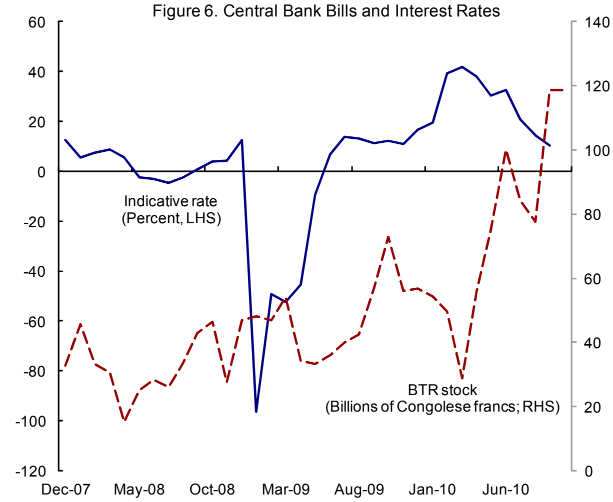

Figure 6. Central Bank Bills and Interest Rates

Sources: Congolese authorities; and IMF staff estimates.

- Notwithstanding the benign economic environment and stepped-up enforcement of prudential norms by the BCC, the banking sector remains fragile: 6 of the 18 commercial banks do not meet some prudential and capital requirements and *Banque Congolaise (BC),* the third largest bank in terms of assets, is being liquidated after unsuccessful restructuring over the past several years. IMF staff is providing technical assistance in this process.

III. Program Performance

4. **Policy implementation through the first half of 2010 was satisfactory**. Preliminary data through November point to the likely achievement of the year-end targets. The authorities observed all quantitative performance criteria at end-June and implemented all but one of the structural benchmarks.

- The adjusted performance criteria through June 2010 were observed with a comfortable margin, especially with respect to net foreign assets of the BCC (Table 6).[3] This was due to fiscal discipline and the central bank's decision to take advantage of the improved external environment to rebuild its international reserves; and the authorities indicated they did not contract any non-concessional external debt during the year.

[3] The adjustors for end June included a shortfall in debt relief, bonus payments, and privatization receipts, lower-than-programmed external debt service, and an excess of budget support.

- Structural reform progressed, although there were some delays and one benchmark was only partially observed (Table 7). The government continued to publish mining sector partnership contracts between public and private enterprises in a timely manner, including a contract involving a disputed claim currently under international arbitration.[4] A law to support the recapitalization of the central bank was submitted to parliament later than envisaged as it took more time to prepare; and computer problems temporarily interrupted the regular reporting of some budget execution tables for two months. Domestic fuel prices were raised substantially and fuel subsidies eliminated but the adjustments were only about ¾ of the amount envisaged under the program. The government remains cautious about raising such prices in the current difficult political and social environment although they are committed to implement gradual increases if world oil prices continue to rise.

IV. Policy Discussions and Program for 2011

5. **As program performance continued satisfactorily and concern over the impact of the global financial crisis subsided, policy discussions centered on further consolidating macroeconomic stability, strengthening the independence and effectiveness of the central bank, and improving the business climate**. Policy discussions were challenging considering the low level of external finance, problems with a failed commercial bank, and governance and transparency issues in the natural resource sector.

6. **The authorities restated their commitment to implement the medium-term program outlined in their Memorandum of Economic and Financial Policies (MEFP) of June 2010**.[5] The broad thrust of policies detailed in that MEFP remain relevant for achieving Congo's medium-term objectives of real GDP growth of about 7 percent per year, single-digit inflation, and a buildup of gross international reserves to the equivalent of 9 weeks of non-aid imports. The authorities intend to reduce further fiscal dominance in the period ahead to achieve these broad macroeconomic objectives.

A. Macroeconomic Policies

Fiscal Policy

7. **The government's 2011 fiscal program aligns expenditure with domestic revenue and expected foreign financing to avoid central bank financing of the budget**. Accordingly, it envisages a domestic fiscal deficit of about 1⅓ percent of GDP to limit the financing gap to the equivalent of ½ percent of GDP, which will be covered by budget support early this year from the European Commission. Consequently, the program is fully financed. The deficit for 2011 is slightly higher than envisaged at the time of the first review largely on account of election-related spending, which was not included earlier. The program is flexible to accommodate higher

[4] The International Arbitration Court in Paris is reviewing the dispute and is expected to render a decision in 2012.
[5] Detailed in IMF Country Report No. 10/329.

spending if additional foreign financing is forthcoming. Recent progress in broadening economic governance reforms could lead to such financing this year, particularly from the World Bank, and the government and staff agreed to discuss the potential use of these resources at the time of the third ECF review.

8. **The government initially set high expenditure ceilings for 2011 but scaled them back to reflect lower levels of foreign financing**. The budget includes increases in the wage bill, goods and services, and domestically-financed investment, compared with last year. The higher wage bill mainly reflects salary increases and recruitment of teachers, and one-off payments to election-related workers and indemnities to retiring Parliamentarians; while higher outlays for goods and services mainly reflect pro-poor spending in health and education, resources for the parliamentary and presidential elections later this year, and security-related outlays (which were previously recorded under exceptional spending) (¶3, MEFP).[6] The budget has set aside a reserve of about ½ percent of GDP for unplanned emergency spending, such as the potential cost of the liquidation of the BC (see Box 1 below).

9. **Enhancing domestic revenue mobilization remains a priority for the government**. In the short term, the focus is on aligning domestic fuel prices with world prices, tightening customs controls—by the strengthening of one-stop customs windows and reducing evasion of fuel import duties—and ensuring government institutions and parliament pay their full tax liabilities, which together would yield additional revenue of about 1⅓ percent of GDP in 2011. If world oil prices rise further, domestic fuel prices will adjust gradually to ensure subsidies do not emerge and budgetary revenue increases; the government also intends to establish a pricing regime that would ensure regular and timely adjustment of fuel prices, and removes political discretion from pricing decisions (¶3, MEFP). The government is strengthening revenue collection from the resource sector and is anticipating privatization receipts of about ½ percent of GDP, mainly through the sale of a state-owned cement producer.

10. **Discussions also focused on the best use of HIPC debt relief**. Given the recent improvement in the external sector and better international reserve position, the staff and the authorities concluded that debt relief from the IMF (3.6 percent of GDP) should be used to further build up reserves and increase pro-poor spending this year.[7]

11. **HIPC and MDRI debt relief has reduced the debt burden but the DRC faces high risk of debt distress from external shocks**. DRC's wealth of natural resources, extensive infrastructure needs, and recent debt relief, has attracted a growing list of prospective creditors with project proposals. The staff, therefore, urged the authorities to maintain a cautious external debt strategy stressing the program requirements to borrow on highly concessional terms, further

[6] Fund and World Bank staff continue to assist the authorities with the strengthening of fiscal reporting at the provincial level, which is necessary to provide an accurate picture of total social spending.

[7] Note that Table 4a and 4b show the full inclusion of IMF-related HIPC debt relief granted in July 2010 (recorded below the line as an accumulation of government deposits in the banking system). In 2011, this debt relief supports an increase in pro-poor spending.

strengthen debt management capacity, and to establish clear priorities for project selection. The authorities affirmed their support to proceed with such objectives and to consult with Fund and Bank staff before contracting any new external debt.

Monetary and financial sector policies

12. **The central bank will continue to target the monetary aggregates to achieve its inflation objective and use open market operations and the BCC's policy interest rate as its main instruments**. The growth of broad money (M2) is set to slow considerably in 2011 to about 18 percent, consistent with the recent sharp decline in inflation. In view of the faster-than-expected decline in inflation, staff supported the recent reduction of the BCC's policy interest rate but it indicated the importance of maintaining this rate at a relatively high level in real terms. High real interest rates will help contain inflationary pressures (including from the second-round effects of higher food and fuel projected this year) and build central bank credibility.

13. **The nominal exchange rate remained relatively stable through the second half of last year and the authorities attributed this to market fundamentals**. While the central bank intervened in the foreign exchange market to take advantage of favorable conditions to build international reserves, the authorities restated their intention to follow a flexible exchange rate regime. In this context, the BCC will limit intervention in the foreign exchange market to smooth short-term exchange rate volatility, and to achieve the international reserve objective.[8]

14. **The authorities recognized the importance of strengthening the independence and effectiveness of the central bank to sustain low and stable inflation**. In this context, they intend to recapitalize the BCC with interest-bearing and marketable securities, and implement a strategic plan to improve its operational and financial viability, including reform of its pension plan and halting non-core activities such as hospital and mint operations (¶6, MEFP). Other priorities are to strengthen liquidity-forecasting capacity, currency reform, and the implementation of the recommendations of the Fund's Safeguards Assessment.

15. **The central bank's recent intervention in a problem bank elevated the priority for addressing weaknesses in the financial sector, especially the regulatory and supervisory framework**. The authorities are proceeding to liquidate *Banque Congolaise* and they have identified a number of measures to strengthen the human-resource capacity of banking supervision, and amendments to the banking law and regulations to align them with international best practice. Key measures include establishment of rule-based progressive enforcement measures and a special bank insolvency regime (¶8, MEFP). Building staffing capacity, computerization, and strengthening offsite bank supervision is important for the effective implementation of these measures.

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[8] Note that the accumulation of net foreign assets is backloaded in the program to reflect the timing of external financing the signing bonus from the joint venture with China.

Box 1. Program Implications from the Resolution of a Problem Bank

The authorities are pursuing the liquidation of *Banque Conglaise* because of its poor financial condition and lack of prospects for restructuring. To minimize the risks to the financial sector, the planned liquidation is expected to involve a Purchase and Acquisition agreement (P&A) through which a financially healthy bank acquires certain "good" assets of the BC along with a portion of BC's liabilities. Under this plan, the fiscal cost of addressing the problem bank—considering a worst-case scenario—could amount to about US$180 million (1½ percent of GDP), although this estimate is uncertain given the limited reliability of the underlying data. The costs involve three elements: (i) the government's liabilities to the BC (US$64 million); (ii) covering the central bank's exposure to the BC (US$88 million); and (iii) the transactions costs related to the liquidation (US$28 million). The liquidation of BC should not jeopardize the achievement of the program's objectives for 2011, although some program adjustments may be necessary.

- Based on the worst-case scenario, the budgetary cost in 2011 is estimated at about 0.7 percent of GDP, which could be covered mainly by the reserve (½ percent of GDP). The residual could be financed from a reallocation of resources and/or external sources. This assumes the government covers the central bank's exposure to the BC through the issuance of government paper.
- The buildup of domestic debt through the issuance of government paper would not jeopardize the public sector's debt sustainability, since the level of domestic debt is very low.
- The liquidation would reduce NFA (by as much as 0.7 percent of GDP) and the program could accommodate this through a slower accumulation of foreign reserves or central bank purchases of foreign exchange if conditions remain favorable.

B. Governance and Other Structural Reforms

16. **Concerning structural policies, staff, jointly with the World Bank, focused discussions heavily on measures to enhance governance and transparency in extractive industries (forestry, mining, oil)**. A few high-profile disputes in these industries, lack of transparency in transactions, and concerns over the relatively low level of returns to the state from the exploitation of natural resources have highlighted deficiencies in the policy framework. Although the authorities did not feel these issues signaled deterioration in the business climate, they did agree that better management of natural resources is essential to the DRC's long-term development.

17. **The authorities agreed to pursue a broad range of reforms in extractive industries, developed in close collaboration with the World Bank**. These reforms aim, *inter alia*, to ensure the sanctity of contracts and private property rights and enhance the transparency of transactions in these industries. The authorities also indicated an interest in taking the necessary steps to accede to the 1958 New York Convention on the Recognition and Enforcement of Arbitral Awards (see Box 2 and ¶8 of the MEFP). Along with other interested parties, the staff will continue to monitor developments and implementation of these reforms: the program now includes two benchmarks in macro-critical areas (reporting transactions between public and private enterprises in mining, forestry, and the oil sector, and the transferring of proceeds accruing to the treasury from these activities). The authorities' adherence to the protocols of the Organization for the Harmonization of African Business Law (OHADA) and the Extractive Industries Transparency Initiative would reinforce these measures.

Box 2. Policy Framework for Enhancing Governance and Transparency in Extractive Industries

To strengthen governance and transparency in forestry, mining, and oil, the government intends to implement a broad range of time-bound reforms, with assistance from the World Bank, development partners, and the IMF.

In mining, the government will publish mining rights and contracts; promote transparency through the publication and mapping of mineral resources and mining permits; develop transparent competitive tender for identified/valued mineral concessions, including those held by state-owned enterprises; and develop transparent allocation of unexplored fields as per common international practice.

In forestry, the government will publish the results of the 2009 legal review of forest concessions; develop competitive tender for forest concessions and clarify those awards that can proceed on a discretionary basis; publish quarterly all awards of forest rights; and prepare a status report on existing licenses and permits.

In oil, the government will disseminate publicly the legal and regulatory framework and petroleum concessions; clarify the regulatory framework (dispute resolution, principles, rules, and procedures for revocation of exploration and development rights); and develop competitive tender for exploration and development rights.

More generally, the government intends to use competitive procedures for privatization and/or sale of public enterprises in extractive industries; review existing laws and regulations to develop model contracts; and publish the revenue received from extractive-industry transactions.

18. **The government will continue to push ahead with its public financial management (PFM) reform agenda, with technical assistance from the Fund and donors**. Weaknesses in public accounting and a lack of harmonized budgetary and accounting frameworks across the government undermine both central government PFM and decentralization efforts. The government's *Strategic Plan for Public Finance Reform* intends to address these and other issues over the short-and medium term. Key reforms include strengthening budget planning, execution and monitoring at the center and province levels (in line with the poverty reduction strategy), improving public accounting, and clarifying the principles behind fiscal decentralization through the implementation of the Finance Law (¶8, MEFP). Timely implementation of the new public procurement code is also a priority.

C. Program Risks

19. **The recent improvement in macroeconomic management has helped the DRC withstand the headwinds created by the global financial crisis, uncertain and lower levels of external financial support, and instability in the eastern provinces**. Sustaining this improvement will be critical because the risks to the program have not abated and stem from:

- faltering of the global economic recovery, which could have adverse implications for exports and foreign-direct investment that are important drivers of economic growth;
- spending pressures from the fragile security situation and the potential for fiscal slippages in the lead up to the presidential and parliamentary elections late next year, which could reverse progress in limiting fiscal dominance; and

- fragility in the banking sector (mainly due to weaknesses in the regulatory and supervisory framework), which could undermine financial intermediation and trigger pressures on the exchange rate and inflation.

V. Staff Appraisal

20. **Macroeconomic performance has improved markedly in the DRC, after uneven growth and cycles of inflation and exchange rate depreciation**. Economic activity is expanding at a strong pace, inflation has declined to single digits, the exchange rate has stabilized, and debt relief has reduced the external debt burden that weighed heavily on the economy.

21. **Stronger program ownership has played an important role but the economic recovery is fragile**. Sustaining satisfactory policy performance will help mitigate program risks but more financial and technical assistance from the international financial community would also help.

22. **Fiscal discipline has provided a solid foundation for the program**. No fiscal slippages occurred from spending pressures in the lead up to the 50th anniversary of independence celebration last June; spending was scaled back in response to lower foreign financing in the second part of the year; and the budget envelope for 2011 aligns with the goal of eliminating financing from the central bank. The staff also welcomes efforts made to prioritize spending to minimize the impact of reduced resources on pro-growth and pro-poor social policies.

23. **A commensurate effort on the revenue side of the budget would further support the government's fiscal policy objectives**. Accelerating efforts to mobilize more domestic revenue from the DRC's natural resources, tightening up compliance, and reforming administrative practices is the best way to support the country's vast infrastructure and development needs.

24. **The central bank should resist political pressures to lower real interest rates further until a satisfactory record of low and stable inflation is established**. Maintaining low inflation is critical to consolidating macroeconomic stability and alleviating its effect on the DRC's poor and vulnerable households, who have no protection against rising prices. The authorities' intention to strengthen the independence and effectiveness of the central bank is welcome in this regard.

25. **The recent problem with *Banque Congoliase* underscores the high priority of the central bank and legal reform**. The BCC is responsible for supervising financial institutions and enforcing prudential norms, which are critical for ensuring stability of the financial sector and deepening financial intermediation. It cannot carry out this function effectively without adequate laws and regulations, and strengthened institutional and administrative capacity.

26. **Strong ownership of the government's agenda to enhance governance and transparency in extractive industries—forestry, mining, and oil—is paramount**. Natural resources are the primary source of the DRC's wealth and long-term growth potential but their returns to the state are below expectations. The proposed reforms should strengthen the business

environment for investment by bringing industry practices into line with international standards, while maximizing the state's interest by ensuring transparent and open competition.

27. **Comprehensive implementation of the PFM reform agenda is critical to improve the effectiveness of public spending**. The adoption of the new finance law will establish a rule-based PFM regime supported by comprehensive budget planning and execution at all levels of government, effective monitoring of public spending, and modern procurement practices. The authorities have developed a well-defined PFM program and should implement it quickly.

28. The staff welcomes the authorities' efforts to initiate and/or conclude debt-rescheduling agreements with its bilateral and commercial creditors. In this regard, the staffs' financing assurances review is completed.

29. Staff recommends completion of the second review under the ECF arrangement and the third disbursement in an amount equivalent to SDR 49.493 million.

Table 1. Democratic Republic of the Congo: Selected Economic and Financial Indicators, 2009–15

	2009	2010		2011		2012	2013	2014	2015
	Est.	Prog.[1]	Est.	Prog.[1]	Rev.	Projections			
	(Annual percentage change; unless otherwise indicated)								
GDP and prices									
Real GDP	2.8	5.4	6.1	7.0	6.8	6.3	8.1	6.2	6.4
GDP deflator	35.1	27.1	23.3	8.5	9.5	8.3	7.7	8.9	8.5
Consumer prices, period average	46.2	26.2	23.6	13.5	9.9	9.5	9.0	8.8	8.3
Consumer prices, end-of-period	53.4	15.0	9.9	12.0	9.9	9.0	9.0	8.5	8.0
External sector									
Exports, f.o.b. (U.S. dollars)	-33.6	48.3	60.4	18.7	11.3	5.8	24.7	4.6	6.7
Imports, f.o.b. (U.S. dollars)	-26.3	46.4	52.0	16.3	10.8	2.4	17.4	-1.4	5.5
Export volume	-4.3	8.0	25.6	14.4	6.3	6.5	25.9	6.3	8.4
Import volume	-15.8	38.1	39.5	14.9	9.3	-0.4	16.3	-2.5	4.3
Terms of trade	-20.8	2.6	17.2	-6.9	1.4	-1.4	-1.9	-2.7	-2.7
Nominal effective exchange rate[2]	-26.7	…	…	…	…	…	…	…	…
Real effective exchange rate[2]	1.0	…	…	…	…	…	…	…	…
	(Annual change in percent of beginning-of-period broad money; unless otherwise indicated)								
Money and credit									
Broad money	50.4	41.1	35.2	…	17.5	…	…	…	…
Net foreign assets	17.0	57.8	54.3	…	10.6	…	…	…	…
Net domestic assets	33.3	-16.4	-18.6	…	7.3	…	…	…	…
Domestic credit	13.5	-2.1	-19.0	…	5.3	…	…	…	…
Of which:									
Net credit to government[3]	-7.6	-12.2	-28.5	…	-1.8	…	…	…	…
Credit to the private sector (annual percent change)	39.3	36.8	21.9	…	18.0	…	…	…	…
	(Percent of GDP; unless otherwise indicated)								
Central government finance									
Total government revenue	16.8	19.6	19.1	19.9	22.0	21.7	22.5	23.5	24.0
Grants	7.5	10.5	14.9	10.1	8.8	9.0	7.4	6.0	5.6
Total government expenditure	27.5	34.0	32.4	38.8	38.1	36.4	34.4	33.0	31.6
Domestic fiscal balance (cash basis)	-2.5	-1.0	0.0	-0.4	-1.3	-0.9	0.0	-0.1	-0.4
Overall fiscal balance (payment order basis, incl. grants)	-3.1	-3.8	1.5	-8.9	-7.3	-5.7	-4.5	-3.5	-2.0
Overall fiscal balance (cash basis, incl. grants)	-4.1	-5.3	-0.1	-9.8	-7.8	-6.3	-4.2	-3.2	-1.7
Investment and saving									
Gross national saving	8.9	10.4	13.3	19.2	18.9	19.8	20.5	24.1	23.8
Government	-1.2	1.8	1.4	2.8	1.2	3.4	4.9	5.7	5.8
Nongovernment	10.1	8.7	11.9	16.4	17.7	16.4	15.6	18.4	18.0
Investment	19.4	30.4	29.3	40.7	35.9	34.7	33.5	32.4	31.1
Government	7.8	14.7	13.8	21.1	17.3	17.8	16.5	14.9	13.1
Nongovernment	11.6	15.7	15.6	19.6	18.6	16.9	17.1	17.6	18.1
Balance of payments									
Exports of goods and services	45.2	56.1	57.9	63.1	58.0	57.2	65.6	63.3	62.2
Imports of goods and services	60.9	75.1	74.7	83.0	74.5	71.2	76.9	69.9	67.9
Current account balance, incl. transfers	-10.5	-20.0	-16.0	-21.5	-17.0	-14.8	-13.0	-8.4	-7.4
Current account balance, excl. transfers	-21.6	-27.0	-21.9	-21.5	-22.4	-19.9	-18.0	-13.2	-12.2
Gross official reserves (end-of-period, millions of U.S. dollars)	999	1,257	1,260	1,359	1,511	1,811	2,120	2,420	2,700
Gross official reserves (weeks of nonaid-related imports of goods and services)	6.9	7.5	8.4	7.9	9.3	10.1	10.5	11.1	11.4
	(Millions of U.S. dollars; unless otherwise indicated)								
External public debt									
Total stock, including IMF	13,705	2,931	4,073	4,404	5,283	6,511	7,051	7,918	8,491
Present value (PV) of debt[4]	9,750	3,773	2,872	5,045	3,997	4,929	5,247	5,900	6,266
PV of debt (percent of exports of goods and services[4])	156.7	58.9	43.9	74.0	57.4	59.8	55.7	56.3	53.9
Scheduled debt service	1,071.0	203.4	160.3	87.3	84.6	100.3	150.0	163.0	200.6
Percent of exports of goods and services	21.3	2.9	2.1	1.0	1.0	1.1	1.4	1.4	1.6
Percent of government revenue	39.6	5.5	3.6	2.3	1.9	2.1	3.0	3.0	3.4
Memorandum item:									
Nominal GDP (CGF billions)	9,073	12,163	11,861	14,125	13,863	15,963	18,583	21,499	24,815
Exchange rate, (CGF per U.S. dollar)									
Period average	817	…	…	…	…	…	…	…	…
End-of-period	903	…	…	…	…	…	…	…	…

Sources: Congolese authorities and IMF staff estimates and projections.

[1] IMF Country Report No. 10/329. The fiscal-related ratios in percent of GDP in the program column are calculated based on a revised GDP.

[2] Change in annual average. Minus sign indicates depreciation.

[3] The estimated 2010 NCG takes into account the full proceeds of IMF HIPC debt relief while the program column does not.

[4] Projections are based on calculations under the 2010 HIPC Debt Sustainability Analysis (IMF Country Report No. 10/360). Includes assistance beyond the terms of the enhanced HIPC Initiative granted by some Paris Club creditors. Exports are on a three-year backward moving average.

Table 2. Democratic Republic of the Congo: Balance of Payments, 2009–15

	2009	2010	2011	2012	2013	2014	2015
	Prel.			Projections			
	(Millions of dollars; unless otherwise indicated)						
Current account	-1,167	-2,082	-2,451	-2,294	-2,188	-1,525	-1,463
Merchandise trade	-578	-508	-532	-274	280	894	1,073
Exports, f.o.b.	4,370	7,012	7,803	8,258	10,300	10,773	11,492
Of which: mining and oil products	4,192	6,825	7,587	8,016	10,025	10,460	11,138
Imports, f.o.b.	-4,949	-7,520	-8,335	-8,532	-10,020	-9,879	-10,419
Of which: aid-related imports	-1,329	-1,687	-2,378	-2,085	-1,866	-1,871	-1,733
Services	-1,167	-1,681	-1,846	-1,886	-2,172	-2,097	-2,202
Receipts	650	500	557	589	735	769	820
Expenditure	-1,817	-2,181	-2,403	-2,475	-2,906	-2,865	-3,022
Of which: aid-related imports	-477	-491	-536	-470	-420	-422	-390
Income	-779	-881	-1,022	-1,099	-1,329	-1,425	-1,512
Receipts	26	73	30	31	48	53	57
Expenditure	-805	-954	-1,052	-1,131	-1,378	-1,477	-1,569
Of which: interest payments [1]	-558	-26	-21	-25	-175	-174	-153
Current transfers	1,357	988	950	965	1,033	1,102	1,179
Of which: official aid	1,233	757	781	783	836	888	946
Capital and financial account	571	2,712	2,539	2,566	2,146	1,700	1,608
Capital account	263	1,395	745	733	626	515	522
Official	227	711	691	835	738	636	653
Private	36	233	54	-103	-112	-121	-131
Capital transfers (HIPC/MDRI)	…	8,541	…	…	…	…	…
Of which: from IMF	…	450	…	…	…	…	…
Debt stock reduction (HIPC/MDRI)	…	-8,091	…	…	…	…	…
Financial account	309	1,318	1,795	1,833	1,520	1,186	1,086
Official capital	-321	722	1,136	925	424	927	660
Gross disbursements	485	800	1,200	1,000	950	1,026	751
Scheduled amortization [2]	-805	-78	-64	-75	-526	-99	-91
Private capital (net)	629	596	659	908	1,096	258	426
Of which: Foreign direct investment	629	936	1,296	1,608	1,691	1,774	1,850
Other private non-banking sector [3]	0	-340	-637	-700	-595	-1,516	-1,424
Balance before errors and omissions	-596	630	88	271	-42	175	145
Errors and omissions	-288	0	0	0	0	0	0
Overall balance	-884	630	88	271	-42	175	145
Financing	441	-5,157	-155	-459	-110	-355	-377
Net change in non-Fund arrears [4]	879	-4,473	0	0	0	0	0
Net banking sector reserves (increase = -)	-438	-684	-155	-459	-110	-355	-377
Central bank	8	-641	-100	-404	-55	-300	-322
Of which: net Fund credit	154	-380	150	151	0	0	-42
Commercial banks	-445	-43	-55	-55	-55	-55	-55
Financing need before exceptional assistance	-443	-4,527	-67	-188	-152	-180	-232
Exceptional financing	443	4,527	0	0	0	0	0
Consolidation of arrears	0	4,473	0	0	0	0	0
Debt relief [5]	443	54	0	0	0	0	0
Residual financing need (overfinancing = +)	0	0	-67	-188	-152	-180	-232
	(Percent of GDP, unless otherwise indicated)						
Memorandum items:							
Debt service after debt relief (percent of exports of goods and services)	21.3	2.1	1.0	1.1	1.4	1.4	1.6
Current account balance (including official transfers)	-10.5	-16.0	-17.0	-14.8	-13.0	-8.4	-7.4
Current account balance (excluding official transfers)	-21.6	-21.9	-22.4	-19.9	-18.0	-13.2	-12.2
Gross official reserves (in millions of U.S. dollars)	999	1,260	1,511	2,065	2,120	2,420	2,700
Weeks of non-aid-related imports of goods and services	6.9	8.4	9.3	10.1	10.5	11.1	11.4

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

[1] Including interest due to the IMF.

[2] Excluding principal repayments to the IMF.

[3] Including unrecorded transactions. The latter may be substantial given weaknesses in statistics.

[4] Mainly arrears to Paris Club creditors.

[5] Including debt relief provided by the IMF and assumes HIPC Completion point by end June 2010.

Table 4a. Democratic Republic of the Congo: Central Government Financial Operations, 2009–13

	2009	2010		2011	2012	2013
	Prel.	Prog. [1]	Est	Proj.	Proj.	
	(Billions of Congo francs; unless otherwise indicated)					
Total revenue and grants	2,206	3,570	4,030	4,266	4,901	5,568
Total revenue	1,528	2,326	2,265	3,048	3,458	4,187
Customs and excise	560	839	766	1,032	1,233	1,477
Direct and indirect taxes	565	812	805	1,048	1,296	1,648
Petroleum (royalties and taxes)	132	286	289	385	411	434
Nontax revenues	271	389	405	583	517	628
Of which : signing bonus for joint venture with China	97	120	0	120	0	0
Total grants	679	1,244	1,765	1,218	1,444	1,381
Budget grants	150	101	70	0	0	0
Project grants	185	879	842	879	1,059	884
HIPC Initiative assistance [2]	343	264	853	339	384	496
Of which : IMF	…	0	422	0	0	0
Total expenditure	2,491	4,024	3,848	5,283	5,804	6,398
Current expenditure	1,557	1,826	1,786	2,497	2,762	3,212
Wages	548	765	765	983	1,089	1,249
Interest due	402	288	261	378	400	420
Of which: on external debt	366	252	238	247	260	271
Transfers and subsidies	284	371	332	454	455	538
Goods and services	323	402	428	682	818	1,005
Capital expenditure	704	1,787	1,634	2,399	2,840	3,061
Foreign-financed	460	1,410	1,336	1,819	1,896	1,865
Domestic-financed	244	376	297	581	944	1,196
Government	142	85	65	75	126	177
Provinces	102	291	233	506	818	1,019
Exceptional expenditure [3]	231	384	389	322	154	69
Foreign-financed	97	209	209	174	139	69
Domestic-financed	133	175	180	148	15	0
Budget reserve	0	27	39	65	48	56
Overall fiscal balance (payment order basis)	-285	-453	182	-1,017	-902	-830
Domestic fiscal balance [4]	-138	54	201	-116	-51	-5
Change in arrears (increase = +)	-9	-95	-94	-66	-100	0
Central bank operational result	-80	-75	-104	0	0	0
Overall fiscal balance (cash basis, before interest rescheduling)	-374	-624	-16	-1,083	-1,002	-830
Domestic fiscal balance	-227	-117	2.4	-182	-151	-5
Total financing	374	624	16	1,083	1,002	830
Domestic financing	-2	-183	-427	37	0	0
Banking system [5]	-66	-183	-427	-37	0	0
Privatization receipts	64	0	0	74	...	...
Foreign financing (net)	362	617	443	981	808	662
Amortization due before debt relief	-752	-316	-300	-182	-233	-393
Project loans	396	769	731	1,154	1,033	1,050
Debt relief	0	164	13	9	8	5
Residual financing need/errors and omissions	14	190	0	64	194	168
(in millions of US dollars)	*17*	*198*	*0*	*67*	*188*	*152*
Memorandum items:						
GDP	9,073	12,163	11,861	13,863	15,963	18,583
Domestically financed spending	1,657	2,323	2,262	3,109	3,609	4,192
Expenditure on education, health and rural sector development	484	…	699	942	1,085	1,263

Sources: Congolese authorities and IMF staff estimates and projections.

[1] IMF Country Report No. 10/329; the ratios are calculated on the basis of revised GDP figures.
[2] Reflects revised calculation of HIPC Initiative assistance on the basis of the 2010 Debt Sustainability Analysis (IMF Country Report No. 10/360).
[3] Exceptional expenditure includes spending for the Demobilization, Disarmament, and Reintegration (DDR) program, and cost of the elections.
[4] The domestic fiscal balance is defined as revenue (excluding the signing bonus from the SCCA) minus total expenditure (excluding interest on foreign debt, foreign-financed capital and exceptional expenditure).
[5] For 2010 onwards, all Banking system financing is central bank only.

Table 4b. Democratic Republic of the Congo: Central Government Financial Operations, 2009–13

	2009	2010		2011	2012	2013
	Prel.	Prog.[1]	Est	Proj.	Proj.	
	(Percent of GDP; unless otherwise indicated)					
Total revenue and grants	24.3	30.1	34.0	30.8	30.7	30.0
Total revenue	16.8	19.6	19.1	22.0	21.7	22.5
Customs and excise	6.2	7.1	6.5	7.4	7.7	7.9
Direct and indirect taxes	6.2	6.8	6.8	7.6	8.1	8.9
Petroleum (royalties and taxes)	1.5	2.4	2.4	2.8	2.6	2.3
Nontax revenues	3.0	3.3	3.4	4.2	3.2	3.4
Of which: Signing bonus from joint venture with China	1.1	1.0	0.0	0.9	0.0	0.0
Total grants	7.5	10.5	14.9	8.8	9.0	7.4
Budget grants	1.7	0.9	0.6	0.0	0.0	0.0
Project grants	2.0	7.4	7.1	6.3	6.6	4.8
HIPC Initiative assistance [2]	3.8	2.2	7.2	2.4	2.4	2.7
Of which: IMF	…	0.0	3.6	0.0	0.0	0.0
Total expenditure	27.5	33.9	32.4	38.1	36.4	34.4
Current expenditure	17.2	15.4	15.1	18.0	17.3	17.3
Wages	6.0	6.5	6.5	7.1	6.8	6.7
Interest due	4.4	2.4	2.2	2.7	2.5	2.3
Of which: on external debt	4.0	2.1	2.0	1.8	1.6	1.5
Transfers and subsidies	3.1	3.1	2.8	3.3	2.8	2.9
Goods and services	3.6	3.4	3.6	4.9	5.1	5.4
Capital expenditure	7.8	15.1	13.8	17.3	17.8	16.5
Foreign-financed	5.1	11.9	11.3	13.1	11.9	10.0
Domestic-financed	2.7	3.2	2.5	4.2	5.9	6.4
Government	1.6	0.7	0.5	0.5	0.8	1.0
Provinces	1.1	2.5	2.0	3.6	5.1	5.5
Exceptional expenditure [3]	2.5	3.2	3.3	2.3	1.0	0.4
Foreign-financed	1.1	1.8	1.8	1.3	0.9	0.4
Domestic-financed	1.5	1.5	1.5	1.1	0.1	0.0
Budget reserve	0.0	0.2	0.3	0.5	0.3	0.3
Overall fiscal balance (payment order basis)	-3.1	-3.8	1.5	-7.3	-5.7	-4.5
Domestic fiscal balance[4]	-1.5	0.5	1.7	-0.8	-0.3	0.0
Change in arrears (increase = +)	-0.1	-0.8	-0.8	-0.5	-0.6	0.0
Central bank operational result	-0.9	-0.6	-0.9	0.0	0.0	0.0
Overall fiscal balance (cash basis, before interest rescheduling)	-4.1	-5.3	-0.1	-7.8	-6.3	-4.5
Domestic fiscal balance	-2.5	-1.0	0.0	-1.3	-0.9	0.0
Total financing	4.1	5.3	0.1	7.8	6.3	4.5
Domestic financing	0.0	-1.5	-3.6	0.3	0.0	0.0
Banking system[5]	-0.7	-1.5	-3.6	-0.3	0.0	0.0
Privatization Receipts	0.7	0.0	0.0	0.5	…	…
Foreign financing (net)	4.0	5.2	3.7	7.1	5.1	3.6
Amortization due before debt relief	-8.3	-2.7	-2.5	-1.3	-1.5	-2.1
Project loans	4.4	6.5	6.2	8.3	6.5	5.6
Debt relief	0.0	1.4	0.1	0.1	0.0	0.0
Residual financing need/errors and omissions	0.2	1.6	0.0	0.5	1.2	0.9
Memorandum items:						
GDP (billions of CGF)	9,073	11,861	11,861	13,863	15,963	18,583
Domestically financed spending	18.3	19.6	19.1	22.4	22.6	22.6
Expenditure on education, health and rural sector development	5.3	…	5.9	6.8	6.8	6.8

Sources: Congolese authorities and IMF staff estimates and projections.

[1] IMF Country Report No. 10/329; the ratios are calculated on the basis of revised GDP figures.

[2] Reflects revised calculation of HIPC Initiative assistance on the basis of 2010 Debt Sustainability Analysis (IMF Country Report No. 10/360).

[3] Exceptional expenditure includes spending for the Demobilization, Disarmament, and Reintegration program, and cost of the elections.

[4] The domestic fiscal balance (commitment basis) is defined as revenue (excluding the signing bonus from the SCCA) minus total expenditure (excluding interest on foreign debt, foreign-financed capital and exceptional expenditure).

[5] For 2010 onwards, all Banking system financing is central bank only.

Table 5. Democratic Republic of the Congo: Monetary Survey, 2007–11
(At current exchange rates)

	2007	2008	2009	2010	2011
	Dec	Dec	Dec	Dec	Dec
			Prel	Proj	Proj.
	(Billions of Congo francs)				
Net foreign assets	-172.6	-211.0	-41.0	773.8	988.2
Net domestic assets	831.4	1,252.4	1,584.5	1,305.5	1,453.1
Domestic credit	373.4	724.3	859.4	573.7	680.8
Net credit to government	176.2	248.9	172.8	-254.4	-291.5
Credit to the private sector	195.2	472.3	657.7	801.9	946.0
Credit to parastatals	1.9	3.1	28.9	26.2	26.2
Other items, net (including valuation change)	458.1	528.1	725.0	731.9	772.3
Broad money (M2)	641.2	998.4	1,501.9	2,030.7	2,385.7
Narrow money (M1)	300.3	392.5	479.9	668.0	803.9
Currency in circulation	233.3	304.6	381.5	455.6	511.4
Demand deposits	67.0	87.9	98.4	212.4	292.5
Quasi money	341.0	606.0	1,022.0	1,362.7	1,581.8
Time deposits in domestic currency	2.5	1.3	3.5	14.9	20.1
Foreign currency deposits	338.5	604.7	1,018.5	1,347.7	1,561.6
Import deposits	17.6	42.9	41.7	48.7	55.7
	(Year-on year change in percent)				
Net foreign assets	43.4	-22.2	80.6	1,989.3	27.7
Net domestic assets	11.6	50.6	26.5	-17.6	11.3
Domestic credit	51.3	94.0	18.7	-33.3	18.7
Net credit to government	33.4	41.2	-30.6	-247.2	14.5
Credit to the private sector	73.6	141.9	39.3	21.9	18.0
Credit to parastatals	-11.8	63.4	823.4	-9.2	0.0
Other items, net (including valuation change)	-8.1	15.3	37.3	0.9	5.5
Broad money (M2)	49.5	55.7	50.4	35.2	17.5
Narrow money (M1)	41.2	30.7	22.3	39.2	20.3
Currency in circulation	28.2	30.6	25.3	19.4	12.2
Demand deposits	117.6	31.2	11.9	115.9	37.7
Quasi money	57.8	77.7	68.7	33.3	16.1
Time deposits in domestic currency	483.0	-47.8	167.9	326.5	35.1
Foreign currency deposits	56.9	78.6	68.4	32.3	15.9
Import deposits	54.0	144.0	-2.9	16.8	14.4
	(Annual change in percent of beginning-of-period broad money)				
Net foreign assets	30.8	-6.0	17.0	54.3	10.6
Net domestic assets	20.2	65.6	33.3	-18.6	7.3
Domestic credit	29.5	54.7	13.5	-19.0	5.3
Net credit to government	10.3	11.3	-7.6	-28.5	-1.8
Credit to the private sector	19.3	43.2	18.6	9.6	7.1
Credit to parastatals	-0.1	0.2	2.6	-0.2	0.0
Other items, net (including valuation change)	-9.4	10.9	19.7	0.5	2.0
Broad money (M2)	49.5	55.7	50.4	35.2	17.5
Narrow money (M1)	20.4	14.4	8.8	12.5	6.7
Currency in circulation	12.0	11.1	7.7	4.9	2.7
Demand deposits	8.4	3.3	1.0	7.6	3.9
Quasi money	29.1	41.3	41.7	22.7	10.8
Time deposits in domestic currency	0.5	-0.2	0.2	0.8	0.3
Foreign currency deposits	28.6	41.5	41.4	21.9	10.5
Import deposits	1.4	4.0	-0.1	0.5	0.3
Memorandum items:					
Nominal GDP (billions of Congo francs)	5,174.7	6,529.9	9,072.8	11,861.4	13,863.1
Velocity (GDP/broad money)	8.1	6.5	6.0	5.8	5.8
Foreign currency deposits (percent of M2)	52.8	60.6	67.8	66.4	65.5
Foreign currency deposits (percent of total de	83.0	87.1	90.9	85.6	83.3

Sources: Congolese authorities and IMF staff estimates and projections.

Table 6. Democratic Republic of the Congo: Quarterly Quantitative Performance Criteria and Indicative Targets, 2009 - 10[1]

(CGF Millions, unless otherwise indicated)

	2009 Stock Dec.	2010 Cumulative change[2,3]								
		June				Sept.				Dec.
	Act.	Perf. Criteria	Perf. Criteria Adj.	Act.	Obesrvation	Indicative	Indicative adj.	Prel.	Observation	Perf. Criteria
I. Performance criteria										
a. Floor on net foreign assets of the BCC [4] (U.S.$ millions)	-613	451	96	224	Observed	545	547	697	Observed	648
b. Ceiling on net domestic assets of the BCC [4]	869,089	-260,923	-33,612	-139,067	Observed	-266,497	-265,155	-390,968	Observed	-266,056
c. Ceiling on net bank credit to government	182,353	-23,242	-109,659	-137,533	Observed	-111,982	-113,152	-132,518	Observed	-183,140
d. Ceiling on the contracting or guaranteeing of new nonconcessional external debt with original maturity of more than one year by the government, including the EADs or the BCC [5]	...	0		0	Observed	0		...		0
e. Ceiling on the contracting or guaranteeing of new nonconcessional external debt with original maturity of less than one year by the government, and loans contracted by the EADs or the BCC [5]	...	0		0	Observed	0		...		0
f. BCC payments of government expenditure (including urgent in nature) without authorization according to proper budgetary procedures by the ministries of finance and budget [5]	...	0		0	Observed	0		...		0
g. Accumulation of External payments arrears[5]	...	0		0	Observed	0		...		0
II. Indicative targets										
a. Narrow base money	471,722	27,717	27,717	6,120	Observed	82,269	82,269	53,517	Observed	148,586
b. Domestic balance (cumulative from the beginning of the year)		79,117	79,117	148,019	Observed	-3,776	-3,776	134,670	Observed	-116,768
c. Accumulation of wage arrears	...	0		0	Observed	0		...		0
Memorandum items:										
Project deposits	9,516	0	...	15,116	...	0		...		0
Balance of payments support (U.S. dollars, millions)	...	378	...	22	...	568		...		647
Programmed foreign assistance[6]	...	451	...	83	...	678		656		793
Programmed external debt service payments	...	74	...	61	...	110		86		146
Signing bonus from the Sino-congolese Cooperation Agreement (U.S. dollars, r	...	0	...	0	...	0		0		125
Privatization proceeds (U.S. dollars, millions)	...	0	...	0	...	0		0		0

Source: Congolese authorities and IMF staff estimates and projections.

[1] For definition and adjustors see the attached Program Monitoring Section of Memorandum of Economic and Financial Polices and the Technical Memorandum of Understanding.
[2] Cumulative changes are calculated from end-December 2009.
[3] The performance criteria for end-June 2010 are those established in IMF Country Report No. 10/88 while the performance criteria for end-December and indicative targets for end-September 2010 are those established in IMF Country Report No. 10/329.
[4] The stocks of net foreign assets and net domestic assets of the BCC are valued at the program exchange rates (US$1 = CGF 639.32; and 1 Euro = 905.07).
[5] These performance criteria will be monitored on a continuous basis.
[6] Non U.S. dollar denominated balance of payment support is valued at program exchange rates.

Table 7. The Democratic Republic of the Congo: Structural Benchmarks, July-December 2010

Measure	Timing	Status
Adoption by the Parliament and promulgation of the law introducing a modern single-rate VAT.	End-Dec. 2010	Observed
Establishment of the Kasumbalesa one-stop customs window.	End-July 2010	Observed
Increase the border fuel price for taxation purposes (PMFF) to at least one-third of the commercial price (PMFC) of fuel imports starting from June 2010, the authorities will gradually reduce the gap in order to reach the target by end-November 2010.	End-Nov. 2010	Partially observed.
Adoption by the Parliament and promulgation of the law on government finance.	End-December 2010	Observed
Submission to Parliament of the draft law on the recapitalization of the BCC.	End-Oct. 2010	Observed with a delay
Generation and publishing of a monthly budget execution tables (reconciled with the TOFE, the BCC, and the monetary statistics), no later than 30 days after the end of each month.	Continuous	Observed, although technical (computer) problems interrupted publication in July-September
Inclusion of externally financed expenditure (excluding exceptional spending) in the monthly budget execution tables (reconciled with the TOFE, the BCC, and the monetary statistics), no later than 3 months after the end of each month.	Continuous	Observed, although technical (computer) problems interrupted production in July-September
Publication of mining sector partnership contracts between public and private enterprises within 60 days of signature (including information on signing bonuses, taxation system, private shareholders, and members of the board of directors).	Continuous	Observed
No payment by the BCC of expenditures on behalf of the government (including urgent expenditure payments) without prior authorization by the Minister of Finance in accordance with existing legislation.	Continuous	Observed

Source: Congolese authorities; and IMF staff assessment.

Table 8. Democratic Republic of the Congo: Disbursements and Conditions Under the ECF Arrangement, 2009–12

Availability Date	Disbursement	Conditions
December 11, 2009	SDR 49.493 million	Executive Board approval of the arrangement (disbursed)
May 31, 2010	SDR 49.493 million	Completion of the first review based on observance of performance criteria at end-December 2009 (disbursed)
December 31, , 2010	SDR 49.493 million	Completion of second review based on observance of performance criteria at end-June 2010
March 31, 2011[1]	SDR 49.493 million	Completion of third review based on observance of performance criteria at end-December 2010
September 30, 2011	SDR 49.493 million	Completion of fourth review based on observance of performance criteria at end-June 2011
March 31, 2012	SDR 49.493 million	Completion of fifth review based on observance of performance criteria at end-December 2011
September 30, 2012	SDR 49.492 million	Completion of sixth (final) review based on observance of performance criteria at end-June 2012

Source: IMF staff.
[1] The availability date for this disbursement is brought forward from May 31, 2011.

APPENDIX I

DEMOCRATIC REPUBLIC OF THE CONGO

SUPPLEMENTAL LETTER OF INTENT

Kinshasa, January 21, 2011

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, DC 20431
USA

Dear Managing Director,

This letter supplements the Letter of Intent (LOI), and attached Memorandum of Economic and Financial Policies (MEFP) dated June 15, 2010, supporting our Extended Credit Facility (ECF) arrangement approved by the Fund's Executive Board in December 2009.

The implementation of the Fund-supported program has proceeded smoothly, resulting in a marked improvement in our country's macroeconomic performance. Compared with 2009, in the past year real GDP growth was higher, inflation lower, and the external position stronger owing to buoyant mining activity and debt relief under the enhanced Heavily Indebted Poor Countries (HIPC) and Multilateral Debt Relief Initiatives.

All the program's end-June quantitative performance criteria and indicative targets were met, which include a sharp reduction in net bank credit to government and a further buildup of net foreign assets of the Central Bank of Congo (BCC). Concerning structural reform, all but one of the program's benchmarks were implemented; however, there was a brief interruption of some fiscal reporting and one other measure was implemented with a delay. We experienced computer problems with the preparation of monthly budget execution tables for July-September including for externally–financed expenditure (continuous structural benchmarks), but these problems were resolved and regular reporting was reestablished in October 2010. The draft law on the recapitalization of the central bank was submitted to parliament in December, rather than in October 2010, as its preparation took longer than expected. Domestic fuel prices were only raised to about ¾ of the level envisaged under the program as the government remained concerned about the direct affect on inflation and the difficult political and social environment. This partial increase does not jeopardize the program's overall objectives and the government intends to move ahead with modest increases if world oil prices continue to rise. The government published a new mining sector partnership contract on its website and transferred to the treasury the bonus payment accruing to the state.

The government and the monetary authority believe that the policies and measures set forth in the MEFP of June 2010, supplemented by the policy intentions for 2011 contained in a revised MEFP (attached), are appropriate to achieve the objectives of our medium-term program. During the period of the ECF arrangement, the government and the monetary authority will consult with Fund staff on the adoption of any measures that may be necessary to achieve the program's objectives, or whenever Fund staff requests such a consultation.

Looking ahead, the Congolese economy will face a number of challenges that could weaken macroeconomic performance. These challenges include a potential faltering of the world economy that could adversely affect foreign direct investment and our export-led growth; security concerns that could result in fiscal slippages; and weaknesses in the business environment that could dampen private sector development and inhibit external financing. A stronger business environment and the continued satisfactory implementation of the ECF arrangement will further consolidate recent gains and the economy's ability to withstand these challenges.

In this context, the government requests the completion of the second program review and disbursement of the third loan.

The government intends to make the contents of this letter and the attached MEFP, as well as the staff report accompanying its request for completion of the second review of the program, available to the public and authorizes the Fund to arrange for them to be posted on its website, subsequent to Executive Board approval of our request.

The third review under the ECF arrangement based on performance through end-December 2010 is expected to be completed by March 31, 2011. The fourth review will be based on quantitative performance criteria for end-June 2011 and should be completed on or after September 30, 2011.

Sincerely yours

_______/s/_______

Adolphe Muzito
Prime Minister

Attachment: Memorandum of Economic and Financial Policies, 2011
Technical Memorandum of Understanding

APPENDIX I
ATTACHMENT I

DEMOCRATIC REPUBLIC OF THE CONGO
MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES, 2011

Kinshasa, January 21, 2011

1. In the period ahead, the authorities aim to achieve an increase in the rate of economic growth to about 7 percent, maintain inflation at about 10 percent, and to accumulate further gross international reserves, which are targeted at about 9 weeks of import coverage. To achieve these objectives, the authorities intend to maintain the medium-term economic and financial policies endorsed by the Fund's Executive Board in June 2010. This framework is designed to limit central bank financing of the budget to eliminate fiscal dominance—in support of the BCC's effort to contain inflation—and to advance structural reform in key areas critical to the country's growth prospects. Policy actions for 2011 are described in detail below (Tables 1 and 2).

2. **Fiscal policies**. The government has maintained fiscal discipline and it reduced low-priority spending in 2010 to address shortfalls of foreign financing. To close the financing gap last year, these cuts amounted to about ½ percent of GDP. The government's concerted effort to raise more domestic revenue, including from natural resources, and closer alignment of domestic fuel prices with those in international markets, helped reduce the magnitude of the required spending cuts.

3. The 2011 draft budget submitted to parliament continued to align the expenditure envelope with domestic revenue and expected external budget support, alleviating the need for central bank financing (outside the use of debt relief from the IMF). Domestic revenue is targeted to rise to 22 percent of GDP, reflecting ongoing improvements in tax and customs administration and the full year impact of the recent fuel price adjustment. The government intends to increase fuel prices gradually if world oil prices continue to rise to ensure revenue increases and that fuel subsidies do not emerge; further ahead, it will establish a pricing regime that calls for regular and timely adjustment of such prices, and that removes discretion from pricing decisions. Domestic financing (equivalent to about ½ percent of GDP) is also expected to come from the privatization of CINAT, the state-owned cement company. While the expenditure envelope is tight, it accommodates: (i) a higher wage bill, largely to cover teacher salaries that had been previously borne by the private sector and the payment of retirement indemnities to outgoing Members of Parliament in line with the government's obligations; (ii) higher health and education spending; and (iii) spending linked to the presidential and parliamentary elections planned for late next year. Also, the budget continues to include a reserve of CGF 65 billion to address unexpected spending needs.

4. The program is fully financed. A financing gap equivalent to about ½ percent of GDP will be covered by budget support from the European Commission. The government

anticipates higher external financing in the second half of this year from the World Bank and other donors. Together with Fund staff, the government will discuss the potential use of these additional resources in the context of the next program review, likely in the first quarter of the year.

5. The DRC's external debt situation has improved markedly, owing largely to HIPC debt relief. Nonetheless, the government will maintain a cautious external borrowing strategy and seek foreign loans on highly concessional terms (minimum grant element of 35 percent). No non-concessional loans were contracted in the past year and the government is working with its development partners to ensure prospective loans are sufficiently concessional.

6. **Monetary and exchange rate policies**. The BCC will continue to use base money as a nominal anchor to contain inflationary pressures related to the second-round effects of expected increases in food and fuel prices. The BCC policy rate in real terms will be kept sufficiently positive and the BCC will continue to rely on central bank bills to manage liquidity. It will limit intervention in the foreign exchange market to smooth short-term exchange rate volatility and to help achieve the program's foreign reserve target.

7. To strengthen the independence and capacity of the BCC, key actions are: its recapitalization through the issuance of interest-bearing and marketable securities in the amount of CGF 1,025 billion by March 2011 (structural benchmark) to eliminate the BCC's negative capital, and a further increase of capital in early 2012; implementation of Fund technical assistance recommendations on liquidity forecasting and to establish an analytical balance sheet with functional classifiers for expenditure and revenue to benchmark performance of the BCC; the quarterly reconciliation of financial flows between the government and the central bank (interest payments, dividends, and profits), to ensure transparency in their financial relations (structural benchmark); and moving forward with the strategic plan to improve the operational and financial viability of the BCC, which includes reform of its pension plan and withdrawal from non-core activities, such as the central bank hospital and mint. The BCC has implemented most of the priority safeguards measures and is committed to completing the remaining recommendations, including the adoption of International Financial Reporting Standards for its 2011 financial statements.

8. **Structural policies and governance**. Structural reform will continue to focus on domestic revenue mobilization, public finance management (PFM), the financial sector, and improving the business environment, especially in the extractive industries.

- Concerning domestic revenue mobilization, the government will follow through with its efforts to modernize tax and customs administration, including through the expansion of one-stop customs windows at key border posts, and establishment of new tax centers in all provinces for medium-sized enterprises in anticipation of the implementation of the VAT in 2012. Further, efforts will focus on reducing evasion of fuel import duties by firms claiming mining sector import-duty exemptions and elimination of nuisance taxes.

- Concerning public financial management, the new finance law will set the stage for the modernization of the expenditure and revenue management system, both at the central and provincial levels. Going forward key actions will include: (i) promulgation and implementation of a new general regulation on public accounting; (ii) implementation of a new nomenclature on taxes, levies, and fees; (iii) implementation of a reliable rule-based expenditure management system in the provinces and the effective strengthening of the PFM capacities of provinces—including the monitoring of pro-poor spending in line with our obligations under the ECF arrangement; and (iv) implementation and monitoring of the new procurement code. To make the new procurement code effective the government will ensure that the supporting institutions are fully operational; approve the texts regulating procurement at the provincial and decentralized entities; prepare a report on its implementation, showing that at least 60 percent of all contracts above US$500,000 were awarded under competitive procedures (structural benchmark); and publish all procurement contract award decisions (structural benchmark).

- Concerning the financial sector, the central bank and the government will move quickly to resolve the problems with a large commercial bank and strengthen banking supervision and regulations, more generally. The problem bank (*Banque Congolaise*) is under liquidation, with a view to salvaging its branch network through a purchase and acquisition agreement with a healthy bank, in line with the recommendations of Fund technical assistance. To enhance the central bank's capacity to supervise the financial system more effectively, the banking law and regulations will be aligned with international best practice. The goal of these reforms will be: (i) to eliminate the possibility of forbearance; (ii) define criteria of reference for shareholders; (iii) establish a special bank insolvency regime so that supervisory actions could not be reversed, or suspended by the courts; (iv) define the priority of claims; (v) establish rule-based progressive enforcement measures and prompt corrective actions; and (vi) specify the eligibility and lending criteria for the BCC's lender of last resort window. Also, the central bank is planning to issue high-denomination bank notes in the first half of 2011 to reduce operating costs at the Mint and encourage use of the national currency.

- Concerning the business environment, the government will deposit the instruments of ratification of the protocols of the Organization for the Harmonization of African Business Law (OHADA) with a view to improve domestic business regulations; continue to implement the Extractive Industries Transparency Initiative; and establish and implement—in consultation with Fund and World Bank staff—a set of measures to improve governance and transparency in forestry, mining, and the oil sectors. These measures will aim to ensure (i) the sanctity of contracts and the predictability of the business environment in these activities; (ii) exploitation of these resources in a manner that derives the maximum benefit to the state; and (iii) the performance by state-owned enterprise operating in these areas are in line with international standards. With immediate effect, the government will publish any future mining, forestry, and oil sector concessions, production sharing agreements, and partnership contracts within 60 days of signature (continuous structural benchmark), and report fully and transfer to the Treasury any proceeds from these arrangements, once they have entered into force (structural benchmark). The government has indicated its interest in taking the necessary steps to accede to the New York Convention of 1958 on Recognition and Enforcement of Foreign Arbitral Awards; it will grant rights and concessions only through competitive processes; and it has agreed on a plan for the divestiture of assets and enterprises in the state's portfolio and to ensure that any sale is done competitively, in line with international standards.

_______/s/_______	_______/s/_______	_______/s/_______
Mapon Matata Ponyo	Jean-Baptiste Nthawa	Jean-Claude Masangu Mulongo
Minister of Finance	Minister of Budget	Governor, Central Bank of the Congo

Table I.1. Democratic Republic of the Congo: Quarterly Quantitative Performance Criteria and Indicative Targets, 2009 - 11[1]

(CGF Millions, unless otherwise indicated)

	2009	2010 Cumulative change[2,3]									2011 Cumulative change[4]				2011
	Stock Dec.	June				Sept.				Dec.	March	June	Sept.	Dec.	Stock Dec.
	Act.	Perf. Criteria	Perf. Criteria Adj.	Act.	Obesrvation	Indicative	Indicative adj.	Prel.	Observation	Perf. Criteria	Indicative	Perf. Criteria	Indicative	Indicative	
I. Performance criteria															
a. Floor on net foreign assets of the BCC [5] (U.S.$ millions)	-613	451	96	224	Observed	545	547	697	Observed	648	-6	-13	-19	99	134
b. Ceiling on net domestic assets of the BCC [5]	869,089	-260,923	-33,612	-139,067	Observed	-266,497	-265,155	-390,968	Observed	-266,056	14,450	39,390	58,882	29,626	632,659
c. Ceiling on net bank credit to government	182,353	-23,242	-109,659	-137,533	Observed	-111,982	-113,152	-132,518	Observed	-183,140	61,903	90,270	134,399	-37,005	-37,792
d. Ceiling on the contracting or guaranteeing of new nonconcessional external debt with original maturity of more than one year by the government, including the EADs or the BCC [6]	…	0	…	0	Observed	0	…	…		0	0	0	0	0	0
e. Ceiling on the contracting or guaranteeing of new nonconcessional external debt with original maturity of less than one year by the government, and loans contracted by the EADs or the BCC [6]	…	0	…	0	Observed	0	…	…		0	0	0	0	0	0
f. BCC payments of government expenditure (including urgent in nature) without authorization according to proper budgetary procedures by the ministries of finance and budget [6]	…	0	…	0	Observed	0	…	…		0	0	0	0	0	0
g. Accumulation of External payments arrears[6]	…	0	…	0	Observed	0	…	…		0	0	0	0	0	0
II. Indicative targets															
a. Narrow base money	471,722	27,717	27,717	6,120	Observed	82,269	82,269	53,517	Observed	148,586	6,040	27,081	42,670	93,335	691,299
b. Domestic balance (cumulative from the beginning of the year)		79,117	79,117	148,019	Observed	-3,776	-3,776	134,670	Observed	-116,768	-49,855	-66,175	-162,650	-181,520	…
c. Accumulation of wage arrears	…	0		0	Observed	0		…		0	0	0	0	0	…
Memorandum items:															
Project deposits	9,516	0	…	15,116		0		…		0	0	0	0	0	11,661
Balance of payments support (U.S. dollars, millions)	…	378	…	22	…	568		…		647	…	…	…	…	…
Programmed foreign assistance[7]	…	451	…	83	…	678		656		793	0	0	65	65	…
Programmed external debt service payments	…	74	…	61	…	110		86		146	21	42	63	84	…
Signing bonus from the Sino-congolese Cooperation Agreement (U.S. dollars, r	…	0	…	0	…	0		0		125	0	0	0	125	…
Privatization proceeds (U.S. dollars, millions)	…	0	…	0	…	0		0		0	0	0	0	77	…

Source: Congolese authorities and IMF staff estimates and projections.

[1] For definition and adjustors see the attached Program Monitoring Section of Memorandum of Economic and Financial Polices and the Technical Memorandum of Understanding.
[2] Cumulative changes are calculated from end-December 2009.
[3] The performance criteria for end-June 2010 are those established in IMF Country Report No. 10/88 while the performance criteria for end-December and indicative targets for end-September 2010 are those established in IMF Country Report No. 10/329.
[4] Cumulative changes are calculated from end-December 2010.
[5] The stocks of net foreign assets and net domestic assets of the BCC are valued at the program exchange rates (US$1 = CGF 639.32; and 1 Euro = 905.07).
[6] These performance criteria will be monitored on a continuous basis.
[7] Non U.S. dollar denominated balance of payment support is valued at program exchange rates.

Table I.2. Structural Benchmarks, 2011

Measures	Timing
Public financial management	
Submission of an initial report by the Procurement Regulatory Agency on central implementation of the new public procurement law, showing that at leeast 60 percent of all contracts above US$500,000 were awarded under compeititve procedures.	End-June 2011
Publish all public procurement contract award decisions, including bidder claims and appeals on the Procurement Regulatory Agency website.	Quarterly, beginning end-June 2011
Generation and publishing of monthly budget execution tables (reconciled with the TOFE, the BCC, and the monetary statistics), no later than 30 days after the end of each month.	Continuous
Inclusion of externally-financed expenditure (excluding exceptional spending) in the monthly budget execution tables (reconciled with the TOFE, the BCC, and the monetary statistics), no later than 3 months after the end of each month.	Continuous
No payment by the BCC of expenditures on behalf of the government (including urgent expenditure payments) without prior authorization by the Minister of Finance in accordance with existing legislation.	Continuous
Central Bank independence	
Finalize the recapitalization of the BCC by issuing interest-bearing and marketable securities to eliminate the negative net worth in line with recommendations from the IMF technical assistance.	End-March 2011
Submit to Parliament amendments to the Banking Law to bring it into line with international best practice (as elaborated in paragraph 8 of the MEFP).	End-June 2011
Beginning in the first quarter of 2011, reconcile quarterly the financial flows between the government and the BCC (including interest payments, dividends, and profits).	Quarterly
Governance and transparency	
Publication of mining, forestry, and oil sector concessions, production sharing agreements, and partnership contracts between public entities and private enterprises within 60 days of signature (including information on signing bonuses, taxation system, private shareholders, and members of the Board of Directors).	Continuous
Full and timely reporting and transfer of proceeds (signing bonuses, royalties, and other payments) accruing to the Treasury from any mining, forestry, and oil sector concessions, production sharing agreements, and partnership contracts between public entities and private enterprises, once they have entered into force.	Quarterly

APPENDIX I
ATTACHMENT I

DEMOCRATIC REPUBLIC OF THE CONGO
TECHNICAL MEMORANDUM OF UNDERSTANDING

Kinshasa, January 21, 2011

1. This memorandum updates the Technical Memorandum of Understanding (TMU) accompanying the MEFP of June 2010. This updated TMU is applicable from the date the IMF Executive Board completes the second review of the ECF arrangement. [1] Unless otherwise indicated, all quantitative targets are measured in terms of cumulative changes since the beginning of the year. Variables denominated in U.S. dollars will be converted to Congolese Francs by using the program exchange rate of CGF 639.32 per U.S Dollar; variables denominated in currencies other than the U.S. Dollar (excluding the SDR and Euro) will first be converted to U.S. Dollars at the December 31, 2010, US$/currency exchange rate. Variables denominated in SDRs will be valued at the program exchange rate of CGF 994.02 per SDR. Variables denominated in Euro will be valued at the program exchange rate of CGF 905.07 per Euro.

2. **Institutional coverage**: The **central government** comprises all units of government that exercise authority over the entire economic territory. However, unless otherwise indicated for the purposes of this memorandum, the central government does not include nonprofit organizations controlled and financed by the central government. The **banking system** is understood to mean the Central Bank of the Congo (BCC) as well as existing or newly licensed commercial banks.

I. QUANTITATIVE PERFORMANCE CRITERIA

3. Quantitative performance criteria are established at end-June 2011, and indicative targets at end-March, end-September, and end-December 2011 with regard to the following variables:

- Changes in the net foreign assets of the BCC;
- Changes in the net domestic assets of the BCC;
- Changes in net banking system credit to the government (central government);

[1] The TMU accompanying the June 2010 MEFP remains applicable to the definitions for the performance criteria and adjustors set for end-December 2010.

- Payments of government expenditures (including emergency expenditures) by the BCC without the prior authorization according to proper budgetary procedures by the Ministries of Budget and Finance;
- Nonconcessional medium- and long-term foreign loans contracted or guaranteed by the central government, local governments, or the BCC;
- Nonconcessional short-term foreign loans contracted or guaranteed by the central government, local governments, or the BCC; and
- The accumulation of external payment arrears.

Floors on the Net Foreign Assets of the BCC

4. **Definition**: **Net foreign assets (NFA)** are defined as the difference between the BCC gross foreign assets and its total foreign liabilities. **Gross foreign assets** are defined as the sum of the following items: (i) monetary gold holdings of the BCC; (ii) SDR holdings; and (iii) convertible claims on nonresidents, such as foreign deposits and foreign securities. The following items are excluded from the definition of gross reserves: claims on residents in foreign exchange, nonconvertible currency holdings, and reserves that are encumbered or pledged in one form or another, including but not limited to reserve assets used as collateral or security for foreign third-party liabilities, and swap transactions. **Foreign liabilities** are all BCC foreign exchange liabilities to nonresidents (including SDR allocations), including the IMF.

5. The following **adjustments** will be made to the NFA floor:

- **Balance of payments support (BPS)**: NFA floor will be adjusted (i) upward by an amount equivalent to 50 percent of total BPS in excess of the programmed levels, (ii) downward by an amount equivalent to the **lesser** of total shortfalls of BPS relative to programmed levels and US$16.5 million by end-March, US$33 million by end-June, US$49.5 million by end-September and US$66 million by end-December 2011.

- **External debt service payment**: NFA floor will be adjusted (i) upward by an amount equivalent to under payment of external debt service relative to programmed amounts; and (ii) downward by an amount equivalent to the excess of external debt service payments relative to programmed amounts.

- **Signing bonus from the Sino-Congolese Cooperation Agreement (SCCA)**: NFA floor will be adjusted (i) upward by an amount equivalent to 50 percent of total disbursement of signing bonus from SCCA in excess of the programmed levels; and (ii) downward by an amount equivalent to total shortfalls in the disbursement of signing bonus from SCCA relative to programmed levels.

- **Privatization proceeds in convertible currencies (PPCC)**: NFA floor will be adjusted upward by 50 percent of total PPCC in excess of the programmed levels. There will be no downward adjustment for any shortfall in these proceeds.

6. **Definition**: BPS is defined as all foreign grants and loans, excluding those tied to projects. External financing for the National Disarmament, Demobilization, and Reintegration Program (DDR) are considered project-related and therefore not included in the definition of BPS.

7. **Definition**: External debt service payments are defined as interest and principal due to foreign creditors (excluding the IMF).

Ceilings on the Net Domestic Assets of the BCC

8. **Definition**: The **net domestic assets (NDA)** of the BCC are defined as base money (see ¶19 below) minus NFA. Based on this definition, the NDA of the BCC include: (i) net credit to the government (central government, see paragraph 10 below); (ii) credit to the private sector; (iii) credit to public enterprises; (iv) credit to commercial banks; and (v) other net assets.

9. The following **adjustments** will be made to the NDA ceilings:

- **BPS**: NDA ceiling will be adjusted (i) downward by an amount equivalent to 50 percent of total BPS in excess of the programmed level; and (ii) upward by an amount equivalent to the **lesser** of total shortfalls of BPS relative to programmed levels and CGF 10,549 million by end-March, CGF 21,908 million by end-June, CGF 31,646 million by end-September, and CGF 42,195 million by end-December 2011.

- **External debt service payment**: NDA ceiling will be adjusted (i) downward by an amount equivalent to under payment of debt service relative to programmed amounts; and (ii) upward by an amount equivalent to the excess of external debt service payments relative to programmed amounts.

- **Signing bonus from the SCCA**: NDA ceiling will be adjusted (i) downward by an amount equivalent to 50 percent of the total disbursement of signing bonus from SCCA in excess of the programmed levels; and (ii) upward by an amount equivalent to total shortfalls in the disbursement of signing bonus from SCCA relative to programmed levels.

- **Privatization proceeds**: NDA will be adjusted downward by 50 percent of the total amount of privatization proceeds (including PPCC) in excess of the programmed level. There will be no upward adjustment for any shortfall in these proceeds.

Ceiling on Net Banking System Credit to the Government

10. **Definition**: Net banking system credit to the government (NCG) is defined as the sum of net BCC and commercial bank claims on the central government, plus the BCC's net cash deficit. For purposes of program monitoring, government deposits related to externally-financed projects are excluded from NCG. All foreign currency denominated flows to the budget will be converted to domestic currency by using the market exchange rate prevailing at the time of the disbursement.

11. The following **adjustments** will be made to the NCG ceiling:

- **BPS**: NCG ceiling will be adjusted (i) downward by an amount equivalent to 50 percent of total BPS in excess of the programmed level; and (ii) upward by an amount equivalent to the **lesser** of total shortfalls of BPS relative to programmed levels and CGF 15,867 million by end-March, CGF 31,734 million by end-June, CGF 47,601 million by end-September and CGF 63,469 million by end-December 2011.

- **External debt service payment**: NCG ceiling will be adjusted (i) downward by an amount equivalent to under payment of debt service relative to programmed amounts; and (ii) upward by an amount equivalent to the excess of external debt service payments relative to programmed amounts.

- **Signing bonus from the SCCA**: NCG will be adjusted (i) downward by an amount equivalent to 50 percent of total disbursement of signing bonus from SCCA in excess of the programmed levels; and (ii) upward by an amount equivalent to total shortfalls relative to programmed levels in the disbursement of signing bonus from SCCA.

- **Privatization proceeds**: the NCG ceiling will be adjusted downward by an amount equivalent to 50 percent of total privatization proceeds in excess of the programmed levels. There will be no upward adjustment for any shortfall in these proceeds.

Ceilings on Nonconcessional External Debt Contracted or Guaranteed by the Public Sector

12. **Definition**: The public sector comprises the central government, local governments, the central bank (BCC), and nonprofit organizations controlled and financed by the central government.

13. **Definition**: Debt is defined as set out in Executive Board Decision No. 6230 (79/140) Point 9, as revised on August 31, 2009 (Decision No. 14416-(09/91)) (see Annex).[2] For program purposes, external debt is measured on a gross basis using the residency criterion.

14. **Definition**: a debt is concessional if it includes a grant element of at least 35 percent, calculated as follows: the grant element of a debt is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt.[3] The discount rates used for this purpose are the currency specific commercial interest reference rates (CIRRs), published by the Organization for Economic Cooperation Development (OECD). For debt with a maturity of at least 15 years, the ten-year-average CIRR will be used to calculate the PV of debt and, hence, its grant element. For debt with a maturity of less than 15 years, the six-month average CIRR will be used. To both the ten-year and six-month averages, the same margins for differing repayment periods as those used by the OECD need to be added (0.75 percent for repayment periods of less than 15 years, 1 percent for 15 to 19 years, 1.15 percent for 20 to 29 years, and 1.25 percent for 30 years or more).

15. **Definition**: the ceiling on concessional external debt applies to contracted or guaranteed external debt for which the equivalent value has not been received. It excludes (i) the use of Fund resources; (ii) debts incurred to restructure, refinance, or prepay existing debts, to the extent that such debt is incurred on more favorable terms than the existing debt; (iii) concessional debts; and (iv) normal import credits having a maturity of up to one year.[4]

16. **Definition**: the guarantee of a debt arises from any explicit legal obligation of the public sector to service a debt in the event of nonpayment by the debtor (involving payments in cash or in kind), or from any implicit legal or contractual obligation of the public sector to finance partially or in full any shortfall incurred by the debtor.

Ceiling on the Accumulation of External Payment Arrears

17. **Definition**: external payment arrears are defined as external debt service obligations (principal and interest) that were not paid on the contractual due date. The ceiling on new external payment arrears applies **continuously** throughout the period covered by the ECF arrangement. It does not apply to external payment arrears in process of renegotiation or to cases in which the creditor has agreed to the suspension of payments pending the outcome of negotiations.

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[2] http://www.imf.org/external/np/pp/eng/2009/082009.pdf.

[3] The calculation of concessionality will take into account all aspects of the loan agreement, including maturity, grace period, payment schedule, upfront commissions, and management fees.

[4] A financing arrangement for imports is considered to be "normal" when the credit is self-liquidating.

II. QUANTITATIVE INDICATIVE TARGETS

18. The indicative targets pertain to narrow base money, the non-accumulation of wage arrears, and the domestic fiscal balance.

Ceilings on Base Money

19. **Definition**: Narrow base money is defined as the sum of (i) currency in circulation; (ii) cash holdings by banks; (iii) bank deposits held with the BCC; (iv) nonbank private sector deposits held with the BCC; and (v) public enterprises deposits held with the BCC.

Ceilings on the Accumulation of Wage Arrears

20. **Definition**: Wage arrears are defined as approved personnel wages and salaries that have not been paid for 30 days. Wages and salaries include the total compensation paid to public employees, including permanent benefits. These arrears will be valued on a cumulative basis from January 1, 2011.

Ceiling on the Domestic Fiscal Balance

21. **Definition**: The **domestic fiscal balance** (cash basis) is defined as (domestic revenue) minus (domestically financed expenditure). **Domestic revenue** is defined as (total revenue and grants) minus (grants) minus (signing bonus from the SCCA). **Domestically financed expenditure** is defined as (total expenditure and net lending) minus (externally financed investments) minus (foreign interest payments) plus (the BCC's operating deficit) plus (the net accumulation of domestic arrears).

22. The following **adjustments** will apply to the floor on the domestic fiscal balance:

- **BPS**: The floors on the domestic fiscal balance will be adjusted upward by an amount equivalent to the total shortfall of BPS (excluding that from the IMF) relative to programmed levels over CGF 15,867 million by end-March, CGF 31,734 million by end-June, CGF 47,601 million by end-September and CGF 63,469 million by end-December 2011.

- **Privatization proceeds**. The floors on the domestic fiscal balance will be adjusted: (i) upward by an amount equivalent to the full shortfall of privatization relative to programmed levels; (ii) downward by 50 percent of the total amount of privatization proceeds in excess of the programmed levels.

III. CONSULTATION CLAUSE

23. The authorities will consult with the IMF before implementing any revisions to the policies contained in the MEFP.

IV. Data to be Reported for Program Monitoring Purposes

24. The authorities of the DRC will provide IMF staff with the data needed to monitor the program within the prescribed time limits, as indicated in the following table. In addition, it will provide monthly data on the domestic fuel price structure to demonstrate the fiscal prices is maintained at least 30 percent of the commercial price.

Summary of Data to be Reported

Information	Responsible entity	Frequency	Reporting deadline
Volume of foreign exchange purchases and sales on the interbank market	BCC	Daily	One day
Volume of BCC purchases and sales on the interbank market	BCC	Daily	One day
Average CGF/USD reference exchange rate on the interbank market	BCC	Daily	One day
Average CGF/USD reference exchange rate	BCC	Daily	One day
Average CGF/USD reference exchange rate offered by commercial banks to their customers	BCC	Daily	One day
Average CGF/USD reference exchange rate used by exchange bureaus	BCC	Daily	One day
Integrated monetary survey	BCC	Monthly	Two weeks
BCC balance sheet	BCC	Monthly	One week
Monetary survey of retail banks	BCC	Monthly	Two weeks
Structure of retail banks' interest rates	BCC	Monthly	Two weeks
Reserves (voluntary and required) of retail banks	BCC	Daily	One day
Volume of CGF transactions on the interbank market	BCC	Daily	One day
Outstanding central bank claims on retail banks	BCC	Daily	One day
Foreign exchange sales (including through auctions) by the BCC	BCC	Weekly	One week
Outstanding and new issues of central bank bills (BTR)	BCC	Weekly	One day
Change in the free reserves of banks	BCC	Weekly	One day
Structure of BCC interest rates	BCC	Monthly	One week
Consumer price index	BCC	Weekly	One week
Retail banks' financial soundness indicators	BCC	Monthly	Two weeks
Commodity exports (value and volume), imports (value and volume) and domestic production indicators	BCC	Monthly	Three weeks
Implementation of the BCC foreign exchange cash flow plan	BCC	Weekly	One week

Summary of Data to be Reported (Concluded)

Information	Responsible entity	Frequency	Reporting deadline
Implementation of the BCC domestic currency cash flow plan	BCC	Monthly	One week
Amounts and holders of promissory notes (bills) guaranteed by the BCC	BCC	Monthly	Three weeks
Evolution of Commitment Plan and Treasury Plan Implementation	MF/MB	Weekly	One day
Implementation of the government cash flow plan	MF	Monthly	Two weeks
Amount, terms, holders, and stock of promissory notes (bills)	MF/BCC	Monthly	Three weeks
Breakdown of customs and excise revenues	MF	Monthly	Four weeks
Breakdown of direct and indirect taxes	MF	Monthly	Four weeks
Breakdown of nontax revenues	MF	Monthly	Four weeks
Projected expenditure commitment schedule	MB	Quarterly	Two weeks
Budgetary monitoring statement (ESB)	MB	Monthly	Two weeks
Approved wage bill by type of beneficiary	MF	Monthly	Three weeks
Wage bill paid by type of beneficiary	MF	Monthly	Three weeks
Compensated employees by category	MF	Monthly	Three weeks
Civil service wage scale	MF	In the event of change	Three weeks
Amounts of emergency spending, amounts approved by the emergency spending committee, amounts adjusted and paid by the BCC	MF/BCC	Monthly	Three weeks
Privatization receipts	MF/BCC	Monthly	Three weeks
Public sector domestic debt by category and by creditor	MF	Monthly	Three weeks
Loan contracts for any new external debt contracted or guaranteed by the central government, the BCC and local governments	MF/BCC	Monthly	Three weeks
Budget execution monitoring table showing Annual Treasury and Commitment Plans and all stages of expenditure execution through payments.	MF/MB	Weekly	Three days
External audit reports, indicating any adjustments made to data reported at test dates	BCC		One week

Annex

Definition of debt

(a) For the purpose of this guideline, the term “debt” will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

(i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers’ credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

(ii) suppliers’ credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and

(iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property, and

(b) Under the definition of debt set out in point (a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

INTERNATIONAL MONETARY FUND

DEMOCRATIC REPUBLIC OF THE CONGO

Second Review Under the Three-Year Arrangement Under the Extended Credit Facility and Financing Assurances Review

Informational Annex

Prepared by the African Department
Approved by Michael Atingi-Ego and Christian Mumssen

January 25, 2011

- **Relations with the Fund**. Describes financial and technical assistance from the IMF and provides information on the safeguards assessment and exchange rate system. Outstanding purchases and loans amounted to SDR 209.82 million (39.36 percent of quota) as of December 31, 2010.

- **JMAP Implementation Matrix**. Describes the IMF's and World Bank Group's work program.

- **Statistical Issues**. Provides assessment of data adequacy for surveillance and program monitoring purposes.

- **Table of Common Indicators for Surveillance**. Provides information on statistical data for surveillance purpose.

Contents Page

Annexes

ANNEX I

RELATIONS WITH THE FUND
(As of December 31, 2010)

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 Quota**
Net cumulative allocation	510.86	100.0
Holdings	353.20	69.14

IV. **Outstanding Purchases and Loans**:	**SDR Million**	**Percent of Quota**
ESF RAC loan	108.16	20.29
ECF Arrangement	101.66	19.07

V. **Latest Financial Arrangements**:

Type	**Approval Date**	**Expiration Date**	**Amount Approved (SDR Million)**	**Amount Drawn (SDR Million)**
ECF	Dec 11, 2009	Dec 10, 2012	346.45	98.98
ECF	June 12, 2002	Mar 31, 2006	580.00	553.47
Stand-By	June 09, 1989	June 08, 1990	116.40	75.00

VI. **Projected Payments to Fund:**[1]

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

	Forthcoming				
	2011	**2012**	**2013**	**2014**	**2015**
Principal	0.00	0.00	0.00	0.00	27.46
Charges/interest	0.52	1.03	1.03	1.03	1.01
Total	0.52	1.03	1.03	1.03	28.47

VII. **Implementation of HIPC Initiative**:

I. Commitment of HIPC assistance	Enhanced Framework
Decision point date	July 2003
Assistance committed by all creditors (US$ millions)[2]	7,252.00
of which: IMF assistance (US$ millions)	391.30
(SDR equivalent millions)	280.30
Completion point date	July 2010
II. Disbursement of IMF assistance (SDR millions)	
Assistance disbursed to the member	280.30
Interim assistance	49.05
Completion point balance	231.25
Additional disbursement of interest income[3]	50.44
Total disbursement	330.74

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[1]When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

[2] Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two numbers can not be added.

[3]Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

VIII. **Implementation of MDRI Assistance**:

I.	MDRI-eligible debt (SDR Million)[4]	248.08
	Financed by: MDRI Trust	0.00
	Remaining HIPC resources	248.08

II. Debt Relief by Facility (SDR Million)

	Eligible Debt		
Delivery Date	GRA	PRGT	Total
July 2010	N/A	248.08	248.08

IX. **Exchange Rate Arrangement**:

The currency of the Democratic Republic of the Congo (DRC) is the Congo franc. The de facto exchange rate arrangement is classified as floating. At end-December 2010, the rate was US$1=CF 915.13.

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. The exchange restriction involves an outstanding net debt 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 quarterly applying to transactions through the bilateral payments agreement with Zimbabwe.

X. **Last Article IV Consultation**:

Consultations with the DRC are held in accordance with the provisions of the 2010 Decision on consultation cycles approved in September 2010. The last Article IV consultation was concluded by the Executive Board on December 11, 2009.

[4] The MDRI provides 100 percent debt relief to eligible countries that qualified for the assistance. Grant assistance from MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to the Fund as of end-2004 that remains outstanding at the time the member qualifies for such debt relief.

XI. **Safeguards Assessment**:

An update safeguards assessment of the central bank (BCC) was completed in April 2010. It found that while most of 2008 recommendations had been implemented significant risks remained. The BCC continues to lack autonomy from the government and is in need of recapitalization. Furthermore, the absence of a benchmark financing reporting framework continues to impair transparency. The BCC and the authorities agreed broadly with the priority recommendations of the assessment, and since initiated several reforms. In December 2010 the government submitted to Parliament an amendment to the central bank law for the recapitalization of the BCC, which is now scheduled for March 2011. Also, in 2011 the BCC plans to release its financial statements for the first time, consistent with IFRS. The status of safeguards recommendations will continue to be monitored in the context of the program.

X. **Technical Assistance**:

STA

FY 2004 – Multisector statistics

FY 2010 – Monetary statistics

MCM

Capacity building assistance to the central bank

Strengthening capacity in Anti-Money Laundering/Combating Financial Terrorism (AML/CFT)

FY 2005 – One short visit

FY 2006 – Two short visits

Strengthening capacity in monetary policy implementation, exchange operations, and liquidity management

FY 2005 – Three short visits

FY 2006 – Two short visits

FY 2007 – Seven short visits

FY 2008 – Three short visits

FY 2009 – One short visit

Restructuring and reorganization of the central bank

FY 2009 – One short visit

FY 2010 – One short visit

Strengthening capacity in banking supervision and financial sector development

FY 2005 – One short visit on bank supervision and regulation

FY 2006 – One short visit on internal audit

FY 2007 – Action plan for developing the financial system

FY 2008 – One short visit on TA assessment

FY 2008 – Two short visits on bank supervision and regulation

FY 2008 – One short visit on internal audit

FY 2010 – Three short visits on bank supervision and regulation

FY 2011 – Two short visits on bank supervision and regulation

FAD

Public financial management

FY 2007 – Short visit

FY 2009 – Short visit

FY 2010 – Short visit

FY 2011 – Short visit

Revenue administration

FY 2004 – Two short visits

FY 2005 – One short visit

FY 2006 – One short visit

FY 2007 – One short visit

FY 2007 – One short visit

FY 2009 – One short visit

Fiscal decentralization

FY 2005 – Short visit

XIII. **Long-term Resident Experts**:

Expenditure management	Mr. Catalan	Jan. 2002 – June 2004
	Mr. Bremeersch	Jan. 2002 – Jan. 2004
	Mr. Nguenang	Sept. 2004 – July 2008
Tax administration	Mr. Fossat	Sept. 2005
Advisor to Governor of BCC	Mr. Nyssens	Jan. 2004 – Jan. 2005
	Mr. d'Ambrières	Feb. 2006 – June 2006
	Mr. Traoré	June 2010
Capacity building of BCC	Mr. Pauwels	Sept. 2004 – Mar. 2007
Statistics	Mr. Métreau	Oct. 2004
	Mr. Gbossa	Dec. 2005 – 08

XIV. **Resident Representative**: Mr. Jahjah assumed his duties in January 2009.

ANNEX II

JMAP IMPLEMENTATION MATRIX
(As of December 13, 2010)

1. The IMF and World Bank teams discussed a joint managerial action plan under the JMAP initiative.
2. The World Bank's work program entails moving forward in FY11 with a Country Economic Memorandum (CEM) that will focus on constraints to growth and additional financing for the financial and private sector development project.
3. The IMF's work program entails a three-year arrangement under the Extended Credit Facility (ECF) approved by the IMF's Executive Board in December 2009.
4. Both institutions are supporting an FSAP that will take place during FY12.

Title	Products	Provisional timing of missions	Actual or expected delivery date
	A. Mutual information on relevant work program		
World Bank work program in the next 12 months	Country Economic Memorandum	February 2011	March 2011
	Capacity Building Investment Lending Operation	February 2011	April 2011
	Strengthening of Governance dialogue	FY11	FY11
IMF work program in the next 12 months	Second review of the ECF	September 2010	February 2010
	Third review of the ECF	February/March 2011	May 2011
	Fourth review of the ECF and Article IV consultation	September 2011	November 2011
	B. Requests for work program inputs		
Fund request to Bank	Provide comments on implications of sector-specific issues, including developments in the mining, energy, telecom and agricultural sectors.	None	FY 11
Bank request to Fund	Macroeconomic scenarios for CEM and Investment Operations	Baseline medium term macroeconomic scenario	FY 11
	Comments on JSAN of new PRSP	March 2011	June 2011
	C. Agreement on joint products and missions		
Joint products in the next 12 months	Public Finance Management (PFM) technical assistance	FY11–12	FY11–12
	Banking sector supervision technical assistance	FY11–12	FY11–12

ANNEX III

STATISTICAL ISSUES

I. Assessment of Data Adequacy for Surveillance
General: Data provision to the Fund is broadly adequate for surveillance and program monitoring purposes, but upgrades to the national accounts, balance of payments, and government finance statistics would be helpful. In spite of difficulties, the authorities have continued to produce an array of economic and financial statistics, most of which are published in the annual report of the Central Bank of the Congo (BCC) or its monthly statistical bulletin.
National accounts: Annual 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 surveys of public and semipublic enterprises and agencies, most of which 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 assistance from AFRITAC, work on the national accounts is underway to update the base year to 2005, incorporate the results of a recent 1-2–3 household survey, as well as implement the methodological recommendations of the 1993 SNA. While outputs of this work remain to be validated and officially published, as expected, the 2005 GDP estimates show a considerable upward revision compared to previously published estimates.
Price statistics: Consumer price indices (CPI) 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. In December 2010, the BCC adopted a new harmonized-CPI index for Kinshasa based on a 2004 household survey. However, there is a need to expand the index's geographical coverage.
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, a 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 statistics: The BCC Directorate of Statistics regularly produces timely monetary statistics. These statistics are now generally reliable but some minor problems remain with the classification of accounts. Since STA money and banking statistics mission of 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. A 2003 multisector statistics mission recommended a new chart of accounts for the BCC and other deposit-taking institutions, including the information needed for improved sectorization of economic units and classification of financial assets. The new chart of accounts for the central bank was applied beginning in 2007. The new chart of accounts for commercial banks is being applied on a provisional mode since July 2010 and the current chart of accounts should be abandoned in January 2011. The August 2009 MFS mission developed the new standardized report form (SRF) 1SR on central bank data and the December 2010 MFS mission developed the SRF 2SR on commercial bank data. Both forms will be further refined and should become the official vector for the submission of CDR monetary statistics to the IMF sometime in 2011.
Balance of payments: Annual balance of payments statistics are compiled with 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 in effect 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.
II. Data Standards and Quality
Since April 24, 2004, the DRC participates in the general Data Dissemination System (GDDS). The metadata needs to be updated.

The Democratic Republic of the Congo: Table of Common Indicators Required for Surveillance (As of December 31, 2010)					
	Date of latest observation	Date received	Frequency of Data [6]	Frequency of Reporting [6]	Frequency of Publication [6]
Exchange Rates	Dec-10	3-Jan-11	D	W	D
International Reserve Assets and Reserves	Nov-10	Dec-10	M	M	M
Liabilities of the Monetary Authorities [1]	Nov-10	Dec-10	M	M	M
Reserve/Base money	Nov-10	Dec-10	M	M	M
Broad money	Nov-10	Dec-10	M	M	M
Central Bank Balance Sheet	Nov-10	Dec-10	M	M	M
Consolidated Balance Sheet of the Banking System	Nov-10	Dec-10	M	M	M
Interest Rates [2]	Nov-10	Dec-10	M	M	M
Consumer Price Index	Nov-10	Dec-10	W	W	W
Central Government revenue, expenditure, and financing [3]	Nov-10	Dec-10	M	M	M
Stock of Central Government and Central Government-Guaranteed Debt [4]	2009	Sep-10	A	A	I
External Current Account Balance	2009	Sep-10	A	A	I
Exports and Imports of Goods and Services	2009	Sep-10	A	A	I
GDP/GNP	2009	Sep-10	A	A	I
Gross External Debt	2009	Sep-10	A	A	I
International Investment Position [5]	NA	NA	NA	NA	NA

[1] Any reserves assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the national values of financial derivatives to pay and receive foreign currency, including those linked to a foreign curreny but settled by other means.

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

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

[4] Including currency and maturity composition.

[5] Includes external gross financial asset and libility positions vis-à-vis nonresidents.

[6] Daily(D), Weekly (W), Monthly (M), Quarterly (Q), Irregular (I), Not available (NA).

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

Press Release No. 11/35
FOR IMMEDIATE RELEASE
February 9, 2011

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Second Review Under the ECF Arrangement with the Democratic Republic of the Congo and Approves US$77 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the second review of the Democratic Republic of Congo's (DRC) economic performance under a three-year Extended Credit Facility (ECF) arrangement. The completion of the review enables the disbursement of SDR 49.493 million (about US$77 million), which would bring total disbursements under the program to SDR 148.479 million (about US$232 million).

The three-year ECF arrangement for the DRC was approved on December 11, 2009 (see Press Release No. 09/455) in an amount equivalent to SDR 346.45 million (about US$541 million, or 65 percent of the country's quota in the Fund). In mid-2010, the Executive Boards of the IMF and the World Bank's International Development Association supported US$12.3 billion in debt relief for the Democratic Republic of the Congo under the Heavily Indebted Poor Countries (HIPC) initiative and the Multilateral Debt Relief Initiative (MDRI -- see Press Release No. 10/274). The country has been a member of the Fund since September 1963.

After the Executive Board's discussion of the Democratic Republic of the Congo, Mr. John Lipsky, First Deputy Managing Director and Acting Chair, made the following statement:

"Macroeconomic performance has improved markedly in the Democratic Republic of the Congo (DRC), after uneven growth and cycles of inflation and exchange rate depreciation. Economic activity is expanding at a strong pace, inflation has decelerated, the exchange rate has stabilized, and debt relief has reduced the external debt burden that weighed heavily on the economy.

"These positive developments have been supported by satisfactory policy implementation. The program's quantitative targets were comfortably met through end-June 2010 and progress was made in structural reform.

"The government's resolve to maintain fiscal discipline and constrain the expenditure envelope is noteworthy. It kept spending in check and scaled back the budget in 2010 and 2011 in the face of lower external financing. Ongoing fiscal discipline will be essential to stay within the budget ceilings in the run-up to the national elections later this year. At the same time, stronger effort to raise more domestic revenue will help achieve the government's fiscal objectives, while strengthened public financial management will ensure that HIPC debt relief is used to boost social spending and increase reserves.

"The decline in inflation has been accompanied by a fall in interest rates but the central bank should maintain a tight monetary policy, until low inflation is firmly entrenched. Its job will be facilitated by continued fiscal discipline, which will enhance the independence and capacity of the central bank to fight inflation. Reform of the central bank, including through its recapitalization, is an important element to achieve this goal.

"The DRC's wealth and long-term growth potential could be increased through efforts to boost investment and activity in extractive industries. The expeditious implementation of the broad range of reforms in these industries recently developed with the assistance of the IMF, World Bank, and donors, will provide a solid foundation in this regard," Mr. Lipsky added.

STATEMENT BY MR. ASSIMAIDOU, EXECUTIVE DIRECTOR
DEMOCRATIC REPUBLIC OF THE CONGO
FEBRUARY 9, 2011

On behalf of my Congolese authorities, I would like to express our appreciation of the Executive Board's support to the Democratic Republic of the Congo (DRC). I also thank Management and staff for maintaining a constructive dialogue with the DRC. My Congolese authorities continue to value greatly Fund advice and engagement. They intend to build on the progress achieved thus far in macroeconomic stabilization and institutional building to further advance their medium-term policy and reform agenda. As expressed in their supplemental Letter of Intent and Memorandum of Economic and Financial Policies (MEFP) of January 2011, my authorities remain fully committed to their ECF-supported program.

I. RECENT ECONOMIC DEVELOPMENTS AND PROGRAM IMPLEMENTATION

The DRC's **macroeconomic performance** in 2010 has been strong, supported by a recovery in mining, construction and tertiary activities. The authorities have pursued generally prudent macroeconomic policies aimed at reducing the domestic fiscal deficit and curbing inflation to single digits. All quantitative performance criteria at end-June 2010 have been met and all but one of the structural benchmarks through end-December 2010 have been observed—albeit some with delays due to technical problems.

Regarding *fiscal policy*, my authorities have seized the opportunity offered by the improved economic situation to enhance tax and non-tax revenue collections, including from the extractive sectors. On the expenditure side, they have kept strict control over spending and, when necessary, had recourse to cuts in lower priority public investment.

Regarding *monetary and financial sector policies*, my authorities have continued to register improvements in monetary control owing to the good fiscal performance and enhanced liquidity management on the part of the *Banque Centrale du Congo* (BCC). After gradually reducing its policy interest rate, the monetary authority has increased the rate to 29.5 percent in late January 2011 from 22 percent, on account of mounting inflationary pressures stemming from the external food supply shock. The BCC also continues to make progress in implementing safeguard measures. On the banking sector, the central bank and the government have decided to move quickly to resolve the problem with a large commercial bank (*Banque Congolaise)* by appointing a provisional administrator. The bank is under liquidation, with a view to salvaging its branch network through a purchase and acquisition agreement with a financially sound bank.

As regards the *external sector*, the current account has been marked by a recovery of exports and stronger imports linked to investment projects. Thanks to HIPC and MDRI debt relief, as well as financial and capital inflows, the import coverage of international reserves has improved to 8.4 weeks at end 2010, approaching the objective of 9 weeks of non-aid imports under the three-year program.

On **structural reforms**, the benchmarks that were met contributed to enhancing transparency practices, notably with regard to fiscal reporting, and timely publication of mining sector contracts; improving public financial management; making steps towards modernizing the tax system (introduction of a single-rate VAT); and advancing the recapitalization of the central bank through the submission to parliament of a draft law. The one missed structural benchmark related to the adjustment in domestic fuel prices was nevertheless partially observed as domestic fuel prices were raised substantially and fuel subsidies eliminated. Going forward, my authorities remain fully committed to the spirit of this measure by implementing gradual increases if world oil prices continue to rise as anticipated.

Beyond the structural benchmarks under the ECF-supported program, my DRC authorities have made efforts towards improving the business environment, with the view to promoting private sector investment. They pursued, under the *Comité de Pilotage pour l'Amélioration du Climat des Affaires et des Investissements* (CPACAI), the implementation of two roadmaps adopted in early 2010 by the ministerial council to make progress on this front. Measures already adopted include notably the streamlining of documents required for business registration, the reduction and publication of business registration fees, the reduction in the time required to obtain a business identification number, the decentralization of the notary function, the cancellation of the legal visa for the status of associates, the publication of business acts, streamlining of procedures for tax payments, etc. The adoption of these measures has helped improve by seven places the DRC's ranking in the IFC and World Bank's *2011 Doing Business* report.

II. Policies and Reforms for 2011

In 2011, the authorities are determined to pursue the implementation of the medium-term structural reform agenda laid out in the authorities' MEFP of June 15, 2010.[17]

Fiscal policies and reforms

The authorities remain committed to a fiscal policy that targets less financing from the central bank. The 2011 budget envisages further revenue improvements thanks to ongoing strengthening of tax and customs administration and the impact of fuel price upward adjustments. Going forward, my authorities will put in place a fuel pricing regime that involves regular and timely adjustments of such prices. They will also follow through with the modernization of tax and customs administrations while also reducing duty exemptions and fighting evasion of fuel import duties.

On the *expenditures side,* the bulk of increases will come from higher health and education spending, as well as elections-related spending. Unexpected spending needs will continue to

[17] See IMF Country Report No. 10/329.

be covered by a budget reserve. The new expenditure management procedures will help maintain expenditure control.

As regards *public financial management*, the new finance law will streamline budget planning, execution and monitoring. It will also lay the grounds for phased devolution of social expenditures from the central government to the provinces, taking into account the latter's PFM capacities, which are also to be strengthened. Institutional and regulatory measures are in preparation to make the new procurement code effective. Going forward, my authorities will continue to publish, on a monthly basis, reconciled budget execution tables, including externally-financed expenditures with a maximum lag of three months, while further strengthening public financial management notably through the implementation of the Law on public finances. My Congolese authorities hope that they can continue to count on Fund's technical and financial support to help them carry out their fiscal reform agenda.

Regarding *external debt policy*, the government will maintain its current cautious borrowing strategy and seek external resources on highly concessional terms, consistent with the program requirement.

Monetary and exchange rate policies

The goal of monetary policy remains price stability under the floating exchange rate regime which has served the economy well as a buffer to external shocks. To help contain inflation, it is the BCC's intention to keep sufficiently positive its policy rate in real terms and continue to rely on central bank bills to manage liquidity. The BCC will intervene in foreign exchange market only to smooth out large exchange rate fluctuations and help achieve the program's foreign reserve target.

Financial sector policies

Actions to enhance the independence and capacities of the BCC will be pursued this year. These include the issuance of securities for the recapitalization of the central bank; implementation of Fund TA recommendations on liquidity forecasting; reconciliation of financial flows with the government; advancing the strategic plan to improve the operational and financial viability of the BCC; and completing the remaining safeguards measures.

To enhance the stability and soundness of the banking sector, the central bank will pursue the liquidation of the problem large bank while strengthening banking supervision and regulations, which will be aligned with international best practice.

Other structural reforms

Additional structural reforms for 2011 will build on the progress achieved thus far to further improve the business climate and promote private sector development. In particular, the authorities will make the necessary steps to ratify the OHADA protocols and continue of implement the EITI principles.

Furthermore, my authorities are cognizant of the fact that institutional and human capacity constraints—which will take time to fully overcome—continue to weigh on the business climate. This is why they consider enhancing governance and transparency as a cornerstone of their structural reform agenda. Building on the good practice already in place with the publication of contracts in the mining sector, my authorities will generalize this transparency measure to other extractive industries (forestry and oil) going forward. They will also fully report and transfer to the Treasury the proceeds accruing to the state from all transactions in these three sectors, once they enter into force. Moreover, the authorities are committing to grant rights and concessions only through competitive processes and agree on a plan to sale state's assets and enterprises also on a competitive basis.

III. Conclusion

On the basis of the progress that is being achieved, it is essential that the Fund continue to accompany DRC's efforts in strengthening macroeconomic stability, enhancing capacities, and advancing governance and other reforms, with the aim to make further steps towards improving the business climate.

In light of their good program implementation and renewed commitment to their economic program going forward, my authorities request the completion of the second review under the ECF. They also request the completion of the financing assurances review, having secured the full financing of the program.