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Issue 14

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.

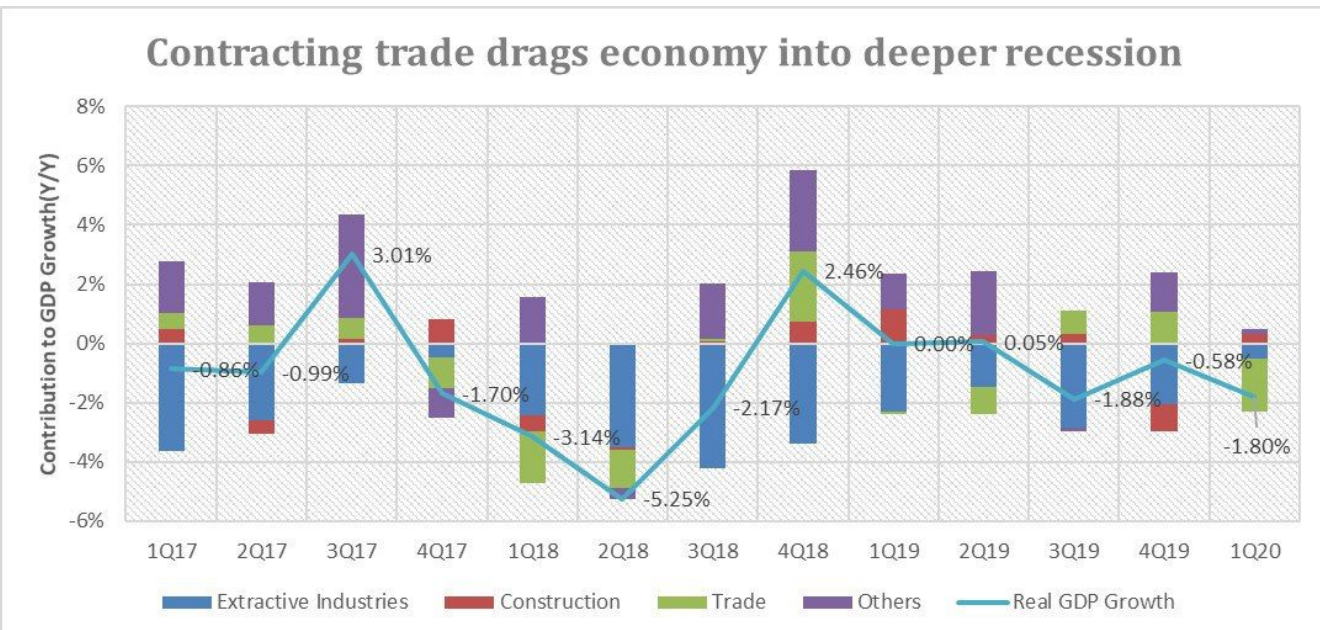
From the Editor:

Welcome to Issue 14 of the Angola Economic and Political Risk Briefing, from Zitamar Consulting LLP.

Battle lines are being drawn over the future of G20 support for covid-19 afflicted developing countries, with China indicating limits to the DSSI initiative and its preference for spreading the cost through a new issue of the IMF's Special Drawing Rights. The G20 summit in November is poised to be heated and the treatment of China Development Bank's Angolan loans could be key to the outcome. A continued economic contraction is unlikely to prompt a central bank rate cut later this week.

The ongoing IURD church controversy is leading to growing risks for Brazilian citizens on the streets of Luanda. Diamond workers are also likely to protest in both Luanda and Lunda Norte due to an ongoing wage dispute. The past week has also seen online chaos affecting sectors such as banking due to Angola-based organisations temporarily losing their .ao domain registrations.

Chart of the Day



Shrinking trade is the biggest culprit for Q1's recession. See p.3

G20 defers DSSI extension despite calls for urgent action (G20, IMF, World Bank)

Summary:

The G20 group of leading economies decided to defer a decision on extending the current suspension of debt repayments by the world's poorest countries until closer to the end of the year, at a virtual meeting of finance ministers and central bank governors on 18 July. World Bank president David Malpass had urged G20 leaders to extend the DSSI scheme — currently due to expire at the end of the year — to the end of 2021. Malpass also said that full participation of the China Development Bank as an official bilateral creditor was important to make the DSSI work. He added that for the DSSI to be fully effective, there should be a standard minimum set of debt-restructuring information needed to avoid the secretive reschedulings that were underway in some countries, such as Angola and Laos, often with undisclosed grace periods and terms.

Analysis:

The urgency for further action has dissipated due to the so-far limited spread of covid-19 among the 73 countries eligible for the DSSI, while the economic impact of the pandemic is still to be determined. Nevertheless, further action will undoubtedly be needed and the battle lines on this topic are being drawn among global policymakers ahead of what is likely to be a heated G20 summit in Riyadh on 21–22 November 2020. A DSSI extension to end-2021 hinges on Chinese participation to be meaningful. China has so far not included loans by China Development Bank, as it views it as a commercial creditor. In an opinion piece in the Financial Times on 16 July, the governor of China's central bank, Yi Gang, argued that the IMF should issue new Special Drawing Rights and allocate them to covid-19 afflicted countries through existing financing programs — something that would spread the burden of supporting developing countries more widely than the DSSI, which falls heavily on China. If China and Angola can negotiate a multi-year debt service moratorium, as has been rumoured in Angolan media, this would go a long way to help the G20 agree a common position on both the DSSI extension and a potential SDR issue in H2 2020.

Angolan economy contracts in Q1 (INE)

Summary:

A 10% fall in trade led Angola's economy to shrink 1.8% year-over-year in Q1 versus the first quarter of 2019, according to the National Institute of Statistics. Trade was hit by the onset of the covid-19 pandemic, the fall in the oil price and the erosion of purchasing power due to the sharp weakening of the kwanza. The extractive sector shrank 1.7%, its smallest contraction since Q4 2017, while the construction sector grew 2.9% compared to a year earlier.

Analysis:

Angola's economy probably contracted even further in Q2, on the back of a sharper drag from the extractive sector as Angola cut its oil output in May and June to partially comply with lower OPEC quotas. The non-oil sectors are also likely to have continued shrinking in Q2, with the construction sector likely hit hard by the combined impact of the sharp drop in oil revenue and covid-19. We expect the economy to remain in recession in the second half of the year despite some relief in the form of higher oil revenue and a likely easing of lockdown restrictions.

Angola central bank expected to keep interest rate on hold (Bloomberg)

Summary:

The Banco Nacional de Angola is expected to be one of a number of African central banks that maintain their policy rate unchanged at its next monetary policy committee meeting, scheduled for 24 July, according to a Bloomberg survey of analysts, who cited rising inflation and the need to support the currency as reasons for the BNA to keep its policy rate at 15.5%.

Analysis:

We share the view that the Banco Nacional de Angola is likely to keep the policy rate on hold at its next meeting, continuing to focus on stabilising inflation, preserving its foreign-exchange reserves and reducing the spread between the official and the black-market exchange rate. Angola's gross foreign exchange reserves stood at $15.4bn in mid-July, supported by a reduced need from the government for imports and is likely to be boosted by higher oil revenue in Q3 on the back of a higher Brent crude price.

Lourenço orders inquiry into Brazilian church conflict after Bolsonaro intervenes (Novo Jornal)

Summary:

President João Lourenço has appointed culture minister Adjany Costa to head up a commission to look into the ongoing crisis at the Brazilian-founded pentecostal church Igreja Universal do Reino de Deus (IURD), after Brazilian President Jair Bolsonaro wrote to his Angolan counterpart to request that the Angolan government "guarantee [IURD's] physical and material integrity, and the restitution of property and housing" following "reports of aggression against members of IURD." Tensions between Brazilian and Angolan bishops in the church have been rising since November 2019 when a group of Angolan bishops announced a split with IURD founder Edir Macedo, alleging improper behaviour by Brazilian bishops in the country. On 10 June Angolan authorities issued search warrants for IURD property on suspicion of currency evasion and money laundering. Violent clashes over control of church property followed in Luanda on 24 June 2020.

Analysis:

The Brazilian community in Angola is concerned about xenophobic attacks against Brazilians linked to the IURD controversy, in particular the 65 Brazilian pastors out of a total of roughly 500 IURD pastors in the country. The Brazilian Embassy in Luanda has denied that a 16 July repatriation flight to São Paulo was linked to the violence. IURD makes up to $80 million per year in Angola — and wields significant political influence in Brazil, with over 8,000 churches there and 2 million members, having played a significant role in the election of President Bolsonaro in October 2018. The direct intervention of President Lourenço demonstrates that he wishes to deal with this controversy quickly, but it seems unlikely that his commission will propose a resolution that Edir Macedo is happy with. This in turn will put political pressure on President Bolsonaro to press for further action. As a result, we are likely to see increased diplomatic tensions between Angola and Brazil in the three month outlook, which could negatively impact Brazilian companies bidding for Angolan state contracts. Growing tensions between Angola and Brazil will be to the benefit of Chinese state and private entities working in Angola, especially those in the construction, engineering and agribusiness sectors.

Web domain issue causes chaos, interrupts online banking (Expansão)

Summary:

245 organisations failed to update the registration details for their .ao domains with the Angolan Ministry of Telecommunications by the 10 July deadline — including the BAI, BFA and BPC banks, as well as UNITEL, Movicel, Angola's Sovereign Wealth Fund, stock exchange BODIVA, and — ironically — the Instituto Angolano das Comunicações, which regulates Angola's telecoms sector. As a result, a number of these organisations' websites went offline last week, which impacted staff access to email systems and removed online wire transfer functionality from affected banks. The incident has also caused tensions for Angola's delegation at the World Compliance Association.

Analysis:

A total of 70 Angolan websites went offline last week, which caused chaos at the affected entities. It represents a serious compliance failure on the part of the entities involved, but also raises wider questions as to when they were first informed about the impending de-registration by the Ministry of Telecommunications. This is also embarrassing for Telecommunications Minister Manuel Homem, coming at a time when he is working hard to highlight modernisation in his sector, with the recent entry of a fourth mobile operator, Africell Global Holding, into the Angolan marketplace.

5,000 former ENDIAMA diamond workers threaten to strike and to quit MPLA (VOA)

Summary:

Trade union leaders from the Sindicato das Indústrias Petroquímicas e Metalúrgicas de Angola (SIPQMA) have voiced disagreement over the way a trade dispute with public diamond company ENDIAMA is being handled. Former union head Ventura Camuto has stated that unless the Angolan government intervenes in the salary arrears dispute at the diamond company, 5,000 former ENDIAMA workers will quit the MPLA. But Camuto's successor, Armando Pierre, has questioned Camuto's right to speak for the workers, and said that the threat of leaving the MPLA "is a falsehood".

Analysis:

Camuto is now a spokesman for the Cuango Trade Union Commission. He is an outspoken union leader, who threatened in March 2020 to shut down ENDIAMA's mine sites in Lunda Norte due to this ongoing wage dispute. ENDIAMA has taken a hard line, and does not concede that they owe any past wages to any of the 5,000 workers Ventura claims to represent. We are therefore very likely to see further protests in front of ENDIAMA offices in Luanda on Rua Major Kanhangulo, as well as in Lucapa and Nzagi (both Lunda Norte Province), in the three month outlook.