KPMG

DRC Economic Snapshot H2, 2017

Trade & Investment SWOT

Strengths	Weaknesses
The country is part of a trade agreement with the Southern African Development Community (SADC) which allows reduced tariff rates, no non-tariff barriers and reduced quantitative restrictions.	High fiscal and trade barriers, including a high corporate tax rate.
There is a reasonable presence of international banks, facilitating the flow of funds into the country without the risk of losing money in transfer fees.	Limited banking infrastructure and access to credit threaten to severely limit consumer spending, particularly affecting the retail sector.
The market in the Democratic Republic of the Congo (DRC) is sizable and offers promising growth prospects.	Insufficient inflows of US dollars caused the Congolese franc to weaken significantly in 2017, resulting in double-digit inflation. .
Implementation of OHADA laws, a modern legal framework for joint ventures.	The country remains highly exposed to commodity price weakness, particularly in the copper mining sector. The informal sector accounts for more than 80% of the economy
Opportunities	**Threats**
The DRC government has taken steps in recent years to liberalise the country's trade and investment regimes, e.g. liberalisation of the insurance and electricity sectors.	The economy is being adverse impacted by election uncertainty
In recent years there has been an influx of new banks and other financial institutions.	Central bank reserves are very low due to the slow economy.
The weakness of the central state allows private investors significant leeway in avoiding burdensome legislation.	DRC's judiciary is not considered to be fully independent and has been seen to shield corrupt political practices from prosecution.
The government is eager to channel interest in the mining sector into financing infrastructure spending.	The lack of infrastructure is an obstacle to potential investments

Source: Business Monitor International (BMI), KPMG research

Economic structure - The primary sector is comprised of mainly subsistence farming. Cassava is the most widely-grown crop with smaller cash crops including tobacco, coffee, sugar cane, cocoa, rubber and palm oil. The DRC has an estimated 80 million hectares of available arable land with only 10% under cultivation. The secondary sector is dominated by oil production, the mining industry and factory sector. Mines produce the copper, cobalt and mineral ores that accounted for more than 80% of export revenues in 2015. Oil is produced offshore and all of the country's crude output is exported. The tertiary sector includes large retail, transport and communication components. Container stores and kiosks dominate the retail environment. Transport in the country is challenging due to barriers to land transport created by terrain and climate.

Copper, mineral ores and cobalt mattes account for around 80% of the DRC's exports. The country's mining industry is supported by large reserves of high-grade mineral reserves that has resulted in a strong mining sector project pipeline. The Frasier Institute Survey of Mining Companies 2016 ranked the DRC 29th out of 109 jurisdictions, with improvements in its ranking recorded in the previous three editions of the report – the country was ranked 75th in 2013.

Recent economic developments – The recently released Plan National Stratégique de Développement (PNSD) 2017-2021 – the country's first national development plan – focuses on making the DRC an emerging market economy by 2030 and a developed country by 2050. As indicated in publications released in H2, 2017, S&P Global Ratings and Moody's Investors Services both have stable outlooks on their sovereign ratings for the DRC. However, the country's deteriorating security situation and uncertainty over policy direction have reduced donor assistance and dissuaded foreign investment. The release of the election timetable in November 2017 – indicating polls

Mega trends

Population	2017	Total: 82.24 million; female: 41.21 million; male: 41.03 million; age 0-14: 45.7% of total; age 15+: 54.3% of total; age 65+: 2.97% of total
Population growth rate	2015	3.28%
Life expectancy at birth	2015	Total: 59.17 years; female: 60.68 years; male: 57.74 years
HIV/AIDS	2016	Total number of people living with HIV: 0.37 million; total adult prevalence: 0.7%; HIV AIDS orphans (age 0-17): 0.33 million
Adult literacy rate	2015	Total population: 77.22%; female: 65.9%; male: 88.81%
Urbanisation	2016	Urban population: 43.02% of total; annual urban population growth: 4.5%; rural population: 56.99% of total
Population below $1.90/day poverty line	2012	77.08%
Unemployment rate	2013	46%
Employment	2017	Agriculture: 65.3% of total; industry: 5.9% of total; services: 28.9% of total
Labour participation rate	2017	Total (ages 15+): 71.12% of total population
Business languages	n/a	French, Lingala, Swahili, Kikongo
Telephone & internet users	2011; 2016	Fixed telephone subscriptions: n/a million (2016); wired internet subscriptions: 0.03 million (2011); cell phone subscriptions: 28.89 million (2016)
Quality of infrastructure	2017	2.02

Sources: UNESCO Institute for Statistics, World Telecommunication/ICT indicator database, World Bank, UNAIDS, International Labour Organisation, Analyse Africa will be held in December 2018 - will provide slightly more certainty about the country's political dynamics. Low commodity prices and insufficient inflows of US dollars have caused the Congolese franc to weaken significantly. Adding further pressure on inflation, the government enacted in August 2017 a six-month ban on imports of carbonated drinks, cement, iron and sugar in an attempt to stem flows of cheap imports from Angola into the west of the country. Headline inflation increased from 67.5% y-o-y in July to 70.8% y-o-y in August. The only positive factor on the fiscal front is a recent rise in copper and cobalt prices which will provide some support for government revenues.

Business Environment

Human Development Index (HDI) 2015		Index of Economic Freedom 2017		Global Competitiveness Index (GCI) 2017-18		Doing Business 2018		Corruption Perceptions Index 2016	
176th	out of 188 countries	117th	out of 180 countries	126th	out of 137 countries	182nd	out of 190 countries	156th	out of 176 countries

Source: World Bank, The Heritage Foundation, World Economic Forum (WEF), Transparency International

Economic policy – The Plan National Stratégique de Développement (PNSD) 2017-2021 – the country's first national development plan – was developed with technical support from the United Nations Development Programme (UNDP). The plan focuses on making the DRC an emerging market economy by 2030 and a developed country by 2050, and is the main policy tool for achieving the UNDP's Sustainable Development Goals (SDGs). To achieve these objectives, the government intends to promote an economic diversification and industrialisation policy that attaches greater importance to growth-generating sectors and that prioritises special economic zones (SEZs). The state envisages establishing economic and industrial growth nodes in different provinces based on comparative and competitive advantages in these areas. One of the principal means of achieving these objectives is the implementation of an SEZ regime. The country's Industrial Policy and Strategies Paper (DPSI) was adopted in 2011 and focuses on the promotion of four priority areas, namely agro industry, mining and metallurgy; building materials and packaging. .

Sovereign Risk Ratings

S&P Global Ratings	Fitch Ratings	Moody's Investors Service
CCC+/Stable	---	B3/Stable

Source: Trading Economics

S&P Global Ratings lowered their "B-" (negative outlook) long-term foreign credit rating on the DRC to "CCC+" with a stable outlook in August 2017. The downgrade reflected the concern that, unless the country's political crisis is resolved and donor funding is restored, elevated levels of inflation would persist. Headline inflation has been in double digits since November last year and continues to rise. Ratings could be lowered further if political and social tensions "lead to a significant institutional disruption, translating into hyperinflation" and local currency depreciation above current expectations. S&P projected some stability in the Congolese franc during 2018 following sharp depreciation in 2017. From a monetary policy perspective, the agency believes that the central bank's ability to intervene in the currency market to support the franc is limited due to low levels of foreign reserves. It expects headline inflation to average in double digits in coming years as a result of second-round inflation effects as well as the potential monetary financing of the fiscal deficit.

Moody's Investors Services affirmed the DRC's long-term issuer rating in June 2016 at "B3" with a stable outlook and has since then maintained this assessment. In an annual credit analysis published in June 2017, the agency commented that the stable outlook balances the potential in the agricultural and hydroelectricity sectors with constraints like institutional weakness and political uncertainty. Moody's warned that downward pressure on the sovereign's current rating could arise from a decline in commodity prices, thereby heightening the potential for a balance of payments crisis. This could contribute to a further decline in foreign exchange reserves which would increase the economy and country's vulnerability to external shocks. On a positive note, the DRC has a low debt burden compared to many of its peers.

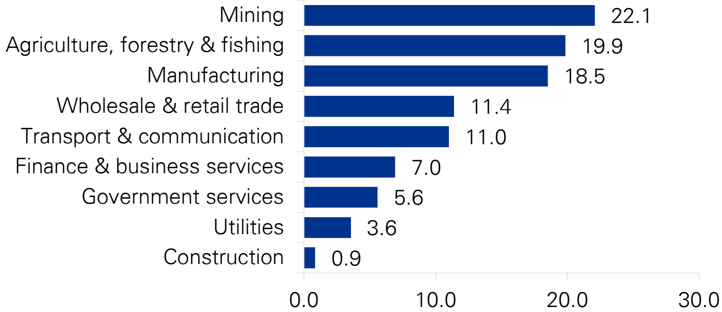
Finance & Banking

Central bank	Number of commercial banks	Bank branches per 100 000 adults	ATMs per 100 000 adults	Deposit accounts per 1 000 adults
Banque Centrale du Congo (BCC)	20	1.01	1.31	43.72
Stock market	**Listed companies**	**Market capitalisation**	**Largest sectors**	**Weekly trading value**
No	N/A	N/A	N/A	N/A
Capital market	**Level of development**	**Maturity range**	**Municipal bonds**	**Corporate bonds**
Yes	Limited	7 to 90 days	No	No

Sources: World Bank, African Alliance, Analyse Africa, KPMG research

Macroeconomic overview

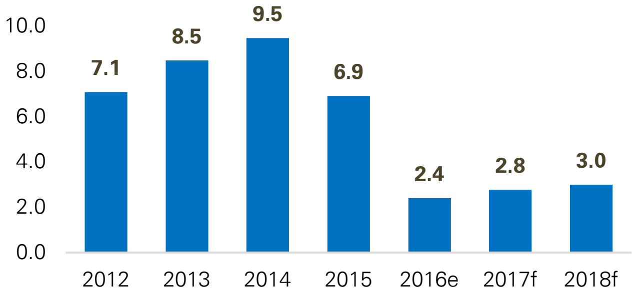
Economic structure (% of GDP), 2016



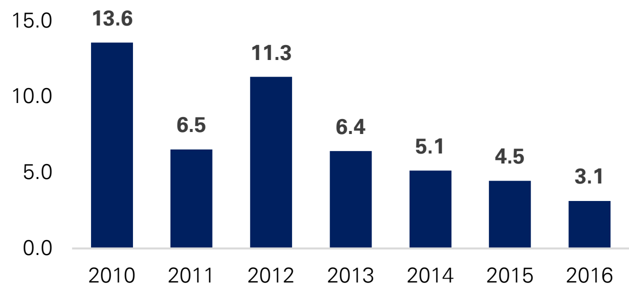
Source: African Economic Outlook (AEO)

Economic growth - The vast mineral wealth in this large country has allowed for rapid levels of real gross domestic product (GDP) growth, as the extractive sectors produce large quantities of copper, cobalt and gold. A growing population in the DRC also drives economic growth from a consumer spending perspective. However, growth is still restrained by the challenges of developing adequate infrastructure throughout the country. Additionally, low commodity prices in 2015-2017 weighed on the profitability and performance of these sectors. Mining companies have struggled to maintain operations in an environment that does not yield the same profits as before. There was thus a significant slump in real GDP growth during this period. In 2018, stronger mining sector production, led by copper and cobalt, and stabilising external accounts will support a slight acceleration of economic growth to 3% from 2.8% in 2017.

Real GDP growth (%)



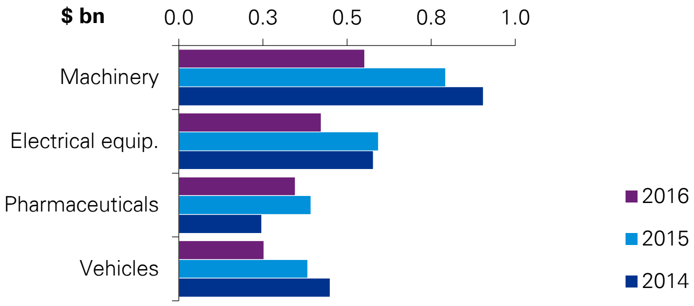
FDI inflows (% of GDP)



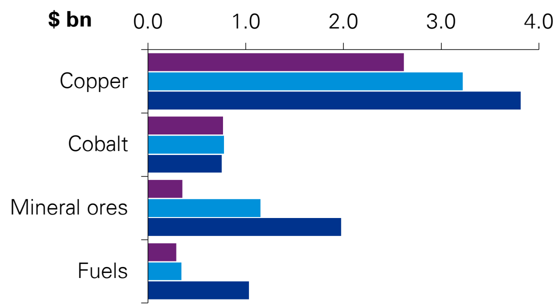
Sources: International Monetary Fund (IMF), United Nations Conference on Trade and Development (UNCTAD)

Foreign investment – The DRC's deteriorating security situation and uncertainty over policy direction have reduced donor assistance and dissuaded foreign investment, both key sources of needed capital inflows. Delays in the election timetable, rising unrest and worsening insecurity due to insurgent groups have delayed the resumption of capital inflows from multilateral and private financiers, which could see non-mining sector activity remain under significant pressure over the coming quarters. However, the government has made renewed efforts to attract foreign investors and streamline processes by creating a one-stop agency called the National Agency for Investment Promotion (ANAPI). This agency is using the provisions of the Investment Code to simplify investments, improve the business climate and make procedures more transparent. The release of the election timetable in November 2017 – indicating polls will be held in December 2018 - will provide slightly more certainty about the country's political dynamics.

Main imports



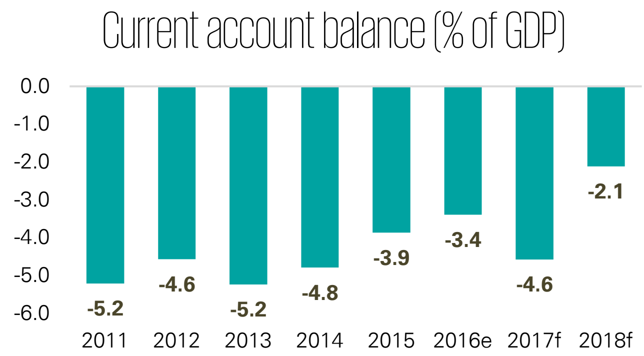
Main exports

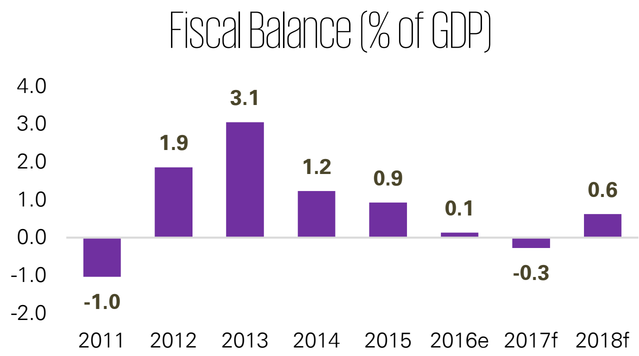


Main Imports: % share of total	2014	2015	2016	Main Exports: % share of total	2014	2015	2016
Machinery	12.9%	13.4%	13.4%	Copper	45.6%	50.2%	57.5%
Electrical equipment	8.3%	10.0%	10.3%	Cobalt	9.0%	12.1%	16.9%
Pharmaceuticals	3.5%	6.6%	8.4%	Mineral ores	23.6%	17.9%	7.7%
Vehicles	6.4%	6.5%	6.1%	Fuels	12.3%	5.3%	6.4%

Source: Trade Map

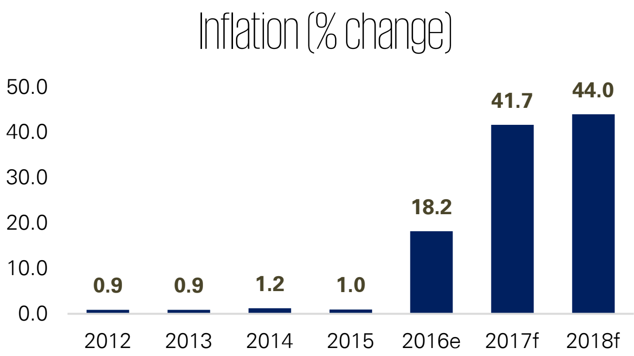
External trade – The DRC has had a persistent current account deficit over the past decade due to a heavy reliance on imports. An underdeveloped manufacturing sector makes the economy reliant on robust import growth to facilitate increasing production. Although the DRC's current account deficit will narrow during 2018, its external accounts will remain under pressure as political instability weighs on the capital inflows needed to cover its financing needs. BMI indicated that trade volumes fell dramatically in 2017, cutting inflows of foreign revenue from the country's mineral exports. Additionally, elevated political risk has undermined capital inflows from donors and investors, leading to a financing crunch that has led to diminishing reserves and the steady depreciation of the Congolese franc. In August 2017, the government enacted a six-month ban on imports of carbonated drinks, cement, iron and sugar in an attempt to stem flows of cheap imports from Angola into the west of the country. Growing mining exports in 2017 and 2018 will allow for a narrowing of the deficit over the next year to a projected 2.1% of GDP by 2018. Import cover - the number of months of imports covered by a country's foreign reserves - is projected by BMI to equal less than a month in 2018, compared to a global benchmark of at least three months.





Source: IMF

Fiscal policy – The DRC had a fiscal surplus between 2012 and 2016, after which the country fell into a deficit in 2017. A slump in commodity prices was the primary reason for the fiscal deficit since the mining sector accounts for more than 80% of the country's exports and is therefore an important contributor to fiscal revenue. Going forward, the DRC's fiscal finances will be severely constrained by underperforming revenues and a lack of needed outside financing over the coming quarters, both closely linked to the country's ongoing political crisis. While spending cuts and rising inflation will limit the widening of the fiscal deficit, this will reflect the government's difficulty in financing its operations rather than an improvement in its fiscal outlook. In July 2017, the government formally requested financial support from international donors, including the United Nations, European Union (EU) and African Union (AU). Donors have so far refused support due to repeated delays to elections and President Joseph Kabila's apparent unwillingness to step down. The government's struggles to finance its operations will result in expenditure cuts that will further undermine household incomes. The only positive factor is a recent rise in copper and cobalt prices which will provide some support for fiscal revenues.



Source: IMF, BMI, country statistics agencies

Monetary policy - Headline inflation increased from 67.5% y-o-y in July to 70.8% y-o-y in August. Low commodity prices and insufficient inflows of US dollars have caused the Congolese franc to weaken significantly. The lack of financing will continue to drive double-digit inflation in 2018 and the government's ban on common imports in August will contribute to the spiralling inflation rate. In an attempt to curb inflation, the central bank increased the country's base interest rate from 7% to 14% in February 2017 and to 20% in June, with further increases likely in 2018. Although the formal economy is largely dollarised and operates unhindered from local interest rates, the current shortage of hard currency and reductions of key imports will have an adverse effect. The IMF expects inflation to average 44% in 2018.

Contact details

KPMG DRC	KPMG South Africa Economics
Jean-Yves Parant, Senior Partner	**Lullu Krugel, Director**
+243 82 850 4930 jparant@kpmg.cd	+27 (0) 82 712 4049 lullu.krugel@kpmg.co.za