

ANGOLA

Luanda (gtai) – Although Angola is exiting a phase of economic decline and embarking on a moderate growth path its strong dependence on the oil sector remains a problem. Crude oil prices, and thus export earnings, are still too low to cover government spending. Diversification of the economy is not advancing sufficiently and the national debt thus continues to increase. To provide a better investment climate, the new president, Joao Lourenco, is initiating several economic reforms.

ECONOMIC PROSPECTS

With Angola's economy no longer impeded by the stagnation of 2016, GDP is expected to increase in 2017 by 2.7%. However, further acceleration of is not expected in the medium term. According to Economist Intelligence Unit (EIU) forecasts, Angola will have to settle for average GDP growth of 2.6% per annum between 2018 and 2022, disappointing when compared with the average of 4.7% between 2011 and 2015.

The biggest obstacle to growth is lack of diversification. Angola is one of the world's most biased economies; crude oil accounts for more than 90% of export earnings and about 50% of the national budget. According to experts, Angola needs an oil price of 85 USD a barrel to meet current spending levels. The drop in the oil price has caused government revenues to decline by around 70% over the past three years.

While a strict austerity programme is paralysing the economy, public debt is rising rapidly¹ and foreign exchange reserves are shrinking – from June 2013 to June 2017 there was a decline of 46.4%. With no sustainable increase in crude oil prices in sight, the EIU predicts that the deficit is likely to continue to run high (2018: 7.4% of GDP, 7.6% of GDP in 2017).

New president, Joao Lourenco, in office since August 2017, wants to bring the economy back on track with comprehensive reforms. A key measure is a new competition law to break up the monopolies in many sectors. Lourenco also promises to combat corruption, reduce bureaucracy and increase efficiency in public administration, and invest in education and health.

Relations with the World Bank and the IMF are improving under the new government and the World Bank has shown its support of the 2018 state budget. Discussions with the IMF regarding technical assistance could lead to new credit lines in the medium term. The previous government under Eduardo dos Santos rejected cooperation with international institutions and favoured financial packages from China.

INVESTMENTS

Public investment spending is suffering because of the gap in the state budget and declined by about 50% between 2013 and 2016. Due to the strained financial situation of the government, recovery is unlikely in coming years. Planned infrastructure projects, such as the construction of the 4.5 billion USD Caculo Cabaca dam, will continue to be financed mainly with Chinese funds.

Private sector development is hampered by corruption and an acute skills shortage. In the Doing Business Report 2017 of the World Bank, Angola, ranked 182 out of 190, one of the lowest places. There could still be opportunities for investment in the mining sector since the mineral wealth of Angola is largely unexplored. The first comprehensive geological map of the country is underway through the Planageo project. Initial results show deposits of bauxite, copper, gold, iron ore and manganese and will boost exploration activities in the coming years. In 2017, the first three drilling licenses were granted for gold exploration. State-owned Ferrangol is participating in these projects.

CONSUMPTION

Consumer demand remains weak. Mercer Institute's Cost of Living Survey 2017 listed Angola's capital Luanda as the world's most expensive city for expats and galloping inflation continues to push prices up. Angola relies on imports for about 80% of consumer goods such as food and clothing. Relative to the US dollar, the local currency, the Kwanza, depreciated massively in the wake of dwindling oil revenues, and made imports more expensive.

For 2017, inflation of around 30% is expected. By contrast, wages in the important public sector rose only 15%.

In the medium term the situation should stabilise. In 2018, inflation is likely to decline to around 18% and settle at around 9% by 2022. Nevertheless, consumers are facing new pressures. To compensate for the shortage of petrodollars the government has imposed tax increases on luxury goods such as alcohol and introduction of sales tax is planned for 2019.

¹ Net debt was only around one third of GDP in 2013; by 2018 it is likely to exceed 100%

According to official figures, the unemployment rate is around 20%; youth unemployment at 38% is significantly higher. More than two-thirds of Angolans are still subsistence farmers most of whom live on less than 2 USD a day.

FOREIGN TRADE

Companies operating in Angola report difficulty in importing much-needed goods. Due to the forex shortage cannot be pay foreign suppliers on time – the supply of raw materials, equipment and consumer goods is thus threatened. President Lourenco wants to improve management of foreign currency allocations and eliminate the preference given to certain companies.

The Kwanza is likely to continue devaluing, albeit at a slower pace. EIU expects an exchange rate to the of 1 USD: 214 kwanza by 2022. Despite higher prices, however, imports should develop positively and increase by 12.6% to 25.9 billion USD in 2018.

Angola's most important trade partner, Portugal, has a share of around 16%, followed by the US and the People's Republic of China (PRC). Close ties to Portugal stem from the colonial era. A large number of Portuguese companies are actively trading with Angola or even locally based through subsidiaries. Many German and European companies also conduct Angolan business through Portuguese subsidiaries. Direct bilateral trade with Germany was only 404 million euro in 2016.

SECTOR SURVEY

Angola wants to increase electrification and renewable energies are likely become more important during the planned expansion. Diamond production should more than double through the development of new mining sites. Oil production could also increase but the indebted state oil company Sonangol has had to put two long-planned refinery projects on ice. New investors have been found for an agricultural park in the north.

CHEMICALS

Although Angola extracts large quantities of crude oil, it is dependent on imports of petroleum products such as fuels. Luanda's only refinery is outdated and covers only a third of the country's demand with a production of 44,000 barrels a day (bpd). State-owned Sonangol has postponed two long-planned refinery projects in Lobito (120,000 bpd) and Soyo (200,000 bpd) due to tight budgets. According to press reports, Sonangol is looking

for an international partner to construct a plant by the end of March 2018. Plans for the construction of a refinery are also being pursued by Russian company, Namref, which in 2017 announced plans to build a 400,000 bpd refinery in Namibe for 12 billion USD.

ENERGY

At present, only about 30% of Angola's population is connected to the electricity grid. The target for 2025 is 60%. To achieve this, installed capacity will have to increase from its current 2,700 to 9,900 megawatts (MW). The Cambambe (960 MW) and Lauca (2,070 MW) hydropower plants and the Soyo gas plant (750 MW) are expected to reach some 6,300 MW by 2018.

The next major projects are the construction of the Chinese-funded Caculo Cabaca dam (2,170 MW) and expansion of the Soyo power plant (500 MW). The use of renewable sources such as biomass (500 MW), solar (100 MW), wind (100 MW) and small hydropower (100 MW) are also planned. Hydroelectric potential of 18 gigawatts is available for additional hydropower plants.

CONSTRUCTION

Angola's construction industry is experiencing difficult times. The weak economy, as a result of the low oil price, is causing real estate demand to plummet. Vacancy rates have reached 20% in the office market and rents are falling. Hotels report weak occupancy rates of only 40% and room rates have fallen significantly. Apartment sales are also down. The construction boom in recent years inflated the market. As a result there are no new projects and in Luanda work on many construction sites is at a standstill. In the infrastructure sector, the government is continuing to expand its seaports, such as the 1.5 billion USD deep-water port of Barra do Dande.

MEDICINE

Around 50% of the population does not have adequate access to health facilities. Rich Angolans often travel to Namibia for treatment. In 2017, the government signed investment contracts with Tchittue Living One Business to build the Medi-One Primary Medicine Clinic in Luanda. The private hospital is expected to cost 120 million USD and will have a dialysis centre. The company also announced plans to invest another 375 million USD in provincial hospital construction.

AGRICULTURE

Angola's massive agricultural potential lies dormant. Around 35 million hectares are suitable for arable farming, of which currently only 14%

is used. Much of this is characterised by simple subsistence farming. The degree of mechanisation is still low; nationally only about 100,000 hectares are cultivated by mechanised farming. In 2017, however, several large-scale investments in the Agro-Industrial Complex Capanda were announced. The companies Cimagro, Odebrecht Angola, APB and Sagia want to invest a total of 310 million USD. Grain, vegetables and fruit crops are planned for the 35,000 hectares area. The French Castel Group plans to grow 4,500 hectares of grain for local beer production and Biocom's 40,000-hectare sugarcane plantation is in production.

MINING

So far, the mining industry has focused on mining diamonds – 75% of the annual production of about 9 million carats is produced to by the Catoca Mining Company, a joint venture between the state-owned Endiama and the Russian Alrosa. Together, they plan to build the Luaxe Diamond Mine for 1 billion USD by 2020 which will extract 10 million carats a year. According to Alrosa, Angola's soil still contains diamond deposits of 1 to 1.5 billion carats, which could trigger a series of further investments. In addition, the Brazilian Vale Fertil and the Australia's Minbos Resources are planning to mine phosphate. Rift Valley Resources is developing the Ozango rare earth metals and copper project.

OIL AND GAS

Angola is expected to increase oil production from around 1.7 million bpd (2017) to around 2.1 million bpd (2022). The most important project is Total's development of the Kaombo field which will produce about 230,000 bpd from 2018, and for which about 16 billion USD will be invested.

Eni is concentrating on further development of Block 15/06. Production capacity is to be increased by 50,000 barrels to a total of 200,000 bpd. BP has announced plans to increase funding from currently around 300,000 to 480,000 bpd by 2020. However, due to the low price of oil, the granting of eight exploration licenses in the onshore blocks of the Kwanza Basin 2017 has been suspended. Angola is estimated to have oil reserves of about 10 billion barrels.

FOOD

In many areas, domestic production can cover only 10 to 20% of the demand for food. Local production is rare; for example, dairies must import milk from New Zealand. So far, only the beverage industry has significant capacity. The major beverage manufacturers include Refriango,

Cuca and Sodiba. In 2017, Grupo Sun Ocean announced investments of 50 million USD in a plant with a capacity of 80 million litres per year intended to produce fruit juices, among other things. Progress has been made in fish processing and Pes-Sul and Nova Vida have opened new facilities. Pes-Sul produces canned fish and plans to produce fish paste.

Establishing a diverse food industry will take many years, which leaves Angola dependent on imports over the long term.

The government is currently working on tariff reform to simplify imports of certain foods. The high import duties had recently accelerated inflation. Alcoholic beverages, fruits, vegetables, vegetable oil and sheep meat are expected to benefit. About 80% of all retail trade is still reliant on the informal sector. The biggest supermarket chains are Nosso Super, Shoprite, Maxi Cash n Carry and Kero. South Africa's Shoprite plans to invest a total of US 570 million USD in Angola and open 22 new stores over the next five years.

METALS

A local metal industry is developing in Angola. In 2016, Companhia Siderurgica do Cuchi (CSC) completed a project to produce 96,000 tonnes of pig iron per year. The investment amounts to some 200 million USD. In the second phase of the project, an increase in capacity to 420,000 tons / year is planned. The plant is supplied by an associated iron ore mine in Cutato. CSC is a joint venture between the state-owned Ferrangol, the Cuando Cubango Mining Company and the Brazilian Modulax Group. The produced pig iron can be exported via the refurbished Mocamedes railway line and the port in Namibe. In 2017, Ferrangol announced plans to resume development of the Cassinga iron ore mine. The mine is expected to produce 1.8 million tons per year.

AUTOMOTIVE

Car sales in Angola are in crisis. In 2014, a total of 44,536 vehicles were sold but in 2015 and 2016, a massive slump brought sales down to 20,471 and 9,149 vehicles. The reason for this is the weak economy and the significant devaluation of the local currency Kwanza, e.g. against the USD by 27% (2016). The downward trend is expected to continue in 2017, with sales falling to around 5,400 units. For 2018, the local automobile association is hoping for a slight turnaround: in total, around 6,250 vehicles could be sold again. Since 2014, only used cars not older than three years are allowed to be imported to Angola. In the context of a planned tariff reform, there could be tariff concessions for motor vehicles. ■