Angola: Deep Dive Into Debt

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This report does not constitute a rating action
Key Takeaways

- We raised the rating on Angola to ‘B-’ from ‘CCC+’, with a stable outlook, on Feb. 4, 2022. We expect Angolan government debt will continue to fall to 64% of GDP through 2025, from a peak of 131% in 2020. The decline in debt is contingent on favorable oil prices that should prevent sharp currency depreciation.

- Although Angola’s debt levels are high, close to 40% comprises concessional loans from bilateral and multilateral lenders. Angola relies heavily on Chinese loans, which made up about 40% of government external debt and nearly 30% of total government debt as of end-2021.

- The ratings on Angola are constrained by high external debt servicing requirements that will increase sharply from 2023 as restructuring agreements with two key Chinese banks end and repayments restart. External interest and principal payments will average more than $6 billion annually (5%-6% of GDP) over 2023-2025.

- We currently view committed funding sources and foreign exchange reserves as sufficient to mitigate immediate liquidity risks. However, rising global interest rates could affect investor sentiment and raise borrowing costs for Angola.
Angola’s Falling Debt Levels Support Improved Creditworthiness

Angola’s Debt Trajectory Is Tied To Exchange Rate Movements And Oil Prices

- Government debt fell sharply by more than 55 percentage points in 2021 to 75% of GDP, helped by the sharp increase in oil prices and resulting exchange rate appreciation.
- The record high debt level of 131% of GDP in 2020 largely stemmed from exchange rate depreciation over 2018–2020 following currency liberalization.
- The high proportion of debt denominated in foreign currency (80%) exposes Angola to volatility in debt valuation.
- Oil exports make up more than 90% of current account receipts and are a key determinant of exchange rate movements.

*Negative represents currency appreciation. Sources: Angola Ministry of Finance, Banco Nacional de Angola, S&P Global Ratings.
Fiscal Reforms And Non-Oil Economic Growth Key To Reduce Deficits

- Angola’s oil receipts contribute about 50% of government revenue, down from more than 60% in 2018-2019.
- Higher oil prices supported an estimated fiscal surplus of 3% of GDP in 2021.
- We currently assume oil prices at $75 per barrel (/bbl) in 2022, falling to $65/bbl in 2023 and $55/bbl in 2024 and beyond, compared with $71/bbl in 2021.
- Angola’s fiscal trajectory will depend on ongoing reforms to increase non-oil revenue and the pace of economic diversification away from the hydrocarbon sector.

Sources: Angola Ministry of Finance, S&P Global Ratings.

Oil Prices and Angola’s Fiscal Outcomes Are Correlated

S&P Global Ratings
Angola Relies Heavily On Chinese Debt

- As of end-2021, external debt made up about 70% of total debt. Of the $19 billion owed to China, more than 80% comprised oil-backed facilities. We view these loans as bilateral in nature.
- Commercial external debt comprised about 43% of total external debt, with outstanding Eurobonds making up 17%.

Breakdown Of Angolan Government Debt

- Domestically, debt was divided as follows:
  - Domestic debt: 30%
  - External commercial debt: 29%
  - Multilateral debt: 11%
  - China Development Bank: 30%
  - China Exim Bank: 5%
  - Industrial and Commercial Bank of China: 4%

Chinese Loans Comprise A Significant Portion Of External Debt

- China Development Bank: $13.6 billion
- China Exim Bank: $2.5 billion
- African Development Bank: $1.3 billion
- World Bank: $2.0 billion
- Industrial and Commercial Bank of China: $3.0 billion
- Eurobonds: $8.0 billion
- IMF: $4.5 billion
- Commercial / multilateral banks: $6.4 billion
- Supplier credit: $4.0 billion

Source: Angola Ministry of Finance.
Angola’s Large External Debt Redemptions Add To Funding Risks

- Angola’s total funding needs will peak in 2023 at 10% of GDP after the debt restructuring agreements with two Chinese banks end.
- External debt servicing will increase to $5.6 billion over 2023-2024 and nearly $7 billion in 2025, from $4.3 billion in 2022.

Funding Needs Are Dominated By External Debt Repayments

External Interest And Principal Repayments Will Rise From 2023

*Based on debt currently contracted. §Other includes recapitalization of public entities and clearance of arrears. Sources: Angola Ministry of Finance, S&P Global Ratings.
Angola’s Funding Mix Will Rely Mainly On Existing Lenders

We expect Angola will rely on a mixture of funding sources, including existing Chinese lenders, external debt markets, and domestic banks.

The government intends to issue Eurobonds in 2022 to partly finance a $1.5 billion bond maturing in 2025.

Domestic banks already have high exposure to the government at 30% of total assets, limiting additional room to lend.

We note that there is an external financing gap of $2.5 billion in 2024 between committed loan facilities and debt repayments. However, we expect the government to close this gap over the next one to two years.


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**External Debt Will Comprise About 60% Of The Total Funding Mix**

- **Domestic debt**
- **External commercial debt**
- **External bilateral/multilateral debt**
- **Committed external facilities**

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### External Debt Will Comprise About 60% Of The Total Funding Mix

<table>
<thead>
<tr>
<th>Year</th>
<th>Domestic Debt</th>
<th>External Commercial Debt</th>
<th>External Bilateral/Multilateral Debt</th>
<th>Committed External Facilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>2022</td>
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<td>2023</td>
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<td>2025</td>
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</tbody>
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Fallout From Rising Global Interest Rates A Growing Risk

- Emerging markets most reliant on external financing are vulnerable to volatile capital flows and fragile investor sentiment.
- The overall impact on each country will depend on many factors, including their policy response. Banco Nacional de Angola began its monetary tightening cycle in 2021. However, inflation remains elevated and real interest rates are negative.
- That said, foreign exchange reserves of about $15.4 billion provide some cushion against immediate liquidity constraints.

Angola's Debt Stock And Non-Resident Holdings Of Debt Are Relatively High Compared to Several Peers In Africa

Source: S&P Global Ratings.
## Selected Indicators For Key Peers

<table>
<thead>
<tr>
<th></th>
<th>Angola</th>
<th>Nigeria</th>
<th>Ghana</th>
<th>Egypt</th>
<th>Kenya</th>
<th>Congo-Brazzaville</th>
<th>Uganda</th>
<th>Iraq</th>
<th>Pakistan</th>
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<tbody>
<tr>
<td><strong>Vaccination rate</strong>, mid-February 2022</td>
<td>15%</td>
<td>3%</td>
<td>10%</td>
<td>27%</td>
<td>12%</td>
<td>11%</td>
<td>5%</td>
<td>16%</td>
<td>40%</td>
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<tr>
<td><strong>Barrels of oil produced</strong>, (million barrels/day), 2021</td>
<td>1.13</td>
<td>1.31</td>
<td>0.50</td>
<td>N/A</td>
<td>N/A</td>
<td>0.27</td>
<td>N/A</td>
<td>3.97</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>Total external debt/GDP</strong>, 2022</td>
<td>65%</td>
<td>22%</td>
<td>73%</td>
<td>38%</td>
<td>48%</td>
<td>107%</td>
<td>42%</td>
<td>45%</td>
<td>40%</td>
</tr>
<tr>
<td><strong>Chinese debt/total government external debt</strong>, 2019</td>
<td>40%</td>
<td>11%</td>
<td>7%</td>
<td>4%</td>
<td>23%</td>
<td>61%</td>
<td>22%</td>
<td>N/A</td>
<td>27%</td>
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<tr>
<td><strong>Average borrowing cost</strong>, 2021-2024</td>
<td>6.9%</td>
<td>10.0%</td>
<td>11.2%</td>
<td>11.0%</td>
<td>7.7%</td>
<td>1.9%</td>
<td>6.9%</td>
<td>3.3%</td>
<td>7.8%</td>
</tr>
</tbody>
</table>

N/A—Not applicable. Sources: S&P Global Ratings, Our World In Data, OPEC Monthly Oil Market Report, SAIS-China Africa Research Initiative.
Related Research

- Sovereign Ratings History, Feb. 7, 2022
- Sovereign Ratings List, Feb. 7, 2022
- Research Update: Angola Upgraded To 'B-/B' On Improved Debt Metrics; Outlook Stable, Feb. 4, 2022
- S&P Global Ratings Revises Oil And Natural Gas Price Assumptions For 2022-2024, Jan. 20, 2022
- Sovereign Risk Indicators, Dec. 13, 2021. An interactive version is also available at www.spratings.com/sri
- Sub-Saharan Africa's Demographic Transition: A Window Of Opportunity For Growth, Aug. 4, 2021
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