



World Economic Outlook and Implications for Angola

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World Economic Outlook

The IMF has released its reports surveying the world economy. The central theme of the world economic outlook is that the weak global recovery is continuing, but has softened and appears to be weighed down by large uncertainties and elevated risks.

Economic activity has declined in the Euro periphery area and is disappointing in the U.S.. And importantly, spillovers are starting to adversely affect emerging market and developing economies through weaker trade and financial channels.

The main forces holding down growth in the advanced economies are fiscal consolidation and weak financial systems. Fiscal consolidation in the advanced economies is generally proceeding as planned but is pressing down on demand more heavily than expected and is likely to last several years. The financial system is not functioning well and banks remain weak so that borrowing conditions remain tight. And emerging market economies, such as China, have had to rein back on their expansionary policies because of overheating. On the positive side, monetary policy has been supportive: interest rates are low, both the US Feds and the ECB are injecting liquidity, and countries are exploring ways to stimulate financial intermediation.

But the recovery seems to be particularly weighed down by two large uncertainties. The first is about whether Europe can contain its financial crisis. The second is whether the U.S. can avoid the fiscal cliff, while adopting a credible medium-term framework to restore fiscal sustainability. The outlook assumes that policy makers make good progress on these challenges.

Looking ahead, no significant improvement seems likely and only a modest acceleration is expected in 2013. This would be helped by less policy uncertainty, continued monetary accommodation, and easier financial conditions. In the advanced economies, healthier balance sheets will encourage private spending. In emerging market and developing economies, monetary and fiscal policy easing will strengthen output growth. But the policy challenges and uncertainties noted above are likely to weigh down growth through the medium term. Fiscal consolidation, in particular, can be prolonged.

As a result, the growth projections for the global economy have been reduced in the short and medium term. Real GDP growth is expected to be 3.3 percent in 2012 and 3.6 percent in 2013 and growth is expected to remain modest through the medium term. Growth in the advanced economies is now expected to be around 1.5 percent: prospects for the US are broadly unchanged but the economies of the European periphery—including the UK, Spain, Italy, as well as Portugal and Greece—will see their economies contract. The outlook for emerging and developing economies remains robust but has been reduced—including for China, India, Brazil, and sub-Saharan Africa—to around 5.5 percent.

Resilience in Emerging Market and Developing Economies

A major theme is the resilience of emerging market and developing economies, including much of Sub-Saharan Africa, and whether this is likely to continue. To put this in perspective, for the first time, these economies as a group have spent more time in expansion and have had smaller downturns than the advanced economies. This has led to suggestions that these economies have decoupled from advanced counterparts.

To some extent, this has been due to fewer domestic and external shocks. During the recent crisis, countries with trade and financial links to the global economy were exposed. But low-income countries in Sub-Saharan Africa and elsewhere benefitted from limited economic linkages to the global economy, while those dependent on commodity exports were helped by China's strong growth. But the resilience is mainly explained by the sustained improvement in macroeconomic policies. Specifically, these countries developed the institutional capacity (data, supervision, coordination, regulations) to develop better policy frameworks (countercyclical policy, inflation targeting, and flexible exchange rate regimes) that enabled them to maintain greater policy space (low inflation, favorable fiscal and external positions, external reserves) needed to respond to shocks

However, these buffers have been somewhat eroded and need to be rebuilt. At the same time the weak external environment will be a drag on growth and downside risks from the uncertain global environment have intensified. In this scenario, countries have less policy space to sustain growth. With a sharper downturn in the global recovery, emerging market and developing economies might become re-coupled again with their advanced economy counterparts.

Implications for Angola

Angola was heavily affected by the recent global economic crisis mainly because of its heavy reliance on oil revenues, but also because the country lacked the adequate macroeconomic policy buffers to implement counter-cyclical policies that could soften the domestic impact. However, since the crisis, Angola has made substantial strides in improving its macroeconomic indicators. It is fair to say that macroeconomic stability has been restored and the economy is now in a better position to face another shock: international reserves are higher than they were before, the budget is in a much healthier condition, and inflation has come down to single digits. But Angola still remains heavily exposed to international oil prices and prices are projected to fall below US\$90 per barrel over the next few years.

Looking ahead, Angola's key economic policy challenge is to maintain the macroeconomic stability essential for sustained growth, economic diversification, and poverty reduction. For this, Angola needs to sustain the prudent macroeconomic policies of the last few years and rebuild the buffers to help stabilize the economy. Central to this is delinking the non-oil sector from the oil sector and make it less vulnerable to fluctuations in international oil prices. This means further building foreign reserves, pressing against inflation, and strengthening fiscal balances. At the

same time, there are also large development needs for spending on infrastructure and social priorities and meeting these needs in the context of weakening oil prices implies some difficult choices. To create fiscal space, the country could raise non-oil tax collections and restrain spending in non-priority areas. Meeting these challenges with resilience will require sound macroeconomic policies. In this regard, if Angola can draw on the example of other emerging and developing countries, its medium-term prospects will continue to look strong.

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