

**REPUBLIC OF ANGOLA**  
**OCTOBER 2009**

**CREDIT GUARANTEE COUNTRY PROFILE:**

IES/02: ATTACHMENT N

<b>Country Rating</b>	<b>S/T Business Cycle Indicator</b>	<b>S/T Political Indicator</b>	<b>Debt Recovery</b>
3C	↑	→	The use of a collection agent is better suited to the legal route in this market.

Credit Guarantee Experience

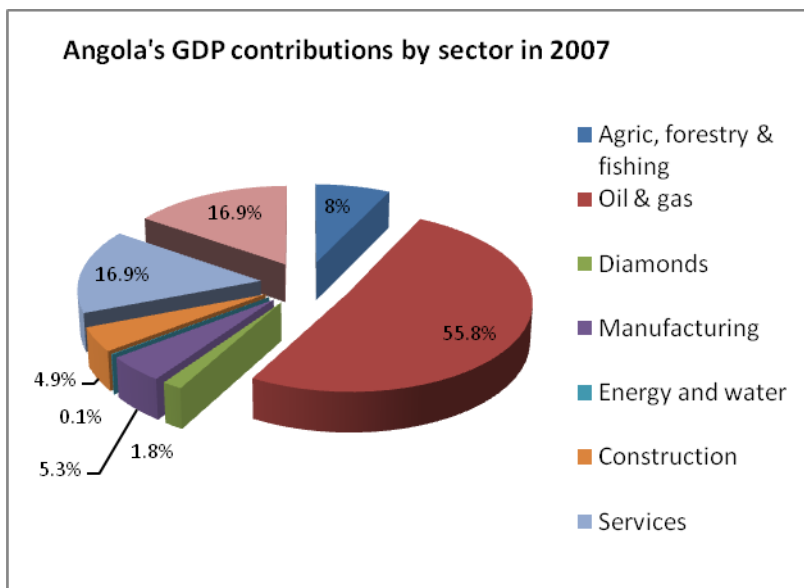
We are open for cover in this market on a case-by-case basis. Exporters must ensure that they have taken the necessary precautions in managing the payment risks when dealing on an open account.

Political Highlights

- ❑ The ruling MPLA (Popular Movement for the Liberation of Angola) secured a strong victory in the September 2008 elections, enabling it to extend its stronghold in parliament in the country's first polls in 16 years. Analysts expect that Angola will postpone its 2009 presidential election for at least a year following a call by constitution-drafters for more time to complete their work. For the election to take place by the end of 2009, the Constitutional Commission must agree on a document by September 23. Angola has not held a presidential election since 1992, when former UNITA (Union for the Total Independence of Angola) leader Jonas Savimbi rejected the first-round victory of current President Jose Eduardo dos Santos.
- ❑ The Head of the Institute of the Socio-Professional Reintegration of Former Soldiers (Irsem) in the southern Cunene Province has called for a greater adhesion of demobilised soldiers in the ongoing socio-economic reintegration process in the region. The local government is developing programmes in areas such as professional training, farming and physical rehabilitation which are meant to improve ex-soldiers living standards.

Economic Highlights

- ❑ Angola's economy is expected to return to double digit growth in 2010 and is forecast to expand 6.2% this year after growth averaged 15% annually from 2002 to 2008. The government recently halved its economic growth forecast for 2009 to 6.2% from 11.8% in a revised budget, with a decline of 6.1% in the oil sector and growth of 15.4% in the non-oil sector.
- ❑ In 2008, inflation rose to 13.2% from 11.8% in 2007, reversing the downward trend started at the beginning of the decade and exceeding the government target of 10%. In 2009, inflationary pressures will be hampered by the devaluation of the kwanza despite falling food prices internationally. Inflation is forecast to average 14% in 2009.
- ❑ The manufacturing sector contributed 5.3% of GDP in 2007 with food and beverages accounting for 85% of sector output. The government has undertaken several industrial projects to stimulate manufacturing activity. Angola is planning to build at least sixteen factories in the next four years in the northern Zaire Province, under a government programme to re-launch the manufacturing industry. The projects planned under this programme include plants of ceramics, sugar, pesticides, a printing factory as well as other local service industries. Early this year the Angola government committed over \$8.6bn investment to boost the transformation of industry between 2009 and 2012.



- ❑ Agriculture accounts for 50% of total employment but contributes about 8% to GDP. A deficit of 5,000 beds is boosting hotel construction and 39 new hotels are anticipated as part of the 2009-12 Tourist Sector Development. Angola will spend millions of dollars upgrading old airports and building new hotels to accommodate some thousands of fans expected during the African Cup of Nations from January 10-31 in 2010. However this is not expected to have a significant effect on the economy.
- ❑ Angola is globally the fifth-largest producer of diamonds by value, supplying 7-9% of the world's diamond output. Angola's diamond industry comes under scrutiny as a team of inspectors begins to review the country's compliance with the Kimberley Process, set to stop conflict diamonds. The mission is the first since 2005. Even though the industry is now regulated, international organisations remain critical of how Angola treats the artisanal miners who work casually in alluvial river deposits whose gems account for around one-tenth of output and a quarter of overall revenue.
- ❑ The World Bank has urged the south-western African nation to bolster efforts to diversify its economy away from oil and diamonds. Angola's oil revenues were expected to fall by 50% this year implying that the government has to cut costs. Oil and diamonds accounted for almost 60% of Angola's GDP in 2008. At the end of July, Angola's parliament approved a revised \$33.3bn budget for 2009 as the oil-producing nation prepares to begin long-delayed talks with the IMF for new loans. The initial budget was \$40bn and was based on an oil price of \$55 per barrel but the new budget relies on an oil price of \$37 per barrel so that extra oil revenues can be used to bolster foreign exchange reserves. The fiscal deficit is also forecast to reach 15.2% of GDP.
- ❑ Angola increased production by 20,000 barrels to 1.81 million barrels a day in July, overtaking Nigeria as the No.1 African supplier of crude. Angola's daily crude oil exports are scheduled to rise to the highest this year, signalling that it continues to pump more than its OPEC (Organisation of the Petroleum Exporting Countries) quota; the World Bank revised its growth forecast for Angola from a contraction of 3% to 0% due to the country's decision to pump more oil than the output quota set by OPEC. Angola expects to produce 2mbpd of oil next year, up from its current output at 1.93mbpd. Angola which holds the one year presidency of the OPEC produced 99% of its oil from offshore fields. Angola is expected to resume a tender for new oil exploration licences this year after the last licensing round for four oil blocks was suspended in the first half of 2008 due to parliamentary elections.
- ❑ The anti-corruption body has revealed that a closely held company with government permission to bid for oil contracts has shareholders with the same names of top state officials, suggesting an abuse of regulatory powers. The body said that Angola should apply a global standard for open bidding that would enable its citizens to see who is bidding and make clear what they are paying and ensure that contracts are published in full. Angola ranks 158<sup>th</sup> out of 180 countries on Transparency International's list of the world's most corrupt countries.
- ❑ Angola depends on tax and royalty fees for 90% of its income. The drop in oil revenues caused the Angolan state to delay payments to companies operating in Angola. The falling revenues also prompted Angola central bank to limit the amount of dollars it sells to banks at its daily auctions, leaving many companies struggling to find US dollars to pay for imported goods and services from abroad. In the January-May period, Angola's foreign exchange reserves fell by 30% to \$12.2bn. Angola will resist speculative attempts to devalue the kwanza even as the unofficial exchange rate falls. The central bank's official exchange rate was 78 per U.S. dollar in August; the Kwanza has been pegged at 75 to the US dollar since 2007.
- ❑ The IMF has undertaken to remove rigid prerequisites for Angola's access to its loans. Relations between Angola and the IMF have been frosty since the end of the civil war in 2002. In 2007 Angola broke off talks with the IMF on an economic support programme on the grounds that it was quite able to maintain economic stability on its own, raising fears over future oil transparency in one of Africa's biggest oil producers. Instead it implemented its own macro-economic programme using its own resources and billion of dollars in oil-backed loans from China. In recent years China has extended more than \$5bn in credit to Angola. However the spreading global recession and a sharp drop in oil prices and exports have weighed down on Angola's economy.
- ❑ The African Development Bank (AfDB) has been assisting in projects such as agriculture, construction and environment. It has announced the opening of an office in Luanda as part of its expanded mission in the country after being impressed by Angola's rebuilding efforts. Angola sealed a loan deal with the bank earlier this year to the tune of \$18.6 million, to boost its rebuilding and economic revival programmes.
- ❑ Angola has made progress in rehabilitating its road infrastructure. The Port of Luanda is a major constraint on the growth of the non-oil sector with an average 45 days to dock and three months to get a container out of the port. Expansion of airports is underway with a budget of \$400 million. Luanda's International Airport capacity will rise from 1.6 million to 3.6 million passengers by 2009 and another new airport is to be built by a Chinese firm in 2010.
- ❑ The State Secretary for Waters guaranteed that his department will supply water to another 300,000 localities countrywide until 2012, as part of the project dubbed "Water for All". The referred programme is intended to secure the supply of water to at least three million people in rural areas, as well as to open five thousand new underground abstraction systems and rehabilitate the existing ones until 2012. The project is intended to reach 80% of the country's population and with total funding estimated at \$100 million.
- ❑ The electricity sector is to be restructured by 2013 and the national power company ENE will lose its monopoly over production, distribution and commercialisation of electricity in favour of new private operators. Only 20% of the population has access to electricity and hydro-electric facilities generate around two-thirds of Angola's electricity. Plans to develop nuclear energy are also in the pipeline. Proven natural gas reserves are estimated at 270 million cm<sup>3</sup>, enough to maintain production for over the next 30 years. A liquefied natural gas (LNG) plant is under construction and scheduled for completion in 2012.

- ❑ According to the 2009 Global Entrepreneurship Monitor (GEM) carried out in 43 countries across the world, Angola has one of the highest rates of early-stage entrepreneurship with one in every four Angolans involved in start-ups. The GEM survey found that while Angola has a very high start up rate it also has the highest failure rate in the countries surveyed, with a fifth of new Angolan companies closing shop down within 12 months.

#### Trade Developments

- ❑ Main exports: crude oil, diamonds, refined petroleum, liquefied natural gas, coffee, sisal, fish and fish products, timber and cotton. Oil and diamonds accounted for about 99.5% of total merchandise exports.
- ❑ Major imports: machinery and electrical equipment, vehicles and spare parts, medicines, food textiles and military goods.
- ❑ Major trade partners: China, US, Portugal, Brazil, South Africa, Germany, UK, South Korea and Taiwan.
- ❑ South African exports to Angola totalled R5.5bn in 2007, R7.4bn in 2008 and R3.5bn in the year-to-June 2009. Imports from Angola totalled R11.6bn in 2007, R23.4bn in 2008 and R5.1bn in the year-to-June 2009.
- ❑ President Jacob Zuma was accompanied by political and business leaders on an official visit to Angola in September 2009. Bilateral talks resulted in a signing of a number of trade agreements aimed at strengthening economic relations between the two countries. An agreement was signed that will facilitate cooperation on oil projects involving exploration, refining and distribution of oil. The deal facilitates cooperation on oil projects between state oil companies Sonangol and Petro SA.
- ❑ SAB Miller plans to open breweries in Angola in Q4'09. Vodacom held informal talks with Unitel, Angola's market leader with 5 million users or about 61% of the market share.
- ❑ Angola would exempt some imported building materials from taxes in a bid to make housing more affordable for the poor. Angola imports over 90% of its building materials from abroad, making projects expensive and often coming with long delays.
- ❑ Language and historical ties have helped Portuguese investors gain a profitable foothold in oil-rich Angola. According to the figures from the Chamber of Commerce, Portugal's exports to Angola leapt by one-third in 2008 to €2.2bn making it Portugal's fourth-largest trading partner. Portuguese direct investment has tripled to €634 million in public works and construction.
- ❑ The US has confirmed that it has begun talks with Angola as a formidable alternative to replenish the oil shortfall which it has been having from Nigeria. The US consumes about 1.2mbpd from the 2.3mbpd production from Nigeria. The US Secretary of State Hillary Clinton pressed Angola to investigate human rights abuses, fight corruption and hold free, fair and timely elections. The US plans to expand trade and investment with Angola and is looking at ways to cooperate more closely with the Chinese on economic development in Africa. Angola was the third nation in Clinton's seven-country African tour.
- ❑ Ever-hungry China has boosted its presence in offshore fields in recent years as part of efforts to secure oil supplies for its rapidly growing economy. Chinese oil giants CNOOC and Sinopec said they have agreed to buy a 20% stake together in an offshore oil block from a US company Marathon OilCorp.
- ❑ Russian diamond company Alrosa plans to invest \$500 million in construction and infrastructure projects in Angola. The company is currently building a housing complex in Luanda and a hydropower plant in the diamond-rich region of Luanda-Sul.
- ❑ Namibia and Angola are in plans to jointly develop a hydropower plant that runs along the border between the two countries.

*Researched and Compiled by Sindiso Valerie Mpfu, Economic Services - Credit Guarantee Insurance*