KEY JUDGMENT

Since gaining power one year ago, Angolan President João Lourenço has enjoyed the benefits of renewed market optimism and fresh investor interest in the important oil-producing African economy. However, there are growing indications that the new government's 'honeymoon' period is over as investors are becoming concerned with entrenched state corruption and the persistently weak state of the economy.

Lourenço has launched a high profile crack-down on corruption and sought to end industry monopolies. However, so far the only graft cases pursued by his administration have been politically motivated, thus allowing the new president to remove critics and to stake out his new political territory.

In fact, President Lourenco's touted anti-corruption stance is more indicative of concerted attempts to dismantle his predecessor's influences and consolidate total power over Angola's political institutions than any meaningful attempts at reform. This remains evident in the oil sector, where his government has been reluctant to pursue much-needed reforms. Entrenched patronage and rent-seeking structures have been put in place at state oil company Sonangol, facilitating embezzlement at the highest level of the administration.

Lourenço has also appointed prominent individuals tainted by corruption and mismanagement allegations into important government positions. Charges against former vice president Manuel Vicente, who now holds sway over Angola's central bank and Sonangol, could be reinstated as soon as a new government takes power in Portugal or political sentiment in the US swerves into a different direction.

Meanwhile, recent contract cancellations of major infrastructure projects, officially touted as part of a transparency drive, are more likely motivated by a desire to seek fresh rents from foreign investors participating in those projects. 'White elephant' projects, like the new Angola airport, are undermining Lourenço's image as being reform-minded and transparent.

While the economic outlook is tentatively brighter than a year ago, the new government is seeking billions more in financing from Chinese banks to fund infrastructure expansion and to keep distressed state finances afloat. Just when concerns over Angola's debt sustainability were calming, the government is committing to another massive Chinese debt pile-up. This bodes ominously for the repayment of arrears to foreign contractors and even Angola's ability to service its latest Eurobonds.

Rising food prices, frequent strike action, and public sector cuts are triggering protests and increasing the risk of riots in Angola's cities. If Lourenço's government does not soon fully commit to broad oil sector reform and prudent fiscal management, as well as actively embrace transparency initiatives, the investment outlook for Angola is set to deteriorate sharply as investors lose faith in Lourenco's stewardship of the economy.

INTRODUCTION

AN ASSESSMENT OF ONE YEAR IN OFFICE OF THE LOURENÇO ADMINISTRATION

On 23 August, Angolan President João Lourenço marks one year since winning the 2017 legislative elections, which brought him to power to replace long-time leader José Eduardo dos Santos. Angola has since been adjusting to its most significant political transition since the 1970's.

The new government's highly popular anti-corruption and economic liberalisation platform has been aimed at diluting the former government's political and economic interests. The new government has also been making fresh overtures to the International Monetary Fund (IMF) and World Bank, which is a direct threat to the entrenched patronage network, but would improve investor confidence and the country's sovereign bond ratings.

Upon his inauguration in September 2017, President Lourenço was tasked with revitalising a country that had made considerable progress since the conclusion of the civil war in 2002 but had fallen markedly short of its economic potential. Central to this was the state of systemic corruption that has impinged on the country's prosperity. Accordingly, the central objective for Lourenço remains clawing back on corruption and the restoration of institutional sovereignty. Of equal importance is the establishment of macroeconomic stability – by means of fiscal consolidation, debt sustainability, exchange rate reform, economic diversification and oil sector reform among other imperatives – following years of economic uncertainty.

In recent months, President Lourenço's manoeuvers towards economic and political reform have given rise to optimism among international audiences, in expectation of a turn-around in Angola's fortunes. Nowhere was this clearer – and arguably more consequential – than in the IMF Deputy Director Tao Zhang's 18 April communiqué. Speaking after the organisation's March consultative report, the director noted that President Lourenço had taken important steps toward improving governance and restoring macroeconomic stability in his policy outlook.

This report provides a balanced account of Lourenço's record during his first year in office, focusing on his administration's attempts to improve fiscal consolidation, debt management and currency reform, as well as a push for privatisation and diversification from the oil sector. It also highlights some achievements in light of his government's high-profile corruption crackdown.

However, the report also highlights the limits of the government's anti-corruption drive, politically motivated graft investigations, and the potential for further corruption as the government seeks fresh funds to fund a massive infrastructure drive. Moreover, there are serious concerns over lack of political reform and a reluctance to effectively restructure the bloated oil sector, which indicates persistent economic weakness and continued heightened reputational risk to investors. This report argues that the initial optimism and 'honeymoon' period of the new Angolan government has waned and that there remain serious stumbling blocks to Angola's economic recovery.

LOURENCO'S RECORD IN OFFICE

Economically, President Lourenço's policy alternatives can be deduced from the 2018/2019 budget proposal and the three cornerstone economic policies of his administration, namely: the Macroeconomic Stabilisation Policy, the Social Improvement Plan, and the New Development Blueprint 2018-22. Meanwhile, the political analogue is clear from his anti-corruption crusade and associated personnel dismissals that he has sanctioned since taking power.

FISCAL CONSOLIDATION

The government has prioritized reducing the budget deficit, although this has created concerns over protests.

In the fiscus, hard targets include a reduction in the budget deficit from 7 percent to 3.5 percent of GDP and a similar trimming of the public debt-to-GDP ratio from the current 64 percent measurement to below 60 percent. Internal tax-base widening and external inflows are intended to function as the drivers of the deficit reduction, and the first element of the tax approach – namely the tax on transport operators – is expected to roll out soon.

Other imminent tax reforms include increased VAT in the short-to-medium term. Meanwhile, revenue inflows are expected to be derived from the mainstay oil sector on the back of the ongoing commodity price rally – as opposed to domestic productive capacity which remains relatively poor. The commitment to consolidation is both necessary and commendable, and it does represent at least one change from the fiscal imprudence that characterized the dos Santos regime; however, the selected mechanisms bare some political and economic risk in the prevailing environment.

As eluded to, the tax approach coincides with a period of high inflation – as high as 24.75 percent according to the IMF. As such, further impingements on consumers' disposable income risk escalating related grievances and the prospect of associated unrest. Indeed, the potential restive outcome from the tax approach was highlighted by the 10 April countrywide teachers' strike due to income-related grievances. This was resolved during the week of 30 April by an undisclosed agreement between the SINOPROF teachers union and the ruling-MPLA government, enabled by the goodwill afforded to the Lourenço administration. Such goodwill could, however, diminish in accordance with reduced disposable income due to the impending tax amendments.

Focus Economics expects the Angolan economy to grow by 1.9% this year and 2.3% in 2019. However, the benefits from such an expected economic recovery are unlikely to be felt in the one-year outlook, especially due to higher inflation and curbs on public spending. Indicators of a still stagnant economy remain visible in certain sectors. For example, cargo traffic in Lobito Port in the second quarter of this year fell 26% to 378,000 tons. A drop of 12.7% was also recorded in container flow. As a result the economic outlook remains weak and a recovery is for now at least only tentative. This has raised risk of further civil unrest and violence in major cities.

In particular, there is mounting concern over industrial action affecting Angola's economic recovery. Over the past few months, strike action has impacted both public and private sectors. Teachers of general education recently held an 18-day strike over a dispute regarding non-compliance with claims submitted to the Ministry of Education. In May and June, Angolan bailiffs also staged strike action to demand wage increases and better working conditions. Also in May, the Angolan Union of Justice Officials (SOJA) held a nationwide strike over a compliance dispute. In June, the

Nursing Technicians' Union of Angola (Sintenfl) held anther strike over pay and working conditions. Local intelligence suggests that further industrial action is expected over the coming months as inflation rises and public spending is further curtailed.

DEBT SUSTAINABILITY

The government seeks to reduce the debt burden and prioritize repayment of massive arrears.

A reduction in the public debt burden, on the other hand, is expected to derive from consolidation, the privatization of state enterprises, the repayment of USD 5 billion of arrears, and the restructuring of long-term debt to primary lenders.

This particularly pertains to Chinese, Brazilian and Russian interests which are collectively owed USD 24.5 billion, according to the prospectus to Angola's April Eurobond issue. If successful, the restructuring of the debt and the associated time-wise spread of payment schedules could redistribute debt service costs – which amount to approximately 5 percent of GDP. More importantly, this could liberate funds for re-allocation into lagging non-oil sectors.

CURRENCY REFORM

The lowering of the artificial currency peg bears short-term inflationary risks through increases in the price of imports and proportionately higher servicing costs on dollar-denominated debt.

Where the Lourenço administration has made more significant strides is in the country's currency. In a key signal of intent to markets, the administration twice devalued the local Kwanza (AOA) against the US dollar in 2018. However, since then, the currency stabilization strategy has backfired. Following a currency auction in August, the Angolan currency has accumulated a depreciation of 40.9% against the Euro since the introduction of the floating exchange regime in January this year. The Angolan currency has depreciated by a total of 38% against the US dollar since the beginning of 2018.

The lowering of the artificial peg does, however, bear short-term inflationary risks through increases in the price of imports and proportionately higher servicing costs on dollar-denominated debt. That said, following adjustments in the medium-to-long term, the move should bode well for presently sluggish international demand for Kwanza-denominated assets, particularly amid the drive for diversification.

OIL, PRIVATISATION, DIVERSIFICATION

A planned privatization drive is unlikely to be extended to the oil sector, which will limit the success of economic diversification efforts and will ensure that the Angolan economy remains structurally weak.

While the abovementioned monetary initiatives are of no less importance, the buzzwords around the Lourenço regime have been economic diversification, oil sector reform, and liberalization. This is hardly surprising given Angola's degree of dependence on the commodity and the precarious outlook of the domestic oil sector, in addition to the state's crowding-out effect.

For one, according to the World Bank, oil accounts for approximately 30 percent of Angola's GDP and over 95 percent of exports. As such, the country is increasingly exposed to fluctuations in the volatile commodity, as highlighted by the adverse impact of the 2014 oil price slump, which slashed the country's GDP from a ten-year average of 10.3 percent to 1.5 percent since 2015.

Internal factors have also compounded Angola's oil sector woes. According to S&P Global Platts, technical and operational issues associated with state oil conglomerate Sonangol have reduced output by approximately 250,000 barrels-per-day (bpd) in the past two years. There are also reports of non-compliance of Sonangol in at least 32 cash-calls in 2017 and 2018, accumulating debt of USD1.09 billion. The International Energy Agency has further warned that without new finds and associated investment, impending maturity in Angola's offshore fields could see a decline in oil output of up to 370,000 bpd in six years, from the current output of 1.574 million bpd. Evidently, the cost of such an outcome hastens the imperative for reform.

To this end, in the abovementioned bond prospectus the government publicized its intention to privatize over 70 state-owned companies including the TAAG national airline, the BCI trade and industry bank and the ENSA state insurance company. This represents the most cogent commitment to liberalization and, crucially, a departure from the government's historically Marxist underpinnings that are in part to blame for the underperformance.

Elsewhere, the government has prioritized the growth of the diamond, fisheries and agricultural sectors as potential substitutes to oil, while repealing an investment clause that required that a minimum 35 percent of equity belong to local partners.

The latter development, in particular, should aid in improving Angola's business climate, following its 2017 rating by the World Bank's Doing Business report as the eighth most challenging regulatory environment out of 190 surveyed. That said, despite the expected investment inflows, the degree of structural deficiency in each of these sectors does mean that their efficacy as substitutes is only likely to be realized in the long term.

ANTI-CORRUPTION AND THE IMF APPEAL

While launching a popular anti-corruption campaign, which has buoyed markets and soothed relations with the IMF, the extent of the graft combat is likely to be limited to a few high profile cases.

Coinciding with – and complementing – the abovementioned economic manoeuvers has been sweeping personnel changes in the political front, in a stated attempt to improve corporate governance and clampdown on parasitic political elements.

In the Lourenço administration's clearest statement of intent to reforming the domestic economic and political environment, it voluntarily sought non-financial assistance from the IMF via the organization's Policy Coordination Instrument in mid-April. This will see the dispatchment of a team to assess issues such as fiscal and exchange rate reforms, in addition to guiding the country's diversification initiative, in tandem with ongoing consultations by the European Union and UNCTAD.

Expectedly, markets have been buoyed by the proactive measures, with USD 9 billion worth of offers coming in for its maiden 30-year, USD 3 billion Eurobond in late-April. In addition, Angola's 2025 Eurobond was rated as the best performing among emerging markets in 2018 in Bloomberg's recent sovereign bond index, with returns of 2 percent since the beginning of the year and yields falling by 179 basis points since April 2017.

In its most recent World Economic Outlook, the IMF also upped its 2018 growth forecast for Angola by 0.2 percent, predicated on the oil upswing and the expected reforms. Furthermore, despite downgrading Angola's sovereign debt rating from B2 to B3 on 26 April, Moody's revised the country's outlook from negative to stable while emphasizing that it does not expect the country to default on its debt. Altogether, these developments serve as a clear warrant for the market and political optimism surrounding Angola's policy outlook and trajectory under President Lourenço

THE STUMBLING BLOCKS

The administration's one year record in office has been marred by its limited efforts to diversify the oil-dependent economy and its refusal to seek a broader anti-corruption campaign.

As is often the case in stories of apparent radical transformation, important caveats or stumbling blocks are often clouded by the euphoria. In Angola's case, despite the glaring concerns, the Lourenço administration is yet to take any significant strides in reforming the mainstay oil sector beyond the removal of former chairperson Isabel dos Santos.

Equally, state oil interests are not among the abovementioned 70 state-owned enterprises that may be subject to privatization. This stagnancy in altering the sector in which Angola's deep-state power brokers are vested is the first of several stumbling blocks facing the Lourenço regime and it highlights the stickiness of the political landscape and its potential encumbrance to economic reform.

Furthermore, despite earlier plaudits, the corruption crusade undertaken by President Lourenço has come under increasing criticism, both for the individuals targeted and those appointed. Specifically, the sole pursuit of individuals closely aligned to dos Santos, and the deployment of seemingly misplaced individuals to key offices. This includes the promotion of the Chief Justice of the Constitutional Court, Manuel Miguel da Costa Manuel Miguel da Costa Aragão, to the rank of Brigadier and the appointed General Hélder Pitta Gros, who is still on active duty, to the position of attorney general.

A separate development that has taken the sheen from President Lourenço's purported political reform is the ongoing trial of investigative journalists, Rafael Marques de Morais and Mariano Brás, on charges of crimes against the state. This follows separate dossiers by both journalists on various incidents of corruption under the former regime, and ironically, on which President Lourenço's ongoing crackdown is based.

This has subsequently drawn comparisons to myriad other African statesmen such as Tanzanian President John Magufuli, who duped market and political interests with an early reformist agenda, only to purchase sufficient leeway to consolidate power and pursue his iteration of economic centralization.

POLICY OUTLOOK

Fiscal consolidation and currency reform will remain key priorities for the government as it seeks to attract fresh foreign investment. Yet limited oil sector reform and established parameters to anti-corruption efforts will remain key stumbling blocks for the administration's strategy of economic diversification and privatization.

The Lourenço administration is likely to continue towards fiscal consolidation and currency reform with the IMF's oversight potentially proving the most cogent commitment device. The imminent implementation of unpopular tax initiatives could stoke income-related grievances in the short term and the possibility of associated unrest. However, this could be counterbalanced by the ongoing public goodwill and expected growth and income gains.

The initiative towards diversification and privatization is also likely to continue, albeit in a considered manner. Less strategic non-oil parastals are likely to be the first to be subject to privatization, while political interests may stall the restructuring of more strategic enterprises. Despite the repeal of the equity laws, the preponderance of political interests may compromise foreign direct investment into sectors deemed viable substitutes to oil and the overarching diversification initiative.

On account of similar political stumbling blocks, reforms to the oil sector are similarly expected to lag. Accordingly, the preferential issuance of oil prospecting licenses to private interests is likely to precede any formal restructuring processes. This reduces the prospect of any domestically driven increase in revenue and suggests that oil revenue will remain contingent on – and susceptible to – exogenous fluctuations.

Nonetheless, in the short-to-medium term, the ongoing anti-corruption stance and policy guidance by the IMF are likely to sustain the market optimism surrounding Angola, as reflected by its Eurobond performance, revised growth projection and stable outlook designation by Moody's. However, the positive perceptions could be altered in the long term by questionable personnel selections, the handling of the journalists' case and oil sector reforms.

Finally, while the comparison to President Magufuli is difficult to dismiss, the rhetoric and scope of reforms undertaken by President Lourenço – regardless of their shortcomings – suggest that he may be following the discretionary path seemingly taken by Zimbabwean counterpart, Emmerson Mnangagwa. In the event that President Lourenço does tend towards authoritarianism and economic centralization, the rapi d escalation of Angola's economic challenges and the specter of a strengthening UNITA opposition group, ahead of crucial 2020 municipal elections, could force his hand towards necessary reform.

THE END OF A 'HONEYMOON'? HIGH-PROFILE GRAFT AND A WEAK ECONOMY

ADMINISTRATION ENTANGLEMENT IN GRAFT PROBES

President Lourenço has returned to his fold former vice president Manuel Vicente, who despite his extensive administrative record remains entangled in high profile corruption allegations in the US and Portugal.

Despite the balanced political and economic outlook for Angola, several developments are key to providing an assessment of President Lourenço's first year in office. Central to this legacy, has been the president's decision to bring back into his fold former vice president Manuel Vicente.

President Lourenço has co-opted many former dos Santos supporters by appointing these to the Council of the Republic. Such appointments include former Sonangol chairman Albina Assis Africano and former petroleum minister José María Botelho de Vasconcelos. Senior lawmakers and MPLA officials are now openly criticizing dos Santos and his legacy.

Meanwhile, former president of Sonangol EP Manuel Vicente, who served as vice-president under dos Santos, has emerged as one of Lourenço's closest advisors on oil and gas and economic issues. Current Sonangol chief Carlos Saturnino and new head of the National Bank of Angola, José de Lima Massano are both close to Vicente. The return of Vicente to high-level politics is however straining relations with Portugal, which has indicted him on charges of bribing a public prosecutor who was investigating claims of money laundering while Vicente headed Sonangol. He also features in a US corruption probe into Cobalt International Energy.

The US Department of Justice (DoJ) dropped their Foreign Corrupt Practices Act (FCPA) investigation into the Cobalt International Energy - Nazaki Oil & Gáz partnership in February 2017. The US Securities and Exchange Commission (SEC) dropped their parallel investigation in January 2015 and confirmed in January 2018 that no enforcement action would be taken following an "informal inquiry" in 2017.

Both Manuel Vicente and General Manuel Hélder Vieira Dias Júnior ("Kopelipa") confirmed to the Financial Times in 2012 that they held concealed stakes in Nazaki Oil & Gáz, through Gruppo Aquattro. General Leopoldino Fragosa do Nascimento ("Dino") was also suspected to hold a stake. Following a mountain of negative publicity and allegations of corruption, Cobalt exited Angola by selling their 40% stake in offshore deep-water Blocks 20/11 (Orca / Zalophus / Golfinho) and 21/09 (Cameia / Mavinga / Bicuar) back to Sonangol for USD500 million in December 2017.

Sonangol is currently (as of 20 April 2018) inviting bids for stakes in these blocks to international investors. They will be accepting bids until the end of September. While the case against Vicente is essentially archived, interest by investigative journalists was rekindled during the April 2016 Panama Papers and October 2017 Paradise Papers leaks, with questions asked about the relationship between Cobalt and Bahamas-registered Whitton Petroleum Services (Cobalt was making quarterly payments to Whitton for consulting services, "*equal to 2.5% of the market price of the company's share of the crude oil produced in such quarter*").

It is unclear who the beneficial owners of Whitton Petroleum Services are, nor what consulting services they provided to Cobalt. An investigative journalist contributor in Luanda notes: "*It is unlikely that creditors arising from the December 2017 bankruptcy of Cobalt International Energy will be able to track down this beneficial ownership* [of Whitton]*, however, should details of this company be leaked, the beneficial owners could find themselves at risk of a re-opened DoJ or SEC investigation.*"

Portuguese authorities have dropped an extensive corruption case involving Banco Espirito Santo, Portmill, Operation Fizz to avoid straining relations with Angola even further, but the investigation could be resumed in case of a change in the political situation in Portugal.

Meanwhile, on 9 May 2018 Lisbon's appeals court caved in to Angolan political pressure and confirmed that the corruption, document forgery and money laundering case against Vicente should be transferred to an Angolan court. It had begun in Portugal on 22 January. Presiding Judge Cláudio Ximenes hinted at the impact the case was having on Angola-Portugal relations, stating that he hoped this transfer would "*dissipate any possible climate of mistrust or inconsideration between the justice systems of sovereign, cooperating states.*"

Vicente was accused of paying EUR 760,000 to former Portuguese DCIAP (*Departamento Central de Investigação e Ação Penal*) Prosecutor Orlando Figueira in 2011 to end a money laundering investigation against him, relating to his 2007 purchase of EUR4,000,000 luxury property in Estoril. This investigation was linked to the August 2014 collapse of Portuguese Banco Espírito Santo and subsequent Portuguese investigation into the role of their Angolan subsidiary Banco Espírito Santo Angola (BESA). Vicente was linked to BESA and BESA's non-performing loans through his holdings in Portmill Investimentos e Telecomunicações. Similar to the situation with Nazaki Oil & Gáz, Portmill was also linked to Generals Kopelipa and Dino.

Again, this case is essentially archived. Vicente is highly unlikely to face any charges in Angola, given his immunity from prosecution as former Vice President (September 2012 - September 2017). The other defendants in the case (Figueira, as well as Vicente's lawyer Paulo Blanco and Vicente's business associate Armindo Pires) have all either been found not guilty or given suspended sentences, disincentivizing them from handing over any further evidence incriminating Vicente.

The biggest risk Vicente faces here is the (highly unlikely - below 20%) scenario in which Portuguese prosecutors persuade General Kopelipa to cooperate, perhaps to protect his own investments in Portugal in return for information about Vicente's alleged money laundering operations there. Kopelipa is slowly being sidelined by the Lourenço administration from his roles within the security apparatus, and is also alleged by multiple contacts to hold dual Portuguese citizenship, giving Portuguese prosecutors potentially more leverage over him than General Dino.

The Portuguese government currently in power has little incentive to further antagonise the Angolan authorities by re-opening these cases, or hearing new ones against high-level MPLA members, especially given the recent normalization of relations between the two countries. This could change following the 2019 legislative elections (no later than 14 October), if the PS (Partido Socialista) gain a majority. They are currently comfortably ahead in opinion polls. Their party has taken a much tougher line than others against Angolan corruption, especially their MEP Anna Maria Gomes.

Profile on Manuel Vicente and Angola's 'Triumvirate'

Under the previous government, Manuel Vicente, General Kopelipa and General Dino were the key political influencers and most powerful economic stakeholders in Angola. They had unparalleled access and acted as crucial gatekeepers between the presidency and other structures of the government and the MPLA. The three men were then also members of the presidential advisory body, the Council of the Republic, in their capacity as Ministers of State. This council functions as an inner cabinet whose authority effectively overrides that of the statutory Council of Ministers. All instances of foreign investment in excess of USD50 million need to be approved by the Council of Republic. This puts the officials of the presidency in a highly influential position in the awarding of contracts. Even more influential is the body known as the Casa de Segurança (Security Bureau), previously known as the Casa Militar (Military Bureau), which was previously headed by General Kopelipa.

Together, the members of the 'Triumvirate' controlled, among others, mobile telecommunications network Movicel, Nazaki Oil (a local shell company in joint venture with numerous foreign oil companies), fuel distributor Pumangol (which is a joint venture with Trafigura), media companies TV Zimbo and Media Nova, the Lumanhe diamond concession and Kero Supermarket. Their joint holding company Damer Indústria, set up in 2010, appeared as the shareholder of many key industries in Angola and elsewhere. Their Portmill investment company also owned substantial shares in BESA bank. In the construction sector, the three men had a considerable stakeholding and wielded significant influence over project allocation and public tenders. General Kopelipa was previously in charge of the now defunct reconstruction cabinet GRN, which provided the three men with substantial influence over the construction sector, especially with regard to Chinese deals. They also control Delta Imobiliária, a Sonangol subsidiary responsible for the commercialisation of social housing projects, such as the Kilamba project in Luanda.

The trio have all at some stage been subject to criminal investigations in Portugal on suspicion of tax evasion and money laundering. All three men have denied such allegations. US-based Cobalt International Energy has also been under investigation by US authorities for its ties to the trio.

Vicente's ties to Sonangol and China Sonangol are likely to protect his substantial economic stakeholdings and make him one of the most important political influencers in Angola.

Vicente was the president of Sonangol's Administrative Council from 1999 until 2011. From January to September 2012, he headed the now defunct super-ministry of Economic Coordination to give him experience in the executive. While his promotion to the Vice-presidency was initially interpreted as an indication of his eventual succession of President dos Santos, such a strategy never come to fruition. Politically, Vicente is still a 'lightweight', as he joined the MPLA's Central Committee relatively late and has no fighting credentials in the civil and liberation wars. His appointment to the Vice-presidency was unpopular within the MPLA.

In a credible scenario, Vicente could retain his position as influential advisor to the new government. He is still a key influencer of Angolan economic policy and took on an increasingly diplomatic role as vice-president, becoming, as one source said, 'the face of Angola'.

Vicente is intricately tied to Sonangol's interests and to those of China Sonangol and CIF, which will protect his substantial economic stakeholdings and ensure his position as a key gatekeeper for the construction sector, especially for projects related to Sonangol. He also co-owned and ran mobile network Unitel together with Isabel dos Santos. Additionally, he served on the board of Portugal's Galp Energia and Angola's Banco Africano de Investimentos.

President Lourenco's touted anti-corruption stance is more indicative of his attempts to dismantle Dos Santos' influences and consolidate total power over Angola's political institutions than any meaningful attempts at reform.

Vicente's inclusion into the administration despite his tarnished reputation indicates the extent of Lourenço's anti-corruption campaign, which is overseen by new Public Prosecutor Hélder Pitta Grós. The probe has so far focussed on dos Santos family interests.
Meanwhile, dos Santos's closest associates, such as Vicente, have now been co-opted into the new administration. Others, such as Hélder Vieira Dias 'Kopelipa' and Leopoldino Fragoso do Nascimento 'Dino' are considered too powerful to investigate.

The anti-corruption campaign under new President Lourenço seems to have reached its peak and probes are unlikely to be extended to others.
President Lourenco's touted anti-corruption stance is more indicative of his attempts to dismantle Dos Santos family interests and consolidate total power over Angola's political institutions than any meaningful attempts at reform. Consequently, the so-called honeymoon period of reforms is likely to end with Eduardo dos Santos' removal as MPLA head and the subjugation of his remaining loyalists within the party and the Angolan government.

WEAK ECONOMY AND ITS IMPACT

Despite early indications of a tentative economic recovery, there are growing concerns over Angola's debt sustainability and mounting arrears to foreign companies, which are exacerbated by high inflation and an overvalued currency.

Upon coming to power in September 2017, Lourenço inherited a seriously weak economy. This was the combined result of rampant economic mismanagement as well as a failure to diversify the economy away from oil-dependence before the 2014 oil price crash. Debt repayments now account for 52% of expenditure according to the 2018 National Budget. This represents an increase from 32% in 2017, according to the Finance Ministry. Total debt now stands at 64% of GDP.

The 2018 budget projects a fiscal deficit of 2.9% of GDP. This is based on assumptions of 4.9% real GDP growth and an oil price of $50 per barrel. Note that these growth assumptions are significantly higher than IMF predictions, which are 1.6% real GDP growth for 2018, 1.4% for 2019 and 1.5% for 2020. The IMF estimates net borrowing requirements at 5.5% of GDP in 2018. Angola's net foreign exchange reserves fell to USD12.986 billion in June, according to the Central Bank. This represents a significant drop from USD23 billion at the beginning of 2017.

By February 2018 the government had racked up USD5 billion of arrears to international companies, including USD500 million of revenue owed to airlines operating in Angola (although the government is paying this off slowly, as they did after the 2008/9 oil price crash). Angola continues to experience severe payment delays for expatriate workers in-country and shortages of imports (such as car parts and other technical equipment) due to a lack of correspondent bank dollar clearing services. This is caused by Angola's continued failure to adhere to US anti-money laundering regulations, meaning banks such as Standard Bank have withdrawn clearing services from the Angolan market (for fear of fines from US regulators).

Inflation is another serious problem although it is slowly reducing. According to Angola's *Instituto Nacional de Estadística*, annual average inflation was 24.9% in June, down from 25.9% the month prior. Prices of basic goods (such as rice) which are imported staples have risen significantly.

Meanwhile, Angola's currency remains seriously overvalued (it was the fourth most overvalued currency in the world in February 2018). The Central Bank rate is currently AOA268 to USD1. Luanda's black market rate is currently AOA375 to USD1. Central Bank Governor José Massano is following a policy of loosening Angola's currency peg to the dollar, by allowing it to float within an unspecified band that is determined with reference to a basket of the Euro and the Dollar. We have already seen controlled devaluations in January and April 2018, however, Massano is unlikely to allow the currency to freely float in the six month outlook.

There have been numerous reports in media outlets of the crime rates in urban centres like Luanda increasing as a result of the current financial situation. While crime rates there remain higher than most European capitals, it remains significantly safer than other regional hub cities such as Johannesburg. Based on local intelligence, Angola's provincial capitals such as Cabinda, Malanje, Namibe Huambo, Benguela and Lubango all remain very safe by Western standards, with little to no crime directed specifically at expatriates.

Despite the dire economic situation in September 2017, many indications are that the Angolan economy is slowly strengthening. Contacts estimate inflation will be brought down to around 18% in 2019, and Lourenço's appointment of numerous competent technocrats (such as Massano), along with his anti-corruption drive has reassured international investors. Further indications of recovery can be seen in the recent enthusiasm with which Angolan bonds have been received (such as the USD3 billion Eurobond this May, which had a total demand of USD9 billion).

INFRASTRUCTURE EXPANSION STRATEGY

Many of the legacy projects Lourenço has inherited still represent serious corruption and reputational risks, as well as the potential for short-notice contract alteration or cancellation.

In order to boost the struggling economy, the Angolan government is planning a massive infrastructure expansion programme, which would be likely to open up new opportunities for corruption in the new ruling faction of the MPLA. The Angolan government is currently negotiating a new credit line with the Industrial and Commercial Bank of China (ICBC) of USD 11.7 billion for infrastructure projects. The loan could be agreed as soon as early September. Other loans are being negotiated with Chinese state-owned banks.

The most notable project is Luanda's new international airport. Under construction since 2009, this much-delayed project was taken away from China International Fund (CIF) in October 2017 for "*technical, operational and financial reasons*". The construction contract was given to another opaque Chinese entity: VIK. Mace Group have been project managing this since 2015. The airport is currently 60% complete and has already cost an estimated USD6 billion (the original contract with CIF was for USD3.8 billion). The proposed ICBC loan would be expected to pay up to 85% of the contract value for the design, construction, and finishing of the new airport.

This change by Lourenço does not represent an attempt to move away from reliance on Chinese construction companies: Cabinda's new airport is currently being built by China Railways Construction Corporation Ltd. (CRCC). Rather, it is intended to weaken the financial power-base of the 'Triumvirate' - Generals Kopelipa, Dino and Manuel Vicente. Specifically, Kopelipa has been heavily involved in the allocation of large infrastructure projects to CIF since 2004, and all three are closely linked to CIF financially through their stakes in DT Group.

A Western engineering source in Luanda noted: "*The new airport stands out as one of the greatest examples of grand corruption in Angola's post-war period. We even heard rumors that the Chinese were secretly excavating diamonds from one of the construction sites. The budgetary overruns and delays on this project have been obscene, and you know it's the usual host of characters, including Dos Santos' inner circle, that were profiting the most from this situation.*"

While it would seem that President Lourenço will monitor this project more closely than dos Santos to scale back past excesses and very likely ensure project completion by 2020, involvement in this project presents significant corruption and contract alteration risks.

There are various other large-scale infrastructure projects that open up fresh opportunities for corruption. This July, Lourenço canceled four large infrastructure contracts held by Isabel dos Santos-linked companies such as Atlantic Ventures. The projects include the USD700 million Corimba Coastal Road deal; the USD1.5 billion Barra do Dande Port deal; the UD4.5 billion Caculo-Cabaça hydroelectric power project; and the USD15 billion Luanda Metropolitan Master Plan (PDGML). The stated reasons for these cancellations (both publicly and privately) are lack of a competitive, transparent tendering process, concerns about the involvement of Politically Exposed Persons (PEPs) and questions about the previous track record (or lack thereof) of the winning bidders in those sectors.

As with the airport, the re-allocation of management of these projects may serve to improve construction efficiency and possibly reduce corruption, but decisions will ultimately be politically motivated. They all still represent serious reputational and corruption risks to contractors involved. It should also be noted that while Minister of Defence (2014-2017) Lourenço was strongly opposed to construction of a deep-water port in the exclave of Cabinda. He believed this would serve to make the exclave more self-sufficient, and thereby embolden the separatists in the region (such as insurgent group FLEC) in their calls for independence. His preference was always to keep Cabinda reliant on Soyo's port. Lourenço is therefore less likely to prioritize the efficient completion (or proper management) of this port compared to the other infrastructure projects on the list.

Many of the legacy projects Lourenço has inherited still represent serious corruption and reputational risks, as well as the potential for short-notice contract alteration or cancellation.

ASSESSMENT OF LOURENÇO'S FIRST YEAR IN OFFICE

President Lourenço enjoys a high approval rating and his anti-corruption policies are wildly popular at home. Meanwhile, new press freedoms are encouraging broader political debate in Angola.

Domestic approval of Lourenço across Angola is very high after less than a year in office. His anti-corruption drive is wildly popular. It has earned him the nicknames "*Buldózer*" and "*Terminator*" on the streets of Luanda and in the Angolan press, which is free to report openly for the first time in years.

On 6 July a judge in Luanda's Provincial Court acquitted prominent activist Rafael Marques on charges of "outrage to a body of sovereignty and injury against public authority", relating to his investigative reports of alleged corruption by the Attorney General. Judge Josina Ferreira Falcão noted: "*This court believes that we would be doing very bad as a society that wants to progress, if we punished the messengers of bad news*", seemingly opening the door to further investigative reporting on corruption by Angolan independent media.

Lourenço has systematically broken down monopolies that he sees as damaging to the Angolan economy, including those in the diamond prospecting, refined fuel importation and cement industries, to the detriment of vested interests. He is also working hard to improve SADC and wider regional integration through steps such as simplifying the visa regime.

His economic policies are in line with the IMF's Article IV Consultation Mission Report, issued in March 2018. Of note were the report's positive findings that: "*The Angolan economy is experiencing a mild economic recovery. The new administration is rightly focused on restoring macroeconomic stability and improving governance…Over the medium term, the outlook is for a continued gradual recovery in economic activity.*"

While Lourenço's presidency should represent a significant improvement in governance for Angola, this report is reluctant to go as far as some political commentators who view him as a democratizing force in Angolan politics.

The MPLA has acted upon the need to renew from within if it was going to survive. The 2017 legislative elections saw the MPLA's worst performance since the civil war ended in 2002, winning only 61.08% of the vote, and losing its majority in the capital Luanda, their political heartland. There were also widespread accusations of voting irregularities.

In September 2018, Lourenço will take over the presidency of the MPLA, neutralizing one of the last pieces of leverage dos Santos had over him. It seems most accurate to characterize Lourenço's presidency thus far as partial economic liberalization, improvements in efficiency coupled with a politicized anti-corruption drive selectively targeting Dos Santos family interests.

Few steps have been taken to strengthen democratic institutions or ensure that the rule of law is applied evenly. Critics of Lourenço point to the following examples as evidence of his undemocratic credentials. On 20 October 2017 Lourenço dismissed the Presidential Secretary for Economic Affairs, Carlos Aires da Fonseca Panzo, following an investigation by Swiss authorities into money laundering. However, Manuel Vicente continues to receive high-level protection to ensure he does not have to face accusations of money laundering in Portugal. In January Lourenço even noted that bilateral relations with Portugal would "*depend heavily*" on an acceptable resolution to the case (i.e.

Portugal acquiescing to Angola's demands). This is a direct continuation of President dos Santos' tactics. He ended Angola's "strategic partnership" with Portugal during a State of the Nation address in 2013, due to Portuguese investigations into Angolan money laundering.

There have also been allegations of nepotism in relation to some of Lourenço's senior political appointments, such as giving his cousin General Eugénio Laborinho the position of Governor of Cabinda Province. Moreover, this August an asset freeze targeting Quantum Global was not renewed by the UK High Court as the Angolan government failed to provide requested documentary evidence to prove malfeasance by the asset managers. This was likely a deliberate policy by the Angolan government, rather than an oversight.

Angolan investigative journalists reported in May that Lourenço's brother (General Sequeira João Lourenço) was part of a consortium - Air Connection Express - attempting to take over national airline TAAG's domestic routes, with the benefit of a USD200 million sovereign guarantee.

It is our belief that Lourenço is not currently in a strong enough position to directly target the 'Triumvirate' of Generals Kopelipa, Dino and Manuel Vicente, even if he wanted to do so. Sources note that he was under strong political pressure from the MPLA's Central Committee and other influential MPLA members to stop Portugal bringing Vicente to trial, as this would set a dangerous precedent for some of Angola's most prominent politicians and businessmen.