ANGOLA

Table 1	2015
Population, million	25.0
GDP, current US$ billion	95.7
GDP per capita, current US$	3824
Poverty rate ($1.9/day 2011PPP terms)[a]	30.1
Poverty rate ($3.1/day 2011PPP terms)[a]	54.5
Gini Coefficient[a]	42.7
Life Expectancy at birth, years[b]	51.5

Sources: World Bank WDI and Macro Poverty Outlook.
Notes:
(a) Most recent value (2008)
(b) Most recent WDI value (2014)

Angola is battling the effect of the oil price drop. The adjustment process has stalled and GDP growth is forecasted at just 0.4 percent in 2016. Budget and external current account deficits are projected to increase to 6.9 and 11.8 percent of GDP. Poverty incidence at $1.9-per-day will remain flat at just above 30 percent of the population. The challenge in the short term is to conclude the macroeconomic adjustment to the low oil price environment, while in the longer term, the country needs to diversify its economy and establish an effective social protection network.

Recent developments

Angola was among the first countries to adjust to the oil price drop in 2015. Fuel subsidies were reduced, taxes raised, expenditures cut, the currency devalued and interest rates raised. However, as the shock caused by the oil price drop deepened, the adjustment impetus lost strength. Instead, non-conventional measures – such as quantitative restrictions on foreign exchange (FX) acquisition - were put in place. Monetary policy became more accommodative, despite soaring inflation. Overall, economic policy became less consistent and the adjustment process stalled.

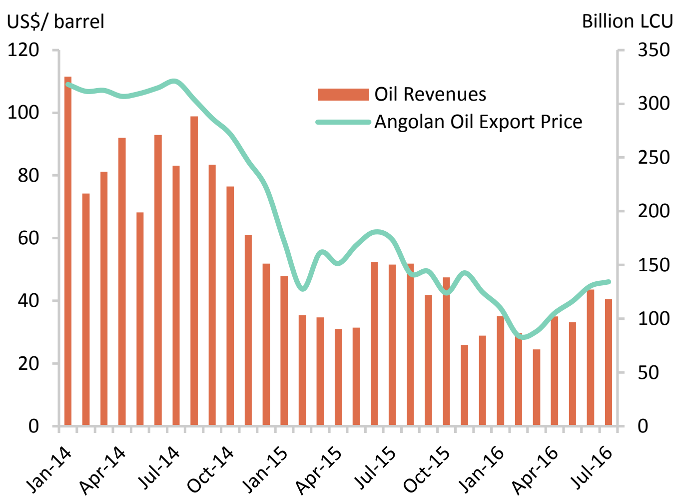
Oil prices continued to trend downward. In the year to July 2016, the price of Angolan oil stood 32 percent lower. Oil exports slowed, gaining just 0.4 percent during the first half of 2016. Prospects remain unfavorable. The number of active drilling rigs reached its lowest level since mid-2012. The national oil company, has been affected severely by the crisis and is restructuring its operations and investment plans. The non-oil sector is undergoing difficult times. Investment is being put on hold due to difficulties in importing capital goods and uncertainty about the ability to send payments abroad. The quantitative restrictions on FX purchases are halting production, as many companies are not able to acquire inputs. Local production of such inputs is insufficient or non-existent.

The drop in oil prices and sluggish activity are affecting government finances, despite tax increases. Revenues were halved from 2013 to 2016. In response, the authorities cut current and capital expenditures. Capital expenditures were slashed to 6.6 percent of GDP in 2015. In the 2016 budget, the government has allocated 7.8 percent of GDP to capital expenditures in response to economic stagnation. The largest cutbacks in current expenditures were in fuel subsidies and purchases of goods and services, and similar cuts are likely to continue. While the latter is made feasible due to high inflation and the counting of public servants to identify ghost workers, the former may aggravate the problem of government payment arrears.

The sharp decline in revenues contributed to large budget deficits. Both the debt to GDP ratio and debt service payments increased. Official debt numbers have not been released for some time, but the debt to GDP ratio is estimated at 60 percent.

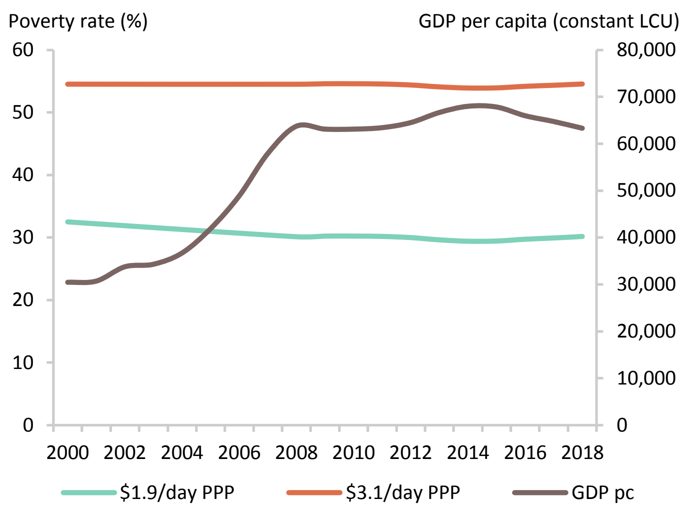
The drop in oil prices led to a drastic reduction in FX inflows, which is especially troublesome for an import-dependent country like Angola. The National Bank of Angola's (BNA) external adjustment approach started with small monthly devaluations, then shifted to maxi-devaluations followed by periods of fixed exchange rate. Quantitative restrictions on FX purchases were introduced in 2015. The wedge between the official and the parallel exchange rate skyrocketed to more than 200 percent. Estimates point to a current account deficit of around 8 percent of GDP in 2015. Net international reserves have been roughly stable due to these FX restrictions.

FIGURE 1 Angola / Oil price and government revenues



Source: Ministry of Finance, Angola.

FIGURE 2 Angola / Actual and projected poverty rates and GDP per capita



Source: World Bank Poverty tool.

Inflation picked up pace due to the reduction in fuel subsidies, increase in tax rates and exchange rate depreciation – in addition to drought, which affected agriculture. More recently, inflation has increased due to a shortage of goods. Food imports are down a large 47 percent this year, and domestic production is not able to fill the gap. Inflation has reached 38.2 percent in the 12-months to August 2016. Monetary policy power is low in Angola compared to developed countries. Interest rates on a range of instruments are negative in real terms. BNA has increased liquidity through a range of channels. Interbank borrowing levels have come down which is a signal that there may be problems in the banking sector.

The growth elasticity of poverty reduction is low in Angola, standing at -0.1 between 2000 and 2008. Recent macroeconomic developments have led to an expected decline in growth of GDP per capita by 2.8 percent in 2016. As a result, poverty incidence is expected to remain about the same relative to March-2016 projections. Another factor contributing to stagnation in poverty reduction is the hike in the general price level, in particular for food items. The number of the poor in 2016 is expected to remain at 7.7 million.

Outlook

No major improvements are expected in economic policy in the short term, but marginal changes, especially in monetary and exchange rate policy, should not be ruled out. GDP growth prospects were downgraded relative to the Spring Meetings forecasts due to stagnant oil production in 2016 and lackluster prospects for increased production. The non-oil sector should continue to suffer from quantitative restrictions on FX purchases. However, an expected gradual rebound in oil prices will allow the government to ease such restrictions and achieve a moderate rate of growth in the short term. GDP is expected to grow 0.4 percent in 2016, rebounding to 1.3 percent in 2017.

Fiscal consolidation is not expected in the short term. Revenues should improve in tandem with oil prices. But higher budget deficits are expected – 6.9 percent of GDP in 2016 – on the back of increased capital expenditures. External accounts should also improve in the medium term boosted by the gradual increase in oil prices.

In 2017 and 2018 the incidence of poverty is expected to remain at 2016 levels (30 percent) and the number of the poor is expected to increase to 8.3 million by 2018 as a result of population growth.

Risks and challenges

Angola has two main challenges ahead. The first is to conclude the macroeconomic adjustment to an environment of low oil prices. Government should seek to restore a coherent macroeconomic framework aimed at price stability and sustainable external accounts. Once this short-term adjustment is implemented, the Government should focus on a structural agenda for transformation.

Second, Angola needs to diversify its economy from oil and reduce poverty. Avoiding selective policy measures, and addressing cross-cutting business environment issues might help in this regard. Poverty reduction could be tackled with a more modern and evidence-based social protection policy framework.

Thus, in the face of the macroeconomic challenges described above, including stagnation of the economy and high inflation, poor households are unlikely to find a buffer in the main social protection program, Cartão Kikuia. Directing resources from less productive sectors into the social sectors, in particular social protection would reduce the impact of the current crisis on the poor.

TABLE 2 Angola / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2013	2014	2015	2016 f	2017 f	2018 f
Real GDP growth, at constant market prices	6.8	5.4	3.0	0.4	1.3	0.9
Private Consumption	19.0	11.5	-3.1	-1.0	2.5	2.0
Government Consumption	-2.7	15.6	-51.9	-26.4	9.9	-3.8
Gross Fixed Capital Investment	5.9	6.4	-6.3	0.8	4.0	2.5
Exports, Goods and Services	0.0	-2.0	3.0	1.5	0.5	1.0
Imports, Goods and Services	7.0	9.8	-28.0	-8.0	6.0	2.0
Real GDP growth, at constant factor prices	6.8	5.4	3.0	0.4	1.3	0.9
Agriculture	41.3	-0.7	7.0	-0.4	1.0	0.8
Industry	2.3	3.8	2.1	1.0	0.5	0.5
Services	5.4	9.6	3.2	-0.2	2.4	1.4
Inflation (Consumer Price Index)	8.8	7.3	10.3	50.2	52.3	42.7
Current Account Balance (% of GDP)	6.7	-2.8	-8.5	-11.6	-7.7	-7.2
Fiscal Balance (% of GDP)	-0.3	-8.9	-4.9	-6.9	-5.2	-4.1
Debt (% of GDP)	36.2	43.9	48.8	62.9	59.7	75.4
Primary Balance (% of GDP)	0.5	-7.8	-2.7	-4.6	-2.8	-0.7
Poverty rate ($1.9/day PPP terms)[a,b,c]	29.6	29.4	29.4	29.7	29.9	30.2
Poverty rate ($3.1/day PPP terms)[a,b,c]	54.1	53.9	53.9	54.2	54.4	54.6

Sources: World Bank, Macroeconomics and Fiscal Management Global Practice, and Poverty Global Practice.
Notes: e = estimate, f = forecast.
(a) Calculations based on 2008-IBEP-MICS.
(b) Projection using average elasticity at regional level with pass-through = 0.5 based on GDP per capita in constant LCU.
(c) Projections are from 2013 to 2018.