KPMG

Economic Snapshot H1, 2017

Democratic Republic of the Congo

Inflation overview – Headline inflation decreased from 39.6% year-on-year (y-o-y) in January to 36.3% y-o-y in February this year. The inflation rate accelerated significantly in 2016, after low commodity prices and insufficient inflows of US dollars caused the Congolese franc to weaken significantly. In response, the Banque Centrale du Congo (BCC) increased the country's base interest rate in February 2017 from 7% to 14%.

Growth summary – Low commodity prices in 2015-2016 weighed on the profitability of the mining sector which, in turn, weighed down overall economic growth. It is however expected that commodity prices will improve during 2017, and for real GDP growth to rise from 2.4% in 2016 to 2.8% in 2017. Growth is still restrained by the challenges of developing adequate infrastructure throughout the country

Economic policy – Political volatility, a high risk of interstate conflict and economic policy inconsistency continue to dampen the DRC's investment appeal. Business Monitor International (BMI) rates long-term policy continuity amongst the bottom 20% of countries worldwide. Admittedly, the organisation's appraisal of continuity improved in early 2017.

Trade & Investment SWOT

Strengths	Weaknesses
DRC 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.
DRC's market is sizable and offers promising growth prospects.	Corruption is rife, particularly within the public sector.
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.
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.	Poor contract enforceability has the potential to severely damage small businesses in need of cheap trials to stay solvent.
In recent years there has been an influx of new banks and other financial institutions.	The cost and time required to acquire construction permits represent a major financial burden for businesses within the construction sector.
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 high level of corruption increases costs for businesses.

Source: Business Monitor International (BMI), KPMG research

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	3.14%
Life expectancy at birth	2014	Total: 58.66 years; female: 60.14 years; male: 57.25 years
HIV/AIDS	2015	Total number of people living with HIV: 0.37 million; total adult prevalence: 0.8%; HIV/AIDS orphans (age 0-17): 0.33 million
Adult literacy rate	2015	Total population: 77.22%; female: 65.9%; male: 57.25%
Urbanisation	2015	Urban population: 42.49% of total; annual urban population growth: 4.37%; rural population: 57.51% of total
Population below $1.90 per day poverty line	2012	39.17%
Unemployment rate	2017	Total: 3.6%; female: 4.3%; male: 2.9%; youth (15 - 24): 6.5%
Employment	2005	Agriculture: 36% of total; industry: 21% of total; services: 42% 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	Fixed telephone subscriptions: 0.06 million; wired internet subscriptions: 0.03 million; cell phone subscriptions: 28.9 million (2017)

Sources: UNESCO Institute for Statistics, World Telecommunication/ICT indicator database, World Development Indicators, UNAIDS, International Labour Organisation, Ministry of Telecommunication (ARCPT)

Human Development Index (HDI) 2015		Index of Economic Freedom 2016		Global Competitiveness Index (GCI) 2016		Doing Business 2017		Corruption Perceptions Index 2016	
176th	out of 188 countries	163rd	out of 179 countries	129th	out of 148 countries	184th	out of 189 countries	156th	out of 177 countries

Source: Transparency International, Doing Business, World Economic Forum, UN Human Development Report, The Heritage Foundation

Sovereign Risk Ratings		
S&P Global Ratings	**Fitch Ratings**	**Moody's Investors Service**
B-/Negative	---	B3/Stable

S&P Global Ratings affirmed their "B-" long-term foreign credit rating on the DRC with a negative outlook in August 2016. The ratings agency stated that the negative outlook reflects that "*political and social tensions could rise in the run-up to the elections, causing substantial institutional and economic disruption*". They also referred to the external and fiscal vulnerabilities that could increase more in the future than is currently expected. If political and social tensions were to flare up or if the country's fiscal position were to weaken significantly, S&P could lower the ratings on the DRC. The outlook could however be reviewed to stable if the DRC improves its external liquidity and if the elections are carried out smoothly, effectively boosting investor confidence.

Moody's Investors Services affirmed the DRC's long-term issuer rating in June 2016 at "B3", maintaining a stable outlook. Positive action on the rating could occur in the event of continued foreign investment in the mining sector, an increase in forex reserves, further strengthening of the DRC's institutions, accelerated fiscal reforms and continued capital expenditure to finance the rehabilitation of infrastructure. Negative action on the rating could arise from factors such as a sustained decline in the commodity prices of exports, a rapid depreciation of the Congolese franc (which could drain forex reserves through BCC intervention), a large deterioration of the government's fiscal balance and a rise in instability coming from conflict in the east or a spike in political tensions.

Quality of infrastructure	Economic diversity	Banking sector	Continuity of economic policy	GDP growth	Fiscal / current account balances	Foreign investment	Socio-economic development	Forex reserves
Weak	Activity focussed on mining	Small and under-developed	Lingering uncertainty	Recent declines	Twin deficits since 2015	Declining since 2013	Very low	Limited

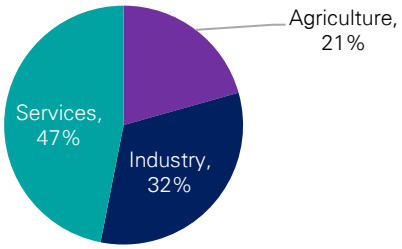
Stock market	Listed companies	Liquidity	Market capitalisation	Largest sector	Weekly trading volume
N/A	N/A	N/A	N/A	N/A	N/A
Capital market	**Level of development**	**Liquidity**	**Maturity range**	**Municipal bonds**	**Corporate bonds**
Yes	Limited	Low	7 to 90 days	No	No

Macroeconomic overview

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.

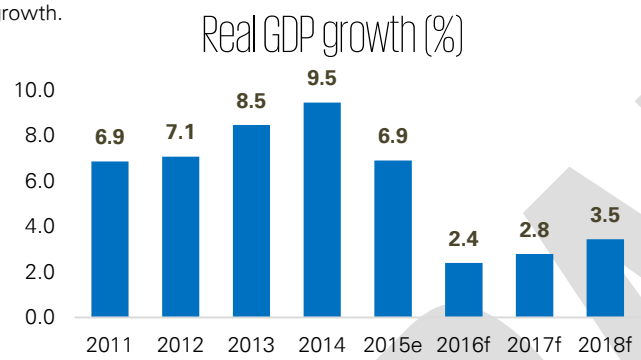
Copper, mineral ores and cobalt mattes account for 80% of the DRC's exports. The country's mining industry is supported by large reserves of high-grade mineral reserves that has resulted in a strong mining sector project pipeline. The Frasier Institute Survey of Mining Companies 2016 ranked the DRC 29th 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. The country is ranked fourth on the continent after the Ivory Coast, Botswana and Ghana. A respondent to the annual survey commented that the changes in 2012 to local mining laws "and a genuine attempt to impose transparency and due legal process in disputes was a positive."

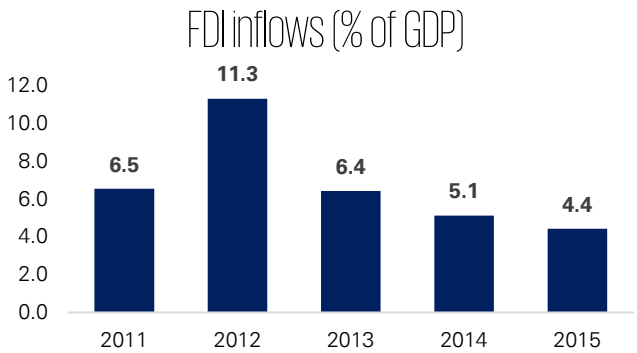
Economic structure as % of GDP 2015



Source: World Bank: World Development Indicators

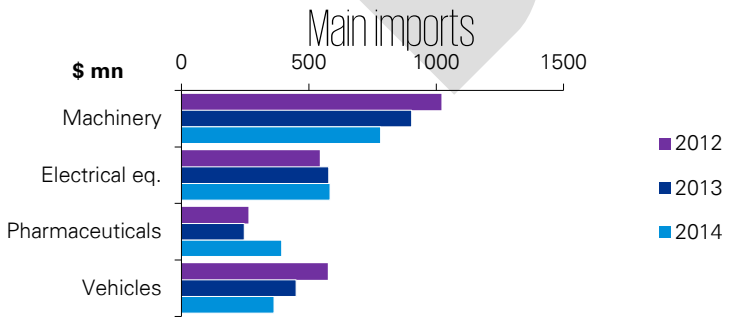
Economic growth – The vast mineral wealth in this large country has allowed for rapid levels of real GDP growth, as the extractive sectors produce large quantities of copper, cobalt and gold. A growing population in the DRC also drives economic growth from a consumer spending perspective. However, growth is still restrained by the challenges of developing adequate infrastructure throughout the country. Additionally, low commodity prices in 2015 and 2016 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. It is however expected that commodity prices will improve during 2017, and therefore the International Monetary Fund (IMF) predicts that GDP growth will increase to 3.5% by 2018, up from a 2.4% estimated growth rate in 2016. The extractive sector will consequently resume its role as a significant driver of economic growth.

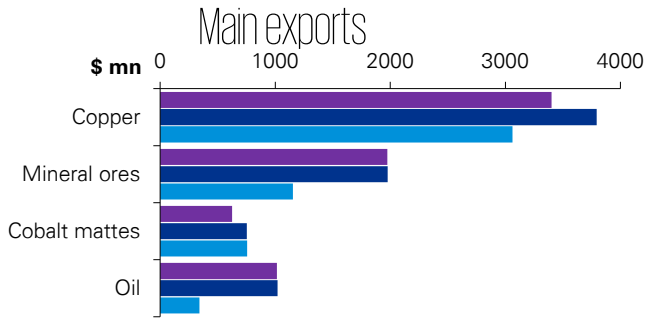




Sources: IMF, United Nations Conference on Trade and Development (UNCTAD)

Foreign investment – The DRC's poor security situation has resulted in foreign direct investment (FDI) below potential. Investors face a number of obstacles in the form of harassment and the subjective, opportunistic interpretation of regulatory and taxation policies. 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 DRC's considerable market potential and export of desirable minerals represent a major advantage to foreign investors. With 80 million hectares of arable land and over 1,100 mineral and precious metals, the country has the potential to be one of the richest countries on the continent and a key driver of African growth. However, the DRC's dependence on primary commodity exports makes it particularly vulnerable to fluctuating international demand and variable commodity prices. This means that any unexpected changes in demand will weigh heavily on the country's overall trade balance and threaten its economic development - representing a notable source of risk to foreign investors.



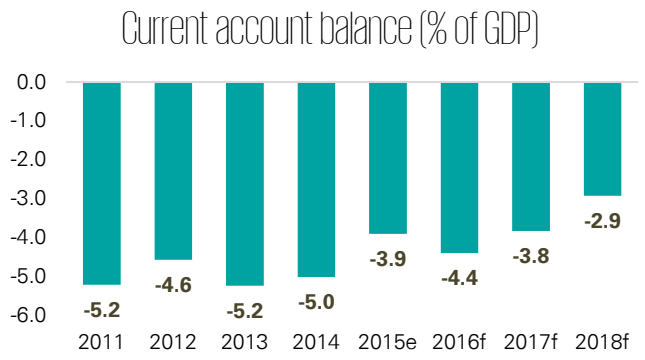


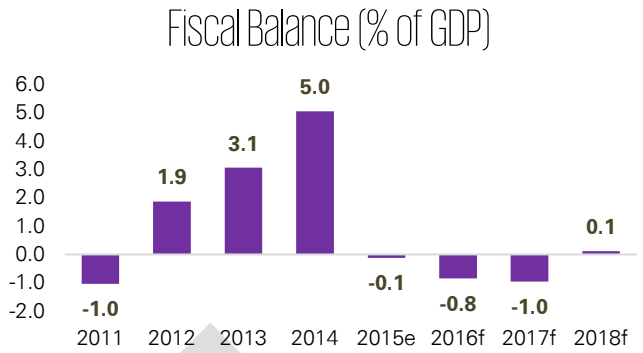
Source: Trade Map

Main Imports: % share of total	2012	2013	2014
Machinery	14.3%	13.0%	13.7%
Electrical eq.	7.8%	8.3%	10.2%
Pharmaceuticals	3.8%	3.5%	6.9%
Vehicles	8.2%	6.4%	6.4%

Main Exports: % share of total	2012	2013	2014
Copper	41.7%	45.5%	50.0%
Mineral ores	24.2%	23.7%	18.8%
Cobalt mattes	7.7%	9.0%	12.3%
Oil	12.5%	12.2%	5.6%

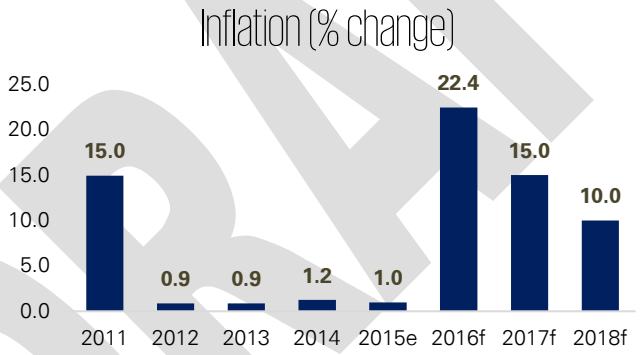
External trade – The DRC has had a persistent current account deficit over the past decade due to a heavy reliance on imports. Underdeveloped manufacturing and agriculture sectors means that the DRC has to import more than it can export or use locally. Growing mining exports in 2017 and 2018 will allow for a narrowing of the current account deficit over the next few years to a projected 2.9% of GDP by 2018. The outlook for mineral exports has improved following the inauguration of US President Donald Trump in January 2017, with his administration hinting that he will be more lenient towards conflict minerals (natural resources extracted in a conflict zone) than previous presidents. This, in turn, could increase the attractiveness of the mining sector in terms of foreign investment. The DRC has vast reserves of the most prominent conflict minerals, located in areas with ongoing conflict.





Source: IMF

Fiscal policy – The DRC had a fiscal surplus between 2012 and 2014, after which the country fell into a deficit in 2015. 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. This fiscal deficit is expected to narrow in 2017 due to rising copper prices and production boosting revenues, as well as lower planned government expenditure. The cut in government spending amounts to 22% (as proposed in a revised budget presented to Parliament in May 2016), and comes amid the realisation that fiscal revenue is under significant pressure and fears of high inflation. Against this background, the IMF expects the fiscal deficit to narrow to 1% of GDP in 2017, while reaching a surplus in 2018 of 0.1% of GDP.



Source: IMF

Monetary policy - Headline inflation decreased from 39.6% y-o-y in January to 36.3% y-o-y in February this year. The inflation rate accelerated significantly in 2016, after low commodity prices and insufficient inflows of US dollars caused the Congolese franc to weaken significantly. (By April 2017, the current was around 50% weaker compared to a year earlier.) In response, the central bank increased the country's base interest rate in February 2017 from 7% to 14% in an attempt to contain inflation. The BCC's reserves are at a very low level. The government proposed in May 2016 that they will cut their 2016 budget by 22%, which has somewhat helped to contain further currency depreciation and higher inflation. Commodity prices are expected to recover next year, thus the IMF predicts inflation to decrease to 10% in 2018 on the back of a stronger currency.

Contact details

KPMG DRC	KPMG South Africa Economics
Jean-Yves Parant, Senior Partner	**Lullu Krugel, Director**
+243 828504930 jparant@kpmg.cd	+27 (0) 82 712 4049 lullu.krugel@kpmg.co.za