REPUBLIC OF CONGO

Table 1	2019
Population, million	5.1
GDP, current US$ billion	12.3
GDP per capita, current US$	2396.7
International poverty rate ($1.9)[a]	38.2
Lower middle-income poverty rate ($3.2)[a]	62.6
Upper middle-income poverty rate ($5.5)[a]	82.9
Gini index[a]	48.9
School enrollment, primary (% gross)[b]	106.6
Life expectancy at birth, years[b]	64.3

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

For the fifth consecutive year, the Republic of Congo's economy contracted in 2019 (by 3.5 percent) as public finances are being consolidated. With the ongoing fiscal adjustment, Congo recorded fiscal and current account surpluses, but remained in debt distress. The spread of COVID-19 and the decline in oil prices weigh on the country's economic outlook. Economic contraction is expected to continue and average 3.2 percent over 2020-2022, increasing the poverty rate to 46.8 percent by 2022 (from 43.1 percent in 2020).

Recent developments

The Congolese economy experienced its fifth consecutive year of economic contraction with a negative growth of 3.5 percent in 2019. On the demand side, fiscal consolidation negatively weighed on growth while exports stagnated. On the supply side, the hydrocarbon sector shrank by 8.8 percent because of technical difficulties in some oil fields and the non-hydrocarbon sector grew at a sluggish rate.

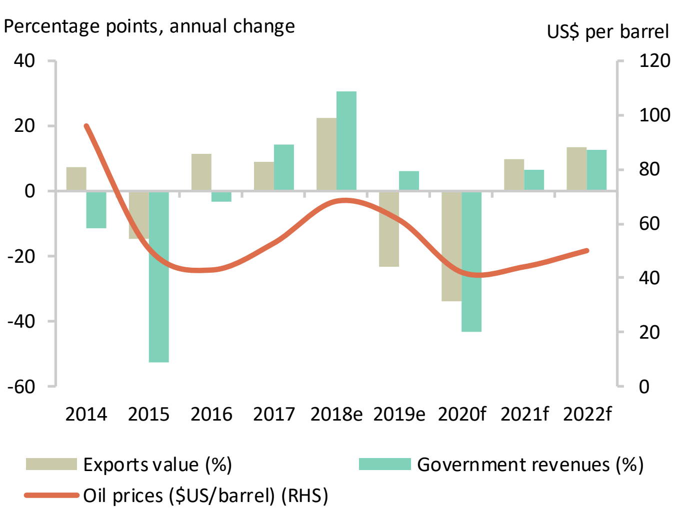
During 2020H1, despite data limitations, it is estimated that the country was significantly affected by the COVID-19 pandemic through lower oil prices and its subsequent losses in government revenues, increased public social expenditures, and the contraction of the non-hydrocarbon sector due to national and international containment measures. For instance, credit to the economy declined by 4.6 percent in 2020H1 while non-performing loans increased by 15.2 percent in 2020Q1 to stand at 29.1 percent of total loans. To cope with this challenging situation, the government prepared an overall response plan totaling US$ 170 million (1.6 percent of GDP in 2020) and adopted measures to ease tax and duty payments for private enterprises. Tax payments have been delayed while the turnover tax for small firms and corporate income tax have been reduced by two percentage points to 5 percent and 28 percent, respectively. To reflect lower government revenue, a revised budget law was adopted in May 2020, implying a wider fiscal deficit in 2020 as capital expenditures are set to increase by 52 percent throughout the year to 9.7 percent of GDP in 2020 (from 3.4 percent in 2019). Despite the moderate attractiveness of government securities, the anticipated fiscal deficit could be partially financed by the domestic market as BEAC, the regional central bank, decreased its policy rate by 25 basis points to 3.25 percent in March 2020 and extended the purchase of government securities through 2020H2.

The economic crisis and the COVID-19 pandemic have affected the poor. In 2011, nearly 38.2 percent of the population lived below the international poverty line of $1.90 PPP per day. According to the latest World Bank projections, after a reduction to 36.4 percent in 2015, this proportion is projected to increase to 43.1 percent in 2020 as a result of the economic crisis, with a worsening of the situation as COVID-19 has spread. Compared to countries with similar income level, the country's social and human indicators appear weak. The Human Capital Index stood at 0.42 in 2020, ranking the country at 140 out of 174 countries. In 2019, infant mortality was 34.9 per 1000 live births compared to 26.8 for the Middle-Income Countries as a whole.

Outlook

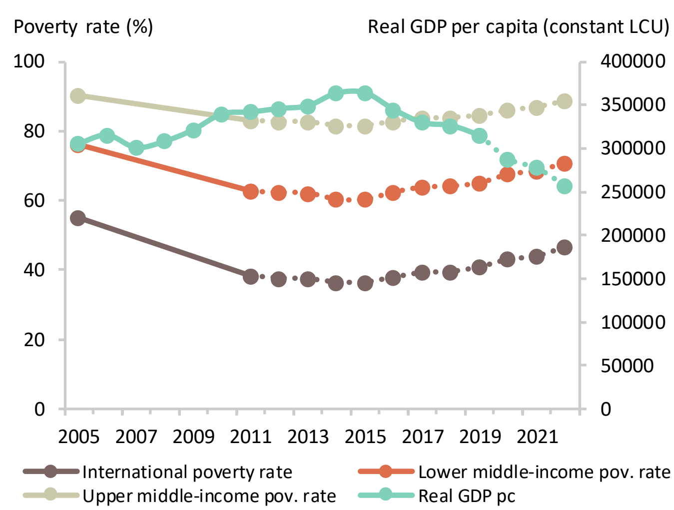
As the country is negatively affected by the spread of COVID-19, containment measures at the international and national levels, the sharp decline in oil prices and

FIGURE 1 Republic of Congo / Major transmission channels of COVID-19 pandemic in the Republic of Congo



Sources: Congolese authorities and World Bank estimates.

FIGURE 2 Republic of Congo / Actual and projected poverty rates and real GDP per capita



Source: World Bank estimates based on data from national authorities. Notes: see table 2.

the OPEC decision to cut oil production, the GDP is expected to contract by 8.9 percent in 2020. In 2021-2022, growth is projected to contract moderately at an yearly average of 0.4 percent as the increase in the demand for hydrocarbon products could be modest in 2021, the expansion of the non-hydrocarbon sector be negatively affected by the anticipated fiscal consolidation in 2021-2022 and commercial banks continue to be risk averse in light of the significant amount of non-performing loans. The expansion of the non-hydrocarbon sector is not expected to benefit from the partial clearance of domestic public arrears as government revenues are projected to decline significantly in 2020. The successful implementation of reforms and the restoration of business confidence could result into a moderate increase in private investment at end-2022.

The proportion of people living below the international poverty line is expected to increase from 43.1 percent to nearly 47.0 percent in 2022, because growth will be driven by the hydrocarbon sector while the non-hydrocarbon economy is expected to contract.

Under the above-mentioned scenario, the fiscal deficit is projected to reach 13.3 percent of GDP in 2020. With the fall in oil prices, government revenue is expected to decline to 22.9 percent of GDP over 2020-2022, compared to 25.1 percent of GDP in 2017-2019. A strong fiscal consolidation would be needed to ensure commercial and social debt payments and such policy could result in a fiscal deficit of 1.1 percent in 2021-2022. Thus, public debt could fall to 112.6 percent of GDP in 2022 after reaching 126.7 percent in 2020. The financing gap could nevertheless average US$1.2 billion over 2020-2022 (13 percent of GDP), requiring support from development partners.

Driven by a decrease in exports and a collapse in commodities prices, Congo is expected to record a current account deficit averaging 6.6 percent of GDP over 2020-2022 from a surplus of 2.8 percent over 2017-2019. As weaker global demand could have marked impacts on prices, the terms of trade will deteriorate by 20.6 percent in 2020 while a moderate rebound is expected in 2021-2022.

Risks and challenges

The main risks to the country's economic stability stem from the continuous spread of COVID-19 pandemic at the local and international levels that could affect the hydrocarbon and non-hydrocarbon sectors. A decline in oil price below USD 27 per barrel, the price used for the 2020 revised budget law, would particularly weaken the country's fiscal and external positions while a procyclical fiscal stance would exacerbate the negative effects of shocks on growth and poverty outcomes. The occurrence of this external shock emphasizes the need to implement bold reforms that could support macroeconomic stabilization, accelerate the post-COVID19 economic recovery and stimulate economic diversification.

Macroeconomic stabilization would require restoring fiscal sustainability through public debt restructuring, and the implementation of public financial management reforms. In addition, increasing public expenditure efficiency could both support economic recovery and macroeconomic stabilization if the government adopts enhanced procurement practices and revises its public investment management. Improving human capital and the business environment remains critical to diversify the economy as the Republic of Congo ranks 138th out of 189 in the 2019 Human Development Index and 180th out of 190 in the Doing Business 2020. Finally, targeted pro-poor service delivery should help containing the anticipated increase in poverty.

TABLE 2 Republic of 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	-4.6	-6.2	-3.5	-8.9	-2.0	1.3
Private Consumption	-9.5	3.9	0.0	-2.0	1.9	2.3
Government Consumption	-16.8	-4.7	-9.2	22.1	-22.5	-4.1
Gross Fixed Capital Investment	-49.5	-25.0	-0.1	-12.3	-4.3	-3.9
Exports, Goods and Services	14.4	11.4	0.8	-16.2	7.7	7.5
Imports, Goods and Services	-34.5	5.1	5.6	-10.0	7.4	8.3
Real GDP growth, at constant factor prices	-1.2	-7.7	-3.8	-8.8	-1.9	1.4
Agriculture	8.9	-1.6	2.2	-3.1	0.4	1.4
Industry	4.4	-10.4	-6.2	-10.1	0.4	5.1
Services	-9.7	-5.0	-1.7	-8.5	-5.3	-3.5
Inflation (Consumer Price Index)	0.5	1.2	2.2	2.4	2.6	2.8
Current Account Balance (% of GDP)	-2.7	3.4	7.8	-13.2	-4.8	-1.7
Fiscal Balance (% of GDP)	-6.1	5.7	6.4	-13.3	-2.8	0.0
Debt (% of GDP)	97.6	77.9	84.8	126.7	122.7	112.6
Primary Balance (% of GDP)	-4.2	7.7	8.9	-11.3	-0.9	1.6
International poverty rate ($1.9 in 2011 PPP)[a,b]	39.2	39.5	40.9	43.1	44.1	46.8
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	63.8	64.1	65.1	67.5	68.6	70.7
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	83.6	83.8	84.5	86.0	87.0	88.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices; based on data from national authorities.
Notes: e = estimate. f = forecast.

(a) Calculations based on 2011-ECOM. Actual data: 2011. Nowcast: 2012-2019. Forecast are from 2020 to 2022.

(b) Projection using neutral distribution (2011) with pass-through = 0.7 based on GDP per capita in constant LCU.