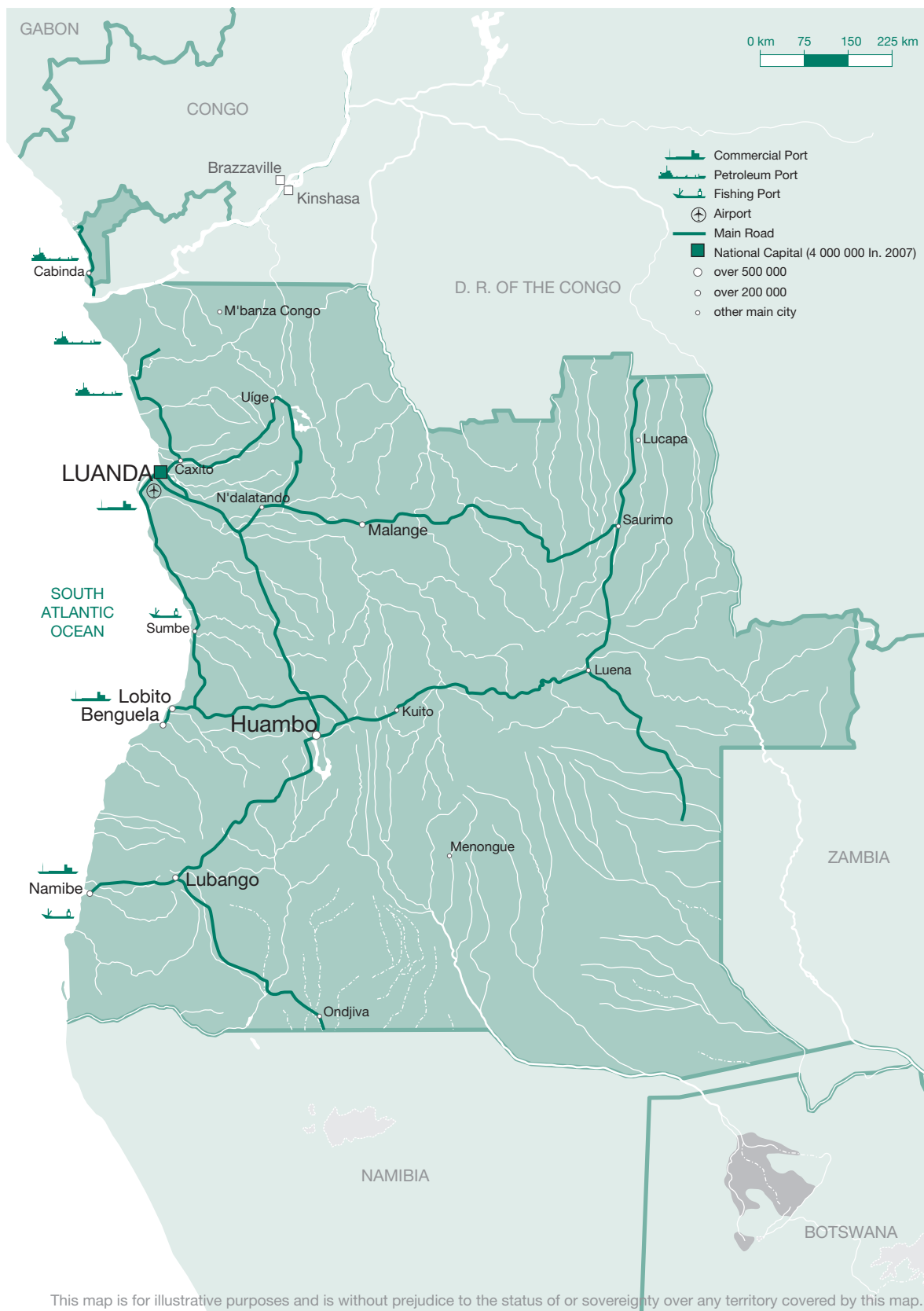


Angola
2011





Angola

Overview

Angola's economy is largely dependent on the oil sector and it was hard hit by the collapse in oil prices and demand in 2009. For years one of the fastest growing economies in the world, Angola's real gross domestic product (GDP) growth was just 3.4% in 2010, stalled from 2.4% in 2009 (and down from 13.3% in 2008). Despite the recovery in oil prices, growth was hampered by government arrears in construction and infrastructure payments. The outlook is good however and growth is expected to reach 7.5% in 2011 buoyed by high oil prices and by the resumption of the government's Public Investment Programme (PIP).

Inflation remains a challenge for Angola. After years of sustained decreases, inflation rose by 6% in 2008 to reach 13.7% and climbed one percentage point again in 2010. It is expected to decrease in 2011 to 11.7%. Both a deteriorating exchange rate and sharp increases in petrol and diesel prices following the removal of subsidies underlie this increase. Inflation is expected to remain in double digits in 2010 and 2011 due to structural constraints in public transportation and agricultural distribution.

Efforts to bolster the exchange rate in 2009 led to a sharp decrease in monetary reserves. This prompted an overhaul of monetary policy set out in a new constitution that was approved in February 2010. The *Banco Nacional de Angola* (BNA) now shares responsibility for interest and exchange rate policies with the Ministries of Planning and Finance. With budgetary and current account balances beginning to recover in 2010 on the back of rising oil prices, monetary policies are expected to loosen in 2011 to foster private sector activity.

While the non-oil sector has expanded by an average of 14% over the past four years, economic diversification remains shallow. The construction and infrastructure sectors are heavily dependent on the PIP, while growth in agriculture more adequately reflects a catch up after the country's 27-year war that ended in 2002. Mining is still concentrated on oil and diamonds although the resumption of pre-war exploitations of iron ore, gold and copper is underway. Commerce, which developed informally during the war, was severely disrupted in 2010 by the government's displacement of the Roque Santeiro market, previously the largest market in sub-Saharan Africa. Manufacturing is largely concentrated in oil- and gas-related activities.

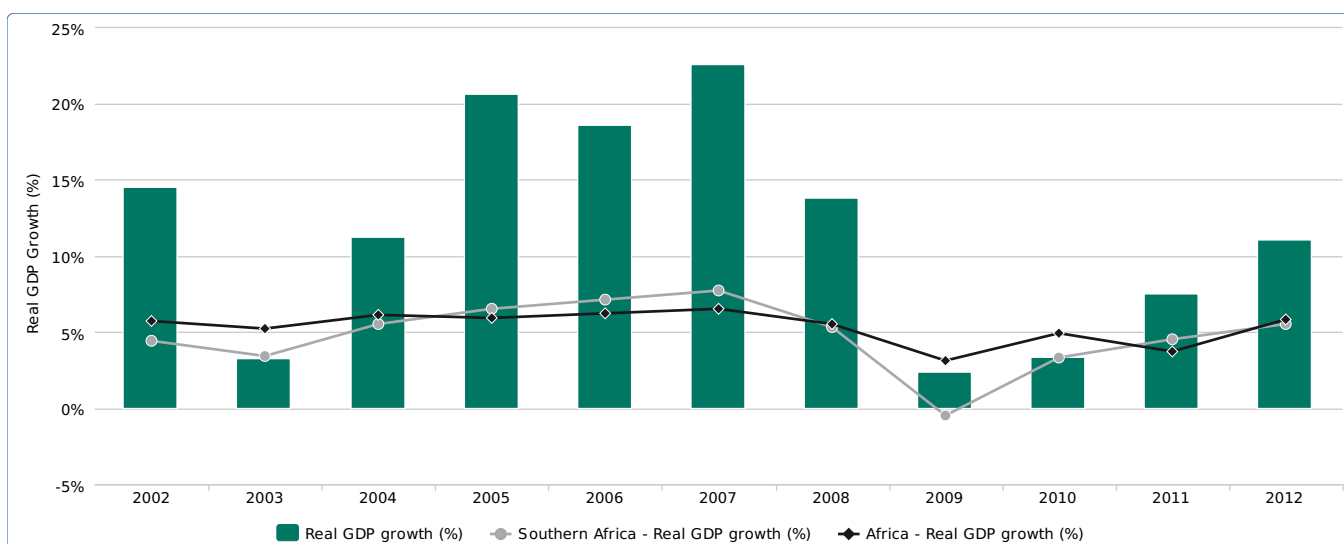
While public sector capacity to crowd out private investment in a number of sectors remains a concern, the government has managed great social and economic challenges since 2002 without any major outbreak of violence. There is a widespread lack of qualified human resources that acts as a major constraint to growth in the medium term. With an ambitious infrastructure development plan boosted by the country's first credit risk rating and by massive inflows of credit, the government hopes to improve access to basic services in the short term.

Angola's economy remains largely driven by public investment, which is blighted by political patronage and corruption. National planning programmes continue to highlight the need for better co-ordination of public policies, and there is a clear need for a national infrastructure development policy. Efforts are currently being taken to boost the private sector and decrease reliance on public investment.

The adoption of a new constitution in February 2010 further cemented President José Eduardo dos Santos's 30-year grip on power. Presidential elections have been abolished (the president instead being nominated as head of the ruling party) and the post of prime minister has been replaced by that of a vice president directly under the president's authority. Although a limit of two five-year presidential terms has been set, this does not take into account Mr dos Santos' previous decades in power, enabling him to remain president until 2022. The next presidential elections are not scheduled before 2012.

According to the United Nations High Commissioner for Refugees (UNHCR), there are close to 70 000 Angolan refugees in the Democratic Republic of Congo, 25 000 in Zambia, 6 000 in Namibia and 2 000 in Congo. These will lose their war refugee status at the end of 2011. The appropriate re-integration of these refugees poses a fresh challenge for the Angolan government added to the key tasks of managing the country's non-renewable national wealth more efficiently, and creating jobs. Better management will require the strengthening of institutions and a relaxing of the leadership's tight hold on power, both political and economic.

Figure 1: Real GDP growth (S)



Source: IMF and local authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink <http://dx.doi.org/10.1787/888932403781>

Table 1: Macroeconomic indicators

	2009	2010	2011	2012
Real GDP growth	2.4	3.4	7.5	11.1
CPI inflation	13.7	14.7	11.7	12.1
Budget balance % GDP	-8.6	7.3	6.7	8.1
Current account % GDP	-10	1	-3.8	3.5

Source: National authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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Recent Economic Developments and Prospects

Table 2: GDP by sector (in percentage)

	2005	2010
Agriculture, forestry, fishing & hunting	10.0	10.9
Agriculture, livestock, fishery, forestry and logging	-	-
of which agriculture	-	-
of which food crops	-	-
Mining and quarrying	51.1	44.2
Mining, manufacturing and utilities	-	-
of which oil	-	-
Manufacturing	4.8	6.5
of which hydrocarbon	-	-
Electricity, gas and water	0.1	0.1
Electricity, water and sewerage	-	-
Construction	4.8	8.0
Wholesale and retail trade, hotels and restaurants	17.5	22.1
of which hotels and restaurants	-	-
Transport, storage and communication	-	-
Transport and storage, information and communication	-	-
Finance, real estate and business services	-	-
Financial intermediation, real estate services, business and other service activities	-	-
General government services	-	-
Public administration & defence; social security, education, health & social work	-	-
Public administration, education, health	-	-
Public administration, education, health & other social & personal services	-	-
Public administration, education, health & social work, community, social & personal services	-	-
Public administration, education, health & social work, community, social services	-	-
Other community, social & personal service activities	-	-
Other services	11.7	8.1
Gross domestic product at basic prices / factor cost	100	100

Source: AfDB Statistics Department, based on data from Statistics Angola.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink  <http://dx.doi.org/10.1787/888932407106>

Angola's economic growth is closely reliant on oil. In 2010 with the recovery of international oil prices, growth

rose to 3.4%, up from 2.4% the previous year. Agriculture and oil-related manufacturing also continued accelerating with double-digit growth. Economic activity was nevertheless hindered by the slow implementation of the PIP and the government's USD 8.6 billion in accumulated arrears, which contracted construction by 10.8% and commerce by 5.8%. Diamond production also dropped by 2.4% with lower international prices.

Growth is expected to increase in 2011 with the impact of the PIP exerting an effect on construction and commerce, and with the rise in oil prices and production. The 2012 legislative elections are also expected to boost public consumption and hence growth. Agriculture and oil-related manufacturing and diamonds are expected to bolster the economy with double-digit growth rates. In 2012, all sectors save for that of energy are expected to expand.

Angola was the second largest oil producer in Africa in 2010 after Nigeria. In 2010, the oil sector was hard hit by a 1.2% fall in production (to 1.78 million barrels/day [b/d]) although the partial recovery in world prices (from a 34.2% drop in 2009, prices rebounded by 24.7% in 2010) eased the effect. Production is expected to recover to 1.85 million b/d in 2011 and 2.05 million b/d in 2012. In terms of prices after the 34.2% decrease in 2009, the 24.7% rise in 2010 eased the leakage in production well above the 1.65 million b/d output target defined by the OPEC.

Although uncertainty surrounds ultra deepwater extraction following the catastrophic Gulf of Mexico spill in 2010, several foreign companies are involved in prospecting off Angola's shores. The outlook remains good. In August 2010, French-owned Total announced works on the water fields north of Luanda that are estimated to contain about 500 million barrels of oil and production is scheduled to begin in 2014. The Italian company ENI also made two new discoveries in March 2010 in the waters off Soyo in the northern region of the country. The previous bidding round for offshore rights was suspended in 2008 following the first post-war legislative elections but the government is aiming to launch a new round in 2011.

Refining, storage, transportation and distribution of petroleum products are currently held under a monopoly by Sonangol, the state-owned oil company, but these activities are scheduled for liberalisation by 2012. Sonangol has increasing interests in foreign oil exploration and production, and in December 2010 it embarked on a joint venture with Venezuelan and Cuban state oil companies to develop oilfields in Venezuela. Sonangol has taken steps to increase transparency as it broadens its reach into new markets by hiring Ernst & Young to audit its accounts.

Although the diamond industry, Angola's second largest export commodity after oil, was hard hit by the steep drop in world prices and low demand in the wake of the global economic crisis, tariffs rose by 43.5% in 2010 to USD 114.2 per carat. The state-run diamond company Endiama contracted its production by 2.4% in 2010, though this is expected to expand by 18.2% in 2011 and 41.7% in 2012. Endiama is resuming its pre-crisis investments and is reactivating the suspended fields.

The move to diversify Angola's mining base away from diamonds is underway. Copper mining, Angola's second production after diamonds prior to 1963, will soon resume in the Mavoio region in the northern province of Uíge. Monthly production of 20 000 tonnes of pure copper is expected. In September 2010, state-owned Ferrangol committed to investing USD 1 billion over four years to develop the Cassinga project in the southern Huila province, an area rich in iron ore, manganese and gold deposits. Production in this region was interrupted by the civil war over 30 years ago.

Despite contributing only 10.6% of GDP in 2009, agriculture is the fastest growing sector (up 11.5% in 2010 and 25.9% in 2009) although it has yet to recover from the losses of the civil war. With the help of international donors and a credit line from the China Development Bank, the government has been investing heavily in agriculture as part of a USD 1.2 billion 2009-12 investment plan. It aims to tackle food insecurity which currently threatens 10-15% of the population, to reduce costly food imports and to boost employment. With less than 30% of arable land under cultivation, the potential for extensive agriculture is huge. Intensive farming is also needed to raise productivity. In 2010, a USD 350 million credit line was set up for medium and small-scale producers and peasants associations to enable them to finance the purchase of seeds, fertiliser and small-scale farming instruments, as well as to finance investments aimed at expanding farming areas and increasing production.

In terms of oil-related manufacturing, in 2010 Angoflex (a joint venture between Sonangol and French-owned Technip) became the first Angolan company to supply an oil industry project abroad, in Ghana. Angola is expecting to meet growing demand for pipes for gas and oil transportation in the West African market. Angoflex increased production from 80 to 200 pipes per day in the first quarter of 2010, and expects to grow further to 500 pipes daily.

The construction of Angola's long-awaited new oil refinery, Sonaref has begun and operations are expected to begin in 2014 with more than 1 000 jobs being created. The Sonangol-owned facility in Lobito will have an

initial capacity to process 115 000 b/d, 50% of which will be exported. Despite being an oil-producing country, Angola imports energy and it is expected that Sonaref will enable the country to reduce its USD 1.6 million bill on imported refined crude (2009 figures). Currently, the sole refinery in the country processes just 37 500 b/d covering only 30% of domestic needs.

Angola has substantial natural gas reserves estimated at 297 billion cubic meters (bcm), the second largest in Africa. In order to capitalise on this resource, the government has embarked on a project to build a natural gas plant (Angola LNG). Situated in Zaire province, Angola LNG represents the country's largest single investment ever and should process 5 million tonnes of liquefied petroleum gas (LPG) per year mostly bound for the US market. With the execution rate of construction running at 69% in the second quarter of 2010, the first exports should be bound for Mississippi in the first quarter of 2012.

Commerce is largely dominated by the informal sector, which, driven by displacement from the war and migration to urban areas, accounts for 60% of the population. The relocation of the 200 000 stallholders of Roque Santeiro informal market from Luanda to Panguila impacted negatively on the sector as the 18 km distance to the new site along a traffic-clogged road constrained access to the market. Once the largest market in Africa, Roque Santeiro is credited with helping many Angolans survive during the civil war. The government has argued that the new site offers better working conditions and less informality although others have pointed out that it stands to gain by the sale of the previous site (close to Luanda's port) to property investors.

The construction sector was hard hit in the first half of 2010 (down 14.6%) by the government's payment arrears. Dominated by foreign companies, those most affected in the sector were Portuguese-owned small and medium enterprises (SMEs). Activity picked up from May 2010 however with the resumption of priority PIP projects in a now highly competitive sector.

Government estimates put the number of people without adequate housing in Luanda alone at 3-5 million. In response, and in a marked departure from a focus on high-end development that led to the eviction of hundreds of people from Luanda's shanty towns, the government renewed its 2008 commitment to build 1 million new social homes by 2013. At a cost of USD 50 billion, this represents the largest social housing programme in Africa and it will be carried out in partnership with private firms, each house costing no more than USD 60 000.

Private consumption and investment continued to accelerate in 2010 in a sustained movement since 2002. This is attributable to the positive outlook on oil, new deepsea discoveries and the post-war recovery. In contrast, public investment shrank in 2009 and 2010 for the first time since 2002. In line with this, both imports and exports contracted in 2009 and 2010. With the resumption of the PIP, it is expected that imports will recover in 2011-12 and that growth boosted by public demand will resume.

Table 3: Demand composition

	Percentage of GDP (current price)		Percentage changes, volume			Contribution to real GDP growth		
	2002	2009	2010	2011	2012	2010	2011	2012
Gross capital formation	12.6	14.8	-23.5	13.1	6.6	-5.9	2.4	1.3
Public	6.8	12.4	-30	15	7	-6.3	2.1	1.1
Private	5.8	2.4	10	7	5	0.4	0.3	0.2
Consumption	74.7	76.9	5.8	7.3	2	6.5	8.3	2.3
Public	35	24.9	4.5	8.3	3.3	1.2	2.2	0.9
Private	39.6	52	6.3	7	1.6	5.3	6	1.4
External sector	12.8	8.3	-	-	-	2.9	-3.2	7.5
Exports	75	54.5	-1	3.4	7.6	-1.1	3.6	7.8
Imports	-62.2	-46.2	-2.7	4.9	0.2	4	-6.8	-0.3
Real GDP growth rate	-	-	-	-	-	3.4	7.5	11.1

Source: Data from Ministry of Finance; estimates (e) and projections (p) based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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Fiscal Policy

Management of public finances was sub-optimal with oil revenues falling by 56% between 2008 and February 2009 and spending being adjusted only in late 2009. As result, USD 6.8 billion of domestic arrears were accumulated in the year to October 2009, and a further USD 1.8 billion in the first half of 2010. The ensuing liquidity crisis led the government to seek IMF assistance and in November 2009 a 27-month USD 1.4 billion stand-by agreement (SBA) was granted, the first since the end of the country's civil war. This is the largest IMF financing package to date for a sub-Saharan African country.

Government revenues evolved positively in 2010 with International Monetary Fund (IMF) financing and the recovery in oil. Oil revenues declined from 80% of total revenue in 2008 to 63% in 2009, before rebounding to 72% in 2010 and 2011. The government cleared 60% of its arrears in late 2010, committing to clear the balance in the first half of 2011. Execution of priority PIP projects resumed in May 2010. The approval of the new constitution in February 2010 and the subsequent restructuring in ministries and at the BNA also slowed government decisions and hence economic activity in the first half of 2010.

While no Medium Term Expenditure Framework exists, the 2011 budget and the 2011-12 Government Plan were developed in accordance with the IMF and they outlined continued fiscal tightening and an increase in social expenditure to 30% of the budget. The 2011 budget assumes a conservative oil price of USD 68 per barrel (less than OECD forecasts of USD 80 per barrel). Uncertainty surrounds the creation of the Sovereign Welfare Fund (SWF) with debate ongoing as to whether the ability to engage in countercyclical policies outweighs the great need for short-term investment after decades of war. The 2012 legislative elections might delay implementation of the SWF. The government is aiming to diversify budget revenues and increase spending effectiveness. The 2010 constitution called for increased co-ordination of spending and tax collection between ministries as well as a restructuring of public finances with increased transparency and accuracy provided by the computerisation of revenues and expenditures. While neither a value added tax (VAT) nor property taxes exist in the absence of a land registry, a new stamp duty has been announced for 2011. A campaign to increase public awareness and fiscal compliance will also be initiated.

Capital expenditure fell by 16.7% and 7.3% in 2009 and 2010, respectively. Current spending also contracted in the same period. With a shortfall in funding to cover its ambitious infrastructure investment programme, the government has announced its intention to increase domestic debt by USD 2 billion. For the first time, in 2010 international credit ratings agencies assigned Angola positive ratings (S&P and Fitch B+ and Moody's B1). On the back of this, the country is aiming to issue between USD 1 and USD 2 billion in international bonds in 2011-12. Aid constitutes less than 1% of the budget and is implemented under weak donor co-ordination.

Table 4: Public finances (percentage of GDP)

	2002	2007	2008	2009	2010	2011	2012
Total revenue and grants	38.3	45.8	50.9	30.9	39.1	38	38
Tax revenue	7.6	6.3	6.2	9	8.4	8.1	7.8
Oil revenue	30.4	38	41.2	19.4	28.4	27.7	28
Grants	-	-	-	-	-	-	-
Other revenues	0.4	1.5	3.5	2.4	2.3	2.2	2.2
Total expenditure and net lending (a)	45.4	34.4	42	39.5	31.8	31.3	29.9
Current expenditure	38.5	22.6	27.9	27.1	24.2	23.5	22.1
Excluding interest	34.6	21.5	26.4	24.9	22.2	21.8	20.8
Wages and salaries	10.7	7.9	8.6	11	9.6	9.3	8.3
Goods and services	19	6.9	8.5	6.4	5.8	5.8	5.6
Interest	3.9	1.1	1.5	2.2	2.1	1.6	1.4
Capital expenditure	6.9	11.8	14.1	12.4	7.5	7.8	7.7
Primary balance	-3.1	12.5	10.4	-6.4	9.3	8.4	9.5
Overall balance	-7.1	11.4	8.9	-8.6	7.3	6.7	8.1

a. Only major items are reported.

Source: Data from National Institute of Statistics and Economic Analysis (INSAE); estimates (e) and projections (p) based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink  <http://dx.doi.org/10.1787/888932409044>

Monetary Policy

The new constitution dramatically overhauled the management of monetary policy. While it broadly reaffirmed the role of the BNA in managing monetary policy and preserving price stability, the collapse in foreign reserves in 2009 prompted the government to remove the bank's exclusive control over exchange rate policy. Both monetary and exchange rate policies are now jointly shared between the BNA, the Ministries of Finance, Economy, Economic Co-operation and with the economic adviser to the president. In addition, the life appointment of BNA governors was removed in favour of a maximum of two-year mandates.

Between July 2008 and February 2009, oil prices collapsed (from USD 145 per barrel to USD 37), prompting an exchange rate shock as the foreign currency reserves were heavily drawn upon to support the kwanza. Reserves were depleted from USD 20 million in December 2008 to USD 12.6 million by December 2009, before rebounding to USD 15.7 million by December 2010. The government's response was to restrict monetary policy.

To sterilise liquidity, throughout 2009 and 2010 the BNA increased administrative controls in the foreign exchange auction system and raised legal reserve requirements on bank deposits to 30%. It also issued domestic bonds to fund the general budget. Growth in the money supply also slowed considerably as credit to the economy contracted from 70.2% in 2008, to 55.3% in 2009 and 22.2% in 2010. Decreased liquidity combined with the domestic debt arrears, slowed private sector activity in 2010.

The stabilisation of the exchange rate, controlled money supply and a stronger level of currency reserves permitted some flexibility to return to monetary policy in 2010, and this should remain true for 2011. In June 2010, the 30% bank reserve requirement on deposits was lifted to 25% for kwanza and 15% for foreign currency. Together with a reduction in the discount rate from 30% to 25% at end 2010, the BNA is seeking to

increase liquidity in 2011 and to promote the private sector via lower interest rates. The BNA also aims to decrease the dollarisation of the economy by limiting the number of credits on foreign currency.

Following nine years of decreasing inflation, the trend reversed in 2008-09 with a 6% increase in inflation. This increased slightly in 2010 driven by the 17% depreciation in the exchange rate, and the 50% and 38% rises in petrol and diesel prices (following the removal of the 20% government subsidy to prepare for liberalisation of the downstream oil sector). Double-digit inflation is expected in 2011 and 2012 given its close correlation with public transportation and agricultural distribution. The government is hoping to attain single-digit inflation before opening a stock market.

External Position

Oil accounts for 95% of Angola's exports. The current account was thus deeply affected by the oil price crash in 2008/09, falling from USD 6.4 billion in 2008 to USD -3.7 billion in 2009. With prices recovering, the 2010 balance was USD 1.4 billion in 2010 and is expected to be USD 1.8 billion in 2011. Other commodities such as diamonds and refined oil were also expected to perform positively in 2010 and 2011.

With the accumulated arrears owed to the private sector, imports shrank in 2010. Capital goods account for one-third of goods imports driven by the infrastructure and housing requirements of the PIP. The country is structurally dependent on food imports which represent over half of goods imports. Also in terms of the current account, the repatriation of profits has risen by 24.2% in 2010 to USD 480 million, a level expected to be maintained in 2011.

Over a period of six years, imports of refined crude oil increased on average each year by 34.6% to reach 2.6 million metric tonnes (MT) by 2009. With just one refinery in operation, demand outpaced supply by 2002 and the country has been a net importer of refined oil. The Luanda refinery, which was built in the 1950s, is considered obsolete and was shut in May 2010 for maintenance.

With the recovery in oil prices, foreign direct investment (FDI) is expected to rise by over 50% in 2011. Crude oil is mainly exported to China, followed by the US and India. Angola was the second largest supplier of crude oil to China in 2010 accounting for 17% of China's imports, after Saudi Arabia with almost 20%.

The external debt-to-exports ratio rose from an average of 21% during 2006-08 to 38.8% in 2009, before an expected stabilisation at around 33% in 2010-12. This deterioration is explained by the 54% increase in public commercial debt and a 40% increase in public bilateral debt. In terms of structure, the medium and long-term public debt stock is composed of 50% commercial debt, 35% bilateral debt and 8% multilateral debt.

Commercial debt is mostly contracted with the UK (USD 4.5 billion), Portugal (USD 2.1 billion), Spain (USD 1.2 billion) and China (USD 1 billion). Bilateral debt is mainly contracted with Brazil and Portugal (USD 2 billion and USD 1.1 billion, respectively). Brazil, China, Israel, Spain and Portugal hold oil-backed loans. Short-term public debt is marginal at 0.7% of total external debt. In 2010, the government of Angola was refused several prospective lines of credit because of its limited absorptive capacity.

Relations with donors are slowly resuming after the 2009 IMF agreement, although aid disbursement will remain low owing to Angola's substantial oil revenue capacity. The credit lines granted entitle the country to goods and services rather than cash. Currency inflows remain dependent on oil and the stand-by agreement with the IMF. Angola's commercial sector is primarily concentrated on goods and services imports and the BNA is the sole institution authorised to deal in foreign currency.

Angola is a member of the Southern African Development Community (SADC) and although the country is seeking to diversify its creditors and trade partners, the government has decided to develop its infrastructure before opening its market to the SADC. Fiscal incentives are not yet in place to enable large manufacturers to compete with South Africa.

Angola and South Africa have concluded a series of agreements to increase co-operation, including one relating to energy. Like South Africa, Angola shows no interest in entering into an Economic Partnership Agreement (EPA) with the European Union as it currently benefits from an 'Everything But Arms' duty-free preferential agreement.

Although Angola is also a member of the Economic Community of Central African States (ECCAS), relations with these countries are mostly bilateral. There is an ongoing dispute between Angola, Democratic Republic of Congo (DRC) and Congo regarding unexploited offshore oil in frontier waters. The 2009 immigration conflict between DRC and Angola has not been resolved, with the rape of tens of Congolese women on the border in December 2010 during a mass expulsion of illegal immigrants. Although tourism might have potential, the sector is mainly concentrated on local expatriates and hindered by tight immigration control.

Table 5: Current account (percentage of GDP)

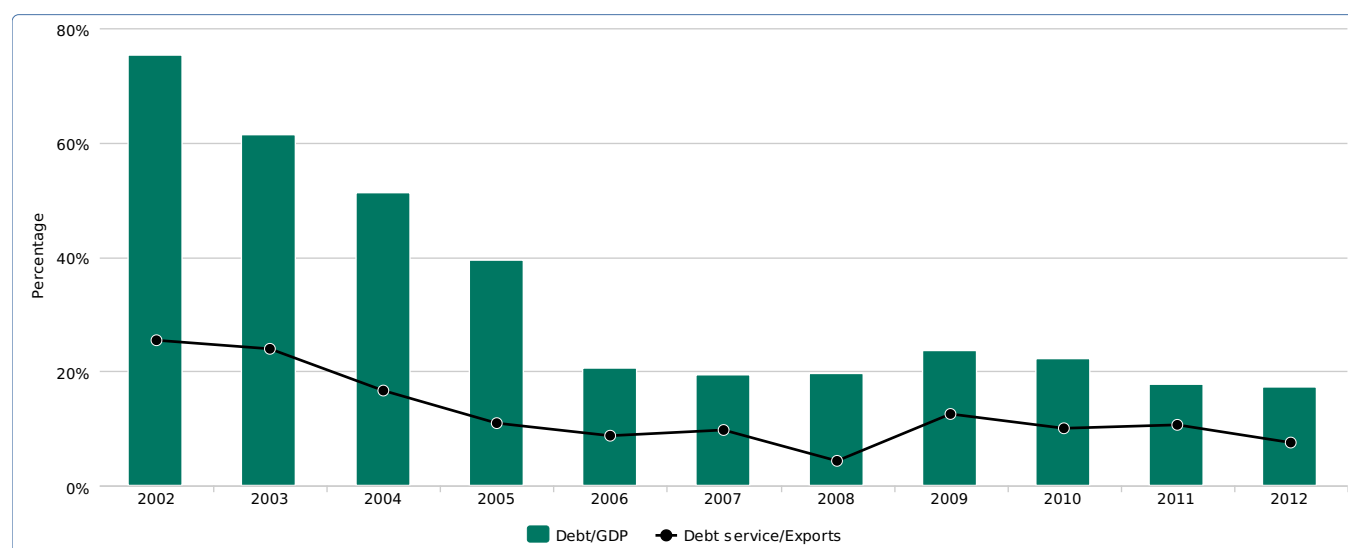
	2002	2007	2008	2009	2010	2011	2012
Trade balance	40.1	50.8	51	24.1	33.3	33.7	35.9
Exports of goods (f.o.b.)	73.1	73.4	75.9	54.1	60.3	58.6	59.3
Imports of goods (f.o.b.)	33	22.6	24.9	30	26.9	25	23.5
Services	-27.4	-20.4	-25.9	-24.6	-21.5	-28.2	-23.9
Factor income	-14.4	-14.5	-16.3	-9	-10.3	-8.9	-8.2
Current transfers	0.3	-0.4	-0.2	-0.5	-0.5	-0.4	-0.3
Current account balance	-1.3	15.6	8.5	-10	1	-3.8	3.5

Source: Data from national authorities; estimates (e) and projections (p) based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink  <http://dx.doi.org/10.1787/888932410013>

Figure 2: Stock of total external debt (percentage of GDP) and debt service (percentage of exports of goods and services)



Source: IMF and local authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink  <http://dx.doi.org/10.1787/888932403781>

Structural Issues

Private Sector Development

According to the World Bank's *Doing Business* 2011 report, Angola ranks 163rd out of 183 countries for its business environment. The cost and time it takes to start a business, register a property, enforce contracts and close a business were poor as the country lacks a framework for private sector development.

On the plus side, access to finance has considerably increased in recent years. The percentage of the population with credit cards increased from 2% in 2005 to 11% in 2010. The standard ratio of total loans over GDP, which stood at less than 10% in 2006, was 43% in 2009. In 2009 banking credits increased 79% driven by commercial loans and mortgages.

Although the financial system has developed, regional disparities are high. While there were 20 banks in Luanda in 2010, in the east of the country (i.e. Cuando Cubango, Lunda Norte, Lunda Sur, Moxico) on average 5 banks exist in each province. Similarly, there are fewer than 10 Automated Teller Machines (ATMs) per 100 000 adults in most provinces, with few exceptions (i.e., Namibe, Benguela, Cabinda, Luanda). Only in Luanda does the rate exceed more than 20 ATMs per 100 000 adults.

In order to increase access to finance, the private sector needs to improve its accounting and risk assessment before submitting projects to the financial sector. A large number of loans are refused by financial intermediaries due to a lack of knowledge of the risks and financial capacity of the private sector.

One of the financial system's key risks is foreign currency exposure on balance sheets. In 2009, the proportion of foreign-currency denominated deposits increased to represent more than half of the total. Similarly, the percentage of foreign-currency denominated credits increased from 46% of all loans in 2008 to 50% in 2009. The BNA is considering regulatory measures to reduce foreign currency exposure in the banking system.

Other Recent Developments

Beyond the high dependency on oil, the strong regional imbalance continues to pose a challenge for the Angolan economy. Close to 75% of GDP is concentrated in Luanda and 15% in other coastal areas. Similarly, poverty and inequality differ considerably across regions. The unemployment rate in Luanda is 17% compared with around 28% in the country.

Although recent efforts have been made to increase decentralisation, it remains a challenge. In 2009, the government began disbursing directly to authorities at provincial and municipal levels but this success belies the fact that the process is running out of steam at lower levels of government. Inefficiency, weak absorptive capacity and corruption have impacted severely the effectiveness of decentralisation. The central government claims 85% of the total budget, while only 14% is allocated to provincial and local governments. Moreover, disparities appear to be increasing between regions according to the 2009 *Relatório Económico de Angola* which highlighted the gap between optimal and actual spending distribution.

Severe limitations in human capacity also constrain the appropriate allocation of resources both nationally and in the capital, as the Luanda Planning Programme (*Governo Provincial de Luanda, Programa de Subordinação Central*) pointed out in November 2010. In particular, cost-benefit analyses and public policy in prioritising infrastructure development must be improved.

In order to boost per capita GDP and increase equality, diversification in the supply side of the economy and a comprehensive public policy linking regions are a priority. A more efficient infrastructure policy, for example, could help diversify the economy, improve competitiveness (e.g. developing the transport and water sectors in order to facilitate agriculture) and increase social cohesion.

The 2010/11 National Plan (*Plano Nacional 2010/11*) deals with infrastructure development (including access to water and sanitation, transportation, energy and telecommunications) and outlines policies to improve these sectors. Funding for the National Plan priorities was included in the 2011 budget with close to USD 6.1 billion (or 13.4% of the total budget, down from 16.4% in 2010) to be allocated to the most important economic sectors (transport, energy, agriculture and fishing).

Energy demand in Angola is rising rapidly because of the strong economic growth of recent years. Electricity production is insufficient and blackouts have affected the major cities. Investment in the sector is focusing on revitalising networks of energy transport and distribution as well as on expanding production capacities. The government has set a target of increasing production to 7 000 MW, enabling a per capita consumption of 4 000 kilowatt hours (kWh) by 2016 – an eightfold increase in current consumption.

Angola has enormous hydropower potential, and it currently provides three-quarters of the country's electricity. However, the civil war destroyed existing facilities and the government has not succeeded in keeping supply in line with expanding demand. In 2011, it is expected that the government will spend close to USD 1.3 billion (3% of the total budget) on energy. Government plans also call for the development of small hydroelectric power plants to strengthen the agro-industrial sector.

Angola has made impressive progress in rehabilitating its infrastructure. This effort has been financed by public funds and external credit. Foreign construction firms, notably Chinese and Brazilian, have been responsible for most of the country's infrastructure reconstruction. Road rehabilitation has centred on those connecting the main urban centres and on the roads around Luanda.

Additionally, the revitalisation and upgrading of Angola's rail and port infrastructure is a priority in the transport sector. Work is ongoing although progress has been slow. Completion of the Luanda-Malange railway, connecting Angola's capital with the country's northern interior, has suffered further delays. The global economic downturn severely reduced financing for the project, and it is not expected to become fully operational until the second half of 2011 once a series of technical, operational and administrative issues have been overcome. The total transport expenditure planned in 2011 is close to USD 2.7 billion (5.8% of the national budget).

With many large investments taking place in transportation and roads, significant gains could now be made from better management and co-ordination of the network including an improvement in the quality of transport services, the appropriate level of tariffs and specific taxes for efficient multi-mode transport development. While initial steps are being made in that direction, there is still a complete absence of overall traffic planning. Mass transport systems, though developing, are still underfunded.

Priorities for the agriculture and fishing sectors centre on 14 massive rural development programmes, supporting agriculture production, implementing agro-industrial clusters, improving the management of fishing and strengthening ecosystems. In all, close to USD 0.65 billion (1.4% of the total budget) will be devoted to agriculture and fishing in 2011.

The 2011/12 National Plan continues to highlight the need for greater co-ordination of public policies, in particular in infrastructure. A comprehensive approach to infrastructure development is needed to prioritise the country's major infrastructure projects. Improved public policy design would prioritise needs and define financing needs and sources, in particular external credit lines.

Emerging Economic Partnerships

Over the last decade, Angola has considerably diversified its economic partners, particularly in terms of non-African emerging economies. While in 2000 oil exports to emerging partners accounted for one-third of total exports, this increased to 40% in 2005 and to 52% in 2009.

The two key importers of Angolan oil are China and India. In 2009 Angola exported more than USD 15 billion worth of oil (almost 40% of its total production) to China. Demand from India has also increased over the last five years. In 2009, Angolan exported almost USD 1.2 billion worth of oil (9.4% of production) to India, a threefold increase over 2004. Other countries, such as Brazil, South Korea, Chile and Indonesia also import oil from Angola.

In terms of imports, the role of emerging partners has also expanded. In 2000, only Brazil ranked in the top ten countries exporting to Angola (with 6.4% of total imports) but this position began to change in 2002 as first China and then other countries (Argentina, India, Korea, United Arab Emirates) gained prominence as exporters to Angola. In 2009, China (11% of total imports), Brazil (9% of total imports), India (8% of total imports) and United Arab Emirates (5% of total imports) ranked among the country's sources of imports, collectively representing close to one-third of imports.

China's position has increased most notably. In just three years imports from China increased more than three times (from USD 500 million in 2007 to more than USD 1.5 billion in 2009). After Portugal and the United States, China is the third most important trade partner.

Some emerging countries are key investors of capital, financing specific investment projects. Of medium and long-term external public debt, close to one-third of the total (USD 15 billion) is with emerging partners (outside Africa). The most important partners are China and Brazil, representing 20% and 13% of all credit lines respectively. Most of these credit lines extend at least ten years and are intended to finance investment in public works. They are guaranteed against oil production and interest rates do not exceed more than 3% over Libor.

In particular, since the end of the civil war in 2002 Chinese investment to Angola has considerably increased and has been crucial for the post-war reconstruction. Chinese firms are also important players in the construction of new cities such as Kilamba Kiaxi, close to Luanda, being built by Citic Chinese Group. Close to 450 Chinese firms (50 public and 400 private firms) operate in Angola, and at the end of 2010, the Chinese (Xi Jinping) and Angolan (Fernando Da Piedade Dias dos Santos) vice-presidents agreed to expand trade and investment partnerships between their respective countries.

A challenge remains evaluating and monitoring the quality of public investments realised by foreign companies in Angola. For example the General Hospital in Luanda was constructed four years ago by China Overseas Engineering Group Company (COVEC), at a total cost of USD 8 million that was financed by credit lines, only for cracks to be discovered in the building leading to the evacuation of patients.

Political Context

The Movimento Popular de Libertação de Angola (MPLA)'s landslide victory in the 2008 elections has led to a further concentration of power in the hands of President José Eduardo dos Santos, who has ruled since 1979. He enjoys complete hegemony over the political system.

The adoption of the new constitution in February 2010 further cemented his grip on power, abolishing universal suffrage presidential elections (the president instead being nominated as head of the ruling party) and replacing the prime minister with a vice-president directly under the president's authority. Although a limit of two five-year presidential terms has been set, this does not take into account the 30 years already spent in office by Mr dos Santos, enabling him to remain as president until 2022 as the next presidential election is only scheduled for 2012.

For the first time, in April 2010, three state ministers, the finance minister and the governor of the central bank held a press conference with local and international journalists to present an assessment of the country's economic and social policies. This has been interpreted as a degree of openness towards press freedom although other events in 2010 were less positive. First, three journalists were attacked during the last quarter of 2010. Alberto Graves Chakussanga of *Rádio Despertar*, a station that has been critical of the ruling MPLA government, was murdered in September 2010 (making him the first journalist killed since 2001). In September, Norberto Abias Sateko, from *TV Zimbo*, was shot and injured. Then in October, another journalist from *Rádio Despertar*, Antonio Manuel Manuel Da Silva, "Jojo", was stabbed.

Second, the purchase of three of Angola's independent weekly newspapers (*Semanario Angolense*, *A Capital* and *Novo Jornal*) by a private media company (Media Investments) alarmed human rights groups. The little-known company refused to disclose its owners, leading rights activists to voice concerns that the sale was sponsored by sources close to the regime seeking to silence independent media.

According to the UNHCR, today close to 100 000 refugees will lose their war refugee status at the end of 2011. A further challenge for the Angolan government is to help in the re-integration of these refugees.

Social Context and Human Resource Development

Economic growth has yet to make a significant impact on poverty and youth unemployment, which remain critical issues in the country. With around 46% of the population under 18, and the country's population set to grow from around 19 million today to 24.5 million in 2020, Angola will face demographic challenges in the future.

According to recent United Nations Development Programme estimates, 54% of the population lives on less than USD 1.25 per day and the Gini coefficient, which measures revenue inequality, is 0.59 (countries with strong inequality). Moreover, according to official data (*Inquérito Integrado Sobre o Bem Estar da População - IBEP*), the proportion of the rural population living below the national poverty line is 58% compared to 19% in urban areas. Angola's ranking in the Human Development Index deteriorated in 2010 (146th in the overall ranking versus 143rd in 2009).

Life expectancy remains low, at 48.1 years. Because of the lack of data, it is difficult to obtain Angola's human development indicators. A national census by the national institute of statistics, the first since 1970, to be completed by 2014, should greatly improve data on the country.

In 2011 social expenditure will be greater than 30% of the total budget and will be allocated as follows: 8% to education, 3.8% health, 12.8% social protection, 1.3% culture, 4.9% housing and community development, and 0.8% environmental protection. However, uncertainty remains regarding these budget allocations. In particular, 9% of the budget will be allocated to 'unspecified' social protection services, prompting speculation that the technical analyses underlying these allocations might not be accurate.

Human resources remain a key constraint to education and health. After a 27-year war, it is very difficult to convince qualified teachers and health workers to practise in rural areas far from the capital. The administration and implementation of government planning suffers from the same problem. The concentration of already scarce qualified workers in the main urban centres (especially Luanda) continues to hamper the implementation of ambitious government plans.

Although recent housing programmes implemented in Angola (*Fundo de fomento habitacional* or *Nossa Casa*), housing conditions remain a priority in the country. According to official data, 78.5% of the urban population lives in houses built without appropriate materials and only 40% of the Angolan population has access to electricity (8.6% in rural areas).

Environmental health problems continue to be a significant burden for Angola. Only 42% of the population has access to clean drinking water and only 60% use improved sanitation facilities. Semi-urban populations live near mounds of uncollected rubbish and stagnant water. Access to clean water and sanitation remains problematic in rural areas with clean water available to only 23% of the rural population and improved sanitation facilities to just 31%. The government has instituted a Water for All programme (*Água para todos*) to improve access to clean water to the country's rural areas. The target is for 80% of the rural population to have access to clean water by 2012, which seems very optimistic.

Close to 70% of educational expenditure is allocated to pre-primary and primary education. The combined gross enrolment ratio in education (both sexes) in 2006 was 65.3% according to the 2010 *Human Development Report*. The government's objective is to increase the primary gross enrolment ratio to 90% by 2015. The adult literacy rate is 65% for the population aged 15 and above although among young women (15-24 years old) in rural areas, the literacy rate is close to 40%.

Investment in the health sector has been low compared with education and social protection, and the government goal of having three doctors for 10 000 inhabitants by 2012 appears ambitious in light of the current production of qualified medical personnel. Some indicators show that challenges remain in childhood health and nutrition. According to the 2010 *Human Development Report*, Angola is the penultimate in the world for the under-five mortality (220 per 1 000 live births). It also ranks 89th out of 97 countries regarding the prevalence of undernourishment, according to the Food and Agricultural Organization; while 44% of the population is below a minimum dietary energy requirement for maintaining a healthy life and carrying out light physical activity with an acceptable bodyweight for attained height.

HIV/AIDS prevalence remains low in Angola, a result of the isolation experienced during its long war. The official goal to keep HIV/AIDS prevalence below 3% of the population is officially on track.

Unemployment is still very high and has been affected by the recent global economic crisis. It is estimated to be between 24.1% and 26.3% and the purchasing power loss to be 1.15% for 2009 and 31% for the 2003-09 period. The public administration remains the largest formal employer, revealing the limited extent to which growth has stimulated the creation of jobs in the private sector.