KPMG

Economic Snapshot H2, 2016

Democratic Republic of the Congo

Inflation – Inflationary pressures have been muted since the end of 2012. Annual inflation averaged 1.3% in 2014 and increased slightly to 1.4% in 2015. According to the Central Bank of Congo (BCC), headline inflation increased this year from 1.8% y-o-y in May to 2.6% y-o-y in June. We forecast inflation to edge higher from an average of 1.4% in 2015 to an average of 1.9% minimum in 2016.

Growth – We expect the DRC's economic growth to slow from an estimated 7.7% in 2015 to 4.2% 2016. Our forecast was revised lower as a result of the mining sector's poor performance in 2016 Q1. Furthermore, the reduction in government spending will weigh heavily on economic growth with those businesses that are dependent on government infrastructure projects and services bearing the brunt of the cutbacks. We remain concerned about the impact of the economic slowdown in China, which will be felt by way of a decrease in Chinese demand for the DRC's exports as well as decreased investment inflows originating from the Asian giant. The county economic activity is also impacted by the election period.

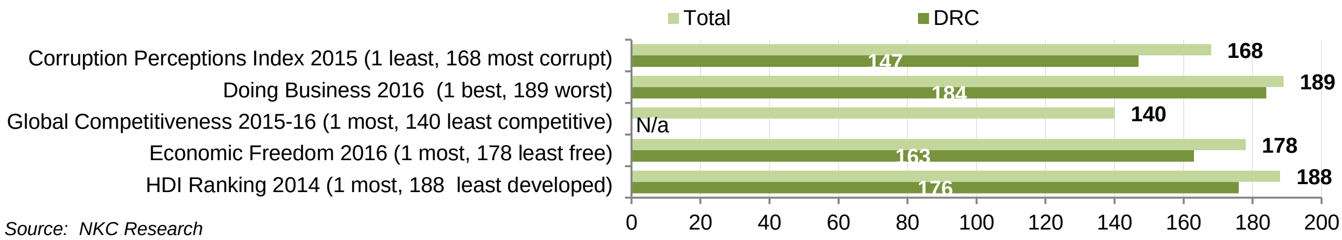
National development plan – The DRC does not currently have a national development plan. The National Strategic Plan for Development (PNSD) 2017-21 is currently being drawn up, with technical support from the United Nations Development Programme (UNDP).

OPPORTUNITIES	STRENGTHS
Vast untapped potential in the minerals sector. The DRC has about half of the world's cobalt reserves and massive deposits of copper, diamonds, oil, and gold.	Abundant natural resources with good prospects for foreign direct investment (FDI), economic growth, and exports over the medium term.
Large population and land area.	Large amount of FDI inflows, but deacrising with the growth slow down
More than two thirds of the DRC's land area is covered in forests. In absolute terms, the DRC's total forest area is the sixth largest in the world.	Following debt relief in 2010, the country's debt indicators are now far more favourable.
Enormous hydropower potential; and can theoretically supply 60% of Africa's total hydropower needs.	Economic growth.

VULNERABILITIES	WHAT IS BEING DONE?
'high' political risk. Security risk remains elevated in the east and there is growing popular resistance against President Joseph Kabila.	Opposition and activist organizations are becoming more vocal and President Kabila's strong-arm tactics are exacerbating the situation.
Extremely challenging business environment. Infrastructure is poor, regulatory processes uncertain, and the bureaucracy inefficient.	Reforms are progressing slowly. The DRC continues to rank near the bottom of a number of international indices on competitiveness. But Funding Agencies are still supporting the country at a high level.
Economic freedom is extremely limited, while the private sector remains underdeveloped.	Private sector development will hopefully be boosted by the presence of foreign skills, investment, and know-how.
Exports are dominated by minerals, which exposes the economy to fluctuations in international commodity prices and external demand.	As the economy develops, the share of minerals in total exports will gradually decline, but the process will be slow as the growth rate si also slowing down The 2016 budget has been revised and decreased by 22% in May 2016 (from 7,86 billion € to 6,13 billion €) as mainly a result of growth rate decrease and the cupper price. The Central Bank has a very low level reserve of foreign currencies (around one billion USD-including 600 million of DTS), which could slow done international payments. The national currency rate compare the USD rate has lost its stability (from 1usd=923 CDF to 1 usd = 1000 CDF.

MEGA TRENDS	
Population	79,375,136 (July 2015 est.); Age: 15 - 64 years: 54.7%
Population growth rate (%)	2.5% (2015 est.)
Life expectancy at birth	Total population: 56.93 years; male: 55.39 years; female: 58.51 years (2015 est.)
HIV/AIDS	Adult prevalence rate: 0.8%; People living with HIV/AIDS: 370,000 (2015 est.)
Adult literacy rate (age 15 and over, can read and write)	Total population: 63.8%; male: 78.1%; female: 50% (2015 est.)
Urbanisation	Urban population: 42.5% of total population (2015 est.); Urban population growth: 4% (2015 est.)
Population below national poverty line	63% (2012 est.)
Unemployment rate	49% (2013 est.)
Employment (% of total)	66.2% (2014 est.)
Labour participation rate (% of total population ages 15+)	72% (2014 est.)
Business languages	French (official), Lingala (a lingua franca trade language)
Telephone & Internet users	Main lines in use: 59,534 (2012); Mobile cellular: 37.8 million (2015); Internet users: 3 million (2015)

Sources: CIA World Factbook, World Bank, ITU, UNAIDS & NKC Research



Source: NKC Research

Risk environment / Risk outlook

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

S&P Global Ratings affirmed the DRC's credit rating at "B-" on 5 August 2016 and also maintained the negative outlook. The ratings affirmation is supported by low government debt relative to GDP and the expectation that government debt will continue to be largely on concessional terms. The ratings agency expects real GDP growth to average 5.1% p.a. over the 2016-19 period as a result of the slump in copper prices and *"persistent and high political and social risks."* S&P expects foreign reserves to continue declining, while external debt is expected to remain largely stable. The negative outlook stems from external vulnerabilities that could increase more than anticipated and the rise in political tension in the run-up to elections, which can cause institutional and economic disruption.

Moody's Investors Service (Moody's) affirmed the DRC's credit rating at "B3" on 17 June 2016 and also maintained the outlook at stable. The ratings affirmation is underpinned by the DRC's strong growth prospects despite the slump in commodity prices, which Moody's expect to be around 5% in 2016, before increasing in 2017. Moody's also noted government's strong balance sheet despite structural weaknesses in the DRC's public finances as well as institutional weaknesses and the country's receptiveness to event risks, as the rationale for the ratings affirmation. The rating agency expects moderate growth in debt and external buffers as well as an improvement in the government's financial position on the back of continued strong economic growth. The rating agency based its stable outlook on its expectation of continued solid economic growth supported by the mining sector despite the current slump in commodity prices.

Infrastructure	Diversity of the Economy	Banking Sector	Continuity of Economic Policy	GDP Growth	Key Balances	Foreign Investment	Socio-economic Develop-ment	Forex Reserves
Poor	Concentrated on minerals	Fragile, under-developed	Regulatory uncertainty	Volatile; good medium-term prospects	Current account deficit	Medium	Extremely low	Low

Stock Market	Listed Companies	Liquidity	Market Cap	Dominant Sector	Daily Trading Volume
N/A	N/A	N/A	N/A	N/A	N/A
Capital Market	**Development**	**Liquidity**	**Maturity Range**	**Municipal Bonds**	**Corporate Bonds**
Yes	Underdeveloped	Limited	7, 28 and 90 days	No	No

Macro-economic overview

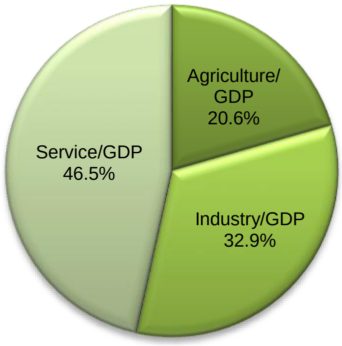
In its recent Article IV Consultation with the DRC, the International Monetary Fund (IMF) commented that the country's economic outlook remained largely favourable, but was exposed to significant risks due to the commodity price slump and the probability of reckless fiscal spending in the lead-up to the presidential elections. Authorities were encouraged to pursue strategies focused on improving fiscal revenue mobilisation and removing bottlenecks in the private sector. The IMF also advised authorities to intensify efforts to de-dollarise the economy and increase foreign reserves.

The mining industry put in a lacklustre performance in 2015 as a result of depressed global commodity prices, as well as economic slowdown in China – the biggest consumer of the DRC's mineral products. Data from the Central Bank of Congo (BCC) shows mixed reaction in mineral output, copper (+0.9%), cobalt (+11.8%), gold (+32.8%), diamond (+5.7%), zinc (-38.8%), and crude oil (-1.4%). Copper production suffered a setback after the temporary closure of Glencore's Katanga copper mine was announced in the second half of 2015. However, the newly commissioned Sicomines will to some extent make up for this loss and is expected to produce 125,000 tonnes p.a. during the first phase of its development. The slump in commodity prices continues to weigh on mining companies' margins. Some mines have opted to cut back on production until commodity prices recover as a result copper production dropped by 20% y-o-y in 2016 Q1 and cobalt output fell by 19% y-o-y in tandem with the fall in copper production.

Real GDP growth was 9.1% in 2014, and is estimated to have eased slightly to 6.9 % in 2015. Lower commodity prices, structural shortcomings in the supply of electricity to mines as well as the temporary suspension of production at some mines have weighed on growth expectations. Copper prices are expected to continue to trend lower in 2016, putting pressure on profit margins in the industry and on government revenue. In fact, government recently announced a 22% cut in spending due to reduced mineral revenue. The reduction in government spending will weigh heavily on economic growth with those businesses that are dependent on government infrastructure projects and services bearing the brunt of the cutbacks. We have therefore revised our economic growth projections downward. We also remain concerned about the impact of the economic slowdown in China, which will be felt by way of a decrease in Chinese demand for the DRC's exports as well as decreased investment inflows originating from the Asian giant. We therefore expect the DRC's economic growth to slow from an estimated 7.7% in 2015 to 5.2% in 2016.

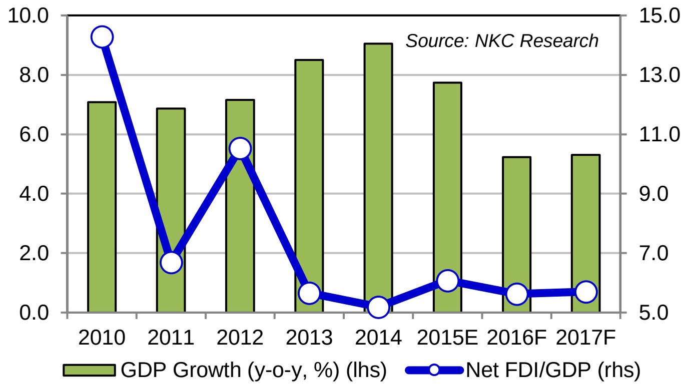
Economic Structure as % of GDP, 2015E

Source: NKC Research

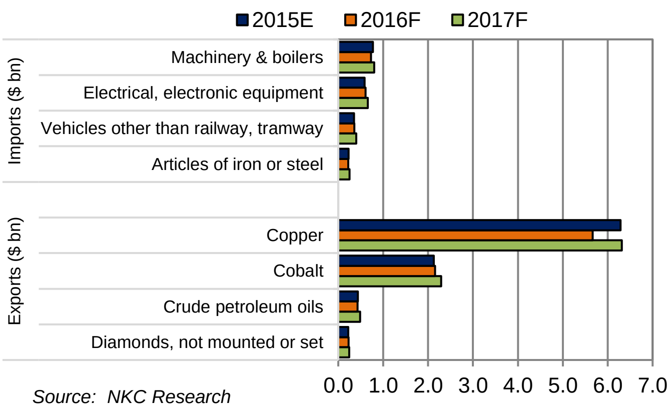


The agricultural sector fulfils an important role in the economy of the DRC. An estimated 70% of inhabitants are directly or indirectly involved in the agricultural sector. Agriculture's contribution to GDP has declined over the past five years from 23.3% to an estimated 20.6% in 2015. Likewise, the relative contribution of industry declined from 34.4% to 32.9%. The industrial sector is dominated by mining and mining-related construction. The mining sector has been the main driver behind economic growth and should continue to stimulate growth over the medium to long term. On a final note, the services sector's contribution to GDP increased from 42.3% in 2010 to 46.5% in 2015, with wholesale and retail trade, telecommunications, transport, and banking services dominating the sector.

Real GDP Growth & Net FDI/GDP



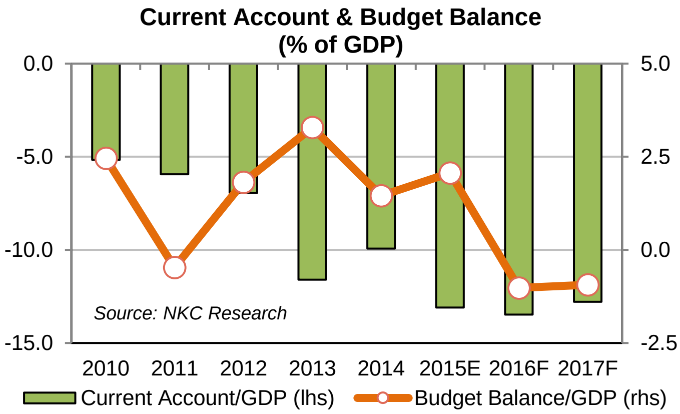
The DRC's substantial mineral wealth is a major drawcard for FDI, which has grown exponentially over the past decade – from $0.3bn in 2005 to an estimated $2.2bn in 2015. However, mining operators and investors are not indifferent to the impact of lower commodity prices or the risks involved in operating mining ventures in the DRC. Freeport-McMoran, the operator of the Tenke Fungurume copper mine, announced the sale of its stake in the Tenke Fungurume project for $2.65bn to China Molybdenum in May 2016. In another development, China Nonferrous Metal Mining Group signed an agreement last year with Gécamines – the DRC's state-owned miner – to collaborate on five major projects. The company intends to build two processing plants at Gécamines' Kambove and Deziwa mining concessions this year. The other resource sector with prospects of expansion is the oil industry. The French oil giant Total recently conducted seismic tests along Lake Albert, becoming the first major oil company to conduct such tests in the country. Should the oil find prove commercially feasible, it could provide a significant boost to foreign investment. Net FDI is expected to average 5.7% of GDP p.a. over the 2016-18 period.



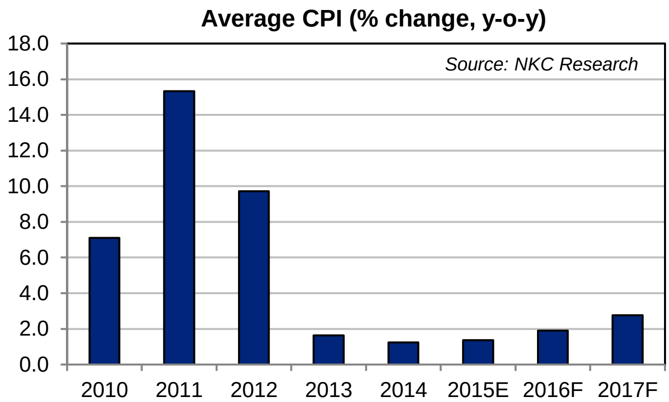
Source: NKC Research

Main Imports: % share of total	2015E	2016F	2017F
Machinery & boilers	6.94	7.15	7.65
Electrical, electronic equipment	5.23	5.94	6.23
Vehicles other than railway, tramway	3.17	3.54	3.80
Articles of iron or steel	2.09	2.18	2.37
Main Exports: % share of total	**2015E**	**2016F**	**2017F**
Copper	59.44	59.29	61.60
Cobalt	20.10	22.52	22.34
Crude petroleum oils	4.09	4.48	4.71
Diamonds, not mounted or set	2.09	2.43	2.38

Besides being the main driver of real GDP growth, the mining sector also fulfils a dominant role in relation to the DRC's external balances. Most of the country's mining produce is destined for foreign markets. As a result, the DRC's external balances are especially vulnerable to exogenous trade shocks. Copper and cobalt accounted for more than 80% of the DRC's total exports during 2009-14. Unfortunately, the sharp decline in global copper prices, from an average of $6,861/tonne in 2014 to $5,503/tonne in 2015, dragged the value of copper exports lower last year. Cobalt exports are estimated to have remained relatively stable during 2015. We estimate a decline in the value of total exports from $12.1bn in 2014 to $10.6bn in 2015, with the sharp drop in the price of copper being the main culprit. We also estimate that import figures were slightly lower in 2015 at $11.2bn, resulting in a trade deficit of $0.6bn for 2015. Total exports are projected to decrease from $10.6bn in 2015 to $9.6bn in 2016; and as a result of the slump in global oil prices, we expect the import bill to fall from $11.2bn to $10.2bn in 2016. We therefore forecast the current account deficit to widen from $4.7bn in 2015 to $5.2bn during 2016. With the gradual recovery in commodity prices, we expect income repatriation by large mining multinational firms to increase, subsequently putting pressure on the current account balance. Furthermore, the slowdown in China and the associated decline in demand for the DRC's minerals will also hold implications for the country's external balances moving forward.



In its 2015 Article IV Consultation report, the IMF stressed that the DRC needed to explore ways to increase fiscal space in order to address social inequality and poverty. The multilateral organisation advised authorities to increase revenue mobilisation. Revenue from taxes on goods and services had been disappointing due to *"weak revenue administration and an erosion of the tax base at customs."* The DRC's fiscal space remains constrained as a result of the continued slump in global commodity prices. Lower commodity prices have resulted in company closures and job losses, thus eroding the government's tax base. The government's natural resource revenue has also taken a severe knock. Mining royalty payments to the government from the Haut-Katanga province fell to four-year lows in January 2016. Royalties on copper and cobalt exports are levied at 2% under the 2002 mining code. Fiscal revenue is under significant pressure, and as a result authorities recently announced a 22% cut in envisaged spending. Expenditure on healthcare equipment will bear the brunt of the cuts, with the government proposing a 90% cutback in spending. Given the DRC's prudent fiscal stance in recent years, the country is expected to delay capital expenditure on non-critical projects and to trim its recurrent expenditure. Against this background, we forecast the fiscal balance to shift from a revised surplus of 2.1% of GDP in 2015 to a deficit of 1% of GDP this year.



Inflationary pressures have been muted since the end of 2012. Annual inflation averaged 1.3% in 2014 and increased slightly to 1.4% in 2015. Most recently, headline inflation increased from 1.8% y-o-y in May to 2.6% y-o-y in June. In February 2016, *Reuters* reported that the BCC had tightened domestic currency liquidity – via an increase in commercial bank deposits being held at the central bank to shore up the value of the Congolese franc. We expect inflation to trend broadly higher moving forward as the Congolese franc continues to weaken, exerting pressure on consumer prices via the import channel. Other factors that could push prices higher relate to food price shocks or a marked deterioration in domestic security. We forecast inflation to edge higher from an average of 1.4% in 2015 to an average of 1.9% in 2016.

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