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The government adopts a new 2015 budget with a 25% cut in expenditures due to the drop in oil prices. The government's approach to crisis management generates criticism and questions on the use of foreign reserves. The political opposition takes advantage of the difficult economic context to demand more policy transparency from the ruling party as well as progress towards local elections. Meanwhile, President José Eduardo dos Santos (1979- present) inaugurates a huge railway reconstruction project to showcase the country's commitment to economic development and regional ambitions. However, the general political situation remains tense with high risk of social unrest due to lower public spending and high poverty and unemployment, especially in urban areas.

Angola adopts its 2015 revised budget

Angola's **National Assembly** debated its new, revised 2015 budget in late February, culminating on 25 February (see *ARC Angola January 2015 Briefing*). Following the sharp fall in global oil prices (which accounts for over 80% of Angola's export earnings), the government projected that its revenues from hydrocarbons would decline to cover only 37% of spending needs, down from 70% last year. It therefore set out in the revised budget plans to cut public expenditure in 2015 by 25% to 5.4 trillion kwanzas (\$51 billion). This will also impact on the fiscal deficit, with a forecasted fall from 7.6% of GDP to 6.8%, while the official GDP growth forecast for 2015 now sits at 6.6%, down from 9.7%. However, local economists think that the Angolan authorities are being too optimistic even with these figures: they expect economic growth closer to 3% for 2015, down from 4.4% last year.¹

*"These figures are terrible and show just how little progress the government has made on economic diversification. But the ruling [Movimento Popular de Libertação de Angola] MPLA evidently wants to avoid creating panic in the markets, among the public and in spending ministries. It is going to have to dip significantly into the country's reserves to make the budget balance, and we should expect to see some engagement – albeit discreet – with the **Bretton Woods** institutions."²*

At the same time, government's handling of the revised budget has revealed an unusually open approach to public communications. The presidency, especially, has communicated more than usual and (at least rhetorically) has shown an open mind to outside ideas. President **José Eduardo dos Santos** (1979-present) convened a meeting of the **Council of the Republic**, an advisory body comprising the vice-president, political parties, the judicial authorities and business representatives, to discuss the policy options. The last meeting of the Council was in 2012, to fix the date of the last general elections. Following this, again unusually, dos Santos sent a message to the National Assembly to be ready before the budget vote, setting out the government's objectives.

"This behaviour clearly shows that the presidency is aware of the hazardous nature of the situation in terms of public reaction: there is a high risk of social unrest over the next year."³

¹ Source, Angolan economist, Johannesburg

² Source, Angola watcher, development sector

³ Source, political analyst, Luanda

Foreign actors and international institutions have indicated a willingness to support Angola, helping to stabilise the situation. *“Angola is going to have a tough year for sure, but the country does not currently need financial support, only technical support at this stage.”*⁴ The government is also in better financial shape than in 2009, after the global financial crisis, when it had to negotiate a \$1.4 billion loan to underpin its reserves. The deal comprised a \$1 billion loan from the **World Bank**, a \$250 million loan from **Goldman Sachs** and a \$1.5 billion **Eurobond** sale involving **BNP Paribas**, the **Industrial and Commercial Bank of China** and the **Spanish** bank **BBVA**.

However, the government's more inclusive approach did not silence its critics. The opposition parties said that the country should draw more extensively on its sizeable international reserves and sovereign wealth fund to deal with the crisis, and demanded greater accountability on the use of the money.

*“During the past few years, the Angolan budget was based on an estimated barrel price inferior to the market price, creating a surplus every year. Unfortunately, nobody is able (or willing) to indicate what happened to these surpluses, where the money is, if it was already spent or if it is being used and how.”*⁵

The opposition estimated the amount of unaccounted monies from previous budgets at around \$30 billion. Asked to comment, finance minister **Armando Manuel** merely said that Angola's reserves were not sufficient to cover ongoing needs, without giving any global figure. Civil society analysts and government critics fear that

*“...the current loans will mainly be used to maintain the elite's standard of living, i.e. corruption, more than financing essential capital projects or services”.*⁶

For several observers, *“the crisis is just one more proof of the regime's lack of transparency when it comes to the detail and the numbers”.*⁷

In parallel, the national oil company **Sonangol** announced poor financial results for 2014, as revenues plunged by \$710 million dollars (down 77%) due to a fall in production in the first quarter alongside the sharp fall in oil prices from the second. Sonangol CEO **Francisco de Lemos José Maria** acknowledged that it was a *“difficult”* year for the company, and stressed the need to cut *“non-essential”* expenditures. Nevertheless, the company also announced a special bonus for all employees, equivalent to half a standard monthly wage (to be paid in March).

*“This is a well-established Sonangol means of filtering money into the economy for consumption and compensating for some of the reductions in state spending elsewhere. It has been a trademark of Sonangol since its creation.”*⁸

Stronger-than-usual tensions between the MPLA and UNITA

On the political front, the main opposition party (and former civil war rebel group) **União Nacional para a Independência Total de Angola (UNITA)** launched an offensive in the media and the national assembly on the government's longstanding failure to hold local elections in Angola. **Isaias Samakuva's** faction of UNITA accused the ruling MPLA of manipulating the administrative arrangements, rejecting all the electoral law proposals presented by UNITA in the national assembly. UNITA is demanding that an independent institution be in charge of the ballot, not the Ministry of Administration (which is openly linked to the MPLA). The MPLA has denied any bias and has claimed that the process follows the constitution.

4 Source, IMF official

5 Source, economist, Luanda

6 Source, economist, Luanda

7 Source, political analyst, Luanda and Lisbon

8 Source, economist, Luanda

This is an old and controversial topic. The local elections were (most recently) to have been held in 2014 but have been consistently postponed. The MPLA argued at the time that (unspecified) material and political conditions did not allow for such a vote. Then, in October 2014, dos Santos declared in front of the national assembly that they would not happen before the next general elections in 2017. Since then, UNITA (which stands to gain local-level representation and power in some parts of Angola in any local elections) has portrayed the issue in the media as a battle for the democratisation of Angola. But UNITA leaders now fear *“that the MPLA may use the financial crisis to justify the lack of money and logistics to organise the vote.”*⁹

UNITA, and the opposition in general, see the local elections as the only way of initiating any change in the political sphere. During the last general elections, the popular abstention rate reached 40% of the voters. This is a clear indication of increasing voter frustration at what are widely perceived to be foregone elections controlled by the MPLA and designed to deliver an MPLA victory. Even so, the MPLA got poor results in **Luanda** where opposition is more organised and civil society groups more active. Angola political watchers believe that, on current trends, UNITA could secure significant gains in the capital, which would give it a platform to campaign for more power at a national level.

*“For UNITA to fight and win in an election at any level would dramatically improve the democratic image of the party and change the perception that voting for the party will change nothing so long as the MPLA controls the election machinery.”*¹⁰

Opposition to the MPLA unusually turned violent in the north of the country (**Lunda Norte** province) on 16 February. MPLA activists and police reportedly attacked UNITA campaigners, who fought back, causing more than 20 casualties. The interior minister, **Ângelo Veiga Tavares**, condemned political intolerance, asking policemen to adopt *“an educational approach and a more communicative style with communities”*.

*“The authorities’ unusually-tempered reaction to the incident shows their concern about political stability, all the more in a difficult economic situation. The fact also that UNITA members were organised enough and able to fight back will worry the MPLA.”*¹¹

Towards a regional railway?

On 14 February, the Angolan presidency organised a major ceremony in **Luau** (**Moxico** province), close to the border with the **Democratic Republic of the Congo (DRC)** and **Zambia**, to relaunch the **Benguela** railway. DRC president **Joseph Kabila** (2001-present) and Zambian president **Edgar Lungu** (2015-present) joined dos Santos for the ceremony. The railway runs from **Lobito** on the **Atlantic** coast to Luau in the far east of the country. The 1,344 km line has been rebuilt by **Chinese** companies under the authority of Angola’s **National Reconstruction Cabinet** through loans granted by China in exchange for Angolan oil. The project has reportedly cost more than \$1.5 billion.

The Angolan government has both national and regional ambitions for the line, which was first built by **Scottish** entrepreneur **Sir Robert William** during **Portuguese** colonial rule, to export metal ores from the provinces of **Copperbelt** in Zambia and **Katanga** in the DRC. Its peak traffic was in 1973, with 3.2 million tonnes of goods transported (half of which was international traffic). The objective is to reconnect the railway with Zambia and DRC and recreate a trans-continental route between the Atlantic and **Indian Oceans**, as well as opening a trade corridor through Angola’s hinterland. The long-term goal is to transport four million people and 20 million tons of goods annually.

However, the ambitious project is not without problems. Even if the three governments are enthusiastic about the project, it will be some time before the network is actually operational. Zambia,

⁹ Source, political analyst, Luanda

¹⁰ Source, political analyst, Luanda

¹¹ Source, political analyst, Johannesburg

for example, has approved a budget for the construction of its share of the line but has no money to actually start work. The DRC government has not yet formulated even a budget. In Angola, the railway runs slowly and is some way from peak efficiency.

*“We also do not know how the maintenance of the railway, in the hands of the Chinese for now, will be handled. The **Southern African Development Community (SADC)** supports the project, so it has wider regional buy-in and could one day become a major driver of regional economic development. But it could equally end up as an expensive white elephant.”¹²*

Suspects in the murder of two protesters on trial

Having opened towards the end of 2014, the trial of those suspected of the murder of two anti-government protesters resumed this month. The two victims, **Isaías Cassule** and **Alves Kamulingue**, disappeared in May 2012 while organising a demonstration against President dos Santos in which they were for the first time bringing together former military members and young protesters. An inquiry established that they were killed, but their bodies were never found; one was supposedly left behind at the scene, the other was thrown into a river. Among the defendants are members of the Luanda provincial MPLA committee, the secret services and the intelligence services.

“This trial is unique: usually this kind of case never goes to court. The murders really shocked people. This time, officials will have to answer for their crimes.”¹³

According to several sources, the defendants are those who carried out the crimes and were following orders. *“But the high personalities, who gave the order to eliminate the two young protesters, will remain protected.”¹⁴* During the hearing, the lawyers of the victims' families repeatedly asked the defendants to name their bosses, unsuccessfully. The date of the verdict is still to be announced.

Echoing this topic, **Amnesty International** denounced in its last annual report *“unlawful killings”* committed by the police and security forces as well as cases of *“enforced disappearances”*.

“Freedom of association and assembly continued to be suppressed. Thousands of families were forcibly evicted.”¹⁵

Implications

The dos Santos government is going to have its work cut out in 2015 managing the financial and political turbulence caused by the slump in global hydrocarbon prices. For now, the situation seems to be under control, with public communications and debate more open than usual. But the recent political violence in Lunda Norte demonstrates how fragile the situation is. These isolated examples could spiral if the government over-reacts.

“In order to deal with challenges to its authority, the regime is currently going against its instinct, which would be more repression. It is currently doing what it actually needs to do: being more open and engaging in debate. The question is how long it can keep this up before more hawkish voices take control of policy.”¹⁶

The government continues to invest heavily in its international reputation and in enhancing its regional standing, e.g. focusing on regional cooperation with its neighbours, on military support for others countries, like **Guinea-Bissau** or **Equatorial Guinea** and on conflict resolution in the DRC with

¹² Source, economist, Luanda

¹³ Source, journalist, Luanda

¹⁴ Source, political analyst, Luanda

¹⁵ Source, www.amnesty.org

¹⁶ Source, political analyst, Johannesburg

its temporary seat on the **United Nations Security Council**. *“But this strategy has its limits: it is expensive in an austerity period and it will not deflect the MPLA’s domestic critics.”*¹⁷

The benign scenario for Angola is that the MPLA uses the current difficulties to embrace serious reform. The country is running out of time to address its core socio-economic problems: a demographic explosion, entrenched poverty for the vast majority, oil dependency, lack of transparency, corruption, and absence of true national reconciliation and debate. At the same time, trying to implement change on such entrenched problems also risks creating turbulence, especially in the short term.

¹⁷ Source, political analyst, Luanda