INTERNATIONAL MONETARY FUND

IMF Country Report No. 19/285

DEMOCRATIC REPUBLIC OF THE CONGO

2019 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE DEMOCRATIC REPUBLIC OF THE CONGO

September 2019

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2019 Article IV consultation with the Democratic Republic of the Congo, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its August 26, 2019 consideration of the staff report that concluded the Article IV consultation with the Democratic Republic of the Congo.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on August 26, 2019, following discussions that ended on June 5, 2019, with the officials of the Democratic Republic of Congo on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on August 5, 2019.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staff of the IMF and the International Development Association (IDA).
- A **Statement by the Executive Director** for the Democratic Republic of the Congo.

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

Selected Issues Paper for the 2019 Article IV Consultation

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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September 3, 2019

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IMF Executive Board Concludes 2019 Article IV Consultation with the Democratic Republic of the Congo

On August 26, 2019, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with the Democratic Republic of the Congo.

DRC faces considerable development challenges despite its rich natural resource base. The country is currently grappling with its worst ever outbreak of the deadly Ebola disease.
The peaceful political transition earlier this year, the first in the country's history, provides an opportunity for reform to reduce widespread poverty, create jobs, and promote inclusive growth. Prudent macroeconomic policies have helped stimulate a recovery from the fall in export prices in 2016-17. It is critical to consolidate and build on these gains.

Real GDP growth reached 5.8 percent in 2018, buoyed by stronger copper and cobalt prices and increased production. Inflation fell to 7.2 percent and the Congolese franc depreciated by only two percent in 2018. A small budget surplus of 0.4 percent of GDP was recorded, thanks to strong export prices and higher export volumes, as well as higher tax rates for mineral exports under the 2018 Revised Mining Code. Central bank foreign reserves rose to 2.6 weeks of imports. On the other hand, the current account deficit increased to 4.6 percent of GDP.

GDP growth is expected to fall to 4.3 percent in 2019 as copper and cobalt prices fall from their highs of 2018. A fiscal deficit of 0.2 percent of GDP is projected, with mining revenues lower than in 2018. The current account deficit is projected to fall to 3.5 percent of GDP with central bank foreign reserves rising to 3.7 weeks of imports.

On current policies, revenues in DRC will remain well below the average for Sub-Saharan Africa despite the positive impact of the 2018 Revised Mining Code. The proliferation of taxes and tax institutions; widespread fiscal exemptions; a narrow tax base; and long, porous borders; are the underlying factors. Budget projections have tended to deviate widely from outturns, undermining

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

the credibility of the budget process and parliamentary oversight. Emergency spending procedures have been widely used, and large domestic arrears have been accumulated.

Monetary policy has been hampered by high levels of dollarization. A new Central Bank Law was enacted in 2018 to reinforce the independence of the central bank, increase its capital, and enhance its capacity to supervise the financial system.

Transparency and accountability in the management of natural resources are major challenges facing DRC. A 2011 decree requiring the Government to publish all mining, oil, and forestry contracts has not been fully applied. Audited financial statements of some state enterprises are not available to the public. The IMF will be conducting a governance assessment mission in October.

The business climate remains difficult due to a wide range of factors, notably the complexity of taxes, and judicial vulnerabilities. Weak infrastructure results in high production costs.

Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. They commended the authorities for pursuing prudent macroeconomic policies that helped reduce inflation and stimulate a recovery from the fall in export prices in 2016–17. However, the DRC faces deep-seated challenges, including widespread poverty, and the outlook is subject to downside risks, including from the Ebola epidemic. Against this background, Directors welcomed the authorities' re-engagement with the Fund, and stressed that the peaceful political transition provides an opportunity to put in place transformational reforms to strengthen public finances, boost growth of the non-extractive sector, tackle corruption, and reduce widespread poverty. Directors noted that the DRC would need the support of the international donor community and assistance in building capacity. Some Directors encouraged the authorities to continue to build an adequate track record of policy implementation.

Directors emphasized that enhancing domestic revenue mobilization is imperative to finance acute development and social needs. They recommended reducing exemptions, enlarging the tax base, simplifying the tax system, and improving tax administration and border control. They also encouraged further integrating mining revenue into the treasury.

Directors also highlighted the need to improve public financial management and the efficiency of public expenditure. They noted that generating realistic revenue and expenditure projections is key to improving the credibility of the budget process. Restoring the expenditure chain and restricting the use of emergency spending procedures would promote transparency and

[2] At the conclusion of the discussion, the deputy Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

accountability. Directors noted that streamlining the civil service and improving remuneration would increase its efficiency. To maintain debt sustainability, Directors highlighted the need to carefully vet public investment projects, avoid costly borrowing and collateralized loans, and develop a strategy to clear domestic arrears.

Directors agreed that refining the monetary policy framework would enhance its effectiveness. They urged the central bank to increase its foreign reserves to enable it to intervene to stabilize the market, as warranted. They noted that recapitalizing the central bank would help strengthen its independence and enhance its ability to conduct monetary policy and promote financial stability.

Directors stressed that improved regulation is important to help safeguard and develop the financial system. In this context, they suggested aligning the draft banking law with international standards. To improve the AML/CFT framework, Directors encouraged the authorities to implement the priority actions that would be identified in the evaluation report of the Central African Anti-Money Laundering Action Group. Directors noted that promoting microfinance would foster inclusive growth and financial inclusion.

Directors concurred that fighting corruption and improving governance are crucial to boost the efficiency of public spending and growth prospects. To enhance transparency and accountability in the management of natural resources, they called for public tendering of mining assets, publication of all mining contracts, disclosure of true ownership of contractual parties, and publication of audited financial statements of state enterprises. Directors also urged the authorities to expedite the passage of the anti-corruption law and the law establishing an independent anti-corruption commission. They welcomed the authorities' request for a Fund mission to conduct a governance assessment. Directors underscored the urgent need to improve the business climate to attract private investment and promote inclusive growth. Priorities include reducing red tape, simplifying the tax system, and reforming the judiciary.

It is expected that the next Article IV consultation with the Democratic Republic of the Congo will be held on the standard 12-month cycle.

Table 1. Democratic Republic of the Congo: Selected Economic and Financial Indicators, 2016–24

	2016	2017	2018	2019	2020	2021	2022	2023	2024
	Act.	Act.	Prel.	Projections					
	(Annual percentage change, unless otherwise indicated)								
GDP and prices									
Real GDP	2.4	3.7	5.8	4.3	3.9	3.4	4.5	4.3	4.6
Extractive GDP	-0.7	7.8	16.9	5.4	4.4	2.4	5.9	4.8	6.1
Non-Extractive GDP	3.5	2.4	1.9	3.8	3.7	3.8	3.9	4.1	4.0
GDP deflator	4.3	43.1	29.8	3.6	4.8	4.9	4.5	5.3	4.5
Consumer prices, period average	3.2	35.8	29.3	5.5	5.0	5.0	5.0	5.0	5.0
Consumer prices, end of period	11.2	54.7	7.2	5.5	5.0	5.0	5.0	5.0	5.0
External sector									
Exports, f.o.b. (U.S. dollars)	15.6	-2.8	38.3	-21.4	4.3	4.0	7.6	6.3	7.5
Imports, f.o.b. (U.S. dollars)	14.9	-6.7	32.0	-20.2	6.9	5.5	6.9	7.5	7.9
Exports volume	-6.0	9.7	20.8	4.6	3.0	2.8	7.3	5.6	6.2
Import volume	-0.7	4.3	29.1	-18.3	5.4	5.3	6.6	7.1	7.1
Terms of trade	-2.6	15.0	1.4	-11.0	-0.6	0.6	0.3	-0.1	-0.6
	(Annual change in percent of beginning-of-period broad money)								
Money and credit									
Net foreign assets	-4.8	29.2	10.2	4.0	3.6	4.7	5.9	4.7	4.3
Net domestic assets	27.0	13.6	20.2	5.5	6.0	5.2	4.8	5.1	5.0
Domestic credit	26.5	3.5	18.5	3.1	5.8	4.8	4.3	4.5	4.4
Of which: net credit to government	11.8	-0.9	3.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
credit to the private sector	14.1	0.6	20.3	0.4	3.6	2.2	2.4	2.9	4.5
Broad money	22.2	42.8	30.1	9.5	9.6	9.9	10.7	9.8	9.3
	(Percent of GDP, unless otherwise indicated)								
Central government finance									
Revenue and grants	14.0	11.7	11.6	10.8	10.6	11.3	11.7	12.0	12.3
Revenue	11.2	9.8	10.4	9.5	9.1	9.7	10.0	10.2	10.5
Grants	2.8	2.0	1.1	1.3	1.5	1.6	1.7	1.8	1.8
Expenditures	14.5	10.4	11.2	10.9	10.8	11.1	11.5	11.8	12.2
Overall fiscal balance (commitment basis)	-0.5	1.4	0.4	-0.2	-0.1	0.2	0.2	0.2	0.1
Non-natural resource overall fiscal balance	-2.0	-0.9	-2.8	-2.3	-2.1	-2.1	-2.4	-2.6	-2.9
Investment and saving									
Gross national saving	8.2	8.9	7.1	8.9	8.6	8.8	9.3	9.0	9.4
Government	-1.4	0.8	-0.4	-1.2	-1.3	-0.8	-0.5	-0.9	-0.2
Non-government	9.6	8.1	7.5	10.2	9.9	9.6	9.8	9.9	9.7
Investment	12.3	12.1	11.7	12.5	12.9	13.1	13.6	13.3	13.9
Government	3.4	2.3	1.7	2.1	2.4	2.6	3.0	2.7	3.5
Non-government	8.9	9.7	10.0	10.4	10.5	10.5	10.6	10.6	10.4
Balance of payments									
Exports of goods and services	32.8	31.0	34.1	25.9	25.7	25.5	25.9	26.0	26.4
Imports of goods and services	38.9	34.7	37.7	29.4	29.5	29.6	29.9	30.2	30.9
Current account balance, incl. transfers	-4.1	-3.2	-4.6	-3.5	-4.2	-4.4	-4.3	-4.4	-4.5
Current account balance, excl. transfers	-7.3	-5.2	-5.2	-5.6	-6.1	-6.3	-6.2	-6.4	-6.6
Overall balance	-1.4	2.0	0.9	0.3	0.3	0.4	0.6	0.4	0.4
Gross official reserves (millions of U.S. dollars)	625	601	657	1,011	1,108	1,282	1,530	1,721	1,820
Gross official reserves (weeks of imports)	2.8	1.9	2.6	3.7	3.9	4.2	4.6	4.8	5.0
	(Percent of GDP, unless otherwise indicated)								
External public debt									
Total stock, including IMF	17.6	16.9	13.7	13.3	12.7	12.1	10.9	9.8	8.9
Scheduled debt service (millions of U.S. dollars)	349	212	224	739	773	805	755	774	668
Percent of exports of goods and services	2.9	2.1	2.8	3.2	2.5	1.9	1.1	0.9	0.7
Percent of government revenue	8.5	6.5	9.2	8.8	6.9	4.9	3.0	2.4	1.9
Exchange rate (CDF per U.S. dollars)									
Period average	1,024	1,480	1,624	...	...	...	...	...	...
End-of-period	1,216	1,592	1,636	...	...	...	...	...	...
Memorandum items:									
Nominal GDP (billions of CDF)	37,517	55,676	76,496	82,660	89,970	97,559	106,551	116,956	127,800
Nominal GDP (millions of U.S. dollars)	36,640	37,615	47,099	49,014	51,627	54,174	57,257	60,819	64,313

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

INTERNATIONAL MONETARY FUND

DEMOCRATIC REPUBLIC OF THE CONGO

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION

August 5, 2019

KEY ISSUES

Context. This is the first Article IV mission to DRC since June 2015. The inauguration of President Tshisekedi in January 2019 marks the first peaceful transfer of power since independence. He has pledged to improve governance and scale up public investment.

Outlook and risks. Challenges abound. Poverty and unemployment are widespread. Violent conflict persists in some regions, and the worst ever outbreak of the deadly Ebola disease is ongoing. Dependence on mineral exports leaves DRC vulnerable to commodity shocks. Tackling corruption and improving governance are imperative. The main risks include an escalation of the Ebola epidemic; fiscal loosening leading to monetization of budget deficits; a relapse in copper and cobalt prices; an intensification of ongoing armed conflicts; and resistance to reform from vested interests.

Key policy recommendations.

- Step up revenue mobilization, notably by simplifying taxes and integrating mining revenue into the central government Treasury.
- Maintain a prudent expenditure policy aligned with realistic revenue projections and strictly adhere with the rule of zero central bank financing of the government budget.
- Restore the expenditure chain, limit emergency spending procedures, and enhance cash management.
- Formulate a fiscal policy framework consistent with debt sustainability, based on the non-mineral domestic balance, to smooth spending vis-à-vis volatile mineral revenue.
- Build up central bank’s foreign reserves to reduce vulnerabilities.
- Enhance transparency, including through public tendering for the sale of mining assets, publication of audited financial statements of state-owned enterprises, and greater monitoring of public assets.
- Improve the business climate by reducing red tape and providing regulatory security.

Approved By
Annalisa Fedelino and Vitaliy Kramarenko

Discussions took place in Kinshasa and Lubumbashi from May 22 to June 5, 2019. The staff team comprised Messrs. Villafuerte (head), Davies, Kalfa, and Ms. Gicquel (all AFR), M. Binici (SPR), Messrs. Egoumé Bossogo (resident representative), and Gbadi (local economist). The mission met with President Felix Tshisekedi, Director of Cabinet Vital Kamerhe, Prime Minister Llunga Llukamba, Minister of Finance Henri Yav Mulang, Minister of State for Budget Pierre Kangudia, Central Bank Governor Déogratias Mutombo Mwana Nyembo, President of the National Assembly Jeanine Mabunda, President of the Senate Léon Mamboleo Moghuba, civil society organizations, the private sector, the diplomatic community, and the media. Main findings and recommendations of the mission were disseminated during a morning-long seminar organized by the authorities.

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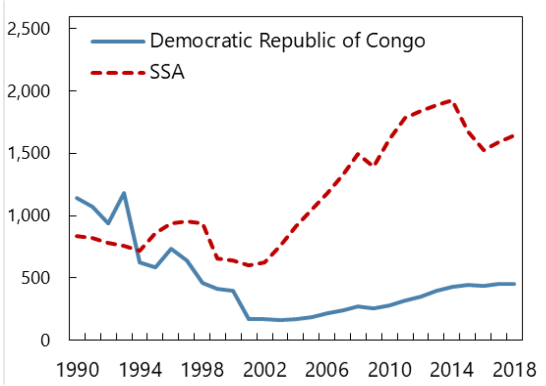
ANNEXES

CONTEXT

1. **The Democratic Republic of the Congo (DRC) is a fragile state (Box 1) and one of the poorest countries in the world, despite vast natural resources.** Copper, cobalt, and other minerals provide revenue, but they have also helped fuel violent conflict and undermine governance. The economy is undiversified and acutely vulnerable to commodity-price shocks and supply risks. Per capita income remains at about US$470, a sharp decline from over US$1,000 in the 1990s—and much below the sub-Saharan African average of about US$1,600. In 2014, 77 percent of the population lived below the poverty line.

Text Figure 1. Democratic Republic of the Congo: GDP per Capita, in US$



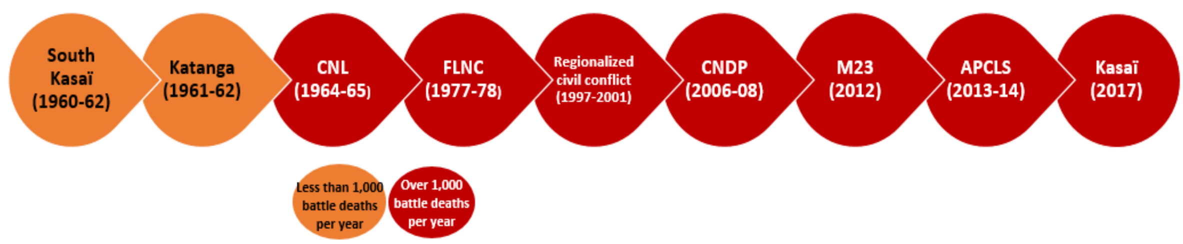
Source: IMF WEO database.

Box 1. Democratic Republic of the Congo: Fragility

DRC exhibits the trappings of fragility: political instability, weak institutional capacity, and poor governance. The sheer size of the country creates its own challenges. It is as large as Western Europe. Most of its nine bordering countries have faced violent conflict with spillover effects to DRC. The country has experienced episodes of violent conflict since independence in 1960 and full-scale civil war from 1997 to 2001. Since the end of the civil war, efforts have been made to rebuild the state and transition to democracy, but public management and institutions remain weak and vulnerable. The ongoing violent conflicts have led to a humanitarian crisis with over five million displaced people and widespread violence against civilians.

Poverty is widespread. Social indicators are among the worst in the world in the context of a high population growth rate of around 3 percent a year. DRC ranked 178th out of 185 countries on the 2016 UNDP Human Development Index. Fiscal capacity is weak. Domestic revenue is low even by sub-Saharan African (SSA) standards. Institutional capacity is limited with a CPIA score of 2.7 (a score below 3.2 represents low performance).

Democratic Republic of the Congo: Episodes of Violent Conflict 1/



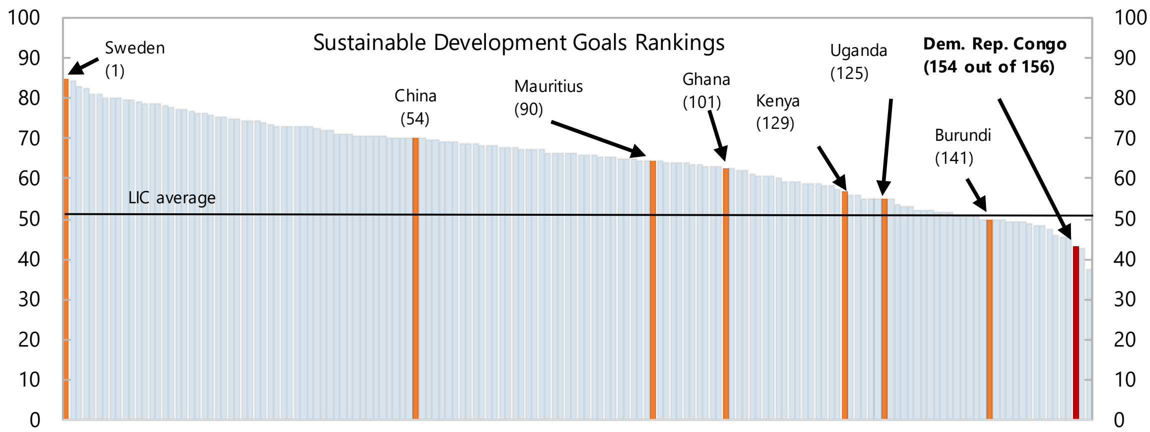
Source: Uppsala Conflict Data Program

1/ CNL : Conseil National de Libération. FLNC : Front pour la Libération National du Congo. CNDP : Congrès national pour la Défense du Congo. M23 : Mouvement du 23 mars. APCLS : Alliance des Patriotes pour un Congo Libéré et Souverain.

2. **The country is experiencing its worst outbreak of the deadly Ebola disease, recently declared a "Public Health Emergency of International Concern" by the World Health Organization (WHO).** As of July 17, a total of 2,532 cases, including 1,705 deaths, had been reported. The epidemic started in August 2018 in northeastern DRC, close to the border with Uganda, Rwanda, and South Sudan. A few cases have been confirmed in Uganda. The response to the outbreak has been coordinated by the WHO, NGOs, and the ministry of health. Violent conflict in the affected regions and distrust of the government have hindered efforts to contain the epidemic despite the widespread use of a vaccine developed towards the end of the 2014-16 outbreak in West Africa which killed over 11,000 people. The economic impact of the Ebola outbreak has been so far limited.

3. **The country has also been suffering from other recurring humanitarian and health crises**. Violent conflict in the north-east of the country have displaced about five million people within the country. The gap towards the Sustainable Development Goals is large (Text Figure 2).

Text Figure 2. Democratic Republic of the Congo: Sustainable Development Goals



Source: Bertelsmann Stiftung and Sustainable Development Solutions Network

4. **The first ever peaceful presidential transition took place in January 2019.** Félix Tshisekedi, an opposition candidate, was declared the winner of the presidential elections which took place in December 2018 after a two-year delay. Former President Kabila's party received large majorities in the National Assembly and the Senate, requiring compromise solutions for the appointments of the Prime Minister and his cabinet. Sylvestre Llunga, former economic advisor in the previous government, was appointed Prime Minister in May 2019 but cabinet members have yet to be nominated. President Tshisekedi has laid out a 100 day-program with four pillars: (i) good governance; (ii) sustainable economic growth; (iii) the human being; and (iv) solidarity. He intends to scale up public investment to reduce a large infrastructure gap.

5. **This Article IV consultation provided a welcome opportunity to re-engage with the DRC authorities after a long hiatus (the last consultation took place in July 2015).** The

authorities had cited political uncertainty as reasons for delaying the overdue consultation. Provision of economic data has remained broadly adequate for surveillance. Some recommendations from the previous consultation remain outstanding (Annex IV). These include: (i) stepping up domestic revenue mobilization; (ii) removing bottlenecks to private sector activity; (iii) strengthening governance and enhancing transparency, particularly in the management of natural resources; and (iv) recapitalizing the central bank to strengthen its financial and operational autonomy. The authorities have also expressed interest in a Fund-supported program to accompany their economic development agenda.

MAIN ECONOMIC DEVELOPMENTS

6. **The economic situation deteriorated significantly after the 2015 Article IV consultation.** Copper and cobalt prices slumped by 30 and 21 percent, respectively, between 2014 and 2016. Given the dominance of these minerals in the economy (Box 2), the price shocks resulted in sizable declines in government revenue and foreign exchange receipts. In 2017, donors cut support in response to the delayed presidential elections. Growth declined sharply from 6.9 percent in 2015 to 2.4 percent in 2016, and partially recovered to 3.7 percent in 2017. The Central Bank of Congo (BCC) monetized the ensuing fiscal deficit and intervened in the foreign exchange market, while domestic arrears were accrued. Between 2015 and 2017, the Congolese franc depreciated by 72 percent, annual average inflation rose from 1 percent to 36 percent, and BCC reserves fell from 4.9 to 1.9 weeks of imports of goods and services.

7. **Macroeconomic policies were subsequently adjusted to avoid a meltdown.** In mid-2017, the government introduced a balanced budget on a cash basis while continuing to accrue domestic arrears. The BCC incrementally raised its policy rate (from 2 percent in September 2016 to 20 percent in June 2017) as well as liquidity reserve requirements. As a result, inflation decelerated sharply (Figure 1).

8. **Stronger copper and cobalt prices and increased production triggered some recovery in 2018.** Total GDP grew by an estimated 5.8 percent, with non-extractive GDP expanding by only 1.9 percent. Twelve-month inflation fell to 7.2 percent by December 2018 and the Congolese franc depreciated by only 2.5 percent over the year. The current account deficit increased from 3.2 percent of GDP in 2017 to 4.6 percent of GDP in 2018, while central bank foreign reserves recovered modestly to 2.6 weeks of imports. Given limited access to foreign financing, external public debt fell slightly to 13.7 percent of GDP at end-2018, while domestic debt, comprising only domestic arrears, rose from 0.3 percent of GDP in 2015 to an estimated 6.5 percent of GDP by end-2018.

9. **Financial conditions also strengthened in 2018**. Monetary aggregates rebounded (M2 grew by 30 percent), spilling over into a strong recovery in credit to the private sector (56 percent growth). Dollarization in the banking system stabilized following a large increase in previous years linked to a large currency depreciation, with a ratio of foreign currency deposits to total deposits of 90 percent in December 2018 (84 percent at end-2015). Still, many financial soundness indicators remained weaker than prior to the external and political shocks (Table 5).

10. **Recent performance underlines persistent challenges.** Despite a loosening of fiscal policy towards end-2018 to finance the elections, a budget surplus of 0.4 percent of GDP was recorded for the whole year, thanks to a large increase in mining revenue. The BCC further reduced its policy rate to 9 percent in April 2019, while keeping reserve requirements unchanged. As of end-June 2019, year-on-year inflation was 4.1 percent while the local currency had depreciated by 0.6 percent since the beginning of the year. International reserves increased by about US$48 million during the first five months of 2019 and the fiscal deficit was close to zero percent of GDP.

Box 2. Mining Sector in the Democratic Republic of the Congo

The mining sector plays a central role in the Congolese economy. Copper and cobalt are the main commodities and represented, respectively, 50 and 35 percent of total mining sales in 2018, followed by gold, diamond, zinc, coltan, cassiterite, wolframite and silver. The DRC was the fourth largest producer of copper in 2018 (5.7 percent of the 2018 world production) and the largest producer of cobalt (64 percent of the world production). Production is undertaken on both industrial and artisanal scales and the sector employs about 4 percent of the working-age population. Mining share in GDP has exceeded 25 percent over the last 5 years and was close to 30 percent in 2018. Its contribution to GDP growth has been volatile in response to copper and cobalt price fluctuations. On average, a quarter of total FDI over the last 10 years has been linked to the mining sector. Apart from the payment of taxes and charges, mining companies play also an important social and economic role in mining regions (i.e., building or maintaining hospitals, schools and public infrastructure such as roads); at the same time, the sector has often been criticized for its lack of transparency and human rights abuses.

Minerals accounted for over 90 percent of total exports over the last five years, **leaving the country highly vulnerable to external shocks.** Price volatility, exemplified by falling prices in 2015-16, highlights the need to build buffers and diversify the economy to mitigate the impact of external shocks.

Democratic Republic of the Congo: Mining Sector, 2014-18

	2014	2015	2016	2017	2018
	Actual				Prel.
Mining GDP growth	19.3	4.8	-0.7	7.8	16.9
Mining share in GDP (percent of GDP)	26.3	25.8	25.0	26.0	28.7
Mining export as share of total exports	94.8	97.2	73.0	99.0	98.8
Mining revenue as share of total revenue	n.a	n.a	n.a	10.6	20.3

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

The new Mining Code introduced in June 2018 would boost mining revenues. The previous Code, introduced when the country was emerging from civil war, was particularly favorable to mining companies given the need to attract private investment. The new Code substantially hikes mining royalties and taxes and eliminates accelerated depreciation provisions (see Selected Issue Paper on Natural Resource Management in the DRC). Mining companies have criticized some elements of the new Code, notably the rescinding of the ten-year fiscal stability clause and the increase in the share of export proceeds required to be repatriated (from 40 to 60 percent). This, they say, makes it difficult to cover obligations abroad. On the other hand, DRC authorities insist that this is needed for export receipts to have positive spillover effects on the rest of the economy.

OUTLOOK AND RISKS

11. **The baseline scenario, based on status quo policies, shows that development goals— promoting inclusive growth and generating jobs for a rapidly expanding population —cannot be reached.** The scenario features continued prudent macroeconomic policies combined with limited economic and governance reforms. It assumes a decline in commodity prices in 2019 by about 7 percent, in line with World Economic Outlook projections, and unchanged levels going forward. Low fiscal deficits are projected as financing options remain limited, restraining investment projects. Monetary and exchange rate policies remain consistent with a slow recovery of BCC's foreign reserves. GDP growth and inflation are projected to average about 4 and 5 percent respectively over the medium term, while reserve coverage will gradually rise towards 5 weeks of imports. This scenario is suboptimal, leading to insufficient growth rates to tackle DRC's large development needs and significant demand for employment by a rapidly expanding population; and would yield still limited, although recovering, external buffers to protect against shocks.

12. **A reform scenario based on the policy recommendations below would lead to higher inclusive economic growth and stronger policy buffers.** The scenario is predicated on a steady acceleration of non-extractive growth supported by reforms. Overall GDP growth would increase relative to the baseline scenario by between 0.3 and 1.7 percentage points over the medium term. Infrastructure and social spending would be substantially scaled up over the medium term (by 4.3 percent of GDP by 2024) through higher fiscal revenue, arising from a range of tax policy and administration reforms, as well as from increased grants and external financing in the context of improved relationships with development partners. As shown in Text Table 1, increasing external borrowing by 1-2.5 percent of GDP per year would still keep public external debt below 15 percent of GDP and the risk of debt distress would remain moderate. The more expansionary fiscal policy would not increase fiscal vulnerabilities, given the growth dividends from reform. Foreign exchange reserves would increase faster and coverage would reach 3 months of imports by 2024. Fiscal revenue, while higher than in the baseline scenario, remains relatively low. This reflects the severity of the constraints to revenue mobilization discussed below. Addressing these constraints more exhaustively would require sustained reform efforts beyond the medium-term.

13. **The economic outlook is subject to significant downside risks (RAM, Annex III).** An escalation of the present Ebola epidemic to other regions could have adverse macroeconomic implications, depending on the scale of the epidemic and its geographical spread. Economic activity would ultimately be disrupted, leading to a loss of fiscal and export revenues, while scarce public funds would have to be diverted to finance the response efforts. Under such circumstances, the international community must step up considerably logistical and financial support to the response to the epidemic. Financing from the Rapid Credit Facility (RCF) could complement these efforts and help cushion the adverse fiscal and balance of payments consequences. Other risks include resorting to fiscal loosening with related monetary financing; a fall in copper and cobalt prices; and an intensification of ongoing armed conflicts. With correspondent banking relations mainly channeled through one domestic bank, the banking sector is vulnerable. On the political front, tensions within

the governing coalition could undermine political and macroeconomic stability. On the upside, the new regime could facilitate the implementation of reforms and the resumption of donor support.

14. **The authorities broadly agreed with staff assessment on risks but disagreed with the baseline growth forecast and expect a generally more positive outlook.** They project a 2019 growth rate of 5.9 percent (4.3 percent in staff projections), with more optimistic forecasts for both extractive and non-extractive sectors. They expect an increased global demand for electric cars to sustain high growth in the extractive sector, increased public investment driven by the government's 100-day plan, and a recovery in private sector activity to jumpstart non-extractive sector growth. The authorities also stressed that (i) commercial banks have large net foreign assets; and (ii) a large share of imports is done by mining companies with ample foreign exchange receipts.

Text Table 1. Democratic Republic of the Congo: Selected Economic Indicators, 2018-24

(in percent of GDP, unless otherwise indicated)

Baseline Scenario	2018	2019	2020	2021	2022	2023	2024
	Prel.	Projections					
Real GDP	5.8	4.3	3.9	3.4	4.5	4.3	4.6
Consumer prices, period average	29.3	5.5	5.0	5.0	5.0	5.0	5.0
Revenue and grants	11.6	10.8	10.6	11.3	11.7	12.0	12.3
Revenue	10.4	9.5	9.1	9.7	10.0	10.2	10.5
Grants	1.1	1.3	1.5	1.6	1.7	1.8	1.8
Expenditures	11.2	10.9	10.8	11.1	11.5	11.8	12.2
Of which: capital expenditures	1.7	2.1	2.4	2.6	3.0	2.7	3.5
Overall fiscal balance (commitment basis)	0.4	-0.2	-0.1	0.2	0.2	0.2	0.1
Current account balance, incl. transfers	-4.6	-3.5	-4.2	-4.4	-4.3	-4.4	-4.5
Gross official reserves (weeks of imports)	2.6	3.7	3.9	4.2	4.6	4.8	5.0
External public debt	13.7	13.3	12.7	12.1	10.9	9.8	8.9

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

Reform Scenario	2018	2019	2020	2021	2022	2023	2024
	Prel.	Projections					
Real GDP	5.8	4.3	4.2	4.0	5.5	5.6	6.3
Consumer prices, period average	29.3	5.5	5.0	5.0	5.0	5.0	5.0
Revenue and grants	11.6	10.8	11.1	11.8	12.8	13.1	14.2
Revenue	10.4	9.5	9.5	10.0	10.9	11.1	12.0
Grants	1.1	1.3	1.6	1.8	1.9	2.0	2.2
Expenditures	11.2	10.9	11.8	12.7	14.1	14.9	16.5
Of which: capital expenditures	1.7	2.0	3.4	4.2	5.7	6.2	7.2
Overall fiscal balance (commitment basis)	0.4	-0.1	-0.7	-0.8	-1.3	-1.8	-2.4
Current account balance, incl. transfers	-4.6	-3.5	-4.0	-4.3	-4.7	-5.2	-5.8
Gross official reserves (weeks of imports)	2.5	3.2	4.1	5.9	8.2	10.7	12.0
External public debt	13.7	13.0	12.4	12.2	12.2	13.0	14.6

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

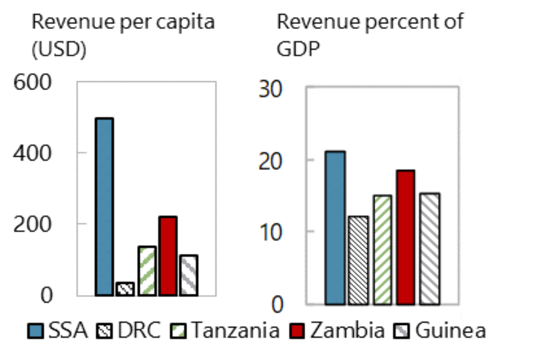
POLICIES AND REFORMS

A. Increasing Fiscal Space and Budget Credibility

15. **On current trends, limited revenue mobilization and financing options call for a continuation of a tight fiscal stance**. Revenue prospects are constrained and potentially volatile, and access to financing limited, despite a moderate risk of debt distress (see Debt Sustainability Analysis). In the circumstances, the authorities should persevere with spending restraint and the implementation of a balanced budget on a cash-basis as the fiscal anchor. Broad reforms would help expand the government's resource envelope, including by reactivating donor support. A return to strict compliance with the rule of no central bank financing of the budget should be enforced to avoid monetizing the deficit and creating inflation. Over the medium term, staff recommended formulating a fiscal policy framework based on the non-mineral domestic balance to smooth spending vis-à-vis volatile mineral revenue and allow a scaling-up of public investment while maintaining debt sustainability. To that effect, the forecasting of mineral revenue needs to be improved, including by updating the Fiscal Analysis of Resource Industries (FARI) model with Fund capacity development (CD) support, and enhanced inter-institutional coordination.

16. **Increasing fiscal space through enhanced revenue mobilization, especially non-resource revenue, is a priority.** DRC's revenue-to-GDP ratio is less than 12 percent, compared to the SSA average of over 20 percent, suggesting a significant tax gap (estimated by the World Bank at 5.3 percent of GDP). The objective should be to cut this gap sharply (see below). A range of weaknesses underlies this gap: large tax expenditures and widespread informality, a narrow tax base, a breakdown of the VAT system, proliferation of nuisance taxes and of tax collection agencies, overlap between national and provincial taxes, the difficulty of policing long borders, and pervasive corruption. With CD support from FAD and the World Bank, a tax expenditure assessment was recently completed. Staff recommended publishing the assessment with the 2020 budget and devising a plan to rationalize tax expenditures over the medium term.

Text Figure 3. Total Revenue



Sources: DRC authorities and IMF staff calculations

17. **A simplification of the tax system should strengthen the tax base and enhance revenue collection.** Tax expenditures are estimated at around 2 percent of GDP. The current system is extremely complex and fragmented with more than 350 taxes and 800 parafiscal levies for the central government alone. The proliferation of taxes and tax collection institutions undermines transparency and accountability, generates uncertainty, and penalizes businesses. Coordination among the three main tax collection agencies and several supplementary agencies, while improving,

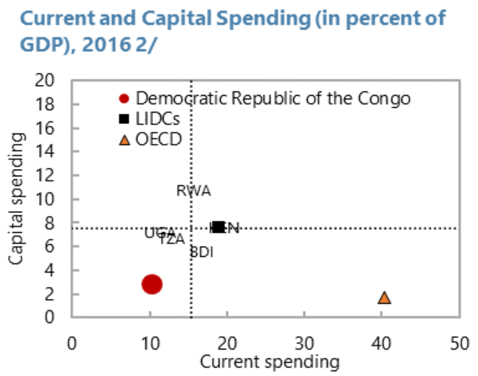
is limited. Computerized collection systems and platforms need to be updated and integrated to facilitate information-sharing and reduce tax evasion.

18. **Natural resource revenues would increase with the implementation of the new Mining Code, but would remain volatile**. The average effective tax rate would be well above international comparators (Natural Resource Governance Institute, 2018), particularly for gold. While an increase in the government's take in the mining sector is welcome, the revised Code could limit the development of the mining sector going forward. The authorities should further integrate mining revenue into the central government's Treasury (including from state-owned enterprises and the mineral fund for future generations) and strengthen tax administration to, e.g., limit transfer pricing practices. The authorities have stopped collecting the VAT on imports of mining companies because of their inability to refund VAT credit. VAT credit arrears amounted to US$0.8 billion as of end-March 2019. The authorities envisage progressive reimbursements against future tax payments. Staff recommended setting up a proper institutional arrangement to reinstate VAT collections and develop a plan to audit and clear VAT credit arrears.

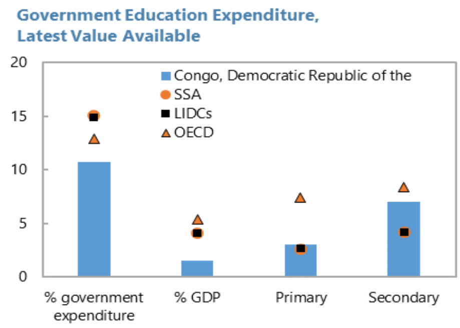
19. **Expenditure needs to be made more efficient in light of limited resources.** Total central government expenditures remain modest, but current expenditures have increased faster than investment in recent years. The wage bill, equivalent to about half of tax revenues, weigh heavily on the central government's budget and the efficiency of spending is low (SIP on Poverty and Government Social Spending in the DRC and Text Figure 4). Reform of the civil service is needed to increase its efficiency, streamlining the number of civil servants while increasing salaries. In addition, investment needs are considerable, and the authorities have developed an ambitious investment program based on the President's 100-day plan, though financing options are limited. The Ministry of Finance plans to issue Treasury securities starting in 2019. Donor financing could be forthcoming, though not in the immediate future.

Text Figure 4: Democratic Republic of the Congo: Expenditure Efficiency and Composition

Spending levels are low compared to peers

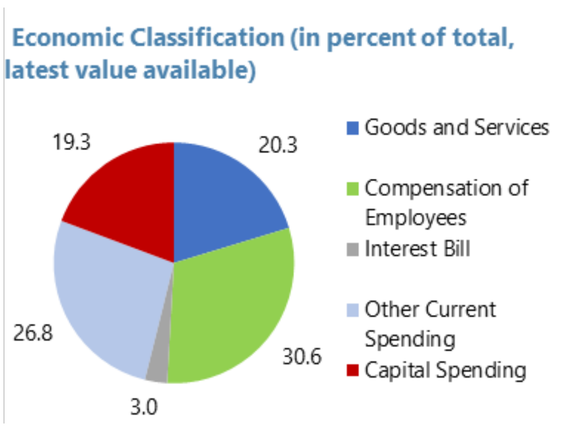


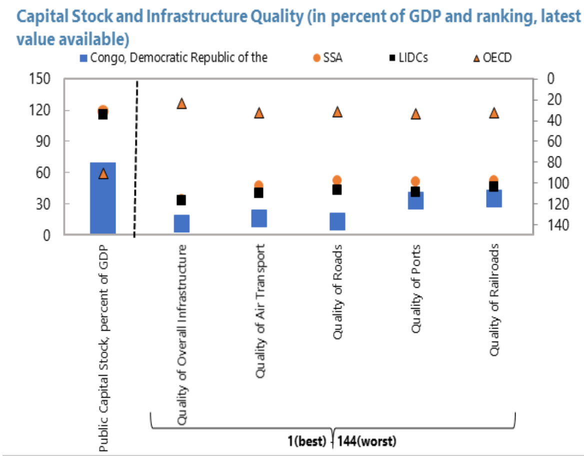
DRC performs worse than peers in education spending.



Wages absorb the largest share of revenues

Infrastructure needs are enormous





Sources: IMF staff calculations.

20. **Some progress has been achieved in public financial management, but core functions remain weak.** The macroeconomic framework is now updated on a quarterly basis and cooperation between services to provide revenue forecasts has improved. However, the credibility of the budget is affected by remaining weaknesses in revenue forecasting and Parliament's pressures to set high revenue targets to justify larger expenditure allocations. Staff recommended producing realistic revenue (particularly from the mineral sector) and expenditure projections and incorporating them in a revised 2019 budget and the draft 2020 budget. In addition, budget execution has mostly relied on a weekly cash management committee that monitors incoming revenues and prioritizes payments through widespread use of ad-hoc/emergency spending procedures. Therefore, the expenditure chain needs to be gradually restored and the use of emergency spending procedures restricted. A computerized expenditure chain system in place should help to that effect but it needs to be supported by regulations strictly framing the use of non-standard spending procedures.

21. **Improved cash planning and full implementation of a Treasury Single Account (TSA) are needed to enhance cash management.** The monitoring of Treasury flows needs to be reinforced and coordination between the government and the BCC in the formulation of treasury plans enhanced. Revenues are only partially integrated into the TSA, which consists of a general treasury account and multiple sub-accounts whose funds cannot be reallocated to the general account. Furthermore, there are public sector accounts completely outside the treasury's circuit, including so-called "special accounts" with dedicated resources spent outside the central government's budget (e.g., the Roads Fund). The authorities should adopt legislation to allow direct transfer of revenue flows into the administration's general account and formalize the fungibility of resources from government's sub-accounts. In addition, the special accounts should be gradually integrated into the budget.

22. **A strategy is needed to pay off potentially sizable domestic arrears.** As of end-2018, the stock of domestic arrears, including VAT refund arrears, amounted to 6.5 percent of GDP, of which 61 percent are audited arrears (mostly debt from social sectors and judiciary rulings), and the rest are debt to provinces and oil-related companies. Up to 7 percent of GDP in potential arrears remains

to be audited. The strategy should entail an independent audit by international and/or local experts of all non-audited domestic arrears, cross-settlement in the case of cross debts, and the formulation of a medium-term action plan for settlement.

23. **DRC's risk of debt distress is assessed as moderate despite a low debt-to-GDP ratio.** External debt was equivalent to 13.7 percent of GDP, of which liabilities from the mining-infrastructure project Sicomines represented almost 40 percent. It has declined since the 2015 DSA, but domestic debt increased from 0.3 percent of GDP in 2014 to 6.5 percent in 2018, due in part to the authorities' efforts to broaden coverage of domestic debt by including the provinces and auditing legacy arrears. Vulnerabilities—reflected in high debt-service-to-revenue ratios—persist, highlighting the importance of increasing revenue mobilization. While re-engaging with the international community, DRC should avoid expensive external borrowing, collateralized loans, and external arrears. The authorities should develop a medium-term debt strategy to maximize efficiency of borrowing flows and ensure debt sustainability. They should continue broadening debt coverage, especially by including debt of state-owned enterprises without explicit guarantees from the central government.

24. **While broadly agreeing with staff views, the authorities had more optimistic revenue forecasts.** They believed that higher revenues from the new Mining Code and the issuance of treasury bonds should allow the financing of investment in the government's 100-day plan. They are eager to reengage with the international community to help finance investment projects and provide budget support. The authorities plan to finalize an agenda of domestic revenue and public financial management reforms once the new government is in place with inputs from requested CD support, including from a project under the Managing Natural Resource Wealth trust fund.

B. Monetary and Exchange Rate Policies

25. **Monetary policy is hampered by the high levels of financial dollarization.** Monetary policy's ultimate objective is to achieve a medium-term inflation rate of 7 percent. The BCC sets monetary aggregates' targets accordingly. A key monetary policy instrument is the reserve requirement, which is set at differentiated rates based on currency and maturity. However, required reserves must be maintained in local currency only, creating an exchange rate mismatch in commercial banks' balance sheets. The interbank market is shallow—partly because banks carry large liquidity buffers in foreign currency—limiting the tools for monetary policy and the transmission mechanism of changes in BCC's policy rate. Given low BCC foreign exchange (FX) reserves, the space for FX interventions is very limited, even to counter disorderly market conditions. The low level of BCC FX reserves is partly due to the BCC's policy of holding its foreign currency deposits at local banks.

26. **The BCC policy framework can be fine-tuned to enhance its effectiveness.** The recent conduct of monetary policy has yielded positive results despite limited space for maneuver. In that context, staff called for maintaining the current monetary policy stance and framework, but to take advantage of ample liquidity in the banking system to increase BCC FX reserves by sending abroad

its foreign currency deposits currently held at domestic banks. Staff also called for reserve requirements on foreign currency deposits to be constituted in foreign currency and agreed with keeping lower requirement rates for local currency deposits. Staff acknowledged that financial de-dollarization should be a long-term objective that would be gradually achieved through prudent macroeconomic policies and by building trust in the Congolese Franc and in the conduct of monetary policy.

27. **The new Mining Code of 2018 requires mining companies to repatriate 60 percent (raised from 40 percent) of export receipts to their accounts in the DRC, with their uses subject to restrictions under the Exchange Regulation of 2014.** This measure constitutes a tightening of the existing capital flow management measure (CFM) under the Fund's Institutional View on capital flows (IV). The increased repatriation requirement helped mitigate acute balance of payments pressures. In line with the IV, the tightening of the repatriation requirement on export proceeds should complement needed macroeconomic policy adjustments and be scaled back as adjustment progresses and balance of payments pressures subside.

28. **The central bank would benefit from increased autonomy and enhanced financial transparency.** The 2010 safeguards assessment and the 2014 Financial System Stability Assessment noted that the BCC needed to be recapitalized to increase its operational autonomy and that the absence of an international financial reporting framework impaired transparency. A plan to increase the capital of the BCC to about US$130 million has been formulated; however, given budgetary constraints, the recapitalization schedule is still being discussed. Two Congolese commercial banks publish their reports under the IFRS, while the rest of the banks and the BCC anticipate complying before end-2020. Only an abridged version of the audited financial statements of the BCC is published on the BCC website, a departure from the safeguards policy requirements.

29. **DRC's external position remains weak.** The current account balance was estimated at -4.6 percent of GDP in 2018 despite a strong export performance supported by commodity prices. The real effective exchange rate (REER) appreciated during 2018 and the nominal exchange rate stabilized following two years of sustained depreciation. DRC's external position in 2018 was weaker than warranted by fundamentals and desirable policy settings. Revised EBA-lite regression models suggest a current account gap of around -2.5 percent of GDP, mainly derived from policy gaps, and an around 10 percent exchange rate misalignment. While the current account balance is projected to stay around the norm over the medium term, mainly financed by the foreign direct investments, an inadequate level of foreign exchange reserves remains a key challenge for external sustainability. Over the medium term, prudent macroeconomic policies and structural polices aimed at improving competitiveness and the business and institutional environments should be implemented to address the external vulnerabilities.

30. **The authorities broadly agreed with staff views on monetary policy.** They explained that the repatriation requirement was intended to stimulate domestic investment and that mining companies could ask for a waiver to meet additional external obligations. They also noted that mining companies in practice did not comply with the 60 percent requirement as the associated sanction system is not very effective. The authorities mentioned that different options were under

discussion to increase the effectiveness of monetary policy, including aligning reserve requirements to their original currencies. They broadly concurred with the staff assessment of the external sector and related policy recommendations.

C. Financial Sector Policies

31. **The financial system is highly vulnerable to shocks.** The net open FX position and the large expansion in deposits and credit to the private sector in foreign currency during 2018 are sources of risk. During the 2015-16 commodity price shock, all financial soundness indicators deteriorated substantially reflecting the economic deterioration and lack of buffers (SIP on Macro-financial Linkages in the DRC). In 2016, the fourth largest bank, BIAC, experienced financial distress and was put under BCC administration. The BCC should speed up the process of rehabilitating or resolving the BIAC while continuing to monitor closely the banking system.

32. **Some FSAP recommendations were adopted, but others remain relevant.** Those adopted include a revised law on leasing in March 2015 and a law on payment systems in July 2018. In terms of strengthening the regulatory framework in line with international best practices, AFRITAC Central is providing support in this area through end-2020. Some guidelines and regulations have been recently adopted and should be enacted this year. Progress has been achieved to implement a risk-based supervision system and upgrade other supervisory processes. Still, further efforts are needed to develop institutional capacity, improve the quality of financial data, and implement a BCC rapid response process. To enhance capital and liquidity positions to adequately cover risks and contribute to financial system stability, the minimum capital requirement has been increased to US$30 million, but 6 out of 16 banks (excluding BIAC) have not complied with it yet. The capital requirement will be raised to US$50 million at end-2020.

33. **The legal supervisory framework is being improved.** A new Central Bank Law was enacted in December 2018. It aims to (i) reinforce the BCC independence together with its accountability and transparency; (ii) increase its capital; (iii) protect BCC assets; (iv) reinforce the privilege of BCC credit operations; and (v) enhance the supervisory role of the BCC to ensure the well-functioning of the payment system. A Banking Law to regulate credit institutions is under consideration in the Senate. Fund staff made suggestions to fully align it with best international practices. The microfinance sector is growing steadily but is still underdeveloped. The sector could play a key role in enhancing financial inclusion. The legislation regulating microfinance institutions and cooperatives should be improved and the audits and controls of financial data strengthened.

34. **Although some progress has been made, DRC should improve its AML/CFT framework informed by the upcoming mutual evaluation.** Congolese banks have been affected by the loss of correspondent banking relations (CBRs)—with only one local bank maintaining direct links with the global payments system—while the imposition of sanctions against some prominent individuals in DRC has added pressures on banks to be compliant with AML regulations. A 2014 AML/CFT assessment by the World Bank identified system-wide strategic deficiencies against the 2012 FATF standard. DRC became a member of the Central African Anti-Money Laundering Action Group in

late 2017 and an onsite evaluation against the 2012 FATF standards was undertaken in late 2018, with its results still being finalized. Some clearance of international transactions across local commercial banks is facilitated by the BCC, avoiding delays in using swift transfers. Upon conclusion of the evaluation, DRC should promptly implement the priority actions identified in the report.

35. **The authorities broadly agreed with the Fund staff assessment.** They were pleased with the recovery of the financial soundness indicators after the commodity shock and with the effects of the revised Mining Code on the financial sector's liquidity. They agreed with the vulnerability of the banking system to the loss of CBRs and are committed to fully comply with AML/CFT provisions.

D. Business Environment, Governance and Corruption

36. **The fight against corruption and the improvement of economic governance are government priorities**. During the consultation's closing seminar, the President's Chief of Staff underscored these objectives. The authorities and civil society echoed staff calls for decisive actions in these areas beyond existing processes. A 2011 decree requiring the Government to publish all mining, oil, and forestry contracts has not been fully applied. DRC is a signatory to the Extractive Industries Transparency Initiative (EITI), with the 2016 report published last June. The EITI report shows minor divergences between tax revenues paid by mining companies and received by the government, but there are coverage issues, including from SOEs. Several significant mining deals have not been published. Staff urged enhanced transparency, including through public tendering of mining assets, publication of all mining contracts, disclosure of true ownership of contractual parties, publication of audited financial statements of SOEs, and greater involvement of the legislative branch in monitoring the management of public assets (SIP on Governance and Corruption Challenges in the DRC). Staff also called on the authorities to expedite the passage of the anti-corruption law and the law establishing an independent anti-corruption commission. Stepping up enforcement will help deter corruption. Corruption vulnerabilities could be further reduced by the reforms recommended elsewhere in this report to enhance PFM, tax administration, SOEs and central bank governance, financial sector oversight, and the AML/CFT framework. The authorities requested the Fund to conduct a governance assessment under its new governance framework. Its results would help in the design and prioritization of the government's reforms plans.

37. **Improving the business climate is needed to accelerate growth in the non-mining economy and foster inclusion.** Private sector representatives pointed to cumbersome administrative procedures, extortion, arbitrary judicial decisions, and a plethora of taxes and other charges. All this makes doing business difficult and shrinks the formal economy and the tax base (Text Figure 5). Staff urged the authorities to reduce red tape, simplify the tax system, and provide regulatory and physical security to the business community. Staff stressed that it is essential to respect and enforce property rights and to have a professional and independent judiciary system. Staff also underscored that civil service reform would also assist in reducing entrenched petty corruption caused in part by very low salaries. To improve transparency, all SOEs, including Gécamines and Sicomines, should comply with regulations requiring the submission of the audited

financial statements to the register of public enterprises. Furthermore, they should publish these statements on their websites or on the website of the Ministry of State Portfolio.

Text Figure 5. Democratic Republic of the Congo: Doing Business Indicators

Source: World Bank Doing Business Report, 2019.

38. **The authorities agreed that reforms in these areas would unleash economic activity, lead to a larger tax base and higher revenue, and ultimately more inclusive growth**. However, they pointed to challenges in effecting these reforms including difficulties in changing deep-seated habits and overcoming vested interests; the need to mobilize funding and social consensus for such structural changes as civil service reform; the requirement for sustained high levels of public investment that would lead to a critical mass of infrastructure to drive progress; and political capital in a fragmented political scene.

E. Other Issues

39. **DRC requested to join the East African Community (EAC) in June 2019.** It hopes to promote regional integration by improving trade relationships with other members (Burundi, Kenya, Rwanda, South Sudan, Tanzania, and Uganda). The EAC aims to create a political federation that would expand and reinforce economic political, social and cultural integration. Its accession to the EAC should be discussed in November this year.

40. **Data provision is broadly adequate for surveillance.** The authorities continue to improve statistics, including with Fund CD support. They need to improve the timeliness of the data submission and improve debt data coverage.

41. **The Fund's CD strategy for DRC** focuses on improving budget preparation and execution; strengthening banking supervision and regulation; reinforcing revenue mobilization; improving national accounts and fiscal data; and undertaking a governance assessment (Annex II).

STAFF APPRAISAL

42. **With the 2015-16 commodity shock and political uncertainty now largely behind, the DRC faces a window of opportunity to forge ahead with transformational reforms.** The economy is recovering from large negative external shocks thanks to prudent macroeconomic policies, particularly a cash-based fiscal policy; and the first ever peaceful transition of power took place at the beginning of 2019. The new government has ambitious plans but faces substantial challenges as DRC continues to exhibit the complex trappings of fragility. As the current set of policies has stabilized the economy but remains insufficient to tackle DRC large and long-standing development needs, decisive structural reforms are needed to attain higher inclusive growth and stronger policy buffers. Staff's reform scenario underlines the potential gains from decisive reform actions.

43. **Increasing domestic revenue mobilization is critical to create sustainable fiscal space for much needed development spending.** DRC has a sizable revenue gap and its tax-to-GDP ratio remains well below the SSA average. Mining revenue is expected to increase due to the revised Mining Code, but it should be further integrated into the central government's Treasury. Staff recommends expanding non-mining revenue through reduced exemptions, enlargement of the tax base, simplification of the tax system, and improved tax administration and control of borders.

44. **PFM systems need to be strengthened to improve fiscal management and the efficiency of public expenditures.** Realistic revenue (particularly from the mineral sector) and expenditure projections should underpin the formulation and execution of the government's budget. The expenditure chain needs to be gradually restored and the use of emergency spending procedures restricted. Reform of the civil service is needed to increase its efficiency, streamlining the number of civil servants while increasing salaries. Full implementation of the TSA is necessary to enhance cash management, and treasury plans have to be frequently updated. Public investment projects need to be carefully vetted and expensive borrowing and collateralized loans avoided to maintain debt sustainability. A strategy to clear domestic arrears and an audit of unresolved ones are also urgently needed.

45. **Fine-tuning the monetary policy framework will enhance its effectiveness.** Staff calls for the recapitalization of the BCC to help it fulfill its mandates. Staff recommends increasing FX reserves to allow the BCC to intervene to counter disorderly market conditions and to support the external position which was weaker than warranted by fundamentals and desirable policy settings in 2018. To that effect, the BCC should take advantage of ample liquidity in the banking system to transfer abroad its foreign currency deposits currently held at domestic banks. Staff calls also for implementation of IFRS by the BCC to enhance its financial transparency.

46. **Financial sector regulations should be further improved to help safeguard and develop the financial system.** Regulations and guidelines have been recently adopted but need to be enacted and enforced. The authorities should swiftly adopt the Banking Law in line with international standards. DRC should improve its AML/CFT framework by promptly implementing the priority

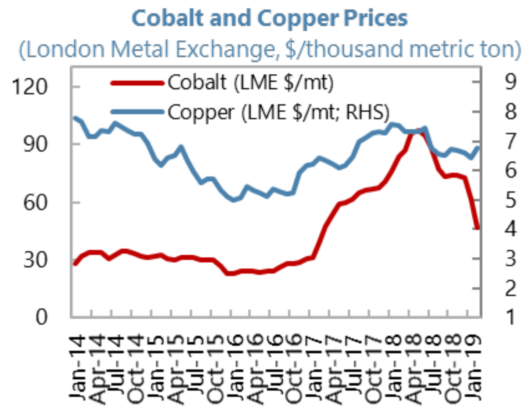
actions identified in the upcoming evaluation report of the Central African Anti-Money Laundering Action Group. Microfinance should be promoted to improve inclusive growth and financial inclusion.

47. **Fighting corruption and improving governance are crucial to enhance the legitimacy of government institutions and underpin confidence.** Enhanced transparency is urgently needed, including through public tendering of mining assets, publication of all mining contracts, disclosure of true ownership of contractual parties, publication of audited financial statements of SOEs, and closer monitoring of public assets. The authorities should expedite the passage of the anti-corruption law and the law establishing an independent anti-corruption commission. The request for an IMF governance assessment should help in the design and prioritization of the government's reforms plans in this area. The business climate needs to be improved to attract private investment and generate inclusive growth by reducing red tape, simplifying the tax system, and providing regulatory and physical security.

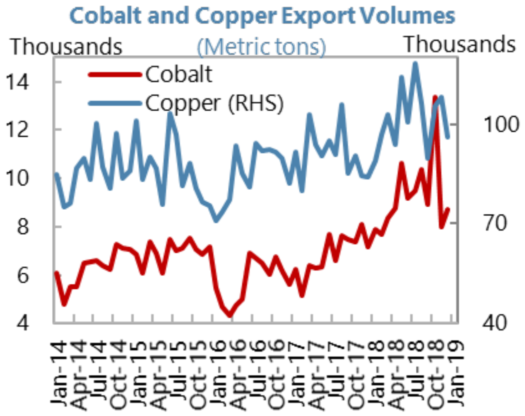
48. **Staff recommends that the next Article IV consultation with the DRC be held on the standard 12-month consultation cycle.**

Figure 1. Democratic Republic of the Congo: External Indicators, 2014–2018

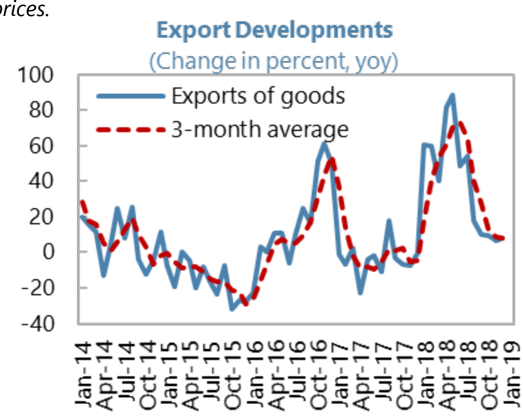
While copper prices recovered after the 2015 commodity price crisis, cobalt process plummeted.



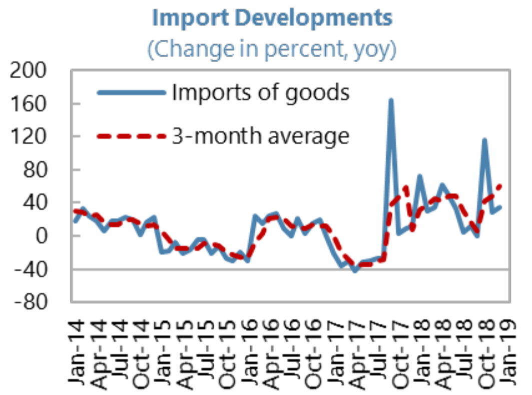
However, the production of both commodities has been slowly increasing



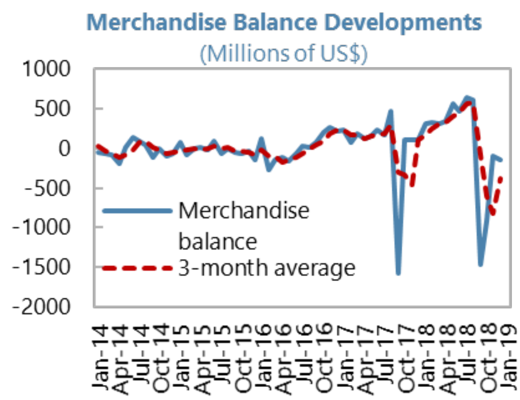
Export values fell at end-2018 reflecting lower cobalt prices.



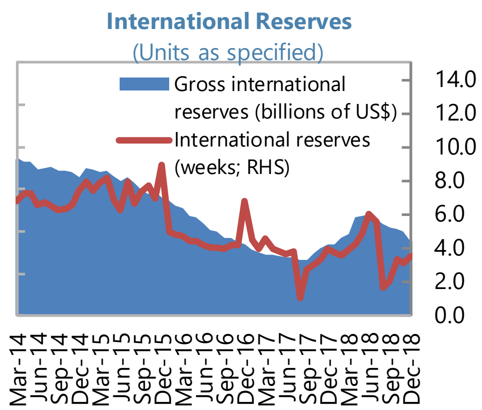
Imports picked up at end-2018 due to election spending.



As a result, the trade balance deteriorated at end-2018



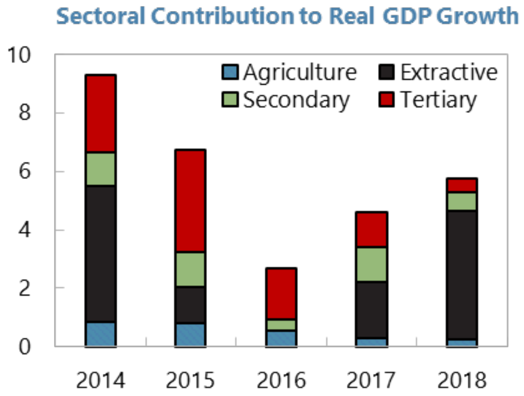
International reserves remain low.



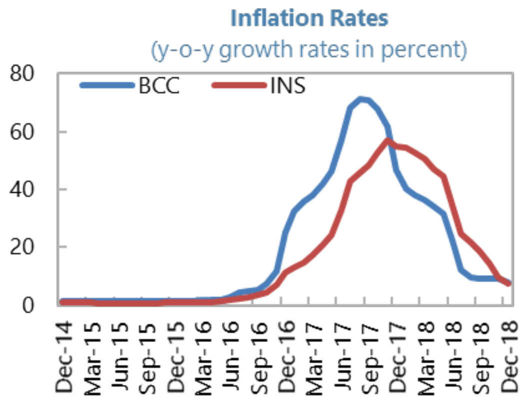
Sources: DRC authorities; and IMF staff estimates.

Figure 2. Democratic Republic of the Congo: Real and Fiscal Indicators, 2014–18

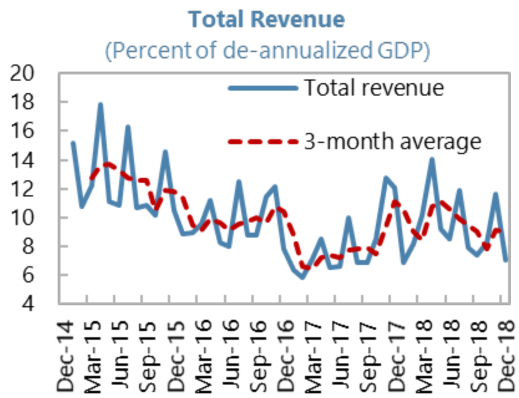
The extractive sector has been the main source of growth over the last two years, recovering from the 2015-16 crisis



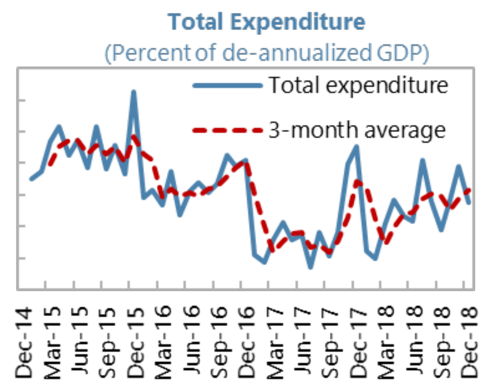
Inflation has decelerated and stabilized at a low level.



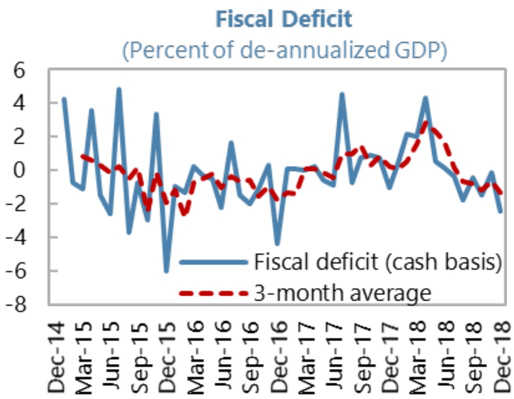
Revenues remain low despite the revised Mining Code.



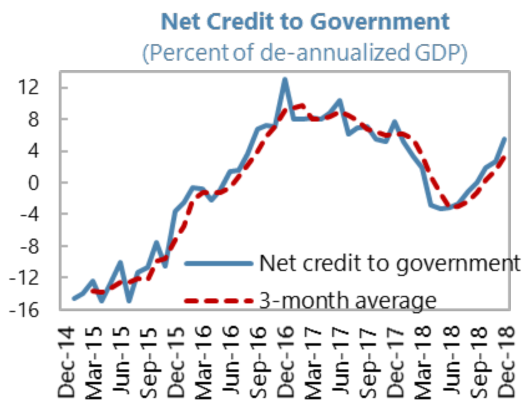
Expenditures picked up last year due to election spending.



The fiscal deficit was contained, but domestic arrears continued to rise



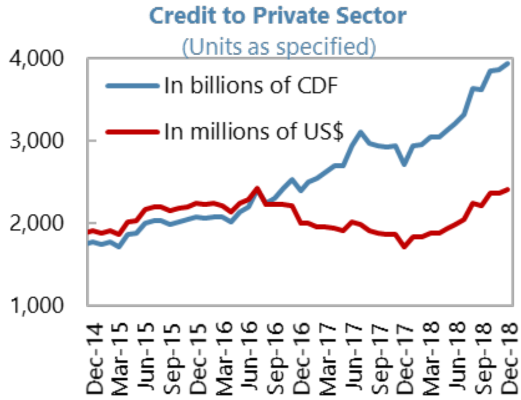
The fiscal deficit was monetized



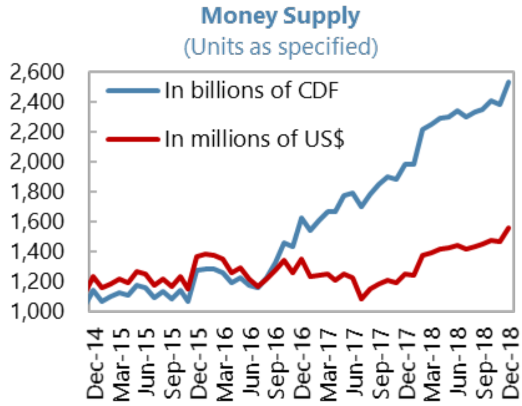
Sources: DRC authorities; IMF staff estimates.

Figure 3. Democratic Republic of the Congo: Monetary and Financial Indicators, 2014–18

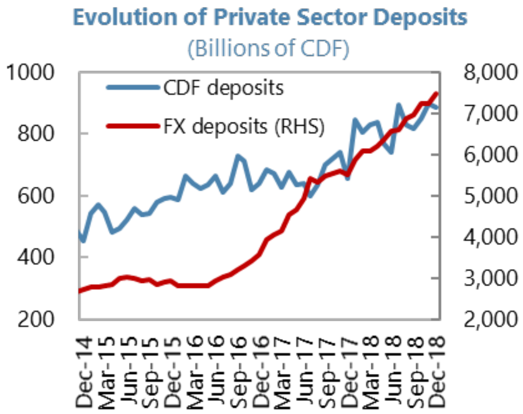
Credit to the private sector has picked up since December 2017.



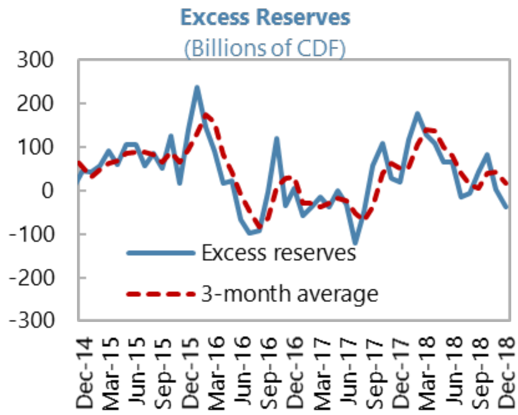
A similar trend has been recorded for money supply as the economy has stabilized.



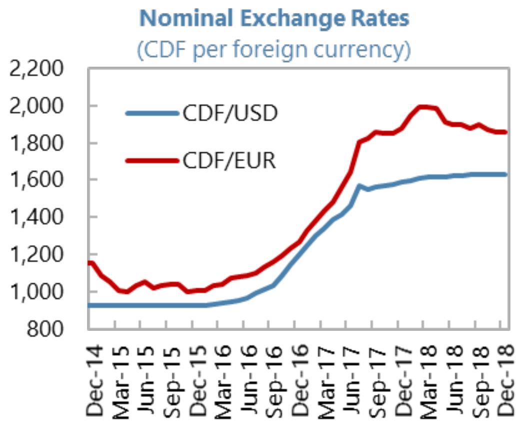
Foreign currency deposits have increased at a faster rate than local currency.



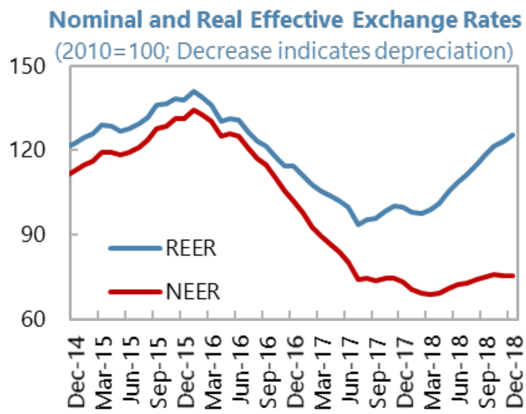
Excess reserves remain stable but volatile.



The depreciation of the Congolese franc is moderating against both the US Dollar and the Euro



But the real effective exchange rate has partly reversed the large depreciation recorded after the crisis.



Sources: DRC authorities; and IMF staff estimates.

Table 1. Democratic Republic of the Congo: Selected Economic and Financial Indicators, 2016–24

	2016	2017	2018	2019	2020	2021	2022	2023	2024
	Act.	Act.	Prel.	Projections					
	(Annual percentage change, unless otherwise indicated)								
GDP and prices									
Real GDP	2.4	3.7	5.8	4.3	3.9	3.4	4.5	4.3	4.6
Extractive GDP	-0.7	7.8	16.9	5.4	4.4	2.4	5.9	4.8	6.1
Non-Extractive GDP	3.5	2.4	1.9	3.8	3.7	3.8	3.9	4.1	4.0
GDP deflator	4.3	43.1	29.8	3.6	4.8	4.9	4.5	5.3	4.5
Consumer prices, period average	3.2	35.8	29.3	5.5	5.0	5.0	5.0	5.0	5.0
Consumer prices, end of period	11.2	54.7	7.2	5.5	5.0	5.0	5.0	5.0	5.0
External sector									
Exports, f.o.b. (U.S. dollars)	15.6	-2.8	38.3	-21.4	4.3	4.0	7.6	6.3	7.5
Imports, f.o.b. (U.S. dollars)	14.9	-6.7	32.0	-20.2	6.9	5.5	6.9	7.5	7.9
Exports volume	-6.0	9.7	20.8	4.6	3.0	2.8	7.3	5.6	6.2
Import volume	-0.7	4.3	29.1	-18.3	5.4	5.3	6.6	7.1	7.1
Terms of trade	-2.6	15.0	1.4	-11.0	-0.6	0.6	0.3	-0.1	-0.6
	(Annual change in percent of beginning-of-period broad money)								
Money and credit									
Net foreign assets	-4.8	29.2	10.2	4.0	3.6	4.7	5.9	4.7	4.3
Net domestic assets	27.0	13.6	20.2	5.5	6.0	5.2	4.8	5.1	5.0
Domestic credit	26.5	3.5	18.5	3.1	5.8	4.8	4.3	4.5	4.4
Of which: net credit to government	11.8	-0.9	3.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
credit to the private sector	14.1	0.6	20.3	0.4	3.6	2.2	2.4	2.9	4.5
Broad money	22.2	42.8	30.1	9.5	9.6	9.9	10.7	9.8	9.3
	(Percent of GDP, unless otherwise indicated)								
Central government finance									
Revenue and grants	14.0	11.7	11.6	10.8	10.6	11.3	11.7	12.0	12.3
Revenue	11.2	9.8	10.4	9.5	9.1	9.7	10.0	10.2	10.5
Grants	2.8	2.0	1.1	1.3	1.5	1.6	1.7	1.8	1.8
Expenditures	14.5	10.4	11.2	10.9	10.8	11.1	11.5	11.8	12.2
Overall fiscal balance (commitment basis)	-0.5	1.4	0.4	-0.2	-0.1	0.2	0.2	0.2	0.1
Non-natural resource overall fiscal balance	-2.0	-0.9	-2.8	-2.3	-2.1	-2.1	-2.4	-2.6	-2.9
Investment and saving									
Gross national saving	8.2	8.9	7.1	8.9	8.6	8.8	9.3	9.0	9.4
Government	-1.4	0.8	-0.4	-1.2	-1.3	-0.8	-0.5	-0.9	-0.2
Non-government	9.6	8.1	7.5	10.2	9.9	9.6	9.8	9.9	9.7
Investment	12.3	12.1	11.7	12.5	12.9	13.1	13.6	13.3	13.9
Government	3.4	2.3	1.7	2.1	2.4	2.6	3.0	2.7	3.5
Non-government	8.9	9.7	10.0	10.4	10.5	10.5	10.6	10.6	10.4
Balance of payments									
Exports of goods and services	32.8	31.0	34.1	25.9	25.7	25.5	25.9	26.0	26.4
Imports of goods and services	38.9	34.7	37.7	29.4	29.5	29.6	29.9	30.2	30.9
Current account balance, incl. transfers	-4.1	-3.2	-4.6	-3.5	-4.2	-4.4	-4.3	-4.4	-4.5
Current account balance, excl. transfers	-7.3	-5.2	-5.2	-5.6	-6.1	-6.3	-6.2	-6.4	-6.6
Overall balance	-1.4	2.0	0.9	0.3	0.3	0.4	0.6	0.4	0.4
Gross official reserves (millions of U.S. dollars)	625	601	657	1,011	1,108	1,282	1,530	1,721	1,820
Gross official reserves (weeks of imports)	2.8	1.9	2.6	3.7	3.9	4.2	4.6	4.8	5.0
	(Percent of GDP, unless otherwise indicated)								
External public debt									
Total stock, including IMF	17.6	16.9	13.7	13.3	12.7	12.1	10.9	9.8	8.9
Scheduled debt service (millions of U.S. dollars)	349	212	224	739	773	805	755	774	668
Percent of exports of goods and services	2.9	2.1	2.8	3.2	2.5	1.9	1.1	0.9	0.7
Percent of government revenue	8.5	6.5	9.2	8.8	6.9	4.9	3.0	2.4	1.9
Exchange rate (CDF per U.S. dollars)									
Period average	1,024	1,480	1,624	…	…	…	…	…	…
End-of-period	1,216	1,592	1,636	…	…	…	…	…	…
Memorandum items:									
Nominal GDP (billions of CDF)	37,517	55,676	76,496	82,660	89,970	97,559	106,551	116,956	127,800
Nominal GDP (millions of U.S. dollars)	36,640	37,615	47,099	49,014	51,627	54,174	57,257	60,819	64,313

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

Table 2a. Democratic Republic of the Congo: Central Government Financial Operations, 2016–24

	2016	2017	2018	2019	2020	2021	2022	2023	2024
	Act.	Act.	Prel.			Projections			
	(Billions of CDF, unless otherwise indicated)								
Revenue and grants	***5,246***	***6,538***	***8,844***	***8,895***	***9,572***	***10,981***	***12,453***	***14,005***	***15,779***
Revenue	**4,195**	**5,443**	**7,993**	**7,824**	**8,221**	**9,434**	**10,655**	**11,949**	**13,428**
Tax revenue	3,232	4,284	6,101	5,744	5,985	6,962	7,937	8,992	10,202
Income tax	1,266	1,584	2,559	2,230	2,138	2,664	3,224	3,788	4,473
Individuals	287	330	500	540	588	650	725	811	886
Businesses	936	1195	1978	1602	1455	1910	2387	2853	3451
Other unallocable taxes on income, profits, and capital gains	44	59	81	88	95	103	113	124	135
Taxes on goods and services	1,403	1,631	1,971	2,210	2,405	2,726	2,977	3,275	3,579
Value-added tax/Turnover tax	1,115	1,238	1,383	1,574	1,714	1,976	2,158	2,369	2,588
Excises	287	393	588	635	692	750	819	906	990
Taxes on international trade and transactions	563	1,070	1,571	1,305	1,442	1,572	1,736	1,928	2,150
Non-tax revenue	963	1,159	1,892	2,080	2,236	2,472	2,718	2,957	3,226
Revenue from natural resources and telecommunications	340	346	903	815	885	969	1,067	1,172	1,287
Mining royalties	114	75	389	260	280	301	334	367	408
Oil royalty and rent	96	103	240	259	282	318	351	385	421
Telecommunications	94	114	188	203	221	239	261	287	313
Dividents from state-owned enterprises	36	54	86	93	102	110	120	132	144
Fees from sectoral ministries	339	407	471	508	553	648	722	792	866
Special accounts and budgets	281	404	516	753	795	852	925	988	1,069
Grants	**1,051**	**1,095**	**851**	**1,071**	**1,351**	**1,547**	**1,798**	**2,056**	**2,351**
Project	1,049	1,050	851	1,071	1,264	1,457	1,705	1,960	2,252
Budget support	1	45	0	0	87	90	93	96	99
Expenditure	***5,431***	***5,783***	***8,539***	***9,028***	***9,702***	***10,829***	***12,236***	***13,789***	***15,590***
Current expenditure	3,926	4,080	6,034	6,846	7,252	8,091	8,805	9,847	10,752
Wages	1,957	2,084	2,694	3,479	3,629	4,120	4,427	4,859	5,310
Interest due	101	152	214	367	410	467	542	640	770
External	20	32	39	148	137	124	111	97	86
Domestic	81	120	175	219	274	344	431	543	684
Goods and services	968	954	1,734	1,223	1,149	1,265	1,369	1,545	1,702
Subsidies and other current transfers	900	890	1,392	1,776	2,063	2,239	2,467	2,803	2,971
Subsidies (incl. VAT reimbursements)	357	360	702	755	998	1,101	1,241	1,500	1,575
Transfers to other levels of national government	163	126	174	268	270	286	301	314	327
Special accounts and budgets	380	404	516	753	795	852	925	988	1,069
Capital expenditure	**1,270**	**1,301**	**1,285**	**1,707**	**2,116**	**2,544**	**3,181**	**3,216**	**4,511**
Foreign-financed	1,064	1,071	872	1,442	1,754	2,024	2,221	2,516	2,853
Domestically-financed	206	230	412	265	362	520	960	700	1,658
Exceptional expenditure1	**235**	**402**	**1,220**	**476**	**334**	**193**	**250**	**726**	**327**
of which: elections	168	320	851	325	244	98	146	614	205
Errors and omissions	**-88**	**-523**	**-204**	**0**	**0**	**0**	**0**	**0**	**0**
Overall fiscal balance (commitment basis)	***-186***	***754***	***305***	***-133***	***-130***	***153***	***218***	***215***	***189***
Change in domestic arrears (repayment = -)	27	44	97	0	0	-360	-360	-360	-360
Overall fiscal balance (cash basis)	***-159***	***798***	***402***	***-133***	***-130***	***-207***	***-142***	***-145***	***-171***
Financing	***246***	***-276***	***-198***	***133***	***130***	***207***	***142***	***145***	***171***
Domestic financing (banking system)	479	4	105	269	230	314	245	230	-14
Foreign financing	-233	-279	-303	-136	-101	-107	-103	-86	185
Project loans	15	21	21	371	490	567	516	556	601
Amortization of external debt	-248	-301	-325	-507	-591	-674	-619	-642	-416
Memorandum items:									
Gross domestic product (billions of CDF)	37,517	55,676	76,496	82,660	89,970	97,559	106,551	116,956	127,800
Gross domestic product (millions of U.S. dollars)	36,640	37,615	47,099	49,014	51,627	54,174	57,257	60,819	64,313
Unpaid cumulative domestic financial obligations [2]	…	5301	5398	5398	5398	5038	4678	4318	3958

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

1 Mainly expenditure related to security and elections.

[2] Unpaid VAT credit reimbursements and other arrears (cumulative).

Table 2b. Democratic Republic of the Congo: Central Government Financial Operations 2016–24

	2016	2017	2018	2019	2020	2021	2022	2023	2024
	Act.	Act.	Prel.			Projections			
	(Percent of GDP, unless otherwise indicated)								
Revenue and grants	***14.0***	***11.7***	***11.6***	***10.8***	***10.6***	***11.3***	***11.7***	***12.0***	***12.3***
Revenue	**11.2**	**9.8**	**10.4**	**9.5**	**9.1**	**9.7**	**10.0**	**10.2**	**10.5**
Tax revenue	8.6	7.7	8.0	6.9	6.7	7.1	7.4	7.7	8.0
Income tax	3.4	2.8	3.3	2.7	2.4	2.7	3.0	3.2	3.5
Individuals	0.8	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Businesses	2.5	2.1	2.6	1.9	1.6	2.0	2.2	2.4	2.7
Other unallocable taxes on income, profits, and capital gains	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Taxes on goods and services	3.7	2.9	2.6	2.7	2.7	2.8	2.8	2.8	2.8
Value-added tax/Turnover tax	3.0	2.2	1.8	1.9	1.9	2.0	2.0	2.0	2.0
Excises	0.8	0.7	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Taxes on international trade and transactions	1.5	1.9	2.1	1.6	1.6	1.6	1.6	1.6	1.7
Non-tax revenue	2.6	2.1	2.5	2.5	2.5	2.5	2.6	2.5	2.5
Revenue from natural resources and telecommunications	0.9	0.6	1.2	1.0	1.0	1.0	1.0	1.0	1.0
Mining royalties	0.3	0.1	0.5	0.3	0.3	0.3	0.3	0.3	0.3
Oil royalty and rent	0.3	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Telecommunications	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Dividents from state-owned enterprises	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Fees from sectoral ministries	0.9	0.7	0.6	0.6	0.6	0.7	0.7	0.7	0.7
Special accounts and budgets	0.7	0.7	0.7	0.9	0.9	0.9	0.9	0.8	0.8
Grants	**2.8**	**2.0**	**1.1**	**1.3**	**1.5**	**1.6**	**1.7**	**1.8**	**1.8**
Project	2.8	1.9	1.1	1.3	1.4	1.5	1.6	1.7	1.8
Budget support	0.0	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Expenditure	***14.5***	***10.4***	***11.2***	***10.9***	***10.8***	***11.1***	***11.5***	***11.8***	***12.2***
Current expenditure	**10.5**	**7.3**	**7.9**	**8.3**	**8.1**	**8.3**	**8.3**	**8.4**	**8.4**
Wages	5.2	3.7	3.5	4.2	4.0	4.2	4.2	4.2	4.2
Interest due	0.3	0.3	0.3	0.4	0.5	0.5	0.5	0.5	0.6
External	0.1	0.1	0.1	0.2	0.2	0.1	0.1	0.1	0.1
Domestic	0.2	0.2	0.2	0.3	0.3	0.4	0.4	0.5	0.5
Goods and services	2.6	1.7	2.3	1.5	1.3	1.3	1.3	1.3	1.3
Subsidies and other current transfers	2.4	1.6	1.8	2.1	2.3	2.3	2.3	2.4	2.3
Subsidies (incl. VAT reimbursements)	1.0	0.6	0.9	0.9	1.1	1.1	1.2	1.3	1.2
Transfers to other levels of national government	0.4	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3
Special accounts and budgets	1.0	0.7	0.7	0.9	0.9	0.9	0.9	0.8	0.8
Capital expenditure	**3.4**	**2.3**	**1.7**	**2.1**	**2.4**	**2.6**	**3.0**	**2.7**	**3.5**
Foreign-financed	2.8	1.9	1.1	1.7	1.9	2.1	2.1	2.2	2.2
Domestically-financed	0.5	0.4	0.5	0.3	0.4	0.5	0.9	0.6	1.3
Exceptional expenditure[1]	**0.6**	**0.7**	**1.6**	**0.6**	**0.4**	**0.2**	**0.2**	**0.6**	**0.3**
of which: elections	0.4	0.6	1.1	0.4	0.3	0.1	0.1	0.5	0.2
Errors and omissions	**-0.2**	**-0.9**	**-0.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall fiscal balance (commitment basis)	***-0.5***	***1.4***	***0.4***	***-0.2***	***-0.1***	***0.2***	***0.2***	***0.2***	***0.1***
Change in domestic arrears (repayment = -)	0.1	0.1	0.1	0.0	0.0	-0.4	-0.3	-0.3	-0.3
Overall fiscal balance (cash basis)	***-0.4***	***1.4***	***0.5***	***-0.2***	***-0.1***	***-0.2***	***-0.1***	***-0.1***	***-0.1***
Financing	***0.7***	***-0.5***	***-0.3***	***0.2***	***0.1***	***0.2***	***0.1***	***0.1***	***0.1***
Domestic financing	1.3	0.0	0.1	0.3	0.3	0.3	0.2	0.2	0.0
Foreign financing	-0.6	-0.5	-0.4	-0.2	-0.1	-0.1	-0.1	-0.1	0.1
Project loans	0.0	0.0	0.0	0.4	0.5	0.6	0.5	0.5	0.5
Amortization of external debt	-0.7	-0.5	-0.4	-0.6	-0.7	-0.7	-0.6	-0.5	-0.3
Memorandum items:									
Gross domestic product (billions of CDF)	37,517	55,676	76,496	82,660	89,970	97,559	106,551	116,956	127,800
Gross domestic product (millions of U.S. dollars)	36,640	37,615	47,099	49,014	51,627	54,174	57,257	60,819	64,313
Unpaid cumulative domestic financial obligations [2]	…	9.5	7.1	6.5	6.0	5.2	4.4	3.7	3.1

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

[1] Mainly expenditure related to security and elections.

[2] Unpaid VAT credit reimbursements and other arrears (cumulative).

Table 3. Democratic Republic of the Congo: Monetary Survey, 2016–24

	2016	2017	2018	2019	2020	2021	2022	2023	2024
	Act.	Act.	Prel.			Projections			
				(Billions of CDF)					
Net foreign assets	**1,112**	**2,651**	**3,417**	**3,811**	**4,195**	**4,744**	**5,508**	**6,181**	**6,852**
Central bank	-453	-562	-306	398	647	1,005	1,498	1,916	2,171
Commercial banks	1,565	3,212	3,722	3,413	3,548	3,739	4,011	4,265	4,681
Net domestic assets	**4,164**	**4,884**	**6,407**	**6,942**	**7,584**	**8,198**	**8,815**	**9,541**	**10,327**
Domestic credit	3,079	3,266	4,662	4,970	5,588	6,158	6,717	7,366	8,063
Net credit to government	261	264	370	639	869	1,184	1,428	1,659	1,645
Credit to the economy	2,819	3,002	4,293	4,331	4,719	4,975	5,288	5,707	6,418
Credit to the private sector	2,684	2,718	4,249	4,288	4,675	4,931	5,245	5,663	6,375
Credit to parastatals	135	284	43	43	43	43	43	43	43
Other items, net	1,085	1,618	1,744	1,972	1,997	2,040	2,099	2,175	2,264
Of which: valuation adjustment	597	748	76	152	132	138	141	143	150
Broad Money (M2)	**5,276**	**7,535**	**9,801**	**10,735**	**11,761**	**12,922**	**14,302**	**15,699**	**17,154**
Narrow Money (M1)	1,682	1,966	2,382	3,015	3,421	3,888	4,446	5,024	5,663
Currency in circulation	1,072	1,355	1,560	2,146	2,468	2,841	3,288	3,766	4,286
Demand deposits	610	610	822	870	953	1,047	1,159	1,259	1,377
Quasi money	3,594	5,569	7,419	7,720	8,340	9,034	9,856	10,651	11,467
Time deposits in domestic currency	60	46	46	65	72	79	87	96	104
Foreign currency deposits	3,534	5,523	7,373	7,654	8,268	8,955	9,769	10,556	11,363
				(Annual percent change)					
Net foreign assets	-15.7	138.4	28.9	11.5	10.1	13.1	16.1	12.2	10.9
Net domestic assets	38.9	17.3	31.2	8.4	9.3	8.1	7.5	8.2	8.2
Domestic credit	57.5	4.2	45.3	0.5	7.6	4.6	5.5	7.0	11.2
Net credit to government	219.3	1.4	39.9	72.9	36.0	36.2	-20.7	-16.1	0.8
Credit to the private sector	29.3	1.3	56.4	0.9	9.0	5.5	6.4	8.0	12.6
Credit to parastatals	76.9	111.1	-84.7	0.0	0.0	0.0	0.0	0.0	0.0
Other items, net	1.9	49.1	7.8	13.1	1.2	2.2	2.9	3.7	4.1
Broad Money (M2)	22.2	42.8	30.1	9.5	9.6	9.9	10.7	9.8	9.3
Narrow Money (M1)	28.9	16.9	21.2	26.6	13.5	13.6	14.4	13.0	12.7
Currency in circulation	37.1	26.4	15.1	37.6	15.0	15.1	15.7	14.5	13.8
Demand deposits	16.6	0.1	34.7	5.8	9.6	9.9	10.7	8.6	9.4
Quasi money	19.3	54.9	33.2	4.1	8.0	8.3	9.1	8.1	7.7
Time deposits in domestic currency	-17.8	-23.4	0.5	41.7	9.6	9.9	10.7	9.8	9.3
Foreign currency deposits	20.2	56.3	33.5	3.8	8.0	8.3	9.1	8.1	7.6
				(Annual percentage change of beginning-of-period broad money)					
Net foreign assets	-4.8	29.2	10.2	4.0	3.6	4.7	5.9	4.7	4.3
Net domestic assets	27.0	13.6	20.2	5.5	6.0	5.2	4.8	5.1	5.0
Domestic credit	26.5	3.5	18.5	3.1	5.8	4.8	4.3	4.5	4.4
Net credit to government	11.8	-0.9	3.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Credit to the private sector	14.1	0.6	20.3	0.4	3.6	2.2	2.4	2.9	4.5
Credit to parastatals	1.4	2.8	-3.2	0.0	0.0	0.0	0.0	0.0	0.0
Other items, net	0.5	10.1	1.7	2.3	0.2	0.4	0.5	0.5	0.6
Broad money (M2)	22.2	42.8	30.1	9.5	9.6	9.9	10.7	9.8	9.3
Narrow money (M1)	8.7	5.4	5.5	6.5	3.8	4.0	4.3	4.0	4.1
Quasi money	13.5	37.4	24.6	3.1	5.8	5.9	6.4	5.6	5.2
Memorandum items:									
Nominal GDP (billions of CDF)	37,517	55,676	76,496	82,660	89,970	97,559	106,551	116,956	127,800
Velocity (GDP/broad money)	7.1	7.4	7.8	7.7	7.7	7.6	7.5	7.5	7.5
Foreign currency deposits (percent of M2)	67.0	73.3	75.2	71.3	70.3	69.3	68.3	67.2	66.2
Foreign currency deposits (percent of total deposits)	84.1	89.4	89.5	89.1	89.0	88.8	88.7	88.6	88.5
Net domestic assets of the BCC (billions of CDF)	2,069	2,546	2,825	2,361	2,376	2,316	2,976	2,119	2,238
Base money (billions of CDF)	1,617	1,984	2,519	2,759	3,023	3,321	4,474	4,035	4,409

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

Table 4a. Democratic Republic of the Congo: Balance of Payments, 2016–24

	2016	2017	2018	2019	2020	2021	2022	2023	2024
	Act.	Prel.	Prel.			Projections			
	(Millions of U.S. dollars, unless otherwise indicated)								
Current account	**-1,504**	**-1,211**	**-2,169**	**-1,725**	**-2,179**	**-2,378**	**-2,436**	**-2,659**	**-2,888**
Merchandise trade	-264	208	994	596	306	126	230	73	14
Exports, f.o.b.	11,885	11,548	15,967	12,545	13,083	13,612	14,644	15,567	16,737
Of which: mining and oil	8,680	11,428	15,776	12,414	12,924	13,420	14,426	14,873	16,006
Imports, f.o.b.	-12,149	-11,340	-14,973	-11,949	-12,778	-13,486	-14,414	-15,494	-16,722
Of which: aid-related imports	-1,163	-1,214	-827	-890	-899	-943	-983	-1,058	-1,142
Services	-1,961	-1,615	-2,687	-2,283	-2,255	-2,336	-2,495	-2,669	-2,898
Receipts	128	108	115	173	181	188	202	230	231
Expenditure	-2,089	-1,723	-2,802	-2,456	-2,436	-2,523	-2,697	-2,899	-3,129
Of which: aid-related imports	-163	-170	-116	-127	-140	-154	-169	-186	-205
Income	-614	-1,081	-1,687	-1,310	-1,319	-1,342	-1,452	-1,447	-1,503
Receipts	17	12	73	97	103	108	114	121	128
Expenditure	-630	-1,093	-1,760	-1,408	-1,422	-1,450	-1,566	-1,568	-1,630
Of which: interest payments[1]	-20	-69	-24	-209	-205	-202	-193	-173	-152
Current transfers	1,335	1,276	1,211	1,272	1,090	1,174	1,281	1,384	1,498
Of which: official aid	1,180	732	294	1,005	945	1,029	1,136	1,239	1,353
budget support grants	1	30	0	0	50	50	50	50	50
Capital and financial account	**1,199**	**2,530**	**2,183**	**1,876**	**2,321**	**2,599**	**2,753**	**2,905**	**3,113**
Capital account	978	697	485	591	683	767	869	970	1,083
Official	1,025	709	524	635	725	809	916	1,019	1,133
Private	-47	-13	-39	-44	-43	-42	-47	-49	-50
Financial account	221	1,834	1,698	1,285	1,639	1,832	1,884	1,935	2,030
Official capital	-227	-189	-187	-310	-242	-288	-284	-274	-136
Gross disbursements (project loans)	14	14	13	570	676	555	277	289	302
Scheduled amortization[2]	-242	-203	-200	-530	-568	-603	-562	-563	-438
Private capital (net)	449	2,022	1,885	1,595	1,880	2,120	2,168	2,209	2,166
Of which: foreign direct investment	932	1,048	1,285	1,571	1,855	2,090	2,133	2,152	2,166
other private non-banking sector[3]	-484	974	600	24	26	30	35	56	0
Errors and omissions	-200	-539	410	0	0	0	0	0	0
Overall balance	**-506**	**750**	**424**	**151**	**143**	**220**	**317**	**246**	**225**
Financing	**506**	**-750**	**-424**	**-151**	**-143**	**-220**	**-317**	**-246**	**-225**
Central bank reserves (increase = -)	493	-19	-166	-421	-133	-184	-243	-187	-93
Commercial banks reserves (increase = -)	13	-730	-258	270	-9	-37	-75	-58	-132
	(Percent of GDP, unless otherwise indicated)								
Memorandum items:									
Debt service after debt relief (percent of exports)	2.9	2.1	2.8	3.2	2.5	1.9	1.1	0.9	0.7
Current account balance (excluding official transfers)	-7.3	-5.2	-5.2	-5.6	-6.1	-6.3	-6.2	-6.4	-6.6
Current account balance (including official transfers)	-4.1	-3.2	-4.6	-3.5	-4.2	-4.4	-4.3	-4.4	-4.5
Gross official reserves (millions of U.S. dollars)	625	601	657	1,011	1,108	1,282	1,530	1,721	1,820
Gross official reserves (weeks of imports)	2.8	1.9	2.6	3.7	3.9	4.2	4.6	4.8	5.0

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

[1] Including interest due to the IMF.

[2] Excluding principal repayments to the IMF.

[3] Including unrecorded transactions. The latter may be substantial given weaknesses in statistics.

Table 4b. Democratic Republic of the Congo: Balance of Payments, 2016–24

	2016	2017	2018	2019	2020	2021	2022	2023	2024
	Est.		Projection						
	(Billions of CDF, unless otherwise indicated)								
Current account	**-1,540**	**-1,793**	**-3,523**	**-2,909**	**-3,797**	**-4,283**	**-4,533**	**-5,114**	**-5,739**
Merchandise trade	-271	308	1,614	1,005	533	227	429	140	29
Exports, f.o.b.	12,169	17,093	25,932	21,156	22,800	24,513	27,252	29,935	33,259
Of which: mining and oil	8,888	16,915	25,622	20,935	22,523	24,168	26,846	28,600	31,807
Imports, f.o.b.	-12,440	-16,785	-24,318	-20,151	-22,268	-24,286	-26,823	-29,795	-33,230
Of which: aid-related imports	-1,191	-1,796	-1,343	-1,500	-1,567	-1,698	-1,830	-2,035	-2,268
Services	-2,008	-2,390	-4,364	-3,850	-3,930	-4,206	-4,643	-5,133	-5,759
Receipts	131	160	186	292	315	338	376	442	459
Expenditure	-2,139	-2,550	-4,550	-4,142	-4,245	-4,544	-5,019	-5,575	-6,218
Of which: aid-related imports	-167	-251	-188	-215	-244	-277	-315	-359	-408
Income	-628	-1,600	-2,740	-2,210	-2,299	-2,418	-2,703	-2,782	-2,986
Receipts	17	18	118	164	179	194	212	232	254
Expenditure	-645	-1,618	-2,858	-2,374	-2,478	-2,611	-2,914	-3,015	-3,240
Of which: interest payments[1]	-21	-102	-39	-352	-358	-364	-360	-332	-302
Current transfers	1,367	1,888	1,966	2,146	1,900	2,114	2,384	2,661	2,977
Of which: official aid	1,208	1,084	478	1,695	1,647	1,853	2,114	2,383	2,689
budget support grants	1	45	0	0	87	90	93	96	99
Capital and financial account	**1,228**	**3,745**	**3,545**	**3,164**	**4,046**	**4,680**	**5,124**	**5,587**	**6,187**
Capital account	1,001	1,031	787	996	1,190	1,381	1,618	1,866	2,153
Official	1,049	1,050	851	1,071	1,264	1,457	1,705	1,960	2,252
Private	-48	-19	-64	-75	-74	-76	-87	-94	-99
Financial account	226	2,714	2,758	2,168	2,856	3,298	3,506	3,721	4,034
Official capital	-233	-279	-303	-522	-421	-519	-529	-526	-270
Gross disbursements (project loans)	15	21	21	961	1,179	999	516	556	601
Scheduled amortization[2]	-248	-301	-325	-893	-990	-1,086	-1,045	-1,082	-871
Private capital (net)	459	2,994	3,062	2,690	3,277	3,818	4,035	4,247	4,304
Of which: foreign direct investment	955	1,551	2,086	2,650	3,232	3,764	3,969	4,139	4,304
other private non-banking sector[3]	-495	1,442	975	41	45	53	66	108	0
Errors and omissions	-205	-797	666	0	0	0	0	0	0
Overall balance	**-519**	**1,110**	**689**	**255**	**249**	**397**	**591**	**473**	**448**
Financing	**519**	**-1,110 0**	**-689**	**-255**	**-249**	**-397**	**-591**	**-473**	**-448**
Central bank reserves (increase = -)	505	-29	-270	-710	-233	-331	-452	-360	-186
Commercial banks reserves (increase = -)	14	-1,081	-419	455	-16	-66	-139	-112	-262

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

[1] Including interest due to the IMF.

[2] Excluding principal repayments to the IMF.

[3] Including unrecorded transactions. The latter may be substantial given weaknesses in statistics.

Table 5. Democratic Republic of the Congo: Financial Soundness Indicators, 2014–2019

	2014	2015	2016	2017	2018	Mar-19
			(in percent)			
Adequacy						
Regulatory capital to risk-weighted assets	23.7	20.4	9.0	16.0	14.2	14.8
Regulatory tier 1 capital to risk-weighted assets	18.4	16.7	12.0	14.2	11.9	12.5
Asset quality						
NPLs to gross loans	7.9	18.3	18.1	16.1	16.8	16.0
NPLs net of provisions to capital	16.6	56.1	67.8	45.8	39.8	34.2
Earnings and profitability						
Return on assets (net income/total assets)	1.8	1.5	-1.4	-0.1	1.1	0.3
Return on net income (net income/equity)	20.8	17.3	-21.3	-0.6	14.2	3.9
Interest margin to gross income	37.6	37.6	35.8	35.4	31.3	43.9
Non-interest expenses to gross income	78.0	77.9	76.4	73.5	78.0	76.1
Liquidity						
Liquid assets to total assets	60.4	53.4	47.5	55.8	50.2	52.9
Liquid assets/total deposits to short-term liabilities	127.8	117.7	119.0	125.6	153.9	159.3
Sensitivity to market risk						
Net open in foreign exchange position to capital	0.0	0.0	0.0	0.0	-6.6	5.9
Foreign currency-denominated liabilities to total liabilities to total liabilities	84.4	81.8	82.8	77.2	74.6	74.4
Foreign currency-denominated loans to total loans	81.9	85.6	85.1	93.7	93.5	93.8

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

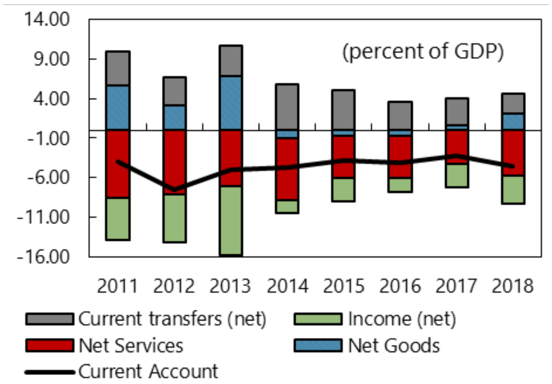
Annex I. External Sector Assessment

The external position of the DRC in 2018 was weaker than warranted by fundamentals and desirable policy settings. After a recovery in 2017, the current account deficit increased again in 2018, and is projected to stay around the norm in the medium term mainly financed by foreign direct investment. An inadequate level of foreign exchange (FX) reserves, however, remains a key challenge for external sustainability, despite a low level of external debt. Prudent fiscal and monetary policy, along with structural polices that aim at improving the business and institutional environments, are needed to address external imbalances.

A. Current Account

1. **The current account (CA) balance has been stable while significantly affected by developments in the mining sector in recent years.** The balance is estimated at -4.6 percent of GDP in 2018, declining from -3.3 percent of GDP in 2017. Exports of goods and services expanded by 3.2 percent of GDP in 2018 thanks to a recovery in mineral prices. Mineral exports constituted 98.8 percent of the goods exports in 2018. The increase in exports was matched by an increase of imports of goods and services of 3 percent of GDP due in part to spending linked to the organization of the elections. The CA balance projected to remain around the norm over the medium term supported by macro and structural policies, but it may increase marginally over the long term as investment needs remain large.

Figure 1. Current Account Balance



Sources: Congolese authorities and IMF staff estimates

Table 1. Democratic Republic of the Congo: Balance of Payments, 2011–2018

	2011	2012	2013	2014	2015	2016	2017	2018 Est.
				(Percent of GDP)				
Current account	-4.0	-7.5	-5.0	-4.8	-3.9	-4.1	-3.3	-4.6
Merchandise trade	5.7	3.2	6.8	-1.1	-0.8	-0.7	0.6	2.1
Exports, f.o.b.	41.5	31.8	37.5	34.3	27.1	32.4	30.7	33.9
Of which: mining and oil	40.7	31.4	36.8	32.5	26.4	23.7	30.4	33.5
Imports, f.o.b.	-35.8	-28.6	-30.6	-35.4	-27.9	-33.2	-30.1	-31.8
Of which: aid-related imports	-9.2	-6.8	-3.7	-3.6	-3.3	-3.2	-3.2	-1.8
Service balance	-8.6	-8.1	-7.0	-7.7	-5.3	-5.4	-4.3	-5.7
Capital account	1.2	2.7	2.1	0.9	2.9	2.7	1.9	1.0
Financial account	-0.9	7.9	12.2	0.7	-0.1	0.6	4.9	3.6
Foreign direct investment	3.7	5.3	5.2	4.2	3.1	2.5	2.8	2.7
Other	-4.6	2.5	7.0	-3.5	-3.2	-1.9	2.1	0.9
Overall balance	3.4	2.0	0.9	-1.7	-1.3	-1.4	2.0	0.9

Sources: Congolese authorities and IMF staff estimates

2. **The DRC's CA deficit is mainly financed by public borrowing and foreign direct investments (FDI)**. This includes official flows in the capital account and private FDI. Going forward, structural polices that aim at improving the business and institutional environments may attract further FDI inflows, as well as concessional lending and grants. These sources of financing will reduce the pressure on FX reserves and support external sustainability.

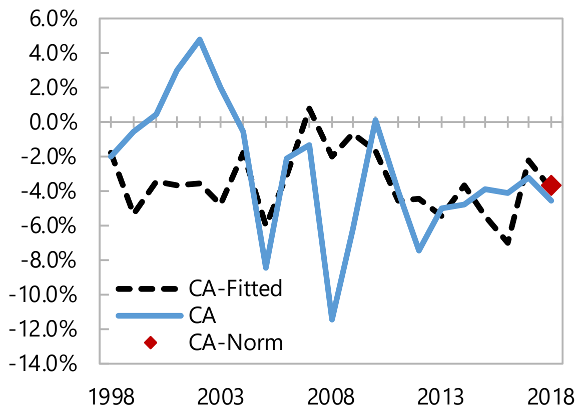
3. **The EBA-lite CA model suggests a CA-gap of about -2.5 percent of GDP in 2018.** Based on the revised EBA-lite methodology, the CA-norm is estimated to be around -3.7 percent of GDP (cyclically adjusted -4.2 percent of GDP), while the cyclical adjusted CA balance is -6.3 percent of GDP in 2018—suggesting a weak external position and an overvalued real effective exchange rate. The CA approach relies on the fundamentals and cyclical and policy variables, compares the desirable policies with their latest status, and derives total policy gaps. For instance, one of the drivers of the CA norm, and also a main source of the policy gap, is the assumed pace of FX reserves accumulation. Since FX reserve holdings are very low (less than 3 weeks of imports), a policy adjustment is needed over the medium term to address this gap. The CA model also suggests a misalignment (around an 9.8 percent overvaluation) of the real effective exchange rate.

Results of the CA Approach

CA-Actual	-4.6%
Cyclical Contributions (from model)	1.6%
Cyclically adjusted CA	-6.3%
CA-Norm	-2.6%
Cyclically adjusted CA Norm	-4.2%
Multilaterally Consistent Cyclically adjusted CA Norm	-3.7%
CA-Gap	-2.5%
of/which Policy gap	-2.2%
Elasticity	-26.0%
REER Gap	9.8%
CA-Fitted	-3.9%
Residual	-0.7%
Natural Disasters and Conflicts	0.9%

Sources: Congolese authorities and IMF staff estimates

CA (%GDP) Actual, Fitted, Norm



Sources: Congolese authorities and IMF staff estimates

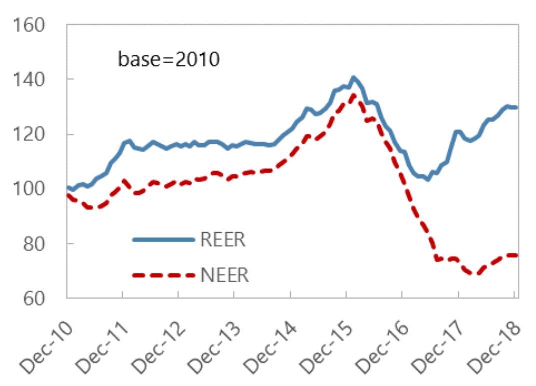
B. Real Exchange Rate

4. **The real effective exchange rate (REER) appreciated during 2018, following two years of sustained depreciation.** The real effective exchange rate appreciated by 25 percent by December 2018 (end of period) and by 9.2 percent (average). The nominal effective exchange rate (NEER) continued to depreciate during the first three quarters of 2018 but appreciated by 2.2 percent in the last quarter of the year. From a period average perspective, the nominal effective exchange rate depreciated by 10 percent in 2018.

5. **The Congolese Franc (FC) has stabilized after two years of sharp depreciation against the US dollar.** The Congolese Franc depreciated by 10.5 percent in 2016 and 44.6 percent in 2017. Depreciation slowed down to 9.7 percent in 2018.

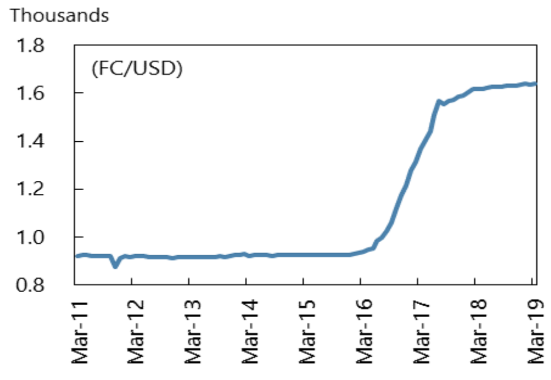
6. **According to the EBA-lite REER model, the real effective exchange rate is slightly undervalued.** This is partially driven by policy gaps due to monetary policy, foreign exchange reserves, among others. In general, REER model results are less reliable for countries with a short sample or that have experienced large structural changes that are not well captured by the regression. Therefore, the overall assessment of the REER gap is based on the CA model.[1] Nevertheless, macro and structural policy should help address policy gaps, and external sustainability should be supported going forward by competitiveness-enhancing policies and reforms through improvement in the business environment.

Figure 2. Effective Exchange Rates



Sources: Congolese authorities and IMF staff estimates

Figure 3. Congolese Franc



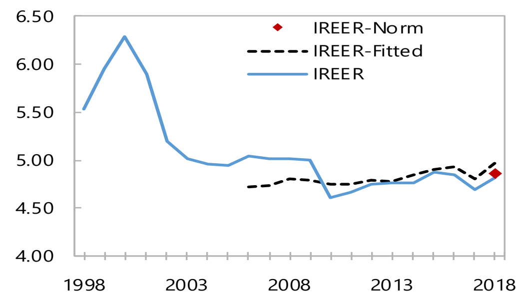
Sources: Congolese authorities and IMF staff estimates

Results of the IREER approach

Ln(REER) Actual	4.82
Ln(REER) Fitted	4.97
Ln(REER) Norm	4.87
Residual	-0.14
REER Gap	-4.3%

Sources: Congolese authorities and IMF staff estimates

IREER: Actual, Fitted, Norm



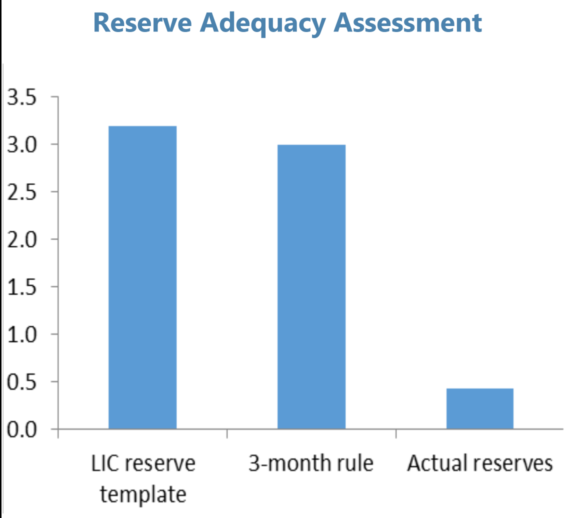
Sources: Congolese authorities and IMF staff estimates

[1] International Monetary Fund, 2016, Methodological Note on EBA-Lite, IMF Policy Paper.

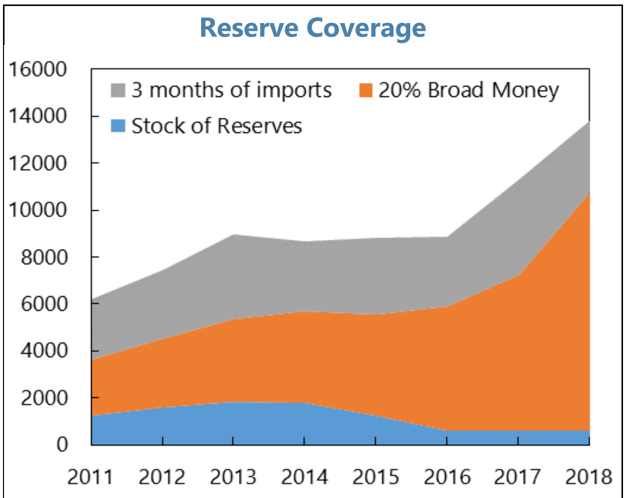
C. Reserve Adequacy

7. **International reserves are significantly inadequate in DRC.** By end-2018, gross international reserves were US$657 million, covering only 2.5 weeks of imports. This level of reserves is insufficient to provide buffers for the economy in the face of an external shock. In addition, a low level of reserves does not anchor the stability of the financial system. The Fund's metric to assess the adequate level of reserves suggests a reserve coverage of 13.2 weeks (3.3 months) of imports, a level higher than the standard 3-month rule.

8. **The overall assessment is that the external position of DRC in 2018 was weaker than warranted by fundamentals and desirable policy settings.** The inadequate level of FX reserves is a particular challenge for external sustainability. Prudent macroeconomic policies and structural polices that aim at improving competitiveness and the business and institutional environments are essential to address the external imbalances over the medium term.



Sources: Congolese authorities and IMF staff estimates



Sources: Congolese authorities and IMF staff estimates

Annex II. Capacity Development Strategy

CD Strategy

- The Fund's CD strategy for the Democratic Republic of the Congo over the medium term focuses on: (i) improving governance institution and laws and stepping up the fight against corruption ; (ii) reinforcing revenue mobilization; (ii) improving public financial management, in particular, reinforcing budget preparation and execution capacity; (iii) strengthening banking supervision and regulation capacity; and (iv) improving collection and publication of national accounts and fiscal data. This CD strategy is broadly aligned with the one delineated in the February 2016 strategy note.

Key overall CD priorities going forward

Priorities	**Objectives**
Governance assessment	Assess the quality of institutions and laws in (i) public financial management; (ii) central bank's financial management and governance; (iii) fight against corruption; and (iv) preventing money laundering and terrorism financing.
Public financial management	Improve budget preparation and execution; reform public accounting, treasury management, and audit processes.
Financial supervision and regulation	Improve banking supervision and regulation capacity.
Tax policy	Simplify and rationalize taxes. Estimate and rationalize tax expenditures.
Strengthen macroeconomic and financial statistics compilation and dissemination	Improve compilation of national accounts and update data to recent years; improve compilation of fiscal data.

Main risks and mitigation

Political instability is the main risk by complicating the actual delivery of technical assistance (TA) and by undermining the ownership of associated reforms. Commitment and capacity to implement TA recommendations under a new government will need to be assessed. Sustained engagement with the new authorities will be required to agree on TA plans and key objectives and to increase the potential return of the Fund's CD activities.

Authorities' views

The authorities agreed on the identified focus areas for CD support from the Fund. Notably, they are seeking assistance in:

- Developing guidance notes on issues relating to budget processes and compilation of fiscal data. Have we considered placing a long-term expert to provide hands-on support?
- Organizing a seminar for members of parliament and senators on budget credibility and public financial management.
- Reinforcing banking supervision.

Annex III. Risk Assessment Matrix (RAM)[1]

Source of Risks	Likelihood/ Time Horizon	Expected Impact on Economy	Policy Response
Potential Domestic Risks			
Loosening of the fiscal stance	Medium	Medium Macroeconomic stability may be undermined if the government resorts to monetary financing.	- Prepare realistic budgets, aligning spending with available revenue and identified external financing sources. - Endure prudent external borrowing.
Deterioration of relationship between coalition partners	Medium	Medium Policymaking would be undermined and economic uncertainty would increase.	- Maintain expenditure restraint and avoid monetary financing of government operations.
Escalation of Ebola epidemic	Medium	Low (for the whole country) The current epidemic is taking place in areas not well integrated with the rest of the country. Still, economic activity in those areas and trade flows with neighboring countries will be affected.	- Prepare contingency planning. - Obtain external technical and financial support and mobilize domestic resources to fight the epidemic.
Ongoing armed conflict escalates	Low	Low (for the whole country) Economic activity would be hurt though mostly in specific areas not well integrated with the rest of the country.	- Make room for a budgetary contingency for such an emergency.
Potential External Risks			
Rising protectionism and retreat from multilateralism.	High	High Demand for export products and their prices would fall, hurting the domestic economy.	- Accumulate international reserve buffers. Diversify the structure of the economy and export sources.
Weaker-than-expected growth in China and globally	Medium	High Demand for export products and their prices would fall, hurting the domestic economy.	- Accumulate FX reserve buffers. - Diversify the structure of the economy and export sources.

[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. "Short term" and "medium term" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

Annex IV. Democratic Republic of the Congo: Status of Past Article IV Recommendations

Recommendations	Status
Natural Resource Management	
Enact new Mining Code in line with international best practice.	• New Mining Code enacted in June 2018. Mining companies dispute key changes compared to the 2002 Mining Code.
Strengthen governance and enhance transparency in their management of natural resources.	Governance and transparency in the management of natural resources remain poor.
Macroeconomic management	
Accumulate FX reserves to mitigate vulnerability.	FX reserves remain low and fell sharply in recent years.
Encourage de-dollarization.	Initial de-dollarization measures have been reversed.
Fiscal Policy	
Broaden tax base.	Tax base remains limited.
Strengthen budget process to enhance credibility.	Large deviations between targets and outturns persist.
Competitiveness and the business environment	
Improve the business and investment climate.	Business and investment climate remain difficult and in need of reform.
Central bank operations and management	
Strengthen central bank independence and operations through recapitalization and enacting of Central Bank Law	Central bank still not recapitalized but Central Bank Law enacted in December 2018.
Financial sector regulation and stability	
Enact Commercial Banking Law.	Not yet enacted.

INTERNATIONAL MONETARY FUND

DEMOCRATIC REPUBLIC OF THE CONGO

August 5, 2019

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

The African Department
(In collaboration with other departments)

CONTENTS

RELATIONS WITH THE IMF

As of May 31, 2019

Membership Status: Joined September 28, 1963; Article VIII

General Resources Account:	**SDR Million**	**Percent of Quota**
Quota	1,066.00	100.00
Fund holdings of currency	1,066.00	100.00
SDR Department:	**SDR Million**	**Percent of Quota**
Net cumulative allocation	510.86	100.0
Holdings	20.59	4.03
Outstanding Purchases and Loans:	**SDR Million**	**Percent of Quota**
ECF Arrangement	64.34	6.04

Latest Financial Arrangements:

Type	**Approval Date**	**Expiration Date**	**Amount Approved (SDR Million)**	**Amount Drawn (SDR Million)**
ECF[1, 2]	Dec 11, 2009	Dec 10, 2012	346.45	197.97
ECF[1]	June 12, 2002	Mar 31, 2006	580.00	553.47
Stand-By	June 09, 1989	June 08, 1990	116.40	75.00

Projected Payments to Fund:[3]

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

[1] Formerly Poverty Reduction and Growth Facility (PRGF).

[2] Three reviews were concluded (of which two were associated with non-complying purchases on account of misreporting on external arrears for which the Fund granted waivers) and the last three reviews were not concluded because of governance concerns in the management of natural resources.

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

	Forthcoming				
	2019	2020	2021	2022	2023
Principal	24.75	29.70	9.90		
Charges/interest	2.75	5.45	5.45	5.45	5.45
Total	27.50	35.15	15.35	5.45	5.45

Implementation of HIPC Initiative:

I.	Commitment of HIPC assistance	Enhanced Framework
	Decision point date	July 2003
	Assistance committed by all creditors (US$ millions)[4]	7,252.00
	Of which: IMF assistance (US$ millions)	391.60
	(SDR equivalent millions)	280.30
	Completion point date	July 2010
II.	Disbursement of IMF assistance (SDR millions)	
	Assistance disbursed to the member	280.30
	Interim assistance	49.05
	Completion point balance	231.25
	Additional disbursement of interest income[5]	50.44
	Total disbursements	330.74

Implementation of MDRI Assistance:

I.	MDRI-eligible debt (SDR Million)[6]	248.08
	Financed by: MDRI Trust	0.00
	Remaining HIPC resources	248.08
II.	Debt Relief by Facility (SDR Million)	

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

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

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

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

Exchange Rate Arrangement:

The currency of the Democratic Republic of the Congo (DRC) is the Congo franc (CDF). The de jure exchange rate arrangement is floating, although the Fund classifies the de facto exchange rate arrangement as "stabilized." At end-March 2019, the rate was US$1=CF 1639.0. Effective February 10, 2003, the DRC accepted the obligations of Article VIII, Sections 2 (a) 3, and 4, of the Fund's Articles of Agreement. However, the DRC maintains one exchange rate restriction subject to Fund approval arising from an outstanding net debt position against other contracting members under the inoperative regional payments' agreement with the Economic Community of the Great Lakes Countries.

Last Article IV Consultation:

The last Article IV consultation was concluded by the Executive Board on September 11, 2015.

Safeguards Assessment:

An updated safeguards assessment of the *Banque Centrale du Congo* (BCC) completed in April 2010 found that while most of the 2008 recommendations had been implemented, significant risks remained. The BCC continued to lack autonomy from the government and was in need of recapitalization, and the absence of an independently defined financial reporting framework continued to impair transparency. The Ministry of Finance completed the first phase of the recapitalization in March 2011 by bringing the BCC's net worth to zero. The IMF has been providing technical assistance to support the recapitalization efforts. While the BCC committed to adopt IFRS as its financial reporting framework in 2003, the transition process has been significantly delayed. The BCC Law was amended in December 2018 with changes in the provisions on independence, autonomy, and transparency.

Resident Representative: Mr. Philippe Egoumé Bossogo assumed his duties in September 2018.

RELATIONS WITH OTHER FINANCIAL INSTITUTIONS

A. World Bank

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

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

B. African Development Bank

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

STATISTICAL ISSUES

I. Assessment of Data Adequacy for Surveillance

General: Data provision to the Fund has some shortcomings but is broadly adequate for surveillance and program monitoring purposes. Upgrades to the national accounts, balance of payments, and government finance statistics would be helpful. In spite of difficulties, the authorities have continued to produce an array of economic and financial statistics, most of which are published in the annual report of the Central Bank of the Congo (BCC) or its monthly statistical bulletin.

National accounts: Annual national accounts (ANA) are compiled in constant and current prices by National Institute of Statistics (INS) under the Ministry of Plan with the technical assistance (TA) from IMF/AFC. The compilation methodology has then changed since 2006 with the use of ERETES software and the compilation of definitive ANA for 2005 and 2006 in compliance with the *System of National Accounts 1993 (1993 SNA)* (implying an upward revision of GDP by about 60 percent). The insufficient human resources pushed the authorities of INS to temporary suspend the use of the ERETES software. With technical assistance from AFC the INS has compiled ANA for 2016 and 2017.

Price statistics: Consumer price indices (CPI) are calculated for Kinshasa by the INS, the BCC, the Institute of Economic and Social Research (IESR), and the Economics Section of the U.S. Embassy in Kinshasa. In 2011, the INS started to compile CPI data Country wide using weights calculated on the basis of the 2005 household survey. Prices are collected in the 11 provinces (the BCC in 2013 began the compilation of a similar CPI using a slightly different basket and different weights and based on prices in 5 provinces).

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

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

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

Monetary statistics: Monthly monetary and financial statistics (MFS) covering the central bank and other depository corporations are compiled and reported to the Fund by the BCC in the format of standardized report forms. The depository corporation survey does not include data from non-bank deposit taking institutions, a growing sector in the country. DRC has not reported data to the Financial Access Survey (FAS) since 2015. Until 2015, DRC reported some data and indicators of the FAS, including the two indicators adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).

Financial Soundness Indicators (FSIs): DRC does not report FSIs for publication on the IMF website. A technical assistance mission is scheduled in 2019 to assist the authorities in their efforts to develop a set of core and encouraged FSIs for deposit taking institutions.

Balance of payments: The Central Bank of the Democratic Republic of Congo has continued its efforts to improve ESS. It is now compiling ESS using the *BPM6* methodology from the data-collection phase to the compilation and dissemination phases, as supported by technical assistance under the JSA/IMF Project to Improve External Sector Statistics in 17 Selected African Countries in Francophone Africa. BOP and IIP data up to 2018 are available in IFS. Direct investment is the main weakness because of the very large amounts of transactions in this category, both for the financial account and for the income account. A register and surveys of direct investment enterprises must be established.

II. Data Standards and Quality

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

Democratic Republic of the Congo: Table of Common Indicators Required for Surveillance

(as of July 10, 2019)

	Date of latest observation	Date received	Frequency of data[6]	Frequency of reporting[6]	Frequency of publication[6]
Exchange Rates	May-19	6/4/2019	M	M	M
International Reserve Assets and Reserves	Apr-19	Jun-19	M	M	M
Liabilities of the Monetary Authorities[1]	Apr-19	Jun-19	M	M	M
Reserve/Base Money	Apr-19	Jun-19	M	M	M
Central Bank Balance Sheet	Apr-19	Jun-19	M	M	M
Consolidated Balance Sheet of the Banking System	Apr-19	Jun-19	M	M	M
Interest Rates[2]	Apr-19	Jun-19	M	M	M
Consumer Price Index	Apr-19	Jun-19	M	M	M
Central Government Revenue, Expenditure, and Financing[3]	2018	Jun-19	A	A	A
Stock of Central Government and Central Government-Guaranteed Debt[4]	2018	Jun-19	A	A	A
External Current Account Balance	2018	6/4/2019	A	A	A
Exports and Imports of Goods and Services	2018	6/4/2019	A	A	A
GDP/GNP	2018	Jun-19	A	A	A
Gross External Debt	2018	Jun-19	A	A	A
International Investment Position[5]	2018	6/7/2019	A	A	A

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

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

[3]Foreign, domestic bank, and domestic nonbank financing.

[4]Including currency and maturity composition.

[5]Includes external gross financial asset and libility positions vis-à-vis nonresidents.

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

INTERNATIONAL MONETARY FUND

DEMOCRATIC REPUBLIC OF THE CONGO

DEBT SUSTAINABILITY ANALYSIS

August 5, 2019

Approved By
Annalisa Fedelino (IMF, AFR), Vitaliy Kramarenko (IMF, SPR), and Marcello Estevão (IDA)

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

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

According to the updated Low-Income Country Debt Sustainability Framework (LIC DSF), the Democratic Republic of the Congo (DRC)'s debt-carrying capacity was assessed as weak[1]*. DRC remains at a moderate risk of external and overall debt distress, with limited space to absorb shocks. The debt coverage has been improved since the last DSA, especially on domestic debt. The external nominal debt ratios are lower than at the time of the 2015 DSA, however the country shows vulnerability in debt repayment capacity, even under the baseline, due to weak revenue mobilization. Most external debt thresholds are breached under the stress tests, highlighting the country's vulnerability to external shocks. Given limited buffers, prudent borrowing policies are essential by prioritizing concessional loans and strengthening debt management policies.*

[1] DRC Composite Indicator (CI) score is 1.98, which corresponds to a weak debt-carrying capacity as confirmed by April 2019 WEO assumptions and 2017 Country Policy and Institutional Assessment (CPIA).

PUBLIC DEBT COVERAGE

1. **Public and publicly-guaranteed (PPG) external and domestic debt covers debt contracted and guaranteed by the central government, the Central Bank of Congo (BCC), provinces, and part of state-owned enterprises (SOEs).** The public debt department (Direction Générale de la Dette Publique, DGDP) under the Ministry of Finance publishes quarterly and annual reports on its website with information on domestic and external debt based on the residency criteria. The reports summarize the debt of the central government, debt of SICOMINES (a joint venture stemming from an agreement between the Congolese government and Chinese investors) and Gécamines, guaranteed external debt of SOEs managed by the government, provinces (only the province of Maniema is missing, out of 26 provinces), and BCC's debt. Data on private sector's and other public institutions' debt are not available. Other public institutions do not have the capacity to borrow externally without a government guarantee. The authorities believe that other SOEs have not borrowed externally, however they do not receive any regular report from them. The authorities are committed to broaden the debt coverage, especially to improve SOEs debt reporting in terms of debt stock and debt service. Sicomines' infrastructure loans have a government guarantee which can only be called after 2034. Its debt service should be repaid by 2026 and is collateralized by Sicomines' earnings.[2]

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

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

Public debt coverage

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

Public debt coverage and the magnitude of the contingent liability tailored stress test

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

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

Sources: Congolese authorities. IMF staff calculation.

[2] Box 1, Debt Sustainability Analysis, IMF Country Report No. 15/280.

BACKGROUND AND RECENT DEVELOPMENTS

2. **From 2014 to 2017, the Congolese economy deteriorated sharply in the wake of a commodity price shock and a political crisis.** The sharp fall in the price of copper—which accounted for over 50 percent of total exports of goods and services— between 2014 and 2016 and the uncertainty caused by the delay in holding general elections hurt economic growth, exports, and fiscal revenues, unleashing a spiral of currency depreciation and inflation. By the end of 2016, the price of copper had lost 45 percent of its value relative to 2011. Furthermore, donors stopped providing budget support because of delays in conducting the presidential elections. Government deposits at the BCC were largely depleted by the end of 2016 and the fiscal rule of no BCC financing of the budget—introduced in 2011—was breached. Domestic arrears were also rising. The end-of-period inflation rate rose to 23.6 percent in 2016, driven, at least in part, by central bank financing of the fiscal deficit. Foreign reserves dropped from about 6 weeks of imports in January 2016 to less than 2 weeks by end-2017. The exchange rate depreciated by 71 percent between end-2015 and end-2017, the largest depreciation in SSA over that period. Conversely, the current account deficit narrowed modestly to 3.1 percent of GDP in 2016, as a decline in imports compensated for dwindling exports. All this induced a fall in GDP growth from 6.9 percent in 2015 to 2.4 percent in 2016 and 3.7 percent in 2017.

3. **Since 2018, the economy has started to recover.** Supported by a rebound in commodity prices, GDP growth was 5.8 percent in 2018, while 12-month inflation has fallen sharply to less than 5 percent and the exchange rate has stabilized. Strict budgetary discipline led to overall fiscal surpluses in 2017-18 and a balanced position is projected for 2019. However, international reserves have been low, below 3 weeks of import coverage, a critical vulnerability that needs to be tackled decisively.

Text Table 2. Comparison between 2015 and 2019 DSA

	PPGE debt to GDP ratio		PPGE debt to exports ratio		PPGE debt to revenue ratio	
	Previous	Current	Previous	Current	Previous	Current
2015	14.3	13.3	43.5	48.3	104.3	97.5
2016	14.7	14.8	43.2	45.2	104.4	132.6
2017	16.7	15.7	50.5	50.7	115.7	160.6
2018	19.0	13.6	56.1	39.8	128.0	130.1
2019	20.3	13.1	58.6	50.6	134.0	127.0
2020	21.5	12.6	62.2	49.0	139.4	126.2
2021	22.6	11.9	67.3	46.8	143.0	113.7
2022	22.5	10.8	68.8	41.6	137.1	100.1
2023	21.7	9.6	67.3	37.1	126.8	87.8
2024	20.9	8.8	66.3	33.3	122.0	78.0
avg 2025-38	20	5.5	66.7	22.4	103	52.6

Sources: Congolese authorities and IMF staff calculations and projections.

4. **DRC's external debt has remained low following debt relief at the beginning of the decade.** After DRC reached the completion point under the Enhanced Heavily Indebted Poor Countries (HIPC) initiative and benefited from assistance under the Multilateral Debt Relief Initiative (MDRI) in July 2010, external debt has fallen from $13.7 billion at end-2009 to US$6.4 billion by end-2018. The ratio of public and publicly-guaranteed external debt (PPGE) to GDP dropped to 22 percent in 2010 and to 13.6 percent in 2018. The low stock of external debt reflects mostly adverse external borrowing conditions: new disbursements in 2017-18 were only US$27.5 million or 0.07 percent of GDP. The country carries external arrears to bilateral and commercial creditors amounting to 0.7 percent of GDP. However, the authorities are under discussion with creditors to resolve outstanding issues.

Text Table 3. External Arrears as of End-2018

External arrears are limited and date from pre-HIPC Completion Point, amounting to US$328.7 million. Four non-Paris Club creditors hold claims against the DRC for half of the total amount in arrears and are in negotiation or under reconciliation process. The remaining half are claims to commercial creditors. Amounts have been reconciled but there are cases under litigation. A 5-year schedule for the repayment of external arrears has been assumed, starting in 2021.

Democratic Republic of the Congo - External Arrears

	2018	
	Nominal in millions of US$	Percent of GDP
	Est.	
Total External Arrears	329	0.7
Bilateral creditors	164	0.3
Commercial creditors 1/	165	0.3
Memo item:		
GDP	47,099	

Sources: Congolese authorities; IMF staff calculations

1/ Includes Sicomines debt

Text Table 4. Democratic Republic of the Congo: Total Public Debt Stock, 2018

	Nominal in millions of US$	Percent of GDP	Percent of Public Debt	Percent of External Debt
	Est.			
Total Public Debt	9,476	20.1	100	
Of which: arrears	3,403	7.2	36	
Total External Debt	6,401	13.6	68	100
Of which: arrears	329	0.7	3	5
Multilateral creditors	1,916	4.1	20	30
Bilateral creditors	1,240	2.6	13	19
Commercial creditors 1/	3,245	6.9	34	51
Total Domestic Debt	3,074	6.5	32	

Sources: Congolese authorities; IMF staff calculations
1/ Includes Sicomines debt

5. **About half of the public external debt is owed to official creditors.** At end-2018, 30 percent of the debt was owed to multilateral creditors and 19 percent to bilateral official creditors, a significant increase from 4 percent in 2014 due to borrowing from non-Paris Club creditors. The share of debt owed to commercial creditors has remained stable at a third of external debt (see Text Table 4). Sicomines' debt represents almost 40 percent of total external debt. It is assumed to be repaid over 10 and 15 years for mining and infrastructure projects, respectively.

6. **The overall domestic debt is composed of arrears.** As of 2018, total domestic debt was equivalent to US$3.1 billion, or about one third of total public debt. Reconciled legacy arrears equal US$1.9 billion, or almost 60 percent of domestic public debt. They have been audited and fall into 5 categories: financial debt, social debt, judiciary debt, suppliers, and rent and other services. Other legacy arrears amounting to about US$3 billion have still to be audited. According to the authorities, in the past, only 20 percent of audited arrears became validated. VAT arrears represent the second largest category of arrears with almost a quarter of the domestic debt. They are expected to be repaid against taxes due. Arrears from provinces are also included in the stock of domestic debt. Only one province did not report its stock of arrears but, according to the authorities, its amount should be marginal.

Text Table 5. Democratic Republic of the Congo: Total Stock of Domestic Debt, 2018

	Nominal in US$ million	in percent of GDP	in total domestic debt
Reconcilied legacy arrears	1,866	4.0	60.7
Arrears from provinces	147	0.3	4.8
Arrears to oil companies	262	0.6	8.5
VAT arrears	799	1.7	26.0
Total	3,074	6.5	100.0

Sources: Congolese authorities; IMF staff calculations

UNDERLYING ASSUMPTIONS

7. **The medium- and long-term macroeconomic framework underlying the DSA is consistent with the baseline scenario presented in the 2019 Article IV Staff Report.** Compared to 2015 DSA, GDP growth assumptions are more conservative in the first half of the projections' period though growth is projected to pick up in the second half (Box 1). Similarly, fiscal policy is projected to be tighter than assumed under the 2015 DSA in the first half of the projection period but to loosen up in the second half. These assumptions carry over into the projected paths for public and private investment as well as for imports.

Text Table 6. Democratic Republic of the Congo: Macroeconomic Forecast and Assumptions

	Real GDP Growth (percent change)		Revenue (excluding grants) growth		Overall fiscal deficit (percent of GDP)		Exports of goods and services growth		Imports of goods and services growth		Current account balance (percent of GDP)	
	Previous	Current	Previous	Current 1/	Previous	Current 1/	Previous	Current	Previous	Current	Previous	Current
2015	9.2	6.9	14.3	2.2	-0.8	-0.2	6.5	-17.2	-0.7	-19.1	-7.4	-3.8
2016	8.5	2.4	12.3	-21.0	-0.2	-0.3	13.2	14.9	6.6	11.5	-7.6	-4.1
2017	8.3	3.7	12.9	-10.2	-0.2	1.6	7.0	-3.0	12.9	-8.3	-9.4	-3.2
2018	7.5	5.8	12.0	33.8	-0.3	0.6	11.6	38.0	11.5	36.1	-10.1	-4.6
2019	6.7	4.3	10.5	3.0	0.0	0.8	10.8	-20.9	9.9	-19.0	-10.1	-3.5
2020	5.4	3.9	9.1	1.6	0.1	0.8	6.8	4.3	9.8	5.6	-11.2	-4.2
2021	3.7	3.4	7.3	10.2	-0.4	1.2	1.8	4.0	-2.1	5.2	-7.9	-4.4
2022	4.9	4.5	9.7	8.5	-0.5	1.2	2.9	7.6	3.7	6.9	-7.9	-4.3
2023	4.5	4.3	10.0	8.3	-0.6	1.3	4.0	6.4	3.7	7.5	-7.7	-4.4
2024	3.8	4.6	5.2	8.4	-0.4	1.3	2.8	7.4	2.7	7.9	-7.4	-4.5
avg. 2025-39	3.6	4.5	6.5	5.3	1.0	0.7	3.5	5.4	2.3	5.1	-5.7	-3.7

Sources: Congolese authorities and IMF staff calculations and projections.

1/ Adjusted with Sicomines and Gecamines' debt service projections.

Box 1. Democratic Republic of the Congo: Macroeconomic Assumptions for 2019-39

Real GDP growth. GDP growth over the medium term would average almost 4 percent driven by sustained increases in mining production and a gradual recovery in investment. The newly elected President laid out his development plan that aims at supporting private sector activity, particularly in the agriculture, energy, and tourism sectors. He also plans to increase public investment, specifically in infrastructure.

Inflation. Inflation is projected to stabilize at around 5 percent, below the 7 percent target of the BCC, as the economy slowly recovers.

Primary balance. The primary fiscal balance is projected to stay close to zero percent of GDP on the basis of prudent fiscal policies and still limited access to external credit. Capital expenditure would reach 3.9 percent of GDP at the end of the projection period. It would be initially financed mostly through foreign sources, but domestic financing would increase gradually to represent about half of its financing. Revenues are computed as central government revenues plus revenue from SOEs assumed to be equivalent to their debt service flows. The latter represent an average of 4.4 percent of total revenues over the repayment period.

Current account balance. The current account balance has been stable while significantly affected by the developments in the mining sector. After a recovery in 2017, the current account deficit increased again in 2018 mainly due to capital equipment and other imports. Mineral exports constitute significant portion of exports and projected to improve, on average, over the medium term while imports are projected to rise gradually on the back of increasing demand for capital goods and intermediates for infrastructure investment. Thus, the current account deficit would average around 4 percent of GDP over the medium term."

FDI inflows. FDI inflows are projected to remain at around 4 percent of GDP. Investment flows are projected to increase in the non-mining sector to compensate for an assumed slowdown in investments in the mining sector due to increased taxation under the new mining code.

Gross official reserves are expected to gradually rise over the medium term to about 5 weeks of imports.

Financing assumptions. Public debt is expected to increase slowly to help finance the investment program of the new government. However, public investment is assumed to increase gradually to about 3 percent of GDP over the medium term. External financing is projected to be a mix of concessional loans (accounting for half of it) and bilateral and commercial loans. Part of the financing of public investment projects would also stem from foreign grants. Additional government financing needs are assumed to be covered by treasury bonds issuance in the domestic market. The financing mix is projected to remain unchanged over the projection period as it is assumed that DRC would not be able to switch from concessional to non-concessional borrowing.

8. **The realism tool's outputs compare the DSA projections to cross-country experiences and to DRC's own historical experience (Figures 3 and 4).**

a. **Debt drivers:** Over the last 5 years DRC's external debt has barely changed (it actually fell), in contrast to LICs' upward PPGE debt trend. With regard to total public debt, the main driver behind its increase was the extension of debt coverage.

b. **Fiscal adjustment and growth.** As noted in the staff report, the baseline is a sub-optimal scenario that assumes limited structural reforms and weak domestic revenue mobilization and limited access to external financing. The baseline scenario will not be sufficient to generate inclusive and sustained growth over the medium- to long-terms. Compared to the previous DSA, the stock of PPG external debt is lower in 2018 than anticipated in 2015 reflecting adverse borrowing conditions over recent years.

9. **DRC's debt carrying capacity is classified as weak (Text Table 7)**. The classification of debt carrying capacity is guided by the composite indicator (CI) score, which is determined by the World Bank's CPIA and other variables, such as real GDP growth, import coverage of foreign exchange reserves, remittances as percent of GDP, and growth of the world economy. The CI also incorporates forward-looking elements, with the calculation based on a 10-year average (5 recent years of historical data and 5 years of projections). DRC's CI is 1.98 and is below the previous vintages. It can be explained by lower CPIA, which accounts for more than half of the total components of the CI index. DRC is a fragile state and highly vulnerable to external shocks. A tailored stress was set up for a commodity price shock as the country's main export products are copper and cobalt. Regarding the contingent liability stress test, a shock of 7.5 percent of GDP was used. The shock includes the default value of 5 percent of GDP for financial markets, a zero percent of GDP for risks associated with private-public partnerships (PPPs) as there are no PPPs in DRC, and 0.5 percent of GDP for SOEs to acknowledge the risk of having unreported debt due to the lack of regular reporting between the authorities and SOEs (Text Table 1).

Text Table 7. Composite Indicator and Threshold Tables

Debt Carrying Capacity	Weak

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintages
Weak	Weak	Weak	Weak
	1.98	2.04	2.09

Applicable thresholds

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

APPLICABLE	
TOTAL public debt benchmark	
PV of total public debt in percent of GDP	35

Note: The current vintage refers to the 2019 April WEO vintage; The previous vintage refers to the 2018 October WEO vintage.

EXTERNAL DEBT SUSTAINABILITY

Baseline

10. **External debt levels are lower than projected in the 2015 DSA**. PPG external debt to GDP stood at 13.6 percent of GDP at end-2018 versus a projected 24.8 percent of GDP in the 2015 DSA. A lower debt level reflects much lower borrowing flows than assumed under the previous DSA. The present value of debt to GDP ratio, reflecting the concessionality of DRC's debt, was 10.8 percent in 2018, and is anticipated to decline over the medium term (Table 1 and Figure 1).

11. **External debt would be sustainable under the baseline scenario, but with vulnerabilities stemming from some structural weakness.** All indicators remain well below the indicative thresholds for the PV of debt ratios and for the debt service-to-exports ratio. Specifically, the PV of PPG external debt-to-GDP ratio peaks at 10.3 percent in 2019 against a 30 percent threshold. However, the debt service-to-revenue reaches the threshold (14 percent) in 2020 and declines steadily throughout the rest of the projection period. The latter results highlight a key weakness of the Congolese economy. The low level of government revenues undermines debt sustainability and the ability of the government to borrow externally to finance its development and public investment plans.

Alternative scenarios and stress tests

12. **Several external debt ratios breach their thresholds under the extreme shock[3] scenario** (Figure 1). Under the exports shock scenario, the ratios of the PV of debt-to-exports, debt service-to-exports and debt service-to-revenue breach their respective thresholds, reflecting DRC's vulnerability to export shocks. The mining sector constitutes the main source of export receipts and a key driver of economic growth (Box 2 – in the staff report) and it is very sensitive to the volatility of international prices. The results also highlight the need to build buffers given low FX reserves at the BCC.

13. **The low level of revenues explains why the country is classified as having a moderate risk of debt distress despite a low stock of external debt.** As shown in Figure 5, the debt service-to-revenue ratio shows limited space for additional borrowing in the short term without worsening the debt rating. Revenues averaged only 9.5 percent of GDP in 2016-17, compared with 20 percent of GDP in SSA. Increasing revenue mobilization is a priority to create fiscal space to be able to invest in much needed infrastructure and priority sectors and generate inclusive growth.

14. **Risks stem from commodity prices and the ability to carry meaningful reforms.** As illustrated in the commodity price stress test, the country is highly vulnerable to external shocks because it is strongly dependent on volatile mining exports. The DRC needs to build buffers through prudent macroeconomic and indebtedness policies. The DGDP needs to prepare a medium-term

[3] Nominal export growth (in USD) is set to its historical average minus one standard deviation, or to the baseline scenario's projection minus one standard deviation, whichever is lower in 2021-22.

debt strategy consistent with the sustainability of debt and efficient use of borrowed resources. In this regard, the authorities need to ensure the high quality of projects being financed and to prioritize concessional borrowing.

PUBLIC DEBT SUSTAINABILITY

Baseline

15. **The most significant difference relative to the 2015 DSA is the increase in domestic debt.** At the time of the 2015 DSA, reported domestic debt was negligible, representing only 0.3 percent of GDP at end-2014. Since then, the authorities have made strong efforts to account for and reconcile accumulated arrears to suppliers and VAT arrears to the private sector accrued during the recent economic crisis. Total domestic debt now represents 6.5 percent of GDP, which brings total public debt to 20.1 percent of GDP at end-2018. The ratio of the PV of total debt-to-GDP remains below the threshold during the projection period. The baseline scenario assumes an ambitious repayment profile of arrears over the next 15 years. A conservative assumption of full amount is projected to be repaid to provision for the unaudited amount. However, while repayment of legacy arrears from social and financial are repaid in full, legacy arrears from other categories are subject to a discounted payment. Overall, the authorities expect to repay 72 percent of the legacy arrears. The PV of public debt-to-GDP ratio would reach 16.7 percent in 2019, well below the 35 percent threshold, and would follow a downward trajectory the following years, declining to 5.1 percent by 2029.

Alternative scenarios and stress tests

16. **Stress tests confirm DRC's vulnerability to external shock and repayment capacity.** Based on the evolution of ratios of the PV of debt-to-GDP and to revenue, the most extreme shock is the commodity price shock, in line with the findings of the previous section (Figure 2). The PV of debt-to-GDP peaks at 30.2 percent, still below the 35 percent threshold in 2021 and declines thereafter. The most extreme shock for the debt service-to-revenue ratio stems from the one-time depreciation shock highlighting the vulnerability of an economy that lacks buffers. The ratio of debt service to revenue would reach 46 percent in 2021, while being forecasted to be below 14 percent in 2019.

RISK RATING AND VULNERABILITIES

17. **The external and overall risk of debt distress for the DRC remain moderate.** Under the external indicators, the debt service-to-revenue ratio gets closer to the 14 percent threshold in the first years of projections and declines steadily afterwards. However, lower revenues or higher borrowing (or both) could push the rating to high risk of debt distress, even more so in the case of non-concessional borrowing. Moreover, as shown in the stress tests, the country is prone to severe shocks, especially through the export channel. External arrears are below 1 percent of GDP qualifying as *de minimus* case, so they do not affect the risk rating consideration. Domestic arrears

rose significantly in recent years and will likely increase further after completion of the audit of legacy arrears. It is important that the authorities refrain from accumulating additional domestic arrears and prepare realistic plans to repay them. The current low level of domestic debt still justifies the moderate risk of debt distress rating.

Text Table 8. Democratic Republic of the Congo: Risk Ratings

	External Debt Distress Rating	Overall Risk Rating
Mechanical overall debt distress rating	Moderate	Moderate
Final external debt distress rating	Moderate	Moderate
Judgement was applied	No	No

Sources: Country authorities; and staff estimates and projections.

18. **Vulnerabilities have increased, especially on debt repayment capacity, despite lower total public debt levels than projected at the time of the 2015 DSA.** The weak revenue mobilization is reflected in debt service-to-revenue ratios with limited space to absorb negative shocks, especially at the beginning of the projection period (Figure 5). A cautious borrowing policy, as well as prudent fiscal policy supported by domestic revenue mobilization and structural reforms including for better management of public investments, will be key to supporting the authorities' ambitions to scale up public investment in infrastructure.

AUTHORITIES' VIEWS

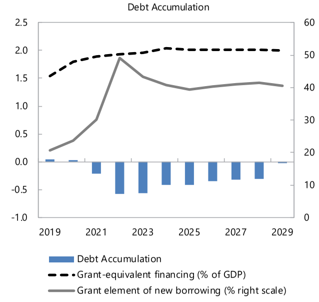
19. **The authorities broadly agreed with the overall assessment of the country's debt sustainability**. The new government supported increased transparency and full disclosure of public debt. The authorities committed to further broaden debt coverage, especially for SOEs, and to audit the rest of the legacy arrears. While committed to prioritize concessional borrowing, they also noticed the scarcity of it. They agreed with the need to prepare a medium-term strategy to help frame the debt policy and strengthen debt management capacity.

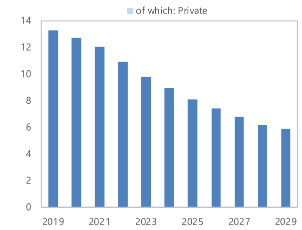
Table 1. Democratic Republic of the Congo: External Debt Sustainability Framework, Baseline Scenario, 2016-2039

(in percent of GDP, unless otherwise indicated)

	Actual			Projections												Average 8/	
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2039	Historical	Projections
External debt (nominal) 1/	17.6	16.9	13.7	13.3	12.7	12.1	10.9	9.8	8.9	8.1	7.4	6.8	6.2	5.9	4.6	23.3	9.3
of which: public and publicly guaranteed (PPG)	17.6	16.9	13.7	13.3	12.7	12.1	10.9	9.8	8.9	8.1	7.4	6.8	6.2	5.9	4.6	23.3	9.3
Change in external debt	4.2	-0.7	-3.2	-0.4	-0.5	-0.7	-1.1	-1.1	-0.9	-0.8	-0.7	-0.6	-0.6	-0.3	-0.1		
Identified net debt-creating flows	2.0	0.0	-1.5	-0.2	0.1	0.1	0.0	0.4	0.7	0.9	1.0	1.0	1.0	0.4	-0.1	-1.7	0.5
Non-interest current account deficit	4.1	3.2	4.6	3.2	3.9	4.1	4.0	4.2	4.3	4.3	4.4	4.3	4.2	3.6	2.4	4.2	4.1
Deficit in balance of goods and services	6.1	3.7	3.6	3.4	3.8	4.1	4.0	4.3	4.5	4.5	4.6	4.5	4.4	3.8	2.8	4.4	4.2
Exports	32.8	31.0	34.1	25.9	25.7	25.5	25.9	26.0	26.4	25.4	25.3	25.1	24.7	24.6	23.3		
Imports	38.9	34.7	37.7	29.4	29.5	29.6	29.9	30.2	30.9	30.0	29.9	29.6	29.0	28.3	26.2		
Net current transfers (negative = inflow)	-3.6	-3.4	-2.6	-2.6	-2.1	-2.2	-2.2	-2.3	-2.3	-2.3	-2.3	-2.2	-2.2	-2.2	-2.1	-4.2	-2.3
of which: official	-3.2	-1.9	-0.6	-2.1	-1.8	-1.9	-2.0	-2.0	-2.1	-2.1	-2.1	-2.1	-2.0	-2.0	-2.0		
Other current account flows (negative = net inflow)	1.6	2.8	3.5	2.4	2.3	2.2	2.3	2.2	2.1	2.1	2.1	2.1	2.1	2.0	1.6	4.0	2.2
Net FDI (negative = inflow)	-2.5	-2.8	-2.7	-3.2	-3.6	-3.9	-3.7	-3.5	-3.4	-3.3	-3.2	-3.2	-3.1	-3.0	-2.3	-4.0	-3.4
Endogenous debt dynamics 2/	0.5	-0.4	-3.3	-0.2	-0.2	-0.1	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2		
Contribution from nominal interest rate	0.1	0.1	0.1	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1		
Contribution from real GDP growth	-0.3	-0.6	-0.8	-0.6	-0.5	-0.4	-0.5	-0.4	-0.4	-0.3	-0.3	-0.3	-0.3	-0.2	-0.2		
Contribution from price and exchange rate changes	0.8	0.2	-2.6	...	...	...	...	...	...	...	...	...	...	...	...		
Residual 3/	2.2	-0.7	-1.7	-0.2	-0.7	-0.8	-1.1	-1.5	-1.6	-1.7	-1.7	-1.6	-1.6	-0.7	0.0	-4.8	-1.2
of which: exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators																	
PV of PPG external debt-to-GDP ratio	...	...	10.8	10.4	9.9	9.3	8.2	7.2	6.4	5.7	5.1	4.5	3.9	3.7	2.8		
PV of PPG external debt-to-exports ratio	...	...	31.7	40.2	38.7	36.4	31.7	27.8	24.4	22.4	20.0	17.8	15.9	15.0	12.0		
PPG debt service-to-exports ratio	2.2	1.9	1.4	5.4	5.4	5.5	4.7	4.6	3.8	3.8	3.4	3.2	3.1	1.9	1.0		
PPG debt service-to-revenue ratio	6.4	6.1	4.6	13.5	14.0	13.3	11.4	10.8	9.0	8.9	8.0	7.5	7.2	4.5	2.4		
Gross external financing need (Million of U.S. dollars)	813.1	366.3	1084.4	683.3	892.2	891.1	864.5	1108.7	1238.3	1373.8	1494.0	1486.1	1534.9	875.1	474.6		
Key macroeconomic assumptions																	
Real GDP growth (in percent)	2.4	3.7	5.8	4.3	3.9	3.4	4.5	4.3	4.6	4.0	4.1	4.1	4.2	4.2	5.1	6.1	4.1
GDP deflator in US dollar terms (change in percent)	-5.6	-1.0	18.3	-0.2	1.4	1.5	1.1	1.9	1.1	1.6	1.7	1.7	1.7	1.7	1.8	3.2	1.4
Effective interest rate (percent) 4/	0.4	0.3	0.4	2.4	2.4	2.3	2.2	1.9	2.3	2.1	2.0	1.8	1.6	1.4	1.5	0.4	2.0
Growth of exports of G&S (US dollar terms, in percent)	14.9	-3.0	38.0	-20.9	4.3	4.0	7.6	6.4	7.4	2.0	5.1	5.2	3.9	5.6	11.1	12.9	2.8
Growth of imports of G&S (US dollar terms, in percent)	11.5	-8.3	36.1	-19.0	5.6	5.2	6.9	7.5	7.9	2.7	5.5	4.8	4.0	3.3	7.9	9.6	3.1
Grant element of new public sector borrowing (in percent)	...	...	...	20.7	23.6	30.1	49.2	43.2	40.8	39.4	40.2	40.9	41.5	40.6	35.5	...	37.3
Government revenues (excluding grants, in percent of GDP)	11.2	9.8	10.4	10.3	10.0	10.5	10.8	11.0	11.3	11.0	10.8	10.9	10.7	10.5	9.9	11.9	10.7
Aid flows (in Million of US dollars) 5/	1040.5	754.2	537.1	854.8	1051.7	1168.9	1211.7	1282.7	1393.2	1458.3	1542.8	1632.2	1726.5	1816.7	3224.0		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	1.5	1.8	1.9	1.9	2.0	2.0	2.0	2.0	2.0	2.0	2.0	1.9	...	1.9
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	62.5	65.7	72.6	88.7	87.9	88.0	87.8	88.1	88.4	88.6	88.6	89.1	...	82.4
Nominal GDP (Million of US dollars)	36,640	37,615	47,099	49,014	51,627	54,174	57,257	60,819	64,313	67,997	71,933	76,143	80,634	85,455	159,518		
Nominal dollar GDP growth	-3.4	2.7	25.2	4.1	5.3	4.9	5.7	6.2	5.7	5.7	5.8	5.9	5.9	6.0	7.0	9.6	5.6
Memorandum items:																	
PV of external debt 7/	...	...	10.8	10.4	9.9	9.3	8.2	7.2	6.4	5.7	5.1	4.5	3.9	3.7	2.8		
In percent of exports	...	...	31.7	40.2	38.7	36.4	31.7	27.8	24.4	22.4	20.0	17.8	15.9	15.0	12.0		
Total external debt service-to-exports ratio	2.2	1.9	1.4	5.4	5.4	5.5	4.7	4.6	3.8	3.8	3.4	3.2	3.1	1.9	1.0		
PV of PPG external debt (in Million of US dollars)			5096.3	5115.7	5131.5	5022.3	4710.8	4387.0	4134.9	3869.9	3636.3	3402.6	3165.8	3149.2	4466.9		
(PVt-PVt-1)/GDPt-1 (in percent)				0.0	0.0	-0.2	-0.6	-0.6	-0.4	-0.4	-0.3	-0.3	-0.3	0.0	0.2		
Non-interest current account deficit that stabilizes debt ratio	-0.2	3.9	7.8	3.6	4.4	4.8	5.1	5.3	5.1	5.2	5.1	5.0	4.8	3.9	2.5		

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





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

debt.

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

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

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

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

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

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

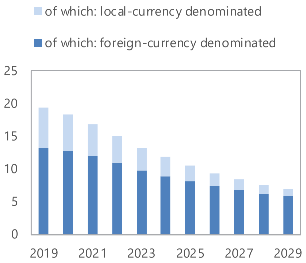
Table 2. Democratic Republic of the Congo: Public Sector Debt Sustainability Framework, Baseline Scenario, 2016-2039

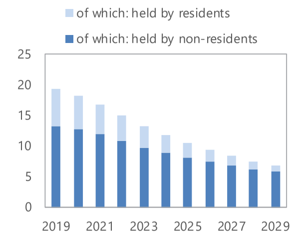
(in percent of GDP, unless otherwise indicated)

	Actual			Projections							Average 6/	
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029	Historical	Projections
Public sector debt 1/	17.6	16.9	20.3	19.3	18.3	16.9	15.0	13.2	11.8	6.9	23.9	12.5
of which: external debt	17.6	16.9	13.7	13.3	12.7	12.1	10.9	9.8	8.9	5.9	23.3	9.3
Change in public sector debt	4.2	-0.7	3.4	-0.9	-1.0	-1.4	-1.9	-1.8	-1.4	-0.6		
Identified debt-creating flows	3.3	-3.6	-4.9	-1.8	-2.0	-2.2	-2.3	-2.3	-2.1	-1.7	-4.8	-2.0
Primary deficit	0.2	-1.6	-0.7	-1.2	-1.2	-1.4	-1.5	-1.5	-1.5	-1.3	-2.0	-1.4
Revenue and grants	14.0	11.7	11.6	11.6	11.5	12.1	12.5	12.7	13.1	12.3	14.4	12.4
of which: grants	2.8	2.0	1.1	1.3	1.5	1.6	1.7	1.8	1.8	1.8		
Primary (noninterest) expenditure	14.2	10.1	10.9	10.5	10.3	10.6	11.0	11.2	11.6	11.0	12.5	11.0
Automatic debt dynamics	3.1	-2.0	-4.2	-0.7	-0.8	-0.7	-0.8	-0.8	-0.6	-0.4		
Contribution from interest rate/growth differential	-0.4	-0.9	-1.2	-1.0	-0.9	-0.9	-0.9	-0.8	-0.7	-0.4		
of which: contribution from average real interest rate	-0.1	-0.2	-0.3	-0.1	-0.2	-0.3	-0.2	-0.2	-0.1	-0.1		
of which: contribution from real GDP growth	-0.3	-0.6	-0.9	-0.8	-0.7	-0.6	-0.7	-0.6	-0.6	-0.3		
Contribution from real exchange rate depreciation	3.5	-1.1	-3.0	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	0.9	2.9	8.3	1.2	1.1	0.9	0.6	0.5	0.8	1.1	-1.1	0.9
Sustainability indicators												
PV of public debt-to-GDP ratio 2/	...	...	17.5	16.6	15.6	14.2	12.4	10.8	9.4	4.8		
PV of public debt-to-revenue and grants ratio	...	...	151.1	142.7	136.1	117.6	99.8	84.5	72.0	38.9		
Debt service-to-revenue and grants ratio 3/	5.1	5.1	4.1	12.0	12.2	14.4	12.4	11.6	9.7	5.2		
Gross financing need 4/	0.9	-1.0	-0.2	0.2	0.2	0.3	0.1	0.0	-0.2	-0.7		
Key macroeconomic and fiscal assumptions												
Real GDP growth (in percent)	2.4	3.7	5.8	4.3	3.9	3.4	4.5	4.3	4.6	4.2	6.1	4.1
Average nominal interest rate on external debt (in percent)	0.4	0.4	0.4	2.5	2.4	2.3	2.2	2.0	2.3	1.4	0.4	2.1
Average real interest rate on domestic debt (in percent)	-3.8	-29.8	-22.7	-3.5	-4.6	-4.6	-4.3	-5.0	-4.3	-4.8	-11.6	-4.6
Real exchange rate depreciation (in percent, + indicates depreciation)	26.9	-6.7	-19.1	...	...	...	...	...	...	...	-1.8	...
Inflation rate (GDP deflator, in percent)	4.3	43.1	29.8	3.6	4.8	4.9	4.5	5.3	4.5	5.1	15.4	4.8
Growth of real primary spending (deflated by GDP deflator, in percent)	-14.2	-26.1	13.8	0.4	2.4	6.3	8.0	6.8	7.9	4.2	4.2	4.3
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-4.0	-0.9	-4.1	-0.2	-0.1	0.0	0.4	0.3	-0.1	-0.7	-3.0	-0.2
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

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

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

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

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

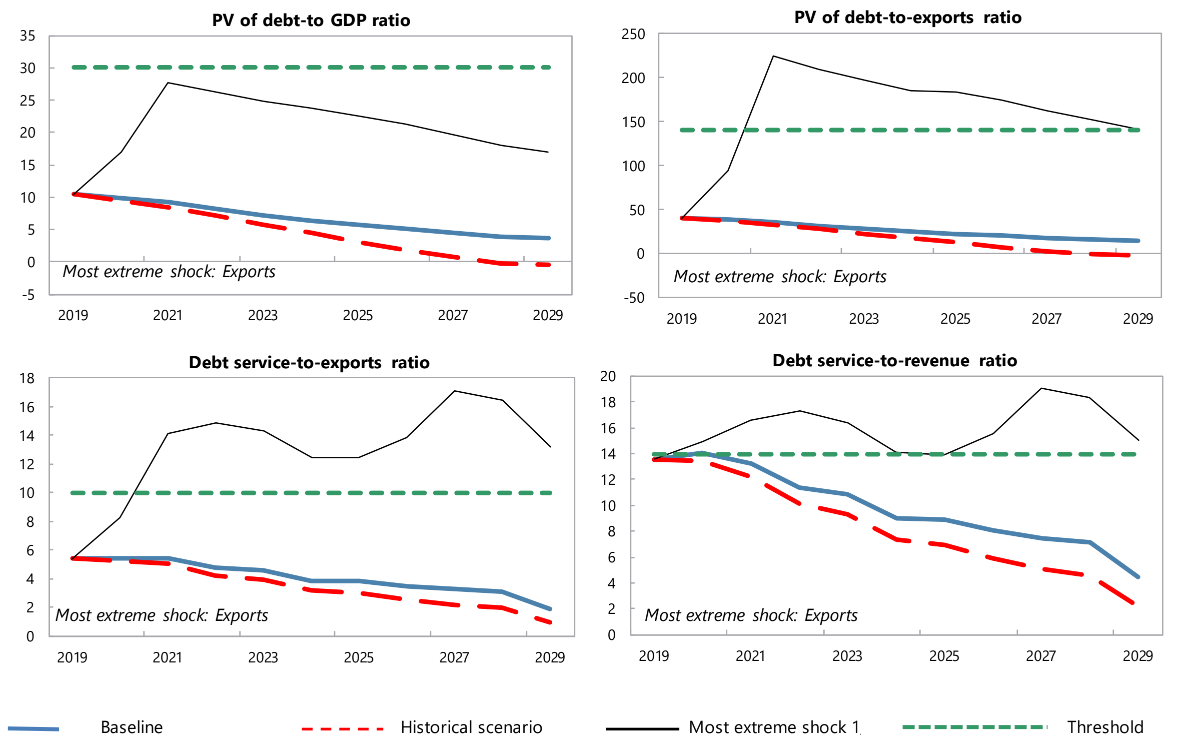
3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

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

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

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

Figure 1. Democratic Republic of the Congo: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2019-2029



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

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

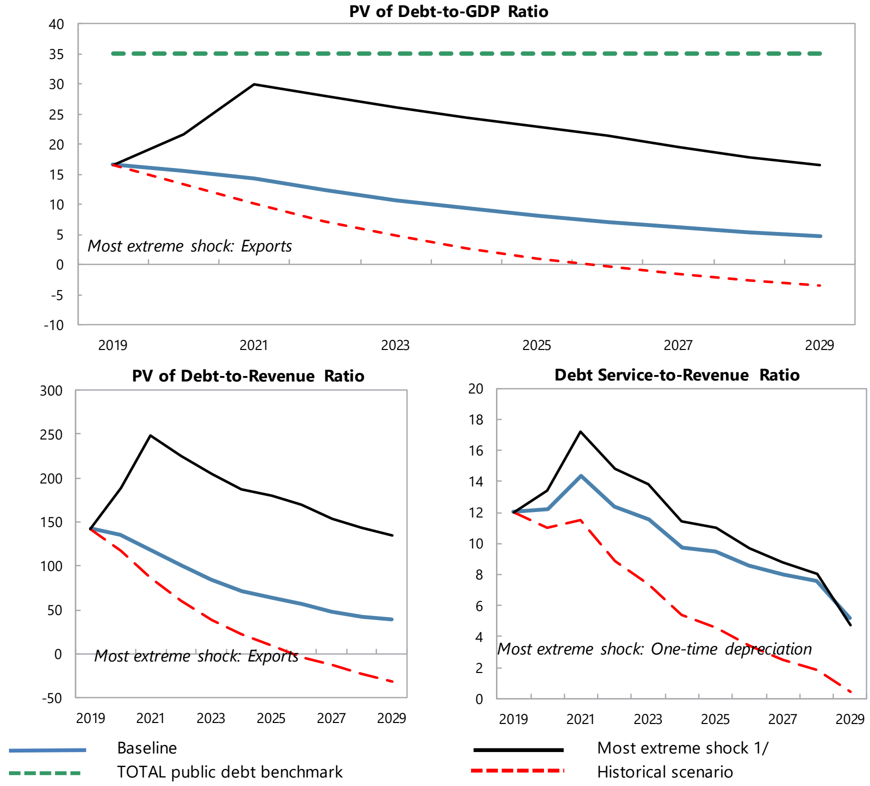
Borrowing assumptions on additional financing needs resulting from the stress tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	2.0%	2.0%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	29	29
Avg. grace period	5	5

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

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2029. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 2. Democratic Republic of the Congo: Indicators of Public Debt under Alternative Scenarios, 2019-2029



Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	100%	100%
Domestic medium and long-term	0%	0%
Domestic short-term	0%	0%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	2.0%	2.0%
Avg. maturity (incl. grace period)	29	29
Avg. grace period	5	5
Domestic MLT debt		
Avg. real interest rate on new borrowing	0.0%	0.0%
Avg. maturity (incl. grace period)	1	1
Avg. grace period	0	0
Domestic short-term debt		
Avg. real interest rate	-5.3%	-5.3%

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

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2029. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Table 3. Democratic Republic of the Congo: Sensitivity Analysis for Key Indicators of PPG External Debt, 2019-2029

(in percent)

	Projections 1/										
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
PV of debt-to GDP ratio											
Baseline	10	10	9	8	7	6	6	5	4	4	4
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	10	10	8	7	6	4	3	2	1	0	-1
B. Bound Tests											
B1. Real GDP growth	10	10	10	9	8	7	6	5	5	4	4
B2. Primary balance	10	13	15	14	13	12	11	10	9	9	8
B3. Exports	10	17	28	26	25	24	23	21	20	18	17
B4. Other flows 3/	10	12	13	12	10	10	9	8	7	7	6
B5. Depreciation	10	13	9	8	7	6	5	4	4	3	3
B6. Combination of B1-B5	10	15	14	13	12	11	10	9	8	8	7
C. Tailored Tests											
C1. Combined contingent liabilities	10	15	14	13	12	11	10	10	9	8	8
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	10	12	12	11	10	9	8	8	7	6	5
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	30	30	30	30	30	30	30	30	30	30	30
PV of debt-to-exports ratio											
Baseline	40	39	36	32	28	24	22	20	18	16	15
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	40	37	33	28	22	17	12	7	3	-1	-2
B. Bound Tests											
B1. Real GDP growth	40	39	36	32	28	24	22	20	18	16	15
B2. Primary balance	40	50	59	53	49	45	43	40	38	36	34
B3. Exports	40	94	**225**	**210**	**198**	**186**	**184**	**175**	**162**	**152**	**142**
B4. Other flows 3/	40	45	50	44	40	36	35	32	29	27	25
B5. Depreciation	40	39	29	25	21	18	15	13	11	10	9
B6. Combination of B1-B5	40	65	52	68	62	57	54	49	45	41	39
C. Tailored Tests											
C1. Combined contingent liabilities	40	58	56	51	46	42	41	38	36	34	33
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	40	49	53	46	41	36	34	30	27	24	23
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	140	140	140	140	140	140	140	140	140	140	140
Debt service-to-exports ratio											
Baseline	5	5	5	5	5	4	4	3	3	3	2
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	5	5	5	4	4	3	3	3	2	2	1
B. Bound Tests											
B1. Real GDP growth	5	5	5	5	5	4	4	3	3	3	2
B2. Primary balance	5	5	6	5	5	4	4	4	5	5	3
B3. Exports	5	8	14	15	14	12	12	14	17	16	13
B4. Other flows 3/	5	5	6	5	5	4	4	4	4	4	3
B5. Depreciation	5	5	5	5	4	4	4	3	3	3	1
B6. Combination of B1-B5	5	7	9	8	7	6	6	7	6	6	4
C. Tailored Tests											
C1. Combined contingent liabilities	5	5	6	5	5	4	4	4	4	4	2
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	5	6	6	5	5	4	4	4	4	4	3
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	10	10	10	10	10	10	10	10	10	10	10
Debt service-to-revenue ratio											
Baseline	14	**14**	13	11	11	9	9	8	7	7	4
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	14	13	12	10	9	7	7	6	5	5	2
B. Bound Tests											
B1. Real GDP growth	14	**15**	**14**	12	12	10	10	9	8	8	5
B2. Primary balance	14	**14**	**14**	13	12	10	10	10	11	11	8
B3. Exports	14	**15**	**17**	**17**	**16**	**14**	14	**16**	**19**	**18**	**15**
B4. Other flows 3/	14	**14**	14	12	12	10	10	9	10	9	6
B5. Depreciation	14	**18**	**17**	14	13	11	11	10	8	8	4
B6. Combination of B1-B5	14	**15**	**16**	14	13	11	11	11	11	10	7
C. Tailored Tests											
C1. Combined contingent liabilities	14	**14**	**15**	13	12	10	10	9	9	8	5
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	14	**16**	**15**	14	13	10	10	10	9	9	6
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	14	14	14	14	14	14	14	14	14	14	14

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private transfers and FDI.

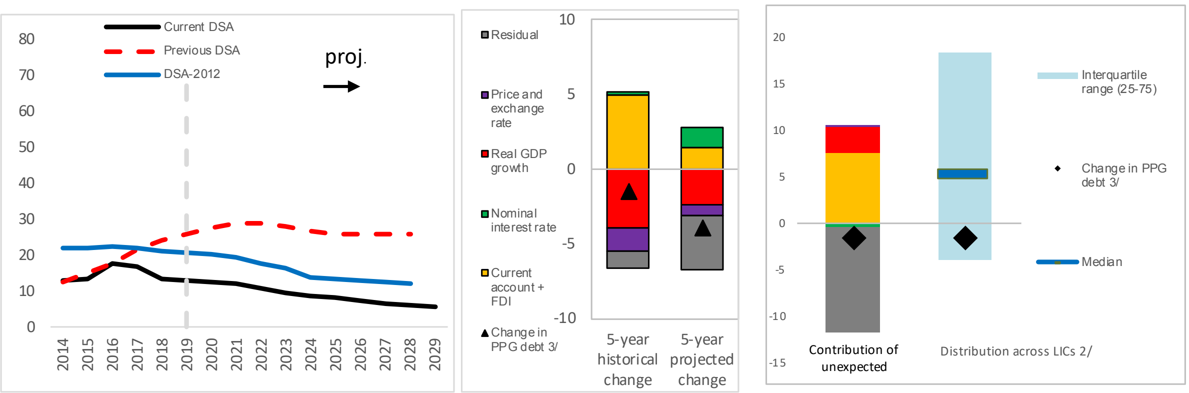
Table 4. Democratic Republic of the Congo: Sensitivity Analysis for Key Indicators of Public Debt, 2019-2029

	Projections 1/										
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
PV of Debt-to-GDP Ratio											
Baseline	17	16	14	12	11	9	8	7	6	5	5
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	17	13	10	7	5	3	1	0	-2	-3	-3
B. Bound Tests											
B1. Real GDP growth	17	16	16	15	13	13	12	11	11	10	10
B2. Primary balance	17	18	20	18	16	15	14	12	11	10	10
B3. Exports	17	22	30	28	26	24	23	21	20	18	16
B4. Other flows 3/	17	17	18	16	14	13	11	10	9	8	7
B5. Depreciation	17	18	15	13	11	9	7	5	4	3	2
B6. Combination of B1-B5	17	17	16	12	10	9	8	7	6	5	4
C. Tailored Tests											
C1. Combined contingent liabilities	17	21	19	17	16	14	13	12	11	10	9
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	17	17	16	16	15	15	14	13	13	12	12
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
TOTAL public debt benchmark	35	35	35	35	35	35	35	35	35	35	35
PV of Debt-to-Revenue Ratio											
Baseline	143	136	118	100	84	72	64	56	49	42	39
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	143	117	86	60	39	22	9	(3)	(13)	(23)	(31)
B. Bound Tests											
B1. Real GDP growth	143	143	132	117	104	95	91	87	82	80	80
B2. Primary balance	143	161	164	145	127	113	105	98	88	82	78
B3. Exports	143	188	248	225	204	187	179	170	154	143	134
B4. Other flows 3/	143	151	146	127	110	97	89	81	71	64	59
B5. Depreciation	143	154	129	106	86	68	56	44	31	21	13
B6. Combination of B1-B5	143	151	133	96	81	69	61	54	46	40	37
C. Tailored Tests											
C1. Combined contingent liabilities	143	180	159	139	123	108	101	93	85	79	75
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	143	157	147	137	126	116	111	106	101	99	100
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Service-to-Revenue Ratio											
Baseline	12	12	14	12	12	10	9	9	8	8	5
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	12	11	12	9	7	5	5	3	3	2	0
B. Bound Tests											
B1. Real GDP growth	12	13	15	13	13	11	11	10	9	9	7
B2. Primary balance	12	12	15	14	13	11	11	11	11	11	8
B3. Exports	12	12	16	16	15	13	13	14	16	16	13
B4. Other flows 3/	12	12	15	13	12	10	10	10	10	9	7
B5. Depreciation	12	13	17	15	14	11	11	10	9	8	5
B6. Combination of B1-B5	12	12	14	12	11	10	9	8	8	7	5
C. Tailored Tests											
C1. Combined contingent liabilities	12	12	16	14	13	11	10	10	9	8	6
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	12	13	16	14	13	11	11	10	10	10	8
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

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

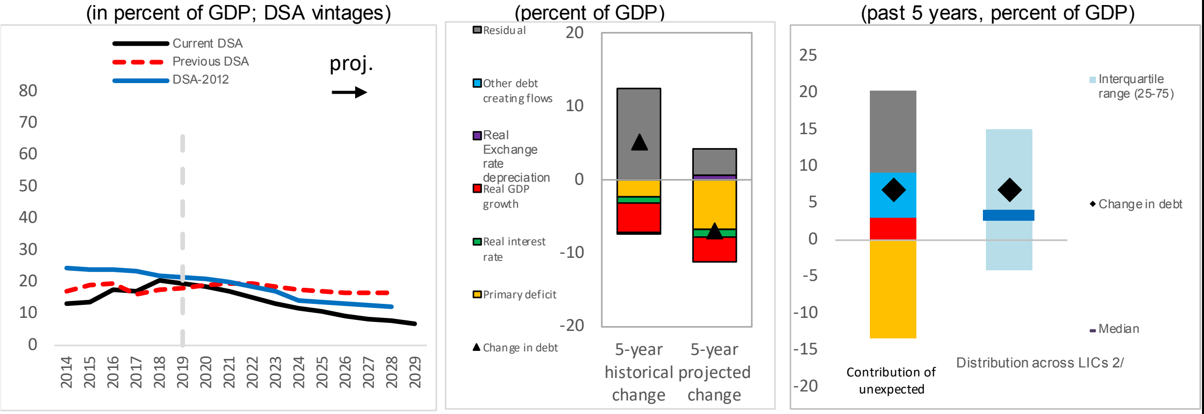
Figure 3. Democratic Republic of the Congo: Drivers of Debt Dynamics – Baseline Scenario

Gross Nominal PPG External Debt (in percent of GDP; DSA vintages) | Debt-creating flows (percent of GDP) | Unexpected Changes in Debt 1/ (past 5 years, percent of GDP)



Public debt

Gross Nominal Public Debt (in percent of GDP; DSA vintages) | Debt-creating flows (percent of GDP) | Unexpected Changes in Debt 1/ (past 5 years, percent of GDP)



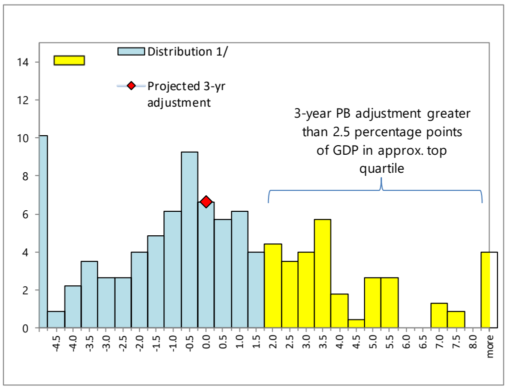
1/ Difference between anticipated and actual contributions on debt ratios.

2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

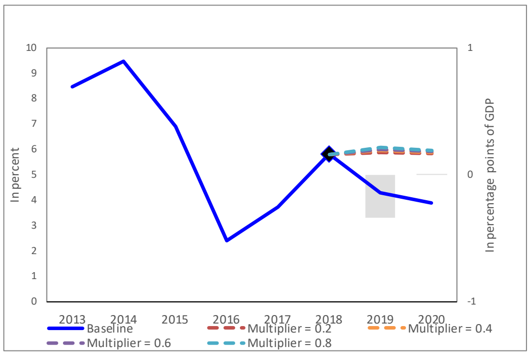
Figure 4. Democratic Republic of the Congo: Realism Tools[1]

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



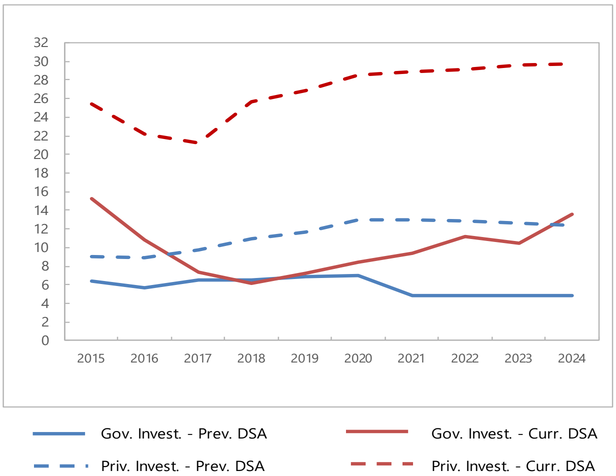
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



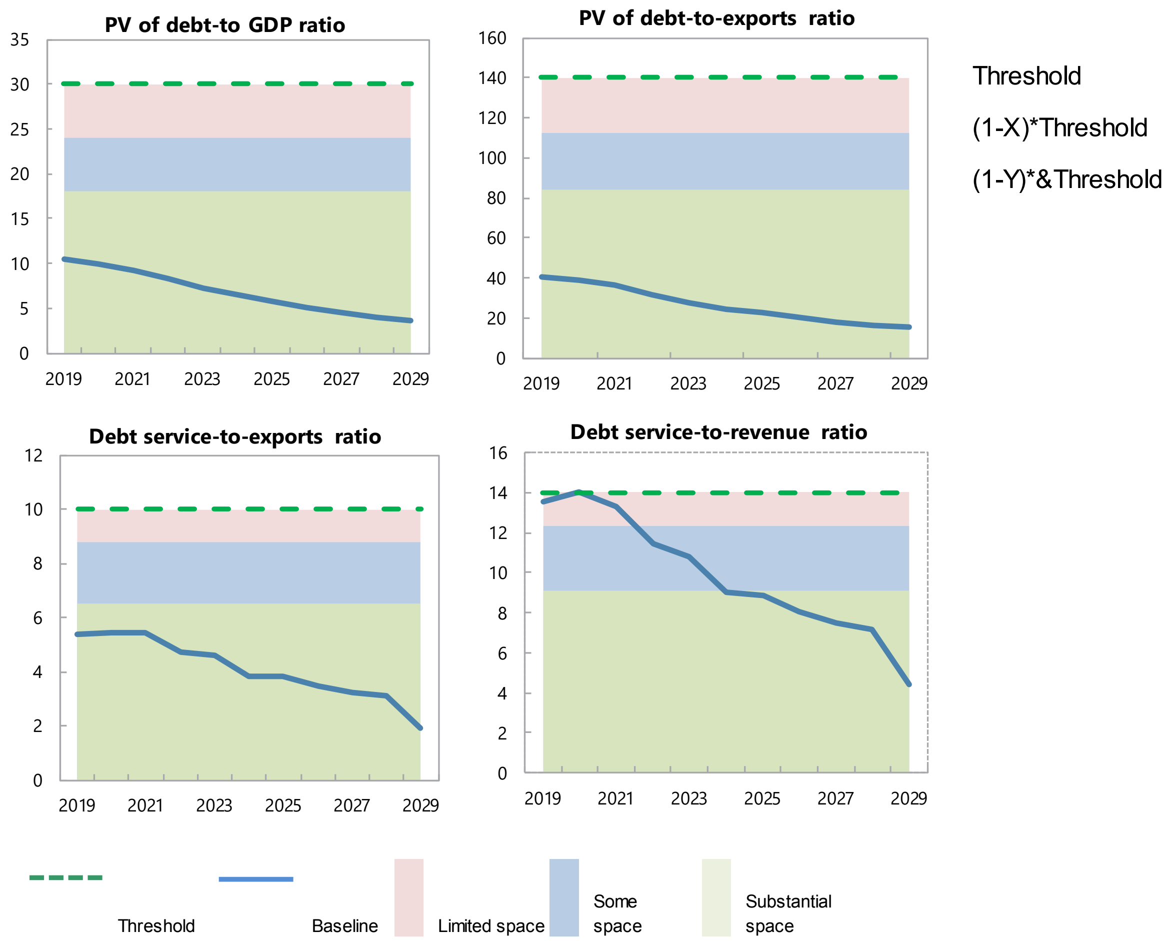
1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(percent of GDP)



The Chart on Contribution to Real GDP growth is not presented due to missing data from 2015 DSA.

Figure 5. Democratic Republic of the Congo: Qualification of the Moderate Category 2019-2029[1]



Sources: Country authorities; and staff estimates and projections.

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

Statement by Mr. Raghani, Executive Director and Mr. Alle, Senior Advisor for the Democratic Republic of the Congo August 26, 2019

1. Our Congolese authorities would like to thank Management and Staff for their effort that led to the resumption of the Article IV consultation with the Democratic Republic of Congo (DRC) delayed since 2015. In this regard, they are particularly grateful to the Managing Director for the fruitful meeting with President Tshisekedi on April 5 of this year, which paved the way for closer Fund engagement with DRC. The subsequent staff mission in Kinshasa provided the opportunity to discuss the main economic developments of the past years as well as the key challenges facing the Congolese economy. The authorities broadly share the thrust of staff reports as a fair reflection of the discussions and policy recommendations.

2. The Congolese authorities have managed to restore macroeconomic stability amid adverse shocks that included a sharp fall in world prices of the country's main exports and heightened and protracted security situations. The year 2018 has seen an improvement in macroeconomic indicators compared to the 2014-16 period, though an outbreak of the Ebola epidemic has added to the many challenges already facing the country.

3. The December 2018 presidential election and the ensued first-ever democratic transition in the DRC opened up promising possibilities for positive changes. The strong resolve of the new administration to combat corruption and significantly improve governance, paired with its fast-paced re-engagement with key external partners, are early signs that bode well for DRC's economic and social prospects

4. The Congolese authorities value the cooperation with the Fund and look forward to a strengthened engagement which will be instrumental in entrenching the new reform momentum. With the Board support, the conclusion of the 2019 Article IV consultation would give a strong signal to the international financial community on the authorities' commitment to reforms and sound economic management. Furthermore, this would open up possibilities for negotiating a Fund-supported program to meet balance-of-payment needs as already expressed by the authorities.

Key Economic Developments and Outlook

5. The 2014-18 period was characterized by two major and distinct developments. In 2014-16, the collapse in international prices of copper then cobalt had an adverse and deep impact on the economy given their importance in DRC's exports. Growth decelerated sharply from 6.9 percent in 2015 to 2.4 percent in 2016. Between 2015 and 2017, inflation rose from 1 percent to 36 percent on average. Government revenue decreased significantly, and the central bank stepped in to finance the deficit. The external position deteriorated as a result of falling exports receipts and reserves dwindled from 4.9 to 1.9 weeks of imports cover. The Congolese franc lost 72 percent of its value against the US dollar.

6. In 2017-18, the economy recovered somewhat as stronger copper and cobalt prices

drove production and dynamism in the mining industry. GDP growth rate rebounded to an estimated 5.8 percent in 2018 while inflation dropped to 7.2 percent by year-end. Foreign reserves slightly improved to 2.6 weeks of imports and the Congolese franc depreciated by 2.5 percent over the year.

7. Alongside the improvement in mineral prices, the authorities have taken decisive actions to support the recovery. The central bank has played a significant role in these positive developments, including by adjusting downward [?] its policy rate and conducting operations to manage reserves. Economic figures from the first half of 2019 confirm that the authorities' actions are bearing fruits and that the recovery is firming up despite challenges. Inflation and has continued to decline while the depreciation rate of the Congolese franc has moderated, and international reserves have strengthened. As well, financial conditions have continued to improve since end-2018. Dollarization in the financial system has steadied and credit to the private sector has strongly recovered.

8. Our authorities remain cautiously optimistic about the outlook. First, the recovery that started in 2018 should continue and form the basis for a stronger baseline growth forecast of 5.9 percent in 2019 compared to staff's scenario of 4.3 percent. Early investment projects should boost activity in the non-extractive sectors and contribute to overall growth. Second, the authorities foresee higher demand for their main exports resulting from increased global demand for electric cars. The confidence in the overall outlook is backed by the strong determination to initiate reforms and lift bottlenecks that have constrained the economy thus far. The planned actions to scale up public investment, improve the business climate and diversify the economy, are expected to yield high payoffs in the short to medium term. The authorities will also endeavor to address risks, including mobilizing more revenue to build buffers against shocks and stepping up actions to fight insecurity and contain the Ebola epidemic.

Policies and Reforms Going Forward

9. President Tshisekedi has early on made public his commitment to overhaul governance in DRC and engage in comprehensive reforms both to improve democracy and give a new impetus to the economy. His 100-Daysprogram gave an indication of this agenda with an emphasis on four pillars: (i) promoting good governance; (ii) sustaining economic growth; (iii) fostering human well-being; and (iv) ensuring solidarity. The positive outcome of this program will form the ground for policies and reforms going forward. The interactions with Fund staff during the Article IV mission have helped shed more light on challenges and on specific policy priorities as well. Accordingly, in the period ahead, the authorities will endeavor to increase domestic revenue mobilization, scale up public investment while strengthening the quality of capital spending, enhance monetary and financial sector policies, improve the business climate and diversify the economy.

Stepping up domestic revenue mobilization

10. The authorities are committed to working towards significantly increasing DRC's tax- to-GDP ratio from the current 12 percent which is low compared to peers. To this end, they intend to take actions on many fronts. First, they are committed to enforcing the new Mining Code for the government to get its fair share of resource revenue. Second, taxes, tax collection processes and institutions will be reviewed to enhance transparency and

accountability and ensure that revenue effectively goes to the Treasury. An important effort also lies in collecting more non-resource revenue, including by broadening the tax base and streamlining tax expenditures. The recently completed tax expenditure assessment with the assistance of FAD and the World Bank will help rationalization going forward.

11. Reforms on the expenditure side will complement revenue efforts to create fiscal space for much-needed public investment. In the face of scarce resources, the authorities are determined to address any source of potential waste. The current balance of current expenditures versus investment would be reversed to emphasize the latter.

Scaling up public investment and strengthening its quality

12. Scaling up public investment to close the infrastructure gap ranks high on the authorities' agenda as evidenced by early actions under the president's 100-Days program. This strategy will gain more traction moving forward. For the financing, the government will rely on both domestic and external resources. The former will come from Treasury securities to be issued starting in 2019 and the latter is expected to kick in as the country normalizes its relations with its partners. DRC is ranked in the category of moderate risk of debt distress and has borrowing space. Yet, the authorities are committed to pursue a prudent debt strategy for maintaining long-term debt sustainability. This will entail reinforcing the selection of investment projects based on their economic and social returns and ensuring accountability in project execution.

Enhancing monetary and financial sector policies

13. Despite limited space for maneuver in the recent period, the authorities have utilized monetary and exchange rate policies to address the negative developments stemming from the shock on minerals' prices. Going forward, the authorities took good note of staff recommendations on the monetary policy stance and reserves management as welcomed inputs for their decision-making process. They particularly considered the advice on ways to fine-tune and improve the monetary policy framework. Likewise, aware of the weak external position, they are stepping up prudent macroeconomic policies and structural reforms to improve competitiveness and address external vulnerabilities. These policies should also help build trust in the Congolese Franc and contribute to de-dollarization.

14. The authorities clarified to staff the rationale behind the requirement made to mining companies under the new Mining Code of 2018, to repatriate 60 percent of export receipts to their accounts in the DRC and the restrictions on the use of these resources. This measure is meant to increase the spillover of the mining industry to the rest of the economy and address some loopholes in the past Code. They took note of staff assessment that "this measure constitutes a tightening of the existing capital flow management measure (CFM) under the Fund's Institutional View on capital flows".

15. The financial sector's indicators have improved significantly as a result of the improved economic situation. The authorities are taking steps to further strengthen the sector so that banks can avail enough credit to match the expected dynamism of the private sector. A new Central Bank Law enacted in December 2018 reinforces its supervisory role and

banks ultimately. The minimum capital requirement has been increased to US$30 million - as recommended by the last FSAP – and the majority of banks have complied with this requirement. The minimum capital requirement is planned to be raised to US$50 million at end-2020. The authorities are also committed to addressing the loss of correspondent banking relations (CBRs), including by improving their AML/CFT framework. In addition to steps taken recently including an onsite evaluation against the 2012 FATF standards in late 2018, the prompt implementation of the upcoming mutual evaluation's priority actions should help improve the framework.

Improving the business climate

16. The authorities are committed to improving the business climate with the view to attracting private sector investment. The provision of infrastructures including in the underserved regions is part of this objective. Many other planned initiatives, such as tax reforms, the civil service reform, the enforcement of property rights and a professional and independent judiciary system would contribute to enhance the business climate. As well, combating corruption and improving overall governance should also contribute to the same goal. In this regard, efforts will be made to improve transparency in the mining sector, including in the management of key SOEs such as Gecamines and Sicomines. Moreover, the results of the forthcoming governance assessment under the Fund's new governance framework would help the authorities in the design and prioritization of their reform plans.

Diversifying the economy

17. The dependency on mineral export is a major vulnerability that should be addressed. The authorities envisage strategies to add value locally to minerals through medium-sized processing units across resource-rich regions. This approach is meant to limit revenue volatility associated with the export of raw materials and provide job opportunities to youths. They also intend to promote other sectors like agriculture and agri-business. These job-rich sectors are as well targeted for their potential to help address poverty in rural areas. Additionally, it is expected that efforts to improve the business climate paired with policies to attract private investment would help promote activities in the non-resource sector. The flow of foreign investors which have been exploring business opportunities in DRC since the presidential elections bodes well for the future.

Conclusion

18. The Democratic Republic of Congo has come a long way towards improving its economic prospects. The authorities have strived to restore macroeconomic stability and spur recovery following shocks in recent years related to the high volatility in the world prices of its main mineral exports. Furthermore, the new leadership that emerged from the end-2018 presidential election has taken decisive steps to re-engage with key external partners while setting an ambitious reform agenda. A renewed relationship with the Fund ranks high among the country's priorities to deliver on its development agenda.

19. In view of the authorities' commitment, we would appreciate Executive Directors' support for the conclusion of the 2019 Article IV consultation.