Euler Hermes Economic Research

Country Report

Angola

Strong growth and good potential, but still rebuilding nation state

General Information

GDP	USD114.197bn (World ranking 60, World Bank 2012)
Population	20.82 million (World ranking 56, World Bank 2012)
Form of state	Republic
Head of government	Jose Eduardo DOS SANTOS
Next elections	2016, legislative

Strengths

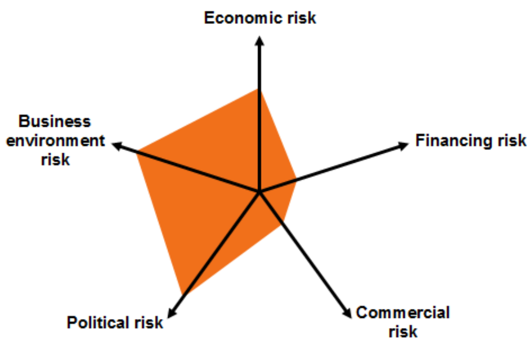
- Elections, although not without logistical problems, have been conducted relatively peacefully and the results accepted by opposition forces, thereby assisting the country's progress in entrenching political stability.
- Despite bordering DR Congo, there are no significant threats to security from external forces.
- Membership of OPEC. Angola rivals Nigeria as the leading Sub-Saharan African oil producer, with reserves calculated to provide over 19 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.

Weaknesses

- With crude oil and products accounting for 98% of export revenues, the economy is susceptible 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 level poverty.
- Perceptions of corruption, particularly in relation to the lack of transparency in oil accounts, have limited local confidence in the country's leadership and prevented full IFI support and investment from the western world in the non-oil sectors.
- Data provision remains uneven.

Country Rating

C3



Source: Euler Hermes

Trade structure

By destination/origin (% of total)

Exports		Rank		Imports
China	46%	1	20%	China
United States	14%	2	19%	Portugal
India	11%	3	7%	United States
China, Taiwan Province of	7%	4	6%	South Africa
South Africa	5%	5	6%	Brazil

By product (% of total)

Exports		Rank		Imports
Petroleum and related materials	98%	1	8%	Road vehicles
Non metallic mineral manufactures, n.e.s.	1%	2	7%	Other industrial machinery and parts
Gas, natural and manufactured	1%	3	7%	Specialised machinery
Metalliferous ores and metal scrap	0%	4	6%	Iron and steel
Manufactures of metal, n.e.s.	0%	5	6%	Petroleum and related materials

Source: UNCTAD (2012)

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Economic Overview

Recent data indicate a positive momentum

The latest data available suggest that the rate of inflation continues to fall (6.95% y/y in May) albeit from very high levels (see chart) and this has enabled the central bank to keep interest rates stable since November 2013. Output from the oil and gas sector is regaining ground it lost in 2013 through project delays; crude oil exports reached 1.68 mbpd in August, the highest level in six months. However, currently weaker international oil prices (benchmark Brent below USD100/b, compared with an average USD108.7/b in 2013) are limiting revenue inflows.

GDP growth has fallen but remains relatively high, even for Sub-Saharan Africa

The oil industry is relatively de-linked from other sectors of the economy and this enabled it to remain relatively unscathed by the civil war. In turn, this enabled overall GDP to register growth even before the 2002 peace deal that brought conflict to an end. Growth since then has been particularly strong, partly because of the catch-up and low base involved, but also volatile (see chart). In most years since the end of the civil war GDP growth has exceeded that for the Sub-Saharan Africa region as a whole. The annual average GDP growth in the period 2000-08 was +12.1% and over the 10-year period to end-2013 averaged +11.1%.

The growth outlook depends heavily on global energy demand and on internationally-determined oil prices. In particular, the performance of emerging Asian markets (accounting for around 60% of total exports) is key. In this respect, the outlook for Angola's oil exports is relatively sound. However, the government's infrastructure investment programme and continuing FDI inflows will also boost growth in the non-oil sectors. EH expects GDP growth of around +6% in 2014 and a similar rate of expansion in 2015, subject to the prevailing climatic conditions and state of the global economy.

Inflation is falling, but remains high

By historic standards, the rate of inflation, at around 7% y/y in mid-2014, is low (see chart) enabling the central bank to maintain a stable interest rate background. However, reports suggest that credit is increasing and consumer prices have been boosted by import tariff adjustments in March, so inflation could be higher than official data suggest, particularly as Luanda is generally regarded as one of the most expensive cities in the world. EH expects the official rate of inflation will remain around 8% by end-2014 and hover around that mark in 2015.

External surpluses are eroding...

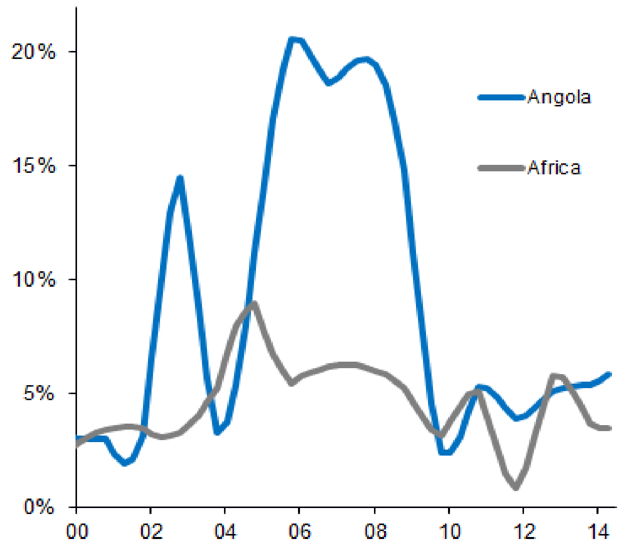
Current account surpluses in the period 2010-13 averaged over +3% of GDP but EH expects the surplus to narrow in the forecast period, reflecting global uncertainties in the energy markets and Angola's rapid import growth, particularly in relation to large infrastructure projects. From a surplus of over +3% of GDP in 2012, the current account is expected to fall to +0.9% in 2015.

Key economic forecasts

	2012	2013	2014f	2015f
GDP growth (% change)	8.0	6.5	6.0	6.0
Inflation (%, end-year)	9.0	7.7	8.5	8.2
Fiscal balance (% of GDP)	5.1	1.1	1.4	2.0
Public debt (% of GDP)	n.a.	n.a.	n.a.	n.a.
Current account (% of GDP)	3.2	2.5	1.7	0.9
External debt (% of GDP)	23.7	20.8	18.5	17.8

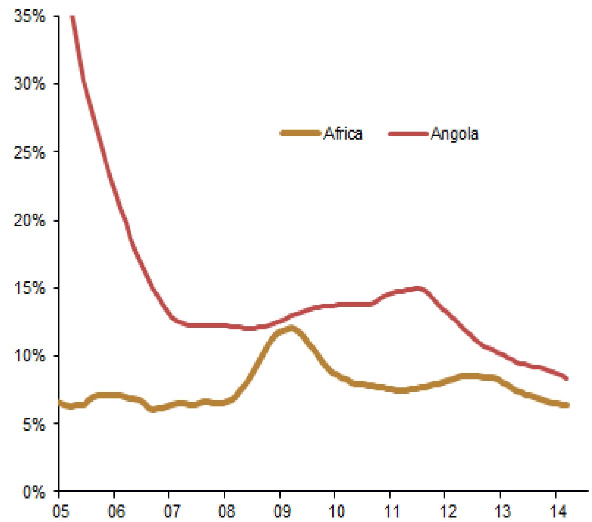
Sources: IHS Global Insight, national sources, Euler Hermes

GDP growth (%)



Sources: IHS Global Insight, Euler Hermes

Inflation (%)

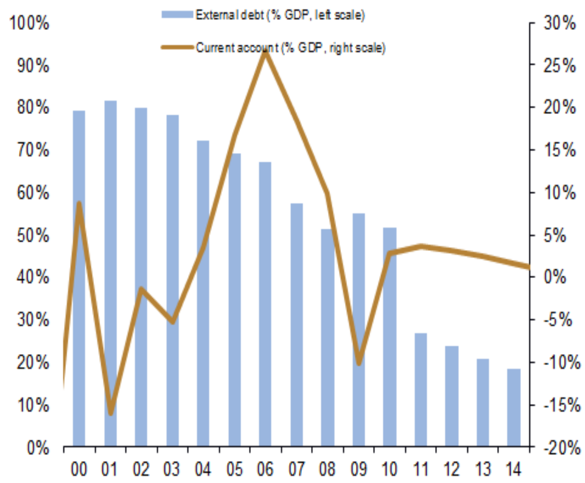


Sources: IHS Global Insight, Euler Hermes

...but external debt ratios are low

In 2006, Angola settled long-standing disputes relating to overdue interest payments on loans with creditor countries under the Paris Club arrangement and this resulted in an improved relationship with the international financial community. Annual foreign debt servicing is now around 8% of FX earnings and other foreign debt ratios are also manageable, although repayments of such obligations necessitate a redirection of financial resources away from productive use in the domestic economy. Some additional foreign obligations have been taken on as part of oil production deals and are probably not included in the official figures. Other indicators of external sector activity have also improved and foreign exchange reserves currently provide double-digit months of import cover. There is some doubt that all export revenues appear in officially published accounts and, in general, the supply of macro-economic and other market data remains weak.

External debt and current account balance (% of GDP)

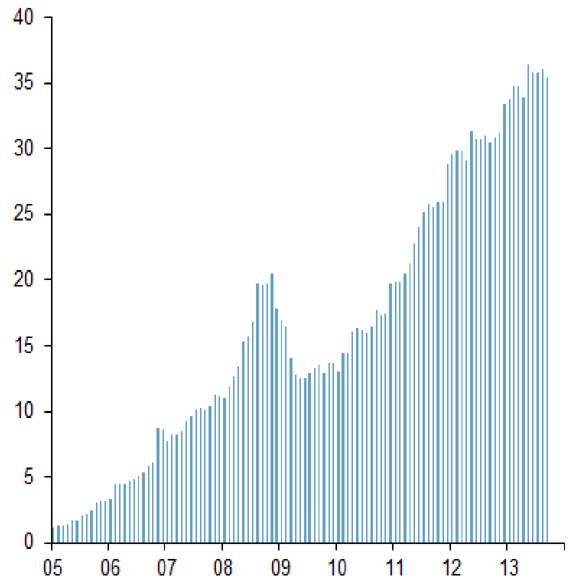


Sources: IHS Global Insight, Euler Hermes

Public finances

Angola's provision of fiscal data is generally below that warranted for a country of its size. In 2013, the annual surplus slipped to 1% of GDP from 5% in 2012, reflecting weak oil output but also large government expenditures, particularly on infrastructure projects under the country's development plan (see below). EH expects the fiscal surplus will be 1.4% of GDP in 2014 and, as oil revenues improve, will rise to around 2% in 2015.

Foreign exchange reserves (USD bn)



Sources: IHS Global Insight, Euler Hermes

Planning for the future

The national development plan, Angola 2025, aims at limiting structural rigidities and enhancing economic diversification away from the upstream oil sector. The IMF suggests that this requires effective programmes to improve infrastructure, expand human capital and lower the cost of doing business in the country. A Stand-By Arrangement with the IMF expired in March 2012 and Angola does not currently have need of a monitored financial facility. The Fund and other agencies also promote greater transparency in the country’s financial accounts. It remains to be seen whether the creation of a sovereign wealth fund (SWF) at end-2012 (with start-up capital of USD5 billion) will improve management of oil revenues. The SWF announced its broad-portfolio investment strategy in September 2014.

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