Country report

Angola

Summary

Angola's economic performance is almost completely determined by the global demand for oil. In fact, oil related taxes amount to 90% of total taxes. It is therefore not surprising that Angola's economy took a hit when oil prices dropped dramatically as a result of the global recession. With oil prices on the rise we expect Angola to make a full recovery. Nonetheless, many worries remain. These include the high corruption rate, a widespread practice of nepotism, a judicial system that is not independent (and also corrupt) and the lack of democracy in the central government. In addition, a recent build-up of sovereign arrears and new loans is worrisome. However, since trade constitutes so much of Angola's GDP, it seems likely that the government will eventually settle (and pay) these arrears, or force private partners to pay them.

Things to watch:

- Oil price
- Build-up of new loans (short-term) and arrears
- Corruption

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Angola

National facts			Social and governance indicators	rank / total
Type of government	Republic		Human Development Index (rank)	143/182
Capital	Luanda		Ease of doing business (rank)	169/183
Surface area (thousand sq km)	1,247		Economic freedom index (rank)	154/179
Population (millions)	12.8		Corruption perceptions index (rank)	168/180
Main languages	Portugese		Press freedom index (rank)	117/169
	Bantu		Gini index (income distribution)	58.6
Main religions	Indigenous beliefs (47%)		Population below $1 per day (PPP)	30%
	Roman Catholic (38%)			
	Protestant (15%)			
Head of State (president)	Jose Eduardo Dos Santos			
Monetary unit	Kwanza (AOA)			

Foreign trade			2009
Main export partners (%)		*Main import partners (%)*	
China	34	Peru	18
US	25	China	17
France	8	Brazil	11
Brazil	6	US	8
Main export products (%)			
Crude oil			94
Diamonds			3
Refined petroleum			1
Liquefied natural gas			1
Main import products (%)			
Consumer goods			59
Capital goods			29
Intermediate goods			12
Openness of the economy			
Export value of G&S (% of GDP)			49
Import value of G&S (% of GDP)			39
Inward FDI (% of GDP)			15.7

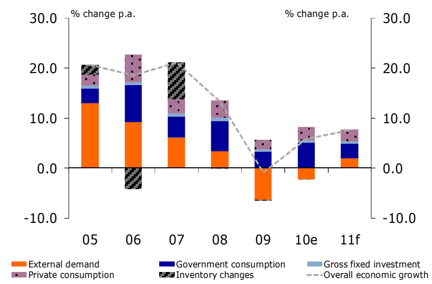
Economy		2009
Economic size	*bn USD*	*% world total*
Nominal GDP	83	0.14
Nominal GDP at PPP	132	0.19
Export value of goods and services	41	0.26
IMF quotum (in mln SDR)	286	0.13
Economic structure	*2008*	*5-year av.*
Real GDP growth	-0.9	17.0
Agriculture (% of GDP)	9.6	n.a.
Industry (% of GDP)	65.8	n.a.
Services (% of GDP)	24.6	n.a.
Standards of living	*USD*	*% world av.*
Nominal GDP per head	4501	49
Nominal GDP per head at PPP	7152	64
Real GDP per head	2672	34

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

Economic structure and growth

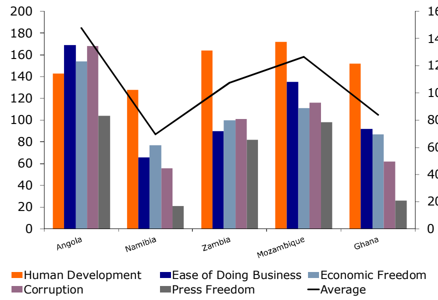
Angola is an oil dependent country in Southern Africa. As the country's economy is largely undiversified, its economic performance is dictated by developments in the oil market. As is so often the case, oil revenues did foster economic growth, but failed to reach 30% of the population living below the poverty line (of 1 dollar a day). On the upside, in the five years prior to 2009, Angola witnessed double-digit growth rates (around 15% yoy), reaching USD 3,340 GNI/capita in 2008. Angola is therefore considered a middle-income country. As mentioned, the main driver of growth are (crude) oil exports, accounting for 60% of GDP and 90% of all tax revenues. Up to 2009, Angola's economy grew faster than that of any other oil exporter. In addition, government estimates show that there is room for an increase in production to over 2 million barrels a day in 2011 (from an estimated 1.9 million barrels a day in 2009). Nonetheless, developments in the oil industry are hindered by rampant corruption, bureaucracy and a poorly maintained infrastructure. The presence of landmines adds to already large operational risks. These factors could significantly undermine efforts to increase production and productivity. In addition, as public and private investments are mostly allocated to the oil industry, prospects for increased productivity in other industries are limited. This is unfortunate as diversification is much-needed: in 2009, growth came to a halt due to a sharp decline in oil prices. For 2010 we expect that rising oil prices will once again generate growth and GDP growth is expected to reach 5.9% (2010). Unfortunately, high growth rates and an increase in domestic demand resulted in high inflation rates. For the coming

Chart 1: Growth performance



Source: EIU

Chart 2: Comparison of Social Indicators



Source: EIU

year, we expect both foreign and domestic demand to strengthen, causing inflation to remain in the double-digits (around 13.9% in 2010).

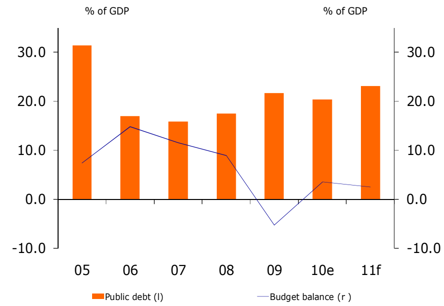
Political and social situation

De jure, Angola is considered a democracy, *de facto* it is not. For one, its current president, Jose Dos Santos, has been in office for over thirty years and is not expected to leave in the near future. In fact, in 2010 he adopted a constitutional reform that further centralizes presidential authority and cancels the position of prime minister. On the other hand, the reform also includes a limit of two five-year presidential terms, but this limit does not include the thirty years that Dos Santos has already been in power. In addition to the constitutional centralization of power, the abuse of public funds provided the ruling party with the means to ensure a majority vote. At the same time, the opposition remains weak and unorganized. Indeed, corruption and a widespread practice of nepotism are the rule, rather than the exception. Recently, the now fired minister of finance robbed the Central Bank out of USD 100m. It is therefore not a surprise that Angola ranks among the 10 most corrupt countries in the corruption perception index.

In addition to being corrupt, the government has made little effort to implement much-needed social programs. In fact, even though some plans were made the government fails to deliver health services, or provide education to large segments of the population. As a result, much of the population is low skilled and lives in (sometimes extreme) poverty.

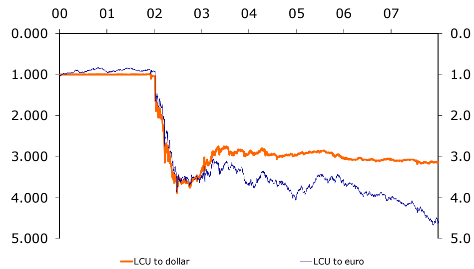
Internationally, Angola is not considered a major player, but it does receive some significance from its status as oil producer. The country holds strong ties with its former colonial power Portugal. In addition, in coming years we expect (economic) relations with both China and Brazil to strengthen further, as well as relations with the United States. The US has indicated that it wants to increase its oil imports from Africa and Angola is working hard to position itself as the main oil producer in the region. In contrast, relations with Angola’s neighbor the Democratic Republic of Congo

Chart 3: Public finances



Source: EIU

Chart 4: Exchange rate



Source: Ecowin

(DRCongo) are deteriorating as Congo accuses Angola of deporting Congolese nationals.

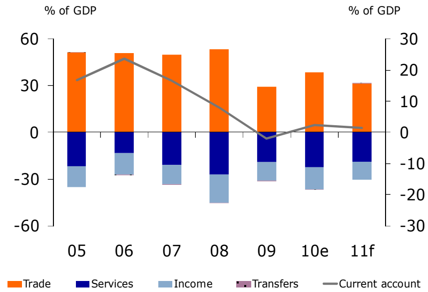
Economic policy

Rebuilding the economy comes at a price. This explains why, compared to other oil-exporters, Angola's fiscal surplus is relatively small (around 8% of GDP, 2004-2008) and why Angola has one of the highest non-oil primary deficits (over 20% of GDP, 2009). In the coming years, further investments in infrastructure will keep pressure on the fiscal balance. The government hopes to raise money in the international bond market, especially now that it received its first rating with the three major rating agencies. However, an unfolding arrears crisis might prevent Angola from issuing the bond, as it has greatly reduced Angola's credibility. The arrear crisis came about after falling oil revenues reduced the government's ability to honor its financial obligations to the many (international) construction firms that are rebuilding Angola. Paying the arrears will put pressure on the budget and direct money away from productive investments. On the income side of the budget balance, tax revenues are highly correlated to oil prices and export revenues. This became especially clear when in 2009, due to a sharp decline in oil prices, the fiscal balance reached its first deficit in years (-5.3% of GDP). Now that oil prices are on the rise, we expect this deficit to turn into a surplus in 2010, reaching 3.5% of GDP.

Recently, the central bank has tightened its monetary policy, which should result in lower inflation and a more stable exchange rate. Although a rise of world food prices and continued increases in Angola's housing prices will put upwards pressure on inflation, we expect the inflation rate to remain between 13% and 14%. The rising housing prices themselves are worrying, as local sources reveal that these may be indicative of a bubble.

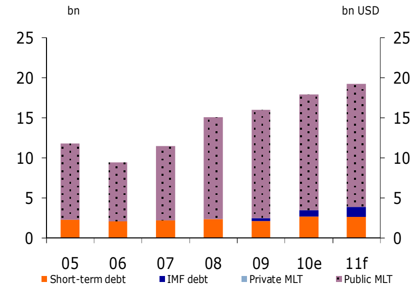
Last year, the central bank was forced to loosen the unofficial peg of the Kwanza to the US dollar, resulting in a depreciation. The floating Kwanza exchange rate remains under pressure as demand for foreign currencies continues to expand and inflation remains high. A new auction system did relieve some pressure, but more reforms are needed in order for the exchange rate to be completely market determined. Especially regarding the transparency of the auction process there is still much room for improvement. All in all, we expect the exchange rate to stabilize somewhat as oil exports pick up.

Chart 5: Current account



Source: EIU

Chart 6: External position



Source: Ecowin

Regarding more structural economic policies, the government has expressed its wish to diversify the economy and address problems of corruption. With respect to the latter, it seems unlikely that the same government that has endorsed so much of the ongoing corrupt practices, will now reduce corruption. With respect to diversification, the events in 2009 may indeed encourage the government to also invest in other sectors. However, with oil prices on the rise it remains to be seen whether the matter of diversification will proof salient enough to receive the appropriate attention.

Balance of Payments

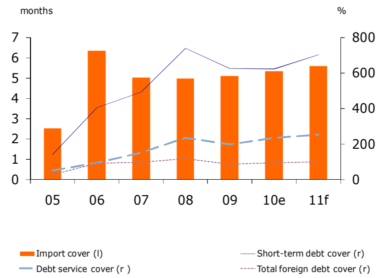
Unsurprisingly, Angola's trade balance reports a large surplus, which is a direct result of its oil exports. In the coming year we expect domestic demand to expand, thereby increasing the demand for imports. Especially since more than half of all imports are consumption goods. At the same time, oil exports are expected to increase and then to stabilize (within 5 years). Together, these factors will cause the trade surplus to shrink in the long run. However, for the coming year we expect the surplus to widen as a result of increasing oil prices.

Deficits on the services and income balances are a result of high demand for services by oil companies and a repatriation of profits. Increased oil production in the coming years will enhance the demand for services and result in larger (repatriated) profits, causing the deficits to widen. In contrast, the payout of an IMF emergency stand-by facility fund will translate in a surplus on the transfer balance. As the payout occurs only once, the surplus will not be structural.

In general, trade surpluses outweigh services and income deficits, resulting in a surplus on the current account balance. In 2009, the trade surplus shrunk causing the current account to report a deficit. However, over the course of 2010, global demand for oil will improve, restoring the current account.

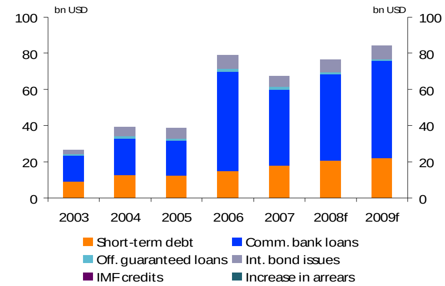
Foreign direct investments (FDI) further improve the balance of payments. In 2009, FDI stood at 15.7% of GDP. Most of these investments came from China, which has disbursed various infrastructural and constructional funds to the Angolan government. In contrast, reserves remain low as compared to other oil producers. In 2009, reserves dropped by USD 4226m. On average reserves covered 4 months of imports (2004-2008). Although low compared to other oil countries, it is still well above average for Sub-Sahara Africa. Furthermore, we expect reserves to increase in 2010.

Chart 7: External liquidity



Source: EIU

Chart 8: Composition of external debt



Source: EIU

External position

Angola's external position remains vulnerable. Unlike many developing countries, Angola was able to borrow abroad using future oil revenues as collateral. However, its ability to do so has reduced the availability of low-interest IMF loans. Instead, all of its medium-to-long term (MLT) debt is held by public creditors. At this moment, private creditors thus only hold short term debt, which constitutes around 15% of total debt.

Although debt was deemed relatively stable (in 2009 reserves covered 198% of debt service due), Angola's government announced in May 2010 that it had accumulated millions of dollars of unpaid (short term) debt with Portuguese and Brazilian construction companies and had large arrears outstanding. The debt and arrears build-up is largely a consequence of falling revenues in 2008 that undermined the government's ability to repay loans. Indeed, principal arrears to private creditors stood at USD 3.3bn in 2009, with those to public creditors lying around USD 1.1bn. These arrears are threatening the credibility of the Angolan government as well as the likelihood of a Eurobond issue. For this reason, we expect the government to make arrangements to repay both its current arrears and loans, which it seems willing to do. However, willingness may not be enough as Angola's large bureaucracy slows down the process of restructuring and repayment. In addition, although various indications have been provided, it is still unclear exactly how large the arrears are. On a brighter note, all arrears to the Paris Club were repaid as of January 2010.

Angola

Selection of economic indicators	2005	2006	2007	2008	2009	2010e	2011f
Key country risk indicators							
GDP (% real change pa)	20.6	18.6	21.1	13.4	-0.9	5.9	7.6
Consumer prices (average % change pa)	23.0	13.3	12.2	12.5	13.7	13.9	13.6
Current account balance (% of GDP)	16.8	23.7	16.6	8.0	-2.0	2.4	1.5
Total foreign exchange reserves (mln USD)	3197	8599	11197	17869	13644	16890	18980
Economic growth							
GDP (% real change pa)	20.6	18.6	21.1	13.4	-0.9	5.9	7.6
Gross fixed investment (% real change pa)	7.2	10.0	10.0	16.0	7.0	7.0	7.0
Private consumption (real % change pa)	6.3	18.0	9.0	12.2	7.0	9.2	8.0
Government consumption (% real change pa)	7.0	20.0	11.0	17.0	9.0	12.8	7.0
Exports of G&S (% real change pa)	21.0	16.3	12.7	9.4	-6.3	2.0	5.9
Imports of G&S (% real change pa)	7.0	7.8	8.3	8.0	4.0	8.0	4.3
Economic policy							
Budget balance (% of GDP)	7.4	14.8	11.5	8.9	-5.3	3.5	2.5
Public debt (% of GDP)	31	17	16	17	22	20	23
Population	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
M2 growth (% change pa)	61	57	39	66	63	0	38
Consumer prices (average % change pa)	23.0	13.3	12.2	12.5	13.7	13.9	13.6
Exchange rate LCU to USD (average)	87.2	80.4	76.7	75.0	79.3	92.1	90.3
Recorded unemployment (%)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Balance of payments (mln USD)							
Current account balance	5138	10690	10194	6408	-1668	2090	1630
Trade balance	15756	23085	30735	42932	24344	33560	33980
Export value of goods	24109	31862	44396	63914	40080	51650	54070
Import value of goods	8353	8778	13662	20982	15737	18100	20090
Services balance	-6614	-6027	-12720	-21810	-15805	-19240	-20070
Income balance	-4031	-6178	-7599	-14504	-10043	-12170	-12610
Transfer balance	27	-190	-222	-210	-164	-70	330
Net direct investment flows	6575	8870	8884	14011	13093	10720	8320
Net portfolio investment flows	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Net debt flows	2495	-2473	2033	342	916	1950	1340
Other capital flows (negative is flight)	-12568	-11871	-18700	-14278	-16758	-11700	-9390
Change in international reserves	1823	5402	2598	6673	-4226	3250	2080
External position (mln USD)							
Total foreign debt	11822	9470	11516	15130	16052	17980	19280
Short-term debt	2316	2132	2271	2419	2187	2720	2700
Total debt service due, incl. short-term debt	6651	9190	7431	7653	6894	7190	7500
Total foreign exchange reserves	3197	8599	11197	17869	13644	16890	18980
International investment position	-13073	-2057	3897	18645	10258	n.a.	n.a.
Total assets	9414	18218	25846	48959	45968	n.a.	n.a.
Total liabilities	22487	20275	21949	30315	35711	n.a.	n.a.
Key ratios for balance of payments, external solvency and external liquidity							
Trade balance (% of GDP)	51.4	51.1	50.1	53.4	29.2	38.8	31.5
Current account balance (% of GDP)	16.8	23.7	16.6	8.0	-2.0	2.4	1.5
Inward FDI (% of GDP)	22.2	20.1	16.0	20.6	15.7	13.5	8.9
Foreign debt (% of GDP)	39	21	19	19	19	21	18
Foreign debt (% of XGSIT)	48	28	25	23	39	34	35
International investment position (% of GDP)	-42.7	-4.6	6.3	23.2	12.3	n.a.	n.a.
Debt service ratio (% of XGSIT)	27	27	16	12	17	14	13
Interest service ratio incl. arrears (% of XGSIT)	4	4	2	1	2	2	1
FX-reserves import cover (months)	2.5	6.3	5.0	5.0	5.1	5.3	5.6
FX-reserves debt service cover (%)	48	94	151	233	198	235	253
Liquidity ratio	125	155	145	136	122	132	133

Source: EIU