INTERNATIONAL MONETARY FUND

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THE DEMOCRATIC REPUBLIC OF THE CONGO

December 2019

STAFF-MONITORED PROGRAM AND REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE DEMOCRATIC REPUBLIC OF THE CONGO

In the context of the Staff-Monitored Program and Request for Disbursement Under the Rapid Credit Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 16, 2019, following discussions that ended on November 15, 2019, with the officials of the Democratic Republic of the Congo on economic developments and policies underpinning the IMF arrangement under the Rapid Credit Facility. Based on information available at the time of these discussions, the staff report was completed on December 4, 2019.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Statement by the Executive Director** for the Democratic Republic of the Congo.

The documents listed below have been or will be separately released (also include in Staff Report.

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

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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December 17, 2019

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IMF Executive Board Approves a US$368.4 Million Disbursement Under the Rapid Credit Facility for the Democratic Republic of the Congo

On December 16, 2019, the Executive Board of the International Monetary Fund (IMF) approved a disbursement to the Democratic Republic of Congo under the Rapid Credit Facility (RCF) [1] in the amount equivalent to SDR266.5 million (about US$368.4 million, 25 percent of quota) to enable the authorities to meet their urgent balance of payment needs.

In addition, the Board was informed about the IMF Managing Director's approval of a staff-monitored program (SMP) [2] running up to May 2020. The SMP is intended to guide policy implementation, provide authorities with more time to identify, prioritize, and implement reforms aimed at boosting revenue, tackling corruption, and improving governance.

The economic environment remains challenging and vulnerable to shocks. Real GDP growth is projected to decelerate to 4.5 percent in 2019 from 5.8 percent in 2018. The recent fall in commodity prices, new spending initiatives, and looser spending oversight during the political transition period have led to a weaker fiscal position mostly financed by the central bank. In this context, international reserves have fallen to critically low levels creating urgent balance of payment needs.

The new government is committed to implementing measures and reforms that would strengthen macroeconomic stability, reinforce international reserves, address issues related to poor governance, a difficult business environment, and pervasive poverty. Authorities also intend to boost domestic revenue by restoring the functioning of the VAT and enforcing the personal income tax, while improving mining revenue forecasting. In addition, the government intends to introduce strict spending caps, increase the effectiveness of monetary policy, and foster inclusive growth and private sector development including through infrastructure projects and free basic education.

Following the Executive Board discussion, Mr. Mitsuhiro Furusawa, Deputy Managing Director and Acting Chair, made the following statement:

``The Democratic Republic of Congo (DRC) faces a difficult balance of payments situation triggered by the recent fall in commodity prices, new spending initiatives, and looser spending oversight during the recent political transition period. Although macroeconomic policies have succeeded in restoring elements of macroeconomic stability in recent years, DRC remains a fragile state with precarious economic conditions and pervasive poverty, massive development needs, and prone to conflicts and humanitarian crises.

``The new government is working on an ambitious medium-term economic and reform program. Addressing DRC's deep-rooted challenges will take time and will require coordinated support from the international community. A key focus should be on reforms aimed at restoring fiscal discipline by strengthening spending controls and discontinuing central bank financing of the deficit. To help fulfill the government's ambitious developmental and social plans in a sustainable way, decisive domestic revenue mobilization measures will need to be taken.

``Other key measures are aimed at reinforcing international reserves and improving governance, transparency and the business environment. They include a commitment to publish all new mining contracts. An ongoing governance assessment mission will help with the formulation of measures to tackle corruption and improve governance, and an updated safeguards assessment of the central bank is planned for next year.

``The IMF is supporting the efforts of the country with resources from the Rapid Credit Facility. In addition, the strong policy commitments under the Staff-Monitored Program will provide an opportunity for the authorities, with assistance from their partners, to develop an ambitious, yet realistic, structural reform agenda that will form the basis for deeper structural reforms to promote sustained and inclusive growth, and pave the way for a possible financial engagement with the Fund in 2020.''

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[1] The RCF (http://www.imf.org/external/np/exr/facts/rcf.htm) is a lending arrangement that provides rapid financial support in a single, up-front payout for low-income countries facing urgent financing needs.
[2] An SMP is an informal agreement between country authorities and Fund staff, whereby the latter agree to monitor the implementation of the authorities' economic program. SMPs do not entail financial assistance or endorsement by the IMF Executive Board.

INTERNATIONAL MONETARY FUND

DEMOCRATIC REPUBLIC OF THE CONGO

December 4, 2019

STAFF-MONITORED PROGRAM AND REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY

EXECUTIVE SUMMARY

Background. While macroeconomic policies in recent years have succeeded in restoring elements of macroeconomic stability under difficult circumstances, macroeconomic conditions are nonetheless precarious. The recent fall in commodity prices, new spending initiatives, and looser spending oversight during the political transition period have led to a weaker fiscal position mostly financed by the central bank. In that context, international reserves have fallen to critically low levels (one week of import coverage). Balance of payments needs remain both urgent and protracted.

Request. The authorities are requesting the board to approve a disbursement under the Rapid Credit Facility (RCF) of SDR 266.5 million, or 25 percent of quota, to meet urgent balance of payments needs. In addition, a staff-monitored program (SMP) running up to May 2020 (presented to the Board for information) will help guide policy implementation and provide time to develop an appropriately ambitious medium-term reform strategy that could eventually be supported by an Extended Credit Facility (ECF). A governance assessment mission will help with the formulation of measures to tackle corruption and improve governance.

Main policy commitments. Fiscal policy will be anchored on the discontinuation of central bank financing of the deficit, supported by strong revenue mobilization and expenditure control efforts. The authorities will restore the functioning of the VAT, enforce the personal income tax, and start reducing tax exemptions. Stronger spending controls will be based on a Treasury Plan that caps budgetary commitments of all governmental units. Unencumbered foreign currency deposits of the central bank placed in local commercial banks will be transferred to central bank's accounts abroad to increase official foreign reserves.

Staff's view. Staff supports the authorities' request based on strong policy commitments articulated in the attached Memorandum of Economic and Financial Policies (MEFP). The RCF disbursement in combination with the SMP would provide an opportunity to develop a deeper structural reform agenda that could be eventually implemented with support from the IMF's ECF arrangement.

Approved By
Annalisa Fedelino (AFR) and Seán Nolan (SPR)

Discussions took place in Kinshasa during November 6–15, 2019. The staff team comprised Mr. Villafuerte (head), Ms. Gicquel, and Messrs. Perez-Saiz and Moreau (all AFR), Mr. Egoumé (resident representative), and Mr. Gbadi (local economist). Ms. Fedelino (AFR) joined on November 11–12. The mission met with Prime Minister Sylvestre Ilunga Ilukamba, Minister of Finance Jose Sélé Yalaghuli, Minister of Mines Willy Kitobo Samsoni, Central Bank Governor Deogratias Mwana Nyembo Mutombo, civil society organizations, the private sector, the diplomatic community, and the media. Mr. Kalfa provided research assistance.

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BACKGROUND AND CONTEXT

1. **A new government took office on September 6, 2019—eight months after the first ever peaceful transition of power in the country.** It features a "cohabitation" between alliances led by President Tshisekedi and former President Kabila. The 66-strong government (49 ministers and 17 vice-ministers) is purported to include individuals from all parts of the country and to be formed by a large majority of newcomers. Kabila's coalition (KCC) holds 70 percent of government positions in addition to controlling other government functions (e.g., military, judiciary). The new administration is keen on reestablishing active relationships with the international community, as underlined by the conclusion of the 2019 Article IV consultation last August, after more than three-year delay.[1]

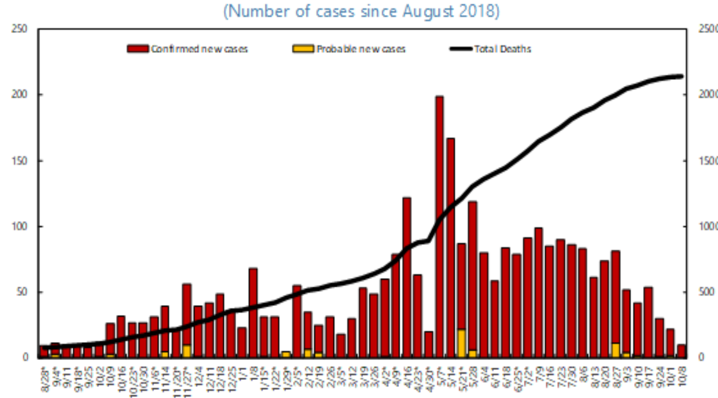
2. **The country displays many aspects of fragility as it remains prone to health and humanitarian crises and violent conflicts.** The Democratic Republic of the Congo (DRC) is one of the poorest countries in the world with per capita income of about US$470—less than half its level in 1990 (MEFP ¶1)—with little progress made towards the Sustainable Development Goals (SDGs) (it ranked 154 out of 156 countries in 2018). The current Ebola epidemic in the North-East of the country, which started in August 2018, is still spreading, though at a much slower pace (Box 1). Cholera and measles outbreaks are also ravaging parts of this vast country, the latter accounting for nearly 5,000 deaths so far in 2019. Violent conflicts continue in the East of the country, forcing tens of thousands of people to flee.

Box 1. The Ebola Epidemic in the Democratic Republic of the Congo

The country is experiencing its worst outbreak of the deadly Ebola disease, though the number of new cases has fallen substantially more recently. As of November 3, a total of 3,274 confirmed cases, including 2,185 deaths, had been reported. The epidemic started in August 2018 in northeastern DRC and has been geographically limited to an area close to Uganda, Rwanda, and South Sudan. The response to the outbreak has been coordinated by the World Health Organization, UNICEF, NGOs, and the Ministry of Health with significant funding from the World Bank. However, violent conflict in the affected regions and distrust of the government have hindered efforts to stop the epidemic. The current strategy response plan has been successful in engaging affected communities in the Ebola monitoring and containment efforts, in stepping up security with MONUSCO's assistance, and in mobilizing a significant increase in international financial assistance (US$ 287 million). The economic impact of the Ebola outbreak so far has been reportedly limited.

DRC Ebola Outbreak

(Number of cases since August 2018)



Source: World Health Organization.
Note: Data from the last observation were assumed for missing data, which are indicated with an asterisk.

[1] Country Report 19/285.

3. **While elements of macroeconomic stability have been restored in recent years, the economy is not growing as much as it should and remains highly vulnerable to shocks.** The commodity price and political shocks of 2015–16 led to large exchange rate depreciations and inflation (55 percent year-on-year at its peak) as the central bank monetized the central government's deficit in the absence of financing options. The government thereafter proceeded to introduce a cash-based budget to restore fiscal discipline, which helped stabilize the exchange rate and contain 12-month inflation at around 5 percent. Despite such progress, macroeconomic conditions remain precarious and domestic arrears have been accumulated (6.6 percent of GDP as of end-September 2019). In recent months, a fall in key export commodity prices and weaker spending oversight during the political transition period have led to larger financing needs, mostly covered by the central bank. In that context, officially recorded international reserves have fallen to critically low levels (one week of import coverage). More fundamentally, structural weaknesses—a challenging business environment, corruption, poor infrastructure, and limited access to financing—continue to hold back private investment and sustained and inclusive growth. The authorities are aware of these challenges and intend to formulate a medium-term reform strategy that can deliver economic gains to broader segments of the population and tackle deep-rooted social needs.

4. **In light of urgent balance of payments needs, the authorities are requesting a disbursement under the RCF. In addition, Fund staff will monitor the authorities' economic program through a SMP, which could help pave the way to an ECF in 2020**. The immediate priority is help fill DRC's sizeable balance of payments financing gap given the extremely low level of reserves; the requested RCF disbursement will help in this regard. At the same time, the authorities view a move towards a Fund-supported program as the lynchpin of their adjustment and reform plans over the medium term and as a catalyst for significant donors' support in the pipeline. For example, the World Bank, in addition to its envisaged support to the free education initiative (Box 2), is negotiating a US$500 million budget support operation (DPO) likely to be aligned in timing with an ECF program. In this context, the proposed SMP will provide more time to develop an ambitious medium-term reform strategy that could be the basis for negotiations for an ECF arrangement in 2020.

RECENT ECONOMIC DEVELOPMENTS

5. **After rebounding in 2018 owing to strong mining production and favorable international prices, GDP growth is projected to slow in 2019**. Real GDP growth would decelerate to 4.5 percent in 2019 from 5.8 percent in 2018, with extractive GDP growth falling from 16.9 to 5.4 percent in the context a substantial fall in the prices of copper and cobalt, DRC's key exports (Figure 1). By contrast, non-extractive GDP growth is projected to accelerate and reach 4.2 percent due to the resumption of economic activity after the presidential elections, higher demand resulting from increased government employees' salaries, and a sizable fiscal stimulus provided in part by the President's 100-day program (see below). Twelve-month inflation, however, has continued to decelerate and the exchange rate has remained stable.

6. Despite an improved current account position, international reserves have continued to decrease in 2019. Gross forex reserves of the *Banque Centrale du Congo* (BCC) declined from US$657 million at end-December 2018 to US$302 million at end-October 2019, equivalent to about one week of imports of goods and services. At the same time, BCC foreign currency assets have remained relatively stable; these include BCC foreign currency deposits held at local commercial banks (US$533 million, of which US$247 million as collateral for government loans and term deposits with different maturities).[2] In a highly dollarized financial system, the very low levels of international reserves severely limits the ability of the BCC to intervene in the FX market to contain volatility—though it appears that high FX liquidity reflecting increased repatriation requirements for mining export receipts helped maintain stability in the exchange rate market.[3]

7. Budget execution through end-October 2019 has reflected new spending initiatives and weaker spending controls, leading to a resumption of central bank financing. The 2019 budget already provided for a large increase in the wage bill to compensate for limited salary increases during the recent high-inflation period. In addition, budgetary outlays expanded on account of the new President's 100-day infrastructure program and the introduction of free basic education (Box 2). Given limited financing options and a loosening of expenditure oversight during the political transition, the government resorted to BCC advances (CF603 billion or 0.7 percent of GDP by end-October), despite their prohibition in both the central bank law and the public finances law. In addition, as mentioned above the BCC provided collateral for government loans from commercial banks (around CF372 billion or 0.4 percent of GDP) to finance subsidy compensations to fuel suppliers and the execution of strategic investment projects. On the revenue side, though collections were more or less in line with projections, Treasury receipts were eroded by offsets for tax credits and arrears for VAT refunds (0.7 percent of GDP). As of end-October, the central government's domestic balance had reached a deficit of 1.1 percent of GDP. In October, the government also restarted (after a very long hiatus) the placement of Treasury bills and bonds to diversify its funding sources (see below).

[2] According to the authorities, proceeds from term deposits help finance BCC operations.

[3] The new Mining Code of 2018 requires mining companies to repatriate 60 percent (raised from 40 percent) of export receipts to their accounts in the DRC, with their uses subject to restrictions under the Exchange Regulation of 2014. This measure constitutes a tightening of the existing capital flow management measure (CFM) under the Fund's Institutional View on capital flows (IV).

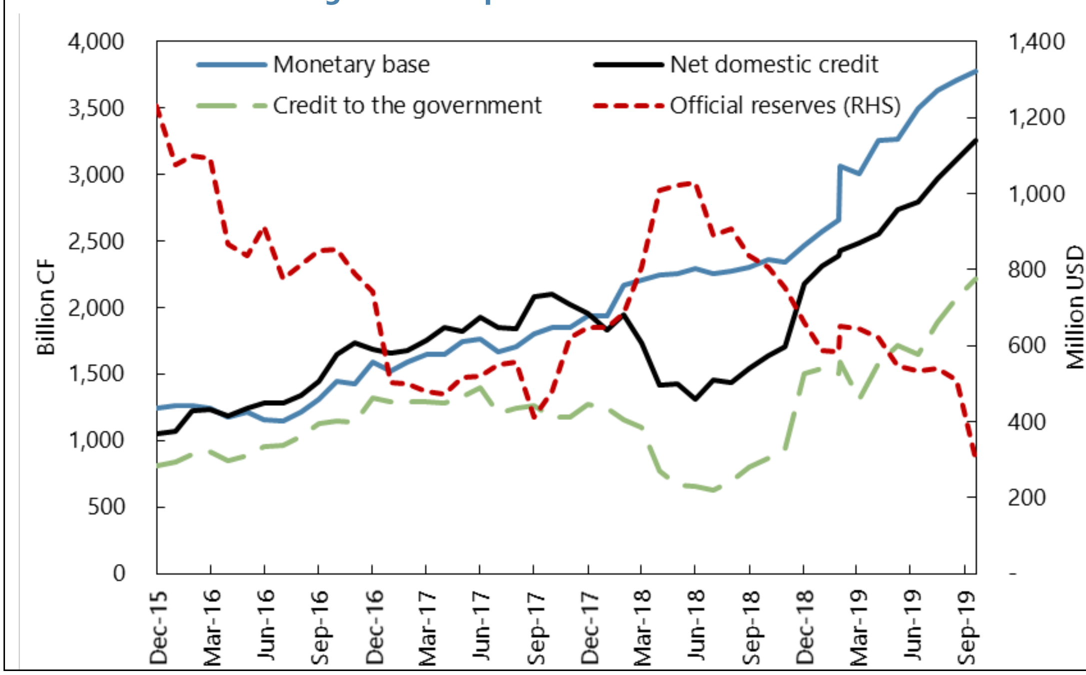
Box 2. Commitment to Free Basic Education

While the right to free primary education is guaranteed by the DRC's 2006 Constitution, in practice almost all schools have required monetary contributions from parents to complement teachers' salaries and cover schools' functioning needs.

President Tshisekedi's pledge to make free basic (primary plus two years) education effective means that schools are prevented from collecting money from parents and that the government has to step in to fill the gap. This gap is currently estimated at 1 percent of GDP per year, mostly to cover teachers' direct salary supplement and/or salary arrears and to pay for transportation and housing subsidies. It also includes payments to cover basic school needs, roughly US$50 per school per month. The initiative has brought about 2.4 million children back to school as of end-October—a welcome development given DRC's significant human capital weaknesses.

8. **The monetary base has increased significantly on account of BCC's budget financing that was not fully sterilized.** By end-October 2019, the monetary base had increased by about 35 percent, compared to end-2018, mainly fueled by increased net credit to the government and other depository institutions (Text Figure 1). BCC financing to the government was mainly provided in foreign currency, which helped limit pressures on the exchange rate and domestic inflation. Monetary policy instruments have been managed to contain broad money to a projected increase of 13 percent by end-2019, compared to 30 percent as of end-2018. Specifically, high mandatory reserve requirements on foreign currency deposits and a positive in real terms policy rate were maintained. Reserve requirements set by the BCC are constituted in local currency, regardless of the currency of deposit.

Text Figure 1. Components of BCC Balance Sheet



9. The financial system remains stable, but the issue of dwindling correspondent banking relationships is a concern. The banking system is relatively well-capitalized,[4] profitable and liquid, (Text Table 1), but NPLs have increased over the years, reaching 16.1 percent at end-September 2019. The only bank with a correspondent banking relationship in US dollars is a major international bank that is solvent and well-capitalized—though reliance on just one institution greatly elevates systemic risk in case of financial or operational failure in a highly dollarized economy, on top of competition concerns. While credit exposure to the public sector remains below 20 percent of total credit, the sector is increasingly affected by the high stock of arrears in the public sector.

Text Table 1. Democratic Republic of the Congo: Selected Financial Soundness Indicators, 2014–2019

	2014	2015	2016	2017	2018	Mar-19	Jun-19	Sep-19
Adequacy								
Regulatory capital to risk-weighted assets	24.5	17.6	14.7	16.0	13.7	13.9	13.8	13.9
Asset quality								
NPLs to gross loans	6.9	18.4	16.3	16.1	13.8	13.0	13.2	16.1
Earnings and profitability								
Return on assets (net income/total assets)	1.7	-1.3	-2.6	-0.1	1.1	1.7	1.8	1.4
Interest margin to gross income	34.4	245.9	223.8	35.4	35.5	40.1	38.4	38.7
Liquidity								
Liquid assets/total deposits and short-term liabilities	123.9	147.8	157.6	125.6	67.2	68.9	71.9	76.0
Sensitivity to market risk								
Foreign currency-denominated loans to total loans	79.3	87.5	92.3	93.7	90.0	92.7	91.8	91.5

Source: Central Bank of the Democratic Republic of the Congo (BCC).

10. The business environment is plagued by serious shortcomings, including excessive taxation and a weak judiciary, that hamper private investment. The tax system includes multiple overlapping and nuisance taxes and many public entities levy fees and charges (some outside the legal framework), which overall significantly increase the tax burden to taxpayers, even though a large share of these collections is not remitted to the Treasury. Private enterprises complain of being constantly harassed by tax authorities and multiple other government entities for payments that in many instances are not justified. The associated costs have become prohibitive, breeding corruption. The lack of fair administration of justice leads to serious violations of property rights and the rule of law. Given the adverse business environment, the number of businesses that operate in the formal sector keeps shrinking as reputable companies either leave the country or cease operations, while many others go informal, significantly reducing the tax base.

OUTLOOK AND RISKS

11. GDP growth in 2020 is expected to decelerate further due to the shutdown of one of the largest copper and cobalt mines in the country. The planned suspension of production at the

[4] Three small banks (out of 17 in the banking system) have insufficient capital (two with Tier 1 capital under the minimum regulatory requirement of 6 percent, and one slightly above at 7 percent). The BCC has developed an action plan with those banks to increase their capital ratios to appropriate levels.

Mutanda Mining (MUMI) in 2020 and 2021, the shutdown of Boss mining, and the delayed start of new mining projects would lead to a contraction of extractive GDP (Table 1). However, as non-extractive GDP growth rate will continue to accelerate (to 5.4 percent), overall GDP growth would amount to 3.2 percent in 2020. Inflation would remain stable at around 5 percent, below the BCC medium-run objective of 7 percent. The decline of copper and cobalt production in 2020 (first contraction since 2016) is projected to temporarily worsen the current account balance, which should steadily improve thereafter thanks to the opening of new mining projects, notably the Kamoa-Kakula mining project, which is expected to become the second largest copper mine in the world.

12. The economic outlook remains subject to significant downside risks (RAM, Annex I). While the threat of a further spreading of the Ebola epidemic has fallen, the country's vulnerability to other contagious diseases such as measles or cholera could have significant adverse macroeconomic consequences. The slowdown of the Chinese economy, the main buyer of copper and cobalt, could play a negative role for the Congolese economy leading to a loss of fiscal and export revenues. Other risks include a continued monetization of the fiscal deficit, intensification of armed conflicts, and the withdrawal of the only correspondent banking relationship. On the upside, the new government is keen on actively reengaging with the international community which should lead to increased project and budget support by partners, with a positive impact on private investment inflows and overall economic activity.

POLICY DISCUSSIONS

The requested RCF disbursement will help ease the pressure on international reserves. The SMP discussions centered around key policies that would strengthen macroeconomic stability, reinforce international reserves, and advance key structural reforms to start addressing deep-seated issues related to poor governance, a difficult business environment, and pervasive poverty. Fiscal policy would be anchored on discontinuation of central bank financing of the deficit supported by strong revenue mobilization and expenditure control efforts.

13. In the context of substantial spending pressures and a critically low level of international reserves, the new government is putting in place decisive measures in the short term, as reflected in the attached Memorandum of Economic and Financial Policies (MEFP) for the SMP. The new government is working on an ambitious medium-term economic management and reform program that will be informed by upcoming governance assessment and PEFA missions and could provide the basis for an ECF-supported arrangement in 2020.

A. Restoring fiscal discipline

14. Budget execution in the remainder of 2019 is predicated on stopping the recourse to central bank financing. The government will limit the 2019 domestic and overall fiscal deficits on a cash basis to 1 and 2.3 percent of GDP, respectively, through a strict implementation of a cash-based budget. Halting BCC advances over the last two months of 2019 implies an ambitious, but realistic, fiscal effort, with a targeted domestic balance surplus of 0.1 percent of GDP for November and December despite seasonally-high levels of spending in December (Text Table 2).

Text Table 2. Democratic Republic of the Congo: Central Government Financial Operations, 2019–2020

	2019		2020	
	Jan-Oct Prel.	Proj.	Finance law	Proj.
	in percent of GDP			
Revenue and grants	***9.5***	***11.1***	***17.7***	***12.7***
Revenue	*8.8*	*10.3*	16.0	*11.3*
Grants	*0.8*	*0.8*	1.8	*1.4*
Expenditure	***11.4***	***13.8***	***18.1***	***13.3***
of which: Current expenditure	*9.2*	*10.6*	11.9	*10.1*
Capital expenditure	*2.0*	*2.9*	5.8	*3.0*
Overall fiscal balance (commitment basis)	***-1.9***	***-2.7***	***-0.4***	***-0.6***
Domestic fiscal balance (cash basis)	***-1.1***	***-1.0***	**-0.3**	***-0.3***
Overall fiscal balance (cash basis)	***-1.4***	***-2.3***	***-0.4***	***-0.6***

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

15. The draft 2020 budget currently in Parliament reflects the president's pledge to improve the livelihood of the Congolese people. Its spending envelope, as approved by cabinet, approaches US$10 billion (20 percent of GDP), an increase of over 60 percent compared to the projected 2019 budget outcome. The draft budget identifies very ambitious new revenue-generating measures and forecasts spending increases primarily on the wage bill (teachers' wages) and domestically-financed capital expenditure to continue implementing the President's 100-day program. The 2020 budget foresees an overall fiscal deficit of 0.4 percent of GDP. However, realistic revenue projections that adjust for overoptimistic assumptions and reflect the announced closure of MUMI mine in 2020 and 2021 (with estimated income tax losses of about 0.5 percent of GDP) suggest a gap of 4.7 percent of GDP. The authorities agreed to base budget execution for 2020 on these more realistic assumptions. In line with their commitment to fiscal discipline, they will implement strong measures to ensure higher revenue collection and rationalization of expenditures in 2020. To that effect, structural benchmarks (SBs) under the SMP are frontloaded (Table 7).

16. Decisive domestic revenue mobilization measures will be taken in coming months. Those measures are projected to increase government revenue by more than 20 percent next year.

- Restoring the functioning of the VAT by (i) transferring back to the DGI the responsibility of paying VAT credits to mining companies (using a risk-based approach) through an escrow account to be fed by the allocation of the VAT collected by the customs administration (DGDA) from mining companies and a fraction of the VAT collected by the internal revenue service (DGI), and (ii) discontinuing blanket VAT exemptions for mining companies **(end-January 2020 SB)**. In accordance with the law, no new VAT exemptions or exemption renewals will be granted.

- Enforcing the personal income tax (IPR) so that all government employees, including civil servants, public agents, and members of political institutions pay income taxes on the entirety of their compensation (base salary plus bonuses and others—currently only the former is taxed) withheld at the source starting with the January 2020 pay **(end-January 2020 SB)**. This would also enforce fair treatment among taxpayers.
- Surveying fees and payments to various government entities collected at the port of entry to counter the structural decline in custom revenue and with the purpose of rationalizing and consolidating them in the medium-run.
- Starting to reduce tax exemptions. To that effect, the 2017 report on tax expenditures will be an annex to the 2020 budget law to enhance transparency on their costs and help create political support for their rationalization**.**
- Mobilizing one-off revenue sources from transferring unused earmarked resources from public entities to the Treasury. The timeline and quantification of that measure hinges on bilateral agreements regarding contributions to the budget.

17. The government is stepping up its efforts to control spending execution. Specific spending caps will be communicated to line ministries and other spending units, and weekly meetings of top government officials in charge of public finances under the chairmanship of the Prime Minister will continue to take place to decide on priorities in terms of spending commitments. The government is committed to strictly respect all the steps of the spending chain and to limit exceptional spending procedures to emergency cases. In terms of new spending initiatives, free basic education and the President's 100-day program will have to be adjusted to be consistent with available resources. Control of spending commitment will be strengthened and aligned with available resources to avoid arrears accumulation.

18. Spending execution will be managed in the context of a Treasury Plan. In recognition of the overly ambitious projections in the draft 2020 budget, a Treasury Plan has been formulated on the basis of realistic revenue and financing projections and consistent with a 0.4 percent of GDP deficit for 2020 and no access to BCC financing. The Treasury Plan will be posted on the ministry of finance's website, and will guide the execution of budgetary spending while avoiding the accumulation of arrears **(end-January 2020 SB)**. The issuance of Treasury bills and bonds will continue in 2020, with a planned net placement of CF350 billion (Box 3). The government is also planning to start expanding the maturity of Treasury bills (currently 3 months) in 2020.

Box 3. The Reintroduction of Treasury Bills and Bonds

In the past, the Ministry of Finance used to issue treasury bills and bonds to finance the budget. The practice was discontinued in 1991 because demand for government securities dried up as the government started to have problems in repaying them. Following a June 2018 decree, issuances were re-introduced, with repayments automatically debited from the Treasury account of the Ministry of Finance at the BCC to avoid past problems. The BCC acts as the financial agent of the government for issuances on the basis of the Ministry of Finance's Treasury plan. Updated information on the planned and actual issuance is published on the BCC and Ministry of Finance websites. The first four issuances of 90-day Treasury bills took place in October 2019, raising CF62 billion at a weighted average rate of 4.5 percent. The Ministry of Finance's goal is to issue (on a net basis) CF150 and CF350 billion in 2019 and 2020, respectively. A debt management technical assistance (TA) mission in November 2019 assisted with the formulation of a medium-term debt management strategy, which is expected to be adopted by the Minister of Finance in the coming weeks**.**

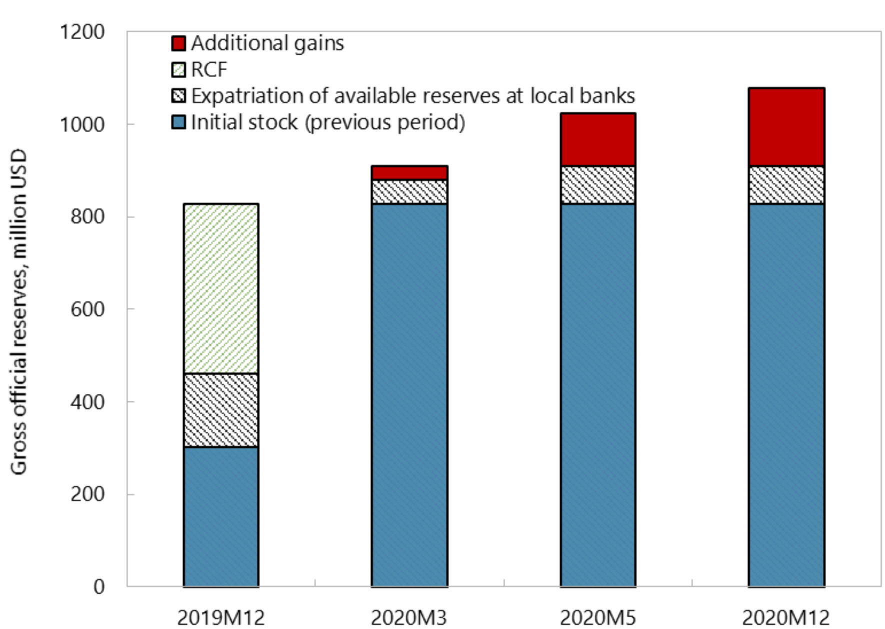
19. Structural reforms will be critical to strengthen fiscal management. The authorities' macroeconomic framework needs to be refined to enhance budget credibility, including through improved mining revenue forecasting and the preparation of sectoral expenditure frameworks. Implementation of a treasury single account remains a key objective for the medium term. Fund technical assistance will focus on those high-priority areas to maximize country ownership and absorption capacity.

B. Enhancing monetary policy and strengthening financial sector stability

20. Monetary and exchange rate policies will aim to keep inflation in single digits and help build an adequate international reserve buffer. The BCC will continue to use its main policy instruments, namely issuance of short-term BCC bonds and reserve requirement ratios, to deliver on price stability, though it is expected that Treasury bills and bonds will have a more predominant role in monetary policy management in the future. New repo instruments and open market operations are being designed to increase the effectiveness of monetary policy. In line with inflation objectives, the BCC will keep money base growth (its operational target) below 10 percent in 2020, adjusting its policy rate or other instruments as needed. Foreign exchange sales will be parsimonious to smooth out volatility in the FX market. The BCC will stop providing advances and loan guarantees to the government.

21. Unencumbered foreign currency deposits of the BCC placed in local commercial banks will be transferred to BCC accounts abroad to increase official foreign reserves, starting in December 2019 (prior action for the RCF). Unencumbered BCC FX deposits in domestic commercial banks, including term-deposits that have not yet reached maturity, had increased in recent years reaching around US$241 million at end-October. Similarly, FX deposits used as guarantees against government loans will be immediately transferred to BCC accounts abroad as soon as these guarantees are no longer necessary. In addition, there will be no further use of BCC FX reserves as guarantees against government loans (indicative target). Given ample FX liquidity and the relatively limited size of deposits to be transferred relative to the stock of deposits, those operations should not affect the stability of the banking system. It is expected that this expatriation of deposits, together with the RCF disbursement in December 2019 and the projected fiscal adjustment in 2020, will help increase FX official reserves to at least US$1,078 million by end-December 2020 (Text Figure 2).

Text Figure 2. Projected Increases in BCC FX Gross Reserves



Sources: Congolese authorities and IMF staff calculations.

22. Going forward, new deposits will be subject to reserve requirements in the same currency as their denomination, in an effort to improve financial stability by reducing currency mismatches in banks' balance sheets. The BCC is currently assessing the operational and monetary policy implications of this measure. Setting this policy only for future increases in deposits in foreign currency would facilitate the gradual operational implementation of this measure, reduce potential related vulnerabilities to the BCC, and improve liquidity in local currency, but it may discourage de-dollarization.

23. Other measures are being considered in order to increase transparency and governance at the BCC. Audited BCC financial statements for 2018 have been recently completed and they will be fully published in coming months **(end-December 2019 SB)** as required by the BCC Law. Staff was informed that there is a recapitalization plan for the BCC as set by a government decree. It encompasses two measures, a conversion of CF113 billion in equity and the injection of CF104 billion in new equity contributions from the government. The plan is expected to materialize over the medium term. A safeguards assessment mission by the Fund's Finance Department is set to take place in early 2020. In addition, the BCC continues to evaluate the efficiency of strategic measures taken to de-dollarize the economy and to update them as needed.

24. BCC will continue to improve its banking supervisory capacity in the coming years with technical assistance from the Fund. The authorities are considering implementing Pillar II of Basel II, as well as the NFSR requirements and the market discipline pillar from Basel III. A forthcoming Fund TA mission will strengthen the CAMELS supervisory ratios, while migration to IFRS 9 is also in the process of being implemented. Fund comments on the draft revised Banking Law have been submitted, with the new Law expected to be passed in 2020.

C. Fostering inclusive growth and private sector development

25. Broadening access to health care and education are key policy objectives of the new government. The recently introduced free basic education would provide access to education to millions of children, many for the first time. It is also a rare opportunity where the government is making a progressive transfer to their people, as education costs represent a larger share of income for the poor. The authorities are also preparing to introduce universal health insurance coverage, a step that could save countless lives given the widespread presence of serious tropical infectious diseases. These are important initiatives, but it will be important that they proceed only with adequate financing in place.

26. Improving the business climate is critical to fostering private sector development and growth. The authorities plan to re-launch the survey of all illegal taxes, fees, and payments levied by public entities without the authorization of the Ministry of Finance as per the law and proceed to cancel them. Recommendations of various technical assistance missions on tax policy and revenue administration will be implemented in earnest with support from relevant partners. As for the judiciary, the first step is to organize a national conference with all stakeholders to discuss the issues that undermine the judicial system with a view to finding solutions. In this respect, the authorities plan to approach the judiciary of advanced nations to seek their technical assistance in reforming the judiciary system.

27. It is critical to increase transparency and accountability in the management of DRC natural resources, improving governance in general, and combating corruption. Henceforth, all new contracts entered into by the central government, provincial governments, SOEs, or any other public entities in the mining, hydrocarbon, and forestry sectors will be published in the website of the Ministry with relevant jurisdiction. With support from the World Bank, financial and functional audits of SOEs will be undertaken and published.[5] The authorities are prepared to take all steps necessary to facilitate and support the upcoming IMF governance assessment mission and are fully committed to the publication of its final report and to the implementation of its main recommendations. The 13 measures required by the EITI validation process will be implemented expeditiously. In particular, the authorities will hire an EITI national coordinator in line with the EITI procedures and code of conduct, and adopt a governmental decree on the functioning of the EITI Executive Committee in line with the recommendations of the EITI Board's validation process. In the

[5] The WB's planned DPO will focus on the development of human capital, improving public financial management, and reinforcing transparency and governance of state-owned enterprises and sectoral regulation. It will be accompanied by a multi-year technical assistance plan to help with the implementation of associated reforms.

last few weeks, a dozen previously unpublished mining contracts have been uploaded on the official DRC EITI website, including important ones involving cession of mining rights owned by the Gécamines, DRC's mining state-owned enterprise.

CAPACITY DEVELOPMENT

28. Capacity development will be stepped up, and is an important part of the Fund's re-engagement strategy. The technical assistance provided over the last few years was focused on hands-on and near-term topics. The Fund's capacity development strategy for DRC aims at improving budget preparation and execution, strengthening banking supervision and regulation, reinforcing revenue mobilization, and improving national accounts and fiscal data (Annex II). Those activities will need to be closely coordinated with other providers of technical assistance to avoid overlaps and leverage complementarities, particularly in a context of increased engagement of DRC with the international community. A case in point is the upcoming PEFA exercise financed by the EU and coordinated by the World Bank, where the Fund will participate in its Steering Committee, provide comments on draft reports, and integrate the findings in the workplan of a project under the Managing Natural Resource Wealth Trust Fund.

PROGRAM DESIGN AND CAPACITY TO REPAY

29. The SMP covers a period until May 2020 and will be monitored on the basis of quantitative indicative targets and structural benchmarks (MEFP, Tables 1 and 2). The indicative targets (ITs) include a floor on BCC net foreign assets, a ceiling on net central bank credit to the government, a ceiling on the placement of Treasury bills and bonds by the central government, a ceiling on the contracting or guaranteeing of new nonconcessional external debt, the non-accumulation of external arrears, a floor on the domestic fiscal balance, and a zero ceiling on the accumulation of wage arrears. The test dates for the first review will be end-December and end-March, and end-May (on a select set of ITs) for the second review. Risks to SMP implementation include an inability to control spending pressures and delays in implementing revenue measures.

30. Consistent with the results from the Article IV consultation, the debt sustainability analysis (DSA) indicates that the DRC remains at a moderate risk of debt distress (DSA). In 2018, external debt was equivalent to 13.7 percent of GDP, of which liabilities from the mining infrastructure project Sicomines represented almost 40 percent. Vulnerabilities reflected in high debt-service-to-revenue ratios persist, highlighting the importance of increasing revenue mobilization. The DRC carries external arrears to four non-Paris Club creditors which date from pre-HIPC period and it is making best efforts to seek Paris Club comparable terms in negotiations with those creditors. DRC capacity to repay the Fund remains adequate in the medium and longer terms but it is affected in the short term by the low level of reserves in 2019 (Table 5). Key risks that could affect the capacity to repay are a slowdown in the Chinese economy (and associated losses of fiscal revenues, exports and reserves), and a continued monetization of the fiscal deficit.

31. An updated safeguards assessment of the BCC is planned for the first quarter of 2020. The last assessment was completed in 2010. The new assessment will review developments in the central bank governance and control framework, including progress in transitioning to IFRS, and provide recommendations to address identified vulnerabilities.

STAFF APPRAISAL

32. The Congolese economy faces multiple long-standing fragility challenges and remains highly vulnerable to external shocks. DRC is a fragile state with pervasive poverty and massive development needs, prone to conflicts and humanitarian and health crises. Economic growth has been lackluster and private investment remains weak because of a challenging business environment, economic governance vulnerable to corruption, and limited access to financing including from external sources. While macroeconomic policies in recent years have achieved elements of macroeconomic stability, the overall situation is precarious. The recent fall in commodity prices, the costs of new spending initiatives to increase access to education and reduce infrastructure gaps, and looser spending oversight during the political transition period have led to a weaker fiscal position mostly financed by the central bank. In that context, international reserves have fallen to critically low levels (one week of import coverage).

33. The new government that took office in September is keen on restoring fiscal discipline and advancing economic reforms. The key focus is on reforms aimed at strengthening spending controls, mobilizing domestic revenue, reinforcing international reserves, and improving governance and transparency. Budget execution in the last weeks of 2019 is being tightened, based on stopping the recourse to central bank financing through a strict implementation of a cash-based budget and by raising one-off revenue sources. Budget execution in 2020 will be anchored on the publication by end-January of a Treasury Plan based on realistic revenue and financing projections. This is a fundamental element of performance under the SMP that will guide the implementation of specific spending caps on line ministries and other spending units and will anchor decisions on spending priorities in weekly meetings of top government officials in charge of public finances under the chairmanship of the Prime Minister. The government is committed to strictly respect all the steps of the spending chain and to limit exceptional spending procedures to emergency cases. The free basic education initiative will be implemented gradually, with assistance from the World Bank, and the implementation pace of the President's 100-day program will be adjusted to available resources.

34. Decisive revenue mobilization measures are being taken to help fulfill the government's ambitious developmental and social plans in a sustainable way. The authorities will restore the normal functioning of the VAT system by reestablishing a credible mechanism to pay VAT refunds to mining companies and lifting the suspension of VAT collection on mining companies' imports. In addition, they will enforce collection of the personal income tax on all compensations of public employees and spearhead the rationalization of tax exemptions by the publication of a 2017 report on tax exemptions as an annex to the 2020 budget; they will also suspend the offsetting of tax arrears against tax liabilities. These measures are projected to yield at least 1 percent of GDP in additional government revenue.

35. Monetary and exchange rate policies will aim to keep inflation in single digits and help build an adequate international reserve buffer. The BCC will continue to focus on delivering price stability. To that effect, new repo instruments and open market operations are being designed to increase the effectiveness of monetary policy. In line with inflation objectives, the BCC will keep money base growth (its operational target) below 10 percent in 2020, adjusting its policy rate or other instruments as needed. Foreign exchange sales will be parsimonious to smooth excess volatility in the FX market. The BCC will stop providing advances and loan guarantees to the government. In addition, the BCC will transfer BCC unencumbered foreign currency deposits placed in local commercial banks into its own accounts abroad to increase official foreign reserves and thereby reduce economic vulnerabilities.

36. Important initial measures to improve governance and the business environment will be implemented. Staff welcomes the authorities' intention to make all new mining contracts publicly available, ensuring transparency in an area where governance weaknesses have featured in the past. The authorities are committed to continued smooth functioning of the EITI process for resource revenue transparency. They have published new mining contracts and will start reducing the tax burden and other unofficial payments. Staff welcomes these important actions and commitments. The upcoming governance assessment mission will help with the formulation of measures to tackle corruption and improve governance.

37. Addressing DRC's deep-rooted challenges will take time, determination to stay the course, and sustained and coordinated support from the international community. The immediate priority is to restore the critically low level of international reserves, while starting the formulation and implementation of an ambitious, comprehensive, yet realistic, reform strategy to deliver higher and inclusive growth that can benefit broader segments of the population. To this end, the authorities have requested a Rapid Credit Facility (RCF) to help rebuild international reserves, accompanied by a Staff Monitored Program through end-May 2020 to support the preparation of adjustment policies and a reform strategy. Significant capacity development activities will also be critical to help strengthen institutions and deliver outcomes.

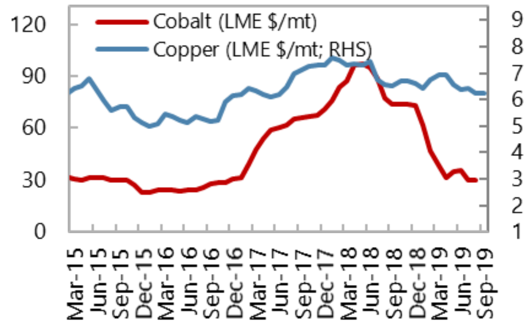
38. Staff supports the authorities' request for a disbursement under the RCF in the amount of SDR 266.5 million (25 percent of quota) to tackle the urgent balance of payments' needs linked to the very low level of international reserves and recommend its approval by the Board. In addition, staff has agreed an SMP with the authorities, which is presented to the Board for information. The SMP will provide an opportunity for the authorities, with assistance from their partners, to develop a deeper structural reform agenda that could eventually be implemented with support from the IMF Extended Credit Facility (ECF) arrangement in 2020.

Figure 1. Democratic Republic of the Congo: External Indicators, 2015–2019

Copper and cobalt prices have stabilized at a relatively low level.

Cobalt and Copper Prices

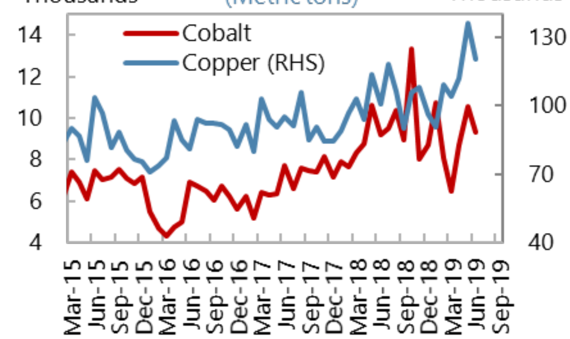
(London Metal Exchange, $/thousand metric ton)



While volumes of copper exports are in an upward trend, the ones for cobalt have been volatile.

Cobalt and Copper Export Volumes

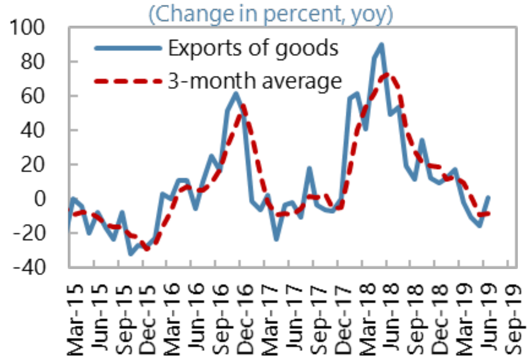
(Metric tons)



Export values have declined compared to last year due to lower commodity prices

Export Developments

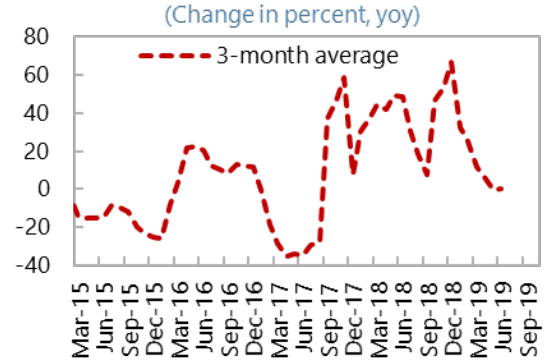
(Change in percent, yoy)



Imports while volatile, slowed down in the first half of 2019…

Import Developments

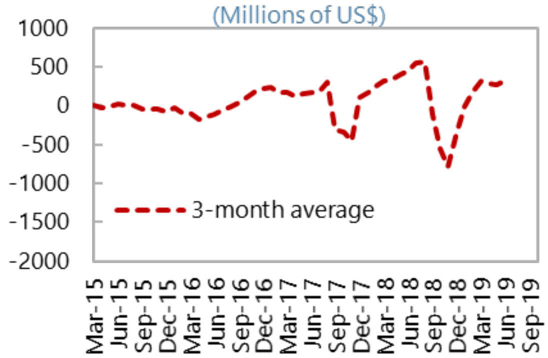
(Change in percent, yoy)



Resulting in an improvement of the trade balance.

Merchandise Balance Developments

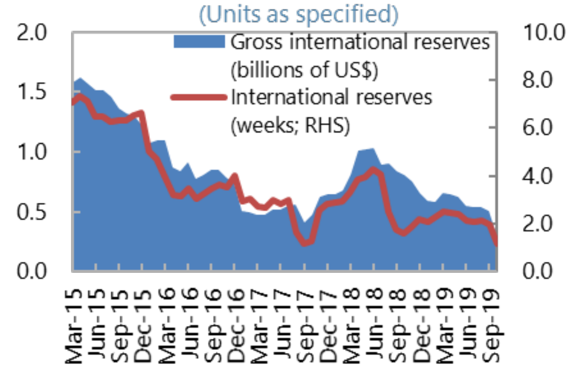
(Millions of US$)



International reserves fell to a very low level due to the central bank financing of the fiscal deficit.

International Reserves

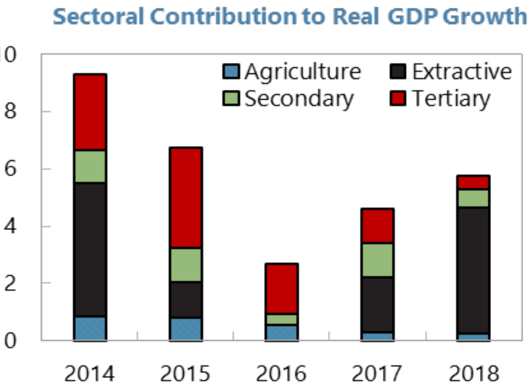
(Units as specified)



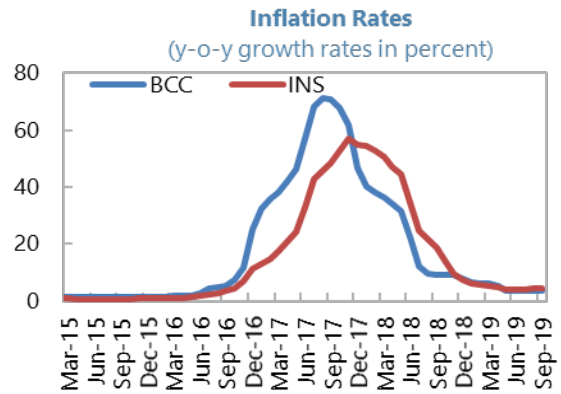
Sources: Congolese authorities and IMF staff calculations

Figure 2. Democratic Republic of the Congo: Real and Fiscal Indicators, 2014–2019

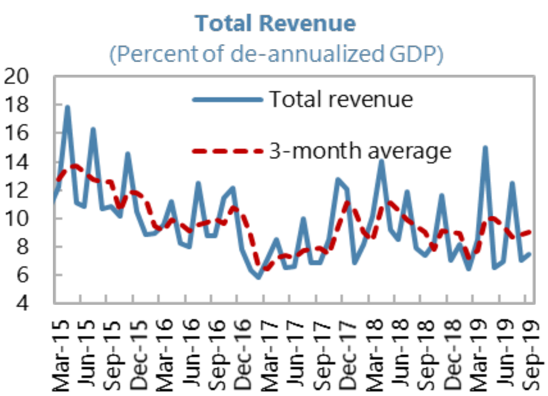
The extractive sector has been the main source of growth over the last two years.



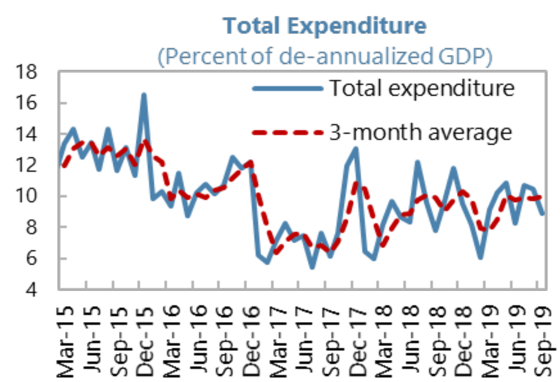
Inflation has decelerated and has stabilized at a low level.



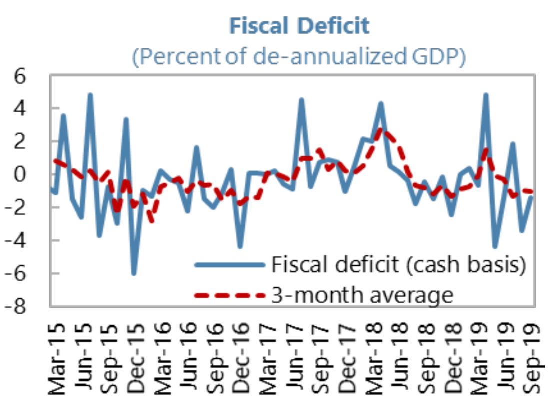
Revenues remain low despite the new mining code.



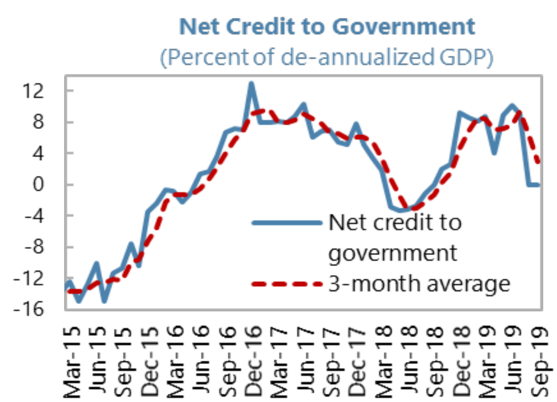
Expenditures picked up reflecting the implementation of the 100-day Presidential program.



The fiscal deficit remains contained, but domestic arrears have kept increasing



Net credit to the government increased in 2019.

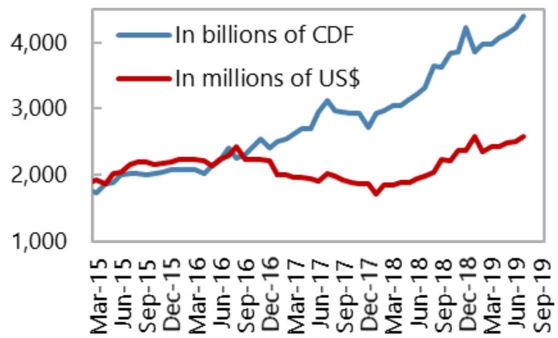


Sources: Congolese authorities and IMF staff calculations

Figure 3. Democratic Republic of the Congo: Monetary and Financial Indicators, 2015–2019

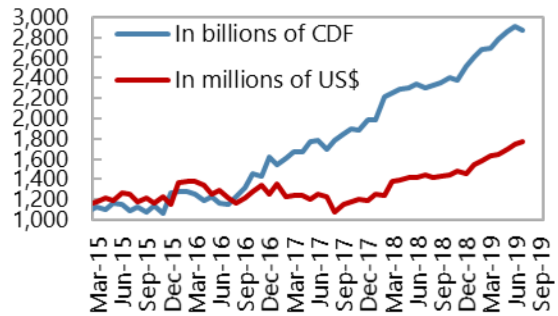
Credit to the private sector in both currencies is rising.

Credit to Private Sector



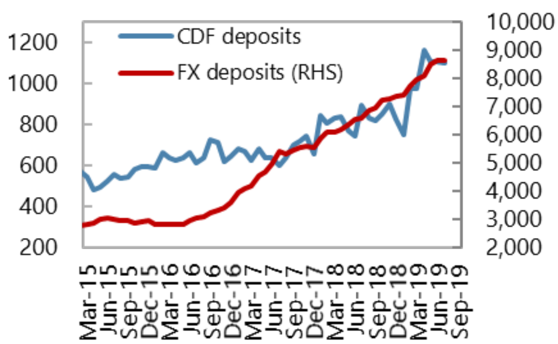
A similar trend is recorded in money supply.

Money Supply



Deposits increased strongly following the rise in repatriation requirements under the new mining code,

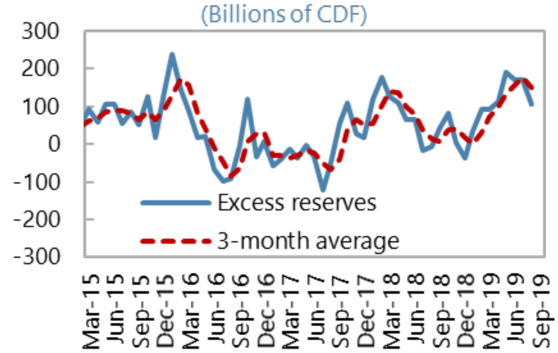
Evolution of Private Sector Deposits



and so have commercial banks' excess reserves

Excess Reserves

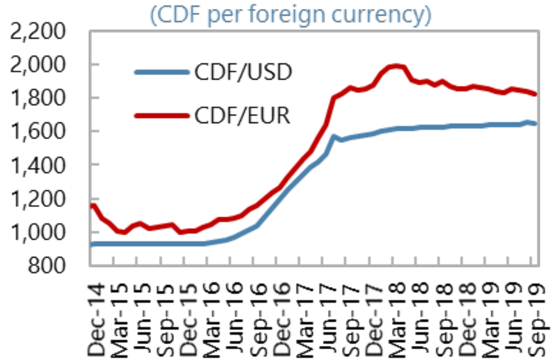
(Billions of CDF)



The nominal exchange rates have stabilized after strong depreciation of the Congolese franc

Nominal Exchange Rates

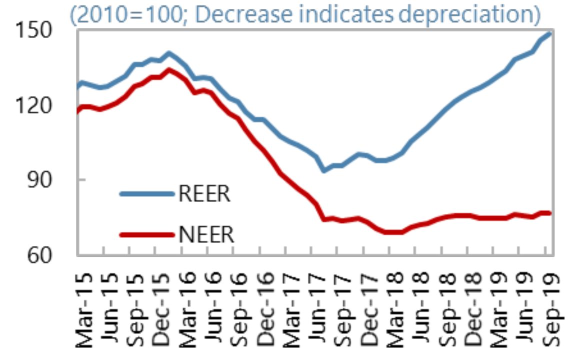
(CDF per foreign currency)



The real effective exchange rate level has largely reversed since the 2015-16 crisis.

Nominal and Real Effective Exchange Rates

(2010=100; Decrease indicates depreciation)



Sources: Congolese authorities and IMF staff calculations

Table 1. Democratic Republic of the Congo: Selected Economic and Financial Indicators, 2016–2020

	2016	2017	2018	2019	2020
	Act.	Act.	Prel.	Projections	
	(Annual percentage change, unless otherwise indicated)				
GDP and prices					
Real GDP	2.4	3.7	5.8	4.5	3.2
Extractive GDP	-0.7	7.8	16.9	5.4	-2.4
Non-Extractive GDP	3.5	2.4	1.9	4.2	5.4
GDP deflator	4.3	43.1	29.8	3.0	5.7
Consumer prices, period average	3.2	35.8	29.3	4.8	5.0
Consumer prices, end of period	11.2	54.7	7.2	5.5	5.0
External sector					
Exports, f.o.b. (U.S. dollars)	15.6	-2.8	38.3	-19.2	-5.4
Imports, f.o.b. (U.S. dollars)	14.9	-6.7	32.0	-19.5	0.1
Exports volume	-6.0	9.7	20.8	0.7	-5.4
Import volume	-0.7	4.3	29.0	-18.2	-0.3
Terms of trade	-5.1	20.8	3.2	-13.6	-1.2
	(Annual change in percent of beginning-of-period broad money)				
Money and credit					
Net foreign assets	-4.8	29.2	10.2	6.3	6.2
Net domestic assets	27.0	13.6	20.2	6.0	0.5
Domestic credit	26.5	3.5	18.5	3.8	0.3
Of which: net credit to government	11.1	0.1	1.4	11.0	3.2
credit to the private sector	14.1	0.6	20.3	-10.8	-2.9
Broad money	22.2	42.8	30.1	12.3	6.6
	(Percent of GDP, unless otherwise indicated)				
Central government finance					
Revenue and grants	14.0	11.7	11.1	11.1	12.7
Revenue	11.2	9.8	10.0	10.3	11.3
Grants	2.8	2.0	1.1	0.8	1.4
Expenditures	14.5	10.4	11.1	13.8	13.3
Overall fiscal balance (commitment basis)	-0.5	1.4	0.0	-2.7	-0.6
Non-natural resource overall fiscal balance	-2.0	-0.9	-3.2	-4.3	-2.7
Investment and saving					
Gross national saving	8.2	8.9	7.1	9.6	9.2
Government	-1.4	0.8	-1.0	-3.9	-1.3
Non-government	9.6	8.1	8.0	13.5	10.6
Investment	12.3	12.1	11.7	13.3	13.5
Government	3.4	2.3	1.7	2.9	3.0
Non-government	8.9	9.7	10.0	10.4	10.5
Balance of payments					
Exports of goods and services	32.8	31.0	34.1	26.2	23.5
Imports of goods and services	38.9	34.7	37.7	28.7	26.9
Current account balance, incl. transfers	-4.1	-3.2	-4.6	-3.8	-4.3
Current account balance, excl. transfers	-7.3	-5.2	-5.2	-4.5	-5.6
Overall balance	-1.4	2.0	0.9	0.6	0.6
Gross official reserves (millions of U.S. dollars)	625	601	657	829	1,078
Gross official reserves (weeks of imports)	2.8	1.9	2.5	3.3	4.2
	(Percent of GDP, unless otherwise indicated)				
External public debt					
Total stock, including IMF	17.6	16.9	13.7	14.3	13.8
Scheduled debt service (millions of U.S. dollars)	349	212	224	460	632
Percent of exports of goods and services	2.9	2.1	2.8	3.5	5.1
Percent of government revenue	8.5	6.5	9.7	9.0	10.6
Exchange rate (CDF per U.S. dollars)					
Period average	1,024	1,480	1,624	…	…
End-of-period	1,216	1,592	1,636	…	…
Memorandum items:					
Nominal GDP (billions of CDF)	37,517	55,676	76,496	82,345	89,806
Nominal GDP (millions of U.S. dollars)	36,640	37,615	47,099	49,906	52,591

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

Table 2a. Democratic Republic of the Congo: Central Government Financial Operations, 2016–2020 (billions of CDF)

	2016	2017	2018	2019	2020				
	Act.	Act.	Prel.	Proj.	Q1 proj.	Q2 proj.	Q3 proj.	Q4 proj.	year proj.
				(Billions of CDF, unless otherwise indicated)					
Revenue and grants	***5,246***	***6,538***	***8,484***	***9,108***	***2,838***	***2,996***	***2,755***	***2,819***	***11,409***
Revenue	**4,195**	**5,443**	**7,633**	**8,468**	**2,400**	**2,617**	**2,597**	**2,574**	**10,189**
Tax revenue	3,232	4,284	5,673	5,796	1,612	1,633	1,903	1,880	7,028
Income tax	1,266	1,584	2,762	2,735	765	765	765	765	3,060
Individuals	287	330	1,015	893	452	452	452	452	1,810
Businesses	936	1195	1582	1705	272	272	272	272	1087
Other unallocable taxes on income, profits, and capital gains	44	59	165	137	41	41	41	41	163
Taxes on goods and services	1,403	1,631	2,333	2,288	604	616	886	873	2,979
Value-added tax/Turnover tax	1,115	1,238	1,706	1,792	510	518	788	779	2,595
Excises	287	393	627	496	95	98	98	94	384
Taxes on international trade and transactions	563	1,070	578	773	243	252	252	242	989
Non-tax revenue	963	1,159	1,960	2,112	788	984	695	695	3,161
Revenue from natural resources and telecommunications	340	346	903	846	264	483	213	213	1,173
Mining royalties	114	75	389	372	69	69	69	69	277
Oil royalty and rent	96	103	240	199	64	64	64	64	257
Telecommunications	94	114	188	182	103	228	52	52	435
Dividents from state-owned enterprises	36	54	86	93	27	121	27	27	203
Fees from sectoral ministries	339	407	471	440	178	135	135	135	584
Special accounts and budgets	281	404	516	782	323	323	323	323	1,292
Grants	**1,051**	**1,095**	**851**	**640**	**438**	**379**	**158**	**245**	**1,220**
Project	1,049	1,050	851	640	438	166	158	160	921
Budget support	1	45	0	0	0	213	0	85	299
Expenditure	***5,431***	***5,783***	***8,521***	***11,365***	***2,927***	***3,118***	***2,874***	***2,995***	***11,915***
Current expenditure	3,926	4,080	6,041	8,737	2,131	2,235	2,309	2,383	9,057
Wages	1,957	2,084	2,705	3,561	985	1,056	1,089	1,262	4,392
Interest due	101	152	322	196	86	87	88	89	350
External	20	32	39	25	6	6	6	6	24
Domestic	81	120	283	171	80	81	82	83	327
Goods and services	968	954	1,621	1,795	446	446	446	446	1,783
Subsidies and other current transfers	900	890	1,394	3,185	614	646	686	586	2,532
Subsidies (incl. VAT reimbursements)	357	360	704	2,244	244	270	304	220	1,037
Transfers to other levels of national government	163	126	174	158	48	53	60	43	204
Special accounts and budgets	380	404	516	782	323	323	323	323	1,292
Capital expenditure	**1,270**	**1,301**	**1,288**	**2,417**	**759**	**846**	**528**	**575**	**2,707**
Foreign-financed	1,064	1,071	872	1,619	577	305	297	299	1,479
Domestically-financed	206	230	416	798	182	541	230	276	1,229
Exceptional expenditure1	**235**	**402**	**1,191**	**212**	**38**	**38**	**38**	**38**	**151**
Overall fiscal balance (commitment basis)	***-186***	***754***	***-37***	***-2,257***	***-89***	***-122***	***-119***	***-176***	***-506***
Change in domestic arrears (repayment = -)	27	44	97	391	0	0	0	0	0
Domestic fiscal balance (cash basis)	-126	807	121	-862	56	-190	26	-116	-224
Overall fiscal balance (cash basis)	***-159***	***798***	***60***	***-1,866***	***-89***	***-122***	***-119***	***-176***	***-506***
Errors and omissions	-88	-523	138	0	**0**	**0**	**0**	**0**	**0**
Financing	***246***	***-276***	***-198***	***1,866***	**89**	**122**	**119**	**176**	***506***
Domestic financing (banking system)	479	4	105	1,075	50	83	80	137	350
Foreign financing	-233	-279	-303	791	39	39	39	39	156
Project loans	15	21	21	979	139	139	139	139	557
Amortization of external debt	-248	-301	-325	-189	-100	-100	-100	-100	-401
Memorandum items:									
Gross domestic product (billions of CDF)	37,517	55,676	76,496	82,345	...	...	...	...	89,806
Gross domestic product (millions of U.S. dollars)	36,640	37,615	47,099	49,906	...	...	...	...	52,591
Unpaid cumulative domestic financial obligations [2]	...	5301	5398	4815	...	...	...	...	4649

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

1 Mainly expenditure related to security and elections.

[2] Unpaid VAT credit reimbursements and other arrears (cumulative).

Table 2b. Democratic Republic of the Congo: Central Government Financial Operations, 2016–2020 (percent of GDP)

	2016	2017	2018	2019	2020				
	Act.	Act.	Prel.	Proj.	Q1 proj.	Q2 proj.	Q3 proj.	Q4 proj.	year proj.
	(Percent of GDP, unless otherwise indicated)								
Revenue and grants	***14.0***	***11.7***	***11.1***	***11.1***	***3.2***	***3.3***	***3.1***	***3.1***	***12.7***
Revenue	**11.2**	**9.8**	**10.0**	**10.3**	**2.7**	**2.9**	**2.9**	**2.9**	**11.3**
Tax revenue	8.6	7.7	7.4	7.0	1.8	1.8	2.1	2.1	7.8
Income tax	3.4	2.8	3.6	3.3	0.9	0.9	0.9	0.9	3.4
Individuals	0.8	0.6	1.3	1.1	0.5	0.5	0.5	0.5	2.0
Businesses	2.5	2.1	2.1	2.1	0.3	0.3	0.3	0.3	1.2
Other unallocable taxes on income, profits, and capital gains	0.1	0.1	0.2	0.2	0.0	0.0	0.0	0.0	0.2
Taxes on goods and services	3.7	2.9	3.0	2.8	0.7	0.7	1.0	1.0	3.3
Value-added tax/Turnover tax	3.0	2.2	2.2	2.2	0.6	0.6	0.9	0.9	2.9
Excises	0.8	0.7	0.8	0.6	0.1	0.1	0.1	0.1	0.4
Taxes on international trade and transactions	1.5	1.9	0.8	0.9	0.3	0.3	0.3	0.3	1.1
Non-tax revenue	2.6	2.1	2.6	2.6	0.9	1.1	0.8	0.8	3.5
Revenue from natural resources and telecommunications	0.9	0.6	1.2	1.0	0.3	0.5	0.2	0.2	1.3
Mining royalties	0.3	0.1	0.5	0.5	0.1	0.1	0.1	0.1	0.3
Oil royalty and rent	0.3	0.2	0.3	0.2	0.1	0.1	0.1	0.1	0.3
Telecommunications	0.2	0.2	0.2	0.2	0.1	0.3	0.1	0.1	0.5
Dividents from state-owned enterprises	0.1	0.1	0.1	0.1	0.0	0.1	0.0	0.0	0.2
Fees from sectoral ministries	0.9	0.7	0.6	0.5	0.2	0.2	0.2	0.2	0.6
Special accounts and budgets	0.7	0.7	0.7	0.9	0.4	0.4	0.4	0.4	1.4
Grants	**2.8**	**2.0**	**1.1**	**0.8**	**0.5**	**0.4**	**0.2**	**0.3**	**1.4**
Project	2.8	1.9	1.1	0.8	0.5	0.2	0.2	0.2	1.0
Budget support	0.0	0.1	0.0	0.0	0.0	0.2	0.0	0.1	0.3
Expenditure	***14.5***	***10.4***	***11.1***	***13.8***	***3.3***	***3.5***	***3.2***	***3.3***	***13.3***
Current expenditure	**10.5**	**7.3**	**7.9**	**10.6**	**2.4**	**2.5**	**2.6**	**2.7**	**10.1**
Wages	5.2	3.7	3.5	4.3	1.1	1.2	1.2	1.4	4.9
Interest due	0.3	0.3	0.4	0.2	0.1	0.1	0.1	0.1	0.4
External	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	0.2	0.2	0.4	0.2	0.1	0.1	0.1	0.1	0.4
Goods and services	2.6	1.7	2.1	2.2	0.5	0.5	0.5	0.5	2.0
Subsidies and other current transfers	2.4	1.6	1.8	3.9	0.7	0.7	0.8	0.7	2.8
Subsidies (incl. VAT reimbursements)	1.0	0.6	0.9	2.7	0.3	0.3	0.3	0.2	1.2
Transfers to other levels of national government	0.4	0.2	0.2	0.2	0.1	0.1	0.1	0.0	0.2
Special accounts and budgets	1.0	0.7	0.7	0.9	0.4	0.4	0.4	0.4	1.4
Capital expenditure	**3.4**	**2.3**	**1.7**	**2.9**	**0.8**	**0.9**	**0.6**	**0.6**	**3.0**
Foreign-financed	2.8	1.9	1.1	2.0	0.6	0.3	0.3	0.3	1.6
Domestically-financed	0.5	0.4	0.5	1.0	0.2	0.6	0.3	0.3	1.4
Exceptional expenditure[1]	**0.6**	**0.7**	**1.6**	**0.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.2**
Overall fiscal balance (commitment basis)	***-0.5***	***1.4***	***0.0***	***-2.7***	***-0.1***	***-0.1***	***-0.1***	***-0.2***	***-0.6***
Change in domestic arrears (repayment = -)	0.1	0.1	0.1	0.5	0.0	0.0	0.0	0.0	0.0
Domestic fiscal balance (cash basis)	-0.3	1.4	0.2	-1.0	0.1	-0.2	0.0	-0.1	-0.2
Overall fiscal balance (cash basis)	***-0.4***	***1.4***	***0.1***	***-2.3***	***-0.1***	***-0.1***	***-0.1***	***-0.2***	***-0.6***
Errors and omissions	**-0.2**	**-0.9**	**0.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Financing	***0.7***	***-0.5***	***-0.3***	***2.3***	***0.1***	***0.1***	***0.1***	***0.2***	***0.6***
Domestic financing	1.3	0.0	0.1	1.3	*0.1*	*0.1*	*0.1*	*0.2*	0.4
Foreign financing	-0.6	-0.5	-0.4	1.0	*0.0*	*0.0*	*0.0*	*0.0*	0.2
Project loans	0.0	0.0	0.0	1.2	*0.2*	*0.2*	*0.2*	*0.2*	0.6
Amortization of external debt	-0.7	-0.5	-0.4	-0.2	*-0.1*	*-0.1*	*-0.1*	*-0.1*	-0.4
Memorandum items:									
Gross domestic product (billions of CDF)	37,517	55,676	76,496	82,345	**...**	**...**	**...**	**...**	89,806
Gross domestic product (millions of U.S. dollars)	36,640	37,615	47,099	49,906	**...**	**...**	**...**	**...**	52,591
Unpaid cumulative domestic financial obligations [2]	...	9.5	7.1	5.8	**...**	**...**	**...**	**...**	5.2

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

[1] Mainly expenditure related to security and elections.

[2] Unpaid VAT credit reimbursements and other arrears (cumulative).

Table 3. Democratic Republic of the Congo: Monetary Survey, 2016–2020

	2016	2017	2018	2019	2020Q1	2020Q2	2020Q3	2020Q4
	Act.	Act.	Prel.	Projections				
				(Billions of CDF)				
				Central bank survey:				
Net foreign assets	**-453**	**-562**	**-306**	**-566**	**-381**	**-143**	**-110**	**-85**
Claims on non-residents	759	956	1,075	1,410	1,602	1,840	1,873	1,898
Liabilities on non-residents	-1,212	-1,518	-1,380	-1,976	-1,983	-1,983	-1,983	-1,983
Net domestic assets	**2,062**	**2,551**	**2,827**	**3,615**	**3,480**	**3,293**	**3,310**	**3,429**
Net claims on the government	408	360	591	1,145	1,145	1,145	1,145	1,145
Claims on deposit money banks	347	661	647	906	924	942	961	915
Other items, net	1,296	1,512	1,562	1,852	1,867	1,867	1,867	1,867
Monetary base	**1,617**	**1,984**	**2,519**	**3,049**	**3,099**	**3,150**	**3,201**	**3,344**
				Monetary survey:				
Net foreign assets	**1,112**	**2,651**	**3,417**	**4,030**	**4,371**	**4,610**	**4,663**	**4,708**
Central bank	-453	-562	-306	-566	-381	-143	-110	-85
Commercial banks	1,565	3,212	3,722	4,596	4,752	4,753	4,773	4,793
Net domestic assets	**4,164**	**4,884**	**6,407**	**6,997**	**6,839**	**6,783**	**6,918**	**7,049**
Domestic credit	3,079	3,266	4,662	5,039	4,857	4,801	4,937	5,068
Net credit to government	261	264	370	1,445	1,495	1,578	1,658	1,795
Credit to the economy	2,819	3,002	4,293	3,594	3,362	3,223	3,279	3,273
Other items, net	1,085	1,618	1,745	1,959	1,981	1,981	1,981	1,981
Broad Money (M2)	**5,276**	**7,535**	**9,801**	**11,009**	**11,191**	**11,374**	**11,557**	**11,739**
Narrow Money (M1)	1,682	1,966	2,382	2,652	2,808	2,854	2,899	2,945
Currency in circulation	1,072	1,355	1,560	1,760	1,901	1,932	1,963	1,994
Demand deposits	610	610	822	892	907	921	936	951
Quasi money	3,594	5,569	7,419	8,357	8,384	8,520	8,657	8,794
Time deposits in domestic currency	60	46	46	-649	-659	-670	-681	-692
Foreign currency deposits	3,534	5,523	7,373	9,005	9,043	9,191	9,338	9,486
				(Annual percent change)				
Net foreign assets	-15.7	138.4	28.9	18.0	...	...	...	16.8
Net domestic assets	38.9	17.3	31.2	9.2	...	...	...	0.7
Domestic credit	57.5	4.2	45.3	-3.0	...	...	...	-6.8
Net credit to government	219.3	1.4	39.9	291.0	...	...	...	24.2
Credit to the private sector	29.3	1.3	56.4	-24.9	...	...	...	-10.1
Other items, net	1.9	49.1	7.8	12.3	...	...	...	1.2
					...	...	...	
Broad Money (M2)	22.2	42.8	30.1	12.3	...	...	...	6.6
				(Annual percentage change of beginning-of-period broad money)				
Net foreign assets	-4.8	29.2	10.2	6.3	...	...	...	6.2
Net domestic assets	27.0	13.6	20.2	6.0	...	...	...	0.5
Domestic credit	26.5	3.5	18.5	3.8	...	...	...	0.3
Net credit to government	11.1	0.1	1.4	11.0	...	...	...	3.2
Credit to the private sector	14.1	0.6	20.3	-10.8	...	...	...	-2.9
Credit to parastatals	11.1	0.1	1.4	11.0	...	...	...	3.2
Other items, net	0.5	10.1	1.7	2.2	...	...	...	0.2
					...	...	...	
Broad money (M2)	22.2	42.8	30.1	12.3	...	...	...	6.6
Memorandum items:								
Nominal GDP (billions of CDF)	37,517	55,676	76,496	82,345	89,806	89,806	89,806	89,806
Velocity (GDP/broad money)	7.1	7.4	7.8	7.5	7.7	7.7	7.7	7.7
Foreign currency deposits (percent of M2)	67.0	73.3	75.2	81.8	80.8	80.8	80.8	80.8
Foreign currency deposits (percent of total deposits)	84.1	89.4	89.5	97.4	97.3	97.3	97.3	97.3
Net domestic assets of the BCC (billions of CDF)	2,062	2,551	2,827	3,615	3,480	3,293	3,310	3,429
Base money (billions of CDF)	1,617	1,984	2,519	3,049	3,099	3,150	3,201	3,344

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

Table 4. Democratic Republic of the Congo: Balance of Payments, 2016–2020

	2016	2017	2018	2019	2020
	Act.	Prel.	Prel.	Projections	
	(Millions of U.S. dollars, unless otherwise indicated)				
Current account	**-1,504**	**-1,211**	**-2,169**	**-1,873**	**-2,251**
Merchandise trade	-264	208	994	857	141
Exports, f.o.b.	11,885	11,548	15,967	12,904	12,204
Of which: mining and oil	8,680	11,428	15,776	12,476	12,177
Imports, f.o.b.	-12,149	-11,340	-14,973	-12,047	-12,064
Of which: aid-related imports	-1,163	-1,214	-827	-363	-850
Services	-1,961	-1,615	-2,687	-2,076	-1,934
Receipts	128	108	115	178	168
Expenditure	-2,089	-1,723	-2,802	-2,254	-2,102
Of which: aid-related imports	-163	-170	-116	-127	-140
Income	-614	-1,081	-1,687	-1,308	-1,317
Receipts	17	12	73	99	105
Expenditure	-630	-1,093	-1,760	-1,408	-1,422
Of which: interest payments[1]	-20	-69	-24	-113	-121
Current transfers	1,335	1,276	1,211	655	859
Of which: official aid	1,180	732	294	388	715
budget support grants	1	30	0	0	175
Capital and financial account	**1,199**	**2,530**	**2,183**	**2,153**	**2,556**
Capital account	978	697	485	343	497
Official	1,025	709	524	388	540
Private	-47	-13	-39	-44	-43
Financial account	221	1,834	1,698	1,810	2,059
Official capital	-227	-189	-187	-192	-88
Gross disbursements (project loans)	14	14	13	575	676
Scheduled amortization[2]	-242	-203	-200	-417	-590
Private capital (net)	449	2,022	1,885	2,002	2,147
Of which: foreign direct investment	932	1,048	1,285	1,600	1,889
other private non-banking sector[3]	-484	974	600	402	258
Errors and omissions	-200	-539	410	0	0
Overall balance	**-506**	**750**	**424**	**280**	**305**
Financing	**506**	**-750**	**-424**	**-280**	**-305**
Central bank reserves (increase = -)	493	-19	-166	146	-284
of which: IMF financing	78	92	94	-327	41
Commercial banks reserves (increase = -)	13	-730	-258	-426	-20
	(Percent of GDP, unless otherwise indicated)				
Memorandum items:					
Debt service after debt relief (percent of exports)	2.9	2.1	2.8	3.5	5.1
Current account balance (excluding official transfers)	-7.3	-5.2	-5.2	-4.5	-5.6
Current account balance (including official transfers)	-4.1	-3.2	-4.6	-3.8	-4.3
Gross official reserves (millions of U.S. dollars)	625	601	657	829	1,078
Gross official reserves (weeks of imports)	2.8	1.9	2.5	3.3	4.2

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

[1] Including interest due to the IMF.

[2] Excluding principal repayments to the IMF.

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

Table 5. Democratic Republic of the Congo: Capacity to Repay the Fund

	2019	2020	2021	2022	2023	2024
Total obligations on existing and prospective credit						
Total obligations (In millions of SDRs)	33.8	33.8	14.0	4.1	4.1	4.1
Principal	29.7	29.7	9.9	0.0	0.0	0.0
Charges and interest [1]	4.1	4.1	4.1	4.1	4.1	4.1
Total obligations (In millions of U.S. dollars)	46.7	46.6	19.4	5.7	5.8	5.8
In percent of exports of goods and services	0.4	0.4	0.1	0.0	0.0	0.0
In percent of GDP	0.1	0.1	0.0	0.0	0.0	0.0
In percent of quota	3.2	3.2	1.3	0.4	0.4	0.4
In percent of gross international reserves	5.6	4.3	1.3	0.4	0.4	0.4
Fund credit outstanding (end-period)						
In millions of SDRs	329.3	299.6	289.7	289.7	289.7	289.7
In millions of U.S. dollars	453.2	414.4	402.8	405.1	407.6	407.6
In percent of exports of goods and services	3.5	3.3	3.1	2.8	2.6	2.4
In percent of GDP	0.9	0.8	0.7	0.7	0.7	0.6
In percent of quota	30.9	28.1	27.2	27.2	27.2	27.2
In percent of total external debt	3.9	3.5	3.8	5.9	6.8	7.8
In percent of gross international reserves	54.7	38.4	27.0	27.9	27.7	29.3

Sources: IMF staff estimates and projections.

[1] On May 24, 2019 the IMF Executive Board approved a modified interest rate setting mechanism which effectively sets interest rates to zero on ECF and SCF through June 2021 and possibly longer. The Board also decided to extend zero interest rate on ESF till end June 2021 while interest rate on RCF was set to zero in July 2015. Based on these decisions and current projections of SDR rate, the following interest rates are assumed beyond June 2021: 0/0/0/0 percent per annum for the ECF, SCF, RCF and ESF, respectively. The Executive Board will review the interest rates on concessional lending by end-June 2021 and every two years thereafter.

Table 6. Democratic Republic of the Congo: Indicative Targets Under the SMP, 2019–May 2020

	2019 end-year	2020 March	2020 May[1/]
Floor on changes in net foreign assets of the BCC (US$ millions)	-146	116	231
Accumulation of new central government loans guaranteed by the BCC (CF billions)	372	0	0
Ceiling on changes in net central bank credit to government (CF billions)	554	0	0
Ceiling on placement of Treasury bills and bonds by the central government (CF billions)	150	80	150
Ceiling on the contracting or guaranteeing of new nonconcessional external debt, including EADs or the BCC (US$ millions)	150	86	…
Accumulation of external arrears (US$ millions)	0	0	…
Floor on domestic balance - cash basis (CF billions)	-862	56	…
Accumulation of wage arrears (US$ million)	0	0	…
Memorandum items:			
Balance of payments support (US$ millions)	368	0	0
Contracting of new concessional external debt (US$ millions)	317	154	256
New disbursement of external budget and project loans, and grants (US$ millions)	613	338	541
Scheduled external debt service payments (US$ millions)	131	64	106

Sources: Congolese authorities and IMF staff estimates and projections

[1/] Cumulative variables from January till May. Only the first four ITs will be monitored for the May test date.

Table 7. Democratic Republic of the Congo: Prior Action for the Rapid Credit Facility and Structural Benchmarks for the Staff-Monitored Program

Actions	Rationale	Date
Prior Action		
Transfer USD160 million in FX deposits from BCC accounts at domestic commercial banks to BCC accounts in overseas banks which would be accounted for as reserves	Strengthen external position	December 5, 2019
VAT: The Minister of Finance to make the DGI responsible for the payment of VAT refunds to mining companies (using a risk-based approach) through an escrow accounts receiving proceeds from the VAT collected by the DGDA from mining companies and a quota of overall VAT collected by the DGI	Increase revenue	January 2020
Lift the suspension of VAT collection for mining companies at the customs.		March 2020
PIT: Enforce the inter-ministerial circular imposing personal income tax withholding on the totality of the compensation (including salaries, bonuses, and other forms of remuneration) of civil servants, other public employees and employees of political institutions.	Increase revenue	January 2020
Publish a 2020 Treasury Plan on the Ministry of Finances' website, consistent with realistic receipts and financing previsions to serve as a guide for expenditure commitments	Rationalize expenditure	January 2020
Publish the complete, audited 2018 financial statements of the BCC on the BCC's website	Strengthen BCC transparency	December 2019

Sources: Congolese authorities and IMF staff

Annex I. Risk Assessment Matrix (RAM) [1]

Source of Risks	Likelihood/ Time Horizon	Expected Impact on Economy	Policy Response
		Potential Domestic Risks	
Loosening of the fiscal stance	Medium	Medium Macroeconomic stability may be undermined if the government resorts to monetary financing.	- Prepare realistic budgets, aligning spending with available revenue and identified external financing sources. - Endure prudent external borrowing.
Deterioration of relationship between coalition partners	Medium	Medium Policymaking would be undermined and economic uncertainty would increase.	- Maintain expenditure restraint and avoid monetary financing of government operations.
Escalation of Ebola epidemic	Low	Low (for the whole country) The current epidemic is taking place in areas not well integrated with the rest of the country and vaccination campaigns have been effective. Still, economic activity in those areas and trade with neighboring countries may be affected.	- Prepare contingency planning. - Obtain external technical and financial support and mobilize domestic resources to fight the epidemic.
Ongoing armed conflicts escalate	Low	Low (for the whole country) Economic activity would be hurt though mostly in specific areas not well integrated with the rest of the country.	- Make room for a budgetary contingency for such an emergency.
Withdrawal of the only correspondent banking relationship	Low	Medium Short-term disruption of financial transfers to the rest of the world, with potential systemic effects to the whole economy. Substitution by less efficient payment service providers.	- Prepare contingency plans in case of operational or financial failures - Promote the opening of new correspondent banking relationships with other local banks
		Potential External Risks	
Rising protectionism and retreat from multilateralism.	Medium	Medium Demand for export products and their prices would fall, hurting the domestic economy.	- Accumulate international reserve buffers. Diversify the structure of the economy and export sources. - Increasing participation in regional trade area agreements (EAC and AfCFTA)
Weaker-than-expected growth in China and globally	Medium	High Demand for export products and their prices would fall, hurting the domestic economy.	- Accumulate FX reserve buffers. - Diversify the structure of the economy and export sources.

1/ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term" and "medium term" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

Annex II. Capacity Development Strategy

CD Strategy

- The Fund's CD strategy for the Democratic Republic of the Congo over the medium term focuses on: (i) improving governance institution and laws and stepping up the fight against corruption ; (ii) reinforcing revenue mobilization; (ii) improving public financial management, in particular, reinforcing budget preparation and execution capacity; (iii) strengthening banking supervision and regulation capacity; and (iv) improving collection and publication of national accounts and fiscal data. This CD strategy is broadly aligned with the one delineated in the February 2016 strategy note.

Key overall CD priorities going forward

Priorities	Objectives
Governance assessment	Assess the quality of institutions and laws in (i) public financial management; (ii) central bank's governance and operations; (iii) fight against corruption; and (iv) preventing money laundering and terrorism financing.
Public financial management	Improve budget preparation and execution; reform public accounting, treasury management, and audit processes.
Financial supervision and regulation	Improve banking supervision and regulation capacity.
Tax policy	Simplify and rationalize taxes. Estimate and rationalize tax expenditures.
Strengthen macroeconomic and financial statistics compilation and dissemination	Improve compilation of national accounts and update data to recent years; improve compilation of fiscal data.

Main risks and mitigation

Political instability is the main risk by complicating the actual delivery of technical assistance (TA) and by undermining the ownership of associated reforms. Commitment and capacity to implement TA recommendations under a new government will need to be assessed. Sustained engagement with the new authorities will be required to agree on TA plans and key objectives and to increase the potential return of the Fund's CD activities.

Authorities' views

The authorities agreed on the identified focus areas for CD support from the Fund. Notably, they are seeking assistance in:

- Developing guidance notes on issues related to budget processes and fiscal data compilation.
- Organizing a seminar for members of parliament and senators on budget credibility and PFM.
- Reinforcing banking supervision.

Appendix I. Letter of Intent

Kinshasa, December 3, 2019

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, DC 20431
United States of America

Dear Madame Managing Director:

Our government is determined to turn around the fortunes of our country and of our people. For most of its history, the DRC has suffered from recurrent humanitarian and political crises. Violence in too many parts of our country have led to millions of deaths, internally displaced people, and refugees in neighboring countries. Outbreaks of deadly diseases frequently kill scores of people. Economic dislocation and disruptions have led to a drop in real income from above US$1,100 in 1990 to less than US$500 in 2018, exacerbating extreme poverty which hovers around 70 percent. Our natural resources have been a scourge rather than a blessing, feeding corruption and bad governance. Our government is determined to change this situation and deliver positive change, better living conditions, and a hopeful future to our people.

For the first time in our history we experienced a pacific transfer of power and the government immediately set out to address deep-seated economic problems affecting our people. President Tshisekedi took over in January 2019 after peaceful elections and a new coalition government was appointed in September. However, the government faces significant challenges. Growth is not strong nor inclusive enough, poverty is rife, infrastructures are either nonexistent or in advanced state of disrepair, poor governance and an unwelcoming business environment are scuttling business and investment opportunities, and exports are prone to price shocks. The President's 100-day program set out to address urgent needs of infrastructure and basic social services and is delivering value appreciated by our people. We introduced free basic education, providing schooling opportunities to millions of our children, sometime for the first time. Unfortunately, these initiatives have led to spending pressures and erosion of international reserves, threatening macroeconomic stability that we achieved through self-designed strong adjustment after a severe commodity price shock in 2015–16.

Our economic program is predicated on deep structural reforms supported by a stable macroeconomic environment. We target entering into a medium-term program supported by the IMF Extended Credit Facility (ECF). But we understand that we need some time to develop, with support from our partners, a broad set of reforms that would constitute the basis for the ECF-supported program. In this regard, we welcome the upcoming IMF governance assessment mission, the PEFA exercise, the safeguard assessment of the central bank and other such diagnoses. We will also fully exploit recommendations from various technical assistance received over the years. In the short run our main goal is to safeguard macroeconomic stability in the face of very low level of international reserves (covering only a week of imports).

The Government of the DRC requests the support of the IMF to shore up central bank international reserves during the transition period while we prepare a strong and broad structural reform agenda. We request support of 25 percent of quota under the Rapid Credit Facility together with a six-month Staff Monitored Program. This program's main policies include enhanced revenue mobilization and expenditure controls to reduce the fiscal deficit and repay some of the advances the Bank of Congo made to the government in 2019; discontinue any advances from the central bank; transfer abroad the BCC foreign currency deposits in local banks to increase its international reserves; take steps to improve governance in the mining sector and in state-owned enterprises; improving the business climate through measures to rationalize taxes and charges and make the judiciary system fairer.

The Government agrees to provide the IMF with information on the implementation of the agreed measures and the execution of this program, as provided for in the attached Technical Memorandum of Understandings (TMU). In addition, the Government of DRC agrees with the publication of this Letter of Intent (LOI), the attached MEFP and TMU, as well as the IMF staff report related to the request for a disbursement under the RCF and the Debt Sustainability Analysis, following approval by the Executive Board of the IMF. As per the consultation clause, the authorities will consult with the IMF before implementing any revisions to the policies contained in the MEFP.

Sincerely,

/s/

Ilunga Ilunkamba
Prime Minister

Attachments:
- Memorandum of Economic and Financial Policies
- Technical Memorandum of Understanding

-

Attachment I. Memorandum of Economic and Financial Policies (MEFP) for a 2019 Staff-Monitored Program

I. Background and Overview

1. For most of its history, the DRC has experienced recurrent humanitarian, health, and political crises and violent conflicts. Our abundant natural resources have unfortunately been sources of armed conflicts and political instability. Violent conflicts in many parts of the country have led to millions of internally displaced and refugees in neighboring countries. Frequent outbreaks of Ebola and measles and cholera have killed many. Political instability has led to non-pacific transfers of power since independence. This instability has affected economic performance, perpetuating and sometimes exacerbating poverty. Real income per capita declined from above 1,100 USD in 1990 to less than 500 USD in 2018. Extreme poverty incidence has reached 73% in 2018, one of the highest in Sub-Saharan Africa and in the world. The Congolese people wants to see an end to this sorry situation and their government is determined to deliver positive change, better living conditions, and a hopeful future.

2. For the first time in our history we enjoyed a pacific transfer of power with the swearing in of President Tshisekedi early in 2019. This milestone has been followed by the installation of a coalition government including members of the CASH and of the FCC coalitions, which took office in September. The government is determined to usher in a new era of peace and rapid, sustainable, and inclusive growth. To achieve these objectives, it is important for our country to renew relations with our partners

3. The present memorandum of economic and financial policies presents the program of reforms of the DRC government for the rest of 2019 and the first half of 2020. It supports the staff monitored program and accompanies the request for a disbursement under the Rapid Credit Facility. Over recent years the country has achieved macroeconomic stability as illustrated by the reduction of inflation to single digits and the relative stability of the exchange rate and of the financial sector. However, in the face of a recent sharp erosion of international reserves, the government seeks in the near term to safeguard macroeconomy stability. Policies will focus on building international reserves, increasing revenue mobilization, and implementing governance reforms, such as enhancing transparency.

4. To address urgent balance of payments needs, the government has asked for IMF financial support under the Rapid Credit Facility together with a six-month SMP. Our policy of re-engagement with the international community envisages a medium-term economic program supported by an IMF's Extended Credit Facility (ECF) in the second semester, which would play a catalytic role in unleashing donors' support. However, the government understands that it needs more time to develop a well-balanced macroeconomic policy package and a strong structural reform agenda that could be supported by such facility. In this respect, the government welcomes an upcoming governance assessment mission by the IMF, the EU-funded PEFA exercise, and other relevant diagnostics that would provide additional inputs for developing our structural reform agenda. In the meantime, to bolster the very low level of international reserves, the government has requested balance of payment support under the RCF together with an SMP.

II. Recent Economic Developments and Short-Term Outlook

5. After rebounding in 2018 owing to strong mining production and international prices, real GDP is projected to slow in 2019. Real GDP growth is projected to slow to 4.5 percent in 2019 from 5.8 percent in 2018, with extractive GDP growth falling from 16.9 to 5.4 percent in the context of lower international commodity prices. By contrast, non-extractive GDP growth is projected to accelerate thanks to the resumption of economic activity after the presidential elections, higher demand resulting from increased government employees' salaries, and the President's 100-day program. Twelve-month inflation has continued to decelerate and the exchange rate has remained stable.

6. GDP growth in 2020 is expected to slow down further due to the shutdown of one of the largest copper and cobalt mines in the country. GDP growth is projected to slow to 3.2 percent in 2020, mainly reflecting the negative impact of the planned suspension of production at the Mutanda Mine (MUMI) in 2020 and 2021 as well as the closure of Boss Mining, and despite continued acceleration in non-extractive GDP growth rates (5.4% in 2020). Inflation would remain stable at around 5 percent, below the medium-run objective of 7% annual inflation

7. The macroeconomic situation appears fragile as recent data point to the need to take measures to safeguard macroeconomic stability. The fiscal deficit in 2019 has been picking up relative to 2018 and, given the absence of financing options, it has been financed through central bank provision of advances and of central bank loan guarantees (in the form of foreign currency deposits) to commercial banks, and Treasury bonds. The fact that part of the monetary financing was made in foreign currency allowed to stabilize the exchange rate and keep in check the increases in inflation while eroding international reserves to barely a week of import coverage. This can threaten the relative stability of the exchange rate and increase the risk of re-igniting inflation. Aside from that, the central bank has carefully managed liquidity through the issuance of BCC bills and bonds and has maintained its policy rate at 9 percent and a high ratio of mandatory reserves which are constituted in local currency regardless of the currency of deposit.

8. Despite generally prudent debt policy DSA indicates that DRC is at moderate risk of debt distress. While the external public debt stock amounts to only 14 percent of GDP, the debt service to revenue ratio remains elevated.

III. Economic and Financial Program for the remainder of 2019 and for 2020

Fiscal policy

9. Spending pressures and repayment of domestic arrears have complicated budget execution in 2019. The implementation of the President's 100-day program, the increase of the wage bill, and the introduction of free basic education (primary plus two years of secondary schooling) have significantly increased spending. Revenue collections, on the other hand, have been more or less in line with projections but offsets for tax credit and other domestic arrears by taxpayers has limited revenue remitted to the Treasury. As of end-September, the central government domestic balance in cash basis reached a deficit of 1 percent of GDP financed through central bank advances and loans from commercial banks collateralized by the central bank. This compares to a surplus of 0.2 percent of GDP in 2018. The government intends to restrain spending and boost revenue through one-off measures so as to limit the 2019 domestic and overall deficits on a cash basis to 1 and 2.3 percent of GDP, respectively, partly financed by the issuance of newly introduced Treasury bills. The government will discontinue recourse to central bank financing as of end-October. For the year as a whole, central bank advances to the government will be limited to 0.7 percent of GDP.

10. The government is ramping up efforts to control spending. Free basic education will be implemented gradually by focusing on lower grades first. Spending will no longer be initiated by the State House outside of normal budgetary procedures. The government is committed to strictly respect all the steps of the spending chain. Exceptional spending procedures will only be used in case of emergency and in line with the code of procedures and the public spending circuit. The remaining path of implementation of the (one-off) President's 100-day program will be adjusted to available resources. In order to regain control over spending, the government will institute monthly caps for each ministerial-level cabinet and for those of other top-level government and Parliamentary officials. The government will continue with the practice of convening weekly meetings of top government officials in charge of public finances under the chairmanship of the Prime Minister to review incoming data and spending commitments and decide on priorities. The government will strengthen control of spending commitment and strictly align them with available resources so as to avoid the accumulation of arrears. To that end, the government will check the consistency between the spending commitment plan and the cash flow plan.

11. The government will mobilize one-off revenue sources in the short-term to limit the deficit in 2019 and reduce the stock of central bank advances. We will seek a one-off transfer from deposits of public entities into the Treasury. Efforts will be made to start redirecting into the Treasury revenue streams that normally belong in the Treasury, including earmarked funds. The government will require detailed financial statements from all "comptes speciaux" and appoint public accountants to certify them and determine potential contributions to the budget in the future.

12. The 2020 budget seeks to fulfil the President's ambition to improve the livelihood of the Congolese people. In this context, the government will continue with the recently introduced policy of free basic education. Any residual intervention under the President's "100 day" program will be fully integrated into the budget and associated spending will be undertaken following normal budgetary channels. The budget also seeks to provide relief and basic services to every corner of our country. However, it would be a challenge to increase revenue enough to meet budgeted spending plans. We will endeavor to adjust those to match realistic revenue projections and reasonable expectations of international support. In that context, and to guide expenditure commitments by line ministries and spending units, we will prepare a realistic Treasury Plan that will be posted on the website of the Ministry of finance (**structural benchmark**).

13. The government will substantially step up its domestic revenue mobilization efforts. By January 30, the government will take steps to restore the functioning of the VAT by (i) transferring back to the DGI the responsibility of paying VAT credits to mining companies (using a risk-based approach) through an escrow account to be fed by the allocation of the VAT collected by the DGDA from mining companies and a fraction of the VAT collected by the DGI, and (ii) discontinuing blanket VAT exemptions for mining companies (**structural benchmark**). In accordance with the law, no new VAT exemptions or exemption renewals will be granted. The personal income tax (IPR) will be more strictly enforced so that all government employees, including civil servants, public agents, and members of political institutions will henceforth pay the income tax on the entirety of their compensation (base salary plus bonuses and others) withheld at the source beginning starting with the January 2020 pay (**structural benchmark**). This would also enforce fair treatment among taxpayers. In the face of the structural decline in custom revenue in relative terms, we will survey fees and payments to various government entities collected at the port of entry for the purpose of rationalizing and consolidating them in the medium-run. This measure will help reduce customs costs as well as incentives for fraud and smuggling and ultimately increase custom revenue. The government intends to resolutely reduce tax exemptions to boost revenue. In this context, we will attach the 2017 report on tax expenditures as an annex to the 2020 budget law to enhance transparency on their costs and help create political support for their rationalization. The government intends to digitize all internal receipts recovery procedures by revising all the legislation pertaining to the means of debt payments to the central administration. The government commits to stop the use of tax offsetting mechanisms.

14. The 2020 budget plan is predicated on no central bank advances. The domestic and overall deficits will be limited to 0.3 and 0.6 percent of GDP, respectively. The government intends to issue a net amount of CF350 billion worth of Treasury bills and bonds in 2020. Given the uncertainty around the amount and timing of budget support and/or concessional lending from development partners that could be secured in 2020. We understand that the World Bank and the AfDB will be prepared to disburse their budget support soon after an ECF-supported program would have been approved.

15. The government will continue to work on improving public financial management, including with support from the IMF. The government intends to update its public financial management reform strategy in 2020. Preparation of the medium-term macroeconomic framework needs to be refined to enhance budget credibility, including through improved mining revenue forecasting and the preparation of sectoral expenditure frameworks. The IMF will assist with those objectives through dedicated technical assistance on PFM. In the next few months, the government will sign a decree establishing the Direction Générale du Trésor et de la Comptabilité Publique. Implementation of a treasury single account remains a key objective for the medium-term.

Public debt policy

16. Debt policy will be tightened given that our country is classified by the DSA to be in moderate risk of debt distress. Our policy will be guided by our medium-term debt strategy to be adopted by the Ministry of Finance by end-December 2019. The government will seek to contract concessional lending in priority. Any non-concessional borrowing will have to be in line with an improving debt profile and debt sustainability analysis. We commit to establishing a mechanism for collecting and reporting data on SOEs debt stock and debt service on a quarterly basis, focusing initially on debt passed on to companies in the State's portfolio We commit not to run any external arrears.

Monetary policy and stability of the financial system

17. Monetary and exchange rate policy will aim at keeping inflation in single digits and help build an adequate international reserve buffer. The BCC will continue to use its policy instruments, namely the repo rate, issuance of BCC bonds, and reserve requirement ratios to control liquidity (base money growth should be restricted to less than 12 percent in 2020) and deliver on price stability. However, it is expected that issuance of Treasury securities will have an increasingly prominent role in setting monetary policy targets. In collaboration with the Ministry of Finance, the BCC has taken steps to ensure that maturing government Treasuries are repaid automatically. The BCC has set up an escrow account where all proceeds from T-bills and bonds issuance are deposited and from where repayments at maturity will be made. In the context of weak international reserves, foreign exchange sales will be parsimonious and will be used primarily to smooth out volatility in the forex market.

18. Expatriation of forex deposits at domestic banks. Most unencumbered BCC forex deposits in domestic commercial banks (US$160 million) will be transferred to BCC bank accounts abroad by December 5, 2019 (**prior action**). BCC term deposits at commercial banks that have not yet reached maturity will be transferred abroad upon their maturity. Similarly, foreign exchange deposits used as collateral against government loans will be immediately transferred to BCC accounts abroad as soon as those collaterals are no longer necessary. No new guarantees against government or BCC loans with BCC international reserves will be allowed, henceforth. The BCC will evaluate the efficiency of strategic measures taken to de-dollarize the economy and update them as needed.

19. We are also considering other governance measures to strengthen transparency and operational efficiency of the BCC. We will study the possibility of constituting all new mandatory reserves in the currency of deposits, and the operational and monetary policy implications of this measure. Also, there is a recapitalization plan for the BCC as set by government decree. The plan encompasses two measures, a conversion of capital gains from assets revaluations worth CF113 billion into equity, and the injection of CF104 billion in new equity contributions from the government. The plan is expected to be materialized in the medium-term. The BCC will publish on its website its audited financial statements for 2018 by end-December (**structural benchmark**). We will cooperate with IMF staff by providing them with any document or information requested to prepare for the safeguard assessment of the BCC that will take place in early 2020. Based on the recommendations received, we will set a plan to reform the 2018 Central Bank Law.

20. The financial system remains stable, but the BCC will continue strengthening its banking supervisory capacity in the coming years with the technical assistance of the IMF. The banking system is adequately capitalized and relatively profitable and liquid, but NPLs have increased in the past years, reaching a level of 16.1 percent as September 2019. Pillar II of Basel II is being implemented, as well as the NFSR requirement and market discipline pillar from Basel III. Forthcoming technical assistance missions will have to be organized to implement CAMELS and ORAP rating systems. Efforts will have to be made to conclude the migration of the accounting framework towards IFRS 9 international accounting standards. In addition, the BCC will have to look into the IMF comments on the draft of the new Banking Law for the purpose of its adoption in 2020.

21. Our country is down to one single correspondent banking relationship, which raises systemic risk in case of failure in a highly dollarized economy. In a recent visit to Washington DC, the BCC Governor met with the US Treasury Undersecretary and requested a technical mission from the US Treasury to visit DRC and assess for themselves the DRC financial system.

Anti-money laundering and fight against terrorism financing

22. The government is committed to continue improving the AML/CFT framework. DRC was admitted as an associate member of the Action Group against Monetary Laundering in Central Africa (GABAC), following the agreement signed on September 5, 2017 in Brazzaville. The process of mutual evaluation of the DRC's control mechanism by GABAC experts was initiated in line with FATF standards and methodology of 2012. The findings of this mutual assessment will be published in October 2020 at the latest. In addition, the government will receive US$10 million in technical and training assistance to enhance security and fight against corruption as part of the U.S.-DRC Privileged Partnership for Peace and Prosperity, signed in Kinshasa in September 2019. Detailed priorities are currently in discussion with the State Department's Bureau of International Narcotics and Law Enforcement Affairs.

Inclusive growth

23. Broadening access to health care and education are key policy objectives. The government has introduced free basic education which would provide access to education to millions of children, many for the first time. The government is also preparing for the introduction of universal health insurance coverage. The President's 100-day program allowed the construction or rehabilitation of public and social infrastructure that are improving living conditions for millions of Congolese and opening opportunities for investment and business. We will continue to explore avenues to create opportunities for the Congolese people and to reinforce our policy of providing safety net for the most vulnerable.

Improving Governance and Combating Corruption

24. The government is committed to increasing transparency and accountability in the management of DRC natural resources, improving governance in general, and combating corruption. To that effect, and in accordance to the legislation, all new contracts entered into by the central government, provincial governments, SOEs, or any other public entities in the mining, hydrocarbon, and forestry sectors will be published in the website of the Ministry with relevant jurisdiction. The government will undertake, with support from the World Bank, to publish financial and functional audits of SOEs. We will take all steps necessary to facilitate and support the upcoming IMF governance assessment mission and are fully committed to the publication of its final report and to the implementation of its main recommendations. We will comply expeditiously with the 13 measures required by the EITI validation process. In particular, we will hire an EITI national coordinator in line with the EITI procedures and code of conduct, and adopt a governmental decree on the functioning of the EITI Executive Committee in line with the recommendations of the EITI Board's validation process.

Improving the business climate

25. The government is determined to improve the business climate. The government commits to correct the weaknesses of the tax regime and the judiciary in order to attract private and foreign investment. The government will re-launch the survey of all illegal taxes, fees, and payments levied by public entities without the authorization of the ministry of finance as per the law and proceed to cancel them. Progress on these issues will be monitored on a continuous basis at the highest-level. Over the medium term, the government will work with the IMF and other relevant partners to implement recommendation of recent technical assistance missions on tax policy and revenue administration. As for the judiciary, the government will organize a national conference with all stakeholders to discuss the issues that plague the judiciary with a view to finding solutions. We will approach the judiciary of advanced nations to seek their technical assistance in reforming our judiciary.

Program financing

26. A disbursement under the Rapid Credit Facility for 25 percent of quota will help replenish BCC international reserves. Including such disbursement, gross official reserves are projected to recover to above 3 weeks of import coverage at the end of 2019. At the same time, net foreign assets of commercial banks should continue to increase. In 2020, a net increase in central bank reserves and a smaller increase in commercial banks' reserves are expected.

Program monitoring

27. The SMP will have three test dates of December 2019, March and May 2020 with indicative quantitative targets and structural benchmarks as shown in the attached Tables. These criteria and indicators are defined in the attached Technical Memorandum of Understanding (TMU), which defines the indicative quantitative targets and requirements with regard to the reporting of data to IMF staff. The monitoring of the program will be done by a technical troika chaired by the Finance Ministry and composed of the Budget Ministry and the BCC. The CTR will be in charge of secretariat/reporting. Such report will be shared with IMF staff on a set frequency.

/s/	/s/	/s/
Jose Sélé Yalaghuli Minister of Finance	Deogratias Mutombo Mwana Nyembo Governor of the Central Bank of Congo	Jean Baudouin Mayo Mambeke Deputy Prime Minister & Minister of Budget

Text Table 1. Additional measures to improve revenue mobilization

Measures	2020 impact
Witholding of income tax on bonuses of civil servants, central government employees, and members of political institutions	CF 432.5 billion
Cancellation of the compensation process of revenues	CF 461 billion
Transfer of part of special account proceed to the treasury	
mining fund for future generation	US$ 10 million
FONER	US$ 10 million
RVA	US$ 1 million
Systematic transfer of the SOE income tax to the treasury	
Cap on operational expenditure of public institutions	

Source: Congolese authorities

Table 1. Democratic Republic of the Congo: Indicative Targets Under the SMP, 2019–May 2020

	2019 end-year	2020 March	2020 May[1/]
Floor on changes in net foreign assets of the BCC (US$ millions)	-146	116	231
Accumulation of new central government loans guaranteed by the BCC (CF billions)	372	0	0
Ceiling on changes in net central bank credit to government (CF billions)	554	0	0
Ceiling on placement of Treasury bills and bonds by the central government (CF billions)	150	80	150
Ceiling on the contracting or guaranteeing of new nonconcessional external debt, including EADs or the BCC (US$ millions)	150	86	…
Accumulation of external arrears (US$ millions)	0	0	…
Floor on domestic balance - cash basis (CF billions)	-862	56	…
Accumulation of wage arrears (US$ million)	0	0	…
Memorandum items:			
Balance of payments support (US$ millions)	368	0	0
Contracting of new concessional external debt (US$ millions)	317	154	256
New disbursement of external budget and project loans, and grants (US$ millions)	613	338	541
Scheduled external debt service payments (US$ millions)	131	64	106

Sources: Congolese authorities and IMF staff estimates and projections

[1/] Cumulative variables from January till May. Only the first four ITs will be monitored for the May test date.

Table 2. Democratic Republic of the Congo: Prior Action for the Rapid Credit Facility and Structural Benchmarks for the Staff Monitored Program

Actions	Rationale	Date
Prior Action		
Transfer USD160 million in FX deposits from BCC accounts at domestic commercial banks to BCC accounts in overseas banks which would be accounted for as reserves	Strengthen external position	December 5, 2019
VAT: The Minister of Finance to make the DGI responsible for the payment of VAT refunds to mining companies (using a risk-based approach) through an escrow accounts receiving proceeds from the VAT collected by the DGDA from mining companies and a quota of overall VAT collected by the DGI	Increase revenue	January 2020
Lift the suspension of VAT collection for mining companies at the customs.		March 2020
PIT: Enforce the inter-ministerial circular imposing personal income tax withholding on the totality of the compensation (including salaries, bonuses, and other forms of remuneration) of civil servants, other public employees and employees of political institutions.	Increase revenue	January 2020
Publish a 2020 Treasury Plan on the Ministry of Finances' website, consistent with realistic receipts and financing previsions to serve as a guide for expenditure commitments	Rationalize expenditure	January 2020
Publish the complete, audited 2018 financial statements of the BCC on the BCC's website	Strengthen BCC transparency	December 2019

Sources: Congolese authorities and IMF staff

Attachment II. Technical Memorandum of Understanding 2019

Kinshasa

December 3, 2019

1. This Technical Memorandum of Understanding (TMU) accompanies the MEFP of December 3, 2019. Unless otherwise indicated, all quantitative targets are measured in terms of cumulative changes since the beginning of the year. Variables denominated in U.S. dollars will be converted to Congolese Francs by using the program exchange rate of CGF 1654 per U.S. dollar; variables denominated in currencies other than the U.S. dollar (excluding the SDR and Euro) will first be converted to U.S. dollars at the September 30, 2019, US$/currency exchange rate. Variables denominated in SDRs will be valued at the program exchange rate of CGF 2839 per SDR. Variables denominated in Euro will be valued at the program exchange rate of CGF 1809 per Euro.

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

I. QUANTITATIVE INDICATIVE TARGETS

3. The quantitative indicative targets have been established for end-December 2019 and for end-March 2020 with regard to the following variables:

- Changes in the net foreign assets of the BCC;
- Accumulation of new central government loans guaranteed/collateralized by the BCC;
- Changes in net central bank credit to the government (central government);
- Changes in the placement of Treasury bills and bonds by the central government;
- Nonconcessional foreign loans contracted or guaranteed by the central government, local governments, or the BCC;
- Accumulation of external payment arrears;
- Domestic fiscal balance of the central government; and
- Accumulation of wage arrears by the central government.

4. The quantitative indicative targets have been established for end-May 2020 only for the following variables:

- Changes in the net foreign assets of the BCC;
- Accumulation of new central government loans guaranteed/collateralized by the BCC;
- Changes in net central bank credit to the government (central government);
- Changes in the placement of Treasury bills and bonds by the central government;

Floors on the Net Foreign Assets of the BCC

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

6. The following **adjustments** will be made to the NFA floors:

- **Balance of payments support (BPS)**: NFA floors will be adjusted upward by an amount equivalent to 50 percent of total BPS in excess of the programmed levels. There will be no downward adjustments to the NFA floors for any shortfall in BPS.
- **External debt service payment**: NFA floors will be adjusted (i) upward by an amount equivalent to under payment of external debt service relative to programmed amounts; and (ii) downward by an amount equivalent to the excess of external debt service payments relative to programmed amounts.

7. Definition: BPS is defined as all disbursed foreign grants and loans, excluding those tied to projects.

8. Definition: External debt service payments for the central government are defined as interest and principal due to foreign creditors (excluding the IMF).

9. Definition: Disbursements of external budget and project loans, and grants are defined as cash payments to the central government for contracted budget and project loans or grants by the government (excluding the IMF).

Ceilings on the Accumulation of Central Government Loans Collateralized/Guaranteed by the BCC

10. Definition: The **accumulation of central government loans collateralized/guaranteed by the BCC** covers central government loans guaranteed by the BCC, and is specifically understood to include central government liabilities secured by liens over BCC deposits in local or foreign currency.

Ceiling on Net Central Bank Credit to the Government

11. Definition: Net central bank credit to the government (NCG) is defined as the difference between gross BCC claims on the central government minus central government deposits at the BCC. For purposes of program monitoring, government deposits related to externally financed projects are excluded from NCG. All foreign currency denominated flows to the budget will be converted to domestic currency by using the market exchange rate prevailing at the time of the disbursement.

12. The following **adjustments** will be made to the NCG ceilings:

- **BPS**: NCG ceilings will be adjusted downward by an amount equivalent to 50 percent of total BPS in excess of the programmed level. There will be no upward adjustment to the NCG ceilings for any shortfall in BPS.

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

Ceilings on the Placement of Treasury Bills and Bonds by the Central Government

13. Definition: The placement of Treasury bills and bonds by the central government is defined as the net issuance of domestic bills, bonds and other similar securities used to finance central government operations. This definition excludes short-term bonds issued by the BCC ("BCC bonds") for use as instruments for monetary policy operations.

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

14. Definition: The public sector comprises the central government, local governments, the central bank (BCC), state-owned enterprises,[1] decentralized entities and nonprofit organizations controlled and financed by the central government.

[1] GECAMINES, SNEL, and MIBA.

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

16. Definition: A debt is concessional if it includes a grant element of at least 35 percent, calculated as follows: the grant element of a debt is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt.[2] The discount rates used for this purpose are the currency specific commercial interest reference rates (CIRRs), published by the Organization for Economic Cooperation Development (OECD). For debt with a maturity of at least 15 years, the ten-year-average CIRR will be used to calculate the PV of debt and, hence, its grant element. For debt with a maturity of less than 15 years, the six-month average CIRR will be used. To both the ten-year and six-month averages, the same margins for differing repayment periods as those used by the OECD need to be added (0.75 percent for repayment periods of less than 15 years, 1 percent for 15 to 19 years, 1.15 percent for 20 to 29 years, and 1.25 percent for 30 years or more).

17. Definition: The ceiling on nonconcessional external debt applies to contracted or guaranteed external debt by the public sector (as defined above) for which the equivalent value has not been received. It excludes (i) the use of Fund resources; (ii) debts incurred to restructure, refinance, or prepay existing debts, to the extent that such debt is incurred on more favorable terms (including in particular a grant element higher than 35 percent) than the existing debt; (iii) concessional debts; and (iv) normal import credits having a maturity of up to one year.[3]

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

Ceiling on the Accumulation of External Payment Arrears

19. Definition: External payment arrears are defined as external debt service obligations (principal and interest) of the central government that were not paid on the contractual due date. The ceiling on new external payment arrears applies **continuously** throughout the period covered by the Staff Monitored Program (SMP) (i.e., until end May 2020). It does not apply to external payment arrears in process of renegotiation or to cases in which the creditor has agreed to the suspension of payments pending the outcome of negotiations.

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

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

Ceilings on the Accumulation of Wage Arrears by the Central Government

20. Definition: Wage arrears are defined as approved personnel wages and salaries that have not been paid for 60 days. Wages and salaries include the total compensation paid to central government employees, including permanent benefits. These arrears will be valued on a cumulative basis from October 31, 2019.

21. Definition: Public employees are defined as civil, police, and military personnel either statutory civil servants or contractual employee of the central government.

Floor on the Domestic Fiscal Balance

22. Definition: The **domestic fiscal balance** (cash basis) is defined as (domestic revenue) minus (domestically financed expenditure). **Domestic revenue** is defined as (total revenue and grants) minus (grants). **Domestically financed expenditure** is defined as (total expenditure and net lending) minus (externally financed investments) minus (foreign interest payments) plus (the net accumulation of domestic arrears).

II. DATA TO BE REPORTED FOR PROGRAM MONITORING PURPOSES

23. The authorities of the DRC will provide IMF staff with the data needed to monitor the program within the prescribed time limits, as indicated in the following table. In addition, it will provide monthly data on the domestic fuel price structure to assess the fiscal cost of the fuel pricing policy.

Overview of Data to be Transmitted by the Authorities

	Information	**Producer**	**Frequency**	**Transmission expected after**
1	Amounts of foreign currency sold or purchased in the interbank market	BCC	Daily	1 day
2	Amounts of foreign currency sold or purchased in the interbank market by the BCC	BCC	Daily	1 day
3	Average reference exchange rate FC/US$ on the interbank market	BCC	Daily	1 day
4	Average reference exchange rate FC/US$	BCC	Daily	1 day
5	Average reference exchange rate FC/US$ offered by commercial banks to their customers	BCC	Daily	1 day
6	Average reference exchange rate FC/US$ used in *bureaux de change*	BCC	Daily	1 day
7	Detailed monetary situation: Deposit Institutions, BCC, and other institutions with deposit	BCC	Monthly	1 week
8	Detailed BCC balance sheet	BCC	Monthly	1 week
9	BCC income statement	BCC	Monthly	2 weeks
10	Interest rates term structure of deposit institutions	BCC	Monthly	2 weeks
11	Reserves (mandatory and voluntary) of deposit institutions	BCC	Weekly	1 week
12	Total amount of FC transactions in the interbank market	BCC	Daily	1 day
13	Amount of BCC claims on deposit institutions	BCC	Daily	1 day
14	Stock and issuance of BCC bonds	BCC	Weekly	1 week
15	Sales of foreign currency by the BCC (including by public tender)	BCC	Weekly	1 week
16	BCC Interest rates term structure	BCC	Monthly	1 week
17	Consumer Price Index	BCC	Weekly	1 week
18	Consumer Price Index	INS	Weekly	1 week

19	Financial stability indicators for all deposit institutions	BCC	Monthly	2 weeks
20	Production, imports, and exports figures (value and volume) for main products (Tables I.3 et I.3 bis of the *Condense Statistique*)	BCC	Monthly	3 weeks
21	Capital and financial accounts of the Balance of Payments	BCC	Quarterly	3 weeks
22	Budget execution of the Treasury plan/foreign currency budget of the BCC	BCC	Weekly	1 week
23	Execution of the Treasury plan/local currency budget of the BCC	BCC	Monthly	1 week
24	Amounts and identity of holders of promissory notes guaranteed by the BCC	BCC	Monthly	3 weeks
25	Dashboard of main external indicators	BCC	Daily	1 day
26	Evolution of the execution of the budget plan and of the cash-flow plan	MF/MB	Weekly	1 day
27	Issuance and amortization of Treasury bills and bonds: amounts, maturities, and interest rates	MF	Weekly	1 day
28	External debt service (interests and principal) detailed by lender	MF	Monthly	2 weeks
29	Updated amounts of external arrears	MF	Monthly	3 weeks
30	Execution of the government cash-flow plan	MF	Monthly	2 weeks
31	Promissory notes: stock, new issuance, rates and identity of creditors.	MF/BCC	Monthly	3 weeks
32	Revenues from customs and excise taxes, including from the mining sector, broken down by category.	MF	Monthly	4 weeks
33	Revenues from direct and indirect taxes, including from the mining sector, broken down by category.	MF	Monthly	4 weeks
34	Para-fiscal revenues, including from the mining sector, broken down by category.	MF	Monthly	4 weeks
35	Collection of receipts from natural resources	CTR	Monthly	4 weeks
36	Evolution of IBP payments by taxpayers	DGI	Quarterly	4 weeks
37	Projected spending commitment plan	MB	Quarterly	2 weeks
38	État de suivi budgétaire (ESB)	MB	Monthly	2 weeks
39	Wage bill to be paid, by employee category	MF/MB	Monthly	3 weeks
40	Wage bill effectively paid, by employee category	MF/MB	Monthly	3 weeks
41	Number of employees by category	MF/MB	Monthly	3 weeks

42	Wage scale in the public sector	MF/MB	If any change made	3 weeks
43	Emergency spending: amounts approved by the Committee on emergency spending, and amounts paid and regularized by the BCC	MF/BCC	Monthly	3 weeks
44	Privatizations proceeds	MF/BCC	Monthly	3 weeks
45	Domestic debt of the central administration, by category and by creditor: stock and debt service.	MF	Monthly	3 weeks
46	Stock of budget arrears	MdB	Monthly	3 weeks
47	Stock of wage arrears	MdF/MdB	Monthly	6 weeks
48	Contracting of any new loans by the central administration guaranteed by the BCC	MF/BCC	Monthly	1 week
49	Contracting of any new external debt issued and/or guaranteed by the BCC in favor of any central or local administration	MF/BCC	Monthly	3 weeks
50	Budget execution table showing the annual Treasury and commitment plans and all the spending execution stages until payment	MF/MB/BCC	Weekly	3 days
51	Production and exports, broken down by mine and by mineral	Ministère des Mines	Monthly	2 weeks
52	Statistical brief from the weekly Tuesday meeting with the Prime Minister	Ministère du Plan / CTR	Weekly	3 days
53	Updated GDP estimates and forecasts	INS/BCC	Quarterly	3 weeks

INTERNATIONAL MONETARY FUND

THE DEMOCRATIC REPUBLIC OF THE CONGO

December 3, 2019

STAFF-MONITORED PROGRAM AND REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY—INFORMATIONAL ANNEX

Prepared By

The African Department
(In collaboration with other departments)

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RELATIONS WITH THE IMF

As of October 31, 2019

Membership Status: Joined September 28, 1963; Article VIII

General Resources Account:	**SDR Million**	**Percent of Quota**
Quota	1,066.00	100.00
Fund holdings of currency	1,066.00	100.00
Reserve Tranche Position	0.00	0.00

SDR Department:	**SDR Million**	**Percent of Quota**
Net cumulative allocation	510.86	100.0
Holdings	4.42	0.86

Outstanding Purchases and Loans:	**SDR Million**	**Percent of Quota**
ECF Arrangement	49.49	4.64

Latest Financial Arrangements:

Type	**Approval Date**	**Expiration Date**	**Amount Approved (SDR Million)**	**Amount Drawn (SDR Million)**
ECF[1]	Dec 11, 2009	Dec 10, 2012	346.45	197.97
ECF[1]	June 12, 2002	Mar 31, 2006	580.00	553.47
Stand-By	June 09, 1989	June 08, 1990	116.40	75.00

[1] Formerly Poverty Reduction and Growth Facility (PRGF).

Overdue Obligations and Projected Payments to Fund:[2]

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

	Forthcoming				
	2019	2020	2021	2022	2023
Principal	9.90	29.70	9.90		
Charges/interest	1.13	4.11	4.11	4.11	4.11
Total	11.03	33.81	14.01	4.11	4.11

Implementation of HIPC Initiative:

I.	Commitment of HIPC assistance	Enhanced Framework
	Decision point date	July 2003
	Assistance committed by all creditors (US$ millions)[3]	7,252.00
	Of which: IMF assistance (US$ millions)	391.60
	(SDR equivalent millions)	280.30
	Completion point date	July 2010
II.	Disbursement of IMF assistance (SDR millions)	
	Assistance disbursed to the member	280.30
	Interim assistance	49.05
	Completion point balance	231.25
	Additional disbursement of interest income[4]	50.44
	Total disbursements	330.74

Implementation of MDRI Assistance:

I.	MDRI-eligible debt (SDR Million)[5]	248.08

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

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

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

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

Financed by: MDRI Trust	0.00
Remaining HIPC resources	248.08

II. Debt Relief by Facility (SDR Million)

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

Exchange Rate Arrangement:

The currency of the Democratic Republic of the Congo (DRC) is the Congo franc (CDF). The de jure exchange rate arrangement is floating, although the Fund classifies the de facto exchange rate arrangement as "stabilized." At end-March 2019, the rate was US$1=CF 1652.7. Effective February 10, 2003, the DRC accepted the obligations of Article VIII, Sections 2 (a) 3, and 4, of the Fund's Articles of Agreement. However, the DRC maintains one exchange rate restriction subject to Fund approval arising from an outstanding net debt position against other contracting members under the inoperative regional payments' agreement with the Economic Community of the Great Lakes Countries.

Last Article IV Consultation:

The last Article IV consultation was concluded by the Executive Board on September 4, 2019.

Safeguards Assessment:

An updated safeguards assessment of the *Banque Centrale du Congo* (BCC) completed in April 2010 found that while most of the 2008 recommendations had been implemented, significant risks remained. The BCC continued to lack autonomy from the government and was in need of recapitalization, and the absence of an independently defined financial reporting framework continued to impair transparency. The Ministry of Finance completed the first phase of the recapitalization in March 2011 by bringing the BCC's net worth to zero. The IMF has been providing technical assistance to support the recapitalization efforts. While the BCC committed to adopt IFRS as its financial reporting framework in 2003, the transition process has been significantly delayed. The BCC Law was amended in December 2018 with changes in the provisions on independence, autonomy, and transparency.

Resident Representative: Mr. Philippe Egoumé Bossogo assumed his duties in September 2018.

RELATIONS WITH OTHER FINANCIAL INSTITUTIONS

A. World Bank

https://www.worldbank.org/en/country/drc/overview

World Bank Group Projects:
http://projects.worldbank.org/search?lang=en&searchTerm=&countrycode_exact=ZR

B. African Development Bank

https://www.afdb.org/en/countries/central-africa/democratic-republic-of-congo

INTERNATIONAL MONETARY FUND

DEMOCRATIC REPUBLIC OF THE CONGO

December 3, 2019

STAFF-MONITORED PROGRAM AND REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY—DEBT SUSTAINABILITY ANALYSIS

Approved By
Annalisa Fedelino (IMF, AFR), Seàn Nolan (IMF, SPR), and Marcello Estevão (IDA)

Prepared by the staff of the International Monetary Fund (IMF) and the International Development Association (IDA)

Risk of external debt distress:	**Moderate**
Overall risk of debt distress	**Moderate**
Granularity in the risk rating	**Some space to absorb shocks**
Application of judgment	**No**

According to the updated Low-Income Country Debt Sustainability Framework (LIC DSF), the Democratic Republic of the Congo (DRC)'s debt-carrying capacity was assessed as weak[1]*. DRC remains at a moderate risk of external and overall debt distress, with some space to absorb shocks. The country shows some vulnerabilities in debt repayment capacity due to weak revenue mobilization. Most external debt thresholds are breached under the stress tests, highlighting the country's vulnerability to external shocks. Given limited buffers, prudent borrowing policies are essential by prioritizing concessional loans and strengthening debt management policies.*

[1] DRC Composite Indicator (CI) score is 1.98, which corresponds to a weak debt-carrying capacity as confirmed by April 2019 WEO assumptions and 2017 Country Policy and Institutional Assessment (CPIA).

PUBLIC DEBT COVERAGE

1. **Public and publicly-guaranteed (PPG) external and domestic debt covers debt contracted and guaranteed by the central government, the Central Bank of Congo (BCC), provinces, and part of state-owned enterprises (SOEs).** The public debt department (Direction Générale de la Dette Publique, DGDP) under the Ministry of Finance publishes quarterly and annual reports on its website with information on domestic and external debt based on the residency criteria. The reports summarize the debt of the central government, debt of SICOMINES (a joint venture stemming from an agreement between the Congolese government and Chinese investors) and Gécamines, guaranteed external debt of SOEs managed by the government, provinces (only the province of Maniema is missing, out of 26 provinces), and BCC's debt. Data on private sector's and other public institutions' debt are not available. Other public institutions do not have the capacity to borrow externally without a government guarantee. The authorities believe that other SOEs have not borrowed externally, however they do not receive any regular report from them. The authorities are committed to broaden the debt coverage, especially to improve SOEs debt reporting in terms of debt stock and debt service. Sicomines' infrastructure loans have a government guarantee which can only be called after 2050. Its debt service should be repaid by 2027 and is collateralized by Sicomines' earnings.[2]

Text Table 1. Democratic Republic of the Congo: Coverage of Public and Publicly Guaranteed Debt and Parameters for Contingent Liability Shocks for the Tailored Stress Test

Definition of external/domestic debt	Residency-based
Is there a material difference between the two criteria?	No

Public debt coverage

	Subsectors of the public sector	Check box
1	Central government	X
2	State and local government	X
3	Other elements in the general government	
4	o/w: Social security fund	
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	X

Public debt coverage and the magnitude of the contingent liability tailored stress test

1	The country's coverage of public debt	The central, state, and local governments, central bank, government-guaranteed debt, non-guaranteed SOE 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	2	Some public institutions are not reporting to the DGDP.
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	0.5	Reflecting risks stemming from irregular data sharing with DGDP.
4	PPP	35 percent of PPP stock	0.00	
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)		7.5	

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%.

Sources: Congolese authorities. IMF staff calculation.

[2] Box 1, Debt Sustainability Analysis, IMF Country Report No. 15/280.

BACKGROUND AND RECENT DEVELOPMENTS

2. **Despite vast natural resources, DRC is one of the poorest countries in the world, and it displays many aspects of fragility as it remains prone to health and humanitarian crises and violent conflicts.** The economy is highly dollarized, undiversified, and acutely vulnerable to commodity-price shocks and supply risks. The first ever peaceful presidential transition since independence took place in January 2019. The new government is keen on reestablishing active relationships with the international community.

3. **While some macroeconomic stability has been secured in recent years, the economy remains highly vulnerable to shocks.** GDP growth was 5.8 percent in 2018 and is projected to be 4.5 percent in 2019, while 12-month inflation has fallen to around 5 percent and the exchange rate has stabilized. Strict budgetary discipline led to overall fiscal surpluses in 2017–18, but deficits of 2.3 and 0.6 percent of GDP are projected for 2019 and 2020, respectively. International reserves have been low, reaching less than 2 weeks of import coverage in late 2019, a critical vulnerability that needs to be tackled decisively.

Text Table 2. Democratic Republic of the Congo: External Arrears as of End-2018

External arrears are limited and date from pre-HIPC Completion Point, amounting to US$328.7 million. Four non-Paris Club creditors hold claims against the DRC for half of the total amount in arrears and are in negotiation or under reconciliation process. The remaining half are claims to commercial creditors. Amounts have been reconciled but there are cases under litigation. A 5-year schedule for the repayment of external arrears has been assumed, starting in 2021.

Democratic Republic of the Congo - External Arrears

	2018	
	Nominal in millions of US$	Percent of GDP
	Est.	
Total External Arrears	329	0.7
Bilateral creditors	164	0.3
Commercial creditors 1/	165	0.3
Memo item:		
GDP	47,099	

Sources: Congolese authorities; IMF staff calculations
1/ Includes Sicomines debt

4. About half of the public external debt is owed to official creditors. At end-2018, 30 percent of the debt was owed to multilateral creditors and 19 percent to bilateral official creditors, a significant increase from 4 percent in 2014 due to borrowing from non-Paris Club creditors. The share of debt owed to commercial creditors has remained stable at a third of external debt (see Text Table 3). Sicomines' debt represents almost 40 percent of total external debt. It is assumed to be repaid over 10 and 15 years for mining and infrastructure projects, respectively.

Text Table 3. Democratic Republic of the Congo: Total Public Debt Stock, 2018

	Nominal in millions of US$ Est.	Percent of GDP	Percent of Public Debt	Percent of External Debt
Total Public Debt	9,476	20.1	100	
Of which: arrears	3,403	7.2	36	
Total External Debt	6,401	13.6	68	100
Of which: arrears	329	0.7	3	5
Multilateral creditors	1,916	4.1	20	30
Bilateral creditors	1,240	2.6	13	19
Commercial creditors 1/	3,245	6.9	34	51
Total Domestic Debt	3,074	6.5	32	

Sources: Congolese authorities; IMF staff calculations
1/ Includes Sicomines debt

5. The overall domestic debt is composed of arrears. As of 2018, total domestic debt was equivalent to US$3.1 billion, or about one third of total public debt. Reconciled legacy arrears equal US$1.9 billion, or almost 60 percent of domestic public debt. They have been audited and fall into five categories: financial debt, social debt, judiciary debt, suppliers, and rent and other services. Other legacy arrears amounting to about US$3 billion have still to be audited. According to the authorities, in the past, only 20 percent of audited arrears became validated. VAT arrears represent the second largest category of arrears with almost a quarter of the domestic debt. They are expected to be repaid against taxes due. Arrears from provinces are also included in the stock of domestic debt. Only one province did not report its stock of arrears but, according to the authorities, its amount should be marginal.

Text Table 4. Democratic Republic of the Congo: Total Stock of Domestic Debt, 2018

	Nominal in US$ million	in percent of GDP	in total domestic debt
Reconciled legacy arrears	1,866	4.0	60.7
Arrears from provinces	147	0.3	4.8
Arrears to oil companies	262	0.6	8.5
VAT arrears	799	1.7	26.0
Total	3,074	6.5	100.0

Sources: Congolese authorities; IMF staff calculations

UNDERLYING ASSUMPTIONS

6. **The medium- and long-term macroeconomic framework underlying this DSA is quite similar to the one in the 2019 Article IV.** GDP growth assumptions are slightly more conservative in the next couple of years before picking up a bit due to new mining projects which would lead to a substantial increase of exports and imports in the medium term. Fiscal policy is assumed to be looser in the first couple of years of the projection period, and over the medium and longer terms. This is based on the assumptions of more ambitious public spending on infrastructure and education and the availability of additional external and domestic financing sources in the context of improved relations with international partners.

Text Table 5. Democratic Republic of the Congo: Macroeconomic Forecast and Assumptions (comparison with 2019 Article IV DSA)

	Real GDP Growth (percent change)		Revenue (excluding grants) growth		Overall fiscal balance (percent of GDP)		Exports of goods and services growth		Imports of goods and services growth		Current account balance (percent of GDP)	
	Previous (08/19)	Current	Previous (08/19)	Current	Previous (08/19)	Current	Previous (08/19)	Current	Previous (08/19)	Current	Previous (08/19)	Current
2015	6.9	6.9	2.2	2.3	-0.4	-0.4	-17.2	-17.2	-19.1	-19.1	-3.8	-3.8
2016	2.4	2.4	-21.0	-12.6	-0.5	-0.5	14.9	14.9	11.5	11.5	-4.1	-4.1
2017	3.7	3.7	-10.2	29.7	1.4	1.4	-3.0	-3.0	-8.3	-8.3	-3.2	-3.2
2018	5.8	5.8	33.8	40.2	0.4	0.0	38.0	38.0	36.1	36.1	-4.6	-4.6
2019	4.3	4.5	3.0	19.1	-0.2	-2.7	-20.9	-18.7	-19.0	-19.5	-3.5	-3.8
2020	3.9	3.2	1.6	20.2	-0.1	-0.6	4.3	-5.4	5.6	-0.9	-4.2	-4.3
2021	3.4	3.5	10.2	8.8	0.2	-1.0	4.0	6.5	5.2	9.0	-4.4	-3.7
2022	4.5	4.5	8.5	12.8	0.2	-0.5	7.6	9.2	6.9	6.8	-4.3	-3.2
2023	4.3	4.3	8.3	13.1	0.2	-0.6	6.4	8.4	7.5	7.0	-4.4	-2.8
2024	4.6	4.6	8.4	11.9	0.1	-0.4	7.4	7.9	7.9	7.7	-4.5	-2.7
avg. 2025-39	4.5	4.6	5.8	8.7	-0.1	-0.3	5.4	3.0	5.1	2.3	-3.7	-1.2

Sources: Congolese authorities and IMF staff calculations and projections.

Box 1. Democratic Republic of the Congo: Macroeconomic Assumptions for 2019–39

Real GDP growth. GDP growth over the medium term would average more than 4 percent driven by sustained increases in mining production and a gradual recovery in investment. The newly elected President laid out his development plan that aims at supporting private sector activity, particularly in the agriculture, energy, and tourism sectors. He also plans to increase public investment, specifically in infrastructure.

Inflation. Inflation is projected to stabilize at around 5 percent, below the 7 percent target of the BCC, as the economy slowly recovers.

Primary balance. The primary fiscal balance is projected to stay close to zero percent of GDP for 2022 and later years on the basis of more prudent fiscal policies. Capital expenditure would reach 3.9 percent of GDP at the end of the projection period. It would be initially financed mostly through foreign sources, but domestic financing would increase gradually to represent about half of its financing. Revenues are computed as central government revenues plus revenue from SOEs assumed to be equivalent to their debt service flows. The latter represent an average of 4.4 percent of total revenues over the repayment period.

Current account balance. The current account balance has been stable while significantly affected by the developments in the mining sector. After a recovery in 2017, the current account deficit increased again in 2018 mainly due to capital equipment and other imports due to the presidential elections. Mineral exports constitute significant portion of exports and projected to improve, on average, over the medium term due to new mining projects, while imports are projected to rise gradually on the back of increasing demand for capital goods and intermediates for infrastructure investment. Thus, the current account deficit would average around 3 percent of GDP over the medium term.

Gross official reserves are expected to gradually rise by 2021 to about 5 weeks of imports, partly due to expatriation of BCC foreign currency deposits in local banks.

Financing assumptions. In the short-term, public debt is expected to increase to help finance the investment program of the new government, but it is expected to decrease later on. Public investment is assumed to increase gradually to more than 3.5 percent of GDP over the medium term. External financing is projected to be a mix of concessional loans and bilateral and commercial loans. Part of the financing of public investment projects would also stem from foreign grants. Additional government financing needs are assumed to be covered by treasury bonds issuance in the domestic market. The financing mix is projected to remain unchanged over the projection period as it is assumed that DRC would not be able to switch from concessional to non-concessional borrowing.

7. The realism tool's outputs compare the DSA projections to cross-country experiences and to DRC's own historical experience (Figures 3 and 4).

a. **Debt drivers:** Over the last 5 years DRC's external debt has barely changed (it actually fell), in contrast to LICs' upward PPGE debt trend. With regard to total public debt, the main driver behind its increase was the extension of debt coverage.

b. **Fiscal adjustment and growth.** The baseline scenario assumes some structural reforms in the short term to increase domestic revenue mobilization but still limited access to external financing. The baseline scenario will not be sufficient to generate inclusive and sustained growth over the medium- to long-terms.

8. **DRC's debt carrying capacity is classified as weak (Text Table 7).** The classification of debt carrying capacity is guided by the composite indicator (CI) score, which is determined by the World Bank's CPIA and other variables, such as real GDP growth, import coverage of foreign exchange reserves, remittances as percent of GDP, and growth of the world economy. The CI also incorporates forward-looking elements, with the calculation based on a 10-year average (5 recent years of historical data and 5 years of projections). DRC's CI is 1.98 and is below the previous vintages. It can be explained by lower CPIA, which accounts for more than half of the total components of the CI index. DRC is a fragile state and highly vulnerable to external shocks. A tailored stress was set up for a commodity price shock as the country's main export products are copper and cobalt. Regarding the contingent liability stress test, a shock of 7.5 percent of GDP was used. The shock includes the default value of 5 percent of GDP for financial markets, a zero percent of GDP for risks associated with private-public partnerships (PPPs) as there are no PPPs in DRC, and 0.5 percent of GDP for SOEs to acknowledge the risk of having unreported debt due to the lack of regular reporting between the authorities and SOEs (Text Table 1).

Text Table 6. Democratic Republic of the Congo: Composite Indicator and Threshold

Debt Carrying Capacity	Weak

Final	Classification based on current vintage	the previous vintage (2015)	Classification based on the two previous vintages
Weak	Weak 1.98	Weak 2.04	Weak 2.09

Tables

Applicable thresholds

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

Note: The current vintage refers to the 2019 April WEO vintage; The previous vintage refers to the 2018 October WEO vintage.

EXTERNAL DEBT SUSTAINABILITY

Baseline

9. External debt would be sustainable in the baseline scenario, but with vulnerabilities stemming from some structural weakness. All indicators remain well below the indicative thresholds for the PV of debt ratios and for the debt service ratios. Specifically, the PV of PPG external debt-to-GDP ratio peaks at 9.2 percent in 2019 against a 30 percent threshold. The debt service-to-revenue is 11.3 percent in 2019, well below the threshold (14 percent), and steadily declines starting in 2021 throughout the rest of the projection period. The results show some space to absorb shocks in the Congolese economy although the low level of government revenues may undermine future debt sustainability and the ability of the government to borrow externally to finance its development and public investment plans.

Alternative scenarios and stress tests

10. Several external debt ratios breach their thresholds under the extreme shock[3] scenario (Figure 1). Under the exports shock scenario, the ratios of the PV of debt-to-exports, debt service-to-exports and debt service-to-revenue breach their respective thresholds, reflecting DRC's vulnerability to export shocks. The mining sector constitutes the main source of export receipts and a key driver of economic growth and it is very sensitive to the volatility of international prices. The results also highlight the need to build buffers given low FX reserves at the BCC.

11. The low level of revenues explains why the country is classified as having a moderate risk of debt distress despite a low stock of external debt. As shown in Figure 5, the debt service-to-revenue ratio shows only some space for additional borrowing in the short term without worsening the debt rating. Revenues averaged only 9.5 percent of GDP in 2016–17, compared with 20 percent of GDP in SSA. Increasing revenue mobilization is a priority to create fiscal space to be able to invest in much needed infrastructure and priority sectors and generate inclusive growth.

12. Risks stem from commodity prices and the ability to carry meaningful reforms. As illustrated in the commodity price stress test, the country is highly vulnerable to external shocks because it is strongly dependent on volatile mining exports. The DRC needs to build buffers through prudent macroeconomic and indebtedness policies. The DGDP needs to prepare a medium-term debt strategy consistent with the sustainability of debt and efficient use of borrowed resources. In this regard, the authorities need to ensure the high quality of projects being financed and to prioritize concessional borrowing.

[3] Nominal export growth (in USD) is set to its historical average minus one standard deviation, or to the baseline scenario's projection minus one standard deviation, whichever is lower in 2021–22.

PUBLIC DEBT SUSTAINABILITY

Baseline

13. Consistent with the 2019 AIV DSA, domestic debt remains high During the past years, authorities have made strong efforts to account for and reconcile accumulated arrears to suppliers and VAT arrears to the private sector accrued during the recent economic crisis. Total domestic debt now represents 6.5 percent of GDP, which brings total public debt to 20.3 percent of GDP at end-2018. The ratio of the PV of total debt-to-GDP remains below the threshold during the projection period. The baseline scenario assumes an ambitious repayment profile of arrears over the next 15 years. A conservative assumption of full amount is projected to be repaid to provision for the unaudited amount. However, while repayment of legacy arrears from social and financial are repaid in full, legacy arrears from other categories are subject to a discounted payment. Overall, the authorities expect to repay 72 percent of the legacy arrears. The PV of public debt-to-GDP ratio would reach 16.4 percent in 2019, well below the 35 percent threshold, and would follow a downward trajectory the following years, declining to 5.8 percent by 2029.

Alternative scenarios and stress tests

14. Stress tests confirm DRC's vulnerability to external shock and repayment capacity. Based on the evolution of ratios of the PV of debt-to-GDP and to revenue, the most extreme shock is the commodity price shock, in line with the findings of the previous section (Figure 2). The PV of debt-to-GDP peaks at 31.7percent, still below the 35 percent threshold in 2021 and declines thereafter. The most extreme shock for the debt service-to-revenue ratio is the combined contingent liabilities shock (e.g., bank recapitalization). The ratio of debt service to revenue would reach more than 50 percent in 2021, while being forecasted to be below 10 percent in 2019.

RISK RATING AND VULNERABILITIES

15. The external and overall risk of debt distress for the DRC remain moderate. Under the external indicators, the debt service-to-revenue ratio is below the 14 percent threshold in the first years of projections and declines steadily afterwards. However, lower revenues or higher borrowing (or both) could push the rating to high risk of debt distress, even more so in the case of non-concessional borrowing. Moreover, as shown in the stress tests, the country is prone to severe shocks, especially through the export channel. External arrears are below 1 percent of GDP qualifying as *de minimus* case, so they do not affect the risk rating consideration. Domestic arrears rose significantly in recent years and will likely increase further after completion of the audit of legacy arrears. It is important that the authorities refrain from accumulating additional domestic arrears and prepare realistic plans to repay them. The current low level of domestic debt still justifies the moderate risk of debt distress rating.

Text Table 7. Democratic Republic of the Congo: Risk Ratings

	External Debt Distress Rating	Overall Risk Rating
Mechanical overall debt distress rating	Moderate	Moderate
Final external debt distress rating	Moderate	Moderate
Judgement was applied	No	No

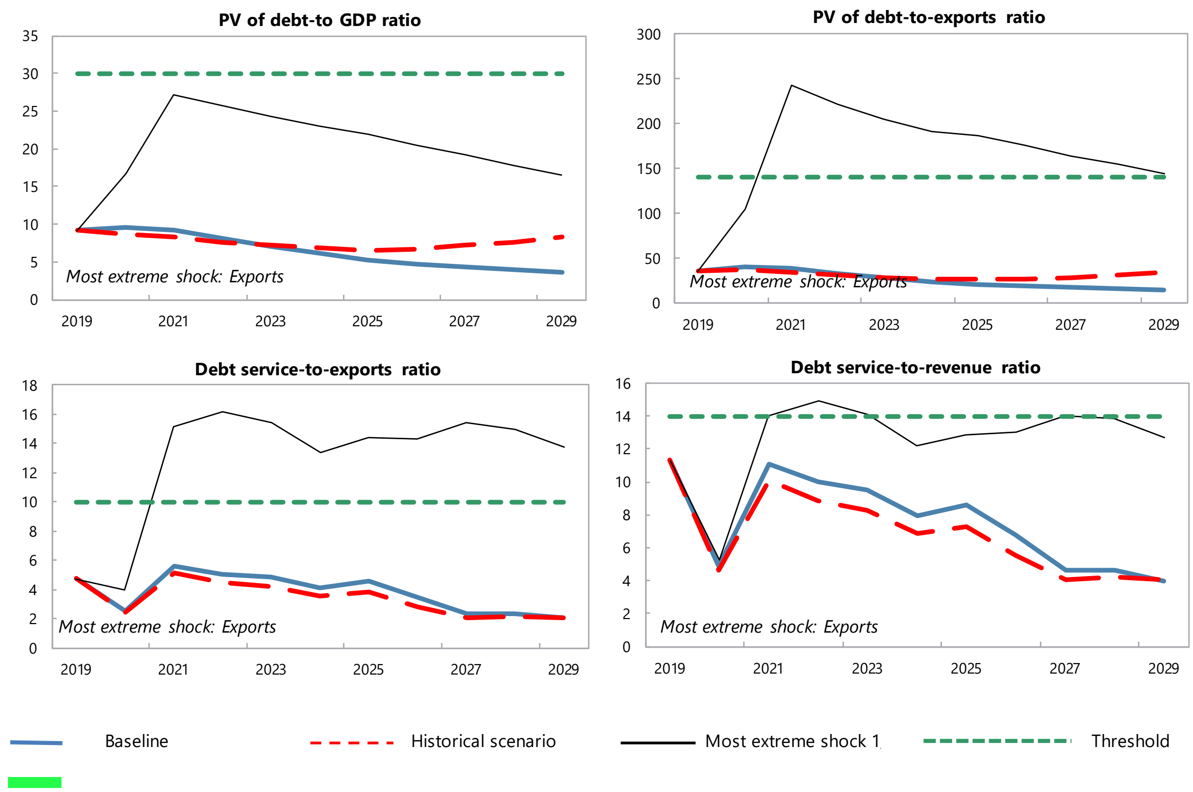
Sources: Country authorities; and staff estimates and projections.

16. **Despite low total public debt levels, low debt repayment capacity remains one of the key vulnerabilities.** The weak revenue mobilization is reflected in debt service-to-revenue ratios with only some space to absorb negative shocks, especially at the beginning of the projection period (Figure 5). A cautious borrowing policy, as well as prudent fiscal policy supported by domestic revenue mobilization and structural reforms including for better management of public investments, will be key to supporting the authorities' ambitions to scale up public investment in infrastructure.

AUTHORITIES' VIEWS

17. **The authorities broadly agreed with the overall assessment of the country's debt sustainability**. The new government supported increased transparency and full disclosure of public debt. The authorities committed to further broaden debt coverage, especially for SOEs, and to audit the rest of the legacy arrears. While committed to prioritize concessional borrowing, they also noticed the scarcity of it. They agreed with the need to prepare a medium-term strategy to help frame the debt policy and strengthen debt management capacity.

Figure 1. Democratic Republic of the Congo: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2019–2029



Customization of Default Settings		
	Size	Interactions
Tailored Stress		
Combined CL	Yes	
Natural disaster	n.a.	n.a.
Commodity price	No	No
Market financing	n.a.	n.a.

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.

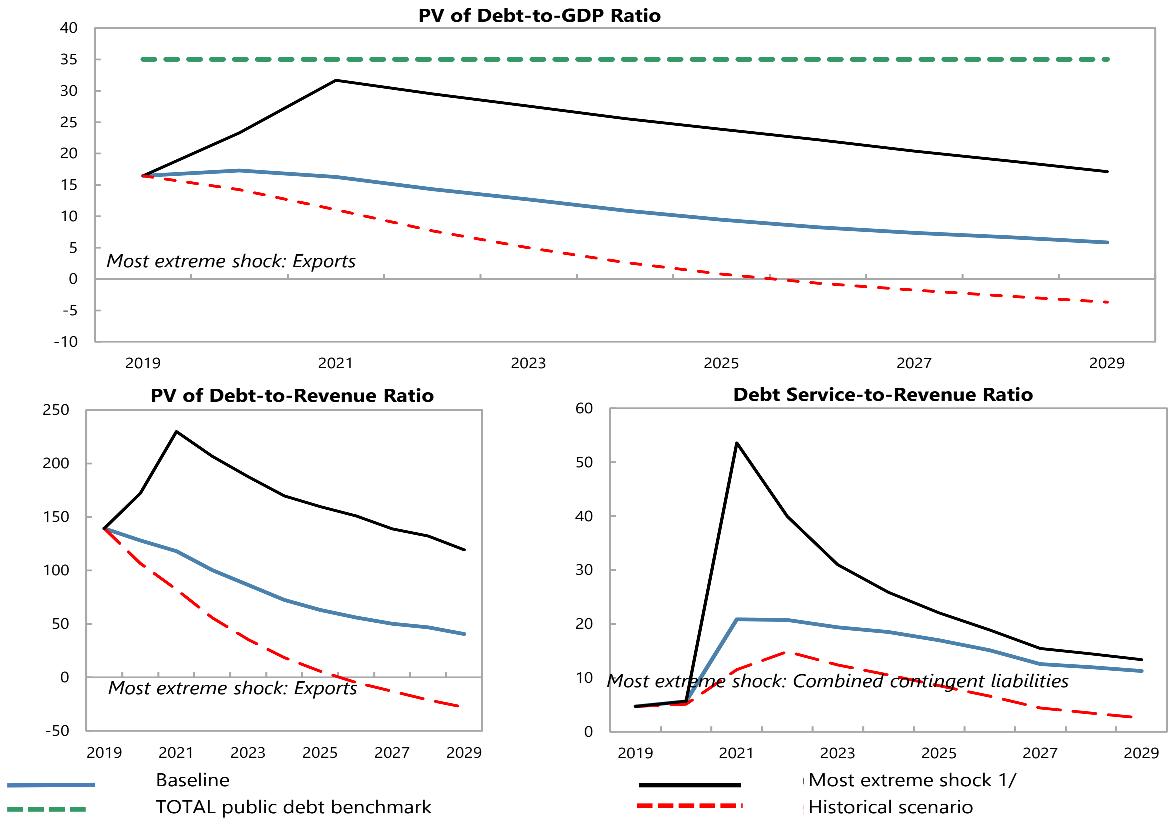
Borrowing assumptions on additional financing needs resulting from the stress tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	1.9%	1.9%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	29	29
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. 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 2. Democratic Republic of the Congo: Indicators of Public Debt under Alternative Scenarios, 2019–2029



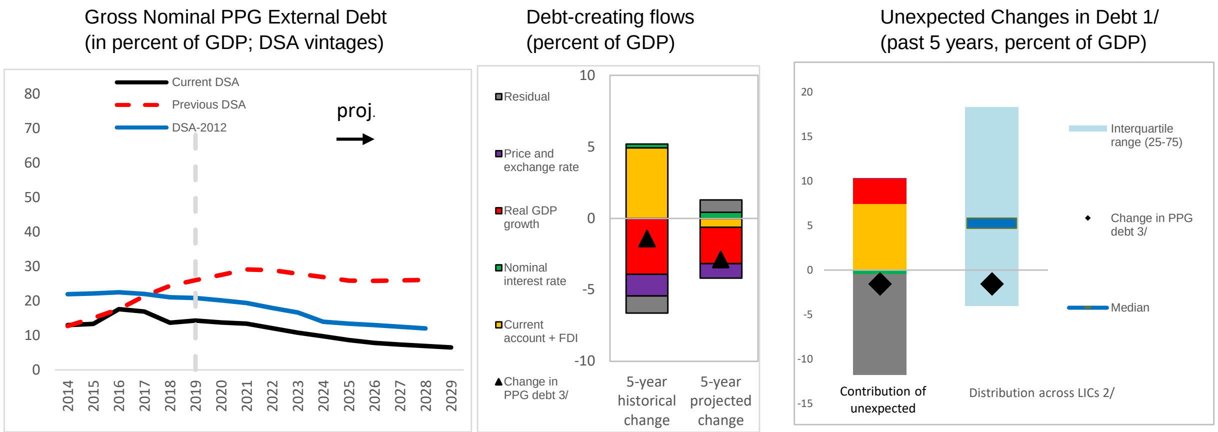
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	39%	39%
Domestic medium and long-term	0%	0%
Domestic short-term	61%	61%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.9%	1.9%
Avg. maturity (incl. grace period)	29	29
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	0.1%	0.1%

* 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.

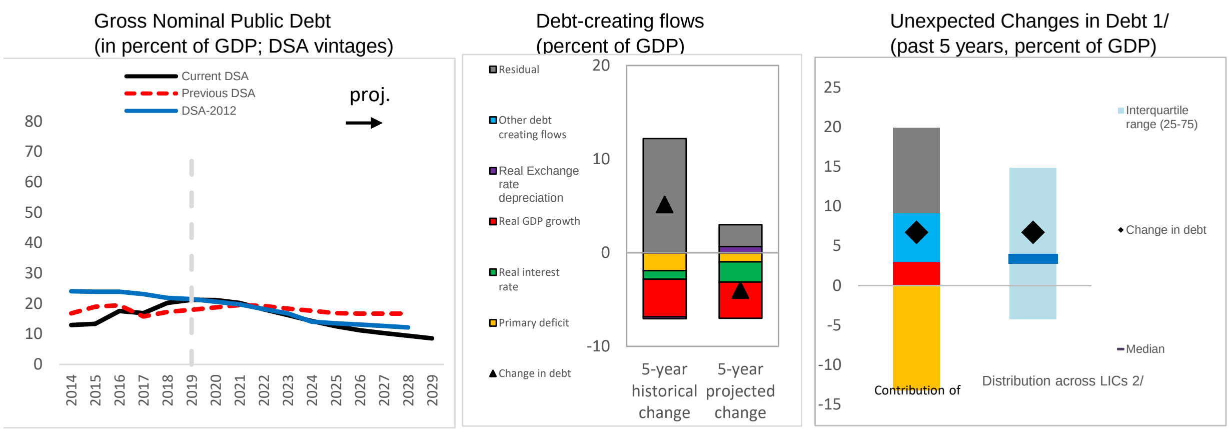
Sources: Country authorities; and staff estimates and projections.

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. Democratic Republic of the Congo: Drivers of Debt Dynamics – Baseline Scenario



Public debt



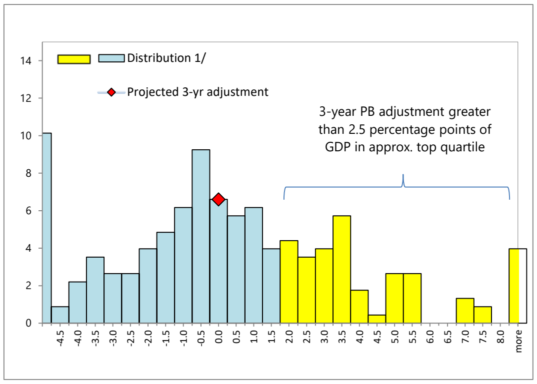
1/ Difference between anticipated and actual contributions on debt ratios.

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.

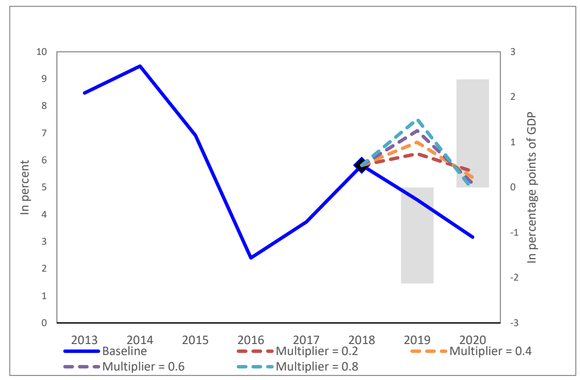
Figure 4. Democratic Republic of the Congo: Realism Tools[1]

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



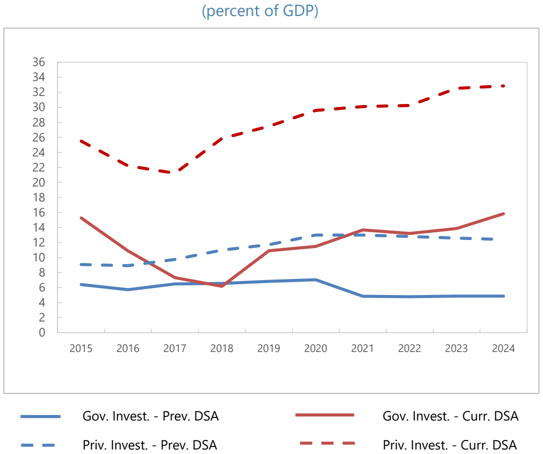
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/

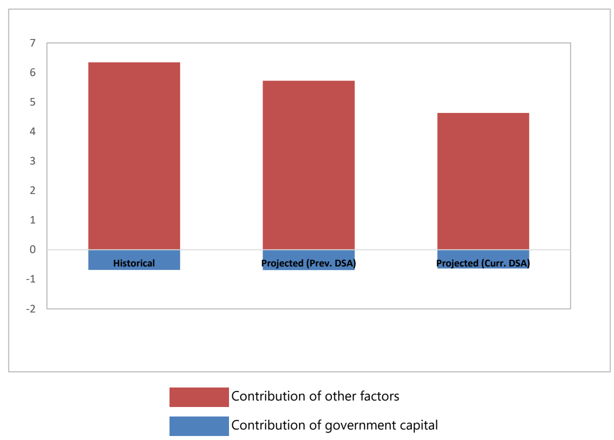


1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(percent of GDP)

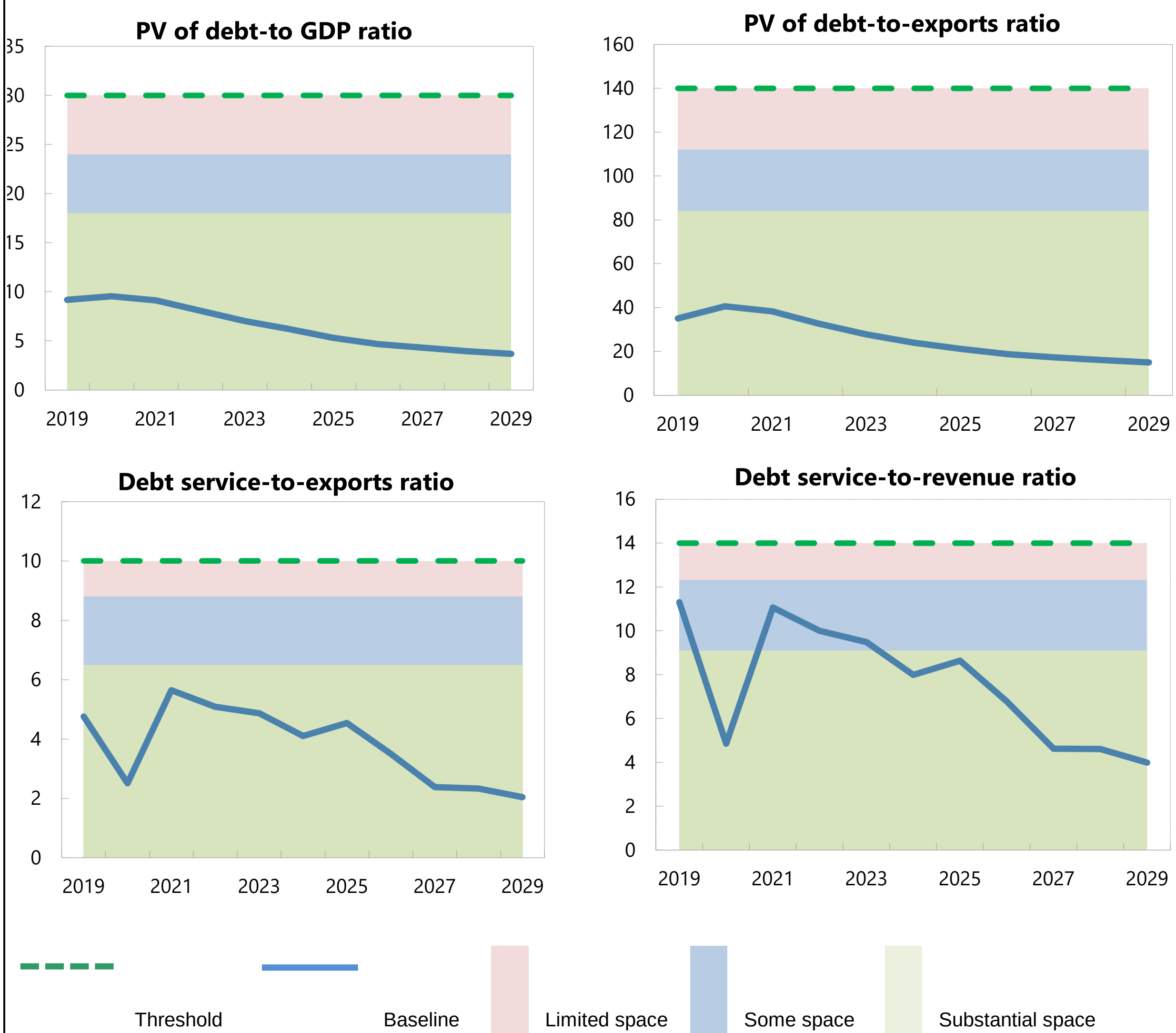


Contribution to Real GDP growth
(percent, 5-year average)



1/ Public and private investment rates are preliminary and based on national accounts information. Some discrepancies with fiscal accounts information are expected.

Figure 5. Democratic Republic of the Congo: Qualification of the Moderate Category 2019-2029[1]



Sources: Country authorities; and staff estimates and projections.

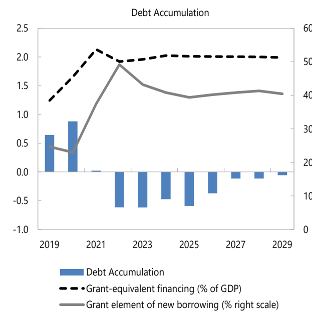
1/ For the PV debt/GDP and PV debt/exports thresholds, x is 20 percent and y is 40 percent. For debt service/Exports and debt service/revenue thresholds, x is 12 percent and y is 35 percent.

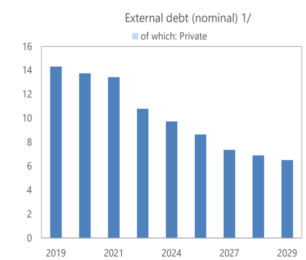
Table 1. Democratic Republic of the Congo: External Debt Sustainability Framework, Baseline Scenario, 2016–2039

(in percent of GDP, unless otherwise indicated)

	Actual			Projections												Average 8/	
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2039	Historical	Projections
External debt (nominal) 1/	17.6	16.9	13.7	14.3	13.8	13.4	12.1	10.8	9.7	8.6	7.8	7.4	6.9	6.5	4.9	23.3	10.1
of which: public and publicly guaranteed (PPG)	17.6	16.9	13.7	14.3	13.8	13.4	12.1	10.8	9.7	8.6	7.8	7.4	6.9	6.5	4.9	23.3	10.1
Change in external debt	4.2	-0.7	-3.2	0.6	-0.6	-0.3	-1.3	-1.3	-1.1	-1.1	-0.8	-0.5	-0.5	-0.4	-0.1		
Identified net debt-creating flows	2.0	0.0	-1.5	0.0	0.3	-0.6	-1.1	-1.3	-1.1	-1.2	-1.5	-1.4	-1.6	-1.8	-2.0	-1.7	-1.0
Non-interest current account deficit	4.1	3.2	4.6	3.3	4.8	3.5	3.0	2.6	2.6	2.4	2.0	2.0	1.7	1.4	0.5	4.2	2.7
Deficit in balance of goods and services	6.1	3.7	3.6	2.4	3.4	4.1	3.6	3.3	3.3	3.1	2.6	2.6	2.3	2.0	0.9	4.4	3.0
Exports	32.8	31.0	34.1	26.2	23.5	23.9	24.7	25.2	25.8	24.9	24.9	24.9	24.5	24.5	16.1		
Imports	38.9	34.7	37.7	28.7	26.9	28.0	28.3	28.5	29.1	28.0	27.6	27.5	26.9	26.5	17.0		
Net current transfers (negative = inflow)	-3.6	-3.4	-2.6	-1.3	-1.6	-2.8	-2.9	-2.9	-2.9	-2.8	-2.8	-2.7	-2.7	-2.6	-1.9	-4.2	-2.5
of which: official	-3.2	-1.9	-0.6	-0.8	-1.4	-2.6	-2.6	-2.6	-2.7	-2.6	-2.6	-2.5	-2.5	-2.4	-1.9		
Other current account flows (negative = net inflow)	1.6	2.8	3.5	2.2	3.0	2.2	2.3	2.2	2.2	2.1	2.1	2.1	2.1	2.0	1.5	4.0	2.2
Net FDI (negative = inflow)	-2.5	-2.8	-2.7	-3.2	-3.6	-3.9	-3.7	-3.5	-3.4	-3.3	-3.2	-3.2	-3.1	-3.0	-2.3	-4.0	-3.4
Endogenous debt dynamics 2/	0.5	-0.4	-3.3	-0.2	-1.0	-0.3	-0.4	-0.3	-0.3	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2		
Contribution from nominal interest rate	0.1	0.1	0.1	0.4	-0.5	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1		
Contribution from real GDP growth	-0.3	-0.6	-0.8	-0.6	-0.4	-0.5	-0.6	-0.5	-0.5	-0.4	-0.3	-0.3	-0.3	-0.3	-0.2		
Contribution from price and exchange rate changes	0.8	0.2	-2.6	...	...	...	...	...	...	...	...	...	...	...	...		
Residual 3/	2.2	-0.7	-1.7	0.7	-0.8	0.3	-0.2	-0.1	0.1	0.1	0.7	0.9	1.1	1.4	1.9	-4.8	0.4
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	0.0	0.0	0.0	0.0		
Sustainability indicators																	
PV of PPG external debt-to-GDP ratio	...	...	9.1	9.2	9.5	9.1	8.1	7.0	6.2	5.3	4.7	4.3	3.9	3.7	2.9		
PV of PPG external debt-to-exports ratio	...	...	26.6	35.0	40.6	38.2	32.6	27.8	24.0	21.2	18.7	17.2	16.1	15.0	17.7		
PPG debt service-to-exports ratio	2.2	1.9	1.4	4.8	2.5	5.6	5.1	4.9	4.1	4.5	3.5	2.4	2.3	2.0	1.5		
PPG debt service-to-revenue ratio	6.4	6.1	4.8	11.3	4.8	11.1	10.0	9.5	8.0	8.6	6.8	4.6	4.6	4.0	2.0		
Gross external financing need (Million of U.S. dollars)	813.1	366.3	1084.4	690.3	951.5	541.1	328.9	184.8	181.9	149.9	-286.9	-480.1	-646.3	-949.0	-2593.4		
Key macroeconomic assumptions																	
Real GDP growth (in percent)	2.4	3.7	5.8	4.5	3.2	3.5	4.5	4.3	4.6	4.1	4.1	4.2	4.2	4.3	5.3	6.1	4.1
GDP deflator in US dollar terms (change in percent)	-5.6	-1.0	18.3	1.4	2.1	1.4	1.0	1.7	1.0	1.5	1.5	1.5	1.5	1.6	1.8	3.2	1.5
Effective interest rate (percent) 4/	0.4	0.3	0.4	3.2	-3.9	1.5	1.5	1.4	1.3	1.3	1.3	1.3	1.2	1.1	1.5	0.4	1.0
Growth of exports of G&S (US dollar terms, in percent)	14.9	-3.0	38.0	-18.7	-5.4	6.5	9.2	8.4	7.9	2.2	5.7	5.7	4.3	5.8	0.0	12.9	2.9
Growth of imports of G&S (US dollar terms, in percent)	11.5	-8.3	36.1	-19.5	-0.9	9.0	6.8	7.0	7.7	1.7	4.0	5.6	3.6	4.6	0.4	9.6	2.7
Grant element of new public sector borrowing (in percent)	...	...	...	24.7	23.0	37.4	49.2	43.2	40.8	39.4	40.2	40.8	41.3	40.4	34.9	...	38.2
Government revenues (excluding grants, in percent of GDP)	11.2	9.8	10.0	11.0	12.2	12.2	12.6	12.9	13.2	13.1	12.9	12.9	12.4	12.5	12.0	11.9	12.5
Aid flows (in Million of US dollars) 5/	1040.5	754.2	537.1	612.4	990.9	1434.2	1227.7	1298.9	1409.5	1474.9	1559.7	1649.5	1744.4	1835.2	3271.6		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	1.2	1.7	2.1	1.9	2.0	2.0	2.0	2.0	2.0	2.0	2.0	1.9	...	1.9
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	46.6	62.6	70.0	88.8	88.1	88.1	87.9	88.2	88.4	88.7	88.6	89.0	...	80.5
Nominal GDP (Million of US dollars)	36,640	37,615	47,099	49,906	52,591	55,159	58,251	61,814	65,316	69,020	72,978	77,217	81,742	86,605	162,413		
Nominal dollar GDP growth	-3.4	2.7	25.2	6.0	5.4	4.9	5.6	6.1	5.7	5.7	5.7	5.8	5.9	5.9	7.2	9.6	5.7
Memorandum items:																	
PV of external debt 7/	...	...	9.1	9.2	9.5	9.1	8.1	7.0	6.2	5.3	4.7	4.3	3.9	3.7	2.9		
In percent of exports	...	...	26.6	35.0	40.6	38.2	32.6	27.8	24.0	21.2	18.7	17.2	16.1	15.0	17.7		
Total external debt service-to-exports ratio	2.2	1.9	1.4	4.8	2.5	5.6	5.1	4.9	4.1	4.5	3.5	2.4	2.3	2.0	1.5		
PV of PPG external debt (in Million of US dollars)			4278.9	4581.4	5021.2	5033.1	4693.4	4333.3	4039.4	3652.1	3396.1	3312.4	3223.8	3177.1	4629.3		
(PVt-PVt-1)/GDPt-1 (in percent)				0.6	0.9	0.0	-0.6	-0.6	-0.5	-0.6	-0.4	-0.1	-0.1	-0.1	0.1		
Non-interest current account deficit that stabilizes debt ratio	-0.2	3.9	7.8	2.7	5.4	3.8	4.4	3.9	3.6	3.5	2.8	2.4	2.2	1.8	0.6		

Definition of external/domestic debt	Residency-based
Is there a material difference between the two criteria?	No





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 local currency, and α= share of local currency-denominated external debt in total external debt.

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.

DEMOCRATIC REPUBLIC OF THE CONGO

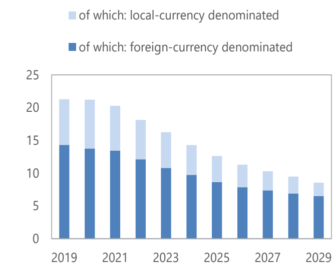
Table 2. Democratic Republic of the Congo: Public Sector Debt Sustainability Framework, Baseline Scenario, 2016–2029

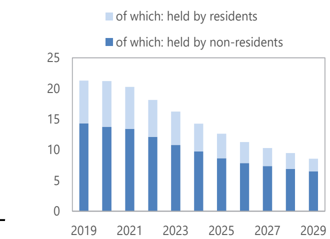
(in percent of GDP, unless otherwise indicated)

	Actual			Projections							Average 6/	
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029	Historical	Projections
Public sector debt 1/	17.6	16.9	20.3	21.3	21.2	20.3	18.1	16.2	14.3	8.5	23.9	14.9
of which: external debt	17.6	16.9	13.7	14.3	13.8	13.4	12.1	10.8	9.7	6.5	23.3	10.1
Change in public sector debt	4.2	-0.7	3.4	1.0	-0.1	-0.9	-2.1	-1.9	-2.0	-0.9		
Identified debt-creating flows	3.3	-3.6	-4.6	1.2	-2.5	-1.4	-1.9	-1.9	-1.9	-1.5	-4.8	-1.5
Primary deficit	0.2	-1.6	-0.4	1.8	-0.6	-0.4	-0.9	-0.8	-1.1	-1.0	-1.9	-0.7
Revenue and grants	14.0	11.7	11.1	11.8	13.5	13.8	14.3	14.7	15.1	14.3	14.4	14.2
of which: grants	2.8	2.0	1.1	0.8	1.4	1.6	1.7	1.8	1.8	1.8		
Primary (noninterest) expenditure	14.2	10.1	10.7	13.6	12.9	13.4	13.4	13.8	14.0	13.3	12.4	13.5
Automatic debt dynamics	3.1	-2.0	-4.2	-0.5	-1.8	-1.0	-1.0	-1.0	-0.8	-0.5		
Contribution from interest rate/growth differential	-0.4	-0.9	-1.2	-0.9	-1.9	-1.1	-1.2	-1.0	-0.9	-0.5		
of which: contribution from average real interest rate	-0.1	-0.2	-0.3	0.0	-1.2	-0.4	-0.3	-0.3	-0.2	-0.1		
of which: contribution from real GDP growth	-0.3	-0.6	-0.9	-0.9	-0.7	-0.7	-0.9	-0.7	-0.7	-0.4		
Contribution from real exchange rate depreciation	3.5	-1.1	-3.0	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	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		
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		
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		
Residual	0.9	2.9	8.0	0.2	2.4	0.5	-0.1	0.0	0.1	0.6	-1.1	0.6
Sustainability indicators												
PV of public debt-to-GDP ratio 2/	...	...	15.7	16.4	17.3	16.3	14.3	12.7	10.9	5.8		
PV of public debt-to-revenue and grants ratio	...	...	141.8	139.2	127.9	118.0	100.4	86.3	72.5	40.6		
Debt service-to-revenue and grants ratio 3/	5.1	5.1	4.3	4.7	5.7	20.8	20.7	19.4	18.5	11.3		
Gross financing need 4/	0.9	-1.0	0.1	2.3	0.1	2.5	2.1	2.0	1.7	0.6		
Key macroeconomic and fiscal assumptions												
Real GDP growth (in percent)	2.4	3.7	5.8	4.5	3.2	3.5	4.5	4.3	4.6	4.3	6.1	4.1
Average nominal interest rate on external debt (in percent)	0.4	0.4	0.4	3.2	-4.0	1.5	1.5	1.4	1.3	1.2	0.4	1.0
Average real interest rate on domestic debt (in percent)	-3.8	-29.8	-22.7	-2.9	-5.3	-3.9	-3.4	-3.9	-3.0	-3.0	-11.6	-3.5
Real exchange rate depreciation (in percent, + indicates depreciation)	26.8	-6.7	-19.0	...	...	...	...	...	...	...	-1.8	...
Inflation rate (GDP deflator, in percent)	4.3	43.1	29.8	3.0	5.7	4.9	4.6	5.3	4.5	5.1	15.4	4.9
Growth of real primary spending (deflated by GDP deflator, in percent)	-14.2	-26.1	12.1	32.3	-2.1	7.5	4.7	7.7	5.6	5.0	4.0	6.5
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-4.0	-0.9	-3.7	0.7	-0.6	0.5	1.3	1.0	0.9	-0.1	-2.9	0.4
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		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**No**

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.
1/ Coverage of debt: The central, state, and local governments, central bank, government-guaranteed debt, non-guaranteed SOE 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 3. Democratic Republic of the Congo: Sensitivity Analysis for Key Indicators of PPG External Debt, 2019–2029

(in percent)

	Projections 1/										
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
PV of debt-to GDP ratio											
Baseline	9	10	9	8	7	6	5	5	4	4	4
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	9	9	8	8	7	7	7	7	7	8	8
B. Bound Tests											
B1. Real GDP growth	9	10	10	9	8	7	6	5	5	4	4
B2. Primary balance	9	11	12	12	11	11	10	9	9	8	8
B3. Exports	9	17	27	26	24	23	22	21	19	18	17
B4. Other flows 3/	9	11	12	11	10	9	8	8	7	7	6
B5. Depreciation	9	12	9	8	7	6	5	4	3	3	3
B6. Combination of B1-B5	9	15	15	13	12	11	10	9	8	8	7
C. Tailored Tests											
C1. Combined contingent liabilities	9	11	12	12	11	10	9	9	8	8	8
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	9	11	12	11	10	9	8	7	6	6	5
C4. Market Financing	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
Threshold	30	30	30	30	30	30	30	30	30	30	30
PV of debt-to-exports ratio											
Baseline	35	41	38	33	28	24	21	19	17	16	15
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	35	36	35	31	28	26	26	27	29	31	34
B. Bound Tests											
B1. Real GDP growth	35	41	38	33	28	24	21	19	17	16	15
B2. Primary balance	35	45	50	48	45	41	40	37	35	34	32
B3. Exports	35	105	**243**	**222**	**205**	**191**	**186**	**176**	**164**	**154**	**144**
B4. Other flows 3/	35	48	52	46	40	36	33	30	28	26	25
B5. Depreciation	35	41	31	25	21	17	14	12	11	10	9
B6. Combination of B1-B5	35	71	55	72	64	58	54	49	45	42	40
C. Tailored Tests											
C1. Combined contingent liabilities	35	49	51	47	43	40	38	35	34	33	31
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	35	51	54	46	40	35	32	29	26	24	22
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	140	140	140	140	140	140	140	140	140	140	140
Debt service-to-exports ratio											
Baseline	5	3	6	5	5	4	5	4	2	2	2
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	5	2	5	5	4	4	4	3	2	2	2
B. Bound Tests											
B1. Real GDP growth	5	3	6	5	5	4	5	4	2	2	2
B2. Primary balance	5	3	6	5	5	5	5	4	3	3	3
B3. Exports	5	4	15	16	15	13	14	14	15	15	14
B4. Other flows 3/	5	3	6	5	5	4	5	4	3	3	3
B5. Depreciation	5	3	6	5	5	4	4	3	2	2	2
B6. Combination of B1-B5	5	3	9	8	8	7	7	7	5	5	4
C. Tailored Tests											
C1. Combined contingent liabilities	5	3	6	5	5	4	5	4	3	3	2
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	5	3	6	6	5	5	5	4	3	3	3
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	10	10	10	10	10	10	10	10	10	10	10
Debt service-to-revenue ratio											
Baseline	11	5	11	10	9	8	9	7	5	5	4
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	11	5	10	9	8	7	7	6	4	4	4
B. Bound Tests											
B1. Real GDP growth	11	5	12	11	10	9	9	7	5	5	4
B2. Primary balance	11	5	11	11	10	9	10	8	6	7	6
B3. Exports	11	5	14	**15**	**14**	12	13	13	**14**	14	13
B4. Other flows 3/	11	5	11	11	10	9	9	8	6	6	6
B5. Depreciation	11	6	14	12	11	10	10	8	5	5	4
B6. Combination of B1-B5	11	5	13	12	11	10	10	10	7	7	7
C. Tailored Tests											
C1. Combined contingent liabilities	11	5	11	11	10	9	9	8	5	5	5
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	11	5	12	12	11	9	10	8	6	6	5
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	14	14	14	14	14	14	14	14	14	14	14

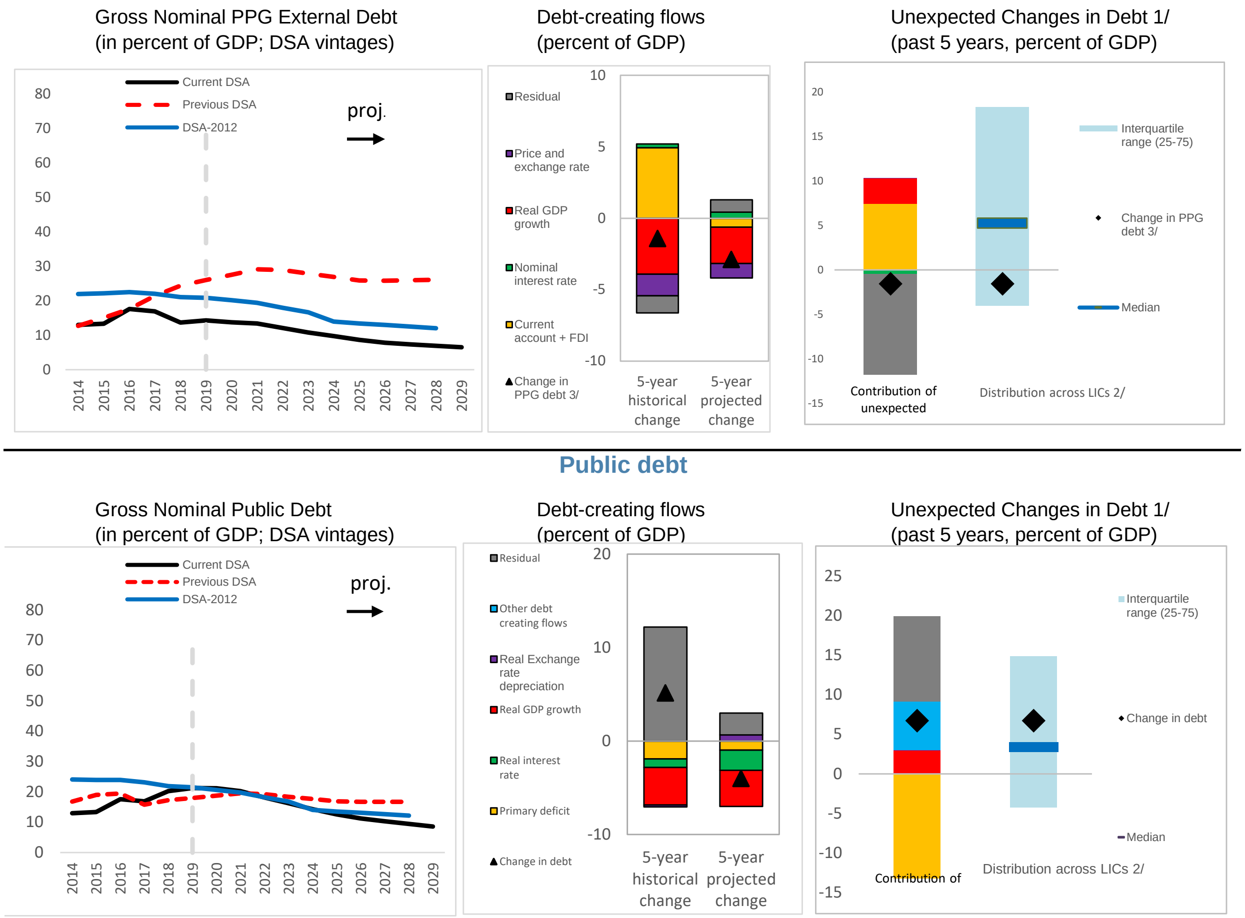
Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private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

Table 4. Democratic Republic of the Congo: Sensitivity Analysis for Key Indicators of Public Debt, 2019–2029

	Projections 1/										
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
PV of Debt-to-GDP Ratio											
Baseline	16	17	16	14	13	11	9	8	7	7	6
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	16	14	11	8	5	3	1	-1	-2	-3	-4
B. Bound Tests											
B1. Real GDP growth	16	18	19	17	16	15	14	13	13	13	12
B2. Primary balance	16	21	23	21	18	16	15	13	12	11	10
B3. Exports	16	23	32	30	28	26	24	22	20	19	17
B4. Other flows 3/	16	19	20	18	16	14	13	11	10	9	8
B5. Depreciation	16	18	16	14	12	9	7	6	4	3	2
B6. Combination of B1-B5	16	19	18	15	13	11	9	8	7	6	5
C. Tailored Tests											
C1. Combined contingent liabilities	16	24	22	20	18	16	14	13	12	11	10
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	16	18	19	18	18	17	16	16	15	15	15
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
TOTAL public debt benchmark	35	35	35	35	35	35	35	35	35	35	35
PV of Debt-to-Revenue Ratio											
Baseline	139	128	118	100	86	72	63	56	50	47	41
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	139	107	82	56	35	19	6	(5)	(13)	(21)	(28)
B. Bound Tests											
B1. Real GDP growth	139	135	134	120	109	98	92	89	87	88	84
B2. Primary balance	139	155	168	144	125	109	98	91	84	81	73
B3. Exports	139	172	230	207	188	170	160	151	139	132	119
B4. Other flows 3/	139	140	142	124	108	94	84	77	69	65	58
B5. Depreciation	139	138	120	99	81	63	49	38	28	20	11
B6. Combination of B1-B5	139	140	131	105	87	71	60	53	47	44	38
C. Tailored Tests											
C1. Combined contingent liabilities	139	176	160	137	120	104	94	86	80	77	70
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	139	145	144	136	127	116	110	106	103	105	101
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Service-to-Revenue Ratio											
Baseline	5	6	21	21	19	19	17	15	13	12	11
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	5	5	12	15	12	11	9	7	4	3	3
B. Bound Tests											
B1. Real GDP growth	5	6	24	27	27	28	27	26	24	24	23
B2. Primary balance	5	6	40	50	37	29	24	20	17	17	16
B3. Exports	5	6	22	24	22	21	19	19	19	19	18
B4. Other flows 3/	5	6	21	21	20	19	17	16	14	13	13
B5. Depreciation	5	6	23	20	21	19	18	15	12	11	10
B6. Combination of B1-B5	5	6	20	29	23	20	17	15	12	12	11
C. Tailored Tests											
C1. Combined contingent liabilities	5	6	54	40	31	26	22	19	15	14	13
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	5	6	23	23	29	32	31	30	27	27	26
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

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.

Figure 3. Democratic Republic of the Congo: Drivers of Debt Dynamics – Baseline Scenario



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.

Statement by Mr. Raghani and Mr. Alle on Democratic Republic of Congo
December 16, 2019

1. Our Congolese authorities would like to thank the Board, Management and Staff for the Fund's steadfast re-engagement with the Democratic Republic of Congo (DRC) – Congo. The conclusion of the Article IV consultation in August this year was the first step of this new era and bodes well for a future full assistance to Congo's effort to enhance macroeconomic stability and foster inclusive growth. The subsequent negotiations with staff in Kinshasa for a Staff Monitored Program (SMP) paired with a Rapid Credit Facility (RCF) helped highlight the socio-economic challenges that the authorities are committed to forcefully address going forward. They broadly agree with the thrust of the staff report.

2. Thanks to homegrown policies, Congo has managed to maintain macroeconomic stability over the past years despite adverse shocks on the country's main exports' prices, heightened and protracted security situations, compounded by the recent outbreak of the Ebola epidemic. The authorities' responses to these challenges have had a severe impact on the fiscal stance and the central bank's international reserves. A disbursement under the RCF would help enhance Congo's external position while the SMP provides the anchor for early measures to prepare the ground for a more comprehensive medium-term reform agenda. The authorities look forward to the Fund's support under the ECF arrangement as the next step to help entrench the reform momentum, mobilize donor support and deliver on the promises of the country's new dawn.

Key Recent Economic Developments and Outlook

3. The Congolese economy continued to suffer from the world price volatility of copper and cobalt, the two main exports. A substantial fall in prices in the recent period is expected to slow GDP growth to 4.5 percent in 2019 compared to 5.8 percent in 2018. Inflation though continues to be kept in check around a twelve-month rate of 5 percent. As well, the Congolese franc has further stabilized.

4. The spending pressures stemming from the domestic financing of the December 2018 presidential election and the long transition period to a full-fledged government have taken a toll on fiscal discipline and financial orthodoxy. In the face of limited resources, the authorities were left with resorting to central bank financing in foreign currency, making international reserves to dwindle to only one week of imports to date.

5. Amid difficult circumstances, the authorities managed to maintain the macroeconomic framework broadly under control and the appointment of the government in last August gave an impetus to such effort. Their strong commitment to bring policymaking to normalcy is being translated into tighter oversight in all sectors, including spending control, revenue collection, combating corruption and attracting private investment.

6. Our authorities have a more optimistic view of the outlook predicated on the dividends of their reform agenda, the growing interest of private investors outside the mining industry and the expected increase in donor support in the near future. Yet, they remain mindful of the potential adverse impact of further falling mineral prices associated with the global slowdown. Other risks such as the Ebola epidemic are manageable with the support of the international community.

Challenges and Short-Term Policies

7. In the face of manifold challenges facing the Congolese economy, the government has adopted a two-steps strategy to ensure policy effectiveness. In the short run, they will focus on urgent and "easy-to-implement" measures which can bring back sound management while preparing the ground for stronger and medium-term reforms in a second step. The former measures make the bulk of the package agreed upon with staff for the SMP. They evolve around three building blocks: (i) increasing revenue mobilization and restoring fiscal discipline to end central bank financing; (ii) enhancing monetary policy and strengthening the financial sector; and (iii) diversifying the economy to foster broad-based growth.

Increasing revenue mobilization and restoring fiscal discipline

8. For year-end 2019 and the period ahead, the authorities' efforts in the fiscal area will be geared on fiscal consolidation with the view to end central bank financing of the deficit. To this end, they have committed to implement measures both to increase revenue mobilization and restore expenditure restraint. Revenue measures include resuming the functioning of the VAT including for mining companies; enforcing the personal income tax for all government employees and for all types of remunerations; surveying fees paid at the port of entry to parastatals - with the view to reduce them in the medium term - and transferring part of the unused earmarked resources as one-off contributions to the budget; and start reducing tax exemptions.

9. Steps to restore fiscal discipline will complement revenue mobilization efforts. In this regard, spending caps will be communicated to line ministries while spending commitments are monitored and decided weekly in meetings chaired by the Prime Minister. Similar controls are exerted for the President's flagship 100-day and free basic education programs, and the government is committed to restoring the spending chain and other PFM procedures.

10. Enhanced revenue mobilization will also ease some vulnerabilities regarding debt and help maintain debt sustainability. The authorities are committed to preserving the country's moderate risk of debt distress concluded in staff DSA, including by resorting in priority to concessional borrowing and by strengthening debt management capacity. As well, the coverage of SOEs' debt will be improved for a better assessment of the overall public debt going forward.

Enhancing monetary policy and strengthening the financial sector

11. In the period ahead, the Central Bank (Banque Centrale du Congo (BCC)) will stop providing advances to the government and bring monetary policy back to fundamentals. It will take steps to strengthen international reserves and use its policy tools to keep inflation in check. Regarding reserves, the BCC has committed to transferring its foreign currency holdings in domestic commercial banks to its accounts abroad, thus increasing official foreign reserves. Aided by the disbursement under the RCF, the reserves level will significantly improve going forward.

12. The authorities will also work to strengthen the financial sector with the view to further enhance credit to the economy. Thanks to the new Central Bank Law enacted in December 2018, bank supervision has been reinforced. As well, following the recommendation made by the last FSAP, most banks have complied to the US$30 million minimum capital requirement which is planned to be raised to US$50 million at end-2020. Fund TA will help further strengthen the BCC's supervision capacity in the coming years. The authorities have initiated consultations with the IMF's Monetary and Capital Markets department and the U.S. Treasury Department to help address the issue of correspondent banking. Their efforts to continuously improve their AML/CFT framework will also be instrumental in this regard.

Diversifying the economy to foster broad-based and inclusive growth

13. Diversifying the economy away from the mining sector is an overarching objective of the authorities. To this end, they are committed to implementing the appropriate reforms to attract private investment and spur broad-based growth. The government will endeavor to steadfastly improve the business climate accordingly. The early focus on the provision of infrastructures under the President's 100-day program goes in that direction. Going forward, effort will include tax reforms, the enforcement of property rights and the enhancing of the judiciary system involving all stakeholders.

14. Improving governance and combating corruption are key pillars of the overall effort to create a conducive environment for a broad-based a private sector-led growth. It is in this regard that the authorities have welcomed the ongoing governance assessment under the Fund's new governance framework. They are hopeful that the conclusions of this exercise will help design meaningful reforms in the period ahead to significantly improve governance in key sectors and enhance the country's overall competitiveness.

15. Delivering inclusive growth to better the lives of the populations remains the ultimate goal of the government. In this vein, ensuring access to basic education and health care for most of the people was an early objective. The free basic education program launched recently targets millions of poor children and is being supported by the World Bank. Paired with the planned health care program, they should altogether contribute to enhance human capital for future development gains.

Conclusion

16. Congo has strived to maintain adequate macroeconomic stability over the past period amid difficult circumstances. With little donor assistance, the country has successfully emerged from its first-ever democratic transition and embarked on a new development agenda. The authorities are convinced that Fund engagement will pave the way for scaled-up donor assistance, and they are hopeful that the SMP will be instrumental in preparing the ground for a Fund-supported medium-term program.

17. In view of Congo's urgent balance of payment needs and the strong commitment of the authorities to reforms going forward, we would appreciate Executive Directors' support for a disbursement under the Rapid Credit Facility.