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## Republic of Congo: Staff-Monitored Program

This paper on the staff-monitored program for the Republic of Congo was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with the member country. It is based on the information available at the time it was completed on June 27, 2007. The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of the Republic of Congo or the Executive Board of the IMF.

A statement by the Executive Director for the Republic of Congo is also included.

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INTERNATIONAL MONETARY FUND

REPUBLIC OF CONGO

**Staff-Monitored Program**

Prepared by the African Department

(In consultation with other departments)

Approved by Thomas Krueger and Anthony Boote

June 22, 2007

- The three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) with the Republic of Congo (“Congo”) was approved by the Executive Board on December 6, 2004. The first and second PRGF reviews were completed in August 2005 and July 2006, respectively. However, substantial fiscal slippages and delays in structural reforms in 2006 precluded the completion of the third review under the PRGF arrangement.
- The last Article IV consultation was concluded on April 25, 2007. At that time, Directors encouraged the authorities to reach understanding with staff on a staff-monitored program (SMP) that could bring the PRGF arrangement back on track.
- Discussions on an SMP with the Republic of Congo were held in Brazzaville (October 12–25, 2006, and April 30–May 9, 2007) and in Washington, D.C. (February 26–March 2, 2007, and April 16–19, 2007). The mission team comprised at different stages Messrs. Mongardini (head), Bessaha, Karangwa, and Shen, Mmes. Karpowicz, and Lu (all AFR), Ms. Oliva (PDR), Mr. Carcillo (FAD), and Mr. Moussa (resident representative). Messrs. Rutayisire and Kudiwu (OED) attended the policy discussions.
- The mission met with President Sassou–Nguesso, Prime Minister Mvouba, Senior Planning Minister Moussa, Minister of Finance Issoïbeka, Central Bank National Director Dzon, and other senior officials; representatives of the donor community; civil society; and the press.
- In the attached letter of intent (LOI), the authorities have indicated that they intend to implement an SMP for April–September 2007 to establish a solid track record before resuming discussions on a PRGF arrangement.

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## Executive Summary

- **The PRGF–supported program went off-track in 2006.** Large expenditure overruns (estimated at 21 percent of non-oil GDP) and structural conditionality delays, including in the areas of governance and transparency, precluded the completion of the third PRGF review.
- **The authorities have reached understandings with staff on an SMP for April-September 2007.** The SMP aims at making progress toward fiscal sustainability, enhancing public financial management, and improving governance and transparency. A solid track record of policy implementation in the context of the SMP would pave the way for discussions on a PRGF arrangement to resume by end-2007.
- **The SMP centers on the 2007 budget recently approved by parliament.** The budget, which is based on appropriately conservative revenue projections and moderate growth in public expenditures, strikes a balance between maintaining macroeconomic stability and making room for urgent infrastructure spending.
- **Notwithstanding some recent progress, implementation of the governance agenda is delayed.** The authorities and civil society recently pledged to work together to make resource management more transparent. The draft law to establish an anticorruption observatory was passed by parliament in June 2007.
- **The government is finalizing the draft of its first full Poverty Reduction Strategy Paper (PRSP).** Fund and World Bank staffs provided comments on a first draft of the PRSP. The PRSP is expected to be finalized by end-2007.
- **Fiscal slippages pose the greatest risk to the program.** Political pressures to spend more are growing in view of the legislative elections in 2007, municipal elections in 2008, and presidential elections in 2009. Other risks include implementation capacity constraints, data gaps, lack of political consensus on governance and transparency reforms, and exogenous shocks related to oil prices and regional security. A recent accident at a large oil platform may also significantly reduce oil output in 2007. Further seizures by litigating creditors could also occur.

## I. INTRODUCTION

1. **In the attached letter of intent, the authorities request an SMP for the period April–September 2007.** The key goals of the SMP are to safeguard macroeconomic stability, set fiscal policy on a path toward fiscal sustainability, and accelerate implementation of the structural reform agenda—including the triggers for the completion point under the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative—to enable Congo to benefit from debt relief and external support to finance the government’s poverty reduction strategy.

2. **The SMP will coincide with the first phase of a long electoral cycle that will span the next three years.** After two rounds of legislative elections, scheduled for June and July 2007, municipal and presidential elections will follow in 2008 and 2009, respectively. With support from the donor community, the authorities are moving ahead with peace consolidation and reconciliation with former militia.

## II. ECONOMIC DEVELOPMENTS IN 2006 AND EARLY 2007

3. **The assessment of macroeconomic performance in 2006 remains broadly unchanged since the last staff report.**<sup>1</sup> Real GDP is estimated to have grown by 6.1 percent, reflecting higher output in the oil sector as well as buoyant activity in manufacturing and construction (Figure 1). Inflation increased significantly in 2006 as a result of the expansionary fiscal policy and transportation bottlenecks (Figure 2). Congo’s large inflation differential vis-à-vis its trading partners led the real effective exchange rate to appreciate significantly (Figure 3). Large expenditure slippages pushed the non-oil primary fiscal deficit to about 52.6 percent of revised non-oil GDP, against a program target of 32 percent (Figure 4).<sup>2</sup> Growth of credit to the private sector, although higher than in the past two years, remained sluggish, reflecting banks’ reluctance to take risk in a business environment characterized by insufficient creditor information, inadequate accounting standards, lack of collateral, and a weak judicial system. At the same time, strong oil exports contributed to the current account surplus (about 13 percent of GDP).

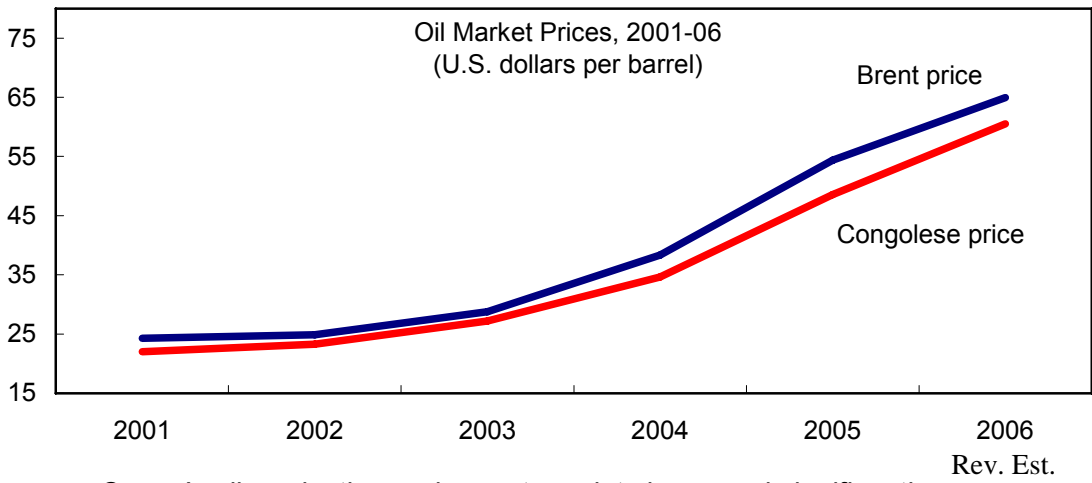
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<sup>1</sup> IMF Country Report No. 07/205.

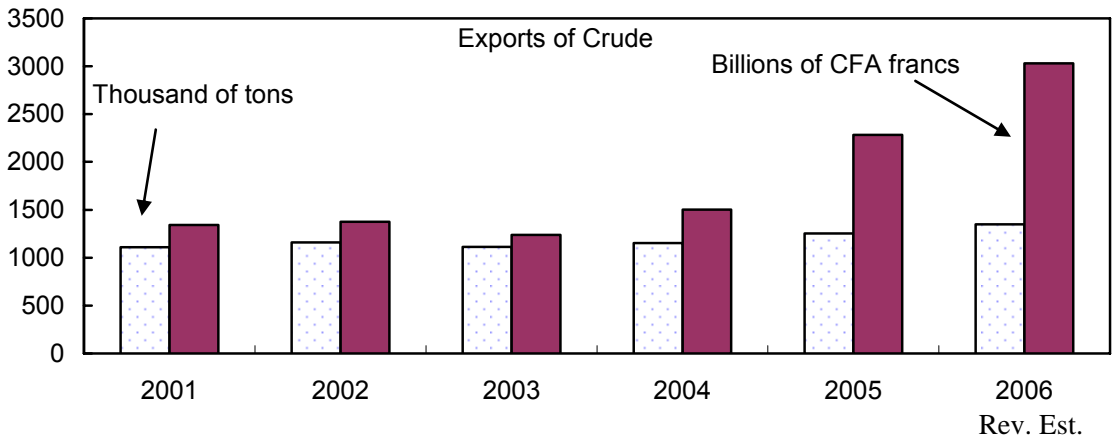
<sup>2</sup> The nonprimary fiscal deficit was estimated at 44 percent at the time of the 2007 Article IV consultation. Since then, new data from the authorities show that primary current expenditure and domestically-financed capital expenditure exceeded earlier estimates by 2.3 and 1.4 percent of non-oil GDP, respectively, and non-oil GDP growth was slightly slower (5.8 percent from 6.3 percent).

Figure 1. Republic of Congo: Oil Prices, Exports, and Real GDP Growth, 2001-06

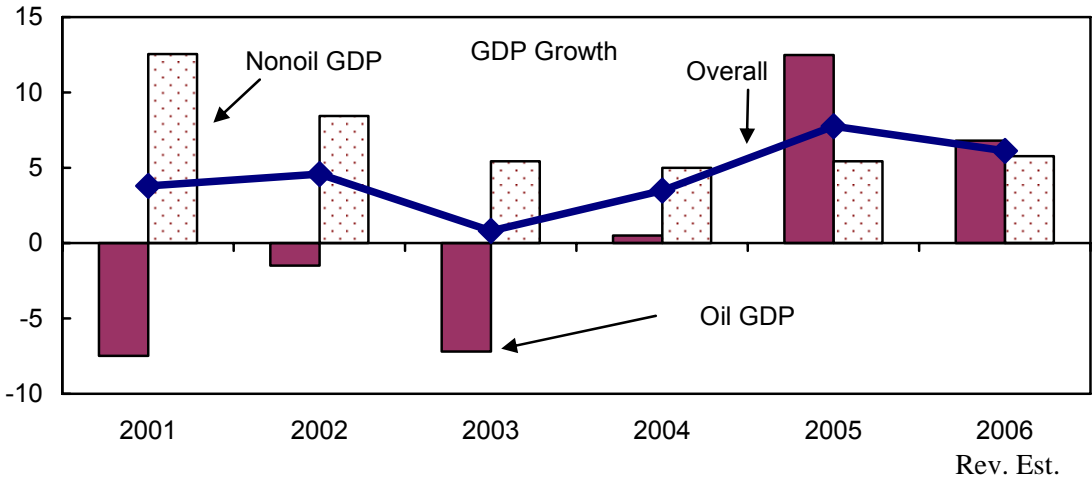
*With the increase in crude oil prices in the last few years....*



*...Congo's oil production and export receipts increased significantly,...*



*...also contributing to higher GDP growth.*



Sources: Congolese authorities and Fund staff estimates and projections.



Figure 2. Republic of Congo: Inflation Developments, Jan 2006-Mar 2007  
(Percent change in Consumer Price Index)

*Inflation increased in 2006, fueled by expansionary fiscal policy and transportation disruptions, but has since moderated.*

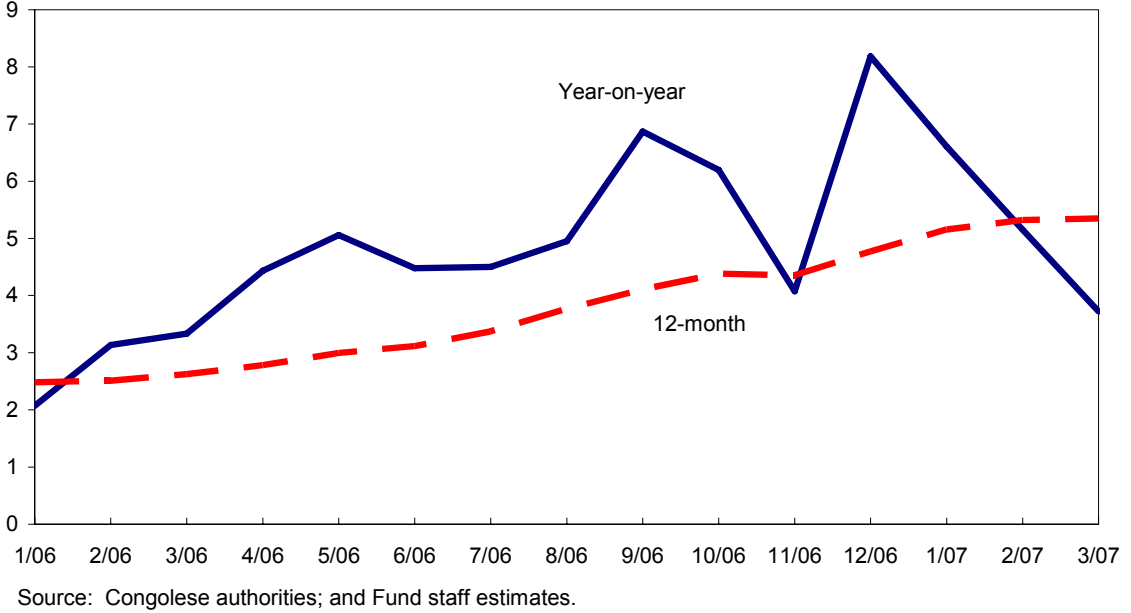


Figure 3. Republic of Congo: Nominal and Real Effective Exchange Rate, 2001-07

*The real effective exchange rate appreciated significantly in 2006, reflecting mainly the inflationary differential with partner countries.*

