

Another major African oil exporter facing headwinds

General Information



GDP	USD 8.5bn (World ranking 141, World Bank 2015)
Population	4.6 million (World ranking 122, World Bank 2015)
Form of state	Republic
Head of government	Denis Sassou-Nguesso
Next elections	Presidential 2021



Strengths

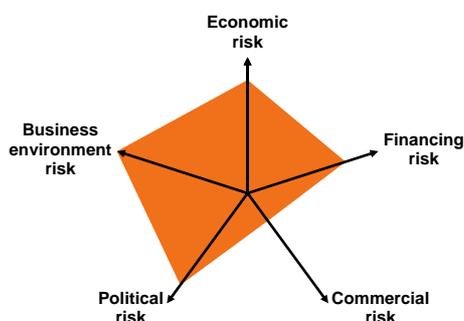
- Good natural resource base: oil, forestry and minerals.
- Strategically positioned in Central Africa, possessing a 170-kilometer long coastal front on the Atlantic Ocean and a deep-water port in Pointe-Noire that could benefit the entire sub-region.
- Highly urbanized country considering its level of per capita income: 70% of the population living in cities.

Weaknesses

- History of political instability.
- Despite a new constitution and an electoral system, executive powers are effectively held by the president. This entails inherent risks relating to autocracy and succession.
- Widespread poverty and high unemployment.
- Relatively weak infrastructure development to support communications, trade and growth.
- Economic dependence on oil sector. Small manufacturing base.
- The business environment is challenging, and private sector development remains weak.

Country Rating

D3



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports	Rank	Imports
China	51% 1	33% Algeria
Australia	8% 2	11% China
Italy	7% 3	10% France
United States	6% 4	4% Italy
France	4% 5	4% United States

By product (% of total)

Exports	Rank	Imports
Petroleum, petroleum products and related materials	83% 1	21% Iron and steel
Non-ferrous metals	7% 2	14% Paper and paper manufactures
Cork and wood	3% 3	10% Other transport equipment

Source: UNCTAD (2014)

Economic Overview

The resource curse (oil) slows growth

The Republic of Congo's economy is extremely reliant on off-shore petroleum production, which makes up 69% of exports, 45% of GDP, and is the main source of foreign currency revenues. The dependence on oil price, production, and exploration activity makes growth volatile. EH expects oil prices to stabilize around 52 USD/bl in 2017, far below the 120USD/bl price in June 2014, when Congo's economy surged by +6.8%. A sharp slowdown in 2015 to +2.3% was due to the oil slump and stalled investment plans. However, the public deficit was used as an automatic stabilizer in order to smooth the growth impact.

In 2016 growth is set to stabilize around 2%, before edging up to 3.5% in 2017. The oil sector should recover mostly due to increased production activity coming from new-wells in the Marine 12 and Moho Nord Zones sites. This may allow depressed domestic demand to pick up through rising household incomes and higher government spending. The non-oil sector's growth will be burdened by sluggish expansion in the construction and agricultural sectors.

Debt Sustainability and Liquidity Position

Despite a return to more solid growth in 2017, debt and liquidity risks will persist. Recurrent expenditure has increased in 2016 vis-à-vis 2013, due to increases in public administration salaries. Yet government revenues are at just 68% of their 2013 level. This results in continued fiscal deficits of -5% and -3% in 2016 and 2017, while public debt is expected to creep up to 67% of GDP in 2017, far above the African average of 50%. Debt sustainability issues could arise. Moreover, in 2016, FDI only covers 25% of the country's current account deficit, expected at -12.4% in 2016 and -9.8% in 2017. This is mainly due to a strategic shift in China's FDI flows, as the Asian economic powerhouse seeks to limit its exposure to struggling African commodity exporters, and turns to high-growth economies in East Africa. The CFA Franc protects Congo from inflationary pressures, but it didn't provided local producers with the right incentives to implement import substitution. As a result, the external deficit rose, an import cover has declined to 5 months (still manageable).

Political Uncertainty and Exclusivity

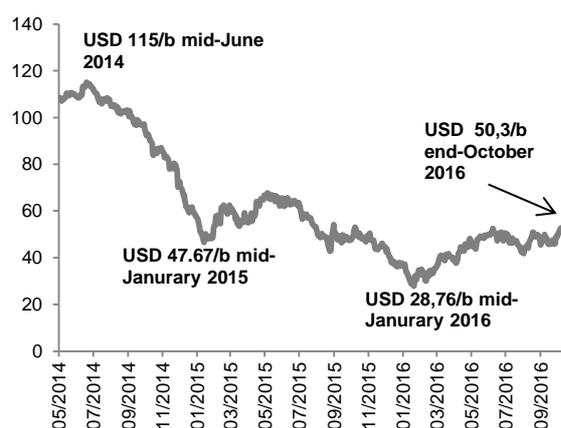
President Sassou-Nguesso's constitutional amendment, which allowed him to run for a subsequent term, was highly controversial. Congo trails regional comparisons in inclusive development indicators such as health or education. High youth unemployment (30%) could fuel unrest.

Key economic forecasts

	2014	2015	2016f	2017f
GDP growth (% change)	6.8	2.3	2.0	3.5
Inflation (% end-year)	0.9	2.0	4.0	3.7
Fiscal balance (% of GDP)	-4.8	-9.6	-5.0	-3.0
Public debt (% of GDP)	47.5	60.0	65.0	67.0
Current account (% of GDP)	-2.6	-14.5	-12.4	-9.8
External debt (% of GDP)	32.8	50.7	55.0	58.0

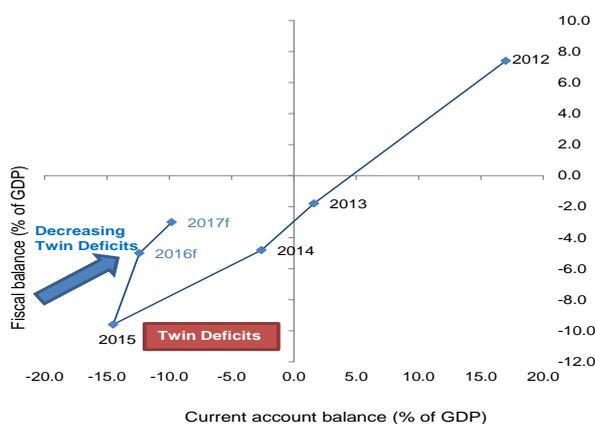
Sources: National statistics, IHS, Euler Hermes

Oil Prices (Brent, USD/bl)



Sources: FT, Euler Hermes

Twin Deficit



Sources: IHS, Euler Hermes

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