

Angola – Change Is In The Air

Economic Snapshot

Despite having an abundance of natural resources including fertile land, a range of minerals, rich fishing grounds and hydroelectric potential not to mention serious tourism opportunities, Angola's primary economic activity and revenue generator remains its oil industry. Crude exports still generate over 70% of government income and almost 95% of the country's foreign exchange revenues, with the bulk of the remainder coming from diamond sales.

Thus the sharp drop in oil prices from 2014-2016 had a major impact on the domestic economy, and despite the recent bounce back above US\$60 a barrel growth remains tepid, inflation is around 28%, an acute hard currency shortage persists and overall public debt is estimated to have risen above 60% of GDP. Limited economic diversification is primarily due to years of poor resource allocation and planning by the government. This situation combined with a sluggish bureaucracy, corruption and an overvalued exchange rate also made some non-oil related sectors completely uncompetitive.

History & Politics

Angola was an important trading centre for the Portuguese as far back as the 15th century but the country only became an official colony of the Portuguese empire in the late 1880's, and remained such until the 11th of November 1975 when it finally attained independence. Jose Eduardo dos Santos served as President from 1979 until September 2017 when he was succeeded by Joao Lourenco following the parliamentary elections. Both men are members of the ruling MPLA party and Dos Santos was the 2nd longest serving African head of state after President Obiang of Equatorial Guinea.

A long-running civil war erupted soon after independence, dragging in external players such as the US, the Soviet Union, Cuba, Zaire and South Africa, while also leading to the deaths of more than 500,000 people, the displacement of millions more and the destruction of key infrastructure. The conflict eventually ended in 2002 following the signing of a peace treaty between the main protagonists. Thereafter an economic boom ignited as investors flooded back into the country and major reconstruction projects were initiated boosted by a rising oil price before petering out again in 2014. Unfortunately this decade of economic resurgence also saw widespread corruption take root, with Dos Santos accused of using his position to accumulate vast amounts of wealth for both him and his family during his time in office. Although such allegations against the Dos Santos family have yet to be proven, his newly elected successor has promised to crackdown heavily on all forms of this practice within the public sector. Indeed since he became President, Lourenco has undertaken a number of sensitive steps which while welcome, have come somewhat as a surprise to many regional analysts, especially so early in his Presidency.

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Amongst his first major acts were the removal of his predecessor's daughter, Isabel dos Santos, as chairperson of the state-owned oil company Sonangol, and the replacement of seven of the company's board members. This was followed by the dismissal earlier this month of her brother, Jose Filomeno dos Santos, as head of the country's sovereign wealth fund and the creation of an external inquiry into the fund's governance over the past few years. These two important institutions have not been alone in feeling the winds of change; thus far Lourenco has also reportedly made major administrative changes at almost twenty other public utilities and firms including the Central Bank where a new governor has been appointed. Another key move was the recent decision to abandon the local currency's peg to the US dollar easing pressure on Angola's dwindling FX reserves, an issue which we discuss in further detail below.

These steps especially those related to improving transparency and reducing corruption has so far played well to the average Angolan. The country's demographic picture portrays a nation where the majority of the population is under the age of 21, so additional promises to reduce unemployment and create new opportunities for those about to complete their tertiary education goes down well.

Currency & Debt

The Angolan Kwanza had been pegged at a rate of 166.00 per US dollar since April 2016 following a stepped devaluation of the local currency initiated in 2014, although the unofficial 'kerb' rate was still trading closer to 500.00 at the end of last year. Defending the peg has dramatically reduced the country's stock of FX reserves which now total an estimated US\$14 bio compared to US\$20 bio at the beginning of last year, and US\$37 bio in 2013. Clearly this situation was not sustainable and so at the beginning of January this year the Central Bank announced that a new 'more flexible' foreign exchange regime was about to be adopted and that this would eventually lead to a 'free-float,' although the authorities did not mention any initial target levels. Then on the 10th of January 2018 the CB conducted an FX auction at which it allowed the Kwanza to devalue by 11% against the US dollar and it has since declined by a further 7% during subsequent auctions held this month.

It is hoped that these changes will partially relieve the acute and ongoing shortage of hard currency which until now has forced local firms to enter the black market in order to source the FX required to pay for imports, whilst the difficulties experienced by foreign firms to repatriate their Angolan earnings was highlighted again earlier this month when the IATA claimed that a number of foreign airlines are still struggling to repatriate a total of US\$500 mio from the country which is related to their domestic ticket sales. In terms of its conversion policy the CB has been prioritizing its FX allocations towards essential imports like food, medical supplies and defence, thus any other requests such as those related to profit/dividend remittances and non-strategic imports face a lengthy wait.

External public debt currently stands at US\$38.06 bio and total public debt at AOA 12.2 trillion (67% of GDP) according to official figures. The new administration has unveiled plans to restructure some of its bilateral debt, especially as funding currently eats up more than 50% of the budget, and it appears some progress towards this goal has already begun, with the Russian bank VTB announcing just last week that it was currently renegotiating the terms of its US\$1.5 bio loan to Angola and was likely to extend the maturity to 10 years. VTB is also reportedly planning to boost the capital of its local subsidiary. Meanwhile the government says it is preparing to issue a US\$2 bio Eurobond during the 1st half of 2018 and aims to repay US\$4.9 bio in outstanding invoices dating back to 2014 by next year at the latest, as a part of its 'macro-stabilization plan.'

Conclusion

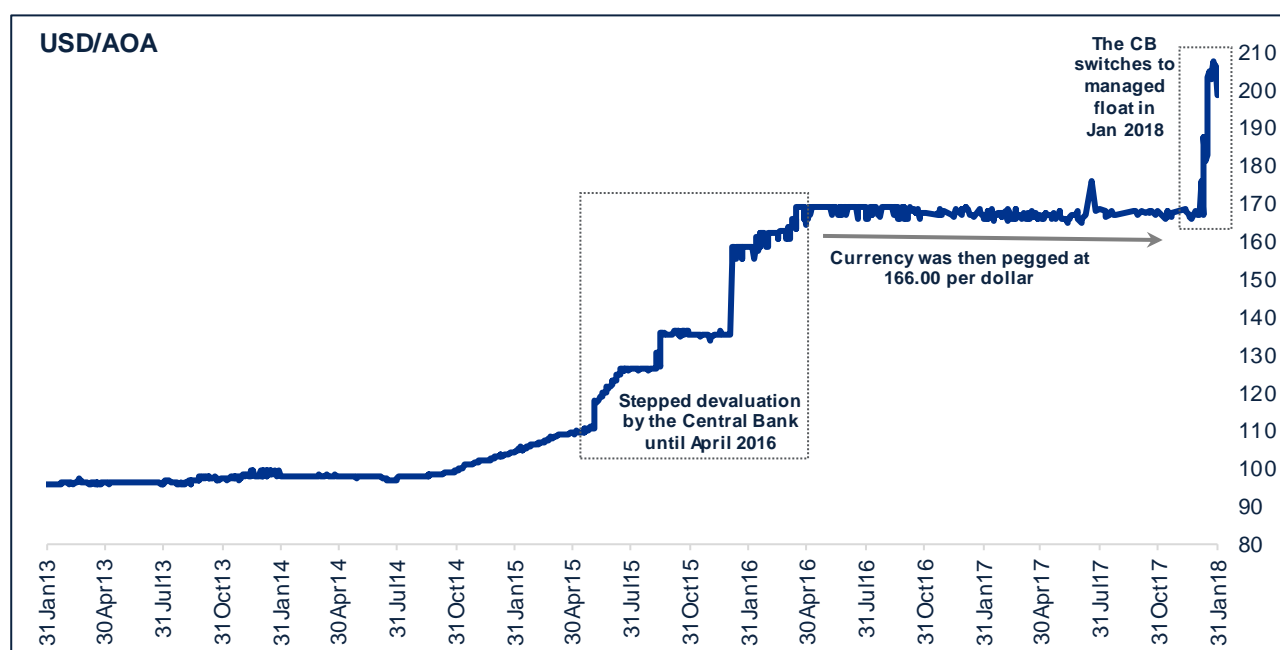
Although admittedly yet another MPLA stalwart, the appointment of President Joao Lourenco and his initial policy actions have been recognized as a breath of much needed fresh air in an otherwise stale political and economic environment. Of course much still needs to be done if the country is to return to a sustainable growth pattern and wealth more evenly distributed. A more flexible FX regime is a good start, as is the shake-up within the public sector, but neither of these steps are a panacea on their own.

The implementation of a program to diversify the economy with the assistance of external institutions such as the IMF is therefore vital, as is the ongoing clamp-down on corruption and the creation of a much more streamlined and investor friendly business climate. (World Bank ranks Angola at 175 out of 190 countries in ease of doing business). An improved oil price and a relatively optimistic young population has perhaps given Lourenco the opportunity to successfully take on this challenge, but the window is small and so his commitment to change must continue unabated if such a vision is to be attained.

Angola - Key Indicators 2017*

Population	Real GDP Growth	Debt-to-GDP	Unemployment	Inflation	FX Reserves	FX Regime
28.80 mio	1.10%	67%	25%	28%	US\$ 14 bio	Managed

*Estimates: IMF/AFDB/FAB



Source: Bloomberg/FAB

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