Tuesday 23 June 2020

Angola Economic Briefing – Issue #6

Welcome to the Angola Economic Briefing — a twice-weekly update and analysis of the latest political, economic and energy-sector developments in Angola, 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.

In this issue:

Economy:

- **Angola estimated to be biggest benefactor from DSSI (World Bank)**
- **China agrees to 3-year debt service moratorium (Expansão)**
- **Inflation keeps rising as weaker kwanza pushes up prices (INE)**

Political Risk and Security:

- **Serious escalation in Cabinda insurgency, with 11 killed (VOA Português)**
- **Luanda Leaks: IdS lawyers' offices searched in Portugal (VOA Português)**
- **Corruption revelations around Odebrecht activities in Angola (El País)**

Angola estimated to be biggest benefactor from DSSI (World Bank)

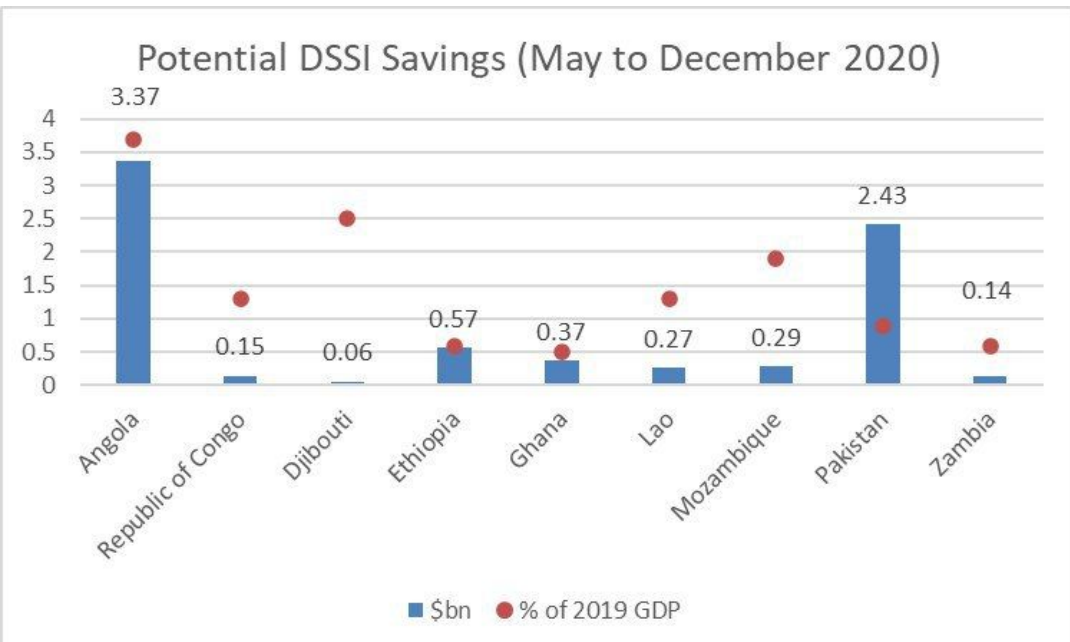
Summary:

Angola could have bilateral debt service payments in May to December this year of almost $3.4 billion, or 3.7% of its 2019 GDP, deferred as a result of its participation in the G20 Debt Service Suspension Initiative (DSSI), according to World Bank figures (see chart below). Other substantial potential beneficiaries are Djibouti (in terms of % of GDP) and Pakistan (in absolute US dollar terms), both of which have borrowed heavily from China to expand their port capacity, as well as fellow commodity exporters Republic of Congo and Zambia.

Analysis:

It is no surprise that Angola would be the largest beneficiary of a blanket deferral of all bilateral external debt payments for countries under the DSSI, due to its extensive borrowing from China. The external debt-service figures are based on public and publicly guaranteed debt outstanding and disbursed as of end-2018, meaning that some of the data might be outdated. However, the slowdown in Belt and Road Initiative (BRI) lending by China, which has been the largest bilateral lender over the past decade, means that the impact of more recent bilateral debt should be marginal. More problematic is whether the data includes borrowing by state-owned entities or lending by state-owned banks at commercial terms in the creditor nations for all included countries. In the case of Angola, the DSA data includes the external debt of the central government, Sonangol and airline TAAG. We estimate that the data includes payments due on loans to Angola, estimated at $17bn, from both China Development Bank and Bank of China.

Chart of the Day



China agrees to 3-year debt service moratorium (Expansão)

Summary:

China has agreed on a moratorium for Angola's debt service payments to Chinese entities for at least three years according to Angolan newspaper Expansão, which did not state the source of the information. The Angolan government was seeking a five-year moratorium but their Chinese counterparts would only agree to three years, according to the newspaper. The moratorium will cover debt owed directly to the Chinese government, amounting to $4.7 billion, as well as loans from the China Development Bank ($14.6bn) and Bank of China ($2.4bn).

Analysis:

The report in Expansão about the ongoing negotiations (see Angola Economic Briefing - 5 June) should be treated with caution as the sources are unconfirmed. China has a history of renegotiating its external-debt on a deal-by-deal basis, so a comprehensive agreement as outlined by Expansao would constitute a change of tack in Chinese overseas economic relations. Angola's indebtedness to China and the economic pressure from declining oil production, a weak oil price and the covid-19 crisis may have persuaded the Chinese that a comprehensive approach was required, and Angola may even have threatened to suspend payments altogether, which China would have had practically no levers to react to. While an Angolan debt-servicing moratorium would have very marginal repercussions on China, we expect the authorities to be wary of setting a precedent for other debtor nations and continue to pursue negotiations about debt rescheduling on a deal-by-deal basis. It should be noted that, as with the Republic of Congo last year, a rescheduling of Angola's debt to China is a prerequisite for further loan disbursal from the extended fund facility with the IMF. The latest review of the program is expected to be published soon, potentially allowing for funds to be disbursed.

Inflation keeps rising as weaker kwanza pushes up prices (INE)

Summary:

Annual inflation rose to 21.8% in May, its highest rate since January 2018, according to the Angolan statistics office. On a month-on-month basis, prices rose 1.9% — in line with the previous five months — for an annualised rate of 22.8%.

Analysis:

A sustained weakening of the official exchange rate to above 600 to the US dollar is underpinning the continued rise in inflation. However, it is encouraging that inflation has not accelerated on a month-on-month basis since Q4 2019, when the central bank shifted its exchange rate policy to allow for a weaker kwanza. A higher oil price and a suspension of external debt payments (see stories above) should give a better equilibrium in the foreign exchange market and allow for a further narrowing of the official and black market exchange rates, and by extension for weaker inflationary pressures. We expect inflation to peak around 25% y/y in H2 2020, and slow gradually going into 2021.

Serious escalation in Cabinda insurgency, with 11 killed (VOA Português)

Summary:

Six civilians, four soldiers of the Angolan armed forces (FAA) and one FLEC separatist fighter were killed in armed clashes at the border village of Mbata-Mbengi on 19 and 20 June. Mbata-Mbengi is located on the border between Angola's Cabinda exclave and the DRC. An additional three soldiers and three FLEC separatists were seriously injured. This claim was made by FLEC spokesperson António do Rosário Luciano in a communiqué on 22 June. Luciano went on to say that "the warmongering and aggressive policy of the Angolan Government threatens the security of the two Congos, neighbors of Cabinda," and appealed to "the International Conference of the Great Lakes Region, the SADC and the governments of the two Congos to find a peaceful solution to the military conflict between Angola and Cabinda."

Analysis:

Neither the FAA nor FLEC have confirmed the exact location of Mbata-Mbengi village, but it appears to be here, 17km inside DRC territory, to the north-west of Lukula, Kongo Central Province. On 19 June the DRC government confirmed that there had been an incursion into their territory by FAA forces around Lukula while in pursuit of FLEC separatists. DRC Interior Minister Gilbert Kankonde also said that the incursion would be reported to the relevant sub-regional organisations (likely SADC and International Conference of the Great Lakes Region). The FAA has a long track record of incursions into neighbouring territory from Cabinda, including serious confrontations with neighbouring troops in 2013. The escalation of the insurgency in Cabinda, and spillover into neighbouring countries, raises the risks of short-notice border closures between Angola, DRC and the Republic of Congo. It also raises the risks of retaliatory FLEC attacks in Cabinda, including kidnapping expatriate oil workers in the exclave.

Luanda Leaks: IdS lawyers' offices searched in Portugal (VOA Português)

Summary:

The home and offices of Portuguese lawyer Jorge Brito Pereira were searched following an order from the Portuguese Attorney General's office on 17 June. The offices of law firm Uría Menéndez Proença de Carvalho in Lisbon, where Pereira worked when the Luanda Leaks were revealed, were also searched. The investigation, led by Portugal's Departamento Central de Investigação e Ação Penal, concerns a group of companies linked to Isabel dos Santos and the alleged illegal transfers of over €100 million from Sonangol to Dubai, as revealed in the Luanda Leaks. The companies under investigation include Matter Business Solutions (Dubai), Burgate (Malta) and Fidequity (Portugal).

Analysis:

The pressure on Isabel dos Santos from Portuguese investigators is now increasing, especially as there is a parallel corruption investigation underway by the Angolan Attorney General's Office. On 21 June Isabel dismissed accusations relating to this investigation made by Portuguese news channels via her official Facebook page. Further asset freezes of Isabel dos Santos-linked companies are very likely, which raises contract non-payment risks for companies dealing with these entities. Isabel dos Santos herself has already discussed the financial strain these investigations are putting on her companies such as Candando Supermarket, as outlined in Angola Economic Briefing – Issue #3 (12 June 2020).

Corruption revelations around Odebrecht activities in Angola (El País)

Summary:

Brazilian engineering and construction company Odebrecht used a shell company registered in Antigua and Barbuda (Kleinfeld) to pay bribes to Angolan politicians between 2008 and 2009, via third parties. Edson N'Dalo Leite de Morais, son of former Angolan Finance Minister and National Bank Governor José Pedro de Morais, received €4m to his Andorran bank account at the Banca Privada d'Andorra (BPA) from Odebrecht via Kleinfeld. In 2009, €101,000 was transferred from Leite de Morais's BPA account to José Pedro de Morais. The BPA account was also used to buy numerous luxury cars and watercraft. It is alleged that bribes were also paid by Odebrecht for access to António Paulo Kassoma, Prime Minister of Angola between 2008 and 2010.

Analysis:

The revelations of corrupt activities by Brazilian corporations working overseas first hit the headlines in March 2014, during the Operação Lava Jato corruption investigation in Brazil. This is an ongoing criminal investigation by the Federal Police of Brazil, which began around activities at Brazilian oil firm Petrobras, but soon implicated Odebrecht. During subsequent investigations Odebrecht representatives admitted to the New York Attorney General's Office that they paid bribes of over $50m to African politicians to secure work contracts. Even though the payments occurred during the rule of his predecessor, these accusations will be embarrassing for President Lourenço. He has taken a hard line against government corruption since coming to office, and José Pedro de Morais and in particular António Paulo Kassoma are considered MPLA heavyweights. However, Lourenço removed Kassoma from the MPLA's most senior executive organ (the Politburo) in September 2018, and José Pedro de Morais no longer holds a senior political role. Neither are part of Lourenço's inner circle, so the reputational damage to Lourenço will be limited.