Economics

Angola: Mid-year economic review
All about oil

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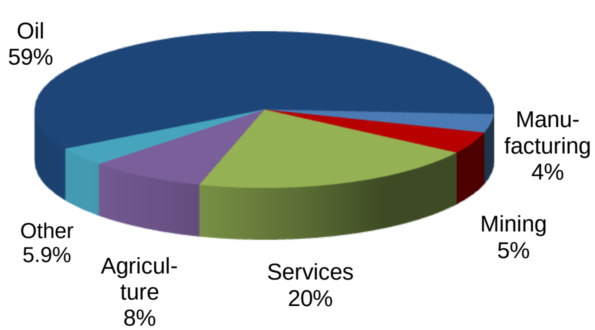
Recent trends

National accounts

The Angolan economy is estimated to have grown by 15% in 2008. Angola has been Africa's fastest-growing economy since 2005 as record-high international oil prices and rapidly growing output from new oilfields sustained double-digit GDP growth, which reached 20.6% in 2005, 18.6% in 2006 and 21.1% in 2007. As a result of a slowdown in the expansion of the oil sector at the end of the year, GDP growth in 2008 is estimated to have slowed, albeit to a still impressive 15%.

It is estimated that the oil sector declined by 6.1% in 2008. In 2007, the oil sector, which accounts for around 60% of GDP (see Figure 1), grew at an estimated 21.8%, up from 13.1% in 2006. Oil production increased as buoyant energy demand in Angola's primary export destinations, the US, European Union and China, propelled new investment inflows, bringing new deepwater oilfields on stream. In March 2008 Angola ranked ahead of Saudi Arabia as the largest supplier of oil to China. In addition to the rise in oil output, the government also reaped the benefits of high oil prices, which averaged US$66 per barrel in 2006, US$72 per barrel in 2007 and US$100 per barrel in 2008. Income from oil exports has helped to increase gross national per capita income to US$2 560, almost triple the sub-Sahara African average.

Figure 1: Contribution to GDP (2007)



Source: IMF

Growth in the non-oil sector is estimated to have remained robust in 2008 at 15.4% (27.5% in 2006 and 20.4% in 2007). The end of the civil war has attracted considerable investor interest in the diamond industry. Diamond production rose on the back of improved regulation and enforcement in the industry and the consequent increased output from kimberlite mines. Production increased by 31% in 2006 to seven million carats, as output at the Catoca mine doubled. The kimberlite mine at Catoca in Lunda Sul province produces 71% of Angola's output by volume, although that from informal mines is of a much higher value per carat, making Catoca's share by value significantly smaller. The main market for Kimberlite diamonds is Dubai (32%), followed by Antwerp (28%) and Hong Kong (19%). According to the national diamond company, Endiama, output reached 9.2 million carats in 2007 and 3.35 million carats (worth US$ 525 million) in the first five months of 2008.

Growth in the construction sector, which expanded by more than 60% in 2007, continued to be robust in 2008. Ongoing rehabilitation of infrastructure aided by both oil revenue and credit from mainly China – estimated at around US$7 billion - continued strongly in 2008. Progress has been made in rehabilitating transport infrastructure, particularly roads, railways, ports and bridges. Chinese contractors completed major projects such as the Keve Bridge and the Luanda-Namibe railway. In Luanda, a number of Portuguese construction companies completed projects involving residential, hotel and office buildings. The Luanda Bay project, funded by China, is to be completed by the end of 2009 and should serve to cut down on congestion in the city of Luanda, which suffers from huge overcrowding - the city was originally built to accommodate 500 000 people, but now has five million.

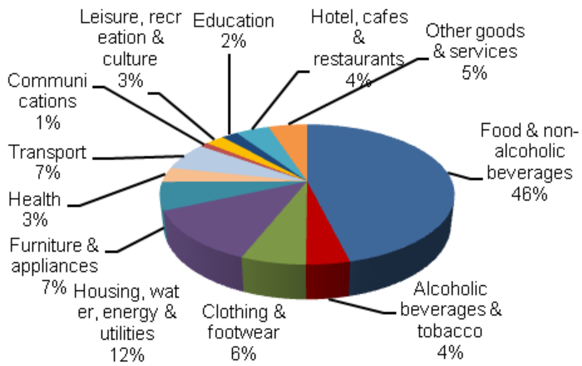
The housing shortage is a nationwide issue, but is most acute in the capital, Luanda, where population growth has soared. The housing shortage, coupled with the influx of investors, has typically pushed up prices in the real estate market, thus widening the gap between the local and expatriate communities. To address the housing issue, the government has launched an ambitious project to build one million new homes nationwide within four years. Failure on the part of the government to deliver on promises is likely to fuel socio-economic discontent, posing a risk to political stability.

Government investment in infrastructure - in particular irrigation and the transportation network - timely availability of inputs, the resettlement of internally displaced people, an increase in the cultivated area as well as good weather, supported a recovery in the primary activities of agriculture, livestock, forestry and fishing. The agriculture, forestry and fishing sector grew by around 8% in the 2007/08 season. A breakdown of the sector's performance is hampered by the lack or absence of credible statistical data. The lack of credible data, according to the Catholic University of Angola, is due to: (i) lack of a structure for systematic data collection and processing; (ii) the number of agricultural family units – which are the greatest contributors to cultivated areas and for the production of agricultural products in the market – which, according to the electoral register, seems to have been over-evaluated; and (iii) the methodology for collecting information from such families is unknown.

Monetary policy

In recent years the Banco Nacional de Angola (BNA) has reduced inflation significantly, largely through intervening in the foreign exchange markets to keep the kwanza stable, which has kept the cost of imports low (90% of domestically consumed goods are imported). In addition to this, agricultural production benefited from continued resettlement of displaced farmers, favourable climatic conditions and improved access to markets through road improvements. Increased production helped to alleviate food scarcity, keeping food inflation, which accounts for 46% of the consumer basket (Figure 2 refers), low. However, the disinflation process has stalled, and for three consecutive years the authorities' inflation objective of 10% has not been met. Furthermore, inflation reverted upwards in the second half of 2008 on the back of higher international food prices and strong domestic demand fuelled by rapid money growth. At the end of the year inflation stood at 13.1%.

Figure 2: CPI weights



Source: IMF

Disinflation presented an opportunity for the BNA to lower its official lending rate from 100% in 2004 to below 20%. Interest rates will, however, only be an effective monetary tool once Angola's financial markets become deeper and more de-dollarised. The largely dollarised banking system has limited exposure to the private sector, engaging primarily in foreign exchange operations.

The ongoing intervention in the foreign exchange markets, coupled with strong foreign exchange reserves and rising deposits in the national currency, has stabilised the kwanza. Since 2006 the currency has, in effect, been pegged to the US dollar and it has remained largely unchanged since July 2007 and through 2008 at AON75/US$.

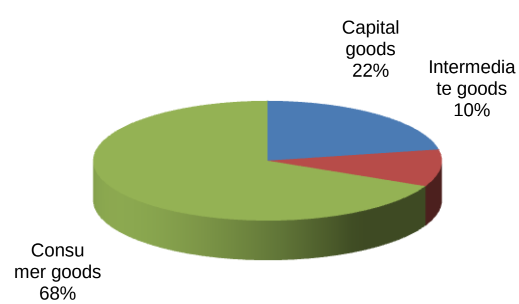
External sector

With several constraints to private sector participation in the economy, it is not surprising that Angola exports mostly oil and diamonds, and imports almost everything. Therefore the trade balance and consequently the current account generate a deficit or surplus depending on the price and production of oil.

Angola has consistently run a large trade surplus owing to its oil exports, with the magnitude dependant on prevailing international oil prices and the level of production. In recent years, the strengthening of the trade balance has been remarkable given that imports have also grown rapidly.

The strong kwanza has been a limiting factor in initiating a diversification process in the country's internal productive structure. Therefore, the bulk of imports consist of consumer goods, which make up around 68% - indicative of the opportunities for import substitution in areas where local production can be developed - followed by capital goods (22%) and intermediate goods (10%). See Figure 3. The most significant requirements are machinery parts, construction materials and petroleum products – given its limited petroleum refining capacity.

Figure 3: Composition of imports (2007)



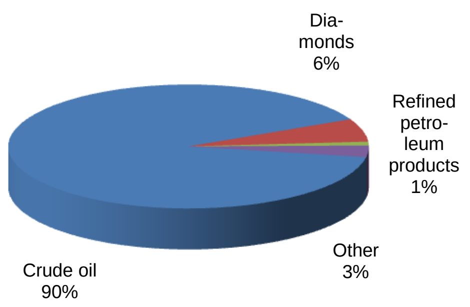
Source: IMF

On the back of increased capital investment by both the public and private sectors as well as surging consumer demand for household goods, imports increased to an estimated US$16.4 billion in 2008, from US$11 billion in 2007 and US$8.8 billion in 2006.

On the export side, oil continued to dominate, accounting for more than 90% of total merchandise exports with the remaining less than 10% divided among oil derivatives (1%), diamonds (6%) and a range of other products with little local added value (see Figure 4).

Driven by oil and diamonds, exports are estimated to have exceeded US$50 billion in 2008 up from US$44 billion in 2007 and US$36 billion in 2006.

Figure 4: Composition of exports (2007)



Source: IMF

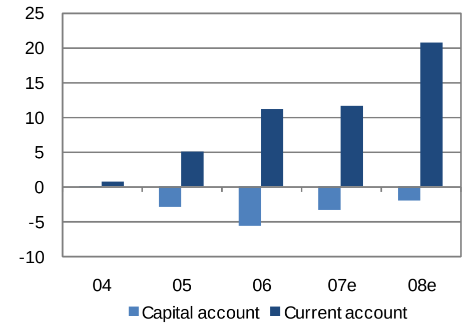
Almost entirely attributed to increased oil exports at record high international prices, the trade balance in 2008 is estimated at above 45% of GDP, for the fourth consecutive year. Partly influenced by the oil price boom and partly by the stability of the exchange rate, the current account surplus grew to around 25% of GDP in 2007 and an estimated 38.9% of GDP in 2008, accumulating surpluses that had been transformed into foreign currency reserves of US$15 billion at the end of 2007 and US$18.9 billion at the end of 2008 - well above the external debt which stood at US$13.6 billion in November 2008.

Fiscal sector

Fiscal revenue relies heavily on the oil sector (77.2% of total revenue in 2008) and as a result changes in the overall balance of the budget have mirrored movements in the oil price. The oil revenue windfall of recent years has paved the way for increased fiscal expansion and government has been leading infrastructure development towards the recovery/construction of several economic and social infrastructures. However, the real implementation rate of the Public Investment Programme has revealed the traditional difficulties surrounding implementation capacity, with only 70% of the Public Investment Programme in 2007 having been implemented.

Within the framework of consolidating macroeconomic stabilisation and with a view to achieving sustainable levels of growth, in 2008, the government continued to apply the fiscal and budgetary pillars designed in 2007, namely (i) consolidation of peace and national reconciliation; (ii) laying the foundations for building a self-sustaining economy; (iii) re-establishing public administrations throughout the country; (iv) developing human resources; (v) harmonious development of the national territory; and (vi) consolidation of the democratic process.

Figure 5: Capital flows (US$ bn)



Source: IMF

A development which should be highlighted is the establishment of standards for the process of municipal decentralisation with the setting of targets for the preparation of the Municipal Improvement Programme. In a pilot programme, 49 municipal administrations were transformed to budgetary units with powers to independently execute public expenditure without depending directly on the provincial government in each case.

The government executed most of the 2008 budget expenditures, exceeding those of the 2007 fiscal-year budget by 30%. It is estimated that Angola had a budget surplus of 12.4% of GDP in 2008 as the year's average oil price used for the budget, even with the decline towards the end of the year, remained above the then conservative price of US$55 b/d.

National policy assumptions and the international environment

Policy framework

Reflecting fundamental differences over economic policy, Angola has never had a full programme with the International Monetary Fund (IMF). Instead, since late 2006, the government has pursued a local economic programme not driven by the IMF, which it believes can ensure macroeconomic stability, stimulate private-sector activity and reduce poverty.

The Programme of Economic and Financial Restructuring (designated as SEF, Programa de Saneamento Economico e Financeiro) is oriented towards the following two main broad objectives:

- Stabilisation of the financial situation by reducing internal and external disequilibria, which were reflected in inflationary pressures, large budget deficits, excessive losses and indebtedness of many enterprises, serious deterioration of the financial situation of the banking system, accumulation of arrears in foreign payments and difficulties in servicing external debt.
- Introduction and implementation of structural reforms to increase productivity, improve the allocation of resources and create the conditions for a faster rate of economic growth and equitable development in the future.

Recent progress is encouraging, most notably, the success in reducing inflation and strengthening the government's fiscal position. However, these have been largely influenced by favourable developments in the oil sector. To guarantee the sustainability of the recently achieved macroeconomic stabilisation, the country needs to put in place a sound economic policy mix with a focus on better public expenditure management and improved coordination of fiscal policy with monetary and exchange rate policies. These policies need to spell out a consistent strategy to absorb any oil windfall without inhibiting growth outside the mineral sectors.

A first step in the right direction would be to reduce public expenditures on consumption and increase spending on productive investments (for example, infrastructure) of the sort that will have the effect of lowering domestic costs for the entire economy. To a certain extent, this strategy is being followed by the authorities, but there are areas in which complementary measures are required. A combination of fiscal, financial, trade and monetary policies should be adopted to stimulate private investments to increase the size and sophistication of non-extractive sectors and instruments to smooth out the impact of oil cycles.

International environment

From the beginning of the second quarter of 2009, the global streams of negative financial data began to slow and the debate began on whether the first streams of positive data signalled 'green shoots'. The US dollar depreciated over this period, implying that risk aversion was subsiding; commodity prices began to recover; and stock exchanges stopped perpetually closing in the red. The improvement in the international oil price is positive for Angola's external sector and for the value of the kwanza. In mid-June the international oil price rose beyond US$70 per barrel. Although the price has since retreated below US$70, it is still higher than the budget price of US$37. This is favourable for Angola's foreign exchange earnings and government revenue.

Real GDP growth (year-on-year)

	2007	2008	2009F	2010F
World	5.2	3.2	-1.3	1.9
Advanced Economies	2.7	0.9	-3.8	0.0
United States	2.0	1.1	-2.8	0.0
Euro Area	2.7	0.9	-4.2	-0.4
United Kingdom	3.0	0.7	-4.1	-0.4
Japan	2.4	0.6	-6.2	0.5
Emerging Economies	8.3	6.1	1.6	4.0
China	13.0	9.0	7.2	7.5
India	9.3	7.3	4.5	5.6
Brazil	5.7	5.1	-1.3	2.2
Russia	8.1	5.6	-6.0	0.5
Africa	6.2	5.2	2.0	3.9
Sub-Saharan Africa	6.9	5.5	1.7	3.8
Developing Asia	10.6	7.7	4.8	6.1

Sources: IMF's World Economic Outlook April, 2009, Bloomberg

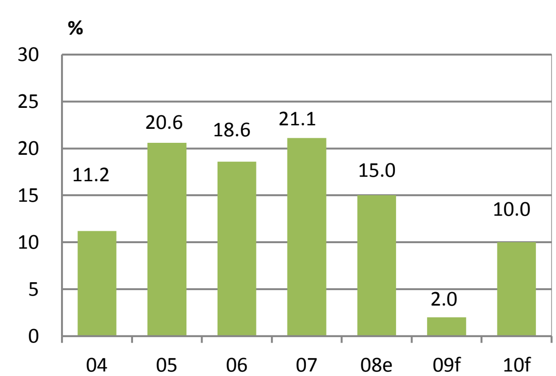
The emerging markets are expected to lead the global recovery, with China at the fore. China's growth projection for 2009 was recently upwardly revised by the IMF to 7.2% from 6.5%. However, the structure of China's economy is such that it remains externally driven in the short to medium term. This implies that for the global economy to truly be on a recovery path, the world's consumer-driven economies must also emerge from their slump. The world's most important consumer is the US; one-fifth of the world's consumption is due to the US consumer. The US economy is likely to be the first advanced economy to return to trend growth, mainly because of its large fiscal stimulus packages relative to its GDP, however, this will be over a protracted period. Although the global recession may have reached the bottom of the trough, recovery is expected to be painfully slow.

Forecast summary

National accounts

Angola faces a considerable macroeconomic challenge in the form of lower oil revenue in 2009. The country's over-dependence on oil revenue exposes it to downside risk from global price volatility and the growth outlook depends heavily on the continuation of current energy-demand trends, particularly in the US, China and Western Europe. As a result, we expect GDP growth to dip into the single digits (see Figure 6). Over the past 12 months the government has steadily reduced its real GDP growth forecast for 2009 and in June this year cut it once more to 6.2%. With oil accounting for around 60% of GDP, generating over 90% of export revenues and 75% of fiscal revenues as well as the global economic downturn, which will affect foreign investment in Angola, we expect the impact to be more severe. Fiscal imbalance, derailing long-term infrastructure rehabilitation plans and the inability to follow through on reconstruction efforts will deter potential investors and constrain growth. While we do not expect investment to contract in real terms, we are expecting a notable slowdown in its growth rate in 2009 amid global capital shortages and broad-based risk aversion.

Figure 6: Real GDP growth



Source: IMF

Despite the difficult times ahead, Angola finds itself in a stronger position to deal with the crisis, as its external position has strengthened because of historically high oil prices through much of 2008 as well as continued economic support from China. Infrastructure, the foremost driver of non-oil growth, will remain prominent, given the significant scope for reconstructing Angola's war-torn infrastructure, demand for residential and commercial space in and around Luanda, and the hosting of the 2010 Africa Cup of Nations football tournament. New projects in the pipeline include the building of a new town in Benguela Baia Azul, dubbed the Benguela Blue Ocean project. Some of the oil companies are building high-rise office buildings and over the next five years 39 hotels are to be constructed. As the African Cup of Nations football tournament approaches in 2010, a number of new football stadiums are undergoing construction. The plans include an upgrade of 30 airports across Angola (investment of US$400 million) in time for the influx of visitors expected for the tournament in January 2010.

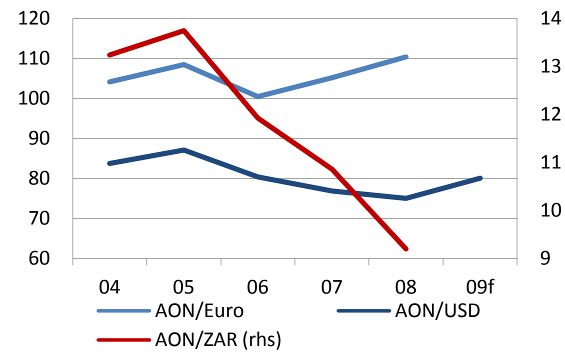
The diamond sector is slowly recovering. The price of Angolan gems fell by around 70% in 2008 because of the global economic downturn, but prices have been on an upward trend since the start of this year. Angola has ambitions to become one of the world's top three producers of diamonds by 2010, and various exploratory activities support this goal. State-owned diamond company, Endiama, plans to increase diamond production by about 10%. Diamond production has grown rapidly since the end of the civil war in 2002, but only 42% of the country's reserves are being explored. Head of Endiama, Manuel Calado, expects Angola's diamond production to remain at around 10 million carats in 2009, the same as in 2008.

Although agriculture is a relatively small contributor to growth, comprising less than 9% of GDP in 2007, we believe it has significant potential for expansion, thanks to the country's fertile soils. As part of an ongoing drive to aid the agricultural sector, the Angolan government has set aside US$1 billion to invest in and stimulate growth in the sector. The country aims to stimulate 13% growth in the agricultural sector annually, thus increasing the sector's share of GDP to 10% in 2015. Additionally, Angola's coffee institute has announced plans for a US$150 million cash injection over a four-year period in a bid to re-launch the coffee industry. Angola hopes to regain its position as one of the world's top coffee producers. In the 1970s Angola exported 200 000 tonnes of coffee a year and plans to increase output to 50 000 tonnes by 2013 with intentions to train farmers and modernise coffee plants in the country. Coffee production amounted to 5 762 tons in 2007, a 130% increase over the 2 500 tons produced in 2006. Performance in fisheries should remain relatively strong.

Monetary and exchange rate policy

The intervention of the central bank in the currency market has stabilised the kwanza. Since 2006 the currency has, in effect, been pegged to the US dollar and has remained largely unchanged in value at AON75/US$1 (see Figure 7). However, the stability of the currency has relied on strong foreign exchange reserves. With the collapse in oil revenue and inflows of foreign direct investment the central bank's ability to support the currency is increasingly restrained. By mid -2009, the cost of supporting the kwanza had exceeded US$5 billion. As a result the kwanza was devalued to AON77.8/US$ in April 2009.   We expect that falling foreign reserves will force the central bank to devalue the kwanza further in 2009 to AON80/US$1.

Figure 7: Kwanza/US$



Source: Bloomberg

The latest inflation figures released by the National Statistics Institute in Angola show that inflation increased to 13.95% y/y in June 2009 from 13.83% y/y in May on the back of rising food prices as well as higher transportation costs. Taxi prices in Luanda, the only public transport for many Angolans, rose after the government introduced strict traffic rules that have forced hundreds of vehicles off the street in a bid to escape hefty fines. Despite near-term downside risks, the long-term declining trend in consumer prices should remain on track. Increased agricultural production could bolster food supply, keeping food prices relatively in check. In addition to this, the government has announced plans to give the state-run port in Luanda a US$105 million facelift in a bid to tackle congestion and delays, which have pushed up the price of landed goods in the country. Reported to be the world's most congested port, Luanda can look forward to improved road infrastructure to and around the port.

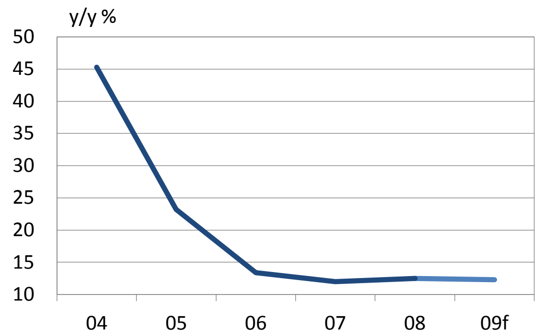
Downside risk stems from the rapid growth in money supply (M1), which grew by 59.4% in 2007, 103.8% in 2008 and 82.6% in the first quarter of 2009 as well as the BNA's weakening capability to support the currency - foreign exchange reserves declined to US$12.2 billion in May this year from a record high of US20.4 billion in November last year. We therefore expect falling food prices to reduce inflation only marginally and estimate an annual average of 13% in 2009. The government has forecast an average of 12.5%.

With the rapid reduction of international reserves and increasing demand for US dollars at BNA auctions, monetary policy was changed in late February 2009. The compulsory reserve requirements (RO) for commercial banks were increased from 15% to 20% and the rediscount rate went from 19.57% to 25%. Interest rates will, however, only be an effective monetary tool once Angola's financial markets become deeper and more de-dollarised. Kwanza stability has led to its increasing adoption in the economy in recent years. The bank sector continues to grow rapidly from an extremely small base, with the M2/GDP ratio rising from 19% in January 2008 to 35.7% in January 2009.

A study at the end of 2008 by KPMG Angola points to the fast expansion of credit in the country with the transformation rate of deposits into credits in commercial banks growing from 43% in 2006 to

75% in 2007. The study shows that credit to the economy increased at 85%, whereas deposits recorded a 43% increase. The strong growth of deposits and credit continued in 2008, with total deposits in the commercial banks growing 57.3% in the first eight months of the year. Similarly, deposits in domestic currency increased faster (69.4%) compared to foreign currency (46.5%), representing more than half of total deposits (51%) compared to 47.2% in December 2007. Total credit had almost doubled in the first eight months led by very strong growth of credit to the public sector, jumping from 27.7% of total credit in December 2007 to 47.8% in August 2008. Credit to the private sector increased by almost 38%, with short-term credit increasing by 56% compared to 30% for the medium term. Further de-dollarisation and financial deepening will continue to ensure liquidity is absorbed in the short term and is expected to increase the effectiveness of interest rate intervention as a policy instrument.

Figure 8: Consumer inflation

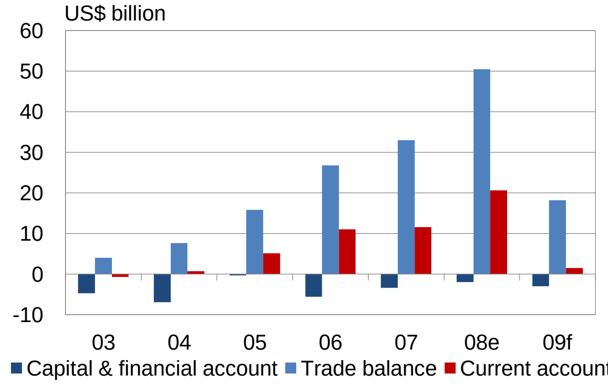


Source: BNA

External sector

Although the international oil price has recovered to the US$65-70 per barrel region and has almost doubled since it dropped to its regional low in December 2008, it is still a fraction of its peak of US$147. Export earnings are thus expected to be subdued in 2009 compared to 2008, especially as 90% of total export earnings are from oil. It is estimated that in 2009export earnings will be almost half of those generated in 2008. The decrease in earnings in the oil industry is expected to reduce the repatriation of profits and dividends, and thus to narrow the deficit in the country's services and income account. Import growth will continue to be driven by higher consumer demand for household goods and capital investment. In this light, we expect the current account surplus to be dramatically reduced to below 5% of GDP from an estimated 38% of GDP in 2008.

Figure 9: Trade balance



Source: BNA

The deficits on the services and income accounts will fall in response to lower demand for services from the oil sector and a drop in repatriated profits. Tourism services have notable potential to improve the services account, but are unlikely to take off in 2009, owing to the global growth slowdown. In the past three years, thousands of foreigners entered the country on tourist visas, allegedly contributing well over US$105 million to the economy which was a significant improvement from the previous years. Tourism is a viable sector for expansion given the country's resources, but the government will need to invest money in clearing the country of landmines, rebuilding transport and communications infrastructure, and training local personnel for the industry's needs. The industry remains in its early days, but a strong effort to improve the tourism and hospitality sector as well as the country's physical infrastructure will provide a strong foundation for future growth in this sector. Inflows of net transfers will remain negligible, reflecting limited access to donor support.

It seems that the government recognises the potential of the coffee sector for growth and export earnings, albeit from a very low base, as a way of diversifying the production base away from oil and minerals. The government is to invest US$150 million over the next four years to stimulate robust growth in the local coffee industry and with the hope of positioning the country among the world's top producing nations. Despite only exporting 6 000 tonnes in 2008, the government has voiced ambitious claims of expanding average output by almost 90% to 50 000 tonnes between 2009 and 2013. Strengthening prices in the global coffee market to reflect supply tightening alongside steady demand could contribute to Angola's producers and exporters yielding significant year-on-year output and revenue gains in 2009. According to the local coffee board, the country now has seven exporters, whereas three years ago there was only one, which should help facilitate easy disbursement to an array of consuming countries. It may be an overly ambitious quest to raise output to 50 000 tonnes by 2013, particularly when considering the uncertainty in the world economy and the possible implications for global supply and demand of a non-staple consumption crop.

Fiscal sector

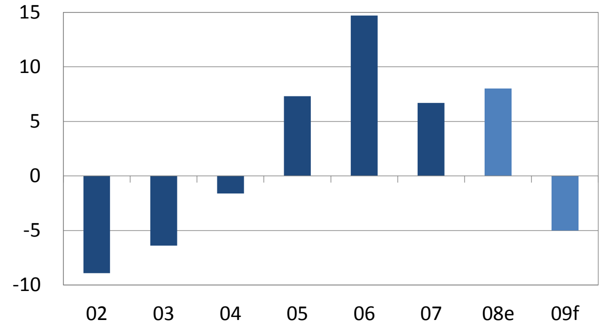
Oil accounts for three quarters of fiscal revenues. Accordingly, a downward adjustment in oil revenue has a significant impact on the fiscal balance. Based on existing spending plans but lower oil revenue, we expect the budget surplus of around 12.4% of GDP in 2008 to turn into negative territory of around 5% in 2009.

Despite tabling a fifth consecutive expansionary budget for 2009, which envisions increasing public spending by 43% to K3.18 trillion (US$42 billion), the government has indicated that it will substantially revise the budget during the year to take account of the anticipated collapse in oil revenue. In May this year the Minister of Finance revised downwards the budget's oil reference price from US$55/barrel to US$37/barrel, which is now below the average market price. In his 2008 end-of-year address, President Dos Santos announced that the budget's oil-price benchmark of US$55/b would be revised downwards, although he insisted that the budget's core objectives of expanding the country's infrastructure, diversifying the economy and creating employment would remain unchanged.

The government has been making moves to secure finance with varying success. While many sub-Saharan Africa nations have been the recipients of concessional loans from the IMF, Angola has had to pursue other avenues, given its relatively poor relations with the Fund. A major initiative has been an attempt to sell US$8 billion of government bonds, mostly to the domestic market. The authorities announced in April their intention to offer the securities, the funds from which would be used to finance a reconstruction programme. However, when they launched the weekly auctions, the yields (3-5% above LIBOR) were too low to entice investors, and take-up has typically been below 15% of the total amount offered. The authorities reportedly plan to sell inflation-linked Treasury bills which will presumably offer much higher returns, given that inflation remains into the double digits. In contrast, Angola has had more success in raising financing from bilateral sources. In late April Spain agreed to grant Angola a US$200 million loan, adding to the US$600 million trade facility agreed with Spain last year. In addition, in early June Canada's export development agency announced that it would make available a US$1 billion credit line to facilitate trade between Angola and Canada.

A significant and prolonged downturn in the price of oil would have a calamitous effect on the country's fiscal balance, its capacity to implement social programmes and perhaps even its overall political stability.

Figure 10: Budget balance



Source: IMF

Conclusion

Angola faces a considerable macroeconomic challenge in the form of lower oil revenue in 2009. The country's over-dependence on the oil sector exposes it to downside risk from global oil price volatility and the growth outlook depends heavily on the continuation of current energy-demand trends, particularly in the US, China and Western Europe. As a result, the economy is projected to grow by a tepid 2.0% in 2009 compared to 15% in 2008.

As oil exports constitute 90% of total export revenue, depressed prices will translate into a sharp decline in export revenue in 2009. As such, a deficit in the current account of below 5.0% of GDP is projected in 2009 following five years of surpluses. While the oil industry generates 75% of fiscal revenue, the slump in the industry has translated into a significant slowdown in revenue collections. Subdued government revenue is likely to delay critical infrastructure development projects. Further postponement of infrastructure construction implies that diversification of the economy and exports, and the establishment of sustainable broad-based growth will be deferred. Outside of the oil-sector, the high cost of trade resulting from weak infrastructure will continue to hamper domestic industry.

Angola

Forecasts of selected indicators

	2003	2004	2005	2006	2007	2008e	2009f
National accounts							
Gross domestic product (billions of current LCU)		1.697	2.474	3.626	4.543	6.413	5.796
% change	3.3	11.2	20.6	18.6	20.0	15.0	2.0
Government expenditure (as a % of GDP)	44	39	33	32	34	34	20
Oil production capacity (‘000 bpd)	600	989	1.247	1.427	1.7	1.8	1.8
Prices							
Inflation (annual average, %)	100	45.3	23.2	13.4	12	13.2	13.5
Monetary sector							
BNA discount rate (% at the end of the year)	120.0	95.0	95.0	14.0	18.0	19.6	19.6
Exchange rate, annual average (LCU/USD)	83.0	83.6	87.2	80.4	77.7	75.0	80.0
External sector							
Exports: goods (billions of USD)		13.5	24.1	35.6	44.7	63.3	35.0
% change			78.5	47.7	25.6	41.6	-44.7
Imports: goods (billions of USD)		5.8	8.4	8.8	11.7	12.8	17.0
% change			44.8	4.8	33.0	9.4	32.8
Trade balance (billions of USD)		7.6	15.8	26.8	33.0	50.5	18.0
% change			107.9	69.6	23.1	53.0	-24.4
Current account (billions of USD)		0.7	5.1	11.1	11.6	20.6	1.5
% of GDP		3.5	16.8	24.6	24	38.9	2.0
Public and external solvency indicators							
Gross external debt (% of GDP)		54.5	39.8	20.4	15.7	11.1	12.5
Government balance (% of GDP)*		-1.1	2.5	7.1	6.7	12.4	-5.0

Source: Universidade Catolica de Angola, Banco Nacional de Angola, Angola Ministry of Finance, Bloomberg

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