

# Angola Business Forecast Report Q1 2015

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## Abstracts

### Core Views

While the impact of falling oil prices on the Angolan economy will be keenly felt over the next few years, we believe that headline GDP growth is unlikely to be seriously affected. This is predicated on our belief that the non-oil sector will remain the primary engine of growth, driven by capital-intensive industries such as energy, construction and transport.

Plateauing oil revenues, a narrow tax base and heavy public spending will see Angola's fiscal balance remain firmly in the red over the next few years. We predict that the country will sustain a sizeable fiscal shortfall – in the range of 6.0-8.5% of GDP – over our 2014-2018 forecast period.

The current account balance will steadily deteriorate over the next five years to stand at 1.0% of GDP by 2019, from an estimated 7.4% of GDP in 2014. We predict that the country will sustain a sizeable fiscal shortfall – in the range of 6.0-8.5% of GDP – over our 2014- 2018 forecast period.

Over the last six months, the country's traditionally fractured opposition parties have shown greater unity and been more openly critical of the ruling Movimento Popular de Libertacao de Angola (MPLA). Popular anti-government protests, a frequent occurrence since 2011, have assumed a more organised and political edge.

### Major Forecast Changes

We predict that real GDP growth will expand by 5.0% in 2015 and 5.2% in 2016. These forecasts contain modest downward revisions to incorporate a rise in inflation over the coming quarters due to the reduction of fuel subsidies.

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### **CHAPTER 1: POLITICAL OUTLOOK**

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Domestic Politics

Falling Oil Prices To Heighten Tensions

Falling oil prices carry potentially significant political and social ramifications for Angola. While not an immediate threat to broad stability, rising living costs will fuel popular disquiet and heap further pressure on the government to deliver on its ambitious social development agenda.

Table: Political Outlook

Long-Term Political Outlook

Path To Political Inclusion Uncertain And Slow

Although Angola has become one of the largest and fastest-growing economies in Sub-Saharan Africa, its transition over the past decade has not been complemented by a move towards a more open political system. The concentration of power, both political and economic, presents the key challenge to economic development and risk to political stability over the coming decade.

### **CHAPTER 2: ECONOMIC OUTLOOK**

SWOT Analysis

BMI Economic Risk Index

Economic Activity

Non-Oil Growth Outlook Intact, But Increased Risks

Despite falling oil prices, headline economic growth in Angola will continue to be supported by the non-oil economy and we predict that real GDP growth will expand by 5.0% in 2015 and 5.2% in 2016. That said, risks to growth have increased significantly.

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Balance Of Payments

C/A Heading Into Deficit In 2015

Falling oil prices have caused Angola's external account picture to deteriorate

significantly. We now expect the country's current account balance to flip into deficit in 2015 and remain in the red thereafter.

#### Monetary Policy

##### Currency Risks Add To Worsening Inflation Outlook

The reduction of fuel subsidies and expansionary government spending will see inflation in Angola rise over the coming quarters, with currency concerns looming large. This trend will prompt the authorities to tighten monetary policy and we are forecasting 50 basis points' worth of further interest rate hikes by end-2015.

#### Fiscal Policy

##### Risks To Rise Amid Lower Oil Prices

Angola's heavy reliance on hydrocarbons leaves it highly exposed to falling oil prices that will precipitate further deterioration in its fiscal and external balances. We believe, however, that with careful management there remains adequate fiscal space for the government to maintain its investment-led growth agenda.

## **CHAPTER 3: 10-YEAR FORECAST**

### The Angolan Economy To 2023

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Having averaged double digit rates of real GDP expansion since the end of civil war in 2002, we expect growth in Angola over the next ten years to come at the more moderate, but still robust level of 5.4 % per annum.

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