



The Angolan Economy

Angola requests assistance from the IMF

FACT: The IMF announced in a press release that it has received a formal request from the Angolan authorities to start discussions on an economic program that could be supported by financial assistance from the Fund. It added that the sharp drop in oil prices since mid-2014 represents a major challenge for oil exporters, especially for those economies that have yet to become more diversified. The Fund said that it stands ready to help Angola address the economic challenges it is currently facing by supporting a comprehensive policy package to accelerate the diversification of the economy, while safeguarding macroeconomic and financial stability. Discussions are expected to commence at the forthcoming IMF Spring meetings in mid-April and in Angola shortly thereafter.

Meanwhile, the Angolan authorities also issued a statement saying that despite its efforts to diversify the local economy in recent years, whereby the contribution from the non-oil sector increased from 40% of GDP in the mid-1980s to 69.1% currently, oil still accounted for more than 95% of the country's total export proceeds and 68% of fiscal receipts in 2015. As a result, the government said that it remains committed to continuing its diversification plans, with its priority in the short-term going to the agriculture, fishing and diamonds sectors. It also wants to secure economic stability, ensure that it meets its payment requirements and preserves an adequate level of international reserves. The government added that Angola will work with the IMF to design reforms aimed at improving fiscal discipline, simplifying the tax system and increasing transparency in public finances and the banking sector.

OPINION: We believe that this announcement is not a major surprise as the many challenges that Angola currently faces due to the sharp fall in the oil price of the last two years are clearly evident. Economic growth has not only slowed considerably to 2.9% last year from 4.8% in 2014, but inflation has returned to double-digits (20.3% in February). In addition, net international reserves at the central bank have fallen nearly 20% from US\$ 30 billion in June 2014 to US\$ 24.2 billion in February. As a result, Angola does not have many options at the moment. We also believe that the announcement that the country intends to implement an economic diversification plan with the support of the IMF is positive news as it increases the credibility of the local authorities' intent to reduce the country's dependence on oil.

It is difficult to quantify the amount of the potential financial aid that Angola could receive from the IMF. However, we consider three issues when we try to quantify this amount. First, press reports indicate that the economic program with the IMF is for a three year period. Second, according to some back of the envelope calculations, we believe the potential impact on 2016 fiscal revenues of the current lower average oil price this year than the government's US\$ 45 per barrel oil price assumption in its 2016 budget could amount to US\$ 1.5 billion. These calculations are detailed in our January 2016 research report entitled "How much could oil prices impact 2016 accounts?" And third, as mentioned above, the fall in net international reserves since the oil crisis began in mid-2014 has totaled US\$ 5.8 billion as of February 2016. All in all, we believe that the financial aid package could reach at least US\$ 1.5 billion, but the amount could be much higher than this due to the duration of the program and the level of reserves that Angola has lost in the last two years.

Research

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Economics

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ECONOMIC FORECAST SUMMARY

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	2011	2012	2013	2014	2015E	2016F	2017F	2018F
Gross Domestic Product (annual growth)								
Real GDP	3.9%	5.2%	6.8%	4.8%	2.9%	3.2%	3.6%	4.0%
Oil Sector	-5.6%	4.3%	-0.9%	-2.6%	6.0%	4.0%	1.9%	1.6%
Non-oil sector	9.7%	5.6%	10.9%	8.2%	1.8%	2.9%	4.4%	5.1%
Gross Domestic Product (current prices, AOA bn)	9,780	11,011	11,985	12,713	12,227	14,658	17,324	20,250
Gross Domestic Product (current prices, US\$ bn)	104.1	115.3	124.2	129.3	100.9	88.8	95.4	112.5
Population (million)	22.3	23.0	23.7	24.4	25.1	25.9	26.6	27.4
Gross Domestic Product per capita (US\$)	4,666	5,018	5,245	5,304	4,019	3,434	3,582	4,099
Investment (% of GDP)								
Total Investment	12.9%	14.9%	14.8%	15.0%	10.4%	11.3%	12.3%	11.8%
Gross National Savings	25.5%	26.9%	21.5%	13.5%	2.8%	5.8%	7.9%	8.8%
External Sector								
Exports of Goods & Services (annual growth)	-5.4%	3.8%	0.1%	-3.5%	13.2%	3.0%	-0.3%	0.2%
Imports of Goods & Services (annual growth)	10.0%	8.6%	9.0%	7.0%	-19.8%	-2.9%	4.5%	2.2%
Current Account Balance (% of GDP)	12.6%	12.0%	6.7%	-2.9%	-7.6%	-5.6%	-4.4%	-3.0%
Oil Sector								
Production (million bpd)	1.66	1.73	1.72	1.67	1.80	1.89	1.92	1.95
Price (US\$ per barrel)	110.9	111.6	107.7	104.0	53.0	45.0	55.0	52.5
Consumer Price Inflation								
Consumer Prices (period average)	13.5%	10.3%	8.8%	7.3%	10.3%	14.2%	12.4%	11.4%
Consumer Prices (end of period)	11.4%	9.0%	7.7%	7.5%	14.3%	13.2%	12.2%	11.0%
General Government (% of GDP)								
Revenues	48.8%	46.5%	40.2%	35.3%	25.4%	24.7%	25.2%	27.9%
Expenditures	40.2%	39.8%	39.9%	41.9%	29.6%	30.2%	30.5%	28.6%
Fiscal Balance	8.7%	6.7%	0.3%	-6.6%	-4.2%	-5.5%	-5.3%	-0.7%
Gross Debt	31.4%	28.7%	36.2%	42.2%	57.4%	53.0%	50.0%	46.1%
Foreign Investment and Reserves								
Net Foreign Direct Investment (US\$ mn)	-5,116	-9,639	-13,164	-5,106	1,785	2,000	n.a.	n.a.
Net International Reserves (US\$ mn)	26,321	30,828	31,154	27,276	22,700	20,100	21,500	22,750
Net International Reserves (in months of imports)	6.4	7.1	6.6	6.2	6.0	5.8	6.0	6.3
Exchange Rate								
Exchange Rate (period average, AOA/US\$)	93.9	95.4	96.6	98.6	121.1	165.0	181.5	180.0
Exchange Rate (end of period, AOA/US\$)	95.5	95.7	97.6	102.9	135.2	170.0	187.0	180.0

Source: Angolan authorities, World Bank, IMF and Eaglestone Securities.

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