ANGOLA

THE NOOSE TIGHTENS

In 2024, Angola's economic growth struggles to bounce back significantly. The non-oil economy is facing multiple headwinds, while the hydrocarbon sector is seeing a moderate return to growth. Despite large current account surpluses, pressure on external accounts has remained strong since resumption, in 2023, of the servicing of the external debt owed to China. The kwanza continues to depreciate against the dollar, which is severely deteriorating the State's solvency. The noose tightens on the government. It is facing ever-higher external debt repayments at a time when the risk of depletion of Chinese capital inflows is higher.

ECONOMIC GROWTH DEPENDENT ON THE OIL SECTOR

Between 2015 and 2023, Angola's real GDP contracted by an average of 0.5% per year. Economic activity was systematically driven down by the hydrocarbon sector (30% of GDP). It contracted by 37% in real terms over the same period due to the natural decline in active oil wells and the considerable lack of investment to boost the sector.

In 2024, economic growth is expected to rebound to 3.2%. It is buoyed in particular by the return to growth in the oil sector (*chart 1*). Over the first nine months of the year, oil production was up 4% year-on-year (y/y) and stood at 1.13 million barrels per day (mb/d). Since its exit from OPEC in January 2024, Angola has been free to produce more than 1.11 mb/day, the quota imposed on the country by the cartel for the current year. This sharpened investor appetite somewhat: in May 2024, a consortium of oil companies announced a final investment decision of USD 6 bn for a drilling project of 70,000 mb/d, which is expected to be operational in 2028. However, oil production is not expected to take off significantly. Together, current and future investment projects should just about compensate for the natural decline in active oil wells. As a result, oil production is expected to remain at around 1.1 to 1.2 mb/d until 2030, well below the 1.8 mb/d that Angola was producing on average over the period 2010-2016.

At the same time, non-oil GDP growth was limited to an average of 1% per year between 2015 and 2023. A rebound is expected, reaching 3.3% in 2024, but even at this level, non-oil growth remains very low given the population growth rate. The economy continues to face a number of headwinds: corporate activity is heavily constrained by currency shortages and a difficult business climate, while inflation is structurally high and impacting household purchasing power, fuelling a tense social climate. Consumer price inflation peaked at 31.1% y/y in July 2024 and remained at 29.2% in October. The monetary policy of the Central Bank of Angola (BNA) is failing to contain inflation. Since May 2024, it has left its key rate unchanged at 19.5%, but the effectiveness of monetary policy is restricted above all by the strong dollarisation of the economy and the low weight in the economy of bank lending to the private sector (8% of GDP).

EXTERNAL ACCOUNTS UNDER PRESSURE DESPITE CURRENT ACCOUNT SURPLUSES

Since 2018, Angola has managed to generate a current account surplus every year. In 2024, it is expected to rebound to 6.3% of GDP, compared to 4.6% of GDP in 2023. Over the first half of 2024, the increase in oil production and the stabilisation of Brent prices helped increase oil export revenues by 7.5% y/y. At the same time, imports contracted by 17% y/y. As a result, the current account balance posted a surplus of USD 3.5 bn in H1 2024, compared to only USD 0.5 bn in H1 2023.

However, the performance of the financial account is significantly less favourable. Since 2023, resumption of the servicing of foreign debt owed to China has caused net inflows of long-term debt to fall into negative territory. In addition, net outflows of portfolio investments resumed in H1 2024 (USD -1.4 billion), after briefly entering positive territory in 2023. Positive point: net FDI flows entered positive territory in H1 2024 (USD +460mn) for the first time since 2016. While they remain largely insufficient to offset the net

FORECASTS

	2021	2022	2023	2024e	2025e
Real GDP growth, %	1.2	3.0	1.0	3.2	3.2
Inflation, CPI, year average, %	25.8	21.4	13.6	28.2	21.3
Gen. Gov. balance / GDP (%)	3.4	0.6	0.4	0.2	-1.5
Public debt / GDP (%)	87.6	65.8	84.7	69.8	63.6
Current account balance / GDP, %	11.9	10.4	4.6	6.4	4.8
External debt / GDP, %	93.6	53.1	71.8	64.9	59.2
Forex reserves, USD bn	15.5	14.7	14.7	14.9	15.1
Forex reserves, in months of imports	9.9	6.2	7.4	8.5	8.5

TABLE 1 e: ESTIMATES & FORECASTS SOURCE: BNP PARIBAS ECONOMIC RESEARCH

ANGOLA: OIL SECTOR DEVELOPMENTS

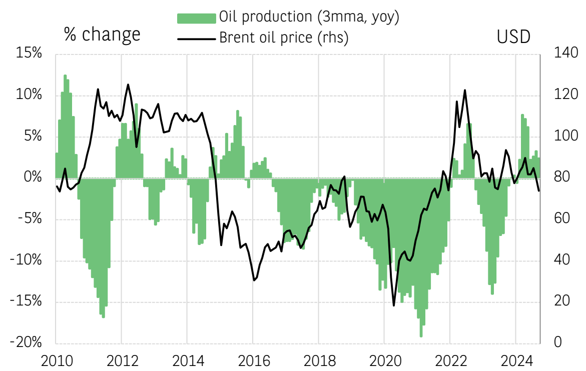

CHART 1 SOURCE: ANPG, EIA, BNP PARIBAS

outflows of portfolio investments, they could however continue to grow in H2 2024 and 2025, taking into account investment projects in the hydrocarbon sector.

As a result, external liquidity remains historically low. In September 2024, foreign exchange reserves reached USD 14.9 bn (+0.1 bn compared to the end of 2023) and remained close to a record low level reached last February. In 2024, the BNA continued its operations on the foreign exchange market to limit the depreciation of the kwanza. Despite this, the Angolan currency depreciated by 11% against the US dollar between December 2023 and September 2024, after -39% in 2023.

CONCERNS ABOUT PUBLIC FINANCES

At 19% of GDP on average over 2015-2023, government revenues are low. Moreover, they are highly volatile, as on average over the period, more than half comes from oil income. As a result, since 2018, the government has been cautious and has adjusted its expenditure during the year in order to preserve the fiscal balance (with the exception of 2020, taking into account the Covid-19 pandemic).

However, the leeway for public finances is shrinking. The decline in oil production since 2015, while non-oil revenues are stagnating, is a major concern. In addition, the continued depreciation of the kwanza is threatening the solvency of public debt, of which 75% of stock is denominated in foreign currency. In 2023, the sharp depreciation of the kwanza in June forced the government to cut its expenditure drastically in the second half of the year in order to honour its payments to creditors, while preserving a slight fiscal surplus (0.4% of GDP). The IMF estimates that, over the period 2024-2025, interest payments on debt should exceed 30% of fiscal revenue, a very alarming level.

Against this backdrop, the elimination of fuel subsidies, initiated in June 2023, is a key reform to recover fiscal margins. However, so far, the effect on public finances of the rise, in local currency, in the price of gasoline (+87% in June 2023) and diesel (+48% in April 2024) has been undermined by the depreciation of the kwanza. In September 2024, the price for a litre of gasoline at the pump was just USD 0.32 according to the official BNA exchange rate, which is well below global market prices. As a result, the World Bank estimates that fuel subsidies should still cost Angola's public finances 3% of GDP in 2024. Full liberalisation of fuel prices, initially planned for 2025, has been postponed in view of the adverse social climate and high inflation.

HIGH LEVEL OF VULNERABILITY TO CHINA

In 2023, the IMF estimated that a fall of one percentage point (pp) in China's real GDP growth rate would result in an average fall of 0.5 pp in the growth rate of oil-exporting African countries. However, this group is characterised by deep disparities. Angola is one of the countries most vulnerable to the slowdown in Chinese activity and to China's strategy of better directing its lending. This vulnerability is transmitted through two channels: i) bilateral trade flows and commodity prices, and ii) capital flows.

Oil accounts for more than 90% of Angola's exports, and China is by far its largest market. However, after peaking in 2017, Angolan oil sales to China gradually fell (in volume) until 2023. While Angola was China's second largest oil supplier in 2010, the country was ranked eighth in 2023, outperformed by the Gulf States, which are geographically closer with less volatile and larger production. As a result, on average over 2022-2023, China's share of Angolan oil exports fell to 50%, compared to 70% on average over 2018-2021. So far, Angola has been able to redirect its exports to Europe, taking advantage of the European embargo on Russian oil. As a result, the top five European importers of Angolan oil saw their share increase from an average of 7% over 2018-2021 to 26% of total Angolan oil exports over 2022-2023. However, Europe's ability to continue to absorb the decline in Chinese demand in the medium term is severely limited. In addition, China's slowing demand for hydrocarbons could also result in falling oil prices, as China alone accounts for 16% of global demand. The impact would be very negative for Angola's external accounts and public finances.

ANGOLA: STOCK & FLOWS OF EXTERNAL DEBT OWED TO CHINA

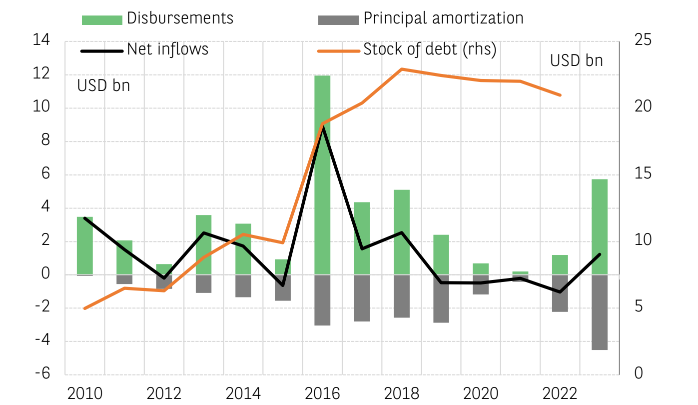

CHART 2 SOURCE: WORLD BANK, BNP PARIBAS

In addition, Angola is the African country most vulnerable to the risk of Chinese capital inflows drying up, as a result of China's strategy of redirecting its lending towards less risky borrowers. Since 2000, China has committed to lending USD 46 bn to Angola[1], making it the continent's main recipient country (far ahead of the USD 14 bn lent to Ethiopia, ranked second). But China has reduced its financial support since the pandemic shock, when Angola was on the brink of default. According to the World Bank, net inflows of long-term bilateral debt entered negative territory over the period 2019-2022, driven down by high repayments of principal; gross inflows meanwhile fell to USD 1.1 bn per year on average, compared to USD 3.9 bn per year on average over 2010-2018 (*chart 2*). While one third of its external debt is owed to China, and bilateral debt repayments will remain at record high levels over 2025-2027 (more than USD 4 bn per year), Angola could face an increased risk of external refinancing if China decides to further reduce its financial support.

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1 Boston University Global Development Policy Center. 2024. Chinese Loans to Africa Database.