



# **Congo DRC**

## **Recent Economic Developments**

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**September 2017**

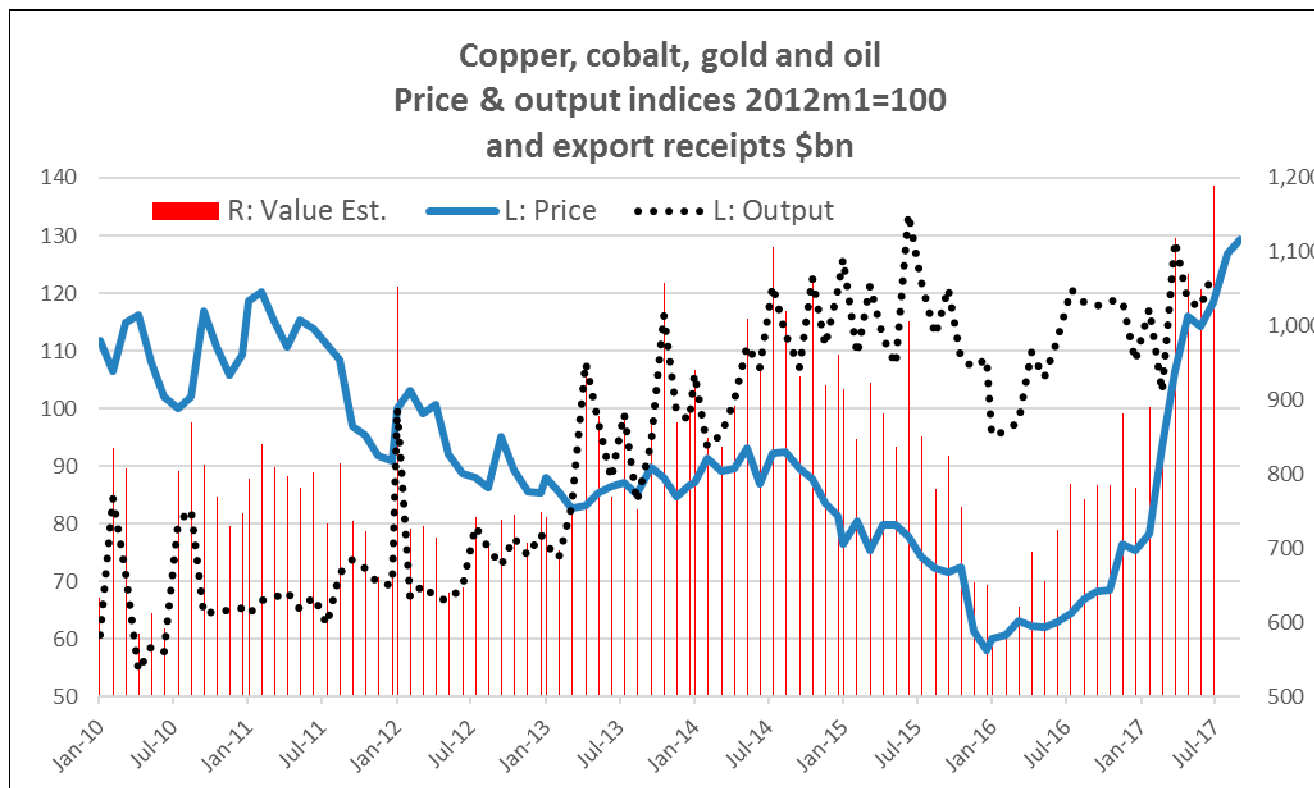


# Themes

- Export receipts rebound raising banks' USD deposits and reserves, but limited impact on budget.
- CPI inflation surpasses FX depreciation.
- Revenues trend down in USD despite higher resource revenues. Non-salary spending squeezed. Sustainability?
- Tighter fiscal policy stance but lack of policy coordination continued to fuel monetary expansion and FX depreciation (until July).
- Deposit dollarization also feeding depreciation – flight from CF to USD.
- Monetary policy paradox – base money expands but CF liquidity shortage. Policy increasingly ineffective on small and diminishing CF deposit base.

# Export receipts have rebounded

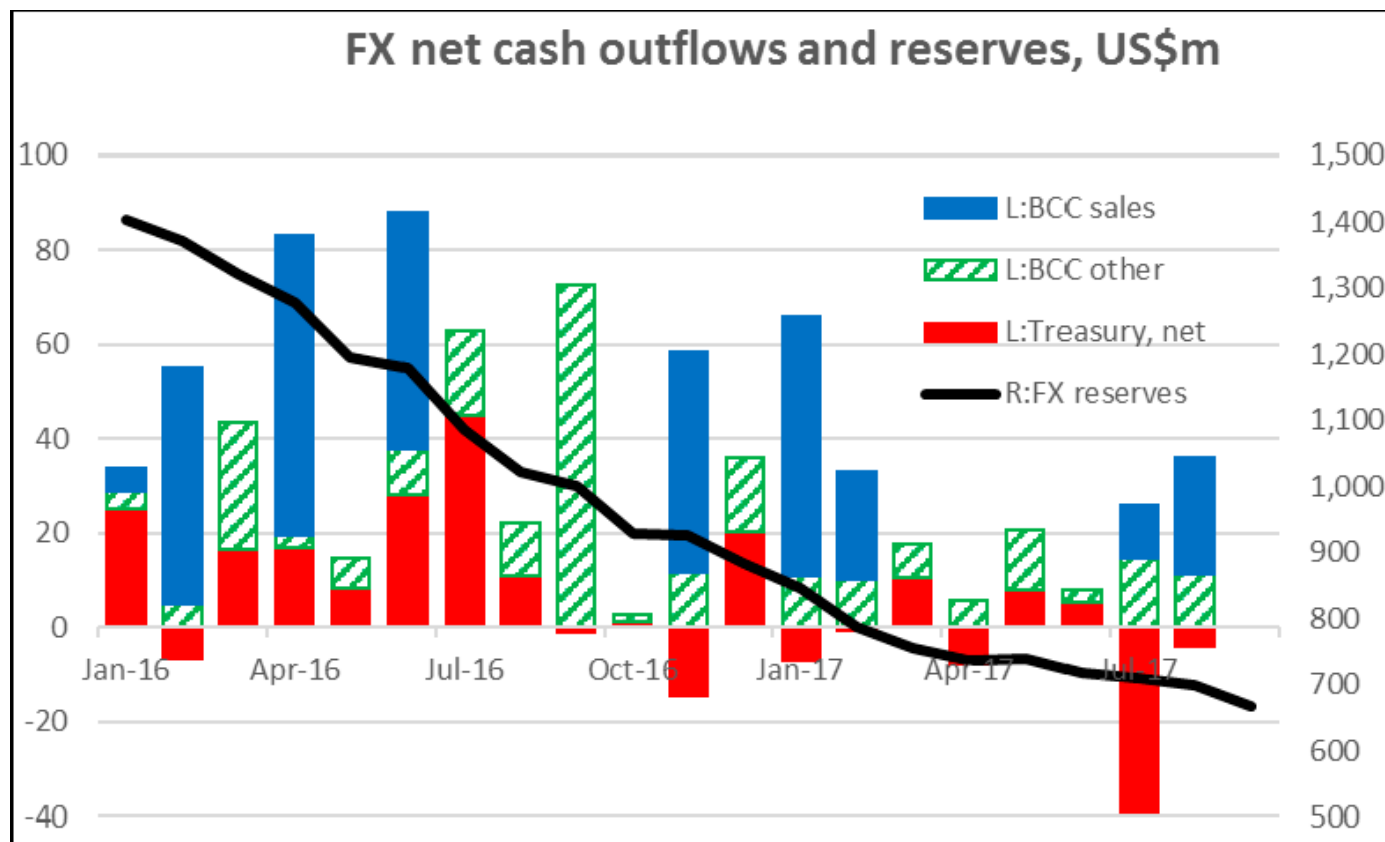
- 4 item export receipts rose 60% in 2017h1 over 2016h1 (to over \$6bn) mainly because of higher prices. Copper prices are now near \$7,000 per ton, up from \$4,500 in early 2016.
- 4 item output index and copper output rose 15% in 2017h1 v 2016h1. Copper output was temporarily reduced in 2016h1 following the KCC closure and then offset by Sicominex.





# BCC FX cash outflows fall but USD reserves continue to trend down

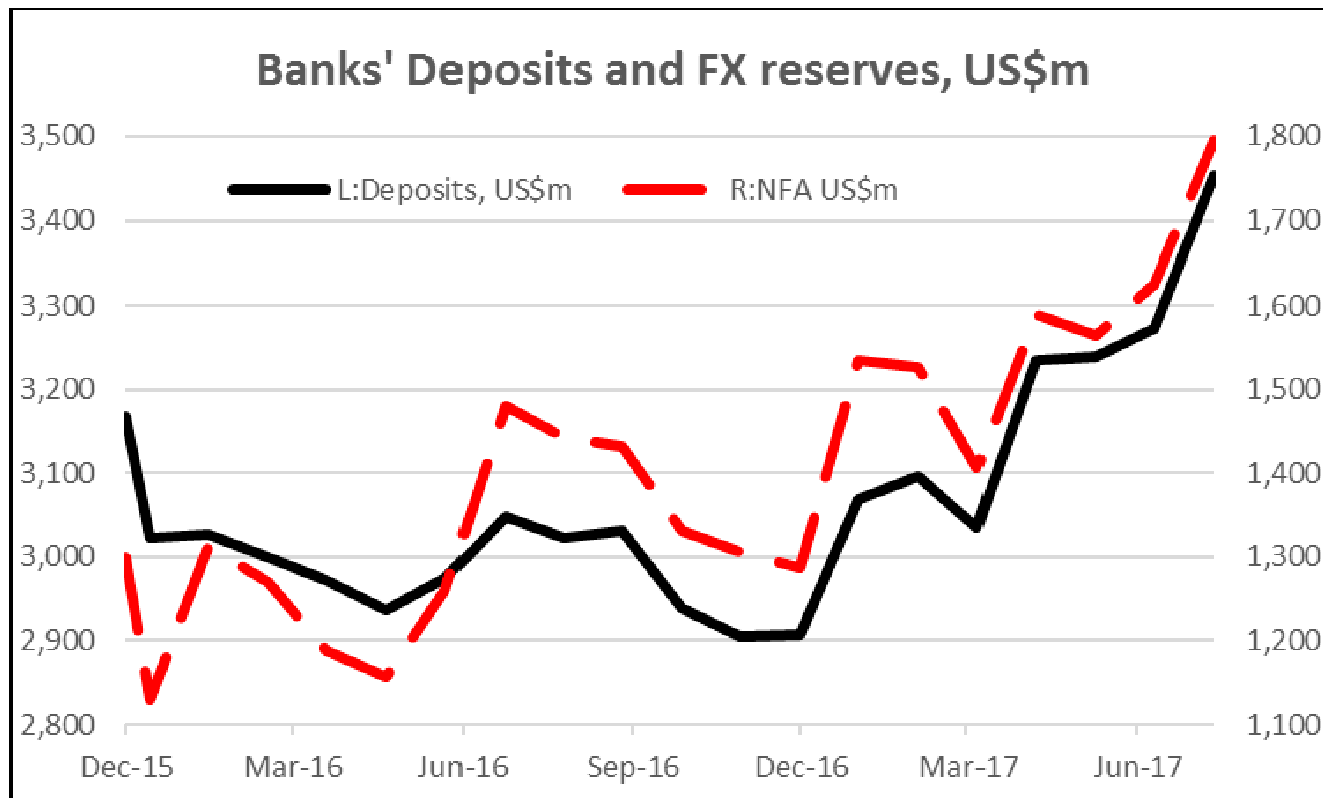
Foreign reserves have fallen US\$178m from US\$845m at end-2016 to US\$667m at end-August. US\$114m was because of sales. There has been a large decline in Treasury net outflows because of higher USD revenue receipts.





# Banks' USD deposits and reserve rise But not necessarily for FX market

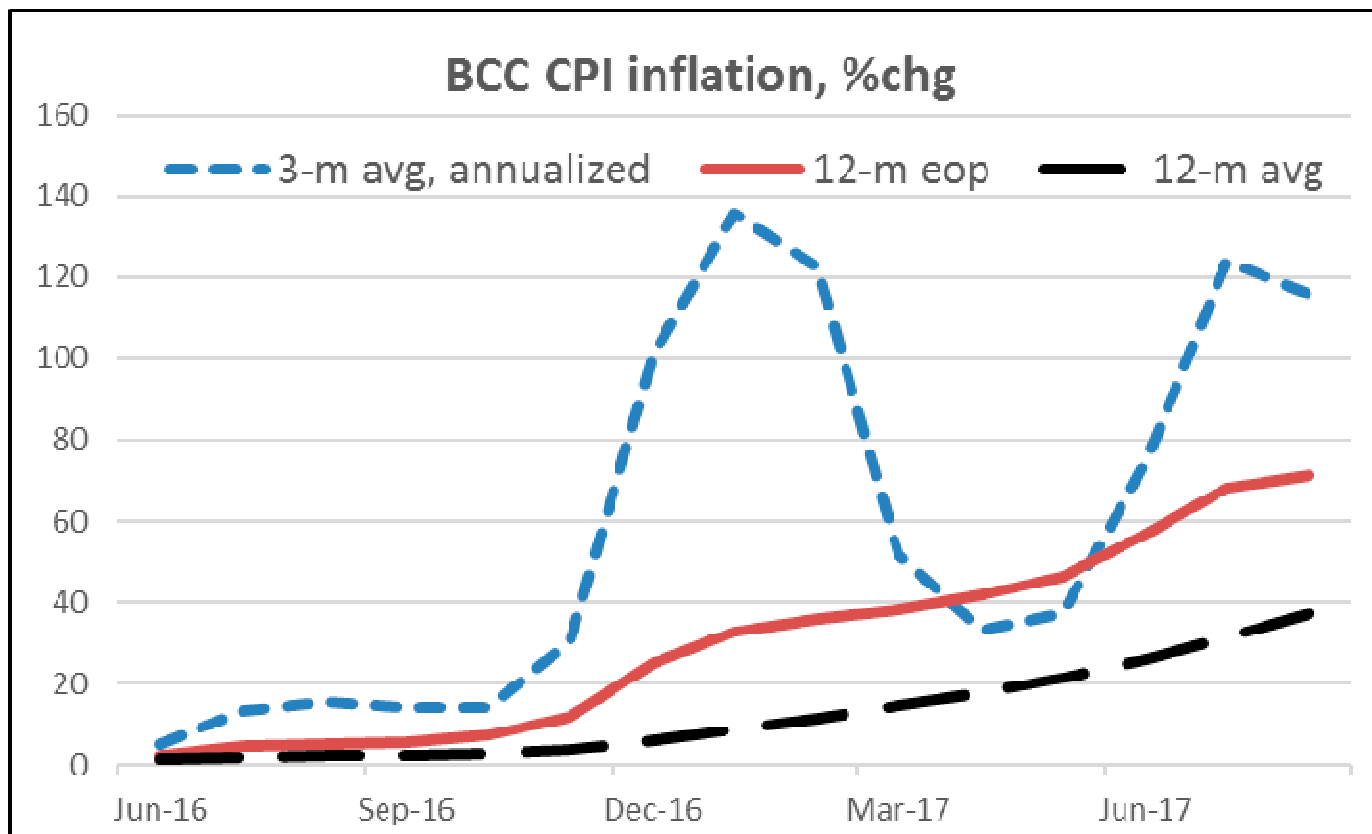
- Banks' USD deposits up \$500m from end-2016 to July,, about 25% of the higher export receipts in 2017h1 v 2016. The deposits went into banks' foreign reserves.
- Banks have USD liquidity. But this is only available for FX market if clients sell USD deposits





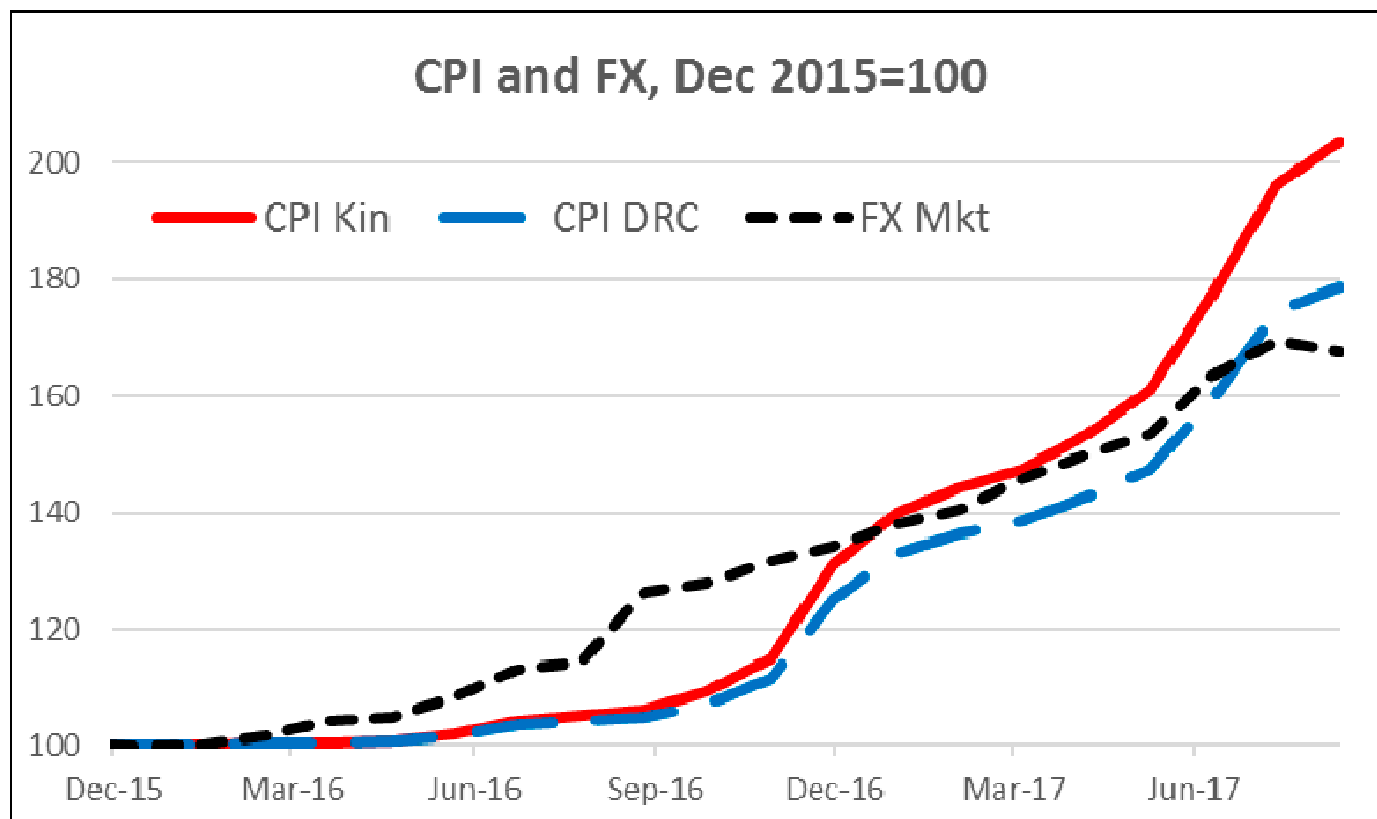
# Inflation continues to rise...

- BCC 12-m eop inflation topped 70% in August and 12-m avg inflation neared 40%. 3-m quarterly inflation annualized accelerated above 120% in July.
- Even if prices remain flat, 12-m eop and avg inflation will top 40% and 50% at end-2017.



# ...and has surpassed depreciation

- The CPI increase since end-2015 in DRC and Kinshasa has surpassed the FX depreciation., which means a decline in purchasing power in both CF and USD.
- Unclear whether this reflects higher local v imported prices, anticipations, and \$/E FX rate.



# Tight fiscal stance yields cumulative cash budget surplus...



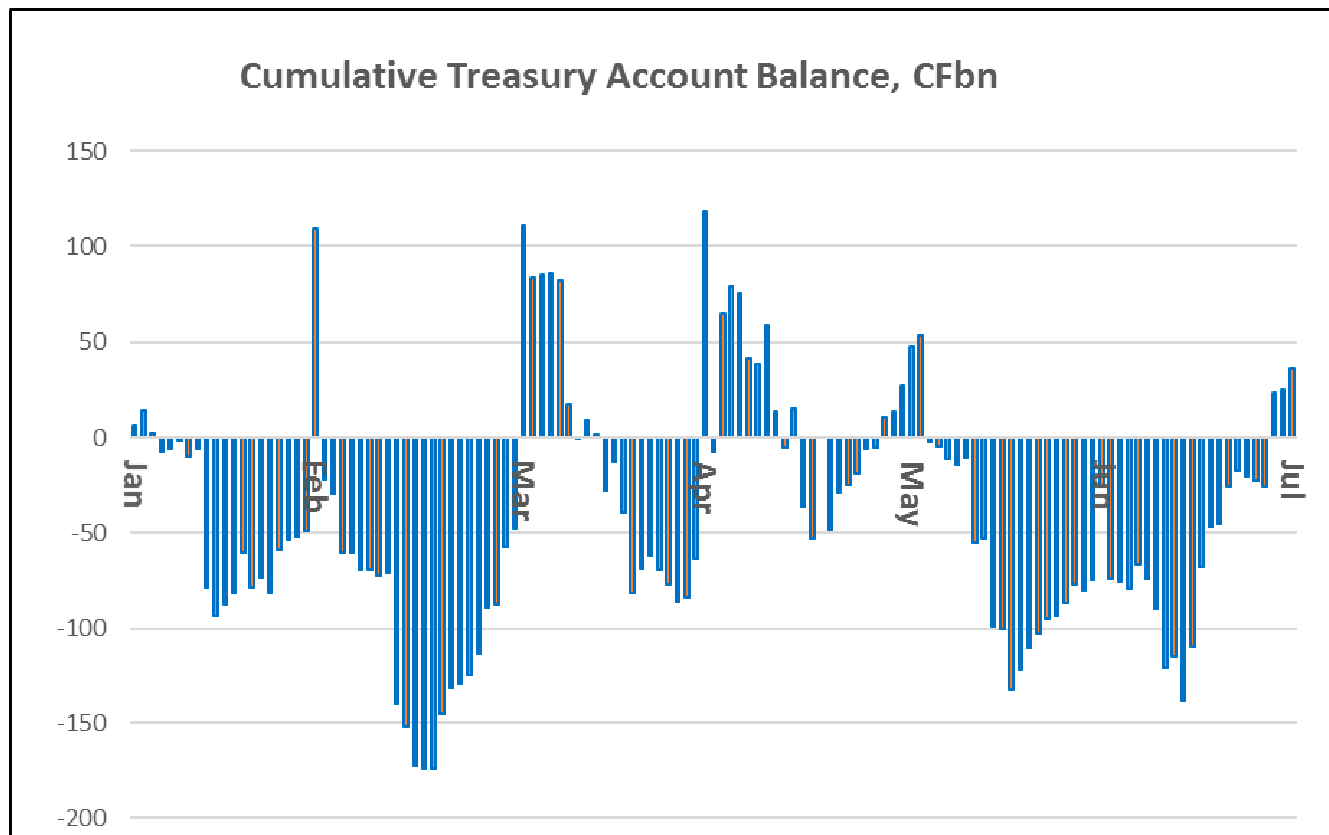
- Shift in fiscal stance back to cash balance.
- Budget cash surplus in 2017 Jan-Aug. Budget deficit on a commitment basis, but a portion of unpaid obligations is without counter-party and can be expunged.
- Cash revenues and expenditures both declined in USD, also on commitment basis.

<b>Budget performance, cumulative to August</b>											
	CF bn			%chg		USD			%chg		
	2015	2016	2017	17/16	17/15	2015	2016	2017	17/16	17/15	
Revenues	3,085	2,377	2,719	14	-12	3,333	2,466	1,901	-23	-43	
DGDA	1,262	964	868	-10	-31	1,363	1,000	606	-39	-56	
DGI	1,332	1,035	1,251	21	-6	1,439	1,072	870	-19	-40	
Other	491	378	600	59	22	530	394	425	8	-20	
Expenditures	2,991	2,529	2,539	0	-15	3,231	2,624	1,780	-32	-45	
Remuneration	1,152	1,298	1,309	1	14	1,245	1,347	920	-32	-26	
Debt	166	162	183	13	11	179	167	125	-25	-30	
G&S	598	507	536	6	-10	646	524	376	-28	-42	
Transfers and subsidies	826	371	227	-39	-73	892	388	159	-59	-82	
Capital	286	121	94	-22	-67	309	126	66	-48	-79	
Other	-37	70	189			-40	72	134			
Balance, cash basis	94	-152	180			102	-158	121			
Unpaid oblig (Liq-Pay)			548					353			
Balance, commitment basis			-369					-232			



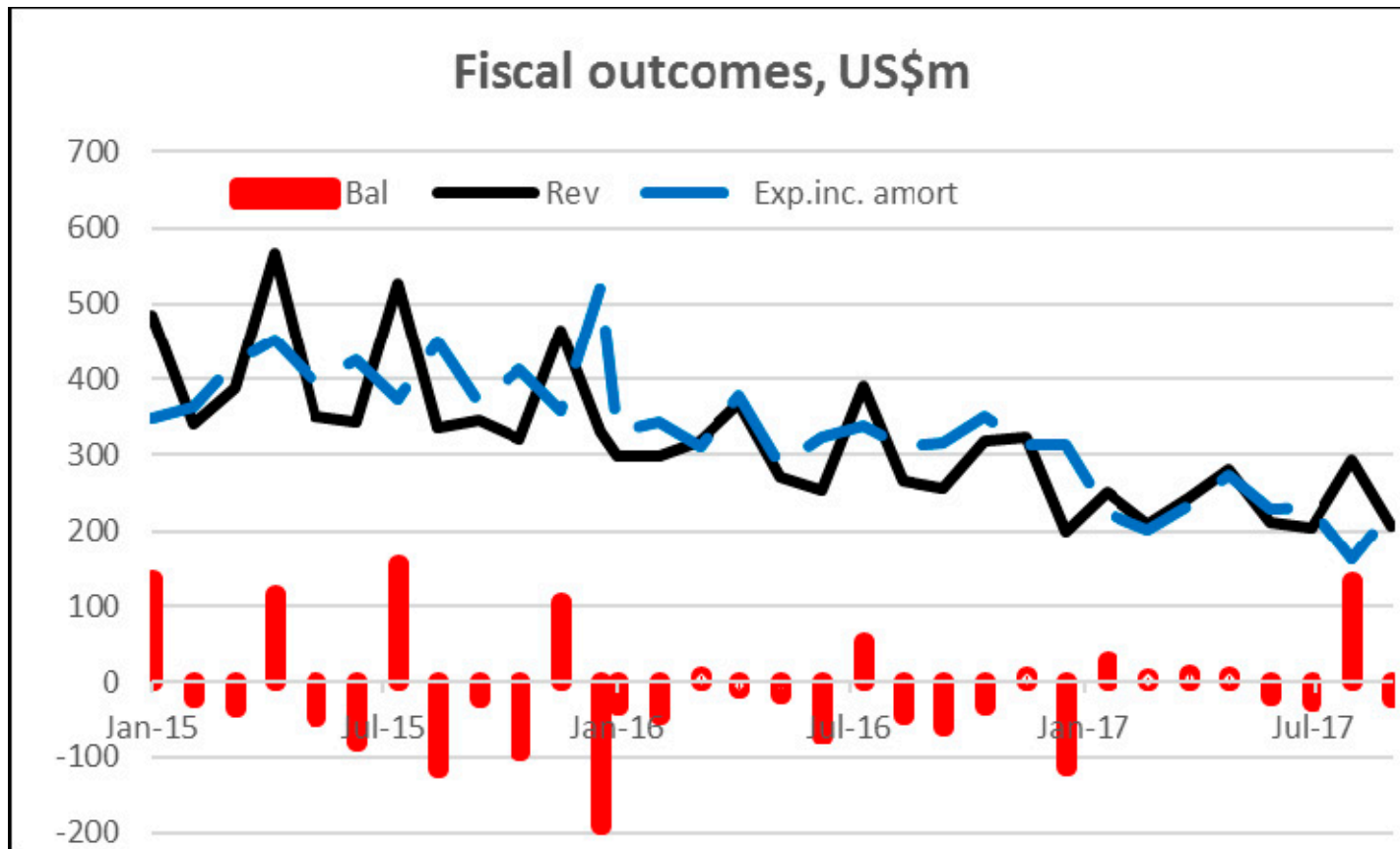
# ...but large intra-month cash deficits

- Cumulative budget balance is in surplus at end-month because of timing of tax receipts. But large intra-month Treasury deficits.
- The Treasury is borrowing intra-month and repaying at end-month. This is quite different from running a intra-month surplus and lending.



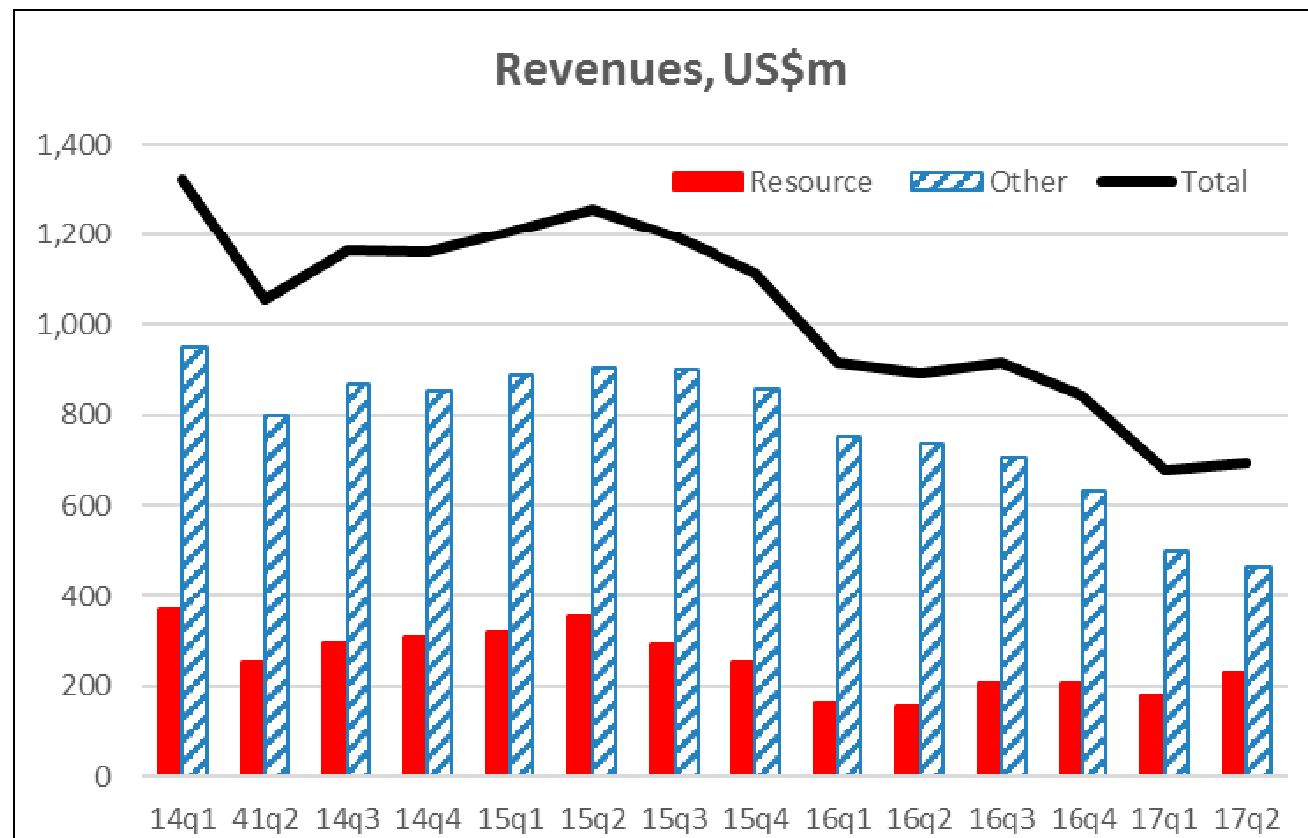
# Severe budget downward trend

- A sizeable cash surplus in July offset modest deficits in May and June. But cumulative surplus unlikely to cover remaining months.
- Budget in USD continues to fall, but disproportionate to BoP shock. Political impact?



# Resource revenues rise but other receipts fall. Will this reverse?

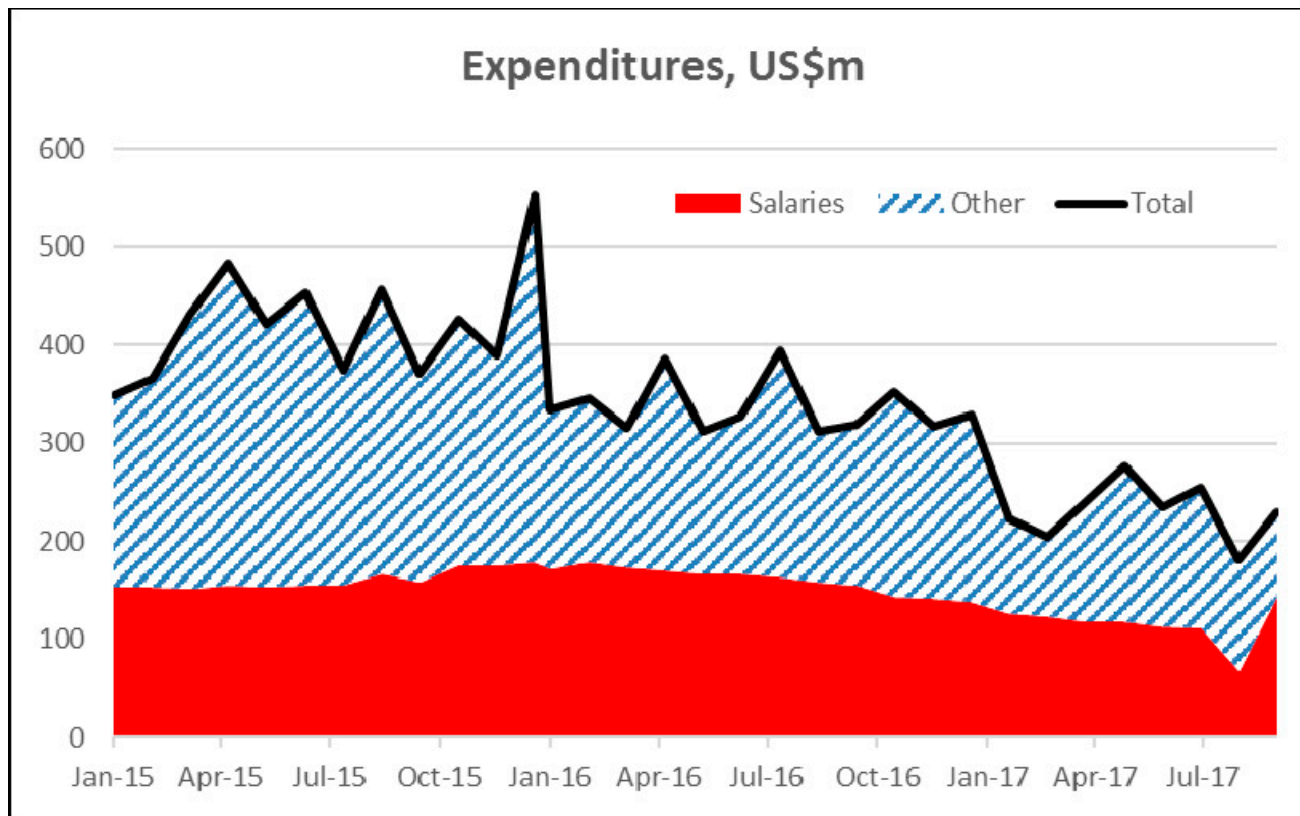
- In USD, resource receipts up 29% in 2017h1 v 2016 but down 39% v 2015, in line with prices.
- In USD, other revenues e down 35% in 2017h1 v 2016 and down 46% v 2015 - unwarranted by economic slowdown.



# Non-salary spending squeezed. Is this sustainable?



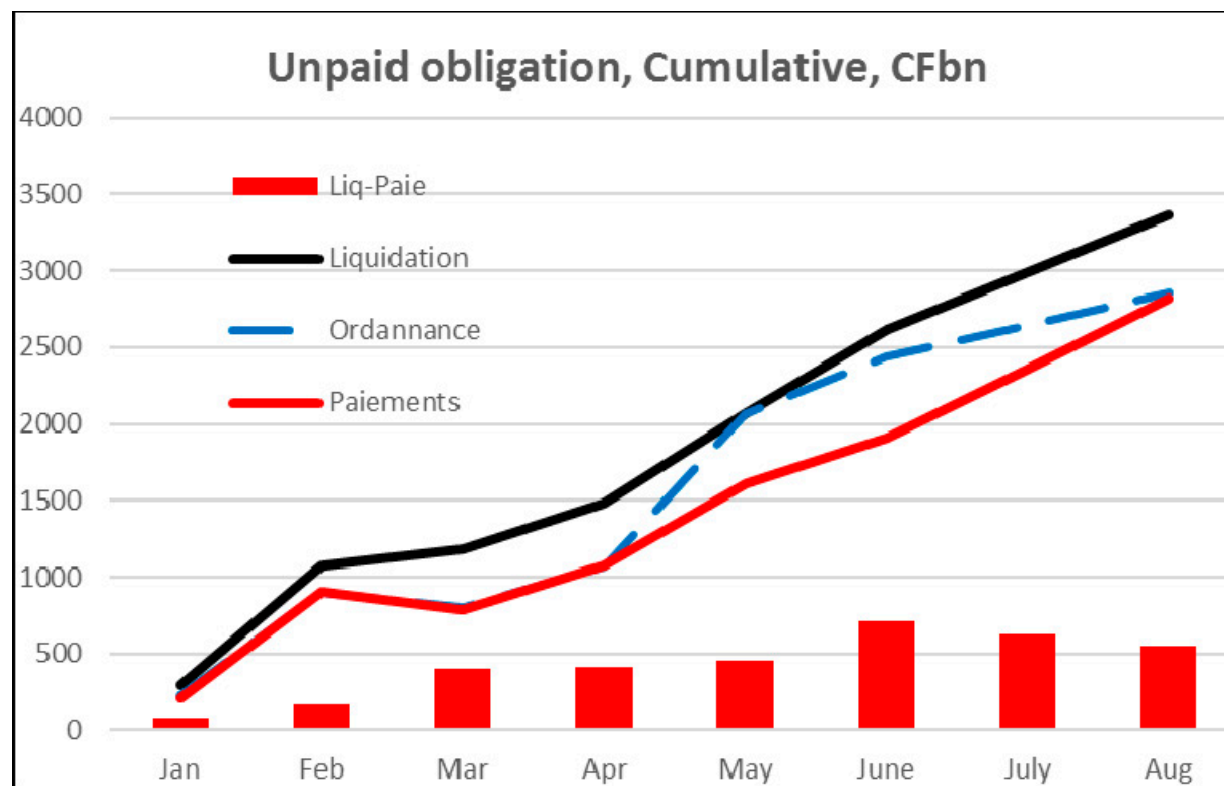
- In USD, spending on salaries down 32% in 2017 Jan-Aug v 2016. Salaries are half of cash spending and future salary increases very modest.
- 'Other' spending down 55% in 2017 Jan-Aug v 2015. Large spending pressures.



# Unpaid obligations accumulate Challenge for policy coordination



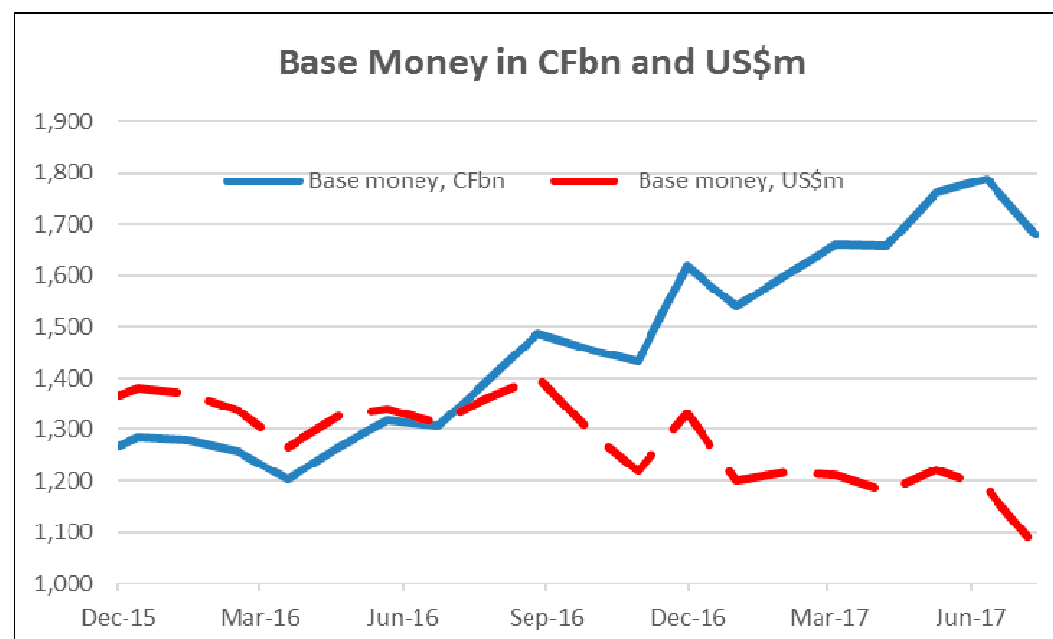
- Shift in fiscal policy stance back to cash balance has created spending pressures and unpaid obligations (budget deficit on commitment basis). Policy coordination challenge.
- A portion has no counter-party and can be expunged.
- Unpaid obligations for G&S implies forced borrowing with implications for banks.



# Base money growth supports depreciation but banks CF liquidity shortages



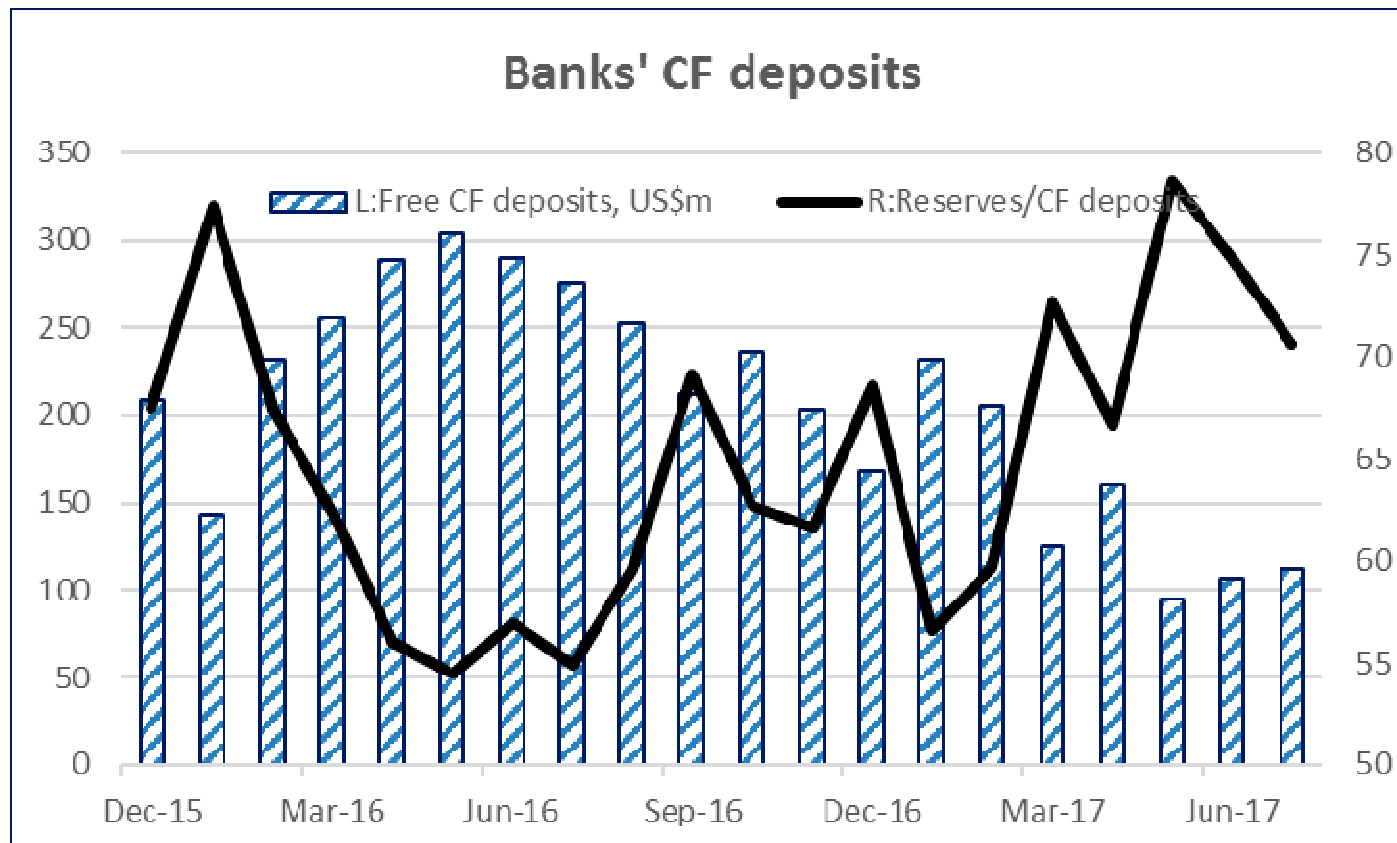
- Base money expand in CF until July (due to July budget surplus), supporting FX depreciation. This was despite reduced NCG and NFA (including FX sales) and driven by credit to banks and 'other items'. This challenges policy coordination.
- Even so, banks face CF liquidity shortages. Monetary policy tightened in 2016h2 – base money declined in USD. Monetary policy ineffective due to rising deposit dollarization.





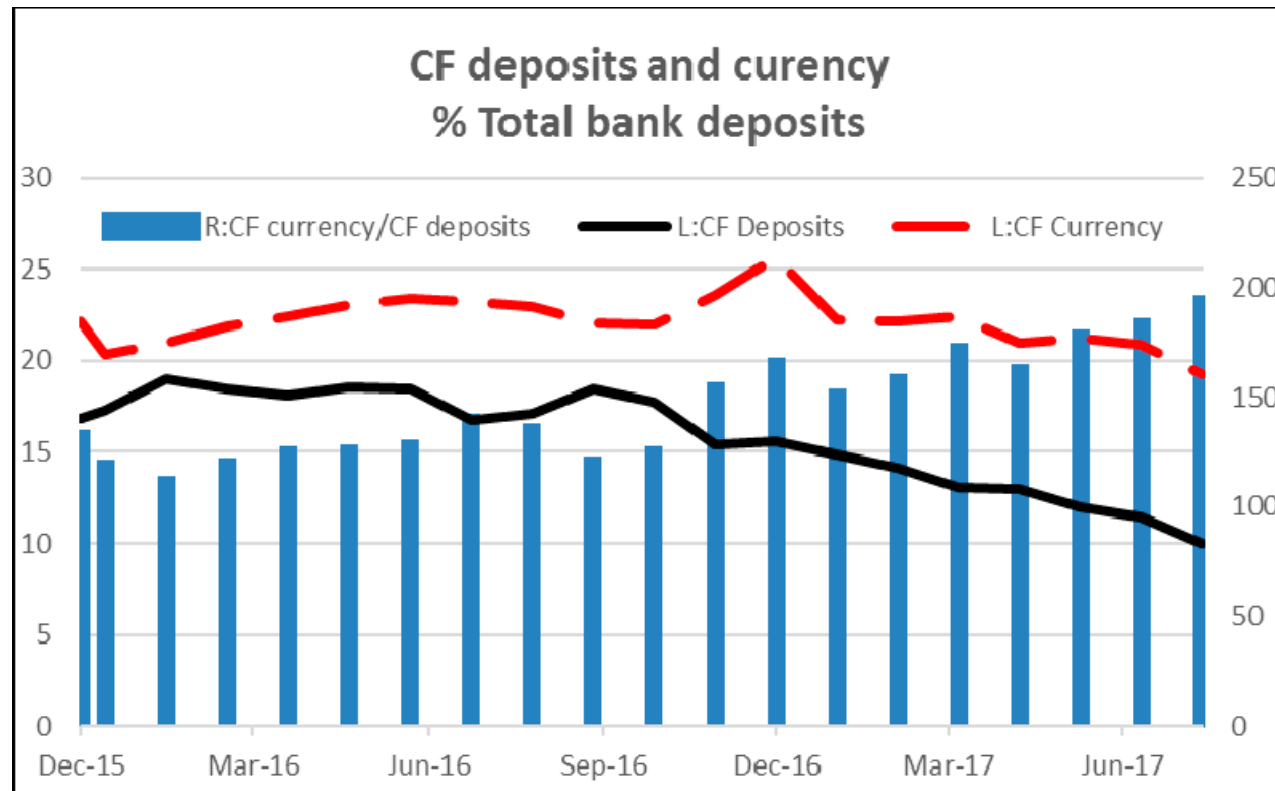
# Banks' CF liquidity strained

The BCC raised the liquidity reserve requirements on USD deposits paid in CF in 2016h2 to tighten monetary policy. This has squeezed banks' CF liquidity, aggravated by the influx of USD deposits and increasing deposit dollarization.



# Asset dollarization supports depreciation

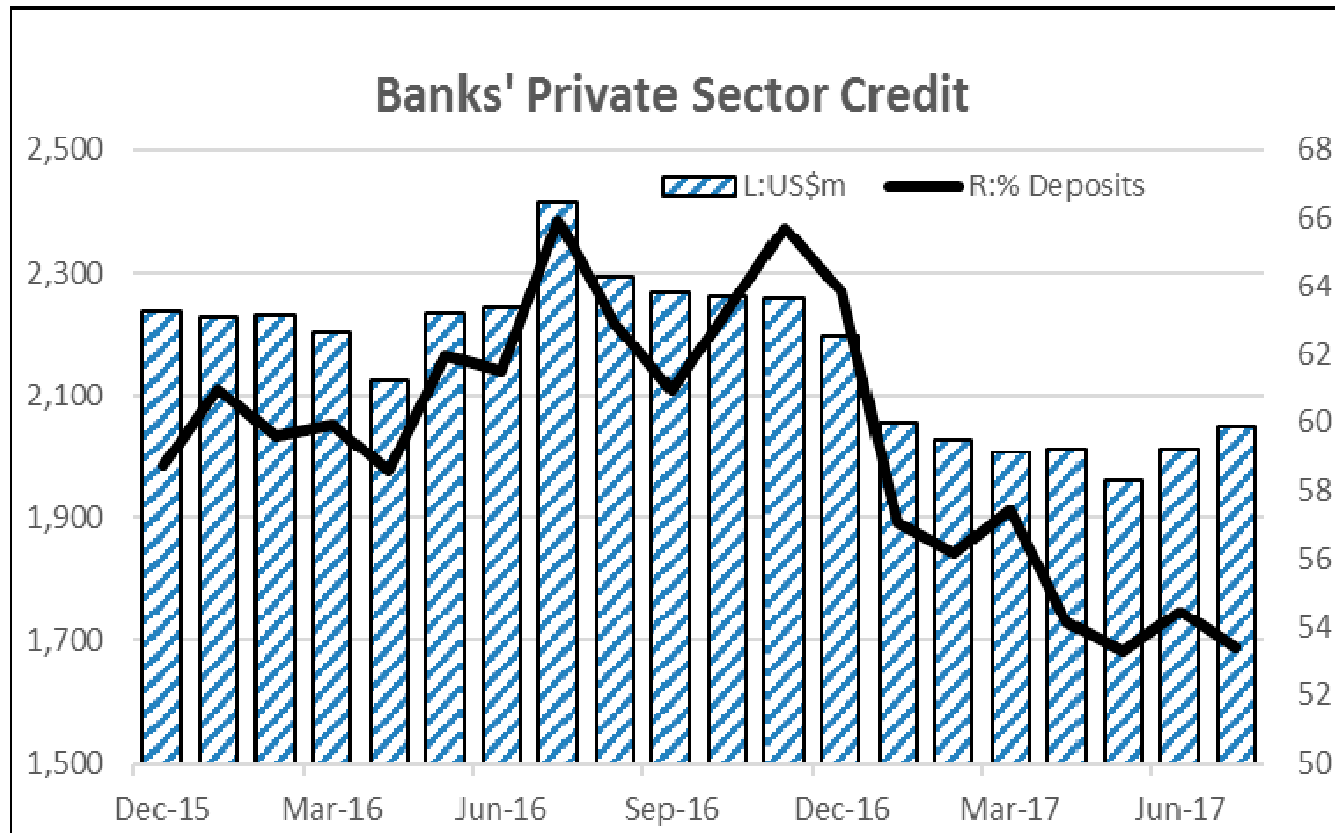
- Banks' CF deposits have declined from 20% to 10% of total deposits., while CF cash holdings have remained stable around 20-25%.
- The shift away from CF deposits into USD deposits on a small CF base fuels the FX depreciation and diminishes monetary policy effectiveness.





# Banks' private sector credit squeezed

Banks' PSC in July down 15% from last year and has fallen from 66% to 53% of deposits.





**Thank you**