

## AFRICA RISK CONSULTING

### Angola Monthly Briefing January 2019

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#### Angola Summary 18 January 2019

*Economic matters dominate in Angola. International Monetary Fund (IMF) managing director Christine Lagarde visits Angola to finalise the \$3.7 billion loan from the IMF for macro-economic stabilisation. China agrees a \$10 billion investment package. Organisation of Petroleum Exporting Countries (OPEC) members, including Angola, agree to reduce production. State-owned gas company Sociedade Nacional de Combustíveis de Angola, EP (Sonangol EP) discloses it will pay no dividends for the 2017 financial year, although new agreements betoken expansion. Diamond sector reforms and sales promise increased revenues this year.*

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#### IMF approves largest-ever loan in sub-Saharan Africa to Angola

International Monetary Fund (IMF) managing director **Christine Lagarde** visited **Angola** between 20-21 December to finalise a \$3.7 billion loan that the IMF granted Angola in early December. For Angola's government, the three-year IMF agreement will add credibility to its programme of reforms, and provide much needed financing and technical support for implementing them. The loan is the highest ever granted to a country in **sub-Saharan Africa** by the IMF, Lagarde said in Angola's capital, **Luanda**.<sup>1</sup> The IMF has been at pains to stress its support for economic changes in Angola and President **João Lourenço's** (2017- present) policies. Lagarde said the key point of the IMF loan was

*"... to support the government's Macroeconomic Stabilisation Programme and National Development Plan for 2018-22... by providing substantial resources and policy advice, coupled with technical assistance. With this programme, the authorities aim at resuming sustainable economic growth, and improving the social conditions for all in Angola."*<sup>2</sup>

Lagarde noted that economic diversification away from oil is central to the success of the government's development strategy.<sup>3</sup> Key reforms in this area include improving the business climate, fostering competition in domestic markets, curbing monopolies, and levelling the playing field for foreign direct investment.<sup>4</sup> Lagarde acknowledged that the government is rightly focused on growth-friendly fiscal consolidation, greater exchange rate flexibility, and structural reforms to boost productivity:

*"In this context, I commended the Government for their determined efforts to reduce the large budget deficit and the **Banco Nacional de Angola [BNA]** [central bank] for an orderly transition to a more flexible exchange rate regime. Progress on domestic revenue mobilisation will also be important to help keep government debt on a sustainable path."*<sup>5</sup>

While the emphasis on reducing deficits and structural reforms is normal for the IMF, Lagarde recognised Angola's potential political fragility if conditions for the majority worsen as a result of the IMF programme:

*"Much remains to be done to reduce the economy's dependence on oil and its vulnerability to oil price fluctuations so that enough resources can be made available to improve living standards*

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<sup>1</sup> IMF Statement by Christine Lagarde, 26 Dec 2018.

<sup>2</sup> IMF Statement by Christine Lagarde, 26 Dec 2018.

<sup>3</sup> IMF Statement by Christine Lagarde, 26 Dec 2018.

<sup>4</sup> IMF Statement by Christine Lagarde, 26 Dec 2018.

<sup>5</sup> IMF Statement by Christine Lagarde, 26 Dec 2018.

*for all the Angolan people. Just as important is developing a social safety net to protect the most vulnerable and to generate equal opportunities across Angolan society.”<sup>6</sup>*

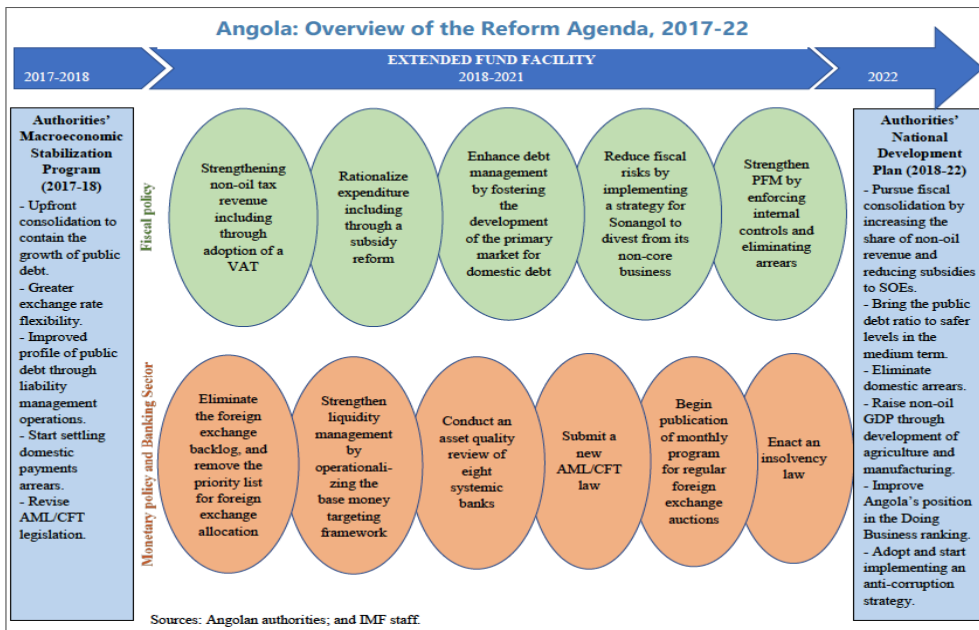
The IMF couches its perceived risks to the programme in more general terms. These include a sharp decline in oil prices; a tightening of global financial conditions; shocks to public debt from banking sector support; potential negative side effects from foreign exchange regime liberalisation and lifting of exchange restrictions; and capacity constraints.<sup>7</sup> The IMF’s programme for Angola attempts to mitigate these risks.<sup>8</sup>

The IMF expressed concerns about the size of Angola’s external debt during negotiations. The IMF wants to see a reversal of debt-to-GDP ratios from the current 80% to 65% of GDP.<sup>9</sup> However, **China**, Angola’s largest creditor at \$23 billion, has made strong statements of political and economic support for Angola in recent weeks, following the IMF agreement. **Li Bin**, the minister-counsellor of the Chinese embassy in Angola, said on 10 January:

*“Chinese investors have available \$10 billion to invest in the fields of industry, agriculture and scientific research. China is experiencing a momentum in bilateral relations with Angola, which has led the Angolan President, João Lourenço, to visit the country twice in 2018.”<sup>10</sup>*

China’s ambassador to Angola, **Cui Amin**, reiterated that China will increase investment in Angola in 2019, mainly in the areas of finance and infrastructure construction. <sup>11</sup>

As the graphic below shows, the macro-economic reform agenda and national development plan that the IMF is backing is extensive and prioritises bringing the national debt under control through consolidation and increasing non-oil revenues.



The IMF, in giving the largest loan in sub-Saharan Africa, has demonstrated that it thinks the new policies will work. While the perceived level of risk is real, perhaps the greatest risk is from the

<sup>6</sup> IMF Statement by Christine Lagarde, 26 Dec 2018.

<sup>7</sup> IMF statement, 18 Dec 2018

<sup>8</sup> IMF statement, 18 Dec 2018

<sup>9</sup> IMF statement, 8 Dec 2018

<sup>10</sup> Angop, 10 Jan 2019

<sup>11</sup> Angop, 11 Jan 2019

heavy burden of government indebtedness but Chinese support to Angola remains strong, which is likely to reassure markets and potential investors.

### Oil continues to play central role in Angola's economy

Angola, along with other **Organisation of Petroleum Exporting Countries (OPEC)** members, has implemented a further cut of 3.02% for each member in production quotas from the beginning of January,<sup>12</sup> further reducing Angola's already strained oil production, and potentially impacting on Angola's budget if the cut continues. The new quota reduction will last until June 2019.<sup>13</sup> The OPEC production cut follows oil price falls in November and December.<sup>14</sup> Angola exported approximately 1.47 million barrels a day in 2018,<sup>15</sup> less than its OPEC quota of 1.637 million barrels. An ARC oil source in Luanda said the new quota reduction will have relatively little impact on the position of state-owned gas company **Sociedade Nacional de Combustíveis de Angola, EP (Sonangol EP)** in the very short term:

*"Oil production decreased during 2018, due to lack of investment in exploration and aging oil fields, leading to reduced government revenues from the sector. Oil exports in 2018 were lower than in 2017."*

Of more importance to Angola is the price per barrel of oil, which underpins Angola's 2019 budget. Sonangol president **Carlos Saturnino** said:

*"A desirable oil price in 2019 would be between \$60 and \$70 per barrel but no oil company would have losses if the price were \$61 per barrel."*<sup>16</sup>

Despite the tightening of quotas, Sonangol's profits have improved, principally as a result of recent oil price rises. Sonangol published its 2017 annual report and accounts at the end of December 2018, and posted a net income of \$79,604,740 (AOA 24.7 billion) for 2017, nearly double the 2016 profits of \$42,864,091 (AOA 13.3 billion).<sup>17</sup> The increased profit was mainly due to an increase in oil prices during 2017. However, Sonangol will not pay dividends to the Angolan state, due to losses in previous years.<sup>18</sup>

Angola has plans to increase investment and production in the longer term. In late December, Sonangol signed two new agreements with two oil companies, **France-based Total SA** and **United Kingdom (UK)-based BP Plc**, and finalised the purchase of two new drill ships. Total and Sonangol have now established new a joint venture company to develop petroleum related retail and distribution activity for domestic and commercial use in Angola, which is the fourth largest market in sub-Saharan Africa, following Angola's liberalisation of domestic fuel supply last year.<sup>19</sup> The Total-Sonangol joint venture will focus on fuel distribution and lubricants sales, starting with a network of Sonangol's 45 service stations, which will trade under the Total brand. The joint venture will also address petroleum products logistics and supply, including import and primary storage of refined products.<sup>20</sup>

Expansion in oil production will result from Sonangol's new production agreements with BP. The first is an agreement to extend the production licence for the BP-operated **Greater Plutonio** project on oil block 18, to 2032. Sonangol will take an 8% interest in the block. The second is to reach a final investment decision in late 2019 concerning the development of the **Platina** field in deepwater Block 18. First oil is expected in late 2021 or early 2022, if the investment proceeds. BP and Sonangol signed

<sup>12</sup> Macau Hub, 2 Jan 2019

<sup>13</sup> Macau Hub, 2 Jan 2019

<sup>14</sup> Macau Hub, 2 Jan 2019

<sup>15</sup> MINFIN Angola, 18 Jan 2019

<sup>16</sup> Macau Hub, 2 Jan 2019

<sup>17</sup> SONANGOL Annual Report 2017, 28 Dec 2018

<sup>18</sup> SONANGOL Annual Report 2017, 28 Dec 2018

<sup>19</sup> TOTAL Press release, 21 Dec 2018

<sup>20</sup> TOTAL Press release, 21 Dec 2018

two further memoranda of understanding (MOUs) regarding potential exploration offshore and co-operation in a planned new products and crude terminal and storage facility in Angola.<sup>21</sup> Saturnino said:

*“These agreements are a positive sign of the work being done by Sonangol and the Angolan government to generate more investment in our oil industry and take us a big step closer toward increasing production from Block 18.”<sup>22</sup>*

South Korea-based **Daewoo Shipbuilding and Marine Engineering (DSME)** will deliver two long-delayed drill ships to Sonangol in January and March 2019, also indicating an increase in oil exploration and production. DSME was to deliver the ships in 2015 but Sonangol was unable to pay for the ships, following the oil-price shock. The drill ships cost \$530m each.<sup>23</sup>

Although Sonangol’s immediate outlook continues to be difficult, its regeneration plan and the sale of non-core assets aim to reduce costs and focus on increasing production and distribution. The new production agreements with BP, and last year’s with Total, as well as the current distribution agreements show an intent to expand, once OPEC quotas are increased. Oil dependence in Angola has led to the state urgently developing alternative sources of revenue to replace the decreasing returns from oil.

### Angola’s diamond industry to expand sales and mining

Angola’s new diamond sales system is beginning to take effect this month, with competitive tender sales of the exceptional **Lulo** mine production at the end of January,<sup>24</sup> and the opening of **Sociedade de Comercialização de Diamantes de Angola (Sodiam)**’s sales office in **Antwerp (Belgium)**.<sup>25</sup> A senior diamond industry source in Antwerp told ARC that Sodiam in both Luanda and Antwerp is looking to competitive tenders as the most transparent means of selling diamonds, in addition to having regular clients with contracts:

*“Sodiam’s Antwerp office will work with clients who don’t want to travel to Luanda, as well as supplying Antwerp’s major rough diamond market. Prior to the new diamond sales law, the majority of Angola’s diamond production was sold to companies controlled by **Isabel dos Santos** for a considerable period, and so the new sales methods are important for testing market prices and improving Angola’s diamond revenues.”*

In Luanda, Sodiam organised the sale of diamonds from the **Lucapa Diamond Company**’s Lulo mine, including a very rare 46-carat pink diamond and six top-colour Type IIa white gems ranging from 114 carats to 43 carats.<sup>26</sup> The Lulo mine has a history of producing exceptional stones, with nine 100+ carat diamonds recovered, including the largest Angolan diamond recorded, at 404 carat, in 2016.<sup>27</sup> Lucapa supports the new sales system, and is prepared to sell through Sodiam. Lucapa managing director **Stephen Wetherall** said in November,

*“The new diamond marketing legislation represented a significant and positive step for the Angolan diamond sector.”<sup>28</sup>*

In addition to the new sales systems, diamond mining is expected to increase. State diamond mining company **Empresa Nacional de Prospecção, Exploração, Lapidação e Comercialização de Diamantes de Angola (Endiama)** and Sodiam will open a new diamond industry hub in **Saurimo (Lunda Sul Province)**, to support two major kimberlite mines, **Catoca**, and the major new **Luaxe**

<sup>21</sup> BP press release, 17 Dec 2018

<sup>22</sup> BP press release, 17 Dec 2018

<sup>23</sup> Korea JoongAng Daily, 27 Dec 2018

<sup>24</sup> IDEX Online, 14 Jan 2019

<sup>25</sup> ARC industry source

<sup>26</sup> IDEX Online, 14 Jan 2019

<sup>27</sup> Lucapa Diamond Company press release, 8 Jan 2018

<sup>28</sup> IDEX Online, 16 Nov 2018

kimberlite mine, 25 km from Catoca mine, as well as other smaller mining companies in the region, of which Lucapa's Lulo mine is the most important.<sup>29</sup> Luaxe is thought to have reserves of 350 million carats and a mining lifespan of 30 years, with the potential to produce over 10 million carats annually for an estimated value of \$35 billion.<sup>30</sup> Natural resources minister **Diamantino Azevedo** said that setting up the hub is in its final phase:

*"The hub project includes a diamond cutting and polishing factory, a professional technical school and other institutions and industries linked to the diamond business."*<sup>31</sup>

Increase in Angola's diamond production is not dependent solely on new investment. Lucapa's Wetherall announced that prospecting along the **Caculo River** valley has resulted in the discovery of a new alluvial source of large and premium-value diamonds at the Lulo diamond project:<sup>32</sup>

*"To date, the diamonds mined from Lulo – the world's highest average US\$ per carat from alluvial production – have been sourced predominantly from the terrace deposits along the Caculo River valley. The positive results from the first of these flood plain areas demonstrates the potential to open additional and expansive new mining areas at Lulo."*<sup>33</sup>

Endiama CEO **José Manuel Augusto Ganga Júnior** says diamond production in 2018 was 9.2 million carats; production was stimulated by the new sales policy that allows mining companies to sell 60% of their rough diamonds.<sup>34</sup> **Ganga Júnior** expects a turnover of \$ 1.3 billion, increasing to \$2.1 billion by 2022, once the new kimberlite is in production.<sup>35</sup>

*"We have been among the five biggest producers of diamonds in the world [for decades] and we believe that we will reach the top three spot, in 2021."*<sup>36</sup>

Diamonds are Angola's second largest export, and increasing production will undoubtedly make Angola the third largest producer after **Russia** and **Botswana** within two to three years, without seeking additional investment. New revenues from Luaxe and Lulo will ensure this, provided nothing goes seriously amiss. The new sales system in addition to increasing current diamond revenues should aid in promoting mining investment in diamonds and across the considerable range of Angola's minerals, increasing their importance to state revenues.

## Planner

Early 2019: **Angola** National assembly to pass law covering foreign nationals resident in Angola, following **Conselho de Ministros** (council of ministers) approval of a new national migratory policy;

2019 **Saurimo (Angola)** New diamond hub will open, comprising a diamond cutting and polishing factory, a professional technical training school and supporting institutions and industries;

2019 **Angola** Sell-off of **Sonangol** assets continues until end of 2019.

2019 **Luanda (Angola)** Trials of **Jose Filomeno dos Santos**, **Jean Claude Bastos de Morais** and other high-ranking ex-officials variously charged with defrauding the state, embezzlement or theft, will take place during the year. No trial dates are known as yet.

June 2019: Expected completion date for transfer of **Sonangol's** contracts, concessions and relations with international oil companies to the **Agência Nacional de Petróleo e Gás (ANGP)** (national petrol

<sup>29</sup> Jornal de Angola, 16 Jan 2019

<sup>30</sup> The Diamond Loupe, 24 May 2017

<sup>31</sup> Macau Hub, 28 Dec 2018

<sup>32</sup> IDEX Online, 16 Nov 2018

<sup>33</sup> IDEX Online, 16 Nov 2018

<sup>34</sup> Jornal de Angola, 16 Jan 2019

<sup>35</sup> Jornal de Angola, 16 Jan 2019

<sup>36</sup> Jornal de Angola, 16 Jan 2019

and gas agency);

June 2019: **Luanda (Angola)** New oil bidding round expected to be opened.

2020 **Luaxe (Angola)** Kimberlite mine, managed by **Russia**-based **Alrosa**, begins production.

2020: **Angola** First local and municipal elections to be held;

2021: **Angola** National elections;

2022: **Angola** End date for **Banco Poupanca e Credito's** recovery plan.

## Chronology

16 Jan 2019 **Luanda (Angola)** *Angop*. **Serviço de Migração e Estrangeiros (SME)** (immigration and foreigners service) confirms 1,427 immigrants were repatriated during January, with 333 foreign nationals detained for assisting illegal immigration;

13 Jan 2019 **Abu Dhabi (United Arab Emirates)** *Angop*. President **João Lourenço** arrives in Abu Dhabi to attend an **International Summit on Sustainable Development**;

11 Jan 2019 **Luanda (Angola)** *Angop* **China's** ambassador to Angola, **Cui Amin**, reiterates that China will increase investment in Angola in 2019, mainly in the areas of finance and infrastructure construction;

10 Jan 2019 **Brussels (Belgium)** *Angop*. The **European Union** makes available €65m (\$74.9m) to support the **Reinforcement, Resilience and Nutritional Food Security Programme (FRESAN)** in the southern region of Angola, with €24.6m (\$28.04m) to be channelled to the subsidisation of agricultural and nutritional projects;

10 Jan 2019 **Luanda (Angola)** *Angop*. The body of **Jonas Savimbi**, leader of opposition **União Nacional para a Independência Total de Angola (UNITA)** from 1963-2002, will be exhumed and given a "dignified" reburial;

10 Jan 2019 **Luanda (Angola)** *Angop*. Vice president of the ruling **Movimento Popular de Libertação de Angola (MPLA)**, **Luísa Damião**, says that the 2020 local elections will present political challenges for the party;

9 Jan 2019 **Luanda (Angola)** *Angop*. 'Operation Transparency', set up to combat illicit diamond mining and illegal immigration, enters its third phase, focusing on Angola's maritime perimeter but excluding **Cabinda** for the present;

9 Jan 2019 **Luanda (Angola)** *Angop*. New bill on Juridical Regime for Foreigners in Angola is presented to the national assembly. The bill includes a visa for investors, which permits a stay of up to two years and multiple entry into Angola;

9 Jan 2019 **Luanda (Angola)** *Jornal de Negocios* The board of directors of the **Transporte Colectivo Urbano de Luanda (TCU UE)** (Luanda municipal transportation council), **Abel António Cosme**, is said to have 'disappeared' from Angola after being indicted for misappropriation of funds in October;

9 Jan 2019 **Malange (Angola)** *Angop*. The presiding judge of the Provincial Court of the north-central **Malanje Province**, **Félix Sebastião**, says that magistrates investigating cases of corruption, nepotism and influence peddling are being harassed and threatened, and asks for measures to improve their safety;

8 Jan 2019 **Luanda (Angola)** *Angop*. **DRC-based Webcor** group, headed by **Wissam Nesr**, acquires **Lactiangol**, Angola's main dairy producer, in a deal valued at \$30m;

8 Jan 2019 **Luanda (Angola)** *CL Brief*. **Banco Nacional de Angola (BNA)** (central bank)

revokes the licences of **Banco Mais** and **Banco Postal**, which will be liquidated after failing to meet the BNA's new capital requirements;

3 Jan 2019 **Luanda (Angola)** *Angop* President **João Lourenço** sacks the provincial governors of **Luanda**, **Cuanza Norte** and **Cuanza Sul**, the ministers of Fisheries and Sea and of Social Action and Promotion of Women, the Secretary of State for Agriculture and Farming, and the Vice-Principal for Scientific and Post-Graduation Department of **Agostinho Neto University**;

28 Dec 2018 **Luanda (Angola)** *Angop*. Mandatory pension payments by companies and workers through salary deduction are introduced;

28 Dec 2018 **New York (United States)** *UN Chronicle of the Week*. **Isabel dos Santos** gives speech to **United Nations** on the economic empowerment of **African** women as a key to transforming society;

19 Dec 2018 **Vienna (Austria)** *Angop*. **Angolan** vice-president **Bornito de Sousa** requests aid from **European** countries in repatriating illegally acquired capital placed abroad, emphasising that European co-operation is vital to asset recovery;

19 Dec 2018 **Paris (France)** *Angop* The **Angolan** government and the **United Nations Educational, Scientific and Cultural Organization (UNESCO)** sign an agreement for holding a **Pan-African Forum for the Culture of Peace in Africa** in September 2019 during the biennial of **Luanda**;

13 Dec 2018 **Brussels (Belgium)** *Angop*. The **European Union (EU)** makes €2m (\$2.27m) available for the training of **Angolan** entrepreneurs who want to export goods to the EU market, to aid economic diversification;

13 Dec 2018 **Cairo (Egypt)** *Angop* Co-operation accords dating to 1983 between Egypt and **Angola** are being reviewed and updated.