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POLICY BRIEF

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Elevated oil prices: implications for the angolan economy

Macroeconomic implications for growth, inflation, and financial conditions

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Context

The recent oil price shock has been largely driven by the escalation of geopolitical tensions. After trading around USD 60.9 per barrel in December, Brent averaged USD 118.4 in March. At the same time, market consensus (Bloomberg) for 2026 has been revised upward, from around USD 66.0 to USD 85 per barrel.

For Angola, this dynamic is particularly relevant, as the State Budget assumes a reference price of around USD 61 per barrel. In this context, current price levels already constitute a positive external shock, with implications for fiscal revenues, the external sector, and overall liquidity in the economy. **However, the extent to which these effects materialize depends both on the persistence of oil prices and on the evolution of oil production, for which recent data point to some fragility.** It is therefore prudent to consider revising the macroeconomic outlook should Brent remain sustained within the USD 80–100 per barrel range, at least through mid-year.

Nevertheless, the current context warrants revisiting the mechanisms through which positive oil price shocks are transmitted to the economy. To this end, we employ Local Projections (LPs) to empirically assess how the Angolan economy responds over time to increases in oil prices, particularly in terms of the exchange rate, inflation, financial conditions[1], and economic activity. Based on this evidence, we update our baseline scenario, replacing the initial assumption of USD 66 with a revised forecast of approximately USD 85, in order to quantify the effects of a more favorable external environment and illustrate the potential outcomes should the current shock prove persistent.

[1]"Financial conditions" refer to the overall financing environment in the economy, including the level of interest rates, banking system liquidity, access to credit, and conditions in the foreign exchange market.

Empirical Evidence

As shown in Figure 1, the results indicate that increases in oil prices have significant and consistent effects on the Angolan economy. First, a marked appreciation of the Kwanza is observed (panel a)[2], particularly between 10 and 15 months after the shock. This movement reflects higher foreign exchange inflows, which strengthen the country's external position. Second, short-term interest rates decline (panel b), reflecting improved liquidity conditions in the economy. At the same time, credit to the private sector tends to increase, albeit with some lag (panel d). This suggests that the improvement in the macro-financial environment gradually translates into a greater capacity to finance economic activity. Regarding inflation (panel c), a decline in the price level is observed. This effect is associated with exchange rate appreciation, which reduces the cost of imported goods, confirming the exchange rate as a key transmission channel for inflation in Angola. Finally, economic growth shows a moderate improvement (panel e), particularly in the short to medium term. This result reflects the combination of stronger external conditions, increased liquidity, and some support from credit dynamics.

In summary, increases in oil prices have an overall positive effect on the Angolan economy, operating mainly through the exchange rate and liquidity channels. These channels, in turn, influence inflation, credit, and economic activity.

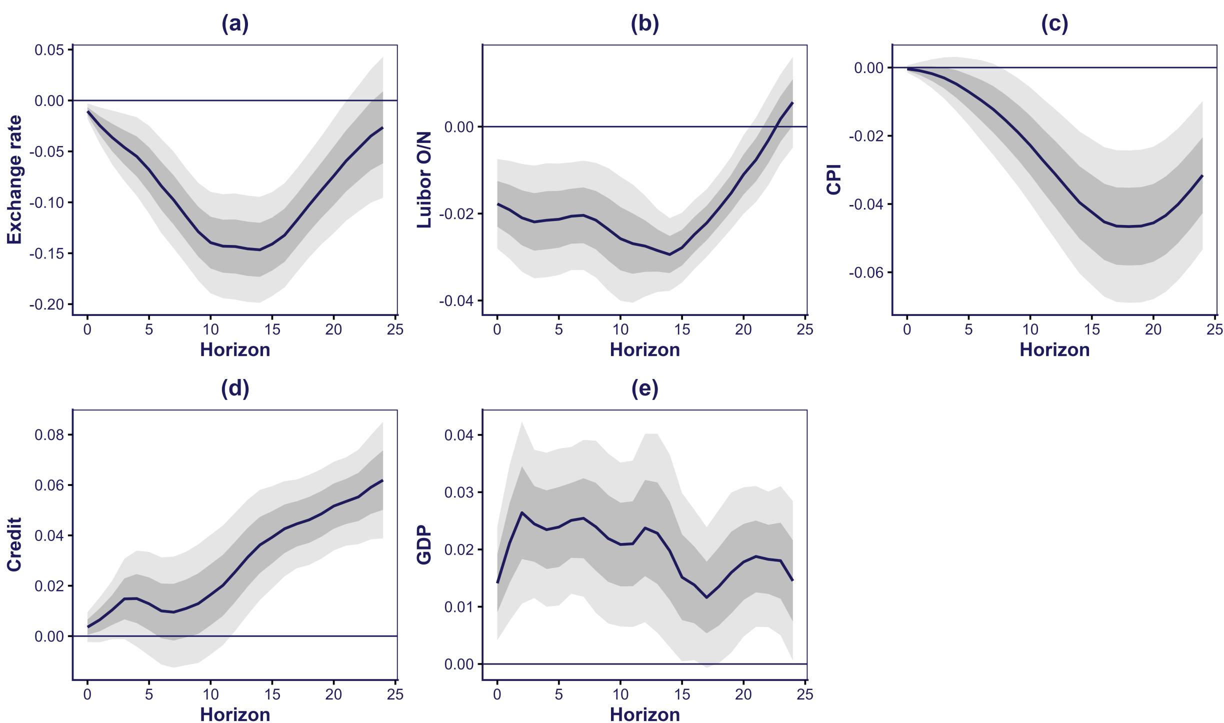

Figure 1: Responses of macroeconomic variables to an oil price shock

[2]For estimation purposes, we use the exchange rate expressed in USD/AOA. As such, a decline in the series technically corresponds to a depreciation of the US dollar against the Kwanza. For ease of exposition, we refer to this movement in the text as an appreciation of the Kwanza.

Oil Price Scenarios

The upward revision of Brent prices translates into a significant improvement in the macroeconomic outlook, with broad-based effects on growth, the external sector, and public finances. From the perspective of economic activity, GDP growth accelerates from 3.3% to 4.9%, reflecting not only the direct contribution of the oil sector but also second-round effects on the non-oil economy, through increased liquidity and domestic demand. This result is consistent with the empirical evidence from the LPs (see Figure 1, panel e).

Regarding inflation, a modest decline is observed (from 12.6% to 11.5%), suggesting that the dominant transmission channel of higher oil prices operates through exchange rate appreciation (see Figure 1, panel a). In this context, higher oil prices tend to ease inflationary pressures via a stronger Kwanza. However, the decline in inflation is limited (and could be even smaller), as the current shock is accompanied by supply chain disruptions, which are already affecting the availability of goods (particularly food) and exerting upward pressure on prices[3].

Table 1: Alternative scenarios for the price of oil

Category	**Baseline scenario**	**Alternative Scenario**
Brent (USD/barril)	65,6	85,3
GDP (%)	3.32	4.87
Average inflation (%)	12.56	11.54
Public debt (% PIB)	50.05	47.13
Budget Balance (% PIB)	-1.70	0.44
Current Account (% PIB)	4.52	6.76
Oil Exports (USD B)	24,0	31,2
Broad Money (AOA T)	12,8	12,9
BNA Rate (%)	16.0	15.5
Credit to the private sector (AOA T)	6,6	6,9

At the level of public finances, the impact is particularly pronounced. The fiscal balance improves from a deficit of -1.7% of GDP to a slight surplus of 0.4%, while public debt declines by nearly 3 percentage points of GDP. Nevertheless, this trajectory may prove less favorable than suggested. The debt ratio could decline more modestly (or, in some scenarios, even increase), reflecting potential procyclicality in public spending, particularly in electoral periods when pressures to expand expenditure tend to intensify. In addition, higher oil prices imply increased fuel subsidy costs, which constrain fiscal consolidation efforts and partially offset the expected gains.

[3]This effect is incorporated into the analysis through an increase in the FAO food price index.

In the external sector, the improvement is also significant. The current account balance increases from 4.5% to 6.8% of GDP, supported by a strong expansion in oil exports. This strengthening of the external position translates into a greater supply of foreign exchange, contributing to exchange rate stability (or even appreciation), in line with the LP results (Figure 1), where a positive oil price shock leads to an appreciation of the Kwanza against the US dollar.

Finally, in the monetary and financial sector, a modest increase in credit to the private sector is observed, alongside a decline in interbank market interest rates. This pattern is consistent with a more favorable macroeconomic environment, characterized by higher liquidity and lower macroeconomic risk. Moreover, improved external conditions may boost banks' foreign exchange operations (an important component of sector profitability) while a stronger economic environment is likely to support credit expansion.

It is important to note, however, that this scenario implicitly assumes stable levels of oil production. Recent data from the Ministry of Finance and ANPG raise concerns regarding production dynamics: while output declined from around 1.05 million barrels per day (mbd) in January to 1.01mbd in February, exports show a more pronounced downward trend, falling from approximately 1.14mbd in January to 0.92mbd in February and 0.89mbd in March (the lowest level since 2011). This pattern suggests that production may be weakening more sharply than indicated by official data, potentially limiting the gains associated with the current high oil price environment.

Policy Implications

- **Improvement in economic activity and financial conditions:** the outlook points to a more favorable environment, with stronger demand and improved financing conditions. Sectors linked to imports and financial services are likely to benefit more rapidly from this context;
- **Reduced government financing needs and implications for the banking sector:** higher foreign exchange inflows are expected to reduce the Treasury's financing needs, exerting downward pressure on sovereign interest rates. This may weigh on banks' profitability, given their high exposure to government securities. On the other hand, increased foreign exchange operations are likely to support profitability and create room for a stronger expansion of credit to the private sector;
- **Potential exchange rate appreciation and implications for inflation:** a stronger Kwanza tends to contribute to lower inflation. However, in a context of high external debt service and the need to rebuild international reserves, part of the additional foreign exchange inflows may be absorbed for these purposes, limiting their impact on the foreign exchange market and, consequently, the extent of currency appreciation and its disinflationary effect;

- **Strengthened macroeconomic stability, with associated risks:** this environment creates an opportunity to reduce vulnerabilities and accelerate structural reforms aimed at economic diversification. Nevertheless, risks of procyclicality remain, particularly in electoral periods, making prudent management of oil revenues essential to sustain gains and ensure a more balanced and sustainable trajectory.

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