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Monitoring of Countries Graduating from the Least Developed Country Category:

Angola

SUSTAINABLE DEVELOPMENT GOALS

Monitoring of Countries Graduating from the Least Developed Country Category:
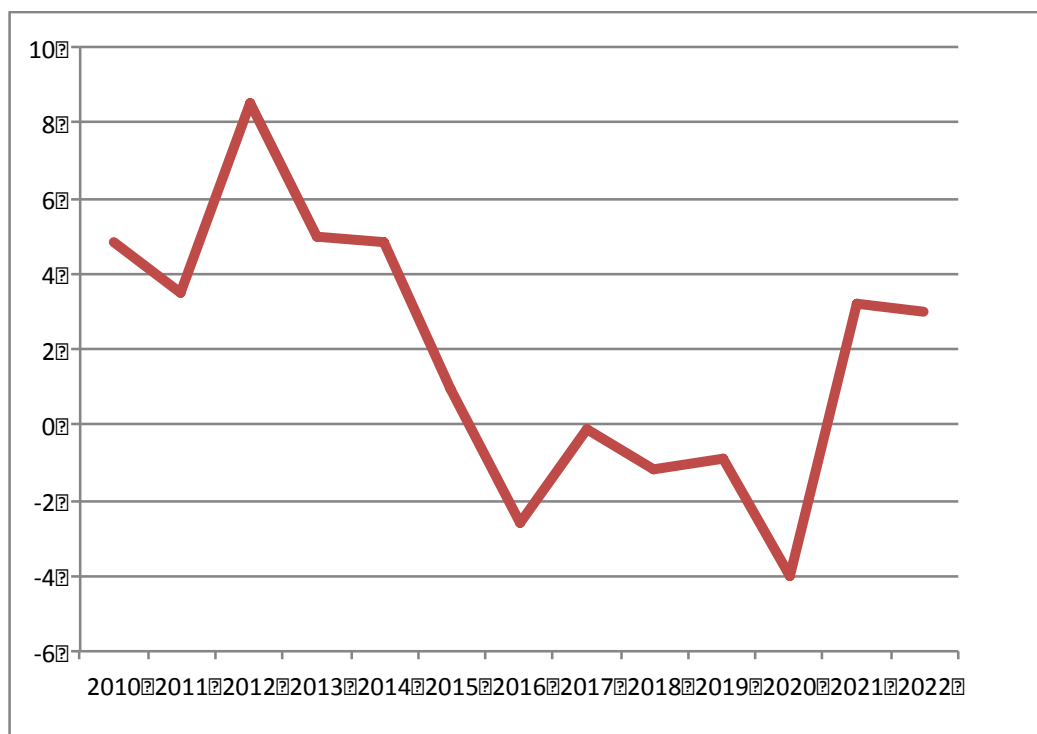# Angola

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Summary

Angola was recommended for graduation meeting income-only criteria in 2015. The GNI per capita is now almost three times higher than the threshold in 2021, but the progress in improving HAI (still 20% below the threshold) and EVI (40% above the threshold) has been slow. Angola lags the LDC average in the overall productive capacity index and its sub-components, except for natural capital and energy, reflecting the difficulty in diversifying the economy. Due to the low oil prices in the past years and demand shocks caused by the COVID-19 pandemic, Angola is struggling with heightened external debt stress. The debt-to-GDP ratio is estimated to reach 123 per cent, and total debt service is estimated to exceed 100 per cent of fiscal revenues in 2020. Just weeks before the scheduled graduation on 12 Feb 2021, Angola has started seeking an extension of the preparatory period.

Macroeconomic situation

The economic situation in Angola has been deteriorating since 2012, along with the drop in oil prices and oil output. In 2020, the pandemic has aggravated the overall macro-economic situation.

Angola continues highly dependent on the oil sector (contributing to one third of GDP, over 90 per cent of exports[1]). As a result, GDP growth in real terms has been negative since 2015, in line with the drop in oil prices (see Figure 1). In 2020, Angola is expected to register a negative GDP growth of 4 per cent. Assuming a slow recovery of Brent crude prices, the GDP growth forecast is more positive both for 2021 and 2022.

Figure 1: GDP growth rate, Angola in, constant price, 2010-2022 (percentage change)

Source: IMF (2020). World Economic Outlook, accessed November 2020.

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[1] World Bank (2019), World Development Indicators, accessed December 2019.

Inflation is expected to accelerate in 2020, especially as the kwanza depreciates sharply, reaching a 21 per cent rate. The Banco Nacional de Angola (the central bank) may well keep interest rates unchanged in 2020 (at 15.5 per cent) to avoid any additional negative impact on the economy activity. Inflation is expected to abate in 2021-24, creating space for interest rate cuts.

Table 1. Selected macroeconomic data for Angola, 2014-2019

Indicator	2014	2015	2016	2017	2018	2019
GDP growth rate (per cent, constant price)	4.8	0.9	-2.6	-2.5	-1.7	-1.5
Inflation rate (%)	7.3	10.3	32.4	31.7	20.2	18.9
Government revenue (billions of national currency)	4,402.6	3,366.7	2,900.0	3,546.3	5,860.0	6,529.1
Government expenditure (billions of national currency)	5,222.0	3,773.7	3,648.0	4,823.6	5,273.9	6,270.8
Government balance (billions of national currency)	-819.4	-407.0	-748.1	-1,277.3	586.1	258.3
Government balance (per cent of GDP)	-5.7	-2.9	-4.5	-6.3	2.2	0.8
Net ODA received (millions of US dollars)	235.4	380.1	206.5	223.2	162.7	
Balance of Payments (millions of US dollars)						
Current Account	-3,747.5	-10,272.8	-3,085.2	-632.9	7,402.6	5,137.4
Goods, Credit (Exports)	59,169.9	33,181.1	27,588.9	34,613.5	40,757.8	34,725.6
Goods, Debit (Imports)	28,580.3	20,692.5	13,040.5	14,463.2	15,797.8	14,127.1
Balance on Goods	30,589.6	12,488.6	14,548.4	20,150.2	24,959.9	20,598.5
Services, Credit (Exports)	1,681.3	1,256.2	710.9	984.6	631.1	454.6
Services, Debit (Imports)	24,957.6	17,276.2	12,616.5	13,793.3	10,089.5	8,172.3
Balance on services	-23,276.3	-16,020.1	-11,905.6	-12,808.7	-9,458.4	-7,717.7
Balance on Goods and Services	7,313.3	-3,531.5	2,642.7	7,341.5	15,501.5	12,880.8
Balance on income	-8,849.9	-5,907.5	-5,273.7	-7,505.6	-7,829.5	-7,516.3
Balance on current transfers	-2,210.9	-833.8	-454.2	-468.7	-269.4	-227.1
Capital Account	1.6	6.3	0.6	2.6	2.9	2.0
Financial Account	-7,584.6	-11,465.6	-4,892.3	-748.4	7,246.0	4,185.8
Direct investment (net)	-2,770.7	-10,813.1	452.5	8,749.3	6,461.8	1,749.1
Portfolio investment (net)	970.9	-446.2	-16.6	9.1	-3,652.8	-1,675.9
Other investment (net)	-1,854.5	2,852.9	-5,776.5	-4,421.6	5,333.2	3,146.4
Change in reserves						
Total Reserves (Millions of US dollars)	-3,930.3	-3,059.2	370.0	-5,007.0	-947.7	966.9
Reserves (months of imports)						

Source: GDP growth and inflation are from UN DESA, WESP, 2020 edition, accessed 18 Dec 2020. Government balance is from IMF, World Economic Outlook Database, October 2020 edition, accessed 18 Dec 2020. Net ODA is from OECD, OECD.Stat, accessed 18 Dec 2020. All external sector indicators are from IMF, Balance of Payment Data Reports, accessed 18 Dec 2020.

As global oil prices and overall external demand trended lower in 2020, due to the Covid-19 pandemic, Angolan exports are expected to plummet further, by about 40 per cent. As a result, the current is expected to register a deficit of 1.3 per cent of GDP in 2020, after a surplus of 5.7 per cent in 2019. In a post-Covid-19 global environment, the external sector will recover and the current account is expected to improve slightly, registering small surpluses between 0 and 1 per cent of GDP, in the next few years.

As hydrocarbons constitute a major source of fiscal receipts, the slump in prices, combined with falling production volumes, will lead to a sharp drop in government revenue. Despite a revised budget for 2020 to take into consideration, lower oil tax revenues, a fiscal deficit of 2.8 per cent is projected for 2020. The fiscal balance is expected to improve in the following years supported by higher oil revenues and is forecast to reach positive territory in 2021 and 2022 (IMF, 2020a).

Public debt is now expected to become extremely elevated and subject to heightened risks. The debt-to-GDP ratio is projected to reach 123 per cent in 2020, mostly reflecting a large currency depreciation and lower nominal output. The depreciation of the national currency will raise the debt burden and debt service, as 2/3 of the debt is denominated in foreign currencies. Because oil exports are projected to remain subdued in the coming years, debt indicators will remain high, albeit declining (IMF, 2020b).

Debt sustainability is a concern and has required special debt management and financing. The authorities have requested debt relief under the Debt Service Suspension Initiatives (DSSI) adopted by the G20 in 2020. According to the latest estimates published by the World Bank, the potential savings under the DSSI in the case of Angola potentially represents 2 per cent of GDP (based on 2019 GDP).

Notwithstanding the debt reprofiling and strong fiscal consolidation, total debt service will remain large and warrants careful management. It is projected to exceed 100 per cent of fiscal revenues in 2020, but this ratio will decline in 2021.

In early January 2021, Angola has secured, three years of payment relief from their major creditors, different Chinese entities (China Development Bank and Export-Import Bank of China, among others). In parallel, the country is also expected to receive more than $700 million in the next tranche of IMF financing, under the IMF's Extended Fund Facility, which had been approved in December 2018.

LDC indicators

The GNI per capita of Angola is estimated as $3,207 in 2021, a bit less than three times higher than the LDC graduation threshold established at the 2021 triennial review, $1,222 (see Annex). Despite the declining trend, GNI per capita is expected to remain far above the graduation thresholds in coming years.

Table 2. Indicators for LDC identification, Angola, 2017-2021

	GNI per capita	EVI	HAI
2017	4,797.6	44.4	50.4
2018	4,460.6	45.0	51.8
2019	3,942.5	45.4	52.2
2020	3,469.6	45.4	52.6
2021	3,207.3	45.6	52.9

Source: CDP Secretariat

Human development in Angola remains inconsistent with the country income level, while the country has also experienced a slight improvement in the HAI score, estimated to be 52.9, which is still a very low value compared to the HAI scores of countries with similar income levels.

The EVI score is 45.6 in 2021, a higher score than a year ago, keeping Angola far above the graduation threshold of 32 or below. Angola continues to be vulnerable to external shocks. Over the past three years,

an increasing share of agriculture in GDP, increasing agricultural instability, a rising number of victims of disasters, and an increase in the population living in drylands have been behind the worsening EVI score. To reduce the vulnerability of Angola and enhance the resilience, the Government is taking steps towards the transformation of a state-led oil economy to a private-sector-led growth model, but such transfer would be a long-term process and the oil sector will continue to play an important role during the transition period. In the short term, owing to the limited fiscal resources, in August 2020 the government announced a scaling back of its National Development Plan 2018-22 (PDN). Even though the diversification of the economy remains a major priority under the revised PDN, investment into the non-oil economy is expected to remain weak in 2021.

Productive Capacity

Despite being on the verge of graduation, the scores of Angola in the PCI overall and on the different dimensions of the PCI reaffirm the patterns of growth based on natural resources – especially when it relies virtually on just one product – and the slanted development patterns that result. These features are also reflected in the process of graduation based on income-only. The main consequences are two-fold. First, Angola lags other developing countries (ODCs) by far in terms of overall productive capacity development, with a score in the total PCI which corresponds to just half of that of ODCs (see table 3). A similar pattern is true for the PCI sub-indices, with the only exception of natural capital.
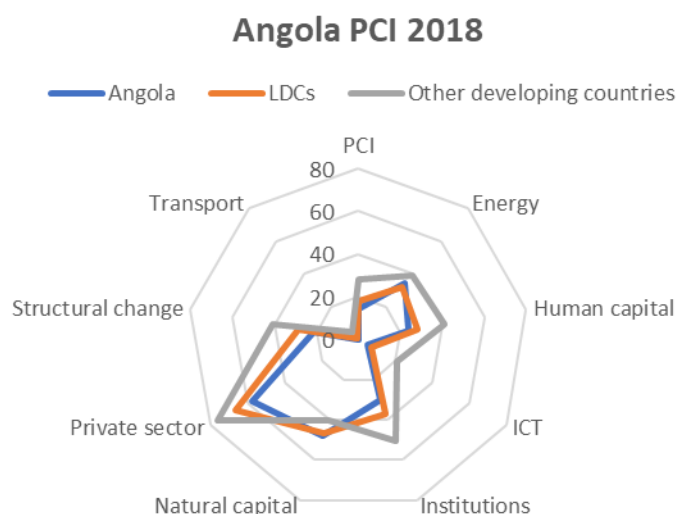
Table 3. Productive Capacity Index, Selected Countries, 2018 value

Country	PCI	Energy	Human capital	ICT	Institutions	Natural capital	Private sector	Structural change	Transport
Angola	14.5	34.1	23.8	5.0	30.2	48.1	57.6	21.5	0.3
Bhutan	28.5	49.7	37.9	13.8	62.4	43.7	72.0	35.3	2.4
Equatorial Guinea	18.0	25.1	24.4	8.0	22.3	37.9	64.8	31.7	1.3
Samoa	29.1	39.9	37.4	10.5	66.3	32.4	81.9	39.2	4.7
Sao Tome and Principe	19.9	28.4	34.6	9.9	47.9	36.7	69.4	33.4	0.6
Solomon Islands	22.4	33.9	29.9	6.0	46.3	50.1	78.3	26.1	2.2
Vanuatu	25.1	29.2	31.3	8.7	55.0	34.4	78.5	36.5	3.6
LDCs	17.7	32.0	28.3	7.4	36.9	46.5	66.6	28.9	1.1
ODCs	28.4	39.3	40.7	20.7	50.8	40.4	76.0	40.7	4.4

Source: UNCTAD.

Second and more dramatically, Angola lags the LDC average in the overall PCI and its sub-components, except for natural capital and energy. Reflecting the difficulty in channelling resources rents to the development of productive capacities through infrastructure investment, the widest gaps between Angola and the LDC average take place in transport and ICTs. By contrast, the encouraging result indicated by the PCI analysis is that the lag between Angola and both LDC and ODCs is smallest in human capital (which indicates that some of the resource rents have been directed to social policies) and private sector development. A priority will continue to be mobilizing resources rents for diversification of the economy though investment in different types of infrastructure.

Figure 2: Productive Capacity Index 2018, Angola

Source: UNCTAD

Data gap

In general, Angola's statistical capacity index was 48.9 in 2019, much lower than the LDC average (59.9) and lower middle-income countries (68.4).[2] Data required for monitoring exercise is, however, are available and up to date, relative to other Sub-Saharan African LDCs.

Smooth transition and country specific factors

Angola is scheduled to graduate on 12 February 2024 (A/75/L.57). Since late 2019, the Government of Angola has demonstrated interest on the preparation of a smooth transition strategy, assisted by DESA's technical cooperation activities[3] and more recently by the Inter-agency Task Force Team led by OHRLLS. However, the Government has not started the preparation of the transition strategy, nor submitted the country report to the CDP yet.

In view of the impacts of the COVID-19 and the surmounting debt issues, on 29 December 2020, the Government sent a letter to the Chair of the CDP, informing the CDP that the Government is requesting an additional period of time to prepare its smooth transition strategy (see letter).

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[2] World Bank. WDI. Accessed 28 January 2021.
[3] UN DESA (2019). Report of mission to Angola: the national workshop on LDC graduation, 5-7 November 2019.