

Angola struggles with contingent liabilities

General Information



| | |
|---------------------------|--|
| GDP | USD102.6bn (World Ranking 59, World Bank 2015) |
| Population | 25 Million (World Ranking 51, World Bank 2015) |
| Form of state | Republic |
| Head of government | Jose Eduardo DOS SANTOS |
| Next elections | 2017, legislative |



Strengths

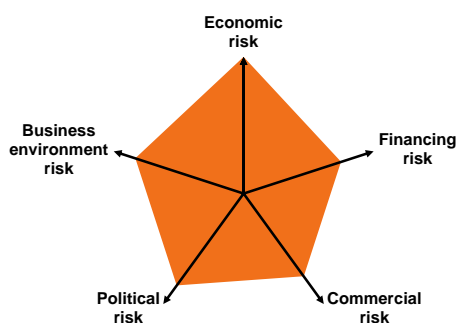
- Relatively peaceful elections
- Despite bordering DR Congo, there are no significant threats to security from external forces
- Membership of OPEC. Second largest oil producer in Sub-Saharan African, with proven reserves over 20 years of further output at current rates of extraction
- In addition to hydrocarbons, possesses significant natural resources through its mining (including diamonds) and agricultural sectors
- Considerable FDI inflows from advanced and emerging economies in recent years

Weaknesses

- High debt
- Low export diversification: oil accounting for 98% of export revenues. Vulnerability to volatility in global markets and to potential large swings in oil prices
- Rebuilding and reconstruction of economic and social communities after a debilitating civil war require considerable resources
- Persistent pockets of high poverty
- Perceptions of corruption, and lack of transparency in oil accounts. Limited confidence in the country's leadership and low investment from advanced economies in the non-oil sectors
- Data provision remains uneven

Country Rating

D3



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

| Exports | Rank | Imports |
|---------------|-------|-----------------------|
| China | 51% 1 | 23% China |
| India | 9% 2 | 17% Portugal |
| United States | 9% 3 | 8% United States |
| Spain | 6% 4 | 7% Korea, Republic of |
| France | 3% 5 | 5% Brazil |

By product (% of total)

| Exports | Rank | Imports |
|---|-------|---|
| Petroleum, petroleum products and related materials | 97% 1 | 8% Road vehicles |
| Non metallic mineral manufactures, n.e.s. | 1% 2 | 7% Other transport equipment |
| Gas, natural and manufactured | 1% 3 | 7% Other industrial machinery and parts |

Source: UNCTAD (2014)

Economic Overview

Long-term growth prospects diminished

Angola's economy has undergone a major structural shock in response to the persistence of low oil prices. Growth is expected to reach 1.5% in 2016, 0.5% in 2017 and 2% in 2018 (see chart 1). Due to operational inefficiencies associated with the state-owned oil operator Sonangol, oil output has not grown significantly over the last two years. In fact, it fell short of the government's 1.8 million b/d target. Oil accounts for 97% of total exports and makes up over 75% of government revenue. The shock has deteriorated Angola's macroeconomic stability. The local currency - kwanza - depreciated by 40% against the dollar since September 2014. This drove up inflation, which may reach 30% y/y in 2016. China is the country's most important external partner. It has lent over USD20bn to Angola since 2002 and has 50 state-owned and 400 private companies operating in the country. As China transitions to be more consumer-driven, it is pivoting to vibrant services and manufacturing economies while scaling down its exposure to resource-rich countries with poor governance such as Angola.

Deterioration of public finances

Angola's officially reported public debt is slightly below the 60% cap stipulated by law. However, if one includes fiscal liabilities parked in Sonangol, public debt is closer to 78%. It could rise to 90% in 2017, up from 40% in 2014 (see chart). This contingent liability has key implications for long-term debt sustainability. Reluctance to tap IMF assistance is bad news as public debt dynamics are hardly sustainable. Fiscal consolidation is lacking (fiscal balance -7% in 2017).

Political and developmental challenges

In a surprising statement, Angola's ruling MPLA has announced that President Dos Santos would not seek re-election in 2017. Dos Santos is the second longest-serving leader in Africa having ruled the country since 1979. Dos Santos' government has come under increasing scrutiny with urban protestors demanding political reform, and criticizing the enrichment of Angola's elite. President Dos Santos appointing his son to head the country's sovereign wealth fund, and his daughter to head and restructure Sonangol, further fuelled resentment.

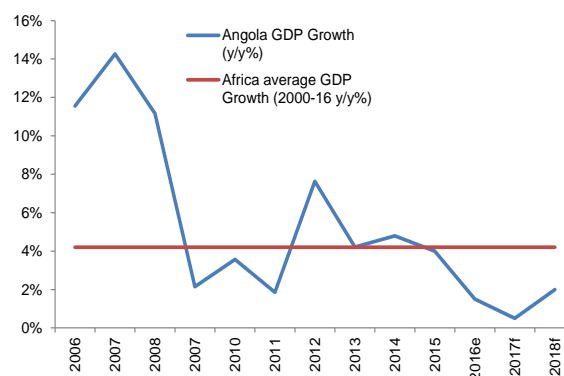
Meanwhile, social unrest risks are elevated. The veteran leader's departure is unlikely to usher in wider political reform, and the government has had to cut social expenditures by 10% in 2016. Despite the country reaching middle-income status according to the World Bank, it is ranked as one of the world's most unequal countries. More than half of Angolans live under the poverty line.

Key economic forecasts

| | 2015 | 2016e | 2017f | 2018f |
|----------------------------|------|-------|-------|-------|
| GDP growth (% change) | 4.0 | 1.5 | 0.5 | 2.0 |
| Inflation (% , end-year) | 10.3 | 30.0 | 40.0 | 25.0 |
| Fiscal balance (% of GDP) | -4.1 | -7.0 | -7.0 | -5.0 |
| Public debt (% of GDP) | 64.0 | 78.0 | 90.0 | 95.0 |
| Current account (% of GDP) | -9.4 | -10.0 | -6.5 | -5.0 |
| External debt (% of GDP) | 33.1 | 48.1 | 57.0 | 62.0 |

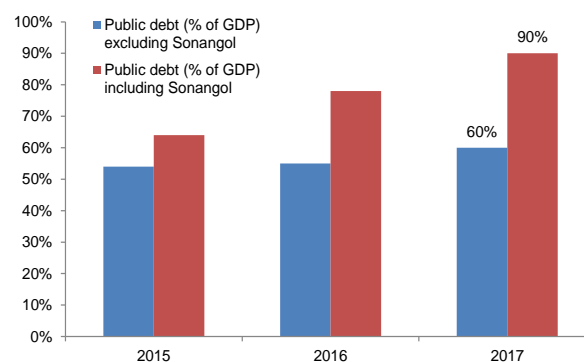
Sources: National statistics, IHS, Euler Hermes

GDP growth rate



Sources: National statistics, IHS, Euler Hermes

Public Debt (with and without Sonangol)



Sources: National statistics, Euler Hermes

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