

Angola Business Forecast Report Q2 2014

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Abstracts

Core Views

We expect economic activity in Angola to pick up over the coming quarters following a challenging 2013. Despite a pickup in oil production, we believe the non-oil sector will continue to be the main engine of economic growth, driven in large part by heavy state spending on infrastructure and a buoyant consumer segment.

While the current account will remain in the black over next few years, we believe this surplus will decline as a percentage of GDP driven by a gradual weakening of the trade balance on the back of resilient import demand.

We expect inflation in Angola to be relatively contained through 2014 and we are forecasting marginally lower average price growth compared to 2013. While we believe that conditions will continue to broadly support the authorities' accommodative monetary policy stance over the coming months.

Angola's fiscal accounts will remain in the red over the next few years as an investment-driven development agenda and heavy current spending commitments see government expenditure outstrip revenue generation. We predict that the fiscal deficit will widen to 4.0% of GDP in 2014 from an estimated 2.2% in 2013.

Major Forecast Changes

Weaker than expected oil production in 2013 has prompted us to revise our current account forecasts. We now forecast a current account surplus of 5.9% of GDP in 2014 and 4.3% in 2015 (compared to our previous projections of 8.8% and 7.8% respectively).

Also on the back of lower than anticipated oil production in 2013 and revisions to our oil production forecasts, we have adjusted our forecasts for economic growth. We now forecast growth of 6.8% in 2014 compared to 7.3% previously.

Key Risks To Outlook

Our forecasts, as always, remain subject to the myriad uncertainties associated with oil production and exploration in Angola, along with volatility in global oil prices.

Given that our forecasts only include planned oil projects, the upside potential posed by the country's vast and as yet unexploited subsalt reserves poses a major upside risk to our forecasts over the medium-to-long term.

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Growing speculation over the health of President Jose Eduardo dos Santos, an increasingly vocal opposition and simmering antigovernment sentiment will see political and social tensions in Angola remain elevated over the coming months.

TABLE: Political Overview

Long-Term Political Outlook

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 Ratings

Economic Activity

Oil Production To Pick Up, But Non-Oil Sector Outperforming

A rebound in oil production and robust non-oil sector growth will see economic growth in Angola accelerate over the coming quarters following a weaker-than-expected 2013.

We are forecasting real economic expansion of 6.8% in 2014 and 6.6% in 2015.

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Although Angola's current account balance will remain in the black over the medium term, we expect this surplus to decline as a percentage of GDP due to resilient import demand and persistent deficits in the services, income and transfer accounts. We are

forecasting a current account surplus worth 5.9% of GDP in 2014 and 4.3% in 2015.

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We expect inflation in Angola to be relatively contained through 2014 and we are forecasting marginally lower average price growth compared to 2013. While we believe that conditions will continue to broadly support the authorities' accommodative monetary policy stance over the coming months, we see only modest scope for further monetary easing due to rising demand pressures in the country.

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Heavy Spending To Keep Fiscal Accounts In The Red

Angola's fiscal accounts will remain in the red over the next few years as an investment-driven development agenda and heavy current spending commitments see government expenditure outstrip revenue generation. We predict that the fiscal deficit will widen to 4.0% of GDP in 2014 from an estimated 2.2% in 2013.

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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 10 years to come at the more moderate, but still robust level of 6.5% per annum. The successfully implemented fiscal and macroeconomic reforms of 2009-2012 allied to vast, albeit moderating oil revenues, will support the government in its diversification efforts, with a major scaling-up of infrastructure investment - both social and economic - at the heart of its plans.

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