ANGOLA

Table 1	2019
Population, million	31.8
GDP, current US$ billion	89.3
GDP per capita, current US$	2806.9
International poverty rate ($1.9)[a]	51.8
Lower middle-income poverty rate ($3.2)[a]	73.2
Upper middle-income poverty rate ($5.5)[a]	89.3
Gini index[a]	51.3
School enrollment, primary (% gross)[b]	113.5
Life expectancy at birth, years[b]	60.8

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2018), 2011 PPPs.
(b) WDI for School enrollment (2015); Life expectancy (2018)

Angola's economy and public finances have been affected by the COVID-19 pandemic primarily through its negative impact on the oil sector. The result is a deepening of the recession that began in 2015. COVID-19 measures are financed mostly by expenditure re-prioritization, yet a fiscal deficit in 2020 will further increase the very high public debt. Exchange rate depreciation is also adding to debt and inflation. A spike in food prices and reduced activity in services are expected to increase poverty and food insecurity.

Recent developments

The COVID-19 crisis has pushed Angola into a fifth year of recession, with GDP projected to contract by 4 percent in 2020. Although the spread of COVID-19 in Angola has been limited (10 per 100,000 as of September 11), the pandemic has resulted in lower oil prices and restrictive OPEC+ quotas. Oil production declined 17 percent year-on-year in September 2020, standing at 1.2 million barrels per day. Services activities dropped sharply in the first half of 2020 as spillovers from the oil crisis and the additional impacts of COVID-19 cause a contraction of the non-oil sector. In contrast to 2019, when non-oil GDP expanded by 2 percent, in 2020, both oil and non-oil sectors are contracting (by 6.8 percent and 2.6 percent, respectively). The crisis is expected to increase unemployment above the 31.8 percent rate recorded in late 2019.

Driven by the decline in the volume and value of oil exports, the current account is expected to swing into deficit of 1.3 percent of GDP in 2020. Oil export revenues (in US dollars) declined by 39 percent in the first half of 2020, compared to the same period of 2019. In the context of the oil price decline and heightened debt vulnerabilities, the currency lost 37 percent of its value vis-à-vis the US dollar by August 2020, relative to the average of 2019. Net international reserves stood at US$9.3 billion in early September (6 months of imports).

With the pass-through from currency depreciation, inflation accelerated, standing, as of August, at 23.4 percent, up from 16.9 percent at end-2019. Prices for food, much of it imported, rose faster (by 29.9 percent). Without subsistence production and with food accounting for 44 percent of expenditures, urban households are particularly vulnerable.

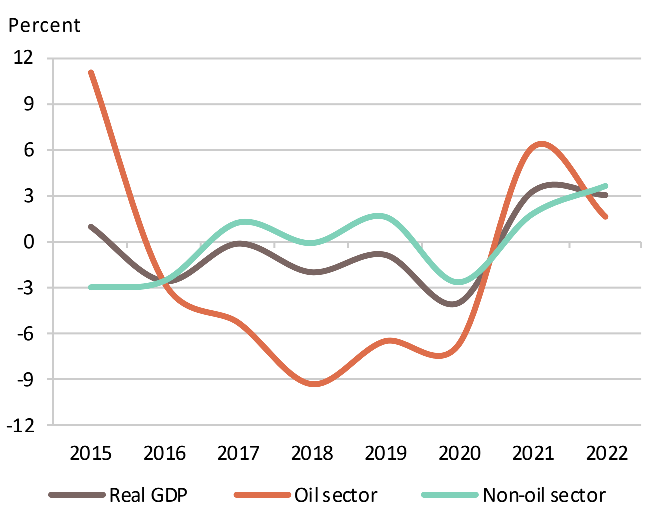
The central bank implemented small rate cuts and reduced reserve requirements in response to the crisis. Financial institutions were instructed to grant a debt service moratorium of 60 days. Nonperforming loans remain very high at 34.5 percent in mid-2020 but are concentrated in a few banks that are undergoing restructuring.

A fiscal deficit of 2.8 percent of GDP is expected in 2020, after surpluses in 2018 and 2019. The government has approved additional spending to fight the COVID-19 pandemic, with new health expenditures estimated at 0.2 percent of GDP. Spending on social protection is also expected to increase due to the rollout of the Kwenda cash transfer program. However, in accordance with the supplementary budget for 2020, new spending will be more than offset by expenditure cuts in non-priority areas, responding to the drastic loss in current revenues. Debt is expected to peak in 2020 at 120 percent of GDP.

Outlook

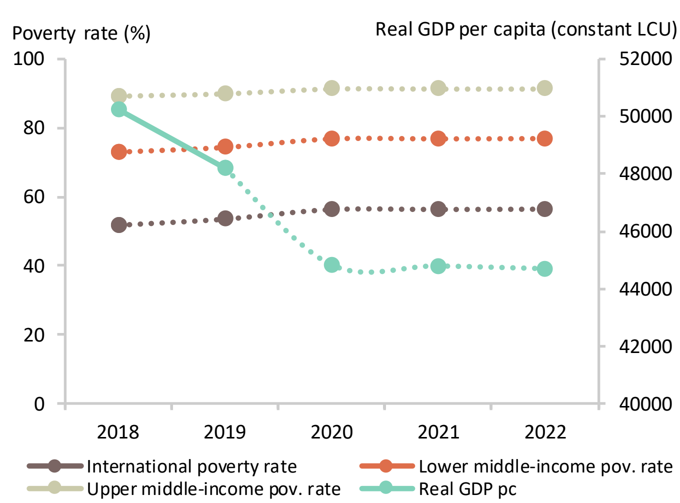
A partial recovery is expected in 2021, with GDP projected to grow by 3.2 percent. The recovery is conditional on a stronger oil sector, especially an end to OPEC+ production cuts and resumption

FIGURE 1 Angola / Real GDP Growth, oil and non-oil sectors



Sources: National Statistics Institute of Angola. World Bank - Macroeconomics, Trade & Investment Global Practice.

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



Source: World Bank. Notes: see Table 2.

of investments to halt the structural decline in production. This is consistent with a world economy gradually recovering from COVID-19 as vaccines are rolled out in 2021.

Increased competitiveness of local production relative to imports due to currency depreciation and a stronger macro framework will support the non-oil sector. Structural reforms, including restructuring of the banking sector and privatization of unproductive state assets will further improve growth prospects.

The current account is expected to be in balance in 2021, aided by increased oil proceeds and compressed imports. Inflation is expected to peak in late 2020 and retreat gradually in the following years as the impact of currency depreciation wanes.

Fiscal and debt consolidation is critical to ensure the sustainability of the recovery. The fiscal deficit is expected to decline to 0.1 percent of GDP in 2021, with non-oil taxes making up an increasing share of revenues. Debt is expected to decline to 94 percent of GDP by 2022 based on continued fiscal retrenchment, prudent debt management, and debt reprofiling.

The combination of weaker employment opportunities and higher food inflation will increase food insecurity and poverty. Projections, tentative due to limited data, suggest that 56.4 percent of the Angolan population, or 18.5 million people, live on less than $1.90 (2011 PPP) in 2020, an increase of nearly 2.6 million people from 2018. This rate is expected to remain stable through 2022. While the new cash transfer program only reaches 5,800 families in September 2020 during its pilot phase, its expected coverage of 1.6 million families by 2022 should have a significant impact on poverty.

Risks and challenges

Fluctuations in oil price remain the main risk factor, given the country's continued dependency on oil and precariously high debt burden. A renewed decline in oil prices, which could be caused by a more prolonged pandemic, would require Angola to accelerate fiscal consolidation or seek more debt reprofiling.

A more widespread COVID-19 outbreak in Angola could also extend the recession in the non-oil sector, causing even more hardship for the population. Impacts on poverty can be mitigated by continued strengthening of the social protection system. Additionally, steps to reduce food inflation and reliance on imported food could serve as an important short-term tool to tackle food insecurity.

Beyond short-term challenges of macro-fiscal and debt sustainability, Angola's transition to a more diversified, private-sector led growth model has become even more urgent in the face of COVID-19. Sectors ranging from agriculture to financial services have large untapped potential, which can generate the jobs crucial for long-term poverty reduction in the face of high unemployment. However continued progress on structural reforms, including fuel price adjustments, are needed to advance towards a more productive and inclusive Angola.

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

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	-0.1	-2.0	-0.9	-4.0	3.2	3.0
Private Consumption	2.9	-3.4	-2.1	-1.5	2.1	2.3
Government Consumption	0.3	-1.7	-1.6	-6.6	-0.5	3.8
Gross Fixed Capital Investment	3.0	-5.5	-1.0	-2.4	2.0	5.0
Exports, Goods and Services	24.5	-7.6	0.8	-6.8	6.1	2.2
Imports, Goods and Services	11.2	-16.0	0.0	-2.9	2.1	2.9
Real GDP growth, at constant factor prices	-1.0	-3.5	-1.2	-4.0	3.2	3.0
Agriculture	0.5	-7.7	-5.5	-3.9	1.8	2.9
Industry	-3.2	-5.8	-2.8	-5.0	4.6	2.2
Services	2.1	0.7	1.8	-2.7	1.5	4.0
Inflation (Consumer Price Index)	29.8	19.6	17.1	21.7	17.8	14.5
Current Account Balance (% of GDP)	-0.5	7.0	5.8	-1.3	0.1	0.9
Net Foreign Direct Investment (% of GDP)	-7.2	-6.1	-2.0	1.7	1.4	1.7
Fiscal Balance (% of GDP)	-4.3	2.7	0.8	-2.8	-0.1	1.0
Debt (% of GDP)	69.3	89.0	109.3	120.3	107.5	93.8
Primary Balance (% of GDP)	-1.0	7.2	6.0	4.0	6.1	6.7
International poverty rate ($1.9 in 2011 PPP)[a,b]		51.8	53.6	56.4	56.4	56.5
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]		73.2	74.4	76.8	76.8	76.9
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]		89.3	90.0	91.3	91.3	91.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on 2018-IDREA. Actual data: 2018. Nowcast: 2019. Forecast are from 2020 to 2022.

(b) Projection using neutral distribution (2018) with pass-through = 1 based on GDP per capita in constant LCU.