

REPUBLIC OF ANGOLA
AUGUST 2008

CREDIT GUARANTEE COUNTRY PROFILE:

IES/02: ATTACHMENT N

Country Rating	S/T Business Cycle Indicator	S/T Political Indicator	Debt Recovery
3C	↑	↑	Debt collection is best suited to the use of a good collection agent.

Credit Guarantee Experience

We are open for cover in this market without any restriction, where our exposure continues to grow. Whilst there is plenty of opportunity to conduct good business in Angola, this market is not without any problems of potential non-payment and exporters who conduct exports on an open account basis need to be aware of the inherent payment risks associated with this market and as such they need to take the necessary precautions in adequately mitigating against these risks.

Recent Political Highlights

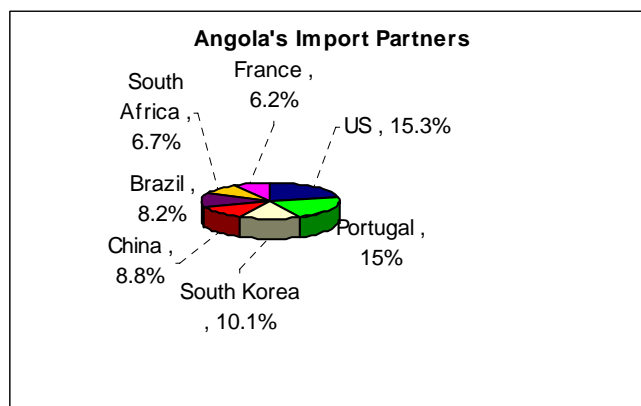
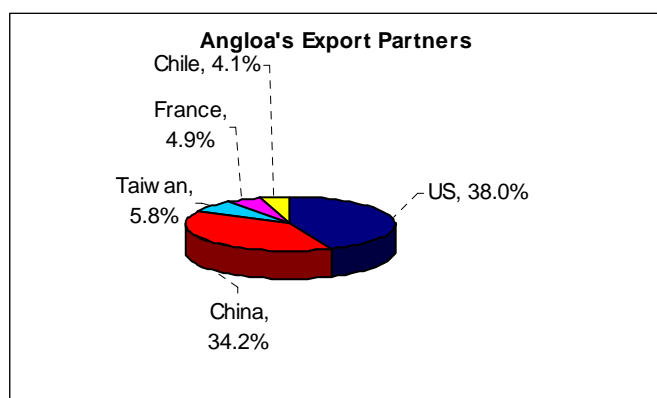
- ❑ Jose Eduardo dos Santos of the ruling MPLA has led Angola since 1979 and presidential elections are expected to be held in 2009. Unofficial campaigning for the legislative elections, the first since 1992, scheduled for 5 and 6 September 2008, has already begun in a calm atmosphere. The registration of Angola's estimated 8 million voters was completed on June 30 and the official campaign will start on August 5.
- ❑ With most preparations complete for the September elections confidence is growing that the polls will be peaceful and a success. There are about 126 political parties but most of them are small and little known. Restrictions on the registration of smaller parties consequently leave the real contest between the two traditional rivals, the MPLA and Unita. Both Unita and the MPLA claim that they will win but political observers say Unita is unlikely to unseat the MPLA which holds 129 seats out of a total of 220 seats. Unita has 70 seats.
- ❑ The coercive disarming of civilians in illegal possession of firearms started at the beginning of July. It's the third part of Government's programme, where the first part focused on the awareness on dangers of unlawful possession of weapons followed by voluntary surrender of means of war. The announcement of forcible disarmament included an appeal to those still in possession of firearms to voluntarily hand them in and thus avoid punishment. The National Commission for Civilians Disarming headed by the prime minister, has noted a high level of awareness on the undue use of firearms and the rise in the number of weapons surrendered every month.

Recent Economic Trends

- ❑ The ending of Angola's 27-year civil war in 2002 has given rise to rebuilding and development efforts. Oil exports and foreign loans have spurred economic growth and fuelled a reconstruction boom. Angola plans to invest \$4.7bn in road projects. The government plans to rehabilitate 12,000km of roads through 2012 and build and rehabilitate 1,500 bridges. Major problems persist in the port of Luanda which can not keep pace with the rapid development of the economy and the huge volume of cargo entering the country.
- ❑ Opec figures show that Angola pumped 1.87 million bpd in April against 1.8 million in Nigeria, to become Africa's top producer for the first time. This trend continued into May when Angola pumped 1.94 million bpd versus Nigeria's 1.9 million barrels. Angola plans to increase production by 100,000 barrels a day before the end of the year as well as invest massively in exploration and production. It plans to invest \$100bn over the next five years in the oil sector. As a sign of growing importance Angola was this year attributed a production quota of 1.9 million bpd by Opec.
- ❑ The oil boom is expected to continue in 2008-09 boosted by rising oil production, high prices and ongoing investment in the sector. The EIU expects real GDP to average 21.4% in 2008 and 10.4% in 2009 and forecasts oil production to slacken in 2010 once the new wave of oil fields has come on stream before rising again in 2011-12. The government expects the economy to grow by 16.5% in 2008 from 24.4% in 2007.
- ❑ Angola might be among the world's three leading diamond producers in 2010, thanks to the emergence of new investors in the country's diamond sector, the rise in volume of production and the opening of new lines. Angola's state-owned diamond company Endiama produced about 3.35 million carats worth \$525 million in the first five months of this year. Diamond production for the full year is expected to exceed 10 million carats.
- ❑ Although consumer inflation declined from 325% in 2000 to 12.2% in 2007, the stabilisation policy has put pressure on international net liquidity. The central bank will struggle to keep inflation below double digits due to relatively loose monetary policy, strong economic growth and continuing growth in money supply. Sustained high government spending and buoyant domestic demand are expected to keep inflation high, averaging 12.3% in 2008 and 12.2% in 2009.
- ❑ Exceptionally high export earnings will result in large current account surpluses in 2008-12. The EIU forecasts the current account surplus at 45.4% of GDP in 2008, gradually decreasing to 28.6% of GDP in 2012. Angola's foreign exchange reserves continue to grow strongly rising from \$11.1bn in January to \$13.4bn in April.
- ❑ Government has severed negotiation talks with the IMF on an economic programme and is implementing its own 'home-grown' programme which it believes is sufficient to maintain macroeconomic stability, stimulate private-sector growth and reduce poverty. However the IMF will continue to monitor the country's economic progress as part of its Article 1V consultations and ad hoc cooperation. In the absence of an IMF programme, government will continue to contract expensive oil-backed loans and further extending credit lines with China, Brazil, Portugal and other partners in order to invest heavily in the rehabilitation of infrastructure.

- ❑ At the beginning of July, Angola and China signed three complementary individual financing accords totaling about \$78.8m, under the Exim China credit line. The government of Angola and Credit Suisse Investment Bank of Brasil, signed a resolution for the funding of \$200 million for the purchase of equipment for the assembly of a building materials factory.
- ❑ Having acquired the Luanda refinery from Total, the government is currently developing plans for Sonaref, a new refinery with a capacity of 200,000 bpd in the central coastal city of Lobito. When the facility is fully operational in 2013, 80% of the products refined there will be exported regionally.
- ❑ A foreign consortium will invest \$500m for the construction of a cement factory with the capacity to produce 1.4 million tonnes per year, at Cuara district. The factory will be concluded in 2011 and generate 4,000 jobs.
- ❑ Angola will invest more than \$300 million until 2010 in the construction of hotels, already underway in various cities of the country. The Hotels and Tourism Ministry forecasts that by 2010 an additional 2,500 rooms will be available to accommodate tourists and investors attracted by the rhythm of growth in Angola. More than 200,000 people, mainly tourists, visit Angola annually.
- ❑ Namibia and Angola have finally signed an agreement with the Kunene Consortium, marking the beginning of a feasibility study and the first phase of the development of the long-awaited Baynes Hydropower station. The power station which is anticipated to have a generation capacity of 500MW, will offer relief to the two countries and the entire Southern Africa, which is facing serious power shortages. Investigations for the possible development of the power station begun in 1990 and the two countries were involved in negotiations until 2005.
- ❑ Netherlands has expressed the desire to import gas from Angola for its distribution in East European countries.
- ❑ French President Nichols Sarkozy was in Angola in May in a bid to improve relations following an arms scandal that provoked tensions between the two countries; this was the first visit by a French president since 1998.
- ❑ Members of the German Federal Parliament have expressed their interest in setting up a Volkswagen assembly line and a commercial dealer in Angola. German business officials hope to invest in mining, agriculture, infrastructure building and service delivery sectors in line with the strategy of the Government in diversifying the economy.

Trade Developments



- ❑ Main exports: crude oil, diamonds, refined petroleum, liquefied natural gas, coffee, sisal, fish and fish products, timber and cotton.
- ❑ Main imports: machinery and electrical equipment, vehicles and spare parts, medicines, food textiles and military goods.
- ❑ As South Africa's 18th-largest export destination, exports from SA to Angola totaled R5.5bn in 2007 from R4.7bn in 2006 and R3.5bn in 2005 with R592.7m in January 2008. Angola is South Africa's fifth-largest import source with imports soaring to R11.5bn in 2007 from R2.5bn in 2006 and R1.9bn in 2005 with R2.1bn in January 2008.

*Researched and Compiled by Sindiso Valerie Mpoju
Economic Researcher, Credit Guarantee Insurance*