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ANGOLA FLASH NOTES

Quod erat demonstrandum

Today, the IMF reported that the Angolan government had effectively walked away from negotiations aimed at securing a financial assistance package. The news will not have come as any great surprise to Rhombus' clients.

Two weeks ago, we identified a number of fundamental differences between the two sides while pointing out that, with general elections scheduled for August 2017, ***there was no possibility of a financial assistance package materializing before the next government is sworn in****. Evidently, President dos Santos has arrived at the same conclusion.*

We reproduce below a series of flash notes sent to clients during, and immediately after the conclusion of, the IMF's June 1-14 mission to Luanda.

May's CPI shocker, June 13th

1) At 29.23% (y/y), the CPI print for May came in 3.31% higher than the previous month and **close to three times higher than the full-year target of 11%** laid out in the 2016 budget.

2) Inconceivable though it sounds, **the major driver of this price move was the category Food and non-alcoholic beverages** which makes up 58.35% of the basket. The spectacular jump of 4.49% (y/y) captures the impact of the Kwanza's accelerating depreciation on an economy that is now almost completely dependent on imported food - despite its natural endowment of fertile land and ground-water.

3) The USD is now trading at Kz 600 on the parallel market, i.e. **3.6x the official rate of Kz 166.71**. This notwithstanding, the BNA has begun to nudge rates lower - a clear sign of its concern with the grim outlook for growth.

4) Meanwhile, the IMF team is scheduled to conclude its Luanda mission tomorrow. Its observations are awaited with interest, but **it is clear that the authorities have their work cut out for them** - in the areas of fiscal policy, the management of public-sector institutions and monetary policy - **before any meaningful discussions on an assistance programme can get under way**.

In short, this is not a time to be holding one's breath.

IMF team wraps up Luanda mission, June 14th

"We thank the authorities for the candid and constructive dialogue," reads the closing line of the IMF's post-mission statement today, conveying a sense of the **fraught and predictably inconclusive discussions** conducted over the last 10 days.

1) After noting the various indicia of economic distress - external imbalance, growth, inflation - the statement prescriptively declares that,

"Adjusting economic policies is required to facilitate the needed transition of the economy to the 'new normal' in the international oil market." [1]

[1] Note the glaring omission of any suggestion that "the two sides agreed on the need to adjust ..."

2) Although the statement throws the authorities a bone by acknowledging their 2015 fiscal adjustment effort, it bluntly warns that,

"Further steps are still needed to reduce vulnerabilities, and maintaining fiscal prudence in the run-up to the 2017 elections will be critical."

3) Another bone of contention we anticipated was Angola's unsustainable exchange-rate policy, with the parallel-market value of the USD commanding a premium of 260% over the BNA (official) rate and real interest-rates[2] currently at -8.57%. Here, the statement minces no words, viz.:

"The strategy for rebalancing the foreign exchange market will need to … rely on greater exchange rate flexibility supported by tighter monetary conditions to contain inflation."

4) Finally, as if **to disabuse those counting on the early announcement of financial assistance package,** the statement goes out of its way to stress that the relevant negotiations have barely gotten off the ground, viz.:

"A staff team will visit Angola in the second half of the year for additional EFF supported program discussions and the 2016 Article IV consultation."

The annual mission is usually fielded late in the 4th quarter. **This time-frame**, a mere 9 months before Angola's 2017 elections, to be held under the shadow of dos Santos' planned retirement in 2018 – **effectively precludes an IMF programme before a new government is sworn in**.

[2] i.e. Based on the most recent auction of 6-month T-bills, which produced a clearing yield of 17.40%.

IMF team wraps up Luanda mission – Post scriptum, June 16th

It has now emerged that the IMF mission met with the National Assembly's committee on finance and the economy on Tuesday afternoon, the eve of their departure, officially to be briefed on efforts under way in the Legislature to accelerate the diversification of Angola's oil-dependent economy.
The relevant discussions appear to have been unusually candid.

1) First, the mission underlined the purely exploratory nature of the ongoing discussions, which it described as ***"conversations aimed at establishing what (adjustment) measures the Government has in mind"*** – this as a basis for determining what technical support might be required.

2) Then, as if this wasn't pointed enough, the team reportedly sought confirmation that the authorities are still interested in a funded program. This was clearly **a dig at the government's repeated assertions** – at least, to the Angolan public - **that its request to the Fund last April was *"for technical support rather than financial assistance."***

3) Finally, the IMF mission urged that Angola adopt a V.A.T. which it described as ***"an essential tool for maintaining a relative stability in fiscal revenue"***. With the next elections little more than a year away, this proposal will have gone down like a lead balloon.

The clear implication is that **the differences between the two sides are even wider than one had initially concluded.**