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IMF Executive Board Concludes Second Review Under the Extended Credit Facility Arrangement for the Republic of Congo and Approves US$87 million disbursement

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- The IMF Executive Board completed the second review under the Extended Credit Facility arrangement, enabling the Republic of Congo to draw the equivalent of SDR 64.80 million (about US$ 87 million).
- Strengthened economic recovery is gaining momentum but risks from lower oil prices and production and weak reform implementation remain.
- Sustained reform implementation spanning public financial and debt management, governance, and transparency will be critical to attaining higher, more resilient, and inclusive growth. Energy sector reforms will be particularly essential.

Washington, DC – February 6, 2023: The Executive Board of the International Monetary Fund (IMF) concluded today the second review of the Republic of Congo's SDR 324.0 million arrangement under the Extended Credit Facility (ECF), which was approved on January 21, 2022 (see Press Release No. 22/11 (https://www.imf.org/en/News/Articles/2022/01/22/pr2210-IMF-Executive-Board-Approves-ECF-Arrangement-for-Republic-of-Congo)). This allows for the immediate disbursement of SDR 64.80 million (about US$ 87 million). This financing from the IMF will continue to help the authorities to implement their development policies, maintain macroeconomic stability and strengthen economic recovery amid high food inflation and an uncertain global environment.

Structural reforms under the authorities' program are advancing, especially in procurement, management of public finances and debt, and publication of a decree on conflict of interests. However, four out of five performance criteria related to the fiscal position and debt were not observed, some substantially, but corrective measures have been taken to address these breaches.

Economic recovery is expected to further strengthen in 2023, with improved oil production and government spending on development. Over the medium-term, the role of the non-oil private sector is projected to grow along with jobs and income levels. Food inflation is anticipated to decelerate towards the CEMAC inflation targets as international food prices decline. Key risks to this outlook stem from lower oil prices and production and weak reform implementation.

Fiscal policy will focus on reducing fragilities while maintaining debt sustainability. Development spending and payment of domestic arrears will be accelerated owing to the resources freed from reduced fuel subsidies in line with gradual fuel price deregulation. They will be coupled with targeted social assistance to protect the vulnerable. Concurrently, fiscal consolidation will be supported by revenue mobilization, including reducing exemptions received by oil-related state-owned enterprises.

Building on recent advances, sustained structural reform implementation is needed. Improved management of public finances especially public investment and procurement-will facilitate larger, more effective, and higher quality development spending. In combination with improved debt management, these reforms will also end accumulation of arrears to domestic and external creditors. Broader governance reforms, encompassing anti-corruption and transparency, will also be critical for improving the business environment.

Policies under this ECF-supported program will continue to help reduce fragilities and place the Republic of Congo onto a path of higher, more resilient, and inclusive growth. It will also contribute to the regional effort to preserve external stability for the Central African Economic and Monetary Union (CEMAC).

At the conclusion of the Executive Board's discussion, Mr. Bo Li, Deputy Managing Director and Acting Chair, made the following statement:

"The Republic of Congo's recovery has strengthened, though substantial risks remain amid an uncertain global environment and the spillovers from Russia's war in Ukraine, which aggravated Congo's already high food insecurity. Still high global oil prices and improved oil production, combined with public spending on infrastructure and social assistance, domestic arrears payments, and gradual reform implementation are supporting economic activity. Inflation is expected to decelerate in line with international food prices and regional monetary policy tightening. Key risks to this outlook include an intensification of spillovers from the war in Ukraine, climate shocks, lower oil prices and production, and weak reform implementation.

"Good progress has been made in advancing structural reforms but quantitative program performance has weakened. End-June performance criteria on the non-oil primary balance and net domestic financing were missed due to increased fuel subsidies which were not offset by oil-related dividend advances. The zero-ceiling performance criterion on new non-concessional external debt was also substantially breached as, in the process of regularizing arrears, local-currency debt was converted into U.S. dollars. However, strong corrective actions, including a reduction in fuel subsidies, have been taken recently. Sound program implementation in the period ahead remains important to ensure economic resilience and support the country's social and developmental objectives.

"The authorities remain committed to pursuing higher, more resilient, and inclusive growth while maintaining macroeconomic stability and debt sustainability. To this end, it will be important for the authorities to consolidate the non-oil fiscal position while raising development spending. Key measures include broadening the tax base, collecting tax arrears, and reducing fuel subsidies consistent with gradual fuel price deregulation coupled with increased social assistance for the vulnerable. Strengthened management of public finances and debt will be critical to ensure more effective public spending, including to address the substantial infrastructure gaps, and debt sustainability.

"Much-needed economic diversification, founded in private investment, will hinge on deepening structural reforms, especially operationalizing the new anti-corruption architecture, improving governance and transparency, addressing the gaps in the AML/CFT framework, raising financial inclusiveness, and stepping up state-owned enterprise and energy sector reforms."

MEDIA RELATIONS

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