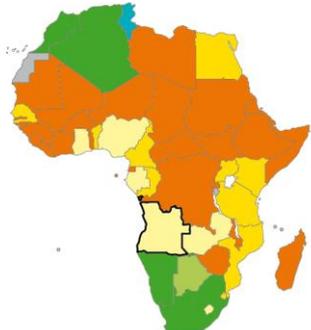


COUNTRY RISK ANALYSIS		DIN SÄKERHET I EXPORTAFFÄRER <b>ekn</b>	
<h1>Angola</h1>			
	<b>COUNTRY RISK CATEGORY</b> <h2>5/7</h2> <p>The country risk categories range from 0 to 7. The lower the number the better the credit rating the country has.</p> 	<b>EKN'S OUTSTANDING GUARANTEES TO THE COUNTRY</b> <b>SHORT-TERM TRANSACTIONS</b> SEK 96 MILLION <b>MEDIUM AND LONG-TERM TRANSACTIONS</b> SEK 920 MILLION	<b>DATE</b> <b>8/12/2014</b>

## Rich in oil, but weak in institutional capacity

Angola's economy has expanded and developed rapidly following the end of the civil war. The country has great potential as both an oil and gas producer and as a mining and agricultural nation. Oil production, which is the backbone of the economy, was burdened by production outages and stagnant volumes in 2013 and 2014. Decreased production and falling oil prices have translated into lower trade surpluses and lower revenues for the state's finances. As a result, Angola will have to increase its financing via loans from now on to be able to finance its large investments. In spite of the very large resources and large revenues the country has, its economy is vulnerable to both price decreases and volume reductions in the oil sector. The Angolan government was forced to place one of the country's largest banks into administration during the year. Deposits have been guaranteed to limit the damage of the failure of this systemically important bank and the incident is considered isolated.

Overall, oil and gas will serve as the foundation of the Angolan economy for many years to come. Angola is also expected to continue to improve its capacity to manage its resources in a more transparent, efficient and long-term sustainable manner in the coming years.

### THE COUNTRY'S STRENGTHS AND WEAKNESSES

#### Strengths

- Extensive natural resources, especially oil, but also gas, metals and gemstones.
- Strong external balance
- The country's concentrated and centralised administration favours economic development in the short term

#### Weaknesses

- Weak institutions, including the judiciary and the educational system
- High vulnerability to oil price decreases
- Extensive shortcomings in transparency, significant corruption and a weak business environment

#### EKN'S POLICY

##### **Restrictiveness justified**

EKN upgraded Angola to country risk category 5 in 2012, for both short and long guarantees – an assessment made in collaboration with the other OECD countries. EKN has a restrictive policy and a higher premium for banks and companies, which is justified by the difficult business environment.

#### WHAT MIGHT CAUSE A CHANGE IN THE COUNTRY POLICY?

##### **The policy may be made less restrictive in the event of**

- The diversification of the economy, thus reducing vulnerability to oil price decreases
- Stronger institutions and administrative capacity

##### **The policy may be made more restrictive in the event of**

- Social unrest due to growing gaps in society and increasing protests against the political leadership
- Inability to manage falling oil prices with economic policies

#### EKN'S EXPOSURE AND EXPERIENCE

##### **Overall good payment experience**

EKN's exposure in Angola totals SEK 1.4 billion and is dominated by transactions with a small number of counterparties. The export transactions EKN guarantees are mainly in the power and transport sectors.

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 generate payment delays at times. This applies in particular to transactions involving the public sector.

#### COUNTRY ANALYST



EKN's country analyst for Angola:  
Rebecka Lundgren  
Telephone: +46 87 88 01 82  
Email: rebecka.lundgren@ekn.se

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#### **DISCLAIMER**

The country analysis is based on a range of sources and reflects information that is relevant to EKN at the time of publication. The responsibility for how the information is used or interpreted rests solely with the user, and EKN cannot be held responsible for any loss or damage.

**Dos Santos and MPLA stay in power**

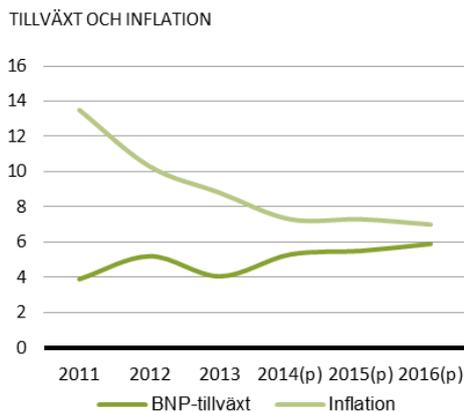
Angola is a regional power by virtue of its rich oil resources. The country's economy has expanded rapidly since the end of the civil war in 2002. Political stability has made an important contribution to the country's rapid economic growth. President dos Santos and the MPLA party have been in power unchallenged since 1979. Key political positions and strategic companies are held by a small group of families and people. The country's centralised power and the fact that dos Santos has been in power for a very long time have put the question of succession on the agenda. Dos Santos has signalled that he intends to control the transition of power and that he has several candidates in mind. The 2017 elections are a likely date for the introduction of the chosen candidate, but it is also possible that dos Santos will stay in office all the way until 2022.

There are no real threats to the monopoly of power dos Santos holds. Although the MPLA did worse in the most recent election, the opposition is divided and there is no sufficiently powerful and united popular movement. The civil war is still fresh in people's minds and restrains their will to challenge the MPLA.

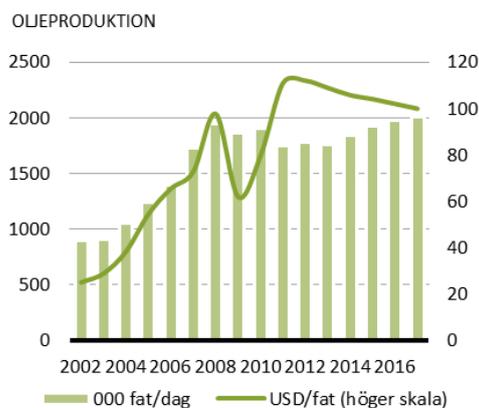
One probable development on the political front is that political stability will remain in the short to medium term by virtue of dos Santos staying in power. Angola's influence on sub-Saharan Africa will continue to increase through economic growth and political action. Angola was elected a temporary member of the UN Security Council for a two-year term in October 2014. This will give the country more influence on pan-African issues.

**Oil and gas sector dominant**

After Nigeria, Angola is the largest oil producer in sub-Saharan Africa, and its economy is based almost exclusively on the oil and gas sector. Oil production has tripled over the past decade and accounts for 95% of export revenues, nearly half of GDP and about 75% of government revenues. Angola has large untapped oil deposits, but the increase in production has slowed down. Production fell by 10% in the first five months of 2014 due to maintenance and technical problems, with a 3.5% drop in comparison to 2013 expected for the year. The deposits are mainly in the ocean off Angola's coast.



Källa: WEO 2014



Källa: WEO, Oxford Economics

**Kommentar [DF1]: GROWTH AND INFLATION**  
 GDP growth Inflation  
 Source: WEO 2014  
**OIL PRODUCTION**  
 000 barrels/day USD/barrel (right scale)  
 Source: WEO, Oxford Economics

Angola's dependence on oil makes it vulnerable to oil price decreases. Measures are therefore under way to diversify the economy. Economic growth outside of the oil sector is driven mainly by the agricultural sector. GDP excluding the oil sector is expected to grow by 7.3% in 2014, in comparison to a decline in growth in the oil sector of 3.5%. The advantages of diversification of the economy would be huge for Angola, not just because it would reduce the country's vulnerability, but also because more jobs would be created. The oil industry creates very few jobs and services are often filled internationally. Substantial deficiencies in the educational system complicate local hiring and also increase the population gaps.

Angola faces significant challenges. Falling oil revenues are reducing the country's trade deficit and its current account balance is expected to begin running a deficit in the coming years. The country's public finances are thus expected to deteriorate as a result of the tax collected from other sectors besides oil not compensating for the loss from lower oil prices and stagnant production. Large amounts of public investment needed and heavy current expenses are eroding the public finances and creating the need for large-scale borrowing. Angola currently has moderate public debt of 36%, which is expected to rise to around 45% of GDP in five years as a result of future budget deficits. The country's external debt is low at 25% of GDP. The international reserves are equal to just over seven months of imports.

Additional challenges includes building up institutional capacity to support the economy and create stability in the business environment. Angola is cooperating with the IMF to improve the effectiveness and transparency of the state apparatus by more clearly dividing up the responsibilities of different ministries, creating transparency in financial flows and planning and tracking budgets. Things are going in the right direction.

### The banking sector

The banking sector in Angola is dominated by privately-owned banks, and several of them have parent banks in Portugal. In the late summer of 2014, the government placed one of the country's largest banks, BESA, into administration, since previous requests for capital contributions from the owners were not met. Liquidity support has been contributed by the government and the problems are still limited to this one individual bank. The government has announced that deposits will be protected, but it is not yet clear who will restructure and capitalise the Angolan bank and to what extent. The banking sector has grown extremely fast in Angola, albeit from a very low level. One past problem that Angola is beginning to solve is

its high degree of dollarisation, which is now slowly decreasing. Banking regulations are in the process of being strengthened via clearer definitions of terms, which should reduce the room for interpretation and thus boost the stringency of financial reporting. In the long term, it is also estimated that the number of banks will decrease and that supervision will improve thanks to ongoing reform efforts.

#### BUSINESS ENVIRONMENT

##### **Difficult business climate**

The country has very weak institutions, which have lagged behind the country's rapid economic progress. As a result, the business environment in Angola is ranked poorly in the World Bank's DBI (181st out of 189) and in the World Economic Forum's Global Competitiveness Index (142nd out of 148). Although these problems are being taken seriously and measures are underway to improve the situation, it is estimated that change will take time.