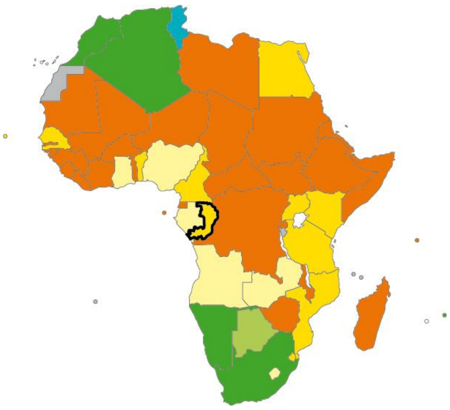
COUNTRY RISK ANALYSIS

The Republic of the Congo

CREATING CONFIDENCE IN YOUR EXPORTS



COUNTRY RISK CATEGORY

6/7

The country risk categories range from 0 to 7. The lower the number the better the credit rating the country has.

0 1 2 3 4 5 6 7

EKN'S OUTSTANDING GUARANTEES ON THE COUNTRY

SHRORT-TERM TRANSACTIONS: SEK 0

MEDIUM AND LONG-TERM TRANSACTIONS: SEK 0

DATE

08/05/2014

Financially strong, institutionally weak

The Republic of the Congo's financial position has gotten considerably stronger over the past years thanks to extensive oil revenues in combination with debt relief. Its membership in the Central African currency union also reduces the country's transfer risk. The country has built up large surpluses that can be used to improve the country's deficient and in many places non-existent infrastructure. Its reserves also give it scope to manage fluctuations in the price of oil. The economy needs to be diversified in order to make it less vulnerable and reduce the widespread poverty. There is potential, but growth is being slowed down by deficient public institutions. The country's biggest challenge is to implement reforms to strengthen the public administration, including the judiciary, to be able to use the oil revenues efficiently to build up the country and make is easier for businesses to operate in it. Initiatives are being taken, but they are starting from a very low level. Therefore, it will take a long time before the country's institutional capacity approaches its financial strength.

THE COUNTRY'S STRENGTHS AND WEAKNESSES

Strengths

- Low debt and large foreign reserves
- Member of the Central African currency union, CFA

Weaknesses

- Very high dependence on oil
- Weak institutional capacity and difficult business environment
- Skewed distribution of oil revenues, which creates a breeding ground for political and social unrest

EKN'S POLICY

EKN has not had a cover policy on the Republic of the Congo, due to the lack of demand. As a result of an inquiry in the transport sector, EKN has now reviewed the country and assessed that the conditions for the provision of guarantees have been met. However, as a result of the country's weak administrative capacity, which permeates the entire state apparatus and affects all businesses operating in the country, our policy is restrictive. For buyers that are public, e.g. government authorities or line ministries, EKN requires that there be a sovereign guarantee from the central bank or the finance ministry, or bank collateral in the form of a letter of credit or guarantee. The criteria for sustainable lending must be met for public buyers. For private buyers (corporates and banks), the policy implies that EKN, in addition to assessing the risk on its own merits, has a more restrictive stance from the start and would prefer to see that the transaction is extra transparent and that there are sufficient buffers at the debtor. Buffers can be used to address unforeseen events that are assumed to arise more frequently in Congo than in countries with a more stable operating environment. EKN places Congo in country risk category 6.

WHAT MIGHT CAUSE A CHANGE IN POLICY?

What might cause EKN to ease its country policy?

- The reform efforts commenced in the state apparatus producing substantial results in the form of stronger institutional capacity, greater transparency and lower corruption
- The economy becoming more diversified and thus less exposed to changes in the price of oil
- An upgrade of the country's infrastructure that makes it easier for companies to operate in it

What might cause EKN to tighten its country policy?

- A heavy decline in oil prices that depletes the country's financial buffers
- Political and/or social turbulence that affects the solvency of companies or the government
- The government failing to settle its claims to foreign creditors in the near term

EKN'S OBLIGATIONS AND EXPERIENCE

EKN does not have any guarantee exposure or experience of providing guarantees in Congo in the past years. The most recent transaction guaranteed was in 1997. A few inquiries have come in over the past five years, but none of them have materialised thus far.

COUNTRY ANALYST

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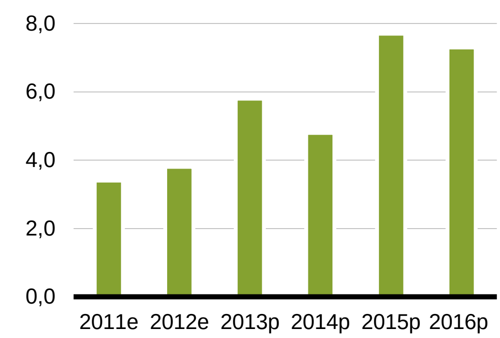
DISCLAIMER

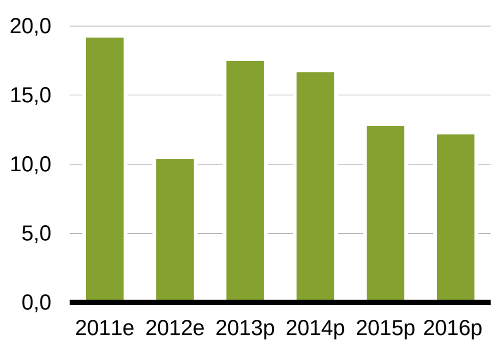
Financial strength and low transfer risk

The Congolese economy is based almost exclusively on the oil sector, which accounts for 70 per cent of GDP, 90 per cent of exports and 80 per cent of public revenues. Thanks to the high oil prices of last year combined with debt relief, Congo's financial position is strong. The current account balance shows a surplus, external debt is equal to no more than 30 per cent of GDP, while the foreign reserves correspond to more than one year of import coverage. The economy is also growing at a good pace and GDP is expected to grow by just over seven per cent per year over the coming two years. Congo is in compliance with the targets in its IMF programme, which ensures macroeconomic stability. No new claims have accumulated since Congo reached the completion point of its debt relief programme. However, the country has older claims to three foreign creditors (Saudi Arabia, Angola and Abu Dhabi). Discussions are being held with the creditors and the claims are expected to be settled in the near term. China has issued new loans to Congo for investments in infrastructure. These loans are however on development assistance terms and the risk that the country will once again accumulate an unsustainable debt is estimated to be low.

GDP GROWTH, PERCENT



BUDGET BALANCE, PERCENT OF GDP



Source: IMF

The country's monetary policy, which is managed by the central bank of the Central African currency union (CFA) via its membership in the union, is prudent and inflation is expected to stay at a low level. The CFA zone has a common currency that is pegged to the euro and guaranteed by the French Treasury. Each member country deposits its foreign reserves in the union's central bank, with at least half of them invested in an account with the French Treasury. This arrangement reduces the transfer risk of the union's member states significantly. Oil revenues have contributed to Congo having a large budget surplus. The government has an extensive investment programme primarily focused on upgrading the country's deficient and in many places non-existent infrastructure, not least in the transport sector. Due to the lack of both physical capital and human capital, it however seems less likely that the country will go forward with all of the projects foreseen in the budget. In addition to the reserves in the union's central bank, Congo also has received permission to establish an investment fund where the surplus from the oil revenues will be invested.

One-sided dependence on oil problematic

Congo has built up large buffers that give the country the scope to counter fluctuations in the price of oil, and thanks to the fact that new oil fields are expected to come online in a few years, the country's long-term growth forecast is looking good. The country's one-sided dependence on oil is still problematic and diversification of the economy is needed to make it less vulnerable. There are opportunities in forestry, mining and agriculture, but weak institutional capacity, the low level of education and deficient infrastructure prevent this potential from being realised. Its oil revenues make Congo a lower middle income country on paper, but in reality, revenues are very unevenly distributed and more than half of the Congolese live in poverty. The oil sector generates few jobs and diversification of the economy is also necessary to reduce unemployment and thus also the risk of social unrest.

Plenty of room for manoeuvre for governing party

Congo's political history is violent and is lined with coups and a civil war that lasted from 1997 to 1999. The current president, Denis Sassou-Nguesso, has been in power since the end of the civil war. His current term of office ends in 2016 and he cannot be re-elected to a third term of office according to the constitution. He does not have any clear successor in the governing party and there is therefore a certain risk of turbulence in connection with the election of a new president. The opposition in the country is weak and oppressed. Several opposition leaders have also been incorporated into the Sassou-Nguesso government, which has further fragmented the opposition. Therefore, the president and the governing party have plenty of room for manoeuvre, which is expected to remain the case.

Underdeveloped financial sector

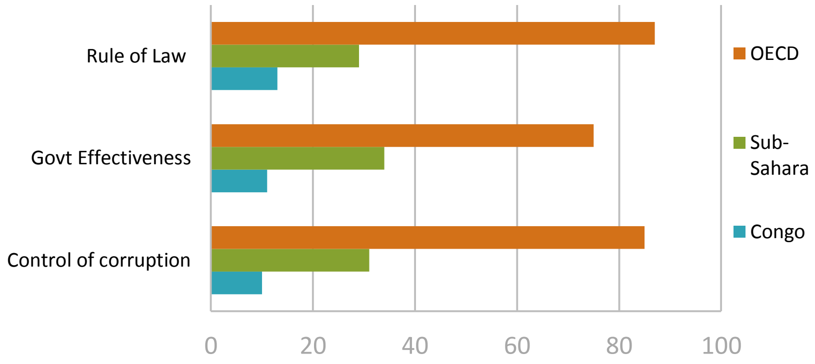
The Congolese banking system is relatively stable and the banks generally follow the CFA zone's banking regulations. The proportion of non-performing loans in the banking system is low, just under three per cent of total lending. The currency union's central bank closely supervises the banking system. The banking system is however small and undeveloped and consists only of nine banks, of which most are subsidiary banks of French and Moroccan banking groups. Only 17 per cent of SMEs in Congo have access to lines of credit and 95 per cent of the population is outside the banking system. There are not any financial instruments in existence, nor is there a capital market.

BUSINESS ENVIRONMENT

Reform efforts from the bottom level

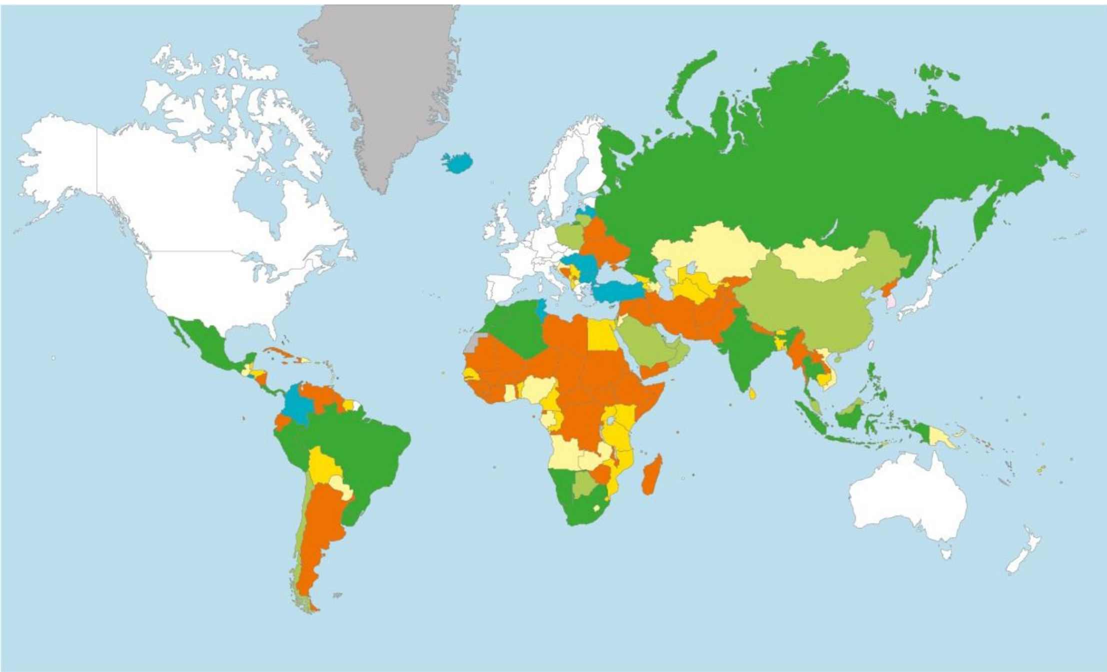
The business environment in the Congo is difficult, from a regional perspective as well, which is confirmed by the fact that it is placed in the bottom layer of the World Bank's Doing Business Index (place 185/189). Structural impediments, such as underdeveloped infrastructure, deficient electricity supply and a low level of education complicate the opportunities for companies to operate in the country. The main impediments are however on the institutional level. Lacking capacity and corruption within the state apparatus and the judiciary make it both costly and time-consuming to start, run and close companies. Reform efforts are on-going in several areas, with respect to administration within ministries and state-owned companies, as well as in the judiciary. These initiatives are however starting from a very low level and it will take time before its institutional capacity comes close to the country's financial strength.

INSTITUTIONAL CAPACITY RANKING (0 WORST, 100 BEST)



Source: World Bank Governance Indicators

EKN'S VIEW OF THE WORLD



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EKN – CREATING CONFIDENCE IN YOUR EXPORTS

EKN is a government agency that supports Swedish exports and the internationalisation of Swedish industry. This we do by offering exporting companies and banks guarantees for payment and financing, together with advice on business structure and risk management.
Our services provide an extra level of confidence, increased competitiveness and more opportunities for successful export transactions.

The Swedish Export Credits Guarantee Board

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