Talking point

Angola: Oil economy on a diversification path

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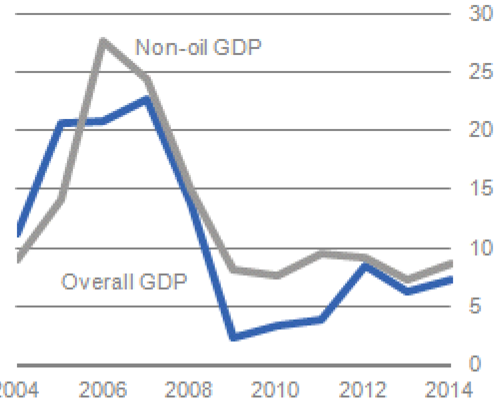
The former Portuguese colony has developed from an agriculture-based economy into one of Sub-Saharan Africa's main oil and mineral producers and its third largest economy, with strong growth potential. Relative political stability after a 27-year civil war ending in 2002, high foreign investment (current FDI inflows are estimated at USD 15 bn) and strong government spending have propelled Angola onto a robust growth path: annual real GDP growth has averaged 11% over the past decade, it is estimated at over 8% in 2012 and around 7% in upcoming years. The government has embarked on a series of reforms towards economic diversification and more inclusive growth.

Dynamic oil sector fuels sound fiscal and external balances

Making up around half of Angola's GDP, 95% of exports and 75% of government revenue, Angola's oil sector (the region's second largest after Nigeria) is more dynamic than its SSA peers, on the back of continued exploration and a favourable regulatory environment. Oil production is expected to reach 2 million barrels per day by 2015, up from 1.75 m bpd in 2012. In the longer term, if the newly discovered pre-salt reserves prove similar to those found in Brazil, Angola could become Africa's largest oil producer. Production of natural gas is also set to rise and is expected to far exceed domestic consumption by the end of 2013, opening up export possibilities and boosting the power sector. Oil and gas majors continue to expand operations in the country, as well as oil companies from emerging markets such as Brazil and China.

Not just oil growing

GDP growth, yoy



Sources: IMF, DB Research

Growth in other sectors too, increasing share of the non-oil economy

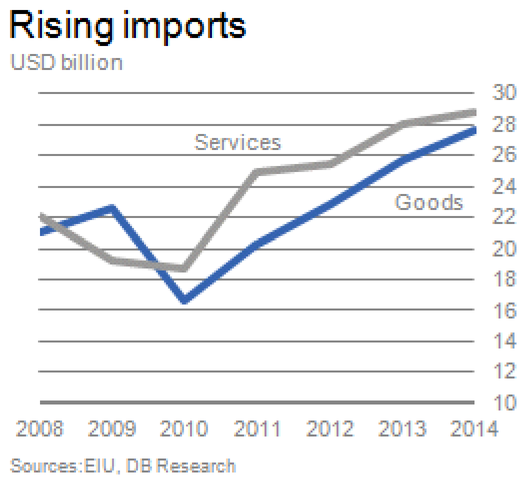
Angola is the world's eighth largest producer of rough diamonds and has significant untapped potential of copper, iron ore, gold, phosphates and uranium. The mining sector accounts for around 12% of GDP and new investment projects are under way, particularly in the diamond and iron-ore subsectors. Historically strong (Angola used to be the 4th largest coffee producer in the world) but seriously damaged by the civil war, agriculture currently generates around 10% of GDP (e.g. sugar cane and corn). It is recording modest growth thanks to increased investment, government reforms and removal of landmines. Angola's economic growth will remain capital-intensive and import-dependent, mostly linked to government-dominated sectors such as construction and finance. The continuing rise in imports in the coming years (worth USD 50 bn in 2012, see Chart) will reflect increased investment and domestic demand. The main origins of imports are currently Portugal (20% of total imports), China (18%), the US (10%) and Brazil (7%).

Diversification central to policy agenda

The USD 5 bn sovereign wealth fund launched in October 2012 should help insulate the economy from volatile oil prices. It is expected to grow quickly, on fast increasing oil revenues, and will provide, if well-run, a solid foundation for future growth diversification – through investments in infrastructure, agriculture and services. A persistently high level of poverty (55% of Angolans live below the poverty line of USD 1.25/day), high unemployment (at about 25%), rising discontent and street protests have prompted the government to increase investments in the non-oil sector. Currently at around USD 6,000, GDP per capita has increased sevenfold since the war ended in 2002 – the fastest increase in SSA – but income disparity is very high in Angola: the richest 10% of the population hold 45% of national income whereas the poorest 10% account for 0.6%. A significant increase in public spending is budgeted for 2013 – aimed at improving access to higher education, healthcare, sanitation, drinking water and adequate housing and setting Angola on a more inclusive growth path.

Lack of infrastructure and institutional weakness result in a challenging business environment, efforts are under way

The current momentum to diversify the economy will generate new investment opportunities but Angola's business environment remains challenging in terms of infrastructure and institutions. Although inflation is rapidly going down (it reached a multi-decade low of 8.9% yoy in January 2013 and is expected to remain in single digits), the cost of doing business in Angola is very high. Luanda is the second most expensive city in the world for expatriates, according to Mercer. There are a number of reasons for this, including lack of competition for many products, high import dependency, poor transport infrastructure and the high level of oil sector wages. On top of raising costs, inadequate transport infrastructure (particularly at ports) results in relatively long import and export times for Angola. Excessive bureaucracy and poor contract enforcement also contribute to the challenges of doing business in Angola as well as perceptions of government inefficiency and corruption (according to data from the World Bank and Transparency International). Weak human capital is also a major issue.



Some progress has been achieved in a few areas, for instance availability and cost of electricity or registering a new business. Recognizing the challenges facing business in Angola, the government is building infrastructure, currently investing over USD 4.3 bn per year, particularly on road reconstruction. (The World Bank estimates that USD 2.1 bn per year will need to be invested over the next decade.) The Angolan government also provides fiscal incentives to promote industrial development. It is introducing business-friendly reforms, improving access to credit (by guaranteeing 70% of SME bank loans), the judicial system and training.

Plans to issue debut Eurobond

Angola's fiscal position is strong, with a budget surplus and public debt now below 30%. Commercial loans and trade finance are being used to fund Angola's massive infrastructure spending. The country will continue to expand existing financing and credit lines from its partners, notably China - Angola's largest creditor – and Brazil. (Angola is contractually obliged to import the goods and services used in the construction of a project from the country providing the finance). Capitalising on Angola's favourable macroeconomic climate and investors' interest in gaining exposure to the country, the government has announced plans to issue a debut Eurobond of USD 1-2 bn.

In a context of economic diversification, it is one of the government's priorities to promote Angola's appeal to foreign investors, often working with local counterparts, particularly via public and private investments for structured public-sector projects. By promoting industrial development, it expects to increase FDI in the non-oil sector (USD 2 bn average in 2011-2012) to USD 4bn. Given the current business climate, investors will still need patience in order to tap into Angola's huge market potential.

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See also:
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Dr. Claire Schaffnit-Chatterjee (+49) 69 910-31821

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