Euler Hermes Economic Research

Country Report

Angola

Measures adopted to counter impact of low oil prices

General Information

GDP	USD131.401bn (World ranking 60, World Bank 2014)
Population	22.14mn (World ranking 55, World Bank 2014)
Form of state	Republic
Head of government	Jose Eduardo DOS SANTOS
Next elections	2017, legislative

Strengths

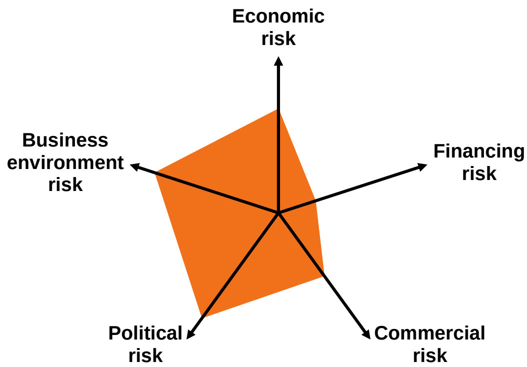
- Elections, although not without logistical problems, have been conducted relatively peacefully and the results accepted by opposition forces, thereby assisting the country's progress in entrenching political stability.
- Despite bordering DR Congo, there are no significant threats to security from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

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

Source: UNCTAD

Lower oil prices have weakened the economy and induced countervailing measures from the authorities…

Oil accounts for around 98% of exports and 75% of government revenues. Therefore, current weak commodity prices (benchmark crude Brent -50% y/y in early September 2015) are limiting FX earnings, government receipts and overall economic growth. In 2012, fiscal and current account surpluses were +4.6% and +12% of GDP, respectively. In 2015, EH expects both accounts will record substantial deficits of -8.7% and -6% of GDP, respectively. Additionally, the kwanza (AOA) is under downward pressure and inflation is increasing. Annual average GDP growth in the ten years to end-2014 was +10% but EH forecasts +3.5% in 2015 and +4% in 2016.

In response to the economic impact of weaker oil prices the Central Bank tightened liquidity conditions by increasing the key policy interest rate and banks' mandatory reserve requirements. Additionally, the government cut markedly its spending plans, including on goods and services and some subsidies and also on some non-essential capital projects. In the current fiscal year, the government is using an oil price of USD40/barrel in its revised calculations.

Financial support will be made available through the World Bank and the government is likely to increase lending and perhaps issue a Eurobond. Moreover, bilateral credit lines will be extended by, in particular, with China and Brazil. In need, the IMF will provide support.

…which, in turn, are increasing commercial and trading risks

With financial assistance likely to be readily available, the risks are unlikely to be sovereign. Rather they will be at a corporate level. The economic downturn and official measures to preserve stability, including project cancellation and/or delay, have increased payment disruptions and default risk. The construction sector, in particular, is being squeezed and insolvencies and company failures are likely to be increasing.

Planning for the future

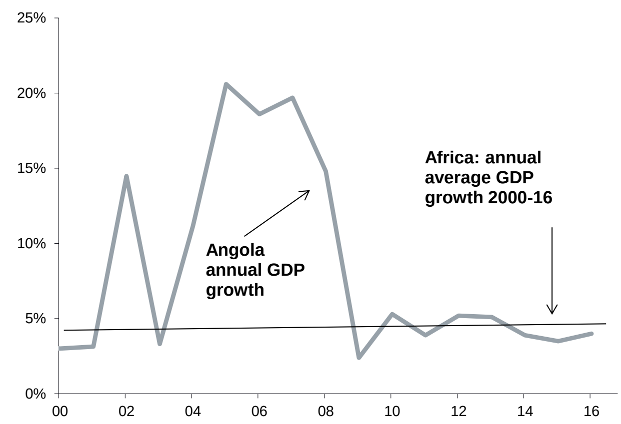
The national development plan, Angola 2025, aims at limiting structural rigidities and enhancing economic diversification away from the upstream oil sector. The IMF suggests that this requires effective programmes to improve infrastructure, expand human capital and lower the cost of doing business in the country. The Fund also promotes greater transparency in the country's financial accounts. It remains to be seen whether the sovereign wealth fund (SWF) will improve management of oil revenues. The SWF announced its broad portfolio investment strategy in September 2014 but current weak oil revenues may result in some of the fund being used to provide further domestic financial stability.

Key economic forecasts

	2013	2014	2015f	2016f
GDP growth (% change)	5.1	3.9	3.5	4.0
Inflation (%, end-year)	7.7	7.5	9.1	8.5
Fiscal balance (% of GDP)	-0.3	-4.3	-8.7	-5.1
Public debt (% of GDP)	35.9	38.0	49.2	49.8
Current account (% of GDP)	6.9	-0.4	-6.0	-1.0
External debt (% of GDP)	19.3	20.6	26.7	27.0

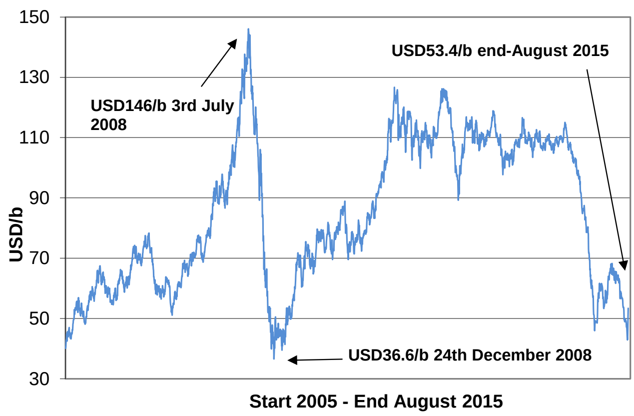
Sources: IHS, national sources, Euler Hermes

GDP Profile (% growth)



Sources: IHS, national sources, Euler Hermes

Oil Prices (Brent, USD/b)



Sources: FT, Euler Hermes

Contact Euler Hermes Economic Research Team

research@eulerhermes.com

Last review: 2015-09-11
Country Risk Analyst:
Andrew Atkinson
andrew.atkinson@eulerhermes.com