

Angola Business Forecast Report Q3 2014

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Abstracts

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Core Views

The Angolan economy will expand by 5.2% in 2014 in real terms, from an estimated 4.1% in 2013, driven by a rise in oil production, higher government spending and a steady improvement in agricultural conditions. Despite this, we have made some downward revisions to our growth outlook, believing that certain risks now merit a greater weighting within our forecasts than had previously been assigned. 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. While persistent under-spending will keep the fiscal deficit in the range of 4.0-6.0% of GDP between 2014 and 2018, we believe that risks are to the downside.

A steadily eroding trade account surplus will cause Angola's current account balance to decline from an estimated surplus of 6.8% of GDP in 2013 to a marginal deficit of 0.4% of GDP by 2018. Political tensions in Angola are likely to remain relatively elevated over the coming months. 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 Libertação de Angola (MPLA). Popular anti-government protests, a frequent occurrence since 2011, have assumed a more organised and political edge.

Major Forecast Changes

We have revised down our real GDP growth forecasts for 2014, 2015 and 2016 to reflect the pricing-in of two recurrent downside risks. We now predict that the Angolan economy will expand by 5.2% in 2014 compared to 5.9% previously.

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SWOT Analysis

BMI Political Risk Ratings

Domestic Politics

Louder Opposition To Keep Tensions High

A more assertive and organised opposition will result in political tensions in Angola being relatively elevated over the coming months, while speculation over the health of President Jose Eduardo dos Santos will continue.

Table: Political Overview

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 Ratings

Economic Activity

Growth Outlook Softened As Risks Are Priced In

A recovery in oil production and heavy government spending will keep the Angolan economy on a solid growth trajectory over the coming years. That said, we have made some downward revisions to our growth outlook, believing that certain risks now merit a greater weighting within our forecasts than had previously been assigned.

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Angola's current account balance will decline from a surplus of 6.0% of GDP in 2014 to a deficit of 0.3% by 2018, as high import demand more than offsets a modest recovery in oil production.

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Inflationary Concerns Driving More Cautious Monetary Policy

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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. While persistent under-spending will keep the fiscal deficit in the range of 4.0-6.0% of GDP between 2014 and 2018, we believe that risks are to the downside.

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New Priorities, Familiar Challenges

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 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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