Country report **ANGOLA**

Summary

Angola's oil-based economy stands to benefit from the recent increase in oil prices. Oil exports account for 96% of total exports and generate 90% of all tax income. Higher oil prices will thus help Angola to recover from the global crisis that hit the country in 2008 and 2009. Consequently, we expect GDP growth to reach 7.9% in 2011 (from 1.7% in 2010).

However, the favourable economic outlook conceals the country's grave social situation. Large oil revenues continue to inspire corruption. Moreover, as oil revenues barely trickle down to other segments of the population, income inequality remains high.

However, also Angola's economic outlook is subject to risk. Especially in the medium to long-run, the country's dependence on oil revenues, combined with a high propensity to consume, render it vulnerable to shocks in oil prices.

Things to watch:

- Dependence on oil revenues
- High poverty rate and persistent corruption

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Angola

National facts		
Type of government	Republic	
Capital	Luanda	
Surface area (thousand sq km)	1,247	
Population (millions)	12.8	
Main languages	Portugese	
	Bantu	
Main religions	Indigenous beliefs (47%)	
	Roman Catholic (38%)	
	Protestant (15%)	
Head of State (president)	Jose Eduardo dos Santos	
Head of Government (prime-minister)	Fernando Dias dos Santos	
Monetary unit	Kwanza (AOA)	
Economy		**2010**
Economic size	*bn USD*	*% world total*
Nominal GDP	84	0.14
Nominal GDP at PPP	133	0.18
Export value of goods and services	50	0.27
IMF quotum (in mln SDR)	286	0.13
Economic structure	*2010*	*5-year av.*
Real GDP growth	1.7	14.7
Industry (% of GDP)	65.8	n.a.
Services (% of GDP)	24.6	n.a.
Agriculture (% of GDP)	9.6	n.a.
Standards of living	*USD*	*% world av.*
Nominal GDP per head	4438	45
Nominal GDP per head at PPP	7001	60
Real GDP per head	2660	33

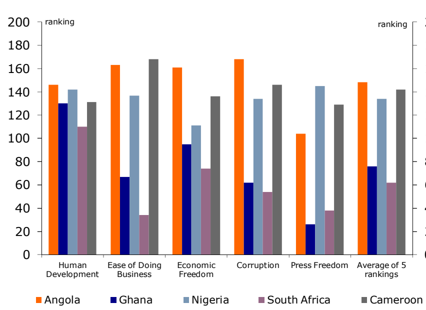
Social and governance indicators			rank / total
Human Development Index (rank)			146 / 169
Ease of doing business (rank)			163 / 183
Economic freedom index (rank)			161 / 179
Corruption perceptions index (rank)			168 / 178
Press freedom index (rank)			104 / 178
Gini index (income distribution)			58.6
Population below $1.25 a day			54%
Foreign trade			**2010**
Main export partners (%)		*Main import partners (%)*	
China	37	Portugal	20
US	25	China	15
France	9	US	9
Brazil	3	Brazil	9
Main export products (%)			
Crude oil			96
Diamonds			2
Refined petroleum			1
Liquefied natural gas			1
Main import products (%)			
Consumer goods			61
Capital goods			28
Intermediate goods			11
Population			n.a.
Openness of the economy			
Export value of G&S (% of GDP)			59
Import value of G&S (% of GDP)			54
Inward FDI (% of GDP)			13.8

Source: EIU, CIA World Factbook, UN, Heritage Foundation, Transparency International, Reporters Without Borders, World Bank.

Introduction and update

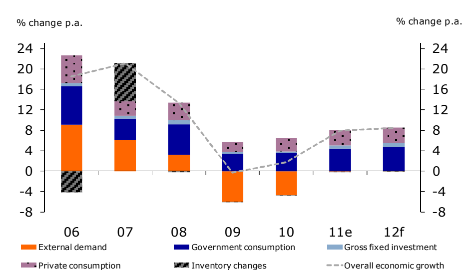
Angola's oil-based economy is rapidly recovering from the global economic downturn. During 2008 and 2009, lower demand for oil significantly reduced the country's export revenues and thereby its main source of income. The current account balance went into a deficit of 9% of GDP (2009), while reserves fell by USD 4,226mln, to USD 13,644mln.

Chart 1: Social indicators



Source: EIU

Chart 2: Growth performance



Source: EIU

Fortunately, the recent increase in oil prices allowed Angola to recuperate. In 2010, the economy grew by a slow 1.7%, but for 2011 we expect a GDP growth rate of 7.9%. The increase in oil revenues will also strengthen the current account and budget balances. The current account balance is expected to report a surplus of 2% of GDP (from a deficit of 3.6% of GDP in 2010). The budget balance should reach a surplus of 7.5% of GDP in 2011, after recording a deficit of 7.7% of GDP in 2010.

Despite the global economic crisis, Angola's debt levels remained sustainable. In 2010, external debt and public debt stood at 19% of GDP and 20% of GDP, respectively (both stood at 21% of GDP in 2009). In 2011, we expect a further decline in debt ratios. Meanwhile, foreign exchange reserves are expected to recover on the back of improved exports. Consequently, the liquidity ratio will improve from 125% in 2010, to 133% in 2011.

Despite this favourable economic outlook, we are extremely concerned with Angola's poor social and political performance.

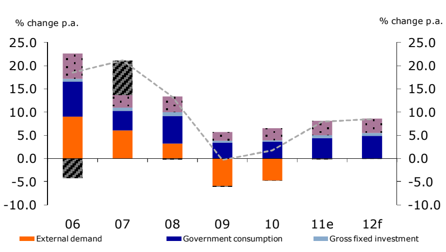
Social and political situation

Angola remains one of the most unequal and corrupt countries in the world. Corruption not only governs day-to-day life, but has also penetrated every government and judicial institution. Angola ranks among the top ten on the corruption perception index. Its performance on other social indicators is not much better. The failure to guarantee access to healthcare and education means that the average adult only enjoyed 4.4 years of schooling (2005), while life expectancy at birth stands at a low 48 years (2010). That the substantial oil receipts have failed to trickle down to the population at large further follows from the fact that 54% of the population live below the poverty line of USD 1.25 a day.

Despite this grave social injustice, Angola's poor mostly suffer in silence. Only recently a group of youth protesters by the name of Angola's People Revolution (APF) have started to voice their discontent. No doubt, their protest is inspired by recent events in the Middle East and North Africa. However, they are far less likely to generate the same results as protesters in Tunisia and Egypt. The government, led by president dos Santos (68 years old), remains in firm control of the army and has so far managed to scare off potential protesters. Consequently, planned protests have only attracted a handful of people.

President Dos Santos has been in power for over thirty years and is unlikely to leave in the near future. His tight grip on the country's natural resources allows him to buy loyalty of both the army and a small powerful elite. Moreover, a new law (by his hand) states that the president will no longer be elected, but will simply head the political party that wins the parliamentary elections. In an attempt to at least uphold some illusion of democracy, the law also states that any president can only stay on for two five-year terms. However, this will not include the thirty years that Dos Santos has already been in office. In this light, the upcoming parliamentary elections in the fall of 2012 can only be regarded window dressing.

Chart 3: Current account balance



Source: EIU

Big spender

As said, Angola's economy is heavily dependent on oil. Fortunately, oil revenues are substantial and oil production will continue well into the foreseeable future. Consequently, in 2010, export revenues accounted for 59% of GDP. Furthermore, the coming online of a large LNG plant will further boost exports.

Despite the size of the export revenues, we fear that expected demand for consumption and luxury goods will exceed the cash inflows. Angola lacks a manufacturing sector and is thus forced to import almost all consumption and luxury goods. Consequently, consumption goods make up 61% of all imports. In addition to consumption goods, capital goods needed for the development of oil production plants, further drive up the import bill. Finally, the repatriation of profits by oil companies, as well as their large demand for foreign services also results in large outflows of foreign exchange.

The increase in imports relative to exports, is especially worrisome in light of Angola's dependence on oil, its inability to rapidly increase oil production, as well as its inflexible import basket. The latter became apparent during the last crisis: although export revenues fell sharply, imports of goods and services increased. Meanwhile, although Angola sits on substantial oil reserves, the production and export of oil is constrained by significant logistical bottlenecks. Export volumes are further restrained by OPEC regulations. As Angola is a member of the OPEC it has to adhere to the production limits. Both factors imply that Angola cannot (independently) adjust its export volumes in order to better match its import needs.

In order to reverse these trends, the government should curtail its spending and promote the development of non-oil sectors. Unfortunately, the recent increase in oil prices provides little incentive to do so.

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Angola

Selection of economic indicators	2006	2007	2008	2009	2010	2011e	2012f
Key country risk indicators							
GDP (% real change pa)	18.6	21.1	13.3	-0.3	1.7	7.9	8.5
Consumer prices (average % change pa)	13.3	12.2	12.5	13.9	14.5	15.5	14.4
Current account balance (% of GDP)	23.7	17.2	9.0	-9.0	-3.6	2.0	-2.7
Total foreign exchange reserves (mln USD)	8599	11197	17869	13644	19647	23230	24810
Economic growth							
GDP (% real change pa)	18.6	21.1	13.3	-0.3	1.7	7.9	8.5
Gross fixed investment (% real change pa)	10.0	10.0	16.0	7.0	6.0	9.2	10.9
Private consumption (real % change pa)	18.0	9.0	12.2	7.1	9.0	9.8	9.6
Government consumption (% real change pa)	20.0	11.0	17.0	9.5	9.0	10.4	10.8
Exports of G&S (% real change pa)	16.3	12.7	9.4	-5.8	-1.7	4.9	3.9
Imports of G&S (% real change pa)	7.8	8.3	8.2	4.0	8.0	7.0	5.0
Economic policy							
Budget balance (% of GDP)	14.8	11.3	9.3	-7.7	7.5	9.5	3.1
Public debt (% of GDP)	17	16	17	22	21	20	19
Population	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
M2 growth (% change pa)	57	39	66	63	6	20	30
Consumer prices (average % change pa)	13.3	12.2	12.5	13.9	14.5	15.5	14.4
Exchange rate LCU to USD (average)	80.4	76.7	75.0	79.3	91.9	93.3	94.2
Balance of payments (mln USD)							
Current account balance	10690	10581	7194	-7572	-3042	2090	-3480
Trade balance	23085	30735	42932	18168	24333	40540	31160
Export value of goods	31862	44396	63914	40828	49259	68200	60490
Import value of goods	8778	13662	20982	22660	24926	27670	29330
Services balance	-6027	-12333	-21810	-18546	-19543	-27090	-23890
Income balance	-6178	-7599	-13718	-6823	-7726	-11640	-11040
Transfer balance	-190	-222	-210	-370	-106	280	290
Net direct investment flows	8870	8884	14011	13093	10715	11320	8790
Net portfolio investment flows	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Net debt flows	-2473	2033	342	939	1793	2090	50
Other capital flows (negative is flight)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Change in international reserves	5402	2598	6673	-4226	6003	3580	1580
External position (mln USD)							
Total foreign debt	9470	11516	15130	16076	17879	19940	19980
Short-term debt	2132	2271	2419	2211	2535	3280	2570
Total debt service due, incl. short-term debt	9190	7431	7653	6894	7218	7320	7560
Total foreign exchange reserves	8599	11197	17869	13644	19647	23230	24810
International investment position	-2057	3897	18645	10258	n.a.	n.a.	n.a.
Total assets	18218	25846	48959	45968	n.a.	n.a.	n.a.
Total liabilities	20275	21949	30315	35711	n.a.	n.a.	n.a.
Key ratios for balance of payments, external solvency and external liquidity							
Trade balance (% of GDP)	51.1	50.1	53.4	21.7	28.9	39.2	24.4
Current account balance (% of GDP)	23.7	17.2	9.0	-9.0	-3.6	2.0	-2.7
Inward FDI (% of GDP)	20.1	16.0	20.6	15.6	13.8	12.1	8.3
Foreign debt (% of GDP)	21	19	19	19	21	19	16
Foreign debt (% of XGSIT)	28	25	23	39	35	28	32
International investment position (% of GDP)	-4.6	6.3	23.2	12.2	n.a.	n.a.	n.a.
Debt service ratio (% of XGSIT)	27	16	12	17	14	10	12
Interest service ratio incl. arrears (% of XGSIT)	4	2	1	2	2	1	1
FX-reserves import cover (months)	6.3	5.1	5.0	3.9	5.2	5.0	5.5
FX-reserves debt service cover (%)	94	151	233	198	272	317	328
Liquidity ratio	155	146	138	109	125	133	129

Source: EIU