United Nations | Committee for Development Policy

CDP2023/PLEN/9.a

Committee for Development Policy
25th Plenary Session

United Nations
20-24 February 2023

UNHQ Headquarters, New York
Conference Room 8

Monitoring of countries graduating and graduated from the LDC category:

Angola

SUSTAINABLE DEVELOPMENT GOALS

Contents

Summary 2

Macroeconomic situation 2

LDC criteria and supplementary indicators 5

Data gap 6

Smooth transition, national plan and country specific factors 6

Annex 1: Heatmap extract of the supplementary graduation indicators (SGIs) for LDCs and former LDCs (2023 or latest available year) 8

Summary

The CDP takes note that the pandemic had aggravated the overall macro-economic situation in Angola, leading to economic recession and debt escalation and unsustainability. Despite the resumption of positive economic growth rate and a partial reversal of the massive currency depreciation, helped by higher oil prices, the GNI per capita of Angola has fallen below the graduation threshold of the income only criterion. Also, the CDP takes note that the country has not improved in the other two LDC criteria – HAI and EVI – which continue to be insufficient to allow Angola to meet two of the three criteria at their respective graduation thresholds.

As such, the CDP considers the situation in Angola fragile and highlights the need to continue to monitor closely the situation through the Enhanced Monitoring Mechanism. The monitoring provided by the Secretariat will contribute to decisions on further steps to be taken regarding the graduation of Angola.

The CDP also welcomes the submission of the country report and also the participation of government officials in the consultation meeting and their efforts towards the preparation of the smooth transition strategy. The CDP recommends that Angola should finalize its STS as soon as possible, as an opportunity to reflect on strategic options to ensure a sustainable development path for the country in line with the priorities included in the National Development Plan. Moreover, structural transformation is most critical for Angola as an oil dependent country, which requires addressing trade-offs between long-term objectives and short-term macroeconomic stability.

Macroeconomic situation

After five years of recession, and a 4 per cent contraction in 2020, Angola registered a positive economic growth of 0.8 per cent in 2021 and is undergoing a modest recovery with growth estimated at 2.9 per cent in 2022, with a similar growth rate projected for 2023.[1] The pick-up in the economy is attributed to the waning off of the effects of COVID-19 impact coupled with improved macroeconomic imbalances bolstered by the higher oil prices and the recovery in non-oil sector. The macroeconomic and institutional reforms that the Government started in 2018, as part of the three-year IMF program, also helped the growth of non-oil sectors.

Table 1. Selected macroeconomic data for Angola, 2017-2021

Indicator	2017	2018	2019	2020	2021
GDP growth rate (per cent, constant price)	-0.1	-2.0	-0.6	-4.0	0.8
Inflation rate (annual percentage change)	29.8	19.6	17.1	22.3	25.8
Government revenue (billions of national currency)	3,546.3	5,860.0	6,530.2	7,052.8	10,995.4
Government expenditure (billions of national currency)	4,879.7	5,273.9	6,290.9	7,690.9	9,206.7
Government balance (billions of national currency)	-1,333.4	586.1	239.2	-638.1	1,788.8
Government balance (per cent of GDP)	-6.6	2.3	0.8	-1.9	3.8
Net ODA received (millions of US dollars)	223.2	162.7	21.0	111.1	231.7

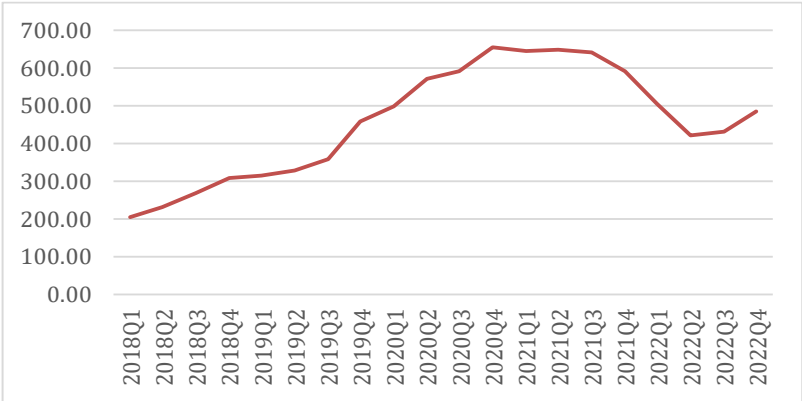
[1] UN DESA, World Economic Situation and Prospects, 2023. https://www.un.org/development/desa/dpad/publication/world-economic-situation-and-prospects-2023/

Balance of Payments (millions of US dollars)					
Current Account	-632.9	7,402.6	5,137.4	871.9	8,399.5
Goods, Credit (Exports)	34,613.5	40,757.8	34,725.6	20,937.4	33,581.5
Goods, Debit (Imports)	14,463.2	15,797.8	14,127.1	9,543.1	11,794.8
Balance on Goods	20,150.2	24,959.9	20,598.5	11,394.3	21,786.6
Services, Credit (Exports)	984.6	631.1	454.6	67.0	93.5
Services, Debit (Imports)	13,793.3	10,089.5	8,172.3	5,602.5	7,050.4
Balance on Services	-12,808.7	-9,458.4	-7,717.7	-5,535.5	-6,956.9
Balance on Goods and Services	7,341.5	15,501.5	12,880.8	5,858.8	14,829.8
Balance on Income	-7,505.6	-7,829.5	-7,516.3	-4,924.2	-5,784.0
Balance on Current Transfers	-468.7	-269.4	-227.1	-62.7	-646.4
Capital Account	2.6	2.9	2.0	1.2	2.0
Financial Account	-748.4	6,911.4	4,466.4	-51.2	5,397.4
Direct investment (net)	8,749.3	6,461.8	1,749.1	1,957.0	3,297.7
Portfolio investment (net)	9.1	-3,652.8	-1,675.9	-1,640.4	34.7
Financial derivatives (other than reserves) and employee stock options	-78.2	51.5	-0.7	-20.1	18.9
Other investment (net)	-4,421.6	4,998.6	3,427.0	2,470.8	1,194.5
Reserve assets	-5,007.0	-947.7	966.9	-2,818.5	851.5
Reserves (months of imports)	5.8	5.4	6.4	8.0	6.9

Source: GDP growth is from UN DESA, WESP 2023 for 2021 data and UNSD for 2017-2020 data. Inflation is from UN DESA, WESP 2023. Government balance is from IMF, World Economic Outlook Database. Net ODA is from OECD, OECD.Stat. All external sector indicators are from IMF, Balance of Payment Data Reports.

Angola began liberalising its exchange rate regime in 2018 and with the impact of COVID-19 and the prolonged recession, exchange rate depreciated substantially in 2020 and up to mid-2021. As the exports sector recovered, the national currency Kwanza, gained some ground in the second half 2021 and stabilized around 500 Kwanza/US dollar in 2022 (see figure 1).

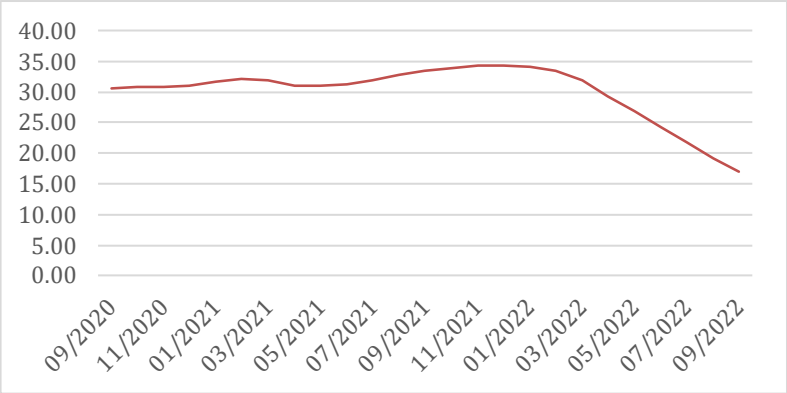
Figure 1: Angolan Kwanza per U.S. Dollar, Period Average



Source: International Finance Statistics, IMF accessed on 01/02.2023

The exchange rate depreciation combined with COVID-19 related supply disruptions (both domestic and international), and the modification of the new value-added tax (VAT) pushed inflation upwards in 2020 and 2021. Inflation continues to remain high at 21.7 per cent in 2022 but has shown signs of easing in the last months of the year but requires further tightening of the monetary policy to control inflation in 2023. Similarly, food inflation which remained above 30 per cent for most parts of 2020 and 2021 is also on a downward trend as seen in Figure 2.

Figure 2. Food Price Inflation in Angola 2020-2022 (%)



Source: FAO, accessed on 01/02/2023

With the recovery of global oil prices, Angola was also able to record a fiscal account surplus of 3.8 per cent of GDP in 2021, which is expected to be in surplus again in 2022. The current account of the balance of payments recovered strongly in 2021 registering a surplus of US$ 8.3 billion. This reflects the improvement in the oil exports and slower growth in imports. In addition, the debt service relief that Angola received under the G20 Debt Service Suspension Initiative (DSSI) also provided some fiscal space and relieved some pressure on the current account.

The impact of the sharp decline in oil prices and ensuing exchange rate depreciation in 2020 raised the external debt as a per cent of GNI to a record high of 138 per cent in 2020. The government was able to stabilize the debt position at around 101 per cent in 2021, with the turn-around in the economic growth, exchange rate appreciation and fiscal consolidation. While the government is committed to reducing debt further, risks to debt sustainability will continue to remain given the country's dependence on oil export receipts.

The macroeconomic outlook for Angola remains positive, but with serious downside risks with the expected slowdown in the global economy given the country's high dependence on oil exports which is vulnerable to the fluctuations in global oil prices. According to ITC TradeMap Data, for the period 2017-2021 crude oil and products accounted for 94 per cent of Angola's exports. Oil export dependence only improved slightly from 2017-2021 with the share of crude oil and products in total exports decreasing from 95 to 94 per cent, but edged up again in 2022 to 96 per cent. In addition, the impact of climate change will put further pressures on the economy as well as disproportionately affect the most vulnerable segments of the society. Angola shows a high vulnerability to the impacts of climate change. It is ranked the 52nd most vulnerable country in the world in the ND-GAIN index. Indicators making up the vulnerability score where Angola fares particularly poorly include high projected changes in cereal yields, low agricultural capacity, low medical staff. To achieve a sustainable and inclusive economic growth, a greater focus on economic diversification and private sector led economic growth is vital as envisaged as priorities for the new National Development Plan (2023-2027).

LDC criteria and supplementary indicators

For 2023, the latest three-year average (2019-2021) GNI per capita of Angola is estimated at $2,322, which, contrarily to previous years, now places the country below the income-only graduation threshold of $2,444 which was established at 2021 triennial review. With regard to Human Assets Index (HAI), even though it has been on an upward trend since 2019, its current level (54.04) is still below LDC graduation threshold (66). A closer look at the indicators used to compute HAI shows a high prevalence of stunting and the widening gap in gender parity for gross secondary school enrolment. The Economic and Environmental Vulnerability Index (EVI) is currently estimated at 44.5 and does not meet the LDC graduation threshold of 32 or below. As discussed above, the lack of export diversification, environmental vulnerability and high impact from climate change contributes to the high score for the EVI in Angola. Performance of indicators of EVI such as instability of agricultural production, victims of disasters and share of population living in drylands have worsened in recent years.

Table 2. Criteria for LDC identification, Angola, 2019-2023

	GNI per capita	EVI	HAI
2019	3,900.4	45.1	52.2
2020	3,430.1	44.9	52.7
2021	3,125.5	44.0	53.1
2022	2,700.0	44.7	53.6
2023	2,322.2	44.5	54.0

Source: CDP Secretariat Time series estimates (LDC criteria) dataset (2002-2023), available at https://bit.ly/LDC-data

Notes: a) Year refers to the year of a (actual or hypothetical) review. The timeliness of source data varies by indicator; generally, criteria capture data up to two years prior to a review. See the 'read me' in the source as well as the data sheet (Annex 1) for details on original data sources.

b) Data for 2021 might differ from official triennial review data and previous monitoring reports due to data revisions.

Table 6 presents some areas for particular attention. Tax revenue as a percentage of GDP remains low and has declined in the last decade (in 2011 it was 16 per cent). Terms of trade volatility has come down, although remains quite volatile. Instability of agricultural production mentioned above would also have social implications given the large share of employment in agriculture. There is some improvement in access to electricity and drinking water, but masks the disparity in access between urban and rural areas.

Table 3. Selected supplementary graduation indicators, Angola, 2015-2021

Indicators	2015	2016	2017	2018	2019	2020	2021
Tax revenue (% of GDP)	11.0	9.7	9.2	9.6	10.1		
Terms of trade volatility	68.1	66.8	63.9	58.6	53.5	52.8	
Share of employment in agriculture	58.0	58.5	58.8	59.3	59.3	59.2	58.7
Access to electricity	42.0	41.8	43.0	45.3	45.6	46.9	
Access to basic drinking water	54.3	55.1	55.8	56.6	56.9	57.2	
Human capital index			0.4	0.4		0.4	
Dependency ratio	93.5	93.3	93.0	92.7	92.3	91.9	91.5
Women empowerment index	0.7	0.7	0.7	0.7	0.7	0.7	0.7

Source: CDP Secretariat, Supplementary graduation indicators

Data gap

The World Bank's Statistical Performance Indicator (SPI) for Angola is 54.9 (based on the latest available data, referring to 2019), which places the country at the second quintile, higher than the Sub-Saharan African average (51.3) and lower than the lower middle-income country average (56.7).[2] Up to date data required for monitoring are, however, readily available relative to other Sub-Saharan African LDCs.

Smooth transition, national plan and country specific factors

The participation rate of Angola in monitoring is 56 per cent (five out of nine occasions). It submitted annual report three times in 2017, 2022 and 2023, out of seven occasions in 2017-2023. It attended consultation meetings in 2022 and 2023.

The Government of Angola submitted a progress report on the process and preparation for LDC graduation and the development of the smooth transition strategy (STS). The government has not as yet developed an STS, but has received from UNCTAD some preliminary assessments to guide the country in developing the STS. The Government intends to anchor the STS to the newly drafted National Development Plan, 2023-2027 with a focus on the following three priority areas:

(i) development of human capital (with emphasis on education, health, employment, entrepreneurship and vocational training);
(ii) expansion and modernisation of infrastructures (with emphasis on mobility, transportation and logistics, housing, water and energy)
(iii) diversification of the economy (with emphasis on improving the business environment, agriculture, livestock, fisheries, tourism and the manufacturing industry).

The government has been closely working with the UN Resident Coordinator's Office and has received technical assistance from the EU and UNCTAD to assist and prepare the relevant research and analysis to develop the STS for the country, focusing on the areas of trade, ODA, debt relief and access to special funds and other technical assistance to LDCs. Details of the work undertaken to develop the STS and a roadmap outlined by the government is presented in the Annex.

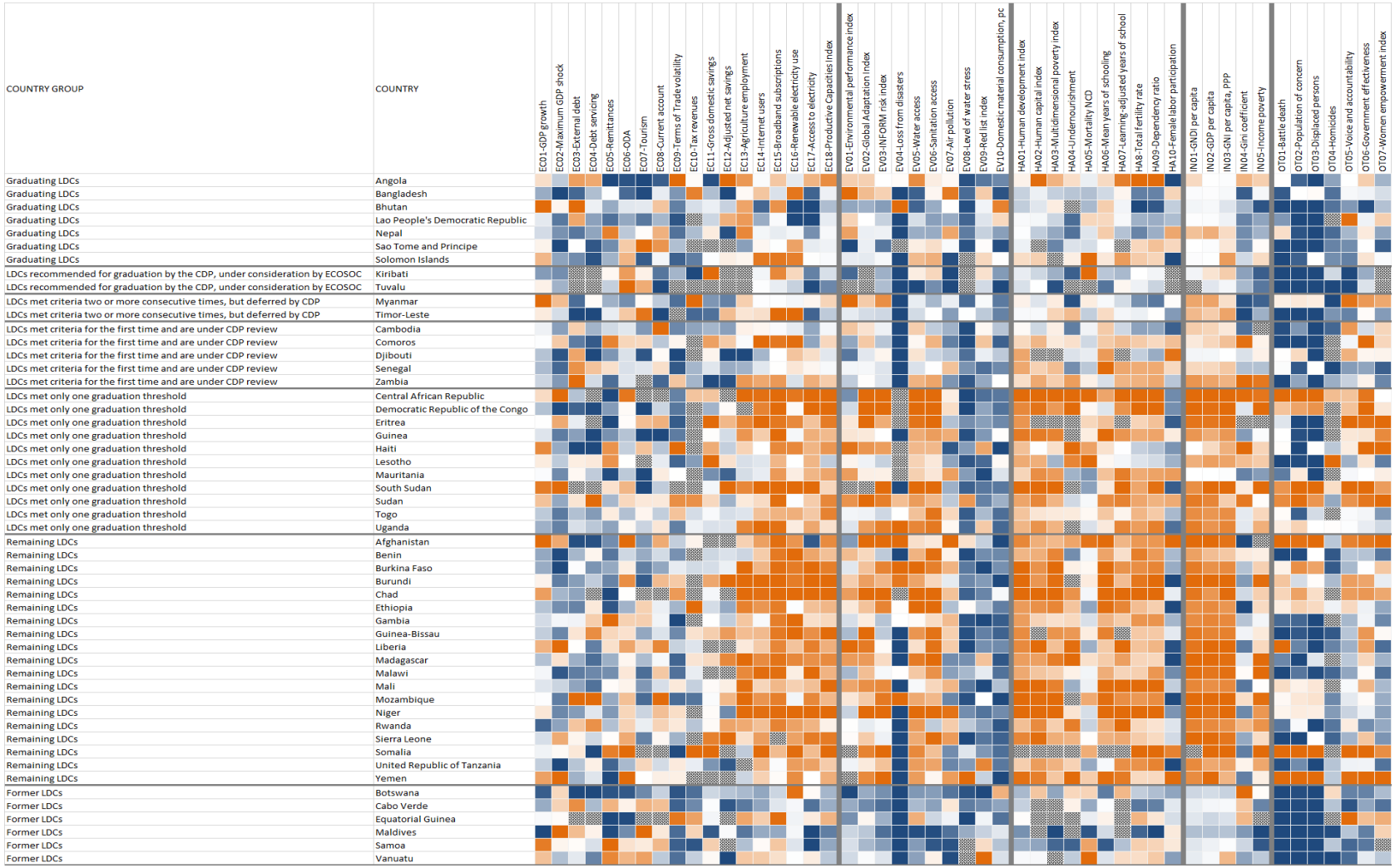
A virtual consultation by the CDP with the government of Angola was held on 18 November 2022 to provide and exchange information on chances for graduation and a smooth transition as well as country-specific issues, such as the global food, fuel, and financial crises. During the meeting, the government provided an initial review of where it currently stands in graduation and the success and challenges, the country has encountered over time. The Government highlighted the following:

1. Macroeconomic challenges: The volatility of oil prices brings some instability about external debt and other investment projects.
2. COVID-19 impact: the government representative stated that covid-19 has impacted the country's graduation path. There has been some stagnation in the economy.
3. Concrete measures to promote structural transformation of the economy: the government is drafting a new development plan for 2023-2027 period. They will continue to work on the transition process whereby drafting the first budget will be considered in the development process.
4. Policies to promote human assets: The government has invested in human capital. This will be one of the main pillars of the Development Plan.

[2] World Bank. https://datanalytics.worldbank.org/SPI/?tab=country-reports, accessed 09 January 2022.

5. EMM for Angola: the country has a lot of data that can help improve the EMM. Statistics and data have improved, and they have them available. Indicators (e.g., Exchange rate) need to be reconsidered in the dashboard.

In the discussion with CDP members, the Government of Angola highlighted that human capacity and infrastructure are of paramount importance to them, and they need support in that area. They also responded that the new development plan is to guarantee macroeconomic stability and promote sustainable and inclusive growth.

UNDESA undertook a mission to the country during 19-21 December 2022 to further discuss with the Government the support the country requires for preparing for the LDC graduation, through the Sustainable Graduation Support Facility, iGRAD. The mission met with the Minister of Economic Development and Planning and other government officials as well as UN country team, the World Bank, IFC and the EU. The Government stressed the importance of capacity development support in the area of trade and institution building. The Government also noted the importance of developing the private sector for diversifying the economy and achieving inclusive and sustainable development.

Annex 1: Heatmap extract of the supplementary graduation indicators (SGIs) for LDCs and former LDCs (2023 or latest available year)