INTERNATIONAL MONETARY FUND

REPUBLIC OF CONGO

January 3, 2020

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

Republic of Congo: Joint Bank-Fund Debt Sustainability Analysis	
Risk of external debt distress	*In debt distress*
Overall risk of debt distress	*In debt distress*
Granularity in the risk rating	*Unsustainable*
Application of judgement	*No*

Approved By
Zeine Zeidane and Martin Sommer (IMF) and Marcello Estevão (IDA)

The Debt Sustainability Analysis (DSA) has been prepared jointly by IMF and International Development Association staff, in consultation with the authorities, using the debt sustainability framework for low-income countries approved by the Boards of both institutions.

Based on an assessment of external public debt indicators and given the continued buildup of external arrears, the Republic of Congo is classified as "in debt distress". Moreover, despite the recent restructuring agreement with China, external public debt remains unsustainable with the net present value of external debt in percent of GDP projected to remain above the indicative threshold in the medium term, and the debt service to revenue indicator exhibiting significant breaches over the next three years.[1] *The increase in debt in recent years reflects large fiscal deficits, a large terms-of-trade loss which caused nominal GDP to decline through deflation in the oil economy, and a decline in real GDP growth. Domestic debt has also been rising due to the accumulation of domestic arrears and statutory advances from BEAC, leading to further deterioration of overall public debt indicators: the net present value of public debt to GDP remains above its indicative threshold over the medium term. Given the accumulation of domestic and external arrears, the overall assessment confirms that the Republic of Congo remains in debt distress. Going forward, restoring debt sustainability crucially hinges on the pursuit of fiscal consolidation and the restructuring of private commercial claims, while clearance of arrears remains crucial for ending the debt distress event.*

[1] Congo's debt carrying capacity was rated weak according to the composite indicator (CI) based on the October 2019 WEO.

PUBLIC DEBT COVERAGE

1. The coverage of public debt in this DSA is limited to central government debt, but includes oil-backed debt contracted by SNPC, the largest state-owned enterprise. The stock of debt includes public and publicly guaranteed debt of the central government. Local governments in Congo are not allowed to borrow and depend on local taxes and transfers from the central government. Debt from oil-backed pre-financing arrangements contracted with oil traders through SNPC and guaranteed by the central government is included in the analysis and is the main source of non-central government debt in Congo. However, debt from state owned enterprises (SOEs) not guaranteed by the government is not included in this analysis because of limited information on their fiscal performance.[2] As regards the national oil company (SNPC), transparency has improved with the October 2019 publication of the 2018 financial statement audited by a reputable private accounting firm, but information on debt and fiscal performance in other years remains limited, with the exception of government-guaranteed debt.[3] While the government-guaranteed debt is included in the DSA stock of debt, non-government guaranteed debt owed by SNPC is not included due to incomplete information. The level of fiscal risk posed by the commercial operations of SNPC is still being determined.[4] The potential fiscal risks would be partly mitigated by a positive operating balance over several years, continued efforts to improve transparency regarding its balance sheet, and SNPC's control over several oil fields from which it will continue to derive its revenues.[5] SNPC appears to satisfy some criteria for managerial independence,[6] and does not benefit from direct government subsidies, though its subsidiary (CORAF) has been receiving transfers from the government to offset losses associated with the freeze of fuel prices. Staff will continue efforts to compile information on SOEs to improve the scope of the DSA, in line with guidelines under the revised LIC-DSF.

---

[2] There are 31 SOEs in Congo, with government ownership ranging from 50 to 100 percent.

[3] The cost of activities related to the distribution of refined products is not supported by SNPC, but rather by the government. SNPC simply acts on behalf of the government. However, some other activities of SNPC run according to private sector principles: SNPC controls several oil fields from which it derives revenues. Investments made in these fields will be recouped with future oil revenues from the fields. Meanwhile, government-guaranteed loans are related to government-owned fields and the oil distributed by SNPC from these fields.

[4] The assessment to be made in line with the LIC DSF Guidance Note. Note that, for fiscal accounts, revenues from the private operations of SNPC are not included in the fiscal balance.

[5] SNPC non-guaranteed debt is associated with the "carry" of investment activities by private sector companies on behalf of SNPC's ownership in the development of the oil fields. The private sector companies pre-finance the investment spending on behalf of SNPC to develop the various oil fields and will recover the investment through discounts on the oil revenues that accrue to SNPC once the oil fields are in operation.

[6] As regards managerial independence, SNPC satisfies the criteria regarding pricing policy for crude oil, the largest product category, though not for refined oil. With regards to relations with the government, is not clear whether SNPC also benefits from a special tax regime as it appears that no corporate taxes were paid over 2013–15 and 2017 when the company made considerable profits.

1. The contingent liability stress test is customized to account for vulnerabilities associated with rejected domestic arrears, non-guaranteed SOEs debt, and litigated debt (Text Table 1). Non-guaranteed SOEs debt is estimated at 9 percent of GDP and we assume half of this amount could end-up on the central government balance sheet. In addition, Congo's total PPP capital stock is estimated at 4.6 percent of GDP, and 35 percent of this total stock is assumed may end up on the government balance sheet under the stress test. Debt vulnerabilities are also affected by rejected domestic arrears (about 6.3 percent of GDP) and an additional 7.4 percent of GDP external claim, which is currently being litigated (and not included in the debt stock).[7] The contingent liability test is also calibrated to account for these potential risks to the public sector balance sheet. At the same time, the experience of previous audits and preliminary progress reported on the ongoing independent audit of domestic arrears suggest a strong possibility that the stock of domestic arrears incurred during 2017–18 could be revised down substantially after the conclusion of the current audit. This is an upside risk that could considerably mitigate the impact of contingent liability shocks.

Text Table 1. Republic of Congo: Coverage of Public-Sector Debt and Design Stress Tests of Contingent Liability

	Subsectors of the public sector	Sub-sectors covered
1	Central government	X
2	State and local government	X
3	Other elements in the general government	
4	o/w: Social security fund	X
5	o/w: Extra budgetary funds (EBFs)	
6	Guarantees (to other entities in the public and private sector, including to SOEs)	X
7	Central bank (borrowed on behalf of the government)	X
8	Non-guaranteed SOE debt	

1	The country's coverage of public debt	The central, state, and local governments plus social security, central bank, government-guaranteed debt		
		Default	Used for the analysis	Reasons for deviations from the default settings
2	Other elements of the general government not captured in 1.	0 percent of GDP	13.8	Litigated debt (Commisimpex) and rejected domestic arrears
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	4.5	SOE's debt not guaranteed by the government
4	PPP	35 percent of PPP stock	1.60	
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5	
	Total (2+3+4+5) (in percent of GDP)		24.9	

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

BACKGROUND

A. Evolution and Composition of Public Debt

2. Public debt in the Republic of Congo has increased significantly in recent years, though the trend reversed starting in 2018. The increase in debt reflects the rapid accumulation of new domestic and external debt to finance ambitious investment projects and raise public sector wages.

[7] The authorities continue to represent a dispute with respect to this external claim. Disputed claims are not included in the baseline for program purposes, as they are included when calibrating the contingent liability stress test (Text Table 1).

The severe terms of trade loss from the decline in international oil prices and the behind-the-curve policy response to the shock exacerbated the adverse impact of the fiscal expansion on debt indicators. Total debt began to decline in 2018, and while by September 2019 it was below 2017 peak levels, it remains substantially higher than at the start of the decade, amounting to US$ 9.5 billion, or 88 percent of GDP.

- *Public external debt has increased markedly since Congo reached the HIPC Initiative Completion Point in January 2010.* In 2010, following the debt relief initiative, gross public external debt was just over 20 percent of GDP; however, it grew rapidly over the next years to reach around US$ 7.5 billion or 80 percent of GDP by end-2017 (Table 1). The trend reversed in 2018, when public external debt declined to US$ 6.9 billion. In 2019, public external debt has stabilized reaching around US$ 6.8 billion, or 62 percent of GDP, by the end of September. A large share of external debt is owed to China (20.4 percent of GDP) and oil traders (18.1 percent of GDP).

- *External payment arrears have increased in recent years as financial difficulties have prevented the Republic of Congo from servicing its debt, especially debt owed to oil traders.* External arrears increased from CFAF 453 billion (US$ 817 million) at end-2017 to CFAF 520 billion (US$ 908 million) by end 2018, due largely to the accumulation of arrears with oil traders, and despite some reductions in bilateral and other commercial arrears. The cancellation of some private external debt following court arbitrations and the agreement with Saudi Arabia to restructure its pre-HIPC claims according to HIPC terms reduced pre-HIPC arrears from 324 billion (US$584 million) as of end-2017 to about CFAF 283 billion (US$497 million) at end 2018. The remaining pre-HIPC arrears are mainly accumulated against the United Arab Emirates (UAE), Angola and some external private suppliers. Arrears to UAE and Angola continue to be deemed away under the policy on arrears to official bilateral creditors, as the underlying Paris Club HIPC agreement is adequately representative. The rescheduling deal reached with China Machinery Engineering Corporation (CMEC) in February 2018 also helped to reduce post-HIPC external arrears by about US$115.8 million. In the course of 2019, external arrears have more than doubled, reaching CFA 1364 billion (USD 2.2 billion) at the end of September (Table 2).[8] Most of the increase is driven by an increase of 800 billion CFAF in arrears with oil traders. New arrears with oil traders are a result of both missed debt service payments as well as a debt reconciliation process completed together with financial advisors in preparation for debt restructuring negotiations; during this process some existing debt was reclassified as arrears.

[8] Preliminary information from Paris Club members and the authorities suggests that additional external official arrears have accumulated in October 2019.

- *Domestic public debt rose from 15 percent of GDP at end-2014 to 25.5 percent of GDP in September 2019 as statutory advances and domestic arrears increased significantly* (Table 1). The 2019 estimates take into account the results of the first phase of the audit of domestic arrears which covered CFAF 528 billion,[9] and preliminary results from the ongoing audit of the domestic arrears accumulated over 2017–2018.[10] The bulk of domestic debt involves arrears currently being audited, mostly due to contractors in the construction and transportation sectors (8.8 percent of GDP), statutory advances from the regional central bank (8.7 percent of GDP), and pension arrears and unpaid social benefits (3.4 percent of GDP) which started accumulating after the liquidation of public enterprises as severance packages were not paid according to the agreements. Government debt to commercial banks remains relatively small (2.4 percent of GDP) and comes from the issuance of bonds and Treasury bills since 2016.

3. This debt sustainability analysis incorporates the impact of the April 2019 restructuring deal with China. This agreement combined with the February 2018 agreement provides a total debt relief of about US$370 million over the IMF program period (2019–22). In addition, it also secures substantial debt relief immediately after the program (2023–28), reducing annual debt service by half, and generating a low and predictable stream of payments over the 2029–45 period (below 0.5 percent of GDP per year). The authorities are currently engaged in negotiations for debt restructuring with oil traders and are committed to completing the restructuring of external commercial debt.

4. There are weaknesses in public debt management and claims reporting, as highlighted by the disclosure in June 2017 of oil-backed loans contracted between 2014 and 2015. According to the January 2018 IMF mission to support the activities of the National Committee for Public Debt (NCPD), weaknesses in the current framework include (i) insufficiently transparent debt management (lack of debt strategy to guide debt mobilization), (ii) lack of a formal Treasury management framework, and; (iii) non-compliance with several CEMAC debt management guidelines (e.g. the debt management strategy is not annexed to the finance law, loan agreements are not ratified by the NCPD, etc.). It also found that the National Committee for Public Debt which was created in 2008 had never been operational. More recently, the committee has been reactivated by the authorities and has adopted a manual of debt procedures (structural benchmark) during its first meeting on May 28, 2019. The implementation of the recommendations of the manual will ensure a better coordination and monitoring of public debt management activities.

---

[9] The authorities initially disclosed in June 2017 a potential stock of CFAF 1573 billion of possible arrears, but they argued that only CFAF 528 billion should be the subject of an audit, given that the balance represented spending that had been committed ("engagé") but for which no services were received. The audit focused on arrears to government suppliers that had been accumulated over the 2014–16 period. Once the independent audit from Ernst and Young was completed, about 3/4 of this stock was rejected due to irregularities.

[10] The 2019 stock includes 8.8 percent of partially audited and not yet audited arrears recognized by the authorities. However, it excludes other gross claims related to public works (6.4 percent of GDP) rejected by the authorities after internal review. These two stocks are subject to a new audit funded by the AfDB.

Table 1. Republic of Congo: Gross Public Debt by Creditor, 2015–19

	2015			2016			2017			2018			September 2019		
	CFAF billion	USD million	percent of GDP	CFAF billion	USD million	percent of GDP	CFAF billion	USD million	percent of GDP	CFAF billion	USD million	percent of GDP	CFAF billion	USD million	percent of GDP
Total public debt	**5205**	**8631**	**102.9**	**5473**	**8796**	**118.6**	**6097**	**11001**	**117.5**	**5689**	**9873**	**87.8**	**5747**	**9539**	**87.8**
External debt	**4154**	**6888**	**82.1**	**4219**	**6781**	**91.4**	**4152**	**7492**	**80.0**	**3970**	**6890**	**61.3**	**4080**	**6773**	**62.4**
of which: arrears	*378*	*627*	*7.5*	*436*	*701*	*9.4*	*453*	*817*	*8.7*	*520*	*902*	*8.0*	*1364*	*2264*	*20.8*
Multilateral and other creditors	115	190	2.3	140	225	3.0	154	278	3.0	207	360	3.2	244	405	3.7
IMF	7	12	0.1	5	8	0.1	4	6	0.1	2.4	4	0.0	1.5	2	0.0
IDA/IBRD	66	109	1.3	76	121	1.6	76	137	1.5	109	189	1.7	123	205	1.9
AfDB	13	22	0.3	9	14	0.2	29	52	0.6	49	84	0.7	72	119	1.1
IFAD	11	18	0.2	11	17	0.2	13	23	0.2	12	21	0.2	13	21	0.2
Others	17	29	0.6	39	63	1.1	33	59	0.6	35	61	0.5	34	57	0.5
Official bilateral	1768	2932	35.0	1941	3120	42.1	1973	3559	38.0	1816	3152	28.0	1791	2973	27.4
Paris Club	111	185	2.2	132	212	2.9	247	445	4.8	196	340	3.0	214	355	3.3
Brazil	32	53	0.6	34	55	0.7	29	52	0.6	30	52	0.5	31	52	0.5
Belgium	0	0	0.0	35	56	0.8	85	154	1.6	78	135	1.2	91	151	1.4
France	79	132	1.6	63	101	1.4	52	94	1.0	64	110	1.0	66	109	1.0
Russia							74	133	1.4	18	31	0.3	19	31	0.3
Switzerland							7	12	0.1	7	12	0.1	7	11	0.1
Non-Paris Club	1657	2747	32.8	1809	2907	39.2	1726	3114	33.3	1620	2812	25.0	1577	2618	24.1
China	1497	2483	29.6	1526	2452	33.1	1434	2588	27.6	1387	2408	21.4	1333	2213	20.4
India	31	52	0.6	37	59	0.8	47	84	0.9	53	92	0.8	57	94	0.9
Kuwait	33	55	0.7	34	54	0.7	30	55	0.6	32	55	0.5	33	55	0.5
Turkey	0	0	0.0	116	186	2.5	116	209	2.2	45	79	0.7	47	77	0.7
Pre-HIPC arrears (not restructured)	95	158	1.9	97	155	2.1	99	179	1.9	103	179	1.6	107	178	1.6
Private Creditors	2271	3765	44.9	2138	3437	46.3	2026	3655	39.0	1946	3378	30.1	2045	3395	31.3
Oil-prepurchased debt	1484	2461	29.4	1361	2187	29.5	1190	2148	22.9	1061	1841	16.4	1184	1966	18.1
Glencore	530	879	10.5	514	827	11.1	447	806	8.6	385	668	5.9	441	732	6.7
Trafigura	804	1332	15.9	691	1110	15.0	605	1092	11.7	533	925	8.2	582	966	8.9
Orion	151	250	3.0	156	250	3.4	139	250	2.7	143	248	2.2	161	268	2.5
Afreximbank	0	0	0.0	0	0	0.0	194	350	3.7	164	284	2.5	123	205	1.9
Suppliers	293	486	5.8	291	467	6.3	231	417	4.5	232	402	3.6	231	383	3.5
Domestic debt	**1051**	**1744**	**20.8**	**1253**	**2015**	**27.2**	**1944**	**3509**	**37.5**	**1719**	**2984**	**26.5**	**1667**	**2767**	**25.5**
BEAC advances	572	949	11.3	572	920	12.4	572	1033	11.0	572	993	8.8	572	950	8.7
Domestic bond				184	295	4.0	198	358	3.8	160	278	2.5	157	261	2.4
Audited arrears in CCA	185	307	3.7	185	298	4.0	235	424	4.5	361	627	5.6	361	599	5.5
Unaudited and partially audited arrears							747	1349	14.4	626	1086	9.7	577	957	8.8
Memorandum items:															
Additional debt claimed by Commisimpex				486	782	10.5	486	878	9.4	486	844	7.5	486	807	7.4
Rejected claims[1]				1573		34.1	826	1490	15.9	415	720	6.4	415	689	6.3

Sources: Congolese authorities and IMF staff estimates.

[1] Claims associated with infrastructure projects rejected by the authorities after an administrative review.

Table 2. Republic of Congo: External Arrears Situation as of End-September 2019

	End-2015 stock	New arrears in 2016	End-2016 stock	New arrears in 2017	End-2017 stock	New arrears in 2018	End-2018 stock	September 2019 stock			September 2019 (Excl. unrestructured pre-HIPC arrears)		
	CFAF billion	CFAF billion	CFAF billion	CFAF billion	CFAF billion	CFAF billion	CFAF billion	CFAF billion	USD million	percent of GDP	CFAF billion	USD million	percent of GDP
Total	**377.9**	**58.0**	**436.0**	**17.0**	**453.0**	**66.9**	**520**	**1363.9**	**2264.1**	**20.8**	**1066.5**	**1770.4**	**16.3**
Multilateral and other creditors	0.0	4.8	4.8	-0.6	4.2	2.6	6.8	8.0	13.3	0.1	8.0	13.3	0.1
IMF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
World Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IFAD	0.0	0.0	0.0	0.2	0.2	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
AfDB	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.0	4.8	4.8	-0.8	4.0	2.8	6.8	8.0	13.3	0.1	8.0	13.3	0.1
Bilateral	95.5	13.5	109.0	23.2	132.2	-0.3	131.9	169.1	280.7	2.6	109.0	180.9	1.7
Paris Club	0.0	11.5	11.5	19.1	30.6	29.7	60.3	90.1	149.6	1.4	90.1	149.6	1.4
Brazil	0.0	8.4	8.4	7.2	15.6	8.4	24.0	31.4	52.0	0.5	31.4	52.0	0.5
Belgium	0.0	0.0	0.0	1.0	1.0	1.4	2.4	9.8	16.3	0.1	9.8	16.3	0.150
France	0.0	3.0	3.0	4.0	7.1	20.0	27.1	42.2	70.0	0.6	42.2	70.0	0.6
Switzerland	0.0	0.0	0.0	6.8	6.8	0.0	6.8	6.8	11.3	0.1	6.8	11.3	0.1
Russia	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-Paris Club	95.5	2.1	97.5	4.1	101.6	-30.0	71.6	79.0	131.1	1.2	18.9	31.3	0.3
United Arab Emirates /1	11.6	1.2	12.9	-0.8	12.0	0.6	12.7	13.3	22.1	0.2	0.0	0.0	0.0
Angola 1/	34.5	0.0	34.5	5.7	40.2	1.2	41.5	43.6	72.4	0.7	0.0	0.0	0.0
China	0.0	0.0	0.0	0.0	0.0	1.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0
India	0.0	0.8	0.8	1.7	2.4	3.8	6.2	9.4	15.6	0.1	9.4	15.6	0.1
Kuwait	0.0	0.1	0.1	0.1	0.2	0.2	0.4	0.1	0.1	0.0	0.1	0.1	0.0
Saudi Arabia 1/	46.2	0.0	46.2	-2.6	43.6	-42.9	0.7	0.0	0.0	0.0	0.0	0.0	0.0
Turkey	0.0	0.0	0.0	0.0	0.0	6.0	6.0	9.4	15.6	0.1	9.4	15.6	0.1
Postal debt 1/	3.1	0.0	3.1	0.0	3.1	0.0	3.1	3.1	5.2	0.0	0.0	0.0	0.0
Private Creditors	282.5	39.7	322.1	-5.6	316.5	64.6	381.2	1186.5	1969.7	18.1	949.4	1576.1	14.5
CMEC and Chinese companies 2/	0.0	36.2	36.2	28.0	64.2	-63.8	0.4	0.2	0.3	0.0	0.2	0.3	0.0
Eurobond (London Club)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Afreximbank	0.0	0.0	0.0	0.0	0.0	0.2	0.2	0.4	0.6	0.0	0.4	0.6	0.0
Oil traders	0.0	0.0	0.0	22.4	22.4	126.5	148.9	944.0	1567.0	14.4	944.0	1567.0	14.4
Glencore	0.0	0.0	0.0	2.7	2.7	55.3	58.0	324.4	538.5	5.0	324.4	538.5	5.0
Trafigura	0.0	0.0	0.0	19.8	19.8	-0.4	19.4	581.9	965.9	8.9	581.9	965.9	8.9
Orion	0.0	0.0	0.0	0.0	0.0	71.6	71.6	37.7	62.5	0.6	37.7	62.5	0.6
Suppliers 3/	282.5	3.4	285.9	-56.0	229.9	1.7	231.6	230.6	382.8	3.5	4.9	8.1	0.1

Sources: Congolese authorities and IMF staff estimates.

[1] End-2015 stocks are unrestructured pre-HIPC arrears.

[2] China Machinery Engineering Corporation, previously classified as official bilateral debt.

[3] Includes disputed debts (pre-HIPC claims).

B. Macroeconomic Outlook

5. **Box 1 summarizes the main assumptions for key macroeconomic variables in the scenario underpinning the DSA.** The baseline scenario assumes that the authorities will continue implementing fiscal adjustment in the medium term to restore long-term fiscal sustainability and support the buildup of regional international reserves, in line with the ongoing Fund-supported program. Consistent with the 2019 and 2020 budgets, and medium-term fiscal projections, an adjustment to the non-oil primary fiscal balance of about 10 percent of non-oil GDP is assumed over 2019–23, which would help re-build fiscal and external buffers. External disbursements in the medium term reflect program financing, while lower disbursements beyond the program period are in line with the authorities' commitment to pursue prudent external borrowing (Text Table 2). The baseline scenario assumes that Congo continues to obtain external financing on concessional terms similar to the June 2019 DSA; the grant element increases progressively and averages at 41 percent over 2024–28 assuming the bulk of new financing is provided on concessional terms.[11] After 2028, we assume new disbursements become less concessional, bringing back the grant element to about 25 percent over 2028–39. Slower-than-expected expansion in oil production due to temporary technical disruptions at one plant has led to a downward revision of projected 2019 real GDP growth compared to the previous 2019 DSA; however, oil production is still projected to peak around 140 million barrels in 2020, as these temporary issues are resolved, so the projected real growth rate in 2020 is higher than in the previous 2019 DSA.

6. **Realism tools point out some risks around the forecast.** The fiscal adjustment-growth realism tool suggests that the growth path could be optimistic given the projected consolidation. Staff assess the projected growth to be realistic since it is essentially driven by developments in the oil sector. The recovery projected over the coming years under the baseline also factors in a stronger policy framework associated with an improved fiscal position (through adjustment and debt restructuring) and the positive impact of the repayment of domestic arrears on the private sector. However, delays in the completion of the debt restructuring process for commercial debt would generate doubts about Congo's debt sustainability and negatively affect confidence and investment. As concerns debt drivers, there is a high projected contribution of the residual component to debt-creating flows in the next five years, as in the last five years (Figure 3); the contribution of other debt drivers also remains broadly similar between the historic and projection periods, with the exception of those affected by the decline in oil prices and subsequent recession.[12]

[11] China has historically provided the bulk of Congo's external financing. This financing has also been highly concessional (48 percent grant element). The increase in grant element after the program period reflects our assumption that China would remain the main creditor.

[12] The decline in global oil prices and subsequent recession caused a large decline in Congo's current account balance as a share of nominal GDP (to below zero) in 2015 and 2016; this led to a positive contribution of the current account to debt accumulation in the past five years (see Figure 3). However, over the next five years, the average current account balance is projected to be positive in the baseline, implying a negative contribution to debt accumulation. The change in the contribution of real GDP growth between the historic and projection periods (in Figure 3) is also associated with the effects of the crisis on reducing GDP growth.

Box 1. Main Macroeconomic Assumptions

- **Non-oil sector:** Non-oil growth is projected to turn positive in 2019 after three years in a deep recession, and to gradually improve to 4.1 percent in 2023 as the impact of fiscal adjustment dissipates, investment recovers, and the implementation of structural reforms bears fruit. Beyond 2023, non-oil growth is projected to average 4.4 percent, which is similar to the historical average of 4.3 percent over 2008–17, with growth driven by agriculture, forestry, commerce, and the transport/communication sectors. Recent developments suggest the mining sector also has the potential to contribute to growth. While near-term growth risks are tilted to the down side, in the medium-term risks are balanced, as governance sector reforms and the implementation of diversification efforts, including the use of Special Economic Zones and improvements to the business environment, are expected to support the development of non-oil sector (see Annex on the External Sector Assessment).
- **Oil production and prices:** In 2019, the expansion of oil production has been lower than previously anticipated, due to temporary technical disruptions in two oil fields. Annual oil production is projected to peak at about 140 million barrels in 2020, and then to steadily decline over 2020–38, to about 53 million barrels in 2039, in the absence of new oil discoveries. International oil prices have increased recently but remain well below their 2013 peak levels, and are projected to gradually increase over the medium term to about $70 per barrel by 2035. While long-term projected oil prices are above medium-term prices, debt sustainability would not be highly sensitive to an undershoot in oil prices in the long term; the contribution of oil to overall GDP as well as exports and revenue is projected to decline in the next 20 years, while debt burden indicators are projected to be sufficiently below their respective thresholds in the long run (i.e. by 2035).
- **Inflation:** Overall inflation has remained subdued at 1.8 (y/y) at end-October 2019 and is expected to remain around 2 percent by year-end. It is expected to increase gradually to 3 percent in 2024 and to remain close to 3 percent over the long term, consistent with the CEMAC's convergence criteria of a 3 percent ceiling.
- **Current account balance**: The current account balance in 2019 has been revised upward since the last 2019 DSA due to stronger than projected growth of exports of mining and other non-oil goods, and a reduction in oil-related imports. In line with assumed fiscal consolidation and increased oil-production, the current account is projected to remain in surplus over 2020–21, and to gradually turn back to an average deficit of about 2.5 percent over 2022–24, along with decreasing oil production and a pick-up in imports associated with the recovery in the non-oil sector. The current account deficit is projected to reach an average of 12 percent over 2025–39, reflecting a projected long-term decline in oil production that is only partially offset by growth in non-oil exports resulting from diversification efforts.
- **Primary balance:** The baseline assumes fiscal adjustment to address the current macroeconomic imbalances. The primary balance is projected to remain in surplus from 2019 onwards thanks to improvements in revenues and containment of spending.

Text Table 2. Republic of Congo: Comparison of Assumptions Between Current and Previous 2019 DSAs

	2019	2020	2021	2027	2035
	New Loan Disbursements (billions of CFA francs)				
Current DSA	443	507	385	119	148
2019 DSA	484	525	360	118	147
	Grant Element of New External Borrowing (percentage points)				
Current DSA	30.7	30.1	32.1	41.3	25.4
2019 DSA	30.3	28.9	33.0	41.4	25.4
	Primary balance (percent of GDP)				
Current DSA	10.6	9.9	9.4	5.9	2.9
2019 DSA	9.3	9.2	9.0	5.6	2.6
	Real GDP growth (percent)				
Current DSA	2.2	4.6	1.9	1.8	3.4
2019 DSA	5.4	1.6	1.9	1.9	3.4
	Current Account Balance (percent of the GDP)				
Current DSA	7.9	5.8	1.2	-6.6	-15.2
2019 DSA	5.6	5.1	1.6	-5.4	-14.9
	Oil prices (U.S. dollars per barrel)				
Current DSA	61.8	57.9	55.3	59.2	69.4
2019 DSA	59.2	59.0	58.1	62.4	73.1

Sources: Congolese authorities; IMF and WB staff calculations and projections.

C. Country Classification and Determination of Stress Test Scenarios

7. The composite index (CI) based on the October 2019 World Economic Outlook (WEO) data indicates weak debt carrying capacity for Congo. The methodology relies on computing a composite indicator (CI) based on information from the (2018) CPIA score, external conditions as captured by world economic growth, and country-specific factors including import coverage of reserves. The Republic of Congo's low CI score indicates a weak debt carrying capacity, reflecting mainly a low CPIA and a low level of foreign reserves (Table 3). The CI score is similar to that in the previous 2019 DSA, which was based on April 2019 WEO data.

8. Congo should consider commodity price and market financing shocks. Since oil exports represent more than 80 percent of Congo's exports, the commodity price tailored stress test is triggered. Similarly, as a holder of a Eurobond (issued in the context HIPC debt restructuring), the market financing module is also activated.

Table 3. Republic of Congo: Composite Indicator (CI) Score

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	2.779	1.07	43%
Real growth rate (in percent)	2.719	1.644	0.04	2%
Import coverage of reserves (in percent)	4.052	31.303	1.27	51%
Import coverage of reserves^2 (in percent)	-3.990	9.799	-0.39	-16%
Remittances (in percent)	2.022	0.000	0.00	0%
World economic growth (in percent)	13.520	3.499	0.47	19%
CI Score			2.47	100%
CI rating			Weak	

Debt Carrying Capacity	Weak

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintages
Weak	Weak 2.47	Weak 2.49	Weak 2.50

APPLICABLE	
EXTERNAL debt burden thresholds	
PV of debt in % of	
Exports	140
GDP	30
Debt service in % of	
Exports	10
Revenue	14

APPLICABLE	
TOTAL public debt benchmark	
PV of total public debt in percent of GDP	35

Source: IMF staff calculations. The CI cutoff value for medium debt carrying capacity is 2.69.

DEBT SUSTAINABILITY ANALYSIS

A. External Debt Sustainability Analysis

9. Under the baseline, there are protracted breaches of the present value (PV) of debt-to-GDP ratio vis-à-vis Congo's indicative thresholds (Figure 1). The PV of external debt to GDP is currently around 52 percent and is projected to decline slowly but remain above the indicative threshold of 30 percent over the next ten years, reaching 30 percent only in 2031. Thus, even as the PV of debt-to-GDP declines gradually provided fiscal adjustment is undertaken as projected, commercial debt restructuring will still be needed to bring debt to sustainable levels by 2023 (in line with the current IMF-supported program). The debt service-to-revenue ratio is currently above the indicative threshold of 14 percent but is projected to decline below 14 percent by 2023 and remain below this level thereafter. The debt service-to-exports ratio is similarly above its indicative threshold of 10 percent currently, but is projected to decline to 10 percent by 2021 and remain below the threshold in the ten years after. The PV of debt-to-exports ratio is projected to remain stable over the next decade around 60 percent, below the threshold of 140 percent. Text Table 3 highlights the changes in the baseline scenario projections of debt burden indicators between the current DSA and the previous 2019 DSA, which are overall minor[13].

10. All indicators of external public debt breach their indicative thresholds by substantial margins in stress test scenarios (Figure 1). Standard bound tests examine the implications of various shocks to the debt and debt-service paths based on the historical volatility of the country's economic indicators. These result in sharp increases in the debt burden indicators in all cases. The exports shock stress test is the most extreme for most indicators, reflecting the Republic of Congo's high dependence on oil exports. A decline in exports to a level equivalent to one standard deviation below their historical average in the second and third years of the projection period would cause the PV of debt-to-exports ratio to rise above 210 percent at its peak, while the PV of debt-to-GDP would rise to over 95 percent. Under this stress scenario, the debt-service-to-exports ratio would still decline below the threshold of 10 percent by 2023 but would then rise above this threshold after 2025. For the debt service-to–revenue ratio, a one-time depreciation has the largest impact; under this shock, the ratio would decline below its indicative threshold of 14 percent after 2023. The commodity price shock, triggered due to Congo's reliance on oil exports, also leads to prolonged breaches of debt burden indicators (PV of debt to GDP and to exports). Additionally, while the market financing risk module indicates a moderate risk of heightened liquidity pressures, the small size of the outstanding Eurobond (less than 3 percent of GDP) implies that a heightened market stress event would not have a large enough impact to bring debt burden indicators above their respective thresholds when they are otherwise below (Figure 5).

11. Reflecting the build-up of considerable external arrears, the Republic of Congo is classified to be "in debt distress". External arrears are close to 21 percent of GDP and have been rising in recent years. In addition to arrears with oil traders, with whom the authorities are currently undergoing negotiations for debt restructuring, Congo also accumulated external arrears with

[13] All values for the PV of debt (see Text Table 3), including for 2019, are based on projections.

multiple official lenders. The clearance of external arrears (through the clearance of post-HIPC external official arrears, and as part of debt restructuring in the case of external commercial debt) would be required to end the ongoing episode of debt distress.

Text Table 3. Republic of Congo: Comparison of PPG Gross External Debt Indicators, Baseline Scenario

	2019	2020	2021	2027	2035
			PV of Debt-to-GDP Ratio		
Current DSA	51.5	47.2	46.0	35.3	22.4
2019DSA	51.6	48.4	46.2	36.2	22.7
			PV of Debt-to-Exports Ratio		
Current DSA	63.3	58.7	59.3	56.9	56.4
2019DSA	62.2	59.6	58.7	61.0	60.4
			Debt Service-to-Exports Ratio		
Current DSA	14.4	12.6	9.6	6.3	4.9
2019DSA	13.9	12.5	9.3	6.6	5.4
			Debt Service-to-Revenue Ratio		
Current DSA	37.3	32.3	23.1	10.6	4.9
2019DSA	37.4	32.0	22.8	10.7	5.1

Sources: Congolese authorities; IMF and WB staff calculations and projections.

B. Public Debt Sustainability Analysis

12. The Republic of Congo is in debt distress; an analysis of the Republic of Congo's overall public debt highlights heightened overall debt vulnerabilities (Figure 2). In addition to the presence of external debt distress, the high level of domestic arrears further indicates that debt distress has materialized. Moreover, an analysis of the projected evolution of debt burden indicators suggests heightened vulnerabilities arising from public debt. Under the baseline scenario, the present value of public and publicly guaranteed debt-to-GDP (including domestic arrears and direct financing from the BEAC) is significantly above the 35 percent benchmark level associated with heightened public debt vulnerabilities for countries with a weak debt carrying capacity for the entire period from 2019 until 2029. This assessment is further supported by stress-tests. The primary balance shock stress test is the most extreme for two indicators based on the present value of public debt, highlighting the need for strong fiscal adjustment over the medium term. Consistent with Congo's dependence on oil receipts, the most extreme shock for the debt service-to-revenue ratio is the newly introduced commodity price shock.

CONCLUSION

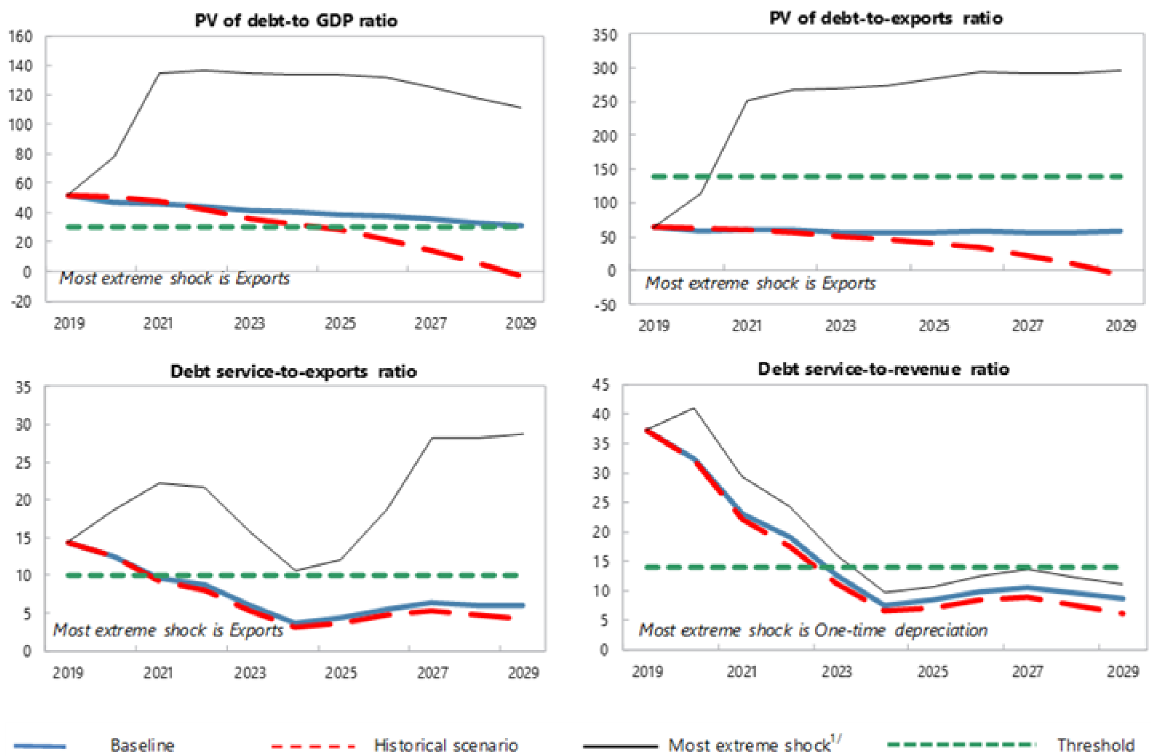
13. Congo is assessed as being in external and overall debt distress. The overall risk of debt distress is a result of the assessment of external debt distress due to external arrears, and the accumulation of domestic arrears. In addition, the level of debt in Congo is unsustainable given protracted breaches of the threshold for the PV of debt-to-GDP under the baseline despite assumed strong fiscal adjustment going forward, as well as breaches of the thresholds in the medium-term for all debt indicators under stress scenarios. There is no change in debt sustainability from the classification in the previous 2019 DSA. The authorities have committed to not contracting new non-concessional loans before the sustainability of public finances has been unequivocally restored, or while Congo is still in debt distress or at high risk of debt distress. The authorities are also committed to the repayment of official external bilateral arrears and the restructuring of external commercial debt, especially the debt associated with oil traders.

14. Over the medium term, improving competitiveness and promoting economic diversification are key to increasing resilience to exogenous shocks. Reflecting its high dependence on oil, the Republic of Congo's debt ratios appear to be most sensitive to swings in oil exports. Given the high concentration and vulnerability of the economy to downward movements in oil prices, broadening the economic base by enhancing the development of the non-oil sector would reduce the volatility of exports and would strengthen the debt service capacity of the Congolese economy. In this regard, efforts to improve the business climate with assistance from the World Bank should help strengthen competitiveness and boost growth, while plans to develop the agricultural, industrial, and tourism sectors as laid out in the National Development Plan should help diversify the export base. Diversification efforts are discussed in more detail in External Sector Assessment Annex to the Staff Report.

15. There is also a continued need to strengthen public debt and asset management, and capacity development is needed to improve the efficiency of institutions that handle fiscal and debt policies. The recent IMF public debt management technical report highlighted the need to: (i) strengthen the legal and institutional framework to cover the entire process of issuing and managing debt by the re-dynamization of the National Committee for Public Debt (NCPD) and clarification of its attributions; (ii) develop a medium-term debt management strategy and enhance transparency in debt management; (iii) introduce a formal framework for managing the government's cash flows; and (iv) strengthen the staff analytical capabilities with respect to public debt management. In addition, there is an urgent need to strengthen debt recording and monitoring capacity, better track all potential liabilities of the government, such as through the collection of data on major SOEs, contingent liabilities and publicly guaranteed debt which are currently not covered in the official debt statistics and the DSA. In line with the recommendations from MCM TA missions, the authorities should move forward with developing a debt management strategy, append it to the budget law, and strengthen the government's cash flow management.

16. The authorities concurred with staff's assessment that Congo is in debt distress, and that debt is unsustainable. They expressed their commitment to maintain prudent fiscal and debt management policies and are also pursuing their strategy to restructure Congo's public debt, in order to restore debt sustainability. The authorities also indicated that macroeconomic assumptions underpinning the DSA analysis, including projections for oil production, should remain appropriately cautious while information on new oil discoveries is still being analyzed. Authorities agreed that while there are downside risks to the growth outlook, the Congolese economy has the potential to benefit from the development of new sectors, including mining and industry, as the 5-year National Development Plan is implemented and the economy becomes more diversified.

Figure 1. Republic of Congo: Indicators of Public and Publicly Guaranteed External Debt Under Alternatives Scenarios, 2019–29



Customization of Default Settings	Size	Interactions
Tailored Tests		
Combined CLs	Yes	
Natural Disasters	n.a.	n.a.
Commodity Prices 2/	No	No
Market Financing	No	No

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	-2.7%	1.1%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	25	25
Avg. grace period	5	5

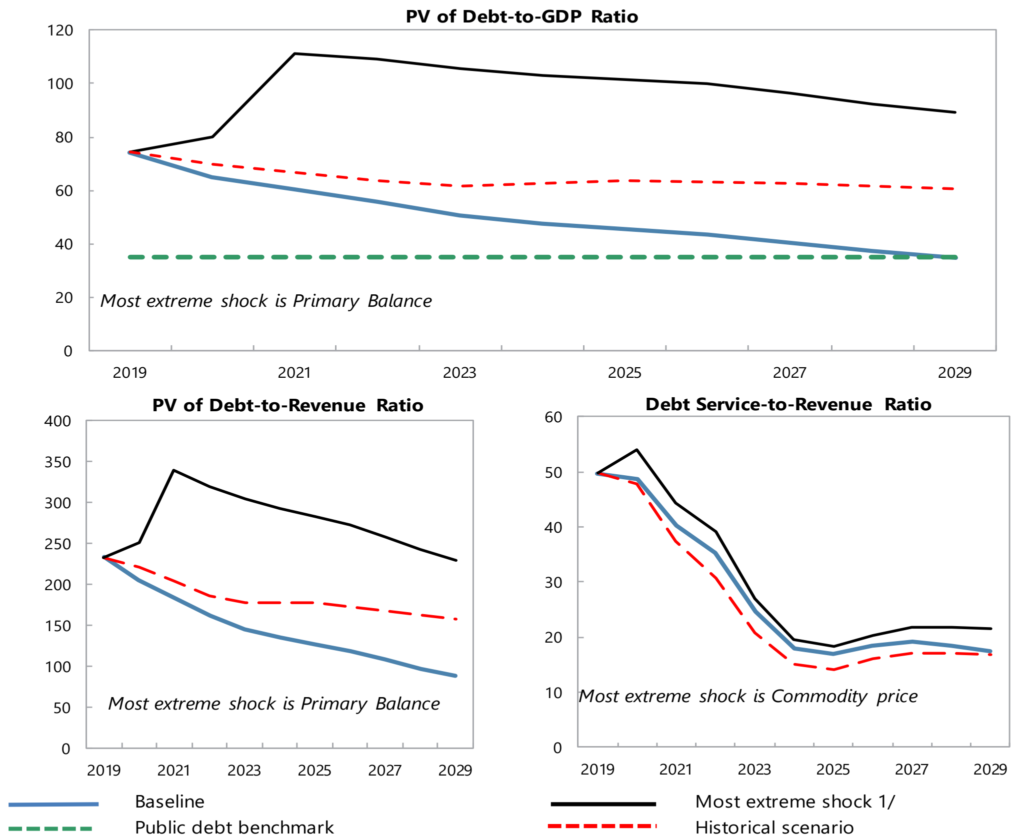
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2029. Stress tests with one-off breaches are also presented (if any), while these one-off breaches are deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Figure 2. Republic of Congo: Indicators of Public Debt Under Alternative Scenarios, 2019–29



Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	100%	100%
Domestic medium and long-term	0%	0%
Domestic short-term	330%	0%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	-2.7%	1.1%
Avg. maturity (incl. grace period)	25	25
Avg. grace period	5	5
Domestic MLT debt		
Avg. real interest rate on new borrowing	0.0%	0.0%
Avg. maturity (incl. grace period)	1	1
Avg. grace period	0	0
Domestic short-term debt		
Avg. real interest rate	0.7%	0.7%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

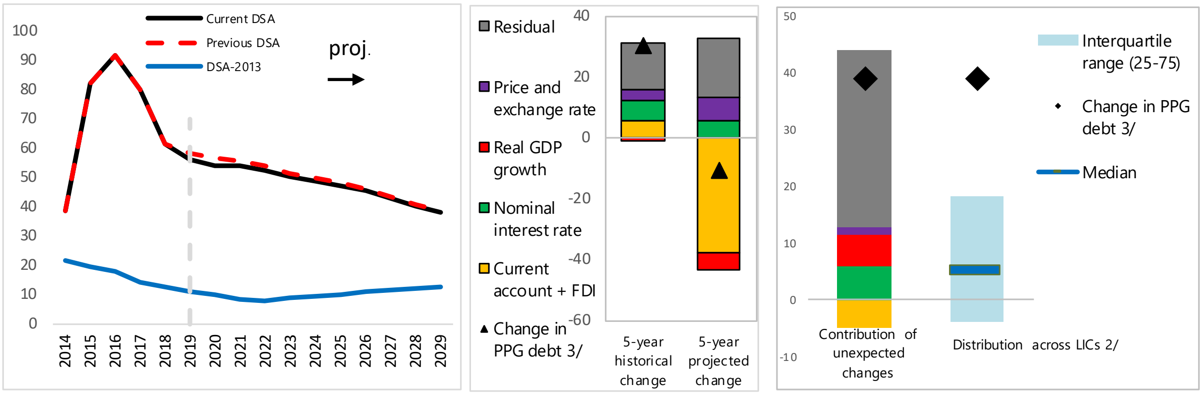
Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2029. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 3. Republic of Congo: Drivers of Debt Dynamics—Baseline Scenario

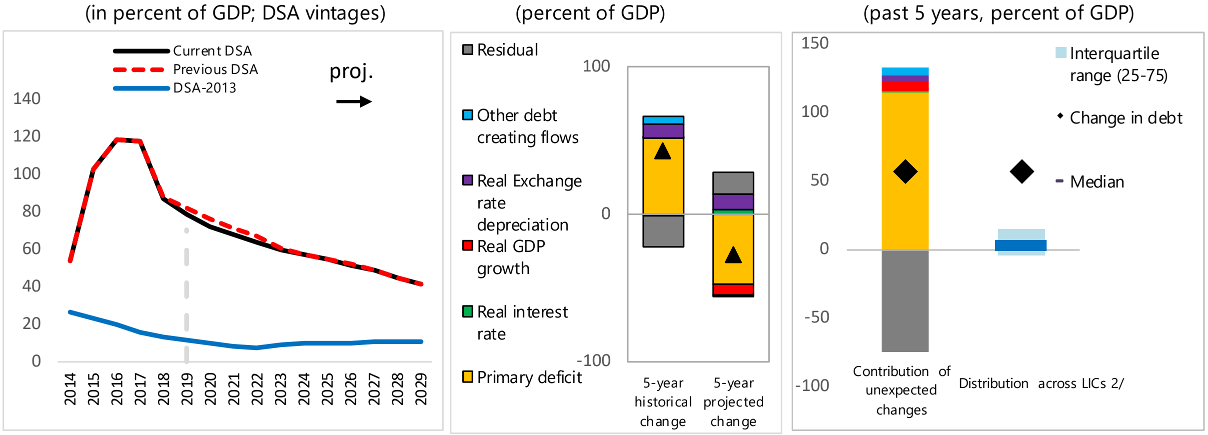
External Debt

Gross Nominal PPG External Debt (in percent of GDP; DSA vintages) | Debt-creating flows (percent of GDP) | Unexpected Changes in Debt 1/ (past 5 years, percent of GDP)



Public Debt

Gross Nominal Public Debt (in percent of GDP; DSA vintages) | Debt-creating flows (percent of GDP) | Unexpected Changes in Debt 1/ (past 5 years, percent of GDP)



1/ Difference between anticipated and actual contributions on debt ratios.

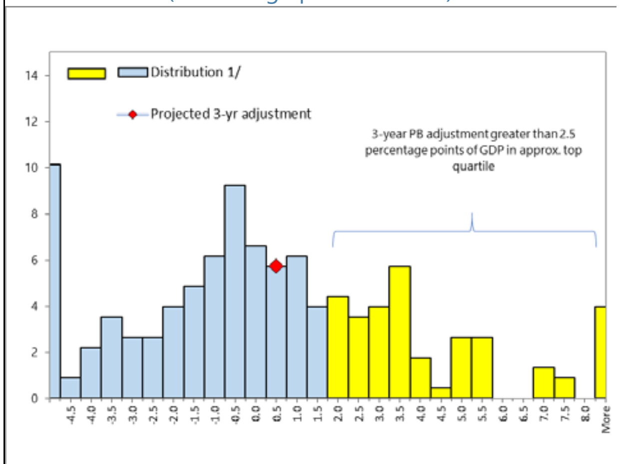
2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

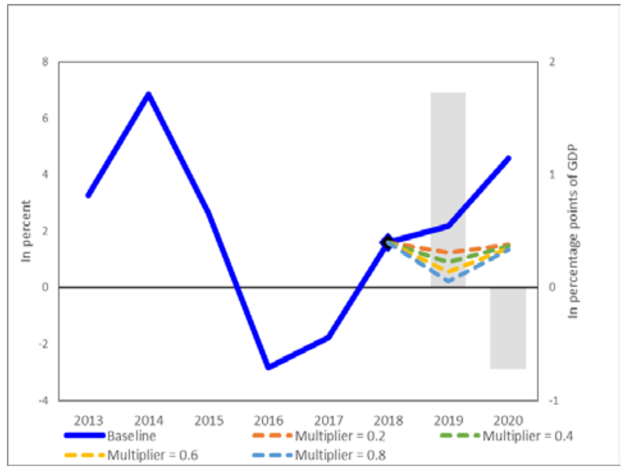
Sources: Congolese authorities and IMF staff projections.

Figure 4. Republic of Congo: Realism Tools

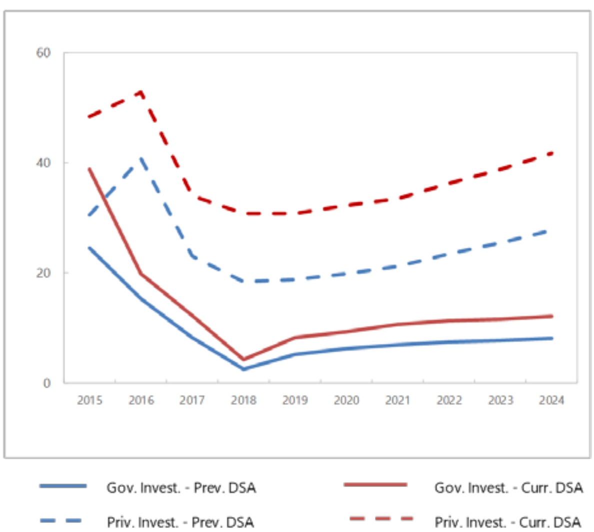
3-Year Adjustment in Primary Balance
(Percentage points of GDP)



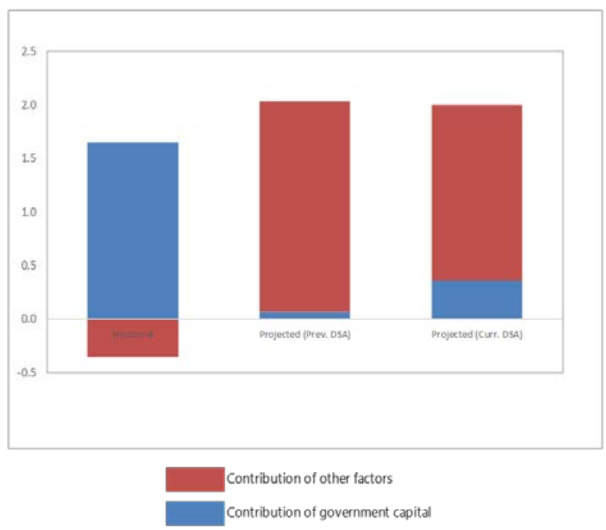
Fiscal Adjustment and Possible Growth Path [2]



Public and Private Investment Rates[3]
(Percent of GDP)



Contribution to Real GDP growth
(Percent, 5-year average)



Sources: Congolese authorities and IMF staff estimates.

1/ Data cover Fund-supported programs for LICS (excluding emergency financing) approved since 1990. The size of 3-year adjustment for program inception is found on the horizontal axis, the percent of sample is found on the vertical axis.

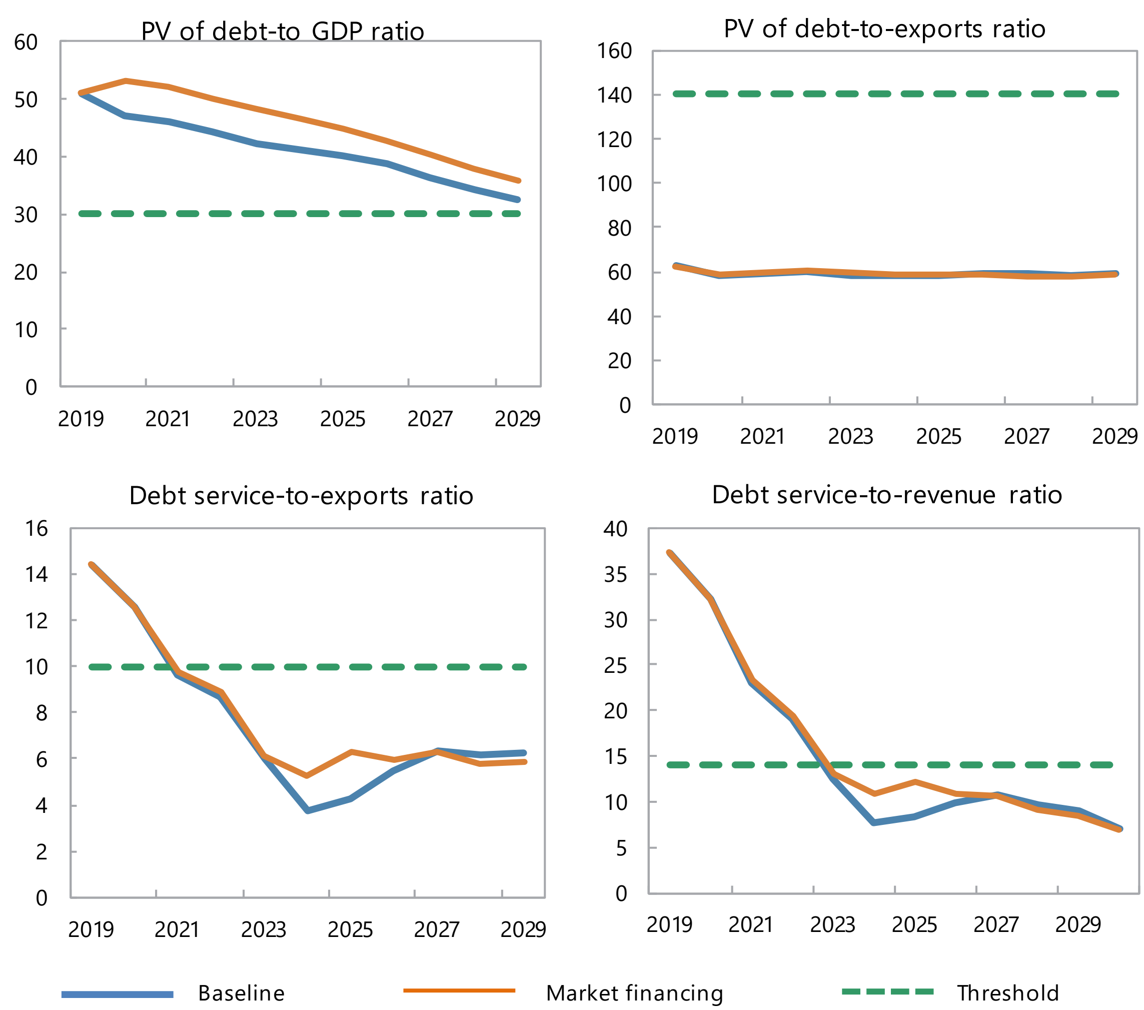
2/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

3/ The changes in investment reflect a change in the methodology for computing the price index used to convert norminal investment to investment at constant prices; this does not reflect a change in actual investment rates.

Figure 5. Republic of Congo: Market-Financing Risk Indicators

	GFN 1/	EMBI 2/
Benchmarks	14	570
Values	5	1250
Breach of benchmark	No	Yes
Potential heightened liquidity needs	Moderate	

1/ Maximum gross financing needs (GFN) over 3-year baseline projection horizon.
2/ EMBI spreads correspond to the latest available data.



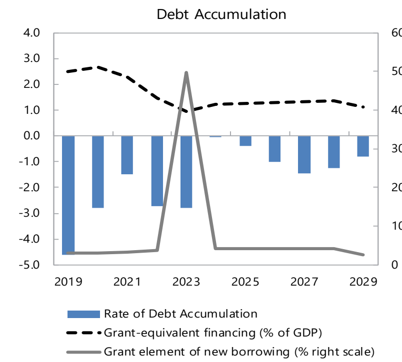
Sources: Congolese authorities; and IMF staff estimates and projections.

Table 4. Republic of Congo: External Debt Sustainability Framework, Baseline Scenario, 2016–39

(Percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029	2039	Historical	Projections
External debt (nominal) 1/	**91.4**	**80.0**	**61.3**	**57.2**	**53.9**	**54.0**	**52.7**	**49.0**	**47.4**	**36.7**	**19.5**	**50.8**	**47.4**
of which: public and publicly guaranteed (PPG)	**91.4**	**80.0**	**61.3**	**57.2**	**53.9**	**54.0**	**52.7**	**49.0**	**47.4**	**36.7**	**19.5**	**50.8**	**47.4**
Change in external debt	9.3	-11.4	-18.7	-4.1	-3.4	0.1	-1.3	-3.7	-1.6	-2.2	-1.3		
Identified net debt-creating flows	**34.0**	**-11.9**	**-28.9**	**-13.4**	**-12.4**	**-6.4**	**-2.6**	**-3.0**	**-2.3**	**5.8**	**10.2**	**-5.7**	**-2.8**
Non-interest current account deficit	**61.1**	**1.9**	**-9.1**	**-9.4**	**-7.0**	**-2.4**	**1.1**	**1.7**	**2.3**	**10.1**	**16.2**	**6.6**	**1.5**
Deficit in balance of goods and services	51.9	-9.2	-22.7	-22.0	-19.4	-14.9	-10.5	-9.5	-8.9	0.7	9.4	**-0.3**	**-9.6**
Exports	59.1	73.0	83.8	81.4	80.4	77.6	74.2	72.2	71.1	54.6	32.6		
Imports	110.9	63.8	61.1	59.3	61.1	62.6	63.6	62.7	62.1	55.3	42.0		
Net current transfers (negative = inflow)	6.6	5.0	4.0	3.8	3.8	4.0	4.1	4.3	4.4	4.8	4.1	**1.4**	**4.3**
of which: official	-0.2	-0.5	-0.1	-0.4	-0.4	-0.4	-0.5	-0.5	-0.5	-0.7	-0.8		
Other current account flows (negative = net inflow)	2.6	6.2	9.7	8.8	8.5	8.6	7.4	7.0	6.8	4.6	2.7	**5.5**	**6.7**
Net FDI (negative = inflow)	**-37.6**	**-3.7**	**-2.9**	**-4.1**	**-4.0**	**-4.1**	**-4.6**	**-4.9**	**-4.1**	**-3.9**	**-5.6**	**-12.5**	**-4.1**
Endogenous debt dynamics 2/	**10.5**	**-10.1**	**-16.8**	**0.1**	**-1.3**	**0.1**	**1.0**	**0.1**	**-0.4**	**-0.5**	**-0.4**		
Contribution from nominal interest rate	2.4	1.6	1.9	1.5	1.2	1.1	1.0	0.8	0.7	0.4	0.3		
Contribution from real GDP growth	2.6	1.4	-1.0	-1.4	-2.5	-1.0	0.0	-0.7	-1.1	-0.9	-0.6		
Contribution from price and exchange rate changes	5.5	-13.1	-17.8	...	...	...	...	...	...	...	...		
Residual 3/	**-24.7**	**0.6**	**10.2**	**9.3**	**9.0**	**6.5**	**1.3**	**-0.7**	**0.7**	**-8.0**	**-11.5**	**4.9**	**0.5**
of which: exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	**...**	**...**	**54.1**	**51.5**	**47.2**	**46.0**	**44.3**	**41.2**	**40.1**	**31.3**	**17.8**		
PV of PPG external debt-to-exports ratio	**...**	**...**	**64.5**	**63.3**	**58.7**	**59.3**	**59.7**	**57.1**	**56.4**	**57.4**	**54.6**		
PPG debt service-to-exports ratio	**13.1**	**9.0**	**8.5**	**14.4**	**12.6**	**9.6**	**8.7**	**6.0**	**3.7**	**6.0**	**5.4**		
PPG debt service-to-revenue ratio	**23.4**	**24.0**	**24.6**	**37.3**	**32.3**	**23.1**	**19.1**	**12.6**	**7.6**	**8.6**	**4.3**		
Gross external financing need (Million of U.S. dollars)	2433.0	424.5	-569.5	-194.1	-109.0	113.5	321.9	131.4	86.0	1236.7	2694.9		
Key macroeconomic assumptions													
Real GDP growth (in percent)	-2.8	-1.8	1.6	2.2	4.6	1.9	0.0	1.3	2.3	2.4	3.3	**3.4**	**2.0**
GDP deflator in US dollar terms (change in percent)	-6.3	16.8	28.5	-6.0	-1.4	-2.4	-2.3	-0.6	0.5	0.4	2.4	**0.3**	**-1.0**
Effective interest rate (percent) 4/	2.6	2.0	3.1	2.3	2.2	2.1	1.8	1.5	1.4	1.2	1.3	**1.4**	**1.6**
Growth of exports of G&S (US dollar terms, in percent)	-9.5	41.8	50.0	-6.8	2.0	-4.1	-6.5	-2.0	1.1	-4.0	0.7	**6.5**	**-2.9**
Growth of imports of G&S (US dollar terms, in percent)	-9.1	-34.1	25.1	-6.8	6.2	1.9	-0.7	-0.8	1.8	1.0	2.4	**3.4**	**0.1**
Grant element of new public sector borrowing (in percent)	...	...	...	30.7	30.1	32.1	36.4	497.0	41.3	25.2	25.6	**...**	**78.0**
Government revenues (excluding grants, in percent of GDP)	33.2	27.3	29.1	31.5	31.3	32.3	33.7	34.2	34.6	38.1	41.5	**38.5**	**34.7**
Aid flows (in Million of US dollars) 5/	247.6	205.2	312.9	314.4	314.8	301.3	196.4	204.0	211.3	90.7	174.4		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	2.5	2.7	2.3	1.5	0.9	1.2	1.1	1.1	**...**	**1.6**
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	34.8	33.7	36.7	47.1	147.1	55.8	47.0	53.9	**...**	**57.3**
Nominal GDP (Million of US dollars)	7,787	8,932	11,664	11,200	11,553	11,489	11,234	11,306	11,616	12,970	21,806		
Nominal dollar GDP growth	-9.0	14.7	30.6	-4.0	3.2	-0.6	-2.2	0.6	2.7	2.8	5.7	**3.6**	**1.0**
Memorandum items:													
PV of external debt 7/	...	...	54.1	51.5	47.2	46.0	44.3	41.2	40.1	31.3	17.8		
In percent of exports	...	...	64.5	63.3	58.7	59.3	59.7	57.1	56.4	57.4	54.6		
Total external debt service-to-exports ratio	13.1	9.0	8.5	14.4	12.6	9.6	8.7	6.0	3.7	6.0	5.4		
PV of PPG external debt (in Million of US dollars)			6306.9	5771.1	5457.7	5287.9	4973.6	4660.0	4655.7	4064.4	3879.9		
(PVt-PVt-1)/GDPt-1 (in percent)				-4.6	-2.8	-1.5	-2.7	-2.8	0.0	-0.8	-0.1		
Non-interest current account deficit that stabilizes debt ratio	51.9	13.3	9.6	-5.3	-3.7	-2.5	2.4	5.4	3.9	12.3	17.5		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**Yes**



Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g) + Ɛα (1+r)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, ρ = growth rate of GDP deflator in U.S. dollar terms, Ɛ=nominal appreciation of the

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Current-year interest payments divided by previous period debt stock.

5/ Defined as grants, concessional loans, and debt relief.

6/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

7/ Assumes that PV of private sector debt is equivalent to its face value.

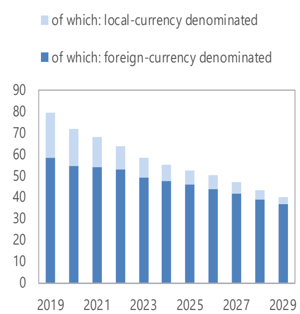
8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

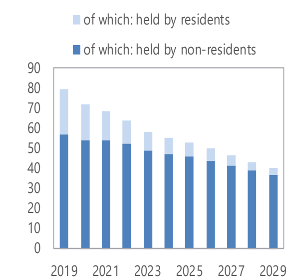
Table 5. Republic of Congo: Public Sector Debt Sustainability Framework, Baseline Scenario, 2016–39

	Actual			Projections								Average 6/	
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029	2039	Historical	Projections
Public sector debt 1/	**118.6**	**117.5**	**87.1**	**79.8**	**71.8**	**68.3**	**64.0**	**58.4**	**55.2**	**40.0**	**20.4**	**73.1**	**57.3**
of which: external debt	**91.4**	**80.0**	**61.3**	**57.2**	**53.9**	**54.0**	**52.7**	**49.0**	**47.4**	**36.7**	**19.5**	**50.8**	**47.4**
of which: local-currency denominated													
Change in public sector debt	15.6	-1.1	-30.4	-7.3	-8.0	-3.5	-4.3	-5.6	-3.2	-3.2	-1.4		
Identified debt-creating flows	**34.3**	**-13.9**	**-27.3**	**-8.6**	**-11.6**	**-7.6**	**-6.4**	**-7.9**	**-8.8**	**-5.2**	**-3.0**	**-0.6**	**-7.5**
Primary deficit	**17.8**	**5.2**	**-8.9**	**-10.6**	**-9.9**	**-9.4**	**-9.4**	**-8.6**	**-8.2**	**-4.8**	**-2.4**	**0.4**	**-7.9**
Revenue and grants	34.1	27.9	29.2	31.9	31.8	32.7	34.3	34.8	35.2	38.8	42.3	**38.9**	**35.2**
of which: grants	0.9	0.6	0.1	0.4	0.4	0.4	0.5	0.6	0.5	0.7	0.8		
Primary (noninterest) expenditure	51.8	33.1	20.3	21.3	21.9	23.4	24.8	26.2	27.0	34.0	39.9	**39.3**	**27.4**
Automatic debt dynamics	**15.5**	**-19.9**	**-18.5**	**2.1**	**-1.6**	**2.0**	**3.0**	**0.7**	**-0.6**	**-0.5**	**-0.6**		
Contribution from interest rate/growth differential	6.0	-0.6	-7.9	-1.0	-2.9	-0.5	0.5	-0.7	-1.4	-1.0	-0.5		
of which: contribution from average real interest rate	3.0	-2.7	-6.1	0.9	0.6	0.9	0.6	0.1	-0.1	0.0	0.2		
of which: contribution from real GDP growth	3.0	2.1	-1.8	-1.9	-3.5	-1.4	0.0	-0.8	-1.3	-1.0	-0.7		
Contribution from real exchange rate depreciation	9.4	-19.3	-10.5	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	**1.1**	**0.8**	**0.0**	**-0.1**	**-0.2**	**-0.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.9**	**-0.1**
Privatization receipts (negative)	1.1	0.8	0.0	-0.1	-0.2	-0.3	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	**-18.6**	**12.8**	**-3.1**	**4.4**	**5.0**	**6.7**	**4.6**	**3.7**	**6.4**	**2.6**	**1.5**	**1.4**	**4.6**
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	**...**	**...**	**81.9**	**74.4**	**65.0**	**60.2**	**55.5**	**50.5**	**47.8**	**34.6**	**18.6**		
PV of public debt-to-revenue and grants ratio	**...**	**...**	**280.9**	**233.4**	**204.6**	**183.8**	**162.0**	**145.2**	**135.9**	**89.0**	**43.9**		
Debt service-to-revenue and grants ratio 3/	**28.6**	**26.4**	**30.5**	**49.7**	**48.7**	**40.2**	**35.2**	**24.6**	**17.9**	**17.6**	**9.7**		
Gross financing need 4/	28.5	13.4	0.0	5.1	5.4	3.5	2.7	-0.1	-1.9	2.0	1.6		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	-2.8	-1.8	1.6	2.2	4.6	1.9	0.0	1.3	2.3	2.4	3.3	**3.4**	**2.0**
Average nominal interest rate on external debt (in percent)	2.7	2.1	3.0	2.4	2.2	2.1	1.8	1.5	1.4	1.2	1.3	**1.4**	**1.6**
Average real interest rate on domestic debt (in percent)	7.7	-10.6	-17.6	2.4	2.6	5.1	4.9	3.4	2.3	6.5	40.0	**2.0**	**4.0**
Real exchange rate depreciation (in percent, + indicates depreciation)	11.0	-20.7	-13.3	...	...	...	...	...	...	...	...	**5.1**	**...**
Inflation rate (GDP deflator, in percent)	-6.1	14.4	22.9	-1.1	-1.1	-3.4	-3.0	-1.0	0.3	0.4	2.4	**1.6**	**-0.7**
Growth of real primary spending (deflated by GDP deflator, in percent)	-10.9	-37.3	-37.7	7.2	7.5	8.9	6.4	6.6	5.4	6.3	4.2	**5.4**	**6.9**
Primary deficit that stabilizes the debt-to-GDP ratio 5/	2.1	6.3	21.6	-3.3	-1.9	-5.9	-5.1	-3.0	-5.0	-1.6	-1.0	**10.0**	**-3.6**
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**Yes**

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central, state, and local governments plus social security, central bank, government-guaranteed debt. Definition of external debt is Residency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Table 6. Republic of Congo: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2019–29

(Percent)

		Projections 1/									
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
PV of debt-to GDP ratio											
Baseline	**52**	**47**	**46**	**44**	**41**	**40**	**39**	**37**	**35**	**33**	**31**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	**52**	**50**	**47**	**42**	**36**	**32**	28	22	14	6	-3
B. Bound Tests											
B1. Real GDP growth	**52**	**51**	**52**	**50**	**46**	**45**	**44**	**42**	**40**	**37**	**35**
B2. Primary balance	**52**	**62**	**97**	**98**	**96**	**95**	**95**	**94**	**92**	**88**	**86**
B3. Exports	**52**	**77**	**135**	**137**	**134**	**134**	**134**	**132**	**125**	**118**	**111**
B4. Other flows 3/	**52**	**58**	**69**	**69**	**66**	**66**	**65**	**64**	**60**	**57**	**54**
B5. Depreciation	**52**	**60**	**59**	**57**	**53**	**51**	**50**	**48**	**45**	**42**	**40**
B6. Combination of B1-B5	**52**	**69**	**76**	**75**	**73**	**72**	**71**	**69**	**65**	**61**	**58**
C. Tailored Tests											
C1. Combined contingent liabilities	**52**	**62**	**62**	**61**	**59**	**58**	**57**	**56**	**54**	**52**	**51**
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	**52**	**52**	**56**	**56**	**54**	**54**	**53**	**52**	**49**	**47**	**44**
C4. Market Financing	**52**	**53**	**52**	**50**	**47**	**45**	**43**	**41**	**39**	**36**	**35**
Threshold	30	30	30	30	30	30	30	30	30	30	30
PV of debt-to-exports ratio											
Baseline	63	59	59	60	57	56	57	58	57	56	57
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	63	62	61	56	50	45	41	33	23	10	-6
B. Bound Tests											
B1. Real GDP growth	63	59	59	60	57	56	57	58	57	56	57
B2. Primary balance	63	77	125	132	133	134	139	**144**	**147**	**151**	**157**
B3. Exports	63	115	**253**	**267**	**270**	**273**	**284**	**294**	**293**	**292**	**296**
B4. Other flows 3/	63	73	89	93	92	92	95	98	97	97	98
B5. Depreciation	63	59	60	60	57	57	57	58	57	57	58
B6. Combination of B1-B5	63	89	83	123	122	122	126	128	127	127	129
C. Tailored Tests											
C1. Combined contingent liabilities	63	77	80	82	81	81	83	86	88	89	93
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	63	69	76	79	78	78	79	81	81	81	82
C4. Market Financing	63	59	60	61	58	57	57	57	56	56	57
Threshold	140	140	140	140	140	140	140	140	140	140	140
Debt service-to-exports ratio											
Baseline	14	13	10	9	6	4	4	5	6	6	6
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	14	13	9	8	5	3	4	5	5	5	4
B. Bound Tests											
B1. Real GDP growth	14	13	10	9	6	4	4	5	6	6	6
B2. Primary balance	14	13	11	12	10	7	8	11	14	14	14
B3. Exports	14	19	22	22	16	11	12	19	28	28	29
B4. Other flows 3/	14	13	10	9	7	4	5	7	10	10	10
B5. Depreciation	14	13	10	9	6	4	4	5	6	6	6
B6. Combination of B1-B5	14	15	14	13	9	6	7	11	13	13	13
C. Tailored Tests											
C1. Combined contingent liabilities	14	13	10	9	6	4	5	6	7	7	7
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	14	14	11	10	7	4	5	7	8	8	8
C4. Market Financing	14	13	10	9	6	5	6	6	6	6	6
Threshold	10	10	10	10	10	10	10	10	10	10	10
Debt service-to-revenue ratio											
Baseline	**37**	**32**	**23**	**19**	13	8	8	10	11	10	9
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	**37**	**32**	**22**	**17**	11	7	7	8	9	7	6
B. Bound Tests											
B1. Real GDP growth	**37**	**35**	**26**	**22**	**14**	9	9	11	12	11	10
B2. Primary balance	**37**	**32**	**27**	**27**	**20**	**15**	**15**	**20**	**23**	**22**	**20**
B3. Exports	**37**	**40**	**37**	**33**	**23**	**15**	**16**	**23**	**33**	**30**	**28**
B4. Other flows 3/	**37**	**32**	**24**	**20**	14	9	9	13	**16**	**15**	14
B5. Depreciation	**37**	**41**	**29**	**24**	**16**	10	11	12	14	12	11
B6. Combination of B1-B5	**37**	**37**	**29**	**24**	**16**	10	11	**16**	**18**	**17**	**16**
C. Tailored Tests											
C1. Combined contingent liabilities	**37**	**32**	**24**	**20**	13	8	9	11	11	10	9
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	**37**	**36**	**26**	**22**	**15**	9	10	12	14	13	12
C4. Market Financing	**37**	**32**	**23**	**19**	13	11	12	11	11	9	8
Threshold	14	14	14	14	14	14	14	14	14	14	14

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private transfers and FDI.

Table 7. Republic of Congo: Sensitivity Analysis for Key Indicators of Public Debt, 2019–29

	Projections 1/										
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
					PV of Debt-to-GDP Ratio						
Baseline	**74**	**65**	**60**	**56**	**50**	**48**	**46**	**43**	**40**	**37**	35
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	**74**	**70**	**67**	**64**	**62**	**63**	**64**	**63**	**63**	**62**	**61**
B. Bound Tests											
B1. Real GDP growth	**74**	**72**	**72**	**70**	**67**	**66**	**67**	**68**	**67**	**67**	**67**
B2. Primary balance	**74**	**80**	**111**	**110**	**106**	**103**	**102**	**100**	**97**	**93**	**89**
B3. Exports	**74**	**80**	**102**	**100**	**97**	**95**	**94**	**92**	**87**	**81**	**76**
B4. Other flows 3/	**74**	**76**	**83**	**80**	**76**	**73**	**72**	**69**	**65**	**61**	**57**
B5. Depreciation	**74**	**78**	**70**	**64**	**58**	**53**	**50**	**45**	**40**	**35**	31
B6. Combination of B1-B5	**74**	**75**	**81**	**79**	**75**	**73**	**72**	**71**	**70**	**67**	**65**
C. Tailored Tests											
C1. Combined contingent liabilities	**74**	**80**	**76**	**72**	**68**	**65**	**64**	**62**	**60**	**57**	**54**
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	**74**	**69**	**67**	**67**	**65**	**66**	**67**	**67**	**67**	**66**	**66**
C4. Market Financing	**74**	**65**	**61**	**56**	**51**	**48**	**46**	**43**	**40**	**37**	34
Public debt benchmark	35	35	35	35	35	35	35	35	35	35	35
					PV of Debt-to-Revenue Ratio						
Baseline	233	205	184	162	145	136	128	118	108	98	89
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	233	221	205	186	178	178	178	174	168	163	157
B. Bound Tests											
B1. Real GDP growth	233	226	219	202	191	189	187	184	180	174	171
B2. Primary balance	233	252	340	320	304	293	284	273	259	243	230
B3. Exports	233	253	311	292	278	269	261	250	231	212	195
B4. Other flows 3/	233	240	253	233	218	209	200	189	175	159	146
B5. Depreciation	233	244	215	187	166	152	138	124	108	93	79
B6. Combination of B1-B5	233	235	249	230	216	209	202	195	186	176	168
C. Tailored Tests											
C1. Combined contingent liabilities	233	252	232	211	195	186	178	169	159	148	140
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	233	236	224	211	199	194	189	183	179	174	170
C4. Market Financing	233	206	185	164	147	137	127	117	107	97	88
					Debt Service-to-Revenue Ratio						
Baseline	50	49	40	35	25	18	17	18	19	18	18
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	50	48	37	31	21	15	14	16	17	17	17
B. Bound Tests											
B1. Real GDP growth	50	53	45	40	28	21	20	22	23	23	22
B2. Primary balance	50	49	44	43	32	25	24	29	32	31	30
B3. Exports	50	49	41	38	27	20	19	24	30	29	27
B4. Other flows 3/	50	49	41	36	26	19	18	22	25	24	23
B5. Depreciation	50	51	46	40	28	19	19	20	21	20	19
B6. Combination of B1-B5	50	48	43	40	29	22	21	23	23	22	21
C. Tailored Tests											
C1. Combined contingent liabilities	50	49	41	36	25	19	18	19	20	19	18
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	50	54	44	39	27	20	18	20	22	22	22
C4. Market Financing	50	49	40	36	25	21	21	19	19	18	17

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the benchmark.

2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

3/ Includes official and private transfers and FDI.