SUPPORTING ECONOMIC TRANSFORMATION

Economic impacts of and policy responses to the coronavirus pandemic: early evidence from Angola

Georgina Morris Conway

20 April 2020

Key messages

- On 21 March 2020, Angola confirmed the first two COVID-19 cases. A state of emergency was declared on 27 March.
- The oil sector accounts for a third of GDP, more than 90% of exports and 70% of government revenue. Following a fall in oil prices of 60%, Angola's economy is expected to be one of the worst hit in Africa, given its dependence on oil.
- GDP forecasts for 2020 have been revised down from 2.8% to -4.1%.
- The Ministry of Finance has announced in-year revisions to the 2020 Budget and public sector savings and an additional $1.5 billion from the Sovereign Wealth Fund. A number of measures will support businesses and the most vulnerable.

Introduction

As of 20 April 2020, the number COVID-19 cases in Angola stood at 24. All international and internal flights are suspended. All schools were closed on 24 March. A state of emergency was declared on 27 March. Citizens have been asked to remain at home. Shops are closed, other than those selling food or medicine.

Despite significant progress on macroeconomic stability and structural reforms, Angola was still suffering the effects of lower oil prices and production levels. Even so, there were signs of recovery, with growth of 2.8% forecast for 2020. However, the fall in oil prices means African oil producers expect a doubling of their fiscal deficits, which for Angola stood at 3.6% of GDP in 2018. The EIU now estimates Angola's economy could contract by 4.1% in 2020

Government and external health spending in Angola, stood at $82 and $6.8 per capita respectively and 7.4% of GDP in 2018.

Economic and social impacts

Trade and production impacts so far
At the end of last year, Angola's GDP was expected to be positive, at 2.8% for 2020; it is now estimated that African oil producers' economies will contract by 3.0% on average, with Angola's economy contracting 4.1%.

Oil accounts for a third of Angola's GDP, more than 90% of exports and 70% of the budget. Since January, oil prices have fallen by more than 60%; as of 4 March, about 70% of the April loading cargoes of crude oil from Angola and Nigeria were still unsold. It is believed there will be at least a 50% drop in oil revenue on the continent. However, on 9 April, OPEC and non-member countries agreed to bolster the recent fall in oil prices. This is expected to lead to a cut in Angolan oil production to around 1.1 million barrels per day (down 20% from levels seen in recent months).

Unemployment stood at 31.8% at the end of 2019. Agriculture and fisheries account for 70% of total employment and represent around 12% of GDP; the sector has historically received a lot of donor support. Other key productive sectors include construction (12% of GDP), manufacturing (5% of GDP), mining (2% of GDP) and electricity (1% of GDP). However, the informal sector represents up to 55% of GDP in sub-Saharan Africa.

Inflation in Angola is persistent, remaining in double digits. In February 2020, the National Consumer Price Index showed a year-on-year increase of 18.74%, with food and non-alcoholic drinks continuing to be the main factor of pressure on prices in the economy. Inflation is expected to reach 24% in 2020.

Finance
Remittances are negligible in Angola, representing just above 0% of GDP in Angola in 2018.

The kwanza stood at AOA 566 to $1 (as of 20 April). However, according to the central bank governor, it depreciated by 10% from January to the end of March.

Oil exports are the main source of foreign exchange. November 2019 saw the highest level of reserves since 2012, at AOA 6,073 billion. Forex reserves decreased around 5% between January and February to AOA 5,365 billion. This decline is likely to continue given decreased oil export revenues, and devaluation may be necessary in order to maintain levels.

The expansion of the monetary base is reflected in the increase in bank reserves in the national currency by AOA 138.4 billion (14.40%), with banknotes and coins in circulation contracted by AOA 4.9 billion (1.02%).

Social impact
The crisis also has the potential to spark a food security crisis in Africa, with agricultural production potentially contracting between 2.6% in an optimistic scenario, and up to 7% if there are trade blockages.

Rice is a main staple of the Angolan diet. In March 2020, global Thai Rice 5%, the industry benchmark, stood at $494/mt, the highest since late April 2013, owing to limited production, disruption of supply chains and drought in Asia in late 2019.

Rising staple food prices will of course hit the poor hardest as basic goods take up a greater portion of their income. In Angola, in 2018, 47.6% of the population lived on less than $1.90 a day (2011 PPP).

Fiscal impacts

Government revenues stood at around AOA 5,841 billion in 2018, or around 201% of GDP. Many oil-producing African governments are likely to have to turn to international markets. An increase in sovereign debt of at least 5–10% of GDP is expected in such countries.

Angola's debt-to-GDP ratio stood at 111% in 2019 – a significant increase from 30% in 2013. Credit default swap rates on five-year sovereign issues have increased 408% year on year. Angola is also reliant on external credit lines from China and Brazil to finance its infrastructure; private sector investment is modest. Given the strain on foreign reserves, Angola may be unable to meet cross-border debt obligations.

Angola is the seventh largest recipient of FDI in Africa, at $9.3 billion in 2017. However, this figure has been decreasing, and is likely to decline further, with FDI forecast to contract by between -5% and - 15% across the continent as a result of the COVID-19 crisis.

Monetary and financial policy

The Banco Nacional de Angola (BNA) has adopted a restrictive monetary policy to anchor inflation and offset the impact of the exchange rate devaluation; however, inflation remains high. On 27 March, BNA decided to maintain the basic interest rate, at 15.5%. On 3 April, BNA announced an update of a measure introduced in 2019, establishing favourable financial conditions for granting credit to producers of certain goods considered essential.

BNA has also announced procedures for the sale of foreign currency by companies in the oil sector to direct foreign exchange transactions on the Interbank Market; measures directing financial institutions to grant customers a 60-day moratorium for the fulfilment of their credit obligations; and temporary exemptions on limits on the importation of food, medicine and biosafety materials to reduce bureaucracy in the licensing procedures for the import of essential goods.

BNA also will provide a liquidity line to discount Non-Readjustable Treasury Bonds to the amount of AOA 100 billion for 100 companies in the productive sector, each of which can, at the same time, discount up to AOA 1 billion.

Fiscal policy

Fiscal policy in Angola is particularly pro-cyclical. Approved by Parliament in December last year, the 2020 Budget was prepared on the basis of a per barrel oil price of $55. The government is now preparing a review of this, based on a price of $35 per barrel. While this is in progress, the state aims to reduce expenses by 30% in sectors not related to food, public hospitals or sanitation, and will be suspending capital expenditures.

On 27 March, the executive presented a package of measures, notably $1.5 billion of additional resources to be appropriated from the Sovereign Wealth Fund with a commitment to future recapitalisation.

Measures to assist businesses include a 12-month tax credit on imports of capital goods and raw materials and a relaxing of social security contributions. SMEs can benefit from an AOA 26.4 billion credit line, to support the purchase of products, inputs and services. A credit line of AOA 13.5 billion will support 270 family cooperatives.

In social protection, AOA 300 million has been allocated to ensure basic food baskets for more than 60,000 vulnerable homes. Power and water cuts owing to non-payment of tariffs are prohibited during the state of emergency. The government has relaxed property tax payments and social security contributions. A Social Monetary Transfer Programme will start in May, to target 1.6 million families below the poverty line over the next three years. This will be financed through a World Bank loan of $320 million.

The government has also purchased 25 tons of biosafety equipment and medicines from South Africa.

Donor support

Cuba has sent 258 doctors to Angola to be distributed among 164 municipalities. AfDB has approved $2 million in emergency assistance for WHO to reinforce its capacity to help African countries contain the pandemic and mitigate its impacts. It is unclear if Angola will be a direct beneficiary. The UN is working with the government to place 2,000 street children in safe accommodation and has promised to make rapid testing kits available soon.

Information in this note is correct as of 20 April 2020.

The author is an ODI Fellow with the Ministry of Finance in Timor-Leste; this note is written in a personal capacity. Comments welcome: g.conway.fs@odi.org.uk