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July 2006
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Republic of Congo: Second Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, and Request for Waiver of Nonobservance of Performance Criteria, Rephasing, and Extension of Arrangement—Staff Report; Staff Supplement; Press Release on the Executive Board Discussion; and Statement by the Executive Director

In the context of the second review under the three-year arrangement under the Poverty Reduction and Growth Facility, and request for a waiver of nonobservance of performance criteria, rephasing, and extension of the arrangement, the following documents have been released and are included in this package:

- the staff report for the Second Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, and Request for Waiver of Nonobservance of Performance Criteria, Rephasing, and Extension of Arrangement, prepared by a staff team of the IMF, following discussions that ended on April 23, 2006, with the officials of the Republic of Congo on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 30, 2006. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- a staff supplement of July 12, 2006 updating information on recent developments.
- a Press Release summarizing the views of the Executive Board as expressed during its July 14, 2006 discussion of the staff report that completed the request and review.
- a statement by the Executive Director for the Republic of Congo.

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

Letter of Intent sent to the IMF by the authorities of the Republic of Congo*
Memorandum of Economic and Financial Policies by the authorities of the Republic of Congo*
Technical Memorandum of Understanding*
*Also included in Staff Report

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

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

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INTERNATIONAL MONETARY FUND

REPUBLIC OF CONGO

Second Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, and Requests for Waiver of Nonobservance of Performance Criteria, Rephasing, and Extension of Arrangement

Prepared by the African Department

(In consultation with other departments)

Approved by Thomas Krueger and Anthony Boote

June 30, 2006

- On August 1, 2005, the Executive Board concluded the first review under the Poverty Reduction and Growth Facility (PRGF) for the Republic of Congo (hereafter "Congo").
- In February/March 2006, the Executive Boards of the IMF and the World Bank determined that Congo qualified for debt relief under the enhanced the Heavily Indebted Poor Countries (HIPC) Initiative. Total debt relief under the enhanced HIPC Initiative will be about US$1.7 billion in 2004 net present value (NPV) terms, of which the Fund will provide assistance of US$8 million in NPV terms.
- Discussions for the second review under the PRGF arrangement took place in Brazzaville March 22–April 3, 2006, and in Washington April 21–23, 2006.
- The mission comprised Mr. Mongardini (Head), Mr. Karangwa, and Ms. Bhattacharya (all AFR), Mr. Buissé (FAD), and Ms. Oliva (PDR). Mr. Moussa, the resident representative in Brazzaville, participated in the discussions. Mr. Krueger (AFR) and Mr. Kudiwu (OED) joined the mission policy discussions. The mission worked closely with overlapping missions from both the World Bank and the African Development Bank (AfDB).
- The mission met with President Sassou-Nguesso; Prime Minister Mvouba; Senior Planning Minister Moussa; Finance Minister Issoïbeka; Central Bank National Director Dzon; other senior government officials; members of parliament and the press; bilateral donors; and civil society representatives.
- In the attached letter of intent, the authorities request completion of the second review under the PRGF arrangement, waivers for the nonobservance of two quantitative performance criteria at end-September 2005, and an extension of the arrangement by six months, together with a rephasing of disbursements due to the delay in completing this review (Appendix I).

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Appendices

EXECUTIVE SUMMARY

- **Recent economic developments**: The economy grew robustly in 2005, mostly as a result of increased oil production, while inflationary pressures remained contained. Rising crude oil prices resulted in both a sharp jump in 2005 oil export receipts and a significant strengthening of the external current account. With government expenditures under control, the large increase in government oil receipts resulted in a sizable fiscal surplus. Monetary developments were marked by a significant expansion in broad money—particularly in the banking system's net foreign assets—associated with foreign exchange inflows tied to oil revenues.

- **Performance under the program**: Most performance criteria for end-September 2005 were met. However, a large fiscal slippage occurred in the third quarter, reflecting delays in the transfer of oil revenue receipts to the Congolese treasury. The slippage, however, was mostly reversed during the fourth quarter. The two structural performance criteria were observed, but performance in other structural areas was mixed. In particular, progress in enhancing transparency and governance was uneven.

- **Policy discussions**: The medium-term economic outlook is more favorable than had been previously expected under the program, owing to higher projected world oil prices. The main fiscal objective is to strengthen the public sector balance sheet and raise well-targeted pro-poor spending, with a view to make progress toward the Millennium Development Goals. Enhanced revenue mobilization and stronger expenditure management will be crucial to achieving these objectives. The authorities plan to tackle deep-rooted structural weaknesses in the energy sector and to make further progress in strengthening governance, increasing transparency, and fighting corruption. The preparation of a full-fledged Poverty Reduction Strategy Paper (PRSP) is underway.

- **Staff appraisal**: Overall performance under the PRGF-supported program during the review period was satisfactory. In the near term, a key macroeconomic challenge is to contain spending within the programmed limits, which already factor in sizable increases for priority outlays. The authorities must also implement energy sector reforms and address significant outstanding weaknesses in governance and transparency. Congo's success in normalizing its relations with all external creditors will be critical for the full mobilization of debt relief. The PRSP under preparation should be based on a strong analysis of the poverty profile.

I. Background and Introduction

1. **The security situation is improving.** The amnesty granted to an opposition leader upon his return from exile bodes well for peace. The demobilization of former combatants is ongoing with assistance from the World Bank. Parliamentary elections are scheduled for 2007.

2. **The completion of the second review under the PRGF arrangement was delayed to address important governance and transparency concerns**. In particular, discussions about strengthening the triggers for the HIPC completion point lasted longer than expected.

II. Recent Economic Developments

3. **Macroeconomic performance in 2005 was strong, largely reflecting oil sector developments.** Real GDP growth, estimated at 7.9 percent in 2005, reflected a significant improvement in the terms of trade, a steep rise in oil production, and robust growth in private services and manufacturing. In 2005, Congolese oil production rose 12.8 percent, and the average price (in CFA francs) increased about 40 percent (Figure 1). (The increase was slightly below that for Brent crude oil, owing to a shift in demand toward lighter crude products and increased freight costs.) Inflation remained, on average, a moderate 2.5 percent during 2005.

4. **The external current account strengthened significantly in 2005, reflecting the surge in oil receipts**. Improved terms of trade and increased oil production led to a current account surplus of 13 percent of GDP. As a result, gross official reserves rose sixfold to 7.3 months of imports at end-2005. The real effective exchange rate remained largely unchanged in 2005, 14 percent below its pre-1994 devaluation level (Figure 2). Nevertheless, poor governance and other barriers to private sector activity still hamper Congo's external competitiveness.[1]

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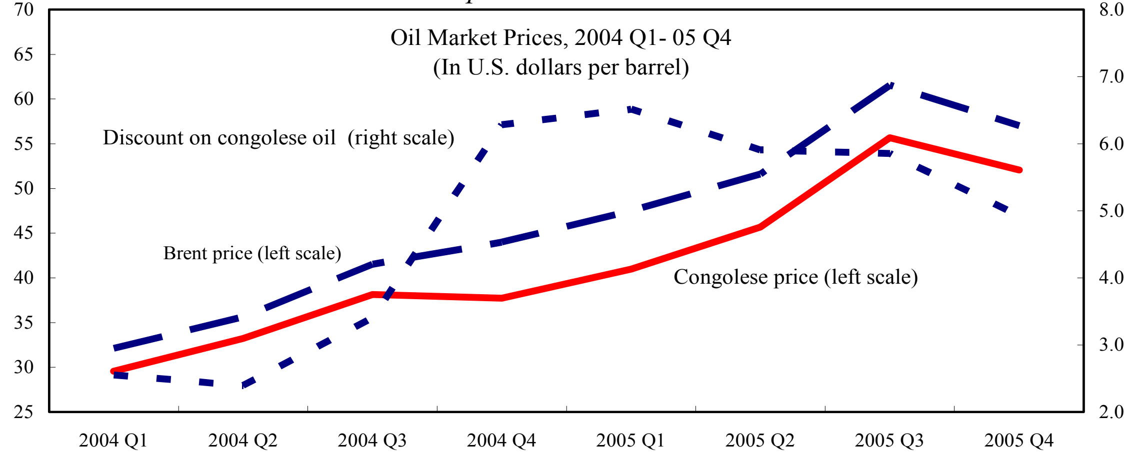
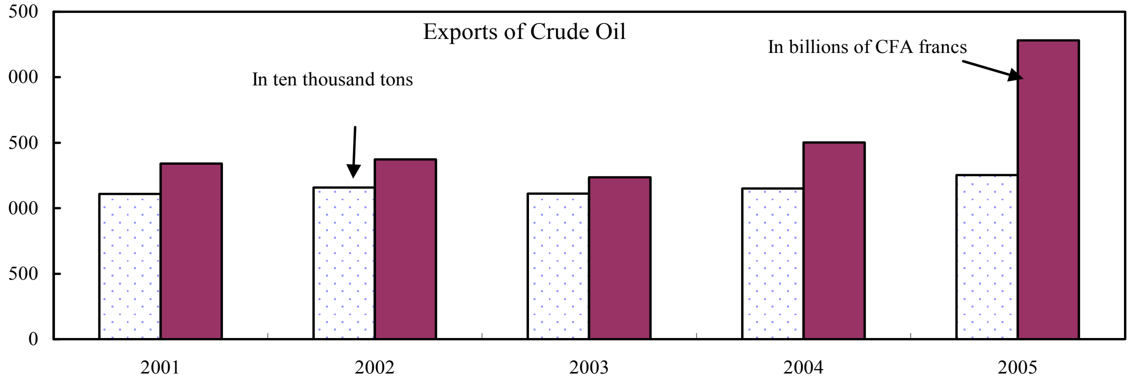
[1] See World Bank's 2006 DoingBusiness database (http://www.doingbusiness.org), where Congo is ranked 148th out of 155 countries in terms of ease of doing business.

Figure 1. Republic of Congo: Oil Prices, Exports and Real GDP Growth, 2001- 05

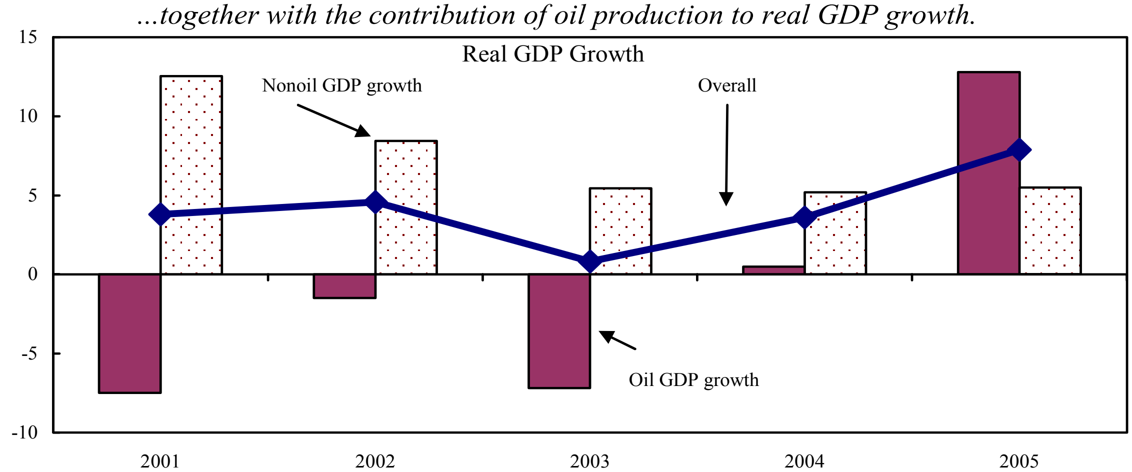
As crude oil prices increased in 2005....



...Congo's oil production and export receipts jumped...



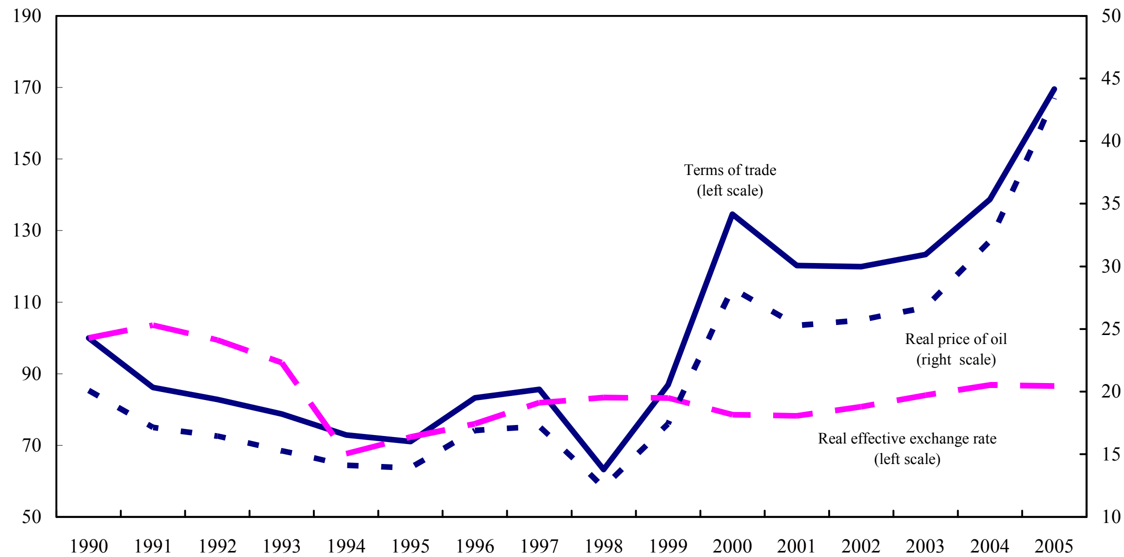
...together with the contribution of oil production to real GDP growth.



Sources: Congolese authorities and staff estimates

Figure 2. Republic of Congo: Terms of trade, Real Effective Exchange Rate, and Real Price of Oil, 1990- 2005

The recent jump in oil prices has been the main factor in the improvement in the terms of trade.



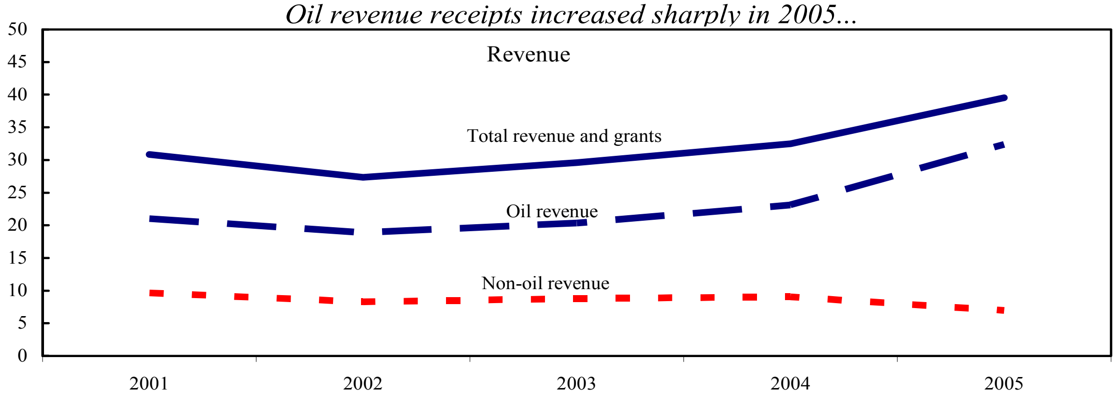
Sources: Congolese authorities and staff estimates.

5. **Higher oil revenues led to a large fiscal surplus (Figure 3).** Oil revenues almost doubled, rising to 32 percent of GDP. This jump partly reflected a larger government share of total oil production (Box 1).[2] Non-oil revenues, however, were weaker than expected, mostly owing to poor customs collections, reflecting import exemptions for the oil sector and public contracts. Tight spending controls led both current and capital expenditures as a share of GDP to drop (notwithstanding rising transfers for the CORAF oil refinery), but pro-poor primary spending increased half a percentage point, to 4.9 percent of GDP. All told, the primary surplus in 2005 was 21.2 percent of GDP. After servicing domestic and external debts, the government placed CFAF 170 billion (5.4 percent of GDP) in the central bank's newly created oil stabilization account.

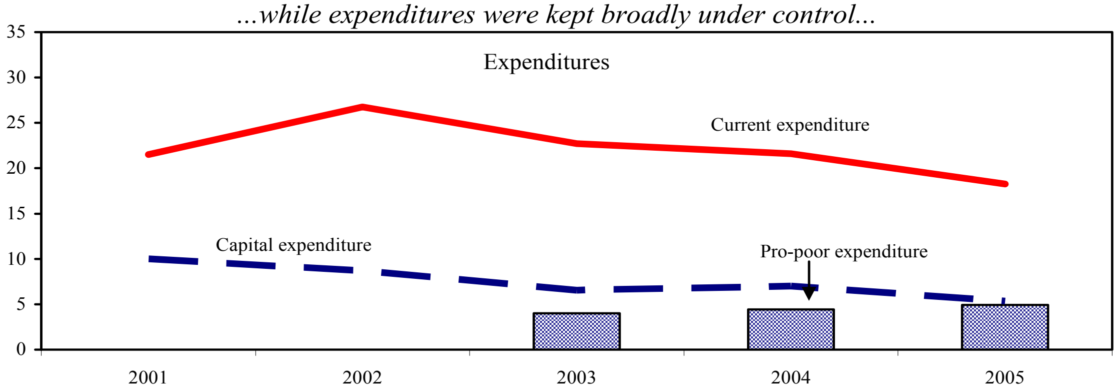
[2] Oil contracts in Congo typically specify that the share of oil production accruing to the government increases with international oil prices, resulting in a non-linear relationship between oil prices and government oil revenue.

Figure 3. Republic of Congo: Fiscal Developments, 2001- 05
(In percent of GDP)

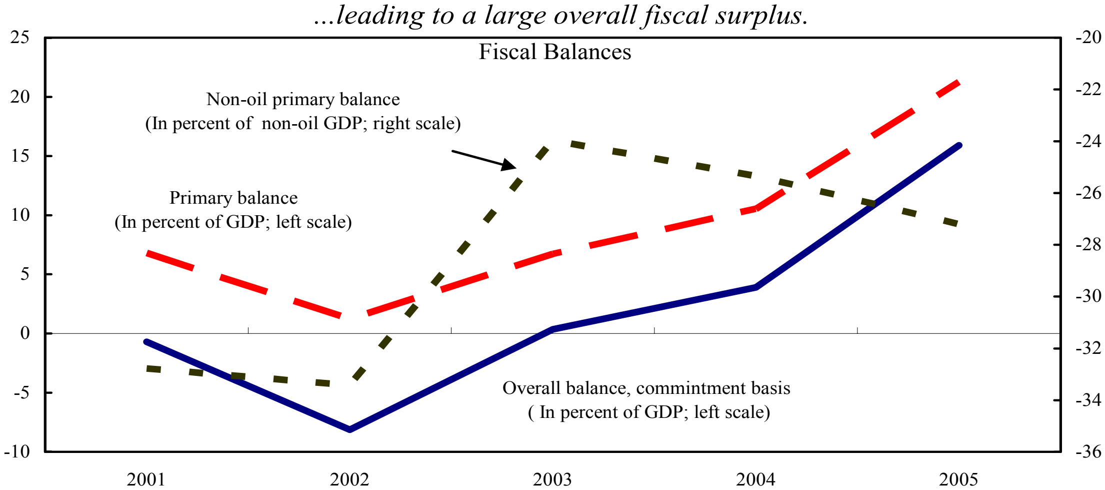
Oil revenue receipts increased sharply in 2005...



...while expenditures were kept broadly under control...



...leading to a large overall fiscal surplus.



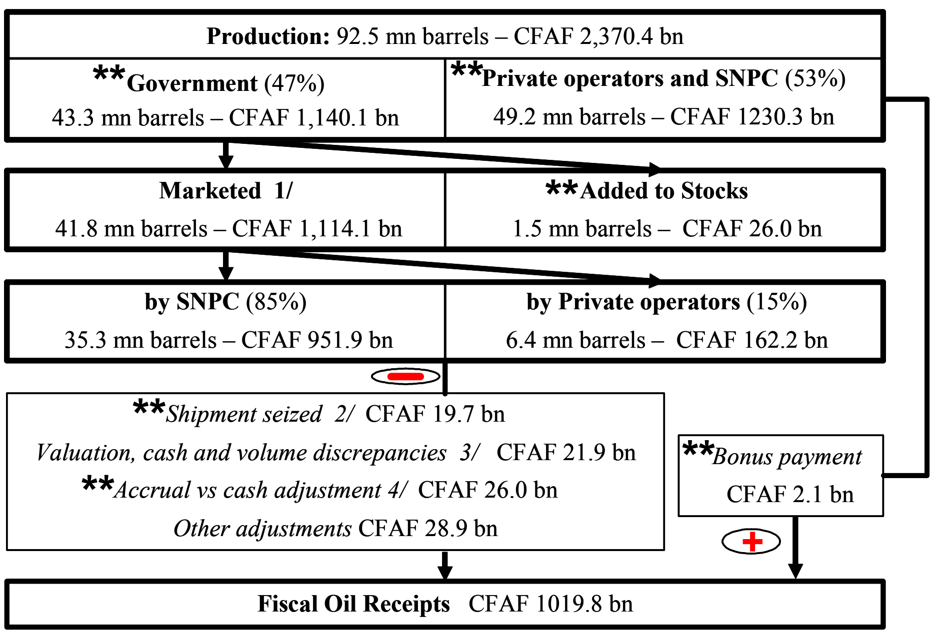
Sources: Congolese authorities and staff estimates.

Box 1. From Oil Production to Fiscal Oil Receipts

The chain from oil production to fiscal oil receipts for 2005 has been largely audited. The share of oil production belonging to the government is established in production sharing contracts (PSCs) with foreign partners. The 2005 certification reports verified that the amount of oil barrels owed to the government corresponded to those in the PSCs (Diagram 1). The government oil was then sold by the national oil company (SNPC) and private operators. Both parties deducted marketing fees, commissions, and other costs from the proceeds transferred to the treasury. However, weaknesses in the marketing of government oil resulted in a lower price per barrel than the "market" reference price. Such price differentials, together with cash and volume discrepancies, lowered government revenues by CFAF 21.9 billion for 2005.

Additional discrepancies arise from yet unaudited accounts. The certifications are determined on an accrual basis, while the fiscal oil receipts are tallied on a gross cash basis. Information is available to make the "accrual versus cash" adjustments for the receipts transferred by the SNPC, but not yet for the receipts transferred by private operators or for the deducted costs. Finally, for the first half of 2005, the information needed to verify the fiscal payments due by one operator was missing. These and other factors resulted in unexplained discrepancies of CFAF 28.9 billion in 2005. These discrepancies should be resolved as part of the reconciliation exercise to be conducted by an external independent firm by end-June 2006.

Diagram 1. Republic of Congo: Oil Production and Marketing Chain – 2005



** Amounts independently certified.

1/ The accountants' quarterly certification reports check the price paid for the oil, but they do not actually audit the SNPC marketing process. The average price between the SNPC and private operators differs partly due to the different timing and quality of oil shipments.

2/ Deduction made for the proceeds of an oil shipment seized by a litigating creditor, following a court order, in April 2005.

3/ The "valuation discrepancy" reflects the less favorable prices and exchange rates on government oil sold. Private oil companies sell government oil at prices and exchange rates less favorable than the reference prices and rates. The "cash discrepancy" represents the difference between SNPC sales proceeds and cash transferred to the treasury. The "volume discrepancy" reflects errors in the SNPC's accounting of the government's oil stocks.

4/ Information for this adjustment is available only for SNPC cash payments to the treasury.

6. **High oil revenue inflows led to a significant expansion in broad money.** The corresponding increase in net foreign assets was only partially sterilized through government deposits at the central bank. Credit to the private sector remained sluggish, reflecting limited lending opportunities for banks and an inadequate legal framework for loan recovery.

7. **Progress in improving transparency and governance was mixed.** The authorities implemented most transparency and governance measures specified under the program (see Table 2 of the MEFP). In addition, bids were launched in June 2006 for (i) an audit of the awarding in 2005 of the Marine XI oil field concession, and (ii) a diagnostic study of the SNPC's marketing strategy of government oil. As part if its efforts to reintegrate Congo into the Kimberley process by end-2006, the government recently submitted for review three reports to the Kimberley process secretariat (MEFP, paragraph 27). Other developments, however, overshadowed these improvements. For example, two leading campaigners for greater transparency in managing the country's oil revenue were charged with embezzlement and detained temporarily in April 2006. According to transparency and human rights organizations (including the organization they allegedly embezzled funds from), they were detained under false charges. The authorities, however, argued that this was a private legal issue not involving the government, and that it was appropriately handled by the judicial authorities. The authorities are also privatizing a troubled bank, COFIPA through a strategic partner rather than an open bidding process, as had been called for under the program.

8. **The authorities have made further progress in reforming the state-oil company**. The audit of the 2004 consolidated SNPC accounts noted significant improvements in terms of: (i) monitoring and accounting of oil costs, (ii) better information provided by oil operators, and (iii) access to bank account statements. While the auditors noted the lack of source information on transactions carried out by the SNPC on behalf of the government and a few details on the reconciliation of the SNPC balances with bank account statements, the 2004 accounts were now auditable, unlike for 2003, but not yet certifiable by international accounting standards. The auditors stated that, if further measures are implemented to improve internal audit controls, the 2005 consolidated SNPC accounts should be certifiable. The authorities are already in the process of implementing these further reforms. To refocus SNPC activities on its core activities: (i) two SNPC affiliates have been liquidated, while two others are in the process of being liquidated; and (ii) a number of subsidiaries of SNPC Services have ceased operations. A recently created internal Audit Committee will monitor the implementation of accounting and auditing procedures and internal controls, and to oversee the effective implementation of the SNPC audit recommendations. Finally, the authorities have introduced new procurement guidelines to ensure competitive bidding both for work contracts and for the purchase of goods and services exceeding CFAF 20 million.

9. **Deep-rooted structural weaknesses in the energy sector continue.** The external audit of the 2003 and 2004 operations of the domestic oil refinery, CORAF, revealed large losses—reflecting the government's policy of fixed domestic petroleum product prices—and called into question its financial viability. The refinery's 2005 losses were an estimated 1.5 percent of GDP (Box 2). The authorities projected 2006 total losses of CFAF 67.4 billion (2 percent of GDP), roughly the same amount the government spends on basic education. To reduce projected CORAF losses, the government increased prices on gasoline, diesel, and jet oil by 11 percent on average in June 2006. These price hikes are expected to lower CORAF's annual losses by CFAF 18 billion (0.5 percent of GDP) and its 2006 losses to 1.7 percent of GDP. Explicit budget transfers (CFAF 40 billion) and forgone royalties (CFAF 16 billion) would fully cover the 2006 losses. The 2004 audit of the state electricity company (SNE) showed losses of CFAF 58 billion (2.5 percent of 2004 GDP) and a negative net worth of CFAF 54 billion. Further losses were expected for 2005. To improve cost recovery, the SNE has begun installing 50,000 electricity meters in Brazzaville and Pointe Noire.

Box 2. Refined Petroleum Product Subsidies

According to staff estimates, subsidies for refined petroleum products in 2005 equaled 1.5 percent of GDP. These subsidies mostly reflect an August 2002 decree that capped pump prices for refined petroleum products. Following the price increases implemented in June 2006, subsidies have been significantly reduced.

Petroleum Product	End-2005	June 2006
	(Subsidies in percent of estimated reference price)	
Gasoline	0.7	-19.4 1/
Gasoil/Diesel	36.0	23.8
Jetoil	41.2	36.7
Kerosene	42.1	41.1

1/ Reflects positive taxation.

III. Recent Program Performance

10. **Performance under the 2005 program was broadly satisfactory, despite some fiscal slippages:**

- **Eight out of the ten quantitative performance criteria were met at end-September 2005.** The primary fiscal balance target was missed by a large margin (3.6 percent of GDP) due to three factors: (i) a delay in transferring CFAF 83.3 billion (2.6 percent of GDP) in oil receipts to the Congolese treasury at end-September 2005 (the authorities assured the staff that the receipts remained under the control of the Congolese government at all times); (ii) higher-than-projected

transfers to CORAF and unexpected payments to private oil companies for 2004 oil deliveries[3] (0.6 percent of GDP); and (iii) a rise in the discount on Congolese crude oil and other factors (0.4 percent of GDP). In addition, the minimum payment on external arrears was missed at end-September 2005, because the December 2004 Paris Club rescheduling agreement entailed lower-than-programmed payments on post-cutoff-date arrears. The same target for end-2005 was met.

- **The large fiscal slippage observed at end-September 2005 was mostly reversed during the fourth quarter of 2005.** By year-end, the primary balance, adjusted for actual oil shipments traded and higher oil prices, fell short of the target by 1.7 percent of GDP. A short delay in the treasury's receipt of oil proceeds from one shipment (equaling 0.9 percent of GDP)—along with the higher–than–programmed discount on Congolese crude oil and larger–than–expected transfers to CORAF (see above)—led to the shortfall. The non-oil revenue target was met, as higher-than-expected tax revenue more than offset a shortfall in customs revenue. At year-end 2005, domestic arrears payments missed the indicative target by a small margin.

- **The two structural performance criteria slated for end-September 2005 were met**, **but performed unevenly in other structural areas**. Most structural benchmarks through December 2005 were met, including the government's adoption of a strategy to refocus the activities of SNPC on its core activities. There were, however, delays in finalizing and publishing the oil revenue certification reports for the third and fourth quarters of 2005 and in the publication of the 2004 SNPC's annual external audit report. Negotiations on settling domestic arrears (structural benchmark at end-2005) are still pending, owing to protracted negotiations with trade unions on the terms of the settlement of social arrears, but are expected to be completed in June 2006. Three of the six indicative structural benchmarks for fourth-quarter 2005 were missed: completion of reports on losses in the refined petroleum products sector, the financial situation of COFIPA following onsite inspection, and the results of the 2004 audit of SNE's financial accounts.

IV. POLICY DISCUSSIONS

11. **Policy discussions focused on improving macroeconomic management against the background of continued high oil prices and efforts to further strengthen governance**. With oil revenues expected to remain high, the authorities and the staff agreed that pro-poor spending should be increased within the limit of the

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[3] Private oil companies can deduct the amount of CORAF's unpaid crude oil bills from their tax obligations unpaid bills by CORAF for its purchase of crude oil.

country's absorptive capacity. In addition, the staff backed the authorities' intentions to strengthen the public sector balance sheet by building up assets in the oil stabilization account, repaying domestic and external arrears, reducing quasi-fiscal losses at CORAF and SNE, and improving budgetary execution. The governance and transparency discussions focused, in particular, on weaknesses in oil sector management.

A. Medium-Term Macroeconomic Outlook

12. **The medium-term economic outlook is more favorable than expected, owing mainly to higher oil price projections[4] (Figure 4).** Total real GDP is projected to grow 7.5 percent in 2006, decelerate to 1½ percent in 2007, and rebound to 7 percent in 2008, reflecting oil production trends. Non-oil GDP growth is projected to average 6.3 percent per year, driven by high public investment and structural reforms. Inflation is expected to remain moderate, reflecting prudent fiscal and monetary policies and regular supplies of goods. High oil prices and related oil exports should result in strong external current account and overall fiscal surpluses in 2006–08.

B. Fiscal Policy for 2006 and Reforms

13. **The main objective of fiscal policy for 2006 is to strengthen the public sector balance sheet while accommodating increased pro-poor spending.** The 2006 budget, which allows for a significant increase in spending from the 2005 level, projects a primary fiscal surplus of about 20 percent of GDP. Reflecting an increase in pro-poor spending in line with the priorities outlined in the interim PRSP, the non-oil primary deficit is projected to increase by 4¾ percent of non-oil GDP in 2006. However, it should then improve in 2007, depending on the level of expenditures envisaged in the PRSP. Higher oil revenue should keep fiscal primary surpluses at about 20 percent of GDP each year in 2007 and 2008. The projected public savings would enable the government to both accelerate the clearance of domestic and external arrears and strengthen its deposits in the banking system.

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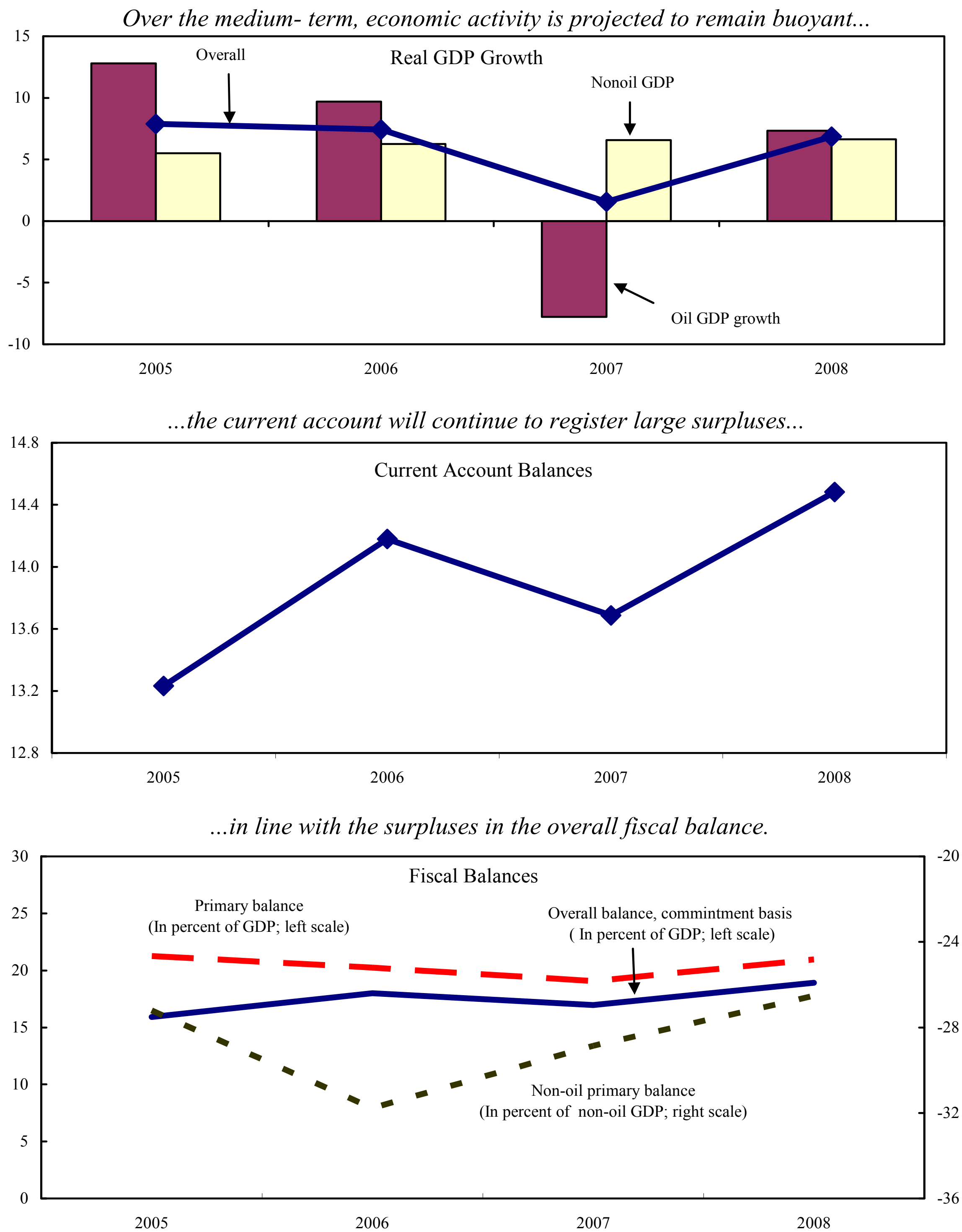
[4] The macroeconomic framework and the related discussions with the authorities were based on the oil projections contained in the April 2006 World Economic Outlook of April 2006. In May 2006, oil price projections were revised upwards, implying higher fiscal and current account surpluses over the medium term.

Figure 4. Republic of Congo: Key Macroeconomic Indicators, 2005-08
(In percent of GDP)



Sources: Congolese authorities and staff projections.

14. **Both oil and non-oil revenues need to be mobilized to achieve the 2006 fiscal objective**. Oil revenue is projected to be 33 percent of GDP for 2006, a level that could

persist through 2008. In addition to continued independent certification and reconciliation of oil revenues, an independent audit of cost oil for all production-sharing contracts for 2004 and 2005 is expected by mid-2006. Non-oil revenue is projected to improve by 0.2 percentage point of non-oil GDP in 2006 and by another 0.5 percentage point in 2007. Efforts to strengthen customs administration and limit discretionary tax and customs exemptions will support the non-oil revenue target. In addition, the annual certification of forestry revenue will continue.

15. **The authorities and the staff agreed that the resources of the oil stabilization account should be deployed in a transparent way**.[5] Four principles should guide the use of these resources: (i) the only permissible use for such resources is to transfer funds to the budget; (ii) any additional expenditures will be authorized through the budget law; (iii) the resources in the stabilization account can be used to prepay expensive debt, including oil-collateralized loans and liabilities due to the central bank, in order to reduce the average cost of debt; and (iv) the stabilization account will be subject to annual audits by the national auditing office, conducted no more than three months after the end of the year. The special account for interim debt relief will have similar rules, but will also be audited by an international audit firm (MEFP, paragraph 11).

16. **The discussions focused on the appropriate level of capital spending in 2006.** The authorities explained that higher than budgeted capital spending was needed to address recurrent electricity and water shortages, as well as urgent health and transport needs. While the staff acknowledged the important needs in these areas, the increase in capital spending envisaged in the 2006 budget was already high (41 percent). The ability to execute further spending in a transparent and effective manner was also a source of concern. After a preliminary review by Bank and Fund staff, an assessment was made that a limited number of additional projects consistent with the existing I-PRSP could be implemented without jeopardizing absorptive or administrative capacity. An understanding was therefore reached to accommodate additional priority investment spending of up to CFAF 50 billion (1.5 percent of GDP) in 2006, but subject to the following safeguards: the projects would be vetted by World Bank staff, awarded through transparent and competitive procurement procedures, and approved through a supplementary budget. If the adjuster is fully used up, capital spending would nearly double in 2006, compared with 2005. Investment spending in the 2007 budget should reflect the priorities to be defined in the full PRSP (MEFP, paragraph 16).

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[5] The appropriate use of oil resources in a sustainable medium-term fiscal framework will be discussed with the authorities during the Article IV mission scheduled for September 2006.

17. **Higher pro-poor spending will be accommodated through the rationalization of outlays in other areas.** The government and trade unions agreed to a 15 percent salary increase over the 2006-08 period. For 2006, a 5 percent salary increase (along with the recruitment of new staff) in such priority sectors as health and education is expected to be partly financed through savings from attrition. As a result, wages and salary outlays would increase by only 3 percent from 2005 levels. Also, the government plans to gradually eliminate energy subsidies (MEFP, paragraph 21).

18. **Stronger expenditure management and improved quality of spending are crucial to achieving the program's fiscal objectives**. Accordingly, the authorities agreed to implement a number of measures to improve the selection, evaluation, and monitoring of public investment projects; reform the budget directorate; and implement a functional classification of government spending (MEFP, paragraphs 14 and 19). To this end, the authorities have requested FAD technical assistance on budget classification. Public spending will continue to be monitored through quarterly tables verified by the Inspectorate-General of Finance tracking poverty-reduction spending and the expenditure circuit (commitment, payment order, and cash payment). Moreover, as a first step toward medium-term expenditure management, the 2007 budget will be cast in a three-year framework, with the projections giving a general indication of the government's medium-term fiscal policy.

19. **Part of the budgetary savings will be used to settle domestic arrears in an equitable and transparent manner**. The 2006 fiscal program allows a significant envelope (2.5 percent of GDP) to finance the comprehensive plan for the settlement of domestic arrears expected to be adopted in June 2006.

C. Monetary and Financial Sector Issues

20. M**onetary policy, conducted by the regional Banque des Etats d'Afrique Centrale (BEAC), aims to maintain price stability and strengthen the external position**. Broad money is expected to grow in line with nominal non-oil GDP over the program period, assuming that the government saves oil revenues at the central bank. The authorities expressed concern about the low rates of return on their net foreign assets at the BEAC.

21. **The authorities recognize the need to further strengthen the banking system**. Measures to reinforce bank credit recovery will be pursued. These include regular updates by banks of the list of delinquent debtors, who are ineligible to receive new loans from banks. Staff urged the authorities to privatize COFIPA using a transparent process that meets international best practice and limits budget costs. In response, the authorities agreed to hire a consultant to gauge independently the value of COFIPA, assess the budgetary costs, advise the authorities about the fairness of the offers, and help them in

the negotiations to ensure a fair price. The consultant's report will be published, following the sale of the bank (MEFP, paragraph 21).

D. Structural Reforms

22. **The authorities acknowledged the need to further strengthen governance, in particular by increasing transparency in the oil sector.** The staff and authorities agreed to several reform measures (MEFP, paragraph 23) that would serve as a first step toward implementing the HIPC completion point triggers,[6] including: (i) independent certification by the national auditing office that there are no conflicts of interest among senior management and SNPC's Executive Board; and (ii) the completion of a diagnostic study of SNPC's marketing strategy, which will be used by SNPC and the government to form an action plan that brings government oil marketing in line with international best practices. In the area of transparency, measures include the establishment of two national Extractive Industries Transparency Initiative (EITI) committees, with representation of parliament and civil society, publishing the audit of awarding the Marine XI oil field concession by end-September 2006, and publication of the first EITI report by end-December 2006 (MEFP, paragraph 27).

23. **The authorities will also enhance governance in other areas**. An anticorruption committee will be created and include representatives of civil society, and an anticorruption law is expected to be presented to Parliament by end-2006. The anticorruption law will, among other things, require senior public officials to disclose their wealth and the origins of their income (MEFP, paragraph 26). The anticorruption committee will also help prepare and implement a governance action plan and will oversee the governance of oil-industry and other sector initiatives.

24. **The authorities recognized the need to address structural weaknesses in the energy sectors, in order to improve efficiency and limit the potential drag on future budgets**. They reiterated their commitment to introducing an automatic price adjustment mechanism for refined petroleum products, following the elimination of subsidies by September 2007. In addition, a comprehensive government study of the electricity sector, to be conducted with World Bank assistance, is expected to be completed by September 2006. The results of this study will be the basis for further reforms.

25. **The authorities intended to address the financial fragility of the pension funds over the medium term**. The reform of the two pension funds (MEFP, paragraph

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[6] The HIPC completion point triggers are presented in IMF Country Report No. 06/148, Box 5, available at http://www.imf.org/external/pubs/cat/longres.cfm?sk=19163.0.

22) will be launched in 2006 through: (i) a census of civil servants and pensioners with a view of computerizing and harmonizing their rosters; and (ii) actuarial studies of the pension funds.

E. External Debt Issues and Financing Assurances

26. **Progress continues to be made in normalizing relations with external creditors, but reaching agreements with all commercial creditors remains a major challenge**. The Paris Club granted flow rescheduling on Cologne terms in May 2006, which applies to qualifying debt with maturities falling due between March 2006 and September 2007. Discussions with London Club creditors to obtain comparable debt relief terms are underway. The authorities are also pursuing negotiations with non–Paris Club bilateral creditors on comparable terms. Discussions with other commercial and suppliers creditors—including creditors that have won court judgments against Congo[7]—are less advanced. Nevertheless, the authorities underscored their resolve in pursuing good-faith negotiations with these creditors, including litigating creditors, once an agreement with the London Club is in place. Against this background, the staff thinks that the authorities' approach meets the good-faith criterion established under the Fund's policy of lending into arrears.

F. Poverty Reduction Strategy

27. **The preparation of a full PRSP is underway.** The authorities' status report on preparing the PRSP provides preliminary results of the household survey completed in early 2006. According to the results, 42 percent of households and 51 percent of individuals live below the poverty line. The report also provides a plan to strengthen the participatory process, and says the final PRSP is expected to be finalized by end-2006.

G. Risks

28. **The implementation of the program faces the following major risks**:

- Security is improving but remains fragile.
- In the run-up to the 2007 parliamentary elections, pressure to increase public spending could mount, and some key reforms might be delayed, particularly in the energy sector.

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[7] Since Congo reached the decision point under the enhanced HIPC Initiative in March 2006, litigating creditors have won two new enforcement rulings in France and the United States on existing cases against Congo.

- Institutional capacity constraints could delay reform implementation.

- Slippages in implementing governance and transparency reforms would also result in significant delays in reaching the HIPC Completion Point.

- With litigating creditors still seeking full debt recovery, securing financing assurances from most commercial creditors could take a long time. Moreover, further seizures of Congolese assets by judgment creditors would involve the loss of fiscal resources. Finally, reaching a settlement with judgment creditors may require large payment not currently included in the program.

V. Prior Actions and Program Monitoring

29. Prior actions for the completion of the second review under the PRGF arrangement (MEFP, Table 4) comprise: (i) the adoption of a plan for the settlement of domestic arrears; (ii) the certification of oil revenue for the fourth quarter of 2005; (iii) the completion of the audit of the accounts of the electricity company; (iv) the launch of a bid to hire a consultant for the sale of COFIPA; (v) the launch of a bid for the audit of the awarding of the Marine XI oil field concession; (vi) the launch of a bid commissioning a diagnostic study of SNPC's marketing of government oil; and (vii) completion, by an audit firm of international reputation, of a reconciliation report on the amount of oil revenues deposited in government bank accounts, as reported in the quarterly certification reports, and the total oil revenues reported in the government financial operations tables for 2005. Biannual program reviews will monitor quantitative and structural criteria, benchmarks, and indicators (Tables 3 and 4 of the MEFP).

VI. Staff Appraisal

30. **Overall performance under the PRGF-supported program was satisfactory during the review period.** Performance on the macroeconomic front was strong, despite a significant temporary slippage vis-à-vis the primary fiscal surplus target at end-September 2005. However, performance in some structural areas was mixed. In particular, the COFIPA bank restructuring and a diagnostic assessment of losses in the refined petroleum sector were delayed. In addition, the COFIPA bank privatization process deviated from a transparent bidding process, as had been agreed under the program. This is regrettable and should not be repeated. Nonetheless, the authorities' renewed commitment to reforms and the implementation of a significant set of prior actions bode well for the success of the 2006 program.

31. **The authorities' key macroeconomic challenge for 2006 is to contain pro-cyclical spending pressures**. The budget approved by parliament, and the additional spending envisaged for the second half of 2006 are consistent with macroeconomic stability. The authorities, however, must resist pressures to increase spending further, beyond the level envisaged under the program, given the risks that this could entail for

macroeconomic stability in light of the economy's limited absorptive capacity. It is also crucial that the additional capital spending envisaged be done in an efficient and transparent manner.

32. **The authorities should take decisive measures to address the significant weaknesses in governance and transparency.** The establishment of an anticorruption committee and the submission of an anticorruption law will be key tests in 2006 of the authorities' resolve to tackle deep-rooted governance problems. In addition, the Marine XI audit should yield recommendations on improving transparency and accountability in the awarding of oil concessions. The authorities should also swiftly strengthen the SNPC internal audit controls to make the oil-company accounts certifiable by international accounting standards, and establish the EITI committees, so that the first report under this initiative can be published by end-2006.

33. **Reforms in the energy sector must be implemented to improve efficiency and limit budget losses**. The authorities' recent increases in petroleum product prices was a good first step, which however leaves losses on a rising trend. It is therefore essential that this first step be followed by swift implementation of a time-bound schedule to eliminate all subsidies for refined petroleum products. In addition, with help from donors, the authorities must pursue reforms that improve the efficiency of the electricity sector.

34. **Congo's success in normalizing its relations with all external creditors will be critical for full mobilization of debt relief under the enhanced HIPC Initiative.** An agreement with London Club creditors on debt treatment in line with the enhanced HIPC framework would enable Congo to secure the financing assurances it needs to obtain IMF interim assistance and to reach in due course the HIPC Completion Point. The authorities should pursue comparable treatment from non-Paris Club bilateral creditors and suppliers. In addition, they should enter into negotiations with litigating creditors.

35. **The authorities are encouraged to spearhead efforts to reduce common external tariffs and simplify customs procedures in the CEMAC region.** Such measures would improve multilateral trade integration and improve transparency of the trade regime.

36. **The Poverty Reduction Strategy Paper (PRSP) under preparation should be the result of a participatory process, based on a strong analysis of the poverty profile.** The authorities should bear in mind that the implementation of a good-quality PRSP will be essential for sustained progress toward the Millennium Development Goals.

37. **The staff recommends the completion of the second review under the PRGF arrangement, given the progress made in implementing the program and the steps taken to improve transparency and governance.** Corrective measures partially reversed the shortfall in the primary fiscal surplus observed in the third quarter of 2005. The remaining shortfall largely reflects the delay in adjusting domestic petroleum prices,

which is now being addressed. Accordingly, the staff supports the authorities' requests for waivers of two quantitative performance criteria at end-September 2005 and the rephasing and extension of the PRGF arrangement. Looking forward, the authorities' plans to address the structural weaknesses in the energy sector and further improve governance and transparency are encouraging first steps, but need rigorous implementation and further follow-up actions.

Table 1. Republic of Congo: Selected Economic and Financial Indicators, 2001–08 1/

	2001	2002	2003	2004	2005		2006	2007	2008
				Est.	Prog.	Est.	Prog.	Projection	
				(Annual percentage change)					
Production and prices									
GDP at constant prices	3.8	4.6	0.8	3.6	9.2	7.9	7.4	1.6	6.9
Oil	-7.5	-1.5	-7.2	0.5	16.7	12.8	9.7	-7.8	7.3
Non-oil	12.5	8.5	5.4	5.2	5.5	5.5	6.3	6.6	6.6
GDP at current prices	-10.7	2.8	-1.6	10.8	17.0	37.2	8.3	1.0	7.5
GDP deflator	-13.9	-1.7	-2.4	6.9	7.2	27.2	0.8	-0.6	0.6
Consumer prices (period average)	0.8	3.1	1.5	3.6	2.0	2.5	2.5	2.2	2.2
External sector									
Exports, f.o.b. (CFA francs)	-16.5	9.0	-4.8	18.8	15.4	43.9	10.0	-2.5	6.5
Imports, f.o.b. (CFA francs)	17.8	-1.5	-4.4	21.1	7.4	18.0	16.0	1.2	5.3
Export volume	-14.0	3.5	-5.5	8.6	14.9	12.8	9.3	-6.4	7.3
Import volume	17.0	0.7	2.9	16.7	8.2	3.4	7.8	1.8	6.3
Terms of trade (deterioration -)	-10.7	-0.3	2.9	12.5	4.7	22.2	9.0	-2.0	-2.4
Nominal effective exchange rate	1.0	2.1	4.6	1.8	...	-0.6	...	...	...
Real effective exchange rate	-0.4	3.5	2.2	1.1	...	-0.3	...	...	...
Central government finances									
Total revenue (including grants)	3.7	-8.9	6.6	21.6	37.2	67.0	12.7	-0.7	11.2
of which : oil revenue	-7.6	-7.7	6.1	25.8	49.7	92.3	10.6	-3.5	11.1
non-oil revenue	44.7	-11.7	4.4	14.1	5.6	6.0	8.9	11.5	12.4
Total expenditure	10.7	15.6	-18.8	8.3	-4.6	13.6	6.6	-0.3	4.9
Current	30.4	27.8	-16.4	5.3	-11.6	16.1	-12.2	-2.8	3.7
Capital	28.8	-10.7	-26.0	18.5	17.1	5.9	70.4	4.1	6.8
				(In percent of beginning-of-period broad money)					
Money and credit 2/									
Net domestic assets	14.5	8.8	8.5	-2.4	-8.8	-86.3	-79.1	-76.2	-105.0
Domestic credit	3.0	-6.8	5.2	1.8	-8.8	-73.0	-79.1	-76.2	-105.0
Central government	21.0	9.0	0.4	0.3	-10.8	-74.9	-80.6	-77.9	-106.7
Credit to the economy	-16.4	-16.5	5.3	1.2	1.9	0.3	1.5	1.6	1.7
Broad money	-22.8	13.1	-2.4	17.4	7.6	34.5	9.1	9.5	9.0
Velocity of broad money (non-oil)	3.0	3.6	3.6	3.5	3.3	3.3	2.7	2.7	2.7
				(In percent of GDP)					
Investment and saving									
Gross national saving	20.7	24.0	26.7	26.5	29.0	34.1	38.7	38.7	37.9
Gross investment	26.4	23.4	25.7	24.2	24.1	22.4	24.7	25.2	24.8
Of which : public (domestically financed)	9.8	7.6	5.4	5.3	5.7	5.0	6.6	6.6	6.6
Central government finances									
Revenue and grants	30.8	27.3	29.6	32.5	38.1	39.6	41.2	40.5	41.8
Total expenditure	31.5	35.5	29.3	28.6	23.3	23.7	23.3	23.0	22.5
Overall balance (deficit -, commitment basis) 3/	-0.7	-8.1	0.4	3.9	14.8	15.9	17.9	17.4	19.4
Primary balance (deficit -) 4/	6.8	1.2	6.7	10.5	17.7	21.2	20.1	19.6	21.4
Current account balance 5/	-5.6	0.6	1.0	2.2	4.9	11.7	14.0	13.5	13.1
External public debt (end of period)	195.8	180.3	200.5	212.7	...	103.2	...	...	...
				(In percent of exports of goods and services)					
External public debt service (before debt relief)	23.9	25.0	16.7	14.4	11.8	11.7	6.9	6.3	5.9
External public debt	252.9	221.2	252.9	251.7	...	119.1	103.4	101.4	92.7
				(In percent of total government revenue excluding grants)					
External public debt service (before debt relief)	60.4	75.0	45.4	37.8	25.7	25.8	15.1	13.7	12.4
External public debt	638.4	663.7	687.9	661.2	...	263.5	228.1	221.3	...
				(In billions of CFA francs, unless otherwise indicated)					
Gross official foreign reserves	53.6	22.2	20.5	62.6	101.3	409.3	794.9	1,215.8	1,824.7
In months of imports, c.i.f.	1.3	0.5	0.5	1.3	2.0	7.3	12.2	18.5	26.3
Nominal GDP	2,048	2,105	2,072	2,294	2,685	3,149	3,411	3,445	3,704
World oil price (in U.S. dollars per barrel) 6/	24.3	24.9	28.8	38.2	45.2	54.4	51.3	53.0	52.8
Oil production (in millions of barrels)	89.6	88.0	81.7	82.1	94.7	92.6	101.5	93.6	100.5
Potential windfall oil fiscal revenue 7/	0.0	0.0	0.0	0.0	82.8	0.0	346.4	324.9	391.9

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

1/ In view of the structural shift in GDP starting in 2005 stemming from significantly higher oil prices, some of the ratios to GDP may not be comparable to the past.
2/ The large decline in net domestic assets for the projection period reflects an important build up of assets in the oil revenue stabilization account.
3/ Including grants.
4/ Revenue (excluding grants) minus noninterest current expenditure minus domestically-financed capital expenditure and net lending.
5/ Including public transfers.
6/ From 2006 onward, oil revenue forecasts incorporate a prudence factor, with oil price projections reduced by US$10/barrel relative to *WEO* price forecasts.
7/ Additional revenue that would be generated by using *WEO* forecasts for world oil prices, that is, without applying the prudence factor.

Table 2. Republic of Congo: Central Government Operations, 2001–08

	2001	2002	2003	2004 Est.	2005 Prog.	2005 Est.	2006 Prog.	2007 Projection	2008 Projection
				(In billions of CFA francs)					
Revenue and grants	631.8	575.4	613.5	745.8	1023.1	1245.7	1404.4	1393.9	1549.7
Revenue	628.1	571.7	603.6	737.9	1013.1	1239.8	1367.4	1355.1	1508.9
Oil revenue	430.8	397.5	421.6	530.3	793.7	1019.8	1127.8	1087.9	1208.6
Non-oil revenue	197.3	174.2	182.0	207.6	219.3	220.0	239.6	267.2	300.3
Grants	3.7	3.7	9.9	7.9	10.0	5.9	37.0	38.9	40.8
Expenditure and net lending	645.9	746.4	606.1	656.3	626.0	745.4	794.8	792.8	831.8
Current expenditure	440.6	563.1	470.5	495.6	437.9	575.2	504.8	490.8	509.2
Wages	118.1	120.4	120.2	122.9	130.0	130.0	134.0	139.8	154.0
Other current expenditure	159.8	256.7	223.6	229.7	239.0	270.0	306.6	293.1	295.6
Material and supplies	32.1	78.4	50.0	54.8	62.1	62.1	73.0	81.8	96.3
Common charges	55.0	73.4	42.8	51.8	58.0	66.1	70.0	73.6	78.1
Transfers	72.7	104.9	130.8	123.1	119.0	141.8	163.6	137.7	121.2
Refined petroleum products	...	6.9	8.9	8.9	11.1	13.9	16.5	9.0	9.0
HydroCongo 1/	...	44.8	34.3	12.4	10.6	10.9	9.2	8.9	8.9
National refinery (CORAF)	…	…	16.0	0.0	11.0	30.9	40.4	20.2	0.0
Other transfers	54.3	53.2	71.6	101.8	86.3	86.1	97.5	99.7	103.4
Local authorities	10.7	9.3	8.9	15.1	16.9	17.2	20.0	20.0	20.5
Interest	152.0	176.7	117.8	127.9	52.0	158.0	44.2	37.9	39.0
Domestic	7.7	14.4	23.4	17.3	12.4	29.7	17.7	9.5	9.0
External	144.3	162.3	94.4	110.6	39.5	128.3	26.5	28.4	30.0
Capital expenditure	205.4	181.7	134.8	160.7	188.1	170.2	286.0	302.0	322.6
Domestically financed	200.4	158.1	111.0	128.4	153.1	153.9	216.0	227.3	244.9
Externally financed	5.0	23.6	23.8	32.3	35.0	16.3	70.0	74.7	77.7
Net lending	0.0	1.6	0.8	0.0	0.0	0.0	4.0	0.0	0.0
Primary balance 2/	139.2	25.7	139.1	241.8	474.0	668.7	686.8	674.9	793.9
Of which: non-oil primary balance	-291.7	-327.0	-248.2	-276.1	-309.1	-340.2	-431.8	-404.1	-405.8
Balance, commitment basis									
Excluding grants	-17.8	-174.6	-2.5	81.6	387.0	494.4	572.6	562.3	677.1
Including grants	-14.1	-171.0	7.4	89.5	397.0	500.3	609.6	601.1	717.9
Of which: non-oil balance	-444.9	-523.7	-379.9	-428.4	-386.1	-508.6	-509.0	-477.9	-481.8
Change in arrears	73.6	205.8	124.8	-1645.6	-60.0	-57.4	-93.0	-94.0	-69.0
External	104.5	210.8	164.2	-1612.7	0.0	9.7	-6.0	-6.0	-6.0
Domestic	-30.9	-5.0	-39.5	-32.9	-60.0	-67.1	-87.0	-88.0	-63.0
Balance, cash basis	59.5	34.9	132.2	-1556.1	337.0	442.9	516.6	507.1	648.9
Financing	-59.5	-34.9	-132.1	1559.2	-205.6	-442.9	-516.6	-507.1	-649.0
Foreign (net)	-85.0	-15.0	-146.1	1583.6	-155.6	-161.7	-147.6	-120.8	-75.4
Drawings	73.4	234.1	21.6	24.4	25.0	24.3	33.0	35.9	36.9
Amortization due	-233.6	-259.7	-169.3	-165.2	-215.1	-307.4	-180.6	-156.6	-112.3
Rescheduling obtained (arrears)	4.3	4.3	1.5	915.8	…	47.9	0.0	…	…
Debt cancellation (arrears)	63.6	6.4	0.1	808.5	…	46.9	…	…	…
Exceptional assistance	…	…	… …	…	26.6	26.6	…	…	…
Domestic (net)	25.5	-19.9	14.0	-24.4	-49.9	-281.2	-369.0	-386.3	-573.6
Banking system (net)	75.1	23.2	1.0	0.9	-36.0	-250.2	-362.5	-382.2	-573.4
Nonbank financing	-49.5	-43.1	13.0	-25.3	-13.9	-31.0	-6.5	-4.1	-0.2
Financing gap (- = surplus)	0.0	0.0	0.0	0.0	-123.6	0.0	0.0	0.0	0.0

Table 2. Republic of Congo: Central Government Operations, 2001–08 (concluded)

	2001	2002	2003	2004 Est.	2005 Prog.	2005 Est.	2006 Prog.	2007 Projection	2008 Projection
	(In percent of GDP)								
Revenue and grants	30.8	27.3	29.6	32.5	38.1	39.6	41.2	40.5	41.8
Revenue	30.7	27.2	29.1	32.2	37.7	39.4	40.1	39.3	40.7
Oil revenue	21.0	18.9	20.4	23.1	29.6	32.4	33.1	31.6	32.6
Non-oil revenue	9.6	8.3	8.8	9.0	8.2	7.0	7.0	7.8	8.1
Total expenditure	31.5	35.4	29.2	28.6	23.3	23.7	23.2	23.0	22.5
Primary expenditure	23.9	25.9	22.4	21.6	20.1	18.1	20.0	19.7	19.3
of which: pro-poor spending	…	…	4.0	4.5	6.1	4.9	6.1	6.7	…
Current	14.1	18.4	17.0	16.0	14.4	13.2	13.5	13.1	12.7
Wages	5.8	5.7	5.8	5.4	4.8	4.1	3.9	4.1	4.2
Other	8.3	12.6	11.2	10.7	9.5	9.1	9.6	9.1	8.5
Capital and net lending	9.8	7.6	5.4	5.6	5.7	4.9	6.4	6.6	6.6
Interest	7.4	8.4	5.7	5.6	1.9	5.0	1.3	1.1	1.1
Foreign-financed capital expenditure	0.2	1.1	1.1	1.4	1.3	0.5	2.1	2.2	2.1
Overall balance, commitment basis 3/	-0.7	-8.1	0.4	3.9	14.8	15.9	17.9	17.4	19.4
Primary balance	6.8	1.2	6.7	10.5	17.7	21.2	20.1	19.6	21.4
Of which: non-oil primary balance	-14.2	-15.5	-12.0	-12.0	-11.5	-10.8	-12.7	-11.7	-11.0
	(In percent of non-oil GDP)								
Non-oil revenue	22.2	17.8	17.6	19.1	18.7	17.6	17.8	18.3	18.8
Wages	13.3	12.3	11.6	11.3	11.1	10.4	10.0	9.6	9.7
Non-oil primary balance	-32.8	-33.4	-24.0	-25.3	-26.4	-27.3	-32.1	-27.6	-25.5
	(In billions of CFA francs)								
Memorandum items:									
Potential windfall oil revenue 4/	…	…	0.0	0.0	83	0	346	325	391.9
GDP at current market prices	2048	2105	2072	2294	2685	3149	3411	3445	3703.9
Non-oil GDP at market prices	890	979	1035	1089	1173	1247	1347	1463	1594.4
Pro-poor spending	…	…	…	102.8	…	155.3	208.8	229.3	…

Sources: Ministry of Economy, Finance, and the Budget; and Fund staff estimates and projections.

1/ Excess oil revenue (which arises when operating costs of oil companies are lower than the limits stipulated in production-sharing agreements) is partly assigned automatically to cover an existing liability (HydroCongo).

2/ Revenue (excluding grants) minus noninterest current expenditure minus domestically financed capital expenditure and net lending.

3/ Including grants.

4/ From 2006 onward, oil revenue forecasts incorporate a prudence factor, with oil price projections reduced by US$10/barrel relative to WEO price forecasts.

Table 3. Republic of Congo: Monetary Survey, 2001–06

	2001	2002	2003	2004	2005						2006			
				Est.	Mar.	Jun.	Sep.		Dec.		March	June	Sep.	Dec.
					Est.	Est.	Prog.	Est.	Prog.	Est.	Projection			
(In billions of CFA francs)														
Net foreign assets	26.9	38.0	6.0	62.4	76.7	171.6	39.0	306.0	117.4	466.1	565.3	664.5	763.6	862.8
Central bank	23.9	-0.9	4.6	47.3	45.9	112.4	27.9	220.1	94.3	393.3	492.5	591.6	690.8	789.9
Deposit money banks	3.0	38.9	1.4	15.1	30.8	59.2	11.1	85.9	23.1	72.9	72.9	72.9	72.9	72.9
Net domestic assets	231.1	253.7	278.6	271.8	241.3	207.0	288.6	215.7	242.3	-16.5	-94.4	-99.5	-202.3	-372.1
Net domestic credit	267.2	249.7	265.0	270.1	243.7	209.0	287.2	232.1	240.6	26.2	-51.7	-56.9	-159.7	-329.4
Net credit to the public sector	158.2	183.3	183.3	185.1	155.7	127.0	195.6	144.4	149.0	-60.0	-139.6	-146.5	-251.0	-422.5
Net credit to the government	163.5	186.8	187.8	188.8	162.6	135.2	196.9	147.3	152.7	-61.4	-141.1	-147.9	-252.4	-423.9
Central bank	160.3	173.9	182.1	173.3	164.3	154.7	186.1	150.0	152.2	-23.0	-102.7	-109.5	-214.0	-385.5
Deposit money banks	3.2	12.8	5.8	15.5	-1.7	-19.5	14.8	-2.7	-9.5	-38.4	-38.4	-38.4	-38.4	-38.4
Claims on public agencies, net	-5.3	-3.4	-4.5	-3.7	-6.9	-8.2	-1.3	-3.0	-3.7	1.5	1.5	1.5	1.5	1.5
Credit to the economy	109.0	66.4	81.7	85.0	88.0	82.0	91.6	87.8	91.6	86.1	87.9	89.6	91.3	93.0
Other items, net	-36.1	4.0	13.6	1.7	-2.5	-2.0	1.4	-16.5	1.7	-42.6	-42.6	-42.6	-42.6	-42.6
Broad money	258.0	291.7	284.6	334.2	318.0	378.6	327.6	521.6	359.7	449.7	470.9	565.0	561.3	490.7
Currency outside banks	142.9	129.0	131.9	155.9	136.3	154.1	143.4	171.1	144.1	198.7	194.7	233.6	232.1	202.9
Demand deposits	95.2	142.2	103.2	122.9	124.1	168.2	131.5	303.3	150.2	189.0	202.6	243.0	241.5	211.1
Time deposits	19.9	20.5	49.4	55.4	57.6	56.3	52.7	47.2	65.5	62.0	73.6	88.3	87.7	76.7
(Changes in percent of beginning-of-year broad money)														
Net foreign assets	-37.3	4.3	-11.0	19.8	4.3	32.7	7.4	72.9	16.5	120.8	22.1	44.1	66.2	88.2
Net domestic assets	14.5	8.8	8.5	-2.4	-9.1	-19.4	0.7	-16.8	-8.8	-86.3	-17.3	-18.5	-41.3	-79.1
Net domestic credit	3.0	-6.8	5.2	1.8	-7.9	-18.3	0.7	-11.4	-8.8	-73.0	-17.3	-18.5	-41.3	-79.1
Net credit to the government	21.0	9.0	0.4	0.3	-7.8	-16.0	-0.8	-12.4	-10.8	-74.9	-17.7	-19.2	-42.5	-80.6
Credit to the economy	-16.4	-16.5	5.3	1.2	0.9	-0.9	1.5	0.8	1.9	0.3	0.4	0.8	1.1	1.5
Broad money	-22.8	13.1	-2.4	17.4	-4.9	13.3	8.2	56.1	7.6	34.5	4.7	25.6	24.8	9.1
Memorandum items:														
Velocity														
Non-oil GDP/average M2	3.0	3.6	3.6	3.5	…	…	…	…	3.3	3.3	…	…	…	2.7
Non-oil GDP/end-period M2	3.4	3.4	3.6	3.3	…	…	…	…	3.3	2.8	…	…	…	2.7
Total GDP growth	-10.7	2.8	-1.6	10.8	…	…	…	…	17.0	37.2	…	…	…	8.3
Non-oil GDP growth	12.6	10.0	5.8	5.2	…	…	…	…	7.6	14.5	…	…	…	8.0
Credit to the economy/non-oil GDP	12.2	6.8	7.9	7.8	…	…	…	…	7.8	6.9	…	…	…	6.9

Sources: BEAC; and Fund staff calculations.

Table 4. Republic of Congo: Balance of Payments, 2001–08
(In billions of CFA francs; unless otherwise indicated)

	2001	2002	2003	2004	2005		2006	2007	2008
				Est.	Prog.	Est.	Prog.	Projection	
Current account	-115	12	21	51	131	368	477	464	485
Trade balance	957	1,095	1,039	1,225	1,458	1,909	2,059	1,980	2,118
Exports, f.o.b.	1,456	1,587	1,510	1,794	2,070	2,582	2,839	2,769	2,949
Oil sector	1,341	1,374	1,237	1,502	1,804	2,282	2,501	2,401	2,545
Non-oil sector	115	213	273	292	266	300	337	368	404
Imports, f.o.b.	-499	-492	-471	-570	-612	-672	-780	-789	-831
Oil sector	-179	-70	-73	-98	-121	-124	-107	-95	-91
Government	-123	-108	-80	-99	-111	-119	-218	-226	-239
Non-oil private sector	-197	-314	-317	-373	-380	-429	-454	-468	-501
Balance of services	-463	-514	-509	-601	-721	-748	-720	-642	-621
Income	-611	-571	-513	-578	-609	-798	-865	-878	-1,016
Labor income	-19	-22	-13	-19	-25	-33	-35	-34	-36
Investment income	-592	-549	-500	-559	-584	-765	-830	-845	-980
Current transfers (net)	2	3	4	6	4	4	4	4	4
Private	-2	-2	-1	0	-1	-1	-1	-1	-1
Public	4	4	4	5	5	5	5	5	5
Capital account	6	4	11	9	11	54	38	40	42
Official grants	4	4	10	8	10	6	37	39	41
Other	2	1	1	1	1	1	1	1	1
Financial account	-233	-147	368	-131	28	-133	-119	-83	86
Direct investment (net)	150	164	207	297	337	386	410	430	405
Of which: oil sector	152	148	151	243	273	339	366	381	351
Portfolio investment	-5	-6	-4	-5	-5	-5	-4	-5	-5
	-378	-305	165	-423					
Other investment	-378	-305	165	-423	-305	-514	-524	-508	-314
Medium and long term	-323	-108	-235	-232	-298	-425	-302	-270	-227
Public sector	-160	-26	-153	-141	-190	-289	-151	-127	-75
Drawings	73	234	22	24	25	24	33	36	37
Project	1	20	14	24	25	10	33	36	37
Program	28	0	8	0	0	14	0	0	0
Amortization	-234	-260	-175	-165	-215	-313	-178	-157	-112
Private sector	-162	-82	-82	-91	-108	-136	-150	-143	-152
Oil	-158	-77	-69	-84	-101	-128	-140	-135	-143
Non-oil	-4	-5	-13	-7	-7	-8	-10	-9	-9
Short term	-55	-198	400	-191	-6	-89	-222	-238	-87
Errors and omissions	59	-116	-560	0	0	0	0	0	0
Overall balance of payments	-284	-246	-160	-71	171	288	397	421	613
Financing	104	25	-5	71	-47	-251	-397	-421	-613
Reserve financing	104	25	-5	-43	-47	-346	-397	-421	-613
IMF (net)	-1	-6	-5	-6	-6	-6	-2	0	0
Purchases	0	0	0	0	0	0	0	0	0
Repurchases	-1	-6	-5	-6	-6	-6	-2	0	0
Other reserves	105	31	0	-37	-41	-340	-395	-421	-613
Exceptional financing 1/	180	221	166	113	0	105	0	0	0
Net change in arrears	104	211	164	-1,613	0	10	-6	-6	0
Debt cancellation	64	6	0	809	0	47	0	0	0
Debt rescheduling	12	4	1	917	0	48	0	0	0
Financing gap (- = surplus)	0	0	0	0	-124	0	0	0	0
Memorandum items:									
Current account balance 2/	-5.6	0.6	1.0	2.2	4.9	11.7	14.0	13.5	13.1
Export volume 3/	-14.0	3.5	-5.5	8.6	14.9	12.8	9.3	-6.4	7.3
Import volume 3/	17.0	0.7	2.9	16.7	8.2	3.4	7.8	1.8	6.3
Export price 3/	-10.1	-2.4	-4.3	16.7	0.8	39.4	17.3	-2.6	-3.2
Import price 3/	0.7	-2.1	-7.0	3.8	-3.8	14.0	7.6	-0.6	-6.2
Terms of trade 3/	-10.7	-0.3	2.9	12.5	4.7	22.2	9.0	-2.0	-2.4

Sources: Banque des Etats de l'Afrique Centrale; and Fund staff estimates and projections.

1/ Includes debt relief from Paris Club
2/ In percent of GDP.
3/ Annual percentage change.

Table 5. Republic of Congo: Millennium Development Goals, 1990–2015

	1990	1995	2001	2002	2015 Target
Goal 1. Eradicate extreme poverty and hunger					
Target 1: Halve, between 1990 and 2015, number of people earning less than US$ 1 a day.					
1. Population below US$1 a day (in percent)	...	...	...	...	
2. Poverty gap ratio at US$1 a day (in percent)	...	...	...	...	
3. Share of income or consumption held by poorest 20 percent (in percent)	...	...	...	...	
Target 2: Halve, between 1990 and 2015, the proportion of people suffering from hunger.					
4. Prevalence of child malnutrition (in percent of children under 5)	...	...	...	...	
5. Population below minimum level of dietary energy consumption (in percent)	37.0	42.0	30.0	...	[18.5]
Goal 2. Achieve universal primary education					
Target 3: Ensure that, by 2015, children will be able to complete a full course of primary schooling.					
6. Net primary enrollment ratio (percent of relevant age group)	...	...	...	...	
7. Cohort reaching grade 5 (in percent)	62.3	55.1	...	...	
8. Youth literacy rate (in percent, ages 15-24)	92.5	95.6	97.6	97.8	[100.0]
Goal 3. Promote gender equality and empower women					
Target 4: Eliminate gender disparity in primary and secondary education, preferably by 2005, and all levels of education by 2015.					
9. Ratio of girls to boys in primary and secondary education (in percent)	82.7	84.4	87.2	...	
10. Ratio of young literate females to males (in percent, ages 15-24)	95.2	97.6	98.7	98.8	
11. Share of women employed in the nonagricultural sector (in percent)	...	...	...	...	
12. Proportion of seats held by women in the national parliament (in percent)	14.0	2.0	12.0	12.0	
Goal 4. Reduce child mortality					
Target 5: Reduce by two-thirds, between 1990 and 2015, the under-5 mortality rate.					
13. Under-5 mortarlity rate (per 1,000)	110.0	108.0	108.0	108.0	[73.3]
14. Infant mortality rate (per 1,000 live births)	83.0	81.0	81.0	75.0	
15. Immunization against measles (percent of children under 12 months)	75.0	38.0	35.0	37.0	
Goal 5. Improve maternal death					
Target 6: Reduce by three-fourths, between 1990 and 2015, maternal mortality.					
16. Maternal mortality ratio (modeled estimate, per 100,000 live births)	...	...	...	1,100.0	
17. Proportion of births attended by skilled health personnel (% of total)	...	...	...	...	
Goal 6. Combat HIV/AIDS, malaria, and other diseases					
Target 7: Halt by 2015, and begin to reverse, the spread of HIV/AIDS.					
18. HIV prevalence among females (in percent, ages 15-24)	...	...	7.8	...	
19. Contraceptive prevalence rate (percent of women ages 15-49)	...	...	...	...	
20. Number of children orphaned by HIV/AIDS	...	...	78,000.0	...	
Target 8: Halt by 2015, and begin to reverse, the incidence of malaria and other major diseases.					
21. Prevalence of death associated with malaria	...	...	...	...	
22. Share of population in malaria risk areas using effective prevention and treatment	...	...	...	...	
23. Incidence of tuberculosis (per 100,000 people)	...	...	338.2	...	
24. Tuberculosis cases detected under DOTS (in percent)	...	79.0	97.0	...	

Table 5. Republic of Congo: Millennium Development Goals, 1990–2015 (concluded)

	1990	1995	2001	2002	2015 Target
Goal 7. Ensure environmental sustainability					
Target 9: Integrate the principles of sustainable development into policies and programs. Reverse the loss of environmental resources.					
25. Forest area (percent of total land area)	65.1	...	64.6	...	
26. Nationality protected areas (percent of total land area)	...	4.5	4.5	5.0	
27. GDP per unit of energy use (PPP $ per kg oil equivalent)	1.7	2.7	3.3	...	
28. CO2 emissions (metric tons per capita)	0.9	0.7	0.8	...	
29. Proportion of population using solid fuels					
Target 10: Halve by 2015 proportion of people without access to safe drinking water.					
30. Access to improved water source (percent of population)	...	...	51.0	...	
Target 11: Achieve by 2020 significant improvement for at least 100 million slum dwellers.					
31. Access to improved sanitation (percent of population)	...	...	14.0	...	
32. Access to secure tenure (percent of population)	...	...	...	...	
Goal 8. Develop a Global Partnership for Development					
Target 16. Develop and implement strategies for productive work for youth.					
45. Unemployment rate of population ages 15-24 (total)	...	...	...	...	
Target 17: Provide access to affordable essential drugs.					
46. Population with access to affordable essential drugs (in percent)	...	...	...	...	
Target 18: Make available new technologies, especially information and communications.					
47. Fixed-line and mobile telephones (per 1,000 people)	...	8.6	55.3	...	
48. Personal computers (per 1,000 people)	...	...	3.9	...	

Sources: World Bank; and Fund staff estimates.

Note: Targets 12-15 and indicators 22-44 are excluded because they cannot be measured on a country-specific basis. These are related to official development assistance, market access, and the HIPC Initiative.

Table 6. Republic of Congo: Key Oil Sector Indicators, 2001-08

	2001	2002	2003	2004	2005		2006	2007	2008
				Est.	Prog.	Est.	Prog.	Projection	
Price (in US$ per barrel, unless otherwise indicated)									
Brent									
International price 1/	24.3	24.9	28.8	38.3	47.5	54.4	61.3	63.0	62.8
Price rule 2/	...	...	...	...	45.2	54.4	51.3	53.0	52.8
Average Congolese blends	22.0	23.3	27.2	34.7	39.4	48.6	46.1	48.0	48.8
Exchange rate (CFA Francs/US$)	733.0	697.0	580.1	527.9	501.0	528.1	549.2	548.9	547.2
Brent (in thousands of CFA francs per barrel)	16.1	16.2	16.8	20.2	22.6	28.7	28.1	29.1	28.9
Production (in millions of barrels)	89.6	88.0	81.7	82.1	94.7	92.6	101.5	93.6	100.5
Crude	85.4	84.0	78.4	79.2	91.7	89.8	98.6	91.1	98.4
Natural gas	4.2	4.0	3.3	2.8	3.0	2.8	3.0	2.5	2.1
Government revenue (in billions of CFA francs) 3/	430.8	395.7	407.3	532.4	796.7	1022.0	1131.8	1092.9	1213.6
Regular	430.1	391.9	399.4	526.1	793.7	1017.7	1127.8	1087.9	1208.6
Of which : marketed by SNPC 4/	270.5	193.6	266.0	415.8	656.2	0.0	...	...	...
Bonus	0.7	3.7	6.2	4.3	0.0	2.1	0.0	0.0	0.0
Dividends	0.0	0.0	1.7	2.0	3.0	2.2	4.0	5.0	5.0
Percent of gross sales									
Government revenue, regular	33.2	30.3	31.4	35.0	42.4	42.8	43.8	44.1	45.0
Memorandum items:									
Gross sales (in billions of CFA francs)	1,295.3	1,295.3	1,295.3	1,501.4	1,870.7	2,376.0	2,572.5	2,468.1	2,683.0
Potential windfall revenue (in billions of CFA francs) 5/	0.0	0.0	0.0	0.0	82.8	0.0	346.4	324.9	391.9

Sources: Congolese authorities; and Fund staff estimates and calculations.

1/ IMF, *WEO* , March 2005.
2/ Base for projecting the price of Congolese blends and government revenues. From 2006 onward, oil revenue forecasts incorporate a prudence factor, with oil price projections reduced by US$10/barrel relative to WEO price forecasts.
3/ Oil revenues in the fiscal table include "Transfers to CORAF" and "Bonuses", and exclude "Dividends" (included in non-oil revenue).
4/ Oil marketed by SNPC on behalf of the state.
5/ Additional revenue that would be generated by using *WEO* forecasts for world oil prices, that is, without applying the prudence factor.

Table 7. Republic of Congo: Elements of the Capacity to Pay External Debt, 2004-08
(In billions of CFA francs, unless otherwise indicated)

	2004	2005		2006	2007	2008
		Prog.	Est.	Prog.	Projection	
Domestic revenue	737.9	1013.1	1239.8	1367.4	1355.1	1508.9
Oil	530.3	793.7	1019.8	1127.8	1087.9	1208.6
Non-oil	207.6	219.3	220.0	239.6	267.2	300.3
Domestic primary expenditure 1/	-496.1	-539.1	-571.1	-680.6	-680.2	-715.0
Current	-367.7	-386.0	-417.2	-460.6	-452.9	-470.1
Capital	-128.4	-153.1	-153.9	-220.0	-227.3	-244.9
Basic primary fiscal balance	241.8	474.0	668.7	686.8	674.9	793.9
Debt service	-282.0	-327.0	-439.6	-324.3	-292.7	-220.5
Current debt service	-142.3	-267.0	-372.5	-231.3	-198.7	-151.5
Domestic	-28.1	-20.2	-41.3	-24.2	-13.6	-9.2
External	-114.2	-246.8	-331.2	-207.1	-185.1	-142.3
Of which : post-cutoff-date arrears 2/	'…	-134.0	-149.4	-112.4	-81.5	0.0
Arrears payments	-139.7	-60.0	-67.1	-93.0	-94.0	-69.0
Domestic	-41.7	-60.0	-67.1	-87.0	-88.0	-63.0
External	-98.0	0.0	0.0	-6.0	-6.0	-6.0
Fiscal balance after debt service (+ = surplus)	-40.2	147.0	229.1	362.5	382.2	573.4
Identified financing	40.2	-15.4	-229.1	-362.5	-382.2	-573.4
Domestic	-8.1	-42.0	-269.6	-362.5	-382.2	-573.4
External	48.3	26.6	40.5	...	...	...
Budgetary cash balance (+ = surplus)	0.0	131.6	0.0	0.0	0.0	0.0

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

1/ Excluding interest payments and foreign-financed investment.
2/ Payments due on consolidated arrears related to post-cutoff-date debt to Paris Club creditors.

Table 8. Republic of Congo: External Financing Requirements, 2001–08
(In billions of CFA Francs)

	2001	2002	2003	2004	2005	2006	2007	2008
						Prog.	Projections	
Requirements	189.9	342.7	723.6	162.0	296.0	102.3	118.6	244.9
Current account excluding official transfers	119.3	-8.1	-16.4	-45.9	-363.4	-472.8	-458.9	-480.0
Debt amortization	233.6	259.7	174.6	165.2	313.4	178.5	156.6	112.3
Change in net foreign assets (increase, +) 1/	-105.3	-30.8	0.3	36.7	339.9	394.6	420.9	612.6
Errors and omissions	-58.6	115.8	560.0	0.0	0.0	0.0	0.0	0.0
Resources	189.9	342.7	723.6	162.0	296.0	102.3	118.6	244.9
Official transfers	4.2	4.4	4.3	5.3	4.6	4.7	4.7	4.8
Official project grants	5.6	4.4	11.1	9.1	6.9	38.2	40.0	41.9
Long-term public loan disbursements	73.4	234.1	21.6	24.4	24.3	33.0	35.9	36.9
Program	28.0	0.0	7.7	0.0	13.9	0.0	0.0	0.0
Project	1.3	20.0	13.9	24.4	10.4	33.0	35.9	36.9
Oil-colllateralized borrowing	44.1	214.1	0.0	0.0	0.0	0.0	0.0	0.0
Private capital (net)	-72.9	-121.6	520.9	9.6	155.7	32.5	44.0	161.2
Debt relief	75.2	10.6	1.5	1726.2	94.8	0.0	0.0	0.0
Use of IMF resources	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in arrears (increase, +)	104.5	210.8	164.2	-1612.7	9.7	-6.0	-6.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum item:								
Exchange rate: CFA francs per U.S. dollar (average)	733.0	697.0	580.1	527.6	526.6	...	...	...

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

1/ Excluding the change in the net position vis-à-vis the Fund.

Table 9. Republic of Congo: External Debt, 2004-05

	Nominal Debt Stock Including Arrears end-2004		Nominal Debt Stock Including Arrears end-2005		Arrears end-2005	
	US$ million	Percent of total	US$ million	Percent of total	US$ million	Percent of total
Total	9,248	100	6,667	100	2,935	100
Multilateral	524	6	473	7	0	0
African Development Bank	138	1	82	1	0	0
African Development Fund	12	0	21	0	0	0
BADEA	21	0	18	0	0	0
European Union	40	0	33	0	0	0
IDA	270	3	290	4	0	0
IMF	29	0	17	0	0	0
OPEC Fund	13	0	11	0	0	0
Bilateral and commercial	8,725	94	6,194	93	2,841	97
Paris Club	5,048	55	3,050	46	0	0
Post-cutoff date	960	10	478	7	0	0
Pre-cutoff date	4,088	44	2,571	39	0	0
Other official bilateral	289	3	366	5	254	9
Algeria	20	0	21	0	21	1
Angola	60	1	77	1	77	3
Bulgaria	2	0	1	0	1	0
China	47	1	31	0	16	1
Cuba	1	0	2	0	1	0
Saudi Arabia	64	1	60	1	60	2
Kuwait	49	1	60	1	60	2
Libya	28	0	30	0	30	1
Romania	1	0	1	0	1	0
Commercial	3,388	37	2,778	42	2,587	88
of which: London Club	2,177	24	2,021	30	2,021	69

Sources: Congolese authorities; and Fund and Bank staff estimates.

Table 10. Republic of Congo: Income and Social Indicators, 1970–2002

	Latest Single Year			Same Region/Income Group	
	1970–75	1980–85	1990–2002	Sub-Saharan Africa	Upper-middle-income countries
Total population, midyear (in millions)	1.4	1.9	3.1	688.9	2,494.6
Growth rate (annual average, in percent)	2.7	2.8	2.9	2.4	1.9
Urban population (in percent of population)	35.0	49.3	66.6	33.1	30.6
Total fertility rate (births per woman)	6.3	6.3	6.3	5.1	3.5
GNI per capita (in U.S. dollars)	530.0	1,060.0	610.0	450.0	430.0
Consumer price index (1995=100)	...	60.6	136.0	...	...
Food price index (1995=100)	...	71.8	136.0	...	...
Public expenditure			(In percent of GDP)		
Health	...	...	1.4	2.5	1.1
Education	7.8	4.6	4.2	3.4	3.1
Gross school enrollment rates 1/			(In percent of age group)		
Primary	135.8	147.4	96.9	78	107
Secondary	47.6	75.4	41.9	25	64
Tertiary	2.6	6.3	5.0	3	14
Immunization rate			(In percent of children under 12 months)		
DPT	...	54	41	54	65
Measles	...	67	37	58	65
Life expectancy at birth			(In years)		
Total	48	51	52	46	59
Male	45	48	50	45	58
Female	51	54	54	47	60
Mortality rate					
Infant (per thousand live births)	100	88	81	103	79
Under 5 (per thousand live births)	160	125	108	174	121
Adult (15-59)					
Male (per 1,000 population)	514	408	475	519	310
Female (per 1,000 population)	395	298	406	461	259

Source: World Bank, *World Development Indicators*, 2004.

1/ Gross enrollment rate: break in series between 1997 and 1998 is due to change from ISCED76 to ISCED97; ratios exceeding 100 indicate discrepancies between the estimates of school-age population and reported enrollment data.

Table 11. Republic of Congo: Proposed Schedule of Disbursements Under the PRGF Arrangement, 2004–08

Amount	Original date	Revised Date	Conditions for disbursement 1/
SDR 7,860,000	December 2004	December 2004	Executive Board approval of the three-year arrangement under the PRGF.
SDR 7,860,000	August 2005	August 2005	Observance of the performance criteria for March 2005 and completion of the first review under the PRGF arrangement.
SDR 7,860,000	February 2006	July 2006	Observance of the performance criteria for September 2005 and completion of the second review under the PRGF arrangement.
SDR 7,860,000	July 2006	December 2006	Observance of the performance criteria for June 2006 and completion of the third review under the PRGF arrangement.
SDR 7,860,000	January 2007	June 2007	Observance of the performance criteria for December 2006 and completion of the fourth review under the PRGF arrangement.
SDR 7,860,000	July 2007	December 2007	Observance of the performance criteria for June 2007 and completion of the fifth review under the PRGF arrangement.
SDR 7,830,000	December 2007	June 2008	Observance of the performance criteria for December 2007 and completion of the sixth review under the PRGF arrangement.

Table 12. Republic of Congo: Fund Position, 2006-18

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
	(In millions of SDR)												
Total net use of IMF resources	14.0	15.2	7.2	-0.6	-2.2	-4.5	-7.6	-10.7	-11.5	-9.9	-7.5	-4.3	-1.1
Disbursements (2004 PRGF arrangement)	15.7	15.7	7.8	…	…	…	…	…	…	…	…	…	…
Total obligations	-1.7	-0.5	-0.6	-0.6	-2.2	-4.5	-7.6	-10.7	-11.5	-9.9	-7.5	-4.3	-1.1
Principal (PRGF repayment) 1/	-1.4	0.0	0.0	0.0	-1.6	-3.9	-7.1	-10.2	-11.0	-9.4	-7.1	-3.9	-0.8
Interest and charges	-0.3	-0.5	-0.6	-0.6	-0.6	-0.6	-0.6	-0.5	-0.5	-0.4	-0.4	-0.4	-0.3
PRGF interest	-0.1	-0.2	-0.3	-0.3	-0.3	-0.3	-0.2	-0.2	-0.2	-0.1	-0.1	0.0	0.0
SDR net charges	-0.2	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
Total Fund credit outstanding, end of period	31.4	47.2	55.0	55.0	53.4	49.5	42.4	32.2	21.2	11.8	4.7	0.8	0.0
	(In percent of quota, unless otherwise indicated)												
Total Fund credit outstanding, end of period	37.2	55.7	65.0	65.0	63.1	58.5	50.1	38.1	25.1	13.9	5.6	0.9	0.0
PRGF disbursements	18.6	18.6	9.3	…	…	…	…	…	…	…	…	…	…
Repurchases/repayments	1.6	0.0	0.0	0.0	1.9	4.6	8.4	12.1	13.0	11.1	8.4	4.6	0.9
Interest and charges	0.4	0.6	0.7	0.7	0.7	0.7	0.7	0.6	0.6	0.5	0.4	0.4	0.4
Debt service (in percent of goods and nonfactor services)	0.0	0.0	0.0	0.0	0.0	0.1	0.2	0.3	0.3	0.3	0.2	0.1	0.0

Sources: IMF, Finance Department, and staff projections.
1/ The principal repayment in 2006 is on previous PRGF arrangment.

No. ____/MEFB/CAB

Brazzaville, June 29, 2006

The Minister of Economy,
Finance, and Budget

to:
Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Mr. de Rato:

1. On behalf of the government of the Republic of Congo, I am pleased to submit herewith the Memorandum on Economic and Financial Policies (MEFP) for the second review of the three-year program supported by the arrangement with the International Monetary Fund (IMF) under the Poverty Reduction and Growth Facility (PRGF). This memorandum also presents quantitative and structural performance criteria for end-June and end-December 2006, as well as indicative quantitative and structural benchmarks for end-September 2006.

2. Economic progress achieved under the PRGF arrangement has helped us achieve the decision point under the enhanced HIPC Initiative, a milestone in the government's efforts to ease the debt burden weighing on the Congolese economy's growth potential. We would also like to thank other development partners that have already granted new financing to the Congo, as well as the Paris Club for providing debt relief on Cologne terms. We also hope, in the near future, to finalize an agreement with the London Club (also on Cologne terms), which would lead to the financing assurances required for IMF interim assistance and the HIPC completion point.

3. Overall, the implementation of the program supported by the PRGF arrangement yielded satisfactory results in 2005. Implementation of the structural measures helped to further strengthen transparency and governance in the oil sector, as well as overall management of the public finances. Nevertheless, we request waivers for the non-observance of two quantitative performance criteria at end-September 2005 (the floor on the primary fiscal balance, and on minimum payments of external arrears), as these were related to a large extent to the authorities' response to external events outside of the control of the government, did not affect the overall performance under the program, and corrective steps have been taken. In particular, the temporary slippage in the fiscal deficit at end-September was mostly reversed in the fourth quarter, even though the indicative benchmark on the floor for the primary fiscal balance was not met at end-December 2005. In view of the delay in completing the second review due to the protracted discussions on the HIPC decision point,

we also request a rephasing of the three-year arrangement under the PRGF and its extension by six months, to June 2008.

4. Since the completion by the IMF Executive Board of the first review of the program supported by the PRGF on August 1, 2005, we have become increasingly more aware of the importance of implementing reforms to strengthen governance. In this context, the government intends to undertake a series of measures, described in the attached memorandum, to increase transparency, fight corruption, and strengthen the management of the nation's oil resources.

5. Based on the positive results achieved so far and continued commitment to implement a strong economic and social program, consistent with the objectives outlined in the interim Poverty Reduction Strategy Paper (I-PRSP), we request the completion of the second review under the PRGF arrangement and the disbursement of the third tranche associated with this review.

6. We believe that the policies set forth in the attached Memorandum on Economic and Financial Policies (MEFP) are adequate to achieve the objectives of the program, but will take any other measures that may become necessary for this purpose. We will consult with the Fund before the adoption of these measures, and in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultation. We will also ensure that all data and information necessary for the monitoring of the performance under the PRGF arrangement will be provided to the Fund on a timely basis, in accordance with the attached Technical Memorandum of Understanding. The third review of the program supported by the PRGF arrangement with the IMF is expected to be completed by November/December 2006.

7. We are committed to disseminating the Memorandum on Economic and Financial Policies as well as the Technical Memorandum of Understanding, and we authorize the IMF to publish its staff report, after consideration by the Executive Board.

Sincerely yours,

/s/

Pacifique Issoïbeka
Minister of Economy, Finance, and Budget

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

Memorandum on Economic and Financial Policies for the Second Year Under the PRGF Arrangement

1. Poverty reduction continues to be at the core of our government's development strategy, as elaborated in the Interim Poverty Reduction Strategy Paper (I-PRSP) adopted in September 2004. The progress report on the I-PRSP produced in March 2006 shows continued progress on the preparation of a final PRSP—expected to be completed in the second half of 2006—following a participatory process involving the government, parliament, civil society, local communities, and development partners. The two main objectives of the government continue to be to stimulate growth and to promote pro-poor development. Our economic program is supported by the International Monetary Fund (IMF) with a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF), which was approved in December 2004. For the second review under the PRGF, this Memorandum of Economic and Financial Policies (MEFP) reviews performance under the program since the first review and describes the government's targets and policies for 2006 in particular.

I. Background

A. Recent Security and Economic Developments

2. The security situation has improved considerably in the context of a more relaxed political climate and the normal functioning of the key democratic institutions. The demobilization of former combatants, which has contributed to the improved situation, is ongoing with assistance from the World Bank. The next parliamentary elections are scheduled for 2007.

3. Macroeconomic developments in 2005 continued to be dominated by oil sector developments. Real GDP growth in 2005 is estimated at 7.9 percent, broadly in line with program projections, mostly reflecting favorable terms of trade, a strong pickup in oil production, and robust non-oil sector growth (especially in construction and public works, transport and communications, public administration and other services). Consumer price inflation moderated to 2½ percent in 2005 (year-on-year period average), following a decline of supply disruptions on the Pointe Noire-Brazzaville rail line that had pushed up inflation to over 3½ percent in 2004. Over the course of 2005, the real exchange rate depreciated slightly in line with lower inflation, and remains about 14 percent below its pre-1994 devaluation level. The external current account surplus rose sharply in 2005, to about 13 percent of GDP, mostly on account of a sharp increase in oil export receipts following the steep rise in the world market price for crude oil. Monetary developments in 2005 were marked by a strong buildup of deposits associated with the rise in oil revenues. Moreover, the increase in oil receipts clearly improved the fiscal situation as government expenditures have remained broadly under control.

B. Recent Performance under the PRGF-supported program

4. Overall, implementation of the PRGF-supported program produced satisfactory results over the period from April 1, 2005 to December 31, 2005. Most of the quantitative targets for end-June (benchmarks), end-September (performance criteria), and end-December 2005 (benchmarks) were met (see Table 1). In particular, all the performance criteria and quantitative indicators for end-September 2005 were observed, except for the ones on (i) clearance of external arrears and (ii) the primary fiscal surplus. Specifically,

- The minimum payments on external arrears clearance for end-September 2005 were missed, on account of the more favorable-than-programmed December 2004 Paris Club rescheduling agreement. However, the minimum payments for end-December 2005 were met. We have taken measures in the 2006 program to ensure that the performance criterion on the floor of arrears payments is consistent with the current agreements with creditors.

- At end-September 2005, the primary fiscal surplus fell short of its adjusted program target by a large margin (CFAF 112.9 billion, or 3.6 percent of GDP). This reflected three factors. First, with a view to protecting Congolese assets from litigating creditors, an amount of CFAF 83.3 billion (2.6 percent of GDP) in revenues from oil sales was received by the government, but not transferred to the Congolese Treasury before end-September 2005; these revenues were repatriated in their entirety by early November 2005 and were always under the control of the government. Second, an expenditure overrun of CFAF 18 billion was incurred owing to (i) higher-than-projected transfers to CORAF to cover the company's higher losses in the face of only partial adjustment of fuel pump prices, and (ii) the activation of government guarantees by private oil companies for their 2004 oil deliveries to CORAF that had remained unpaid. Third, although world oil prices were higher than programmed, raising the (adjusted) primary fiscal surplus target under the program, the positive revenue impact was partially offset by the sharp rise in the discount on Congolese crude oil associated with heavier demand for lighter crude in the world oil market and higher freight costs for West African oil. In addition, fees and commissions related to efforts to protect state oil revenues (noted above) increased by CFAF 10.2 billion (0.3 percent of GDP).

- At end-December 2005, the slippage in the fiscal balance was mostly reversed once the oil revenues were repatriated. The primary fiscal surplus was CFAF 669.7 billion (21.3 percent of GDP), somewhat below the (adjusted) indicative target under the program of CFAF 727.1 billion. This mainly reflected a short delay at the end of 2005 in the receipt of CFAF 27.4 billion in oil proceeds, which were transferred to the Treasury in early January 2006. The overall fiscal surplus, after debt service payments, was CFAF 501.3 billion (15.9 percent of GDP). We have provided IMF staff with a table identifying poverty-reducing spending relating to the 2005 budget execution and the 2006 budget.

5. The two structural performance criteria for end-September 2005 were observed. First, we adopted an action plan for the introduction of an automatic price adjustment mechanism for refined petroleum products. Second, the certification of forestry revenues in 2004 by an audit firm of international reputation was completed and the report was submitted to the government.

6. Moreover, most other structural benchmarks were observed through end-December 2005 (see Table 2). These include the adoption by the government of a strategy to refocus the activities of the SNPC on its core activities in the oil sector, along with an implementation timetable. The certification of oil revenues by an audit firm of international reputation for the third and fourth quarters of 2005 were also completed, and the related reports were published on the government's Internet site, although with a delay. The report on the diagnostic assessment of the 2004 losses of the refined petroleum products sector has not yet been completed, as we are awaiting the completion of a poverty and social impact analysis (PSIA) with financial assistance from the World Bank. The adoption of a comprehensive plan for the settlement of domestic arrears was delayed, due to protracted negotiations with trade unions on social arrears; however in November 2005 we adopted a plan for settlement of commercial arrears, and its implementation is well underway. The plan for settlement of social arrears is expected to be adopted shortly. The comprehensive plan for settlement of all domestic arrears will be posted shortly on the government's web site.

7. We took three important measures since the start of the year to further improve transparency in the oil sector. First, we launched an open and competitive bid for the audit of the process of awarding the Marine XI oil field concession in 2005, based on terms of reference acceptable to IMF and World Bank staffs. Second, we launched an open and competitive bid for a diagnostic study of SNPC's marketing strategy as a first step towards the adoption of international best practices for the sale of government oil—a trigger under the HIPC Completion Point. Third, we have published the certification report by an audit firm of international reputation of oil revenue for the fourth quarter of 2005, as for the other quarters of 2005, and the audit of the 2004 consolidated accounts of the SNPC. The latter states that the accounts are now auditable, reflecting significant improvements in access to information and internal controls, but are not yet certifiable according to international accounting standards.

8. Some progress was made toward strengthening the banking system and its privatization. First, an audit firm of international reputation completed an audit of the loan portfolio of COFIPA (the only remaining public commercial bank) as of June 30, 2005 (indicative benchmark for end-October 2005). However, the quarterly report on the financial situation of COFIPA (a continuous indicative benchmark) was not done on time, and the strengthening of the restructuring plan of the same bank was not carried out, as we were approached by a large reputable international bank for the privatization of COFIPA. In this context, we have launched a competitive bid for the recruitment of an independent consultant to (i) conduct a fair and unbiased valuation of the bank; (ii) assess the offer made by the potential buyer of the bank; and (iii) make recommendations to the government accordingly.

Based on the COBAC's own independent rating system (SYSCO), the average quality of the four banks in the Republic of Congo has improved from a fragile financial situation (3B) at end-2004 to a good financial situation (2) at end-2005, with one bank reaching the highest rating of a solid financial situation (1) at end-January 2006.

II. Key Macroeconomic and Poverty-Reduction Objectives for 2006 and The Medium-Term

9. Congo's medium-term economic prospects have improved significantly owing to sharply higher world oil prices. As a result, relative to the original program baseline scenario, the updated framework envisages higher oil revenues and investment spending and stronger GDP growth, as well as significant increases—associated with higher oil revenues—in the primary fiscal surplus and the external current account surplus. More specifically, the key changes to the medium-term macroeconomic framework are as follows:

- In view of higher investment spending, non-oil real GDP growth is expected to reach 6.3 percent in 2006 and about 6½ percent in 2007 and 2008.
- Domestic revenues are projected to reach around 40 percent of GDP in 2006 and to average about 39 percent of GDP in 2007/08.
- Pro-poor spending is expected to reach about 30 percent of total primary spending in 2006, and to increase further to 35.4 percent in 2007.
- The primary fiscal surplus is projected to be about 20 percent of GDP in 2006 and 2007/08. The non-oil primary deficit is projected to widen from 10.8 percent of GDP in 2005 to12.7 percent in 2006, and to average about 11½ percent in 2007/08.
- The current account surplus is projected at 14.0 percent of GDP in 2006, and to fluctuate around 14.0 percent of GDP in 2007/08.

10. We are committed to a prudent approach to using the oil proceeds deposited in a special revenue stabilization account at the central bank. The only permissible use for the resources in the oil account is to make transfers to the budget. The government will first consult with IMF staff before implementing additional expenditures not already envisaged in the current budget law. Any such expenditures will be authorized through a regular budget law or, in the event of an unforeseen expenditure need during the year, through a supplementary budget law. In addition, the proceeds in the stabilization account can be used to prepay expensive debt—specifically oil-collaterized loans and liabilities due to the BEAC—with a view to reducing the average cost of the debt; the net savings from these debt management operations would free up additional resources that can be used for poverty reduction over time. At the end of each year (starting from 2006), the oil account will be audited on a yearly basis by the national auditing office (Cour des Comptes) with a lag of no more than three months from the end of the year, and the audit report will be published on the government's web site.

11. In line with the understanding under the HIPC Decision Point, interim debt relief will also be saved in a special account at the central bank. Interim debt relief will only be used for poverty alleviation, and in particular for health and education spending. All spending will be approved through regular or supplementary budget laws, and will be reported to Fund staff in the context of program reviews. For 2006, the authorities do not envisage any spending out of this account until the final PRSP is completed (see below). Starting in 2007, this special account will be audited annually by the national auditing office (Cour des Comptes) and by an independent firm of international reputation with a lag of no more than three months from the end of the year, and the audit report will be published on the government's website. Accordingly, the transactions through the special account for 2006 will be audited by end-March 2007. The reports produced by the national auditing office and the audit firm of international reputation, as well as all other relevant information, will also be reviewed ex-post by a committee comprising government officials, parliamentarians, civil society, and donors, to make recommendations to the government.

12. Part of the higher expected fiscal revenues will be used to increase spending for poverty alleviation starting in 2007, in line with a medium-term budget framework consistent with the sustainable management of the country's oil resources. Regular updates of oil reserves and production schedules will be used to obtain reasonable estimates of the country's permanent income from oil, given that oil production is currently expected to decline sharply after 2010. Spending decisions for poverty alleviation will be targeted to reach the Millennium Development Goals (MDGs) and will be based on considerations of immediate pressing spending needs. The level of spending will take into account fiscal sustainability and absorptive capacity constraints, reflecting mostly a shortage of trained personnel in health and education and inadequate basic physical infrastructure.

13. As discussed in the progress report prepared in March 2006, work is underway on drafting the final Poverty Reduction Strategy Paper (PRSP). The participatory process for the final PRSP will be broadened and deepened by including the input of civil society and key stakeholders early in the design process. In addition, a donor coordination body has been set up to support the PRSP process and to facilitate donor participation. The final PRSP is expected to be completed in the second half of 2006.

14. A key objective of government policy is to re-orient public spending towards priority sectors identified in the interim PRSP and the final PRSP. To enable a more comprehensive poverty diagnosis, a poverty assessment was conducted in June 2005, and a national household survey was completed at end-2005. Steps are also being taken to strengthen the monitoring and evaluation system for the final PRSP. In particular, pending a comprehensive revision of the functional classification of government expenditures, we will continue to prepare quarterly tables tracking poverty-reducing spending. Starting with end-2006, we will also submit tables, on a quarterly basis, tracking the expenditure circuit (commitment, payment order, and cash payment); these tables will be verified by the Inspectorate-General of Finance. We have also requested technical assistance from the IMF's Fiscal Affairs

Department on budget classification, in order to prepare the 2008 budget along functional lines.

III. The Policy Agenda For 2006

15. Against the background of the interim PRSP and with a view to making progress towards the Millennium Development Goals, our policy agenda for 2006 is aimed at ensuring robust growth and poverty reduction in the context of a stable macroeconomic environment; promoting private sector development; improving transparency and governance in the oil sector; and increasing the effectiveness of the public sector.

A. Fiscal Policy

16. The major fiscal policy objectives for 2006 under the PRGF-supported program are to: (i) strengthen the framework for mobilizing oil and non-oil revenues; (ii) raise pro-poor spending while taking into account absorptive capacity constraints; (iii) improve the quality of spending and strengthen the public expenditure management system; (iv) begin to design a medium-term budget framework consistent with sustainable management of the country's oil resources; (v) accelerate the settlement of government payments arrears and increase government deposits at the *Banque des Etats d'Afrique Centrale* (BEAC); and (vi) reduce losses in public enterprises.

17. The government undertakes to further strengthen the framework for mobilizing oil and non-oil revenues:

- On oil revenues, we will continue our efforts to ensure that all private oil companies meet their tax obligations in a timely manner. The government has examined the amount of oil revenue shortfalls identified by the 2003 cost oil audits, estimated at about US$150 million, and has initiated the legal procedures for settling the amounts outstanding. Other measures for oil revenue mobilization will include:

    - continuation of the quarterly certification of oil revenues by an internationally recognized audit firm, and without qualification on access to information;

    - commissioning a reconciliation report on the amount of oil revenues deposited in government bank accounts, as reported in the quarterly certification reports, and total oil revenues reported in the government financial operations tables (TOFEs) for 2005 without qualification on access to information. This report will be submitted to the government (performance criterion for end-June 2006) and published on the Internet site of the Ministry of Economy and Finance (www.mefb-cg.org);

    - commissioning an independent audit of cost oil for all production-sharing contracts, based on international standards and carried out by internationally recognized audit firms, for 2004 and 2005. These cost audits will be carried

out by December 31, 2006, at the latest, and published on the Internet site of the Ministry of Economy and Finance (www.mefb-cg.org); and

- completion of a diagnostic study, by an independent firm of international reputation, of the economic viability of the CORAF, which will be submitted to the government before end-October 2006.

- On non-oil revenues, we will focus on measures to strengthen tax administration (accelerate the computerization of the tax and customs administrations; combat fraud and tax evasion; and refrain from approving any new discretionary tax and customs exemptions). We have commissioned an organizational audit of customs administration. Based on the recommendations of the audit, we will implement an action plan to strengthen customs administration, including the completion of the installation of the SYDONIA system. Moreover, we will continue with the annual certification of forestry revenues, by an audit firm of international reputation, using the same terms of reference as for the 2004 certification.

18. Expenditure policy will focus on poverty reduction. Domestically-financed current and capital outlays in 2006 are expected to increase by about 10 percent and 43 percent, respectively (relative to the outturn for 2005), a level that is likely to exhaust the country's absorptive capacities. This sharp rise in domestically-financed capital spending results from the very weak mobilization of external resources for investment expenditures. We intend to raise the share of pro-poor spending from 24.8 percent of total spending (4.9 percent of GDP) in 2005, to 29.9 percent of total spending (6.1 percent of GDP) in 2006, and to 35.4 percent of total spending (6.7 percent of GDP) in 2007. Our fiscal program also envisages an adjuster for up to CFAF 50 billion (1.5 percent of GDP) for additional priority investment projects vetted by the World Bank that would be awarded through transparent and competitive procurement procedures and approved through a supplementary budget.

19. Expenditure management priorities will focus on a number of issues. There will be more rigorous evaluation and monitoring of projects included in the 2006 investment budget, and greater transparency with regard to the implementation of these projects. A new procurement code is expected to come into effect by September 2007 to bring procurement practices in line with international best practices. The ongoing work to introduce a functional classification on government spending will be accelerated with technical assistance from the IMF, mainly to help identify and track pro-poor spending. We envisage monitoring the execution of the 2007 budget using a functional classification system consistent with the IMF's 2001 *Government Finance Statistics* manual —in addition to the usual classification—and to prepare the 2008 budget on the basis of this classification. In addition, the 2007 budget will present a three-year budgetary framework, where the 2008–10 projections will give a general indication of the government's fiscal policy over the medium term. The medium term budgetary framework will also present a section on pro-poor spending that will be in line with the priorities identified in the final PRSP.

20. Pending the adoption of a medium-term budget framework (as discussed above), we intend to be prudent in the use of oil revenues. Part of the higher projected oil revenues will be used to accelerate the clearance of domestic arrears, to prepay expensive domestic debt, to settle commercial external arrears, and to pay off expensive oil-collaterized loans. Beyond the clearance of arrears, all additional oil revenue windfalls will be deposited in the stabilization account at the BEAC, in line with the commitments described above.

21. We will also undertake major reforms to address structural weaknesses in key sectors of the economy (fuel, electricity, and banking), which will improve efficiency and limit potential costs on future budgets:

- We remain committed to the introduction of an automatic price adjustment mechanism for refined petroleum products. The poverty and social impact analysis (PSIA) of such a measure is being undertaken with financial support from the World Bank. In the meantime, however, the implicit subsidy associated with fixed domestic prices grew in 2005 to CFAF 47.3 billion (about 1½ percent of GDP). Against this background, we decided in June 2006 to increase gasoline, diesel, and jet fuel prices by 11 percent, which will reduce implicit subsidies to CFAF 18 billion (0.5 percent of GDP) in 2006 on an annualized basis. We will adopt a timetable by end-September 2006 for the elimination of all implicit subsidies for refined petroleum products within one year. At that time, an automatic price adjustment mechanism will be introduced with a view to keeping domestic refined petroleum product prices in line with world market prices.

- We have already started the restructuring of the electricity sector. In particular, these operations include the implementation of a plan to install 50,000 electric meters in Brazzaville and Pointe Noire, which will improve the financial condition of the electricity company and includes an implicit increase in tariffs. We have also started a study of the electricity sector with the help of the World Bank in order to define a plan of action to improve the capacity of the sector and to rationalize tariffs. The investments associated with this plan of action will be integrated in the 2007 budget.

- We will ensure that the privatization of COFIPA is carried out in a manner that preserves the best economic and financial interest of Congo. Based on the report from our consultant, we will decide on how to proceed with the privatization of COFIPA on the basis of the economic fairness and budgetary implications of all the offers to be received by the government by end-August 2006. The consultant's report will be published on the Internet site of the Ministry of Economy, Finance, and Budget (www.mefb-cg.org), following the sale of the bank.

22. In order to make progress with other necessary economic and social reforms, we have decided to undertake this year a major reform of the civil service on the one hand, and on the other hand the restructuring of the two pension funds, whose financial situation is fragile. Thus, we intend to commission an independent firm of international reputation, selected through an open bidding process, to undertake a census of civil servants and of civil service

pensioners. Accordingly, we will start the process of establishing computerized records for all civil servants and civil service pensioners. We will also recruit an independent firm of international reputation, selected through an open bidding process, to help put in place modern systems of accounting and internal controls at the pension funds. Actuarial studies will be undertaken to enable the government to prepare comprehensive restructuring plans for the two pension funds, to be implemented starting in 2007. On the budgetary front, we commit to reforming the Budget Directorate so as to improve its organization and the procedures for preparing the budget, to reviewing and streamlining the procedures for budget execution, to introducing a functional classification for public expenditures, and to ensuring the computerization of operations and the training of staff. Those actions which affect only one part of the expenditure chain will be implemented in the next stage through a reform of the public treasury.

B. Oil Sector Reforms and Transparency

23. We are committed to undertaking steps to improve governance and fiscal management in the oil sector. In this context, the financial audit of the national oil refinery CORAF for 2003 and 2004, by an audit firm of international reputation, has been completed, and the final report on the diagnostic assessment of the 2004 losses of the refined petroleum products sector will be ready by September 2006. Other measures have been described above.

24. We will adopt the following measures to ensure that the national oil company, the SNPC, undertakes its fiscal agency functions more effectively:

- Mandate an independent certification by the national auditing office (Cour des Comptes) that no members of the Executive Board of the SNPC or those having management responsibilities within the SNPC and its subsidiaries, at the moment of their nomination and annually thereafter, have any participation or other interests in companies doing business with the SNPC or its subsidiaries. This report will be submitted to the government (performance criterion for September 2006) and published on the Internet site of the Ministry of Economy, Finance, and Budget (www.mefb-cg.org).

- Adopt an action plan by end-February 2007 to bring the SNPC's marketing of government oil up to international standards, based on the diagnostic study expected to be completed in December 2006. This will be the next step towards the adoption of international best practices for the marketing of oil, a trigger for the achievement of the HIPC completion point.

25. We will continue to increase the amount of information made available to the public on its websites (www.mefb-cg.org and www.congo-site.cg), including the publication of (i) oil revenue certification reports; (ii) reconciliation reports on the amount of oil revenues deposited in government bank accounts, as reported in the quarterly certification reports, and the total oil revenues reported in the government financial operations tables (TOFEs);

(iii) cost oil audits for all production-sharing contracts; (iv) external audit reports on the SNPC and CORAF; (v) laws and regulations governing relations between the state and the SNPC; and (vi) key oil sector-related data.

C. Other Governance Issues

26. Fighting corruption remains key to ensuring good governance. Thus, we will set up an anti-corruption committee that will play a central role in advancing the governance agenda and provide domestic leadership in this critical area. Moreover, we will submit to parliament, before end-2006, a comprehensive anti-corruption law which will, among other things, define conflict-of-interest and financial disclosure rules for public officials, to ensure that: (i) senior public officials (including in the government, civil service, and public enterprises) disclose, at the time of their nomination and annually thereafter, their wealth and the origins of their incomes; and (ii) the annual disclosure statements are reviewed by the national auditing office (*Cour des Comptes)* and certified by the national anti-corruption committee. The anti-corruption committee should publish a summary report on its findings within six months of the end of the calendar year. We also intend to make fully operational the national anti-corruption committee and the national auditing office (*Cour des Compte*s) by end-September 2006.

27. Strengthening governance and transparency in public resource management is a key objective of the government. In this context we plan to publish, by end-September 2006, the audit report on the awarding of the 2005 Marine XI oil field concession. Moreover, the government reaffirms its commitment to abide by the principles of the Extractive Industries Transparency Initiative (EITI). An EITI workshop with civil society and oil companies was convened by the government in September 2005, during which an EITI committee was formed, and a government website (www.mefbcg.org/eiti.htm) was launched with information on EITI implementation in Congo. A national EITI consultative committee and a national EITI executive committee will be established shortly by Presidential decree, comprising representatives from civil society and Parliament, in line with EITI recommendations. The consultative committee will be under the authority of the Prime Minister's office. The newly formed committee is currently in the process of defining its work program, with a view to publishing its first EITI report by end-December 2006. To bring the Republic of Congo back into the Kimberley Process for the certification of diamonds, from which it was excluded in June 2004, we have submitted three reports by independent experts on: (i) the 2005 production of raw diamonds in the Congo; (ii) the potential diamond reserves in the Congo; and (iii) the amendments to the mining law approved in 2005 to bring the law in conformity with the Kimberley process. A final onsite inspection by two experts commissioned by the Kimberley process committee is expected before June 2006. Based on their evaluation, we expect a decision on the reintegration of the Congo into the Kimberley process before end-2006.

D. Monetary and Financial Sector Issues

28. Monetary policy will continue to be conducted regionally by the BEAC. The key objectives remain unchanged, namely to ensure low inflation and to maintain the CEMAC region's foreign exchange reserves at a comfortable level.

29. The soundness of the Congolese financial system is essential to foster higher economic growth. In this respect, we have fully implemented the action plan for strengthening the recovery of the banking system's nonperforming loans. This includes the circulation by banks, on a quarterly basis, and with a one-month lag, a list of the principal delinquent debtors of the Congolese banking system to banking establishments and the public treasury. The public treasury will continue to collect on behalf of banks the amounts due from delinquent debtors, by deducting them from public procurement payments owed to them.

E. External Debt Management

30. We are continuing our efforts to normalize relations with external creditors. All external liabilities have been honored on time since the introduction of the PRGF-supported program. The Paris Club granted flow rescheduling on Cologne terms in May 2006, which applies to qualifying debt with maturities falling due between March 2006 and September 2007. We are considering different proposals for debt relief from London Club creditors, on comparable terms to the Cologne terms granted in May 2006 by the Paris Club, and hope to reach an agreement in the near term. We are also continuing discussions with all other bilateral and commercial creditors to seek comparable treatment.

F. Trade Policy Reforms

31. We are committed to further transparency in the application of our trade regime. As such we will publish on the internet the full list of tariff rates, the list of tariff lines that are subject to import licensing requirements and prohibitions, as well as those subject to exemptions and special excises.

IV. Program Monitoring and Data Provision

32. Program execution will be monitored by means of the performance criteria and quantitative and structural benchmarks specified in Tables 3 and 4 and described in the attached TMU. To enable the government to properly implement its poverty reduction program, quantitative and structural performance criteria have been set for end-June and end-December 2006, and indicative quantitative and structural benchmarks for end-September 2006. Definitions and other details on these benchmarks are provided in the attached TMU.

33. We will continue to provide information to IMF staff on a timely basis, as specified in the TMU, through the IMF resident representative office in Brazzaville. We will also

provide any additional information that may be required to assess macroeconomic developments and program performance.

Table 1. Republic of Congo: Quantitative Criteria and Indicators , October 2004 - December 2005
(In billions of CFA francs, unless otherewise indicated; cumulative from January)

	End-Mar. 05			End-Jun. 05			End-Sep. 05				End-Dec. 05		
	Perf. crit.	Adj. perf. crit.	Est.	Benchmark	Adj. prog.	Est.	Perf. crit.	Rev. perf. crit.	Adj. perf. crit.	Est.	Indic. bench.	Adj. prog.	Est.
Quantitative criteria													
Primary fiscal balance (floor) 1/ 2/	98.8	64.3	96.1	163.6	219.7	210.9	230.4	230.4	427.0	312.7	473.9	727.1	668.7
Change in net claims of the banking system on the government (ceiling) 2/ 3/	1.8	1.8	-24.4	2.3	2.3	-42.3	4.0	4.0	4.0	-34.3	-30.0	-30.0	-237.0
New medium or long-term nonconcessional external debt (including leasing) contracted or guaranteed by the government (ceiling) 4/ 5/ 6/	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
New external debt (including leasing) with an original maturity of less than one year (ceiling) 5/ 6/	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
New oil-collateralized external debt contracted by or on behalf of the central government (ceiling) 6/	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
New nonconcessional external debt contracted by SNPC (ceiling) 6/	13.5	13.5	0.0	13.5	13.5	0.0	13.5	13.5	13.5	0.0	13.5	13.5	0.0
External arrears payment (floor) 2/ 7/	60.2	60.2	44.4	108.5	108.5	99.8	119.6	113.1	113.1	105.0	134.0	134.0	149.4
New external arrears on nonreschedulable debt 6/	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
Domestic arrears payment (ceiling) 8/ 9/	8.0	8.0	7.3	17.8	17.8	14.6	34.8	34.8	34.8	24.8	60.0	60.0	67.1
New domestic arrears 6/ 8/	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
Quantitative indicators													
Non-oil revenue	45.3	45.3	54.2	101.1	101.1	111.0	155.7	155.7	155.7	156.7	219.3	219.3	220.0
Domestically-financed investment (ceiling)	39.1	39.1	30.6	82.2	82.2	80.3	115.3	115.3	115.3	115.2	153.1	153.1	153.9
Memorandum items													
Oil revenue (in billions of CFA francs)	183.1	148.6	157.4	338.5	394.7	387.9	486.1	486.1	682.7	585.3	793.7	1047.0	1019.8
Petroleum price (Brent,US$/barrel), quarterly average	34.5	…	41.5	33.5	…	51.6	32.8	32.8	…	61.5	46.3	…	57.0
Exchange rate (CFAF/US$), quarterly average	544.4	…	498.4	543.7	…	524.1	543.1	543.1	…	537.6	499.7	…	552.5
Petroleum price Brent (thousand CFAF/barrel), quarterly average	18.8	…	20.7	18.2	…	27.0	17.8	17.8	…	33.1	23.1	…	31.5

1/ See paragraph 6 of the technical memorandum of understanding (TMU) (Country Report 05/07; Appendix I, Attachment III) for the definition.
2/ See paras. 23-25 of the TMU on the adjustors.
3/ Excluding IMF credit.
4/ Excluding rescheduling arrangements and disbursements from the IMF.
5/ See para. 13.b of the TMU for the definition of concessional debt.
6/ Continuous performance criterion; see para. 17 of the TMU for the definition of nonreschedulable debt.
7/ Excluding cancellation of arrears to the European Union, cancellation of part of arrears by the African Development Bank (AfDB), and clearance of arrears of Congolese Embassies abroad. The revised performance criterion for end-September 2005 and indicative benchmark for end-December 2005 exclude all arrears repayments to the AfDB, given that donors made firm pledges to pay the remaining one third of these arrears.
8/ See para. 21 of the TMU for the definition.
9/ See para. 26 of the TMU for the definition.

Table 2. Republic of Congo—Structural Performance Criteria, Benchmarks, and Indicators, April-December, 2005[1]

Measures	Date	Implementation Status
1. Structural performance criteria		
Preparation by the government and submission to the IMF of a table tracking poverty-reducing spending in 2004.	June 30, 2005	Done
Adoption by the government of an action plan (including a timetable) for the introduction of an automatic price adjustment mechanism for refined petroleum products.	September 30, 2005	Done
Certification of forestry revenues in 2004 by an audit firm of international reputation, and submission of the report to the government.	September 30, 2005	Done
2. Structural benchmarks		
Preparation by the SNPC of a statement of sources and uses of funds for the consolidated activities of the SNPC group for 2004, and quarterly tables for 2005.	June 30, 2005	Done
Adoption by the government of a definitive strategy to refocus the activities of the SNPC on its core activities in the oil sector along with the related implementation timetable.	September 30, 2005	Done
Adoption by the government of a comprehensive plan for the settlement of domestic arrears; posting of the related policy on an Internet site.	September 30, 2005	Not done[2]
Quarterly publication on the Internet of the recipients of domestic debt payments.	With one-month lag	Done
Quarterly certification of oil revenue by an audit firm of international reputation using the same terms of reference as for the 2003 certification; certification reports to be published on Internet sites.	With one-quarter lag	Not Done[3]
Publication on Internet sites of a detailed statement of all hydrocarbons transactions (oil and gas).	With one-month lag	Done
Centralization of all public revenues and execution of all public payments by the Treasury.	Continuous	Not done[4]
3. Indicative benchmarks[3]		
Completion, by an audit firm of international reputation, of a general audit of the statement of the COFIPA loan portfolio as of March 31, 2005.	October 31, 2005	Done

Table 2. Republic of Congo—Structural Performance Criteria, Benchmarks, and Indicators, April-December, 2005[1]
(Concluded)

Measures	**Date**	**Implementation Status**
Preparation by the government, with the help of the Central African Banking Commission (COBAC), of an action plan for strengthening the recovery of the banking system's nonperforming loans.	November 30, 2005	Done
Completion, by an audit firm of international reputation, of the establishment of the 2004 financial accounts of the National Electricity Company (SNE) in accordance with the standards of the regional business law harmonization agency (OHADA).	December 31, 2005	Not Done
Completion, by an audit firm of international reputation and in accordance with international standards on auditing, of the financial audit of the national refinery company (CORAF) for 2003 and 2004, and submission of the report to the government.	December 31, 2005	Done
Completion of the final report on the diagnostic assessment of the losses recorded by the refined petroleum products sector in 2004.	December 31, 2005	Not done
Preparation of a quarterly report by the government, in cooperation with the Central African Banking Commission (COBAC), on the financial situation of COFIPA following a site visit.[5]	With a one quarter lag	Not done[6]

[1] The measures are described in the technical memorandum of understanding (see IMF Country Report no. 05/7; January 2005).

[2] The government adopted and started implementing a settlement plan for commercial arrears, but has not yet adopted one for social arrears.

[3] The certification report for the third quarter of 2005 was published on the Internet in mid-February, instead of end-December 2005.

[4] The recent forestry revenue audit found that a formal administrative instruction (Lettre circulaire no. 0877/MEFE/MEFB) requires the direct payment of about 40 percent of forestry revenues to the Forestry Fund. However, this instruction was rescinded in December 2005 (Prime Minister's decree no. 7702/PMCAGP-CAB dated December 5, 2005).

[5] The reports will assess the solvency, profitability, and liquidity of this bank, as well as the implementation of the recommendations set forth in the report of October 18, 2004 entitled "COFIPA Investment Bank Congo : Evaluation and Restructuring."

[6] COBAC undertook its first on site visit in December 2005 and communicated its report to the authorities with delay.

Table 3. Republic of Congo: Tentative Quantitative Criteria and Indicators, March - December 2006
(In billions of CFA francs, unless otherewise indicated; cumulative from January) 1/

	End-Mar. 06 Proj.	End-Jun. 06 Perf. crit.	End-Sep. 06 Benchmark	End-Dec. 06 Perf. crit.
Quantitative criteria				
Primary fiscal balance (floor)	174.7	262.3	442.5	686.8
Change in net claims of the banking system on the government (ceiling) 2/	-79.6	-86.5	-191.0	-362.5
New medium or long-term nonconcessional external debt (including leasing) contracted or guaranteed by the government (ceiling) 3/	0.0	0.0	0.0	0.0
New external debt (including leasing) with an original maturity of less than one year (ceiling) 4/	0.0	0.0	0.0	0.0
New oil-collateralized external debt contracted by or on behalf of the central government (ceiling) 4/	0.0	0.0	0.0	0.0
New nonconcessional external debt contracted by SNPC (ceiling) 4/	0.0	0.0	0.0	0.0
External arrears payment (floor) 5/	28.3	56.3	84.2	112.4
New external arrears on nonreschedulable debt 4/	0.0	0.0	0.0	0.0
Domestic arrears payment (ceiling)	21.8	43.5	65.3	87.0
New domestic arrears 4/	0.0	0.0	0.0	0.0
Quantitative indicators				
Non-oil revenue	59.9	119.8	179.7	239.6
Domestically-financed investment (ceiling)	43.2	150.0	196.0	216.0
Memorandum items				
Oil revenue (in billions of CFA francs)	276.5	548.9	834.0	1127.8
Petroleum price (Brent,US$/barrel), quarterly average	61.0	60.0	61.5	62.5
Exchange rate (CFAF/US$), quarterly average	547.8	549.7	549.7	549.4
Petroleum price Brent (thousand CFAF/barrel), quarterly average	33.4	33.0	33.8	34.3

1/ All definitions of the quantitative performance criteria and corresponding adjusters are specified in the attached technical memorandum of understanding.
2/ Excluding IMF credit.
3/ Excluding rescheduling arrangements and disbursements from the IMF.
4/ Continuous performance criterion.
5/ Payments of consolidated arrears on post-cut-off date debt to the Paris Club creditors.

Table 4. Republic of Congo–Prior Actions and Structural Performance Criteria and Benchmarks for the Second Program Year

Measures	Date
1. Prior actions	
Certification without qualification on access to information of oil revenue for the fourth quarter of 2005 by an audit firm of international reputation using the same terms of reference as for the 2003 certification; certification reports to be published on the Internet site of the Ministry of Economy, Finance, and Budget (www.mefb-cg.org).	Actions to be taken prior to issuing the staff report and letter of intent to the IMF Executive Board for consideration of the second PRGF review.
Completion, by an audit firm of international reputation, of the establishment of the 2004 financial accounts of the National Electricity Company (SNE) in accordance with the standards of the regional business law harmonization agency (OHADA).	
Launch the bid for the recruitment by the government of an independent consultant to conduct the valuation of COFIPA bank, provide an independent opinion about the offers received for the sale of COFIPA, the budgetary implications of these offers and make appropriate recommendation to the government. The consultant's report will be the basis for the government's decision on the privatization of COFIPA.	
Launching by the government of an open and competitive bid for an audit, by an independent firm of international reputation, of the process of awarding the Marine XI oil field concession in 2005, based on a terms of reference acceptable to IMF staff.	
Launching by the government of an open and competitive bid for a diagnostic study, by an independent firm of international reputation, of the SNPC's marketing strategy of government oil, including description of intermediaries used and costs incurred. The diagnostic study will be based on terms of reference satisfactory to IMF staff.	
Adoption by the government of a comprehensive plan for the settlement of domestic social arrears; posting of the related policy on the Internet site of the Ministry of Economy, Finance, and Budget (www.mefb-cg.org).	Actions to be taken 5 days prior to Board consideration of the review.
Completion, by an audit firm of international reputation, of a reconciliation report on the amount of oil revenues deposited in government bank accounts, as reported in the quarterly certification reports, and the total oil revenues reported in the government financial operations tables (TOFEs) for 2005, without qualification on access to information; submission of the report to the government, and publication on the Internet site of the Ministry of Economy, Finance, and Budget (www.mefb-cg.org).	

Table 4. Republic of Congo–Prior Actions and Structural Performance Criteria and Benchmarks for the Second Program Year (continued)

Measures	Date
2. Structural performance criteria	
Completion of a certification report by the national auditing office (*Cour des Comptes)* that public officials (both in the government and at public enterprises) are not personally benefiting from government oil sales by the SNPC or its subsidiaries, and submission of the report to the government; publication of the report on the Internet site of the Ministry of Economy, Finance, and Budget (www.mefb-cg.org).	September 30, 2006
Completion, by an independent firm of international reputation, of a diagnostic study of the SNPC's marketing strategy of government oil; submission of the report to the government.	December 31, 2006
3. Structural benchmarks	
Publication on the Internet site of the Ministry of Economy, Finance, and Budget (www.mefb-cg.org) of the audit report of the awarding of the Marine XI oil field concession in 2005.	September 30, 2006
Adoption of a timetable for the elimination of all implicit subsidies for refined petroleum products within one year.	September 30, 2006
Establishment—i.e., adoption of the terms of reference and staffing—of an anti-corruption committee, whose terms of reference and composition will be satisfactory to IDA and IMF staffs.	September 30, 2006
Completion, by an independent firm of international reputation, of a diagnostic study of the economic viability of CORAF, and submission of the report to the government, based on terms of reference satisfactory to IMF staff.	October 31, 2006
Completion, by audit firms of international reputation and in accordance with international standards, of audits of oil costs for 2004 and 2005, for all production-sharing contracts as defined in these contracts, and submission of the reports to the government. Publication of the audits on the Internet site of the Ministry of Economy, Finance, and Budget (www.mefb-cg.org).	December 31, 2006

Table 4. Republic of Congo–Prior Actions and Structural Performance Criteria and Benchmarks for the Second Program Year (concluded)

Measures	Date
Submission to Parliament of a draft "Anticorruption Law", that includes, among others, conflict-of-interest and financial disclosure rules for public officials. The financial disclosure rules would cover that: (i) senior public officials (including in the government, civil service, and public enterprises) must disclose their wealth and origins of their incomes when acceding to the post and on an annual basis; and (ii) the annual disclosure statements are to be declared to the national auditing office (Cour des Comptes) and certified by the national anti-corruption committee. The anti-corruption committee should publish a summary report on its findings within six months of the end of the calendar year.	December 31, 2006
Centralization of all public revenues and execution of all public payments by the Treasury.	Continuous
Quarterly certification of oil revenue by an audit firm of international reputation, using the same terms of reference as for the 2003 certification and without qualification on access to information; certification reports to be published on the Internet site of the Ministry of Economy, Finance, and Budget (www.mefb-cg.org).	With one-quarter lag

REPUBLIC OF CONGO

Technical Memorandum of Understanding

Brazzaville, June 2006

1. This technical memorandum of understanding (hereinafter the "TMU") sets out the modalities for monitoring the program covering the period from April 1, 2006 through December 31, 2006 of the government of the Republic of Congo.

V. Quantitative Performance Criteria

2. The quantitative performance criteria are:

a. a floor on the primary fiscal balance, cumulative starting from January 1, 2006,

b. a ceiling on the change in the net claims of the banking system on the government (excluding net IMF credit), cumulative starting from January 1, 2006,

c. no new medium- or long-term nonconcessional external debt (including leasing) contracted or guaranteed by the government (a continuous criterion),

d. no new external debt (including leasing) with an initial maturity of less than one year incurred or guaranteed by the government (a continuous criterion),

e. no new oil-collateralized external debt by or on behalf of the government (a continuous criterion),

f. a ceiling on new nonconcessional external debt contracted by the SNPC with or without government guarantee, starting from January 1, 2006 (a continuous criterion),

g. minimum external arrears payment, starting from January 1, 2006,

h. no new external payment arrears on nonreschedulable external debt (see paragraph 17 below for the definition), starting from January 1, 2006 (a continuous criterion),

i. a ceiling on domestic arrears payments, starting from January 1, 2006; and

j. no new domestic payment arrears, starting from January 1, 2006 (a continuous criterion).

3. The quantitative indicators are:

   a. a floor for non-oil revenues (cumulative amounts, starting from January 1, 2006), and

   b. a ceiling on domestically-financed domestic investment (cumulative, starting from January 1, 2006).

VI. Definitions and Computation

A. Government

4. Unless otherwise indicated, "government" is defined as the central government of the Republic of Congo and does not include local governments, the central bank, or any public entity with autonomous legal personality not covered by the government's consolidated financial operations table (tableau des opération financières de l'Etat—TOFE).

B. Basic Primary Fiscal Balance

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

6. The government's basic primary fiscal balance is equal to total revenue excluding grants, minus total expenditure (including net credit) excluding interest payments and capital expenditure financed with external resources. It is measured on the basis of the budget execution reported every month in the TOFE prepared by the Ministry of Finance. At end-December 2005, the basic primary fiscal balance was estimated at CFAF 668.7 billion, resulting from total revenue (excluding grants) of CFAF 1239.8 billion and total expenditures (excluding interest on the debt and capital expenditure financed with external resources) of CFAF 570.10 billion.

7. The government's total revenue is measured on a cash basis. It includes all revenue collected by the Treasury (mainly tax revenue and customs duties, oil revenues, forestry revenues, and service charges), whether the result of past, current or future obligations. Total revenue also includes gross revenue in the special accounts. These are recorded on a gross basis. Oil revenue excludes all forms of prepayment and prefinancing (see definitions in paragraphs 18-19 below).

8. Starting January 1, 2006, projected oil revenues are estimated using the authorities' forecasting model, which takes specific account of the schedule of oil pick-ups. Considering the exogenous risks posed by changes in the number of shipments (including the effect of the minimum volume required to make up a shipment), the quarterly revenue projections for 2006 are based on the following shipment schedule:

Table 1. Government Oil Shipments, 2006

(Number of shipments)[1/]

Product/Blend	2006 Q1	Q2	Q3	Q4
Djéno	7	5	5	5
Nkossa	5	6	7	6
Yombo	0	1	0	0
Butane	1	4	3	3
Propane	0	1	1	1

1/ with a lag of one month.

9. The tax revenue projections take account of the usual one-month lag between the date of shipment and the date of receipt of the sale proceeds by the Treasury. To ensure effective monitoring of oil revenues, the authorities will provide to IMF staff a detailed monthly table of actual shipments within 30 days of the end of the month in which the shipment was made. At a minimum, this table will contain, for each shipment, information on the type of product, the date of loading, the recipient, and the selling price (in US$).

10. Expenditure is measured on a payments order basis. It includes current expenditure, domestically financed capital expenditure, externally financed capital expenditure, and net lending. Current expenditure is defined as total expenditure minus capital expenditure minus net lending. Current expenditure is broken down into personnel expenditure, expenditure on goods and services, interest on the debt (domestic and external), transfers and subsidies, and other current expenditures.

C. Change in the Net Claims of the Banking System on the Central Government

11. The net government position vis-à-vis the banking system (excluding net IMF credit) is defined as the government's claims on domestic banking institutions minus the government's debts to domestic banking institutions. The claims of the government include the cash balances of the Treasury held in the banking system, government deposits at the Bank of Central African States (BEAC), government deposits at commercial banks, and government deposits at the Caisse Nationale d'Épargne (CNE)

and the Centre des Chèques Postaux (CCP). Government debts to the banking system include BEAC lending (including statutory advances and consolidated advances), lending to the government by commercial banks (including government securities held by the commercial banks), and CNE/CCP deposits held by the government.

12. The end-of-period stock of net bank claims on the government, excluding the counterpart of the use of Fund resources, is valued in accordance with the accounting framework currently used by the BEAC. On December 31, 2005, these claims amounted to CFAF -76 billion.

D. Debt and External Arrears

13. The definition of government used for the various external debt performance criteria includes government, as defined in paragraph 4, public institutions of an administrative nature (Etablissements Publics Administratifs), public institutions of a scientific and/or technical nature, public institutions of a professional nature, public institutions of an industrial and/or commercial nature (Entreprises Publiques d'Intérêt Commercial), and local governments, with the sole exception of the national oil company (SNPC)—see paragraph 16 below.

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

a. As specified in the guidelines adopted by the Executive Board of the IMF,[8] debt will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows: (i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments

[8] See Executive Board Decision No. 6230-(79/140) as amended by Decisions Nos. 11096-(95/100) and 12274-(00/85).

until some time after the date on which the goods are delivered or services are provided; and (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. The debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement, excluding those payments that cover the operation, repair, or maintenance of the property. Under the definition of debt set out above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

b. Loan concessionality is assessed on the basis of the commercial interest reference rates (CIRRs) established by the OECD. A loan is said to be on concessional terms if, on the date of conclusion of the contract, the ratio of the net present value of the loan, calculated on the basis of the reference interest rates, to its nominal value is less than 50 percent (i.e., a grant element of at least 50 percent). For debts with a maturity exceeding 15 years, the ten-year reference interest rate published by the OECD is used to calculate the grant element. For shorter maturities, the six-month market reference rate is used.

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

16. For external debt with an initial maturity of less than one year, normal short-term import and export credit are excluded from the scope of the indicator, including the prepayments defined in paragraph 19 below.

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

18. The accumulation by the government of external payment arrears is the difference between (a) the gross amount of external debt service payments due (principal and

interest, including penalty and/or late interest, as appropriate) and (b) the amount actually paid during the period under consideration. Under the program, the government commits itself to not accumulate external payment arrears on non-reschedulable debt (that is post-cutoff-date debt to Paris Club creditors and debt owed to multilateral creditors). Nonaccumulation of external payment arrears is a criterion to be continuously observed.

E. Oil-Collateralized External Debt

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

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

21. The government's commitment not to contract new oil-collateralized debt will be monitored using the list of oil-collateralized debt as of December 31, 2005, as shown in Annex I.

F. Arrears and Domestic Debt

22. Domestic payment arrears of the government are equivalent to the difference over the relevant period between the amount of payments authorized and the actual payments made (within 90 days). A net reduction in arrears is reflected in the TOFE as a negative amount, and a net accumulation as a positive sum. Payments made by the government cover payments by the Treasury and the CCA, including through clearing operations.

23. The amount of outstanding domestic payment arrears, usually referred to as the "float" in the budget execution tables, particularly the TOFE, will be capped at CFAF 18 billion at the end of each quarter, with the obligation of clearing the float at the end of the year.

VII. Adjustments

24. The criterion on the basic primary fiscal balance (paragraph 2.a) will be adjusted upward if oil revenues are higher than projected. Oil revenues will be adjusted in two stages: the first adjustment will take account of the change in the number of shipments, while the second will reflect the change in international oil prices. First, expected oil revenues from the sale of government oil by the SNPC, estimated on the basis of the shipment schedule, will be adjusted by the ratio of the actual number of shipments to the projected number. The adjustment will be calculated separately for each component of

government oil revenues generated by shipments sold by the SNPC, for each type of Congolese oil product, namely, the three crude oil blends (Djéno, Nkossa, and Yombo), as well as butane and propane. Secondly, expected oil revenue adjusted by quantity will be multiplied by the ratio of the international price to the projection price. In accordance with the fiscal rule on oil prices, government oil revenues will be projected on the basis of the oil price estimates in the IMF's *WEO* less a 'prudence' factor (US$10/barrel beginning in 2006); the price resulting from this calculation will be known as the "estimated adjusted international price." Consequently, the adjustment of revenues based on price will consist of multiplying total government revenues by the ratio of the international price received to the estimated adjusted international price, calculated in CFA francs. Both adjustments will be made quarterly.

25. The target on the basic primary fiscal balance will be adjusted downward by up to CFAF 50 billion for priority investment projects during the second half of 2006. The adjuster therefore applies only to the quantitative target for end-September 2006, if domestically-financed capital expenditures as defined in the TOFE exceed CFAF 196 billion at that time, and the performance criterion for end-December 2006, if domestically-financed capital expenditures as defined in the TOFE exceed CFAF 216 billion at that time. These projects will be approved by World Bank staff, would be awarded through transparent and competitive procurement procedures, and approved through a supplementary budget.

26. During the program period (April 1, 2006 to December 31, 2006), if the primary budget surplus exceeds the quantitative program indicator (2a) and/or if additional nonearmarked budgetary support,[9] over and above the programmed amount, becomes available, the government intends to use one-third of these extra resources to further reduce external payment arrears on government debt not eligible for rescheduling. This will be implemented four weeks after the end of the quarter, in consultation with Fund staff. Any remaining additional resources will be deposited in the banking system, and their use will be discussed with IMF staff in the context of program execution reviews. Priority in the use of the additional resources will be given to:

- reduction of the government's priority domestic arrears (wages, benefits of former workers of liquidated enterprises, pensions, and small and medium-sized enterprises) as detailed in a list of creditors;
- reduction of the net claims of the banking system on the government (excluding the counterpart of the use of Fund resources); and/or

[9] Budgetary support is defined as the amount of nonproject grants and loans (excluding IMF resources).

- an increase in poverty reduction expenditures.

27. The ceiling on the change in the banking system's net claims on the government will be adjusted if external budgetary support exceeds or falls short of program projections. The ceiling will be adjusted downward by the amount of budgetary support received in excess of the programmed amount. Conversely, the ceiling will be adjusted upward by the amount of the shortfall in budgetary support programmed for the period. This adjustment cannot exceed CFAF 5 billion, calculated on a cumulative basis, during the first year of the program.

VIII. Structural Measures

28. The structural measures are listed in Table 4 of the Memorandum on Economic and Financial Policies.

29. All government revenue and the execution of all government payments will be done through the Treasury. All government revenue must be transferred to the Treasury or, in the case of earmarked revenue (intended for various funds and other agencies), transferred to the special earmarked accounts of the Treasury, in accordance with fiscal procedures. All government payments must be made through the Treasury. This provision facilitates budget execution and control.

30. A diagnostic study of the economic viability of the Congolaise de raffinerie (CORAF) will be carried out by an audit firm selected through an international bidding process. The terms of reference and specifications for this study will be reviewed by the staff of the IMF and found satisfactory. The final audit report will be submitted to the Ministry of Finance no later than October 31, 2006.

31. The government will also adopt, by end-September 2006, a timetable for the elimination of all implicit subsidies for refined petroleum products within one year so as to limit the cost to future budget of losses in this sector.

32. External audits of cost oil for 2004 and 2005 as defined in production-sharing contracts (PSCs), reported by oil companies will be carried out in accordance with international audit standards by firms of international reputation. The audits will cover all PSCs, namely: for the operator Total E&P Congo, the PSCs of Haute Mer, Mer Très Profonde Sud, PEX, and PNGF; for the operator Likouala S.A., the Likouala and Likouala-Est concessions; for the operator CongoRep, the Émeraude concession; for the operator ENI Congo, the PSCs of Marine VI, Marine VII, Marine X, Madingo, and Mer Très Profond Nord; and for the operator Zetah M & P Congo, the PSCs of Kouilou and Kouakouala. The audit reports will be submitted to the government no later than December 31, 2006.

33. The quarterly certification of oil revenues by an external auditor, based on the terms of reference used for the 2003 certification and without qualification on access to information, will continue. The certification reports will include, among other things: (i) verification of the tax returns of the oil companies, (including compliance with the terms of PSCs), (ii) reconciliation of the commercial transactions of the SNPC and the quantity of oil due to the government in settlement of the oil companies' tax liabilities (the SNPC included), and (iii) verification that the corresponding revenue has been transferred to the Treasury. The certification report will be available at the latest one quarter after the end of the quarter in question and will be published on the official website of the Ministry of Economy, Finance, and Budget (www.mefb-cg.org).

34. An audit firm of international reputation will also be commissioned to carry out a reconciliation report on the amount of oil revenues deposited in government bank accounts, as reported in the quarterly certification reports, and the total oil revenues reported in the government financial operations tables (TOFEs) for each quarter of 2005 and for the year as a whole. The auditors will have full access to all the information needed to carry out this reconciliation exercise in compliance with their terms of reference. The reconciliation report will be submitted to the government and published on the official website of the Ministry of Economy, Finance, and Budget.

35. The external audit of the 2004 consolidated accounts of the SNPC will be based on the terms of reference and specifications used for the 1999-2003 audit. Accordingly, the tasks of the auditor will be to audit the consolidated financial statements of the parent company and its subsidiaries and to review financial flows, the execution of the management contract, and internal controls. The auditors will submit their final report to the government by end-June 2006, and this report will be published on the official website of the Ministry of Economy, Finance, and Budget.

36. An independent firm of international reputation will be hired to do a diagnostic study of the SNPC's marketing strategy for the sale of government oil. This study will be completed and submitted to the government by end-August 2006. This will be followed by the adoption by the government and SNPC management of an action plan to bring the marketing of government oil up to international standards, at the latest by December 31, 2006.

37. In line with the commitment to improve transparency in the oil sector, the government will publish, on the official website of the Ministry of Economy, Finance, and Budget, a certification report by the *Cour de Comptes* that all public officials (both in the government and at public enterprises) are not personally benefiting from government oil sales by the SNPC or its subsidiaries. This will be done at the latest by June 30, 2006. The government will also publish on this website the full audit report of the awarding in 2005 of the Marine XI oil field concession by end-September 2006.

38. An anti-corruption committee will be established by end-September 2006, whose terms of reference and composition will be satisfactory to IDA and IMF staffs. Following

the creation of the committee, a draft anti-corruption law will be submitted to Parliament by December 31, 2006. The law will include, among other things, conflict-of-interest and financial disclosure rules for public officials. These rules will require that all senior public officials (including in the government, civil service, and public enterprises) disclose their wealth and origins of their incomes when acceding to the post and on an annual basis thereafter. The annual disclosure statements are to be declared to the *Cour des Comptes* and certified by the national anti-corruption committee. This committee will publish a summary report on its findings within six weeks of the end of the calendar year.

IX. Information for Program Monitoring

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

A. Oil Sector

39. The government will submit the following information to the staff of the International Monetary Fund:

- monthly data on oil production by oil field, production costs, volume exported, export prices, and the operations of the Société nationale des pétroles du Congo (SNPC);
- the breakdown of the share of crude oil that accrues to the government, by oil well, distinguishing the type of taxation to which this share relates (royalties, profit oil, etc.);
- any change in the tax parameters; and
- a breakdown of oil prices.

40. Oil prepayments (see paragraph 18 above) are recorded in the TOFE accounts as follows:

- At the time the prepayment is cashed, the amounts received are recorded as debt; the amounts corresponding to commissions paid out are recorded as current expenditure.
- The prepayment is repaid with the proceeds of the sale of oil; at the time of the repayment transaction, the revenue derived from the sale of oil is recorded as final oil revenue accruing to the Treasury, and the amount of the repayment is posted as negative financing (repayment).

B. Government Finance

41. The government will submit the following information to the staff of the International Monetary Fund:

- A table on government fiscal operations (TOFE) and its annexes. The annexed tables include the breakdown of oil revenue in value terms with the corresponding notes on computation, excess oil trends and any bonus payments, the breakdown of tax and nontax revenue, and the breakdown of central government expenditure, particularly transfers and common expenses. The provisional TOFE and its annexes will be reported monthly within four weeks of the end of the month, whereas the final TOFE and its annexes will be reported within six weeks of the end of each month;

- Monthly data on the prices and taxation of petroleum products. These data will include: (i) the price structure in effect during the month; (ii) the details of computation of the price structure, (f.o.b. Mediterranean price) at retail prices; (iii) amounts released for sale; and (iv) a breakdown of the tax revenue from oil products—customs duties and value-added tax—and direct/indirect subsidies supported by the budget. These data will be reported within four weeks of the end of the month;

- Data on implementation of the public investment program, including the breakdown of financing sources. If the data on the execution of investments financed with foreign grants and loans are not available on schedule, a linear estimate of execution in comparison with annual forecasts will be used. These data will be reported on a quarterly basis within four weeks of the end of the quarter; and

- Complete monthly data on nonbank domestic financing of the budget (net bank credit to, and net nonbank funding of, the government). These data will be reported monthly within four weeks of the end of the month.

- The table used to monitor the expenditure process will list the amount of commitments, payment orders, and payments, for both operating and capital expenditures. It will be produced on a quarterly basis, and submitted to Fund staff no later than four weeks after the end of the quarter.

- Pending finalization of the functional classification of government expenditures, the government will prepare and submit to the IMF a quarterly table for monitoring poverty reduction expenditures, based on the pro-poor sectors as defined in the I-PRSP (basic health care and education; infrastructure and rural integration; water and electricity; disarmament, demobilization and reinsertion; social protection, and agriculture). The quarterly tables will be submitted no later than four weeks after the end of the quarter.

C. Monetary Sector

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

- data on net bank credit to the government;
- the consolidated balance sheet of the monetary institutions, the central bank survey, and the survey of commercial banks;
- the integrated monetary survey;
- lending and deposit rates; and
- the usual banking supervision indicators for banks and nonbank financial institutions, where necessary.

The final data on the integrated monetary survey will be provided within six weeks of the end of the month.

D. Balance of Payments

43. The government will submit the following to the staff of the International Monetary Fund:

- any revised balance of payments data (including services, private transfers, official transfers, and capital transactions) as soon as the data are revised;
- foreign trade statistics (volume and price) prepared by the national statistics agency/BEAC, within three months of the end of the reporting month; and
- the preliminary annual balance of payments data, within nine months of the end of the reference year.

E. Debt

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

- data on the stock, accumulation, and payment of domestic arrears;
- data on the stock, accumulation, and payment of external payment arrears;
- a breakdown of estimated domestic and external public debt service, service due, and actual payments, including breakdowns of principal and interest and by creditor;

- the list and amounts of new external debt incurred or guaranteed by the government, with detailed information on the terms and conditions (currency, interest rate, grace period, and maturity) stated in the original agreement; and

- actual disbursements of foreign financial assistance (project and nonproject), including new borrowing and any external debt relief granted by foreign creditors (CCA tables).

F. Real Sector

45. The government will submit the following to the staff of the IMF:

- monthly itemized consumer price indices, within four weeks of the end of the month;

- provisional national accounts, within nine months of the end of the year;

- any revision of the national accounts; and

- any other indicators and statistical data used to track overall economic developments, including information on activity in the forestry sector and wood-processing industry, as well as the short-term economic bulletins prepared monthly.

G. Structural Reforms and Other Information

46. The government will submit the following information:

- any study or official report on the economy of the Republic of Congo, within two weeks of its publication; and

- any decision, order, law, decree, ordinance, or circular having economic or financial implications, within two weeks from the time it is published, or, at the latest, from its entry into force.

Stock of Oil-Collateralized Debt as of December 31, 2005[10]

Description	Total stock (millions of CFA francs)
TEP Congo	5.4
ChevronTexaco (Etat1)	8.9
Central a Gaz (AGIP)	0
RMB-VITOL	21.4
BNP/BPPB	28
ChevronTexaco (Etat2)	7.2
Total collateralized debt	74.9

[10] Excluding arrears under litigation to one creditor.

Republic of Congo: Relations with the Fund
(As of April 30, 2006)

I. Membership Status: Joined: 07/10/1963; Article VIII

II. General Resources Account:

	SDR Million	Percent Quota
Quota	84.60	100.00
Fund holdings of currency	84.07	99.37
Reserve tranche position	0.54	0.63

III. SDR Department:

	SDR Million	Percent Allocation
Net cumulative allocation	9.72	100.00
Holdings	0.31	3.21

IV. Outstanding Purchases and Loans:

	SDR Million	Percent Quota
PRGF arrangements	17.11	20.22

V. Latest Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	12/06/2004	12/05/2007	54.99	15.72
PRGF	06/28/1996	06/27/1999	69.48	13.90
Stand-by arrangement	05/27/1994	05/26/1995	23.16	12.50

VI. Projected Payments to Fund: (**SDR million; based on existing use of resources and present holdings of SDRs**):

	Forthcoming				
	2006	2007	2008	2009	2010
Principal	1.39				1.57
Charges/interest	0.33	0.41	0.41	0.41	0.41
Total	1.72	0.41	0.41	0.41	1.98

VII. Implementation of HIPC Initiative:

The Republic of Congo reached the decision point under the enhanced HIPC Initiative in March 2006.

VIII. Safeguards Assessments:

The Bank of the Central African States (BEAC) is the regional central bank of Central African States, of which Republic of Congo is a member. A safeguard assessment of the BEAC completed on August 30, 2004 found that BEAC has implemented a number of measures to strengthen its safeguards framework since the 2001 safeguards assessment, but further progress needs to be made in key areas.

The main recommendations of the assessment, applicable to the BEAC as an institution, include: (i) preparation of financial statements in full accordance with an internationally recognized accounting framework, initially the ECB guidelines; (ii) publication of its full financial statements, together with the auditor's report, starting with the 2003 financial statements; (iii) formulation of Board-approved formal guidelines under which the BEAC Governor is authorized to make exceptional advances to BEAC member countries; (iv) annual review by BEAC internal audit department of the process of program data reporting of member countries to the IMF; (v) implementation of a risk-based audit approach, and finalization of a charter, for the internal audit function; and (vi) systematic follow-up of all recommendations pertaining to the BEAC's system of internal controls to be coordinated by internal audit department, with regular reporting to the Audit Committee and the BEAC Governor.

Other priority recommendations of the assessment, but of a country specific nature, were: (i) the BEAC should clarify with its member countries that hold foreign reserves outside the BEAC the statutory basis and circumstances for doing so, to avoid an apparent conflict with the BEAC statutes and to ensure full transparency of reporting of reserves by the member country; (ii) the BEAC and its member states are encouraged to establish a mechanism to prevent IMF overdues and facilitate timely payments through advance acquisitions of SDRs and an authorization to debit an SDR account of the member; and (iii) the BEAC should cooperate with its members to reconcile and confirm the Treasury balances to ensure that the balances reported by the BEAC in respect of credit to government as reflected in the accounts of the Treasuries are in agreement with the BEAC.

IX. Exchange Rate Arrangement:

The Congo's currency is the CFA franc, which is pegged to the euro at a fixed rate of CFAF 655.957 = euro 1. On June 2, 2006, the rate of the CFA franc was CFAF 762.174 per SDR. The Congo does not impose any restrictions on the making of payments and transfers for current international transactions.

X. Article IV Consultations:

Consultations with the Congo are on the standard 12-month cycle. The 2004 consultation discussions started in Brazzaville in February 2004 and concluded in Washington in March 2004. The staff report (www.imf.org) was considered by the Executive Board on June 10, 2004.

XI. FSAP Participation :

N/A.

XII. Technical Assistance :

Subject	Department	Staff Member	Date
Resident advisor on real sector	STA	Mr. Gbossa	Since November 2005
Modernization of tax and customs administrations	FAD	Messrs. Montagnat-Rentier, Lesprit and Boilil	February 2004
Follow-up mission	FAD	Mr. Lepage	November 2003
Budget functional classification	FAD	Messrs. Bouley, Hélice, and Lepage	October 2003
Multisector statistics	STA	Messrs. Marie, Maiga, and Mmes. Fisher, Matei, Razin, and Balvani	May 2002
Resident expert on statistics	STA	Mr. Sin	Since October 2001
Balance of payments	STA	Mr. Fiévet	June 2001
Budget, tax, and customs	FAD	Messrs. Bouley, Moussa, Brik, and Mrs. Tricoire	April–May 2001
Resident tax expert	FAD	Mr. Laurent	1995–97
Tax administration	FAD	Mr. Grandcolas	November 1995–April 1996
Tax administration	FAD	Messrs. Grandcolas and Castro	November 1994

XIII. Resident Representative:

The new resident representative, Mr. Yaya Moussa, took up his assignment in September 2005.

Republic of the Congo
Relations with the World Bank Group
(As of April 30, 2006)

Introduction

This annex first underscores the importance that the Government of the Republic of Congo (ROC) attaches to effective partnership with external creditors, donors and foreign investors. It then summarizes the strategy and activities of the World Bank Group (IDA, IFC, and MIGA) in ROC. It concludes with a description of areas of specific collaboration between the World Bank Group and the International Monetary Fund.

Partnership in the Republic of Congo's development strategy

After three successive rounds of civil war in 1993, 1997, and 1998/99, civil peace has been gradually restored since 2000. The international community re-engaged in Congo in 2001 following the clearance of arrears to the Bank and the Fund. The PRGF arrangement approved by the IMF Board in December 2004 paved the way for financing from more donors including the World Bank, the AfDB, and the debt rescheduling by the Paris Club. More recently the HIPC Decision point approval has led to the strengthening of dialogue as well as the international community engagement in Congo. The HIPC floating completion point triggers focus on the following issues: (i) preparation of a full PRSP, (ii) achievement of macroeconomic stability, (iii) alignment of public spending with priorities identified in the PRSP, (iv) strengthening of public finance management, (v) increased governance and transparency in the natural resource management, (vi) increased focus on the regulation in the telecom sector, (vii) improved conditions in the education, health and HIV/AIDS sectors, and finally, (viii) transparent external debt management.

Key donors in Congo currently include: the European Union, the African Development Bank (AfDB), the French Agency for Development (AFD), the UNDP, and the World Bank along with the IMF. The main sectors of intervention are on governance, urban, transport, health, education, environment, and public finance. The AFD and the AfDB have recently issued their strategy plans for the coming three years while the World Bank is preparing its Interim Strategy Note for the next two years.

Bank Group strategy and operations (IDA, IFC ,and MIGA)

Overall strategy. In 2001, the Bank reengaged in Congo within the context of a Transitional Support Strategy (TSS). The first Transitional Support Strategy (TSS, Report 21328-COB) for the Republic of Congo to guide operation for the period 2000-2002 was approved by the Board on January 16, 2001. It focused on the consolidation of the peace process and the physical reconstruction of the country. The TSS was updated (TSS FY03-05) and approved by the Board in September 2003 (Report 26566-COB), It aimed at helping Congo escape the conflict trap under four interrelated pillars: (i) creating jobs through growth and diversification, (ii) enhancing and repositioning the public sector, (iii) mitigating short- and

medium-term risks to the social environment, (iv) increasing resources for stability and development through debt relief and otherwise. The TSS (FY03-05) which was built on achievements of the TSS (FY01-02) combined analytical and lending instruments.

The financing instruments (see the table below) focused on: (i) supporting implementation of reforms linked to transparency and efficiency of public resource management (PRCTG , ERC); (ii) supporting socio-economic infrastructure rehabilitation and rural development (PURICV, PURAC, PRAEBASE); (iii) supporting national policies and programs in the area of HIV-AIDS (HIV-AIDS and Health Project) and (iv) providing debt relief under the enhanced HIPC initiative. Since the Bank's re-engagement in 2001, two projects were closed so far (Post-Conflict Economic Rehabilitation Credit and Emergency Demobilization and Reintegration Project).

The lending program is completed by a number of grants, including: (i) a US$703,000 Japan Social Development Fund (JSDF) grant to strengthen the capacity of diverse community-based organizations; (ii) a US$665,500 PHRD grant to support the implementation of the PRCTG Project through the establishment of a Monitoring and Evaluation Unit; and (iii) a US$500,000 PHRD grant to support the preparation of the Agriculture and Rural Roads Rehabilitation Project.

For future months, two projects that are currently under preparation should become effective shortly. These include: the Demobilization and Reintegration Project (US$ 25,000,000) grant, and the Agriculture and Rural Road Rehabilitation Project (US$20,000,000 to confirm).

Non-lending activities

The analytical work program carried out under the TSS FY03-05 consisted of a Public Expenditure Review (PER), a Debt Sustainability Analysis (DSA), a combined Country Procurement Assessment Report (CPAR) and Country Financial Accountability Assessment (CFAR), an Education sector review, and an Agriculture Policy Note.

Interim Strategy Note

A further updated TSS (renamed Interim Strategy Note, ISN) is currently under preparation. The ISN objective is essentially to help the Government improve governance. On the basis of large broad consultations carried out on the ground and on the recent developments during the HIPC decision point discussions, two main pillars have been identified so far:

1) Increase the governance focus: through better transparent budgetary process and execution and improved public procurement procedures, as well as a monitoring and evaluation system that will allow implementation and tracking of the I-PRSP objectives. This pillar is actually to support the HIPC Completion point triggers.
2) Focus on equitable growth through investment and technical assistance allowing trade facilitation between Pointe-Noire and Brazzaville, including focus on MDGs.

The ISN which will cover the period 2006-2008 is expected to be presented to the Board by end-September 2006.

IFC

IFC has no current investments in Congo, but follows developments in railway line privatization process. In addition, support may be available for financial sector restructuring, SME development, infrastructure rebuilding, and development of the oil sector and mining.

MIGA

Congo has contributed to the General Capital Increase in March 2003. MIGA has no exposure in the Republic of Congo, and there is no active application.

Bank-Fund collaboration in specific areas

The IMF and World Bank staffs maintain a close collaborative relationship in supporting policies to help the Congo strengthen civil peace, sustain macroeconomic stability, improve governance, reverse a marked decline in social indicators, and promote sustainable development. Exchange of information and discussion on progress in the implementation of the reform program under the PRGF Program and the HIPC initiative take place on a regular basis between the Bank and the Fund. Joint missions will be carried out to review progress.

Areas where the World Bank leads with no direct IMF involvement:

- health and education sectors, infrastructure sector
- state disengagement from productive sectors through privatization/restructuring of public utilities enterprises and commercial banks; and
- transparency in the use of public funds, notably through the reform of public procurement and the institution of the Office of Auditor General (*Cour des Comptes)*

Areas where the World Bank leads and its analysis serves as input to the IMF:

- review of selected issues in the oil sector, including the diagnostic study of the SNPC's marketing strategy of government oil and the follow up action plan;
- management, taxation, and governance in the forestry sector;
- social policies;
- assistance in PRSP preparation;
- banking and, more generally, the financial sector;
- public expenditure management review; and
- economic evaluation of large-scale public investment projects.
- corruption issues and analysis

Areas of shared responsibility:

- governance in the oil sector;
- efficient use of public resources;
- oil revenue mobilization;
- governance and fiscal impact of large investment projects; and
- statistics and measurement issues.

Areas where the IMF takes the lead and its analysis serves as an input to the World Bank:

- competitiveness/exchange rate issues;
- tax policy and administration; and
- customs/tariffs/trade policy.

Areas where the IMF takes the lead with no direct World Bank involvement:

- fiscal policy;
- monetary policy;
- external payments regime;
- non-oil revenue mobilization; and
- macroeconomic statistics issues

Republic of Congo: Current financing program (As of end-April 2006)

Project	Objective	Amount (in USD)	Percent Disbursed (As of end-April 2006)	Board Approval	Closing Date
Support to Basic Education Project (PRAEBASE)	Assist Congo in the mitigation of the current crisis of the education sector, and establish the grounds for a solid development of a medium and long-term sector program: (i) strengthening capacity-building of the Ministry of Education; (ii) rehabilitation of school infrastructure; (iii) improving quality of education through teacher training, and access to key textbooks for all students; and (iv) support out-of-school youth and vulnerable populations.	20,000,000	22.13%	09/23/2004	12/31/2008
Economic Recovery Credit (ERC)	Improving transparency in the oil sector, strengthening management of domestic debt and efficient public investment: (i) the action plan of the 1999-2001 audit of the national oil company (SNPC) satisfactorily implemented; (ii) credible action plan for the payment of domestic arrears adopted ; (iii) action plan for reforming and improving the management of public investment program (PIP) available; and (iv) a draft PIP for FY06-07 submitted to IDA for review.	30,000,000	56.59%	12/07/2004	12/31/2006
HIV/AIDS and Health (MAP program)	Support the Government actions to slow the spread of HIV-AIDS, and to strengthen assistance and care for people infected or affected by HIV-AIDS: (i) support civil society for HIV-AIDS prevention and care; (ii) expand access to treatment of opportunistic infections; (iii) provide care and support for people living with HIV-AIDS; (iv) provide care for orphans and other highly vulnerable children; and (v) reduce transmission of the disease among high risk groups.	19,000,000	42.43%	04/20/2004	06/30/2009
Emergency Recovery and Community Support Project (PURAC)	Assist the recovery of communities living in smaller municipalities and rural areas by: (i) providing financial support for the implementation of priority, small-scale	41,000,000	69.28%	06/24/2003	12/31/2007

	rehabilitation and economic revitalization activities in all regions and smaller municipalities; (ii) supporting activities initiated by local NGOs; (iii) assisting in strengthening administrative capacities, at both the central and local levels of government; and (iv) providing balance of payments support to free up government resources.				
Transparency and Governance Capacity Building Project (PRCTG)	Enhance transparency, improve governance and increase efficiency of (i) petroleum operations; (ii) Ministry of Finance's financial operations; and (iii) the public enterprise reform and privatization process	7,000,000	57.66%	02/07/2002	12/31/2007
Emergency Infrastructure Rehabilitation and Living Conditions Improvement Project (PURICV)	Create conditions for a reestablishment of the economic activities by: (i) linking landlocked regions to the rest of the country; (ii) rehabilitating the railway line linking Brazzaville to Pointe-Noire, (iii) fighting HIV/AIDS; (iv) generating employment; and (v) improving access to basic services.	40,000,000	88.76%	05/02/2002	01/31/2007
TOTAL		**157,000,000**	**62.0%**		

Republic of Congo: Table of Common Indicators Required for Surveillance

As of May 25, 2006

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of publication[6]
Exchange Rates	4/28/06	4/28/06	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Dec. 05	Mar. 06	Q	Q	Q
Reserve/Base Money	Feb-06	5/8/06	M	M	M
Broad Money	Feb-06	5/8/.06	M	M	M
Central Bank Balance Sheet	Feb-06	5/8/06	M	M	M
Consolidated Balance Sheet of the Banking System	Feb-06	5/8/06	M	M	M
Interest Rates[2]	Feb-06	5/8/06	M	M	M
Consumer Price Index	Feb. 2006	Apr.. 06	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	N/A	N/A	N/A	N/A	N/A
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	Dec. 05	Mar. 06	Q	Q	Q
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Dec. 05	Mar. 06	Q	Q	Q
External Current Account Balance	2004	Mar. 06	A	A	A
Exports and Imports of Goods and Services	2005	May. 06	A	A	A
GDP/GNP	2005	Mar. 06	A	A	A
Gross External Debt	Dec. 05	Mar. 06	Q	Q	Q

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
6 Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA)

INTERNATIONAL MONETARY FUND

REPUBLIC OF CONGO

Second Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, and Requests for Waiver of Nonobservance of Performance Criteria, Rephasing, and Extension of Arrangement—Supplemental Information

Prepared by the African Department

(In consultation with other departments)

Approved by Thomas Krueger and Mark Plant

July 12, 2006

1. This supplement provides an update on recent economic developments in the Republic of Congo (hereafter "Congo"), since the issuance of the staff report (www.imf.org) on June 30, 2006. It also includes the authorities' attached request for a waiver for the nonobservance of the continuous performance criterion on new medium and long-term nonconcessional external debt. These developments do not change the thrust of the staff appraisal.

I. Recent Economic Developments

2. **Capital spending in the first quarter of 2006 was significantly higher than programmed.** Data at end-March 2006 show that the primary fiscal surplus fell short of the adjusted program benchmark by 0.9 percent of GDP, mainly reflecting a large investment expenditure overrun. The authorities indicated that the higher investment spending reflected an advancement of expenditures originally projected for the second quarter of 2006. As a result, the overrun was not expected to affect the fiscal target at end-June 2006 and for the remainder of the year. The slippage in the primary fiscal surplus also resulted in a smaller–than–programmed decline in net claims of the banking system on the government (CFAF 51 billion versus the program target of CFAF 79.6 billion).

3. **The quarterly oil revenue certification report for the first quarter of 2006 notes that the auditors had access to all the necessary government information, including treasury bank statements**. However, the auditors were unable to obtain information required from one of the private oil operators to calculate the oil share due to the government. According to the certification report, there were no discrepancies on the amount of oil revenues received by the government as reported by the national oil company SNPC

and the private oil operators on the one hand, and as recorded in the treasury bank statements on the other.

4. **The last two outstanding prior actions for Board consideration of the review have been completed**:

- A comprehensive plan to settle domestic social arrears was adopted by the government and published on its website.[1] Social arrears amounted to about CFAF 345 billion at end-2004 (15 percent of 2004 GDP), including wages, pensions, payments to embassies, and claims of former employees of liquidated firms. Of this amount, CFA 30 billion were paid in 2005. The adopted settlement plan entails that all the outstanding social arrears will be cleared by 2010. The payments scheduled under the plan are consistent with the macroeconomic framework for 2006-2008 presented in the staff report.

- The reconciliation report on the amount of oil revenues deposited in government bank accounts, as reported in the quarterly certification reports, and the total oil revenues reported in the government financial operations tables (TOFEs) for 2005 has been submitted to the government and published on its website.[2] The reconciliation report identified unexplained discrepancies amounting to CFAF 66 billion (2.1 percent of 2005 GDP), which the auditors did not have the mandate to investigate. The report explains about half of the CFAF 21.9 billion in valuation, cash, and volume discrepancies identified in Box 1 of the staff report, originating mainly from the current SNPC marketing practices. In addition, it notes that about 30 percent of CFAF 28.9 billion in other adjustments may be related to the resolution of a legal dispute with a private oil operator. However, the auditors were still missing some documentation, including on the amounts involved in the regularization of stocks with the SNPC and on the resolution of the legal dispute.

5. **The authorities provided staff in early July with information on two loans signed with Chinese entities in December 2005 and June 2006**. The first loan agreement with China Machinery & Equipment Import & Export Corporation (CEMEC) for $552 million (9.5 percent of 2005 GDP) has a 50 percent grant element and is set to finance the construction of an electricity grid for the Imboulou hydroelectric dam. The dam is being built by the same company and financed through an earlier concessional loan signed in 2003 for $238 million. The dam is expected to be operational by 2009. As part of the 2005 loan agreement, Congo is to contribute $97 million, or 15 percent of the total cost of the

[1] See http://www.mefb-cg.org/stat_donnees_economiques/dette_inte.htm.

[2] See http://www.mefb-cg.net/petrole/certification_concordance.htm.

investment ($649 million), which will be covered by the 2006 budget and will not lead to a financing gap. The second loan agreement was signed on June 19, 2006, with the Export-Import Bank of China for the purchase of three Chinese MA-60 passenger aircrafts. The loan amounts to Yuan 250 million (about $31 million or 0.5 percent of GDP) and is not concessional under the terms of the PRGF arrangement as discussed below.

6. **A joint Bank-Fund staff mission that visited Brazzaville during June 15-19, 2006, reached tentative understandings with the authorities on an action plan to implement the triggers for the HIPC Completion Point.**[3] The authorities recognized that the full implementation of the triggers to reach the HIPC Completion Point will take at least several years, mainly owing to the time that will be needed to meet the trigger relating to the assessment, based on successive audit opinions by an independent firm of international reputation, that the commercialization of oil by the SNPC has been brought in line with international best practices (Trigger 5.ii). The authorities reaffirmed their commitment to implementing the triggers as swiftly as possible. They expressed their appreciation for the work done jointly by Bank and Fund staff, which helped clarify the triggers and provided them with a clear roadmap to reach the HIPC Completion Point. In addition, they requested Bank and Fund staff to provide periodic updates of the action plan to help monitor progress made and anticipate any obstacles along the way.

II. Request for Waiver

7. **In the attached supplemental letter of intent dated July 10, 2006, the Congolese authorities request a waiver for the nonobservance of the continuous performance criterion on new medium and long-term nonconcessional external debt.** The loan agreement with the Export-Import Bank of China signed on June 19, 2006 for Yuan 250 million (about $31 million) has a concessional element of 37 percent, below the threshold of 50 percent under the program. The authorities regret breaching the performance criterion, but deem the purchase of the three passenger aircrafts associated with the loan as essential to connect remote regions of the country to the main cities. They also state that the loan will not endanger Congo's debt sustainability, given the small amount of the loan and concessionality element.

8. **Staff is disappointed that a nonconcessional loan was contracted and regrets the lack of advance consultation, but nevertheless supports the authorities' request for a waiver of nonobservance.** As the authorities point out, the amount of the loan is small, has a concessionality element of 37 percent, and will have a small impact on debt sustainability. The authorities have also committed in the attached supplementary letter to check the

[3] The HIPC completion point triggers are presented in IMF Country Report No. 06/148, Box 5.

concessionality element of any future loan proposal with Fund staff before its signature, so as to avoid breaching the performance criterion on nonconcessional borrowing again.

No. ___/MEFB/CAB

Brazzaville, July 10, 2006

The Minister of Economy,
Finance, and Budget

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. de Rato:

1. Further to the Letter of Intent dated June 29, 2006 and on behalf of the government of the Republic of Congo, I would like to request a waiver for nonobservance of the continuous performance criterion regarding the nonaccumulation of new medium- and long-term nonconcessional debt. On June 19, 2006 the government obtained a loan from the Export-Import Bank of China equivalent to US$32 million, including a grant element of 37 percent instead of the 50 percent required under the program commitment.

2. This loan will be used to finance the purchase of three commercial passenger aircraft, which are essential for serving remote areas of the country. In view of the small amount of this loan and its grant element of 37 percent, we believe that the sustainability of Congo's debt is unlikely to be affected significantly.

3. The Congolese authorities regret that this transaction is contrary to the commitment made under the PRGF-supported program and would like to reassure Fund staff that this situation will not recur. Accordingly, we will consult staff concerning the degree of concessionality of future loan proposals before the relevant agreements are signed.

4. Thank you for your understanding.

Sincerely yours,

/s/

Pacifique Issoïbeka
Minister of Economy, Finance, and Budget

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INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

Press Release No. 06/155
FOR IMMEDIATE RELEASE
July 14, 2006

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Second Review Under the Republic of Congo's PRGF Arrangement and Approves US$11.6 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) has completed the second review of the Republic of Congo's performance under an SDR 55.0 million (about US$81.3 million) Poverty Reduction and Growth Facility (PRGF) arrangement (see Press Release No.04/262). The completion of the review enables the release of a further SDR 7.9 million (about US$11.6 million), which will bring the total amount drawn under the arrangement to SDR 23.6 million (about US$34.8 million).

In completing the review, the Board waived the nonobservance of three quantitative performance criteria relating to the floor on the basic primary fiscal balance and the floor on the payment of external arrears at end-September 2005, and the continuous performance criterion on contracted medium- or long-term non-concessional external debt , on condition that the information provided by the Congo to the Fund on performance under these criteria, and on the implementation of the measures is accurate.

Following the Executive Board's discussion on the Republic of Congo's economic performance, on July 14, 2006, Mr. Agustín Carstens, Deputy Managing Director and Acting Chair stated:

“The Republic of Congo continues to make good progress in implementing its program supported by an arrangement under the Fund’s Poverty Reduction and Growth Facility (PRGF). In 2005, the sharp increase in oil exports and a generally sound fiscal stance underpinned economic growth and a strengthened external current account and foreign reserves position, while inflationary pressures remained contained. Looking ahead, governance issues will need to be addressed decisively and fiscal management will have to be improved, with a view to ensuring that government expenditure and the country’s oil revenue are better targeted to benefit the poor and help achieve the Millennium Development Goals.

“The key fiscal challenge during the period ahead will be to resist pro-cyclical spending pressure, which could jeopardize macroeconomic stability and undermine the overall quality of public spending, given the Congo’s limited absorption capacity. For future years, the investment needs will have to be clearly defined in the forthcoming final Poverty Reduction Strategy Paper.

In particular, investment spending will need to be executed within a sustainable medium-term fiscal framework, taking into account the likely evolution of future oil revenue and absorption capacity. At the same time, strengthened expenditure control, budget oversight and accountability enforcement will improve the efficiency of public spending. It is important that the authorities refrain from contracting new loans on non-concessional terms as this could endanger hard-earned debt sustainability.

"There is a critical need to strengthen transparency and governance in public resource management. For this purpose, the authorities are auditing a 2005 oil field concession, preparing a diagnostic study of the national oil company's marketing of government oil, and adopting an anticorruption law and establishing an anticorruption committee that assigns a central role to civil society.

"The authorities will also address the deep-rooted structural weaknesses in the refined petroleum products and electricity sectors to improve efficiency and limit their cost to the budget, so that more resources can be made available to benefit the poor in the Congo," Mr. Carstens said.

The PRGF is the IMF's concessional facility for low-income countries. PRGF-supported programs are based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners and articulated in a Poverty Reduction Strategy Paper (PRSP). This is intended to ensure that PRGF-supported programs are consistent with a comprehensive framework to foster growth and reduce poverty. PRGF loans carry an annual interest rate of 0.5 percent and are repayable over 10 years with a 5 ½-year grace period on principal payments.

Statement by Damian Ondo Mañe, Executive Director for Republic of Congo
July 14, 2006

A. Introduction

1. On behalf of my Congolese authorities, I would like to thank Management and staff for the constructive policy dialogue and advice, as well as for the support provided to the Republic of Congo in its continuous efforts to adjust and restructure the economy. I also wish to express our appreciation to Management for the frank dialogue held recently with H.E. President Denis Sassou Nguesso during his visit in Washington, DC. In the meeting with the Managing Director, my authorities reaffirmed their commitment to the achievement the program objectives and their program ownership. In addition, my authorities were pleased with the Fund's decision to send a mission jointly with the World Bank for a short visit in Brazzaville in mid-June 2006 to discuss the calendar for Completion Point Triggers and the adequacy and quality of capital/infrastructure projects envisaged by the authorities for 2006. In this regard, I would like to reiterate my authorities' determination to press ahead with the reform agenda, in order to lay the basis for sustained growth. However, my authorities concur that the successful implementation of the needed reforms will depend also on addressing the administrative and institutional capacity constraints. They hope that they can count on the support and technical assistance of the international community to help overcome these impediments to stronger, sustained growth and poverty reduction.

2. While substantial achievements took place since the first review under the current program, my Congolese authorities are fully committed to pursue efforts to meet all the conditions required to reach the completion point under the enhanced HIPC Initiative. However, my authorities would like to stress that improving access of the population to transportation services is crucial to the good implementation of the program. In this context, they regret the non-observance of the continuous performance criterion on the contracting of medium-term or long-term nonconcessional external debt, although the loan agreement recently signed with Export-Import Bank of China, will help to rapidly improve the movements of goods and population, thus, enhancing public consensus on the program. They would like to reassure the Board that in the future, they will consult the Fund for any future loan proposal. Therefore, they would like to request a waiver for the non-observance of this continuous performance criterion. In addition, my authorities request waivers for the non-observance of two quantitative performance criteria at end-September 2005, namely the floors on the primary fiscal balance and on minimum payments of external arrears. In view of the delay in completing the second review due to the protracted discussions on the HIPC decision point, they request a rephrasing of the three-year arrangement under the PRGF and its extension by six months, to June 2008.

B. Recent Economic and Financial Developments

3. Congo's macroeconomic performance in 2005 was strong, largely reflecting oil sector developments. The improved security situation has also contributed to this good performance. Real GDP growth rate is estimated to have grown by 7.9 percent, due mostly to favorable terms of trade, and higher oil output. Non-oil sector GDP is estimated to have reached 5.5 percent, mostly driven by strong activity in construction and public works, transport, and communications. Inflation decelerated, helped by fiscal consolidation, and improved supply of goods and services as transportation bottlenecks between Pointe Noire and Brazzaville were eased. The sterilization of liquidity stemming from oil revenues, through government deposits at the central bank also played a role in this process. The external current account surplus stood to about 13 percent of GDP, due mostly to a sharp increase in oil export receipts.

4. In the fiscal area, performance was strong in 2005, as a result of tighter control of expenditures, higher oil revenues and stronger mobilization of non-oil revenues. The authorities continued to take steps to strengthen public finance management, although non-oil revenues were weaker than expected, owing mostly to weak customs collections. On the expenditure side, government spending remained broadly under control and pro-poor primary outlays grew by a half of percentage point to 4.9 percent of GDP.

5. As regards the banking sector, the level of credit to the private sector remained low. As in the past, the authorities were confronted with the issue of limited lending opportunities for banks and an inadequate legal framework for loan recovery. Efforts are underway to address the latter issue. Indeed, to further strengthen the banking system, the authorities will continue to reinforce bank credit recovery, through regular updates by banks of the list of delinquent debtors. The public treasury will also continue to assist the banks in collecting the amounts due from delinquent debtors.

C. Performance under the PRGF- supported program

6. My authorities firmly implemented their PRGF-supported program over the period from April 1 to December 31, 2005. Most quantitative performance criteria for end-September 2005 were observed, with the exception of two related to the floor on the primary balance and the minimum payment on external arrears. As these were due to factors beyond the authorities' control, they are requesting waivers for the nonobservance of the two criteria for which corrective steps were taken. The two structural performance criteria set for end-September 2005 were observed, notably the adoption by the government of an action plan for the introduction of an automatic price adjustment mechanism for refined petroleum products, and the completion and submission to the government of a report on forestry revenues in 2004 certified by an audit firm of international reputation. With regard to structural benchmarks, most of them were observed through end-December 2005. However, the one

related to the adoption by the government of a comprehensive plan for settlement of domestic arrears was missed. However, the authorities have taken the necessary steps to correct the problem. It is also important to indicate that in November 2005, a plan for settlement of commercial arrears was adopted and its implementation is well underway.

7. On transparency and governance, measures laid out under the program continued to be implemented. Notably, information on government operations continued to be made available to the public on the government's websites (www.mefc-cg.org and www.congo-site.cg); an open and competitive bid for the audit of the process of awarding the Marine XI oil field concession was launched in 2005, as was a diagnostic study of the SNPC's marketing strategy; the certification of the report by an audit firm of international reputation of oil revenue for the fourth quarter of 2005, as well as the audit of the 2004 consolidated accounts of the SNPC were published. Regarding the issue of privatizing the COFIPA, my authorities, at the highest level, are committed to carry out this operation in a transparent manner.

8. With regard to the Extractive Industries Transparency Initiative (EITI), an EITI committee was established and a government website (www.mefbcg.org/eiti.htm) providing information on the implementation of EITI principles in Congo was launched.

9. Following the large losses revealed by the external audit of the 2003 and 2004 operations of domestic oil refinery, CORAF, corrective measures were taken to reduce its projected losses. In this regard, the prices of oil products were increased by 11 percent in June 2006. In the energy sector, the state electricity company (SNE) has begun installing 50,000 electric meters with the aim to improve cost recovery.

D. Medium Term and Macroeconomic and Structural Policies for 2006

10. The Congo's medium-term outlook has improved due to higher oil price projections. Total real GDP is anticipated to grow by 7.5 percent in 2006 and 7 percent in 2008. Non-oil growth is estimated to remain strong, driven by high public investment and structural reforms. Inflation is expected to remain low, with average CPI inflation estimated to be about 1.5 percent in 2006. The current account surplus is expected to remain robust. The fiscal position will be sustainable, with continued primary fiscal surplus.

Fiscal Policy and Reforms in 2006

11. Among key fiscal objectives set for 2006 is the need to strengthen the framework for the mobilization of oil and non-oil revenues; raise pro-poor spending, while taking account of absorptive capacity constraints. The authorities are also determined to improve the quality of spending, strengthen the public expenditure management system and reduce losses of public enterprises.

12. On the revenue side, in order to strengthen the oil revenue mobilization, the authorities will continue their efforts to ensure that all oil companies meet their tax obligations in a timely manner. Other measures include the continuation of the quarterly certification of oil revenues and reconciliation of oil revenues accounts; an independent audit of cost oil for all production-sharing contracts for 2004 and 2005; and the completion of a diagnostic study by an independent firm of international reputation, of the economic viability of the CORAF. With regard to non-oil revenues, the focus will be on measures to strengthen tax and customs administration, combat fraud and tax evasion, and limit discretionary tax and customs exemptions. Efforts to conduct an annual certification of forestry revenues will continue be pursued.

13. On the expenditure side, poverty reduction will remain a key element in the authorities' policy agenda. In this regard, they have considered an important increase in pro-poor spending in line with the priorities outlined in the interim PRSP. Concerning capital spending, although an understanding was reached to accommodate additional priority investment spending up to CFAF 50 billion for 2006, my authorities still believe that being a post-conflict case with almost all basic infrastructures destroyed, Congo has to accelerate the daunting tasks of rehabilitating these infrastructure and other social equipment. For instance, an adequate resource package is needed to address recurrent electricity and water shortages, the central hospital deficiencies, as well as the transportation needs. For the latter, it is crucial to improve rapidly the functioning of the railroad linking the economic center, Pointe Noire and the capital city, Brazzaville, and to repair the airfield of Maya-Maya airport in Brazzaville. My authorities share the view that the projects to be vetted by the World Bank should be undertaken through transparent and competitive procurement procedures and approved in a supplementary budget.

14. To strengthen the expenditure management system, the authorities are committed to implement a number of measures aimed at improving the selection, evaluation, and monitoring of public investment projects. In this regard, they will establish a functional classification of government spending while pursuing modernization of the budget directorate. It is also the authorities' intention to adopt a medium-term budget framework. As a first step in that direction, they are planning to cast the 2007 budget in a three-year framework.

15. My authorities are committed to adopt a prudent approach to using the oil proceeds deposited in a special revenue stabilization account at the central bank. Resources from that account can be used for making transfers to the budget, prepaying expensive debt, including oil-collaterized loans and liabilities due to the central bank. Moreover, this account will be subjected to annual audits by the national auditing office. As regards the special account for debt relief, similar rules will apply and an international audit firm will be hired.

Monetary Policy and Financial Sector Reform

16. Monetary policy will continue to be conducted at the regional level by the BEAC, which aims to maintain price stability and strengthen the external position. The authorities remain concerned by the low rates of return on their net foreign assets at the BEAC, and as I indicated in my statement on the Central African Economic and Monetary Community (Buff/ED/06/100 of July 7, 2006), high-level discussions are underway among member countries and other important partners to find satisfactory solution to this issue.

Structural Reforms

17. The authorities are committed to undertake major reforms to address structural weaknesses in key sectors of the economy, with the view of improving efficiency and limiting potential costs on future budgets. With regard to the fuel sector, the authorities have reaffirmed their commitment to introduce an automatic price adjustment mechanism for refinery petroleum products, following progressive elimination of implicit subsidies by September 2007. A PSIA of such a measure is being undertaken, with financial support from the World Bank. In the electricity sector, a comprehensive study will be conducted with World Bank assistance. Concerning COFIPA, the authorities will proceed with the privatization only on the basis of the report to be produced by an external consultant. The civil service will be reformed, while the two pension funds will be restructured.

18. My authorities will pursue efforts toward enhancing governance and transparency. In this vein, an anticorruption committee, which will include representatives of the civil society, will be established and an anticorruption law will be submitted to Parliament by the end of this year. Measures to improve transparency in the oil sector will be pursued. Notably, a national EITI consultative committee and a national EITI executive committee will be established. Concerning the Kimberley process, my authorities have taken actions to reintegrate the process of certification of diamonds by end-2006.

Debt issue

19. The authorities are fully engaged in making further progress towards normalizing relations with external creditors. However, reaching agreements with all commercial creditors remains a key challenge. My authorities view debt sustainability as an important element of their program and they are determined to pursue good-faith negotiations with all creditors. However, my authorities deplore the holding out of some creditors who refuse to accept the conditions agreed upon by the majority of creditors, and opt to proceed with litigations. My authorities share the view that the Fund has a role to play in bringing all creditors t the common understanding for debt resolution.

Poverty reduction strategy

20. My authorities are aware of the need to improve social indicators and accelerate progress towards achieving the MDGs. In this regard, they remain committed to strongly implement their program. Work on the preparation of a full PRSP is ongoing, with the participation of all stakeholders, including the civil society. In this area, the assistance of the World Bank remains crucial.

E. Conclusion

21. My Congolese authorities have continued to demonstrate their commitment to and ownership of their adjustment program. Under the current program, performance in the context of the second review has been satisfactory and it is my authorities' intention to pursue their adjustment efforts. The authorities have adopted a poverty reduction strategy, and the final PRSP is expected to be completed by 2006. This strategy should allow them to implement reforms conducive to stronger and sustained growth, and job creation by developing non-oil sector activities. My Congolese authorities are committed to continuing working closely with their partners to achieve these goals of sustained growth and poverty alleviation and to strengthen capacity building. In this context, my authorities are hopeful that they can continue to rely on the support of the international community.