DEMOCRATIC REP. OF CONGO

Table 1	2019
Population, million	86.7
GDP, current US$ billion	48.9
GDP per capita, current US$	564.1
International poverty rate ($ 1.9)[a]	77.2
Lower middle-income poverty rate ($3.2)[a]	91.4
Upper middle-income poverty rate ($5.5)[a]	97.9
Gini index[a]	42.1
School enrollment, primary (% gross)[b]	108.0
Life expectancy at birth, years[b]	60.4

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2012), 2011PPPs.
(b) WDI for School enrollment (2015); Life expectancy (2018)

Economic activity is expected to contract by 1.7 percent in 2020 due to COVID-19 containment measures. Low revenue collection coupled with exceptional expenditures related to COVID-19 has increased the budget deficit, with monetization by the central bank increasing pressure on both exchange and inflation rates. The medium-term outlook is a slow recovery over 2021–22, but this is subject to downside risks, notably a possibly more prolonged global downturn. Achieving inclusive growth remains a challenge due to high poverty and inequality.

Recent developments

GDP is expected to contract by 1.7 percent in 2020, driven mainly by contractions in private consumption and investment (Figure 1). Measures to contain COVID-19 measures have reduced activity in retail trade, travel, hotels, restaurants, and catering. The non-extractive sector is expected to contract by 2.5 percent by the end of 2020. However, a limited COVID-19 spread and the containment of workers on the mining sites allowed some major mining activities to grow. Copper and cobalt production increased in January–June 2020 by 13.4 and 5.6 percent respectively, compared to the first half of 2019, while diamond and gold production declined by 29.9 and 36.3 percent over the same period. Total mining output is expected to grow by only 0.6 percent in 2020.

The current account deficit (CAD) is expected to deteriorate to 4.8 percent of GDP in 2020. Capital inflows will only partially offset the decline in net exports. Thus, despite increased financing from international institutions, a balance of payments deficit of 0.3 percent of GDP is expected in 2020, leading to a decline in international reserves to about 3.6 weeks of imports, compared to 4.4 weeks at end-2019.

The fiscal deficit is estimated to deteriorate by 0.8 percentage points to 2.1 percent of GDP in 2020 from 1.3 in 2019, given domestic revenue underperformance (delays in reform implementation, temporary relief measures) and persistent relatively high expenditures (estimated at 12.1 percent of GDP in 2020), all associated with the government's response to the pandemic.

The Banque Centrale du Congo (BCC) has resorted to monetization of the fiscal deficit. It lowered the policy rate by 150 basis points to 7.5 percent in late March 2020, eliminated the reserves requirement ratio (from 2 percent), and set up a special funding facility for commercial banks. Broad money (M2) is estimated to grow by 19.7 percent in end-2020, mainly driven by the increase in net credit to the government. Such important injections of domestic liquidity led to a depreciation in the exchange rate, estimated to reach 18.2 percent by the end of 2020.

Supply shocks have pushed up food and medication prices, adding to inflationary pressure from monetization. Inflation accelerated to 15 percent (year-on-year) in August 2020 and is expected to reach 21 percent in end-2020.

However, the BCC increased its policy rate to 18.5 percent in August, to re-anchor inflation expectations and to maintain positive real interest rates. Also, Treasury bills issuance, launched since late 2019, is expected to reach 1 percent of GDP at the end of 2020, which should attenuate the use of monetization by the BCC.

Based on the last (2012) household survey, 77.2 percent of the population lived with less than US$1.90 per day (in 2011 PPP). The latest World Bank projections put poverty at 74.1 percent in 2020, after an

FIGURE 1 Democratic Republic of the Congo / Real GDP growth and contributions to real GDP growth

Percent, percentage points
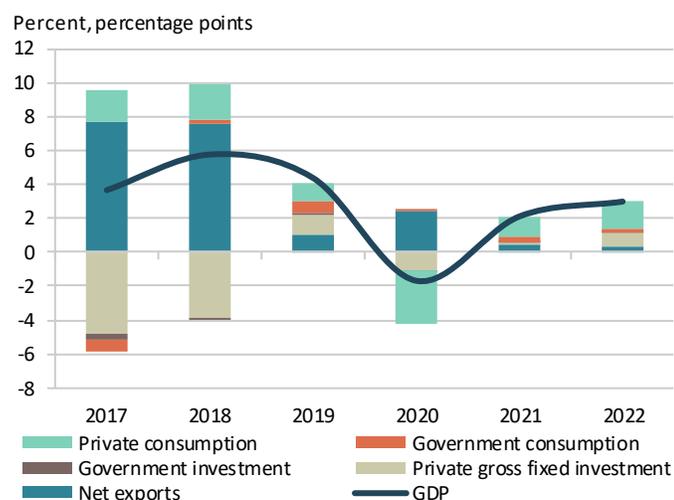
Sources: Democratic Republic of Congo Statistical Authorities, World Bank.

FIGURE 2 Democratic Republic of the Congo / Actual and projected poverty rates and real GDP per capita
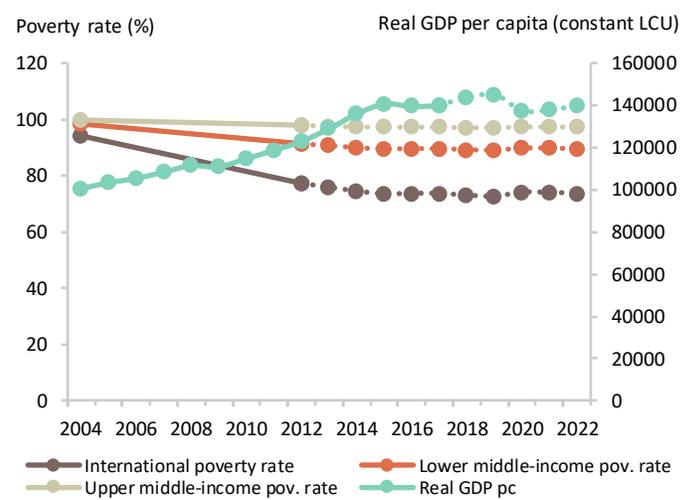
Source: World Bank. Notes: see Table 2.

increase of 1.5 percentage points compared to 2019, due to the COVID-19 pandemic. This increase may be underestimated since, according to COVID-19 high-frequency phone surveys in Kinshasa, over 10 percent of households have seen members lose their jobs while 20% have reduced their food consumption due to rising prices. Apart from Nigeria, DRC remains the country with the largest number of extreme poor in sub-Saharan Africa. There are large disparities between provinces, with extreme poverty concentrated in the central and northwestern provinces. There is a strong correlation between poverty and the collapse in mining employment, especially in artisanal mining. Despite some improvement, social and human indicators are weak: in 2019, the infant mortality of 66.1 per 1000 live births is higher than the Sub- Saharan average of 51.7, while the country is ranked 146th out of 157 countries in terms of the Human Capital Index.

Outlook

GDP growth is expected to rebound to 2.1 percent in 2021 and accelerate with 3.0 percent growth in 2022, assuming a gradual recovery in global demand. Favorable commodity prices, particularly for copper and cobalt, would boost both economic output and domestic revenue. Expansion of transportation and other services, along with increased agricultural production, would also support medium-term GDP growth.

The fiscal deficit should decline with the recovery, narrowing to about 0.6 percent of GDP over 2021–22, mainly driven by efforts to improve tax revenue mobilization. Domestic revenues are projected to rise to around 12.0 percent over 2021–22 from 8.7 percent of GDP in 2020.

The CAD is projected to slightly narrow to 3.4 percent of GDP in 2021 and 3.0 percent in 2022. Positive trade inflows, expected by 2022, stemming from increases in prices and volumes of exports and lower prices of imports, would improve the current account balance. Mining FDI inflows and public capital inflows from IFIs will also support the increase of international reserves from 3.6 weeks of imports in 2019 to around 5.9 weeks in 2022.

Given the lasting adverse effect of the COVID-19 and the expected high population growth that is likely to partially offset economic growth, extreme poverty rate is projected to reduce slightly by 0.4 percentage point by 2022.

Risks and challenges

Risks to this outlook stem from uncertainty over commodity prices, the pace of the global COVID-19 pandemic, and GDP growth among DRC's trade partners, especially China. DRC has little scope for fiscal policy to absorb shocks, while an expenditure-led adjustment could further jeopardize long-term growth prospects and pro-poor spending. Following steps taken by the BCC to reduce monetization, a prolonged global downturn brings along the risk of abandoning this restrictive monetary policy which could increase inflationary pressures.

Strengthening the healthcare system remains a key challenge. DRC continues to face both COVID-19 and the 10th and 11th Ebola outbreaks. These could result in behavioral changes by households and firms that may dampen growth prospects, widen inequality, and increase vulnerabilities. Finally, a consensus between political components is crucial to move structural reforms forward.

The medium-term challenge remains to achieve economic diversification in order to reduce the commodity dependence, by improving the business environment and narrowing the infrastructure gap.

TABLE 2 Democratic Republic of the Congo / Macro poverty outlook indicators   (annual percent change unless indicated otherwise)

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	3.7	5.8	4.4	-1.7	2.1	3.0
Private Consumption	2.4	2.7	1.4	-4.5	1.8	2.3
Government Consumption	-16.4	8.4	20.2	3.8	6.8	5.9
Gross Fixed Capital Investment	-27.2	-29.5	14.4	-10.8	0.6	9.1
Exports, Goods and Services	34.2	25.7	-2.5	2.8	4.6	5.0
Imports, Goods and Services	6.3	5.9	-7.6	-5.3	6.0	7.3
Real GDP growth, at constant factor prices	4.7	5.9	4.3	-1.6	2.0	3.0
Agriculture	1.6	1.5	2.8	3.0	3.2	3.6
Industry	7.7	12.1	6.8	-0.9	1.8	3.3
Services	3.0	1.3	2.1	-4.4	1.7	2.3
Inflation (Consumer Price Index)	35.8	29.3	4.7	15.0	10.5	7.0
Current Account Balance (% of GDP)	-2.9	-3.6	-3.8	-4.8	-3.4	-3.0
Fiscal Balance (% of GDP)	1.4	0.1	-1.3	-2.1	-0.8	-0.4
Debt (% of GDP)	12.2	10.4	10.2	10.8	10.7	9.9
Primary Balance (% of GDP)	1.6	0.4	-1.0	-1.9	-0.6	-0.1
International poverty rate ($1.9 in 2011 PPP)[a,b]	73.6	73.0	72.6	74.1	74.0	73.6
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	89.6	89.2	89.1	89.8	89.8	89.6
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	97.3	97.2	97.1	97.4	97.4	97.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.

(a) Calculations based on 2012-E123. Actual data: 2012. Nowcast: 2013-2019. Forecast are from 2020 to 2022.
(b) Projection using neutral distribution (2012) with pass-through = 0.7 based on GDP per capita in constant LCU.