IMF Executive Board Approves US$551 Million PRGF Arrangement for the Democratic Republic of the Congo and US$73 Million in Interim HIPC Assistance

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The Executive Board of the International Monetary Fund (IMF) today approved a three-year, SDR 346.45 million (about US$551.45 million) arrangement for the Democratic Republic of the Congo under the Poverty Reduction and Growth Facility (PRGF). The Executive Board also approved additional interim assistance of SDR 45.66 million (about US$72.68 million) under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative to reduce the DRC's debt service payments to the IMF.

Satisfactory completion of the first review of the government's PRGF-supported economic program is a key requirement for the DRC to reach the completion point under the enhanced HIPC Initiative and to benefit from the Multilateral Debt Relief Initiative (MDRI), which together could result in relief from the vast majority of the country's external debt. Other requirements for the HIPC completion point are 12 months of satisfactory implementation of the government's Poverty Reduction and Growth Strategy (PRGS) and other measures--including in social areas such as healthcare and education--which were agreed when the DRC reached its HIPC Decision Point in July 2003.

Following the Executive Board's discussion of the Democratic Republic of the Congo, Mr. John Lipsky, First Deputy Managing Director and Acting Chair, said:

"The Democratic Republic of the Congo (DRC) has made important socioeconomic progress since 2001, demonstrated by the political transition to a democratically-elected government, robust rates of economic growth, and the taming of hyperinflation. Nonetheless, socioeconomic conditions remain poor; the country's infrastructure is dilapidated; and the country's external debt is unsustainable. The global economic crisis has further aggravated these conditions.

"The new three-year PRGF arrangement will support the authorities' implementation of their poverty reduction and growth strategy and economic reform program. The key priorities are to generate strong economic growth, reduce inflation to single digits, strengthen public financial management, achieve debt sustainability, and accelerate structural reforms.

“Prudent and credible fiscal policies are key to addressing fiscal dominance over monetary policy and making progress toward fiscal sustainability. The authorities aim to bolster domestic revenue, strengthen expenditure management, and implement a prudent wage policy to support fiscal consolidation while expanding priority spending programs. The authorities are committed to avoiding recourse to bank financing over the medium term.

“Monetary policy will continue to focus on reducing inflation. The central bank aims to enhance the effectiveness of monetary policy by improving its liquidity forecasting capacity and strengthening coordination with the Treasury. Completion of the restructuring and recapitalization of the central bank is important to enhance the central bank’s credibility and independence. The central bank’s supervision of the commercial banks also needs to be strengthened.

“The DRC’s flexible exchange rate regime has served the country well. The central bank will limit intervention in the foreign exchange market to smoothing short-term volatility and achieving its gross official reserve target.

“Strong and sustained economic growth requires implementation of key structural reforms. The authorities will focus on public enterprise reform, improving governance, and streamlining the business regulatory environment.

“Given the DRC’s high debt burden, the authorities recognize the need for prudent debt management. They aim to meet the enhanced HIPC Initiative requirements and triggers to reach the completion point and receive debt relief under the Multilateral Debt Relief Initiative as early as possible. Continued highly concessional assistance from the donor community will be necessary to support the authorities’ reform efforts.”

Links to interviews with Mr. Brian Ames, IMF Mission Chief:

Audio: http://www.imf.org/external/mmedia/view.asp?eventID=1696

Video (English) http://www.imf.org/external/mmedia/view.asp?eventID=1673

Video (French): http://www.imf.org/external/mmedia/view.asp?eventID=1674

ANNEX

Recent Economic Developments

Socioeconomic conditions in the DRC remain dire following a decade-long conflict that has had enormous human costs and resulted in widespread destruction of the country’s social and economic infrastructure. Although rich in natural resources, the country’s per capita income and human development indicators remain among the lowest in Africa.

A sharp decline in world commodity prices in late 2008 slowed economic growth in 2009 to a projected 2.7 percent, while the escalation of conflict in the eastern provinces led to higher security spending, increased government borrowing from the central bank, and an upsurge in inflation and depreciation of the exchange rate during the first quarter of 2009. The Congolese franc depreciated by 35 percent against the U.S. dollar between December 2008 and September 2009. Reserves declined to a historically low level of US$30 million in February 2009 before rising to US$894 million at end-September following the disbursement of emergency assistance from the Fund and other development partners, the arrival of the first tranche of the Sino-Congolese Cooperation Agreement (SCCA) signing bonus, and the IMF's general and special SDR allocations (SDR 424.5 million).

The DRC is in debt distress with an external debt stock of about US$13.1 billion and debt service amounting to about one-fourth of total expenditure. At the end of 2008, publicly contracted or guaranteed external debt was an estimated 93 percent of GDP, 150 percent of exports, and 502 percent of government revenue, excluding foreign aid. The DRC reached the decision point of the enhanced HIPC Initiative in July 2003. It is current on repayments to multilateral financial institutions including the IMF, but continues to accumulate arrears vis-à-vis bilateral and commercial creditors. IMF staff received financing assurances in November 2009 regarding the rescheduling of the DRC's debts to the Paris Club of sovereign bilateral creditors.

Program Summary

The Congolese Authorities' program for the three years to June 2012 includes the following targets: (i) average real GDP growth of 5.5 percent; (ii) end-period inflation rate of 9 percent by 2012; (iii) gross reserves equivalent to 10 weeks of nonaid imports by 2012; and (iv) the external current account deficit (including grants) limited to an average of 25 percent of GDP.

The program includes structural reforms that focus on:

- • Improving domestic revenue mobilization by expanding the tax base and improving its management

  • Strengthening public financial management through improved budget preparation, execution and accountability

  • Reforming the central bank reform, with a focus on restoring the independence of the Banque Centrale du Congo and strengthening its supervisory capacity with technical assistance from the IMF's Monetary and Capital Markets department

  • Developing the private sector, including the reform of public enterprises, streamlining government regulations, protecting foreign investment and improving transparency in natural resource management.

The authorities' 2006-2008 PRGS, which has been extended through 2010 and endorsed by IMF staff, is based on the five pillars: promotion of peace and good governance; consolidation of macroeconomic stability and promotion of economic growth; improvement in access to social services; the fight against HIV/AIDS; and promotion of a dynamic community.

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The DRC became a member of the IMF on September 28, 1963 and has a quota in the Fund of SDR 533 million. The DRC's previous PRGF arrangement, approved in June 2002 in the sum of SDR 580 million (US$924 million -- see Press Release No. 02/27), was almost fully drawn (SDR 553.47 million) before it expired in March 2006 without completion of the sixth review. IMF staff have subsequently monitored the Congolese authorities' economic program through a series of staff monitored programs. On March 12, 2009, the Executive Board approved a disbursement in an amount equivalent to SDR 133.25 million (about US$212 million) to the Democratic Republic of the Congo under the Rapid-Access Component of the Exogenous Shocks Facility (RAC-ESF – see Press Release No. 09/74).

Table 1. Democratic Republic of the Congo: Selected Economic and Financial Indicators, 2007–14

	2007	2008	2009	2010	2011	2012	2013	2014
		Prel.	Est.		Projections			
	(Annual percentage change; unless otherwise indicated)							
GDP and prices								
Real GDP	6.3	6.2	2.7	5.4	7.3	6.8	8.1	7.0
GDP deflator	17.8	19.4	30.3	23.4	12.8	9.8	8.3	8.4
Consumer prices, period average	16.7	18.0	45.0	24.7	13.5	10.5	9.0	8.8
Consumer prices, end-of-period	10.0	27.6	48.7	15.0	12.0	9.0	9.0	8.5
External sector								
Exports, f.o.b. (U.S.Dollars)	109.6	7.2	-42.5	18.3	27.8	13.2	17.2	16.4
Imports,	81.8	27.6	-21.7	21.6	26.1	0.5	4.5	6.8

f.o.b. (U.S.Dollars)								
Export volume	75.0	-3.9	5.4	9.4	23.9	11.8	16.5	13.9
Import volume	69.0	15.8	-11.9	17.0	23.4	-1.4	2.5	4.9
Terms of trade	11.3	1.1	-38.6	4.1	0.9	-0.8	-1.4	0.3
Nominal effective exchange rate [1]	-15.5	-11.7	…	…	…	…	…	…
Real effective exchange rate [1]	-3.1	-0.7	…	…	…	…	…	…
	(Annual change in percent of beginning-of-period broad money; unless otherwise indicated)							
Money and credit								
Broad money	49.5	55.7	33.8	27.0	…	…	…	…
Net foreign assets	30.8	-6.0	-6.9	38.6	…	…	…	…
Net domestic assets	20.2	65.6	41.6	-11.2	…	…	…	…
Domestic credit	29.5	54.7	15.6	13.8	…	…	…	…
Of which:								
Net credit to government	10.3	11.3	-10.6	0.0	…	…	…	…
Credit to the private sector (annual percent change)	73.6	141.9	55.5	25.4	…	…	…	…
	(Percent of GDP; unless otherwise indicated)							
Central government finance								
Total government revenue	14.8	18.5	18.0	17.9	19.0	20.2	20.8	21.2

Excluding signing bonus from the Sino-Congolese Cooperation Agreement	14.8	18.5	15.7	17.9	19.0	20.2	20.8	21.2
Grants	1.5	1.9	7.9	6.1	6.2	5.7	4.8	4.3
Total government expenditure [2]	18.8	22.7	29.1	36.2	35.3	34.6	32.1	30.8
Underlying fiscal balance (cash basis)	0.8	0.9	-1.9	-0.5	-0.6	-0.4	0.4	0.4
Overall fiscal balance (payment order basis, incl. grants)	-2.5	-2.3	-3.2	-12.2	-10.1	-8.7	-6.4	-5.3
Overall fiscal balance (cash basis, incl. grants)	-3.1	-3.1	-4.8	-12.7	-10.8	-9.2	-6.2	-4.9
Investment and saving								
Gross national saving	16.7	6.1	7.0	5.8	5.6	7.4	11.2	14.4
Government	-1.0	-0.5	1.0	-0.1	1.8	2.9	3.8	4.2
Nongovernment	17.7	6.5	6.0	5.9	3.8	4.4	7.4	10.2
Investment	18.3	22.0	23.4	33.5	37.3	32.5	30.8	30.0
Government [3]	2.4	3.7	9.3	18.0	17.9	17.1	15.1	13.8
Nongovernment	15.9	18.2	14.1	15.5	19.4	15.4	15.7	16.2
Balance of payments								
Exports of goods and services	65.5	61.3	41.8	42.7	49.0	50.8	53.9	57.2
Imports of goods and services	68.9	76.4	66.4	71.1	81.1	76.0	73.0	71.8
Current account balance, incl. transfers	-1.5	-15.9	-16.4	-27.7	-31.7	-25.1	-19.6	-15.6
Current account balance, excl. transfers	-9.0	-24.7	-30.4	-34.4	-37.7	-30.7	-24.6	-20.2
Current account balance, incl. transfers, after debt relief	3.0	-12.3	-13.0	-24.1	-27.3	-21.6	-16.8	-13.4

Gross official reserves (weeks of nonaid-related imports of goods and services)	1.5	1.0	9.9	8.7	9.2	9.9	11.5	11.5
	(Millions of U.S. dollars; unless otherwise indicated)							
External public debt								
Total stock, including IMF [4]	13,425	13,149	12,785	4,329	5,386	6,434	6,882	7,761
Net present value (NPV) of debt [5]	10,820	10,729	10,603	4,106	5,255	6,248	6,599	7,326
NPV of debt (percent of exports of goods and services) [5]	264.5	189.7	175.5	73.8	98.9	100.8	90.9	88.0
Scheduled debt service	739.6	891.2	815.5	252.1	346.6	430.4	355.7	350.8
Percent of exports of goods and services	11.3	14.0	18.2	4.9	5.5	6.0	4.3	3.7
Percent of government revenue	45.6	37.8	29.4	8.8	10.6	11.8	9.0	8.2
Exchange rate, (Congo franc per U.S. dollar)								
Period average	516.0	563	…	…	…	…	…	…
End-of-period	503.0	639	…	…	…	…	…	…
Memorandum item:								
Nominal GDP (billions of Congo francs)	5,148	6,526	8,729	11,361	13,746	16,117	18,869	21,877

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

[1] Change in annual average. Minus sign indicates depreciation.

[2] Includes interest due before debt relief and expenditure financed by HIPC resources.

[3] Includes investment financed by resources released under the enhanced HIPC Initiative.

[4] End-of-period debt stock includes most of London Club debt (some US$1.2 billion in 2008), which is expected to be bought back with deep discount grants from IDA, and accumulated arrears.

[5] Estimates and projections are based on the 2009 DSA and after HIPC Initiative interim relief assistance. Includes assistance beyond the terms of the enhanced HIPC Initiative granted by some Paris Club creditors. Exports are on a three-year backward moving average; projections assume DRC reaches the HIPC completion point during the first half of 2010.

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