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The Assembleia Nacional (lower parliamentary chamber) approves the 9.64 trillion kwanza (\$46.2 billion) budget for 2018. Finance minister Archer Mangureira says that the government will stop issuing dollar-denominated treasury bills and bonds. Ratings agency Moody's Investors Service places Angola's long-term issuer rating, currently at B2 (Not Prime (NP)), under review for downgrade. Non-state-owned media report that Banco Nacional de Angola (BNA) (central bank) governor José de Lima Massano is considering a full float of the kwanza, after devaluing the currency by an additional 11% against the dollar. The trial of former Angolan vice-president Manuel Vicente begins at the Tribunal da Relação de Lisboa (Lisbon court of appeal) in Portugal.

Parliament approves \$46.2 billion budget for 2018

The **Assembleia Nacional** (lower parliamentary chamber) approved the 9.64 trillion kwanza (\$46.2 billion) budget for 2018 on 14 February (see *ARC Briefing Angola January 2018* for full outline of draft budget).¹ Parliament revised the draft budget introduced in December, which totalled 9.69 trillion kwanzas (\$46.4 billion), downwards by 0.4%.² As the kwanza has devalued in the past two months, the dollar value of the government's 2018 budget decreased from \$58.4 billion in December to \$46.2 billion at time of writing.³ The level of debt payments as a share of the total budget remains approximately 50% but the government has changed the modalities of debt issuances (see below).⁴ The 2018 budget is predicated on GDP growth of 4.9%.⁵

Parliament approved the 2018 budget by 136 votes in favour (66.7%) to 50 against (24.5%) and 18 abstentions (8.8%).⁶ According to international press reports, all votes in favour of the motion were from the ruling **Movimento Popular de Libertação de Angola (MPLA)**.⁷ All members of parliament (MPs) from the main opposition **União Nacional para a Independência Total de Angola (UNITA)** voted against the motion, while all other minor parties including the **Convergência Ampla de Salvação de Angola — Coligação Eleitoral (CASA-CE)**, **Partido de Renovação Social (PRS)** and the **Frente Nacional de Libertação de Angola (FNLA)** abstained.⁸ MPLA parliamentary leader **Salomão Xirimimbi** said that he was disappointed with the lack of approval from the opposition,

*"Is the MPLA proud that it is alone in the approval of the budget? No. Our desire was that all those who participated could vote in favour, but politics does not say this. In any case I highlight... UNITA has not voted in favour of a budget since 1992."*⁹

The decreasing value of the kwanza in the past two months has made what the MPLA purported to be a socially minded budget a weak one. The spending promises made within the 2018 budget are therefore highly likely to be less effective in social terms. Government-led investment in the economic sector will also be hampered, at least until the government can stabilise the kwanza.

¹ Ministério das Finanças, 15 Feb 2018.

² Ministério das Finanças, 15 Feb 2018.

³ www.xe.com

⁴ Agência Lusa, 15 Feb 2018.

⁵ Ministério das Finanças, 15 Feb 2018.

⁶ Ministério das Finanças, 15 Feb 2018.

⁷ Agência Lusa, 14 Feb 2018.

⁸ Agência Lusa, 14 Feb 2018.

⁹ Agência Lusa, 14 Feb 2018.

Government to halt dollar-denominated treasury bills and bonds

As a result of the declining value of the kwanza (see below), finance minister **Archer Mangureira** said on 15 February that the government will stop issuing dollar-denominated treasury bills and bonds.¹⁰ The announcement was part of the measures introduced under the 2018 budget, but the government did not mention a timeframe.¹¹ Domestic debt issuances will be the single largest contributor to the budget (29.1%) after tax revenues (42.7%), and more than oil revenues (24.8%).¹² The decision to halt dollar-denominated treasury bills and bonds is therefore likely to have a negative effect on the state of the government's foreign currency reserves.¹³

Mangureira said that the main objective of the measure is to stabilise the kwanza's devaluation trend:

*"The objective is to alter the rising trajectory of the [kwanza]. We want [the kwanza] to no longer be concentrated in short-term instruments, namely treasury bills, which are instruments that the state issues on the market to get resources for a maturity of just a year, to allow for this debt to be paid in the long term, avoiding short-term pressure on the treasury."*¹⁴

Mangureira said that the government will seek to obtain yields of 7% per year for three-year maturities and 8.75% per year for 10-year maturities.¹⁵

*"The Angolan debt law says that the government cannot surpass 70% of GDP. And I don't know if any other country or institution would then be interested in lending to Angola except for the [International Monetary Fund] IMF... Honestly, I don't know if we have any guarantee of obtaining any sort of external [institutional] lending."*¹⁶

Moody's places Angola long-term issuer rating under review for downgrade

Ratings agency **Moody's Investors Service** placed Angola's long-term issuer rating, currently at **B2** (Not Prime (NP)), under review for downgrade on 7 February.¹⁷ Angola's government finances have continued to deteriorate, as non-concessional lending is becoming increasingly expensive to issue. Moody's said the decision to review for downgrade was informed by the government's worsening balance sheet and increase in gross borrowing requirements, when set against Moody's October 2017 estimates, after it downgraded Angola to B2.¹⁸ Moody's says that it will downgrade Angola's rating if it concludes that the government is unlikely to halt or reverse the deterioration of its fiscal strength and liquidity risk.¹⁹ Moody's also said that it could downgrade by more than one degree if it felt that government restructurings could lead to an event that it would consider a default.²⁰ As a result of Moody's announcement, government dollar-denominated bonds fell 1.5%, with 2025 maturing bonds trading at \$1.147 per dollar.²¹

Moody's mentioned several salient issues as evidence for its review for downgrade. These include the government's assumption of state-owned **Sociedade Nacional de Combustíveis de Angola EP's (Sonangol)** debt, a recognition of the level of debt arrears, and the depreciation of the kwanza (AOA) following the introduction of a more flexible exchange rate in January.²² For the duration of the review period (unspecified), Moody's will evaluate the government's commitment to tackle its levels of debt,

¹⁰ Agência Lusa, 15 Feb 2018.

¹¹ Agência Lusa, 15 Feb 2018.

¹² Ministério das Finanças, 15 Feb 2018.

¹³ Agência Lusa, 15 Feb 2018.

¹⁴ Agência Lusa, 15 Feb 2018.

¹⁵ Agência Lusa, 15 Feb 2018.

¹⁶ Source, journalist, Luanda.

¹⁷ Moody's Investors Service, 7 Feb 2018.

¹⁸ Moody's Investors Service, 7 Feb 2018.

¹⁹ Ministério das Finanças, 15 Dec 2017.

²⁰ Ministério das Finanças, 15 Dec 2017.

²¹ Reuters, 9 Feb 2018.

²² Moody's Investors Service, 7 Feb 2018.

including its plans to reduce domestic and external liquidity risks.²³ Moody's will also assess the government's ability to meet these fiscal consolidation targets, including the benefits of the more flexible exchange policy and implications of debt renegotiation.²⁴

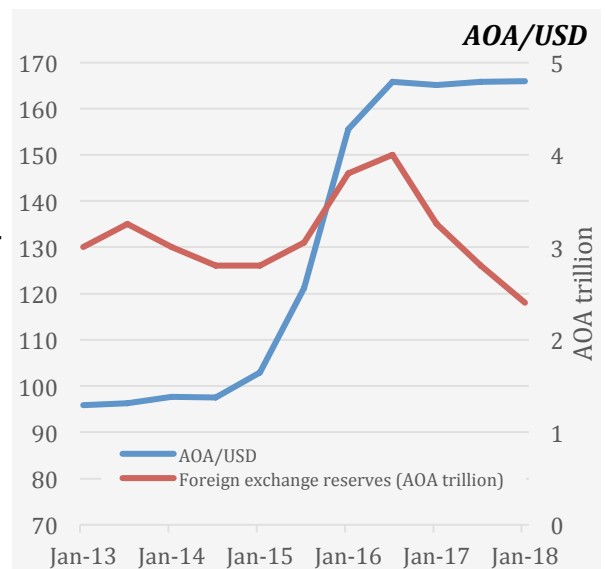
Moody's cited the following conditions as factors influencing the government's balance sheet and liquidity risks:²⁵

- Debt-to-GDP ratio: General government debt increase of 10 percentage points (1,000 basis points) from Moody's expected level of 60% of GDP that it set in October 2017. Moody's cites general government debt of \$74 billion (66% of GDP) at the end of 2017, which is expected to rise to 70% of GDP by the end of the first quarter of 2018;
- A 20% depreciation in the value of the kwanza since the beginning of 2018 against the US dollar (\$), which has led to high debt costs, as around 80% of government debt is denominated or linked to foreign currencies (especially the US dollar);
- An increase in the price of oil to "well above \$50/barrel"²⁶, which the government has budgeted for its 2018 budget;
- An expected increase in general government gross borrowing requirements to over 21% of GDP in 2018, "significantly higher than previously thought"²⁷, largely driven by maturing government treasury bills and bonds in addition to fiscal deficit 3% of GDP;
- Highly vulnerable debt servicing costs, due to likely further currency depreciation. Interest payment ratio (as share of total debt) reached 21% in 2017, up from 16% in 2016, which Moody's expects to rise further in 2018;
- A likely increase in domestic yields, as the kwanza devaluation is likely to push inflation higher than its current rate of 25%;

With the weak kwanza environment, Angola is at risk of its credit rating dropping further. It appears likely that things will get worse before they get better.

Central bank governor reportedly considers full kwanza float ...

According to Angolan non-state-owned press reports on 22 January, **Banco Nacional de Angola (BNA)** (central bank) governor **José de Lima Massano** is considering a full float of the kwanza.²⁸ Introducing a flexible exchange rate would be a significant economic policy change for Angola, which has maintained a fixed BNA-determined exchange rate for over a decade. The BNA at the beginning of January scrapped a currency peg to the dollar because of falling foreign reserves (see *ARC Briefing Angola January 2018*). The removal of the currency peg allows the kwanza to float within a certain range, which the BNA has not disclosed.²⁹ Massano said that the government will review the impact of the removal of the currency peg at the end of a three-month period (presumably at the beginning of April), after which the BNA will decide whether the adoption of a



²³ Moody's Investors Service, 7 Feb 2018.

²⁴ Moody's Investors Service, 7 Feb 2018.

²⁵ Moody's Investors Service, 7 Feb 2018.

²⁶ Moody's Investors Service, 7 Feb 2018.

²⁷ Ministério das Finanças, 15 Dec 2017.

²⁸ O País, 22 Jan 2018.

²⁹ Reuters, 22 Jan 2018.

fully flexible, market-determined kwanza exchange rate is suitable.³⁰

The BNA devalued the kwanza (AOA) by an additional 11% against the dollar on 16 January, the second devaluation after the BNA removed the peg against the dollar on 4 January.³¹ Since then, the kwanza has dropped around 20% against the dollar, from 165 kwanza per dollar to above 200 kwanza per dollar.³² Parallel market rates have reportedly seen the kwanza drop to 445 kwanza per dollar.³³ In the first week after scrapping the peg, the kwanza depreciated close to 10%.³⁴

Some commentators have questioned the BNA's motives in allowing the kwanza's value to drop, claiming the central bank will restore a peg as soon as government finances permit it. However, other analysts view it as the BNA's genuine intent to let the market normalise the kwanza's value,

*"The signal is quite strong from the Angolans that they're willing to do the right thing... Not many people expected the central bank to be as aggressive as it has been... It isn't clear how far they're going to go with the devaluation... The budget suggested that they'd allow the currency to fall around 30%, but it assumes an oil price of \$50 a barrel. It's much higher than that now."*³⁵

Massano also announced on 23 January that the BNA will introduce a new set of rules for BNA foreign currency auctions with commercial banks.³⁶ Massano said that the BNA will seek to ensure that commercial banks respect a margin of no more than 2% above or below foreign exchange rates.³⁷ The margin is a reduction from a previous rate of $\pm 3\%$ on foreign exchange auctions.³⁸ Massano said that the measure would ensure that there are no significant variations among commercial banks from the market rate and among the banks' clients.³⁹

The BNA's decision to remove the kwanza's peg to the dollar has affected the government's ability to borrow money and foreign currency reserves and increased the cost of imported goods. Even though international creditors and businesses will support a move towards floating the kwanza, the negative repercussions on government finances are untimely due to a slow recovery in the oil price environment. The increased cost of hard currency may put the government under greater pressure to issue hard currency-denominated debt, or seek credit from organisations such as the IMF.

Manuel Vicente trial begins in Portugal

The trial of former Angolan vice-president **Manuel Vicente** at the **Tribunal da Relação de Lisboa** (Lisbon court of appeal) in **Portugal** began on 22 January.⁴⁰ The Lisbon court of appeal will rule on allegations of corruption, money-laundering and forgery. If Vicente is found guilty, it could spur further indictments against members of former President **José Eduardo dos Santos'** (1979-2017) administration. Portuguese authorities reportedly informed Vicente of the indictment in February 2017, after the Portuguese **Procuradoria Geral da República (PGR)** (public prosecutor's office) made the allegations as part of its **Operação Fizz** anti-corruption and money-laundering initiative.⁴¹ The PGR alleged that Vicente bribed Portuguese magistrate **Orlando Figueira** €763,500 (\$937,700) to drop two money-laundering investigations that were made against him in 2012.⁴²

³⁰ O País, 22 Jan 2018.

³¹ Bloomberg, 16 Jan 2018.

³² Bloomberg, 16 Jan 2018.

³³ Bloomberg, 16 Jan 2018.

³⁴ Bloomberg, 16 Jan 2018.

³⁵ Bloomberg, 16 Jan 2018.

³⁶ Novo Jornal, 23 Jan 2018.

³⁷ Novo Jornal, 23 Jan 2018.

³⁸ Novo Jornal, 23 Jan 2018.

³⁹ Novo Jornal, 23 Jan 2018.

⁴⁰ Xinhua, 23 Jan 2018.

⁴¹ Xinhua, 23 Jan 2018.

⁴² Source, Angola analyst, UK

Vicente failed to attend the initial trial on 22 January, as his lawyer, **Rui Patricio**, told Portuguese press that he believes that Vicente continues to have immunity from prosecution due to his past role as vice-president.⁴³ It is unclear whether Vicente could be offered an opportunity to pay a fine in order to have the PGR drop charges, as has been the case for many businessmen indicated for tax fraud and money laundering under Operação Fizz.⁴⁴ Vicente was viewed as a possible successor to dos Santos in the lead-up to the 2017 parliamentary and presidential elections. However, he lost his influence in the ruling MPLA mainly due to corruption allegations against him.⁴⁵ Despite a perception that the indictment of Vicente has tarnished relations between Angola and Portugal, Angola's foreign minister, **Manuel Augusto**, said that the trial of Vicente will not harm this bond,

"We hope and believe in a favourable outcome for that which is our understanding of this case. I don't have the certainty that the judgment will even take place, but in any case, it is Portugal's internal problem, the Portuguese judiciary's problem. With what concerns us, we continue to believe that the Portuguese authorities, and principally the judicial authorities, will end up understanding our reason... These are important relations for us. The relationship with Portugal is unique, they are singular, a relationship that must not be substituted."⁴⁶

President Lourenço was more ambiguous about the Vicente trial, criticising the Portuguese government's refusal to transfer any procedural documents to Angolan judicial authorities, thereby preventing a trial in Angola,

"We are not asking that [Vicente] be absolved, that the process be archived. We are not lawyers, we don't have the competency to say if [Vicente] committed or did not commit the crime of which he is accused. Let this be very clear... Unfortunately, [Portugal] did not satisfy our request [to try Vicente in Angola], alleging that it did not trust the Angolan judiciary. We consider this an offense, we do not accept this treatment and for this reason we maintain our position."⁴⁷

Local investigative journalists believe it is unlikely that Vicente be indicted in Angola,

*"It's not believable that the Vicente trial be transferred to **Luanda**. But I seriously believe that this process will remain archived. This is because of Angola's business interests in Portugal... Vicente, whilst chair of Sonangol, knew very well who profited illegally through Sonangol. Therefore, a trial against Vicente could jeopardise many others of the former dos Santos regime."⁴⁸*

The general prosecutor of the PGR, **Joana Marques Vidal**, had said that the Portuguese government did not have confidence that the Angolan authorities would pursue the allegations, and did not provide a guarantee that they would do so.⁴⁹ However, Angolan authorities claim that the refusal to share this information violates bilateral and multilateral agreements under membership of the **Comunidade de Países de Língua Portuguesa (CPLP)** (community of lusophone countries).⁵⁰ There is reportedly the possibility that Angolan authorities could apply political or commercial sanctions against Portugal, as a result of the Vicente indictment and refusal to share the procedural documents.⁵¹ Portuguese press reports claim that Angolan authorities could respond with a prohibition on Portuguese companies applying for public tendering processes in Angola, complicating capital repatriation of Portuguese companies operating in Angola, or imposing limits on banking activity for Portuguese-derived capital transactions.⁵²

⁴³ Associated Press, 22 Jan 2018.

⁴⁴ Xinhua, 23 Jan 2018.

⁴⁵ Source, Angola analyst, United Kingdom

⁴⁶ Agência Lusa, 22 Jan 2018.

⁴⁷ Agência Lusa, 22 Jan 2018.

⁴⁸ Source, journalist, Luanda.

⁴⁹ Le Monde, 22 Jan 2018.

⁵⁰ Jornal Económico, 16 Jan 2018.

⁵¹ Jornal Económico, 16 Jan 2018.

⁵² Jornal Económico, 16 Jan 2018.

The Lisbon court of appeal issued an arrest warrant against Vicente on 2 February.⁵³ The arrest warrant was reportedly only valid until 5 February and would be employed solely to ensure that Vicente is notified of the beginning of a trial.⁵⁴ The court issued the arrest warrant after the **Polícia de Segurança Pública (PSP)** (civil police force) had notified it that Vicente may travel to Portugal over the weekend of 3-4 February.⁵⁵ Patrício said that the PSP's belief that Vicente would travel to Portugal was based on "false information".⁵⁶ Local media reported on 4 February that Vicente was in **Saõ Tomé and Príncipe** over the weekend, before returning to Angola.⁵⁷ This meant Vicente did not receive notification of the trial, which is likely to delay court proceedings.⁵⁸ It is unclear how the trial will proceed or which steps the Portuguese court or PGR could take if Vicente fails to acknowledge the trial.

Vicente has employed all means available to him to stall the court proceedings. It is unclear how much the MPLA or Lourenço will aid Vicente in contesting the trial against him in Portugal. Although Lourenço may want to distance himself from the corrupt reputation of the dos Santos regime, it appears unlikely that he would support Vicente's extradition to face trial.

Planner

Jul 2018 **Luanda (Angola)** *Press Release*. The **Feira Internacional de Angola** (international fair of Luanda) begins;

14 Jun 2018 **Luanda (Angola)** *Press Release*. The **Africa Oil & Gas Local Content Conference & Exhibition** conference begins;

Chronology

19 Feb 2018 **Luanda (Angola)** *Agência Lusa*. President **João Lourenço** announces that Angola will prepare its legal framework to hold its first local elections before general elections in 2022;

15 Feb 2018 **Luanda (Angola)** *Agência Lusa*. Finance minister **Archer Mangureira** announces that the government will no longer issue dollar-denominated treasury bills and bonds, in order to contain the devaluation of the kwanza;

14 Feb 2018 **Luanda (Angola)** *Angop*. Hungary's foreign and trade minister **Péter Szijárto** announces that Hungary will provide \$172m in projects in agriculture and energy, as well as a credit line;

14 Feb 2018 **Luanda (Angola)** *Angop*. The **Assembleia Nacional** (lower parliamentary chamber) approves a \$45.7 billion budget for 2018;

14 Feb 2018 **(Angola, Congo, DRC)** *Radio Okapi*. Presidents **Joseph Kabila** of DRC, **Denis Sassou Nguesso** of Congo and **João Lourenço** of Angola meet in **Kinshasa**;

14 Feb 2018 **Luanda (Angola)** *Reuters*. Finance minister **Archer Mangureira** announces that the government has appointed **United States**-based **Goldman Sachs Group Inc**, **Germany**-based **Deutsche Bank AG** and **China**-based **ICBC Ltd** to arrange a \$2 billion **Eurobond**;

9 Feb 2018 **Luanda (Angola)** *Agência Lusa*. **Brazilian** foreign minister **Aloysio Nunes** announces that **Brazil** will provide €1.6 billion (\$1.96 billion) in funding to fund "trade relations and promote investment between the two countries";

9 Feb 2018 **Luanda (Angola)** *Reuters*. Presidency oil secretary **Paulino Jeronimo** says that natural gas legislation for exploration and production are "in its final stages";

⁵³ Agência Lusa, 4 Feb 2018.

⁵⁴ Agência Lusa, 4 Feb 2018.

⁵⁵ Agência Lusa, 4 Feb 2018.

⁵⁶ Agência Lusa, 4 Feb 2018.

⁵⁷ Agência Lusa, 4 Feb 2018.

⁵⁸ Agência Lusa, 4 Feb 2018.

2 Feb 2018 **(Angola)** *Agência Lusa*. The **Tribunal da Relação de Lisboa** (Lisbon court of appeal) in **Portugal** issued an arrest warrant against former vice president **Manuel Vicente**, to ensure that Vicente is notified of the beginning of a trial into allegations of corruption, money-laundering and forgery;

1 Feb 2018 **Luanda (Angola)** *Press Release*. State-owned oil and gas company **Sonangol** announces that it has received more than 60 proposals for the construction of oil refineries in **Cabinda** and **Lobito**;

31 Jan 2018 **Luanda (Angola)** *Agência Lusa*. State-owned oil and gas company **Sonangol** subsidiary **Sonangol Logística** closes a tender for petrol, diesel and marine gas oil supply;

24 Jan 2018 **Luanda (Angola)** *Agência Lusa*. The **Procuradoria-Geral da República de Angola** (state prosecutor's office) announces that Angolan authorities could put former vice president Manuel Vicente on trial in Angola only five years after the end of his mandate, or not before 2022;

23 Jan 2018 **(Angola)** *Press Release*. **International Monetary Fund** managing director **Christine Lagarde** meets with President **João Lourenço** at the **World Economic Forum** in **Davos (Switzerland)**;

22 Jan 2018 **Luanda (Angola)** *O País*. The **Banco Nacional de Angola** (central bank) governor **José de Lima Massano** reportedly may begin a process of fully floating the kwanza in the next three months;

22 Jan 2018 **(Angola)** *Reuters*. **Russia-based VTB Bank PJSC** CEO **Andrey Kostin** says that VTB is in talks with the Angolan government to alter the terms of a \$1.5 billion loan, including an extension;

22 Jan 2018 **(Angola)** *Diário de Notícias*. Former Vice President **Manuel Vicente** fails to appear before the **Tribunal da Relação de Lisboa** (Lisbon court of appeal) in relation to the **Portuguese** government's **Operação Fizz** anti-corruption operation;

20 Jan 2018 **(Angola)** *Agência Lusa*. According to a presidential diplomatic service report cited in **Portuguese** press reports, Angola will close nine embassies and 18 consulates, including in **Lisbon, Faro** (Portugal) and **Macau**;

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