# ANGOLA
## Country Report

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## Country Snapshot

### Government

| | |
|---|---|
| Head of State | José Eduardo dos Santos |
| Ruling party | MPLA |
| Main opositions parties | UNITA |
| Elections | Last elections were held in August 2012, MPLA won with 72% of the votes. Next elections due in 2016. |

### Demographics and social indicators

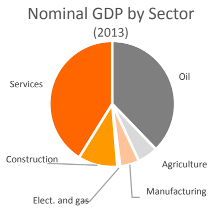
| | |
|---|---|
| Population | 24.4 million (27% in Luanda) (INE 2014) |
| Main Language | Portuguese |
| Life expect. at bitrth | 48 years old (INE, 2011) |
| Literacy %(adults>15) | 68.6% (INE, 2011) |
| Urban population | 62.3% (INE 2014) |

### Economic structure

| | |
|---|---|
| **GDP in USD** | USD 117 bn (2014) |
| **GDP per capita** | USD 6,128 (Est. 2014) |

**GDP structure (% of the nominal GDP)**

| | |
|---|---|
| Oil | 38.5% |
| Agriculture | 5.4% |
| Manufacturing | 5.0% |
| Elect. and gas | 0.7% |
| Construction | 10.4% |
| Services | 41.9% |




| | 1980-89 | 1990-99 | 2000-09 | 2010-14 |
|---|---|---|---|---|
| **Real GDP growth*** | 2.5% | 1.3% | 11.5% | 4.6% |

* Average growth rates from the WEO (IMF)

## Country Rating

| | Rating | Last change | Outlook |
|---|---|---|---|
| S&P | B+ | Feb 2015 | Stable |
| Moody's | Ba2 | Aug 2014 | Negative |
| Fitch | BB- | May | Stable |

## Business Development Indicators

| | Last update |
|---|---|
| **Global Competitiveness Index** | |
| Ranking 140 (out of 144 countries) | 2014 |
| **Ease of Doing Business** | |
| Ranking 181 (out of 189 countries) | 2014-15 |
| **Human Development Index** | |
| Ranking 149 (out of 187 countries) | 2013 |
| **Corruption Perceptions Index (Transparency.org)** | |
| Ranking 161 (out of 175) | |

## Trade Structure - Main partners by destination/origin

| Exports | % of total oil exports | Imports | % of total imports |
|---|---|---|---|
| China | 48% | Portugal | 16% |
| India | 10% | Singapure | 13% |
| United States | 7% | China | 10% |
| Taiwan | 5% | South Korea | 6% |
| Canada | 5% | Belgium | 6% |

Source: BNA (2013)

## General assessment

**Strengths**

* Member of OPEC
* Political stability and no bordering security issues
* Significant amount of natural resources: oil, diamonds, water
* Strong macroeconomic fundamentals

**Weaknesses**

* Dependence on the oil sector
* Vulnerability to volatility in international oil prices
* Weak infrastructures and regulatory and institutional framework
* High poverty levels
* Lack of transparency

## Trade structure - Top product groups

| Exports | USD bn | % total | Imports | USD bn | % total |
|---|---|---|---|---|---|
| Crude oil | 65.6 | 98.0% | Consump. | 15.4 | 58.4% |
| Diamonds | 1.2 | 1.0% | Capital G. | 7.8 | 29.5% |
| Refined oi | 0.7 | 1.0% | Interm. G | 3.2 | 12.1% |
| Gas | 0.6 | 0.0% | | | |

Source: BNA (2013)

## Outlook and Risks

* Despite the increasing importance of the non-oil sector, economic outlook should continue to be driven by the developments in the oil sector.
* Oil production is expected to rise in the next years (to 1.83 mbd in 2015), but continued technical problems suggest that oil output may rise slower than expected.
* The decline in oil prices will spur attempts to diversify the economy, but in the near term should have an unfavourable impact in the economy.

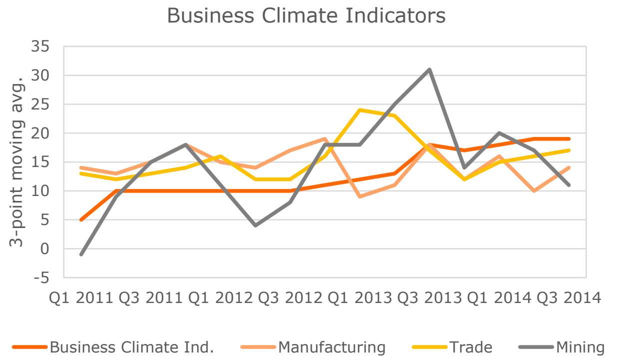
## Key Macroeconomic Indicators

| | Source | 2010 | 2011 | 2012 | 2013 | 2014 P | 2015 P |
|---|---|---|---|---|---|---|---|
| **GDP (real % changge)** | INE | 3.4% | 3.9% | 5.2% | 6.8% | 4.4% | 6.6% |
| **Oil** | INE | -3.0% | -5.6% | 4.3% | 0.9% | -3.5% | 9.0% |
| **Non-oil** | INE | 7.8% | 9.7% | 5.6% | 10.9% | 8.2% | 5.3% |
| **Nominal USD bn** | INE | 82.5 | 104.2 | 114.0 | 124.8 | 117.6 | 102.6 |
| **Nominal in bn of Local Currency** | INE | 7,579.5 | 9,780.1 | 10,876.0 | 12,056.3 | 11,495.2 | 11,534.9 |
| **CPI (% change, anual avg.)** | INE | 14.5% | 13.5% | 10.3% | 8.8% | 7.3% | 7.3% |
| **Trade balance (USD bn)** | BNA | 33,928.0 | 47,081.8 | 47,376.3 | 41,902.6 | n.a. | n.a. |
| **Exports of Goods (USD bn)** | BNA | 50,594.9 | 67,310.3 | 71,093.3 | 68,246.5 | n.a. | n.a. |
| **Imports of Goods (USD bn)** | BNA | -16,666.9 | -20,228.5 | -23,716.9 | -26,344.0 | n.a. | n.a. |
| **Services, net (USD bn)** | BNA | -17,897.5 | -22,937.5 | -21,339.2 | -21,530.7 | n.a. | n.a. |
| **Current account balance (% GDP)** | BNA | 9.1% | 12.6% | 12.2% | 6.7% | n.a. | n.a. |
| **Fiscal balance (% of GDP)** | Min.Fin. | 8.1% | 10.3% | 6.7% | 0.3% | -3.1% | -7.0% |
| **Public Debt (% of GDP)** | IMF | 39.8 | 32.2 | 29.6 | 34.6 | 36.6 | 38.8 |
| **External Debt (millions USD)** | | 17828.6 | 20992.1 | 22582.9 | 28178.1 | n.a. | n.a. |
| **USD/LCU (period average)** | BNA | 91.9 | 93.9 | 95.4 | 96.6 | 97.8 | 112.4 |
| **International Reserves (USD million)** | BNA | | 26,321.1 | 30,826.8 | 31,153.9 | 27,291.2 | |

Sources: INE, BNA, IMF, Ministry and Finance. Macroeconomic projections from the IMF and Ministry of Finance.

**Heavy dependence on oil should hamper Angola's economic growth**

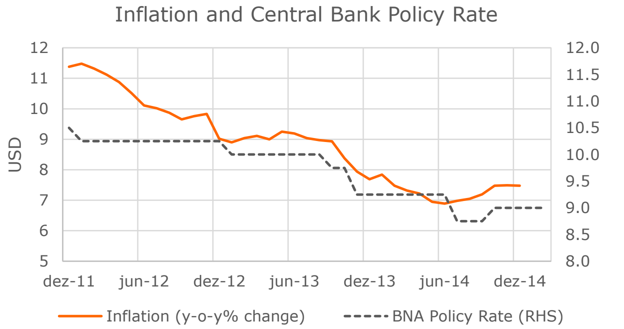
GDP growth rate has slowed down in the past 5 years, compared to the historical double digit levels presented during the years that followed the end of the civil war (2002). Even so, growth rates have remain relatively robust at above 4%. The government projects growth to increase from 4.4% in 2014 to 6.6% in 2015, but against a continuing weak oil price environment this objective may be difficult to achieve. Indeed, the hydrocarbons sector continues to play a key role in the performance of the Angolan economy, despite the remarkable progresses achieved in the diversification of the economy (with the weight of the oil sector in the economy falling from 48% in 2007 to 38.5% in 2013). The third quarter business confidence indicators suggest that despite the decline in the indicator for the mining industry, the overall index has remained relatively resilient, as confidence in the other sectors of activity (particularly in manufacturing and trade) has managed to improve.



Source: INE/Datastream

**Inflation pressures have increased, but remain manageable**

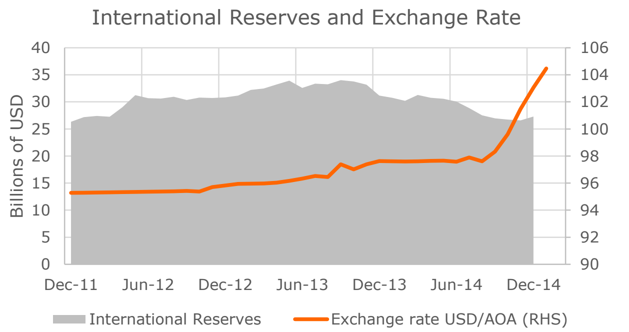
The National Bank of Angola (BNA) introduced a benchmark interest rate in 2011, which is set to direct monetary policy and the reference rates for commercial banks' lending rates. Monetary policy has been effective in keeping inflation rates within the 7-9% target set by the Central Bank. Inflation rates have declined considerably over the past years, from double digit levels in 2012, to a record low of 6.89% in June 2014, helped by a stable exchange rate and a cautious monetary policy stance. More recently, inflation has started to trend upwards on the back of currency depreciation against the USD and other policy measures. Particularly, the government decided to proceed with two increases in fuel prices (+25% in September and +20% in December) in order to reduce the costs associaed with subsidies and in March 2014, and introduced additional custom tariffs with the aim of protecting the domestic economy. Nevertheless, inflation remains at low levels and the BNA stands now in a more comfortable position to contain price inflation, given the wiggle room to tighten benchmark interest rates and the high level of international reserves accumulated in past years.



Source: INE/Datastream

**International reserves fall in order to contain preassure on the kwanza**

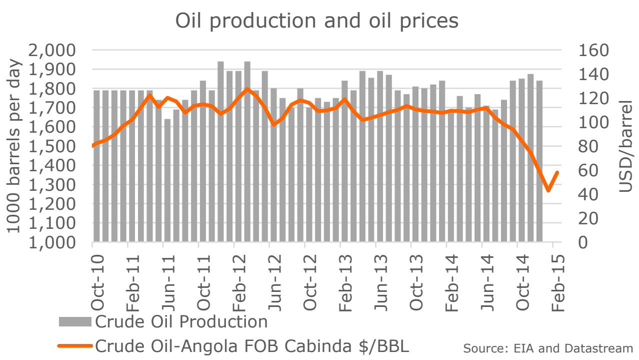
Angola is the second largest oil producer in Africa (behind Nigeria), and oil still accounts for 98% of goods exports, which helped the country attain a comfortable trade surplus in recent years. However, against the recent decline in oil prices, the trade surplus is expected to decline this year. Emerging market economies have become increasingly important trade partners for Angola, in particular China, India and Brazil. At the same time, subdued oil prices and the USD depreciation have exerted considerable pressure on the Kwanza, and international reserves have declined from a record high of USD 34 bn to USD 27 bn at the end of 2014. Although we expect this pressure to continue, international reserves remain high (covering around 7.75 months of imports), and at the same time, the custom tariffs implemented last year should help contain pressure on the exchange rate. Regarding the banking sector, the BNA has introduced in 2013 an important policy measure which has helped reduce the dollarization of the economy. Essentially, since this new foreign exchange regulation was introduced in 2013, all export proceeds from the oil sector must be directed to the local banking system.



Source: BNA/Datastream

**Public finances constrained by the fall in oil prices**

The government has run a public deficit of 0.2% of GDP in 2014, this following an average surplus of 4% of GDP over the previous 4 years of booming commodity prices. For fiscal policy purposes, the executive typically overestimates tax revenues from the non-oil sector and underestimate oil tax revenues, as a result of optimistic assumptions for the economic growth and very conservative assumptions for the oil price. Because of the unexpected sharp fall in oil prices during the second half of 2014, the government introduced a revised state budget for 2015 to reflect the decline in prices which had not been reflected in the first version of the document. As such, the oil price assumption was reduced from USD81 to USD 40, which required a sharp cut in public spending (mainly in capital spending), while the deficit is expected to be set at 7% of GDP. While still accounting for 39% of the total fiscal revenues, oil receipts are expected to fall, but this drop should be partially offset by an expected increase in revenues from the non-oil sector, driven by the impact of recently implemented tax reforms.
The government launched in October 2012 a USD 5 bn Sovereign Wealth Fund which aims to save proceeds from the oil sector in order



Source: EIA and Datastream