



Angola - Operating Environment Impacts International Investment Presentation at ABANC

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Operating Environment: Angola

Assessment of Operating Environment is Key

- Determines the level of risk of doing business in a country

Fitch assesses:

- Sovereign Rating
- Size & Structure of the Economy
- Economic Performance
- Macroeconomic stability
- Financial Markets Development
- Regulatory & Legal Framework
- Governance



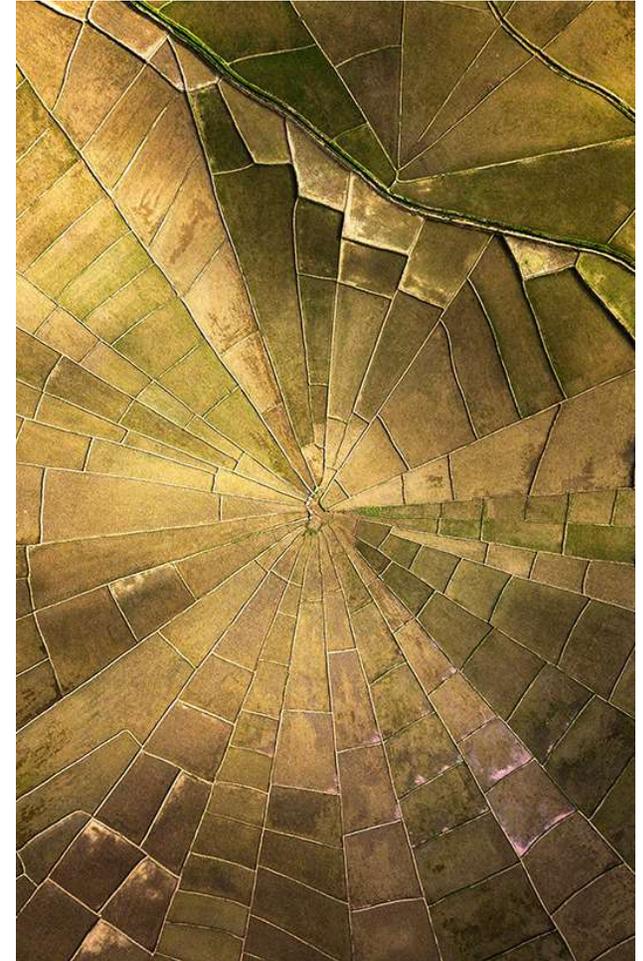
Sovereign Rating 'CCC'

Fitch's assessment of the operating environment incorporates both sovereign risk and broader country risks

- We score Angola's operating environment as 'ccc' – exceptionally weak
- The operating environment score is usually constrained by the sovereign rating because a sovereign default is usually accompanied by a sharp deterioration in the operating environment, which often includes recession, weaker public and private sector balance sheets, funding market dislocations and macroeconomic volatility

Key Measures for Fitch: GDP/capita (USD1,730 in 2019) and World Bank 'ease of doing business' (177/190 latest measure)

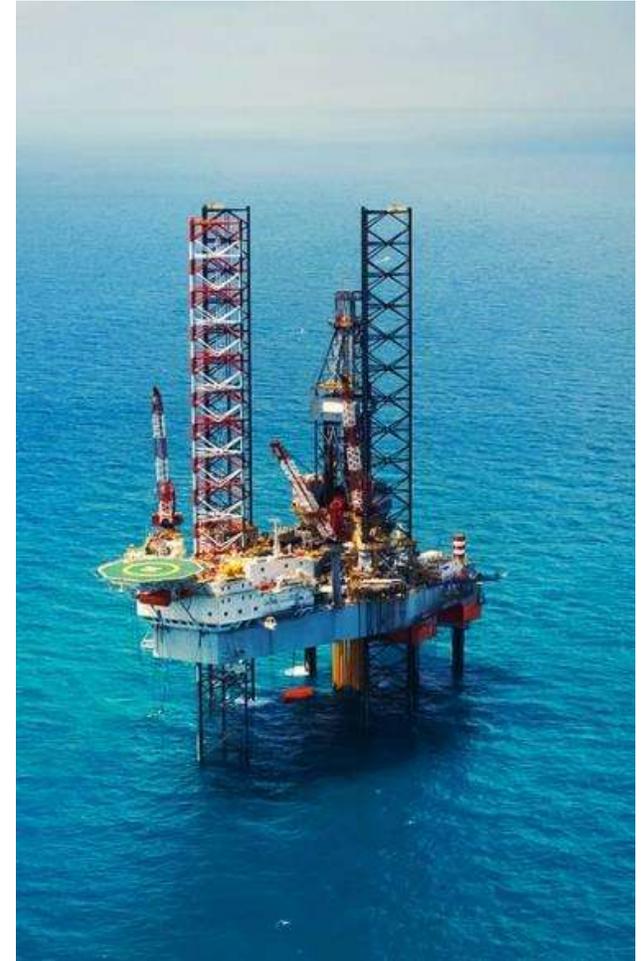
The IMF says *'It is crucial to persevere with structural reforms, such as privatization, improvement in governance in state-owned enterprises, and strengthened legal frameworks. These reforms will help improve the business environment and pave the way for foreign direct investment'* (21 September 2020)



Size and Structure of the Economy

Angola's GDP expected to fall sharply in 2020

- GDP expected to fall sharply in 2020 to around USD57 billion (Fitch estimate); high compared to USD26 billion three-year average for 'B' rated sovereigns but low compared to Nigeria at USD415 billion
- Highly concentrated on oil sector which contributes to low growth and increased macroeconomic instability
- High involvement of the state in the economy – privatization plan underway



Economic Performance/Macroeconomic Instability

- Low underlying rate of economic growth with few competitive advantages, highly volatile trends with recent periods of negative economic growth
- High levels of employment in informal sectors
- Where countries show high volatility in such variables as inflation, interest rates, exchange rates and asset prices, and Fitch expects this to continue in the future, this negatively impacts our assessment of the operating environment

Fitch Forecast Summary Angola

	2016	2017	2018	2019	2020	2021	2022
Real GDP growth (%)	-2.6	-0.2	-1.2	-1.5	-4	1	3
Unemployment (%)	7.7	8.2	8.5	8.5	8.5	8.5	8.5
Consumer prices (annual average % change)	32.4	31.7	20.2	17.3	24	15	12
Short-term interest rate (bank policy annual average) (%)	16	18	16.5	15.5	15	10	10
General government debt/GDP (%)	63.3	60.6	80.4	106.3	129.4	126.9	127.4
AOA per USD (annual average)	163.7	165.9	252.9	364.8	550	615.8	648.3
Real private sector credit growth (%)	-25.6	-25.8	-8.6	4	15.3	-4.3	2.7

Source: Fitch Ratings

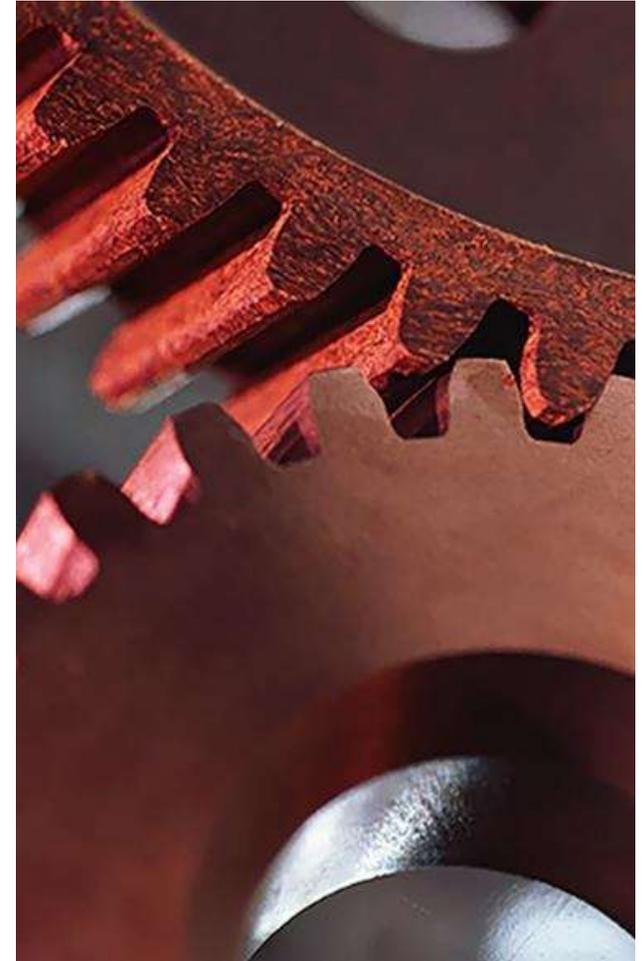
Financial Markets Development

- Underdeveloped banking and capital markets in Angola are negative for the operating environment
- Banking market faces shortcomings typical of many frontier markets: overcrowding, weak private credit demand, high levels of impaired loans, absence of well functioning credit bureaus, high single-name concentrations, potentially volatile deposit structure, performance supported by non-core activities, capitalization not commensurate with risks
- Regulators face the same skills shortages as experienced in other sectors
- Domestic capital markets are incipient, making access to bond funding very difficult



Regulatory & Legal Framework

- Ongoing reform of laws is positive for the operating environment
- Progress is inevitably slowed by oil and coronavirus shocks
- Steep learning curve, some areas still falling short of international best practice
- These efforts will be supported by the forthcoming BNA and Financial Institutions Laws, enabling the authorities to strengthen bank supervision and resolution



Governance

- Business friendly reforms and new laws governing public/private partnerships and investment may help protect creditor and investor rights and attract foreign investment over the long term
- Efforts to improve governance at State-owned enterprises continue
- Anti-money laundering reforms passed
- Good governance and transparency are key ingredients to attract and sustain foreign investment
- Government committed to improving governance – Angola's governance rankings are still low by international standards

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