Ecobank Research
Country Investment Profile:
Angola

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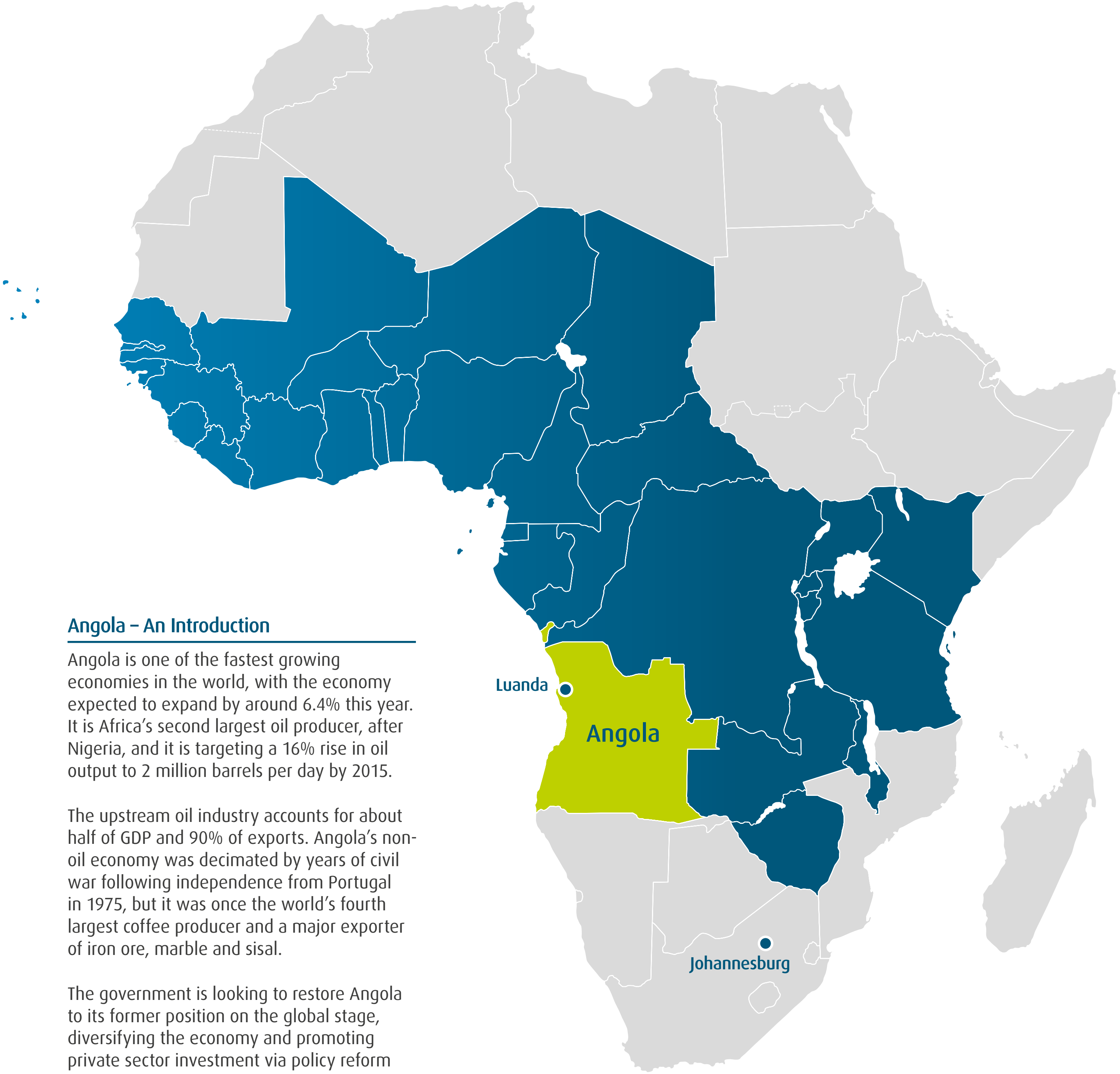
The Pan African Bank



Angola – An Introduction

Angola is one of the fastest growing economies in the world, with the economy expected to expand by around 6.4% this year. It is Africa's second largest oil producer, after Nigeria, and it is targeting a 16% rise in oil output to 2 million barrels per day by 2015.

The upstream oil industry accounts for about half of GDP and 90% of exports. Angola's non-oil economy was decimated by years of civil war following independence from Portugal in 1975, but it was once the world's fourth largest coffee producer and a major exporter of iron ore, marble and sisal.

The government is looking to restore Angola to its former position on the global stage, diversifying the economy and promoting private sector investment via policy reform and the establishment of development zones.

Ecobank opened a representative office in the capital, Luanda, in 2010, as part of its strategy of developing its presence in Lusophone Africa. Key areas of interest include correspondent banking, trade finance, payments and transfers. Additionally, Ecobank is keen to promote trade and investment between Angola and the rest of Africa.

Ecobank currently has operations in 31 countries in 'Middle Africa', plus representative offices in Johannesburg and Luanda.

Ecobank's Middle African footprint

Ecobank representative offices

Contents

Executive summary

Table 1: Angola factsheet

Total population (m)	20.2
Total area size (square km)	246,700
Official language(s)	Portuguese
Head of state	President José Eduardo dos Santos
Nominal GDP (USDbn)[1]	116
Income per capita (USD)[1]	5,756
Adult literacy rate (% of population aged 15 and over)	70.0
Internet penetration (% of total population)	14.8
Average export time (days); import time (days)	48; 45
Export cover	Limited short- and medium-term cover available
Export cover providers	US Eximbank; Euler Hermes, UK
Import cover	8.7 months
FDI stock[2]	USD 6.3bn

Capital	Luanda
Time zone of capital	GMT +1 hour
Last election	Parliamentary: August 2012
Next election	Parliamentary: August 2016
Agriculture, value added (% of GDP)	10.2
Industry, value added (% of GDP)	60.3
Services, value added (% of GDP)	29.5
Main exports	Mineral fuels, diamonds, vehicle-related products
Main export markets	China, US, EU, India
Minimum payment terms	Confirmed letter of credit
Sovereign foreign-currency L-T ratings:	below investment grade[3]
Sovereign credit ratings by S&P; Moody's; Fitch:	BB-; Ba3-; BB-[3]
Ratings outlook by Moody's; S&P; Fitch	Stable

Sources: World Bank; IMF; BP Statistical Review; International Trade Finance; Ecobank Research
Notes: [1] Data are for 2012; [2] Data are for 2011; [3] See Appendix for credit rating definitions; L-T = long-term.

Macroeconomic Policy Environment

- Despite ongoing global economic uncertainties, Angola will continue to benefit from strong regional growth, providing opportunities for business expansion.
- Government policy will focus on measures aimed at reducing widespread poverty and rebuilding the country following a 27-year civil war that ended in 2002.
- We expect the kwanza to remain broadly stable in 2013, fluctuating around AOA95-96:USD.
- Yields on short-term local currency debt have dropped in line with slowing inflation and monetary policy has also remained accommodative.
- The monetary authorities will continue to manage the exchange rate, which is used as the main policy tool to anchor inflation expectations.
- Nonetheless, we expect the current trend of slowing inflation to reverse in the coming months, prompting a return to monetary-policy tightening possibly in H2 2013.
- Exports will be dominated by petroleum products, although the country will remain highly vulnerable to swings in global oil prices.
- The government's recent move to launch a Sovereign Wealth Fund (estimated at USD5bn) will help to cushion the economy against unexpected shocks.
- Imports will continue to comprise largely of capital goods reflecting the scale of the country's reconstruction efforts and expanding production in the dominant oil sector.

Key Economic Sectors

- Key areas of opportunity are in both the extractive and non-extractive industries.
- The recently introduced foreign exchange law in the oil sector will help to strengthen financial market intermediation, but this will also create liquidity challenges for the monetary authorities.
- The financial sector will remain a major area of growth: local banks will remain well capitalised, ensuring that the system remains resilient and cushioned against any potential shocks.
- Efforts to provide a robust legislative framework to address banking sector weaknesses will increase.

Business Operating Environment

- The government acknowledges the need to improve the country's infrastructure and strengthen the legal and regulatory environments in order to promote broad-based growth and reduce poverty.
- A one-stop shop, Guichê Único da Empresa (GUE), has been established to speed up the company registration process, but there remain challenges to developing the business sector.
- Prospective investors in the mining sector now require a single licence for exploration, mining and commercialisation of diamonds instead of the former separate licence system.
- Logistic challenges are not significantly different from those experienced in other key regional countries but do increase business costs.

Global and regional outlook

Global Outlook

The global economic outlook is improving, although concerns over US fiscal problems and the euro-zone crisis will continue to hamper global growth. We expect global growth to remain just above 3% in 2013 (Chart 1), supported by rebounding growth in key emerging markets and, to a lesser extent, the US. Although the US economy will remain fraught with risks, the US Fed's ongoing asset purchase programme (albeit gradually scaling down) should go some way towards supporting confidence in the global economy, at least in the first half of 2013. Recent signs of strong emerging market private consumption growth, alongside China's cyclical rebound and Japan's sizeable fiscal and monetary easing programmes should also lend some support to global economic activity. The ECB's extended bond-purchasing remit will help to stabilise the euro-zone crisis, but policymakers will continue to face tough decisions and businesses will continue to treat the euro area with caution. Until euro-zone leaders engage to promote fiscal integration within the zone, the region will remain a major threat to global growth, sustaining volatility in capital and currency markets and high unemployment in the EU. While we cannot discount the possibility of a global double-dip recession in the medium to long term, the probability of it occurring in 2013 remains low.

Commodity prices will remain volatile although global trade will be supported by the recent resurgence in trade financing following its collapse during the 2008-09 global crisis. Although prospects of a commodity boom remain slim, the rebounding growth in key emerging markets, alongside the pick-up in inventory restocking, will help to sustain high commodity prices over 2013 (although volatility will remain high). Oil prices in particular are likely to average above the USD100 per barrel (/b) mark in 2013 (Chart 2), although this would be slightly below the 2012 average. Nonetheless, continued high prices will help to support growth in oil-exporting countries, although this would increase import costs for non-oil producers.

Regional Outlook

Sub-Saharan Africa continues to manage the delayed knock-on effects of the 2008–09 global crisis relatively well and is likely to remain resilient in the wake of cyclical and structural problems in the US and the EU in 2013. The region will remain one of the fastest-growing regions in the world this year, with real GDP expected to grow by over 5% (Chart 1), although growth prospects will vary across the region. West and East Africa will grow faster than Central and Southern Africa, buoyed by strong external demand for their resources, increased agricultural output and strong public investment, particularly in **Ghana**, **Nigeria**, **Rwanda**, **Senegal**, **Sierra Leone** and **Uganda**. Formerly unstable markets in Southern Africa, **Angola** and **Mozambique**, will contribute to regional growth reflecting increased foreign appetite for investment in new resource areas (mining, oil and gas). Strong public infrastructure spending will also lend some support to this scenario: indeed, growth in cross-border lending continues to rise, particularly in **Angola**, **Côte d'Ivoire**, **Kenya** and **Uganda**. Moreover, given low bond yields and increased investor risk aversion in developed markets, we expect Africa to benefit from the search for higher

Chart 1: GDP Growth by Region (%)

Source: IMF
Note: e = estimated, f = forecast

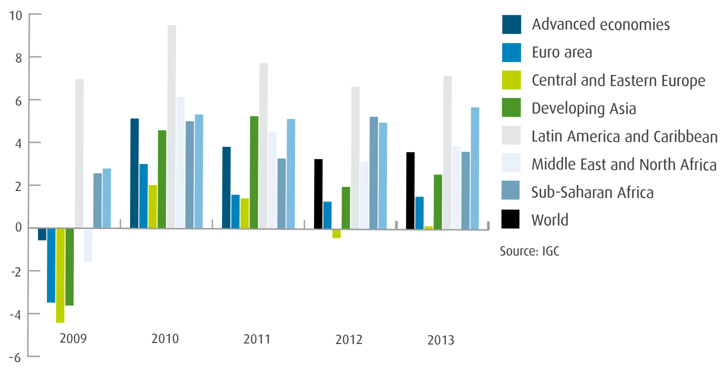
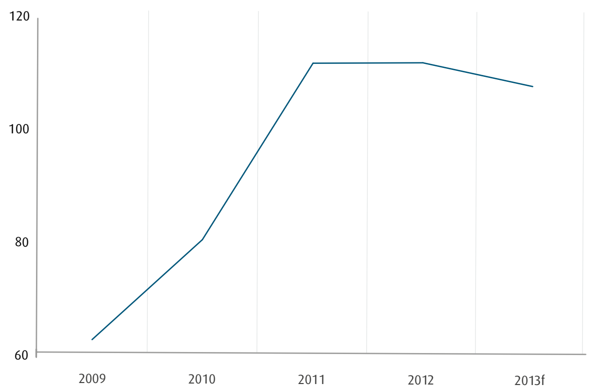


Chart 2: Brent Oil Prices, Dated (US$/b)

Source: Bloomberg
Note: Data for 2013 are based on the oil futures market



Global and regional outlook

yield, although ongoing global uncertainties will sustain volatility in capital and currency markets. Furthermore, exports from the region, which is still focused heavily on trade with the EU, will suffer, particularly in countries with strong links with the euro-zone, undermining macroeconomic stability. The resurgence of instability in the **Central African Republic**, **Guinea-Bissau** and **Mali** will also undermine growth prospects for these countries and for the region.

Inflation will remain lowest in Francophone West Africa, helped by the monetary policy anchor provided by the exchange-rate peg. Despite lower price pressures in the region, monetary policy easing is limited by concerns over externally-induced energy and food price inflation; particularly in non-oil-producing countries. Despite a largely positive scenario, our outlook for the region is subject to a number of downside risks, including an escalation in the EU crisis and/or a sharp downturn in China or the US, which could increase investor risk aversion towards African assets.

Outlook for the Southern African Development Community (SADC)

Real GDP in the 15-member Southern African Development Community (SADC) trade bloc, of which Angola is a member, is set to expand by 4.2% in 2013, up from an estimated 3.9% in 2012, although growth will continue to lag behind that of other trade blocs (Chart 3), such as the EAC (the 5-member East African Community trade bloc), the West African Economic and Monetary Union (WAEMU) and the Central African Economic and Monetary Community (CEMAC).

However, SADC will continue to adopt measures that will promote regional economic integration, with particular emphasis on power infrastructure development and the reduction of tariff and non-tariff trade barriers. In turn, SADC member countries will benefit from expanding regional trade links, in addition to increasing foreign appetite for their assets, particularly in resource-rich countries such as **Angola**, **Mozambique**, **Tanzania** and **Zambia**. These factors are underlined in Chart 4, which shows that SADC's ratio of exports to GDP is likely to remain the second highest after that of CEMAC.

Although **Zimbabwe** will continue to benefit from high platinum prices, spurred by supply constraints stemming from ongoing labour unrest in South Africa's mining sector, the country's growth prospects will continue to be undermined by election-related uncertainties, the high risk of non-payment and the deep policy uncertainties surrounding the controversial indigenisation programme. In addition, growth prospects in the **Democratic Republic of Congo** will continue to be undermined by sporadic fighting in the eastern part of the country.

SADC member countries with stronger trade and financial-market links to the EU, in particular **Mauritius** and **South Africa**, will be hit hard by the ongoing crisis in the euro area, with prospects for South Africa further undermined by ongoing unrest in its mining sector and high socio-political tensions. Nonetheless, speculative capital inflows will rise within the trade bloc as foreign investors seek higher-yielding currencies (given ultra-low interest rates in developed markets), although this will also increase liquidity and currency challenges for monetary authorities. That said, member countries are set to adopt stronger policy frameworks and to strengthen institutional capacity to improve the investment climate.

Chart 3: Growth by Regional Trade Blocs

Source: IMF

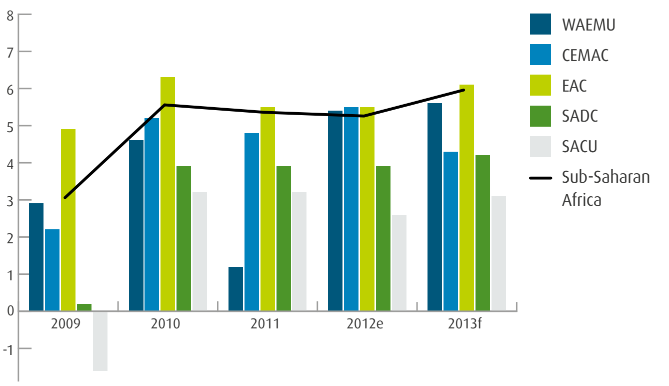
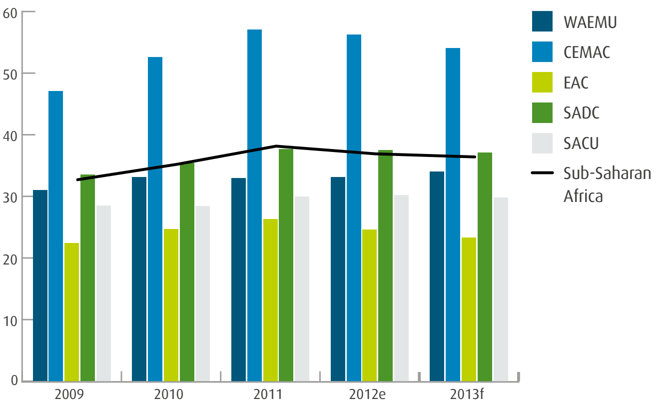


Chart 4: Exports of Goods and Services

Source: IMF



Macroeconomic policy environment

Economic Outlook

Economic prospects have improved significantly following the stability achieved in 2002. Angola has come a long way since gaining independence from Portugal in 1975. Aided by the return of stability following a 27-year civil war that ended in 2002, the country has transformed from an agriculture-based economy to one of Middle Africa's (Middle Africa is Sub-Saharan Africa excluding South Africa) major oil and mineral producers, with a per capita income estimated at USD5,756 in 2012 (Table 2), up from less than USD1,000 in 2001.

Table 2: Selected Macroeconomic Data

Sources: BNA; IMF; World Bank; Ecobank Research

	2009	2010	2011	2012e	2013f
Real Sector					
Real GDP (% change)	2.4	3.4	3.9	7.4	6.4
Nominal GDP (AOAbn)	5,989	7,580	9,780	11,104	12,342
Nominal GDP (USDbn)	75	82	104	116	128
GDP per capita (USD)	4,081	4,328	5,305	5,756	6,149
Consumer prices (year-average, % change)	13.7	14.5	13.5	10.3	11.1
Population (year-end, m)	18.5	19.1	19.6	20.2	20.8
Agriculture, value added (% of GDP)	15.0	9.9	10.1	10.2	10.3
Industry, value added (% of GDP)	59.0	59.9	60.2	60.3	60.3
Services, value added (% of GDP)	26.0	30.2	29.8	29.5	29.4
Fiscal Sector					
General government balance (% of GDP)	-7.4	5.5	10.2	8.0	7.3
Domestic debt (% of GDP)	36.5	37.6	31.5	28.0	29.2
Monetary Sector					
Domestic credit (year-end, % change)	194.2	2.0	-3.3	20.0	19.0
Credit to the private sector (year-end, % change)	59.5	25.0	30.4	38.0	42.0
Domestic credit (% of GDP)	29.2	23.5	17.6	18.6	20.0
Official interest rate (year-end, % per year)	n/a	n/a	10.50	10.25	10.50
Exchange rate (year-average, AOA:USD)	79.33	91.91	93.93	95.43	96.40
External Account					
Merchandise exports, goods (% of GDP)	53.1	56.4	63.2	69.6	79.0
Merchandise imports, goods (% of GDP)	30.0	20.1	16.6	17.1	17.0
Oil exports value (% change)	-37.6	23.7	33.1	4.3	2.1
Oil imports value (% change)	-24.3	-27.0	64.9	5.5	10.0
Current account (% of GDP)	-9.9	9.0	9.6	8.5	6.6
FX Liquidity					
FX reserves (year-end, USDm)	13,664	19,749	28,786	33,414	39,928
Import cover (months)	3.9	6.7	7.6	8.7	9.5
External debt					
External debt (year-end, USDbn)	15.2	17.9	20.5	22.0	24.1
External debt (year-end, % of GDP)	20.1	21.7	19.7	19.5	20.4

Macroeconomic policy environment

Foreign direct investment (FDI) is predominantly focused on the oil sector and the country is heavily reliant on oil. Economic development has been supported by significant FDI, particularly in the oil sector, which accounts for around 45% of GDP, 75% of government revenue and over 90% of total exports. However, oil investment is largely concentrated offshore in the Cabinda Enclave, accounting for one-third of total production. FDI in the mainland has long been constrained by regulatory and infrastructure constraints. However, despite the country's significant structural deficiencies, the stock of inward FDI has risen sharply since the end of the war, reaching USD15.1bn in 2009, up from USD10.1bn in 2001 (Chart 5), though 2010–11 saw FDI stock dip amid domestic and external shocks.

Investor confidence in the economy has increased, reflecting recent rebuilding and stabilisation efforts. Despite the recent dip in FDI stock, Angola remains one of Middle Africa's main recipients of FDI and even ranked second (after Nigeria) among the region's key oil exporting countries on Global Data's FDI and Exploration confidence indices (Chart 6), suggesting improved investor confidence and increased interest in the country. Angola's importance in the global economy has also grown in recent years, and the country supplied over 2% of global oil production in 2011 compared with around 1% in the immediate aftermath of the war.

Oil production is set to rise as new oil fields come on-stream, boosting economic activity. Efforts to increase Angola's attractiveness to FDI will be supported by accelerating reforms designed to improve utility provisions, develop the country's infrastructure and strengthen the regulatory environment (see Physical Infrastructure). This will continue to incentivise major foreign oil companies currently operating in the country (Chevron, ExxonMobil), to expand their operations, particularly in light of ongoing security threats and subsequent decline in exploration activity and the development of oilfields in Nigeria (however, Angola's decision to join the Organisation of the Petroleum Exporting Countries (OPEC) in 2007 could lead to production targets). Therefore, we expect Angola's oil production to rise robustly over the short term as new oil and gas plants come on-stream: recent projections by Global Data show that Angola's oil production will rise from approximately 1.9m barrels of oil per day (b/d) in 2012 to 2.5m b/d by 2020, just below Nigeria, which is set to produce around 2.8m b/d by 2020 (Chart 7). Oil consumption will rise in line with oil output, but will remain well below that of Nigeria, reflecting Angola's lower population, thus boosting exports. Meanwhile, ongoing modest global recovery (see Global Outlook) will sustain high oil prices (see The Hydrocarbon Sector) and thus support the Angolan government's relatively strong financial position and the balance sheets of companies linked to the oil sector. As the government is keen to reduce the country's dependence on oil, we expect the share of the oil sector in GDP (currently standing at around 45%) to fall slightly over the short-to-long term, pointing to an increase in opportunities in the non-oil sector.

Chart 5: Inward Foreign Direct Investment Stock

Source: UNCTAD

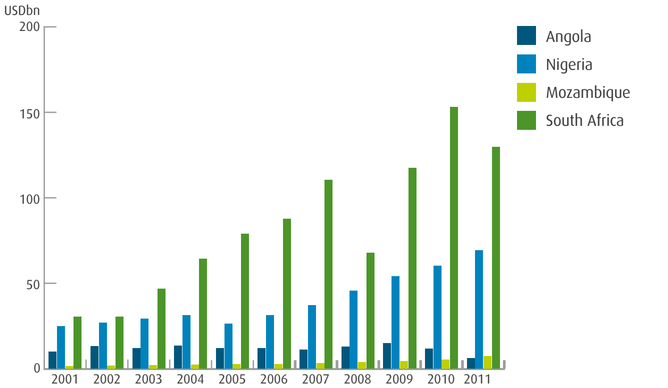


Chart 6: Exploration Growth versus FDI Confidence Indices

Source: Global Data

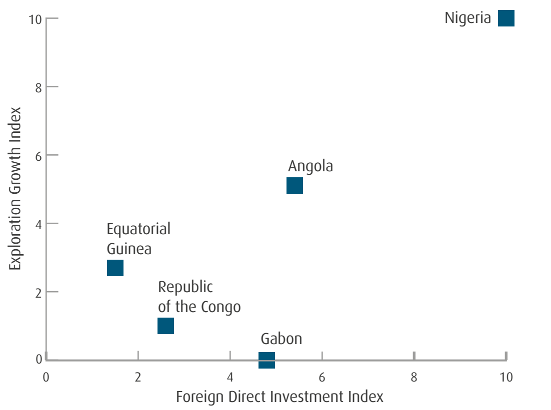


Chart 7: Crude Oil Production

Source: Global Data

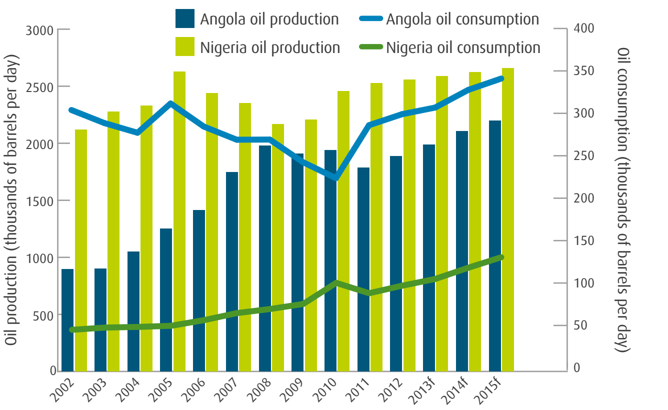


Table 3: Key Macroeconomic Indicators

	2009	2010	2011	2012e	2013f
Real GDP growth (%)	2.4	3.4	3.9	7.4	6.4
Inflation, annual average (%)	13.7	14.5	13.5	10.3	11.1
Government balance (% of GDP)	-7.4	5.5	10.2	8.0	7.3
Angola oil production ('000s b/d)	1,907	1,939	1,786	1,889	1,989
Current account balance (% of GDP)	-9.9	9.0	9.6	8.5	6.6

Sources: IMF; BP Statistical Review; OPEC; Ecobank Research

Angola's short-term economic outlook remains positive, providing opportunities for business expansion. The country has rebounded from the 2008–09 global crisis, which saw real GDP growth decelerate to 2.4% in 2009 from 13.8% in 2008. Real GDP has been on an upward trajectory since 2010, although technical problems in the oil sector in 2011 constrained growth to only 3.9% as average annual oil production fell below 1.8m b/d for the first time since 2007. However, real GDP growth accelerated to an estimated 7.4% in 2012 as technical problems were addressed in early 2012, allowing oil production to recover in the first half of the year. Over the short term, we expect the Angolan economy to grow rapidly despite strong headwinds from the euro-zone crisis and fiscal problems in the US. Growth will remain buoyed by robust activity in the oil and mining sectors, higher gas exports following the coming on-stream of a new liquefied natural gas (LNG) plant in Q3 2013 and strong public investment spending. This will create multiplier effects in the real economy by providing a boost to employment income, private consumption and sales, both wholesale and retail. In addition, the government's recent efforts to clear large amounts of debt accumulated during the 2008-09 global downturn (around USD7.5bn) will help to provide the fiscal space needed for investment in essential infrastructure, such as roads, power supply, telecoms networks and housing, in addition to key services such as education and healthcare (with the construction of schools and hospitals).

However, recurrent expenditure will fall as the government scales up its efforts to reduce its bloated civil service and to phase out general price subsidies, with the aim of better targeting social services for the most economically disadvantaged (at a lower cost to the government). Amid these factors, we expect real GDP to grow by 6.4% in 2013; that said, growth will decelerate somewhat from the 2012 estimate amid lower global oil prices and the government's increasing efforts to consolidate fiscal spending (Table 3).

Credit Outlook

Fiscal Policy

Fiscal policy is largely procyclical, but the recent establishment of the oil infrastructure and sovereign wealth funds should limit the risk of a budget crisis during periods of shock and support firms reliant on state procurement. The government tends to spend more when oil prices are high and less when they are low (except in election years). In a move to cushion the country against global oil price shocks, the government has established a strategic oil infrastructure fund aimed at financing high-priority capital projects in Angola. Moreover, after years of deliberation, the government launched a Sovereign Wealth Fund (SWF) estimated at USD5bn in October 2012; the SWF is designed to preserve windfalls from oil receipts, which account for around 75% of total government revenue. Apart from providing a safety cushion for the country during periods of low oil prices, the SWF should help reduce inflationary pressures as oil inflows are redirected abroad through the acquisition of foreign assets.

Tax revenue will remain robust, helping to limit sovereign risk. Government revenue will be supported by strong activity in the key sectors, oil and mining, and in new gas projects. With world oil prices also expected to trade well above the government's conservative budget assumption of USD77/b, up from USD68/b in the previous year, this will provide a substantial oil windfall, which will create multiplier effects in the real economy. Moreover, plans to reduce fuel subsidies (accounting for nearly 7% of GDP in 2012) over the short term would boost government revenue, although on the downside, this could increase inflationary pressures and the risk of social unrest. Government spending will also remain high: the government has already increased social spending to 33.3% of total expenditure, up from 31.7% in 2011. On balance, we expect the budget to continue to post a modest surplus in 2013, equal to around 7.3% of GDP: Chart 8), although this is likely to be lower than 2012; the government will remain under pressure from the IMF to consolidate fiscal spending, but efforts to do so will be limited by capacity constraints and off-budget expenses.

Chart 8: Government Balance

Sources: IMF; Ecobank Research

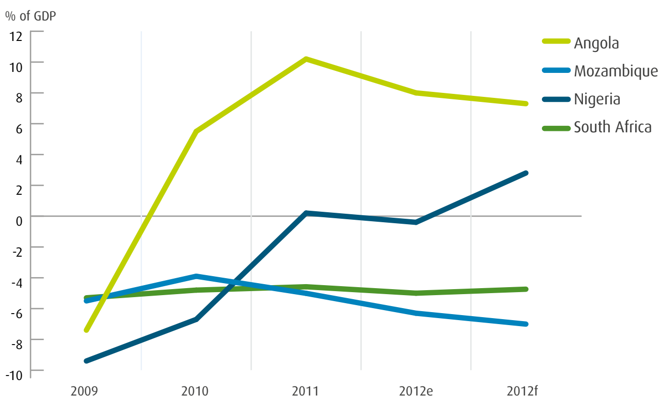
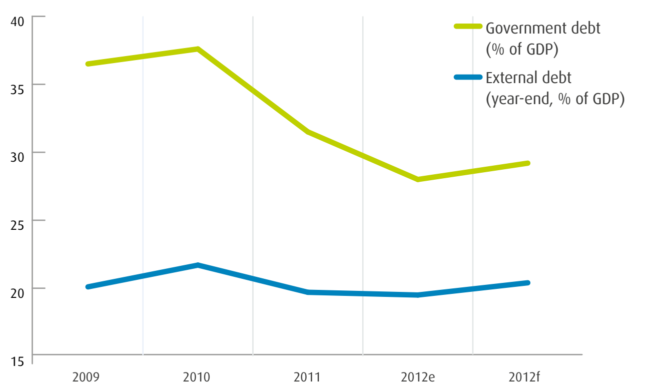


Chart 9: Angola's Public and External Debt

Source: IMF



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Macroeconomic policy environment

Debt Profile

Angola's debt levels have dropped sharply in recent years, reducing the risk of a sovereign debt default. Government debt has halved since 2003, with the ratio of debt to GDP standing at an estimated 28% in 2012 (Chart 9), thanks to the country's robust growth and higher export earnings, which have strengthened the public finance position. Around one-third of public debt is short-term in nature, increasing the roll-over risk, but the government plans to extend the average maturity of domestic debt to reduce such risk.

External debt levels have also dropped significantly, reflecting an improvement in the country's terms of trade, in addition to the government's recent repayment of arrears accumulated during the 2008-09 global crisis (around USD7.5bn) and the restructuring of debt owed to the Paris Club creditors. External debt as a percent of GDP has dropped from around 62.3% in 2003 to an estimated 19.5% in 2012 (Chart 9). In contrast to domestic debt, less than 1% of external debt is short term in nature, reducing the risk of default. Amid these factors, Angola was assigned its first-ever credit rating in mid-2010 by the three major international credit rating agencies, Fitch, Moody's and S&P, providing it with access to cheaper funding on global markets. Although Angola's foreign currency long-term ratings are below investment grade status, it has been assigned a stable outlook. In addition, its ratings are on par with Nigeria and generally more favourable than Mozambique or Gabon (Table 4 and Sovereign Credit Ratings Definitions).

We expect both external and public-debt levels to rise slightly in 2013 but to remain comfortable, supported by a favourable oil-price outlook and robust FDI inflows. That said, the recent restructuring of Angola's debt underlines the fragility of the situation: any unexpected drop in oil prices or other macroeconomic shock to the economy could lead to renewed debt distress. Moreover, although the government has settled all the debt arrears it accumulated during the 2008-09 global crisis, a repeat of the lengthy delays in the government's payments to contractors remains a possibility. These factors will continue to weigh on the country's sovereign credit rating.

Monetary Regime

The Bank of Angola has stepped up efforts to strengthen the monetary policy framework. Monetary policy in Angola is conducted by the Banco Nacional de Angola (BNA; the central bank), which aims to promote price and exchange-rate stability. Traditionally, meeting these targets has proved quite challenging due to a number of institutional weaknesses, including the BNA's lack of autonomy, but in recent years, the bank has benefited from strong donor interest aimed at strengthening its institutional framework, promoting monetary-policy autonomy and bolstering technical competence. The BNA established a Monetary Policy Committee (MPC) in August 2011, which will ensure transparency in the way monetary policy is set; the first MPC meeting, in October 2011, introduced a reference interest rate, initially set at 10.5%. This will serve as the BNA's key benchmark rate, signalling the bank's policy direction and guiding other interest rates. Prior to this, commercial banks relied on yields on domestic bonds and other financial instruments to determine lending rates. As part of its efforts to strengthen the monetary policy framework, the BNA also adopted an inflation-targeting policy to ensure lower inflation and maintain price stability; it also introduced an interbank rate, the Luanda Interbank Offered Rate (Luibor) in early 2012.

Fixed Income (FI) Market

The authorities' monetary policy objective is to reduce inflation to single digits. The exchange rate is the main anchor for monetary policy, and the BNA concentrates its liquidity-management operations on short-term maturities, Títulos do Banco Central (generally 63 and 182 days in maturity). The Treasury issues longer-dated maturities for budget financing (up to 364 days), with the most common Treasury bills (Bilhetes do Tesouro) issued being 91-day, 182-day and 364-day bills. Treasury bonds (Obrigações do Tesouro) are issued with up to 6-years' maturity, reflecting the lack of long-term liquidity management.

Table 4: Sovereign Foreign Currency Long-Term Ratings

Sovereigns	Moody's	S&P	Fitch
Angola	Ba3 with stable outlook	BB- with stable outlook	BB- with stable outlook
Nigeria	Ba3 with stable outlook	BB- with stable outlook	BB- with stable outlook
Gabon	n/a	BB- with negative outlook	n/a
Mozambique	n/a	B+ with stable outlook	B with stable outlook
South Africa	Baa1 with negative outlook	BBB+ with negative outlook	BBB+ with negative outlook

Source: International Finance Review

FI primary market information:

- Market size (central government debt issued):
  - 2009: AOA690 bn; 2010: AOA666 bn; 2011: AOA718 bn

- Types of securities on offer (Treasury bills and bonds):
  - Treasury bills: range from 91 to 364 days; government bonds: include 2-year, 3-year, 4-year, 5-year and 6-year fixed-rate securities

- Auctions:
  - Timetable/frequency:
    - Treasury bills: weekly
    - Bonds: ad hoc, depending on liquidity and fiscal financing requirements
  - Type of auction: competitive
  - Primary dealers: yes
  - Bid size limits: n/a
  - Allotment: based on cut-off price for Treasury bills
  - Auction calendar: no
  - Reopening of existing bonds: n/a

FI secondary market information:

- Daily turnover (volume/value):
  - Limited trading volume and limited trading value

The BNA's benchmark interest rate has helped to signal the BNA's policy direction. The BNA dropped to 10.25% in January 2012 and to 10.0% in January 2013, reflecting the bank's lower inflation expectations. The bank also reduced its discount benchmark rate from 25% in March 2011 to 20%, where it has remained since; the reserve ratio was lowered from 30% in 2010 to its current level of 20%, increasing the availability of funds in the domestic market. In response to the BNA's new policy stance, the Luibor rate has also dropped, reflecting the reduced cost of credit in the domestic market. In turn, credit to the private sector grew by 30% in 2011, up from 25% in 2010, although this increase was mainly a result of an increase in short-term credits, signalling difficulties with longer-term financing. The lending rates of commercial banks have also dropped, with the average lending rate falling to 14.8% in November 2012, down from 17.5% in January 2012. However, despite this, credit spreads remain high and real deposit rates remain in the negative territory, offering negative real returns to depositors (Chart 10). Yields on local-currency sovereign debt issued for up to 180 days have also dropped, in line with inflation, reflecting increased investor demand; yields fell to 15.17% in October 2012, down from 17.54% in January 2012, helping to reduce the government's borrowing costs. With inflation slowing to single digits, this has helped to sustain investor confidence in real returns from government securities (Chart 11).

Although interest rates appear to be responding to changes in the BNA's reference rate, the continued presence of high, double-digit interest rates reflects significant credit risk. The impact of the BNA benchmark rate on other interest rates is limited and interest rates remain high. This can be attributed to ongoing structural deficiencies in the market, such as institutional weaknesses, the shallow interbank market and the high level of dollarisation in the economy. With regard to the latter, the BNA has increased its efforts to strengthen prudential regulation for short-term credit denominated in foreign currency, while requiring tighter net open currency positions from banks.

Chart 10: Interest Rates

Sources: IMF; Ecobank Research

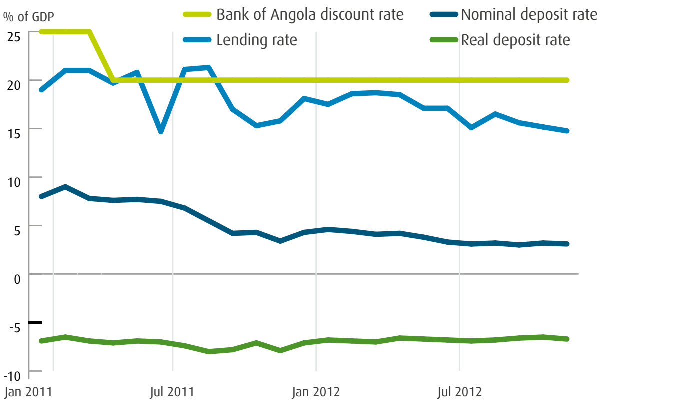
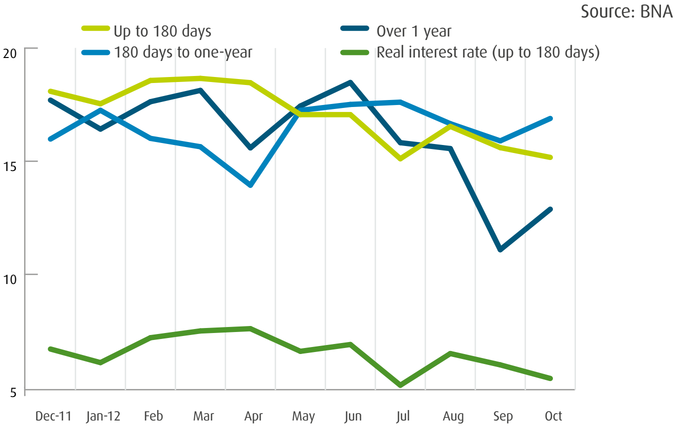


Chart 11: Yields on Debt Issued to Businesses (%)

Source: BNA



Macroeconomic policy environment

Inflation

Inflation has slowed to single digits but upside risks remain, sustaining business uncertainty. According to the IMF's latest data, inflation slowed to 9.7% year-on-year (y/y) in September 2012 for the first time since the end of the civil war, marking a significant improvement from the triple-digit inflation rates experienced in 2000-02. This happened despite continued strong domestic demand, and administered prices. The inflation rate remained in single digits in November, although it edged up slightly to 9.8% y/y, but it fell to 9.0% y/y in December. In general, the lower inflationary trend highlights the BNA's increasing efforts to strengthen its regulatory framework, alongside increased agricultural production and the easing of infrastructure bottlenecks, but such efforts to drain excess liquidity in the economy continue to be constrained by large flows of FX from the oil sector. In 2012, inflation remained in double-digits, averaging an estimated 10.3%, which is slightly above the MPC's inflation target benchmark of 10.0% for end-2012.

Beyond 2012, the MPC aims to achieve single-digit inflation, which suggests a possible change from the current easing monetary-policy stance to policy tightening, possibly in the second half of 2013. However, despite this, the BNA's efforts to drain excess liquidity in the system and to maintain a single-digit inflation rate in 2013 will be limited by ongoing capacity constraints and a potential hike in domestic fuel prices (following the gradual removal of fuel subsidies). Other upside inflation risks stem from the additional liquidity that is set to flood into the country following the recent implementation of the BNA's new FX law (see Exchange-Rate Regime). As a result, we expect inflation to be higher in 2013, averaging 11.1% (Chart 12).

De-dollarisation

Bank loans are largely dollarised, increasing the banks' exposure to currency shock, but plans are underway to de-dollarise. US-dollar lending continues to dominate credit portfolio: as of Q2 2011, foreign-currency lending accounted for 58% of total lending, exposing the banks to unhedged borrowers in the event of a sizeable depreciation of the domestic currency. However, local-currency lending increased 40.8% y/y at the same time, underpinning the increasing drive by policymakers to de-dollarise the economy. The BNA has introduced a new law which requires oil companies to make a larger share of their payments to domestic entities in local currency through banks based in Angola. This will help to de-dollarise the economy and bolster financing opportunities; however it will also increase liquidity in the economy, and therefore the risk of rising inflation.

Chart 12: Inflation

Source: IMF; Ecobank Research

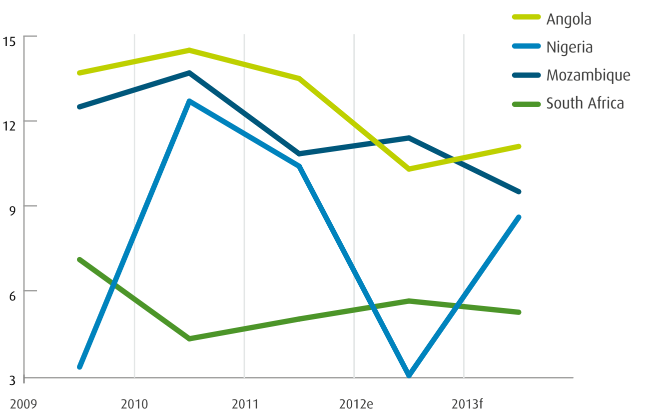


Chart 13: Exchange Rate

Source: Bloomberg

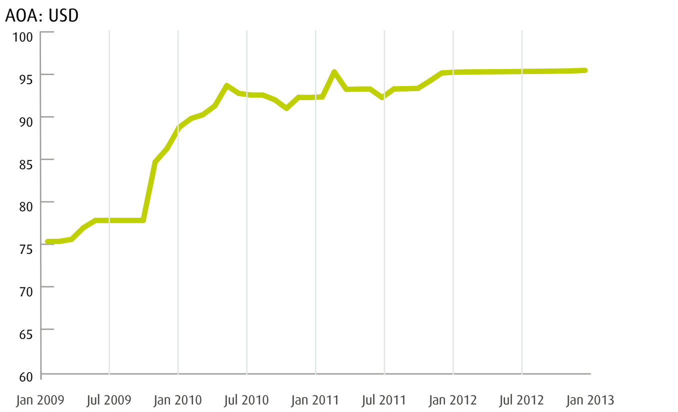


Chart 14: FX Liquidity

Sources: IMF; Ecobank Research

Currency Outlook

Exchange-Rate Regime

Angola's exchange rate has been liberalised partially since 2009, thanks to IMF assistance. Prior to that, the BNA had adopted a fixed exchange-rate regime, which contributed to wide premiums in the parallel exchange-rate market. Under the new regime, the BNA allows the kwanza to fluctuate within a certain band and intervenes in periods of very high volatility. The new system allows for greater movement in the exchange rate and helps to reduce speculative demand for foreign currency.

The currency has depreciated sharply since the adoption of a flexible exchange-rate regime. Reflecting its overvaluation in the previous exchange-rate regime, the kwanza has depreciated significantly since 2009, reaching AOA95.87:USD in mid-January 2013, from AOA75.4:USD in March 2009 (Chart 13). This more market-friendly value of the kwanza has helped the parallel market spread narrow. In recent months, the exchange rate has been fairly stable (fluctuating around AOA95.5-95.8:USD), thanks to large FX inflows and official FX market intervention.

The kwanza is likely to remain broadly stable, fluctuating around the AOA95-96:USD. Over the short term, we expect relative currency stability to continue as potential FX inflows help to offset negative domestic and emerging-market sentiment. In the longer term, the IMF urges greater liberalisation of the country's exchange-rate regime, but this is likely to take some time.

A new FX law should help to strengthen the kwanza. The BNA introduced a new FX law, effective from 1 October 2012, which requires all oil companies operating in the country to conduct a greater proportion of their operations through the local banking system. This law applies to both foreign and domestic companies (including the parastatal oil firm, Sociedade Nacional de Combustíveis de Angola or Sonangol) and this move should boost domestic liquidity and lending operations. Under the new law, foreign oil companies are given 24 months within which to start using Angolan banks rather than foreign banks for all their financial transactions. The legislation covers all types of transactions, from payment of contractors and suppliers to salaries (see Oil and Gas Legal and Regulatory Environment).

The new law will be implemented in a phased manner, with the first stage requiring International Oil Companies (IOCs) to open local bank accounts with Angolan institutions to process all their industry-related payments and transactions. The second stage requires oil companies to make all payments to domestic entities (tax authorities and domestic suppliers) in local currency. Prior to this, such firms were required to hold revenues from Angolan operations in overseas banks, transferring foreign currency to the BNA to settle their payments with domestic entities, and made only a limited number of payments through national banks. While this new law will strengthen financial intermediation and support the kwanza, on the downside, it could increase inflationary pressures, despite the BNA's improved monetary-policy instruments aimed at absorbing excess liquidity in the economy and reducing inflationary pressures (see Monetary Regime).

Current and Capital Account Flows

The current-account has generally recorded surpluses each year (with the exception of 2009, when Angola was adversely affected by the oil-price shock), reflecting the country's position as a net creditor to the rest of the world. Movements in the current account are dominated by the oil sector, which accounts for over 90% of export earnings, highlighting the country's dependence on a single commodity and its vulnerability to adverse developments in oil prices and production. Technical problems in the oil sector in 2011 led to a significant reduction in oil output, although higher oil prices during the year helped to compensate for the shortfall, leading the current account surplus to widen to 9.6% of GDP in 2011, from 9.0% in 2010. However, in 2012, the surplus narrowed to an estimated 8.5% of GDP on the back of increased global uncertainty.

Chart 15: Export products, 2011

Source: International Trade Centre

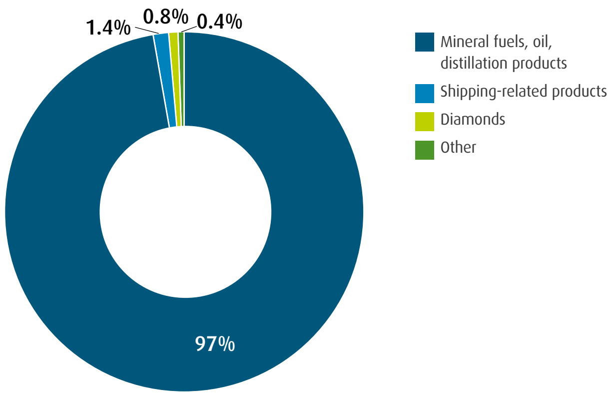
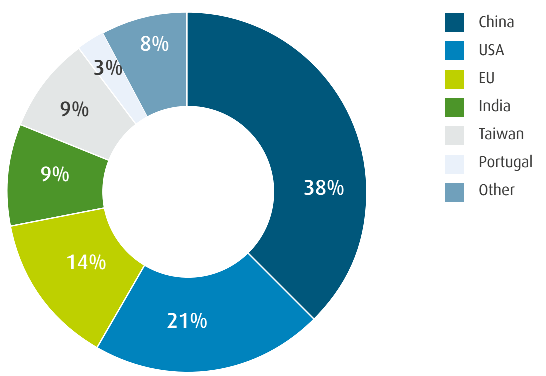


Chart 16: Export destinations, 2011

Source: International Trade Centre



Macroeconomic policy environment

With commodity prices likely to remain high and with oil and gas output expected to rise (following the recovery of the oil sector and the coming on-stream of a new LNG plant in Q3 2013), we expect the current account to continue posting a healthy surplus in 2013. However, debits will continue to be driven by large payments to non-residents for insurance and transportation services, the repatriation of funds by foreign firms operating in Angola and payments to international creditors. The capital and financial account will be dominated by FDI inflows (predominantly into the extractive sectors) and by capital loans from foreign creditors, but will continue to record net outflows, reflecting the recycling of the country's current-account surplus. The large current account surplus and smaller capital account deficits should lead to a rise in FX reserves (see below).

FX Liquidity

Angola's international liquidity position remains robust, helping to cushion the economy against external shocks. Total reserves (minus gold) increased to USD33.4bn in December 2012, compared to USD28.8bn at the end of 2011. At this level, the country's reserves are sufficient to cover an estimated 8.7 months of imports of goods and services, above the IMF's minimum recommend level of three months required to cushion the economy against external shock (Chart 14).

We expect Angola's FX reserves to rise further, bolstered by strong oil and gas inflows, in addition to the extra liquidity set to flow into the country following the recent implementation of BNA's FX law. Against this backdrop, import cover is likely to rise aided by a potential slowdown in import demand following the completion of Angola's LNG project in Q3 2013 and reduced requirement for food imports since the recent recovery in the agriculture sector (see The Agriculture Sector). However, the level of import cover will likely remain in single-digits given Angola's high import content, associated with the government's reconstruction programme and the propensity to consume foreign luxury goods by the country's growing middle class.

Export Profile

Angola's main exports comprise mineral fuels, oil and distillation products. Together, these products accounted for 97.4% of total exports in 2011, with crude oil accounting for 95.8% (Chart 15). The country is sub-Saharan Africa's second largest crude-oil exporter after Nigeria and crude-oil exports amounted to USD63.4bn in 2011, up 23.6% against the previous year. Diamonds are also major exports, amounting to USD499.4m in 2011, up 120.8% against the previous year.

The dynamics of Angola's export market have changed in recent years, reflecting the scale of expansion in the dominant oil sector. The EU remains the main regional export market, but since 2007, China has overtaken the US as Angola's main single-country export market, accounting for 37.7% of Angola's total exports in 2011 (Chart 16), up from 31.0% in 2007. Angola's exports to China comprise mainly crude oil, reflecting China's need to meet the growing demand of its resource-intensive sectors and Angola's increasing importance as a key exporter of crude oil. The US is the second most important export market, accounting for 20.9% of Angola's exports in 2011, down from 31.0% in 2007. India is the third most important export market, accounting for 9.1% of Angola's total exports in 2011, up from 2.2% in 2007.

Import Profile

Imports comprise mainly capital goods, reflecting increased investment drive. Angola's main imports comprise capital goods, reflecting the scale of the country's reconstruction efforts since the end of the civil war in 2002 and its expanding production in the dominant oil sector (Chart 17). Machinery products dominate imports, accounting for USD2.4bn in 2011, down from USD3.0bn in 2011: this decrease reflects improved infrastructure and agricultural developments, although we expect imports to remain high, buoyed by ongoing reconstruction efforts and an anticipated expansion in the oil and gas sectors.

Chart 17: Import products, 2011

Source: International Trade Centre

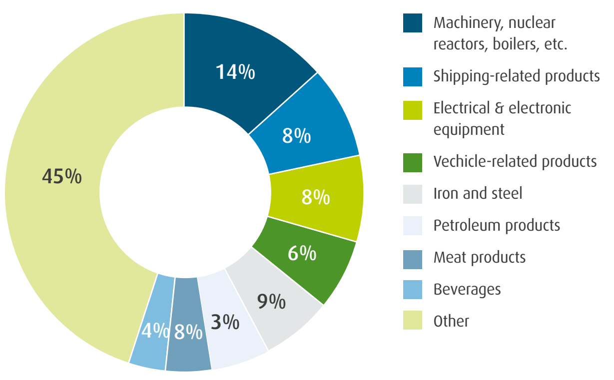
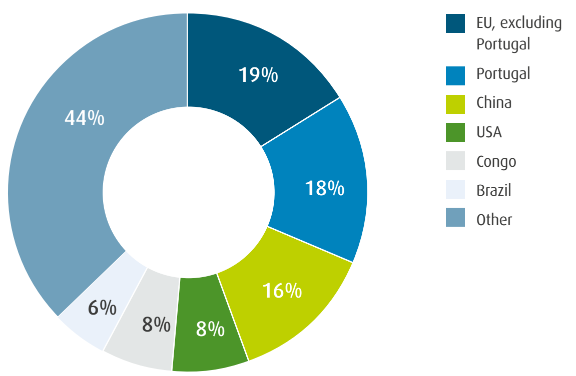


Chart 18: Import sources, 2011

Source: International Trade Centre



Angola also imports large food items, although the share of such goods has fallen in recent years, reflecting the gradual recovery of the agriculture sector, which had been severely hampered by the displacement of a large proportion of the population and the presence of landmines as a result of the 27-year civil war. Angola imports petroleum products, reflecting its limited refining capacity, although plans are underway to build a new refinery (see The Hydrocarbon Sector): Angola imported USD921.7m's worth of petroleum products in 2011, up 29.3% over 2011.

Angola's key suppliers are strategic trade partners in the EU, Asia, the US and the region. Portugal, Angola's former coloniser, is Angola's main single source of imports, accounting for 18.1% in 2011 (Chart 18), compared with 16.2% in 2010, reflecting the strong cultural and historic ties between the two countries. China has emerged as Angola's second main supplier, illustrating Angola's growing demand for consumer goods and its low level of industrial capacity outside the extractive sector: China accounted for 15.6% of total imports in 2011, compared with 9.7% in 2007, while the US, now the third most important source of Angola's imports, accounted for 8.4% in 2011, compared with 10.1% in 2007. Important sources of imports within the region include the Republic of Congo, Namibia and South Africa, all of which ranked within Angola's top ten suppliers in 2011, reflecting strengthening trade links within the region.

Chart 19: Crude Oil Reserves (million barrels)

Sources: US EIA; Global Data

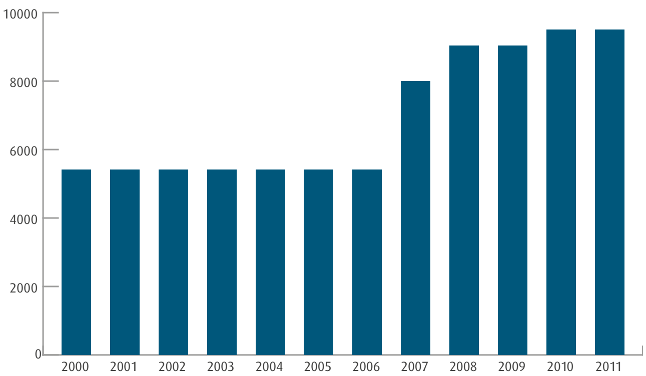


Chart 20: Angola Oil production ('000 b/d)

Source: Global Data

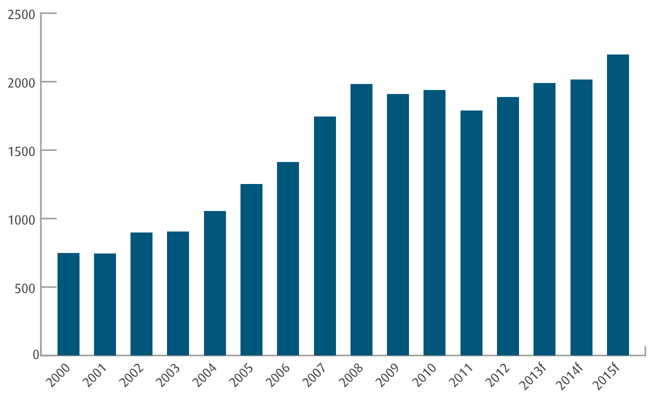


Table 5: Crude Oil Export Terminals in Angola and Processing and Storage Capacity

Terminal	Processing capacity '000 b/d	Storage capacity million barrels
Dalia	250	2
Girassol	250	2
Greater Plutonio	240	1.77
Kizomba A	200	2.2
Kuito	100	1.4
Palanca	140	0
Malongo	200+	0
Sanha	100	0

Source: Various company reports

Table 6: Angola's Major Crude Oil Export Blends

Blend	Production (b/d)
Nemba	300,000
Hungo	255,000
Girassol	250,000
Dalia	240,000
Kissanje Blend	240,000
Cabinda	10,000
Palanca Blend	100,000
Greater Plutonio	80,000
Mondo	80,000
Kuito	44,000
Xicomba	30,000
Total	1,629,000

Sources: Africa Oil and Gas Yearbook; Cambridge Centre for Global Energy Studies

Key economic sectors

The Hydrocarbon Sector

The Oil Sector

Angola is the second largest crude-oil producer in sub-Saharan Africa after Nigeria. Proven oil reserves are estimated at around 13.5bn barrels at end-2011 according to BP's 2012 Statistical Review of World Energy (representing 21.2 years of current production levels and 0.8% of world reserves). However, figures from the US Energy Information Administration (EIA) suggest that Angola's estimated proven crude-oil reserves were in the region of 9.5bn barrels at the end of 2011 (Chart 19). Angola's oil resources are largely conventional oil reserves.

Following new discoveries, the country's reserves increased from 5.4bn barrels in 2000 to 9.5bn barrels in 2011 (Chart 19). At the same time, oil production in Angola grew at an average of 8.5% over 2000-12; average growth is expected at around 5.2% over 2013-15 (Chart 20). Currently, oil production is short of its 2008 peak of 1.98m b/d. In August 2012, the country reached a two-year production high of 1.75m b/d, and is expected to reach a new peak of just under 2m b/d over the next 12 months, although we consider that it is unlikely to achieve 2m b/d in 2013.

The bulk of Angola's oil fields are operated via production-sharing agreements (PSAs) and joint ventures between the state-owned oil company, Sonangol, and international oil companies (IOCs), many of which have been operating in the country for decades. Oil exploration in Angola occurs both onshore and offshore, though the vast majority of production is offshore. Onshore exploration is focused in the Cabinda Enclave, while offshore exploration and production is divided into three separate categories: band A (shallow-water blocks 0-13), band B (deep-water blocks 14-30) and band C (ultra-deep-water blocks 31-40). Block 15 is Angola's most productive offshore bloc, with estimated recoverable reserves of around 4.5bn barrels and production of up to 80,000 b/d.

Based on Angola's geological similarities with Brazil, which is noted for its pre-salt reservoirs, hope for Angola's pre-salt potential, both onshore and offshore, has increased, and attracted investor interest in 2012. Sonangol and Petrobras are conducting bilateral studies of Angola, which has several export terminals, including many large floating production, storage and offloading (FPSO) vessels (Table 5). The country produces mostly light and sweet crude oil (low in sulphur), which is well suited for export (mainly to China and the US: Table 6).

The Natural Gas Sector

The gas sector is set to expand rapidly over the outlook period. Angola was estimated to have 10.9 trillion cubic feet (tcf) of proven natural-gas reserves in 2011 (Chart 21). The country's last major gas discovery was made in 2009 by the Cabinda Gulf Oil Company Limited (CABGOC) in block 0 (area A and B) in the country's Lower Congo Basin.

Natural-gas production was estimated at around 25 billion cubic feet (bcf) in 2012 but is set to accelerate considerably in 2013 (Chart 22). To date, much of Angola's natural-gas production has not been re-injected to enhance oil recovery but has been flared or occasionally processed in the production of Liquefied Petroleum Gas (LPG). Natural-gas production in Angola increased from 20bcf in 2000 to 25bcf in 2012. However production is set to jump to 245bcf in 2013 as the LNG project that was scheduled to commence operation in 2012 comes on-stream; over the 2014-15 period, production is set to rise at an annual average of 1.6%. This development will have multiplier effects through road infrastructure, job creation and higher disposable income.

Key Players in the Oil and Gas Sector

The government has a significant presence in the oil sector via the state-owned oil company, Sonangol, which is responsible for all oil-related operations in the country, both upstream and downstream. Sonangol also cooperates with foreign investors in exploration and production through joint-ventures and production-sharing agreements and has more than 12 subsidiaries across sectors including telecoms, aviation and real estate. Other International Oil Companies (IOCs) include major US oil firms, Chevron and ExxonMobil, as well as the France's Total, UK's BP and Shell and Italy's Eni. Sonangol, BP and Exxon Mobil are currently the largest producers in Angola (Chart 23).

Chart 21: Angola Gas Reserves (tcf)

Source: Global Data

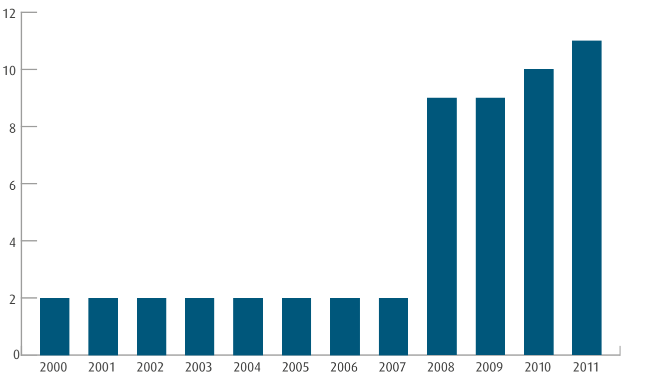
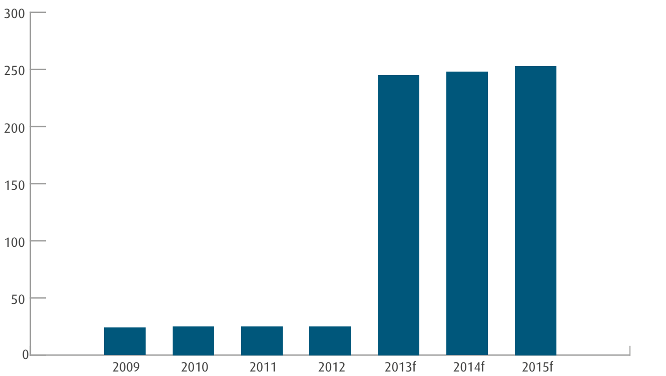


Chart 22: Natural Gas Production (bcf)

Source: Global Data



Angola has a total of 41 offshore blocks in shallow, deepwater and ultradeepwater, operated by large IOCs, and smaller independent companies from North America, Europe and emerging markets, as well as Sonangol. The country's largest oil field can be found in block 15, which hosts the largest producing deepwater block in Angola and is operated by Exxon Mobil affiliate Esso Exploration Angola Limited (Esso Angola). The first discovery at block 15 was in 2003 in the Kizomba field, which reached more than 650,000 b/d in 2011, or around 181m barrels in 2011 (Table 7).

Oil and Gas Sector Outlook

We expect the country's oil sector to continue creating positive spin-offs for the economy. This will be supported by high oil prices and robust appetite for investment in Angola's natural-resource industry. Despite OPEC quota limits, we expect oil production to rise over the outlook period as new oil fields come on-stream and as new projects gather pace. A new and emerging source of oil production is expected to come from Angola's pre-salt blocks, especially those in the prolific Kwanza Basin. In addition, major foreign oil and gas firms such as Chevron, Total and ExxonMobil continue to expand operations, together with national oil companies from emerging markets such as Brazil and China (Table 8).

Table 7: Angola Crude Oil and Gas by Block, 2011, million barrels by oil equivalent

Block	Production	Company
Block 15	181	ExxonMobil
Block 0	128	CABGOC
Block 14	68	Chevron
Block 18	49	BP
Pazflor (Block 17)	28	Total
Block 17	18	Total
Block 3/05	16	Total
Fina Sonangol	14	Somoil
Block 4/05 Gimboa	5	Sonangol
Block 2	3	Sonangol
Oombo Block 3/91	3	Total
Fina Sonangol Texaco (FST)	3	Somoil
Cobo/Pambi (Block 3/85)	—	Total
Chevron Gas Field	3	Chevron
Total Gas Fields	2	Total
ENI Gas Fields	2	ENI

Sources: IMF; BP Statistical Review; OPEC; Ecobank Research

Table 9: Angola Crude-Oil Export Values to SADC region and SADC members

Destination	Export value (US$)
World	1,672,499,362
SADC	14,427,858
South Africa	14,085,616
Zambia	335,385
Swaziland	4305
Tanzania	922
Botswana	583
Namibia	366
Angola	317
DRC	317
Mozambique	17
Zimbabwe	16
Malawi	14
Madagascar	—

Source: International Trade Centre

Table 8: Recent and Planned Oil Fields

Field	Output ('000 b/d)	Estimated start	Block	Operator
Kizomba Satellites	140+	2012	15	ExxonMobil
PSVM	150	2012	31	BP
Palas, Ceres, Juno, Astrea, Hebe, Urano, Titania	150	2012+	31	BP
Platino, Chimbo, Cesio	150	2013	18W	BP
Sangos/N'goma	85	2013	15	ExxonMobil
SE PAJ	150	2013	31	BP
AB 32 Southeast Hub	210	2013+	32	Total
Pengzhou	200	2012 Q3		CNPC/PetroCHina
CLOV	160	2014	17	Total
Cabaca Norte-1	40-200	2014	15	ExxonMobil
Terra Miranda, Cordelia, Porti	150	2014	31	BP

Source: US EIA

Executive summary
Global and regional outlook
Macroeconomic policy environment
Key economic sectors
Business operating environment
Appendix

Key economic sectors

The government expects oil investments to rise by USD4-5bn per annum over the next ten years, and this rise could be much higher. In view of these factors, we expect Angola's total oil production capacity to rise above 2.0m b/d by 2015, up from an estimated to 1.888m b/d in 2012, and from 1.785m b/d in 2011. However, the country's refining capability is limited; it has just one refinery with a capacity of around 40,000 b/d and construction of a new refinery have only just begun (see Downstream Oil and Gas in Angola).

By the end of 2013, Angola's gas production will far exceed domestic consumption, and should have up to 250bcf of spare gas to export regionally or globally. The country's future gas volumes can serve as a potential base to develop other parts of Angola's downstream gas industry, if the necessary infrastructure is put in place. This would also create scope for gas production to boost the power sector and fuel further industrialisation, providing a source of feedstock for the fertiliser, petrochemicals and plastics industry.

Oil and Gas Trade

China and the US are the main recipients of the Angola's crude oil, accounting for around 80% of the country's total exports. China alone accounted for approximately 40% of the country's exports in 2011, with most of it concentrated on oil (Chart 24). While this is in encouraging in terms of trade development, it also means that Angola is exposed to shocks in China's economy, especially an unexpected sharp slowdown. Other risks to Angola's oil sector include swings in global oil prices.

In 2011, Angola exported around USD1.7trn worth of crude oil to the world, compared with only USD14.4m to the SADC region (Table 9). Within the SADC region, South Africa, Zambia and Swaziland are Angola's biggest crude-oil export destinations. Rising levels of gas production in Angola could serve as a base for a regional gas market within the SADC region, but this would require large amounts of investment in transport and distribution infrastructure.

Downstream Oil and Gas in Angola

Angola currently has only one producing refinery with a capacity of 40,000 b/d. This is jointly owned by Total, Sonangol and other small private investors. The refinery meets only about 50% of local oil demand and the rest has to be imported (Chart 25). However, construction of the 200,000 b/d refinery in Lobito officially commenced in December 2012: once completed it will produce 120,000 b/d before reaching 200,000 b/d by 2015. This will help to reduce import costs of refined oil.

Chart 23: Angola Crude-Oil Industry Market Share of Key Players,* 2011

Source: Global Data

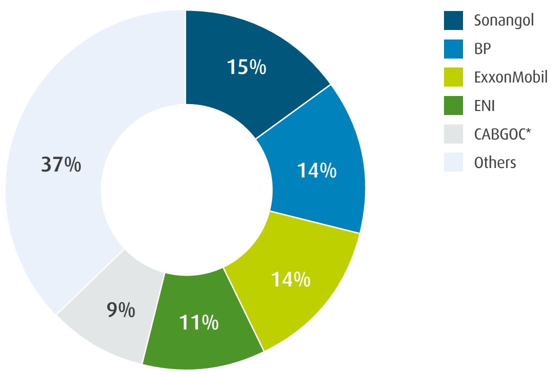


Chart 24: Angola Crude Oil Exports by Destination

Source: International Trade Centre

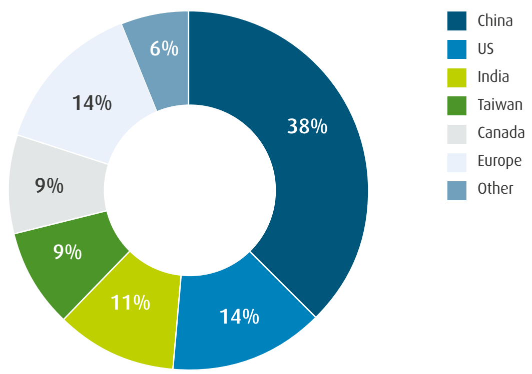


Chart 25: Refined Product Imports (000 tonnes)

Source: CITAC Africa

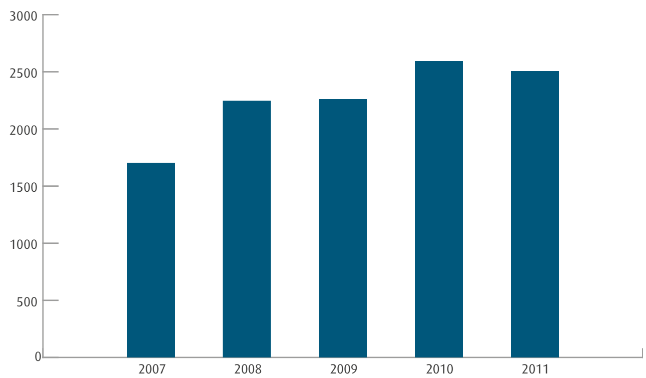
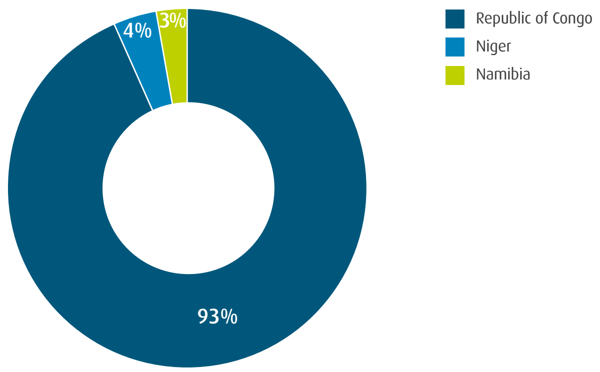


Chart 26: Share of Refined-Product Export Value by African Country, 2011

Source: International Trade Centre



Angola consumed an estimated 4m tonnes of petroleum products in 2011, and is the top consumer of refined products in the SADC region, after South Africa. Over 70% of Angola's refined petroleum consumption consists in gasoline, diesel and jet fuel; kerosene, fuel oil and LPG demand are minimal. Growth in demand for diesel has averaged around 6-7% p.a. in the past ten years.

Angola also exports and re-exports refined petroleum products to other African countries: in 2011, Angola exported USD42.3m worth of refined products to other African countries, and its top three regional export partners for refined petroleum products were the Republic of Congo, Niger and Namibia. Congo has remained by far the main African destination for refined petroleum products from Angola since 2007 (Chart 26).

Oil and Gas Legal and Regulatory Environment

In October 2012 Angola's government introduced a new FX legislation governing the oil and gas sector (see Exchange Rate Regime). The law provides that the BNA must outline an implementation calendar and adopt the procedures and mechanisms to implement the law. The aim of this law is to retain as much local value within the country as possible, and help boost the development of the oil and gas sector and hence the economy. The law describes exchange transactions as:

- the acquisition and disposal of foreign currency
- the opening of bank accounts in Angola and transactions through accounts in foreign currency, by residents and non-residents
- the opening of bank accounts in Angola and transactions through accounts in local currency by non-residents
- the settlement of commercial transactions through current accounts and capital accounts.

Fiscal Structure in the Oil and Gas Sector

Angola has two types of fiscal structure governing its oil and gas industry; Offshore/deepwater Production Sharing Contracts (PSCs) and Partnerships or Joint Ventures (JVs), applicable to certain JVs (Cabinda concessions) from the 1960s and 1970s. There is also a third and less common category of contract known as Risk Service Contract (RSC). PSCs are the most common form of contract, but PSC and concession holders are not liable to any form of taxation except those specific to the oil and gas industry. The current tax and royalty regime applies to all licenses granted from January 2005 (Table 10).

In 2012, the Angolan government introduced oil-income-tax-reduction legislation for Angolan national oil and gas companies, which it defined as companies 100% owned by Angolan nationals, private or public. Angolan oil and gas companies will also be exempt from the payment of signature bonuses and other financial obligations. Although Angola is known to have one of the most progressive regimes for PSCs, the overall government stake in Angola's oil and gas sector is considered to be relatively high, although this has not necessarily served as a major deterrent to oil and gas development and exploration.

Table 10: Angola Oil and Gas Fiscal Regime

Items	Amount
Petroleum income tax (PIT)	50% (PSC) and 65.75% (JV and RSC)
Surface fee (SF)	US$300 per square kilometer
Training tax contribution (TTC)	US$0.15 per barrel/US$100,000 to US$300,000 (only applicable before production phase
Petroleum production tax (PPT)	20% (JV only) – may be reduced to 10%
Petroleum transaction tax (PTT)	70% (JV only)
Investment incentives	Uplift of development expenditure under investment allowance
Signature bonuses	PSC: one of 3 bid items in block auctions
	JVs : negotiated item to extend contract
Cost recovery	PSC: 50% of production (sometimes 65%)
Royalty	JV: 20% of gross production
Production sharing	PSC: sliding scale linked to field IRR, state share increasing from 20% to 85%; blocks 2/3 have different terms
State equity	PSC: Sonangol has 0-20% of investor equity
	JV: Sonangol has 41% of investor equity

Sources: KPMG; Wood Mackenzie; Ecobank Research

Key economic sectors

The Mining Sector

Besides oil, Angola is richly-endowed with mineral deposits, increasing the export base. The country's mining sector currently accounts for around 12% of GDP and is dominated by diamonds, with an estimated reserve of over 200m carats. Diamond mines are located mainly in the Lundas and Moxico provinces, accounting for over 90% of the country's mineral exports earnings. Angola is the eighth largest producer of rough diamonds in the world, and Catoca is one of the world's largest kimberlite mine. In 2011, Angola exported around 8.6m carats, worth USD1.2bn. The country also has significant untapped potential in areas such as copper deposits in the Uíge, Namibe and Moxico provinces, iron ore reserves in Cassinga and Cassala-Kitungo, feldspar, gold, natural gas, phosphates and uranium, thus providing business opportunities for potential investors.

We expect the mining sector to expand rapidly over the short term as new investment projects come on-stream. This includes new diamond mines in the Lundas province. In addition, Angola's state-owned mining firm, Endiama, which provides exclusive concessionary rights for diamond mining in the country, has sought assistance from China to look into ways to diversify away from diamond exports towards other mining areas such as iron ore and copper. The government, in partnership with private companies including leading international trading company Trafigura, has embarked on a major iron-ore mining project in Cassinga, which has the potential to be one of the country's largest ever mining projects, with production set to amount to over 20m tonnes per annum once it comes on-stream in 2014/15. Of this amount, the government expects Cassinga Sul (Tchamutete) and Cassinga Norte to each produce 7m tonnes p.a., with 6m tonnes expected to be produced at the Cateruca reserve. This will help to diversify the economy away from the oil sector and broaden the export base. Endiama has also announced a new phase of development in the Moxico province; this would see the return of artisanal mining in this province following decades of inactivity. Finally, Russia is set to complete exploration work on kimberlite diamond deposits in the south east of the country soon, a move that would potentially increase mining production.

Despite favourable mining prospects, the mining sector, like the oil sector, is vulnerable to changes in global commodity prices. There is also evidence of illicit trading and Angola is not yet a signatory to the Extractive Industry and Transparency Initiative, indicating a lack of transparency in the sector. However, in an attempt to facilitate investment in the sector, the government introduced a new mining code in September 2011, which grants potential investors a single licence that will allow them to carry out exploration, exploitation and commercialisation of the country's resources. The sector is generally open to foreign investors, although local firms tend to dominate.

Chart 27: Production of soft commodities

Source: FAOSTAT

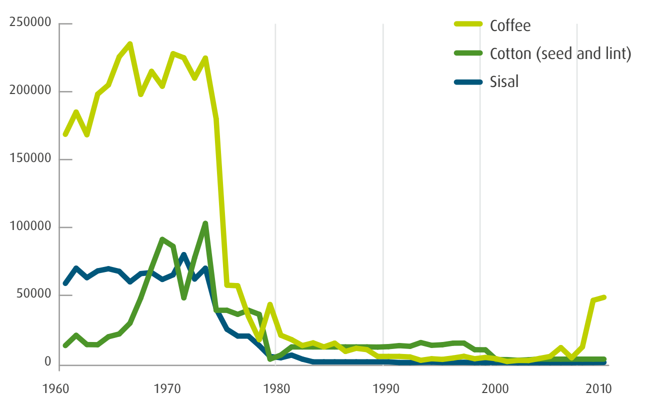


Chart 28: Maize, Sugarcane, Nuts and Palm Oil

Source: FAOSTAT

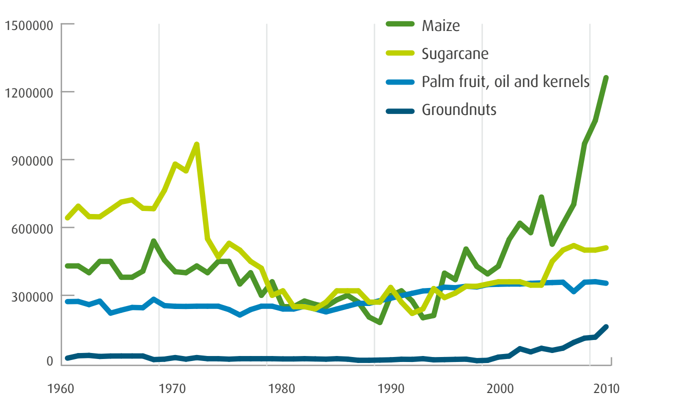


Chart 29: Angola's Cassava Production (metric tonnes)

Source: FAOSTAT

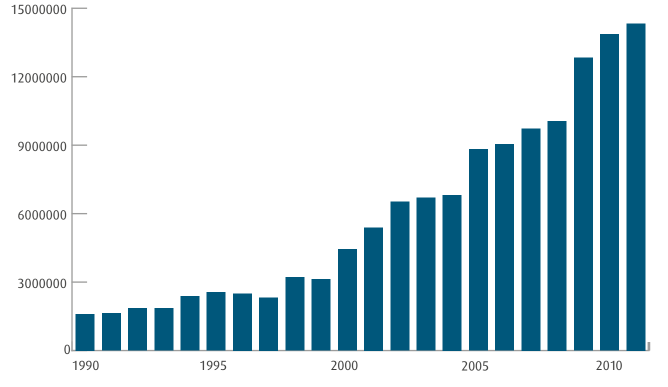
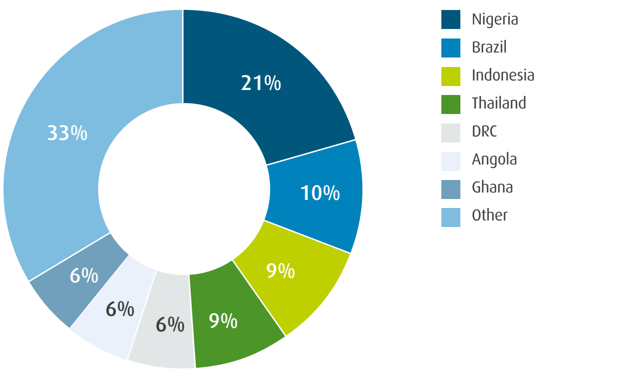


Chart 30: Share of global production, 2011 (metric tonnes)

Source FAOSTAT



The Agricultural Sector

Food imports have increased with the agricultural devastation caused by the civil war, but the return to stability presents considerable opportunities for the agriculture sector. Angola was the world's third largest coffee exporter in 1974 but production collapsed during the war. A combination of years of instability, the displacement of a large number of people, the presence of landmines and a lack of commercial farming expertise led to the collapse of production of key soft commodities such as coffee, cotton and sisal (Chart 27), although coffee has rebounded in recent years. Angola still imports much food but it also presents considerable room for business opportunities and growth in the sector.

Production of soft commodities is recovering. Sugarcane production, which had fallen two-thirds from its peak, has since strengthened to 510,000 metric tonnes. Palm fruit, oil and kernels production has risen steadily, helping to meet strong domestic demand (Chart 28): this highlights the huge potential for Angola to increase its palm production for food, biofuel and industrial uses. Production of maize has also risen, surpassing that of sugarcane. Angola is also the world's sixth largest producer of cassava (Chart 29), which is an ideal substitute for wheat in flour and bread, helping to reduce import costs. When compared with exports from the oil and gas sector, exports of agricultural crops such as bananas, coffee, cotton, sugar cane and sisal are relatively low but they have recovered in recent years, thanks to increased public investment in the sector and assistance from non-governmental organisations (NGOs) such as USAID.

The agro-industrial sector is likely to grow although rapid expansion will be inhibited by the lack of adequate power, transport and logistical infrastructure and poor storage facilities. Over the short to medium term, the government plans to increase the export of processed agricultural products as part of its efforts to diversify the economy away from the oil sector; this would be supported by the ongoing removal of landmines and increased investments by NGOs. In the meantime we expect the agricultural sector to grow modestly during the outlook period.

The Financial Sector

Financial sector reforms and strong economic activity have made the banks more robust. Angola's financial sector is less sophisticated than that of regional economic giants such as Nigeria and South Africa, but it has grown significantly in terms of the existing number of players in the banking sector relative to the country's population. Between 2005 and 2012, the number of banks has risen from 13 for a population of 16.6m to 23 for an estimated 20.2m (Table 11). This increase reflects the government's ongoing drive to accelerate financial-sector reforms and robust economic activity, particularly in the oil and diamond sectors.

Table 11: Transition of Banks

	Dec-05	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11
Banks							
Public owned	2	3	3	3	3	3	3
Mixed						1	1
Private national	7	9	10	10	10	12	12
Affiliates of foreign-owned	4	5	6	6	6	7	7
Total	13	17	19	19	19	23	23

Source: BNA

Chart 31: Private-Sector Credit

Source: BNA

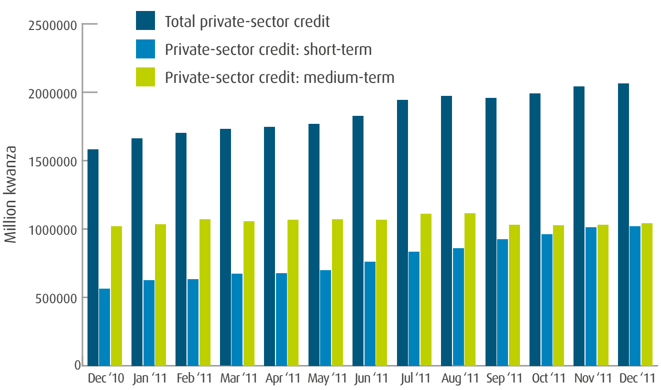
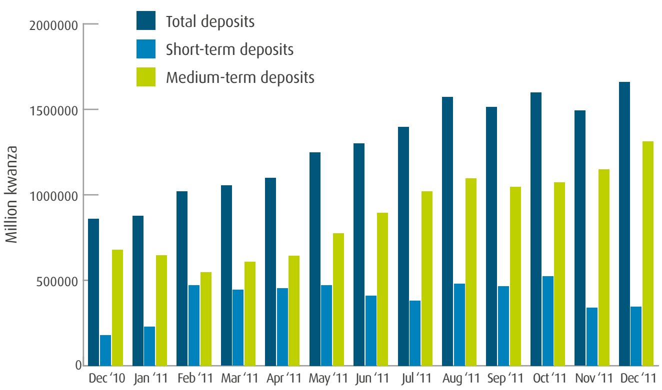


Chart 32: Bank Deposits

Source: BNA



Executive summary | Global and regional outlook | Macroeconomic policy environment | Key economic sectors | Business operating environment | Appendix

Key economic sectors

Current Market Structure

The number of banks has increased, but the volume of financial market transactions is limited. Of the 23 banks, only three are state-owned, so significant progress has been made since 2003, when a majority of the banks were state-owned. There are also 12 private national banks, seven affiliates of foreign-owned banks and one public-private bank. The country's central bank, the BNA, remains in charge of policy formulation and regulation for the entire industry. However, the volume of financial market transactions is limited: the IMF estimates that only 6% of the population hold a bank account. Banks also find it difficult to extend financing to the private sector due to lack of collateral by potential borrowers, the country's weak legal system and the absence of a private-sector credit bureau (although moves are underway to establish one). In addition, bank lending to state-owned companies or parastatals (who benefitted from concessionary rates in the past) has dwindled in recent years owing to high levels of non-payments. As a result, credit extended to the public sector now account for less than 6% of the banks' total credit, according to the BNA: it stood at 5.5% in June 2012, compared to 10.1% in 2008.

Table 12: Market Share of Bank Lending

	Dec-09	Dec-10	Dec-11
Banco Angolano de Investimentos, SA B (BAI)	19.07%	16.57%	22.10%
Banco Espírito Santo Angola, SA B (BESA)	19.64%	25.45%	16.50%
Banco de Poupança e Crédito, SA B (BPC)	15.97%	15.50%	14.70%
Banco de Fomento Angola, SA B (BFA)	15.85%	12.69%	13.20%
Banco BIC, SA B (BIC)	10.00%	10.39%	10.30%
Banco Privado Atlântico, SA B (BPA)	3.95%	4.63%	4.40%
Banco Millennium Angola, SA B (BMA)	2.85%	2.90%	3.30%
Banco de Negócios Internacional, SA B (BNI)	3.28%	2.62%	2.30%
Banco Caixa Geral Totta de Angola, SA B (BCGTA)	1.71%	2.22%	2.40%
Banco de Comércio e Indústria, SA B (BCI)	1.71%	1.77%	1.60%
Other ten banks	5.97%	5.26%	9.20%

Source: Bank of Angola

Table 13: Sectoral Lending by the Banking Sector

Sectors	Dec-11	Q1 2011
Individuals	16.81%	19.56%
ECR, social and personal	16.24%	16.43%
Wholesale and retail	16.98%	16.32%
Real estate, rental and service companies	14.84%	11.11%
Construction	7.96%	8.74%
Manufacturing	8.28%	8.07%
Securities not classified	2.40%	7.00%
Transport and communications	3.88%	3.53%
Mining and quarrying	2.80%	3.12%
Financial, insurance and pension fund services	4.28%	1.80%
Agriculture, livestock, hunting & forestry	1.63%	1.41%
International organizations and other extraterrestrial institutions	2.28%	0.96%
Hotels and restaurants	0.71%	0.91%
Education	0.26%	0.41%
Health and social work	0.30%	0.36%
Electiricity, gas and water production and distribution	0.23%	0.17%
Fisheries	0.10%	0.08%
Families with domestic employees	0.02%	0.02%
Total	100.00%	100.00%

Source: BNA

Credit Extension to the Private Sector

Credit extension to the private sector has remained robust, but is usually short-term, reflecting difficulties with longer-term financing. Commercial banks usually profit from credit extended to only a few selected businesses, predominantly major private-owned Angolan firms (foreign investors do not usually seek funds from local banks), as well as short-term trade financing and investment in state bonds. Latest data from the BNA show that credit to the private sector stood at 94.5% of total credit in June 2012, compared with 89.9% in 2008. The sector's lending continues to be short- to medium-term in nature (typically between 30 days and four years), reflecting difficulties with longer-term financing; in November 2011, the ratio of short- to medium-term lending stood at 50:50, compared with 36:64 in December 2010 (Chart 31).

Funding of the banking sector remains very solid, mainly through deposits, which constitute approximately 72% of total liabilities (Chart 32). Additionally, we have continued to observe a sound asset-liability match; as at December 2011, medium-term deposits constituted 79% of the sector's total deposits, which supports banks' ability to commit to a similar tenure of lending. Between 2009 and 2011, private-sector lending constituted 95.06% of total credit to the economy, with banks largely shying away from lending to the public sector. In December 2011, the Banco Angolano de Investimentos (BAI)) emerged as the dominant banking creditor to the economy, accounting for 22.1% of total credit extended to the private sector, followed by the Espirito Santo Angola (BESA,16.5%) and the Banco de Poupança e Crédito (BPC, 14.7%: Table 12).

Bank loans are extended mainly to consumer-driven sectors. Loans are increasingly being extended to individuals, the wholesale, and retail and real-estate sectors (Table 13), which together account for two-thirds of total loans, reflecting increasing demand by consumers to raise their living standards, as well as the multiplier effects of the expansion of the economy. Lending to the construction sector has also increased, in line with growing demand to boost the country's infrastructure. However, the fortunes of the banking sector are tied to liquidity swings associated with transactions in the oil sector. Although strong oil activity in recent years has sustained their earnings, large volumes of oil transactions have led to a high level of unhedged dollar-denominated loans, increasing the banks' vulnerability in the event of an unexpected large depreciation of the kwanza. Positively, the BNA has increased its efforts to de-dollarise the economy (see Exchange Rate Regime).

Table 14: Financial Soundness Indicators (%)

	Oct-11	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12
Capital adequacy									
Core capital/total risk-weighted assets	14.5	14.2	14.3	14.6	14.7	14.8	15.4	14.6	14.3
Asset quality									
Overdue credit/total loans	2.8	2.7	2.4	2.5	3.6	2.5	4.3	5.0	5.5
Distribution of loans by sector									
Credit to public sector/total credit	6.0	5.3	5.4	5.0	5.5	3.7	3.2	4.8	5.5
Credit to private sector/total credit	94.0	94.7	94.6	95.0	94.5	96.3	96.8	95.2	94.5
Earnings and profitability									
Return on assets	2.3	2.5	2.6	0.3	0.4	0.6	1.3	1.4	1.0
Return on equity	18.7	20.1	21.6	2.9	3.5	4.7	10.1	10.9	7.8
Total costs/total income	86.2	88.6	90.2	94.9	96.6	96.8	94.8	95.8	97.8
Spreads	16.6	18.0	9.1	17.4	12.7	12.8	14.6	15.1	14.5
Savings and deposit rates	7.2	7.3	8.6	7.2	7.3	7.3	6.7	7.1	5.9
Liquidity									
Liquid assets/total assets	31.2	28.8	28.1	25.9	27.3	27.6	26.7	26.6	25.9
Liquid assets/short-term liabilities	39.9	36.6	35.4	32.8	35.6	36.1	35.1	34.2	33.2
Total credit/total deposits	62.7	61.9	59.5	57.3	59.0	59.0	59.5	60.7	62.5
Sensitivity and market changes									
Net open forex exposure/total equity	21	17	21	8	-3	-1	-2	0	1
Number of banks filing returns in the period	22	22	22	22	22	22	21	21	21

Source: BNA

Key economic sectors

Capital Profile

The capital market is underdeveloped by global standards, but reforms are underway. In recent years, the BNA has made progress towards developing a bonds market with maturities on short-term bonds (namely Central Bank Bills, Titulos do Banco Central), ranging from 91 to 182 days, and those on long-term bonds (namely Treasury Obligations, Obrigações do Tesouro) ranging from 1.0 to 7.5 years. Additionally, the government has taken steps to establish a securities exchange, the Angolan Stocks and Securities Exchange (Bolsa de Valores e Derivativos de Angola, BVDA), which will trade in equities and securities with companies, helping to deepen the financial market. Plans are also underway to issue a Eurobond, but the government is yet to set a date for the launch.

The shallow nature of the banking sector has helped to insulate it against contagion. Although the shallow nature of Angola's banking sector has limited capital for banks, companies and individuals (most local SMEs either self-finance or seek funds from non-banks, reducing potential profits for the banking sector), it has helped to insulate the sector from any systemic contagion arising from the ongoing crisis in the euro-zone. This positive effect is also complemented by the fact that the country does not depend on capital inflows from EU banks, in particular, Portuguese banks. The BNA's latest official statistics show that that Angolan banks remain well capitalised, with the core capital-to-total risk-weighted-assets ratio standing at 14.3% in June 2012 (Table 14), above the BNA's 10% minimum regulatory requirement. Meanwhile, Angolan banks are likely to restructure partially in line with the proposed guidelines set under Basle III; national regulators are unlikely to force them to comply fully as Angolan banks, like many other banks in the region, are still operating under Basle I and Basle II guidelines.

Banks' soundness has improved since the end of the war, but credit risk is rising. Banks' asset quality has improved sharply since the end of the civil war, with the ratio of non-performing loans to total loans remaining below 6.0% in recent years compared with around 9.0% in 2003. However, the ratio has risen again in recent months, from 2.4% in December 2011 to 5.5% in June 2012, reflecting rising credit risk. Moreover, government-guaranteed loans are regarded as performing loans, whether or not they are being serviced. Meanwhile, bank earnings, in terms of returns on both assets and bank equity, albeit remaining in positive territory, fell sharply to 1.0% and 7.8%, respectively, in June 2012, down from 2.6% and 21.6% in December 2011. But the ratio of loans to deposits has crept above 60% in recent months, from less than 30% in 2003, reflecting increased market confidence.

Table 15: Angola's Top Five Banks by Total Asset Size

		Strength		Size			Soundness	
	Parent bank	Tier-1 capital		Assets			Capital-assets ratio	
	Country	USDm	% change	USDm	Rank	% change	% latest	Rank latest
Banco Angolano de Investimentos, SA B (BAI)		708.4	10.89	11876	1	41.83	5.96	13
Banco de Poupança e Crédito, SA B (BPC)		705.5	30.59	7564	3	8.24	8.97	9
Banco BIC, SA B (BIC)		493.8	7.71	5514	5	13.28	8.96	10
Banco de Fomento Angola, SA B (BFA)	Portugal	473.2	19.57	7063	4	9.5	6.7	12
Banco Espírito Santo Angola, SA B (BESA)	Portugal	382.8	104.48	7892	2	21.89	4.85	15

	Profits		Performance						
	Pre-tax profit		Return on capital		Return on assets				
	USDm	% change	% latest	Rank latest	%	Rank	Loans to asset ratio (%)	Cost income ratio (%)	Year end
Banco Angolano de Investimentos, SA B (BAI)	199.76	-13.04	28.2	8	1.68	12	65.97	32.6	Dec-11
Banco de Poupança e Crédito, SA B (BPC)	182.61	-12.03	25.88	11	2.32	10	60.49	32.48	Dec-11
Banco BIC, SA B (BIC)	175.67	0.47	35.57	4	3.19	8	37.5	32.22	Dec-11
Banco de Fomento Angola, SA B (BFA)	249.25	-0.2	52.67	4	3.53	7	20.12	42.69	Dec-11
Banco Espírito Santo Angola, SA B (BESA)	332.04	55.98	86.75	1	4.21	3	47.81	17.5	Dec-10

Source: The Banker
Note: Data are for December 2011, except for BESA, with data for December 2010.

Despite the improvement in soundness, recent stress tests conducted by the IMF revealed that Angola's banking sector remains vulnerable to macroeconomic shocks, and has weak corporate governance and supervisory capacity. In response to this, the monetary authorities have increased their efforts to strengthen property rights, as well as the regulatory policy framework and prudential supervision of banking activities. However, the benefits of these reforms will be limited in the short term, given the absence of an effective judicial system that will enable banks to fully recover security held against non-performing loans, while protecting borrowers from unfair practices.

Among Angola's top five banks in the country, the BAI remained in first place in terms of its asset size (Table 15), although it is not as profitable as BESA and Banco de Fomento Angola, with returns on asset standing at 4.21%, and 3.53% respectively compared with 1.68% at BAI.

Chart 33: Global Competitiveness Index

Source: WEF

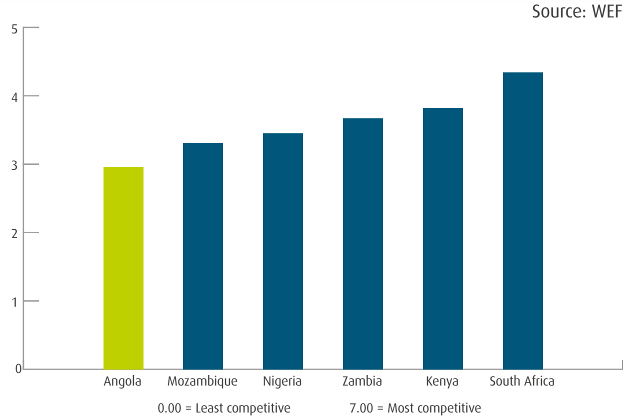


Chart 34: Regulatory Quality

Source: World Bank

Table 16: Ease of Doing Business in Angola

	2009	2013	change
Ranking	168	172	↓
Starting a business			
Number of procedures	8	8	-
Time (days)	68	68	-
Cost (% of income per capita)	196.8	105.4	↑
Dealing with construction permits			
Number of procedures	12	12	-
Time (days)	328	348	↓
Cost (% of income per capita)	831.1	153.6	↑
Registering property			
Number of procedures	7	7	-
Time (days)	334	184	↑
Cost (% of property value)	11.6	3.1	↑
Paying taxes			
Number of payments per year	31	31	-
Time (hours per year)	272	282	↓
Total tax rate (% of profit)	53.2	53.2	-
Enforcing contracts			
Number of procedures	46	46	-
Time (days)	1011	1011	-
Cost (% of claim)	44.4	44.4	-

Source: World Bank

Business operating environment

Investment Environment

The country remains attractive to foreign investment. Since the end of the civil war, inward FDI has risen significantly although such investment is concentrated largely in the offshore hydrocarbon sector. The government is keen to attract FDI in the non-oil sector. However, this area remains less appealing to foreign investors due to the generally poor state of infrastructure (although this also creates opportunities for foreign investors wishing to bid for government contracts on infrastructure development: see Physical Infrastructure). The investment environment is also hampered by a legacy of war, high levels of bureaucracy, weak institutional capacity and large government ownership and control.

Structural deficiencies remain a challenge. The World Economic Forum (WEF) ranked Angola 139 out of 142 countries surveyed in its 2011/12 Global Competitiveness report. Angola scored 2.96, where 0.0 represents the least competitive country and 7.0 the most competitive (Chart 33). This score is more or less on a par with other regional countries such as Mozambique (3.31) and Angola's main oil competitor Nigeria (3.45), but Angola continued to lag well behind the region's main economic giant South Africa (4.34). Encouragingly, Angola is on track to improve its investment environment, although it will take time before it reaches South Africa's level.

Table 17: Ease of Doing Business among Key Regional Countries, 2013

	Regional average	Angola	Mozambique	Nigeria	South Africa	Zambia
Ranking		172	146	131	39	94
Starting a business						
Number of procedures	8	8	9	8	5	6
Time (days)	34	68	13	34	19	17
Cost (% of income per capita)	67.3	105.4	19.7	60.4	0.3	26.6
Dealing with construction permits						
Number of procedures	12	12	14	15	13	14
Time (days)	348	348	377	85	127	196
Cost (% of income per capita)	153.6	153.6	113.3	417.7	33.4	1679.1
Registering property						
Number of procedures	6	7	8	13	6	5
Time (days)	65	184	42	86	23	40
Cost (% of property value)	9.4	3.1	8	20.8	5.9	8.2
Paying taxes						
Number of payments per year	39	31	37	41	9	37
Time (hours per year)	319	282	230	956	200	132
Total tax rate (% of profit)	57.8	53.2	34.3	33.8	33.3	15.2
Getting electricity						
Number of procedures	7	5	9	8	5	6
Time (days)	55	133	117	260	226	117
Cost (% of income per capita)	754.9	4736.9	2394.7	873.9	1505.8	1109.5
Enforcing contracts						
Number of procedures	39	46	30	40	29	35
Time (days)	649	1011	730	457	600	471
Cost (% of claim)	50.1	44.4	142.5	32	33.2	38.7

Source: World Bank

Legal and Regulatory Environment

Certain limitations in the regulatory environment weaken the country's competiveness. The Intellectual Property Rights (IPR) 2012 Index ranks Angola 127th out of 130 countries (and 23rd out of 24 countries in the region) in terms of its legal and political environment, highlighting the limitations to conducting business in the country. Key areas of weakness are in the judicial system, physical property rights and the protection of IPRs, all of which ranked within the bottom quartile of the IPR Index in 2012. Although the judiciary generally functions properly, such poor rankings reflect a lack of transparency in the legal system, its vulnerability to interference by people with vested interest and the difficulties in registering property and protecting IPRs. Regulatory control is also an issue, as highlighted in the World Bank's 2012 Governance Survey, which ranked Middle Africa's major oil producers, including Angola, in the negative territory for regulatory quality (Chart 34).

Plans are underway to reduce infrastructure bottlenecks. Although steps are being taken to strengthen Angola's regulatory environment, the World Bank's 2013 Doing Business report highlighted that the country slipped 4 places from 2009 to 172nd out of 185 countries surveyed (Table 16). This highlights major challenges in doing business outside the oil sector. However, the costs associated with starting a business, obtaining construction licences and registering property have dropped significantly since 2009, reflecting efforts by the government to reduce infrastructure bottlenecks which dampen investment in the non-oil sectors and constrain economic growth.

The cost and time involved in certain regulatory features can be onerous, undermining business activity. Despite ongoing regulatory reforms, Angola fares unfavourably compared with most countries in the region in some regulatory aspects. While the number of procedures required to start a business is not radically different from regional averages, the cost and time involved are much greater than in countries such as Mozambique, Nigeria, South Africa and Zambia (Table 17). The administrative costs, time and procedures involved in paying taxes and enforcing contracts are also high, although they are not significantly different from most countries in the region, with the exception of South Africa.

Encouragingly the government, with assistance from the IMF, is implementing reforms aimed at strengthening the regulatory framework to increase the country's attractiveness to foreign investment. The government has already automated the property registration system, which will help reduce delays. It has also improved access to credit through increased state guaranteed loans to businesses and micro-credit for farmers.

Physical Infrastructure

Angola has made significant progress in rebuilding its physical infrastructure, which was severely damaged by the 27 years of civil war (1975-2002). With financial assistance from China, Angola has increased its electricity capacity by 50%, although access to electricity is still limited, with a majority of businesses relying on power generators to carry out their operations. This means high utility costs for businesses operating in the country.

The government has also improved the rehabilitation of some road networks in order to ease congestion at the country's major port, Port Luanda, and has improved water services in urban areas. Efforts are already underway to expand paved roads to 13,800km over the medium term (from 6404km in 2010). Major emerging markets such as China and India have provided credit lines to support the country's reconstruction programme, particularly in utility provisions such as electricity and water. Nevertheless, the general state of the country's infrastructure remains poor. Road conditions remain unsatisfactory, increasing transport hazard, costs and the risk of accidents. The road network is also inadequate, increasing congestion problems, and prompting the use of Walvis Bay, located some 2000km away in Namibia, as an alternative port. The lack of adequate port infrastructure and inefficiency partly explains Angola's relatively long import and export times (see Logistics Performance). Internet penetration, albeit improving, remains below regional peers: only 14.8% of the population have internet access, compared with 28.0% in Kenya, 28.4% in Nigeria and 17.4% in South Africa. However, Angola fares better than Mozambique (4.3%).

The country's infrastructure deficiencies presents opportunities for business, although some sectors are governed by regulations (see Investment Restrictions). The government is keen to use its oil revenues to invest in the rehabilitation and expansion of Angola's infrastructure. This includes plans to: construct new motorways, ring-roads and bridges, rehabilitate the road network; invest in residential and commercial property, expand Luanda's port capacity, upgrade the three main railway lines and invest in a new one that will connect Namibe to the Cabinda Enclave. The government plans to invest around USD18bn in the period 2009-16 to expand the country's hydroelectric-generating capacity to 7000 megawatts (MW) by 2016 and extend the transmission network across the country; this includes plans to build ten thermal electricity plants to meet growing electricity demand. There are also longstanding plans to link the grid to the Southern African Power Pool (SAPP) and the Inga III project, part of the DRC's Western Power Corridor (WESTCOR). The government is also upgrading a number of airports, with rehabilitation of the country's main international airport in Luanda expected to be completed by 2014.

There are also plans to build a new airport in Bom Jesus, which is located about 40km southeast of the capital, and to revamp the airport in oil-rich Cabinda. Construction of a large oil refinery near the port city of Lobito is underway (see Downstream Oil and Gas in Angola). Once these projects are completed, they should significantly reduce bottlenecks and business costs, but this could take some time.

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Business operating environment

Corruption

The perceived level of corruption is broadly on par with key regional countries, but still adds to business costs. Transparency international's 2012 Corruption Perception Index shows that Angola ranked 157 out of 176 countries surveyed, scoring 22, where 0 represents the most corrupt country and 100 the least corrupt. This level of perceived corruption in Angola is broadly similar to that of other key economies in Middle Africa, in particular Kenya and Nigeria (which both scored 27: Chart 35), although this still increases business costs. However, Angola fared better than other countries such as Equatorial Guinea (which scored 20), Chad (19) and Sudan (13).

Customs Procedures

Customs procedures remain arduous but have improved, reducing business delays. On average, it now costs less and requires fewer documents and less time to export and import goods than in 2009 (Table 18: see Trade Documents Required), thanks to ongoing reforms. It currently takes the authorities 45 days on average to clear a container of imports, against 62 days in 2009 (although this is still higher than in most countries in the region). This marked improvement indicates the large investments made to reduce the inefficiencies of the ports. The time taken to export goods is also lower than in 2009: it takes on average 48 days against 68 days in 2009, while the number of documents required has dropped marginally, from 12.0 in 2009 to 11.0. The cost of exporting goods is now below that of most countries in the region, reflecting increasing efforts by the government to reduce non-tariff barriers and provide a positive investment climate: it costs on average USD1,850 to export one container of goods, against a regional average of USD1,990.

Chart 35: Corruption

Source: Transparency International

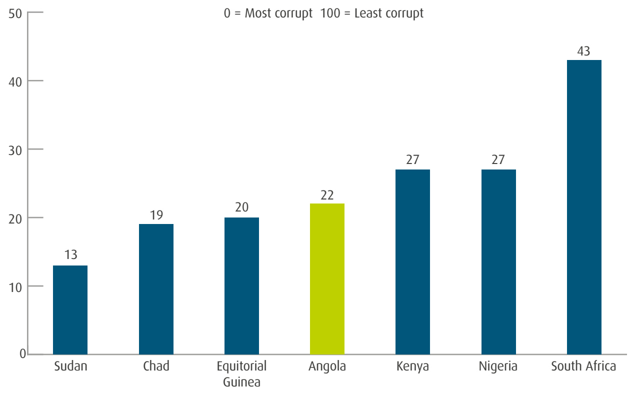


Table 18: Customs Clearance

	2009	2013					
	Angola	Regional average	Angola	Mozambique	Nigeria	South Africa	Zambia
Trading across borders							
Documents required for export (number)	12	8	11	7	10	6	6
Time required for export (days)	68	31	48	23	24	16	44
Cost to export (USD per container)	2250	1990	1850	1100	1380	1620	2765
Documents required for import (number)	9	9	8	10	10	7	8
Time required for import (days)	62	37	45	28	39	23	56
Cost to import (USD per container)	3325	2567	2690	1545	1540	1940	3560

Source: World Bank

Logistics

Logistic challenges are not radically different from those in other key regional countries but do increase costs. Issues already mentioned include slow and expensive long-distance road transit which increases costs, as well as congestion. However, reflecting the recent acceleration in government reforms geared towards improving the country's logistics network, the World Bank's 2012 Logistics Performance Index shows that Angola has improved slightly in terms of its logistics performance: it ranked 138th out of 155 countries surveyed, moving up four places over the previous year and scoring 2.28, where 1.00 represents the lowest level of logistics quality, and 5.00 the highest (see (Chart 36). This was based on improvements in two of six categories, namely, customs (efficiency of the clearing process by border control agencies) and infrastructure. However, the World Bank still ranked Angola in the bottom percentile in terms of: customs efficiency (151/155), infrastructure (149/155), logistics competence (147/155) and the ease of arranging competitively priced international shipments (130/155), but slightly better in tracking and tracing consignments (106/155) and in the timeliness of the expected delivery of goods (121/155).

Workforce

Angola offers an abundance of labour, which boosts its attractiveness. The country benefits from a large workforce, thanks to its large population of 20.2m in 2012 (World Bank estimate). However, as with many developing countries, the majority of the workforce is unskilled. This is due largely to institutional weaknesses, years of instability and subsequent lack of investment in education. The government has prioritised invest in education over the short-to-medium term, although it will take years before the benefits are realised. In the meantime, the low level of skills will force most firms to employ skilled workers from abroad. However, the government has put in place an 'Angolanisation' programme, which requires local firms set up either by nationals or foreigners to restrict the proportion of expatriate workers in the workforce to 30% (there are exceptions to this rule for certain sectors such as construction, which currently employs a large number of Chinese workers, albeit unskilled). Firms are required to pay expatriates no more than their Angolan counterparts on similar work and domestic oil companies are urged to fill vacancies with Angolan employees before extending their search to foreign workers, which require approval from the Ministry of Petroleum.

Corporate Tax

The corporate tax rate in Angola is relatively high at 35%, weakening the country's competitiveness (Chart 37). Although the mining and oil industries are subject to tax rates of 50% for PSAs and 66.75% for joint-venture partners; the agriculture sector has a tax rate of 20%. The government grants investors tax exemption on capital invested in the country for a period of 8-15 years, subject to the rules of the province where it is invested. Angola has no tax treaty with any other country and the capital-gains tax rate is 35%. The standard VAT rate is 10%, but can vary in range from 2% to 30%, depending on the goods and services.

Chart 36: Logistics Performance Index

Source: World Bank

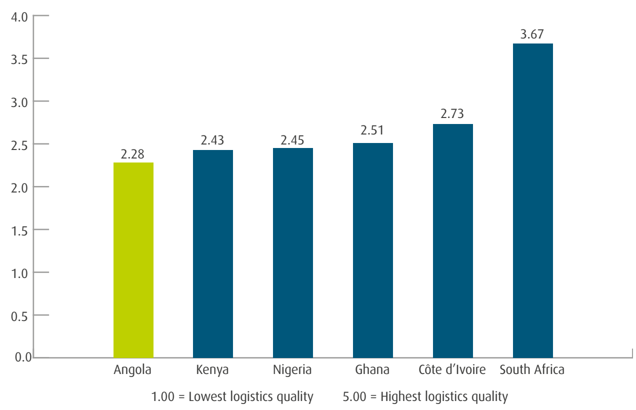
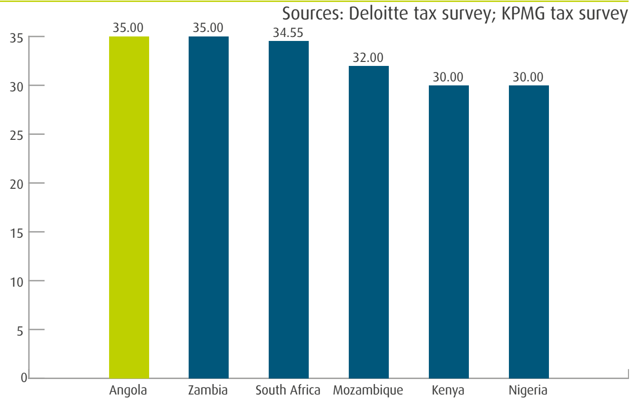


Chart 37: Corporation Tax

Sources: Deloitte tax survey; KPMG tax survey



Business operating environment

Business Licences

A one-stop shop, Guichê Único da Empresa (GUE), has been established to speed up company registration process, but delays occur. All foreign workers or investors looking to start a business in the country are required to obtain a proper work permit or business licence from the government and this may be time-consuming. Registering a company in Angola may take on average 68 days, while obtaining construction permits takes on average 348 days; the World Bank ranks Angola 171st out of 185 countries in its Doing Business 2013 report. But the GUE, under the umbrella of the Ministry of Justice, provides guidelines in all aspects of business registration and licensing services. The unit brings together representatives from various government ministries to look into ways to reduce administrative inefficiencies in registering companies. This process has been hampered by lack of ownership, particularly the Ministry of Justices' lack of authority over the other ministries but the government, with assistance from the Ministry of Justice in Portugal, is in the process of reforming the unit to increase efficiency gains.

Investors in the mining sector now require a single licence for the processes of exploration, mining and commercialisation of diamonds as opposed to separate licences in recent years. Licences are required for all imports to Angola, but restrictions exist. The government's ability to grant such licences is also subject to the availability of FX in the country. Open general licences are granted for imported goods valued at less than USD5,000, while trade licences are required above that amount.

Angola restricts or prohibits a number of imports, including arms or ammunition, toxic products, pharmaceuticals and genetically modified foods. The Ministry of Agriculture and Breeding assists in regulating fertilisers, plants and animals, while the Ministry of Health regulates pharmaceuticals. Petroleum imports are restricted to the state-owned oil company, Sonangol, and the exploration of all natural resources (considered state property) requires licences from the Ministry of Agriculture and Rural Development, as well as relevant provincial governments.

A new law is that will facilitate the opening of new banks in the country has been drafted and is awaiting approval. The Council of Ministers is yet to approve the law before new banking licences can be issued. This is likely to take place by the end of H2 2013.

Business Protection

Investment Restrictions

Despite the government's openness to FDI, foreign ownership is restricted in most sectors, particularly in the services industry. According to the World Bank's 2012 Investing Across Borders report, foreign equity ownership is limited to 49% in the oil and gas sector, 50% in the insurance sector and 80% in the transport sector. Additionally, private-sector participation is prohibited in areas considered to be the exclusive preserve of the state. This includes defence and state security, central bank-related functions, the provision and operation of the basic national telecommunications network and fundamental telecommunications service infrastructure. Investment in major revenue-generating sectors such as petroleum, diamonds and financial sectors also have specific regulations.

The government allows entry into certain areas via public-private partnerships including: scheduled domestic air passenger transportation, regular post service and long-distance maritime transportation. Concessions can also be obtained for contracts in: basic sanitation, production, transportation and distribution of electricity for public consumption, provision, operation and distribution of water through fixed networks, operation of port and airport services, rail freight, coastal shipping, public transportation, chartered air transportation of passengers and cargo (national) and supplementary postal and telecommunications services.

Capital Account Regulations

Angola does not operate a fully liberalised capital account, which increases transfer risk. The central bank guarantees the repatriation of profits for approved foreign investment and this can be implemented via commercial banks. However, repatriation of profits and dividends that exceed USD100,000 requires approval from the BNA. Moreover, the BNA can suspend the repatriation of dividends or require repatriation in instalments if such transactions are deemed to jeopardise the balance-of-payments position, thus increasing transfer risk. This was the case in 2009-10, when the BNA introduced capital controls amid a severe shortage of FX following the global oil price shock.

Investment Laws

Investment laws are geared to protect investors and infant industries. Investment laws in Angola include provisions for equal treatment of foreign and domestic investors, for fiscal and customs incentives and rules governing the incorporation of firms and capital requirements. The 2003 Promotion of Angolan Private Entrepreneurs Law grants Angolan companies preferential treatment when they tender for contracts on goods, services and public works. Major sectors such as energy, diamond, telecommunications and finance are governed by their own laws, and the government requires environmental impact studies for investments in petroleum, mining, road construction and power stations, in line with its national development strategy. The government also promotes the use of local content and workers (see Workforce) and requires oil firms to execute a larger share of their payments to domestic entities in domestic currency through local banks (see Exchange Rate Regime).

Investment Incentives

The government offers a number of incentives, which can be in the form of tax or duty waivers. Incentives in high priority sectors (i.e. agriculture, manufacturing, energy, water and housing) include exemption from industrial and capital gains taxes for up to ten years and from customs duties for up to six years. In addition, there is the possibility of a 100% exemption from customs duty when importing capital goods and equipment (50% for second-hand goods).

All investment applications and requests for incentives are submitted to the National Agency for Private Investment (ANIP). Considerations for investing in the country are made by ANIP on a case-by-case basis, in line with the government's economic and social development strategy. Since May 2011, the government has increased the minimum amount required to qualify for investment incentives, from USD100,000 to USD1m, and such investments can only be approved by ANIP and the foreign investor liaison agency. Investments within the USD10m-50m range require approval from the Council of Ministers (as well as those that need a concession, e.g. in the mining and oil sectors, or involve a government-owned company) and those above USD50m must be approved by an ad hoc presidential committee. Following approval, the prospective company must be registered with the GUE, publish its statutes in the official gazette, obtain a trading licence and register with the tax authorities.

Land Rights

Land is state-owned in Angola, but can be leased to foreign and national private entities through renewable long or short-term leases. Oil, diamond and exploration concessions are also leased, but only for a limited period (10 years for oil-exploration concessions) and companies looking to work in the oil or diamond industry need to enter into partnerships with the national oil company, Sonangol, or the national diamonds company, Endiama. The government encourages investment in the utility sector, predominantly electricity and water, through public-private partnerships.

Government approval is required for foreign investment in land in strategic areas. This includes land that forms part of the territorial waters or continental platforms, is in use by the rural population or is deemed militarily or economically strategic. Land that will be used for purposes such as housing, trade, industrial operations and facilities does not yet have specific legislation and the disposal of such property is determined by the relevant ministry and provincial government on an ad hoc basis.

Expropriation Risk

Expropriation risk is low, although the government has recently begun to introduce restrictions in the oil sector (see Exchange Rate Regime). Nonetheless, Angola offers protection to foreign investors on trade and investment issues through its bilateral investment agreements with Cape Verde, Germany, Italy, Portugal, South Africa, Spain and the UK (although agreements with the latter four countries are yet to come into force), and the World Bank Multilateral Investment Guarantee Association (MIGA). The latter has successfully helped to resolve investment disputes with the country. However Angola is not yet a signatory to the Energy Charter Treaty, the Convention on the Settlement of Investment Disputes and the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards.

Trade Environment

Angola has adopted a liberal trade regime and is richly endowed with natural resources, primarily hydrocarbons and to a lesser extent diamonds, presenting a number of opportunities for trade. The country also has untapped mineral resources such as bauxite, copper, feldspar, gold, iron ore, natural gas, phosphates and uranium. Moreover, it has significant land mass and unrealised potential in agriculture.

The country also boasts of one of the lowest trade tariffs in the region, facilitating trade. According to the World Bank's World Development Indicators report 2012, Angola has one of the lowest trade tariffs in the region, with the simple average Most-Favoured Nation (MFN) applied tariff at 7.2% in 2009. There are six non-zero bands ranging from 2% to 30% and the simple average MFN tariff on primary goods is 10.2% and that on manufactured goods is 6.3%. Non-tariff barriers such as customs-administration procedures pose major challenges to the country's trade environment. The government has also adopted restrictions against imports of mackerel and cement in order to protect such industries.

Trade Blocs/Agreements

Angola is a member of a number of regional trade blocs, reflecting its willingness to promote regional trade and customs efficiency. The country is improving trade relations with China, has bilateral trade agreements with countries such as Brazil, Cuba, the DRC, Mozambique, Namibia, South Africa, Zambia and Zimbabwe and free-trade agreements (FTAs) with major regional trade blocs, notably, the SADC, which seeks to reduce tariffs, reduce customs inefficiencies and promote infrastructure and energy within the trade bloc. Angola is also a member of the Common Market for Eastern and Southern Africa (COMESA), which requires member states to impose the same tariffs on goods from outside the region. Tariffs ranging from 0% to 25% are applied to different categories of goods and services, while raw materials and capital goods are traded within the region without tariffs; intermediate products are taxed at 10% and finished goods at 25%. Angola is also a member of the African, Caribbean and Pacific Groups of States (ACP), which enjoys trade preferences with the EU under its 'Everything but arms' initiative. However, there is a risk that such preferences could be eroded through increased FTAs between the EU and non-ACP countries.

Business operating environment

Angola is yet to sign up to the EU's Economic Partnership Agreement (EPA), which is a reciprocal preferential trade arrangement between the EU and ACP countries that aims to fully replace the (WTO-incompatible) non-reciprocal preferences with the EU. If Angola does sign, it would benefit from increased efficiency in its non-oil tradable sector (through greater competition), while facilitating the expansion of industries and trade diversification. However, under such an agreement there is a risk that Angolan firms would find it difficult to compete with bigger and better-resourced EU companies.

Trade Documents Required

Export and import documents vary. The World Bank's Doing Business 2013 report indicate that the following documents are required for exports from Angola: bill of lading, cargo release order, certificate of origin, commercial invoice, customs' export declaration, FX authorisation, inspection report, packing list, tax certificate, technical standard/health certificate, and terminal handling receipts. The following documents are required for import into Angola: bill of lading, certificate of origin, clean inspection report of findings, commercial invoice, customs import declaration, import authorisation, packing list and terminal handling receipts.

Appendix

Political Framework

Political Environment

Angola's political environment is relatively stable, fostering a conducive environment in which to do business. In 2002, the country ended a 27-year civil war that began soon after its independence from Portugal in 1975. The war was fought mainly between the groups that had successfully fought for independence: the Popular Movement for the Liberation of Angola (Movimento Popular de Libertação de Angola or MPLA) and the National Union for the Liberation of Angola (União Nacional para a Independência Total de Angola or UNITA). Since the end of the war, Angola's political and security risks have eased significantly.

Three parties dominate the political scene:

- Angola is governed by the MPLA, which was founded in1956. The party has ruled the country since its independence under the guidance of President Eduardo dos Santos, who has been in power since 1979. The country's last election, held in August 2012, saw the MPLA win a landslide victory, claiming 71.9% of the vote and winning 175 seats out of a 220-member unicameral National Assembly.
- UNITA is the country's main opposition party, and has been in existence since 1966. It has been led by Isaías Samakuva since the death of its founding member, Jonas Savimbi, in 2002. The party only claimed 18.7% of the vote (32 seats) in the last election.
- Broad Convergence for the Salvation of Angola-Electoral Commission (CASA-CE) has emerged as the country's third main political party. It is led by Abel Chivukuvuku, who split from UNITA to form CASA-CE ahead of the August 2012 parliamentary election. CASA-CE claimed just 6% of the vote, winning eight seats. The remaining five seats were won by Social Renewal Party (PRS; 3 seats) and National Front for the Liberation of Angola (FNLA; 2 seats).

A new constitution was adopted in 2010. It includes the following provisions:

- Direct voting for the presidency is abolished. This implies that the leader of the winning party in the parliamentary election automatically becomes the country's president. President dos Santos was thus automatically guaranteed the presidency following the MPLA's overwhelming victory in the parliamentary election in August 2012.
- The president is responsible for serving as the head of state and the commander in chief of the armed forces.
- The president serves a maximum of two five-year terms. This means that President dos Santos is likely to remain in power until the next election in 2022 (his previous 30+ years in power do not count towards the two-term limit).
- Dos Santos was enabled to replace the role of prime minister with a vice president with greater involvement in the day-to-day running of the state, currently Manuel Domingos Vicente, former head of Sonangol.

Broad political stability and business-friendly policies are likely to continue. Over the short term, we expect broad continuity of a stable political environment and of business-friendly policies geared towards promoting private-sector growth and reducing poverty.

The government policy agenda focuses on rebuilding and diversifying the economy. Specifically, policy measures will aim to accelerate reforms associated with the oil sector, infrastructure development, economic diversification away from hydrocarbons and reduction of the country's large income disparity. The latter is a high priority: reducing this gap may boost household consumption and the domestic market. These measures are outlined in the government's 2009-2013 Plan for Sustainable Development (PSD), which aims to promote and achieve broad-based growth and development in order to reduce poverty. Thus far, the government, with assistance from the IMF, has made significant progress in promoting macroeconomic stability and achieving higher growth rates: Angola now boasts an improved fiscal position, exchange-rate stability, lower inflation and healthy reserves. However, a number of structural deficiencies remain (see Physical Infrastructure), although plans are underway to improve the country's power sector, the water systems and road and port networks. Other priority areas include: public-sector reform, strengthening of the financial and regulatory systems, promoting rural and industrial development and fighting hunger and poverty in order to raise living conditions. While these objectives are commendable, progress is likely to be limited due to a number of downside risks, including the country's weak project-planning and implementation capacity, alongside the lack of transparency and the existence of powerful elite and interest groups.

Foreign Relations

Newfound stability, along with increased foreign interest in Angola's lucrative extractive industry has helped to strengthen relations with the international community, although former colonial ruler Portugal remains the key trade partner, with both countries benefiting from strong trade and investment links. Angola has also developed strong ties with China, which has become an important investor and source of credit. Relations with the US are also cordial, despite occasional mild criticism of Angola's democratic record. On the regional front, Angola's profile is improving and relations with South Africa are benefitting from greater economic and trade co-operation in the region.

Appendix

Security

Angola's security situation has improved considerably since the end of the civil war. However, there are reports of widespread crime in the capital, Luanda, and violent crime is commonplace. There are also ongoing tensions between the government and a separatist group, the Front for the Liberation of the Cabinda Enclave (FLEC). FLEC has pursued its cause since 1963, campaigning for independence from the mainland, although more recently, it has started campaigning for residents of the enclave to share in the benefits from oil found there. In early 2010, a faction of FLEC launched a high-profile attack on the bus of the Togolese national football team during the African Cup of Nations tournament held in Angola. The success of this attack in making international headlines could encourage further attacks, possibly against foreign targets.

Sovereign Credit Rating Definitions

Countries that have a sovereign credit rating tend to make an effort to engage with investors, which in turn would suggest a greater level of willingness to create a business-friendly environment compared to countries that are not rated. Moreover, most countries that are rated retain their rating through ongoing consultations with ratings agencies, thereby displaying a commitment to upholding a business-friendly operating environment. Overall, the range of ratings for Middle African countries is relatively low.

Standard & Poor's	Moody's	Fitch	Range
AAA	Aaa	AAA	Prime
AA+	Aa1	AA+	High grade
AA	Aa2	AA	
AA-	Aa3	AA-	
A+	A1	A+	Upper medium grade
A	A2	A	
A-	A3	A-	
BBB+	Baa1	BBB+	Lower medium grade
BBB	Baa2	BBB	
BBB-	Baa3	BBB-	
BB+	Ba1	BB+	Non-investment grade speculative
BB	Ba2	BB	
BB-	Ba3	BB-	
B+	B1	B+	Highly speculative
B	B2	B	
B-	B3	B-	
CCC+	Caa1	CCC	Substantial risks
CCC	Caa2		Extremely speculative
CCC-	Caa3		In default with little prospect for recovery
CC	Ca		
C			
D	C	DDD	In default
	/	DD	
	/	D	

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