

Crony financing does not pave the way to long-term growth

General Information



GDP	USD 89.6bn (World Ranking 62, World Bank 2016)
Population	28.8 Million (World Ranking 48, World Bank 2016)
Form of state	Republic
Head of government	João Lourenço
Next elections	Date unknown



Strengths

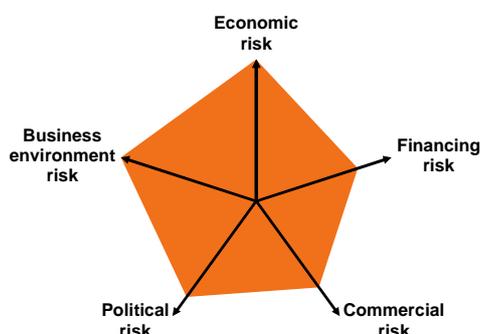
- Relatively peaceful elections
- Despite bordering DR Congo, there are no significant threats to security from external forces
- Membership of OPEC. Second largest oil producer in Sub-Saharan Africa, with proven reserves sufficient for more than 20 years at current rates of extraction
- In addition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

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	46%	1	15%	Portugal
India	8%	2	13%	China
Spain	6%	3	12%	United States
United States	5%	4	6%	South Africa
China, Taiwan Province of	5%	5	5%	Brazil

By product (% of total)

Exports		Rank	Imports	
Petroleum, petroleum products and related materials	97%	1	9%	Other industrial machinery and parts
Crude fertilizers other than division 53, and crude minerals	2%	2	8%	Road vehicles
Fish, crustaceans, molluscs and preparations thereof	0%	3	6%	Specialised machinery

Source: UNCTAD (2016)

Economic Overview

The oil dependency

Angola's economy is oil dependent and prone to boom-bust cycles. When prices are high capital flows, credit grows, and public spending is robust. And when the economy performs well so does re-construction of what used to be for many years a war ravaged country.

Yet an oil bonanza hinders the incentives that are crucial to reform the economy. As a result, Angola is ranked almost at the bottom of the World Bank Doing Business survey (182nd out of 190).

The country does not suffer severe financing issues, due to bilateral lending (mainly by China). Yet this kind of financing does not enhance growth. In fact, it supports the old oil-driven growth model. Under such unbalanced circumstances, public and external debt rise.

No liquidity issue

The oil price shock has put monetary and fiscal policies under pressure, with high fiscal deficit (-7% of GDP in 2017) and persistent high inflation (+32.4% in 2016, +32% in 2017 and still +18% in 2018).

Yet the Central Bank always benefitted from a comfortable liquidity level, with foreign reserves almost stable at 8 months of import cover. Moreover, the fresh round of Chinese lending helped put the country on the radar of foreign bond investors eager for yields. This is similar to other African economies with high deficits (e.g. Ghana).

(Poor) Business as usual

The peaceful political transition from President Dos Santos' regime to J. Lourenço is good news. This should help the Angolan economy to recover from its near stagnation and subdued growth.

Another cause for some optimism is the expected stabilization of public debt at 80% of GDP in 2018. This figure is 10pp below stress scenario expectations, now less likely than a year ago.

Add to that China's commitment in the form of more than USD20bn in loans since 2002 and stakes in 50 state-owned and 400 private companies operating in Angola.

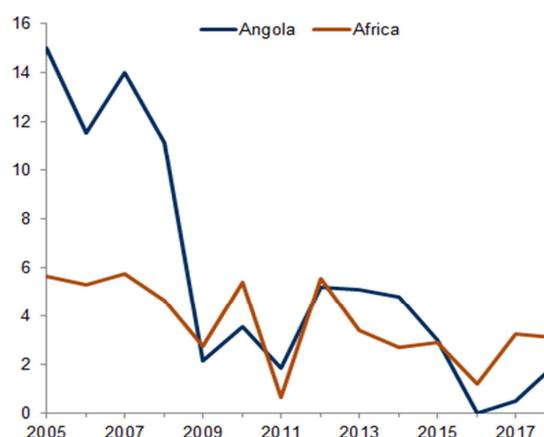
However, good news in the short-run can turn into bad news in the long-run. The main issue is the lack of policy changes. The Dos Santos family is still well-represented in Angola's institutions. The former President's son is the country's sovereign wealth fund's head, while his daughter heads Sonangol, the oil public corporation. While the elite benefits from immense wealth more than half of Angolans live under the poverty line. Long years of subdued growth and gaping income disparities can transform into festering social discontent.

Key economic forecasts

	2015	2016	2017f	2018f
GDP growth (% change)	3	0	1	2
Inflation (%)	10,3	32,38	32	18
Fiscal balance (% of GDP)	-3,3	-7	-7	-5
Public debt (% of GDP)	64	75	78	80
Current account (% of GDP)	-10	-5	-5	-4
External debt (% of GDP)	33,1	48,1	57	62

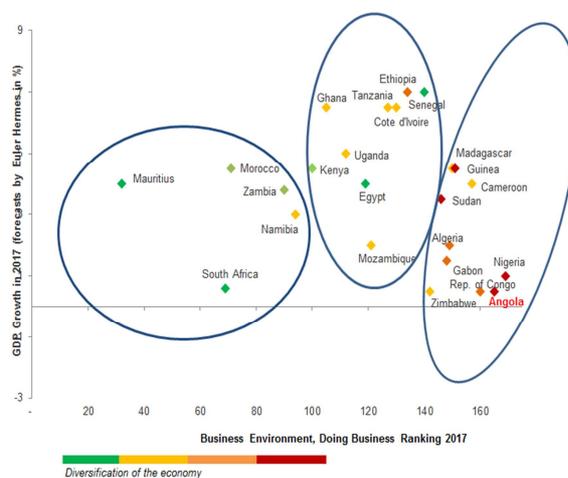
Sources: National statistics, IHS, Euler Hermes

Angola and Africa: GDP growth rate (%)



Sources: National statistics, IHS, Euler Hermes

Growth and Doing Business



Sources: World Bank, Harvard CID, Forecasts by Euler Hermes

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