



# The Angola

## *Economic and Political Risk*

# Briefing

*A twice-weekly update and analysis of the latest political, economic and energy sector developments in Angola, from Zitamar Consulting LLP*

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*The Angola Economic Briefing is produced by the team behind [Zitamar News](#), Mozambique's premier English-language business news service since 2015 — in partnership with Angola-focused [Moxico Risk Consulting LLP](#), and Mark Bohlund, a seasoned Africa economist formerly of IHS Markit and Bloomberg.*

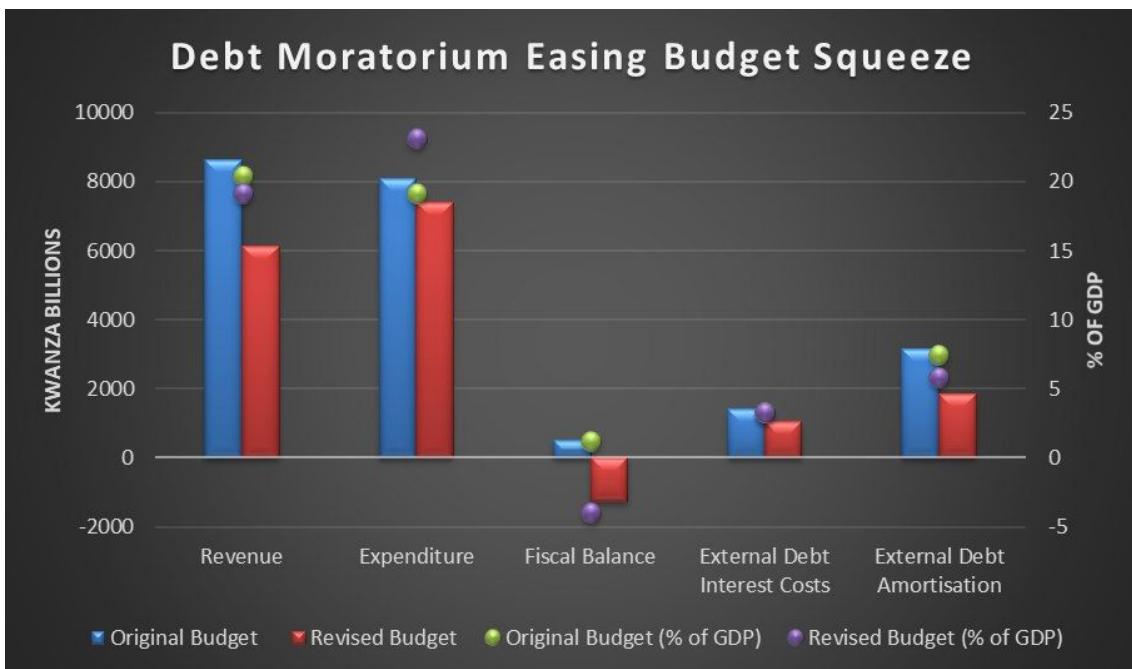
### ***From the Editor:***

***Welcome to Issue 10 of the Angola Economic and Political Risk Briefing, from Zitamar Consulting LLP.***

***This edition holds good news for Angolan government finances, but bad news for certain business sectors working in Angola. External debt servicing costs have drastically reduced thanks to a Chinese debt moratorium, but belt-tightening elsewhere will hit some construction projects as well as private entities which are owed monies by the Angolan government. Meanwhile, the Angola Securities and Debt Exchange announced a record month of turnover, aided by a central bank facility for the early redemption of government debt.***

***In political developments, pressure is increasing on Isabel dos Santos as the Portuguese state nationalises one of her businesses, while the Vice President is continuing to lose political influence in the run up to the 2022 elections.***

### **Chart of the Day**



Debt relief from China and other creditors can't keep Angola's budget from falling into deficit this year

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## China repayment holiday supports drastic cuts to 2020 budget ([Expansão](#))

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### Summary:

*The revised 2020 budget, which was presented to parliament on 3 July, includes a reduction in the government's external debt servicing costs by 36% to AOA2.9tn (\$5bn), according to Expansão. The budget also includes a cut of 22%, or AOA400bn, in the costs of running the government — mostly to be saved through more efficient government contracting, thanks to the passing of the new Public Procurement Law. The revised budget envisages a fiscal deficit of 4% of GDP, compared to a surplus of 1.2% in the original budget.*

### Analysis:

The budget has been forced to shrink to match a projected 29% drop in government revenue compared to 2019 as both the oil price assumption and expected oil output was cut. The AOA1.6tn (\$2.78bn) reduction in external debt service (AOA1.2tn in amortisations and AOA0.4tn in interest payments) is largely thanks to an agreement to defer bilateral debt service payments to China, and chimes with the \$2.65bn the World Bank has estimated that Angola will save this year through participating in the G20 Debt Service Suspension Initiative (DSSI). The DSSI scheme, which currently runs from May to December 2020 but may be extended, envisages that the deferred debt-servicing payments will be paid back over three years, with a one-year grace period. However, the Expansão article refers to a three-year debt moratorium with China, by far Angola's largest bilateral creditor, which is yet to be formally announced and the details of which are as yet unknown — so it's unclear to what extent the savings in government expenditure this year will weigh on future budgets. A similar hesitancy should be applied to the extent that the cuts to non-debt government spending will be realised.

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## Court of Auditors tightens rules for public spending ([Expansão](#))

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### Summary:

*The Angolan Court of Auditors has presented a three-year strategic plan to expand its influence and improve the accountability of public spending. The plan identifies weaknesses in its current operational framework, including the lack of executive powers to sentence those who break the rules, as it has so far needed to seek recourse through ordinary courts. The plan also seeks to boost the court's financial independence vis-à-vis the government.*

### Analysis:

The Court of Auditors' strategic plan is a step forward and will be welcomed by external partners, such as the IMF, which is also likely to have noted the failure of the court to sign off on the general public accounts for 2018, which was due before 30 June 2020. Presiding Judge Exalgina Gamboa took office in mid-2018 and is seen as part of President Joao Lourenço's efforts to fight corruption. Nevertheless, doubts remain over whether politically connected individuals will be sentenced and to what extent punishments will be executed, as Gamboa is seen as being close to the president.

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## Record turnover at Angola debt exchange ([Jornal de Angola](#))

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### Summary:

*The Angola Securities and Debt Exchange (Bolsa da Dívida e Valores de Angola, Bodiva) announced a record turnover in government bonds and bills in June of AOA150bn (\$260mn). This exceeded a previous record of AOA132bn set in March and was aided by a central bank facility for the early redemption of government debt. Kwanza-denominated treasury bonds maturing in 2023 and dollar-indexed treasury Bonds together accounted for 83% of the trading volume in June. The most active participants during the months were domestic banks Angolan Investment Bank (BAI), Fomento de Angola (BFA), Millennium Atlântico (ATL) and Savings and Credit (BPC) and the central bank (Banco Nacional de Angola), accounting for 81.3% of the total amount traded.*

### Analysis:

Bodiva was founded in 2014, and trading levels are rising but remain modest compared to regional giants such as the Johannesburg Stock Exchange which has a daily turnover of around \$1.5 billion. Developing a local debt market will be key for the government in reducing Angola's dependency on foreign financing of key investment projects. However, it also carries risks. Ghana and Zambia are the African economies that have most closely replicated Nigeria and South Africa in drawing foreign investors into their local-currency government bond markets, which has reduced their governments' financing costs, but it can increase volatility in domestic financial conditions and the exchange rate, as foreign investors enter and exit the market.

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## Public projects halted amid fears arrears will continue ([VOA](#))

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### Summary:

*All public construction projects planned for 2020 that are not included in the Integrated Plan for Intervention in Municipalities (PIIM) have been removed from the revised General State Budget (OGE), due to a predicted 40% drop in state revenue. There is a widespread belief amongst Angolan small and medium sized business owners that this decision will also impact businesses with outstanding arrears from the Angolan government, although there has been no official government announcement to this effect. The leader of the Agricultural, Commercial and Industrial Association of Huíla noted that businesses in his association had been promised that state arrears would be cleared by March, but this is now unlikely to happen until the end of the year.*

### Analysis:

The Angolan government has a generally positive record of clearing significant private sector arrears, including during the oil shocks of 2007-8 and 2014, although they do tend to be slow. In December 2019 the Ministry of Finance published its '[Annual Report on the Strategy to Settle Arrears](#)', showing that the majority of debt was owed to construction companies, followed by the banking and food logistics sectors. This plan forecast that in 2020 it would settle US\$510 million, and in 2021 a further US\$1.14 billion in arrears would be paid. It noted that a priority in 2020 to pay off cash debts to small and medium enterprises. Some of these payments relate to services provided to the state as far back as 2013. Construction companies with outstanding arrears from the Angolan government should expect heightened non-payment risks, and those with recent contracts that fall outside the PIIM plan should expect a high risk of contract cancellation.

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## Vice President impacted by reshuffle ([Novo Jornal](#))

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### Summary:

*President Lourenço has made adjustments to the support staff setup of his Vice President Bornito de Sousa. The Vice President has had his ten telephone support staff removed, and the director of his office is no longer a Ministerial position. One of the ascribed functions of the office has also been removed, as it is no longer described as “supporting the Vice President in the monitoring, design and implementation of development programs in the provinces”.*

### Analysis:

De Sousa is a highly influential figure within Lourenço’s cabinet, but also represents continuity from the Dos Santos years, having held senior positions in the previous president’s cabinet, and even overseeing the drafting of the 2010 Angolan constitution. In his former role as Minister for Territorial Administration (2010-17), de Sousa appointed most of the government’s senior civil servants in all eighteen provinces. This gives him a vast political network that could prove useful in the upcoming municipal elections, which we predict will likely be delayed until 2021. De Sousa’s reduced public visibility in recent months, along with this latest move, indicates an increasing chance that he may not be re-nominated as Vice President for the 2022 elections. We believe he is being quietly retired in favour of a younger candidate for the next election, although the specific candidate has not yet been indicated clearly.

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## Portugal nationalises Isabel dos Santos’ Efacec ([DW](#))

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### Summary:

*On 2 July the Portuguese state nationalised the 71.73% stake in Portuguese energy company Efacec owned by Isabel dos Santos. This move was justified by the Portuguese government due to the “great social and economic importance” of the company, and the risks it was suffering due to the ongoing proceedings against Isabel dos Santos’ assets internationally, following the Luanda Leaks in January 2020. The Angolan state played a role in creating this situation, through the pressure they have applied on Isabel’s holdings in Banco BIC, which prevented her collecting payments from Angolan diamond trading company SODIAM. This has created liquidity issues throughout Isabel dos Santos’ business empire. There is also the risk of a general meeting of shareholders of Angolan telecoms company UNITEL, to discuss weakening Isabel’s participation.*

### Analysis:

The past few weeks have seen significant pressure exerted on Isabel dos Santos’ holdings in both Angola and Portugal. This nationalisation was, [by President Lourenço’s own admission](#), the result of coordination between the Angolan and Portuguese states. On 4 July the [Angolan Attorney General stated](#) that there would be no negotiations with Isabel until she admitted the illegal nature of some of her holdings. Contract non-payment risks are increasingly high for those contracting with any Isabel dos Santos-owned entity, both in Angola or abroad, as her empire’s liquidity crisis continues. At particular risk are suppliers to Angola-based entities such as supermarket chain Candando, which some [commentators are already calling](#) to be nationalised.