Euler Hermes Economic Research

Country Risk Analysis

Angola

Strong GDP growth from low base

General Information

GDP	USD114.197bn (World ranking 60, World Bank 2012)
Population	20.82 million (World ranking 56, World Bank 2012)
Form of state	Republic
Head of government	Jose Eduardo DOS SANTOS
Next elections	2016, legislative

Strengths

- Elections, although not without logistical problems, have been conducted relatively peacefully and the results accepted by opposition forces, thereby assisting the country's progress in entrenching political stability.
- Despite bordering DR Congo, there are no significant threats to security from external forces.
- Membership of OPEC. Angola rivals Nigeria as the leading Sub-Saharan African oil producer, with reserves calculated to provide over 19 years of further output at current rates of extraction.
- In addition to hydrocarbons, possesses significant natural resources through its mining (including diamonds) and agricultural sectors.

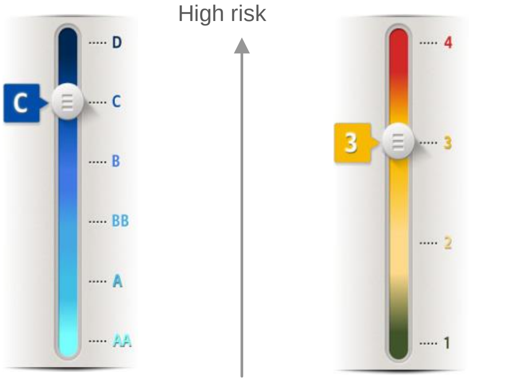
Weaknesses

- With crude oil accounting for 96% of export revenues, the economy is susceptible to volatility in global markets and to potential large swings in oil prices.
- Rebuilding and reconstruction of economic and social communities after a debilitating civil war require considerable resources.
- Persistent pockets of high level poverty.
- Perceptions of corruption, particularly in relation to the lack of transparency in oil accounts, have limited local confidence in the country's leadership and prevented full IFI support and investment from the western world in the non-oil sectors.
- Data provision remains uneven.

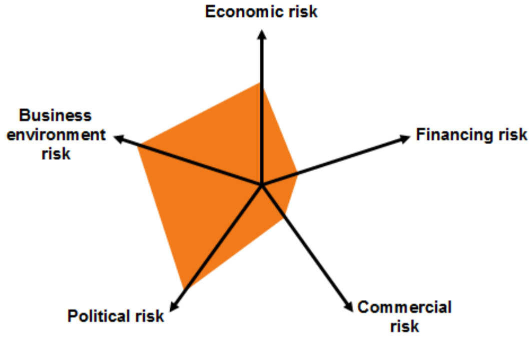
Country Rating

C3

Country Grade **Country Risk Level**

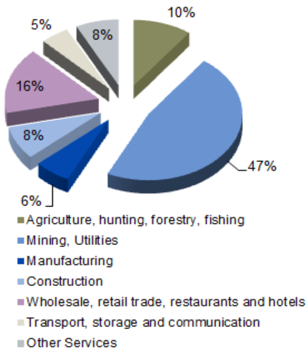


Risk Dimensions



Economic Structure

GDP breakdown (% of total, 2011)



Sources: Chelem, UnctadStat, IHS Global Insight, Euler Hermes

Trade structure (% of total, 2011)

By destination/origin

Exports		Rank		Imports
China	39%	1	19%	Portugal
United States	22%	2	16%	China
India	10%	3	9%	United States
China, Taiw an Province of	9%	4	6%	Brazil
Canada	4%	5	5%	South Africa

By product

Exports		Rank		Imports
Petroleum, petroleum products and related	98%	1	7%	Other industrial machinery and parts
Non metallic mineral manufactures, n.e.s.	1%	2	7%	Road vehicles
Gas, natural and manufactured	1%	3	6%	Iron and steel
Metalliferous ores and metal scrap	0%	4	6%	Petroleum, petroleum products and related

Economic Forecast

	2009	2010	2011	2012	2013f	2014f
GDP growth (% change)	2.4	5.3	7.5	8.5	6.5	7.0
Inflation (%, end-year)	14.0	15.3	11.4	9.0	8.8	8.5
Fiscal balance (% of GDP)	3,0	3,6	3,4	3,3	1,0	2,2
Public debt (% of GDP)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Current account (% of GDP)	6.8	-10.1	2.8	1.5	0.4	-0.3
External debt (% of GDP)	22.8	26.2	25.9	22.3	19.5	17.5

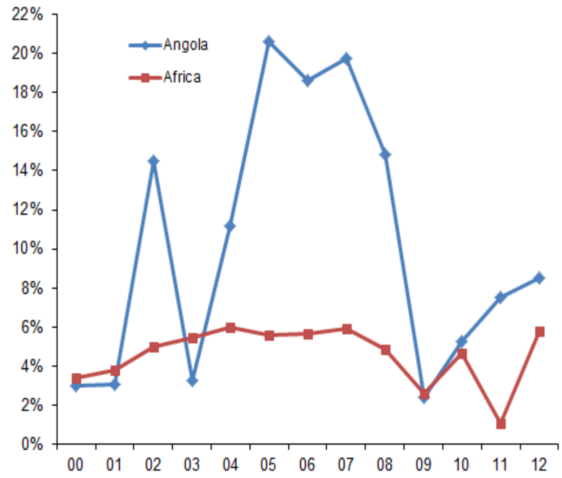
Sources: IHS Global Insight, National sources, Euler Hermes

Economic Overview

The oil industry is relatively de-linked from other sectors of the economy and this enabled it to remain relatively unscathed by the civil war. In turn, this enabled overall GDP to register growth even before the 2002 peace deal that brought conflict to an end. Growth since then has been particularly strong, partly because of the catch-up and low base involved, but also volatile (see chart). In most years since the end of the civil war GDP growth has exceeded that for the Sub-Saharan Africa region as a whole. The annual average GDP growth in the period 2000-08 was +12.1% and over the 10-year period to end-2012 averaged +11.2%.

The growth outlook depends heavily on global energy demand and on internationally-determined oil prices. In particular, the performance of emerging Asian markets (accounting for around 60% of total exports) is key. In this respect, the outlook for Angola's oil exports is relatively sound. However, the government's infrastructure investment programme and continuing FDI inflows will also boost growth in the non-oil sectors. EH expects GDP growth of around +6.5% in 2013 and a rebound to +7% in 2014, subject to the prevailing climatic conditions and state of the global economy.

GDP growth (%)



Sources: IHS Global Insight, Euler Hermes

Economic Overview (continued)

The national development plan, Angola 2025, aims at limiting structural rigidities and enhancing economic diversification away from the upstream oil sector. The IMF suggests that this requires effective programmes to improve infrastructure, expand human capital and lower the cost of doing business in the country. A Stand-By Arrangement with the IMF expired in March 2012 and Angola does not currently have need for a monitored financial facility. The Fund and other agencies also promote greater transparency in the country's financial accounts. It remains to be seen whether the creation of a sovereign wealth fund (SWF) at end-2012 (with start-up capital of USD5 billion) will improve management of oil revenues.

Current account surpluses in the period 2010-12 averaged over +2% of GDP but EH expects the surplus to narrow in 2013 (+0.4%), reflecting global uncertainties in the energy markets and Angola's rapid import growth, particularly in relation to large infrastructure projects. It is possible that a small deficit may be recorded on the current account in 2014 but this will be comfortably financed.

In 2006, Angola settled long-standing disputes relating to overdue interest payments on loans with creditor countries under the Paris Club arrangement and this resulted in an improved relationship with the international financial community. Annual foreign debt servicing is now around 9% of FX earnings and other foreign debt ratios are also manageable, although repayments of such obligations necessitate a redirection of financial resources away from productive use in the domestic economy. Some additional foreign obligations have been taken on as part of oil production deals and are probably not included in the official figures. Other indicators of external sector activity have also improved and foreign exchange reserves currently provide five months of import cover. There is some doubt that all export revenues appear in officially published accounts and, in general, the supply of macro-economic and other market data remains weak.

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