The Angolan economy is experiencing a slight recovery owing to a positive outlook in oil prices. GDP growth stood at 1.1% in 2017, up from 0.1% in 2016 but the growth outlook is likely to remain modest at 2.2% in 2018 and 2.4% in 2019.

Angola made significant strides in reducing poverty from 68% in 2000 to the current 37%, yet the rising cost of living, high youth unemployment, and high income inequality remain major concerns.

Improving the quality of infrastructure and expanding access to basic services is crucial to achieving economic diversification and sustained growth.

OVERVIEW

Angola's growth was negatively affected by the decline in international oil prices and consequent foreign currency shortages, which hampered economic activity and job creation opportunities, triggering an economic downturn, with growth of just 0.1% in 2016. Growth has since returned to a positive trend and averaged 1.1% in 2017 owing to better performances in agriculture, fisheries, and energy. A slight recovery is also expected in 2018 and 2019 as growth is set to rebound to 2.2% and 2.4%, respectively, owing to a positive outlook in international oil prices and strong reform momentum.

Angola is yet to realize the economic dividend from a booming oil industry in the last decade, since 37% of the population is estimated to live below the poverty line, unemployment stands at 20%, and the country has a Gini coefficient of 0.43. The slow pace of economic diversification, adverse business environment, lack of skills and inadequate infrastructure have constrained non-oil sector growth. In January 2018, the Government adopted a macroeconomic stabilization plan to restore equilibrium in foreign exchange markets, reduce inflation, and improve the business environment. The recent request by Government for an unfunded IMF policy coordination instrument (PCI) programme is set to enhance the reforms’ consistency. In the medium term, an export-promotion and import-substitution strategy will be put in place, targeting food production, fisheries and agro-industry, mining, tourism, transport and logistics. This will be supported by fiscal incentives, and establishment of business incubators and industrial clusters.

Angola initiated infrastructure reconstruction in the past decade with some success. Power generation capacity expanded from 1 000 MW in 2008 to 5 400 MW in 2017, 13 000 km of roads were rehabilitated, four main ports were upgraded, and rehabilitation of urban water supply systems began. Numerous challenges persist, however. The power transmission and distribution of infrastructure remains deficient; road quality and safety requires improvement, water supply systems remain insufficient and their tariffs do not reflect cost. Annual public spending on infrastructure in 2009-2015 in Angola was 6% of GDP, well above the average of 2% of GDP in the Sub-Saharan region. Nevertheless, Angola's infrastructure quality still lags behind its peers in the region as evidenced by its low score in the Africa Infrastructure Development Index. Angola is reliant on external bilateral credit lines from China and Brazil to finance its infrastructure, with only modest private sector investment.
RECENT DEVELOPMENTS AND PROSPECTS

The long decline in international oil prices impacted Angola’s fiscal revenues, prompting the authorities to cut infrastructure expenditure by 55% between 2014 and 2017. Foreign currency shortages constrained economic activity and new job opportunities in non-oil sectors, triggering a recession in 2016, when growth in real GDP per capita fell by 3.1%. GDP growth has since rebounded to 1.1% in 2017 owing to strong performance in agriculture, fisheries and energy. Economic prospects for 2018-2019 are subdued, with growth expected to remain modest at 2.2% in 2018 and 2.4% in 2019 amid a positive outlook for international oil prices.

Despite recent efforts to establish special economic zones, the country’s manufacturing sector remains limited due to lack of skills and capital. Local factories generally just process foods such as sugar, beer, and fish. The Government’s plan to privatize State-Owned Enterprises (SOEs) and improve allocation of forex liquidity for purchase of equipment and inputs will drive a 1.8% growth in industrial output in 2018 compared to a -0.7% fall in 2017. Construction sector growth is projected to expand from 2.2% in 2017 to 3.1% in 2018, driven by public expenditure projects financed by bilateral credit lines (in particular, USD 2 billion from Brazil). Growth of services is set to rebound from 1.3% in 2017 to 4.3% in 2018, as the approval of a new market competition law will stimulate economic activity in telecommunication while the simplification of entry visas to Angola from 61 countries is expected to boost revenues in the tourism sector.

Table 2 provides an overview of sectoral contributions to GDP.

Angola is one of Africa’s most resource-rich countries. It is the fourth largest producer of diamonds. Nevertheless, the country has yet to exploit its potential: the mining sector accounts for less than 2% of GDP. Extractive activities in diamonds and metallic minerals are expected to grow by 4.4% in 2018, up from 0.5% in 2017, driven to a large extent by an increase in diamond production at the Luaxe mine and the exploitation of iron and ornamental rocks. Expansion of mining activities has increasingly demanded a significant supply of electricity. As a result, the energy sector is set to expand by 60.6% in 2018, up from 40.2% in 2017 due to the completion in 2018 of two transformative projects, the combined cycle gas plant at Soyo and the 2 070 MW Lúaca hydroelectric power plant.

The oil and gas sector remains the largest contributor to GDP in Angola, accounting for 30% of GDP in 2017. It also represents more than 95% of total exports and 52% of fiscal revenues. The absence of new oil licensing rounds in the past five years and ageing oil fields have negatively affected new discoveries and production growth. Planned new investments by the State-owned oil company (Sonangol) for oil prospection and development in 2018-2020 are estimated at USD 6 billion, which will help to prevent a potential fall in output from 1.7 million barrels per day (bpd) in 2018 to 1.3 million by 2022. Plans are under way to construct a high conversion refinery with capacity to process up to 200 000 bpd in Lobito, Benguela Province, by 2022. Optimization and modernization of the Luanda refinery (65 000 bpd) will be executed in the next 24 months, in partnership with the Italian oil company ENI. Oil sector growth is set to rebound from a fall of -4.6% in 2017 to 6.1% positive growth in 2018-2019 owing to the recovery in international oil prices and rising investments.

Angola is also endowed with high quality soils and water resources vital for food production and economic diversification. The agriculture sector currently accounts for 12% of GDP and 70% of total employment. In 2018, agriculture output is projected to grow by 5.9%, up from 4.4% in 2017, supported by external funded projects from the African Development Bank (AfDB), World Bank (WB), and the International Fund for Agriculture Development (IFAD) which aim to strengthen smallholder production of cereals, oilseeds, roots and tubers, meat, coffee, palm and honey. Angola’s 2018-2019 agriculture season
is likely to be negatively affected by drier climate conditions in the Southern region. Low agricultural productivity, and lack of
yield-enhancing outputs and processing facilities continue to
constrain output in the sector.

Pressures on Angola’s fiscal and external current accounts are
likely to ease as the rebound in international oil prices to around
USD 70/barrel exceeds Angola’s State Budget reference price
of USD 50/barrel, helping to boost oil exports and revenues in
2018 compared to 2017. Nevertheless, there are risks asso-
ciated with geopolitical tensions between US and Iran; high
domestic inflation; public debt; and declining oil production
due to ageing oil wells. Angola, which was the fourth largest
FDI recipient in Africa in 2016, experienced a decline in cap-
ital inflows from USD 14.5 billion annually between 2009 and
2016 to USD 9.3 billion in 2017. In terms of FDI, it fell to seventh
place, well behind Egypt, Nigeria, South Africa, Algeria, Mauri-
tius, and Morocco. Net international transfers are projected to
decline from USD 833 million in 2017 to USD 454 million in 2018
due to weak inflows of foreign currency. The anticipated reform
agenda of President João Lourenço, notably the devaluation of the
kwanza (AOA) alongside promises to tackle corruption and cut red tape for businesses, may stimulate the economy.
Overall, the Government estimates that USD 24.1 billion will be
needed to cover the 2018 fiscal deficit of 3.6% of GDP (USD 3.8
billion) and refinance public debt.

### MACROECONOMIC POLICY

#### Fiscal policy

Angola adopted a contractionary fiscal policy to align public
expenditure with declining revenues. Overall, fiscal revenues
dropped from 30.7% of GDP in 2014 to less than 19.2% of GDP
in 2017 (Table 3), prompting a sharp fiscal consolidation that
phased out fuel subsidies, rationalized spending on goods and
services, and audited civil servants to eliminate ghost workers.
However, these measures were insufficient to prevent a fiscal
deficit of -4.9% of GDP and accumulation of arrears (AOA
1 000 000 million, equivalent to USD 5 billion from 2014 to
2016). The significant budget deficits incurred since 2014 have
led to an increase in the stock of public debt from 30% of GDP
in 2013 to 71.2% of GDP in 2017 (including debt by SoEs) begin-
ing to threaten its long-term sustainability

The Government plans to reprofile debt maturities and interest
rates to reduce the burden on its public finances as total debt
service to export revenues (about 76% in 2017) is becoming
hard to sustain, therefore limiting investments in social sectors
and infrastructure projects. Consistent with declining fiscal reve-
enues, the fiscal policy is likely to remain restrictive as the author-
ities further reduce the public sector wage bill as a percentage
of fiscal receipts (from 48.2% in 2016 to 37.4% in 2018). Simi-
larly, public investment financed from domestic resources as a

### TABLE 2. GDP by sector (percentage of GDP)

<table>
<thead>
<tr>
<th>Sector</th>
<th>2012</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, forestry, fishing and hunting</td>
<td>6.5</td>
<td>12.2</td>
</tr>
<tr>
<td>of which fishing</td>
<td>1.1</td>
<td>2.4</td>
</tr>
<tr>
<td>Mining and quarrying</td>
<td>47.0</td>
<td>30.5</td>
</tr>
<tr>
<td>of which oil</td>
<td>46.0</td>
<td>29.9</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>6.6</td>
<td>4.8</td>
</tr>
<tr>
<td>Electricity, gas and water</td>
<td>0.5</td>
<td>0.9</td>
</tr>
<tr>
<td>Construction</td>
<td>7.8</td>
<td>12.2</td>
</tr>
<tr>
<td>Wholesale and retail trade; repair of vehicles; household goods; restaurants and hotels</td>
<td>9.0</td>
<td>8.4</td>
</tr>
<tr>
<td>of which restaurants and hotels</td>
<td>2.4</td>
<td>1.4</td>
</tr>
<tr>
<td>Transport, storage and communication</td>
<td>4.3</td>
<td>5.1</td>
</tr>
<tr>
<td>Finance, real estate and business services</td>
<td>2.4</td>
<td>6.5</td>
</tr>
<tr>
<td>Public administration and defence, security</td>
<td>8.1</td>
<td>11.4</td>
</tr>
<tr>
<td>Other services</td>
<td>7.8</td>
<td>8.7</td>
</tr>
<tr>
<td>Gross domestic product at basic prices / factor cost</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Data from domestic authorities.
percentage of fiscal revenues is set to decline by one percentage point to reach 21.2% in 2018. Government has prioritized immediate clearance of all payments in arrears in 2018 and limiting the fiscal deficit to below 3.6% of GDP in 2018/19. The fiscal reforms also involve measures to enhance domestic revenue mobilization, by introducing a value-added tax (VAT) in 2019. In the medium term, public spending prioritizes investments on the social sector (42.1% of total expenditure excluding debt service operations), notably: social protection (14.8%); education (11.3%); housing (7.7%); health (7.4%), sports and culture (0.7%) and environmental protection (0.2%). A new presidential initiative (the integrated plan for poverty reduction) was adopted in 2018 and includes direct allocation of USD 3 million to each of the 163 municipal Governments to strengthen social assistance interventions and reduce poverty at local level.

**Monetary policy**

The National Bank of Angola (BNA) pursued a tight monetary policy stance in 2017. The benchmark interest rate was raised from 16% to 18% in December 2017 leading to a significant decline in headline inflation from 42% in December 2016 to 29.8% in 2017. However, inflationary pressures persist due to the weakening kwanza (which depreciated by more than 35% between 9 January and May 2018). BNA introduced a floating exchange rate regime with a maximum of 2% variation in an attempt to close the gap between the official and the parallel market exchange rate. Given the prevalence of the de facto dual exchange rate regime, Angola could have gone through a fully-flexible exchange rate adjustment process but its peculiar market conditions (single commodity export dependence, and high demand for food imports and equipment) led the authorities to prefer a gradual adjustment, which has helped narrow the spread between the formal and parallel market exchange rate from 171.2% in December 2017 to less than 100%. Despite this, depreciation of the exchange rate is likely to keep inflation at double-digits levels (22.6% by end-2018) before declining to 17.9% in 2019, though inflationary pressures will be mitigated by a combination of restrictive monetary policy and fiscal retrenchment as economic diversification and import-substitution gain momentum.

High inflation is set to maintain interest rates above 23% making access to credit more costly, in particular for small and middle sized enterprises (SMEs). Commercial bank credit activities are concentrated in a few sectors (the retail trade and real estate) and will have limited impact on long-term economic growth. Trading of Government securities in the capital markets remains insignificant (0.9% of total stock of Treasury Bonds) but this may change as Government plans to issue corporate bonds for privatization of SoEs later in 2018. The oil crisis and sharp exchange rate depreciation led to a deterioration in banking sector assets and prompted BNA to increase the minimum capital requirements from USD 25 million to USD 35 million. In the medium term, BNA will prioritize work to strengthen regulations to combat money laundering and financing of terrorism (AML/CFT), with the aim of raising compliance levels from 46% to 100% by end-2018. Risk-based supervision and corporate governance principles will be critical to restore banking relations with the United States.

### TABLE 3. Public finances (percentage of GDP)

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017(e)</th>
<th>2018(p)</th>
<th>2019(p)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total revenue and grants</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax revenue</td>
<td>37.1</td>
<td>30.7</td>
<td>24.3</td>
<td>18.5</td>
<td>19.2</td>
<td>20.5</td>
<td>20.9</td>
</tr>
<tr>
<td>Oil revenues</td>
<td>8.1</td>
<td>6.7</td>
<td>7.0</td>
<td>7.5</td>
<td>7.9</td>
<td>8.1</td>
<td>8.2</td>
</tr>
<tr>
<td><strong>Total expenditure and net lending (a)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current expenditure</td>
<td>45.0</td>
<td>36.5</td>
<td>27.3</td>
<td>23.6</td>
<td>24.1</td>
<td>24.1</td>
<td>24.0</td>
</tr>
<tr>
<td>Excluding interest</td>
<td>31.6</td>
<td>25.6</td>
<td>22.0</td>
<td>18.8</td>
<td>19.1</td>
<td>18.8</td>
<td>18.7</td>
</tr>
<tr>
<td>Wages and salaries</td>
<td>29.8</td>
<td>24.6</td>
<td>20.2</td>
<td>17.2</td>
<td>17.4</td>
<td>17.5</td>
<td>17.3</td>
</tr>
<tr>
<td>Interest</td>
<td>11.9</td>
<td>9.2</td>
<td>10.1</td>
<td>8.8</td>
<td>8.8</td>
<td>9.0</td>
<td>8.8</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>1.8</td>
<td>1.0</td>
<td>1.8</td>
<td>1.6</td>
<td>1.7</td>
<td>1.4</td>
<td>1.4</td>
</tr>
<tr>
<td><strong>Primary balance</strong></td>
<td>-6.0</td>
<td>-4.7</td>
<td>-1.2</td>
<td>-3.5</td>
<td>-3.2</td>
<td>-2.3</td>
<td>-1.7</td>
</tr>
<tr>
<td><strong>Overall balance</strong></td>
<td>-7.9</td>
<td>-5.7</td>
<td>-3.0</td>
<td>-5.1</td>
<td>-4.9</td>
<td>-3.6</td>
<td>-3.1</td>
</tr>
</tbody>
</table>

(a) Only major items are reported.

Source: Data from domestic authorities; estimates (e) and predictions (p) are based on the author’s calculations.
Economic co-operation, regional integration and trade

Angola has improved economic co-operation with regional member States, made efforts to align with SADC, and signed the African Continental Free Trade Area agreement (AfCFTA). The country also negotiated an Economic Partnership Agreement with the European Union and is eligible for the United States’ Africa Growth and Opportunity Act trade preferences. In 2018, Angola streamlined processes for tourist and business visa entry. The reform covers 61 countries and is aimed at improving free movement of persons and businesses.

External sector developments were not favourable in 2017 because both the current account and trade balance trended down, but the current account deficit will narrow, albeit slowly, from an estimated -5.5% of GDP in 2017 to -4.8% in 2018, largely on the back of improving oil exports (Table 4). China is Angola’s largest trade partner having channelled USD 60 billion worth of loans since 1983; their net present value is currently estimated at USD 21.4 billion. Most of Angola’s oil exports (62.9% in 2017) were directed to China while most of the imports were from Portugal, India, and Brazil, predominantly composed of machinery, vehicles, and food imports.

Net international reserves, which declined by USD 7.5 billion since December 2016, are set to average USD 13.3 billion in 2018-2019 (e.g. less than 6 months of import coverage) as BNA steps up its exchange rate policy to reduce pressure on the reserves. FDI inflows, mainly channelled to the oil sector, declined significantly from USD 14.5 billion in 2009-2016 to less than USD 9.3 billion in 2017 as Angola is experiencing a sudden slowdown in foreign investment, notably in the extractive industries, due to structurally low international oil and diamond prices and the adverse regulatory framework. The Government’s increased commitment to reforming the business environment is likely to attract new FDI, particularly in real estate, construction, hotels, and tourism.

Debt policy

Angola’s general Government debt-to-GDP ratio rose 10 percentage points between 2016 and 2017 as a result of exchange rate weakness and the Government’s provision of USD 10 billion financial support to Sonangol. Angola’s total public debt reached USD 74 billion (66% of GDP) at the end of 2017 and is likely to exceed 70% of GDP by end-2018 if the USD 5 billion in commercial arrears are not cleared as proposed. Most of Angola’s external debt (USD 38.9 billion) is owed to commercial banks (60%); bilateral partners (20%); foreign suppliers (11%); multilaterals (6%), and a USD 1.5 billion Eurobond (4%). Moderate economic growth and the weaker exchange rate may pose some challenges for debt management because half of the domestic debt is linked to foreign currencies, primarily the U.S. dollar. However, the pace of increase of public debt may stabilize as higher than budgeted oil prices allows greater arrears clearance, along with some debt retirement.

Recent positive developments following the announcement of the unfunded IMF programme helped the issuance of Angola’s second Eurobond, totalling USD 3 billion, which was split into two tranches: one of 30-years’ duration for USD 1.25 billion priced at 9.625%, the other of 10-year duration for USD 1.75 billion, initially quoted at 8.5%. The demand was around USD 9 billion, outstripping supply three-fold. Although yields on Angola’s Eurobond have been volatile, reflecting adverse market conditions and weak country growth prospects, the bond issuance will help lower Government’s debt servicing by substituting some expensive bilateral and commercial bank’s debt for Eurobonds, which carry lower coupon rates and longer maturities. Nonetheless, there is a danger that the bond proceeds may be used to pay for non-income generating expenditures.

<table>
<thead>
<tr>
<th>TABLE 4. Current account (percentage of GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
</tr>
<tr>
<td>-------</td>
</tr>
<tr>
<td>Export of goods (f.o.b)</td>
</tr>
<tr>
<td>Import of goods (f.o.b)</td>
</tr>
<tr>
<td>Services</td>
</tr>
<tr>
<td>Factor income</td>
</tr>
<tr>
<td>Current transfers</td>
</tr>
<tr>
<td>Current account balance</td>
</tr>
</tbody>
</table>

Source: Data from domestic authorities; estimates (e) and predictions (p) are based on the author’s calculations.
Significant exposure to foreign exchange risks may arise due to the weakening currency, complicating the Government’s refinancing goal as interest payments to revenue had already increased to 21% in 2017, up from 16% in 2016.

Angola made significant strides to improve its debt management systems by strengthening communication and reporting standards with line ministries. A medium-term debt strategy is underway with technical support from the IMF, and arrears settlement is being carried out in coordination with the External Debt Unit of BNA. Against the backdrop of improved macro conditions, Moody’s downgraded Angola’s sovereign credit rating to B3 with a stable outlook. Standard & Poor’s rating stands at B- with a stable outlook, while Fitch’s stood at B though with an improved outlook, from negative to stable.

**ECONOMIC AND POLITICAL GOVERNANCE**

**Private sector**

Angola’s business environment remains cumbersome, impeding private investment, as highlighted by the low ranking of 175 out of 190 countries in the World Bank’s 2018 Doing Business report. Angola was ranked 134 on the ease of starting a business as compared to the regional average for Sub-Saharan Africa of 125. Moreover, it takes 36 days and 7 procedures to start a business in Angola, at an average cost of USD 679.4 (about 17.4% of per capita income). It also takes 10 procedures and 173 days to get a construction permit with an average cost equivalent to 0.5% of the warehouse cost. Other factors affecting doing business include: getting credit, trading across borders, enforcing contracts, registering property, paying taxes, resolving insolvency and getting electricity. All these challenges reflect the country’s inadequate political and regulatory business framework, characterized by lack of transparency and accountability.

In 2017, Angola undertook significant business reforms with regard to access to electricity and trading across borders that should help the country improve its Doing Business rankings. The Government is committed to greater transparency and other measures to make Angola more attractive for investment. They include revision of the private investment law; elimination of rules that require 35% participation by Angolans in strategic sectors (such as electricity and water, hotels and tourism, transport and logistics, construction, ICT, and social media); creation of the Agency for Private Investment and Exports (AIPEX) to govern interactions between Government and investors; reform of the hydrocarbons sector to allow Sonangol to focus on its core business (oil exploration and production); and adoption of a privatization programme to reduce State presence in the economy, increase competitiveness in the non-oil sector and raise tax revenues.

**Financial sector**

Angola’s financial sector is highly concentrated. The top six banks account for 80% of total assets and 93% of total loans. Banking coverage increased from 22.1% in 2010 to 54% in 2017 owing to the expansion of the bank network and strong financial sensitization campaigns. Nonperforming loans (NPLs) rose sharply over the last year (from 12.2% in January 2017 to 30% in January 2018) reflecting a combination of factors: Government payment delays; increased defaults on loans to the construction sector driven by cuts in public investment; the sharp exchange rate depreciation, which affected unhedged borrowers of foreign currency denominated loans; weak risk management; and laws governing collateral and bankruptcy. The introduction of Recredit, a State-owned asset management company mandated to buy NPLs, will moderate the problem loans ratio. Bank profitability is expected to remain resilient as interest income continues to offset elevated credit costs. Similarly, the banking system capital adequacy ratio will remain above the regulatory requirement of 10% (it stood at 17.8% at the end of 2017, up from 14.1% in January 2017), supported by earnings generation and muted risk-weighted asset growth.

Foreign exchange constraints following the drop in global oil prices created a backlog in forex transactions, and banks’ exposure to Government securities (about 30% of total assets) reduced funds available for private sector lending. Meanwhile, microfinance activities in Angola remain scant (0.81% of GDP), hindered by the high interest rate environment and weak socio-economic conditions. Insurance and pension fund penetration rates are also low (0.49% of GDP) because delays in establishing well-functioning capital markets often preclude new investment opportunities. The Government is willing to reform the financial sector to prevent systemic risks. The introduction of a deposit guarantee fund, creation of the resolution fund, and enforcement of Basel II principles are likely to enhance financial stability and reduce any future resolution costs.

**Public sector management, institutions and reforms**

Angola’s public service reforms improved significantly in recent years but quality and efficiency of service delivery remain concerns. Civil service employment grew from 357 113 staff in 2013 to 385 423 staff by 2017, but the decline in real value of salaries has impacted negatively on morale and performance. Measures taken by the Government to address issues of quality and efficiency of public service delivery include (i) the implementation of a civil servants census, and (ii) the introduction of modern human resource management systems to optimize personnel.
efficiency. Nevertheless, Angola’s performance in the Ibrahim Index of African Governance declined by an annual rate of -0.3 points and the country ranked 45 (of 54 countries) in 2017. Reforms to ensure greater transparency by addressing monopolies in leading sectors of the economy are critical to improve Angola’s low ranking (167 of 180) in the 2017 Corruption Perception Index of Transparency International. In addition, property registration is time-consuming and expensive which brought Angola a low rank (172 of 190) in the 2018 World Bank Doing Business. Protection of property rights remains weak, generating a low rank (164 of 180) in the 2018 Index of World Economic Freedom. Measures are being put in place to accelerate economic diversification, underpinned by an export diversification and import substitution strategy (PRODESI). A law on repatriation of Angolan capital illicitly domiciled abroad is also due to be enforced later in 2018. An economic competition law is foreseen to address monopolies, in particular in telecommunications and the cement industries. The long awaited local elections are set to take place in 2020 and will open an opportunity for gradual devolution of powers to local levels.

Natural resource management and the environment
Angola has major oil reserves of over 9,500 million barrels and gas reserves of 11 trillion cubic feet. Despite this, oil production is set to decline from 2020 onwards due to ageing oil fields and reduced investment in development and exploration. Angola’s natural gas production remains modest as most of it is vented or re-injected into oil wells to enhance oil recovery. The country’s undeveloped mineral resources include copper, gold, gypsum, iron ore, uranium, lead, silver, and zinc. The authorities have improved the amount of information published on tax receipts from oil and gas production and concessions, but the extractive policy framework does not require Angolan public officials to disclose their assets or companies to declare their beneficial owners. Attesting to these weaknesses, Angola’s oil and gas sector scored 35 (out of 100 points) and ranked 70 (of 89 countries) in the 2017 Resource Governance Index. The country has yet to join the Extractive Industries Transparency Initiative (EITI) despite the establishment in 2014 of a dedicated working group for this purpose. A plan to reform the oil and gas framework is due for approval later in 2018. It aims to attract new investments by lowering taxes on oil production margins. Angola also attaches significant importance to environmental protection because its ecological system is vulnerable to climate change. Key challenges include soil degradation, deforestation, air pollution, and biodiversity loss. The Government is mainstreaming the Sustainable Development Goals (SDGs) into its National Development Plan (2018-2022) to ensure sustainable livelihoods.

Political context
The general elections of August 23, 2017 opened a new era in Angola’s history. A new President, H.E. João Lourenço, succeeded President José Eduardo dos Santos who had been in power for 38 years. The new Government’s anti-corruption and economic liberalization agenda has sent positive signals of political change. Since taking office in September 2017, President Lourenço has made significant reforms to improve financial sector transparency, enhance efficiency in SOEs, liberalize the foreign exchange rate regime, and pursue a more business-friendly trajectory. While these reforms imply there is potential to attract new investments and much stronger long-term growth, their implementation may be challenged by party elites who benefited under the previous regime. In April 2018, the ruling party (MPLA) called for an extraordinary congress in September 2018. The congress will mark a political transition of the party’s leadership from former country’s President Dos Santos to the new President. However, delays in resolving leadership issues may fuel tensions within the ruling party. Political rights have been strengthened and opposition parties’ representation in Parliament increased from 28% in 2012 to 38.5% in 2017. Risk of civil unrest remains low as evidenced by the 2.1 percentage point’s improvement in the safety and rule of law indicator of the 2017 Ibrahim Index of Good Governance. Nevertheless, adoption of measures to mitigate the high cost of living, youth unemployment, income inequality, and poverty remains critical to ensure social cohesion.

Building human resources
The fall of Government revenue due to the global oil crisis prompted cuts in public expenditures. It is noteworthy that between 2014 and 2017, budgeted public expenditure in the economic sectors contracted 50.6% in real terms (-36.7% in nominal terms). Moreover, budget cuts in the social sector reached 29.7% in real terms (-9.8% in nominal terms). Many children do not have access to education. The net enrolment rate for primary school is 76%; 83.6% in urban areas and 63.5% in rural areas. About 76.1% of boys and 75.9% of girls are enrolled in primary school. Angola’s net enrolment rate in secondary education (28.9%) is far below the African average of 51.8% for the period 2010-2016. Similarly, gender parity in education (0.81 ratio of girls to boys) remains below the sub-Saharan average of 0.91. This slow progress can be partly linked to the low share accorded to education in the budget (3.5% of GDP), below the continental average of 4.5%. There are efforts
to improve educational infrastructure. 50 new schools are due
to be built and 20,000 teachers recruited in 2018; more than
250,000 teachers have started work in the education sector in
the last five years).

Despite rapid economic growth over the past decade, health
service provision remains a serious concern. Infant mortality
(54.6 per thousand births) was above the African average of 49.3
per thousand births in 2016. Maternal mortality ratio was also
high at 477 per hundred thousand live births compared to the
continental average of 444.1 per hundred thousand live births.
The HIV prevalence rate in Angola (2.4% in 2017) is worrying
because only 90,204 (47%) of people with the disease receive
anti-retroviral treatment, whereas 118,476 (53%) need the treat-
ment. Malaria remains a challenge and annually accounts for
more than 25% of all deaths in Angola. Tuberculosis incidence
has increased from 310 in 2000 to 370 per hundred thousand
people in 2015; 12% of tested tuberculosis patients are also
HIV-positive. Despite these challenges, reforms in the health
sector are addressing malaria, cholera, yellow fever outbreaks,
HIV/AIDS and tuberculosis infections. Angola is also expand-
ing routine immunization coverage for Penta3 from the cur-
rently reported 80% to 90% by 2020, focusing on children aged
between 12 and 23 months countrywide.

Poverty reduction, social protection and labour
Angola made significant strides in reducing poverty. Its inci-
dence fell from 68% in 2000 to 37% now. Poverty is more
prevalent in rural areas (58%) than in urban areas (19%).
Real GDP per capita declined by about -1.1% in 2017 to reach
USD 3,906, the lowest level in a decade. This was due to the
effects of the drop in the international oil prices, which led to
a sharp decline in oil revenues and weak GDP growth (0.1% in
2016 and 1.1% in 2017), and a population growth rate of 3.2% in
2017. The country’s Gini index, a measure of income inequality,
remains high at 42.7. The unemployment rate is currently esti-
mated at 20% and is particularly high among urban youth (38%).
However, some progress was made in improving Angola’s score
on the Human Development Index (HDI), which rose from
0.495 in 2010 to 0.533 in 2015, owing to increased life expec-
tancy (which increased from 45.2 years in 2010 to 52.7 years in
2015), and expected years of schooling (which increased from
9.4 years in 2010 to 11.4 years in 2015).

The country lacks a comprehensive social safety net and the
number of beneficiaries covered by social safety nets declined
from 421,000 in 2015 to less than 319,000 in 2017, reflecting
fiscal revenue constraints due to the global oil price decline.

Despite this, the Government attaches importance to social
protection as a means to shield the vulnerable social groups
from poverty, and in 2017 the authorities made an effort to hold
budget allocations to social protection programmes at 9.8% of
total fiscal receipts. Public subsidies were reduced from 5.4%
of GDP in 2014 to less than 0.9% of GDP in 2018, as the Gov-
ernment gradually phased out fuel and energy price subsidies.
Given the strong likelihood that fuel subsidies will also be elim-
inated and replaced by market adjusted fuel prices aligned to
exchange rate fluctuations, Angola will need to put in place an
effective social safety net to protect the most vulnerable popu-
lations. The existing social protection systems in Angola focus
on delivering assistance through social transfers, food baskets,
and natural disaster assistance to vulnerable people (31%),
the elderly (28.7%), children (23.4%), the disabled (12.2%), and
unemployed (1.1%).

The Government has established an institutional framework
for entrepreneurship development and employment crea-
tion through the Minister of Employment and Social Security
(MAPTSS). Statistical data from MAPTSS indicate that profes-
sional training capacity has increased significantly. Currently
158,890 trainees have been trained in more than 461 training
centres. In 2016, vocational training programmes generated
110,071 new jobs, particularly for young adults.

Gender equality
Angola attaches great importance to women’s empowerment,
both to promote gender equality and accelerate sustainable
development. Attesting to these commitments, more girls are
now in school compared to 15 years ago, and gender parity
has been achieved in primary schools in most provinces. 35% of
paid workers outside of agriculture are now women (comp-
ared to 14% in 2002). In addition, the proportion of women in
the national Parliament more than doubled from 16% in 2000
to 38% in 2017, well above the world average of 23.7. However,
challenges persist as high rates of fertility among women (an
average of 6 children per woman) increase the risk of maternal
mortality and prevent women from entering the labour force. In
2017, the proportion of working women (60%) was lower than
the proportion of working men (68.6%). Domestic violence,
which was pervasive, is now punishable by law and in 1986
Angola ratified the Convention of the Elimination of All Forms of
Discrimination against Women (CEDAW). It has ratified several
other relevant laws, including the African Charter on Women’s
Angola has shown strong commitment to reconstruct and expand its infrastructure, which was severely damaged during the country’s long civil war. For example, the country has been successful in expanding power generation from 1 000 MW in 2008 to 5 400 MW by end-2017. Plans are under way to generate 7 500 MW by 2022 following the completion of the 2 170 MW Caculo-Cabaça hydropower dam. The country also intends to transform its energy generation mix by developing 500 MW of renewable energy to reduce its dependence on thermal generation (which currently accounts for 40% of total power generation). Despite the expansion of power-generation capacity, deficient transmission and distribution infrastructure prevents electricity from flowing to customers, and the reliability of supply remains very poor. A complex system of subsidies and operational deficiencies makes Angola’s power sector among the least efficient in the Southern Africa region. Access to electricity stands at 37%, which is above the regional average of 24%, but access in rural areas remains low at 6% compared to 5% in the region.

The country has a railway network of 2 950 km, of which 2 725 km were rehabilitated with the investment of more than USD 3 billion; but the railway network lacks interconnections. Angola also has four important sea ports at Luanda, Cabinda, Lobito, and Namibe, making the country a regional transport hub for neighbouring landlocked countries. The Government plans to build a new commercial port north of Luanda at Barra do Dande to reduce traffic congestion at the port of Luanda. The capacity of the port of Lobito has been expanded but its use rate remains less than 25%, because it lacks connecting infrastructure that would enable interior countries to access the port (in particular, Zambian mining companies in the Copperbelt).

A new international airport is being built 40 km from the capital Luanda. After long delays due to inadequate project design and cost overruns, the airport is to be completed in 2019 and will serve as a regional hub with capacity for 13.5 million passengers per year. Plans are also under way to build 44 logistical platforms to connect to railway lines and trunk roads. Total investment is estimated at USD 3.9 billion. Five logistical platforms have already registered some progress in the civil works, namely: Lombe, Luau, Menongue, Soyo and Caala. Angola has 76 000 km of roads, of which 18 000 km are paved. 12 300 km are primary roads, 27 200 km secondary roads, and 36 500 km tertiary roads. Plans to rehabilitate 25 800 km of road began in 2002 and to date 13 000 km have been rehabiliated or upgraded. Nevertheless, Angola’s road network density (29 km/1000 km² of land area) lags behind the Southern Africa region average of 92 km/1000 km². The main links in the western half of the country appear to be in reasonable condition, while roads on the eastern side are sparser and more dilapidated. In terms of regional integration, Angola’s most salient international road corridor connects the country to the Democratic Republic of Congo (DRC) and Zambia in the east, but it is in poor condition.

Access to information and communications technology (ICT) has improved markedly in the past decade. Mobile telephone subscription was last estimated at 50 subscribers per 100 people compared to the regional average of 80 subscribers/100 people. Fixed-telephone access remains marginal at 0.6 subscribers/100 people compared to the average of 1.5 subscribers/100 in the region, but this is offset to some extent by the rapid development of wireless access. The country has licensed two mobile operators (Movicel and Unitel) as well as more than four fixed-line operators and there is potential for new licensing of mobile operators following the approval of a new law on competition later in 2018.

Angola’s investments in water supply and sanitation have not kept pace with the growing population. Despite the implementation of the Water for All programme aimed at ensuring universal access to clean water by 2025, access to improved water (49%) lags behind the regional average of 68%. Angola made significant strides to improve access to sanitation. Currently 51.6% of Angolans have access compared to the regional average of 46%. Nevertheless, large regional inequalities persist in access to sanitation: 22.5% of rural dwellers have access, compared to 88.6% of those who live in urban areas.

Despite the sharp decline in global oil prices, which reduced Government revenues by 56% in 2017 compared to its 2014 levels, Angola still spent a sizable USD 6.9 billion per year to meet its infrastructure needs. Angola’s pattern of capital investment in infrastructure differs from that of comparator countries in the region. It is heavily skewed toward transport, which absorbs 40.9% of the budget. This leaves reduced shares for energy sector investments (38.7%), most of which focus on power generation projects (the 2 070 MW Lúaca hydropower project, the 700 MW combined gas cycle project in Soyo, and the 400 MW Cabambe hydropower dam). Water supply and sanitation projects received 17% of total investments, most of which were allocated to construction, upgrading 536 water treatment plants, and establishing 398 303 new water supply connections under the Water for All programme. The remaining 3.4% of the budget was allocated to other infrastructure investments.

THEMATIC ANALYSIS:
INFRASTRUCTURE FINANCING

The country's road network density began in 2002 and to date 13 000 km have been rehabilitated or upgraded. Nevertheless, Angola's road network density (29 km/1000 km² of land area) lags behind the Southern Africa region average of 92 km/1000 km². The main links in the western half of the country appear to be in reasonable condition, while roads on the eastern side are sparser and more dilapidated. In terms of regional integration, Angola's most salient international road corridor connects the country to the Democratic Republic of Congo (DRC) and Zambia in the east, but it is in poor condition.

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Estimates show that Angola would need to invest an additional USD 2 billion per year, on top of its current spending, and over a decade to meet its infrastructure targets. About 70% of this total relates to capital expenditure, and the remaining 30% to operating expenditure and maintenance. Relative to its peers in the region, Angola is much more reliant on public funding for capital investments for the transport, power, water and sanitation and ICT sectors. The country has used external financing mainly to support its public investment programme (PIP) portfolio. A system of credit lines has been the most available alternative to finance the reconstruction and upgrading of national infrastructures in the last decade. In some cases, these lines of credit are guaranteed by oil through a system of escrow and reserve accounts. The credit line system has the advantage of allowing wider access to external financing. However, this instrument is currently exhausted, because oil shipments have been fully committed to service Angola’s debt to China, Brazil and Israel. Private sector participation in infrastructure projects remains limited (about 7%). Financiers other than member countries of the Organization for Economic Cooperation and Development (OECD) have provided credit lines accounting for 18% of total investments, including a USD 1.5 billion Eurobond. Official development assistance (ODA) for infrastructure is negligible (a little less than 2%).

Despite the progress made in rehabilitating and upgrading the country’s transport and energy sectors, Angola still faces a number of challenges with regard to enhancing sustainability of its infrastructure network. In the power sector, low tariffs, poor project preparation, and the absence of off-takers that could sign power purchase agreements (PPAs) under single buyer models, as well as a lack of policy and regulatory frameworks, hamper investment and financing. Developing transmission network and improving operational efficiency are also crucial. In transport, key challenges include the need to improve the quality and density of roads; enhance the operational efficiency of the road fund and fuel levy mechanism; increase freight and labour productivity in rail transportation; introduce private participation; decrease congestion in national ports and boost their efficiency and performance. The ICT potential also remains undeveloped due to lack of competition, weak supply, and the poor reliability of services (in particular, internet penetration). In the water sector, there is a need to improve water supply systems, improve the efficiency of the utilities, and raise tariffs to cost-recovery levels.

The innovative financing approach adopted for the construction of the Laúca hydropower dam, which combined AfDB’s budget support resources with bilateral credit lines from Brazil, domestic resources from the State budget leveraged with private sector loans from local commercial banks, is a success story. While the Government has demonstrated strong commitment to channelling significant volumes of public resources to infrastructure development, the sharp decline in oil revenues means that it will be necessary to improve the enabling environment and leverage public funds in order to attract more private financing for infrastructure investments.