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IMF Staff Reaches Staff-Level Agreement on the Second Review of the Extended Credit Facility Arrangement with the Republic of Congo

December 6, 2022

> End-of-Mission press releases include statements of IMF staff teams that convey preliminary findings after a visit to a country. The views expressed in this statement are those of the IMF staff and do not necessarily represent the views of the IMF's Executive Board. This mission will not result in a Board discussion.

- The IMF team reached a staff-level agreement with the authorities of the Republic of Congo on the completion of the second review under the Extended Credit Facility.
- Economic recovery continues, despite the deteriorating international environment.
- Economic diversification and job creation, improved management of public finances as well as governance, transparency, and financial sector reforms will be key, and will be prioritized in the government's reform program.

Washington, DC: An International Monetary Fund (IMF) team led by Pritha Mitra, Mission Chief for the Republic of Congo, conducted a mission in Brazzaville (September 20-October 4, 2022) and virtual discussions (October 24-28, November 18) with the Congolese authorities to discuss the second review of the three-year arrangement for the Republic of Congo under the Extended Credit Facility Arrangement.

At the end of the mission, Ms. Mitra issued the following statement:

"The IMF team reached a staff-level agreement with the authorities of the Republic of Congo on the completion of the second review under the Extended Credit Facility (ECF), which is subject to the approval of the IMF Executive Board. Discussion by the Executive Board will only take place if the 2023 budget approved by Parliament is aligned with program objectives.

"Economic recovery continues, despite the deteriorating international environment and the lingering fallout from the pandemic. Real GDP growth is expected to reach 2.8 percent in 2022. Renewed investment by the largest oil producers, amid high oil prices, has revived oil production. At the same time non-oil activity is benefitting from repayment of domestic arrears, government investment in agriculture and infrastructure, and steady activity in mining, manufacturing, and services.

"Rising inflation, projected at 3.5 percent by end-2022, could risk the recovery. These pressures stem from high global fuel and transport prices inflating Congo's import bill, especially for food. Continued price regulation of critical food items and modest tempering of transport costs are partially helping to counter these pressures.

"Performance under the program was mixed. Three out of five end-June performance criteria were missed. In particular, the non-oil primary deficit and net domestic financing substantially exceeded their targets. This was due to the introduction of a subsidy to the national oil company (SNPC) for importing fuel—without offsetting dividend advances to the budget from SNPC, where the company's crude oil export revenues are benefitting from high global oil prices. The structural benchmark relating to the decree on conflict-of-interest rules was missed due to delayed publication and shortfalls in its declaration standards, which are actively being addressed. Most remaining conditionality was met.

"Debt is assessed as sustainable but at high risk of debt distress. Looking ahead, fiscal policy should focus on actions to safeguard debt sustainability while supporting higher, more resilient, and inclusive growth.

"To this end, this year's spending overrun is planned to be compensated in 2023 with lasting measures that will create space for critical growth-enhancing spending over the medium term. These include a full phase-out of the newly introduced subsidy to SNPC, elimination of the VAT and customs duty exemptions received by SNPC, and, as inflation subsides in 2023, gradual fuel price deregulation accompanied by subsidies on public transport, cooking fuels, and stepped up social assistance to protect the most vulnerable. More broadly, the government aims to prioritize development, payment of arrears, and external debt. The government also agreed that oil windfalls should primarily be used to build buffers, given large uncertainties surrounding oil prices.

"Economic diversification and job creation will hinge on these fiscal efforts and stepped up structural reforms. Improved management of public finances (including public investment and debt) as well as governance, transparency, and financial sector reforms will be prioritized in the government's reform program.

"The mission met the former Minister of Finance, Budget and Public Portfolio, Mr. Rigobert Roger Andely, the new Minister of Economy and Finance, Mr. Jean-Baptiste Ondaye, the Minister of Budget, Accounts and the Public Portfolio, Mr. Ludovic Ngatsé, the Minister of Hydrocarbons, Mr. Bruno Jean Richard Itoua, the Minister of Planning and Statistics, Ms. Ingrid Ebouka-Babakas, and other senior officials. The IMF mission also met with representatives of the private sector, civil society and development partners. "

"The IMF team thanks the authorities for their excellent hospitality, collaboration, and frank discussions."

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