Friday 17 July

Issue 13

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:

- **Angola's crude exports to increase in September (Argus Media)**
- **Food imports fall 31% in Q1 (Lusa)**
- **Central bank governor notes slower price growth (Lusa)**

Political Risk and Security:

- **New corruption allegations at BFA Bank (NovoJornal)**
- **Luanda now has community transmission of covid-19 (Jornal de Angola)**
- **Angolan government wins Paris case against Isabel dos Santos (Expansão)**

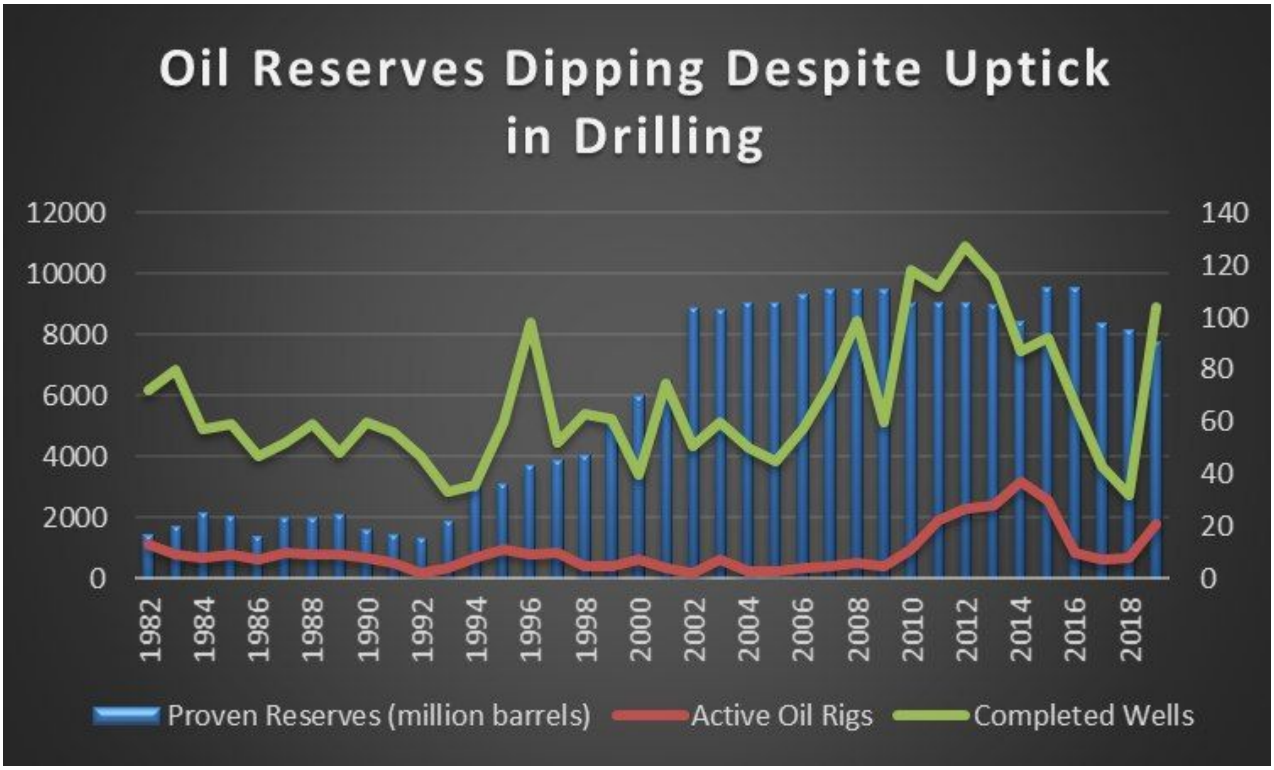
The Angola Economic Briefing is produced by the team behind Zitamar News, Mozambique's premier English-language business news service since 2015 — in partnership with Angola-focused Moxico Risk Consulting LLP, and Mark Bohlund, a seasoned Africa economist formerly of IHS Markit and Bloomberg.

From the Editor:

Angola has signalled an increase in its September oil exports that threatens to shatter OPEC cohesion only days after the oil cartel's latest meeting, which could prompt another oil price war. This raises uncertainty about to what extent higher oil revenue and deferred debt service payments will be able to finance an expected increase in imports in the second half of this year, after a contraction in H1.

Central bank governor José de Lima Massano noted a slower pace in price growth in June when speaking in parliament, but we expect the Banco Nacional de Angola (BNA) to keep its policy rate on hold on 24 July. The unravelling of the dos Santos regime continues in courts in Angola and Europe, causing ructions in both the banking and the port sectors. Meanwhile, the continued spread of covid-19 in Luanda may delay the lifting of lockdowns.

Chart of the Day



Angola's crude exports to increase in September (Argus Media)

Summary:

Angola plans to increase its oil exports in September despite promising to compensate for previous overproduction by making extra cuts in Q3. A loading programme for September envisages 41 cargoes of crude oil being shipped in September versus 38 in August, implying an increase in oil production to 1.31mb/d from 1.18mb/d. The OPEC group stuck with their scheduled plans of tapering cuts back from 9.6mb/d to 7.7mbpd as of August at a ministerial meeting on 15 July. The press release announcing the decision said that it welcomed the participation of Angola, Gabon, South Sudan and the Republic of Congo and noted that they had reiterated their commitment to the production adjustments and compensation plans.

Analysis:

The decision to increase oil shipments in September indicates a renewed offensive from Angola that threatens cohesion with OPEC and could prompt retaliatory action by Saudi Arabia and another price war. While the September loading schedule may be revised, Angola is signalling its intent to capture the expected increase in oil demand as the global economy recovers from covid-19 induced lockdowns in H120. We expect Angola to produce marginally above its July quota of 1.18mb/d, bringing the total overproduction in May-July — which needs to be compensated for in Q3 — to around 150,000bpd. However, an overhang of around ten as yet unsold cargoes for August indicates that Angola will be compliant with the OPEC quota of 1.25mb/d for August and provides some of the compensation cuts required by OPEC. Reduced uncertainty about output levels and prices following the OPEC meeting should speed up oil cargo sales, but production is still likely to be below its quota in August. Announcing an increase in oil output in September so soon after the OPEC meeting is likely to spur expectations of a complete breakdown of compliance within the cartel and could trigger a renewed price war.

Food imports fall 31% in Q1 (Lusa)

Summary:

Angola spent $495mn on food imports in Q1 2020, a 31% decrease compared to the Q4 of last year, Minister of State for Economic Coordination Manuel Nunes Júnior told the National Assembly on 15 July. Nonetheless, foodstuff imports still used up around 25% of foreign exchange acquired through official channels for non-oil sector imports. The minister attributed the decrease due to a better organization of the foreign exchange market, and to an increase in the demand for domestically produced foodstuffs.

Analysis:

The sharp depreciation of the kwanza since the latest decision to let the currency weaken in October last year has pushed up the cost of imported goods and made others unaffordable. Food is one of the few product groups where domestic alternatives are available and it is thus not surprising that food imports fell in Q1. The current account posted a surplus of $1.2bn in Q1 according to the central bank. We expect the current account to remain in surplus in Q2 despite the drop in oil exports, as imports remain compressed. However, imports are likely to pick up in the second half of the year and it is uncertain to what extent oil revenue and savings from deferred debt service payments will be able to compensate.

Central bank governor notes slower price growth ([Lusa])

Summary:

Central bank governor José de Lima Massano noted slower inflation in June compared to earlier months of the year, when speaking to parliament on 15 July. He said the BNA would continue to conduct monetary policy "with pragmatism and realism", in order to sustain a medium-term slowdown in inflation after an expected increase to 25% this year, from 17-18% in 2018-19.

Analysis:

Inflation increased to 22.6% year-over-year in June from 21.8% in May, but month-on-month growth slowed to 1.7% from 1.9% in May and 2.1% in April, helped by a strengthening of the black-market rate of the kwanza. The slowdown in the month-on-month rate was mostly in the food and non-alcoholic beverages category. We expect the year-on-year rate to be close to its peak but it is likely to remain above or close to 20% going into 2021. The BNA is likely to keep monetary policy tight, as it focuses on reducing the gap between the official and the black-market exchange rate. The BNA's monetary policy committee next meets on 24 July and we expect it to keep its policy rate unchanged at 15.5%.

New corruption allegations at BFA Bank (NovoJornal)

Summary:

An internal audit at BFA bank has revealed that in 2017 a manager transferred $250,000 to Manuel Paulo da Cunha, Chief of Staff of former President dos Santos. The manager, Antónia Carvalho, could face two to eight years in prison for involvement in this illicit transfer. The news comes a week after the resignation of BFA Vice President António Domingues, who had raised concerns about anti-money laundering compliance at the bank. BFA has promised clarifications on Domingues's resignation "in the next few days".

Analysis:

These revelations are damaging to BFA, which had a reputation as one of Angola's better-run banks, with one of the lowest rates of non-performing loans in the sector and a return on equity above 60% in 2018. However, the bank is also closely associated with the dos Santos family, with Isabel dos Santos as the main shareholder through her 25% stake in UNITEL, which in turn owned 51% of BFA (though these assets are currently frozen by an Angolan court order). The departure of Domingues, citing compliance concerns, is worrying, and we are likely to see further revelations of impropriety over the coming three months. Lourenço's government will be keen to see these concerns addressed, especially as Angola's IMF programme places good governance and the fight against corruption "at the forefront of their core objectives".

Luanda has community transmission of covid-19 (Jornal de Angola)

Summary:

Pedro Sebastião, head of the Interministerial Commission for the Prevention and Combat of covid-19, announced that community transmission of covid-19 — when significant numbers of cases are transmitted, without being linked to an outbreak outside of the community — was now occurring in Luanda Province. This was based on a study of 7,500 samples collected in the province between 8-11 July, mainly from large markets in and around Luanda.

Analysis:

This is bad news for the Angolan government's fight against covid-19. President Lourenço did warn the Angolan public on 27 June that another lockdown was a possibility if transmission rates increased. However, he is facing strong political pressure to avoid a further lockdown due to the negative economic impacts, especially with municipal elections coming up, likely in Q3 2021. The Angolan security forces are also already struggling to enforce the current regulations in the State of Calamity, with accusations of police brutality already leading to civil unrest in some areas of the city. With this recent news, an extension to the State of Calamity beyond the current 9 August deadline becomes more likely, and with it, a delay in the reopening of Quatro de Fevereiro International Airport in Luanda.

Angolan government wins Paris case against Isabel dos Santos (Expansão)

Summary:

A Paris arbitration tribunal has dismissed the $850 million compensation claim by Isabel dos Santos-owned Atlantic Ventures, relating to the cancellation of a contract to build the Port of Dande. The court also ordered Atlantic Ventures to pay AOA 132.9 million to the Angolan state to cover the costs of the arbitration. The original concession was given to Atlantic Ventures on 20 September 2017 via presidential decree, in the last week of President dos Santos's presidency.

Analysis:

The loss of the $1.5 billion port construction project was a serious blow to Isabel dos Santos's business portfolio in 2017. Despite Isabel dos Santos's attempts to deny that the court ruled against Atlantic Ventures, this result is very bad news for the company. Atlantic Ventures has now exhausted all avenues for reversing this decision, having already lost proceedings at the International Chamber of Commerce in November 2018. Dos Santos's portfolio is now under increasing pressure both at home and abroad, with the 2 July ruling by the Portuguese state against EFACEC (see Angola Economic Briefing - Tuesday 7 July) showing that the Angolan state is willing to collaborate with other nations in targeting Isabel dos Santos's assets abroad. Contract non-payment risks are increasingly high for those contracting with any Isabel dos Santos-owned entity, especially those based in Angola, as her empire's liquidity crisis continues. The future of the much-needed Port of Dande is also currently unclear. It was intended to serve as a satellite port for Luanda's overstretched main bulk terminal, to improve shipping times for businesses operating in the capital. China Road and Bridge Corporation (CRBC) has a contract to build the port, but construction is not taking place due to the current economic circumstances.