

## ANGOLA

23

## PERSISTENT VULNERABILITIES

Following five consecutive years of recession, Angola's economic outlook is brightening: the country should return to growth, expected to be +3% in 2022, benefiting from a favourable economic situation marked by the upward trajectory of the oil price and a resumption of national production of hydrocarbons. The resulting increase in budget revenues and exports should support the kwanza. This dynamic is helping to ease the pressures on the country's external financing needs and debt sustainability, which has improved thanks to the reprofiling agreement concluded with China in early 2021. Nevertheless, the Angolan economy remains prone to significant vulnerabilities. The authorities should pursue reform efforts by taking advantage of the current situation in order to reduce the country's economic dependence on the oil cycle.

## A PROMISING OUTLOOK

The impact of the Covid-19 crisis has resulted in a significant shock to the already fragile Angolan economy. With the sharp downward correction in oil prices in 2015, the country had recorded negative economic growth between 2016 and 2019 (-1.4% per year on average). The collapse in oil revenues, together with the decline in production, had repercussions for the whole economy. The oil sector accounts for over 90% of exports, 60% of budget revenues and 30% of GDP.

In 2020 and 2021, the deterioration in liquidity and solvency indicators was contained thanks to the support of i) multilateral creditors and in particular the IMF via the disbursement of the extended fund facility and the allocation of SDRs and ii) the G20 with the Debt Service Suspension Initiative. Moreover, the debt reprofiling agreement approved by China has significantly relieved pressure on liquidity and the risk of debt distress. In total, these initiatives represent a saving of some USD 7 billion over 2020-2022.

During 2021, the effects of the Covid-19 crisis eased off and the macroeconomic and financial outlook for Angola improved. The return to growth has been based on private consumption thanks to the lifting of restrictions, despite strong inflationary pressures. The non-hydrocarbon sectors contributed significantly to growth: +13.5% for the trade sector, +28.9% for transport, +46.5% for the fishing industry. The negative contribution of the oil sector declined.

The momentum should continue over the coming months with expected growth of +3% in 2022, its highest recorded level since 2014. Oil production, which had been in continuous decline since the end of 2017, has been on the rise since the second half of 2021 with an increase of +8% year-on-year in May 2022. In Q1 2022, the Business Confidence Index (BCI) was in positive territory for the second consecutive time in over 6 years with an improvement of 5 points compared to Q4 2021. Additionally, the reform efforts undertaken by the government of João Lourenço are starting to pay off. The first IPO of the BAI bank in early June is an illustration of this, testing investor appetite and opening up the market for future privatisations of public companies such as Sonangol and Endiambia.

The improved outlook for Angola has been reflected in a strong appreciation of the kwanza, which has gained around 19% against the dollar since the start of the year, making it the best performing currency against the greenback. Since 2019, the gradual liberalisation of the foreign exchange market has also enabled the kwanza to serve as an adjustment variable and to contain the deterioration in the level of foreign exchange reserves of the central bank.

## FORECASTS

	2019	2020	2021	2022e	2023e
Real GDP growth, %	-0.7	-5.6	0.6	3.0	3.3
Inflation, CPI, year average, %	17.1	22.3	25.8	23.6	14.6
Gen. Gov. balance / GDP (%)	0.7	-1.9	2.8	1.2	0.8
Gen. Gov. debt / GDP (%)	113.6	136.8	86.3	59.9	57.3
Current account balance / GDP, %	6.4	1.5	11.3	3.6	1.9
External debt / GDP, %	78.7	125.9	95.1	82.0	81.1
Forex reserves, USD bn	14.0	11.0	12.1	10.3	10.6
Forex reserves, in months of imports	12.4	7.4	8.1	7.5	7.8

e: ESTIMATE &amp; FORECASTS

SOURCE: BNP PARIBAS ECONOMIC RESEARCH

TABLE 1

## ANGOLA: FAVORABLE GROWTH PROSPECTS

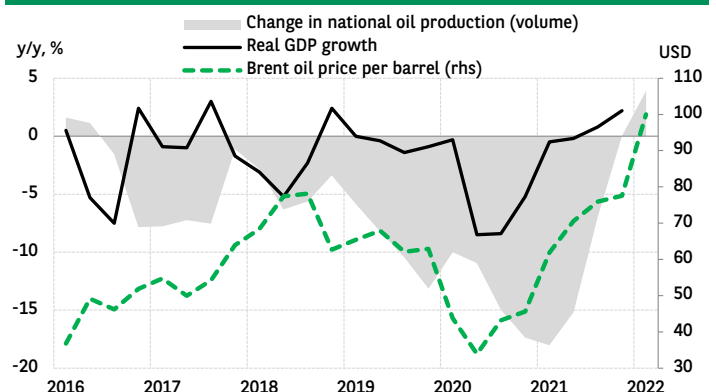


CHART 1

SOURCE: IMF, JODI, ANGOLAN NATIONAL AUTHORITIES

All of these factors have helped to bolster investor confidence and significantly lower the risk premium on sovereign bonds. The Angolan state also managed to issue USD 1.75 billion on the international bond markets in April 2022. The bond, with a maturity of 10 years, was issued at a rate of 8.75%, so slightly higher than the rate of its bond issue in 2019 (8%), the date of its last issue with an equivalent maturity. The transaction recorded a subscription rate of 200%, illustrating the continued appetite of investors for the Angolan signature.



General elections are scheduled for 24 August 2024. President João Lourenço could remain in power and retain a majority in parliament. Nevertheless, questions remain about the government's ability to continue and to accelerate the reforms in progress, in order to permanently resolve the country's vulnerabilities.

## THE NEED TO CONTINUE WITH REFORMS

Angola's budget fundamentals continue to be extremely fragile. The public debt to GDP ratio fell in 2021 after reaching over 135% of GDP in 2020 and it is expected to continue to fall in 2022. Nevertheless, this decrease is closely linked to the appreciation of the exchange rate given that 4/5 of public debt is denominated in foreign currency. Furthermore, the cost of debt continues to be a concern. The increasing reliance on private commercial credit over the past decade has resulted in an increase in total debt servicing. During the crisis in 2020, it represented more than 100% of revenue. Although pressures have eased significantly, debt servicing will continue to absorb around 50% of budget revenues in the medium term. This ratio is already higher than the prudential threshold recommended by the IMF and the situation is all the more worrying as the State's capacity to sustain resources remains limited.

Firstly, the official objective of reaching oil production capacities of 1.3M barrels per day (b/d) over the next 3 years may not be achieved given the ageing of infrastructure and the lack of new investment in the sector. According to the Angolan national petroleum agency, exploration and production expenditure has fallen by 77% over the past 5 years. In H1 2022, production (1.2M b/d) was 35% lower than the 2015 average level. The possible repercussions related to technical problems in the implementation of new projects could prevent current production levels from being maintained. In addition, 60% of production is already allocated to China in return for older project financing agreements, based on a Brent price that is lower than the current price. Therefore the rise in prices only benefits the 40% of production that is intended for the open market. Moreover, refining capacities are still very limited and the rise in Brent prices increases the import bill.

Secondly, the reforms undertaken since 2018 under the IMF programme to reduce the Angolan economy's vulnerability to changes in the oil price are still insufficient. Reducing the pro-cyclical nature of economic activity requires an increase in the proportion of investment in the less volatile non-hydrocarbon sectors. Reforms aimed at promoting the country's openness to private investors are moving in this direction, with the desire to benefit from the financial resources of the private sector in order to promote a more sustainable growth model. The privatisation programme implementation rate reached 67% in June. Nonetheless, the country still suffers from a lack of attractiveness for bringing in foreign investment flows, which remain negative (-6.4% of GDP in 2021). These flows continue to be concentrated in the hydrocarbons sector and reflect the repatriation of revenues from the oil companies.

Reform efforts need to continue. In particular, improving the business climate and reducing red tape are necessary to attract a broader investor base and promote the development of the non-hydrocarbon sectors.

*Article completed on 30 June 2022*

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### ANGOLA: ENDURING VULNERABILITIES

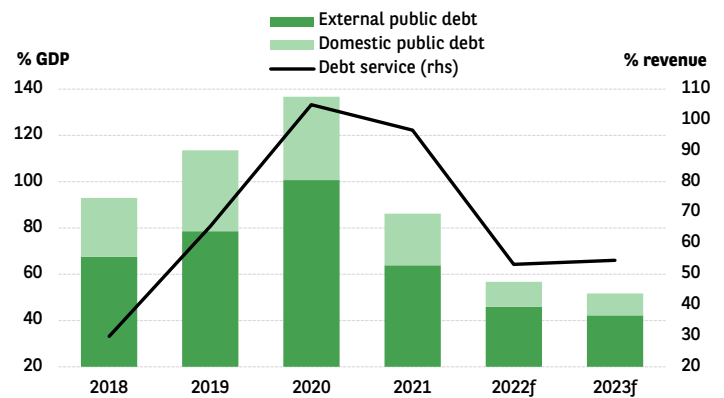


CHART 2

SOURCE: IMF, BNP PARIBAS

