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Angola Economic Briefing – Issue #2

Welcome to the Angola Economic Briefing — a twice-weekly essential update and analysis on Angola's political economy, from Zitamar Consulting LLP.

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.

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OPEC, Russia to extend record oil cuts to end of July ([MarketWatch](#))

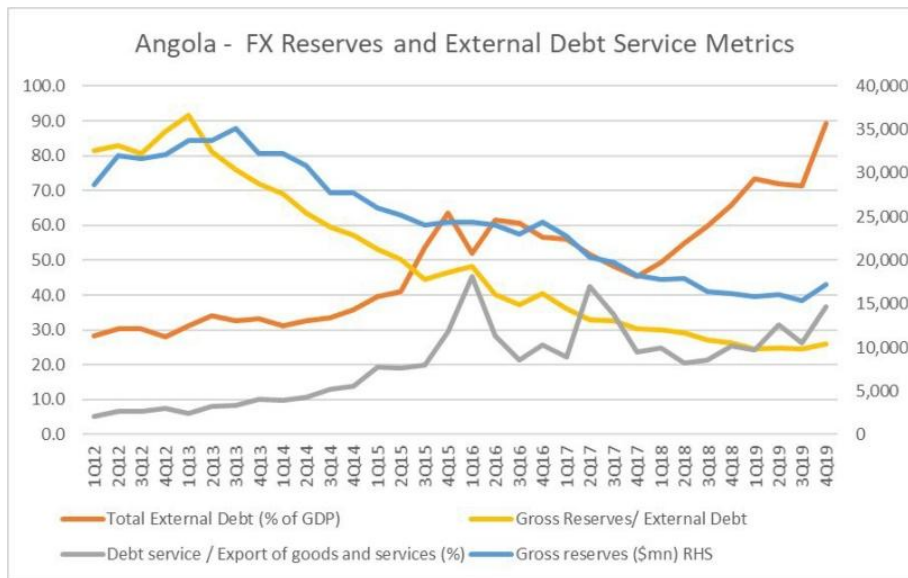
Summary:

The OPEC+ group of oil exporting countries is likely to extend its current reduced production levels through July and possibly longer, and require non-compliant members such as Iraq and Nigeria to compensate with extra cuts in 3Q20 according to a draft declaration seen by media. The original OPEC+ agreement from April envisaged an increase in total production by 2mbpd in June through December after an initial 9.7mbpd cut during May and June. Rumours that the original cuts would be extended have helped the price of Brent Crude to increase above \$40 per barrel.

Analysis:

Angola was reported to be producing 1.31mbpd of oil in May, above its agreed 1.18 mbpd quota for May and June. Angola's quota was due to rise to 1.25mbpd in July but now seems more likely to remain at 1.18mbpd. We expect Angola to continue to produce above its OPEC+ quota in 2H20 in order to take advantage of its agreement to reduce oil shipments to China (see following story) and maximise its foreign-exchange earnings.

Chart of the Day



The drop in the global oil price and declining oil output has seen Angola's economy contract, external debt rise and foreign exchange reserves fall. A compression of imports helped to stem the loss of reserves in 2018-2019 but external-debt servicing is absorbing an increasing share of export earnings. This has been aggravated by the sharp drop in the oil price in the first half of 2020 and Angola's participation in the G20 Debt Service Suspension Initiative will improve Angola's balance of payments and give the government much needed funds to alleviate the economic situation.

Angola cuts oil shipments to China during debt negotiations ([Oilprice](#))

Summary:

Angola is reportedly reducing its oil shipments to China following an agreement in principle to reprofile debt-service payments for government-to-government loans. The number of oil cargoes shipped to Chinese downstream operators Sinochem and Unipecc dropped to five in May from normal levels of 9-11 per month, according to Reuters

Analysis:

The re-direction of oil shipments indicates an overall agreement to reprofile Angola's large debt to China and defer payments in May to December, in accordance with the G20 Debt Service Suspension Initiative, although it should be noted it occurred during a global glut in oil supply. Oil shipments to China are generally used to pay for previously completed infrastructure investment financed by Chinese entities, meaning that they do not bring in foreign exchange. The move to reduce Angolan oil shipments to China should improve both foreign exchange availability, as the shipments can be sold for cash elsewhere, and the government's liquidity position. However, Angola is likely to run a larger fiscal deficit as deferred debt-service payments are added to the public debt load.

Debt restructure plans entail risk for private bondholders ([Moody's](#))

Summary:

Rating agency Moody's said that the news that Angola was in negotiations to restructure some of its bilateral creditors, and has applied to participate in the G20 Debt Service Suspension Initiative, could provide "tangible liquidity relief" to the sovereign. However, it added that it would not alleviate Angola's high debt burden, and that a DSSI participation that raises risks for private-sector creditors would have negative rating implications.

Analysis:

Moody's placed Angola's B3 credit rating on review for downgrade on 31 March, reflecting the coronavirus pandemic's effects, the shock from the sharp drop in oil prices and an acute tightening in global financing conditions on Angola's already weak public finances and external position. Moody's has since initiated rating reviews for three (Cameroon, Ethiopia and Pakistan) out of the four rated countries that have applied for participation in the DSSI (the fourth, Mali, does not have any external debt owed to private-sector creditors). Moody's has taken a stronger stance against the DSSI than the other two major rating agencies. This appears to be motivated by what Moody's calls "continued support within the G-20 for comparable debt service suspension from private creditors," and said it would use the review period to assess whether or not any loss will be potentially incurred by existing external private sector creditors, and if this would be consistent with a lower rating. The strong indications from the Angolan government that it will not seek to restructure its commercial external debt, and official G20 statements that private sector participation will be voluntary, indicate that Angola is likely to maintain its current rating with Moody's over the next six months.

Potential border closures with DRC due to Ebola ([Angop](#))

Summary:

On Monday 1 June the government of the Democratic Republic of Congo (DRC) announced the emergence of a new Ebola outbreak in Wangata County, Mbandaka, Équateur Province. Lunda Norte shares a 770-km border with the DRC. Although the outbreak has not yet spread to the provinces of Kasai-Central, Kasai and Kwango in DRC, which all share a border with Angola, the Angolan government has introduced prevention measures — including importing biosecurity material and drugs to prevent contagion, rolling out intervention health teams, and strengthening epidemiological surveillance. Lunda Norte's Governor Ernesto Muangala also noted that Angolan police forces in the area are patrolling the border to prevent illegal crossings in both directions.

Analysis:

Mbandaka is where the DRC's ninth Ebola outbreak occurred back in May 2018. However, Mbandaka is also almost 800km from the section of border shared with Angola's Lunda Norte Province — where illegal crossings are often connected to artisanal diamond mining on the Angolan side of the border. Angola's land borders with the DRC are currently closed due to the COVID-19 pandemic, but this Ebola outbreak could lead to longer official border closures in this area once Angola's general lockdown is lifted. Two weeks ago Angola's government downgraded the State of Emergency to a State of Calamity, which is scheduled to remain in effect until June 9, but there has been no indication when external land borders will reopen.

National Assembly hands opposition party split ultimatum ([Novo Jornal](#))

Summary:

In February 2019, following the removal of CASA-CE leader Abel Chivukuvuku, eight of the party's sixteen National Assembly delegates split from the party's new leadership in protest. Now Angola's President of the National Assembly, Fernando da Piedade Dias dos Santos, has given CASA-CE until 9 June to reintegrate the dissident politicians, or face a reduction in their monthly parliamentary stipend. They may also face a reduction of their allocated intervention time in the National Assembly, down from 20 minutes to 11. Prominent CASA-CE politician Manuel Fernandes noted that there is no mention of such a sanction in the procedures for the National Assembly, and if sanctioned his party would appeal to Angola's Constitutional Court. The dissident parliamentarians are Linda Bernardo Tito, Carlos Candanda, Leonel Games, Odete Joaquin, Vitoria Chivukuvuku, Abel Lubota, Sampaio Mucanda and Lourenço Domingos.

Analysis:

Formed in March 2012 by former senior UNITA member Abel Chivukuvuku, CASA-CE had great success just five months later in the 2012 Angolan legislative elections, winning 6% of the vote and eight parliamentary seats. In the 2017 election, they doubled their seats in the National Assembly to 16. However, the controversy surrounding former leader Abel Chivukuvuku's departure, combined with UNITA's selection of very popular new leader Adalberto Costa Júnior in November 2019, means they have now fallen on hard times. To stand any chance of becoming Angola's main opposition party, they need to find a compromise between the two factions before Angola's first municipal elections, due to be held before September 2021. However, we see few indications that compromise is forthcoming.

Dos Santos probe 'improper and unfair' says lawyer ([France24](#))

Summary:

In an interview with RTP on 7 June, Isabel dos Santos's lawyer Dan Morrison noted that the business asset freeze she suffered in December 2019 was "manifestly unfair and improper". The Angolan prosecuting authorities initially estimated that the funds embezzled by Isabel dos Santos-linked entities at about \$1 billion, but have since revised that figure to \$5 billion. These accusations are based mainly around evidence provided by the International Consortium of Investigative Journalists (ICIJ) in January 2020, when they leaked 700,000 corporate documents in the so-called "Luanda Leaks". Much of the embezzlement is alleged to have taken the form of 'irregular money transfers' from national oil company Sonangol and national diamond marketing firm Sodiam. Morrison stated: "This order was made in Angola, in a secret court based on evidence that we didn't see at the time" and that the freeze was based on "fake, forged or unsatisfactory" documents. Morrison is a senior partner of London-based Grosvenor Law firm, with experience in handling "complex" litigation for high-profile entrepreneurs.

Analysis:

Isabel dos Santos is the daughter of former Angolan president José Eduardo dos Santos, and according to Forbes Magazine, Africa's first female billionaire. This statement is the latest in a concerted public relations campaign which began in January 2020 when she contracted Sonoran Policy Group, a Washington DC-based lobbying firm, to handle the fallout from the Luanda Leaks. Since 12 May Isabel dos Santos has been alleging that one of the documents used by Angola's Attorney General in court was a forgery of her passport submitted by the Angolan embassy in Japan. Morrison's criticisms of the asset freezing process do little to detract from the weight of the evidence against Isabel dos Santos, as presented by the ICIJ.