

AFRICA RISK CONSULTING

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The government ends talks with the International Monetary Fund (IMF) for an extended fund facility (EFF), raising Angola's debt risk profile and limiting its financing options. The finance ministry claims that talks ended because of a more positive growth outlook due to a surge in oil prices in recent months. Both Moody's and Fitch issue warnings to Angola that suspension of the EFF talks could lead to a sovereign credit rating downgrade if no alternative financing is secured to offset the external funding gap. The Banco Nacional de Angola (BNA) (central bank) sanctions eight major banks for violating foreign currency regulations, demonstrating a firm stance to control foreign currency flight.

Government ends funding talks with IMF

International Monetary Fund (IMF) spokesperson **Gerry Rice** on 30 June said the **Angolan** government no longer wants to continue talks over financial support.¹ The suspension of debt talks will make the financing of Angola's fiscal deficit on international debt markets more expensive. The IMF staff team in **Luanda** concluded its mission on 14 June with the objective of discussing the possibility of an extended fund facility (EFF). However, discussions concerning a possible EFF supported programme will no longer feature in the IMF staff engagement with the authorities following President **Jose Eduardo Dos Santos'** (1979-present) decision to suspend EFF negotiations, IMF staff teams will continue to visit Luanda, with the next 2016 Article IV consultation expected in October.²

Local commentators believe Angola's withdrawal from talks is a sign of government confidence since oil prices have increased in recent months:

*"The finance ministry's reasons for desisting the call for funding is because of the improvement in the price of oil – hovering around \$45 [per barrel], which is the same as the government budget's benchmark. When the government thought about this agreement in January, oil prices were in a much worse position – around \$28. Although this worsens the country's debt profile, it is clear that the government is confident about its ability to sustain itself."*³

There are fears that the suspension of debt talks could affect the IMF's responsiveness to future financing needs:

*"I don't see there being any reason to believe that relations have deteriorated with the IMF. I simply cannot imagine that. Angola is an IMF member state, pays its membership, and IMF officials will continue to visit the country despite this. What is also difficult to imagine is the restoration of the IMF's confidence in the Angolan economy any time soon – I doubt [the IMF] will be as responsive to future calls for funding."*⁴

The risk profile of Angola's sovereign debt position has increased following the decision to end talks with the IMF:

¹ Multiple sources: www.imf.org, Bloomberg, 30 Jun 2016.

² www.imf.org

³ Source, economist, Luanda

⁴ Source, economist, Luanda

“The decision to abandon an IMF bailout has increased the risk of a messier crisis ... A recession and accompanying debt crisis are now possible. Angola has historically relied on loans from China, but Beijing may be reluctant to throw good money after bad...”⁵

The Angolan government will now turn to international private capital markets for funding.⁶ However, in order to make the borrowing sustainable, the government will require the lowest possible rates.⁷ The debt market has responded negatively to the possibility. The price of Angola’s international trading bonds fell sharply on 1 July.⁸ As a result, yields on Angola’s \$1.5 billion **Eurobond**, which matures on November 2025, increased 68 basis points to 10.41%.⁹

... and rating agencies issue warnings

International ratings agency **Fitch** issued a statement warning of the risks linked to the government decision to discontinue funding talks with the IMF. Fitch said the Angolan government's decision to discontinue talks with the IMF increases risks to its external financing, especially while it has not revealed its alternative financing plan.¹⁰ Fitch cited Angola’s external funding gap, while it experiences capital outflows as oil companies transfer deposits abroad.¹¹ Fitch believes Angola needs to borrow in order to avoid a sharp fall in foreign exchange reserves.¹² The ratings agency warned that if Angola is unable to attract sufficient financing sources, it will consider a downgrade.¹³

Local commentators confirmed that Angola may have put itself in a difficult position to secure external funding, with possibly devastating consequences:

“The country is feeling the impact of the end of the IMF negotiations because the international markets have already reacted rapidly to the situation... It is now clear that the international markets, particularly ratings agencies, will increase the perceived risk of investing in Angola and it will be more difficult to secure financing on the international markets. This doesn’t mean it isn’t possible, but solely that interest rates will be higher. The growth outlook [was], in my opinion, not strong enough to justify this decision.”¹⁴

International credit rating agency **Moody’s** on 11 July also issued a warning that Angola’s decision to suspend negotiations with the IMF was a ‘credit negative’ event.¹⁵ However, Moody’s has not officially changed Angola’s sovereign credit rating. Moody’s assistant vice president **Rita Rabihuga** said the EFF programme would have provided Angola with much-needed support for its foreign exchange reserves and for the government’s difficult fiscal adjustment, now in its third consecutive year:

“Longer term, the EFF also would have supported the government’s efforts to reduce its reliance on oil and reform its foreign exchange system, both of which would have helped Angola’s balance of payments.”¹⁶

Moody’s said the government has undertaken substantial fiscal adjustment but warned that political pressure ahead of the 2017 general elections may encourage the government to overspend.¹⁷ Angola’s foreign exchange reserves have declined 30% to \$23.6 billion since 2012, with reserves expected to

⁵ United Kingdom (UK)-based Capital Economics Ltd economist John Ashbourne quoted in Bloomberg, 30 Jun 2016.

⁶ Bloomberg, 30 Jun 2016.

⁷ Bloomberg, 30 Jun 2016.

⁸ Reuters, 1 Jul 2016.

⁹ Bloomberg, 1 Jul 2016.

¹⁰ Fitch, 5 Jul 2016.

¹¹ Fitch, 5 Jul 2016.

¹² Fitch, 5 Jul 2016.

¹³ Fitch, 5 Jul 2016.

¹⁴ Source, economist, Luanda

¹⁵ Financial Times, 11 Jul 2016.

¹⁶ Financial Times, 11 Jul 2016.

¹⁷ Financial Times, 11 Jul 2016.

fall to \$23 billion by the end of the year.¹⁸ The finance ministry said the government borrowed \$11.46 billion between November 2015 and June 2016, including \$5 billion from the **China Development Bank** and \$2 billion from other government-backed Chinese lenders. Total government debt stands at \$47.9 billion, including \$25.5 billion in external loans.¹⁹ This does not include debt holdings of state-owned enterprises (SOEs) such as oil and gas company **Sociedade Nacional de Combustíveis de Angola (Sonangol)**.²⁰

The **Wall Street Journal (WSJ)** reported on 23 June that the Angolan government is in negotiations with private lenders for \$1 billion in syndicated loans.²¹ The WSJ claims the Angolan government is negotiating a \$500m-\$600m syndicated loan agreement with **United States (US)**-based investment bank **Goldman Sachs**, which includes a partial \$200m loan guarantee from the **World Bank**, and is also negotiating a separate credit agreement with **United Kingdom (UK)**-based **Gemcorp Capital LLP** to finance the import of food, medicine and other essential goods.²² The credit arrangement could reach hundreds of millions of dollars depending on the government's import needs.²³

The finance ministry reduced its expected 2016 growth forecast on 11 July from 3.3% to 1.3%.²⁴ The main reason for the adjusted growth outlook is lower government spending and reduced foreign direct investment due to the continued lower international oil prices. The government is expected to cut spending to \$24 billion from the \$30 billion it originally projected in the 2016 budget.²⁵

BNA sanctions banks for failure to comply with foreign currency regulations

The **Banco Nacional de Angola (BNA)** (central bank) on 28 June sanctioned seven banks for failing to comply with foreign exchange rules.²⁶ The BNA sanctions are an indication the Angolan government is taking a hardline approach to the control of foreign currency as it becomes increasingly scarce in the wake of low international oil prices.²⁷ The BNA sanctioned the following banks:

- **Banco Angolano de Investimentos (BAI);**
- **Banco Millennium Atlântico;**
- **Banco de Comércio e Indústria (BCI);**
- **Banco Caixa Geral Angola;**
- **Banco Keve;**
- **Banco Sol;**
- and **Standard Bank Angola**.²⁸

The BNA said it imposed limited financial penalties on the above banks due to non-compliance with rules on the mandatory duty of information disclosure on foreign exchange transactions.²⁹

Portuguese media reported that in the case of Banco Caixa Geral Angola, the BNA sanctions were a result of delays in reporting foreign exchange transactions.³⁰ Standard Bank Angola, a subsidiary of **South Africa**-based **Standard Bank**, has denied that it broke any Angolan foreign exchange rules,

¹⁸ Financial Times, 11 Jul 2016.

¹⁹ Business Day, 11 Jul 2016.

²⁰ Business Day, 11 Jul 2016.

²¹ www.macauhub.com.mo

²² www.macauhub.com.mo

²³ Afkinsider.com

²⁴ Multiple sources: www.iol.co.za; www.bdlive.co.za; www.cnbcfrica.com

²⁵ Multiple sources: www.iol.co.za; www.bdlive.co.za; www.cnbcfrica.com

²⁶ www.macauhub.com.mo

²⁷ www.macauhub.com.mo

²⁸ www.macauhub.com.mo

²⁹ www.macauhub.com.mo

³⁰ www.macauhub.com.mo

“Standard Bank is of the view that it has not transgressed or misinterpreted the framework for implementation of foreign exchange resources and will defend its position.”³¹

The BNA said it would continue to monitor foreign exchange rules and apply sanctions if commercial banks fail to meet the regulations.³² Local economists deem this necessary in order to restrict foreign currency outflows,

“At this moment foreign currency reserves are very low – this is why the BNA is being so strict. It is trying to reduce, as much as possible, a hemorrhage to foreign currency. In January the [government estimated it had] \$24.5 billion [in foreign currency reserves]. This is now down to \$23.6 billion. This is the only available data, but it roughly means that the country only has enough to cover six months of foreign imports.”³³

Implications

The collapse of talks with the IMF indicates either the government’s confidence in Angola’s economic outlook or its unwillingness to sign on to a restrictive economic plan. Whatever its motives, the suspension of debt talks will imply more limited options for its state financing. More notably, it increases the risk profile of Angolan debt, which will make the government’s efforts to find alternative financing more expensive, even though the government may prefer shorter-term and less restrictive financing options.

The warnings from ratings agencies about Angola’s need to close its external funding gap could render the decision to end talks with the IMF even more risky. A downgrade would appear likely in the case that Angola does not secure alternative financing. Angola’s trusty lender China may, due to the credit warnings, be less inclined to buttress its budgetary needs. If reports of a syndicated loan in the US are correct, Angola may be able to secure much-needed funding to appease investors and ratings agencies.

Meanwhile, the BNA remains firm on its multiple restrictions on foreign currency outflows, which would impede its ability to weather a second dip in oil prices. The strict sanctioning, although it will not improve relations with banks, will reassure the government that all is being done to prevent a foreign currency exodus.

³¹ www.bdlive.co.za

³² www.cnbc africa.com

³³ Source, economist, Luanda

About Africa Risk Consulting:

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