MINISTERE
DES FINANCES

Newsletter #2 – July 2022 issue

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Key Events

Finance Minister Nicolas Kazadi presented to the Council of Ministers an innovative plan to advance DRC's development & reform agenda

On July 8th, **the Finance Minister Nicolas Kazadi presented to President Felix Tshisekedi and his Council of Ministers a path forward for the DRC's ambitious development and reform agenda**. The objective is to meet the criteria established by the United States **Millennium Challenge Corporation** ("MCC"). President Felix Tshisekedi reaffirmed his will to see the DRC formally engage in the **process of eligibility and qualification for Millennium Challenge Corporation funding**.

The MCC is a US bilateral assistance and development agency deploying financial resources in countries that have been assessed to have good economic policies and economic growth potential based on 20 objective criteria.

The DRC has been an applicant country since 2019 and has made considerable progress in achieving 7 out of the 20 criteria that would potentially unlock the agency's resources to support DRC. The DRC achieved or surpassed the following development criteria, with four having been met in just the past two years:

2019 — 2020 — 2021 — 2022

2019
- Business Start-up Acceleration
- Fiscal Policy
- Natural Resource Protection

2021
- Girls' Primary Education
- Inflation Control

2022
- Modern Trade Policy
- Women's Role in the Economy

This progress reinforces the hope of qualification to the MCC, leading to a Compact program.

The Minister of Finance, Nicolas Kazadi, presenting to the Council of Ministers the innovative plan to advance DRC's development & reform agenda.

> *"This Agenda will promote good governance, poverty reduction, inclusive growth and inclusive development for the benefit of all segments of the population"*
>
> Nicolas Kazadi, Finance Minister

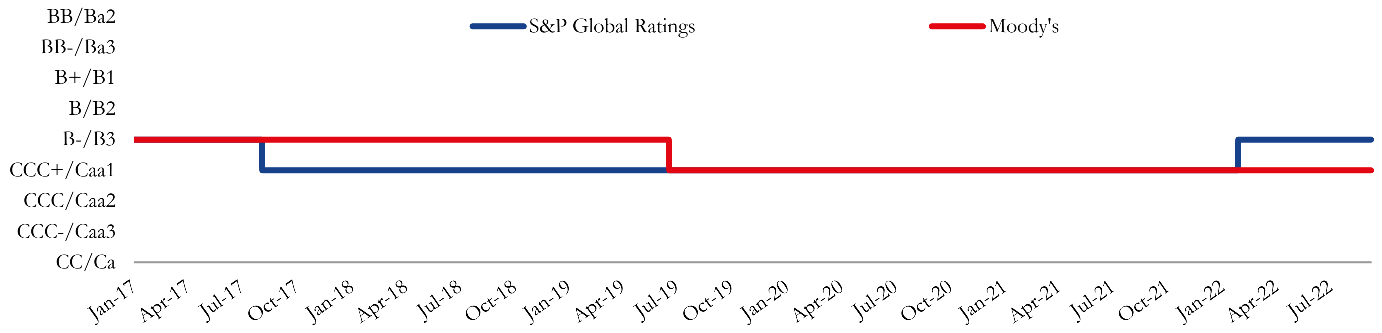
THE RATING TASK FORCE HELD THE SECOND S&P RATING REVIEW OF THE YEAR

The Rating Task Force, comprised of members from the Ministry of Finance, Ministry of Planning, the CTR[1], the Central Bank of Congo, Agence Nationale pour la Promotion des Investissements, the Ministry of the Mines and the Ministry of the Budget **has convened several sessions throughout the month June to prepare S&P's latest rating review**.

The review took place on June 28th with the Task Force and the Agency's analysts. Discussions focused on the progress achieved in terms of structural reforms, the evolution of growth projections as well as the impact of worsening global economic conditions on the DRC. **The conclusion of the review led to the affirmation of DRC's current rating of "B- / Stable outlook"**.

For reference, **S&P's first review took place in January 2022 and led to a rating upgrade from "CCC+ / positive outlook" to "B-/stable outlook"**. The upgrade was driven by the government's achievements in terms of reform implementation and improving growth prospects.

Rating Evolution since January 2017



Rating Recap

S&P Global Ratings	B- / Stable Long-term Foreign Currency Rating	
Moody's	Caa1 / Positive Long-term Foreign Currency Rating	
Bloomfield Investment	BBB / Stable Long-term Local currency	A2 / Stable Long-term Local currency

Next Steps

- In the fall 2022, the Rating Task Force will hold this year's second Moody's rating review
- DRC's rating from Moody's stands currently at "Caa1" with a "positive outlook"

Note 1: CTR designates the « Comité Technique de suivi et évaluation des Réformes »

The improvement of DRC's Business Environment Continues with the Removal of 14 import and export taxes

Delivering on its ambition to improve DRC's business environment, the Government is removing 14 taxes on the import and export of goods and implementing rebates on 20 other taxes. The purpose of such a decision is to **improve the country's competitiveness**, to alleviate fiscal pressure on economic actors, and to allow for lower consumer prices. This decision was announced during the Council of Ministers of July 8th.

This decision comes in the context of President Felix Tshisekedi 's program to attract foreign investments by making the country more welcoming for business. The tax removals will allow for the simplification of the fiscal system, making it more understandable for tax paying companies. Furthermore, it will reduce costs and delays for the tax collection services. This reforms comes after the careful review by the government of 67 levies considered by the *Federation des Entreprises du Congo* (Firms' Association) as excessive.

The tax reliefs affect a wide range of sectors such as river transport, cobalt mining, animals and food products imports, coffee exports for the complete removals, but also maritime transport and aircraft imports for the rebates.

> *"The primary motivation is to make our economy competitive. Our tax system is overwhelming. When you compare the weight of taxation in the Democratic Republic of Congo with the countries with which we trade the most, the weight of taxation in the DRC is very high."*
>
> Jean-Lucien Bussa, Minister of Foreign Trade, July 19th, 2022

The Minister of Foreign Trade, Jean-Lucien Bussa, and Minister of Communication and Media, Patrick Muyaya, announcing the removal of 14 trade taxes on July 18th, 2022.

New Projects & Financing

The Minister of Finance, Nicolas Kazadi, in Mbuji-Mayi to Launch the Modernization of a 35-km Road Network

On July 5th, **Finance Minister Nicolas Kazadi, and Alexis Gisaro, Minister of Infrastructures, were present in Mbuji-Mayi to highlight the State's efforts to improve transport infrastructures in the country.** In the capital city of Kasai-Oriental, they launched the rehabilitation of 35 km of urban roads.

As the city faces growing traffic, the project is expected to ease the movement of people and freight. Consequently, it will foster economic growth and improve people's quality of life.

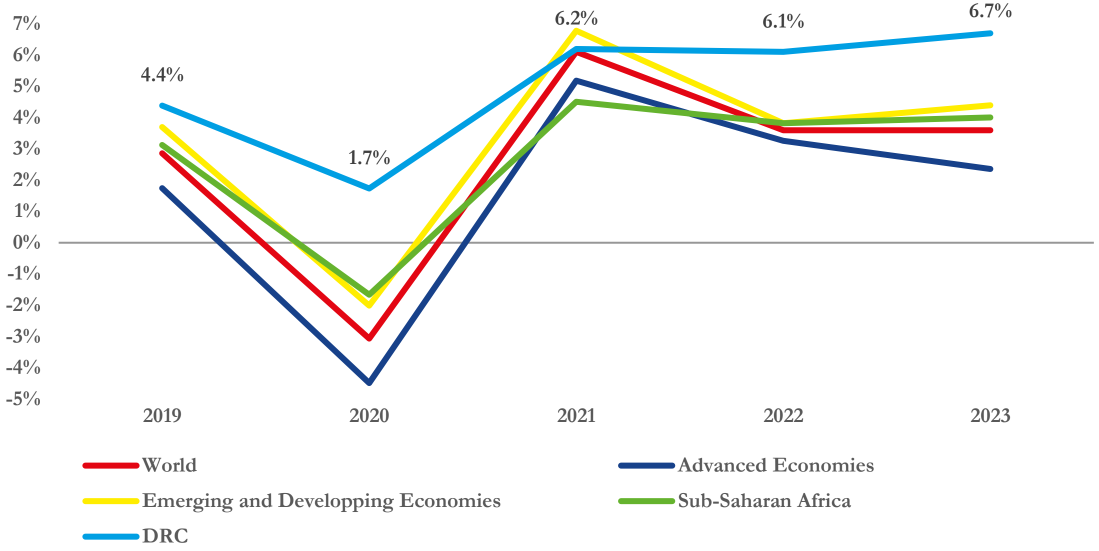
The construction results from a public-private partnership and is expected to last 36 months. This concrete project demonstrates the Government's ambition to develop infrastructures, not only in Kinshasa but in all Congolese provinces.

On the construction site, **Nicolas Kazadi indicated that the efforts and the resources mobilized for such a project aim, in the end, at benefitting Congolese people** in their daily life.

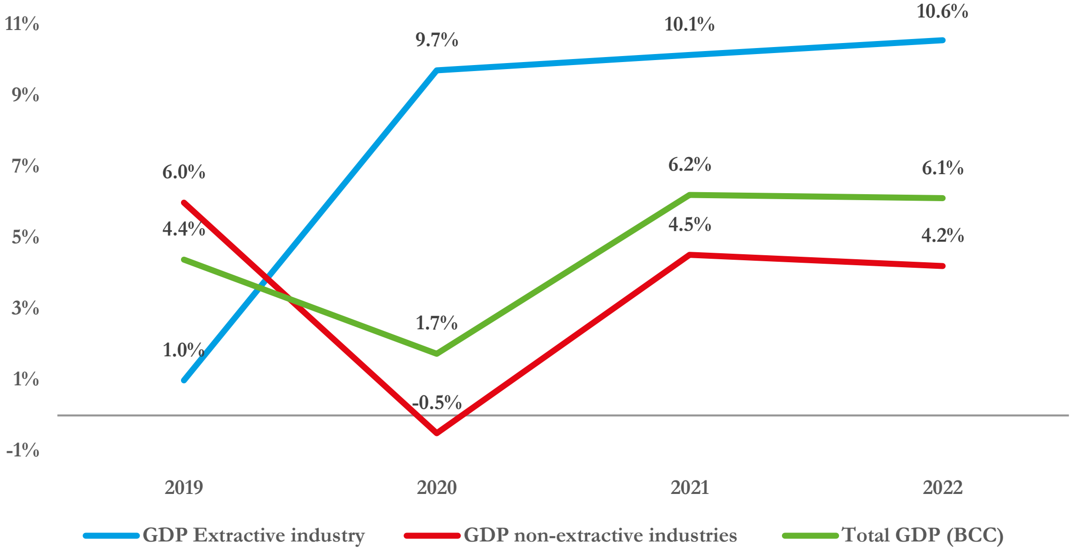
Nicolas Kazadi, Minister of Finance, and Alexis Gisaro in Mbuji-Mayi on July 5th, 2022, for the start of the rehabilitation project.

Growth Prospects

DRC Growth Expectations Remain Immune to Darkening Prospects on the Global Economy



Source : IMF, Congolese Authorities



Source : IMF, Congolese Authorities

In spite of concerns regarding global growth in the short-term and risks of recession in the US and the EU, **previsions of DRC's GDP growth for 2022 and 2023 remains steady in July**, at respectively 6.1% and 6.7%.

Theses forecasts, supported by the IMF, put **DRC approximately more than two percentage points above the emerging and developing countries** (which stand at 3.8% in 2022 and 4.4% in 2023). They also view DRC GDP growing faster than the sub-Saharan Africa (at 3.8% in 2022 and 4.0% in 2022).

Strong GDP growth both relies on a dynamic **extractive industries' expansion, and on economic diversification**, as the growth of non-extractive growth will reach 4.2% in 2022.

Expectations of prolonged high commodity prices, in parallel with the development of the oil industry and the extension of mining in the country support optimistic forecasts of GDP growth in DRC over the short and medium term.

Latest Budgetary Developments

Finance Minister Nicolas Kazadi Defines The Revenue Mobilization Strategy For The Second Semester

On July 1st, the Minister of Finance, Nicolas Kazadi, shared the **satisfactory revenue mobilization results for the first semester of the year** with the Council of Minister.

Revenue collection departments mobilized over CDF 9 717bn (c. USD 4.7bn), reaching a completion rate of 104% of the objectives. Revenues of the first semester reached 66% of the annual objective and **recorded an 80% increase compared to 2021's first half of the year figure.**

Building upon this success, the Finance Minister organized a session with revenue-collection departments to determine the **revenue mobilization strategy for second half of the year**. He reaffirmed his determination to steer the **mobilization of super profit revenues** while encouraging initiatives to exploit all tax niches.

Category of revenue	Department	Semestrial Actual *CDF bn*	Semestrial Objective *CDF bn*	Completion Rate	vs. H1 2021
Customs and Excises	**DGDA[1]**	1669	2169.8	78%	**+30%**
Taxes	**DGI[2]**	6442	3581.7	180%	**+109%**
Royalties	**DGRAD[3]**	1576	1394.8	113%	**+30%**

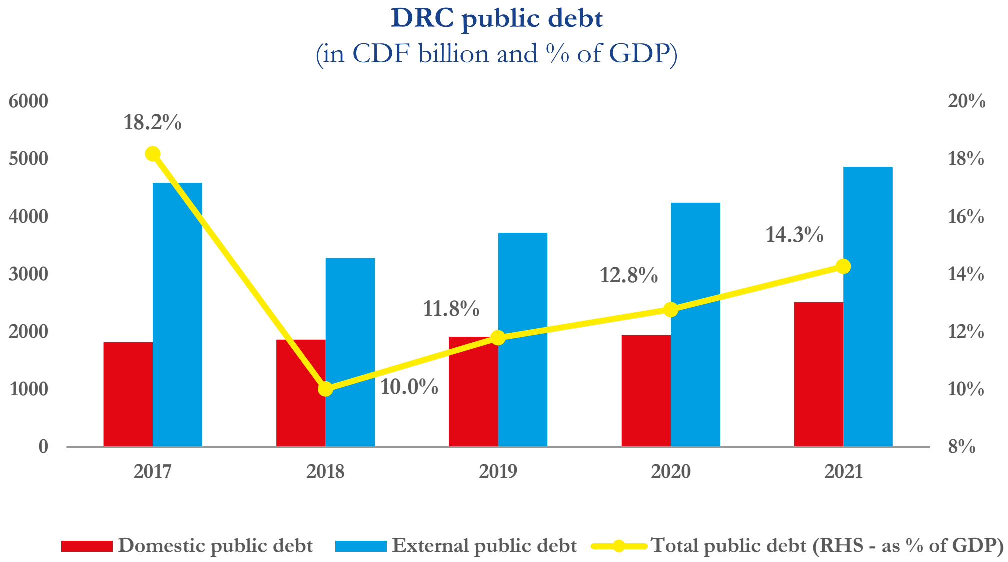
DIRECTION GÉNÉRALE DES DOUANES & ACCISES

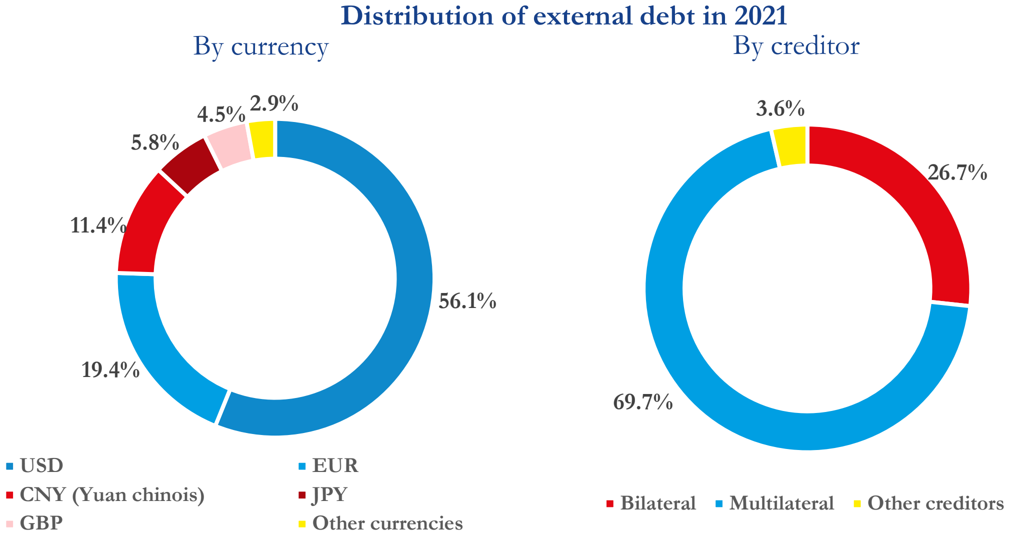
The Minister of Finance congratulated the financial authorities for the increase in the level of revenue compared to last year while stressing the need to continue working on the diversification of revenue sources through the implementation of reforms, particularly those listed in the fiscal measures of the finance law and in the performance contracts

Note 1: General Directorate of Customs and Excise
Note 2: General Directorate of Taxes
Note 3: General Directorate of Administrative, Judicial, Domanial and Participation Revenues

Debt Management

PUBLIC DEBT-TO-GDP RATIO REMAINS BELOW 15%, ACCORDING TO THE 2021 DGDP[1] ANNUAL REPORT





The Annual report on Public debt management from July 2022, published by the DGDP[1] displays **a total public debt amounting to USD 7.385,02 million**. It sets the **debt-to-GDP ratio at 14.3%**, increasing for the 3rd year in a row but still 4 percentage points below its 2018 level.

Total public debt includes 65.3% of external debt. Multilateral institutions own more than the two third of external of DRC's external debt (69.7%), and most of these loans are concessional, meaning that **they include favorable terms for DRC**. Within external debt, 56.1% is USD-denominated.

Note 1: DGDP designates the General Direction of Public Debt

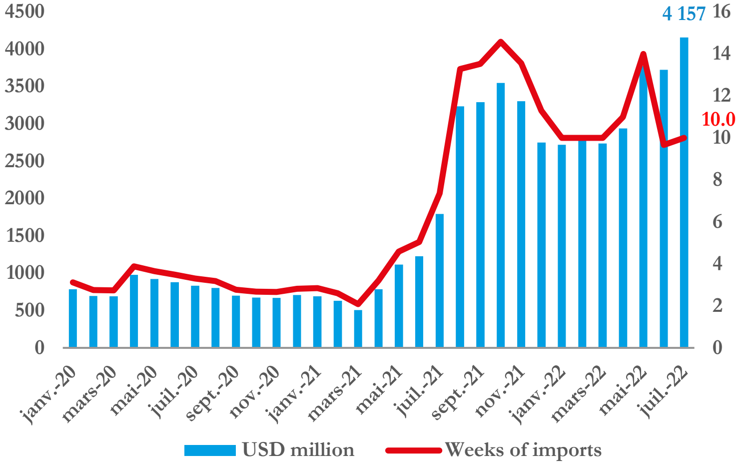
Monetary developments

The Monetary Situation Remains Strong in July despite Adverse International Context

CDF/USD exchange rate since January 2022

Source : BCC

DRC International reserves since January 2020
(in USD millions and weeks of imports)



Source : BCC

Interest rates & inflation	
BCC interest rate	7.5%
Inflation (annualized)	9.4%
Inflation (y-o-y)	7.1%

Source : BCC

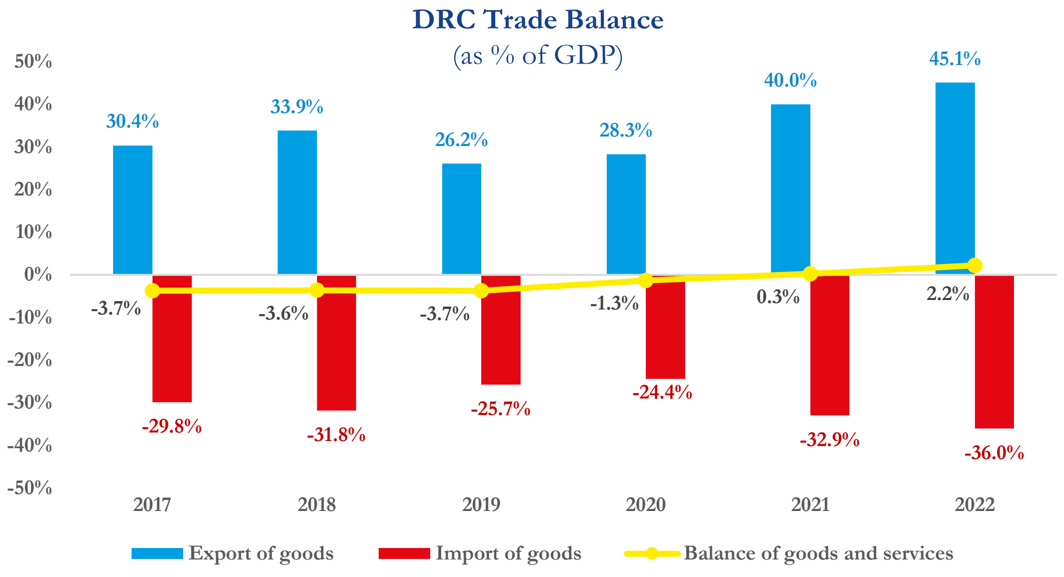
- **The CDF/USD exchange rate achieved stability in July** despite depreciation pressures related to interest rate hikes decided in June and July by the United-States FED[1]. By the end of July, **CDF 2005 were worth a dollar according to the official exchange rate, slightly below the parallel exchange rate**, at CDF 2047 per USD.
- **The Central Bank of Congo (BCC) interest rate has remained constant at 7.5%** since January 2022.

- **DRC international reserves increased by 11.5% in July 2022,** amid good exports performance.
- The increasing cost of imports due to **global price surge on food products and energy** (representing 13% and 9% of DRC imports respectively) pushed the reserves-to-import ratio downward. However, **international reserves still amount to a conformable level of 10 months** of imports.

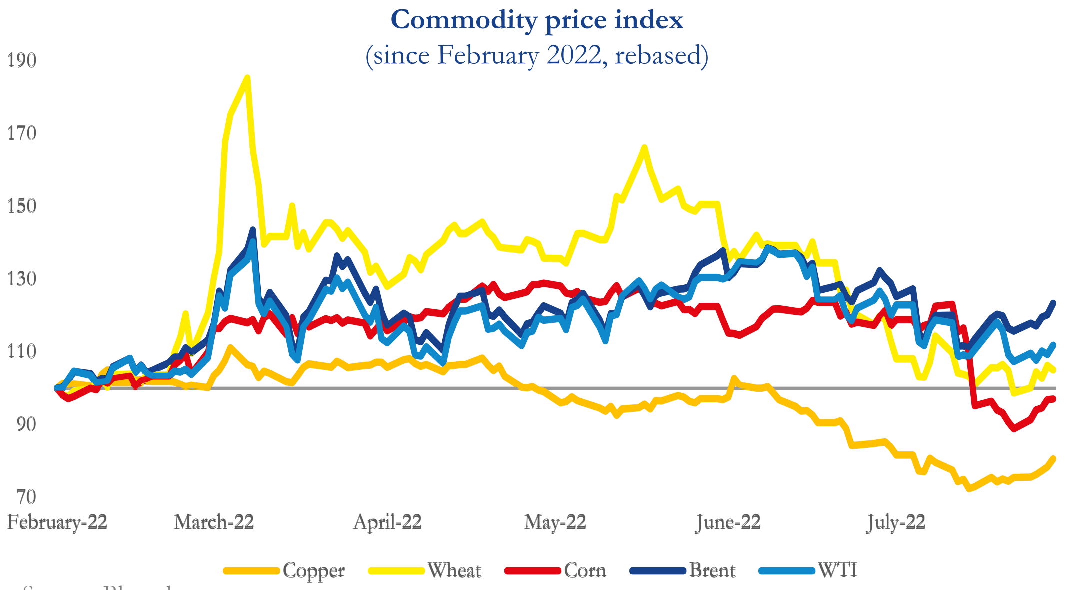
Note 1: The Federal Reserve, Central Bank of the United-States

External Sector

GLOBAL HIGH PRICES ON FOOD AND RAW MATERIALS BRING POSITIVE EFFECTS FOR RDC'S EXTERNAL POSITION



Source : BCC



Source : Bloomberg

DRC's trade balance forecast for 2022 improved in July. Value of exports was revised upward to 45.1% of GDP (+1.4 percentage point compared to the last prevision), bringing the total trade surplus expectation to +2.2%, a decade record high.

The development of mines and oil fields is expected to boost DRC's exports. Copper and cobalt exports are forecasted to grow by more than 10% in 2022, and oil exports by 15% (in volume). **High prices will push further up the country's revenues** from exports.

The increase in prices and volumes of exports will compensate the price surge of imported food and energy products in DRC. In the long run, the Government is seeking to keep opening the country to foreign trade, but also to substitute imports of basic food products with national production.

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