Angola

Outlook

							Forecasts		
	Average 10-14	2015	2016	2017	2018	2019	2020	2021	2022
GDP growth (%)	5.3	0.9	-2.6	-0.2	-2.0	-0.6	-4.6	-0.3	1.4
CPI inflation (%)*	10.9	10.2	30.7	30.4	19.7	17.1	21.7	19.8	15.4
Fiscal balance (% of GDP)	1.9	-2.9	-4.5	-6.3	2.2	0.8	-2.8	-0.1	1.0
Public debt (% of GDP)	33.3	57.1	75.7	69.3	89.0	109.2	120.3	107.5	93.8
Reference rate (%)*	9.9	9.9	14.8	16.3	17.3	15.6	15.5	15.5	14.5
Exchange rate (AOA/USD)*	95.2	120.1	165.7	165.9	252.4	365.6	581.0	736.9	794.6
Current account balance (% of GDP)	7.0	-8.8	-3.1	-0.5	6.9	6.1	-1.3	0.1	0.9
External debt (% of GDP)	32.1	45.3	60.0	49.0	57.4	77.8	109.6	107.7	102.5

Note: * Annual average.
Source: CaixaBank Research, based on data from national statistical agencies and IMF.

- **In 2020, Angola's economy will contract for the fifth year in a row.** The challenge in dealing with the pandemic with scarce resources has worsened the outlook of an economy that had already been struggling to grow in pre-COVID times –weakening further the domestic currency in international financial markets. The government introduced a comprehensive set of fiscal and monetary measures to support the economy against the pandemic and, while this is leading to a surge in public debt, authorities are securing funding support from the IMF and debt service suspension initiatives (DSSI) from the G20 and other major creditors. The country faces a demanding outlook, but in the coming year it will be supported by a moderate recovery in global oil prices, external funding aid and a conservative state budget.

- **Pre-COVID situation.** Angola has experienced years of contraction, due to unfavorable poorly diversified economic structure, largely reliant on the oil sector (~50% of GDP) in a global context of low oil prices in the international markets. Additionally, years of underinvestment and the ageing oil fields are increasingly weighing on its oil production capacity. In a context of lower oil revenues, the public debt ratio has increased to levels above 100% of GDP and Angola reached an agreement with the IMF for financial and technical support until 2021. Within the IMF agreement, Angola has made significant progress towards a more flexible exchange rate –a regime that will offer a buffer against external shocks. In this context, the country has been correcting the overvaluation of its exchange rate, although over this transition the depreciation of the currency is putting upward pressures on inflation.

- **COVID-19 shock.** GDP fell by 4.7% in the first half of 2020.
  - Oil GDP contracted 5.0%, due to the drop in oil prices and the production limits under OPEC's agreement.
  - Non-oil GDP contracted 4.6%, especially due to transports & storage and construction. The latter was further dragged by the lower fiscal leeway for public investment.
  - Oil export revenues dropped considerably (-45%) in the first half of 2020. This was mitigated by the significant decrease in imports of goods in the same period (-42%), although the current account has entered in negative territory in the second quarter.

Closing date of this edition: 29 December 2020

Outlook *(continued)*

- **Economic policy response.** As it tightened restrictions to protect public health, the government implemented fiscal measures to support firms and households: e.g., extension of the corporate income tax deadline by up to 60 days for selected companies, interest-free deferred payment option for social security contributions, as well as VAT tax credit and exemptions for some products. The BNA launched liquidity support to banks and a liquidity line to buy government securities from nonfinancial corporations, implemented moratoriums, and cut of the 7-day permanent liquidity absorption facility rate to 7% from 10%, among other measures to support liquidity and credit.

- **Financial vulnerabilities**
  - The sharp increase of the public debt ratio, with high exposure to foreign currency, and the urgent need to go ahead with fiscal consolidation in this challenging scenario worsened the perspective about the sustainability of debt and increased the risk of default in the short to medium term (the implied probability of default in the next five years is ~50% according to CDS prices).
  - However, financial support by the IMF, WB and AfDB, debt service suspension initiatives (G20, 2 major creditors) and a conservative state budget will be supportive in avoiding a default in the short term. The expected recovery in oil prices, although moderate, should also help to avoid disruptive scenarios.
  - High debt servicing will be coupled with an expected current account deficit of 1.3% of GDP in 2020, versus a 6.1% surplus in 2019. As a result, FX reserves will continue to fall.

Main risks

- **Macroeconomic and financial risks**
  - The dependence on oil is one of the main risks for the next years, given weak perspectives about oil prices and a global transition towards a greener energy mix. In this context, low investment exacerbates the current problems in oil production, especially in new exploration projects, limiting the production capacity in the future.
  - In the medium term, debt sustainability also poses a relevant risk if Angola does not have capacity to proceed with the fiscal consolidation and diversify the economy. The support from the IMF and other partners will give the country the opportunity to advance with important structural reforms, especially those related to the diversification of the economy.
  - Additionally, a substantially higher depreciation of the currency would add additional pressure on prices, likely forcing the central bank to take a more restrictive monetary policy and restraining credit to the private sector.

- **Social and political risks.** The Government is addressing the country's economic and structural challenges and fighting corruption. However, the need to advance with some less populist measures can be a source of social tensions. Additionally, if these measures are taken without social support, it can exacerbate poverty in the country. In an extreme scenario, social tensions could question the action of the Government.

	Rating	Last changed	Outlook	Last changed
STANDARD & POOR'S	CCC+	26/03/20	Negative	26/03/20
MOODY'S	Caa1	08/09/20	Stable	08/09/20
FitchRatings	CCC	04/09/20	–	04/09/20

■ Indicates that the country has "investment grade".
□ Indicates that the country does not have "investment grade".

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