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Democratic Republic of the Congo: Review of the 2006 Staff-Monitored Program and a New Staff-Monitored Program for 2007—Staff Report; Staff Statement; Statement by the Executive Director for the Democratic Republic of the Congo

In the context of the review of the 2006 staff-monitored program and a new staff-monitored program for 2007 with the Democratic Republic of the Congo, the following documents have been released and are included in this package:

- The staff report for the Review of the 2006 Staff-Monitored Program and a New Staff-Monitored Program for 2007, prepared by a staff team of the IMF, following discussions that ended on March 13, 2007, with the officials of the Democratic Republic of the Congo on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on May 21, 2007. 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 statement of June 18, 2007 updating information on recent developments.

- A statement by the Executive Director for the Democratic Republic of the Congo.

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

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INTERNATIONAL MONETARY FUND

DEMOCRATIC REPUBLIC OF THE CONGO

Review of the 2006 Staff-Monitored Program and a New Staff-Monitored Program for 2007

Prepared by the African Department
(In consultation with other departments)

Approved by Robert Corker and Anthony Boote

May 21, 2007

- Most quantitative and structural benchmarks under the Staff Monitored Program (SMP) for April-December 2006 were not met; nevertheless, the SMP helped prevent major financial instability during the protracted electoral period.

- The mission assisted the new government in preparing a new SMP for 2007 to improve macroeconomic management and establish a track record of policy implementation. Satisfactory performance under the SMP would open the way for discussions on a new arrangement under the Poverty Reduction and Growth Facility (PRGF).

- Discussions took place in Kinshasa from February 27 to March 13 and during the spring meetings. The staff team comprised Mr. Briançon (head), Mr. Maret (Resident Representative), Mr. Ben Ltaifa, Mr. Hartley (all AFR), Mr. Féler (PDR) and Mr. Westphal (FAD). Mr. N'Sonde, Senior Advisor to Mr. Rutayisire participated in policy meetings.

- The mission met President Kabila, Prime Minister Gizenga, the ministers in charge of finance, budget, planning and mining, and the Governor of the Central Bank.

- The last Article IV consultation was concluded on August 29, 2005. The 2007 Article IV mission is planned for late May 2007. The last PRGF arrangement expired at end-March 2006 without the sixth review being completed, reflecting fiscal slippages and delays in the implementation of structural reforms.

- The Democratic Republic of the Congo (DRC) reached the decision point under the enhanced HIPC Initiative in July 2003. It will receive debt relief thereunder and under the MDRI in excess of US$7 billion in NPV terms at the completion point, which could be reached at the time of the first review of a PRGF arrangement, provided that the PRSP was implemented for one year and floating completion point triggers were observed.

- The authorities agreed to the publication of the Letter of Intent.

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Executive Summary

The protracted election period and security tensions hampered the implementation of the staff monitored program for 2006. Key quantitative and structural benchmarks were not observed. Economic performance remained weak until the new government took office in late February 2007.

Cognizant of the need to reestablish macroeconomic stability, the government agreed on a policy framework for 2007 to be monitored by the staff. Satisfactory performance under the SMP at end-June would pave the way for discussions on a new arrangement under the Poverty Reduction and Growth Facility (PRGF). The DRC could reach the completion point and benefit from debt relief under the enhanced HIPC Initiative and the MDRI at the time of the first review of a new PRGF arrangement.

The combination of a tight fiscal policy stance and a proactive monetary policy is essential to restoring macroeconomic stability. The implementation of a realistic budget under the tight constraints of low external financing and limited recourse to bank borrowing is key for achieving the program objectives and regaining donor support. This requires observing limits on budget appropriations, especially for security and sovereign spending which have been the main sources of fiscal slippages in the past. A proactive monetary policy stance would be best supported by enhancing the efficiency of central bank operations and containing the central bank deficit.

Limited external budget support in 2007 is a source of concern. There remains a financing gap of about 1 percent of GDP if the government is to reduce domestic bank credit during the rest of the year. With limited external financial support and a low level of international reserves, the DRC may continue to be unable to service bilateral debt in 2007.

Accelerating the pace of structural reform is essential to achieve high and sustainable growth. Improving governance in the management of public resources, especially in the mining sector, would help improve the investment climate and government resources devoted to the social sector and reducing poverty. In that context, perseverance in reforming the civil service, the budget process, and public financial management is critical. It is also important to implement the devolution policy imbedded in the new constitution gradually to avoid further weakening central government control over public resources.

The government faces several risks in implementing its economic program. These include preserving security and containing related spending, reaching an agreement with trade unions on a reasonable wage bill and avoiding social tensions, and overcoming the challenges associated with limited external financing and low international reserves.

I. INTRODUCTION

1. **The protracted election period and security tensions made it difficult for the government to implement the staff monitored program in 2006.** Key quantitative and structural benchmarks for end-September and end-December were missed (Appendix I, Tables 1 and 2).

2. **The new government prepared with Fund staff a policy framework for 2007 that is spelled out in the attached Letter of Intent (Appendix I) and will be monitored by staff.** Progress in implementing this framework and meeting the quantitative and structural benchmarks for end-June 2007 would allow for the start of discussions on a medium-term program that could be supported by the Fund under a new PRGF arrangement. In turn, completion of the first review of the new PRGF arrangement would be one of the conditions for the DRC to reach the completion point and benefit from debt relief under the enhanced HIPC Initiative and the Multilateral Debt Relief Initiative (MDRI).

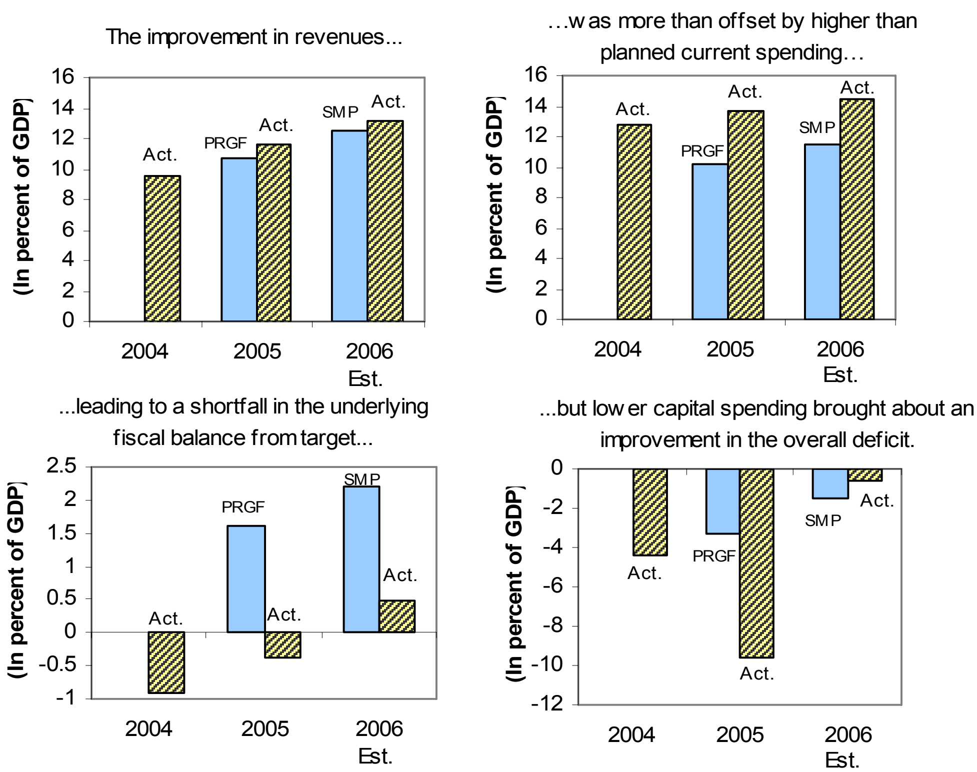
3. **The SMP for 2007 is a first step toward implementing the program of the new government endorsed by the National Assembly in February 2007**. The program, which draws on the PRSP adopted in July 2006, emphasizes five priority sectors to rebuild the country—infrastructure, employment, education, water, and electricity—and includes a compact to strengthen governance. The government is fully aware that implementing a strong set of policies is essential for meeting the population's high expectations that the free and democratic elections would bring a rapid improvement in living conditions.

4. **The first free and democratic elections in more than 40 years were a success.** The elections of the President and the National Assembly ended three years of the political transition. A new government headed by Prime Minister Gizenga was confirmed by the National Assembly on February 23; it comprises 60 ministers and deputy ministers, representing a broad coalition supporting the President. Given the size of the government, however, policy coordination may remain a challenge. Furthermore, the armed confrontation that erupted in Kinshasa on March 22-23 demonstrates the fragility of the political and security situations and the need to strengthen them for the government to focus on stabilizing the economy.

II. RECENT DEVELOPMENTS AND PERFORMANCE UNDER THE SMP

5. **Macroeconomic performance fell short of objectives in 2006.** By the end of last year, gross international reserves stood at US$150 million compared with the SMP target of US$247 million, the Congo franc had depreciated by 15 percent against the US dollar, and 12-month inflation had risen to 18.2 percent, compared with a target of 9.5 percent. The government also did not service its debt to official bilateral creditors amounting to US$58 million in the second half of 2006. Real GDP growth slowed slightly to 5.1 percent, owing to stagnating output in mining and manufacturing.

Figure 1. Democratic Republic of the Congo: Fiscal Developments, 2004–06



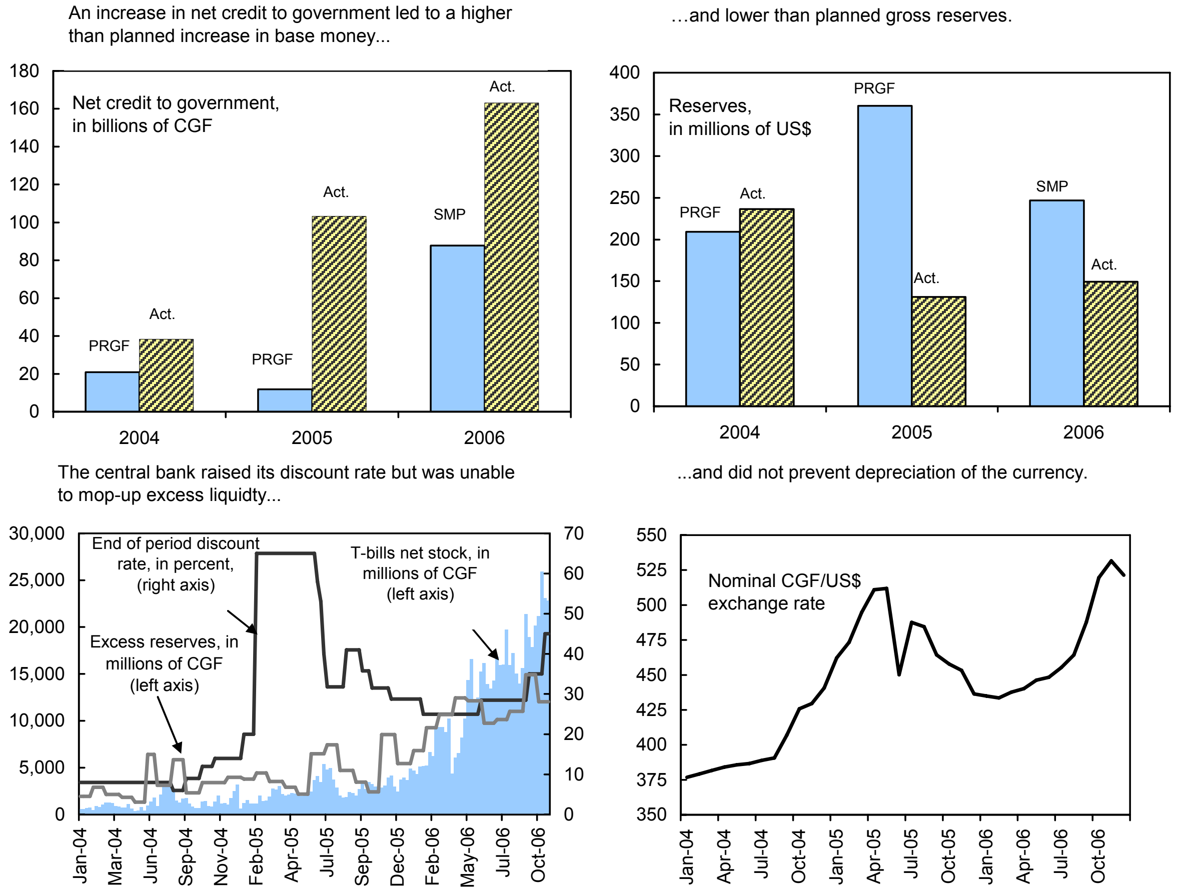
Source: Congolese authorities and IMF staff estimates.

6. **An easing of fiscal policy was mainly responsible for last year's poor performance.** The underlying fiscal surplus amounted to only ½ percent of GDP in 2006 compared with a target of 2.2 percent.[1] As in the past, the government continued to have difficulties containing money financed current expenditure—especially for sovereignty and security. In addition, central bank losses were twice as large as anticipated (0.5 percent of GDP) mainly because of a large increase in operating expenses. Capital expenditure was much less than targeted, because the execution of foreign-financed projects slowed down during the elections. On a more positive note, an improvement in tax administration, achieved with Fund-supported technical assistance, led to a better-than-anticipated revenue performance.

7. **A tightening of monetary policy in late 2006 was unable to mop up the excess liquidity resulting from money-financed government expenditure.** The central bank increased interest rates by 16.5 percentage points to 45 percent and doubled reserve requirements to 4 percent in September-October 2006. While this led to an increase in the outstanding stock of central bank bonds to a modest 0.4 percent of GDP by end-2006, this was not sufficient to prevent broad money from expanding by 60 percent last year.

[1]The underlying fiscal balance excludes grants, exceptional spending tied to the elections and the political transition, foreign-financed spending, and external interest payments.

Figure 2. Democratic Republic of the Congo: Monetary Developments, 2004–06



Source: Congolese authorites and IMF staff estimates.

8. **The macroeconomic situation worsened in early 2007, before the formation of a new government.** It took three months for the new government to be formed and approved by Parliament in late February. The resulting political vacuum led to further overspending that the Central Bank of the Congo (BCC) was unable to offset by increasing interest rates further to 50 percent. Hence, in the first two months of 2007, the Congo franc slid a further 12 percent, 12-month inflation rose to 21 percent, and international reserves dropped to about US$100 million or 1½ weeks of non-aid related imports. Preliminary budget reports also indicate that the government was unable to settle in the first months of 2007 all domestic payment orders issued toward the end of 2006, resulting in a possible accumulation of arrears.

9. **Since March 2007, a tightening of policies has helped stabilize the economic situation.** Better than anticipated government revenue and a tightening of government spending led to a reduction of ½ percent of GDP in net bank credit to the government. International reserves recovered to $160 million in April, from $100 million at end-February,

as oil companies made large tax and royalty payments in US dollars. The exchange rate appreciated somewhat in March-April.

10. **The DRC continued not to service its external debt owed to official bilateral creditors in the first quarter of 2007.** The government communicated these difficulties to the Paris Club secretariat in April 2007. It reiterated its commitment to strengthen economic policy implementation, to prepare a medium-term program eligible for IMF financial support and to normalize the DRC's relations with Paris Club creditors as soon as possible. In addition, the government indicated that it would continue to seek debt relief on comparable terms from all other external creditors.

III. The Program for 2007

11. **With a democratically-elected President and Parliament, the DRC is entering a new era.** Capitalizing on the mandate received from voters, the new government has an opportunity to demonstrate its determination to strengthen macroeconomic stability, fight corruption, and pursue structural reforms. The challenge is to strengthen macroeconomic management to set the stage for sustainable growth and poverty reduction. Improved public financial management, governance, and accountability are crucial for the government to balance high expectations of the population with tight resources, including limited external budget support.

A. Macroeconomic and Structural Policies

12. **Macroeconomic targets for 2007 reflect continued recovery of the economy from a low base**. Real GDP growth is expected to reach 6.5 percent on the back of a rebound in mining and manufacturing, and investments in infrastructure and social sectors. End-of-period inflation is projected to decline to 12 percent, assuming a tightening of fiscal policy. The international reserve target is set at 3 weeks of non-aid related imports, taking into account the low level of external budget support expected thus far.

13. **The authorities agreed with the mission on the need to tighten fiscal policy.** The key objective is to refrain from financing government spending through domestic bank credit for the rest of 2007 to reduce pressure on the Congo franc and inflation. This is a challenging objective, given limited scope for increasing government revenue in the short term, the lack of untied external budget support currently expected, projected debt service payments, and likely pressures to increase civil service salaries. In the draft budget for 2007, which the authorities intend to submit to the Parliament in May, the target for the underlying fiscal surplus (cash-basis) was set at 1.3 percent of GDP, compared with 0.5 percent of GDP achieved in 2006.[2] Nevertheless, there remains a financing gap of US$85 million (0.9 percent of GDP) if arrears on external debt service and domestic bank financing of the budget are to be avoided in 2007. Staff emphasized the urgency of mobilizing donor funding and

[2] The government is currently operating under a budget resolution maintaining budget appropriations at their 2006 level.

recommended that the government hold back on spending as much as possible until additional external support is mobilized.[3] Staff also explained the difficult budget situation to donors and the risk that the DRC would be unable to service all external debt falling due in 2007 without additional support.

14. **The mission urged the authorities to be cautious in setting an objective for government revenue in 2007.** Initially, the new government believed it could increase revenue rapidly by combating corruption in tax administration. While recognizing that fighting corruption was essential, staff pointed out that improving tax administration was in general a slow process showing large benefit mostly over the medium term. It would also be a challenge to offset a drop in oil revenue, projected at 1.1 percent of GDP, resulting from lower international prices.[4] Thus, the government agreed that an ambitious target would be to keep total government revenue unchanged in 2007 at 13¼ percent of GDP. The authorities expect that ongoing tax administration reforms, especially improved controls at the border, will increase government revenue by 0.8 percent of GDP. In addition, starting on July 1, 2007, the government will increase the main rate of the turnover tax from 13 percent to 15 percent, a measure anticipated to yield ½ percent of GDP on an annual basis.

15. **The government aims at reducing non-interest current spending relative to GDP to 10 percent in 2007, bringing it back to its pre-election level.** The bulk of the effort will come from tightening non wage and non-interest current spending, which is targeted to decline by 1.0 percentage points to 4.5 percent of GDP in 2007, largely through better control over spending for sovereignty (see below). At the same time, outlays for health and education are to increase to 2.9 percent of GDP in 2007. Exceptional spending—mainly foreign financed outlays for the elections—would decline by 3 percentage points of GDP, while spending on public investment would increase by 0.3 percentage points of GDP to a still moderate 3.7 percent of GDP.

16. **The government has committed to keep the wage bill at 5.5 percent of GDP in 2007, as in 2006**. To strengthen control over the size of the civil service, the government is determined to implement measures to strengthen the payroll, complete the civil service and military censuses, and standardize civil service enrollment procedures. The authorities are also assessing the possibility of incorporating previously unpaid teachers into the civil service and granting a moderate pay increase starting in July 2007, while observing the ceiling for the wage bill. The authorities have also started work on a broad reform of the civil service with the assistance of the World Bank. In addition, the government is committed to

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[3] No untied budget support has been confirmed for 2007. However, under an emergency aid package approved on March 29, 2007, the World Bank is to finance US$16 million in school operating expenditure and $41.8 million in payments of domestic debt in 2007. The emergency package also includes financing for investment projects.

[4] The drop in revenue is partly due to the fact that profit taxes are paid with a lag, which boosted revenue in 2006, but is likely to reduce it in 2007. Nevertheless, since the discussions on the program in March 2007, the international price of oil has recovered, and so the drop in oil revenue may not be as large as projected.

improving control over the military payroll with the support of the international community (Appendix I, paragraph 16).

17. **The government agreed that strengthening of public financial management is a high priority**. The objective is to enhance the efficiency of public spending through greater transparency. The government is committed to strictly observe spending ceilings included in the monthly spending commitment plan and cash flow plan, which are posted on the internet. Particular attention will be paid to controlling spending for sovereignty (security, the Parliament, the Presidency and cabinets of ministries), which accounted for most of overspending in the past. To be successful, however, this will require a strong commitment on the part of the government as well as an improved security situation. The mission also urged the authorities to enforce spending procedures and reduce cash advances, which often bypass procedures. Another important aspect is the strengthening of the management of government accounts at the central bank, with weaknesses in accounting and audit frameworks to be addressed in the coming months (benchmarks for end-June 2007).

18. **The government is seeking assistance from the Fund and other donors to deal with the challenges created by the transfer of revenue in the context of devolution.** Under the constitution, 40 percent of government revenue collected in a province is to be transferred to the provinces and an additional 10 percent is to finance an equalization fund for all the provinces. The government has drafted two laws specifying how devolution is to be implemented. Staff urged the authorities to implement such a reform over a long timeframe to avoid weakening public resource management. It emphasized the importance (i) for the central government to retain fiscal control and for provinces to implement budget procedures and monitoring mechanisms; and (ii) for higher revenue transfers to be commensurate with a transfer of spending responsibilities and improved local government capacity. The mission indicated that Fund staff was ready to work with the World Bank and other donors in assisting in the preparation of a framework for the devolution of revenue and expenditure responsibilities to provinces.

19. **Reining in inflationary pressures through a tight monetary policy will remain a challenge for the BCC.** The effectiveness of monetary policy is constrained by the high dollarization of the economy—90 percent of bank deposits are denominated in foreign currencies—an unstable demand for local currency, fiscal dominance, and thin financial markets. The conduct of monetary policy is further hindered by capacity constraints at the level of the central bank, including high operational costs, weak auditing and accounting frameworks, poor liquidity management, and insufficient forecasting capacity.

20. **Against this backdrop, the BCC will maintain a proactive interest rate policy in combination with the use of central bank bonds to mop up commercial banks' excess liquidity.** To that effect, the BCC will work to improve its liquidity management and forecasting capacity, including through better coordination with the Ministry of Finance. In addition, it will seek to rebuild international reserves and observe the quarterly targets through foreign exchange intervention.

21. **The central bank will continue strengthening its operations with the assistance of Fund technical experts**. In particular, the BCC expects to complete the restructuring of the departments in charge of currency issuance, accounting, internal audit, and banking supervision in 2007. An audit of the BCC's organization to be completed by end-May 2007 is to recommend additional measures to strengthen central bank operations while reducing their costs. In the meantime, the BCC will cut its operating deficit by more than one half to 0.2 percent of GDP (excluding the cost of monetary policy) by limiting expenditures.

22. **The letter of intent includes structural measures that were not implemented under the SMP for 2006 as well as other new measures to improve transparency, including in the mining sector** (see table). More complete discussions of structural reforms the government plans to implement will take place in the context of the discussions for the 2007 Article IV consultation and subsequent discussions on a new PRGF-supported program.

B. Program Monitoring

23. **The government and staff will assess progress in implementing the SMP against quantitative and structural benchmarks** (Appendix I, Tables 3 and 4). Test dates for the quantitative benchmarks are June 30, September 30 and December 31, 2007.

C. Risks

24. **Implementing the SMP for 2007 presents the government with many challenges.** First, insufficient external budget support to fill the US$85 million residual financing gap would lead to further accumulation of arrears on debt service to bilateral creditors. Second, the government may be unable to prevent a depreciation of the Congo franc in the face of exogenous shocks that could result if the political and security situation were to deteriorate. Third, the government will have to demonstrate a stronger commitment than in the past to observe extremely tight spending ceilings and avoid money financed overruns, especially for security; expectations raised by elections will make this extremely difficult. Fourth, the size of the government is likely to make it difficult to improve its decision making process and avoid recurrent delays in structural reforms (including those that were supposed to be implemented in 2006). Fifth, the government needs to work with trade unions to avoid social tensions and granting a large public sector pay increase. And sixth, a too rapid devolution of revenue and spending responsibilities to provinces could lead the central government to lose control over public financial management.

IV. Staff Appraisal

25. **Recent slippages have put at risk the significant progress toward macroeconomic stability achieved during the 2002-2006 PRGF arrangement**. With support from the Fund and donors, the DRC succeeded in reviving economic growth, bringing inflation to a manageable level and reducing exchange rate volatility. However, performance deteriorated starting late in 2005, as the focus of the transitional government shifted to the elections, which prevented the conclusion of the sixth review before the expiration of the PRGF arrangement and, later, the successful conclusion of the 2006 SMP.

26. **With a democratically elected President and Parliament, the DRC has a great opportunity to rise to persistent challenges.** Capitalizing on the mandate received from voters, the new government has an opportunity to make difficult decisions and demonstrate its determination to strengthen macroeconomic stability, achieve high and sustainable growth and reduce poverty. Improved governance and enhanced public financial management are critical to mobilizing the support of both the population and donors.

27. **The 2007 SMP offers the new government an opportunity to demonstrate its determination to get away from the cycle of loose macroeconomic policies, resulting in a rapid depreciation of the currency and high inflation, followed by periods of policy tightening.** Strong implementation of the SMP including a qualitative change in the conduct of macroeconomic management and policies would set a solid basis for discussions of a medium-term program that would warrant Fund support under a new PRGF arrangement and increased external assistance.

28. **Tightening fiscal policy is central to restoring macroeconomic stability.** The implementation of a realistic budget that is responsive to available external financing, with limited recourse to bank financing, is crucial. If the fragile security situation requires additional spending, this will have to be offset by cutting other expenditure to avoid pressure on the exchange rate and inflation. The new government needs to implement a prudent wage policy and resist granting a large pay increase that it could finance only through monetary creation.

29. **The BCC should maintain a proactive monetary policy and improve its operations.** Achieving the monetary policy objectives will require a dynamic interest rate policy, supported by improved liquidity forecasting and management. Prudent management of international reserves is also necessary for the central bank to meet its quarterly reserve targets. To improve transparency and contain its deficit, the BCC needs to accelerate key reforms, including implementing the new computerized accounting system and completing the audit of its organization.

30. **Progress in other structural reforms is critical to the successful implementation of the economic program**. These include improving the transparency and management of the mining sector; strengthening public financial management, especially observing ceilings on budget appropriations; and implementing a comprehensive civil service reform to contain the wage bill.

31. **External financial assistance is essential to strengthen the macroeconomic environment, rebuild the economy, and improve living standards, and respond to expectations raised by the democratic process.** Strong program implementation would help galvanize donor support that is necessary to cover the remaining financing gap of US$85 million in the 2007 budget. Lack of additional financial support would likely lead to a further accumulation of arrears on bilateral debt service.

32. **The government will have to deal with many risks in implementing the staff-monitored program.** These include overcoming the challenges associated with limited external financing and low international reserves, preserving security and containing related spending, increasing the focus of the large coalition government on macroeconomic policies, and implementing a reasonable wage bill while avoiding social tensions.

Table 1. Democratic Republic of the Congo: Selected Economic and Financial Indicators, 2004–07

	2004	2005	2006 SMP	2006 Est.	2007 Proj.
	(Annual percentage change; unless otherwise indicated)				
GDP and prices					
Real GDP	6.6	6.5	6.5	5.1	6.5
GDP deflator	6.1	21.6	7.9	13.1	17.0
Consumer prices, period average	4.0	21.4	10.0	13.2	17.4
Consumer prices, end-of-period	9.2	21.3	9.5	18.2	12.0
External sector					
Exports, f.o.b. (U.S. dollar terms)	35.3	14.3	15.5	12.0	8.7
Imports, f.o.b. (U.S. dollar terms)	43.3	41.1	26.1	10.8	5.1
Export volume	20.1	-3.2	10.0	3.8	9.0
Import volume	31.7	32.9	26.4	9.0	2.1
Terms of trade	3.5	11.2	5.2	6.1	-3.1
Nominal effective exchange rate [1]	-12.0	-17.6	…	1.5	…
Real effective exchange rate [1]	-5.1	-2.1	…	11.8	…
	(Annual change in percent of beginning-of-period broad money; unless otherwise indicated)				
Money and credit					
Broad money	72.9	24.2	20.8	60.2	27.3
Net foreign assets	-18.3	3.7	11.8	-12.6	8.3
Net domestic assets	92.3	21.8	10.5	73.4	20.3
Of which:					
Net credit to government	-1.9	26.6	-5.8	17.8	2.5
Credit to the private sector (annual percent change)	105.5	58.1	15.5	78.7	28.3
	(Percent of GDP; unless otherwise indicated)				
Central government finance					
Total government revenue	9.5	11.6	12.5	13.2	13.3
Grants	2.0	5.2	9.5	8.2	5.9
Total government expenditure [2]	15.6	19.9	23.2	22.1	18.0
Underlying fiscal balance (cash basis)	-0.9	-0.4	2.2	0.5	1.3
Overall fiscal balance (payment order basis, incl. grants)	-4.1	-3.1	-1.2	-0.7	1.2
Overall fiscal balance (cash basis, incl. grants) [3]	-2.2	-8.4	-0.7	-0.1	1.4
Investment and saving					
Gross national saving	9.7	3.9	11.9	5.8	5.6
Government	-2.2	-2.6	2.3	-0.4	0.7
Nongovernment	11.9	6.5	9.5	6.2	4.9
Investment	12.8	13.9	16.7	13.4	15.2
Government [4]	2.8	3.4	6.7	3.4	3.7
Nongovernment	10.0	10.5	10.0	10.0	11.5
Balance of payments					
Exports of goods and services	30.3	34.0	30.5	31.7	32.2
Imports of goods and services	34.4	45.7	42.4	42.0	42.6
Current account balance, incl. transfers	-3.0	-10.0	-5.8	-7.5	-9.6
Current account balance, excl. transfers	-8.0	-15.0	-14.8	-15.6	-15.3
Gross official reserves (end-of-period, millions of U.S. dollars)	236.2	131.2	246.8	149.3	171.3
Gross official reserves (weeks of nonaid-related imports of goods and services)	5.4	2.7	4.2	2.8	3.2
	(Millions of U.S. dollars; unless otherwise indicated)				
External public debt					
Total stock, including IMF [5]	10,643	10,822	10,813	10,813	5,151
Net present value (NPV) of debt [6]	7,348	7,624	6,125	7,831	1,789
NPV (percent of exports of goods and services) [6]	474.7	400.6	265.4	339.4	68.7
Scheduled debt service	163.2	154.1	251.6	251.6	335.9
Percent of exports of goods and services	8.2	6.4	9.8	9.3	11.7
Percent of government revenue	21.7	12.9	13.6	13.7	19.5
Exchange rate, Congo franc/U.S. dollar					
Period average	397.8	474.4	…	468.3	…
End-of-period	444.1	431.3	…	503.4	…
Memorandum items:					
Nominal GDP (billions of Congo francs)	2,601	3,366	3,868	4,001	4,986

Sources: Congolese authorities and IMF staff estimates and projections.

[1] Change in annual average. Minus sign indicates depreciation.
[2] Includes interest due before debt relief and expenditure financed by HIPC resources.
[3] Cash balance after debt relief on interest payments.
[4] From 2003 onward, includes investment financed by resources released under the enhanced HIPC Initiative.
[5] End-of-period debt stock includes accumulated arrears and reflects the arrears clearance arrangements concluded at the HIPC decision point. The increase in the projected stock-of-debt at end-2006 reflects the postponement of the HIPC completion point from 2006 to 2007.
[6] Estimates and projections based on end-2002 DSA and after HIPC Initiative assistance assuming completion point in 2007, and includes assistance beyond the terms of the enhanced HIPC Initiative granted by some Paris Club creditors. Exports are on a three-year backward moving average.

Table 2. Democratic Republic of the Congo: Central Government Financial Operations, 2004–07

	2004	2005	2006		2007
	Est.	Est.	SMP	Est.	Proj.
	(Billions of Congo francs; unless otherwise indicated)				
Total revenue and grants	299.4	564.9	850.2	856.8	957.0
Total revenue	248.0	389.0	482.8	528.7	662.0
Customs and excise	104.1	145.4	169.8	195.5	272.6
Direct and indirect taxes	71.4	111.4	141.0	157.9	217.6
Petroleum (royalties and taxes)	52.1	98.1	124.1	132.5	109.9
Other	20.4	34.1	47.9	42.8	61.9
Total grants	51.4	175.9	367.5	328.1	295.1
Budget grants	2.4	5.6	40.5	39.3	0.0
Project grants	26.3	75.2	205.8	165.5	84.4
HIPC Initiative assistance [1]	22.7	95.2	121.1	123.3	210.7
Total expenditure	405.8	670.5	896.7	883.9	897.2
Current expenditure	333.3	459.6	477.2	578.2	647.9
Wages [2]	93.2	146.8	180.1	218.9	274.3
Interest due [3]	93.6	125.0	122.0	139.0	150.6
Of which: on external debt	86.1	107.2	112.0	116.1	125.5
Transfers and subsidies	26.6	43.9	47.4	87.1	84.1
Other current expenditure	119.9	143.8	127.6	133.2	139.0
Of which: centralized payments	30.6	27.4	25.6	26.6	11.2
Capital expenditure	72.1	113.9	240.7	134.1	183.6
Foreign-financed	57.0	79.5	221.0	92.1	125.7
Domestic-financed	15.1	34.4	19.6	41.9	57.9
Exceptional expenditure [4]	0.4	97.1	178.8	171.7	65.6
Foreign-financed	0.4	64.2	133.0	130.9	40.1
Domestic-financed	0.0	32.9	45.9	40.8	25.5
o/w: BC bailout	...	...	...	...	10.5
Other HIPC-related expenditure [5]	0.0	0.0	0.0	0.0	0.0
Overall fiscal balance (payment order basis)	-106.4	-105.6	-46.5	-27.1	59.9
Underlying fiscal balance (payment order basis)	-14.3	2.2	98.0	24.6	81.5
Change in arrears (increase = +) [6]	-1.4	-203.2	-2.1	-6.6	-4.4
Float (increase = +)	11.4	0.4	0.0	21.2	0.0
Central bank operational result	-19.1	-15.1	-10.0	-20.1	-10.0
Overall fiscal balance (cash basis, before interest rescheduling)	-115.4	-323.6	-58.6	-32.6	45.4
Underlying fiscal balance [7]	-23.3	-12.5	85.9	19.1	67.1
Total financing	115.4	323.6	58.5	32.6	-45.4
Domestic financing	0.2	261.1	-29.0	43.5	-12.8
Banking system	0.2	57.4	-15.5	47.5	10.5
Non bank	0.0	25.6	-13.5	-4.0	-23.3
Domestic debt relief	0.0	178.1	0.0	0.0	0.0
Foreign financing	89.3	60.1	56.1	-13.1	-79.7
Amortization due before debt relief	-84.5	-135.1	-216.9	-213.1	-278.5
Budget loans	60.9	50.7	0.0	0.0	0.0
Project loans	28.1	64.7	148.2	53.0	113.5
Debt relief	84.8	79.8	124.8	122.5	85.3
Accumulation of external arrears	0.0	0.0	0.0	24.4	0.0
Residual financing gap/errors and omissions	25.9	2.4	31.4	2.2	47.1
Memorandum items:					
GDP (billions of Congo francs)	2,601.3	3,366	3,868	4,001	4,986

Sources: Congolese authorities and IMF staff estimates and projections.

[1] Reflects revised calculation of HIPC Initiative assistance from 2002-based Debt Sustainability Analysis (DSA).
[2] For 2004 and 2005, program figures reflect a change in classification of retirement allowances as part of exceptional spending.
[3] For 2005, interest payments include rescheduling agreements with commercial creditors under the enhanced HIPC Initiative.
[4] Exceptional expenditure includes spending for the Demobilization, Disarmament, and Reintegration (DDR) program, cost of the elections, payments for retirement allowances, repayments of domestic arrears, and payment for bank
[5] For 2005, HIPC Initiative savings used for pro-poor wages and domestic investment were recorded under wages and domestic-financed investment.
[6] Internal and external arrears.
[7] Underlying fiscal balance is defined as revenue minus expenditure and excluding interest on foreign debt, foreign-financed capital expenditures, all exceptional spending and repayment of domestic arrears. Difference between estimated figure for 2005 and the one reported in IMF Country Report No. 05/347 reflects the change in definition to exclude all exceptional spending.

Table 3. Democratic Republic of the Congo: Central Government Financial Operations, 2004–07

	2004	2005	2006		2007
	Est.	Est.	SMP	Est.	Proj.
	(Percent of GDP; unless otherwise indicated)				
Total revenue and grants	11.5	16.8	22.0	21.4	19.2
Total revenue	9.5	11.6	12.5	13.2	13.3
Customs and excise	4.0	4.3	4.4	4.9	5.5
Direct and indirect taxes	2.7	3.3	3.6	3.9	4.4
Petroleum (royalties and taxes)	2.0	2.9	3.2	3.3	2.2
Other	0.8	1.0	1.2	1.1	1.2
Total grants	2.0	5.2	9.5	8.2	5.9
Budget grants	0.1	0.2	1.0	1.0	0.0
Project grants	1.0	2.2	5.3	4.1	1.7
HIPC Initiative assistance [1]	0.9	2.8	3.1	3.1	4.2
Total expenditure	15.6	19.9	23.2	22.1	18.0
Current expenditure	12.8	13.7	12.3	14.5	13.0
Wages [2]	3.6	4.4	4.7	5.5	5.5
Interest due [3]	3.6	3.7	3.2	3.5	3.0
Of which: on external debt	3.3	3.2	2.9	2.9	2.5
Transfers and subsidies	1.0	1.3	1.2	2.2	1.7
Other current expenditure	4.6	4.3	3.3	3.3	2.8
Of which: centralized payments	1.2	0.8	0.7	0.7	0.2
Capital expenditure	2.8	3.4	6.2	3.4	3.7
Foreign-financed	2.2	2.4	5.7	2.3	2.5
Domestic-financed	0.6	1.0	0.5	1.0	1.2
Exceptional expenditure [4]	0.0	2.9	4.6	4.3	1.3
Foreign-financed	0.0	1.9	3.4	3.3	0.8
Domestic-financed	0.0	1.0	1.2	1.0	0.5
o/w: BC bailout	...	...	...	...	0.2
Other HIPC-related expenditure [5]	0.0	0.0	0.0	0.0	0.0
Overall fiscal balance (payment order basis)	-4.1	-3.1	-1.2	-0.7	1.2
Underlying fiscal balance (payment order basis)	-0.6	0.1	2.5	0.6	1.6
Change in arrears (increase = +) [6]	-0.1	-6.0	-0.1	-0.2	-0.1
Float (increase = +)	0.4	0.0	0.0	0.5	0.0
Central bank operational result	-0.7	-0.4	-0.3	-0.5	-0.2
Overall fiscal balance (cash basis, before interest rescheduling)	-4.4	-9.6	-1.5	-0.8	0.9
Underlying fiscal balance [7]	-0.9	-0.4	2.2	0.5	1.3
Total financing	4.4	9.6	1.5	0.8	-0.9
Domestic financing	0.0	7.8	-0.8	1.1	-0.3
Banking system	0.0	1.7	-0.4	1.2	0.2
Non bank	0.0	0.8	-0.4	-0.1	-0.5
Domestic debt relief	0.0	5.3	0.0	0.0	0.0
Foreign financing	3.4	1.8	1.5	-0.3	-1.6
Amortization due before debt relief	-3.2	-4.0	-5.6	-5.3	-5.6
Budget loans	2.3	1.5	0.0	0.0	0.0
Project loans	1.1	1.9	3.8	1.3	2.3
Debt relief	3.3	2.4	3.2	3.1	1.7
Accumulation of external arrears	0.0	0.0	0.0	0.6	0.0
Residual financing gap	1.0	0.1	0.8	0.1	0.9
Memorandum items:					
GDP (billions of Congo francs)	2,601	3,366	3,868	4,001	4,986

Sources: Congolese authorities and IMF staff estimates and projections.

[1] Reflects revised calculation of HIPC Initiative assistance from 2002-based Debt Sustainability Analysis (DSA).
[2] For 2004 and 2005, program figures reflect a change in classification of retirement allowances as part of exceptional spending.
[3] For 2005, interest payments include rescheduling agreements with commercial creditors under the enhanced HIPC Initiative.
[4] Exceptional expenditure includes spending for the Demobilization, Disarmament, and Reintegration (DDR) program, cost of
[5] For 2005, HIPC Initiative savings used for pro-poor wages and domestic investment were recorded under wages and domestic-financed investment.
[6] Internal and external arrears.
[7] Underlying fiscal balance is defined as revenue minus expenditure and excluding interest on foreign debt, foreign-financed capital expenditures, all exceptional spending and repayment of domestic arrears. Difference between estimated figure for 2005 and the one reported in IMF Country Report No. 05/347 reflects the change in definition to exclude all exceptional spending.

Table 4. Democratic Republic of the Congo: Cumulative Cash-Flow Plan, Quarterly 2007 [1]

	2007			
	Q1 Proj.	Q2 Proj.	Q3 Proj.	Q4 Proj.
Total revenue and grants	178,575	343,377	526,841	746,392
Total revenue	169,169	311,081	477,426	661,951
Customs and excise	54,042	112,057	188,450	272,582
Direct and indirect taxes	54,967	102,920	161,153	217,554
Non-tax revenue	22,294	35,783	47,697	61,929
Petroleum revenue	37,866	60,321	80,127	109,886
Total grants	9,406	32,296	49,415	84,441
Budget grants	0	0	0	0
Project grants	9,406	32,296	49,415	84,441
Total expenditure [2]	183,175	371,503	577,475	793,684
Current expenditure	134,230	253,754	385,755	530,010
Wages	59,280	119,056	191,740	274,314
Interest paid	13,360	18,954	25,230	32,648
External debt	1,821	2,780	4,523	7,523
Domestic debt	11,539	16,174	20,707	25,125
Other current expenditure	47,920	77,252	107,469	138,952
Institutions	7,931	13,509	19,162	26,207
Ministries	32,429	53,186	74,284	95,955
Centralized payments (utilities)	6,748	8,031	9,622	11,205
Decentralized services	812	2,527	4,401	5,585
Other	0	0	0	0
Transfers and subsidies	13,671	38,492	61,317	84,096
Capital expenditure	13,638	66,678	120,834	183,647
Foreign-financed	7,283	45,861	85,049	125,701
Domestic financed	6,355	20,817	35,784	57,946
Exceptional expenditures [3]	27,066	36,964	48,451	65,591
Domestically financed	19,855	20,939	22,811	25,528
Foreign financed	7,211	16,025	25,640	40,063
Float (increase = -)	0	3,500	10,000	0
Repayment of domestic arrears	3,153	4,436	4,436	4,436
BCC treasury deficit	5,088	6,171	7,999	10,000
Underlying fiscal balance (cash basis) [4]	22,164	25,184	37,975	67,082
Consolidated balance (cash basis)	-4,600	-28,126	-50,634	-47,291
Total financing	4,600	28,126	50,634	47,291
Domestic financing	-1,737	-4,990	21,257	-12,778
Banking system [5]	-1,737	6,648	32,895	10,498
Non bank	0	-11,638	-11,638	-23,276
Foreign financing	-3,868	22,910	19,171	49,864
Amortization (net payment) [2]	-8,956	-18,318	-58,196	-71,392
Clearance of external arrears	0	0	0	-28,744
Loans	5,088	41,228	77,368	113,508
Project loans	5,088	41,228	77,368	113,508
Residual financing gap/errors and omissions	0	0	0	47,092
Memo. item: Accumulation of external arrears	28,744	28,744	28,744	0

Sources: Congolese authorities and staff estimates and projections.

[1] Excluding HIPC
[2] Including domestic arrears and the balance of the BCC (for the latter,a minus sign corresponds to a surplus).
[3] Exceptional expenditure include spending for the DDR program, cost of the elections, payments for retirement allowances, repayment of the domestic debt, and payment for bank restructuring.
[4] Underlying fiscal balance is defined as revenue minus expenditure and excluding interest on foreign debt, foreign-financed capital expenditures, all exceptional spending and repayment of domestic arrears. Difference between estimated figure for 2005 and the one reported in IMF Country Report No. 05/347 reflects the change in definition to exclude all exceptional spending.
[5] Net banking system credit to the government plus treasury balance of the Central Bank.

Table 5. Democratic Republic of the Congo: Monetary Survey, 2004–07
(At current exchange rates)

	2004	2005	2006				2007			
			Sep. SMP	Sep. Prel.	Dec. SMP	Dec. Prel.	Mar Proj.	Jun Proj.	Sep Proj.	Dec Proj.
	(Billions of Congo francs)									
Net foreign assets	-281.8	-273.9	-279.3	-294.3	-242.3	-307.4	-322.1	-309.6	-315.0	-271.8
Net domestic assets	504.0	551.0	601.6	680.9	579.0	747.3	816.8	826.9	854.9	834.2
Domestic credit	68.9	148.0	161.3	206.2	143.6	246.9	263.0	276.1	307.1	289.3
Net credit to government	27.2	84.6	84.6	102.0	69.1	132.1	130.4	138.8	165.0	142.6
Credit to the private sector	39.9	63.0	74.7	101.8	72.8	112.7	130.3	135.1	139.8	144.6
Credit to parastatals	1.8	0.4	2.0	2.4	1.7	2.2	2.3	2.3	2.2	2.2
Other items, net (including valuation change)	435.1	403.0	440.3	474.7	435.4	500.3	553.7	550.8	547.8	544.9
Broad money (M2)	215.3	267.3	310.2	377.2	322.9	428.3	481.8	503.0	524.2	545.4
Narrow money (M1)	117.1	138.9	154.2	188.6	167.8	213.2	225.0	242.1	259.3	276.4
Currency in circulation	101.5	119.9	125.8	148.0	140.9	182.4	189.4	203.0	216.5	230.1
Demand deposits	15.6	19.0	28.4	40.6	26.9	30.8	35.6	39.1	42.7	46.3
Quasi money	98.2	128.4	156.0	188.6	155.2	215.1	256.9	260.9	264.9	269.0
Time deposits in domestic currency	0.4	0.4	1.2	0.9	1.8	0.4	0.6	0.8	1.1	1.4
Foreign currency deposits	97.8	128.0	154.7	187.7	153.4	214.6	256.3	260.1	263.8	267.6
Import deposits	7.0	9.8	12.1	9.4	13.7	11.5	12.9	14.3	15.6	17.0
	(Year-on-year change in percent)									
Net foreign assets	-8.8	2.8	-4.8	-10.5	11.5	-12.3	-22.6	-11.5	-7.0	11.6
Net domestic assets	29.5	9.3	14.2	29.3	5.1	35.6	44.8	37.3	25.5	11.6
Domestic credit	40.0	115.0	56.8	100.5	-3.0	66.8	95.0	65.2	48.9	17.2
Net credit to government	-8.0	210.8	71.8	107.3	-18.3	56.2	95.8	68.9	61.7	7.9
Credit to the private sector	105.5	58.1	40.8	91.7	15.5	78.7	93.6	62.7	37.4	28.3
Credit to parastatals	688.3	-75.3	275.8	355.0	283.1	391.9	133.4	19.0	-6.2	0.0
Other items, net (including valuation change)	28.0	-7.4	3.9	12.0	8.1	24.2	29.0	26.6	15.4	8.9
Broad money (M2)	72.9	24.2	25.0	52.0	20.8	60.2	66.8	59.1	39.0	27.3
Narrow money (M1)	62.4	18.6	21.6	48.7	20.8	53.5	61.1	51.9	37.5	29.6
Currency in circulation	60.7	18.2	12.9	32.8	17.5	52.1	57.9	54.1	46.3	26.1
Demand deposits	74.2	21.4	84.6	164.1	41.8	62.5	80.8	41.6	5.2	50.4
Quasi money	87.4	30.8	28.5	55.4	20.8	67.5	72.1	66.4	40.5	25.1
Time deposits in domestic currency	12.8	5.3	177.3	110.2	361.7	12.4	6.3	84.1	20.1	224.4
Foreign currency deposits	87.9	30.9	28.0	55.2	19.8	67.7	72.4	66.4	40.6	24.7
Import deposits	23.9	41.2	-0.3	-22.5	39.4	17.3	2.8	69.3	66.6	47.7
	(Annual change in percent of beginning-of-period broad money)									
Net foreign assets	-18.3	3.7	-2.0	-7.6	11.8	-12.6	-3.4	-0.5	-1.8	8.3
Net domestic assets	92.3	21.8	18.9	48.6	10.5	73.4	16.2	18.6	25.1	20.3
Domestic credit	15.8	36.8	4.9	21.8	-1.7	37.0	3.8	6.8	14.0	9.9
Net credit to government	-1.9	26.6	0.0	6.5	-5.8	17.8	-0.4	1.6	7.7	2.5
Credit to the private sector	16.4	10.8	4.4	14.5	3.7	18.6	4.1	5.2	6.3	7.4
Credit to parastatals	1.3	-0.6	0.6	0.7	0.5	0.7	0.0	0.0	0.0	0.0
Other items, net (including valuation change)	76.5	-14.9	14.0	26.8	12.1	36.4	12.5	11.8	11.1	10.4
Broad money (M2)	72.9	24.2	16.1	41.1	20.8	60.2	12.5	17.5	22.4	27.3
Narrow money (M1)	36.1	10.1	5.7	18.6	10.8	27.8	2.7	6.7	10.8	14.8
Currency in circulation	30.8	8.6	2.2	10.5	7.8	23.4	1.6	4.8	8.0	11.1
Demand deposits	5.3	1.6	3.5	8.1	3.0	4.4	1.1	1.9	2.8	3.6
Quasi money	36.8	14.0	10.3	22.5	10.0	32.4	9.8	10.7	11.6	12.6
Time deposits in domestic currency	0.0	0.0	0.3	0.2	0.5	0.0	0.0	0.1	0.2	0.2
Foreign currency deposits	36.8	14.0	10.0	22.3	9.5	32.4	9.7	10.6	11.5	12.4
Import deposits	1.1	1.3	0.9	-0.2	1.4	0.6	0.3	0.6	1.0	1.3
Memorandum items:										
Nominal GDP (billions of Congo francs)	2,601	3,366	...	4,001	3,868	4,001	...	...	...	4,986
Velocity (GDP/broad money)	12.1	12.6	...	10.6	12.0	9.3	...	...	...	9.1
Foreign currency deposits (percent of M2)	45.4	47.9	49.9	49.7	47.5	50.1	53.2	51.7	50.3	49.1
Foreign currency deposits (percent of total deposits)	86.0	86.9	83.9	81.9	84.3	87.3	87.7	86.7	85.7	84.9

Sources: Congolese authorities and IMF staff estimates and projections.