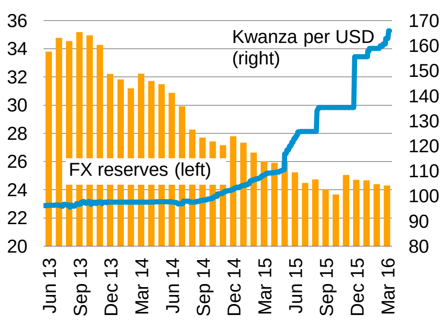
Deutsche Bank
Research

Angola

Frontier country report | April 25, 2016

Weak currency 1



Sources: BNA, Deutsche Bank Research

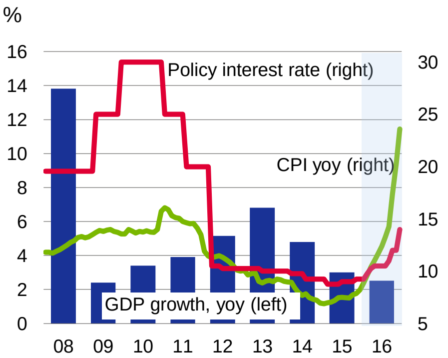
Subdued GDP growth

Oil production continues to grow moderately but the non-oil sector is affected by cuts in public investment, lower private consumption and limited FX availability. We expect Angola's GDP growth to dip below 3% in 2016 and GDP per capita in USD terms to shrink for the third year in a row (although at USD 3,500 still high in the regional context).

Currency likely to weaken further

After depreciating 24% vs the USD in 2015, the kwanza has lost 18% year-to-date. The central bank (BNA) devalued the currency three times since last June, and more adjustment is likely in order to ease the pressure on FX reserves and narrow the wide gap to the parallel exchange rate. Inflation has been rising steadily since mid-2014 and reached a new peak of 23.6% yoy in March (well above the 7-9% target of the central bank) on the back of the weak kwanza and higher domestic fuel prices. The BNA increased the policy interest rate by 200 bps to 14% in March after 5 hikes in 2015 and another one in February.

High inflation drove monetary tightening 2



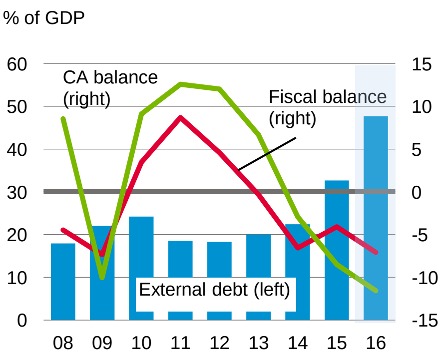
Sources: BNA, IFS, Deutsche Bank Reserach

Fiscal and external accounts pressured by heavy reliance on oil

With an oil sector accounting for 95% of exports and three-quarters of government revenues (on average over the period 2009-2014), Angola's economy is struggling, given that oil prices have fallen by 70% since mid-2014 and only a slow recovery is expected. Although the government slashed spending by 30% in 2015, mostly on capital expenditures and fuel subsidies, we expect the fiscal deficit to widen to 7% of GDP, pushing up public debt to over 60% of GDP in 2016. Around 40% of public debt is denominated in foreign currency. Angola's sovereign wealth fund is worth USD 5 bn (around 2.5% of GDP). The government has been tapping bilateral financing lines, especially from China, and issued a debut Eurobond in November 2015.

We expect a current account deficit in double digits and external debt approaching 50% of GDP in 2016. Almost all external debt is medium- and long-term. FX reserves have been falling in recent months but they still amount to 7 months of imports.

Twin deficits widening 3



Sources: IMF, World Bank, Deutsche Bank Research

Country has requested IMF support

In March, Angolan authorities initiated discussions with the IMF regarding "an economic program that could be supported by financial assistance" (IMF). IMF support would be conducive to speeding up fiscal consolidation and strengthening the reform process, on top of reassuring investors.

Relative political stability

President dos Santos (72, in power since 1979) has indicated in March that he will run for another term in 2017 and step down in 2018, giving himself time to manage his succession. The ruling MPLA party continues to dominate the political landscape.

Institutional weakness

Institutions are still weak more than a decade after the end of the 27-year civil war in 2002. Governance indicators have improved but inefficiency and opacity in the use of public resources, among others, are still a challenge.

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