ANGOLA

DECLINE IN OIL PRODUCTION

Since the beginning of 2023, Angola's oil production has fallen short of the target set by the government and is declining compared to 2022, which is severely penalising economic growth. Combined with the fall in Brent prices, this underperformance is weakening the external accounts of the country, which is also dealing with particularly high external debt repayments. Dollar liquidity therefore fell in Q2 2023 and the Kwanza depreciated sharply. The government's solvency also deteriorated. To counteract this, the authorities announced major budget cuts at the beginning of August. In the short term, the rise in Brent prices will stabilise foreign exchange reserves, which still stand at a satisfactory level. However, against the backdrop of a structural decline in oil production, Angola's ability to repay external debt could be threatened in the event of a sharp fall in oil prices.

STRUCTURAL DOWNTURN IN THE OIL SECTOR

In 2023, after two years of modest recovery, economic growth in Angola is expected to slow sharply to 0.9%. Once again, activity is being penalised by the downturn in the oil sector, which accounted for 30% of GDP in 2022. Over the first eight months of 2023, oil production contracted by 5.8% year-on-year (y/y). This was primarily due to maintenance operations that impacted output results in February and March. Rebounding since then, oil production between January and August reached an average of 1.12 million barrels per day (mbpd), a figure that remains significantly below the target set by the government in its budget for 2023 (1.18 mbpd).

Despite this underperformance, the government remains confident in the sector's ability to increase its production in the short term. In September, the National Oil, Gas and Biofuels Agency (ANPG) announced its intention to increase its OPEC-imposed production quota, which already stands at 1.45 mbpd, well above the country's current production capacity. According to the government, recent efforts to attract foreign investors should bear fruit in the coming months. Their appetite was already confirmed in September, when the ANPG granted two new operating licences for blocks that contain considerable oil reserves.

The oil sector will therefore return to growth in 2024. However, this growth is expected to remain limited. The sector is being penalised by both the natural decline in reserves and by ageing infrastructure, which requires new maintenance operations. Since 2015, when the country reached its production peak, the sector has contracted by 35% in real terms. This long-term trend is having a significant impact on Angola's external accounts, as oil accounts for 95% of its exports.

NORMALISATION OF CURRENT SURPLUSES

Global conditions over the past two years have been favourable for Angola's external accounts. Over 2021-22 on average, the current account surplus exceeded 10% of GDP, a level not seen since 2012. The recovery of global demand after the pandemic, followed by the impact of the war in Ukraine on oil prices, has enabled the country to generate significant trade surpluses. This momentum has more than offset the structural deficits of the balance of services and income. Angola has even been able to repay some of its foreign debt in advance.

Nevertheless, in 2023, the current account surplus should contract sharply to 2% of GDP as the trade surplus shrinks. During H1 2023, exports in value contracted by 25% y/y, hampered by falling oil prices and contracting domestic production. Conversely, imports increased by 19% y/y, driven by the increase in imports of transport equipment, capital goods and industrial goods.

FORECASTS

	2020	2021	2022	2023e	2024e
Real GDP growth, %	-5.7	1.1	3.0	0.9	2.4
Inflation, CPI, year average, %	22.3	25.8	21.4	14.6	22.3
Gen. Gov. balance / GDP (%)	-1.9	3.8	0.7	-1.7	2.3
Public debt / GDP (%)	138.9	77.8	65.2	84.6	81.1
Current account balance / GDP, %	1.5	11.2	9.6	2.0	6.5
External debt / GDP, %	114.0	86.6	47.8	61.9	60.3
Forex reserves, USD bn	14.9	15.5	14.7	12.7	15.2
Forex reserves, in months of imports	11.8	9.9	6.1	6.2	7.4

TABLE 1

e: ESTIMATES & FORECASTS
SOURCE: BNP PARIBAS ECONOMIC RESEARCH

ANGOLA: NORMALISATION OF CURRENT ACCOUNT SURPLUSES

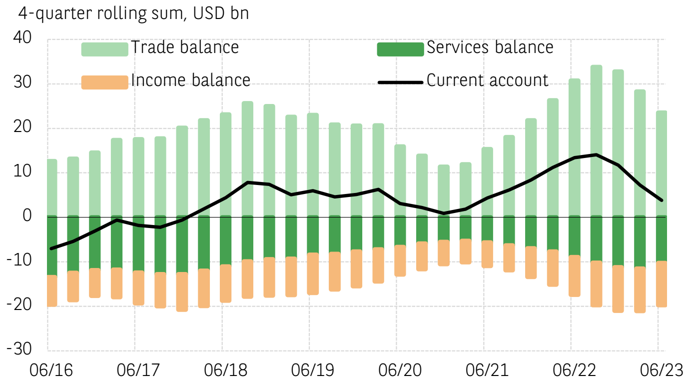

CHART 1

SOURCE: IMF, BNP PARIBAS

The decline in current surplus in H1 2023 impacted dollar liquidity, while Angola faces high repayments of its external debt. In fact, after a three-year moratorium, debt servicing to China has resumed; this accounts, on average over 2023-24, for half of the country's total servicing of external debt. In addition, Angola's financial account remains undermined by net outflows of foreign direct investment (FDI), while portfolio flows remain modest and strongly correlated with developments in the oil sector. All these factors led to strong depreciation of the Kwanza (AOA), which lost 55% of its value against the US dollar between May and July.

Since then, the Kwanza has stabilised at around AOA 825/USD, but this stabilisation is mainly due to malfunctions in the foreign exchange market linked to the introduction of restrictions by the central bank (BNA). In fact, a new directive in force since August prohibits oil companies from selling currencies only to those commercial banks with which they have a relationship. They are being asked instead to negotiate with all banks. This has in fact paralysed the foreign exchange market and reduced access to the dollar. Since the introduction of this directive, oil exporters have been selling their currencies directly to the BNA, now the sole provider of dollars. These restrictions are expected to be only temporary. But further changes to the rules of the foreign exchange market could expose the Kwanza to sudden adjustments.

The BNA's foreign exchange reserves remain satisfactory. At the end of September, they stood at USD 13.8 bn, i.e. 6.7 months of imports, compared to USD 14.7 billion at the end of 2022. However, they have been declining steadily since 2014, and are currently at an all-time low, despite the good economic conjuncture seen in the past two years. In the short term, the rise in Brent prices (observed since July), combined with higher oil production, should buoy Angola's external accounts. However, the ability to repay external debt will remain fragile. On a positive note, in the event of a negative shock on oil prices or production and a sharp deterioration in external accounts, Angola should be able to obtain a new funding programme from the IMF, given the recently implemented reforms to strengthen its public finances.

RETURN TO FISCAL DEFICIT

With three quarters of its debt denominated in foreign currency, the Angolan government is heavily exposed to exchange rate shocks. The depreciation of the Kwanza in Q2 2023, combined with falling oil revenue, has had a marked impact on public debt sustainability and solvency ratios. Debt rose from 61% of GDP in March 2023 to 91% of GDP in June, while debt service costs increased from 99% of government revenue to 144% over the same period.

As a result, although in February the Ministry of Finance forecast a budget surplus of 0.9% of GDP for 2023, in early August it estimated that the balance could reach a deficit of USD 10 bn (10% of GDP) if no corrective measures were taken. Against this backdrop, the government shortly after announced the suspension of all public investment projects with an implementation rate of less than 80%, and the freezing of non-essential recurring expenditure.

Thanks to these measures of last resort and the recovery in Brent prices since July, the fiscal deficit should ultimately be contained at 1.7% of GDP in 2023. Public finances are expected to improve in 2024, supported by sustained high oil prices. In addition, last June, the government embarked on the first stage of a phasing out of fuel subsidies, a key measure for improving public finance management according to the IMF. In 2022, these subsidies had cost the equivalent of 2.7% of GDP, which had greatly reduced the positive impact of high oil prices on fiscal revenue. The Ministry of Finance intends to phase out fuel subsidies in 2024, until full price liberalisation in 2025.

ANGOLA: RETURN OF INFLATIONARY PRESSURES

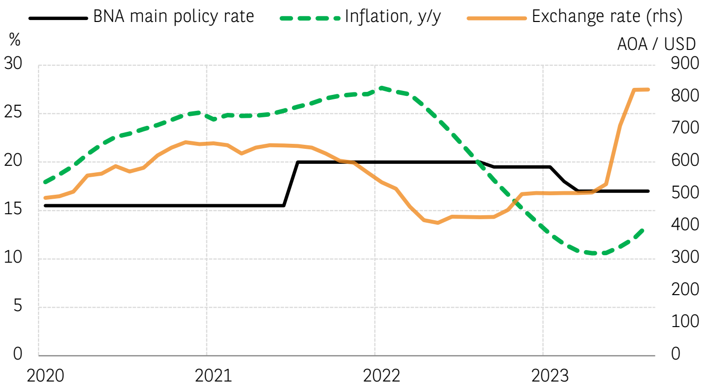

CHART 2 SOURCE: BNA, BNP PARIBAS

To offset the impact of this reform on the poorest households, the authorities plan to reduce VAT on food products from 14% to 7% from January 2024. However, the government's ability to complete this subsidy reform is uncertain, as inflation has picked up again and public unrest broke out in June when the decision was announced.

RESILIENCE OF THE NON-OIL SECTOR

In 2023, growth in the non-oil sector is expected to slow to 3.4%. In H1 2023, the sectors with the highest growth rates were transport (+20.4% y/y), financial intermediation services (+14.8%) and telecommunications (+3.8%). Trade, the second largest sector of the economy (20% of GDP), posted more modest growth of 2.7% y/y. Industry only grew 0.7% over the same period, and remains an underdeveloped sector (8% of GDP).

The resilience of the non-oil economy is being put to the test in H2 2023. In particular, it has had to cope with the return of inflationary pressures since June. After reaching 10.6% in April, its lowest level in seven years, inflation rapidly picked up, driven by the depreciation of the Kwanza and the partial phasing out of fuel subsidies. It reached 13.5% in August and is expected to rise to around 19% at the end of 2023. It is not expected to slow down in 2024. Faced with rising inflation, the central bank has had to interrupt its monetary loosening cycle. For the third time in a row, it maintained its key rate at 17% at its last monetary policy committee meeting in mid-September. However, the BNA's monetary policy should have only limited scope in curbing inflation.

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