

Hidden debt darkens the outlook

General Information



GDP	USD 7.8bn (World ranking 140, World Bank 2016)
Population	5.1 million (World ranking 118, World Bank 2016)
Form of state	Republic
Head of government	Denis Sassou-Nguesso
Next elections	Presidential 2021



Strengths

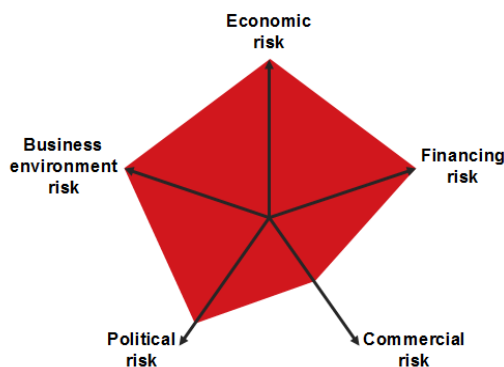
- Good natural resource base: oil, forestry and minerals.
- Strategically positioned in Central Africa, possessing a 170-kilometer long coastal front on the Atlantic Ocean and a deep-water port in Pointe-Noire that could benefit the entire sub-region.
- Highly urbanized country considering its level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

Weaknesses

- High (and partly hidden) debt.
- 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.
- Dependence on the oil sector. Small manufacturing base.
- The business environment is challenging, and private sector development remains weak.

Country Rating

D4



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports	Rank	Imports		
China	46%	1	15%	China
Australia	8%	2	14%	France
Italy	6%	3	6%	Italy
United Arab Emirates	5%	4	6%	Belgium
United States	5%	5	5%	Angola

By product (% of total)

Exports	Rank	Imports		
Petroleum, petroleum products and related materials	71%	1	15%	Other transport equipment
Other transport equipment	12%	2	7%	Road vehicles
Non-ferrous metals	10%	3	7%	Other industrial machinery and parts

Source: UNCTAD (2016)



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General overview

The Republic of Congo is still affected by the oil price slump. The country is saddled with a heavy debt burden, the result of an effort to secure oil exports and allow a high level of public spending ahead of July 2017 legislative elections despite the impact of low oil prices on fiscal revenues.

Debt and deficits skyrocketed. Current account plunged to -43% of GDP and the fiscal balance tumbled to -18.6% in 2015. An IMF mission uncovered hidden public debt contributing to send the figure up from 38% of GDP in 2013 to 117% in 2017. As the current account deficit is still quite high, the country will need fresh financing. The local economy is exposed to financing shortages and runs the risk of a 'sudden stop' and a sharp recession.

What goes around comes around

The Republic of Congo's economy is extremely reliant on off-shore petroleum production. Oil makes up 70% of exports, 45% of GDP, and is the main source of foreign currency revenues. The dependence on oil price makes growth procyclical. The non-oil sector, especially the construction sector was hurt by declining public investment in infrastructure. However, the stabilization of oil prices above 50 USD/bl in 2017, along with the launch of Moho Nord oil field, supports growth. Our forecast now stands at +0.5% in 2017.

Economic activity should also benefit from the National Development Plan (NDP) for 2017-2021, an economic diversification plan focused on agriculture, fish farming and breeding, wood transformation and services. Hence, GDP is expected to grow at a pace of +4% in 2018.

It's all about that debt

The new government will have to find an overarching solution to the financing problem. The submerged part of the iceberg stems from various contracts the national oil company signed with China and companies such as Glencore, betting on an oil price recovery. This is likely to reduce Congo's ability to negotiate the potential upcoming IMF structural adjustment plan, in addition to harming its reputation as an international borrower.

In an effort to curb its fiscal deficit, the government decided to give up on major infrastructure projects, drastically cutting public spending.

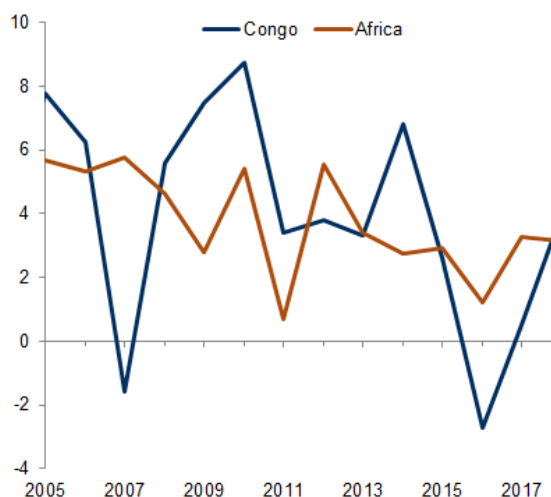
Yet as import covers declined to less than 3 months, the country needs to rebalance in order to reduce its financing needs. This may prove a difficult task in a country with rampant youth unemployment (18.7%).

Key economic forecasts

	2015	2016	2017f	2018f
GDP growth (% change)	2.6	-2.7	0.5	4
Inflation (%)	2.7	3.6	1.5	2
Fiscal balance (% of GDP)	-18.6	-17.2	-10	-5
Public debt (% of GDP)	70.6	100	117	120
Current account (% of GDP)	-42.9	-28.5	-15	-12
External debt (% of GDP)	50.7	67	75	80

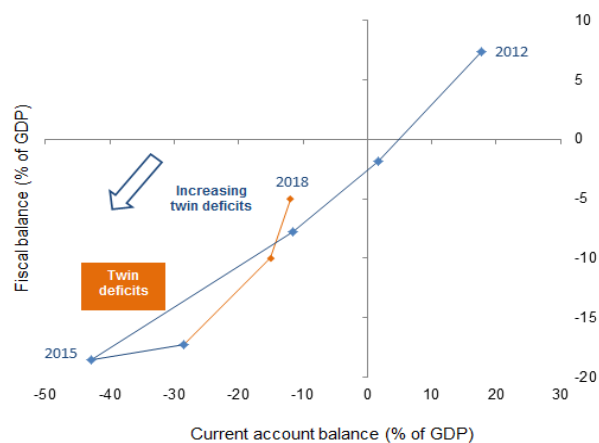
Sources: National statistics, IHS, Euler Hermes

Congo and Africa: GDP growth (%)



Sources: IHS, Euler Hermes

Fiscal and current account balance (% of GDP)



Sources: IHS, Euler Hermes

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