ANGOLA

Table 1	2020
Population, million	32.9
GDP, current US$ billion	62.6
GDP per capita, current US$	1903.05
International poverty rate ($1.9)[a]	49.9
Lower middle-income poverty rate ($3.2)[a]	71.5
Upper middle-income poverty rate ($5.5)[a]	88.5
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 experienced a fifth consecutive year of recession in 2020, as GDP contracted by an estimated 4 percent. COVID-19 reduced services activity, while low oil prices, reduced OPEC quotas, and logistical disruptions took a toll on the oil sector. Reprofiling of external debt obligations and the oil price recovery since late 2020 have provided some relief but debt risks remain elevated. The lagged effect of exchange rate depreciation is adding to inflation. Rising prices, high unemployment, and limited social safety nets have resulted in rising poverty.

Key conditions and challenges

Angola's oil- and public investment-driven growth model has been exhausted, but inclusive, diversified, private sector-led growth is yet to emerge. Since oil prices declined in 2015, Angola's real GDP has shrunk by a cumulative 9.5 percent, with GNI per capita (in dollar terms) cut in half.

Before 2015, Angola's growth model resulted in an overvalued exchange rate, excessive debt, and an economy dominated by State-owned enterprises. While growth was high at 8.2 percent from 2004 to 2014, growth in non-oil sectors was stunted. As lower oil prices resulted in a prolonged recession and the exchange rate depreciated rapidly after moving to a float in 2018, half of the population lived on less than $1.90 per day (2011 PPP) in 2018 (a rate similar to 2008) and debt-to-GDP ballooned to an estimated 128 percent by the end of 2020.

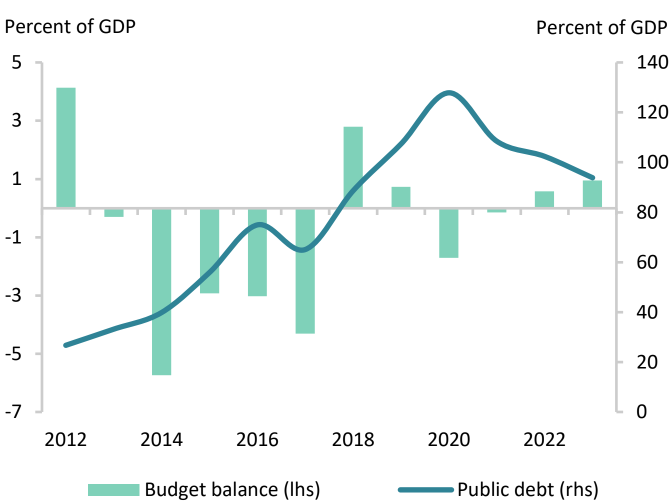
The current administration (elected in late 2017) has embarked on an ambitious reform program. Reforms aimed at macro-economic stabilization included floating of the currency, strengthening tax revenue, and passage of a fiscal responsibility law. Reforms aimed at shifting the Angolan economy from dependence on oil and the SOE sector include privatization of state assets, removal of pervasive price controls, improved regulation and oversight of financial institutions and creation of a competition authority. Finally, to reduce poverty and inequality, the Kwenda cash transfer program was introduced in 2020.

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 and can generate the jobs crucial for poverty reduction. Continued progress on structural reforms, including market-based pricing of fuel, and larger and more effective investments in human capital are needed to advance towards a more productive and inclusive Angola.

Recent developments

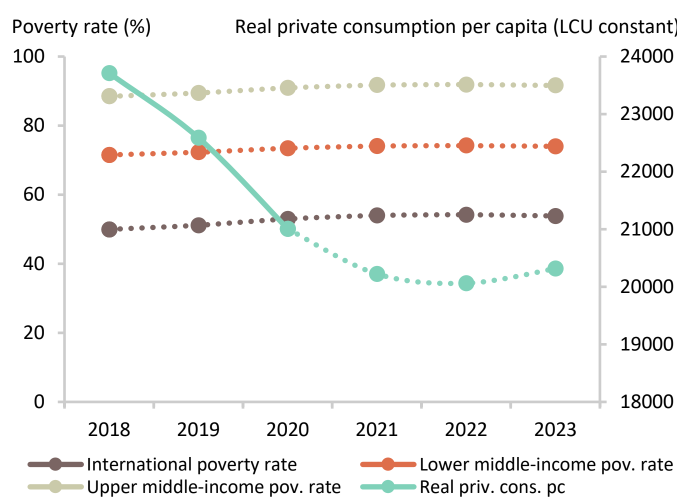
GDP is estimated to have contracted by 4 percent in 2020. Although the spread of COVID-19 in Angola has been limited (124 cases per 100,000 adults as of February 17, compared to 427 cases on average for Sub-Saharan Africa), non-oil activity dropped sharply in the second quarter of 2020 as measures to halt the spread of COVID-19 restricted in- person service provision. As the pandemic resulted in lower oil prices and restrictive OPEC+ quotas, Angola's crude oil production declined 7.1 percent in 2020, standing at 1.28 million barrels per day. Year-on-year, it is estimated that both oil and non -oil activity contracted (by 7.2 and 3.1 percent, respectively).

FIGURE 1 Angola / Budget balance and change in debt



Source: World Bank.

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



Source: World Bank. Notes: see Table 2.

Driven by the decline in the volume and value of oil, export revenues (in US dollars) declined by 37.3 percent in 2020. Yet as imports also declined (by 23.3 percent), the current account remained in balance. In the context of the oil price decline and heightened debt vulnerabilities, the currency lost 36.7 percent of its value vis-à-vis the US dollar in 2020. Net international reserves stood at US$8.8 billion in January 2021 equivalent to six months of imports.

With the pass-through from currency depreciation, inflation accelerated, to 25.1 percent in 2020 (from 16.9 percent in 2019). Prices for food, much of it imported, rose faster (by 31.4 percent). Though poverty rates are substantially higher in rural areas, urban households are particularly vulnerable to price shocks due to high unemployment and low subsistence production, with purchased food accounting for 44 percent of their expenditures.

Despite the sharp drop in oil revenues, the primary fiscal balance remained in surplus, though narrower than in 2019. The government has prioritized spending on health (which increased 40 percent) and social protection. Debt reprofiling agreements reached in 2020, including under the DSSI, have reduced near-term financing pressures.

Outlook

A partial recovery is expected in 2021, with GDP projected to grow by 0.9 percent and accelerating to 3.5 percent in 2022, still slower than population growth . The recovery is conditional on a stronger oil sector, loosening of OPEC+ production quotas and resumption of investments to halt the structural decline in production. This is consistent with the recent strength of oil prices and a world economy gradually recovering from COVID-19 as vaccines are rolled out.

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 return to surplus in 2021, aided by increased oil proceeds. Inflation is expected to retreat gradually as the lagged impact of rapid currency depreciation between 2018 and 2020 wanes.

Fiscal and debt consolidation is critical to ensure a sustainable recovery. The fiscal deficit is expected to decline to zero in 2021, with non-oil taxes making up an increasing share of revenues. Debt is expected to start declining in 2021, reaching 94 percent of GDP by 2023 based on continued fiscal retrenchment and prudent debt management.

Continued high unemployment and inflation have increased food insecurity and poverty. Projections, tentative due to limited data, suggest that the share of the population living on less than $1.90 per day (2011 PPP) will continue increasing in 2021, reaching about 54 percent, an increase of 2 million people since 2019. Another million may fall into poverty by 2023 before the poverty rate starts to decline modestly. Expanding the Kwenda program and measures to support job creation, especially for youth, are critical to mitigate poverty and negative effects on human capital.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	-2.4	-0.6	-4.0	0.9	3.5	2.5
Private Consumption	-3.4	-1.6	-4.0	-0.6	2.4	4.5
Government Consumption	-1.7	-1.6	-23.9	18.0	-3.2	1.1
Gross Fixed Capital Investment	-5.1	-3.1	-5.6	3.3	6.9	5.4
Exports, Goods and Services	1.2	0.8	-6.8	-1.7	6.4	-1.4
Imports, Goods and Services	-16.9	0.0	-23.3	6.8	6.4	4.5
Real GDP growth, at constant factor prices	-7.5	-1.0	-4.4	0.9	3.6	2.4
Agriculture	-7.6	-4.4	6.9	7.4	3.0	3.7
Industry	-11.4	-2.8	-8.4	0.0	7.0	2.2
Services	-1.7	2.0	-1.3	0.9	-0.3	2.3
Inflation (Consumer Price Index)	19.6	17.1	22.3	22.7	17.0	12.3
Current Account Balance (% of GDP)	7.3	5.7	0.1	3.4	3.4	2.7
Net Foreign Direct Investment (% of GDP)	-6.4	-2.0	-1.4	-1.3	0.2	1.2
Fiscal Balance (% of GDP)	2.8	0.7	-2.6	-0.8	0.1	0.7
Debt (% of GDP)	88.6	107.3	128.2	105.3	100.4	91.9
Primary Balance (% of GDP)	7.5	6.0	4.8	6.5	6.2	6.0
International poverty rate ($1.9 in 2011 PPP)[a,b]	49.9	51.1	52.9	53.9	54.2	53.8
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	71.5	72.3	73.5	74.1	74.2	74.0
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	88.5	89.5	90.9	91.7	91.9	91.6

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: 2019-2020. Forecast are from 2021 to 2023.
(b) Projection using point to point elasticity at regional level with pass-through = 0.7 based on private consumption per capita in constant LCU.