

ANGOLA FLASH NOTE

Deepening fiscal crisis spells another devaluation

Low oil prices have been wreaking predictable havoc on Angola's fiscal numbers, which almost certainly exceeded the 7.8% overall deficit forecast for 2015 and are clearly on track to overshoot the aspirational target of -5.5% set for 2016. Under the circumstances, **the authorities' most likely response will be a further devaluation of the Kwanza.**

1) The mountains of garbage now clogging Luanda's streets stand as **the most conspicuous manifestation of the deepening budget crisis** precipitated by the collapse in revenue from Angola's oil exports. The municipality has simply "run out of money"¹ to pay for garbage collection.

It would be **difficult to overstate the threat to public health** in a city of 6.25 million² in which cholera has been known to claim 2,000 lives in a single year³.



2) Meanwhile **Angola's public health system is in a state of virtual collapse**⁴ as a result of the Government's failure to disburse even the meagre 5.31% appropriation allocated to the sector under the 2016 budget⁵.

The crisis is epitomized by the **yellow-fever epidemic that has been raging since mid-January**. Now affecting 16 out of the country's 18 provinces and having caused more than 180 deaths, the crisis has been classified as a Category II emergency⁶ on the WHO's three-point scale.



3) The **USD recently traded at a staggering AOA 400 on the parallel market** – a premium of more than 157% over the Kwanza's official rate of 155. As will be recalled, this differential stood at just under 100% when the central bank decided to implement its New Year's eve devaluation⁷.

In our assessment, **this combination of fiscal and exchange-rate pressures**⁸ **makes an early devaluation inevitable.**

¹ It is reported that there is already a sizable backlog of unpaid invoices owed to the contractor.

² I.e. more than a quarter of Angola's total population.

³ See "In Oil-Rich Angola, Cholera Preys Upon Poorest"; *New York Times*, Jun. 16, 2006.

⁴ According to the NGO Norwegian Church Aid, 'Angola is going through a very serious economic crisis ... Revenues have fallen by more than half. Hospitals are running out of basic supplies. That, coupled with bad governance, has led to the deep crisis that we now see.' Assessment quoted in "Under the Radar - Angola Plays Down Yellow Fever Crisis" published by [UN-IRIN](#), on Mar. 26, 2016..

⁵ Compared to the 13% budgeted for Defence.

⁶ I.e. On par with the conflict in northeastern Nigeria, Cyclone Pam in Vanuatu last year, and the 20156 floods in Myanmar, Mozambique and Malawi that displaced tens of thousands of people.

⁷ This was [the Kwanza's third maxi-devaluation in seven months](#), a move of which Rhombus had warned three days earlier (i.e. Dec. 29th).

⁸ We do not expect the 200 bp hike implemented by the MPC this week to provide the Kwanza with any support since the new policy rate remains 426 b.p. below February's inflation print (y/y) of 20.27% - at a time of accelerating price increases.