Facing Angola's Medium-Term Macroeconomic Challenges

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Angola Field Group

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Outline

The role of oil revenues

The 2013 budget

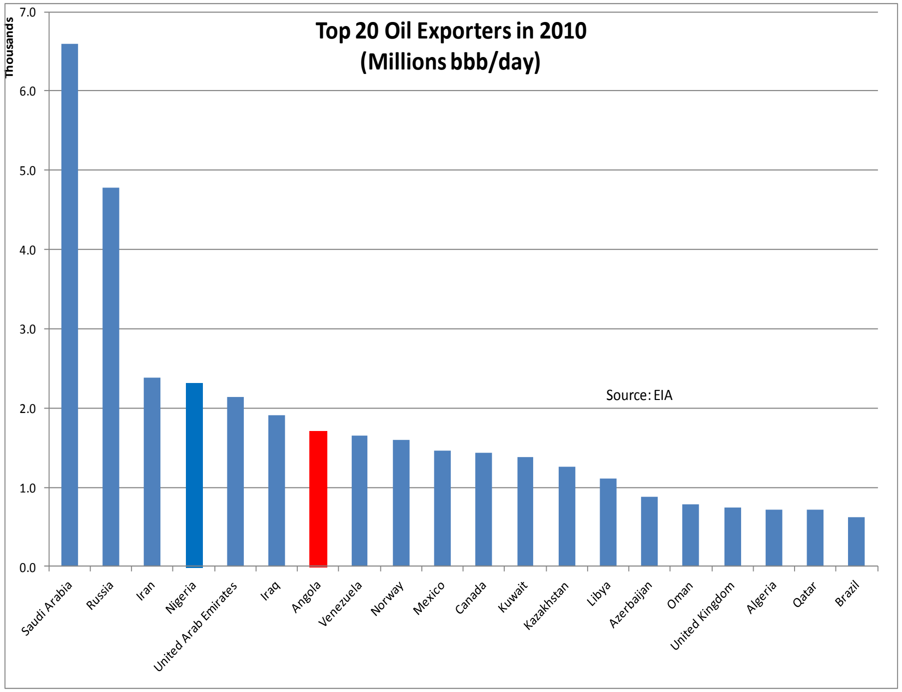
Medium-term macroeconomic challenges

Medium-term framework

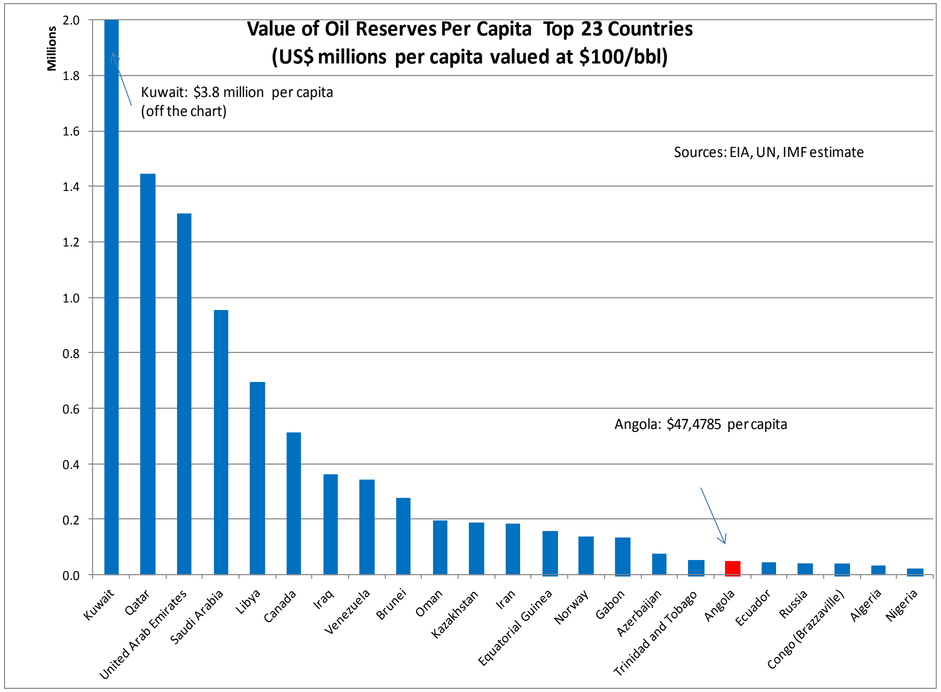
The role of oil revenues

Is Angola rich?

Angola is a major oil producer…..



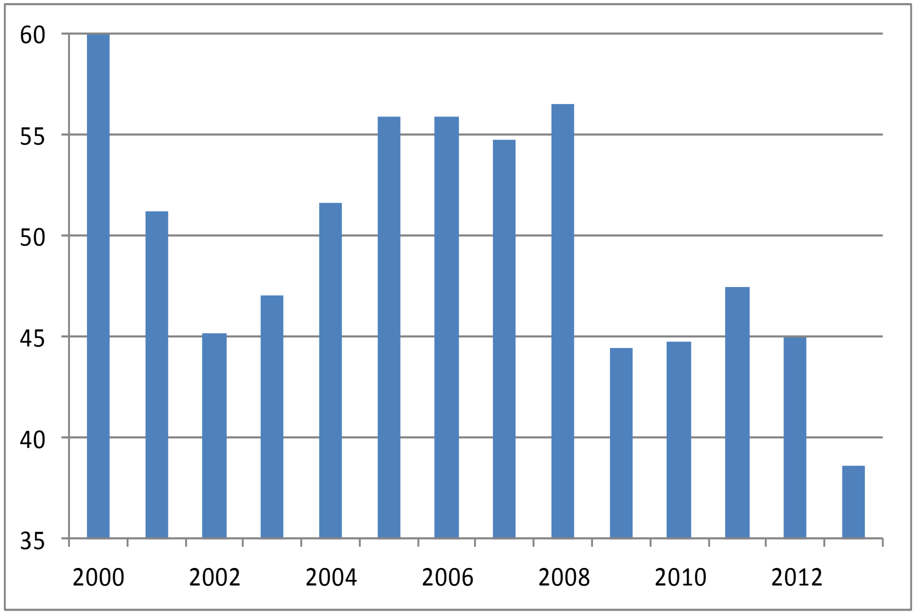
……but per capita oil wealth is low



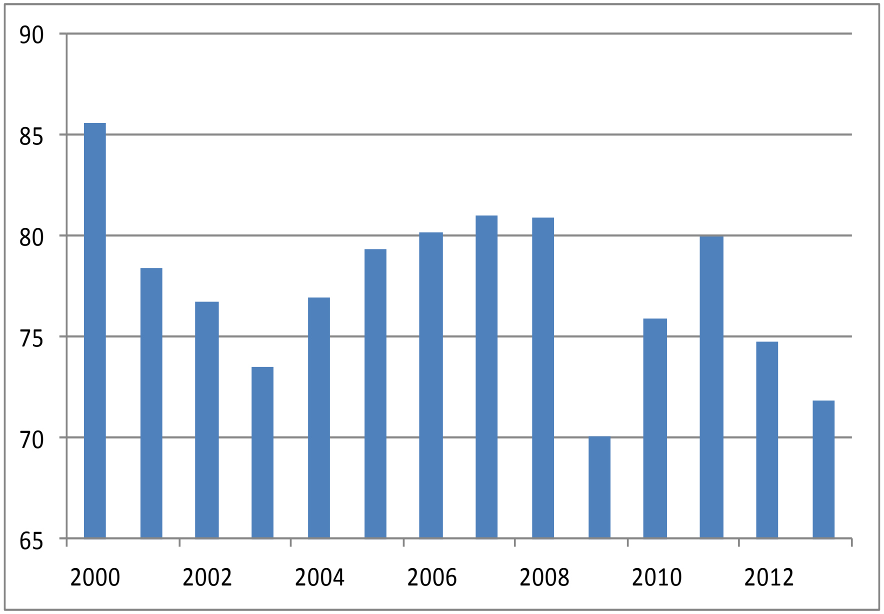
Oil dependence

Oil dependency still high – and volatile - but trending down

Oil GDP
Percent of total GDP

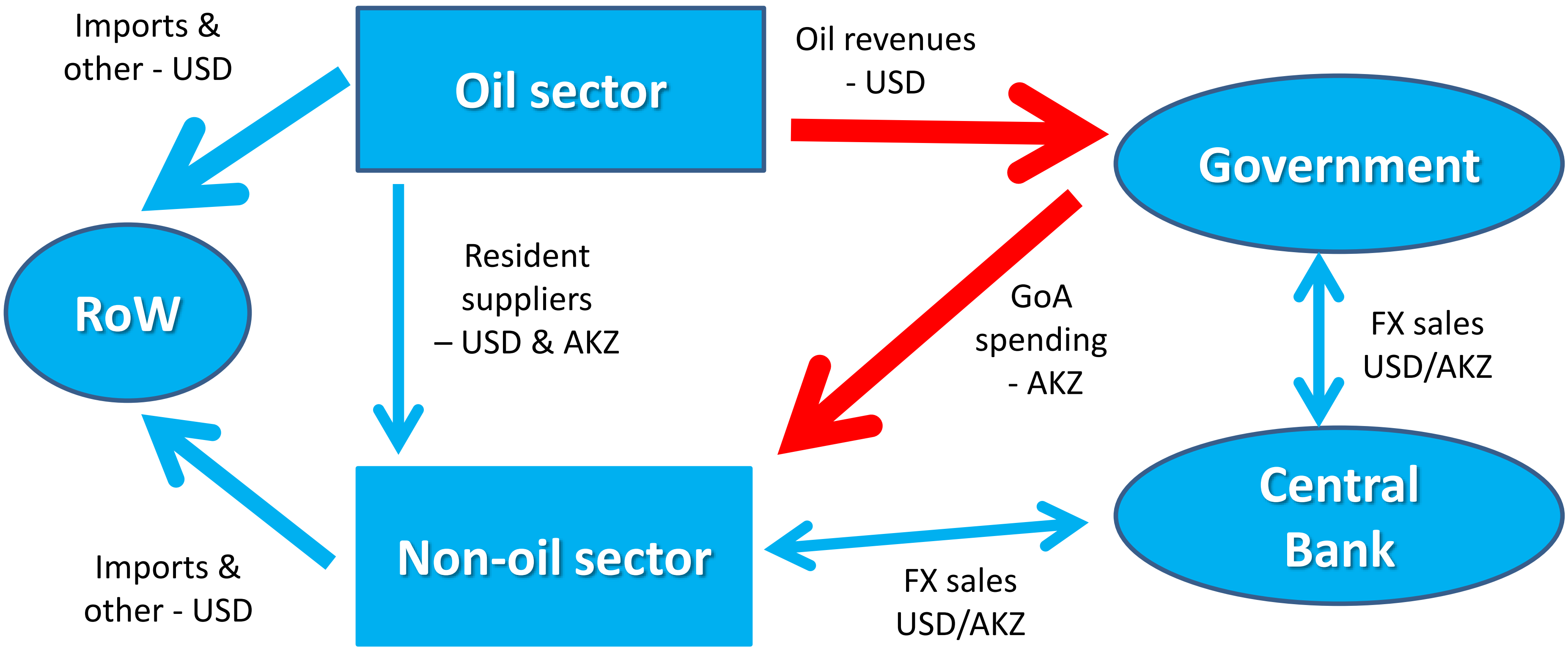


Oil revenue
Percent of total Government revenue



Financial Flows

Oil resources enter non-oil sector mainly via GoA spending



Oil resources ‘transferred’ through imports

Oil resources are an asset. Spending oil resources beyond ‘permanent income’ level draws down wealth.

Oil wealth can be stored underground, in USD, or converted to imports

Imports financed directly by GoA or encouraged through the private sector through appreciated FX

Better to have imports of capital v consumer goods

The 2013 budget

The 2013 Budget

Unitary budget
- Elimination of off-budget spending
- Inclusion of Sonangol's quasi fiscal spending
- MinFin in control of budget process

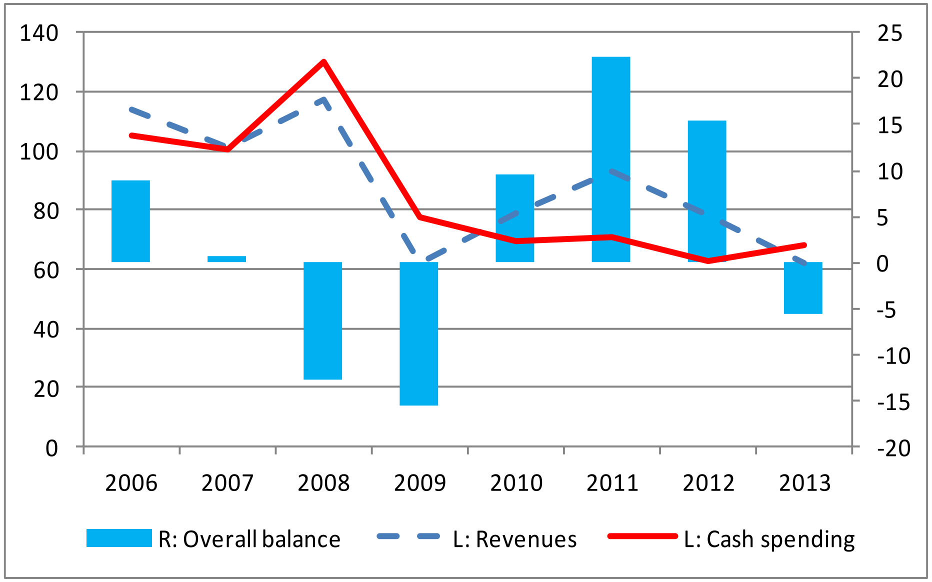
Budget framed in medium-term context
- Medium-term plan
- Medium-term macroeconomic framework

Shift in fiscal policy stance
- End of post-crisis consolidation
- Resumption of development

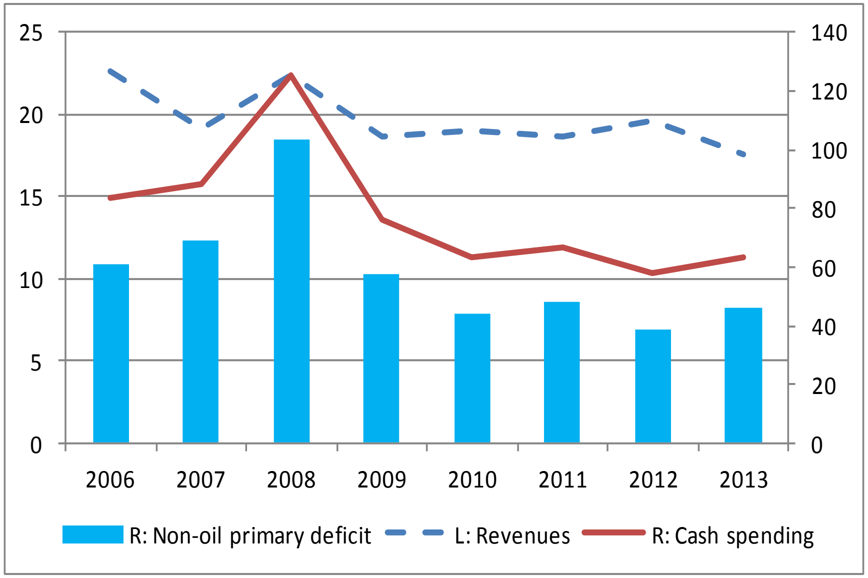
Change of fiscal stance

The change in fiscal stance – and the negative overall balance - reflects both higher spending and weaker revenues

Revenues, spending and the overall balance
Percent of non-oil GDP



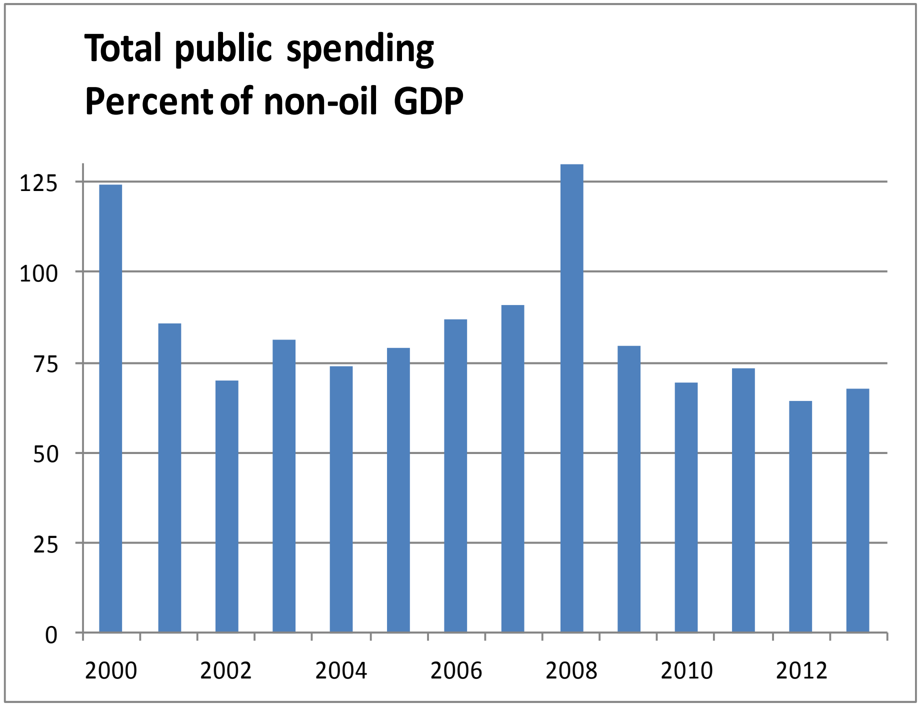
Non-oil revenues, spending, non-oil deficit
Percent of non-oil GDP

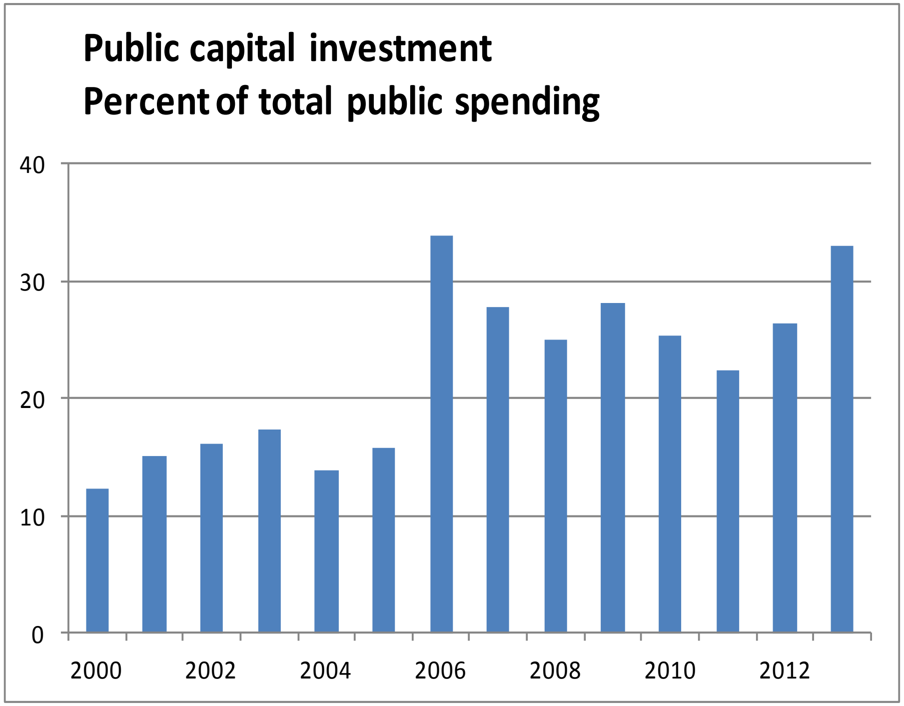


Spending shifts towards capex

Spending mildly up v non-oil GDP…

…..but capital spending share rises





Medium-term challenges

Reducing volatility

Maintaining macroeconomic stability: the basis for sustained growth and poverty reduction.

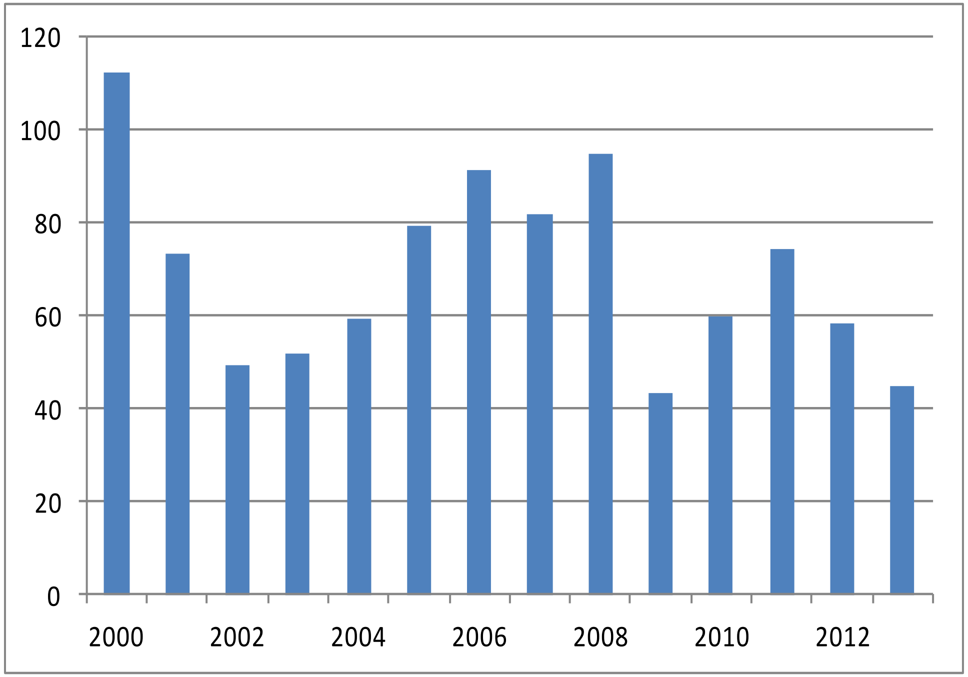
Sources of volatility

Oil production

International oil prices

Institutional relations between the oil sector and the budget

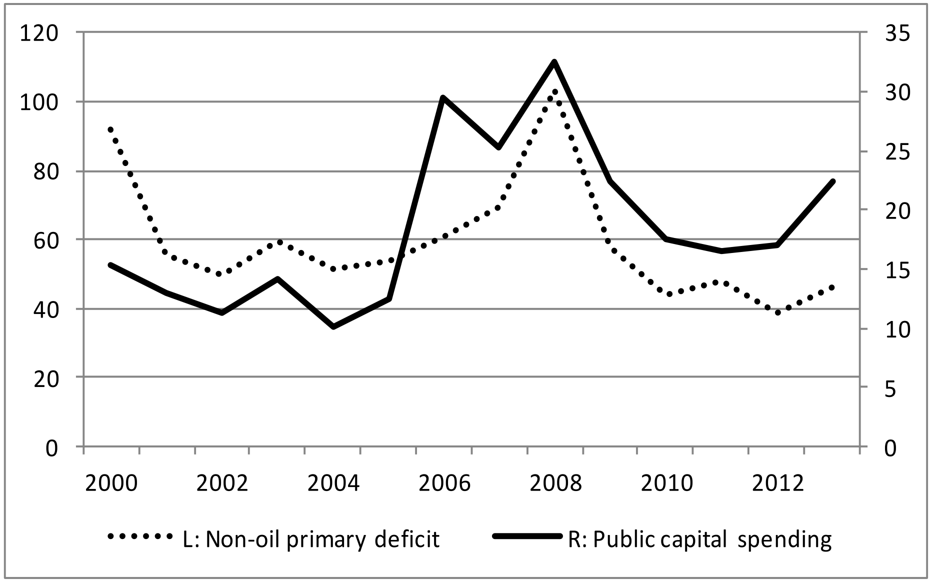
Oil revenue, percent of non-oil GDP



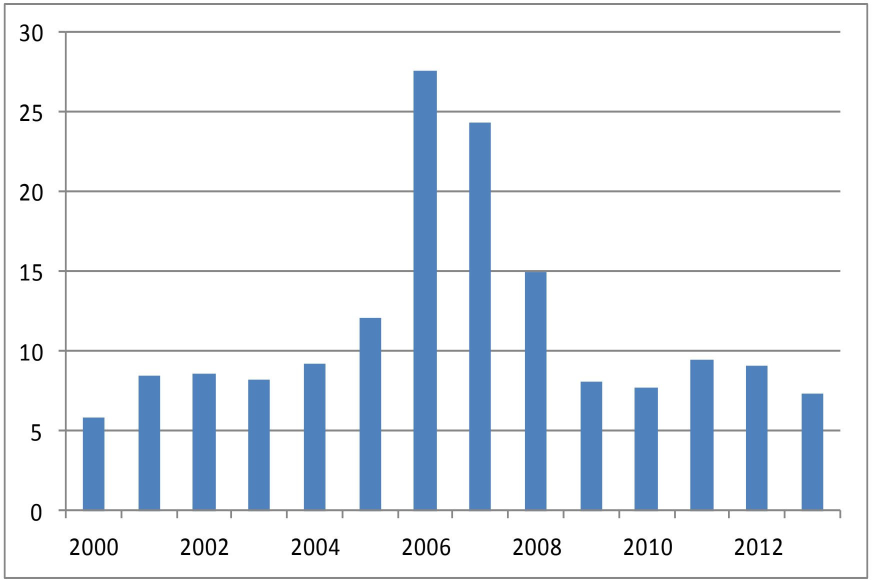
Implications of volatility

Oil revenue volatility has driven pro-cyclical fiscal policy stance and non-oil sector growth.

Public capital spending, non-oil deficit, percent of non-oil GDP



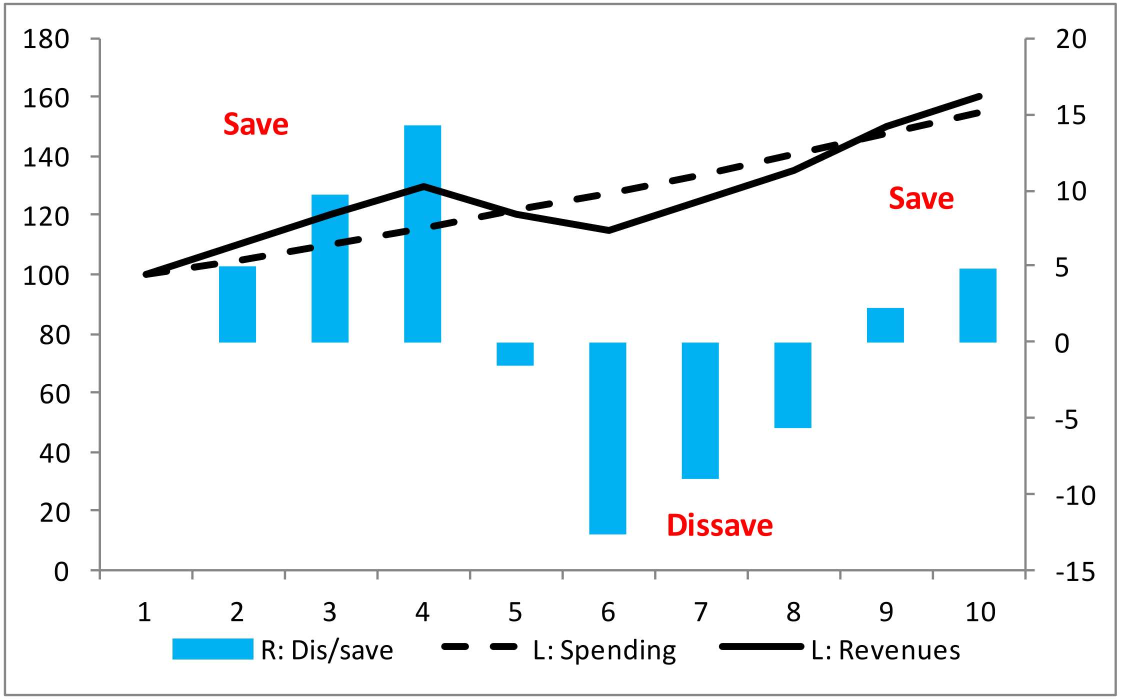
Non-oil sector growth



Dealing with volatility

Smooth spending: save when revenues high and dis-save when low. Build up stabilization fund invested in liquid financial assets.

Illustrative: revenues, spending and dis/savings, US$



Investing in the future

Developing the non-oil sector, diversification, inclusive growth

Consume now or in the future

Known oil resources large but finite and limited.

Pressure to raise living standards now, but also need to invest in the future: infrastructure, education, and health.

Return on public investment in capital is higher than in financial assets. This points to accelerating public capital investment.

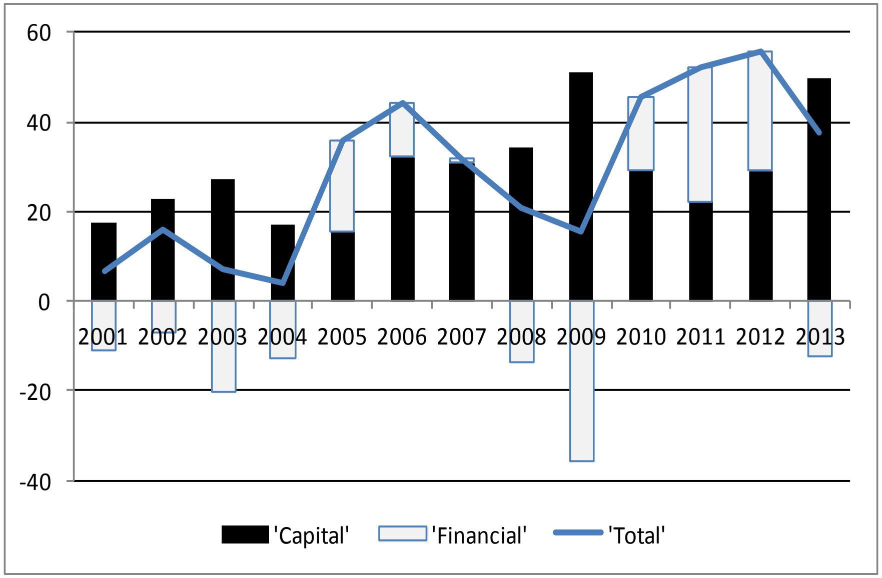
Capital investment has large import needs to be financed by dollars from oil revenues. Conflict foreign reserve accumulation.

Public savings
Total revenues less current spending

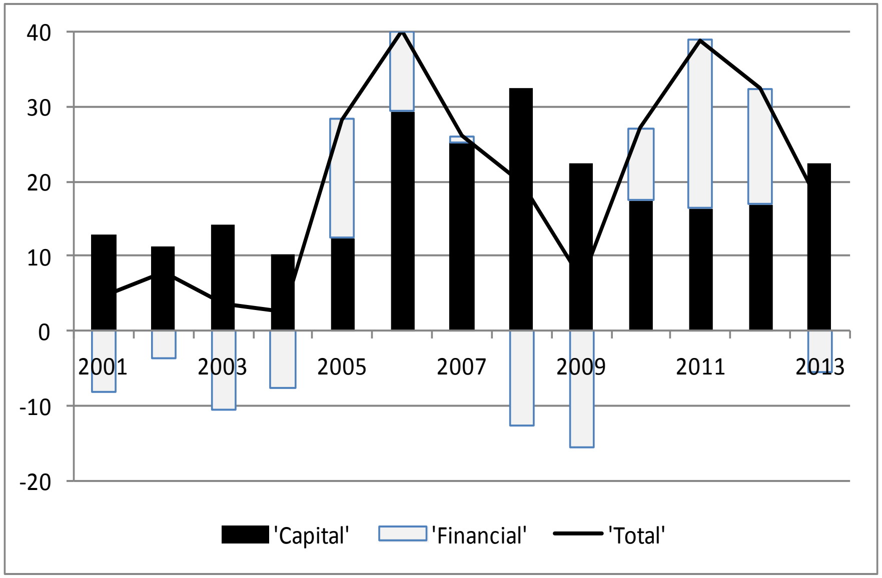
Public savings trending up…

….and now shifting from investment in financial assets to capital spending

Public savings
Percent of oil revenues



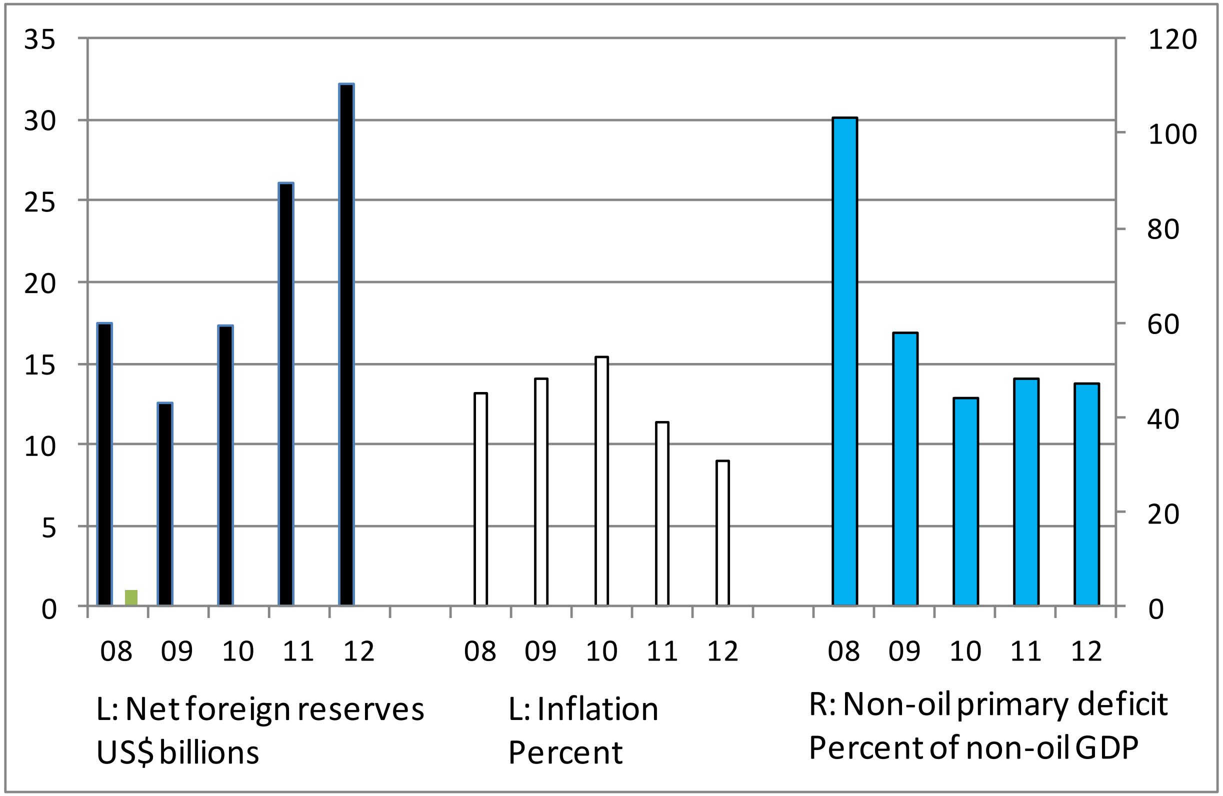
Public savings
Percent of non-oil GDP



Medium term framework

Where are we now?

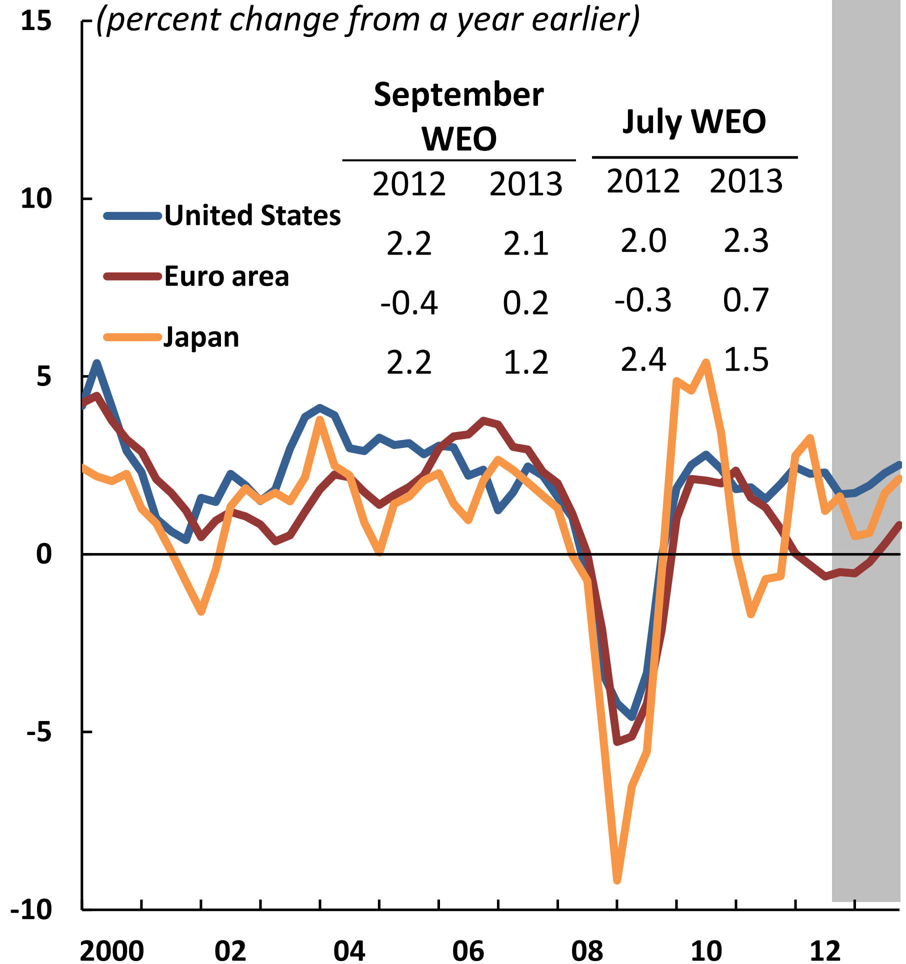
Angola is much better placed to face another crisis, but macroeconomic policy buffers could be stronger



IMF growth forecasts revised down

Advanced Economies

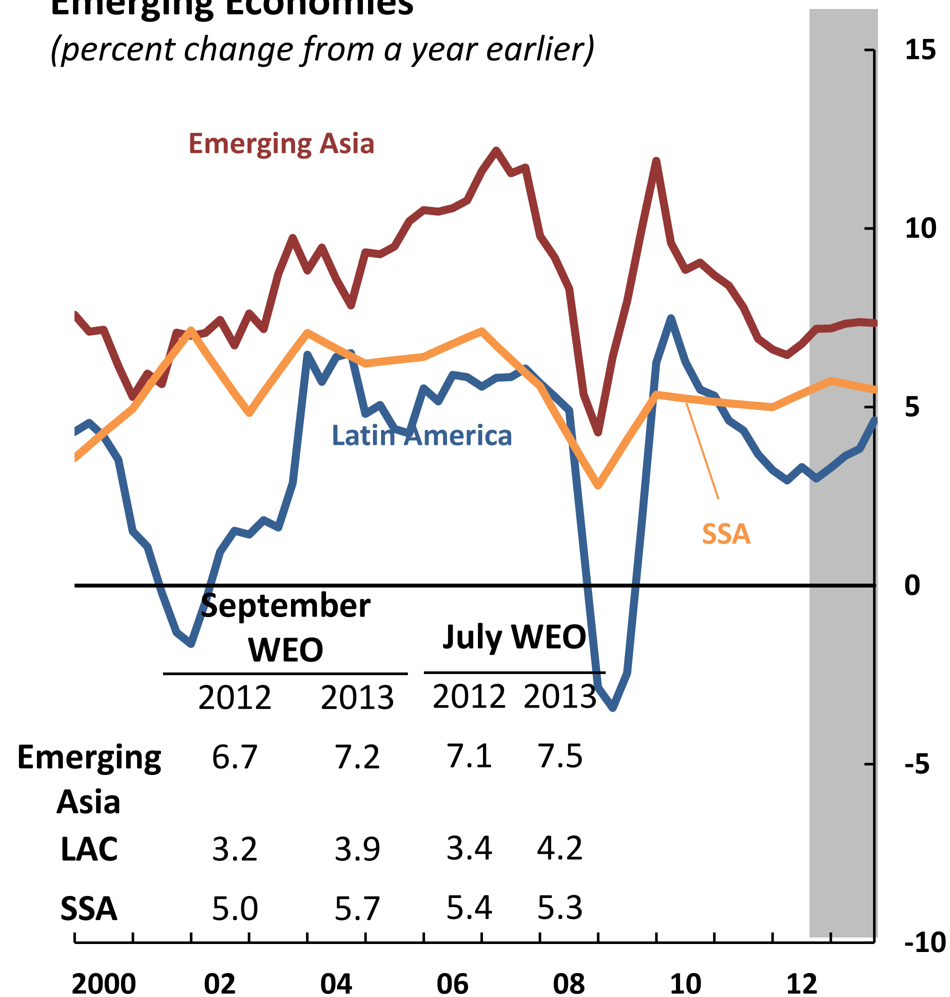
(percent change from a year earlier)



	September WEO 2012	September WEO 2013	July WEO 2012	July WEO 2013
United States	2.2	2.1	2.0	2.3
Euro area	-0.4	0.2	-0.3	0.7
Japan	2.2	1.2	2.4	1.5

Emerging Economies

(percent change from a year earlier)

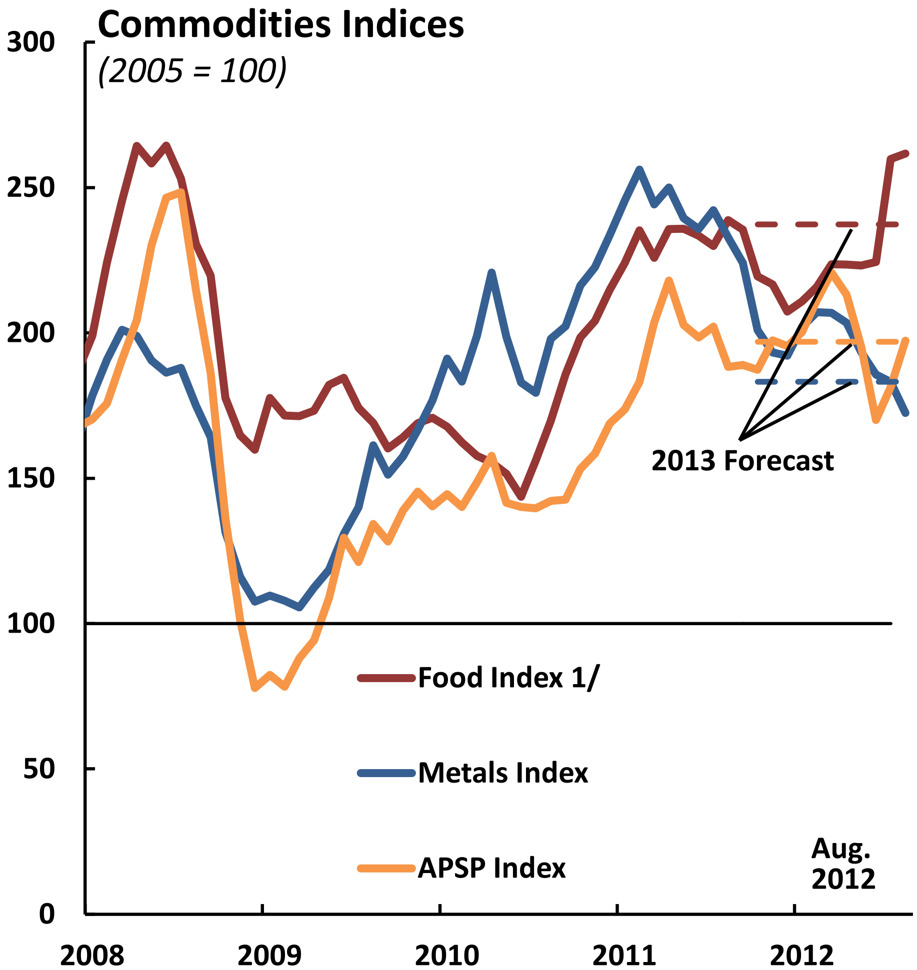


	September WEO 2012	September WEO 2013	July WEO 2012	July WEO 2013
Emerging Asia	6.7	7.2	7.1	7.5
LAC	3.2	3.9	3.4	4.2
SSA	5.0	5.7	5.4	5.3

Source: IMF Staff Estimates.

LAC: Latin America and the Caribbean;
SSA: Sub-Saharan Africa; data are interpolated from annual frequency values

Commodity prices falling



Commodity prices are softening in line with global demand.

Including oil prices, perhaps to below $90 per barrel in the medium term

But food prices are rising

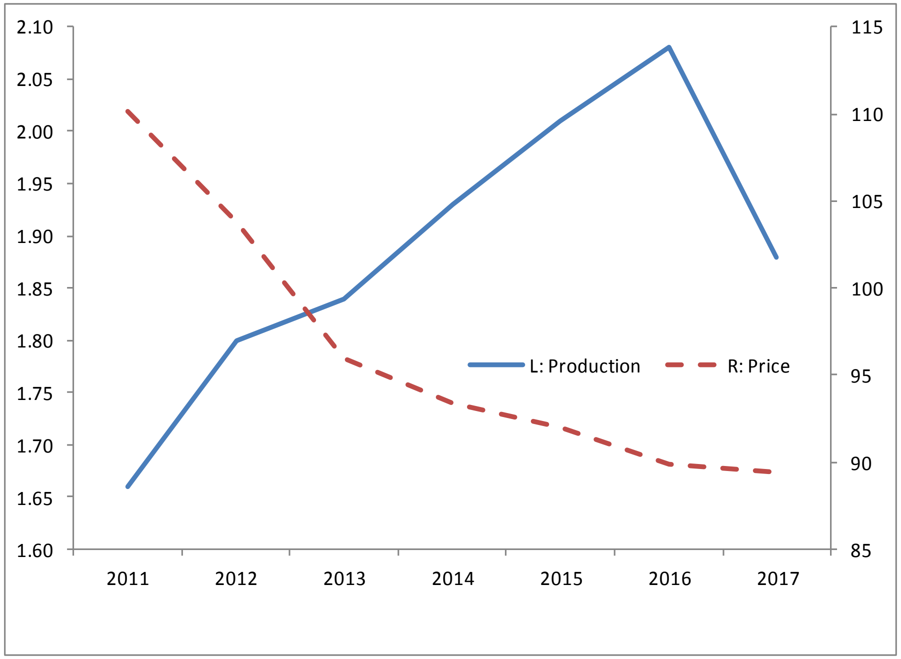
1/ Food Index derived from average price of corn, wheat, rice and soybeans.
Source: IMF, Primary Commodity Price System; IMF staff calculations

Robust non-oil growth but weak oil receipts

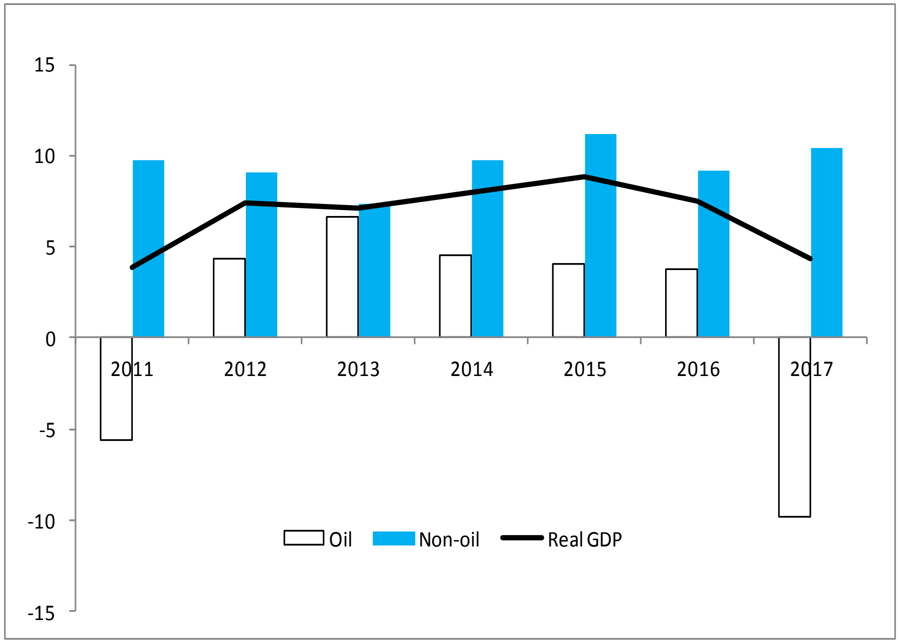
Modest oil production growth and declining prices…

…will offset robust non-oil growth and weaken oil revenues

Oil sector
Production (mbpd) and price (US$ pb)



Real GDP, total, oil and non-oil
Percent change



MT fiscal framework

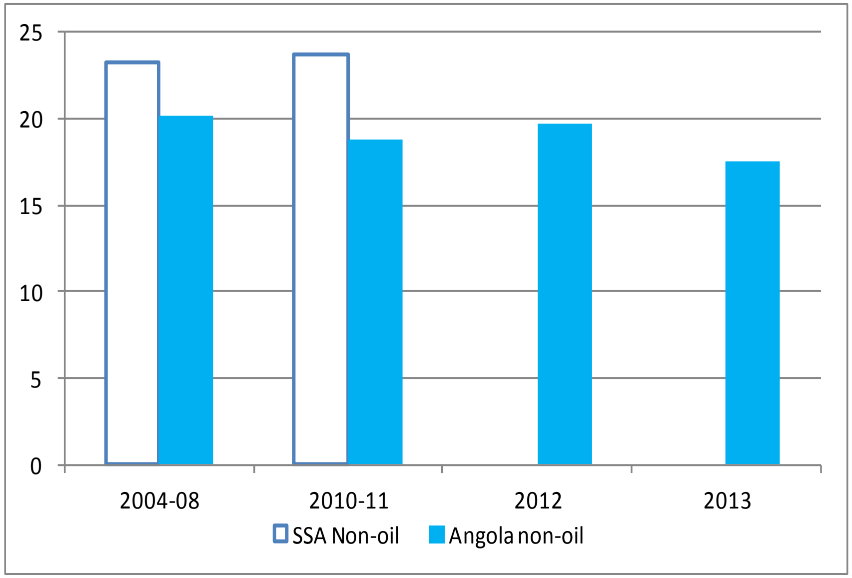
Scaling up capex	Medium term plan has large scaling up of capital spending and shift to fiscal deficits (draw down of financial savings and borrowing)
Financing	How will this be financed: oil revenues, domestic resources, or external debt.
Constraints/risks	Institutional constraints on implementation; macroeconomic constraints on absorption and risks to macroeconomic stability.

Non-oil revenues and subsidies

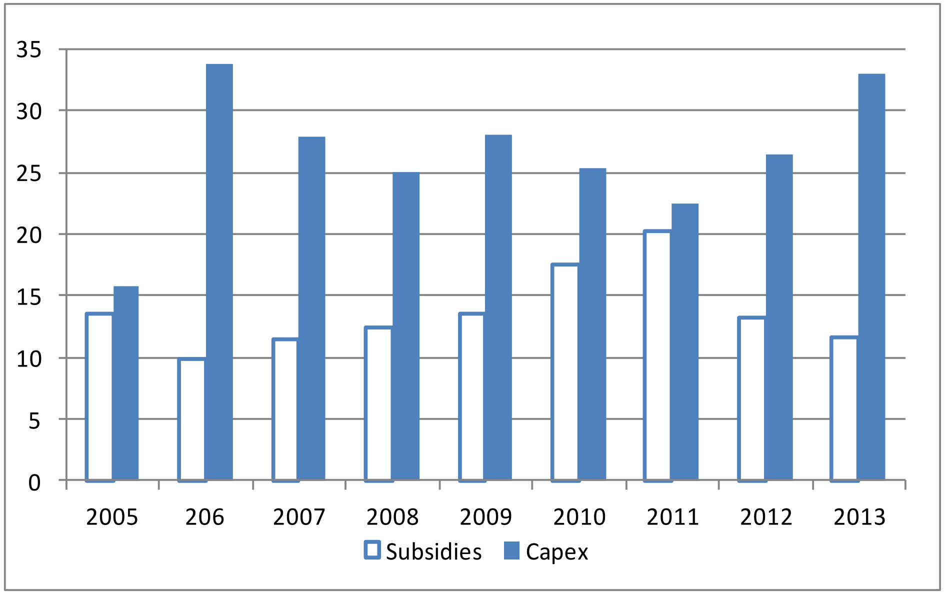
There is room to raise non-oil revenues…

….and reduce fuel subsidies

Non-oil revenues
Percent of non-oil GDP



Subsidies and Capex
Percent of total spending

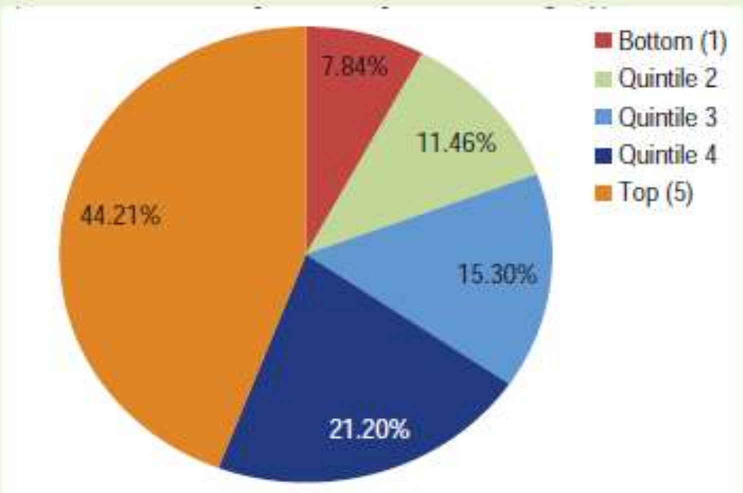


Energy subsidies

Fuel subsidies can be reduced…

Figure 3. Sub-Saharan Africa: Distribution of Benefits from Fuel Subsidies

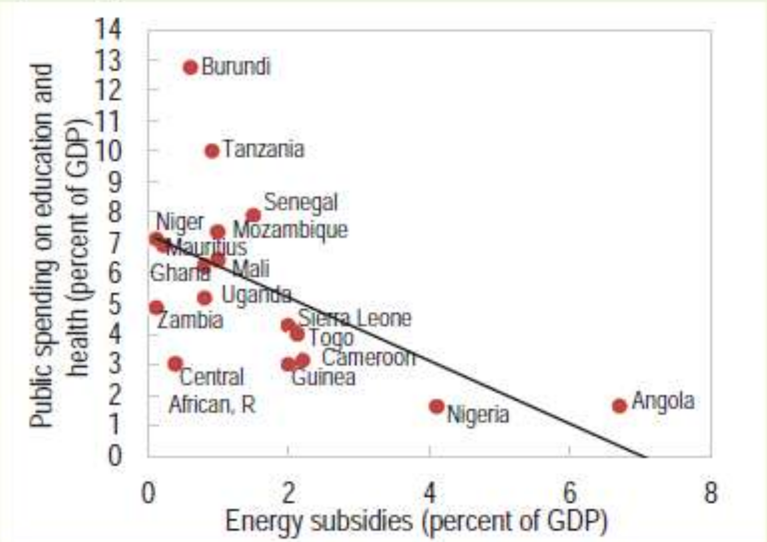
(Percent of total subsidy received by each income group)



Source: Javier Arze del Granado, David Coady, Robert Gillingham, *The Unequal Benefits of Fuel Subsidies: A Review of Evidence for Developing Countries*, 2010.

...and social spending/protection increased

Figure 4. Sub-Saharan Africa: Fuel Subsidies vs. Public Spending on Education and Health in 2008–11



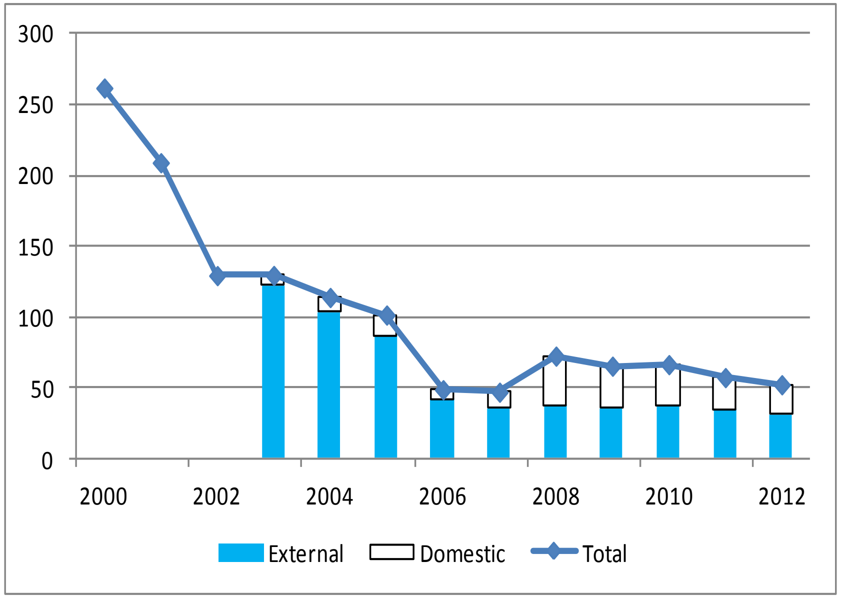
Sources: IMF, Fiscal Affairs Department and African Department.

Public debt and foreign reserves

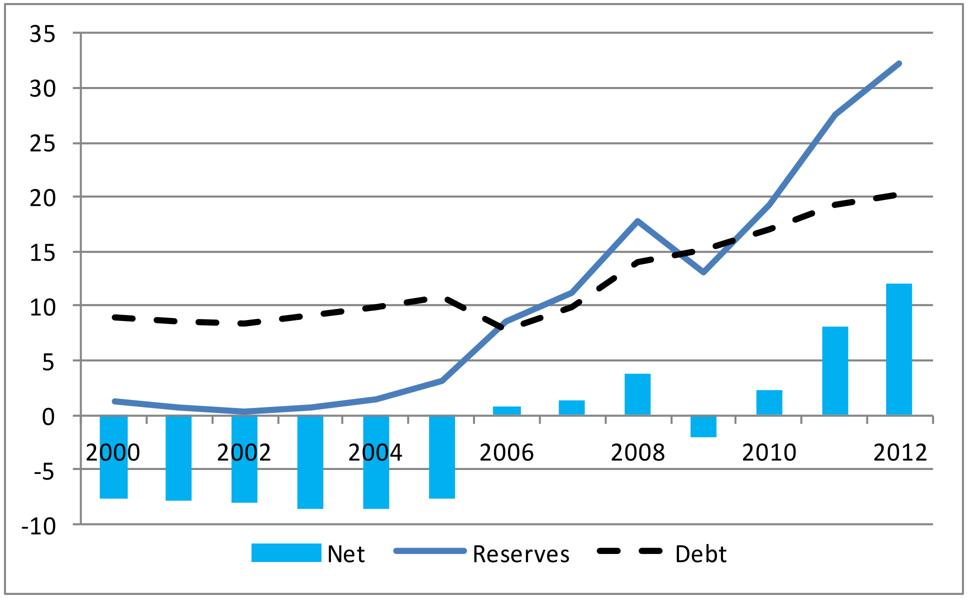
Public debt levels are manageable…

..but foreign reserves net of debt still low

Public domestic and external debt
Percent of non-oil GDP



Foreign reserves and external debt
US$ billions



Constraints and risks

Institutional	Institutional capacity constraints on project selection and implementation. Critical to get value for money
External debt	Need caution to maintain sustainable debt levels. It is easy to borrow but not always so easy to pay back. Critical for capital investment to have good payoff.
Macroeconomic stability	Constraints on how much public spending the economy can absorb without creating another boom-bust cycle.
Policy buffers	Important to build foreign reserves, keep inflation low, and maintain fiscal space

Thank you