

## International Monetary Fund

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and the IMF

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## LETTER OF INTENT

Brazzaville, December 20, 2010

The Minister of Finance, Budget  
And Public Portfolio

To:

Mr. Dominique Strauss-Kahn  
Managing Director  
International Monetary Fund  
Washington, DC 20431  
United States of America

Dear Managing Director:

The Republic of Congo continues to pursue a medium-term economic and financial program aimed at supporting balanced growth, low and stable inflation and fiscal and external sustainability, supported by the IMF under the Three-year Extended Credit Facility arrangement approved by the Executive Board in December 2008. In the attached Memorandum of Economic and Financial Policies (MEFP, Attachment I), we outline the broad thrust of our macroeconomic policies and the structural reforms we intend to take in the period ahead to achieve the objectives of our original program. These objectives include an increase in real non-oil GDP growth, maintenance of low and stable inflation, and medium-term fiscal adjustment toward long-term sustainability.

Prospects for the Congolese economy are favorable. Economic indicators for the first half of the year are encouraging, pointing to robust growth in the non-oil sector and rising oil production. On the external front, the recovery in the terms of trade and rising oil and timber exports are expected to shift the current account into surplus in 2010. Moreover, the overall fiscal surplus will add to the significant improvement in the external position resulting from HIPC debt relief, and we will continue to use our best efforts to conclude bilateral debt agreements and to use good faith efforts to obtain comparable treatment from commercial creditors as soon as possible.

Mr. Managing Director, over the course of the first half of the program we have made significant progress toward achieving program goals, despite the global financial crisis and the volatility of world oil prices. In particular, macroeconomic stability is now well established and strides have been made toward fiscal sustainability through consolidation which has outpaced that envisioned in the original program. We attribute this to close

program monitoring and implementation in the run up to, and in the period following, the HIPC completion point.

The implementation of our Fund-supported program through end-June remained satisfactory and we observed all quantitative performance criteria and structural benchmarks, including the strategic study of the oil sector (end-September structural benchmark). However, in recent months spending has come under pressure from, on the one hand, a need to respond with increasing public resources to the refugee crisis in the northern department of Likouala, and on the other, a severe polio outbreak, as well as the move toward a pay-for-use system for some public utility services. We also faced higher expenditures related to our 50<sup>th</sup> Anniversary celebration held in August.

Over the remainder of 2010 we will redouble our consolidation efforts, reining in public expenditure while strengthening customs revenue and ensuring that dividends from profitable public enterprises are collected. Given the large expenses we are incurring to address the humanitarian and health crises as well as the change in utility billing mechanism, we have revised our end-December basic non-oil primary deficit (BNOPD) ceiling to CFAF 663 billion, while taking measures to mobilize an additional CFAF 22 billion in revenue. In the event that these measures are unsuccessful, we will further restrain expenditure to stay within the deficit ceiling. It is important to note that the revised end-2010 BNOPD ceiling implies a consolidation of about 1.3 percentage points of non-oil GDP relative to 2009, and a cumulative adjustment under the first two years of the program of 9½ percentage points of GDP, which is broadly equivalent to the total three-year adjustment envisioned in the original program. This strong performance provides greater fiscal space for much needed investment and allows us to achieve the objectives of the program.

In this context and given ample policy buffers, in 2011 we intend to scale up growth-enhancing and poverty-reducing public investment, and to focus on closing the large infrastructure gap which is holding back economic diversification and growth. Total capital expenditure is budgeted to increase by 55 percent relative to 2010 to 15.2 percent of GDP, with projects aligned with the medium-term expenditure framework (MTEF). With a view toward fiscal sustainability, and in order to continue to save a large portion of oil revenues, we plan to finance a substantial share of the increase in capital spending by significant gains in non-oil revenue collection and restraint of current expenditure. At the same time, it is important to note that the budget also aims to strengthen social cohesion following a long period of adjustment during which the poor did not perceive the benefits of the nation's soaring oil wealth. Let me reiterate that it is our firm belief that the frontloading of these projects, especially in basic infrastructure, is key to laying the foundation of durable growth and poverty reduction.

That said, the budgeted capital expenditure for 2011 should be viewed as indicative. As firmly as we believe these projects are necessary, we are also fully aware of the challenges

and risks associated with such a large increase in capital expenditure, even in our current situation where the base is low. While gains to date in capacity building and public financial management have been substantial, we are conscious that there remains significant scope to further improve project appraisal, monitoring and implementation. Moreover, such a large increase in domestic demand in the face of transport and other bottlenecks may raise near-term inflation and crowd out private sector activity, not to mention pose risks to fiscal sustainability in the event that revenues come in much lower than currently projected or envisioned revenue and current expenditure measures fail to materialize.

For these reasons, the government of Congo is committed to limiting domestically financed capital spending (excluding HIPC funds) in 2011 to CFAF 650 billion, an increase of 37 percent over 2010, and maintaining a prudent external financing policy. Such an investment envelope would cover all projects currently in train and provide space for us to launch priority new projects. It also implies a small consolidation of the BNOPD to 34.5 percent of non-oil GDP given that 4 percentage points of the increase would be financed by measures to both strengthen non-oil revenue and reduce current expenditure. At current oil price forecasts, some \$3.2 billion in oil revenue (66 percent of total oil revenue) would be saved, corresponding to an overall fiscal surplus of 24 percent of total GDP.

We intend to achieve the domestically financed capital spending target mostly through imposing strict measures to ensure project quality and pushing back the start date of lower priority projects; in the event that these are insufficient, we will take measures to further prioritize new projects. As regards strengthening project quality, we will focus on fully implementing the reforms put in place as part of the HIPC process, as detailed in the MEFP. But again, if these measures prove insufficient, we will further prioritize to stay on target.

We believe that the policies and measures set forth in the attached MEFP are not only aligned with the objectives of our Fund-supported program, but will pave the way to achieving our long-term goal of becoming an emerging market. During the implementation of the program, we will consult with Fund staff on the adoption of any measures which may be necessary to achieve its objectives, at the invitation of the government, or whenever the Fund staff requests such a consultation.

The government intends to make the contents of this letter and those of the attached Technical Memorandum of Understanding (TMU, Attachment II), as well as the staff report accompanying its request for completion of the fourth review of the program, available to the public and authorizes the IMF to arrange for them to be posted on the Fund's website, subsequent to Executive Board approval of its request.

The fifth and sixth (final) reviews under the ECF arrangement are expected to be completed by end-April 2011 and end-June 2011, respectively.

Sincerely yours,

Gilbert Ondongo  
Minister of Finance,  
Budget, and Public Portfolio

Attachments (2)

## **ATTACHMENT I**

### **Memorandum of Economic and Financial Policies, 2010–11**

Brazzaville, December 20, 2010

#### **I. INTRODUCTION**

1. Building on achievements to date and HIPC debt relief, in the period ahead we will continue to pursue macroeconomic policies and structural reform consistent with the objectives laid out in the program approved by the Fund's Executive Board in December 2008, which is guided by our Poverty Reduction and Growth Strategy (PRS). In our view, these objectives are not only achievable, they comprise the main building block toward our long-term goal of becoming an emerging market. This Memorandum of Economic and Financial Policies (MEFP) provides further details on policies over 2010–11 consistent with the medium-term program we laid out in our Letter of Intent and accompanying MEFP in November 2008.

#### **II. RECENT ECONOMIC DEVELOPMENTS AND PROSPECTS**

2. Over the past couple of years, resilience of the Congolese economy has increased significantly through sustained policy implementation and HIPC debt relief. Economic activity remained strong throughout the global downturn, even when faced with a large deterioration in the terms of trade. The external position has improved markedly, and Congo is now at moderate risk of debt distress. Indicators for 2010 are suggestive of an acceleration of growth, and inflation remains manageable.

- Growth is accelerating and will likely reach 9 percent in 2010. Oil production continues to rise as new fields come on stream, and is expected to peak in 2011. Importantly, non-oil growth is booming in the construction, telecommunications and transport sectors and is expected to attain the level required to durably reduce poverty over the near term before rising to double digits as transport and electricity bottlenecks are eased. Inflation will likely edge up over the near term as the pace of growth quickens and remain above the CEMAC convergence criteria of 3 percent, but would decline fairly rapidly as basic infrastructure is completed.
- The current account should swing back into surplus in 2010 as a result of the improvement in the terms of trade and rising oil exports, and register a healthy surplus over the next few years before trending downward with oil production. Adding to the gains resulting from HIPC debt relief, the external position would be further strengthened by an accumulation of foreign assets resulting from running a sustained overall fiscal surplus. We have completed bilateral agreements with most

Paris Club creditors, and we will continue to use our best efforts to conclude the remaining bilateral debt agreements and to use good faith efforts to obtain comparable treatment from commercial creditors as soon as possible.

3. Policy implementation over the course of the first half of our three-year Fund-supported program has been satisfactory and we have made significant progress toward achieving program goals. Notably, fiscal consolidation has outpaced that envisioned in the original program and macroeconomic stability is now well established. Performance in the structural area has also been satisfactory, with gains in public financial management and oil sector governance. We attribute these positive results to close program monitoring and implementation in the run up to, and in the period following, the HIPC completion point.
- We have continued to make progress toward fiscal sustainability. Building on the large fiscal consolidation of 8½ percentage points of non-oil GDP in 2009, efforts continued in the first half of 2010. The basic non-oil primary deficit (BNOPD) at end-June was CFAF 350 billion, in line with the program target. We accomplished this through strong efforts to strengthen non-oil revenue and enhanced expenditure control.
  - We have solidified the early gains in public financial management and oil sector governance started under the HIPC process through sustained observance of continuous structural benchmarks. The strategic study of the oil sector and the audit of the arrears of restructured public enterprises have also been completed. In sum, we observed all structural benchmarks through end-September.

### **III. THE PROGRAM FOR 2010–11**

4. Over the next year or so, we will maintain the broad thrust of macroeconomic policies aimed at fostering future growth with low inflation, while saving a portion of oil revenues for future generations. Structural policies will aim to solidify gains to date in public financial management and oil sector governance, and ensure that public investment financed by oil wealth is growth enhancing and poverty reducing.

#### **A. Fiscal Policy**

5. From end-2008 through June 2010 our fiscal policy entailed a period of sharply frontloaded fiscal adjustment. However, we have recently needed to respond with increasing public resources to the refugee crisis in the northern department of Likouala of the country and a severe polio outbreak. The acceleration of expenditure in the third quarter of 2010 was also due to higher infrastructure spending in what was an exceptionally good dry season which allowed us to advance project implementation, and higher common charges resulting in part from a move toward a pay-for-use billing system for some utilities which was not

envisioned in the program target. At the same time, higher spending was also incurred related to the celebration of 50 years of independence held in August.

6. Over the remainder of 2010, we will redouble our efforts, reining in public expenditure while strengthening customs revenue and ensuring that dividends from profitable public enterprises are collected. Our revised BNOPD for end-2010 of CFAF 663 billion (34.7 percent of non-oil GDP) implies a consolidation of the fiscal position by about 1.3 percentage points of non-oil GDP relative to 2009. Such a target implies a fiscal adjustment over the first two years of the program of over 9½ percent of GDP, which is broadly equivalent to the total three-year adjustment envisioned in the original program. This strong performance reduces the required adjustment over the course of the remainder of the program and provides greater fiscal space for much needed investment given our higher level of net foreign assets and somewhat stronger oil profile.

7. Consequently, starting with the 2011 budget we plan to scale up public investment to support non-oil activity, increase employment and reduce poverty while making sustained progress toward our long run goal of becoming an emerging market. Given our recognized capacity constraints and the macroeconomic risks to a rapid increase in capital spending, we will target a BNOPD for March 2011 of CFAF 189 billion and an indicative target for end-2011 of CFAF 753 billion (34.5 percent of non-oil GDP), adding slightly to the adjustment achieved through end-2010. We plan to achieve this target by further efforts to strengthen non-oil revenue collection and restraint of current expenditure to make space for a 37 percent increase in domestically financed public investment, while continuing to save a large share of oil revenue.

8. Specifically, we plan to implement measures to strengthen non-oil revenue and restrain current expenditure amounting to 4 percentage points of GDP.

- We will raise non-oil revenue collection through measures to broaden the tax base (payment of forestry and telecoms royalties to the treasury, taxation of transactions related to public contracts); reduce exonerations; and improve administration, with specific focus on improving customs appraisal and control. We envision an increase of 19 percent in non-oil revenue compared to 2010, equivalent to an adjustment of 1 percentage point of non-oil GDP.
- We will continue efforts begun in early 2009 to reduce current expenditure, focusing on bringing transfers and spending on materials and supplies down from the high levels experienced in 2010 due to one-off events. While the envisioned reduction appears large relative to the high base of 2010 (2.9 percentage points of GDP relative to 2010), we believe it is feasible when compared to end-2009.

9. We will carry out the necessary domestically financed investment for growth and poverty reduction—which is embodied within the 2011 budget envelope of CFAF 800

billion—taking into account absorptive capacity. We will also seek out additional non-oil revenue sources which may become available. However, if new revenue sources fail to materialize, we will cap domestically financed capital expenditure (excluding HIPC funds) at CFAF 650 billion in 2011. This envelope is sufficiently ample to allow execution of all projects currently in train and new priority projects contained in the 2011 budget. To achieve this target we will:

- *impose strict measures to ensure project quality.* We will focus on fully implementing the reforms aimed at strengthening investment quality put in place as part of the HIPC process, starting with re-enforcing budget execution procedures and controls at the commitment stage of the expenditure chain. Beginning with the appraisal process, we will ensure that all projects have a feasibility study and are aligned with the MTEF. We will also complement competitive bidding under the procurement code with increased coordination among agencies involved in the investment process, and prepare a procurement plan for 2011 with quarterly monitoring reports, in collaboration with the World Bank.

In the event that these measures are insufficient, we are committed to taking further measures to delay projects of lower priority to ensure we stay within the CFAF650 cap on domestically financed capital expenditure.

## **B. Monetary and Financial Sector Policies**

10. Congo is a member of the Central African Economic and Monetary Community (CEMAC), which has a regional central bank (BEAC) and a fixed exchange rate of CFAF 659 per euro since 1994. BEAC projects broad money growth for Congo of about 14 percent for 2010, consistent with the continued financial deepening of the Congolese economy.

11. To increase the growth of credit to the private sector, we are implementing a financial sector reform strategy drafted with the assistance of Fund staff. This strategy provides a roadmap and a timetable of actions, which we are moving forward with in consultation with the private sector. In the period ahead, reforms will focus on facilitating access to credit, especially for small businesses and households, through fostering competition, removing interest rate ceilings and increasing transparency regarding loan offerings.

## **C. External Sector Policies**

12. The government will continue its policy of financing development mainly through its own resources, and will seek grants and foreign assistance only on highly concessional terms (with a minimum grant element of 35 percent). It will continue to use best efforts to conclude agreements with bilateral creditors and good faith efforts to obtain comparable treatment from remaining commercial creditors, including those under litigation.

#### **D. Structural Policies**

13. The policies which we aim to pursue over the coming years in our quest to attain emerging market status will be laid out in our long-term National Development Plan (NDP 2011–25) and growth, employment and poverty reduction strategy (second generation PRS, 2011–16) which are currently under preparation. A key pillar of our strategy is to support economic diversification through improvements to the business climate, while solidifying gains in PFM, governance and transparency. Guided by our newly adopted Action Plan to Improve the Business Climate, we have established a Council for Public-Private dialogue to deepen the government's understanding of the concerns of the private sector, and over the near term will work to (i) strengthen investment security, (ii) simplify the taxation system and (iii) resolve issues related to land use, including long-term leasing.

#### **E. Program Monitoring**

14. Over the remainder of 2010 and 2011, the program will be monitored through reviews based on biannual quantitative performance criteria for end-December 2010 and end-March 2011 (Table 1) and structural benchmarks (Table 2). Detailed definitions and reporting requirements for all quantitative performance criteria and structural conditional are contained in the accompanying Technical Memorandum of Understanding (TMU, Attachment II). The authorities will make available to the Fund staff all core data, appropriately reconciled and on a regular and timely basis, as specified in the TMU.

15. The fifth and sixth (final) reviews under the ECF arrangement are expected to be completed by end-June 2011 and end-September 2011, respectively.

**Table 1. Republic of Congo: Quantitative Targets and projections, 2010–11**  
(Billions of CFA francs; cumulative from January; unless otherwise indicated)

	End-Jun. 2010		End-Sep. 2010		End-Dec. 2010		End-Mar. 2011
	Prog.	Est.	Indicative Target	Prel.	Prog.	Rev. Prog.	Prog.
<b>Quantitative targets</b>							
Basic Non-oil primary fiscal balance (floor)	-363	-350	-500	-639	-638	-663	-189
New medium or long-term nonconcessional external debt (including leasing) contracted or guaranteed by the government (ceiling) <sup>1, 2, 3</sup>	0	0	0	0	0	0	0
New external debt (including leasing) with an original maturity of less than one year (ceiling) <sup>2</sup>	0	0	0	0	0	0	0
New oil-collateralized external debt contracted by or on behalf of the central government (ceiling) <sup>2</sup>	0	0	0	0	0	0	0
New nonconcessional external debt with a maturity of more than 1 year contracted or guaranteed by SNPC (ceiling) <sup>2</sup>	0	0	0	0	0	0	0
New external arrears on nonreschedulable debt (ceiling) <sup>2</sup>	0	0	0	0	0	0	0
New domestic arrears <sup>2</sup>	0	0	0	0	0	0	0
<b>Memorandum items</b>							
Oil revenue	1,060	910	1,618	1,252	2,187	1,949	595
Non-oil primary revenue	211	227	317	334	422	465	137
Net domestic financing of the government (ceiling, indicative target)	-618	-188	-999	-156	-1,352	-668	-383

<sup>1</sup> Excluding rescheduling arrangements and disbursements from the IMF; the minimum grant element is set to 35 percent.

<sup>2</sup> Continuous.

<sup>3</sup> The zero ceiling on nonconcessional external debt does not apply to forthcoming external loans from the European Investment Bank and the Central African States Development Bank, as specified in paragraph 11 of the Technical Memorandum of Understanding.

**Table 2. Republic of Congo: Structural Benchmarks under the ECF Arrangement, 2010–11**

Measures	Status <sup>1</sup> End-June 2010	Timing
<b>Public financial management</b> Justification: Strengthen investment quality		
Support implementation of the new procurement code by ensuring that 80 percent of public contracts) having a total value of over CFAF 250 million are open to competitive bidding.	Observed	Continuous
<b>Governance and natural resource management</b> Justification: Continue strengthening of oil sector governance.	Observed	
Have an internationally reputable audit firm certify oil revenue quarterly, using the same specifications as for the 2003 certification and with no restrictions on access to the information; and publish the certification reports on the website of the Ministry of Economy, Finance and Budget ( <a href="http://www.mefb-cg.org">www.mefb-cg.org</a> ). Also, the government will post on the website not only the audit but for each report, a note addressing comments by the auditors.	Observed	Continuous, with a one- quarter lag
Repatriate to the Treasury the proceeds of oil shipments commercialized by private companies and SNPC on behalf of the government within 45 days after the actual shipment date, based on actual quantities, prices, and shipment dates.		Continuous

<sup>1</sup> End-June 2010 structural benchmarks on (i) no recourse to emergency payment and cash advance procedures; (ii) audits to assess the arrears (wages, pensions) and liabilities of public enterprises liquidated or under restructuring; (iii) oil marketing in line with the recommendations made by the international consultant; (iv) finalization of the strategic study of the oil sector; and (v) regular and timely adjustment of petroleum-product prices were also observed.

## ATTACHMENT II

### Technical Memorandum of Understanding

Brazzaville, December 20, 2010

1. This technical memorandum of understanding (TMU) describes the definitions that are intended to clarify the measurement of the quantitative performance criteria and indicators in Table 1 of the Letter of Intent (December 20, 2010) and the Memorandum of Economic and Financial Policies (MEFP, dated December 20, 2010) covering 2010–11. All quantitative performance criteria and indicators for 2010 will be evaluated in terms of cumulative flows from December 31, 2009, and all quantitative performance criteria and indicators for 2011 will be evaluated in terms of cumulative flows from December 31, 2010. Also, the TMU specifies the periodicity and deadlines for transmission of data to the staff of the IMF for program monitoring purposes.

#### I. DEFINITIONS AND COMPUTATION

##### A. Government

2. Unless otherwise indicated, **government** is defined as the central government of the Republic of Congo and does not include local governments, the central bank, and any public entity with autonomous legal personality (i.e., wholly- or partially-owned state enterprises) not currently covered by the government's consolidated financial operations table (tableau des opérations financières de l'Etat—TOFE).

##### B. Basic Primary Fiscal Balance

3. The scope of the government's **financial operations table** (TOFE) includes the general budget and the special accounts of the Treasury (including the forestry and road funds) and the government debt management agency (Caisse Congolaise d'Amortissement, CCA).

4. The government's **non-oil basic primary fiscal balance** is defined as total non-oil revenue excluding grants and investment income (on the government's accounts in the central and commercial banks), minus total expenditure (including net lending), which is to exclude transfers to Hydro Congo, interest payments on debt, externally-financed capital expenditure, and capital expenditure financed by debt services savings under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative. It is calculated from the budget execution outturn reported every month in the TOFE prepared by the Ministry in charge of finance.

5. The government's **total revenue** is reported in the TOFE on a cash basis. It includes all revenue collected by the Treasury (from tax and customs receipts, oil, services and forestry), whether they result from past, current, or future obligations. Receipts also include those recorded on a gross basis, in special accounts.

6. **Oil revenue** is defined as the government's net proceeds from the sale of oil, including the provision for diversified investments, royalties paid by oil companies, and the government's share of excess and profit oil. It excludes all forms of prepayment and pre-financing. The oil revenue projections take account of the 45-day lag between the date of shipment and the date of receipt of the sale proceeds by the Treasury.

7. **Expenditures** are recorded on a payment order basis. They include current expenditure, domestically-financed capital expenditure, foreign-financed capital expenditure, and net lending. Current expenditures include expenditures on wages, goods and services, common charges, interests on debt (domestic and external), transfers and subsidies, and other current expenditures. Subsidies to the state-owned oil refinery, CORAF, are estimated on the basis of the enterprises income statement.

8. Pro-poor spending is defined in the budget on the basis of the functional classification.

### C. Net domestic financing of the central government

9. Net domestic financing (NDF) of the central government is defined as the change in the government's net position (claims minus deposits at the BEAC and commercial banks) in the banking system, which is elaborated in the table of Position Nette due Gouvernement table (PNG). NDF also includes the change in the stock of Treasury bills and bonds issued by the Congolese Treasury in CFA francs on the CEMAC regional market, when those securities are established but exclude the change in the outstanding of IMF credits at the BEAC (recours au credits due FMI) . At end-December 2009, NDF was assessed at -956.29 billion CFAF. For each test date, any adjustment by the BEAC to the data reported by individual commercial banks, on account of their misclassification of government or for other reasons, will be reported to the Fund.

### D. Foreign Debt and External Arrears

10. The definition of **government** used for the various external debt indicators includes government, as defined in paragraph 2, public institutions of an administrative nature (*Etablissements Publics Administratifs*), public institutions of a scientific and/or technical nature, public institutions of a professional nature, public institutions of an industrial and/or commercial nature (*Entreprises Publiques d'Intérêt Commercial*), and local governments, with the sole exception of the national oil company (SNPC)—see paragraph 12 below.

11. For the purposes of this memorandum, **debt and concessional loans** are defined as follows:

- As specified in the guidelines adopted by the Executive Board of the IMF,<sup>1</sup> 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 some time 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. 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. Under the definition of debt set out 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.
- Loan concessionality is assessed on the basis of the commercial interest reference rates (CIRRs) established by the OECD. A loan is said to be on concessional terms if, on the date of conclusion of the contract, the ratio of the net present value of the loan, calculated on the basis of the reference interest rates, to its nominal value is less than 35 percent (i.e., a grant element of at least 35 percent).<sup>2</sup> For debts with a maturity exceeding 15 years, the ten-year reference interest rate published by the OECD is

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<sup>1</sup> See Executive Board Decision No. 6230-(79/140) as amended by Decisions Nos. 11096-(95/100) and 12274-(00/85), and 14416-(09/91), August 31, 2009, effective December 1, 2009.

<sup>2</sup> See "Staff Guidance Note on Debt Limits in Fund-Supported Programs" at <http://www.imf.org/external/np/pp/eng/2009/121809.pdf>, December 22, 2009.

used to calculate the grant element. For shorter maturities, the six-month market reference rate is used.

The concessionality requirement applies not only to the central government, but also covers debt incurred by public enterprises. The sole exception to this concessionality requirement is the projected external loans to the Port Authority of Pointe Noire to support its rehabilitation from the European Investment Bank in an amount up to euro 29 million, and from the Central African States Development Bank in an amount up to euro 9.1 million.

12. The quantitative indicative target with respect to **external debt** apply not only to debt as defined in the above-mentioned guidelines, but also to commitments incurred or guaranteed for which no value has yet been received or on which only partial drawings have been made. However, this does not apply to financing from the IMF or to Treasury bills and bonds issued by the Congolese Treasury in CFA francs on the CEMAC regional market.

13. For **external debt with an initial maturity of less than one year** (a continuous quantitative performance criterion), normal short-term import and export credit are excluded from the scope of the indicator, including the prepayments.

14. The ceiling on any **new nonconcessional external debt with a maturity of more than one year contracted or guaranteed by the SNPC**, with or without government guarantee, will be observed continuously. The SNPC may borrow only to finance investments related to its core activities (research, exploration, production, refining and distribution of oil, construction of a Brazzaville headquarters, creation and strengthening of its database, etc.). In addition, these investments must be included in the SNPC's investment budget approved by its board of directors. The ceiling on debt does not apply to changes in loan accounts with oilfield partners or to loans with maturities of less than one year.

15. The accumulation by the government of **external payment arrears** is the difference between (i) the gross amount of external debt service payments due (principal and interest, including penalty and/or late interest, as appropriate) and (ii) the amount actually paid during the period under consideration. Under the program, the government commits itself to not accumulate external payment arrears on non-reschedulable debt (that is, debt to Paris Club creditors contracted after the cutoff date and debt to multilateral creditors). Non-accumulation of external payment arrears is an indicator to be continuously observed.

#### **E. Oil-Collateralized External Debt and Oil Prepayments**

16. Oil-collateralized external debt is external debt which is contracted by giving an interest in oil. Pre-financing is defined as an oil-collateralized loan which is repaid by the sale of the oil in a different calendar year. New pre-financing by or on behalf of the government is strictly prohibited under the program. The refinancing and/or deferral of the existing stock and/or due dates are permitted but should not give rise to an augmentation of the existing stock of oil-collateralized debt.

17. A prepayment is defined as an advance payment by the purchaser of oil on a specific oil shipment. Prepayment-related operations must be repaid within 6 months but in any case within the calendar year in which they were contracted.

### **F. Payment Arrears and Domestic Debt**

18. Domestic payment arrears of the government are equivalent to the difference over the period under review between the amount of payments authorized and the actual payments made (within 90 days).

## **II. INFORMATION FOR PROGRAM MONITORING**

19. The government will submit the following information to the staff of the IMF through its Resident Representative, and within the time period specified below.

### **A. Oil Sector**

20. Regarding the oil sector, the government will submit the following information to IMF staff within four weeks after the end of the month:

- the monthly data on oil production by oil field, production costs, volume exported, export prices, and the operations of the national oil company (SNPC);
- the breakdown concerning the share of crude oil that accrues to the government, by oil field, distinguishing the type of resource to which this share relates (royalties, profit oil, etc.);
- any change in the tax parameters;
- a breakdown of oil prices;
- a monthly detailed list of shipments commercialized by SNPC on behalf of the government, including information on the type of product, the date of loading, the recipient, the number of barrels and the selling price (in US dollars and CFAF) as well as the date of receipt of the sale proceeds by the Treasury; and
- actual and projected quarterly data to determine the required subsidies in the fuel sector, including prices, quantities, and costs.

### **B. Government Finance**

21. Regarding government finance, the government will submit the following information to IMF staff:

- A table on government fiscal operations (TOFE) and its annexes. The annexed tables include (i) the breakdown of oil revenue in value terms with the corresponding notes on computation, (ii) excess oil trends and any bonus payments, (iii) the breakdown of tax and non-tax revenue, and central government expenditure, particularly transfers and common charges; and (iv) a report on the amounts of and rationales for emergency payment and cash advance procedures. The provisional TOFE and its annexes will be reported monthly within four weeks from the end of the month, whereas the final TOFE and its annexes will be reported within six weeks from the end of each month.
- Monthly data on the prices and taxation of petroleum products. These data will include: (i) the price structure in effect during the month; (ii) the details of computation of the price structure, (f.o.b. Mediterranean price) at retail prices, including the border impact prices, taxes, transit costs, economic adjustments, ex-refinery prices (for CORAF and imports), entry distribution prices, margins and fees, transport costs and losses, financing expenses, and insurance; (iii) amounts released for sale; and (iv) a breakdown of the tax revenue from oil products—customs duties and value-added tax—and direct/indirect subsidies incurred by the budget. These data will be reported within four weeks from the end of the month.
- The Treasury balance to monitor expenditures. It will include the amount of commitments, payment orders, and payments, for both current and capital expenditure. It will be produced on a quarterly basis, and submitted to Fund staff no later than four weeks after the end of each quarter.
- Data on implementation of the public investment program, including the breakdown relating to financing sources. If the data on the execution of investments financed with foreign grants and loans are not available on schedule, a linear estimate of execution in comparison with annual forecasts will be used. These data will be reported on a quarterly basis within four weeks from the end of the quarter.
- Complete monthly data on domestic financing of the budget (net bank credit to, and net non-bank credit to the government). These data will be reported monthly within four weeks from the end of the month.
- The table used to monitor the expenditure process will list the amount of commitments, payment orders, and payments, for both operating and capital expenditures. It will be produced on a quarterly basis, and submitted to Fund staff no later than four weeks after the end of the quarter.
- A quarterly table for monitoring poverty reduction expenditures, based on the pro-poor sectors defined in the poverty reduction strategy paper—basic health care and education; infrastructure and rural integration; water and electricity; disarmament,

demobilization and reintegration; social protection, and agriculture). The quarterly tables will be submitted within four weeks of the end of the quarter.

- A monthly table of prepayments, which will also indicate the nature of the expenditures (current transfers, investment, etc.) and the justification for the need to use the prepayment option.

### **C. Monetary Sector**

22. The government will submit on a monthly basis, within four weeks of the end of the month, the following preliminary information:

- the consolidated balance sheet of the monetary institutions, the central bank survey, and the commercial banks survey;
- the integrated monetary survey;
- the table of lending and deposit rates; and
- the usual banking supervision indicators for banks and non-bank financial institutions, where necessary.

23. The final data for the integrated monetary survey will be transmitted within six weeks of the end of the month.

### **D. Balance of Payments**

24. The government will submit the following information to IMF staff:

- any revised balance of payments data (including services, private transfers, official transfers, and transactions for the capital and financial account) as soon as the data are revised; and
- foreign trade statistics (volume and price) prepared by the national statistics agency within three months of the end of the reporting month.

### **E. Debt**

25. The government will submit the following to the staff of the IMF within four weeks of the end of the month:

- data on the stock, accumulation, and payment of domestic arrears;

- data on the stock, accumulation, and payment of external payment arrears;
- a breakdown of estimated domestic and external public debt service, service due, and actual payments, including breakdowns of principal and interest and by creditor;
- the list and amounts of new external debt incurred or guaranteed by the government, including detailed information on the terms and conditions (currency, interest rate, grace period, and maturity) stated in the original agreement; and
- actual disbursements of foreign financial assistance (project and non-project), including new borrowing and any external debt relief granted by foreign creditors (CCA tables).

#### **F. Real Sector**

26. The government will submit the following to the staff of the IMF:
- monthly itemized consumer price indices, within four weeks of the end of the month;
  - any revision of the national accounts; and
  - any other indicators and statistical data used to track overall economic developments, including information on activity in the forestry sector and wood-processing industry, as well as the short-term economic bulletins prepared monthly.

#### **G. Structural Reforms and Other Data**

27. The government will submit the following information to the IMF staff:
- a monthly detailed table concerning the implementation of structural measures under the program;
  - any study or official report on the economy of the Republic of Congo, within two weeks of its publication; and
  - any decision, order, law, decree, ordinance, or circular having economic or financial implications for the program, within two weeks from the time it is published, or, at the latest, from its entry into force.