Euler Hermes Economic Research

Country Report

Congo, Republic

Challenging business environment

General Information

GDP	USD13.678bn (World ranking 120, World Bank 2012)
Population	4.34 million (World ranking 124, World Bank 2012)
Form of state	Republic
Head of government	President Denis SASSOU-Nguesso
Next elections	2016, presidential

Strengths

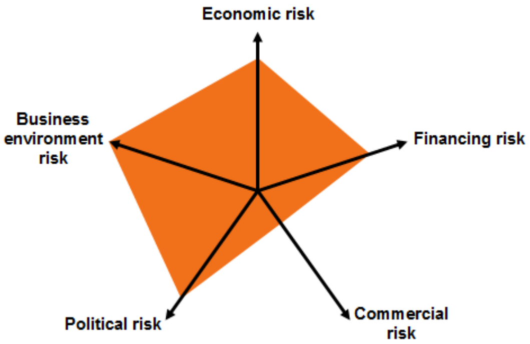
- Good natural resource base: oil, forestry and minerals.
- Large fiscal surpluses.
- Manageable external debt ratios following implementation of HIPC and MDRI initiatives.
- Membership of a regional economic bloc, with a common central bank and single currency.

Weaknesses

- History of political instability.
- Despite a new constitution and an electoral system, executive powers are effectively concentrated in one person, so there are inherent risks relating to autocracy and also to 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 general business environment is assessed as weak in relation to development of the private sector, in particular.

Country Rating

D3



Source: Euler Hermes

Trade structure

By destination/origin (% of total)

Exports		Rank		Imports
China	39%	1	16%	France
United States	13%	2	11%	China
France	10%	3	6%	Brazil
Australia	9%	4	5%	United States
Netherlands	6%	5	5%	India

By product (% of total)

Exports		Rank		Imports
Petroleum and related materials	87%	1	20%	Other transport equipment
Cork and wood	3%	2	6%	Other industrial machinery and parts
Non-ferrous metals	3%	3	6%	Specialised machinery
Metalliferous ores and metal scrap	1%	4	6%	Road vehicles
Gas, natural and manufactured	1%	5	4%	Meat and meat preparations

Source: UNCTAD (2012)

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Congo remains essentially an oil economy, but foreign investment is assisting developments in the non-hydrocarbon sectors

The key driver of economic activity and GDP growth is the hydrocarbons sector (over 80% of export revenues and accounting for around 50% of overall GDP) and, in this respect, annual growth is volatile (see charts). Oil exploration in recent years has resulted in new recoverable reserves, with the prospect of increased potential output after a recent downturn in production and revenues. GDP growth was almost +6% in 2013, compared with a long-term annual average of around +4%.

As elsewhere in Sub-Saharan Africa, Chinese investment in infrastructure has been welcomed. Included in such investment is a project (USD1.2 billion) to rebuild the parts of the capital, Brazzaville, destroyed by an extensive explosion in a munitions depot in March 2012. The government also negotiated with Russia to construct a new power plant and improve existing facilities, as well as to enhance electricity supply in the capital. German companies are involved in improving the telecommunications sector.

GDP growth to receive a boost in 2015 as projects come on stream

EH forecasts GDP growth of around +5% in 2014 and +7% in 2015 as further planned hydrocarbon projects come on stream. Growth in the non-oil sectors will be driven largely by activity in the construction, transport and telecommunication industries, with public expenditure levels providing the main supporting element. With the country's high dependence on oil, the growth outlook reflects key assumptions relating to international commodity markets and EH is not forecasting a marked collapse in energy demand or oil prices over the next two years.

Stable exchange rate system provides an enabling environment for low inflation

A key policy is to continue membership of the regional economic bloc, which has a common central bank and therefore the CFA franc will remain the country's currency. Over the forecast period, the rate of inflation is expected to remain below the regional convergence criteria level of 3%.

EH does not expect a change in the CFA franc mechanism, with the fixed peg to the euro remaining XAF655.957:EUR1 through to end-2015.

The external sector remains dependent on the oil sector; current account surpluses likely…

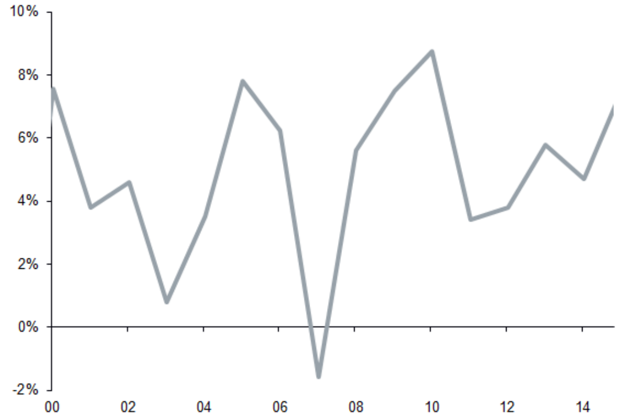
Developments in the external sector largely reflect oil output and internationally-determined oil prices. The current account registered annual average surpluses of 1.2% of GDP in 2000-08 but deficits were recorded in 2009-12 (-12% in 2012). Surpluses are forecast for 2014 and 2015 as oil projects come on stream; EH expects the current account to remain equivalent to +3.7% of GDP in both years.

Key economic forecasts

	2012	2013	2014f	2015f
GDP growth (% change)	3.8	5.8	5.0	7.0
Inflation (%, end-year)	7.5	3.8	2.3	2.5
Fiscal balance (% of GDP)	46.4	43.7	40.9	38.4
Public debt (% of GDP)	n.a.	n.a.	n.a.	n.a.
Current account (% of GDP)	-12.0	2.1	3.7	3.7
External debt (% of GDP)	62.8	54.5	50.9	46.0

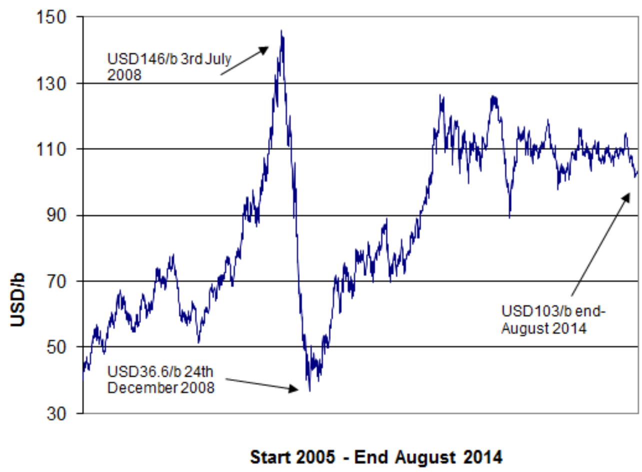
Sources: IHS Global Insight, national sources, Euler Hermes

GDP growth (%)



Sources: IHS Global Insight, Euler Hermes

Benchmark Brent oil prices (USD/barrel)



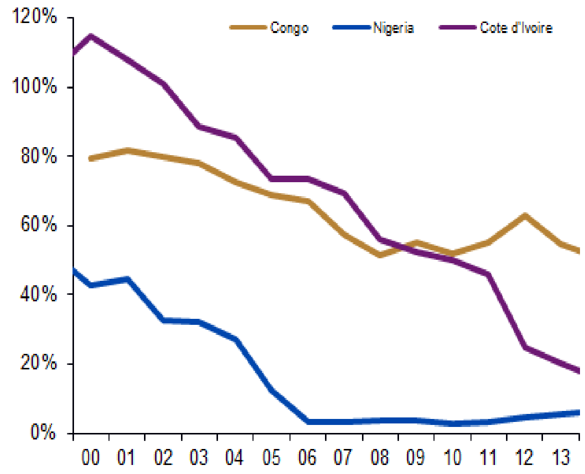
Sources: IHS Global Insight, Euler Hermes

...and external debt obligations reduced (although remaining a burden)

External debt obligations have been reduced, with debt/GDP in 2014 forecast at 51%, compared with an annual average 127% in 2000-08, and debt/export earnings at under 50%. At such levels, external debt obligations still divert financial resources away from productive domestic requirements (including poverty alleviation). Import cover is forecast at over seven months in 2014, compared with an international benchmark of three months.

In January 2010, the IMF and the World Bank's IDA agreed to support debt relief under the HIPC and MDRI initiatives that amounted to a combined USD1.9 billion.

External debt (% of GDP)



Sources: IHS Global Insight, Euler Hermes

Public finances

Congo will remain a member of the regional economic bloc that has a single central bank and unified currency system (in effect, backed by the French treasury)—the CFA franc will remain the country's currency. Against that background, external liquidity has a degree of support, although existing current account surpluses negate the need to draw on regional financial resources. EH expects fiscal accounts will continue to register substantial surpluses in the forecast period (43.7% of GDP in 2013).

Trade policy and reform agenda

Trade policy reflects the country's membership of the regional customs union, which oversees a common external tariff and general preferential tariff. In addition, Congo observes article VIII of the IMF on current international transactions. In May 2014, following article IV discussions, the Fund indicated that Congo's macro-economic performance continues to be broadly satisfactory.

International agencies, including the World Bank and the AfDB suggest that extensive constraints limit the evolution of a dynamic private sector. In particular, reforms are called for that simplify setting up businesses and the tax system, that enhance legal protection and that improve credit availability.

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