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Democratic Republic of the Congo: Selected Issues and Statistical Appendix

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DEMOCRATIC REPUBLIC OF THE CONGO

Selected Issues and Statistical Appendix

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Approved by the African Department

August 16, 2005

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Democratic Republic of the Congo
BASIC DATA, 1999–2004

Area	2,344,860 square kilometers
Population	
Total (2004 estimate)	54.7 million
Annual growth rate	3.0 percent
GDP per capita (2004 estimate)	US$118.9

	1999	2000	2001	2002	2003	Est. 2004
	(Annual percentage change, unless otherwise indicated)					
Output and prices						
Real GDP	-4.4	-6.9	-2.1	3.5	5.7	6.8
Nominal GDP (in billions of Congo francs)	52	297	1,407	1,922	2,299	2,587
GDP deflator (2000=100)	16	100	484	639	723	762
Consumer prices, annual average	284.9	550.0	357.3	25.3	12.9	4.0
Consumer prices, end of period	484.0	511.0	135.1	15.0	4.8	9.5
	(In millions of Congo francs, unless otherwise indicated)					
Central government finance						
Revenue (excluding grants)	2,329	15,091	91,276	152,193	176,817	248,003
Grants (excluding humanitarian aid)	0	0	0	7,447	46,506	51,354
Expenditure	4,934	32,988	115,147	198,406	312,339	397,833
Primary balance (commitment basis)	-1,489	-11,723	-4,339	22,391	-9,870	-12,768
Overall balance (commitment basis)	-2,605	-17,897	-23,871	-38,766	-89,016	-98,475
Overall balance (cash basis)	-1,785	...	...	-12,719	-18,430	-19,076
Overall balance (commitment basis, percent of GDP)	-5.0	-6.0	-1.7	-2.0	-3.9	-3.8
Money and credit						
Net domestic credit	3,964	16,678	23,426	16,360	49,205	68,746
Net credit to government	3,631	13,730	12,242	2,328	29,582	27,212
Credit to the private sector	284	2,539	10,789	13,205	19,393	39,703
Credit to parastatals	50	409	395	827	228	1,799
Broad money	3,710	22,004	69,686	94,089	124,503	215,270
Central bank interest rate (in percent)	120	120	140	24	8	14
	(Changes in percent of beginning-of-period broad money, unless otherwise indicated)					
Net domestic credit	423	343	31	-10	35	16
Net credit to government	392	272	-7	-14	29	-2
Credit to the private sector	26	61	37	3	7	16
Credit to parastatals	4	10	0	1	-1	1
Broad money	382	493	217	35	32	73

Democratic Republic of the Congo: Basic Data, 1999–2004 (concluded)

	1999	2000	2001	2002	2003	Est. 2004
	(In millions of U.S. dollars, unless otherwise indicated)					
External sector						
Current account, including transfers	-113	-199	-252	-152	-83	-355
Merchandise trade	516	217	74	-17	-156	-243
Exports, f.o.b.	974	892	880	1,076	1,340	1,813
Imports, f.o.b.	-458	-676	-807	-1,093	-1,496	-2,056
Capital account	-611	-385	-315	150	-113	-112
Overall balance	-694	-829	-709	-161	-452	-277
Gross official reserves	66	51	22	75	98	236
Gross official reserves (in weeks of non-aid-related imports)	4.8	3.4	1.1	2.6	2.4	5.2
	(Annual percentage changes; '-' = depreciation)					
Exchange rates						
Exchange rate (USD/CGF, end of period)	-85.8	-82.3	-54.7	-18.5	2.6	-16.1
Nominal effective exchange rate 1/	-35.4	-83	-84.1	-71.1	-19.5	-10.8
Real effective exchange rate 1/	168.7	-18	-10.3	-56.2	-11.1	-9.1
	(In millions of U.S. dollars, unless otherwise indicated)					
External public debt						
Total, including IMF	13,238	12,609	12,457	10,709	10,775	10,542
Of which: multilateral institutions	2,569	3,238	2,754	3,567	3,625	3,925
official bilateral creditors	10,239	8,942	9,386	6,789	6,558	6,499
Scheduled debt service (in percent of exports of goods and services)	77.5	75.1	75.8	46.7	29.5	21.1
Social indicators 2/	(In percent, unless otherwise indicated)					
Life expectancy at birth (years)	...	45.8	45.7	45.3	42.0	...
Infant mortality rate (per 1,000 live births)	...	...	128	129	129	...
Gross primary school enrollment rate (1998–2002)						
Male	...	...	...	...	52.0	...
Female	...	...	...	...	47.0	...
Literacy rate (adult, total) 3/	...	61.0	...	...	...	...
Immunization rate (percent between 12–23 months)						
Measles	...	46.0	37.0	45.0	54.0	...
Diphtheria	...	25.0	...	...	49.0	...
Child malnutrition (percent under 5 years)	...	34.0	...	...	31.0	...

Sources: Congolese authorities; World Bank; UNICEF; and IMF staff estimates.

1/ Annual averages. Minus sign indicates depreciation.
2/ Data for 2003 from UNICEF. Data prior to 2003 from World Bank.
3/ UNICEF.

I. Recent Development in the Financial System[1]

A. Background

1. **Over the past few years, the authorities started addressing many of the weaknesses facing the banking system of the Democratic Republic of the Congo (DRC) in order to deepen financial intermediation.** These weaknesses include a lack of confidence in banks owing to their financial fragility and the recent experience with the nonfungibility between bank money and currency; high and rising dollarization, with dollar deposits accounting for more than 85 percent of bank deposits; the lack of financial infrastructure (for example, the payment system, telecommunications, and transportation); shortcomings in the judicial and legal framework; and the tax administration's frequent garnishments of bank accounts. In addition, the independence of the Central Bank of the Congo (BCC) has been undermined by large operational losses and weak institutional and operational capacities.

2. With technical assistance from the Fund and bilateral donors, and financial support from the World Bank, the authorities and the BCC have focused on establishing the legal framework for the financial system, strengthening the BCC's organization, and restructuring commercial banks. The reform of the BCC has consisted in (i) improving its capacity to conduct monetary operations and liquidity management, (ii) enhancing foreign exchange policy and reserve management, (iii) strengthening its accounting and information system, (iv) improving banking supervision, and (v) setting up a mechanism to combat money laundering and the financing of terrorism. The reform program at the central bank has led to the drawing up of an action plan, which is a key aspect of the Government Economic Program (PEG) supported by the IMF with an arrangement under the Poverty Reduction and Growth Facility (PRGF). In addition, consistent with these reforms, the BCC published, in August 2003 a broad strategy for its development and for that of the financial system.

3. **During 2001 and 2002, the authorities adopted a legal framework for the financial system**.[2] Key measures included the adoption of (i) a central bank law that provides for its independence; (ii) a banking law that gives the BCC full responsibility for the supervision of the financial sector and establishes frameworks for bank licensing and liquidation and for the operations of credit unions; and (iii) a new legal framework for the restructuring of the banking system. In addition, for the first time in many years, external auditors conducted an audit of the BCC accounts for 2000–01.

4. **The BCC also put in place the key components of a framework to strengthen monetary management.** In particular, it designed a new system to improve the monitoring of the main items of its balance sheet and the different sources of money creation—thereby

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[1] Prepared by Cyrille Briançon.

[2] For more details, see (*www.imf.org).*

strengthening its capacity to forecast the autonomous factors affecting liquidity. To identify and contain the impact of central bank losses on inflation, the BCC consolidated the net treasury deficit in the government's net indebtedness to the central bank. And, in September 2002, the BCC created the Consultative Group on Monetary Policy, comprising members from the BCC and the Ministry of Finance, to facilitate the coordination of fiscal and monetary policies. In addition, with a view to developing a market-based approach to monetary policy, the BCC adopted a more flexible interest rate policy, which reflects price developments, and unified the multiple exchange rates in the foreign exchange market by floating the Congo franc, beginning in May 2001.

5. The strengthening of monetary management has allowed the BCC to pursue a monetary policy designed to achieve price stability within the framework of a floating exchange system. The measures it has implemented since 2001 have been essential in breaking the vicious circle of depreciation and hyperinflation, restoring macroeconomic stability, and accelerating growth.

6. The rest of this chapter analyzes monetary developments in 2003–05, and describes the reform of the financial system.

B. Monetary and Credit Developments in 2003–05

7. **Monetary and credit developments since 2002 have been marked by a rapid growth in base and broad money,** including dollar deposits, which until mid-2004, was accompanied by a decline in inflation and relative stability of the exchange rate of the Congo franc against the U.S. dollar (Tables I.1 and I.2). In the second half of 2004, however, further money expansion accompanied by increased political and security tensions led to a sharp depreciation in the value of the Congo franc.

8. **In 2003, broad money grew by 32 percent, or much more than nominal GDP**. This reflected a strengthening of the demand for Congo francs in the reunified provinces, a resumption of economic growth, and newly achieved macroeconomic and political stability, in particular after reunification in mid-2003. The pickup in money demand led to a decline in income velocity from 20.4 at end-2002 to 18.5 at end-2003. The improved macroeconomic situation also provided room for the central bank to reduce its refinancing rate, which had been raised from 12 to 27 percent in January 2003 to dampen inflationary pressures at end-2002. By end-2003, the rate had been cut to 8 percent. The commercial bank lending rates fell in line with the refinancing rate but remained at about 25 percent at end-2003.

9. In spite of the improvement in the macroeconomic situation, the dollarization of the economy increased in 2003, with dollar deposits growing slightly faster than currency in circulation and their share in total deposits rising from 81 percent to 85 percent. This reflected the still-limited confidence in the Congo franc and the banking system and, to some extent, a lack of large-denomination currency notes, even though the BCC started issuing CGF 200 and CGF 500 (US$1.30) notes to supplement its CGF 100 note. Furthermore, the BCC was using currency rationing as a tool of monetary policy (see next section). Hence, dollar currency notes and deposits continued to be used for relatively large transactions.

Table I.1. Democratic Republic of the Congo: Monetary Survey, 2001–05

	2000	2001	2002	2003				2004				2005
	Dec.	Dec.	Dec	Mar.	June	Sept	Dec.	Mar.	June	Sept.	Dec.	Mar.
						(In billions of Congo francs)						
Net foreign assets	-28.5	-181.4	-222.3	-245.2	-262.5	-231.3	-259.0	-253.3	-246.5	-263.3	-282.6	-294.3
Net domestic assets	52.1	257.4	321.2	354.0	387.8	350.7	389.1	400.8	413.9	446.4	504.8	563.6
Domestic credit	16.7	23.4	16.4	11.1	37.2	39.9	49.2	49.9	35.4	53.4	68.7	94.9
Net credit to government	13.7	12.2	2.3	-5.0	19.2	22.7	29.6	19.0	2.8	13.9	27.2	45.1
Credit to the private sector	2.5	10.8	13.2	15.3	17.6	16.9	19.4	28.7	31.3	37.6	39.7	49.1
Credit to parastatals	0.4	0.4	0.8	0.7	0.4	0.3	0.2	2.2	1.3	1.9	1.8	0.7
Other items, net (including valuation change)	35.4	234.0	304.8	342.9	350.7	310.8	339.9	350.9	378.5	393.0	436.1	468.8
Of which: Valuation change	-27.9	105.9	152.1	188.4	207.6	145.7	180.8	199.7	202.5	51.2	277.4	318.9
Broad money (M2)	22.0	69.7	94.1	102.8	118.8	113.1	124.5	141.0	162.1	177.9	215.3	258.8
Narrow money (M1)	18.6	42.6	57.9	61.7	67.7	65.1	72.1	72.8	88.1	103.1	117.1	118.2
Currency in circulation	16.0	31.9	49.8	52.5	56.9	57.5	63.1	63.4	75.0	87.8	101.5	102.3
Demand deposits	2.6	10.8	8.1	9.2	10.8	7.6	9.0	9.4	13.1	15.3	15.6	15.9
Quasi money	3.4	27.1	36.2	41.1	51.0	48.0	52.4	68.1	74.0	74.8	98.2	140.5
Time deposits in domestic currency	0.0	0.0	0.2	0.2	0.7	0.7	0.3	0.5	0.2	0.4	0.4	0.9
Foreign currency deposits	3.4	27.0	36.0	40.9	50.3	47.3	52.1	67.6	73.8	74.5	97.8	139.7
Import deposits	1.6	6.3	4.7	6.0	6.6	6.3	5.6	6.5	5.2	5.2	7.0	10.6
						(Annual change in percent of beginning-of-period broad money)						
Net foreign assets	57.9	-694.6	-58.8	-24.3	-42.7	-9.5	-39.0	4.5	10.0	-3.5	-19.0	-5.4
Net domestic assets	-162.8	933.1	91.5	34.9	70.9	31.4	72.2	9.4	19.9	46.0	92.9	27.3
Domestic credit	-106.4	30.7	-10.1	-5.6	22.1	25.1	34.9	0.6	-11.1	3.4	15.7	12.1
Net credit to government	-97.5	-6.8	-14.2	-7.8	17.9	21.7	29.0	-8.5	-21.5	-12.6	-1.9	8.3
Credit to the private sector	-7.6	37.5	3.5	2.2	4.7	3.9	6.6	7.5	9.5	14.7	16.3	4.3
Credit to parastatals	-1.3	-0.1	0.6	-0.1	-0.5	-0.5	-0.6	1.6	0.9	1.3	1.3	-0.5
Other items, net (including valuation change)	-56.4	902.4	101.6	40.5	48.8	6.4	37.3	8.8	31.0	42.7	77.2	15.2
Broad money (M2)	-99.4	216.7	35.0	9.3	26.2	20.2	32.3	13.2	30.2	42.9	72.9	20.2
Narrow money (M1)	-92.8	109.4	21.9	4.1	10.5	7.7	15.1	0.6	12.8	24.9	36.1	0.5
Currency in circulation	-78.9	72.3	25.7	2.9	7.6	8.2	14.2	0.2	9.5	19.8	30.8	0.4
Demand deposits	-13.9	37.1	-3.8	1.1	2.9	-0.6	0.9	0.4	3.3	5.1	5.3	0.1
Quasi money	-6.6	107.3	13.1	5.2	15.8	12.6	17.2	12.6	17.4	18.0	36.8	19.7
Time deposits in domestic currency	0.0	0.1	0.2	0.1	0.6	0.5	0.2	0.2	-0.1	0.0	0.0	0.2
Foreign currency deposits	-6.5	107.2	12.9	5.1	15.1	12.0	17.0	12.5	17.5	18.0	36.8	19.4
Import deposits	-5.5	21.8	-2.3	1.3	1.9	1.6	0.9	0.7	-0.3	-0.3	1.1	1.7
Memorandum items:												
Nominal GDP (in billions of Congo francs)	297.1	1,407.0	1,922.2	...	...	...	2,299	...	...	...	2,587	...
Velocity (GDP/broad money)	13.5	20.2	20.4	...	...	...	18.5	...	...	...	12.0	...
Foreign currency deposits (in percent of M2)	15.7	38.8	38.3	39.7	42.3	41.8	41.8	48.0	45.5	41.9	45.4	54.0
Foreign currency deposits (in percent of total deposits)	57.0	71.5	81.3	81.2	81.3	85.1	84.9	87.2	84.7	82.7	86.0	89.3

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

Table II.2. Democratic Republic of the Congo: Accounts of the Central Bank of the Congo, 2001–05

	2000		2002	2003				2004				2005
				Mar.	June	Sept	Dec.	Mar.	June	Sept.	Dec.	Mar.
						(In billions of Congo francs)						
Net foreign assets	-30.3	-195.4	-242.8	-270.3	-294.6	-266.1	-294.9	-310.4	-285.4	-303.0	-348.4	-403.9
Net domestic assets	50.9	246.7	304.2	336.0	367.2	335.0	370.0	387.5	378.7	411.1	471.1	525.6
Domestic credit	15.0	14.6	9.6	3.9	25.4	34.9	42.5	42.8	27.5	33.2	52.0	68.9
Net credit to government	14.0	13.1	5.5	1.0	23.0	30.0	36.9	31.1	12.9	24.5	38.4	58.2
Credit to the private sector	0.6	1.1	1.4	1.6	2.1	1.7	1.7	1.6	1.5	1.8	1.1	0.9
Credit to parastatals	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Claims on deposit money banks	0.1	0.4	2.8	1.3	0.3	3.2	3.9	10.1	13.1	6.8	12.6	9.8
Other items, net	35.9	232.1	294.6	332.1	341.8	300.0	327.5	344.7	351.2	377.9	419.0	456.7
Of which: Valuation change	27.9	105.9	152.1	188.4	207.6	145.7	180.8	199.7	202.5	51.2	277.4	318.9
Base money	20.6	51.4	61.4	65.6	72.6	68.9	75.2	77.1	93.2	108.1	122.7	121.7
Narrow base money	18.1	38.3	52.4	55.6	62.1	61.3	67.7	70.9	84.5	99.0	111.9	110.7
Currency in circulation	16.5	32.7	51.6	54.4	58.3	59.6	65.9	67.2	77.7	94.1	105.9	106.1
Deposits of deposit money banks	1.1	2.9	0.6	0.6	3.3	1.3	1.5	3.1	6.3	4.3	5.8	4.2
Private sector deposits	0.4	2.7	0.1	0.6	0.5	0.3	0.3	0.5	0.3	0.6	0.1	0.2
Parastatal deposits	0.0	0.1	0.1	0.0	0.1	0.0	0.1	0.1	0.1	0.1	0.2	0.2
Foreign currency deposits	1.3	7.6	5.3	5.6	5.8	3.6	4.0	2.7	5.3	5.4	6.1	5.2
Import deposits	1.2	5.4	3.7	4.4	4.7	4.0	3.5	3.5	3.5	3.7	4.7	5.8
						(Annual change in percent of beginning-of-period base money)						
Net foreign assets		-801.1	-92.5	-44.8	-84.3	-37.9	-84.8	-22.9	12.6	-10.9	-71.2	-45.2
Net domestic assets		950.3	111.9	51.7	102.6	50.1	107.3	25.8	11.5	54.7	134.5	44.5
Domestic credit		-1.9	-9.7	-9.4	25.7	41.2	53.5	0.5	-20.0	-12.4	12.7	13.8
Net credit to government		-4.6	-14.8	-7.3	28.6	39.9	51.2	-8.5	-32.0	-16.4	2.0	16.2
Credit to the private sector		2.7	0.4	0.4	1.1	0.6	0.5	-0.1	-0.2	0.2	-0.8	-0.1
Credit to parastatals		-1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Claims on deposit money banks		1.4	4.6	-2.4	-4.0	0.7	1.8	9.2	12.2	3.9	11.6	-2.3
Other items, net		952.3	121.7	61.1	77.0	8.9	53.7	25.3	31.4	67.0	121.7	30.7
Base money		149.3	19.5	6.9	18.3	12.2	22.5	2.6	24.1	43.8	63.2	-0.8
Narrow base money		98.3	27.3	5.3	15.9	14.5	25.0	4.8	22.3	41.6	58.8	-1.0
Currency in circulation		78.5	36.8	4.7	10.9	13.2	23.4	1.9	15.8	37.5	53.2	0.2
In bank vaults		1.2	1.9	0.2	-0.7	0.5	1.5	1.6	0.0	4.7	2.2	-0.5
Outside banks		77.2	34.8	4.5	11.7	12.6	21.8	0.4	15.8	32.8	51.0	0.7
Bank deposits		8.5	-4.4	0.0	4.3	1.1	1.4	2.4	6.4	3.7	5.7	-1.3
Private sector deposits		11.0	-5.0	0.7	0.6	0.3	0.2	0.3	0.1	0.4	-0.3	0.2
Parastatal deposits		0.3	-0.1	0.0	0.1	-0.1	0.1	0.1	0.0	0.0	0.1	0.0
Foreign currency deposits		30.8	-4.5	0.4	0.7	-2.8	-2.2	-1.9	1.8	1.9	2.8	-0.7
Import deposits		20.1	-3.3	1.2	1.8	0.6	-0.3	0.1	0.1	0.3	1.6	0.9

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

10. **The main factor contributing to the growth in broad money was the increase in net central bank credit to the government**, which, relative to beginning-of-period broad money, grew twice as fast as currency in circulation, in part because the government was covering the BCC's cash-operating losses. Bank credit to the private sector grew by close to 50 percent in 2003 but had a limited impact on broad money growth given the very low base. More than 80 percent of bank credit to the private sector is denominated in U.S. dollars.

11. **In 2004, broad money expanded by 73 percent,** with foreign currency deposits increasing at a faster rate than currency in circulation. As a result, the share of dollar deposits in total deposits rose to 86 percent. The expansion reflects an improvement in the net foreign assets of the banking sector (measured at constant exchange rate) and increases in net bank credit to the private sector and in other items net of the central bank (excluding revaluation accounts). The latter was due to the payments of central bank domestic debt and movements in suspense and liaison accounts. However, given the depreciation of the Congo franc during the year and the large net foreign liabilities of the central bank, the valuation of foreign currency accounts at end-of-period exchange rate resulted in a deterioration in the net foreign assets of the banking system and in a large increase in the banking system's other items net.

12. **While net bank credit to the government declined slightly in 2004, the fall was much smaller than had been expected**. This was because part of the foreign financing of the budget was spent domestically rather than being used to reduce net credit to the government and increase the BCC's international reserves as anticipated. This contributed to the-faster-than anticipated increase in base money.

13. **In spite of the rapid increase in broad money in the first half of 2004, the BCC did not tighten monetary policy immediately**. Rather it reduced the refinancing rate to 6 percent in August 2004, largely because the exchange rate was stable and inflation was below 5 percent until June 2004. Nevertheless, with security and political tensions rising, especially in the eastern provinces, government spending started rising and market confidence in government policies weakened. As a result, the BCC was unable to prevent the Congo franc from depreciating and inflation from rising despite successive increases in interest rates to 14 percent by end-2004 and limited sales of foreign exchange. Furthermore, the central bank measures were made somewhat ineffective as the government increased spending further toward the end of the year, partly in response to rising security threats on the eastern border. Hence, in the second half of the year, the Congo franc depreciated by 12 percent and 12-month inflation rose from 4 percent to 9 percent.

14. **These trends continued in the first months of 2005**, as the Congo franc weakened by an additional 15 percent in the first four months of the year and 12-month inflation rose to a peak of 27 percent in May. Nevertheless, the situation improved anew in June when the currency appreciated substantially and the consumer price index dropped by 7 percent. The improvement resulted from a tightening of monetary policy, including an increase in the financing rate to 65 percent, and the government improved control over expenditures, which helped the central bank contain the growth in base money.

C. Reform of the Banking System in 2003–04

15. The banking system comprises the Central Bank of the Congo, nine commercial banks —including five implementing restructuring plans agreed with the BCC—and nine commercial banks being liquidated. The nonbank financial sector consists of five public financial institutions[3] and numerous credit cooperatives and microfinance institutions. The BCC intends to assess the importance of microfinance institutions in the economy and establish the legal framework for their supervision.

Reform of the central bank

Monetary operations and liquidity management

16. **The banking system in the DRC is still at an early stage of development.** The conduct of monetary policy is severely hampered by the low level of financial intermediation in domestic currency and the high level of dollarization, weak monetary programming tools, and a dearth of policy instruments.

17. **Commercial banks still mostly act as financial agents of the government** for which they receive tax revenue and effect payments. They mostly receive foreign currency deposits, from the nongovernment sector, which they lend out in dollars or keep with correspondent banks abroad. Hence, commercial banks' contribution to money creation is small as they extend a limited amount of credit and rarely use the central bank refinancing window. As a result, the sources of broad money growth are central bank financing of the overall fiscal deficit, including the financing of the deficit of the central bank, and the accumulation of net foreign assets by the banking system.

18. Until 2002, to contain money growth and stabilize the macroeconomic situation, the central bank used two main instruments: foreign exchange sales and, at times, currency rationing achieved by staggering the payments of government checks based on the availability of currency at the central bank. As a result, banks had controlled access to their excess reserves at the BCC, and Congo franc bank money traded at a discount ("décote") vis-à-vis Congo franc currency. The discount was a major impediment to bank intermediation and an incentive for dollarization. However, the practice has largely stopped since end-2002.

19. To improve its monetary policy framework and overcome the difficulties described above, the BCC took measures to improve its liquidity forecasting and management capacity. It started by strengthening the programming of currency issues and streamlining its instruments for conducting monetary policy.

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[3] The nonbank financial institutions are the National Social Security Institute, the Savings and Credit Fund of the Congo, the National Insurance Corporation, the Industry Promotion Fund, and the Société financière de développement (SOFIDE), which is also being restructured.

Box I.1. Technical assistance and the reform of the banking system

Since 2001, the Fund has assisted the BCC in strengthening its institutional and operational capacity by providing extensive short-term and long-term technical assistance. The principal areas of assistance are: (i) monetary operations and liquidity management; (ii) foreign exchange operations; (iii) accounting, internal audit, and information systems; (iv) banking supervision; and (v) combating money laundering and the financing of terrorism.

The central bank also received bilateral assistance to (i) strengthen its organizational structure and human resource management, and (ii) prepare its recapitalization.

The monetary authorities are working to ensure transparency in their operations and functioning, in conformity with the IMF Code of Good Practices on Transparency in Monetary and Financial Policies.

20. **The programming of currency issues has largely involved better coordinating of how the government cash-flow plan and the BCC's liquidity forecasting exercise are executed**. To that effect, the BCC has progressively improved the monitoring of currency creation resulting from its operations, and those of the treasury and commercial banks. Nevertheless, the central bank and the Ministry of Finance must do more to improve their ability to forecast and program currency issues resulting from government operations.

21. **Regarding monetary instruments, the BCC introduced central bank bills with maturities of 7 to 28 days in December 2002** to absorb excess liquidity in the banking system (and avoid unsustainable foreign exchange sales and recourse to currency rationing). The BCC fixes the interest rates on the bills each week, largely to ensure that the real interest rate, taking into account recent trends in inflation, remains positive. Banks then inform the central bank of the amount and the maturity of the bills they will purchase.

22. **Banks, however, have been reluctant to increase their claims on the central bank, beyond their holding of excess reserves,** in part because of the difficulties of converting their central bank deposits into currency. In particular, they have not sought to attract nonbank deposits to invest in central bank bills. Also, nonbanks (mostly large enterprises) have until recently not bought BCC bills directly partly because of their high denomination and a lack of information.[4] Consequently, the interest rate differentials between time deposits and central bank bills have, at times, widened sharply, as they did in March 2005, when banks were slow to raise interest rates on deposits and loans following the sharp increase in interest rates announced by the central bank.

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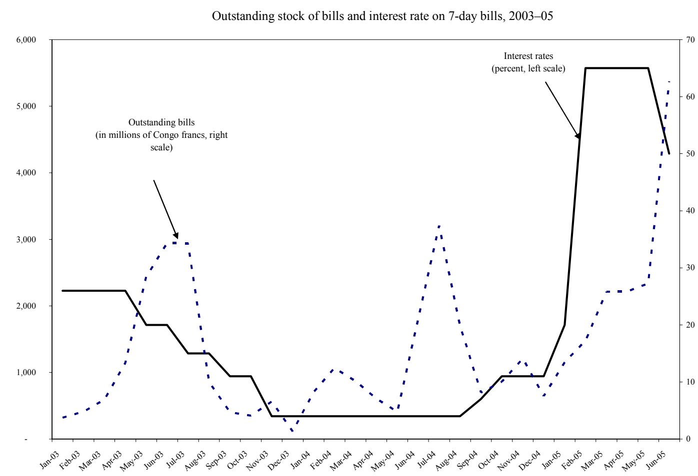
[4] The BCC recently reduced the denomination of bills to CGF 500,000 and launched an information campaign aimed at enterprises.

23. **The commercial banks' limited response to the central bank's interest rate policy represents a major impediment to efforts to contain currency growth**. To address this issue and improve the effectiveness of interest rate policy, the central bank announced in May 2005 that bank deposits were fully fungible. In addition, the central bank is encouraging enterprises to invest surplus funds in central bank bills. For those measures to be effective, however, the central bank must gradually regain its independence and have a large enough stock of currency notes to meet commercial bank demand for liquefaction at all times.



24. **The BCC's lack of high denomination currency notes has held back demand for Congo francs,** and the high cost of printing notes has kept the BCC's net seignoriage low, thus contributing to its large operating losses. Over the coming months, the BCC plans to issue higher denomination currency notes progressively. To dispel any notion that it is easing monetary policy—which happened in the past when new notes were issued during periods of increasing or hyperinflation—the BCC will first launch an information campaign. The issuance of high-denomination notes will help reduce the dollarization of the economy in two ways. First, it will facilitate large payments to be effected in Congo francs. Second, with bank deposits being fungible, enterprises will be more willing to use bank checks.

25. **Nevertheless, for bank intermediation to increase and dollarization to fall, confidence in the banking system and central bank policy will have to improve markedly**. This will necessitate further improvement in the operations of the central bank, including the following: (i) greater transparency in the conduct of monetary policy so as to increase its credibility; (ii) a strengthening of the payments system to ensure the supply of effective payment services in Congo francs throughout the country; (iii) a strengthening of the financial situation of commercial banks; (iv) limits on the discretionary powers of the tax administration on taxpayers' bank deposits; and (v) a judicial and legal framework favorable to banking activity and to the enforcement of property rights and contracts. However, given that progress in those areas is likely to be slow, dollarization will probably remain high over the medium term.

26. **The central bank's lack of financial autonomy is also a major impediment to its monetary operations.** The BCC has recorded losses for many years, and in 2003, its operating loss amounted to CGF 49 billion, including a cash loss of CGF 18.4 billion, with the remainder due to the reevaluation of foreign exchange accounts and provisions and amortization. At end-2004, the central bank's net worth is estimated at minus CGF 408 billion (US$900 million). Besides the reevaluation of foreign exchange accounts,

the main reasons for the central bank's losses are a low level of earning assets, high personnel and administrative costs, and limited net seignoriage because of the low denomination of currency notes and high production costs.

27. **The central bank is studying ways to restructure its balance sheet and rebuild its capital base with the assistance of the National Bank of Belgium**. It is also studying measures to streamline and strengthen its internal organization, including by meeting the staffing and training needs required to implement its ambitious reform plans. The key issue is to reduce the central bank cash operating losses at a minimum cost to the government budget. To that end, the BCC must first implement a strict cash-flow plan, which will require making its operations more transparent and strengthening its business practices, including by adhering to transparent bidding procedures and better preparing and monitoring its projects.

Foreign exchange operations and reserves management

28. **The DRC adopted a floating foreign exchange system in 2001**; the objective of foreign exchange operations has been to meet the international reserves target set in the Government Economic Program. Although intervention should be limited to smoothing out short-term movements, the authorities have intervened over the past two years to ease pressures on the exchange rate and acquire currency notes to make payments for the government without issuing new currency. As a result, the BCC, while trying to meet its inflation and money growth targets—in the face of excess expansion of net credit to the government and other items net—allowed the net foreign asset target to be missed (Table 1.3).

Table I.3. Democratic Republic of the Congo: Foreign exchange Rate Intervention
(In millions of Congo francs)

	2003				2004				2005	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Sales	6	12	23	9	9	6	21	37	22	0
Purchase	1	1	5	10	5	5	2	10	0	9
BCC net sale	5	11	17	-2	4	0	19	27	22	-9
Exchange rate Congo francs U.S. dollars) (end of period)	416	425	356	373	383	388	423	444	499	425

Source: Congolese authorities.

29. The BCC used several variations of Dutch auctions to sell foreign exchange to commercial banks. To some extent, those variations aimed at achieving specific monetary policy objectives rather than to improve the functioning of the foreign exchange market. Until recently, no mechanism existed through which the central bank could purchase foreign currency, and the few times it did so, the exchange rate was agreed on a bilateral basis and set close to the selling rate for that day. Repeated changes in the mechanism used for selling foreign exchange as well as the lack of a transparent regulatory framework added to the volatility of the exchange rate.

30. To improve the situation, the central bank issued a new circular in February 2005 that clarified the main feature of the Dutch auction that it would use to sell foreign exchange. In particular, banks can now purchase foreign currency with cash or with a bank check in

Kinshasa or at the branches of the central bank in the provinces;[5] and no one bank can buy more than 40 percent of the amount to be sold. Similar guidelines for the BCC's purchase of foreign exchange were issued in June 2005. The BCC is also working on strengthening the departments responsible for managing foreign exchange reserves, including through the creation of a computerized trading room and back offices and the drafting of a manual of procedures. To facilitate the management of international reserves, the BCC has reduced its foreign exchange deposits with local commercial banks, given that the cost of transactions is high and such deposits are generally not remunerated.

Accounting, information system, and internal audit

31. Taking into account recommendations from the Fund safeguards mission conducted in October 2002, the BCC has started an ambitious program to raise its accounting system to international standards. The objective is to have the BCC's accounts approved by external auditors without reservation. To that end, the BCC is working with the Permanent Congolese Council on Accounting (PCCA) and a charter defines the roles and responsibilities of the BCC's departments in preparing the accounts. In addition, senior management selected an accounting software that would allow all of the BCC's offices and branches to have direct access to the integrated accounting application that will be implemented by late 2005. This will greatly facilitate the reconciliation of transactions between headquarters and branches and hence reduce the amount in suspense accounts, a major source of problems.

32. A key component of the central bank action plan is to modernize its computerized information system, including the infrastructure, operational systems, and procedures. Guided by the Information Technology (IT) Committee established in April 2004, the BCC has selected computer applications in the areas of accounting and foreign exchange transactions and has started the bidding process to acquire equipment and software. In addition, with technical assistance from the Fund and bilateral donors, the BCC has prepared an ambitious IT plan for all its departments and branches for which the authorities are seeking financing.

Banking supervision

33. The strengthening of banking supervision has involved the computerization of supervision (Bank Supervision Application), which is soon to be completed. To that end, the central bank is working on a new system to generate periodic statements reflecting the reform of banks' charts of accounts. In this regard, with the assistance of the PCCA, the BCC has prepared a draft charter of accounts, which is expected to be implemented starting in January 2006. The BCC has also assigned staff to either off-site or on-site supervision to improve the professionalism and level of competence of its inspectors. To ensure continuous

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[5] Until recently, banks had to purchase foreign currency with Congo franc notes to be delivered to Kinshasa, to ensure an immediate effect on the exchange rate in Kinshasa. This requirement implied the nonliquidity of banks' excess reserves and shifted the cost of transporting currency to banks.

monitoring of banks, it has formalized the operating mechanism for off-site supervision and implemented a framework for permanent files. The BCC has strengthened on-site supervision by providing it with remote assistance.

Combating money laundering and the financing of terrorism

34. The law concerning money laundering and the financing of terrorism (ML/FT), promulgated in July 2004, conforms to international norms: it specifies activities considered to be crimes; preventive measures to be taken by financial institutions; monitoring to be exercised by bank supervisory authorities; the seizure of items resulting from illegal activities; actions to be taken to facilitate international cooperation; and the creation of a national unit responsible for collecting financial information (CENAREF, Cellule national de renseignement financier).

35. To implement the law requires an instruction from the governor of the BCC specifying cases when payments of more than US$10,000 can be made in cash, a decree creating the CENAREF, and a circular from the ministers of justice and of finance stipulating the rules to be applied for businesses operating in the informal sectors or in localities without financial institutions. These documents are expected to be issued by September 2005. To strengthen the national law, the DRC must also ratify international conventions concerning money laundering and the financing of terrorism.[6] Implementing the new law and regulations and creating the new institutions responsible for combating ML/FT will require extensive staff training, which could be provided by multilateral institutions (IMF, the World Bank, the United Nations, and the European Union) and bilateral donors.

Reform of commercial banks

36. The BCC and the authorities have taken steps to strengthen the commercial banks with a view to increasing financial intermediation, and thereby, the effectiveness of monetary policy. All banks submitted their restructuring plans, which were based on audits completed in 2003, to the BCC in January 2004. From those plans, the BCC drew up a list of nine banks to be liquidated or restructured and launched a call for bids to select the liquidators. The social plans for the three public banks in liquidation were finalized in September 2004, and the World Bank has committed financing. However, liquidation is awaiting a decision on the benefit package to be granted laid off employees. The BCC also approved the restructuring plans of five other banks, which are currently being implemented.

37. The BCC has also introduced a number of measures to strengthen commercial banks' operations: instructions on the banks' prudential ratios in July 2003, adoption of a formal framework for on-site and off-site audits, reform of the tax and legal framework for

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[6] These include the international convention of December 9, 1999 to repress the financing of terrorism; the United Nations convention (the Palermo Convention) against organized transnational crime of November 15, 2000; and the United Nations convention against corruption of October 31, 2003.

commercial banks to make it more transparent and more in line with good international practice and adoption, in early 2004, of a decree amending the chart of accounts to facilitate the reconstitution of equity capital. In addition, draft laws introducing tax deductibility of statutory loan-loss provisions, the reduction of the personal property tax (from 6 percent to 1 percent), and a more attractive investment regime for the financial sector were submitted to the National Assembly in July 2004 but have not yet been discussed. Finally, with the 2005 Finance Law, the taxation of money transfers has been streamlined, ensuring that commercial banks can compete with nonbank financial institutions operating in that sector.

II. The Relationship Between Money, the Exchange Rate, and Inflation[7]

38. The relationship between money, the exchange rate and inflation has been at the center of recent developments in the DRC. Inflation has fallen from 511 percent in 2000 to 4.8 percent at end-2003, before rising to 9.3 percent by end-2004. During the same period, the Congo franc was relatively stable against the U.S. dollar, depreciating gradually from CGF 312 per US$1 at end-2001 to CGF 373 at end-2003. Since June 2004, however, the currency has become more volatile, with the exchange rate rising to CGF 444.1 by end-2004 and CGF 515 by April 2005, before recovering to about CGF 490 by end-June.

39. Monetary policy has played a key role in the developments described above. During 2002–03, broad money grew by an average of 34 percent a year, while nominal GDP growth averaged 28 percent and inflation 10 percent. In 2004, however, broad money grew by 73 percent much faster than nominal GDP (13 percent). The main reason behind the surge in money growth was the easing of fiscal policy as a result of increased military expenditure associated with the situation in the eastern provinces and increased outlays related to political institutions, and an expansion in the BCC's other items net. The monetary authorities accommodation of these expenditures led to an increase in the monetary base of 63 percent during 2004. This rapid monetary expansion led to instability in the exchange rate, as noted above.[8]

40. This chapter examines the impact of monetary and exchange rate policies on inflation, including the nature of the lags involved. In particular, it seeks answers to the following questions:

- Does monetary policy affect the exchange rate and, if so, by how much? What is the lag between a change in the monetary base and a change in the exchange rate?

- Do exchange rate movements affect inflation? How strong is the exchange rate pass-through; that is , by how much will inflation increase in response to a 1 percent depreciation of the exchange rate? How long does it take for inflation to respond to the exchange rate depreciation?

- Does an increase in money growth lead to an increase in inflation, or does money growth merely reflect changes in inflation (endogenous money)? By how much will inflation rise in response to a 1 percent increase in money growth? How long does it take for inflation to respond to an acceleration of the money supply?

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[7] Prepared by Iacovos Ioannou.

[8] See previous chapter for more details.

A. The Data

41. The study, covering the period 2002–04, uses monthly data for the monetary base, the dollar bilateral exchange rate, and the consumer price index (CPI). The data are from the IMF's International Financial Statistics with staff updates as required for the most recent months.

42. The sample period was chosen because it is considered to be representative of the policy environment in which the authorities currently operate. A longer period would include episodes of conflict and hyperinflation, which would introduce a bias into the analysis. The study uses the monetary base as a measure of money because it allows us to better gauge the role that monetary policy plays in controlling the exchange rate and inflation.[9] The monetary base variable is defined as currency in circulation (held by banks and outside banks), bank deposits, public enterprise deposits, and private deposits at the central bank.[10]

43. The study uses the U.S. dollar bilateral exchange rate (as opposed to the nominal effective exchange rate) because of the prominence of the U.S. dollar in the Congolese economy[11] and the fact that the central bank uses the U.S. dollar for foreign exchange intervention.

44. Finally, we used the end-of-month consumer price index (CPI) as a measure of the price level because the monetary authorities, in practice, aim to control CPI inflation. Although CPI inflation attracts the most attention and is widely understood, it would have also been desirable to consider a measure of domestic inflation, which would better assess the impact of monetary policy on prices.[12] However, the authorities do not produce such a measure.

B. A Few Stylized Facts

45. For the sample period, the average rate of growth of money is 3.3 percent a month with a standard deviation of 5.1.[13] The average rate of change of the exchange rate is 0.9 percent a month, with a standard deviation of 4.1. The average rate of change of inflation

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[9] Other measures of money have also been considered, including currency, narrow money (M1), and broad money (M2), without significant changes in the conclusions of the analysis.

[10] It does not include foreign currency deposits and import deposits at the central bank.

[11] Dollar deposits account for more than 80 percent of total bank deposits.

[12] Focusing on a domestic price index would also better gauge the effect of the exchange rate depreciation on prices since only prices denominated in Congolese francs are affected by the exchange rate depreciation.

[13] All reported growth rates are calculated on a month-to-month basis.

is 0.7 percent a month with a standard deviation of 1.2. More detailed statistics are presented in Tables II.1 and II.2.[14]

46. Looking at the data series (see Figures II.1 and II.2), one can observe the following:

- An increase in the monetary base is associated with a depreciation of the exchange rate. Until the middle of 2003, the rate of depreciation of the exchange rate appears to be in line with the rate of growth of the monetary base. Beginning in mid-2003, however, the depreciation of the exchange rate was considerably less rapid than the increase in the monetary base.

- A faster growth in the monetary base is associated with slightly higher inflation. However, the relationship between the two variables is considerably weaker beginning in mid-2003, when rapid increases in the monetary base do not seem to have led to a considerable increase in inflation.

- A faster depreciation of the exchange rate is associated with higher inflation. The relationship between the two variables appears to be rather close. The lag between exchange rate movements and movements in the price level appears to be short, with the evidence suggesting that exchange rate movements precede changes in the inflation by less than two months.

47. Examination of the contemporaneous correlation matrix among the three variables (Table II.3.) shows that there is a strong correlation between the price level and the monetary base, on the one hand, and the price level and the exchange rate, on the other. In contrast, the correlation between the exchange rate and the monetary base is weaker. The contemporaneous correlation among the rates of change of the three variables (i.e., growth of (Table II.4) base money, rate of depreciation, and the rate of increase of the price level) does not appear to be substantial only in the case of the exchange rate and the price level.[15] This may suggest that, whereas changes in the exchange rate and the price level are simultaneous, the impact of money growth on inflation is felt with a lag.

48. Pairwise Granger causality tests (based on F-tests) also show that the null hypothesis of no Granger causality fails to be rejected (that is, it is accepted) for all variables in most tests conducted.[16] On a few occasions, however, there is some evidence that money and, to a

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[14] All series have been converted to index numbers to facilitate comparison.

[15] This would suggest, for example, that although an increase in the monetary base leads to inflation (higher price level), an increase in the monetary base at a faster pace is not associated with a faster rate of increase in prices (that is, a higher rate of inflation).

[16] This result holds for lags 1-5, as well as at lags of 8, 9 and 11 (maximum lag given the data sample).

lesser extent, the exchange rate "cause" the price level.[17] When causation involving the rate of change of variables (growth rate of money, exchange rate depreciation, inflation rate) is examined, the null hypothesis of no Granger causality fails to be rejected (that is, it is accepted) except in the case of the rate of depreciation causing an increase in inflation.[18]

49. Overall, the data give the impression of a strong relationship between the exchange rate and the price level and a weaker relationship between the monetary base and the price level, on the one hand, and the monetary base and the exchange rate, on the other.

C. Vector Autoregression Analysis

50. The study estimates the dynamic structure underlying the relationship between money, the exchange rate and prices using vector autoregression analysis (VAR). The use of VAR will provide some insight into the direction of causality between the variables and the appropriate lag structure. Once the model is specified, it is used to analyze the dynamic impact of random disturbances on the system of variables.

51. The study is motivated by McCarthy's (2000) work on the exchange rate pass-through in a sample of nine developed countries. Analyzing the impact of exchange rate changes and import prices on producer and consumer prices, McCarthy finds that the exchange rate has a rather limited and insignificant effect on consumer prices, and a stronger effect on import prices. In general, the pass-through appears to be endogenous to different regimes and tends to be smaller when inflation is lower. The pass-through in transition economies tends to be larger, in part because monetary policy may suffer from lack of credibility and domestic firms may act as price takers in international markets.[19]

52. The underlying model used in this paper is based on a simplified version of McCarthy (2000) reflecting data constraints. In the model, aggregate demand shocks act as exogenous to the exchange rate shock in period *t*. This exchange rate shock then feeds into domestic inflation.

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[17] This result, however, is sensitive to the number of lags used to carry out the test. The monetary base causes the price level at lags of 6, 7, and 10. The exchange rate causes the price level only at a lag of 6. Note that the Granger test for causality is a test of precedence, rather than a test of causality in the common use of the term.

[18] This result holds for lags 1-4. For higher lags, the no causality hypothesis is accepted for all variables. Wald-type Granger causality tests in the estimated VAR, taking into account all lags of the respective variables, are reported later on.

[19] In contrast, when firms exhibit price-setting behavior, prices adjust faster because there are no constraints in passing to consumers the costs associated with a depreciated exchange rate.

53. Money shocks are considered to be the main source of fluctuations in aggregate demand. Thus, any disequilibrium between the demand for and supply of money is assumed to feed into the exchange rate and prices.[20] Under a floating exchange rate system, shocks in aggregate demand are manifested primarily in the exchange rate and less in volatility of reserves and the monetary base. In principle, the money stock should reflect the central bank's behavior as well as private sector decisions (given the degree of dollarization in the DRC). However, because the purpose of the paper is to draw implications for monetary policy, and given that money shocks emanate mostly from the central bank's behavior, the study uses the monetary base as a proxy for money.[21] Unlike McCarthy (2000), this study does not explicitly model the behavior of the central bank. Therefore, an interest rate variable is not included in the model (similar to a central bank "rule") since the DRC does not have a well-functioning money market (interest rate data do not reflect market behavior). In effect, the equilibrium stock of money is determined by the expectations of the previous period and an error term.

54. The VAR used in this study is thus based on three endogenous variables: the monetary base, the exchange rate, and inflation. Details on the model specification are provided in the appendix.[22]

D. Results

55. The estimated VAR is used to simulate impulse response functions that, over time, trace the effect of a onetime temporary shock to one variable (that is, more specifically, a shock to one of the innovations associated with a given variable) on current and future values of the endogenous variables in the VAR. A shock to a given variable not only directly affects that variable, but it is transmitted through the lag structure of the VAR to all other endogenous variables. For stationary VARs, the impulse responses (calculated using the Cholesky orthogonalization) should die out to zero.

56. The analysis of the impulse response functions shows that the response of variables to shocks affecting other variables is in most cases, rather modest, although the speed of adjustment is rapid. In most cases the bulk of the adjustment is complete within three to four months. In particular, the following results are obtained (Figures II.3 and II.4):

- A one- standard- deviation innovation in the monetary base (equivalent to an increase in the monetary base of about 4.4 percent) leads to a depreciation of the exchange rate

[20] Data limitations do not permit the inclusion of an output proxy in the model.

[21] The results of the VAR do not change substantially if M2 is used instead of the monetary base.

[22] The general VAR specification includes lagged values of all variables jointly determined by the system of equations.

of 1.6 percent. The adjustment is complete in five months, with most of the adjustment (about 85 percent) completed within two months.

- A one-standard-deviation innovation in the exchange rate (equivalent to a depreciation of the exchange rate of about 4.1 percent)leads to an increase in inflation of 1.4 percent. The adjustment is complete in six months, with most of the adjustment (about 85 percent) occurring within two months.

- A one-standard-deviation innovation in the monetary base (equivalent to an increase in the monetary base of about 4.4 percent) leads to an increase in inflation of 0.3 percent. The adjustment is complete in less than six months, with most of the adjustment (about 88 percent) completed within three months.

57. It is worth noting the following :

- Although changes in the monetary base tend to have a substantial impact on the exchange rate, the reverse is not true. Specifically, a one-standard-deviation innovation in the exchange rate (equivalent to a depreciation of the exchange rate of about 4.1 percent) leads to a an increase in the monetary base of only 0.1 percent. Most of the adjustment occurs during the first two to three months and dies out subsequently.

- Changes in the exchange rate tend to affect inflation, but the reverse is not true. Specifically, a one-standard-deviation innovation in the inflation rate (equivalent to an increase in the rate of inflation of 0.95 percent) leads to no change in the monetary base. The lack of response is evident from the outset.

- Although changes in the monetary base have only a rather limited effect on inflation, the response of the monetary base to changes in inflation seems to be stronger. Specifically, a one-standard-deviation innovation in the inflation rate (equivalent to an increase in the rate of inflation by 0.95 percent) leads to a *reduction* in the monetary base of 1 percent. The adjustment is complete in about five months, with a stronger adjustment occurring at the beginning (within two months).

58. Although the above relationships are not formal proofs of causality, they do provide tentative indications of the following directional relationships:[23]

- The monetary base affects the exchange rate but the exchange rate does not affect the monetary base.

[23] These results are broadly consistent with the conclusions drawn earlier through a visual examination of the data. Specifically, the relationship between the monetary base and the price level seems to be rather weak, whereas the relationship between the exchange rate and the price level is substantial. The VAR analysis also seems to suggest, contrary to the visual examination of the data, that the impact of the monetary base on the exchange rate is strong (at least as strong as the relationship between the exchange rate and prices).

- The exchange rate seems to affect inflation, but inflation does not have an impact on the exchange rate.
- Inflation affects the monetary base, but the monetary base does not significantly affect inflation.

59. In addition to the impulse response functions, the study analyzes the variance decomposition of the endogenous variables in response to the innovation shocks (Figure II.5). In particular, the study separates the variation of an endogenous variable into the component shocks to the VAR, thus permitting conclusions about the relative importance of shocks in explaining the variation of a given variable.

60. Regarding inflation, the study finds that the most important factor explaining the variation in inflation[24] is the depreciation of the exchange rate (it accounts for about 54 percent of the total variation of inflation). Of the rest, 38.5 percent is explained by disturbances affecting inflation, and 7.5 percent by changes in the monetary base.

61. The variation in the exchange rate is almost entirely due to innovations affecting the exchange rate itself (94.9 percent).[25] Innovations affecting the monetary base account for only 4.8 percent of the variation in the exchange rate and innovations affecting inflation account for 0.3 percent.

62. Finally, the variation in the monetary base is, for the most part, due to innovations affecting the monetary base (about 83.6 percent), with innovations affecting inflation accounting for about 11.8 percent, and innovations affecting the exchange rate about 4.6 percent.

E. Policy Implications and Conclusions

63. The main conclusions that can be drawn from this study are the following:

- The transmission mechanism for monetary policy seems to work primarily through the exchange rate.[26]
- More specifically, an acceleration in the rate of growth of the monetary base leads to a depreciation of the currency (that is, a change in the price of tradable relative to non-tradable), which then leads to higher inflation. The apparently weak relationship between the monetary base and inflation is consistent with the dollarization of the

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[24] The variance decomposition analysis refers to the log variables, as entered in the VAR.

[25] Fluctuations in the exchange rate are thus due to shocks affecting the demand for and supply of foreign exchange, rather than to price or money shocks.

[26] This result, however, does not imply that monetary policy does not have an effect on prices. Rather, the impact on inflation is not independent of changes in the exchange rate.

Congolese economy. In particular, in the presence of dollarization[27] the effectiveness of monetary policy is limited. Furthermore, monetary policy is further limited by the lack of banking intermediation, which is partly due to the difficulties faced by the banking system.[28]

- The exchange rate pass-through in the DRC is quite rapid.
- This result is consistent with the widespread dollarization of the economy. In particular, the substantial and rapid response of inflation to the exchange rate seems to imply that many local currency-denominated prices are first set in dollars. Hence, those local currency prices adjust soon after there is a change in the exchange rate.

64. A number of other policy implications can be drawn from the study: First, monetary policy does not seem to be responsive to changes in the exchange rate. This result is consistent with a floating exchange rate regime under which the monetary authorities do not target a particular exchange rate.[29] Second, there is some evidence of money endogeneity, in that the monetary authorities seem to respond to inflation developments (by reducing money growth) rather than by actively controlling inflation. Finally, the nonresponsiveness of the exchange rate to changes in inflation could be consistent with the view that the nominal exchange rate is not influenced by considerations other than market fundamentals, such as the maintenance of external competitiveness.

65. The above results should be interpreted cautiously. The time period covered by the study is too short to permit the drawing of accurate conclusions about the effects of monetary policy on the exchange rate and inflation. For example, the rather small sample may reduce the power of estimation results. Furthermore, data limitations (for example, monthly data on output and the interest rate) could bias the results presented in this study. It is possible, for example, that monetary policy might have a substantial and independent effect on prices through an interest rate channel that is not captured by the model.

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[27] The size of the monetary base relative to GDP is indicative of the constraints facing monetary policy and its limited impact on prices.

[28] Other possible explanations are that (i) the market does not respond to a monetary tightening because it lacks credibility; (ii) to the extent that the price index comprises mostly the price of tradable goods, monetary policy may not be effective in containing inflation; (iii) the impact of monetary policy on prices may be through an alternative channel (for example, interest rates), which is not captured by the model; (iv) demand for money increased rapidly during the period under review, and consequently increased base money was not associated with high inflation; and (v) the period under review is too short to capture the relation between inflation and money growth, which is a long run attribute of monetary policy.

[29] Fluctuations in the exchange rate are determined primarily by shocks affecting the foreign exchange market, rather than by monetary policy.

Table II.1. Democratic Republic of the Congo: Summary Descriptive Statistics, 2002–04
(Monthly growth rates)

	Monetary Base (MBGR_IND)	Exchange Rate (EDEP_EOP_IND)	Inflation (INFLRATE_EOP_IND)
Mean	3.29	0.91	0.70
Median	2.36	0.82	0.62
Maximum	14.76	8.89	4.62
Minimum	-5.00	-14.78	-1.85
Std. Dev.	5.11	4.06	1.20
Skewness	0.56	-1.36	0.74
Kurtosis	2.32	7.85	5.23
Jarque-Bera	2.50	45.07	10.43
Probability	0.29	0.00	0.01
Sum	115.09	32.00	24.43
Sum Sq. Dev.	886.93	561.29	49.03
Observations	35	35	35

Table II.2. Democratic Republic of the Congo: Summary Descriptive Statistics, 2002–04
(Monthly indices)

	Monetary Base (MB_IND)	Exchange Rate (E_EOP_IND)	Inflation (CPI_EOP_IND)
Mean	169.12	115.25	113.63
Median	158.40	115.69	116.37
Maximum	297.86	133.62	127.26
Minimum	99.96	92.75	98.63
Std. Dev.	49.58	10.79	8.39
Skewness	0.89	-0.33	-0.51
Kurtosis	3.05	2.17	2.11
Jarque-Bera	4.76	1.69	2.72
Probability	0.09	0.43	0.26
Sum	6,088.49	4,149.09	4,090.73
Sum Sq. Dev.	86,025.25	4,076.11	2,461.64
Observations	36	36	36

Table II.3. Democratic Republic of the Congo: Sample Correlation Matrix Among Indices

	Monetary Base Index (MB_IND)	Exchange Rate Index (E_EOP_IND)	Inflation Index (CPI_EOP_IND)
Monetary Base Index	1.00000	0.63556	0.86233
Exchange Rate Index	0.63556	1.00000	0.84468
Inflation Index	0.86233	0.84468	1.00000

Table II.4. Democratic Republic of the Congo: Sample Correlation Matrix Among Growth Rates of Indices

	Monetary Base (MBGR_IND)	Exchange Rate (EDEP_EOP_IND)	Inflation (INFLRATE_EOP_IND)
Monetary Base	1.00000	0.03133	-0.17039
Exchange Rate	0.03133	1.00000	0.55145
Inflation	-0.17039	0.55145	1.00000

Figure II.1. Democratic Republic of the Congo: Money, Exchange Rate, and Price Level, 2002–04, January 2002 = 100

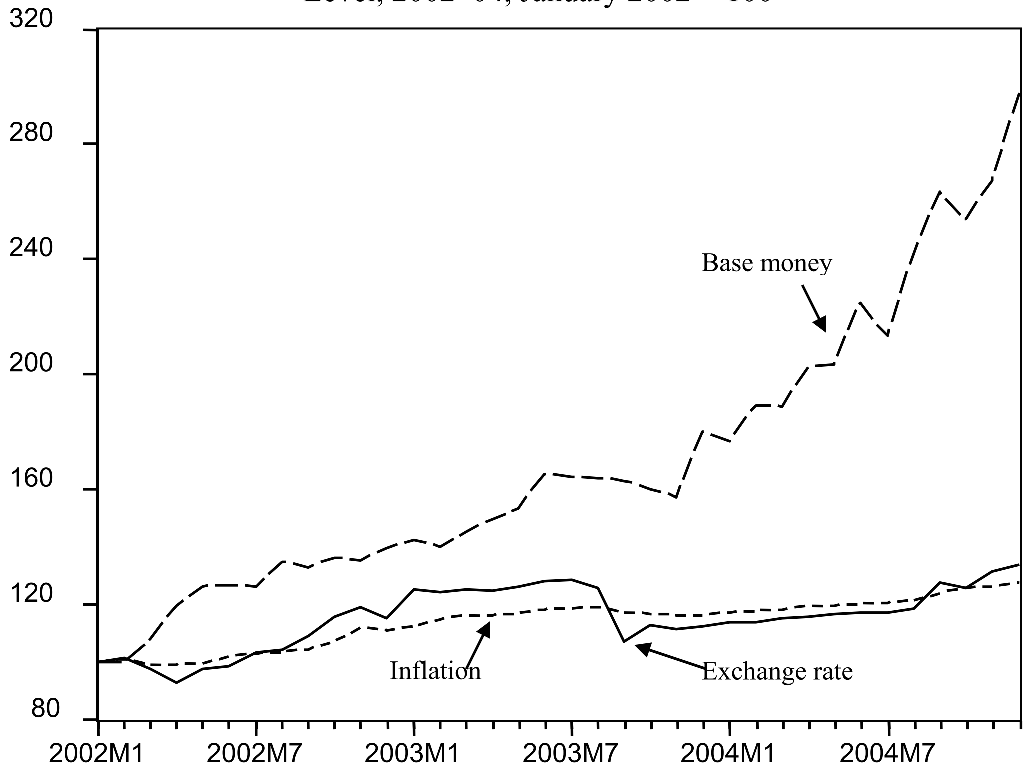
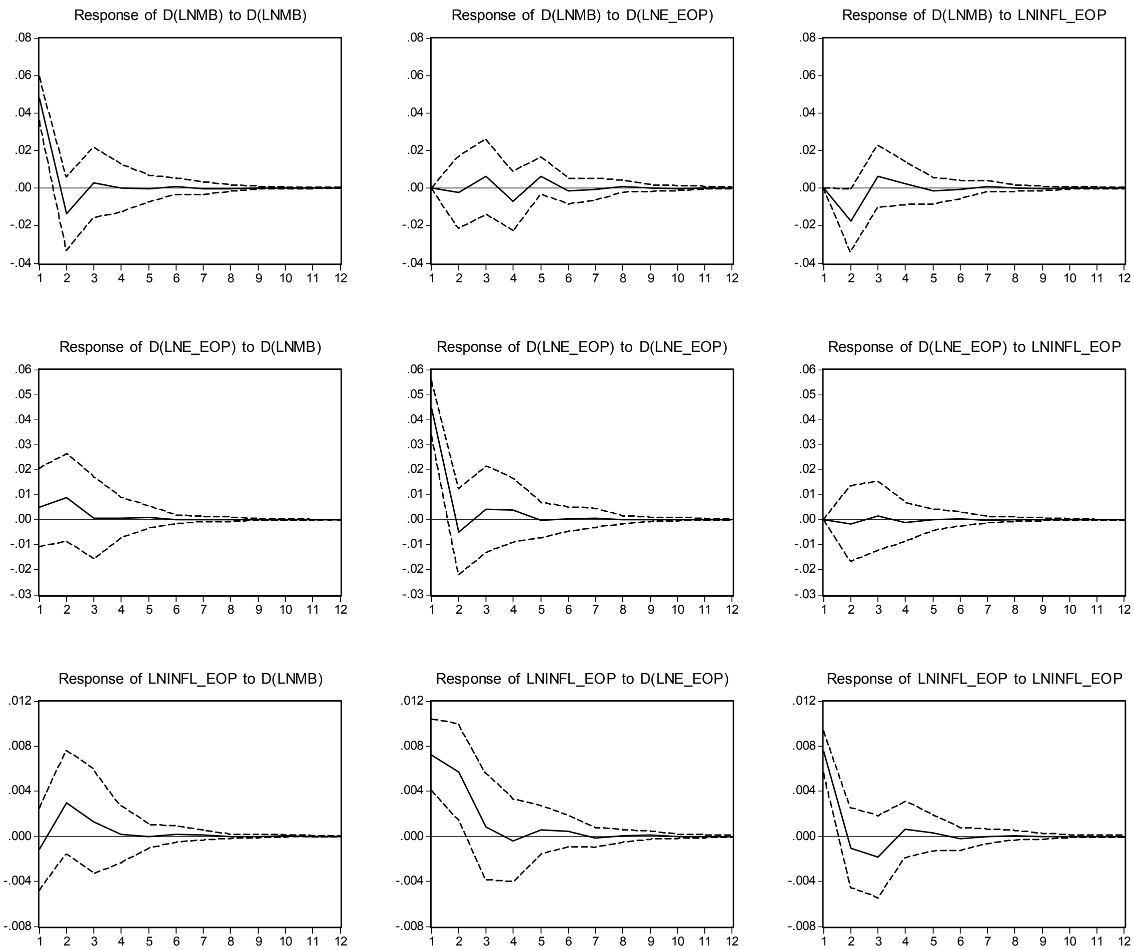


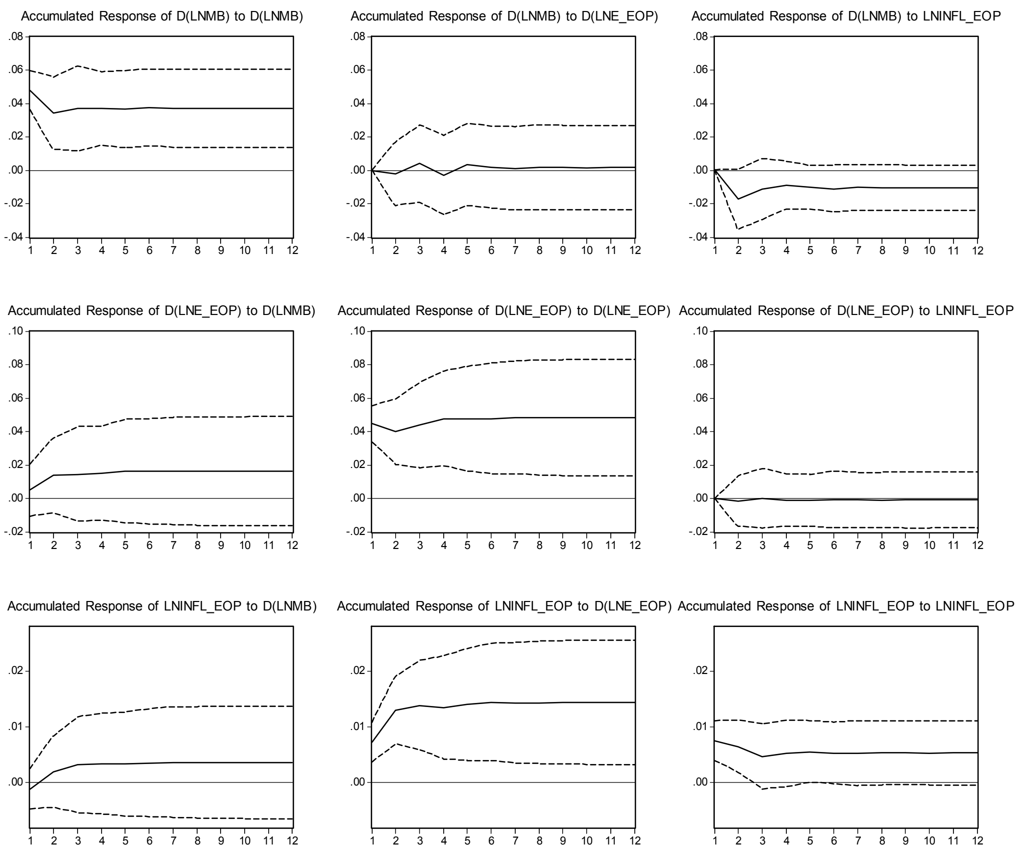
Figure II.2. Democratic Republic of the Congo: Inflation, Exchange Rate, and Monetary Base, 2002–04

Figure II.3.Democratic Republic of the Congo Response to Cholesky One Standard Deviation Innovations ± 2 Standard Error 1/



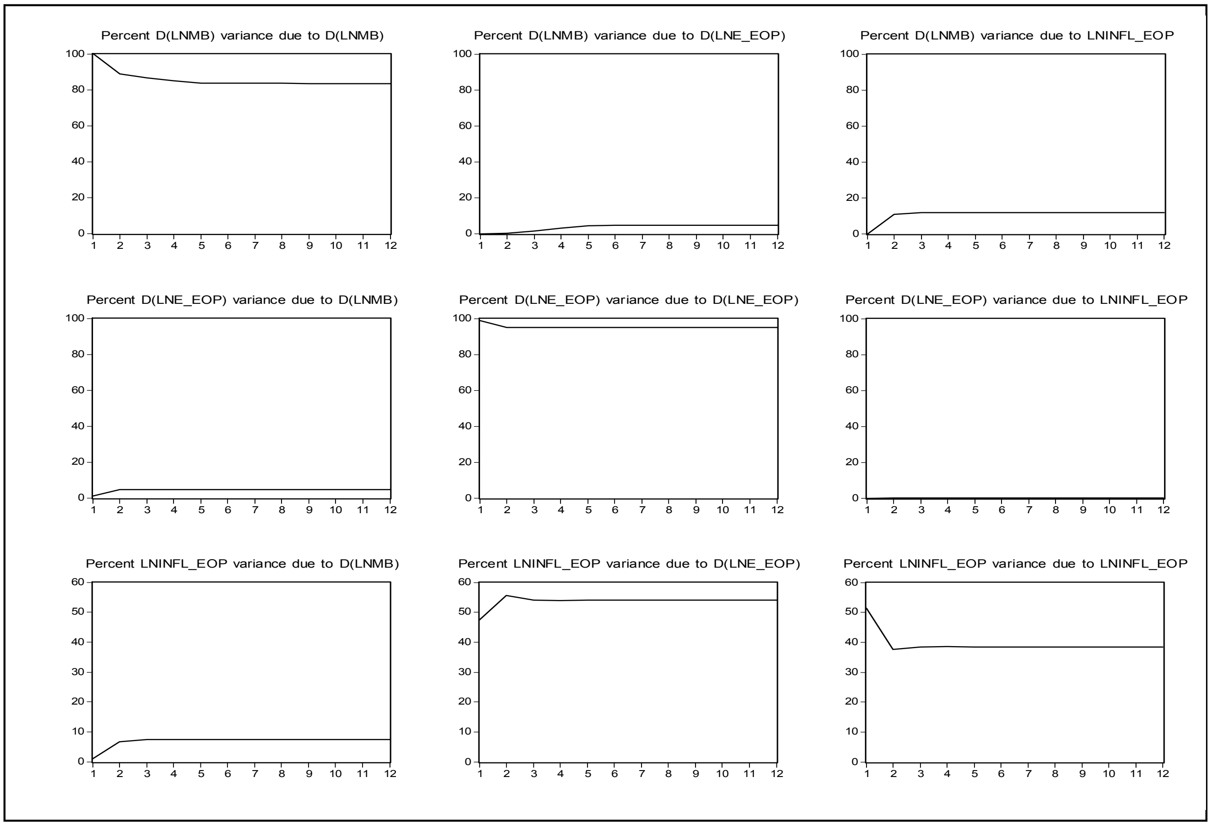
1/ D(LNMB) = Natural log Monetary Base; D(LNE_EOP) = Natural Log Exchange Rate; LNINFL_EOP = Natural log Inflation.

Figure II.4. Democratic Republic of the Congo: Accumulated Response to Cholesky One Standard Deviation Innovations ± 2 Standard Errors 1/



1/ D(LNMB) = Natural log Monetary Base; D(LNE_EOP) = Natural Log Exchange Rate; LNINFL_EOP = Natural log Inflation.

Figure II.5. Democratic Republic of the Congo: Variance Decomposition 1/



1/ D(LNMB) = Natural log Monetary Base; D(LNE_EOP) = Natural Log Exchange Rate; LNINFL_EOP = Natural log Inflation.

III. Wages and Civil Service Reform[30]

A. Background

66. **Consolidating the gains of the stabilization program that began in 2001 requires a civil service that is well trained and capable to lay the groundwork for the reform agenda**. To rebuild administrative capacity, the authorities have started to implement an ambitious reform of public administration including the civil service. The reforms aim at improving the quality and capacity of service delivery, payroll management, and organizational structure. As first steps, the authorities conducted audits of ministries and started a census of civil and military personnel to streamline the civil service, better reward qualified personnel, and improve transparency in budget execution. Preliminary census results implemented in Kinshasa seem to indicate that the payroll could be reduced by more than 20 percent by removing ghost workers.

67. **The key challenges for the civil service reform are to keep the wage bill at a level consistent with macroeconomic stability while finding ways to achieve the following**:

- Raise salaries, which, at the bottom of the scale, are about US$25 a month in Kinshasa and US$4 a month in the provinces.
- Widen the salary compression ratios between the highest and lowest paid, which are less than 2 in Kinshasa and about 5 in the provinces.
- Hire additional personnel in the social sectors to achieve the Millennium Development Goals (MDGs).
- Strengthen civil service management, including improving control over the payroll, to ensure that the wage bill remains at a level compatible with macroeconomic stability, and that staffing reflects the government's priorities.

68. The paper assesses the scope for increasing salaries, the salary compression ratio, and recruitment for the social sectors while keeping the wage bill at a manageable level.

[30] Prepared by Oral H. Williams.

B. Level of the Wage Bill

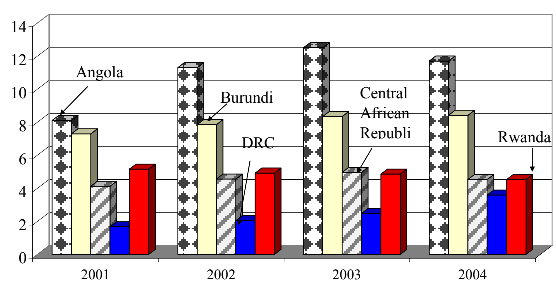
69. **The wage bill as a share of GDP in the DRC is low relative to that in other African countries, including postconflict countries.** It amounted to 3.6 percent of GDP in 2004, even though it has doubled since 2001 in line with steps taken toward establishing a fully functioning administration in DRC(Table III.I).[31] Per capita salaries are also low compared with those of other African countries, averaging only 3.7 times per capita GDP in 2004 (Table III.2 to Table III.4). Specific steps taken in the past few years include the regular payment of wages to the civil service, military, and police, the creation of new political institutions, increases in pay scales, and the granting of new allowances. Also, the wage bill (including for the military) as a share of GDP is much lower in the DRC than in neighboring countries.[32]

Table III.1. Democratic Republic of the Congo: Composition of Government Personnel and Remuneration

	2001	2002	2003	2004
Wages (in percent of GDP)				
Military/Police	0.6	0.9	1.0	1.3
Civil service	1.0	1.2	1.5	2.3
Total	1.7	2.0	2.5	3.6
Number of personnel				
Civil service	387,828	397,949	533,960	599,553
Army	176,852	182,553	182,553	318,227
Police	47,539	47,539	60,000	92,318
Total	612,219	628,041	776,513	1,010,098

Source: Fund staff estimates and Congolese authorities.

Postconflict Countries: Wages to GDP Ratio
(In percent)



70. **In spite of its low level, the wage bill has absorbed an increasing proportion of total government revenue.** The wage bill has increased relative to revenue from 26 percent to 38 percent since 2001. However, the ratio of the wage bill to government revenue is close to the average for the region.

71. **As a proportion of recurrent expenditures, the wage bill has risen** slowly—accounting for less than 30 percent—because other current expenditures, which include transfers and spending on goods and services, have risen faster since 2000.

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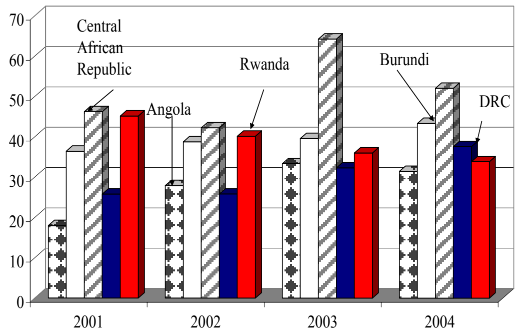
[31] The wage bill has more than doubled in recent years largely because, under the power sharing agreement (l'Accord global et inclusif), the old and new administrations in the reunified areas and some militias have been progressively integrated in the civil service, the army, and police. The rapid increase in the wage bill also reflects the authorities' difficulties in managing the payroll.

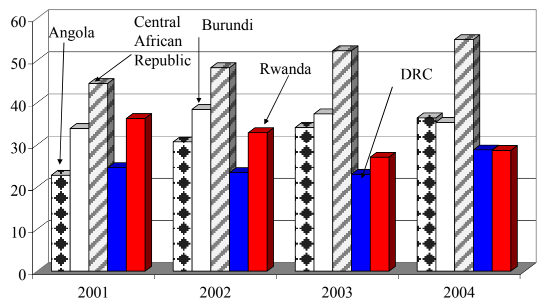
[32] The figures need to be interpreted carefully, given possible differences in coverage as well as size of the informal economy. Also Burundi and Rwanda are much smaller countries while Angola is a significant oil producer.

72. **Restructuring of the police and armed forces has also played a role in increasing the size of the wage bill**. The Global and All Inclusive Agreement on Transition and Memorandum on Military and Security Issues of March 6, 2003, defined the framework for the formation of a national, integrated, and restructured armed forces. As a result, the size of the military and police is estimated to have increased by 83 percent since 2001 to 410,000 by end-2004, and their payroll has more than doubled, accounting for one-third of the wage bill.

Postconflict Countries: Wages as a Percent of Total Revenues



Postconflict Countries: Wages as a Percent of Current Expenditures



73. **Another issue is that the salary compression ratio for the civil service has fallen sharply in recent years.** Before to April 2004, salaries consisted of a base pay with a ratio between the highest and lowest salary of 10:1 and lump-sum transport allowances in Kinshasa. Hence, the overall compression ratios were 2.2:1 in Kinshasa and 10:1 in the provinces. In response to pressures from the civil service unions, the Mbudi Accord of February 2004 was reached to find ways to increase civil service pay.[33] As a first step, in 2004, the authorities granted civil servants in Kinshasa and Lubumbashi a doubling of the lump-sum transportation allowance while keeping the scale for base salary unchanged (Table III.5).[34] In addition, in the 2005 budget, civil servants in Kinshasa were granted a lump-sum housing allowance and those outside Kinshasa were granted an additional lump sum for transport. As a result, the compression ratios fell to 1.6:1 in Kinshasa and to 5:1 in the provinces. Nevertheless, there remain large disparities between the salaries of civil servants and those in political positions, with parliamentarians for instance, receiving as much as US$1,500 a month.

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[33] The Mbudi Accord, which is not binding, aims to increase salaries to preconflict levels, implying a salary range of US$200–$2,000—about 100 times the current pay scale excluding nonwage allowances.

[34] Granting higher allowances rather than a general salary increase had the advantage to contain the pay raise to the two main cities where the cost of living is much higher. It also avoided increasing other payments indexed to the base salary.

74. **Some civil service categories receive additional nonwage allowances and incentives that can be substantial.** For instance, the three main tax collection agencies—customs (OFIDA), inland revenue (DGI), and the general directorate of administration (DGRAD) are formally allowed to retain 5–10 percent of collected revenues partly to cover their nonwage recurrent costs and partly as an incentive bonus. Retained revenues total ½ of 1 percent of GDP. In addition, low salaries have encouraged the development of informal pay-augmenting initiatives, which can distort the pay scale. For instance, parent associations pay teachers stipends that can be much higher than the teachers' wages.

C. Civil Service Management

75. **The civil service is governed by Law No. 81-003 of 1981.** The salary grid is based on grades that are associated with a particular function in a given ministry. Recruitment is based on Article 7 of the law, which stipulates that, before a position can be filled, it must have previously been assigned a budgetary allocation. There are two main career streams: (i) hierarchical—governed by a series of salary grades; and (ii) flat, which applies to those workers who will remain in the same career such as teachers, health workers, and laborers.

76. **The payroll, which is managed by the Payroll Department of the Ministry of Budget, requires strengthening**. The monthly payroll is figured manually, which can give rise to abuse, because verification of payments is difficult. Moreover, signatures confirming receipt of payment are frequently not returned to the Payroll Department, thus preventing an accurate reconciliation of salaries and effective control of the budget. In the provinces, the absence of a payment system effected by commercial banks results in a cash-managed payroll. The military payroll is also effected in cash and distributed by commanders who manage the list of payees—making the process subject to discretion.

77. **To enter into the public sector, aspirants must meet a number of requirements.** Public sector employees are recruited on the basis of exams, with grade and salary based on candidates' years of schooling and professional training. Some ministries, such as health and agriculture, hire contractual employees, who are generally paid a lump sum. Owing to the paucity of skilled personnel, the more highly trained individuals tend to be in leadership positions and perform as both managers and technicians.

78. **Until recently, one-third of civil servants were based in Kinshasa** in keeping with historic centralization of government services in the capital. Many of the provincial administrations are adequately staffed, and those in areas plagued by armed conflict are too unstable to ensure service delivery. In many areas churches and nongovernmental organizations provide fee-based health and education services, which impose a significant burden on the poor, given that per capita GDP is only US$100.

D. Civil Service Reform

79. **With the support of the international community, the authorities have embarked on an ambitious long-term reform of public administration, which encompasses the civil service.** The main objectives are to improve the quality of the administration, payroll management, and the ability of the public sector to deliver services. To this end the reform seeks to

- enhance the use of public resources.
- improve personnel management and remuneration by conducting a census of the civil service, the military, and the police, and by strengthening the management of the payroll.
- streamline and rationalize organizational structures.

80. **The reform encompasses several elements:** (i) an organizational audit of all ministries and a review of services delivered by the social and justice ministries, which was completed in 2002; (ii) a census of the civil service, to be completed in 2005, to remove ghost workers; (iii) the retirement of some 100,000 workers (past the normal retirement age), which would also facilitate the reorganization; (iv) the reform of the payroll to strengthen control over the wage bill; and (v) the creation of a school of national administration to assist in the training of personnel.

The authorities have established the interministerial commission, Commission interministérielle de pilotage de la réforme de l'administration publique (CIPRAP) to guide and monitor the implementation of the public administration reform. The commission is assisted by a technical committee (CITRAP) and a secretariat.[35] The technical commission is charged with monitoring progress in (i) the preparation of legal texts and statutes, (ii) the military and civil service census, (iii) the implementation of new organizational structures and the strengthening of the professionalization of the civil service, (iv) the improvement of the working environment, and (v) the publication of studies related to the reform. However, difficulties in making operational the CJPRAP and CTRAP have delayed the implementation of the reform.

81. **A retirement program is a key aspect of the reform.** It is estimated that approximately 100,000 civil servants—17 percent of public sector employees—have passed the retirement age but remain in the civil service because retirement benefits are low. In the first stage, at an estimated cost of US$47.5 million funded through a World Bank loan, 10,000 civil servants would retire in 2005 and the remainder in early 2006. The authorities have adopted an action plan that establishes (i) the legal and administrative steps to be followed, (ii) the sequencing of civil servants' departures and the cut-off date of eligibility for the retirement package, and (iii) the mechanism for paying retirees.

82. **The civil service census is a first step toward strengthening personnel and payroll management and toward determining functional and regional staffing needs.** The census was recently completed in Kinshasa and is being carried out in the provinces. The preliminary results, which showed that more than 20 percent of the payroll went to

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[35] The commission is headed by the Vice President for Economic and Financial Affairs and comprises the Ministers of Public Administration, Finance, Budget, Interior, Justice, Reconstruction, Foreign Affairs, Health, Higher Education and Universities and the World Bank, the IMF, United Nations Development Program (UNDP), and representatives from France and Canada.

unrecorded employees, were incorporated in the May 2005 payroll.[36] The military census was also started in Kinshasa, and the results will be soon implemented.

83. **The payroll is also to be strengthened through the implementation of a simplified electronic procedure (PTS) in 2005.** The PTS will encompass administrative control to ensure that statutory regulations justify payments, and budgetary control to ensure that payments are consistent with approved positions. This system will reinforce audits of the payroll procedures conducted in 2004. Payroll information will be automated and managed electronically to eliminate manual interventions and will be based on new personnel lists derived from the census. The payroll list will be controlled administratively to prevent unauthorized recruitment of personnel. The PTS will be centralized at the level of the ministries of the budget and the civil service, which will verify signatures against the payroll list.

84. **An institutional audit of several ministries is being conducted.** Under the supervision of CIPRAP—with support from Belgium and the UNDP[37], the first phase involves a pilot audit of the Ministries of Budget, Planning, and Agriculture, and the Ministry of Finance regarding their mission and organizational and legal frameworks. Two subsequent phases are envisaged, one for education, health, and justice ministries, and the other for the remaining ministries.

E. Wage Policy for the Civil Service

85. **The government's main challenges are to keep the overall wage bill at a manageable level while improving the pay scale and hiring personnel to improve social service delivery.** In particular, to achieve the MDGs is likely to require a significant increase in hiring and a concomitant increase in the wage bill. For example, it is estimated that, to have enough teachers for all school-age children could add the equivalent of 2½ percent of GDP to the wage bill, assuming no increase in the current pay scale.[38] This figure is conservative in comparison with the projected increases in teachers' wage bill of 4 percent of GDP for Ghana and Tanzania to meet the education MDGs (Sachs and others, 2004).[39]

86. **Widening the compression ratio would also be costly**. For instance, bringing the compression ratio back to 10 over the next five years would increase the civil service wage bill to 4.7 percent of GDP, assuming real GDP growth of 7 percent, no growth in real wages

[36] The results for the ministries concerning education will be available in August and will be implemented with the payroll for September.

[37] Food and Agriculture Organization has supported the audit of the ministry of agriculture.

[38] Current net enrollment of school-age children is 61 and the target for 2015 is 100.

[39] J. Sachs et al. 2004. "Millennium Development Goals Needs Assessments: Country Case Studies of Bangladesh, Cambodia, Ghana, Tanzania, and Uganda." Commissioned by the UN Secretary General and supported by the UN Development Group.

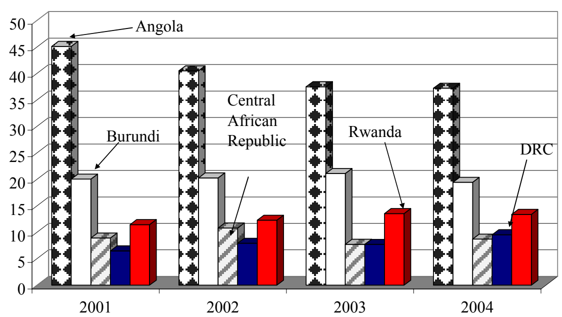
at the bottom of the scale in Kinshasa (currently US$25), and a one-fourth reduction in the size of the civil service through the census and the retirement scheme (Table III. 6).[40] The salaries of institutions and the military and police would add about another ½ of 1 percent of GDP and 1 percent of GDP, respectively. Overall, taking into the cost of hiring additional teachers and health workers, the wage bill could rise to 8–10 percent of GDP. At this level, financing the wage bill would be feasible only if external grants were increased substantially, which is highly uncertain.

87. **Measures to contain the wage bill are unlikely to provide sufficient room to meet the challenges described above**. The removal of ghost workers (both civil service and military) is certainly the government's first priority. Ministries' staffing will also need to be assessed, with a view to hiring new personnel in the social sectors while retrenching elsewhere.

88. **The gains from reprioritizing expenditure could be limited**. Nondiscretionary spending, proxied by wages and interest payments, accounts for two-thirds of recurrent expenditure.

89. **Expanding government revenue could provide additional resources to increase the wage bill**. Revenue, equivalent to 10 percent of GDP, is generally lower than in neighboring postconflict countries. There is scope for the government to expand revenue by continuing its efforts to broaden the tax base and reduce exemptions, especially in the mining sector, and by combating smuggling and corruption.[41]

Postconflict Countries: Revenue to GDP Ratio
(In percent)



90. **This is a possibility that the move to decentralize the government could undermine efforts to increase central government revenue, necessary to increase the wage bill. control the wage bill.** The draft new constitution, which is to be adopted through a popular referendum later this year, grants provinces large autonomy, including full responsibility for their budgets, with limited oversight from the central government and for the implementation of sectoral program, such as in health and education. Provinces will receive 40 percent of government revenue collected locally. In addition, an investment fund is to receive 10 percent of total government revenue to invest in the provinces and ensure that

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[40] The wage scale in the provinces was further raised to bring it to 60 percent of the wage scale in Kinshasa, compared with 15 percent currently. As a result, the minimum pay in the provinces would increase from US$4 a month to US$15.

[41] See Chapter 4 on the mining sector.

development is even across the country. The transfer of responsibilities and resources to the provinces will also necessitate a transfer of personnel, but it has not yet been decided how this will be done. To present a too rapid increase in public sector personnel and the overall wage bill will require coordination between the provinces and the central government and the development of a coherent macroeconomic framework.

F. Conclusion

91. **The government will continue to face difficult challenges over the medium term as it seeks to keep the overall wage bill at a manageable level, while improving the pay scale for the civil service and increasing social service delivery.** There is scope to increase the wage bill, which is still relatively low at 3.6 percent of GDP. However making the pay scale adequate and hiring personnel for the social sector could double the wage bill relative to GDP. Hence, these measures will need to be implemented progressively to maintain macroeconomic stability.

92. **Meanwhile, much can be done to strengthen the management of the civil service and its payroll.** In particular, the completion of the census and the introduction of a simplified payroll system should free resources for the authorities to increase salaries and strengthen controls on hiring. In addition, a greater emphasis needs to be placed on increasing government revenue, which remains low, in spite of the fact that the country is very well endowed in natural resources. However, to be able to improve rapidly the delivery of social services, the authorities will need continued and substantial technical financial assistance from donors, which will help provide sufficient incentives to employees working in social sectors.

Table III.2. Democratic Republic of the Congo: Government Wages and Salaries in Selected African Countries

(In percent of GDP)

	1998	1999	2000	2001	2002	2003
Benin	4.7	4.5	4.7	4.6	4.8	5.1
Botswana	9.2	9.8	9.2	10.8	12.8	13.1
Burkina Faso	5.2	5.6	5.5	5.6	5.5	5.6
Burundi	6.8	6.6	6.6	7.3	7.9	8.7
Cameroon	4.9	5.1	5.0	5.3	5.9	5.8
Congo, D.R.	0.0	0.2	0.7	2.1	2.7	2.8
Cote d'Ivoire	5.5	5.5	5.9	6.2	6.4	6.5
Ethiopia	5.2	5.9	6.6	6.6	7.3	7.8
Ghana	5.5	5.6	5.2	6.1	8.7	8.6
Kenya	9.1	8.7	8.4	8.1	8.6	8.9
Lesotho	16.5	14.7	15.1	14.7	13.8	13.3
Madagascar	4.1	4.3	4.0	4.4	4.5	5.3
Malawi	5.1	4.9	5.0	5.7	6.8	7.0
Mali	3.8	3.9	4.2	4.5	4.2	4.6
Mozambique	4.5	5.8	6.5	6.6	6.5	7.1
Namibia	15.5	15.8	15.2	14.2	14.3	13.5
Niger	3.7	4.1	4.0	3.5	3.7	3.6
Rwanda	4.7	5.3	5.2	5.2	5.1	4.7
Senegal	5.8	5.7	5.6	5.2	5.6	5.4
Sierra Leone	4.8	6.0	6.7	7.5	8.6	8.4
Swaziland	11.1	12.1	11.1	10.4	11.6	12.0
Tanzania	4.0	4.4	4.2	4.2	4.6	4.8
Uganda	3.4	4.2	4.2	4.3	5.3	5.3
Zambia	5.4	5.4	5.3	6.8	8.0	10.3
Zimbabwe	11.7	12.7	15.7	14.2	11.7	11.0
Memorandum items:						
Average	6.7	7.0	7.1	7.3	7.7	7.9
Average excluding small states 1/	5.4	5.7	6.0	6.2	6.6	6.9

Source: Fund staff estimates.

1/ The small states comprise Botswana, Lesotho, Namibia, and Swaziland.

Table III.3. Democratic Republic of the Congo: Government Wages and Salaries

(In percent of total government expenditure)

	1998	1999	2000	2001	2002	2003
Benin	28.7	25.7	23.2	22.9	23.0	21.9
Botswana	23.6	23.6	22.6	25.6	27.8	27.4
Burkina Faso	19.8	18.8	21.1	21.5	23.2	22.0
Burundi	28.7	26.0	27.4	26.7	30.8	31.9
Cameroon	27.7	26.9	29.0	28.7	33.7	32.8
Congo, D.R.	42.8	42.1	22.1	20.4	21.3	16.4
Cote d'Ivoire	26.0	27.8	32.8	37.0	32.8	35.6
Ethiopia	20.5	18.7	20.5	22.8	21.5	20.0
Ghana	19.4	21.5	18.9	18.6	32.7	30.4
Kenya	32.0	34.5	32.8	31.7	32.4	31.8
Lesotho	29.6	24.8	31.9	33.8	30.0	30.8
Madagascar	20.4	24.0	21.9	24.4	30.3	29.4
Malawi	17.4	16.7	15.9	17.4	21.8	24.6
Mali	16.8	16.6	17.6	16.2	16.0	16.9
Mozambique	20.7	23.4	23.0	21.1	20.2	24.8
Namibia	45.8	46.1	46.3	43.6	42.6	43.3
Rwanda	24.6	27.2	27.8	24.6	22.8	21.1
Senegal	29.0	27.3	28.2	24.2	27.7	23.5
Sierra Leone	23.8	27.5	23.4	25.3	26.6	21.3
Swaziland	38.5	38.5	36.7	34.5	38.2	39.4
Tanzania	21.6	22.1	23.0	22.0	19.5	21.3
Uganda	20.0	21.6	15.6	22.0	21.4	22.4
Zambia	17.8	18.3	17.3	21.3	25.4	29.2
Zimbabwe	35.5	35.1	30.6	36.6	34.4	34.5
Average	26.27	26.45	25.41	25.96	27.35	27.20
Average excluding Zambia	26.64	26.81	25.77	26.16	27.43	27.12
Average excluding small states 1/	24.64	25.10	23.61	24.27	25.89	25.60

1/ Small states include Botswana, Lesotho, Namibia and Swaziland.

Table III.4. Democratic Republic of the Congo: Comparison of Government Wages and Salaries in Selected African Countries

(In percent of revenue excluding grants)

	1998	1999	2000	2001	2002	2003
Benin	30.6	28.2	28.1	28.7	28.0	27.8
Botswana	25.4	19.3	19.6	25.9	27.2	29.1
Burkina Faso	33.4	34.9	40.4	43.1	39.8	37.4
Burundi	39.7	40.5	34.5	36.4	39.4	44.9
Cameroon	30.6	32.8	26.8	26.0	31.1	32.0
Congo, D.R.	83.3	91.3	48.3	25.8	25.8	32.3
Cote d'Ivoire	29.9	33.4	36.2	36.2	36.7	40.2
Ethiopia	28.6	32.9	37.2	35.3	36.4	36.0
Ghana	30.1	34.5	29.6	33.6	49.6	46.8
Kenya	33.8	34.9	36.3	37.6	40.0	41.0
Lesotho	38.5	36.1	35.1	35.6	35.7	36.5
Madagascar	38.1	36.8	34.0	44.2	62.2	50.2
Malawi	30.6	26.9	28.8	31.1	33.9	45.0
Mali	26.2	26.4	29.8	28.0	26.1	25.0
Mozambique	39.4	48.2	51.5	50.9	48.4	49.3
Namibia	51.0	51.4	49.0	46.4	49.2	50.0
Rwanda	43.8	54.1	53.3	45.2	41.4	36.8
Senegal	34.7	32.9	31.3	29.4	30.1	28.5
Sierra Leone	65.1	85.1	58.8	53.9	59.8	56.7
Swaziland	37.8	41.3	40.2	39.2	45.8	48.1
Tanzania	32.0	36.9	33.1	32.8	35.1	35.9
Uganda	27.8	26.3	24.5	22.8	24.9	23.0
Zambia	28.9	30.4	27.6	35.4	44.7	54.3
Zimbabwe	40.2	48.1	55.7	53.6	41.2	47.7
Memorandum items:						
Average	37.5	40.2	37.1	36.5	38.9	39.8
Average excluding small states 1/	37.3	40.8	37.3	36.5	38.7	39.5

Source: Fund staff estimates.

1/ The small states comprise Botswana, Lesotho, Namibia, and Swaziland.

Table III.5. Democratic Republic of the Congo: Monthly Wage Bill by Category of Worker Based on Proposed Compression Ratio

Grade	Kinshasa personnel	Provinces personnel	Kinshasa monthly salary scale May 2005	Provinces monthly salary scale May 2005	Kinshasa 2005 compression ratio	Provinces 2005 compression ratio	Baseline monthly salary Kinshasa 2005	Baseline monthly salary Provinces 2005
			(In Congo francs)				(In millions of Congo francs)	
A. Ministerial administrative agents								
Head of Administration	2	...	19,682	8,980	1.6	5.0	0.04	...
General Director	1,051	4,340	...	...	...	...	...	...
Director	...	...	19,044	8,342	1.5	4.6	...	...
Division Chief/Deputy Director	3,679	15,193	18,165	7,463	1.5	4.2	66.83	113.4
Head clerk	8,426	34,799	17,448	6,746	1.4	3.8	147.02	234.7
Assistant first class	18,191	75,122	15,532	4,830	1.2	2.7	282.54	362.9
Assistant second class	14,975	61,841	14,734	4,032	1.2	2.2	220.64	249.4
Clerk first class	11,723	48,414	14,096	3,394	1.1	1.9	165.25	164.3
Clerk second class	5,554	22,935	13,698	2,996	1.1	1.7	76.07	68.7
Auxiliary clerk first class	1,003	4,144	13,378	2,676	1.1	1.5	13.42	11.1
Auxiliary clerk second class	364	1,505	13,138	2,436	1.1	1.4	4.79	3.7
Auxiliary	398	1,643	12,500	1,798	1.0	1.0	4.97	3.0
Sub-total	65,366	269,935					982	1,211
B. Professionnals, Technicians, Agronomists and Veterinarians								
En Chef 5	75	70	33,647	8,342	2.5	2.8	2.5	0.6
En Chef 4	355	3,278	31,652	8,342	2.3	2.8	11.2	27.3
En Chef 3	400	3,693	30,655	8,342	2.2	2.8	12.3	30.8
En Chef 2	732	6,759	29,657	8,342	2.2	2.8	21.7	56.4
En Chef 1	1,321	12,197	28,660	8,342	2.1	2.8	37.9	101.7
En Chef 0	899	8,301	27,662	7,703	2.0	2.6	24.9	63.9
Inspector/Deputy Chief	810	7,479	23,672	7,463	1.7	2.5	19.2	55.8
Dir. Of clinics	437	4,035	21,677	6,746	1.6	2.3	9.5	27.2
Chief of serivice	287	2,650	19,682	6,746	1.4	2.3	5.6	17.9
Hospital 2	343	3,167	18,685	4,830	1.4	1.6	6.4	15.3
Hospital 1	188	1,736	17,687	4,032	1.3	1.3	3.3	7.0
Hospital deputy	342	3,158	16,091	3,394	1.2	1.1	5.5	10.7
Hospital assistant	203	1,874	14,695	2,996	1.1	1.0	3.0	5.6
Hospital 2	22	203	13,697	2,995	1.0	1.0	0.3	0.6
Sub-total	6,414	58,599					163	421
C. Higher Education and Scientific Research								
President	...	...	20,127	...	1.5	...	...	...
Vice president	...	...	18,820	...	1.4	...	...	...
Permanent Secretary	...	...	20,708	...	1.5	...	...	...
Advisor	...	...	19,256	...	1.4	...	...	...
Rector	...	...	21,144	10,442	1.6	3.9	...	...
Director general	...	...	20,708	10,006	1.5	3.7	...	...
SG/AB	...	...	19,256	8,554	1.4	3.2	...	...
Dir. of Research	...	...	19,044	8,342	1.4	3.1	...	...
Master of research	...	...	18,405	7,703	1.4	2.9	...	...
Head of research	...	...	18,165	7,463	1.4	2.8	...	...
Research attaché	...	...	17,448	6,746	1.3	2.5	...	...
Assistant 2	...	...	15,915	5,213	1.2	1.9	...	...
Assistant 1	...	...	15,532	4,830	1.2	1.8	...	...
CPP2 & ATB2	...	...	14,734	4,032	1.1	1.5	...	...
CPP1 & ATB1	...	...	14,096	3,394	1.1	1.3	...	...
AGB2	...	...	13,697	2,995	1.0	1.1	...	...
AA1	...	...	13,378	2,676	1.0	1.0	...	...
Sub-total	14,820	18,785	...	...	...	...	262	119
Sub-total A+B+C	86,600	347,319	...	...	...	...	1,407	1,751
Other categories	21,973	91,679	...	...	...	...	2,193	1,078
Total	108,573	438,998	550,791.53	...	...	...	3,600	2,829

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

Table III.6. Democratic Republic of the Congo: Wage Implications of Revised Salary Scale

	Baseline Kinshasa 2005	Baseline Provinces 2005	Projection Kinshasa 2010	Projection Provinces 2010	Total 2010
	(In millions of Congo francs, unless otherwise indicated)				
Total monthly wage 1/2/3/	3,600	2,829	8,854	14,451	23,305
Total annual wage bill	43,197	33,949	106,248	173,410	279,658
Wages (In percent of GDP) 4/	1.3	1.0	1.8	2.9	4.7
Wages (In percent of total revenues)	12.0	9.4	12.7	20.8	33.6
Memorandum items:					
GDP 5/	3,380,000	...	5,957,267	...	...
Total revenue	360,226	...	833,508	...	...

Source: Fund staff estimates and projections

1/ Based on preliminary census results of April 2005 for Kinshasa, 108,573 civil servants.
2/ Assumes 20 percent reduction in civil servants in the provinces owing to census and retirement program.
Assumes 351,918 civil servants in the provinces. Assumes provincial salary scale is 60 percent that of Kinshasa.
3/ This assumes that the base salary scale remains constant in real terms.
4/ Excludes the wages of military and police, which, if included, would add 1 percent of GDP to the wage bill in 2005 and in 2010.
5/ Nominal GDP assumed to grow 12 percent annually.

IV. THE MINING SECTOR[42]

A. Introduction

93. The Democratic Republic of the Congo (DRC) is rich in natural resources: fertile land; hydropower; one of the largest tropical rain forests in the world; Africa's largest deposits of copper, cobalt and coltan; and significant reserves of gold, diamonds, and other minerals. Mining[43] used to be the mainstay of the economy. In the mid-1980s, the mining sector accounted for about 25 percent of the country's GDP, 25 percent of fiscal revenue, and three-fourths of exports. At that time, the DRC was the world's largest exporter of cobalt. However, during 1986–2001, its formal mining sector[44] collapsed because of (i) large financial losses incurred by the enterprises operating in the sector, associated with mismanagement and a heavy tax burden that prevented them from maintaining plant and equipment; and (ii) an economic environment hostile to private mining operations. This decline was partly offset by a substantial increase in informal mining activities, notably artisanal diamond mining. Thus, by 2001, when the DRC initiated the process of restoring macroeconomic stability and opening up its economy, the mining sector's recorded contribution to GDP had shrunk to about 7 percent. By 2004, the sector's share in the DRC's growing GDP had recovered to an estimated 9 percent.

94. This chapter reviews developments in the DRC's mining sector. After a brief analysis of past trends, the chapter reviews mining's contribution to the economy from a fiscal perspective, showing a low effective level of taxation. It concludes with a section on the restructuring of the sector, which will permit mining to realize its potential for growth and increase its contribution to government revenue.

B. Historical Perspective

95. Mining can be divided into the activities of large, capital-intensive, public and private enterprises (the formal sector) and small-scale artisanal activities. Most artisanal activities take place without a government-issued license and are considered informal. In the diamond sector, the type of deposit largely determines the type of activity. Kimberlite deposits cover relatively small geographical areas and are extracted by large, capital-intensive, enterprises. Alluvial deposits stretch across relatively large areas and their extraction tends to be small-scale, with miners using rudimentary equipment.

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[42] Prepared by Jacob Gons.

[43] Crude petroleum, of which the DRC has been producing 8.5-10 million barrels a year, mainly off-shore, falls outside the scope of this chapter.

[44] Formal mining is based on a government-issued concession, stipulating an operator's rights and obligations concerning the exploration/exploitation of one or more geographically determined mining areas. Informal mining: not based on a government-issued concession and/or in violation of existing legislation. Its activities are not systematically recorded.

96. In the colonial era, the mining sector was dominated by a few large private enterprises. Some artisanal activities, mainly in diamonds, gold, and silver, dating back to pre-colonial times, proceeded in parallel. In 1967, the government nationalized the major mining companies.

Formal mining

97. The decline of the DRC's formal mining sector started in the second half of the 1980s. By 2000, copper output by the state-owned La Générale des Carrières et des Mines (GECAMINES) had declined to 27,500 tons, or 6 percent of peak 1985 output of 471,500 tons, whereas cobalt production had fallen by more than two-thirds to less than 4,000 tons a year (Table IV.I). Output of other mining products also declined, except for artisanal diamonds, which continued on an upward trend.

98. The decline resulted from the impact of misdirected economic and financial policies, corruption and lawlessness and, especially in the 1990s, political and ethnic strife, and outright war. Factors specific to the mining sector also contributed to its decline, including: low world prices for copper and other minerals in the first half of the 1980s (see Figure IV.1); poor management (in the case of GECAMINES exacerbated by the expulsion of non-Katangese staff in 1992/93); a weak or nonexistent regulatory framework; high tax rates and arbitrary levies on profits. In addition, mining companies faced deteriorating infrastructure and equipment, and the growing burden of providing social services to their employees (mainly education and health care), since the government increasingly failed to do so.

Table IV.1. Democratic Republic of the Congo: Mining Sector Output, 1980–2004

	1980	1985	1990	1995	1998	1999	2000	2001	2002	2003	2004 Est.
	(In thousands of metric tons, unless indicated otherwise)										
Mineral production											
Copper	459.4	502.2	355.7	34.9	38.2	31.2	30.8	37.8	26.3	16.4	19.7
GECAMINES	425.7	471.5	338.6	32.5	37.2	29.6	27.5	21.2	18.2	9.4	7.7
SODIMICO	33.7	30.7	17.1	2.4	1.0	1.6	3.3	0.6	-	-	-
GECAMINES' Joint Ventures	-	-	-	-	-	-	-	16.1	8.1	7.0	12.0
Cobalt	14.5	10.7	10.0	4.0	3.9	2.3	3.7	11.6	11.9	7.3	8.9
Diamonds (thousands of carats)	10.2	19.9	19.5	22.0	26.1	20.1	16.0	18.2	21.7	27.0	30.9
Industrial	8.0	6.9	9.6	5.7	6.8	4.8	4.6	6.4	6.1	7.8	8.8
Artisanal	2.2	13.0	10.0	16.3	19.3	15.3	11.4	11.8	15.6	19.1	22.1
Gold (metric tons)	1.3	2.2	5.2	1.2	0.2	0.6	1.4	1.5	2.0	0.8	0.7
Crude oil (millions of barrels)	6.8	12.2	10.7	10.1	9.4	8.7	8.5	9.4	8.4	9.2	10.1
Memorandum items:											
Real GDP growth	2.4	0.5	-6.6	0.7	-1.7	-4.3	-6.9	-2.1	3.5	5.7	6.8
Mining sector's share[1/] in nominal GDP	21.7	24.6	12.9	12.1	11.5	10.9	10.2	7.3	8.6	8.7	8.7
Inflation (end-of-period)	46.7	39.2	265.0	370.3	135.0	484.0	511.2	135.1	15.8	4.4	9.2

Sources: Congolese authorities; and staff estimates.

1/ Including processing of minerals.

Informal diamond mining

99. In the early 1980s, artisanal diamond mining contributed about one fifth (about two million carats) of total diamond output in the DRC, with La Société Minière de Bakwanga (MIBA),[45] a parastatal, providing most of the rest. With the reduction of employment in the formal sector, a process that started in the late seventies, the Congolese population increasingly resorted to informal activities, especially retail trading, agriculture (coffee growing and subsistence farming), and artisanal mining, mainly diamond mining.

100. Artisanal diamond mining got a boost in 1982 when, in an effort to increase government revenue, the authorities partly liberalized the precious metals trade.[46] Furthermore, given rising political and economic turmoil, diamonds became very attractive as they held their value (they are like “hard currency”) and were easy to transport and smuggle. Also, the artisanal output contained a larger proportion of jewelry-quality stones than MIBA’s, fetching on average three times higher prices. These factors drew an influx of artisanal diggers (*creuseurs*) and middlemen (*négociants*[47]) to the alluvial diamond fields. As a result, artisanal diamond output jumped to 13 million carats by 1985, almost twice that of MIBA, and to over 19 million carats by 1998.

101. In 1999, the authorities cancelled the *comptoirs'* diamond purchase contracts, banned all foreigners from mining areas, and moved the diamond trade to Kinshasa, where they could control it more strictly. In addition, in 2000 a diamond export monopoly was granted to International Diamond Industries (IDI). In the absence of competition, IDI reportedly set below-market purchase prices, and recorded output dropped and smuggling rose.

102. In February 2001, in preparation for the government’s economic adjustment program *(PIR),* the diamond monopoly was eliminated and the *comptoirs* were allowed to export again. With increased competition, domestic purchase prices reportedly went up, and recorded output and exports increased. When the DRC started to participate in the Kimberley diamond certification process in early 2003,[48] declared output rose further and had reached a record 22.1 million carats by 2004.[49]

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[45] MIBA, created in 1967 to operate the large diamond mining concessions around Mbuji Maji, is 80 percent state-owned. The remaining 20 percent is owned by SIBEKA, in which, in turn, the DeBeers Company holds a 20 percent stake.

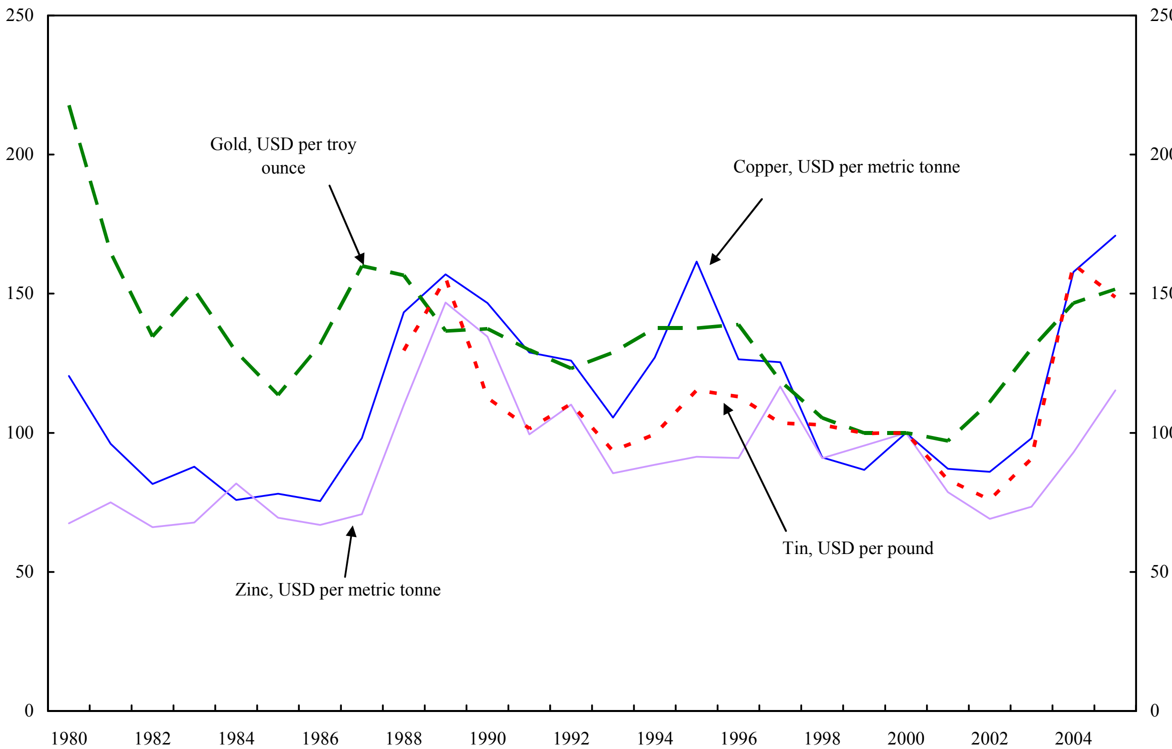
[46] In 1981, the DeBeers diamond buying monopoly was terminated. After a brief interim period, in 1982 Congolese nationals were allowed to possess and transport diamonds, gold, and other minerals. However, minerals could only be exported through licensed exporting companies (*comptoirs*) located in the main cities.

[47] Middlemen buy diamonds from diggers and sell them to the *comptoirs*. For a detailed description of this process, see Global Witness and Partnership Africa Canada (2004a).

[48] The Kimberley process is a standardized global certification process implemented simultaneously in more than 30 countries to prevent the commercialization of “conflict diamonds.” An additional factor explaining the growth in recorded artisanal diamond output in the DRC was the expulsion, in

(continued)

Figure IV.1. Democratic Republic of the Congo: Mineral Price Indices, Annual, 1980–2005
(2000=100)



Sources: IMF (WEO); and Thomson Datastream.

103. According to Global Witness and Partnership Africa Canada,[50] artisanal diamond miners in the DRC make about US$1 a day, which is less than the private sector minimum wage (*SMIG*), taking into account various legal allowances. The same source estimated that 700,000 diggers were active in the artisanal diamond sector in 2003, while the Centre d'Expertise et d'Evaluation (CEEC) puts the number of middlemen at 100,000. If one applies the often-used yardstick that each wage earner in the DRC supports on average nine family members, about 8 million Congolese (or 15 percent of the population) depend on artisanal diamond mining.

mid-2004, of the Republic of Congo (Brazzaville) from the Kimberley process. This country, which produces few diamonds of its own, is reported to have served as an important conduit for the illegal export of the DRC's artisanal diamonds.

[49] According to the Centre d'Expertise et d'Evaluation (CEEC), the increase in artisanal output in 2004 occurred exclusively in low-value industrial diamonds, which partly explains why the mining sector's share in nominal GDP remained at 8.7 percent in 2004.

[50] See Global Witness and Partnership Africa Canada (2004a).

Other informal mining activities

104. During the late 1990s, informal mining activities reportedly grew rapidly, especially in the eastern and northeastern provinces, which were outside the control of the central government. These activities have drawn widespread international attention, since some of them have reportedly financed rebel groups and perpetuated armed conflicts.[51] In addition to artisanal diamonds,[52] gold and coltan also contributed (and are still believed to contribute) to the financing of conflicts. Of more recent origin is the artisanal mining of cassiterite and heterogenite.

105. **Gold** is mainly mined, partly industrially and partly artisanally, in the northeast, an area torn by ethnic strive and activities of militias, some of which reportedly backed by non-residents. The militias largely control exports of industrially produced gold and have imposed taxes on artisanal producers and traders.[53] The gold output numbers in Table IV.I. are likely to be underestimated.

106. **Coltan** (columbite-tantalite) has been mined artisanally since the mid-1980s, following the collapse of the Société Minière et Industrielle de Kivu (SOMINKI). Coltan is used in steel alloys and electronic equipment, including mobile phones, to regulate voltage and store energy. Demand for coltan has increased sharply since the 1990s, driving up the price to US$365 per pound in 2000, before increased supplies from the DRC and Australia brought it down to US$100-120 per pound. It is believed that coltan has been mined largely under the control of former rebel groups, some of them supported by neighboring countries. According to *Global Witness,*[54] coltan miners make US$10–50 a week, a relatively high wage that attracts many would-be miners. However, their number and output are not known.

107. **Cassiterite** (tin) is being mined in the same areas as coltan. During 1989–2003, production was in decline because of a collapse of world prices and transport difficulties, and cassiterite became a by-product of coltan mining. A significant increase in demand for tin caused prices to reach a 10-year high of US$9600 a ton in May 2004; since then prices have hovered around US$8000 a ton.

108. **Heterogenite** is used mainly to produce cobalt. The DRC, mainly the Katanga province, holds one-third of the world's heterogenite reserves. Since world market prices began to rise steeply in 2000, reaching US$25 per pound in 2004, an estimated 60,000 artisanal

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[51] See United Nations Security Council (2002).

[52] See Partnership Africa Canada, International Peace Information Service, and Network Movement for Justice and Development (2002).

[53] See Human Rights Watch (2005).

[54] See Global Witness (2004a).

miners have been gathering mineral soil for about $1 a day under appalling conditions.[55] GECAMINES, on whose concessions the mining activities take place, reportedly receives some royalty payments. Only a minor part of the heterogenite is refined in the country. The refined output and the unrefined heterogenite powder are exported through neighboring countries.

109. The production of **silver, cadmium, magnesium, coal, and zinc**, significant and mostly formal until the late 1980s, is known to have continued artisanally/informally on a substantially reduced scale, for the greater part in the eastern provinces. Because of their informal nature and a weakening of the statistical apparatus, the compilation of output statistics for these products, as well as for coltan, heterogenite and cassiterite, ceased in 1990.

110. All in all, it seems plausible that, in addition to the estimated 800,000 people employed in the artisanal diamond sector, at least another 150,000 are involved in other artisanal mining activities. Hence, about 20 percent of the population is dependent on artisanal mining.

C. Contribution of the Mining Sector to the Economy

111. Government revenue from mining is very low, although it rose from 0.18 percent of GDP in 2002 to 0.24 percent in 2004 (Table IV.2 and Box IV.I).[56] To achieve further increases, however, will remain a challenge taking into account the DRC's weak institutional and administrative capacities.

112. Compared with other countries with a large mining sector, the DRC's performance is mixed. It is comparable to the performance in Sierra Leone, a country also emerging from a civil war, and where the mining sector (currently mostly alluvial diamonds) accounted for about 11 percent of GDP and contributed the equivalent of 0.27 percent of GDP to fiscal revenue in 2004. However, in Botswana, with a mining sector accounting for about one third of GDP, government revenue from mining amounted to 22 percent of GDP in 2004. In Namibia, the corresponding figures for 2003 were 7 percent and 1.5 percent. Although both countries are not "postconflict" and have virtually no artisanal mining activities, their revenue performance indicates that there is considerable scope for improvement in the DRC.

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[55] The radiation to which the diggers are exposed is likely to cause serious health problems in the future.

[56] In each of those years, the sector's contribution to total exports was about 75 percent. Employment in the sector is estimated at 985,000: about 950,000 in the informal sector and 35,000 (of which 12,400 GECAMINES and 5,700 MIBA) in the formal sector.

Table IV.2. Democratic Republic of the Congo: Government Revenue from the Mining Sector, 2002–04

	2002 1/	2003	2004 Prel.
	(In millions of U.S. dollars, unless otherwise indicated)		
Export taxes	7.5	8.5	10.1
Of which : artisanal diamonds	6.9	7.9	9.2
Income tax	1.0	1.2	2.5
Royalties	1.0	2.1	2.0
Administrative fees	0.5	1.0	0.8
Total	10.0	12.8	15.4
In percent of government revenue	2.3	2.9	2.5
In percent of GDP	0.18	0.22	0.24

1/ Estimated.

113. The potential contribution to government revenue from copper, cobalt, and industrial and artisanal diamonds amounted to US$154.7 million in 2004 (2.4 percent of GDP) (see Annex). The estimate is based on recorded output and export values and, for artisanal diamonds, the estimated number of diggers and middlemen. The estimate would be even higher taking into account profit taxes and the taxation of other mining products, and the extent to which the declared value of copper, cobalt and, diamond output is understated.

D. Reform of the Mining Sector

The authorities have identified the mining sector as key for achieving high and sustainable economic growth. In addition to the efforts to restore macroeconomic stability since 2001/02, and measures to improve the business climate in general, the specific steps taken so far to strengthen the mining sector have been mainly institutional and administrative. This section discusses the new Mining Code, the institutions responsible for managing the mining sector, modifications to mining taxation, and further steps that need to be taken to ensure the future growth of mining.

Box IV.1. Government Revenue from Mining Activities in 2004

Total government revenue from mining activities amounted to US$15.4 million in 2004; almost one-third (US$4.8 million) was collected from mining companies and most of the remainder from the artisanal diamond sector.

The parastatal diamond company MIBA paid US$1.1 million in income and other taxes. These payments represent a lump-sum amount specified in a special agreement (*Convention*) with the government signed in 1996 and amended in 2003. This takes into account that MIBA is maintaining infrastructure and providing services to its staff (like education, health care, and electricity) that the government is unable to provide. MIBA's tax payments have been further reduced because of tax credits obtained in exchange for providing advances to the treasury during the civil war.

The second diamond company, **the privately-owned SENGAMINES,** paid $0.3 million in corporate income and other taxes in 2004, and US$0.18 million in export taxes. Like MIBA, SENGAMINES' tax obligations are stipulated in an agreement signed in 2000 and amended in 2003.

The public copper and cobalt mining company GECAMINES, which is de facto bankrupt, also has a special agreement under which it pays a lump-sum tax amount. Its exemption from customs duties was lifted in 2004, but the company has not yet paid these. GECAMINES' tax payments were US$0.45 million in 2004. Other mining companies, mostly joint ventures with GECAMINES, paid income taxes of about US$0.4 million.

The artisanal diamond sector paid export taxes of US$9.2 million (1.5 percent of ad valorem exports of US$ 618 million) in 2004. Export taxes from other mining activities were almost US$1 million.

Royalties and administrative fees from all mining activities brought in $2.8 million in 2004, mostly from the formal sector.

The Mining Code

114. The new Mining Code was promulgated in 2002, and most implementing decrees, as well as a list of mining concessions awaiting validation of existing titles, were issued in 2003.[57] At the same time, a moratorium on new concessions came into effect, pending the creation of a new public Mining Registry (*Cadastre Minier*). The Code incorporates international best practice and significantly reduces government intervention in the sector. It also strengthens the government's capacity to act as a facilitator and regulator of mining activities (exploration and exploitation, both for large-scale and small-scale mining operations) through the Mining Registry, which is also responsible for enforcing the Code.

[57] The Mining Code was the subject of extensive consultations with local stakeholders and investors, as well as the international investment community.

The Code levels the playing field for private investments in mining and allows for State participation in mining companies of up to 10 percent.

Institutions responsible for managing the mining sector

115. The Mining Code stipulates that the Minister of Mines is responsible for the mining sector, in particular overall policy formulation. Day-to-day operations, such as processing mining exploration and exploitation applications, and (re)issuing permits have been delegated to the Mining Registry, which was created as a one-stop window in June 2003. However, because of governance issues the government suspended the Mining Registry's activities in March 2004. Following implementation of the recommendations of financial and organizational audits, the Mining Registry was reopened in June 2005, and its restructuring is expected to be completed by September 2005.

116. With government and donor assistance, the public agency Service d'Assistance et d'Encadrement du Small Scale Mining (SAESSCAM) was created in 2003. The agency assists artisanal miners in improving their technical skills, setting up miners' cooperatives, providing price information (facilitated by the proliferation of cell phones), and establishing micro credit facilities. The objective is to make miners less dependent on middlemen (to whom they are often indebted), so that they can obtain higher prices. The activities of SAESSCAM, which currently focus only on the diamond sector, have drawn international attention and other countries reportedly are considering setting up similar entities.

117. In an effort to combat fraudulent declarations of mining exports from Katanga, the government has contracted a company to verify their volume and ore content (but not their value). Also, in March 2005, the DRC stated its intention to join the Extractive Industries Transparency Initiative (EITI), which aims to improve transparency by publishing all revenue flows from extractive activities from both the paying end (companies) and the receiving end (governments). The country is in the initial stages of adopting EITI's criteria.

The tax regime for mining

118. In 2004, the DRC's mining taxation regime was brought in line with the new Mining Code. Mining enterprises are subject to the provisions of the general tax regime and those of the Mining Code, which specifies the royalties, mining taxes and administrative fees to be paid, while exempting the mining sector, with some limitations, from import duties, as well as the sales tax on imports and certain domestic inputs. The Mining Code introduces two mining-specific levies: an area tax (*taxe de superficie)* and an administrative fee (*droit superficiaire par carré)* that aim at a transparent and efficient use of mining concessions and strengthening tenure (see Box IV.2).

119. The new Mining Code provides for revenue sharing mechanisms with provincial and local governments. In particular, 60 percent of mining royalties accrue to the central government budget, 25 percent to the provinces and 15 percent to priority social projects in affected local communities. However, this sharing mechanism is yet to be fully implemented.

Further steps

120. A number of measures need to be taken to ensure the mining sector's future growth and enhance its contribution to the economy and government revenue. Implementation of most of these measures requires continued technical assistance from the donor community.

121. **The first priority should be for the government to regain full control over the mining areas and the country's borders.** This would reduce smuggling and ensure that no mining revenue is diverted by militias and rebel groups operating in those areas. In addition to improving security, this will require pursuing the strengthening of the Customs Office (OFIDA), especially at the eastern and southern borders, establishing a one-stop window (*guichet unique*) for mineral exports, and possibly increasing the involvement of a private entity in customs declarations.

122. **Second, institutional and administrative capacity need to be strengthened to enforce the new Mining Code.** This will ensure that government revenue from natural resources is managed transparently and responsibly. This would encompass having the Mining Registry, through the Mining Validation Commission (*Commission de Validation des Titres Miniers*), move expeditiously to bring all outstanding mining concessions in line with the new Mining Code; renegotiating special agreements granted to large mining companies; and strengthening the collaboration between the Mining Registry and the tax departments through the creation of a common database on the concessions and activities of all mining operators.

123. **Third, to improve transparency and thereby reduce corruption, the government should require all mining companies to produce externally audited accounts each year**. In that context, the financial audit of MIBA to be conducted in the third quarter of 2005 is an important step and should be followed by an audit of SENGAMINES. Corruption would also be reduced by the application of legislation adopted over the past few years. This includes: (i) the *Code d'Ethique* for the civil service adopted in 2002; (ii) the anti-money-laundering legislation promulgated in July 2004; and (iii) the anti-corruption law adopted in March 2005. In addition, the DRC should become a full participant in EITI.

124. **Fourth, the restructuring of the sector needs to be pursued.** Regarding GECAMINES, after reducing staffing by one half to 12,700 in 2003, the next step is for the managing firm that was selected to run the company for 18 months to prepare a restructuring plan and review the company's relationship with its joint venture partners. The managing firm started work in June 2005. In the diamond sector, knowledge about informal mining needs to be improved. To that effect, the authorities, in cooperation with an international consultant, intend to initiate a diagnostic study by end 2005 that should enable the formulation of an action plan aimed at improving the efficiency of the artisanal diamond sector. Similar studies should be conducted for other informal mining activities.

Box IV.2. Mining Taxation in Selected Countries

	DRC [1/]	Namibia	Botswana	Sierra Leone
Income Taxes	The general income tax rate of 40 percent of net profits applies. GECAMINES, MIBA, and SENGAMINES operate under agreements (*Conventions)* that stipulate a lump-sum tax payment.	Diamonds: 55 percent of taxable income; other mining: 37.5 percent. 10 percent tax on dividends paid to non-resident shareholders.	Tax rate rises with profits but is at least 25 percent (normal rate for resident enterprises). Special provisions apply to diamond mining companies	The basic income tax rate is 35 percent[2/] Dividend withholding tax: 10 percent (except rutile). The three formal sector companies (currently inoperative) have special contracts
Turnover taxes	Customs duties *(droits de sortie)*: 5 percent of ad valorem exports (1.5 percent for diamonds).	N/A	N/A	N/A
Royalties	Of ad valorem exports: precious stones (diamonds): 4 percent; precious metals: 2.5 percent; non-ferrous metals: 2 per cent; ferrous metals: 0.5 percent.[3/]	10 percent (ad valorem)	7 percent (ad valorem)	Of ad valorem exports: diamonds 5 percent, precious metals: 4 percent; other: 3 percent (rutile 0.5 percent)
Import duties	Exempt	Not exempt	Not exempt	Exempt for importation of machinery and equipment for prospecting and exploration
Other	Tax on mining concessions *(taxe de superficie)*: US$0.02/ha (exploration); US$0.04/ha (exploitation). Administrative fee (*droit superficiaire par carré),* between US$0.3 and US$8./ha.[4/]	N/A	N/A	N/A
Licensing fees	Mining licenses	Mining licenses	Mining licenses	Mining licenses

[1/] Effective January 1, 2004, consistent with the provisions of the Mining Code of 2002.
[2/] Effective January 1, 2005: 30 percent.
[3/] Forty percent of royalty receipts are transferred to the provinces and local communities.
[4/] Half of total receipts is transferred to the Mining Registry.

125. **And fifth, the development of downstream operations would increase the mining sector's contribution to economic growth and poverty reduction**. First steps could involve the full processing of copper ore, heterogenite, and raw coltan. It is encouraging that, in June 2005, a small firm was inaugurated in the city of Kananga to cut and polish diamonds.

DRC-Potential Revenue from Mining in 2004

(In millions of U.S. dollars, unless otherwise indicated)

Copper	
Output (tons)	19,700
Value	60.0
Export tax (5 percent)	3.0
Royalties (2.5 percent of (value minus 25 percent)) 1/	1.1
Total copper	4.1
Cobalt	
Output (tons)	8,900
Value	250.0
Export tax (5 percent)	12.5
Royalties (2.5 percent of (value minus 25 percent)) 1/	4.7
Total cobalt	17.2
Diamonds	
Industrial	
Output (million of carats)	8.8
Value	111
Export tax (3 percent)	3.3
Royalties (4 percent of (value minus 25 percent)) 1/	3.3
Total industrial diamonds	6.6
Artisanal	
Taxes on production	
Output (millions of carats)	22.1
Value	618
Export tax 1.5 percent	9.3
Royalties: (4 percent of (value minus 25 percent)) 1/	18.5
Total artisanal diamonds	27.8
Licensing fees	
Licensing fees for 15 trading houses, at $200,000 each	3.0
Licensing fees for 100,000 middlemen, at $500 each	50.0
Licensing fees for 700,000 diggers 2/, at $25 each	17.5
Total licensing fees	70.5
Total artisanal diamond sector	98.3
Total diamonds	104.9

DRC-Potential Revenue from Mining in 2004 (concluded)

(In millions of U.S. dollars, unless otherwise indicated)

Authorization of mining exploitation and exploration	
Area (millions of ha)	34.6
Exploitation	3.5
Exploration	31.0
Titles (Unit)	1,117
Area tax \$0.06/ha and \$0.03/ha [3/]	1.1
Area duties \$0.31/ha and \$5/ha [4/]	27.4
Licensing fees \$25/unit	0.0 [5/]
Total Authorization of exploitation	28.5
Grand total	154.7
As a percent of GDP	2.4

1/ To take into account expenses, such as transportation and insurance.
2/ The actual number of diggers in the books of the DGRAD, which is responsible for collecting these fees, is 600.
3/ The rate for second year exploitation or exploration is used.
4/ The rate of the exploitation license and the rate for second year exploration are used.
5/ US\$28,000.

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Table 1. Democratic Republic of the Congo: GDP by Sector at Market Prices, 1999–2004

(In billions of Congo francs)

	1999	2000	2001	2002	2003	Est. 2004
Primary sector	31.7	177.2	930.2	1,128.3	1,349.2	1,489.2
Agriculture, forestry, livestock, hunting, and fishing	27.1	146.7	826.8	962.1	1,150.6	1,226.9
Mining 1/	4.6	30.5	103.4	166.1	198.7	262.4
Secondary sector	5.1	29.1	175.7	239.4	286.3	330.4
Manufacturing	2.6	14.2	67.3	102.3	122.3	135.4
Construction and public works	1.4	12.5	51.2	78.3	93.6	110.0
Electricity and water	1.1	2.4	57.2	58.9	70.4	85.1
Tertiary sector	14.6	87.3	277.4	518.7	620.2	715.5
Wholesale and retail trade	8.7	54.3	146.0	296.9	355.1	404.2
Transport and communications	1.4	9.4	57.2	70.7	84.6	97.8
Trade and commerce	2.7	18.2	47.6	124.4	95.8	110.1
Public administration	2.1	7.1	24.8	21.7	26.0	44.6
Other services	2.6	-1.8	2.4	4.9	58.8	58.8
GDP at factor cost	51.5	293.5	1,383.3	1,886.3	2,255.8	2,535.1
Import duties and taxes	0.4	3.6	23.7	35.9	42.9	52.4
GDP at market prices	51.8	297.1	1,407.0	1,922.2	2,298.7	2,587.5
(Annual percentage change)	418.8	473.2	373.6	36.6	19.6	12.6

Sources: Congolese authorities; and Fund staff estimates.

1/ Including processing of minerals.

Table 2. Democratic Republic of the Congo: GDP by Sector at 2000 Prices, 1999–2004

(In billions of Congo francs)

	1999	2000	2001	2002	2003	Est. 2004
Primary sector	189.7	177.2	171.7	175.4	181.6	188.8
Agriculture, forestry, livestock, hunting, and fishing	166.0	146.7	140.9	141.6	143.3	144.2
Mining 1/	23.6	30.5	30.8	33.8	38.3	44.6
Secondary sector	35.0	29.1	27.8	30.2	35.2	40.4
Manufacturing	15.9	14.2	11.9	12.7	13.9	15.2
Construction and public works	12.1	12.5	13.4	14.9	18.6	22.6
Electricity and water	7.0	2.4	2.6	2.6	2.6	2.6
Tertiary sector	91.6	87.3	86.2	89.3	94.9	103.3
Wholesale and retail trade	53.0	54.3	53.9	54.8	56.0	59.9
Transport and communications	7.3	9.4	10.2	12.4	15.4	17.6
Trade and commerce	22.4	18.2	16.4	17.4	18.5	20.0
Public administration	12.9	7.1	5.5	5.6	6.4	7.2
Other services	-4.1	-1.8	0.3	-0.9	-1.4	-1.4
GDP at factor cost	316.2	293.5	285.7	294.9	311.8	332.5
Import duties and taxes	2.8	3.6	5.1	6.0	6.2	7.0
GDP at market prices	319.1	297.1	290.8	300.9	318.0	339.5
(Annual percentage change)	-4.4	-6.9	-2.1	3.5	5.7	6.8

Sources: Congolese authorities; and Fund staff estimates.

1/ Including processing of minerals.

Table 3. Democratic Republic of the Congo: GDP by Sector at 2000 Prices, 1999–2004

(Annual percentage change)

	1999	2000	2001	2002	2003	Est. 2004
Primary sector	-1.1	-6.6	-3.1	2.2	3.6	3.9
Agriculture, forestry, livestock, hunting, and fishing	2.3	-11.7	-3.9	0.5	1.2	0.6
Mining 1/	-15.5	29.1	0.8	9.9	13.3	16.3
Secondary sector	29.2	-16.9	-4.3	8.7	16.4	15.0
Manufacturing	16.6	-10.9	-16.2	6.8	10.1	8.9
Construction and public works	7.3	3.5	6.7	11.5	24.7	21.6
Electricity and water	222.0	-66.0	8.6	2.8	0.0	0.3
Tertiary sector	-19.8	-4.8	-1.2	3.6	6.3	8.8
Wholesale and retail trade	...	2.3	-0.7	1.7	2.3	6.9
Transport and communications	-38.7	28.5	8.1	21.0	25.1	13.7
Trade and commerce	8.8	-18.7	-10.0	6.1	6.2	8.0
Public administration	10.7	-44.7	-23.6	3.5	13.0	12.9
Other services	-7.3	-55.5	-115.0	-411.7	66.1	-0.2
GDP at factor cost	-3.3	-7.2	-2.7	3.2	5.7	6.7
Import duties and taxes	-71.5	25.1	44.4	16.3	4.0	12.2
GDP at market prices	-4.4	-6.9	-2.1	3.5	5.7	6.8

Sources: Congolese authorities; and Fund staff estimates.

1/ Including processing of minerals.

Table 4. Democratic Republic of the Congo: Distribution of GDP by Sector at 2000 Prices, 1999–2004

(In percent of GDP)

	1999	2000	2001	2002	2003	Est. 2004
Primary sector	59.4	59.6	59.0	58.3	57.1	55.6
Agriculture, forestry, livestock, hunting, and fishing	52.0	49.4	48.5	47.0	45.1	42.5
Mining 1/	7.4	10.3	10.6	11.2	12.1	13.1
Secondary sector	11.0	9.8	9.6	10.0	11.1	11.9
Manufacturing	5.0	4.8	4.1	4.2	4.4	4.5
Construction and public works	3.8	4.2	4.6	5.0	5.8	6.7
Electricity and water	2.2	0.8	0.9	0.9	0.8	0.8
Tertiary sector	28.7	29.4	29.6	29.7	29.9	30.4
Wholesale and retail trade	16.6	17.0	16.9	17.2	17.6	18.8
Transport and communications	2.3	3.2	3.5	4.1	4.9	5.2
Trade and commerce	7.0	6.1	5.6	5.8	5.8	5.9
Public administration	4.0	2.4	1.9	1.9	2.0	2.1
Other services	-1.3	-0.6	0.1	-0.3	-0.4	-0.4
GDP at factor cost	99.1	98.8	98.2	98.0	98.0	97.9
Import duties and taxes	0.9	1.2	1.8	2.0	2.0	2.1
GDP at market prices	100.0	100.0	100.0	100.0	100.0	100.0

Sources: Congolese authorities; and Fund staff estimates.

1/ Including processing of minerals.

Table 5. Democratic Republic of the Congo: GDP Deflators by Sector, 1999–2004

(2000 = 100)

	1999	2000	2001	2002	2003	Est. 2004
Primary sector	16.7	100.0	541.8	643.3	742.8	788.8
Agriculture, forestry, livestock, hunting, and fishing	16.3	100.0	586.8	679.6	802.9	850.7
Mining 1/	19.3	100.0	335.9	491.1	518.2	588.5
Secondary sector	14.7	100.0	632.3	792.5	814.0	817.2
Manufacturing	16.4	100.0	568.1	807.9	877.2	891.9
Construction and public works	11.9	100.0	383.0	524.8	503.4	486.6
Electricity and water	15.7	100.0	2,230.3	2,232.5	2,669.3	3,214.7
Tertiary sector	16.0	100.0	321.8	580.6	653.2	692.9
Wholesale and retail trade	16.4	100.0	271.1	542.2	633.8	674.7
Transport and communications	18.8	100.0	560.0	572.7	547.5	556.8
Trade and commerce	12.1	100.0	289.5	713.9	517.3	550.5
Public administration	16.2	100.0	454.7	385.1	407.4	618.5
Other services	-63.3	100.0	892.7	-573.0	-4,147.9	-4,156.7
GDP deflator (at factor cost)	16.3	100.0	484.2	639.6	723.6	762.4
Import duties and taxes	13.1	100.0	460.1	599.8	689.7	750.2
GDP deflator (at market prices)	16.2	100.0	483.8	638.8	722.9	762.2
(Annual percentage change)	-83.8	515.7	383.8	32.0	13.2	5.4

Sources: Congolese authorities; and Fund staff estimates.

1/ Including processing of minerals.

Table 6. Democratic Republic of the Congo: Components of Aggregate Demand and Saving, 1999–2004

	1999	2000	2001	2002	2003	Est. 2004
	(In billions of Congo francs, unless otherwise indicated)					
Consumption	47.3	283.8	1,416.5	1,940.5	2,197.6	2,522.4
Government	3.1	22.3	84.6	106.6	144.6	213.0
Nongovernment	44.2	261.5	1,331.9	1,833.9	2,053.1	2,309.4
Gross investment	1.6	10.3	76.2	172.1	281.2	331.3
Government	0.6	1.3	1.5	18.4	61.8	72.6
Nongovernment	1.0	8.9	74.7	153.8	219.4	258.7
Net exports of goods and services	3.2	3.0	-28.7	-94.5	-165.8	-229.4
Exports	12.2	66.5	262.5	407.5	600.7	789.5
Imports	9.1	63.5	291.2	502.0	766.4	1,018.8
GDP at market prices	52.0	297.0	1,464.0	1,922.2	2,298.7	2,587.5
Net income from abroad 1/	-4.7	-26.8	-112.5	-7.3	-61.2	-101.9
Net current transfers 1/	0.2	10.1	73.0	144.9	207.9	227.1
Gross national disposable income	47.3	280.4	1,424.5	2,059.7	2,445.4	2,712.7
Gross national saving	0.2	-3.4	8.0	119.3	247.7	190.3
Government	-2.1	-16.5	-22.4	-20.4	-34.1	-103.4
Nongovernment	2.3	13.1	30.4	139.7	281.9	293.7
Current account, including transfers	-1.4	-13.7	-68.2	-52.9	-33.4	-141.0
	(In percent of GDP)					
Consumption	90.8	95.6	96.8	100.9	95.6	97.5
Government	5.9	7.5	5.8	5.5	6.3	8.2
Nongovernment	84.9	88.0	91.0	95.4	89.3	89.3
Gross investment	3.1	3.5	5.2	9.0	12.2	12.8
Government	1.1	0.5	0.1	1.0	2.7	2.8
Nongovernment	2.0	3.0	5.1	8.0	9.5	10.0
Net exports of goods and services	6.1	1.0	-2.0	-4.9	-7.2	-8.9
Exports	23.6	22.4	17.9	21.2	26.1	30.5
Imports	17.5	21.4	19.9	26.1	33.3	39.4
GDP at market prices	100.0	100.0	100.0	100.0	100.0	100.0
Net income from abroad	-9.1	-9.0	-7.7	-0.4	-2.7	-3.9
Net current transfers	0.4	3.4	5.0	7.5	9.0	8.8
Gross national disposable income	91.3	94.4	97.3	107.2	106.4	104.8
Gross national saving	0.5	-1.2	0.5	6.2	10.8	7.4
Government	-4.0	-5.6	-1.5	-1.1	-1.5	-4.0
Nongovernment	4.4	4.4	2.1	7.3	12.3	11.4
Current account, including transfers	-2.6	-4.6	-4.7	-2.8	-1.5	-5.5

Sources: Congolese authorities; and Fund staff estimates.

1/ Including debt relief.

Table 7. Democratic Republic of the Congo: Selected Indicators of Production, 1999–2004

	1999	2000	2001	2002	2003	Est. 2004
	(In thousands of tons, unless otherwise indicated)					
Mineral production						
Copper	31.2	30.8	37.8	26.3	16.4	19.7
GECAMINES	29.6	27.5	21.2	18.2	9.4	7.7
GECAMINES partners	...	...	16.1	8.1	7.0	12.0
SODIMICO	1.6	3.3	0.6	...	...	...
Cobalt	2.3	3.7	11.6	11.9	7.3	8.9
Cement	173.0	170.0	201.0	265.0	330.8	402.5
Diamonds (millions of carats)	20,116.0	16,006.0	18,198.0	21,679.0	26,981.0	30,880.0
Industrial	4,788.0	4,640.0	6,355.0	6,050.0	7,839.6	8,752.3
Artisanal	15,328.0	11,366.0	11,843.0	15,629.0	19,141.5	22,127.6
Crude oil (millions of barrels)	8.7	8.5	9.4	8.4	9.2	10.1
Gold (kilograms)	621.9	1,381.9	1,493.2	2,042.6	792.0	657.4
Agricultural production						
Palm oil	6.1	4.5	4.5	4.7	5.8	11.8
Palm kernel oil	0.5	0.2	0.7	0.3	0.1	0.1
Robusta coffee	22.3	11.3	2.6	5.3	2.9	3.1
Arabica coffee	2.1	1.8	5.2	3.5	2.0	1.9
Cocoa	3.0	2.8	2.4	2.6	1.3	1.3
Rubber	1.8	2.0	2.1	1.4	2.3	2.8
	(In thousands of cubic meters)					
Forestry						
Logs	40.1	16.5	14.4	16.9	60.3	92.8
Sawn timber	20.3	8.2	18.0	28.0	27.6	29.7
Transportation						
Port activities (cargo handling)	905.8	1,154.2	1,115.3	1,312.8	1,458.0	1,648.3

Sources: Congolese authorities; and Fund staff estimates.

Table 8. Democratic Republic of the Congo: Manufacturing Output, 1999–2004

	Production					
	1999	2000	2001	2002	2003	2004 Est.
	(In thousands of tons, unless otherwise indicated)					
Food processing						
Maize flour	19	12	12	13	13	14
Wheat flour	89	117	90	88	154	185
Sugar	73	73	58	63	74	81
Milk	82	80	78	70	63	57
Sweets	66	332	...	...	...	...
Butter	4,806	2,052	2,823	284	1,240	685
Animal food	33	40	34	29	26	25
Cigarettes (millions of boxes)	3,200	3,712	2,299	3,707	2,462	2,922
Beer (in millions of liters)	145	171	157	135	131	169
Soft drinks (in millions of liters)	75	81	71	76	88	116
Industrial production						
Steel	87	159	307	150	140	130
Nonferrous metal	19	5	6	5	5	5
Metal products	235	100	102	170	114	68
Industrial chemicals						
Explosives	300	246	35	34	32	30
Soaps	26	28	25	15	8	6
Paints, veneer, and enamel	0	0	67	71	46	67
Acetylene	14	17	19	21	14	9
Tires (in thousands of units)	38	0	44	42	45	49
Nonmetallic						
Cement	173	169	201	265	331	402
Crushed stones	260	191	185	194	203	213
Bottles (in thousands of units)	18	23	20	17	21	9
Oil refinery	38	0	0	0	0	0
	(In thousands of square meters, unless otherwise indicated)					
Textiles and shoes						
Cotton fabrics	3,028	2,361	2,353	3,454	1,291	263
Printed fabrics	16,853	14,334	3,600	5,526	4,277	4,200
Shoes (in thousands of pairs)	848	962	1,347	5,676	2,930	3,223
Blankets (in thousands of units)	36	30	29	20	14	14
	(In thousands of units)					
Light industrial production						
Metallic furniture	...	...	1,453	1,095	821	616
Matches (boxes)	207	...	...	...	...	...
Shovels and spades	29	22	19	20	21	22
Sheet metal	75	65	...	...	...	...
	(In units)					
Transport equipment						
Shipbuilding	2	...	2	1	1	3
Ship repairs	33	49	25	26	26	27

Sources: Congolese authorities; and Fund staff estimates.

Table 9. Democratic Republic of the Congo: Retail Prices of Petroleum Products, 1997–February 2005 1/ 2/

(In Congo francs per liter)

	Premium Gasoline		Kerosene		Diesel Oil	
	West region	East region	West region	East region	West region	East region
1997	0.1	1.3	0.8	1.0	0.9	1.3
1998	0.8	1.0	0.7	0.9	0.8	1.0
1999	3.1	2.6	2.8	2.3	3.1	2.5
2000	70.0	73.0	65.0	68.0	68.0	71.0
2001	203.3	230.2	175.8	202.7	198.5	223.7
2002	257.3	284.1	222.3	251.4	252.3	279.1
2003						
January	255.0	275.0	250.0	270.0	220.0	245.0
February	255.0	310.0	300.0	305.0	270.0	280.0
March	355.0	340.0	330.0	335.0	295.0	305.0
April	355.0	340.0	330.0	335.0	295.0	305.0
May	355.0	340.0	330.0	335.0	295.0	305.0
June	355.0	340.0	330.0	335.0	295.0	305.0
July	315.0	320.0	275.0	300.7	295.0	305.0
August	315.0	320.0	275.0	300.7	310.0	315.0
September	300.0	305.0	240.0	300.7	310.0	315.0
October	300.0	305.0	240.0	300.7	295.0	300.0
November	300.0	305.0	240.0	300.7	295.0	300.0
December	300.0	305.0	240.0	300.7	295.0	300.0
2004						
January	300.0	305.0	240.0	280.0	295.0	300.0
February	300.0	305.0	240.0	280.0	295.0	300.0
March	300.0	305.0	240.0	280.0	295.0	300.0
April	315.0	320.5	275.0	295.0	312.5	315.0
May	320.0	326.0	280.0	300.0	315.0	320.0
June	320.0	326.0	280.0	300.0	315.0	320.0
July	320.0	320.0	270.0	290.0	315.0	315.0
August	320.0	320.0	270.0	290.0	315.0	315.0
September	330.0	335.0	292.5	317.5	325.0	330.0
October	345.0	...	325.0	...	340.0	...
November	350.0	...	335.0	...	345.0	...
December	365.0	...	360.0	...	362.0	...
2005						
January	365.0	...	360.0	...	362.0	...
February	365.0	...	360.0	...	362.0	...

Source: Congolese authorities.

1/ End-of-period prices.
2/ The authorities stopped reporting prices for the eastern region in October 2004.

Table 10. Democratic Republic of the Congo: Production and Consumption of Electricity and Water, 1999–2004

	1999	2000	2001	2002	2003	Est. 2004
	(In millions of kilowatt-hours)					
Electricity 1/						
Total production	5,100	5,813	5,798	5,937	5,980	6,904
Hydroelectric plants	5,074	5,797	5,786	5,926	5,973	6,896
Power stations	26	16	12	11	7	8
Net domestic consumption	3,763	4,396	4,391	4,381	4,123	4,656
Exports	749	1,274	1,013	1,145	1,230	1,598
Imports	18	6	12	9	9	9
Losses	606	149	406	420	636	659
	(In millions of cubic meters, unless otherwise indicated)					
Water 2/						
Total production	203	188	214	206	212	202
Domestic consumption	103	113	126	127	116	117
Memorandum items:						
Electricity subscribers	253,351	272,687	291,801	301,611	332,829	353,720
Average monthly consumption (in kilowatt-hours)	1,238	1,343	1,254	1,210	1,032	917
Water subscribers	420,976	425,968	430,959	433,904	433,830	445,754
Average monthly consumption (in cubic meters)	20	22	24	24	22	22

Sources: Congolese authorities; and IMF staff estimates.

1/ Société Nationale d'Electricité (SNEL).
2/ Régie de Distribution d'Eau (REGIDESO).

Table 11. Democratic Republic of the Congo: Consumer Price Index for Kinshasa, 1997–May 2005

(Index, August 1995 = 100)

	Food	Rent	Clothing	Other	General Index	Inflation 1/		
						O-p-p	Y-o-y	Y-t-d
1997 2/	...	...	...	...	2,139	199.0	13.8	13.8
1998 2/	...	...	...	...	5,027	29.1	135.0	135.0
1999 2/	...	...	...	...	29,357	284.9	484.0	484.0
2000 2/	171,392	146,696	255,363	211,047	179,368	550.0	511.0	511.0
2001 2/	363,385	413,753	718,795	542,836	421,685	357.3	135.1	135.1
2002 2/	416,203	486,604	787,276	631,717	485,086	27.9	15.0	15.0
2003 3/	425,187	514,265	823,877	690,264	508,802	12.9	4.8	4.8
January	420,781	497,437	821,564	633,371	493,918	1.8	12.9	1.8
February	423,472	507,206	821,858	676,983	505,187	2.3	14.6	4.1
March	423,912	507,043	821,852	692,793	508,607	0.7	17.5	4.8
April	423,837	506,755	821,714	692,828	508,518	0.0	17.8	4.8
May	425,248	514,418	823,179	693,684	513,668	1.0	18.1	5.9
June	430,264	518,989	824,075	696,782	515,300	0.3	15.6	6.2
July	431,790	530,013	825,123	700,140	518,886	0.7	15.5	7.0
August	432,023	534,531	825,125	703,793	518,342	-0.1	14.8	6.9
September	422,578	518,337	825,435	699,785	509,519	-1.7	11.7	5.0
October	422,569	513,889	825,435	697,670	508,479	-0.2	8.6	4.8
November	422,616	511,283	825,580	697,670	508,145	-0.1	3.7	4.8
December	423,156	511,283	825,580	697,670	508,485	0.1	4.8	4.8
2004 3/	434,306	535,268	857,806	737,712	529,126	4.0	9.5	9.5
January	423,985	514,443	826,972	705,077	511,917	0.7	3.6	0.7
February	425,382	517,236	827,138	707,487	513,649	0.3	1.7	1.0
March	427,060	523,370	837,360	713,084	517,137	0.7	1.7	1.7
April	430,815	528,195	844,053	723,160	522,484	1.0	2.7	2.8
May	431,630	526,612	845,881	725,134	523,203	0.1	1.9	2.9
June	432,038	527,766	848,255	725,393	523,779	0.1	1.6	3.0
July	434,542	531,389	851,603	729,002	526,700	0.6	1.5	3.6
August	435,167	535,293	857,970	738,594	529,841	0.6	2.2	4.2
September	438,220	550,978	877,097	770,958	541,258	2.2	6.2	6.4
October	445,593	559,677	893,997	780,410	549,688	1.6	8.1	8.1
November	445,876	564,149	895,634	781,303	550,839	0.2	8.4	8.3
December	452,086	569,663	905,547	784,947	556,931	1.1	9.5	9.5
2005	...	...	...	...	...	...	...	18.9
January	473,509	572,385	922,205	792,433	572,344	2.8	11.8	2.8
February	495,610	594,747	947,884	823,129	596,365	4.2	16.1	7.1
March	512,595	619,490	951,320	867,470	619,223	3.8	19.7	11.2
April	535,126	655,383	944,954	938,159	651,809	5.3	24.8	17.0
May	549,039	665,179	946,601	940,731	662,302	1.6	26.6	18.9

Source: Congolese authorities.

1/ O-p-p = over-previous-period i.e. monthly inflation; Y-o-y = year-on-year i.e. twelve-month inflation; Y-t-d = year-to-date i.e. change in prices compared with beginning-of-the-year prices.
2/ Indices are for end-of-period.
3/ Indices are yearly averages of monthly end-of-period indices.

Table 12. Democratic Republic of the Congo: Central Government Operations, 1999–2004

	1999	2000	2001	2002	2003	Est. 2004
	(In millions of Congo francs)					
Revenue	2,329	15,091	91,276	152,193	176,817	248,003
Income and profit taxes	408	4,722	25,396	42,895	57,075	75,157
Taxes on goods and services	520	3,683	28,170	48,431	49,014	60,580
Taxes on international trade	395	3,585	21,463	33,959	52,475	63,504
Import duties	372	3,207	20,214	30,776	48,877	59,340
Export duties and others	23	378	1,249	3,183	3,598	4,164
Other revenue	1,006	3,101	16,246	26,908	18,253	48,761
Grants	0	0	0	7,447	46,506	51,354
Expenditure	4,934	32,988	115,147	198,406	312,339	397,833
Wages and salaries	2,079	7,312	23,540	39,287	57,104	93,223
Goods and services (incl. off-budget)	985	14,977	61,090	67,286	87,470	120,253
Transfers and other subsidies	200	3,176	9,281	12,192	26,863	26,590
Interest payments 1/	1,116	6,173	19,532	61,157	79,146	85,708
Other current expenditure	0	0	203	112	0	0
Capital expenditure 2/	554	1,349	1,500	18,372	61,756	72,059
Overall balance (commitment)	-2,605	-17,897	-23,871	-38,766	-89,016	-98,475
Primary balance (commitment)	-1,489	-11,723	-4,339	22,391	-9,870	-12,768
Change in arrears 3/	820	5,715	31,787	4,712	4,176	-1,350
Float	...	...	...	0	0	11,400
Central bank operating result	...	...	...	-12,719	-18,430	-19,076
Overall balance (cash)	-1,785	-12,181	7,916	-46,773	-103,270	-107,501
Financing	3,017	11,774	-5,376	51,651	103,271	107,502
Domestic financing (net)	3,017	11,774	1,577	-17,240	27,751	215
External financing 4/	0	0	-6,953	68,891	75,520	107,287
Debt relief	0	0	0	128,297	116,137	98,146
Discrepancy	1,232	-407	2,540	4,878	0	0
Memorandum items:	(In percent)					
Revenue / total expenditure	47.2	45.7	79.3	76.7	56.6	62.3
Wage bill / revenue	89.3	48.5	25.8	25.8	32.3	37.6

Sources: Congolese authorities; and IMF staff estimates.

1/ Scheduled interest payments excluding interest on arrears.
2/ Including net lending.
3/ Until 2000, external arrears only.
4/ In 2002, due to clearance of both principal and interest arrears.

Table 13. Democratic Republic of the Congo: Central Government Revenue, 1999–2004

	1999	2000	2001	2002	2003	Est. 2004
			(In millions of Congo francs)			
Total budget revenue	2,329	15,091	91,276	152,193	176,817	248,003
Tax revenue	1,792	12,571	75,888	125,285	158,564	199,242
Taxes on income and profits	408	4,722	25,396	42,895	57,075	75,157
Corporations and enterprises	135	3,592	19,319	23,048	30,140	46,686
Individuals	245	1,015	5,460	17,140	22,527	24,835
Dividends and interest	8	64	346	1,597	2,571	1,762
Rental income	19	50	271	1,110	1,836	1,874
Other	0	0	0	…	…	…
Taxes on goods and services	520	3,683	28,170	48,431	49,014	60,580
Turnover taxes	296	1,379	9,425	20,027	31,249	38,718
Domestic turnover tax	155	588	4,199	11,380	22,052	19,979
Turnover tax on imports	141	792	5,227	8,647	9,197	18,739
Selective excises	224	2,304	18,434	28,404	17,765	21,862
Others			311			
Taxes on international trade	395	3,585	21,463	33,959	52,475	63,504
Import duties and taxes	372	3,207	20,214	30,776	48,877	59,340
Import duties	360	3,110	19,604	29,846	47,401	57,548
Statistical tax, penalties	11	97	610	929	1,476	1,792
Export duties and taxes	23	378	1,245	3,171	3,598	4,164
Export duties	18	294	967	2,463	2,794	3,234
Turnover tax	2	35	116	296	335	388
Statistical tax, penalties	3	49	162	413	468	542
Others	0	0	4	13	0	0
Other taxes 2/	469	581	858	0	0	0
Nontax revenue (including administrative receipts)	537	2,520	15,388	26,908	18,253	48,761
Memorandum items:			(In percent of total)			
Tax revenue	76.9	83.3	83.1	82.3	89.7	80.3
Taxes on income and profits	17.5	31.3	27.8	28.2	32.3	30.3
Taxes on goods and services	22.3	24.4	30.9	31.8	27.7	24.4
Taxes on international trade	16.9	23.8	23.5	22.3	29.7	25.6
Other taxes	20.1	3.9	0.9	0.0	0.0	0.0
Nontax revenue	23.1	16.7	16.9	17.7	10.3	19.7
			(In percent of GDP)			
Tax revenue	3.5	4.2	5.4	6.5	6.9	7.7
Taxes on income and profits	0.8	1.6	1.8	2.2	2.5	2.9
Taxes on goods and services	1.0	1.2	2.0	2.5	2.1	2.3
Taxes on international trade	0.8	1.2	1.5	1.8	2.3	2.5
Other taxes	0.9	0.2	0.1	0.0	0.0	0.0
Nontax revenue	1.0	0.8	1.1	1.4	0.8	1.9
GDP (in millions of CGF)	51,824	297,066	1,407,000	1,922,200	2,298,656	2,587,492

Sources: Congolese authorities; and IMF staff estimates.

Table 14. Democratic Republic of the Congo: Central Government Expenditure, 1999–2004

	1999 1/	2000	2001	2002	2003	Est. 2004
	(In millions of Congolese francs)					
Total budget expenditure	4,934	32,988	115,147	198,406	312,339	397,833
Wages and salaries	2,079	7,312	23,540	39,287	57,104	93,223
Other goods and services (incl. off-budget)	985	14,977	61,090	67,286	87,470	120,253
Transfers and other subsidies	200	3,176	9,281	12,192	26,863	26,590
Interest on domestic debt	0	458	545	12,613	2,967	7,592
Interest on external debt 2/	1,116	5,715	18,987	48,544	76,179	78,116
Other current expenditure	0	0	203	112	0	0
Investment	554	1,062	1,694	10,385	61,756	72,059
Net lending	0	287	-194	7,987	0	0
Memorandum items:	(In percent of total)					
Wages and salaries	42.1	22.2	20.4	19.8	18.3	23.4
Other goods and services	20.0	45.4	53.1	33.9	28.0	30.2
Transfers and other subsidies	4.1	9.6	8.1	6.1	8.6	6.7
Interest on domestic debt	0.0	1.4	0.5	6.4	0.9	1.9
Interest on external debt	22.6	17.3	16.5	24.5	24.4	19.6
Other current expenditure	0.0	0.0	0.2	0.1	0.0	0.0
Investment	11.2	3.2	1.5	5.2	19.8	18.1
Net lending	0.0	0.9	-0.2	4.0	0.0	0.0
	(In percent of GDP)					
Wages and salaries	4.0	2.5	1.7	2.0	2.5	3.6
Other goods and services	1.9	5.0	4.3	3.5	3.8	4.6
Transfers and other subsidies	0.4	1.1	0.7	0.6	1.2	1.0
Interest on domestic debt	0.0	0.2	0.0	0.7	0.1	0.3
Interest on external debt	2.2	1.9	1.3	2.5	3.3	3.0
Other current expenditure	0.0	0.0	0.0	0.0	0.0	0.0
Investment	1.1	0.4	0.1	0.5	2.7	2.8
Net lending	0.0	0.1	0.0	0.4	0.0	0.0
GDP (in millions of CGF)	51,824	297,066	1,407,000	1,922,200	2,298,656	2,587,492

Sources: Congolese authorities; and IMF staff estimates.

1/ For 1999, the reliability of existing detailed data on expenditure is weak.
2/ Scheduled interest payments excluding interest on arrears.

Table 15. Democratic Republic of the Congo: Sectoral Distribution of State-Owned Enterprises

Enterprise	Acronym	Activity
Mining		
1. Entreprise Minière de Kisenge "Manganèse"	EMK "Mn"	Mining
2. GECAMINES Exploitation	GCM/E.	Mining
3. Office des Mines d'Or de Kilo-Moto	OKIMO	Gold mining
4. Société de developpement industriel et minier du Congo	SODIMICO	Mining
Energy		
5. La Congolaise des Hydrocarbures	COHYDRO	Oil
6. Régie de Distribution d'Eau	REGIDESO	Water company
7. Société Nationale d'Electricité	SNEL	Electricity company
Agriculture, forestry, and livestock		
8. Cacaoyer du Congo	CACAO-CONGO	Cocoa
9. Caisse de Stabilisation Cotonnière	CSCO	Cotton board
10. Cotonnière du Congo	COTON-CONGO	Cotton company
11. Complexe Sucrier de Lotokila	CSL	Sugar company
12. Office National du Café	ONC	Coffee board
13. Office National d'Elevage	ONDE	Husbandry
14. Palmeraie du Congo	PALMECO	Palm oil
Transport		
15. City-Train	CITYTRAIN	Transport
16. Compagnie Maritime Congolaise	CMC	Shipping company
17. Office de Gestion de Frêt Maritime	OGEFREM	Shipping agency
18. Office National de Transports	ONATRA	Transport
19. Régie des Voies Aériennes	RVA	Airport security
20. Régies des Voies Fluviales	RVF	Waterways management
21. Régies des Voies Maritimes	RVM	Maritime transport
22. Lignes Aériennes Congolaises	LAC	National airline
23. Société Nationale des Chemins de Fer Congolaise	SNCC	Railways
Post and telecommunications		
24. Agence Congolaise de Presse	ACP	Press agency
25. Radio Télévision Nationale Congolaise	RTNC	Broadcasting
26. Office Congolais de Postes et Télécommunications	OCPT	Telecommunications
Financial and social security		
27. Banque de Crédit Agricole	BCA	Banking
28. Caisse Générale d'Epargne du Congo	CADECO	Savings institution
29. Institut National de Sécurité Sociale	INSS	Social security
30. Société Nationale d'Assurance	SONAS	Insurance

Table 15. Democratic Republic of the Congo: Sectoral Distribution of State-Owned Enterprises (concluded)

Enterprise	Acronym	Activity
Other		
31. Dépôt Centre Médecine Pharmaceutique	DCMP	Pharmaceutical
32. Foire Internationale de Kinshasa	FIKIN	Trade promotion
33. Fonds de Promotion de l'Industrie	FPI	Promotion of industrial activity
34. Hôtel Karavia	KARAVIA	Hotel
35. Hôpital Général de Kinshasa	HGK	Hospital
36. Institut de Jardin Zoologique et Botanique Congolais	IJZBC	Zoo and botanical institute
37. Institut des Musées Nationaux du Congo	IMNC	Museum institute
38. Institut National de Statistiques	INS	Statistics institute
39. Institut National d'Etudes et de Recherche Agronome	INERA	Research institute
40. Institut National de Préparation Professionnelle	INPP	Training institute
41. Institut Congolais pour la Conservation de la Nature	ICCN	Conservation of environment
42. Office de Gestion de la Dette Publique	OGEDEP	Debt management agency
43. Office de Voiries et Drainage	OVD	Sewage
44. Office des Douanes et Accises	OFIDA	Customs administration
45. Office des Petites et Moyennes Entreprises	OPEZ	Small enterprises agency
46. Office des Routes	OR	Road maintenance
47. Office National du Tourisme	ONT	Tourism agency
48. Office Congolais de Contrôle	OCC	Standard control agency
49. Régie Nationale des Approvisionnements et de l'Imprimerie	RENAPI	Office supply

Source: Congolese authorities.

Table 16. Democratic Republic of the Congo: Government Labor Force and Wage Bill, 1999–2004

	1999	2000	2001	2002	2003	Est. 2004
Total number of government employees						
Civil servants	389,960	387,828	387,828	397,949	533,960	599,553
Army	...	...	176,852	182,553	182,553	318,227
Police	...	...	47,539	47,539	60,000	92,318
	(In billions of Congo francs)					
Wage bill	2.1	7.3	23.5	39.3	57.1	93.2
	(Annual percentage change)					
Annual change in government employees	181.2	-0.5	0.0	2.6	34.2	12.3
Annual change in the wage bill	960.3	251.7	221.9	66.9	45.4	63.3

Source: Congolese authorities.

Table 17. Democratic Republic of the Congo: Wage Scale, 1999–2004

(In Congo francs)

	1999	2000	2001	2002	2003	Est. 2004
Public sector (without transport allowances)						
Category 1	3,130	6,651	6,650	7,980	7,980	7,980
Category 2	2,034	4,323	6,118	7,341	7,341	7,341
Category 3	1,565	3,325	5,586	6,703	6,703	6,703
Category 4	939	2,660	5,386	6,463	6,463	6,463
Category 5	626	1,740	4,788	5,745	5,745	5,745
Category 6	513	1,393	3,192	3,830	3,830	3,830
Category 7	462	1,219	2,527	3,020	3,020	3,020
Category 8	412	1,044	1,995	2,394	2,394	2,394
Category 9	391	870	1,663	1,995	1,995	1,995
Category 10	376	798	1,397	1,676	1,676	1,676
Category 11	344	731	1,197	1,436	1,436	1,436
Category 12	313	665	665	798	798	798
Public sector (with transport allowances)						
Category 1	...	8,211	11,090	12,420	12,420	17,182
Category 2	...	5,883	10,558	11,781	11,781	16,543
Category 3	...	4,885	10,026	11,143	11,143	15,905
Category 4	...	4,220	9,826	10,903	10,903	15,665
Category 5	...	3,300	9,228	10,185	10,185	14,947
Category 6	...	2,953	7,632	8,270	8,270	13,032
Category 7	...	2,779	6,967	7,460	7,460	12,222
Category 8	...	2,604	6,435	6,834	6,834	11,596
Category 9	...	2,430	6,103	6,435	6,435	11,197
Category 10	...	2,358	5,837	6,116	6,116	10,878
Category 11	...	2,291	5,637	5,876	5,876	10,638
Category 12	...	2,225	5,105	5,238	5,238	10,000

Source: Congolese authorities.

Table 18. Democratic Republic of the Congo: Monetary Survey, 2000–04

	2000	2001	2002	2003	Est. 2004
	(In millions of Congo francs)				
Net foreign assets	-28,522	-181,368	-222,335	-258,995	-282,597
Net domestic assets	52,080	257,401	321,167	389,113	504,824
Net domestic credit	16,678	23,426	16,360	49,205	68,746
Net credit to government	13,730	12,242	2,328	29,582	27,212
Credit to the private sector	2,539	10,789	13,205	19,393	39,703
Credit to parastatals	409	395	827	228	1,799
Other items, net	35,402	233,974	304,807	339,908	436,078
Broad money (M2)	22,004	69,686	94,089	124,503	215,270
Narrow money (M1)	18,557	42,627	57,893	72,110	117,078
Currency in circulation	15,963	31,873	49,757	63,148	101,467
Demand deposits	2,594	10,754	8,135	8,962	15,611
Quasi money	3,447	27,059	36,196	52,393	98,192
Time deposits in domestic currency	0	25	162	321	362
Foreign currency deposits	3,446	27,034	36,034	52,071	97,830
Import deposits	1,554	6,347	4,744	5,616	6,956
	(Annual change in percent of beginning-of-period broad money, unless otherwise indicated)				
Net foreign assets	-710.1	-694.6	-58.8	-39.0	-19.0
Net domestic assets	...	933.1	91.5	72.2	92.9
Net domestic credit	342.7	30.7	-10.1	34.9	15.7
Net credit to government	272.2	-6.8	-14.2	29.0	-1.9
Credit to the private sector	60.8	37.5	3.5	6.6	16.3
Credit to parastatals	9.7	-0.1	0.6	-0.6	1.3
Other items, net	1011.5	902.4	101.6	37.3	77.2
Broad money (M2)	493.1	216.7	35.0	32.3	72.9
Narrow money (M1)	406.9	109.4	21.9	15.1	36.1
Currency in circulation	350.9	72.3	25.7	14.2	30.8
Demand deposits	56.0	37.1	-3.8	0.9	5.3
Quasi money	86.2	107.3	13.1	17.2	36.8
Time deposits in domestic currency	0.0	0.1	0.2	0.2	0.0
Foreign currency deposits	86.3	107.2	12.9	17.0	36.8
Import deposits	36.4	21.8	-2.3	0.9	1.1
Memorandum items:					
Velocity (GDP/ broad money)	13.5	20.2	20.4	18.5	12.0
Net foreign assets (in millions of U.S. dollars)	-413.1	-664.3	-640.7	-640.0	-710.4
Of which : central bank	-439.2	-715.5	-699.8	-728.7	-875.9

Source: Congolese authorities.

Table 19. Democratic Republic of the Congo: Central Bank Accounts, 2000–04

(In millions of Congo francs)

	2000	2001	2002	2003	Est. 2004
Net foreign assets	-30,325	-195,368	-242,846	-294,888	-348,404
Foreign assets	2,571	6,819	29,776	41,223	138,573
Foreign liabilities	32,896	202,187	272,622	336,110	486,328
Net domestic assets	51	247	304	370,038	471,086
Net domestic credit	15,035	14,640	9,634	42,490	52,043
Net credit to government	14,020	13,080	5,472	36,900	38,382
Gross credit to government	16,415	19,839	25,810	60,984	150,513
Government deposits	2,395	6,759	20,336	24,085	112,131
Credit to commercial banks	128	414	2,799	3,901	12,604
Credit to parastatals	301	0	0	0	0
Credit to the private sector	587	1,146	1,363	1,689	1,057
Other items, net	-14,984	-14,393	-9,330	327,549	419,042
Assets = Liabilities	20,603	49,966	61,012	410,122	552,482
Monetary base	20,603	51,354	61,359	75,151	122,681
Currency in circulation	16,511	32,678	51,559	65,897	105,889
In bank vaults	548	805	1,801	2,748	4,421
Outside banks	15,963	31,873	49,757	63,148	101,467
Banks' deposits	1,147	2,896	638	1,476	5,788
Parastatals' deposits	20	91	52	86	193
Private sector deposits	413	2,683	128	270	53
Foreign currency deposits	1,287	7,637	5,333	3,964	6,071
Import deposits	1,224	5,369	3,650	3,459	4,688

Source: Congolese authorities.

Table 20. Democratic Republic of the Congo: Balance Sheet of the Deposit Money Banks, 2000–04

(In millions of Congo francs)

	2000	2001	2002	2003	Est. 2004
Net foreign assets	1,803	14,001	20,512	35,893	65,807
Foreign assets	3,772	29,295	30,840	67,188	108,043
Foreign liabilities	1,969	15,295	10,328	31,295	42,235
Reserves	1,702	4,359	3,072	5,912	10,855
Cash in vault	548	805	1,801	2,748	4,421
Deposits with central bank	1,153	3,554	1,271	3,164	6,434
Net domestic credit	1,770	9,201	9,524	10,616	29,307
Net credit to government	-290	-838	-3,144	-7,318	-11,170
Gross credit to government	73	1,253	593	780	2,637
Government deposits	363	2,092	3,737	8,097	13,807
Credit to parastatals	108	395	827	228	1,799
Credit to the private sector	1,952	9,644	11,842	17,704	38,646
Other items, net	457	-1,442	8,338	9,988	12,094
Assets = Liabilities	5,275	27,560	41,446	62,410	118,063
Deposits	4,321	27,402	38,819	57,035	107,485
Demand deposits	2,161	7,980	7,956	8,606	15,364
Time deposits	0	25	162	321	362
Foreign currency deposits	2,159	19,397	30,701	48,108	91,759
Credit from central bank	167	622	1,533	3,218	8,309
Import deposits	330	978	1,094	2,157	2,269

Source: Congolese authorities.

1/ Due to accounting problems, these lines cannot be reconciled with those in the central balance sheet.

Table 21. Democratic Republic of the Congo: List of Commercial Banks

1	Banque Commerciale du Congo (BCDC)
2	Banque Congolaise du Commerce Extérieur (BCCE)
3	Banque Congolaise
4	Banque Internationale pour l'Afrique au Congo (BIAC)
5	Banque du Commerce et de Développement (BCD)
6	Banque Internationale de Crédit (BIC)
7	Citibank
8	First Banking Corporation (FBC)
9	Rawbank
10	Stanbic Bank
11	Union des Banques Congolaises (UBC)
12	Trust Mechant Bank

Source: Congolese authorities.

Table 22. Democratic Republic of the Congo: Distribution of Commercial Banks' Credits by Sector, 1999–2004

(In millions of Congo francs)

	1999	2000	2001	2002	2003	Est. 2004
Agriculture	61	536	3,126	1,398	1,228	3,480
Mining	10	15	57	89	103	5,298
Manufacturing	33	400	1,657	1,976	2,218	5,123
Construction	11	44	138	140	133	2,339
Energy	4	35	42	184	81	1,405
Transportation	16	143	437	833	1,386	2,497
Distribution	60	432	2,326	4,278	4,459	6,966
Trade	11	2	33	...	...	...
Imports	11	0	0	...	...	...
Exports	1	2	33	...	...	...
Other	49	453	2,223	3,784	8,392	16,089
Total	267	2,062	10,072	12,682	18,000	43,197

Sources: Congolese authorities; and IMF staff estimates.

Table 23. Democratic Republic of the Congo: Developments in the Commercial Banking System, 1999–2004

	1999	2000	2001	2002	2003	Est. 2004
	(In millions of Congo francs, end of period)					
Assets of commercial banking system	199	1,147	2,896	638	1,476	3,988
Loans of commercial banks	333	2,942	13,358	13,964	27,759	43,198
Deposits of commercial banks	608	4,321	27,401	38,819	57,035	107,988
Congo francs	406	2,162	8,005	8,118	8,927	16,198
Foreign exchange	202	2,159	19,396	30,701	48,108	91,790
	(In percent of GDP)					
Assets of commercial banking system	0.4	0.4	0.2	0.0	0.1	0.2
Loans of commercial banks	0.6	1.0	0.9	0.7	1.2	1.7
Deposits of commercial banks	1.2	1.5	1.9	2.0	2.5	4.2
	(In percent per annum)					
Lending rates						
Central Bank of the Congo						
Rediscount	125.0	125.0	145.0	29.0	13.0	16.0
Money market	120.0	120.0	140.0	24.0	8.0	14.0
Advances	145.0	145.0	165.0	49.0	15.0	18.0
Commercial banks						
Short-term credit	165.0	165.0	170.0	48.9	30.0	30.0
Medium-term credit	165.0	165.0	170.0	48.9	30.0	30.0
Memorandum items:						
Broad money (in millions of CGF)	3,710	22,004	69,686	94,089	124,503	215,270
In percent of GDP	7.2	7.4	5.0	4.9	5.4	8.3
Currency in circulation outside banks	2,944	15,963	31,873	49,757	63,148	101,467
In percent of GDP	5.7	5.4	2.3	2.6	2.7	3.9
In percent of broad money	79.4	72.5	45.7	52.9	50.7	47.1
Nominal GDP (in billions of Congo francs)	51.8	297.1	1,407.0	1,922.2	2,298.7	2,587.5

Source: Congolese authorities.

1/ Starting in 1998, deposit rates are no longer published.

Table 24. Democratic Republic of the Congo: Balance of Payments Summary, 1999–2004

	1999	2000	2001	2002	2003	Est. 2004
	(In millions of U.S. dollars)					
Current account	-113	-199	-252	-152	-83	-355
Merchandise trade	516	217	74	-17	-156	-243
Exports, f.o.b.	974	892	880	1,076	1,340	1,813
Of which : diamonds	579	444	462	653	816	857
Imports, f.o.b.	-458	-676	-807	-1,093	-1,496	-2,056
Of which: aid-related imports 1/	-85	-135	-194	-270	-309	-306
Services	-253	-168	-179	-255	-253	-333
Receipts	46.7	71	80	99	144	172
Of which: MONUC 2/	0.2	3	7.2	12	20	33
Expenditure	-300	-239	-260	-354	-398	-505
Of which: aid-related imports 1/	-43	-68	-88	-109	-104	-112
Income	-394	-388	-414	-297	-170	-274
Receipts	1	17	19	20	73	91
Of which: MONUC 2/	0.1	0	1	4	7	8
Expenditure	-395	-405	-432	-318	-243	-365
Of which: interest payments 3/	-375	-385	-410	-285	-196	-201
Current unrequited transfers	18	141	267	417	497	496
Public	138	205	295	415	475	432
Of which : official aid	131	205	295	415	475	432
Private	-120	-64	-28	-46	-8	32
Capital account	-611	-385	-315	150	-113	-112
Official capital	-403	-336	-308	137	-94	1
Gross disbursements	0	3	10	400	148	220
Of which: net new financing	0	3	10	74	148	220
Amortization 4/	-403	-339	-318	-263	-242	-219
Private capital (net)	-208	-50	-7	13	-18	-113
Of which: foreign direct investment	23	74	82	117	391	435
Balance before errors and omissions	-724	-584	-567	-2	-195	-467
Errors and omissions	30	-245	-142	-159	-257	190
Overall balance	-694	-829	-709	-161	-452	-277
Financing	694	829	709	-10,169	-26	-408
Net change in non-Fund arrears	800	742	698	-10,142	-166	-350
Net banking sector reserves (increase, -)	-107	87	11	-26	140	-59
Of which: net Fund credit 5/	13	17	16	544	68	69
Financing gap before exceptional assistance	0	0	0	-10,330	-478	-686
Exceptional financing	0	0	0	10,330	478	686
Consolidation of arrears	0	0	0	9,960	197	380
Debt relief on current debt service	0	0	0	370	282	305
Relief from Naples flow rescheduling 3/ 4/	0	0	0	273	118	57
Relief from Cologne flow rescheduling and the capitalization of moratorium interest 5/	0	0	0	97	125	124
Relief from HIPC assistance by multilateral creditors in the form of grants	0	0	0	0	141	175
Relief from a stock operation at the completion point 6/	0	0	0	0	0	0
Final balance	0	0	0	0	0	0

Table 24. Democratic Republic of the Congo: Balance of Payments Summary, 1999–2004 (concluded)

	1999	2000	2001	2002	2003	Est. 2004
Memorandum items:	(In percent of GDP, unless otherwise indicated)					
Debt service, after debt relief (in percent of exports of goods and services) 7/	52.7	45.8	42.5	2.9	8	5
Current account balance, incl. grants, before debt relief	-2.6	-4.6	-4.9	-2.8	-1	-5
Current account balance, excl. official transfers, before debt relief	-5.8	-9.4	-10.6	-10.3	-10	-12
Current account balance, incl. grants, after debt relief	-2.6	-4.6	-4.9	2.2	-1	-4
Current account balance, excl. grants, after debt relief	-5.8	-9.4	-10.6	-5.3	-9	-11
Gross official reserves (in millions of U.S. dollars)	65.5	51.4	21.7	74.7	98	236
In weeks of non-aid-related imports of goods and services	4.8	3.4	1	2.6	2	5
In weeks of official non-aid-related imports of goods and services	5.6	4.0	1	2.9	3	5
HIPC Initiative assistance (in millions of U.S. dollars) 8/	0.0	0.0	0	0.0	17	75

Sources: Congolese authorities; and Fund staff estimates.

1/ Including interest due to the IMF.
2/ Excluding repayments to the IMF.
3/ The Naples flow rescheduling was concluded in September 2002. It provided for a rescheduling of arrears and current debt service on eligible debt during the consolidation period (July 2002-June 2005) after a cancellation of 67 percent in net present value (NPV) terms of arrears outstanding at June 30, 2002, and of current debt service during the consolidation period. In addition, the Paris Club treatment provided for a capitalization of moratorium interest on debt that has been rescheduled. To facilitate the clearance of arrears on short-term debt and post-cutoff-date (June 30, 1983) debt, as well as the servicing of post-cutoff-date debt, the Paris Club treatment envisaged a repayment of the amounts due in accordance with a new payments schedule.
4/ At the end of 2002, arrears outstanding to Paris Club creditors had been cleared, and, accordingly, Naples flow rescheduling applies only to current debt service.
5/ The numbers for the revised program and current projections include the additional debt relief provided by individual creditors beyond Cologne terms The rescheduling on Cologne terms begins in 2003. The data for 2002 refer to the capitalization of moratorium interest.
6/ The current projection includes the impact on debt service of the additional cancellation of debt committed by individual creditors beyond the Heavily Indebted Poor Countries (HIPC) Initiative.
7/ It takes into account the Naples flow rescheduling, the capitalization of moratorium interest, the Cologne flow rescheduling, the additional debt service relief beyond the Cologne flow rescheduling, the grants provided by multilateral creditors in the context of the enhanced HIPC Initiative, and the impact of the stock-of-debt operation (including any additional cancellation beyond the HIPC Initiative) at the completion point on debt service . The data also take into account the rescheduling agreements which have already been signed with some commercial creditors as well as the impact on debt service of the accumulation of arrears to non-Paris Club creditors.
8/ For bilateral and commercial creditors, it includes the debt relief resulting from the enhanced HIPC Initiative (excluding debt relief beyond the HIPC Initiative) following the use of all traditional debt-relief mechanisms, including a hypothetical stock-of-debt operation on Naples terms. Only assistance based on rescheduling agreeements which have been concluded are taken into account. For multilateral creditors, it includes the amount of HIPC grants that are made available for the purpose of delivering their share of assistance under the Initiative.

Table 25. Democratic Republic of the Congo: Composition of Commodity Exports, 1999–2004

(Values in millions of U.S. dollars; volumes and unit values as indicated)

	1999	2000	2001	2002	2003	Est. 2004
Total exports, f.o.b.	974	892	880	1,076	1,340	1,813
Of which : parallel exports	258	264	262	293	289	1,453
Volume (2002 = 100)	103	88	100	100	100	120
Unit value (2002 = 100)	88	93	124	100	124	140
Copper	48	47	42	51	19	60
Volume (thousands of tons)	31	31	26	33	11	22
Unit value (U.S. dollars per ton)	1,541	1,455	1,578	1,560	1,808	2,708
Cobalt	80	97	70	70	102	250
Volume (thousands of tons)	2	4	3	5	4	5
Unit value (U.S. dollars per ton)	34,613	27,249	20,437	14,330	23,883	54,346
Gold 1/	3	1	21	18	10	10
Volume (tons)	0	0	2	2	1	1
Unit value (millions of U.S. dollars per ton)	9	9	8	10	11	13
Diamonds 1/	579	444	462	653	816	828
Volume (millions of carats)	31	29	29	36	34	33
Unit value (U.S. dollars per carat)	19	15	16	18	24	25
Crude oil	116	207	201	199	251	360
Volume (millions of barrels)	9	8	9	9	9	10
Unit value (U.S. dollars per barrel)	13	25	23	23	27	36
Coffee 1/	86	7	2	9	13	16
Volume (thousands of tons)	60	28	4	18	11	14
Unit value (U.S. dollars per ton)	1,444	265	447	510	1,095	1,195
Rubber	2	1	1	1	0	0
Volume (thousands of tons)	3	2	2	2	0	0
Unit value (U.S. dollars per ton)	636	691	601	770	1,083	1,327
Other exports	60	86	82	73	130	286

Sources: Congolese authorities; and staff estimates.

1/ Includes parallel-market exports.

Table 26. Democratic Republic of the Congo: Composition of Imports, 1999–2004

	1999	2000	2001	2002	2003	Est. 2004
	(Values in millions of U.S. dollars; unit values in U.S. dollar terms)					
Imports, total						
Value, f.o.b.	458	676	807	1,093	1,495	2,056
Volume index (2002 = 100)	43	60	77	100	127	161
Unit value index (2002 = 100)	98	102	96	100	107	117
Oil products						
Value, f.o.b.	57	49	42	53	75	130
Volume index (2002 = 100)	150	82	82	100	123	160
Unit value index (2002 = 100)	72	113	97	100	116	154
Non-oil						
Value, f.o.b.	401	627	765	1,040	1,420	1,926
Volume index (2002 = 100)	41	63	77	100	135	183
Unit value index (2002 = 100)	100	102	96	100	114	122
Aid-related imports 1/	85	135	194	270	309	306
Non-aid-related imports	372	541	613	823	1,186	1,750
	(In percent of total)					
Imports						
Oil	12.4	7.2	5.2	4.8	5.0	6.3
Non-oil	87.6	92.8	94.8	95.2	95.0	93.7
Aid-related imports	18.7	20.0	24.1	24.7	20.7	14.9
Non-aid-related imports	81.3	80.0	75.9	75.3	79.3	85.1
	(Percentage change)					
Total imports (value)	-40.9	47.6	19.4	35.4	36.8	37.5
Oil	-55.1	-14.5	-13.9	25.8	43.0	73.1
Non-oil	-39.9	56.3	22.0	35.9	36.5	35.7
Aid-related imports	-31.1	58.1	43.9	38.9	14.5	-0.8
Non-aid-related imports	-42.8	45.1	13.3	34.3	44.2	47.5
Total imports (volume)	-37.9	41.3	26.8	30.5	27.3	26.5
Oil	-67.4	-45.5	0.2	22.3	23.5	29.9
Non-oil	-35.3	53.1	22.6	30.0	34.7	35.7
Total imports (price)	4.0	4.5	-5.8	3.7	7.5	8.7
Oil	-1.7	57.0	-14.0	2.8	15.8	33.3
Non-oil	0.3	1.8	-5.4	3.8	13.7	7.1

Sources: Congolese authorities; and IMF staff estimates.

1/ Estimated.

Table 27. Democratic Republic of the Congo: Foreign Trade Indicators, 1999–2004

(Index, 2002 = 100, unless otherwise indicated)

	1998	1999	2000	2001	2002	2003	Est. 2004
Merchandise exports							
Value, U.S. dollars	49	90.6	83.0	81.9	100.0	124.6	168.6
(percent change)	-1	85.2	-8.4	-1.3	22.2	24.6	35.3
Volume index	41	103.4	90.3	88.2	100.0	100.3	120.4
(percent change)	7	149.8	-12.7	-2.3	13.4	0.3	20.1
Unit values, U.S. dollars	118	87.6	91.9	92.8	100.0	124.2	140.0
(percent change)	-8	-25.9	4.9	1.0	7.7	24.2	12.7
Merchandise imports							
Value, U.S. dollars	40	41.9	61.8	73.9	100.0	136.8	188.2
(percent change)	12	4.0	47.6	19.4	35.4	36.8	37.5
Volume	43	42.8	60.4	76.6	100.0	127.3	161.1
(percent change)	24	0.0	41.3	26.8	30.5	27.3	26.5
Unit values, U.S. dollars	94	98.0	102.3	96.4	100.0	107.5	116.9
(percent change)	-10	4.0	4.5	-5.8	3.7	7.5	8.7
Terms of trade	125	89.4	89.8	96.3	100.0	115.6	119.8
(percent change)	2	-28.7	0.5	7.2	3.8	15.6	3.6

Sources: Congolese authorities; and IMF staff estimates.

Table 28. Democratic Republic of the Congo: External Public and Publicly Guaranteed Debt Outstanding, 1999–2004 1/

	1999	2/ 2000	2001	2002	2003	Est. 2004
	(In millions of U.S. dollars)					
External public debt	13,238	12,609	12,457	10,709	10,775	10,542
Multilateral institutions	2,569	3,238	2,754	3,567	3,625	3,925
IMF	544	506	503	547	595	716
Other	2,025	2,732	2,251	3,020	3,030	3,209
Official bilateral creditors	10,239	8,942	9,386	6,789	6,558	6,499
Paris Club	9,385	8,561	9,088	6,352	6,117	6,056
Other	854	381	298	437	441	443
Commercial creditors (Kinshasa Club)	393	391	280	296	535	60
Commercial creditors (London Club)	37	37	37	58	58	58
	(In percent of total)					
External public debt	100.0	100.0	100.0	100.0	100.0	100.0
Multilateral institutions	19.4	25.7	22.1	33.3	33.6	37.2
IMF	4.1	4.0	4.0	5.1	5.5	6.8
Other	15.3	21.7	18.1	28.2	28.1	30.4
Official bilateral creditors	77.3	70.9	75.3	63.4	60.9	61.7
Paris Club	70.9	67.9	73.0	59.3	56.8	57.4
Other	6.4	3.0	2.4	4.1	4.1	4.2
Commercial creditors (Kinshasa Club)	3.0	3.1	2.2	2.8	5.0	0.6
Commercial creditors (London Club)	0.3	0.3	0.3	0.5	0.5	0.5

Sources: Congolese authorities; and IMF staff estimates.

1/ Including arrears on principal and interest, as well as staff estimates of accumulated unpaid late interest where data are available.
2/ Data for 2000 were reviewed and revised by the authorities and the staff; hence, they represent a break from earlier data.

Table 29. Democratic Republic of the Congo: Debt Service Due and Paid, 1999–2004 1/

(In millions of U.S. dollars)

	1999	2/ 2000	2001	2002	2003	Est. 2004
Total debt service due	791.0	723.9	727.8	548.1	437.9	419.5
Principal	416.0	338.6	317.7	262.7	242.0	218.5
Multilateral institutions	141.6	108.5	60.8	41.1	33.5	52.1
IMF	12.9	0.0	0.0	0.0	0.0	0.0
Other	128.7	108.5	60.8	41.1	33.5	52.1
Official bilateral creditors (Paris Club)	263.9	223.5	251.1	221.6	200.9	146.1
Paris Club	263.9	223.5	236.2	205.6	184.5	129.7
Other	0.0	0.0	14.9	16.0	16.4	16.4
Commercial creditors (Kinshasa Club)	10.5	6.6	5.8	5.0	7.6	20.4
Commercial creditors (London Club)	0.0	0.0	0.0	0.0	0.0	0.0
Interest	375.0	385.3	410.2	285.4	195.9	201.0
Multilateral institutions	56.8	50.5	73.9	40.3	19.5	24.0
IMF	15.8	17.0	15.6	5.8	3.2	4.6
Other	41.0	33.5	58.3	34.5	16.2	19.4
Official bilateral creditors (Paris Club)	316.6	333.6	335.6	245.1	176.1	176.1
Paris Club	316.6	333.6	333.2	243.1	173.1	173.9
Other	0.0	0.0	2.4	2.0	3.0	2.2
Commercial creditors (Kinshasa Club)	1.6	1.2	0.7	1.0	0.4	0.9
Commercial creditors (London Club)	0.0	0.0	0.0	0.0	0.0	0.0
Total debt service paid	2.7	0.1	0.3	26.2	125.8	94.5
Principal	0.9	0.0	0.0	12.1	75.0	70.9
Multilateral institutions	0.9	0.0	0.0	12.1	15.0	20.6
IMF	0.9	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	12.1	15.0	20.6
Official bilateral creditors (Paris Club)	0.0	0.0	0.0	0.0	56.7	28.5
Paris Club	0.0	0.0	0.0	0.0	56.7	28.5
Other	0.0	0.0	0.0	0.0	0.0	0.0
Commercial creditors (Kinshasa Club)	0.0	0.0	0.0	0.0	3.3	21.8
Commercial creditors (London Club)	0.0	0.0	0.0	0.0	0.0	0.0
Interest	1.8	0.0	0.3	14.1	51.1	24.0
Multilateral institutions	1.8	0.0	0.3	14.1	15.4	7.1
IMF	1.8	0.0	0.3	2.1	2.1	1.5
Other	0.0	0.0	0.0	12.1	13.2	5.6
Official bilateral creditors (Paris Club)	0.0	0.0	0.0	0.0	35.0	15.8
Paris Club	0.0	0.0	0.0	0.0	35.0	15.8
Other	0.0	0.0	0.0	0.0	0.0	0.0
Commercial creditors (Kinshasa Club)	0.0	0.0	0.0	0.0	0.2	1.1
Commercial creditors (London Club)	0.0	0.0	0.0	0.0	0.5	0.1

Sources: Congolese authorities; and IMF staff estimates.

1/ Until 2001, includes interest payments on arrears.

2/ Data for 2000 were reviewed and revised by the authorities and the staff; hence, they represent a break from earlier data.

Democratic Republic of the Congo: Summary of the Tax System, 2004
(Amounts are expressed in Congo francs, unless otherwise indicated)

Tax	Nature and Scope of Tax	Exemptions and Deductions	Rates
I. Income Taxes			
1. Professional income tax (*impôt sur les revenus professionnels* (CRP))			
a. Profit tax	Levied on profits of industrial, commercial, artisanal, farming, or real estate enterprises and associations. Also levied on profits from the sale, transfer, or assignment of patents, trademarks, manufacturing processes or methods; on profits from the realization of assets and on the transfer of firms, practices, or offices.	The following entities are exempt from the profit tax: the central government, provinces, towns, and religious, scientific, or philanthropic institutions.	• 40 percent of net profits for taxpayers under ordinary law and category 1 SMEs (annual turnover in excess of CGF 300,000); • - progressive schedule for category 2 SMEs (turnover of CGF 150,000–300,000);
	Enterprises having less than 200 employees and assets of less than CGF 11,200,000 are considered small enterprises (SMEs).		• flat rate for category 3 SMEs (turnover of CGF 75,000–150,000); and
	A withholding tax applies to imports (1 percent for registered enterprises and 5 percent for others) and wholesale purchases (at a rate of 2 percent). The withholding tax is deductible from the IRP upon payment of the tax installments and balance.		• quarterly quotas for category 4 SMEs (turnover below CGF 75,000). • minimum contribution 1/1000 of turnover.
b. Individual income tax (*impôt professionnel sur les rémunérations* (IPR))	Levied on the remuneration of individuals paid by third parties (wages, various remunerations, pensions, etc.). The tax is withheld at the source by the employer and	Family allowances, social security, retirement pension, and unemployment insurance contributions are deducted from the	Percent 0–72,000 3 72,001–126,000 5

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Tax	Nature and Scope of Tax	Exemptions and Deductions	Rates
	paid to the tax collecting agency before the tenth day of the month following payment of remunerations.	tax base. Retirement, disability, and military pensions are IPR-exempt, as is the remuneration of employees of international organizations and diplomatic missions. 20 percent reduction for each dependent for incomes below the 8th bracket.	126,001–208,800 10 208,801–330,000 15 330,001–498,000 20 498,001–788,400 25 798,401–1,200,000 30 1,200,001–1,686,000 35 1686,001–2,091,600 40 2,091,601–2,331,600 45 > 2,331,600 50 without exceeding 35 percent of taxable income.
2. Extraordinary tax on remuneration of expatriates	Levied on the gross amount of remuneration paid by employers to their expatriate staff.	The government, nonprofit organizations, international organizations, and embassies are exempted.	25 percent.
3. Rental income tax (*impôt sur les revenus locatifs* (IRL))	Levied on gross annual income from the leasing and subleasing of buildings and land. The owner shall submit an annual return before March 31 of the year following that in which the income was realized.	The central government, towns, provinces, public utility companies, religious, philanthropic, and scientific institutions, and diplomatic missions.	22 percent of gross income.
4. Capital income tax (Import sur les revenus mobiliers	Levied on gross amount of interest payments and dividends received by shareholders and associates.	.	20 percent of gross amount.

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Tax	Nature and Scope of Tax	Exemptions and Deductions	Rates
II. Turnover Tax (*impôt sur le chiffre d'affaires* (ICA))			.
1. Domestic ICA	General tax on sales by producers on local markets, services provided or used in the DRC, and construction work. Levied on gross invoice amounts, except for construction work (base set at ¾ of the value of the work). Payment is made in two stages: - first installment before the 20th of the month in which the transactions were effected, and - first the balance, before the 15th of the following month.	ICA-exempt: - retail sales; - sales of handcraft - works of national interest; - medical and paramedical activities; - goods transport; - funeral services; - hotel charges for national and international civil servants.	3 percent: local products similar to those imported with a 5 percent customs duty; 9 percent bank services 13 percent: other products 18 percent: provision of services and construction work; 6 percent domestic: flights; 15 percent: international flights; and 30 percent: provision of assistance when the provider is not established in the DRC.
2. ICA on imports	Levied on the c.i.f. value of imports plus import duties. Tax levied by the customs and excise office (OFIDA).	Imports expressly exempted.	3 percent for goods liable to customs duty of 5 percent and 13 percent for other imports.

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Tax	Nature and Scope of Tax	Exemptions and Deductions	Rates
III. Nonpersonal Property Taxes	Tax on property ownership.		
1. Land tax	Lump-sum tax calculated on the type of real estate, its location, and the standing of the owner.	The central government, towns, provinces, public utility companies, religious, philanthropic and scientific institutions, and diplomatic missions; permanent exemption for small farms.	Built properties: from US$1.5–75/floor according to location; Nonbuilt properties: from US$1.5–30, according to location.
		Exemption of older tax payers (55 years) and widower.	Residential: from US$0.3–1.5/m2 according to a classification of four ranks.
2. Tax on mining and petroleum concessions	Tax owed by holders of concessions granted by the government for mining and petroleum research and/or exploration.		US$0.02/ha for research concessions US$0.03/ha in the 2nd year, US$0.035/ha in the 3rd year and US$0.04/ha in the 4th year); US$0.04/ha for exploitation concessions, US$0.06/ha in the 2nd year; US$0.07 in the 3rd year; and US$0.08/ha in the 4th year.
3. Vehicle tax and special tax on highway use (toll fee—TSCR)	The vehicle tax is based on the weight and horsepower of motor vehicles. The TSCR is a tax on road use.	Exempt are vehicles owned by the central government, international organizations, the diplomatic corps, utility companies, mopeds, and ambulances.	Vehicle tax: tax sticker price ranges between US$5–44 according to horsepower; TSCR: annual sticker price between US$6–45 per vehicle.

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Tax	Nature and Scope of Tax	Exemptions and Deductions	Rates
IV. Excise Duties			
1. Selected products	Excise duties are levied on a large number of locally manufactured or imported consumer goods. Base: for imports: c.i.f. value + import duty. For locally manufactured products: ex-factory price. Examples: 3 percent on flavored beverages and other nonalcoholic drinks; 5 percent on sugar, cement, and matches; 10 percent on mineral and sparkling waters, ethyl alcohol, and eau de vie; perfumes and eaux de toilette; 15 percent on beer under 6° proof and sparkling wines; and wines under 15° proof; 20 percent on vermouths; 25 percent on wines more than 15° proof; 30 percent on other alcoholic drinks (whiskies, rum, gin, vodka, etc.); and 40 percent on cigars, cigarettes, and cigarillos.	.	Eight rates: 3 percent, 5 percent, 10 percent, 15 percent, 20 percent, 25 percent, 30 percent, and 40 percent.
2. Petroleum products	Petroleum products (including gasoline, kerosene, diesel oil and fuel oil, and liquefied petroleum gas) are taxed on the basis of the average price at the border (*prix moyen frontière (PMF) fisca*l) plus customs duties. The *PMF fiscal* expressed in U.S. dollars has not been modified since 1990.		Rate: 25 percent for gasoline 15 percent for other products.

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Tax	Nature and Scope of Tax	Exemptions and Deductions	Rates
V. Customs Duties			
1. Import duties	Levied on the c.i.f. value of imports, except for petroleum products, for which customs duties are applied to the "PMF fiscal" (see excise duties, Section IV).	Various exemptions or reduced rates (e.g., 5 percent instead of 10 percent or 20 percent for inputs designated as not available in the DRC) under the customs code, the investment and mining codes, and international agreements.	4 rates: 0 percent, 5 percent, 10 percent, and 20 percent). Examples: 0 percent on farm inputs, banknotes, and stamps; 5 percent on capital goods, fuel oil, and industrial flours; 10 percent on widely consumed food products, pharmaceutical products, flours for direct consumption, spare parts and petroleum products; 20 percent on finished products.
4. Other levies on imports	Direction Générale des Recettes Administratives, Judiciaires, Domaniales et de participations (DGRAD) various, at fixed rates or ad valorem; Office congolais de contrôle (OCC) 1.5 percent on the f.o.b./c.i.f. value of which 0.85 percent for Société Générale de Surveillance (SGS) on the f.o.b. value at the market rate and 0.6 percent for OCC on the c.i.f. value at the official rate; Fonds pour la Promotion de l'Industrie (FPI) 2 percent value c.i.f. + customs duties, and Office de Gestion du Frêt Maritime (OGEFREM) 0.5 percent of the c.i.f. value.		Various ad valorem rates: (DGI, OCC, OGEFREM) and fixed (DGRAD).

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Tax	Nature and Scope of Tax	Exemptions and Deductions	Rates
5. Export duties	Levied on certain basic exports (see opposite).	None.	1.5 percent on artisanal gold and diamonds; 1 percent on coffee; 6 percent on logs; 3 percent on sawn wood; 5–10 percent on other mining products; (7 percent for GECAMINES); 3 percent on industrial gold and diamonds; 5 percent on crude petroleum products, except for production under convention).
VI. Administrative Charges and Licenses			
1. Environment	Licenses (fishing, hunting, and logging).	None.	Specific rates.
2. Real estate	Recording fees, transaction fees, stamp duties.	None.	Specific rates.
3. Mines	Prospecting fees; mining operations permit (individuals and companies); purchasing office licenses (gold, diamonds, etc.).	None.	Specific rates.

Source: Congolese authorities.