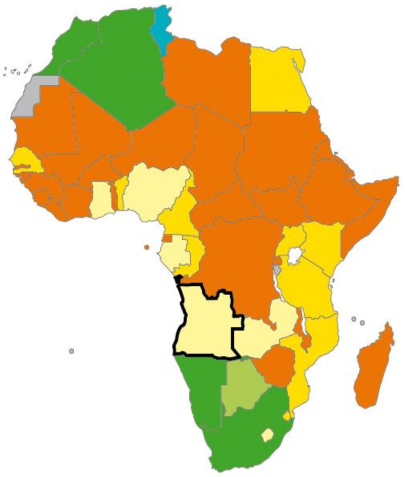
COUNTRY RISK ANALYSIS

Angola

CREATING CONFIDENCE IN YOUR EXPORTS ekn



COUNTRY RISK CATEGORY

5/7

The country risk categories range from 0 to 7. The lower the number the better the credit rating the country has.

0 1 2 3 4 5 6 7

EKN'S OUTSTANDING GUARANTEES IN THE COUNTRY

Short-term transactions: SEK 187 million

Medium and long-term transactions: SEK 471 million

EKN'S POLICY

Sovereign risks: Restrictive risk assessment

Other public risks: Requirements for government guarantee

Bank risks: Restrictive risk assessment

Corporate risks: Restrictive risk assessment

See “EKN'S POLICY” section

DATE

11/12/2013

Oil economy on the front foot

Since the civil war ended over ten years ago, Angola's GDP has increased tenfold, and growth is expected to remain strong, driven by high oil prices. Thanks to revenue from oil exports, the financial position is strong and the country has established a position as a global oil exporter and regional power. However, the one-sided dependence on oil makes the economy vulnerable and diversification is necessary, also from a social perspective, to address the uneven distribution of income. The business climate is considered to be difficult with excessive bureaucracy, corruption and lack of transparency. However, the government's awareness of the problems is improving and some initiatives have been taken to enhance the situation. These are steps in the right direction, but from a very low level.

STRENGTHS

- Rich in natural resources, especially oil but also gas and mineral resources
- Expectations of a continued high growth rate in the economy
- Reforms are undertaken to reduce vulnerability and increase transparency in government finances.

WEAKNESSES

- Public finances and the external balance are vulnerable to fluctuations in oil prices.
- Weak institutions, widespread corruption and a very challenging business climate
- Income distribution is uneven and the high growth is only benefiting a small section of the population.

POLITICS

Discontent among the population is increasing, but MPLA's position is secure

The political scene is dominated by President dos Santos, who has been in power since 1979, and his MPLA party. However, in last year's election the support for the MPLA dropped to 74 per cent compared to over 80 per cent in the election of 2008. Support for the main opposition party, UNITA, doubled and CASA-CE, a splinter party from UNITA got 5 per cent of the vote even though it was set up as late as six months before the election. Despite the falling voter support, MPLA is pleased with the election result as it can be used as an argument for greater democratisation, while the party's position remains unchallenged.

Following the MPLA's continued dominance, interest revolves primarily around the issue of succession. According to the constitution, dos Santos can remain in his post until 2022, but if he were to leave his post, the most probable successor is the vice-president and former CEO of the state oil company, Manuel Vicente. Vicente has no political background and his nomination to vice-president has created discontent and certain divisions within the MPLA. The MPLA leadership is not expected to let personal power interests go before unity in the party's top echelons as long as oil-related economic interests bind them together. In the event of a change in president, Vicente will therefore be able to sit safely at his post, at least for as long as he enjoys the support of dos Santos behind the scenes.

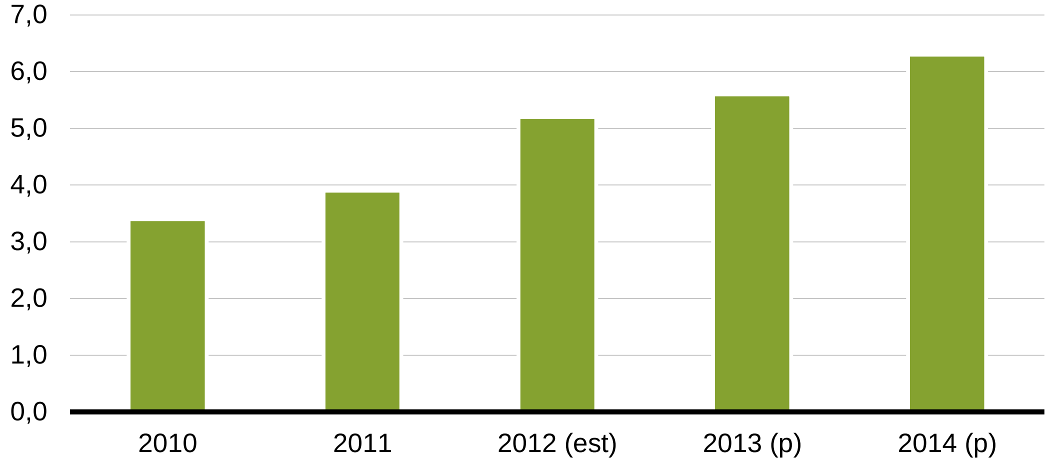
Discontent is growing among the Angolan population at the government's inability to let oil riches trickle down to benefit the wider sections of the population. More than half the population lives in poverty (< USD 2/day) and unemployment is estimated at over 25 per cent, while the number of underemployed is even higher. Since 2011, street protests have occurred in the capital Luanda, but overall, the risk of political turmoil is assessed as low. The population is war weary after the thirty-year civil war that ended a little over ten years ago. This factor, combined with the MPLA's political dominance, alludes to policy continuity with no major surprises.

ECONOMY

Continued oil dominance to be expected

Angola has shown remarkable growth since the end of the civil war and GDP is expected to continue to grow at a healthy pace, driven by high oil prices. Angola is second only to Nigeria the largest oil producer in sub-Saharan Africa, and the economy is based almost exclusively on the oil and gas sector. It accounts for 95 per cent of export earnings, just over half of GDP and about 75 per cent of public revenues. The majority of oil exports currently go to China, USA and India, but the major energy deficit in Southern Africa also makes Angola a significant regional player. The government has negotiated agreements with neighbouring countries for both the exploitation of common oil fields and pipeline projects. Angola's current oil deposits guarantee about 20 years of oil production and there are extensive undeveloped reserves in the country and in the gas sector. The oil and gas sector will thus remain the engine of Angola's economy for the foreseeable future.

GDP GROWTH, %



High oil prices have generated major economic growth since the end of the civil ar.

Vulnerable economy

The dependence on oil makes the Angolan economy vulnerable to oil price falls, as shown by the large macroeconomic imbalances in the aftermath of the financial crisis in 2009. Diversification of the economy is also necessary for economic growth to be spread throughout the population. The oil industry only employs about one per cent of the workforce and more than half the population lives in poverty. Diversifying the economy requires significant investment in the infrastructure sector, including energy and water supplies. But most of all institutional reforms are required at all levels of the economy. Some progress can be noted, such as the establishment of a public investment fund for sound and transparent management of oil revenues. The state-run oil company Sonangol has traditionally been involved in quasi-fiscal operations, but this activity is now included in the government’s budget to improve the fiscal transparency.

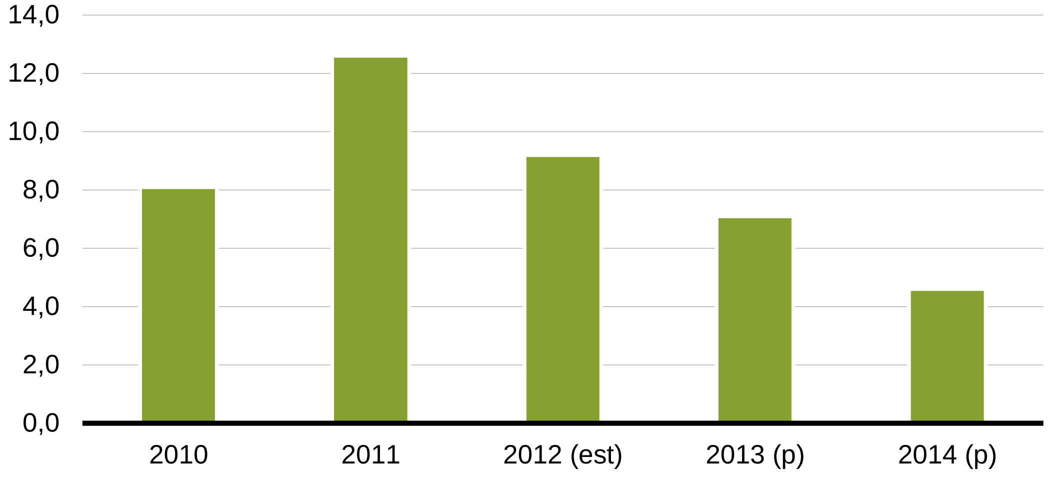
Considerable work remains before the institutional capacity is on par with the country's economic strength. However, the government's willingness to reform is deemed to be genuine, and is driven by the collaboration with the IMF and Angola's efforts to maintain its reputation as a global oil producer and regional power.

BALANCE OF PAYMENTS AND DEBT ISSUES

Surplus turns into deficit

With the exception of the crisis year 2009, Angola's vast oil exports have created a surplus in the current account balance. However, the high pace of growth and investment in the country require major imports as very little production takes place in the country. This will lead to the current account surplus shrinking and eventually turning into a deficit. However, the current account deficit is estimated to remain modest as the country will continue to be a major oil exporter. In this respect, the newly created sovereign wealth fund is assessed to act as a buffer and reduce the country's vulnerability to oil price falls.

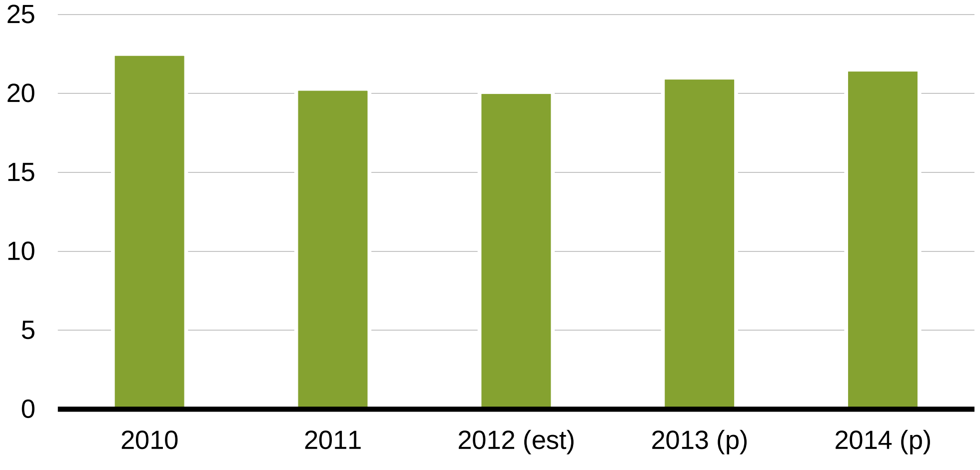
CURRENT ACCOUNT BALANCE, % OF GDP



According to IMF forecasts, the current account surplus will turn into deficit

External debt amounted to over 100 per cent of GDP at the end of the civil war. The debt consisted primarily of loans that had not been honoured for many years. Political pressure and oil revenues allowed an agreement with the Paris Club. Angola renegotiated and paid off all outstanding amounts, including interest, to the Paris Club creditors which includes Sweden, over a couple of years. Angola's external debt is currently low in relation to GDP at about 20 per cent, and the country has been a net lender over the past few years. China is the largest lender and the loans are used primarily to finance infrastructure projects linked to the reconstruction of the country.

EXTERNAL DEBT, % OF GDP



External debt is following a declining trend and is at a low level in relation to GDP

CURRENCY POLICY

Focus on reducing dollarization

The dominance of the oil sector and periods of hyperinflation have made Angola a highly dollarized economy. Since the end of the civil war confidence in the local currency Kwanza has gradually strengthened and the government is also working actively to reduce dollarization. One of the more significant reforms aimed at reducing dollarization has been implemented gradually in 2013 and relates to the oil companies' currency management. All oil companies are now required to use the local banking system for all commercial transactions and pay their taxes in Kwanza. As the dollarization decreases, flexibility in the monetary policy of the government will improve, and the central bank's role as the lender of last resort for the banking system will be enhanced.

The government's objective is to have international reserves equivalent to nine months of import cover. This seems to be a reasonable level given that Angola requires a buffer to cope with any falls in oil prices because of its one-sided oil dependence. Angola has a floating exchange rate, but the central bank intervenes frequently to maintain stability in the exchange rate.

FINANCIAL SECTOR

Profitable banking sector with significant weaknesses

Angola's financial sector is relatively small, less than ten per cent of the population own a bank account and domestic loans amounted to just under 24 per cent of GDP in 2012. But like the rest of the economy, the financial sector is growing quickly. The number of banks operating in Angola has doubled over the past five years and the assets in the banking sector have grown by over 20 per cent per year over the same period. There are currently 23 banks, most of which are privately owned. Of the privately owned banks, almost half are foreign-owned and are principally Portuguese banks. The banks in Angola tend to place assets in their Portuguese parent banks, leading to a certain exposure of the banking system to the developments of the European financial sector.

The banking sector in Angola is one of the most successful in the region with a return on equity of over 20 per cent. However, the banking system shows significant weaknesses in terms of regulation, accounting and supervision. As a result of the new rules for currency management in the oil sector, the transactions performed in the local banking system will significantly increase. The transactions will become more numerous, larger and more complex, and the weaknesses in the banking sector will therefore be accentuated. Reform efforts by the government are moving forward, but it will take a long time before the banking system in Angola approaches international standards. The restrictiveness in the risk assessment of Angolan banks therefore remains justified.

BUSINESS ENVIRONMENT

Difficult business climate, but long-term positive trend

The business environment in Angola is considered to be difficult. Few companies publish reliable financial information; even fewer can produce audited financial statements of international standard. All sectors of society are plagued by bureaucracy and corruption, as confirmed by a position of 179th out of 189 countries in the World Bank's Doing Business Index, which ranks countries' business environments. Add to this a lack of infrastructure that mean increased risks and costs for companies operating in Angola. At the same time, the government's awareness of the problems is increasing and initiatives have been taken to improve the inhospitable business climate. The government has, for example, launched a special programme to create and support small and medium-sized enterprises and has initiated reforms to public procurement procedures. In summary, there is a gradual improvement, but from a very low level.

EKN'S EXPOSURE

Exposure is concentrated to the power sector

EKN's exposure amounts to just under SEK 1.3 billion, about half of which consists of guarantees and half of offers. Most of the exposure is in the power sector. EKN has experience in a relatively narrow segment of private debtors and the majority of transactions have progressed without any problems. Transactions where EKN's risk rests on a bank occur to a limited extent in the form of bank-guaranteed loss on claim guarantees or letter of credit guarantees. In 2013, EKN issued 34 new guarantees equivalent to a guarantee amount of SEK 500 million.

EKN'S EXPOSURE AT DECEMBER 31, SEK MILLION

EKN's guarantee exposure has increased in recent years (EKN)

PAYMENT EXPERIENCE

Overall good payment experience

EKN opened for the provision of guarantees on a large scale in 2005. The experience of guaranteeing transactions with the state, banks and private corporates are generally positive. Occasionally, late payments have occurred and minor indemnifications have been made. EKN's opinion and experience is that Angola generally has both the willingness and ability to pay, but that the country's extensive bureaucracy and weak institutional capacity is generating payment delays at times. This applies in particular to transactions involving the public sector.

A more general observation is that banks in Angola do not take up claims or delays in payments such as bad loans in those cases where the state is liable to pay/guarantee. According to local standards, recoveries are then assessed as possible which is why claims are non-annotated. This means that there is no sign indicating that problems exist for the kind of delay/bad loans and that the proportion of bad loans in bank accounts is probably underestimated.

EKN'S POLICY

Policy in brief

EKN places Angola in country risk category 5 for both short and long-term guarantees, an assessment made in collaboration with other OECD countries. For all buyer categories in Angola some form of restrictiveness applies.

For public buyers such as state energy and transport companies or line ministries, EKN requires that there is a sovereign guarantee from the Ministry of Finance. For private buyers (corporates and banks), the policy implies that EKN, in addition to assessing the risk on its own merits, has adopted a more restrictive approach already from the beginning. This means that EKN would like to see that the transaction is highly transparent and that the debtor has sufficient buffers. Buffers can be used to address unforeseen events that are assumed to arise more frequently in Angola than in other countries with a more stable and predictable operating environment. EKN also believes that there is an advantage if our guarantee holders have previous experience from doing business in the country, or experience from other markets with difficult operating environments.

OFFICIAL COUNTRY DATA AND CREDIT RATINGS

OFFICIAL COUNTRY DATA

Area: 1,246,700 km² (2.8 times Sweden)
Population: 18.6 million (2013)
Population growth: 2.8 %/year (2013)
GDP: USD 104.1 billion in 2011 (Sweden USD 536.0 billion in 2011)
GDP/capita: USD 5,305 in 2011 (Sweden USD 56,523 in 2011)

CREDIT RATING

	COUNTRY CEILING	SOVEREIGN RISK
Moody's:	Ba1	Ba3/Pos
S&P:	BB-	BB-/Stable
Fitch:	BB-	BB-/Pos

COUNTRY ANALYST

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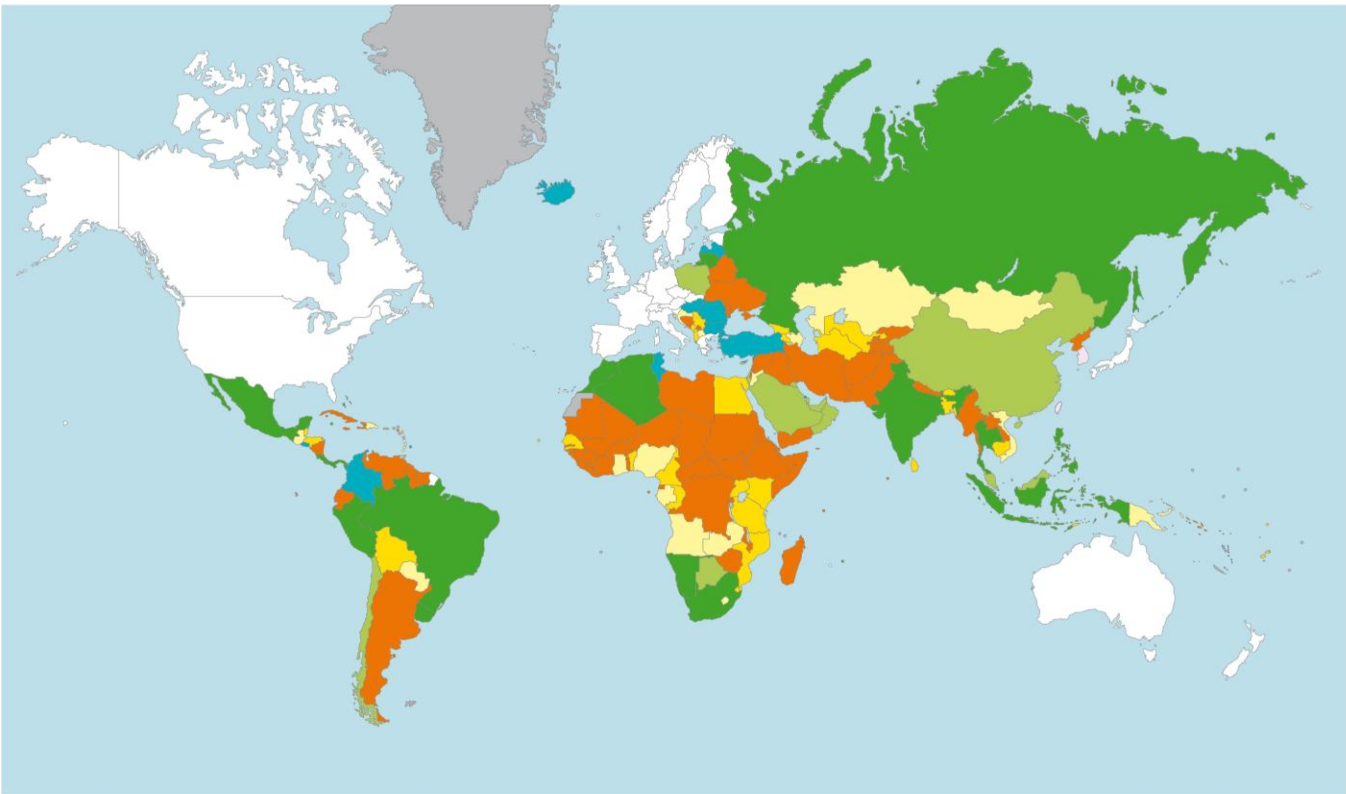
EKN'S VIEW OF THE WORLD



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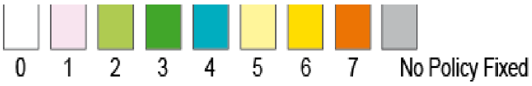

EKN – CREATING CONFIDENCE IN YOUR EXPORTS

EKN is a government agency that supports Swedish exports and the internationalisation of Swedish industry. This we do by offering exporting companies and banks guarantees for payment and financing, together with advice on business structure and risk management. Our services provide an extra level of confidence, increased competitiveness and more opportunities for successful export transactions.

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