INTERNATIONAL MONETARY FUND

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DEMOCRATIC REPUBLIC OF THE CONGO

December 2022

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

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

- A **Press Release** including a statement by the Chair of the Executive Board and summarizing the views of the Executive Board as expressed during its December 20, 2022, consideration of the Staff Report on issues related to the IMF arrangement
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 20, 2022, following discussions that ended on November 21, 2022, with the officials of the Democratic Republic of the Congo on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on December 8, 2022.
- A **Statement by the Executive Director** for the Democratic Republic of the Congo.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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IMF Executive Board Concludes 2022 Third Review Under the Extended Credit Facility Arrangement with The Democratic Republic of the Congo

FOR IMMEDIATE RELEASE

- The IMF Executive Board decision allows for an immediate disbursement of about US$203 million to the Democratic Republic of the Congo. This disbursement will help reinforce international reserves, given downside risks to the domestic and global economy outlook.
- Despite multiple shocks, economic activity has proven resilient supported by higher-than-envisaged mining production. Growth is forecast at 6.6 per cent in 2022, but inflation is expected to exceed 12 percent by end-2022.
- The Fund-supported program continues to support the authorities' medium-term reform program to foster macroeconomic stability and sustainable development by stepping up domestic revenue mobilization, strengthening governance, and reinforcing monetary policy.

Washington, DC – December 20, 2022: The Executive Board of the International Monetary Fund (IMF) concluded the third review of the Extended Credit Facility (ECF) arrangement for the Democratic Republic of the Congo (DRC). The completion of the Third Review allowed an immediate disbursement equivalent to SDR152.3 million (about US$ 203 million) to support balance-of-payment needs, bringing the aggregate disbursement to date to SDR609.2 million (about US$812.4 million).

The DRC's macroeconomic environment is showing resilience despite the spillovers of the war in Ukraine and the deteriorating global economic environment. Real GDP is showing resilience, with growth forecasted at 6.6 percent in 2022 supported by higher-than-projected mining production. Inflation is expected to exceed 12 percent by end-2022, due to higher global food and fuel prices exacerbated by the war in Ukraine and supply chain bottlenecks. The current account reached a surplus in the first half of the year driven by strong exports, and as of end-October, gross international reserves have reached about 2 months of imports, well-above the objective at the beginning of the ECF arrangement. The 2022 domestic fiscal balance (cash basis) is projected at 1.1 percent of GDP, in line with program commitments, despite unanticipated spending pressures raising from the escalating conflict in the East, increased outlays in ministries and public institutions, and arrears repayment to fuel distributors, funded by higher unexpected fiscal revenues mainly due to favorable mining developments.

Progress under the program remains satisfactory. All end-June 2022 quantitative performance criteria were met, and all indicative targets (ITs) except for two: the one related to health spending due to procurement delays; and the one related to the central bank's guarantees for central government domestic loans due to monitoring shortcomings and despite the fact that no new guarantees were issued. Efforts to meet the social spending under the IT will require close monitoring during implementation. Four of six structural benchmarks were also met, and a fifth one was achieved with a small delay.

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

"Macroeconomic performance in 2022 is strong, despite recurrent shocks. Growth is robust and external buffers have strengthened, notwithstanding rising global energy and food prices. Performance under the Extended Credit Facility (ECF) arrangement remains satisfactory. While growth prospects remain favorable in 2023, downside risks emanate from adverse terms-of-trade shocks and the conflict in the east.

"The fiscal deficit is expected to narrow in 2023. Sustained revenue mobilization and contained current spending in goods, services and subsidies are expected to provide space for social spending, infrastructure, and human capital investment, and arrears clearance. Saving revenue overperformance would support efforts to build buffers. Phasing out the fuel subsidy and establishing targeted social transfers are important measures to strengthen social safety nets to protect the vulnerable. Enhancing budget credibility should help the budget serve as a fiscal anchor under the program. Revamping the fiscal framework to manage resource wealth, strengthening the public investment framework, and accelerating public financial management reforms are necessary to enhance spending efficiency and transparency.

"Readiness to tighten the monetary stance to bring inflation to the 7- percent target together with efforts to strengthen the monetary policy framework will support price stability. Further accumulation of reserves, while enhancing the role of the exchange rate as a shock absorber, is essential to external resilience. The recent adoption of the new banking law is crucial to strengthen financial sector regulation and supervision.

"Sustained efforts to improve governance, including in mining, strengthen the anti-corruption and AML/CFT frameworks, and enhance the business environment would support private sector development and competitiveness. Committing to specific climate-related reforms is also important to catalyze financing for green investments."

INTERNATIONAL MONETARY FUND

DEMOCRATIC REPUBLIC OF THE CONGO

December 8, 2022

THIRD REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR MODIFICATIONS OF QUANTITATIVE PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW

EXECUTIVE SUMMARY

Context. Macroeconomic gains under the program so far are partly overshadowed by recurrent shocks. Due to the war in Ukraine and global economic developments, the Democratic Republic of the Congo is experiencing a terms-of-trade shock associated with rising energy and food prices (pushing inflation above 12 percent) and falling prices for mining products. Compounding these headwinds, the escalation of the armed conflict in the east of the country is having major negative economic, security and humanitarian effects, the magnitude of which—if the situation persists or worsens further—could jeopardize recent progress.

Program performance. Progress under the Extended Credit Facility arrangement remains broadly satisfactory. All end-June 2022 quantitative performance criteria were met, together with all indicative targets except two, one related to health spending due to delays in procurement and another on the change in central bank deposits used as guarantee for central government loans. Four of six structural benchmarks were also met, and a fifth one was achieved with a small delay. Completion of the third review would make available the equivalent of SDR152.3 million to support balance-of-payment needs, with cumulative disbursements amounting to SDR609.2 million.

Key Policies. With elevated downside risks, prudent macro policies and structural reforms will sustain efforts towards mobilizing revenues, containing current spending, improving public investment management, strengthening the monetary and financial frameworks, enhancing governance, and promoting higher inclusive growth. The authorities agreed on measures to reinforce the credibility of the 2023 budget law in line with program objectives. The central bank is adequately tightening monetary conditions to bring inflation to the 7-percent target by 2024, while gradually strengthening its monetary and financial oversight frameworks. Other structural reforms focus on AML/CFT, governance including anticorruption and transparency in the mining sector, and the business climate. Building economic resilience will help reduce vulnerability to shocks.

Approved By
Annalisa Fedelino and Mark Flanagan

Hybrid discussions were held during October 19-November 2, 2022. The mission team comprised Mmes. Vera Martin (head) and Toure, and Messrs. Zerbo and Nolin (all AFR), and Ms. Pouokam (SPR). The mission was assisted by Messrs. Leost (Resident Representative) and Gbadi (local economist). The mission met with President of the Republic Félix Antoine Tshisekedi Tshilombo, Prime Minister Jean-Michel Sama Lukonde Kyenge, Minister of Budget Aimé Boji Sangara, Minister of Finance Nicolas Kazadi Kadima-Nzuji, BCC Governor Malangu Kabedi Mbuyi, other senior officials, development partners, as well as representatives of the private sector and civil society. Mmes. Pohl and H. Abu Sharar provided outstanding assistance.

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CONTEXT

1. **Significant macroeconomic gains have continued under the program.** The economy is showing resilience, with real GDP growth being one of the strongest rates in Sub-Saharan Africa, and increased fiscal revenues and official foreign exchange reserves well-above those projected at the beginning of the arrangement. In mid-November. Moody's upgraded the DRC's sovereign rating to B3 recognizing strengthening economic and fiscal prospects fostered by institutional improvements. Its creditworthiness remains however constrained by its low GDP per capita and competitiveness, weak institutions, limited domestic financing capacity, and a deteriorating political risk environment.

2. **Yet heightened uncertainty could stand in the way of continued progress, with deteriorating external and domestic environments negatively affecting economic, security and humanitarian conditions.** In addition to the food and fuel price shocks associated with the war in Ukraine and declining prices of exported mining products in 2022H2, the escalating armed conflict in the east could result in social conflict and destabilize macroeconomic conditions.[1] The shock has internally displaced 300,000 people (for a total of about 5.5 million according to UNHCR); higher food prices and poor transport infrastructure have increased food insecurity, with 26.7 million people in need of food assistance.[2]

RECENT ECONOMIC DEVELOPMENTS

3. **In 2022, the DRC has showed resilient economic activity despite increasing inflation (Figure 1)**. GDP growth reached 6.6 percent to 2022Q3 as mining production expanded by 13.3 percent year-on-year (yoy). The war in Ukraine increased food, energy, and transport prices, pushing inflation up and exacerbating food insecurity.[3] Consumer price inflation accelerated to 12.2 percent in October from 11.6 percent in September yoy fueled by higher international food prices and domestic fuel prices.[4]

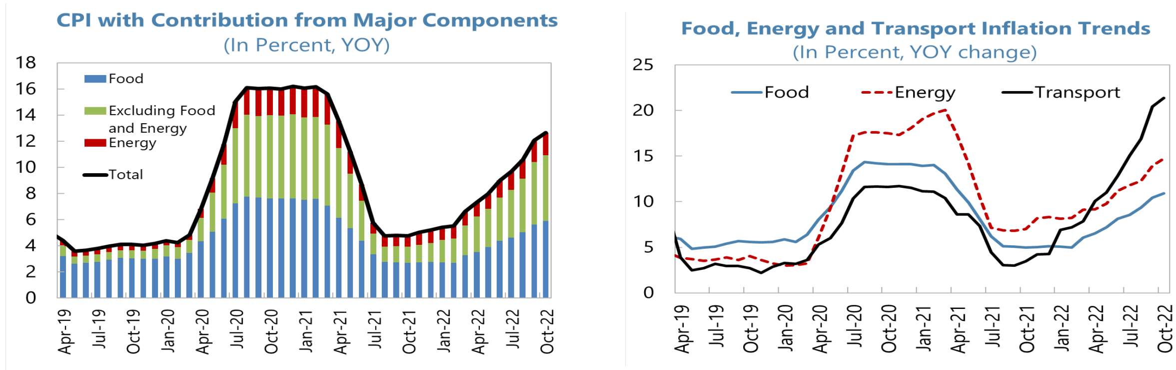
[1] Attacks by M23 rebels (a Tutsi militia group) have intensified in recent months, reigniting tensions with Rwanda, and posing major security risks including in Goma, the main economic center in the east.

[2] See the October 2022 World Food Program report.

[3] Accumulated liabilities with oil distributors created fuel shortages in September and raised transportation costs.

[4] Although pump prices cumulatively increased by 35-60 percent year-to-date depending on the region, the average border price was up 54 percent year-to-date, presumably due to higher logistics and transportation costs, partially offsetting the impact of pump price increases on fuel and electricity subsidies.

Text Figure 1. Inflation Developments, 2019-22



Sources: Congolese authorities; and IMF WEO.

4. **The external position improved in 2022H1 driven by stronger-than-envisaged trade and transfers (Text Table 1, Figure 2).** The current account reached a surplus, against a projected deficit, thanks to higher extractive exports (by about 16 percent). The improved trade and transfer balances more than compensated for a widening deficit in the services account. Other investment outflows contributed to strengthening the financial account. As of mid-November, gross international reserves (GIR) are estimated at US$4.1 billion (about 2 months of imports), with the end-June 2022 NIR target exceeded by large margins thanks to higher government's mining tax revenues (paid in FX). Between the end of 2021 and October 2022, the effective exchange rate appreciated by 10 percent and 14 percent in nominal and real terms, respectively.

Text Table 1. DRC: Preliminary External Sector Outturn, 2022H1

	CR 22/210	Est.	CR 22/210	Est.	Difference in Percent of GDP
	(in US$ millions)		(in percent of GDP)		
Current account balance	**-604**	**2162**	**-0.9**	**3.4**	**4.4**
Trade balance	1801	4323	2.8	6.9	4.1
Exports	13186	15261	20.6	24.3	3.7
Imports	11385	10938	17.8	17.4	-0.4
Service balance	-1721	-2210	-2.7	-3.5	-0.8
Primary income	-1367	-1246	-2.1	-2.0	0.2
Secondary income	683	1295	1.1	2.1	1.0
Capital account balance	**199**	**357**	**0.3**	**0.6**	**0.3**
Net lending (+)/ borrowing (-) (excl. budget grants)	-406	2518	-0.6	4.0	4.6
Financial account incl reserve assets	**-457**	**1799**	**-0.7**	**2.9**	**3.6**
FDI	-899	-1038	-1.4	-1.7	-0.2
Portfolio	0	-22	0.0	0.0	0.0
Other investment	-229	1491	-0.4	2.4	2.7
Reserve assets (increase= +)	671	1368	1.0	2.2	1.1
Net errors and omissions	**-51**	**-720**	**-0.1**	**-1.1**	**-1.1**
Overall Balance	**0**	**0**	**0.0**	**0.0**	**0.0**

Sources: Banque centrale du Congo; and IMF staff calculations.

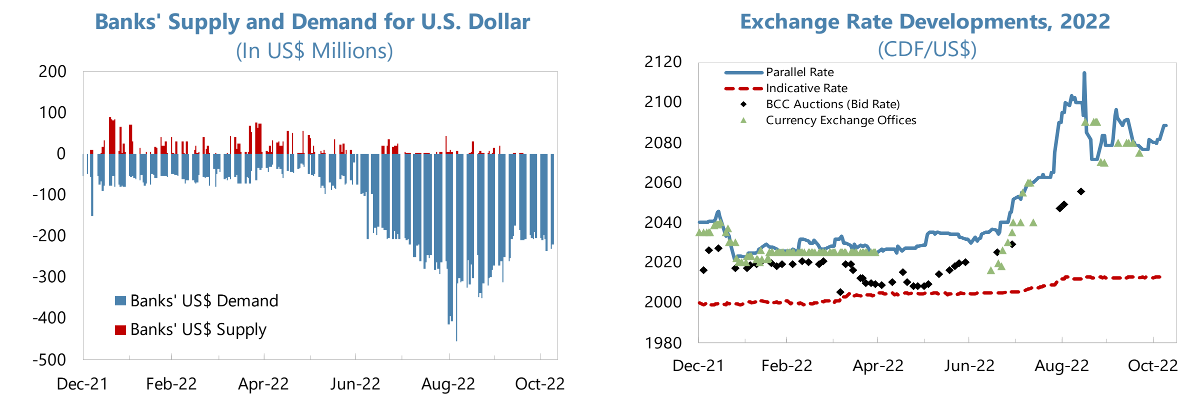
5. **Sizable revenue overperformance has helped address unanticipated spending and arrears repayment (Figure 3).** Higher mining prices in 2021 and sustained revenue mobilization efforts fueled higher corporate income tax revenues, leading to an estimated 2.7 percent of GDP revenue overperformance at end-September 2022. [5] Tax authorities collected a mining "*superprofit*" tax estimated at 0.7 percent of

[5] Revenue overperformance is measured as revenues (tax and nontax) above the projections at the time of the second review (see [Staff report for the 2022 Article IV consultation and second review under the ECF arrangement]).

GDP.[6] However, despite underspending in fuel subsidies and social transfers by about 0.7 percent of GDP, higher-than-anticipated spending emerged (about 2.8 percent of GDP) mostly related to exceptional security spending (1.0 percent of GDP), goods and services (0.9 percent of GDP), arrears repayment (0.7 percent of GDP), and domestically financed capital spending (0.2 percent of GDP). The end-September domestic fiscal target was balanced against a projected deficit of 0.6 percent of GDP in the first three quarters of 2022.

6. **Domestic currency liquidity has expanded**. In the year preceding June 2022, unsterilized reserve accumulation (US$3.4 billion) led to an almost 40-percent surge in the monetary base. Meanwhile, the new FX reserve requirement system reduced demand for local currency.[7] Banks' excess reserves at the BCC peaked at 1 percent of GDP in August, putting pressure on the exchange rate. The BCC responded by gradually ramping up its bond issuance to drain domestic liquidity; the outstanding stock reached 0.2 percent of GDP at end-October.[8] In addition, government securities, with an outstanding stock of 0.2 percent of GDP at end-October, contributed to mopping up liquidity as new issuance concentrated on medium-term maturities.

Text Figure 2. Exchange Rate Developments



Source: Banque centrale du Congo.

7. **Imbalances in the foreign exchange market coincided with Congolese franc depreciation pressures.** Banks' net open FX position to capital ratio turned negative in June 2022, from 11 percent a year ago, reverting the net long FX position that persisted since 2018. Daily demand for U.S. dollars on the interbank market, which averaged US$58 million per day in 2022H1, surged to an average of about US$250 million per day in 2022Q3, but was met with limited supply

[6] Mining "superprofit" occurs when mining prices are 25 percent higher than prices used for the feasibility study at the time of the mining permit request, triggering an increase in profit tax rate from 30 to 50 percent, which materialized in 2022 given the elevated mining prices in 2021.

[7] The new system foresees provisioning reserve requirements in the same currency as the deposits, departing from previous practices when the reserve requirement was always provisioned in domestic currency.

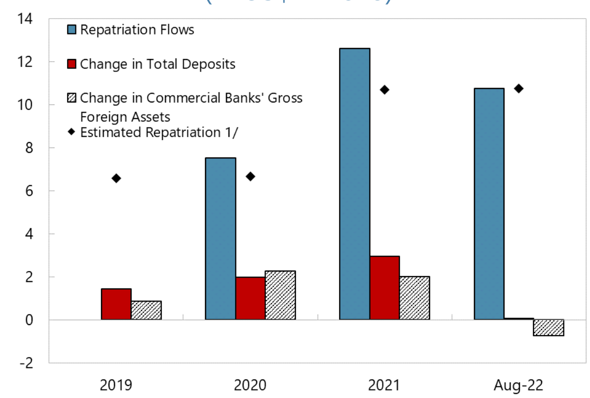
[8] BCC bonds were scaled up in 2022 and their remuneration is capped at the policy rate, for all terms offered (7, 28 and 84 days).

(on average, US$5.6 million). By end-October, the spread between the CDF/US$ official and parallel exchange rates rose above 5 percent, the widest since June 2020 (Text Figure 2).[9]

8. Deposit growth in the banking system has stagnated, but credit has accelerated (Figure 4). Fueled by the surge in mining receipts, the 60-percent repatriation requirement reportedly led to inflows of about US$11 billion in the first eight months of 2022 (Text Figure 3), but deposits only grew by US$318 million, diverging from the patterns in previous years.[10] Credit to the private sector grew 38 percent year-on-year in September 2022 (18 percent in September 2021), while bank credit to the public sector slowed to 9 percent (35 percent a year before). Private sector credit in local currency grew 75 percent yoy, but from a low base; credit dollarization remains stable at around 94 percent.

Text Figure 3. Repatriation Requirement and Deposits

(In US$ Billions)



Sources: Banque centrale du Congo; and IMF staff calculations
1/ Based on copper and cobalt exports.

9. The banking sector is reconfiguring and recapitalizing. In June, Afriland First Bank went under receivership following multiple malpractice allegations. In September, United Bank for Africa (UBA) increased its Tier-1 capital above the US$30 million regulatory requirement; 5 out of 15 banks remain undercapitalized. Finally, Kenya-based KCB group announced plans to acquire 85 percent of the Trust Merchant Bank, the country's third biggest bank. NPLs have risen from 5.8 to 7.4 percent of gross loans in 2022H1 (Table 5).

PROGRAM PERFORMANCE

10. Progress under the program remains broadly satisfactory despite some delays in structural conditionality. Quantitative conditionality and four of six structural benchmarks (SBs) were met (MEFP¶40, Tables 1-2). The authorities remain strongly committed to program objectives and targets.

- End-June 2022 quantitative performance criteria (QPCs) and indicative targets (ITs) were observed except for two, the one related to health spending due to procurement delays and the one related to the BCC's guarantees for central government loans due to monitoring

[9] The official exchange (the so-called "*cours indicatif*") is a volume-weighted average of transactions reported by commercial banks and licensed currency exchange offices, as well as bilateral auctions conducted by the BCC. The parallel exchange rate is a measure of the CDF/US$ exchange rate based on a survey of unlicensed forex operators.

[10] By comparison, deposits in the financial system amounted to US$11.4 billion (20 percent of GDP) at end-August 2022.

shortcomings and despite no new guarantees. The domestic fiscal balance and NIR accumulation surpassed end-June 2022 targets by large margins.

- As for the SBs that were not met, the plan to rationalize non-tax charges was adopted with a small delay. The first phase of the excise traceability system was not fully achieved due to domestic implementation challenges.[11] Finally, on December 1, the authorities published a revised mining contract (prior action), meeting the continuous SB on publishing all new mining contracts.

OUTLOOK AND RISKS

11. The growth outlook remains generally positive, despite the spillovers from the war in Ukraine and the deteriorating global economic environment (Tables 1-4, MEFP ¶1). Real GDP growth in 2022 has been revised up to 6.6 percent as higher mining production more than compensates for lower non-extractive growth. Inflation is projected to accelerate to 12.3 percent by year-end. The current account deficit is projected at 2.2 percent of GDP, as deteriorating mining export prices are only partially compensated by lower food and oil prices in 2022H2.[12] Growth in 2023 is projected to moderate to 6.3 percent, reflecting lower global demand for mineral products and assuming that the internal conflict does not further escalate. Inflation is projected to moderate to 8.3 percent, as world food prices decline, and the BCC tightens monetary policy.

12. The medium-term outlook remains relatively positive (Text Table 2). Medium-term growth is projected at around 6.5 percent, driven by sustained extractive growth and a recovery in non-extractive growth as the economy diversifies. After peaking in 2022, inflation is projected to converge to the BCC's target of 7 percent by 2024. The current account balance is expected to deteriorate further in 2023 due to negative terms of trade, and to gradually improve over time given stable export growth.

13. The risk of debt distress is expected to remain moderate. Although external borrowing is expected to increase in 2023 relative to the second review, the risk of debt distress remains contained as new borrowing would be mainly concessional (Table 6). Under the baseline, total public debt is expected to be relatively stable (from 24 percent of GDP in 2022 to 23 percent in 2027), despite an increase in external debt from 16 to 18 percent of GDP.

[11] The authorities have committed to corrective measures that enhance on-site controls for domestic producers.

[12] Average copper and cobalt prices in 2022H2 are projected to fall by 17 and 20 percent respectively, compared to 2022H1 levels.

Text Table 2. DRC: Revised Medium-Term Macroeconomic Framework, 2021-27

	2021		2022		2023		2024	2025	2026	2027
	CR No. 22/210	Proj.	CR No. 22/210	Proj.	CR No. 22/210	Proj.	Proj.	Proj.	Proj.	Proj.
Real GDP (percent change)	6.2	6.2	6.1	6.6	6.7	6.3	6.5	6.8	7.0	6.7
of which: extractive	10.1	10.1	10.6	13.1	10.1	10.9	9.6	8.7	8.2	7.0
GDP deflator (percent change)	17.6	17.4	8.4	5.4	9.7	6.1	6.8	6.4	5.0	5.7
CPI inflation, average (percent)	9.0	9.0	8.4	9.0	9.8	10.8	7.2	6.8	5.6	6.3
CPI inflation, eop (percent)	5.3	5.3	11.0	12.3	6.8	8.3	6.9	6.7	5.7	5.6
Overall fiscal balance (% GDP), commitment basis	-1.0	-1.4	-3.5	-2.8	-2.8	-2.9	-3.3	-3.7	-3.6	-3.7
External public debt (% GDP)	17.6	15.5	18.3	16.4	18.9	17.4	17.9	18.0	18.4	18.7
Current account balance (% GDP)	-0.9	-0.9	0.0	-2.2	0.0	-3.9	-3.0	-2.3	-1.9	-1.7
Gross international reserves (weeks of imports)	6.3	6.3	8.3	8.6	9.5	9.9	11.2	12.1	12.8	14.4

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

14. Risks to the outlook are markedly titled to the downside (MEFP ¶4, Annex I). A prolonged war in Ukraine and/or negative demand shocks, including from an abrupt growth slowdown in China, could result in negative commodity price shocks, exacerbating food insecurity and generating external and fiscal pressures. The escalation of armed conflict in the East and the presidential election scheduled for end-2023 could create social instability and exacerbate spending pressures despite limited fiscal space. Upside risks to growth could, however, result from stronger implementation of reforms (than assumed in the baseline) and higher sustained commodity prices from the global energy transition.

POLICY DISCUSSIONS

While monitoring closely emerging risks, the relatively favorable outlook offers an opportunity to increase resilience to external shocks, and advance reforms to diversify the economy and promote higher and more inclusive growth. Policy discussions focused on: (i) the draft 2023 budget to address the implications of global and domestic security shocks while aiming to contain spending pressures ahead of the presidential elections; (ii) advancing fiscal reforms to continue mobilizing revenues, containing current spending, and enhance public finance management and efficiency; (iii) tightening monetary policy to address heightened inflationary pressures and continuing reserves accumulation while strengthening the monetary framework and financial supervision; and (v) pursuing structural reforms to build resilience.

A. Sustaining Prudent Fiscal Policy Despite Significant Spending Pressures

15. Higher spending is expected to fully absorb the revenue overperformance in 2022, with the projected fiscal balance in line with program targets. By end-2022, the revenue outperformance, estimated at 3.1 percent of GDP, would have been used for security spending, arrears clearance, goods and services, and investment (Text Table 3). The unexpected escalation of the conflict in the East triggered additional emergency security spending and increased in goods and services. Higher arrears repayment includes 0.6 percent of GDP in fuel subsidy liabilities to oil distributors prior to 2022. In line with the second review, part of the domestically financed capital spending remains financed by the SDR allocation to meet priority social infrastructure needs. The authorities argued that the urgency to address two unforeseen shocks (security conflict in the East and higher fuel prices triggered by the war in Ukraine) generated pressing operational bottlenecks (e.g., fuel shortages) that prompted them to act expeditiously. Given recurrent shocks and significant downside risks, staff called for building some buffers and reducing the procyclicality of fiscal policy (see ¶17, 23).

16. The 2023 fiscal engagements under the ECF arrangement target a domestic fiscal deficit of CDF1,000 billion (0.7 percent of GDP) (Text Table 4). Despite lower projected *superprofit* taxes, revenue mobilization efforts are projected to remain sustained. Current spending is projected to contract due to lower government consumption and fuel subsidies, and a contained wage bill providing space for additional social spending and arrears clearance. The authorities have committed to keep the wage bill at CDF7,100 billion (5 percent of projected 2023 GDP) by containing the annual growth in civil servants (to 3 percent) and remuneration (to 8 percent) while allowing for some expansion in security and education-related sectors. Under the program, the authorities agreed to increase domestically financed investment to 2.5 percent of GDP, from 2 percent of GDP in 2022, as reforms to improve spending efficiency need time to become effective.

Text Table 3. DRC: Revenue Overperformance in 2022
(In Percent of GDP)

Revenue overperformance	**3.1**
Tax	2.8
Non tax	0.3
Current spending	**1.0**
Wages	0.1
Goods and services	1.3
Subsidies and transfers	-0.4
Of which:	
Fuel subsidy	-0.4
VAT reimbursements	0.1
Capital spending	**0.2**
Exceptional spending (security)	**1.0**
Arrears repayment	**1.0**

Sources: Congolese authorities; and IMF staff projections.

Text Table 4. DRC: 2023 Draft Budget and Program Projection

	CR No. 22/210 (in billion CDF)	Draft LFI 2023 (in billion CDF)	Revised proj. (in billion CDF)	CR No. 22/210 (in percent of GDP)	Draft LFI 2023 (in percent of GDP)	Revised proj. (in percent of GDP)	*Draft LFI* (*Differences wrt to CR No. 22/210 in ppts*)	*Revised proj.* (*Differences wrt to CR No. 22/210 in ppts*)
Revenue and grants	**21,598**	**24,087**	**23,896**	**14.3**	**16.9**	**16.8**	***2.6***	***2.5***
Revenue	20,235	22,724	21,978	13.4	15.9	15.4	*2.6*	*2.1*
Tax revenue	14,715	17,695	16,848	9.7	12.4	11.8	*2.7*	*2.1*
Income tax	7,494	10,533	9,723	4.9	7.4	6.8	*2.4*	*1.9*
Individuals	1,653	1,939	1,788	1.1	1.4	1.3	*0.3*	*0.2*
Corporates	5,467	8,238	7,473	3.6	5.8	5.2	*2.2*	*1.6*
Taxes on goods and services	6,009	5,620	5,713	4.0	3.9	4.0	*0.0*	*0.0*
International trade	1,212	1,542	1,411	0.8	1.1	1.0	*0.3*	*0.2*
Non-tax revenue	5,520	5,028	5,130	3.6	3.5	3.6	*-0.1*	*0.0*
Grants	1,363	1,363	1,918	0.9	1.0	1.3	*0.1*	*0.4*
Expenditures	**25,843**	**29,541**	**26,086**	**17.1**	**20.7**	**18.3**	***3.7***	***1.2***
Current expenditure	17,635	17,778	16,413	11.6	12.5	11.5	*0.8*	*-0.1*
Wages	7,568	7,603	7,130	5.0	5.3	5.0	*0.3*	*0.0*
Interest due	636	1,667	420	0.4	1.2	0.3	*0.8*	*-0.1*
Goods and services	3,212	2,992	3,844	2.1	2.1	2.7	*0.0*	*0.6*
Subsidies and other current transfers	5,565	5,515	4,362	3.7	3.9	3.1	*0.2*	*-0.6*
Of which: VAT reimbursments	303	265	380	0.2	0.2	0.3	*0.0*	*0.1*
Capital expenditures	7,546	10,578	8,487	5.0	7.4	6.0	*2.4*	*1.0*
Foreign-financed	4,454	4,454	4,932	2.9	3.1	3.5	*0.2*	*0.5*
Domestically financed	3,092	6,124	3,555	2.0	4.3	2.5	*2.3*	*0.5*
Exceptional expenditures	662	1,185	1,185	0.4	0.8	0.8	*0.4*	*0.4*
Change in domestic arrears (repayment = -)	-323		-2,008	-0.2	0.0	-1.4	*0.2*	*-1.2*
Overall fiscal balance (cash basis)	**-4,568**	**-5,454**	**-4,197**	**-3.0**	**-3.8**	**-2.9**	***-0.8***	***0.1***
Domestic fiscal balance	-1,215	-1,391	-1,000	-0.8	-1.0	-0.7	*-0.2*	*0.1*
Financing needs	**4,568**	**5,454**	**4,197**	**3.0**	**3.8**	**2.9**	***0.8***	***-0.1***

Sources: Congolese authorities; and IMF staff estimates.

17. However, as shown in 2022, targeting a domestic fiscal deficit broadly consistent with the program does not provide an adequate fiscal anchor.[13] Absent a revised budget law, the 2022 budget did not seem to serve as an anchor to fiscal policy—the spending envelope is expected to deviate from the budget with revenues by up to 26 percent and spending by 8 percent. The authorities have indicated that they would regularize ex-post, when presenting the budget execution report. As for 2023, the draft budget is expansionary, projects a domestic fiscal deficit of 1.0 percent of GDP (broadly consistent with the program), but envisages expenditures at 20.7 percent of GDP, 2.4 percent of GDP above program projections mostly on account of higher wages, subsidies, and capital spending that are only partially compensated by lower arrears repayments.[14,15] Aligning the budget with program fiscal commitments has proven challenging as discussions in the National Assembly and the Senate may result in significant deviation from the original submission (see Annex II). Staff underlined the need to formulate fiscal policy on the basis on a more cogent fiscal anchor, considering the reliance on and volatility of natural resource revenue. Such a shift will take time to be designed and implemented, and the authorities will benefit from technical assistance (see below). In the meantime, consistency with the program fiscal objectives will be ensured by committing spending based on updated cash flow plans, while advancing on aligning the budget with program fiscal engagements by the time of the 2024 budget preparations.

18. Continued revenue mobilization efforts remain a pillar for providing much needed space for development needs and preserving fiscal sustainability. The authorities seem on track to achieve the permanent increase in revenue-to-GDP ratio by 3.5 percent of GDP by the end of the program, which relies on:

- **Widening the tax base, improved compliance and modernizing revenue collection are expected to increase both tax and nontax revenues to 11.8 and 3.6 percent of GDP, respectively, in 2023 (MEFP ¶13-14)**. Plans include to promote taxpayers' voluntary registration, enhance the collection of personal income tax at the source; conform on obligations related to dividends and broader efforts to strengthen tax arrears collection. Additionally, the ongoing modernization and digitalization of the three revenue administrations and finalizing the 2023-25 domestic revenue mobilization (DRM) plan would serve as the blueprint to sustain efforts to improve compliance and tax collection.[16]

[13] The draft 2023 budget discussed in this report was submitted to parliament on September 15. After discussions at the Senate and the National Assembly, the approved budget will be adopted after Presidential signature by December 31, in line with the calendar envisaged in the Public Finance Law.

[14] The wage bill is budgeted at 5.4 percent of GDP to partly honor commitments since November 2021 and measures associated with the civil service reform.

[15] The initial draft budget also projects higher capital spending (by 1.5 ppts compared to staff), mostly financed by domestic resources. Staff cautioned against increasing investment ahead of implementing reforms to enhance absorption capacity, efficiency, and safeguards.

[16] The three revenue administrations are *Direction Générale des Impôts* (DGI) for taxes, *Direction Générale des Douanes et Accises* (DGDA) for customs and excises, and *Direction Générale des Recettes Administratives, Judiciaires, Domaniales et de participations* (DGDRAD) for non-tax revenues.

- **A proper VAT functioning requires credit repayments (MEFP ¶14).** For the certified VAT outstanding credits to mining companies, estimated at US$800 million, staff welcomed the repayment of CDF228 billion up to end-September 2022 and urged the authorities to adopt a repayment plan for the outstanding amount that promotes automatic repayments. With the buildup in VAT outstanding credits to other sectors, staff stressed the need to break with past practices and ensure that VAT revenues accounting and collection and refunds are done to support a well-functioning VAT system consistent with increasing tax compliance.[17] To this end, the authorities should ensure that the allocated VAT account at the treasury is adequately funded to allow for systematic refunds after completed validation. In addition, staff warned against tax revenue erosion with the temporary VAT suspension introduced for basics goods, imported real estate inputs, and sales of real estate.

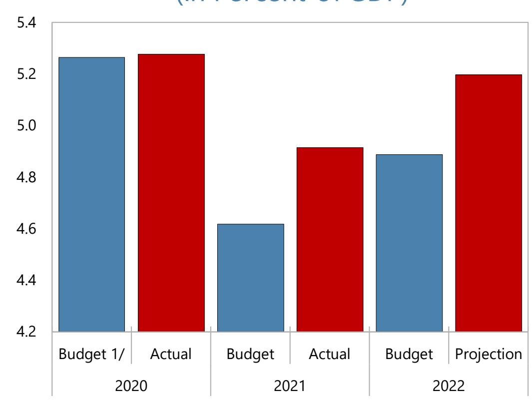
- **Revamping excise taxes by fully implementing the traceability system and rationalizing excises will also support revenue mobilization (MEFP ¶14)**. The authorities completed the rationalization plan for non-tax charges, which will help simplify efficiently the system. In 2023, they will design plans to rationalize excise taxes and parafiscal charges, including by streamlining excise products and adjusting the rate for the higher yielding products, as guided by FAD CD recommendations. Further, the authorities will increase control and compliance to advance with the implementation of excise duty traceability system (STDA) domestically.

19. Calibrated spending and sustained PFM reforms are needed to enhance spending efficiency and fiscal management, and limit fiscal risks. Staff stressed the need to curb current spending to provide space for investment, social spending, and arrears clearance.

- **Wage bill and civil service reform (MEFP ¶19)**. The wage bill increased by 20 percent in 2022, reaching 5.2 percent of GDP on account of salary adjustments to comply with government commitments (Text Figure 4). While the wage bill to GNI ratio is lower compared to peers (Text Figure 5). Staff cautioned against excessive permanent wage bill growth which could add demand pressures in a context of double digit imported inflation with possible spillovers to the private sector wages and, ultimately, competitiveness. Staff warned against ad-hoc incremental wage increases and advised to revise the wage bill within the broader context of the planned civil service reform and to tie increases to performance. For 2023, the wage bill growth would be limited to 8.6 percent,

Text Figure 4. Budget Wage Bill Compared to Actuals

(In Percent of GDP)

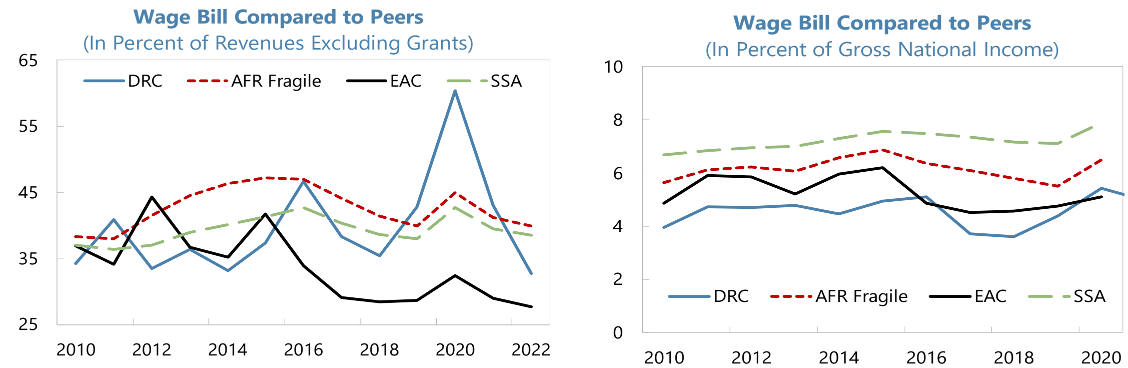


Sources: Congolese authorities; and IMF staff calculations.
1/ Revised Finance Law.

[17] Authorities are still reconciling the outstanding VAT credits in 2022. For the first three quarters of 2021, FAD TA report quoted that VAT credit arrears were estimated at CDF512 billion or about 40 percent of VAT revenue collected.

reaching CDF7,130 billion. Staff stressed the importance of advancing with the civil service reform starting with configuring a reliable registry and reviewing the remuneration policy, which relies significant on bonuses. Staff recommended to review the compensation structure for a more equitable and merit-based compensation.

Text Figure 5. Wage Bill



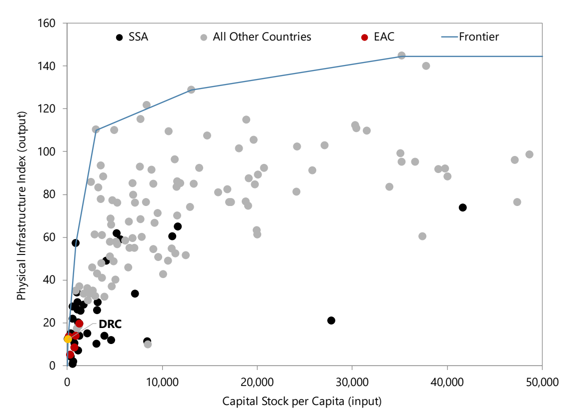
Sources: World Economic Outlook; World Development Indicators; and Congolese authorities.
Note: Excludes budget support and project grants.

- **Social Spending (IT).** In 2022H1, the Global Alliance for Vaccines and Immunization (GAVI) has advanced timely support, but the two other health programs continued to lag. The government makes the financing available but coordination issues and delays in procurement hinder implementation. As a corrective measure, the authorities have proposed a taskforce to diligently monitor spending execution.

- **Fuel subsidy (MEFP ¶18).** Staff called for completing promptly the audit of the pricing mechanism, which is expected by end-2022 and for a medium-term plan to replace the untargeted fuel subsidies with targeted social transfers to reach most vulnerable households, with World Bank support. Staff reiterated the need to gradually calibrate transparently the price pass-through based on the gap between retail and full-cost recovery prices. Despite tangible progress in certifying and clearing arrears in 2022, the authorities will accumulate some arrears in 2022. As no fuel subsidy is projected in 2023 given the 2022 pump price increases and projected global oil prices, staff called for using the additional space to increase social spending, arrears repayments, and capital spending.

- **Public investment (MEFP ¶21, 35).** With identified weaknesses throughout the public investment management (PIM) cycle, staff warned against accelerating public investment and urged the authorities to prioritize enhancing efficiency over volume of projects.

Text Figure 6. Public Investment Efficiency



Source: Public Investment Management Assessment (PIMA)

To this end, starting with the SDR allocation investments, the authorities agreed to (i) adopt the regulatory framework for PPPs in line with the PPP law (**proposed end-May 2023 SB**); (ii) sign a decree on public investment management covering all the project cycle, consistent with FAD CD recommendations (**end-March 2023 SB**); and (iii) prepare a procedural manual for public investment projects (**proposed end-November 2023 SB**).

- **Cash management and treasury single account (TSA) (MEFP ¶22).** Improving cash management, including by coordinating between the BCC and MoF analysis, and defining a roadmap to implement the TSA are key steps to modernize the expenditure chain. Staff stressed the importance of specific plans to consolidate all government accounts, including those relating to special accounts and supplementary budgets.

- **Arrears' clearance (MEFP ¶17)**. The authorities are set to move ahead with the domestic arrears clearance strategy which would clear certified legacy domestic arrears (estimated at 4.2 percent of GDP) consistent with MCM TA recommendations. The allocation between amounts paid upfront and those issued as government papers, and the timeline of clearance will be agreed by early 2023.[18]

20. Over the medium term, a revamped fiscal framework will help improve mining wealth management (Annex III). As a multi-mineral commodity exporter, the DRC faces important fiscal policy challenges arising from volatile resource revenues and needs to avoid pro-cyclical fiscal policies and adopt rules that guide medium-term fiscal sustainability. A fiscal rule targeting a structural resource balance would be appropriate for long-lasting resources countries such as the DRC. The authorities agreed to explore the benefits of a revamped fiscal framework by learning about other countries experiences and requesting technical assistance.

B. Strengthening the Monetary Policy Framework and Financial Stability

21. The current monetary policy stance is consistent with steering inflation back to target (MEFP ¶25). With rising inflation, the BCC raised its policy rate by 75 bps in November, to 8 ¼ percent, which would serve as a tightening signal and increase BCC bills' ability to drain excess liquidity. The monetary policy stance is consistent with bringing inflation back to target within the program horizon. While monetary policy will remain data dependent, the BCC should stand ready to further tighten policy to counter persistent inflation, drain excess domestic currency liquidity and sterilize FX interventions, including by increasing the issuance of BCC bills and reinstating domestic-currency reserve requirements.

22. Continued reserve accumulation is needed in the context of recurrent shocks. End-June 2022 net international reserves (NIR) accumulation reached US$1,167 million, with BCC's FX purchases at US$381 million. The end-2022 NIR target appears achievable despite increasing FX

[18] AFRITAC Central has been providing CD support to develop the strategy for repayment, with support on strengthening the validation process and the institutional arrangement to facilitate no additional buildup of domestic arrears.

spending pressures. For 2023, the BCC and staff agreed on continuing with an ambitious pace of reserve accumulation, while noting the high risks of depreciation due to fragile confidence and uncertainty. Hence, as for the end-June 2023 NIR QPC, the BCC proposes US$430 million, with an end-year IT of US$700 million. The BCC's intervention policy will continue to be guided by the need to build up reserves and to counter any disorderly market conditions, without undermining the two-way exchange rate flexibility.

23. Strengthening the monetary policy framework and central bank governance will improve liquidity management and monetary policy effectiveness (MEFP ¶27).

- Recapitalization will place the BCC on a sustainable financial foundation and escape a spiral of persistent net losses on its monetary policy operations (CDF13.5 billion in 2021). The analysis of the BCC's capital needs, which were estimated at CDF2,913 billion, was validated by its Board (**end-November 2022 SB**) and will form the basis for a Memorandum of Understanding with the government for implementation (**proposed end-September 2023 SB**).

- The BCC will advance the reform to the reserve requirement for FX deposits by gradually phasing out the portion fulfilled in local currency, starting with a 5-percent decrease in 2023. The BCC should also improve the functioning of the reserve requirements by (i) releasing funds for those banks with FX deposits below their end-2021 stock, and (ii) adjusting the stock of deposits covered by reserve requirements fulfilled in domestic currency to account for exchange rate variations, to maintain uniform reserve requirement ratios.

- In addition to enhancing the monetary policy process by implementing the Forecasting Policy and Analysis System (FPAS) with IMF TA, the BCC's Monetary Policy Committee (MPC) should establish regular meetings and publish timely press releases.[19] Enhancing the BCC's communications could help improve the public understanding on economic developments and monetary policy decisions in the context of higher uncertainty.

24. The BCC continues implementing the 2020 Safeguards recommendations, albeit with some delays (MEFP ¶28).

- In addition to the recapitalization estimate (¶23), the Board also plans to implement International Financial Reporting Standards (IFRS), with IMF TA, starting with the financial statements of FY 2023. Furthermore, measures to improve the accounting procedures and internal audit reporting to the Audit Committee are being implemented That said, sustained efforts are needed to advance with the remaining recommendations, including establishing a compliance function and strengthening internal audit.

- BCC's FX accounts at domestic banks are an anomaly that exposes the central bank to financial and reputational risks, undermines reserves accumulation and reinforces economic dollarization. Yet the BCC's FX assets held with domestic banks remains elevated under the ECF arrangement,

[19] Currently, the MPC meets on an ad-hoc basis. Press releases are occasionally published on the BCC's website.

reaching to US$292 million at end-October 2022 (7 percent of GIR).[20] To phase out these accounts, BCC will gradually decrease FX deposits at domestic commercial banks to US$300 million (end-December 2022), US$250 million (**proposed end-June 2023 QPC**) and US$200 million (**end-December 2023 IT**).

25. An ambitious financial reform agenda will help bolster the resilience of the banking sector. Specifically,

- The Financial Sector Stability Review (FSSR) will help anchor reforms.[21] A first phase has reviewed cross-border cooperation agreements and started building capacity on stress-testing. Delays in adopting the new banking law will slow modernizing the regulatory and supervisory financial frameworks, including on operationalizing a new crisis prevention and resolution framework, which will eventually make decisions more effective and support the role of the BCC as the financial supervisor.[22]

- Related-party transactions have been central to cases of bank distress. The BCC plans on improving the regulation in line with Basel Core Principle 20 while consolidating all considerations in a BCC *instruction* (**proposed end-November 2023 SB**).

- After the COVID-pandemic interruption, the BCC has resumed onsite inspections, beginning with visits to microfinance institutions, e-money providers, and foreign exchange offices. Onsite bank inspections are expected to resume by early 2023, aiming to evaluate the impact of reinstating pre-COVID loan classification rules on non-performing loans by end-March 2023.

- Advancing bank recapitalization needs would strengthen the banking sector. The BCC should ensure banks meet the US$30 million current minimum capital requirement promptly and have plans to reach the US$50 million minimum capital requirement by 2025.[23]

C. Advancing Structural Reforms to Build Resilience in a Challenging Environment

26. Strengthening governance and fighting corruption remains paramount to lift potential growth.

- **Anticorruption framework (MEFP ¶31)**. The authorities have taken decisive steps to strengthen the Audit Court, with the swearing of new magistrates and funding availability. The

[20] Following the definition of FX deposits proposed in TMU ¶19, which excludes BCC deposits used as guarantees for central government borrowing.

[21] The FSSR and an associated TA roadmap were published in September 2022. The implementation of the TA roadmap is being discussed with the BCC.

[22] Under the current system, bank liquidation is a protracted process (five are underway, including one ongoing since 1998), with shareholders and other public agencies involved and undermining BCC's role as the financial supervisor.

[23] 4 of 15 banks currently have Tier-1 Capital greater than US$50 million.

Anti-Corruption Prevention Agency (APLC) will continue being strengthened in line with the United Nations Convention Against Corruption (UNCAC) and international best practices to ensure institutional and operational autonomy, and effectiveness of anti-corruption agencies. Clear division of functions between the Agency for the Prevention and Fight against corruption (APLC) and the Corruption Monitoring Observatory (OSCEP) is important to avoid overlaps in their mandates and operations.

- **Mining transparency (MEFP ¶32).** The EITI recognized recent efforts,[24] and the publication of a renegotiated mining contract is an important signal of the authorities' transparency commitments. Gécamines' 2021 financial statements were published, including the auditors' feedback. However, recent scandals call for additional efforts to enhance transparency, oversight and monitoring of existing and future mining contracts including on identifying ultimate beneficiaries.[25]

- **Public procurement (MEFP ¶22).** The authorities are working on amending the procurement framework to facilitate the collection and publication on beneficial ownership for all public procurement contracts by end-2022.

- **AML/CFT framework (MEFP ¶33).** On October 21, 2022, due to strategic deficiencies in its AML/CFT framework and insufficient progress under FATF's subsequent action plan, the FATF placed the DRC under increased monitoring ("grey listing").[26] A high-level inter-ministerial taskforce will lead reforms, building on the recently adopted AML/CFT law. The authorities should prioritize the agreed action plan, including completing the national risk assessment, improving supervision of the DNFBP sector, strengthening the National Financial Intelligence Unit's operations (CENAREF), and strengthen money laundering prosecutions.

- **Improving the business climate is crucial for investment and private sector-led growth (MEFP ¶34)**. The complexity of the tax system, administrative complexity, governance weaknesses, lack of basic infrastructure and access to water and electricity, constrained financing, and weak rule of law and judiciary system hinder economic development. A roadmap

[24] The report noted significant progress on routine disclosure of data by government agencies and companies, and on the engagement with local civil society supported by a rich repository of information catalyzing investigations into the management of the extractive sector revenues. The Validation Report questioned however progress in bridging the gap between transparency and accountability, including opaque awards of licenses and contracts. For further details, see EITI October 2022 Validation Report.

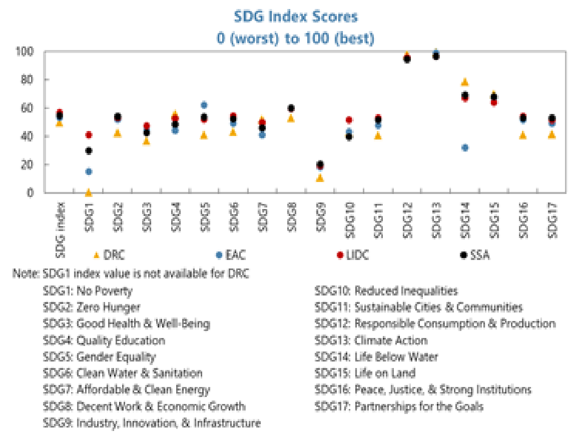
[25] In May 2022, Glencore agreed to pay US$1.1 billion to U.S. authorities to settle bribery charges related to its investments including in the DRC; Kazakh company ENRC has been under investigation in the U.K. for almost a decade over allegedly corrupt mining deals in the DRC; and on September 16, an advisor to the President of the Republic resigned after footage surfaced of him promising to facilitate a mining investment in exchange for a commission.

[26] This grey listing could put pressure on correspondent banking relationships (CBRs) and could result in higher financial transaction costs considering similar country experiences. The authorities agreed to implement a 19-item action plan by May 2025—though some prioritization will be needed given capacity constraints.

for key reforms includes revamping the legal framework.[27] The authorities also recognize the importance of a fair and predictable tax collection system that provides predictability. Finally, improving the judicial system and the insolvency framework remains essential in effectively resolving commercial disputes.

27. Establishing sound public governance could help catalyze public investment and manage related fiscal risks (MEFP ¶35-36). Revamping the regulatory and institutional framework for PPPs (see ¶19) is required before scaling up these arrangements. In the meantime, the authorities have agreed to publish new PPPs. Similarly, the authorities and staff agreed to discuss plans toward establishing a national development bank or any new public or para-public financial institutions, to ensure that adequate safeguards and a clear business plan are established, while rationalizing existing public financial institutions.

Text Figure 7. Sustainable Development Goals



Source: IMF SDG Performance Tool 2022.

28. Mapping and costing of reaching the SDGs can help build resilience and promote inclusive growth. Large and persistent gaps in human capital and basic infrastructure continue to hinder growth. Social spending has been low and insufficient to meet the Millennium Development Goals, with weak targeted social safety nets. Significant disparities exist in accessing basic public services. Evaluating the mapping and costing of the SDGs, with IMF CD, would help better anchor reforms and efforts to mobilize financing in the context of significant financing constraints and large development needs.

29. The DRC needs to specify and commit to specific climate-related reforms to help catalyze financing for green investment. According to the C-PIMA, commitments in the fight against climate change are beginning to be considered in public investment management practices, but climate change considerations need to be aligned between national and sectoral development strategies, which requires developing a methodology to assess climate risks on infrastructure. Measures to (i) strengthen and institutionalize the monitoring and reporting of climate-related spending, (ii) integrate climate risks into fiscal planning, and (iii) upgrade public investment management (PIM) to climate-related issues would help catalyze green financing.

[27] The authorities plan to revamp, among others, the Investment Code, the Agricultural Law, the Entrepreneurship and Crafts Law, the Digital Code, and the Law on Electronic Trade and Exchange. For details, please see [the authorities' reform plans].

PROGRAM ISSUES AND FINANCING ASSURANCES

30. The authorities and staff reached an understanding to propose updated program conditionality as follows (MEFP, Tables 1-2):

- **Modifications to QPCs:** It is proposed that, effective December 2022, the adjustor on the reserve requirement will no longer be considered for the ceiling on the BCC's net domestic assets, while net domestic assets will be defined excluding reserve requirements, given that variations in deposits—and associated reserve requirements—are outside of BCC's control. To this end, it is proposed that the end-December 2022 QPC is revised from CDF1.2 trillion to CDF363 billion. It is also proposed that the end-2022 value of the adjustor on external debt service of the central government changes from US$336 million to US$281 million as it (inadvertently) included Gécamines' debt service. Starting in 2023, an adjustor on the domestic fiscal balance is proposed to decrease the ceiling on the domestic fiscal deficit by 80 percent of the revenue above the revenue projected under the program, and the adjustor on balance-of-payments support is proposed to become symmetric given the stronger-than-envisaged reserve buildup compared to the path envisaged at the time of the program approval.

- **New QPCs and ITs** are proposed for end-June 2023, and ITs for end-December 2023, with quarterly ITs in line with projections. To reinforce BCC safeguards for FX management, a new QPC is proposed on a ceiling on BCC foreign currency deposits at domestic banks. A new IT is proposed to monitor spending under the wage bill.

- **SBs.** The authorities request postponing the end-March 2023 SB on adopting a decree on public investment management to end-May 2023. Additionally, new SBs are proposed for (i) adopting the necessary decrees to update the regulatory framework for PPPs (end-June 2023); (ii) signing of a MoU between the BCC and the government to recapitalize the BCC (end-September 2023); (iii) adopting the related-party regulation in line with Principle 20 of the Basel Core Principles (end-June 2023) and (iv) adopting the procedure manual for public investment projects (end-December 2023).

31. The program remains fully financed. Firm commitments for the next 12 months are in place, with good prospects for adequate financing for the remainder of the arrangement, despite more conservative assumptions for exceptional financing in 2023-24 (Text Table 5). The 2023 BOP gap is estimated at US$869 million. IMF disbursements (US$405 million) are directed toward balance-of-payment support. The ECF arrangement is playing its catalytic role, underpinning World-Bank budget support or increased project financing by multilateral and bilateral partners, including the first loans by *Agence Francaise de Développement* in the last 30 years.

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

	Borrowing in 2021		PV of new debt in 2021 (program purposes)		Borrowing in 2022		PV of new debt in 2022 (program purposes)		Borrowing in 2023		PV of new debt in 2023 (program purposes)	
	US$ million	Percent	US$ million	Percent	US$ million	Percent	US$ million	Percent	US$ million	Percent	US$ million	Percent
By sources of debt financing	**2,591**	**100**	**1,533**	**100**	**2,215**	**100**	**1,264**	**100**	**3,167**	**100**	**2,018**	**100**
Multilateral concessional debt	1,021	39	426	28	1,670	75	826	65	1,988	63	1,085	54
Semi-concessional debt	1,570	61	1,107	72	545	25	438	35	1,179	37	933	46
By creditor type	**2,591**	**100**	**1,533**	**100**	**2,215**	**100**	**1,264**	**100**	**3,167**	**100**	**2,018**	**100**
Multilateral	2,591	100	1,533	100	1,765	80	896	71	1,988	63	1,085	54
Bilateral - Non-Paris Club	0	0	0	0	450	20	368	29	534	17	406	20
Bilateral - Paris Club	0	0	0	0	0	0	0	0	645	20	527	26
Uses of debt financing	**2,591**	**100**	**1,533**	**100**	**2,215**	**100**	**1,264**	**100**	**3,167**	**100**	**2,018**	**100**
Infrastructure	1,071	41	466	30	2,065	93	1,184	94	2,627	83	1,754	87
Budget Financing	0	0	0	0	0	0	0	0	250	8	132	7
Other	1,520	59	1,067	70	150	7	80	6	290	9	132	7

Sources: Congolese authorities; and IMF staff calculations.

32. The authorities are undertaking efforts to resolve external arrears (Text Table 6). External arrears partly date from pre-HIPC Completion Point, with some arrears related to Gécamines. Arrears to non-Paris Club creditors are either in negotiation or under reconciliation. Meetings with each of these creditors are scheduled in the next six months, with enhanced information sharing, to reach an agreement. The remaining external arrears are claims to commercial creditors with whom the authorities are also making good faith efforts with additional information sharing and communication to facilitate resolution. [28]

Text Table 6. DRC: 2022 External Arrears[1]

	Total	
	Nominal (US$ million)	Percent of GDP
Total External Arrears	295	0.5
Bilateral creditors	60	0.1
Commercial creditors	235	0.4
Memo item:		
GDP	56,516	

Sources: Congolese authorities and IMF staff estimates.
1/ Cutoff date June 30, 1983.

33. DRC's capacity to repay the Fund is expected to remain adequate, but it is subject to important risks given fragility, still low reserves, and high exposure to recurrent shocks (Table 7). Fund credit outstanding is projected to peak in 2023 at almost 37 percent of GIR (or 3 percent of GDP). Accelerating reserve accumulation, implementation of program engagements and envisioned reforms. and keeping low public debt would help build resilience against shocks and mitigate risks.

[28] For the latest Debt Sustainability Analysis, please see Staff Report for the 2022 Article IV Consultation and Second Review Under the Extended Credit Facility Arrangement. At the time of the second review, external arrears were reported at US$287 million, and invertedly underreported interest arrears with one of the non-Paris Club creditors.

STAFF APPRAISAL

34. **DRC's economic performance has proven resilient despite recurrent shocks.** Real GDP growth is one of the strongest in Sub-Saharan Africa driven by sustained extractive growth, the increase in fiscal revenue and official foreign exchange reserves is well above the initial objectives under the ECF arrangement, and the outlook remains generally positive provided that the conflict in the East does not escalate further. In the context of economic fragility, the economy remains highly vulnerable to shocks and the authorities need to remain vigilant and sustain reform efforts to address structural obstacles to growth.

35. **Program performance remains broadly satisfactory.** All end-June 2022 quantitative performance criteria were met, and all indicative targets except for two. Four of six structural benchmarks were also met, and a fifth one was achieved with a small delay. Efforts to meet their social spending under the IT will require close monitoring during implementation.

36. **The 2023 fiscal engagements appropriately balance containing additional spending pressures under a deteriorated external environment with heightened uncertainty.** Continued revenue mobilization efforts will help address some spending pressures, especially those related to security, while containing the wage bill growth and public investments until reforms to enhance spending efficiency are implemented. These commitments are expected to provide additional space for social and domestic arrears repayment. Enhancing budget credibility is needed to improve the role of the budget as the fiscal anchor. To ensure the consistency with the program fiscal objectives, spending will continue to be committed based on updated cash flow plans, and most revenue outperformance will help build buffers.

37. **PFM reforms remain key to enhance the quality, execution, and control of government spending.** Priorities include improvements in the budgetary and procurement processes, implementation of the TSA, and stronger fiscal reporting, transparency, and accountability to help reinforce the expenditure chain and budget execution. A strengthened framework for public investment will help develop absorption capacity and improve efficiency.

38. **The recent policy rate hike is appropriate, and continued reserve accumulation is warranted in the context of multiple shocks.** The BCC should stand ready to further tighten policy to counter persistent inflation as needed. With still inadequate external buffers, the BCC's intervention policy should continue to be guided by the objective of building up reserves, while countering any disorderly market conditions without undermining exchange rate flexibility. Efforts to strengthen the efficiency of the monetary framework, reinforcing the BCC's governance and independence will enhance the margin of maneuver for monetary operations, which remain challenged by high financial dollarization.

39. **Strengthening governance, improving the business climate, and fighting corruption, remain priorities for economic diversification and inclusive growth.** Efforts to enhance the anticorruption and AML/CFT frameworks, as well as transparency in the mining sector and in public

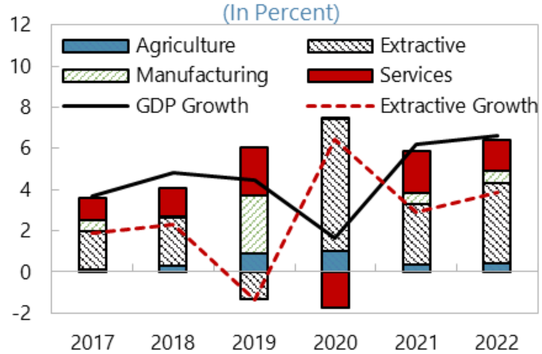
procurement, together with reforms to simplify levies and to implement a far and predictable tax collection system are key to mobilize investment and private sector-led growth. Advancing with the regulatory framework for PPPs and ensuring that any public financial institution has all safeguards in place will facilitate mobilizing private sector activity while establishing a level-playing field.

40. Staff supports the authorities' requests for completing the third review under the ECF and the financing assurances review, and for modification of QPCs. A strong commitment to prudent macro policies and steps to scale up structural reforms, while continuing to build capacity, will support the authorities meet program objective.

Figure 1. Real Sector Developments, 2017-22 (Proj.)

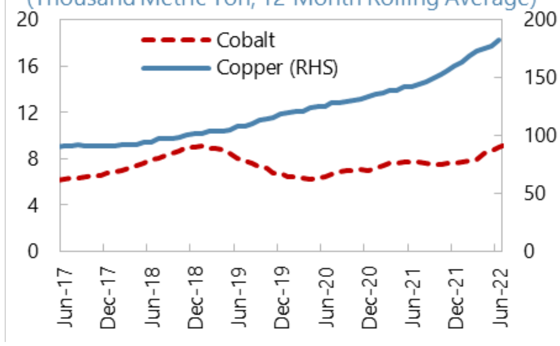
The extractive sector dominates growth dynamics…

Contribution to Real GDP Growth
(In Percent)



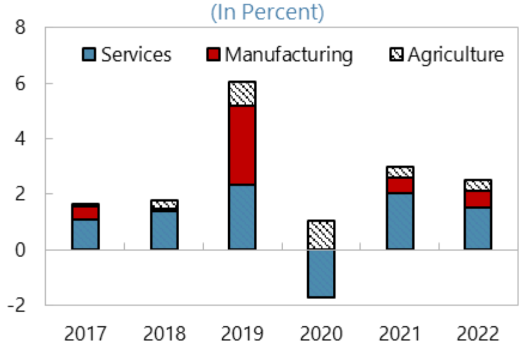
…with growth benefitting from increasing Copper and Cobalt mining production.

Cobalt and Copper Production
(Thousand Metric Ton, 12 Month Rolling Average)



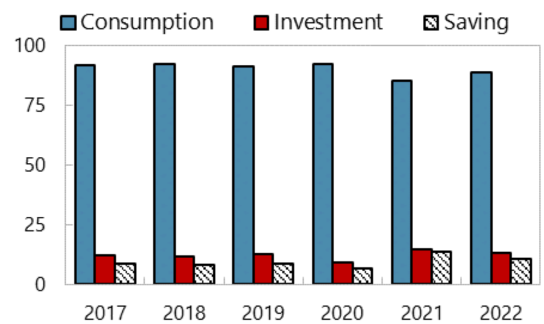
Services and manufacturing are driving non-extractive growth…

Non-Extractive Real GDP Growth
(In Percent)



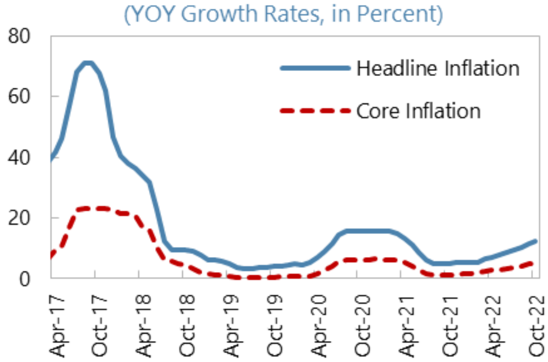
…but investment and savings remain very low.

Consumption vs Investment
(In Percent of GDP)



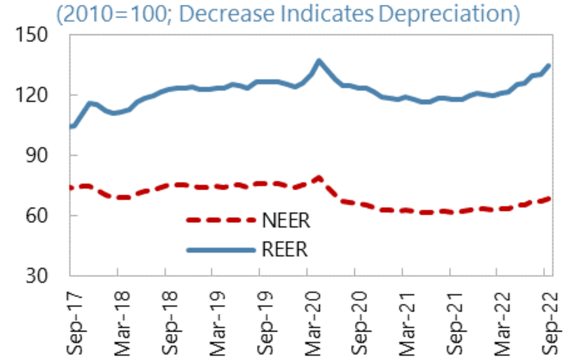
Inflation has picked up recently due to food, energy, and transport prices (though core inflation remains low)…

Inflation
(YOY Growth Rates, in Percent)



…while the exchange rate has remained broadly stable.

Nominal and Real Effective Exchange Rates
(2010=100; Decrease Indicates Depreciation)

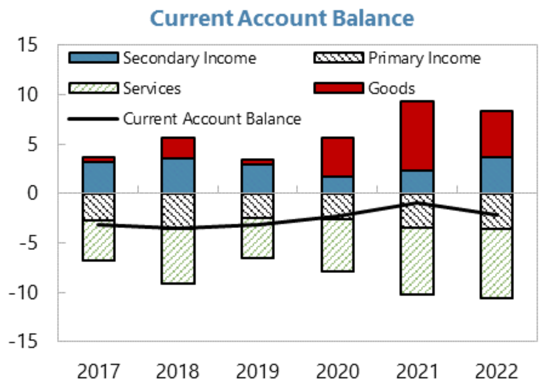


Sources: Congolese authorities; IMF STA INS database; and IMF staff estimates.

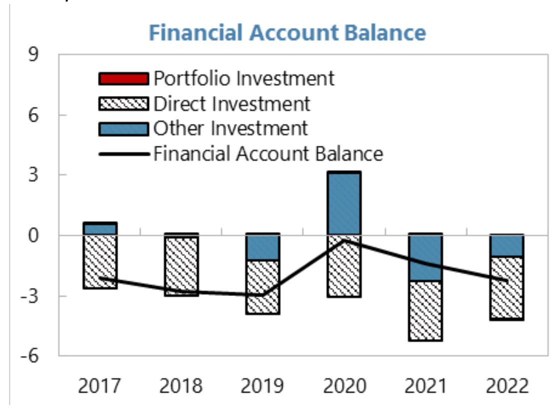
Figure 2. External Sector Developments, 2017-22 (Proj.)

(In Percent of GDP Unless Specified)

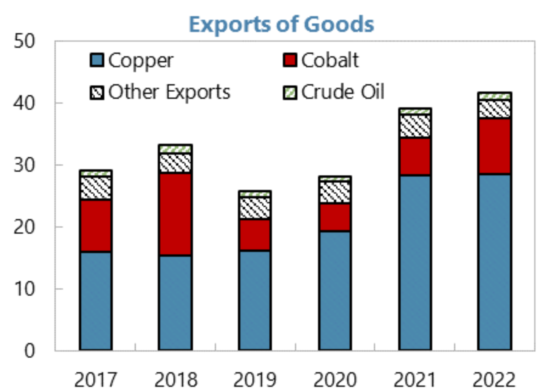
The current account deficit has narrowed, supported by a trade surplus…



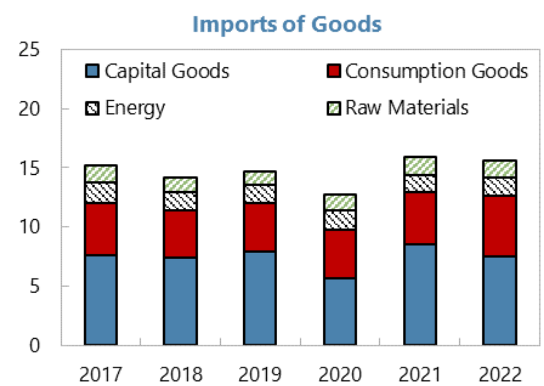
…and the financial account has benefitted from FDI and other flows.



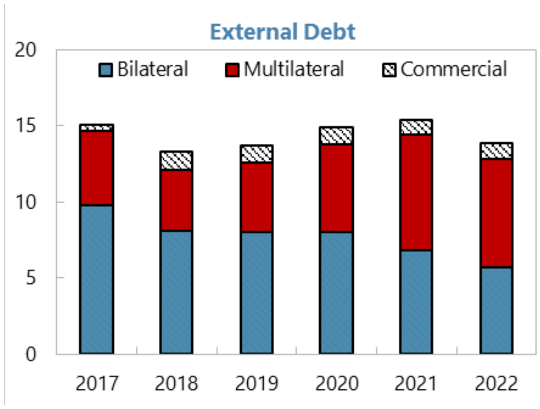
Exports are concentrated in mining products…



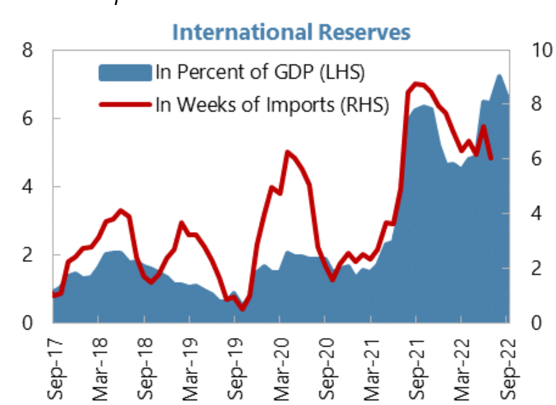
…while broad-based products constitute imports.



External debt remains subdued…



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

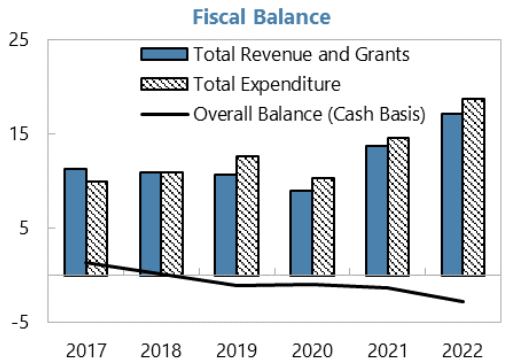


Sources: Congolese authorities; and IMF staff estimates.

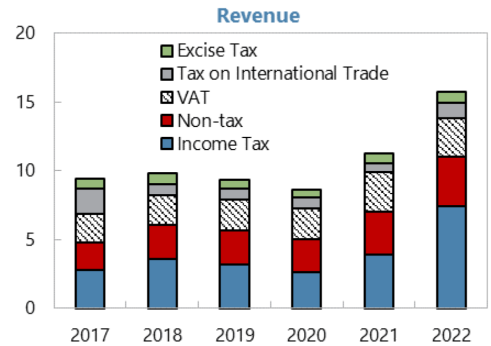
Figure 3. Fiscal Sector Developments, 2017-22 (Proj.)

(In Percent of GDP)

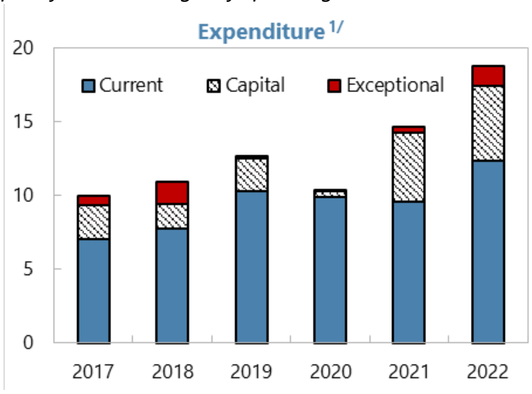
The fiscal deficit is widening…



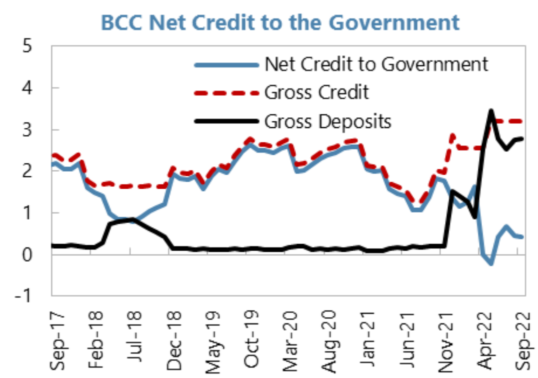
…as stronger revenues collection is not compensating…



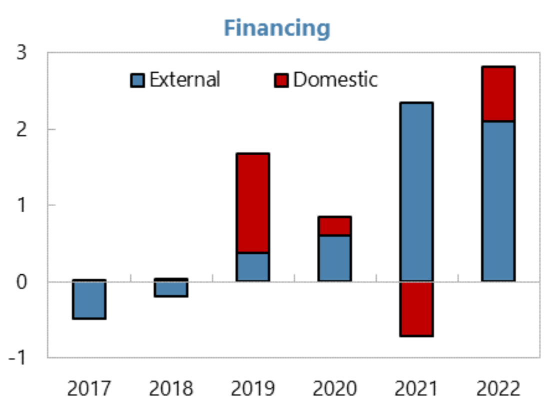
…for the increase in current and capital expenditures partly due to emergency spending.



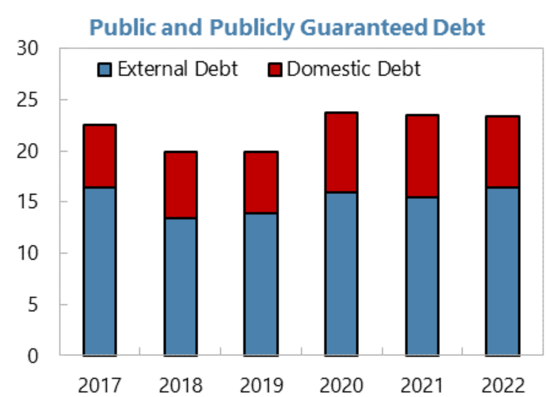
NCG continues to improve following the discontinuation of BCC advances since end-April 2020.[2/]



External and domestic financing has increased…



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

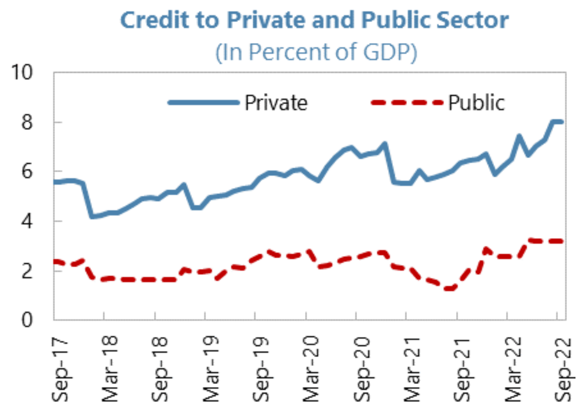


Sources: Congolese authorities and IMF staff estimates.

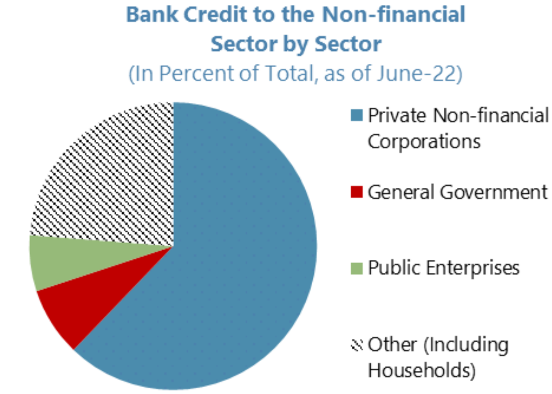
1/ Exceptional expenditure includes security, elections, and other exceptional expenditures. 2/ The increase in NCG observed in the late part of 2021 onward is driven by the part of the SDR allocation retroceded to the government as budgetary support.

Figure 4. Monetary and Financial Sector Developments, 2017-22

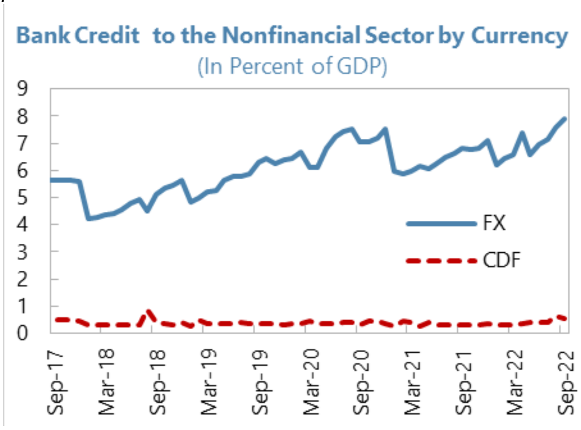
Credit remains very low despite a mildly increasing trend.



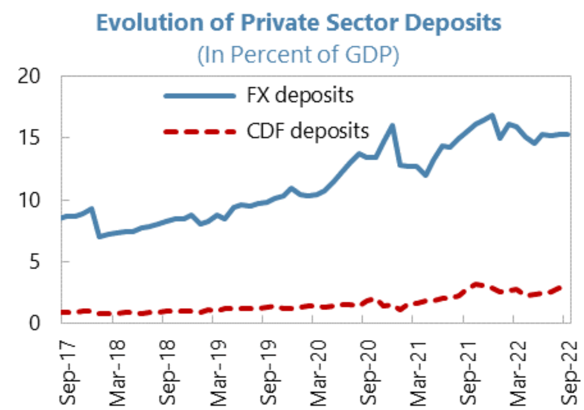
Private enterprises receive most of the loans.



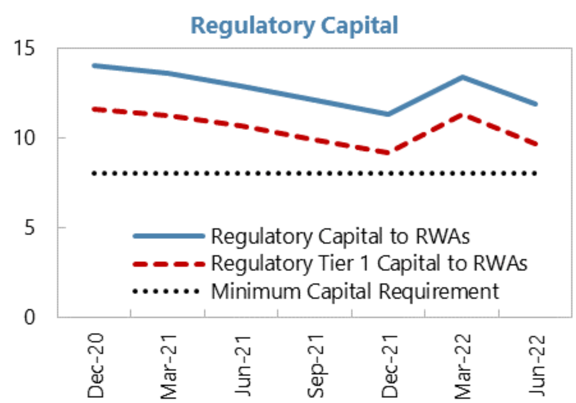
Credit is extended mostly in FX, while credit in Congolese francs is limited.



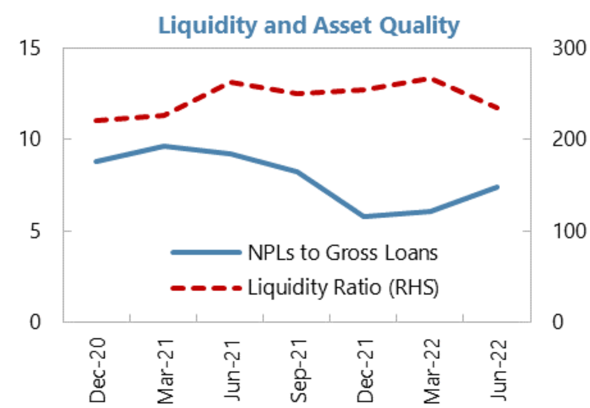
Bank deposits are almost entirely in foreign currency.



Capital ratios have declined.



The reinstatement of credit quality rules has led to an increase in reported NPLs.



Sources: Congolese authorities; and IMF staff estimates.

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

	2021		2022		2023		2024	2025	2026	2027
	CR No. 22/210	Prel.	CR No. 22/210	Proj.	CR No. 22/210	Proj.	Proj.	Proj.	Proj.	Proj.
	(Annual percentage change, unless otherwise indicated)									
GDP and prices										
Real GDP	6.2	6.2	6.1	6.6	6.7	6.3	6.5	6.8	7.0	6.7
Extractive GDP	10.1	10.1	10.6	13.1	10.1	10.9	9.6	8.7	8.2	7.0
Non-Extractive GDP	4.5	4.7	4.1	3.9	5.1	4.2	4.9	5.8	6.3	6.5
GDP deflator	17.6	17.4	8.4	5.4	9.7	6.1	6.8	6.4	5.0	5.7
Consumer prices, period average	9.0	9.0	8.4	9.0	9.8	10.8	7.2	6.8	5.6	6.3
Consumer prices, end of period	5.3	5.3	11.0	12.3	6.8	8.3	6.9	6.7	5.7	5.6
External sector										
Exports in U.S. dollars, f.o.b. value	60.9	60.9	28.4	18.4	11.6	-0.4	11.4	10.8	10.3	9.1
Imports in U.S. dollars, f.o.b. value	53.8	53.8	24.8	27.8	9.9	3.2	8.0	6.0	9.7	8.0
Exports volume	11.9	11.9	13.7	15.1	13.7	15.7	13.3	13.4	12.4	10.6
Import volume	26.4	26.7	6.8	9.1	11.6	5.2	8.0	7.6	9.5	7.8
Terms of trade	21.6	21.5	-2.3	-10.1	1.2	-9.3	-0.2	0.0	-0.2	0.1
	(Percent of GDP, unless otherwise indicated)									
Central government finance										
Revenue and grants	13.8	13.8	14.0	17.2	14.3	16.8	16.5	16.5	16.9	16.8
Revenue	11.2	11.3	12.7	15.9	13.4	15.4	15.5	15.6	16.2	16.2
Grants	2.6	2.5	1.3	1.3	0.9	1.3	1.0	0.8	0.7	0.6
Expenditures	14.8	14.6	17.5	18.8	17.1	18.3	19.0	19.5	19.9	20.3
Overall fiscal balance (commitment basis)	-1.5	-1.4	-3.8	-2.8	-3.0	-2.9	-3.3	-3.7	-3.6	-3.7
Domestic fiscal balance (program target, cash basis)	-0.1	0.0	-1.2	-1.1	-0.8	-0.6	-0.8	-1.0	-0.7	-0.8
Investment and saving										
Gross national saving	13.8	13.6	13.5	10.9	15.7	10.0	12.1	15.2	15.5	15.6
Government	-0.4	-1.0	-2.8	-1.2	-2.2	-0.3	0.0	-0.2	0.1	-0.3
Non-government	14.1	14.6	16.3	12.1	17.9	10.3	12.1	15.3	15.4	15.9
Investment	14.7	14.5	13.5	13.1	15.7	14.0	15.1	17.5	17.5	17.3
Government	4.9	4.7	5.5	5.1	5.0	6.0	7.1	7.5	7.7	7.7
Non-government	9.8	9.8	8.0	8.0	10.7	8.0	8.0	10.0	9.8	9.6
Balance of payments										
Exports of goods and services	39.5	39.6	44.9	42.0	45.5	37.8	38.0	37.8	37.5	36.8
Imports of goods and services	39.2	39.3	42.7	44.2	42.7	41.6	40.5	39.1	38.5	37.5
Current account balance, incl. transfers	-0.9	-0.9	0.0	-2.2	0.0	-3.9	-3.0	-2.3	-1.9	-1.7
Current account balance, excl. transfers	-2.2	-2.2	-1.3	-4.1	-0.8	-5.3	-4.1	-3.4	-2.9	-2.6
Overall balance	0.8	4.5	0.0	3.1	0.0	1.5	1.4	1.4	1.2	1.0
Gross official reserves (millions of U.S. dollars)	2,955	2,948	4,297	4,206	5,433	5,269	6,339	7,511	8,614	9,718
Gross official reserves (weeks of imports)	6.3	6.3	8.3	8.6	9.5	9.9	11.2	12.1	12.8	14.4
External debt										
Total stock, including IMF	17.6	15.5	18.3	16.4	18.9	17.4	17.9	18.0	18.4	18.7
PV of debt (percent of exports of goods and services)	29.3	30.8	30.2	30.9	30.5	35.8	35.9	36.4	37.6	39.3
Scheduled debt service (millions of U.S. dollars)	497	457	640	603	820	787	841	834	843	898
Percent of exports of goods and services	2.1	2.0	2.6	2.3	2.4	3.1	3.0	3.0	2.9	3.0
Percent of government revenue	7.2	7.2	8.4	6.2	7.6	7.6	7.4	7.3	6.6	6.9
Exchange rate (CDF per U.S. dollars)										
Period average	1,990	1,990.2	...	...	...	...	...	...	...	...
End-of-period	2,000	2,000.0	...	...	...	...	...	...	...	...
Memorandum items:										
DRC copper export price ((US$ per ton)	8,922.0	8,922.0	9,676.3	8,470.3	9,621.9	7,579.5	7,563.6	7,547.6	7,546.3	7,576.7
DRC cobalt export price (US$ per ton)	37,585.8	37,585.8	54,096.2	52,864.4	55,394.9	42,881.8	43,168.6	43,168.6	43,168.6	43,168.6
World crude oil price (US$ per barrel)	69.1	69.4	106.8	98.2	92.6	85.5	80.2	76.2	73.3	71.0
Nominal GDP (billions of CDF)	112,575	112,476	129,479	126,345	151,553	142,543	162,131	184,163	206,746	233,222
Nominal GDP (millions of U.S. dollars)	56,566	56,516	63,926	62,859	70,371	69,474	77,081	85,728	95,383	114,632

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

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

(Millions of US$, Unless Otherwise Indicated)

	2021		2022		2023		2024	2025	2026	2027
	CR No. 22/210	Prel.	CR No. 22/210	Proj.	CR No. 22/210	Proj.	Proj.	Proj.	Proj.	Proj.
Current Account Balance	-535	-535	3	-1,395	9	-2,724	-2,335	-1,990	-1,858	-1,761
Current Account Balance (excl. budget grants) [A]	-584	-584	-401	-1,750	-145	-2,829	-2,335	-1,990	-1,858	-1,761
Goods balance	3,940	3,940	5,709	2,943	6,756	2,093	3,149	4,732	5,390	6,209
Exports of goods	22,185	22,185	28,479	26,261	31,789	26,169	29,160	32,310	35,629	38,876
o/w extractive sector	21,945	21,945	28,196	25,982	31,463	25,854	28,798	31,893	35,147	38,316
Imports of goods	18,245	18,245	22,770	23,318	25,033	24,076	26,011	27,578	30,239	32,666
o/w capital goods	8,216	8,216	10,757	11,261	12,072	11,632	12,446	13,348	15,105	16,512
Services balance	-3,779	-3,779	-4,338	-4,383	-4,765	-4,706	-5,081	-5,795	-6,353	-6,862
Primary income	-1,990	-1,990	-2,733	-2,256	-3,053	-2,584	-2,878	-3,437	-3,512	-3,826
Secondary income (excl. budget support grants)	1,245	1,245	962	1,946	916	2,368	2,476	2,510	2,617	2,718
Budget grants	49	49	404	355	154	105	0	0	0	0
Capital Account Balance [B]	171	171	115	719	313	761	798	850	905	910
Net Lending(+)/Borrowing(-) [A+B]	-413	-413	-286	-1,031	168	-2,068	-1,537	-1,140	-954	-851
Financial Account Balance (excl. IMF and budget loans) [C]	1,159	1,159	729	-864	1,256	-1,199	-1,055	-970	-820	-820
Financial Account Balance	-799	-799	118	-1,396	322	-1,963	-1,537	-1,140	-954	-851
Portfolio investment	48	48	53	-32	53	-32	-32	-32	-32	-32
Direct investment	-1,678	-1,678	-1,798	-1,948	-1,864	-2,153	-2,388	-2,656	-2,955	-3,282
Direct investment liabilities	1,678	1,678	1,798	1,948	1,864	2,153	2,388	2,656	2,955	3,282
Other investment (excl. IMF and budget support loans)	643	669	1,133	-142	1,931	-78	295	546	1,065	1,390
of which:										
Project loans	830	780	1,939	1,449	1,589	1,574	1,820	2,106	2,357	2,645
Change in reserves (+: increase)	2,145	2,119	1,342	1,258	1,136	1,063	1,070	1,172	1,103	1,104
Net Errors and Omissions [D]	-435	-435	0	-720	0	0	0	0	0	0
Overall Balance [A+B-C+D]	-2,007	-2,007	-1,015	-887	-1,087	-869	-482	-170	-134	-31
Overall Financing Needs	2,007	2,007	1,015	887	1,087	869	482	170	134	31
IMF financing	431	431	420	402	421	383	182	-130	-166	-269
Disbursements	431	431	424	407	429	405	204	0	0	0
Repayments	0	0	4	5	8	22	22	130	166	269
SDR allocation	1,467	1,467	0	0	0	0	0	0	0	0
Other exceptional financing	110	110	595	486	667	486	300	300	300	300
Budget support loans	61	61	192	131	513	381	300	300	300	300
World Bank	61	61	192	131						
AfDB	0	0	0	0						
Others	0	0	0	0						
Budget grants	49	49	404	355	154	105	0	0	0	0
Memorandum Items:										
Current account balance (in percent of GDP)	-0.9	-0.9	0.0	-2.2	0.0	-3.9	-3.0	-2.3	-1.9	-1.5
Terms of trade (percent change)	21.6	21.5	-2.3	-10.1	1.2	-9.3	-0.2	0.0	-0.2	0.1
Financial account balance										
(excl. IMF, SDR allocation, and budget loans, in percent of GDP)	2.0	2.0	1.1	-1.4	1.8	-1.7	-1.4	-1.1	-0.9	-0.7
o/w direct investment liabilities	3.0	3.0	2.8	3.1	2.6	3.1	3.1	3.1	13.2	2.9
Gross reserves	2,955.0	2,947.8	4,297.2	4,205.8	5,433.2	5,268.8	6,338.8	7,511.1	8,613.7	9,717.7
in weeks of non-aid related imports	6.3	6.3	8.3	8.6	9.5	9.9	11.2	12.1	12.8	14.4
Nominal GDP (Million US Dollars)	56,565.7	56,515.8	63,925.8	62,859.4	70,371.4	69,474.0	77,080.9	85,727.9	95,382.6	114,631.7

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

Table 3a. Democratic Republic of the Congo: Central Government Operations, 2021-27 1/

(Billions of CDF)

	2021		2022		2023		2024	2025	2026	2027
	CR No. 22/210	Prel.	CR No. 22/210	Proj.	CR No. 22/210	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue and grants	**15,553**	**15,485**	**18,095**	**21,714**	**21,598**	**23,896**	**26,766**	**30,301**	**34,932**	**39,215**
Revenue	**12,638**	**12,683**	**16,464**	**19,904**	**20,235**	**21,978**	**25,086**	**28,775**	**33,526**	**37,803**
Tax revenue	9,090	9,090	11,748	15,306	14,715	16,848	19,185	21,899	25,064	28,426
Income tax	4,373	4,373	6,153	9,324	7,494	9,723	10,313	11,716	13,284	14,725
Individuals	1,531	1,531	1,550	1,614	1,653	1,788	2,002	2,201	2,525	2,657
Businesses	2,498	2,498	4,226	7,172	5,467	7,473	7,846	9,062	10,325	11,667
Other unallocable taxes on income, profits, and capital gains	344	344	377	539	374	462	465	453	434	401
Taxes on goods and services	3,944	3,944	4,632	4,581	6,009	5,713	7,113	8,186	9,541	11,179
Value-added tax/Turnover tax	3,168	3,168	3,740	3,554	4,791	4,518	5,414	6,256	7,375	8,735
Excises	776	776	893	1,027	1,218	1,195	1,699	1,930	2,166	2,444
Taxes on international trade and transactions	773	773	963	1,401	1,212	1,411	1,760	1,997	2,239	2,523
Non-tax revenue	3,547	3,547	4,716	4,598	5,520	5,130	5,900	6,876	8,462	9,377
Revenue from natural resources and telecommunications	1,787	1,787	2,358	2,596	2,832	2,865	3,337	3,964	5,048	5,527
Mining royalties	1,065	1,065	1,469	1,642	1,892	1,894	2,249	2,730	3,511	3,818
Oil royalty and rent	292	292	406	372	369	337	358	387	490	521
Telecommunications	219	219	248	257	306	305	347	394	443	500
Dividends from state-owned enterprises	211	211	235	326	265	329	383	453	604	688
Fees from sectoral ministries	357	357	343	515	339	490	545	619	823	929
Special accounts and budgets	1,065	1,065	1,845	1,309	2,159	1,479	1,683	1,911	2,146	2,420
Other	338	338	170	178	190	296	336	381.2	957	0
Grants	**2,915**	**2,802**	**1,631**	**1,676**	**1,363**	**1,918**	**1,680**	**1,526**	**1,406**	**1,412**
Project	2,818	2,705	814	962	1,032	1,703	1,680	1,526	1,406	1,412
Budget support	97	97	818	713	331	215	0	0	0	0
Expenditure	**16,657**	**16,445**	**22,653**	**23,698**	**25,843**	**26,086**	**30,781**	**35,952**	**41,191**	**47,235**
Current expenditure	10,755	10,755	15,122	15,555	17,635	16,413	18,935	21,833	24,970	28,892
Wages	5,454	5,454	6,469	6,565	7,568	7,130	7,968	8,892	9,720	10,801
Interest due	251	250	534	432	636	420	622	808	1,091	1,460
External	47	46	182	56	262	184	342	495	730	1,034
Domestic	204	204	352	376	373	237	280	314	362	427
Goods and services	2,228	2,228	2,744	4,404	3,212	3,844	4,053	4,558	5,153	5,812
Subsidies and other current transfers	2,457	2,457	4,921	3,901	5,565	4,362	5,320	6,140	6,912	7,747
Subsidies (incl. VAT reimbursements) 2/	1,147	1,147	2,647	2,243	3,043	2,478	3,161	3,672	4,136	4,620
Transfers to other levels of national government	245	245	430	350	363	405	476	556	630	707
Special accounts and budgets	1,065	1,065	1,845	1,309	2,159	1,479	1,683	1,911	2,146	2,420
Social spending	366	366	453	252	653	657	972	1,435	2,094	3,071
Capital expenditure	**5,522**	**5,309**	**7,144**	**6,489**	**7,546**	**8,487**	**11,581**	**13,787**	**15,819**	**17,862**
Foreign-financed	4,470	4,258	4,741	3,875	4,454	4,932	5,508	6,050	6,515	7,235
Domestically-financed	1,052	1,052	2,403	2,614	3,092	3,555	6,073	7,737	9,304	10,627
Exceptional expenditure 3/	**380**	**380**	**387**	**1,654**	**662**	**1,185**	**265**	**332**	**402**	**481**
Overall fiscal balance (commitment basis)	**-1,105**	**-959**	**-4,559**	**-1,984**	**-4,244**	**-2,189**	**-4,015**	**-5,651**	**-6,259**	**-8,020**
Base domestic fiscal balance	**497**	**542**	**-1,266**	**137**	**-892**	**1,008**	**155**	**-633**	**-420**	**-1,163**
Change in domestic arrears (repayment = -)	-585	-585	-304	-1,509	-323	-2,008	-1,598	-1,240	-1,250	-810
Domestic fiscal balance (cash basis)	**-89**	**-43**	**-1,570**	**-1,372**	**-1,215**	**-1,000**	**-1,442**	**-1,872**	**-1,670**	**-1,972**
Overall fiscal balance (cash basis)	**-1,690**	**-1,545**	**-4,863**	**-3,493**	**-4,568**	**-4,197**	**-5,613**	**-6,891**	**-7,509**	**-8,830**
Errors and omissions	***-273***	***-307***	***0***	***0***	***0***	***0***	***0***	**0**	**0**	**0**
Financing	**1,963**	**1,852**	**4,863**	**3,558**	**4,568**	**4,246**	**5,709**	**6,952**	**7,579**	**8,907**
Domestic financing (banking system)	-855	-798	1,120	908	755	812	1,698	2,207	2,236	2,829
Foreign financing	2,817	2,650	3,743	2,650	3,813	3,434	4,011	4,744	5,343	6,078
Budget loans (disbursements)	121	121	388	263	1,105	781	631	644	650	660
Project loans (disbursements)	1,652	1,552	3,928	2,912	3,421	3,229	3,828	4,524	5,109	5,824
Amortization of external debt	-386	-381	-573	-526	-713	-576	-448	-424	-417	-407
Other external financing 4/	1,431	1,358	0	0	0	0	0	0	0	0
Memorandum items:										
Gross domestic product (billions of CDF)	112,575	112,476	129,479	126,345	151,553	142,543	162,131	184,163	206,746	233,222
Mining revenues	3,636	3,636	5,201	5,152	7,816	6,744	6,192	8,793	11,230	12,562
Unpaid cumulative domestic financial obligations 5/	9,037	9,065	8,751	8,749	8,445	6,741	4,824	3,336	1,837	865

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

1/ Covers the budgetary central government.

2/ Includes fuel subsidy.

3/ Mainly expenditure related to security and elections.

4/ Includes 50 percent of SDR allocation transferred to the MdF by end-2021.

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

Table 3b. Democratic Republic of the Congo: Central Government Financial Operations, 2021-27 1/

(Percent of GDP)

	2021		2022		2023		2024	2025	2026	2027
	CR No. 22/210	Prel.	CR No. 22/210	Proj.	CR No. 22/210	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue and grants	**13.8**	***13.8***	***14.0***	***17.2***	***14.3***	***16.8***	***16.5***	***16.5***	***16.9***	***16.8***
Revenue	**11.2**	**11.3**	**12.7**	**15.8**	**13.4**	**15.4**	**15.5**	**15.6**	**16.2**	**16.2**
Tax revenue	8.1	8.1	9.1	12.1	9.7	11.8	11.8	11.9	12.1	12.2
Income tax	3.9	3.9	4.8	7.4	4.9	6.8	6.4	6.4	6.4	6.3
Individuals	1.4	1.4	1.2	1.3	1.1	1.3	1.2	1.2	1.2	1.1
Businesses	2.2	2.2	3.3	5.7	3.6	5.2	4.8	4.9	5.0	5.0
Other unallocable taxes on income, profits, and capital gains	0.3	0.3	0.3	0.4	0.2	0.3	0.3	0.2	0.2	0.2
Taxes on goods and services	3.5	3.5	3.6	3.6	4.0	4.0	4.4	4.4	4.6	4.8
Value-added tax/Turnover tax	2.8	2.8	2.9	2.8	3.2	3.2	3.3	3.4	3.6	3.7
Excises	0.7	0.7	0.7	0.8	0.8	0.8	1.0	1.0	1.0	1.0
Taxes on international trade and transactions	0.7	0.7	0.7	1.1	0.8	1.0	1.1	1.1	1.1	1.1
Non-tax revenue	3.2	3.2	3.6	3.6	3.6	3.6	3.6	3.7	4.1	4.0
Revenue from natural resources and telecommunications	1.6	1.6	1.8	2.1	1.9	2.0	2.1	2.2	2.4	2.4
Mining royalties	0.9	0.9	1.1	1.3	1.2	1.3	1.4	1.5	1.7	1.6
Oil royalty and rent	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2
Telecommunications	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Dividends from state-owned enterprises	0.2	0.2	0.2	0.3	0.2	0.2	0.2	0.2	0.3	0.3
Fees from sectoral ministries	0.3	0.3	0.3	0.4	0.2	0.3	0.3	0.3	0.4	0.4
Special accounts and budgets	0.9	0.9	1.4	1.0	1.4	1.0	1.0	1.0	1.0	1.0
Other	0.3	0.3	0.1	0.1	0.1	0.2	0.2	0.2	0.5	0.0
Grants	**2.6**	**2.5**	**1.3**	**1.3**	**0.9**	**1.3**	**1.0**	**0.8**	**0.7**	**0.6**
Project	2.5	2.4	0.6	0.8	0.7	1.2	1.0	0.8	0.7	0.6
Budget support	0.1	0.1	0.6	0.6	0.2	0.2	0.0	0.0	0.0	0.0
Expenditure	**14.8**	***14.6***	***17.5***	***18.8***	***17.1***	***18.3***	***19.0***	***19.5***	***19.9***	***20.3***
Current expenditure	**9.6**	**9.6**	**11.7**	**12.3**	**11.6**	**11.5**	**11.7**	**11.9**	**12.1**	**12.4**
Wages	4.8	4.8	5.0	5.2	5.0	5.0	4.9	4.8	4.7	4.6
Interest due	0.2	0.2	0.4	0.3	0.4	0.3	0.4	0.4	0.5	0.6
External	0.0	0.0	0.1	0.0	0.2	0.1	0.2	0.3	0.4	0.4
Domestic	0.2	0.2	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2
Goods and services	2.0	2.0	2.1	3.5	2.1	2.7	2.5	2.5	2.5	2.5
Subsidies and other current transfers	2.2	2.2	3.8	3.1	3.7	3.1	3.3	3.3	3.3	3.3
Subsidies (incl. VAT reimbursements) 2/	1.0	1.0	2.0	1.8	2.0	1.7	1.9	2.0	2.0	2.0
Transfers to other levels of national government	0.2	0.2	0.3	0.3	0.2	0.3	0.3	0.3	0.3	0.3
Special accounts and budgets	0.9	0.9	1.4	1.0	1.4	1.0	1.0	1.0	1.0	1.0
Social spending	0.3	0.3	0.4	0.2	0.4	0.5	0.6	0.8	1.0	1.3
Capital expenditure	**4.9**	**4.7**	**5.5**	**5.1**	**5.0**	**6.0**	**7.1**	**7.5**	**7.7**	**7.7**
Foreign-financed	4.0	3.8	3.7	3.1	2.9	3.5	3.4	3.3	3.2	3.1
Domestically-financed	0.9	0.9	1.9	2.1	2.0	2.5	3.7	4.2	4.5	4.6
Exceptional expenditure 3/	**0.3**	**0.3**	**0.3**	**1.3**	**0.4**	**0.8**	**0.2**	**0.2**	**0.2**	**0.2**
Overall fiscal balance (commitment basis)	**-1.0**	***-0.9***	***-3.5***	***-1.6***	***-2.8***	***-1.5***	***-2.5***	***-3.1***	***-3.0***	***-3.4***
Base domestic fiscal balance	**0.4**	**0.5**	**-1.0**	**0.1**	**-0.6**	**0.7**	**0.1**	**-0.3**	**-0.2**	**-0.6**
Change in domestic arrears (repayment = -)	-0.5	-0.5	-0.2	-1.2	-0.2	-1.4	-1.0	-0.7	-0.6	-0.3
Domestic fiscal balance (cash basis)	**-0.1**	**0.0**	**-1.2**	**-1.1**	**-0.8**	**-0.7**	**-0.9**	**-1.0**	**-0.8**	**-0.8**
Overall fiscal balance (cash basis)	**-1.5**	***-1.4***	***-3.8***	***-2.8***	***-3.0***	***-2.9***	***-3.5***	***-3.7***	***-3.6***	***-3.8***
Errors and omissions	-0.2	**-0.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Financing	**1.7**	***1.6***	***3.8***	***2.8***	***3.0***	***3.0***	***3.5***	***3.8***	***3.7***	***3.8***
Domestic financing	-0.8	-0.7	0.9	0.7	0.5	0.6	1.0	1.2	1.1	1.2
Foreign financing	2.5	2.4	2.9	2.1	2.5	2.4	2.5	2.6	2.6	2.6
Budget loans (disbursements)	0.1	0.1	0.3	0.2	0.7	0.5	0.4	0.3	0.3	0.3
Project loans (disbursements)	1.5	1.4	3.0	2.3	2.3	2.3	2.4	2.5	2.5	2.5
Amortization of external debt	-0.3	-0.3	-0.4	-0.4	-0.5	-0.4	-0.3	-0.2	-0.2	-0.2
Other external financing 4/	1.3	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Gross domestic product (billions of CDF)	112,575	112,476	129,479	126,345	151,553	142,543	162,131	184,163	206,746	233,222
Mining revenues	3.2	3.2	4.0	4.1	5.2	4.7	3.8	4.8	5.4	5.4
Unpaid cumulative domestic financial obligations 5/	8.0	8.1	6.8	6.9	5.6	4.7	3.0	1.8	0.9	0.4

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

1/ Covers the budgetary central government.

2/ Includes fuel subsidy.

3/ Mainly expenditure related to security and elections.

4/ Includes 50 percent of SDR allocation transferred to the MdF by end-2021.

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

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

(Billions of CDF)

	2021		2022		2023		2024	2025	2026	2027
	CR No. 22/210	Prel.	CR No. 22/210	Proj.	CR No. 22/210	Proj.	Proj.	Proj.	Proj.	Proj.
					Depository corporations survey:					
Net foreign assets	**17,498**	**17,475**	**25,567**	**17,014**	**32,611**	**20,014**	**25,010**	**30,886**	**36,600**	**42,809**
Claims on non-residents	23,133	22,744	32,826	23,095	42,510	28,271	34,107	40,185	46,079	52,237
Liabilities to non-residents	5,635	5,270	7,258	6,082	9,899	8,257	9,097	9,299	9,480	9,428
Net domestic assets	**7,181**	**7,482**	**8,313**	**9,613**	**12,381**	**11,536**	**12,805**	**14,366**	**16,695**	**20,393**
Domestic credit	9,616	9,759	12,035	12,428	14,366	15,257	19,461	24,757	30,329	37,293
Net credit to the central government	1,278	1,334	1,931	1,039	2,409	1,752	3,258	5,344	7,439	10,115
Credit to other sectors	8,338	8,424	10,101	11,387	11,957	13,505	16,203	19,412	22,890	27,179
Credit to the private sector	7,497	7,565	9,309	10,560	11,165	12,572	15,143	18,208	21,537	29,344
Other items, net	-2,435	-2,276	-3,719	-2,812	-1,984	-3,721	-6,656	-10,390	-13,634	-16,900
Broad Money (M2)	**24,679**	**24,957**	**33,880**	**26,627**	**44,993**	**31,550**	**37,815**	**45,253**	**53,295**	**63,202**
Monetary base (broad definition)	5,392	5,389	6,965	6,596	7,484	6,812	7,158	7,595	8,064	8,654
Narrow Money (M1)	5,384	5,417	7,287	6,155	8,985	7,229	8,756	10,600	12,655	15,217
Currency in circulation	2,803	2,804	3,761	3,246	3,741	3,681	4,210	4,719	5,298	5,976
Demand deposits	2,581	2,613	3,526	2,909	5,244	3,548	4,546	5,793	7,239	9,082
Quasi money	19,295	19,540	26,593	20,472	36,007	24,321	29,059	34,653	40,639	47,985
Time deposits in domestic currency	669	677	912	747	1,356	911	1,167	1,487	1,858	2,331
Foreign currency deposits	18,626	18,862	25,682	19,725	34,652	23,410	27,892	33,166	38,781	45,653
					Banque centrale du Congo:					
Net foreign assets	**2,996**	**2,989**	**3,973**	**3,961**	**3,959**	**3,958**	**5,846**	**8,573**	**11,196**	**14,169**
Claims on non-residents	7,464	7,456	9,462	9,064	11,870	11,046	13,575	16,309	18,917	21,635
Gross official reserves	5,910	5,895	8,975	8,541	11,826	10,945	13,474	16,208	18,817	21,534
Liabilities to non-residents	-4,467	-4,467	-5,489	-5,103	-7,911	-7,088	-7,730	-7,736	-7,721	-7,466
Net domestic assets	**2,396**	**2,400**	**2,992**	**2,635**	**3,525**	**2,854**	**1,312**	**-977**	**-3,132**	**-5,515**
Domestic credit	2,885	2,985	3,974	3,965	4,398	3,594	3,694	3,758	3,832	3,913
Net credit to the central government	1,528	1,528	2,489	2,555	2,911	2,974	3,070	3,130	3,201	3,278
Claims on other depository corporations	1,327	1,370	1,448	1,294	1,448	500	500	500	500	500
Other items, net	-490	-585	-982	-1,331	-872	-740	-2,381	-4,735	-6,965	-9,428
					Other depository corporations:					
Net foreign assets	**14,501**	**14,486**	**21,594**	**13,053**	**28,652**	**16,055**	**19,164**	**22,314**	**25,403**	**28,639**
Net domestic assets	**8,160**	**8,453**	**9,383**	**10,812**	**13,735**	**11,975**	**14,602**	**18,294**	**22,636**	**28,589**
Claims on the central bank	2,812	2,812	3,211	3,240	3,884	3,316	3,132	2,973	2,831	2,703
Net credit to the central government	-250	-194	-558	-1,517	-226	-1,222	188	2,214	4,238	6,837
Credit to local administrations	200	209	187	190	187	215	244	277	311	351
Credit to public enterprises	641	650	606	636	606	718	816	927	1,041	1,175
Credit to private sector	7,467	7,478	9,272	10,444	11,126	12,453	15,019	18,081	21,406	25,518
Other items, net	-2,710	-2,503	-3,334	-2,182	-1,842	-3,504	-4,798	-6,178	-7,192	-7,995
					(Annual percent change)					
Net foreign assets	76.4	76.2	46.1	-2.6	27.6	17.6	25.0	23.5	18.5	17.0
Net domestic assets	-13.9	-10.3	15.8	28.5	48.9	20.0	11.0	12.2	16.2	22.2
Domestic credit	4.3	5.2	27.6	40.1	18.1	18.2	17.0	17.0	15.7	16.7
Net credit to government	-40.1	-37.4	51.1	-22.2	24.8	68.7	85.9	64.0	39.2	36.0
Credit to the private sector	16.7	17.8	24.2	39.6	19.9	19.1	20.4	20.2	18.3	19.1
Broad Money (M2)	35.1	36.7	37.3	6.7	32.8	18.5	19.9	19.7	17.8	18.6
Memorandum items:										
Nominal GDP (billions of CDF)	112,575	112,476	129,479	126,345	151,553	142,543	162,131	184,163	206,746	233,222
Credit to the private sector (percent of GDP)	6.7%	6.7%	7.2%	8.4%	7.4%	8.8%	9.3%	9.9%	10.4%	12.6%
Velocity (GDP/broad money)	4.6	4.5	4.3	4.7	3.4	4.5	4.3	4.1	3.9	3.7
Foreign currency deposits (percent of M2)	75.5	75.6	75.8	74.1	77.0	74.2	73.8	73.3	72.8	72.2
Foreign currency deposits (percent of total deposits)	85.1	85.1	85.3	84.4	84.0	84.0	83.0	82.0	81.0	80.0

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

Table 5. Democratic Republic of the Congo: Financial Soundness Indicators, 2020-22

	Dec-20	Mar-21	Jun-21	Aug-21	Sep-21	Oct-21	Dec-21	Mar-22	Jun-22
Adequacy									
Regulatory capital to risk-weighted assets	14.0	13.6	12.9	12.2	12.1	11.5	11.3	13.4	11.9
Regulatory Tier 1 capital to risk-weighted assets	11.6	11.2	10.6	10.0	9.9	9.5	9.1	11.3	9.7
Asset quality									
NPLs to gross loans	8.8	9.6	9.2	8.8	8.2	8.0	5.8	6.0	7.4
NPLS net of provisions to capital	18.6	13.1	12.7	12.7	11.8	11.6			
Earnings and profitability									
Return on assets (net income/total assets)	2.1	0.3	1.9	1.4	1.6	1.5	1.2	1.7	1.7
Return on equity (net income/equity)	3.1	5.4	15.9	10.8	13.2	12.9	19.9	21.7	18.4
Interest margin to gross income	32.6	30.5	28.7	29.1	30.4	30.0	29.5	35.6	30.3
Non-interest expenses to gross income	67.1	65.9	65.3	66.0	64.8	65.1	66.9	65.5	62.8
Liquidity									
Deposits/Loans	220.5	2260.0	262.2	242.6	250.0	262.6	254.7	266.3	234.1
Sensitivity to market risk									
Net open in foreign exchange position to capital	11.7	10.6	10.7	9.9	8.4	11.8	4.3	3.9	-0.9
Foreign currency-denominated liabilities to total liabilities	90.1	86.3	86.1	86.1	84.3	82.2	84.7	83.9	95.6
Foreign currency-denominated loans to total loans	89.0	88.9	92.6	88.9	88.2	87.7	82.4	89.4	87.6

Source: Banque centrale du Congo.

Table 6. Democratic Republic of the Congo: Composition of Public Debt and Debt Service by Creditor 2021-23[1]

	Debt Stock			Debt Service					
	2021			2021	2022	2023	2021	2022	2023
	(in M US$)	*(Percent total debt)*	*(Percent GDP)*	*(in M US$)*			*(Percent GDP)*		
Total	13,850.0	...	24.5	1,124.2	1,499.9	1,851.3	2.0	2.4	2.7
External	8,695.8	62.8	15.4	484.5	603.0	765.2	0.9	1.0	1.1
Multilateral creditors	4,285.7	30.9	7.6	151.4	163.3	154.0	0.3	0.3	0.2
IMF	1,171.1	8.5	2.1	-	-	30.7	-	-	0.0
World Bank	1,759.1	12.7	3.1	27.3	53.9	47.0	0.0	0.1	0.1
AfDB	494.5	3.6	0.9	109.7	94.5	61.3	0.2	0.2	0.1
Other Multilaterals	861.0	6.2	1.5	14.4	14.9	15.0	0.0	0.0	0.0
o/w : European Investment Bank	66.1	0.5	0.1	10.1	10.7	10.7	0.0	0.0	0.0
Arab Bank for Economic Development in Africa	36.2	0.3	0.1	0.6	0.5	1.0	0.0	0.0	0.0
Bilateral creditors	3,859.2	27.9	6.8	282.7	370.3	529.4	0.5	0.6	0.8
Paris Club	120.5	0.9	0.2	0.2	21.2	16.3	0.0	0.0	0.0
o/w : France	64.9	0.5	0.1	-	21.2	16.3	-	0.0	0.0
Exim Bank of Korea	55.6	0.4	0.1	-	0.0	0.0	-	0.0	0.0
Non-Paris Club	3,738.8	27.0	6.6	15.5	82.1	146.1	0.0	0.1	0.2
o/w : Exim Bank of China	3,197.3	23.1	5.7	-	45.6	88.5	-	0.1	0.1
Exim Bank of India	168.9	1.2	0.3	10.2	19.9	18.2	0.0	0.0	0.0
Bonds	...	...	...	...	...	...	...	...	...
Commercial creditors	550.9	4.0	1.0	(5.0)	69.3	81.7	(0.0)	0.1	0.1
o/w : FG Hemisphere	93.2	0.7	0.2	-	-	8.1	-	-	0.0
Financial Investment Holding	38.2	0.3	0.1	7.4	7.3	7.3	0.0	0.0	0.0
Domestic	5,154.2	37.2	9.1	639.7	896.9	1,086.1	1.1	1.4	1.6
T-Bills	183.7	1.3	0.3	183.7			0.3	-	-
T-Bonds	n.a.	n.a.	n.a.				-	-	-
Loans	438.2	3.2	0.8	161.9	146.0	107.7	0.3	0.2	0.2
Arrears	4,532.3	32.7	8.0	294.2	750.9	978.5	0.5	1.2	1.4
Memo items:									
Collateralized debt	2,469.6	17.8	4.4						
Contingent liabilities	2,747.1	19.8	4.9						
o/w : Public guarantees	2,747.1	19.8	4.9						
o/w : Other explicit contingent liabilities	-	-	-						
Nominal GDP (in M USD)	56,515.8	...	...	56,515.8	62,859.4	69,474.0	...	...	...

Sources: Congolese authorities; and IMF staff estimates.

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

Table 7. Democratic Republic of the Congo: Capacity to Repay the Fund, 2022-33

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Total obligations on existing and prospective credit 1/												
Total obligations (In millions of SDRs)	0.0	23.1	23.2	103.1	129.8	205.9	251.6	327.7	263.0	236.4	175.4	99.3
Principal	0.0	0.0	0.0	80.0	106.6	182.8	228.4	304.6	239.9	213.2	152.3	76.1
Charges and interest 2/	0.0	23.1	23.2	23.1	23.2	23.2	23.2	23.1	23.2	23.2	23.2	23.1
Total obligations (In millions of U.S. dollars)	0.0	30.7	31.0	138.7	175.6	278.6	340.5	443.5	355.9	319.8	237.4	134.3
In percent of exports of goods and services	0.0	0.1	0.1	0.4	0.5	0.7	0.8	1.0	0.8	0.7	0.5	0.3
In percent of GDP	0.0	0.0	0.0	0.2	0.2	0.3	0.3	0.4	0.3	0.2	0.1	0.1
In percent of quota	0.0	2.2	2.2	9.7	12.2	19.3	23.6	30.7	24.7	22.2	16.5	9.3
In percent of gross international reserves	0.0	0.6	0.5	1.8	2.0	2.9	2.0	1.8	1.2	0.9	0.7	0.4
Fund credit outstanding (end-period)												
In millions of SDRs	1,142.2	1,446.8	1,599.1	1,519.1	1,412.5	1,229.8	1,001.3	696.7	456.9	243.7	91.4	15.3
In millions of U.S. dollars	1,512.7	1,928.9	2,144.4	2,048.8	1,916.5	1,668.6	1,358.6	945.4	619.9	330.6	124.0	20.7
In percent of exports of goods and services	5.7	7.3	7.3	6.3	5.4	4.3	3.3	2.2	1.4	0.7	0.3	0.0
In percent of GDP	2.4	2.8	2.8	2.4	2.0	1.6	1.2	0.8	0.5	0.2	0.1	0.0
In percent of quota	107.1	135.7	150.0	142.5	132.5	115.4	93.9	65.4	42.9	22.9	8.6	1.4
In percent of total external debt	14.8	16.1	15.7	13.3	11.0	8.5	6.2	4.0	2.4	1.2	0.4	0.1
In percent of gross international reserves	36.0	36.6	33.8	27.3	22.2	17.2	8.0	3.9	2.0	0.9	0.3	0.1
Memorandum items												
Exports of goods and services (in millions of U.S. dollars)	26,370	26,277	29,281	32,444	35,777	39,037	41,295	43,552	44,141	44,946	45,659	46,827
Quota (in millions of SDRs)	1,066	1,066	1,066	1,066	1,066	1,066	1,066	1,066	1,066	1,066	1,066	1,066
GDP (in millions of U.S. dollars)	62,859	69,474	77,081	85,728	95,383	105,936	114,632	125,024	135,035	146,241	158,533	172,356
Public sector external debt (end-period, in millions of U.S. dollars)	10,222	11,947	13,654	15,394	17,434	19,729	21,903	23,870	25,849	27,858	29,821	31,680
Gross international reserves (in millions of U.S. dollars)	4,206	5,269	6,339	7,511	8,614	9,718	16,892	24,436	30,839	35,040	36,494	35,410

Source: IMF staff estimates and projections.

1/ Obligations to the Fund in 2020 reflect the relief grant under the CCRT.

2/ On July 22, 2021, the IMF Executive Board agreed that interest rates on all loans provided through the PRGT facilities will remain at zero until the next review of the interest rate structure, to occur by end-July 2023. Based on this decision and current projections of SDR rate, a zero interest is also assumed beyond July 2023 for all PRGT facilities.

Table 8. Democratic Republic of the Congo: Reviews and Disbursements Under the Three-Year Extended Credit Facility Arrangement 1/

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

Source: International Monetary Fund.

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

Annex I. Risk Assessment Matrix[1,2]

Source of Risks	Likelihood	Expected Impact on Economy	Policy Response
Potential External Risks – Conjunctural shocks			
Abrupt growth slowdown in China. A combination of a sharper-than-expected slowdown in the property sector, more frequent Covid-19 outbreaks, and inadequate policy responses result in a sharp slowdown of economic activity, with spillovers affecting other countries through financial, trade, and commodity-price channels.	Medium	**High** Lower exports and fiscal revenues would generate BOP and budget financing needs. Lower commodity prices could reduce investment in the extractive sector and dampen DRC's growth prospects. Lower fiscal revenues would put at risk priority spending and exacerbate poverty and inequality, derail government's investment plans and lower growth prospects.	Maintain prudent macro policies to foster macro stability. Allow the exchange rate to act as a shock absorber and use external buffers to prevent disorderly depreciation that could negatively impact financial stability. Step up revenue mobilization efforts, limit nonpriority spending to create space for fiscal policy support. Mobilize external financing support. Promote economic diversification in exported goods as well as exports' markets destinations.
De-anchoring of inflation expectations and stagflation. Supply shocks to food and energy prices sharply increase headline inflation and pass through to core inflation, de-anchoring inflation expectations and triggering a wage-price spiral in tight labor markets. Central banks tighten monetary policy more than envisaged leading to weaker global	Medium	**High** Higher domestic inflation will reduce real incomes, likely increase poverty and food insecurity among the most vulnerable. Weakened domestic demand will reduce consumption and investment. Untargeted fuel	In the short term, tighten monetary policy to and help anchor expectations. Increase transfers to the poor as needed to alleviate the impact of inflation.

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

[2] Prepared by S. Zerbo.

Source of Risks	Likelihood	Expected Impact on Economy	Policy Response
demand, currency depreciations in EMDEs, and sovereign defaults. Together, this could lead to the onset of stagflation.		subsidy will create fiscal pressures. Social unrest and political tensions could emerge.	Maintain prudent macro policies to foster macro stability.
		Increasing interest rates in developing countries will create capital outflow, increase in borrowing cost and exchange rate pressure from strengthening US dollar.	Rebuilding buffers and insuring the economy against larger tail risks. Strengthening public finances in the face of tighter global financing conditions
Commodity price shocks. A combination of continuing supply disruptions (e.g., due to conflicts and export restrictions) and negative demand shocks causes recurrent commodity price volatility and social and economic instability.	High	High Higher volatility in commodity prices will challenge sustainable macro policies and put pressure on the domestic currency, reserves, and fiscal revenues.	Accumulate international reserve buffers. Diversify the structure of the economy and export sources. Increase participation in regional trade area agreements (EAC and AFCFTA). Use exchange rate flexibility as a shock absorber but intervene to prevent disorderly currency movements.
Deepening geo-economic fragmentation and geopolitical tensions. Broadening of conflicts and reduced international cooperation accelerate deglobalization, resulting in a reconfiguration of trade, supply disruptions, technological and payments systems fragmentation, rising input costs, financial instability, a fracturing of international monetary and financial system, and lower potential growth.	High	Medium Demand for exports would fall, hurting the domestic economy.	Maintain strong external position and build and preserve fiscal space through greater revenue mobilization and limiting nonpriority spending to withstand external and domestic shock. Enhance the domestic environment for attracting FDIs and other stable non-debt creating capital flows as well as portfolio investments.
DRC-Specific Risks			
Rising inflation and food insecurity, Political instability and widespread social discontent ahead of the Presidential elections.	High	High	Maintain commitment and ownership of reforms to build strong institutions; step up governance reforms.

Source of Risks	Likelihood	Expected Impact on Economy	Policy Response
		Policymaking and macro stability could be undermined, economic uncertainty would increase, and social tensions could undermine the ability to advance with ambitious and much needed structural reforms.	Tighten of monetary policy and quantitative tools (reserve requirements) to prevent second
		Social tensions could undermine the ability to advance with ambitious and much needed structural reforms. They could also threaten (limited) external financing flows from international financial institutions.	round effects from wage and price setting on inflation. Avoid sharp hikes of food and fuel prices or offset them with transfers to the poor Increase spending on social protection to the poorest segments. Identify external financing sources, while remaining prudent on sovereign indebtedness
Recurrent Ebola epidemics	Low	Low High contagion risks in some of the most fragile areas of the country with severe effects on local communities. Recurrent epidemics could impact mobility and slow down growth prospects.	Prepare contingency planning, providing support to the most vulnerable segments of the population. Obtain financial support and mobilize domestic resources to fight the epidemic and rollout countrywide immunization. Increase public expenditure in health infrastructure, education, and social safety nets to mitigate the immediate impact.
Escalated armed conflicts in the East	High	Medium (for the whole country) Economic activity would be hurt though mostly in areas not well integrated with the rest of the country.	Make room for a budgetary contingency for national security emergency. Prevent escalation of armed conflict to mining regions and other nearby provinces.

Annex II. Enhancing Budget Credibility in the Democratic Republic of the Congo[1]

Lack of budget credibility can undermine the usefulness of the budget process for policy making and implementation and erode public institutional trust. Despite recent progress, budget credibility in the Democratic Republic of the Congo suffers from weaknesses at all stages of the budget process: the draft budget law is often based on weak or partial assumptions; the adoption process tends to give parliament a role that goes beyond its prerogatives of authorization and control; the execution is undermined by the unpredictability of revenues and expenditures, leading to significant deviations from the budgeted plans. Under the program, the authorities have embarked on ambitious PFM reforms with IMF TA support, including commitments to strengthen budget credibility, that would help strengthen the budget as the annual fiscal anchor.

D. On the Importance of Credible Budgets

1. **Budget credibility describes the government's ability to achieve its revenue and expenditure targets accurately and consistently.** If the budget is not credible, the provision of essential public services could be compromised, spending priorities may change, and fiscal deficits could exceed forecasts. Under weak credibility, government policy objectives reflected in the budget may not be achieved and the role of the budget as an instrument of macroeconomic management may be lost. If gaps between budget and results persist, public institutional trust may weaken.

2. **Assessing budget credibility analyzes deviations in revenues and/or expenditures.** As best practices, budget credibility is attained when revenues represent between 97 percent and 106 percent of budgeted revenues, and total executed expenditures represent between 95-105 percent of the total amount of approved expenditures budgeted in at least two of the last three fiscal years. For revenues, other indicator assesses the composition of revenue deviating from the original budget by less than 5 percent in at least two of the last three fiscal years. On expenditures, budget credibility could be considered optimal when the composition of expenditures, classified either by program, administrative unit or function, or by economic category, deviates from the initial budget by less than 5 percent in at least two of the last three fiscal years. Another indicator assesses whether expenditure financed by reserves for unforeseen expenditure remained, on average, below 3 percent of the initial budget.

3. **Structural deviations in the budget could be addressed through capacity building.** Unanticipated economic shocks, unforeseen events/risks and difficulties in planning assistance from development partners can materialize but are difficult to address. Structural deviations could however raise from weaknesses in projecting budget aggregates due to lack of information; weak technical capacity to prepare good projections (macroeconomic; revenue, including new measures; expenditure; financing); or weaknesses in revenue collection or budget execution. In these cases, the

[1] Prepared by G. Leost. This annex builds on a seminar organized by Afritac Central on October 3, 2022, for the economic and financial committee (ECOFIN) of the National Assembly.

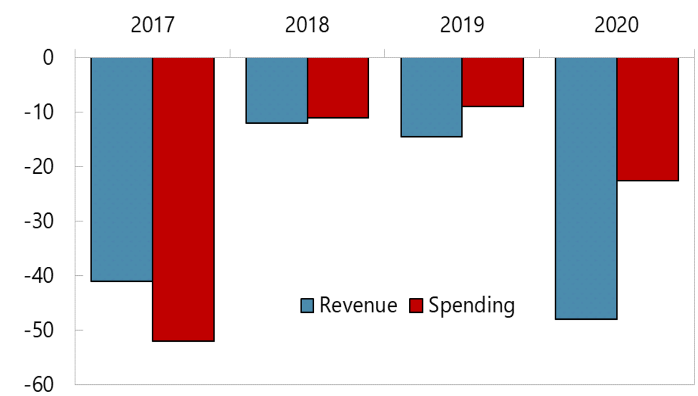
authorities should address the shortcomings by building capacity and integrated information systems across the administration.

E. Current Budget Process in the DRC

4. In the DRC, large discrepancies between the previsions in the budget law and the budget execution can be identified. When examining past budget formulation and execution during 2010-21, discrepancies appear in terms of revenues and expenditures. Revenues were systematically lower than budgeted (in the range of 15 to 40 percent). Expenditures were also systematically revised downwards, not only constrained by lower-than-budgeted revenues, but also by unpredictability and weak control systems, leading to ample variation in execution rates. Certain expenditure lines were largely under-executed while others were executed well above their budgeted amounts.

Text Figure 1. Discrepancy Between Budget Law and Budget Execution

(In Percent)



Source: IMF Staff estimates.

5. Budget credibility suffers from weaknesses at all stages of the budget process:

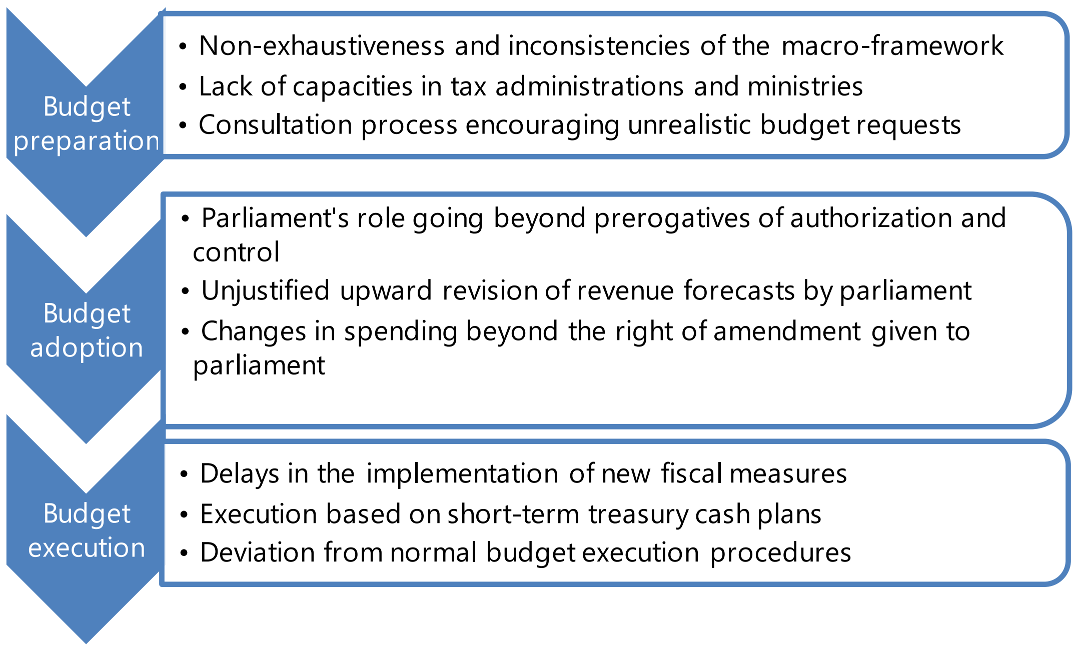
- The **budget law** is anchored in a macroeconomic framework with insufficient coverage despite significant improvements in recent years. Projections are partial (mainly GDP, growth rate and deflator, inflation, and exchange rate), sometimes not up to date for an economy highly exposed to terms of trade shocks, with limited coverage of foreign trade, and with no national accounts forecasts on the demand side. Revenue projections by tax administrations suffer from many methodological weaknesses: they are based on general aggregates which tend to accumulate margins of error, exceptional revenues are poorly captured and often excluded from the basis for the projections, and the capacity to project revenues from the mining sector, essential for fiscal policy formulation, remains limited.[2]

- The **adoption of the budget** suffers from ad-hoc changes during discussions in parliament. Once tabled in parliament (according to the law before September 15, which was respected for the 2022 and 2023 budgets), revenues are always revised upward, and the parliament identifies new spending (often without any measure justifying such increase).

[2] For instance, although established in the 2018 mining code, exceptional revenues from super-profits of mining companies were not anticipated in the 2022 budget law.

- The **budget execution** is planned of the basis of revenues projected by the administration, as the authorities anticipate a revenue gap. Expenditures are executed based on short-term treasury cash plans prepared by the ministry of Finance rather than on planned spending in the budget law. The treasury plans are adjusted on a need basis, and the budget law loses its role as an anchor of fiscal policy formulation. The short-term basis for budget execution also discourages the compliance with normal budget execution procedures, spending authorizations being largely given according to exceptional processes. In addition, fiscal policy deals with spending needs that are insufficiently planned in the budget law, while spending cuts are unevenly distributed across ministries, often to the detriment of social spending.

Text Figure 2. Budget Process Weaknesses



Source: Afritac Central seminar on budget credibility.

F. Building Budget Credibility

- **Strengthening technical capacity building for budget preparation.** The macroeconomic framework needs to be strengthened while ensuring consistency between the macroeconomic and the budget forecasts. The macroeconomic and budgetary forecasting models should make it possible to produce a provisional table of the financial operations of the State. The revenue forecasts must be established by the tax administrations, ensuring their consistency with the macro-budgetary forecasting model. In addition, due to the importance of revenues from the mining sector, their projections should be strengthened, in particular by using the FARI (Fiscal Analysis of Resource Industries) model developed by the IMF.

- **Clarifying and strengthening the role of parliament.** The respective roles of government and parliament should be clarified, the government being responsible for preparing the budget, while the parliament authorizes and controls. The parliament approves the budget and is responsible for respecting the budgetary principles stated in the Organic Law of Public Finances, including the principle of the plausibility of the budget. The parliament should refrain from redoing budget estimates, and rather require the government to provide sufficiently detailed information to allow assessing the quality of the projections. As recommended by recent technical assistance from the IMF, key information includes the concept note (*note de cadrage budgétaire*), which should also be published, the medium-term budgetary framework, and a detailed annex on revenue projections to the draft budget law.

6. Under the program, and supported by Fund TA, the authorities have taken several commitments to strengthen budget credibility. Specifically,

- Strengthening budget credibility, including through improved inter-institutional coordination, formulation of the macroeconomic framework, and the forecasting of budget resources. Signing of a decree on fiscal governance in line with the FAD technical assistance recommendations (SB for end-October 2022).

- Publishing 2022 government spending plans aligned with program targets (SB for end-July 2022).

- Limiting the use of emergency procedures, with the commitment to publish quarterly reports on the execution of expenditures detailing the nature and the amount for each procedure (effective since Q3 2021).

- Enhancing transparency on the fuel price subsidy, and on the monitoring of the associated payments (ongoing)

- Improving cash management through a more robust institutional framework, with the objective of establishing a Treasury Single Account.

- Restoring the government accounting function, with the establishment of the Directorate General of Treasury and Public Accounting.

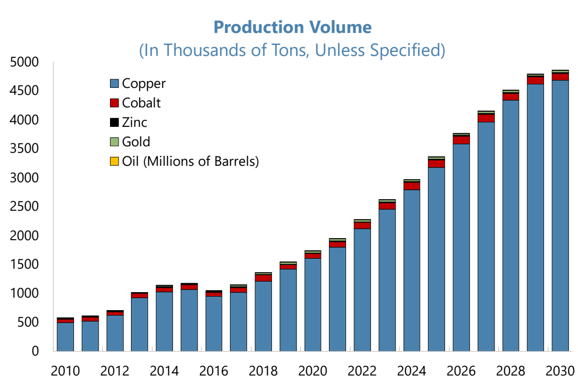
- Strengthening monitoring and control, including by IGF and Cour des Comptes.

Annex III. Revamping DRC's Fiscal Framework for a Resource Rich Economy[1]

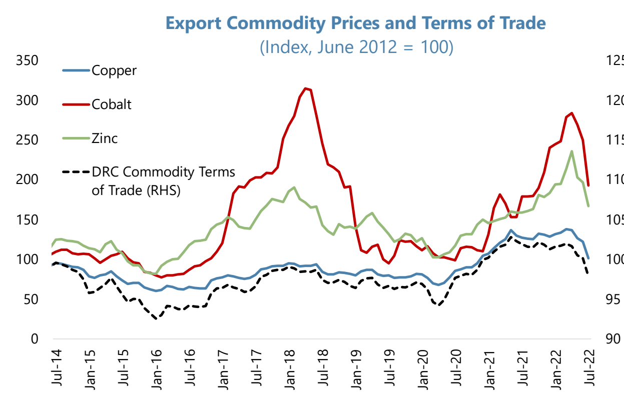
The DRC, a multi-mineral commodity exporter, faces important fiscal policy challenges arising from volatile resource revenues. Like other commodity exporters, the DRC needs to prevent pro-cyclical fiscal policies and adopt rules that guide medium-term fiscal sustainability. The analysis of fiscal framework options reveals that transitioning to a fiscal rule targeting a structural resource balance could be appropriate in a scenario of long-lasting resources and under the assumption of favorable developments in the global commodity markets.

1. **The DRC is exposed to commodity price volatility which could intensify with higher mining production in the future, absent economic diversification.** The country has significant mining wealth with reserves of copper, cobalt, gold, diamond, oil; and mining production is projected to almost double by 2030. The DRC has an important extractive industries sector—the country is the largest producer of copper in Africa and has the largest cobalt reserves in the world. Over 2016-21, extractive revenues represented on average about 95 percent of goods exports proceeds, 23 percent of fiscal revenues and extractive GDP averaged 22 percent of total GDP. Mining contributions to exports, revenues, and GDP are expected to significantly increase with more mining projects coming on stream as planned, subject to possible volatility from commodity prices, from production cost factors, or from volume depending on production capacity and external demand. In addition, the DRC is vulnerable to terms of trade shocks which pose significant challenges to natural resource management and require a well-adapted macro-fiscal framework.

Text Figure 1. Export Commodity Developments



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



Source: Gruss, Bertrand, and Suhaib Kebhaj. "Commodity Terms of Trade: A New Database." IMF WP 19/21.

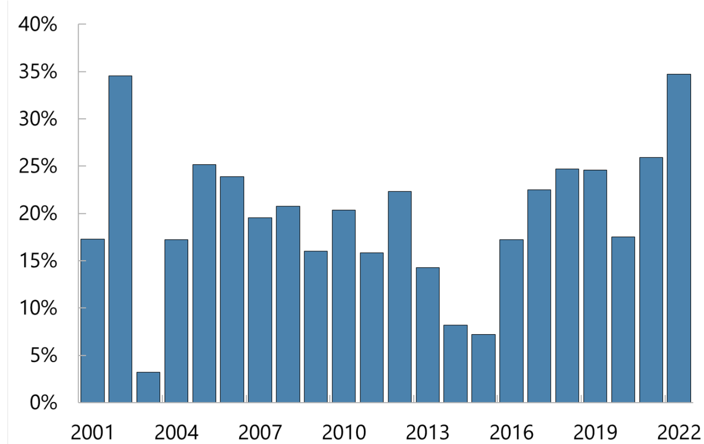
2. **The DRC's current fiscal framework is ill-targeted to manage boom-bust cycles related to volatility of natural resource revenues.** The current fiscal framework envisages revenues from the mining sector arising from tax on wages and profits, custom duties, and royalties, and a mining fund to address inter-generational equity considerations. Revenues fluctuate not only due to the

[1] Prepared by Aminata Toure.

volatile impact of commodity prices and exports volume, but also due to changes to the mining codes.[2] The 2018 mining code envisaged an increase in tax revenues (accounting for about one third of the revenue overperformance expected in 2022) and launched the mining Fund for Future Generations (FFG) which is consolidated into the budget as a special account. The fund collects 10 percent of the mining royalties. However, fiscal policy formulation does not consider the nature of extractives revenues, leading fiscal policy to usually be procyclical without building buffers for stabilization purposes. Revenues are spent as they come in, limiting the capacity of fiscal policy to respond to adverse shocks.[3]

Text Figure 2. Extractive Revenues

(In Percent of Total Tax and Non-tax Revenues)



Sources: Congolese authorities; and IMF staff estimates.

3. **With higher mining revenues, the fiscal anchor needs reconsideration.** The DRC has made marked progress in its fiscal policy formulation since the launch of the ECF in 2021, eliminating monetary financing. However, the fiscal policy framework has not yet been geared at addressing the challenges raised by resource revenues volatility. Exposure to volatile export prices has complicated fiscal policy with strong correlation between volatile revenues and spending in absence of a fiscal rule/anchor that incorporates the volatile nature of revenues. For instance, the DRC collected about 3 percent of GDP more in fiscal revenues in 2022 related to mining which are projected to be fully spent by year-end making fiscal policy procyclical. In the context of unanticipated external and domestic shocks, a fiscal framework that factors in price volatility, exhaustibility of resources, spending rules and effective use of resources would be more effective. Reinforcing the fiscal framework over the medium term is a priority to support continued responsible fiscal policy while enhancing policy predictability and improving governance in managing extractive wealth.

4. **A resource rich fiscal framework will help address the procyclical nature of fiscal policy with few key objectives.** A first objective is to ensure long-run fiscal sustainability, that is, the government must be able to sustain spending, tax, and other fiscal policies in the long term without risking defaulting on liabilities or expenditure commitments. In resource-rich countries, long-run

[2] The current 2018 mining code in application has introduced a "*superprofit*" tax of 50 percent on profit if prices are 25 percent above those in the feasibility study; an increased royalty rate and CIT rate. Prior to this, the 2002 mining code induced a liberalization of the sector (compared to the 1981 Code) by allowing the private sector to access mineral rights without partnership or special mining agreement with the state.

[3] Budgets are typically set with high revenue and spending envelopes, which allows overperformance in revenue to be spent without necessarily needing a revised budget law.

considerations include intertemporal consumption, savings/investment decisions related to extractive revenues and revenue volatility need to be linked. Determining an appropriate path for public investment and largely smoothing government consumption is conditioned on expected extractive revenue (based on expected prices and production). A second objective, as for other resource-rich countries, is to manage resource revenue uncertainty and volatility which could arise from prices, production volumes and costs. If revenue volatility is high and persistent, precautionary financial savings should be built to smooth revenues and expenditures. A third objective is improving debt management. Natural resource wealth may increase the capacity to borrow as it increases the capacity to service debt. This needs to be managed wisely and integrated into a comprehensive debt management strategy. Borrowing against future revenue, sometimes even before production commences, reduces fiscal flexibility later and may lower the country's creditworthiness. Fourth, especially in countries with limited resource reserve horizons, issues of exhaustibility and intergenerational equity considerations also need to be addressed by the fiscal framework. Finally, strengthening fiscal policy predictability and institutions is a critical objective of the fiscal framework.

5. **The choice of an appropriate fiscal anchor will depend on resource exhaustibility and the scarcity or abundance of capital in the economy.** Resource exhaustibility is mostly determined by two critical elements: (i) the market conditions that determine to what extent it is economically viable to develop the resource potential of the country; and (ii) the fiscal regime for extractive industries which determines the time profile and the weight of the resource revenue in the budget. While a country may have significant mineral reserves potential, only commercially exploitable reserves should be counted towards the resource wealth. Second, the share of extractive revenues in total government revenue is important. The structure of the fiscal regime for extractive industries determines the timing and amount of resource revenue flows to be allocated into the budget. A long resource horizon implies that the contribution of resources to the budget is expected to be significant and can be sustained over a long period of time. Fiscal savings would be accumulated when prices are high and drawn down to meet budget expenditure when prices are low (according to a pre-determined fiscal rule). A possible rule of thumb for determining whether extractive revenue contribution is significant and sustained could be, in the case of mining producers, if resource revenues represent more than 15-20 percent of total revenues over a period of 30 years or more.

6. **Two possible fiscal anchors to manage volatility could be a non-resource primary balance (NRPB) for short resource horizon and structural primary resource balance (SPRB) for longer resource horizon.** The NRPB would measure the fiscal stance, as it identifies the impact of government operations on domestic demand. A higher NRPB would indicate an expansionary fiscal stance and setting fiscal policy based on this indicator can help delink fiscal policy from the volatility of extractive revenues and facilitates an explicit link to the sustainability framework for countries with limited reserve horizons. The second option is the SPRB —defined as the primary balance excluding the cyclical component of resource revenues.[4] Resource revenues would be decomposed

[4] Operationally, such approach may prove challenging given the unpredictability and volatility of future prices.

into a structural and a cyclical component using various approaches, including a price-based smoothing rule. The SPRB is equal to the NRPB plus the structural component of resource revenues. In this manner, the SPRB could support a sustainable fiscal policy framework, and the smoothing rule would delink expenditures from externally driven volatility in commodity prices. The SPRB also allows for fiscal sustainability to be assessed in a similar manner as non-resource-rich countries. While a very preliminary assessment of resources exhaustibility for the DRC leans towards a long horizon, the ultimate choice of the fiscal anchor will be guided by the authorities' views on the exhaustibility of their resources, along with capacity considerations. For the DRC, assuming resource flows are long-lasting and given the significant infrastructure gaps, the focus of the fiscal framework should be on managing price uncertainty and volatility and growth-enhancing investment in the short to medium term. Under a long-term resource horizon, fiscal policy should target a SPRB to help isolate the budget execution from shocks arising from commodity price fluctuations**.**

7. Fiscal frameworks for resource wealth management require strong institutions. This entails strong commitment to transparency, policy predictability and credibility, good governance structures, well-designed public financial management systems, and an enhanced quality of institutions. A natural resource fund would allow policy makers to deal with resource revenue volatility, meet development needs and save for future generations. Institutional changes will be required to lay the foundations for a modern public financial management system and implement a fiscal framework geared toward the specific challenges associated with managing the resource wealth to support fiscal sustainability and ensure intergenerational equity.

Appendix I. Letter of Intent

Kinshasa, RDC
December 5, 2022

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

Dear Ms. Georgieva:

1. **We remain determined to implement the policies and reforms envisaged under the ECF arrangement.** Our economic program is based on the vision of His Excellency Félix Antoine Tshisekedi Tshilombo, President of the Republic, outlined in the 2019-23 National Strategic Development Plan, our medium-term program of reforms designed to maintain macroeconomic stability, increase fiscal space, and to promote long-term, sustainable growth supported by the private sector, while fostering better governance and transparency.

2. **Despite a highly uncertain international environment and the resurgence of the armed conflict in the east of the country, our economy is proving resilient in 2022.** After 6.2 percent GDP growth in 2021, we anticipate growth at 6.6 percent in 2022 driven by the extractive sector with rising and largely imported inflation projected at 12.3 percent by end-December, a fiscal deficit under control. Despite a projected widening current account deficit (from 1 percent of GDP in 2021 to 2.2 percent of GDP in 2022) as the result of declining mining prices, gross international reserves stood in line with the objectives of the program: they reached US$4.1 billion at end-October 2022, against 2.8 billion at end-2021. Between the end of 2021 and October 2022, the effective exchange rate appreciated by 10 and 14 percent in nominal and real terms, respectively.

3. **The outlook remains relatively favorable for 2023, although downside risks have increased**. We project growth of around 6.3 percent in 2023, a gradual decline in inflation, and a subdued fiscal deficit. We intend to continue accumulating reserves to build resilience against shocks. Knowing that downside risks have increased in a very uncertain international environment, we stand ready to adapt our economic policies in consultation with the IMF, if necessary.

4. **We have broadly complied with conditionality under our IMF-supported program.** We met all quantitative performance criteria (QPCs) at end-June 2022, but two out of four indicative targets (ITs) were not met: the floor on targeted social spending and the ceiling on changes in deposits used as guarantees for central government loans, due to technical issues—however, as committed, there was no new guarantee. We have proposed corrective actions to improve the execution of these health programs, accelerate the corresponding disbursements, and solve coordination and administrative issues. We are also progressing on our reform agenda and, despite some delays in some structural benchmarks, we remain committed to meeting them, including those relating to public financial management, transparency and the fight against corruption.

5. **The attached Memorandum of Economic and Financial Policies (MEFP), updating the previous memoranda, will enable us to achieve the objectives of our economic program.** We will monitor progress continuously in consultation with IMF staff, and we stand ready to take any further measures that may be necessary to meet program objectives. We reiterate our commitment to consult with the IMF before adopting any revisions to the policies set forth in this Letter of Intent and the MEFP, in accordance with the IMF's policies on such consultations. We will also provide IMF staff with required data and information to evaluate the policies and measures contained in the Technical Memorandum of Understanding (TMU). We agree to the publication of this Letter of Intent (LOI), the attached MEFP and TMU, as well as the IMF staff report related to the Third Review under the ECF arrangement and all related documents, after approval by the Executive Board of the IMF.

6. **Given the positive performance under the program, and the policies in the enclosed MEFP, we request the completion of the third review under the ECF-supported arrangement, modifications of the quantitative performance criteria, and the completion of the financing assurances review.** We intend to use the SDR152.3 million disbursement for balance of payments support, which will bring total disbursements under the arrangement to SDR609.2 million. Our program will continue to be monitored through QPCs, ITs with end-June and end-December test dates, and continuous performance criteria. Consistent with our reform agenda, our program also envisages structural benchmarks. These are set out in Tables 1-2 of the MEFP (Attachment I) and defined in the attached Technical Memorandum of Understanding (TMU, Attachment II). Reviews will continue to be conducted semi-annually. The Fourth Review will be based on end-December 2022 performance criteria and would take place on or after March 15, 2023.

Very truly yours,

Jean-Michel Sama Lukonde /s/
Prime Minister

Nicolas KAZADI /s/
Minister of Finance

Malangu KABEDI MBUYI /s/
Governor of the BCC

Aimé BOJI SANGARA /s/
Minister of State
Minister of Budget

Attachments:

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

Attachment I. Memorandum of Economic and Financial Policies

This Memorandum updates the Memorandum of Economic and Financial Policies (MEFP) attached to the Second Review of the ECF-supported program approved by the IMF Executive Board on June 29,2022.

I. ECONOMIC DEVELOPMENTS AND PROSPECTS

1. **Despite the deterioration of the international environment, our economy is showing a certain resilience in a context of high mineral production.** Based on available statistics, we estimate real GDP growth around 6.6 percent year-on-year in the first half of 2022. This is an encouraging result given the deterioration of the international environment with the war in Ukraine, that is largely due to the extractive sector, as copper and cobalt production experienced stronger than anticipated growth. Inflation, largely imported (notably via international food and fuel prices), accelerated to reach 12.3 percent in October on a year-on-year basis.

2. **The performance of the extractive sector also had a positive impact on the external sector in the first half of 2022.** The increase in mining exports contributed to achieve a current account surplus estimated at 7.1 percent of GDP in the first half of 2022. Furthermore, thanks to BCC currency purchases when conditions permitted (for example, with the payment of large mining sector taxes and levies in the second quarter of 2022), the BCC's gross international reserves increased to $4.1 billion at end-October 2022, equivalent to 2.0 months of imports. Between end-2021 and October 2022, the Congolese franc appreciated by 10 and 14 percent in nominal and real effective terms, respectively.

3. **We are optimistic about the 2022 economic outlook, despite the escalating conflict in the East.** We forecast growth of 6.6 percent in 2022, slightly up relative to the second review forecast. The performance of the mining sector has more than offset the slight downward revision in the growth of the non-mining sector. Inflation is projected at 12.3 percent year-on-year at end-2022. Given the declines of copper and cobalt prices (respectively projected 13 and 17 percent lower at end-2022 relative to the second review), we project a wider current account deficit, at around 2.2 percent of GDP. Despite the expenses caused by the escalation of the conflict in the East, we remain committed to achieving our quantitative targets on domestic fiscal deficit and reserves.

4. **The economy is expected to remain strong in 2023, but downside risks are mounting:**

- For 2023, we expect around 6.3 percent GDP growth; inflation, contained by a tightening of monetary policy, would gradually decrease towards 8.3 percent at the end of the year; the current account deficit would widen to 3.9 percent in the context of less favorable mining prices.

- The outlook remains favorable in the medium term, with growth projected at around 6.5 percent per year during 2024-27, still supported the mining activity and progress with structural reforms that would favor private sector activity. The current account deficit would narrow to about

1.7 percent of GDP by 2027, as higher mining production is expected to compensate for increasing investment-related imports supported by external financing.

- However, we are aware of the increase in downside risks in a more uncertain global environment, including the repercussions of a prolonged war in Ukraine, and a decline in global growth (in particular that of China) which could have a negative impact on the demand and price of mining products. At the domestic level, an escalation of the conflict in the East could create budgetary pressures and weaken macroeconomic stability. Also, economic pressures could emanate in the context of the elections scheduled for 2023. We therefore remain ready, within the framework of our program supported by the IMF, to adjust our economic policies as needed.

5. **Conversely, a more favorable scenario would allow us to build up space to deal with potential shocks.** Upside risks would arise from stronger domestic demand and/or more favorable external prospects, with higher-than-expected mining prices contributing to increasing mining production and building up external and fiscal buffers. Should these upside risks materialize, we would remain committed to accumulating additional international reserves and fiscal space to build resilience to external shocks. We also remain ready to tighten macroeconomic policies should the economy show signs of overheating.

6. **Our economic reform program would help strengthen inclusive growth, economic diversification and external competitiveness.** We will create new business opportunities and support economic diversification by: (i) improving our education and health systems; (ii) improving the business environment and governance; and (iii) strengthening DRC's connectivity through road infrastructure developments and trade integration with the rest of the world. Ambitious structural reforms should help mobilize foreign direct investment, improve competitiveness and build resilience to external shocks.

II. MACROECONOMIC AND STRUCTURAL POLICIES

A. Fiscal Policy

7. **The domestic fiscal balance target in the first half of 2022 was largely met, thanks to a significant revenue overperformance despite higher than planned expenditure.** While the objective in the first half of 2022 was to limit the domestic deficit budget balance to CDF580 billion (end-June 2022 performance criterion (**QPC**)), the domestic fiscal balance reached a surplus of CDF517 billion, thanks to increased revenue mobilization supported by improved mining prices in 2021. Revenues reached CDF9,743 billion, against an indicative target (**IT**) of CDF7,400 billion at end-June 2022. This significant overperformance (estimated at 1.6 percent of GDP) more than offset higher than expected amounts for exceptional security expenditure (0.3 percent of GDP), current expenditure of ministries and institutions (0.3 percent of GDP), domestically financed investment expenditure (0.2 percent of GDP) and for the fuel price subsidy (0.4 percent of GDP) — largely to repay arrears accumulated during previous years but without having avoided increasing liabilities

(see ¶18). We have also started reimbursing VAT arrears. In addition, we avoided building up salary arrears (**IT**).

8. The indicative target on health expenditure was not met in the first half of 2022 despite the availability of necessary funds. Payments to GAVI for vaccines were made on time and in accordance with the target. Disbursements for maternal, child health, the fight against tuberculosis, malaria and HIV/AIDS programs still experienced significant delays despite the funds been made available. The coordination issues and difficulties in expediting the processing of tenders noted during the second review have only been partially resolved and we are therefore determined to implement corrective measures (see ¶20).

9. We met the fiscal indicative target in the third quarter of 2022 thanks to further revenue overperformance despite higher-than-expected spending. A balanced budget was recorded in the third quarter against an indicative target of a deficit of CDF1,053 billion. Tax and non-tax revenue overperformed by 2.9 percent of GDP compared to the second review projections owing to our sustained revenue mobilization efforts and improvement in mining prices in 2021. However, unplanned additional spending limited the build-up of fiscal buffers in the third quarter: (i) in the context of the war in Ukraine and rising oil prices, we cleared arrears on the fuel subsidy for 2017-19, and we have paid part of the subsidy due in 2021 and 2022, causing additional clearance of arrears of 1 percent of GDP; (ii) the war in the east of the country generated exceptional security expenditure of 1 percent of GDP; (iii) operating expenditure of additional ministries and public institutions of 0.7 percent of GDP; (iv) domestically financed investment expenditure also increased by 0.2 percent of GDP.

10. We remain committed to achieving the domestic fiscal deficit target for end-December 2022. Based on revenue already garnered and our end-year projections, we expect a revenue overperformance equivalent to 3.1 percent of GDP in 2022. In view of the expenditure executed in the third quarter and anticipated in the fourth quarter, we will respect the objective of the budget deficit at the end of the year. We intend to limit the increase in current expenditure on goods and services to reach CDF4,404 billion at the end of the year, honor part of the oil subsidy payments for shortfalls in 2022 for an amount of CDF228 billion and intensify the clearance of arrears, including oil subsidy from previous years and the reimbursement of miners' VAT credit, to reach CDF1,509 billion and CDF328 billion respectively.

11. In 2023, we aim to limit the domestic fiscal deficit to CDF1,000 billion (0.7 percent of GDP). This target is based on revenue forecasts of CDF20,499 billion (**IT for the end of December 2023**). In line with end-2023 forecasts, we have set the domestic fiscal deficit targets at CDF430 billion (**end- June 2023 QPC**) and CDF1,000 billion (**IT for end-December 2023**). Together with structural fiscal reforms (see Section B), the following policies support the fiscal projections:

- We continue our efforts to meet our revenue mobilization objectives of at least CDF21,980 billion in 2023 against an expenditure envelope on own resources anticipated at CDF21,152 billion.

- Limiting the wage bill to CDF7,130 billion and the workforce to 1,499,110 employees, while promoting priority sectors (such as defense and security, education and health (see ¶20) and the recruitment of 2500 magistrates). To this end, we engage to (i) freeze the number of civil servants under the general system (277,224 civil servants) and limit their remuneration package to approximately CDF1,281 billion in 2023 while operationalizing the new administrations for digital technology and the disabled; and (ii) reduce staff in other categories (additional budgets, institutions outside the administration and those for "adjustments to the existing situation not taken into account") and limit their remuneration to properly control the wage bill envelope.

- Transfers and subsidies do not include a fuel subsidy envelope given currently projected oil prices and the price increases at the pump already carried out, the price structure should generate revenue in 2023. A compensation package of CDF240 billion for the retirement of 15,000 civil servants has been included. An additional envelope could be used for retirement allowances for additional civil servants, or social transfers to limit food insecurity, while respecting the program targets, in consultation with the IMF.

- Public investment will be executed considering our absorption capacity to support the efficiency of expenditure to carry out the President's investment guidelines. Even if the preliminary budget envisages doubling the amount of capital expenditure on own resources for 2022, we will initially commit to a more conservative amount of CDF3,555 billion pending reforms increasing capacity absorption and spending effectiveness. These expenditures will include the remaining half of the general SDR allocation not used in 2022, approximately US$203 million which will be allocated to a new component of the local development program of the 145 territories (PDL-145T) devoted to rural electrification. We will adapt investment to our absorption capacity and with the progress of reforms aimed at improving investment management.

- Clearance of oil subsidy arrears, domestic arrears, including those covered by the arrears clearance strategy, VAT arrears due to the mining industry, and domestic VAT arrears (¶14).

- The absence of monetary financing.

- Anchoring on a moderate risk of debt distress, to sustain access, to the extent possible, to concessional external financing for priority projects. We will respect the ceiling on the present value of new loans contracted by the public sector at US$1.5 billion (**end-June 2023 QPC**) and US$2 billion dollars (**end-December 2023 IT**).

12. We are committed to meeting the budgetary targets described above, including through the following provisions:

- We will publish our fiscal commitment plan for 2023 in February 2023 consistent with the cash plans and in line with the spending objectives and domestic fiscal deficit targets of the ECF program at end-June 2023 and end-December 2023.

- We are proposing an indicative target for the wage bill set at CDF3,560 billion for end-June 2023 and at CDF7,130 billion for end-December 2023, which will help monitor developments in the wage bill.

- Any revenue surplus over program projections will help create fiscal space to address external and domestic shocks. To this end, we propose an adjustor for the domestic budget balance, for an amount equivalent to 80 percent of the revenue overperformance (see TMU, ¶19).

B. Structural Fiscal Reforms

Mobilizing Revenue

13. In the medium term, we will continue our revenue mobilization efforts to gradually converge towards the average of our peers in sub-Saharan Africa (16.9 percent of GDP). The finalization and adoption of the Domestic Revenue Mobilization (DRM) Plan 2023-25 will serve as our blueprint to improve compliance and revenue collection.

14. In the short term, we will pursue our revenue mobilization objectives for the three fiscal authorities as assigned in the performance contracts. Tax and non-tax revenues are projected at 15.4 percent of GDP in 2023. In addition to the combined efforts of the three fiscal authorities, the performance of the mining sector and the following reforms and measures to be undertaken will support the projections:

- *Broadening the tax base and improving compliance with tax obligations*, by (i) adopting a plan to facilitate the voluntary registration of taxpayers and to increase the actual number of large, medium and small taxpayers; (ii) securing the taxpayer register to limit access to customs operations, public procurement and the right to issue VAT invoices only to active taxable persons identified by the DGI; (iii) improving tax filing and payment rates; (iv) increasing in the number of effective VAT contributors; (v) increasing risk coverage through an adapted audit plan; and (vi) strengthening the recovery of tax arrears. These measures would be based on the government's adoption of the medium-term domestic revenue mobilization plan finalized with the assistance of the IMF's Fiscal Affairs Department.

- *Restoring the proper VAT functioning*:

  - In accordance with existing legislation and international best practices, the self-liquidating VAT system adopted since March 2021 now applies to mining companies in the exploitation phase and not to specific products. This should limit the accumulation of new VAT arrears to these businesses.

  - Regarding the stock of credit arrears to mining companies, estimated at around US$800 million after the audit completed by the General Inspectorate of Finance (IGF) in March 2022, we have already made repayments for approximately CDF228 billion so far in 2022 and expect to repay CDF328 billion in total over the full year. We have, however, continued to accumulate VAT outstanding credits. We are committed to no longer accumulate VAT credits by reimbursing about CDF380 billion in 2023. The remainder of the refunds will be made on several years, within a repayment plan that considers our fiscal space.

- To improve the VAT system outside the mining sector, we plan to intensify spot checks of VAT and to connect the central directorates with each other and with the operational departments. The weak digitalization in tax administration results in poor performance in VAT collection, hindering VAT credit repayments and undermining the DGI's capacity to control the base and support exhaustive recovery. The government plans to introduce, no later than December 30, 2023, an IT solution for billing control certified by the DGI, which will allow the administration to issue a certification code for each invoice issued and to ensure the regularity of the accounts presented to judge the sincerity of the declarations.

- We will refrain from granting new VAT exemptions.

- *Improving the performance of the General Directorate of Customs and Excise (DGDA)*:

  - While considering the size of the territory and the challenges encountered in the provinces, we will promote the consistent application of custom provisions at the national level, which requires modernizing customs facilities and training. The widespread use of ASYCUDA World, which now covers at least 95 percent of the country's customs revenue, is part of this effort.

  - Given the significant revenue potential, attention will be paid to control the value of imported goods, with reinforced oversight on declared values, in particular for imported vehicles via a dedicated system in interaction with ASYCUDA World. We will also strengthen the administrative control of exemptions and suspended import regimes.

  - Regarding the excise duty traceability system (STDA), significant progress has been made for the tobacco and telecommunication sectors. However, concerns by the private sector have caused significant delays in the implementation for beverages, and the **end-September 2022 SB** is therefore not met. Apart from the operation of the STDA, for which the DGDA continues to work with a view to installing the necessary equipment at the producers (first installations were carried out at the end of October 2022), we plan to strengthen control missions for imported products and local production. We remain convinced of the revenue potential, whereas to date excise duties represent only 0.6 percent of GDP, when the average in Africa is around 1.6 percent of GDP.

- *Modernizing and digitalizing revenue collection*, with the support of our partners such as the French Development Agency and the European Union to automate the revenue chain with the installation and use of new software : (i) ISYS-Régies, which allows the traceability of payments made to commercial banks (supervised by the BCC according to agreements signed in April 2022); (ii) LOGIRAD, officially launched by the Prime Minister on September 8, 2022 and which will improve the management of non-tax revenue by tracing operations and reducing file processing time; and (iii) the tax integrated management software package (PGI) at the DGI, officially launched on June 11, 2022. Beyond the initial investments, for which we benefit from our partners' technical and financial support, we are committed to perpetuating these tools with the necessary budgetary allocations for maintenance, internet subscriptions, and user training.

- *Rationalizing tax expenditures*. The report on tax expenditures, published as an appendix to the Finance Act, is regularly updated. In addition, in October 2022, we adopted a tax expenditure rationalization plan which aims to reform exceptional tax regimes, as well as all conventions, approvals, agreements, letters or other documents providing for tax exemptions, except for those provided for in the administrative codes in force.

- *Rationalizing non-tax charges*. After having grouped together in a single document all the legal provisions on non-tax revenue, classifying them by economic sector to simplify understanding by taxpayers (available for consultation at https://dgrad.gouv.cd/lois-dgrad/), we have adopted a plan to rationalize these charges consistent with the recommendations of IMF technical assistance in October 2022 (**end-September 2022 SB**).

- *Rationalizing parafiscal charges*. The inventory of all parafiscal charges, special accounts and ancillary budgets is in progress and will be finalized by mid-2023 (**end-June 2023 SB**) with a view to start rationalizing them with specific measures integrated into the 2024 Budget Law.

Controlling Budgetary Risks and Improving the Quality of Expenditure

15. We continue to develop our capacity to assess and manage fiscal risks. With technical assistance from the IMF, we have developed a detailed statement containing information on (i) macroeconomic risks; (ii) public debt risks; (iii) risks related to public entities other than central government; (iv) financial sector risks; (v) institutional risks; and (vi) long-term risks, including those related to climate change. Initially published as an annex to the Medium-Term Budgetary Framework (MTBF), it is now annexed to the Budget Law.

16. Regarding risks related to public debt, we remain committed to avoid (i) accumulating arrears on the service of public external debt (CR); (ii) accumulating government salary arrears (OI); and (iii) resorting to central bank loans in favor of the central government (CR). We also commit to no longer use central bank deposits as collateral/guarantee for central government loans, while repaying existing such loans on schedule (IT).

17. We have developed a strategy for clearing domestic arrears. Developed with IMF technical assistance, the first step of this strategy is an independent audit of the stock of certified domestic arrears, which will be completed by end-2022 (**end-December 2022 SB**). This audit will clean the database of this stock of arrears. The next step will be a ministerial order defining the distribution, in consultation with IMF staff, between small claims, which will be paid immediately and without discount according to a budgetary sustainable schedule, and other claims which will be transformed into Treasury Bonds that the government will repay. annually in advance through buyback operations. To avoid accumulating new arrears, we are also working on resuming the certification process for arrears and improving the traceability of short-term expenditure.

18. We are determined to reform the fuel price subsidy system to manage the risk associated with liabilities to oil distributors. Given the gap between pump prices set by the government and prices reflecting market fundamentals, which generates significant budgetary pressures and tax expenditures, we have initiated a comprehensive reform of this subsidy system:

- To reduce liabilities, we have gradually increased prices at the pump since the end of 2021, for a total increase of between 35 percent and 60 percent depending on the region. We have also eliminated the subsidy for the purchase of fuel by airlines for international flights. We are also studying the possibility of limiting or eliminating the benefit of the subsidy for the industrial sector (in particular the mining sector).

- Going forward, we will support regular supply and limit the risk of shortages, which requires certification and payment of amounts due to distributors on a timely basis. We successively certified these amounts for 2021 (nearly US $350 million), the first quarter of 2022 (US $165 million) and the second quarter of 2022 (US$205 million). In 2022, we expect to pay a total of US$464 million: US$351 million for arrears on the subsidy from past years and around US$114 million for the 2022 accumulated subsidy.

- At the end of August 2022, after a call for tenders, we hired an international consulting firm for the audit of the price structure, which is expected by December 2022. Every month from January 2023, we will publish the price structure at the pump, the difference with the real prices, the estimated revenue losses for distributors and tax revenue losses. We will certify distributor shortfalls for a given quarter within a maximum of two months.

- We will continue the prudent adjustment of prices at the pump, while introducing targeted transfers to compensate the households most vulnerable for price volatility. To this end, we will request technical assistance from the IMF's Fiscal Affairs Department to assist us with this reform.

19. We intend to control the wage bill in the medium term, while launching an ambitious reform of the civil service. The wage bill, which reached 4.8 percent of GDP in 2021, is projected to grow to about 5.2 percent in 2022, or 20 percent year-on-year. This growth is due to various regularizations granted, which were aimed at improving the basic salary of certain civil servants under the general scheme, and bonuses in the health, education, and security sectors. However, this growth cannot be sustained over the medium term without generating cash-flow pressures. For 2023, to ensure budgetary sustainability while considering social constraints and in particular needs in the education, health, and security sectors, we target a wage bill at CDF7,130 billion. This represents an increase of 8.6 percent compared to 2022, which will be distributed to improve the basic salaries of various professions. Furthermore, to improve basic salaries, while improving the efficiency of public services, we have started to articulate a medium-term civil service reform, including a comprehensive salary policy strategy, a clean-up of the public service aimed at eliminating all fictitious employment, a reorganization of the social security coverage of public officials and a financially sustainable retirement program.

20. We remain committed to increasing spending in priority social areas.

- Faced with the disbursement difficulties of two of the IT's three programs, measures have been implemented to support that the necessary budget lines are well-identified and to resolve the coordination difficulties between the various actors (Ministry of the Budget, Ministry of Finance, Ministry of Health, Procurement Unit, Office of the Prime Minister). Despite these efforts and the safeguarding of the necessary budgetary allocations (paid into dedicated accounts at BCeCo), the award of contracts has experienced delays once again, preventing the disbursements expected in the first half of 2022. Faced with this situation, we are proposing strengthening the institutional monitoring mechanism by establishing an inter-ministerial taskforce (comprising the Presidency, the Office of the Prime Minister, the Ministries of Finance, Budget, and Health) as well as the acceleration of the contract approval process.

- As part of our plan to gradually eliminate the fuel subsidy, we wish to develop targeted social programs with the support of development partners, in particular the World Bank, the African Development Bank and IMF technical assistance. We will also support the actions of the Ministry of Social Affairs and the National Promotion and Social Service Fund (*FNPSS*), notably finalizing the national social protection policy and strategy (*PSNPS*).

- Our social priorities also include free access to education, regional convergence, and addressing the impact of (i) the gradual withdrawal of MONUSCO; the more than 6 million refugees and displaced persons (in connection with the work of the UNHCR); and (iii) the rise in the prices of certain products—aggravated by the Ukraine war—on food insecurity. The Integrated Food Security Phase Classification (IPC) estimates that 26.4 million Congolese are experiencing high levels of acute food insecurity, compared to 15.6 million in 2019.

- [1] We are committed to accelerating ongoing food security projects, and to intensifying our response with new, more ambitious programs to increase food supply and availability as part of the Agricultural Transformation Agenda launched by the President of the Republic.

21. We will improve the efficiency of public investment management:

- Our reforms are based on the recommendations of IMF technical assistance missions in March and September 2022, which assessed public investment management (PIMA) and highlighted structural weaknesses throughout the public investment cycle. By end-February 2023, the Council of Ministers will adopt a roadmap for strengthening public investment management.

- We have initiated the following actions: (i) restructuring the Project and Program Monitoring Unit (*CSPP*) redefining its missions and renewing its coordination team; (ii) strengthening the monitoring of projects and programs with a dashboard, and proactive management of delays; and (iii) signing performance contracts between the government and the coordinators of the

[1] See Democratic Republic of the Congo: Acute Food Insecurity Situation July - December 2022 and Projection for January - June 2023

Project Management Units (PMU), representing more than 70 percent of the portfolio of externally financed projects.

- In addition, (i) the decree on public investment management covering all phases of the project cycle will be signed in the second quarter of 2023 (**SB initially scheduled for end-March 2023, proposed new date May 2023**), to take into account the necessary technical work and validation by the IMF's Fiscal Affairs Department); (ii) a unique numerical identifier will be assigned to each project financed by the government or its development partners; (iii) a Manual of Procedures will be crafted to standardize public investment management methodologies, including the assessment of climate impacts, and adopted by the government by end-2023 (**proposed SB for end-December 2023**) ; (iv) an order modifying the organization and operation of the CSPP will be signed by end-March 2023; (v) information flows on the physical and financial execution of projects and their schedule will be systematized between the project management units, the fiduciary agencies and the entities responsible for monitoring (DCS, CSPP, Platform for the Management of Aid and Investments, Directorate General of the Public Portfolio, Directorate General of Accountability) and to the Directorates of Studies and Planning and to the Administrative and Financial Directorates of the supervising Ministries; and (vi) a comprehensive and realistic public investment program will be produced, which will support a more transparent project selection process and serve as the main source of information for Parliament on ongoing and future projects.

- Given the importance of the Local Development Program of the 145 Territories (PDL-145T), partly financed by half of the general SDR allocation of August 2021 (US$511 million in 2022 for schools, centers and administrative buildings, and US$203 million planned for 2023 for rural electrification), its implementation must lead to the adoption of good practices that can be extended to the management of other projects. The three agencies in charge of these investments—the Central Coordination Office (*Bureau Central de Coordination*, BCeCo), the Implementation Unit for Financing in Favor of Fragile States (*Cellule d'Exécution des Financements en Faveur des États Fragiles*, CFEF), and the United Nations Development Program (UNDP)—will therefore respect the principles of transparency and the public procurement law. We will ensure close monitoring of the physical implementation of the PDL-145T, with detailed project sheets and geolocation for each infrastructure, and we will strengthen compliance with public financial management and public procurement procedures. As we have committed to, in addition to the quarterly reports that will be produced by the executing agencies within one month after each quarter, we will publish a consolidated annual report on the use of the SDR allocation in 2022 by end-June 2023.

- The strengthening of the BCeCo continues. The steering committee, headed by a representative of the Ministry of Finance, oversees the orientations and the proper management of the BCeCo. In addition, the BCeCo audits for 2017 through 2021 demonstrate the need to improve the structuring of projects it manages and its internal processes (archiving, reporting, monitoring of provisional vouchers, and its accounting processes). We will publish independent external financial statement audit annually starting in with fiscal year 2022, including auditors' comments.

Improving Public Financial Management (PFM)

22. The operational action plan for implementing the Public Financial Management reform strategy was adopted by the government during the Council of Ministers on August 19, 2022. This action plan, which is the subject of a permanent coordination between the government (notably via the COREF) and the partners via a specific inter-donor group, is articulated around five priority axes:

- *Axis1. Budget reform*. Fiscal credibility will be strengthened, notably by improving inter-institutional coordination, formulating the macroeconomic framework and forecasting budgetary resources. We will also improve transparency in the formulation of our budget. At the same time, the decree on budget governance in line with FAD technical assistance recommendations was signed on October 29, 2022 (**end-October 2022 SB**).

- *Axis 2. Tax policy and strengthening of tax administrations* (see ¶13-14).

- *Axis 3. Public expenditure reform, including:*

  - *Reinforcement of the expenditure chain and limitation of recourse to emergency procedures*. At around 8 percent in 2021 and 8.8 percent in the first quarter of 2022, the proportion of expenditure carried out under emergency procedures increased sharply in the second quarter of 2022 (to reach 19 percent), mainly under the effect of security spending. We are determined to limit the proportion of expenditure under emergency procedures to 5 percent of total expenditure. In addition, we will continue publishing quarterly reports on the nature and amount of these expenditures. The most recent report, based on information from the second quarter of 2022, was published on November 15, 2022.

  - *Improving the transparency and efficiency of public procurement*. The government has started digitalizing public procurement procedures through the integrated public procurement management system (SIGMAP). Launched by the President of the Republic on August 29, 2022, the government will adopt, by the end of April 2023, a roadmap to deploy SIGMAP to all public entities. In addition, as previously committed, we will implement the legal changes necessary to strengthen the process of identifying and disclosing information relating to the concept of beneficial ownership by the end of 2022 in the context of the award of contracts. public procurement, consistent with IMF technical assistance recommendations.

  - *Strengthening public debt management*. An inter-ministerial decree was signed on December 5, 2020, instructing the General Directorate of Public Debt (DGDP) to assess and monitor all new debt contracts, including their consistency with program conditionality, and to enforce the declaration of public enterprise debt. To this end, a draft law on public debt will be submitted to parliament by March 2023 to harmonize the legal framework governing the management of public debt.

- *Improving the supervision of public enterprises (EP) and the associated risks management.* The main EPs (*Générale des carrières et des mines* (Gécamines), *Société minière de Bakwanga* (MIBA), *Régie de distribution d'eau* (REGIDESO), *Société nationale d'électricité* (SNEL), *Régie des voies aériennes* (RVA), *Société nationale des chemins de fer du Congo* (SNCC) and *Société commerciale des transports et des ports* (SCTP)) will have to produce their financial statements on a regular basis and the government, with technical assistance from the IMF, will produce a report on the performance of the State portfolio as an annex to the bill of Finance 2024.

- *Strengthening public investment management* (see ¶21).

- *Axis 4. Public accounting and cash management:*

  - *Restoring the state accounting function.* In March 2022, we signed the decree creating the General Directorate of the Treasury and Public Accounting (DGTCP). A ministerial decree setting the organization and functioning of the national network of public accountants will be signed by the end of March 2023 (against October 2022 as initially planned), and a decree setting the framework and organic structures of the DGTCP will be signed before the end-2022. By end-October 2023, the government will adopt two decrees, one relating procedures for accounting for revenues and another on the payments from the State to third parties.

  - *Improved cash management.* After the inventory of government accounts opened at the Central Bank, the same work is underway for accounts in commercial banks and will be completed by end-March 2023. As part of the implementation of the Single Treasury Account (STA), we will gradually consolidate all state accounts, including those linked to special accounts and annexed budgets. The process for setting up the TSA has been defined in a roadmap which will be adopted by the Council of Ministers by the end-June 2023. The government, with technical assistance of the IMF, will adopt by decree the regulatory framework delimiting the scope and structure of the TSA and setting the terms of its operation no later than May 2023 (**end-May 2023 SB**).

- *Axis 5. Digitalization of the public financial management system.* Beyond the ongoing digitization of revenue collection, the government wishes to set up an integrated public finance management (PFM) system to interconnect the various existing public finance IT systems and develop accounting modules and budget management. Thus, we will adopt, by the end of March 2023, a plan for digitalizing the public financial management system. Also, an institutional framework for the coordination and orientation of the digital PFM system will be put in place through the signing of a decree establishing the General Directorate of Financial Information Systems. This public service will be responsible for planning the evolution and development of public finance information systems, assisting project management for projects related to PFM, and ensuring the safety, integrity, reliability, and technical regulation of public finance information systems.

23. We will explore overhauling the fiscal framework to anchor fiscal policy on a medium-term non-extractive fiscal balance. Significant progress has been made in recent years in fiscal policy, particularly in revenue mobilization and refraining from monetary financing. To continue to strengthen the fiscal framework and avoid procyclical fiscal policy related to mining prices, we envision a fiscal framework that will manage the challenges arising from the volatility of mining prices and thus strengthen the implementation of medium-term fiscal policy over the medium term. Like other commodity exporters, this framework will allow for the development of more acyclical fiscal policies that consider volatility and uncertainty and the management of fiscal risks.

Improving Finance and Public Debt Statistics

24. Improved government finance and debt statistics will strengthen our institutional capacity. We are strengthening our budgetary statistics with the preparation, by the end of November 2022, of the TOFE 2021 in MSFP format by the DTMF, developed from the TOFE MSFP 1986 to be published in the IMF Statistical Yearbook; and operationalize the new restricted accounting scheme with a view of using the General Balance of Treasury Accounts (BGCT) as the main source of the TOFE in MFSP 2014 format by September 2023. For public debt statistics, the DGDP intends to reinstate the regular quarterly publication of public sector debt statistics following the 2013 Guide for Compilers and Users and which will be published under "Quarterly Public Sector Debt Statistics—QPSDS") from the second quarter 2023.

C. Monetary, Financial and Exchange Rate Policies

25. In response to the inflationary pressures that have emerged in recent months, we have taken steps to tighten monetary policy. While our medium-term objective remains to keep inflation close to the 7 percent target, inflation is expected to exceed 12 percent at the end of 2022. Although this inflation is largely caused by external shocks, the magnitude of the increase raises the fear of second-round effects. To avoid the possible de-anchoring of inflation or exchange rate expectations, the Monetary Policy Committee of the BCC decided to increase the policy rate by 75 basis points on November 24, 2022. The Committee will continue to monitor the evolution of the economic situation as well as the risks that could affect it. If necessary, the Committee will act to further tighten monetary policy and absorb excess liquidity. An additional increase in the policy rate, a widening of the tender amount ranges for BCC bonds or an increase of reserve requirement ratios are among the measures envisaged in this scenario.

26. We continue to strengthen our external buffers:

- The accumulation of reserves has been faster than the international reserves target established at the time of the program application. Gross reserves reached US$4.1 billion dollars at end-October 2022 (against US$2.8 billion at end-2021). The increase in mining tax revenues (paid in dollars) and purchases of foreign currencies on the foreign exchange market (US$381 million dollars) contributed to the accumulation of reserves in 2022. At the end of June 2022, we accumulated net reserves of US$1.2 billion dollars, against an adjusted objective of US$1.0 billion dollars. By the end of the year, we expect to accumulate at least US$1,140 million in net international reserves (**end-December 2022 QPC**).

- We remain determined to seize any opportunity to accumulate reserves, which remain low (2 months of imports end of October 2022) despite this significant accumulation. Given the heightened uncertainty and risk, we are targeting an accumulation of at least US$430 million dollars in the first half of 2023 (**end-June 2023 QPC**) and US$700 million by the end of 2023 (**end-December 2023 IT**). This objective considers the expected decline in foreign currency account balances with domestic banks (see ¶28), the absence of any new guarantees on government loans and the expected repayment of existing guarantees.

27. The modernization of the monetary policy framework will continue:

- The prudent conduct of monetary policy is based on the prohibition of any advance made by the BCC to finance the public budget deficit, in accordance with the organic law of the BCC, the Law on Public Finance and the Stability Pact between the government and the BCC. It also depends on the absence of any new guarantees on government loans and the planned repayment of existing guarantees; we therefore reiterate our commitment to reduce deposits placed as collateral at the same pace as the reduction of the outstanding balances of associated loans (**IT**).

- The signing of the Memorandum of Understanding—and of its amendment—on the regularization of BCC claims on the Treasury led to the issuance of government securities in accordance with the agreed schedule. In addition, the analysis of the BCC's recapitalization needs was validated by its Board on November 7, 2022 (**end-November 2022 SB**). The analysis envisages CDF213 billion in new capital and an additional CDF2,700 billion capital increase. This analysis will serve as the basis for the signing of a new Memorandum of Understanding between the government and the BCC on the implementation of this recapitalization (**proposed end-September 2023 SB**). The recapitalization of the BCC will strengthen its financial and operational autonomy and will ultimately support monetary policy operations.

- Since January 2022, the reserve requirement on FX deposits has been fulfilled in FX for deposits in excess of end-2021 level. The portion of this reserve fulfilled in domestic currency, a remnant of the old system, will be reduced by 2.5 percent by end-June 2023 and 5 percent by end-2023, to be converted into a FX reserve. We stand ready to draw on the additional liquidity in domestic currency resulting from this reform. We will also carry out an evaluation of the reform, in collaboration with the IMF.

- With a multi-year technical assistance program from the IMF, we will finalize implementing the Forecasting and Policy Analysis System (FPAS) and proceed to its operationalization to strengthen monetary policy decision-making. We will take the necessary accompanying measures to improve the BCC's economic analysis and forecasting capabilities, and communication.

- Following the principles set out in the Central Bank Transparency Code, we will hold Monetary Policy Committee meetings at least quarterly and following to a pre-established schedule; in addition, we will promptly issue a press release following the conclusion of these meetings.

- The BCC's interventions in the foreign exchange markets will continue to be limited to the accumulation of reserves or intended to calm an episode of extreme exchange rate volatility with the potential to undermine macroeconomic stability, while considering the strong dollarization of the economy. In addition, we will assess the measures needed to strengthen the foreign exchange market.

28. We will continue to strengthen the governance of the BCC by implementing the recommendations of the 2020 safeguards assessment:

- The BCC Board adopted an implementation plan for the IFRS accounting framework on September 27, 2022. For fiscal year 2023, the BCC's financial statements will be produced on an IFRS basis. In order to complete this reform, we have requested technical assistance to the IMF.
- The BCC intends to adopt its procurement rules (initially scheduled for end-June 2022) and set up a unit responsible for their application by end-2022.
- The BCC will strengthen the governance of FX reserves management by committing to cap FX deposits with domestic correspondents (excluding deposits used as guarantees for government loans) at US$300 million at the end of 2022, then at US$250 million by end-June 2023 and at US$200 million by end-December 2023 (**end-June 2023 QPC, end-December 2023 IT**). In addition, we will not debit international reserves if doing so would increase account balances at local correspondents above the most recent ceiling. By end-July 2023, jointly with the IMF, the BCC will also prepare a plan for the definitive closure of all FX accounts with local correspondents, including the resulting transformations to the function of fiscal agent.
- The BCC will establish a compliance function, whose pillars are AML/CFT, ethics, and internal and external fraud. A mapping of internal AML/CFT risks is being developed and will be validated by the BCC Board. To improve the monthly accounting closing process, a government expenditure and revenue reconciliation committee has been set up, and the control of suspended accounts has been strengthened. Internal audit now submits interim reports to the audit committee. The Board will approve an internal audit charter by end-2022 and the BCC will report on Audit Committee activities starting with the 2022 annual report.

29. Implementing the recommendations of the recent Financial Sector Stability Review (FSSR) will be key to strengthening financial sector supervision and regulation. The Financial Sector Stability Review conducted in January 2022 and published in September 2022 provides a detailed diagnosis of the situation of the banking sector. With IMF technical assistance, we are developing a strategy for the coming years based on recommendations in the following areas:

- *Financial sector regulation*: the adoption of the new banking law, expected by end-2022, remains a prerequisite to advance reforms. After its enactment, we will have revised all prudential regulations and defined prudential rules for payment institutions. The BCC will adopt an instruction on the identification and management of risks associated with related-party transactions, in line with the 20th Basel Core Principle (**proposed end-November 2023 SB**).

- *Financial sector supervision and bank stress tests*: By end-March 2023, the BCC will assess the consequences of reinstating rules on non-performing loans and other rules on December 22, 2021, following its suspension during the COVID-19 pandemic. To strengthen the BCC's capacity, we will recruit banking experts and deploy risk-based supervision, and set up a committee to prepare the data required for stress tests and an IT risk expertise center within DSIF by September 2023 (initially planned for December 2022).

- *Crisis management and the financial safety net:* the BCC will adopt a regulation on bank recovery plans; align the emergency liquidity provision framework with best practices; and review the cross-border cooperation agreements with all the home countries of the parent companies of banks established in the DRC, with a view to integrating recovery and resolution planning.

- *Financial stability and macroprudential policy mandate*: to support the work of the Financial Stability Committee, created in November 2021, we will provide the resources required to create a financial stability function; continue to strengthen the supervision of non-bank financial institutions; and develop monitoring and early warning tools to analyze interdependence and sector interconnections. From March 2023, we are committed to transmitting, on a monthly basis, our financial soundness indicators to the IMF for publication.

30. Our national financial inclusion strategy will be finalized by June 2023. Initially planned for December 2022, we will finalize it after the final report of the World Bank mission for the development of the financial sector, expected by the end-2022. The strategy will include the following objectives: (i) improve access to financial services and products; (ii) increasing lending to households and small and medium enterprises; (iii) increasing the use of mobile money and other fintech services; (iv) consumer education and protection; (v) strengthening infrastructure and institutions; and (vi) expand the range of insurance services offered to individuals and businesses. We will also work to restructure and strengthen microfinance institutions, which have the potential to support financial inclusion.

D. Structural Reforms: Improving Governance and the Business Environment

31. Improving governance and fighting corruption remain at the heart of the government's strategy:

- We will strengthen the presidential anti-corruption agency (*Agence de Prévention et de Lutte contre la Corruption*, APLC), in line with the United Nations Convention against Corruption (UNCAC) and international best practices. The Agency published its first annual report at end-March 2022.

- In October 2022, the United Nations Office on Drugs and Crime (UNODC) acknowledged receipt of the information sent by the government for the second cycle of the UNCAC Implementation Review Mechanism, prior to review by two peer countries.

- In accordance with our commitment, the Court of Auditors' leadership and new magistrates were appointed and sworn in before the President of the Republic on August 31, 2022. We are committed to strengthening the resources of the Court of Auditors, including via a budget allocation (the finance bill provides for a budget of CDF49 billion in 2023 against CDF22 billion in 2022).

- Other notable advances: the validation of the National Justice Reform Policy (PNRJ), and the validation of the National Anti-Corruption Strategy (Ministry of Justice, APLC, OSCEP and other institutions and partners) whose plan of action will be finalized and validated by end-2022. The General Inspectorate of Finance continues its control missions and has published several reports on its website.

32. We will continue our efforts for transparency and governance in the mining sector:

- The EITI International Secretariat's validation process of the DRC has been finalized and the EITI Board announced on 13 October 2022 that the DRC has achieved a high overall score, showing a satisfactory response to most of the requirements. However, this validation shows that progress can still be made, particularly in terms of strengthening transparency and the publication of the ultimate beneficiaries of mining contracts, and the government is determined to implement these recommendations. Beyond this validation, the government will continue to support the work of the EITI, including by respecting the budgetary allocations necessary for its operation.

- Thus, on December 1, 2022, we published a renegotiated contract allowing the return of mining assets in favor of the State (prior action). We will continue to publish all new contracts (**continuous SB**) in accordance with the relevant provisions of the Mining Code and the requirements of the EITI Standards, including renegotiated contracts. In addition, Gécamines' 2021 financial statements, including the auditors' comments, were published in August 2022, renewing a good practice.

- Finally, given the importance of cobalt mining (the DRC would have 60 to 70 percent of world reserves) and the share of cobalt mined in an artisanal way (estimated at up to 20 percent), we are working on improving human rights (including the effective prohibition of child labor) and environmental impacts, which will guarantee a fair price for artisanal workers, and which will promote better traceability of exports and benefits taxes for the state.

33. We are committed to improving the technical compliance of AML/CFT framework and its effectiveness:

- On October 21, 2022, the FATF put the DRC on the list of jurisdictions under increased monitoring ("grey-listing"). We are committed to address the identified shortcomings through an updated action plan agreed with the FATF. Following the FATF Recommendations to improve the AML/CFT framework and eventually exit the grey list, we will (i) finalize the national risk assessment (NRA, currently being developed with the assistance of the World Bank) and adopt a national AML/CFT strategy by end-May 2023; (ii) assign supervisory authorities for all designated non-financial business sectors and professions, and develop and implement a risk-based supervisory plan; (iii) provide CENAREF with sufficient resources and strengthen its capacity to conduct its mission; (iv) build capacity for AML/CFT investigations and prosecutions; and (v) effectively implement a targeted financial sanctions regime related to terrorism and terrorist financing.

- A critical step will be the adoption of a new AML/CFT law, which incorporates amendments prepared by the National Financial Intelligence Unit (CENAREF), aimed at aligning the bill with the FATF Recommendations. Amendments include broadening the application of AML/CFT measures to the entire financial sector beyond banks, banning anonymous bank accounts, enhancing due diligence measures for customers of electronic fund transfers, and establishing basic requirements for the due diligence for correspondent bank customers. In addition, the law aims to define Politically Exposed Persons (PEPs) in accordance with the FATF Recommendations, strengthen due diligence measures for PEPs, and strengthen asset declaration procedures for PEPs in accordance with Article 99 of the Constitution.

- CENAREF's work to implement the agreed action plan will benefit from the technical assistance of several partners (including the European Union, the World Bank and the United States). A high-level taskforce, including the Ministers of Finance, Budget, Justice, Interior, the Governor of the BCC, the CEO of COLUB (Advisory Committee for the fight against money laundering and the financing of terrorism) and civil society organizations will drive the necessary reforms and monitor progress.

34. We are determined to accelerate reforms to stimulate private investment:

- With the coordination of the business climate unit attached to the Presidency of the Republic and the National Agency for the Promotion of Investments (ANAPI), the government has adopted a roadmap comprising nearly 70 reforms aiming at (i) facilitating business creation (by introducing a business visa, establishing a one-stop shop for issuing licenses, permits and specific authorizations), (ii) easing access to electricity, (iii) facilitating property transfer (with a database of land register transactions, digitization of Kinshasa cadastral maps, reduction of delays in the transfer from 38 to 15 days), and (iv) facilitating international trade (by promoting logistics platforms, establishing the commission for the commercial dispute settlements, and adopting the law on commerce and electronic exchanges).

- Furthermore, we want a fair and predictable tax collection system that avoids tax harassment accusations (the objective of mobilizing revenue must not be in opposition to the improvement of the climate for business) and we work to improve the judicial system in resolving commercial disputes, with the application and protection of property and contractual rights.

- Finally, during the Council of Ministers on Friday August 26, 2022, the President of the Republic announced the establishment of a National Business Climate Barometer in the DRC, to periodically assess the degree of satisfaction of economic agents vis-à-vis the reforms and all aspects related to the business environment. This barometer, which will allow the government to assess its action and optimize its future policies, could begin to be published from early 2023.

35. We intend to strengthen our legal and institutional framework for managing public-private partnerships (PPP) and the associated fiscal risks. Principally,

- Pursuant to PPP Law No. 18/016 of July 9, 2018 relating to PPPs, we intend to sign, by the end of October 2023, the various implementing decrees for the aforementioned law regulating: (i) the procedures for granting state guarantees; (ii) the procedures for approving PPP contracts; (iii) the procedures for referral to the public institution; (iv) the procedures for carrying out the preliminary comparative assessment of PPP options with respect to other forms of public procurement (**proposed end-June 2023 SB**). We will also publish all PPP contracts *on the ARMP's website*.

- With the aim of strengthening PPPs, the institutional framework will be revised by the end of November 2023. With the IMF's technical assistance, a modified version of the PPP law will clarify the roles and responsibilities (i) of the Ministry of Planning in identifying and selecting projects; (ii) of the sectoral ministries in negotiating PPPs with UC-PPP assistance; and (iii) of the ministries of Finance and of the Budget in approving PPP projects after their evaluation, including analyzing budgetary risks. In 2023, we will establish the register of guarantees at the DGDP of the Ministry of Finance and an exhaustive register of PPPs at the ARMP and the UC-PPP.

36. We will put in place all the necessary safeguards before making operational a national development bank or any new public or para-public financial institution. A business plan, including the identification of sources of financing, an analysis of fiscal risks, a solid governance structure and an assessment of portfolio credit risk will be prepared in coordination with IMF staff before any operationalization. During its operations, this bank will also have to comply with all the procurement procedures applicable to government institutions, and it will be supervised by the BCC. In addition, we will rationalize public financial agencies and corporations to consolidate our efforts.

37. Preserving the ecosystem, adapting to climate change and integrating climate change considerations into public investments are growing priorities. Although our greenhouse gas emissions are among the lowest in the world, the DRC is prone to intense rainfall, landslides, coastal erosion, heat waves and seasonal droughts. We released our revised National Determined Contribution (NDC) ahead of COP26, which focuses on mitigation and adaptation actions in the areas of forest conservation, waste treatment, energy, agriculture, and coastal erosion. We have established priority actions for our climate policy strategy in line with our National Strategic Development Plan (PNSD) and the national REDD+ strategy. The priority actions cover five sectors including (i) conservation of forest ecosystems and biodiversity, (ii) agriculture, fisheries, livestock, and integrated rural development, (iii) water and sanitation, (iv) action plan and associated costs; and (v) private sector engagement. We will strengthen the management of public investments in the face of climate change risks following the recommendations of the C-PIMA mission.

III. OTHER ISSUES AND PROGRAM MONITORING

38. We will continue to strengthen our institutional capacities, with the support of our partners. The provision of technical assistance has already contributed to in-depth diagnostics essential in implementing our reform plans, including a comprehensive diagnostic of governance, and more recently the FSSR and PIMA. We look forward to the prospect of having resident experts, including an IMF's expert Fiscal Affairs Department (funded by the Government of Japan under the project "Strengthening Fiscal Sustainability in Fragile States of Sub-Saharan Africa"), the ongoing recruitment of two experts in the budgetary and tax field, financed by Belgian cooperation (Enabel) who will work in close collaboration with the IMF technical assistance, or from the disposal of the IMF's Monetary and Capital Markets Department to have resident experts at the BCC.

39. We remain committed to improving our statistics, the quality of which is generally adequate for program monitoring and follow-up. We are committed to ensuring that the data mentioned in the TMU are provided proactively and within the prescribed deadlines. In March 2022, we published the new revised GDP series through 2019, with 2005 as the base year, according to the 1993 System of National Accounts (SNA). We have worked with AFRICTAC Central and the IMF's Statistics Department to update this series for the years 2020 and 2021 which will be published by end-June 2023. Finally, the 2019 GDP rebasing will be done as part of the work on migration to the 2008 SNA which will be launched in 2023. We will continue to support the National Institute of Statistics and the other government institutions in charge of producing official statistics in the accomplishment of their missions, and we are counting on the continued technical and financial assistance of our partners. Our priorities include improving data collection on debt, especially on public enterprises, and debt management; improving the quality and frequency of data transmission by the BCC; and improving the accuracy of economic indicators.

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

Table 1. Democratic Republic of the Congo: Quantitative Performance Criteria and Indicative Targets Under the Three-Year Extended Credit Facility Arrangement

	2022									2023			
	End-June				End-Sep.			End-Dec.		End-March	End-June	End-Sept.	End-Dec.
	QPC				IT			QPC		IT	QPC	IT	IT
	CR No. 22/210	Adjusted	Outturn	Status	CR No. 22/210	Outturn	Status	CR No. 22/210	Proposed Change	Proposed	Proposed	Proposed	Proposed
Quantitative Performance Criteria													
Floors on changes in net international reserves of the BCC (US$ millions)	960	1,006	1,167	Met	1,000	1,193	Met	1,140		100	430	700	700
Ceilings on changes in net central bank credit to central government (CDF billions) 1/	592	502	-1,562	Met	1,008	-981	Met	1,008		405	405	405	405
Ceilings on changes in net domestic assets of the BCC (CDF billions)	700	-949	-2,380	Met	1,000	-940	Met	1,200	363	450	450	450	450
Ceilings on the accumulation of external payment arrears (US$ millions) 2/	0		0	Met	0	0	Met	0		0	0	0	0
Floors on the domestic fiscal balance (cash basis, CDF billions)	-580	-1,137	517	Met	-1,053	-7	Met	-1,570		-560	-430	-800	-1,000
Ceilings on contracting or guaranteeing of new external debt by the public sector (present value, US$ millions)	606		604	Met	1,300	645	Met	1,300		1,180	1,500	1,750	2,020
Ceilings on changes in foreign currency assets of the BCC held with domestic correspondents (US$ millions)										300	250	250	200
Indicative Targets													
Ceilings on the changes in deposits of the BCC used as collateral/guarantee for central government loans (US$ millions)	-84		-70	Not Met	-150	-83	Not Met	-150		-20	-34	-47	-61
Floors on revenues of the central government (CDF billions)	7,400		9,743	Met	11,000	14,927	Met	14,500		3,660	10,723	16,321	20,499
Floors on social spending (CDF billions)	45		27	Not Met	66	50	Not Met	77		19	42	64	75
Accumulation of wage arrears (US$ millions)	0		0	Met	0	0	Met	0		0	0	0	0
Ceilings on the wage bill (CDF billions)											3,560		7,130
Memorandum items:													
Adjustors													
Balance of payments support (US$ millions)	208		208		298	458		426		298	393	458	486
Privatization proceeds (US$ millions)	0		0		0	0		0		0	0	0	0
External debt service payments (US$ millions)	188		142		315	243		373	281	156	187	320	370
Statutory reserve requirements for foreign currency deposits (CDF billions)	1,866		307					1,848	…				
Domestic arrears payments (CDF billions)	265		822		292			304		339	1,093	1,614	2,008
Domestically-financed investment (CDF billions)	1,309		1,511		1,917			2,403		1,193	1,723	2,566	3,555
Revenues of tax authorities (DGI, DGDA, DGRAD) (CDF billions)										3,660	10,723	16,321	20,499
Others													
Ceilings on non-concessional external debt contracted or guaranteed by the public sector (nominal value, US$ millions)	1,704		1,145		2,522	1,221		2,522	2,522	1,575	2,180	2,620	3,175

Sources: Congolese authorities; and IMF staff estimates.

1/ Ceilings are positive to account for the partial use of SDR allocation for fiscal purposes (see IMF Country Report No. 22/3, Box 1).

2/ Continuous.

Table 2. Democratic Republic of the Congo: Structural Conditionality under the ECF Arrangement

Actions	Rationale	Date	Status
Request for a ECF Arrangement			
BCC Board fully constituted in accordance with the requirements of the 2018 Central Bank Law	Improve governance of the central bank according to safeguards assessment recommendations	Prior action	Met
Adopt the EITI roadmap on mining transparency (validated by the Council of Ministers)	Improve transparency in the mining sector	Prior action	Met
First Review			
Publish the full 2020 financial statements of Gecamines, including auditor's comments	Improve transparency in the mining sector	End-August 2021	Met
Consolidate all legal documents on non-tax revenues in a single document	Rationalize non-tax revenues	End-September 2021	Met
Submit to Parliament the draft of the new Commercial Banking Law that integrates IMF's staff comments	Enhance financial stability and banking supervision	End-November 2021	Not met
Continuous			
Publish all new mining contracts	Improve transparency in the mining sector		Met
Second Review			
Adopt the new reserve requirement regulation of the BCC on new FX deposits	Enhance financial stability and banking supervision	End-December 2021	Met
Sign an MoU between the BCC and the ministry of finance to regularize the outstanding credit of the BCC to the government	Provide the BCC with space for monetary policy implementation	End-December 2021	Met
Fully implement ASYCUDA World in the electronic single-window at 10 additonal custom offices	Improve customs administration	End-December 2021	Met
Recruit an independent auditor to perform an external audit of BCECO for the years 2017-21	Improving public investment efficiency	End-March 2022	Met
Continuous			
Publish all new mining contracts	Improve transparency in the mining sector		Not Met
Third Review			
Publish the renegotiated contract allowing the return of mining assets in favor of the State	Improve transparency in the mining sector	Prior Action	Met
Revision of instruction decree to make the VAT a self-liquiditing system for miners consistent with existing legislation and international best practices, so it applies to mining companies, not to specific products	Improve VAT administration	End-June 2022	Met
Publish the 2022 government spending plans aligned with program targets	Improve fiscal transparency	End-July 2022	Met
Adopt a plan to rationalize non-tax charges	Rationalize the tax system	End-September 2022	Not Met 1/
Implementation of the first phase of the excise duty traceability system (STDA)	Improve excise tax administration	End-September 2022	Not met
Adopt a decree on budget governance in line with CD recommendations	Improve public finance management	End-October 2022	Met
Validate the analysis of the BCC's recapitalization needs by the BCC Board	Reinforce the solvency of the BCC	End-November 2022	Met
Continuous			
Publish all new mining agreements in accordance accordance with the relevant provisions of the Mining Code and the requirements of the EITI standards, including renegotiated agreements	Improve transparency in the mining sector		Met

Sources: Congolese authorities and IMF staff.
1/ The plan was adopted on October 7, 2022.

Table 2. Democratic Republic of the Congo: Structural Conditionality under the ECF Arrangement (concluded)

Fourth Review	**Rationale**	**Date**	**Status**
Complete the audit certifying domestic arrears	Improve public finance management	End-December 2022	
Adopt a decree on public investment management covering the life cycle of projects, consistent with recommendations in the PIMA report	Improve public investment management	End-March 2023	Proposed change to end-May 2023
Adopt a regulatory framework defining the perimeter and the structure of the single treasury account	Improve public finance management	End-May 2023	
Continuous			
Publish all new mining agreements in accordance accordance with the relevant provisions of the Mining Code and the requirements of the EITI standards, including renegotiated agreements	Improve transparency in the mining sector		
Fifth Review	**Rationale**	**Date**	**Status**
Make an inventory of parafiscal charges in special accounts and supplemental budgets	Rationalize the tax system	End-June 2023	
Sign all the decrees implementing the law on public-private partnerships	Improve public investment management	End-June 2023	Proposed
Sign a memorandum of understanding on the implementation of the BCC's recapitalization	Improve the independence of the BCC	End-September 2023	Proposed
Adopt a related parties regulation in line with the Basel Core Principle 20	Strengthen banking regulation and prudential norms	End-November 2023	Proposed
Continuous			
Publish all new mining agreements in accordance accordance with the relevant provisions of the Mining Code and the requirements of the EITI standards, including renegotiated agreements	Improve transparency in the mining sector		
Sixth Review	**Rationale**	**Date**	**Status**
Adopt a public investment management procedures manual	Improve public investment management	End-December 2023	Proposed
Continuous			
Publish all new mining agreements in accordance accordance with the relevant provisions of the Mining Code and the requirements of the EITI standards, including renegotiated agreements	Improve transparency in the mining sector		

Sources: Congolese authorities and IMF staff.

Attachment II. Technical Memorandum of Understanding

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

A. Definitions

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

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

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

- Variables denominated in U.S. dollars will be converted to Congolese francs by using the program exchange rate of CDF1,971.8046 per U.S. dollar.
- Variables denominated in SDRs will be valued at the program exchange rate of CDF2,852.0774 per SDR.
- Variables denominated in euros will be valued at the program exchange rate of CDF,2421.1594 per euro.
- In addition, variables denominated in currencies other than the U.S. dollar, SDR or Euro will first be converted to U.S. dollars at the December 31, 2020, US$/currency official exchange rate (obtained from the IMF rates database), then converted to Congolese Francs by using the program exchange rate CDF/$.

5. **Quantitative Performance Criteria** (QPCs) included in the program, as defined below, refer to the net international reserves (NIR) of the BCC, net central bank credit to the government, net domestic assets of the BCC, external payments arrears, new non-concessional external debt owed or guaranteed by the central government and/or the central bank, including EADs, and the domestic balance (cash basis). Performance criteria are set for end-December 2022 and end-June 2023 while indicative targets are set for end-March 2023, end-September 2023 and end-December 2023.

6. In addition to the specific QPCs listed in paragraph 5, as for any Fund arrangement, **continuous QPCs** also include the non-introduction of exchange restrictions and multiple currency practices. Specifically, continuous conditionality covers (i) non-imposition or intensification of restrictions on the making of payments and transfers for current international transactions; (ii) non-introduction or modification of multiple currency practices; (iii) non-conclusion of bilateral payments agreements that are inconsistent with Article VIII; and (iv) non-imposition or intensification of import restrictions for balance of payments reasons. These continuous QPCs, given their non-quantitative nature, are not listed in the QPC table annexed to the MEFP.

B. Quantitative Performance Criteria and Adjustors

Floors on Changes in Net International Reserves of the BCC

7. Definition: **Net international reserves (NIR)** are defined as the difference between the BCC **gross foreign reserves** and its **total foreign liabilities**, excluding SDR allocations.

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

9. Definition: **Total foreign liabilities** are all BCC foreign exchange liabilities to nonresidents, including the IMF but excluding SDR allocations.

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

- **Balance of payments support (BPS)**: NIR floors will be adjusted upward by an amount equivalent to 50 percent of BPS in excess of the programmed levels. NIR floors will be adjusted downward by an amount equivalent to 50 percent of the shortfall of BPS relative to programmed levels.

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

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

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

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

Ceilings on Changes in Foreign Currency Assets of the BCC Held with Domestic Correspondents

13. Definition: **Foreign currency assets of the BCC held with domestic correspondents** are defined as the assets of the BCC (i) denominated in any currency other than the Congolese franc; (ii) held with institutions or subsidiaries domiciled in the Democratic Republic of Congo; (iii) but excluding deposits of the BCC used as collateral/guarantee for central government loans (as defined in ¶31).

Ceilings on Changes in Net Domestic Assets of the BCC

14. Definition: The **net domestic assets** (NDA) of the BCC are defined as narrow base money (see ¶15) minus NIR (see ¶7) minus external assets excluded from NIR minus, beginning in December 2022, reserve requirements fulfilled by deposit-taking institutions. Based on this definition, the NDA of the BCC include: (i) net credit to the central government (see ¶16); (ii) credit to the private sector; (iii) credit to public enterprises; (iv) credit to commercial banks; (v) other claims on the rest of the economy (on other financial institutions, and other non-financial institutions); and (vi) other net assets.

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

The following adjustments will be made to the NDA ceilings:

- **BPS:** NDA ceilings will be adjusted downward by an amount equivalent to 50 percent of BPS in excess of the programmed level. NDA ceilings will be adjusted upward by an amount equivalent to 50 percent of the shortfall of BPS relative to programmed levels.

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

- **Statutory reserve requirements for foreign currency deposits:** Before December 2022, NDA ceilings will be adjusted upwards (downwards) by the increase (decrease) in the statutory reserve requirements for foreign currency deposits relative to program projections (memorandum item).

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

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

16. Definition: **Net central bank credit to the central government** (NCG) is defined as the difference between gross BCC claims on the central government minus central government deposits at the BCC. For purposes of program monitoring, central government deposits related to externally financed projects are excluded from NCG. The following items are excluded from this definition: Perpetual government securities that cover past operating loses, unsecuritized operating losses from 2011 and later years, unpaid interest payments for securities linked to operating losses of the BCC, and foreign currency translation losses. All foreign currency denominated flows to the budget will be converted to domestic currency by using the market exchange rate prevailing at the time of the disbursement.

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

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

Floors on the Domestic Fiscal Balance

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

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

- **Domestic arrears payments**: Domestic budget balance floors will be adjusted downward (higher deficit) by the amount of domestic arrears repayments made above the programmed amount; symmetrically, they will be adjusted upward (lower deficit) by the amount of domestic arrears repayments made below the programmed amount.
- **Domestically-financed investment**: Domestic budget balance floors will be adjusted upward (lower deficit) by the amount of domestically-financed investment made below than the programmed amount.

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

- **Revenues of tax authorities:** The floors of the domestic fiscal balance will be adjusted upwards by an amount equivalent to 80 percent of the revenues of the three tax authorities (DGI, DGDA, DGRAD) in excess of the programmed level. There will be no downward adjustment for revenue shortfalls.

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

Ceilings on the Accumulation of External Payment Arrears

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

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

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

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

24. 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

[1] Only Gécamines, SNEL, and MIBA are included in the QPC.

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.

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

26. Definition: **Variable interest rates.** For debts carrying a variable interest rate in the form of a benchmark interest rate plus a fixed spread, the PV of the debt is calculated using a program reference rate plus the fixed spread (in basis points) specified in the debt contract. The program reference rate for the six-month USD LIBOR is 1.81 percent and will remain fixed for the duration of the program. The spread of six-month Euro LIBOR over six-month USD LIBOR is -200 basis points. The spread of six-month JPY LIBOR over six-month USD LIBOR is -200 basis points. The spread of six-month GBP LIBOR over six-month USD LIBOR is -100 basis points. For interest rates on currencies other than Euro, JPY, and GBP, the spread over six-month USD LIBOR is -100 basis points. Where the variable rate is linked to a benchmark interest rate other than the six-month USD LIBOR, a spread reflecting the difference between the benchmark rate and the six-month USD LIBOR (rounded to the nearest 50 bps) will be added. Given the anticipated global transition away from LIBOR, this TMU can be updated to reflect the relevant benchmark replacements (U.S. Secured Overnight Financing Rate (SOFR); U.K. Sterling Overnight Index Average (SONIA); EURIBOR; and Tokyo Overnight Average Rate (TONAR)) prior to the complete phase out, once operationally feasible.

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

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

28. Definition: The **present value** (PV) of new external debt is calculated by discounting all projected disbursements and debt service payments (principal and interest) on the basis of a

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

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

program discount rate of 5 percent and taking account of all loan conditions, including projected disbursements, the maturity, grace period, payment schedule, front-end fees and management fees. The PV is calculated using the IMF "Fund's concessionality calculator," which is based on the amount of the loan and the above parameters. In the case of loans for which the grant element is zero or less than zero, the PV is set at an amount equal to the face value.

29. Definition: **Ceiling.** From March 2022, a performance criterion applies to the PV of new external debt (understood as debt by non-residents) contracted or guaranteed by the public sector with original maturities of one year or more. The ceiling applies to debt contracted or guaranteed for which value has not yet been received. It excludes the use of Fund resources as well as normal import credits having a maturity of up to one year.[4]

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

C. Indicative Targets

Ceilings on the changes in deposits of the BCC Used as Collateral/Guarantee for Central Government Loans

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

Floors on Revenues of the Central Government

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

- Revenues of the central government include taxes and other compulsory transfers imposed by central government units, property income derived from the ownership of assets, sales of goods and services, social contributions (excluding pensions contributions received by the central government), interest, fines, penalties and forfeits and voluntary transfers received from nongovernment other than grants. The definition, for program monitoring, excludes grants and other noncompulsory contributions received from foreign governments and international organizations; such transfers between central government units would be eliminated in the consolidation of the fiscal reports and not recorded as revenue. Receipts from the sale of nonfinancial assets (e.g., privatization and signature bonuses from natural resource contracts),

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

and transactions in financial assets and liabilities, such as borrowing but excepting interest payments, are also excluded from the definition of revenue. Transfer of profits from BCC to the Treasury is also excluded from the definition of revenue. The revenue of special accounts and budgets are also excluded

- Revenues should be recognized on a cash basis and flows should be recorded when cash is received. Exceptional advanced payments will be treated as if received on the normal due date.

Floors on Social Spending

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

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

Text Table 1. Democratic Republic of the Congo: Indicative Target for Social Spending
(In Billion Congolese Francs, Cumulative from the Beginning of Year)

	Jun-21		Sep-21		Dec-21		Mar-22		Jun-22		Sep-22		Dec-22 2/	Mar-23	Jun-23	Sep-23	Dec-23
	CR No. 21/168	Prel.	CR No. 21/168	Prel.	CR No. 22/3	Prel.	CR No. 22/3	Prel.	CR No. 22/210	Prel.	CR No. 22/210	Prel.	Prop.	Prop.	Prop.	Prop.	Prop.
RMNCAH and primary health care	11.2	-	16.9	-	22.5		5.9	1.6	9.6	12.4	15.3	12.4	21.2	6.6	13.25	19.88	26.51
GAVI co-financing and traditional vaccines 1/	8.3	18.6	16.4	18.6	17.4		10.7	10.7	25.7	25.9	36.5	25.9	36.5	8.3	20.31	32.30	32.30
TB/Malaria/HIV/AIDS co-financing	9.1	-	13.6	4.9	18.2		4.7		9.3	0.3	14.0	2.0	18.7	4.1	8.20	12.30	16.39
Total	**28.6**	**18.6**	**46.8**	**23.5**	**58.0**	**47.0**	**21.2**	**12.3**	**44.7**	**38.7**	**65.8**	**40.3**	**76.4**	**19.0**	**41.8**	**64.5**	**75.2**

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

Accumulation of Wage Arrears

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

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

Ceilings on the Wage Bill

36. Definition: The **wage bill** is defined as the total compensation paid to public service employees (see ¶35), including permanent benefits.

D. Data to be Reported for Program Monitoring Purposes

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

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

	Information	Responsible Institution	Frequency	Availability length	Frequency Submission
1	Foreign exchange market volumes: Commercial Banks, BCC interventions, BCC auctions of FX, bureaux de change, parallel market (by currency)	BCC	Daily	1 day	Each Monday
2	Foreign exchange rates: Reference values, interbank market, bureaux de change, parallel market (by currency)	BCC	Daily	1 day	Each Monday
3	Monetary policy instruments and interventions: Bons BCC, swap facility, emergency lending windows, interbank market (rates and volumes, by bank)	BCC	Weekly	1 day	Each Monday
4	External reserves of the BCC (SMP definition), disaggregated by category and currency	BCC	Daily	1 day	Each Monday
5	Government deposits at the BCC and commercial banks: By type, entity, and category	BCC	Monthly	2 weeks	Each 15th of the month of the following month.
6	DAT deposits, guaranteed deposits, or any other type of contracted guarantees of the BCC for the benefit of the central government in local commercial banks (by bank and category, providing terms, by FX and local currency) For guarantees, detailed information on payments related to guaranteed loans, and conditions of those loans et related guarantees	BCC	Monthly	2 weeks	Each 15th of the month of the following month
7	Detailed monetary situation: BCC and other institutions with deposits	BCC	Monthly	2 weeks	Each 15th of the month of the following month
8	Detailed BCC balance sheet	BCC	Monthly	2 weeks	Each 15th of the month of the following month
9	Interest rates term structure of deposit institutions and of the BCC	BCC	Monthly	1 week (2 weeks for deposit institutions)	Each 15th of the month of the following month

Table 1. Democratic Republic of the Congo: Overview of Data to be Transmitted by the Authorities (continued)					
	Information	**Responsible Institution**	**Frequency**	**Availability length**	**Frequency Submission**
10	Reserves (mandatory and voluntary) of deposit institutions	BCC	Weekly	1 day	Each Monday
11	Account statement (electronic downloadable data format) provided by the BIS for two-day deposit account in USD opened in the BCC books to record IMF-related disbursements ("BRI 2D FMI USD")	BCC	Monthly	2 weeks	Each 15th of the month of the following month
12	Execution of plan de Tresorerie (PTR)/budget in currencies and in local currency of the BCC	BCC	Weekly (Monthly for local currency)	1 week	Weekly (Monthly for local currency)
13	Detailed balance sheet information and prudential ratios/FSIs for each deposit institutions (and aggregated)	BCC	Monthly	2 weeks	Each 15th of the month of the following month
14	Consumer Price Index	INS	Weekly	1 week	Weekly
15	Exports of basic products (value and volume); imports (value and volume)	BCC	Monthly	3 weeks	Each 21st of the month of the following month
16	Indicators of domestic production	INS	Monthly	3 weeks	Each 21st of the month of the following month
17	Capital and financial account operations of the balance of payment	BCC	Quarterly	3 weeks	The 21st of the month following the quarter
18	Amounts and identity of creditors of promissory notes guaranteed by the BCC	BCC	Monthly	3 weeks	Monthly

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

	Information	Responsible Institution	Frequency	Availability length	Frequency Submission
19	Principal external indicators	BCC	Daily	1 day	Daily
20	Evolution of the execution of the treasury plan (outcome vs. projections)	DTO	Weekly	1 day	Weekly
21	Issuance and amortization of Treasury bills and bonds: amounts, maturities, and interest rates	Comité des titres	Weekly	3 days	Weekly
22	External debt service (interests and principal) detailed by creditor	DGDP	Monthly	2 weeks	Monthly
23	Updated amounts of external arrears	DGDP	Monthly	3 weeks	Monthly
24	Execution of the plan of treasury flow of the government	DTO	Monthly	2 weeks	Monthly
25	Revenues from customs and excise taxes, including from the mining sector, broken down by category	DGDA	Monthly	4 weeks	Monthly
26	Revenues from direct and indirect taxes	DGI	Monthly	4 weeks	Monthly
27	Revenues coming from mining sector by nature	DGI	Monthly	8 weeks	Monthly
28	Non fiscal revenues (excluding from provinces), including revenues from mining sector	DGRAD	Monthly	4 weeks	Monthly
29	Collection of receipts from natural resources	CTR	Quarterly	4 weeks	Quarterly
30	Situation of IBP (corporate tax) subscriptions	DGI	Annual	4 weeks	Annual
31	Projected spending commitment plan	DCB	Quarterly	2 weeks	Quarterly

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

	Information	Responsible Institution	Frequency	Availability length	Frequency Submission
32	État de suivi budgétaire (ESB)	DPSB	Monthly	2 weeks	Monthly
33	Emergency spending: amounts approved by the Committee on emergency spending and amounts paid and regularized by the BCC	Emergency committee	Quarterly	3 weeks	Quarterly
34	Privatization proceeds	DGRAD	In case of assets sale	3 weeks	In case of assets sale
35	Domestic debt of the central administration by category and by creditor: stock and debt service	DGDP	Quarterly	3 weeks	Quarterly
36	Stock of budget arrears	DCB	Annual	3 weeks	Annual
37	Stock of wage arrears, including details per category	Dir Paie	Monthly	60 days	Monthly
38	Contracting of any new external debt issued and/or guaranteed by the BCC in favor of any central or local administration	DGDP	In case of signature of loan contract	3 weeks	Monthly
39	Exports broken down by mineral and by company as well as annual projections	CTCPM	Monthly Quarterly	3 weeks	Monthly Quarterly
40	Statistical brief for the weekly meeting with the Prime Minister	DEME/Plan	Weekly	3 days	Weekly
41	Updated GDP estimates and forecasts	CESCN	Quarterly	45 days	Quarterly
42	Principales productions (Tables du Condense statistique)	BCC	Monthly	3 weeks	Monthly
43	Estimate of the budgetary cost of the fuel prices' policy	Ministry of economy	Quarterly	60 days	Quarterly

Statement by Mr. Sylla, Executive Director, Mr. Matungulu, Alternate Executive Director, and Mr. Nguema-Affane, Senior Advisor to the Executive Director on Democratic Republic of the Congo
December 20, 2022

On behalf of our Congolese authorities, we express our appreciation to the Executive Board, Management, and staff for their support to the Democratic Republic of The Congo (DRC). The Extended Credit Facility (ECF) approved in July 2021 has been instrumental in advancing economic policies and key structural reforms.

The period under review was marked by the resurgence of the armed conflict in the eastern part of the country, which added to the challenges brought about by the turbulent external environment including an elevated inflation and increasing food insecurity. Despite these developments, program implementation continued to be satisfactory with a notable improvement in the fiscal and external positions in 2022. All quantitative performance criteria at end-June 2022 were met and corrective actions have been taken to address the causes of the missed indicative targets on social spending and central bank guarantees for government loans. Progress is also being made regarding the implementation of reforms agreed to under the program. The recent upgrade by the sovereign credit rating agency Moody's is a testimony to the country's important achievements over the past few years. In view of the satisfactory program performance and their continued commitment to reforms, the authorities are requesting the completion of the third review under the ECF.

I. Recent Developments, Outlook and Risks

Economic activity remained robust in 2022 despite high inflation and the deterioration of the security situation in the eastern part of the country. Growth is forecast at 6.6 percent in 2022, up from 6.2 percent in 2021, driven by the extractive sector. Inflation is projected at 12.3 percent by end-2022, due mainly to higher food and energy prices. The current account deficit will widen from 1 percent of GDP in 2021 to 2.2 percent of GDP in 2022, as a result of declining mining prices. Credit to the private sector grew by 38 percent y-o-y in September 2022. Gross international reserves reached US$4.1 billion at end-October 2022 (2 months of imports), against $2.8 billion at end-2021, in line with the objectives of the program. The effective exchange rate appreciated by 10 and 14 percent in nominal and real terms respectively, by October 2022.

Fiscal performance in 2022 has been better than projected. The domestic fiscal balance target registered a surplus at end-June 2022 helped by higher mining prices and profits in 2021 and strong revenue mobilization, despite higher than projected spending. High commodity prices drove the revenue overperformance, a part of which was used notably for additional security spending, fuel subsidies and payments of domestic debt arrears including VAT arrears due to mining companies. Data on budget execution in the second half of 2022 points to continued strong fiscal performance, with the domestic fiscal balance at end-2022 expected to be in line with the program's objective. As anticipated, the wage bill has increased from 4.8 percent of GDP to a projected 5.2 percent of GDP, reflecting increased basic salaries for certain civil servants in response to long-standing government commitments. Other contributing factors were higher bonuses in the health, education, and security sectors. Public debt will remain low at around 16 percent of GDP in 2022 with a moderate risk of debt distress over the medium-term.

Implementation of the ambitious fiscal reform agenda advanced. A major milestone was reached with the adoption in August 2022 of the operational action plan for the public financial management reform strategy. The plan focuses on budget reform, tax policy and administration, public expenditure reform, public accounts and cash management and digitalization of the public financial management system. Progress was also made in the revenue administration in October 2022, with further advances in the digitalization of revenue collection, the adoption of a tax expenditure rationalization plan which aims to reform exceptional tax regimes, as well as the introduction of plans to rationalize non-tax charges.

A comprehensive reform of the fuel subsidy system was initiated. In this context, retail fuel prices have been gradually increased since the beginning of 2022; and the fuel purchase subsidy for international airlines eliminated. In addition, an international consulting firm has been selected for the audit of the fuel price structure and is expected to deliver its report by-end 2022. The authorities will continue the prudent adjustment of prices at the pump with targeted compensating transfers to vulnerable households. Given the anticipated moderation in oil prices next year, and following the increases in fuel prices in 2022, no fuel subsidies are expected in 2023.

Monetary policy was tightened to contain inflationary pressures in 2022. To avoid a de-anchoring of inflation or exchange rate expectations, the central bank (*Banque Centrale du Congo* (*BCC*)) increased the policy rate by 75 basis points to 8,25 percent in November 2022. Opportunistic foreign exchange interventions together with high mining exports have contributed to support substantial reserve accumulation in 2022. Reforms at the central bank advanced; its Management adopted a cost analysis of the BCC's recapitalization program. Implementation will support a further strengthening of the institution's autonomy and enhance the effectiveness of monetary policy operations. The BCC also adopted its plan for the introduction of the IFRS accounting framework, in line with the 2020 safeguards assessment recommendations.

Notable progress is being made in improving transparency and governance and combatting corruption. The Court of Auditors' leaders and new magistrates were appointed and sworn in before the President of the Republic on August 31, 2022; and the National Justice Reform Policy (PNRJ) and the National Anti-Corruption Strategy have been finalized and adopted. Also, the EITI International Secretariat's validation process of the DRC has been completed and the EITI Board announced on October 13, 2022, that the DRC has achieved a high overall score, showing a satisfactory response to most of the requirements. In August 2022, the national mining company, *Gécamines*, published its 2021 financial statements, pursuing the good practice it resumed in 2021 with the publication of the 2020 statements.

The medium-term outlook is favorable but subject to higher uncertainties from the global economy and the still unsettled security situation in the eastern provinces. Growth is projected to remain robust at more than 6 percent, mainly supported by strong activity in the mining sector. Inflation is expected to decline gradually towards the 7-percent target as global inflation subsides. After a further increase in 2023 due to lower commodity prices, the current account deficit would also decline in the period ahead on the back of higher mining exports as additional projects come on stream. The authorities recognize that a prolonged war in Ukraine and a decline in global growth, notably in China, could have a negative impact on the demand and price of minerals. Another major risk to the outlook pertains to the security situation in the East. Failure to stop the conflict would weigh on public finances and delay progress in building domestic and external buffers. At the same time, the authorities are hopeful about upside risks stemming from stronger domestic demand or better-than-expected external demand which would support a further strengthening of external reserves.

II. Program performance

Implementation of the program remains satisfactory. All quantitative performance criteria at end-June 2022 were met; and all but two indicative targets were met. Indeed, health expenditures were lower than programmed due to delays in related procurement actions, and the reduction in central bank deposits used as guarantee for central government loans was not fully realized. Five of six structural benchmarks were also met; the sixth on the excise tax revenue traceability system was not fully implemented due to domestic capacity challenges. Measures are being taken to strengthen the institutional monitoring mechanism for health spending and accelerate the related procurement process with the view to addressing delays in procurement. In addition, a renegotiated mining contract was published in early December 2022 in accordance with the relevant provisions of the mining code and pertinent EITI standards. The new contract allows the return to the State of mining assets sold earlier below market price.

III. Policies for 2023 and beyond

The Congolese authorities remain committed to the program objectives. Key priorities include, increasing fiscal space, maintaining macroeconomic stability, and promoting long-term sustainable, and private sector-led, growth. Improving governance and transparency and fighting corruption remain at the heart of the government's strategy. Preserving the ecosystem, adapting to climate change, and integrating climate change parameters into public investments in accordance with the national climate policy are also top components of the reform agenda. Additional resources are also being devoted to reducing acute food insecurity in some regions of the country. Going forward, the authorities are committed to accelerating ongoing food security projects, including new and more ambitious programs to increase food supply and availability as part of the Agricultural Transformation Agenda.

Growth-supporting fiscal consolidation will continue in 2023. The budget law for 2023 has been adopted in December 2022. The authorities expect mining-driven revenue to overperform again in 2023. Together with continued prudent spending, this will provide greater fiscal space for higher priority security, infrastructure, and social spending; and help pursue debt reduction and contribute to strengthen fiscal sustainability further. Revenue mobilization efforts will focus on broadening the tax base, improving tax compliance and refraining from granting new VAT exemptions. On the expenditure side, the authorities will continue efforts to contain the wage bill growth. To that end, a recruitment freeze will be enacted and the retirement age for eligible civil servants strictly enforced. Furthermore, the authorities will continue to advance their comprehensive civil service reform program. The fiscal consolidation program takes nevertheless account of increased spending under the government's Local Development Program of the 145 Territories (PDL-145T) to be funded with residual resources from the 2021 special SDR allocation to the budget. The additional spending under PDL-145T focuses on rural electrification projects.

Enhanced fiscal performance will also be supported by further progress in the implementation of planned fiscal reforms. Key measures aim to strengthen revenue mobilization, improve public financial management, better control fiscal risks from public debt and SOEs, and considerably improve the quality of spending. Efforts to modernize revenue administration will notably further advance computerization of tax systems. Reforms of public investment management will continue, based on the 2022 PIMA recommendations. Given the importance of the PDL-145T, the authorities intend to closely monitor implementation and strengthen compliance with public financial management and public procurement procedures. Strengthening management of the *Bureau Central de Coordination* (BCECO), one of the implementing agencies of the PDL-145T, will remain a top priority in this regard.

The central bank will remain attentive and responsive to economic developments, consistent with its price stability mandate, while pursuing reserve accumulation to further strengthen external buffers. In this regard, if necessary, it will further tighten monetary policy and absorb excess bank liquidity. As may be needed, additional policy rate and/or required reserve ratio changes could be considered. Operational and governance reforms at the central bank will be sustained, notably based on the 2020 Safeguards recommendations. As regards financial sector policy, the new banking law has been adopted by Parliament in December 2022, which will underpin advances in reforms to strengthen banking and financial sector supervision. The financial inclusion strategy is being finalized with technical assistance from the World Bank.

More fundamentally, the authorities intend to stay the course with critical structural reforms to improve competitiveness, move economic diversification forward, and strengthen growth inclusiveness. Key areas of focus include: (i) enhancing human capital development through determined improvements in the education and health systems; (ii) improving the business environment and governance; and (iii) strengthening DRC's connectivity through road infrastructure developments and trade integration with the rest of the world. With improved competitiveness, a more enabling business environment should help attract more foreign direct investment and further boost resilience to external shocks.

Prospects for stronger growth and faster gains in poverty alleviation could however be compromised in the face of severe vulnerabilities to climate change. In the capital city of Kinshasa, heavy rains and flooding resulted this month in nearly 150 deaths and extensive damages to personal property and public infrastructure. To achieve its development and climate-related goals and appropriately assume its leadership role in the preservation of the Congo Basin, the DRC will need substantially higher international support to finance needed investments. To that end, the authorities plan to submit a request for IMF assistance under the Resilience and Sustainability Trust (RST) in due course.

The authorities are committed to addressing the shortcomings in the AML/CFT framework following the placement of the DRC under increased monitoring by the Financial Action Task Force (FATF) in October 2022. Following the FATF recommendations to improve the AML/CFT framework, Parliament adopted a new AML/CFT law in December 2022. Going forward, the authorities will finalize the national risk assessment (NRA) framework currently being developed with World Bank assistance and adopt a national AML/CFT strategy by end-May 2023.

IV. Conclusion

Despite the tense security situation in the eastern provinces, the ECF-supported program remains on track. Progress is being made in strengthening domestic and external buffers to increase resilience to shocks. Furthermore, the Congolese authorities have made strides in advancing critical reforms. Going forward, they remain strongly committed to the program objectives. In light of their satisfactory program performance and continuing strong commitment to reforms, the authorities are requesting the completion of the third ECF review and the approval of related decisions. Directors' favorable consideration of this request will be highly appreciated.