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Democratic Republic of the Congo: Letter of Intent, Memorandum of Economic and Financial Policies and Technical Memorandum of Understanding

August 6, 2005

The following item is a Letter of Intent of the government of Democratic Republic of the Congo, which describes the policies that Democratic Republic of the Congo intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Democratic Republic of the Congo, is being made available on the IMF website by agreement with the member as a service to users of the [IMF](#) website.

Kinshasa, August 6, 2005

Translated from French

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

Dear Mr. de Rato:

1. On June 12, 2002, the Executive Board of the International Monetary Fund approved a three-year arrangement for the Democratic Republic of the Congo (DRC) under the Poverty Reduction and Growth Facility (PRGF). This arrangement was designed to support the Government Economic Program (PEG) for the period April 1, 2002–July 31, 2005. By the terms of the arrangement, the government of the DRC and IMF staff have conducted the fifth review of the program covering not only the period April 1–September 30, 2004 as required under the program, but also the six months following that period, in view of the worsening economic situation in the second half of the year. This review, which took place during the three IMF missions on November 9–23, 2004, February 15–22, 2005, and May 24–31, 2005, focused on the execution of the program as well as the outlook and the economic and financial measures to be implemented in 2005. In particular, the review has taken into account the objectives that we have set, such as the holding of free, democratic, and transparent elections; the implementation of the Disarmament, Demobilization, and Reintegration program (*Désarmement, Démobilisation, et Réinsertion*, DDR); and the restructuring of the army and the police force.

2. The government remains determined to implement the policies and measures set out in the Interim Poverty Reduction Strategy Paper (I-PRSP) and the memorandum on economic and financial policies, which is attached to this letter of intent and supplements the letters of April 13, 2002, February 4, 2003, July 3, 2003, December 10, 2003, and June 24, 2004.

3. In 2004, execution of the PEG was more challenging than expected because the security problems in the eastern part of the DRC resulted in major military expenditures during the second half third quarter and the end of the year. The government also experienced difficulties in controlling other sovereignty expenditures during that period. This excess spending, which was partially financed by the Central Bank of the Congo (BCC), led to a rapid growth in the monetary base, causing a sharp depreciation of the Congo franc and a rise in inflation over the first four months of 2005. The government is nonetheless committed to strengthening its efforts to restore macroeconomic stability and pursue the reconstruction of the DRC, and in this context, it shall implement all the fiscal and monetary measures and the structural reforms described in the attached 2005 memorandum on economic and financial policies.

4. The government is determined to uphold the rule of law throughout the country, and to ensure good governance and transparency in the conduct of public affairs at the level of the central government, as well as the levels of the national institutions, the public enterprises, and the eleven provinces. The government also intends to strengthen the fight against corruption, including in government and in the natural resources sector, and to reduce bureaucratic “red tape.” Furthermore, the government will seek to improve the management of public enterprises, and will take all necessary legal steps to address the shortcomings identified in the course of the audit of public enterprises by the Audit Office.

5. The year 2005 will be marked by the holding of free, democratic, and transparent elections for the first time in our country’s history, and hence the establishment of a democratic and constitutional government. A roadmap has been prepared to achieve this goal, and with the assistance of the international community we intend to follow this roadmap in an atmosphere of calm and respect for democratic rules. As a first step, the draft constitution was adopted by parliament on May 13, and will be put to a referendum in the coming months.

6. An examination of the quantitative performance criteria at end-September 2004, which were the focus of an audit conducted by an international firm, indicates that three performance criteria out of 11 performance criteria have not been met. The ceilings on the BCC’s net domestic assets and net bank credit to the government, adjusted for external assistance, were exceeded by 0.6 percent of GDP and 0.2 percent of GDP respectively. Moreover, the continuous criterion according to which the BCC may not finance budgetary expenditures that have not been authorized by the Finance Minister was not met, as such spending amounted to CGF 227.5 million during the second half of 2004. The structural performance criterion regarding the audit of the parastatal diamond enterprise (MIBA) by an international audit firm could not be met owing to the lack of external assistance. However, the government has decided to finance this audit from its own budget. In addition, the implementation of the two structural benchmarks was delayed; the strategic audit of the Public Enterprise Council (*Conseil Supérieur du Portefeuille - CSP*) was completed in July 2005; and the reorganization plan for the petroleum products distribution company (COHYDRO) is being finalized. At end-December 2004, the quantitative indicators for net external assets, the net domestic assets of the BCC, and net credit to the government, adjusted for external assistance, were overshot.

7. The government is determined to strengthen macroeconomic stability by implementing the budgetary and monetary policies described in the attached memorandum. In addition, a considerable number of reforms will be implemented in 2005, which will be essential for maintaining a high rate of growth and reducing poverty. In view of the measures taken and the set of policies it will implement, and in order to complete the review, the government would like to request waivers from the IMF Executive Board with respect to the nonobservance of the three quantitative performance criteria and the structural performance criterion referred to above.

8. The government will provide the IMF with all information requested by the Fund on the implementation of its economic and financial program for 2005. As in the past, the government authorizes the publication of this letter, the MEFP attached to this letter, and the IMF staff report.

9. The government considers that the policies and measures set out in the attached memorandum are adequate to achieve its program objectives. The government is prepared to take any further measures that may be necessary toward this end. Moreover, the government pledges to consult the IMF, whether on its own initiative or upon your request, regarding the adoption of any additional measures that may prove necessary.

10. The authorities propose quantitative performance criteria for September 30, 2005 and structural performance criteria up to end-September 2005 to be assessed during the sixth program review. Therefore, the government requests that the arrangement be extended from October 31, 2005 to March 31, 2006 in order for the sixth review to be completed before the end of the arrangement. The government would also like to request additional interim assistance under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative to cover part of its debt service obligations falling due to the Fund between August 1, 2005 and July 31, 2006.

11. The government would like to thank the international community for supporting its stabilization and reconstruction efforts during this critical period in the history of the DRC. The government hopes to benefit from IMF support once the current PRGF-supported arrangement comes to an end. Accordingly, the government would like to begin discussions with Fund staff as soon as possible concerning a medium-term program that could be supported by a new PRGF arrangement when the current arrangement ends.

Sincerely yours,

/s/

Joseph Kabila
President of the Democratic Republic of the Congo

Translated from French

DEMOCRATIC REPUBLIC OF THE CONGO

Memorandum on Economic and Financial Policies for 2005

Kinshasa, August 6, 2005

I. EXECUTION OF THE GOVERNMENT ECONOMIC PROGRAM

1. Since June 2004, implementation of the Government Economic Program (PEG) has been more difficult than expected owing to security problems in the eastern provinces, which resulted in additional military expenditures during the third quarter and toward year's end. The government also experienced problems with curbing other current expenditure during this period. These additional expenditures led to a rapid increase in base money, a sharp depreciation of the Congo franc, and the resurgence of inflation. In addition, progress in implementing structural reforms in 2004 was delayed to allow all parties to reach consensus within the government.
2. To address the difficulties faced during the second half of 2004 the government took new measures in February 2005, including a tightening of monetary and fiscal policies that has led to a stabilization of the exchange rate and consumer prices.
3. Despite the above-mentioned difficulties, economic growth was sustained across most sectors in 2004. Real GDP growth is estimated at 6.8 percent (against an initial forecast of 6.3 percent), leading to an improvement in per capita income for the third consecutive year. Inflation was below projections through July 2004, but rose sharply thereafter for the reasons mentioned above. As a result, 12-month inflation rose to 9.2 percent at end-2004 and to 26.6 percent at end-May 2005. The consumer price index increased 18.9 percent in the first five months of 2005, but has dropped in June.

Monetary and exchange rate policies

4. The Central Bank of the Congo (BCC) experienced difficulties in containing broad money growth and maintaining price stability in 2004. Indeed, money-financed budgetary and extrabudgetary expenditures resulted in base money and broad money rising by 62 percent and 61 percent, respectively (against programmed growth rates of 26 percent and 29 percent, respectively, projected at a constant exchange rate). In order to mop up excess liquidity, the BCC gradually increased its key interest rate from 6 percent in September 2004 to 20 percent in January 2005, to 65 percent in February, before lowering it to 40 percent at end-June 2005. In addition, the BCC intervened on the foreign exchange market by selling

US\$99 million between September 2004 and February 2005. Since then, the BCC has not intervened in the foreign exchange market, except in May, when it purchased U.S. dollars to supply banks with the equivalent of US\$5.0 million in Congo francs.

5. The measures taken by the BCC have effectively halted the growth of base money, although they were not initially successful in stabilizing the exchange rate or inflation. The worsening political and security situation accompanied by an easing of fiscal policy resulted in a loss of market confidence inducing the market to take refuge in the U.S. dollar, which explains the pressure observed in the exchange rate. Hence, the share of Congo franc deposits in broad money declined from 7.3 percent at end-2004 to 6.5 percent at end-March 2005. In view of the limited effectiveness of the available monetary policy instruments, the government is cognizant of the importance of tightening fiscal policy in order to contain money expansion.

6. To improve the conduct of monetary policy, the BCC established in March 2005 the Monetary Policy Monitoring Committee, whose main role is to assess economic conditions and better anticipate the demand for Congo francs. The BCC also published a strategic development plan aimed at strengthening its institutional and management capacity in August 2004 and continued to implement the action plan prepared in collaboration with Fund staff. With assistance from the National Bank of Belgium, the BCC undertook a preliminary study on its recapitalization and another one on improving the structure of banknotes, which currently include only small denominations.

Government finance

7. As indicated above, the government made greater use of bank financing than projected under the program. However, the overall deficit (on a cash basis) was less than programmed—1.7 percent of GDP instead of 3.2 percent—principally because foreign-financed expenditure was less than anticipated.

8. Total revenue exceeded the target for 2004 thanks to increased taxes and royalties collected from oil producers, in line with the rise in international oil prices, as well as a strengthening of tax administration, and in particular of the Large Taxpayers Unit (DGE). The level and composition of spending differed from what had been projected under the program. Investment expenditure and poverty reduction spending were below their forecast amounts, owing to difficulties encountered in the preparation of some projects and the application of the new procurement procedures. Furthermore, a number of ministries received less than their budget allocations, while payment orders issued in 2004 (in particular for water and electricity) were executed in early 2005. In contrast, military spending and that of political institutions were significantly larger than the program targets, mainly because of the tensions in the eastern provinces and weaknesses in budget execution and monitoring. Mindful of the need to enhance the transparency of military spending, the government, through the High Defense Council, mandated an audit of the expenditures associated with events in the eastern provinces during 2004, and the results will be made public by end-June 2005.

9. Implementation of budget and tax reforms was slower than anticipated in 2004. The law for customs tariff reform was adopted in July 2004, and the customs code was adopted on June 21, 2005. Measures to modernize the domestic tax administration included improvements in collection procedures and the opening of the first tax office for small- and medium-sized enterprises. The law on the nomenclature for nontax revenue was promulgated on July 22, 2004 and amended in March 2005 to incorporate the revenue formerly collected by the autonomous agencies (former *budgets pour ordre*). The strengthening of tax administration in the eastern provinces is starting to show results, with increasing tax revenue being transferred to the treasury from these areas.

10. On the expenditure side, and in accordance with the program, the government continued to focus on strengthening budget management. As a result, the expenditure management system, including the electronic data transfer between the BCC and the treasury, has become operational since June 2005 (prior action). In addition, the payroll, the payment of public debt, and externally financed expenditures have all been incorporated into the public expenditure management system since April 2005. Furthermore, following the publication of the circular governing the opening and functioning of government accounts with commercial banks, more than 240 bank accounts have been closed (prior action). Finally, all measures have been taken to produce the monthly budget monitoring reports, which track budget execution according to the economic and administrative classifications within 30 days after the end of the month. Starting in June 2005, these reports are forwarded monthly to the government and quarterly to parliament (prior action).

Balance of payments

11. In spite of a generally favorable international environment in 2004, the external current account deficit, including grants, is estimated at 5.5 percent of GDP, compared with 3.3 percent of GDP projected under the program. Imports rose strongly due to the continued economic recovery and the rise in investment, and this offset a surge in exports on account of higher oil and cobalt prices in international markets and an increase in mining production following the opening up of new mines. Overall, international gross reserves rose to the equivalent of 5.2 weeks of imports of goods and services at end-2004, compared with 6.2 weeks envisaged in the program.

External debt

12. The government honored in full its external debt service commitments in 2004. Regarding debt relief, the government signed bilateral agreements on Cologne terms with all Paris Club creditors except the United States. An extension of the deadline to December 2005 for signing all bilateral agreements has been granted by the Paris Club secretariat. The government has signed agreements with 32 commercial creditors, and negotiations are underway with five other creditors. The average debt relief granted to the Kinshasa Club amounted to 70 percent of the stock of debt. However, two creditors are seeking payments through the judicial courts, and new creditors are introducing old claims on the Democratic

Republic of the Congo. The government and the BCC have neither contracted nor guaranteed any nonconcessional external debt.

Other structural reforms

13. The law on combating money laundering and the financing of terrorism and the anticorruption law were promulgated in August 2004 and March 2005, respectively. In September 2004, the government adopted the report and action plan for the reform of the public procurement process. The decree on the organization and operation of the Public Procurement Reform Commission (COREMAP) was signed, and the members of this Commission have been appointed. With assistance of the European Union and other donors, the audit of the judicial system was completed, which will enable the government to draw up an action plan aimed at its strengthening. Agreement was also reached on the terms and conditions for the settlement of government debt to the private sector. The implementation of the repayment plan will begin during the third quarter of 2005, with US\$42.5 million in financing granted by the World Bank.

14. **In the mining sector**, the international bid to select an auditor for the parastatal diamond mining company MIBA could not be held by end-September 2004 as planned (structural performance criterion), because the anticipated foreign financing was not available. However, the government decided to finance this audit with domestic funds. Following an international tender offer launched in January 2005, an international consulting firm was selected in July 2005. Similarly, the international bids to select consulting firms to conduct the audits of SENGAMINES and CEEC¹ were delayed, but will be requested in June 2005. In addition, the restructuring of the Mining Registry (CAMI) continued, and a provisional management committee began its work in October 2004. The one-stop window for the delivery of mining permits reopened in March 2005 after a strengthening of its operations. To safeguard the tax receipts generated by mining activities, the government has selected by competitive bidding a specialized firm to ensure strict control of quantities and prices declared at exports.

Social policy

15. Progress made in implementing social sector reforms was satisfactory in 2004. An initial draft of the Government Report on Health and Poverty (RESP) was finalized in December 2004 and will serve as the basis for the preparation of the sector strategy, to be completed by end-August 2006. In the field of education, the government finalized, in September 2004, the Status Report on the National Education System (RESEN), which assesses the sector's constraints, and adopted a draft action plan for the Education for All (EFA) Initiative. The RESEN and the EFA programs will serve as the basis for the preparation of the overall education sector strategy, to be completed by August 2006.

¹ Centre d'expertise, d'évaluation et de certification des substances minérales et précieuses.

II. GOVERNMENT ECONOMIC PROGRAM FOR 2005

16. The medium-term macroeconomic framework has been revised to take into account recent developments in the domestic economy and the external environment, including the increases in prices of oil and raw materials in the international markets. The 2005 budget, adopted by parliament in March 2005, contains a large increase in expenditure to fund interlinked programs and reforms tied to the political transition process. These programs include the holding of free, democratic, and transparent elections; the implementation of the National Disarmament, Demobilization, and Reintegration (DDR) Program; and the reintegration and reorganization of the army and the police. The budget also contains funding for the continuation of economic reforms.

17. To contain the inflationary pressures that could potentially result from the increase in expenditure, the government plans to implement appropriate fiscal and monetary policies. Accordingly, the following macroeconomic targets have been set for 2005: (a) a real GDP growth of 6.6 percent; (b) an end-of-period annual inflation of 22.6 percent; and (c) an external current account deficit, including grants, of 5.1 percent of GDP.

Fiscal policy

18. The primary objective of fiscal policy in 2005 is to contribute to restoring macroeconomic stability, while improving budgetary expenditure allocations in favor of the social sectors and programs associated with the political transition process. This will entail improving government revenue by strengthening tax administration and introducing tax reforms, continuing efforts to combat corruption and fraud, and increasing the mining sector's contribution.

19. Taking into account macroeconomic developments through April 2005, the government's fiscal objective for 2005 is to contain the budget deficit, on a cash basis and including grants, at 2.2 percent of GDP. This entails a major effort, since the domestic fiscal balance (on a cash basis) would have to yield a surplus equivalent to 1.1 percent of GDP compared with a deficit of 0.9 percent of GDP in 2004. The fiscal objective takes into account payment orders issued in 2004 and settled in 2005 (0.5 percent of GDP) and seeks to reduce net bank credit to the government in order to assist the central bank in its conduct of monetary policy.

20. The 2005 budget will be financed with external budgetary support (2.5 percent of GDP) and foreign financing for investment projects and exceptional outlays tied to the political process (10.5 percent of GDP), confirmed during the Consultative Group meeting in Kinshasa (November 2004). In particular, the 2005 budget allocations for the elections and for the reintegration of the army and the police are based on amounts that can be either financed with government resources or with confirmed international donor support. However, such budget appropriations are substantially smaller than what was initially estimated, and, thus, should additional resources become available, the government will

submit a budget supplement to the National Assembly in which budget allocations for these two projects will be increased.

21. Total revenue is expected to increase from 9.7 percent of GDP in 2004 to 10.7 percent of GDP in 2005. This increase is explained by (i) the extension of all taxes and fees to all provinces; (ii) an increase in oil revenue; (iii) the strengthening of tax administration; and (iv) the implementation of new measures expected to generate additional revenue amounting to CGF 12 billion per year. The latter include (a) the extension of the tobacco tax stamps throughout the country; (b) the payment of mining royalties by all exporters of mining products and by all mining processing industries throughout the country; (c) the payment to the treasury of one half of the area fees collected by the Mining Registry; (d) the signing by government of a contract on behalf of the customs office (OFIDA) with an international preshipment inspection company (before end-June 2005); (e) the doubling of the forestry area fee to US\$0.20 per hectare effective January 1, 2005; and (f) the collection by the tax department responsible for managing state properties (DGRAD) of levies previously collected by autonomous agencies. With regard to the latter, interministerial decrees enabling the DGRAD to collect the levies will be signed before mid-June 2005 (prior action).

22. Total government expenditure is expected to increase from 13.3 percent of GDP in 2004 to 22.1 percent of GDP in 2005, primarily as a result of increases in spending related to the political transition process and the restructuring of the economy (4.6 percent of GDP) and to public investment (4.1 percent of GDP). However, current expenditure (excluding interest payments) are projected to decline. In addition, the government will increase the share of poverty reducing expenditure, particularly by making greater use of debt relief made available under the HIPC Initiative. Accordingly, the government will use up to 0.2 percent of GDP of HIPC resources to finance the operating expenses of nursery, primary, secondary, and technical schools, and has put mechanisms in place to monitor their utilization. Conversely, the operating expenses of ministries and political institutions will be reduced by 1.7 percent of GDP from their 2004 level, in particular by cutting expenses associated with missions, including through a 20 percent reduction in daily allowances (prior action). To improve budget execution, the ministries will be notified of their budget appropriations on a monthly basis and no overruns will be allowed. Centralized payments will be reduced by 0.4 percent of GDP compared with 2004 by setting a quarterly ceiling on consumption of petroleum products for each ministry. In addition, lump-sum payments have been negotiated with SNEL and REGIDESO for electricity and water expenses until the billing of actual consumption is made possible by the installation of meters in all ministries, which is expected to be completed in June 2005.

23. Improving government personnel living standards and the strengthening of civil service management are among the main priorities of the government. In this context, while maintaining the wage bill at CGF 124 billion the government has introduced in the 2005 budget new allowances for civil servants and increased wages for the police by 20 percent. The wage bill for the army was kept unchanged in 2005 as any pay increases are to be based on savings realized with the implementation of the demobilization (DDR) program. The

wage appropriation for political institutions has been reduced, and takes partially into account the cost of separation allowances for political appointees who might lose their positions after the elections. In order to observe the ceiling on the wage bill, the government has started applying the civil service census preliminary results for Kinshasa with the payroll for April 2005. Accordingly, only civil servants who were identified in the census are now paid, which could reduce their number by more than one-third. In addition, the results of the military census in Kinshasa will be applied to the August 2005 pay (structural performance criterion). The results of the census in the rest of the country will be applied as soon as they become available, and in the fourth quarter of 2005, at the latest. The government will not grant any increases in wages or benefits before applying the results of the census conducted in the whole country to the payroll. In addition, the increase in the wage bill planned for the social sectors will be financed with HIPC resources for an amount equivalent to 0.4 percent of GDP.

24. Pending the introduction of an integrated payroll management system, the government will implement, beginning in September 2005, a simplified transitional system that will make it possible to control civil service employment and streamline the payroll. The government will also transfer the paymasters (*comptables payeurs*) to the treasury and will ensure that verified and initialed payroll lists are returned to the accounting officers as well as the ministries in charge of the civil service and the budget. With respect to retirements, 10,000 civil servants will retire and receive their allowances, financed by the World Bank, beginning in August 2005. In addition, a list of the active personnel eligible for the second phase of the retirement program will be drawn up after completion of the census. Pending the completion of the DDR program and the integration of the army, the government will establish an independent monitoring commission, with assistance from its external partners, to ensure that salaries and other benefits are regularly received by military personnel.

25. The reform of tax and customs administration will continue in 2005 (Table 1). A draft law will be submitted to parliament in September 2005 with a view to correcting the distortions identified in the customs tariff. The government will reduce the level of tax exemptions, strictly limiting them to those provided by the provisions of the various codes. Before their approval, all new exemptions will be submitted to the Council of Ministers with a quantification of their budgetary impact. To facilitate and expedite customs clearance procedures, a presidential decree will designate OFIDA as the sole agency intervening at the one-stop window in Matadi and in assessing the value of imports (structural performance criterion for end-September 2005). In this connection, OFIDA will collect all tax and fees on imports, including those for the account of other agencies such as OCC, OGEFREM, and ONATRA. For that purpose a manual of harmonized customs procedures will be implemented by October 2005. The role of OCC will be strictly limited to controlling merchandise quality, quantity, and conformity, in accordance with Article 3 of the Ordinance-Law No. 74-013 of January 10, 1974. In addition, OFIDA will be converted into a General Directorate of the Ministry of Finance after the adoption of the laws modifying the status of public enterprises. Moreover, to repress fraud and corruption at the borders, the government is examining the possibility of using the services of a private firm to check customs declarations. Regarding the General Tax Directorate, the government will strengthen

the operation of the Large Taxpayers Unit and improve control of the tax base through the generalized use of taxpayer identification numbers.

26. The government will improve budget execution and the transparency of fiscal management by implementing the measures mentioned in the attached Table 1. It will limit recourse to the system of fund advances to only the cases allowed by law (for instance for the operating expenses of schools). These advances will be renewed only after the Ministry of Budget has received the documents justifying the use of previous advances. The Ministry of Budget will notify ministries of the monthly commitment plan for each budget line, starting in June 2005. In addition, only expenditures approved by the Ministry of Budget and the Ministry of Finance will be carried out by the BCC, and at least 95 percent of all expenditures will be processed through electronic payment orders (OPIs). In addition, all payments undertaken by the BCC on behalf of the government will be made within 48 hours from the receipt of the OPI, and all amounts debited from, or credited to, the account of the treasury at the BCC will be reported to the Ministry of Finance and the Ministry of Budget within 48 hours (prior action). By end-July 2005, the BCC will report to the treasury the balances of government accounts each business day.

27. The government has received an analysis on the financial implications of the draft law on decentralization, which was prepared with the support of International Monetary Fund staff, and submitted it to the National Assembly. The government will ensure that any transfer of resources be accompanied by an equivalent transfer of spending responsibilities. For 2005, the government has continued to adhere to the current principle of decentralization and will ensure that the provinces' budgets remain in balance. The government intends to draw up a list of technical assistance needs and priorities to build administrative capacities in the provinces in 2005.

Monetary and exchange rate policies, and reform of the financial system

28. The government will continue to support the independence of the central bank, which has sole responsibility for the conduct of monetary policy. The objective will be to restore price stability within a floating exchange rate system, and particularly to reduce 12-month inflation to 22.6 percent by end-2005. In this context, it is projected that money supply and base money at current exchange rate will increase by 25.6 percent and 10.7 percent, respectively, in 2005, or by less than the growth rate of nominal GDP, given the sizable increase in the money supply recorded in 2004. The BCC will adopt an interest rate policy that would allow it to meet the objectives for inflation and the growth of the monetary base, with interest rates being gradually adjusted to take into account recent economic developments. As mentioned above, net bank credit to the government is expected to decrease by CGF 26 billion (0.8 percent of GDP) while the gross foreign assets of the BCC are expected to increase from 5.2 weeks of imports at end-2004 to 7.2 weeks at end-2005. Furthermore, to enhance credibility, the BCC has widely disseminated the objectives of monetary policy and intends to report regularly on monetary policy implementation. As regards currency, the BCC will proceed with caution in issuing higher-denomination banknotes and will conduct a public awareness campaign in this regard.

29. To improve its operations, the BCC will continue to implement its strategic action plan in line with the plan prepared in cooperation with the staff of the International Monetary Fund (Table 1). To this end, it will apply the new regulatory framework for its interventions on the foreign exchange market and irrevocably guarantee the convertibility of banks' free reserves into currency. The BCC will also strengthen its human and technical capacities for the conduct of monetary policy and ensure that the information necessary for the formulation and monitoring of monetary policy is promptly available. In that regard, the BCC will work closely with the Ministry of Finance and Ministry of Budget on the preparation of the government cash flow plan. To limit the central bank losses to the amount included in the government budget (CGF 14 billion), the BCC will adhere to its monthly cash flow plan. Furthermore, to eliminate the losses of the BCC, the government will adopt the strategy for restructuring the balance sheet of the central bank before end-September 2005 (structural performance criterion).

30. The BCC will strengthen its supervision of financial and microfinance institutions with a view to preventing any systemic risk of illiquidity and insolvency. In particular, it will launch the banking supervision computer application (BSA) by end-February 2006. The restructuring of the banking system will be continued, with five of the nine banks in operation implementing restructuring plans. For the three state banks being liquidated, the implementation of the social plan financed by the World Bank will be completed by end-June 2005. In July 2004, the government submitted to parliament draft laws to strengthen the tax and regulatory framework for banks, and will seek their inclusion on the agenda for the parliamentary session of the third quarter of 2005. The central bank will also publish a directive barring anonymous shareholders and will define criteria for the selection of bank shareholders. In addition, the government will introduce a legal framework for nonmutual microfinance institutions, the draft of which will be prepared by the BCC by end-2005.

External sector

31. Despite the expected growth of exports resulting from the solid performance of the diamond, cobalt, and copper sectors, the trade deficit is likely to widen in 2005 owing to the increase in imports related to public and private investment projects. Consequently, the external current deficit will reach 5.1 percent of GDP in 2005, compared with 5.5 percent of GDP in 2004.

32. The government will continue to conduct a prudent debt policy. It will seek to sign all the bilateral debt relief agreements and convince all creditors to participate in the enhanced HIPC Initiative. The government is working with the World Bank on the repurchase of debt vis-à-vis London Club creditors. As regards commercial debt, the government will hire an audit firm to review the terms and conditions of all agreements signed with individual creditors and to certify the validity of new claims before negotiating debt relief agreements on terms similar to those of the enhanced HIPC Initiative. Any borrowing contracted (or guaranteed) by the public sector, including by the BCC and the decentralized administrative entities (EADs), will observe the level of concessionality defined in the technical memorandum of understanding. Meanwhile, the installation of the new public debt

management software, with support from external partners, will be completed by end-August 2006.

Good governance and other structural reforms

33. **The government is very concerned by the level of corruption, which undermines many sectors of the economy, and is determined to combat it.** First, it intends to strengthen budget procedures and increase the publication of information necessary to monitor budget execution. Second, following promulgation of the anticorruption law in March 2005, the authorities plan to conduct an information campaign to disseminate this law as well as the Code of Conduct for the Civil Service. Third, it will pursue the audits of public enterprises and financial agencies in Kinshasa and in the reunified territories. Fourth, the government is determined to reduce fraud at the borders by strengthening controls and streamlining procedures. Finally, the first two commercial courts are scheduled to open in the third quarter of 2005.

34. **The government will implement a significant number of structural reforms in 2005, including those indicated in Table 1.** The legal framework for the reorganization of public enterprises has been completed, and the four draft laws on the subject were submitted to parliament in February 2005. In addition, plans to reorganize eight key public enterprises should be completed by end-2005. A reorganization plan for the oil distribution company (COHYDRO) will be finalized by end-July 2005 and the financial audit will be completed by end-August 2005. The strategic audit of the Enterprise Council (*Conseil Supérieur du Portefeuille*) will be completed by end-July 2005.

35. **In the mining sector,** the government will ensure that it contributes more to the development of the economy and to government revenue. To this end, it will strictly enforce the provisions of the Mining Code and will complete the reorganization of the Mining Registry by end-September 2005 on the basis of the financial and organizational audits. With regard to GECAMINES, a private firm will manage the enterprise for 18 months starting before end-June 2005. In the diamond sector, upon conclusion of the audits of the main enterprises in the sector, the government, with support from the international community, will prepare a development strategy aimed at ensuring that the sector can further contribute to growth.

36. **In the forestry sector,** the government will focus on implementation of the Forestry Code, including the reforms already decided upon (see Table 1). In particular, in line with the Code, the government will implement the program for converting the former concessions into sustainable development concessions. In addition, before end-July 2005, the government will confirm by presidential decree the moratorium on awarding forestry concessions pending the completion of the conversion process and the implementation of the concession award procedures provided in the Forestry Code. Finally, before end-June 2005, the government will publish the lists of the concessions that remain valid and those canceled for failure to pay forest area royalties for 2003, as well as a report on the forest royalties collected in 2003 and 2004 (prior action).

37. **Regarding the DDR program**, the following actions have been initiated: disarmament of former combatants (September 2004); establishment of a safety net for former combatants; and the opening of orientation centers (early 2005). This should make it possible to demobilize 50,000 former combatants in 2005.

38. **The draft of the Poverty Reduction Strategy Paper (PRSP) was circulated to civil society and to development partners in May 2005.** This version defines the government's priorities. However, the macroeconomic framework as well as a quantified estimate of the cost and impact of the proposed strategies have yet to be prepared. Following the incorporation of the 1-2-3 survey in Kinshasa and the surveys on the perception of poverty in the provinces into the paper, the final PRSP is expected to be adopted by government in the fourth quarter of 2005 as planned, following consultations with the development partners.

39. The government intends to build its statistical capacities with support from the international community, in particular the resident expert from the International Monetary Fund. Emphasis will be placed on improving the national accounts, the balance of payments, price indexes, and public debt management. The government will also request financial and technical support from the international community for strengthening administrative capacities for gathering and processing statistical information at the province level, where such capabilities are currently extremely weak.

III. PROGRAM MONITORING, PRIOR ACTIONS, PERFORMANCE CRITERIA, AND INDICATORS

40. The Interministerial Committee Responsible for Monitoring Programs Concluded with International Financial Institutions (CISPI), chaired by the Minister of Finance, and the Interministerial Commission Responsible for Formulation of the Poverty Reduction Strategy, chaired by the Minister of Planning, will continue to implement the measures of the Government Economic Program and the poverty reduction strategy. The work of the two commissions will be supported by the Economic and Financial Sub-Committee comprising the Minister of Finance, the Minister of Budget and the Governor of the BCC, assisted by a technical committee of the two ministries and the BCC (the technical troika), as well as the Technical Committee for the Reforms. The Economic and Financial Commission will continue to ensure the coordination of all programs. The government's Letter of Intent and the Memorandum on Economic and Financial Policies will be disseminated to all political institutions, the central and provincial administrations, and civil society.

41. To ensure the complete success of the program, the government will implement the prior actions indicated in Table 2, and program execution will be monitored via performance criteria for end-September 2005 and structural benchmarks up to end-September 2005 (Tables 10 and 2).

Table 1. Democratic Republic of the Congo Summary of Structural Measures Other than Structural Benchmarks and Indicators

Measures	Timetable
Measures Relating to Revenue and the Management of Government Resources	
Reduction of exemptions	
Adoption by the government of recommendations of studies on exemptions and their rationalization.	August 2005
Report by Finance General Inspectorate and the Accounting Court on audit of exemptions granted under the investment code until end-2004.	December 2005
Revision of agreements signed with MIBA and SENGAMINES.	August 2005
Modernization and expansion of the role of OFIDA	
Conversion of OFIDA into the Customs Department of the Ministry of Finance.	September 2005
Modernization of the DGI	
Signature of the decree eliminating the fiscal franc.	July 2005
Freeze of new tax credit except those related to the prepayment of taxes on profits	Ongoing since January 2005
Generalized use of the tax number and updating of the taxpayer file.	August 2005
Adoption of legislation necessary for opening the pilot tax center in Kinshasa.	August 2005
Reduce the number of quasi-fiscal levies	
Finalization of an inventory and quantification of duties and fees collected on behalf of semipublic agencies.	July 2005
Measures Relating to the Budget and Government Expenditure	
Budget execution and monitoring	
Monthly production and publication of budget monitoring statements (ESBs) reconciled with the TOFE (Tableau des Opérations Financières de l'Etat) 30 days after the end of each month. Integration of externally financed expenditure and personnel expenditure in ESBs. Publication and submission of ESBs to parliament 30 days after end of each quarter.	June 2005
Limit the use of emergency procedures to less than 5 percent of total expenditure and integrate these expenditures into the expenditure system within the following 24 hours.	January 2005
Automatic rejection by the expenditure system of any appropriation overrun by budget line.	January 2005
Monthly transmission to Council of Ministers of report on execution of treasury cash flow plan broken down according to economic and administrative classification, with projection of cash flow plan for forthcoming month.	June 2005
Limit of the system of advances of funds to certain government departments. Renewal of advances only after use of previous advances have been justified.	2005

Table 1. Democratic Republic of the Congo Summary of Structural Measures Other than Structural Benchmarks and Indicators

Measures	Timetable
Public Accounting	
Clarification of the mechanism for the automatic debit of the Treasury account between the Ministry of Finance and BCC and the strengthening of management of government accounts at the BCC by the Treasury Department.	July 2005
Expenditure	
Ceiling on expenditure for fuel of CGF 700 million per month.	February 2005
Quarterly ceiling on mission expenses at one-fourth of budget appropriation (CGF 1.8 billion) and 20 percent reduction in per diem allowances.	March 2005
Adjustment of the payroll as soon as the results of the civil census become available.	Ongoing, 2005
Report on the streamlining of the number of those entitled to payments for water and electricity consumption.	July 2005
Action Plan of the Central Bank of the Congo	
Implementation of new accounting software.	March 2006
Create a single, centralized BCC structure responsible for government accounts.	November 2005
Prepare a revised estimated table of banknote withdrawals ("Table 6").	July 2005
Reorganization of the treasury and assessment of system of internal controls.	September 2005
Purchase Congo franc banknotes and inputs via competitive bidding.	Immediate
Implementation of the new chart of accounts for commercial banks.	January 2006
Setting of operating mechanism for off-site supervision and of standardized framework for permanent files.	September 2005
Completion of study on the restructuring of the BCC's balance sheet.	End-June 2005
Progressive implementation of the restructuring plan for the BCC starting with key directorates (accounting, foreign exchange services, and treasury) with the assistance of donors.	July-December 2005
Independent organizational audit of the BCC.	December 2005
Preparation of the simplified balance sheet for the BCC (i) on an "accelerated" basis each week, and (ii) on a monthly basis for the projection of the coming month ("Table 7").	June 2005
Monthly justification of balances of transitory accounts (<i>comptes transitoires et de liaison</i>).	July 2005
Implementation of foreign exchange trading room and software.	January 2006
Other Structural Measures	
Civil service reform	
Implementation of the simplified transitional payroll procedure and the short-term recommendations of the payroll audit.	September 2005
Retirement of the 10,000 employees selected for the first phase.	August 2005
Finalization of the civil service census and implementation of recommendations.	December 2005
Good governance and combating corruption	

Table 1. Democratic Republic of the Congo Summary of Structural Measures Other than Structural Benchmarks and Indicators

Measures	Timetable
Create an AML Financial Intelligence Unit.	July 2005
Prepare a draft BCC directive setting forth the responsibilities of financial institutions in respect of AML/FT.	August 2005
Publication by the Audit Office of its reports on execution of the 2001, 2002, and 2003 budgets.	July 2005
Overhaul of the legal and regulatory framework for government procurement, and establishment of the bodies responsible for the regulation, oversight, and signing of government contracts.	September 2005
Judicial system	
Establishment of the commercial courts at Kinshasa and Lubumbashi.	September 2005
Implementation of an action plan to strengthen the judicial system, based on the audit of the sector.	June 2005
Private sector development	
Adoption by the government of the draft law to join OHADA.	July 2005
Adoption of measures required for the implementation of the Labor Code.	December 2005
Public enterprise reform	
Completion of the strategic audit of the Enterprise Council.	July 2005
Completion of a reorganization plan for COHYDRO.	July 2005
Adoption and promulgation of draft laws pertaining to (a) divestment by the State from commercial activities; (b) Transformation of public enterprises into enterprises under common law or into public agencies; (c) general rules for the management of public enterprises; and (d) general rules for the management of public agencies.	September 2005
Reform of the mining sector	
Validation of mining titles.	September 2005
Signature of the contract entrusting management of GECAMINES to an international firm.	June 2005
Finalization of the restructuring of the Mining Registry.	September 2005
Launching of bidding for audits of CEEC and SENGAMINES.	June 2005
Launching of bidding to recruit consultant to study the diamond sector.	June 2005
Finalization of audit of MIBA.	August 2005
Finalization of audits of CEEC and SENGAMINES.	October 2005
Finalization of study on diamond sector.	December 2005
Reform of the forestry sector	
Implementation of the moratorium on new concession awards pending completion of the conversion process and introduction of the tender system.	Ongoing
Implementation of the area tax of US\$0.20 per hectare and of ONATRA's tariff of US\$5.00 per cubic meter consistent with government decree of March 2004. Transfers to decentralized administrative entities of 40 percent of the area tax collected in 2005.	June 2005

Table 2. Democratic Republic of the Congo: Prior Actions, Performance Criteria, and Structural Benchmarks, 2005

Measures	Timetable	Status
Prior actions		
Implementation of spending procedures from commitments to payments. Settlements of payments order by the Central Bank of the Congo (BCC) within 48 hours of their receipts. Electronic transmission to the treasury of information on debits and credits executed on the government accounts within 48 hours.		
Closing of 240 government accounts with commercial banks not meeting the criteria established for opening such accounts.		
Implementation of the results of the civil census in Kinshasa on the payroll for May.		
Submission of the Budget Monitoring Reports (<i>Etats de suivi budgétaire</i>) reconciled with the TOFE (<i>Tableau des Opérations Financières de l'Etat</i>) for the first quarter 2005 to parliament, and for April 2005 to the Council of Ministers.		
For the forestry sector, cancellation of concessions whose holders failed to pay the forest area fee for 2003 and publication of the list of cancelled concessions and list of concessions that are still valid. Publication of reports on the collection of forest area fees in 2003 and 2004.		
Selection of accounting firm to conduct audit of MIBA.		
Signing of interministerial order (<i>arrêté</i>) granting the tax office DGRAD the responsibility of collecting receipts of autonomous agencies (former BPO).		
Issuance of a Minister of Budget Circular indicating a reduction in mission daily allowance of 20 percent.		
Letter from the Minister of Budget informing ministries on their monthly budget allocations (for each budget line) taking into account the treasury's cash-flow position and execution in conformity with the quarterly treasury cash-flow plan, beginning in June 2005.		
Structural performance criteria		
Presidential decree naming the customs office OFIDA as the sole agency intervening at the one-stop window at Matadi and assessing the value of imports.	End-September 2005	
For government accounting, implementation of a simplified double-entry accounting framework by the Departments of Public Accounting and Treasury of the Ministry of Finance, involving inter alia their reorganization, revision of procedures, and training of staff.	End-September 2005	
Adoption by the government of the strategy for restructuring the BCC's balance sheet.	End-September 2005	
Implementation by the Ministry of Defense and the Ministry of Budget of results of military census in Kinshasa for the pay of August 2005	End-September 2005	

Table 2. Democratic Republic of the Congo: Prior Actions, Performance Criteria, and Structural Benchmarks, 2005

Measures	Timetable	Status
Structural benchmarks		
Completion of an inventory and quantification of the duties and fees collected for quasi-public agencies (such as ONATRA, OCC, OGEFREM, and CEEC).	End-September 2005	
Implementation of the simplified transitional payroll system, restoration of budgetary and administrative oversight on the pay, and transfers of paymasters to the treasury.	End September 2005	

Table 3. Democratic Republic of the Congo: Selected Economic and Financial Indicators, 2003–08

	2003	2004		2005		2006 Proj.	2007 Proj.	2008 Proj.
		IMF Country Report No. 04/243	Est.	IMF Country Report No. 04/243	Prog.			
(Annual percentage change; unless otherwise indicated)								
GDP and prices								
Real GDP	5.7	6.3	6.8	7.0	6.6	7.0	7.0	6.5
GDP deflator	13.3	5.0	5.4	5.0	22.5	5.5	4.6	4.4
Consumer prices, end-of-period	4.4	6.0	9.2	5.0	22.6	6.2	5.0	5.0
External sector								
Exports, f.o.b. (in U.S. dollar terms)	24.6	10.3	35.3	5.1	12.6	0.1	8.5	5.3
Imports, f.o.b. (in U.S. dollar terms)	37.0	33.4	37.4	20.9	19.9	5.7	9.9	6.6
Export volume	0.3	4.3	20.1	7.0	8.8	2.4	9.9	5.7
Import volume	27.4	23.5	26.4	22.4	17.6	5.3	9.2	5.7
Terms of trade	15.6	-2.1	3.6	-0.6	1.5	-2.7	-2.0	-1.2
Nominal effective exchange rate 1/	-19.5	...	-10.8	...	...	...	...	...
Real effective exchange rate 1/	-11.1	...	-9.1	...	...	...	...	...
(Annual change in percent of beginning-of-period broad money; unless otherwise indicated)								
Money and credit								
Broad money	32.3	...	72.9	...	25.6	...	...	...
Net foreign assets	-39.0	...	-19.0	...	24.4	...	...	...
Net domestic assets	72.2	...	92.9	...	3.5	...	...	...
Of which:								
Net credit to government	29.0	...	-1.9	...	-12.3	...	...	...
Credit to the private sector (annual percent change)	46.9	...	104.9	...	42.9	...	...	...
(In percent of GDP; unless otherwise indicated)								
Central government finance								
Total government revenue	7.7	9.2	9.6	10.3	10.7	11.5	11.9	12.0
Grants	2.0	5.9	2.0	10.0	9.3	7.5	7.8	7.8
Total government expenditure 2/	13.6	19.9	15.4	25.3	22.3	20.6	20.9	21.3
Underlying fiscal balance (cash basis)	-1.2	-0.7	-0.9	0.2	1.1	1.0	0.8	0.5
Overall fiscal balance (payment order basis, including grants)	-3.9	-4.9	-3.8	-5.0	-2.4	-1.7	-1.3	-1.5
Primary fiscal balance (cash order basis, including grants)	-1.0	-2.4	-0.8	-2.6	-0.1	0.7	0.8	0.3
Excluding exceptional spending	-1.0	-1.7	-0.8	-2.2	0.6	0.7	0.8	0.3
Overall consolidated fiscal balance (cash basis, including grants) 3/	-2.1	-3.2	-1.9	-4.6	-2.2	-1.9	-1.6	-1.9
Investment and saving								
Gross national saving	10.8	13.8	7.4	15.0	12.6	12.3	13.0	15.1
Government	-1.5	2.0	-4.0	5.5	0.0	3.6	3.7	7.2
Nongovernment	12.3	11.8	11.4	9.5	12.6	8.7	9.3	7.9
Investment	12.2	17.1	12.8	21.5	17.7	20.2	20.9	21.7
Government 4/	2.7	6.6	2.8	10.5	7.2	9.2	9.4	9.7
Nongovernment	9.5	10.5	10.0	11.0	10.5	11.0	11.5	12.0
Balance of payments								
Exports of goods and services	26.1	23.5	30.5	22.9	32.3	28.8	28.7	28.0
Imports of goods and services	33.3	35.7	39.4	40.2	45.6	42.0	42.5	41.9
Current account balance, including transfers	-1.5	-3.3	-5.5	-6.5	-5.1	-7.9	-7.9	-6.6
Current account balance, excluding transfers	-9.8	-13.3	-12.1	-18.7	-16.2	-15.4	-15.5	-13.9
Gross official reserves (end-of-period, in millions of U.S. dollars)	97.8	209.3	236.2	318.2	360.2	470.2	522.2	619.3
Gross official reserves (in weeks of non-aid-related imports of goods and services)	2.4	6.2	5.2	8.9	7.2	8.5	8.9	9.5
(In millions of U.S. dollars; unless otherwise indicated)								
External public debt								
Total stock, including IMF 5/	10,443	10,783	10,390	11,032	10,735	5,041	5,104	5,084
Net present value (NPV) of debt 6/	7,246	7,546	7,599	7,756	7,630	1,608	1,637	1,719
NPV (in percent of exports of goods and services) 6/	600.6	540.1	491.0	495.2	401.4	74.7	71.3	71.6
Scheduled debt service	125.8	91.7	94.5	135.0	144.8	218.1	252.2	281.0
In percent of exports of goods and services	8.5	5.8	4.8	8.0	6.5	9.7	10.4	11.0
In percent of government revenue	22.8	9.0	12.6	9.1	10.5	14.8	15.3	15.7
Exchange rate, Congo francs/U.S. dollar								
Period average	404.7	...	397.8	...	...	...	...	...
End-of-period	372.5	...	444.1	...	...	...	...	...
Memorandum items:								
Nominal GDP (in billions of Congo francs)	2,299	2,565	2,587	2,881	3,380	3,814	4,270	4,747

Sources: Congolese authorities; and staff estimates and projections.

1/ Change in annual average. Minus sign indicates depreciation.

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

3/ Cash balance after debt relief on interest payments.

4/ From 2003 onward, includes investment financed by resources released under the enhanced HIPC Initiative.

5/ End-of-period debt stock, including arrears and after HIPC Initiative assistance.

6/ Estimates and projections based on end-2002 DSA and after HIPC Initiative assistance assuming completion point in 2006, and includes assistance beyond the terms of the enhanced HIPC Initiative by some Paris Club creditors on a voluntary bilateral basis. Exports are on a three-year backward moving average.

Table 4. Democratic Republic of the Congo: Treasury Cash-Flow Plan, 2004-05

	2004		2005		2005		2005		2005		2005	
	Annual		Jan.-Mar.		Apr.-Jun.		Jul.-Sep.		Oct.-Dec.		Annual	
	Est.	In percent of GDP	Realisation	In percent of GDP	Prog.	In percent of GDP	Prog.	In percent of GDP	Prog.	In percent of GDP	Prog.	In percent of GDP
	In millions of Congo francs		In millions of Congo francs		In millions of Congo francs		In millions of Congo francs		In millions of Congo francs		In millions of Congo francs	
Total revenue and grants	299,357	11.6	123,104	3.6	137,936	4.1	188,669	5.6	224,435	6.6	674,144	19.9
Total revenue	248,003	9.6	86,949	2.6	84,743	2.5	90,365	2.7	98,168	2.9	360,225	10.7
Customs and excise (OFIDA)	104,105	4.0	28,549	0.8	35,456	1.0	41,836	1.2	43,573	1.3	149,414	4.4
Direct and indirect taxes (DGC)	71,355	2.8	25,794	0.8	25,601	0.8	24,735	0.7	21,591	0.6	97,721	2.9
DGRAD (including revenue from public enterpri	18,563	0.7	5,110	0.2	6,964	0.2	7,090	0.2	15,600	0.5	34,764	1.0
GECAMINES	0	0.0	0	0.0	0	0.0	0	0	0	0.0	0	0.0
MIBA	0	0.0	7	0.0	610	0.0	915	0.0	2,129	0.1	3,662	0.1
Petroleum	52,096	2.0	26,975	0.8	16,112	0.5	15,788	0.5	15,788	0.5	74,663	2.2
Off-budget revenue	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Total grants	51,354	2.0	36,154	1.1	53,193	1.6	98,304	2.9	126,267	3.7	313,919	9.3
Of which: budget grants	2,404	0.1	2,900	0.1	0	0.0	1,758	0.1	25,647	0.8	30,305	0.9
Of which: project grants	26,252	1.0	4,594	0.1	34,347	1.0	68,154	2.0	81,384	2.4	188,479	5.6
Of which: HIPC debt relief	22,698	0.9	28,660	0.8	18,846	0.6	28,392	0.8	19,236	0.6	95,134	2.8
Total expenditure 1/	344,224	13.3	121,511	3.6	142,739	4.2	243,229	7.2	240,112	7.1	747,590	22.1
Current expenditure	250,323	9.7	82,975	2.5	72,341	2.1	78,572	2.3	74,650	2.2	308,538	9.1
Wages	93,223	3.6	25,596	0.8	31,349	0.9	33,568	1.0	33,454	1.0	123,967	3.7
Military and police	33,849	1.3	8,386	0.2	8,579	0.3	8,425	0.2	8,311	0.2	33,701	1.0
Civilians	59,374	2.3	17,210	0.5	22,770	0.7	25,143	0.7	25,143	0.7	90,266	2.7
Interest payments	23,073	0.9	22,414	0.7	15,080	0.4	18,916	0.6	13,271	0.4	69,681	2.1
External debt (interest payment after debt relief)	15,481	0.6	16,389	0.5	14,830	0.4	21,053	0.6	15,409	0.5	67,681	2.0
Domestic debt (interest payment)	7,592	0.3	6,025	0.2	250	0.0	-2,138	-0.1	-2,138	-0.1	2,000	0.1
Other current expenditure	119,185	4.6	33,060	1.0	21,169	0.6	22,201	0.7	22,564	0.7	98,994	2.9
Institutions	27,930	1.1	3,261	0.1	5,193	0.2	4,747	0.1	4,747	0.1	17,947	0.5
Ministries	60,333	2.3	22,235	0.7	6,951	0.2	5,588	0.2	5,588	0.2	40,362	1.2
Centralized payments (utilities)	19,174	0.7	4,879	0.1	6,140	0.2	8,617	0.3	8,617	0.3	28,253	0.8
Provinces	11,748	0.5	2,685	0.1	2,886	0.1	3,249	0.1	3,612	0.1	12,432	0.4
Transfers and subsidies	14,842	0.6	1,906	0.1	4,742	0.1	3,887	0.1	5,360	0.2	15,896	0.5
Transfers to public agencies and budgets annex	1,789	0.1	66	0.0	839	0.0	1,243	0.0	1,243	0.0	3,390	0.1
Retrocessions to revenue collecting agencies	10,725	0.4	1,840	0.1	3,904	0.1	2,645	0.1	4,118	0.1	12,506	0.4
Off-budget expenditure	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Capital expenditure	72,059	2.8	19,605	0.6	41,403	1.2	72,812	2.2	99,787	3.0	233,607	6.9
Foreign-financed investment	56,999	2.2	13,518	0.4	38,236	1.1	68,727	2.0	96,786	2.9	217,267	6.4
Congolese-financed investment (financed through)	15,060	0.6	6,087	0.2	3,167	0.1	4,085	0.1	3,000	0.1	16,340	0.5
Other HIPC-related expenditure	1,018	0.0	789	0.0	4,229	0.1	6,344	0.2	7,670	0.2	19,032	0.6
Exceptional expenditures 3/	398	0.0	0	0.0	21,481	0.6	81,364	2.4	54,170	1.6	157,015	4.6
Domestically financed	0	0.0	0	0.0	4,050	0.1	6,076	0.2	8,101	0.2	18,227	0.5
Foreign financed	398	0.0	0	0.0	17,431	0.5	75,288	2.2	46,069	1.4	138,788	4.1
Additional 2004 payment ordered spending paid in			15,471	0.5	0	0.0	0	0.0	-71	0.0	15,400	0.5
Repayment of arrears	1,350	0.1	229	0.0	0	0.0	0	0.0	-229	0.0	0	0.0
External arrears	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Domestic arrears	2,000	0.1	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
BCC treasury deficit	19,076	0.7	2,441	0.1	3,285	0.1	4,137	0.1	4,137	0.1	14,000	0.4
Consolidated domestic balance (cash basis) 4/	-23,343	-0.9	-4,655	-0.1	12,501	0.4	12,204	0.4	16,321	0.5	36,371	1.1
Consolidated primary balance(cash basis)	-21,794	-0.8	24,007	0.7	10,277	0.3	-35,644	-1.1	-2,405	-0.1	-3,766	-0.1
Consolidated balance (cash basis)	-44,867	-1.7	1,593	0.0	-4,803	-0.1	-54,560	-1.6	-15,677	-0.5	-73,447	-2.2
Total financing	44,867	1.7	-1,593	0.0	4,803	0.1	54,560	1.6	15,677	0.5	73,447	2.2
BCC and other banking system 5/	215	0.0	17,848	0.5	-9,238	-0.3	-17,658	-0.5	-17,460	-0.5	-26,508	-0.8
Foreign financing	49,534	1.9	-21,746	-0.6	12,009	0.4	72,218	2.1	33,137	1.0	99,955	3.0
Amortization (net payment) 2/	-39,486	-1.5	-29,689	-0.9	-16,463	-0.5	-32,366	-1.0	-17,826	-0.5	-96,344	-2.9
Additional financing	89,020	3.4	7,943	0.2	28,473	0.8	104,584	3.1	50,963	1.5	196,299	5.8
Of which: project loans	28,130	1.1	7,943	0.2	28,473	0.8	50,301	1.5	55,299	1.6	142,016	4.2
Of which: project loans		0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Of which: budget loans	60,890	2.4	0	0.0	0	0.0	54,284	1.6	0	0.0	54,284	1.6
Discrepancy	-4,846	-0.2	2,304	0.1	2,032	0.1	0	0.0	-4,336	-0.1	0	0.0

Sources: Data provided by the Congolese authorities; and IMF staff estimates and projections.

1/ Including domestic arrears and the balance of the BCC (for the latter, a minus sign corresponds to a surplus).

2/ Includes deposits into the HIPC account at the BCC.

3/ Exceptional expenditure include spending for the DDR program, cost of the elections, payments for retirement allowances, repayment of the domestic debt, and payment for bank restructuring.

4/ Domestic primary balance is defined as revenue (excluding grants), less expenditure (excluding interest on debt, foreign financed capital expenditures and HIPC related expenditures). It does include all exceptional spending (including foreign financed

5/ Net banking system credit to the government plus treasury balance of the Central Bank.

Table 5. Democratic Republic of the Congo: Monetary Survey, 2003–05

	2003	2004	2005			
			Mar. Act.	Jun. Prog.	Sep. Prog.	Dec. Prog.
(In millions of Congo francs)						
Net foreign assets	-258,995	-282,597	-294,289	-305,669	-267,756	-230,040
Net domestic assets	389,113	504,824	563,629	573,249	542,715	512,379
Domestic credit	49,205	68,746	94,859	87,820	73,509	59,395
Net credit to government	29,582	27,212	45,060	35,822	18,164	704
Credit to the private sector	19,395	39,735	49,052	50,802	53,796	56,791
Credit to parastatals	228	1,799	748	1,197	1,548	1,900
Other items, net (including valuation change)	339,908	436,078	468,770	485,428	469,206	452,984
Broad money (M2)	124,503	215,270	258,785	256,410	263,390	270,370
Narrow money (M1)	72,110	117,078	118,245	118,767	125,198	131,628
Currency in circulation	63,148	101,467	102,342	105,168	108,154	111,139
Demand deposits	8,962	15,611	15,904	13,599	17,044	20,489
Quasi money	52,393	98,192	140,539	137,643	138,192	138,742
Time deposits in domestic currency	321	362	862	501	677	853
Foreign currency deposits	52,071	97,830	139,678	137,141	137,515	137,889
Import deposits	5,616	6,956	10,556	11,169	11,569	11,969
(Year-on-year change in percent)						
Net foreign assets	-16.5	-9.1	-16.2	-24.0	-1.7	18.6
Net domestic assets	21.2	29.7	40.6	38.5	21.6	1.5
Domestic credit	200.8	39.7	90.0	148.0	37.6	-13.6
Net credit to government	1,170.7	-8.0	137.2	1,177.9	30.9	-97.4
Credit to the private sector	46.9	104.9	70.7	62.5	42.9	42.9
Credit to parastatals	-72.4	688.3	-65.6	-10.3	-18.5	5.6
Other items, net (including valuation change)	11.5	28.3	33.6	28.3	19.4	3.9
Broad money (M2)	32.3	72.9	83.6	58.2	48.1	25.6
Narrow money (M1)	24.6	62.4	62.4	34.8	21.5	12.4
Currency in circulation	26.9	60.7	61.4	40.2	23.2	9.5
Demand deposits	10.2	74.2	68.8	3.9	11.6	31.3
Quasi money	44.7	87.4	106.2	85.9	84.7	41.3
Time deposits in domestic currency	98.8	12.8	59.4	137.3	92.2	135.4
Foreign currency deposits	44.5	87.9	106.6	85.8	84.6	40.9
Import deposits	18.4	23.9	61.9	113.7	121.4	72.1
(Annual change in percent of beginning-of-period broad money)						
Net foreign assets	-39.0	-19.0	-5.4	-10.7	6.9	24.4
Net domestic assets	72.2	92.9	27.3	31.8	17.6	3.5
Domestic credit	34.9	15.7	12.1	8.9	2.2	-4.3
Net credit to government	29.0	-1.9	8.3	4.0	-4.2	-12.3
Credit to the private sector	6.6	16.3	4.3	5.1	6.5	7.9
Credit to parastatals	-0.6	1.3	-0.5	-0.3	-0.1	0.0
Other items, net (including valuation change)	37.3	77.2	15.2	22.9	15.4	7.9
Broad money (M2)	32.3	72.9	20.2	19.1	22.4	25.6
Narrow money (M1)	15.1	36.1	0.5	0.8	3.8	6.8
Currency in circulation	14.2	30.8	0.4	1.7	3.1	4.5
Demand deposits	0.9	5.3	0.1	-0.9	0.7	2.3
Quasi money	17.2	36.8	19.7	18.3	18.6	18.8
Time deposits in domestic currency	0.2	0.0	0.2	0.1	0.1	0.2
Foreign currency deposits	17.0	36.8	19.4	18.3	18.4	18.6
Import deposits	0.9	1.1	1.7	2.0	2.1	2.3
Memorandum items:						
Nominal GDP (in billions of Congo francs)	2,299	2,587	...	...	...	3,380
Velocity (GDP/broad money)	18.5	12.0	...	...	...	12.5
Foreign currency deposits (in percent of M2)	41.8	45.4	54.0	53.5	52.2	51.0
Foreign currency deposits (in percent of total deposits)	84.9	86.0	89.3	90.7	88.6	86.6

Sources: Congolese authorities; and staff estimates and projections.

Table 6. Democratic Republic of the Congo: Accounts of the Central Bank of the Congo, 2003–05

	2003	2004	2005			
			Mar. Act.	Jun. Prog.	Sep. Prog.	Dec. Prog.
(In millions of Congo francs)						
Net foreign assets	-294,888	-348,404	-403,902	-414,627	-372,168	-329,907
Net domestic assets	370,038	471,086	525,640	539,502	502,538	465,771
Domestic credit	42,490	52,043	68,939	75,847	51,349	27,049
Net credit to government	36,900	38,382	58,244	56,669	34,172	11,874
Credit to the private sector	1,689	1,057	894	930	993	1,057
Credit to parastatals	0	0	0	0	0	0
Claims on deposit money banks	3,901	12,604	9,801	18,248	16,183	14,118
Other items, net	327,549	419,042	456,701	463,655	451,189	438,722
Base money	75,151	122,681	121,738	124,875	130,370	135,864
Narrow base money	67,728	111,923	110,750	113,248	118,129	123,009
Currency in circulation	65,897	105,889	106,146	108,470	111,972	115,474
Deposits of deposit money banks	1,476	5,788	4,191	4,427	5,760	7,093
Private sector deposits	270	53	243	216	233	250
Parastatals' deposits	86	193	170	134	164	193
Foreign currency deposits	3,964	6,071	5,153	5,589	6,122	6,655
Import deposits	3,459	4,688	5,835	6,038	6,119	6,200
(Year-on-year change in percent)						
Net foreign assets	-21.4	-18.1	-30.1	-45.3	-22.8	5.3
Net domestic assets	21.6	27.3	35.6	42.5	22.2	-1.1
Domestic credit	341.0	22.5	61.0	176.0	54.7	-48.0
Net credit to government	574.3	4.0	87.2	340.8	39.2	-69.1
Credit to the private sector	23.9	-37.4	-44.0	-39.3	-45.1	0.0
Credit to parastatals	0.0	0.0	2.1	8.0	-9.7	0.0
Claims on deposit money banks	39.4	223.1	-3.0	39.4	136.7	12.0
Other items, net	11.2	27.9	32.5	32.0	19.4	4.7
Base money	22.5	63.2	57.8	33.9	20.6	10.7
Narrow base money	29.3	65.3	56.1	34.1	19.3	9.9
Currency in circulation	27.8	60.7	57.9	39.5	19.0	9.1
In bank vaults	52.6	60.9	-0.1	20.4	-39.2	-2.0
Outside banks	26.9	60.7	61.4	40.2	23.2	9.5
Deposits of deposit money banks	131.3	292.2	35.3	-29.4	35.2	22.5
Private sector deposits	111.3	-80.2	-49.8	-34.4	-61.6	368.0
Parastatal deposits	65.6	125.7	14.7	29.3	158.3	0.0
Foreign currency deposits	-25.7	53.2	92.0	5.6	13.1	9.6
Import deposits	-5.2	35.5	66.3	72.6	66.9	32.3
(Annual change in percent of beginning-of-period base money)						
Net foreign assets	-84.8	-71.2	-45.2	-54.0	-19.4	15.1
Net domestic assets	107.3	134.5	44.5	55.8	25.6	-4.3
Domestic credit	53.5	12.7	13.8	19.4	-0.6	-20.4
Net credit to government	51.2	2.0	16.2	14.9	-3.4	-21.6
Credit to the private sector	0.5	-0.8	-0.1	-0.1	-0.1	0.0
Credit to parastatals	0.0	0.0	0.0	0.0	0.0	0.0
Claims on deposit money banks	1.8	11.6	-2.3	4.6	2.9	1.2
Other items, net	53.7	121.7	30.7	36.4	26.2	16.0
Base money	22.5	63.2	-0.8	1.8	6.3	10.7
Narrow base money	25.0	58.8	-1.0	1.1	5.1	9.0
Currency in circulation	23.4	53.2	0.2	2.1	5.0	7.8
Bank deposits	1.4	5.7	-1.3	-1.1	0.0	1.1
Private sector deposits	0.2	-0.3	0.2	0.1	0.1	0.2
Parastatal deposits	0.1	0.1	0.0	0.0	0.0	0.0
Foreign currency deposits	-2.2	2.8	-0.7	-0.4	0.0	0.5
Import deposits	-0.3	1.6	0.9	1.1	1.2	1.2

Sources: Congolese authorities; and staff estimates and projections.

Table 7. Democratic Republic of the Congo: Monetary Survey, 2003–05

	2003 1/		2004		2005			
	IMF Country Report No. 04/243 1/		Act. 1/	Act. 2/	Mar. Act. 3/	Jun. Prog. 3/	Sep. Prog. 3/	Dec. Prog. 3/
	(In millions of Congo francs)							
Net foreign assets	-186,486	-145,636	-149,526	-282,597	-269,772	-277,089	-247,948	-219,005
Net domestic assets	307,481	303,772	341,500	504,824	521,951	526,949	508,442	490,132
Domestic credit	48,399	47,112	61,846	68,746	90,286	82,934	69,473	56,210
Net credit to government	30,423	14,364	30,124	27,212	45,060	35,822	18,164	704
Credit to the private sector	17,785	30,973	30,451	39,735	44,563	46,012	49,809	53,606
Credit to parastatals	192	1,775	1,271	1,799	662	1,100	1,500	1,900
Other items, net (including valuation change)	259,081	256,660	279,654	436,078	431,665	444,016	438,969	433,922
Broad money (M2)	116,267	149,636	187,063	215,270	242,829	240,016	250,035	260,054
Narrow money (M1)	72,110	92,206	117,588	117,078	118,245	118,767	125,198	131,628
Currency in circulation	63,148	80,506	101,467	101,467	102,342	105,168	108,154	111,139
Demand deposits	8,962	11,700	16,121	15,611	15,904	13,599	17,044	20,489
Quasi money	44,157	57,430	69,475	98,192	124,584	121,248	124,837	128,426
Time deposits in domestic currency	321	900	362	362	862	501	677	853
Foreign currency deposits	43,835	56,530	69,113	97,830	123,722	120,747	124,160	127,573
Import deposits	4,728	8,500	4,912	6,956	9,350	9,845	10,459	11,073
	(Year-on-year change in percent)							
Net foreign assets	-7.1	21.9	19.8	12.5	12.8	7.5	15.8	22.5
Net domestic assets	15.8	-1.2	11.1	8.8	11.4	10.2	5.6	-2.9
Domestic credit	241.2	-2.7	27.8	34.3	69.3	112.7	26.7	-18.2
Net credit to government	1,206.8	-52.8	-1.0	-8.0	137.2	1,177.9	30.9	-97.4
Credit to the private sector	59.1	74.2	71.2	86.1	40.1	32.8	27.8	34.9
Credit to parastatals	-71.7	825.0	562.3	561.4	-73.7	-28.0	-24.5	5.6
Other items, net (including valuation change)	3.0	-0.9	7.9	5.6	3.9	1.1	2.9	-0.5
Broad money (M2)	32.7	28.7	60.9	60.0	60.1	38.9	37.9	20.8
Narrow money (M1)	24.6	27.9	63.1	62.4	62.4	34.8	21.5	12.4
Currency in circulation	26.9	27.5	60.7	60.7	61.4	40.2	23.2	9.5
Demand deposits	10.2	30.6	79.9	74.2	68.8	3.9	11.6	31.3
Quasi money	48.5	30.1	57.3	57.4	58.0	43.2	59.4	30.8
Time deposits in domestic currency	98.8	180.2	12.8	12.8	59.4	137.3	92.2	135.4
Foreign currency deposits	48.2	29.0	57.7	57.6	58.0	43.0	59.3	30.4
Import deposits	21.4	79.8	3.9	3.9	23.8	64.6	91.2	59.2
	(Annual change in percent of beginning-of-period broad money)							
Net foreign assets	-14.1	35.1	31.8	29.9	6.0	2.6	16.1	29.5
Net domestic assets	47.8	-3.2	29.3	30.4	8.0	10.3	1.7	-6.8
Domestic credit	39.0	-1.1	11.6	13.0	10.0	6.6	0.3	-5.8
Net credit to government	32.1	-13.8	-0.3	-1.8	8.3	4.0	-4.2	-12.3
Credit to the private sector	7.5	11.3	10.9	13.7	2.2	2.9	4.7	6.4
Credit to parastatals	-0.6	1.4	0.9	1.1	-0.5	-0.3	-0.1	0.0
Other items, net (including valuation change)	8.7	-2.1	17.7	17.3	-2.0	3.7	1.3	-1.0
Broad money (M2)	32.7	28.7	60.9	60.0	12.8	11.5	16.1	20.8
Narrow money (M1)	16.2	17.3	39.1	33.4	0.5	0.8	3.8	6.8
Currency in circulation	15.3	14.9	33.0	28.5	0.4	1.7	3.1	4.5
Demand deposits	0.9	2.4	6.2	4.9	0.1	-0.9	0.7	2.3
Quasi money	16.5	11.4	21.8	26.6	12.3	10.7	12.4	14.0
Time deposits in domestic currency	0.2	0.5	0.0	0.0	0.2	0.1	0.1	0.2
Foreign currency deposits	16.3	10.9	21.7	26.6	12.0	10.6	12.2	13.8
Import deposits	1.0	3.2	0.2	0.2	1.1	1.3	1.6	1.9
Memorandum items:								
Nominal GDP (in billions of Congo francs)	2,299	0	2,587	2,587	...	...	...	3,380
Velocity (GDP/broad money)	19.8	0.0	13.8	12.0	...	...	...	13.0
Foreign currency deposits (in percent of M2)	37.7	37.8	36.9	45.4	51.0	50.3	49.7	49.1
Foreign currency deposits (in percent of total deposits)	82.5	81.8	80.7	86.0	88.1	89.5	87.5	85.7

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

1/ Program exchange rate: US\$1 = CGF 313.6.

2/ At end-2004 exchange rate, US\$1 = CGF 444.09.

3/ At program exchange rate: US\$1 = CGF 444.09.

Table 8. Democratic Republic of the Congo: Accounts of the Central Bank of the Congo, 2003–05 1/

	2004				2005				
	IMF Country	Act. 1/	Act. 2/		Mar.	Apr.	Jun.	Sep.	Dec.
	Report No. 04/243 1/				Act. 3/	Act.	Prog. 3/	Prog. 3/	Prog. 3/
(In millions of Congo francs)									
Net foreign assets	-216,702	-187,470	-195,997	-348,404	-366,863	-375,896	-373,077	-342,140	-311,400
Net domestic assets	290,679	280,411	315,563	471,086	487,346	497,589	496,580	471,342	446,303
Domestic credit	42,489	30,411	45,683	52,043	68,939	76,363	75,847	51,349	27,049
Net credit to government	36,900	20,840	37,904	38,382	58,244	55,851	56,669	34,172	11,874
Credit to the private sector	1,689	1,725	1,011	1,057	894	887	930	993	1,057
Credit to parastatals	0	0	0	0.3	0	0	0	0	0
Claims on deposit money banks	3,901	7,845	6,769	12,604	9,801	19,624	18,248	16,183	14,118
Other items, net (including valuation change)	248,190	250,000	269,879	419,042	418,407	421,226	420,733	419,994	419,254
Base money	73,977	92,942	119,566	122,681	120,483	121,693	123,503	129,203	134,903
Narrow base money	67,728	86,605	111,962	111,923	110,750	111,984	113,248	118,129	123,009
Currency in circulation	65,897	83,819	105,889	105,889	106,146	108,125	108,470	111,972	115,474
In bank vaults	2,748	3,313	4,421	4,421	3,805	2,957	3,302	3,818	4,335
Outside banks	63,148	80,506	101,467	101,467	102,342	105,168	105,168	108,154	111,139
Deposits of deposit money banks	1,476	2,283	5,788	5,788	4,191	3,539	4,427	5,760	7,093
Private sector deposits	270	355	92	53	243	205	216	233	250
Parastatals deposits	86	148	193	193	170	115	134	164	193
Foreign currency deposits	3,337	2,837	4,294	6,071	4,564	4,529	4,936	5,547	6,157
Import deposits	2,912	3,500	3,310	4,688	5,169	5,179	5,318	5,527	5,736
(Year-on-year change in percent)									
Net foreign assets	-13.5	13.5	9.6	4.7	2.3	-1.3	-8.5	-1.8	10.6
Net domestic assets	16.0	-3.5	8.6	6.5	7.4	9.4	13.3	6.0	-5.3
Domestic credit	341.0	-28.4	7.5	22.5	61.0	75.6	176.0	54.7	-48.0
Net credit to government	574.3	-43.5	2.7	4.0	87.2	50.0	340.8	39.2	-69.1
Credit to the private sector	23.9	2.1	-40.2	-37.4	-44.0	-43.5	-39.3	-45.1	0.0
Credit to parastatals	0.0	0.0	0.0	-2.1	2.1	2.1	8.0	-9.7	0.0
Claims on deposit money banks	39.4	101.1	73.5	223.1	-3.0	318.6	39.4	136.7	12.0
Other items, net (including valuation change)	3.0	0.7	8.7	4.8	1.9	2.4	2.4	2.1	0.1
Base money	23.8	25.6	61.6	60.2	54.2	44.9	30.7	19.1	10.0
Narrow base money	29.3	27.9	65.3	65.3	56.1	47.3	34.1	19.3	9.9
Currency in circulation	27.8	27.2	60.7	60.7	57.9	50.3	39.5	19.0	9.1
In bank vaults	52.6	20.5	60.9	60.9	-0.1	24.9	20.4	-39.2	-2.0
Outside banks	26.9	27.5	60.7	60.7	61.4	51.1	40.2	23.2	9.5
Deposits of deposit money banks	131.3	54.7	292.2	292.2	35.3	4.0	-29.4	35.2	22.5
Private sector deposits	111.3	31.5	-65.8	-80.2	-49.8	-62.6	-34.4	-61.6	368.0
Parastatal deposits	65.6	73.0	125.7	125.7	14.7	-21.3	29.3	158.3	0.0
Foreign currency deposits	-23.7	-15.0	28.7	28.5	46.8	14.1	-18.5	-2.1	1.4
Import deposits	-2.8	20.2	13.7	13.7	27.2	30.6	32.8	44.0	22.4
(Annual change in percent of beginning-of-period base money)									
Net foreign assets	-43.1	39.5	28.0	22.4	-15.0	-22.4	-20.1	5.1	30.2
Net domestic assets	66.9	-13.9	33.6	37.8	13.3	21.6	20.8	0.2	-20.2
Domestic credit	55.0	-16.3	4.3	12.5	13.8	19.8	19.4	-0.6	-20.4
Net credit to government	52.6	-21.7	1.4	1.9	16.2	14.2	14.9	-3.4	-21.6
Credit to the private sector	0.5	0.0	-0.9	-0.8	-0.1	-0.1	-0.1	-0.1	0.0
Credit to parastatals	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Claims on deposit money banks	1.8	5.3	3.9	11.4	-2.3	5.7	4.6	2.9	1.2
Other items, net (including valuation change)	11.9	2.4	29.3	25.3	-0.5	1.8	1.4	0.8	0.2
Base money	23.8	25.6	61.6	60.2	-1.8	-0.8	0.7	5.3	10.0
Narrow base money	25.7	25.5	59.8	57.7	-1.0	0.0	1.1	5.1	9.0
Currency in circulation	24.0	24.2	54.1	52.2	0.2	1.8	2.1	5.0	7.8
In bank vaults	1.6	0.8	2.3	2.2	-0.5	-1.2	-0.9	-0.5	-0.1
Outside banks	22.4	23.5	51.8	50.0	0.7	3.0	3.0	5.5	7.9
Bank deposits	1.4	1.1	5.8	5.6	-1.3	-1.8	-1.1	0.0	1.1
Private sector deposits	0.2	0.1	-0.2	-0.3	0.2	0.1	0.1	0.1	0.2
Parastatal deposits	0.1	0.1	0.1	0.1	0.0	-0.1	0.0	0.0	0.0
Foreign currency deposits	-1.7	-0.7	1.3	1.8	-1.2	-1.3	-0.9	-0.4	0.1
Import deposits	-0.1	0.8	0.5	0.7	0.4	0.4	0.5	0.7	0.9

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

1/ Program exchange rate: US\$1 = CGF 313.6.

2/ At end-2004 exchange rate, US\$1 = CGF 444.09.

3/ At program exchange rate: US\$1 = CGF 444.09.

Table 9. Democratic Republic of the Congo: Balance of Payments Summary, 2003–08

	2003	2004		2005		2006 Proj.	2007 Proj.	2008 Proj.
		IMF Country Report No. 04/243 1/	Est.	IMF Country Report No. 04/243 1/	Prog.			
		Current account	-83	-225	-355				-474	-354	-618	-664	-597
Merchandise trade	-156	-460	-243	-780	-423	-562	-646	-718
Exports, f.o.b.	1,340	1,413	1,813	1,485	2,042	2,044	2,218	2,335
<i>Of which: diamonds</i>	816	857	828	932	989	1,154	1,241	1,313
Imports, f.o.b.	-1,496	-1,873	-2,056	-2,265	-2,465	-2,607	-2,864	-3,053
<i>Of which: aid-related imports</i>	-309	-659	-306	-878	-565	-499	-519	-568
Services	-253	-361	-333	-485	-499	-466	-516	-540
Non-aid related balance on services	-149	-148	-222	-174	-285	-282	-334	-353
Receipts	144	176	172	196	191	196	197	213
Expenditure	-398	-537	-505	-681	-690	-662	-712	-753
<i>Of which: aid-related imports</i>	-104	-213	-112	-311	-214	-184	-181	-186
Income	-170	-226	-274	-286	-337	-356	-357	-247
Receipts	73	72	91	75	105	123	150	193
Expenditure	-243	-298	-365	-361	-442	-479	-507	-439
<i>Of which: interest payments 1/</i>	-196	-207	-201	-230	-220	-231	-220	-211
Current transfers	497	822	496	1,078	905	766	855	907
<i>Of which: official aid</i>	475	675	432	894	768	583	643	667
Capital and financial account	-113	33	-112	149	132	106	176	329
Official capital	-94	171	1	232	97	-126	-145	-104
Gross disbursements	148	375	220	525	402	322	330	371
<i>Of which: net new financing</i>	148	375	220	525	402	322	330	371
Scheduled amortization 2/	-242	-203	-219	-293	-305	-449	-475	-476
Private capital (net)	-18	-139	-113	-83	34	232	321	433
<i>Of which: foreign direct investment</i>	391	204	435	320	551	633	697	765
Balance before errors and omissions	-195	-192	-467	-325	-223	-512	-488	-268
Errors and omissions	-257	0	190	0	0	0	0	0
Overall balance	-452	-192	-277	-325	-223	-512	-488	-268
Financing	-26	-386	-408	-63	-865	-83	-134	-353
Net change in non-Fund arrears	-166	-256	-350	0	-707	0	0	0
Net banking sector reserves (increase, -)	140	-130	-59	-63	-157	-83	-134	-353
<i>Of which: net Fund credit</i>	68	79	69	79	37	39	-61	-127
Financing need before exceptional assistance	-478	-579	-686	-388	-1,087	-596	-622	-620
Exceptional financing	478	579	686	388	1,087	461	504	532
Consolidation of arrears	197	281	380	0	707	0	0	0
Debt relief on current debt service	282	298	305	388	380	461	504	532
Relief from Naples flow rescheduling 3/ 4/	118	57	57	32	32	0	0	0
Relief from the capitalization of moratorium interest	125	125	124	62	62	0	0	0
Relief from the HIPC Initiative 5/	141	178	175	300	270	352	392	430
Relief beyond the HIPC Initiative	22	63	74	57	78	110	112	102
Residual financing need (overfinancing, +)	0	0	0	0	0	-134	-118	-88
		(In percent of GDP; unless otherwise indicated)						
Memorandum items:								
Debt service, after debt relief (percentage of exports of goods and services) 6/	8.5	5.8	4.8	8.0	6.5	9.7	10.4	11.0
Current account balance, including grants, before debt relief	-1.5	-3.3	-5.5	-6.5	-5.1	-7.9	-7.9	-6.6
Current account balance, excluding official transfers, before debt relief	-9.8	-13.3	-12.1	-18.7	-16.2	-15.4	-15.5	-13.9
Current account balance, including grants, after debt relief	-0.8	-2.0	-4.0	-3.6	-2.2	-4.1	-4.0	-3.2
Current account balance, excluding grants, after debt relief	-9.2	-12.0	-10.7	-15.8	-13.4	-11.6	-11.6	-10.6
Gross official reserves (in millions of U.S. dollars)	97.8	209.3	236.2	318.2	360.2	470.2	522.2	619.3
In weeks of total imports	7.6	0.0	0.0	0.0	0.0	7	8	8
In weeks of non-aid-related imports of goods and services	2.4	6.2	5.2	8.9	7.2	8.5	8.9	9.5
HIPC Initiative assistance deposits (in millions of U.S. dollars) 7/	17.0	75.5	74.7	201.4	194.9	298.5	330.7	303.3

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

1/ Including interest due to the IMF.

2/ Excluding repayments to the IMF.

3/ The Naples flow rescheduling was concluded in September 2002. It provided for a rescheduling of arrears and current debt service on eligible debt during the consolidation period (July 2002-June 2005) after a cancellation of 67 percent in net present value (NPV) terms of arrears outstanding at June 30, 2002 and of current debt service during the consolidation period. In addition, the Paris Club treatment provided for a capitalization of moratorium interest on debt that has been rescheduled. To facilitate the clearance of arrears on short-term debt and post-cutoff-date (June 30, 1983) debt, as well as the servicing of post-cutoff-date debt, the Paris Club treatment envisaged a repayment of the amounts due in accordance with a new payments schedule.

4/ At the end of 2002, arrears outstanding to Paris Club creditors had been cleared, and, accordingly, Naples flow rescheduling applies only to current debt service.

5/ Including the capitalization of moratorium interest.

6/ It takes into account the Naples flow rescheduling, the capitalization of moratorium interest, the Cologne flow rescheduling, the additional debt-service relief beyond the Cologne flow rescheduling, the grants provided by multilateral creditors in the context of the enhanced HIPC Initiative, and the impact of the stock-of-debt operation (including any additional cancellation beyond the HIPC Initiative) at the completion point on debt service. The data also take into account the rescheduling agreements that have already been signed with some commercial creditors as well as the impact on debt service of the accumulation of arrears to non-Paris Club creditors.

7/ The amount of HIPC assistance deposited into a special account at the central bank. For bilateral and commercial creditors, it includes the debt relief resulting from the enhanced HIPC Initiative (excluding debt relief beyond the HIPC Initiative) following the use of all traditional debt-relief mechanisms, including a hypothetical stock-of-debt operation on Naples terms. Only assistance based on rescheduling agreements that have been concluded are taken into account. For multilateral creditors, it includes the amount of HIPC grants that are made available for the purpose of delivering their share of assistance under the Initiative.

Table 10. Democratic Republic of the Congo: Quarterly Quantitative Performance Criteria and Benchmarks, 2003–05 1/
(In millions of Congo francs; unless otherwise indicated)

	Stocks		Cumulative Changes 2/										Stock End-2004 Dec.	Cumulative Changes 2/ 2005			
	2003	2004	End-Sep. 2004 Performance Criteria				End-Dec. 2004 Indicative Targets				Observation	Observation		March Est.	Jun. Proj.	End Sep. Perf. Criteria	Dec. Indic. Targets
	Dec.	Sep.	Prog.	Prog. Adj.	Act.	Act. Adj.	Observation	Prog.	Prog. Adj.	Act.								Act. Adj.
Floor on the net foreign assets of the BCC (in millions of U.S. dollars) 3/ 4/	-691.0	-609.5	86	75	81	80	Observed	93	84	54	50	Not Observed	-785	-42	-56	14	83
Ceiling on net domestic assets of the BCC 3/ 4/	290,679	296,858	-13,691	-10,215	6,179	6,451	Not Observed	-10,268	-7,435	28,525	30,166	Not Observed	471,086	16,260	25,494	257	-24,783
Ceiling on net bank credit to government 4/ 5/	30,423	16,561	-21,572	-18,096	-11,720	-12,792	Not Observed	-16,058	-13,225	1,481	1,603	Not Observed	27,212	16,867	14,782	-2,876	-26,508
Ceiling on BCC credit to nonfinancial public sector enterprises	0	0	0	0	0	0	Observed	0	0	0	0	Observed	...	...	...	...	...
Ceiling on BCC credit to nonfinancial private sector enterprises	390	370	0	0	0	0	Observed	0	0	0	0	Observed	...	...	...	...	...
Ceiling on the contracting or guaranteeing of new nonconcessional external debt with original maturity of more than one year by the government, including by the EADs or the BCC 6/	0	0	0	0	0	0	Observed	0	0	0	0	Observed	0	0	0	0	0
Ceiling on the contracting or guaranteeing of new nonconcessional external debt with original maturity of less than one year by the government, loans contracted by the EADs or the BCC 7/	0	0	0	0	0	0	Observed	0	0	0	0	Observed	0	0	0	0	0
Ceiling on wage arrears for the civil service	0	0	0	0	0	0	Observed	0	0	0	0	Observed	0	0	0	0	0
Ceiling on new external debt arrears 8/ 9/ (in millions of U.S. dollars)	0	0	0	0	0	0	Observed	0	0	0	0	Observed	0	0	0	0	0
Payment of government expenditure by the BCC that has not been authorized in advance by the Minister of Finance 9/	0	0	0	0	0	0	Not observed	0	0	0	0	Not observed	0	0	0	0	0
The BCC will make no purchase of Congo franc notes or foreign currency in the market at a premium against payment in deposit money 9/	0	0	0	0	0	0	Observed	0	0	0	0	Observed	0	0	0	0	0
Floor on poverty-reduction expenditures financed with own resources (including HIPC resources)	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	40,000	80,000
Memorandum item: Narrow base money	67,728	98,999	13,657	13,657	31,271	30,935	...	18,877	44,195	44,444	...	...	111,923	-1,173	1,325	6,206	11,087

Source: Congolese authorities.

Note: Until the expiration of the three-year arrangement under the PRGF in October 2005, the observance of the first five performance criteria will be audited by an international firm.

1/ Quantitative performance criteria and benchmarks, as well as the procedures for their monitoring are defined in the attached Technical Memorandum of Understanding.

2/ Cumulative changes are calculated from end-December 2003 for June, September and December 2004. For June, September and December 2005 cumulative changes are calculated from end-December 2004.

3/ The stocks of net foreign assets and net domestic assets of the BCC are valued at the program exchange rates (1 SDR = CGF 687.4; US\$1 = CGF 444.1; and 1 Euro = CGF 605.3).

4/ One hundred percent (100%) of any surplus (shortfall) over (under) the programmed amount of external budgetary assistance (excluding project assistance), net of debt service and including external debt service rescheduling and relief under the HIPC initiative, that has not been used to finance poverty reduction expenditure, public enterprise restructuring, and domestic debt repayment (limited to cross-arrears certified by World Bank staff) will be used to reduce (increase) net banking system credit to the government, and the corresponding performance criterion will be adjusted downward (upward) accordingly. The criteria on BCC net foreign assets and net domestic assets will be adjusted upward (downward) and downward (upward), respectively, by the same amount. Expenditures and bank deposits relating to the National Disarmament, Demobilization, and

5/ Items under net bank credit to the government are valued at the current exchange rates.

6/ This performance criterion applies not only to debt as defined in item No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt, adopted on August 24, 2000, but also to commitments contracted or guaranteed for which value has not been received. Excluded from this performance criterion are rescheduling arrangements and purchases from the Fund. For purposes of this performance criterion, the term "nonconcessional" means that the debt has a grant element of less than 35 percent, calculated using currency-specific discount rates that are based on the

7/ This performance criterion applies not only to debt as defined in item No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt, adopted on August 24, 2000, but also to commitments contracted or guaranteed for which value has not been received. Excluded from this performance criterion are rescheduling arrangements, purchases from the Fund, and normal import-related credits other than for petroleum imports. For purposes of this performance criterion, the term "nonconcessional" means that the debt has a grant element of less than 35 percent, calculated using currency-specific discount rates that are based on the OECD commercial interest reference rates (CIRRs).

8/ Arrears are any late payments on debt service beyond the grace period (30 days after due date, unless otherwise stated).

9/ This is a continuous performance criterion.

Translated from French

DEMOCRATIC REPUBLIC OF THE CONGO

Technical Memorandum of Understanding

Kinshasa, August 6, 2005

1. This memorandum covers the agreements on monitoring implementation of the program supported by the Poverty Reduction and Growth Facility (PRGF) of the International Monetary Fund (IMF). It establishes the information to be reported and the deadlines for its submission to the IMF staff for program monitoring. It defines the quantitative performance criteria and benchmarks, as well as the structural performance criteria and benchmarks presented in the memorandum on economic and financial policies (MEFP) of the government of the Democratic Republic of the Congo (DRC), which is attached to the letter of August 6, 2005 to the Managing Director of the International Monetary Fund.

A. Monitoring Program Implementation

2. Implementation of the program covering the period April 1, 2002–October 31, 2005 will be monitored on the basis of the performance criteria and benchmarks described in the MEFP, para. 39 and Tables 2 and 3.

B. Definition of Quantitative Performance Criteria and Indicators

3. The quantitative performance criteria and benchmarks described in the MEFP, Table 3 are as follows:

- (a) floor on net foreign assets of the central bank (BCC);
- (b) ceiling on net domestic assets of the BCC;
- (c) ceiling on net bank credit to the government;
- (d) ceiling on new nonconcessional external loans contracted or guaranteed by the government, including those contracted by the decentralized autonomous entities (EADs) or the BCC, with maturities of more than one year, except borrowing for debt rescheduling purposes, and IMF credit;
- (e) ceiling on new nonconcessional external loans contracted or guaranteed by the government, and loans contracted by the EADs and the BCC, with maturities of one

- year or less, except borrowing for debt rescheduling purposes, IMF credit, and normal import credits (suppliers' credits), excluding imports of petroleum products;
- (f) ceiling on wage arrears (including all forms of compensation except nonrecurring bonuses) for the civil service (civilian and military);
 - (g) floor on poverty reduction expenditures financed with own resources (including HIPC resources);

The following criteria will be monitored on a continuous basis:

- (h) the BCC shall make no budgetary expenditure payment that has not been authorized in advance by the Ministry of Finance;
- (i) the BCC shall make no purchase of Congo franc banknotes or foreign exchange in the market at a discount (*décote*) against payment in bank money; and
- (j) the government shall not accumulate external payments arrears on nonreschedulable debt, on debt service resulting from debt rescheduling agreements, and on any new borrowing. Arrears are any late payments on the debt service beyond the grace period (30 days after due date, unless otherwise stated).

Definitions

4. **Net foreign assets of the BCC** are defined as the difference between the BCC's gross foreign assets and all its foreign liabilities, as shown in the "BCC Balance Sheet" prepared by the BCC. For purposes of the relevant performance criterion, the net foreign assets will be valued in U.S. dollars at the exchange rates at the end of the period, and then converted into Congo francs at the program exchange rate: US\$1 = CGF 444.1; SDR 1 = CGF 687.4; and € 1 = CGF 605.3.

5. **The net domestic assets of the BCC** are equal to the sum of the following line items, as they appear in the BCC balance sheet, except for 'other items, net' which are valued in Congo francs at the current exchange rate. For the relevant performance criterion, domestic assets will be adjusted for the effect of the Congo francs/U.S. dollar exchange rate variation from the programmed rate on net foreign assets and foreign exchange deposits and provisions for imports, and on "other items, net" (revaluation) (see para 4 above):

- net claims on the government;
- claims on nonfinancial public enterprises;
- claims on the nonfinancial private sector;
- claims on banks;

- claims on other banking and nonbank institutions; and
- “other items, net,” defined as other assets minus other liabilities (including capital and revaluation accounts, and liquidity management instruments (*billets de trésorerie*) purchased by deposit money banks and the public).

6. **Net banking system credit to the government** is defined as the sum of net claims of the central bank and of deposit money banks on the government, as defined in the “Integrated Monetary Survey” prepared by the BCC (excluding deposits linked to project-related assistance; see para. 7 above), plus the BCC’s net cash deficit. Items under net bank credit to the government are valued at the current exchange rates.

7. One hundred percent of any surplus (shortfall) over (under) the programmed amount of external budgetary assistance (excluding project assistance), net of debt service and including external debt service rescheduling and relief under the HIPC initiative, that has not been used to finance poverty-reduction expenditure, public enterprise restructuring, and domestic debt repayment (limited to cross-arrears certified by the World Bank staff) will be used to reduce (increase) net banking system credit to the government, and the corresponding performance criterion will be adjusted downward (upward) accordingly. The criteria on BCC net foreign assets and net domestic assets will be adjusted upward (downward) and downward (upward), respectively, by the same amount. Expenditures and bank deposits relating to the national Disarmament, Demobilization, and Reintegration (DDR) program, elections, and domestic debt are considered projects. This adjustment does not apply to HIPC resources, which will be deposited in a special account in the BCC.

8. The amount to be deposited in the HIPC subaccount will be determined as follows: (a) for bilateral and commercial creditors, as the difference between the debt service due after possible stock treatment under the Naples terms at end-2002 and post-HIPC service due (excluding relief beyond the HIPC Initiative), including only arrangements that have been signed or are to be signed within the year; and (b) for multilateral creditors, as the difference between the service due after consolidation of arrears and post-HIPC service. The transfer of the above defined amount will be credited to the HIPC subaccount (subaccount of the Treasury General Account in the BCC) in the same month that said relief is realized (i.e., on the date the service on the original debt owed is due, but cancelled under the HIPC Initiative). The procedure for using the HIPC subaccount is set out in the IMF staff report on the HIPC decision point (EBS/03/103, July 15, 2003).

9. The wage bill owed comprises all types of remuneration for verification, payment orders, and payment (by the treasury), payable to state officials during the month in question (active and retired civil servants, military personnel, national police and security personnel, diplomats, and members of political and traditional institutions), including regular compensation and bonuses, and not including nonrecurring compensation. Under the program, wage arrears are defined for each month as the unpaid wage bill owed to officials at the end of the following month. For remuneration paid in the provinces, the arrears are valued partly on the basis of the balances of the accounts of the provincial delegated

payment authorization officers (ODs) in the Treasury General Account in the BCC. This definition will apply starting with the January 2005 pay date.

10. The definition of external debt can be found in Decision 6230-(79/140), para. 9, revised on August 24, 2000 (Annex I).

11. The grant element of borrowing will be calculated on the basis of currency-specific rates based on the OECD commercial interest reference rates (CIRR) on the date the contract is signed, as specified in Annex I. A loan is defined as concessional if, on the date the contract is signed, the ratio of the present value of the loan, calculated on the basis of the reference interest rate, to its nominal value is less than 65 percent (i.e., including a grant element of at least 35 percent).

12. **Broad money** is defined as the sum of the following:

- currency in circulation (in and outside banks);
- deposits of banks with the BCC;
- deposits of public enterprises with the BCC;
- deposits of private enterprises and individuals with the BCC; and
- deposits of other financial institutions, other than deposit money banks, with the BCC, and;
- foreign exchange deposits and provisions for imports.

Note: “Base money” excludes all *billets de trésorerie* issued by the BCC, which are counted as other BCC liabilities, and which are included in BCC net domestic assets. Narrow money is defined as broad money less foreign exchange deposits and provisions for imports. For the quantitative indicator, it is valued at the program exchange rate (see para. 4 above).

13. The following concepts are used in the letter of intent and the memorandum on economic and financial policies:

- (a) Budget: annual law authorizing the government's financial operations. Transfers to the provinces are included, but the provinces' own revenues are not covered. The social security system is not consolidated in the budget;
- (b) Special budgets (*budgets pour ordre*): autonomous agencies and entities receiving earmarked revenues that, like their expenditures, are covered in the budget. The special budgets have been eliminated and the corresponding revenue and expenditure have been included in the 2005 budget;

- (c) Supplementary budgets (*budgets annexes*) (533 in the 2004 budget): agencies and entities similar to administrative public enterprises, which are funded primarily by government transfers (*rétrocessions*) and subsidies;
- (d) Extrabudgetary accounts: accounts receiving government revenue not tracked by the Treasury Management and Payment Authorization Directorate, or not included in the supplementary budgets. The consolidation of these accounts with those that are regularly monitored by the Treasury Management and Payment Authorization Directorate is necessary for a complete picture of budget execution;
- (e) Poverty-reduction expenditure: “pro-poor” spending as defined in the new nomenclature on the basis of the priorities set forth in the I-PRSP and detailed in Annex II.

C. Structural Performance Criteria and Benchmarks

- 14. The structural performance criteria and benchmarks are described in MEFP, Table 2.

D. Reporting

15. The authorities will forward to the IMF's African Department, as soon as possible and preferably by e-mail or fax, the data and information needed to monitor program implementation. These data and information must be duly reconciled so as to ensure their internal consistency. Following are the data or documents to be submitted:

1. Exchange system

- (a) Volume of purchases and sales of foreign exchange on the interbank market, by the BCC (interventions), by commercial banks, and by exchange bureaus;
- (b) Average Congo francs/U.S. dollar reference exchange rate of the BCC (indicative rate);
- (c) Average Congo francs/U.S. dollar exchange rate on the interbank market;
- (d) Average Congo francs/U.S. dollar exchange rate offered by commercial banks to their customers; and,
- (e) Average Congo francs/U.S. dollar exchange rate used by exchange bureaus.

Note: The above information is to be submitted with a time lag of one day.

2. Banking system

- (a) Integrated monetary survey, with a breakdown into domestic currency and foreign currency;
- (b) Monetary survey of the BCC, with a breakdown into domestic currency and foreign currency;
- (c) BCC operating account, and implementation of the BCC's cash flow plan;
- (d) BCC investment budget;
- (e) Statement of wage arrears owed to BCC staff;
- (f) Monetary survey of deposit money banks, with a breakdown into domestic currency and foreign currency;
- (g) Volume of purchases and sales of BCC commercial paper (*interventions*) by commercial banks and by the public (every week);
- (h) Net banking system credit to the government;
- (i) Net banking system credit to public sector enterprises;
- (j) Structure of nominal and real interest rates of deposit money banks;
- (k) Reserves (voluntary and required) of deposit money banks;
- (l) Structure of BCC interest rates;
- (m) Structure of rates for *billets de trésorerie*; and
- (n) Discount on Congo franc banknotes purchased against bank money.

Note: The above monthly information is to be submitted not later than three weeks after the end of each month, unless otherwise stated (e.g., (g) every week).

3. Public sector

- (a) Implementation of treasury cash flow plan (TOFE) and the reconciled budget tracking statements (*états de suivi budgétaire*, ESB—see Annex III);
- (b) Expenditure execution by type, administration, ministry/institution, and function;
- (c) Verified wage bill and wage bill debited from the Treasury General Account by category, region (Kinshasa/provinces), and activity status (active/retired) (Table: Monitoring of Wage Arrears);

- (d) Paid wage bill and paid employees, by category, region, and activity status;
- (e) Civil service pay scale (if changed);
- (f) Revenue chart: DGI, DGRAD, and OFIDA (including taxable base: imports, in value), oil producers revenue;
- (g) Public sector domestic debt, by category of creditor (commercial banks, private entities, etc.): collect and report data on domestic public debt as soon as they are available and;
- (h) Payments and invoiced amounts on centralized expenditures.

Note: The above information is to be submitted not later than three weeks after the end of each month.

4. Real sector

Report as soon as possible indicators on recent economic developments and other related data, such as the consumer price index, once a week; merchandise exports (in value and volume) of crude oil, copper, cobalt and zinc, and industrial and hand-cut diamonds; imports (in value and volume), if possible by commodity, in particular petroleum products; and output indicators for the manufacturing, mining, and services sectors, published in the BCC's monthly reports on economic activity.

5. External debt

- (a) Actual disbursements of external assistance, whether or not to finance projects, including those associated with new loans contracted (on a monthly basis, with a lag of three weeks);
- (b) Monthly breakdown by interest and principal, and classification by creditor, of reconciled debt service payments made in foreign exchange (source: the Public Debt Management Office—OGEDep, and the BCC) and in Congo francs (source: DTO);
- (c) Composition of monthly external debt service obligations, by maturity (after debt rescheduling), and the stock of external arrears, taking into account actual payments, with a breakdown by principal and interest, and classification by creditor (to be provided monthly by OGEDep), and;
- (d) Copies of the new loans contracted, including those contracted by the EADs, debt rescheduling agreements with the Paris Club, non-Paris Club bilateral creditors, commercial creditors, and multilateral creditors, as soon as such agreements have been concluded. Also, all individual loan information is essential for the debt

sustainability analysis in the context of the HIPC Initiative, and also for debt management purposes during the interim period.

Note: The above monthly information is to be provided three weeks after the end of each month.

6. Miscellaneous

A progress report on implementation of the structural reforms will be submitted to Fund staff each month. In addition, information on the legal and regulatory environment as it affects business (new decrees, circulars, and laws) and price policy, as well as the official gazette, will also be reported to Fund staff.

/s/

Jean-Claude Masangu Mulongo
Governor
Central Bank of the Congo

/s/

M.F. Muamba Tshishimbi
Minister of Budget

/s/

André-Philippe Futa
Minister of Finance

Definition of External Debt

1. The definitions of “debt” and “concessional borrowing” for the purposes of this memorandum of understanding are as follows:

- (a) As set out in Point 9 of the Guidelines on Performance Criteria with Respect to Foreign Borrowing adopted by the IMF's Executive Board on August 24, 2000, debt is understood to mean a current, that is, not contingent, liability created under a contractual agreement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services at some future points in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debt can take a number of forms, the primary ones being as follows: (i) loans, that is, advances of money to the obligor by the lender on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans, under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers' credits, that is, contracts where the supplier permits the obligor to defer payment until some time after the date on which the goods are delivered or services are provided; and (iii) leases, that is, arrangements under which property is provided that the lessee has the right to use for one or more specified period(s) of time, which are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of this guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the arrangement, excluding those payments that cover the operation, repair, or maintenance of the property. Under the definition of debt set out above, arrears, penalties, and judicially awarded damages arising from failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.
- (b) **A loan is considered concessional** if, on the date the contract is signed, the ratio of the present value of the loan, based on the reference interest rates, to the nominal value of the loan is less than 65 percent (i.e., a grant element exceeding 35 percent). The reference interest rates used in this assessment are the commercial interest reference rates (CIRRs) established by the Organization for Economic Cooperation and Development (OECD). For debts with a maturity exceeding 15 years, the ten-year reference interest rate published by the OECD is used to calculate the grant element. For shorter maturities, the six-month market reference rate is used.

Definitions of Poverty Reduction Spending

1. The concept

Poverty-reduction spending comprises all actions by the government for the good and well-being of the people, in the spirit of the priorities set out in the Interim Poverty Reduction Strategy Paper.

2. Criteria

To identify poverty reduction spending in the budget, the government has based its choices on the **classification by the general functions of government defined as targets in favor of the people.**

From this point of view, spending on the following functions and subfunctions shall be considered to be poverty-reduction spending:

02 Defense

02. 600 Reintegration of demobilized soldiers

03 Security

03. 300 The judiciary and court system

03. 320 Courts

04 Economic Affairs

04. 200 Agriculture, forestry, hunting, fisheries, and rural development

04. 210 Agriculture and livestock

04. 220 Forestry

04. 230 Hunting and fishing

04. 240 Rural development

04. 300 Fuel and electricity

04. 350 Electricity (in the provinces)

04. 500 Transport

04. 510 Roads

04. 511 National roads

04. 512 Provincial roads

04. 513 Farm roads

04. 514 Urban roads

04. 520 Sea, river, and lake transport

04. 530 Railroads

05 Protection of the Environment and of Flora and Fauna

05. 100 Household waste management

05. 200 Sewage and sanitation

05. 300 Pollution control

05. 400 Protection of fauna and flora

06 Public Housing and Facilities

06. 100 Housing development

06. 200 Development of community facilities, regional and urban development

06. 300 Water supply

06. 400 Street lighting

07 Health

07. 100 Medicines, prostheses, and medical equipment and supplies

07. 110 Medicines and pharmaceuticals

07. 120 Light medical equipment

07. 130 Prostheses and medical supplies

07. 200 Local medical services (outpatient care)

07. 210 General medical services

07. 220 Specialized medical services

07. 230 Dental services

07. 240 Paramedical services (including traditional medicine, physiotherapy, and labs)

07. 300 Hospital services

07. 310 General hospitals

07. 320 Specialized hospitals

07. 330 Maternity clinics and dispensaries

07. 400 Public health services

07. 410 Preventive care

07. 420 Treatment

07. 430 Vaccination

07. 440 Polio vaccination campaign

07. 432 Other vaccination campaigns

07. 440 Epidemic control programs

07. 441 AIDS program

07. 442 Malaria program

07. 443 Tuberculosis program

07. 444 Programs for other epidemics

07. 500 Research and development in the field of health

09 Education

09. 100 Preschool and elementary education

09. 110 Preschool education

09. 120 Elementary education

09. 200 Secondary education

- 09. 210 General secondary education
- 09. 220 Technical and professional secondary education

- 09. 400 Higher education (only equipment and repair of infrastructure)
- 09. 410 General higher education (only equipment and repair of infrastructure)
- 09. 420 Technical, professional, and administrative higher education (only equipment and repair of infrastructure)

- 09. 510 General and professional continuing training for adults

- 09. 800 Other educational affairs (only SECOPE: Wages of Primary and Secondary School Teachers, Articles 32–10, 34–10, 34–30, and 34–40)

- 10 Social Security and Welfare**
- 10. 100 Diseases and disabilities
- 10. 110 Diseases
- 10. 120 Disabilities

- 10. 200 Aging
- 10. 210 Social security for the elderly

- 10. 400 Targeted protection

- 10. 500 Unemployment programs

- 10. 600 Housing and housing conditions

- 10. 700 Social exclusion programs

Budget Tracking Statements

Statement 1: Main budget tracking statement. Monthly, starting in January 2005.

This statement describes expenditures according to the four phases of the expenditure chain (commitment, verification, payment order, and payment), on the one hand, and by type of expenditure, on the other, and cumulatively from the start of the fiscal year (2004 Revised Classification).

This statement should also have two intermediate columns for payment authorizations sent to the BCC and payment authorizations pending transmission to the BCC.

A specific column for automatic payments (*décaissements d'office*) will also be placed next to the column for payment authorizations.

The last column of the main budget tracking statement is the “Balances Outstanding” (*Restes à Payer comptables*, RAP) column, which is the difference between payment orders signed by the responsible payment authorizing officer and actual payments by the BCC (not the difference between payment authorizations sent to the BCC and actual payments by the BCC).

Statement 2: Budget tracking statement by administrative classification. Monthly, starting in January 2005.

Based on the main statement, this document will present expenditures by administrative classification. Additionally, the statement will keep expenditures initiated by, and earmarked for, the Offices of Ministers (*Cabinets*) separate from those initiated by, and earmarked for, the administrations.

Statement 3: By type and administration.

Based on the main statement, this document will present expenditures by type and administration.

Statement 4: Budget tracking statement, by “Major Government Functions.” Monthly, starting in January 2005.

This document will present expenditures by major government function.

Statement 5: Budget tracking statement, “Poverty-Reducing Expenditures.” Monthly, starting in January 2005.

Based on Statement 2, expenditures will be presented by type, with one line indicating the share of expenditures identified as poverty-reducing expenditures.

Statement 6: Budget tracking statement by geographical distribution. Monthly, starting in January 2005.

Based on the balances of the main statement, this document will present expenditures by type, distinguishing between expenditures in Kinshasa and those in the provinces. Computer tools and training permitting, separate service codes will be assigned for Kinshasa and for each province; this will permit tracking of the distribution of expenditures among the 11 geographical areas.