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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

In this issue:

Economy:

- **World Bank wants DSSI extension and more debt transparency (World Bank)**
- **Banks fined for failing to lend to 'productive sectors' (*Novo Jornal*)**
- **Business cycle remains depressed in Q1 (*Jornal de Angola*)**

Political Risk and Security:

- **120,000 private school jobs suspended due to covid-19 (Expansão)**
- **Angola expels 7,470 Congolese migrants in two months (Angola24Horas)**
- **CASA-CE predicts municipal elections in 2022 (Jornal De Angola)**

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 12 of the Angola Economic and Political Risk Briefing, from Zitamar Consulting LLP.

The World Bank president's call for G20 debt relief to extend into 2021 could benefit Angola significantly — if China agrees to it — but increased transparency in Angola's borrowing will be needed to unlock multilateral aid. Bank lending is likely to remain depressed in the second half of this year, despite an expected improvement in business confidence from the Q1 lows.

Uncertainty due to the effects of covid-19 extends into the political sphere, as well as raising tensions with the neighbouring DRC. Over 100,000 workers in Angola's education sector have found themselves without an income, with more pain to follow in the sector due to the school shutdowns caused by the pandemic — which could also cause the delay of municipal elections until 2022. Covid-19 is also providing a pretext for Angolan security forces to continue deporting Congolese migrants from the diamond-rich province of Lunda-Norte, amid rising tensions between Luanda and Kinshasa.

Chart of the Day

The Q1 2020 drop in business sentiment reflects the impact of the sharp drop in the global oil price in March as well as the rapid global expansion of the covid-19 pandemic. See p.4. Chart: INE

World Bank wants DSSI extension and more debt transparency (World Bank)

Summary:

World Bank president David Malpass has called for an extension of the G20 Debt Service Suspension Initiative (DSSI) into 2021, to help alleviate the covid-19 crisis in indebted IDA countries. In a speech on 9 July, Malpass welcomed progress being made on transparency, promising to release new information on external debt stocks for DSSI-eligible countries as of end-2019 in September and stated that he hoped it would include information on the basic terms of these debts, such as interest rates, maturities, and grace periods reached between official borrowers and lenders. Malpass added that the World Bank was working with Angola to relieve liens, freeing collateral and repairing the breach in its negative pledge clauses, which had delayed implementation of programmes with International Financial Institutions.

Analysis:

Extending the G20's bilateral external debt service suspension into 2021 looks likely, but will in large part hinge on China which is by far the largest bilateral creditor to DSSI-eligible countries. Angola is also in a league of its own as a potential benefactor of the DSSI program and it is therefore not surprising that credible rumours of negotiations of an extended debt moratorium have emerged (see Angola Briefing - 23 June). Angola's collateralised borrowing and the rumoured seniority of its debt to China over other borrowing has delayed programs with IFIs like the World Bank and the IMF. This has in our view contributed substantially to making Angola one of the few African countries yet to receive any substantial multilateral financial support this year to combat the covid-19 epidemic, and the sharp drop in the global oil price. Resolving outstanding issues with the World Bank and the IMF and finalising a moratorium of debt service payments to China could unlock substantial multilateral financial support to Angola in H2 2020. But more transparency regarding Angola's foreign borrowing is likely to be a prerequisite for this external support.

Banks fined for failing to lend to 'productive sectors' (*Novo Jornal*)

Summary:

The Banco Nacional de Angola (BNA) has fined 12 commercial banks for failing to comply with laws issued last year to lend more to productive sectors of the economy. Laws 4/19 and 7/19 from April and October last year mandated that banks lend at least 2% of their balance sheets, as of end-2018, to productive sectors of the economy, mostly agriculture.

Analysis:

The fines, totalling AOA434mn ($0.6mn), are unlikely to provide a sufficient incentive for the commercial banks to lend more than they want to to the targeted sectors. The laws issued last year were part of the government's aim to diversify the economy away from oil and gas and reduce Angola's dependency on imports. While the renewed depreciation of the kwanza starting in October last year will have improved the cost competitiveness of domestic companies vis-à-vis foreign rivals, the depressed economic conditions are likely to mean continued risk averseness in bank lending.

Business cycle remains depressed in Q1 (*Jornal de Angola*)

Summary:

The quarterly ICE index of business confidence, released by the National Statistics Institute (INE), remained depressed in Q1. The report showed a fall in confidence in all business sectors in particular among small and medium-sized companies. The construction, manufacturing and trade sectors showed sharp drops in business confidence further into negative territory while the other sectors (communications, extractives, tourism and transport) were more stable.

Analysis:

The responses to the surveys are collected during the last week of the quarter or the first of the following quarter, so in this case in late March/early April. The responses for Q1 2020 will thus to a large extent reflect the impact of the sharp drop in the global oil price in March as well as the rapid global expansion of the covid-19 pandemic. While economic conditions in Angola arguably worsened during April, the Q2 ICE survey is likely to also reflect the positive developments over May and June, most notably the recovery in the oil price and the hope of a suspension of debt payments to China. Nevertheless, business confidence is likely to remain low in H2 2020 as the economy contracts for a fifth consecutive year.

120,000 private school jobs suspended due to covid-19 (Expansão)

Summary:

The job losses were announced by the president of the Associação Nacional do Ensino Privado, and include administrative staff, gardeners, drivers, and 20,000 teachers, some of whom had previously been on 50% salaries to tide them over during the covid-19 crisis. The 2,500 private schools spread across the country continue to charge 60% of fees while schools remain locked down, but they have only managed to collect 7% of the fees owed.

Analysis:

This announcement is unlikely to affect the educational institutions that many expatriate workers in Angola send their children to, such as Luanda International School, the English School Community of Luanda, the Colégio São Francisco de Assis or the Escola Portuguesa de Luanda. These private schools have institutional support from embassies and large corporations working in Angola, that makes them more resilient to the COVID-19 shutdown. However, the situation for most of Angola's private schools is unsustainable, and we are likely to see further job losses over the coming three months. The bankruptcy of many private schools will put further pressure on the already overloaded state educational system, and will make it difficult for economic activity to resume when the State of Calamity is lifted. Angola's Instituto Nacional de Segurança Social is also proving unable to provide any support to the unemployed, further increasing the risk of street protests over the economic situation in major urban centres over the coming three months.

Angola expels 7,470 Congolese migrants in two months (Angola24Horas)

Summary:

A joint operation by the Polícia de Guarda Fronteira (PGF) and the Serviço de Migração e Estrangeiros (SME) has expelled 7,470 illegal Congolese migrants from Lunda Norte Province over the past two months, as well as seizing over 4,375 litres of smuggled petroleum products.

Analysis:

Lunda Norte's 770km border with the DRC's Kasaï-Central and Kasaï provinces has been closed since 20 March due to the covid-19 outbreak. Expulsions have been ongoing since October 2018 as part of Angola's Operação Transparência, which is ostensibly aimed at cleaning up Lunda Norte's diamond sector. The expulsions are now also justified as protecting Angola against imported cases of covid-19. In reality, expulsions tend to be used as a political mechanism to put pressure on the DRC government in Kinshasa. Over the past month there has been ongoing tension between Luanda and Kinshasa due to border skirmishes between security forces. Tensions escalated following a 5 July incident where a member of the PGF was shot and killed by a Congolese soldier in Tshitundu (see Angola Briefing, 10 July). With few signs of de-escalation from either side, we are likely to see further large-scale expulsions over the coming three months, and an increased security presence in the province, which will make road travel more difficult.

CASA-CE predicts municipal elections in 2022 (Jornal De Angola)

Summary:

CASA-CE's National Executive Secretary Rafael Aguiar told journalists in Luanda that he believed municipal elections might take place simultaneously with the general elections in 2022, due to delays caused by the covid-19 pandemic. The National Electoral Commission (CNE) has made no official announcement on a date for the municipal elections: they are still waiting for the relevant legislative package to be approved by the National Assembly before they can start work on the electoral calendar. Aguiar's announcement came as part of a wider conference held by the opposition group around the theme of conflict resolution.

Analysis:

This pragmatic estimate by Aguiar has made headlines as it's the first time any politician has suggested that municipal elections will not take place in 2021. Given the CNE's ongoing financial problems, the continued debate over the relevant legislative package and the covid-19 pandemic, every political party had quietly accepted that the elections could not take place as scheduled in 2020. However, up until now UNITA and CASA-CE had been pushing for 2021 elections, which would need to take place before September to avoid the rainy season. Combining the municipal and general elections would give the incumbent MPLA a major advantage, as their electoral apparatus is more developed and better able to cope with running parallel campaigns. It would also give them a chance to deal with some of the covid-19 effects that are most likely to drive municipal voters to select opposition candidates, such as unemployment. For this reason, we cannot see UNITA supporting a 2022 municipal election date, and believe that Q3 2021 remains the most likely date for municipal elections.