



Angola

Economic Perspectives and the 2014 Budget Proposal

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All data taken from published sources: BNA and MinFin websites, 2014 budget document and IMF staff reports.
Note that 2014 Budget proposal available at
www.expansao.sapo.ao/artigo/geral/21204



Outline

Policy challenges

Recent developments

External environment

2014 Budget

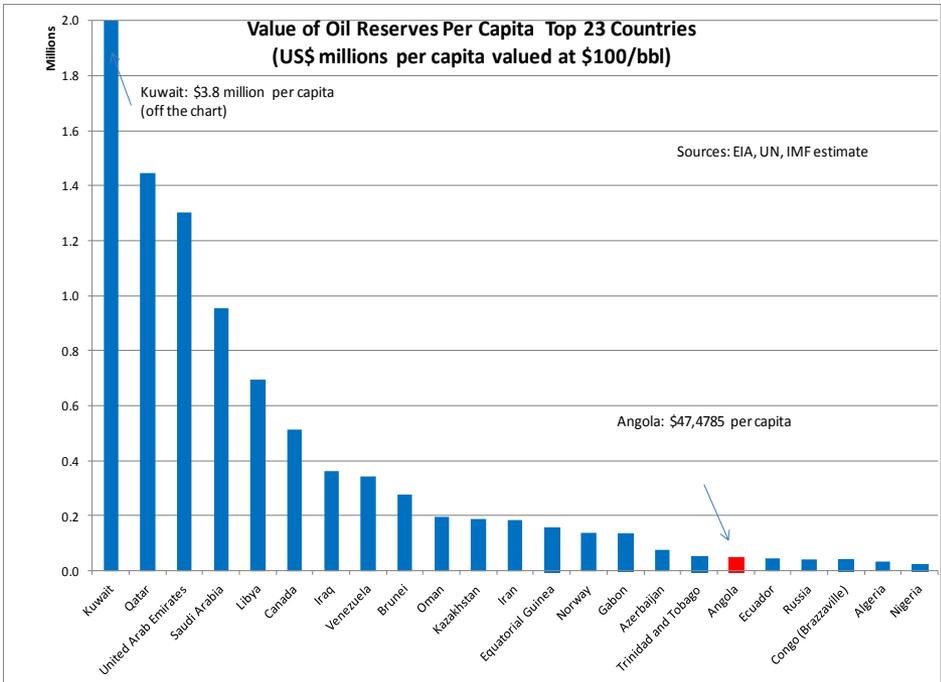
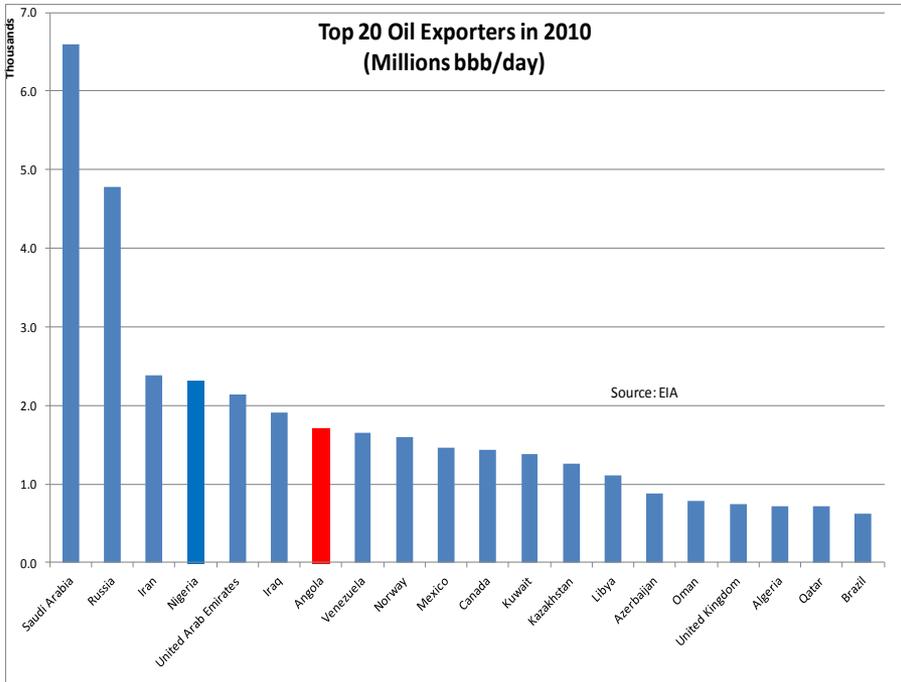


Policy challenges

Reminder: Angola is not rich

Angola is a major oil producer.....

.....but per capita oil wealth is low



Key policy challenges

Angola is a post-conflict country that produces a lot of oil
It faces the challenges of both

Save and invest for the future

Reduce volatility from oil sector

Public expenditure and financial management

Sources of growth

Reading fiscal accounts

Angola fiscal accounts - 2014 budget

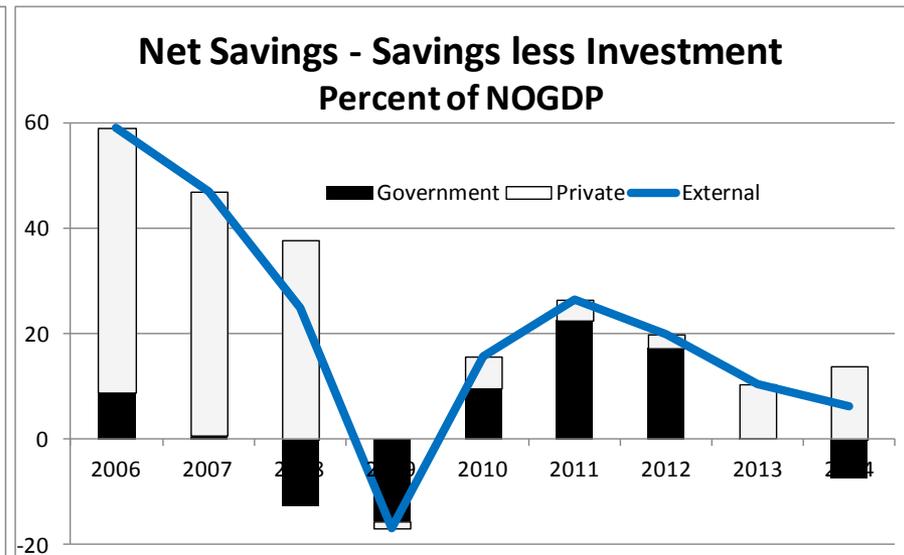
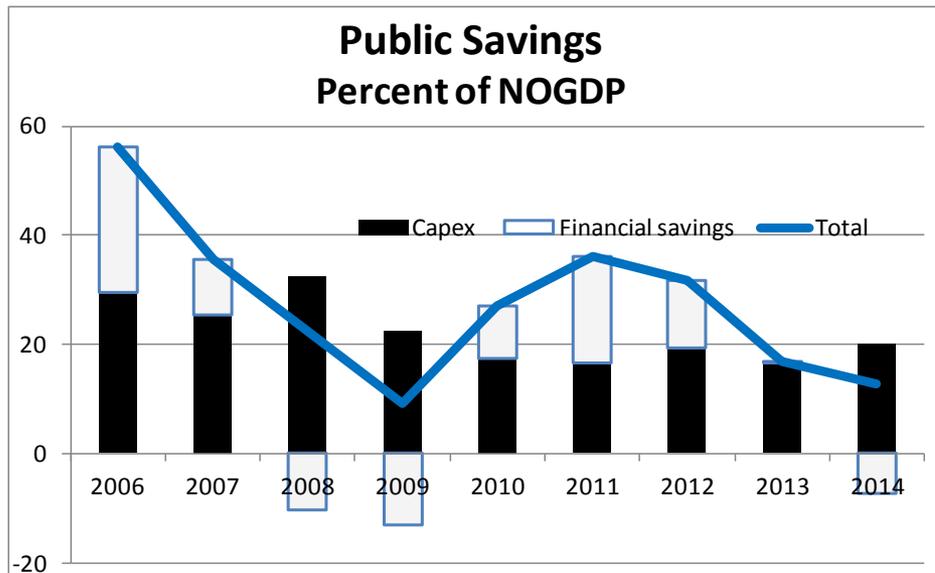
Akz billions	2013	2014
Revenues	4,536	4,745
Oil (due)	3,448	3,313
Non-oil	1,088	1,432
Expenditures (commitment)	-4,505	-5,375
Current spending	-3,368	-3,674
Interest	-93	-128
Capital investment	-1,137	-1,701
Overall balance (financial savings, commitment)	31	-630
Net accumulation of domestic arrears	-18	0
Overall balance (financial savings, cash)	12	-630
Net financing (net accumulation of financial assets)	12	-630
Net Domestic	-337	-103
Bank	-540	116
Non-bank	203	-219
Net external	325	733
Memo items		
Current balance (savings)	1,168	1,071
Revenues less current expenditures		
Non-oil primary balance (policy stance)	-3,325	-3,816
Non-oil revenues less non-interest expenditures		

- Revenues: due v cash
- Spending: commitment v cash
- Quasi-fiscal
- Current savings allocated to capital and financial savings
- Non-oil primary balance measures discretionary policy stance
- Assess relative to non-oil GDP

Savings and investment

Need to save and invest for the future.

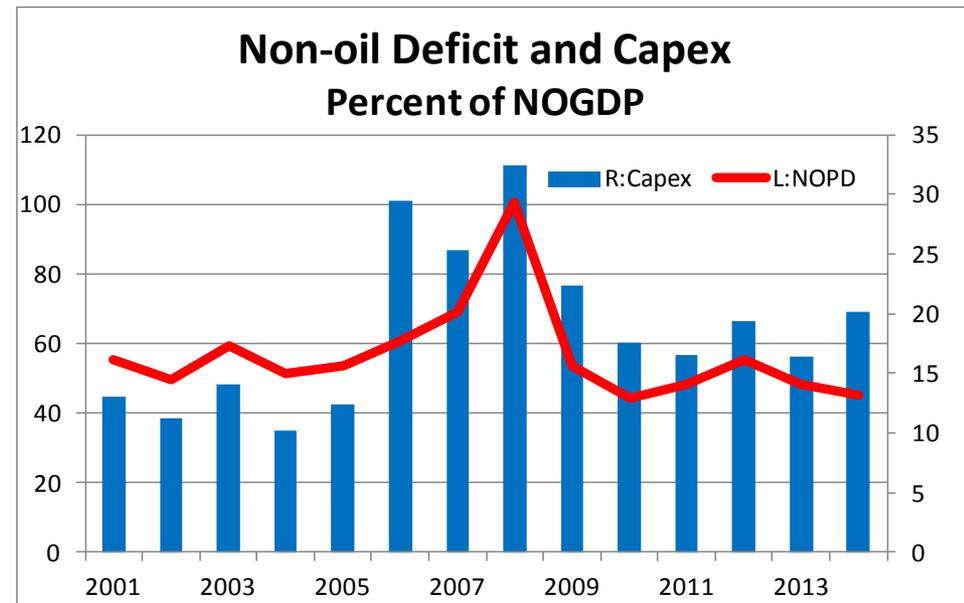
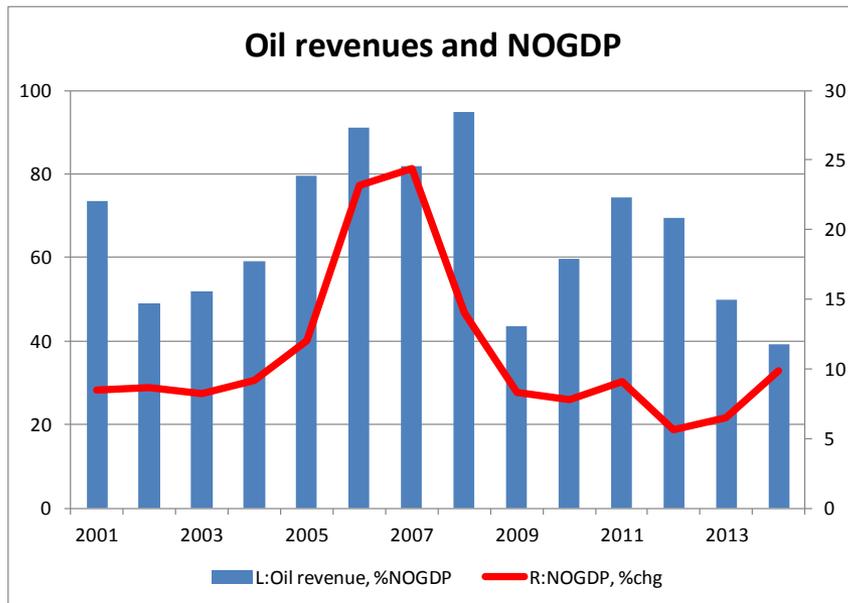
- Higher return on capex, but financial savings also needed for stabilization fund. Policy swing back towards higher capex.
- Macroeconomic absorption constraints on capex - volatility
- Administrative capacity constraints on capex - value for money
- Public savings declining, private savings recovering?



Volatility

Pro-cyclical budget volatility from oil production/prices and institutional factors

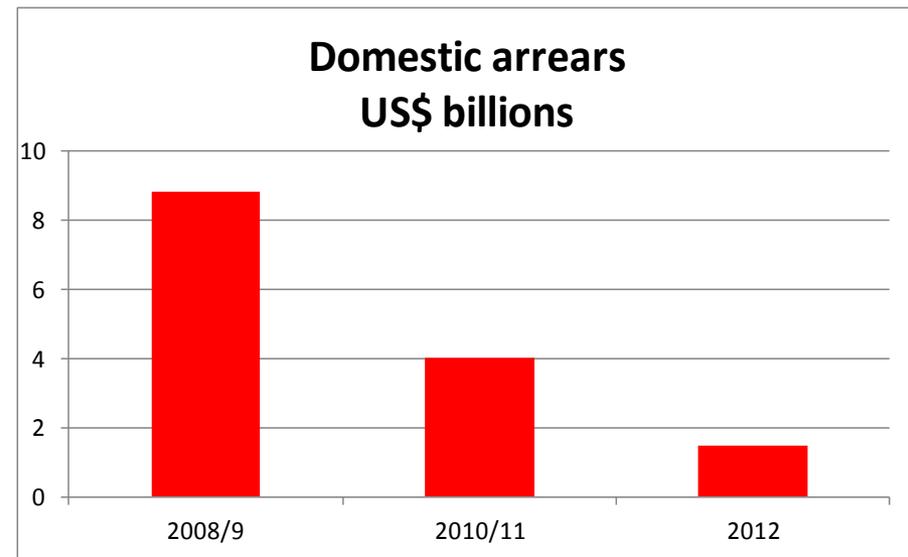
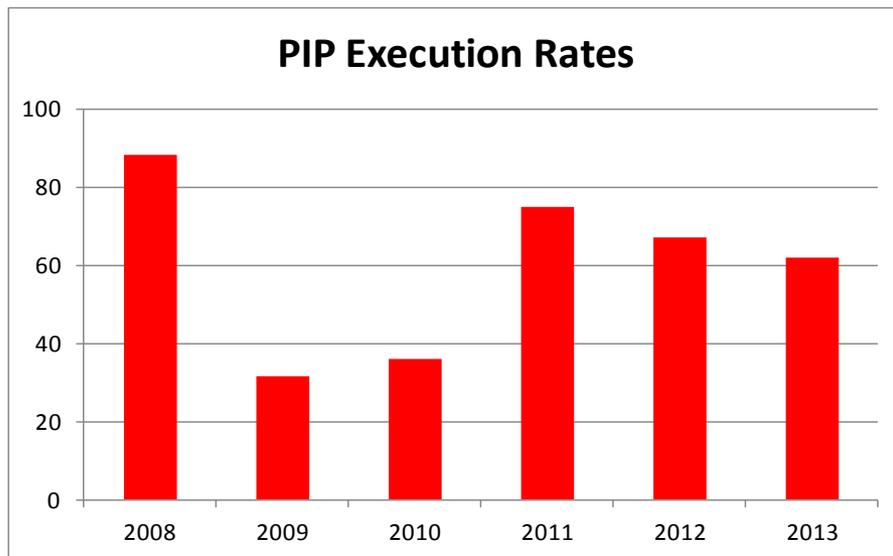
- Medium term fiscal framework to smooth spending
- Stabilization fund to protect capex and imports
- FSDEA – budget allocation v residual



Public financial management

Poor PFM causing difficulties

- Expenditure management and value for money
- Low capex execution partly due to tighter controls
- But continued payment delays and domestic arrears





Sources of growth

Where is non-oil sector growth going to come from?

End of boost from post-conflict and post-crisis macroeconomic stabilization.

Inflection point - need for structural reforms

- Infrastructure
- Public expenditure and financial management
- Financial markets and financial intermediation
- Other - utilities, judiciary, civil service, governance

Virtuous cycle: Need to enter virtuous cycle of stable macroeconomic environment, good economic governance, and structural reforms; attracting higher private investment and leading to higher growth; and making it easier to implement good economic policies.



Recent developments

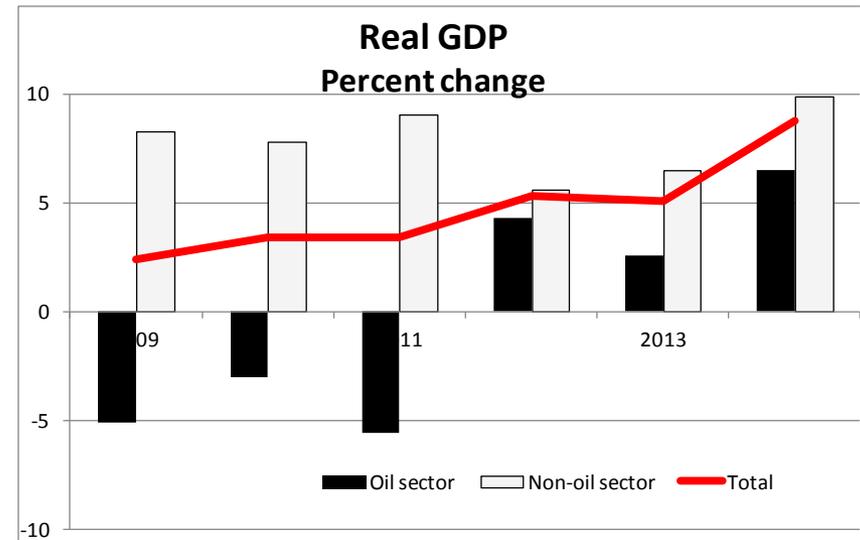
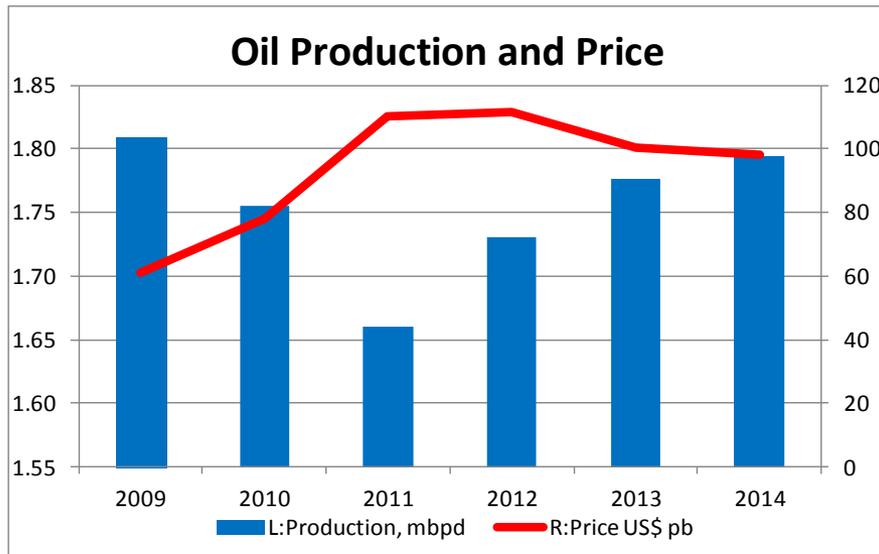
Output growth weak

Oil production growth slow in 2013. Prices high but trending down.

Budget conservatively estimates 1.78 mbpd and \$100.5 for 2013, but exports volumes and prices to September averaged 1.75 mbpd and \$106.85 pb – suggesting oil sector growth of 0.6 percent.

Budget projects non-oil output growth at 6.5 percent in 2013. But non-oil growth probably weaker, probably below 6 percent in 2013.

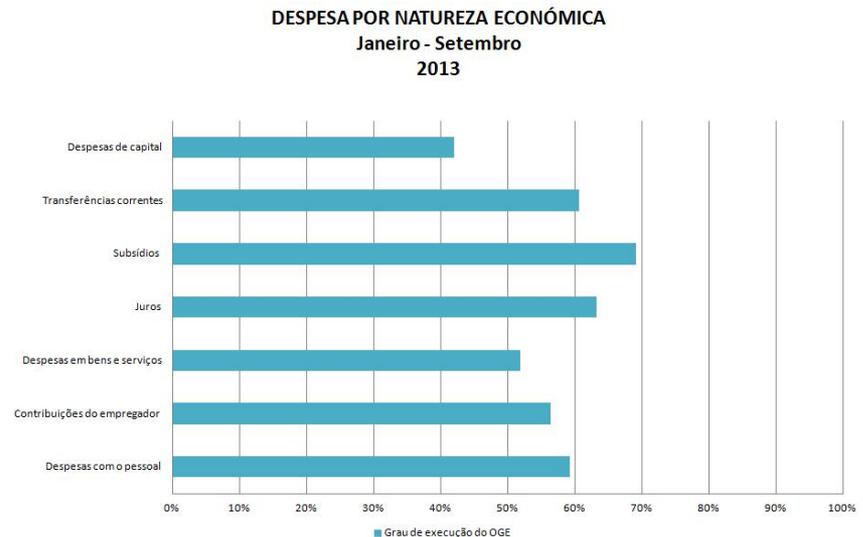
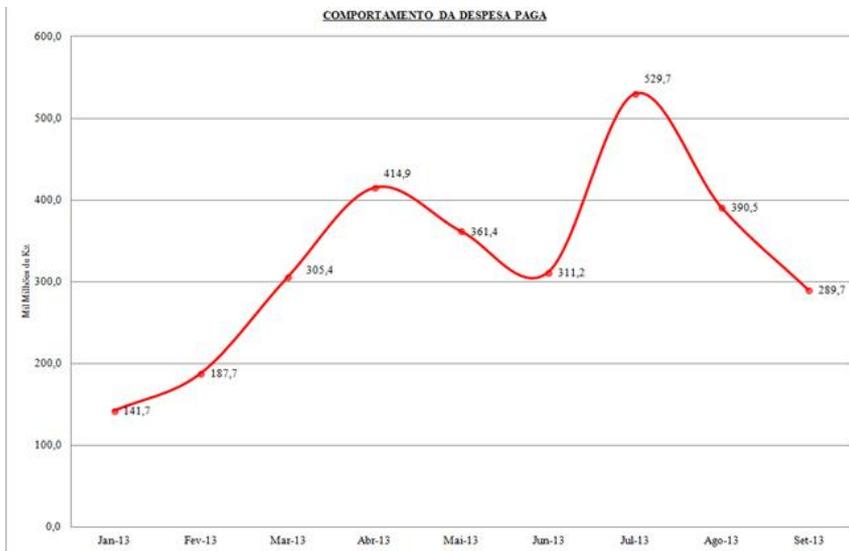
Budget projects overall real GDP growth in 2013 at 5.1 percent, but 4-5 percent more doable.



Low fiscal implementation

Budget implementation has been weak, but should pick up in q4

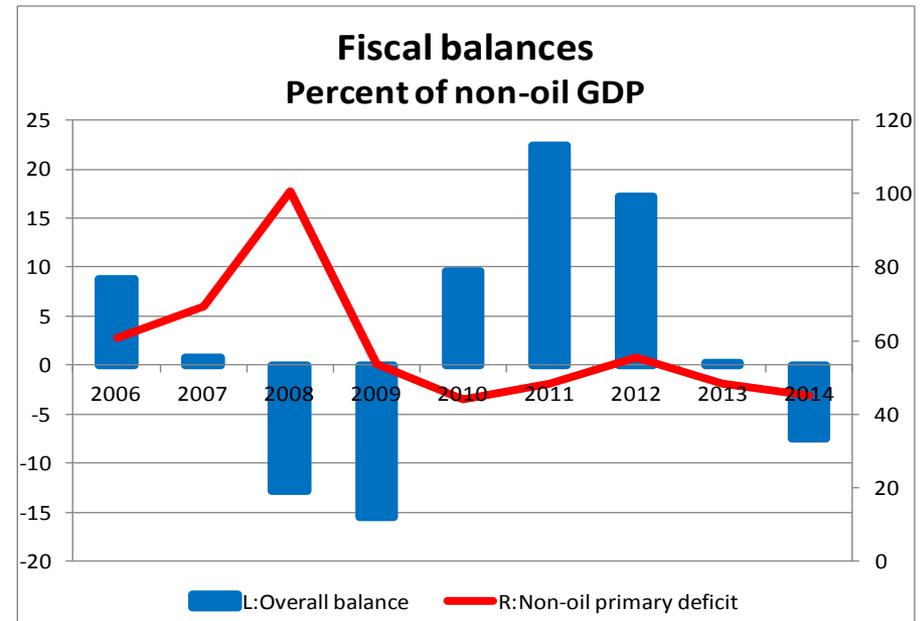
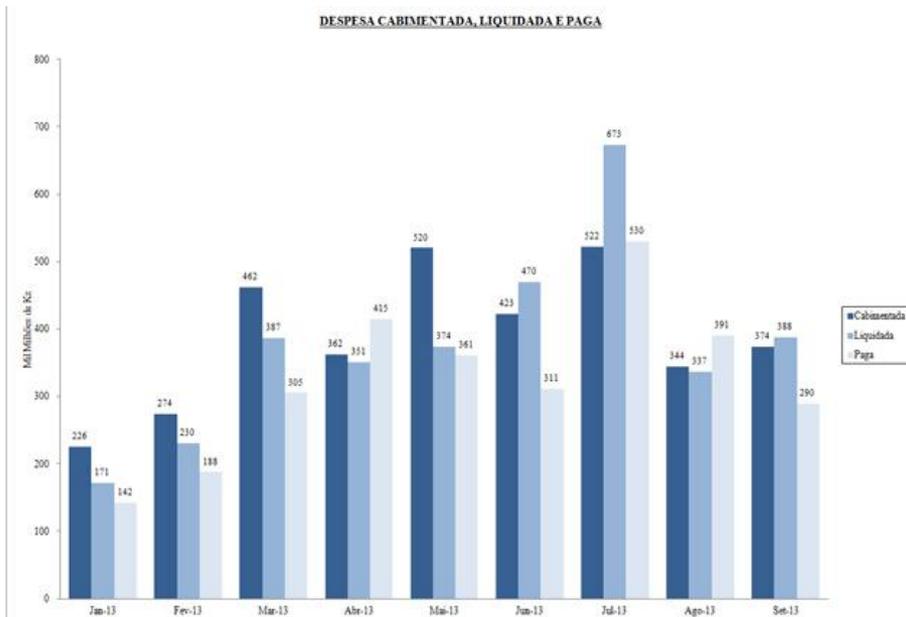
Capex spending especially weak, perhaps down US\$5bn



And delayed payments

Government payments also delayed

2013 OGE expected overall balance (cash) deficit. Now expected to be in surplus and probably higher than envisaged in budget.

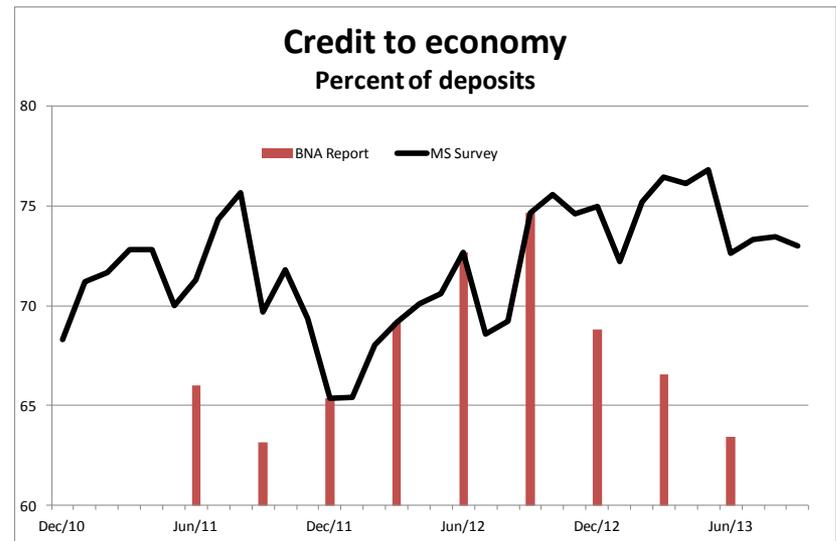
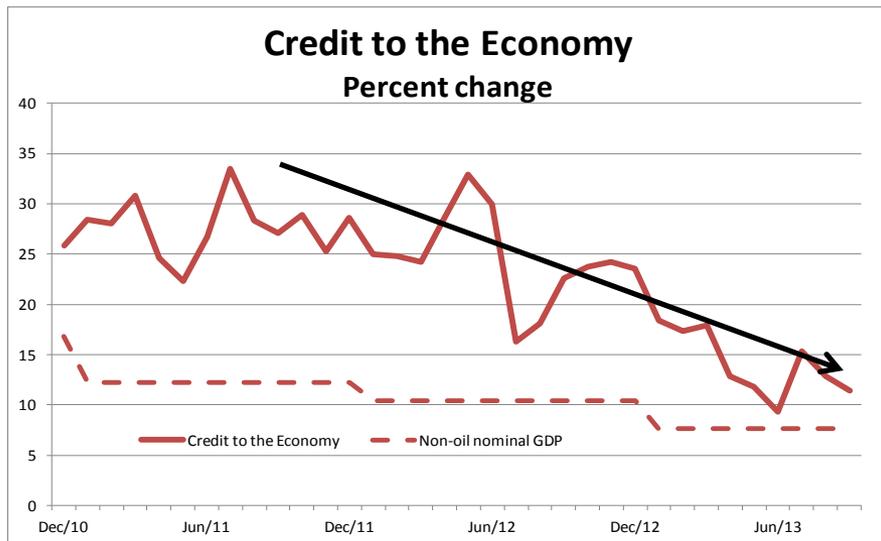


Slowing credit growth

Credit to the economy weak because of lack of 'bankable projects' - slow budget implementation and delayed payments

The monetary survey data shows banks' transformation rate (credit to the economy relative to deposits) staying flat or falling.

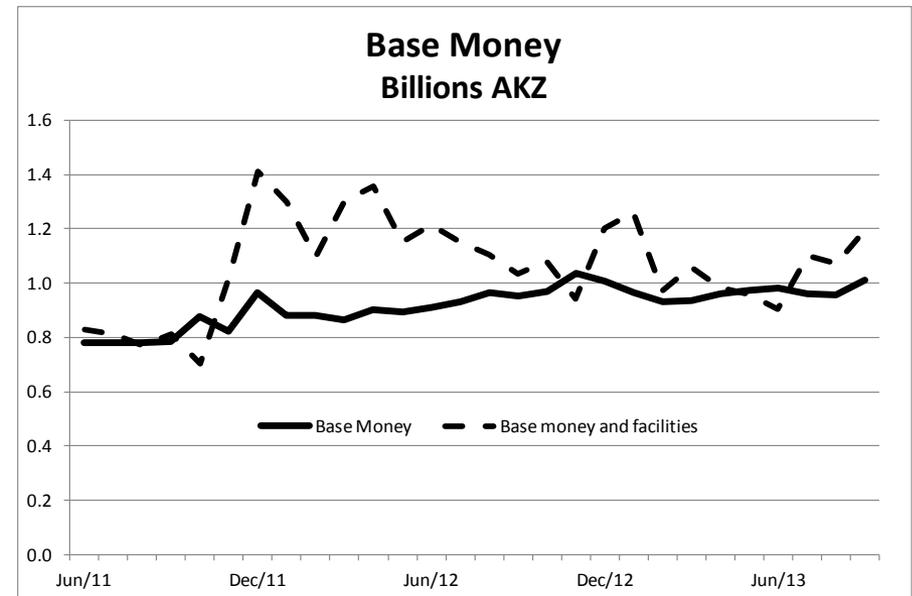
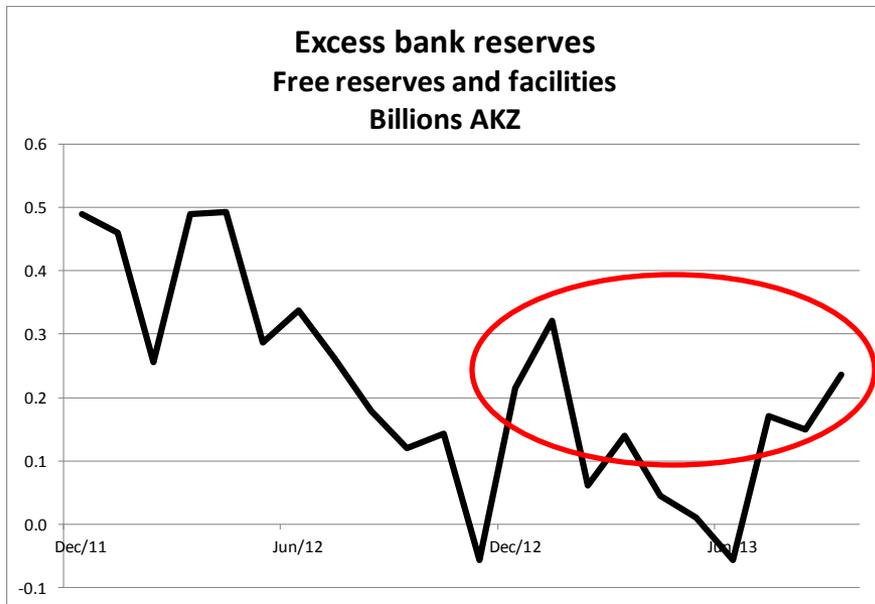
Using different data, the BNA 2013q2 inflation report indicates a falling transformation rate.



Excess bank reserves

The BNA has also sought to reduce chronic excess bank reserves - free reserves (in base money) plus amounts in facilities (outside base money). This has pulled down base money growth.

Excess reserves surged up in late 2012 as banks retained the liquidity injected by the BNA rather than pass it on as credit. Excess reserves again surged since June because of the oil FX law.

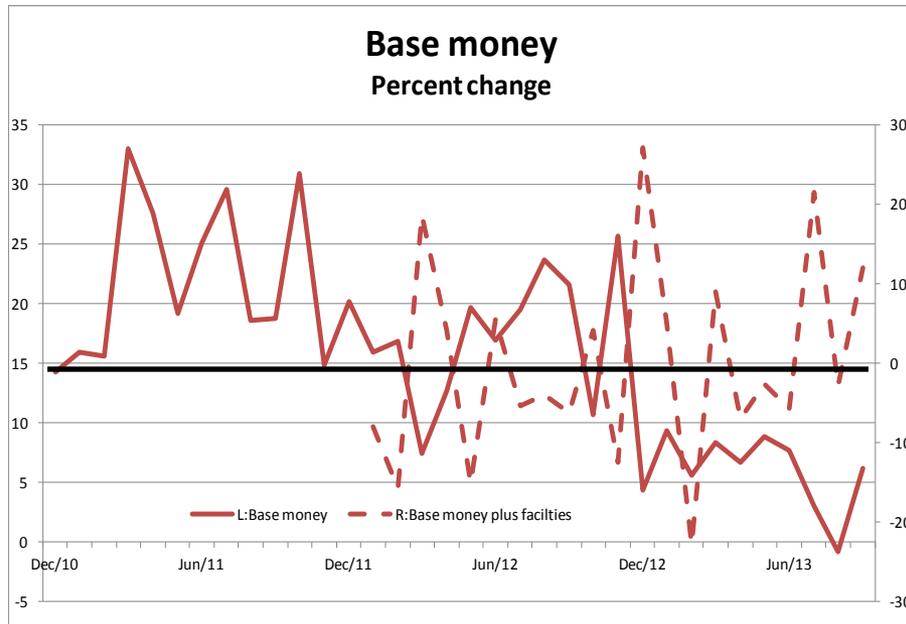


Declining money aggregates

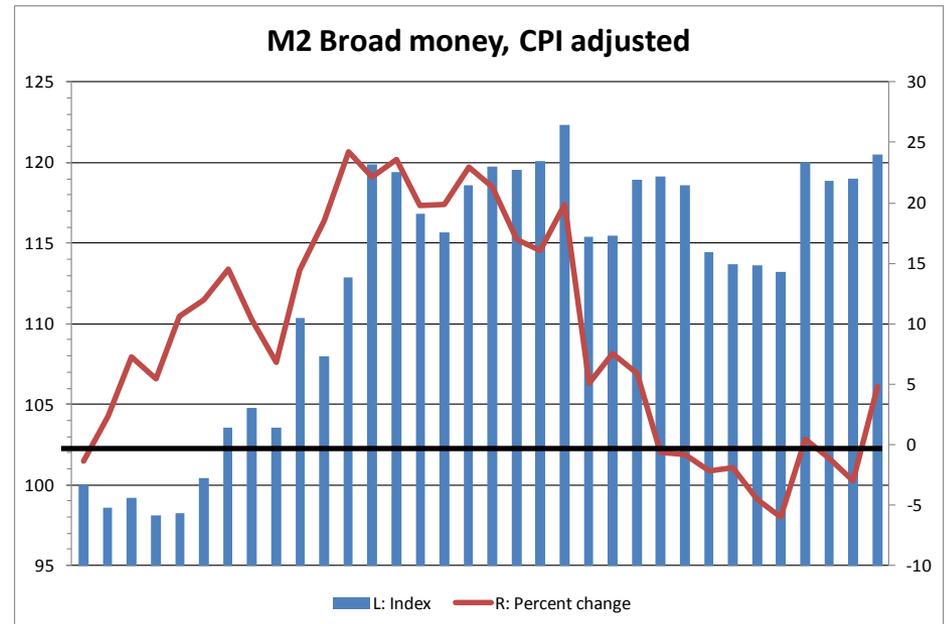
As a result base money plus facilities has been declining since 2012 and base money declined Y/Y in Q3. And broad money M2 has trended down Y/Y since mid-2012.

And broad money M2 in real terms has trended down Y/Y since mid-2012.

**Base money
Percent change**



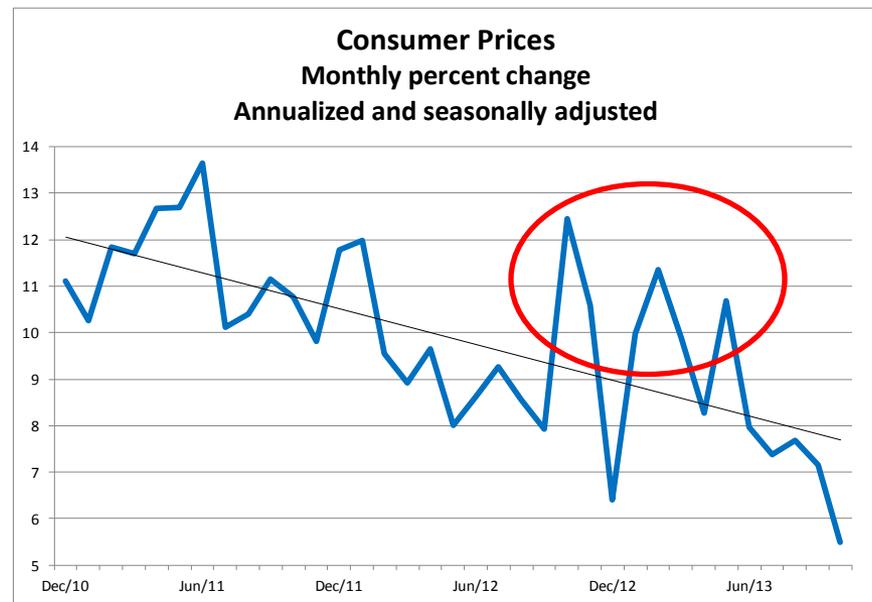
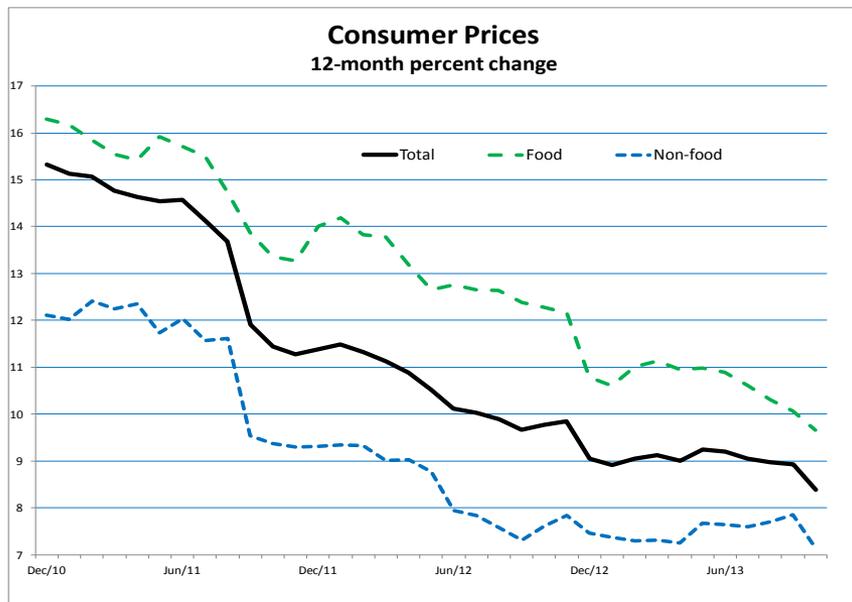
M2 Broad money, CPI adjusted



Inflation heading firmly down

CPI Y/Y inflation trending down and reached 8.4 percent in October. Inflation held up by monthly surges in late 2012 and early 2013. Y/Y inflation could fall quickly once these surges pass through the data.

Underlying trend is firmly down, perhaps pointing to 8 percent in early 2014.





Oil FX law

Before

- Large portion of oil receipts passing offshore
- FX revenue flows into BNA, but large FX flows to resident suppliers.
- Banks reliant on BNA FX sales and FX shortages for clients. No interbank market.
- Dollarization of payments, deposits and credit limited effectiveness of monetary policy

Package of laws

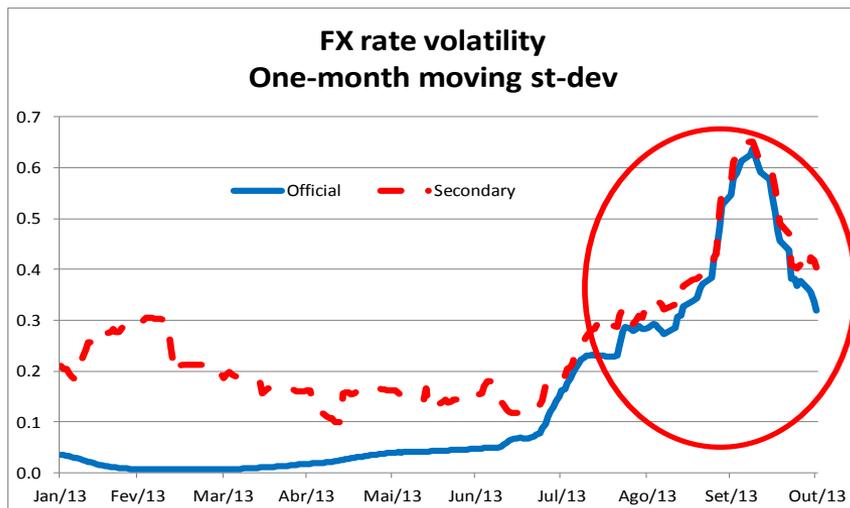
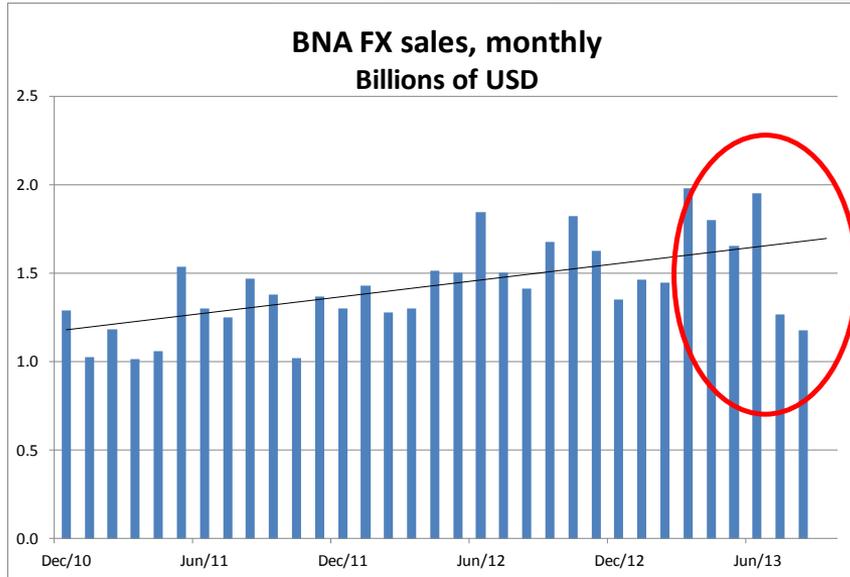
Oil FX law

- FX law brings oil transactions onshore
- Payments to non-residents in USD but through local banks.
- Payment to residents through banks in AKZ with USD sold to banks.

Other regulations

- Tighter FX exposure and credit limits
- Streamlined and tighter import regulations

Oil FX law impact



Improved FX market operations:

- No discernible disruption
- FX shortages much reduced
- Parallel market spread reduced
- Reduced dependency on BNA
- FX interbank market expanding
- More FX rate volatility/flexibility
- But FX hoarding before June

Impact depends on BNA FX sales

- previously high but now declining

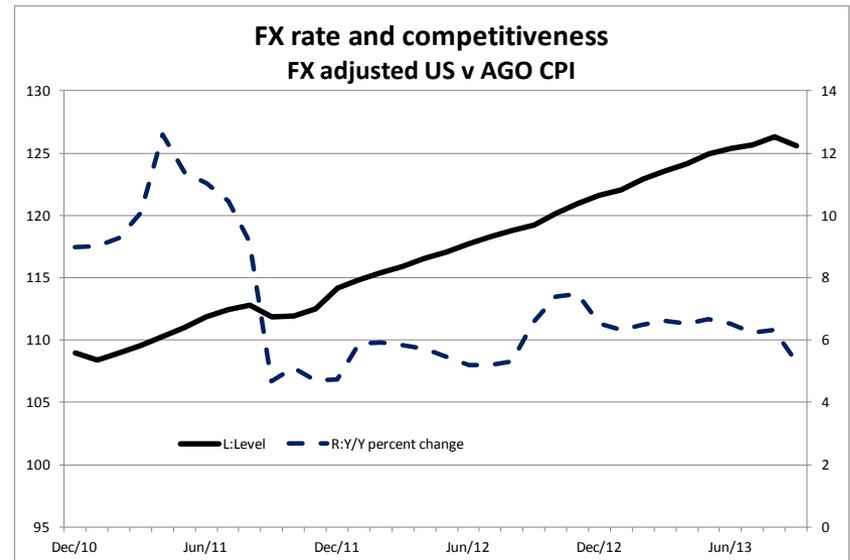
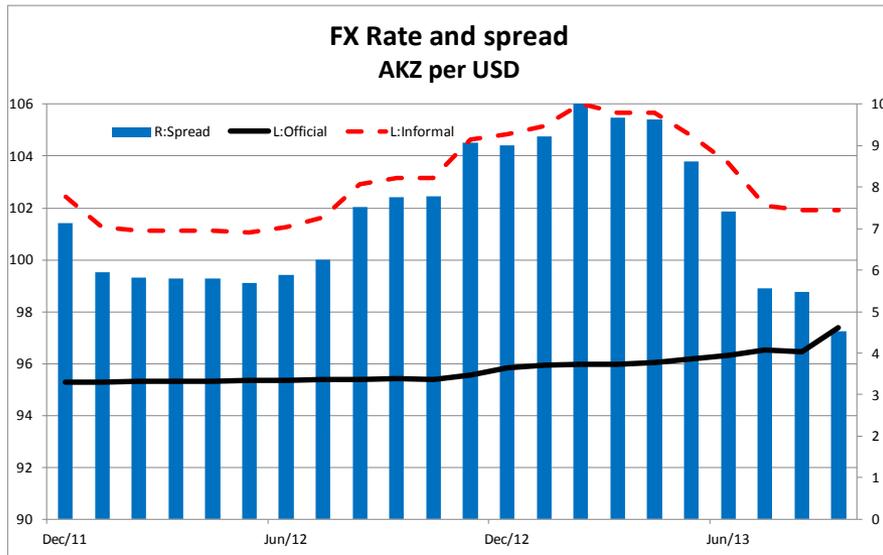
Structural changes

- Monetary aggregates
- Banking sector consolidation

Foreign exchange

Spread between informal and formal FX markets widened in late 2012 and early 2013 to near 10 percent because of excess liquidity and perhaps because of anxieties related to oil FX law. The spread has since narrowed to about 4 percent.

Bilateral real USD FX rate appreciates around 6 percent, ahead of productivity and suggesting continued loss of competitiveness in non-oil sector.



De-dollarization

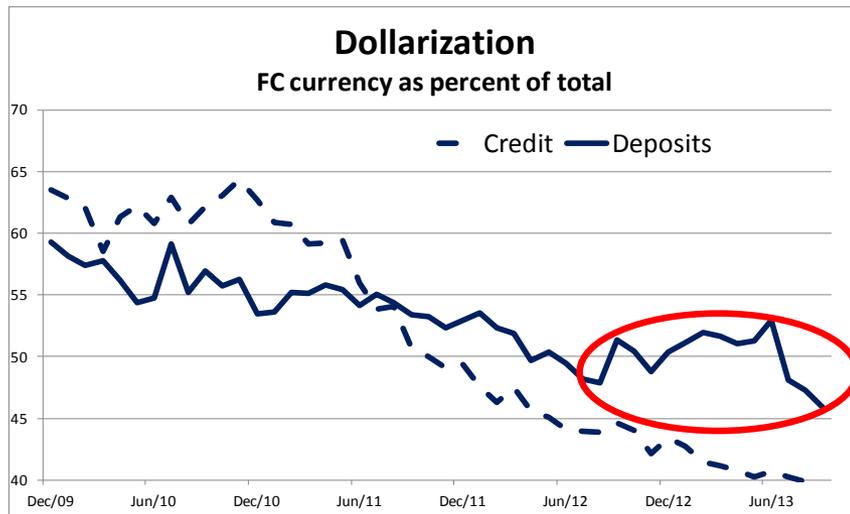
Deposits: Hoarding of FX deposits before June. Sharp decline in FX deposits after June

Credit: credit risk of FX loans to resident suppliers.

But de-dollarization not assured

- Dollarization sustained by one-way bet of high inflation and depreciation.
- De-dollarization needs changed incentives: low inflation and stable FX rate.
- Confidence important to stem capital flight.

Full de-dollarization now on the radar screen.





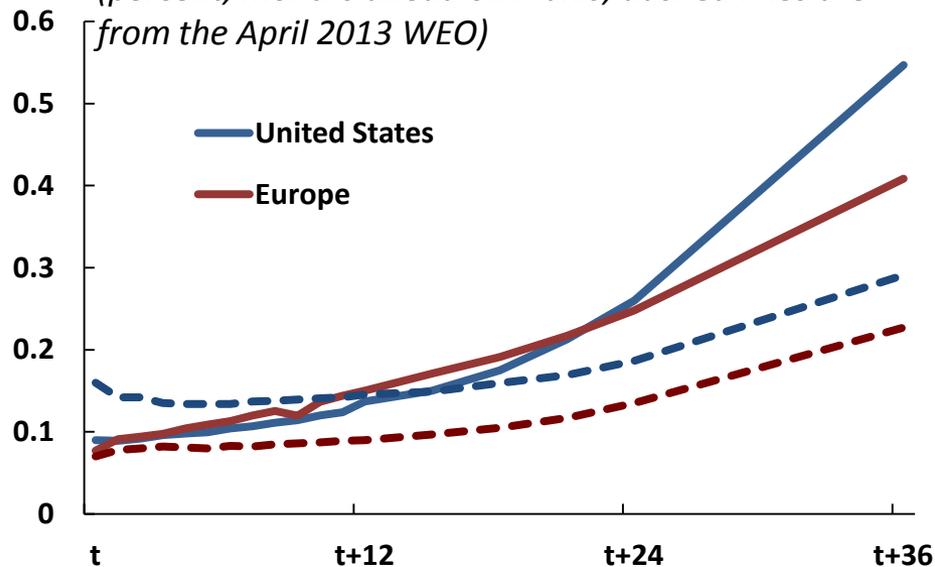
External environment

Monetary conditions and EM growth

- US monetary policy expected to tighten, tightening global financial conditions and large capital outflows from emerging markets.
- Growth slowing in emerging economies

Policy Rate Expectations

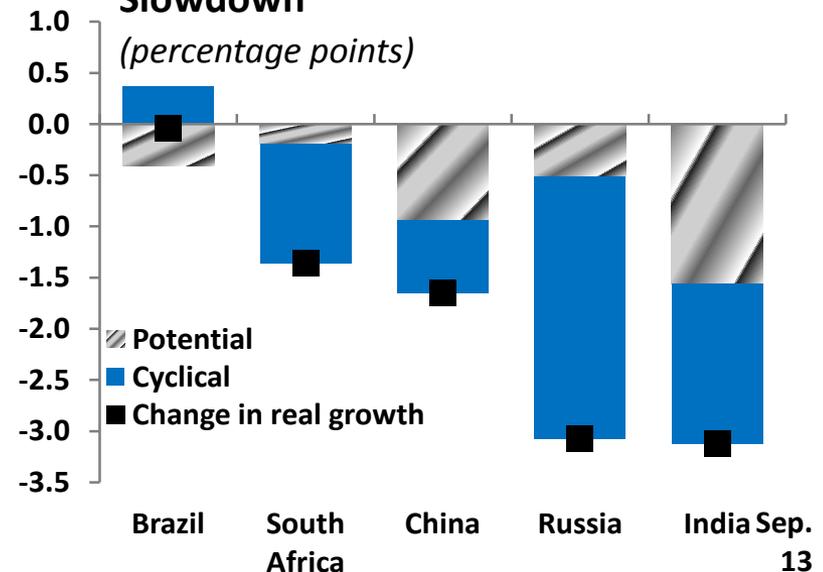
(percent; months ahead on x-axis; dashed lines are from the April 2013 WEO)



Source: IMF WEO

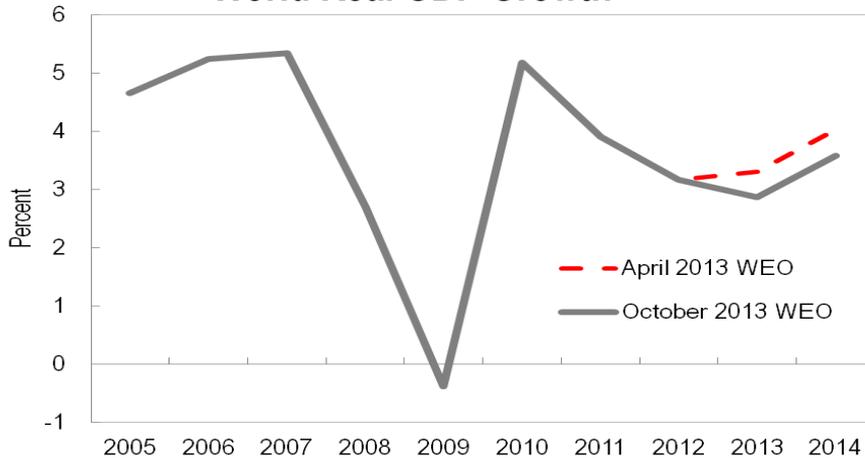
Decomposing the 2011-13 Slowdown

(percentage points)



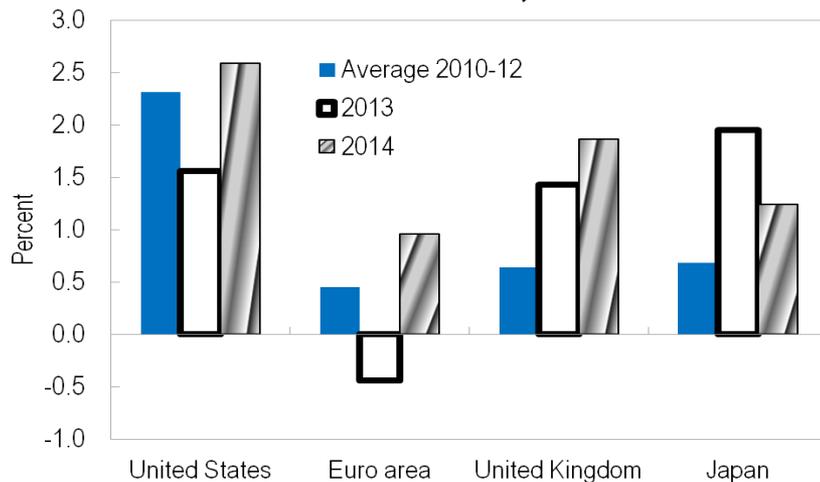
Growth projections

World Real GDP Growth

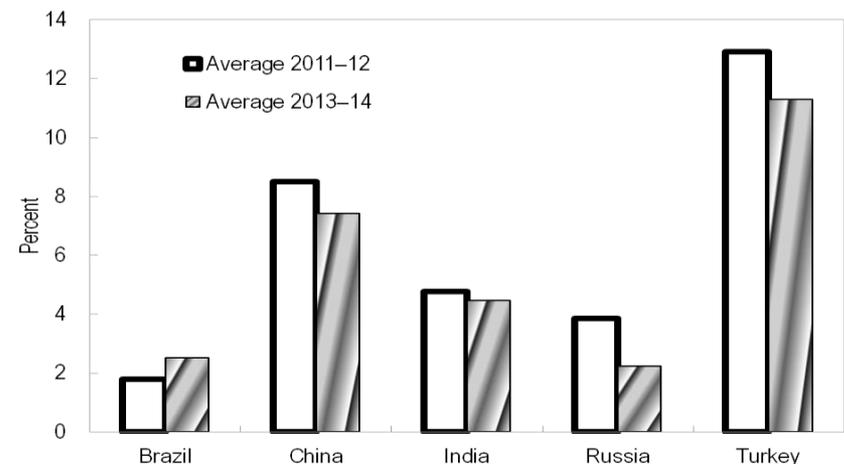


- Global real GDP growth projected to rise in 2104.
- But projected growth rates for 2013/14 continue to be reduced because of slowdown in emerging economies.

Real GDP Growth, 2010–14

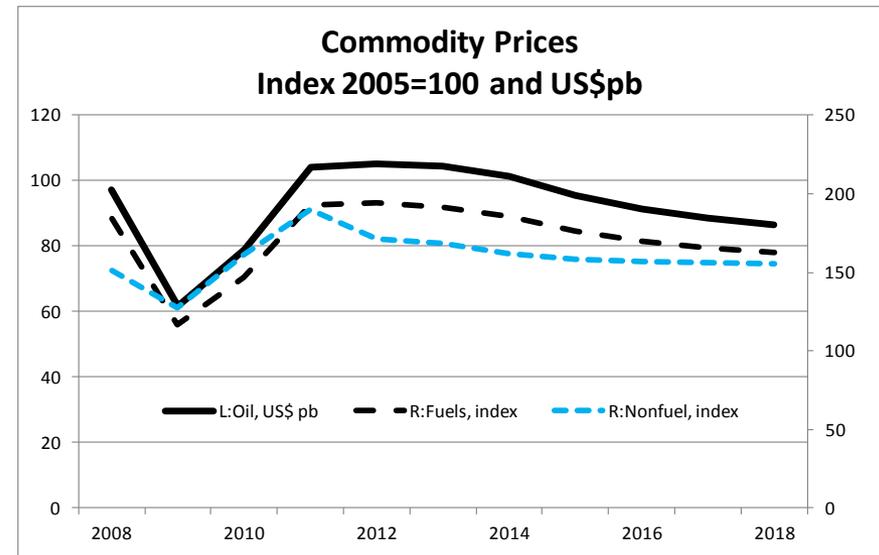
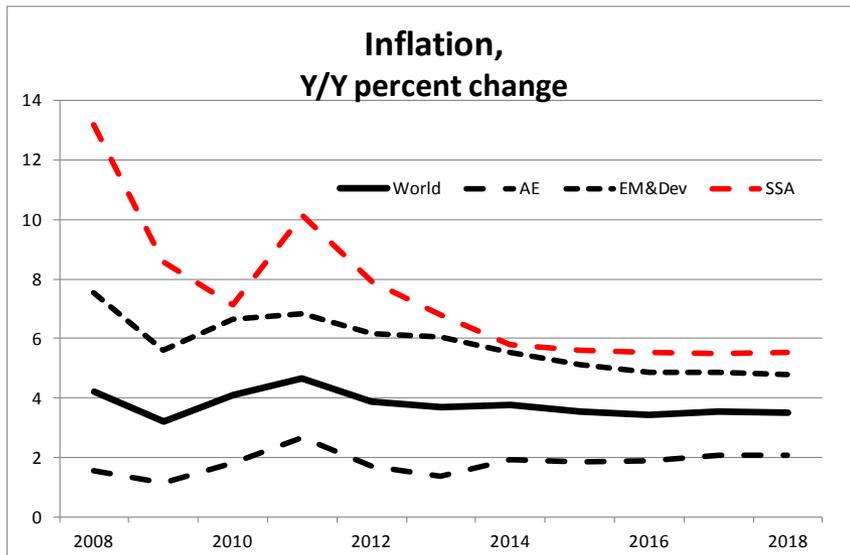


Real GDP Growth, 2010–14



Inflation and commodity prices

- Despite higher growth, global inflation expected to remain low.
- But commodity prices will trend down.
- WEO oil price per barrel
 Period average - 2013: \$104.5; 2014: \$101.4; Change: -3%
 End-of period - 2013: \$107.0; 2014: \$98.8; Change: -7.7%

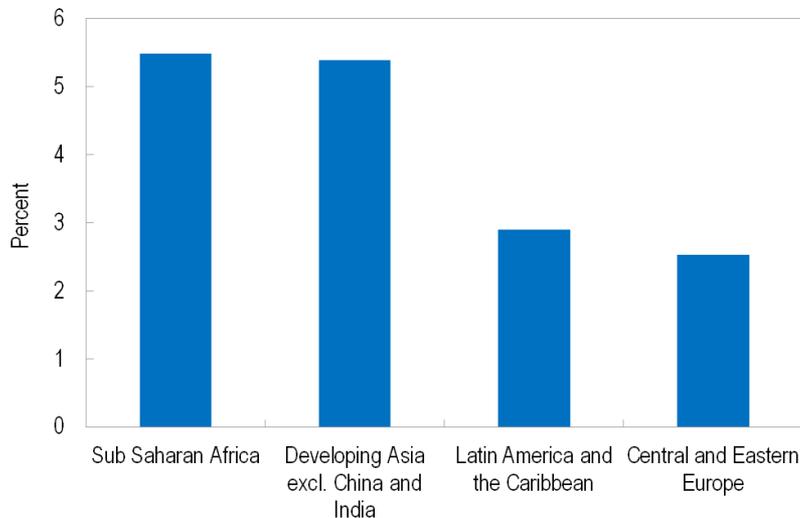


SSA growth

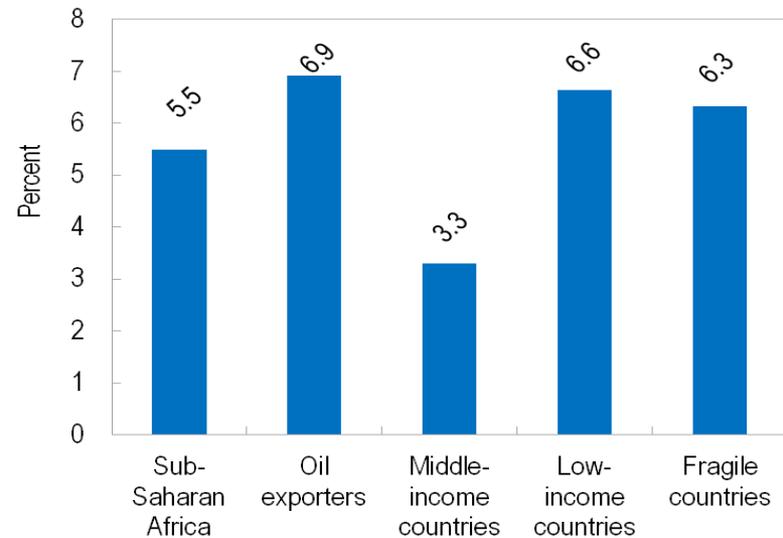
SSA looks set to sustain its recent strong record of high growth, particularly relative to other developing regions

But significant variation across countries.

Developing regions: real GDP growth 2013–14 Average



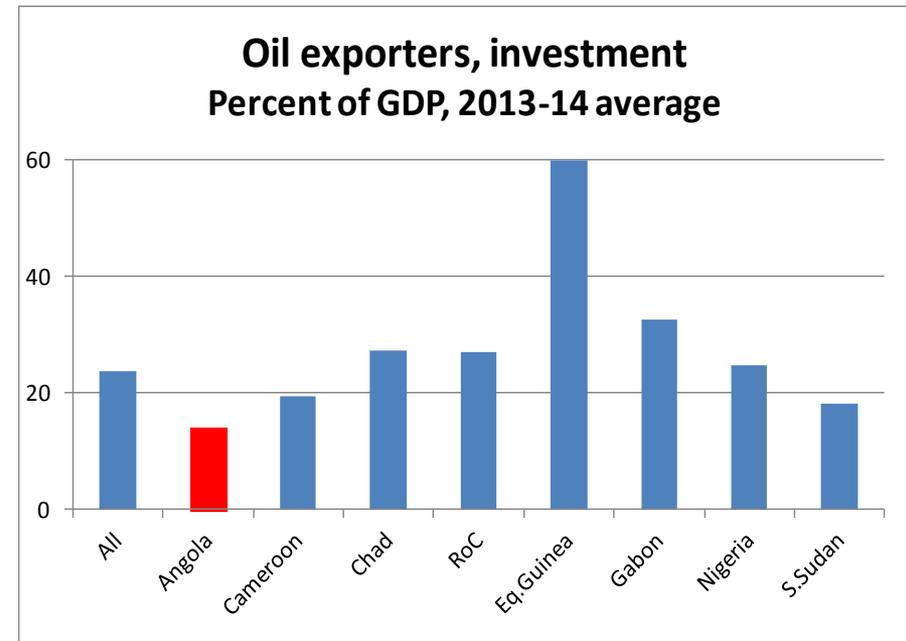
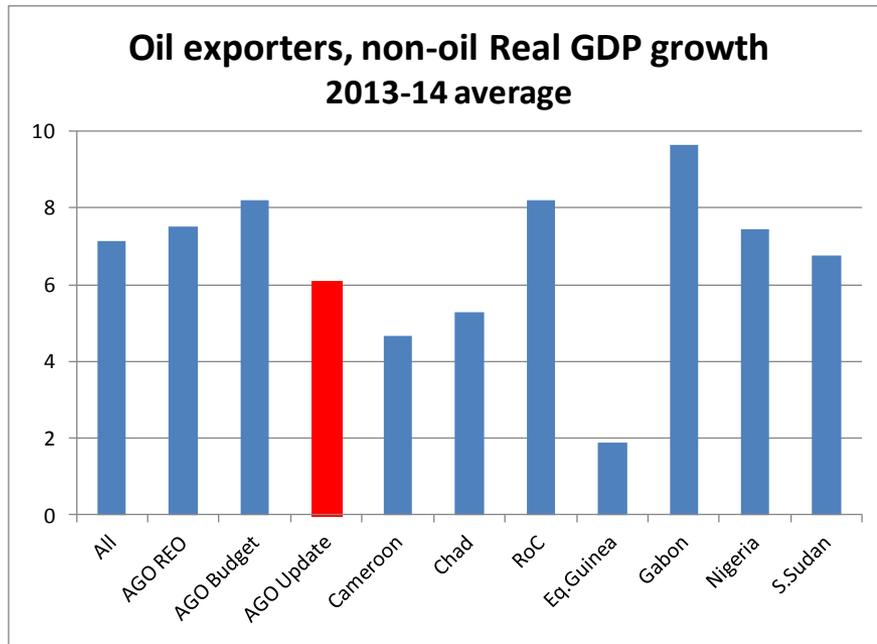
SSA country groups: real GDP growth 2013–14 Average



Oil exporters non-oil growth

Oil exporters experiencing strong non-oil sector growth. But Angola may be falling behind.

Angola has below average national savings rate and a low investment rate.

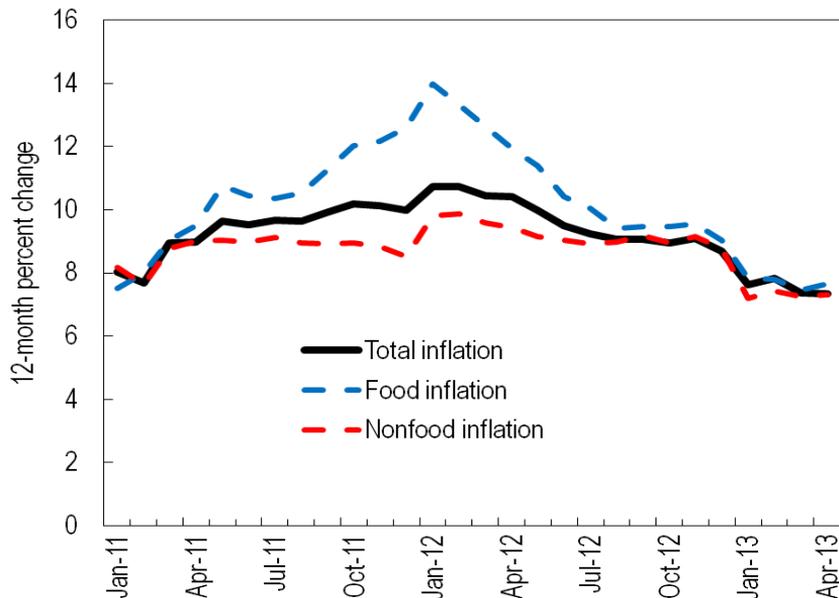


SSA inflation

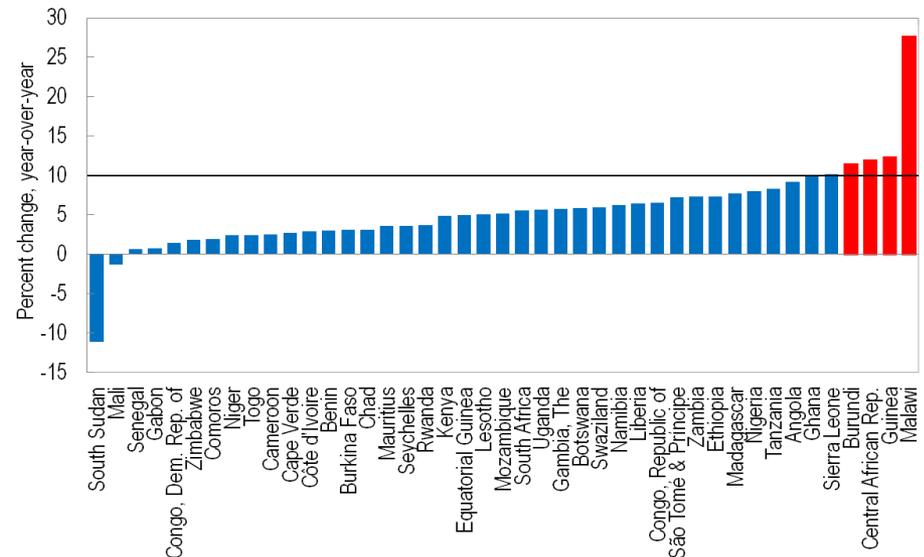
Inflation continues to moderate in the region, Average inflation projected is 6.1 and 5.1 percent for 2013 and 2014.

As of June, inflation was above 10 percent in only 4 countries. Angola still above average.

SSA: Food and Nonfood Inflation



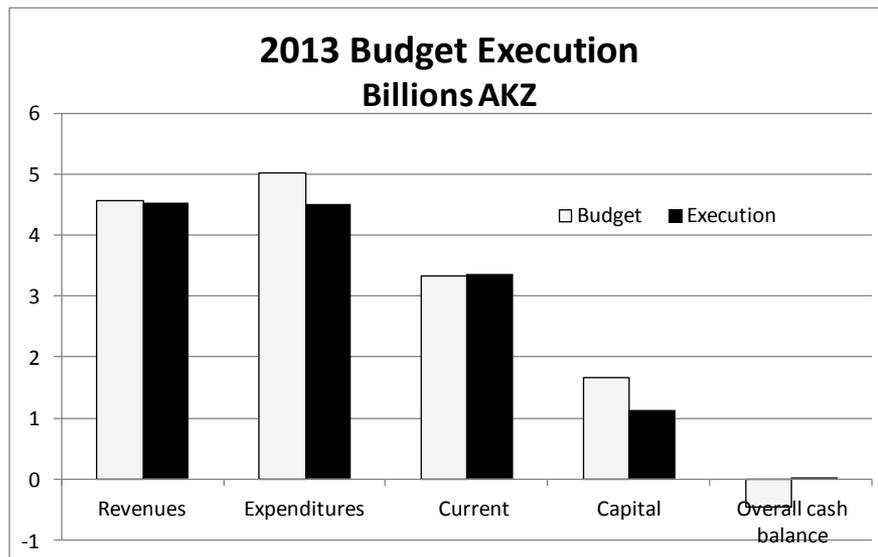
SSA: CPI Inflation, June 2013





2014 Budget

Budget execution for 2013



- Projected budget execution for 2013 is weak and probably overstated in budget report.
- Shortfall mainly in capex because of delays in external funding, contracting and implementation.
- Budget envisaged overall deficit but small surplus now projected.

Macro assumptions

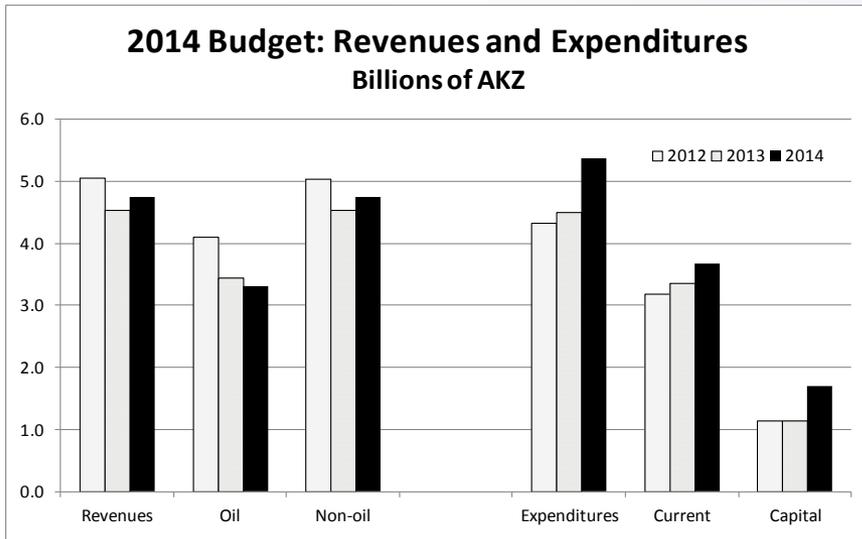
Budget Assumptions

	2014 Budget		Revised	
	2013	2014	2013	2014
Oil production mbpd	1.78	1.79	1.74	1.79
Percent change	2.6	1.0	0.6	3.0
Oil price, budget/projection	96	98	108	102
Percent change	-9.9	-2.5	-3.1	-4.8
Real GDP, percent change	5.1	8.8	4.1	5.3
Oil	2.6	6.5	0.6	3.0
Non-oil	6.5	9.9	5.8	6.4
Nominal GDP, percent change	8.2	9.0	7.2	8.8
Oil	-2.6	-10.1	-0.8	1.0
Non-oil	17.3	22.4	13.9	14.5
Nominal GDP	11,764	12,823	11,805	12,847
Oil	4,851	4,362	4,982	5,032
Non-oil	6,913	8,461	6,823	7,815
CPI, eop, percent change	9.0	8.0	8.6	8.0
FX rate, AKZ/USD, average	96	98		
NIR US\$bn	30.6	33.7	34.5	38.7

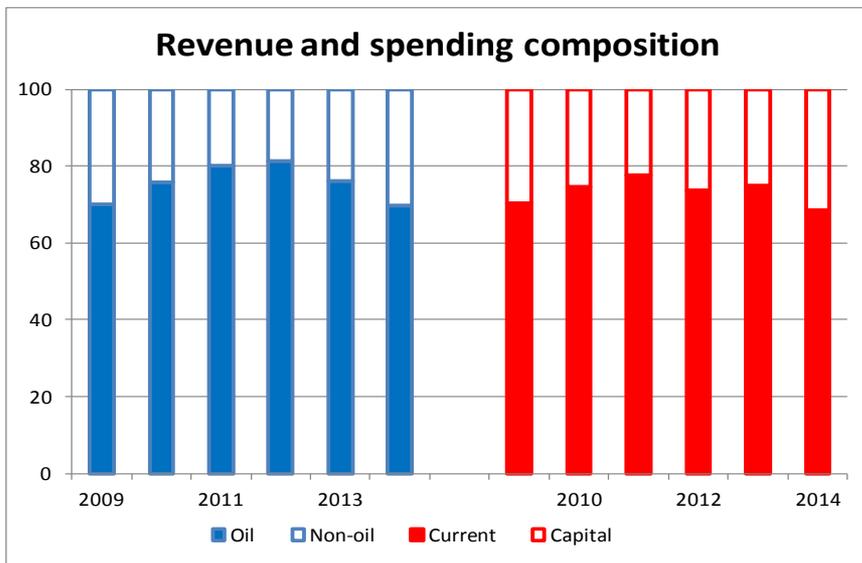
- Optimistic growth projections for 2014, especially for non-oil sector. Non-oil growth at 6-7 percent more doable.
- Overall growth in 2014 at 5-6 percent more doable.
- 8 percent inflation 2014 target doable.
- Budget oil price of US\$98 is close to actual projection.

Revenues and expenditures

Nominal and shares



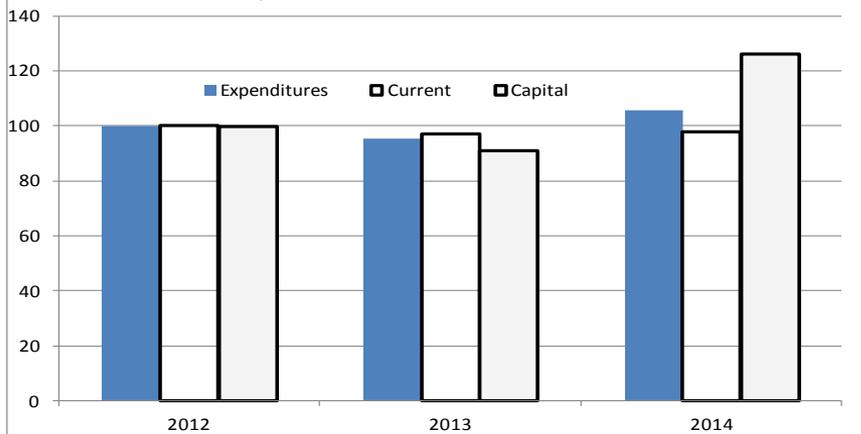
- Optimistic budget projection of non-oil revenues.
- Budget projects rise in nominal spending with shift to capex.
- Big expansion in spending. Spending 7 percent above 2013 OGE, but some 20 percent above probable 2013 execution. Especially optimistic for capex.
- Continued shift in revenue composition away from oil revenues. Continued shift in spending composition towards capex.



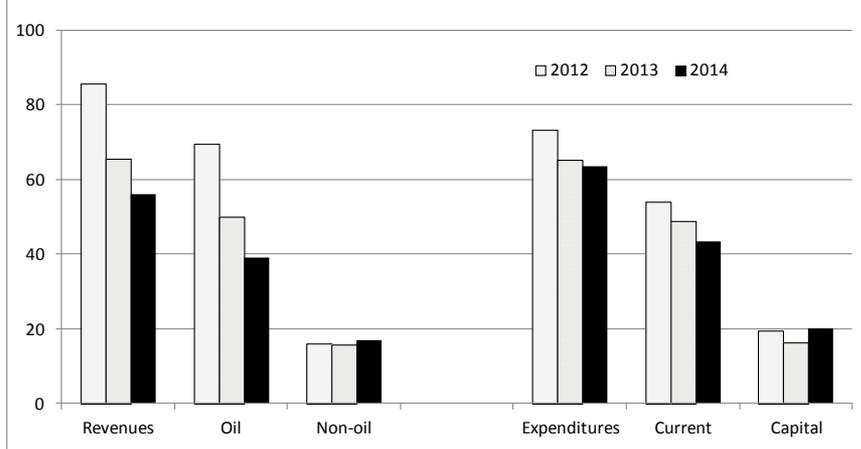
Revenues and expenditures

Relative to inflation and non-oil GDP

Real expenditures
Adjusted for inflation, 2012=100

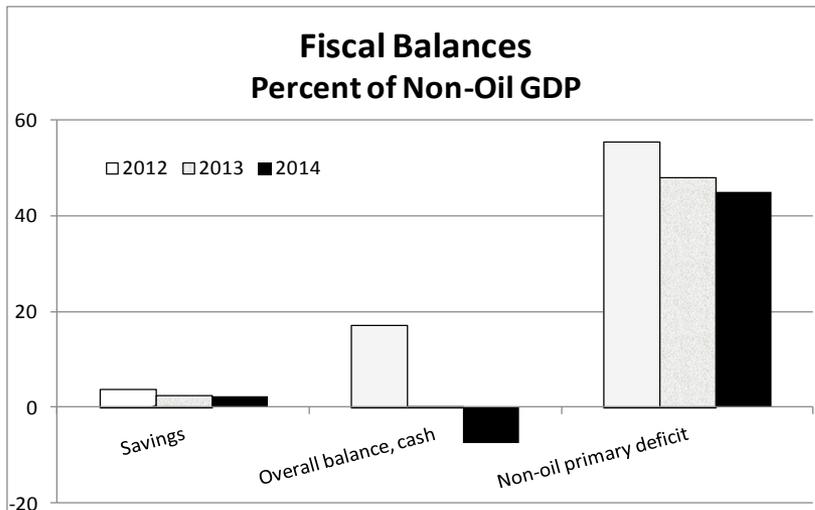
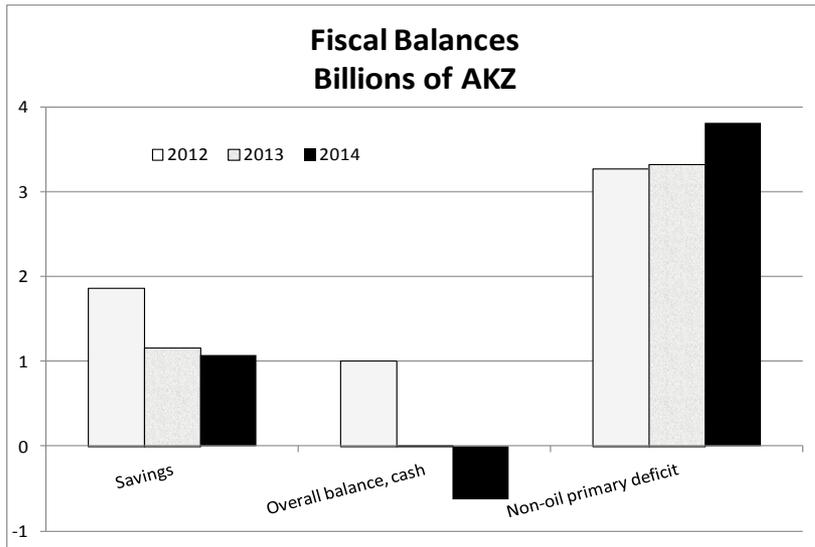


2014 Budget: Revenues and Expenditures
Percent of Non-Oil GDP



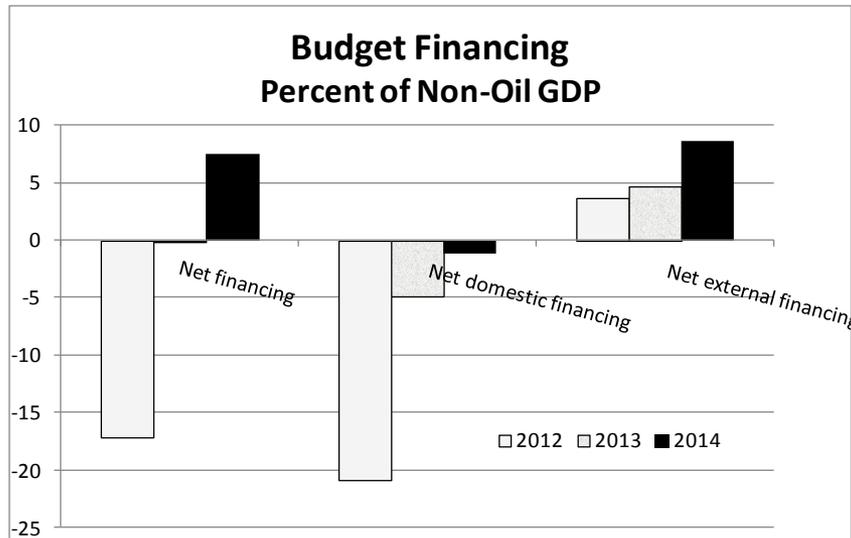
- In real ‘volume’ terms adjusted for inflation, spending in budget estimates fell 4.5 percent in 2013. Spending projected to rise 10 percent in 2014. Capex volumes to increase by more than 1/3.
- Spending trend downwards relative to budgeted non-oil GDP. Spending probably upwards relative to less optimistic growth projection.
- Fiscal policy intention clearly expansionary.

Budget balances



- Government savings – revenue less current spending – still positive, but trending down.
- Overall balance deficit projected for 2013 did not materialize. Overall balance deficit again projected for 2014. Limited accumulation of foreign reserves. But low capex will probably lead to another surplus in 2014.
- Non-oil primary deficit is rising in AKZ and declining relative to budgeted non-oil GDP. But probably increasing relative to less optimistic growth projection.
- Fiscal policy intention is clearly expansionary. But this is normally associated with deterioration in NOPD/NOGDP. The budgeted decline in NOPD/NOGDP is because of high growth projection, whose source is unclear and perhaps optimistic.

Budget financing



- Big financing swings. Fiscal deficit financed by lower net domestic savings and higher external financing.
- No domestic bank borrowing included, but a large increase in external credit lines is projected. Spending financed by higher non-oil revenues and foreign borrowing.
- Transfer to FSDEA not explicitly indicated and presumably included in domestic financing as a use of funds. Implication is that the FSDEA financed by borrowing.



Budget measures

Program budgeting

- For the first time, budget prepared using the program budgeting methodology.
- Methodology applies cost-benefit principles to budget preparation. Expenditure allocated by program and outcomes assessed relative to objectives.

Control domestic arrears

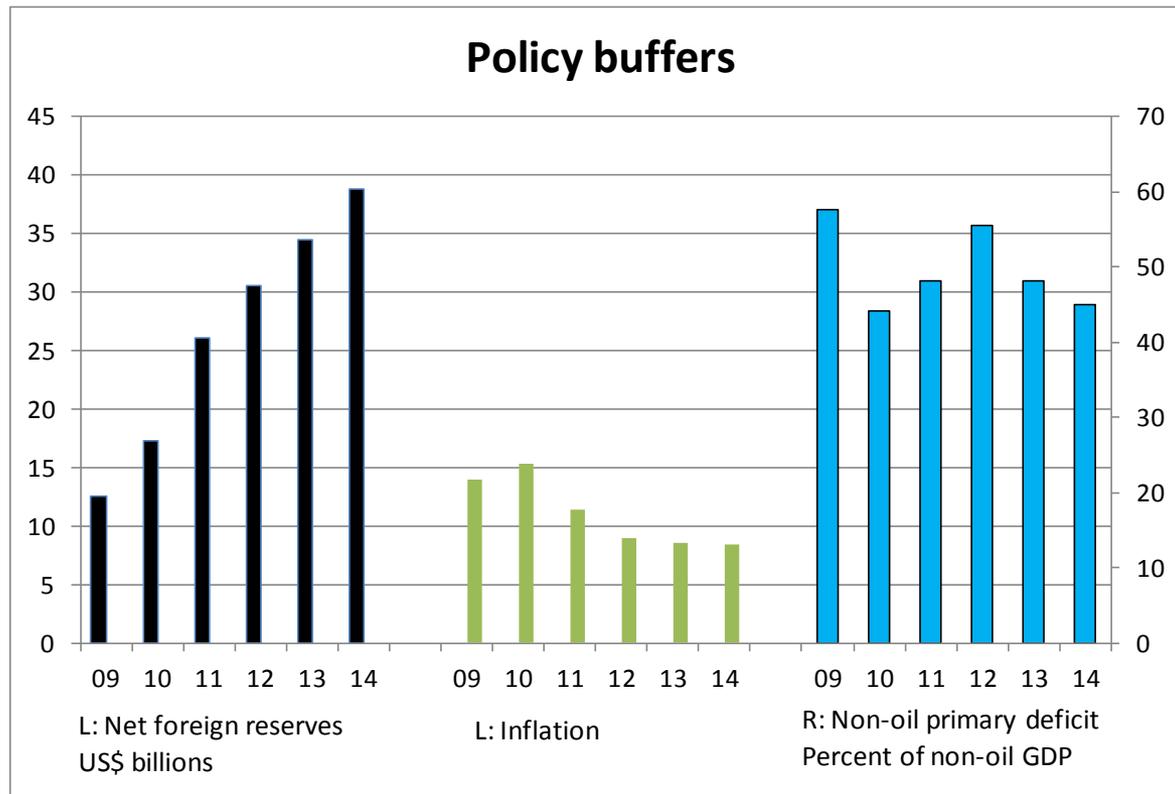
- Definition of arrears as payments 90 days overdue
- Investment projects require
 - financing in budget
 - project execution plan
 - contracts signed with appropriate authorizations
 - schedule for physical and financing executions

Quasi-fiscal spending

- Sonangol QF spending on fuel subsidies and some credit lines
- Continued QF infrastructure spending?

Policy buffers

Angola in much better position to face another oil crisis. But policy buffers could be stronger.





Budget assessment

Projections: Strong projections for real GDP growth, non-oil revenue growth and budget implementation could be difficult to achieve. Budget oil price is close to WEO projection, leaving little room for downside risk.

Fiscal policy stance: Large capex expansion points to expansionary policy normally associated with deterioration of non-oil balance relative to non-oil GDP. Budget projects improvement in balance because of strong non-oil growth.

Saving and investing: Increase in spending and tilt towards capex in line with national development plan. Higher capex financed by large increase in foreign borrowing is risky if sustained without adequate growth impact. FSDEA seems to be financed out of borrowing.

Volatility: High budget oil price and overall balance deficit leaves little room for building foreign reserves for stabilization purposes. Policy buffers much improved, but could be stronger.

Potential dangers in context of risky current global environment and perennial risks from oil shocks.



Thank you