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ANGOLA FLASH NOTE

Sonangol's financial crisis spells trouble for the Republic

1) The latest indignity to have befallen Sonangol seems at once absurd and emblematic. In the last fortnight, visitors to the imposing tower that houses the national oil company – now celebrating its 40th year as the nation's cash-cow – have been struck by the lack of bathroom tissue in the lavatories.

Apparently the deficiency is due to a payment dispute with the supplier – **a contretemps with unfortunate echoes of the garbage crisis that engulfed Luanda earlier this year**[1].

2) In fact, recent months have thrown up a growing body of evidence that **the company is under considerable financial pressure**.

- In June, the Republic embarked on a road-show, hoping to raise **USD 1 billion** to settle **Sonangol arrears payable to Trafigura** in respect of fuel imports.
- In August, it emerged that Angola had overtaken Russia and even S. Arabia to become China's largest supplier of crude oil. What this reflected was not a surge in Sonangol's oil output but, rather **an upward revision of the tonnage deliverable to China** following a restructuring of the Republic's large pool oil-backed loans.
- Sonangol has also accumulated **USD 600 million in cash-call arrears** payable to Chevron in connection with the development of offshore oil Block 'O'.
- Last month, Sonangol chairman Isabel dos Santos returned empty-handed from a mission to Beijing, having failed to persuade **China Development Bank** to lift its **freeze on withdrawals under a USD 15 billion line of credit**.

3) Given Sonangol's role as Angola's single largest source of both fiscal revenue and FX earnings, its evident **liquidity problems spell serious trouble for the economy** which is already grappling with significant imbalances[2].

An additional channel through which financial instability is likely to be transmitted from the company to the broader economy is the banking system, where **Sonangol holds a controlling interest in no fewer than five of the country's largest banks**[3].

4) Meanwhile, as if to compound the Republic's woes, it has emerged that Brazil's **BNDES has frozen withdrawals from a USD 7 billion credit line**[4] put in place to finance a total of 25 infrastructure-related projects in Angola.

Although the Republic is reportedly seeking "clarification" from BNDES as to the precise reasons for the restriction, **this is hardly likely to unfreeze disbursements**.

5) In other words, **the ingredients of a perfect storm are rapidly falling into place** - with the 2017 elections a little over nine months away and no IMF programme in place.

[1] As will be recalled, the mountains of refuse then clogging Luanda's streets exemplified the deepening budget crisis precipitated by the collapse in oil revenues, the municipality having simply "run out of money" to pay for garbage collection. See research note, *'Deepening fiscal problems signal another devaluation'*, Mar. 31, 2016.

[2] On the parallel market, the USD currently fetches more than 3.25x the official rate of Kz 166.72 while the CPI rate ended September at 38.18% (y). Even though real interest rates are – 9.18% b.p., the government has had to slash its 2016 growth estimate to 1.3%, a level it is almost certain to undershoot.

[3] I.e. Banco Económico (ex-BESA), Banco Angolano de Investimento (BAI), Banco de Poupança e Crédito (BPC), Banco de Fomento de Angola (BFA), and BIC-Millennium.

[4] The freeze, which affects an undrawn amount of approximately USD 5 billion, was implemented in connection with the far-reaching *Lavo Jato* investigation. It has emerged that almost 80% of all disbursements to date have been in favour of Oderbrecht.