Centro de Estudos e Investigação Científica
Universidade Católica de Angola

SOME REFLECTIONS ON THE ANGOLAN SOCIETY - BRIEF N. 2, AUGUST 2015

AFTER ALL, HOW MANY COUNTRIES ARE THERE IN ANGOLA?

Alves da Rocha

The title question is an adaptation of a proverb regarding time: "*ask time, how much time today's time has*." Is Angola in an economic crisis and financial difficulties, or is it not? Some people are lax and claim that there is no reason to crying out in alarm, since Angola has paid its creditors and the foreign exchange reserves remain solid. Others take positions that are more realistic. They list a number of perverse effects the current situation has on the public finances and external revenues, which in turn influence on the country's GDP growth capacity and on the population's living standards – especially for those who already have little. Therefore, it seems we have several countries within the same, depending on the analytical perspective[1].

I rejoiced with satisfaction when the National Accounts began to be published in 2012, with a reasonably long and, above all, credible statistical series. Thus, no one should be able to see the country with different lenses. The aggregated National Accounts are unique and their values obtained using the internationally recognized methodology. Many people are probably unaware of the significance of this advance for the design of public policies and for economic and social research.

I also rejoiced with the realisation of the General Household and Population Census of 2014 and the publication of some preliminary results. It constituted yet another structural transformation of incalculable importance: it is the only way to know

[1] There were also different interpretations of the impact the international economic and financial crisis of 2008/2009 had on Angola. But then most of the official views, even at the top levels, tended towards the opinion that the country would come through it unscathed. Halfway through 2009, the State Budget was thoroughly revised and it was recognized that, after all, whenever the oil price and the international demand go down, Angola inevitably suffers.

ourselves and how many we are, how we are faring, where we are, how we live, how we relate to one another, etc. Also on this dimension, we all have the same country to get to know, study and analyse.

I just do not understand why the state institutions do not make use of the statistics of the National Accounts. The same is true of international institutions. I do not want to think that they both have doubts about the accuracy of these statistics, after the millions of dollars spent to produce them.

Do the available data on oil prices, exports, revenues and the net international reserves point to the existence of a financial crisis, or do they not? The President of the Republic clearly understands that they do. The foremost illustration of this fact is his order to revise the 2015 National Budget immediately after it had been promulgated in December 2014, since it was based on entirely unrealistic assumptions. The downward adjustments of all budgetary lines, including the social sectors (its absolute value decreased, although their relative weight in the budget structure have increased), are already triggering adverse effects on the functioning of the economy, which growth this year is not likely to exceed 4%.

But there are other official opinions in the opposite direction. It seems we have several countries within a single; there are so many different official perspectives.

Obviously, there are indicators for determining whether the country is in economic crisis. We habitually consider an economy to be in crisis when it presents negative GDP growth rates of for three consecutive quarters. Judging by this indicator Angola is arguably not in crisis, although we lack cyclical assessment indicators for the general economic activity. But successive downward revisions of the real GDP growth rate for 2015 and beyond is a symptom of a crisis affecting overall growth. Unofficial opinions appeared in the press that point towards 3.5% economic growth in 2015. Officially, the revision was 4.4%.

Government institutions and structures of the ruling party do not seem to share that opinion, and some even consider this a great opportunity to diversify the economy. But diversifying in a context of scarce financial resources is difficult is hard to imagine. However, it is worth saying that, according to the official indicators, the national economy may even be in the final phase of diversification, even if its general temporal goals and some measurement variables are not known or set.

The growth rate of the oil sector is one of those indicators. It has been lower than that of the non-oil economy. In fact, it was the trend between 2002 and 2014. The oil growth rate will tend to stay around zero percent, due to Angola's commitments to OPEC's production quota. The question is what happens from now. In 2016 the quota ceiling can be achieved (two million barrels per day) and, consequently, growth will be marginally 0%. This means that regardless of its relative weight in GDP, its contribution to the country's economic growth will be null. Of course, even in this unfortunate situation of slowing growth (stagnant oil export and crude oil prices in decline), the oil sector will continue to be the External Bank of the national economy.

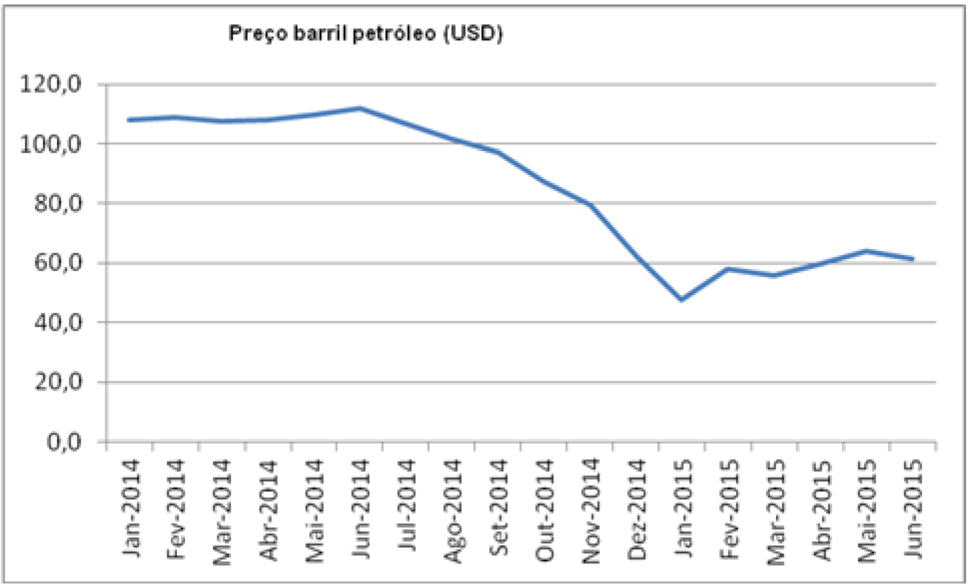
The other indicator used in texts by government and party officials is precisely the relative weight of the oil GDP in total GDP. The thesis is that as it decreases the value of other sectors replaces that of oil and hence, diversification is a reality and on due course. This arithmetic has in fact occurred, but it is necessary to analyse it more closely. The non-oil weight in the GDP can increase by a simple decrease in the petroleum sector's weight, maintaining the basis for calculating the same. This is what is called **change without transformation**. The important thing would be to change the relative weights within a dynamic global growth. That would imply a **change with transformation**. If my previous thinking about the future growth of the oil sector is correct, then and in this light, the economy will be diversified, because the oil weight will eventually stabilize at 10% or 5%.

Obviously, this is not diversification. Sometimes, however, absurd reasoning have the advantage of making inconsistencies explicit. In fact, I just want to signal that these indicators are not common for the analysis of diversification processes, nor do they express the dynamics of transformation. They are therefore insufficient. In a scenario of virtually zero percent growth for the oil sector and of oil price stabilization at USD 55 a barrel, the GDP value of this sector will tend to decrease. One cannot forget that oil exports are for the moment being practically the only source of foreign currency of the national economy, and will remain so in the medium and long term. Moreover, the oil exports cannot work with the necessary efficiency standards without resort to importing inputs, intermediate materials, equipment, etc. Ultimately, without sufficient foreign exchange the non-oil sector will tend to lose growth momentum. That in turn would entail negative consequences for job creation and the real and effective diversification of the national productive system.

For some state agencies the present situation is merely a conjuncture and temporary that will shortly be recovered. The Minister of Petroleum in September of 2014 stated that the equilibrium oil price of the economy and public finances would have to be at least USD 80 a barrel.

Between January 2014 and June 2015, the international price of this raw material fell by 43.2 per cent. It had dramatic consequences for the economy and the standard of living of the Angolan population. When discussing diversification, one should not forget that still we are all imbued with a rent-seeking mind-set - the remuneration of production factors are not yet associated with the actual work performed - and expect to achieve monetary windfalls from oil exploration and its related income.[2]

[2] "*… moreover, a rentier culture forces many business to "partner" with members of the political and military elite. That the president's daughter, Isabel dos Santos, is Africa's first female billionaire is seen by human-rights groups as an indictment of the system*", in The Economist "Angola Still Much Too Oily", 12 April 2014.



Source: Thonson Reuters

Other unofficial opinions argue that the state is not bankrupt, but only motionless. It is left unexplained if it is looming bankruptcy, or an innate inertia seen even during the period of the great boom of oil revenues, that causes the stagnation. Of course, states cannot go bankrupt. What usually gets exhausted are public policies and those who implement them (hence the importance of alternation of power and democracy, a democracy that is expressed in all public spaces and between elections). This exhaustion of public policies either stems from lack of competence in implementing them or from not being adjusted to the reality. These views argue that there is no crisis because "our macroeconomic fundamentals remain sound."

Let us therefore analyse some of the so-called macroeconomic fundamentals of the national economy:

a) **GDP growth rate**: The national economy is characterised by its many weaknesses and structural imbalances. The most obvious illustration of this statement is the fact that, after the "financial crisis" in 2008/2009 when the price per barrel dropped to USD 45 only to immediately recover (2010) towards its previous levels, Angola never again reached GDP growth patterns recorded until 2008 (11.2%). According to the National Accounts, the growth figures were, successively, in the years from 2009-2014: 2.1%, 3.6%, 1.8%, 5.8%, 3.9% and 4, 4% - an average of only 3.4%. Between 2004 and 2008, the average annual growth rate was 12.5%. According to the forecasts of the most reputable international development agencies (IMF, World Bank, OECD, AfDB and the EIU), the average annual rate of real GDP growth until 2020 will be 4 to 5 per cent[3]. These dynamics show that the national economy is enmeshed in a structural slow-down. It could have been countered with export diversification and the creation of a critical mass of endogenous domestic demand (although we

[3] See, "As perspectivas de desenvolvimento Económico de Angola até 2020", CEIC, Working Paper, Outubro de 2014 (www.ceic.ucan.org)

recognize some advances in poverty reduction, the fact is that these are marginal, not sustainable, and now severely shaken by the oil price crisis).

b) **Budget deficit**: Between 2002 and 2014, the cumulative budget balance was 29.8 billion dollars, an annual average of 2.7 billion dollars[4]. In this light, the financial health of the state looks solid, providing a considerable amount of (apparently "uncompromised") public savings that may serve as the "ammunition" (that some government leaders speak of) to be injected into the economy from the second half of 2015. Even so, in 2014 the fiscal deficit was 10.1 billion dollars (7.8 per cent of GDP) and in 2015 it is heading towards a similar figure. Oil tax revenues fell by 55 per cent in the first half of 2015[5] compared to the same period last year. That is higher than budgeted only because the 2015 Revised State Budget assumes an average price USD 40 per barrel.[6] Oil production has come close to schedule in the financial plan of the state, meaning it has even increased. Just that the price-effect had a much heavier impact than the effect of increased production. That is, from this perspective the macroeconomic fundamentals have weakened.[7]

c) **Inflation rate**: According to the National Institute of Statistic (INE), the accumulated inflation until the end of June was estimated at 5.55%, against, for example, 3.5% in 2014 and 4.27% in 2013 for the same period. Clearly, an acceleration in the rise of prices is taking place in 2015 (about 58.6%), against a clear deceleration of inflation between 2013 and 2014 (around -18%). This rise in inflation is also seen from other analytical angles. Annual inflation increased from 6.89% in 2014 to 9.61% in 2015 (an increase of 39.5%) - a figure that exceeds the target set by the Government in the 2015 revised State Budget (at 9%). Since March this year, the pace of inflation in the economy is increasing. The national monthly inflation rate more than doubled from 0.53% in January to 1.08% in June. That is an average monthly rate of price increases of 12.6%.

d) **External deficit**: The overall balance of payments has been consistently positive since 2010 (in 2009 it was a negative by 4.6 billion dollars because of the international financial and economic crisis), but with a downward trend from 2011. In 2012, its value was only 84.2 million US dollars, compared with 4.6 billion the previous year. In 2014 the balance was -2.7 billion (which has not happened since 2002, excluding the 2009 epiphenomenon). Although INE´s data display a reduction in imports of 13.9% between the fourth quarter of 2014 and

[4] It is a considerable sum because it is net state savings.

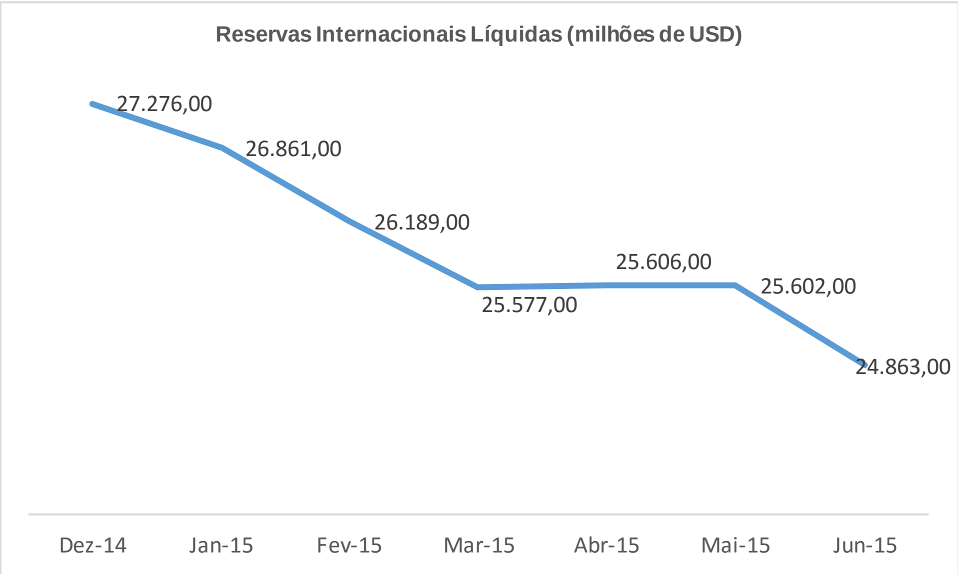
[5] Semanário Expansão, 24 de Julho de 2015, página 30

[6] The average price per barrel between January and June was USD 57.8

[7] One way to avoid aggravating the fiscal deficit is to systematically postpone the reimbursement of the domestic public debt. Because of lack of payment from the state, many companies have already closed or substantially reduced their activity, let off workers (with consequences that can be serious on long-term unemployment and the loss of experience in the workforce) and stopped paying its suppliers. A phenomenon feared by economists known as a "contagion effect" is underway. The excessive state intervention in the economy, measured, among other indicators, by the weight of public expenditure and investment in GDP is one of the reasons for the anguish of entrepreneurs and for bottlenecks in the economy. We know, however, that by trafficking influences and directing benefits to its followers the Government "buys" favors.

the first quarter of 2015, it is not certain that the behaviour of this variable can be sustained over the remaining quarters. Even for the economy to grow at a revised rate of 4%, imports are required. Politicians may, of course, clearly assume that maintaining acceptable levels in this "fundamental macroeconomic" is more important than the GDP growth. Another symptom of compromised stability on this item is the 65% increase in the annual change of imports from the first quarter 2014 to the first quarter 2015. At the other component of the trade balance, exports have a systematically negative behaviour: a reduction of 24.5% between the last quarter of 2014 and the first of 2015 and 41.9% in relation to the first quarter of 2014. That is, the price effect on exports is significant and expectations about the oil price behaviour are grim for Angola, placing its value at USD 55 per barrel by year’s end.

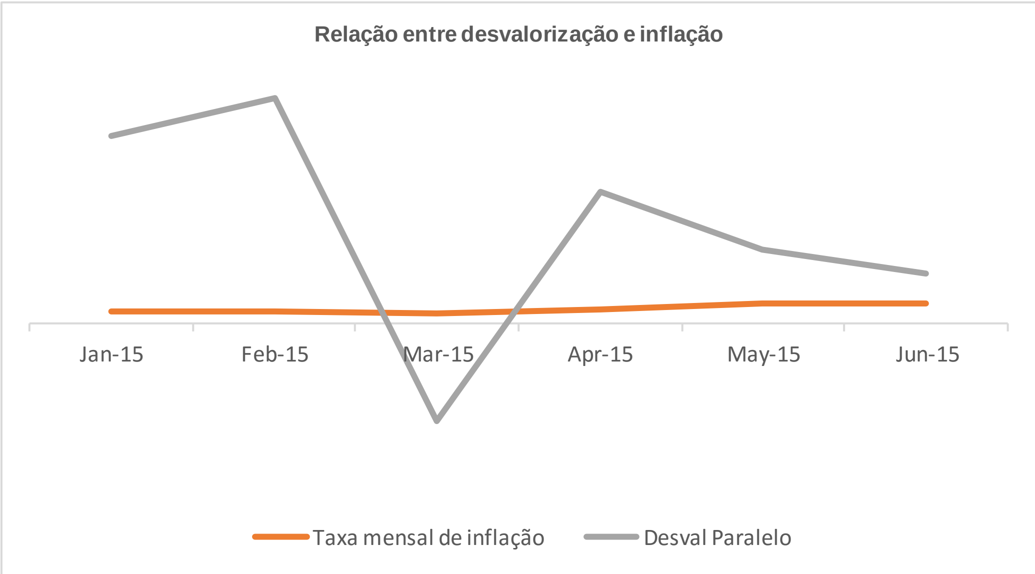
e) **Net international reserves**: Between 2008 and 2009 the country lost nearly five billion dollars from its net international reserves, standing at 17.5 billion in 2008 and 12.6 billion in 2009). This generated speculation about the main causes of this tremendous loss. The average oil price in 2008 was USD 96.8 per barrel and in 2009 was USD 61.5, a decrease of 36.5% (effects of the international economic and financial crisis of this period). In subsequent years, the recovery of the amount of net international reserves was remarkable, having reached the figure of 30.9 billion dollars in 2013, the largest ever. The average price of a barrel of oil increased significantly over the period 2009-2013, from USD 61.5 to USD 108.6. These fundamentals have changed radically in 2014, with the "stock" of international reserves falling by almost 12% compared to 2013. It has been getting worse in the course of this year. In fact, until June 2015, the value of international reserves was USD 24.9 billion (a decrease of almost 10%).



Source: BNA

It is visible from the chart above deterioration of the "stock" of foreign currency, without which the economy does not function.

f) **Currency depreciation**: The Kwanza has depreciated at an average monthly rate of 6.9% since December 2014, with obvious effects on the monthly rate of inflation, even if a total transfer does not occur (which could obviously not be verified, because there are other variables that influence the general price levels). The currency depreciation can help create positive business expectations for private investment much needed for economic diversification in the medium term.



Source: CEIC, Department of Economic Studies

However, it cannot just be through the “Macroeconomics fundamentals" that the current situation of the country must be observed and analysed. I think that the confidence levels (business and consumer) have never been so low. In a crisis, the confidence levels always fall – especially in Angola, whose only source of income is oil, with its activity, its price and its revenues. It seems, therefore, we find an unusual pressure on the availability of foreign currency, just determined by increased doubts about whether the country will be able to overcome the present crisis of payments, within the country and outside of it. The sharp and unusual increase in the demand for foreign exchange is a signal of discrepancy between the expectations of economic agents and their families and the country's ability to meet them. Hence, entrepreneurs and citizens are resorting to a large variety of expedients to buy foreign currency.

Cases of significant amounts of foreign currency being taken from the banks to the parallel market continue to be reported. It is difficult to understand why it is so difficult to stop this, not least since its seems to have taken place for a long time.[8]

The repatriation of capital (from Angola) is still significant (just look at the balance of payments), even after the initial investment is completely recovered. That is, there is not enough confidence amongst investors to fully reinvest the profits in the local economy. The new fab about economic diversification is not yet reason enough to change the negative expectations influenced by the foreign exchange crisis.

If it is true that bags with foreign currency go out of the country, through land or air borders, it can partly explain the scarcity – and the destination of the foreign currency made available to commercial banks of – despite the continued flow of foreign currency made available by the Central Bank. If confirmed, these phenomena are, besides being police cases, nevertheless evidence of undue influence and exercise of pressures on the normal mechanisms of foreign exchange allocation and transfers.

The argument between the commercial banks and the Central Bank about the availability of foreign currency is hard to understand. Economic agents and citizens in general do not feel well when their needs for making bank transfers abroad are not met. It is in this context that we have witnessed an exchange of arguments between commercial banks - subject to unprecedented pressure to sell foreign currency for various purposes - and the Central Bank, that continues to insist that the weekly amount of foreign currency auctioned in the inter-bank market has not been reduced.

Looking at the BNA's statistics, it is clear that the availability of foreign exchange has in fact increased, as noted in the following table.

AMOUNT OF FOREIGN CURRENCY SOLD (millions of USD)

	2015	**2014**	**2013**	**2012**
January	1549,5	1636,1	1300,0	1300,0
February	1495,0	1190,0	1412,0	1430,0
March	1540,1	1075,0	1540,0	1278,6
April	1357,3	950,0	1930,0	1300,0
May	1299,7	1660,0	1800,0	1515,0
June	2219,6	2620,0	1652,5	1502,2
Total	**9461,2**	**9131,1**	**9634,5**	**8325,8**

Source: BNA

On-year change (1st halves of 2014 and 2015) the amount of foreign currency made available increased by 3.6% (versus a decrease of 5.2% in same period of 2014/2013). On the other hand, the semi-annual amount of 2015 is pretty much the same as that of 2013. Although the Central Bank started a process of rationalization of sales of foreign exchange to the economy and families in 2012, there is no reporting from that time or

[8] The recent episode of little more than a million dollars hidden in an aircraft of TAAG (LUSA August 6, 2015) with destination to China, is clear proof that the forex market and the domestic banking system are facing relative disorder, that the most daring and dishonest are taking advantage of a growing climate of distrust . If the foreign currency flight has leading figures in our society as protagonists, it is a case to say, as people do, "either there is morality or all must eat".

in 2013 of such serious situations of delays and declined transfers as now (since the end of last year). The amounts made available by the Angolan Central Bank are sufficient to reassure the market and reduce the nervousness of economic agents and families. But that's not what is happening; it is therefore important to find the underlying reasons for the why shortage of foreign exchange continues to be the normal situation at commercial banks:

- Does the lack of confidence in the national economy increase the demand for currency as a refuge for savings and as a protection against worsening prospects for the medium term?
- Does demand for foreign currency increase for precautionary reasons, given the downward revisions of economic growth of the country?
- Does demand for foreign currency Increase for speculative reasons (use of easy gains opportunities enabled by the non-satisfaction of the official demand for this “commodity”)?
- Is it the transfers of exorbitant amounts of currency through the "back door", without the legally established control mechanisms really working?

Whatever the angle of analysis, and even if there are several countries in one, Angola and its economy are in economic and financial crisis. Yet the government hides its true dimension and attempts, by means of foreign loans, to mitigate the already evident effects of the contraction in economic activity (displayed by the various corrections of the GDP growth rate), shutdown of many companies, rising unemployment, the loss of economic agents’ confidence (companies, households and financial institutions) and increased poverty. The external loans can only be a short-term solution (perhaps for this and next year), but never in the medium or long term, as the country needs to ensure the sustainability of its public debt, to improve the living conditions of the poorest, to intensify production and exports and to promote agro-industrialization.

The central question is about the future. With oil revenues declining (at best stagnant), and with no other exportable products that can equal oil’s dimension, and with a general business climate very little conducive to sustained growth of private investment, economic growth will be faced with many difficulties. Not least, a diversification process has its "timing". It is not worth imagining the possibility of an acceleration that does endanger the most essential fundamentals such as competitiveness, improving the quality of employment, the overall productivity of the production factors, the deconcentration of exports and the density of the inter-sectoral relations. The strategy that all means are acceptable is not advisable to recover all the delays and lost opportunities of a process that should have started "the day before yesterday."

Luanda, August 2, 2015

Alves da Rocha

www.ceic-ucan.org