



DEMOCRATIC REPUBLIC OF THE CONGO

July 2022

THE 2022 ARTICLE IV CONSULTATION, SECOND REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE DEMOCRATIC REPUBLIC OF THE CONGO

In the context of the 2022 Article IV Consultation and Second Review under the Extended Credit Facility Arrangement and Request for Modification of Performance Criteria and Financing Assurance Review, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board and summarizing the views of the Executive Board as expressed during its June 29, 2022 consideration of the staff report on issues related to the Article IV Consultation and the IMF arrangement]
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 29, 2022, following discussions that ended on April 27 – May 9, 2022, 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 June 15, 2022.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staff[s] of the IMF and the World Bank.
- A **Statement by the Executive Director** for the Democratic Republic of the Congo.

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

Selected Issues



IMF Executive Board Concludes 2022 Article IV Consultation and the Second Review Under the Extended Credit Facility Arrangement for the Democratic Republic of the Congo

FOR IMMEDIATE RELEASE

Washington, DC – June 29, 2022: The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation¹ and the second review of the Extended Credit Facility (ECF) Arrangement for the Democratic Republic of Congo (DRC). The completion of the Second Review allowed an immediate disbursement equivalent to 152.3 million SDR (about US\$ 203 million) to support balance-of-payment needs, bringing the aggregate disbursement to date to 456.9 million SDR (about US\$653 million).

The DRC's macroeconomic environment has improved since the last Article IV consultation in 2019. The authorities have adopted prudent macroeconomic policies, most visibly by halting central bank financing to the government. Despite the COVID-19 pandemic, considerable macroeconomic gains were achieved in 2021 and reform momentum under the ECF arrangement was sustained. The economy rebounded more than envisaged with growth at 6.2 percent, supported by non-extractive growth. Consumer Price Index (CPI) inflation declined to 5.3 percent year-on-year, accompanied by a stable exchange rate as the central bank stopped providing financing to the government. The fiscal outturn was better than projected, as higher fiscal revenues and external financing provided space for additional spending, mostly on investment although domestic arrears accumulated. The external position improved, and gross international reserves increased to US\$3 billion at end 2021. However, despite excess liquidity, private sector credit remains subdued at 7 percent of the GDP and the banking sector faces vulnerabilities. Fragility continues to hinder inclusive growth as 72.5 percent of the population is in poverty and access to basic public services is severely under-provisioned.

Progress under the Fund-supported program remains satisfactory. End-December 2021 quantitative performance criteria (QPCs) and all but one (on social spending due to shortcomings in inter-ministerial coordination) indicative targets were observed. Four out of five structural benchmarks (SBs) were met, pending the publication of one mining contract. Progress on two end-June 2022 SBs is slightly delayed, and staff proposes resetting to end-September. Efforts to implement structural reforms are being stepped up.

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

In 2022, the DRC's economy is facing some headwinds from the war in Ukraine, which has increased the cost of living and the fiscal costs associated with the fuel subsidy. Despite the deteriorating global economic prospects, the outlook remains favorable sustained by improved mineral prices. Growth has been revised down to 6.1 percent (6.4 percent previously) and inflation revised up to 11 percent due to imported prices. The domestic fiscal deficit (program target) is projected to widen by 0.4 percentage points of GDP, to 1.4 percent of GDP as the higher mining revenues will not fully compensate for the increased fiscal costs associated with the fuel subsidy and higher domestically financed investment for priority social infrastructure projects. The authorities have increased domestic fuel prices, but more efforts are needed to reduce untargeted subsidies and budget costs while supporting vulnerable households through targeted social transfers. Furthermore, spillovers from the war in Ukraine may further increase international food prices and slow global activity, worsening external and fiscal balances, inflationary pressures and food insecurity. The medium-term outlook provides opportunities to consolidate macro stability and scale up structural reforms, though significant downside risks remain, and severe fragility persists.

At the conclusion of the Executive Board's discussion, Mr. Okamura, Deputy Managing Director and Chair stated:

"Macroeconomic performance in 2021 was marked by high growth, contained inflation, and strengthened fiscal and external positions. Performance under the Extended Credit Facility arrangement continues to be satisfactory. Growth prospects remain favorable in 2022, but downside risks have increased from the worsened external environment.

"The fiscal deficit is expected to widen in 2022 as higher subsidies and social infrastructure spending are only partially compensated by higher-than-envisaged revenues. Continued revenue mobilization, contained current spending—including through fuel subsidy and civil service reforms—and well-managed fiscal risks are key to create space for priority investment. Strengthening fiscal institutions and governance, including by enhancing budget credibility and cash management, is crucial to improve public financial management and avoid domestic arrears accumulation. Improving public investment management will enhance efficiency and transparency.

"Strengthening the monetary and exchange rate policy frameworks will support price stability and external sustainability. Continued efforts to accumulate reserves buffers while enhancing the role of the exchange rate as a shock absorber are paramount to build resilience to external shocks. Efforts to strengthen the independence, governance, and safeguards of the Central Bank of Congo need to continue, as well as reforms to strengthen banking regulatory, supervisory, and resolution frameworks.

"Advancing structural reforms and strengthening policy frameworks, including in natural wealth management, are key to promoting higher and sustainable inclusive growth, as the global energy transition provides an opportunity for development. Continued efforts to improve mining sector transparency, the anti-corruption and AML/CFT frameworks, the business climate, and governance would support private sector development, economic diversification, and competitiveness.

Table 1. Democratic Republic of the Congo: Selected Economic and Financial Indicators, 2021-24

	2021	2022		2023		2024
	Est.	CR No. 22/ 3	Proj .	CR No. 22/ 3	Proj .	Proj.
(Annual percentage change, unless otherwise indicated)						
GDP and prices						
Real GDP	6.2	6.4	6.1	6.9	6.7	6.9
Extractive GDP	10.	10.	10.	10.	10.	10.
Non-Extractive GDP	1	4	6	9.9	1	9.0
GDP deflator	4.5	4.5	4.1	5.4	5.1	5.9
Consumer prices, period average	17.	4.8	8.4	6.0	9.7	4.8
Consumer prices, end of period	6	5.6	8.4	6.2	9.8	5.6
	9.0	5.8	0	6.2	6.8	6.1
	5.3					
(Annual change in percent of beginning-of-period broad money)						
Money and credit						
Net foreign assets	41.	35.	32.	27.	20.	
	5	3	7	4	8	20.3
Net domestic assets				-		
	-6.4	-5.6	4.6	10.	12.	
	4			4	0	4.7
Domestic credit	1.9	9.1	9.8	8.0	6.9	5.4
Broad money	35.	29.	37.	17.	32.	
	1	7	3	0	8	25.0
(Percent of GDP, unless otherwise indicated)						
Central government finance						
Revenue and grants	13.	12.	14.	12.	14.	
	8	3	0	7	3	14.7
Expenditures	14.	14.	17.	14.	17.	
	8	2	5	7	1	17.0
Domestic fiscal balance	-0.1	-0.9	-1.2	-0.4	-0.8	-0.1
Investment and saving						
Gross national saving	13.	14.	13.	14.	15.	
	8	2	5	2	7	16.2
Investment	14.	14.	13.	14.	15.	
	7	7	5	9	7	15.9
Non-government		10.		10.	10.	
	9.8	8	8.0	7	7	10.7
Balance of payments						
Exports of goods and services	39.	40.	44.	41.	45.	
	5	8	9	6	5	45.6
Imports of goods and services	39.	40.	42.	41.	42.	
	2	7	7	2	7	42.4
Current account balance	-0.9	-0.5	0.0	-0.8	0.0	0.3
Gross official reserves (weeks of imports)	6.3	7.8	8.3	8.5	9.5	10.3
External debt	17.	17.	18.	17.	18.	
Debt service in percent of government revenue	6	1	3	6	9	18.9
	7.2	6	8.4	8.6	7.6	7.5

Sources: Congolese authorities; and IMF staff estimates and projection



DEMOCRATIC REPUBLIC OF THE CONGO

June 13, 2022

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION, SECOND REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW

EXECUTIVE SUMMARY

Context. Considerable macroeconomic gains were achieved in 2021: the economic rebound was stronger than envisaged, driven by the non-extractive sector; CPI inflation declined to 5.3 percent year-on-year, accompanied by a stable exchange rate as the central bank stopped providing financing to the government; and an improved external position supported reserves accumulation. The 2021 fiscal outturn was also better-than-projected although domestic arrears accumulated. Despite excess liquidity, the banking sector faces vulnerabilities. The war in Ukraine is pushing up the cost of living and rising the fiscal costs associated with the fuel subsidy. Despite this and deteriorating global economic prospects, the outlook remains favorable and provides opportunities to consolidate macro stability and scale up structural reforms, though significant downside risks remain, and severe fragility persists.

Article IV Discussions. The consultation focused on how near-term policies will be calibrated to absorb the shock from the war in Ukraine and accommodate pressing needs; while reverting over the medium term towards strengthening fiscal credibility, preserving debt sustainability, and building buffers to improve economic resilience and promote higher and more inclusive growth. In particular:

- The near-term revenue overperformance provides space for higher spending related to fuel subsidies and investment, with a small widening of the fiscal deficit. Medium-term challenges include improving public finance and investment management, fiscal governance, and the tax system. Replacing fuel subsidies with targeted social transfers will help reduce fiscal pressures.
- The BCC remains adequately focused on price stability, while taking steps to improve the monetary policy framework despite dollarization. Exchange rate flexibility should be sustained to address terms-of-trade shocks and help preserve reserves buffers.

- Scaling up structural reforms remains critical to promote inclusive growth, including those enhancing governance and enhancing the business climate—both key to support investment, private sector development, economic diversification, and competitiveness
- Strengthening policy frameworks and institutions for example in natural wealth management and in monetary and exchange rate policy, will help DRC benefit from the global energy transition, providing an opportunity for development.

Program status. Progress under the program remains satisfactory. End-December 2021 quantitative performance criteria (QPCs) and all but one (on social spending) indicative targets were observed. Four of five structural benchmarks (SBs) were met. Progress on two end-June 2022 SBs is slightly delayed, and staff proposes resetting to end-September. Staff also proposes modification of three end-June 2022 QPCs to account for a more ambitious 2022 reserve accumulation path and for the use of the SDR allocation. Efforts to implement structural reforms are being stepped up.

Approved By:
Annalisa Fedelino and
Geremia Palomba

Hybrid discussions were held during April 27 – May 9, 2022. The mission team comprised Mmes. Vera Martin (head), Touré and Pohl, and Messrs. Zerbo and Nolin (all AFR), and Ms. Pouokam (SPR). The mission was assisted by Messrs. Leost (Resident Representative) and Gbadi (local economist). L. Malcherek (LEG) joined some discussions. Messrs. R. N'Sonde and T. Nguema Affane (all OEDAF) participated in the meetings. The mission met with President of the Republic Chief of Staff Guylain Nyembo Mbwezya, Deputy Prime Minister and Minister of Public Service Jean-Pierre Lihau Eboa, Minister of Finance Nicolas Kazadi, Minister of Mining Antoinette Nsamba Kalambayi, BCC Governor Malangu Kabedi Mbuyi, other senior officials, development partners, as well as representatives of the private sector and civil society. Ms. H. Abu Sharar provided outstanding assistance in preparing this report.

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CONTEXT

1. The macroeconomic environment has improved since the last Article IV, with advances in policy recommendations (Annex I). The authorities have adopted prudent macroeconomic policies, most visibly by halting central bank financing to the government. After 2021, favorable mining prices have supported reserves accumulation, exchange rate stability, and declining inflation. Despite low vaccination rates, the economy has so far weathered the pandemic well supported by favorable terms of trade. Increased engagement with the IMF culminated with a three-year ECF arrangement approved in July 2021.¹

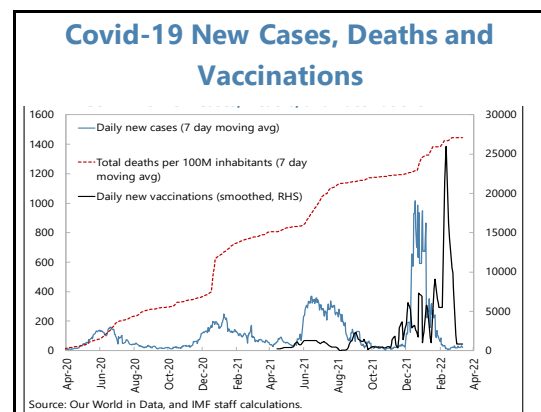
2. Fragility hinders inclusive growth. Poverty is estimated at 72.5 percent.² Access to basic public services is severely under-provisioned, due to lacking infrastructure (Figure 1). Conflicts have resulted in the largest displaced population in Africa. The country is prone to frequent bouts of diseases. Rapid demographic growth will compound these challenges. Corruption and weak rule of law are harming private sector development. A fragile political situation—the ruling coalition has 24 parties—could increase tensions ahead of the 2023 presidential elections.

3. Natural wealth and strengthened institutions can offer an opportunity for development. Prudent macro policies and favorable terms of trade can support macro stability; structural reforms to improve policy frameworks and fight corruption are advancing. The DRC is well-positioned to benefit from the global climate transition, easing the path towards higher and more inclusive growth. Its minerals, rainforest and tropical peatlands should help mobilize financing for preservation.³

RECENT ECONOMIC DEVELOPMENTS

4. COVID-19 cases remained subdued. On February 14, the authorities eased containment measures, notably lifting the curfew in place since December. Despite vaccine availability, widespread skepticism continues to impede vaccination (only 1.5 percent of the population are at least partially vaccinated).

5. Mining and services activity is supporting the economic rebound; inflation has recently increased. Growth is estimated at 6.2 percent in 2021, as higher growth in the non-extractive sector more than offset lower-than-expected mining production. Lower growth in cobalt production (from an expected 11 percent to 8 percent) was

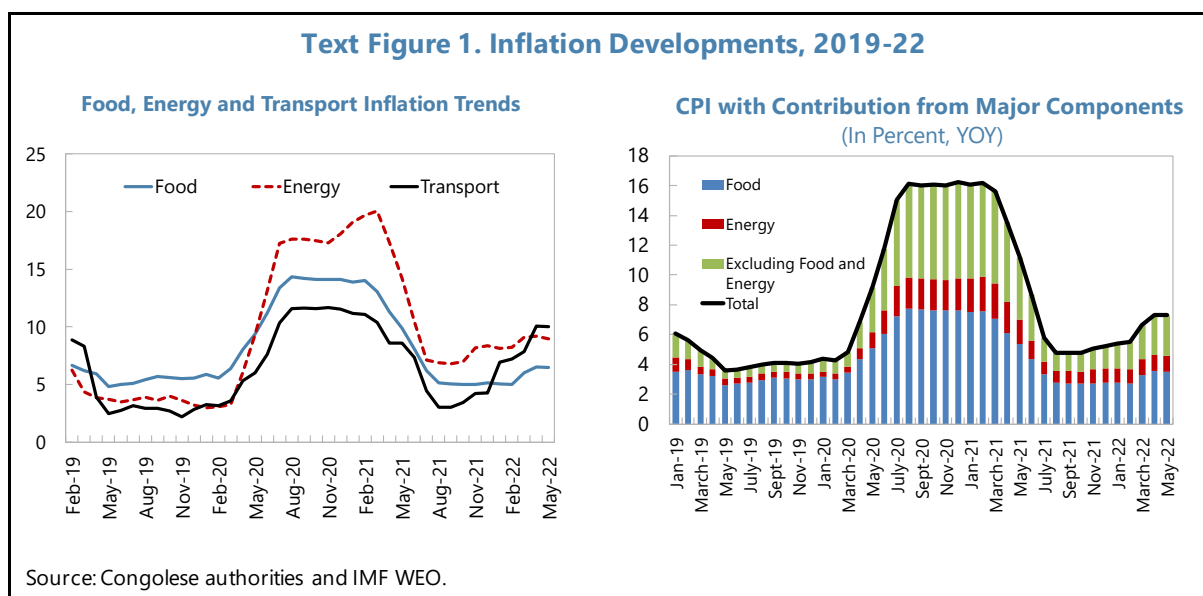


¹ Previously, the authorities entered a staff-monitored program in 2019 and benefited from two disbursements under the Rapid Credit Facility in December 2019 and April 2020.

² Measured by the international poverty line of \$1.90 a day.

³ The DRC is the largest cobalt producer worldwide (with nearly half of global cobalt reserves) and top copper producer in Africa and has the second largest rainforest and peatlands (carbon sinks) worldwide.

more-than-compensated by growth in telecommunications (from 6 percent to 10 percent). Consumer price index (CPI) inflation moderated to 5.3 percent by end-2021, leading the Banque Centrale du Congo (BCC) to reduce its policy rate by 100 bps on December 30, while the exchange rate depreciated by 2 percent in real effective terms year-on-year. In 2022, CPI inflation climbed to 7.4 percent in May, due to higher imported inflation, and the exchange rate remains stable. Nonfuel, nonfood inflation remains subdued, partly because of fuel subsidies containing price increases.



6. External conditions have supported reserve accumulation. The 2021 current account deficit stood at 0.9 percent of GDP, against the 0.5 percent of GDP projected at the first review. As inflows increased, the financial account provided space to build up reserves (GIR), which stood at 6.3 weeks of imports at end-2021. As of mid-May 2022, international reserves stood at 7.3 weeks of imports, driven by higher FX mining receipts and BCC's FX purchases through auctions, mostly in April-May 2022.

7. The 2021 fiscal outturn was better-than-projected at the time of the first review, but domestic arrears continued to

Text Table 1. DRC: Preliminary External Sector Outturn, 2021

	2021			
	CR 22/3		Est.	
	(in US\$ millions)		(in percent of GDP)	
Current account balance	-308	-535	-0.5	-0.9
Trade balance	3,810	3,940	6.8	7.0
Exports	21,910	22,185	38.9	39.2
Imports	18,100	18,245	32.1	32.3
Service balance	-3,683	-3,779	-6.5	-6.7
Primary income	-1,802	-1,990	-3.2	-3.5
Secondary income	1,367	1,294	2.4	2.3
Capital account balance	181	171	0.3	0.3
Net lending (+)/ borrowing (-)	-345	-413	-0.6	-0.7
Financial account incl reserve assets	-385	-799	-0.7	-1.4
FDI	-1,638	-1,678	-2.9	-3.0
Portfolio	46	48	0.1	0.1
Financial derivatives	0	1	0.0	0.0
Other investment	-943	-1,315	-1.7	-2.3
Reserve assets (increase= +)	2,150	2,145	3.8	3.8
Net errors and omissions	-258	-435	-0.5	-0.8

Sources: Banque Centrale du Congo, and IMF staff calculations.

accumulate. The domestic fiscal deficit (program target) reached CDF89 billion against a target of CDF231 billion. The overall fiscal deficit narrowed by 0.5 percent of GDP to 1.5 percent of GDP as higher grant mobilization (1.4 percent of GDP), better tax and non-tax revenues (0.6 percent of GDP), surpassed additional capital spending (1 percent of GDP). However, domestic arrears continued to accumulate toward private suppliers, oil importers and VAT outstanding credits due to shortcomings in cash management and budget execution.⁴

9. Preliminary budget execution in 2022Q1 shows a deteriorated fiscal balance

compared to the First Review, though the end-June target appears achievable. Against an IT of CDF350 billion, the domestic fiscal deficit widened to CDF653 billion as higher capital and current spending exceeded the revenue performance. Overall, revenue performance was strong, supported by favorable mining prices and sustained revenue mobilization efforts. However, this masks small revenue losses with the fiscal support measures introduced to alleviate the impact of the higher prices of imported goods on the cost of living and underperformance in customs due to a delay in the implementation of the Excise Tax Traceability System (STDA). Spending pressures and social demands have risen with the war in Ukraine, with the government adjusting upward the base salary of certain categories of civil servants to compensate for the higher cost of living (0.2 percent of GDP, MEFP ¶17). However, the end-June 2022 deficit fiscal target appears well within reach with the doubling of the revenue performance recorded up until April in income taxes.

10. Despite excess liquidity, credit to the economy remains subdued and the banking sector faces vulnerabilities. At 7 percent of GDP at end-2021, credit to the private sector remains well below the SSA average (38 percent of GDP in 2020). Rapid growth in deposits (37 percent in 2021), largely due to the repatriation requirement on mining exports, has been accompanied by limited growth in credit to the private sector (17 percent) and continued growth in banks' external assets (41.3 percent).⁵ The 2022 Financial Sector Stability Report (FSSR) identified several financial vulnerabilities, including inadequate capital and weak credit risk

Text Table2. DRC: Central Government Financial Operations, 2021

	2021		Difference (percent of GDP)
	CR No. 22/3	Est.	
	(Billions of CDF)		
Revenue and grants	13,316	15,553	2.0
Revenue	11,951	12,638	0.6
Tax revenue	8,594	9,090	0.4
Non-tax revenue	3,357	3,547	0.2
Grants	1,365	2,915	1.4
Expenditure	15,322	16,657	1.2
Current expenditure	10,772	10,755	0.0
of which wages	5,277	5,454	0.2
Capital expenditure	4,387	5,522	1.0
Exceptional expenditure	164	380	0.2
Change in domestic arrears (repayment = -)	-267	-585	-0.3
Domestic fiscal balance (cash basis)	-231	-89	0.1
Overall fiscal balance (cash basis)	-2,274	-1,690	0.5
Errors and omissions	-44	-273	
Financing	2,317	1,963	-0.3
Domestic financing (banking system)	-1,689	-855	0.7
Foreign financing	4,007	2,817	-1.1
Budget loans	505	121	-0.3
Project loans	2,427	1,652	-0.7
Amortization of external debt	-384	-386	0.0
Other external financing	1,458	1,431	0.0

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

⁴ While tangible progress was made in eliminating wage arrears and auditing the stock of VAT owed to the mining sector, arrears were accumulated towards oil importers and private suppliers

⁵ The repatriation requirement, a capital flow measure (CFM) according to the Fund's institutional view on liberalization and management of capital flows, was increased from 40 percent to 60 percent in March 2018.

reporting (Annex II).⁶ Financial inclusion lags progress seen in peers,⁷ and dollarization remains elevated and challenges the conduct of monetary policy.

11. The government has decided to use most of its share of the SDR allocation on social infrastructure in the Local Development Program for 145 Territories (PDL-145T) (MEFP ¶9-10). The authorities have identified social infrastructure amounting to US\$511 million for schools, health centers and administrative buildings for each territory. Completion is expected by end-March 2023. At end-2021, half of the SDR allocation (around US\$715 million) was transferred to the government for investment.⁸ A first transfer of US\$300 million was sent to the executing agencies in March 2022, and it is proposed that an additional US\$211 million will be brought forward from 2023 plans. The authorities are strengthening the governance of the Central Coordination Office (Bureau Central de Coordination, BCECO) in charge of coordinating the public investment execution and enhancing reporting requirements for executing agencies (MEFP ¶10).⁹

PROGRAM PERFORMANCE

12. Progress under the program remains satisfactory; publishing mining contracts remains critical to governance. Quantitative conditionality and most structural benchmarks (SBs) have been met (MEFP, Tables 1-2). The authorities remain strongly committed to program objectives and targets.

- All quantitative performance criteria (QPCs) and indicative targets (ITs), except for the social spending IT, were observed, some by sizable margins. All monetary QPCs were validated by the external auditor. Shortcomings in inter-ministerial coordination continue to challenge timely health spending under the indicative target (MEFP ¶18). Despite most end-March 2022 ITs being missed, staff considers the end-June 2022 QPC reachable and proposes changes to three end-June 2022 QPCs to reflect a more ambitious reserve accumulation path and allowing for the use of the SDR allocation for budget purposes (see below).
- Four out of the five SBs were met. The authorities signed the MoU to regularize the outstanding credit of the BCC to the government (**end-December 2021 SB**), later revised in May to compensate for the gross amount, rather than net of government deposits. They also fully implemented ASYCUDA World in the electronic single window at 10 additional custom offices (**end-December 2021 SB**); and recruited an independent auditor to perform an external audit for BCECO for 2017-21 (**end-March 2022 SB**). The BCC adopted the new reserve requirement framework on new FX deposits on December 30 (**end-December 2021**

⁶ Only eight out of 15 banks satisfy minimum capital requirements.

⁷ Please see accompanying Selected Issues Paper.

⁸ On December 23, the BCC and the Ministry of Finance signed a convention allowing for the retrocession. Both the asset and the liability were transferred to the central government balance sheet and the government assumed all financial responsibilities with respect to its SDR appropriation (for details, see Box 1 in Country Report 22/03).

⁹ The authorities have named a new director for BCECO after a competitive process supported by the WB and are in the process of hiring new management and constituting a consultative committee with donor representatives. Each agency would report monthly transactions to the treasury and prepare a quarterly report on execution.

SB). While the authorities continue to timely publish mining contracts, one contract allowing the DRC to recover disputed mining and oil assets, reportedly worth more than US\$2 billion, has not been published. Staff called for the timely publication of all mining contracts (**continuous SB**). The authorities have already adopted a decree self-liquidating VAT system consistent with international best practices (**end-June 2022 SB**).

OUTLOOK AND RISKS

13. **Despite the war in Ukraine and the deteriorating global economic outlook, the 2022 growth outlook remains favorable, sustained by improved mineral prices (MEFP ¶1).**

Growth is revised down to 6.1 percent, from 6.4 percent, due to slower non-extractive growth. Due to higher import prices, inflation is projected at 11 percent by end-2022, above the medium-term inflation target of 7 percent. Compared to the first review projections, the external sector is expected to improve as higher food and fuel imports (12 percent of GDP) are compensated by higher extractive exports (44 percent of GDP), providing room for reserve accumulation. The overall fiscal deficit is expected to widen to 3.6 percent of GDP. Under the baseline, the DRC remains at moderate risk of external and overall debt distress, with some space to absorb shocks (see Debt Sustainability Analysis Annex).

14. **The medium-term outlook provides opportunities to consolidate macroeconomic stability and scale up structural reforms (MEFP ¶2).**

Medium-term growth prospects remain favorable given mining output expansion and sustained mining prices in the context of the global energy transition. Growth is projected to reach 6.7 percent in 2023 and average 6.8 percent over the medium term. Overall fiscal balance is projected to gradually narrow down to 1.9 percent of GDP by 2027 as higher revenue mobilization arising from tax policy and administration reforms and controlled current spending more than compensate for the planned higher infrastructure and social spending. Scaling up structural reforms (including those improving public financial management and governance), addressing infrastructure and education gaps, and measures to improve the business climate are crucial to attract non-mining FDI, support private sector-led growth and promote diversification, which can benefit further from the potential from the global energy transition and investments related to climate change.¹⁰

Text Table 3. DRC: Medium-Term Macroeconomic Framework

	2021		2022		2023	2024	2025	2026	2027
	CR No.		CR No.						
	21/168	Proj.	21/168	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Real GDP (percent change)	4.9	6.2	5.6	6.1	6.7	6.9	7.1	6.9	6.3
of which: extractive	11.0	10.1	7.9	10.6	10.1	9.0	8.8	7.4	6.5
GDP deflator (percent change)	16.0	17.6	6.2	8.4	9.7	4.8	4.8	4.4	5.4
CPI inflation, average (percent)	9.4	9.0	6.4	8.4	9.8	5.6	5.9	5.5	6.3
CPI inflation, eop (percent)	6.0	5.3	6.3	11.0	6.8	6.1	6.0	5.7	5.6
Overall fiscal balance (% GDP), commitment basis	-1.7	-1.0	-1.2	-3.5	-2.8	-2.3	-2.1	-1.6	-1.1
External public debt (% GDP)	14.6	17.6	15.5	18.3	18.9	18.9	18.5	18.1	17.4
Current account deficit (% GDP), incl. transfers	-2.1	-0.9	-1.8	0.0	0.0	0.3	0.3	0.5	0.7
Gross international reserves (weeks of imports)	3.4	6.3	4.6	8.3	9.5	10.3	11.2	12.2	14.0

Sources: Congolese authorities and IMF staff estimates and projections.

¹⁰ Please see accompanied Selected Issues Paper.

15. Risks to the downside have increased significantly (Annex III and Box 1, MEFP ¶3).

Spillovers from the war in Ukraine may further increase international food and energy prices and slow global activity, worsening fiscal and external balances, and increasing inflationary pressures and food insecurity (Box 2). Political stability and security conditions could also be challenged ahead of the 2023 presidential elections, jeopardizing reform efforts. Risks of new outbreak in Ebola and/or COVID-19 cases are expected to have limited economic impact. Further, DRC’s potential grey listing by FATF threatens correspondent bank relations, posing challenges for FX transactions.¹¹

16. The authorities broadly agreed with staff’s assessment on risks but do not exclude a more favorable scenario driven by a stronger non-extractive growth (MEFP ¶4).

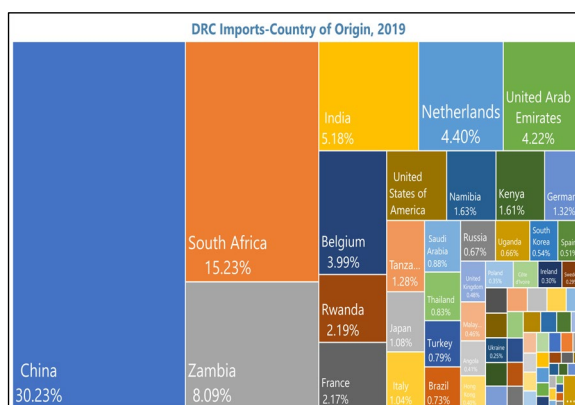
They noted that upside risks to growth could stem from stronger domestic demand and/or higher-than-expected mining prices which could contribute to increasing mining production and building up external and fiscal buffers. They also noted that structural reforms aimed at enhancing the business environment and fighting corruption could strengthen confidence and private investment. Over the medium term, they argued that reform implementation and increased productivity in agriculture and manufacturing will help sustain growth. If upside risks materialize, the authorities remain committed to advancing structural reforms, further accumulating reserves, and creating fiscal space for additional priority spending, while maintaining fiscal discipline.

Box 1. Spillovers from the Global Turmoil

The DRC has limited direct exposure to Russia and Ukraine. However, Russia’s invasion of Ukraine together with the renewed concerns over COVID-19 variants and associated disruptions have lowered global demand and risk deteriorating further terms of trade and economic prospects for the DRC. Rising global food and energy prices, tighter global financial conditions, and growing risks of global geopolitical fragmentation are likely to affect the DRC through different channels.

Trade channel. As a net food and fuel importer and a commodity exporter, the global turmoil could affect the DRC through different trade channels.

- **Food importer.** The DRC has limited trade links; with imported goods from Russia and Ukraine represent about 0.7 percent of its 2019 total imports, mostly wheat, poultry, fertilizers, and chemicals. The most important trade link is through wheat imports as Russia and Ukraine supply over half of the imported wheat in the DRC, the rest coming from Europe. Disruptions in supply chains, poor harvests and trade restrictions could restrict access to cereals throughout 2023. In light of supply disruptions, the authorities could (i) seek imports from other countries; or (ii) substitute for other grains. Both options may prove difficult in the short term because of increasing export restrictions and raising global food prices. This could also feed into higher inflation.

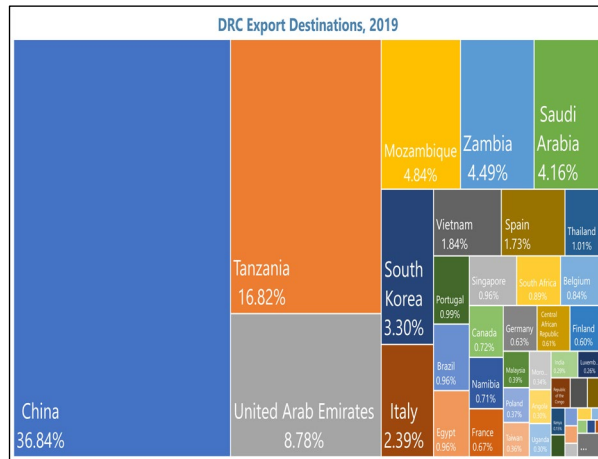


¹¹ A FATF mutual assessment was published in April 2021 and can be found at [REM-RDC.pdf \(spgabac.org\)](https://www.spgabac.org/rem-rdc.pdf).

Box 1. Spillovers from the Global Turmoil (Concluded)

Fuel importer. DRC’s fuel imports are largely from the GCC countries but a longer-than- envisaged war in Ukraine could keep the global fuel prices higher for longer. As a net fuel importer with untargeted fuel subsidies, the higher fuel prices will increase fiscal spending pressures and tax expenditure losses related to the fuel price structure (see Annex IV).

- **Commodity exporter.** Cobalt, copper, and gold account for over 95 percent of DRC’s goods exports. China, other Asian countries, the GCC countries are the main export destinations, and Tanzania for copper re-export. Almost all its copper and cobalt are exported to Asia, primarily China. A global growth slowdown or an abrupt slowdown in China’s growth will likely weigh down on commodity prices, especially given China’s outsized role as a commodity buyer. A 10-percent drop in copper prices is estimated to deteriorate the current account balance by 0.8 percent of GDP.



- **Other potential spillover from China.** Supply disruptions caused by COVID outbreaks and resulting lockdowns under a continued China’s zero-COVID policy risks delaying imports originating from China, and delay planned DRC’s investment plans, with a negative impact on growth.
- **Financial channel.** Persistently lower growth coupled with tighter monetary and fiscal policies in donor countries could hamper access to financing for development. Growing risk of geopolitical fragmentation could impact program financing prospects with detrimental impact on institution building and growth.
- **Social impact.** Despite the relatively limited exposure to Ukraine and Russia, lower supply and higher cost of wheat could have a social impact on the vulnerable through higher inflation that would disproportionately be taxing the poor who devote a higher share of their income to food consumption (see also Box 2).

Box 2. Food Insecurity and Spillovers from the War in Ukraine

According to the World Food Program (WFP), DRC is one of the largest hunger crises in the world. DRC is the World Food Program’s biggest country emergency. Fragility, armed conflict, and widespread population displacement exacerbate food insecurity risks in DRC for the last few decades. The number of acutely food-insecure people stands at 27 million, making access to food a daily struggle for a significant share of the Congolese population. The food crisis is equally distributed across gender and across age; an estimated 3.4 million children are acutely malnourished.

The WFP leads on logistics in coordinating the humanitarian response in DRC. WFP’s emergency crisis response currently covers seven of the most populous and conflict-affected provinces – North Kivu, South Kivu, Ituri, Kasai, Kasai Central, Kasai Oriental and Tanganyika. With a significant scale-up of WFP activities and field operations, the WFP targeted 8.7 million people in 2021, up from 6.9 million beneficiaries in 2020 with lifesaving food and nutrition assistance. WFP also provides meals in schools in several regions of the country and is in the third phase of the N’sele Social Protection project, providing cash and mobile money payments to a limited number of households. Along with the UN Food and Agriculture Organization (FAO) WFP also co-leads food security activities.

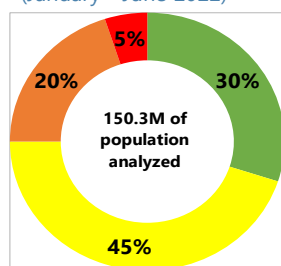
Spillovers from the war in Ukraine may intensify food insecurity in the DRC. While wheat

Box 2. Food Insecurity and Spillovers from the War in Ukraine (concluded)

consumption represents only 15 percent of total domestic cereal consumption, most of the consumed wheat is imported from Russia and Ukraine (Box 1). With poverty above 72 percent of population and lack of a comprehensive social safety net, food insecurity and social tensions are likely to exacerbate, particularly in remoted rural areas. Furthermore, risks of droughts such as the one currently affecting the Horn of Africa could further escalate risks of food insecurity. Higher oil prices are affecting inflation and are expected to reduce the purchasing power of the population, among whom 25 percent are already at emergency or crisis level of food insecurity due to conflict and displacement, persistence of shocks, weather extremes, crop pests and diseases and price volatility.

Efforts to strengthen households' resilience have been adopted, but financing remains elusive. To ensure food security the authorities plan to establish a National Agriculture Development Fund, increase animal and fish production, develop agroforestry and perennial crops and strengthen the contribution of agriculture to economic growth and job creation. Also, as part of the Country Strategic Plan 2021-24, the WFP continues its large-scale assistance, testing also a social safety net through cash payments to 4,000 households to help them build long-term resilience to shocks and identifying alternative corridors to reduce delays in the supply chain of cereals. A US\$123,9 million financing gap remains for 2022 due in part to more humanitarian assistance allocated to Ukraine.

Acute Food Insecurity Forecast
(January - June 2022)



Legend: ■ None ■ Stressed ■ Crisis ■ Emergency
Source: World Food Program. The analysis covers 91% of the population.

Imported vs Locally Produced Cereals, 2021
(In Percent of Total)



Source: FAO

POLICY DISCUSSIONS

17. The relatively favorable outlook offers an opportunity to advance reforms to increase resilience to external shocks, diversify the economy, and promote higher and more inclusive growth, while closely monitoring emerging risks. Despite recent progress, the DRC remains exposed to significant vulnerabilities. Discussions focused on the authorities' medium-term strategy to attain more sustained and inclusive growth by (1) creating fiscal space for priority spending that reduces bottlenecks to growth while preserving fiscal sustainability; (2) strengthening monetary and exchange rate policy frameworks; (3) enhancing financial policies to safeguard financial stability and promote financial deepening/inclusion; and (4) promoting better governance and building institutions to promote private-sector activity through economic diversification and job creation.

A. Calibrating Fiscal Policy to Address Pressing Needs While Strengthening Fiscal Credibility

In the near term, higher mining revenues and available financing will allow for a modest fiscal relaxation to help absorb the shocks from the Ukraine war and address social and investment

needs. Over the medium term, a gradual fiscal consolidation hinges on continued revenue mobilization efforts, rationalization in current spending, targeted PFM reforms, and greater efficient investment spending will ensure that fiscal policy will remain anchored at maintaining a moderate risk of debt distress.

18. In the near term, fiscal policy under the program is calibrated flexibly to accommodate urgent spending needs, the unanticipated impact of the war in Ukraine, and enhanced transparency and proper budgeting of subsidies and transfers. Domestic fiscal

balance is projected to (CDF1,570 billion (1.2 percent of GDP, Text Table 4, and MEFP ¶17). Compared to the first review, this implies a widening of the domestic fiscal deficit by 0.4 percent of GDP as higher revenues (1.5 percent of GDP) would not fully compensate for higher current and domestically financed capital spending (by 1.6 and 0.3 percent of GDP respectively). Higher profits in the mining sector are expected to increase tax revenues (by 1 percent of GDP) and non-tax revenues are projected to rise by 0.9 percent of GDP mostly due to better expected performance in mining, oil, and telecom. Custom revenues are expected to weaken (by 0.1 percent of GDP) due to STDA implementation delays (MEFP ¶12). In addition to the impact of the war in

Ukraine on oil prices, a more transparent estimation of the fuel subsidies using the existing pricing formula and the resumption of the payment of past liabilities and VAT credits are projected to increase current spending by 1.2 percent of GDP (MEFP ¶17). Capital spending is also projected to increase by 1.6 percent of GDP, mostly driven by higher external project financing (1.3 percent of GDP); additional domestically financed investment (by 0.3 percent of GDP) will be financed by frontloading the use of the SDR allocation for budget purposes to meet priority social infrastructure needs; the authorities have requested the flexibility to transfer an additional US\$211 million allocation to executing agencies in 2022 (MEFP ¶17).¹²

19. Revenue-based fiscal consolidation over the medium term will maintain the moderate risk of debt distress and support fiscal discipline and credibility (MEFP ¶18). Fiscal policy will remain anchored on DRC's moderate risk of debt of distress. External public debt stood at 16.4 percent of GDP at end-2021, but debt vulnerabilities—reflected in a high debt-service-to revenue ratio—persist, highlighting the important of mobilizing higher revenues. Efforts to control current spending and enhance spending efficiency will also support fiscal discipline. While re-engaging with the international community, DRC should proactively seek concessional borrowing conditions. Strengthening debt management also remains critical to

**Text Table 4. DRC: Central Government
Financial Operations, 2022**

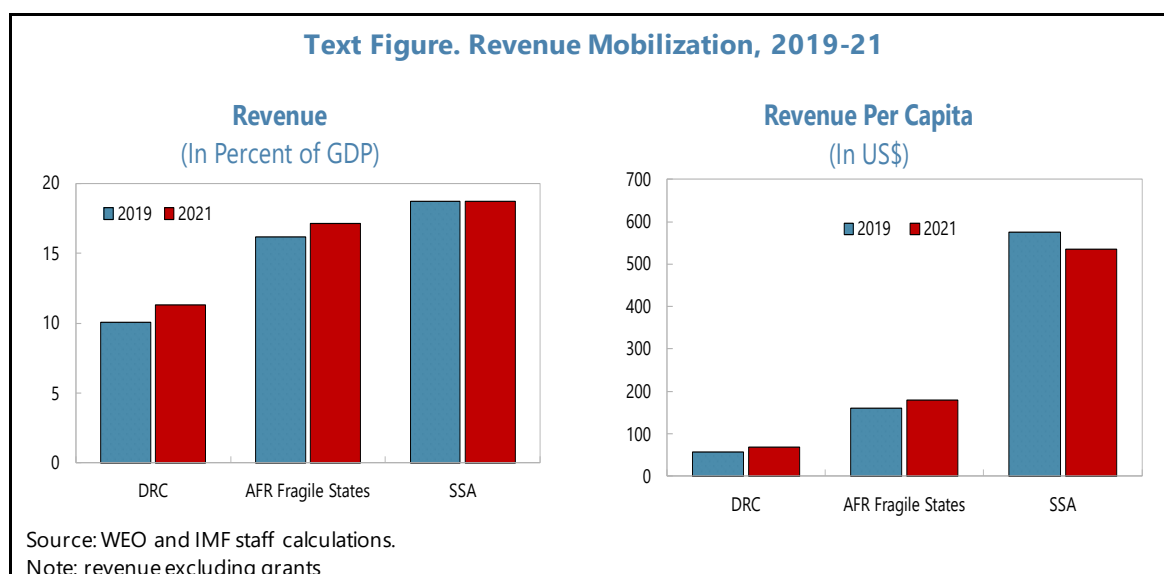
	2022			Difference (percent of GDP) ^{1/}
	CR No. 22/3	Budget	Proj.	
	(Billions of CDF)			
Revenue and grants	15,277	18,101	18,095	1.6
Revenue	13,826	16,962	16,464	1.5
Tax revenue	10,371	13,122	11,748	0.7
Non-tax revenue	3,455	3,840	4,716	0.9
Grants	1,451	1,139	1,631	0.1
Expenditure	17,625	19,694	22,653	3.3
Current expenditure	12,429	13,373	15,122	1.6
of which wages	6,176	6,705	6,469	0.0
Capital expenditure	4,792	6,158	7,144	1.6
Exceptional expenditure	404	162	387	0.0
Change in domestic arrears (repayment = -)	-304	-477	-304	0.0
Domestic fiscal balance (cash basis)	-1,064	-689	-1,570	-0.4
Overall fiscal balance (cash basis)	-2,651	-2,069	-4,863	-1.6
Errors and omissions	0	0	0	
Financing	2,651	2,069	4,863	1.6
Domestic financing (banking system)	677	134	1,120	0.3
Foreign financing	677	1,936	3,743	1.3
Budget loans	1,974	659	388	-0.2
Project loans	623	1,924	3,928	1.4
Amortization of external debt	1,970	-647	-573	0.1
Other external financing				

Sources: Congolese authorities; and IMF staff estimates and projections.
^{1/} Difference between proj. and CR 22/3

¹² This frontloading keeps unchanged the initial SDR allocation amount retroceded for budget support (i.e. half for reserves accumulation, and half for budget support).

debt sustainability, and the upcoming legislation on indebtedness will strengthen the institutional coordination and accountability.

20. Increasing revenue mobilization is needed to provide the much-needed fiscal space to preserve fiscal sustainability (MEFP ¶11-12). Despite recent efforts, the tax gap with peer countries remains significant as DRC’s revenue-to-GDP ratio stood at 11.2 percent in 2021 compared to 16.9 and 20.2 percent for SSA and fragile states (Text Figure). The program envisages:



- Continuing to simplify the tax system, strengthen the tax base, and support revenue collection and administration reforms.** The authorities are advancing on plans for tax expenditure rationalization, non-tax and para-fiscal charges. After publishing the tax expenditure reports as an annex to the 2022 Budget Law, a rationalization tax expenditure plan will be adopted by the government by end-September 2022 and measures identified and incorporated in the 2023 budget. After consolidating all nontax charges provisions into one document, the authorities will adopt a rationalization plan with some delays (resetting to **end-September 2022, end-June 2022 SB**).¹³ Similarly, the authorities plan to consolidate all para-fiscal charges in the special accounts and annexed budgets (**end-June 2023 SB**). Implementation of the STDA initially scheduled for end-June 2022 is facing some delays (proposed resetting to **end-September 2022, end-June 2022 SB, MEFP ¶12**).¹⁴ Staff called for a continuous improvement of the monitoring of exemptions and suspensive regimes at customs.
- Deploying the VAT restoration plan** which includes: i) increasing the VAT threshold; ii) strengthening intelligence operations; iii) securing and expanding the number of registered VAT payers; iv) increasing the number of VAT issue-oriented audits; and v) implementing VAT deferred payment mechanisms on imports and local purchases of capital goods (MEFP ¶12).

¹³ An FAD CD mission will take place in June to support the authorities in designing the plan.

¹⁴ The authorities are facing significant business opposition and challenges in capacity to implement the system.

- **Fostering digitalization in tax administration.** Digitalization will help modernize revenue collection, enhance transparency and information sharing, and reduce tax evasion. Discussions centered on further developing e-procedures for the three revenue administrations, integrating the multiple application software and databases into a single system, and completing the mobile tax project (MEFP ¶12).

21. Efforts to improve public financial management (PFM) need to enhance budget credibility, rein in current spending, increase capital spending efficiency, control fiscal risks, and strengthen cash and debt management (MEFP ¶13-21).

- **Improving budget credibility is key to strengthening fiscal institutions.** Staff and the authorities agreed on the importance of improved interinstitutional coordination with Parliament, formulation of the macroeconomic framework, and proper forecasting of budget resources. The 2022 spending plans aligned with the ECF program objectives will be published (end-July 2022 SB).
- **Phasing out untargeted fuel subsidies.** Untargeted fuel subsidies pose significant fiscal pressures exacerbated by higher global fuel prices (Annex IV). The fiscal cost of the subsidies in 2022 was estimated at about US\$500 million for the direct subsidy, and US\$1,200 million in foregone taxes and parafiscal charges. The lack of transparency and complexity in the existing fuel pricing formula, lengthy validation process and cash management shortcomings have contributed to government liabilities towards oil suppliers. The authorities have agreed to put in place a strategy to gradually pass-through international prices to consumers that will phase out the subsidies (MEFP ¶16). Staff welcomes the end-May 2022 price increase and initial targeting, called for advancing on validating the 2021 arrears and the overdue audit of the price structure and called for implementing the pricing mechanism transparently and replacing the subsidies by social transfers targeting the most vulnerable. Staff advised to carefully calibrate the pass-through pace based on the gap between retail and international prices and available fiscal space.
- **Tackling domestic arrears accumulation and designing a clearance strategy to enhance government credibility.** At end-March 2022, the stock of validated domestic arrears is estimated at 8 percent of GDP, of which 4.1 percent were audited. Legacy arrears will be independently audited (**end-December 2022 SB**) and certified for the purposes of arrears clearance. To avoid new arrears, staff discussed improving traceability of expenditure in the short term by including the due date in the PFM IT system. Staff encourage the use of revenues overperformance to reimburse certified domestic arrears (MEFP ¶15).
- **Improving public investment management.** Addressing weaknesses identified by the PIMA is crucial to enhance the quality of spending (Annex V). With CD support, the authorities are committed to develop an action plan to tackle the investment management gaps throughout the project cycle, including by issuing a decree that covers the cycle of projects, consistent with recommendations in the PIMA report (**end-March 2023 SB**).
- **Strengthening debt management, including by developing the domestic debt market, and updating borrowing plans.** Debt reporting, especially regarding SOEs and provincial debt, requires enhanced institutional coordination.

- **Establishing a well-functioning Treasury Single Account (TSA).** Enhancing the TSA remains paramount for enhancing cash management. By September 2022, the authorities will finalize a roadmap toward establishing a TSA and consolidate all government accounts, including those relating to special accounts and supplementary budgets. A decree will be adopted defining the regulatory framework defining the perimeter and the structure of the TSA (**end-May 2023 SB**), and another on budget governance (end-October 2022 SB, MEFP ¶20). Cash flow and commitment plans should be drawn up simultaneously with the draft budget law and timely communicated to the sectoral ministries to improve budget execution.
- **Enhancing fiscal framework and rules to manage natural resources well.** The global energy transition provides opportunities for additional revenues and rationalizing fuel subsidies. Preserving the rainforest of the Congo Basin is critical to fight climate change and clean energy technologies will increase demand for transition minerals, including cobalt and lithium. Natural resources should help the DRC mobilize revenues for preservation and development, and institutions need to be in place to ensure transparency and accountability. Over the medium term, the fiscal framework should shift to a non-resource fiscal anchor. Phasing out the fuel subsidies should be part of the energy transition strategy, as they promote fuel consumption and encourage pollution.

Authorities' Views

22. The authorities assess the fiscal policy stance as appropriate and consider revenue mobilization as the cornerstone of their reform program. They reiterated their commitment to implementing policies to broaden the tax base, improve the VAT functioning, and rationalize tax expenditures. They recognized that the budgetary cost of the untargeted fuel subsidy impacted the quality of spending and was unsustainable. They agreed on the need of gradually phasing out the subsidy, with accompanying measures to protect vulnerable households. On domestic arrears, they quoted cash management shortcomings as the factor behind the arrears buildup and noted their recognition of the domestic arrears and their steps to validate arrears before clearing them depending on available fiscal space. They acknowledged weaknesses on public investment management, and they stand ready to strengthen it following PIMA recommendations. Finally, the authorities noted that the sizable development challenges would require mobilizing additional financing, especially to address infrastructure gaps and climate preservation efforts.

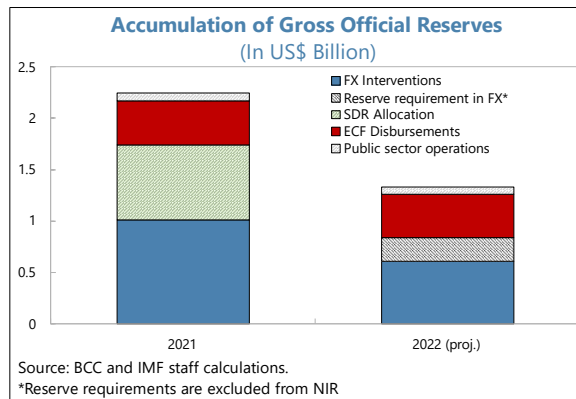
B. Strengthening Monetary and Exchange Rate Policy Frameworks to Support Price Stability and External Sustainability

23. Given increasing inflation, staff supports the BCC adopting a tightening monetary policy bias (MEFP ¶22). The first-round effect of the war in Ukraine has led to an increase in imported food prices and in inflation, despite the dampening effect of fuel subsidies on prices. With a relatively stable exchange rate, headline inflation is projected to temporarily overshoot the 7-percent BCC's medium-term inflation target by the end of 2022, although inflation excluding fuel and food is projected to remain subdued. However, monetary tightening now would help anchor expectations and preempt currency depreciation and further price pressures.

The BCC is monitoring inflationary pressures and liquidity conditions and should stand ready to tighten more aggressively if second round effects threaten price stability.

24. Continued reserve accumulation in 2022 would help build resilience to external shocks (MEFP ¶23).

The BCC agreed to sustain efforts to accumulate reserves and to an end-December 2022 NIR QPC of US\$1,100 million (with a revised end-June target of US\$960 million, and up from the end-December US\$300 million IT at the time of the first review). Reserve accumulation in 2022 hinges mostly on the expected growth of FX fiscal receipts, the closure of BCC FX accounts at domestic banks, and sustained FX intervention to absorb FX inflows.¹⁵



25. The external position is assessed to be weaker than implied by fundamentals and desirable policy settings. Such assessment reflects protracted balance-of-payment needs that challenge external sustainability (Annex VI). Staff and the authorities agreed on the need to accumulate reserves and develop the forex market, which could enhance the role of the exchange rate as a shock absorber. Staff also called for greater exchange rate flexibility: using FX interventions primarily to build reserves and limit the recourse to external buffers to smoothing excessive exchange rate volatility. Efforts to support external stability, coupled with prudent fiscal policy and structural reforms, will help export competitiveness, attract foreign investment, and ultimately boost growth.

26. Central bank independence remains essential to maintaining macroeconomic stability and enhance monetary policy credibility (MEFP ¶24). With IMF technical assistance, the BCC is reviewing its existing forecasting techniques and practices, and is improving its economic analysis and forecasting capabilities, notably through the development of a Quarterly Projection Model (QPM). Over the medium term, the BCC will continue the implementation of the QPM and work towards the constitution of a forecasting team and a modeling unit. De-dollarization is an important longer-term goal (Annex VII), which will require sustaining prudent fiscal, monetary, and financial sector policies to establish credibility and anchor expectations; the government should lead by example and conduct domestic transactions in Congolese francs.

27. Efforts to strengthen BCC’s independence, governance and safeguards must be sustained in accordance with the 2020 safeguards assessment (MEFP ¶25). Action plans to regularize the BCC claims on the government and to close domestic commercial bank accounts in foreign currencies are being implemented. In February 2022, the BCC Board approved the rules governing the Management Committee (*Comité de Direction*) as prescribed by the Central Bank Law, aimed at supporting the Governor in managing the Bank; the Board also set up the Governance Committee in March. The BCC is seeking new external auditors and will evaluate its

¹⁵ However, the fulfillment of reserve requirements in the currency of the deposit has eliminated a source of FX for the BCC in 2022.

recapitalization needs (**end-November 2022 SB**). Due to reorganization at the BCC, the adoption of the International Financial Reporting Standards (IFRS) has been delayed to September 2022 for the issuance of IFRS compliant financial statements; and the elaboration of BCC procurement rules is now expected by year-end. Further efforts to strengthen the governance and oversight of the BCC are required, notably in reserves management, internal audit, and compliance.

Authorities' Views

28. The authorities consider the current monetary policy stance to be consistent with the inflation target in the medium term and agreed on the need to build reserve buffers.

In view of possible tightening of external conditions and higher food and oil prices, they agree that the monetary policy framework should remain data dependent; the BCC agreed to stand ready to adjust its stance if inflation is set to persistently rise above the target and on refraining from central bank advances to the government as critical to maintaining price stability. The BCC highlighted the limited effectiveness of monetary policy in the context of highly dollarized economy and reiterated that they are not targeting the exchange rate, with FX interventions only occurring to smooth out large excess volatility and/or build reserves. They shared staff's view that strengthening competitiveness remains critical for external sustainability and expect some stability over the medium term as mining production expands. The BCC agreed on the need to scale up reforms to strengthen the central bank's institutional independence and governance.

C. Enhancing Financial Policies to Safeguard Financial Stability

29. The authorities are strengthening the financial policy framework. Rules on loan restructuring, suspended in March 2020, were reinstated on December 22, 2021; staff called for careful monitoring the impact on credit quality. A new financial stability committee has started meeting. The commercial banking law (**end-November 2021 SB**), under discussion in the parliamentary session that began in March 2022, will constitute the cornerstone of the financial framework, establishing enhanced bank governance, internal control and risk management standards, and a macroprudential mandate and instruments for the BCC, the supervision of payment institutions, and a banking resolution framework. Regulations will also be revised to align with the new banking law.

30. The BCC is expected to formulate a comprehensive medium term reform strategy to enhance its role in financial regulation and supervision (MEFP ¶126). The recently completed FSSR identified banks' vulnerabilities related to undercapitalization, poor credit quality reporting, risks associated to dollarization, correspondent banking relationships and linkages to foreign parent companies (Annex II). In the short term, with support from IMF technical assistance, priorities will focus on resuming on-site inspections, implementing risk-based supervision, consolidating related-party regulations, enforcing assessing asset quality reporting and capital requirements, building capacity for stress-testing, developing tools to monitor systemic risks, improving crisis preparedness, and establishing a resolution framework. To improve the resilience of the financial system, it is important to press for the recapitalization of banks, including by adhering to plans to increase in minimum bank capital requirements from US\$30 to US\$50 million, which has been delayed to 2025. Given the high dollarization of the banking system, strengthening prudential supervision, monitoring the preparation of rigorous

bank recovery plans (including the potential loss of correspondent banking relationships) and enhancing the role of the BCC as a lender of last resort will be crucial for financial stability.

Authorities' Views

31. The BCC noted that they are pursuing a multi-faceted reform agenda to reduce financial sector vulnerabilities, while monitoring risks following the expiration of regulatory relief measures. While the authorities recognize the need to increase capital buffers, they want to provide sufficient transition time for implementation. The BCC considers that, with support from international partners, its banking supervisory framework will strengthen as the draft banking law envisages improvements in banking regulation and supervision and in BCC's supervisory capacity. They noted that dollarization is a financial sector vulnerability, limits the role of the BCC as a lender of last resort and undermines the transmission of monetary policy. They highlighted that financial inclusion remained key to promote private sector development and inclusive growth and would require enhancing financial information (MEFP ¶27).

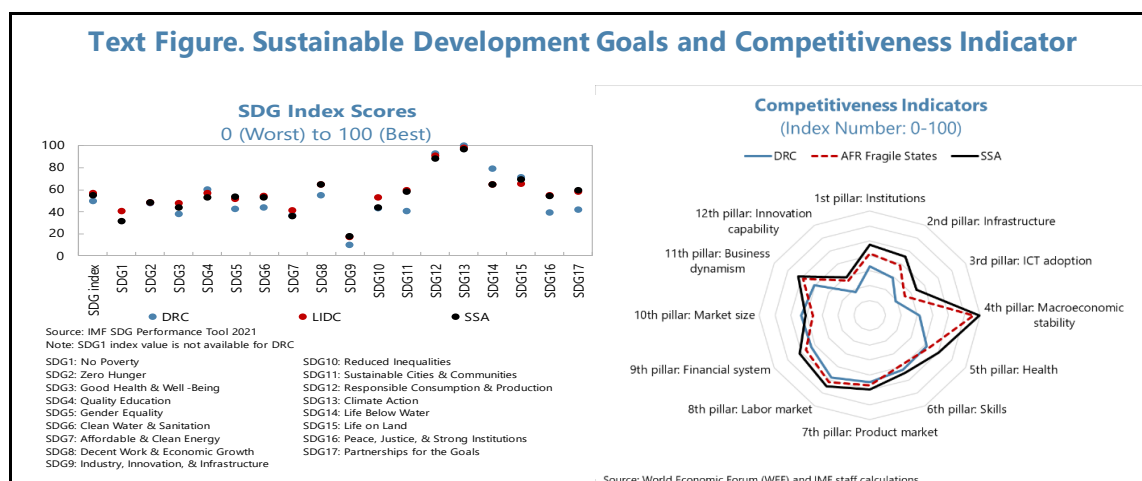
D. Building Institutions to Promote Economic Diversification and Inclusive Growth

32. Targeted policies and structural reforms are key to unlock DRC's growth potential and promote inclusive growth. Demographic growth creates development challenges; DRC's population is projected to quadruple by 2100, engendering further infrastructure needs. Improving access to quality education is key to raise productivity, access to jobs and deliver inclusive growth. On the social front, in addition to policies to reduce the gender gap and boost education and health spending, reforms will be needed to help remove constraints to achieve the Sustainable Development Goals (SDGs). Targeted policies should be geared towards fixing well-identified market failures in industries like agriculture and small-scale mining that have the potential to create more jobs and positive spillovers to the rest of the economy. The authorities' implementation of their structural transformation priorities, as outlined in the National Development Plan, puts particular emphasis on governance, business environment, trade, human capital development, financial inclusion, and climate change.

33. Promoting inclusive growth hinges on strengthening governance and battling corruption (Annex VIII, MEFP ¶28-30), including through:

- **Greater transparency in the mining sector (MEFP ¶29).** The authorities are working on the EITI validation process, assessing compliance with the EITI framework. Staff called for publishing all mining contracts, in line with the Mining code, including those renegotiated with the private sector involving the transfer of assets to the state. Publishing Gécamines' 2021 audited financial statements, including auditors' comments, will continue to sustain efforts to promote transparency in the mining sector.
- **Enhancing the anti-corruption framework to support investment.** The authorities are working on the anti-corruption law and on the implementation of the UNCAC's review mechanism. Staff welcomes the authorities' commitment by end-June 2022 to provide the budgetary allocation to the Audit Court and the planned confirmation of magistrates, which will help support fiscal accountability, and the authorities' plans to strengthen public procurement, including implementing necessary amendments to the legal public

procurement framework to enable the collection and publication of beneficial ownership information for awarded contracts in line with their previous RCF commitment (MEFP ¶21).



- **Strengthening the AML/CFT framework, critical to fighting corruption and reducing the risk of a potential FATF grey listing.** Endemic corruption generates sizable illicit profits that increase the risk of money laundering in the DRC. The AML/CFT law discussed at the parliamentary session started in March 2022 aims to bring the framework in line with FATF Recommendations. Accelerating the implementation of the national AML/CFT Strategy and the FATF action plan, including strengthening the AML/CFT supervisory capacity of the BCC and other supervisory bodies to conduct sectoral risk assessments and develop an ML/FT risk-based approach to their activities, would help mitigate vulnerabilities. Joining the Egmont Group of Financial Intelligence Units would support the coordination with international FIUs.¹⁶

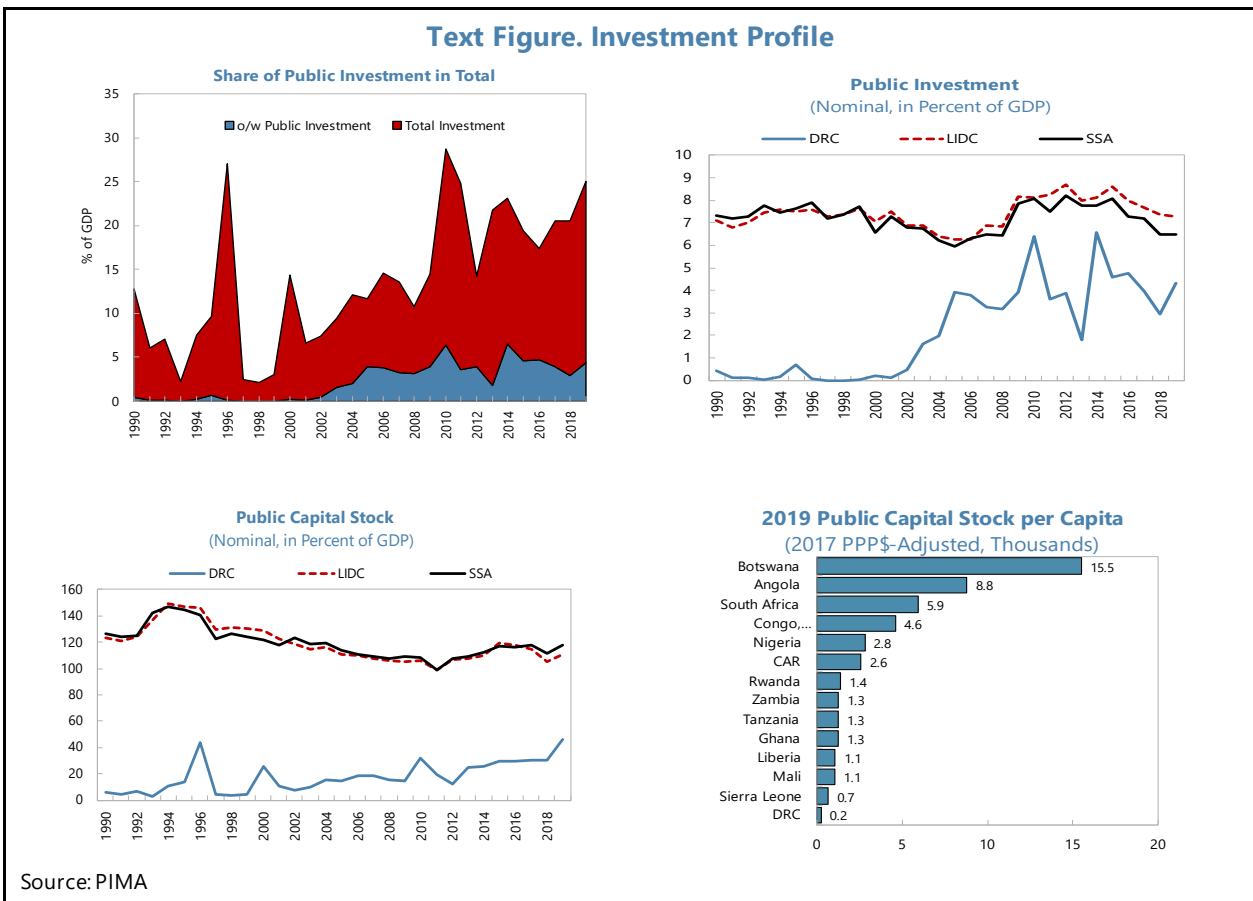
34. Supporting financial inclusion would reduce economic vulnerabilities and income inequality (MEFP ¶30). Economic development requires reforms that promote financial inclusion, including improving payment systems, financial education, and information reporting. Addressing barriers in accessing financial services would enable households to invest in educational and business opportunities, better manage financial risks and smooth their consumption against income risks.

35. Mobilizing investment will help improve productivity, competitiveness, and private sector-led growth. Investment remains extremely low in the DRC—among the lowest in Africa (Text Figure). The largest potential growth benefits would come from closing the gap in electricity-generating capacity and road network, which would boost firms’ production and catalyze trade within the DRC and with its regional trade partners.

- With support from international partners including the World Bank, public investment targets addressing infrastructure gaps and access to basic public services. It is crucial to prioritize infrastructure projects according to their growth and social impact, and to enhance public investment management (including by establishing clear guidelines on project cycles).

¹⁶ The Egmont Group, with 167 member countries, is an international organization that facilitates cooperation and intelligence sharing between national financial intelligence units.

- Efforts to mobilize FDI in export-oriented sectors beyond mining will help improve competitiveness and support job creation and growth. Staff welcomes the authorities’ reform efforts in revising the investment code, and the agricultural and the entrepreneurship laws, while taking steps to facilitate commercial activity, electronic transactions and to simplify the tax and nontax systems. Improving the business environment can also attract more domestic and foreign investors to close the infrastructure gap.
- A full-fledged PPP framework could facilitate private sector participation in large infrastructure projects while accounting for fiscal risks to underpin fiscal sustainability. Supporting a well-functioning and independent judiciary system would help mobilize long-term investment.

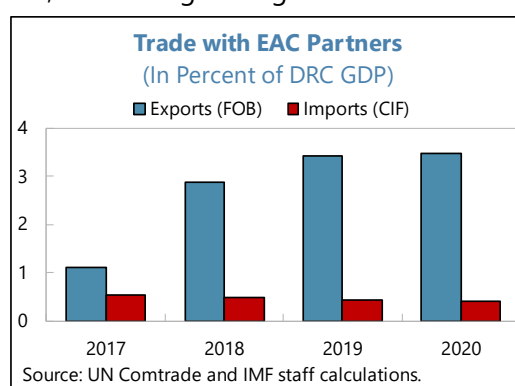


36. Improving the business environment will help foster private sector growth and economic diversification (MEFP 131). Publishing the government’s plans to enhance the business climate (adopted in July 2021) would provide visibility on the authorities’ action plan.¹⁷ Making the tax system fairer and more predictable, improving the rule of law and the judiciary could catalyze private investment.

¹⁷ Development partners recently made proposals including (i) improving the dialogue with professional organizations to define a business continuity plan to alleviate the economic difficulties caused by the Covid-19 pandemic; (ii) further stimulate investment, especially in the agricultural sector; (iii) promoting electronic payments; (iv) provide targeted safety nets to the most vulnerable while promoting the formal economy; (v) ease bureaucracy to economic and trade exchanges; and (vi) modernize cross-border trade, in particular for essential goods such as food and medical supplies.

37. A stronger educational system will contribute to human capital formation and higher labor market participation. Primary and secondary the education system is plagued by low coverage, while tertiary education is insufficiently oriented towards emerging labor market needs (IT, sustainable mining, green jobs) and the restructuring of the economy (digitalization).¹⁸ Education reforms that raise the skill levels in the workforce and upgrade low-skilled workers would help achieve a better matching with the requirements and needs of the employers and the country development needs. Improving labor market policy is also needed to reduce the size of the informal economy (about 80 percent of the economy).

38. Trade integration would help promote export diversification. Extractive sector exports accounted for 99 percent of total goods exports in 2021; weaknesses in productive factors, including limited skills and technological know-how, and structural impediments to growth constrain the potential to upgrade to higher value-added products. Increasing productivity, promoting innovation and digitalization, and strengthening institutions can encourage the diversification of exportable products. The recent accession to the East African Community is expected to expand markets, promote knowledge transfers, and mobilize FDI in export-oriented sectors, which would be instrumental to enhancing competitiveness, building external resilience, and generating more balanced growth.



39. Adapting to climate change is a challenge but the transition provides economic opportunities (Box 3, MEFP ¶32). Although its greenhouse gas emissions are among the lowest worldwide, the DRC is prone to intense rainfalls, coastal erosion and heat waves that could be exacerbated by climate change. DRC’s mineral production, particularly cobalt, is essential to carbon-reducing technology. Further, DRC’s rainforest and peatlands are among the worlds’ largest carbon sinks and stand to benefit from climate finance.¹⁹

40. Adoption of a Disaster Resilience Strategy (DRS) would enhance access to financing. The DRC should continue seeking funding for its mitigation and adaptation plans from bilateral and multilateral creditors, the Green Climate Fund, and The Conservation Fund. Access to financing would be enhanced further with the swift adoption of a DRS that focuses on improving structural, financial, and post-disaster resilience, and is based on a consistent multi-year macro-fiscal framework.

Authorities’ Views

41. The authorities agree that structural reforms are essential to improve productivity and competitiveness and lift growth and living standards. They see fighting corruption and

¹⁸ About 3.5 million children of primary school age are not in school, and of those who do attend, 44 percent start school late, after the age of six and only 67 percent of children who enter first grade will complete sixth grade. [Education | Democratic Republic of the Congo | U.S. Agency for International Development \(usaid.gov\)](https://www.usaid.gov/our-work/education/education-democratic-republic-of-the-congo)

¹⁹ For further details, see accompanying Selected Issues Paper.

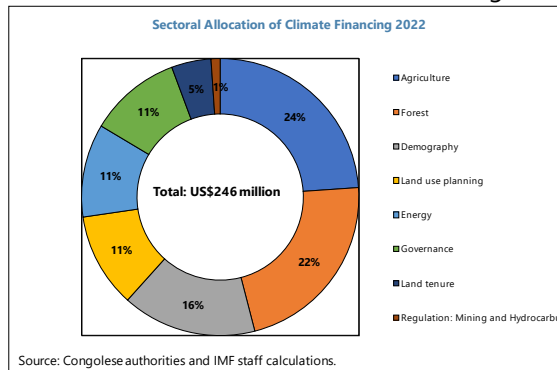
promoting good governance as a pre-requisite for private sector development. They highlighted their commitment to improve the business climate and address infrastructure gaps to attract FDI and promote investment and economic diversification. They noted that policies will be needed to promote higher value-added products and are seeking opportunities to deepen trade integration in the context of the EAC. Finally, they argued that climate adaptation policies would need to be aggressively pursued to limit costs from climate change and that adequate donor financing remains key to climate preservation, whose efforts would be supported by inclusive growth.

Box 3. Climate Change Strategy and Financing

The DRC faces severe challenges from climate-induced natural disasters (floods, droughts, landslides, and wildfire), including rising risks of diseases and food insecurity. Floods are often accompanied by land and infrastructure degradation due to erosion/landslides which can affect agriculture productivity, food security and quality, and direct crop failure. Over the long run, climate change is projected to increase the risk and intensity of floods and droughts in the DRC.

The DRC has made efforts to mainstream climate change into the policy framework. Since 2009, the country has been involved in the Reduction Emissions from Deforestation and Forest Degradation (REDD+) initiative, a framework under the U.N. Framework Convention on Climate

Change Conference of the Parties. In 2015, the DRC became the first country worldwide to present its REDD+ Readiness-Package and pledged to reduce Greenhouse gases (GHG) emissions by 17 percent and increased forest coverage to 60 percent by 2030. The country’s REDD+ investment plan aims to (i) reform the allocation and use of land (including territorial development); (ii) design policies integrating the sustainability of the use of space and resources (energy, agriculture, and forest), energy efficiency and investments in agriculture, savannas, and degraded forest areas; and (iii) develop a subnational or provincial climate mitigation strategy with development partners. US\$246 million have already been mobilized for the country’s REDD+ projects through the Central Africa Forest Initiative (CAFI).



New commitments at COP26 will boost the DRC’s climate mitigation strategies but financing to meet climate change plan remains elusive. At COP26, the role of forests in capturing and storing carbon was high on the agenda, with US\$19 billion in public and private funds pledged to the cause. Likewise, the authorities signed a landmark US\$500 million 10-year agreement with the CAFI to protect DRC’s rainforest. The partnership will regenerate 8 million hectares of degraded land and forests, and place 30 percent of national territory under protection. The DRC expects to cut emissions by 21 percent (19 percent conditional on external financing, and 2 percent on domestic resources) by 2030, with financing needs estimated at US\$48 billion (US\$23 billion for adaptation and US\$25 billion for mitigation).

The global energy transition provides an opportunity to mobilize climate finance, but challenges are daunting. The Congo Basin, the second largest rainforest in the world, absorbs 1.1 billion tons of CO2 every year (3 percent of global emissions). The DRC’s forest represents 10 percent of the world’s tropical forests. Its peatlands cover 100,000 km², the largest in the world. Its ecosystem offers carbon absorption equivalent to 10 years of global emissions. To promote an equitable sharing of climate resource dividend across and within generations, the policy framework should support an efficient and transparent management of the resources wealth. Financing to implement the country’s climate mitigation strategy is still very low given the importance of DRC’s ecosystem in the fight against global warming. Adaptation policies supporting training, capacity building, and regulatory framework are

Box 3. Climate Change Strategy and Financing (concluded)

insufficient to appropriately implement preservation efforts. For example, the current framework tackles only environmental but not climate change issues. Low capacity in climate financing makes it difficult to leverage and monetize the country's carbon sinks and emission reduction programs.

PROGRAM MODALITIES, FINANCING ASSURANCES, CAPACITY DEVELOPMENT, AND DATA PROVISION

42. Understanding was reached on modifying end-June 2022 quantitative performance criteria in support of program's objectives. Modifications are proposed to: (i) increase the end-June NIR target to reflect the projected buildup in reserves during the first half of 2022; and (ii) revise the end-June targets for NCG and NDA to reflect the drawdown of government deposits in line with the agreed use of the SDR allocation. Two end-June 2022 SBs, to adopt a rationalization plan for non-tax charges and to implement the first phase of the STDA system, have faced some delays and are now being proposed for resetting to end-September 2022.

43. The authorities and staff reached agreement to propose updated program conditionality as follows (MEFP Tables 1-2).

- QPCs and ITs are proposed for end-December 2022 in line with program objectives, and quarterly ITs by end-June 2023, consistent with semiannual projections.
- New SBs are proposed: for 2022, publications of government spending plans aligned with program targets (end-July), adoption of a decree on budget governance consistent with CD recommendations (end-October), and completion of the audit certifying domestic arrears (end-December); and for 2023, adoption of a regulatory framework defining the perimeter and structure of the single treasury account; adoption of a new decree on public investment management covering the life cycle of projects, and setting up of an inventory of parafiscal charges in special accounts and supplemental budgets.

44. Financing assurances are in place for the Second Review. The program is fully financed, with firm commitments for the next 12 months, and good prospects for the remainder of the arrangement (Text Table 5). Prompt IMF support is considered essential for the successful implementation of the authorities' adjustment program. The authorities are undertaking their best efforts to resolve external arrears to official creditors and making good faith efforts to reach a collaborative agreement to resolve arrears to private creditors (DSA annex). Staff views the existence of arrears as temporary and, therefore, it does not undermine the medium-term external stability and its capacity to repay the Fund. The authorities are expected to mobilize exceptional financing by other partners (projected at US\$595 million in 2022). Reflecting delays in contracting an Exim India loan (postponed to 2022) and recently approved World Bank loans, the end-December 2022 QPC on the present value of external borrowing is proposed at US\$1,300 million. The projected borrowing does not alter the debt risk assessment.

45. Capacity to repay the Fund remains adequate but subject to important risks given fragility, low reserves, and high exposure to recurrent shocks (Table 6). The proposed ECF disbursement for the second review is for BOP support. Fund credit outstanding is projected to

remain close to 35 percent of GIR throughout the program. Total obligations to the Fund will peak in 2029 at 3 percent of GIR (0.4 percent of GDP). The program faces manageable risks: terms-of-trade shocks; social unrest or security challenges; delayed implementation of structural reforms; higher frequency and severity of natural disasters. In each of these cases, risks are mitigated by DRC's low level of public debt, moderate risk of debt distress, and access to concessional financing. Faster accumulation of external buffers would also help build resilience against shocks.

Text Table 5. DRC: External Borrowing, 2021-23

	Borrowing						PV of New Debt (Program Purposes)					
	2021 Est.		2022 Proj.		2023 Proj.		2021 Est.		2022 Proj.		2023 Proj.	
	US\$ million	Percent	US\$ million	Percent	US\$ million	Percent	US\$ million	Percent	US\$ million	Percent	US\$ million	Percent
By sources of debt financing	2,591	100	2,054	100	1,500	100	1,533	100	1,225	100	793	100
Multilateral concessional debt	1,021	39	1,425	69	1,500	100	426	28	745	61	793	100
Semi-concessional debt	1,570	61	629	31	0	0	1,107	72	479	39	0	0
By creditor type	2,591	100	2,054	100	1,500	100	1,533	100	1,225	100	793	100
Multilateral	2,591	100	1,520	74	1,500	100	1,533	100	819	67	793	100
Bilateral - Non-Paris Club	0	0	534	26	0	0	0	0	406	33	0	0
Uses of debt financing	2,591	100	2,054	100	1,500	100	1,533	100	1,225	100	793	100
Infrastructure	1,071	41	2,054	100	1,500	100	466	30	1,225	100	793	100
Budget Financing	0	0	0	0	0	0	0	0	0	0	0	0
Other	1,520	59	0	0	0	0	1,067	70	0	0	0	0

Source: Congolese authorities

46. Capacity development (CD) remains critical to program success (MEFP ¶33). CD support from both HQ and AFRITAC Central has already been scaled up, including on assessing the financial sector health, public-sector domestic arrears, and national statistics.²⁰ Reforms on governance and safeguards are progressing. Coordination with other donors and CD providers will be actively pursued. CD priorities are fully aligned and integrated with program objectives, focused on several workstreams including revenue administration, PFM, tax policy, financial supervision and regulation, financial crisis management, governance and anti-corruption, AML/CFT, and national account and statistics.

47. Data provision is broadly adequate for surveillance and program monitoring, but further progress is needed in strengthening statistics and timely data provision (MEFP ¶34). With IMF CD support, statistics on the fiscal sector and national accounts, financial soundness indicators and debt data coverage need to improve. On March 31, the National Statistics Office published the revised national accounts 2005-19 following the recommendations of the System National Accounts (SNA) 1993. The authorities are working on completing the series through 2021, while starting the background work to rebase the GDP series (using 2018 as a base year) and adopt the 2008 SNA.

STAFF APPRAISAL

48. The economic recovery provides an opportunity to cement macroeconomic stability, and to advance structural reforms to achieve higher and more inclusive growth. Fragility hinders inclusive growth. External demand and service activity have supported DRC's

²⁰ For details, please see Annex VII of [IMF Country Report no. 21/168](#).

growth recovery, but downside risks to the outlook remain. The external and fiscal positions strengthened in 2021, but inflation is above the BCC's target. While conditions remain favorable to sustain growth this year, higher fuel and food prices would require careful policy calibration and comprehensive structural reforms to prevent exacerbating development challenges and remove obstacles to growth. New COVID-19 waves, a less benign external environment—including an abrupt growth slowdown in China and volatile commodity prices—and delayed reform implementation could weigh on the outlook and increase pressures on the external and fiscal positions.

49. Program performance remains satisfactory. While all quantitative performance criteria were met, the IT related to health spending was missed and some structural reforms were completed with minor delays because of coordination challenges in some ministries and technical difficulties. To help mitigate the impact of the changing global conditions surrounding the recovery and creating space for temporary higher fuel subsidies, staff supports the authorities' request to relax the domestic fiscal deficit, which also reflects the proposed frontloading of part of the SDR allocation agreed to be used for budget purposes. The authorities' commitment to prudent macro policies and increased reserve cover remains essential to achieving program objectives.

50. Creating space for investment in infrastructure and human capital requires improved revenue administration, contained current spending, and well-managed fiscal risks. Tax policy and tax administration reforms and preserving and increasing social spending—including through increased spending efficiency—will be critical to meeting large development needs. Better budget preparation and execution—including by respecting expenditure controls and implementing a single treasury account—and enhanced arrears and cash management would support fiscal efficiency. Additional public investment requires a multi-pronged approach involving containing current spending by replacing the general fuel subsidy with targeted social transfers and implementing a comprehensive civil service reform. Advancing institutional fiscal reforms remains key to improving fiscal accountability.

51. Prudent debt management is important to reduce vulnerabilities. DRC's debt is sustainable, with a moderate risk of debt distress. The use of half of the SDR allocation for fiscal spending on social infrastructure helps reduce public borrowing. In view of increased vulnerabilities, it remains important that every effort be made to seek concessional financing and enhance the debt management framework.

52. Monetary policy should remain focused on price stability. With inflation increasing, continuing to restrain from central bank financing of the fiscal deficit remains critical and a tightening of monetary policy now and monitoring monetary conditions can help anchor expectations. With external conditions evolving rapidly, the BCC should further tighten monetary conditions if inflation expectations rise persistently above the target. Greater exchange rate flexibility may be needed to absorb shocks and preserve external buffers. Foreign exchange interventions should be limited to smoothing excessive exchange rate fluctuations.

53. Reforms to strengthen financial policies would help address banking sector vulnerabilities. Rising capital buffers will help reduce vulnerabilities, but care should be taken to assess credit risks once Covid-19 measures are lifted. The implementation of the commercial

banking law will strengthen significantly the regulatory and supervisory frameworks, adopt new governance guidelines, and operationalize a new resolution policy framework.

54. Advancing the structural reform agenda is critical to unlocking DRC's growth potential and promote inclusive growth. Continued efforts to improve transparency in the mining sector, strengthen the anti-corruption and AML/CFT frameworks, and enhance accountability—including through stronger and independent institutions— will support private sector development, economic diversification, and competitiveness. Scaling up investment, improving trade integration, promoting financial inclusion, and fostering climate adaptation policies and will boost private sector help build a faster-growing, greener economy.

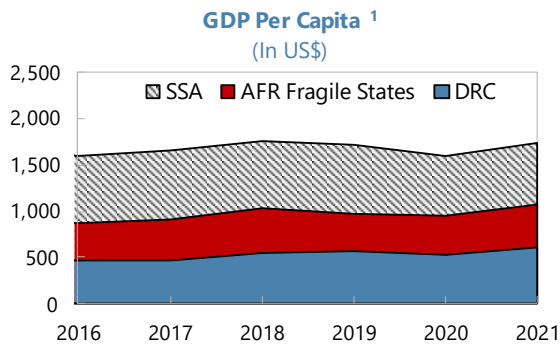
55. Strong policy frameworks, institutions and governance should help the DRC benefit from the global energy transition and provide an opportunity for development. The DRC is well-positioned to benefit from the global energy transition, given its natural resources in terms of mining wealth, forests and peatlands. Building strong institutions to ensure preservation and transparency and accountability in managing the resource wealth will help mobilize financing preservation and promote more inclusive growth.

56. Staff supports the authorities' request for the completion of the Second Review under the Extended Credit Facility, the modification of quantitative performance criteria, and the completion of the financing assurance review. Prudent macroeconomic policies and structural reforms provide confidence that the program will meet its objectives. Staff supports modifying the end-June 2022 QPCs on NIR, NDA and NCG, and establishing the end-December 2022 QPCs.

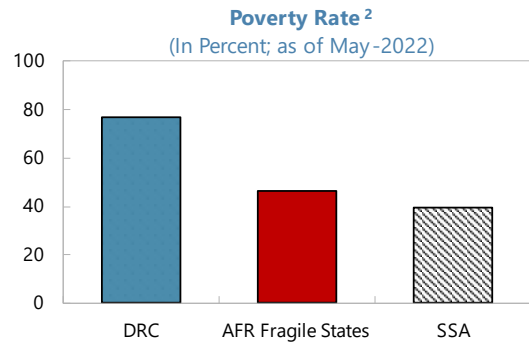
57. The next Article IV consultation is expected to be held within 24 months in accordance with the Executive Board decision on consultation cycles for members with Fund arrangements.

Figure 1. Fragility Indicators

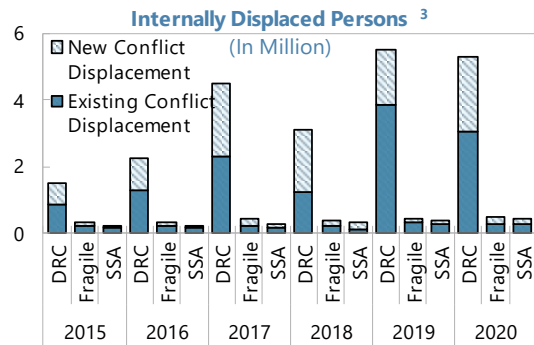
Per-capita GDP is much lower than peers...



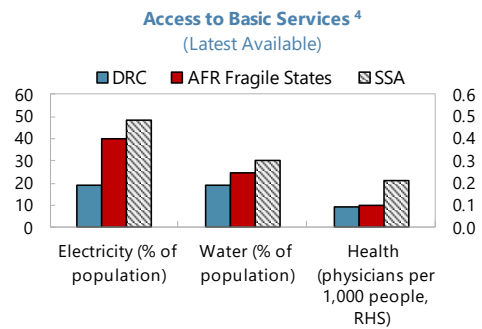
...and poverty rates stand out among African fragile states and SSA peers.



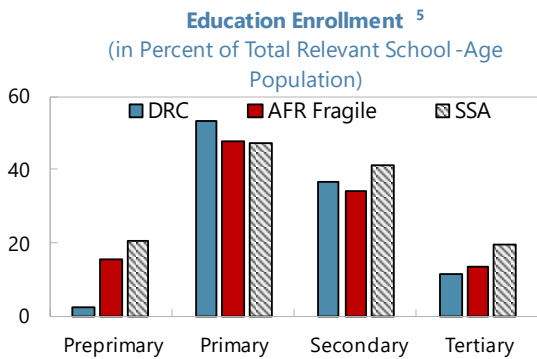
The population suffers from conflict displacement much more than other fragile states.



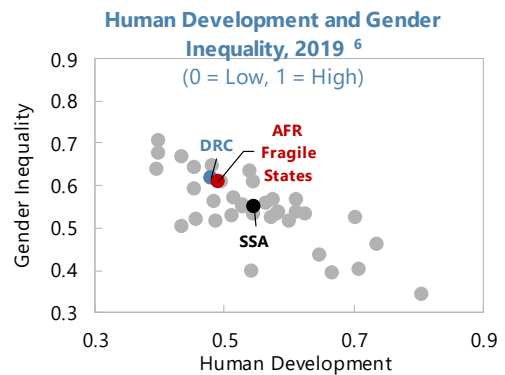
Access to basic services remains very low.



But education enrollment rates are broadly comparable to peers.



And gender equality and human capital are subpar for growth, but in line with other fragile states in the region.



1/ IMF WEO Database;

2/ Haver Analytics

3/ Internal Displacement Monitoring Center (IDMC)

4/ World Bank Group

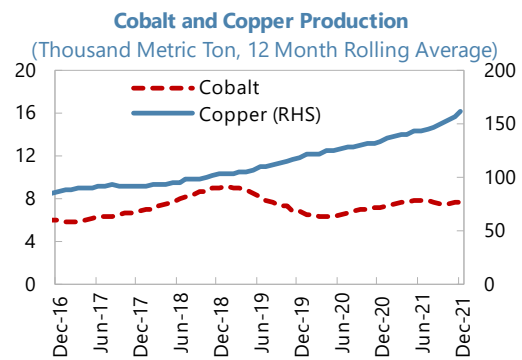
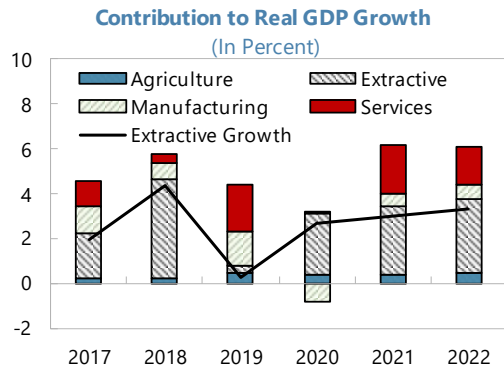
5/ Ibrahim Index of African Governance

6/ UNDP: Human Development Reports. Compared to other Sub-Saharan African countries. AFR Fragile States are Burundi, Central African Republic, Chad, Comoros, Republic of Congo, Côte d'Ivoire, DRC, Eritrea, Guinea, Guinea-Bissau, Liberia, Madagascar, Malawi, Mali, São Tomé and Príncipe, Sierra Leone, South Sudan, The Gambia, Togo, and Zimbabwe.

Figure 2. Real Sector Developments, 2016-22

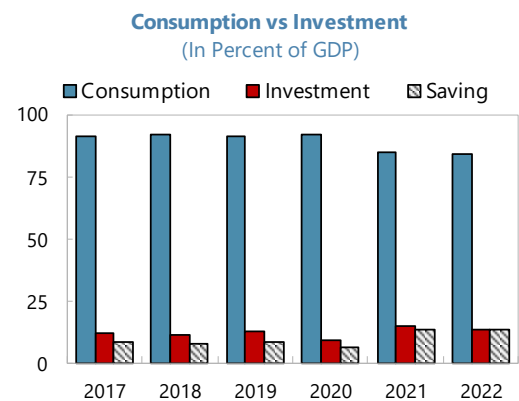
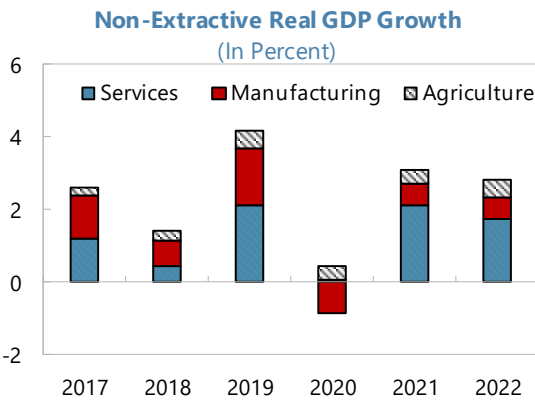
The extractive sector dominates growth dynamics...

...with growth benefitting from increasing mining production.



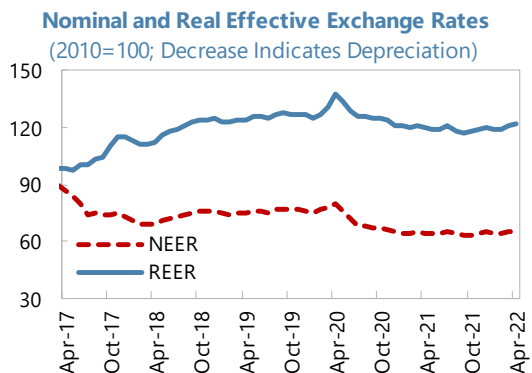
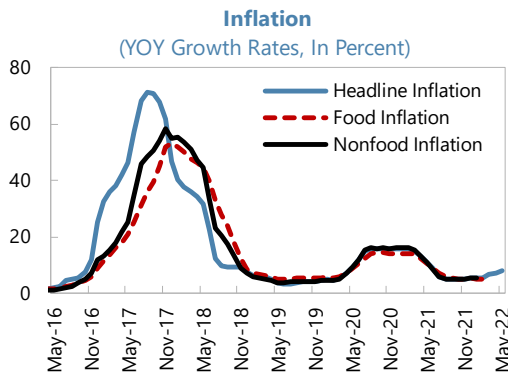
Services and manufacturing are driving non-extractive growth...

...but investment and savings remain very low.



Inflation has picked up recently due to imported prices...

...and the exchange rate has remained stable.

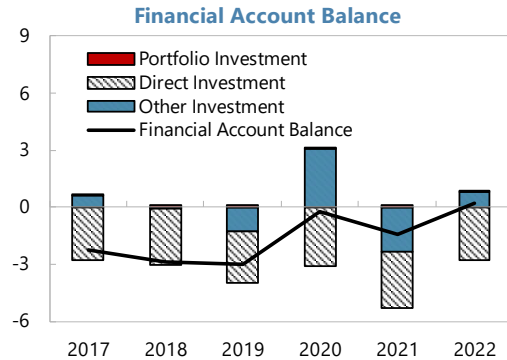
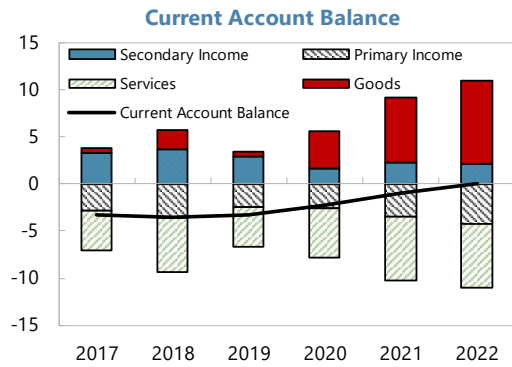


Source: Congolese authorities; IMF STA INS database; and IMF staff estimates.

Figure 3. External Sector Developments, 2017-22
(In percent of GDP unless specified)

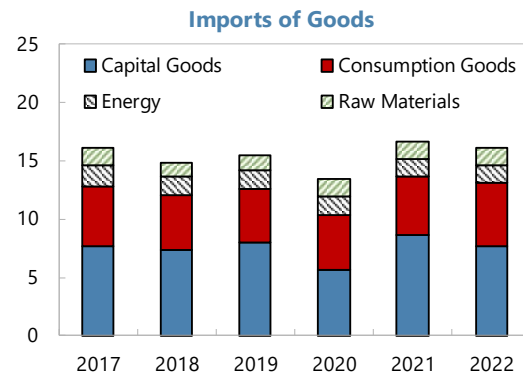
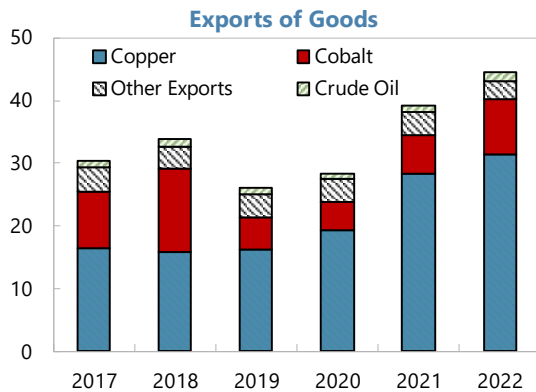
The current account deficit has narrowed supported by a trade surplus...

...and the financial account has benefitted from FDI and other flows.



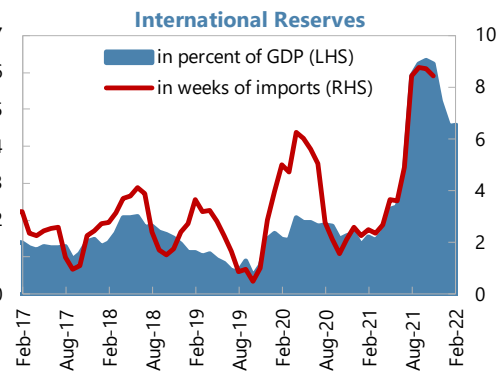
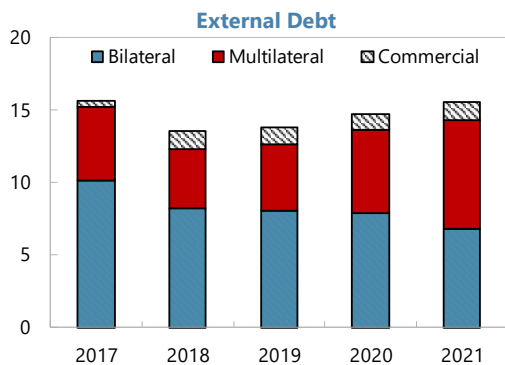
Exports are concentrated in mining products...

...while broad-based products constitute imports.



External debt remains subdued ...

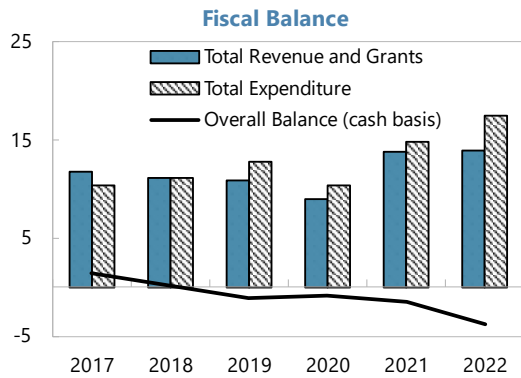
...and reserves have strongly recovered though remain below adequate levels.



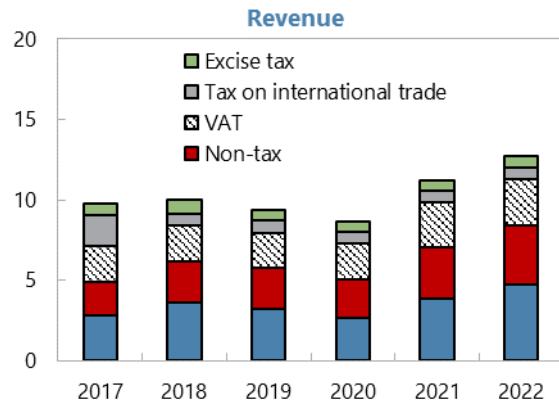
Sources: Congolese authorities and IMF staff estimates.

Figure 4. Fiscal Sector Developments, 2017-22
(In percent of GDP)

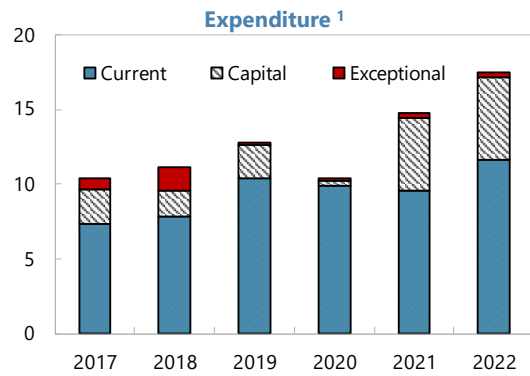
The fiscal deficit is widening...



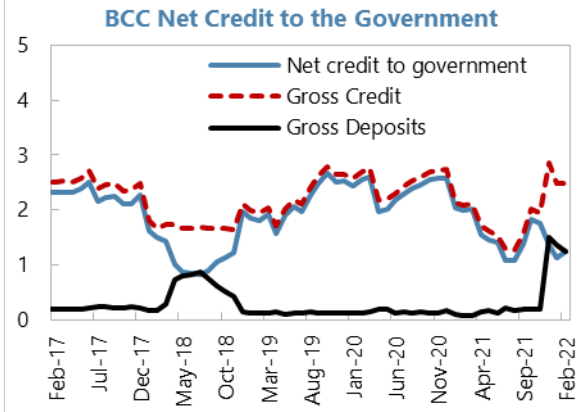
...as stronger revenues collections is not compensating ...



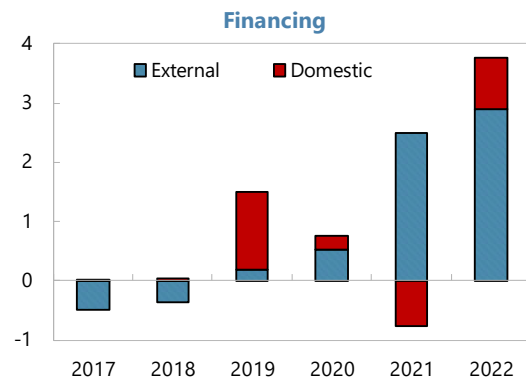
...the increase in current and capital expenditures.



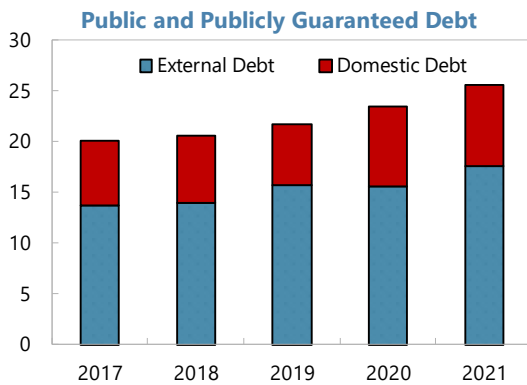
NCG continue to improve following the discontinuation of BCC advances since end-April 2020.²



External financing has increased while domestic financing has remained limited...



...and public debt has increased but remains at moderate levels.



Sources: Congolese authorities and IMF staff estimates.

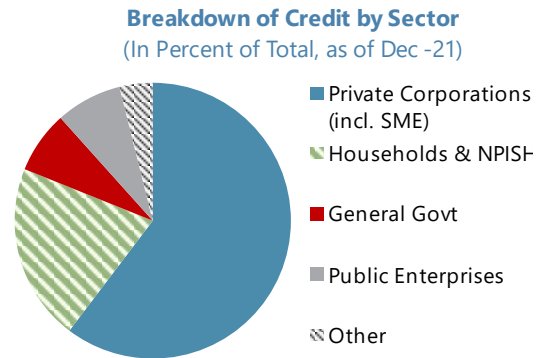
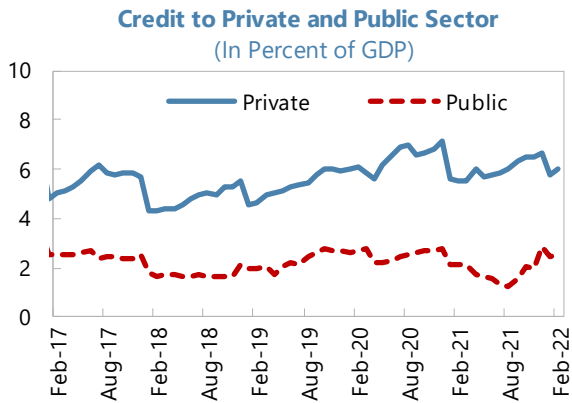
1/ Exceptional Expenditure includes security, elections, and other exceptional expenditures.

2/ The increase in NCG observed in the late part of 2021 onwards is driven by the part of the SDR allocation retroceded to the government as budgetary support.

Figure 5. Monetary and Financial Sector Developments, 2016-22

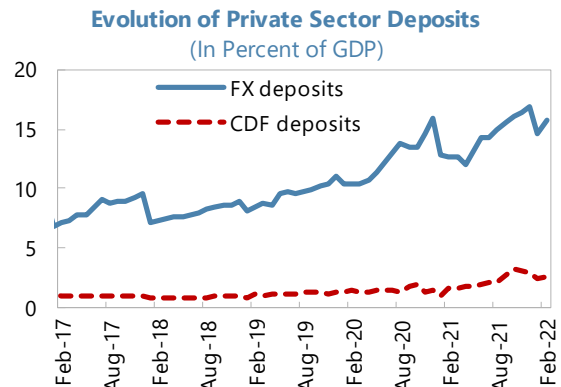
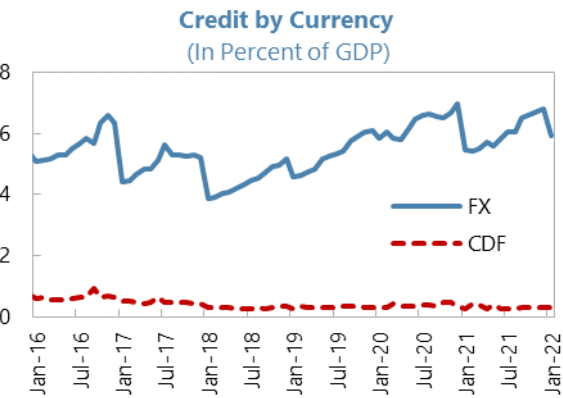
Credit remains very low and stagnant.

Private enterprises receive most of the loans.



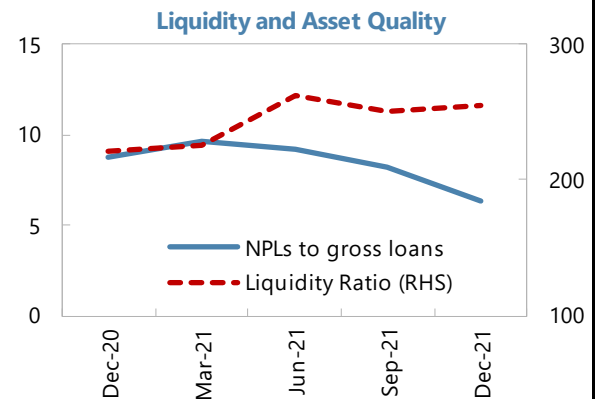
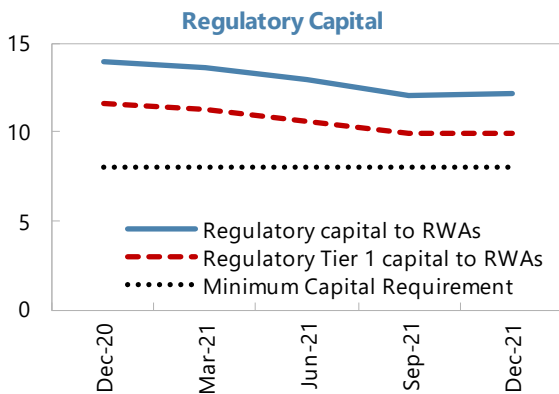
Credit extended in mostly in FX, while credit in Congolese francs is scarce.

Bank deposits are almost entirely in foreign currency.



Capital ratios have declined.

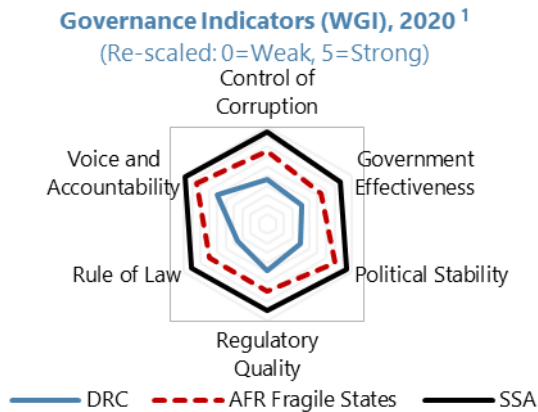
The ongoing suspension of credit quality rules has led to a decline in reported NPLs.



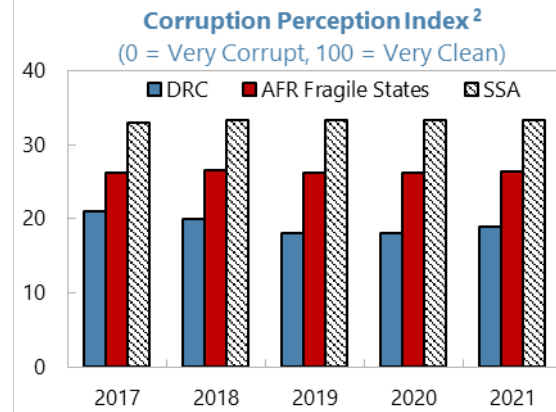
Source: Congolese authorities and IMF staff estimates.

Figure 6. Governance Indicators

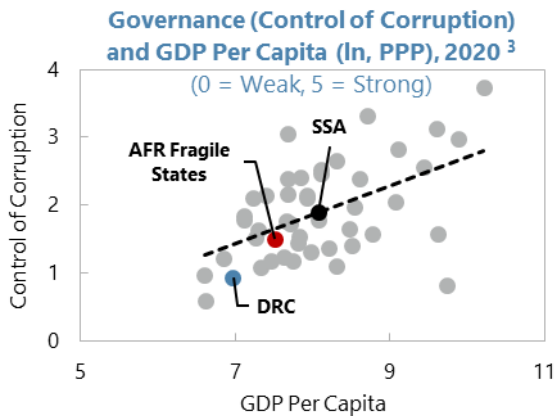
All governance indicators remain weaker than peers...



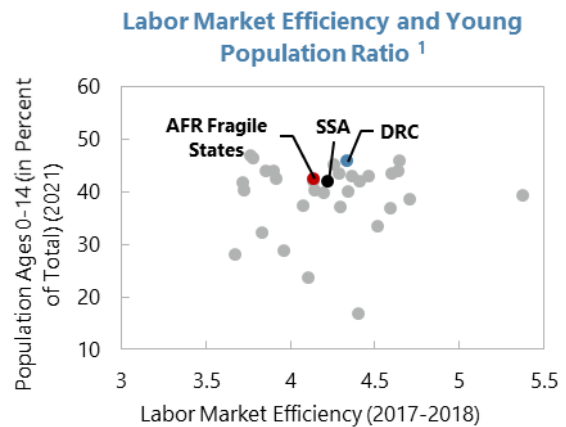
...while corruption index has deteriorated in past years...



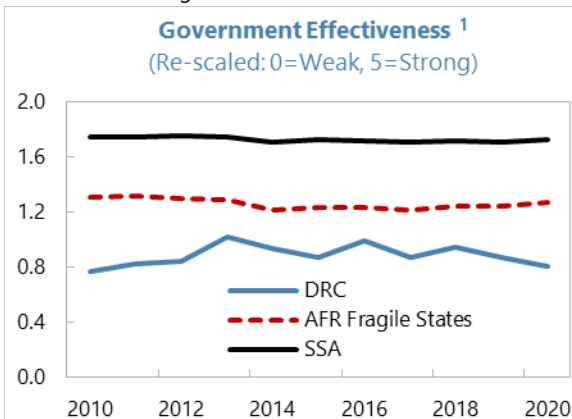
...and corruption control is below countries with similar income levels.



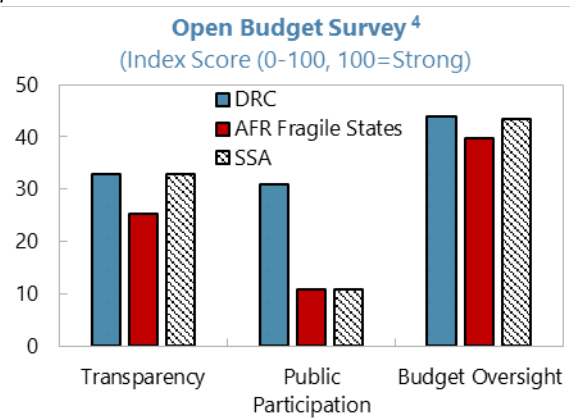
Labor market efficiency is slightly above peers.



Government effectiveness remains low compared to other countries in the region...



...but budget transparency indicators are well above peers.



1/ World Bank Group
2/ Transparency International
3/ IMF WEO and World Bank Group
4/ Open Budget Survey, IBP.

**Table 1. Democratic Republic of the Congo: Selected Economic and Financial Indicators
2021-27**

	2021		2022		2023		2024	2025	2026	2027
	CR No. 22/3	Proj.	CR No. 22/3	Proj.	CR No. 22/3	Proj.	Proj.	Proj.	Proj.	Proj.
(Annual percentage change, unless otherwise indicated)										
GDP and prices										
Real GDP	5.4	6.2	6.4	6.1	6.9	6.7	6.9	7.1	6.9	6.3
Extractive GDP	11.3	10.1	10.4	10.6	9.9	10.1	9.0	8.8	7.4	6.5
Non-Extractive GDP	2.9	4.5	4.5	4.1	5.4	5.1	5.9	6.2	6.6	6.1
GDP deflator	16.7	17.6	4.8	8.4	6.0	9.7	4.8	4.8	4.4	5.4
Consumer prices, period average	9.0	9.0	5.6	8.4	6.2	9.8	5.6	5.9	5.5	6.3
Consumer prices, end of period	5.2	5.3	5.8	11.0	6.2	6.8	6.1	6.0	5.7	5.6
External sector										
Exports in U.S. dollars, f.o.b. value	58.9	60.9	12.9	28.4	11.9	11.6	9.9	10.6	8.7	8.2
Imports in U.S. dollars, f.o.b. value	52.5	53.8	14.7	24.8	11.4	9.9	8.9	11.0	8.0	6.9
Exports volume	11.5	11.9	13.9	13.7	14.2	13.7	13.1	15.0	12.6	10.8
Import volume	27.8	26.4	11.0	6.8	12.4	11.6	9.7	11.0	7.9	5.7
Terms of trade	20.0	21.6	-1.7	-2.3	0.7	1.2	-0.5	-1.3	-1.2	-0.7
(Annual change in percent of beginning-of-period broad money)										
Money and credit										
Net foreign assets	42.4	41.5	35.3	32.7	27.4	20.8	20.3	16.7	14.3	13.9
Net domestic assets	-19.7	-6.4	-5.6	4.6	-10.4	12.0	4.7	4.7	2.9	3.2
Domestic credit	-3.5	1.9	9.1	9.8	8.0	6.9	5.4	5.4	4.8	4.2
Of which: net credit to government	-8.2	-4.7	2.9	2.6	2.1	1.4	0.5	0.6	0.6	0.0
credit to the private sector	3.9	5.9	5.8	7.3	5.9	5.5	4.9	4.7	4.2	4.3
Broad money	22.6	35.1	29.7	37.3	17.0	32.8	25.0	21.4	17.2	17.1
(Percent of GDP, unless otherwise indicated)										
Central government finance										
Revenue and grants	12.0	13.8	12.3	14.0	12.7	14.3	14.7	15.0	15.4	16.0
Revenue	10.8	11.2	11.2	12.7	12.2	13.4	14.1	14.7	15.2	15.8
Grants	1.2	2.6	1.2	1.3	0.5	0.9	0.6	0.3	0.2	0.2
Expenditures	13.8	14.8	14.2	17.5	14.7	17.1	17.0	17.1	17.0	17.1
Overall fiscal balance (commitment basis)	-1.8	-1.0	-1.9	-3.5	-2.0	-2.8	-2.3	-2.1	-1.6	-1.1
Domestic fiscal balance (program target)	-0.2	-0.1	-0.9	-1.2	-0.4	-0.8	-0.1	0.0	-0.1	0.4
Non-natural resource overall fiscal balance	-3.3	-2.8	-4.6	-5.0	-4.6	-5.7	-5.0	-5.9	-6.9	-6.5
Investment and saving										
Gross national saving	13.2	13.8	14.2	13.5	14.2	15.7	16.2	16.4	16.4	16.5
Government	-1.2	-0.4	-1.4	-2.8	-0.3	-2.2	-1.3	0.0	0.8	1.4
Non-government	14.4	14.1	15.5	16.3	14.5	17.9	17.5	16.4	15.6	15.1
Investment	13.8	14.7	14.7	13.5	14.9	15.7	15.9	16.2	16.0	15.9
Government	4.0	4.9	3.9	5.5	4.2	5.0	5.2	5.7	5.7	5.8
Non-government	9.8	9.8	10.8	8.0	10.7	10.7	10.7	10.5	10.3	10.1
Balance of payments										
Exports of goods and services	39.3	39.5	40.8	44.9	41.6	45.5	45.6	46.0	45.8	45.5
Imports of goods and services	39.1	39.2	40.7	42.7	41.2	42.7	42.4	43.0	42.4	41.3
Current account balance, incl. transfers	-0.5	-0.9	-0.5	0.0	-0.8	0.0	0.3	0.3	0.5	0.7
Current account balance, excl. transfers	-2.0	-2.2	-1.9	-1.3	-1.7	-0.8	-0.6	-0.6	-0.3	0.1
Overall balance	0.5	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross official reserves (millions of U.S. dollars)	2,953	2,955	3,860	4,297	4,606	5,433	6,619	7,852	9,134	10,463
Gross official reserves (weeks of imports)	6.8	6.3	7.8	8.3	8.5	9.5	10.3	11.2	12.2	14.0
(Percent of GDP, unless otherwise indicated)										
External debt										
Total stock, including IMF	16.5	17.6	17.1	18.3	17.6	18.9	18.9	18.5	18.1	17.4
PV of debt (percent of exports of goods and services)	32.2	29.3	31.3	30.2	30.7	30.5	30.0	29.2	28.5	27.2
Scheduled debt service (millions of U.S. dollars)	485	497	652	640	754	820	830	785	703	844
Percent of exports of goods and services	2.9	2.1	3.0	2.6	2.7	2.4	2.4	2.2	2.1	2.3
Percent of government revenue	10.3	7.2	10.6	8.4	8.6	7.6	7.5	6.4	6.1	6.7
Exchange rate (CDF per U.S. dollars)										
Period average	1,971	1,990.2	...	...	...	...	...	...	...	...
End-of-period	1,995	2,000.0	...	...	...	...	...	...	...	...
Memorandum items:										
DRC copper export price (US\$ per ton)	8,453.3	8,922.0	8,380.9	9,676.3	8,348.6	9,621.9	9,487.1	9,337.4	9,219.9	9,177.3
DRC cobalt export price (US\$ per ton)	40,306.4	37,585.8	43,396.0	54,096.2	43,906.5	55,394.9	55,463.7	55,463.7	55,463.7	55,463.7
World crude oil price (US\$ per barrel)	65.7	69.1	64.5	106.8	61.3	92.6	84.2	78.5	74.7	72.5
Nominal GDP (billions of CDF)	110,974	112,575	123,739	129,479	140,175	151,553	169,795	190,565	212,553	238,120
Nominal GDP (millions of U.S. dollars)	54,832	56,566	59,246	63,926	64,296	70,371	77,183	84,548	92,443	110,123

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

Table 2. Democratic Republic of the Congo: Balance of Payments, 2021-27

	2021		2022		2023		2024	2025	2026	2027
	CR No. 22/3	Proj.	CR No. 22/3	Proj.	CR No. 22/3	Proj.	Proj.	Proj.	Proj.	Proj.
	(Millions of US dollars, unless otherwise indicated)									
Current Account Balance	-308	-535	-319	3	-533	9	214	235	419	663
Current Account Balance (excl. budget grants) [A]	-526	-584	-588	-401	-533	-145	142	235	419	663
Goods balance	3,810	3,940	3,984	5,709	4,563	6,756	7,676	8,367	9,308	10,495
Exports of goods	21,910	22,185	24,744	28,479	27,681	31,789	34,939	38,639	42,000	45,458
o/w extractive sector	21,682	21,945	24,476	28,196	27,368	31,463	34,564	38,203	41,491	44,862
Imports of goods	18,100	18,245	20,760	22,770	23,118	25,033	27,263	30,272	32,692	34,962
o/w capital goods	8,264	8,216	9,543	10,757	10,741	12,072	12,939	14,309	15,554	16,835
Services balance	-3,683	-3,779	-3,877	-4,338	-4,315	-4,765	-5,187	-5,761	-6,219	-6,297
Primary income	-1,802	-1,990	-1,716	-2,733	-2,018	-3,053	-3,354	-3,459	-3,626	-4,351
Secondary income (excl. budget support grants)	1,149	1,245	1,022	962	1,237	916	1,007	1,087	956	817
Budget grants	219	49	268	404	0	154	71	0	0	0
Capital Account Balance [B]	181	171	237	115	95	313	258	103	34	13
Net Lending(+)/Borrowing(-) [A+B]	-345	-413	-350	-286	-438	168	401	337	452	676
Financial Account Balance (excl. IMF and budget loans) [C]	1,772	1,159	667	729	377	1,256	980	514	590	704
Financial Account Balance	-385	-799	-82	118	-438	322	472	337	452	676
Portfolio investment	46	48	53	53	53	53	53	54	59	65
Direct investment	-1,638	-1,678	-1,798	-1,798	-1,864	-1,864	-1,924	-1,975	-1,974	-2,005
Direct investment liabilities	1,638	1,678	1,798	1,798	1,864	1,864	1,924	1,975	1,974	2,005
Other investment (excl. IMF and budget support loans)	1,214	643	1,505	1,133	1,442	1,931	1,666	1,201	1,224	1,315
of which:										
Project loans	1,231	830	976	1,939	1,102	1,589	1,811	1,816	1,408	1,479
Change in reserves (+: increase)	2,150	2,145	907	1,342	746	1,136	1,185	1,234	1,282	1,329
Net Errors and Omissions [D]	-258	-435	0	0	0	0	0	0	0	0
Overall Balance [A+B-C+D]	-2,376	-2,007	-1,017	-1,015	-815	-1,087	-580	-177	-138	-28
Overall Financing Needs	2,376	2,007	1,017	1,015	815	1,087	580	177	138	28
IMF financing	434	431	440	420	444	421	208	-123	-162	-272
Disbursements	434	431	440	424	444	429	217	0	0	0
Repayments	0	0	0	4	0	8	9	123	162	272
SDR allocation	1,467	1,467	0	0	0	0	0	0	0	0
Other exceptional financing	475	110	577	595	371	667	371	300	300	300
Budget support loans	256	61	309	192	371	513	300	300	300	300
World Bank	256	61	309	192						
AfDB	0	0	0	0						
Others	0	0	0	0						
Budget grants	219	49	268	404	0	154	71	0	0	0
Memorandum Items:										
Current account balance (in percent of GDP)	-0.5	-0.9	-0.5	0.0	-0.8	0.0	0.3	0.3	0.5	0.6
Terms of trade (percent change)	20.0	21.6	0.7	1.2	-1.5	-1.3	-0.5	-1.3	-1.2	-0.7
Financial account balance										
(excl. IMF, SDR allocation, and budget loans, in percent of GDP)	3.1	2.0	1.1	1.1	0.6	1.8	1.3	0.6	0.6	0.6
o/w direct investment liabilities	2.9	3.0	2.9	2.8	2.8	2.6	2.5	2.3	8.7	1.8
Gross reserves	2,952.7	2,955.0	3,859.6	4,297.2	4,606.1	5,433.2	6,618.7	7,852.5	9,134.1	10,463.2
in weeks of non-aid related imports	6.8	6.3	7.8	8.3	8.5	9.5	10.3	11.2	12.2	14.0

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

Table 3a. Democratic Republic of the Congo: Central Government Financial Operations, 2021-27^{1/}
(Billions of CDF)

	2021		2022		2023		2024	2025	2026	2027
	CR No. 22/3	Proj.	CR No. 22/3	Proj.	CR No. 22/3	Proj.	Proj.	Proj.	Proj.	Proj.
	(Billions of CDF, unless otherwise indicated)									
Revenue and grants	13,316	15,553	15,277	18,095	17,757	21,598	24,978	28,538	32,797	38,105
Revenue^{2/}	11,951	12,638	13,826	16,464	17,086	20,235	23,885	27,927	32,330	37,673
Tax revenue	8,594	9,090	10,371	11,748	13,264	14,715	17,596	20,664	24,337	28,834
Income tax	3,936	4,373	4,695	6,153	6,135	7,494	8,699	10,588	12,737	15,412
Individuals	1,525	1,531	1,667	1,550	1,815	1,653	1,823	2,251	2,762	3,404
Businesses	2,199	2,498	2,751	4,226	3,999	5,467	6,508	7,931	9,535	11,530
Taxes on goods and services	3,648	3,944	4,595	4,632	5,778	6,009	7,413	8,411	9,743	11,342
Value-added tax/Turnover tax	2,931	3,168	3,671	3,740	4,515	4,791	5,708	6,497	7,609	8,950
Excises	717	776	923	893	1,263	1,218	1,705	1,914	2,134	2,391
Taxes on international trade and transactions	1,010	773	1,081	963	1,351	1,212	1,484	1,665	1,857	2,080
Non-tax revenue	3,357	3,547	3,455	4,716	3,822	5,520	6,288	7,264	7,993	8,840
Revenue from natural resources and telecommunications	1,505	1,787	1,541	2,358	1,802	2,832	3,286	3,894	4,234	4,629
Mining royalties	899	1,065	1,029	1,469	1,053	1,892	2,248	2,730	2,963	3,237
Oil royalty and rent	211	292	243	406	263	369	392	423	452	481
Telecommunications	250	219	161	248	362	306	343	384	429	480
Dividends from state-owned enterprises	144	211	107	235	124	265	304	356	390	431
Fees from sectoral ministries	422	357	563	343	588	339	371	417	465	521
Special accounts and budgets	1,249	1,065	1,219	1,845	1,283	2,159	2,420	2,716	3,029	3,393
Other	181	338	133	170	150	190	211	237.3	257	0
Grants	1,365	2,915	1,451	1,631	670	1,363	1,094	610	467	431
Project	934	2,818	909	814	670	1,032	937	610	467	431
Budget support	431	97	542	818	0	331	157	0	0	0
Expenditure	15,322	16,657	17,625	22,653	20,540	25,843	28,892	32,604	36,133	40,821
Current expenditure	10,772	10,755	12,429	15,122	13,925	17,635	19,896	21,664	23,967	26,879
Wages	5,277	5,454	6,176	6,469	6,975	7,568	8,479	9,516	10,615	11,896
Interest due	189	251	338	534	429	636	740	880	1,045	1,234
External	47	47	159	182	199	262	317	396	490	593
Domestic	142	204	178	352	230	373	424	484	555	641
Goods and services	2,385	2,228	2,659	2,744	3,012	3,212	3,599	4,027	4,496	5,037
Subsidies and other current transfers	2,922	2,457	3,256	4,921	3,509	5,565	6,346	6,419	6,894	7,491
Subsidies (incl. VAT reimbursements) ^{3/}	1,508	1,147	1,865	2,647	2,024	3,043	3,507	3,308	3,453	3,663
Transfers to other levels of national government	165	245	172	430	201	363	418	394	412	434
Special accounts and budgets	1,249	1,065	1,219	1,845	1,283	2,159	2,420	2,716	3,029	3,393
Social spending	366	366	453	453	653	732	822	917	1,222	1,222
Capital expenditure	4,387	5,522	4,792	7,144	5,952	7,546	8,824	10,803	12,013	13,770
Foreign-financed	3,361	4,470	2,879	4,741	2,967	4,454	4,920	4,703	3,705	3,926
Domestically-financed	1,026	1,052	1,913	2,403	2,985	3,092	3,904	6,099	8,308	9,844
Exceptional expenditure^{4/}	164	380	404	387	662	662	172	137	153	171
Overall fiscal balance (commitment basis)	-2,006	-1,105	-2,348	-4,559	-2,783	-4,244	-3,914	-4,066	-3,336	-2,716
Base domestic fiscal balance	36	497	-760	-1,266	-288	-892	229	423	392	1,372
Change in domestic arrears (repayment = -)	-267	-585	-304	-304	-309	-323	-323	-501	-501	-501
Domestic fiscal balance (cash basis)	-231	-89	-1,064	-1,570	-596	-1,215	-94	-78	-108	872
Overall fiscal balance (cash basis)	-2,274	-1,690	-2,651	-4,863	-3,092	-4,568	-4,237	-4,567	-3,837	-3,217
Errors and omissions	-44	-273	0	0	0	0	0	0	0	0
Financing	2,317	1,963	2,651	4,863	3,092	4,568	4,237	4,567	3,837	3,217
Domestic financing (banking system)	-1,689	-855	677	1,120	628	755	187	359	424	-55
Foreign financing	4,007	2,817	677	3,743	2,463	3,813	4,050	4,208	3,413	3,271
Budget loans (disbursements)	505	121	1,974	388	774	1,105	660	676	690	709
Project loans (disbursements)	2,427	1,652	623	3,928	2,297	3,421	3,983	4,093	3,238	3,495
Amortization of external debt	-384	-386	1,970	-573	-607	-713	-593	-561	-515	-933
Other external financing ^{5/}	1,458	1,431	-619	0	0	0	0	0	0	0
Memorandum items:										
Gross domestic product (billions of CDF)	110,974	112,575	123,739	129,479	140,175	151,553	169,795	190,565	212,553	238,120
Mining revenues	3,647	3,636	4,945	5,201	6,199	7,816	8,639	11,635	14,977	16,812
Unpaid cumulative domestic financial obligations ^{6/}	8,915	9,037	8,615	8,751	8,311	8,445	8,139	7,656	7,172	6,689

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

1/ Covers the budgetary central government.

2/ Revenue include compensations of 560 and 97 billions of CDF in 2019 and 2020, respectively.

3/ Includes fuel subsidy.

4/ Mainly expenditure related to security and elections.

5/ Includes 50 percent of SDR allocation transferred to the Mdf by end 2022.

6/ Unpaid VAT credit reimbursements and other domestic arrears (cumulative).

Table 3b. Democratic Republic of the Congo: Central Government Financial Operations, 2021-27^{1/}
(Percent of GDP)

	2021		2022		2023		2024	2025	2026	2027
	CR No. 22/3	Proj.	CR No. 22/3	Proj.	CR No. 22/3	Proj.	Proj.	Proj.	Proj.	Proj.
	(Percent of GDP, unless otherwise indicated)									
Revenue and grants	12.0	13.8	12.3	14.0	12.7	14.3	14.7	15.0	15.4	16.0
Revenue^{2/}	10.8	11.2	11.2	12.7	12.2	13.4	14.1	14.7	15.2	15.8
Tax revenue	7.7	8.1	8.4	9.1	9.5	9.7	10.4	10.8	11.4	12.1
Income tax	3.5	3.9	3.8	4.8	4.4	4.9	5.1	5.6	6.0	6.5
Individuals	1.4	1.4	1.3	1.2	1.3	1.1	1.1	1.2	1.3	1.4
Businesses	2.0	2.2	2.2	3.3	2.9	3.6	3.8	4.2	4.5	4.8
Other unallocable taxes on income, profits, and capital gains	0.2	0.3	0.2	0.3	0.2	0.2	0.2	0.2	0.7	0.0
Taxes on goods and services	3.3	3.5	3.7	3.6	4.1	4.0	4.4	4.4	4.6	4.8
Value-added tax/Turnover tax	2.6	2.8	3.0	2.9	3.2	3.2	3.4	3.4	3.6	3.8
Excises	0.6	0.7	0.7	0.7	0.9	0.8	1.0	1.0	1.0	1.0
Taxes on international trade and transactions	0.9	0.7	0.9	0.7	1.0	0.8	0.9	0.9	0.9	0.9
Non-tax revenue	3.0	3.2	2.8	3.6	2.7	3.6	3.7	3.8	3.8	3.7
Revenue from natural resources and telecommunications	1.4	1.6	1.2	1.8	1.3	1.9	1.9	2.0	2.0	1.9
Mining royalties	0.8	0.9	0.8	1.1	0.8	1.2	1.3	1.4	1.4	1.4
Oil royalty and rent	0.2	0.3	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.2
Telecommunications	0.2	0.2	0.1	0.2	0.3	0.2	0.2	0.2	0.2	0.2
Dividends from state-owned enterprises	0.1	0.2	0.1	0.2	0.1	0.2	0.2	0.2	0.2	0.2
Fees from sectoral ministries	0.4	0.3	0.5	0.3	0.4	0.2	0.2	0.2	0.2	0.2
Special accounts and budgets	1.1	0.9	1.0	1.4	0.9	1.4	1.4	1.4	1.4	1.4
Other	0.2	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0
Grants	1.2	2.6	1.2	1.3	0.5	0.9	0.6	0.3	0.2	0.2
Project	0.8	2.5	0.7	0.6	0.5	0.7	0.6	0.3	0.2	0.2
Budget support	0.4	0.1	0.4	0.6	0.0	0.2	0.1	0.0	0.0	0.0
Expenditure	13.8	14.8	14.2	17.5	14.7	17.1	17.0	17.1	17.0	17.1
Current expenditure	9.7	9.6	10.0	11.7	9.9	11.6	11.7	11.4	11.3	11.3
Wages	4.8	4.8	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Interest due	0.2	0.2	0.3	0.4	0.3	0.4	0.4	0.5	0.5	0.5
External	0.0	0.0	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2
Domestic	0.1	0.2	0.1	0.3	0.2	0.2	0.2	0.3	0.3	0.3
Goods and services	2.1	2.0	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Subsidies and other current transfers	2.6	2.2	2.6	3.8	2.5	3.7	3.7	3.4	3.2	3.1
Subsidies (incl. VAT reimbursements) ^{3/}	1.4	1.0	1.5	2.0	1.4	2.0	2.1	1.7	1.6	1.5
Transfers to other levels of national government	0.1	0.2	0.1	0.3	0.1	0.2	0.2	0.2	0.2	0.2
Special accounts and budgets	1.1	0.9	1.0	1.4	0.9	1.4	1.4	1.4	1.4	1.4
Social spending	0.0	0.3	0.0	0.4	0.0	0.4	0.4	0.4	0.4	0.5
Capital expenditure	4.0	4.9	3.9	5.5	4.2	5.0	5.2	5.7	5.7	5.8
Foreign-financed	3.0	4.0	2.3	3.7	2.1	2.9	2.9	2.5	1.7	1.6
Domestically-financed	0.9	0.9	1.5	1.9	2.1	2.0	2.3	3.2	3.9	4.1
Exceptional expenditure^{4/}	0.1	0.3	0.3	0.3	0.5	0.4	0.1	0.1	0.1	0.1
Overall fiscal balance (commitment basis)	-1.8	-1.0	-1.9	-3.5	-2.0	-2.8	-2.3	-2.1	-1.6	-1.1
Base domestic fiscal balance	0.0	0.4	-0.6	-1.0	-0.2	-0.6	0.1	0.2	0.2	0.6
Change in domestic arrears (repayment = -)	-0.2	-0.5	-0.2	-0.2	-0.2	-0.2	-0.2	-0.3	-0.2	-0.2
Domestic fiscal balance (cash basis)	-0.2	-0.1	-0.9	-1.2	-0.4	-0.8	-0.1	0.0	-0.1	0.4
Overall fiscal balance (cash basis)	-2.0	-1.5	-2.1	-3.8	-2.2	-3.0	-2.5	-2.4	-1.8	-1.4
Errors and omissions	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing	2.1	1.7	2.1	3.8	2.2	3.0	2.5	2.4	1.8	1.4
Domestic financing	-1.5	-0.8	0.5	0.9	0.4	0.5	0.1	0.2	0.2	0.0
Foreign financing	3.6	2.5	1.6	2.9	1.8	2.5	2.4	2.2	1.6	1.4
Budget loans (disbursements)	0.5	0.1	0.5	0.3	0.6	0.7	0.4	0.4	0.3	0.3
Project loans (disbursements)	2.2	1.5	1.6	3.0	1.6	2.3	2.3	2.1	1.5	1.5
Amortization of external debt	-0.3	-0.3	-0.5	-0.4	-0.4	-0.5	-0.3	-0.3	-0.2	-0.4
Other external financing ^{5/}	1.3	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Memorandum items:</i>										
Gross domestic product (billions of CDF)	110,974	112,575	123,739	129,479	140,175	151,553	169,795	190,565	212,553	238,120
Mining revenues	3	3.2	4.0	4.0	4.4	5.2	5.1	6.1	7.0	7.1
Unpaid cumulative domestic financial obligations ^{6/}	8.0	8.0	7.0	6.8	5.9	5.6	4.8	4.0	3.4	2.8

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

1/ Covers the budgetary central government.

2/ Revenue include compensations of 560 and 97 billions of CDF in 2019 and 2020, respectively.

3/ Includes fuel subsidy.

4/ Mainly expenditure related to security and elections.

5/ Includes 50 percent of SDR allocation transferred to the MoF by end 2022.

6/ Unpaid VAT credit reimbursements and other domestic arrears (cumulative).

Table 4. Democratic Republic of the Congo: Depository Corporations Survey, 2021-27
 (Billions of CDF)

	2021		2022		2023		2024	2025	2026	2027
	CR No. 22/3	Proj.	CR No. 22/3	Proj.	CR No. 22/3	Proj.				
Depository corporations survey:										
Net foreign assets	17,944	17,498	26,075	25,567	34,265	32,611	41,759	51,162	60,911	72,009
Claims on non-residents	23,681	23,133	32,947	32,826	42,381	42,510	52,729	62,713	72,970	84,368
Liabilities to non-residents	5,736	5,635	6,871	7,258	8,116	9,899	10,970	11,552	12,059	12,360
Net domestic assets	5,125	7,181	3,827	8,313	710	12,381	14,495	17,128	19,098	21,645
Domestic credit	9,042	9,616	11,149	12,035	13,528	14,366	16,796	19,827	23,136	26,486
Net credit to the central government	637	1,278	1,314	1,931	1,942	2,409	2,613	2,972	3,396	3,341
Credit to other sectors	8,405	8,338	9,832	10,101	11,586	11,957	14,183	16,855	19,740	23,144
Credit to the private sector	7,456	7,497	8,791	9,309	10,545	11,165	13,391	16,062	18,948	26,369
Other items, net	-3,917	-2,435	-7,319	-3,719	-12,818	-1,984	-2,301	-2,699	-4,038	-4,840
Broad Money (M2)	23,053	24,679	29,894	33,880	34,974	44,993	56,254	68,290	80,009	93,654
Monetary base (broad definition)	4,476	5,392	5,386	6,965	5,877	7,484	9,568	13,558	18,091	23,239
Narrow Money (M1)	4,654	5,384	5,976	7,287	6,271	8,985	12,568	18,057	24,103	31,053
Currency in circulation	2,679	2,803	3,407	3,761	3,189	3,741	5,745	9,184	13,316	17,977
Demand deposits	1,976	2,581	2,568	3,526	3,082	5,244	6,823	8,384	9,941	11,828
Quasi money	18,399	19,295	23,919	26,593	28,703	36,007	43,686	50,233	55,906	62,600
Time deposits in domestic currency	636	669	827	912	992	1,356	1,764	2,167	2,570	3,058
Foreign currency deposits	17,763	18,626	23,092	25,682	27,710	34,652	41,922	48,066	53,336	59,542
Banque centrale du Congo:										
Net foreign assets	2,488	2,996	3,413	3,973	4,058	3,959	6,139	9,197	12,788	16,958
Claims on non-residents ^{1/}	7,048	7,464	9,075	9,462	10,924	11,870	14,782	17,920	21,336	25,083
Gross official reserves	5,905	5,910	8,002	8,975	9,766	11,826	14,738	17,876	21,292	25,039
Liabilities to non-residents	-4,560	-4,467	-5,662	-5,489	-6,866	-7,911	-8,643	-8,723	-8,548	-8,125
Net domestic assets	1,988	2,396	1,973	2,992	1,820	3,525	3,429	4,360	5,303	6,281
Domestic credit	2,547	2,885	2,547	3,974	3,473	4,398	4,381	4,365	4,349	4,333
Net credit to the central government	1,298	1,528	1,293	2,489	2,181	2,911	2,894	2,877	2,859	2,842
Claims on other depository corporations	1,213	1,327	1,217	1,448	1,253	1,448	1,448	1,448	1,448	1,448
Other items, net	-559	-490	-574	-982	-1,654	-872	-952	-5	954	1,948
Other depository corporations:										
Net foreign assets	15,456	14,501	22,662	21,594	30,208	28,652	35,620	41,964	48,123	55,051
Net domestic assets	5,258	8,160	4,158	9,383	1,914	13,735	16,007	17,770	18,842	20,496
Claims on the central bank	1,918	2,812	2,064	3,211	2,676	3,884	3,963	4,025	4,069	4,154
Net credit to the central government	-661	-250	20	-558	-239	-226	-21	355	796	758
Credit to local administrations	160	200	160	187	160	187	187	187	187	187
Credit to public enterprises	729	641	821	606	821	606	606	606	606	606
Credit to private sector	7,419	7,467	8,755	9,272	10,506	11,126	13,352	16,022	18,906	22,309
Other items, net	-4,368	-2,710	-7,722	-3,334	-12,069	-1,842	-2,079	-3,424	-5,722	-7,518
(Annual percent change)										
Net foreign assets	80.0	76.4	45.3	46.1	31.4	27.6	28.0	22.5	19.1	18.2
Net domestic assets	-42.0	-13.9	-25.3	15.8	-81.5	48.9	17.1	18.2	11.5	13.3
Domestic credit	-1.4	4.3	14.7	27.6	23.7	18.1	14.9	15.5	14.5	15.0
Net credit to government	-70.8	-40.1	106.3	51.1	47.8	24.8	8.5	13.7	14.2	-1.6
Credit to the private sector	11.0	16.7	17.9	24.2	19.9	19.9	19.9	20.0	18.0	18.0
Broad Money (M2)	22.6	35.1	29.7	37.3	17.0	32.8	25.0	21.4	17.2	17.1
<i>Memorandum items:</i>										
Nominal GDP (billions of CDF)	110,974	112,575	123,739	129,479	140,175	151,553	169,795	190,565	212,553	238,120
Credit to the private sector (percent of GDP)	6.7%	6.7%	7.1%	7.2%	7.5%	7.4%	7.9%	8.4%	8.9%	11.1%
Velocity (GDP/broad money)	5	4.6	4.3	4.3	4.0	3.4	3.0	2.8	2.7	2.5
Foreign currency deposits (percent of M2)	77	75.5	77.2	75.8	79.2	77.0	74.5	70.4	66.7	63.6
Foreign currency deposits (percent of total depositions)	87	85.1	87.2	85.3	87.2	84.0	83.0	82.0	81.0	80.0

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

1/ Includes reclassification of accounts to comply with reporting standards of IMF.

Table 5. Democratic Republic of the Congo: Financial Soundness Indicators

	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Adequacy					
Regulatory capital to risk-weighted assets	14.0	13.6	12.9	12.1	12.1
Regulatory Tier 1 capital to risk-weighted assets	11.6	11.2	10.6	9.9	10.0
Asset quality					
NPLs to gross loans ^{1/}	8.8	9.6	9.2	8.2	6.3
NPLS net of provisions to capital ^{2/}	18.6	13.1	12.7	11.8	7.5
Earnings and profitability					
Return on assets (net income/total assets)	2.1	0.3	1.9	1.6	1.5
Return on net income (net income/equity)	3.1	5.4	15.9	13.2	13.3
Interest margin to gross income	32.6	30.5	28.7	30.4	29.2
Non-interest expenses to gross income	67.1	65.9	65.3	64.8	65.7
Liquidity					
Deposits/Loans	220.5	226.0	262.2	250.0	254.7
Sensitivity to market risk					
Net open in foreign exchange position to capital	11.7	10.6	10.7	8.4	2.7
Foreign currency-denominated liabilities to total liabilities	90.1	86.3	86.1	84.3	83.9
Foreign currency-denominated loans to total loans	89.0	88.9	92.6	88.2	85.8

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

1/ Figures from December 2020 exclude BIAC, which went into liquidation in October 2020.

2/ All figures exclude BIAC

Table 6. Democratic Republic of the Congo: Capacity to Repay the Fund

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Total obligations on existing and prospective credit 1/													
Total obligations (In millions of SDRs)	9.9	3.0	6.0	6.0	85.9	112.6	188.7	249.7	310.6	245.8	219.2	143.1	82.1
Principal	9.9	0.0	0.0	0.0	80.0	106.6	182.8	243.7	304.6	239.9	213.2	137.1	76.1
Charges and interest 2/	0.0	3.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Total obligations (In millions of U.S. dollars)	14.1	4.1	8.4	8.5	123.1	162.3	272.1	359.9	447.7	354.4	316.0	206.2	118.4
In percent of exports of goods and services	0.1	0.0	0.0	0.0	0.3	0.4	0.6	0.7	0.8	0.7	0.6	0.4	0.2
In percent of GDP	0.0	0.0	0.0	0.0	0.1	0.2	0.3	0.3	0.4	0.3	0.2	0.1	0.1
In percent of quota	0.9	0.3	0.6	0.6	8.1	10.6	17.7	23.4	29.1	23.1	20.6	13.4	7.7
In percent of gross international reserves	0.5	0.1	0.2	0.1	1.6	1.8	2.6	2.7	2.8	1.8	1.4	0.9	0.5
Fund credit outstanding (end-period)													
In millions of SDRs	837.6	1,142.2	1,446.8	1,599.1	1,519.1	1,412.5	1,229.8	986.1	681.5	441.7	228.5	91.4	15.3
In millions of U.S. dollars	1,171.2	1,599.4	2,048.4	2,282.4	2,183.3	2,040.5	1,776.5	1,424.5	984.5	638.0	330.0	132.0	22.1
In percent of exports of goods and services	5.2	5.6	6.4	6.5	5.6	4.8	3.9	2.8	1.9	1.2	0.6	0.2	0.0
In percent of GDP	2.1	2.5	2.9	3.0	2.6	2.2	1.8	1.3	0.8	0.5	0.2	0.1	0.0
In percent of quota	78.6	107.1	135.7	150.0	142.5	132.5	115.4	92.5	63.9	41.4	21.4	8.6	1.4
In percent of total external debt	12.0	14.4	17.2	18.2	16.5	14.5	12.1	9.4	6.3	4.0	2.0	0.8	0.1
In percent of gross international reserves	39.6	37.2	37.7	34.5	27.8	22.3	17.0	10.8	6.1	3.3	1.5	0.6	0.1
Memorandum items													
Exports of goods and services (in millions of U.S. dollars)	22,354	28,696	32,031	35,205	38,933	42,319	45,803	50,130	52,908	53,971	54,954	55,822	57,204
Quota (in millions of SDRs)	1,066	1,066	1,066	1,066	1,066	1,066	1,066	1,066	1,066	1,066	1,066	1,066	1,066
GDP (in millions of U.S. dollars)	56,566	63,926	70,371	77,183	84,548	92,443	100,756	110,123	118,917	127,350	136,457	146,304	157,264
Public sector external debt (end-period, in millions of U.S. dollars)	9,764	11,073	11,932	12,526	13,266	14,040	14,636	15,090	15,581	16,078	16,682	17,302	17,972
Gross international reserves (in millions of U.S. dollars)	2,955	4,297	5,433	6,619	7,852	9,134	10,463	13,164	16,010	19,350	22,007	23,919	24,968
Sources: IMF staff estimates and projections.													
1/ Obligations to the Fund in 2020 reflect the relief grant under the CCRT.													
2/ On July 22, 2021 the IMF Executive Board agreed that interest rates on all loans provided through the PRGT facilities will remain at zero until the next review of the interest rate structure, to occur by end-July 2023. Based on this decision													

Table 7. Democratic Republic of the Congo: Reviews and Disbursements Under the Three-Year Extended Credit Facility Arrangement ^{1/}

Availability Date	Action	Associated Disbursement	Share of Quota (In percent)
On July 15, 2021	Approved three-year ECF arrangement	SDR 152.3 million	14.3
On or after September 15, 2021	Completed the first review based on end-June, 2021 performance criteria	SDR 152.3 million	14.3
On or after March 15, 2022	Completed the second review based on end-December, 2021 performance criteria	SDR 152.3 million	14.3
On or after September 15, 2022	Completed the third review based on end-June, 2022 performance criteria	SDR 152.3 million	14.3
On or after March 15, 2023	Completed the fourth review based on end-December, 2022 performance criteria	SDR 152.3 million	14.3
On or after September 15, 2023	Completed the fifth review based on end-June, 2023 performance criteria	SDR 152.3 million	14.3
On or after March 15, 2024	Completed the sixth and final review based on end-December, 2023 performance criteria	SDR 152.2 million	14.3
Total		SDR 1066.0 million	100.0

Source: International Monetary Fund.

^{1/} Total quota shares may not add up exactly to 100 percent due to rounding.

Annex I. Key Recommendations of the 2019 Article IV Consultation

Recommendations	Status of Implementation
Increasing Fiscal Space and Budget Credibility	
Step up revenue mobilization, notably non-resource revenue by simplifying taxes and integrating mining revenue into the central government Treasury.	<p>In progress. After decreasing from 10.1 percent of GDP in 2019 to 8.7 percent of GDP in the context of the COVID-19 crisis in 2020, revenue rebounded to an estimated 11.2 percent of GDP in 2021. While the increase in fiscal revenues in 2021 is largely due to favorable economic developments (higher commodity prices) and extraordinary revenues from tax inspections, the authorities are working on simplifying the tax system, especially on parafiscal charges. The electronic declaration has helped somewhat simplify tax administration procedures, but digitalizing tax administration is needed to enhance its effectiveness. To this end, the ISYS Regie application has allowed for implementing an information system that reports payments of taxes and duties made to commercial banks in real time to the Ministry of Finance. It has notably enabled the Government to reduce the period from 72 hours to 24 hours for registering income in local currency paid to commercial banks.</p> <p>Mining revenues of the central government are reported in the Treasury account. The authorities are auditing outstanding VAT credit ahead of implementing a clearance strategy. Further progress is needed to implement the VAT restoration plan.</p>
Maintain a prudent expenditure policy aligned with realistic revenue projections and strictly adhere with the rule of zero central bank financing of the government budget.	A rule of zero central bank financing, materialized by the Stability Pact in August 2020, has been continuously respected. In 2021, spending was executed according to a Treasury Plan formulated based on realistic revenue and financing projections and consistent with no access to BCC financing. In 2021, with overperformance compared to the objectives of the budget law, spending continued to be controlled and executed, with a domestic fiscal deficit consistent with the ECF supported-program commitments. The 2022 budget remains anchored on no central bank financing to the government.
Restore the expenditure chain, limit emergency spending procedures, and enhance cash management.	Improvements in the expenditure chain have been limited. The expenditure chain continues using exceptional procedures and sector ministries are less involved in the budget commitment plan preparation (<i>Plan d'Engagement Budgétaire</i> , PEB) which is insufficiently coordinated with the cash plan (<i>Plan de Trésorerie</i>). The government has just created a General Directorate of the Treasury and Accounting (Decree approved by the Council of Ministers on January 28), which still needs to become operational. Emergency spending procedures declined from 30 percent of total spending in 2017 to 11 percent in 2021. The process of setting up the single treasury account has been launched. The census of all central government accounts with commercial banks is carried out. The mission report is being validated.
Design a strategy to pay off domestic arrears.	In progress. The authorities have taken stock of domestic arrears and are in the process of defining a strategy to clear arrears with CA support, for which the financing also needs to be identified.
Formulate a fiscal policy framework consistent with debt	The fiscal policy framework is based on no central bank financing to the government and maintaining a moderate risk of debt distress, with a

Recommendations	Status of Implementation
sustainability, based on the non-mineral domestic balance, to smooth spending vis-à-vis volatile mineral revenues.	domestic fiscal deficit consistent with the Fund-supported program as an anchor. However, the debt strategy prepared by the General Directorate for the Public Debt (DGDP) remains to be approved by the Minister of Finance. Interactions between the DGDP at the ministry of finance and the General Directorate of the budget ministry (DGPPB) need to be improved.
Monetary and Exchange Rate Policies	
Build up central bank's foreign reserves to reduce vulnerabilities.	After falling to two weeks of imports (US\$807 million) at end-2020, gross international reserves significantly increased in 2021 (US\$2.9 billion, or 6.2 weeks of imports) at the end of 2021, supported by higher mineral exports, the SDR allocation (US\$1.5 billion) and higher-than-expected central bank FX purchases.
Enhance the BCC policy framework to improve the conduct of monetary policy	In progress. Some progress has been made such as: Foreign exchange reserves are now constituted in deposit currency; the Government and the BCC signed the memorandum of understanding for the BCC claims regularization on December 26, 2021. In August 2021, the IMF-ICD launched the Technical Assistance project to develop a forecasting and policy analysis system (FPAS) for the BCC. The project will develop a tailored forecasting model, help streamline the policy decision-making process and improve external communications.
Improve the BCC independence and enhance financial transparency, including the AML/CFT framework	in progress. There has been some progress. New auditors have been appointed in according to BCC law; The BCC Board have adopted IFRS as the accounting framework; audit committee was instituted since November 2021 by the BCC board; recruitment of an external auditor is in process; The drafting of the audit charter is in preparation.
Business Environment, Governance and Corruption	
Enhance transparency, including through public tendering for the sale of mining assets, publication of audited financial statements of state-owned enterprises, and greater monitoring of public assets.	In the mining sector. Significant progress can be noted on the publication of contracts (in line with EITI recommendations), and with the publication of GECAMINES audited financial statements in 2021. Further progress is needed for the publication of audited financial statements of other SOEs, and for the improvement of the monitoring of public assets.
Expedite the passage of the anti-corruption law and the law establishing an independent anti-corruption commission	In progress. The Anti-Corruption Agency (<i>Agence de Prévention de Lutte contre la Corruption, APLC</i>), created in March 2020, works under the President's office. A bill amending the 1940 penal code updated the provisions on corruption. The draft has been received by the National Assembly but has not yet been examined.
Improve the business climate by reducing red tape and providing regulatory security	In progress. Actions have been taken to shortening procedures for business creation (from 4 to 3); reducing the time to create a business (from 7 to 5 days); creating an automatic system for the exchange of data between the Single Window for Business Creation and other administrations involved in the business creation process. However, little has been done for the improvement of property rights and the resolution of commercial disputes.

Annex II. Findings from the Financial Sector Stability Review¹

The January 2022 FSSR identified vulnerabilities of the DRC's financial sector as well as gaps in its policy framework to be addressed by technical assistance and provided several recommendations to strengthen the BCC's oversight. DRC's financial system is small, dominated by banks, highly dollarized, and relatively unprofitable and undercapitalized. Excess liquidity translates in higher accumulation of banks' assets abroad, which leaves the system exposed to stress at parent companies abroad and to the loss of foreign correspondents. Poor reporting hinders risk assessment in banks. The upcoming adoption of a new banking law provides an opportunity to improve several aspects of bank supervision and resolution.

A. Context

1. The Congolese financial system is relatively small, concentrated and dominated by banks. Bank assets make up 97 percent of the financial system and two banks hold 55 percent of the system's assets. Credit is also geographically concentrated; with 87 percent of loans in just two of the 26 provinces. The banking sector provides little financing to the economy; the DRC is among 10 countries in the world with the lowest credit-to-GDP ratio (at 7 percent of GDP). Since lending is low and banks are liquid, they place deposits with their foreign correspondents, parent companies, or local competitors.

2. Banks' profitability is declining and among the lowest in SSA. Despite interest margins of over 10 percentage points, banks do not lend domestically and prefer low-yielding placements abroad with correspondents. Operating costs are high, as are bank supervision fees.

B. Financial System Vulnerabilities

3. Aggregate bank capital is too low and over half the banks are undercapitalized. At 14 percent, the aggregate capital adequacy ratio is among the lowest in SSA. Over the past five years, the solvency ratio has fallen dramatically as risk assets increased and regulatory capital stagnated. Out of fifteen banks, three fail to meet the 10-percent minimum solvency requirement, four more do not meet the 12.5 percent requirement and a total of seven do not meet the current minimum capital requirement of US\$30 million.²

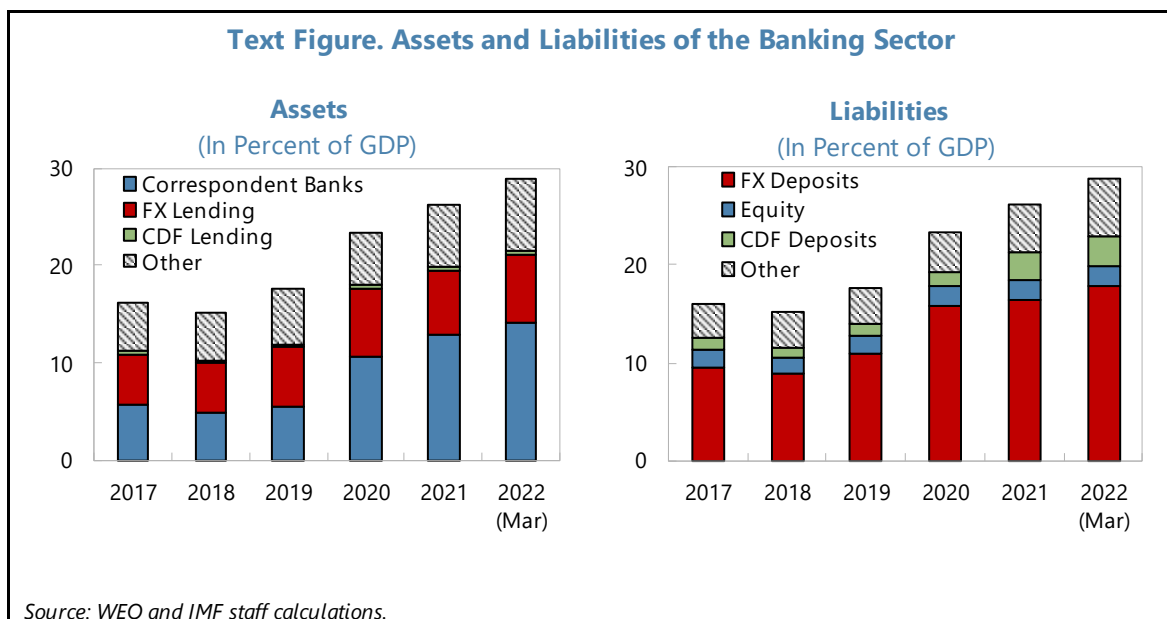
4. Poor reporting hinders assessing credit quality adequately. Latest data report NPLs at 8.5 percent of total loans, but NPLs are probably underestimated because of measures that provided regulatory forbearance during the pandemic. Since March 2020, banks have notably

¹ This annex draws from the forthcoming FSSR report, prepared by a team from the Monetary and Capital Markets Department (MCM) of the IMF after virtual consultations that took place in January 2022. The FSSR assessed the DRC's financial system and suggested a roadmap aimed at strengthening the BCC's capacity. The report has been submitted to the BCC for review on May 27, 2022 and will be published on the IMF's website once finalized.

² Owing to the pandemic, the BCC postponed a gradual increase in minimum capital requirement to US\$50 million to January 1, 2025 (originally planned on January 1, 2022), with minimum increments (US\$5 million on January 1, 2023, US\$5 million on January 1, 2024, and US\$10 million on January 1, 2025).

been allowed to restructure loans without affecting their classification. Further, unavailable or delayed data prevents conducting stress testing on banks’ balance sheet, hindering analyzing how resilient banks could be to shocks. To this end, adequate and timely reporting high quality and granular data should be developed, and the credit register modernized. Resuming onsite bank inspections, which have been almost fully suspended for two years, is also critical to better assess the quality of loan portfolios.

5. The banking sector is heavily dollarized, increasing systemic risk. Foreign currency (FX) loans have accounted for 89 percent of total lending over the past five years and 96 percent of outstanding credit at the end of 2021. FX deposits account for 85 percent of total deposit at the end of 2021. FX deposits have doubled since the start of the pandemic, largely because of the requirement to repatriate 60 percent of mining export proceeds. Dollarization weakens the effectiveness of monetary policy and undermines the central bank’s role as a lender of last resort, making banking supervision, macroprudential oversight and a resolution framework critical.



6. The banking sector is vulnerable to a breakdown of correspondent banking relationships (CBRs) because of “de-risking” policies of correspondent banks. A potential listing by the FATF of the DRC as a jurisdiction with strategic deficiencies could lead to the loss of CBRs, a potential systemic operational crisis could jeopardize financial intermediation in the country. The systemic nature of the loss of CBRs could justify including this scenario in the preventive recovery plans that the banks will be required to draft under the new banking law. The BCC should also prepare a contingency plan in case the loss of CBRs has a systemic impact.

7. Subsidiaries of foreign banks offshore their liquid assets to their parent companies abroad. Cash management is usually centralized at parent banks, creating a risk of contagion from the parent company, which may default while holding Congolese domestic savings. A second risk is that if a foreign bank subsidiary in the DRC runs into difficulties, the parent company could be reluctant to provide support. To address contagion risks, the BCC should

review and strengthen cross-border cooperation agreements with the home countries of parent companies established in the DRC.

8. The key Recommendations focus on the following pillars:

- **Financial sector supervision and regulation:** strengthening BCC capacity to undertake reforms, notably by recruiting banking experts; rolling out risk-based supervision; revising prudential regulations following the adoption of the new banking law; defining prudential rules for payment institutions; modernizing the regulatory and supervisory framework for related-party transactions; and identifying a committee and preparing data for stress tests.
- **Crisis management and financial safety nets:** adopting regulation on banks' recovery plans and requiring bank to prepare them; aligning the framework for emergency liquidity provision and resolution funding with best practices; and structurally separating BCC decision making procedures for bank resolution from supervision, and from emergency liquidity.
- **Macroprudential policy and financial stability:** launching the work of the Financial Stability Committee; creating a BCC structure dedicated to financial stability; providing systems and human resources required by the financial stability function; strengthening the supervision of nonbank financial institutions,³ and developing monitoring and early warning tools to analyze interconnectedness and sectoral interlinkages.
- **Finally, the FSSR recommended further collection and analysis of gender-based data, notably in supervision and consumer protection.**

9. The diagnostics and recommendations of the FSSR are the basis for a 3-year technical assistance roadmap (TARM), which has been elaborated jointly with the authorities. The Fund will work with the authorities to implement the TARM and monitor the progress of reforms against the expected outcomes.

³ The market share of microfinance institutions was 2.7 percent in 2020. Electronic money services are growing rapidly, processing transactions for 8.9 million active customers at end-2020, up from 1.7 million in 2015.

Source of Risks	Likelihood	Expected Impact on Economy	Policy Response
Potential External Risks – Conjunctural shocks			
<p>Abrupt growth slowdown in China. A combination of a sharper-than-expected slowdown in the property sector, more frequent Covid-19 outbreaks, and inadequate policy responses result in a sharp slowdown of economic activity, with spillovers affecting other countries through financial, trade, and commodity-price channels.</p>	Medium	<p style="text-align: center;">High</p> <p>Lower exports and fiscal revenues would generate BOP and budget financing needs.</p> <p>Lower commodity prices could reduce investment in the extractive sector and dampen DRC's growth prospects.</p> <p>Lower fiscal revenues would put at risk priority spending and exacerbate poverty and inequality, derail government's investment plans and lower growth prospects.</p>	<ul style="list-style-type: none"> - Maintain prudent macro policies to foster macro stability. - Allow the exchange rate to act as a shock absorber and use external buffers to prevent disorderly depreciation that could negatively impact financial stability. - Step up revenue mobilization efforts, limit nonpriority spending to create space for fiscal policy support. - Mobilize external financing support. - Promote economic diversification in exported goods as well as exports' markets destinations.
<p>Outbreaks of lethal and highly contagious Covid-19 variants lead to subpar/volatile growth, with increased divergence across countries. Policies to cushion the economic impact are prematurely withdrawn or, for many EMDEs, are constrained by lack of space. Weakened growth prospects triggers capital outflows, financial tightening, currency depreciations, and debt distress in some EMDEs.</p>			
<p>Rising and volatile food and energy prices. Commodity prices are volatile and trend up amid pent-up demand and supply disruptions, conflicts, or a bumpy transition to renewable energy sources. This leads to bouts of price and real sector volatility, including acute energy crises in some countries.</p>	High	<p style="text-align: center;">High</p> <p>Higher domestic inflation will reduce real incomes, likely increase poverty and food insecurity among the most vulnerable. Weakened domestic demand will reduce consumption and investment. Untargeted fuel subsidy will create fiscal pressures. Social unrest and political tensions could emerge.</p>	<ul style="list-style-type: none"> - In the short term, tighten monetary policy to help anchor expectations. - Promote local agricultural production. - Prepare a contingency plan to address food insecurity risks. - Allow for regular adjustment in domestic fuel prices, while replacing fuel subsidies with targeted social transfers.

¹ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenario highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

Source of Risks	Likelihood	Expected Impact on Economy	Policy Response
<p>Geopolitical tensions and de-globalization. Intensified geopolitical tensions, security risks, and conflicts cause economic and political disruptions, disorderly migration, production reshoring, a decline in global trade, and lower investor confidence. Associated supply chain disruptions and commodity price shocks give rise to inflationary pressures</p>	<p>High</p>	<p>High Higher volatility in commodity prices will challenge sustainable macro policies and put pressure on the domestic currency, reserves, and fiscal revenues.</p>	<ul style="list-style-type: none"> - Accumulate international reserve buffers. - Diversify the structure of the economy and export sources. - Increase participation in regional trade area agreements (EAC and AFCFTA). - Build and preserve fiscal space through greater revenue mobilization and limiting nonpriority spending.
<p>DRC-Specific Risks</p>			
<p>Political instability and social discontent ahead of the Presidential elections.</p>	<p>Medium</p>	<p>High Policymaking and macro stability could be undermined, economic uncertainty would increase, and social tensions could undermine the ability to advance with ambitious and much needed structural reforms.</p>	<ul style="list-style-type: none"> - Maintain prudent macro policies, sustain expenditure restraint, and avoid monetary financing of government operations. - Maintain commitment and ownership of reforms to build strong institutions; step up governance reforms. - Identify external financing sources, while remaining prudent on sovereign indebtedness. - Strengthen social safety nets to protect the most vulnerable segments of the population.
<p>Recurrent Ebola epidemics</p>	<p>Low</p>	<p>Low High contagion risks in some of the most fragile areas of the country with severe effects on local communities. Recurrent epidemics could impact mobility and slow down growth prospects.</p>	<ul style="list-style-type: none"> - Prepare contingency planning, providing support to the most vulnerable segments of the population. - Obtain external capacity and financial support and mobilize domestic resources to fight the epidemic and rollout countrywide immunization.

Annex IV. Fuel Price Subsidies

The existing framework to set domestic fuel pricing is not regularly implemented, generating a fiscal cost estimated at 0.8 percent of GDP in direct fuel and 1.8 percent of GDP in foregone tax revenue, severely reducing fiscal space for higher priority spending. Beyond the planned audit of the fuel price structure, implementing gradual fuel price adjustments in a transparent manner, including by communicating to the public, is warranted in the current environment. Targeted social transfers also need to be developed to limit the impact on the poorest of a potential gradual increase in fuel prices.

The regulatory framework in the DRC envisages regular automatic adjustments for domestic fuel prices...

1. The Ministry of Economy sets fuel prices, following proposals of a monitoring committee (*Comité de Suivi des Prix des Carburants Terrestres*), comprising representatives of the Ministry of Economy, the Ministry of Budget, the Ministry of Hydrocarbons, the Ministry of Finance and the Central Bank of Congo, in consultation with economic operators in the oil sector (Inter-ministerial Decree of May 26, 2001, No. 001 /CAB/MIN/ECO-FIN&BUD/2001). The committee is expected to be meeting monthly or when conditions call for a meeting. According to inter-ministerial decrees (N° 003 /CAB/MIN/ECO-FIN&BUD/2001 and N°021/CAB/MIN/MINES-HYDRO/2001), the committee should propose a price change as soon as one of the following parameters varies by more than 5 percent: (i) the GCF/\$ exchange rate, (ii) the *Prix Moyen Frontière*, and/or (iii) the fuel sales volumes.

2. Pump prices are established from a price structure based on the following parameters:

- The *Prix Moyen Frontière* (PMF), average import price of fuel products at the border for a determined period, based on a survey carried out by the Ministry of Hydrocarbons among traders/marketers working for the oil distributors in the DRC. On average, the PMF represents about 55 percent of the final price.
- Various operating, transport, and storage charges. Taxes and levies (customs duties, transfer to the National Road Maintenance Fund, consumption tax, and value added tax).
- Distributors' margins, accounting for 5 to 6 percent of the final price.
- This system is applied to four zones (West (including Kinshasa), East, North and South), each with its price structure considering specific PMF and transport and other costs.

...however, in practice, price adjustments have been made irregularly ...

3. After five price adjustments in 2018, the last one in November, pump prices were kept unchanged until May 2020, partly due to delays in the appointment of a new government, challenging coordination between the involved ministries. In 2019, international oil prices increased from US\$54 per barrel to US\$63 per barrel. In May 2020, the government decided to lower pump prices consistent with declining global oil prices during January-April 2020.

4. In 2020H2 and 2021, international oil prices rose regularly (from US\$40 per barrel in June 2020 to US\$73 in December 2021), and domestic prices were raised in August 2020 and July 2021 for the East and South zones, by 30 and 10 percent respectively. However, pump prices have remained unchanged in the West since May 2020.

5. In January 2022, fuel prices were adjusted in all regions, with prices increasing by 14 percent in the East, 19 percent in the South, but only 5 percent in the West. To limit the increase in the West, the decision was taken to drastically lower the transfer to the National Road Maintenance Fund.

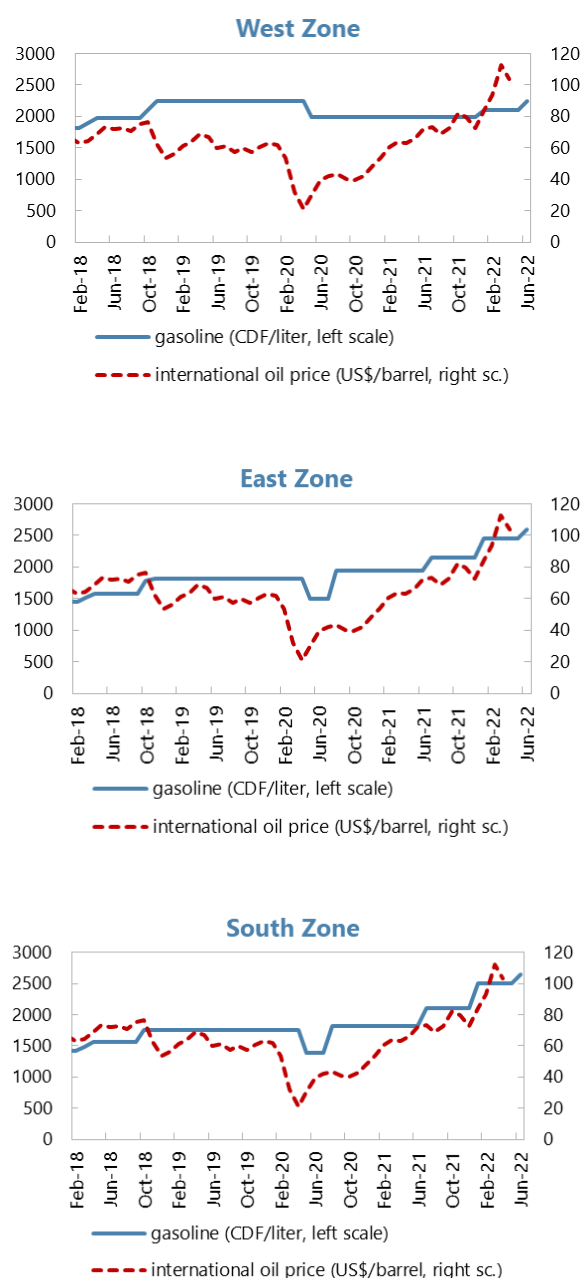
6. With the war in Ukraine, global oil prices surged rapidly, newly widening the gap between international and domestic oil prices. By end-February 2022, the gap between the price resulting from the variation of the formula parameters (notably the *Prix Moyen Frontière*) and the pump price was estimated at about 13 percent in the South, 16 percent in the East, and 34 percent in the West.

7. To reduce the gap between market and domestic prices, fuel prices have been adjusted again in end-May 2022. Prices have been uniformly increased by CDF 150 per liter in all regions, an increase of about 8 percent on average.

... generating accumulated liabilities to distributors, in addition to large foregone tax revenue, that reduce fiscal space for priority social and infrastructure spending.

8. Raising fuel prices and eliminating the subsidy to foreign airline companies will reduce arrears build up in 2022, at set the subsidy at 0.5 percent of GDP in 2022. In 2021, the government paid subsidies arrears equivalent to 0.4 percent of GDP. Despite these payments, arrears to distributors are estimated at up to US\$365 million at end-2021 (about 0.6 percent of GDP). For 2022, while projections are difficult in a very volatile external environment, based on the domestic prices' increase to be implemented in June 2022, together with the decision to stop subsidizing aviation fuels for international companies, the 2022 subsidies are estimated to be

Figure 1. Gasoline Prices, 2018-22



Source: Congolese authorities and IMF staff calculations.

contained at about US\$300 million (0.5 percent of GDP) based on an annual average price of US\$107 per barrel.

9. The cost of government fuel subsidies is in addition to very large foregone tax revenue. For several years, again with the aim of keeping fuel prices at a moderate level, the government has drastically reduced the various taxes normally part of the price structure. According to the price structure currently applied, these losses are particularly high, representing at most US\$1.2 billion per year, or 1.8 percent of GDP.

10. Beyond the weight of the subsidies on public finances, the process to agree on their exact amount and on the terms of payment is not fully transparent. The gap between the pump price and the “real” price (i.e., the price that would eliminate the subsidy) is not publicly communicated. The committee regularly discusses the estimated liabilities, but they are not published. Furthermore, these estimated liabilities become officially a liability to be repaid only after an extended process of “certification”. This causes governance issues in the process, and uncertainties in the amount and the calendar of payments by the government.

11. Adhering to the regulatory framework and publicly communicating about price adjustments would help moderate spending pressures, while targeted transfers would help dampen the impact of higher fuel prices on the most vulnerable.

- Surging global oil prices in the context of the war in Ukraine do not leave currently other option than price increases that are gradually phased-in over the medium term to reduce spending pressures. Increasing liabilities to oil companies, in addition to foregone tax revenue, could divert spending from needed infrastructure and social spending. In the context of heightened price volatility, a gradual and cautious approach that incorporates a comprehensive energy reform plan is warranted to reduce and eventually? eliminate the need for subsidies to oil companies, and to gradually restore the normal taxation on fuel products.
- The planned audit of the price structure is a step in the right direction and needs to be carried out without delays (MEFP 16). Such analysis could provide improvements in the price structure that could make it more efficient from a budgetary perspective. Institutional reforms that strengthen energy pricing, such as reinforcing the automatic pricing mechanisms, would also be important.
- The authorities should communicate transparently and on a timely basis (after monthly meetings of the fuel price monitoring committee) on the price structure, the gap between “real price” and pump price, and the estimated implicit subsidies. This is crucial to avoid delays in certifying the amount due, allowing for better monitoring and planning of budgetary costs.
- Energy subsidies further reinforce existing income inequalities as they mainly benefit the wealthiest households. However, energy subsidy reform can still have a significant adverse impact on the welfare of low-income households (for example by increasing the costs of transportation) and mitigating this impact is a key component of any energy subsidy reform strategy. This calls for tools to assess the magnitude of the welfare impact to inform the design of appropriate mitigating measures to protect the most vulnerable households.

Annex V. Public Investment Management: Main Fundings of the PIMA Mission¹

1. **In the past two decades, public investment levels in the DRC have remained well below the average of its peers, and results in terms of access and quality of infrastructure have been limited.** Public investment, largely donor-financed, has hovered around 4 percent of GDP since 2003, slightly more than half the averages for Sub-Saharan Africa and low-income developing countries. Despite these efforts, per capita capital stock remains among the lowest in the world (\approx US\$ 200 in 2019). Access and quality of infrastructure are limited, with significant risks of deterioration, due to insufficient maintenance and the increased prevalence of natural disasters caused by climate change.
2. **To bridge these gaps, investing more will be necessary but not sufficient; DRC will also need to invest better.** In line with the objectives of the ECF-supported program, the government intends to start bridging the country's infrastructure gap by increasing the share of budget-funded projects, enabled by increased revenue mobilization. Greater use of PPPs is also envisaged. Yet, to increase the efficiency of their investment and maximize the results obtained in terms of access and quality of infrastructure, the authorities should look to strengthen their public investment management practices.
3. **Public investment management in DRC suffers from gaps in its legal framework and severe institutional fragmentation,** leading to blurred responsibilities and dilution of capacity. DRC misses a solid legal framework for the evaluation, selection and monitoring of public investment projects, and a clear mapping of roles and responsibilities is lacking. Numerous ad hoc bodies manage project portfolios of varying scope, often created to circumvent ineffective procedures, thus diluting the technical capacities needed for the proper management of projects, especially those financed by donors. This leads to challenges in getting an up-to-date picture of the full portfolio, due to limited coordination and information flows.
4. **Shortcomings can be found throughout the project cycle.** National and sectoral strategies lack information on investment needs and costs. There is no standard method for project appraisal, nor published criteria for the selection of projects prior to budget allocation. Information on public investment projects is not exhaustive in the budget. Most large projects are not competitively tendered. There is little formal monitoring and the physical execution of projects. While climate-smart public investment practices are emerging, especially on disaster risk management, climate objectives have not been mainstreamed in investment strategies, and there is no methodology to assess climate impacts on infrastructure.
5. **The recently conducted IMF Public Investment Management Assessment (PIMA) offered a set of priority recommendations to improve infrastructure governance.** These recommendations should be integrated into the three-year priority action plan supporting the implementation of the government's Strategic Public Finance Reform Program. They include : (i) adopting a decree on the management of public investment setting key principles for the whole

¹ Prepared by Fabien Gouguet and Laura Gores (FAD). This annex is based on the preliminary findings of a recent IMF Fiscal Affairs Department, Public Investment Management assessment (PIMA) mission (February 28 – March 24, 2022). The draft mission report is currently being reviewed.

budget cycle; (ii) establishing a single entity to coordinate and monitor donor-funded projects; (iii) reinforcing the oversight of PPP and related fiscal risk; (iv) communicating investment costs in national and sectoral strategies, including related to climate objectives; (v) setting project appraisal methodologies, including on climate impacts; (vi) publishing a realistic public investment program alongside the budget law; and (vii) gradually developing an integrated project bank to monitor projects across their life cycle. Strengthening budget credibility and achieving the full implementation of the public finance law (especially program budgeting) will also be critical to ensure that public investment is supported by a healthy budget process.

Annex VI. External Sector Assessment

Overall Assessment: The external position of the DRC in 2021 is assessed to be weaker than the level implied by fundamentals and desirable policies. While the EBA-lite models point to a current account and a real effective exchange rate that are broadly in line with fundamentals, the level of reserves remained low at 6.3 weeks of imports at end-2021. Rising oil prices and the resulting increase in energy imports are expected to offset the favorable impact of rising copper and cobalt prices on the external position. Over the medium term, reserves are expected to grow only slowly, reaching 9 weeks of imports in 2024. The inadequate level of foreign exchange reserves, reflecting protracted balance of payments needs, remains a key challenge for external sustainability.

Potential Policy Responses: Reserve accumulation is a key objective of the ECF program, given the protracted balance of payments need. Fiscal and structural reforms are projected to help raise sustainable growth, improve the business and institutional environments, and contribute to unshackling investment, both domestically- and externally-financed, as well as concessional lending and grants. These sources of financing would reduce the pressure on FX reserves and support external sustainability.

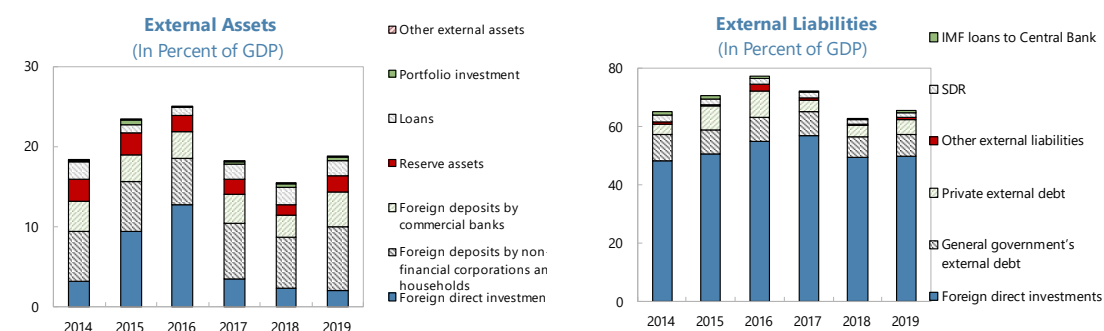
Foreign Assets and Liabilities: Position and Trajectory

Background. The latest data on the net international investment position (NIIP, 2019) shows a net debtor position with assets and liabilities accounting for 19 and 65 percent of GDP, respectively. The bulk of assets are international reserves (11 percent of foreign assets) and deposits abroad by commercial banks, non-financial corporations, and households (65 percent of foreign assets). In 2019, three quarters of liabilities were foreign direct investments— notably in the mining sector, and the remaining quarter were mainly loans to the public and private sectors.

Foreign Assets and Liabilities: Breakdown by Component

Deposits abroad account for the bulk of external assets.

FDI account for the bulk of external liabilities

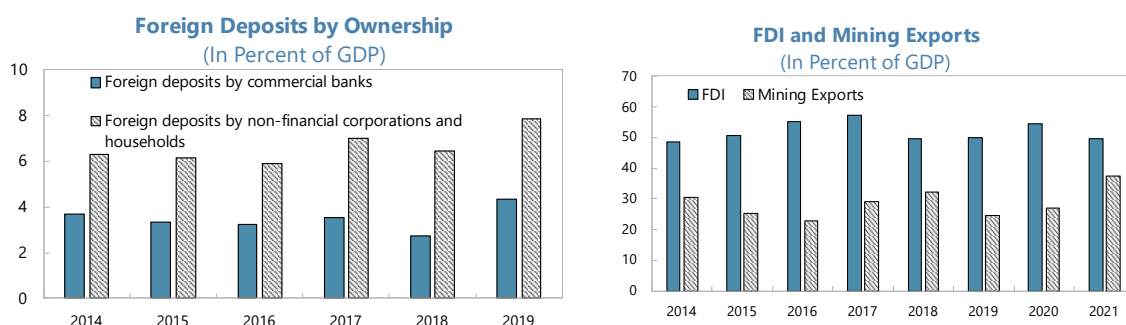


Source: Congolese authorities

Deposits abroad have been sharply increasing, since 2018, following a 2018 revision of the mining code that increased the share of exports proceeds required to be repatriated to the DRC (from 40 to 60 percent), in an attempt to increase the spillover of the mining industry to the rest of the economy. In 2019, deposits abroad increased to US\$6.1 billion (from US\$4.3 billion, or 9 percent of GDP in 2018). This increase reflected higher FX domestic deposits from miners, which banks ended up depositing abroad given the limited availability of domestic assets/ investment opportunities. Preliminary estimates suggest that deposits abroad by commercial banks tripled in 2019-21, reaching US\$6.8 billion (12 percent of GDP) at end-2021

In 2019, FDI accounted for 76 percent of external liabilities, while the general government's external debt (entirely long-term) accounted for 11 percent, and private external debt (nearly entirely long-term)

accounted for 8 percent. Foreign direct investment increased steadily over the period 2014-21, at an annualized rate of 10 percent, despite somehow volatile mining exports.



Source: Congolese authorities

Assessment. The net debtor position of the NIIP reflects protracted BOP needs. Nevertheless, the asset and liability structure are favorable, as external assets are primarily in the form of deposits, and external liabilities in the form of FDI.

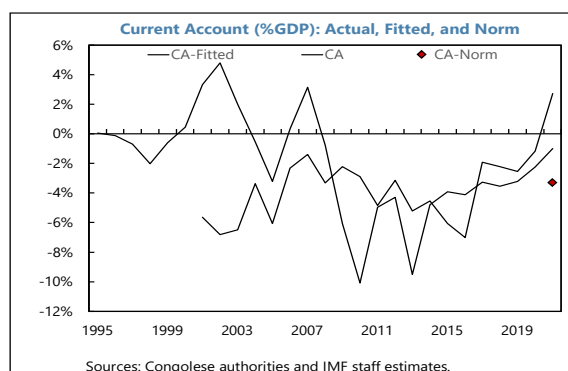
2019 (% GDP)	NIIP: -46.7	Gross Assets: 18.8	Debt Assets: 1.9	Gross Liab.: 65.5	Debt Liab.: 13.8
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Current Account

Background. The 2021 current account deficit is estimated at 1 percent of GDP. Copper and cobalt respectively accounted for 72 percent and 16 percent of total goods exports. The bulk of imports related to capital goods (45 percent of all goods imports)—mainly in the mining sector, and consumption goods (26 percent of all good imports). The goods trade balance was a surplus of 7 percent of GDP in 2021, and was offset by a services deficit of equal magnitude. Factors payments contributed to income outflows of 3.8 percent of GDP (outflows from investment income and interest payments on external debt amounted to 3.6 and 0.2 percent of GDP, respectively), and were only partially offset by net inflows from public grants (1.3 percent of GDP) and remittances (1 percent of GDP).

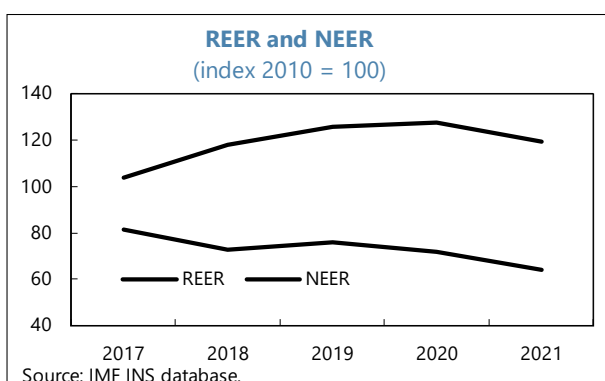
Assessment. The EBA-lite Current Account (CA) model points to a broadly balanced current account in 2021. The model derives and compares the cyclically adjusted current account to a cyclically adjusted current account norm. Cyclical adjustment involves stripping off the effects of cyclical components, natural disasters, and conflict factors, and the negative impact of the COVID-19 pandemic on remittances and tourism. The current account norm is obtained as the difference between the fitted value of a regression equation capturing the macroeconomic fundamentals behind current account dynamics, and a policy gap. Given an actual current account balance of -1 percent of GDP in 2021, the EBA-lite CA methodology produces a cyclically adjusted current account balance of -4.1 percent of GDP, and a current account norm of -3.3 percent of GDP. The resulting gap is a small deficit of 0.8 percent of GDP, which corresponds to a REER gap of 5 percent.

Model Estimates for 2021 (in percent of GDP)	
	CA model
CA-Actual	-1.0
Cyclical contributions (from model) (-)	2.4
COVID-19 adjustor (+) 1/	0.1
Natural disasters and conflicts (-)	0.7
Adjusted CA	-4.1
CA Norm (from model) 2/	-3.3
Adjusted CA Norm	-3.3
CA Gap	-0.8
o/w Relative policy gap	3.4
Elasticity	-0.26
REER Gap (in percent)	3.1
1/ Additional cyclical adjustment to account for the temporary impact of the pandemic on net remittances (0.1 percent of GDP).	
2/ Cyclically adjusted, including multilateral consistency adjustments.	



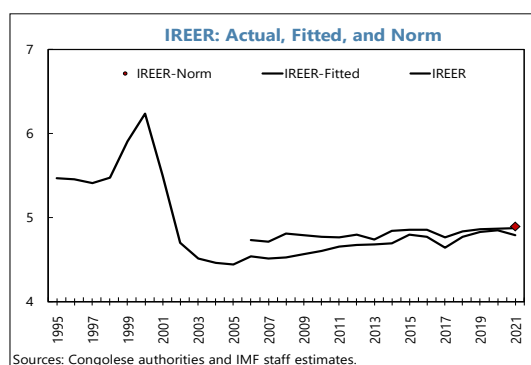
Real Exchange Rate

Background. The real effective exchange rate depreciated by 6 percent in 2021 while the nominal effective exchange rate (NEER) depreciated by 5.6 percent. While the depreciation of the REER reversed three years of sustained appreciation, the NEER followed a historical trend of persistent depreciation. In 2021, the Congolese Franc depreciated by 6 percent relative to the US dollar (looking at period-average rates). It depreciated by 12 and 2 percent in 2020 and 2019, respectively.



Assessment. The EBA-lite REER model points to an undervaluation of the real effective exchange rate of 10 percent. However, given the relatively short data sample available for the DRC (data coverage for the DRC starts in 2005 while the full sample used for the cross-country regression starts in 1995), the EBA-lite REER model is assessed as inadequate. For this reason, the overall assessment of the REER gap is based on the CA model.

REER Model in 2021	
Ln(REER) Actual	4.79
Ln(REER) Fitted	4.88
Ln(REER) Norm	4.89
Residual	-0.09
REER Gap	-0.10



Capital and Financial Accounts: Flows and Policy Measures

Background. Without access to international financial markets, the DRC’s capital and financial accounts are dominated by public sector flows (the capital and other investment accounts), mining-related flows (FDI), and commercial banks’ flows (deposits abroad backed by domestic FX deposits).

Assessment. The possibility that deposits abroad could continue to increase sharply is a downside risk to reserves accumulation. On the contrary, there is upside potential for new inflows in the form of FDI or project loans to materialize as terms of trade continue to improve.

The repatriation requirement of 60 percent of export receipts is a capital flow management measure (CFM) under the Fund’s Institutional View on capital flows (IV). It should be scaled back as adjustment progresses and balance of payments pressures subside.

FX Intervention and Reserves Level

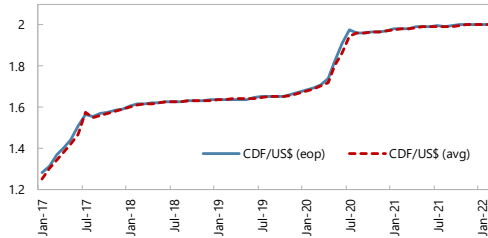
Background. After staying persistently below 2.5 weeks of import coverage since 2016, reserves increase from 2.1 weeks of imports (US\$807 million) at end-2020 to 6.3 weeks of imports (US\$2.9 billion) at end-2021. In 2019 and 2020, advances to the government were the key drains on the BCC reserves. Such advances have stopped since the RCF disbursement of April 2020, and there has since then been strong commitment to discontinue them. Reserves accumulation in 2021 was further supported by the 2021 SDR allocation of US\$1.47 billion (of which US\$715 million were passed on/onlent to the government) and BCC’s net FX purchases of US\$987 million through market auctions (in 2020, the BCC conducted net FX sales of US\$33 million).

Central Bank's Foreign Exchange Interventions

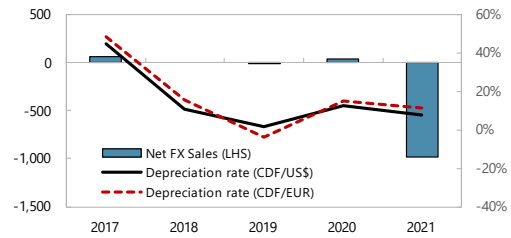
Although the Congolese Franc has been depreciating steadily vis-à-vis the US dollar...

...net FX purchases occurred in 2021 following a historically slower depreciation.

Congolese Franc
(In Thousands)



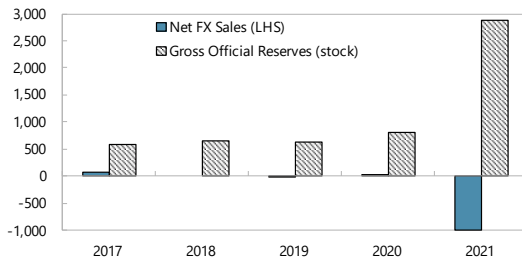
Net FX Sales vs. One-Period Lagged Depreciation Rates
(Net FX Sales in US\$ Million; Depreciation in Percent)



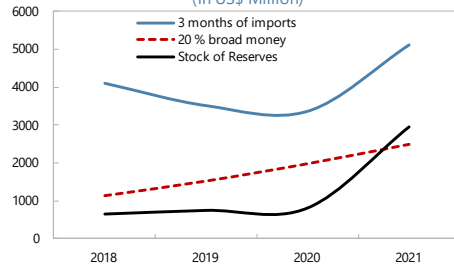
Large net FX purchases in 2021 contributed to the build-up of reserves.

... though still leaving an important gap in reserves coverage.

Net FX Sales vs. Gross Official Reserves
(In US\$ Million)



Reserve Coverage
(In US\$ Million)



Note: Depreciation rates appear on the right-hand scale.
Source: Congolese authorities.

Assessment. Despite a significant build-up in 2021, reserves remain low—both in reference to the three months of imports coverage rule and the 20 percent of broad money coverage rule—and reflect very protracted balance of payments needs. Boosting reserve coverage is the key objective of the ECF arrangement, which would help build resilience against external shocks.

Annex VII. Dollarization in the Democratic Republic of the Congo

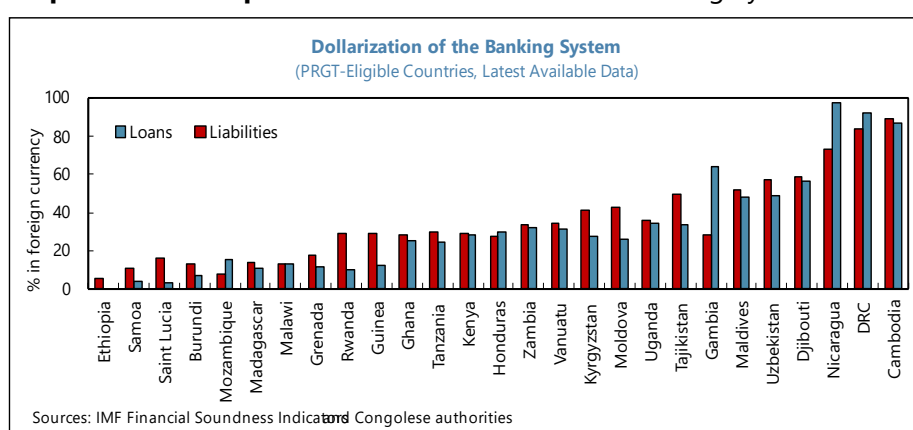
DRC has one of the world's most dollarized economies, a byproduct of decades of macroeconomic and political instability. De-dollarizing would bring about several advantages for the country, including more effective monetary policy transmission and a more stable and resilient financial system. Fiscal prudence, a sound monetary policy framework, larger external buffers and a more resilient financial system are the key preconditions for a successful de-dollarization.

A. Context

1. DRC's macroeconomic instability has been the root cause of dollarization. The volatility of inflation and of the Congolese franc's nominal exchange rate has consistently been among the highest in sub-Saharan Africa; dollarization in DRC originates from the political turmoil and hyperinflation of the early 1990s.¹ Two episodes of double-digit inflation and sharp depreciation occurred recently, in 2016-18 and 2020, which furthered the popular mistrust of the franc. Recourse to central bank financing of government deficits, which has contributed to these inflationary surges, has been a recurring theme in modern Congolese economic history.² Until 2021, official international reserves had been persistently ranked among the lowest in sub-Saharan Africa and fiscal buffers were low, which severely limited the country's resilience to adverse shocks.

2. As a result, the Congolese economy is one of the most dollarized in the world; this phenomenon has been persistent and pervasive. Dollarization has been roughly constant since

the beginning of the century, with foreign currency (FX) deposits and loans remaining consistently above 80 and 70 percent of the total, respectively. At the end of 2021, FX loans account for



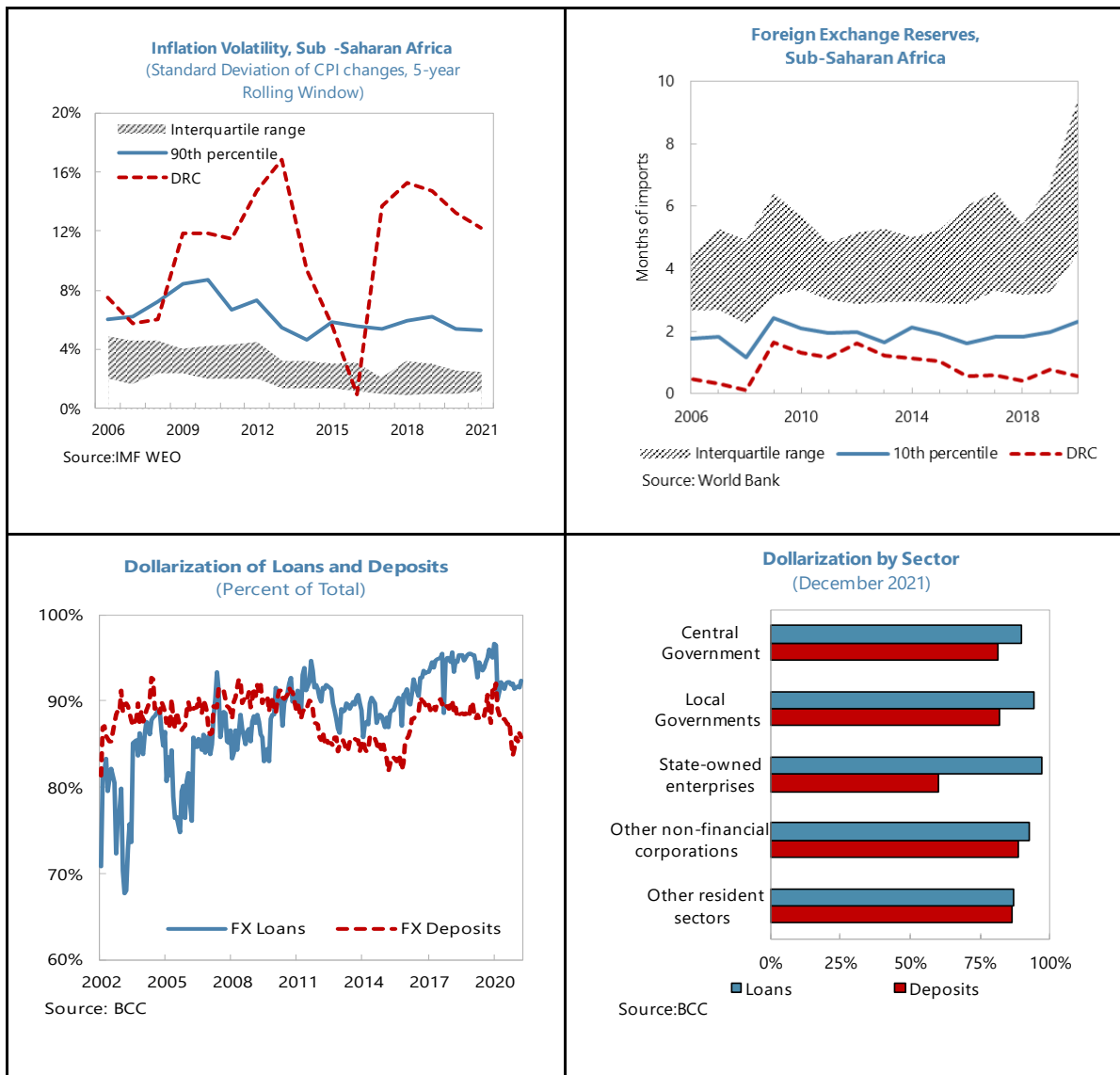
96 percent of outstanding credit in the country, while FX deposits account for 85 percent of total deposits. By these measures, DRC is one of the most dollarized economies among PRGT-eligible countries, with Cambodia and Nicaragua. The share of FX deposits has oscillated between 80 and 90 percent since the beginning of the century, while outstanding credit oscillated in a similar but slightly smaller range. In absolute terms, FX deposits have doubled since the start of the

¹ See Lendele, K., & Kimona-Mbinga, J. K. (2005). Nature et spécificité de la dollarisation de l'économie congolaise (RDC). *Mondes en développement*, (2), 41-62. <https://doi.org/10.3917/med.130.0041>

² Nachega, J. C. (2005). Fiscal Dominance and Inflation in the Democratic Republic of the Congo. *IMF Working Papers*, 2005(221). <https://www.imf.org/en/Publications/WP/Issues/2016/12/31/Fiscal-Dominance-and-Inflation-in-the-Democratic-Republic-of-the-Congo-18633>

pandemic, largely because of the requirement to repatriate 60 percent of mining export proceeds, which are largely denominated in dollars. Finally, dollarization is elevated across sectors, including governments and state-owned enterprises.

3. Dollarization impedes the effectiveness of macroeconomic policy. Given that most deposits and loans are denominated in FX, savings and investment decisions are little affected by the BCC’s monetary policy actions. Dollarization undermines the central bank’s role as a lender of last resort, since, in the event of a liquidity shortage, banks would require dollars that the BCC cannot create and would have to take from its reserves. Dollarization reduces the capacity of the state to borrow in domestic currency and shrinks seignorage revenue. Further, dollarization effectively offshores much of DRC’s payments infrastructure, creating a dependence on a handful of foreign banks clearing of most of its dollar transactions; this has become a major financial system vulnerability given strategic deficiencies in the DRC’s AML/CFT framework and foreign banks’ shrinking tolerance to regulatory risk (a phenomenon known as “de-risking”).³



³ See Annex III: Main Findings from the Financial Sector Stability Review (FSSR).

B. Towards De-dollarization in DRC

4. De-dollarization would have several advantages for the country.⁴ First and foremost, even partial de-dollarization would increase the independence and efficiency of monetary policy, as the BCC's decisions would be transmitted from policy rates to a wider share of deposits and loans. Further, de-dollarization would increase the monetary base and lead to greater seignorage revenue, which would in turn strengthen the financial independence of the BCC. Deeper Congolese franc penetration would also help create a larger, more efficient market for government debt, which would ultimately reduce borrowing costs, not only for the government but also for the private sector. Finally, de-dollarization would improve the resilience of the financial system, as the BCC would be in a better position to play its role as lender of last resort and provide francs to banks facing liquidity pressures instead of relying on its foreign exchange reserves.

5. Comprehensive and sustained efforts to de-dollarize have succeeded around the world. The examples of Bolivia, Israel, Peru and Poland show that macroeconomic stabilization is a precondition for effective de-dollarization. Angola, Mozambique and São Tomé and Príncipe provide similar examples in sub-Saharan Africa. Countries that successfully de-dollarized have generally adopted a market-driven approach focusing on macroeconomic stabilization and other "pull" factors, which contrasts with several examples of failures (sometimes in the same countries) that have focused on "forced" de-dollarization, such as the mandatory conversion of deposits from dollars to the national currency.⁵ Successful de-dollarization tends to go hand in hand with improved fiscal balances, low inflation, sound external positions and a period of nominal effective exchange rate appreciation.⁶ Angola, Mozambique and São Tomé and Príncipe show that de-dollarization has succeeded in sub-Saharan Africa and can be possible in DRC, if the right incentives are put in place.

6. A successful de-dollarization requires establishing the long-term credibility of the macroeconomic policy framework. Among necessary elements for a successful de-dollarization, we note:

- **Establishing fiscal credibility and reduce fiscal dominance.** Improving budgetary planning, controlling expenditures, and mobilizing more revenues are essential to establish DRC's fiscal credibility. The ratification in May 2020 of the Stability Pact by the BCC and the government, which reaffirms the prohibition of central bank advances to finance fiscal deficits contained in the BCC organic law, is a first step towards reducing fiscal dominance. The government also

⁴ See Fischer, M. F., Lundgren, C. J., & Jahjah, M. S. (2013). Making monetary policy more effective: the case of the Democratic Republic of the Congo. International Monetary Fund. <https://www.imf.org/external/pubs/ft/wp/2013/wp13226.pdf>

⁵ DRC has unsuccessfully attempted forced de-dollarization in 1983 and 1999, see Lendele, K., & Kimona-Mbinga, J. K. (2005).

⁶ See Mecagni, M., Corrales, J. S., Dridi, J., Garcia-Verdu, R., Imam, P. A., Matz, J., Macario, C., Maino, R., Mu, Y., Moheput, A., Narita, F., Pani, M., Rosales, M., Weber, S., & Yehoue, E. B. (2015). Dollarization in Sub-Saharan Africa: Experiences and Lessons, Departmental Papers, 2015(005), A001. <https://doi.org/10.5089/9781498368476.087>

has a large role to play in de-dollarization by holding deposits and conducting transactions with residents in Congolese francs.

- **Maintaining sound monetary policy.** Maintaining low and stable inflation—as well as anchoring inflation expectations—is a key precondition for de-dollarization. This will require vigilance when facing external shocks and improving the BCC's monetary framework. In recent years, the governance and independence of the BCC have been strengthened through reforms, including the Stability Pact and the ban on guarantees for government loans. The financial position of the BCC will gradually improve with the regularization and gradual reimbursement of past central bank advances to the government, which has begun with the signing of a protocol in December 2021. However, completing the recapitalization of the BCC will ensure that the BCC has enough resources to conduct monetary policy. Finally, the new reserve requirement framework for foreign currency deposits could eventually be instrumentalized to favor de-dollarization.
- **Building external buffers.** Increasing official international reserves to reach levels consistent with IMF guidance on reserve adequacy would help improve the resilience of DRC's economy to external shocks, help smooth excess exchange rate volatility and support de-dollarization. Reserve accumulation under the program so far, in part due to the general SDR allocation but also thanks to proactive FX purchases by the BCC, is a welcome development. Efforts need to be sustained: for example, at the end of 2021, the country's gross official reserves stood at 1.5 months of imports compared with the recommended 3-month coverage.
- **Fostering a resilient domestic banking system.** Strengthening bank supervision and adopting a rigorous bank recovery and resolution regime is required to foster confidence in the strength of the financial system. The development of modern, robust and efficient payment systems in Congolese francs would bolster the currency's role as a medium of exchange. Once the macroeconomic preconditions are in place, prudential measures could be used to encourage saving and lending in francs, for example by imposing higher provisions for foreign currency lending to non-exporters.
- **Using financial policies to foster de-dollarization.** Once the macroeconomic preconditions are in place, measures could be used to encourage saving and lending in francs. For example, prudential measures could be put in place to impose higher provisions for FX lending to unhedged borrowers, or by putting limits on FX borrowing relative to income. These should be done in a way to internalize the costs and risks of dollarization. Similarly, the new reserve requirement framework for foreign currency deposits could eventually be tailored to favor de-dollarization, by increasing the wedge between reserve requirements in domestic and foreign currency.

Annex VIII. Anti-Corruption and Anti-Money Laundering/Combating the Financing of Terrorism – Recent Progress and Recommendations

A. Context

1. The authorities are working on improving governance and anti-corruption (AC) frameworks. In May 2021, the IMF published a governance and anti-corruption diagnostic report, assessing governance and anti-corruption challenges and giving key recommendations in seven key areas.¹ The DRC also underwent a mutual evaluation of its AML/CFT regime by the FATF-style regional body Action Group against Money Laundering in Central Africa (GABAC), whose results were published in 2021.^{2,3} Due to strategic deficiencies identified and insufficient progress under a subsequent observation period, the DRC could be placed under increased monitoring by the FATF (also referred to as 'grey-listing') in October 2022.⁴ A potential grey-listing could put at risk correspondent banking relationships (CBRs); hamper remittance flows and foreign direct investments; and lead to higher transaction costs of trade settlements, which may impact the conduct of business and foreign transactions in the DRC.

B. Main Weaknesses and Recent Challenges

2. A key challenge is the lack of a coordinated anti-corruption institutional framework. The institutional framework lacks an independent preventive anti-corruption body, a coherent anti-corruption strategy, and an effective enforcement framework. Ineffective prosecution and enforcement of corruption cases and absence of a functioning asset declaration regime are hampering the fight against corruption. Immunity provisions for Parliamentarians prevent the Congolese National Police and Public Prosecutor from investigating and pursuing these officials. The Audit Court and the Public Prosecutor are lacking capacities and funds to carry out their mandates, resulting in a lack of recent examples of corruption investigations.

3. The AML/CFT regime presents significant deficiencies, which have not yet been effectively addressed. The authorities have identified corruption as one of the main predicate crimes for money laundering, including embezzlement of public funds into the DRC's financial system by senior public officials.⁵ The AML/CFT legal framework has not been compliant with FATF standards; AML/CFT preventive measures have not sufficiently covered financial institutions and designated non-financial businesses and professions (DNFBPs)⁶ and the legal framework for politically exposed persons (PEPs) was deficient and not implemented. Lacking beneficial

¹ For details, please see [IMF Governance and Anti-Corruption Report](#).

² The Financial Action Task Force (FATF) is the global money laundering and terrorist financing standard-setter.

³ For details, see [GABAC's DRC Mutual Assessment 2021](#).

⁴ The FATF continually identifies and reviews jurisdictions with strategic AML/CFT deficiencies that present a risk to the international financial system and closely monitors their progress. [The FATF's International Co-operation Review Group \(ICRG\)](#) oversees the process.

⁵ The MER also notes the predicate crimes of customs and tax fraud, poaching, trafficking in protected wildlife and forest species, and mineral trafficking.

⁶ E.g., lawyers, notaries, real estate brokers.

ownership transparency for legal persons facilitates their use for criminal purposes. Insufficient criminalization, investigation, and prosecution of proceeds of money laundering and corruption offences hampers an effective criminal justice response and international cooperation on these matters remains limited

C. Authorities' Progress in Addressing Anti-Corruption and AML/CFT Weaknesses

4. The authorities are working on the first cycle review of the UNCAC and the institutional AC framework. In the context of the UNCAC review, they have shared their responses to a control list with the country examiners (Vietnam and Mauritius) and are awaiting their draft report. The authorities provided an overview over the current institutional anti-corruption framework, constituted by the anti-corruption bodies APLC and OSCEP. The APLC (*Agence pour la Prévention et la Lutte contre la Corruption*) is a public body created by the President, tasked to develop and propose to the President and Prime Minister anti-corruption strategies and policies, and to carry out investigations to identify and sanction corrupt acts of individuals or entities. Its independence is not assured however, and resources are limited, impeding investigations of corruption cases. The APLC is developing new procedures for investigations and has piloted the update of the national anti-corruption strategy, which was validated by its stakeholders but is awaiting the President's approval. The OSCEP (*Observatoire de Surveillance de la Corruption et de l'Ethique Professionnelle*) serves as the government's technical and consultative body to promote anti-corruption values and train Parliamentarians on ethics issues.⁷ OSCEP is not operating independently, as it depends directly on the Ministry for Employment and Social Welfare for its budget and office spaces. It has limited technical and institutional resources and had not been granted a budget to implement its 2018-20 anti-corruption plan.

5. Corruption cases and investigations are, at best, limited. The authorities noted the lack of training on anti-corruption issues and asset confiscation among the judiciary. The Ministry of Justice has a dedicated unit for asset recovery, which is however not operational pending the legislative framework. The authorities are working on a revised draft anti-corruption law for Parliamentary submission that will strengthen the asset declaration regime. Any related enforcement is currently handled by the DGI (Direction Générale des Impôts) for fiscal purposes.

6. The government sent a revised draft AML/CFT Law to Parliament. The adoption of the revised law will also affect the DRC's application to join the Egmont Group of Financial Intelligence Units. The draft law aims to broaden the application of AML/CFT preventive measures to the wider financial system beyond banks and to bring the definition of PEPs in line with the FATF standard. To improve beneficial ownership transparency, the authorities are focusing on integrating information declarations in the business registry (*guichet unique*). Overall, further revisions of other laws and regulations might be necessary, subject to the views of FATF's assessors. The authorities continue to address their own action plan with GABAC, and more details on the next steps regarding a potential grey listing will likely become available after the

⁷ Ibid.

June 2022 FATF Plenary. In October 2022, the authorities will also present the DRC's progress under its own action plan to GABAC.

D. Updated Recommendations

Areas	Recommendations	Timeframe
Beneficial ownership information in public procurement	Issue a decree to require the collection and publication of beneficial ownership information for all awarded procurement contracts (based on Fund staff's TA suggestions)	Short-term
Asset declaration regime	Revise, adopt, and implement the anti-corruption law in line with international best practices, covering PEPs and their family members and close associates; request declaration of all assets and interests owned (including those beneficially owned) domestically and abroad; publish declarations online; and ensure effective, proportionate, and dissuasive sanctions for failure of submission or false declarations.	Mid-2023
Independent anti-corruption institutions	Clarify the functions of the APLC and OSCEP, avoiding overlaps in their mandates and operations. Guarantee their operational independence, including through adequate budgetary, technical, and human resources.	End-2023
AML/CFT action plan	Continue work on their identified key areas and a potential ICRG Action Plan in coordination with the FATF and GABAC, to address strategic deficiencies and prevent or mitigate the impact of a potential grey listing.	Ongoing and after the June 2022 FATF Plenary

Appendix I. Letter of Intent

Kinshasa, DRC
June 10, 2022

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, D.C. 20431

Madame Managing Director:

1. We remain determined to implement the policies described in our Letter of Intent of June 28, 2021 in connection with our request for an Extended Credit Facility (ECF), and in our Letter of Intent of November 30, 2021 at the time of the first review. Our economic program is based on the vision of His Excellency Félix Antoine Tshisekedi Tshilombo, President of the Republic, outlined in the 2019-23 National Strategic Development Plan, based on our medium-term program of reforms designed to maintain macroeconomic stability, increase fiscal space and to promote long-term, sustainable growth supported by the private sector, while fostering better governance and transparency.

2. Despite a highly uncertain international environment, our economy has proven to be resilient, with the 2021 economic rebound expected to be sustained in 2022, providing a window of opportunity to move forward with our reform program. We are confident in the ability of our economy to continue to grow in 2022 at a level close to the 6.2 percent reached in 2021 and we are determined to continue the structural reforms undertaken to strengthen the prospects for sustainable and inclusive growth. However, we are aware of the risks related to the international environment and stand ready to adapt our economic policies, in consultation with the IMF, if necessary.

3. Disbursements under the ECF and the use of the general allocation of special drawing rights (SDR) remain crucial to strengthen reserves and meet our development requirements. The sharp rise in gross international reserves, from just US\$800 million in early 2021 to almost \$3.8 billion as of end-May 2022, must continue to reach a level suitable with the external fundamentals of our economy. On the other hand, while having chosen to keep half of the general allocation of SDRs in central bank reserves, we wish to accelerate the planned use of the other half for social investments (as part of the 145 territories program), while guaranteeing transparency and good governance in implementing these projects.

4. We are compliant with conditionality under our IMF-supported program. We have met all quantitative performance criteria (QPC) at end-December 2021 and all indicative targets (IT) except for the IT for targeted spending in the health sector, due to inter-agency coordination and administrative problems that we are in the process of resolving. We have also largely met our reform

commitments and are determined to meet the structural benchmarks (SB) we agreed to in the program.

5. We will refrain from introducing measures or policies that would aggravate the current balance-of-payments difficulties. We do not intend to impose any new restrictions or intensify existing restrictions on payments and transfers for current international transactions, import restrictions for balance-of-payments purposes or multiple exchange rate practices, nor to enter into any bilateral payment agreements which are inconsistent with Article VIII of the Articles of Agreement of the IMF.

6. The attached Memorandum of Economic and Financial Policies (MEFP), updating the previous Memorandum, will enable us to achieve the objectives of our economic program. We will monitor progress continuously in consultation with IMF staff, and we stand ready to take any further measures that may be necessary to meet program objectives. We will consult with the IMF before adopting any revisions to the policies set forth in this Letter of Intent and the MEFP, in accordance with the IMF's policies on such consultations. We will also provide IMF staff with any data and information that may be required to evaluate the policies and measures contained in the Technical Memorandum of Understanding (TMU).

7. Against this backdrop, we are requesting the conclusion of the second review under the ECF-supported arrangement, modification of the quantitative performance criteria, and the completion of the financing assurances review. We agree to the publication of this Letter of Intent (LOI), the attached MEFP and TMU, as well as the IMF staff report related to the 2022 Article IV Consultation and Second Review under the ECF arrangement and all related documents, including annex on the Debt Sustainability Analysis, after approval by the Executive Board of the IMF.

Sincerely yours,

/s/

Jean-Michel SAMA LUKONDE
Prime Minister

/s/

Nicolas KAZADI
Minister of Finance

/s/

Malangu KABEDI MBUYI
Governor of the BCC

/s/

Aimé BOJI SANGARA
Minister of State
Minister of Budget

Attachments:

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

Attachment I. Memorandum of Economic and Financial Policies

This Memorandum updates the Memorandum of Economic and Financial Policies (MEFP) attached to the First Review of the ECF-supported program approved by the IMF Executive Board on December 15, 2021. It describes recent economic developments, outlook and risks, updates on the implementation of the program, and reports on the government's macroeconomic and structural reform policies to enhance macroeconomic stability, create fiscal space, improve governance, and strengthen financial sector stability and development, consistent with the government's objectives to increase sustainable economic growth, raise living standards, and improve social conditions.

I. Economic Developments and Outlook

1. Our economy rebounded sharply in 2021, supported by prudent, coordinated fiscal and monetary policies. According to the latest estimates, growth reached 6.2 percent in 2021, revised upward from the forecast under the first review. This progress can be attributed to the good performance of the extractive sector and a stronger-than-expected growth in telecommunications sector. Inflation was subdued at 5.3 percent year-on-year in December 2021, below the BCC's medium-term target of 7 percent—a performance made possible by the stability of the exchange rate and by the absence of monetary financing of the budget. Gross official reserves increased from US\$0.8 billion in December 2020 to US\$3.0 billion at end-December 2021 because of the performance of the mining sector that limited the current account deficit to 1 percent of GDP, the BCC's proactive foreign exchange purchases, the disbursements under the ECF arrangement, and the general allocation of SDRs. The greater-than-anticipated increase in budget revenue has meant a smaller budget deficit than expected (see ¶15).

2. Despite a deteriorating international environment, prospects remain favorable to overcome fragility and promote more inclusive growth. We project growth at 6.1 percent in 2022, supported by mining sector investment and exports, and higher public investment. We forecast inflation at 11 percent in 2022 considering rising international energy and food prices. Despite the impact of price increases on imports, the current account is expected to reach a surplus of 0.2 percent of GDP given increased prices for mining products. Beyond 2022, the outlook remains favorable with an average growth of 6.8 percent during 2023-27, stimulated by increasing mining activity and intensified structural reforms that would promote economic diversification and sustained long-term growth, which will help overcome longstanding weaknesses such as high poverty, outbreaks of diseases such as Ebola, recurrent conflicts and population displacement in some areas of the country, and deficient infrastructure restricting the supply of basic public services.

3. We are aware that there are increasing risks to the downside in an uncertain international context. Risks include the decline in global growth and the approach of the 2023 presidential elections. We are also closely monitoring the impact of the war in Ukraine, which could exacerbate inflationary pressures, increase food insecurity, and worsen terms of trade. A permanent rise in international oil prices would put pressure on the fiscal situation as a result of oil subsidies

(see ¶16). We are prepared to adjust our economic policies as part of our program supported by the IMF.

4. By contrast, we are not ruling out a more favorable scenario. Upside risks might derive from stronger domestic demand and/or a more favorable external outlook, with higher-than-anticipated mining prices potentially leading to an increase in mining production and increasing external buffers and fiscal space. Our structural reforms aimed at improving the business environment and governance might have a greater impact on growth than originally expected if they lead to increased confidence and stimulate private investment. Should upside risks materialize, we remain committed to accumulate additional external reserves to strengthen our economic resilience to shocks and create fiscal space for additional priority expenditure, including capital and social spending.

II. Macroeconomic and Structural Policies

A. Fiscal Policies

5. We achieved the domestic budget balance target in 2021 with a significant margin, thanks to greater revenue mobilization and expenditure restraint. The domestic budget deficit was limited to CDF89 billion, compared with a target of CDF232 billion (end-2021 QPC). This result was supported by greater tax and nontax revenues, that reached a total of 11.2 percent of GDP, compared to a 10.8 percent indicative target (IT). This outperformance and a lower-than-expected level of transfer expenditure more than offset the higher-than-expected exceptional expenditures and wages (of 5.1 percent of GDP) and allowed domestically financed capital expenditure to exceed first review projections (0.9 as against 1.9 percent of GDP). We also refrained from accumulating wage arrears (IT).

6. Despite significant efforts to catch up in 2021H2, we missed the indicative target on health expenditure in 2021. Despite accelerating spending in all three targeted health programs during the second half of the year, we only achieved 81 percent of the target (against 62 percent in the first half of the year). While disbursements to the Global Alliance for Vaccines and Immunization (GAVI) for purchases of vaccines exceeded the target, mother and child health programs, and those to fight tuberculosis, malaria, and AIDS were delayed, even though the necessary funds were in place. We will take the necessary steps to correct this situation (see ¶18).

7. We are committed to achieving the target of a domestic budget deficit of CDF1628 billion (end-2022 QPC, 1.3 percent of GDP). We will publish our budget commitments plan for 2022 consistent with the cash flow plans and in line with the expenditure targets and domestic budget deficit objective at end-2022 for the ECF program, equivalent to CDF 1628 billion (**SB for end-July 2022**). The upward revision in our tax revenue projections continues to be supported by domestic revenue mobilization and the upturn in mining product prices, while our higher expenditure projections derive primarily from higher spending pressures resulting from higher global fuel and food prices. Our domestic budget deficit forecast hinges on the following:

- We continue mobilizing domestic revenue while introducing new measures to address the price shock, such as reducing the professional remuneration tax (IPR) from 15 percent to 3 percent on civil service base wages (0.1 percent of GDP) and the value added tax (VAT) on certain imported goods temporarily (0.02 percent of GDP). We are projecting an increase in revenues (corresponding to the end-June 2022 IT of CDF7,363 billion and CDF14,561 billion at end-2022).
- An upward revision of current expenditure (to 11.7 percent of GDP) because of an increase in the wage bill (5 percent of GDP), subsidies for petroleum products (0.6 percent of GDP), additional VAT refunds (percent of GDP). This revision reflects a CDF150 increase in fuel prices and the elimination of the fuel subsidy for foreign airlines effective May 30, 2022, the former following the average 6.5 percent increase already carried out in April 2022.
- An increase in the projected domestically financed public investment. In addition to the agreement on the use of the first tranche of US\$300 million in 2022, we are asking for the flexibility to use up to an additional US\$211 million in 2022 to facilitate the execution of social infrastructure projects. We are therefore asking to raise the ceilings on changes to net credit to the central government to CDF592 billion (end-June 2022 QPC) and CDF1,008 billion (end-December 2022 QPC), corresponding to US\$300 million and US\$511 million at program exchange rates, and reflecting the withdrawal of government deposits associated with the use of the SDR allocation for budget support. We have also made improvements to the Central Coordination Office (BCECO) to strengthen investment management and the absorption capacity for project implementation (see ¶10).
- The program supported by the IMF is still an essential anchor for our economic policies. Considering our commitment to prudent fiscal policy in an uncertain international context, we have identified additional measures to contain fiscal pressures and to mobilize additional financing if adverse shocks materialize. These measures could include reducing tax expenditures in connection with the hydrocarbon subsidy (customs duty, excise tax, VAT on imports, and net domestic VAT), reprioritize expenditures, and put on hold non-initiated investment projects. We are prepared to adopt additional measures, if required and in consultation with IMF staff, to bring the domestic budget balance above the program floor in 2022.
- In consultation with IMF staff, any surplus revenue over the program projections can be used for (i) domestically funded investment to move towards the envelope provided in the Budget Law (taking our absorption capacity into account), (ii) social spending, and/or (iii) reimbursing certified domestic arrears.

8. The fiscal anchor of our program is still based on preserving debt sustainability. We have observed the end-December 2021 ceiling on non-concessional borrowing (QPC) and have not issued external public debt guarantees (US\$0 million, QPC). To preserve the moderate level of our risk of debt distress, we will continue to seek concessional financing. The present value of new external debt in our external financing plan is also in line with a moderate risk of debt distress (US\$1,300 million ceiling, end-December 2022 QPC), despite increasing borrowing plans because of new multilateral and bilateral financing. With respect to the 2023 Budget Law, we commit to submit

a draft law to Parliament that is in line with the objectives of the ECF-supported program. In addition, by end-February 2023, we will publish a spending commitment plan consistent with the end-2023 domestic budget deficit projected in the program framework.

9. We have made arrangements to safeguard a transparent use of the special drawing rights (SDR) for budget purposes:

- The government appropriated 50 percent the general SDR allocation (US\$715 million) under the domestic legal and institutional framework. To that end, a Memorandum of Understanding between the BCC and the Ministry of Finance was signed to transfer half of the assets and liabilities denominated in SDRs to the government at end-2021. These funds were placed in a foreign exchange account with the Bank for International Settlements (BIS) on behalf of the government.
- We have decided to allocate these SDRs to specific projects under the Local Development Program for 145 Territories (PDL-145T) involving social sector infrastructure (construction or rehabilitation of 1,210 schools and 788 health centers) and restoring the government authority (construction or rehabilitation of 1,456 administrative buildings) at a total cost of US\$511 million in 2022-23.
- These projects are executed by three agencies: (i) BCECO, an agency that reports to the Ministry of Finance, for which we are providing capacity development and governance support (see ¶110); (ii) the Financing Implementation Unit for Fragile Countries (CFEF), another agency under the Ministry of Finance that implements donor projects, including those of the African Development Bank and World Bank; and (iii) the United Nations Development Program (UNDP). The government has signed financing agreements with these agencies according to geographical distribution (54 territories for UNDP, 48 for BCECO, and 43 for the CFE).
- These three agencies have finalized their plans (including procurement plans abiding by the principles of transparency and in accordance with the law on public procurement). Project accounts are dedicated exclusively to resources derived from the IMF SDR allocation to ensure that they are nonfungible and can be traced, and that they are monitored and recorded in budget execution, particularly in connection with the cash flow plans.
- In addition to the quarterly reports produced within one month after each quarter by the agencies responsible for implementing these investments, we plan to publish a consolidated 2022 annual report on the use of the SDR allocation by mid-2023.

10. We are strengthening the capacity and governance of the BCECO, in accordance with the commitments made during the First Review:

- A micro assessment of the BCECO was carried out by an independent audit firm in December 2021, in accordance with the framework of the United Nations Harmonized Approach

to Cash Transfers (HACT). Following the recommendations of this evaluation, an action plan for the reform of the BCECO was established.

- BCECO's Steering Committee was renewed, appointing a new Director General in a competitive process.
- A consultation committee has been established, including the government and the technical and financial partners, to undertake periodic reviews of the activities of BCECO.
- Two independent firms recruited at the end of March 2022 (**end-March 2022 SB**) will conduct an external audit of BCECO for the period 2017-2021. The results of this audit are expected in July 2022. We will also undertake to conduct external audits of the BCECO for the years 2022-23.

B. Structural Budget Reforms

Mobilizing Revenue

11. There was a substantial increase in revenue mobilization in 2021. This sharp increase in one year (tax and nontax revenue rose by 1.9 percent and 0.8 percent of GDP, respectively) reflects the combined efforts of the three financial authorities, which have exceeded their performance agreements. In addition, revenue benefited from the performance of the mining sector, as well as the intensification of supervision missions after a forced slowdown in 2020 in the context of the COVID-19 pandemic, resulting in significant tax adjustments.

12. We aim to continue this effort in the coming years by improving the functioning of tax administrations, increasing the number of taxpayers and undertaking tax reforms. Our goal is to increase the revenue-to-GDP ratio to at least 14 percent in 2024 and 17 percent in 2027, gradually converging towards the average of our peers in Sub-Saharan Africa. This objective will be supported with measures relating to the areas of optimizing fiscal policies and strengthening public financial management (see ¶20), including:

- *An increase in the number of taxpayers and improved compliance with tax obligations.* The number of taxpayers is still very low (approximately 100,000 active taxpayers). With the objective to increase the number of small-scale enterprises included in the tax register by 20 percent per year, we will continue our efforts to include enterprises currently in the informal sector to the tax assessment base, and we will continue to encourage citizens to apply for their tax identification numbers and to comply with their tax obligations.
- *Restoration of the proper operation of the VAT.*
 - To bring VAT revenue collection from mining companies in line with the existing legislation and international best practices, on April 15, 2022, we revised the ministerial decree to make the VAT accounting system in force since March 2021 even more

effective, through its application to the mining companies and not to specific products **(end-June 2022 SB)**.

- The audit by the General Finance Inspectorate (IGF) that was completed in March 2022 identified more than US\$900 million of VAT credit arrears with mining companies at end-2021. After reimbursing approximately US\$57 million in April 2022, we plan to reimburse an additional US\$50 million in 2022 as part of a multiyear reimbursement plan that will consider our fiscal space.
- In terms of improving the non-mining VAT system and considering the recommendations of the technical assistance mission from the IMF Fiscal Affairs Department in November 2021, we expect to intensify ad hoc VAT checks and to connect central departments with each other and with operational departments.
- *Modernization of revenue collection.* We will continue our efforts, with the support of our partners such as the French Development Agency (*Agence Française de Développement*) and the European Union, to digitalize the revenue chain with new computer software and hardware (ISYS-Régies, Data Warehouse, and LOGIRAD). The installation of LOGIRAD was completed in Kinshasa and a decree was signed on May 13, 2022 to make its use compulsory. Its extension to other provinces is in progress. As we have committed to this effort, we have installed ASYCUDA World in 10 new customs offices **(end-December 2021 SB)**. Offices equipped with ASYCUDA World now account for more than 95 percent of the country's custom revenues. These efforts must be accompanied by the modernization of the customs facilities, including the provision of essential training, modernization of customs infrastructures, and strengthening of the information technology systems.
- *Strengthening the tax administrations to comply with 2022 performance agreements.* Performance agreements were signed on January 16, 2022 based on the revenue targets of the 2022 Budget Law, and included other performance indicators relating to service quality, processing times, or optimizing human and financial resources. In addition, the decrees revising the organic framework and structure of the Directorate General of Taxes (DGI) and the Directorate General of Administrative, Legal, Property, and Investment Resources (DGRAD), initially scheduled for June 2022, will be signed by end- 2022. These new frameworks will strengthen the internal audit function and prepare for new accounting systems for the financial authorities.
- *Implementing the Excise Duty Tracking System (STDA).* The concerns and various appeals filed by the private sector have led to delays in implementing phase one (on beverages, tobacco, and telecommunications), making it difficult to meet the established deadline **(end-June 2022 SB; now proposed as an end-September 2022 SB)**. We remain committed to this reform, as we expect to have a significant impact on revenue (0.2 percent of GDP in 2022). For beverages, the marking of imported products has started and should continue throughout the country. For local production, the DGDA has begun to impose fines on producers that refuse to install the marking system. For telecommunication services, data exchanges have begun, and the first controlled data declarations were introduced in May 2022. In addition to this tracking system and in

accordance with the technical assistance recommendations, the DGDA is working on a rationalization plan, including the elimination of excise duties on certain products, so that its efforts can focus on products traditionally subject to these charges.

- *Rationalizing tax expenditure.* We published the 2019-20 tax expenditure report as an annex to the 2022 Budget Law. In addition to this good practice, that will be renewed every year, we have advanced, based on the recommendations from the technical assistance provided by the Fiscal Affairs Department, towards a plan to rationalize tax expenditures—designed as a reform of all tax exemption systems, and all conventions, agreements, arrangements, letters, or other documents that include tax exemptions, with the exception of those provided in the current administrative codes. This plan, initially scheduled for June 2022, will be adopted by the government by the end of September 2022 so that the initial measures will be incorporated into the 2023 Budget Law
- *Rationalizing nontax charges.* Having consolidated all provisions into one document, classifying them by economic sector so that taxpayers can more easily understand them (available at <https://dgrad.gouv.cd/lois-dgrad/>), we need more time for the government to adopt the plan to rationalize these charges consistently with the recommendations from the IMF technical assistance (**end-June 2022 SB, new proposed end-September 2022 SB**). We also plan to extend this rationalization to the provinces and decentralized territorial entities (ETD).
- *Rationalizing parafiscal charges.* As we have done for nontax charges, we will take stock of all parafiscal charges in the special accounts and annexed budgets (**proposed end-June 2023 SB**) with a view to start rationalizing them from December 2023.

Controlling Fiscal Risks and Improving the Quality of Expenditure

13. We are developing our capacity to assess and manage fiscal risks. With technical assistance from the IMF, we have prepared a detailed statement containing information on (i) macroeconomic risks; (ii) public debt risks; (iii) risks related to public entities other than the central government; (iv) risks related to the financial sector; (v) institutional risks; and (vi) long-term risks, including those related to climate change. This statement was published as an annex to the Medium-term Budget Framework (MTBF) for 2022-24, and we plan to make it a budget annex in future budget laws. Within the Ministry of Planning, we will formally establish a mechanism for sharing macroeconomic framework information so that all administrations have a common reference.

14. In terms of public debt risks, we remain committed (i) not to accumulate arrears on external public debt service (QPC); (ii) not to accumulate arrears on government wages (IT); and (iii) not to use central bank loans to the central government (QPC). We also undertake to no longer use central bank deposits as collateral or guarantees for central government borrowing, while reimbursing existing loans on schedule (IT).

15. The accumulation of domestic arrears is a major fiscal risk that we are determined to bring under control. We have accumulated a stock of domestic arrears (domestic debt) equivalent

to approximately 5 percent of GDP. Our strategy is to stop accumulating new arrears and to clear the existing ones, according to a comprehensive strategy that considers our limited fiscal space. Based on IMF technical assistance, we have developed an overall strategy to clear domestic arrears (domestic debt), the first step is an independent audit of these arrears (**proposed end-December 2022 SB**). Afterwards, small claims (below a limit to be defined) will be paid without any discount according to a fiscally sustainable schedule, while the other claims will be converted into Treasury bonds that the government will redeem annually. In the interim, we are improving fiscal planning and execution to refrain from accumulating new arrears.

16. We are committed to clear liabilities with oil distributors. The increase in international oil prices, exacerbated since the war in Ukraine in late February 2022, has widened the gap between prices at the pump set by the government and prices reflecting market fundamentals, creating substantial fiscal pressures and expenditures (estimated at 2-3 percent of GDP in 2021). Against this backdrop, we have launched an independent audit of the price structure and will validate the oil subsidy in 2021. After the price structure audit (expected by end-September 2022), we will publish monthly the pump price structure, the differential with prices reflecting market costs, and the subsidy, and tax revenue shortfalls. We will certify the amount of distributor shortfalls for a given quarter within a maximum of 1 month. In the longer term, we are committed to the reform of the subsidy system by carefully adjusting pump prices, while introducing targeted transfers to compensate households that are most vulnerable to price volatility. In addition, a study will be conducted by December 2022 to identify the terms and estimate the effects of the removal of the subsidy for the mining and industrial sectors, with a view to implement it in 2023.

17. It is still essential to control the wage bill. The wage bill amounted to 4.8 percent of GDP in 2021, equivalent to 43 percent of government revenue. To reflect the social constraints, particularly the requirements in the education, health, and security sectors, base wages were increased in certain categories of civil servants in April 2022, increasing the wage bill by less than 0.1 percent of GDP. We will keep the wage bill below 5 percent of GDP, and we are committed to pursuing a reform of the civil service in the medium term, including a revision of the salary scale and structure, an improved civil service register to eliminate fictitious employment, and a retirement program that can be financed sustainably.

18. We remain committed to increasing expenditure in priority social areas.

- The disbursement problems in two of the three programs included in the program IT are primarily attributable to an insufficient knowledge within the Ministry of Health of the expenditure lines associated with these programs (preventing them from being prioritized), difficulties in coordination between the different stakeholders (Ministry of Budget, Ministry of Finance, Ministry of Health, Procurement Unit, and Office of the Prime Minister), and delays in awarding contracts. Budget allocations have, however, been confirmed and will be implemented as soon as these administrative problems have been resolved. To achieve the end-June 2022 IT, we asked stakeholders to prioritize budget lines related to the IT, to accelerate the launch of calls for tenders, and to get support from the BCECO if applicable.

- In addition to these specific expenditure items under the Indicative Target of the program, we are determined to increase other social expenditure. In 2021, we have thus identified CDF366 billion in expenditure on health and education programs, apart from the expenditure accounted for in the IT. As part of our plan to phase out the government fuel price subsidy, we notably intend to develop targeted social programs, with support from our partners.
- Supporting the education sector is still a top priority for the government, with the implementation of the free education project that is in progress, by continuing to regularize teachers, and strengthening infrastructure.
- Our social priorities reflect regional disparities and the impact of the gradual withdrawal of the United Nations Organization Stabilization Mission in the Democratic Republic of the Congo (MONUSCO). Accordingly, we are determined to continue our dialog with the United Nations to implement a smooth transition and to allocate resources to the departure zones. We aim to consolidate the authority of the State, to implement the disarmament strategy, demobilization, and reintegration (DDR), and to continue to reform the Congolese army and the national police. In particular, we will continue to support effective human resources management, protection of civilians, conflict resolution, and the fight against impunity, while meeting humanitarian requirements and promoting inclusive development.
- We also face the social consequences of having more than six million refugees and displaced persons. We still intend to meet our commitments made at the 2019 Global Refugee Forum and contribute to the budget of the National Commission for Refugees. We will ratify the Kampala Convention for Protection and Assistance of Displaced Persons in Africa.

19. The expected increase in public investment must be accompanied by improved efficiency, following the recommendations of the recent IMF public investment management assessment. In March 2022, the IMF technical assistance a Public Investment Management Assessment (PIMA) mission brought to light weaknesses throughout the project cycle, including the absence of standard project assessment methodologies, partial information on investments in budget documents, the absence of clear project selection criteria, the large share of direct contracting procedures in public procurement, the lack of credibility of commitment limits communicated to the ministries, and the absence of project monitoring reports. We are committed to implementing the key recommendations from the PIMA, and, in particular, by: (i) signing a decree on public investment management covering all phases of the project cycle (**proposed end-March 2023 SB**); (ii) creating a single office for the coordination and monitoring of externally financed projects by the end of March 2023; (iii) systematically organizing preliminary project assessments through the development of standard methodologies, including on climate impact assessments, and by establishing a central support unit within the Ministry of Planning; and (iv) producing a comprehensive, realistic public investment program supporting a more transparent project selection process and serving as the main mechanism for reporting to Parliament on projects.

Improving Fiscal Management

20. On November 26, 2021, the Government has adopted the priority action plan for fiscal management reform. The new multiyear strategic fiscal reform plan was coordinated with an IMF technical assistance mission and intensive consultations between the Fiscal Reform Steering Committee (COREF) and technical partners, to finalize a priority action plan, including reforms to be implemented in 2022. This action plan will be adopted by the Council of Ministers no later than end-September 2022, and is based on the following priorities:

- Strengthening budget credibility, including through improved inter-institutional coordination, formulation of the macroeconomic framework, and the forecasting of budget resources. We will also improve transparency in formulating our budget. Similarly, the decree on fiscal governance will be signed in line with the FAD technical assistance recommendations no later than end-October 2022 (**proposed end-October 2022 SB**).
- Improving cash management through a more robust institutional framework. After taking stock of government accounts at the central bank, the same will be done for all commercial bank accounts by the end of 2022. With the establishment of the Treasury Single Account, we will gradually consolidate all government accounts, including those relating to special accounts and supplementary budgets, in accordance with the steps defined in a roadmap to be produced no later than end-September 2022. To that end, the government, with IMF technical assistance, will establish a regulatory framework that defines the scope and structure of the Treasury Single Account and establishes its functioning by signing a decree no later than May 2023 (**proposed end-May 2023 SB**).
- Strengthening the expenditure chain and limiting the use of emergency procedures. We have committed to producing quarterly expenditure execution reports detailing the nature and amount of expenditure for each procedure and administration. These quarterly reports will be reconciled with the BCC cash flow plan and debit notices. The first report, based on information from the fourth quarter of 2021, will be published by end-June 2022.
- Improved oversight of public enterprises and public administrative institutions, and management of related risks. The key public enterprises and public administrative institutions will be required to produce their financial statements on a regular basis, and, with the help of IMF technical assistance, the government will produce a report on the performance of the government portfolio to be attached to the 2024 draft Budget Law.
- The government intends to continue to strengthen public debt management. An inter-ministerial order was signed on December 5, 2020, instructing the Public Debt Directorate to assess and monitor all new debt agreements, including their consistency with program conditionality, and to ensure that public enterprises observe their debt reporting requirements. For that purpose, a draft law on public debt will be adopted and submitted to Parliament by end-2022 to harmonize the legal framework governing public debt management.

- Improving the efficiency of public procurement. The government has initiated the digitalization of public procurement through the Integrated Public Procurement Management System (SIGMAP). Operational in 20 departments during its pilot phase, SIGMAP will be officially launched at the end of August 2022.
- Restoring the government accounting function. In March 2022, we signed the decree establishing the Directorate General of Treasury and Public Accounting. A ministerial decree creating the national network of public accountants will be signed by end-October 2022, and a decree establishing the framework and formal organization of the DGTCP will be signed by end-December 2022.

21. We have met our commitments in terms of transparency in Covid-19 related expenditure under the April 2020 Rapid Credit Facility. COVID-19 contracts in excess of US\$12,000 were published on the Internet, and a report by the Court of Auditors evaluating COVID-19 expenditure was made available online at the end of 2021 after been submitted to Parliament. In addition, the General Finance Inspectorate (IGF) conducted an audit of expenses related to COVID-19 and legal action was taken when irregularities were found. In addition to the procurement contracts in connection with COVID-19, by the end of 2022 we will implement the necessary legal amendments to strengthen the process of collecting and publishing online beneficiary ownership for awarded public procurement contracts, in line with the recommendations from IMF technical assistance.

C. Monetary, Financial, and Foreign Exchange Policies

22. We remain mindful of the domestic and external inflationary pressures. Our objective remains to keep medium-term inflation under the 7-percent medium-term inflation target. However, in 2022, given the increase in the prices of imported goods, we anticipate an inflation rate of approximately 11 percent at the end of 2022. With the external position close to the level implied by desirable fundamentals and policies, the BCC will continue to monitor the data and risks and evaluate possible actions to tighten monetary policy.

23. We are determined to continue our efforts to strengthen international reserves. In 2021, we accumulated US\$1.7 billion in net international reserves, against a target of US\$1.6 billion (adjusted QPC). Despite this significant accumulation, reserves are still low given our vulnerability to external shocks. At the end of 2021, gross reserves represented 6.3 weeks of imports, lower than expected and partly due to the sharp increase in prices of imported goods.¹ In 2022, we expect to accumulate US\$1,140 million in net international reserves (**end-December 2022 QPC**), and request to revise the end-June QPC to US\$960 million. In an uncertain global environment, we will take any opportunity to accelerate reserve accumulation. This objective includes the establishment of foreign exchange reserve requirements (that reduces the BCC's capacity to accumulate reserves), as well as

¹ In comparison with the first review, we anticipate an increase in hydrocarbon and food imports of US\$951 million.

the closing of foreign exchange accounts with domestic banks and the reimbursement of the BCC guarantees (that will support reserve accumulation).

24. To maintain price stability over the medium term, the central bank is focusing on modernizing the monetary policy framework.

- We are gradually strengthening our monetary framework, after the adoption of the new reserve requirement framework on December 30, 2021 (**end-December 2021 SB**), which has been in force since January 2022. The Memorandum of Understanding regularizing the outstanding stock of credit from the BCC to the Government, signed between the BCC and the Ministry of Finance on December 28, 2021 (**end-December 2021 SB**), will help strengthen the financial and operational independence of the BCC and will ultimately support monetary policy operations. An amendment to this Memorandum, which considers gross claims to be regularized (rather than those net of government deposits), and updates the schedule of public securities issuances, was signed on April 29, 2022.
- In accordance with the Organic Law of the BCC, the Law on Public Finance and the May 2020 Stability Pact, we will continue to observe the prohibition of any direct advances from the central bank to finance the public deficit.
- Going beyond our commitment, we reduced the outstanding stock of BCC deposits to guarantee or collateralize central government loans by US\$118 million at end-December 2021, whereas the ceiling allowed for a US\$112 million increase (IT). In accordance with the Organic Law of the BCC, and as we have notified commercial banks, we will abstain from providing any of such guarantees. The planned reimbursement of the existing guarantees will help increase official reserves.
- With the support of an ongoing IMF multiyear technical assistance program to develop a forecasting and policy analysis system (FPAS), we will improve the economic analysis and forecasting capabilities, streamline the decision-making process, and strengthen the BCC's communication strategy.

25. We are also making every effort to strengthen the BCC's safeguards and governance, in accordance with the recommendations of the 2020 Safeguards Assessment. The government appointed new auditors with a decree from the Prime Minister on December 30, 2021. In addition, the BCC will establish its procurement rules by end-November 2022 (initially scheduled for end-June 2022); a dedicated unit for this task was established on April 8, 2022. The Board of the BCC has approved rules governing the Management Committee in February 2022, as envisaged by Article 46 of the BCC Law, and has set up the Governance Committee in March, after the reestablishment of the Audit Committee in November 2021. The Board will also (i) adopt a plan for the implementation of the International Financial Reporting Standards (IFRS) accounting framework by end-September 2022, later than the end-March 2022 deadline set in the first review, as a result of the reorganization of the BCC; (ii) strengthen governance and control of reserve management; (iii) establish a

compliance function; and (iv) validate the analysis of the BCC's recapitalization needs (**end-November 2022 SB**), before sharing it with the Ministry of Finance for discussion.

26. Implementing the recommendations from the recent Financial Sector Stability Review (FSSR) will be essential in strengthening financial sector oversight and regulation. The financial sector stability review conducted in January 2022 provides a detailed diagnostic of the situation in the banking sector. We will develop a strategy for the coming years based on the following recommendations:

- *Financial sector supervision and regulation:* we will strengthen the BCC's ability to undertake reforms, including by hiring banking experts; implementing risk-based supervision. After the adoption of the new banking law (submitted to Parliament in December 2021, **end-November 2021 SB**, and being discussed ahead of its adoption in the Parliamentary session that began in March 2022), we will review the prudential regulatory framework; define the prudential rules for payment institutions; modernize the regulatory and supervisory framework for transactions between related parties; and establish a committee to prepare the data required to conduct stress testing. We will also establish a center of expertise on IT risks within the Directorate for Surveillance of Financial Institutions (DSIF) by December 2022.
- *Crisis management and relevant financial safety nets:* We will adopt regulation on recovery plans for banks; align the framework for providing emergency liquidity with best practices; within the BCC, we will separate the functions of resolution authority, bank supervisor and emergency liquidity provider, assigning each of these functions to separate organizational units, each reporting to the BCC board of directors through lines separate hierarchies.
- *Macroprudential policy and financial stability:* The work of the Financial Stability Committee that was established in November 2021 has begun; we will provide the technical and human resources required by the financial stability function; strengthen the surveillance of nonbank financial institutions; and develop oversight and early warning tools to analyze the interconnections and interdependence of the sectors. We will assess the consequences of the restoration of some financial regulations on December 22, 2021, following their suspension during the COVID-19 pandemic, and particularly those deriving from restoring rules on nonperforming loans.

27. We will finalize our national financial inclusion strategy by end-June 2023. Originally scheduled for December 2022, we are waiting the recommendations from the World Bank financial sector development mission, whose final report will be issued by end-October 2022. The strategy will include the following objectives: (i) increase access to financial services and instruments; (ii) increase credit to households and small and medium-scale enterprises; (iii) increase the use of mobile money and other fintech services; (iv) consumer protection and education; (v) more robust infrastructure and institutions; and (vi) more appropriate insurance for individuals and enterprises. We will also work on restructuring and strengthening microfinance institutions, that have the potential to support financial inclusion.

D. Structural Reforms: Improving Governance and the Business Environment

28. Our Strategy includes strengthening the Agency to Prevent and Fight Corruption (APLC), in accordance with international standards. The APLC, that has been operational since July 2020, will continue to be strengthened in accordance with the United Nations Convention against Corruption (UNCAC) and international best practices. The Agency published its first annual report at the end of March 2022, indicating its involvement in 36 cases, 26 of which involved embezzlement of public funds. Furthermore, on February 23, 2022, the government filed with the African Union (AU) the instruments to ratify the AU Convention to Prevent and Fight Corruption and validating the DRC's accession to the Convention. The UNCAC's review mechanism is in progress, and the government has issued all of the responses to the checklist for the first cycle, while the second cycle has been launched. Other noteworthy progress includes the validation of the National Justice Reform Policy (PNRJ), validation of the National Anticorruption Strategy (Ministry of Justice, APLC, Observatory for the Surveillance of Corruption and Professional Ethics—OSCEP, and other institutions and partners). We are also committed to ensuring the independence of the supervisory bodies and providing them with sufficient resources to enable them to carry out their missions. The allocation for the Audit Court under the Budget Law will be observed, as was the case in 2021, and paid on a regular basis; its officials will be appointed, and new magistrates will be sworn in by end-June 2022.

29. We will continue our transparency efforts in the mining sector. We will continue to publish all new agreements (continuous SB) in accordance with the relevant provisions of the Mining Code and the requirements of the Extractive Industries Transparency Initiative (EITI) Standards. In accordance with the approach recommended by the EITI, we will also publish renegotiated agreements. We are also committed to strengthening implementation of the EITI transparency requirements. DRC's validation process by the EITI International Secretariat, launched on January 1, 2022, is being finalized. Preliminary results, which show that the DRC has satisfied a majority of the EITI requirements, were reviewed by the EITI-DRC Executive Committee on May 26, 2022. The multi-stakeholder group, made up of government representatives, mining companies and civil society organizations, must provide responses and comments on these preliminary results by the end of June 2022, before the assessment is endorsed by the EITI Board of Directors. The government will continue to observe the budget allocations required for the EITI to operate according to the planned timetable. We will also renew the good practice established last year by publishing the 2021 financial statements for Gécamines, including the auditors' comments, by August 2022.

30. We will improve the AML/CFT framework and its implementation. According to the 2021 Mutual Evaluation Report of the Task Force on Money Laundering in Central Africa (GABAC), the AML/CFT framework is still ineffective. Significant gaps relate to coordination between stakeholders, an inadequate AML/CFT legal and regulatory framework, poor risk-based AML/CFT supervision of financial institutions and designated nonfinancial enterprises and professions, and ineffective investigations and prosecutions, putting the DRC at risk of being grey-listed by the Financial Action Task Force. We are working on GABAC's priority recommendations with an action plan; progress will

be reported to the GABAC Plenary in October 2022. To that end, amendments prepared by the National Financial Intelligence Unit (CENAREF) have been incorporated into the draft AML/CFT Law submitted to Parliament at the end of 2021. Revisions to align the draft law with FATF Recommendations include broadening the application of AML/CFT measures beyond banks to the financial sector as a whole; banning anonymous bank accounts; adopting enhanced due diligence measures for electronic fund transfer customers; and establishing basic customer due diligence requirements for the customers of correspondent banks. The draft law also aims to define politically exposed persons (PEP) in accordance with FATF Recommendations, enhance customer due diligence measures for PEPs, and strengthen the asset declaration framework of PEP in accordance with Article 99 of the Constitution. Once the AML/CFT draft law is adopted by Parliament, we plan to apply to the Egmont Group of Financial Intelligence Units.

31. Improving the business climate is critical to stimulate private investment. In partnership with the private sector, we have developed a roadmap for the key reforms to improve the business climate, which has been translated into a matrix of priority actions for each implementing ministry. These priorities include: (i) rationalizing levies, in particular by establishing a senior revenue authority and implementing a fair, predictable tax collection system, to avoid problems of tax harassment of which some private operators have complained; and (ii) improving the judicial system in resolving commercial disputes, with the application and protection of property and contractual rights. We are also working closely with development partners (i) to stimulate investment, particularly in the agricultural sector, new information and communication technologies, tourism, and industry; (ii) to promote electronic payments by accelerating digitalization; and (iii) to reduce bureaucracy in economic and commercial exchanges. Accordingly, following the validation of the roadmap for government reforms in connection with the business climate in July 2021, we are revising the Investment Code, the Agricultural Law to provide more incentives for foreign investment, the Entrepreneurship and Crafts Law, the Digital Code, and the Law on Electronic Trade and Exchange, and rationalizing fiscal and parafiscal charges.

32. Preserving the environment and adapting to climate change is an emerging priority. Although our greenhouse gas emissions are among the lowest in the world, the DRC is subject to intense rainfall, landslides, coastal erosion, heat waves, and seasonal droughts. We have published our revised nationally determined contribution (NDC) prior to the United Nations Climate Change Conference (COP26), that focuses on mitigation measures in the areas of forest conservation, energy, and agriculture. The DRC has the second largest tropical forest and peatlands in the world. These vast carbon deposits are major assets in the fight against climate change. In addition to forests and peatlands, the country has strategic minerals required for the global energy transition. To optimize these resources, the government intends to mobilize specific funding from public, private, and multilateral or bilateral institutions. A National Climate Fund will be established to channel these resources and to allocate them to projects that preserve the environment.

III. Other Issues and Program Monitoring

33. We will continue to strengthen our institutional capacity, with the support of our partners. The provision of technical assistance has already contributed to in-depth diagnostics

essential in implementing our reform plans, including a comprehensive diagnostic of governance, and more recently, Financial Sector Supervision and Regulation (FSSR) and PIMA assessments. We also welcome the ongoing effort by Enabel to recruit a resident fiscal and tax expert, who will work closely with the IMF technical assistance authorities.

34. We remain committed to improving our statistics, the quality of which is generally adequate for surveillance and program monitoring. In March 2022, we published the new revised GDP series following SNA 1993, with 2005 as the base year, and up to 2019. We will work on expanding this series to 2020 and 2021. Last, the 2019 GDP rebasing will be carried out in the context of the work on the migration to SNA 2008 to be launched in 2023. The government will continue to support the National Statistics Office and other government statistics agencies, and we expect continued technical and financial assistance from our partners. Our priorities include improving data collection on debt, particularly that of state-owned enterprises; the quality and frequency of data transmission by the BCC; and the accuracy of the economic indicators.

35. The program will continue to be evaluated based on the quantitative performance criteria, indicative targets, and structural benchmarks (Tables 1 and 2) in connection with semiannual reviews. Definitions of key indicators and concepts, as well as data reporting requirements, are outlined in the attached Technical Memorandum of Understanding. The third and fourth reviews should be completed on or after September 15, 2022, and March 15, 2023, respectively, based on the test dates for the periodic performance criteria at end-June 2022 and end-December 2022, respectively. Under the authority of the Minister of Finance, the Minister of Budget, and the Governor of the BCC, a technical troika chaired by the Ministry of Finance and comprising the Ministry of Budget and the BCC is responsible for monitoring implementation of the program. The CTR provides coordination, the technical secretariat, and liaison with the IMF in the transmission of reports to be shared with Fund staff in accordance with the TMU. The external auditors of the BCC will validate the quantitative monetary criteria and transactions on the BIS-monitored account at the test dates.

**Table 1a. Democratic Republic of the Congo: Quantitative Performance Criteria and Indicative Targets Under the ECF arrangement
December 2021–June 2023**

(Cumulative from the beginning of the year unless specified)

	2021				2022								2023	
	End-Dec.				End-March		End-June		End-Sep.		End-Dec.		End-March	End-June
	QPC				IT		QPC		IT		IT		IT	
	CR No. 22/3	Adj.	Outturn	Status	CR No. 22/3	Outturn	CR No. 22/3	Proposed	CR No. 22/3	Proposed	CR No. 22/3	Proposed	Proposed	Proposed
Quantitative Performance Criteria														
Floor on changes in net international reserves of the BCC (US\$ millions)	1,600	1,618	1,739	Met	80	-277	200	960	250	1,000	300	1,140	230	460
Ceiling on changes in net central bank credit to central government (CDF billions)	0	-36	-171	Met	0	546	0	592	0	1,008	0	1,008	300	680
Ceiling on changes in net domestic assets of the BCC (CDF billions)	547	511	-1,705	Met	700	781	400	700	150	1,000	50	1,200	500	500
Ceiling on accumulation of new external payment arrears (US\$ millions) 1/	0	0	0	Met	0	0	0	0	0	0	0	0	0	0
Floor on cumulative domestic fiscal balance - cash basis (CDF billions)	-232		-89	Met	-350	-653	-580		-750	-1,053	-1,100	-1,570	-505	-449
Ceiling on contracting or guaranteeing of new non-concessional external debt by the public sector (US\$ millions)	320	320	194	Met		0								
Ceiling on the present value of contracting or guaranteeing of new external debt by the public sector (US\$ millions)					573	281	606	606	799	1,300	799	1,300	525	840
Indicative Targets														
Ceiling on the change in deposits of the BCC used as guarantee/collateral for central government loans (US\$ millions)	112		-118	Met	0	0	-84	-84	-150		-150	-150		
Floor on government revenues (CDF billions)	10,198		11,590	Met	2,300	3,322	5,900	7,400	9,450	11,000	12,200	14,500	4,100	9,200
Floor on social spending (CDF billions)	58		47	Not met	21	20	47	45	69	66	90	77		
Accumulation of wage arrears (US\$ millions)	0		0	Met	0	0	0	0	0		0	0	0	0
Memorandum items:														
Adjustors														
Balance of payments support (US\$ millions)	357		110				344	298			577	595	298	298
Privatization proceeds (US\$ millions)	0		0				0	0			0	0		
Scheduled external debt service payments (US\$ millions)	295		277		129	129	192	188	323	315	385	373	157	228
Statutory reserve requirement for foreign deposits (CDF billions)	1,915		2,376				1,866	1,866			1,848	1,848		
Repayment of arrears (CDF billions)	267		585			139	266	265		292	304	304	148	282
Domestically-financed capital spending (CDF billions)	1,026		1,052			908	1,025	1,309		1,917	1,913	2,403	-1,169	-1,684
Others														
Ceiling on contracting or guaranteeing of new external debt by the public sector (US\$ millions)					1,019		1,064	1,704	1,312	2,522	1,312	2,522	850	1,500
Sources: Congolese authorities and IMF staff estimates and projections														
1/ Continuous.														

Table 1b. Democratic Republic of the Congo: Continuous Performance Criteria

- Not to impose or intensify restrictions on the making of payments and transfers for current international transactions
- Not to introduce or modify multiple currency practices
- Not to conclude bilateral payments agreements that are inconsistent with Article VIII
- Not to impose or intensify import restrictions for balance of payments reasons

Table 2. Democratic Republic of the Congo: Structural Benchmarks Under the ECF Arrangement—Second, Third and Fourth Reviews

	Rationale	Date	Status
First Review			
Publish the full 2020 financial statements of Gecamines, including auditor's comments	Improve transparency in the mining sector	End-August 2021	Met
Consolidate all legal documents on non-tax revenues in a single document	Rationalize non-tax revenues	End-September 2021	Met
Submit to Parliament the draft of the new Commercial Banking Law that integrates IMF's staff comments	Enhance financial stability and banking supervision	End-November 2021	Not met
Continuous			
Publish all new mining contracts	Improve transparency in the mining sector		Met
Second Review			
Adopt the new reserve requirement regulation of the BCC on new FX deposits	Enhance financial stability and banking supervision	End-December 2021	Met
Sign an MoU between the BCC and the ministry of finance to regularize the outstanding credit of the BCC to the government	Provide the BCC with space for monetary policy implementation	End-December 2021	Met
Fully implement ASYCUDA World in the electronic single-window at 10 additional custom offices	Improve customs administration	End-December 2021	Met
Recruit an independent auditor to perform an external audit of BCECO for the years 2017-21	Improving public investment efficiency	End-March 2022	Met
Continuous			
Publish all new mining contracts	Improve transparency in the mining sector		Not Met
Third Review			
Revision of instruction decree to make the VAT a self-liquidating system for miners consistent with existing legislation and international best practices, so it applies to mining companies, not to specific products	Improve VAT administration	End-June 2022	Met
Adopt a plan to rationalize non-tax charges	Rationalize the tax system	End-June 2022	Resetting to end-September 2022
Implementation of the first phase of the excise duty traceability system (STDA)	Improve excise tax administration	End-June 2022	Resetting to end-September 2022
Publish the 2022 government spending plans aligned with program targets	Improve fiscal transparency	End-July 2022	
Adopt a decree on budget governance in line with CD recommendations	Improve public finance management	End-October 2022	
Validate the analysis of the BCC's recapitalization needs by the BCC Board	Reinforce the solvency of the BCC	End-November 2022	
Continuous			
Publish all new mining contracts	Improve transparency in the mining sector		
Fourth Review			
Complete the audit certifying domestic arrears	Improve public finance management	End-December 2022	
Adopt a decree on public investment management covering the life cycle of projects, consistent with recommendations in the PIMA report	Improve public investment management	End-March 2023	
Adopt a regulatory framework defining the perimeter and the structure of the single treasury account	Improve public finance management	End-May 2023	
Make an inventory of parafiscal charges in special accounts and supplemental budgets	Rationalize the tax system	End-June 2023	

Sources: Congolese authorities and IMF staff.

Attachment II. Technical Memorandum of Understanding

1. This **Technical Memorandum of Understanding (TMU)** contains definitions and adjustment mechanisms that clarify the measurement of quantitative performance criteria and indicative targets in Tables 1 and 2, which are attached to the Memorandum of Economic and Financial Policies. Unless otherwise indicated, all performance criteria and indicative targets will be evaluated in terms of cumulative flows since the beginning of each calendar year.

A. Definitions

2. For purposes of this TMU, **external** and **domestic** shall be defined on a residency basis.

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

4. The **program exchange rates** for the purposes of this TMU are as follows (BCC indicative rates as of December 31, 2020):

- Variables denominated in U.S. dollars will be converted to Congolese Francs by using the program exchange rate of CGF1971.8046 per U.S. dollar.
- Variables denominated in SDRs will be valued at the program exchange rate of CGF 2852.0774 per SDR.
- Variables denominated in Euro will be valued at the program exchange rate of CGF 2421.1594 per Euro.
- In addition, variables denominated in currencies other than the U.S. dollar, SDR or Euro will first be converted to U.S. dollars at the December 31, 2020, US\$/currency official exchange rate (obtained from the IMF rates database), then converted to Congolese Francs by using the program exchange rate CGF/\$.

5. **Quantitative Performance Criteria (QPCs)** included in the program, as defined below, refer to the net international reserves (NIR) of the BCC, net central bank credit to the government, net domestic assets of the BCC, external payments arrears, new non-concessional external debt owed or guaranteed by the central government and/or the central bank, including EADs, and the domestic balance (cash basis). Performance criteria are set for end-June 2021 and end-December 2021 while indicative targets are set for end-September 2021, and end-March 2022.

6. In addition to the specific QPCs listed in paragraph 5, as for any Fund arrangement, **continuous QPCs** also include the non-introduction of exchange restrictions and multiple currency practices. Specifically, continuous conditionality covers (i) non-imposition or intensification of

restrictions on the making of payments and transfers for current international transactions; (ii) non-introduction or modification of multiple currency practices; (iii) non-conclusion of bilateral payments agreements that are inconsistent with Article VIII; and (iv) non-imposition or intensification of import restrictions for balance of payments reasons. These continuous QPCs, given their non-quantitative nature, are not listed in the QPC table annexed to the MEFP.

B. Quantitative Performance Criteria and Adjustors

Floors on changes in Net International Reserves of the BCC

7. Definition: **Net international reserves (NIR)** are defined as the difference between the BCC gross foreign reserves and its total foreign liabilities, excluding SDR allocations. **Gross foreign reserves** are defined broadly consistent with the Sixth Edition of the Balance of Payments Manual and International Investment Position Manual (BPM6) and are defined as the sum of the following items: (i) monetary gold holdings of the BCC kept abroad; (ii) SDR holdings kept abroad; (iii) receipts in foreign currency and (v) convertible claims on nonresidents, such as foreign deposits and foreign securities. The following items are excluded from the definition of gross foreign reserves: any other claims on residents in foreign exchange, nonconvertible currency holdings, and foreign reserves that are encumbered or pledged in one form or another, including but not limited to reserve assets used as collateral or security for foreign third-party liabilities, and swap transactions. **Total foreign liabilities** are all BCC foreign exchange liabilities to nonresidents, including the IMF but excluding SDR allocations.

8. The following **adjustments** will be made to the NIR floors:

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

9. Definition: **BPS** is defined as all disbursed foreign grants and loans to the central government, excluding those tied to projects.

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

Ceilings on Changes in Net Domestic Assets of the BCC

11. Definition: **The net domestic assets** (NDA) of the BCC are defined as narrow base money (see definition ¶12 below) minus NIR (see definition ¶17) minus external assets excluded in NIR. Based on this definition, the NDA of the BCC include: (i) net credit to the central government (see ¶12 below); (ii) credit to the private sector; (iii) credit to public enterprises; (iv) credit to commercial banks; (v) other claims on the rest of the economy (on other financial institutions, and other non-financial institutions); and (vi) other net assets.

12. Definition: **Narrow base money** is defined as the sum of (i) currency in circulation; (ii) cash holdings by banks; (iii) bank deposits held with the BCC; (iv) nonbank private sector deposits held with the BCC; and (v) public enterprises deposits held with the BCC.

The following adjustments will be made to the NDA ceilings:

- **BPS:** NDA ceilings will be adjusted downward by an amount equivalent to 50 percent of total BPS in excess of the programmed level. There will be no upward adjustment to the NDA ceilings for any shortfall in BPS.
- **External debt service payment:** NDA ceilings will be adjusted (i) downward by an amount equivalent to under payment of debt service relative to programmed amounts; and (ii) upward by an amount equivalent to the excess of external debt service payments relative to programmed amounts.
- **Statutory reserve requirements for foreign currency deposits:** NDA ceilings will be adjusted upwards (downwards) by the increase (decrease) in the statutory reserve requirements for foreign currency deposits relative to program projections (memorandum item).
- **Privatization proceeds:** NDA ceilings will be adjusted downward by 50 percent of the total amount of privatization proceeds (including PPCC) in excess of the programmed level. There will be no upward adjustment to the NDA ceilings for any shortfall in these proceeds.

Ceiling on Changes in Net Central Bank Credit to the Central Government

13. Definition: **Net central bank credit to the central government** (NCG) is defined as the difference between gross BCC claims on the central government minus central government deposits at the BCC. For purposes of program monitoring, central government deposits related to externally financed projects are excluded from NCG.

14. The **following items are excluded** from this definition: Perpetual government securities that cover past operating losses, unsecuritized operating losses from 2011 and later years, unpaid interest payments for securities linked to operating losses of the BCC, and foreign currency translation losses. All foreign currency denominated flows to the budget will be converted to domestic currency by using the market exchange rate prevailing at the time of the disbursement.

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

- **BPS:** NCG ceilings will be adjusted downward by an amount equivalent to 50 percent of total BPS in excess of the programmed level. There will be no upward adjustment to the NCG ceilings for any shortfall in BPS.
- **External debt service payment:** NCG ceilings will be adjusted (i) downward by an amount equivalent to under payment of debt service relative to programmed amounts; and (ii) upward by an amount equivalent to the excess of external debt service payments relative to programmed amounts.
- **Privatization proceeds:** NCG ceilings will be adjusted downward by an amount equivalent to 50 percent of total privatization proceeds (including PPCC) in excess of the programmed levels. There will be no upward adjustment for any shortfall in these proceeds.

Floor on the Domestic Fiscal Balance

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

17. The following adjustments will apply to the floor on the domestic fiscal balance:

- **Domestic arrears payments:** Domestic budget balance floors will be adjusted downward (higher deficit) by the amount of domestic arrears repayments made above the programmed amount; symmetrically, they will be adjusted upward (lower deficit) by the amount of domestic arrears repayments made below the programmed amount.
- **Domestically-financed investment:** Domestic budget balance floors will be adjusted upward (lower deficit) by the amount of domestically-financed investment made below than the programmed amount.
- **Privatization proceeds:** Domestic fiscal balance floors will be adjusted: (i) upward by an amount equivalent to the full shortfall of privatization relative to programmed levels; (ii) downward by 50 percent of the total amount of privatization proceeds in excess of the programmed levels.

18. Definition: **Domestic arrears** are defined as obligations to domestic public suppliers that have not been settled by the date of their due date in accordance with contractual provisions with a delay of at least 60 days, including also VAT credits due but not reimbursed, and which have been certified and validated by the government.

Ceiling on the Accumulation of External Payment Arrears

19. Definition: **External payment arrears** are defined as external debt service obligations (principal and interest) of the central government that were not paid on the contractual due date. The ceiling on new external payment arrears applies **continuously** throughout the period covered by the Extended Credit Facility (ECF) arrangement. It does not apply to external payment arrears in process of renegotiation or to cases in which the creditor has agreed to the suspension of payments pending the outcome of negotiations. For the purposes of this continuous PC, which is monitored continuously, the government will immediately report to the IMF staff any new external arrears it accumulates.

Ceiling on Non-concessional External Debt Contracted or Guaranteed by the Public Sector

20. Definition: The **public sector** comprises the central government, local governments, the BCC, state-owned enterprises,¹ decentralized territorial entities and public entities controlled and financed by the central government.

21. Definition: **Debt** is defined as set out in paragraph 8 of the Guidelines on Public Debt Conditionality in Fund Arrangements attached to Executive Board Decision No.16919-(20-103), adopted October 28, 2020. The external debt is defined as contracted when all parties signed the debt contract. For program purposes, external debt is measured on a gross basis using the residency criterion.

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

23. Definition: **Concessional**. For program purposes, a debt is concessional if it includes a grant element of at least 35 percent, calculated as the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt.² For debts with a grant element equal or below zero, the PV will be set equal to the nominal value of the debt. The discount rate used for this purpose is the unified discount rate of 5 percent set forth in Executive Board Decision No. 15248-(13/97).

24. Definition: **Variable interest rates.** For debts carrying a variable interest rate in the form of a benchmark interest rate plus a fixed spread, the PV of the debt is calculated using a program reference rate plus the fixed spread (in basis points) specified in the debt contract. The program reference rate for the six-month USD LIBOR is 1.81 percent and will remain fixed for the duration of the program. The spread of six-month Euro LIBOR over six-month USD LIBOR is -200 basis points. The spread of six-month JPY LIBOR over six-month USD LIBOR is -200 basis points. The spread of

¹ Only GECAMINES, SNEL, and MIBA are included in the QPC.

² Taking account of all loan conditions, including projected disbursements, the maturity, grace period, payment schedule, front-end fees and management fees.

six-month GBP LIBOR over six-month USD LIBOR is -100 basis points. For interest rates on currencies other than Euro, JPY, and GBP, the spread over six-month USD LIBOR is -100 basis points. Where the variable rate is linked to a benchmark interest rate other than the six-month USD LIBOR, a spread reflecting the difference between the benchmark rate and the six-month USD LIBOR (rounded to the nearest 50 bps) will be added. Given the anticipated global transition away from LIBOR, this TMU can be updated to reflect the relevant benchmark replacements (U.S. Secured Overnight Financing Rate (SOFR); U.K. Sterling Overnight Index Average (SONIA); EURIBOR; and Tokyo Overnight Average Rate (TONAR)) prior to the complete phase out, once operationally feasible.

25. Definition: **Ceiling.** Until December 2021, a performance criterion applies to the nominal value of new non-concessional external debt (understood as debt by non-residents), contracted or guaranteed by the public sector with original maturities of one year or more. The ceiling applies to debt contracted or guaranteed for which value has not yet been received. It excludes (i) the use of Fund resources; (ii) debts incurred to restructure, refinance, or prepay existing debts, to the extent that such debt is incurred on more favorable terms (including in particular a grant element higher than 35 percent) than the existing debt; (iii) concessional debts; and (iv) normal import credits having a maturity of up to one year.³

Ceiling on Contracting or Guaranteeing of New External Debt by the Public Sector

26. Definition: The **present value** (PV) of new external debt is calculated by discounting all projected disbursements and debt service payments (principal and interest) on the basis of a program discount rate of 5 percent and taking account of all loan conditions, including projected disbursements, the maturity, grace period, payment schedule, front-end fees and management fees. The PV is calculated using the IMF "Fund's concessional calculator," which is based on the amount of the loan and the above parameters. In the case of loans for which the grant element is zero or less than zero, the PV is set at an amount equal to the face value.

27. Definition: **Ceiling.** From March 2022, a performance criterion applies to the PV of new external debt (understood as debt by non-residents) contracted or guaranteed by the public sector with original maturities of one year or more. The ceiling applies to debt contracted or guaranteed for which value has not yet been received. It excludes the use of Fund resources as well as normal import credits having a maturity of up to one year.

28. Definition: **Reporting Requirement.** The authorities will inform IMF staff of any planned external borrowing and the conditions on such borrowing before the loans are either contracted or guaranteed by the government and will consult with staff on any potential debt management operation.

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

C. Indicative Targets

Ceiling on the variation of deposits used as Collateral/Guarantee by the BCC for the Central Government Loans.

29. Definition: **Deposits used as collateral/guarantee by the BCC for** central government loans cover central government loans guaranteed by the BCC, and is specifically understood to include central government liabilities secured by liens over BCC deposits in local or foreign currency.

Floor on revenues of the central government

30. Definition: Revenues of the central government are defined in line with the Government Finance Statistics Manual (GFSM 2001) but on a cash accounting basis, excluding grants. Revenue is an increase in net worth of the central government (including its units in the provinces and agencies) resulting from a transaction.

- Revenues of the central government include taxes and other compulsory transfers imposed by central government units, property income derived from the ownership of assets, sales of goods and services, social contributions (excluding pensions contributions received by the central government), interest, fines, penalties and forfeits and voluntary transfers received from nongovernment other than grants. The definition, for program monitoring, excludes grants and other noncompulsory contributions received from foreign governments and international organizations; such transfers between central government units would be eliminated in the consolidation of the fiscal reports and not recorded as revenue. Receipts from the sale of nonfinancial assets (e.g., privatization and signature bonuses from natural resource contracts), and transactions in financial assets and liabilities, such as borrowing but excepting interest payments, are also excluded from the definition of revenue. Transfer of profits from BCC to the Treasury is also excluded from the definition of revenue. The revenue of special accounts and budgets are also excluded
- Revenues should be recognized on a cash basis and flows should be recorded when cash is received. Exceptional advanced payments will be treated as if received on the normal due date.

Floor on Social Spending

31. Definition: The government expenditure monitored for the purpose of the IT on a **floor on social spending** will exclude wages and be defined as the sum of:

- Reproductive, Maternal, Neonatal, Child and Adolescent Health (RMNCAH) and primary health care spending
- Disbursement of Gavi-supported vaccine co-financing and traditional vaccines procurement
- Disbursement of TB/Malaria/HIV/AIDS co-financing

Text Table 1. Democratic Republic of the Congo: Indicative Target for Social Spending
(In Billion Congolese Francs, cumulative from the beginning of year)

	Jun-21		Sep-21		Dec-21		Mar-22		Jun-22	Sep-22	Dec-22 ^{1/}
	CR No.		CR No.		CR No.		CR No.				
	21/168	Prel.	21/168	Prel.	22/3	Prel.	22/3	Prel.	Prop.	Prop.	Prop.
RMNCAH and primary health care	11.2	-	16.9	-	22.5		5.9		9.6	15.3	21.2
GAVI co-financing and traditional vaccines ^{1/}	8.3	18.6	16.4	18.6	17.4		10.7		25.9	36.8	36.8
TB/Malaria/HIV/AIDS co-financing	9.1	-	13.6	4.9	18.2		4.7		9.3	14.0	18.7
Total	28.6	18.6	46.8	23.5	58.0	47.0	21.2	20.2	44.8	66.1	76.7

1/ The World Bank is covering the financing of traditional vaccines in 2021-22.

Accumulation of Wage Arrears

32. Definition: Wage arrears are defined as approved personnel wages and salaries that have not been paid for 60 days. Wages and salaries include the total compensation paid to central government employees, including permanent benefits. These arrears will be valued on a cumulative basis from July 1, 2021.

33. Definition: Public employees are defined as civil, police, and military personnel either statutory civil servants or under contract of the central government.

D. Data to be Reported for Program Monitoring Purposes

The authorities of the DRC will provide IMF staff with the data needed to monitor the program within the prescribed time limits, as indicated in the following table.

	Information	Responsible Institution	Frequency	Availability length	Frequency Submission
1	Foreign exchange market volumes: Commercial Banks, BCC interventions, BCC auctions of FX, bureaux de change, parallel market (by currency)	BCC	Daily	1 day	Each Monday
2	Foreign exchange rates: Reference values, interbank market, bureaux de change, parallel market (by currency)	BCC	Daily	1 day	Each Monday
3	Monetary policy instruments and interventions: Bons BCC, swap facility, emergency lending windows, interbank market (rates and volumes, by bank)	BCC	Weekly	1 day	Each Monday
4	External reserves of the BCC (SMP definition), disaggregated by category and currency	BCC	Daily	1 day	Each Monday
5	Government deposits at the BCC and commercial banks: By type, entity, and category	BCC	Monthly	2 weeks	Each 15th of the month of the following month.

Table 1. Democratic Republic of the Congo: Overview of Data to be Transmitted by the Authorities (continued)

	Information	Responsible Institution	Frequency	Availability length	Frequency Submission
6	DAT deposits, guaranteed deposits, or any other type of contracted guarantees of the BCC for the benefit of the central government in local commercial banks (by bank and category, providing terms, by FX and local currency) For guarantees, detailed information on payments related to guaranteed loans, and conditions of those loans et related guarantees	BCC	Monthly	2 weeks	Each 15 th of the month of the following month
7	Detailed monetary situation: BCC and other institutions with deposits	BCC	Monthly	2 weeks	Each 15 th of the month of the following month
8	Detailed BCC balance sheet	BCC	Monthly	2 weeks	Each 15 th of the month of the following month
9	Interest rates term structure of deposit institutions and of the BCC	BCC	Monthly	1 week (2 weeks for deposit institutions)	Each 15 th of the month of the following month
10	Reserves (mandatory and voluntary) of deposit institutions	BCC	Weekly	1 day	Each Monday
11	Account statement (electronic downloadable data format) provided by the BIS for two-day deposit account in USD opened in the BCC books to record IMF-related disbursements ("BRI 2D FMI USD")	BCC	Monthly	2 weeks	Each 15 th of the month of the following month
12	Execution of plan de Trésorerie (PTR)/budget in currencies and in local currency of the BCC	BCC	Weekly (Monthly for local currency)	1 week	Weekly (Monthly for local currency)

Table 1. Democratic Republic of the Congo: Overview of Data to be Transmitted by the Authorities (continued)

	Information	Responsible Institution	Frequency	Availability length	Frequency Submission
13	Detailed balance sheet information and prudential ratios/FSIs for each deposit institutions (and aggregated)	BCC	Monthly	2 weeks	Each 15 th of the month of the following month
14	Consumer Price Index	INS	Weekly	One week	Weekly
15	Exports of basic products (value and volume); imports (value and volume)	BCC	Monthly	3 weeks	Each 21 st of the month of the following month
16	Indicators of domestic production	INS	Monthly	3 weeks	Each 21 st of the month of the following month
17	Capital and financial account operations of the balance of payment	BCC	Quarterly	3 weeks	The 21 st of the month following the quarter
18	Amounts and identity of creditors of promissory notes guaranteed by the BCC	BCC	Monthly	3 weeks	Monthly
19	Principal external indicators	BCC	Daily	1 day	Daily
20	Evolution of the execution of the treasury plan (outcome vs. projections)	DTO	Weekly	1 day	Weekly
21	Issuance and amortization of Treasury bills and bonds: amounts, maturities, and interest rates	Comité des titres	Weekly	3 days	Weekly
22	External debt service (interests and principal) detailed by creditor	DGDP	Monthly	2 weeks	Monthly
23	Updated amounts of external arrears	DGDP	Monthly	3 weeks	Monthly
24	Execution of the plan of treasury flow of the government	DTO	Monthly	2 weeks	Monthly

Table 1. Democratic Republic of the Congo: Overview of Data to be Transmitted by the Authorities (continued)

	Information	Responsible Institution	Frequency	Availability length	Frequency Submission
25	Revenues from customs and excise taxes, including from the mining sector, broken down by category	DGDA	Monthly	4 weeks	Monthly
26	Revenues from direct and indirect taxes	DGI	Monthly	4 weeks	Monthly
27	Revenues coming from mining sector by nature	DGI	Monthly	8 weeks	Monthly
28	Non fiscal revenues (excluding from provinces), including revenues from mining sector	DGRAD	Monthly	4 weeks	Monthly
29	Collection of receipts from natural resources	CTR	Quarterly	4 weeks	Quarterly
30	Situation of IBP (corporate tax) subscriptions	DGI	Annual	4 weeks	Annual
31	Projected spending commitment plan	DCB	Quarterly	2 weeks	Quarterly
32	État de suivi budgétaire (ESB)	DPSB	Monthly	2 weeks	Monthly
33	Emergency spending: amounts approved by the Committee on emergency spending and amounts paid and regularized by the BCC	Comité des Urgences	Quarterly	3 weeks	Quarterly
34	Privatization proceeds	DGRAD	In case of assets sale	3 weeks	In case of assets sale
35	Domestic debt of the central administration by category and by creditor: stock and debt service	DGDP	Quarterly	3 weeks	Quarterly
36	Stock of budget arrears	DCB	Annual	3 weeks	Annual
37	Stock of wage arrears, including details per category	Dir Paie	Monthly	60 days	Monthly

Table 1. Democratic Republic of the Congo: Overview of Data to be Transmitted by the Authorities (concluded)

	Information	Responsible Institution	Frequency	Availability length	Frequency Submission
38	Contracting of any new external debt issued and/or guaranteed by the BCC in favor of any central or local administration	DGDP	In case of signature of loan contract	3 weeks	Monthly
39	Statistical brief for the weekly meeting with the Prime Minister	DEME/Plan	Weekly (Mardi)	3 days	Weekly
40	Updated GDP estimates and forecasts	CESCN	Quarterly	3 weeks	Quarterly
41	Principales productions (Tables du Condense statistique)	BCC	Monthly	3 weeks	Monthly
42	Estimate of the budgetary cost of the fuel prices' policy	Ministry of economy	Quarterly	3 weeks	Quarterly



DEMOCRATIC REPUBLIC OF THE CONGO

June 13, 2022

STAFF REPORT FOR THE 2022 ARTICLE IV
CONSULTATION, SECOND REVIEW UNDER THE
EXTENDED CREDIT FACILITY ARRANGEMENT,
REQUEST FOR MODIFICATION OF PERFORMANCE
CRITERIA, AND FINANCING ASSURANCES REVIEW—
INFORMATIONAL ANNEX

Prepared By

The African Department
(In collaboration with other departments)

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RELATIONS WITH THE IMF

IMF and the [Democratic Republic of the Congo \(imf.org\)](https://www.imf.org)

As of April 30, 2022

[Financial Position in the Fund for Congo, Democratic Republic of as of April 30, 2022 \(imf.org\)](https://www.imf.org)

Membership Status: Joined September 28, 1963; Article VIII

General Resources Account:

	SDR Million	Percent of Quota
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Quota	1,066.00	100.00
Fund holdings of currency	1,066.00	100.00

SDR Department:

	SDR Million	Percent of Quota
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Net cumulative allocation	1,532.57	100.0
Holdings	537.35	35.06

Outstanding Purchases and Loans:

	SDR Million	Percent of Quota
--	-------------	------------------

RCF Loans	533.00	50.00
ECF Arrangement	304.60	28.57

Latest Financial Commitments

Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF ¹	July 15, 2021	July 14, 2024	1066.00	304.60
ECF ¹	Dec 11, 2009	Dec 10, 2012	346.45	197.97
ECF ¹	June 12, 2002	Mar 31, 2006	580.00	553.47
Stand-By	June 09, 1989	June 08, 1990	116.40	75.00

¹ Formerly Poverty Reduction and Growth Facility (PRGF).

Outright Loans:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
RCF	Apr 22, 2020	Apr 24, 2020	190.98	190.98
RCF	Apr 22, 2020	Apr 24, 2020	75.52	75.52
RCF	Dec 16, 2019	Dec 24, 2019	266.50	266.50

Projected Payments to Fund:²

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

	Forthcoming				
	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>
Principal				79.95	106.60
Charges/interest	<u>3.13</u>	<u>4.94</u>	<u>4.94</u>	<u>4.93</u>	<u>4.94</u>
Total	<u>3.13</u>	<u>4.94</u>	<u>4.94</u>	<u>84.88</u>	<u>111.54</u>

Implementation of HIPC Initiative:

I.	Commitment of HIPC assistance	Enhanced Framework
	Decision point date	July 2003
	Assistance committed by all creditors (US\$ millions) ³	7,252.00
	<i>Of which:</i> IMF assistance (US\$ millions)	391.60
	(SDR equivalent millions)	280.30
	Completion point date	July 2010
II.	Disbursement of IMF assistance (SDR millions)	
	Assistance disbursed to the member	280.30
	Interim assistance	49.05
	Completion point balance	231.25

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

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

Additional disbursement of interest income ⁴	50.44
Total disbursements	330.74

Implementation of MDRI Assistance:

I. MDRI-eligible debt (SDR Million) ⁵	248.08
Financed by: MDRI Trust	0.00
Remaining HIPC resources	248.08

II. Debt Relief by Facility (SDR Million)

Eligible Debt

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

Implementation of Catastrophe Containment Relief (CCR):

Date of Catastrophe	Board Decision Date	Amount Committed (SDR Million)	Amount Disbursed (SDR Million)
N/A	Apr 13, 2020	14.85	14.85
N/A	Oct 02, 2020	9.90	9.90
N/A	Apr 01, 2021	4.95	4.95

Exchange Rate Arrangement:

The currency of the Democratic Republic of the Congo (DRC) is the Congo franc (CDF). The de jure exchange rate arrangement is floating, although the Fund classifies the de facto exchange rate arrangement as “crawl-like” arrangement, effective August 7, 2020. At end-April 2022, the rate was US\$1=CF 2004.006. Effective February 10, 2003, the DRC accepted the obligations of Article VIII, Sections 2 (a) 3, and 4, of the Fund’s Articles of Agreement. However, the DRC maintains one exchange rate restriction subject to Fund approval arising from an outstanding net debt position against other contracting members under the inoperative regional payments’ agreement with the Economic Community of the Great Lakes Countries.

Last Article IV Consultation:

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

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

The last Article IV consultation was concluded by the Executive Board on August 26, 2019.

Safeguards Assessment:

An update safeguards assessment of the *Banque Centrale du Congo* (BCC) was completed in May 2020. Previous safeguards assessments were conducted in 2003, 2008 and 2010. The 2020 assessment found that the BCC had maintained good external audit arrangements and improved its legal framework, notably with the adoption of the BCC Law in 2018; guided by the Fund's technical assistance. However, the implementation of the amended law has been delayed and risks remained high for most of safeguards areas, with significant weaknesses in financial reporting and internal audit practices that are not aligned with international standards. In addition, governance arrangements presented significant gaps that led to a weak oversight function of the Board and exposed the BCC to legal uncertainty and conflicts of interest risks. In response to safeguards recommendations, actions taken since 2020 to mitigate those risks include the reconstitution of the BCC Board and the audit committee, and periodic independent data audits prior to the completion of program reviews. Remaining outstanding recommendations include the adoption of the IFRS, the recapitalization of the BCC, the strengthening of the governance and oversight of reserves management, and the development of the internal audit and compliance functions.

Resident Representative: Mr. Gabriel Leost assumed his duties in May 2021.

RELATIONS WITH OTHER FINANCIAL INSTITUTIONS

A. World Bank

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

World Bank Group Projects:

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

B. African Development Bank

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

STATISTICAL ISSUES

I. Assessment of Data Adequacy for Surveillance

General: Data provision to the Fund has some shortcomings but is broadly adequate for surveillance purposes. Progress is needed in strengthening statistics in the fiscal sector, national accounts, financial soundness indicators, and debt data with the support of IMF capacity development. Despite difficulties, the authorities have continued to produce an array of economic and financial statistics, most of which are published in the annual report of the Central Bank of the Congo (BCC) or its monthly statistical bulletin.

National accounts: Annual national accounts (ANA) are compiled in current prices and volume terms by the National Institute of Statistics (INS) under the Ministry of Plan, with technical assistance (TA) from IMF/AFRITAC Central. The compilation methodology adopted the use of ERETES software for the compilation of definitive ANA data for 2005 and 2006 in compliance with the 1993 *System of National Accounts (SNA)* (implying an upward revision of GDP by about 60 percent). The insufficient human resources pushed INS to temporarily suspend the use of the ERETES software. With TA from AFRITAC Central, the INS compiled and published ANA estimates for 2005-19 in March 2022, including estimates in current prices and chain-linked volume measures. INS is starting a GDP rebasing project, including the adoption of the main recommendations of the 2008 SNA.

Price statistics: Consumer price indices (CPI) are calculated for Kinshasa by the INS. Alternative CPIs for Kinshasa are also calculated by the BCC, the Institute of Economic and Social Research (IESR), and the Economics Section of the U.S. Embassy in Kinshasa. There is a need for coordination between the INS and the BCC to define the headline inflation number, and of a review of CPI compilation methods to ensure the index reflects international standards and best practices to enhance user confidence in the data.

Government finance statistics: The BCC produces aggregated monthly statistics on a cash basis based on its own accounting for the government cash operations. The treasury produces two sets of monthly statistics based on its own records: one relates to the transactions executed through the BCC, the other set attempts to consolidate operations through commercial bank accounts and off-budget operations. These statistics do not rely on an integrated double-entry public accounting system and do not provide sufficient details about the nature of expenditures owing to problems in the expenditure chain. However, the treasury has started to produce quarterly expenditure data reports by ministry and institution. The treasury is producing monthly and quarterly reports on revenue, grant, and expenditure with some shortcomings on foreign financed capex due to cumbersome compilation process on donors financing.

The current work on tax administration and expenditure control, as well as the ongoing implementation of the new public accounts' framework are expected to improve the quality and timeliness of fiscal statistics. The authorities also benefit from continued technical assistance in GFS under AFRITAC Central. The treasury compiled provisional annual data for the budgetary central government for 2017 and 2018 in line with international standards, but these data have not yet been disseminated.

The DRC reported annual data up to 2010 for the IMF's *Government Finance Statistics Yearbook (GFSY)* in the format of the *Government Finance Statistics Manual 2001* but has not reported subsequently. However, work is underway to resume submission of data to the GFSY, beginning with data for 2012-2016, which have already been validated at the national level.

Monetary statistics: Monthly monetary and financial statistics (MFS) covering the central bank and other depository corporations are compiled and reported to the Fund by the BCC in the format of standardized report forms. The depository corporation survey does not include data from non-bank deposit taking institutions.

Financial Access Survey (FAS): DRC reports some data and indicators of the FAS, including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).

Financial Soundness Indicators (FSIs): DRC does not report FSIs for publication on the IMF website. A technical assistance mission took place in February-March 2022 to assist the authorities in their efforts to compile FSIs in accordance with international standards as well as implement the FSI action plan developed in the 2019 FSI mission, which includes regular reporting of FSIs to the IMF.

Balance of payments: The BCC has continued its efforts to improve ESS. It is now compiling ESS using the *BPM6* methodology from the data-collection phase to the compilation and dissemination phases, as supported by technical assistance under the JSA/IMF Project to Improve External Sector Statistics in 17 Selected African Countries in Francophone Africa, which ended in April 2020. BOP up to 2020 and IIP data up to 2019 are available in IFS. Direct investment is the main weakness because of the very large amounts of transactions in this category, both for the financial account and for the income account. A new questionnaire dedicated to foreign direct investments should be developed. A business register has been established but the creation of a specific collection vehicle has not materialized.

II. Data Dissemination Standards

Since April 24, 2004, the DRC participates in the Enhanced General Data Dissemination System (e-GDDS). The metadata needs to be updated.

**Democratic Republic of the Congo: Table of Common Indicators Required
for Surveillance**
(As of May 27, 2022)

	Date of latest observation	Date received	Frequency of data ⁶	Frequency of reporting ⁶	Frequency of publication ⁶
Exchange Rates	5/12/2022	5/16/2022	D	W	M
International Reserve Assets and Reserves	May-22	May-22	M	M	M
Liabilities of the Monetary Authorities ¹	Mar-22	May-22	M	M	M
Reserve/Base Money	Mar-22	May-22	M	M	M
Central Bank Balance Sheet	Mar-22	May-22	M	M	M
Consolidated Balance Sheet of the Banking System	1/22/2022	Feb-22	M	M	M
Interest Rates ²	1/22/2022	Feb-22	M	M	M
Consumer Price Index	May-22	May-22	W	M	M
General Government Revenue, Expenditure, Balance, and Composition of Financing	n/a	n/a	n/a	n/a	n/a
Central Government Revenue, Expenditure, and Financing ³	4/22/2022	5/22/2022	A	A	A
Stock of Central Government and Central Government-Guaranteed Debt ⁴	5/26/2022	May-22	A	A	A
External Current Account Balance	2021	Mar-22	A	A	A
Exports and Imports of Goods and Services	Dec-21	Mar-22	M	A	A
GDP/GNP	2019	Apr-22	A	A	A
Gross External Debt	2021	Mar-22	A	A	A
International Investment Position ⁵	2019	Mar-22	A	A	A

¹Any reserves assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the national values of financial derivatives to pay and receive foreign currency, including those linked to a foreign currency but settled by other means.

²Both market-based and officially determined, including discount rates; money market rates; and rates on treasury bills, notes

³Foreign, domestic bank, and domestic nonbank financing.

⁴Including currency and maturity composition.

⁵Includes external gross financial asset and liability positions vis-à-vis nonresidents.

⁶Daily(D), Weekly (W), Monthly (M), Quarterly (Q), Irregular (I), Not available (NA).



DEMOCRATIC REPUBLIC OF THE CONGO

June 13, 2022

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION, SECOND REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW—DEBT SUSTAINABILITY ANALYSIS

Approved By
**Annalisa Fedelino (IMF, AFR),
Geremia Palomba (IMF, SPR),
Marcello Estevão and Asad
Alam (IDA)**

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

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

According to the Low-Income Country Debt Sustainability Framework (LIC DSF), the Democratic Republic of the Congo (DRC)'s debt-carrying capacity remains weak. The DRC is at a moderate risk of external and overall debt distress, with substantial space to absorb shocks. Weak revenue mobilization remains a main determinant for the DRC's moderate risk of debt distress given low external debt. External debt thresholds are breached under the stress tests, highlighting the country's vulnerability to external shocks, primarily regarding a negative shock to exports. In the context of high dependence on commodity exports and volatile commodities prices, prudent borrowing policies prioritizing concessional loans and strengthening debt management policies remain essential to debt sustainability.

PUBLIC DEBT COVERAGE

1. Public and publicly-guaranteed (PPG) external and domestic debt covers debt contracted and guaranteed by the central government, the Central Bank of Congo (BCC), provinces, and part of state-owned enterprises (SOEs). The public debt department (Direction Générale de la Dette Publique, DGDP) under the Ministry of Finance publishes quarterly and annual reports on its website with information on domestic and external debt based on the residency criteria. The reports summarize the debt of the central government, debt of Sicomines (a joint venture between the Congolese government and Chinese investors) and Gécamines, guaranteed external debt of SOEs managed by the government, and the BCC. Other public institutions are legally prevented from borrowing externally without approval from the Ministry of Finance, and unlikely to command market access without a government guarantee. However, the authorities do not receive any regular report from public institutions other than those named above or provinces. In light of this, the authorities are committed to improve quality of debt reporting, especially for SOEs, and are following up on recommendations from recent IMF technical assistance. Sicomines' infrastructure loans have a government guarantee which can only be called after 2050. Its debt is expected to be repaid by 2027 and is collateralized by Sicomines' earnings.¹ Sicomines also contracted a loan to finance the Busanga power plant to secure its electricity supply. Data on the debt of the private sector is scarce, and the private sector is reportedly believed not to be borrowing externally.

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

Public Debt Coverage

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

Public Debt Coverage and the Magnitude of the Contingent Liability Tailored Stress Test

1 The country's coverage of public debt	The central, state, and local governments, central bank, government-guaranteed debt, non-guaranteed SOE debt		
	Default	Used for the analysis	Reasons for deviations from the default settings
2 Other elements of the general government not captured in 1.	0 percent of GDP	2	Some public institutions are not reporting to the DGDP. Reflecting risks stemming from irregular data sharing with DGDP.
3 SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	0.5	
4 PPP	35 percent of PPP stock	0.00	
5 Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5	
Total (2+3+4+5) (in percent of GDP)		7.5	

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

¹ The government guaranteed US\$ 3 billion in public infrastructure loans to be implemented over the period 2009–14. Box 1, Debt Sustainability Analysis, [IMF Country Report No. 15/280](#).

BACKGROUND AND RECENT DEVELOPMENTS

2. Despite vast natural resources, DRC is one of the poorest countries in the world, and its fragility makes the country prone to health and humanitarian crises and conflict. The economy is highly dollarized, undiversified, and acutely vulnerable to commodity-price shocks and supply risks.

3. While some macroeconomic stability has been secured in recent years, the economy remains highly vulnerable to shocks. After decelerating GDP growth of 1.7 percent in 2020, growth rebounded to 6.2 percent in 2021, and is projected at 6.1 percent in 2022, supported by high commodity prices, expanded mining production (shift to phase 3 of Kamoia's expansion plan which will increase production capacity in 2022), and a stronger performance in the non-extractive sector, namely in the construction and telecommunication sectors. The deficit is expected to widen from 1.1 percent in 2021 to 3.5 percent in 2022 and to 3.0 percent of GDP in 2023, against the backdrop of large public investment projects to respond to development needs, and higher fuel prices in the context of the war in Ukraine. Spending will be temporarily boosted by the use of US\$715 million of the SDR allocation (1.3 percent of GDP, and about half of the total US\$1.47 SDR allocation) for budget financing in 2022-23 to support infrastructure investment.² International reserves have recovered strongly from around 2 weeks of imports in early 2021 and are expected at 8.3 weeks of imports by end-2022, and 10.3 weeks by 2024. If prolonged, the war in Ukraine could exacerbate inflationary pressures, increase food insecurity, and worsen terms of trade if the gains from increased mining prices were undone by an increase in fuel imports of higher magnitude.

4. The medium-term outlook is favorable. Efforts to implement structural reforms and diversify the economy are expected to create a growth momentum in the non-extractive sector in the medium term. Despite an expected deceleration in extractive growth from 10.6 percent in 2022 to 6.5 percent in 2027³, growth is expected to reach an average of 6.8 percent in 2025-27, as non-extractive growth peaks up from 4.1 percent in 2022 to 6.1 percent in 2027.

5. External arrears partly date from pre-HIPC Completion Point, with some Gecamines arrears adding to the stock. External arrears amount to US\$287 million (Text Table 2)⁴. Four non-Paris Club creditors hold claims against the DRC for a total of US\$48 million and are in negotiation or under a reconciliation process. The authorities met representatives of Angola in November 2021

² The authorities divided the SDR allocation (US\$1.47 billion) to build reserves and to finance investment projects in approximately equal parts. To this end, the authorities noted that the transfer of half of the SDR allocation to the Ministry of Finance (MoF) is consistent with their domestic institutional framework, and a memorandum of understanding was signed where the MoF assumes its financial responsibilities regarding half of the SDR allocation.

³ Only the Kamoia mine has increased production capacity as of 2022. Although new investments have been announced for lithium (Zijing Mining), cobalt (Shalina Ressources) and Zinc (Ivanhoe Mines), exploration time would be needed before discovery translates into production.

⁴ In accordance with the LIC DSF Guidance Note, the arrears do not trigger a determination of an in-debt-distress risk rating when they are *de minimis* cases where arrears are less than 1 percent of GDP. For more details see paragraph 15.

and submitted a settlement proposal. A meeting with Namibian representatives is expected in July. A draft correspondence has been prepared for Rwanda; and the authorities intend to propose a meeting with Taiwan Province of China. The remaining external arrears are claims to commercial creditors. Amounts have been reconciled and some are cases under litigation. A large part of it consists of debt owed to a creditor under U.S. sanctions, and whose resolution is made challenging by the sanctions. A 5-year repayment schedule of external arrears has been assumed, starting in 2022.

6. In 2021, the public debt ratio reached 23.7 percent of GDP, higher by about 0.1 percentage point of GDP vis-à-vis the 2020 level.

Compared to the projection at the time of the first review of the ECF-supported arrangement in December 2021, external public debt in 2021 is higher by 0.9 percentage points, with about half of public external debt owed to official creditors. Domestic debt in 2021 remains unchanged at about 8.0 percent of GDP as in the first review projections, with the increase in nominal terms mostly reflecting domestic arrears and the recording of bank loans under the now phased-out CREDOCs (“Credit

Documentaire”), a scheme which used central bank’s deposits as guarantees for central government loans. Multilateral and bilateral dominates the creditor base (Text Table 3). The deferred debt service under the Debt Service Suspension Initiative (DSSI) is estimated at US\$309.2 million between May and December 2020 and US\$279.3 million between January and June 2021, respectively. Sicominex owns about 40 percent of external debt for mining and infrastructure projects, to be repaid with dividends over 10 and 15 years, respectively.

7. The overall domestic debt is composed of arrears and short-term T-bills. Most of the domestic debt stock consists of arrears estimated at 7.4 percent of GDP at end 2021 (Text Table 4). Arrears are mainly composed of reconciled arrears (3.9 percent of GDP) and VAT arrears to exporters—2.7 percent of GDP. In addition, arrears to oil companies amount to 0.6 percent of GDP. Reconciled arrears have been audited and include financial debt, social debt, judiciary debt, debt to suppliers, and debt related to rent and other services. There is also a significant stock of about US\$3 billion of arrears (5.3 percent of GDP) to be audited, although according to the authorities only 20 percent of audited arrears became validated in the past. Net issuance of treasury bills, all denominated in local currency and U.S. dollar-indexed, was negative in 2021 with an outstanding stock equivalent to US\$129 million at end-2021. In 2021, bank loans increased via the now phased

Text Table 2. DRC: External Arrears¹ as of End-2021

	2021	
	Total	
	Nominal (US\$ mln)	Percent of GDP
Total External Arrears	287	0.5
Bilateral creditors	48	0.1
Commercial creditors	239	0.4
Memo item:		
GDP	56,566	
Sources: Congolese authorities; IMF staff estimates.		
1/ Cutoff date: June 30, 1983.		

out CREDOCS scheme which effectively monetized the fiscal deficit and led to missed opportunities for official reserves accumulation by the BCC.

**Text Table 3. Democratic Republic of the Congo:
Decomposition of Public Debt and Debt Service by Creditor 2021-23¹**

	Debt Stock			Debt Service					
	2021			2021	2022	2023	2021	2022	2023
	(in M US\$)	(Percent to)	(Percent GDP)	(in M US\$)			(Percent GDP)		
Total	13,342.2	...	23.6	979.4	892.0	891.8	1.7	1.4	1.3
External	8,801.1	66.0	15.6	524.4	594.9	741.7	0.9	0.9	1.1
Multilateral creditors	4,245.1	31.8	7.5	151.6	149.5	131.5	0.3	0.2	0.2
IMF	1,171.1	8.8	2.1	-	4.1	8.4	-	0.0	0.0
World Bank	1,759.1	13.2	3.1	27.3	35.5	48.6	0.0	0.1	0.1
AfDB (incl. African Development Fund)	449.9	3.4	0.8	109.7	95.6	59.4	0.2	0.1	0.1
Other Multilaterals	865.0	6.5	1.5	14.6	14.3	15.1	0.0	0.0	0.0
o/w: European Investment Bank	65.2	0.5	0.1	10.1	10.8	10.6	0.0	0.0	0.0
Arab Bank for Economic Development in Africa	36.2	0.3	0.1	0.9	1.0	1.0	0.0	0.0	0.0
Bilateral creditors	3,842.4	28.8	6.8	278.1	362.7	519.1	0.5	0.6	0.7
Paris Club	117.2	0.9	0.2	0.2	0.0	22.3	0.0	0.0	0.0
o/w: France	61.6	0.5	0.1	-	-	22.3	-	-	0.0
Exim Bank of Korea	55.6	0.4	0.1	-	0.0	0.0	-	0.0	0.0
Non-Paris Club	3,725.2	27.9	6.6	10.9	95.7	129.7	0.0	0.1	0.2
o/w: Exim Bank of China	3,197.3	24.0	5.7	-	58.8	72.6	-	0.1	0.1
Exim Bank India	163.8	1.2	0.3	10.2	18.3	18.2	0.0	0.0	0.0
Bonds	-	-	-	-	-	-	-	-	-
Commercial creditors	713.7	5.3	1.3	35.1	85.6	99.0	0.1	0.1	0.1
o/w: FG Hemisphere	93.2	0.7	0.2	-	-	8.1	-	-	0.0
Financial Investment Holding	38.2	0.3	0.1	-	3.9	7.3	-	0.0	0.0
Other international creditors	-	-	-	-	-	-	-	-	-
Domestic	4,541.0	34.0	8.0	455.0	297.1	150.0	0.8	0.5	0.2
o/w: T-Bills	128.6	1.0	0.2	-	-	-	-	-	-
o/w: Loans	160.8	1.2	0.3	-	-	-	-	-	-
Memo items:									
Collateralized debt	2,469.6	18.5	4.4	-	-	-	-	-	-
Contingent liabilities	2,747.1	20.6	4.9	-	-	-	-	-	-
o/w: Public guarantees	2,747.1	20.6	4.9	-	-	-	-	-	-
o/w: Other explicit contingent liabilities	-	-	-	-	-	-	-	-	-
Nominal GDP	56,566	...	...	56,566	63,926	70,371	...	...	...

1/ As reported by Country authorities according to their classification of creditors, including by official and commercial. Debt coverage is the same as the DSA, except for the government's guaranteed debt.

Text Table 4. Democratic Republic of the Congo: Total Domestic Debt, 2021

	Nominal in US\$ million	in percent of GDP	in percent of total domestic debt
Stock of Treasury bills and bank loans	311.8	0.6	6.5
Reconciled legacy arrears	2,334.3	4.1	48.3
Arrears from provinces	145.8	0.3	3.0
Arrears to oil companies	365.4	0.6	7.6
VAT arrears	1,673.3	3.0	34.6
Total	4,830.5	8.5	100.0

Sources: Congolese authorities and IMF staff calculations.

BACKGROUND ON MACROECONOMIC FORECASTS

8. Projections underlying this DSA are underpinned by the macroeconomic framework of the second review of the ECF-supported arrangement.

- Compared to 2021, GDP growth is expected to pick up further in 2023-27 due to new mining projects, high commodity prices, and strong global demand for DRC's export commodities, namely copper and cobalt. These developments, in addition to positive developments in the services sector, would improve the trade balance in the medium to long term, despite a substantial increase in imports over the medium term. Starting from 0.3 percent of GDP in 2021, the trade balance is expected to average 3.1 percent in the medium term, despite an increase in imports from 39.2 percent in 2021, to an average of 42.4 percent during 2022-27.
- Against the background of large development needs, ambitious public spending on education and infrastructure relies on available additional financing sources in the context of the catalytic role of the ECF-supported arrangement and domestic revenue mobilization efforts.⁵ The latter will hinge on the authorities' plans to restore the VAT normal functioning, rationalize non-tax and parafiscal charges, streamline tax expenditures, and modernize and computerize revenue administration.
- The financial account strengthened due to sizable other investment inflows, including project financing. This supported the build-up of reserves, which in part is driving the residual change⁶ of external debt in Table 1. Multilateral and bilateral loans remain the main sources of debt financing. Multilateral and bilateral borrowing is assumed to amount to contracted amounts of US\$2.6 billion and US\$2.1 billion in 2021 and 2022, respectively, and to decline to annual flows of around US\$1.7 billion over the medium term. Financial terms of new lending are assumed to remain largely concessional, with an increase of lending at non-concessional terms over the medium term. Some loans expected to be contracted in 2021, mainly a US\$270 million loan⁷ from EximIndia, are now expected to be contracted in 2022.
- Treasury bill issuances amounted to US\$128.6 million in 2021 (2.3 percent of GDP), and are expected to increase alongside treasury bonds, as domestic markets deepen, and concessional financing gradually declines over the long term. Realism tools largely suggest that staff forecasts are realistic, compared to empirical observations (Figure 4) and given the positive growth outlook.

⁵ The ECF arrangement focus on three key areas, (i) stepping up domestic revenue mobilization through restoring VAT normal functioning, rationalizing non-tax and parafiscal charges, streamlining tax expenditures, and modernizing revenue administration; (ii) strengthening governance including natural resource management and transparency; and (iii) strengthening the monetary policy framework and the central bank's independence. See [CR 22/3](#) for details on key policies under the ECF-supported arrangement.

⁶ In the medium term, despite no external borrowing needs as reflected in a nearly balanced primary current account, the authorities are expected to continue to borrow externally with the goal of using the capital inflows to accumulate reserves. This explains the increased residual in the medium term.

⁷ The \$270 million loan will be contracted by the government for a Kinshasa city decongestion project.

Text Table 5. Democratic Republic of the Congo: Macroeconomic Forecast and Assumptions
(Comparison with last DSA)

	Real GDP Growth (percent change)		Revenue (excluding grants) growth 1/		balance (percent of GDP)		Exports of goods and services growth		Imports of goods and services growth		balance (percent of GDP)	
	CR 22/3	Current	CR 22/3	Current	CR 22/3	Current	CR 22/3	Current	CR 22/3	Current	CR 22/3	Current
2021	5.4	6.2	49.0	57.6	-1.8	-1.0	59.0	60.4	51.3	52.5	-0.5	-0.9
2022	6.4	6.1	15.9	30.0	-1.9	-3.5	12.9	28.4	13.1	23.1	-0.5	0.0
2023	6.9	6.7	24.1	23.4	-2.0	-2.8	11.9	11.6	11.4	9.9	-0.8	0.0
2024	6.7	6.9	23.4	17.8	-1.4	-2.3	9.7	9.9	9.2	8.9	0.1	0.3
2025	6.8	7.1	17.0	13.8	-1.5	-2.1	8.7	10.6	10.0	11.0	0.0	0.3
2026		6.9		16.4		-1.6		8.7		8.0		0.5
avg. 2027-41	5.0	4.9	13.4	13.9	-1.2	-0.6	2.9	3.1	3.6	3.7	-1.2	-0.4

Sources: Congolese authorities and IMF staff calculations and projections.

1/ Adjusted with Sicominex and Gecaminox for debt service ratios.

Box 1. Macroeconomic Assumptions for 2021–41

Real GDP growth. Growth is expected to average at about 6.7 percent over the medium term, driven by sustained increases in mining production, supportive commodity prices, and a gradual recovery in investment¹. The medium-term contribution of public investment to growth is projected at 5.7 percent.

Inflation. After peaking at 9.8 percent in 2023 in the context of inflationary pressures due to the war in Ukraine, average CPI inflation is projected to stabilize around 6 percent in 2024-27, in line with the BCC's target of keeping inflation below 7 percent. The BCC's commitment to preemptively tighten monetary policy as needed to curb inflation dynamics would be key to keeping inflation expectations anchored.

Primary balance. The overall fiscal deficit is projected to fall from 2.6 percent of GDP in 2022 to 0.4 percent of GDP in 2027, thanks to greater revenue mobilization (reflecting measures strengthening the tax base), targeted PFM reforms containing current spending, and enhanced rationalization of spending. Current expenditure is expected to cap at 11.7 percent of GDP in the medium term (starting from 10 percent of GDP in 2022), while capital expenditure rises moderately from 5.5 percent of GDP in 2022 to 5.8 percent in 2027, with a gradual shift towards domestic financing. Revenues are computed as central government revenues plus revenues from SOEs that are assumed equivalent to their debt service flows.

Current account balance. The current account balance is significantly driven by developments in the mining sector. Mineral exports constitute a significant portion of exports and are projected to improve over the medium term given new mining projects, and in the case of cobalt and copper, given high global demand associated with the global climate transition. Imports are projected to rise gradually on the back of increasing demand for capital goods and intermediates for infrastructure investment. Overall, the current account balance averages 0.3 percent of GDP over the medium term.

Financing. External financing is projected to consist of exceptional financing, concessional and non-concessional loans from multilateral, bilateral and commercial lenders, and FDI. Part of the financing of public investment projects would also stem from foreign grants. Additional government financing needs are assumed to be covered by treasury bill issuance in the domestic market, as a strategy is put in place to improve public finance practices and clear arrears.

Gross official reserves. Gross official reserves are expected to gradually rise from about 2 weeks of imports in early 2021 to 10.3 weeks of imports by 2024. The reserve buildup is crucially driven by stronger exports, financing under the program, and the 2021 SDR allocation.

1/ The dynamic of real public investment to real GDP shown in Figure 4 can be explained in the context of a V-shaped pandemic dip and recovery. Real public investment to real GDP decreased from 8.4 percent in 2019 to 1.3 percent in 2020 as the result of the pandemic, but then rebounded to 19.2 percent in 2021, with the expectation that it would gradually reach 25.6 percent in 2026.

9. The realism tool's outputs find the DSA projections to be consistent with DRC's historical experience (Figures 3 and 4).

- **Debt drivers:** External debt-to-GDP remained low in 2021; new engagement strategies with multilateral institutions will provide financing to sustain development.
- **Fiscal adjustment and growth.** The projected fiscal deficit remains within its historical range, and is contained over the medium term, thanks to improved revenue mobilization and sustained growth.

COUNTRY CLASSIFICATION AND DETERMINATION OF SCENARIO STRESS TESTS

10. DRC's debt carrying capacity is classified as weak (Text Table 6). The classification of debt carrying capacity is guided by the composite indicator (CI) score which is determined by the World Bank's CPIA and other macroeconomic variables, including forward-looking elements. DRC's CI score is 2.15, roughly unchanged compared to previous vintages. DRC is a fragile state and highly vulnerable to external shocks.

11. The debt sustainability analysis relies on six standardized stress tests and a tailored commodity price shock stress test. The standardized stress tests use the default settings. While DRC does not qualify for the market financing shock stress test, the commodity price shock stress test is relevant in assessing the sensitivity of projected debt burden indicators to unfavorable commodity export prices.⁸

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

Debt Carrying Capacity		Weak		
Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintages	
Weak	Weak 2.15	Weak 2.15	Weak 2.14	

Applicable thresholds

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

APPLICABLE	
TOTAL public debt benchmark	
debt in percent of GDP	35

Note: The current vintage refers to the 2022 April WEO vintage; the previous vintages refer to the 2020 October and April 2021 WEO.

⁸ Under the debt sustainability framework, countries with commodity exports accounting for at least 50 percent of total exports of goods and services over the previous three-year period are subject to the stress test. Commodities accounted for about 97 percent of DRC's exports of goods and services over the period 2018-20.

EXTERNAL DEBT SUSTAINABILITY

Baseline

12. External debt remains sustainable in the baseline scenario, but with vulnerabilities stemming from some structural weakness. Generally, all external debt is owed or guaranteed by the government. Due to improved access to external financing, external debt increased from \$7,185 million in 2020 to \$8,801 million in 2021, driven in part by Fund emergency assistance. The present value of external debt estimated at 12.0 percent of GDP in 2021 is significantly lower than the benchmark of 30 percent, and reflects the extent of concessional debt which is projected to remain broadly unchanged. Despite higher debt issuance resulting from the catalytic effect of the ECF-supported arrangement and temporarily larger fiscal deficits reflecting large investment needs, the medium-term trajectory of external and public debt does not give rise to debt sustainability concerns, under the currently favorable medium-term growth outlook. The end-June 2022 QPC on the present value of non-concessional borrowing (of US\$606 million) is expected to be reached and the program envisages an end-December 2022 QPC at US\$1.3 billion, partly reflecting the signature of loans that have been delayed.

Alternative Scenarios and Stress Tests

13. The present value of debt-to-GDP breaches its threshold under the most extreme shock scenario of lower nominal exports (Figure 1).⁹ In the exports shock scenario, nominal exports fall by 8.3 percent in 2023 and 2024, relative to the previous year value. Given a share of 70 percent for copper exports in total exports in 2022, the exports shock could be equivalently modelled as the combination of a 25 percent drop and a 45 percent drop in the international price of copper in 2023 and 2024 respectively, relative to baseline projections. The breaches under the exports shock highlight vulnerabilities from a risk of reversal in the upward trend of commodity prices. This risk would be mitigated by limiting non-concessional borrowing and seizing the opportunity of high commodity prices to safeguard the borrowing space.

PUBLIC DEBT SUSTAINABILITY

Baseline

14. The overall risk of debt distress is projected to remain moderate. No public debt burden indicators breach its threshold in the baseline scenario. However, under the most extreme shock of lower nominal exports, the present value of debt relative to GDP exceeds its threshold over two consecutive years (Figure 2). While treasury bill issuance remains low, recognition of yet uncertified VAT arrears and arrears to

⁹ Nominal export growth (in US\$) is set to its historical average minus one standard deviation, or to the baseline scenario's projection minus one standard deviation, whichever is lower in 2023–24, a shock that is likely unduly harsh to judge external financing needs as imports would likely contract significantly under such a scenario. For the specification of other stress tests, see Table 8 in the [2018 Guidance Note](#).

suppliers could bring domestic debt and total public debt up. The realization of guarantees and other possible contingent liabilities poses risks.

Alternative Scenarios and Stress Tests

15. Stress tests confirm DRC’s vulnerability to shocks to exports and from the contingent liabilities test. The most extreme shock for the ratio to GDP of the present value of public debt consists of a sharp decline in exports (Figure 2). Under such shock, the present value of the public debt ratio peaks at slightly more than the applicable threshold value of 35 percent. As for the public debt service-to-revenue ratio, the most extreme shock is a contingent liabilities shock causing the public debt service-to-revenue ratio to reach 16 percent of revenue in the medium term.

RISK RATING AND VULNERABILITIES

16. The external and overall risk of debt distress for the DRC remain moderate (Text Table 7). Both external and overall public debt are at moderate risk of debt distress due to the breach of the threshold of the ratio to GDP of the present value of debt under the exports stress test. Over the duration of the ECF-supported arrangement, public debt metrics remain broadly unchanged, as stronger projected economic and revenue growth is expected to be somewhat offset by higher borrowing. External debt is expected to increase gradually relative to GDP and exports, albeit from a low base. At 0.5 percent of GDP, external arrears are below 1 percent of GDP, qualifying as a *de minimis* case, and hence not encumbering the risk rating consideration. Domestic arrears are considerable, and the authorities are enacting measures that lead to their reduction, in particular by restoring the VAT normal functioning. Domestic arrears however do not trigger an in-debt distress assessment because they do not reflect either government insolvency or liquidity problems, but rather inadequate public finance practices.

Text Table 7. Democratic Republic of the Congo: Risk Ratings	
External debt distress rating	
Mechanical external debt distress rating	Moderate
Final external debt distress rating	Moderate
Judgement was applied	No
Overall Risk Rating	
Mechanical overall debt distress rating	Moderate
Final overall debt distress rating	Moderate
Judgement was applied	No

17. Low revenue mobilization capacity warrants preserving the borrowing space created by favorable commodity prices (Figure 5) to prepare for adverse shocks. Low revenue mobilization remains a key challenge. Under the ECF-supported arrangement, revenues are projected to increase from

9 percent of GDP in 2020 to close to 14 percent in 2024—compared to an average of 20 percent of GDP in SSA, reflecting the authorities' efforts to improve revenue mobilization.

18. Risks stem from export performance and DRC's ability to carry meaningful reforms. Export performance is the Achilles' heel of DRC's debt sustainability. A key risk is therefore the fluctuation in commodity prices. DRC should continue to build buffers by increasing international reserves, mobilizing revenue, and ensuring borrowed resources enhance inclusive growth and promote economic diversification by supporting private sector development in non-extractive sectors. Borrowing should continue to rely on concessional sources.

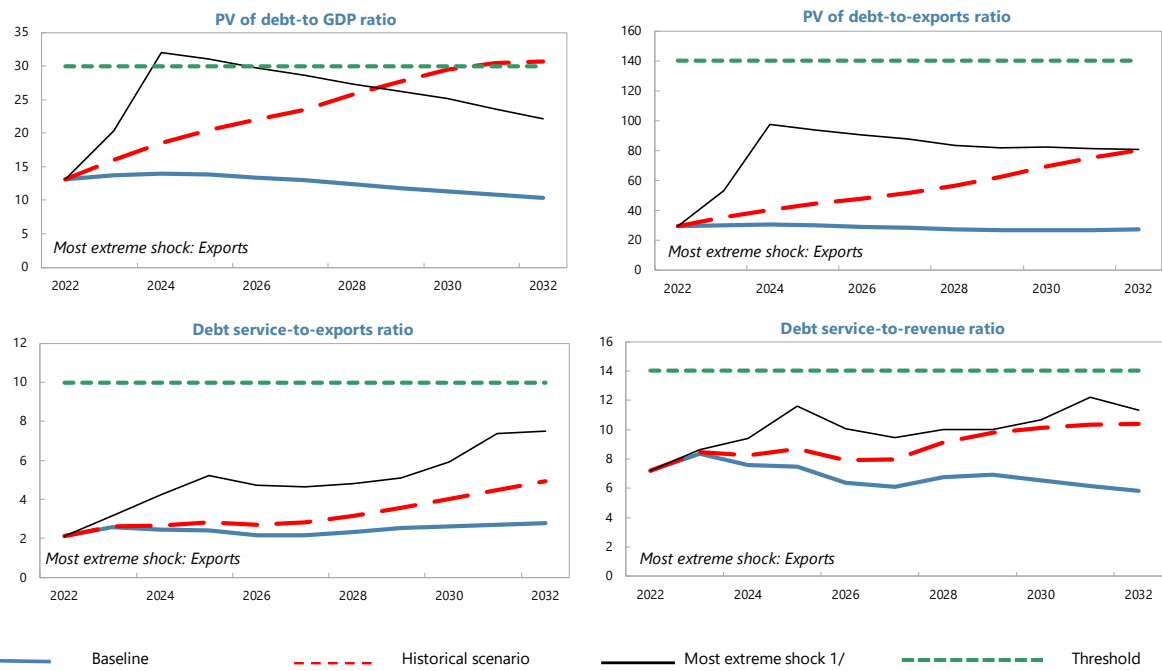
19. Despite low total public debt, limited repayment capacity remains a key vulnerability. Key sources of vulnerabilities include commodity prices fluctuations and challenges to fiscal revenue mobilization. Despite gradually higher revenues projected under the ECF-supported arrangement, the debt service-to-revenue ratio suggests that space for additional borrowing is close to becoming constrained (Figure 5). This calls for prudent fiscal policies including constraining new borrowing. Structural reforms, in particular in revenue mobilization, public financial management, and growth potential-enhancing public investment remain key to DRC's debt carrying capacity.

AUTHORITIES' VIEWS

20. The authorities broadly agreed with the overall assessment of the country's debt sustainability. Debt carrying capacity is expected to improve against the backdrop of the ECF-supported arrangement. The authorities are committed to further improve debt management, including enhancing the reporting of SOE (with the inclusion of two additional SOEs, namely Sodimico and Sonahydroc, in public debt statistics by 2023) and publicly guaranteed debt¹⁰.

¹⁰ As part of the World Bank's SDFP (Sustainable Development Finance Policy) framework, one of the required performance and policy action (PPA2) for the DRC is to expand debt reporting to include debt of SOES in the annual debt report and quarterly bulletins.

Figure 1. Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2022-32



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

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

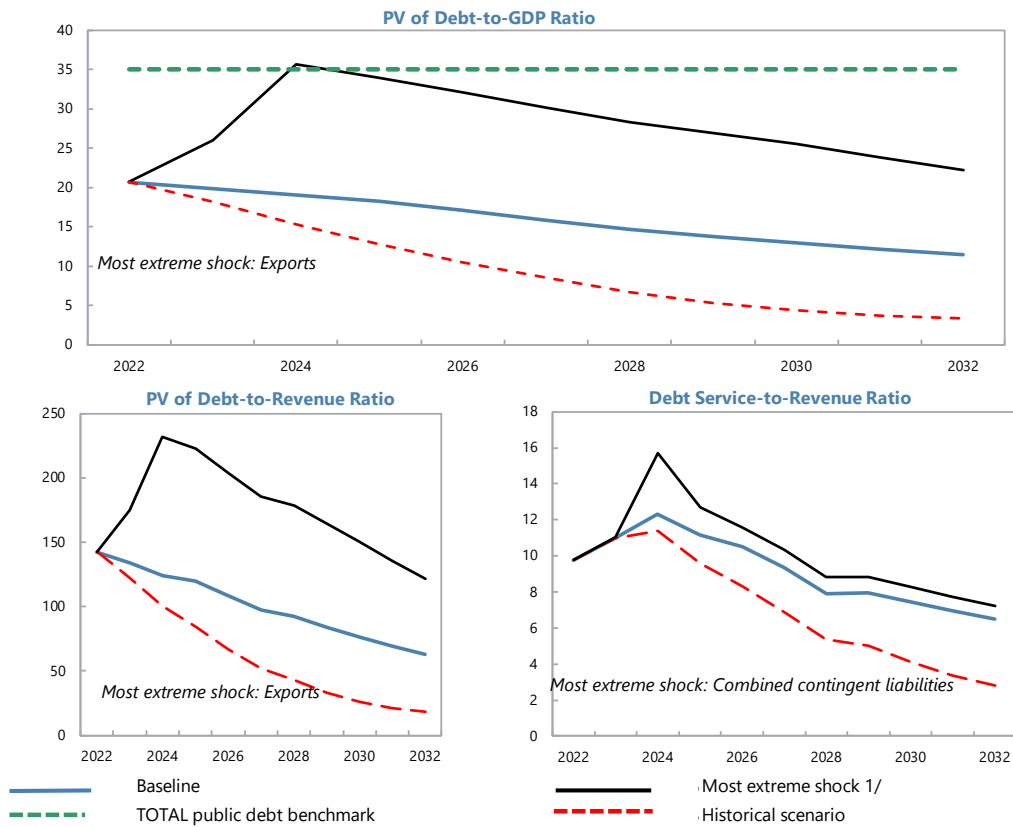
Borrowing assumptions on additional financing needs resulting from the stress tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	2.6%	2.6%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	28	28
Avg. grace period	6	6

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

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2032. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 2. Indicators of Public Debt under Alternative Scenarios, 2022-32



Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	94%	94%
Domestic medium and long-term	1%	1%
Domestic short-term	5%	5%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	2.6%	2.6%
Avg. maturity (incl. grace period)	28	28
Avg. grace period	6	6
Domestic MLT debt		
Avg. real interest rate on new borrowing	1.6%	1.6%
Avg. maturity (incl. grace period)	2	2
Avg. grace period	1	1
Domestic short-term debt		
Avg. real interest rate	-5.9%	0.0%

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

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2032. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 3. Drivers of Debt Dynamics – Baseline Scenario

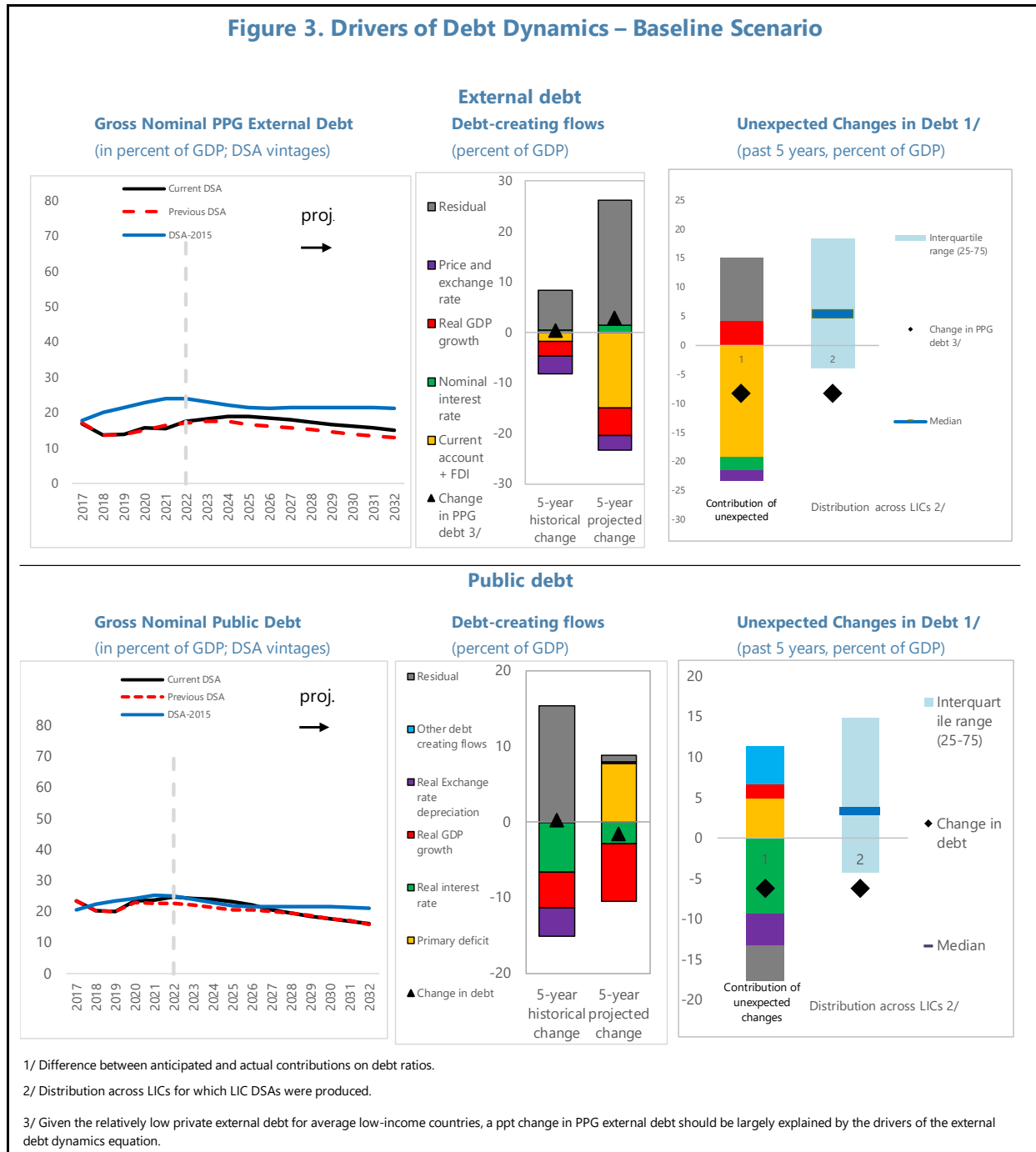
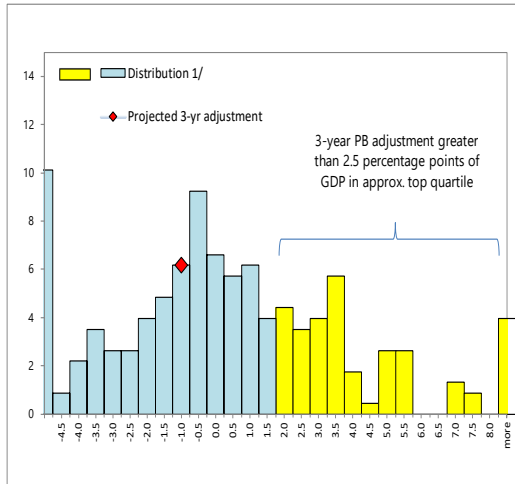


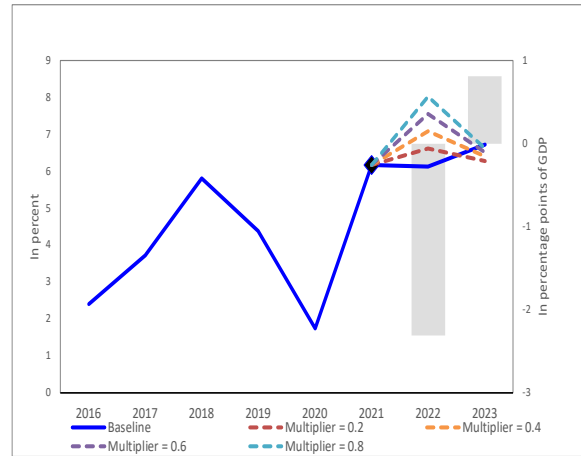
Figure 4. Realism Tools¹

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



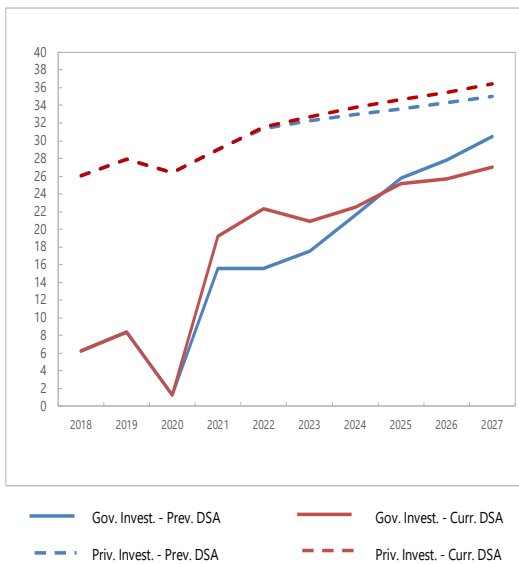
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



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

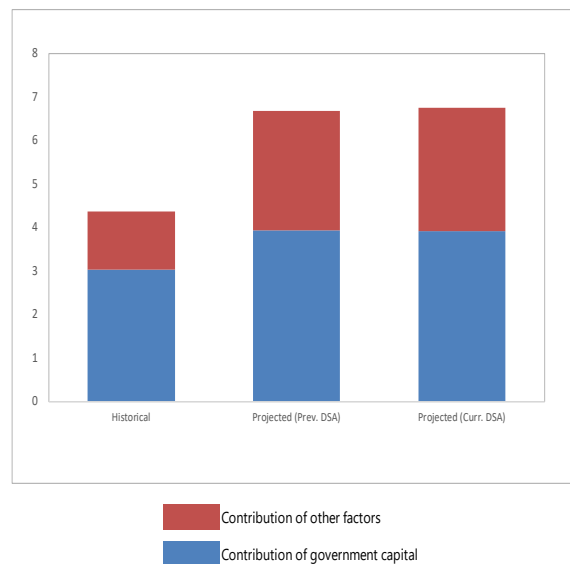
Public and Private Investment Rates
(percent of GDP)



Sources: Country authorities; and staff estimates and projections.

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

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



Contribution of other factors
Contribution of government capital

Figure 5. Qualification of the Moderate Category 2022-32¹



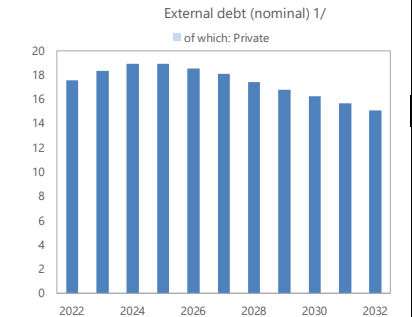
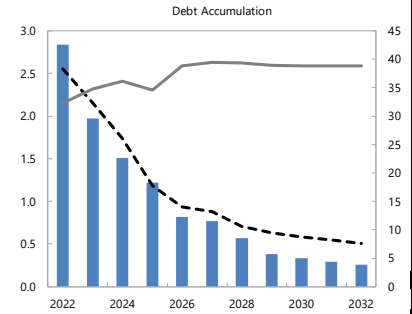
Sources: Country authorities; and staff estimates and projections.

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

Table 1. Democratic Republic of the Congo: External Debt Sustainability Framework, Baseline Scenario, 2019-42
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2032	2042	Historical	Projections
External debt (nominal) 1/	14.0	15.7	15.6	17.6	18.3	18.9	18.9	18.5	18.1	15.1	9.8	15.0	17.4
of which: public and publicly guaranteed (PPG)	14.0	15.7	15.6	17.6	18.3	18.9	18.9	18.5	18.1	15.1	9.8	15.0	17.4
Change in external debt	0.4	1.7	-0.1	1.9	0.7	0.6	0.0	-0.4	-0.4	-0.6	-0.5		
Identified net debt-creating flows	-0.3	-0.3	-4.2	-3.7	-3.7	-3.9	-3.8	-3.8	-3.7	-2.9	1.2	-1.2	-4.0
Non-interest current account deficit	3.1	2.1	0.7	-0.2	-0.3	-0.6	-0.6	-0.8	-1.0	-0.6	3.5	3.9	-1.2
Deficit in balance of goods and services	3.7	1.3	-0.3	-2.1	-2.8	-3.2	-3.1	-3.3	-4.2	-3.8	0.8	4.4	-4.1
Exports	26.5	28.6	39.5	44.9	45.5	45.6	46.0	45.8	45.5	38.2	23.2		
Imports	30.2	29.9	39.2	42.7	42.7	42.4	43.0	42.4	41.3	34.4	24.0		
Net current transfers (negative = inflow)	-3.0	-1.7	-2.3	-2.1	-1.5	-1.4	-1.3	-1.0	-0.8	-0.1	0.8	-3.8	-0.9
of which: official	-0.8	-1.1	-1.3	-1.3	-0.8	-0.9	-0.9	-0.7	-0.6	-0.2	0.3		
Other current account flows (negative = net inflow)	2.4	2.5	3.3	4.0	4.0	4.0	3.8	3.6	4.0	3.2	1.8	3.3	3.8
Net FDI (negative = inflow)	-2.7	-3.1	-3.0	-2.8	-2.6	-2.5	-2.3	-2.1	-2.0	-1.9	-2.1	-3.9	-2.2
Endogenous debt dynamics 2/	-0.8	0.6	-2.0	-0.6	-0.8	-0.8	-0.9	-0.8	-0.7	-0.3	-0.2		
Contribution from nominal interest rate	0.1	0.1	0.2	0.2	0.3	0.3	0.3	0.3	0.4	0.4	0.2		
Contribution from real GDP growth	-0.6	-0.3	-0.8	-0.8	-1.1	-1.2	-1.2	-1.2	-1.1	-0.7	-0.5		
Contribution from price and exchange rate changes	-0.3	0.7	-1.3	...	...	...	...	...	...	...	...
Residual 3/	0.7	2.0	4.1	5.6	4.5	4.5	3.8	3.4	3.3	2.3	-1.6	0.8	3.9
of which: exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	12.0	13.1	13.7	13.9	13.8	13.4	13.0	10.4	6.5		
PV of PPG external debt-to-exports ratio	...	...	30.4	29.3	30.2	30.5	30.0	29.2	28.5	27.2	28.1		
PPG debt service-to-exports ratio	2.8	2.9	2.2	2.1	2.6	2.4	2.4	2.2	2.1	2.8	2.6		
PPG debt service-to-revenue ratio	6.9	8.8	7.5	7.2	8.4	7.6	7.5	6.4	6.1	5.8	-2133.6		
Gross external financing need (Million of U.S. dollars)	3302.9	2938.9	2591.4	2256.3	2471.7	2325.7	2405.4	2152.4	1971.7	3405.2	17859.9		
Key macroeconomic assumptions													
Real GDP growth (in percent)	4.4	1.7	6.2	6.1	6.7	6.9	7.1	6.9	6.3	4.6	4.7	5.6	5.9
GDP deflator in US dollar terms (change in percent)	2.4	-5.0	9.4	6.5	3.2	2.6	2.3	2.3	2.6	2.5	2.1	2.6	2.9
Effective interest rate (percent) 4/	0.6	0.8	1.6	1.7	1.8	1.9	1.9	2.0	2.1	2.5	2.2	0.6	2.1
Growth of exports of G&S (US dollar terms, in percent)	-17.1	4.5	60.4	28.4	11.6	9.9	10.6	8.7	8.2	1.6	1.9	10.7	8.9
Growth of imports of G&S (US dollar terms, in percent)	-14.5	-4.2	52.5	23.1	9.9	8.9	11.0	8.0	6.1	3.7	4.1	8.7	7.9
Grant element of new public sector borrowing (in percent)	...	...	...	32.3	34.8	36.2	34.6	38.9	39.5	38.8	38.8	...	37.4
Government revenues (excluding grants, in percent of GDP)	10.6	9.3	11.7	13.3	14.0	14.7	14.9	15.6	16.1	18.2	0.0	11.7	15.7
Aid flows (in Million of US dollars) 5/	994.3	885.9	2355.7	1936.6	1824.8	1811.2	1515.5	1461.4	1511.2	1338.4	1338.4		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	2.6	2.1	1.7	1.2	0.9	0.9	0.5	0.3	...	1.1
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	48.5	47.8	47.4	42.0	45.4	45.1	41.7	41.7	...	44.1
Nominal GDP (Million of US dollars)	50,399	48,707	56,566	63,926	70,371	77,183	84,548	92,443	100,756	146,304	292,132		
Nominal dollar GDP growth	6.9	-3.4	16.1	13.0	10.1	9.7	9.5	9.3	9.0	7.2	6.9	8.4	9.0
Memorandum items:													
PV of external debt 7/	...	...	12.0	13.1	13.7	13.9	13.8	13.4	13.0	10.4	6.5		
In percent of exports	...	...	30.4	29.3	30.2	30.5	30.0	29.2	28.5	27.2	28.1		
Total external debt service-to-exports ratio	2.8	2.9	2.2	2.1	2.6	2.4	2.4	2.2	2.1	2.8	2.6		
PV of PPG external debt (in Million of US dollars)	...	...	6796.3	8402.6	9661.5	10722.9	11665.0	12357.0	13068.7	15186.1	19033.0		
(Pvt-Pvt-1)/GDPT-1 (in percent)	...	...	...	2.8	2.0	1.5	1.2	0.8	0.8	0.3	0.1		
Non-interest current account deficit that stabilizes debt ratio	2.8	0.5	0.8	-2.2	-1.1	-1.2	-0.6	-0.4	-0.6	-0.1	3.9		

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



Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as $[r - g - p(1+g) + \epsilon\alpha(1+r)] / (1+g+p+gp)$ times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate; p = growth rate of GDP deflator in U.S. dollar terms; ϵ = nominal appreciation of the local currency, and α = share of local currency-denominated external debt in total external debt.

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

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

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

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

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

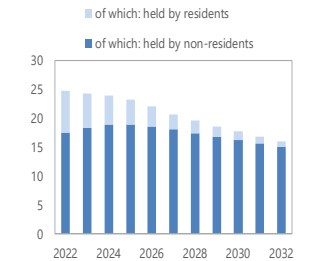
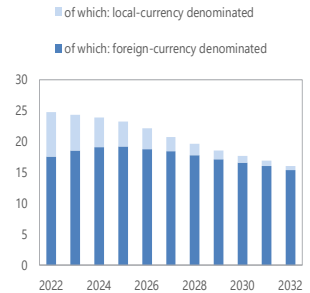
8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Table 2. Democratic Republic of the Congo: Public Sector Debt Sustainability Framework, Baseline Scenario, 2019–42
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2032	2042	Historical	Projections
Public sector debt 1/	20.1	23.6	23.7	24.7	24.3	23.9	23.2	22.1	20.7	16.0	28.4	21.6	20.7
of which: external debt	14.0	15.7	15.6	17.6	18.3	18.9	18.9	18.5	18.1	15.1	9.8	15.0	17.4
Change in public sector debt	-0.2	3.5	0.1	1.0	-0.4	-0.5	-0.7	-1.1	-1.3	-0.8	18.2		
Identified debt-creating flows	0.0	1.5	-4.1	0.0	-0.5	-0.6	-0.5	-1.0	-1.1	-2.1	18.1	-2.5	-1.0
Primary deficit	1.2	0.6	0.3	2.6	1.8	1.2	1.4	0.7	0.4	-1.2	18.7	-0.5	0.6
Revenue and grants	11.4	9.5	14.3	14.5	14.9	15.3	15.2	15.8	16.2	18.3	0.0	13.8	16.1
of which: grants	0.8	0.2	2.6	1.3	0.9	0.6	0.3	0.2	0.2	0.1	0.0		
Primary (noninterest) expenditure	12.6	10.1	14.6	17.1	16.6	16.6	16.6	16.5	16.6	17.1	18.7	13.3	16.7
Automatic debt dynamics	-1.2	0.8	-4.3	-2.6	-2.3	-1.9	-1.9	-1.7	-1.5	-0.9	-0.6		
Contribution from interest rate/growth differential	-1.2	-0.8	-2.8	-2.6	-2.3	-1.9	-1.9	-1.7	-1.5	-0.9	-0.6		
of which: contribution from average real interest rate	-0.4	-0.4	-1.5	-1.2	-0.7	-0.3	-0.4	-0.2	-0.2	-0.2	-0.1		
of which: contribution from real GDP growth	-0.9	-0.3	-1.4	-1.4	-1.6	-1.6	-1.6	-1.5	-1.3	-0.7	-0.5		
Contribution from real exchange rate depreciation	0.0	1.6	-1.5	...	...	...	...	...	...	...	...
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	-0.2	2.0	4.1	1.1	0.2	0.2	-0.2	-0.1	-0.2	1.3	0.1	2.1	0.3
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	20.1	20.7	19.9	19.0	18.2	17.1	15.8	11.5	25.3		
PV of public debt-to-revenue and grants ratio	...	...	140.4	142.6	133.8	124.1	119.8	108.4	97.1	62.9	#DIV/0!		
Debt service-to-revenue and grants ratio 3/	6.5	10.3	11.8	9.8	11.0	12.3	11.1	10.5	9.4	6.5	#DIV/0!		
Gross financing need 4/	2.0	1.6	1.9	4.0	3.4	3.1	3.1	2.4	1.9	0.0	19.3		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	4.4	1.7	6.2	6.1	6.7	6.9	7.1	6.9	6.3	4.6	4.7	5.6	5.9
Average nominal interest rate on external debt (in percent)	0.6	0.8	1.7	1.7	1.9	1.9	1.9	2.0	2.1	2.5	2.3	0.6	2.1
Average real interest rate on domestic debt (in percent)	-3.8	-6.3	-15.0	-7.7	-8.2	-3.8	-4.1	-3.6	-4.6	-4.9	-5.2	-9.0	-5.2
Real exchange rate depreciation (in percent, + indicates depreciation)	0.1	11.8	-10.2	...	...	...	...	...	...	...	...	0.3	...
Inflation rate (GDP deflator, in percent)	4.0	6.7	17.6	8.4	9.7	4.8	4.8	4.4	5.4	5.1	5.4	11.4	5.8
Growth of real primary spending (deflated by GDP deflator, in percent)	22.8	-18.2	52.7	24.4	3.9	6.6	7.5	6.0	7.0	6.2	3.4	9.8	7.6
Primary deficit that stabilizes the debt-to-GDP ratio 5/	1.4	-2.9	0.2	1.5	2.1	1.7	2.1	1.9	1.7	-0.3	0.5	-0.4	1.3
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

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

Public sector debt 1/



Sources: Country authorities; and staff estimates and projections.

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

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

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

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

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

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

Table 3. Democratic Republic of the Congo: Sensitivity Analysis for Key Indicators of PPG External Debt, 2022-32
(In percent)

	Projections 1/										
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
PV of debt-to-GDP ratio											
Baseline	13	14	14	14	13	13	12	12	11	11	10
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	13	16	18	20	22	23	26	28	29	30	31
B. Bound Tests											
B1. Real GDP growth	13	15	16	15	15	15	14	13	13	12	12
B2. Primary balance	13	15	17	17	16	16	15	14	14	13	13
B3. Exports	13	20	32	31	30	29	27	26	25	24	22
B4. Other flows 3/	13	16	19	19	18	17	17	16	15	14	14
B5. Depreciation	13	17	17	17	16	16	15	14	14	13	13
B6. Combination of B1-B5	13	20	22	21	20	20	19	18	17	16	15
C. Tailored Tests											
C1. Combined contingent liabilities	13	19	19	19	18	18	17	16	16	15	14
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	13	19	24	24	23	23	22	21	21	20	19
C4. Market Financing	13	15	15	15	15	14	14	13	12	12	11
Threshold	30	30	30	30	30	30	30	30	30	30	30
PV of debt-to-exports ratio											
Baseline	29	30	30	30	29	29	27	27	27	27	27
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	29	35	41	44	48	52	57	62	69	75	80
B. Bound Tests											
B1. Real GDP growth	29	30	30	30	29	29	27	27	27	27	27
B2. Primary balance	29	32	37	36	35	34	33	32	32	33	33
B3. Exports	29	53	97	94	90	88	83	82	82	82	81
B4. Other flows 3/	29	36	42	41	39	38	37	36	36	36	36
B5. Depreciation	29	30	29	29	28	27	26	25	26	26	26
B6. Combination of B1-B5	29	44	43	50	48	47	45	44	44	44	44
C. Tailored Tests											
C1. Combined contingent liabilities	29	42	42	41	40	39	37	36	37	37	38
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	29	50	61	58	55	53	50	49	50	50	50
C4. Market Financing	29	30	30	30	29	29	27	26	26	27	27
Threshold	140	140	140	140	140	140	140	140	140	140	140
Debt service-to-exports ratio											
Baseline	2	3	2	2	2	2	2	3	3	3	3
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	2	3	3	3	3	3	3	4	4	5	5
B. Bound Tests											
B1. Real GDP growth	2	3	2	2	2	2	2	3	3	3	3
B2. Primary balance	2	3	3	3	2	2	3	3	3	3	3
B3. Exports	2	3	4	5	5	5	5	6	7	8	8
B4. Other flows 3/	2	3	3	3	2	2	3	3	3	3	4
B5. Depreciation	2	3	2	2	2	2	2	3	3	3	3
B6. Combination of B1-B5	2	3	3	3	3	3	3	3	4	4	4
C. Tailored Tests											
C1. Combined contingent liabilities	2	3	3	3	3	2	3	3	3	3	3
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	2	3	3	4	3	3	3	4	4	5	5
C4. Market Financing	2	3	2	2	2	2	3	3	3	3	3
Threshold	10	10	10	10	10	10	10	10	10	10	10
Debt service-to-revenue ratio											
Baseline	7	8	8	7	6	6	7	7	7	6	6
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	7	8	8	9	8	8	9	10	10	10	10
B. Bound Tests											
B1. Real GDP growth	7	9	9	8	7	7	8	8	7	7	7
B2. Primary balance	7	8	8	8	7	7	8	8	7	7	7
B3. Exports	7	9	9	12	10	9	10	10	11	12	11
B4. Other flows 3/	7	8	8	9	7	7	8	8	8	8	7
B5. Depreciation	7	10	10	9	8	7	8	9	8	7	7
B6. Combination of B1-B5	7	9	10	10	8	8	9	9	9	9	8
C. Tailored Tests											
C1. Combined contingent liabilities	7	8	9	9	7	7	8	8	7	7	6
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	7	9	10	11	9	9	9	9	10	10	9
C4. Market Financing	7	8	8	8	7	7	8	8	7	6	6
Threshold	14	14	14	14	14	14	14	14	14	14	14

Sources: Country authorities; and staff estimates and projections.

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

2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

3/ Includes official and private transfers and FDI.

**Table 4. Democratic Republic of the Congo:
Sensitivity Analysis for Key Indicators of Public Debt, 2022-32**

	Projections 1/										
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
PV of Debt-to-GDP Ratio											
Baseline	21	20	19	18	17	16	15	14	13	12	11
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	21	18	15	13	10	8	7	5	4	4	3
B. Bound Tests											
B1. Real GDP growth	21	22	23	23	23	23	23	23	24	24	24
B2. Primary balance	21	21	22	21	20	18	17	16	15	14	13
B3. Exports	21	26	36	34	32	30	28	27	26	24	22
B4. Other flows 3/	21	23	24	23	22	20	19	18	17	16	15
B5. Depreciation	21	22	20	18	16	13	12	10	8	7	5
B6. Combination of B1-B5	21	20	20	20	19	18	17	16	15	15	14
C. Tailored Tests											
C1. Combined contingent liabilities	21	25	24	23	22	20	19	18	17	16	15
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	21	22	23	24	24	25	25	25	25	26	26
C4. Market Financing	21	20	19	18	17	16	15	14	13	12	11
TOTAL public debt benchmark	35	35	35	35	35	35	35	35	35	35	35
PV of Debt-to-Revenue Ratio											
Baseline	143	134	124	120	108	97	93	84	76	69	63
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	143	122	100	84	66	52	43	33	26	21	18
B. Bound Tests											
B1. Real GDP growth	143	145	150	154	148	142	145	142	139	136	134
B2. Primary balance	143	140	143	137	124	112	107	97	89	81	73
B3. Exports	143	175	232	223	203	185	179	165	150	135	122
B4. Other flows 3/	143	152	158	152	138	125	120	110	100	90	81
B5. Depreciation	143	146	128	116	99	83	73	60	49	38	28
B6. Combination of B1-B5	143	135	132	129	118	108	105	97	89	83	76
C. Tailored Tests											
C1. Combined contingent liabilities	143	171	158	152	138	124	119	109	100	91	83
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	143	161	163	172	165	158	159	152	149	145	141
C4. Market Financing	143	134	124	120	109	97	93	84	76	69	62
Debt Service-to-Revenue Ratio											
Baseline	10	11	12	11	11	9	8	8	7	7	6
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	10	11	11	10	8	7	5	5	4	3	3
B. Bound Tests											
B1. Real GDP growth	10	12	14	13	13	12	11	11	11	11	10
B2. Primary balance	10	11	13	13	12	10	9	9	8	8	7
B3. Exports	10	11	14	15	14	12	11	10	11	12	11
B4. Other flows 3/	10	11	13	12	11	10	9	9	9	9	8
B5. Depreciation	10	12	14	12	11	10	9	9	8	7	6
B6. Combination of B1-B5	10	11	14	13	13	11	10	10	9	8	8
C. Tailored Tests											
C1. Combined contingent liabilities	10	11	16	13	12	10	9	9	8	8	7
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	10	12	14	13	13	12	11	11	10	10	10
C4. Market Financing	10	11	12	11	11	10	9	9	8	7	6

Sources: Country authorities; and staff estimates and projections.
 1/ A bold value indicates a breach of the benchmark.
 2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.
 3/ Includes official and private transfers and FDI.

**Statement by Mr. Aivo Andrianarivelo, Executive Director for Democratic Republic of The Congo, Mr. Regis N’Sonde, Alternate Executive Director and Mr. Thierry Nguéma-Affane, Senior Advisor to Executive Director on Democratic Republic of The Congo
June 29, 2022**

On behalf of the Congolese authorities, we would like to express our appreciation to the Executive Board, Management, and Staff for their support to the Democratic Republic of The Congo (DRC) in the implementation of the 2019-23 National Strategic Development Plan (NSDP) in the context of the ECF arrangement approved a year ago. They particularly welcome the provision of technical assistance which helps them make significant inroads in the implementation of their reform agenda. They appreciated the productive discussions held with staff during their visit in Kinshasa in April-May 2022. and the authorities welcome the focus of the *Selected Issues Paper* on climate change and financial inclusion issues which rank high in their development priorities.

Performance under the Fund-supported program has been strong for the period under review, aided by an effective and continued policy coordination between the Ministry of Budget, the Ministry of Finance, and the *Banque Centrale du Congo* (BCC). The authorities remain committed to the program objectives, as indicated in their Memorandum of Economic and Financial Policies (MEFP). They are requesting the completion of the second review under the ECF-supported arrangement. They are also requesting the modification of quantitative performance criteria reflecting more ambitious reserve accumulation and use of the SDR allocation considering the volatile international environment.

I. Recent Developments, Outlook, and Risks

Despite a challenging environment, the macroeconomic situation in DRC improved markedly in 2021. Growth jumped to 6.2 percent in 2021, well above initial projection, driven by the-extractive sector and by services. Inflation declined from 15.8 percent in 2020 to 5.3 percent in 2021, below the 7-percent medium-term target of BCC, and the exchange remain stable in the absence of monetary financing of the budget. The good export performance in the extractive sector contributed to reduce the current account deficit to 0.9 percent of GDP. Gross international reserves increased fourfold to US\$3.1 billion in 2021 or 6.3 weeks of imports, supported by the BCC’s proactive interventions in the foreign exchange market, the SDR allocation and ECF disbursements. Gross reserves increased further to 7.3 weeks of imports in May 2022 on the back of higher mining receipts.

Fiscal performance largely exceeded expectations in 2021 thanks to strong revenue mobilization and prudent public financial management. Despite the pandemic, tax and nontax revenue increased by 1.9 percent and 0.8 percent of GDP respectively, reflecting effective

revenue mobilization actions. The authorities undertook a prudent reprioritization of expenditures to accommodate priority social measures, including a targeted public wage increase to support the purchasing power of certain categories of civil servants. As a result, the budget deficit turned out to be about 62 percent lower than projected.

DRC faces a moderate risk of external and overall debt distress, with substantial space to absorb shocks, according to the recent DSA. Total debt and external debt were low at 23.6 and 15.6 percent of GDP respectively in 2021. Regarding domestic debt, following the development of a strategy to clear domestic arrears, the authorities will conduct an independent audit of those arrears by end-2022.

The vast structural reform agenda is advancing well. Progress is being made in the reforms at the central bank to strengthen monetary policy and governance frameworks with notably the implementation of the 2020 safeguards assessment. The Financial Stability Committee established in November 2021 is now operational and a draft banking law has been submitted to the Parliament in December 2021. As regard transparency in the mining sector, publication of contracts has continued, and DRC is implementing the EITI requirements. Important steps have been taken to strengthen the anti-corruption and AML/CFT frameworks, including the initiation of the process for the ratification of the AU Convention to Prevent and Fight Corruption in February 2022. Furthermore, the draft AML/CFT Law submitted to the Parliament in 2021 has been amended to align it with FATF recommendations, including the coverage of AML/CFT measures and the asset declaration framework. Transparency in COVID-related spending under the April 2020 RCF has improved, with the publication of all contracts above \$12,000 and the audit report on COVID-related expenditure. In addition, the *Inspection Générale des Finances* (IGF) conducted another audit of COVID-19 expenditures and legal action was taken when irregularities were found. Publication of various activity reports by public entities has also progressed.

DRC's outlook is favorable despite a persistent challenging environment. Despite a low vaccination rate, the epidemiological situation has progressed and the removal of remaining COVID-related restrictions in early 2022 is expected to add to the growth momentum carried over from 2021. Buoyant activity in the extractive sector and higher SDR-financed public investment are projected to support economic growth at 6.1 percent in 2022. Higher imported inflation has further lifted CPI inflation to 7.4 percent at end-May 2022 and will keep inflation well above BCC's 7-percent target through year-end. Increases in commodity-driven exports will outweigh a surge in imports and lead to further improvement in the current account, while gross international reserves will continue to augment on the back on higher external financing and opportunistic foreign exchange interventions.

The authorities are of the view that the outlook is susceptible to both downside and upside risks. Downside risks include higher COVID infections, decline in global growth and persistent adverse impact of the war in Ukraine on inflation, food insecurity and terms of trade. In

particular, higher oil and food prices would put pressure on public finances to provide substantial subsidies and could risk wiping out gains in revenue collection. Also, the rising security tensions in the east of the country could heighten the humanitarian situation in that region and call for more government interventions. Conversely, stronger domestic demand and sustained implementation of governance and business environment reforms would improve confidence in policy frameworks and could boost foreign and domestic investment. The authorities intend to further strengthen the reserve position at the central bank and create fiscal space for additional priority spending should the upside risks materialize.

II. Program Performance

Implementation of the ECF-supported program has continued to be robust, reflecting a strong appropriation of the program by the authorities. All quantitative performance criteria (QPCs) at end-December 2021 have been met and all indicative targets except the one on social spending were also observed. Despite the availability of dedicated resources, the target on health spending was missed in 2021 due to administrative and interagency coordination problems, which are being resolved. All structural measures except one were implemented. The development of the national financial inclusion strategy which was expected by end-June 2022 is experiencing some delay, as the report of World Bank's financial sector development mission is yet to be finalized. To account for the impact of the evolving international environment and progress in program implementation to date, the authorities are requesting the modifications of several QPCs and ITs for end-June 2022 and end-December 2022 as well as the resetting of two end-June 2022 structural benchmarks.

III. Policies for 2022 and Beyond

The authorities remain determined to implement their medium-term program. This includes notably maintaining macroeconomic stability, increasing fiscal space, and improving governance and transparency with a view to achieve long-term, sustainable, and inclusive private sector-led growth, consistent with the objectives of 2019-23 NSDP. They continue to view the ECF arrangement as the appropriate framework to anchor their program.

Fiscal Policy

The authorities will maintain fiscal prudence. The budget law for 2022 aims for further improvement in revenue mobilization and higher expenditures in priority social areas, while preserving fiscal sustainability. Subsidies will be increased to mitigate the impact of high global fuel and food prices but will be contained through a gradual adjustment of pump prices. The budget contemplates a scaling-up in public investment, notably under the Local Development Program for 145 Territories (PDL-145T) designed to increase social sector infrastructure and rehabilitate administrative buildings throughout the country. The PDL-145T will be financed by

the SDRs allocated to the budget and implemented through improved and transparent public procurement and investment processes, as described in the MEFP.

Implementation of fiscal reforms, notably under the Strategic Plan for the Reform of Public Finance 2022-2028, will be sustained to further strengthen fiscal and debt sustainability.

Revenue mobilization efforts will be stepped up with a special focus on enforcing tax compliance, restoring the proper operation of the VAT, modernizing revenue administrations, and rationalizing tax expenditures. The authorities will adopt a plan to streamline nontax charges by end-June 2022 and will do the same for parafiscal charges by end-June 2023. They will continue to address gaps in the public financial management and investment management frameworks in line with the recommendations of the various IMF assessment reports, including the recent PIMA. They view progress in these areas as critical to improve spending efficiency and increase fiscal space for priority spending. The authorities are already enhancing the capacity and governance of the *Bureau Central de Coordination* (BCECO), one of the three executing agencies of the PDL-145T along with UNDP and the Fragile States Finance Unit (CFEF) at the Ministry of Finance.

The authorities will closely monitor fiscal risks, with the regular production of a statement of fiscal risks that will be annexed to the budget law. They will continue to contain the wage bill growth and keep it below 5 percent of GDP following another increase in base wages for certain categories of civil servants, equivalent to 0.2 percent of GDP, in April 2022. A cleaning up of the civil service register is ongoing and is expected to yield notable savings while a medium-term comprehensive civil service reform is being developed.

Monetary, Prudential and Exchange Rate Policies

Monetary policy will remain data dependent. The authorities are strongly resolved to preserve price stability and further accumulate international reserves. The central bank is closely monitoring endogenous factors of inflation and stand ready to tighten monetary policy to contain inflationary expectations, if warranted by economic conditions. The BCC will seize any opportunity to accelerate reserve accumulation and will continue to promote as much as possible transactions in local currency to reduce dollarization which is limiting the effectiveness of monetary policy. The BCC will also refrain from providing monetary financing to the budget and abstain from providing guarantees to central government loans.

The monetary policy and governance frameworks will be further strengthened. Ongoing work, with the assistance of the Fund, to improve economic analysis and forecasting capabilities as well as strengthen the BCC's communication strategy will continue. The central bank will further reinforce its safeguards, including the adoption of a plan for the implementation of the IFRS accounting framework by end-September 2022.

The implementation of the recommendations of the January 2022 financial sector stability review (FSSR) to tackle weaknesses in financial sector oversight and regulation will continue. The authorities consider strong financial supervision and macroprudential frameworks and a sound financial sector as critical to support economic activity. A rapid adoption of the draft banking law by the Parliament will be critical to enhance the supervision and bank resolution frameworks. In the meantime, the BCC will monitor closely developments in the financial sector, especially the impact of unwinding pandemic-related prudential measures on financial stability.

Structural Reforms

The authorities will move forward with reforms to improve the business climate and address climate change challenges. A roadmap for improving the business climate has been developed with the private sector in July 2021 and priorities in that regard, besides the rationalization of nontax and parafiscal taxes, include the revision of many business-oriented legislations, including the Investment Code, the Agricultural Code, the Digital Code and the Entrepreneurship and Crafts Law. Moreover, DRC is home to the world's second largest rainforest and peatlands and is a champion in the fight against climate change. The authorities will step up efforts to mobilize domestic and external funding to be channeled through a national climate fund to implement climate-specific projects in the areas of forest preservation, energy, and agriculture.

IV. Conclusion

Despite a challenging environment, the Congolese authorities have maintained strong ownership and implementation of their program. They remain committed to its objectives and stand ready to adjust their economic policies, if necessary, consistent with the program objectives, in consultation with Fund staff. Executive Directors' favorable consideration of their request for completion of the second review under the ECF and other related requests will be appreciated.