

## AFRICA RISK CONSULTING

### Angola Monthly Briefing April 2017

#### Angola Summary 25 April 2017

**The International Monetary Fund (IMF) arrives in Angola to discuss public debt, the budget and economic projections with government officials. Ratings agencies Fitch Ratings and Moody's both make visits to Angola. Moody's re-affirms its B1 rating, with a negative outlook. Fitch says that the government will require a crude oil price of \$82 per barrel in order to balance the budget. United States (US)-based Cobalt International Energy Inc says it may seek arbitration against Angola's state-owned oil and gas company Sociedade Nacional de Combustíveis de Angola – Empresa Pública (Sonangol). The Banco Nacional de Angola (BNA) (central bank) will reportedly select five or six commercial banks to receive 80% of the foreign currency made available. The BNA retains its benchmark interest rate of 16%.**

#### IMF and ratings agencies arrive in Angola

Rating agencies and **International Monetary Fund (IMF)** missions arrived in **Angola** in March to discuss economic prospects and other concerns. Two separate evaluation teams from international ratings agencies **Fitch Ratings** and **Moody's** arrived in Angola on 9 March.<sup>1</sup> Following its visit, **Moody's** reaffirmed Angola's B1 long-term issuer and senior unsecured sovereign credit rating with a negative outlook on 7 April.<sup>2</sup> Moody's reaffirmation of Angola's credit rating indicates that Angola may experience modest gross domestic product (GDP) growth in 2017 due to higher oil prices and increased oil production.<sup>3</sup> Moody's said it expects,

*"...[Angola's] economic growth and dollar earnings to gradually improve in 2017, supported by both the recovery in oil prices and a modest increase in oil and gas production. After an estimated 0.1% real GDP growth in 2016, Moody's forecasts real GDP growth to rise to 2.6% in 2017 and accelerate further in 2018 to 3.5%."*<sup>4</sup>

According to Moody's, Angola's oil production in 2017 will average 1.825 million barrels per day (mbpd) from an average of 1.748 mbpd in 2016.<sup>5</sup>

*"Several off-shore projects launched before the oil shock (including the mega project **Koambo**) are coming on stream over the next 18 months, adding in excess of 400,000 barrels per day to the country's oil production."*<sup>6</sup>

However, Moody's negative outlook recognises the following risks for 2017: susceptibility to sovereign debt roll-over risks; public spending pressure in the run-up to the August 2017 election and the on-going challenge of preserving foreign exchange reserves and at the same time providing sufficient dollars into the economy to keep the commercial banking sector and *"businesses running smoothly."*<sup>7</sup>

The Fitch team met Angolan officials to discuss macro-economic developments to help guide future rating assessments.<sup>8</sup> Fitch indicated on 5 April that Angola requires average 'break-even' oil price of

<sup>1</sup> [jornaldeangola.sapo.ao](http://jornaldeangola.sapo.ao)

<sup>2</sup> Multiple sources: Reuters, 7 Apr 2017; [www.cpifinancial.com](http://www.cpifinancial.com)

<sup>3</sup> [www.cpifinancial.com](http://www.cpifinancial.com)

<sup>4</sup> [www.cpifinancial.com](http://www.cpifinancial.com)

<sup>5</sup> [www.cpifinancial.com](http://www.cpifinancial.com)

<sup>6</sup> [www.cpifinancial.com](http://www.cpifinancial.com)

<sup>7</sup> [www.cpifinancial.com](http://www.cpifinancial.com)

<sup>8</sup> [jornaldeangola.sapo.ao](http://jornaldeangola.sapo.ao)

\$82 per barrel in 2017 for the government to balance its budget.<sup>9</sup> With oil prices expected to remain in the mid-\$50 range per barrel throughout 2017, the Angolan government will continue to face fiscal challenge throughout the year.<sup>10</sup>

*"Most oil-exporting countries still face pressures because of low oil prices, almost three years after the oil shock ... Oil prices have begun to recover, but remain below the levels that would balance budgets in most of the largest oil exporters in **Europe, the Middle East and Africa.**"<sup>11</sup>*

Fitch said it "substantially"<sup>12</sup> raised the fiscal break-even prices for **Nigeria, Angola and Gabon** from 2015 levels because of increased government spending.<sup>13</sup> According to government forecasts, Angola's budget deficit will reach 5.8% of GDP in 2017.<sup>14</sup>

Both Fitch and Moody's evaluated the performance of the oil sector production profile, new discoveries, auctioning of blocks and reserve levels; the current state of commercial banking sector; monetary policy; balance of payments situation and exchange rate policies.<sup>15</sup> At the end of 2016, Fitch downgraded Angola's sovereign debt rating to B, which is below investment grade, with negative outlook.<sup>16</sup> In April 2016, Moody's also downgraded Angola's long-term issuer and senior unsecured debt rating to B1 from Ba2 and also assigned a negative outlook.<sup>17</sup> The key drivers for the downgrade were the deterioration of Angola's external positions due to the structural downward shift in international oil prices and Angola's significant reliance on hydrocarbons, which is putting pressure on near-term growth prospects as a result of lower for longer oil prices.<sup>18</sup> According to Moody's, the negative outlook,

*"... reflects ongoing imbalances in the foreign exchange market which, in light of the diminished options for replenishing them, will continue to put downward pressures on official foreign exchange reserves and on the currency."<sup>19</sup>*

The IMF began its visit on 22 March, holding discussions with government officials on public debt, the budget and economic projections.<sup>20</sup> The discussions will not lead to any form of IMF lending programme, as the Angolan government had already cancelled talks linked to any lending arrangement.<sup>21</sup> IMF mission leader **Ricardo Velloso** indicated that the IMF discussed the government's public debt management strategy, the evolution of outstanding accounts; tax reform; measures to increase non-oil revenues; and bank regulation and supervision.<sup>22</sup> As part of their discussions the IMF team met with finance minister **Archer Mangureira**, economy minister **Abraão Gourgel**, **Banco Nacional de Angola (BNA)** (central bank) governor **Valter Filipe da Silva**, and representatives from state-owned **Sociedade Nacional de Combustíveis de Angola – Empresa Pública (Sonangol)**; **Instituto Nacional de Estatística (INE)** (national statistics institute); the **Fundo Soberano de Angola (FSDEA)** (Angola's sovereign wealth fund); **Administração Geral Tributária (AGT)** (tax administration); **Comissão do Mercado de Capitais (CMC)** (capital markets commission) and the business community.<sup>23</sup>

<sup>9</sup> Angola is expected to post a budget deficit of 5.8% of GDP this year, according to government forecasts.

<sup>10</sup> Multiple sources: eco.pt; Bloomberg, 6 Apr 2017.

<sup>11</sup> Eco.pt

<sup>12</sup> Bloomberg, 6 Apr 2017

<sup>13</sup> Bloomberg, 6 Apr 2017

<sup>14</sup> Eco.pt

<sup>15</sup> jornaldeangola.sapo.ao

<sup>16</sup> jornaldeangola.sapo.ao

<sup>17</sup> www.moody.com

<sup>18</sup> www.moody.com

<sup>19</sup> www.moody.com

<sup>20</sup> Angola Press, 23 Mar 2017.

<sup>21</sup> Angola Press, 23 Mar 2017.

<sup>22</sup> Angola Press, 23 Mar 2017.

<sup>23</sup> Angola Press, 23 Mar 2017.

The IMF delegation meetings were to prepare the annual mission under the IMF's Article IV consultations.<sup>24</sup> The latest mission of the IMF to Angola under Article IV took place in November 2016.<sup>25</sup> The IMF's Article IV provides for regular evaluation of the member states' economic policies and their compliance with stability strategies of the international monetary system.<sup>26</sup>

The recent visits of several ratings and lending institutions – the IMF, Moody's and Fitch – highlights minor pessimism about the Angolan economy in 2017. The institutions appear to agree on significant uncertainty and vulnerability of the Angolan economy, during a prolonged oil price slump. The 2017 presidential election also casts doubt on government economic policy for the medium term, even though a win for the ruling **Movimento Popular para a Libertação de Angola (MPLA)** candidate, **João Lourenço**, looks likely to extend current policies. The government will look to debt markets to meet its deficit.

### Cobalt may seek arbitration over Angolan oil assets

**United States (US)**-based **Cobalt International Energy Inc**, on 29 March, said it may seek arbitration related to state-owned oil and gas company Sonangol's 2016 decision not to grant an extension of Cobalt's exploration and development licence.<sup>27</sup> Cobalt said that uncertainty with regard to the licence extension made it difficult for the company to find a buyer for its 40% interest in blocks 20 and 21.<sup>28</sup> Arbitration will increase the level of uncertainty in Angola's oil and gas sector which is already struggling because of the continuing low international oil price environment.<sup>29</sup> According to Cobalt,

*"Given Sonangol's failure to date to grant the extensions ... on March 8 2017, Cobalt submitted a notice of dispute with Sonangol under the agreement. If Sonangol does not timely resolve the matter to Cobalt's satisfaction, Cobalt intends to move toward arbitration ... While Cobalt will continue to fulfill its obligations as operator of blocks 20 and 21, Cobalt does not plan to make any material investments in Angola until the matter is resolved to its satisfaction."*<sup>30</sup>

A deal to sell Cobalt's 40% interest in blocks 20 and 21 to Sonangol, which already held a 30% interest in both blocks, for \$1.75 billion collapsed in 2016.<sup>31</sup> Cobalt went on to try to find other buyers and expected Sonangol to extend its exploration and production deadlines in the production sharing agreements, but this failed to happen.<sup>32</sup> Hence, Cobalt said,

*"We may be unable to consummate the sale of our Angolan assets on favourable terms, or at all."*<sup>33</sup>

**United Kingdom (UK)**-based **BP Plc**, which also holds a 30% interest in the blocks, has declined to comment on the dispute between Cobalt and Sonangol.<sup>34</sup> If Cobalt does request arbitration, the case could take several years to solve, which will stall any potential development or sale of blocks 20 and 21.<sup>35</sup> However, Cobalt can quickly withdraw an arbitration request if a deal is reached privately with Sonangol.<sup>36</sup> Moreover, Cobalt could also seek protection under a bilateral investment treaty between **Germany** and Angola because its Angola assets were directly held through a German subsidiary.<sup>37</sup>

<sup>24</sup> Angola Press, 23 Mar 2017.

<sup>25</sup> Angola Press, 23 Mar 2017.

<sup>26</sup> Angola Press, 23 Mar 2017.

<sup>27</sup> Multiple sources: Reuters, 3 Apr 2017; www.dailymail.co.uk; www.360law.com

<sup>28</sup> Multiple sources: Reuters, 3 Apr 2017; www.dailymail.co.uk; www.360law.com

<sup>29</sup> Source, Angola analyst, United Kingdom.

<sup>30</sup> www.law360.com

<sup>31</sup> Reuters, 3 Apr 2017.

<sup>32</sup> Multiple sources: Reuters, 3 Apr 2017; www.dailymail.co.uk; www.360law.com

<sup>33</sup> Reuters, 3 Apr 2017.

<sup>34</sup> Multiple sources: Reuters, 3 Apr 2017; www.dailymail.co.uk; www.360law.com

<sup>35</sup> Reuters, 3 Apr 2017.

<sup>36</sup> Reuters, 3 Apr 2017.

<sup>37</sup> Reuters, 3 Apr 2017.

Cobalt is conducting an aggressive strategy in seeking to secure an extension of its oil licences, which could lead to a reversal of the decision, an exit from Cobalt and/or arbitration. The announcement presents a legal and reputational risk to Sonangol, which will seek to placate Cobalt in order to avoid further compounding media coverage. If Cobalt decides to both sell its stakes in the oil blocks, as well as arbitration (it is unclear where Cobalt will seek to contest Sonangol's decision), the negative effects for Sonangol and the Angolan economy could intensify.

### Central bank to select a few banks to receive 80% of foreign currency

Angolan media reported on 28 March that the BNA will select five or six commercial banks that will receive 80% of the foreign currency the BNA makes available in the primary market.<sup>38</sup> The BNA and finance ministry hope the expected measures will improve the operational framework of the currency market in Angola, which has struggled to maintain access and availability of foreign currency due to the continued low international oil prices.<sup>39</sup> According to Angolan media reports, the five or six commercial banks, out of a total of 28 operating in Angola that the BNA will choose, include: **Banco Angolano de Investimento; Banco BIC; Banco Económico; Banco Millennium Atlántico; Banco de Negocios Internacional** and **Banco Sol**.<sup>40</sup> The BNA and finance ministry have reportedly chosen the banks based on five criteria,

*"...the history of operations, internal control capacity, compliance with regard to money laundering and combating terrorism, and respect for the priorities set by the government and robustness and solidity."*<sup>41</sup>

The BNA will allow the remaining 22 commercial banks to access 20% of the foreign currency the BNA releases to the primary market, as opposed to the secondary market where banks buy and sell currencies to customers.<sup>42</sup>

**Da Silva**, on 3 April, said he hopes Angola's financial system will meet international standards to allow commercial banks to resume US dollar clearing services in 2018.<sup>43</sup> The resumption of US dollar clearing services will bring stability to Angola's foreign currency market.<sup>44</sup> International commercial banks operating in Angola suspended all US dollar clearing services in 2016 in response to inadequate supervisory safeguards that resulted in an enhanced the risk of financial crime and money laundering.<sup>45</sup> The BNA said it was more than half way through meeting international compliance criteria required for the resumption of US dollar clearing. Da Silva said the BNA is seeking technical assistance from the US government and the **US Federal Reserve** to help address the remaining issues.<sup>46</sup>

The BNA appears to be introducing restrictive measures in order to better control the supply of hard currency – crucial to buttress import reserves, especially in a period of external economic stress. The BNA is under immense pressure to help stabilise the Angolan economy and reduce the extremities of economic volatility. The current circumstances would seem to justify the BNA's measures.

### ...and maintains its benchmark interest rate

The monetary policy committee (MPC) of the BNA, during a meeting held on 31 March<sup>47</sup> – which was only publicly announced on 13 April – decided to maintain the basic BNA benchmark interest rate at

<sup>38</sup> www.macahub.com.mo

<sup>39</sup> www.macahub.com.mo

<sup>40</sup> www.macahub.com.mo

<sup>41</sup> www.macahub.com.mo

<sup>42</sup> www.macahub.com.mo

<sup>43</sup> Reuters, 4 Apr 2017.

<sup>44</sup> Reuters, 4 Apr 2017.

<sup>45</sup> Reuters, 4 Apr 2017.

<sup>46</sup> Reuters, 4 Apr 2017.

<sup>47</sup> www.macahub.com.mo

16% and maintain its liquidity lending facility rate at 20% per annum.<sup>48</sup> The BNA decided to maintain its benchmark rates because inflationary pressures have reportedly stabilised.<sup>49</sup> The BNA MPC said that,

*“In February 2017, the monthly inflation rate, measured by the consumer price index of the province of **Luanda**, published by the INE, was 2.59%, compared to 2.29% in January. Inflation in the last twelve months stood at 39.45%, down from 40.39% in the previous month, reflecting the slowdown in monthly inflation compared to the level registered in February 2016 of 3.28%.”<sup>50</sup>*

The BNA MPC also noted that the main cause of inflation during the period under analysis was due to seasonal and irregular factors including the payment of school fees and tuition.<sup>51</sup> The next BNA MPC meeting will take place on 28 April.<sup>52</sup>

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<sup>48</sup> [www.bna.ao](http://www.bna.ao)

<sup>49</sup> [www.bna.ao](http://www.bna.ao)

<sup>50</sup> [www.bna.ao](http://www.bna.ao)

<sup>51</sup> [www.bna.ao](http://www.bna.ao)

<sup>52</sup> [www.bna.ao](http://www.bna.ao)

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