



## Momentous polls approaching

The legislative election is fast approaching and will take place on 5 September this year; the first elections in 16 years. The legislative election will be followed by the presidential poll in 2009, which will coincide with President dos Santos's 30th anniversary in power. Rulings by the Supreme Court in 2005 allow President dos Santos not only to stand for re-election, but also to serve up to three more terms. It is, however, not yet known whether he will put himself forward for re-election.

While there are some 100 parties registered, it appears that the contest will be very much a two-horse race between the MPLA and Nacional para a Independência Total de Angola (Unita). According to the Inter-ministerial Commission on the Electoral Process (CIPE), the institution created to undertake the registration process, more than 8 million voters have been registered across Angola. Despite reports of irregularities, the process appears to have run relatively smoothly.

While the President has appealed for calm in the run-up to the election, the sense of mistrust, particularly between the MPLA and the main opposition party, cannot be ignored. The leader of Unita, Isais Samakuva, has raised concerns over the independence of the electoral commission (CNE) - even though it is composed of members drawn from various political parties - because pursuant to the electoral code the CNE should invite political parties to partake in open discussions; Samakuva states that he is still waiting for his invitation. He has called for the president of the CNE, Caetano de Sousa - a close ally of the government - to be replaced, arguing that his appointment to the CNE is in violation of the electoral code, as he is also vice-president of the Supreme Court, which acts as the country's de facto Constitutional Court.

Samakuva has also expressed concern over the new bill to revise Angola's electoral code that was presented to the National Assembly in April. The changes involve extending the period permitted between the holding of national elections and the publication of official results by the electoral commission from 10 to 15 days; and extending the period permitted between the holding of provincial elections and the publication of official results by the provincial commissions from four to seven days. Samakuva warned that the delay in releasing the official results of the presidential election in Zimbabwe has greatly increased political instability and created opportunities to manipulate the results, stating his fear that the same could occur in Angola.

As the polls approach, tension between the MPLA and Unita is expected to rise. The MPLA continues to try to undermine Unita by placing the onus of Angola's chequered history at the feet of Unita, while Unita responds by underscoring corruption within the MPLA. Unita has been scathing about the living conditions of ordinary citizens, who have yet to reap the rewards of the country's impressive oil-generated wealth - an estimated two-thirds of the population is living beneath the poverty line. Thus far the slurs have not gone beyond political competition. While there is arguably some apprehension surrounding the polls, there does not appear to be an appetite for more violence in Angola, as the memories of the 27-year conflict are still too fresh. Given the powers of incumbency, the outcome of the polls is unlikely to surprise.

In a separate development, the Conselho da República, a cross-party body set up to advise the president, recommended that municipal elections should be introduced after the presidential election is held in 2009. The government has long-standing plans to hold local elections, but these have been repeatedly postponed while the focus has been on holding the much-delayed legislative and presidential elections. It is hoped that the introduction of municipal elections would help to drive the democratisation process and impose greater accountability on local government, which in many parts of the country, is highly dysfunctional.



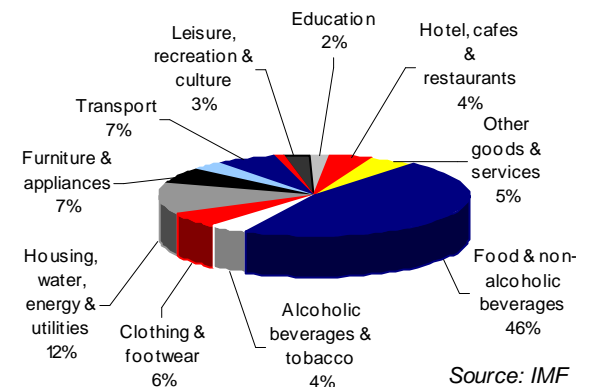
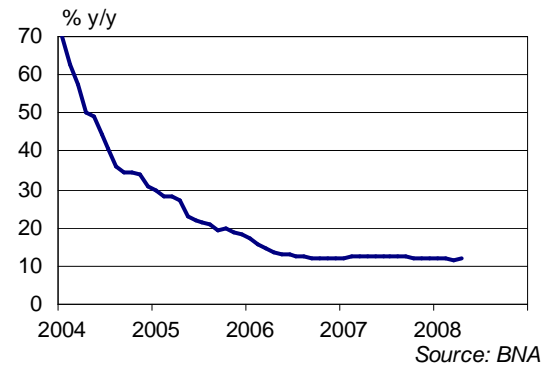
### Inflation

Inflation averaged 12.2% in 2007; the lowest ever recorded annual average. In the first four months of 2008, inflation remained in the low double digits and recorded 11.82% y/y in January and February, 11.74% y/y in March (lowest monthly rate on record) and 11.89% y/y in April 2008.

A major factor behind the decline has been the use of foreign exchange earnings to support the kwanza through intervention in the foreign exchange market. This policy has kept the price of imports (which represent 90% of domestically consumed goods) low. In addition to this, agricultural production benefited from continued resettlement of displaced farmers, favourable climatic conditions and easier access to markets through road improvements. Increased production helped to alleviate food scarcity, keeping food inflation (46% of the consumer basket) low.

We expect the declining trend in headline inflation to continue. The governor of the Banco Nacional de Angola (BNA) has recently reaffirmed its decision to continue with the kwanza stabilisation programme through intervention in the foreign exchange market. In addition to this, increased agricultural production, improved transport and access for producers to markets continue to bolster food supply. However, election-related public spending, rapidly expanding public and private consumption expenditures and rising costs of imported building materials are likely to put pressure on inflation and slow the declining trend. We expect inflation to end 2008 close to its target of 10%.

### CONSUMER INFLATION

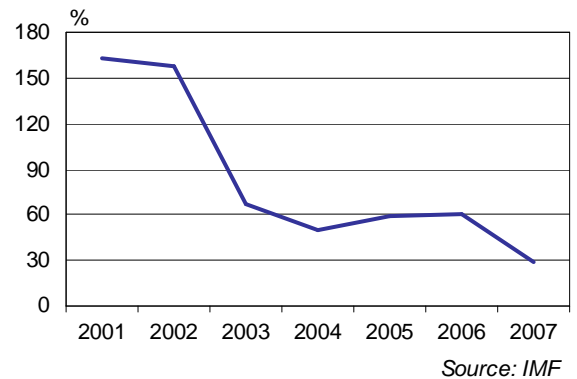


### Money supply

The central bank has traditionally accommodated unplanned, extra-budgetary expenditure by monetising deficits, and this has led to rapid money supply growth and high inflation.

With the government publicly committed to reform, there has been pressure on the BNA to reduce the inflation rate. Although this has been achieved largely through intervention in the foreign exchange market, a significant fall in money supply growth, since the start of the "hard kwanza" policy in 2003, added to the fall in overall inflationary pressures during 2005. Less reliance on the domestic banking sector, particularly the central bank, to fund public-sector spending contributed to a sharp slowdown in the monetary aggregates' growth rates. By September 2004, the growth rate in broad money supply (M2) slowed to 50% y/y from 125% y/y a year earlier. The last quarter of 2005 saw an upswing in growth as government spending surged. Despite intensified sterilisation efforts in 2006, an oil revenue surge hindered the authorities' liquidity mop up efforts and broad money growth accelerated through the first eight months of 2006. By July 2006, broad money growth exceeded 80% y/y. The last quarter of the year saw money supply growth retreat slightly as overall economic growth slowed. The growth rate in M2 at the end of 2007 was around 30% y/y.

### M3 MONEY SUPPLY





### Interest rates

The declining trend in average inflation presented the opportunity for the BNA to lower its official lending rate. In May 2007 the BNA revised the assets considered eligible as required reserves, prompting an increase in commercial banks' lending rates. The rediscount rate increased from 14% at the beginning of the year to 19.6% at the end of the year. With inflation comfortably close to the target there is little need for monetary tightening.

### Private sector credit

The largely dollarised banking system has limited exposure to the private sector, engaging primarily in foreign exchange operations. Noting high levels of excess liquidity in the banking sector, the IMF, following official discussions with the Angolan authorities that ended in June 2007, suggested that macroeconomic and structural factors, and banks' attitudes towards risk, are more likely to explain the low levels of credit extended to the private sector. Credit to the economy totalled AON58 billion in December 2003, AON104.8 billion in December 2004, and is estimated by the IMF at AON173.1 in December 2005.

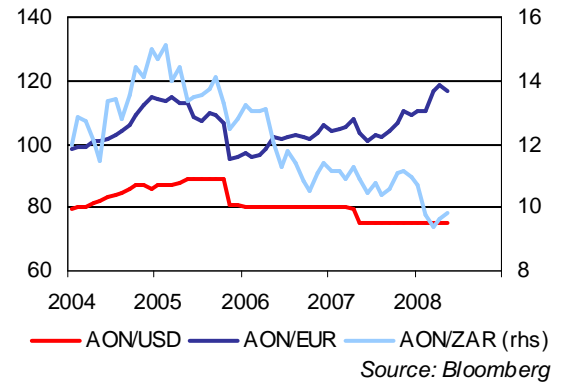
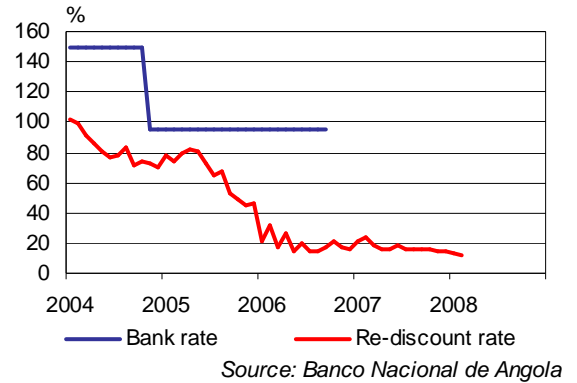
### Exchange rates

The BNA maintained its "hard Kwanza" policy and through the ongoing intervention in the foreign exchange market the kwanza has been kept constant at AON75/US\$ since August last year. With strong oil export earnings expected to continue and foreign-exchange reserves estimated to reach US\$11.4 billion (7.7 months of import cover) in 2008, the BNA will continue its support for the kwanza, especially in a pre-election context. Although the governor of the BNA, Amadeu Mauricio, has recently reaffirmed the current regime's decision to ensure exchange-rate stability through intervention in the country's foreign-exchange markets, this policy can only be maintained while oil revenues remain buoyant.

### Oil

Since the end of the war in 2002, crude oil supply increased from less than 1 million barrels per day (b/d) to around 2 million b/d. Foreign investment has continued to flow into the petroleum sector, ensuring exploration in both shallow- and deep-water oilfields. Buoyant energy demand in Angola's primary oil-export destinations, the United States, European Union (EU) and China propelled new investment inflows. China, in particular, strengthened its commitment to Angola as a source of crude-oil supply and currently Angola ranks ahead of Saudi Arabia as the largest supplier of oil to China.

In April this year, Angola overtook Nigeria as Africa's largest oil producing nation. According to OPEC statistics in April, Angola reached a production rate of 1.92 million barrels per day (bpd). Nigeria produced 1.88 million bpd in April. The swift change in position has been attributed to the continued unrest and insecurity in the Niger Delta region that houses the oil wealth of Nigeria. While successive governments have made efforts at tackling the problem, the situation continues to take on new dimensions.





Despite Opec's quota of 1.9 million b/d, ongoing investment inflows to the petroleum sector indicate further production increases over the near term. In February this year, ExxonMobil started production from the giant offshore Kizomba C development. The project has the capacity to produce 200 000 b/d. BP's Greater Plutonio field started production in October 2007 at 45 000 b/d and expects to reach 200 000 b/d some time this year. Chevron's Tombua-Landana project is expected to reach peak production of 100 000 b/d in 2010. Several other high-profile projects run by Total, BP and ExxonMobil, among others are in their development phase.

Angola's total oil reserves are estimated at between 5 and 10 billion barrels. The country's production targets are set at 2.25 million b/d by 2009 and 2.50 million b/d by 2012. Besides the rise in oil output, the government is also reaping the benefits of high oil prices. The Energy Information Administration (EIA) expects the price of crude oil to average around US\$86/barrel in 2008 and US\$92/b in 2009.

Angola also has proven natural gas reserves, estimated at 1.6 trillion cubic feet. The signing of an investment contract between the government and Sonangol in December last year makes it finally possible to implement the country's liquid fuel natural gas word missing(Angola LNG limited). Chevron, BP, Total, Eni and Sonangol agreed to start construction on a plant to liquefy one billion cubic feet of gas daily for the US. The plant will also process natural gas liquids and send out up to 125 million cubic feet of gas daily for the domestic market. The plant is expected to be the largest single investment ever made in Angola, with total cost estimated at around US\$5 billion. From 2012, the Angola LNG project is expected to produce five million metric tons of gas annually. The government wants to gradually reduce the burning of gas in oil exploration.

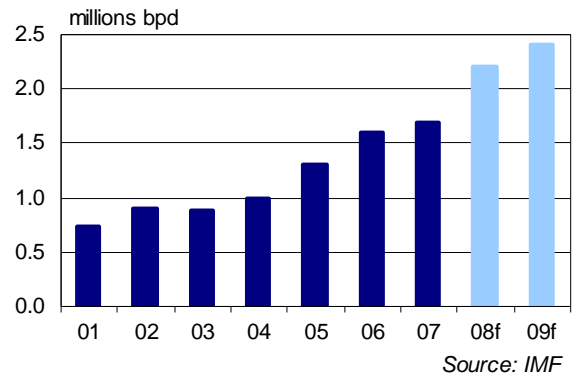
**Mining**

The diamond industry dominates the country's mining sector. Angola is considered one of the world's most promising diamond areas, with estimated reserves of 400 million carats of alluvial diamonds and 40 million carats of kimberlite.

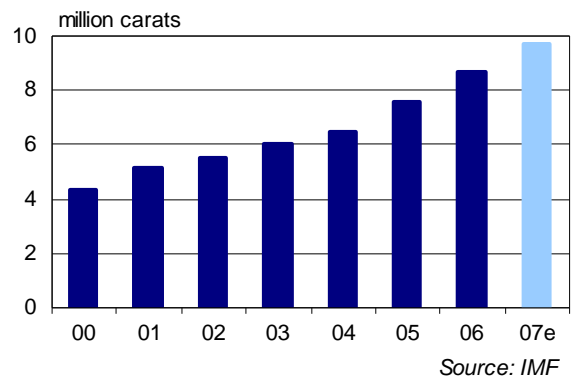
The end of the long civil war has attracted considerable investor interest in Angola's diamond industry. This, as well as improved regulation and enforcement in the diamond industry have led to an increase in formal mining activity. In 2004 Angola was the world's seventh-largest producer of diamonds, with exports of 6.2 million carats (worth US\$900 million). Production increased by 16.2% in 2005 and official diamond exports totalled US\$930 million, providing US\$130 million in fiscal revenue to the government. The bulk of diamond exports were to Belgium. As production at kimberlite mines increased, diamond production increased by 42% in 2006. Sociedade Mineira de Catoca (SMC), the company which operates the world's fourth-largest kimberlite diamond mine in Catoca, Lunda Sul province, reported that it had sold US\$425 million worth of diamonds in 2006, up from US\$296 million in 2005. In 2005 the Catoca mine produced 41% of Angola's formal-sector output by value, and 70% of Angola's output. According to Angola's Finance Ministry, total production was estimated to have risen to 9.7 million carats in 2007, worth an estimated US\$1.3 billion.

This trend is expected to continue in the medium term, since 90 new mining projects have been approved to explore the vast Angolan alluvial and

**OIL PRODUCTION**



**DIAMOND PRODUCTION**





kimberlite deposits. Angola aims to increase diamond production substantially with the aim of becoming one of the top three diamond producers worldwide by the end of this year.

State-owned diamond prospecting and producing firm, Endiama P&P, a subsidiary of the National Diamond Company (Endiama-EP), produced the first lot of 15 000 carats from Camuanzanza mine in November 2007. The Camuanzanza mine covers six areas. Prospecting carried out in one of the areas of concession established 11 blocks with proven mining reserves estimated at over 2.6 million cubic metres of mineral, corresponding to 892 723 carats. In addition to Camuanzanza, Endiama P&P is working to expand its activities into other diamond areas throughout the country. At the end of May 2008, the government also granted diamond prospecting, research and recognisance rights to Endiama, in the region of Luxinge in the north-eastern Lunda Norte Province, work is to be carried out in an area of 160 square kilometres.

The government has also approved a diamond prospecting contract between local companies and Austrian Nare-Diamonds Limited in the Lulo area of Camulemba district in eastern Luanda Norte province. The Lulo project, which includes local Endiama and Rosa, will prospect 3 000 square kilometres.

To add value to production, the largest polishing and cutting factory in Africa opened in Luanda at the end of 2005. The Angola Polishing Diamonds factory is a joint venture between the state diamond company Endiama, the Angolan consortium Progem and Lev Leviev Diamonds, the world's second-largest diamond trading company.



## Summary forecasts

	2003	2004	2005	2006	2007e	2008f
<b>Balance of payments (US\$ billion)</b>						
Exports	9.5	13.5	24.11	31.86	38.99	55.92
Imports	-5.48	-5.83	-8.35	-9.59	-15.80	-19.80
Trade balance	4.03	7.64	15.76	22.28	23.95	36.11
Services	-3.1	-4.48	-6.6	-8.5	-11.1	-11.3
Income	-1.7	-2.5	-4.0	-5.5	-11	-17.4
Current transfers	0.1	0	0	-0.2	-0.2	-0.2
Current account	-0.719	0.686	5.138	10.538	3.784	7.339
Capital and Financial account	-0.8	-0.03	-3.7	-3.6	-0.1	-1.5
Errors and omissions	-0.4	0.277-	-3.8-	-	-	-
Overall balance	0.101	0.658	1.445	6.975	3.676	5.836
Net international reserves (-ve: increase)	-0.26	-0.78	-1.82	-5.4	-1.92	-5.84
Debt rescheduling and debt forgiveness	0.297	1.253	0.255	0.04	0	0
Arrears, net (+ increase)	-0.135	-1.13	0.117	-1.608	-1.752	0
Exceptional financing	0.162	0.122	0.372	-1.573	-1.752	0
<b>Government finances (Kwanza billion)</b>						
Tax revenue	382	596.6	1050	1577	1488	1976
Non-tax revenue	4.9	5.6	29.2	107	55.9	72.1
Grants	8.0	7.5	6.4	0	4.6	4.1
Total revenue	394.9	609.7	1085	1684	1549	2052
Current expenditures	378	505	720	823	1099	1263
of which: interest	19	38	49	54	56	61
Capital expenditures	79	81	135	323	408	560
of which: financed by external sources	8.0	7.5	0	185.8	232	215
Other	9	9	20	0	0	0
Total expenditures	462	636	890	1148	1508	1824
Adjustment to cash	59	61	173	240	94	229
Overall balance (accrual basis)	-67	-26	196	538	41	229
Oil bonus (net)	0	17	0	80	0	0
External financing (net)	36	89	-91	-33	-8.8	215
Borrowing (net)	17	-18	-107	-33	-8.8	215
Amortization of parastatal debt	-101	-208	-148	-295	-241	-0.1
Disbursement	118	190	40	262	231	215
Debt relief	20	108	16	0	0	0
Domestic financing (net)	22	-46	-81	-287	103	-433
Total financing	59	61	-172	-239	94	-228
<b>Supplemental indicators</b>						
Real GDP growth (%)	3.3	11.2	20.6	18.6	23.4	22.2
GDP per capita (US\$)	959	1383	2118	3092	3979	5587
Nominal GDP (US\$ bn)		19.8	30.6	45.2	58.7	83.2
Annual average inflation (%)	100	45.3	23.2	13.4	12	10
Policy interest rate (average)	120	95	95	14	18	13.8
Exchange rate (annual average)	73.3	83.7	87	80.4	75	68
Gross official reserves (US\$ bn)	0.8	2.0	4.1	8.8	10.5	16.4
Months of import cover	1.9	3.1	5.6	7.1	6.3	8.6
Current account to GDP (%)	-5.2	3.5	16.8	23.3	6.4	8.7
Total revenue to GDP (%)	38	37	41	46	35	35
Government expenditure to GDP (%)	44	39	33	32	34	34

Source: IMF Country Report no. 07/354 October 2007



Picture Gallery

FIGURE 1: GDP GROWTH

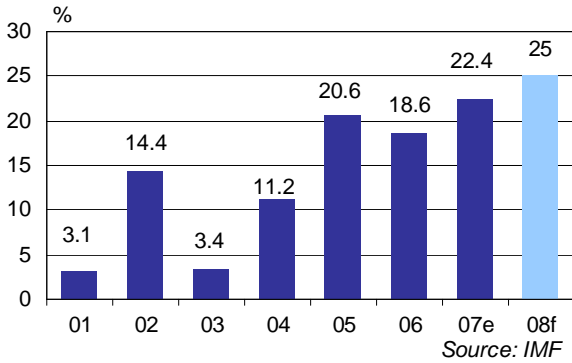


FIGURE 2: REAL GDP: SECTORAL GROWTH

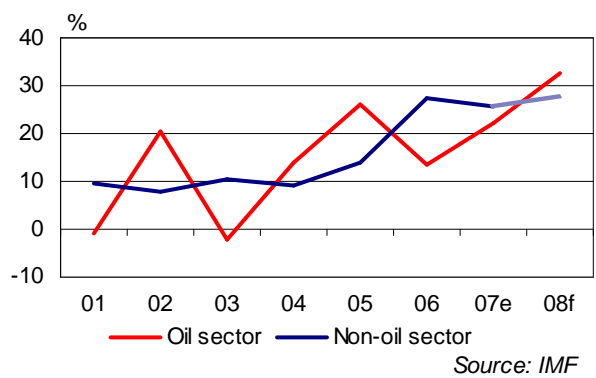


FIGURE 3: EXTERNAL DEBT

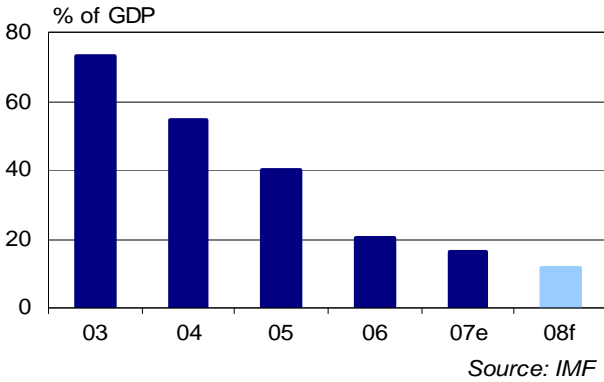


FIGURE 4: GOVERNMENT FINANCE - TAX REVENUE

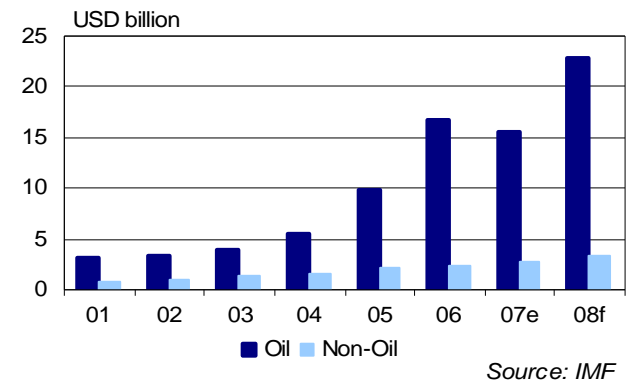


FIGURE 5: EXPORTS

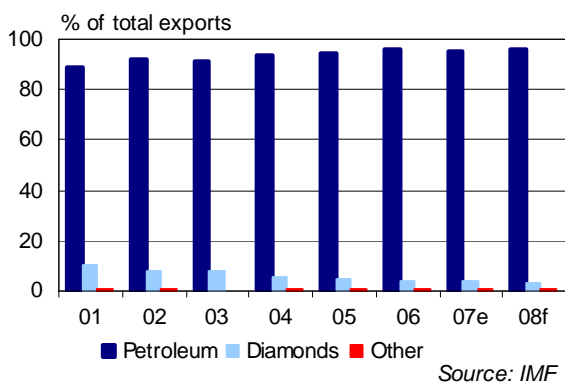
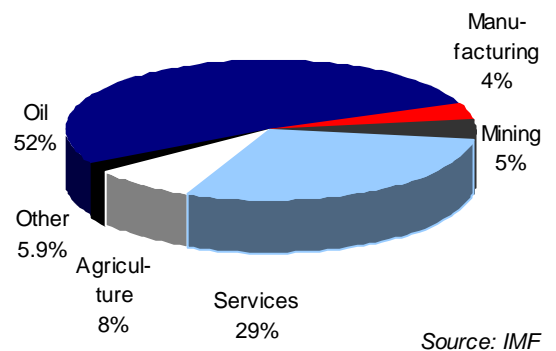


FIGURE 6: CONTRIBUTION TO GDP - 2007 est.





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