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ANGOLA FLASH NOTE

State of the Nation

The most remarkable feature of President dos Santos' state of the nation address yesterday was how little it had to say about any of the significant issues facing the Republic.

1) Although there have been no threats to Angola's national security since the civil war ended in 2002, the five and a half page **speech invokes the notion of 'peace' no fewer than six times**.

2) To be fair, dos Santos does make a total of three allusions to the "economic situation/crisis". However, the first such reference makes the perplexing and unsubstantiated claim that Angola is suffering from the **consequence of the global financial crisis of 2008**.

3) In his second mention, the President more plausibly ascribes the country's economic difficulties to the terms of trade shock but then makes the astonishing claim that, *"Angola is coping with the (resulting) crisis better than most countries* (sic)*."* [1]

The evidence cited in support of this bold assertion:
"(T)he gradual reduction in the cost of essential goods, inflation and interest rates (sic)*."* [2]

4) This was a particularly problematical claim to be making at a time when **inflation is running at 39.44%** (y/y) as at Sept. 30th. During the course of last month alone, food prices increased by 2.15%; alcohol and tobacco by 2.77%; clothing by 3.73%; and health-care by 3.09%.

5) Under the circumstances, Zédu was hardly likely to address such awkward topics as **the mounting financial problems at Sonangol**.[3] Nevertheless, since the state-owned oil company has long been the principal engine of Angola's growth, this was **a material omission**.[4]

In short, **this was a less than reassuring presentation** – without even the safety net of an IMF programme in prospect.

[1] No mention is made of the widespread collapse of government services – epitomized earlier this year by Luanda's garbage crisis and the nation-wide epidemic of yellow-fever. For further details, see research note, *"Deepening fiscal crisis spells another devaluation"*, Mar. 31, 2016.
[2] In his third "crisis" reference, Zédu acknowledges the severe impact on the Kwanza exchange rate.
[3] In addition to its USD 1 billion in payment arrears due to Trafigura for fuel deliveries, the company owes Daewoo Shipbuilding and Marine Engineering USD 870 million for two drillships, the *Sonangol Libongos* and *Sonangol Quenguela*. Sonangol is also on the hook to Chevron for USD 500-600 million - its share of the exploration and development costs related to Bloc 0 (offshore Cabinda). It may be reasonably assumed that the operators of other oil blocs in which the state-owned oil company has an interest are grappling with similar payment arrears – a situation uncomfortably reminiscent of NNPC's cash-call arrears to its joint-venture partners in Nigeria.
[4] An equally significant omission was any mention of the recent tightening of credit policies at China's official lending agencies upon whom Luanda has historically relied for financing.

For ease of reference, we reproduce below the text of our August flash note on the travails of the state-owned oil company.

SONANGOL on the ropes, Aug. 25th

1) Three weeks ago, we reported that **Sonangol had been trying to raise USD 800 million to pay down the USD 1 billion in arrears to Trafigura** for imported fuel[1]. It is now evident that the national oil company is in even more trouble than was already apparent.

2) It has just emerged that the **China Development Bank has frozen the USD 15 billion credit line it granted Angola last year**[2], of which USD 10 billion were earmarked for use by Sonangol.
Although details as to the nature of the *contretemps* are hazy, it appears to involve an alleged breach by Sonangol of the loan agreement's provisions regarding use of proceeds.

3) In any event the Chinese authorities have now 'invited' **Sonangol's management to travel to Beijing to clarify matters**. Apparently the Princess is 'not disposed' to embark on such a mission, which **could have far-reaching repercussions for Angola**.

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[1] As if to underscore the Nigerian parallel, Angola has only one functioning oil refinery and so has been spending between $150-170 million each month to import fuel.
[2] I.e. following Zedu's working visit to Beijing that June. For further details see research note, *The Kwanza Blues*, Jan. 10, 2016.