

DEMOCRATIC REPUBLIC OF CONGO



Spring 2011

Bi-Annual Economic Report



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FOREWORD

T*his report is part of a series aimed at monitoring economic developments in the Democratic Republic of Congo . The main objective of these reports is to provide regular updates on key macroeconomic developments and reform initiatives. The reports focus on macroeconomic developments and key structural reforms that have both significant short and medium term impacts. This report presents a broad overview of macroeconomic, political and structural developments in the Democratic Republic of Congo (DRC) up to January 2011 and the outlook for the remainder of 2011.*

It is our hope that these reports will provide a valuable addition to other economic reporting on the country. Comments on the content of this report series are the most welcome.

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HIGHLIGHTS

- DRC's constitution adopted in 2006 has been revised in January 2011 by Parliament. The main changes to the original texts include the election of the president by a majority in a single round vote.
- The presidential elections are scheduled for November 2011. In the meantime, the revision of the electoral roll continues in the provinces.
- The Congolese authorities have maintained prudent fiscal policies under the IMF Extended Credit Facility (ECF) program, which has achieved the main objectives of this program in 2010 with an inflation rate (end-of-period) below the target of 9.9 percent. The economy has registered, thanks to the dynamism of the mining sector, a solid growth rate of 7.2 percent compared to 2.8 percent in 2009. GDP growth for 2011 is projected to reach 6.5 percent.
- The external debt relief granted for DRC under the HIPC/ MDRI initiative in July 2010 has significantly improved the status of its external debt.
- The country's external position has improved. The current account balance, including grants, improved from a deficit of 10.5 percent of GDP in 2009 to 6.8 percent in 2010. Favorable commodity prices on the world market contributed to this development.
- To ensure the sanctity of contracts and private property rights and enhance the transparency of transactions in these industries, the authorities agreed to pursue a broad range of reforms in the extractive industries, developed in collaboration with the World Bank staff and other donors.

DRC ECONOMIC REPORT

1. Political context

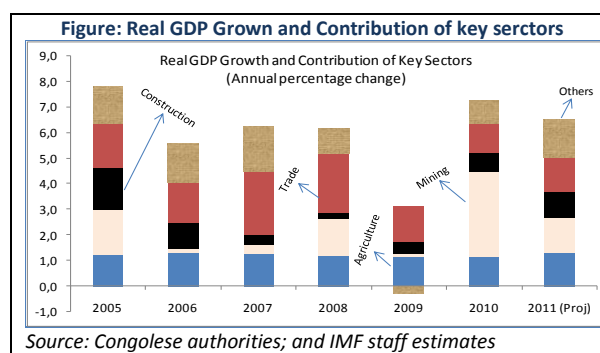
Electoral process. The Constitution of the Democratic Republic of Congo adopted in 2006, has been revised in January 2011 by Parliament. The main changes to the original texts include the election of the president by a simple majority of votes cast in the first round¹. The new Independent National Electoral Commission (CENI) has been installed, replacing the Independent Electoral Commission (Commission Électorale Indépendante, CEI). The challenge is now to organize presidential elections scheduled for November 2011. In the meantime, the revision of the electoral roll continues in the provinces. The delays of this operation, just some months before the scheduled elections may affect the timing of polling dates.

Decentralization. Decentralization mandated by the 2006 Constitution involves a series of reforms in different sectors. It provides the transfer of responsibilities and resources to provinces and decentralized territorial entities (ETDs). Effective implantation of decentralization requires also the adoption of some laws, which are still under preparation (the organic public finance law, provincial tax nomenclature law ...). Furthermore, the allocation of 40 percent of domestic revenue to be assigned to the provinces and levied at the source is not respected in

practice and theme remains largely centralized at the central government level.

2. Macroeconomic performance in 2010

The macroeconomic situation has improved significantly in 2010. A year after the sharp fall in world prices of commodities, as evidenced by the slowdown of growth to 2.8% in 2009, the Congolese economy has now responds to the dynamism of the recovery in global demand for commodities. The economy has registered a solid growth rate of 7.2%, supported by mining (mainly in the province of Katanga), construction and tertiary activities. Internally, the Congolese authorities have maintained a prudent fiscal policy under an IMF Extended Credit Facility (ECF) program, which has achieved the main objectives of the program with an inflation rate below target and a growth rate beyond the forecast in 2010.



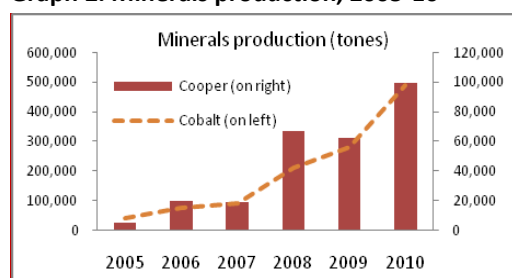
¹ The constitutional revision, which generally gives more power to the presidency, include several changes in eight points, such as placing the magistrates under the authority of the minister of justice and giving the president the right to revoke provincial governors and assemblies.

▪ Economic activity

Agricultural activities have remained largely on the rise due to the level of production of industrial crops for export. Coffee production increased by 18.7 percent, mainly due to a good performance of Arabica coffee. Additionally, production of wood logs increased by 81.7 percent due to the recovery of international demand.

Extractive industries grew by about 25 percent in 2010 due to the favorable world market price for most mineral products. The copper price per ton has increased by 30 percent in 2010. This performance was supported mainly by the production of copper and cobalt, which increased by approximately 61 percent and 74 percent respectively.

Graph 2. Minerals production, 2005-10



Construction and public works. The growth in the construction sector was sustained with a rate of 8 percent on average and has contributed to more than 10 percent of growth over the period 2005-10. In 2010, the sector grew by 8.4 percent, driven largely by infrastructure projects in the framework of the Sino-Congolese agreement and other development partners (such as the World Bank Group).

Trade and Commerce. The wholesale and retail trade registered an increase of 5.5 percent in 2010. The dynamism of this

sector which has contributed to over 20 percent of the growth over the last three years is mainly due to a revival in investor confidence since the start of reforms and the resumption of cooperation with international financial institutions (World Bank, IMF, etc.).

Manufacturing industries in DRC are currently dominated by the brewery industry, which has grown by 8.5 percent in 2010 due to additional demand within the country. The production of wheat flour fell by 3.7 percent in 2010, as a result of rising world prices of wheat, which affected the activities of the main milling operator (MIDEMA). The cement industry is still experiencing difficulties in meeting increasing demand despite the efforts made by CILU (*Cimenterie de LuLa*, a private company), which contributed to growth of 18.9 percent in the cement production. The decision to liberalize trade in this sector failed to lower the price of gray cement, which continues to sell at more than 15 dollars U.S. (a sack), higher than its normal price of 10 dollars U.S. In order to revive the activities of this sector, national authorities have started negotiations since last year with a French group Lafarge to sign an agreement in order to sell the state's shares at the National Cementery (CINAT).

Table 1. Evolution of production by category of good (tonnes, unless otherwise indicated)

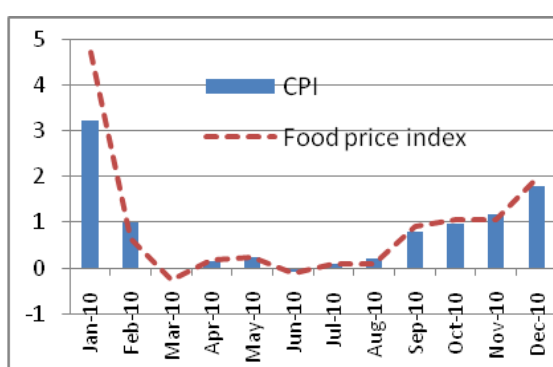
| | 2008 | 2009 | 2010 |
|---------------------------|---------|---------|---------|
| Coffee | 15 051 | 9 070 | 9 879 |
| Palm oil | 7 176 | 3 937 | 685 |
| Woods log (m3) | 140 711 | 107 415 | 185 063 |
| wheat flour | 196 129 | 176 057 | 169 558 |
| Alcoholic drink (1000 hl) | 3 321 | 3 575 | 3 893 |
| Soft drink (1000 hl) | 1 554 | 1 795 | 1 932 |
| Cements | 411 212 | 443 550 | 527 331 |

Source: Authorities (BCC)

▪ Prices

After having peaked 53.4 percent at end-December 2009, inflation declined continuously to 9.8 percent in 2010, against a target of 15 percent, following a prudent fiscal management. In this context, the national currency remained stable with a slight depreciation of 1.4 percent against the USD, compared to 29.2 percent in 2009.

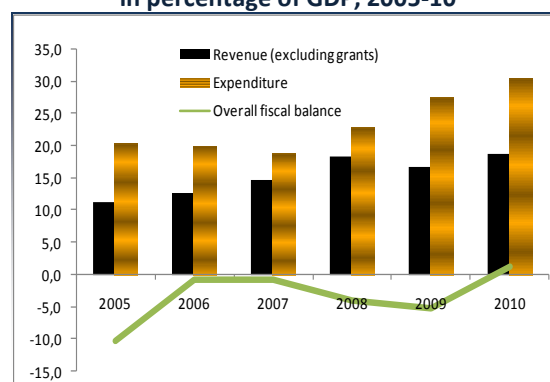
Graph 2. Monthly Inflation (in percent), 2010



▪ Public finances

The overall fiscal balance (cash basis) returned to a surplus of 1.2 percent of GDP, after several years of negative balance and a deficit of 5.2 percent of GDP in 2009. This change is due in part to the release in December 2010 of budgetary support from the EU and revenue windfalls in the mining and telecommunications industries. Domestic revenues increased from 16.8 percent of GDP in 2009 to 18.9 percent in 2010 due to improved mining and oil revenues. The fiscal surplus was achieved despite the delay in disbursement of budgetary support, a shortfall of about 0.5 percent of GDP, due to donor concerns about governance and transparency in extractive industries. The national authorities have implemented fiscal policy on a cash basis in order to preserve macroeconomic stability.

Graph 3. Central government financial operations in percentage of GDP, 2005-10



Current expenditures have been contained at 14.5 percent of GDP in 2010, down by 3.7 percentage points compared to 2009, due to lower interest on foreign debt and lower transfers to provinces and collection agencies. Wage policy has remained broadly unchanged at 6 percent of GDP between 2009 and 2010 despite the increase in military pay and security services salaries in April 2010 and some increases in bonuses and allowances made by the national authorities. However, capital spending nearly doubled in 2010 due to external aid as part of the infrastructure component of the Chinese project of approximately 700 million dollars US and projects of other development partners including the World Bank. In terms of budget execution, significant overruns have occurred in favor of political institutions (including the Presidency).

The budgetary tightening has had a major impact on the allocation of funds to the social sectors as shown in Table 2 below. In the absence of protection for these sectors, the future implementation of social sector strategies will be in jeopardy. Execution of the health budget only reached 23 percent.

Table 2. Execution of the budget in percent of total expenditures

| Items | 2008 | 2009 | 2010 |
|---------------------------|------|------|------|
| Political institutions | 113% | 86% | 172% |
| including Presidency | 266% | 154% | 244% |
| Primature | 166% | 154% | 185% |
| Ministries | 82% | 50% | 20% |
| including Health | 100% | 63% | 23% |
| Education | 95% | 75% | 61% |
| Agriculture and rural dev | 99% | 74% | 30% |
| Others | 68% | 110% | 57% |
| Total | 78% | 70% | 47% |

▪ **Public debt**

The external debt relief granted to DRC under the HIPC completion point, additional bilateral assistance beyond HIPC, and the MDRI in July 2010 has significantly improved the status of its external debt. The NPV of external debt decreased from 193.3 percent of exports at end December 2009 to 57.5 percent at end 2010. With these reductions, the public debt service for 2010 fell to 4.7 percent of GDP after being at 12.8 percent in 2009.

Domestic debt has been estimated by national authorities to be the equivalent of 1.2 billion dollars US at the end of 2009, or 11 percent of GDP. This debt relates mainly from suppliers, public enterprises and public sector employees dating back to the period of conflict in 1990s.

▪ **Currency**

The money supply grew by 35.0 percent year over year in 2010 compared to 50.4 percent in 2009. This slowdown correlates with the strengthening of fiscal policy. The strong growth in net foreign assets that has contributed significantly to increasing the money supply in 2010, as did an increase of 18.7 percent in private sector credit. By contract the state has accumulated deposits into the banking

system by an amount representing 2.1 percent of GDP. In 2010, nearly 66.6 percent of the money supply is composed of foreign currency deposits. The interest rate applied to the money market has been successively lowered from 70 percent early in the year to 22 percent from August 2010. In addition, the government has begun the process of recapitalizing the Central Bank in two steps to strengthen its independence and effectiveness. After several attempts to address the financial situation of a large commercial bank (Congoles Bank) in difficulty, the Central Bank finally decided to liquidate the bank.

▪ **External sector**

The country's external position has improved from a current account deficit (including grants) of 10.5 percent of GDP in 2009 to a deficit of 6.8 percent of GDP in 2010. This improvement was primarily based on increases in commodity prices in the world market, and the doubling of mining exports. As for imports, they also grew and reached 60 percent of GDP, reflecting imports of capital goods. The trade balance showed a surplus of USD 600 million, or 5 percent of GDP in 2010. After a disbursement of about USD 70 million from the IMF under the ECF program, as well as emergency support from the World Bank and other external partners, gross official reserves rose to USD 1.3 billion by the end of December 2010, the equivalent of 8.1 weeks of imports, against 6.9 weeks at end 2009.

3. Main Structural Reforms

▪ **Public Finance Reforms.** The government adopted in March 2010 a strategic plan that defines the major areas

of public finance reform in the DRC, taking into account the failures identified by different diagnostic studies (PEFA, PER, ...) carried out in 2007-08. Under this plan, the Government expects to introduce the value added tax (VAT) from January 1st, 2012 and modernize the Customs Act and public finance. Organic laws concerning the VAT and Customs Code have been proposed to Parliament for ratification after their approval by the President. The draft laws on public finances are still under consideration in Parliament. There have been significant delay in PFM reform overall.

▪ **Economic governance.** To improve governance and transparency in the forestry, mining and petroleum industries, the authorities have taken a series of measures in consultation with the World Bank to restore investor confidence. One of these measures is to make public the future concession contracts, mining, forestry and oil and also grant all rights and concessions only by competitive bidding. The government also committed to strengthen the legal certainty of financial and commercial transactions for international investment by joining the *New York Convention* of 1958 on the recognition and enforcement of international arbitral awards.

Extractive Industries Transparency Initiative (EITI). As part of its accession to the EITI, a first report produced in 2007 which covered only two products (copper and cobalt) was considered insufficient to enable the DRC to be declared fully compliant with the EITI. The reports for 2008 and 2009 in preparation cover all companies and all payments of the mining

sector. They should be finalized by June 2012.

▪ **Organization for the Harmonization of Business Law (OHADA).** All legal requirements to implement the OHADA framework have been adopted in February 2010. The deposit of the required instruments is still pending.

▪ **Business climate.** Through a series of measures adopted by the Government in early 2010, the DRC has improved its ranking in certain areas of the “Doing Business 2011” ranking, currently occupying the 175th position out of 183 countries. These measures include the reduction of days to obtain building permits and a simplification of the process for starting a business. The property transfer tax has been halved to 3 percent of property value. Congolese legislation also reduced some of the current cumbersome roadblocks involved in the construction of buildings. The building permit cost has decreased to 0.6 percent of construction cost instead of 1 percent previously.

| Rank | 2010 | 2011 | Progress |
|-----------------------------------|------|------|----------|
| <i>Ease of Doing Business</i> | 179 | 175 | 4 |
| Starting a Business | 155 | 146 | 9 |
| Dealing with Construction Permits | 139 | 81 | 58 |
| Registering Property | 125 | 118 | 7 |
| Getting Credit | 167 | 168 | -1 |
| Protecting Investors | 153 | 154 | -1 |
| Paying Taxes | 158 | 163 | -5 |
| Trading Across Borders | 165 | 172 | -7 |
| Enforcing Contracts | 173 | 172 | -1 |
| Closing a Business | 152 | 155 | -3 |

Source: World Bank doing business Reports 2010-11

▪ **Procurement.** Originally scheduled to take effect in December 2009, the new law on public procurement was adopted in April 2010 and its implementation was expected in October 2010. However, it is

not yet fully operational: for example, the installation of relevant institutions at central and provincial levels to be taken by the provincial assemblies are still lacking. The Board of Directors of the Regulatory Authority (*Autorité de régulation des marchés publics, ARMP*) has been appointed but there the private sector has yet to be involved in accordance with the texts approved and published.

4. Economic Outlook for 2011

In 2011, economic growth is projected at 6.5 percent, driven by the increased activity in the mining, construction and service industries. Despite a slight slowdown expected in copper production, the dynamics induced by the favorable international environment for the mining sector should continue in 2011.

However, the rise in global food and energy prices since late 2010 threatens to accelerate inflation. The inflation target for 2011 was set at 13 percent against 9.9 percent originally to take account of the food prices on international markets and the adjustment of domestic fuel prices under a structural benchmark of the ECF program.

On the fiscal side, government should focus on increased mobilization of domestic revenue to meet expenditure pressures without resorting to bank financing of the government deficit. Under the ECF program, projected expenditures are aligned with domestic revenue and expected foreign financing in order to avoid central bank financing of the budget. Budget support from the European Commission and Belgium, a reduction in

the accumulation of deposits of the State Central Bank and the expected revenues from the privatization of CINAT (National Cement) should help to finance a budget deficit of 1.8 percent of GDP. Moreover, the overall fiscal deficit of about 7.6 percent of GDP should be covered by a loan of approximately USD 750 million under the infrastructure component of the agreement between China and the DRC.

Domestic revenue is projected to increase to 21 percent of GDP due to improvements from the tax and customs reform and the impact of a full year of the recent adjustment in fuel prices. The improved performance of the mining sector should contribute more to generate additional revenue (mainly fees) for 0.1 percent of GDP. The pressures on costs identified concern: (i) a higher wage bill, largely to cover teacher salaries that had been previously borne by the private sector and the payment of retirement indemnities to outgoing Members of Parliament in line with the government obligations, (ii) higher health and education spending (approximately in line with commitments under the HIPC initiative), and (iii) spending linked to the presidential and parliamentary elections planned for November 2011.

5. World Bank activities in DRC

The allocation of IDA 15 funds for the DRC over the period FY2009 to FY2011 is estimated at about SDR 720 million, or USD 1,078 million equivalent. New commitments for fiscal year 2010 (FY10) totaled USD 510 million against USD 536 million in 2009 (FY09) and USD 222 million in 2008 (FY08).

In January 2011, the Bank's portfolio in the DRC with commitments amounting to approximately 2,877.5 million dollars US was disbursed of 42 percent. This portfolio includes 19 projects including 6 emergency and 13 sector projects, and covers four main sectors, namely: infrastructure (60 percent), social sector (23 percent), PSD, and agriculture (11 percent) and governance (6 percent).

It should be noted that the Draft Program for Emergency Multisectoral Rehabilitation and Reconstruction (PMURR) performed over the period 2003-2009 has closed since March 2010 with a total outlay estimated at USD 663,460,000. This project served as a model for the series of

emergency projects that helped to initiate the rehabilitation of infrastructure and services and develop capacity for implementation.

A new Country Assistance Strategy (CAS) is being prepared and should take into account the new Bank strategy for Africa and PRSP II. The new CAS (FY13-FY15) will comprise three main pillars: (i) economic growth, (ii) poverty reduction, and (iii) peace and governance.

ANNEXES

APPENDIX 1. SELECTED ECONOMIC INDICATORS 2008-15

Table 1. Democratic Republic of the Congo: Selected Economic and Financial Indicators, 2009–15

| | 2009 | 2010 | | 2011 | | 2012 | 2013 | 2014 | 2015 |
|---|---------|--------------------|--------|--------------------|--------|--------|--------|--------|--------|
| | | Prog. ¹ | Est. | Prog. ¹ | Proj. | | | | |
| (Annual percentage change; unless otherwise indicated) | | | | | | | | | |
| GDP and prices | | | | | | | | | |
| Real GDP | 2.8 | 5.4 | 7.2 | 6.8 | 6.5 | 6.0 | 8.0 | 6.1 | 5.9 |
| GDP deflator | 35.1 | 27.1 | 22.4 | 9.5 | 15.0 | 10.0 | 7.4 | 9.1 | 9.0 |
| Consumer prices, period average | 46.2 | 26.2 | 23.5 | 9.9 | 12.0 | 11.0 | 9.0 | 8.8 | 8.3 |
| Consumer prices, end-of-period | 53.4 | 15.0 | 9.8 | 9.9 | 13.0 | 9.0 | 9.0 | 8.5 | 8.0 |
| External sector | | | | | | | | | |
| Exports, f.o.b. (U.S. dollars) | -33.6 | 48.3 | 91.1 | 11.3 | 30.9 | 4.5 | 18.4 | -3.3 | -0.5 |
| Imports, f.o.b. (U.S. dollars) | -26.3 | 46.4 | 58.2 | 10.8 | 15.2 | 1.3 | 16.4 | -3.0 | 3.8 |
| Export volume | -6.2 | 8.0 | 52.9 | 6.3 | 7.7 | 3.9 | 21.4 | 2.2 | 2.3 |
| Import volume | -12.5 | 38.1 | 36.3 | 9.3 | 1.6 | 2.0 | 18.4 | -1.8 | 4.4 |
| Terms of trade | -19.0 | 2.6 | 14.1 | 1.4 | 7.2 | 1.2 | -0.8 | -4.1 | -2.1 |
| Nominal effective exchange rate ² | -26.7 | ... | ... | ... | ... | ... | ... | ... | ... |
| Real effective exchange rate ² | 1.0 | ... | ... | ... | ... | ... | ... | ... | ... |
| (Annual change in percent of beginning-of-period broad money; unless otherwise indicated) | | | | | | | | | |
| Money and credit | | | | | | | | | |
| Broad money | 50.4 | 41.1 | 30.7 | 17.5 | 22.5 | ... | ... | ... | ... |
| Net foreign assets | 17.0 | 57.8 | 63.2 | 10.6 | 9.5 | ... | ... | ... | ... |
| Net domestic assets | 33.3 | -16.4 | -32.2 | 7.3 | 13.3 | ... | ... | ... | ... |
| Domestic credit | 13.5 | -2.1 | -29.3 | 5.3 | 14.3 | ... | ... | ... | ... |
| <i>Of which:</i> | | | | | | | | | |
| Net credit to government ³ | -7.6 | -12.2 | -37.8 | -1.8 | 2.4 | ... | ... | ... | ... |
| Credit to the private sector (annual percent change) | 39.3 | 36.8 | 19.0 | 18.0 | 29.4 | ... | ... | ... | ... |
| (Percent of GDP; unless otherwise indicated) | | | | | | | | | |
| Central government finance | | | | | | | | | |
| Total government revenue | 16.8 | 19.6 | 18.9 | 22.0 | 20.6 | 20.3 | 21.1 | 22.0 | 22.6 |
| Grants | 7.5 | 10.5 | 14.1 | 8.8 | 8.7 | 8.6 | 7.1 | 5.7 | 5.4 |
| Total government expenditure | 28.5 | 34.0 | 30.6 | 38.1 | 36.4 | 34.9 | 33.2 | 31.5 | 30.0 |
| Domestic fiscal balance (cash basis) | -2.5 | -1.0 | 0.9 | -1.3 | -1.7 | -1.4 | -0.6 | -0.4 | -0.4 |
| Overall fiscal balance (payment order basis, incl. grants) | -4.2 | -3.8 | 2.4 | -7.3 | -7.1 | -6.0 | -5.0 | -3.7 | -2.1 |
| Overall fiscal balance (cash basis, incl. grants) | -5.2 | -5.3 | 1.2 | -7.8 | -7.5 | -6.5 | -5.0 | -3.7 | -2.1 |
| Investment and saving | | | | | | | | | |
| Gross national saving | 8.9 | 10.4 | 20.2 | 18.9 | 26.8 | 34.3 | 35.1 | 34.7 | 31.0 |
| Central Government | 0.9 | 1.8 | 7.8 | 1.2 | 7.4 | 7.3 | 8.4 | 9.5 | 9.8 |
| Nongovernment | 8.0 | 8.7 | 12.3 | 17.7 | 19.4 | 26.9 | 26.7 | 25.2 | 21.2 |
| Investment | 19.4 | 30.4 | 27.0 | 35.9 | 29.6 | 35.0 | 34.5 | 33.5 | 32.3 |
| Government | 7.8 | 14.7 | 12.0 | 17.3 | 13.1 | 12.2 | 10.7 | 8.9 | 7.0 |
| Nongovernment | 11.6 | 15.7 | 15.1 | 18.6 | 16.5 | 22.7 | 23.8 | 24.6 | 25.3 |
| Balance of payments | | | | | | | | | |
| Exports of goods and services | 45.2 | 56.1 | 68.4 | 58.0 | 77.8 | 75.9 | 82.8 | 73.9 | 67.7 |
| Imports of goods and services | 60.9 | 75.1 | 76.9 | 74.5 | 77.0 | 72.9 | 78.2 | 70.0 | 66.9 |
| Current account balance, incl. transfers | -10.5 | -20.0 | -6.8 | -17.0 | -2.8 | -0.7 | 0.6 | 1.2 | -1.3 |
| Current account balance, excl. transfers | -21.6 | -27.0 | -13.5 | -22.4 | -7.9 | -5.5 | -4.1 | -3.5 | -5.8 |
| Gross official reserves (end-of-period, millions of U.S. dollars) | 999 | 1,257 | 1,304 | 1,511 | 1,510 | 2,068 | 2,218 | 2,468 | 2,718 |
| Gross official reserves (weeks of nonaid-related imports of goods and services) | 6.7 | 7.5 | 7.9 | 9.3 | 8.6 | 9.4 | 10.3 | 10.8 | 11.0 |
| External public debt | | | | | | | | | |
| Total stock, including IMF | 13,705 | 2,931 | 4,015 | 5,283 | 4,939 | 6,079 | 6,758 | 7,705 | 8,240 |
| Present value (PV) of debt ⁴ | 9,750 | 3,773 | 2,489 | 3,997 | 2,907 | 2,918 | 3,363 | 3,689 | 3,996 |
| PV of debt (percent of exports of goods and services) | 194.2 | 58.9 | 27.7 | 57.4 | 24.7 | 23.8 | 23.1 | 26.2 | 28.6 |
| Scheduled debt service | 1,071.0 | 203.4 | 177.0 | 84.6 | 87.5 | 107.6 | 126.5 | 120.2 | 169.6 |
| Percent of exports of goods and services | 21.3 | 2.9 | 2.0 | 1.0 | 0.7 | 0.9 | 0.9 | 0.9 | 1.2 |
| Percent of government revenue | 39.6 | 5.5 | 6.4 | 1.9 | 2.6 | 3.0 | 3.1 | 2.6 | 3.4 |
| Exchange rate, (CGF per U.S. dollar) | | | | | | | | | |
| Period average | 817 | ... | 906 | ... | ... | ... | ... | ... | ... |
| End-of-period | 903 | ... | 915 | ... | ... | ... | ... | ... | ... |
| Memorandum item: | | | | | | | | | |
| Nominal GDP (CGF billions) | 9,073 | 12,163 | 11,908 | 13,863 | 14,585 | 17,005 | 19,734 | 22,831 | 26,353 |

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

¹ EBS/11/15 (26/01/2011).

² Change in annual average. Minus sign indicates depreciation.

³ The 2010 NCG takes into account the full proceeds of IMF HIPC debt relief while the program column does not.

⁴ Projections are based on calculations under the 2010 HIPC Debt Sustainability Analysis (EBS/10/121, 06/16/2010). Includes assistance beyond the terms of the enhanced HIPC Initiative granted by some Paris Club creditors. Exports are on a three-year backward moving average.

Table 3b. Democratic Republic of the Congo: Central Government Financial Operations, 2009–13

| | 2009 | 2010 | | 2011 | | 2012 | 2013 |
|---|--|--------------------|--------|--------------------|--------|--------|--------|
| | Prel. | Prog. ¹ | Est | Prog. ¹ | Proj. | Proj. | |
| | (Percent of GDP; unless otherwise indicated) | | | | | | |
| Total revenue and grants | 24.3 | 30.0 | 33.0 | 29.3 | 29.3 | 28.9 | 28.2 |
| Total revenue | 16.8 | 19.5 | 18.9 | 20.9 | 20.6 | 20.3 | 21.1 |
| Customs and excise | 6.2 | 7.0 | 6.3 | 7.1 | 6.5 | 6.7 | 6.9 |
| Direct and indirect taxes | 6.2 | 6.8 | 6.5 | 7.2 | 7.2 | 7.8 | 8.5 |
| Petroleum (royalties and taxes) | 1.5 | 2.4 | 2.2 | 2.6 | 2.8 | 2.6 | 2.3 |
| Nontax revenues | 3.0 | 3.3 | 3.8 | 4.0 | 4.1 | 3.2 | 3.3 |
| Of which: Signing bonus from joint venture with China | 1.1 | 1.0 | 0.0 | 0.8 | 0.8 | 0.0 | 0.0 |
| Total grants | 7.5 | 10.4 | 14.1 | 8.4 | 8.7 | 8.6 | 7.1 |
| Budget grants | 1.7 | 0.8 | 0.9 | 0.0 | 0.3 | 0.0 | 0.0 |
| Project grants | 2.0 | 7.4 | 6.0 | 6.0 | 6.0 | 6.3 | 4.6 |
| HIPC Initiative assistance ² | 3.8 | 2.2 | 7.1 | 2.3 | 2.3 | 2.3 | 2.6 |
| Of which: IMF | ... | 0.0 | 3.5 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total expenditure | 28.5 | 33.8 | 30.6 | 36.2 | 36.4 | 34.9 | 33.2 |
| Current expenditure | 18.2 | 15.3 | 14.5 | 17.1 | 17.3 | 16.6 | 16.8 |
| Wages | 6.0 | 6.4 | 5.9 | 6.7 | 6.7 | 6.6 | 6.5 |
| Interest due | 5.5 | 2.4 | 2.2 | 2.6 | 2.6 | 2.4 | 2.3 |
| Transfers and subsidies | 3.1 | 3.1 | 2.5 | 3.1 | 3.1 | 2.7 | 2.7 |
| Goods and services | 3.6 | 3.4 | 3.9 | 4.7 | 4.9 | 4.9 | 5.3 |
| Capital expenditure | 7.8 | 15.0 | 14.1 | 16.5 | 16.6 | 16.7 | 15.6 |
| Foreign-financed | 5.1 | 11.8 | 11.5 | 12.5 | 12.5 | 11.3 | 9.6 |
| Domestic-financed | 2.7 | 3.2 | 2.6 | 4.0 | 4.1 | 5.4 | 6.0 |
| Government | 1.6 | 0.7 | 0.5 | 0.5 | 0.6 | 0.8 | 1.1 |
| Provinces | 1.1 | 2.4 | 2.1 | 3.5 | 3.5 | 4.6 | 4.9 |
| Exceptional expenditure ³ | 2.5 | 3.2 | 2.1 | 2.2 | 2.2 | 0.9 | 0.4 |
| Foreign-financed | 1.1 | 1.8 | 0.4 | 1.2 | 1.2 | 0.8 | 0.4 |
| Domestic-financed | 1.5 | 1.5 | 1.7 | 1.0 | 1.0 | 0.1 | 0.0 |
| Budget reserve | 0.0 | 0.2 | 0.0 | 0.4 | 0.3 | 0.6 | 0.4 |
| Overall fiscal balance (payment order basis) | -4.2 | -3.8 | 2.4 | -7.0 | -7.1 | -6.0 | -5.0 |
| Domestic fiscal balance ⁴ | -1.5 | 0.5 | 2.1 | -0.8 | -1.2 | -0.8 | -0.6 |
| Change in arrears (increase = +) | -0.1 | -0.8 | -0.3 | -0.4 | -0.4 | -0.6 | 0.0 |
| Central bank operational result | -0.9 | -0.6 | -0.9 | 0.0 | 0.0 | 0.0 | 0.0 |
| Overall fiscal balance (cash basis, before interest rescheduling) | -5.2 | -5.2 | 1.2 | -7.4 | -7.5 | -6.5 | -5.0 |
| Domestic fiscal balance | -2.5 | -1.0 | 0.9 | -1.2 | -1.7 | -1.4 | -0.6 |
| Total financing | 5.2 | 5.2 | -1.2 | 7.4 | 7.5 | 6.5 | 5.0 |
| Domestic financing | -0.1 | -1.5 | -4.8 | 0.3 | 0.8 | 0.0 | 0.0 |
| Banking system ⁵ | -0.8 | -1.5 | -4.8 | -0.3 | 0.3 | 0.0 | 0.0 |
| Privatization Receipts | 0.7 | 0.0 | 0.0 | 0.5 | 0.5 | ... | ... |
| Foreign financing (net) | 5.0 | 5.2 | 3.6 | 6.7 | 6.7 | 4.8 | 3.7 |
| Amortization due before debt relief | -7.3 | -2.7 | -2.5 | -1.3 | -1.3 | -1.4 | -1.9 |
| Project loans | 4.4 | 6.5 | 6.1 | 7.9 | 7.9 | 6.2 | 5.4 |
| Debt relief | 0.0 | 1.4 | 0.0 | 0.1 | 0.1 | 0.1 | 0.2 |
| Residual financing need/errors and omissions | 0.3 | 1.6 | 0.0 | 0.4 | 0.0 | 1.7 | 1.3 |
| <i>Memorandum items:</i> | | | | | | | |
| GDP (billions of CGF) | 9,073 | 11,908 | 11,908 | 14,585 | 14,585 | 17,005 | 19,734 |
| Domestically financed spending | 18.3 | 19.5 | 18.0 | 21.3 | 21.5 | 21.7 | 21.7 |
| Expenditure on education, health and rural sector development | 5.3 | ... | 5.9 | 6.5 | 6.5 | 6.5 | 6.5 |

Sources: Congolese authorities and IMF staff estimates and projections.

¹ EBS/11/15 (26/01/2011) the ratios are calculated on the basis of revised GDP figures.

² Reflects revised calculation of HIPC Initiative assistance on the basis of 2010 Debt Sustainability Analysis (EBS/10/121; 06/16/2010).

³ Exceptional expenditure includes spending for the Demobilization, Disarmament, and Reintegration program, and cost of the elections.

⁴ The domestic fiscal balance (commitment basis) is defined as revenue (excluding the signing bonus from the SCCA) minus total expenditure (excluding interest on foreign debt, foreign-financed capital and exceptional expenditure).

⁵ For 2011 onwards, all Banking system financing is central bank only.

APPENDIX 2. DEMOCRATIC REPUBLIC OF CONGO, DOING BUSINESS REPORTS 2009-11

| Dem. Rep. of Congo, Doing business | 2009 | 2010* | 2011 | SSA |
|--|------------|------------|------------|------------|
| Starting a Business (days) | 155 | 127 | 84 | 45.2 |
| Cost of registering property (% of property value) | 9.2 | 9.8 | 7.0 | 9.6 |
| Days to enforce contracts | 645 | 625 | 625 | 639 |
| Investor protection index | 3.3 | 3.3 | 3.3 | 4.4 |
| Payment taxes (Hours) | 308 | 308 | 336 | 315.1 |
| Payment taxes (number) | 32 | 32 | 32 | 37.5 |
| Times for exports (days) | 46 | 44 | 44 | 32.3 |
| Times for imports (days) | 66 | 63 | 63 | 38.2 |
| <i>DRC Rank</i> | <i>181</i> | <i>179</i> | <i>175</i> | <i>...</i> |
| <i>Total countries</i> | <i>181</i> | <i>183</i> | <i>183</i> | <i>...</i> |

Source : World bank Doing business Reports 2008-11

*Doing Business 2010 rankings have been recalculated to reflect changes to the methodology.

Some measures adopted for improving the DRC's ranking in World Bank's 2011 Doing Business

- Streamlining of documents required for business registration,
- Decentralization of the notary function,
- Law authorizing the ratification of the OHADA treaty;
- Cancellation of the legal visa for the status of associates,
- Publication of business acts on the website of the Official Journal,
- Reduction and publication of the cost of registration in trade, including the reduction to five-day period of registration in the register of commerce;
- Reduction and publication of business registration fees,
- Reduction to 48 hours in the time required to obtain a business identification number,
- Posting of the procedure for granting the authorization number of building and related costs;
- Reduction in the cost of a building permit from 1% of the estimated construction cost to 0.6%
- Reduction by half of the property transfer tax to 3% of the property value
- Publication of the property transfer procedure and related costs;
- The publication of calendar fiscal and quasi-fiscal controls.

Soaring global food prices: Impact and Response of the Democratic Republic of Congo

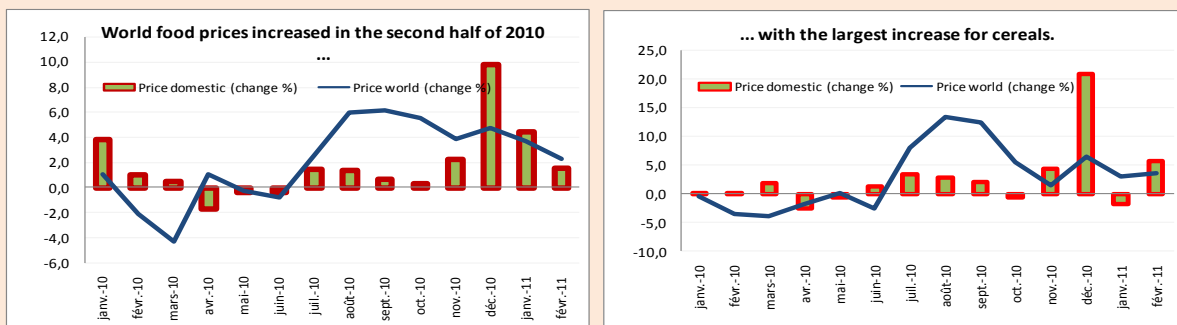
Moïse Tshimenga Tshibangu

April 2011

Just when the world economy seemed to recover from its financial crisis of 2008-2009, prices of food commodities are experiencing, once more, a massive increase during the second half of 2010. This is explained most notably by supply side shocks for some foods, thus rendering them unable to match increasing demand. This paper discusses the effects of this increase on the Democratic Republic of Congo (DRC)'s economy and the measures taken by the national authorities to help in solving this problem.

1. Global prices of most of food commodities have risen remarkably during the second half of 2010. According to the FAO, these prices increased by 42.2% between July 2010 and February 2011 and 4.3 percent on average each month since July 2010; driven largely by increases in the price of grains (67.9 percent), fats and oils (65.9 percent) and sugar (85.9 percent). Despite the initiatives taken by countries to deal with this crisis, the outlook indicates that food prices will remain at very high levels in 2011, due to supply. In many developing countries, in addition to domestic inflationary pressures, rising prices also create macroeconomic vulnerabilities.

2. Domestic prices in the DRC have been disproportionately affected by higher global food prices. According to the Central Bank of Congo (BCC), the increase in domestic prices in Kinshasa has been contained to less than 10 percent at the end of 2010. The National Institute of Statistics (INS) reported an increase of 17.2 percent against 34.8 percent in 2009¹. Despite this relatively stable environment compared to 2009, apart from some products such as rice, prices of key food commodities (maize, wheat, etc) significantly increased since July 2010 on various Congolese markets. During the last eight months (from July 2010 to February 2011), food prices have increased very rapidly by 16.1 percent, with significant increases for grains (33.7 percent). It should be noted that this increase occurred after a downward trend in prices of most other food products.

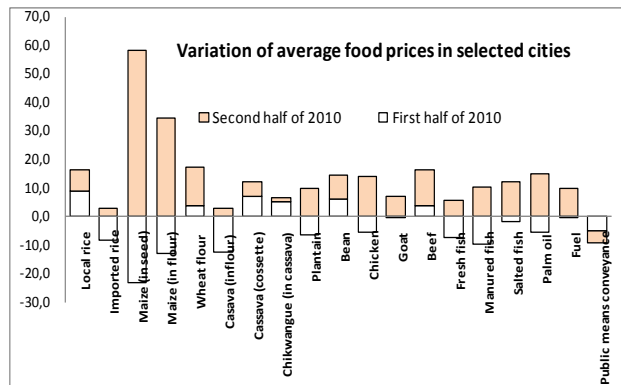


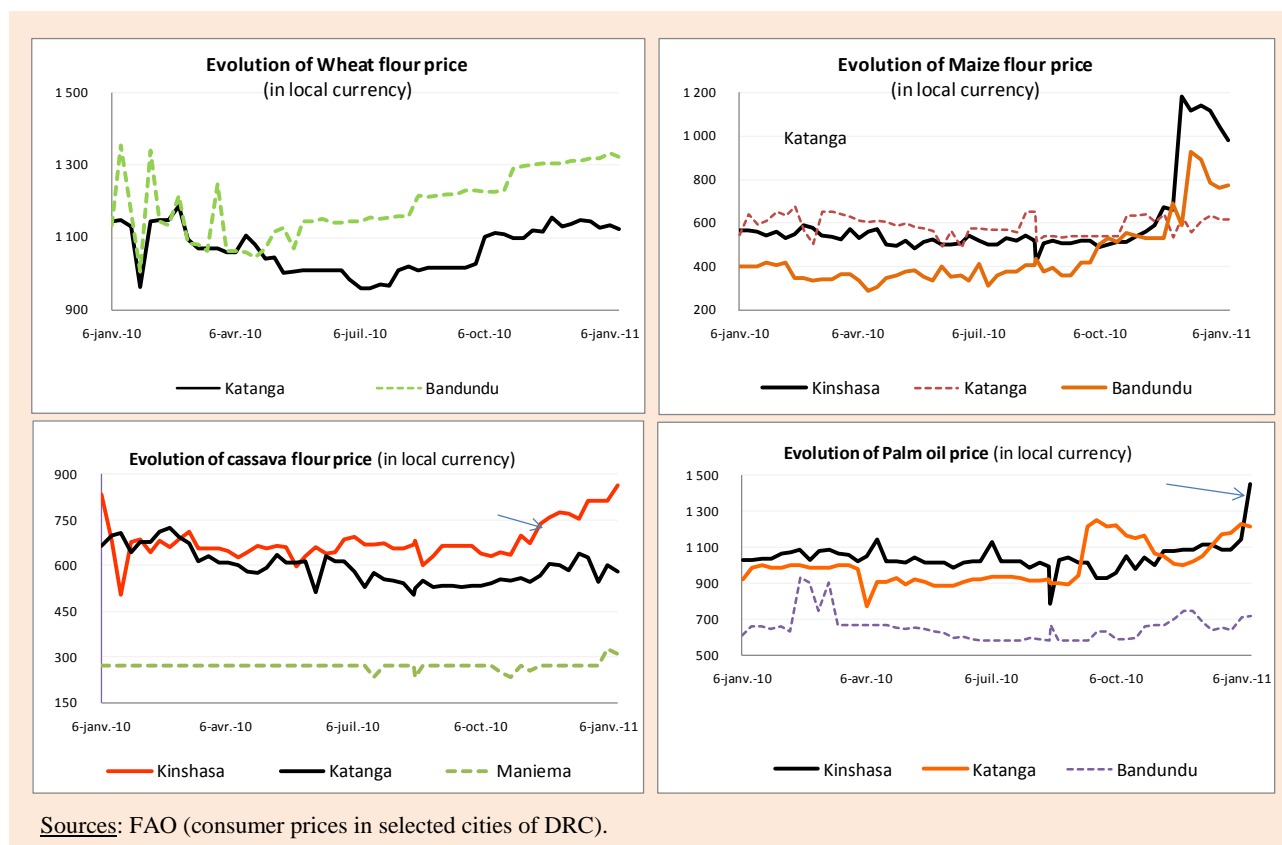
Sources: INS (official consumer Price index by Product group), FAO (food price indices) et FAO (consumer prices in selected cities of DRC).

3. **The similar trend of domestic and global food prices highlights the extent of vulnerability of the Congolese economy to external shocks.** In the DRC, the food deficit is estimated at about 30 percent of total household consumption which is covered by products such as maize, rice, wheat, sugar, poultry, fish, meat and other foodstuffs. This level of deficit is sufficient for domestic prices in the DRC to also be affected by the world price trends, in addition to the monetary factors that have always prevailed over domestic prices². The elasticity of domestic prices relative to import prices is 0.46. This high elasticity justifies the important role of food costs in total household expenditure. On average, Congolese households spend 65 percent of their disposable income on food. This share is even higher for rural households.

4. **Domestic food prices have evolved differently depending on the specific province and products, but were highest in Kinshasa and Katanga³.** Price increases were observed in provinces with strong economic development. This is the case of Kinshasa and Katanga where food prices are generally higher than elsewhere. Food commodity prices were affected differently by province. However, the price of maize has accelerated sharply almost everywhere. The prices of both maize and cassava; two of the most consumed food products by the Congolese, rose more rapidly in Kinshasa and Bandundu between July 2010 and February 2011. Despite this surge, the price of maize has remained relatively stable in 2010 in Katanga supported by a political decision by the provincial authority asking all mining operators to grow this product. With regards to cassava as well as most other commodities, food prices remained very high in Kinshasa and Katanga and relatively stable in Bandundu and Maniema.

5. **The impact of higher prices on purchasing power would exacerbate the poverty of Congolese households.** In DRC, about 70 percent of the population lives on less than a dollar a day. Any increase in prices of food commodities is likely to exacerbate poverty because households would spend even larger share of their income on food. Cassava is a prime example of a staple food item that alone provides 70 percent of the calories of total daily consumption.





6. It is difficult to establish a direct link between the current development of local production and rising food prices in different markets in the provinces of the DRC. Agricultural production has not been sensitive to global prices. Agricultural production is largely subsistence production. Food consumption represents 30 percent of total household consumption, the highest of which is observed in the Bandundu province at 59 percent⁴ extent that the agricultural sector in DRC is characterized by a number of constraints which make the supply of food commodities more rigid, it is not clear that the global supply contraction could lead in the short term to a domestic supply response (read: increase in production). Identified constraints in the agricultural sector mainly concern: (i) the scarcity of quality agricultural inputs, including certified plant material (seeds, cuttings, ...) which limit the productivity of food crops, (ii) the low level of industrialization, which limits its production to the artisanal level, (iii) the deterioration of the infrastructure that makes it difficult to transfer food to the commercial centers, forcing local farmers to produce at small scale to meet the needs of the population surrounding them and to focus on non-perishable products.

Table 1. Agriculture production in selected provinces

| | Kinshasa | | Katanga | | Maniema | | Bandundu | |
|---|----------|----------|----------|----------|---------|-------|----------|----------|
| | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 |
| <i>(Contribution to Economic Growth in %, unless otherwise indicated)</i> | | | | | | | | |
| Agriculture, livestock and fishing | 56,2 | 24,6 | 35,2 | 4 | 83,9 | 99,7 | 17,1 | 186,5 |
| Agriculture | 29,1 | 12,2 | 28,1 | 3,5 | 85,7 | 99,1 | -23,3 | 422,2 |
| Fishing | 12 | 13,2 | 10,2 | 0,3 | 0,1 | 0,1 | 4,4 | 69,8 |
| Livestock | 2,9 | 2,1 | -2,4 | 0,4 | -1,3 | 0,7 | 30,9 | -184,7 |
| Province GDP | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| Pour mémoire | | | | | | | | |
| Real GDP growth rate (en %) | 4,7 | 8 | 3,5 | 25 | 13,8 | 8,6 | 1,0 | 0,6 |
| Agriculture (in percent of province GDP) | 18 | 16,4 | 21,8 | 16,9 | 63,7 | 63,2 | 81,3 | 82 |
| Real agricultural production (annual changes in percent) | 17,2 | 12 | 5,7 | 5,9 | 18,2 | 13,6 | 0,2 | 1,3 |
| Courant GDP (in millions of dollars US) | 3 850,70 | 4 502,40 | 3 942,90 | 5 892,30 | 342,2 | 361,1 | 1 558,50 | 1 730,40 |
| PIB courant par tête (in dollar Us) | 557,6 | 622,8 | 396,3 | 573,3 | 194,1 | 198,2 | 218,8 | 235,6 |
| Population (in millions) | 6,91 | 7,23 | 9,95 | 10,28 | 1,76 | 1,82 | 7,12 | 7,34 |

Source: DRC (preliminary data provinces MTEF, 2006-2010)

7. Regardless of whether the global food crisis and increase in overall food prices directly correlates with DRC's unique agricultural economic structure, there is still a need to understand the production variations in the different provinces. Production is often linked to the context that makes some non-agricultural sectors more profitable than others. As an illustration, the revival of mining in Katanga after the recovery of the global economy has encouraged a return of economic activities in the province which was hit by the global financial crisis of 2008-2009. Agricultural activities are less than 20 percent of the total production of the provinces of Katanga and Kinshasa and contribute relatively little to provincial GDP. By contrast, the contribution to the growth of output in other provinces remained important in such as (Bandundu and Maniema), which have low access to imported food commodities. The following table shows the share of the agriculture sector in the total production in the provinces of Kinshasa, Katanga, Maniema and Bandundu.

8. To respond to these higher food prices, challenges need to be addressed by the Congolese authorities. The close relationship between global prices and domestic food prices suggest the need for coordinated policies to remove bottlenecks hampering the development of the agricultural sector, which can not only provide the population with food security, but also protect the country from external shocks. To this end, the national authorities have identified some shortcomings in internal, economic and administrative structures. Short-term measures that have been taken are designed primarily to encourage the supply of goods with high consumption by households. These include measures to eliminate administrative and police hassles, both internally (collection of illegal taxes) and at the borders to facilitate the movement of goods (see Box 1), as well as making agricultural equipment available and increasing the quality of products produced.

9. This crisis offers the opportunity for more sustainable actions. This may be the opportunity to clarify the country's trade policy by creating a working regulatory environment, a reliable and fair tax system and institutional change promoting unrestricted trade both

externally and internally. It is also an opportunity for the national authorities to reinforce measures taken to facilitate traffic of goods and people across borders. In addition, measures in the medium and long term strategies boosting agricultural production start by improving the seed sector, the implementation of an incentive policy for private investment in the sector and improvement of basic infrastructure (road, railway, electricity, etc.) to facilitate the delivery to major centers of consumption of food.

10. The effective implementation of the agricultural strategy is the most sustainable solution. In this context, the government should take action to implement the Strategy for Agriculture and Rural Development "adopted in April 2010 and which recommends the development of the area around the following five strategic lines (i) Market access improvement, rural infrastructure and trade capacity, (ii) Improvement of crop production, livestock, fisheries and handicrafts, (iii) Sector financing, (iv) Governance and institutional capacity building and human resources, and (v) Organization of rural structures in self-management. The recent signing of the compact for the implementation of PDDAA aims to mobilize more resources for agriculture to achieve the goal of a minimum agricultural growth of 6 percent per year in order to improve food security and reduce poverty in half by 2015.⁵ ■

A propos de l'auteur:

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« The opinions expressed in this note reflect only those of the author, not necessarily those of the World Bank or its officers».

Notes

¹ Four services produce consumer price index (CPI) in the DRC (National Institute of Statistics, Central Bank of Congo, the Institute of Economic and Social Research of the Kinshasa's University of and economic cell of the Embassy of the USA). The difference between the statistics produced by these structures lies both in terms of methodology, price collection and made the number of items whose prices are subject to monitoring.

² Banque centrale du Congo (BCC), *Bulletin de l'Indice des prix à la consommation*, Février 2010, page 8.

³ Four provinces of Country were selected according to three main characteristics, namely: access to imported food commodities (Kinshasa and Katanga), the importance of agricultural activities (Bandundu) and isolation in relation to geographical borders of the country (Maniema).

⁴ RDC, Institut National de la Statistique, *Enquête 1-2-3*, Phase 1, 2004-2005.

⁵ PDDAA: Programme Détaillé pour le Développement de l'Agriculture Africaine (dans le cadre du NEPAD).