

AFRICA RISK CONSULTING

Angola Briefing August 2016

Angola Summary 27 October 2016

Parliament passes its revised 2016 budget of \$24 billion, down from \$30 billion, with significant spending cuts expected in social areas. The International Monetary Fund (IMF) will reportedly arrive in Luanda before 31 October for a regular consultation, after government cancelled borrowing talks with the organisation in July. Fitch ratings agency downgrades Angola's long-term foreign and local currency issuer default ratings (IDR) to B from B+, with a negative outlook. The Cabinda Province rebel group Frente para a Libertação do Enclave de Cabinda (FLEC) claims to have killed 18 members of Forças Armadas Angolanas (FAA) (armed forces) troops.

Parliament passes smaller 2016 budget

Angola's parliament, on 19 September, passed its revised 2016 budget. The budget is smaller than originally planned due to the continued low international oil prices.¹ The finance ministry announced in July that it would cut government spending for the 2016 budget from \$30 billion to \$24 billion after projected revenues declined from \$24.4 billion to \$18 billion.² Ruling **Movimento Popular de Libertação de Angola – Partido do Trabalho (MPLA)** member of parliament (MP) **Pedro Sebastião** told the media that,

"The 2016 state budget revision that we just approved is a necessary and totally justifiable exercise from the economic and social point of view due to the evolution of the oil price in the international market."³

Sebastião's argument does not appear entirely justified. The government's 2016 budget was predicated on a price of \$45 per barrel of crude oil (announced in November 2015), while prices have remained largely above this level over the past year (except the period January to April), and current prices are at \$49.95.⁴ Today, most analysts foresee a price above \$45 for the remainder of 2016, including **Goldman Sachs**, **Morgan Stanley**, **Bank of America** and **Citi Group**, while the **World Bank's** estimate for 2017 is at least \$50 per barrel.⁵ Head of local non-governmental organisation (NGO) **Acção para o Desenvolvimento Rural e Ambiente (ADRA)** (Action for rural and environmental development) **Belarmino Jelembi** says that there will be significant drops in governmental social support due to the budget cut,

"We see cuts in social protection, in certain government programmes, for example in education, which will have even less resources to play with... Some sectors should be protected, especially in the current context of continued poverty and precariousness of our population."⁶

The revised budget is based on an oil price of \$40.9 per barrel compared to \$45 per barrel in the previous version of the budget.⁷ The revised budget includes a deficit of 6.8% gross domestic product

¹ Reuters, 19 Sept 2016.

² Reuters, 19 Sept 2016.

³ Reuters, 19 Sept 2016.

⁴ Multiple sources: Portal de Angola, 17 Nov 2015; www.nasdaq.com.

⁵ Oil Price, 24 Oct 2016.

⁶ Source, journalist, Luanda

⁷ www.angop.ao

(GDP) compared to the original forecast of 5.5%.⁸ The new smaller budget is predicated on a real year-on-year GDP growth forecast for 2016 of 0.8% in the oil sector and 1.2% in the non-oil sector.⁹

... and IMF mission to arrive for Article IV consultation

A team from the **International Monetary Fund (IMF)** mission is due to arrive in Angola by 31 October.¹⁰ The mission is part of the IMF's regular consultations with the Angolan government under an Article IV regular monitoring agreement, and is not part of a broader engagement with the IMF.¹¹ In June, the IMF announced that Angola agreed to talks about a possible agreement to borrow funds from the IMF.¹² President **Jose Eduardo dos Santos** (1979- present) said the Angolan government only wants to continue dialogue with the IMF over its annual assessment of the Angolan economy.¹³ It is important to note that reliable information concerning government communication with the IMF is very sparse, as dos Santos' government is notoriously opaque,

*"I don't know and I don't think anyone knows [whether the government will renew negotiations with the IMF]. Only Angolan authorities can answer this question. What I can guarantee is that the Angolan government is closed with regards to the information it communicates."*¹⁴

Fitch downgrades Angola's sovereign credit rating

International ratings agency **Fitch**, on 24 September, downgraded Angola's long-term foreign and local currency issuer default ratings (IDR) to B from B+, with a negative outlook.¹⁵ Fitch also downgraded Angola's senior unsecured foreign currency bonds from B+ to B and revised Angola's country ceiling from B+ to B.¹⁶ Fitch's rating downgrade reflects the continued impact of low international oil prices, which have put significant pressure on the government's fiscal position, because 50% of government revenue comes from the oil and gas sector.¹⁷ Moreover, the downgrade will increase the cost of borrowing at a time when the government is looking to increase borrowing to make up for the oil and gas revenue shortfall.¹⁸ Due to increased borrowing, the interest payments on Angola's, mostly foreign currency denominated, debt, will increase in 2016, as a percentage of revenue, to well over the 14% reached in 2015.¹⁹ Local sources confirm this worry,

*"Public debt has been brushing against the limits provided for in the constitution. It's hard to say how much the government would need in terms of borrowing. However, with currently available data we can say that we are nearing unsustainable levels of public debt. Rather than borrow more, I believe we should readjust our government spending. With 2017 being an election year, with the potential for excess spending on government propaganda campaigns, it is important to readjust our public spending rather than drift into more debt, which could cause the country problems in future."*²⁰

The Angolan economy continues to struggle in the low oil price environment and Fitch expects Angola to record a 0% growth rate in 2016; Angola's worst performance in 14 years.²¹ Fitch forecasts that

⁸ www.angop.ao

⁹ www.macauhub.com.mo

¹⁰ www.macauhub.com.mo

¹¹ www.macauhub.com.mo

¹² Multiple sources: www.imf.org, Bloomberg, 30 Jun 2016.

¹³ Multiple sources: www.imf.org, Bloomberg, 30 Jun 2016.

¹⁴ Source, journalist, Luanda

¹⁵ www.enca.com

¹⁶ www.enca.com

¹⁷ www.enca.com

¹⁸ www.enca.com

¹⁹ www.enca.com

²⁰ Source, NGO head, Luanda

²¹ www.enca.com

Angola's fiscal deficit will widen from 3.8% of gross domestic product (GDP) in 2015 to 5.8% of GDP in 2016 and 6.6% in 2017, despite significant expenditure reforms.²²

*"In a context such as ours, where we have a great need for debt and foreign private investment, the credibility of our government and its debt reliability are very important. It is clear that when this credibility is shaken, this damages our ability to attract investment. But I think there are other concrete problems which hurt foreign investment beyond these ratings. The difficulty with which we approve visas, the sluggishness of processing investment proposals, excess bureaucracy, the lack of credible institutions and the level of corruption all affect our ability to bring in investment."*²³

FLEC claims to have killed 18 FAA soldiers

The Angolan rebel group **Frente para a Libertação do Enclave de Cabinda (FLEC)** on 29 September reportedly claimed to have killed 18 members of **Forças Armadas Angolanas (FAA)** (Angolan armed forces) earlier in the week near **Makumeni** village in the **Buco Zau** municipality (**Cabinda Province**).²⁴ The clashes, if confirmed, follow security incidents in late July and early August, and may indicate that tensions between the government and FLEC are increasing. The interior ministry, on 3 October, denied reports that clashes with FLEC had led to the killing of FAA soldiers.²⁵ Interior ministry official **Joao Caetano da Silva** said,

*"In Cabinda, the security environment is stable; it is a normal province, despite some speculation and unfounded news about military pseudo-actions that have taken place."*²⁶

Cabinda Province is an enclave separated from the rest of Angola by the **Democratic Republic of the Congo (DRC)** and accounts for most of Angola's offshore oil production.²⁷ The government has largely isolated and contained the separatist rebel group.²⁸ FLEC's last major attack was staged in January 2010, when it ambushed a bus carrying **Togo's** football team as it entered Angola for the **African Cup of Nations**. The attack left two people dead and one person seriously injured.²⁹ Some local commentators claim that the security situation and independence struggle is exaggerated in Cabinda,

*"My opinion is that the military situation in Cabinda truly is stable. I believe the FLEC's claims concerning possible attacks against the FAA don't go beyond propaganda. It is true that today wars are not solely exchanges of bullets, guns and blows. It is also an information and intelligence war, and in that sense FLEC likes to portray an image that there is an armed struggle. Most of FLEC's leaders are in fact in exile. Therefore, it is very difficult to confirm whether or not these attacks are taking place."*³⁰

FLEC maintains that the ruling MPLA illegally occupies the oil-rich Cabinda enclave, which, unlike mainland Angola, was a protectorate and not a colony of **Portugal**. Since independence, the secessionists have sought armed conflict and abductions of foreigners. Estimates of the number of FLEC militants range from the low hundreds to 5,000.³¹ FLEC and the government signed a peace agreement in 2006, although the fractured nature of FLEC impedes a final resolution.³² Equally, FAA operations have flushed out FLEC bases in neighbouring **Republic of Congo** and DRC. In April 2012, a FLEC faction, which poses little threat, sought peace talks with the government. The rebels are highly unlikely to gain independence or autonomy. The government has increased development spending for

²² www.enca.com

²³ Source, NGO head, Luanda

²⁴ www.africareview.com

²⁵ www.redeangola.info

²⁶ www.redeangola.info

²⁷ Mgafrica.com

²⁸ Source, Angola analyst, United Kingdom

²⁹ Mgafrica.com

³⁰ Source, former Angolan security and information services senior official, Luanda

³¹ Africa Confidential, 13 Apr 2012.

³² Source, Angola analyst, United Kingdom

the region. Critical sources view this as a solvable issue, outside of the government accepting independence of the region,

“Dialogue is the solution for resolving the situation in Cabinda. There is a problem, but it is political, not military. However, in order to achieve this solution it is necessary that government dialogue with the whole of the Cabindan society. We [Angolans] are the example that war does not lead anywhere. We solely need to look around the world to confirm that these military solutions are always painful... No-one wants our country to be divided.”³³

Implications

Cutting the budget by 20% will reduce diversification of the economy through government-led initiatives, and seemingly will have pernicious effects on education and other vital social services for Angola’s poorest communities. It is not only a reflection of low oil prices either – the government is also more limited than previously in its financing options. The government, for example, refused external funding from the IMF in July, after it refused to continue talks with the organisation for a funding plan (see *ARC Briefing Angola July 2016*). It would appear that the government prefers the financial and economic policy independence that this austerity will afford government, no matter the social costs required to meet this. Even though this will stabilise government finances, it does little to instil confidence in investors and attract investment, as this will not improve the economic situation through government investment.

Angola is evidently out of favour with ratings agencies due to its underperforming economy. Moreover, there is increasingly a negative and increasingly unpopular image of dos Santos’ government outside of the country, which further detracts investors. This will have a significant impact on Angola’s relationship with its debtors and potential financiers, as the government will need to secure external financing if it wishes to maintain continuity in its government programme.

The security concerns in Cabinda province are perennial. Analysts, experts and former officials all admit that there is obfuscation of information from both the FAA and FLEC sides. Cabinda’s oil and gas wealth amplifies the significance of the independence struggle for locals, while also means dos Santos’ continues to take a heavy hand on the security situation in the region, in order to maintain these strategic and economic interests in the region. Promises of further government investment in the region appears to do little to silence the leaders of the independence movement, but may placate locals who are undecided regarding their affiliation.

³³ Source, former Angolan security and information services senior official, Luanda

About Africa Risk Consulting:

Africa Risk Consulting (ARC) is a pan-African consulting company that provides timely, relevant information and advice that enables its clients to take informed investment decisions and to safeguard their reputations.

ARC's core consulting services include integrity due diligence and corporate investigations, political advisory and country assessments, opportunity monitoring and reputation risk management. Most relevant to private equity firms is ARC's integrity due diligence and corporate investigations capability. Specifically, ARC offers pre-deal integrity checks to highlight red flags before negotiations start; full detailed multi-jurisdictional reputation due diligence; and supplier and senior hire vetting and repeat due diligence for compliance programmes. ARC is unique in that it offers a 10-day delivery for a routine integrity due diligence. ARC also offers a suite of corporate investigations services from immediate investigation, evidence gathering, e-discovery, forensic accounting and whistleblower support on one end to crisis media management and regular monitoring on the other.

www.africariskconsulting.com

About ARC Briefing:

ARC Briefing is ARC's essential online business information service.

Companies at any stage in their Africa expansion, whether building or communicating an Africa strategy, investing directly, expanding current operations, financing other investors, doing the legal leg-work or researching the Africa growth trend, need ARC Briefing.

ARC Briefing is an online information service keeping you:

- Up to date with Country Chronologies of business-critical events
- In the know via Country Briefings on political, economic, business and operating trends. Written in-country, ARC experts analyse and comment
- Ahead with Country Planner which details future elections, budgets, regulatory changes etc.

www.briefing.africariskconsulting.com

Getting in touch

Please contact us by email info@africariskconsulting.com or call + 44 (0) 20 7078 4080

Follow us on Twitter: [@ARCBriefing](https://twitter.com/ARCBriefing)