Democratic Republic of the Congo and the IMF

Press Release:
IMF Executive Board Completes Second Review Under the ECF Arrangement with the Democratic Republic of the Congo and Approves US$77 Million Disbursement
February 9, 2011

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January 21, 2011

DEMOCRATIC REPUBLIC OF THE CONGO

SUPPLEMENTAL LETTER OF INTENT

Kinshasa, January 21, 2011

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, DC 20431
USA

Dear Managing Director,

This letter supplements the Letter of Intent (LOI), and attached Memorandum of Economic and Financial Policies (MEFP) dated June 15, 2010, supporting our Extended Credit Facility (ECF) arrangement approved by the Fund's Executive Board in December 2009.

The implementation of the Fund-supported program has proceeded smoothly, resulting in a marked improvement in our country's macroeconomic performance. Compared with 2009, in the past year real GDP growth was higher, inflation lower, and the external position stronger owing to buoyant mining activity and debt relief under the enhanced Heavily Indebted Poor Countries (HIPC) and Multilateral Debt Relief Initiatives.

All the program's end-June quantitative performance criteria and indicative targets were met, which include a sharp reduction in net bank credit to government and a further buildup of net foreign assets of the Central Bank of Congo (BCC). Concerning structural reform, all but one of the program's benchmarks were implemented; however, there was a brief interruption of some fiscal reporting and one other measure was implemented with a delay. We experienced computer problems with the preparation of monthly budget execution tables for July-September including for externally–financed expenditure (continuous structural benchmarks), but these problems were resolved and regular reporting was reestablished in October 2010. The draft law on the recapitalization of the central bank was submitted to parliament in December, rather than in October 2010, as its preparation took longer than expected. Domestic fuel prices were only raised to about ¾ of the level envisaged under the program as the government remained concerned about the direct affect on inflation and the difficult political and social environment. This partial increase does not jeopardize the program's overall objectives and the government intends to move ahead with modest increases if world oil prices continue to rise. The government published a new mining sector partnership contract on its website and transferred to the treasury the bonus payment accruing to the state.

The government and the monetary authority believe that the policies and measures set forth in the MEFP of June 2010, supplemented by the policy intentions for 2011 contained in a revised MEFP (attached), are appropriate to achieve the objectives of our medium-term program. During the period of the ECF arrangement, the government and the monetary authority will consult with Fund staff on the adoption of any measures that may be necessary to achieve the program's objectives, or whenever Fund staff requests such a consultation.

Looking ahead, the Congolese economy will face a number of challenges that could weaken macroeconomic performance. These challenges include a potential faltering of the world economy that could adversely affect foreign direct investment and our export-led growth; security concerns that could result in fiscal slippages; and weaknesses in the business environment that could dampen private sector development and inhibit external financing. A stronger business environment and the continued satisfactory implementation of the ECF arrangement will further consolidate recent gains and the economy's ability to withstand these challenges.

In this context, the government requests the completion of the second program review and disbursement of the third loan.

The government intends to make the contents of this letter and the attached MEFP, as well as the staff report accompanying its request for completion of the second review of the program, available to the public and authorizes the Fund to arrange for them to be posted on its website, subsequent to Executive Board approval of our request.

The third review under the ECF arrangement based on performance through end-December 2010 is expected to be completed by March 31, 2011. The fourth review will be based on quantitative performance criteria for end-June 2011 and should be completed on or after September 30, 2011.

Sincerely yours

_______/s/_______

Adolphe Muzito
Prime Minister

Attachment: Memorandum of Economic and Financial Policies, 2011
Technical Memorandum of Understanding

ATTACHMENT I

DEMOCRATIC REPUBLIC OF THE CONGO
MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES, 2011

Kinshasa, January 21, 2011

1. In the period ahead, the authorities aim to achieve an increase in the rate of economic growth to about 7 percent, maintain inflation at about 10 percent, and to accumulate further gross international reserves, which are targeted at about 9 weeks of import coverage. To achieve these objectives, the authorities intend to maintain the medium-term economic and financial policies endorsed by the Fund's Executive Board in June 2010. This framework is designed to limit central bank financing of the budget to eliminate fiscal dominance—in support of the BCC's effort to contain inflation—and to advance structural reform in key areas critical to the country's growth prospects. Policy actions for 2011 are described in detail below (Tables 1 and 2).

2. **Fiscal policies**. The government has maintained fiscal discipline and it reduced low-priority spending in 2010 to address shortfalls of foreign financing. To close the financing gap last year, these cuts amounted to about ½ percent of GDP. The government's concerted effort to raise more domestic revenue, including from natural resources, and closer alignment of domestic fuel prices with those in international markets, helped reduce the magnitude of the required spending cuts.

3. The 2011 draft budget submitted to parliament continued to align the expenditure envelope with domestic revenue and expected external budget support, alleviating the need for central bank financing (outside the use of debt relief from the IMF). Domestic revenue is targeted to rise to 22 percent of GDP, reflecting ongoing improvements in tax and customs administration and the full year impact of the recent fuel price adjustment. The government intends to increase fuel prices gradually if world oil prices continue to rise to ensure revenue increases and that fuel subsidies do not emerge; further ahead, it will establish a pricing regime that calls for regular and timely adjustment of such prices, and that removes discretion from pricing decisions. Domestic financing (equivalent to about ½ percent of GDP) is also expected to come from the privatization of CINAT, the state-owned cement company. While the expenditure envelope is tight, it accommodates: (i) a higher wage bill, largely to cover teacher salaries that had been previously borne by the private sector and the payment of retirement indemnities to outgoing Members of Parliament in line with the government's obligations; (ii) higher health and education spending; and (iii) spending linked to the presidential and parliamentary elections planned for late next year. Also, the budget continues to include a reserve of CGF 65 billion to address unexpected spending needs.

4. The program is fully financed. A financing gap equivalent to about ½ percent of GDP will be covered by budget support from the European Commission. The government anticipates higher external financing in the second half of this year from the World Bank and

other donors. Together with Fund staff, the government will discuss the potential use of these additional resources in the context of the next program review, likely in the first quarter of the year.

5. The DRC's external debt situation has improved markedly, owing largely to HIPC debt relief. Nonetheless, the government will maintain a cautious external borrowing strategy and seek foreign loans on highly concessional terms (minimum grant element of 35 percent). No non-concessional loans were contracted in the past year and the government is working with its development partners to ensure prospective loans are sufficiently concessional.

6. **Monetary and exchange rate policies**. The BCC will continue to use base money as a nominal anchor to contain inflationary pressures related to the second-round effects of expected increases in food and fuel prices. The BCC policy rate in real terms will be kept sufficiently positive and the BCC will continue to rely on central bank bills to manage liquidity. It will limit intervention in the foreign exchange market to smooth short-term exchange rate volatility and to help achieve the program's foreign reserve target.

7. To strengthen the independence and capacity of the BCC, key actions are: its recapitalization through the issuance of interest-bearing and marketable securities in the amount of CGF 1,025 billion by March 2011 (structural benchmark) to eliminate the BCC's negative capital, and a further increase of capital in early 2012; implementation of Fund technical assistance recommendations on liquidity forecasting and to establish an analytical balance sheet with functional classifiers for expenditure and revenue to benchmark performance of the BCC; the quarterly reconciliation of financial flows between the government and the central bank (interest payments, dividends, and profits), to ensure transparency in their financial relations (structural benchmark); and moving forward with the strategic plan to improve the operational and financial viability of the BCC, which includes reform of its pension plan and withdrawal from non-core activities, such as the central bank hospital and mint. The BCC has implemented most of the priority safeguards measures and is committed to completing the remaining recommendations, including the adoption of International Financial Reporting Standards for its 2011 financial statements.

8. **Structural policies and governance**. Structural reform will continue to focus on domestic revenue mobilization, public finance management (PFM), the financial sector, and improving the business environment, especially in the extractive industries.

- Concerning domestic revenue mobilization, the government will follow through with its efforts to modernize tax and customs administration, including through the expansion of one-stop customs windows at key border posts, and establishment of new tax centers in all provinces for medium-sized enterprises in anticipation of the implementation of the VAT in 2012. Further, efforts will focus on reducing evasion of fuel import duties by firms claiming mining sector import-duty exemptions and elimination of nuisance taxes.

- Concerning public financial management, the new finance law will set the stage for the modernization of the expenditure and revenue management system, both at the central and provincial levels. Going forward key actions will include: (i) promulgation and implementation of a new general regulation on public accounting; (ii) implementation of a new nomenclature on taxes, levies, and fees; (iii) implementation of a reliable rule-based expenditure management system in the provinces and the effective strengthening of the PFM capacities of provinces—including the monitoring of pro-poor spending in line with our obligations under the ECF arrangement; and (iv) implementation and monitoring of the new procurement code. To make the new procurement code effective the government will ensure that the supporting institutions are fully operational; approve the texts regulating procurement at the provincial and decentralized entities; prepare a report on its implementation, showing that at least 60 percent of all contracts above US$500,000 were awarded under competitive procedures (structural benchmark); and publish all procurement contract award decisions (structural benchmark).

- Concerning the financial sector, the central bank and the government will move quickly to resolve the problems with a large commercial bank and strengthen banking supervision and regulations, more generally. The problem bank (*Banque Congolaise*) is under liquidation, with a view to salvaging its branch network through a purchase and acquisition agreement with a healthy bank, in line with the recommendations of Fund technical assistance. To enhance the central bank's capacity to supervise the financial system more effectively, the banking law and regulations will be aligned with international best practice. The goal of these reforms will be: (i) to eliminate the possibility of forbearance; (ii) define criteria of reference for shareholders; (iii) establish a special bank insolvency regime so that supervisory actions could not be reversed, or suspended by the courts; (iv) define the priority of claims; (v) establish rule-based progressive enforcement measures and prompt corrective actions; and (vi) specify the eligibility and lending criteria for the BCC's lender of last resort window. Also, the central bank is planning to issue high-denomination bank notes in the first half of 2011 to reduce operating costs at the Mint and encourage use of the national currency.

- Concerning the business environment, the government will deposit the instruments of ratification of the protocols of the Organization for the Harmonization of African Business Law (OHADA) with a view to improve domestic business regulations; continue to implement the Extractive Industries Transparency Initiative; and establish and implement—in consultation with Fund and World Bank staff—a set of measures to improve governance and transparency in forestry, mining, and the oil sectors. These measures will aim to ensure (i) the sanctity of contracts and the predictability of the business environment in these activities; (ii) exploitation of these resources in a manner that derives the maximum benefit to the state; and (iii) the performance by state-owned enterprise operating in these areas are in line with international standards. With immediate effect, the government will publish any future mining, forestry, and oil sector concessions, production sharing agreements, and partnership contracts within 60 days of signature (continuous structural benchmark), and report fully and transfer to the Treasury any proceeds from these arrangements, once they have entered into force (structural benchmark). The government has indicated its interest in taking the necessary steps to accede to the New York Convention of 1958 on Recognition and Enforcement of Foreign Arbitral Awards; it will grant rights and concessions only through competitive processes; and it has agreed on a plan for the divestiture of assets and enterprises in the state's portfolio and to ensure that any sale is done competitively, in line with international standards.

_______/s/_______
Mapon Matata Ponyo
Minister of Finance

_______/s/_______
Jean-Baptiste Nthawa
Minister of Budget

_______/s/_______
Jean-Claude Masangu Mulongo
Governor, Central Bank of the Congo

Table I.1. Democratic Republic of the Congo: Quarterly Quantitative Performance Criteria and Indicative Targets, 2009 - 11[1]

(CGF Millions, unless otherwise indicated)

	2009	2010 Cumulative change[2,3]									2011 Cumulative change[4]				2011
	Stock Dec.	June				Sept.				Dec.	March	June	Sept.	Dec.	Stock Dec.
	Act.	Perf. Criteria	Perf. Criteria Adj.	Act.	Obesrvation	Indicative	Indicative adj.	Prel.	Observation	Perf. Criteria	Indicative	Perf. Criteria	Indicative	Indicative	
I. Performance criteria															
a. Floor on net foreign assets of the BCC [5] (U.S.$ millions)	-613	451	96	224	Observed	545	547	697	Observed	648	-6	-13	-19	99	134
b. Ceiling on net domestic assets of the BCC [5]	869,089	-260,923	-33,612	-139,067	Observed	-266,497	-265,155	-390,968	Observed	-266,056	14,450	39,390	58,882	29,626	632,659
c. Ceiling on net bank credit to government	182,353	-23,242	-109,659	-137,533	Observed	-111,982	-113,152	-132,518	Observed	-183,140	61,903	90,270	134,399	-37,005	-37,792
d. Ceiling on the contracting or guaranteeing of new nonconcessional external debt with original maturity of more than one year by the government, including the EADs or the BCC [6]	…	0	…	0	Observed	0	…	…		0	0	0	0	0	0
e. Ceiling on the contracting or guaranteeing of new nonconcessional external debt with original maturity of less than one year by the government, and loans contracted by the EADs or the BCC [6]	…	0	…	0	Observed	0	…	…		0	0	0	0	0	0
f. BCC payments of government expenditure (including urgent in nature) without authorization according to proper budgetary procedures by the ministries of finance and budget [6]	…	0	…	0	Observed	0	…	…		0	0	0	0	0	0
g. Accumulation of External payments arrears[6]	…	0	…	0	Observed	0	…	…		0	0	0	0	0	0
II. Indicative targets															
a. Narrow base money	471,722	27,717	27,717	6,120	Observed	82,269	82,269	53,517	Observed	148,586	6,040	27,081	42,670	93,335	691,299
b. Domestic balance (cumulative from the beginning of the year)		79,117	79,117	148,019	Observed	-3,776	-3,776	134,670	Observed	-116,768	-49,855	-66,175	-162,650	-181,520	…
c. Accumulation of wage arrears	…	0		0	Observed	0		…		0	0	0	0	0	…
Memorandum items:															
Project deposits	9,516	0	…	15,116		0		…		0	0	0	0	0	11,661
Balance of payments support (U.S. dollars, millions)	…	378	…	22	…	568		…		647	…	…	…	…	…
Programmed foreign assistance[7]	…	451	…	83	…	678		656		793	0	0	65	65	…
Programmed external debt service payments	…	74	…	61	…	110		86		146	21	42	63	84	…
Signing bonus from the Sino-congolese Cooperation Agreement (U.S. dollars, r	…	0	…	0	…	0		0		125	0	0	0	125	…
Privatization proceeds (U.S. dollars, millions)	…	0	…	0	…	0		0		0	0	0	0	77	…

Source: Congolese authorities and IMF staff estimates and projections.

[1] For definition and adjustors see the attached Program Monitoring Section of Memorandum of Economic and Financial Polices and the Technical Memorandum of Understanding.
[2] Cumulative changes are calculated from end-December 2009.
[3] The performance criteria for end-June 2010 are those established in IMF Country Report No. 10/88 while the performance criteria for end-December and indicative targets for end-September 2010 are those established in IMF Country Report No. 10/329.
[4] Cumulative changes are calculated from end-December 2010.
[5] The stocks of net foreign assets and net domestic assets of the BCC are valued at the program exchange rates (US$1 = CGF 639.32; and 1 Euro = 905.07).
[6] These performance criteria will be monitored on a continuous basis.
[7] Non U.S. dollar denominated balance of payment support is valued at program exchange rates.

Table I.2. Structural Benchmarks, 2011

Measures	Timing
Public financial management	
Submission of an initial report by the Procurement Regulatory Agency on central implementation of the new public procurement law, showing that at leeast 60 percent of all contracts above US$500,000 were awarded under compeititve procedures.	End-June 2011
Publish all public procurement contract award decisions, including bidder claims and appeals on the Procurement Regulatory Agency website.	Quarterly, beginning end-June 2011
Generation and publishing of monthly budget execution tables (reconciled with the TOFE, the BCC, and the monetary statistics), no later than 30 days after the end of each month.	Continuous
Inclusion of externally-financed expenditure (excluding exceptional spending) in the monthly budget execution tables (reconciled with the TOFE, the BCC, and the monetary statistics), no later than 3 months after the end of each month.	Continuous
No payment by the BCC of expenditures on behalf of the government (including urgent expenditure payments) without prior authorization by the Minister of Finance in accordance with existing legislation.	Continuous
Central Bank independence	
Finalize the recapitalization of the BCC by issuing interest-bearing and marketable securities to eliminate the negative net worth in line with recommendations from the IMF technical assistance.	End-March 2011
Submit to Parliament amendments to the Banking Law to bring it into line with international best practice (as elaborated in paragraph 8 of the MEFP).	End-June 2011
Beginning in the first quarter of 2011, reconcile quarterly the financial flows between the government and the BCC (including interest payments, dividends, and profits).	Quarterly
Governance and transparency	
Publication of mining, forestry, and oil sector concessions, production sharing agreements, and partnership contracts between public entities and private enterprises within 60 days of signature (including information on signing bonuses, taxation system, private shareholders, and members of the Board of Directors).	Continuous
Full and timely reporting and transfer of proceeds (signing bonuses, royalties, and other payments) accruing to the Treasury from any mining, forestry, and oil sector concessions, production sharing agreements, and partnership contracts between public entities and private enterprises, once they have entered into force.	Quarterly

ATTACHMENT I

DEMOCRATIC REPUBLIC OF THE CONGO
TECHNICAL MEMORANDUM OF UNDERSTANDING

Kinshasa, January 21, 2011

1. This memorandum updates the Technical Memorandum of Understanding (TMU) accompanying the MEFP of June 2010. This updated TMU is applicable from the date the IMF Executive Board completes the second review of the ECF arrangement. [1] Unless otherwise indicated, all quantitative targets are measured in terms of cumulative changes since the beginning of the year. Variables denominated in U.S. dollars will be converted to Congolese Francs by using the program exchange rate of CGF 639.32 per U.S Dollar; variables denominated in currencies other than the U.S. Dollar (excluding the SDR and Euro) will first be converted to U.S. Dollars at the December 31, 2010, US$/currency exchange rate. Variables denominated in SDRs will be valued at the program exchange rate of CGF 994.02 per SDR. Variables denominated in Euro will be valued at the program exchange rate of CGF 905.07 per Euro.

2. **Institutional coverage**: The **central government** comprises all units of government that exercise authority over the entire economic territory. However, unless otherwise indicated for the purposes of this memorandum, the central government does not include nonprofit organizations controlled and financed by the central government. The **banking system** is understood to mean the Central Bank of the Congo (BCC) as well as existing or newly licensed commercial banks.

I. QUANTITATIVE PERFORMANCE CRITERIA

3. Quantitative performance criteria are established at end-June 2011, and indicative targets at end-March, end-September, and end-December 2011 with regard to the following variables:

- Changes in the net foreign assets of the BCC;
- Changes in the net domestic assets of the BCC;
- Changes in net banking system credit to the government (central government);

[1] The TMU accompanying the June 2010 MEFP remains applicable to the definitions for the performance criteria and adjustors set for end-December 2010.

- Payments of government expenditures (including emergency expenditures) by the BCC without the prior authorization according to proper budgetary procedures by the Ministries of Budget and Finance;
- Nonconcessional medium- and long-term foreign loans contracted or guaranteed by the central government, local governments, or the BCC;
- Nonconcessional short-term foreign loans contracted or guaranteed by the central government, local governments, or the BCC; and
- The accumulation of external payment arrears.

Floors on the Net Foreign Assets of the BCC

4. **Definition**: **Net foreign assets (NFA)** are defined as the difference between the BCC gross foreign assets and its total foreign liabilities. **Gross foreign assets** are defined as the sum of the following items: (i) monetary gold holdings of the BCC; (ii) SDR holdings; and (iii) convertible claims on nonresidents, such as foreign deposits and foreign securities. The following items are excluded from the definition of gross reserves: claims on residents in foreign exchange, nonconvertible currency holdings, and reserves that are encumbered or pledged in one form or another, including but not limited to reserve assets used as collateral or security for foreign third-party liabilities, and swap transactions. **Foreign liabilities** are all BCC foreign exchange liabilities to nonresidents (including SDR allocations), including the IMF.

5. The following **adjustments** will be made to the NFA floor:

- **Balance of payments support (BPS)**: NFA floor will be adjusted (i) upward by an amount equivalent to 50 percent of total BPS in excess of the programmed levels, (ii) downward by an amount equivalent to the **lesser** of total shortfalls of BPS relative to programmed levels and US$16.5 million by end-March, US$33 million by end-June, US$49.5 million by end-September and US$66 million by end-December 2011.

- **External debt service payment**: NFA floor will be adjusted (i) upward by an amount equivalent to under payment of external debt service relative to programmed amounts; and (ii) downward by an amount equivalent to the excess of external debt service payments relative to programmed amounts.

- **Signing bonus from the Sino-Congolese Cooperation Agreement (SCCA)**: NFA floor will be adjusted (i) upward by an amount equivalent to 50 percent of total disbursement of signing bonus from SCCA in excess of the programmed levels; and (ii) downward by an amount equivalent to total shortfalls in the disbursement of signing bonus from SCCA relative to programmed levels.

- **Privatization proceeds in convertible currencies (PPCC)**: NFA floor will be adjusted upward by 50 percent of total PPCC in excess of the programmed levels. There will be no downward adjustment for any shortfall in these proceeds.

6. **Definition**: BPS is defined as all foreign grants and loans, excluding those tied to projects. External financing for the National Disarmament, Demobilization, and Reintegration Program (DDR) are considered project-related and therefore not included in the definition of BPS.

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

Ceilings on the Net Domestic Assets of the BCC

8. **Definition**: The **net domestic assets (NDA)** of the BCC are defined as base money (see ¶19 below) minus NFA. Based on this definition, the NDA of the BCC include: (i) net credit to the government (central government, see paragraph 10 below); (ii) credit to the private sector; (iii) credit to public enterprises; (iv) credit to commercial banks; and (v) other net assets.

9. The following **adjustments** will be made to the NDA ceilings:

- **BPS**: NDA ceiling will be adjusted (i) downward by an amount equivalent to 50 percent of total BPS in excess of the programmed level; and (ii) upward by an amount equivalent to the **lesser** of total shortfalls of BPS relative to programmed levels and CGF 10,549 million by end-March, CGF 21,908 million by end-June, CGF 31,646 million by end-September, and CGF 42,195 million by end-December 2011.

- **External debt service payment**: NDA ceiling will be adjusted (i) downward by an amount equivalent to under payment of debt service relative to programmed amounts; and (ii) upward by an amount equivalent to the excess of external debt service payments relative to programmed amounts.

- **Signing bonus from the SCCA**: NDA ceiling will be adjusted (i) downward by an amount equivalent to 50 percent of the total disbursement of signing bonus from SCCA in excess of the programmed levels; and (ii) upward by an amount equivalent to total shortfalls in the disbursement of signing bonus from SCCA relative to programmed levels.

- **Privatization proceeds**: NDA will be adjusted downward by 50 percent of the total amount of privatization proceeds (including PPCC) in excess of the programmed level. There will be no upward adjustment for any shortfall in these proceeds.

Ceiling on Net Banking System Credit to the Government

10. **Definition**: Net banking system credit to the government (NCG) is defined as the sum of net BCC and commercial bank claims on the central government, plus the BCC's net cash deficit. For purposes of program monitoring, government deposits related to externally-financed projects are excluded from NCG. All foreign currency denominated flows to the budget will be converted to domestic currency by using the market exchange rate prevailing at the time of the disbursement.

11. The following **adjustments** will be made to the NCG ceiling:

- **BPS**: NCG ceiling will be adjusted (i) downward by an amount equivalent to 50 percent of total BPS in excess of the programmed level; and (ii) upward by an amount equivalent to the **lesser** of total shortfalls of BPS relative to programmed levels and CGF 15,867 million by end-March, CGF 31,734 million by end-June, CGF 47,601 million by end-September and CGF 63,469 million by end-December 2011.

- **External debt service payment**: NCG ceiling will be adjusted (i) downward by an amount equivalent to under payment of debt service relative to programmed amounts; and (ii) upward by an amount equivalent to the excess of external debt service payments relative to programmed amounts.

- **Signing bonus from the SCCA**: NCG will be adjusted (i) downward by an amount equivalent to 50 percent of total disbursement of signing bonus from SCCA in excess of the programmed levels; and (ii) upward by an amount equivalent to total shortfalls relative to programmed levels in the disbursement of signing bonus from SCCA.

- **Privatization proceeds**: the NCG ceiling will be adjusted downward by an amount equivalent to 50 percent of total privatization proceeds in excess of the programmed levels. There will be no upward adjustment for any shortfall in these proceeds.

Ceilings on Nonconcessional External Debt Contracted or Guaranteed by the Public Sector

12. **Definition**: The public sector comprises the central government, local governments, the central bank (BCC), and nonprofit organizations controlled and financed by the central government.

13. **Definition**: Debt is defined as set out in Executive Board Decision No. 6230 (79/140) Point 9, as revised on August 31, 2009 (Decision No. 14416-(09/91)) (see Annex).[2] For program purposes, external debt is measured on a gross basis using the residency criterion.

14. **Definition**: a debt is concessional if it includes a grant element of at least 35 percent, calculated as follows: the grant element of a debt is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt.[3] The discount rates used for this purpose are the currency specific commercial interest reference rates (CIRRs), published by the Organization for Economic Cooperation Development (OECD). For debt with a maturity of at least 15 years, the ten-year-average CIRR will be used to calculate the PV of debt and, hence, its grant element. For debt with a maturity of less than 15 years, the six-month average CIRR will be used. To both the ten-year and six-month averages, the same margins for differing repayment periods as those used by the OECD need to be added (0.75 percent for repayment periods of less than 15 years, 1 percent for 15 to 19 years, 1.15 percent for 20 to 29 years, and 1.25 percent for 30 years or more).

15. **Definition**: the ceiling on concessional external debt applies to contracted or guaranteed external debt for which the equivalent value has not been received. It excludes (i) the use of Fund resources; (ii) debts incurred to restructure, refinance, or prepay existing debts, to the extent that such debt is incurred on more favorable terms than the existing debt; (iii) concessional debts; and (iv) normal import credits having a maturity of up to one year.[4]

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

Ceiling on the Accumulation of External Payment Arrears

17. **Definition**: external payment arrears are defined as external debt service obligations (principal and interest) that were not paid on the contractual due date. The ceiling on new external payment arrears applies **continuously** throughout the period covered by the ECF arrangement. It does not apply to external payment arrears in process of renegotiation or to cases in which the creditor has agreed to the suspension of payments pending the outcome of negotiations.

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[2] http://www.imf.org/external/np/pp/eng/2009/082009.pdf.

[3] The calculation of concessionality will take into account all aspects of the loan agreement, including maturity, grace period, payment schedule, upfront commissions, and management fees.

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

II. Quantitative Indicative Targets

18. The indicative targets pertain to narrow base money, the non-accumulation of wage arrears, and the domestic fiscal balance.

Ceilings on Base Money

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

Ceilings on the Accumulation of Wage Arrears

20. **Definition**: Wage arrears are defined as approved personnel wages and salaries that have not been paid for 30 days. Wages and salaries include the total compensation paid to public employees, including permanent benefits. These arrears will be valued on a cumulative basis from January 1, 2011.

Ceiling on the Domestic Fiscal Balance

21. **Definition**: The **domestic fiscal balance** (cash basis) is defined as (domestic revenue) minus (domestically financed expenditure). **Domestic revenue** is defined as (total revenue and grants) minus (grants) minus (signing bonus from the SCCA). **Domestically financed expenditure** is defined as (total expenditure and net lending) minus (externally financed investments) minus (foreign interest payments) plus (the BCC's operating deficit) plus (the net accumulation of domestic arrears).

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

- **BPS**: The floors on the domestic fiscal balance will be adjusted upward by an amount equivalent to the total shortfall of BPS (excluding that from the IMF) relative to programmed levels over CGF 15,867 million by end-March, CGF 31,734 million by end-June, CGF 47,601 million by end-September and CGF 63,469 million by end-December 2011.

- **Privatization proceeds**. The floors on the domestic fiscal balance will be adjusted: (i) upward by an amount equivalent to the full shortfall of privatization relative to programmed levels; (ii) downward by 50 percent of the total amount of privatization proceeds in excess of the programmed levels.

III. Consultation Clause

23. The authorities will consult with the IMF before implementing any revisions to the policies contained in the MEFP.

IV. DATA TO BE REPORTED FOR PROGRAM MONITORING PURPOSES

24. The authorities of the DRC will provide IMF staff with the data needed to monitor the program within the prescribed time limits, as indicated in the following table. In addition, it will provide monthly data on the domestic fuel price structure to demonstrate the fiscal prices is maintained at least 30 percent of the commercial price.

Summary of Data to be Reported

Information	Responsible entity	Frequency	Reporting deadline
Volume of foreign exchange purchases and sales on the interbank market	BCC	Daily	One day
Volume of BCC purchases and sales on the interbank market	BCC	Daily	One day
Average CGF/USD reference exchange rate on the interbank market	BCC	Daily	One day
Average CGF/USD reference exchange rate	BCC	Daily	One day
Average CGF/USD reference exchange rate offered by commercial banks to their customers	BCC	Daily	One day
Average CGF/USD reference exchange rate used by exchange bureaus	BCC	Daily	One day
Integrated monetary survey	BCC	Monthly	Two weeks
BCC balance sheet	BCC	Monthly	One week
Monetary survey of retail banks	BCC	Monthly	Two weeks
Structure of retail banks' interest rates	BCC	Monthly	Two weeks
Reserves (voluntary and required) of retail banks	BCC	Daily	One day
Volume of CGF transactions on the interbank market	BCC	Daily	One day
Outstanding central bank claims on retail banks	BCC	Daily	One day
Foreign exchange sales (including through auctions) by the BCC	BCC	Weekly	One week
Outstanding and new issues of central bank bills (BTR)	BCC	Weekly	One day
Change in the free reserves of banks	BCC	Weekly	One day
Structure of BCC interest rates	BCC	Monthly	One week
Consumer price index	BCC	Weekly	One week
Retail banks' financial soundness indicators	BCC	Monthly	Two weeks
Commodity exports (value and volume), imports (value and volume) and domestic production indicators	BCC	Monthly	Three weeks
Implementation of the BCC foreign exchange cash flow plan	BCC	Weekly	One week

Summary of Data to be Reported (Concluded)

Information	Responsible entity	Frequency	Reporting deadline
Implementation of the BCC domestic currency cash flow plan	BCC	Monthly	One week
Amounts and holders of promissory notes (bills) guaranteed by the BCC	BCC	Monthly	Three weeks
Evolution of Commitment Plan and Treasury Plan Implementation	MF/MB	Weekly	One day
Implementation of the government cash flow plan	MF	Monthly	Two weeks
Amount, terms, holders, and stock of promissory notes (bills)	MF/BCC	Monthly	Three weeks
Breakdown of customs and excise revenues	MF	Monthly	Four weeks
Breakdown of direct and indirect taxes	MF	Monthly	Four weeks
Breakdown of nontax revenues	MF	Monthly	Four weeks
Projected expenditure commitment schedule	MB	Quarterly	Two weeks
Budgetary monitoring statement (ESB)	MB	Monthly	Two weeks
Approved wage bill by type of beneficiary	MF	Monthly	Three weeks
Wage bill paid by type of beneficiary	MF	Monthly	Three weeks
Compensated employees by category	MF	Monthly	Three weeks
Civil service wage scale	MF	In the event of change	Three weeks
Amounts of emergency spending, amounts approved by the emergency spending committee, amounts adjusted and paid by the BCC	MF/BCC	Monthly	Three weeks
Privatization receipts	MF/BCC	Monthly	Three weeks
Public sector domestic debt by category and by creditor	MF	Monthly	Three weeks
Loan contracts for any new external debt contracted or guaranteed by the central government, the BCC and local governments	MF/BCC	Monthly	Three weeks
Budget execution monitoring table showing Annual Treasury and Commitment Plans and all stages of expenditure execution through payments.	MF/MB	Weekly	Three days
External audit reports, indicating any adjustments made to data reported at test dates	BCC		One week

Annex

Definition of debt

(a) For the purpose of this guideline, the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement 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 point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

> (i) loans, i.e., advances of money to the obligor by the lender made 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, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and
>
> (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that 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 the 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 agreement excluding those payments that cover the operation, repair or maintenance of the property, and

(b) Under the definition of debt set out in point (a) above, arrears, penalties, and judicially awarded damages arising from the 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.